TEEKAY CORPORATION'S SECOND QUARTER 2020 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Corporation

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Conference Time: 11:00 ET

Operator: Welcome to Teekay Corporation's Second Quarter 2020 Earnings Results Conference Call. During the call all participants will be in a listen only mode. Afterwards, you will be invited to participate in a question and answer session. At that time if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touch tone phone. As a reminder this call is being recorded. Now for the opening remarks and introductions, I would like to turn the call over to the company, please go ahead.

Ryan: Before we begin, I'd like to direct all participants to our website at www.teekay.com where you'll find a copy of the second quarter of 2020 earnings presentation. Kenneth and Vince will review this presentation during today's conference call Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the second quarter 2020 earnings release and earnings presentation available on our website. I'll now turn the call over to Kenneth to begin.

Kenneth: Thank you, Ryan. Hello everyone and thank you very much for joining us today for Teekay Corporation's Second Quarter of 2020 Earnings Conference Call. I hope that you and your family are all safe and healthy. On the call today I'm joined by Vincent Lok, Teeky's Group CFO. Before we get into all results, I'd again like to take a moment to thank all of our seafarers and shore-based staff for their

continued and extraordinary dedication to maintain business continuity. The unprecedent impact of COVID-19 continues to be a major area of focus for us, but we have thus far successfully navigated the evolving logistical and regulatory challenges with minimal impact on our operations. We're truly proud and thankful of how our seafarers and onshore colleagues have responded to COVID-19. Implementing new standards to ensure the continued health and well-being of everyone involved in our organization especially our colleagues at sea, while maintaining consistently safe and efficient operations for our customers.

Moving to our recent highlights on slide three of the presentation. In the second quarter of 2020, we reported our third consecutive quarterly adjusted profit, recording consolidated adjusted net income of $40 million, or 39 cents per share, compared to an adjusted net loss of $13 million, or 13 cents per share, in the same period of the prior year. We also generated total adjusted EBITDA of $316 million, an increase of $119 million or 61% from the same period of last year. Our strong results in the second quarter can be attributed to solid earnings in each of our main businesses. Teekay LNG reported another quarterly record high in adjusted net income and total adjusted EBITDA. Teekay Tanker has experienced another quarter of strong spot Tanker rates and our directly owned FPSO operating results improved as a result of the new Bareboat Charter Contract secured in late March on the Foinaven FPSO, which eliminated our exposure to the previous loss making contract.

Looking ahead to the next quarter, we expect Teekay LNG will continue earning stable cash flows as a result of its LNG fleet being fully fixed through the rest of 2020. At Teekay Tankers the spot tanker market has come under pressure since mid-May following three quarters of strong spot tanker rates. The near-term outlook for the tanker market is uncertain at this point and to some degree linked to the global oil production and demand which presently is about 10% lower than the average demand in 2019. In our tanker business we continue to follow the prudent path that we laid out at our investor day last November and we are pleased to have significantly reduced our effective free cash flow break-evens and near term spot exposure by locking in 23% of the Tanker Fleet on fixed rate contracts at attractive rates and we are encouraged by Fleet supply fundamentals, which are favourable relative to

prior market cycles. So finally we have now commenced the wind down of the second of our three FPSO's which are no longer core business. The Banff FPSO ceased production on its field in June 2020, and we have commenced the various decommissioning and subsea remediation procedures on the field, which I will touch on in more detail on the next slide.

We continue to utilize these improved cash flows to further strengthen our financial foundation, which is one of our strategic priorities. Over the past year, we have reduced our consolidated net debt by $887 million, or 20%, which creates significant equity value throughout the group. We have also increased our total consolidated liquidity to approximately $940 million as of June 30th, which provides financial strength and flexibility. Lastly, we have also secured bank commitments for a new equity margin revolver of up to $150 million to refinance Teekay Corporations existing revolver that is currently undrawn and matures in December 2020 at substantially similar terms. We continue to further simplify our structure. With the refinancing of Teekay Tankers four Suezmax Tankers this month, we have eliminated all our remaining guarantees of daughter company debt, which stood at over $225 million just two years ago, and as announced in May, we eliminated the incentive distribution rights, or IDRs, we held in Teekay LNG in exchange for 10.75 million TGP common units.

Lastly and most importantly, the health and safety of our crew and shore staff is paramount for the Teekay group. We've have implemented strict measures on all of our vessels to protect our seafarers while the vast majority of our shore staff are working remotely from home. As a result of the pandemic, the overall maritime industry has experienced significant challenges related to crew changes, but I'm pleased to report that we have managed to at least do a partial refresh of our crews on effectively all of our vessels and our teams are focused on minimizing the number of crews that are overdue. We'll continue to work hard with both the industry and intergovernmental organizations to tackle this challenge and bring our remaining overdue colleagues home safely, as soon as possible. I'm truly proud of how our seafarers and onshore colleagues have responded to ensure safe and successful transitions with no reported COVID-19 cases, while providing an interrupted service to our customers.

Turning to slide four, we continue with the wind down of our FPSO segment as we discussed at our investor day in November. In late March, we secured a new up to 10-year bareboat contract on the Foinaven that effectively covers the remaining life and the eventual green cycling of the unit. We received $67 million of cash pursuant to this new contract in April. In addition, we'll receive a nominal per day fee for the contract life that effectively covers any ancillary costs and a lump sum payment at the end of the contract term that is expected to cover any clean-up and green recycling costs of the unit. Importantly, this new contract eliminates our operational exposure to the previous loss-making contract. The Banff ceased production on its field in June and is expected to come off the existing field during the third quarter of 2020 with green recycling of the unit expected to be completed by the end of the year. The Banff has a unique contract structure where Teekay is also responsible for part of the remediation of the subsea infrastructure. We've been accruing for these costs on our balance sheet with the current net Asset Retirement Obligation, or ARO, of $44 million, which is net of an $8 million receivable balance that is to be funded by the customer. Roughly half of this net ARO is expected to be incurred in 2020, with the remaining to be carried out in the summer of 2021 as part of a two-phased subsea remediation process.

In addition to the ARO costs, we are also expecting to continue to incur certain operating costs associated with the decommissioning of the FPSO and FSO units, most of which we expect will be incurred in the third quarter of 2020 coinciding with when we expect the unit to leave the Banff field. Lastly the Hummingbird FPSO, which just completed a planned customer funded shut down for maintenance, continues to operate on its fixed rate contract and it's currently producing approximately 7,000 barrels per day.

Over the next two slides, I'll briefly touch on the results and highlights of our daughter companies, I would encourage you to listen to the respective earnings conference calls for more details following this call.

On slide five, we have summarized Teekay LNG recent results and highlights. Teekay LNG partners reported another record high adjusted net income and total adjusted EBITDA during the quarter generating total adjusted EBITDA of $192 million and adjusted net income of $63 million, or 67 cents per unit, up significantly compared to the same period of the prior year as a result of a complete quarter contribution in Q2 from its fully delivered growth program. Q2 also marked the eighth consecutive quarterly increase in total adjusted EBITDA. TGP's LNG fleet is 100% fixed for the remainder of 2020 and 94% fixed in 2021. TGP's average daily fixed charter rate in 2020 is expected to be above $80,500 per day, which compares very favourably compared to the weak current LNG spot market.

To be clear this $80,500 per day figure is the rate earned on a 100% utilization basis because of the time charter nature of the employment. In addition, TGP has also reaffirmed its 2020 adjusted EBITDA and adjusted net income guidance. Lastly, TGP continues to further delever its balance sheet and make steady progress towards achieving its target leverage range of 4.5x to 5.5x on a net debt to total adjusted EBITDA basis. In May, TGP repaid it's NOK bond maturity with existing cash and, on a second quarter annualized basis, TGP ended up at 5.9 times on a net debt to total adjusted EBITDA basis, which includes proportionate share of its underlying joint ventures, which has significantly improved from 7.2 times in 2019.

With a strengthening financial foundation and deleveraging that is expected to provide financial flexibility, market leading positions and a very compelling valuation at a 4.5 times P/E ratio based on the mid-point of TGP's 2020 EPU guidance, we believe that TGP has significant long-term value potential, which benefits Teekay as the largest common unit holder. For every 10% increase in TGP's unit price, Teekay's equity interest would increase by 45 cents per Teekay share, or 16% based on yesterday's closing price of $2. 74 per share. Please see the appendix to this presentation for more details.

Turning to slide six, Teekay Tankers reported its third consecutive quarter of strong earnings and cash flows. In Q2 TNK generated total adjusted EBITDA of $124 million, up from $36 million in the same period of the prior year and adjusted net income of $81 million, or $2.39 per share in the second

quarter, a significant improvement from an adjusted net loss of $12 million, or $0.36 per share, in the same period of the prior year.

TNK has transformed its balance sheet bringing its net debt down to $549 million, a decrease of over $180 million, or 25%, in the second quarter alone and increased its total liquidity to $468 million as of June 30th. Over the past three quarters, TNK has reduced its net debt by $448 million, or 45%. In addition, as mentioned in my opening remarks, TNK has secured a new $67 million debt financing secured by four Suezmax Tankers to refinance a debt facility maturing in 2021, which eliminated the last remaining daughter company debt guaranteed by Teekay Corp. TNK now has no debt maturities until 2023.

Since reporting in May, TNK has delivered nine vessels onto previously announced time charter contracts, bringing its total number of fixed vessels to 13, or a total of 23% of the fleet. These fixed contracts lock-in rates at attractive levels and reduce its spots fleets free cash flow break-even to $12,700 per day through mid-2021, which means the company is expected to earn positive free cash flow in almost any tanker market.

With a low free cash flow break even as a result of recent well-timed fixed rate charter contracts, a strong liquidity position, low balance sheet leverage and no debt maturities until 2023, we believe that TNK is financially well positioned for any near term volatility in the tanker market. The near term prospects in the crude tanker market are currently unclear, but we take comfort from the fact that the order book has remained well below levels seen in earlier recoveries, limiting vessel supply growth over the next two to three years. Lastly, for every 10% increase in TNK’s share price, Teekay's equity interest would increase by 15 cents per Teekay share, or 5% based on yesterday's closing price of $2. 74 per share.

In summary, for every 10% increase in TGP and TNK's share prices, Teekay's equity interest would increase by 60 cents per Teekay share, or 22% based on yesterday's closing price of $2. 74 per share. Please see the appendix to this presentation for more details. I'll now turn the call over to Vince.

Vincent Lok: Thanks Kenneth, turning to slide seven. Over the past year, we have significantly strengthened our financial foundation. This includes delevering our balance sheet, increasing our cash flows and improving our profitability.

We have reduced our consolidated net debt to $3.5 billion at the end of June, a decrease of $887 million, or 20%. We reduced our consolidated net debt to cap from 62% to 57% and increased our total consolidated liquidity to approximately $940 million, compared to $644 million a year ago. On a last 12 months, or LTM basis, our total adjusted EBITDA was $1.18 billion, an increase of $298 million, or 34%, from the same period of the prior year. This included consolidated G&A savings of $10 million, or 11%. We have also significantly improved our profitability as we recorded consolidated adjusted net income of $72 million or $0.71 per share, compared to an adjusted net loss of $40 million, or $0.39 per share, in the same period of the prior year. Our LTM Q2 2020 adjusted earnings per share of $0.71 translates to a P/E ratio of only 3.9 times based on Teekay's closing share price of yesterday.

Looking ahead, as usual, we have provided some guidance on next quarters results in the appendix to this presentation. Compared to the stronger result in the second quarter, we expect our third quarter results to be lower as a result of seasonally lower spot tanker rates, but also due to some temporary factors such as the decommissioning costs on the Banff FPSO and a much heavier than normal level of scheduled dry dockings in Q3, the latter of which was strategically timed with the expected seasonally weaker Q3 spot tanker rates. However, we would expect our earnings and cash flows to become more normalized in the fourth quarter with significantly lower decommissioning costs on the Banff FPSO, a much lighter dry docking schedule and the potential for some tanker rate spikes to occur in the winter months. With that I will now turn the call back over to Kenneth for his closing comments.

Kenneth: Thanks Vince. In closing, the full effects of the covid pandemic on the global economy remains unknown. However, over the last year, Teekay Corp, Teekay LNG and Teekay Tankers have each strengthened their financial positions and made significant progress insulating each of our businesses from possible market volatility and positioning the Teekay group to create long-term shareholder value. With that operator we are now available to take questions.

Operator: Thank you. At this time If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star one to ask a question, we'll pause for just a moment to allow everyone an opportunity to signal for questions. Our first question will come from J Mintzmyer with Value Investor's Edge.

J Mintzmyer: Good morning gentlemen, thanks for taking my call and congrats on strong daughter company performance.

Speaker: Thanks J.

J Mintzmyer: You know as Teekay Corp continues this transition where we've done the TGP IDR buyout. It's basically just a holding company with daughter shares and two FPSO's on their way out. Right? We saw some slides on that in the presentation. Along those notes we asked last quarter but just to check up again, what is the G&A that's not reimbursed? Like what is the core parent G&A and how can we consider that on an annual basis? I realized it fluctuates quarter to quarter, but what is sort of the only the parent company overhead that we still have to deal with?

Vincent Lok: Hi Jay, this is Vince, yeah the second quarter G&A of the parent was higher than normal because of some one-time factors. We had some fees related to the IDR transaction that was completed in May and we also had stock based grants that were issued in June. So if you look at the first half G&A for the parent on a more normalized basis excluding those items we are looking at about

probably around $5 million, but we also had other income that offset that total of about five and a half million for the first half. So looking at the first half our net G&A was actually pretty much zero. Now the other income in the first half was probably higher than normal, so if I'd normalize that on a full year basis I would expect our net G&A for the full year would be about $6 to $7 million on a net basis that's sort of the run rate.

J Mintzmyer: Okay, thanks Vince, that's very helpful. So $6 to $7 million annualized and is that reasonable to say that would be going forward for 2021 and beyond or is that a little bit elevated because of the FPSO's?

Vincent Lok: No the G&A related to the FPSO is separate in the FPSO line items, so the $6 to $7 million is good in terms of the corporate level.

J Mintzmyer: Okay, thanks Vince. Turning to the FPSO is you talked about the Banff it has a $44 million net asset retirement obligation that's been disclosed for a while. I realized you've kind of already accounted for that in the income statement, first part of that is how does that impact your cash balances and how much of that is already kind of reserved in separate accounts and how much of that would pull directly from Teekay parent's cash balance and then the second part of that is, of course you noted there might be some additional OPEX and recycling fees associated. What do you anticipate that net costs will be for their recycling? I understand green recycling is a little more expensive in addition to that $44, so how much above that $44 are we gonna go?

Vincent Lok: Yeah, first of all we have a fairly strong liquidity position at the parent of about $170 million as of June 30th and when we complete the refinancing of the existing revolver that should go up to close to $200 million. So we have a strong liquidity position at the parent. As you mentioned the net ARO or Asset Retirement Obligation at June 30th was about $44 million. We expect roughly half of that to be incurred this year and then the rest of it in the summer of 2021. In terms of other operating expenses, we're estimating that to be roughly about $20 million on top of that in the third quarter and that's mainly

related to the decommissioning of the FPSO and the FSO unit. We might then be looking at the fourth quarter in terms of recycling costs, we don't have a good number yet on that, we're still getting some estimates and scoping out what's required for that, that's likely to be incurred in the fourth quarter. I would expect it to be probably in sort of a few million dollars or so.

J Mintzmyer: Okay, we'll have to check it next quarter and see where that goes. Along those lines, you have a very sufficient liquidity balance as you mentioned you got the revolver rolled. You have a very high cost of debt remaining on the company outside of that revolver. Right? You have the 9.25% secured bonds and you also have a convertible bond that's only 5%, but it trades on the open market at about a 13% yield to maturity. I mean, this is a time where the majority of, you know, even your shipping peers, even the higher risk peers are borrowing from banks say, you know, 4 to 5 to 6%. So definitely some outliers here. Are there any sort of avenues you can take in 2020 to maybe refinance some of this debt or start to chip away at it or is that something we need to wait until next year to address?

Vincent Lok: Yeah, as you know, in the past few years, we've been chipping away our debts and reduced our expensive debt considerably over the past few years and that continues to be our goal. We recognize that we need to reduce our cost of capital in the long-term and so that is our goal we have the maturity on these securities starting to mature in late 2022 and early 2023. So we have some time to address that and in the meantime, we are continuing to increase our free cash flows to build asset coverage with the daughter equities and as part of that we wanna improve the cost of capital and credit profile of the parent along with the daughter companies.

J Mintzmyer: All right, thanks for taking my questions and we'll check in next quarter with you.

Operator: Thank you, our next question will come from Sandy Burns with Stifel.

Sandy Burns: Hi, good morning everyone, maybe just to follow up on the previous question about the debt obligations of the parent, Vince can you just talk big picture? Is your goal for the parent to be like a debt

free type entity or, you know, by monetizing some of the asset value you have in the company, or do you see yourself still having some debt obligations up there which would more come about through a refinancing of the bonds and converts to some point down the road?

Vincent Lok: It's kind of obviously a stated target for us to reduce our debt upstairs, I don't think we have a target per se of reducing it to zero. I think we touched on that in previous quarters, what we're focused on right now is that with the significant and growing asset coverage that we have how do we make sure that we bring down both the overall debt, but also very importantly the overall debt costs. So I think as a company we are definitely looking forward to have that flexibility where we have more investment flexibility and that's what we've been very focused on over the past three years to recreate it at Teekay. So that doesn't mean that we don't carry any debt at all, but it means that we basically have the flexibility to also allocate capital to create long-term value and then of course from time to time would mean that we would carry some debt.

Sandy Burns: Okay and just one last one from me. So revolver, you know, good news that you were able to extend that for two years, when the time comes for the potential refinancing of debt as the parent, are you allowed to borrow under the revolver and use those proceeds to refinance the current debt obligations, or is that only for general corporate purposes like the decommissioning costs and other expenses that arise?

Vincent Lok: Yeah, we're allowed to use those funds so we can draw on the revolver for refinancing purposes as well, as you know right now that, that entire revolver is undrawn and we're sitting on about $70 million of cash. So we don't really need to draw on the revolver in the near term, but it is available for other reasons.

Sandy Burns: Okay, great. Thank you and good luck with everything.

Vincent Lok: Thank you.

Operator: Thank you, that concludes today's question and answer session, at this time I will turn the conference back over to the company for any additional or closing remarks.

Kenneth Hvid: Thanks for joining us today and again please join us for our calls in Teekay Tankers and Teekay LNG. We look forward to reporting back to next quarter, thank you.

Operator: This concludes today's call. Thank you for your participation, you may now disconnect.