TEEKAY TANKERS

Moderator: Kevin MacKay
02-19-16/10:00am CT
Confirmation #8972345

Operator: Welcome to Teekay Tankers Limited Fourth Quarter and Fiscal 2015 Earnings Results Conference Call. During the call all participants will be in a listen-only mode. Afterwards you'll be invited to participate in the question-and-answer session. At that time if you have a question, participants will be asked to press star 1 to register for a question. For assistance during the call please press star zero on your touch-tone phone. As a reminder, this call is being recorded.

Now for opening remarks and introductions, I would like to turn the call over to Mr. Kevin MacKay, Teekay Tankers Limited, Chief Executive Officer. Please go ahead, sir.

Male: Before Mr. MacKay begins, I'd like to direct all participants to our Website at www.teekay.com, where you'll find a copy of the fourth quarter 2015 earnings presentation. Mr. MacKay 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 fourth quarter and fiscal 2015 earnings release and earnings presentation available on our website.

I'll now turn the call over to Mr. MacKay to begin.

Kevin MacKay: Thank you, (Doug). Hello, everyone and thank you very much for joining us today. With me here in Vancouver is Vince Lok, Teekay Tankers' Chief Financial Officer; and Brian Fortier, Group Controller of Teekay Corporation. During today’s call, I will be taking you through Teekay Tankers’ fourth quarter and fiscal year 2015 earnings results presentation, which can be found on our Website.

Beginning with our recent highlights on Slide 3 of the presentation. During the fourth quarter Teekay Tankers generated strong free cash flow and adjusted earnings recording one of the company's strongest quarters since inception. Teekay Tankers reported adjusted net income of 31 cents per share in the fourth quarter, an increase of 48% in same period of the prior year. The increase is primarily due to stronger spot tanker rates and an increase in fleet size related to the acquisition of 19 modern, mid-size tankers during 2015 and the continued expansion of the company’s in-chartered portfolio in 2015.

Although it was a strong result the fourth quarter net income was negatively impacted by a few non-recurring and timing differences related to revenues, vessel operating expenses and G&A expenses totaling approximately $8 million or 5 cents per share. Some of these variances are explained in more detail in the appendix of this presentation.

We generated free cash flow of $74 million or 48 cents per share during the quarter, up from $31.7 million or 35 cents per share in the same period of prior year. In December Teekay Tankers announced and implemented a new variable dividend policy and declared a fourth quarter dividend of 12 cents per share, up from 3 cents per share in the previous quarter, which was paid on February 12th.

We're also pleased to announce the acquisition of two modern purpose-built Lightering Aframax tankers in mid-December for a total purchase price of $80 million, which complements our recent ship-to-ship transfer business acquisition and further expands our presence in the strategic US Gulf region. Lastly in January we completed the previously announced five-year $900 million long-term debt facility to refinance the majority of the company's fleet. I'll provide more details of this later in the presentation.

Turning to Slide 4, I'll discuss our new variable dividend policy. Under our new policy we intend to pay out 30% to 50% of the company's quarterly adjusted net income subject to reserves the Board may determine are necessary for the prudent operation of the company. We'll maintain a minimum quarterly dividend of 3 cents per share.

Based on new policy, we significantly increased our fourth quarter cash dividend from 3 cents per share to 12 cents. As the two graphs below illustrate, the new policy provides investors the opportunity to directly participate in the strong earnings from the tanker market, while maintaining our ability to delever the balance sheet. We believe this balanced policy will maximize total shareholder returns.

The graph on the left shows our projected annual dividend range at payouts of between 30% and 50% of adjusted net income based on varying Aframax equivalents spot TCEs and our current fleet. This illustrates the company's high operating leverage as dividends paid to shareholders increase significantly with rising spot market rates.

The graph on the right highlights Teekay Tankers' success in delevering the balance sheet over the past two years from 72% in the fourth quarter of 2013 to 55% by the end of the fourth quarter of 2015. Even with an increased dividend payout under the new policy we project that leverage will decrease to between 40% and 46% by the end of 2016 assuming a 40% dividend payout and Aframax equivalent spot TCEs between $25,000 and $35,000 per day. Delevering remains a top priority as they add shareholders' value by increasing net asset value and providing the company with financial flexibility.

Turning to Slide 5, I will expand on how Teekay Tankers is expanding its strategic presence in the US Gulf. During the fourth quarter we built on our recent ship-to-ship transfer business acquisition and expanded our US Gulf and expanded our US Gulf presence by adding three purpose-built Lightering Aframax tankers to our fleet.

In December we completed the acquisition of two Lightering Aframax tankers, the Navigator Spirit and the SPT Explorer from Teekay Offshore Partners for an aggregate purchase price of $80 million and in-chartered for five years another Lightering Aframax tanker, which is scheduled to deliver between February and March this year.

The acquisition was financed through a combination of the assumption of an attractively priced $50 million revolving credit facility from the seller and the company's existing liquidity. This acquisition is

expected to be immediately accretive to Teekay Tankers' earnings and free cash flow per share. Both of these transactions position Teekay Tankers well to take advantage of developing import and export activities in the US Gulf related to the recent removal of export restrictions on US crude oil which I'll touch on later in the presentation.

Turning to Slide 6, I will highlight the details of our new debt facility. In January of this year, we completed our new five-year $900 million facility, which includes term loan and revolving credit facility components. The new facility which was 1.4 times oversubscribed is used to refinance 36 of the company's existing vessels, including 17 vessels acquired during 2015 that were financed with two bridge loans that mature in early 2016, and the company's main corporate revolving credit facility that was scheduled to mature in 2017.

We decided to secure a larger facility at an attractive rate of LIBOR plus 200 basis points to refinance both our near term debt maturities and our main corporate revolver in order to extend the company's debt maturity profile and provide financial flexibility. A graph at the bottom of this slide shows our debt repayment profile before and after refinancing. As can be seen, our scheduled repayments are being extended over the next five years in comparison to our previous profile which had a majority of debt coming due over the next two years.

Turning to Slide 7, we look at developments in the crude tanker spot market. 2015 developed into the strongest market since 2008 as low fleet growth and surging demand combined to provide consistently strong rates throughout the year. Starting with the supply side, the overall tanker fleet grew by approximately 3.3% in 2015.

However fleet growth was weighted towards the product tanker sectors with the crude tanker fleet growing by a more modest 2%. Looking at mid-size sectors, the Suezmax fleet grew by just under 2% in 2015, while the un-coded Aframax fleet was unchanged from previous year. Although fleet growth was certainly a contributor to the strong rates last year, main catalysts came from tanker demand side.

Global oil production increased by 2.6 million barrels per day in 2015, the highest level of supply growth in 11 years. The increase in supply from OPEC was particularly beneficial to the crude tanker market with Saudi Arabia and Iraq supplying an additional 1 million barrels per day between them. As Middle East OPEC countries are located far from the main refining centers in the US, Europe and the Far East, an increase in OPEC crude supply is generally positive for tanker ton mile demand.

On the demand side global oil consumption grew by 1.7 million barrels per day in 2015, the highest growth rate since the post-financial crisis rebound in 2010. One of the main drivers of this strong demand growth was low oil prices which averaged just $52 per barrel last year. This was the lowest average oil price seen in 11 years, which stimulated higher consumption of refined products particularly for gasoline.

Low oil prices led to a number of additional benefits for the crude tanker market including higher refineries throughput, taking advantage of strong refining margins, an increase in commercial and strategic stockpiling and lower bunker fuel costs which led to significantly lower operating costs and stronger earnings for tanker owners.

Turning to Slide 8, take a look at demand fundamentals for the year ahead. We believe that many of the strong demand fundamentals which drove tanker rates higher in 2015 will remain in place during 2016. Global oil demand is expected to grow by 1.3 million barrels per day in 2016. While this is a decrease from the 1.7 million barrels per day of gross seen last year, it is above the average growth rate of about 1 million barrels per day seen over the last decade.

Similarly global oil production is expected to remain high with the potential for even higher volumes from OPEC as Iranian production increases following the lifting of sanctions. The Iranian government has stated that they could raise production by up to 1 million barrels per day in 2016, though most analysts see an increase of 0.5 million barrels per day as being more realistic. This additional oil will add to crude export volumes while also helping to keep oil prices low.

Looking at the balance between oil supply and demand, the expectation is for another year of oversupply in 2016, meaning more oil heading into inventories. As the chart on the top right of the slide shows, global oil inventories are projected to build at 370 million barrels according to IEA estimates which is more than the theoretical amount of available storage capacity. As such we believe that ullage delays will continue to be a factor in 2016 while demand for floating storage may also emerge as storage capacity limits are reached in certain regions.

In fact we've already seen inquiries for floating storage in the US Gulf as inventories in the region have topped 250 million barrels, pushing the WTI curve into a steep contango. The use of ships as floating storage removes vessels from the spot trading fleet, thus tightening the supply-demand balance and leading to an increase in rates.

Finally a significant oversupply of oil in 2016 should keep bunker fuel costs low, which means continued low operating costs for tanker owners. Overall the demand side fundamentals appear very favorable for tankers in 2016.

Turning to Slide 9, we look at the changing trade dynamics for mid-size tankers in light of lifting of the US crude oil export ban and the impending completion of the Panama Canal expansion project. In late 2015, the US lifted the ban on oil exports which have been in place since the 1970s. The US is now free to export crude to international markets with the most likely destinations being to Europe on Aframaxes and to Asia on both Aframaxes and Suezmaxes by an expanded Panama Canal which is scheduled to be completed in June 2016.

While the initial volumes of US crude exports have been quite limited thus far, with just a few test cargos being sold, the biggest impact has been seen on US crude imports which perhaps counter intuitively have increased since the crude export ban has been lifted. This is because of price of WTI in early January increased to parity with Brent crude meaning if seaborne crude imports into the US Atlantic Coast became more economical, than well movements of domestic shale oil from Bakken.

These changes illustrate some fluid trade dynamics which are developing for mid-size tankers, with US crude imports and exports expected to fluctuate depending on the relative arbitrages between US shale oil and different grades of international crude. For US Gulf refiners this gives the ability to export

some of the light sweet crude which is less suitable for the US Gulf region refineries, taking in more heavy crudes from places such as Venezuela and the Middle East.

We believe that these changes will benefit the US Gulf ship-to-ship transfer market as more lightering vessels will be required to accommodate the influx of larger deep draft vessels carrying heavy crude from afar. Conversely an increase in crude exports from the US Gulf could then lead to increased requirements for the reverse lightering whereby small parcels of crude are transferred to larger vessels for more economic export to international markets.

The expansion of the Panama Canal from Q2 of this year should also be a positive for the mid-size tanker sector as it creates transshipment opportunities for Aframaxes and LR2s. This could include US crude moving west to Asian markets as well as West Coast South American crudes moving into the Caribbean and vice versa.

In sum we believe that these developments are very positive for mid-size tanker demand and believe that Teekay Tankers as the world's leading operator and owner of mid-sized tankers is well positioned to capitalize on the changing trade dynamics in both the Atlantic and Pacific regions going forward.

Turning to Slide 10, we present our outlook for tanker fleet utilization in 2016. As you can see from the chart on the slide, tanker fleet utilization increased by 4 percentage points to approximately 89% in 2015, as tanker demand growth far outstripped supply. For 2016 we anticipate that supply and demand will be more closely matched with approximately 4% to 5% growth in each. This means that fleet utilization should remain steady at close to 2015 levels indicating another year of relatively firm tanker rates.

Looking further ahead we acknowledge that there's significant fleet growth to come in the Suezmax sector in 2017. However, we believe that further ordering would be limited, as owners now face a costly NOx Tier III compliance requirement which adds an additional $2 million to $3 million to the price of newbuildings.

In addition, a tighter credit environment and a lack of private equity interest should act to dampen newbuilding orders. To this point through the start of the year there has been no new tanker orders placed which bodes well for tanker fleet growth post 2017. Finally we have taken a relatively conservative view to scrapping in our fleet forecast assumptions given the low levels we saw during 2015.

However we believe there could be upside to scrapping in the coming 24 months for vessels 15 years and older as a result of the entry into force of Ballast Water Treatment legislation which places significant cost expenditure on vessels docking in these later years of their service life where owners may not see the economic benefit of that added CAPEX.

Turning to Slide 11, I'll provide an update on spot tanker rates for the first quarter of 2016 to-date. Compared to the average realized rates in the fourth quarter of 2015, the first quarter of 2016 to-date remains strong. Based on approximately 63% and 54% spot revenue days booked Teekay Tankers' first quarter to date Suezmax and Aframax bookings have averaged approximately $41,000 and $28,100 per day respectively.

While for the LR2 segment with approximately 54% revenue days booked our first quarter to-date bookings trended slightly higher with the rates on average increasing to approximately $27,000 per day compared to $26,500 per day last quarter.

We believe Teekay Tankers will continue to benefit from ongoing strength in the tanker market reflected by solid fundamentals. With the completion of our strategic acquisitions and Teekay Tankers strong operating leverage we believe the volatility in the tanker spot market will continue to translate into strong earnings and cash flow for 2016.

Turning to Slide 12, I think it's important to review what Teekay Tankers has been able to achieve and accomplish during the past year. In 2015 Teekay Tankers focused on building our core segments on aligning sea and shore capabilities to drive operational excellence, which has been the foundation of the Teekay brand for over 40 years.

We expanded and modernized our core segments by investing approximately $1 billion in 19 modern Suezmaxes and Aframaxes and LR2 tankers reducing the average age of our fleet by two years. This increase in scale is supplemented by a well-timed 15 vessel in-charter fleet adding exposure to a strengthening spot freight market and resulting in additional net income of approximately $42 million in 2015.

We have refocused our customer strategy by taking back more direct management of our technical operations and consolidating all of our fleets commercial management under the Teekay name. We also added in these services that I mentioned, is the purchase and integration of a ship-to-ship transfer business, expanding capabilities and our presence in the strategically important US Gulf region.

The consolidation of the Teekay brand through these strategic moves allows us to offer our customers a more direct Teekay engagement and experience and allows us to provide a higher quality of service. These moves are being very well received by our customers and our consolidated approach is already starting to show benefits in the form of better commercial information flow and new business opportunities.

We have continued to strengthen our financial position and increased net asset value through our commitment to reducing our financial leverage down from 72% two years ago to 55% as of the end of the fourth quarter of 2015. Further we have rewarded shareholders by enhancing our dividend policy to an earnings based variables dividend that should significantly increase the dividend payout in 2016. Lastly we increased our financial flexibility by refinancing the majority of our fleet through a new $900 million debt facility which has extended our debt repayment profile out to 2021.

While 2015 was a very busy year for Teekay Tankers, we believe it was a transformational one. We are confident that the levels -- the levers that we have deployed and the strategy that we have initiated has transformed the company into a much larger, better organized and more customer facing organization that stands on a significantly stronger financial foundation. This positions us well to maximize benefits of our core markets and continue to provide enhanced shareholder value.

With that operator we are now available to take questions.

Operator: Thank you so much. Ladies and gentlemen if you would like to ask a question please signal by pressing the star key followed by the digit 1 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. If you have signaled for a question prior to hearing these instructions please repeat the process now by pressing star 1 again to ensure our equipment as captured your signal. We will pause for a moment to allow everyone an opportunity to signal for questions.

The first question will come from the line of Jon Chapell from Evercore ISI. Please go ahead.

Jon Chapell: Thank you. Good morning, Kevin.

Kevin MacKay: Morning, Jon.

Jon Chapell: Just first one, kind of detailed numbers question before I get into some strategy. You mentioned the $8 million in kind of timing or onetime expenses in the fourth quarter, and I see the sort of schedules in the back of the appendix, there's like $3 million in OpEx and maybe a couple of million in G&A. Maybe just simpler is it possible to give us a go-forward run rate on the G&A, it's kind of jumped from $3 million to $4 million to $6 million a quarter? And then also on the OpEx, is it right just to restrict the $3 million and kind of quote unquote timing expenses and use that as a run rate going forward?

Vince Look: Sure, Jon this is Vince here. Yeah, in terms of the G&A expense, we’d expect the quarterly run rate to be more in the sort of the $5 million to $5.5 million per quarter. The first quarter is usually a little bit higher because of the timing of incentive based -- long-term incentive based compensation is -- of some of that is picked up more in the first quarter. So, that's sort of the run rate we would expect at least for 2016.

The fourth quarter we saw a little bit of a higher G&A expense just based on the higher level of acquisition and refinancing activity in the latter part of 2015. In terms of OpEx, yes, I would, I think for -- at least for the first quarter the run rate should be about -- roughly about $3 million lower than the fourth quarter.

And a lot of that in the fourth quarter was timing of repairs and maintenance and we tend to do a little bit more maintenance when the ships are in drydock and as you noted, we had over 350 drydock days in the fourth quarter which is unusually high. Of course a lot of that was related to drydocking a lot of the principal ships. So, we'll have much fewer drydocking days looking into 2016.

Jon Chapell: Right, okay. Completely makes sense. And then Kevin, of on the strategy front, your five charter outs expiring in 2016, Teekay has always kind of had a balanced mix of chartering and spot, and, you know, arguably even though I share your views on the market and still see a strong market for this year and next may be this cycle is getting a little bit longer in the tooth, so how do you think about the balance between spot market exposure and kind of renewing some of those time charters as they expire this year?

Kevin MacKay: Well on the in-charter portfolio I think I've explained in the past of our ability to use different levers to either increase or decrease our exposure and I think we've been very successful on the run up in

the rates with the growth in the in-charter portfolio. But I think going forward it's not a case of maintaining that size for the sake of maintaining it.

We will look for opportunities. We continue to evaluate what's been shown to us, but unless we feel that the price we're paying for those in-charters and the period we're taking them in for is worth it, then we wouldn't be adding that portfolio, let the ones that we have run off. We do have some pretty optioned period left on the books with the portfolio we've got right now. So, I would imagine we'll be exercising them from the due time, but I think going forward it's more a case of looking at any new deals on a standalone basis.

Jon Chapell: Now it's actually my next question which you have answered directly, which is on the in-charter fleet. But the prior one was on the charter out fleet. So, to tie the two together it does seem like some of these rates for example, you had an extension of the charter out ship that you had at 55 and you got it to $25,000 and that's a huge increase so I figured maybe the charter-in market had run away from you a little bit and make sense what those kind of expired.

But then as it relates to your own fleet that's chartered out do you envision re-chartering a lot of those, there's five that expire this year, re-chartering all of those not only to keep the balance of spot and time charter coverage in your own fleet but also because the charter market seems - have gapped up a bit?

Kevin MacKay: Yeah, I think, you know, we're always going to have some balance between our spot exposure and our owned vessels being chartered out. Some of that is for coverage reasons, some of it is also for maintaining strategic relationships with some of our key customers. In the fourth quarter we actually put away two additional ships at $25,000 for three years to partly to maintain our coverage levels, but also it was to keep those ships onto a customer that we feel is very strategic to us.

You know, we'd like going forward this year if you look at a range somewhere between 15% and 30% in terms of our coverage but we're continually evaluating what our forward view of the market is and what opportunities we can take to put ships out or to maintaining spot.

Jon Chapell: Got it, all right. Thanks a lot, Kevin. Thanks, Vince.

Kevin MacKay: No worries.

Operator: The next question comes from the line of Michael Weber from Wells Fargo. Please go ahead.

Michael Weber: Hey good morning, guys. How are you?

Kevin MacKay: Morning, Mike.

Vince Lok: Hi, Mike.

Michael Weber: Kevin, I wanted to just start off with I guess the strategy higher level question on the dividends and kind of dig back into your charter mix. You know, the floating dividend this quarter, first one

seems like you more or less kind of split the upright there right at 40%. Just curious, you know, as we move into the balance of the year, you know, the guidance is relatively wide at 30% to 50%.

Just curious as to what you need to see over the course of the year that can move that figure kind of towards the higher end or the lower end of that percentage range? And then as kind of corollary to that where the current market looks and how the current market looks and is there anything you see right now you can see shifting that in one direction or another as we move through 2016?

Kevin MacKay: I think that strategically the main drivers that we've sort of been keeping an eye out and discussing with the board as to our forward path would be -- primarily be what we think our forward view of the market is going to be and how well we are progressing with market commitment to pay down the debt.

So it's really a balance of those two factors and then obviously in our discussions with the board we look at, you know, more sort of cash we have to keep available for prudent management purposes and things of that nature. So that's why we've given the balance, is to allow us to make sure that we are managing the cash flows reorganization in a prudent manner through various points in the cycle.

Michael Weber: No that makes sense. I guess that kind of leads into I guess the way we are thinking about it, I think it's in one of your slides that your (TCE) somewhere between $25,000 and $35,000 seems to put you on a path that is more or less in your leverage target paying out of a 40% dividend. So I guess the idea of being how long into 2016 do we need to see the rates above those levels before you guys will think about kind of inching up the payout?

Kevin MacKay: Yeah, I think we have got to be honest. Our leverage we have done a good job over the last couple of years of getting it down. But, you know, I think we are still, you know, we could do a lot more work to strengthen the balance sheet and that is going to be our priority, make sure that financially we are strong and flexible for, you know, the natural cycles that we are going to encounter in a tanker market.

Michael Weber: Fair enough. One more I guess higher level question. You did two acquisitions this quarter from other Teekay entities. There were also two Afras it looks like they are going to get sold to third parties, I am just curious as to why you guys passed on those assets? Was it a function of not necessarily fitting the direction you want to take the fleet or was it a function of again kind of keeping the leverage in check and kind of finding balance?

Kevin MacKay: I think what you are referring to on the Aframaxes being put out is the Fuji and Kilimanjaro Spirit, we are actually it doesn't -- it’s not a Teekay Tankers owned couple of vessels. They are from Teekay Offshore.

Michael Weber: Right.

Kevin MacKay: The acquisition of the two ships from Teekay Offshore into Teekay Tankers, the Navigator Spirit and the SPT Explorer were done really to bolster our buildup of presence in the US Gulf. We think that's going to be a really important market for the Aframax sector going forward. It ties in with our acquisition during the summer of SPT. These are purpose-built with equipment on them that help us to be

more efficient and more cost efficient primarily in Lightering and that was really the driver that drove us to take advantage of that opportunity when Teekay Offshore decided to put those ships up for sale.

Michael Weber: Okay, that's helpful. Just one more and I'll turn it over. It's again around your charter mix which as you mentioned earlier in the other question. But then I want to kind of come back at it I guess maybe at a slightly different angle. If I go back and look at your forward charter cover for Q4 2014 I mean you guys were coming in at about 60% to 80% for the two segments, this quarter kind of somewhere in the 60% to 50% of the dated books. And you mentioned I believe in your prepared remarks something around kind of a 30% to 50% level on a go forward basis for 2016.

So certainly seems like you are -- you have been increasing your spot exposure into a firm market which makes sense. I'm just curious if we have more supply delivering this year, albeit not nearly as much as we have seen in the past cycles, when do you think about maybe inching that coverage level back up at some point? And do you think about it in the context that I just laid out that you've actually been increasing the spot exposure over the past year and a half and there will be inflection point when you kind of move back to a more normalized level?

Kevin MacKay: Just to clarify Mike, when I spoke earlier about our -- things that I covered, the figures I was referring to were between 15% and 30% for 2016. In terms of, you know, when we actually start thinking about it, we think about it all the time. It's something that isn't just looked at on a quarter-by-quarter basis, it's looked at almost weekly in terms of dynamics for the market, what opportunities come up from customers, where we think we can fill some additional strategic relationships with customers that might enhance our business going forward.

So, there's a whole combination of factors that we take into account. As well as maintaining an ability to service our customers with the contracts and the COAs that we have and having enough ships to be able to do that. So, it's a balance of how many ships we've got on the in-charter portfolio that are rolling off, how many vessels in the owned fleet that we want to see cover on and it's something that the management team and I evaluate, I would say on a weekly basis if you will.

Michael Weber: Right, and I guess as you evaluate 2016 and you can kind of point that exposure generally kind of ease it in one direction or another and it seems that you kind of add into a firm market which makes sense. I mean as you look at '16 how do you see that direction moving?

Kevin MacKay: I would like to increase it a little bit. We're as you mentioned going -- coming out of this back end of last year we were in the mid-teens coverage wise, I would like to get that up into the 20s, if we can do that. But I'm also cognizant of the dynamics in the oil market and the likelihood of floating storage opportunities that we are already starting to see inquiry about and I don't -- we have to balance locking in longer term coverage with, you know, missing out on potentially at some big spikes that we could see if floating storage really kicks in, in a big way so.

Michael Weber: Sure. Okay. I appreciate the time, guys. Thanks.

Kevin MacKay: Thanks, Mike.

Operator: Your next question comes from the line of Shawn Collins from Bank of America. Please go ahead.

Shawn Collins: Great. Thank you. Good morning, Kevin. Good morning, Vince. Hope you guys are well.

Vince Lok: Good morning.

Kevin MacKay: Good morning, Shawn.

Shawn Collins: Thanks. So I wanted to reference Slide 5, which you lay out very well. I know that you've purchased those two Aframaxes in the fourth quarter for the ship-to-ship business, and I just want to ask if you can talk about, you know, what was specific or different about those ships from a technical standpoint that make them suitable for the ship-to-ship transfer business? And whether in the future they would also be very useful for the transport business if your needs changed?

Kevin MacKay: These three ships, the two purchased ones and the one we took on five year charter were all sister vessels, that were built in 2008, specifically for the US Gulf Lightering trade. Our view of these are, they fit in with our strategic approach to that market that we want to grow. From an equipment standpoint, the ships have bow thrusters fitted that help them make them more maneuverable and safer to operate during a lightering operation.

They have schilling rudders which also adds to maneuverability and they have various bits and bobs of equipment for fendering and hose handling capabilities that make the whole lightering operation at sea both safer and more efficient. And in terms of how we operate those ships it gives us an added advantage over traditional lightering operations, reducing our need for ancillary equipment which in term reduces our cost for getting involved in that business.

Shawn Collins: Great. That’s helpful. Very helpful. Thank you, Kevin. And then a second question, kind of moving towards the finance side. So you did a very sizeable financing $900 million successfully in light of -- in certainly a very choppy capital market environment. Can you just describe the nature of that -- of the negotiation and by more importantly outline the significant financial covenants and whether those are cash flow in nature or more likely debt credit to asset value in nature? Thank you.

Vince Lok: Sure, yeah. That was a very I think well-timed refinancing which allowed us to stretch out our maturities. So as you saw here it refinances the bulk of our fleet with 36 vessels, which includes the vessels that we acquired during 2015 as well as stretching the maturity of our original main corporate revolver which is due to expire or was due to expire in 2017.

And we had very strong support from -- and interest from the banks. As you can see it was 1.4 times oversubscribed, so it was very well received. So, we also took the opportunity to terminate some old swaps at the same time that were at higher rates and entered into new swaps. So overall it was able to reduce our constant capital, in that regard despite the margin being higher than the previous revolver.

So, in terms of covenants, it's pretty much very similar to our previous covenants. Our main covenant is maintaining just a minimum leverage or minimum leverage or liquidity level which is about 5%

of total debt and other than that it's -- your typical sort of hall covenants but we had just plenty of room and especially as we are continuing to delever the balance sheet. So, those covenants, so we have plenty of headroom on those.

Shawn Collins: Great, that's helpful, Vince. And that the covenant is 50% of what to what?

Vince Lok: So the main liquidity covenant is a minimum liquidity covenant which is 5% of total debt. So it's...

(Crosstalk)

Vince Lok: It’s a fairly low figure.

Shawn Collins: Got you. Okay. Very accommodating understand. And that 5% can be fulfilled through cash or revolving needs or high net liquidity I presume?

Vince Lok: That's correct yes.

Shawn Collins: Got you, okay great. And just my last question just turning to Slide 9 and then kind of thinking about the US export ban and how it's been repealed. I'm just wondering I know it's just your opinion but how much of a discount do you think US crude needs to trade to global crude in order to start to get US crude exports really moving and see some material difference in volumes?

Kevin MacKay: To be honest with you Shawn I wouldn’t comment on oil pricing, I’m not an oil trader. I will leave that to people that make their bread and butter out of that business. What I think is interesting though is, the dynamics of the elimination of the ban did actually drove the opposite, we are seeing a lot more movement of oil coming into the US especially on the Atlantic Coast where the Bakken crude oil and the transportation costs by rail into the refineries on the East Coast is just out-pricing itself against West African crudes that are coming in on Suezmaxes.

And I think that's a dynamic that for the foreseeable future anyway in this price environment I don’t think is going to change. So we are confident that our trade pattern in and around the US for the time being would be more of an import story rather than an export story.

Shawn Collins: Okay that's helpful. I appreciate that. That's good color. That’s great. That's all for me. Thank you very much for the time and the insight.

Kevin MacKay: Thanks, Shawn.

Operator: The next question comes from the line of Chris Carver from Silver Capital Management. Please go ahead.

Chris Carver: Hello, Kevin. Do management and the board currently view the stock price as cheap or expensive?

Kevin MacKay: I think management and the board would describe it as undervalued.

Chris Carver: Undervalued, okay. As investors we share that view and we'd like cash flow to be allocated to projects with the highest returns on capital. And, you know, we think that buying back stock is probably the risk -- least risky and highest returning use of capital today. What's prohibiting Teekay from entering into a buyback program and as owners of 17.5 million shares what can we do to be supportive in helping the company execute on a repurchase program?

Kevin MacKay: Well, I think we've taken to the strategy that we've had over the last 18 months which I think we've clearly articulated that our primary focus at this point is delever the balance sheet and put us in a stronger financial position for the typical cyclicality that we experience in the tanker market. I think, k once we look at where we stand on a leverage basis then obviously as you have seen us do with the dividend policy we will look to increase shareholder value by other means and one of those could be share buybacks at some point.

Chris Carver: Got it, okay understood. Maybe we can just discussed that further offline in the future. And then I've got one quick one for Vince, just related to the Voyage expense line item moving up from $2.6 million to $9.6 million in the fourth quarter. I appreciate the appendix but that wasn't specifically discussed. Is there anything just kind of unusual in that line item?

Vince Lok: Yeah, you also notice that those Voyage charter revenues increased as well in the fourth quarter compared to the third quarter and the reason for that is because we had a few vessels that traded temporarily outside of the pools, when they came out of drydocking. So they were -- subsequently they entered back into the pool. So that's why you see those two line items both revenues and voyage expenses go up correspondingly.

Chris Carver: Perfect that makes complete sense. Thank you guys appreciate it.

Kevin MacKay: Thanks, Chris.

Operator: The question comes from the line of George Berman of IFS Raymond James. Please go ahead.

George Berman: Good afternoon gentlemen congratulations to a great year and a good fourth quarter.

Kevin MacKay: Thank you.

George Berman: I've got a couple of questions related also, same situation as the previous caller. With your company's stock currently trading at 3 times earnings, you just having completed a very strong refinancing that pushes out all payments by another five or six years. Your aftermarket stock offering I take it is off the table right?

Kevin MacKay: Yes, correct.

George Berman: Okay. Clients of mine, I don't own the 17.5 million shares that the previous caller had, but clients of mine that own shares say at $6 to $7 a share have little comfort in getting 12 cents more in a cash dividend looking at a drop in its stock price of about 50%, despite you describing a upcoming strong 2016, maybe not as strong as 2015, but still very strong.

And going back at the previous caller it would seem to me that the best use of your cash and cash flow would be to say repurchase a chunk of the 50 million, 60 million shares you've sold over the last couple of years at significantly higher prices. The current valuation of your company and many other tanker companies doesn't seem to be in any relation to what's happening in the market in particular as you described as oil demand is increasing further and oil needs to be moving from place A to place B in many shapes and forms more and more and more that's requiring more ships?

Vince Lok: Yes. So we understand. I think since we've seen a lot of tanker stocks trade down I guess along with the general sell-offs in the stock markets since the early part of 2016. And it seems to be a little bit of a disconnect given the strong earnings that you're seeing and the strong fundamentals going forward into 2016, and so, we agree with some of your comments there about that.

And, you know, share buybacks is, you know, one of several ways to create shareholder value, we recognize that. And so it's sort of one of the multiple tools that we can use to maximize total shareholder returns. And that's something that, you know, the Teekay Group of companies have used in the past successfully. So, as Kevin said, we have a number of priorities that we want to achieve, ultimately we're here to create shareholder value. So that is well noted your comments and that's taken into consideration going forward.

George Berman: I would almost call it that the market value of your company is -- could be considered ridiculous here. Your connection to Tanker Investments, can you just describe that for me was that just an investment on your side? I think you're managing part of that fleet as well, and they have been very aggressive with buying back stock.

Kevin MacKay: Yes. I think just to remind everybody, our investment in TIL, started with a $25 million seed capital along with Teekay Corporation. And last year we added to that with an additional $10 million investment. We've been very pleased with that investment and how that has tracked. We also get the benefit of the scale of having those 18 or so vessels in our commercial pools as well as the technical management of those ships.

At this point it's an investment that we keep an eye on. We understand their approach and their strategic direction is different from Teekay Tankers. And I understand that they're actually looking to sell down the organization and sell their assets.

George Berman: Right. How much is that, you just mentioned you invested a total of $35 million. How much is that worth at today's market price?

Vince Lok: Yeah, we own around 11% now after the recent -- TIL's recent share buyback. The valuation -- TIL is trading below net asset value and so I think the mark-to-market is -- on a US dollar basis is sort of at our costs currently. But that does not also take into consideration the warrants that TNK holds, so there's an additional upside in addition to the original investment we made.

George Berman: Okay, plus your dividing income from managing their fleet as well, correct?

Vince Lok: Yes, that's correct. Teekay Corporation is providing some of the corporate services. But in terms of the ships they are in the pools and also the technical management.

Kevin MacKay: Yeah, we receive both commercial fees for trading ships in our pools as well as technical management fees for husbandry on the ships.

George Berman: Okay. Can you maybe comment in the last couple or three weeks here, rates in the shipping market have dropped off quite a bit, is that, was that due to the Chinese New Year or just a general slowdown or what happened there in your opinion?

Kevin MacKay: Mind you whether it's Suezmaxes or Aframaxes or LR2s, February typically is never the best month for the year. It's a seasonal dip, we come off the winter or the December highs if you will go into January. This year there was -- Chinese New Year had an impact. So, I think it's a temporary dip in the market and it shouldn't have any bearing on how 2016 turns are.

George Berman: And you alluded in some of your charts to freight moving through the newly reopened Panama Canal, that would be specifically for your Aframax and MR and LR tankers going through to Asia correct?

Kevin MacKay: Yeah, that could be. There may also be the possibility of existing Panamax trades being moved up to Aframax size tankers. You can dimensionally also fit Suezmaxes through the canal although you do sacrifice a couple of 100,000 barrels of oil so you are going through light loaded.

George Berman: Okay. Last the question you own half of one VLCC. How is that working out?

Kevin MacKay: Very well. The vessel is a joint venture vessel that we own 50% of with an Asian shipping company Wah Kwong and the vessel is currently on a long-term time charter to Costco.

George Berman: Okay. Just to, you know, maybe make a recommendation, maybe in the current strong environment one might consider taking that 50% ownership out and buyback your stock, save yourself 12% dividend payments and buy at significantly below book value?

Kevin MacKay: Thanks George we will take your guidance under advisement.

George Berman: Okay. Other than that, thank you very much for your time.

Kevin MacKay: Thank you.

Vince Lok: Thank you.

Operator: The next question comes from the line of Sherif Elmaghrabi from Morgan Stanley. Please go ahead.

Sherif Elmaghrabi: Hi, gentlemen. Thanks for taking my call. Obviously by now most of my questions have been answered. But it's interesting what you said about the interest in floating storage in the US Gulf is

this primarily for larger tankers or have you seen interest for mid-size tankers as well? If it is would you consider putting your tankers on floating storage or is there something stopping you from doing that?

Kevin MacKay: I think what we have seen so far has been more on the larger kinds of ships. It's certainly more economical to do that. We're seeing more of that happen primarily in the US Gulf in and around the STS trades, that's where we get insight into that. In terms of whether we do it on our vessels, a lot depends on location, what our forward view of the market will be and how long the customer's asking the storage period to be. So there's a few things we have to consider before jumping in on that.

Sherif Elmaghrabi: All right. Very good that's all I had. Thanks very much.

Kevin MacKay: Thanks, Sherif.

Operator: The next question comes from the line of Amit Mehrotra from Deutsche Bank. Please go ahead.

Amit Mehrotra: Wow. Thank you. I still have a few questions believe it or not. First is on TCEs that were achieved in the quarter. I know there are many factors that may impact, you know, the realized rates relative to the average quoted in the quarter. But wondering if you can give some color on, you know, why there was under performance really across the industry? You know, I guess it was a pretty volatile quarter so, was there a big difference in terms of cadence of fixtures? Maybe some higher inventory bunker costs, if you can give some color on that?

And then, you know, Vince as you sort of look out on TCEs, they compare -- how the TCEs will compare to the quarter rates into Q1 on the days that you haven't booked? You know, could we see maybe some disproportionate benefits with the sharp drop off in bunker costs into the to-date quarters, if you can provide some help there? Thanks.

Kevin MacKay: Generally, you know, it has been stated the fourth quarter was pretty good across all sectors that were involved in the mid-size class. I think one of the things we did notice in the fourth quarter primarily with the Aframaxes and Suezmaxes, September was a weak month. We came off some of the highs we've seen earlier in that quarter. So ships that were booked in late September with voyages of 30 to 35 days were running through the first half of fourth quarter which tended to pull the front end of the curve down. But certainly we picked back up again across the sectors and had a robust November and December.

Amit Mehrotra: Okay and what about perceptively on the book days, I mean are there any exogenous factors that may sort of impact the TCE relative to the quarter to-date market?

Vince Lok: Not necessarily. You do touched on bunkers and bunkers of course there is a bit of a lag effect with big inventories and all that but like you said, you know, lower bunker costs obviously is favorable for TCE and voyage costs. I think the other big factor that I alluded earlier in the call was just the number of voyage days in Q4 versus Q1 and we provided some guidance on Page 15 in the presentation on a number of drydocking off hire days.

We had over 380 days actually off-hire in the fourth quarter and you can see that that's going to decrease significantly throughout the quarters in 2016. So we are going to have more available days in 2016 that will help revenues.

Amit Mehrotra: Okay, good. And then just one last one on the financial leverage chart. You know, I know the chart shows anywhere between 40% to I guess 46% and that's sort of obviously how the math works on the TCEs. But just wondering, if that's, you know, just essentially what the math looks like or if that's really a target, because obviously there is an opportunity costs associated with, you know, deleveraging and wondering sort of how you prioritize getting to that 40% net leverage relative to, you know, other investment opportunities that over time actually may be more accretive to the equity? Thanks.

Vince Lok: Yeah, that's a projection. So, that is the math, so we're not saying that that's necessarily a target. Although as Kevin said that it is one of our many priorities as to further strengthen our balance sheet to give us more financial flexibility. So, as Kevin said we have to balance several things, and the financial levers, the dividend payout as well as what our charter mix is going forward. So, it's a number of factors, but we are, we think that it's one of the things that is important for us to further strengthen our balance sheet going forward.

Amit Mehrotra: Do you think the target that you guys have in mind as you look sort of over the next 12 months, does have sort of a full handle on it or are you not willing to commit to that based on, you know, the various options you have?

Kevin MacKay: It's certainly -- we are not going to commit towards a fix number but we're -- it's certainly in a direction of where we want to get it to in the next 12 months.

Amit Mehrotra: Okay. All right, guys. Thanks so much.

Kevin MacKay: Thanks, Amit.

Operator: Your next question comes from the line of Spiro Dounis from UBS Securities. Please go ahead.

Spiro Dounis: Hey guys looks like we just tripped the hour, so hopefully these are quick and easy to answer. Just want to sort of draw on three themes that continue to pop up, one I guess stable income through STS, second was being a full service vendor and I guess third was more exposure on the Gulf Coast. And so, I guess I'm just wondering what else fits into that strategy when you go up and down the value chain? You know, is there anything or any sort of interest in FSOs or terminal operations that might look interesting to you?

Kevin MacKay: No. On the FSO side it's not something that we would go into, we'd leave that to others with the expertise in that area. We do as part of our acquisition of SPT have a team of folks that look at terminal consultancy which is a very small, small piece of the business but it is something that -- that expertise was brought in to look at, but I don't think it's going to materially transform our core business away from running tankers.

Spiro Dounis: So, if anything maybe we see more of the same in terms of investments and not necessarily anything new here?

Kevin MacKay: Yes. You know, we are focused on really the acquisitions in the businesses that we bought into last year really integrating those into the organization right now and bedding down to get the most value out of them. So, we can return some of that value to shareholders.

Spiro Dounis: And then just last one, once again on floating storage you kind of talked around it a bit but I guess the real economics on floating storage really work well as you said with a VLCC. So I'm just wondering does it get cost prohibitive in any way to load up two Suezmaxes or whatever maybe in the Gulf Coast and then reverse lighter those onto VLCC for floating storage or just do the costs add up to make that work?

Kevin MacKay: It depends on the oil trader and which part of the world they're looking to do the trade on. One of the things that -- if I go back to 2010 when we last saw floating storage in issue here in the US Gulf we saw an awful lot of VLCCs getting loaded. The assumption is those ships were loaded for six months and they were left sitting there. Oil traders actually actively trade in and out of those positions which increases the amount of lightering and STS volume that actually transacts on Aframaxes.

So, I think the economic rationale for VLCCs isn't because it's purely 2 million barrels of oil stored on a V; the traders use those positions to trade around whether it be on Suezmaxes or Aframaxes.

Spiro Dounis: Okay got it. So I guess it goes beyond just the wide contango the math isn't as fairly that easy I guess it gets more complicated than that?

Kevin MacKay: Yeah.

Spiro Dounis: Got it. Okay, appreciate the color. Thanks, guys.

Kevin MacKay: Thanks.

Operator: There are no further questions at this time, please continue.

Kevin MacKay: Okay, ladies and gentlemen, thank you for listening in and we look forward to speaking to you next quarter. Bye.

Operator: Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your line and have a great day.

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