



Company: Teekay Offshore Partners LP

Conference Title: Teekay Offshore Partners' Second Quarter 2017 Earnings Results Conference Call

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Moderator: Emily Yee

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Operator: Welcome to Teekay Offshore Partners' 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 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 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 conference over to Ms. Ingvild Sæther, Teekay Offshore Group's President and Chief Executive Officer. Please go ahead.

Scott Gayton: Before Ingvild begins, I would like to direct all participants to our web site at www.teekayoffshore.com, where you'll find a copy of the second quarter of 2017 earnings presentation. Ingvild 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 2017 earnings release and earnings presentation available on our web site.

I will now turn the call over to Ingvild to begin.



Ingvild Sæther: Thank you, Scott. Hello everyone and thank you for joining us on this second quarter investor conference call. With me today I have David Wong, the CFO of Teekay Offshore Group; Kenneth Hvid, President and CEO of Teekay Corporation; Vince Lok, CFO of Teekay Corporation; and Scott Gayton, Teekay Corporation's VP, Finance. We will be going through the earnings presentation, which you will find on our web site.

Please turn to Slide 3 of the presentation. I will review some of Teekay Offshore's recent highlights. In the second quarter, the partnership generated distributable cash flow, or DCF, of \$27 million or 18 cents on a per unit basis. Last week we announced a new strategic partnership with Brookfield.

Brookfield will become Teekay Offshore's largest unitholder and co-sponsor alongside with Teekay Corporation. This comprehensive transaction will significantly strengthen Teekay Offshore's financial position and fully financed our existing projects. Teekay Offshore has recently entered into shipbuilding contracts with Samsung to construct two DP2 shuttle tanker newbuildings. They will serve under our existing master agreement with Statoil in the North Sea.

We also recently signed an amended charter contract for the Petrojarl I FPSO with QGEP and its partners. The Charter Amendment extends the startup window of this charter to the first quarter of 2018 in exchange for changes to the charter rate profile which I will discuss later on the call.

Finally, the Randgrid FSO, left the shipyard in Singapore in early July and is now in transit to Norway. The FSO will operate under a contract for Statoil at the Gina Krog Field in the North Sea.

If we now turn to Slide 4. As we announced last week our strategic partnership with Brookfield will transform Teekay Offshore's capital structure. This slide provides an overview of the key elements of our comprehensive transaction with Brookfield, which we expect to close in mid to late September.



As mentioned in last week's call, we believe this transaction will provide significant benefits to all our unitholders. First, the \$640 million investment in TOO common equity will make Brookfield and Teekay our two largest unitholders. This will ensure TOO has a stable and committed equity base.

The reduction of common unit distribution, which is a requirement of this transaction, to 1 cent per quarter will lead to a savings of over \$50 million in cash per annum. This will be reinvested into the business or used to further strengthen our balance sheet and liquidity position.

Second, the transaction reduced our high cost preferred equity capital which we have agreed to repurchase at a discount to par. This will simplify our capital structure and achieve further savings of \$28 million per annum. Third, the transaction will result in increasing the duration of our capital structure by extending the maturities of various debt facilities, bonds and interest rate swaps as detailed on this slide.

Just yesterday, we announced completing ShuttleCo U.S. dollar \$250 million five-year bond issuance in the Norwegian bond markets, which is expected to be used to repurchase the Norwegian Kroner bonds coming due in 2018 thereby removing the partnership's payment in kind and equity issuance requirements.

This successful bond issuance was oversubscribed, allowing us to reduce pricing below the initial indicative range to 7 1/8%, which is just one example of how this transformative transaction with Brookfield is already reducing our cost of capital.

And finally, the transaction will enhance TOO's capacity for growth. The net proceeds for the TOO equity issuance will fully finance TOO's current projects which we have detailed in the appendix to this presentation. And looking ahead with two strong co-sponsors, TOO will be better positioned to pursue future growth opportunities as evidenced by our recent order for new shuttle tankers.



I want to take a moment to briefly talk about these shuttle tankers because it's something we have worked on for a long time. The Suezmax size vessels will be based on the Teekay's new Shuttle Spirit design. This design makes use of proven technologies to increase fuel efficiency and reduce emissions through the use of LNG as a fuel.

We are convinced that the world needs greener solutions and we are taking a significant leadership step in that direction. These vessels will reduce emissions equal to 50,000 cars per vessel per year compared to existing tonnage. The two newbuildings are scheduled to deliver in late 2017 and early 2020.

They will enter into service under our existing Master Agreement with Statoil. The delivery of these newbuildings will then free up two existing vessels which will provide much needed capacity for our North Sea CoA fleet. We will also have options to order two additional vessels.

If you now turn to Slide 5, I will update you on the latest status of each of our key offshore project. The Libra FPSO is now as Libra field and has been approved by Petrobras for installation. The unit is currently undergoing field hookup, which includes riser pull-in operations and other commissioning activities.

Production startup and commencement of the Libra FPSO 12-year contract with the Libra consortium led by Petrobras is expected in early September 2017. The Randgrid FSO is currently in transit to Norway after departing the Sembawang shipyard early July. The unit is expected to arrive in the North Sea in early September and commence field installation.

Although, we experienced some delays on this project, we were able to work with Statoil to provide an interim offtake solution to enable startup of the field as per Statoil's plan. We are using one of our shuttle tankers for direct loading until the FSO is installed on the field and ready to take cargo.

Following hook-up and commissioning, our charter with Statoil will commence, which is expected to happen in early October. The Petrojarl I FPSO upgrade project is 95% complete. As we've discussed on



the past call, this has been a challenging project, but we now see light at the end of the tunnel and sail-away from yard is currently expected in October.

A new important development is that we have now signed an amended charter contract with QGEP and its partners. This pushes back the start of this five year charter in exchange for a reduction in the contract rate over the first 18 months. After the first 18 months, the contract will revert to a contract rate higher than the original rate plus an oil price and production tariff mechanism.

This will give us the opportunity to recover more than the reduction provided during the first 18 months. Following completion of the upgrade work and mobilization to the Atlanta Field in the Santos offshore basin, the Petrojarl I FPSO is expected to commence operations offshore Brazil in early 2018.

Finally, the East Coast Canada Shuttle tanker newbuildings remain on schedule and on budget. The first vessel is scheduled to deliver from Samsung in South Korea in a month's time, the second in October 2017 and the third in January 2018. Once delivered from the shipyard, these vessels are expected to be on hire in Canada within two months, replacing one owned and two in chartered shuttle tankers currently servicing the 15-year East Coast Canada charters.

This will free up required vessel capacity to service Teekay Offshore's contract of affreightment, or CoA, portfolio in the North Sea. When our projects deliver over the next few quarters, they are expected to contribute approximately \$200 million of incremental run rate annual cash flow. This will add to the already strong existing portfolio of forward fixed rate cash flows.

Thank you all for listening. Operator, we are now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 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 ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Okay, we'll now take our first question from Michael Webber at Teekay Offshore. Please go ahead.

Michael Webber: Thanks guys. I actually don't work for Teekay Offshore it just seems like it sometimes. Quick – I wanted to start off with the bond deal that got done, I think it was overnight. Looks like it was upsized pretty considerably and then relatively high price and all things considered.

Can you talk a bit about that process and the use of proceeds for that extra amount? And then just kind of how Brookfield actually participated or was involved in that project, and then in that process and what that meant?

Scott Gayton: Hi, Mike. It's Scott here.

Michael Webber: Okay.

Scott Gayton: Yes, the NOK bond was definitely a success. We were able to upsize it by around \$50 million and we were able to bring down the price from the initial price quote that went out. So I think that that's really an illustration of not only the power of our strong market position in the shuttle tankers.

But also with the removal of the financial uncertainty that went along with the Brookfield transaction had of the impact that had really on Teekay Offshore as well as on this new company and the new bond. By adding in a strong sponsor or really already showing that they're able to add value and reduce our cost of capital and also enhance our access to capital.

So what the remaining proceeds the extra \$50 million that will essentially go towards working capital within Teekay Shuttle Tankers and the use of proceeds for the \$200 million we will be using that to entirely take



out the two bonds that mature in late 2018 the Top 02 and the Top 04 bonds. And importantly, that will remove the requirement to PIK our dividend payments both at Teekay Offshore as well as Teekay Corporation.

So really a transformative transaction and significantly pushed out maturity profile that Teekay Offshore had by doing this bond.

Michael Webber: Got you. That's helpful. The shuttles, the order, the two plus two, can you talk about I guess when you think about having that kind of scale into that business and assuming this is mostly replacement tonnage but is there opportunity to maybe take more, increase the size in terms of the volume associated with CoA?

And just maybe how competitive dynamics are shaking out now kind of post the same like you are getting a bit more competitive and in around the North Sea as you guys are going through your issues with past six to nine months.

Ingvild Sæther: Yes, I think it's important to separate the CoA part of the business from the time charter part of the business. In the CoA part we have a very solid competitive advantage with our size and with our contract portfolio, so we don't see as much other players in that segment. In the North Sea as you may have seen there will be a significant need for renewal of tonnage to our number of vessels that are turning 20 years in the next two, three years.

So this is just maybe a first step of that fleet renewal process. We also see that there will be a requirement for additional tonnage in East Coast Canada and there we have also a very strong position with our existing operation and our three vessels. And then we really expect the biggest growth market to be Brazil where we have these new large FPSOs coming in on the Libra field and other fields. And there I think we should expect to have a bit more competition on the long-term time charters.



Michael Webber: Got you. Okay. That's helpful. One more and I'll turn it over. I apologize if I missed it but I don't think you guys have put out any details around the rate and/or the EBITDA generation associated with the new contracts for Petrojarl. The Brazilian counterparty has put out some detail around it, we kind of back into it.

But I'm just curious if you can give color around the EBITDA generation for the Petrojarl I or maybe both sides of that renewed. That revised contract and maybe just for modeling purposes.

Ingvild Sæther: I think David will answer that.

David Wong: Yes, hi, Mike. We're really excited about the renegotiation which will allow the delivery to be extended out to early 2018. Where we did agree is that we would reduce the charter higher in the first 18 months and the EBITDA impact would be around \$35 million in the first 18 months, but we would be recapturing that back in the last 3-1/2 years.

And as Ingvild mentioned in her remarks, not only does our charter rate increase in the last 3-1/2 years, but we also have this oil tariff and production tariff on top of that. And depending upon what oil prices are we have the ability to recapture more than that \$35 million reduction.

Michael Webber: So the right way to think about this is basically it probably zero EBITDA for the first 18 months, in the back end with some long-term optionality associated with the tariff?

David Wong: No, the EBITDA in the first year of the contract will be \$25 million still.

Michael Webber: Okay.

David Wong: So went from the ...

Michael Webber: All right, that's helpful.

David Wong: ... 50 million to 25 million on an annualized basis.

Michael Webber: Okay. Great. All right, I will stop there and turn it over. Thanks.

Operator: If you find that your question has been answered, you may remove yourself from the queue by pressing star 2. We'll now take our next question from Spiro Dounis at UBS Securities. Please go ahead.

Spiro Dounis: Thanks for taking the question. Just wanted to start off on two new shuttles again here. How do you think about the CAPEX in terms of the layout going forward? When should we expect those initial deposits to come in? And just in terms of financing this from an equity standpoint, do you feel like you've got enough equity in house already and from that standpoint should we think about it as leaseback or maybe more traditional term debt?

Scott Gayton: Hi, yes, I think that we would probably be looking at financing in the neighborhood of around 70% for these vessels. And similar to a lot of the newbuildings we are seeing right now, the majority of payments are going to be very tail heavy. And so yes, we will definitely have enough equity upfront in order to pay for these.

And importantly these ships will be part of the new carve out Teekay Shuttle Tankers, which will be capitalized with roughly \$90 million to \$100 million of opening working capital. So the equity payments will actually be made directly out of that working capital balance between now and delivery.

Spiro Dounis: Got it. Okay, that's helpful. And then just in terms of the Varg, I was looking to see there is anything you could update us on that front. I believe Alpha is expecting to reach a conclusion on that, the FEED study I think sometime in the third quarter is what they said. So, assuming that charter goes forward, how should we be thinking about when production would commence as well?

Ingvild Saeher: Yes, so we are working on the FEED study together with Alpha to really detail out the engineering and that will continue for some months. So, I don't think we expect there will be any decision before towards the end of the year. It will of course be dependent on Alpha being able to secure the financing for this project before we start.

And if we are able to move it forward then the production will start in 2019.

Spiro Dounis: Great. And last one for me, just kind of housekeeping question. Ingvild, you mentioned fleet renewal before, I'm trying to get a sense for as you bring on a new shuttle tanker and another one rolls off obviously those two shuttle tanker are not earning the same amount. I think if you prorate the East Coast shuttle tankers it's roughly \$13 million in CFVO per new shuttle tanker.

Give us a sense for what those 20-year olds are earning right now. just trying to get a sense of if some are rolling off what the delta is.

Ingvild Sæther: So I think these new vessels will be earning approximately the same as the existing shuttle tankers that we have. The two new vessels will go on to a existing contract we have with Statoil that will then free up two vessels that we can use in our CoA fleet. And that will be new contracts that we can secure from – obviously we have a big existing contract portfolio, but we're also able then to sell new capacity when these vessels come on.

And as you have seen, we have been able to increase the rates in the CoA market by approximately 40% over the last three, four years. So this is a market we are very comfortable with finding good contracts for these vessels. Maybe David you can add a bit on the EBITDA.

David Wong: Yes. So the older shuttle tonnage that we're trading today in the core markets are earning the high rates as Ingvild mentioned, so the newer ones will replace that, so we'll continue to see that level of activity



continuing as far as EBITDA. And I would look upon it as a vessel would add about \$15 million EBITDA, close to the range that you were talking about with the East Coast shuttle tanker.

Ingvild Sæther: And I think what's also important to keep in mind here is that all those vessels that are turning 20 years are fully employed up until the date that they cannot trade anymore. And then of course we need to have the capacity in the fleet to replace them with the new vessels.

Spiro Dounis: Understood. Thank you for that. Appreciate it. Thanks guys.

Operator: We will now take our next question from Nick Raza at Citibank. Please go ahead.

Nick Raza: Thank you. Just on the Petrojarl I and coming back to that, could you talk a little bit more about the oil tariff pricing and what the upside is and how that would work?

David Wong: We won't get into the details related to the oil tariff given the competitive nature of that. But I can tell you that the oil tariff kicks in around the oil prices that we see today. And then as the oil price rises above, we get additional revenue associated with that. So we see the incremental value associated with the higher the oil price goes.

Nick Raza: Okay and what's your expectation that you have after the term of the contract? Do you think that once this contract is done and over with once it renews will be a similar structure or did you have any sense for that or will it go back to a traditional contract?

Ingvild Sæther: Well, that is still some time out. This is a five year contract that will start up in 2018. So then when the contract finishes we really have a very good asset that can be employed either in Brazil or other



parts of the world after that. So we are quite confident that this unit will have a longer life than the five year initial contract.

Nick Raza: Okay and then switching back to the shuttle tankers. In terms of OPEX, do you think the OPEX is a little bit higher maybe on your Brazilian fleet? Just given the fact that utilization is higher on those vessels compared to say the North Sea, which you can conceivably benefit from down time as well?

Ingvild Sæther: Well we have reduced the OPEX on all of our shuttle tankers consistently over the last 10 years and I would say that the OPEX in Brazil is quite similar to the North Sea, maybe a bit higher in the North Sea actually. So no we don't see any higher OPEX in Brazil. We have international crew ...

Nick Raza: Okay.

Ingvild Sæther: ... on our shuttle tankers. So that compares to the other markets.

Nick Raza: But do you guys sort of have higher utilization in Brazil versus the North Sea?

Ingvild Sæther: So the vessels in Brazil, they are on time charters to Petrobras and they use vessels in their program. But I think we have approximately the same utilization in Brazil and in the North Sea. We don't have exposure to the utilization number in Brazil. We have a time charter where we get paid every day.

Nick Raza: Okay. That's very helpful. Thanks guys.

Operator: We'll now take our next question from Bendik Engebretsen at Danske Bank. Please go ahead.

Bendik Engebretsen: Thank you, just a couple of quick questions for me here. Has Brookfield stated anything about their investment horizon in Teekay Offshore Partners?



Scott Gayton: Hi, Bendik, it's Scott. No they haven't. They are focused on joining us and growing the business.

They're very supportive of the order of the two plus two newbuilding shuttle tankers. And, you know, they spent probably the better part of six or eight weeks doing extremely intense diligence on Teekay Offshore on our various businesses, and we do believe that they are in for the long haul.

And they see that they're able to come in with capital today to get our \$200 million of EBITDA projects delivered, right away. And then with the recapitalized balance sheet that we will be positioned to I guess ride the upswing when the offshore oil market does recovery, which we all expect to happen.

Bendik Engebretsen: Thank you very much ...

Kenneth Hvid: Yes, it's Kenneth here. Maybe just I could add Scott that, of course, part of the whole process we ran here which has been going on for the past I would say six months was really to ensure that Teekay Offshore ended up with the best possible partner out there. And, of course, one of the criteria we looked at was to find a partner with a long term view, which is similar to our long-term shareholders that we have in the group.

And I think we found a partner that have a similar mindset and a similar profile and if we look at elsewhere where Brookfield investors definitely long-term and that's certainly the signaling that we have been receiving throughout here. So, as Scott said, I think both sides are excited about matching our new combined capabilities here and really see what we can make in this market of Teekay Offshore.

Bendik Engebretsen: All right, thank you very much. Next quick question, regarding the call of Top 02 and Top 04, I saw that the date would be on or around the date of the disbursement of the new bond. Is it correctly understood that the call date for Top 02 and Top 04 is on the 15th of August?

Scott Gayton: Yes, essentially that's when it will happen and then everything is going to go into an escrow account which will then be contingent on closing the transaction with Brookfield.

Bendik Engebretsen: All right. Thank you very much.

Operator: Thank you. And we'll now take our next question from Jonas Shum at Citibank. Please go ahead.

Jonas Shum: Hello. Thank you for taking my questions. I'm working for Swedbank and not Citibank. I have a question in regards to your debt maturities. I understand that the shuttle tanker transactions involve certain refinancing of existing facilities. And in that I have included that your prior placement in the US, over \$140 million will be refinanced.

And also the joint venture financing on your shuttle vessels will be refinanced. And also then \$600 million of some of your term loans that matures throughout 2028. So my question is basically how will the remaining maturity profiles look like?

Scott Gayton: Sure. Good morning, maybe I'll just clarify a few things. The US private placement debt of approximately \$143.3 million on two of the shuttle tankers will be – will remain in place and that will be novated into our new carve out, Teekay Shuttle Tankers. The joint venture debt you speak of will also be novated into Teekay Shuttle Tankers.

The East Coast Canada debt, the East Coast Canada Shuttle Tanker debt will also be novated in and then a new \$600 million facility that we are close to finalizing the documentation of, which will as you say refinance roughly \$550 million of facilities, will be novated into Teekay Shuttle Tankers. So that essentially the capital structure will start up with secured debt of around \$900 million today in Teekay Shuttle Tankers.

And then what that will do is it will push out three of the maturities. We had one in 2017 and two in '18. And those will now be pushed out four or five years as part of the new \$600 million facility.

Jonas Shum: Okay. Thank you.

Operator: It appears that there are no further questions at this time. Ms. Sæther, I would like to turn the conference back to you for any additional or closing remarks.

Ingvild Sæther: Thank you. Yes, it has been an active few months for Teekay Offshore and our top priorities now are closing the Brookfield transaction and delivering our projects into the respective contract. So we look forward to updating you on the progress next quarter. Thank you.

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