TEEKAY TANKERS LTD.'S FIRST QUARTER AND FISCAL 2021 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Tankers Ltd.

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Conference Time: 12:00 ET

Operator: Welcome to Teekay Tanker Ltd'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, 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'll turn the call over to the company. Please go ahead.

Stewart Andrade: Before we begin, I would like to direct all participants to our website, www.teekaytankers.com, where you will find a copy of the first quarter 2021 earnings presentation. Kevin and I 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 2021 earnings release and earnings presentation available on our website. I will now turn the call over to Kevin Mackay, Teekay Tankers, President and CEO to begin.

Kevin Mackay: Thank you, Stewart. Hello everyone. Thank you very much for joining us today for Teekay Tanker's first quarter 2021 earnings conference call. I hope that you and your families are all safe and healthy. Joining me today on the call are Stewart Andrade, Teekay Tankers' CFO and Christian Waldegrave Director of Research for Teekay Tankers.

Moving to our recent highlights on Slide 3 of the presentation. Teekay Tankers generated total adjusted EBITDA of approximately $16 million during the first quarter, an increase of $6 million from the fourth quarter of 2020. We reported a total adjusted net loss of approximately $22 million or 65 cents per share during the first quarter, an improvement from an adjusted net loss of $41 million or a dollar and 21 cents per share in the fourth quarter of last year. Our improved results are largely due to higher spot tanker rates during the quarter and supported by revenues from several lucrative fixed rate charters secured during periods of market strength at rates substantially higher than first quarter spot rates.

Despite a challenging quarter, we've maintained our strong balance sheet with liquidity of $372 million and a net debt to capitalization of 32% at the end of the first quarter of 2021. Our strong financial position has enabled us to continue reducing our overall cost of capital on an opportunistic basis. In March, we declared additional purchase options on six vessels currently on sale-leasebacks bringing our total of such purchase options exercised since November 2020 to eight vessels with the transaction is expected to close in May and September.

Lastly, while improved relative to last quarter, the Tanker market weakness continued in to the first quarter due to lower oil demand as a result of the ongoing impact of the COVID-19 pandemic. However, midsize Tanker rates did see a spike in March as a result of bad weather and the Suez Canal blockage. Looking ahead, although we expect near term headwinds with continued impact of COVID-19, we are seeing early positive signals that indicate a market rebound starting in the second half of 2021, which I'll touch on in more detail later in the presentation.

Turning to Slide 4, we look at recent developments in spot tanker market. Spot tanker rates remain generally weak during the first quarter as COVID-19 continued to have a negative impact on tanker demand. Global oil demand fell by around a million barrels per day in Q1 due to a resurgence in COVID-19 cases over the winter months in several countries. OPEC continue to limit oil production during the first quarter, with Saudi Arabia implementing an additional voluntary supply cut of a million barrels per day from February in response to weaker oil demand. Finally, the first quarter saw a further 4.5 million deadweight tons of Tankers returned

to the trading fleet from floating storage, adding to available fleet supply and worsening the supply demand imbalance.

While overall the first quarter was a weak quarter in terms of spot rates, we did see some rate spikes during the month of March as shown by the chart on the right. Most notably, Aframax rates reached $20,000 per day on some trade routes. These spikes were driven by bad weather in the U.S. Gulf and the Mediterranean, and the blockage of the Suez Canal towards the end of the month, both of which caused disruption and boosted rates for a short period of time. Although these temporary disruptions have now ended, and rates have reduced at the start of Q2, it is encouraging to see a positive rate reaction to these factors in what was otherwise a depressed quarter for rates and it is perhaps a sign that the worst of the market may now be behind us.

Although spot Tanker rates were weak during Q1, TNK managed to mitigate the impact through its fixed rate time charters as shown by the chart on the left. This is particularly true for our Suezmax fleet, where our fixed rate charters lifted overall Suezmax earnings to around $16,800 per day versus spot earnings of around $10,700 per day.

Turning Slide 5, we provide a summary of our spot rates in the second quarter to-date. Based on approximately 55% and 49% of spot revenue days booked, Teekay Tankers second quarter to date Suezmax and Aframax bookings have both averaged approximately $10,500 per day. For our LR2 fleet, which are predominantly trading dirty, based on approximately 49% of spot revenue days book, second quarter to-date bookings have averaged approximately $11,900 per day.

Turning to Slide 6, we look at some of the key indicators, which we believe point towards a future tanker market recovery. First, we acknowledge that there is still uncertainty in the near term due to the ongoing COVID-19 pandemic and its potential to further disrupt oil demand as new outbreaks occur. This has been highlighted recently by the devastating outbreak in India and rising case numbers in several other countries.

While first and foremost a human tragedy, the increase in cases also has the potential to lower oil demand and possibly oil imports to the detriment of spot tanker rates.

However, if we look further ahead through the remainder of 2021 and beyond, there are a number of reasons for optimism as several of the key indicators that we track have improved since the start of the year. Firstly, the global economic outlook is improving with the IMF recently increasing their forecast for global GDP growth in 2021 from 5.5% to 6%. As a result of this revised outlook, the IEA has increased its forecast for global oil demand in the second half of a year by 0.3 million barrels per day to 98.9 million barrels per day. More importantly for the crude tanker market, the IEA expects crude throughput at refineries to increase by 6.6 million barrels per day between April and August of this year, which should create significant crude tanker demand.

Oil inventories, which increased significantly in the second half of 2020 have been drawn down significantly due to the production cuts of the OPEC+ group of oil producers, and are now almost back to the five-year average. The combination of normalized inventory levels and rising oil demand as we move through the second half of 2021 should result in more oil production with OPEC+ indicating their intention to return the supply of 2.1 million barrels per day between May and August. In order to meet rising demand, we believe that further such increases will be necessary, and it is this additional production that really should help rebalance tanker supply with demand, increasing fleet utilization and helping to kick start a tanker market recovery.

The fleet supply side continues to look very positive with the orderbook as a percentage of the fleet currently at approximately 8%, very close to historic lows and well below the long-term average of around 20%. Rising newbuild prices, spurred by an increase in steel prices and a very large amount of ordering in the container ship sector since the start of a year are acting as a deterrent to tanker newbuilding orders. We have also seen a modest increase in recycling numbers since the start of the year, though we would look for a more substantial increase in demolitions if, or more likely when, sanctions on Iran are lifted and the fleet of older ships currently serving sanctioned trades are phased out. Overall, market conditions indicate very low levels

of fleet growth for the next two to three years, which should help facilitate a tanker market recovery once demand starts to normalize and improve.

In summary, it appears that we may be past the worst of the tanker market downturn, and although the next few months still appear challenging due to the uncertainties of COVID-19, we are increasingly positive on the longer-term fundamentals, which we believe will underpin the tanker market recovery. This belief is already being reflected by the wider market through higher time charter rates and asset values, with second Aframax values increasing by up to 20%, since the beginning of the year.

I'll now turn the call to Stewart to cover the financial slide.

Stewart Andrade: Thanks, Kevin. Turning to Slide 7, we highlight the company's strong financial position. As Kevin mentioned in his opening remarks, we have maintained our strong balance sheet, which provides us with financial strength and flexibility. We have a liquidity position of $372 million and a net debt to capitalization of 32% at the end of the quarter.

One of our strategic priorities is to reduce our cost of capital. In March, we exercised purchase options for an additional six vessels for $129 million. In total, we have exercised purchase options on eight vessels that are currently on high costs sale-leaseback financings for approximately $186 million dollars, two of which closed in May with the remaining vessels closing in September. We are currently in the process of negotiating term sheets to refinance these eight vessels with lower cost of sale-leaseback financings.

Lastly, having reduced to a significant amount of debt in 2020, our debt repayment profile is very manageable in the coming years with no significant debt maturities until 2024.

With that, I will turn the call over to Kevin to conclude.

Kevin Mackay: Thanks, Stewart. I would like to say thank you once again this quarter to all of our seafarers and shore-based staff for their continued dedication to providing safe and uninterrupted service to our customers during these challenging times. As we hopefully move closer to a more normalized world, at Teekay we will continue to focus every day on the safety and well-being of our seafarers as we have done since our inception nearly 50 years ago.

Finally, with a strong financial position and high operating leverage, we believe that Teekay Tankers is well-positioned to weather the current market challenges and benefit from anticipated Tanker market recovery.

With that, Operator, we are now available to take questions.

Operator: Thank you. If you wish 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 a chance to reach our equipment. Again, press star one for a question. We'll now pause for just one moment. We will take our first question from John Chappell from Evercore. Please go ahead.

John Chappell: Thank you. Good morning or good afternoon, wherever you are. Stewart, first question for you, of $186 million of the leases that you were able to negotiate, you said that you're using cash and new sale-leasebacks to pay those off. I understand the term sheets are still in process right now, but roughly how much of new debt do you foresee replacing that $186 million versus current liquidity that you have today?

Stewart Andrade: Hi John. We are actually just finalizing those term sheets so we've got a pretty good handle on that. Out of the $186 million, we will be refinancing $140 million with the new lower cost sale-leasebacks and using about $45 million of existing liquidity for the remainder.

John Chappell: Okay. That's helpful. And then the – I know once again, you're negotiating the terms– but just roughly speaking because when you see a sale-leaseback being replaced with a sale-leaseback, immediately my mind goes to why don't you just use your existing undrawn facilities because sale-leasebacks are still

higher costs of debt, is there a rough estimate of what the spread benefit will be, so to speak, so the amount of basis points you'll save from the new facilities versus the average of the eight that you'll be replacing?

Stewart Andrade: On the portion we're pulling from a revolver, obviously there's substantial savings. On the spread for the $140 million, the spread is about 5% if we fix that out and actually larger than that if we allow it to float for now. So it's actually very substantial savings. We're probably looking at a minimum of $8 million in 2022 in interest savings from doing that.

John Chappell: Okay, that's huge. And then finally, Stewart, it's just to refresh my memory again, I think I asked this every quarter, but after these eight I believe you still have some sale-leasebacks from a prior time with the high level of interest rates. What's the timing on potential expiration or renegotiation for the remainder of those?

Stewart Andrade: We still have six vessels. After these ones we deliver, we'll have six vessels on sale-leaseback arrangements that we had done a few years ago. The interest rate on those is quite a bit lower. It's more in the 6% range. But the total amount outstanding on those is about $160 million. Not something that we're focused on immediately, but of course, as the market turns and we start generating more cash flow, we'll look to continue to try and bring down our cost of capital. But at the moment, we won't be doing anything with those ones in the near term.

John Chappell: Okay, that makes sense. And final one for me, Kevin, big picture. You've done everything you set out to do 18 months ago at the last Investor Day, taking down a lot of this low-cost debt. You've gone through a pretty significant downturn admittedly after a huge upturn without having any liquidity concerns whatsoever. As you sit here on the precipice of what you think is going to be a recovery may not start tomorrow, but sometime in the very near future how do you feel about the capital structure and the fleet today? And is it continuing to do what you've done the last 18 months? Or do you start to become more aggressive with either the operational or the financial leverage?

Kevin Mackay: It's a good question John. I think at the moment, we still, as I said in my remarks, we still face a little bit of uncertainty around COVID-19. The fundamentals in the background are definitely pointing in the right direction. But I think it's still pays to be prudent. So we're not rushing to come up with a definitive execution plan for this quarter. I think we'll continue to do what we've been doing, strengthening the balance sheet, look to pay down the expensive debt. And as we sit here today, we've got a 50-ship fleet that's exposed to a market that we anticipate will pick up certainly as we move to the back end of this year and into next year. So I think we're well-positioned to reap the benefit of a lot of the hard work that we've done over the last 18 months. But for now, the focus is let's continue to do what we're doing and let's see how the uncertainty over the next few months or possibly quarter plays out, and then we'll take it from there.

John Chappell: Okay, that makes sense. Thanks, Kevin. Thanks, Stewart.

Kevin Mackay: Thanks, John.

Operator: We will now take our next question from Randy Giveans from Jefferies. Please go ahead.

Randy Giveans: Howdy gentlemen how's it going?

Kevin Mackay: Good. Thanks, Randy.

Randy Giveans: Excellent. Two questions for me. First, how do you view the kind of outlooks for product tankers compared to crude tankers at this point in the cycle? And are you using this may be soft patch to clean up some of your LR2s that were trading dirty to start trading clean again in the near term?

Kevin Mackay: I think we've got nine LR2s, the bulk of which have been trading dirty purely because of the returns we were getting in comparison. We have seen a little bit more volatility in LR2 trades over the last say six months. And that prompted us a few months back to look at maybe changing over one or two into the product trade. Since then obviously the trade hasn't really picked up and I think LR2 rates on a round trip basis aren't

necessarily as good as some of our US Gulf returns on the crude side. But at the moment, we've got two ships that are trading clean primarily in the Far East and I think for the time being that's about as far as we're going to go until we start seeing a bit more definitive green shoots in the product space.

Overall, you still got large inventories on the product side in Europe that I think is going to be a bit of a drag. Our view is the vast majority of our exposure will be in the crude space and we are confident the fundamentals are lining up for that over the coming quarters.

Randy Giveans: Okay., so you're not necessarily a believer that refined products will lead with all of the refinery dislocation and kind of increased demand for jet fuel prior to an inflection in crude demand?

Kevin Mackay: No. I think the product trade has always promised a lot and never necessarily delivered it as and when people thought it was going to happen. So we do have exposure. We can increase it from two ships to nine. But at this point in time, we're not seeing that and as a result we're trying to make as much money in this bad market as we can. And today for us that is trading our ships dirty.

Randy Giveans: Yes. All right. And then second question, you mentioned your recent time charters helped buoy your Suezmax rates during the soft patch in the first quarter. Any further appetite for signing some six-month, one year time charters to kind of stabilize cash flow here over the next uncertain period?

Kevin Mackay: In terms of putting our ships out?

Randy Giveans: Correct.

Kevin Mackay: Yes, I think whether it's in or out we look at it opportunistically. It's finding the right customer, the right ship in the right position to be able to pull the trigger at the right number. So far we haven't seen that yet. We had a nice transaction that we were able to do to bring in a ship earlier in the year. But on the out-charters, we haven't really seen the numbers that we would be willing to lock in at for 12 months. There may

be some opportunities within the regional fleets to put out for six months, but it's not something we try and plan to do with it. A lot of it depends on traders who come up with positions they need to fill and then we look at it on a case-by-case basis.

Randy Giveans: Yeah, that’s fair. All right, well, I think that's it for me. Thanks so much.

Kevin Mackay: Thank, Randy.

Operator: We will now take our next question from Ken Hoexter from Bank of America. Please go ahead.

Ken Hoexter: Hey, great. Kevin, Stewart, Christian, good afternoon. Maybe just a question for Christian or I don't know if Kevin you want to throw out but how much more is left in storage? You talked about a little bit of the overhang caused by a couple million barrels still coming out of storage. Maybe talk to us from your view of what's still left to impact those rates?

Christian Waldegrave: Hi, Ken. It’s Christian here. In terms of the land-based storage it does seem like we're pretty much down to five-year averages now. If you look at the IEA report that came out yesterday, I think they said that in the OECD, the inventories are only about 2 million barrels above the five-year average compared to 250 million barrels in the middle of last year. So certainly, the land-based storage is looking like its back to normal levels. And then on the floating storage, that's also almost back to normal levels as well, certainly in the mid-sized tanker there aren't really any Aframaxes or Suezmaxes doing storage contracts beyond what we would normally expect in a typical market. There may be 10 to 15 VLCCs that are still doing storage that might come back. But by and large, I think we're almost at a normal market now in terms of inventories which of course is positive because it means as demand recovers through the second half of this year it will create a deficit of oil that needs to be filled, so we do certainly expect that OPEC will increase production through the back end of this year over and above the 2.1 million barrels a day that they've already pledged between now and July which of course is going to be very positive for tanker demand.

Ken Hoexter: So then – with that, so I mean, the environment set up there sounds great. But talk about the spot rate softness you've seen in 2Q relative to I guess the 50% of the spot rates booked. Do you think we see downward pressure on what you booked through May and June or are we finding a floor? Maybe just talk about that relative to what you booked.

Kevin Mackay: I think we've found the floor, to be honest. You never know in tankers what disruptions might occur. We saw in March we have very good spike for our Aframaxes that was caused by weather and obviously the Suez Canal for about a 10-day period. But I think at these levels, this – around about these levels should where we go. I mean, one of the challenges we faced is, over the last six months, we have seen more volume, more fixing volume come into the markets both on Aframax and Suezmaxes. The challenge has been that we've seen the unwinding of this flooding storage, which is negated all of that activity. So hopefully, as now that we're down to sort of normalized floating storage levels, if the activity continues to increase and we see more Russian barrels coming out the Black Sea and the Baltic, that should help both Suezmaxes and Aframax rates in the Atlantic. And I think maybe that might help improve a little bit on the quarter but I think it's too early to tell. It's not going to be a great quarter, we know that. It's not going to miraculously improve overnight, but I think steady improvements could be seen going forward.

Ken Hoexter: Sorry, for the minor one for Stewart, but just the voyage expenses were elevated in the first quarters given the increase in spot days. Just any thoughts on that going forward? Obviously, last year was very different than normal, just given COVID impacts. Expect similar levels on expenses?

Stewart Andrade: Voyage expenses are, as you said, correlated with the number of spot days that we have. So there's two things going on there. The other one is the re-delivery of our time charter fleet. We have had a number of vessels out on time charter and as those come back into the fleet we start paying voyage expenses on those so that's a normal movement you would expect. But we have a small out charter fleet now, so voyage expenses should be relatively stable subject to movements in fuel costs.

Ken Hoexter: All right, wonderful. Just wanted to see if there was anything different in that. And then I guess, just Kevin, do you think about if we start seeing a rebound in the market, do you like the fleet size? Do you feel you've got the mass scale you want? Do you look to sell anything in – if we're starting to see asset values go up? You mentioned kind of the rechartering rates your sale-leaseback state. How do you think about the fleet scale here as we see that into a, hopefully rebounding market?

Kevin Mackay: As we look at TNK today, I think the company is very well positioned at this point in time with a 50-ship fleet that's increasingly as those time charters and as Suezmax side have rolled off, will be increasingly weighted towards the spot market that, as we said, we think should start to improve as we move through the latter half of this year. So whether we add to that exposure, whether it's through time charter additions or asset purchases, I think we'll have to see what opportunities arise that present good value. Asset prices have moved up this year, quite rapidly. So I don't think you're going to see us go out and reach out and pay up to add another 10 ships to the fleet. It's definitely not necessary with a 50-ship fleet. And I don't think it would be prudent at these price levels.

I don't think you'll see us embarking on a buying spree, but if there's one-off opportunities where we see a deep discount or good value to add, we may transact. On the other hand, as you said asset prices going up we could also be sellers. We could, if we get the right opportunities at the right price for some of our older vessels, we may decide to transact and lock in some of that value there. So I think we're agnostic, we're both buyers and sellers, in-charterers and out-charterers. That said, I think where the market could go to, we need to remain flexible and agile and I think we'll look at each and every opportunity on a case-by-case basis and transact only when we think there is value to be had.

Ken Hoexter: That's helpful. I guess, I'll throw in there. Do you see more – if you were to put more chance of upside – I would presume you're going to say you see more chance of rising given that comments on the floor of rates, then you would see more pressure on the downside, so more opportunities.

Kevin Mackay: I think the fundamentals are pointing towards improvement. I think we also, we face a pandemic that is uncertain. So we have to be prudent and not dive in with both feet right at the starting whistle. I think as I said to John on his first question, I think it pays to be prudent and to be cautious. But our outlook going forward is definitely for improvement as we move into the back end of this year and into '22 and '23. So I think opportunities will come up.

Ken Hoexter: Great. Appreciate it. Kevin, Stewart, Christian, thank you for [inaudible].

Kevin Macka: Thanks, Ken.

Operator: We will now take our next question from Magnus Fyhr from H.C. Wainwright. Please go ahead.

Magnus Fyhr: Thank you. Good afternoon. Just a follow up question on Ken's question. I mean you spent the last couple of years strengthening your balance sheet. Can you talk a little bit more how you feel about fleet renewal over the next couple of years? I mean, you had a strong cash position. And you had stricter upcoming emission targets. I'm just curious to how you think about that going forward?

Kevin Mackay: Like I said, we're very comfortable with where TNK stands today. Our average fleet age is 12 years, which is more than manageable. We've got good franchises in the US Gulf, and in the Far East where we can trade younger ships and older ships alike without any restriction. And over the years, we've invested in our fleet, we've spent the money on improvements to make them more fuel efficient. So the upcoming regulations in 2023 don't scare us. We've made a good improvement over recent years in terms of reducing our emissions. So at this point in time, we do realize that every year our fleet gets older and we will have to start investing in newer tonnage. But where we sit today, we don't think that that's a decision that we've got to rush into. We think we have time and we think we have a fleet that we can continue to trade for years to come.

I think if you look at the regulation that may be coming, that is also an uncertainty. And to rush to order newbuilds with propulsion systems that may be less efficient compared with technology that gets developed over the coming years or doesn't quite meet regulations that may be coming up with that we don't know about, we just feel that at this point in time, it's better to sit and trade the fleet that we have and generate good returns with the equity that we have in the ships.

Magnus Fyhr: Do you feel that the oil companies have to take the lead there and the prudent way would be to build against time charters?

Kevin Mackay: I think you've seen that with Shell and Total and some others have gone out and look to secure LNG propulsion tankers based against time charters. So I think that obviously gives ship owners the confidence to invest in a technology, but I think there's still a risk. Other ship owners who have invested in that realize that the technology in future fuels is being developed at a far more rapid pace today than it was even 12 months ago. So diving in purely on LNG propulsion may not be the only answer. I don't think it will be necessarily the wrong answer, but it might be the only answer that's available; and there may be cheaper, more efficient alternatives that come along. I think the oil companies will drive the change into new technologies but I think as we sit here today, we're confident that they will also still need fuel burning, good, solid, well maintained, quality Aframaxes and Suezmaxes run by good companies.

Magnus Fyhr: And I mean, I don't know, are you looking at any potential new designs or – and what's the delivery timeframe right now if you were to order Suezmax vessel or Aframax vessel?

Kevin Mackay: I think Christian will probably give you more detail, but I think at this point in time, if you're looking for a quality yard in South Korea or China, you're looking at 2024 sort of second half delivery. There may be slots available in ‘23 but they're at some of the second-tier yards.

Magnus Fyhr: Okay, great. That's it for me. Thanks.

Kevin Mackay: Thanks, Magnus.

Operator: It appears there are no further questions at this time. I would pass the call back to the company for any additional or closing remarks.

Kevin Mackay: Thank you for joining us today. We hope that you and your families remain safe and we look forward to speaking with you next quarter. Thank you.

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