TEEKAY LNG PARTNERS' SECOND QUARTER 2021 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay LNG Partners L.P.

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Conference Time: 13:00 ET

Operator: Welcome to Teekay LNG Partners' Second Quarter 2021 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. Please go ahead.

Scott Gayton: Before Mark begins; I would like to direct all participants to our website at www.TeekayLNG.com where you'll find a copy of the second quarter of 2021 earnings presentation. We 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 of 2021 earnings release and earnings presentation available on our website. I'll now turn the call over to Mark Kremin Teekay Gas group's president and CEO to begin.

Mark Kremin: Thank you, Scott. Good morning everyone and thank you for joining us on our second quarter earnings conference call for Teekay LNG partners. I'm joined today by Scott Gayton, Teekay Gas group's CFO. Before getting into our results we will take a moment to thank all our staff for the continuing dedication

to maintain business continuity during the COVID global pandemic. We are especially proud of how our seafarers and dry docking supervisors have continued to respond to ongoing restrictions while maintaining consistently safe and efficient operations. Turning to slides through the presentation, we will briefly review some of Teekay LNG's recent highlights. The second quarter of 2021 was another good on for us, albeit down slightly from last quarter, primarily due to an increase in our scheduled dry dock teams in the second quarter. We generated adjusted net income of $57 million or 57 cents per unit and total adjusted EBITDA which includes our proportionate share of EBITDA at the joint venture level $184 million. Looking ahead to the second half of the year, as was the case this quarter, we expect to undertake a higher than normal number of scheduled dry dock days in the third quarter, which will impact for third quarter results. However, we are anticipating very few dry dock days in the fourth quarter. As a result, we expect our fourth quarter earnings and cash flow will rebound accordingly. With over 98% of our LNG fleet fixed for the remainder of 2021 and 89% fixed for 2022, we are anticipating that Teekay LNG continues to enjoy fairly consistent results through the rest of the year and into next with upside from our one spot market into charter contract. As the last bullet of this slide states, the LNG shipping market is firm for reasons we will review in a moment and while the vast majority of our LNG fleet is fixed, we do have some exposure to this market strength, which we anticipate will continue well into 2022.

Turning to slide four, being our consolidated fleet and similarly on slide five, being our joint venture fleet, the bars toward the middle and the bottom of these slides indicate how our LNG feet portfolio is largely fixed long-term to a diverse group of high quality customers with an average remaining contract term in excess of 10 years. However, as the red dotted circles indicate on these two slides, we have a few vessels available in 2022, which should be well-positioned to take advantage of the expected strength in the LNG carrier market as we will review on slides six and seven. So let's now skip past slide five, which we just discussed to slide six, where we will discuss a few of the commodity and chartering dynamics which we believe will impact LNG charter rates going forward. Looking first to the left-hand side of the slide, the demand for and supply of LNG is leading to much higher pricing than we typically see during this time of the year. The Asian benchmark JKM has recently surpassed $15 per million BTU, a level we'll have to experience during the cold Asian

winter last year, and based on the forward curves as depicted by dotted lines, much of the strength and pricing is expected to continue throughout the year. Strong industrial demand and low inventories have been supportive of higher gas prices with China accounting for much of the incremental [inaudible] over the past year. Just last month, China surpassed Japan as the largest importer of LNG and as we'll discuss in a moment, stronger international pricing and arbitrage trading opportunities are helping to support LNG carrier rates.

This counter seasonal strength and pricing is also leading to an uptick in the number of term charters being entered into as seen in the graph to the middle of this slide. As LNG carrier rates begin to firm counter seasonally in March, 13 term charters were completed followed by 10 in April and another eight in June. As you can see the chart, this three month total equals the number of term charters completed over the prior 20 months combined. We believe this rush to charter vessels is due in part to the LNG carrier rate spikes experienced last year when rates briefly surpassed $200,000 per day whereas this year, some charters are preferring to lock in tonnage early to avoid another potential spike in rates, this one, too. These are just two of the factors that we see having an impact on LNG carrier rates, which have been plotted to the right of this slide, the blue and gray lines plot average monthly TIE rates experienced in 2019 and 2020 respectively. While the red line plots rates experienced to date in 2021, with the dotted red line plotting out the forward rate supporting to the Baltic LNG curve. An increase in private start-ups, low inventories, particularly in Europe where inventories are only at 44% of being full and 25% below the average for this time of year, and long haul traits from the US to Asia as we just mentioned are all coming together to fundamentally support spot and term LNG carrier rates.

Our last slide today is slide seven. We're not planning to review all the factors we see impacting rates into the future, whether it be increased volumes at the US as you can see in the chart at the top left, strong demand out of Asia and south Asia, congestion in the Panama and Suez Canal or seasonal changes such as droughts in Brazil or a hot summer in the Northern hemisphere, but what we think is important is how all these factors are coming together to positively impact LNG carrier rates. And this positive sentiment is also

shared by others. If you look to the top right of the slide, we've plotted out potent partners with simply based case rate predictions where you will notice the most recent base case rates from the July 2021 report depicted by the dark blue line, are higher than their base case rates in their April 2021 report indicated by the gray line and the July 2021 by case rates are even higher as illustrated by the light blue line. And before we turn it over to questions, the chart to the bottom right plots an average of the forward Baltic LNG index rates as summarized by affinity. These forward curve rates have similarly been increasing over the past couple of months. The end July rate indications for this year and next as indicated by the dark blue bars are the same or in most cases are then the indications they released in early June of this year as depicted by the light blue bars. Thanks for your time today, operator, we are now available to take questions.

Operator: Yes, sir. Thank you. And if you would like to ask any question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. And again, that's star one, if you would like to ask a question and we will now take a question from Ben Nolan with Steeple.

Ben Nolan: Great. Thanks, first on the list. So I've got a couple, first of all, is it possible, Mark or Scott I know you said that there is a heavy dry dock schedule in 2Q or 3Q relative to what would normally be the case, is it possible to quantify that at all in terms of what the financial impact would be say relative to what we saw in the second quarter?

Scott Gayton: Yeah, I think that maybe I'll take that. Yeah, sure I think the best place to look is on slide 12, Ben, where we do lay out, how we expect to see the various line items moving, Q2 versus Q3 and then on the next slide, I guess it's on 13, we have laid out the incremental dry docks that we see. So we've got 97 off higher days in the second quarter and 131, so pretty close into the third quarter, so I'd say combination of slide 12 and 13 are the best places to look.

Ben Nolan: Okay. Yeah, I can back into that. I appreciate it. And then just thinking a little bit strategically, obviously, you guys have been focusing almost all of your cash flow on debt repayments, coming down's moving in the right direction, we have a conversation every quarter about, what are opportunities for growth or what have you. And I think you're still sort of in the process of getting to where you need to be and getting closer all the time but I'm curious about maybe one of the areas possibly being, taking a greater ownership stake in some of the partially owned vessels that you already have. And those are well-known. You're not sort of going out and competing against anything. I'd be curious if that is something that is possible and if it is, it's something that you would look at and then maybe along those lines, some of those assets might not be TF or they might not be XDF or whatever or they might be older steamships or TFDEs, and is there any sort of reticence or hesitancy to look at something that maybe is not the latest and greatest with respect to efficiencies and so forth?

Mark Kremin: Maybe I'll take a shot at that Scott and, go from there. I guess, first of all, then we are, as you know, we're happy with our fleet as indicated by the buybacks we were doing previously, so the more we have our own fleet, the happier we are. With respect to the partially owned fleet, it's the same thing. We do look at opportunities to buy into good opportunities if a partner wanted to sell out. I don't think we're as concerned about the balance sheet treatment as we used to be, how things are, equity accounted. And, so to the extent that might shift things one way or the other, it's not a huge deal. I think we just haven't seen a lot of opportunities. Many of our partners are strategic. They're not sellers. In fact, just as we look at opportunities to buy, we're also on opportunities to sell, if they wanted to buy, we're not married to any piece of steel. But we do look for contracts, but right now we are not currently seeing any opportunities to consolidate even within our own fleet to be honest with you Ben.

Ben Nolan: Okay, well that's helpful. And just, I guess, to wrap it up, I mean you kind of hinted at it a little bit there, asset values are higher for steel, the prices being higher as well as just sort of the underlying fundamentals and cash flows being better, I don't know, is it fair to categorize you guys perhaps a better seller than a buyer right now?

Mark Kremin: When it comes to, we're probably a better seller than a buyer to be honest with you, but the thing that we look at for our fleet, we obviously enjoy – we've got about $9 billion in revenues over about 10 years on average so when we look at our opportunities to buy, it's sort of less related to the steel value in those contracts. Those contracts have a long way to play out still for the most part. So it's really about, value in the contracts rather than the steel. And if someone is willing to pay more than we think its worth, we're sellers and if they're open to paying less, we're buyers. Through this balanced capital allocation we've been talking about for a long time now, I mean, obviously, number one, we're focused on delevering. That is still the case but we can see a path, clearly we can see a path and it's near than it ever was before on the de-levering side. So, then as you say, we've been looking back into buying our own fleet. We've looked at return of capital to shareholders, and a lot of that was through buybacks but we've also been pretty aggressive on distributions. So, as you know, we've been increasing every year and we were up over 100% over the last few years I believe. So, anyway, long story short, we'd be interested in both buying and selling and whether we can get the right price.

Ben Nolan: Okay. All right, appreciate it. Thanks mark.

Operator: And we'll now take our next question from Chris Fung with Webber Researcher.

Chris Fung: Hey Mark, hey Scott, how are you guys?

Mark Kremin: Hi.

Chris Fung: Hi, I just wanted to just touch on the reduced number of dry docking days. I noticed compared to the Q1 presentation, in Q2 it's down by nearly 50%, I just wanted to understand what kind of drove this?

Scott Gayton: Okay, Chris, I'm just going to – so you're saying you've compared back to the presentation last quarter versus the days that we have now?

Chris Fung: Yeah.

Scott Gayton: Yeah, it would look like a lot of that's just going to be the timing of when they're going to do, when they're actually going to dry dock and then we're going to push some of them out.

Chris Fung: Okay. So just push that to 2022?

Scott Gayton: Yeah, I think that would be right.

Chris Fung: Okay cool. I may follow up offline. It seems like you had 21 vessels last quarter and now it's 20, but the number of days come down a lot, but that's fine. I'll move on to my second question. Just looking at your outlook and I think everyone's outlook on the spot market, it's incredibly firm right now and consensus is it will continue to firm through winter. How has that translated into term coverage in term charter rather, because looking at the fourth curve, it's kind of tapering down towards the end of Q1 to 2022 which is, I think approximately when some of the charters are rolling off. So I guess, at what point will you guys be able to begin talks on contracting rates and that kind of coincides with the timing or the strength of the market at that period?

Mark Kremin: Yeah. I'm happy to try to field that. I think we're fairly conservative typically in our earnings calls and relative to our peers with projections, I think we're seeing almost an unprecedented amount of term charter

interest right now for starting 2022. And it ranges everywhere from let's call it three years to 10 years. And it ranges from Asian buyers to European buyers and others of LNG. So I think we're going to see more term charters get fixed but in market in Q4 or certainly Q1 but there seems to be, as I said, we can currently see a half dozen term charter requirements for next year.

Chris Fung: Yeah and just on timing on when you guys are beginning talks for the contract re-charters?

Mark Kremin: Well, as I said, it could be as early as Q4. Our first ship, actually our first ship is a steam ship we own 50% of with EXMAR called the Excalibur that'll come off probably around Christmas or more likely in Q1. I think that ship gets fixed a little around that time but it's not a term charter per se. You'd have to find a project and we will be competing for others to find products for that first steamship we have that rolls off. For the next ship which I think we really anticipate being available. That's not available until February and given the interest that we're seeing right now, I can possibly see us fixing forward and for history, Teekay LNG, is that we're not afraid to do that. If the irons hot we'll go for it. And so that's possibly – we could possibly see a forward fixed in Q4 for that first ship by seeing if it becomes available or not in February of 2022 so fingers crossed. If the market's not there, that's fine. We have so much coverage as we've discussed today. We've got already 89% fixed in 2022. So we don't need to jump at any charter and it's not going to impact us too much. We're seeing strength in the market so we don't need to fix but are we afraid to, for fixed? So let's see what happens in Q4.

Chris Fung: Great. Thanks. Thanks so much for the color. Have a good one guys.

Operator: And as a final reminder that is star one if you would like to ask a question. And we'll now take a question from Randy Gideons with Jeffery's.

Randy Gideons: Howdy gentlemen, how's it going?

Mark Kremin: Good day Randy?

Randy Gideons: Hey, I guess following up on that last question around the vessels rolling off charters, are these likely fixed rate charters? Are you kind of more interested in the market linked charters like your recent one, you did?

Mark Kremin: They're more likely to be fixed rate. That said, we're happy to assess floating rate charters. The Baltic is doing well. Right now I think in August the Baltic current curve in August is around $77,000 for the two strokes that we have and that's after net brokerage fees, etc. So, we were definitely happy that we took the floating index on that one. And as you know, as you may have seen Randy, the index in Q4 is over $100,000. So, that's definitely been the way to go versus when we fixed that ship I think in March or so, it's worked out, but as a general principle, Teekay and that is full 100 use utilization. So keep in mind, we assume we have 98% fix on our LNG fleet. We're 100% fixed in terms of utilization. So its 2% that's floating around on the revenue side. So we'd lean always towards utilization over rate typically because we think it provides a better tine charter equivalent. So we'll be open to floating rates but that is not our plan at this point. We would hope to fix the rate if we can, that is our preference, even though we don't pay out on full distribution or whatever, that solidity that we have is a hallmark that people rely on. I think they like our stability in our business so we will try to fix the rate, is our preference Randy.

Randy Gideons: Got it. Okay. So then you've kind of mentioned this earlier as well but just looking at the consolidation in the industry, it's happening, it's pretty prevalent across some of your peers, is TGP interested in that in terms of secondhand consolidation or are you focusing growth only on new builds, specifically with Qatar?

Mark Kremin: We're more focused on the latter for a couple of different reasons. Number one is, consolidation is interesting but again it's not so much the steel we love, it's the contracts we love. So we have this huge amount for the portfolio, that's what we want to build on, not just ships for the sake of ships and what's been available in the market, typically doesn't come with long-term contracts. I shouldn't say typically, we haven't seen with long term contracts. So those you have to regenerate yourself, you have to develop yourself and that's why we lean a little bit towards Qatar. The second reason is one we kind of discussed on an earlier Q&A, which is, our first priority has been de-levering. And as I said, we're doing pretty well in my opinion here but when we look at a newbuild that would be delivered today, it delivers in let's say 2024 or 2025, by which time we have de-levered. So, that lines up more with our first priority goal of deleveraging and growing into long-term contracts commencing around those forward dates.

Randy Gideons: Sure, good deal. That's it for me, thanks again.

Mark Kremin: Thanks Randy.

Operator: And that will conclude our question and answer session for today. I'd like to turn the conference back over to Mr. Kremin for any additional or closing remarks.

Mark Kremin: Just like to thank everyone as always for their continued support and wish everyone a great afternoon. Thanks, bye.

Operator: And once again that does conclude today's conference. We thank you all for your participation. You may now disconnect.