TEEKAY CORPORATIONS' SECOND QUARTER 2019 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay Corporation**

Date: **Thursday, 1 August 2019**

Conference Time: **13:00 ET**

Operator: Welcome to the Teekay Corporation's Second Quarter 2019 Earnings Results Conference Call. During the call, all participants are in a listen-only mode. Afterwards, you'll be invited to participate in a question and answer session. At this 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. Now for opening remarks and introduction, 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 at www.teekay.com, where you'll find a copy of the second 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 second 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 second quarter 2019 earnings conference call. I will briefly review our second quarter results before I hand over the call to Kenneth.

Starting with slide three of the presentation. Overall, our second quarter results came in better-than-expected for each of our entities. On a consolidated basis, we generated total adjusted EBITDA of $197 million, up $32 million, or 20%, from the same period of the prior year. We also reported a consolidated adjusted net loss of $13 million, or $0.13 per share, a significant improvement from the consolidated net loss of $22 million, or $0.21 per share, recorded in the same period of the prior year.

Our second quarter consolidated results were positively impacted by the startup of various growth projects at Teekay LNG; higher charter rates in our tanker business and on certain LNG carriers; and lower G&A expenses. These increases were partially offset by lower revenues and higher costs from Teekay Parent's directly owned FPSO units as a result of some unplanned downtime and lower production and oil prices. We will discuss the results and outlook for the FPSO units in more detail later in the presentation.

Teekay Parent generated positive adjusted EBITDA of over $3 million, which includes EBITDA from our directly owned assets and cash distributions from our publicly traded daughter entities. Our results were down compared to the second quarter of 2018, mainly as a result of lower revenues from our three FPSOs as mentioned earlier, partially offset by the 36% increase in Teekay LNG's quarterly cash distribution, lower G&A expenses and lower interest expense as a result of bond repurchases completed over the past year and our recent bond refinancing.

In May 2019, we completed the refinancing of our $498 million 2020 bond maturity with a new $250 million secured bond, the proceeds from the sale of our remaining interest in Teekay Offshore and our existing liquidity. Teekay Parent's current liquidity of over $180 million is more than sufficient to retire the remaining $37 million of outstanding January 2020 bonds.

As a result of the refinancing, Teekay Parent's gross debt has decreased by $223 million, or 37%, from last quarter, which is reducing our interest expense, the full effect of which will be reflected in our earnings and cash flows in the third quarter of 2019.

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

I will now turn the call over to Kenneth.

Kenneth Hvid: Thanks Vince. Turning to slide four. Teekay Parent has been, and will continue to, derisk, delever and focus on maximizing value of Teekay Parent's assets. With the sales of our interest in Teekay Offshore and Sevan Marine, which was consistent with our strategy to simplify and focus on our core gas and tanker businesses, we received a total of approximately $130 million in cash, which significantly improved our credit profile, reduced our portfolio exposure to the Offshore segment and resulted in a number of other benefits.

Specifically, on the TOO sale, we believe it was an opportune time to sell as it enabled us to secure significantly better terms on our 2020 bond refinancing. Following the public launch of our secured bond offering on 24th April, Brookfield approached us with an unsolicited offer to acquire our remaining interests in TOO, which we were able to quickly agree on a deal which then allowed us to relaunch our bond offering to reduce the size of the new bond from $300 million to $250 million, reduced the tenor from five years to 3.5 years and pushed down pricing by approximately 100 basis points. We were able to secure a bond that was more flexible and at a lower cost, which benefits our delevering strategy.

Looking ahead, from Teekay's perspective, we'll continue to focus on maximizing the value of our remaining four key assets. Teekay LNG and Teekay Tankers continue to execute on their respective strategies and have achieved total unitholder and shareholder returns year-to-date of 34.4% and 32.5%.

respectively. We believe that we have strengthened both companies through various initiatives over the past couple of years. With expected cash flow increases in both companies and current valuations still being below our intrinsic values, we continue to see considerable upside in both companies, which should translate into value uplift for Teekay Corporation as well.

To illustrate this point, based on yesterday's closing share prices, if the unit and share prices of TGP and TNK increased by 10%, that would translate into a sum of the parts value uplift to Teekay of just under $0.50 per share, or approximately 11% based on yesterday's closing price. I will touch on Teekay LNG and Teekay Tankers in more detail later in the presentation.

With respect to the TGP incentive distribution rights, we are focused on maximizing the value of the IDRs for Teekay's shareholders while also positioning Teekay LNG for continued success in the future. This remains a high priority for us and we intend to explore all solutions that will be beneficial to both companies.

Lastly, with Teekay Parent three FPSOs, we continue to have dialogue on further contract extension amendments and/or dispositions and are encouraged by our recent progress. I'll touch more on the FPSOs on the next slide.

In addition, we have continued to reduce our G&A expenses across the Teekay Group. This includes rightsizing our organization in light of our divestiture of Teekay Offshore and lower anticipated growth, streamlining and automating some of our core processes, reducing the size of our boards and reducing office costs. These initiatives are already having an impact at the consolidated and Teekay Parent level with G&A down 15% and 30%, respectively, in the second quarter compared to the same period of the prior year.

Turning to slide five. I'll provide an update on our three directly owned FPSOs. Our results during the second quarter were negatively impacted by unplanned shutdowns on two of our FPSO units. However, we did experience better than expected overall results during the second quarter for our FPSO units as a result of higher production and oil prices for the Banff and Hummingbird Spirit, partially offset by lower production and higher operating expenses on the Foinaven FPSO.

As we indicated last quarter, the third quarter results for the Foinaven and Banff are expected to be lower as a result of scheduled planned maintenance during the summer, which is expected to also address some of the unplanned downtime we have experienced on these units during the past few quarters. As a result, we expect the three units to return to full production capacity in the fourth quarter, which is reflected in the rebound in forecasted cash flows for Q4.

We also continue to focus on addressing the negative financial performance on the Foinaven FPSO, which has resulted in negative $19 million of adjusted EBITDA in the first half of 2019 and another negative $15 million forecasted for Q3. Excluding the Foinaven FPSO, the EBITDA from our other two FPSOs in the third quarter are expected to be breakeven to positive $4 million at oil prices between $60 and $80 per barrel.

Looking further ahead to the fourth quarter, we estimate our adjusted EBITDA for the three units to range between $11 million to $18 million at oil prices between $60 to $80 per barrel with the Foinaven FPSO making up approximately $5 million of that, which includes the Foinaven's annual incentive revenues recognized in Q4.

We continue to follow our 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 to maximize the value of these assets.

I'll just briefly review our daughter entities on the next slide, as I will assume most of you listened into their respective earnings calls earlier.

On slide six, we have summarized Teekay LNG's recent results and highlights and the status of its growth projects. Teekay LNG Partners generated total adjusted EBITDA of $162 million and adjusted net income of $34 million, or $0.35 per unit, up significantly during the quarter compared to the same period of the prior year as growth projects continue to deliver increasing cash flows. There is more to come as these projects and as remaining newbuildings yet to be delivered are fully reflected in its financial statements throughout 2019 and 2020.

In June, Teekay LNG took delivery of its third 50% owned Arc7 LNG carrier newbuilding for the Yamal LNG project, which immediately commenced its 27-year charter contract. The fourth vessel is expected to deliver in a couple of weeks. Teekay LNG's fleet is 100% fixed for the next 12 months, which is expected to drive 2019 results well within the earnings and adjusted EBITDA guidance ranges.

Additionally, Teekay LNG continues to execute on its balanced capital allocation strategy, which includes prioritizing balance sheet delevering for now and the quarterly cash distribution increase of 36%, which commenced in May 2019, while also opportunistically repurchasing its common units below its intrinsic value.

As outlined on the graph on the far right, this approach has allowed for significant delevering from a net debt to annualized adjusted EBITDA basis from 9 times at the end of second quarter of 2018 to 6.7 times at the end of our most recent quarter. This is creating significant equity value for all Teekay LNG unitholders with more to come as Teekay LNG approaches its targeted leverage of around 5 to 5.5 times, and which is expected to result in significantly increased financial flexibility.

Lastly, since December 2018, TGP has opportunistically repurchased a total of 1.43 million common units, or 2% of the outstanding common units, for a total cost of $16.9 million, representing an average repurchase price of $11.86 per unit.

Turning to slide seven. Teekay Tankers reported total adjusted EBITDA of $36 million, up from $17 million in the same period of the prior year and an adjusted net loss of $12 million, or $0.05 per share in the second quarter, an improvement from an adjusted net loss of $29 million or $0.11 per share in the same period of the prior year. These improved results reflect tighter market fundamentals as the Q2-19 spot tanker rates were the highest second quarter rates since 2016.

Crude tanker spot rates for the second quarter, however, declined compared to the previous quarter, mainly due to seasonal factors and some near-term headwinds. This included lower OPEC oil production and heavier than normal refinery maintenance as refineries prepare for the implementation of the new IMO 2020 regulations, which we expect will continue into the early part of the third quarter.

Looking ahead, despite an extension of OPEC oil production costs, we continue to believe that tanker market fundamentals support a market recovery in the latter part of the year and into 2020 due to projected underlying oil demand growth and an expected increase in US crude oil exports, significantly higher refinery throughput ahead of IMO 2020 regulations and lower tanker fleet growth.

Lastly, 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 over $1 per share over the next 12 months, which is extremely attractive relative to its closing price of $1.23.

Before opening the line to Q&A, I would like to finish the call today on slide eight with a formal save the date. And I invite you all to our Investor Day at the Grand Hyatt Hotel in New York on 2nd October, where we will cover the strategy, financial position and market outlook for the Teekay Group. Registration starts at 8.00 am Eastern with presentations between 8.30 and 11.30 am Eastern followed by one-on-one meetings. Please RSVP at the link on slide eight, and if you would like a one-on-one meeting, please contact Emily Yee at emily.yee@teekay.com. We look forward to seeing you all there.

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

Operator: Thank you. At this time, we'd like to open the floor for questions. If you'd like to ask a question, please press the star key followed by the one key on your touchtone phone now. If at any time you need to remove yourself from the question and queue, press star two. Again, that is star one to ask an audio question now. All right, I'm showing no questions in the queue at this time.

Kenneth Hvid: Well, we look forward to seeing you all in October at our Investor Day and reporting back to you next quarter. Thank you for listening in today.

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