TEEKAY CORPORATION’S THIRD QUARTER 2017 EARNINGS RESULTS CONFERENCE CALL

**Company:** Teekay Shipping (Canada) Ltd.  
**Moderator:** Emily Yee  
**Date:** Thursday, 9 November 2017  
**Conference Time:** 2:00 p.m. (ET)

Operator: Welcome to Teekay Corporation’s Third Quarter 2017 Earnings Results Conference Call. During the call all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time, if you have a question, participants will be asked to press star one to register for a question. For assistance during the call please press star zero on your touch-tone phone. As a reminder, this call’s being recorded. Now for opening remarks and introductions I would like to turn the call over to Mr Kenneth Hvid, Teekay’s President and Chief Executive Officer. Please go ahead.

Ryan Hamilton: Before we begin, I would like to direct all participants to our website at www.teekay.com, where you’ll find a copy of the third quarter of 2017 earnings presentation. Kenneth and Vince will review this presentation during today’s conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the third quarter of 2017 earnings release and earnings presentation available on our website. I’ll now turn over the call over to Vince to begin.

Vince Lok: Thanks, Ryan, and thank you all for joining us today for Teekay Corporation’s Third Quarter 2017 Earnings Conference Call. Before Kenneth reports on the overview of the markets and our businesses, I would like to take a moment to discuss the financial results for the third quarter, including the impact of the Brookfield transaction on our financial statements.
Starting with slide three of the presentation, in the third quarter Teekay Corporation generated total consolidated cash flow from vessel operations, or CFVO, of approximately $238 million. We reported a consolidated adjusted net loss of approximately $36 million, or $0.41 per share. The adjusted net loss excludes asset impairments of approximately $244 million, recognised in the third quarter, most of which related to the Banff and Foinaven FPSO units, as discussed in our earnings release.

In connection with the Brookfield acquisition of a 49% interest in Teekay Offshore’s general partner, Teekay and Brookfield entered into an agreement, whereby Brookfield obtained certain participatory rights in the management of TOO’s general partner, which resulted in Teekay deconsolidating Teekay Offshore for accounting purposes on 25th September. Subsequent to the closing of the Brookfield transaction, Teekay retains significant influence over TOO and accounts for its continuing investment in TOO using the equity method.

As a result of the deconsolidation of TOO, Teekay recognised an accounting loss of $103 in Q3, as detailed in our earnings release, which mainly reflected the difference between the book value and fair value of our investment in TOO on 25th September. However, this loss on deconsolidation was more than offset by the recognition of a $350 million deferred gain, relating to previous sales of assets from Teekay parent to Teekay Offshore. This gain is shown as an adjustment to non-controlling interest in our income statement.

Now turning to our daughter company results for the third quarter, Teekay LNG Partners generated distributable cash flow, or DCF, of $40 million, resulting in DCF per limited partner unit of $0.50 and total CFVO of $107 million. The partnership continues to generate stable cash flows that are in line with our expectations and which we expect will grow as new buildings deliver over the next couple of years.

Teekay Tankers reported an adjusted net loss of $14 million, or $0.08 per share, and total CFVO of $21 million. Seasonal weakness combined with global inventory draw downs contributed to weak spot tanker rates in the fourth quarter. Since that time, crude tanker rates have improved, supported by refineries
returning from seasonal maintenance and an increase in long haul movements from Atlantic to the Pacific. Teekay Offshore Partners generated DCF of $13 million, resulting in DCF per Limited Partner unit of $0.08 and total CFVO of $124 million.

The partnership’s results during the quarter were impacted by certain non-recurring and timing differences, which we do not expect to see going forward. Looking ahead to the fourth quarter, we expect better results with the delivery and start-up of TOO's growth projects, which Kenneth will touch on shortly.

Looking ahead to the fourth quarter, we expect stronger results in each of our businesses as detailed on slide 11 in the appendix of this presentation. For comparative purposes, please note that the Q4 guidance information on slide 11 is based upon the Q3 adjusted results assuming TOO was deconsolidated for the entire third quarter, which is reflected in the last column of slide ten.

I will now turn the call over to Kenneth.

Kenneth Hvid: Thank you, Vince. Good morning and good afternoon everyone. For those of you that have been listening in on our daughter company calls this morning, you can sense it was a very active quarter for all of the Teekay companies.

Turning to slide four, I'll now provide a brief update on our recent transactions across the Teekay Group, transactions which we believe strengthens our respective balance sheets and provides strategic flexibility for our businesses, each of which are operating in markets where we are beginning to see promising signs of a recovery.

In late September, Teekay and Teekay Offshore completed the previously announced strategic partnership with Brookfield, which strengthens both Teekay and Teekay Offshore's financial positions and eliminates various financial guarantees between the two entities.
In November, ISS and Glass Lewis, two leading independent proxy advisor firms, both recommended to vote for the proposed charter amendment to permit Teekay Tankers’ strategic merger with Tanker Investments Limited, or TIL. In October and November, Teekay LNG secured a further $327 million of long-term financings to fund its FSU for the Bahrain reclassification project and a MEGI LNG newbuilding for BP, while opportunistically raising a $170 million preferred equity issuance at a coupon of 8.5%.

Turning to slide five. Since reporting earnings in August we have been very busy taking delivery of multiple growth projects across the Teekay Group, some of which have already commenced their respective charter contracts, generating new additional cash flows. Teekay Offshore has taken delivery of an FSO, two shuttle tankers and an ALP long-haul towage newbuilding. The Randgrid FSO has now commenced its charter contract with Statoil on the Gina Krog oil and gas field in the North Sea and we expect the Libra FPSO to commence its charter contract with a consortium of international oil companies in late-November on the Libra field in Brazil, while the two East Coast Canada Shuttle Tankers are expected to commence their respective charters in December and January.

In our gas business, Teekay LNG took delivery of two wholly-owned MEGI LNG newbuildings and a 30%-owned CFB LNG newbuilding, each of which immediately commenced charter contracts with Shell, with charter durations ranging between six to 20 years.

Turning to slide six, we are at tipping point, as we are now starting to transition from execution to operations as our growth projects deliver. I’m pleased to report that our other growth projects are progressing well across the Group and we look forward to taking delivery and commencing operations under their respective charter contracts between now and 2020. As these projects continue to deliver into operations, they are expected to provide significant future cash flow growth.

Looking at slide seven, Teekay Corporation’s three directly owned FPSOs are poised to benefit from an oil price recovery because each of the contracts includes tariffs that contribute increasing cash flows at higher Brent oil price levels. And for two of the FPSOs we are anticipating high cash flows in the fourth
quarter and into 2018 from higher production because of increased drilling by Centrica on the Chestnut field where the Hummingbird operates, and for the Foinaven FPSO, as it returns to operations from scheduled maintenance.

Now looking at the chart at the bottom right of the slide, you can see that collectively these units have been hovering around cash flow breakeven levels for the past year. However, we are expecting cash flow to increase to approximately $15 million for the fourth quarter of this year, $8 million of which is due to the annual production bonus on the Foinaven FPSO, which is recognised in the fourth quarter. If we then assume that production increases to fourth quarter run rate levels on the Hummingbird and we include a full quarter of operation of the Foinaven FPSO, normalised CFVO is expected to increase, due simply to higher throughput and vessel availability. This has been illustrated in the bar to the far right of the chart. We have then layered in expected cash flows at various Brent oil prices, and as you can see the contribution can be quite meaningful as oil prices increase.

Turning to slide seven, each of our businesses are now witnessing some green shoots of an energy market recovery. We have all seen the oil price increase over the past weeks and month; however, more important for us is energy-related activity and real structural changes that are necessary to support a sustained stronger energy industry. In the offshore space, oil prices are up, project development costs are declining, FPSO contract awards is up to seven this year compared with none last year and Petrobras is currently out for tender for shuttle tankers to help move their increased production in a few years’ time.

The global gas price was up 11% this year and is expected to continue growing through 2020. In fact, we expect LNG trade growth to exceed the supply of LNG carriers during this time as well. This is reflected by the strength that we are now seeing in the LNG spot market, where rates are now above $60,000 per day. And in our tanker business, tanker rates and asset prices are up from the middle of this year, due in part to some of the highest scrapping rates we have seen in years. Strong U.S. exports of crude are contributing to longer haul trade movements and importantly, as all of these factors compound, we expect the tanker market will gradually enter a period of recovery.
In summary, we believe each of our businesses are in the early stages of a market recovery and I’m glad that each of them is positioned to take advantage of this strengthening.

Before I turn the call over for questions, I would like to thank the nearly 8,000 employees onshore and on board of our vessels during this busy time for our companies. I’m proud that we have been able to uphold our high operational standards and strong safety culture, particularly during a time when we are preparing integrate so many new projects and vessels into our fleet.

Operator, we are now available to take questions.

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Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We’ll pause for just a moment to allow everyone an opportunity to signal for questions.

Our first question will come from Mike Webber from Wells Fargo. Please go ahead.

Please go ahead.

Michael Webber: Yeah. Hey, good morning guys, how are you?

Kenneth Hvid: Good, Mike. How are you doing?

Michael Webber: Good. Just a handful of questions from me. You’ve done a bunch of calls today already, but obviously a lot going on. I just want to zero in on slide seven for a second. I know this is really helpful
in terms of laying out kind of the baseline EBITDA from the Parent's operating assets, at least in the FPSO side. And so, just to make sure I'm clear on this, when you look at the tariffs that are on all three assets now, the kind of the red kind of Where's Waldo bar in terms of the tariff revenue, that just reflects the Foinaven tariff revenue. Do you have a sense on – one, is that correct? And two, do you have a sense on, I guess, the magnitude of cash flow that can be thrown off from the other two in terms of how that could be augmented?

Vincent Lok:  Hi Mike. Yeah, first of all the Where's Waldo stripe is – that is the Foinaven annual incentive revenue that's recognised in the fourth quarter of each year. So, this – in this particular year it's $8 million, so that is a once-a-year recognition. And then the rest of it, which is around $7 million for the fourth quarter, that's reflecting our forecast for the fourth quarter. And as Kenneth said, we don't really have full run rate production in the fourth quarter, just given to the scheduled maintenance on the Foinaven as well as the Hummingbird, which we expect the production to pick up sometime during this quarter. So, you don't have a full quarter. So, we just wanted to reflect what the run rate would look like in the last column there, which would bring you up a little bit higher, even at $55 Brent, and what the sensitivity would be at higher Brent prices. So, I think going forward – yeah, go ahead.

Michael Webber:  No. I was just trying to get some sense maybe on an annualised basis, or you know if we just look at '18, kind of the base load EBITDA potential for the three and then if you were to aggregate the tariff upside for the three into kind of a variable bonus call maybe. How much aggregated tariff revenue do you think you could realistically look at, based on the assumptions you made with the existing red and white bar?

Vincent Lok:  I guess there's two parts to that question. I guess maybe you're asking what the Foinaven annual revenue could be say in 2018. That's a little hard to predict obviously, because we don't yet know what the production will look like. We did have some downtime for maintenance on the Foinaven during 2017. We'll probably have some also in '18, but perhaps not as much. So that $8 million could be – I would say maybe more on a normalised basis in the $10 to $15 range, especially as Brent prices continue to – or if
production continues to increase. In terms of the run rate for the rest of the three units apart from that one-time fourth quarter number, I think what we have portrayed here in the last column is a pretty good run rate number depending on what Brent price you want to assume. I think the production for these fields, at least for the next few quarters, is pretty representative of what you see in that last column.


Kenneth, if I just kind of run through the Parent level operating assets, you got the two chartered LNG carriers, that market's obviously firming. I guess, one, what kind of rate are those on now and if they're on maybe legacy contracts when would they find renewed market exposure to maybe take advantage of a firmer environment? And then, two, do you have the scale to really trade those on a spot basis or do you need to think – would you at some point thinking about either joining a pool or finding another way to kind of aggregate spot capacity?

Kenneth Hvid: Yes. So as a reminder, the Arctic and the Polar are on a charter to Teekay Parent from TGP and they are scheduled to be redelivered to TGP in April next year. At present, they are on new contracts and I'd say it's largely a wash between the in-charter and the charter-out rate. So that's an improvement over what we saw in earlier parts of the year. It's encouraging that we are seeing the spot market responding as it's done, especially over the past quarter. And we have, I'd say, pretty good interest for these vessels as well, so we are already in talks about extensions beyond the April charters, which are actually back-to-back with the Teekay charter from TGP. So obviously we'll be discussing that with Mark Kremin in terms of how do we best position these vessels.

In terms of pool cooperation, I think we feel we have a pretty good outlook and performed pretty well against the pools that are out there, so at present no plans to join any of them. We, as you know, have a bit of spot exposure and, as Mark reported on earlier this morning, we've also seen our vessels trading well, particularly because the TCEs are actually trending up and we're getting much higher utilisation on these vessels, which is a big positive for the entire segment.
Michael Webber: Okay. Just one more for me now and I'll turn it over for Vince. Kind of putting those two, those first two questions together I guess, when you look at the cash flow that will be coming off your operational FPSOs at the Parent level it seems like it should trend higher in '18 absent, some unforeseen event. And at a minimum it sounds like – it looks like the burn – when those charters roll off that the burn associated with the carriers is lightening up and could even become a bit positive towards the end of the charter. From a Parent cash operational cash flow perspective, is there enough of a material difference year-on-year that it changes the way you think about handling the service on the Parent level debt load? And maybe can you kind of walk through how you think about – how you think about handling that and kind of the looming refinancing work you've got to do there?

Vincent Lok: Sure. Well first of all the Brookfield transaction was a big step in the right direction, which allowed the Parent to de-lever by $140 million, as well as removing a lot of the debt guarantees and swap guarantees in Teekay Offshore. So that was a big milestone. Going forward you are right, our focus is very much on increasing the free cash flow at the Parent and there are several sources of that. We talked a lot about the FPSOs, especially in a strong oil price environment that sort of kicks in the fourth quarter. We have the LNG burn that basically is gone now that we have fixed both the Arctic and Polar and those charters expire – those in-charter expire in April 2018. We have already terminated the two conventional tankers, so that burn is also gone. And of course, there's a lot of discussion about TGP distributions, so that's another source. And I think when we are looking at the refinancing and debt, I think we would like to continue to de-lever the balance sheet as we approach 2020. So, we are taking a multifaceted approach here in terms of both increasing free cash flow as well as chipping away at that maturity before 2020. I think, especially with the strong macro environment, I think we should be in a good position to look at various alternatives to refinancing that.

Kenneth Hvid: And I think as you alluded to Mike, I mean a big focus for us this year has really been to remove some of the overhang, which I think is fair to call it, that we entered into the year with. And as Vince is saying, as we are cleaning up some of those structures and we are facing what we think are market
recoveries pretty much across the board in all of the segments. We are in here not knowing exactly which one is going to come first. I think we feel pretty good that we have a toolbox of alternatives here that we obviously are very focused on which ones to pull first.

Michael Webber: Got you. Okay. That's helpful guys. I'll turn it over. Thanks for time.

Kenneth Hvid: Thanks, Mike.

Operator: Thank you. It appears there are no further questions at this time. I would like to turn the conference back to Mr. Kenneth Hvid for any additional or closing remarks.

Kenneth Hvid: Well thank you for participating in our call this quarter. We look forward to reporting back to you next year.

Operator: Thank you. This concludes today's call. Thank you for your participation, you may now disconnect.