TEEKAY LNG PARTNERS' FIRST QUARTER 2020 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay LNG Partners

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Conference Time: 13:00 ET

Operator: Good day ladies and gentlemen and thank you for standing by. Welcome to today's Teekay LNG Partners. First-quarter 2020 Earnings Results Conference Call. During the call, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question and answer session. That time, if you have a question, participants will be asked to press star one to ask a question. For assistance during the call, if you press star zero to ask a question. This program is being recorded now for opening comments, I will turn the call over to the company. Please go ahead.

Scott Gayton: Before Mr. Kremin begins, I would like to direct all participants to our website at www.teekaylng.com where you will find a copy of the first quarter of 2020 earnings presentation. We'll 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 of 2020 earnings release and earnings presentation available on our website. I will now turn the call over to Mark, to begin.

Mark Kremin: Thank you, Scott. Good morning everyone and thank you for joining us on our first quarter of 2020 earnings conference call for Teekay LNG Partners. We hope that you and your families are all safe and healthy. I'm joined today by Scott Gayton, Teekay Gas Group CFO. Before we get into our

results, we will take a moment to say thank you to all of our seafarers and shore-based staff for their extraordinary dedication to maintain business continuity. While COVID 19 is having an unprecedented impact on the world and it's clearly a major focus for us, our long-term contract cover has ensured it has had minimal impact on Teekay LNG's operations and cash flows. We are truly proud of our seafarers and our onshore colleagues, how they have responded to COVID 19. Implementing new standards which focus on the health and wellbeing of everyone involved in our organization, especially our colleagues at sea. While maintaining consistently safe and efficient operations for our customers.

Turning to slide three of the presentation. We will review some of Teekay LNG recent highlights as well as a few key takeaways that summarize how we believe Teekay LNG is uniquely positioned today. And not just against our LNG shipping peers, but also, how we are uniquely compared against most energy-related companies out there. Our first-quarter adjusted net income increased to over $50 million, the seventh consecutive quarterly increase. And as we will discuss in a moment, we expect our adjusted net income will increase again next quarter. With the recent charter Marib Spirit, our LNG fleet is now 100% fixed for 2020, which is in line with our strategy of optimizing utilization of our fleet, which we think benefits all our key stakeholders. As announced last week, we agreed with our sponsor, Teekay Corporation, to eliminate their incentive distribution rights, or IDRs. We believe this creates greater alignment between Teekay Corporation and the rest of our investors and removes one of the primary uncertainties for new and existing TGP investors. And importantly, we believe we are trading at attractive multiples of earnings and cash flow that aren't reflective of the strength of our business and therefore represent a compelling opportunity for new investors.

During these last few months, the energy, LNG, shipping, and equity markets have experienced enormous volatility. What our business and the partnership as a whole have largely been insulated from this volatility. On this slide, we have listed five key takeaways that we believe make Teekay LNG unique in the markets today and a compelling investment for existing and new investors. First, Q1 2020

was another record quarter for Teekay LNG, and our total adjusted EBITDA up nearly 20% over the same quarter one year ago. Second, our LNG fleet is 100% fixed to 2020 and 94% fixed for 2021, and as we will discuss in a moment, all of our fixed-rate charters are take-or-pay in nature. Third, we have a strong financial foundation, leverage decreasing, strong liquidity position, no remaining debt maturities in 2020, and no growth CapEx needs. Fourth, based on the stability of our business, we are reaffirming our 2020 financial guidance and we expect this year's adjusted earnings will increase by nearly 50% over 2019. We continue to increase returns to our investors in the form of increasing distributions and buybacks. In combination, this puts Teekay LNG in a unique category of companies that only a few, if any of our peers in the broader shipping space can match.

Before reviewing each of these key takeaways in more detail, we would like to turn to slide four to discuss our experiences all operating in today's COVID 19 environment. Operationally, we have transitioned each of our vessels smoothly into the environment and everyone on shore is working efficiently from home. We have not experienced any impact on our vessel availability or impact to no cases of COVID onboard any of our vessels. Our focus remains on the safety and health of our crews and while we have been unable to affect crew changes, except in extraordinary cases, we are working with both industry and intergovernmental organizations to allow for the safe passage of crews. At the same time, we are hopeful that borders will be reopening soon. We were able to stock up on critical spares prior to travel restrictions being put in place. And our 2020 dry dock schedule was already backend loaded. For the few dry docks, we were expecting in Q1 and Q2, we have been able to delay them as needed until later this year. And lastly, all of our fixed-rate charters are operating as expected. We have not had any impact on our business as a result of cargo cancellations that may have been taking place, and all of our fixed-rate contracts are operating as expected. Similar to previous downturns in the spot LNG shipping markets, we have received no requests or contract cancellations, and none are expected.

Look to slide five, we mentioned up-front that this was another record quarter for Teekay LNG. With the final delivery of our three and a half billion-dollar growth program in December of last year, we are now beginning to recognize the associated cash flow and earnings which is leading to year-over-year and quarter-over-quarter growth. We took delivery of six LNG carriers and the Bahrain regas terminal over the past year and we have enjoyed higher LPG rates and are 50% owned JV with Exmar. All of which contributed to a nearly 20% increase in total adjusted EBITDA and a 57% increase in adjusted net income, comparing the first quarter of 2020 to the same quarter of the prior year. And comparing these same cash flow and earnings items, in the first quarter of 2020 to the fourth quarter of 2019, we experienced sequential increases due to deliveries late in 2019 and receiving terminal use payments for Bahrain in early January.

Importantly, as you can see in the appendix on slide five, we are expecting that Q2 2020's results will exceed this first quarter. We have been including slide six and seven in our presentations for many quarters now and perhaps this quarter or than any previous quarters, these slides set us apart from nearly everyone in our sector. Looking first to slide six and focusing on the text to the left, we would like to take a moment to discuss the key characteristics of our fixed-rate contracts. Our contracts are take-or- pay and there are no provisions providing for unilateral changes in terms for charter rates. Take-or-pay means that we get paid every day that the vessel is available for operation irrespective of how the customer uses the vessel. If our ship is full of LNG cargo and steaming to its destination, we get paid. If it is empty and en route to pick up an LNG cargo which the customer subsequently cancels with the producer, we get paid. If it is empty, while waiting for cargo, we get paid. If it is full and there is nowhere to offload the cargo to the online storage or gas transportation issues, we get paid. If the spot LNG market drops or rises and it's significantly different than our contracted rate, we continue to receive the contracted rate. For these reasons, we do not foresee that any of our fixed-rate contracts so detailed on this slide are in jeopardy of being canceled despite the uncertainty in today's energy environment.

Turning to slide seven, as announced today, we fixed our final remaining LNG carrier up for renewal in 2020 on contract last week. Looking at the top three bars on this chart inside the red dash box, today we have announced a six-month fixed-rate contract on the 52% owned Marib Spirit commencing on June 21st, which follows on from the announcement last month that we had fixed the 52% owned with the Methane Spirit on an eight-month contract and the 52% owned Arwa Spirit on a 12-month contract. Also, we are now 100% fixed for the remainder of 2020 and 94% fixed for 2021. Importantly, two of the charters are in direct continuation of their existing charters, which means that no days of offhire, we're waiting for the new contract rates. This is great work by our chartering team to maximize the utilization and thus the earnings of these vessels. I will now turn over to Scott who will discuss the next two slides before we conclude.

Scott Gayton: Thank you, Mark. Turning to slide eight, another one of the key takeaways we hope you take from this call is our strong financial foundation. As can be seen to the top right of the slide and looking at the blue line, our leverage, as measured by net debt to total adjusted EBITDA on a proportionate basis, continues to decrease. We have moved from an annualized 7.6 times as of the first quarter of 2019, to 6.1 times as of the end of Q1 2020 on an annualized basis. And we expect our delivery efforts will continue into the future with approximately $300 million in scheduled amortization per year. This delivering benefits investors by building financial flexibility for a higher equity base and through interest expense savings. We expect annualized interest savings of $20 to $25 million per year simply due to interest savings resulting from scheduled debt amortization and savings from repaying our 2020 NOK bond with existing cash.

While a significant portion of our interest rate exposure has been hedged, the interest rates remain low. The interest cost on our floating rate debt will also decline. Looking at the chart to the bottom right, we also believe that our financial foundation is strong because of our very manageable debt repayment

profile. After repaying our NOK bond, which matured this past Tuesday with cash, we have current liquidity of over $260 million and no further debt maturities in 2020. We have three facilities that mature in 2021 and we are already negotiating term sheets with the existing lenders on the Tangguh LNG and Exmark LPG, our joint venture facilities. Each of these facilities are backed by attractive vessels and in the case of Tangguh, contracts with BP that extend out to 2029. The 2021 NOK bond doesn't mature until October of next year and so we have over a year before we would need to refinance this maturity.

Our expectation is that we will refinance this bond prior to its maturity, albeit at a reduced amount. In summary, we have a strong liquidity balance, a very manageable debt majority maturity profile, a strong bank group, and therefore we believe Teekay LNG has a strong financial foundation which benefits all stakeholders. Turning to slide nine, we continue to believe TGP represents a compelling investment with a 10-and-a-half-year fixed rate contract revenue backlog of approximately $9.3 billion while trading at 2020 adjusted earnings multiple of four times. A cash flow multiple of 7.7 times and with a dividend yield of over 9%. Teekay LNG has already raised its distributions by over 30%, two consecutive years, and we have reaffirmed our 2020 financial guidance range today. We took advantage of the weakness in our unit price by repurchasing shares during the quarter repurchasing 810,000 units, due for reporting earnings in late February at an average price of $9.75 cents per unit, which brings our total repurchases to nearly $45 million, or 4.6% of our outstanding unit count since the start of the program in late 2018. However, going forward, I expect maintaining a healthy balance sheet and strong liquidity balance will outweigh additional unit repurchases.

Before I turn the call back to Mark to conclude and looking at the charts at the top of this page, Adjusted net income and total adjusted EBITDA in 2020 are expected to be up materially over 2019. Which is already up significantly over 2018, which as Mark mentioned earlier, makes us truly unique amongst our peers in LNG shipping and the energy markets at large. I would now like to turn the call back to Mark to conclude.

Mark Kremin: Thank you, Scott. Before we open up the call for questions, we would like to close out today by recognizing the unprecedented volatility and uncertainty that has occurred in the natural gas and LNG markets, both from a demand-supply and pricing point of view, and the impact this has had on LNG shipping and the outlook for new projects. As economies begin to reopen and hopefully return to the same or some level of normalcy, morals will become clear to us. However, during these uncertain times, we take comfort in our robust business model, which with a fully fixed LNG fleet, a strong financial foundation, and dedicated staff, and seafarers who will keep everyone safe as we plan to reorient around the new normal. Thanks for your time today. And operator, we are now available to take questions.

Operator: Our questions begin with Randy Giveans of Jefferies.

Randy: How are you gentlemen, how's it going?

Mark Kremin: Great.

Randy: Yeah. Obviously getting the NOK bond paid off was good. Question on the NOK bond, was that more of a de-leveraging decision or is that market really tried out and just the pricing was too high which makes you wouldn't want to refinance that? And then kind of going forward, are there are plans to kind of reenter that market or kind of staying away from the time being?

Scott Gayton: Yeah. Thanks, Randy. This is Scott, no that market we believe is open. It obviously went through some pretty significant volatility like we saw in the US, but similarly, now that we've seen a ton of issuance in both the investment grade and high yield space and in the energy space in the US I would imagine that the same is achievable in Norway. We have talked to a number of our investors that we have good relationships with as well as a number of our bankers that ultimately helped issue these bonds. And we do believe that we could issue in that market today. But I think that the pricing that we would have received is probably not what we would consider to be attractive and really just not required by us. We're sitting on over $250 million of liquidity today given that we don't have any CapEx looming for an operating company, that's as fixed out as we are, we just looked at that as being rather expensive insurance, I think that's maybe one way to think about it.

And then I said in my remarks, we do have maturity in October of next year, so we've obviously got a lot of time to chip away at that. It is about $147 million that matures. And I think that will be maturing that for a smaller dollar value. And I think that if you see a window open up later this or early next year, then you know, or maybe open up wider and see some better pricing, then I think you'll see us look at chipping away at that maturity well in advance of October.

Randy: Perfect. Alright. Yeah, thanks for the color there. And then on the LNG shipping side, you know, any kind of charters in this environment are basically a win. With that, can you give a little more clarity in terms of rates on the Marib Spirit? I just kind of see some sensitivities around modeling, obviously not massively impactful as you reiterate your guidance, just kind of seeing where rates are today for those, let's call it short term time charters.

Mark Kremin: Sure. Randy, they're all around the thirties or forties per day. In terms of the market, we probably see that already a little lower today for the next six months or so. We've been seeing TFDEs

and MEGIs are getting a bit of a premium. So, you'll recall that these are actually not the two-stroke, they're the DFDE or TFDE, but that's the kind of rate we're getting. And the interesting thing about these charters as we mentioned to some extent in the headline in the scripted remarks we said they are continuous, and in two cases we basically go off on contract onto another with a major trader on an absolute continuous basis. The third is very close. So, there's very little waiting time or repositioning costs to us in any of these or none in these charters. And that's really important for us over the next quarter or two.

Randy: Yeah, now, that makes sense. And then you mentioned briefly that if the vessel has the cargo on it, you're getting paid. If it doesn't have a cargo, you're getting paid. If someone's using it for a wedding, you're getting paid. Well, have you seen a lot of changes in fleet functionality with all the maybe production shut-ins and some of these other things? Are there more vessels kind of ballasting or longer? I know it doesn't affect your payment and your receipt of those contracts, but just looking at the operations of the vessels?

Mark Kremin: Yeah, this is something that I read about in the news a lot, but it doesn't necessarily line with what we see with our own fleet. We get a pretty good look at a cross-section of LNG with our 47 LNG carriers. We know where they're all going. We're not seeing floating storage to the extent that others are referring to. And I'll just preempt any discussions that are going to have. It's kind of difficult to make those economics work. And along the same lines, we're not necessarily seeing a slowdown in our ships. So, we've seen a couple from, we'll call it Australia, that have lower speeds than we usually have on those trades. But for the most part, we're not doing a lot of slow steaming. We have seen some cancellations. They don't really impact us.

As I said, typically another charter maybe picks up the cargo or it goes elsewhere. We have seen a fair amount of sub charters. So, what I always refer to as the shadow inventory, you know, we have 47 LNG couriers chartered out, but we can also see who's sub chartering because of the operational orders and whatever will change. So, there is a fair amount of sub chartering that we can see in the market right now. But to kind of reiterate, no, we're not seeing an operational change for the most part in how we're steaming and certainly not in how we're sitting yet.

Randy: Got it. Alright, well, Hey, thanks again and good work.

Mark Kremin: Thank you very much, Randy

Operator: And now Ben Nolan, from Stifel.

Mark Kremin: Hi, Ben. I hope you're feeling better.

Ben: Yeah, I am. I appreciate that. So, I have a few questions and I'll try to go through pretty quick here. But the first is I was just hoping that is it possible to give any you know, now that everything's been delivered, the CapEx is down and a lot of the refinancing has been taken care of. Any color on what you're thinking about with respect to the pace of distribution growth. Going forward, I realize it's a board-level decision and what not. But just any color you know, as to what you're thinking about there.

Scott Gayton: Yeah. Hey, Ben. It is nice to obviously have that removed and I think that does give us some additional flexibility to consider how we allocate capital. And I think as we've highlighted before

and again on this call, is that we're really prioritizing that, you know, the balance sheet delevering. And that's probably going to last for at least the next few years. And we have been returning capital obviously in the form of buybacks and dividend increases, you know, over the last couple of years and, but I think looking ahead, it is a very uncertain environment and so we are going to continue to prioritize balance sheet delevering now. And we'll see where we are once we have gained back some of that financial flexibility through the delevering to see what it is that we are going to do with any excess capital. But I think really, it's too tough for us to tell at this point or give any type of distribution guidance because there's just too much uncertainty.

Ben: I understand that. But given that, it sorts of leaves me scratching my head a little bit on the timing of the IDR buyout. I mean, obviously, you expect the share price to increase over time as the leverage falls, as do I. But this, you know, not only is diluted earnings, but, you know, there's dividends or distributions being paid on that, so it's delayed your ability to repay that. Can you maybe talk through what the motivation was to do this now relative to maybe waiting a few years until the debts pay down and you had a little bit better line of sight on distribution growth?

Scott Gayton: Sure. Maybe I'll take a stab at it and see if Mark's got any follow ups. I think from an overall, you know, delevering point of view, I don't think this really impacts us too much. Like I said in my remarks, we do amortise around $300 million in debt per year, and the distributions that are being paid on the new units at a dollar anyway is $10.75 million per year. So, I don't think that it really has a hugely detrimental impact on our delevering efforts. And then from a valuation point of view and a timing point of view, I think one way to maybe think about it is as you know, it is a discounted value. And so, with the valuation would have been performed there would have been a discounting factor that would have gone along with it.

And so I actually look at it that it was probably cheaper today because of that discounting factor than it would have been in a couple of years once we were in you know, a delevering position and maybe it would have been easier to have that line of sight directly onto a value in the IDR. So yeah, I don't like issuing a lot of stock at these levels. But I also think that you get it the other way, which is just an overall lower valuation of the IDRs. And then the last part from the timing is, we've seen a lot of carnage across the energy space, across the LNG shipping space. And I think, for the most part, due to a lot of prudent actions taken over the last number of years, TeeKay LNG is really going to be one of the only LNG shipping companies that is available for investors to really invest in.

And what we heard from a lot of investors was that, you know, with the IDRs in place and given some of the atrocities we've seen with respect to these IDR transactions, in particular, the midstream space, people were not willing to invest and TGP was kind of uninvestable. So, I think as the world recovers, as the energy markets recover and people look to put their money, hopefully into LNG shipping companies. Those with these IDRs removed you know, over nine and a half-billion dollars of cash flow and steadily increasing returns to investors, that they're going to put their money into TGP. And so, I think that this actually was an opportune timing to do it, so this sets us up well for a recovery.

Ben: Okay. That's very helpful and clear. You had mentioned a sort of the discounting factor, how you're thinking about valuation, but could you maybe - it wasn't initially in the release - could you maybe talk through the economics of how you got to the price that you got to you know, in terms of both the timing of how long you were discounting and sort of what they, you know, where you were assuming for it, let's call it a fully baked price.

Mark Kremin: We've mentioned it on the Teekay call, but we'll mention again. We don't have direct access to that and this went through a robust process as we say with the conflicts committee, which is

independent board members. So, we don't have the actual valuation that they have, but what we can't see is the compelling way forward. I mean, this was - there was a lot of uncertainty as Scott said, around the stock which has been removed.

And so, everyone's on the same playing field going forward. And that includes Teekay. When we talk about alignment, there was no cash here. They've taken all shares. And so, we've got that going forward, and they like everyone I think, could be not so focused on the distribution right now, but it's the PE that we have, which is unbelievably mispriced in my opinion. We have a pre-IDR transaction PE of around, a little bit the high threes, and we've gone to around four. So, as we all are on the same playing field together, including Teekay, that's what I look forward to and that's the valuation that I see that is very mispriced.

Ben: Yeah, no. From my point of view, I agree. There's no question the units are undervalued here, but I'll turn it over at this point and let somebody else take it from there. Thanks, guys.

Operator: Next question will come from J Mintzmyer with value investors edge.

Mark Kremin: Good morning J.

J: Good morning gentlemen. Congrats on an excellent call.

Mark Kremin: Thank you.

J: So, we'll start off with little housekeeping questions as I move to a bigger picture. So first of all, a little bit of a quarterly slip. It was a great quarter, but a little bit of a quarterly slip I think in revenues and income. But if you look at your Q2 outlook, it seems like that bounces back in Q2, there's a line item for a reduction in claims. Can we talk about what that means and what that netback is?

Scott Gayton: Basically every quarter, there are operational claims that we may receive from charters and sometimes are a little bit higher, sometimes a little bit lower. And I think what you saw on Q1 was there was a little bit of a catch up of some claims may be from last year or previous quarters that were recorded this year. And then we actually expect that a number of those will likely get reversed next quarter. So, there is some movement around but it's all on what I would say, just general LNG shipping operations.

Mark Kremin: If I can add. Just some light color to that, may or may not be useful, but most of these LNG charters, most claims come in the way of fuel performance, and most LNG charters, you price your fuel according to what the fuel equivalent of high sold for today's , excuse me, low sulfur oil is, and if you look at Q1, in particular, we had this spike of pricing and going forward in already in fact, as you know from your tanker discussions, well, high sulfur fuel both prices and spreads have really come down. So that will hopefully be a, as we say, a headwind sorry, tailwind for us in any future claims.

J: Excellent. Thanks. Then just one other thing. When I, when I look at slides six and seven, looking at your fleets, we're looking at the 2020 and 2021 to see exposure, and I see Excalibur popup at the 50% own steam vessel. It's a financing transaction. I believe you sold the sister Excelsior; I think it was off a couple of years ago. Is Excalibur also sort of non-core and for sale or do you continue to hope to roll that one?

Mark Kremin: It is - all the steamships are relatively non-core. It's a smaller part of our business as you know, certainly from a revenue side already. It's not as material as our TFDEs or Megi's or any other propulsion. As you say, it's the first of our steamships to come off. I think it doesn't come off until 2021. And so, we have a little bit of time with our joint venture partner Excalibur to think about that. The sister ship was a little bit different. That was a small FSRU that we sold. But we have to figure out, like everyone else in the world, our steamship strategy here in terms of whether we divest or whether we continue to roll over, it's not going to roll over to Excelerate, which is the current charter. But whether we redeploy in some way, the good news is that, you know, when it comes to Teekay LNG, we have very limited steamship exposure. Our roll off is very staggered and it doesn't come for a few years as you've already pointed out, but it's not a business we're going to be growing. Put it that way.

J: Thanks, Mark. You mentioned the prepared remarks that deleveraging would continue to outweigh repurchases and of course that makes sense. You have 300 million of scheduled amortizations you took out of the NOK bonds. Look, we see this stuff in 2021 coming up. Does that mean repurchases are paused or off the table? Or are you just saying they're going to be a lower priority?

Mark Kremin: I'm going to hand this over to Scott, but I just want to clarify one thing. I think I had said 2021, but actually, it's 2022 before the Excalibur will at the very least, it's like late, late, late December on an earliest redelivery. So, let's just think about that as 2022 and I apologize for that error. I'll turn over to Scott.

Scott Gayton: And then the other point I was going to make on that vessel Mark is that actually when it does roll it has got extremely minimal debt on it. And so, it won't be much of a drag for us from an operational point of view or a revenue point of view. I think Jay, with respect to buybacks, I would

probably look at it as more of a pause, like we're seeing going on across this space. We still believe the stock is undervalued. You know, we've done it before. We've now got greater alignment with the parent to look at things like buybacks. But I just think that given all the uncertainty that we just need to give it a pause and see where things go.

J: Understandable Scott, with COVID 19, I think investors do understand that. I think investors' bigger concern, and I brought this up on the Teekay call as well is something I hear literally every day, is that capital is going to be squandered on new growth, on new investments at a time when the stock trades at frankly ridiculous valuation, right? I mean we can argue how big a discount, but whether it's 30% or 50%. I know you made a sort of, we have a podcast and we kind of talked about capital allocation and stuff, and a quarterly call is kind of a different place here, but are you willing to reiterate the fact that no, we are not looking for growth at this time, that we will not commit to growth unless it makes sense on an ROE basis, as it was more accretive than we perceived units?

Mark Kremin: No, we are not committed to growth at this time. We will not do it unless it makes sense on our own basis. Absolutely, Jay, that is not the first priority for us. As you've heard many times, you know, delevering and other things will take priority. Even if we wanted to grow, it's going to be tough. So, we'll just, I know this is a bit off-topic, but as you probably know, as you do, the FIDs, final Investment Decisions have been pushed back by most, if not everyone for at least six months or probably a year. And even fundamentally, we'll have to look at where this all goes. I think it's hard, might still come out this year. It's a bit uncertain. I've seen the bids Nigeria, but we're uncertain about who might even come out this year. As I said, all FIDs are likely to be delayed. So yeah, the first priority is certainly not growth, but we'll see what happens with these opportunities. It's not anytime soon.

J: Excellent. Mark, thanks for clarifying that. It's literally the number one concern of all investors that I've talked to. One more question for you. Look, we had a lot of heat on the Teekay call about the GP IDR. I think we had a good discussion earlier on this call. There's sort of that, you know, hey, it's not us. It was this conflicts committee that did it. And yes, I get the legal perspective that it's hands-off. it's an independent committee. Is there any potential or a chance for that report or for that valuation to be filed or disclosed somewhere in the future? Because right now it's like a black box, you know, it's not us, you know, don't blame us. Yeah. And we get that. But people still want to see some sort of valuation, some sort of connection.

Mark Kremin: My understanding Jay is no, the evaluation will not be, or the process on the evaluation, will not be disclosed. So, that's the short of it all. I would just urge everyone. First of all, I think it's a good deal. Because, you know, before I was hearing that the biggest uncertainty from every investor that I spoke to, it's the biggest uncertainty was whether we had an IDR deal done or not. And now I've just heard that the biggest shift is moving on to whether we're going to grow. So, we've already managed in some part what we've been dealing with for the last year or two. And so that's fortunate itself. As we move forward and we talk about growth and things other than the IDR, I just remind everyone how well we're trading or how poorly I should say, we're trading on a PE basis. And I think it's a great buy. Scott, do you have anything?

Scott Gayton: Nope.

J: All right. Thanks, Mark. Thanks, Scott. Congrats on a good quarter. We're looking forward to more.

Mark Kremin: Thank you very much, Jay.

Mike: Hey, good morning guys. How are you?

Mark Kremin: Good morning Mike.

Mike: So, I'm going to dig back into the IDRs if you don't mind. So, I know Jay just touched on this and there seems to be some, a degree of kind of conflating independent versus something being secret. You know, irrespective of whether that's a secret and you guys haven't seen, I assume that you get an independent assessment of the valuation and then you would decide, does that make sense? Do we think that's a good deal or not? So, it implies that you guys would have done your own work. Alright. Right. So maybe if you can't get into what the independent assessment came up with, what did you use when you were evaluating whether or not you thought that they came up with a good deal? And whether or not you thought you wanted to pull the trigger on it?

Mark Kremin: Well, we are not able to pull the trigger and I'm not trying to brush this off or do anything, but it's again, it goes to an independent committee. That's who decides whether or not this is going to be done at what price.

Mike: You still need to decide what you're going to do it or so, right?

Mark Kremin: Teekay puts an offer to the independent committee, which then makes a recommendation to the board. And that's how that works.

Mike: Then you get the number and you get to the value, right? So, they came up with $500 million. You wouldn't be stuck paying $500 million, you would get say, okay, maybe I don't want to do that right now, right? So, you had to do your own work at some level, right?

Mark Kremin: No, this goes to - this doesn't involve Scott or myself, this is done by independent directors, who together form the conflicts committee, and it's their decision as to whether to recommend this deal or not. And it doesn't involve management, but I'm happy to speak to what Scott and I see, which is as you've heard from the same thing as from Teekay Corporation. We've got very visible predictable cash flows. Everyone I spoke to was just talking about the overhang and the uncertainty. Fortunately, by the way, the stock's been trading since we've done the deal. That seems to have been somewhat relieved.

Mike: I understand that. I understand it, but just to go back there. So, you commit to the deal before you have any idea what the price is? Basically, it goes into commitee, you say you want to do it, there's the independent committee and you have no say over from that point on?

Mark Kremin: To some extent that that is correct. We were helpful with diligence and the assumption. So that's it.

Mike: So, do I say you were helpful in the assumptions, I guess in terms of what your price should be. Okay. So, it wasn't a Teekay scandal, it wasn't in your hands, there was no - it's unclear who actually made the decision. I guess in terms of like when they come up with the price if I compare this against some of the recent deals, I guess maybe, first of all, are the units restricted at all to Teekay, and is there any kind of earn-out provision like we've seen in recent deals?

Mark Kremin: No, there is not. We're completely aligned. Everyone is a common unitholder, all the same. Total alignment.

Mike: Right? So, considering how far out of the money they are, by having an earn-out structure where, you know, as the distribution progressed and doing things, it would, similar to what we saw with GasLog in terms of, I guess they are on the same level and through being the same kind of unit holder. But you know, you don't get the distributions until you actually got to a level where the idea is, would have been in the money. Their earnings structures are pretty common. Was there an opportunity to go back and say, Hey, you know, there's a chance that we might not raise our distribution by 160% and that might not actually be a headwind, and we put some protections in there just to make sure that, you know, we're not paying for something that we're not going to use?

Mark Kremin: No, I think the deal is done and we're all looking forward already to what's next. When I look at some others, I'm not even sure we have great feasibility on how those different structures work. They're going to be talking about those structures for some time and how they work? No, from our standpoint we're looking forward to what's next for trading at a very attractive value. We're looking at growth prospects eventually. And we're not looking to re-cut this deal.

Mike: Okay. I guess if I think about it as a use of capital, right? Like I think you mentioned that one of the earlier questions, one of your early questions around, you're not looking to go out and grow for growth's sake. And I guess I'm thinking, but I assume going out and ordering a couple of LNG carriers on spec right now is not something you guys would swing at the moment, right? Is that fair?

Mark Kremin: Yeah, that's fair.

Mike: If I think about this as a use of capital, right? Would you guys take $123 million of equity, buy two LNG carriers that don't have contracts on them. So, you're not sure if that deal is actually going to bring in the money in three years or not. If you would do that with steel that actually has an inherent value. I'm trying to decide why this is a good time when you're focused on de-leveraging to take $123 million of equity and allocate it to something that you're not sure is going to have any value in three years.

Mark Kremin: So, to your point exactly. Like I don't know exactly what the LNG carriers are going to trade in three years or two and a half years when it delivers, but I do know what our cash flows will be. We've got certainty for the next 10 and so this is a very different analogy I think you're pointing to.

Mike: Right. So I'm trying to juxtapose that with the fact that the message on the earnings call today is delevering, don't expect distribution grow or significant distribution growth over the next handful of years, but we're going to spend $123 million on IDRs that are so far out of the money that we have no idea whether they're actually going to be - there's going to be any real value to them. I'm just trying to think about that from a capital deployment perspective. Yeah. Alright

Mark Kremin: I'm not sure that everyone shares that you Mike, there will be a fairness opinion involved in this.

Mike: I think the map implies they're not in the money or, I mean, is there a distribution at a level where the IDRs are actually hanging out right now?

Scott Gayton: Hey Mike, maybe another way to think about it is, where we're sitting here right now with the coverage ratio of around four times, and we do expect that this will be sustained well into the future. This isn't a spot tanker company. As Mark says, you've got 10-year contracts and nine and a half-billion dollars. Our cash flow profile and our delevering is actually extremely certain. I think if we look at some of the other similar transactions, I think we can all admit that this one is rather unique.

Other IDR monetization transactions in shipping, midstream, whatever, they were paying out all their cash flow, so it made it very easy to throw a multiple on it. And everybody sits back and says, okay, was that a good multiple or not. The problem is, and what we've seen since is that they were paying around one times. So, therefore, the IDR is getting monetized off of that extremely high level. So that benefits the GP enormously. Well, then what happened? As we've seen, they cut their distributions. That actually impacts the LPs enormously. So, they have to shore up their balance sheet, issue equity.

Mike: Are you cutting out the middleman basically?

Mike: Pumped the distribution, you still get to monetize them. I mean at least in the former scenario, the LPs get the distribution along the way, right?

Scott Gayton: Sure, sure. Maybe they got the distribution along the way and it would have been easier. We could have have jacked the distributions. Get to one times, do the monetization, and then as we've seen other people do, they turn around and they cut the distributions, and that kills the LP value. Right now, Teekay LNG is on an upswing. We're generating a lot of cash flow. We're generating a lot of earnings and trading at a very attractive multiple for investors. And I would far rather be on that path and have these IDRs behind us than to go through some level of financial engineering just so that it

makes it easier to show the value of the IDRs. Make you happy because you can put a multiple on it, and then ultimately that you have to cut the distribution. Like that to me just does not make any sense.

Mike: Look, I think the notion of removing the IDRs is one thing, but you know, making people happy by putting a multiple on it, that's just the math, right? So, I think people generally, I use an analogy on a previous call. It's like standing on a tee box and just taking a gimme, and giving yourself a whole lot of water, assuming you got there where in the last seven or eight years would show that there's a degree of heritability and things change and maybe something. That part of the money, you know, maybe it's not, maybe value like a forward start annuity might not be accurate. But anyway, if I go there, the valuation work would be helpful. And the notion that there's, you know, there was some, you know, some variability priced into that. I think that's the biggest thing that catches people by cutting out the middleman thing. It's going to be diluted for LP holders no matter what. We'll just take the money now. I don't think it's particularly intellectually satisfying answers. But we can kind of, we can move on. I think I've got - I think that's a thing I'm upon. I think that's all my questions. I appreciate that.

Mark Kremin: Happy to discuss on the 19th hole, Mike.

Mike: I'm sorry.

Mark Kremin: We can discuss on the 19th hole.

Mike: That's true. That'd be good.

Operator: Ladies and gentlemen, at this time, I'd like to -

Mark Kremin: Well, I'd just like to thank everyone on behalf of everyone at Teekay LNG. We look to seeing many of you in person again, hopefully, sooner rather than later. So, thank you very much. Take care.

Operator: You may now disconnect.

Company: **CAN_ Teekay LNG Partners L.P.**

Conference Title: **Teekay LNG Partners' First Quarter 2020 Earnings Results Conference Call**

Date: **Thursday, 21st May 2020**

Conference Time: **13:00 ET**

Operator: Good day ladies and gentlemen and thank you for standing by. Welcome to today's Teekay LNG Partners. First-quarter 2020 Earnings Results Conference Call. During the call, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question and answer session. That time, if you have a question, participants will be asked to press star one to ask a question. For assistance during the call, if you press star zero to ask a question. This program is being recorded now for opening comments, I will turn the call over to the company. Please go ahead.

Scott Gayton: Before Mr. Kremin begins, I would like to direct all participants to our website at www.teekaylng.com where you will find a copy of the first quarter of 2020 earnings presentation. We'll 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 of 2020 earnings release and earnings presentation available on our website. I will now turn the call over to Mark, to begin.

Mark Kremin: Thank you, Scott. Good morning everyone and thank you for joining us on our first quarter of 2020 earnings conference call for Teekay LNG Partners. We hope that you and your families are all safe and healthy. I'm joined today by Scott Gayton, Teekay Gas Group CFO. Before we get into our results, we will take a moment to say thank you to all of our seafarers and shore-based staff for their extraordinary dedication to maintain business continuity. While COVID 19 is having an unprecedented impact on the world and it's clearly a major focus for us, our long-term contract cover has ensured it has had minimal impact on Teekay LNG's operations and cash flows. We are truly proud of our seafarers and our onshore colleagues, how they have responded to COVID 19. Implementing new standards which focus on the health and wellbeing of everyone involved in our organization, especially our colleagues at sea. While maintaining consistently safe and efficient operations for our customers.

Turning to slide three of the presentation. We will review some of Teekay LNG recent highlights as well as a few key takeaways that summarize how we believe Teekay LNG is uniquely positioned today. And not just against our LNG shipping peers, but also, how we are uniquely compared against most energy-related companies out there. Our first-quarter adjusted net income increased to over $50 million, the seventh consecutive quarterly increase. And as we will discuss in a moment, we expect our adjusted net income will increase again next quarter. With the recent charter Marib Spirit, our LNG fleet is now 100% fixed for 2020, which is in line with our strategy of optimizing utilization of our fleet, which we think benefits all our key stakeholders. As announced last week, we agreed with our sponsor, Teekay Corporation, to eliminate their incentive distribution rights, or IDRs. We believe this creates greater alignment between Teekay Corporation and the rest of our investors and removes one of the primary uncertainties for new and existing TGP investors. And importantly, we believe we are trading at attractive multiples of earnings and cash flow that aren't reflective of the strength of our business and therefore represent a compelling opportunity for new investors.

During these last few months, the energy, LNG, shipping, and equity markets have experienced enormous volatility. What our business and the partnership as a whole have largely been insulated from this volatility. On this slide, we have listed five key takeaways that we believe make Teekay LNG unique in the markets today and a compelling investment for existing and new investors. First, Q1 2020 was another record quarter for Teekay LNG, and our total adjusted EBITDA up nearly 20% over the same quarter one year ago. Second, our LNG fleet is 100% fixed to 2020 and 94% fixed for 2021, and as we will discuss in a moment, all of our fixed-rate charters are take-or-pay in nature. Third, we have a strong financial foundation, leverage decreasing, strong liquidity position, no remaining debt maturities in 2020, and no growth CapEx needs. Fourth, based on the stability of our business, we are reaffirming our 2020 financial guidance and we expect this year's adjusted earnings will increase by nearly 50% over 2019. We continue to increase returns to our investors in the form of increasing distributions and buybacks. In combination, this puts Teekay LNG in a unique category of companies that only a few, if any of our peers in the broader shipping space can match.

Before reviewing each of these key takeaways in more detail, we would like to turn to slide four to discuss our experiences all operating in today's COVID 19 environment. Operationally, we have transitioned each of our vessels smoothly into the environment and everyone on shore is working efficiently from home. We have not experienced any impact on our vessel availability or impact to no cases of COVID onboard any of our vessels. Our focus remains on the safety and health of our crews and while we have been unable to affect crew changes, except in extraordinary cases, we are working with both industry and intergovernmental organizations to allow for the safe passage of crews. At the same time, we are hopeful that borders will be reopening soon. We were able to stock up on critical spares prior to travel restrictions being put in place. And our 2020 dry dock schedule was already backend loaded. For the few dry docks, we were expecting in Q1 and Q2, we have been able to delay them as needed until later this year. And lastly, all of our fixed-rate charters are operating as expected. We have not had any impact on our business as a result of cargo cancellations that may have been taking place, and all of our fixed-rate contracts are operating as expected. Similar to previous

downturns in the spot LNG shipping markets, we have received no requests or contract cancellations, and none are expected.

Look to slide five, we mentioned up-front that this was another record quarter for Teekay LNG. With the final delivery of our three and a half billion-dollar growth program in December of last year, we are now beginning to recognize the associated cash flow and earnings which is leading to year-over-year and quarter-over-quarter growth. We took delivery of six LNG carriers and the Bahrain regas terminal over the past year and we have enjoyed higher LPG rates and are 50% owned JV with Exmar. All of which contributed to a nearly 20% increase in total adjusted EBITDA and a 57% increase in adjusted net income, comparing the first quarter of 2020 to the same quarter of the prior year. And comparing these same cash flow and earnings items, in the first quarter of 2020 to the fourth quarter of 2019, we experienced sequential increases due to deliveries late in 2019 and receiving terminal use payments for Bahrain in early January.

Importantly, as you can see in the appendix on slide five, we are expecting that Q2 2020's results will exceed this first quarter. We have been including slide six and seven in our presentations for many quarters now and perhaps this quarter or than any previous quarters, these slides set us apart from nearly everyone in our sector. Looking first to slide six and focusing on the text to the left, we would like to take a moment to discuss the key characteristics of our fixed-rate contracts. Our contracts are take-or- pay and there are no provisions providing for unilateral changes in terms for charter rates. Take-or-pay means that we get paid every day that the vessel is available for operation irrespective of how the customer uses the vessel. If our ship is full of LNG cargo and steaming to its destination, we get paid. If it is empty and en route to pick up an LNG cargo which the customer subsequently cancels with the producer, we get paid. If it is empty, while waiting for cargo, we get paid. If it is full and there is nowhere to offload the cargo to the online storage or gas transportation issues, we get paid. If the spot LNG market drops or rises and it's significantly different than our contracted rate, we continue to receive the contracted rate. For these reasons, we do not foresee that any of our fixed-rate contracts so

detailed on this slide are in jeopardy of being canceled despite the uncertainty in today's energy environment.

Turning to slide seven, as announced today, we fixed our final remaining LNG carrier up for renewal in 2020 on contract last week. Looking at the top three bars on this chart inside the red dash box, today we have announced a six-month fixed-rate contract on the 52% owned Marib Spirit commencing on June 21st, which follows on from the announcement last month that we had fixed the 52% owned with the Methane Spirit on an eight-month contract and the 52% owned Arwa Spirit on a 12-month contract. Also, we are now 100% fixed for the remainder of 2020 and 94% fixed for 2021. Importantly, two of the charters are in direct continuation of their existing charters, which means that no days of offhire, we're waiting for the new contract rates. This is great work by our chartering team to maximize the utilization and thus the earnings of these vessels. I will now turn over to Scott who will discuss the next two slides before we conclude.

Scott Gayton: Thank you, Mark. Turning to slide eight, another one of the key takeaways we hope you take from this call is our strong financial foundation. As can be seen to the top right of the slide and looking at the blue line, our leverage, as measured by net debt to total adjusted EBITDA on a proportionate basis, continues to decrease. We have moved from an annualized 7.6 times as of the first quarter of 2019, to 6.1 times as of the end of Q1 2020 on an annualized basis. And we expect our delivery efforts will continue into the future with approximately $300 million in scheduled amortization per year. This delivering benefits investors by building financial flexibility for a higher equity base and through interest expense savings. We expect annualized interest savings of $20 to $25 million per year simply due to interest savings resulting from scheduled debt amortization and savings from repaying our 2020 NOK bond with existing cash.

While a significant portion of our interest rate exposure has been hedged, the interest rates remain low. The interest cost on our floating rate debt will also decline. Looking at the chart to the bottom right, we also believe that our financial foundation is strong because of our very manageable debt repayment

profile. After repaying our NOK bond, which matured this past Tuesday with cash, we have current liquidity of over $260 million and no further debt maturities in 2020. We have three facilities that mature in 2021 and we are already negotiating term sheets with the existing lenders on the Tangguh LNG and Exmark LPG, our joint venture facilities. Each of these facilities are backed by attractive vessels and in the case of Tangguh, contracts with BP that extend out to 2029. The 2021 NOK bond doesn't mature until October of next year and so we have over a year before we would need to refinance this maturity.

Our expectation is that we will refinance this bond prior to its maturity, albeit at a reduced amount. In summary, we have a strong liquidity balance, a very manageable debt majority maturity profile, a strong bank group, and therefore we believe Teekay LNG has a strong financial foundation which benefits all stakeholders. Turning to slide nine, we continue to believe TGP represents a compelling investment with a 10-and-a-half-year fixed rate contract revenue backlog of approximately $9.3 billion while trading at 2020 adjusted earnings multiple of four times. A cash flow multiple of 7.7 times and with a dividend yield of over 9%. Teekay LNG has already raised its distributions by over 30%, two consecutive years, and we have reaffirmed our 2020 financial guidance range today. We took advantage of the weakness in our unit price by repurchasing shares during the quarter repurchasing 810,000 units, due for reporting earnings in late February at an average price of $9.75 cents per unit, which brings our total repurchases to nearly $45 million, or 4.6% of our outstanding unit count since the start of the program in late 2018. However, going forward, I expect maintaining a healthy balance sheet and strong liquidity balance will outweigh additional unit repurchases.

Before I turn the call back to Mark to conclude and looking at the charts at the top of this page, Adjusted net income and total adjusted EBITDA in 2020 are expected to be up materially over 2019. Which is already up significantly over 2018, which as Mark mentioned earlier, makes us truly unique amongst our peers in LNG shipping and the energy markets at large. I would now like to turn the call back to Mark to conclude.

Mark Kremin: Thank you, Scott. Before we open up the call for questions, we would like to close out today by recognizing the unprecedented volatility and uncertainty that has occurred in the natural gas and LNG markets, both from a demand-supply and pricing point of view, and the impact this has had on LNG shipping and the outlook for new projects. As economies begin to reopen and hopefully return to the same or some level of normalcy, morals will become clear to us. However, during these uncertain times, we take comfort in our robust business model, which with a fully fixed LNG fleet, a strong financial foundation, and dedicated staff, and seafarers who will keep everyone safe as we plan to reorient around the new normal. Thanks for your time today. And operator, we are now available to take questions.

Operator: Our questions begin with Randy Giveans of Jefferies.

Randy: How are you gentlemen, how's it going?

Mark Kremin: Great.

Randy: Yeah. Obviously getting the NOK bond paid off was good. Question on the NOK bond, was that more of a de-leveraging decision or is that market really tried out and just the pricing was too high which makes you wouldn't want to refinance that? And then kind of going forward, are there are plans to kind of reenter that market or kind of staying away from the time being?

Scott Gayton: Yeah. Thanks, Randy. This is Scott, no that market we believe is open. It obviously went through some pretty significant volatility like we saw in the US, but similarly, now that we've seen a ton of issuance in both the investment grade and high yield space and in the energy space in the US I would imagine that the same is achievable in Norway. We have talked to a number of our investors that we have good relationships with as well as a number of our bankers that ultimately helped issue these bonds. And we do believe that we could issue in that market today. But I think that the pricing that we would have received is probably not what we would consider to be attractive and really just not required

by us. We're sitting on over $250 million of liquidity today given that we don't have any CapEx looming for an operating company, that's as fixed out as we are, we just looked at that as being rather expensive insurance, I think that's maybe one way to think about it.

And then I said in my remarks, we do have maturity in October of next year, so we've obviously got a lot of time to chip away at that. It is about $147 million that matures. And I think that will be maturing that for a smaller dollar value. And I think that if you see a window open up later this or early next year, then you know, or maybe open up wider and see some better pricing, then I think you'll see us look at chipping away at that maturity well in advance of October.

Randy: Perfect. Alright. Yeah, thanks for the color there. And then on the LNG shipping side, you know, any kind of charters in this environment are basically a win. With that, can you give a little more clarity in terms of rates on the Marib Spirit? I just kind of see some sensitivities around modeling, obviously not massively impactful as you reiterate your guidance, just kind of seeing where rates are today for those, let's call it short term time charters.

Mark Kremin: Sure. Randy, they're all around the thirties or forties per day. In terms of the market, we probably see that already a little lower today for the next six months or so. We've been seeing TFDEs and MEGIs are getting a bit of a premium. So, you'll recall that these are actually not the two-stroke, they're the DFDE or TFDE, but that's the kind of rate we're getting. And the interesting thing about these charters as we mentioned to some extent in the headline in the scripted remarks we said they are continuous, and in two cases we basically go off on contract onto another with a major trader on an absolute continuous basis. The third is very close. So, there's very little waiting time or repositioning costs to us in any of these or none in these charters. And that's really important for us over the next quarter or two.

Randy: Yeah, now, that makes sense. And then you mentioned briefly that if the vessel has the cargo on it, you're getting paid. If it doesn't have a cargo, you're getting paid. If someone's using it for a wedding,

you're getting paid. Well, have you seen a lot of changes in fleet functionality with all the maybe production shut-ins and some of these other things? Are there more vessels kind of ballasting or longer? I know it doesn't affect your payment and your receipt of those contracts, but just looking at the operations of the vessels?

Mark Kremin: Yeah, this is something that I read about in the news a lot, but it doesn't necessarily line with what we see with our own fleet. We get a pretty good look at a cross-section of LNG with our 47 LNG carriers. We know where they're all going. We're not seeing floating storage to the extent that others are referring to. And I'll just preempt any discussions that are going to have. It's kind of difficult to make those economics work. And along the same lines, we're not necessarily seeing a slowdown in our ships. So, we've seen a couple from, we'll call it Australia, that have lower speeds than we usually have on those trades. But for the most part, we're not doing a lot of slow steaming. We have seen some cancellations. They don't really impact us.

As I said, typically another charter maybe picks up the cargo or it goes elsewhere. We have seen a fair amount of sub charters. So, what I always refer to as the shadow inventory, you know, we have 47 LNG couriers chartered out, but we can also see who's sub chartering because of the operational orders and whatever will change. So, there is a fair amount of sub chartering that we can see in the market right now. But to kind of reiterate, no, we're not seeing an operational change for the most part in how we're steaming and certainly not in how we're sitting yet.

Randy: Got it. Alright, well, Hey, thanks again and good work.

Mark Kremin: Thank you very much, Randy

Operator: And now Ben Nolan, from Stifel.

Mark Kremin: Hi, Ben. I hope you're feeling better.

Ben: Yeah, I am. I appreciate that. So, I have a few questions and I'll try to go through pretty quick here. But the first is I was just hoping that is it possible to give any you know, now that everything's been delivered, the CapEx is down and a lot of the refinancing has been taken care of. Any color on what you're thinking about with respect to the pace of distribution growth. Going forward, I realize it's a board-level decision and what not. But just any color you know, as to what you're thinking about there.

Scott Gayton: Yeah. Hey, Ben. It is nice to obviously have that removed and I think that does give us some additional flexibility to consider how we allocate capital. And I think as we've highlighted before and again on this call, is that we're really prioritizing that, you know, the balance sheet delevering. And that's probably going to last for at least the next few years. And we have been returning capital obviously in the form of buybacks and dividend increases, you know, over the last couple of years and, but I think looking ahead, it is a very uncertain environment and so we are going to continue to prioritize balance sheet delevering now. And we'll see where we are once we have gained back some of that financial flexibility through the delevering to see what it is that we are going to do with any excess capital. But I think really, it's too tough for us to tell at this point or give any type of distribution guidance because there's just too much uncertainty.

Ben: I understand that. But given that, it sorts of leaves me scratching my head a little bit on the timing of the IDR buyout. I mean, obviously, you expect the share price to increase over time as the leverage falls, as do I. But this, you know, not only is diluted earnings, but, you know, there's dividends or distributions being paid on that, so it's delayed your ability to repay that. Can you maybe talk through what the motivation was to do this now relative to maybe waiting a few years until the debts pay down and you had a little bit better line of sight on distribution growth?

Scott Gayton: Sure. Maybe I'll take a stab at it and see if Mark's got any follow ups. I think from an overall, you know, delevering point of view, I don't think this really impacts us too much. Like I said in my remarks, we do amortise around $300 million in debt per year, and the distributions that are being

paid on the new units at a dollar anyway is $10.75 million per year. So, I don't think that it really has a hugely detrimental impact on our delevering efforts. And then from a valuation point of view and a timing point of view, I think one way to maybe think about it is as you know, it is a discounted value. And so, with the valuation would have been performed there would have been a discounting factor that would have gone along with it.

And so I actually look at it that it was probably cheaper today because of that discounting factor than it would have been in a couple of years once we were in you know, a delevering position and maybe it would have been easier to have that line of sight directly onto a value in the IDR. So yeah, I don't like issuing a lot of stock at these levels. But I also think that you get it the other way, which is just an overall lower valuation of the IDRs. And then the last part from the timing is, we've seen a lot of carnage across the energy space, across the LNG shipping space. And I think, for the most part, due to a lot of prudent actions taken over the last number of years, TeeKay LNG is really going to be one of the only LNG shipping companies that is available for investors to really invest in.

And what we heard from a lot of investors was that, you know, with the IDRs in place and given some of the atrocities we've seen with respect to these IDR transactions, in particular, the midstream space, people were not willing to invest and TGP was kind of uninvestable. So, I think as the world recovers, as the energy markets recover and people look to put their money, hopefully into LNG shipping companies. Those with these IDRs removed you know, over nine and a half-billion dollars of cash flow and steadily increasing returns to investors, that they're going to put their money into TGP. And so, I think that this actually was an opportune timing to do it, so this sets us up well for a recovery.

Ben: Okay. That's very helpful and clear. You had mentioned a sort of the discounting factor, how you're thinking about valuation, but could you maybe - it wasn't initially in the release - could you maybe talk through the economics of how you got to the price that you got to you know, in terms of both the timing of how long you were discounting and sort of what they, you know, where you were assuming for it, let's call it a fully baked price.

Mark Kremin: We've mentioned it on the Teekay call, but we'll mention again. We don't have direct access to that and this went through a robust process as we say with the conflicts committee, which is independent board members. So, we don't have the actual valuation that they have, but what we can't see is the compelling way forward. I mean, this was - there was a lot of uncertainty as Scott said, around the stock which has been removed.

And so, everyone's on the same playing field going forward. And that includes Teekay. When we talk about alignment, there was no cash here. They've taken all shares. And so, we've got that going forward, and they like everyone I think, could be not so focused on the distribution right now, but it's the PE that we have, which is unbelievably mispriced in my opinion. We have a pre-IDR transaction PE of around, a little bit the high threes, and we've gone to around four. So, as we all are on the same playing field together, including Teekay, that's what I look forward to and that's the valuation that I see that is very mispriced.

Ben: Yeah, no. From my point of view, I agree. There's no question the units are undervalued here, but I'll turn it over at this point and let somebody else take it from there. Thanks, guys.

Operator: Next question will come from J Mintzmyer with value investors edge.

Mark Kremin: Good morning J.

J: Good morning gentlemen. Congrats on an excellent call.

Mark Kremin: Thank you.

J: So, we'll start off with little housekeeping questions as I move to a bigger picture. So first of all, a little bit of a quarterly slip. It was a great quarter, but a little bit of a quarterly slip I think in revenues and

income. But if you look at your Q2 outlook, it seems like that bounces back in Q2, there's a line item for a reduction in claims. Can we talk about what that means and what that netback is?

Scott Gayton: Basically every quarter, there are operational claims that we may receive from charters and sometimes are a little bit higher, sometimes a little bit lower. And I think what you saw on Q1 was there was a little bit of a catch up of some claims may be from last year or previous quarters that were recorded this year. And then we actually expect that a number of those will likely get reversed next quarter. So, there is some movement around but it's all on what I would say, just general LNG shipping operations.

Mark Kremin: If I can add. Just some light color to that, may or may not be useful, but most of these LNG charters, most claims come in the way of fuel performance, and most LNG charters, you price your fuel according to what the fuel equivalent of high sold for today's , excuse me, low sulfur oil is, and if you look at Q1, in particular, we had this spike of pricing and going forward in already in fact, as you know from your tanker discussions, well, high sulfur fuel both prices and spreads have really come down. So that will hopefully be a, as we say, a headwind sorry, tailwind for us in any future claims.

J: Excellent. Thanks. Then just one other thing. When I, when I look at slides six and seven, looking at your fleets, we're looking at the 2020 and 2021 to see exposure, and I see Excalibur popup at the 50% own steam vessel. It's a financing transaction. I believe you sold the sister Excelsior; I think it was off a couple of years ago. Is Excalibur also sort of non-core and for sale or do you continue to hope to roll that one?

Mark Kremin: It is - all the steamships are relatively non-core. It's a smaller part of our business as you know, certainly from a revenue side already. It's not as material as our TFDEs or Megi's or any other propulsion. As you say, it's the first of our steamships to come off. I think it doesn't come off until 2021. And so, we have a little bit of time with our joint venture partner Excalibur to think about that. The sister

ship was a little bit different. That was a small FSRU that we sold. But we have to figure out, like everyone else in the world, our steamship strategy here in terms of whether we divest or whether we continue to roll over, it's not going to roll over to Excelerate, which is the current charter. But whether we redeploy in some way, the good news is that, you know, when it comes to Teekay LNG, we have very limited steamship exposure. Our roll off is very staggered and it doesn't come for a few years as you've already pointed out, but it's not a business we're going to be growing. Put it that way.

J: Thanks, Mark. You mentioned the prepared remarks that deleveraging would continue to outweigh repurchases and of course that makes sense. You have 300 million of scheduled amortizations you took out of the NOK bonds. Look, we see this stuff in 2021 coming up. Does that mean repurchases are paused or off the table? Or are you just saying they're going to be a lower priority?

Mark Kremin: I'm going to hand this over to Scott, but I just want to clarify one thing. I think I had said 2021, but actually, it's 2022 before the Excalibur will at the very least, it's like late, late, late December on an earliest redelivery. So, let's just think about that as 2022 and I apologize for that error. I'll turn over to Scott.

Scott Gayton: And then the other point I was going to make on that vessel Mark is that actually when it does roll it has got extremely minimal debt on it. And so, it won't be much of a drag for us from an operational point of view or a revenue point of view. I think Jay, with respect to buybacks, I would probably look at it as more of a pause, like we're seeing going on across this space. We still believe the stock is undervalued. You know, we've done it before. We've now got greater alignment with the parent to look at things like buybacks. But I just think that given all the uncertainty that we just need to give it a pause and see where things go.

J: Understandable Scott, with COVID 19, I think investors do understand that. I think investors' bigger concern, and I brought this up on the Teekay call as well is something I hear literally every day, is that capital is going to be squandered on new growth, on new investments at a time when the stock trades

at frankly ridiculous valuation, right? I mean we can argue how big a discount, but whether it's 30% or 50%. I know you made a sort of, we have a podcast and we kind of talked about capital allocation and stuff, and a quarterly call is kind of a different place here, but are you willing to reiterate the fact that no, we are not looking for growth at this time, that we will not commit to growth unless it makes sense on an ROE basis, as it was more accretive than we perceived units?

Mark Kremin: No, we are not committed to growth at this time. We will not do it unless it makes sense on our own basis. Absolutely, Jay, that is not the first priority for us. As you've heard many times, you know, delevering and other things will take priority. Even if we wanted to grow, it's going to be tough. So, we'll just, I know this is a bit off-topic, but as you probably know, as you do, the FIDs, final Investment Decisions have been pushed back by most, if not everyone for at least six months or probably a year. And even fundamentally, we'll have to look at where this all goes. I think it's hard, might still come out this year. It's a bit uncertain. I've seen the bids Nigeria, but we're uncertain about who might even come out this year. As I said, all FIDs are likely to be delayed. So yeah, the first priority is certainly not growth, but we'll see what happens with these opportunities. It's not anytime soon.

J: Excellent. Mark, thanks for clarifying that. It's literally the number one concern of all investors that I've talked to. One more question for you. Look, we had a lot of heat on the Teekay call about the GP IDR. I think we had a good discussion earlier on this call. There's sort of that, you know, hey, it's not us. It was this conflicts committee that did it. And yes, I get the legal perspective that it's hands-off. it's an independent committee. Is there any potential or a chance for that report or for that valuation to be filed or disclosed somewhere in the future? Because right now it's like a black box, you know, it's not us, you know, don't blame us. Yeah. And we get that. But people still want to see some sort of valuation, some sort of connection.

Mark Kremin: My understanding Jay is no, the evaluation will not be, or the process on the evaluation, will not be disclosed. So, that's the short of it all. I would just urge everyone. First of all, I think it's a good

deal. Because, you know, before I was hearing that the biggest uncertainty from every investor that I spoke to, it's the biggest uncertainty was whether we had an IDR deal done or not. And now I've just heard that the biggest shift is moving on to whether we're going to grow. So, we've already managed in some part what we've been dealing with for the last year or two. And so that's fortunate itself. As we move forward and we talk about growth and things other than the IDR, I just remind everyone how well we're trading or how poorly I should say, we're trading on a PE basis. And I think it's a great buy. Scott, do you have anything?

Scott Gayton: Nope.

J: All right. Thanks, Mark. Thanks, Scott. Congrats on a good quarter. We're looking forward to more.

Mark Kremin: Thank you very much, Jay.

Mike: Hey, good morning guys. How are you?

Mark Kremin: Good morning Mike.

Mike: So, I'm going to dig back into the IDRs if you don't mind. So, I know Jay just touched on this and there seems to be some, a degree of kind of conflating independent versus something being secret. You know, irrespective of whether that's a secret and you guys haven't seen, I assume that you get an independent assessment of the valuation and then you would decide, does that make sense? Do we think that's a good deal or not? So, it implies that you guys would have done your own work. Alright. Right. So maybe if you can't get into what the independent assessment came up with, what did you use when you were evaluating whether or not you thought that they came up with a good deal? And whether or not you thought you wanted to pull the trigger on it?

Mark Kremin: Well, we are not able to pull the trigger and I'm not trying to brush this off or do anything, but it's again, it goes to an independent committee. That's who decides whether or not this is going to be done at what price.

Mike: You still need to decide what you're going to do it or so, right?

Mark Kremin: Teekay puts an offer to the independent committee, which then makes a recommendation to the board. And that's how that works.

Mike: Then you get the number and you get to the value, right? So, they came up with $500 million. You wouldn't be stuck paying $500 million, you would get say, okay, maybe I don't want to do that right now, right? So, you had to do your own work at some level, right?

Mark Kremin: No, this goes to - this doesn't involve Scott or myself, this is done by independent directors, who together form the conflicts committee, and it's their decision as to whether to recommend this deal or not. And it doesn't involve management, but I'm happy to speak to what Scott and I see, which is as you've heard from the same thing as from Teekay Corporation. We've got very visible predictable cash flows. Everyone I spoke to was just talking about the overhang and the uncertainty. Fortunately, by the way, the stock's been trading since we've done the deal. That seems to have been somewhat relieved.

Mike: I understand that. I understand it, but just to go back there. So, you commit to the deal before you have any idea what the price is? Basically, it goes into commitee, you say you want to do it, there's the independent committee and you have no say over from that point on?

Mark Kremin: To some extent that that is correct. We were helpful with diligence and the assumption. So that's it.

Mike: So, do I say you were helpful in the assumptions, I guess in terms of what your price should be. Okay. So, it wasn't a Teekay scandal, it wasn't in your hands, there was no - it's unclear who actually made the decision. I guess in terms of like when they come up with the price if I compare this against some of the recent deals, I guess maybe, first of all, are the units restricted at all to Teekay, and is there any kind of earn-out provision like we've seen in recent deals?

Mark Kremin: No, there is not. We're completely aligned. Everyone is a common unitholder, all the same. Total alignment.

Mike: Right? So, considering how far out of the money they are, by having an earn-out structure where, you know, as the distribution progressed and doing things, it would, similar to what we saw with GasLog in terms of, I guess they are on the same level and through being the same kind of unit holder. But you know, you don't get the distributions until you actually got to a level where the idea is, would have been in the money. Their earnings structures are pretty common. Was there an opportunity to go back and say, Hey, you know, there's a chance that we might not raise our distribution by 160% and that might not actually be a headwind, and we put some protections in there just to make sure that, you know, we're not paying for something that we're not going to use?

Mark Kremin: No, I think the deal is done and we're all looking forward already to what's next. When I look at some others, I'm not even sure we have great feasibility on how those different structures work. They're going to be talking about those structures for some time and how they work? No, from our standpoint we're looking forward to what's next for trading at a very attractive value. We're looking at growth prospects eventually. And we're not looking to re-cut this deal.

Mike: Okay. I guess if I think about it as a use of capital, right? Like I think you mentioned that one of the earlier questions, one of your early questions around, you're not looking to go out and grow for growth's sake. And I guess I'm thinking, but I assume going out and ordering a couple of LNG carriers on spec right now is not something you guys would swing at the moment, right? Is that fair?

Mark Kremin: Yeah, that's fair.

Mike: If I think about this as a use of capital, right? Would you guys take $123 million of equity, buy two LNG carriers that don't have contracts on them. So, you're not sure if that deal is actually going to bring in the money in three years or not. If you would do that with steel that actually has an inherent value. I'm trying to decide why this is a good time when you're focused on de-leveraging to take $123 million of equity and allocate it to something that you're not sure is going to have any value in three years.

Mark Kremin: So, to your point exactly. Like I don't know exactly what the LNG carriers are going to trade in three years or two and a half years when it delivers, but I do know what our cash flows will be. We've got certainty for the next 10 and so this is a very different analogy I think you're pointing to.

Mike: Right. So I'm trying to juxtapose that with the fact that the message on the earnings call today is delevering, don't expect distribution grow or significant distribution growth over the next handful of years, but we're going to spend $123 million on IDRs that are so far out of the money that we have no idea whether they're actually going to be - there's going to be any real value to them. I'm just trying to think about that from a capital deployment perspective. Yeah. Alright

Mark Kremin: I'm not sure that everyone shares that you Mike, there will be a fairness opinion involved in this.

Mike: I think the map implies they're not in the money or, I mean, is there a distribution at a level where the IDRs are actually hanging out right now?

Scott Gayton: Hey Mike, maybe another way to think about it is, where we're sitting here right now with the coverage ratio of around four times, and we do expect that this will be sustained well into the future. This isn't a spot tanker company. As Mark says, you've got 10-year contracts and nine and a half-billion

dollars. Our cash flow profile and our delevering is actually extremely certain. I think if we look at some of the other similar transactions, I think we can all admit that this one is rather unique.

Other IDR monetization transactions in shipping, midstream, whatever, they were paying out all their cash flow, so it made it very easy to throw a multiple on it. And everybody sits back and says, okay, was that a good multiple or not. The problem is, and what we've seen since is that they were paying around one times. So, therefore, the IDR is getting monetized off of that extremely high level. So that benefits the GP enormously. Well, then what happened? As we've seen, they cut their distributions. That actually impacts the LPs enormously. So, they have to shore up their balance sheet, issue equity.

Mike: Are you cutting out the middleman basically?

Mike: Pumped the distribution, you still get to monetize them. I mean at least in the former scenario, the LPs get the distribution along the way, right?

Scott Gayton: Sure, sure. Maybe they got the distribution along the way and it would have been easier. We could have have jacked the distributions. Get to one times, do the monetization, and then as we've seen other people do, they turn around and they cut the distributions, and that kills the LP value. Right now, Teekay LNG is on an upswing. We're generating a lot of cash flow. We're generating a lot of earnings and trading at a very attractive multiple for investors. And I would far rather be on that path and have these IDRs behind us than to go through some level of financial engineering just so that it makes it easier to show the value of the IDRs. Make you happy because you can put a multiple on it, and then ultimately that you have to cut the distribution. Like that to me just does not make any sense.

Mike: Look, I think the notion of removing the IDRs is one thing, but you know, making people happy by putting a multiple on it, that's just the math, right? So, I think people generally, I use an analogy on a previous call. It's like standing on a tee box and just taking a gimme, and giving yourself a whole lot of water, assuming you got there where in the last seven or eight years would show that there's a degree

of heritability and things change and maybe something. That part of the money, you know, maybe it's not, maybe value like a forward start annuity might not be accurate. But anyway, if I go there, the valuation work would be helpful. And the notion that there's, you know, there was some, you know, some variability priced into that. I think that's the biggest thing that catches people by cutting out the middleman thing. It's going to be diluted for LP holders no matter what. We'll just take the money now. I don't think it's particularly intellectually satisfying answers. But we can kind of, we can move on. I think I've got - I think that's a thing I'm upon. I think that's all my questions. I appreciate that.

Mark Kremin: Happy to discuss on the 19th hole, Mike.

Mike: I'm sorry.

Mark Kremin: We can discuss on the 19th hole.

Mike: That's true. That'd be good.

Operator: Ladies and gentlemen, at this time, I'd like to -

Mark Kremin: Well, I'd just like to thank everyone on behalf of everyone at Teekay LNG. We look to seeing many of you in person again, hopefully, sooner rather than later. So, thank you very much. Take care.

Operator: You may now disconnect.