TEEKAY CORPORATION'S FOURTH QUARTER AND FISCAL 2019 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay Corporation**

Date: **Thursday, 27 February 2020**

Conference Time: **11:00 ET**

Operator: Good day and welcome to Teekay Corporation's Fourth Quarter and Fiscal 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 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 the Company. Please go ahead.

Speaker: To begin, I'd like to direct all participants to our website at www.teekay.com where you'll find a copy of the Fourth Quarter and Annual 2019 Earnings Presentation. Kenneth Hvid and Vince Lok 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 the 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 Annual 2019 earnings release and earnings presentation available on our website. I'll now turn the call over to Vince to begin.

Vince Lok: Thanks Ryan and thank you all for joining us today for Teekay Corporation's Fourth Quarter and Annual 2019 Earnings conference call. I will briefly review our fourth quarter results before I hand the call over to Kenneth.

Starting with slide three of the presentation, the fourth quarter of 2019 marked a return to profitability for Teekay as we recorded consolidated adjusted net income of $31 million, or $0.31 per share, compared to an adjusted net loss of $2 million, or $0.02 per share, in the same period of the prior year. We also generated total adjusted EBITDA of $324 million, an increase of 113 million, or 53%, from the same period in the prior year, excluding the contribution from Teekay Offshore, which we sold in May of 2019. Our fourth quarter consolidated results were positively impacted by significantly stronger spot tanker rates at Teekay Tankers, the startup of various growth projects and higher charter rates secured on certain LNG carriers at Teekay LNG, improved results from our directly owned FPSO units and lower G&A expenses across the group. In addition, we narrowed our consolidated adjusted net loss in the fiscal year 2019 to $19 million, from $53 million in 2018. And we continue to expect 2020 to be a profitable year.

Teekay Parent generated positive adjusted EBITDA of $14 million in the fourth quarter, which includes EBITDA from our directly owned assets and cash distributions from our publicly traded Daughter entities. Our results were up compared to the fourth quarter of 2018, mainly as a result of lower interest expense due to bond repurchases over the past year, our bond refinancing completed in May 2019, higher contributions from the Banff and Hummingbird Spirit FPSO units, a 36% increase in TGP's quarterly cash distribution and lower G&A expenses.

For further details on our fourth quarter results as well as our first quarter outlook, please refer to the slides in the appendices to this presentation. Overall, we are expecting another strong quarter in Q1. On the balance sheet side, in January of 2020, Teekay Parent eliminated $52 million of debt guarantees previously provided to Teekay Tankers as a result of their $533 million refinancing completed during that month. And we fully repaid the remaining balance on our 2020 unsecured bond with cash.

I will now turn the call over to Kenneth.

Kenneth Hvid: Thank you Vince and the hello everyone. Turning to slide four. When we presented at our Investor Day in November, our key message was that over the past three years, we have significantly derisked the Teekay Group and that we expect stronger earnings and continued balance sheet delivering across all businesses. We believe that the de-risking of the Teekay Group has set us up to not only weather, but actually continue to thrive during market volatility.

Let's start off on the near term. On the gas side, we've seen significant declines in LNG prices in Asia and Europe, with Asia reaching levels below $3 per mmbtu, primarily due to the coronavirus outbreak and milder winter weather, which has put pressure on spot LNG shipping rates.

On the tanker side, crude spot tanker rates reached the highest levels since 2008 due to positive underlying tanker supply and demand fundamentals, normal winter seasonality as well as one off events such as US sanctions on COSCO that removed 26 VLCCs from the trading fleet, floating storage ahead of the implementation of IMO 2020, and the removal of vessels from the global trading fleet to retrofit scrubbers.

However, the crude spot tanker market has come under pressure in recent weeks on the back of the coronavirus and the US lifting sanctions on COSCO, with the former leading to a downgrade in oil demand by the IEA. It is highly uncertain how long this volatility will continue, but we believe the Teekay Group is well positioned with our gas business being very well insulated from the near-term weakness in the spot LNG shipping market due to its unrivaled portfolio of long-term contracts with no charter market exposure whatsoever through the first half of the year, 97% fixed employment in 2020, and 92% in 2021 for its LNG fleet, and with our tanker business having greater financial flexibility as a result of a stronger balance sheet and a much healthier liquidity position, which we'll touch on in more detail later in this presentation.

Looking ahead. We believe the medium term fundamentals remain intact with a record year in 2019 for new LNG projects reaching the final investment decision that are expected to start-up in 2022 onwards and long-term demand for LNG expected to rise by 4% to 5% per year to 2030 as LNG continues to displace coal. For crude tankers, we see strong underlying supply and demand fundamentals with the crude tanker orderbook at 20 year lows measured as a percentage of the existing fleet.

Turning to slide five, we have provided a graph of our annual total adjusted EBITDA over the past three years that – adjusted by the sale of Teekay Offshore – has increased by 66% since 2017, primarily underpinned by our stable and growing cash flows from our gas business that have increased by 52% during this time. We expect our total adjusted EBITDA to continue to grow in 2020, with our gas cash flows expected to grow another 10% to 14% in 2020, compared to 2019 and a full year of potentially stronger earnings from our tanker business.

Turning to slide six. I'll provide a brief update on all three directly owned FPSOs. On the Foinaven FPSO, we are now in advanced stages of discussions with BP for a new contracting structure on the unit to address the negative EBITDA that we have incurred on this unit and will provide an update to the market at the appropriate time. The Hummingbird Spirit continues to operate on its contract out to 2023 and the customer continues to execute on its previously announced drilling campaign aimed at extending the production life of the field. We are continuing to pursue a divestment of this asset.

On the Banff FPSO, as highlighted at our Investor Day in November, there will likely be no further contract extensions on the existing field as a result of low gas prices and we are now preparing for the cessation of production on the field and decommissioning commencing in mid-2020 and we're marketing this unit for sale.

Our FPSO results improved significantly in the fourth quarter as the units ramped up production following plant maintenance in the third quarter and the recognition of approximately $8 million in operational tariff revenues from the Foinaven, which is typically recognized in the fourth quarter of each year.

Looking ahead to the first quarter, we expect our FPSO cashflows to be lower mainly due to the annual operational tariff revenue recognized in the fourth quarter and higher operating expenses in the first quarter, relating to the Foinaven. As mentioned earlier, the negative EBITDA is driven all by the Foinaven FPSO, which we are in advanced stages of addressing.

Consistent with our recent Teekay Group Investor Day, we have decided to change the order of our earnings calls with Teekay Cooperation going first, followed by Teekay LNG and then Teekay Tankers. As a result, I will only briefly touch on the results and highlights of our Daughter companies. I would encourage you to listen to their respective earnings conference calls for more details following this call.

On slide seven, we have summarized Teekay LNG's recent results and highlights. Teekay LNG Partners reported strong fourth quarter and fiscal 2019 results that were within its guidance generating total adjusted EBITDA of $184 million and adjusted net income a $50 million, or $0.56 per unit, up significantly during the quarter compared to the same period of the prior year as growth projects continued to drive higher earnings and cash flows. We expect these results to continue to grow in 2020, with adjusted earnings per unit expected to be 45% to 73% higher than 2019.

Teekay LNG has reached an important milestone with the completion of its growth program with a delivery of its fifth and sixth 50% ARC7 LNG carrier newbuildings for the Yamal LNG project, which immediately commenced their respective 26 year charter contracts, as well as its 30% owned Bahrain re-gas terminal completed mechanical construction and commissioning and began receiving revenues in early January. Also, in early January, Awilco LNG fulfilled its obligation to repurchase two of TGP's LNG carriers resulting in receipt of over $260 million in cash that was used to de-lever its balance sheet and increased its liquidity by over $100 million.

Additionally, Teekay LNG continues to execute on its balanced capital allocation strategy, which includes prioritizing balance sheet de-levering for now and a second consecutive year of over 30% increase in quarterly cash distributions with a 32% increase commencing in May 2020. As outlined on the graph on the far right, this approach has allowed for significant de-levering from a proportionate net debt to total adjusted EBITDA of 9.1 times in 2018, to 6.4 times based on our Q4 2019 annualized results – proforma for the Awilco transaction that I touched on earlier. This is creating significant equity value for all Teekay LNG unitholders with more to come as Teekay LNG approaches its target leverage of around 4.5 to 5.5

times and which is expected to result in significantly increased financial flexibility. Lastly, since December 2018, TGP has opportunistically repurchased 3.5% of its outstanding common units at an average repurchase price of $12.85 per unit.

Turning to slide eight, Teekay Tankers reported record-high adjusted net income in the fourth quarter generating total adjusted EBITDA of $132 million, up from $62 million in the same period of the prior year. And adjusted net income of $83 million, or $2.47 per share, in the fourth quarter an improvement from $14 million, or $0.42 per share, in the same period of the prior year. TNK's results were driven by stronger spot tanker rates, which reached the highest level since 2008.

This strength continued into the first quarter of 2020 and I'm pleased to report that the tanker rates we have secured so far in Q1 are even higher, with 77% of Q1 Suezmax days fixed at $51,700 per day and 63% of Q1 Aframax and LR2 days fixed at 38,600 per day, compared to $39,100 per day and $33,000 per day in the fourth quarter, respectively.

Since November 2019, Teekay Tankers has taken significant steps to bolster its balance sheet from strong operating cashflows, securing $104 million of opportunistic asset sales and securing a new five-year, $533 million long-term revolving credit facility, which on a pro forma basis has reduced TNK's net debt by $153 million, or 15%, since the end of the third quarter and significantly increased its liquidity to approximately $260 million.

Looking ahead, TNK continues to maintain significant operating leverage as highlighted in the graph on the bottom right hand side of the slide. On an annualized basis, the rates that we achieved in the fourth quarter of 2019 would translate to over $320 million of free cashflow, or over $9.50 per share. This is compelling relative to TNK's closing share price yesterday of $12.66 per share and equates to a free cash flow yield of 75%.

Turning to slide nine, in spite of the market volatility, we have continued to execute on our business plan to create intrinsic value across the Teekay Group as laid out on this summary slide. We also continue to focus on further simplification of the group, which includes the ultimate divestment of our three FPSOs as well as a potential IDR monetization.

In closing, I would like to thank all my colleagues at sea and shore who have worked tirelessly to put the Teekay Group in a significantly stronger position as we enter into a new decade.

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

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Again, as a reminder to ask a question, please press star one. At this time, we have no questions in queue.

Kenneth Hvid: Well, we look forward to reporting our business results in our two Daughter companies right after this call and reporting back to you on our group progress next quarter. Thank you for listening in this morning.

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