TEEKAY CORPORATION'S FOURTH QUARTER AND FISCAL 2020 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Corporation

Date: Thursday, February 25th 2021

Conference Time: 11:00 ET

Operator: Welcome to Teekay Corporation's fourth quarter and fiscal 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 questions. For assistance during the call, please press star zero on your touchtone phone. As a reminder, this call is being recorded. Now for opening remarks and introductions, I would now like to turn the call over to the company. Please go ahead.

Ryan Hamilton: 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 fourth quarter and annual 2020 earnings presentation. Kenneth Hvid, Teekay Corporation's Group CEO, and Vince Lok, Teekay Corporation's Group CFO, will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward looking statements. Actual results may differ materially from the results protected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the fourth quarter and annual 2020 earnings release and earnings presentation available on our website. I'll now turn the call over to Vince to begin.

Vincent Lok: Thanks Ryan. Hello everyone and thank you for joining us today for Teekay Corporation's fourth quarter and annual 2020 earnings conference call. We hope that you and your families are all healthy and safe. Before I hand the call over to Kenneth, I will briefly review our financial results for the fourth quarter and fiscal 2020, as well as how we have strengthened our financial foundation across the Teekay group over the past several years.

Starting with our recent highlights on slide three of the presentation, in the fourth quarter of 2020, we reported our fifth consecutive quarterly adjusted profit with consolidated adjusted net income of $3 million, or $0.03 per share, compared to adjusted net income of $15 million, or $0.15 per share, in the prior quarter. We also generated total adjusted EBITDA of $201 million, compared to $227 million in the previous quarter.

Compared to Q3, Q4 included strong adjusted results from Teekay Parent and Teekay LNG while Teekay Tankers results reflected the recent weakness in the tanker market. Despite an unprecedented year marked by continuous volatility across the energy markets, our gas business reported its highest ever adjusted net income and our tanker business reported its best year ever from a free cash flow perspective. For the full year of 2020, we reported consolidated adjusted net income of $83 million, or $0.82 per share, compared to the prior year's adjusted net loss of $19 million, or $0.19 per share, and we increased our total adjusted EBITDA to $1.1 billion, up nearly 15% over 2019.

Compared to the prior year, our stronger results this year can be attributed to higher adjusted earnings in each of our main businesses. With its growth program completed in early 2020 Teekay LNG generated strong earnings this year supported by the stable cash flows from its diversified portfolio of long-term contracts. Teekay Tankers through its spot exposure benefited from an extraordinary surge in tanker demand in the first half of 2020, and its well-timed fixed rate charters secured during that period at attracted levels.

And Teekay Parent's results improved due to the new Foinaven FPSO contract entered into in March 2020, higher cash flows from the Hummingbird FPSO and lower net G&A and interest expense, partially offset by lower earnings from the Banff FPSO, which ceased production and commenced decommissioning in June 2020, which Kenneth will discuss in more detail later in the presentation.

Looking ahead, we are expecting the first quarter results to be more or less in line with the fourth quarter. Teekay LNG is expected to have another strong quarter while the weak tanker market continues to weigh on Teekay Tanker's results. For guidance on our first quarter results, please refer to the appendix of this presentation.

Turning to the balance sheet, we have continued to prioritize balance sheet strength and made significant progress in that effort. With cash flows from operations and proceeds from asset sales. Over the past year, we have reduced our proportionate net debt by over $1 billion, or 16%. Lastly, we have also increased our total consolidated liquidity by over $300 million to approximately $1 billion as of December 31, 2020.

Turning to slide four, the Teekay group's multi-year plan towards building a strong financial foundation is coming into fruition, which is reflected in these charts. Looking at the two charts on the left, with the completion of TGP's $3.5 billion newbuild program in early 2020, and the strength in the tanker market, we increased our total adjusted EBITDA by 40% over the past two years to $1.1 billion, which equates to a CAGR of over 18%. Importantly, this increase includes a 41% increase in our stable gas cash flows that are supported by long-term contracts.

We have also steadily improved our profitability when you compare a consolidated adjusted net income of $83 million in 2020 to the adjusted net loss of $53 million in 2018. We funded a lot of our growth with debt during this period, resulting in our proportionate net debt peaking in 2019, as can be seen in the chart on the top right. But since then, and as mentioned earlier, we have decreased our proportionate debt by over $1 billion, which has built significant equity value and reduced our interest expense across the group.

Looking at the chart on the bottom right, the combination of the increase in our cash flows and the reduction in net debt has resulted in a significant decline in our financial leverage from the 7.9 times in 2018 to 4.8 times at the end of 2020 on a proportionate net debt to adjusted EBITDA basis. Lastly, although not reflected in these charts, in addition to our strong liquidity position over $1 billion, we currently have no significant debt maturities in 2021 and no committed growth capex. All of these key areas have led to a stronger foundation across the group, which we believe provides significant financial and strategic flexibility going forward. With that, I will now turn the call over to Kenneth.

Kenneth Hvid: Thanks Vince and good morning, everyone. So turning to slide five, we continued to make progress in winding down our FPSO segment. The Foinaven FPSO continues to operate under its long-term bareboat charter contract at a nominal day rate, since receiving an upfront $67 million cash payment in April 2020. This eliminated all operational exposure to the previous loss-making contract. We're pleased to report that we have successfully completed phase one of the Banff FPSO decommissioning project with net costs coming in below budget. During Q4, we recorded positive EBITDA of $2 million on the unit, which came in approximately $7 million better than our forecast of negative EBITDA of $5 million for the quarter as a result of lower costs and higher cost recoveries.

Looking ahead to Q1, we expect to incur approximately $3-5 million of costs as we prepare to reposition the unit from the UK where it's currently in layup to a recycling yard located in Denmark for recycling in the coming months, with total green recycling costs expected to be approximately $4-5 million, which will be incurred later this year. As a reminder, the Banff has a unique contract structure, where Teekay is also responsible for part of the remediation of the subsea infrastructure, which we refer to as phase two. We had already accrued these costs on our balance sheet and prior periods as an asset retirement obligation, or ARO, and as of December 31, 2020, our remaining ARO accrual was $33 million.

Originally, we were planning to complete most of the phase two work during the summer of 2021. However, recently, we were able to secure an extension out to June 2023 to complete this work. Since we now have more time, we are currently working closely with the customer on the most optimal and economical remediation plan for the remaining subsidy infrastructure.

Lastly, the Hummingbird FPSO continues to operate on the Chestnut field on the fixed rate contract. However, the charter has the right to terminate the contract as early as mid-2021 if the field is deemed uneconomic. However, production is very likely to continue beyond this year as oil prices are approaching

$70 per barrel, which is a significant increase from last quarter. In addition, we are continuing to work with the customer of the Hummingbird to maximize the production life of the Chestnut field. The field produced approximately 5,000 barrels per day in the fourth quarter, and the unit continues to generate stable, positive cashflow for Teekay.

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

On slide six, we have summarized Teekay LNG's recent results and highlights. In the fourth quarter, Teekay LNG Partners generated total adjusted EBITDA of $190 million and adjusted net income of $60 million, or $0.61 per unit, all up from the fourth quarter of 2019 as a result of a full quarter contribution from its fully delivered growth program.

For the full year, TGP reported record high adjusted results generating total adjusted EBITDA of $758 million and adjusted net income of $234 million, or $2.45 per unit, which were also up for the year relative to the prior year.

TGP recently secured a two-year charter contract plus an extension option on a 52% owned LNG carrier, the Methane Spirit, to early 2023 and its LNG fleet is now 97% fixed in 2021 and 89% in 2022.

TGP continues to further strengthen its balance sheet with a strong liquidity position of approximately $462 million. During the year, TGP reduced its total proportion net debt by nearly $560 million, or over 10%, and continues to move closer to its target leverage range.

TGP also announced yesterday that it plans to increase its common unit distributions by 15% to $1.15 per common unit per annum commencing with the first quarters distribution to be paid in May 2021. This increase will add $6 million to Teekay Parent's annual free cash flow for a total of $43 million, and represents the third consecutive year of double digit increases in Teekay LNG's distribution to common unitholders. Importantly, given TGP's stronger balance sheet, strong earnings and industry leading backlog of long-term contracts, we believe the increased distribution is well-covered, which allows TGP to provide an attractive distribution to investors, which equates to a yield of 8.4% based on the increased distribution level and yesterday's closing unit price, while continuing to delever its balance sheet. Lastly, looking ahead to the future, we believe that the long-term outlook for natural gas and LNG remains bright as natural gas is expected to play a key role in the energy transition as it continues to displace coal in the coming decades.

On slide seven, we have summarized Teekay Tankers' recent results and highlights. In the fourth quarter, TNK reported total adjusted EBITDA of $10 million, down from $46 million in the prior quarter, and an adjusted net loss of $41 million, or $1.21 per share, compared to adjusted net income of $3 million, or $0.09 per share, in the prior quarter. TNK's Q4 results reflected lower tanker rates due to a weaker tanker market related to lower oil demand and OPEC+ supply costs as a result of the COVID-19 pandemic and the unwinding of floating storage. Despite the pronounced weakness in Q4 spot tanker rates, TNK nevertheless reported one of its best ever annual results in 2020 reporting adjusted EBITDA of $336 million, up from $260 million in the prior year, and adjusted net income of $153 million, or $4.54 per share, compared to $64 million, or $1.91 per year, in the prior year.

During last year, TNK transformed its balance sheet and built a resilient financial position from its record annual free cash flow of $277 million and completed asset sales of $86 million. During this time TNK has reduced its debt by $419 million, or 45%, as well as increased its total liquidity position by over $220 million to $373 million as of December 31, 2020, and TNK has started using a portion of its existing liquidity to further reduce interest costs through unwinding some of its higher cost sale-leasebacks.

The spot tanker weakness has continued into Q1 and the near-term outlook remains uncertain due to COVID. But we are pleased that we secured well-timed fixed rate charters for 18% of vessel days for the first half of

2021 at over $34,000 per day, which is well above the current spot market and helps to mitigate some of this spot market weakness.

Looking ahead, we believe that the underlying tanker supply fundamentals remain positive and should result in meaningfully improved tanker market conditions as the global economy and oil demand return to more normal conditions. Based on our forward view, TNK opportunistically entered into a seven-year in-charter agreement for a newbuilding eco-Aframax at an attractive rate, which we anticipate will deliver into a strong tanker market in the fourth quarter of 2022, enabling us to increase our scale and renew our fleet in a less capital-intensive manner.

Turning to slide eight, last quarter, we touched on our ESG journey where we focused on three key focus areas for us, including how we allocate capital in the world of changing energy sources, how we optimize our existing business and how we can continue to strengthen our ESG profile. We believe that industry leadership and ESG go hand in hand, evolving from a foundation of trusting relationships with all our stakeholders. This has been a guiding principle for our company for almost 50 years, and that's become even more important as we continue to see stakeholders raising the expectation bar.

The need for industry leadership is as great as ever. And ultimately, we will be measured on the actions that we take. We have published sustainability reports for the last ten years and plan to publish our new Teekay group sustainability report in April 2021, which further builds on what we have done in the past and will provide information that is aligned with global frameworks, such as GRI and SASB.

In closing, as you have heard, it's been a very busy year with record annual results at Teekay LNG and Teekay Tankers. We have strengthened our balance sheets and built resilient financial positions. We've also performed well from an operations and commercial perspective, despite the challenges resulting from COVID-19, which we have so far successfully overcome. All of the accomplishments over the past year was possible due to the dedication and perseverance of all our seafarers and onshore colleagues. And as such, I would like to express my sincere thanks and gratitude.

Looking forward, we see a strong correlation between the global vaccination program and the increase in oil demand, which we estimate would be 5-7% lower in Q1 2021 compared to pre-pandemic levels. As the world recovers from the pandemic, we expect demand for oil and gas and related transportation services to gradually return to 2019 levels, which we believe will be positive for the entire Teekay group. With that, operator, we're now available to take questions.

Operator: All right, and it does appear at this time that there are no questions at this time. So with that, I'll turn the conference back to the company for any additional or closing remarks.

Kenneth Hvid: Well, thank you for listening in this morning on what has been a truly remarkable and transformative year for Teekay. We hope you will listen into our upcoming daughter calls with TGP and TNK later this morning. Look forward to reporting to you next quarter. Thank you.

Operator: And this concludes today's call. Thank you for your participation. You may now disconnect.