TEEKAY CORPORATION'S THIRD QUARTER 2020 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Corporation

Date: Thursday, 12th November 2020

Conference Time: 11:00 ET

Operator: Welcome to Teekay Corporation's Third 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 opening remarks and introductions, I would like to turn the call over to the company.

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 third 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 statement is contained in the third quarter of 2020 earnings release and earnings presentation available on our website.

I'll now turn the call over to Vince Lok, Teekay Corporation's group CFO to begin.

Vincent Lok: Thanks, Ryan. Hello everyone. Thank you for joining us today for Teekay Corporation's Third Quarter 2020 Earnings Conference Call. And we hope that you and your families are safe and healthy. I will briefly review our financial results for the quarter and provide an update on our three FPSOs before handing the call over to Kenneth.

Starting with our recent highlights on slide 3 of the presentation. In the third quarter of 2020, we reported our fourth consecutive quarterly adjusted profit with consolidated adjusted net income of $15 million, or $0.15 per share, compared to an adjusted net loss of $24 million, or $0.24 per share in the same period of the prior year. We also generated total adjusted EBITDA of $227 million, an increase of $34 million, or 18%, from the same period of last year.

Compared to the third quarter of last year, our stronger results this quarter was driven by higher adjusted earnings in each of our main businesses. With its growth program completed late last year, Teekay LNG generated strong earnings and cash flows this quarter despite a heavy scheduled dry-dock program. Teekay Tankers also reported positive adjusted net income and outperformed a weak spot tanker market on the strength of fixed rate charters secured over the past several quarters at attractive levels. And Teekay Parent's results improved due to higher earnings from the Foinaven and Hummingbird FPSOs and lower net G&A expenses. Partially offset by lower earnings from the Banff FPSO which ceased production and commenced decommissioning in June 2020, which I will discuss in more detail on the next slide.

Looking ahead, we are expecting to report another positive adjusted net income next quarter, though we expect our tanker results to be weaker due to lower spot tanker rates and a higher number of scheduled dry-dockings in the tanker fleet; partially offset by stronger earnings from our gas business due to a fewer scheduled dry-dockings in the gas fleet in Q4. For guidance on our fourth quarter results, please refer to the appendix of this presentation.

Turning to the balance sheet, we have continued to increase the financial strength across the Teekay Group, which is one of our strategic priorities. Over the past year, we reduced our consolidated net debt by over $940 million, or 22%, which created significant equity value and reduced our interest expense throughout the group. We have also increased our total consolidated liquidity from $0.6 billion to $1.1 billion on a pro forma basis as of September 30th, which provides financial strength and flexibility.

Lastly, at Teekay Parent, using some of our cash balances, we opportunistically repurchased $14.4 million in principal amount of our existing convertible and secured bonds for total consideration of $11.9 million at all an average prices of 81.55 and 92.23, respectively. In addition, we also completed the refinancing of our equity margin revolver of up to 150 million, which remains fully drawn, and we eliminated all intercompany debt guarantees with TNK's recently completed debt refinancing of four suezmax tankers.

Turning to slide 4, we continue to make progress in winding down our FPSO segment. The Foinaven FPSO has been operating under a long-term bareboat charter contract at a nominal day rate since receiving an upfront $67 million cash payment in April 2020. And importantly, we have eliminated our operational exposure to the previous loss-making contract.

We are pleased to report that we are nearing completion of phase one of the Banff FPSO decommissioning project, which has been progressing well in terms of both schedule and budget. The FPSO unit left its field as scheduled in late-August and we are now preparing for the green recycling of the unit in the first quarter of 2021. As we discussed last quarter, we have continued to wind down the operating costs of the unit during decommissioning, incurring $11 million of net operating costs in the third quarter, which was lower than forecast. And we expect this to be further reduced in the fourth quarter to approximately $5 million, with ongoing operating costs to be largely eliminated by the end of the year, apart from costs that may be incurred to recycle the unit early next 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. We had already accrued these costs on our balance sheet in prior periods as an asset retirement obligation, or ARO. During the third quarter, we incurred about $12 million of ARO costs. And as of September 30th, our remaining net ARO accrual was $34 million. We expect to incur approximately $5 million of these ARO costs in the fourth quarter, with the remaining ARO expected to be incurred as part of phase two in the summer of 2021.

Lastly, the Hummingbird FPSO continues to operate on the Chestnut field under a fixed rate contract. However, the charter has the right to terminate the contract as early as mid-2021 if the field is deemed uneconomic. We had a small remaining book value on the unit of about $12 million which we decided to write off in the third quarter based upon conservative assumptions related to the continued weakness in oil prices and the possibility that charter could choose to exercise its termination option. However, we are continuing to work with the customer of the Hummingbird to maximize the production life of the Chestnut field and in the meantime, the field is still producing about 6,000 barrels per day and is generating positive cash flow for Teekay.

With that, I will now turn the call over to Kenneth.

Kenneth Hvid: Thanks, Vince. And good morning, everyone. 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 5, we have summarized Teekay LNG's recent results and highlights. Teekay LNG partners generated total adjusted EBITDA of $187 million and adjusted net income of $59 million, or $0.59 per unit, all up from the previous year as a result of a complete quarter contribution in Q3 from its fully delivered growth program. The quarter's results also reflect a heightened dry-docking schedule, with earnings expected to increase from these levels in the fourth quarter as a result of fewer scheduled dry-docks.

TGP recently extended the charter contract on a 52% owned LNG carrier, the Marib Spirit, by 14 months to early 2022 and its LNG fleet is now 100% fixed for the remainder of 2020 and 96% fixed in 2021. TGPs average daily fixed charter rate in 2021 is expected to be approximately $80,000 per day. To be clear, this $80,000 per day figure is the rate earned on a 100% utilization basis because of the time charter nature of

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the employment. In addition, TGP has also reaffirmed its 2020 adjusted EBITDA and adjusted net income guidance.

The spot LNG carrier market has strengthened significantly over the past three-and-a-half months, reaching recent highs of over $120,000 per day for MEGI and XDF vessels. The strength can be attributed to the reopening of the arbitrage window with LNG prices stronger in Asia versus Europe, positively impacting ton mile demand, fewer LNG cargo cancellations with zero expected in December, as well as seasonal upswing with an expectation of the cold winter in Northeast Asia, including Japan, Korea and Northern China.

Lastly, TGP continues to further strengthen its balance sheet with strong liquidity position of approximately $430 million with its recent $112 million bond issuance at a record low interest rate. During the 3rd Quarter, TGP reduced its total proportionate net debt by nearly $95 million, or 8% on an annualized basis, and reduced its net proportionate interest expense by over $6 million, or nearly 9%, compared to the previous quarter and remains on track to reach its target leverage range next year.

Turning to slide six, Teekay Tankers reported another quarterly adjusted profit. In Q3, TNK generated total adjusted EBITDA of $46 million, up from $28 million in the same period of the prior year, and adjusted net income of $3 million, or $0.09 per share, in the third quarter. A significant improvement from an adjusted net loss of $22 million, or $0.63 per share, in the same period last year. TNK has transformed its balance sheet over the past year on the back of over $400 million of free cash flows and assets sales of over $100 million. During this time, TNK has reduced its net debt by almost $500 million, or 50%, as well as increased its total liquidity position by $375 million to $470 million as of September 30th. And TNK has started using a portion of its existing liquidity to further reduce interest costs through unwinding some of its sale-leasebacks.

Turning to slide 7, we look at the global energy transition out to 2040. The global energy mix is expected to go through significant changes in the next two decades at the macro level. Vessel technology will evolve, and the shipping sector will change as we strive to reduce our emissions, but this will take time. It is important to note that shipping is extremely efficient relative to other forms of transportation as it transports 90% of the world's goods while only being responsible for 3% of global greenhouse gas emissions. But this is not good enough, as we must further reduce our emissions to meet the Paris agreement and IMO 2050 targets.

In the IEA world energy outlook for 2020, they highlight two global energy scenarios out to 2040, both of which show natural gas and oil as ongoing key components of the energy mix, with cleaner burning natural gas as a key transition fuel along with the growth in renewables.

The graph on the left highlights the Stated Policies scenario with reflects currently announced policies and targets with global energy demand growing by almost 20% to 2040. And natural gas and oil providing 35% and 10% of new energy supply out to 2040, respectively. And the graph on the right side highlights the Sustainable Development scenario, which puts the world on track to achieve the requirements of the Paris Agreement with global energy demand declining by 10% and natural gas and oil, both making up 20% of the energy mix in 2040. Although the future energy mix is not certain, we see both oil and gas continuing to be key resources to meet global energy demand over the coming decades.

Turning to slide 8, we highlight our ESG journey and the three focus areas for us. 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 has 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. The first, and arguably our most important ESG question is how we allocate capital in a world of changing energy sources, especially when making investments in assets with a lifespan of 20 to 30 years. As an energy transportation company, the changes in energy mix has always informed all the strategy. Our charts on how we have continually adapted to the changes in energy mix is more detail on the next slide.

Second, we will continue optimizing our existing business. In the near term, we need to operate our existing fleet safely, responsibly, and efficiently as possible. Across our fleet, we are continuing to drive vessel efficiency through improved voyage planning and digitalization and new technologies as we align our businesses to achieve the IMO 2030 and 2050 greenhouse gas reduction ambitions.

Third, we ensure that we have strong ESG principles embedded in our culture and can demonstrate that to all our stakeholders. The Teekay Group recently joined the United Nations Global Compact, which is just one step to demonstrate our ESG commitment. In addition, we have also published sustainability reports for the last 10 years and expect to release a new Teekay group sustainability report in April 2021 that meets stakeholder needs and is aligned with global frameworks, such as GRI and SASB.

Turning to slide 9, we provide a history of how we have adapted to the change in global energy mix. Over the past two decades, we have moved from 100% exposure to the crude oil shipping business to a more diversified portfolio with more than 80% of our invested capital in gas carriers with one of the world's largest LNG carrier fleets of 47 vessels today. During this time, we have invested a significant amount of our capital to the LNG sector as we saw the world moving to replace coal with cleaner, natural gas while we continue to uphold our respective brand on operational leadership in our crude oil tanker business, as the world is expected to consume oil for decades to come. Over the past few years, we've been divesting and winding down our offshore business and going forward, we believe that new business areas are more likely to be in areas where we can have an impact on the energy transition.

Turning to slide 10, we highlighted our diversified portfolio with our gas cash flow providing stability to complement our more variable tanker cash flows over the past several quarters with the latter having the ability to provide significant cash flows during times of strong spot tanker rates like we saw in the fourth quarter of 2019 and the first half of 2020. Looking at the graph on the right, Teekay Corporation's share price has significant upside potential from share appreciation of our two daughter companies, TGP and TNK, that continue to trade at significant discounts to their respective intrinsic values. We have provided the potential uplift to Teekay's share value based on daughter share price appreciation of 25% to 50% of $1.38 and $2.07 per share, or 63% and 127%, respectively based on Teekay's closing share price yesterday.

With our balance sheets continuing to strengthen across the group, extensive contracted revenues at Teekay LNG and no committed growth capital expenditures or significant near-term debt maturities, we believe that we are financially well positioned across the group to create long-term shareholder value.

In closing, I want to thank our seafarers and onshore colleagues for their continued dedication to providing safe and uninterrupted service to our customers throughout the course of the pandemic. With that, operator, we are now available to take questions.

Operator: At this time, we have no questions in queue, so I'd like to turn it back over to the company for closing remarks.

Kenneth Hvid: Well, thank you very much for listening in today. Stay safe during the holiday season, and we look forward to reporting back to you next year.

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