TEEKAY CORPORATION'S FIRST QUARTER AND FISCAL 2021 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Corporation

Date: Thursday, May 13th 2021

Conference Time: 11:00 ET

Operator: Welcome to Teekay Corporation's First 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.

Ryan Hamilton: Before we begin, I'd like to direct all participants to our website, www.teekay.com, where you'll find a copy of the first quarter of 2021 earnings presentation. Teekay's president and 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 differ from those in the forward-looking statements is contained in the first quarter of 2021 earnings release and earnings presentation available on our website. I'll now turn the call over to Vince to begin.

Vince Lok: Thanks Ryan. Good morning everyone. And thank you for joining us today for Teekay Corporation's first quarter 2021 earnings conference call. We hope that you and your families are all safe and healthy. Before I hand the call over to Kenneth, I will briefly review our financial results for the first quarter of 2021.

Starting with our recent highlights on slide three of the presentation. In the first quarter, we reported consolidated adjusted net income of $11 million, or 11 cents per share, up from $3 million, or 3 cents per share, in the prior quarter. We also generated total adjusted EBITDA of $202 million, up slightly from the previous quarter. Compared to Q4, we recorded higher results in each of our entities supported by our large portfolio of long-term contracts in our gas shipping business, higher spot tanker rates in our oil shipping business and higher revenues from our Marine services business in Australia. All of this despite the continued weakness in the spot conventional tanker market.

Looking ahead, we are expecting the second quarter to be lower than the first quarter, mainly due to a heavy dry dock schedule in both our gas and tanker fleets, certain non-recurring items in the first quarter and the recent expiration of fixed rate charters in our tanker fleet that were locked in last year at higher rates. For guidance on our second quarter results, please refer to the appendix of this presentation.

Since reporting earnings in February, we have made significant positive progress towards our strategic objective of winding down our FPSO segment, which we expect will result in a material reduction in our total asset retirement obligations in the second quarter. Kenneth will discuss this in more detail on the next slide.

Over the last couple quarters, we discussed our ESG strategy. And we are now excited to have published our 11th consecutive Teekay group sustainability report last month, which aligns with global frameworks, such as GRI and SASB. We have included a link to our latest sustainability report on this slide, and it is also available on our website. With that, I will turn it over to Kenneth.

Kenneth Hvid: Thank you, Vince. And good morning everyone. Turning to slide four of the presentation, and as Vince just mentioned, we have made good progress on winding down our FPSO segment. Starting with the Banff, as highlighted last quarter, we have successfully completed phase one of our decommissioning project with net costs below budget. With respect to the recycling of the Banff, our Q1 costs came in lower than expected as the repositioning of the unit to its recycling yard was delayed while awaiting regulatory approvals. However, we are pleased to say that the unit departed, by tow, for its final voyage from the UK on May 2nd and was safely handed over to the M.A.R.S. recycling yard in Denmark on May 11th where it will be recycled in accordance with the EU ship recycling regulation over the next several months. As such, in Q2, we expect to incur approximately $5 to $6 million of costs relating to the towage costs and initial milestone payments to the recycling yard, which represents a large part of our remaining costs associated with the unit, with only minimal costs expected to be incurred after Q2.

Separately, in April, we entered into a conditional agreement with CNR whereby the customer will take over our remaining phase two decommissioning responsibilities on the Banff field, which when finalized, will effectively conclude and eliminate our remaining obligations related to the Banff field, after over 20 years of successful operations. This agreement should enable CNR to achieve synergies when combining this with their own existing subsea decommissioning work scopes. The agreement remains subject to various conditions precedent that need to be met by June 1st, including confirmation from the UK regulatory authorities that Teekay has completed all of its obligations in relation to phase one of the decommissioning project. We're currently on track to satisfy these conditions by the end of May.

The Foinaven FPSO is now expected to be redelivered to us in the first half of 2022 as a result of BPs recent decision to suspend production on the Foinaven field. As a reminder, the unit has been operating under a bareboat contract at a nominal day rate since we received an upfront cash payment of $67 million in April 2020. Following the redelivery, we expect to green recycle the unit with the associated costs expected to be covered by a fixed contractual lump sum payment from the customer, which was also part of our new bareboat contract. The redelivery of the Foinaven is happening earlier than what was previously expected. However, this will not have a material economic impact to Teekay since our day rate is only nominal. And, in fact, our cost to recycle the unit maybe slightly less in 2022, compared to doing it after many years of additional usage, while the lump sum amount we will receive is the same irrespective of whether it is redelivered in 2022 or say 2025.

As a result of these recent developments, we soon expect to have largely eliminated our remaining exposure to both the Banff and Foinaven FPSO's. Assuming the conditions precedent relating to the Banff decommissioning agreement are met by June 2021, we expect this to result in a material reduction in our net asset retirement obligation, or ARO, liabilities in the second quarter. We'll provide an update on this in due course.

Lastly, the hummingbird FPSO continues to operate on the chestnut field under a fixed rate contract with the charterer having the right to terminate the contract with three months prior notice if the field is deemed uneconomic. However, the current level of oil production is stable at approximately 4,000 barrels per day. And oil prices are more than double the level that we experienced at this time one year ago. Meanwhile, the unit continues to generate stable, positive cash flow for Teekay.

On slide five, I will briefly touch on the results and highlights of our daughter company. As always, I encourage you to listen to their respective earnings conference calls for more details following this call. Starting with Teekay LNG, the partnership generated adjusted net income of $60 million, or 61 cents per unit, which is slightly better than the prior quarter. We've been experiencing strong counter seasonal demand for LNG carriers since late-March, with increases in both the spot and time charter LNG shipping markets. Teekay LNG has taken advantage of this improvement by recently securing three new time charters, including one spot market-linked contract. The partnership's LNG fleet is now 98% fixed for the remainder of 2021, and 89% fixed for 2022.

Lastly, Teekay LNG recently increased its quarterly common unit distribution by 15%, to $1.15 per unit per annum. This represents the third consecutive annual double-digit increase to the partnerships common unit distribution. This distribution level, which is supported by a large and diversified portfolio of long-term contracts, enables Teekay LNG to continue de-levering its balance sheet, which provides financial flexibility to optimally allocate capital as the global demand for LNG continues to grow, while adding $6 million per year to Teekay Parent's cash flow, for a total of $43 million per year in cash distributions from TGP.

Lastly, Teekay tankers recorded an adjusted net loss of $22 million, or 65 cents per share, which is an improvement of $19 million, or 56 cents per share, compared to last quarter. Although the near-term outlook is uncertain due to the continued impact of COVID-19, we're seeing positive indicators that point towards an anticipated tanker market recovery, including improvements in the global economy, a continued decline in global oil inventories, an upcoming increase in OPEC plus production and positive tanker fleet supply fundamentals. Teekay tankers is also maintaining its strong balance sheet with healthy liquidity and low leverage, which enables Teekay tankers to continue reducing its overall cost of capital by unwinding expensive sale leasebacks, and replacing them with lower cost financings.

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're not out of the woods yet, especially in relation to the devastation that India is currently experiencing. But we successfully managed through uniquely challenging circumstances last year, and we're confident that we're 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 is estimated to be approximately 5% lower currently compared to the 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, sir. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will pause for just a moment to allow everyone the opportunity to signal for questions. Thank you. Our first question comes from Sandy Burns with Stifel.

Sandy Burns: Hi, good morning, everyone. And nice start to the year. Just two questions specific to the parent results. One, cash went down, I think it was about, $12 million or so. I was wondering if – I know there was no interest payment on the bond, so maybe we could explain what was going on there. And then also in the parent only disclosure, you mentioned other income was about $4 million, a bit higher than last year, and the slight loss that you had in the fourth quarter. If you could give a little more color on what was driving that, thank you.

Vince Lok: Sure, Sandy. Yeah. On your first question, the cash goes up and down from time to time, sometimes just due to working capital changes. You look at our liquidity at March 31st of $183 million, that's actually slightly higher than what it was at December 31st. So, no material changes were there really. In terms of your second question, yes, we did generate additional revenue from our Marine services business in Australia, which is a big part of that increase to $4 million this quarter. About $3.5 million of that is – I would call more non-recurring, because it was a completion payment relating to an end of a successful project. So, I think, going forward, we'll probably expect that number to come down on a run rate basis a little bit. But, nevertheless, it was a very successful project.

Sandy Burns: Right. Okay. And, right, the liquidity improvement was a nice positive as well. Great. Thank you. And good luck with everything.

Vince Lok: Thanks very much.

Operator: Thank you. I am showing no further questions at this time. I would now like to turn the call back over to the company for closing remarks.

Kenneth Hvid: Well, thank you very much for tuning in today. We look forward to discussing all our tanker and gas results in our two upcoming calls a little bit later this morning. And we look forward to reporting back to you next quarter. Stay safe, everyone.

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