TEEKAY OFFSHORE PARTNERS' SECOND QUARTER 2019 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay Offshore Partners L.P.**

Date: **Wednesday, 31 July 2019**

Conference Time: **12:00 UK**

Operator: Welcome to Teekay Offshore Partners' Second 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.

Now for opening remarks and introductions, I would like to turn the call over to Ingvild Sæther, Teekay Offshore Group's President and Chief Executive Officer. Please go ahead.

Jan Rune Steinsland: Before Ingvild begins, I would like to direct all participants to our website at teekayoffshore.com, where you will find a copy of the second quarter 2019 earnings presentation. Ingvild and I 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 that are available on our website.

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

Ingvild Sæther: Thank you, Jan Rune. Hello, everyone, and thank you for joining us on our second quarter 2019 earnings call. With me today I have Jan Rune Steinsland, CFO, of the Teekay Offshore Group.

Starting with slide three. Our large and diversified portfolio of forward revenues stands at approximately $4.9 billion at the end of the second quarter. This provides significant cash flow stability to Teekay Offshore, and this is before including any contract option or upside from oil price and production tariffs of certain FPSO contracts.

On top of this stable portfolio, we have additional upside to earnings from redeployment opportunities towards spot market operations and improving market fundamentals. I would also like to underline the relatively low counterparty risk from working with a very strong customer base.

Turning to slide four. In the second quarter, Teekay Offshore delivered solid results, both operationally and financially. We generated adjusted EBITDA of $159 million and the underlying business is basically performing in line with the first quarter 2019, which was a strong quarter. The reduction in adjusted EBITDA of $29 million from the prior quarter is primarily driven by a decrease of non-cash items, as well as the end of contract for the Ostras FPSO in March and lower towage utilization.

We decided to terminate the agreements with Alpha Petroleum in the quarter, as they were unable to lift all the conditions precedent related to financing of the Cheviot project. I will touch on this later in the presentation.

We have executed a good portion of the extensive 2019 financing and refinancing programs, including closing in April a new important $400 million long-term debt facility that will be used to finance four LNG-fueled shuttle tankers.

In May, Brookfield Business Partners, together with its institutional partners, purchased all of Teekay Corporation's remaining interest in the partnership and the general partner. And in late May, the partnership received an unsolicited non-binding proposal from Brookfield to acquire all common units they do not already own.

Please note that we will not be able to answer any questions on this proposal because the process is still unfolding between Brookfield and Teekay Offshore Conflicts Committee. The Conflicts Committee is consisting of two independent non-Brookfield affiliated directors.

I will now turn it over to Jan Rune to go over the financial results.

Jan Rune Steinsland: Thanks, Ingvild. Turning to slide five. Adjusted EBITDA of $159 million is down $29 million from $188 million in the first quarter. This is primarily reflecting lower earnings in the FPSO segment. The FPSO segment recorded an adjusted EBITDA of $72 million in the second quarter, a decrease of $22 million from the first quarter, primarily reflecting absence of $15 million of non-cash Piranema in-process revenue from the previous Piranema contract that became fully amortized in the first quarter, and from $7 million lower contributions from the Ostras FPSO where the contract ended in March.

We have also recognized all deferred revenues and deferred operating costs related to large Cheviot agreements in the P&L this quarter which resulted in a negative effect of nearly $2 million.

Our Shuttle Tanker segment adjusted EBITDA came in at $68 million, basically in line with $67 million in the previous quarter. The FSO segment recorded an adjusted EBITDA of $23 million also consistent with the first quarter. Our long-distance towage segment showed a decrease in utilization in the second quarter following a strong first quarter. In addition, we added cost by reactivating one vessel that was previously in lay-up, leaving only one unit in lay-up. This resulted in an adjusted EBITDA around zero in the quarter, down from $4 million in the first quarter.

I will now turn back to Ingvild to cover our operating performance in more detail.

Ingvild Sæther: Thanks, Jan Rune. Turning to slide six. We continue to focus on securing charter contract extensions and new contracts for our existing FPSO units. In the quarter, it became clear that Alpha Petroleum have experienced further delays to provide full funding to cover the life extension and the uptake cost for the Petrojarl Varg FPSO for use at the UK Cheviot field.

As we have talked about in the previous quarters, the effectiveness of the agreement remains subject to some conditions precedent being satisfied, including that Alpha Petroleum provides initial funding for the required FPSO upgrades. Although Alpha Petroleum are still working with a full financing plan, we felt the opportunity cost of being exclusive without problems increasing as a number of other field developments in the area are being matured.

It was, therefore, important for us to either reach a final contract award with Alpha Petroleum or make the units generally available for other field developments. The creativity, innovation and cost optimization we managed to develop together with Alpha Petroleum is not wasted. The amount of work we have performed in defining the technical scope as well as the commercial business model can to a large extent also be applied in discussions with other customers. The Varg FPSO has had the long history of reliable production on the Norwegian Continental shelf and provides a flexible production solution for a wide range of future development in the North Sea. We therefore remain confident that we will find a new good next contract for our vessel.

Lastly, we know that operationally we had a strong quarter with 99% commercial uptime for the units on contract.

Looking on slide seven. Our Shuttle Tanker segment delivered strong results this quarter with 100% uptime for the time charter and CoA shuttle tankers. Our CoA segment, which makes up about 30% of our shuttle tankers fleets, continues to have high and consistent utilization, confirming the tightness in this segment.

We have a significant newbuilding program for fleet renewal in the North Sea with a total of six vessels on the construction at the Samsung yard in Korea. As these vessels are coming to the end of their construction period, it is rewarding to see the enthusiasm from our customers related to the environmental performance of these vessels compared to the vessels they replaced.

The fact that we have received four environmental and innovation awards support our view that the configuration of these vessels has been the result of a revolution in the time rather than an evolution. And as a reminder, these vessels are fueled by LNG and have batteries for peak savings and are also using vapour from the cargo as fuel. And as a result, the CO2 emissions are reduced by almost 50%. Total remaining CapEx for the six shuttle newbuild program is estimated at $615 million.

Turning to slide eight. Our FSO segment continues to generate strong and convincing results reflecting high uptime. This quarter, we recorded 98% on-hire when we had three days of uplanned on-hire downtime on the Randgrid FSO. As announced on the last earnings call, we sold the Pattani Spirit for $16 million in April. There was no outstanding debts related to the vessel.

On slide nine, you can see the results of our Towage segment. Also, close to 100% utilization of our towage fleet in Q1. We had some available capacity in Q2, and delivered a breakeven result for this segment. While earnings visibility is generally lower in this segment, we do expect to generate positive EBITDA for the full year 2019.

I will now turn it back to Jan Rune to go over our recent financing in more detail.

Jan Rune Steinsland: Thanks Ingvild. As you can see on slide 10, we have made good progress on our extensive 2019 financing and refinancing program by executing three financing initiatives in the second quarter.

The financing of the first four shuttle newbuilds and the refinancing of the three FPSOs were included in the last earnings release since they were closed in April. I will therefore not comment on this in any detail except for saying that we are pleased with the interest for banks and export credit agencies as well as the terms obtained.

In May, we closed a refinancing of the $450 million outstanding balance of our shuttle tankers revolving credit facility with commercial banks. The new terms are LIBOR plus 2.5% with a tenor of five years, and probably most importantly this refinancing reduced our annual amortization of the leased facility from $100 million to $54 million a year.

We are also getting closer to the finalization of the financing for the remaining two shuttle newbuilds and we now expect to close sale and leaseback transaction in the third quarter rather than in the second quarter as indicated earlier.

On slide 11, we have included a debt maturity schedule as we promised on the previous earnings call. The status is per end on the second quarter and it includes the financing of the first four shuttle tankers, but it excludes the non-recourse debt in the two FPSO joint ventures that is serviced by the cash flow in the joint ventures.

Since 30th June, we have repaid the remaining balance of $75 million on the US Baby Bond that you can see in gray at the left bar as it was outstanding by 30th June. In order to finance the debt repayment, we have redrawn $75 million of the $125 million GP revolver from Brookfield that is now again fully drawn. There are also in the third quarter maturities related to the Arendal Spirit accommodation unit, the light blue on top of the left bar, and the Suksan Salamander FSO, a part of the red field, and we have a good dialogue with the relevant banks to extend those facilities.

As you furthermore can see from the maturity schedule in 2020 and in 2021, we have relatively normal amounts of repayments to maturities, while in 2022 and in 2023 we have also the maturities of our two senior unsecured bonds coming up.

I will then hand back to you again, Ingvild.

Ingvild Sæther: Thank you. So, this is the final slide of our presentation today. To conclude this presentation, I want to take the opportunity to remind you of our top business priorities in 2019, which includes maintain the highest safety standards to secure FPSO charter extensions and redeployment; increase the profitability in our existing business; execute the contemplated financing initiatives and strengthen our balance sheet through delevering.

And while we are very focused on delivering the visible and stable results from our core business, we are also encouraged and excited of the growth potential created by the development in the FPSO and Shuttle Tanker segment.

In Brazil, the tanker activities both for FPSO and shuttle tankers are the highest in the decade, and we believe that over the coming years there might be more demand than the established FPSO companies, with a proven record can respond to. And this means that to the extent of available capital, we can be selective and disciplined in what we bid for and engage in the projects that most people trust on the technical point of view and also the projects that's that offer the right risk-reward balance.

The new production from the FPSO will need uptake solutions. In the next decade, we will see a significant shift in Brazil from a Petrobras-dominated infrastructure delivered by a large fleet of shuttle tankers to need for solutions that will serve a much more diverse customer base in Brazil.

And in the North Sea, we observe a very dynamic and exciting development at the oil major are divesting their interests, which is creating a changing customer landscape in the region. We will play our part in this development and we work hard to offer customer value not only by repeating the existing business model but also by developing new solutions for the next decade.

Operator, we are now available to take questions.

Operator: Thank you. At this time, there are no questions in the queue. I would like to turn the call over back to Ingvild Sæther for closing remarks.

Ingvild Sæther: I just want to thank everyone for listening in today and wish you a good summer. Thank you.

Jan Rune Steinsland: Thank you very much.

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