



TEEKAY CORPORATION'S SECOND QUARTER 2021 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Corporation

Date: Thursday, August 5th 2021

Conference Time: 11:00 ET

Operator: Welcome to Teekay Corporation's second quarter 2021 earnings results conference call. During the call, all participants will be in a listen-only mode. Afterwards, you'll 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.

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 second quarter of 2021 earnings presentation. Teekay's Present & CEO, Kenneth Hvid and Teekay's CFO, Vince Lok 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 different 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 Vince to begin.

Vincent Lok: Thanks, Ryan and good morning everyone, and thank you for joining us today for Teekay corporation's second quarter 2021 earnings conference call. Before I hand the call over to Kenneth, I will briefly review our financial results for the quarter, starting with our recent highlights on slide three of the presentation. In the second quarter, we reported a small consolidated adjusted profit of \$30,000, down from \$11 million or \$0.11 per share in the prior quarter. We also generated a total adjusted EBITDA of \$172 million,



down from \$202 million in the previous quarter. We reported another strong quarter in our gas business; however, compared to Q1, our tanker business results were weaker due to lower spot tanker rates and the expiration of certain fixed rate time charters that were secured during last year's strong tanker market. Our second quarter results also reflected a higher-than-normal number of scheduled dry dockings in both our gas and tanker businesses.

Looking ahead, we are expecting our third quarter results to be lower than the second quarter, mainly due to weaker spot tanker rates and another heavy drydock schedule for both our gas and tanker fleets. However, we are expecting our fourth quarter results to be stronger due to a lighter drydocking schedule and the anticipation of a stronger spot tanker market, especially during the winter months. For guidance on our third quarter results, please refer to the appendix of this presentation.

In May, we reached a major milestone towards our strategic objective of winding down our FPSO segment, including fulfilling our remaining obligations to the *Banff* field, which resulted in a \$33 million gain from the reversal of our associated asset retirement obligation in the second quarter. Kenneth, will discuss this in more detail on the next slide.

Lastly, despite the lower earnings, the Teekay Group has maintained a strong financial position with total consolidated liquidity of over \$800 million at the end of the quarter. With that, I will turn the call over to Kenneth.

Kenneth Hvid: Thank you, Vince. And good morning, everyone. Turning to slide four, as Vince just mentioned, we have reached a major milestone in winding down our FPSO segment. I'll touch briefly on some of the updates since our conference call last quarter. The *Banff* field FPSO ownership was safely handed over to the M.A.R.S. Recycling Yard in Denmark on Tuesday, 11th May 2021, where it is in the process of being recycled in accordance with the EU Ship Recycling regulation. And in late May, we completed all our remaining conditions precedent on our decommissioning agreement with CNR, whereby the customer took on all remaining phase two decommissioning responsibilities on the *Banff* field. This should enable CNR to



complete our phase two work in conjunction with the other decommissioning work at the *Banff* field in a more efficient manner. This agreement eliminates our remaining exposure to the field, and as a result, we have reversed our asset retirement obligation liability by \$33 million during the second quarter.

During the quarter, we incurred approximately \$5 million of costs relating to the *Banff* FPSO associated with towage cost to the M.A.R.S. shipyards and payments delivery recycling yard, and we're not expecting any material remaining costs for this unit in the future. As previously announced, the Foinaven FPSO, which is only earning a nominal day rate is phased to be redelivered to us next year, as a result of BP's recent decision to suspend production on the Foinaven field. We now expect the units would be redelivered to us in the third quarter of 2022, rather than in the second quarter. Following the redelivery, we plan to green recycle the unit with the associated costs expects to be covered by a fixed contracture lump sum payment from the customer. As a result of this, we have now largely eliminated our remaining exposure to both the *Banff* and Foinaven FPSOs. The Hummingbird FPSO continues to produce on the Chestnut field with steady oil production and high uptime. And given the continued strength in oil prices, we now expect the unit will continue operating on this field into next year.

On slide five, 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.

Starting with Teekay LNG, our gas business continues to deliver solid performance and strong earnings despite a heavier than normal drydocking schedule during the quarter. The outlook for the LNG shipping market is positive as reflected in the current strong spot and time charter LNG shipping rates, which we believe should provide tailwinds for TGP through its spot market linked charter contract, as well as its upcoming charter renewals in 2022. TGP does however, continue to have 98% of its LNG fleet fixed for the remainder of 2021 and 89% fixed for 2022, which generates a significant amount of stable cash flows with upside from one spot market link charter contract.



Turning to Teekay Tankers, although the near-term outlook is uncertain due to the continued impact of COVID-19, we believe many of the leading indicators for tanker market recovery continue to improve including planned increases and OPEC+ production declining global oil inventories which are below five-year average levels, as well as positive tanker fleet supply fundamentals with heightened scrapping and a very limited amount of new tanker orders. In anticipation of a tanker market recovery, TNK counter-cyclically in-chartered three vessels for periods of 18 to 24 months with extension options, which we believe represents an attractive risk-reward and has been a profitable lever for us during past tanker market cycles. TNK also has a strong balance sheet with a healthy liquidity position and low financial leverage, which enables us to continue reducing our overall cost of capital by unwinding expensive sale-lease leasebacks and replacing them with lower costs financings.

Turning to slide six, Teekay Corp. continues to be a level play on our daughter companies, Teekay LNG and Teekay Tankers, and is an attractive and diversified way to participate in the potential share price appreciation of these companies. In addition, as we highlighted earlier, we have now reversed our asset retirement obligation relating to the Banff FPSO, which increased our sum-of-the-parts value by \$33 million or \$0.33 per share. Looking at the table on this slide, we highlight Teekay Corporation's current sum of the parts value based on our daughter company ownership and their respective share prizes as of yesterday's close, which shows the Teekay Corp's share price has 12% upside to its current sum-of-the-parts value. Based on 10% to 20% daughter share price appreciation, Teekay Corp's upside to its sum-of-the-parts value is between 34 and 56% based on the closing prices yesterday.

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. We are not out of the woods yet, but we successfully managed through uniquely challenging over the last one and a half years and are confident that we are taking all measures to manage through the current situation.

In addition, we continue to see a strong correlation between global vaccination programs and the increase in oil demand, which we estimate will be approximately 3-4% lower currently compared to pre-pandemic levels.



As the world recovers from the pandemic, we expect the demand for oil and gas and related transportation services to gradually return to 2019 levels, which we believe will be positive for our core gas and oil shipping businesses, and for the Teekay Group overall.

With that, operator, we're now available to take questions.

Operator: Thank you. As a reminder, 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, that is star one to ask a question and we'll pause for just a moment to allow everyone an opportunity to signal. Our first question comes from Sandy Burns with Stifel.

Sandy Burns: Hi, good morning, everyone. Just wanted to follow up a little bit just on like the winddown of the FPSOs. So for Foinaven, when you mentioned that the green recycle costs will be covered by a lump sum payment, is that the \$67 million you got last year or will you'll receive another payment to cover those future costs?

Vincent Lok: Hi, Sandy, it's Vince here. No, the \$67 million was already received last April, April 2020. So we will be receiving a separate amount in addition to that when BP redelivers the unit back to us next year, and that amount will cover the green recycling cost at that time.

Sandy Burns: Okay. And then for the Hummingbird, I guess maybe you wouldn't have a feel for this yet, but when you eventually do get it back, would there be any material costs associated with that vessel to redeploy it or recycle it as such?

Kenneth Hvid: Yes, we've touched on some of our earlier calls. Hummingbird is smaller and younger unit, but I think as we've all witnessed that the redeployment opportunities for FPSOs are somewhat limited, but it is a unit that theoretically could be redeployed. The costs in inclination with the decommissioning is a much more limited scope than what we've seen on both the, especially with the *Banff* but also even on the Foinaven field,



because it is a smaller unit and smaller. So we have some angles that needs to be pulled up, but then it's basically in sail-away ready condition. So it should be should be smaller than the other two.

Sandy Burns: Right, right. So, I mean, maybe what I'm trying to get at is at the parent level, really now, your only cash obligations are the interest expense and whatever corporate expenses that you have up there. There's really no other material obligations you need to have – will require cash or liquidity or anything. Am I thinking about that correctly?

Kenneth Hvid: That's correct, yes.

Sandy Burns: Okay, great. No, good job on all that. Thank you. That's all I have.

Sandy Burns: Thank you.

Vincent Lok: Thanks, Sandy.

Operator: And once again, as a reminder, that is star one to ask a question. That does conclude today's question and answer session. At this time, I will turn the conference back to the company for any additional or closing remarks.

Kenneth Hvid: Well, thank you for listening in today. I'm sure that many of you will be joining our daughter company calls that follows this call, and we look forward to reporting back to your next quarter. Thank you.

Operator: That does conclude today's conference. We thank you for your participation. You may now disconnect.