Company: **TEEKAY SHIPPING (CANADA) LTD.**

Conference Title: **Teekay Corporation's Second Quarter 2017 Earnings Results Conference Call**

Conference ID: **9060675**

Moderator: **Kenneth Hvid**

Date: **August 4, 2017**

Operator: Welcome to Teekay Corporation's Second 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 1 to register for your question. For assistance during the call, please press Star 0 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. Kenneth Hvid, Teekay's President and Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Kenneth begins, I'd like to direct all participants to our Web site at www.teekay.com where you will find a copy of the second quarter of 2017 earnings presentation. Kenneth 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 second quarter of 2017 earnings release and earnings presentation available on our Web site.

I'll now turn the call over to Kenneth to begin.

Kenneth Hvid: Hello everyone and thank you for joining us today for Teekay Corporation's Second quarter 2017 investor conference call. I'm joined this morning by our CFO, Vince Lok.

During our call today, we will be taking you through the Earnings Presentation which can be found on our website.

Turning to **Slide 3** of the presentation, I will briefly review some recent highlights for Teekay Corporation:

- During the second quarter, Teekay Corporation generated total consolidated cash flow from vessel operations, or CFVO, of approximately $255 million.
- We reported a consolidated adjusted net loss of approximately $38 million, or 44 cents per share, in the second quarter of 2017.
- And we declared a cash dividend of 5.5 cents per share, consistent with the previous quarter's dividend.
- Since our previous earnings call in May, we have now chartered the Arctic Spirit, the second of two LNG carriers that are chartered-in from Teekay LNG Partners until April 2018. The charter, which is with a major energy company and is scheduled to commence in September 2017 through to April 2018, is expected to generate an incremental $4 million of CFVO per quarter.
- Over the past few months, we have entered into two strategic transactions across the Teekay Group, which are expected to significantly strengthen our financial foundation, streamline our corporate structure and position us well to benefit from an energy and tanker market recovery:
    - Last week, Teekay Offshore announced a comprehensive, transformative transaction with our new strategic partner, Brookfield, which will not only strengthen Teekay Offshore's financial position and fully finance its existing growth projects but will also improve Teekay Parent's financial position, as I will discuss later on the call.
    - In addition, Teekay Tankers agreed to an accretive merger with Tanker Investments Ltd., which owns 18 modern conventional tankers, and acquired the remaining 50 percent interest in Teekay's conventional tanker operations from Teekay Parent, thereby consolidating our conventional tanker franchise under Teekay Tankers.

These strategic transactions will strengthen our financial foundation and also better position the Teekay Group to benefit from an energy and tanker market recovery.

On **Slide 4**, I will review some recent highlights from our three publicly-traded Daughter entities:

- Starting with **Teekay Offshore Partners:**
  - For the second quarter, the Partnership generated Distributable Cash Flow, or DCF, of approximately $27 million, resulting in DCF per limited partner unit of 18 cents.
  - As part of the transaction with Brookfield, commencing with the second quarter distribution, Teekay Offshore reduced its quarterly cash distribution to 1 cent per unit, which will result in over $50 million of annualized cash flow savings for the Partnership, which will be used to reinvest in the business and further strengthen its balance sheet.
  - As reported on the call yesterday, Teekay Offshore has made good progress on all of its projects which are scheduled to deliver over the next few quarters and with the significant equity investment by Brookfield and Teekay, will be fully financed.
  - Touching on a few of these projects, the Libra FPSO is in the final stages of field commissioning and first oil is expected in September. The Randgrid FSO left the shipyard in Singapore in early July and is now in transit to Norway where it is expected to commence its contract in October for Statoil at the Gina Krog field.
  - We also recently signed an amended charter contract for the Petrojarl 1 FPSO with QGEP and its partners. The charter amendment extends the start-up window of this charter to the first quarter of 2018. The Petrojarl 1 upgrade is now 95% complete and expected to leave the yard in October.
  - In addition, Teekay Offshore has recently entered into shipbuilding contracts with Samsung to construct two, DP2 shuttle tanker newbuildings, which will serve under our existing Master Agreement with Statoil in the North Sea.
- For the second quarter **Teekay Tankers** reported an adjusted net loss of approximately $7 million, or 4 cents per share, and free cash flow of approximately $19 million.

- Teekay Tankers declared a second quarter cash distribution of 3 cents per share, consistent with its dividend policy
- The second quarter saw continued weakness in crude tanker rates, primarily due to a current oversupply of tonnage, as well as several years of low volumes of tanker scrapping. Rising supply from Atlantic producers such as the United States, Libya and Nigeria have benefited tanker demand, though this has been offset by cuts from the Middle East OPEC nations. Crude tanker spot rate weakness has continued into the first part of the third quarter but we expect rates to firm up later in the year as certain seasonal factors take effect.
- Moving onto **Teekay LNG Partners**, the Partnership generated DCF of approximately $41 million.
- The Partnership's results for the quarter were impacted by one-off and temporary items, including: an unscheduled off-hire event relating to an LNG carrier, which is now back in operation, and some collection issues related to the six small LPG carriers chartered to I.M. Skaugen, which we expect to be resolved once Skaugen commences a new small-scale LNG project in West Africa.
- Despite the one-off and temporary items, the Partnership still generated DCF per Limited Partner common unit of $0.51 per unit, resulting in a strong distribution coverage ratio of 3.6 times.
- During the quarter, the Partnership successfully completed charter contract extensions for two LNG carriers chartered to Awilco LNG out to December 2019 along with corresponding extensions to the related loan facilities for these two vessels out to mid-2020 which were previously scheduled to mature in 2018.
- Lastly, Teekay LNG's growth projects, which include 18 newbuilding LNG vessels and a 30 percent interest in the Bahrain regasification facility, remain on track to commence operations under charter contracts ranging from 6 to 28 years between now and early-2020; and we also continue to make good progress on the related financings for these vessels.

Turning to **Slide 5**, and as mentioned in my opening remarks, this has been a transformative quarter for the Teekay Group with two of our Daughters, Teekay Offshore and Teekay Tankers, having agreed to large and strategically-important transactions. These transactions have already been reviewed on our daughter company calls, so I'd like to take a moment on this slide to discuss how these transactions, and the recent financing activities completed by Teekay LNG, are also strategically significant for Teekay Corporation.

Starting at the bottom of this slide with the largest transaction, Teekay and Brookfield agreed to a $640 million equity injection into Teekay Offshore in the form of common units. This transaction is important for Teekay Offshore for 3 key reasons:

First, it will provide sufficient capital for Teekay Offshore to complete its near-term growth projects, second, debt maturities and swap termination options will be extended or pushed-out and third, it will allow Teekay Offshore to build its liquidity and enhance its access to capital, which we see as important at this point in the offshore market as I will explain on the next slide.

Teekay Tankers agreed to an accretive merger with Tanker Investments Ltd., a company that we jointly own almost 20% of. This merger will strengthen Teekay Tankers' liquidity and overall financial position during this period of tanker market weakness. It also ensures that the TIL fleet, which is currently being commercially and technically operated by Teekay Tankers, will stay under the control of Teekay Tankers, providing us with scale to service our customers effectively and establish our market leading presence in key markets.

And not to be overshadowed, Teekay LNG has been making good progress with its newbuild and 2018 financings, which are important milestones for Teekay as well given the distribution growth potential in Teekay LNG.

As each of these transactions and financings are completed, we are removing the financial risks within the Teekay Group, including Teekay Parent as the Sponsor of each. As detailed in the top box, these transactions will strengthen Teekay Parent's liquidity position due primarily to the receipt of approximately $140 million of cash and TOO warrants from the Brookfield transaction. And with the added liquidity at both Teekay Offshore and Teekay Tankers, we have effectively removed the knock-on effect that any financial stress of these companies would have on Teekay Parent.

These transactions have also helped us to simplify our corporate structure, which has been one of my goals since taking over as CEO a few months ago. The swap and debt guarantees between Teekay and Teekay Offshore which, depending on underlying interest rates, have previously amounted to over $700 million, will be eliminated as part of the Brookfield transaction. And with the take-out of the 2018 NOK Bond maturities at Teekay Offshore as announced the other day, Teekay Corporation's requirement to offset dividend payments with equivalent equity issuances will be eliminated as well.

Lastly, just prior to announcing the merger with Tanker Investments Ltd., TNK acquired the remaining 50% of the commercial and operational business that was previously owned by Teekay Parent, which means that Teekay Tankers has now completed its transition into a fully-integrated tanker company.

So, when looked at collectively, these transactions have removed significant financial stress from the Teekay family, which we believe will benefit shareholders across the Group.

Turning to **Slide 6**, by rightsizing our various balance sheets and improving the financial strength of the Teekay Group, as stated in the top box, each of our Daughter companies will now be positioned to take advantage of upside opportunities which will drive long-term shareholder value as our various markets recover. Teekay Parent will also add value by optimizing the cash flows from our three remaining directly-owned FPSOs through re-contracting, like we did last quarter with the Hummingbird Spirit. In early 2018, we are also scheduled to redeliver our in-chartered assets, including 2 LNG carriers and 2 conventional tankers, which will stem the associated cash burn from those assets.

The Teekay Group has significant built-in value across our Daughter companies that I would like to highlight:

- **Teekay LNG** will be delivering 19 newbuildings over the next few years that have a fixed-rate revenue backlog of over $6.8 billion and add approximately $250 million of incremental cash flow;
- **Teekay Offshore** will be delivering conversion and newbuild projects which will add approximately $200 million of incremental cash flow; and
- With 62 mid-size crude oil carriers after the merger, **Teekay Tankers** has significant upside exposure to a recovering tanker market.

Looking longer-term, each of our companies and underlying businesses are well-positioned as leaders in their space and poised for the market recovery. And as the Parent and sponsor or co-sponsor of each Daughter and business, Teekay Corporation stands to benefit from the uplift at each of its Daughters, providing multiple paths to add value for its shareholders.

Operator, I am now available to take questions.

Operator: Thank you ladies and gentlemen, if you would like to ask a question, please signal by pressing Star 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. Again, press Star 1 to signal for a question at this time. And your first question comes from Michael Webber with Wells Fargo. Please go ahead.

Michael Webber: Hi good morning guys, how are you?

Kenneth Hvid: Good how are you Mike?

Michael Webber: Kenneth, I wanted to start off with - obviously, with Brookfield. I'm just curious, it's - the transition - the eventual transition of control to Brookfield, obviously, a big change for Teekay. I'm just curious, when you think about kind of the new TOO and any sort of significant kind of GP-related decisions, particularly around potentially resetting any idea or structure or anything that would kind of change the cash flow profile for TOO, is it fair to assume that though any major decisions would be deferred until Brookfield would eventually take control?

Kenneth Hvid: I think that's too early to say. First of all, of course, what's been important on this transaction is that Teekay is still on the funnel as we'd like to say in-house here. And that means that what Brookfield is, of course, buying into is not only the TOO’s platform where they really like the business, but they are, of course, also buying into the group and everything that comes with it, operational support. And as you know, we have a shared service model at Teekay which all of our daughter company's benefit greatly from. So I'll say it's a - it truly is a joint sponsor role, but of course, as we highlighted in the various calls that we've had both on TOO and our separate call, Brookfield will have the majority of the LP units. And over time, we have - they have an option to take it to 1% of the GP. But that is, of course, as you know, subject to certain conditions falling in places, consensus that are from various stakeholders.

So I think it's best to say that the way to look at it is really - what we've been focused on is really stabilizing the company, making sure that we have the right capital structure in place, maximizing shareholder value. And I think, it's fair to say to look at that on - at the LP unit holder level over the long term and we think we will really do that. And then, I would say the GP structure that we have inherent in TOO, obviously, that's something which is maybe a high-class problem if we have that discussion one day. But right now, I think what we're really doing here is improving the capital structure that will benefit all unit holders all over the long term.

Michael Webber: Got you. Yes, that certainly removes a fair amount of tail risks but just a lot of detail that people are trying to hash out. Along those lines, Kenneth, you mentioned the benefit of Brookfield buying into kind of the Teekay kind of family of companies and then kind of the prowess across multiple operating platforms. So curious, I guess, about two things related to that. One, I know that the G&A of the parent has eased a bit. But is there any ongoing kind of G&A or R&D at the parent that you think will eventually continue to get - how you're going to get stripped down to the daughter level, especially once you all effectively kind of seed control of TOO? And maybe just a question for Vince, when will we should notice any sort of impact around G&A over the long term? And then two, around kind of the reciprocal of that relationship, is there - are there opportunities or synergies associated with Brookfield's existing suite of assets and businesses that you think it'd eventually open doors for any of the Teekay entities, not just TOO?

Kenneth Hvid: Yes. I - well, first of all, of course, the G&A upstairs, I think what's significant to - as you know, we've been in transition for quite a number of years where we have always have to stay an ambitions who have the relevant assets sitting in the daughter companies and the asset lights upstairs. And as you heard on - in my prepared remarks here, we're beginning to see the end of that where that will actually happen. So when we come to April next year, we'll no longer have the in-charters for the LNG carriers. We, of course - the effects of this definitely, the cash flow are now for the remainder of that charter period, so that's a great position. By the end of the year, we won't have any conventional tanker obligations left upstairs. And we'll essentially have the three FPSOs which, obviously, we're raised and focused on, making sure that we get the most out of those three FPSOs now and we'll need to determine where they ultimately end up.

But that's, you would say, the last hurdle that we'd be focused on here. And with that, of course, a lot of the G&A will go away also because that's, of course, allocated to - based on the assets that we're operating. And then, we will basically start a review, what is the right size of the upstairs G&A for what our ambition is in terms of pursuing other things and supporting our daughter’s longer term.

Vincent Lok: I don't expect any material changes to the parent G&A, although we'd be moving some of the legal entities providing those services from the parent to TOO. We've always allocated the cost anyways through the management services agreements in any case. So on a net-net basis, I wouldn't expect it to change materially.

Kenneth Hvid: In terms of your second question and what other benefits would there be, I think it's obviously a little early to say. We've only started working together and comparing notes. As you know, Brookfield has a long history in Brazil and a strong presence there. It is one of our core markets in Teekay Offshore. So obviously, it's helpful to have a strong partner in one of our biggest markets. I think the other part of it is that we have a couple of assets. They actually own Ningaloo Vision through Quadrant Energy which is a company owned by Brookfield. And that's actually an FPSO in Australia where we have been providing the manning for that FPSOs for a number of years. So those are just two examples of where you can go very operational and we can go more strategic in terms of country relationships. And it really is about whether we see that those overlay in the strategy that we each have and how we invest in the LNG infrastructure that's out there. And I think there could potentially be some interesting opportunities.

Michael Webber: Got you. Great, I appreciate your time. I'll hop back in the queue, thanks guys.

Kenneth Hvid: Thanks.

Operator: Thank you. Once again ladies and gentlemen, if you'd like to ask a question please press Star 1 at this time. Your next question comes from Fotis Giannakoulis with Morgan Stanley.

Fotis Giannakoulis: Yes, hello gentlemen and thank you. I want to ask about the - how do you view the cash flow of the parent? And what are the - what is your outlook about trying to bring this cash flow and steps that you are able to take in order to make this cash flow to turn positive again? And also, if you can comment about the shares in the Sevan Marine, how core this investment is for you? Or if there are any thoughts of disposing this at some - at a certain point?

Vincent Lok: Hi Fotis, in terms of the parent cash flows, I think there's probably 4 key areas I would point to in terms of upside and growth from this point forward. First and foremost, of course, is the closing of the Brookfield transaction which will bring $140 million of cash upfront to the parent. Number two is the in-charter LNG carriers that Kenneth talked about. We've effectively reduced and eliminated that cash burn through to April 2018 with the charters for the Polar and Arctic Spirit. And those charters do roll off in 2018. Third is - as well as the conventional tankers, I should mention as well. Third is the FPSOs, the three FPSOs. The Hummingbird, as you probably noted, the new contract amendment kicks in, in October where we'll get an increase in the CFVO from that unit starting in October. We're also continuing to dialogue on the Foinaven to extend that contract and improve the cash flows in that unit.

And I think given the strength of TOO post the Brookfield transaction, I think it makes the likelihood of being able to drop down some of these FPSOs and the Teekay Offshore is much more feasible going forward. And last but not least is really the daughter distributions and particular, for TGP. And given that the projects in both MLPs are on the verge of really coming into play in the next few quarters, the cash flows in the daughters will continue to strengthen and there's obviously a benefit to the parent as distributions increased, particularly in TGP. Even in Teekay Tankers, with the TIL merger, we'll have a stronger tanker business and we're expecting a stronger tanker market starting in the latter part of 2018. So it's a combination of factors which we see the free cash flow increase. For the third quarter, I think we will expect some weakness in the third quarter, particularly given the schedule maintenance for the Foinaven. But then we'll start to see the cash flows improve starting in the fourth quarter of this year.

Kenneth Hvid: And your second question is about - and you had a second question about Sevan shareholding, I believe. And just as a reminder for everyone, this was an investment that Teekay made back in 2011 when Sevan was restructured and Teekay bought its three operating FPSOs which two of them are owned by Teekay Offshore today and Hummingbird is owned by Teekay Parent. So we have about a 40% ownership stake in Sevan Marine. And at this point in time, there's no particular plans in terms of whether we're going to hold on to it indefinitely or at some point, look at disposing that. I think it's not exactly the right time to consider that in the marketplace. We - it's clear we've had low level of activity on new projects over the past couple of years. But of course, as the market picks up again, we still believe in the technology and we - it will be interesting to see what interest that we see for using the Sevan technology going forward.

Fotis Giannakoulis: That's very helpful. And one last question, a little bit longer term. I know it's not the time to think about the refinancing of the bond. There is still a long time until its maturity. But I want to ask, how do you view the capital structure going forward 3 years from now? Is the plan still for Teekay Parent to be a debt-free company? How are you thinking about this refinancing in the future?

Vincent Lok: Yes. I think our goal for the parent company is to move towards becoming net debt free. That's always been our goal. And so given the number of reasons that I mentioned just earlier about the cash flow improving and the financial ability to drop down the FPSOs, I think those are all moving in the right direction in terms of helping us delever as well as improve our cash flow ratios. I think when the renewal or the bond refinancing comes up in 2020, I think we will have a stronger balance sheet to refinance a good portion of that bond. But our longer- term goal on capital structure for the parent is to continue to delever that balance sheet.

Fotis Giannakoulis: Thank you very much all of you. That's all for me.

Operator: Your next question comes from Sunil Sibal with Seaport Global Securities.

Sunil Sibal: Yes, hi good morning guys and thanks for all of the clarity and most of my questions have actually been heard, I just had one. So when you think about the Teekay Parent and seems like this enhanced liquidity with $140 million cash, what do you think in your mind is the best kind of - best return from that cash?

Vincent Lok: I think in the immediate term is - the best use of that cash is to really reduce our leverage and strengthen the balance sheet of the parent. I think that is really one of the key focus areas for the entire Teekay Group, as Kenneth talked about in his prepared remarks. So that's really, I think, our primary focus in the near term.

Sunil Sibal: Okay, got it. And then, just on a timing perspective, when does that cash kind of come indoor?

Vincent Lok: Sorry, I didn't catch that question. Could you repeat that, please?

Sunil Sibal: I was just curious, from a timing perspective, when do you get that money - when do you get a hold of that money?

Kenneth Hvid: Yes, that would be on closing which we right now expect to be in September.

Vincent Lok: Yes, you're referring to the $140 million, that's on the closing of the Brookfield transaction. That's right.

Sunil Sibal: Okay, got it. That's all I had. Thanks guys.

Operator: Thank you and that does conclude today's question-and-answer session. Mr. Kenneth Hvid, at this time, I'd like to turn the conference back over to you for any additional or closing remarks.

Kenneth Hvid: Thank you very much for joining us here today. Have a great weekend and we look forward to reporting back to you next quarter. Thank you.

Operator: And once again, that does conclude today's conference call. We thank you for joining us. You may now disconnect.