TEEKAY TANKERS LTD.'S FOURTH QUARTER AND ANNUAL 2022 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Tankers Ltd.

Date: Thursday, 23rd February 2023

Conference Time: 11:00 ET

Operator: Welcome to Teekay Tankers Ltd.'s Fourth Quarter and Annual 2022 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 or assistance during the call, please press star zero on your touchtone 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. Go ahead.

Ed: Before we begin, I would like to direct all participants to our website at www.teekaytankers.com, where you will find a copy of the fourth quarter and annual 2022 earnings presentation. Kevin and Stewart 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 fourth quarter and annual 2022 earnings release and earnings presentation available on our website. I'll now turn the call over to Kevin Mackay, Teekay Tankers, President and CEO to begin.

TEEKAY

Kevin Mackay: Thank you, Ed. Hello, everyone, and thank you very much for joining us today for Teekay Tankers Fourth Quarter and Annual 2022 Earnings Conference Call. Joining me on the call today are Stewart Andrade, Teekay Tankers CFO, and Christian Waldegrave, our Director of Research.

Moving to our recent highlights on slide three of the presentation, Teekay Tankers generated total adjusted net income of $147.5 million or $4.33 per share, up significantly from a strong third quarter adjusted net income of $57.9 million or $1.70 per share. To put this in context, it is Teekay Tankers highest ever quarterly adjusted net income.

We have given notice to exercise purchase options on nine vessels currently in sale leaseback arrangements for a total of $164 million. Related to this, we have also signed a term sheet to refinance 19 vessels under a $350 million revolving credit facility. By taking these actions, we will eliminate some of our more expensive debt, thereby reducing our already competitive fleet breakevens, and we will improve our ability to optimize our balance sheet on an ongoing basis. We expect to complete the facility by the second quarter of 2023.

With 51 vessels or 96% of our fleet operating in the spot market, we have high operating leverage that has served us well in this very strong market. To illustrate that point, we generated $4.84 of free cash flow per share in the fourth quarter alone. This equates to more than a 50% annualized free cash flow yield based on our closing share price yesterday. As a guideline for every $5,000 increase in rates above our $15,000 free cash flow breakeven level, we expect to generate approximately $0.65 per quarter or $2.60 per year of free cash flow per share.

I would also highlight that we generated $20 million in free cash flow during the quarter from our four in-chartered vessels.

In the tanker market, spot rates have been very strong through the fourth quarter and first quarter to-date with Aframax and Suezmax rates outperforming all other tanker sectors as the mid-size segment has been the primary beneficiaries of increased tonne-mile demand from the EU ban on Russian crude oil imports.

Even after the imposition of the price cap mechanism, Russian crude oil export volumes have remained strong with exports in January at an eight-month high.

Additionally, early indications are that the rapid reopening of China should support global oil demand growth in 2023, which should ensure that tanker demand remains at robust levels.

Finally, the order book for new tankers remains at record lows and should see negligible additional deliveries through at least the second half of 2025 due to limited available shipyard capacity. A period of very low fleet growth over the next two to three years, coupled with firm levels of demand growth, point to a continued strong tanker market over the medium term.

Turning to slide four, we look at recent developments in the spot tanker market.

Spot tanker rates significantly improved over the winter months, with the Company recording its highest ever rates for a fourth quarter since our IPO in 2007. This strength was driven by a mixture of positive demand fundamentals and seasonal factors, including longer voyage distances, a rush to book cargoes ahead of the implementation of the price cap and the EU ban on Russian crude oil imports, which came into effect on December 5th, an increase in Chinese crude oil imports, and weather-related vessel delays in key load regions. Aframax and Suezmax rates average significantly higher than other tanker asset classes in Q4, including VLCCs, as shown by the chart on the right. This strength has carried into the first quarter of 2023 and we anticipate another very strong quarter for spot rates.

Turning to slide five, we provide a summary of our spot rates in the first quarter to-date.

Average first quarter to-date rates in particular driven by Aframax sized vessels, have improved further from the very strong levels of the fourth quarter, based on approximately 69% and 57% of revenue days booked. Teekay Tankers first quarter to date, Suezmax and Aframax size vessel bookings have averaged approximately $50,600 per day and $67,600 per day respectively.

For those who regularly participate in our quarterly calls, you will notice that we have decided to combine our Aframax and LR2s into a single reported category, which we believe brings the presentation more in line with how we think of and utilize these assets.

Importantly, I would highlight that we have doubled the size of our in-charter portfolio to eight ships, having welcomed an additional four ships between late Q4 and early Q1 this year. Of these, one is a newbuild eco Aframax, which is chartered in $18,700 per day for seven years with multi one year extension options thereafter. These eight vessels are currently chartered in for an average of $24,300 per day, with a mark to market value of approximately $60 million. When we have conviction on the market, these in-charters give us the ability to quickly and materially increase our operating leverage beyond what we get from our own fleet and that dynamic is currently playing out.

Turning to slide six, we look at changing crude tanker trade patterns over the past 12 months and how they have benefited mid-size tankers over other asset classes.

Russia's invasion of Ukraine in February 2022 has led to a substantial redrawing of global oil trade routes. Short-haul movements of crude oil from Russia to Europe declined during the course of 2022, culminating in the total ban of Russian seaborne crude oil exports to the EU from December 5th. Most of the crude oil, which Russia was previously exporting short-haul to Europe, is now moving long-haul primarily to India and China, which has benefited the mid-sized sectors given that the main Russian load ports in the Baltic, the Black Sea, and at Kozmino in the Far East are all inaccessible to VLCCs. This led to a 39% increase in mid-sized tanker tonne-mile demand from Russian crude oil exports during the year, stretching the fleet and increasing tanker fleet utilization. While Teekay Tankers is not participating in the movement of Russian cargoes, the transfer of ships into the so-called shadow fleet effectively removes them from mainstream trades and reduces effective vessel supply.

In addition, Europe has been replacing Russian barrels with imports from further afield, including the US Gulf, Latin America, West Africa and the Middle East. 90% of the crude oil which Europe imported during 2022, was on Aframax and Suezmax tankers, and the lengthening of voyages resulted in a 12% increase to mid-sized tanker tonne-mile demand.

The net result of these changes is that global Aframax demand increased by 12.6% last year, while Suezmax demand increased by 10.7%, far higher than demand growth in other tanker asset classes. We think that these trade pattern changes are durable, representing a step change in demand rather than a short-term spike, and the mid-size crude tanker trade routes will continue to be stretched in 2023 which will help support strong spot tanker rates in the mid-sized segment.

Turning to slide seven, we look at the outlook for oil demand.

The IEA expects global oil demand to grow by two million barrels per day this year, taking oil demand above pre-COVID levels for the first time. Almost half of this growth is expected to come from China, with demand accelerating from the second quarter onwards as the country opens up after three years of strict COVID-19 lockdowns. This will help offset slightly weaker demand growth in the OECD nations due to economic headwinds as a result of high inflation and rising interest rates.

Another key element of oil demand growth in 2023 will be the continued resurgence of international air travel. The IEA estimates that jet fuel demand will grow by around 1.1 million barrels per day this year to 7.2 million barrels per day, bringing demand back to pre-COVID levels. This will provide a boost to crude oil demand as refiners look to increase throughput in order to keep the market well supplied.

As global demand recovers, the world will need more oil. This will partially be met by higher non-OPEC production, which is projected to grow by 1.8 million barrels per day this year, led by the United States, Brazil, Norway and Guyana. With the majority of oil demand growth expected to come from Asia, this should lead

to an increase in long haul movements from west to east during the year, which should be positive for crude tanker tonne-mile demand.

The OPEC+ group has pledged to keep its current supply cuts in place through the end of the year. However, by the second half of the year, the projected call on OPEC+ rises to about a million barrels per day above current production levels, suggesting that an increase in production could be merited.

Finally, Russia recently announced it will cut crude oil production by half a million barrels per day during March. We believe that this cut is likely due to a reduction in refinery throughput lowering refinery product exports, while crude oil exports are anticipated to remain at current levels.

Turning to slide eight, we look at the positive tanker supply and demand fundamentals over the next two to three years, which we believe point toward the potential for sustained tanker market strengths.

As of February 2023, global tanker orderbook when measured as a percentage of the existing fleet has fallen to a record low of less than 4%. This is reflected in the tanker delivery schedule, as shown by the chart on the left, with a historically low number of tankers scheduled to deliver over the next two to three years.

The pace of new vessel ordering remains very low, with just eight million deadweight tons of new tanker orders placed in 2022, which was the lowest since the mid-1990s. The beginning of 2023 has seen a slight uptick in activity, with around eight to 10 LR2 orders being placed in recent weeks. However, there is little scope to meaningfully add to the 2025 orderbook, as shipyards are largely full through the second half of 2025 due to a record amount of containership and LNG carrier orders placed over the past two years.

We project that the global tanker fleet will grow by around 1.5% this year, with virtually no growth in 2024. In comparison, tanker tonne-mile growth is set to remain at very healthy levels over the same time frame due to projected firm levels of oil demand growth, particularly from China, and the continued stretching of the

midsize tanker fleet due to changing trade patterns. As such, we believe that the tanker market has the potential to remain very firm over the medium term.

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

Stewart Andrade: Thanks, Kevin. Turning to slide nine, we highlight the Company's high operating leverage and what that means for TNK's capacity to generate cash flow and create shareholder value in a strong tanker market.

Throughout 2022, our focus has been on strengthening our financial position and creating equity value for TNK shareholders. Generating $318 million of free cash flow in 2022 enabled us to reduce our net debt by 41% to $345 million, bringing our net debt to cap down to 24% at the end of 2022. Importantly, this cash flow increased TNK's equity value, thereby creating value for our shareholders.

We have 51 vessels or 96% of our fleet trading in a very strong spot market that is supported by solid fundamentals positioning TNK to continue generating significant free cash flow. As can be seen in the chart. Our fleet wide free cash flow breakeven level, including dry docking and other capital expenditures, is approximately $15,000 per day. For every $5000 per day increase in spot rates above this level, the Company is expected to generate approximately $90 million or $2.60 per share in annual free cash flow.

Well, this is not a projection of future rates, to illustrate this point, if fourth quarter spot rates were to be sustained throughout 2023, we would expect to generate approximately $20 per share of free cash flow for an annualized free cash flow yield of over 50% based on our closing share price yesterday.

It is important to also consider the role of our in-charter portfolio, which is having a material impact on our earnings beyond that of our owned fleet. Historically, we have taken advantage of opportunities to increase our exposure to promising spot markets by expanding our in-charter portfolio. For example, when we last significantly increased our in-charters in anticipation of a strong spot market in 2015, our 11 in-charter tankers

generated $44 million of incremental free cash flow in just one year. There's a similar dynamic playing out now, where our in-chartered vessels generated $20 million of incremental free cash flow in the fourth quarter alone, and our current eight tanker in-charter portfolio has a mark-to-market value of approximately $60 million.

I will now turn the call back to Kevin to conclude.

Kevin Mackay: Thanks, Stewart. In summary, the spot market for mid-sized tankers has remained exceptionally strong, and the combination of structural shifts in the global crude flows, a record low orderbook that is essentially capped through the medium term, and multiple drivers of demand growth are conditions supportive of a strong market for some time, even in the face of potential macroeconomic headwinds. The positive tonne-mile impact related to Europe's ban on Russian crude imports are durable and have accrued disproportionately to mid-size tankers, and rates for both Aframaxes and Suezmaxes have outperformed all other vessel classes in recent months.

In line with our stated priority, our 2022 focus has been on balance sheet strength and the sharp improvement in the spot market in the second half of the year enabled us to significantly strengthen our balance sheet. Moving into 2023, our operating leverage puts TNK in a position to continue generating a great deal of free cash flow in a strong tanker market. While continuing to build financial capacity, the Company will need for future fleet reinvestment, the additional cash generation allows for a broader range of options to be considered in our capital allocation planning for the year. As with all our decisions, we will continue to be guided by discipline and the goal of creating long-term shareholder value. With that operator, we're now available to take questions.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow a signal to reach our equipment. Once again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. And we'll go first to Jon Chappell with Evercore ISI.

Jon Chappell: Thank you. Good morning, or good afternoon. Stewart, I want to start with the debt side of things. A couple of announcements here and I just want some clarification, so bear with me. It's a multi-part, but hopefully pretty simple. These nine selling leasebacks is at the end of them. Then the $350 million that you're hoping to draw on this new facility in the second quarter, obviously significantly more than the $164 million. Are you using that to pay your existing non sale leaseback facilities? And then the final part of that is what's the savings from the $350 million that you're drawing down in the second quarter to what would be used to pay down with those proceeds?

Stewart Andrade: Thanks, Jon. Good afternoon. There are a few moving parts here, so let me try and walk through it. First of all, as you mentioned, we have given notice to exercise nine sale leaseback purchase options, we'll be repurchasing those in March with cash on hand. Related to that, however, we are putting in place a new $350 million debt facility. That revolver will ultimately finance 19 vessels. So, in addition to the nine vessels that we've already given notice on, we'll be giving notice on another ten vessels this quarter, four of those late in the year, but the rest of them by the end of Q2 and joining that sale leaseback facility.

15 vessels will be done in Q2, four vessels in Q4, all of them going into that $350 million facility. At the end of that, we'll only have eight sale leasebacks remaining. In terms of the savings, it really depends on the spot market how much cash we generate. The two areas of savings from making this change, one is we're at a lower cost of borrowing and the second one is it allows for more efficient cash management by being able to have a revolver, which we can use dynamically. So overall, we're expecting about eight million in savings on a run rate basis per year. But that really will depend on how much cash we generate.

Jon Chappell: Okay, that helps. I was looking for the spread on the current rate versus the new one, and I figured it would be much lower in this environment with this balance sheet. Kevin, your last point on capital allocation. Things are happening really quickly here. The fourth quarter was amazing, the first quarter even better. If I just look at this chart you put on slide nine and not even having to extrapolate beyond whatever, 40 days from now, that first quarter to date, average rate free cash flow equivalent for a quarter year net debt at $345

million would be cut by more than half just by March 31st. What's the timing on the potential shift in this capital allocation?

I know this is something we've asked in the past. I know it's something we've been talking about for years now. The heavy lifting on the balance sheet is done. You're in a phenomenal position. Your operating leverage is incredibly strong, but you do stand out as one of the very few tanker companies that haven't started the capital return machine and arguably you're in the best position to do it out of any of them. So what can we think about the timing and the magnitude here?

Kevin Mackay: Sure Jon, it's a good question. To talk about 2022 first. As you said, things have moved very quickly and Q4 was a fantastic quarter, certainly better than our initial expectations going into it. So that really allowed us to close off what we'd been saying all last year, which was our focus and our channeling of our cash generation would go to paying down debt and strengthening the balance sheet. So we're really pleased with the way we've been able to close off our 2022 plan.

We now need to look at 2023 and we started the year off extremely well, even better on the Aframaxes than Q4. So the debt is coming down very quickly and we do recognize that in this position with this level of cash generation and with a forward view that the market should remain strong, maybe perhaps not at these levels, but certainly strong throughout the year, that does afford us optionality other than just looking at balance sheet strength. So as we sit down with our board, we will be talking about 2023 and what we do with the cash. Part of that discussion will be around the third leg or the third phase that Stewart has spoken about on a previous call last year about building that financial capacity to be able to do some significant fleet renewal when the opportunity arises. But I think we also can talk about other options. So that is certainly something that we plan to do.

Jon Chappell: Okay. Just out of curiosity, and then I'll move on. When is the next board meeting?

Kevin Mackay: Our next board meeting is in March.

Jon Chappell: Okay. Great. Well, thanks for the time, Kevin. Thanks, Stewart.

Stewart Andrade: Thanks, Jon.

Kevin Mackay: Thank you, Jon.

Operator: We'll go next to Ken Hoexter with Bank of America.

Nathan Donnelly: Hey, Stewart. Hey, Kevin. Hi, this is Nathan Donnelly, in for Ken. Just wanted to get a bit more color on how the team is seeing the macro environment as well as the spot market here. We noticed that there were some simultaneous charter-in, charter-outs over to fourth quarter, earning a very decent spread. Would you mind maybe talking a little bit about the availability of these opportunities and what your view is on future charter out opportunities? Thanks.

Kevin Mackay: Hi, Nathan. I think we covered a lot of ground in our prepared remarks and our presentation just about the macro environment. I think one of the things that is really missed in articles and general view on the tanker market, there's a view on the clean space and there's a view in the crude space, but it’s a lot more nuanced than that. And we’re trying to highlight that within the crude space, the real beneficiaries of the macro developments that we’ve seen in 2022 and what we expect to continue in 2023 is the mid-size Aframax and Suezmaxes are the real beneficiaries of the tonne-mile growth. And that is why we feel that the durability of those fundamentals are there. And this isn't the spikes that we're seeing aren't seasonal or aren't short term sanctions related. They're far more durable than that, which is what's giving us a bit more confidence as we look forward.

In terms of our in and out charter, it's one of those tools in our toolkit that we have used very well in the past. As we gain confidence in the market's ability to generate income, we're willing to go out and take positions on vessels with owners that we have good relationships with, are maybe looking for a bit more security as

rates move up and we can take those vessels and trade them within our program and make a very healthy margin.

Obviously, as the spot market creeps up, the time charter market also starts to creep up in tandem. And as we look at managing the risk-reward, if you will, we do look at hedging some of the positions that we take in. So for example, we took in a ship early this year, about $30,000 a day and automatically flipped it out at $48,000 a day. So we're locking in a spread over the first year, which pays down the asset and gives us a cheap vessel going into the second year with an option to extend it for a third year. So that's how we play the in and out charter in a market like this. But it's certainly something that we've done in the past to good use. And as Stewart mentioned in in the finance slide, our mark-to-market on these charters, if the market stays strong, could add another $60 million to our war chest.

Nathan Donnelly: Got it. That's helpful. And just as a follow up, there were some brief mentions about the emergence of an illicit fleet following the December fixed and price cap on Russia's seaborne exports. Could you maybe talk a little bit about the magnitude of that and how it's affecting that capacity and scrapping from your purview? Thanks.

Kevin Mackay: You're right. The illicit fleet, as you call it. Generally, I think we tend to call it the shadow fleet. It's vessels that are owned by one-off companies in various parts around the world, the Middle East, China, for example. And they trade Russian oil or they carry Russian oil from exports out of Russian ports into mainly China and India. In terms of scale and size, and on the Aframaxes, there's roughly about 150 Aframaxes that are in that trade that the tracking services have listed. And I think on the Suezmaxes, it's about 70, if I remember, maybe Christian has a more accurate number, but it's a significant size of fleet is servicing that trade. The good thing is that those ships are being pulled out of the regular trades that companies like Teekay Tankers are willing to participate in. And that's why you're seeing the spikes that we're getting, and we had in the fourth quarter and we're enjoying now in the first quarter as well.

Nathan Donnelly: Great. Thanks, Kevin, and congrats again on a great quarter.

Kevin Mackay: Thanks, Nathan.

Operator: We'll go next to Omar Nokta with Jefferies.

Omar Nokta: Thank you. Hi, Kevin. Hi, Stewart. I wanted to just follow up on Jon's line of questions. Obviously, things have been much stronger than anticipated and they're happening very quickly. You are on pace to get into I would say, a net cash position here in the not-so-distant future, which really does cap or at least closes the book on your years-long efforts to reduce debt. And from your comments, it sounds like here in 2023, you're preparing to shift capital allocation. You're going to be sitting with your board potentially as soon as March as Jon asked. I guess maybe you Kevin and Stewart as management, am I reading correctly that your preference in terms of shifting that capital allocation is towards renewing the fleet versus paying out dividends?

Kevin Mackay: No, I wouldn't categorize that at all. I think we have to be realistic. Teekay, like any ship owning company, has assets with finite lives. And as we generate income, we have to be prudent about reserving some of our earnings to invest in renewing our fleet and renewing our business. But we're fully aware that a capital allocation strategy or plan, which we do talk to our board about every meeting, can include other options and as we continue to generate the levels of cash flow that we've seen in the fourth quarter and here so far in the first quarter, it does give us the options to look at other avenues.

And we are fully aware that we have shareholders that do like capital return and there's various forms of doing that. So it allows for a very healthy, open, robust discussion with the board about what the best approach is. But we're not fixed that all of it has to go in one direction or another. It's setting everything on the table. And as we look at the forward view of our market and as that market develops and changes, is looking at how we how we think best to deploy that capital for the benefit of shareholders over the long term.

Omar Nokta: Yes. Thanks for that, Kevin. That's fair and clear. Can we expect maybe a broad action plan coming out of, say, this March meeting? I don't know if we're thinking too much of this upcoming board meeting. But generally speaking, should we be thinking here in the next couple of months maybe that Teekay Tankers will be announcing a new plan of action?

Kevin Mackay: What you can expect is that the management will be having, as we do, have robust conversations with our board at all of our meetings. And don't read into our March board meeting coming up. The decisions when they're made we'll communicate them as we did last year when we spoke to the market and we were, I think, quite clear that we were channeling our cash generation towards debt repayment. If that changes, we will communicate it once that decision is made. But I don't want to pre-empt the conversation or the discussion with the board or what decision they and us together land on.

Omar Nokta: No, I completely understand that. Okay. And then maybe just as thinking about, say, fleet renewal, because it is important as you highlight, have you given it some thought as to how does that fleet renewal look for you going forward? Obviously the balance sheets is just about in tip top shape as it can be, how do you think about fleet renewal from here? What's the avenue of going younger as you think about that?

Kevin Mackay: I think as always, it's going to be a combination of different elements, whether it's going into the second-hand market and doing a series of transactions or whether it's placing newbuild orders or as we've done in the past, where we do en bloc transactions on a larger scale. It could be all of those, it could be one of those. It really comes down to the opportunities that develop over time and our expectations for the returns of any given investment opportunity. We keep a very open mind, we're agnostic to how we go about it. But it really, at the end of the day, has to provide good returns and a good investment so that we can drive value for shareholders.

Omar Nokta: Got it thanks Kevin. And one final one and I'll turn it over. You did mention in your opening comments just the separate topic that the Aframax LR2s are now blended together as you report the average rates. And just want to make sure that – I know in the past that you focused a lot of the LR2s on the dirty trade. Is that

basically how it is going forward effectively, now the LR2s you have are trading in the crude market currently and going forward?

Kevin Mackay: Well, we have nine owned LR2s. On past calls, I think the fleet that was traded or the LR2s that we're trading in the clean market, we'd increase it to three. That is subsequently dropped as the clean LR2 market dropped off and crude stayed high. We converted a couple of ships into the crude side, so we're down to one pure clean LR2 at the moment. I've described this before, we really look at the LR2 as a fungible asset and we trade it on a voyage-by-voyage basis. So there is some of our LR2s that are currently dirty that we're keeping an eye on for potentially cleaning up as the LR2 start to spike again here. But in terms of the fleet, we don't separate the two units out. We treat it as one fleet and that's why we've changed the way we report it.

Omar Nokta: I see. Okay. So that natural relationship will continue to exist. Okay. Well, great. Thanks for answering my questions and congrats on the record quarter guys. Thank you.

Kevin Mackay: Thanks, Omar. Appreciate it.

Operator: And at this time there are no further questions. I'll turn the call back to management.

Kevin Mackay: Thank you for calling in and we look forward to speaking to you in the future.