# TEEKAY CORPORATION'S FIRST QUARTER 2019 EARNINGS RESULTS CONFERENCE CALL

**Company:** **Teekay Shipping Canada**

**Date:** **Thursday, 23 May 2019**

**Conference Time:** **14:00 ET**

Operator: Welcome to the Teekay Corporation's First Quarter 2019 Earnings Results Conference Call. During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question and answer session. At that time, if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touchtone phone. As a reminder, this call is being recorded.

And now for opening remarks and introductions, I'd like to now turn the call over to Mr. Kenneth Hvid, Teekay's President and Chief Executive Officer. Please go ahead sir.

Lee Edwards: Before we begin, I'd like to direct all participants to our website, www.teekay.com, where you'll find a copy of the first quarter 2019 earnings presentation. Kenneth and Vince will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the first quarter 2019 earnings release and earnings presentation, available on our website. I will now turn the call over to Vince to begin.

Vince Lok: Thanks Lee. And thank you all for joining us today for Teekay Corporation's first quarter 2019 earnings conference call. I will review our first quarter results and Teekay Parent highlights before I hand over the call over to Kenneth.

Starting with slide three of the presentation. In the first quarter, Teekay Corporation generated total adjusted EBITDA of $237 million, which is up over 40% from the same period of the prior year. We also reported a consolidated adjusted net loss of $13 million, or $0.13 per share, an improvement from an adjusted net loss of $18 million, or $0.19 per share, in the same period of prior year.

Our stronger first quarter consolidated results were driven by the start-up of various gross projects across the Teekay Group, certain LNG carriers commencing new charters at higher rates, and higher spot tanker rates. However, our results were impacted by lower revenues from Teekay Parent's directly owned FPSO units as a result of some unplanned maintenance, lower oil production and timing differences arising from the adoption of the new lease accounting standard on 1st January, which in aggregate reduced revenues by approximately $8 million in the first quarter of 2019. We will cover this in more detail later in the presentation.

Also in the quarter, Teekay Parent generated negative adjusted EBITDA of $2 million, which includes EBITDA from our directly owned assets and cash distributions from our publicly traded daughter entities. This was down compared to the first quarter of 2018, mainly as a result of lower revenues from our three FPSOs as mentioned earlier, partially offset by a 36% increase in Teekay LNG's quarterly cash distribution during the quarter.

For further details on our first quarter results, as well as our second quarter outlook, please refer to the slides in the appendixes to this presentation.

In May, we completed the sale of our remaining interest in Teekay Offshore for total cash proceeds of a $100 million and refinanced Teekay Parent's 2020 bond maturity with a new $250 million, 9.25% secured bond due on November 2022. I will touch on these transactions in more detail later in the presentation.

We're also pleased to announce that earlier today we signed a one-year charter extension for the Banff FPSO out to August 2020 with Canadian Natural Resources for the Banff and Kyle fields in the UK sector of the North Sea.

Turning to slide four. We believe we have now reached a positive turning point and are positioned to create a long-term value. Over the past few years, we have completed a number of initiatives with the objective of derisking, delevering and preserving value and optionality. This has been challenging as we simultaneously had to execute on a very large project order book that was committed in a much stronger market than we have been facing over the last three to four years.

Strategic transaction with Brookfield relating to Teekay Offshore in September 2017 was of critical importance. We raised $750 million of new capital and with Brookfield as a new controlling owner eliminated over $500 million in Teekay Parent guarantees of Teekay Offshore liabilities. We also reduced guarantees of Teekay Tankers' debt facilities completed over $2.5 billion of fixed rate gas projects and adopted more conservative financial policies to retain more capital to strengthen our balance sheet, including the recent elimination of Teekay Corporation's dividend in conjunction with the 2020 bond refinancing.

In addition, after being approached by Brookfield in late April, we agreed to sell to them our remaining ownership interest in Teekay Offshore, which was an important milestone in our evolution and is aligned with Teekay strategy to simplify and focus on our core gas and tanker businesses. Importantly, the net proceeds from these divestments allowed us to further delever Teekay Parent's balance sheet while also enabling us to reduce the size of our new secured bond offering to $250 million and shorten the tenure to 3.5 years, which provides a more flexible and lower cost capital structure to better suite our delevering strategy going forward.

The completion of these initiatives has provided a number of benefits, including a stronger more stable balance sheet. It positions us to benefit from a stronger outlook for our daughter entities and it provides the opportunity to maximize the value of Teekay Parent's introducing FPSO units and our IDRs in Teekay LNG including potential monetization of these assets.

Moving to slide five, over the last three years, we have focused on delevering Teekay Parent's balance sheet. Since the beginning of 2018, we have paid all of Teekay Parent's secured bank debt facilities while reducing our bond debt by over $180 million, for a total gross debt reduction of over $260 million or almost 40% and we expect to further d-lever our balance sheet through potential asset sales.

In addition, we reduced our Teekay Parent financial guarantees from approximately 750 million at the end of 2016 to $161 million as of 31st March, 2019.

Turning to slide six. Pro forma for the 2020 bond refinancing and the sale Teekay offshore that took place in early May. Our net debt now stands at $347 million. With $65 million of cash on the balance sheet, and $140 million of availability under our equity margin revolver, which was reduced as a result of the sale of our Teekay Offshore common units that were collateralized under revolver, we have approximately $175 million of liquidity to support our operations and repay the remaining balance of our 2020 bonds.

The debt reductions since the beginning of 2018, and as a result of the 2020 bond refinancing, have resulted in cash interest savings of approximately $23 million per year to a run rate level of $35 million per year, or $8.75 million per quarter, commencing in May of 2019.

I will now turn the call over to Kenneth.

Kenneth Hvid: Thank you, Vince. And first of all, I just must apologize for my Godfather voice here today.

Now turning to slide seven. We have a diversified business model. We're building growth with market leading positions in each of our core gas and tanker businesses, as well as exposure of the offshore production through our free directly-owned FPSOs. This provides us with stable and growing LNG cash flows, which makes up 68% of our invested capital that is supported by an unrivaled portfolio with a diverse customer base totaling over $10 billion of forward revenues with an average remaining contract duration of 12 years with upside from our tanker cash flows, where we're well-positioned to benefit from a tanker market recovery.

Turning to slide eight. I will now provide an update on our three-directly owned FPSOs. I'm pleased to report that earlier today we signed a one-year contract extension on the Banff FPSO to August 2020, on substantially similar terms with upside from a formula based on both oil price and production.

Unfortunately, our FPSO results during the first quarter were negatively impacted by lower revenues from the Banff and Foinaven FPSOs due to unplanned shutdowns and lower oil production, which reduced revenues by roughly $4 million and the adoption of the new lease accounting standard in this quarter that resulted in deferring the recognition of approximately $4 million of revenues to future quarters.

Excluding the impact of these items, the FPSO adjusted EBITDA would have been approximately $5 million during the first quarter. Unfortunately, we have continued to experience further downtime during the second quarter, and despite an increase in oil prices, we expect the adjusted EBITDA for our three FPSOs in Q2 to range between negative $7 million to $2 million at oil prices between $60 and $80 per barrel.

We're working with customers and operational teams to avoid these unplanned shutdowns in the future and we'll also be addressing the same in connection with our planned maintenance program for the Foinaven and Banff over the summer.

With the Banff FPSO contract extended by another year, we're now focusing on addressing the negative financial performance on the Foinaven FPSO, which has contributed a total of negative $40 million of adjusted EBITDA since the beginning of 2017. Adjusting for the negative $10 million of adjusted EBITDA expected in Q2 for the Foinaven, our other two FPSO units are expected to generate positive $2 million to $7 million at oil prices between $60 and $80 per barrel, which includes some higher maintenance cost and additional downtime for the Banff during Q2.

In addition to addressing the current operational issues, we continue to follow strategy of contract extensions and potential sale of any or all of our three FPSOs. These units are needed by our customers to continue producing on their fields. In a relatively strong and constructive oil price environment, we believe this is the right strategy for maximum value creation on these units which are no longer considered core assets for us.

I'll continue – I'll just briefly review the next four slides on our daughter entities as I'll assume most of you listened into their respective calls earlier today.

On slide nine, we have summarized Teekay LNG's recent results and highlights and the status of its growth projects. Teekay LNG Partners generated continued strong results with total adjusted EBITDA of up 35%, adjusted net income up 51% and adjusted earnings per unit up 79% compared to the same period of the prior year. Since February, Teekay LNG has secured one to three year charters on four LNG carriers locking in additional $70 million of adjusted EBITDA.

Teekay LNG increased its quarterly cash distribution by 36% commencing in the first quarter, which will increase Teekay Parent's annual cash flows from the partnership to over $20 million in 2019. While Teekay LNG continues to focus on delevering its balance sheet, they may opportunistically repurchase units to create further value for unitholders should unit prices dip significantly below intrinsic value. Lastly, Teekay LNG reiterated its 2019 guidance which is significantly higher than 2018.

Looking at the LNG shipping market on slide 10. The fundamentals appear to be very strong, at least for the next couple of years, with demand for LNG carriers exceeding supply. Liquefaction capacity growth is expected to grow to more than 90 million tons of additional liquefaction capacity of between 2018 and

2020, which leads to incremental demand for LNG shipping of over 90 LNG carriers during the same timeframe.

We expect this demand to increase tonne-mile growth of 12% in 2020, which would exceed anticipated low fleet supply growth of 7% in the same year, which should further increase fleet utilization and charter rates.

Turning to slide 11. Teekay Tankers reported total adjusted EBITDA of $63 million and adjusted net income of $15 million, or $0.05 per share, which significantly increased from adjusted EBITDA of $22 million and a net loss of $22 million, or $0.08 per share, respectively, reported in the same period of the prior year.

In addition, Teekay Tankers recently completed two financings, which provides an additional $40 million of liquidity, resulting in a current liquidity position of approximately $160 million. With the strong liquidity position, market-leading positions, and significant operating leverage, we believe Teekay Tankers is one of the best options for investors to benefit from an expected tanker market recovery, which I'll discuss shortly.

Looking at the graph on the right, we highlight Teekay Tankers significant operating leverage to a tanker market recovery. If spot tanker rates are at mid-cycle levels, Teekay Tankers estimated annual free cash flow per share would be approximately $1 per share over the next 12 months, which is extremely attractive relative to its last closing price of a $1.35.

Turning to Slide 12. We look at our outlook for the conventional tanker market, which we believe is set to improve significantly from the second half of the year and into 2020. Tanker spot rates have shown resilience in the face of near-term headwinds at the start of 2019 with TNK registering its highest Q1 earnings since 2016. Spot rates have subsequently softened during the second quarter, which is typical at this time of year due to seasonally lower demand.

The market also faces some near-term headwinds in the form of OPEC supply cuts, heavier than normal refinery maintenance and relatively high fleet growth at the start of the year. However, TNK's spot earnings during Q2 to-date are significantly higher year-on-year which shows that the market is fundamentally better balanced than 12 months ago.

Looking at the second half of the year, we believe that tanker market is set to tighten considerably due to positive developments on both the demand and supply side. As Kevin talked about earlier today – but I just wanted to focus on the charts on the bottom right of the slide, which illustrates our view of an improving freight market later this year and next. As strong demand growth spurred by IMO 2020 and an increase in long haul oil movements is expected to outstrip fleet growth by a considerable margin. This should lead to a much firmer tanker market starting in the second half of 2019 and continuing through 2020.

I would like to finish the call today on slide 13, which summarizes why we believe the Teekay Group is now positioned to create greater value. The energy markets are providing tailwinds for our businesses. Each of our companies has, and are expected, to continue to strengthen financially, and our cash flows are growing, noting that there is more to come that has not yet been reflected in our financial results.

As these factors continue to strengthen in unison, we believe they will increase the intrinsic value of our daughter entities and narrow the gap between current unit share prices and their respective intrinsic values, thereby increasing Teekay's value. To illustrate this point, based on yesterday's closing share prices, for every 10% increase in our total intrinsic unit and share prices, that translates into a value uplift to TeeKay of just under $0.50 per share or approximately 12% based on yesterday's closing price.

With that, operator, we are now available to take questions.

Operator: Thank you. At this time, we will open the floor for questions. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. And again, that was star one if you would like to ask a question. And our first question comes from Michael Webber with Wells Fargo.

Michael Webber: Good morning, guys. How are you?

Kenneth Hvid: Good. How are you?

Vince Lok: Hi Mike.

Michael Webber: Good. First off, congrats on the refi. I know that's something you guys have been working on for quite a while. And I kind of want to touch on that and kind of what you can do on a go forward basis in a second. But I wanted to, first, touch on the FPSO. As you mentioned and did a subsequent release where you extended the Banff for a year. I guess, one, can you talk to what the chartering prospects look for the other two FPSOs? And then two, the idea had been that you'd extend the contracts on those and ultimately look to sell them, does the contract extension on the Banff for a year get you there?

Kenneth Hvid: Yeah, let's go through them one by one, Mike. So, on Banff, I don't think a one-year contract extension gets us to a sale. It doesn't materially change our position from a year ago. What it does give us though is more time for the operator to continue their assessment of the field.

We know that they're looking at potential further drilling there and there is still good gas flow. So, we are in discussions in terms of if we were to extend the Banff on even longer period, what kind of upgrades will we need to make to the units to say keep it out there for another three to four years. So, that's probably more what we will be focused on as it relates to Banff.

Hummingbird, there isn't really much to report from when we reported last quarter. We're still on this contract that runs out until September 2020. As I think we commented on last quarter, we wouldn't expect a real move in terms of further development plans on that field until the second half of this year. So, that we would still need to watch, and of course, following up on.

And as it relates to Foinaven, as you know, this has – is a legacy contract that hasn't created a lot of value for Teekay over the years. The Foinaven is obviously getting older. We have an extended maintenance period planned, scheduled for this summer. And we are again in dialogue with BP to see what we can do there. So, I can't really comment on exactly where we're going to end up on Foinaven, but hopefully we can report something next quarter.

Michael Webber: Okay. That's helpful. And then maybe just big picture. The Jan 2020 has been kind of hovering over the story for quite a while. So, largely getting that behind is helpful. Can you maybe talk a bit about for the first time where do you see taking Teekay now that that's largely behind you? Obviously, you can only work with the tools you've got, but you've got TGP sitting with two daughter entities and the parent entity. Can you just talk a bit about how you see the structure look going forward? And to the point where you are deploying capital at the Teekay level at some point in the future where you think is an interesting place to look?

Kenneth Hvid: Yeah. I think you're absolutely right. I mean, we have obviously had the 2020 bond facing us for the last couple of years and a lot of the decisions we have made over the past couple of years have been guided by coming into a position where we have a more sustainable capital structure, post 2020. I think what you're hearing from, both Kevin and from Mark, is that we've done a lot of work. We've been very prudent in our conservatism, I'd say, around our financial management of the balance sheet and the business there. For example, in TGP, we have delivered $2.5 billion of projects and not raised any equity.

We know and understand that that has left the company with an elevated leverage. But as they also pointed out on their call, as we really start to delever rapidly here, we're building a lot of equity value and that is what we look at as kind of the financial or strategic flexibility that we've been working on for the past number of years.

We're not quite there in 2019, but we definitely are building that flexibility as we enter into 2020, and I think then we can really start looking and having more of these capital allocation discussions, which is all about creating value as opposed to managing the business for liquidity, which we've been doing over the past couple of years.

Michael Webber: Got you. Okay. I appreciate the time guys. Thanks.

Vince Lok: Thanks.

Operator: And that does conclude today's Q&A session. I will now turn the call back over to Mr Kenneth Hvid.

Kenneth Hvid: Well, thanks for listening in today. We look forward to reporting back to you in August.

Operator: Thank you, ladies and gentlemen. That concludes today's teleconference. You may now disconnect.