TEEKAY TANKERS LTD.'S FOURTH QUARTER 2023 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Tankers Ltd.

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Conference Time: 11:00 (UTC-05:00)

Operator: Welcome to the Teekay Tankers Limited Fourth Quarter 2023 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.

Ed: Before we begin, I would like to direct all participants to our website at www.teekay.com, where you will find a copy of the fourth quarter and annual 2023 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 2023 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, Ed. Hello everyone, and thank you very much for joining us today for Teekay Tankers Fourth Quarter and Annual 2023 Earnings Conference Call. Joining me today on the call is Stewart Andrade, Teekay Tankers' CFO.

Moving to our recent highlights on slide three of the presentation, Teekay Tankers reported adjusted net income of $99.5 million or $2.91 per share, an increase from last quarter's levels of $76.6 million or $2.24 per share, respectively. The Company's 2023 adjusted net income of $500.5 million or $14.65 per share was more than double our strong 2022 earnings and established a new record for Teekay Tankers' highest ever annual net income.

Amid historically strong spot rates, the significant value of our high operating leverage is clear. As a reminder, for every $5,000 increase in tanker rates above our free cash flow breakeven of $16,000 per day, we expect to generate approximately $2.50 of annual free cash flow per share. We'll provide further information of this later in the presentation.

In January, we gave notice to repurchase the remaining eight vessels on sale-leaseback arrangements for $137 million. Once complete, this repurchase will bring the total number of vessels repurchased since March 2023 to 27 vessels for a total of $501 million, reducing our total debt outstanding to zero, and decreasing our cash break-even rates.

In line with our fixed quarterly dividend policy, we have declared a cash dividend of 25 cents per share for the fourth quarter of 2023.

In the market, 2023 turned out to be the best year for mid-size tanker spot rates in TNK's history due to a combination of strong oil demand growth, longer voyage distances, and low fleet growth. Rates have remained firm at the start of 2024 with seasonal and geopolitical factors adding to an already tight tanker market. Looking further ahead, we believe that strong tanker supply and demand fundamentals will continue to support tanker fleet utilization and rates over the next two to three years, albeit with periods of pronounced spot rate volatility.

Finally, we sold two 2004-built Aframaxes during the fourth quarter for total proceeds of $46.5 million, recording a gain on sale of $10.4 million in December, and an expected gain of approximately $11.5 million in Q1 of this year. Both of these vessels have now been delivered to their new owners.

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

As mentioned on the highlight slide, mid-size spot tanker rates during 2023 were the highest in Teekay Tankers' history with rates averaging around $48,500 per day.

Global oil demand grew by approximately 1.9 million barrels per day in 2023 per the EIA. As the world continued to rebound from the COVID-19 pandemic with particularly robust growth from China, following the removal of travel restrictions at the start of the year, as well as from India. As a result, global oil demand moved above pre-pandemic levels for the first time to a record high of around 101 million barrels per day and has remained strong in the early part of 2024. Global oil supply also saw robust growth in 2023, despite OPEC+ supply cuts due to high output from non-OPEC countries. Oil supply growth was particularly strong in the Americas with US crude oil exports reaching a record high of over 4 million barrels per day.

Tanker demand saw a further boost from longer voyage distances during the year, which was the first full year following the EU's ban on Russian crude oil imports and the G7's price cap, which came into effect in late 2022. As a result, over 90% of Russian crude oil exports moved long-haul to India and China during the year. While Teekay Tankers does not participate in this trade, there has nonetheless been a significant overall boost to mid-size tanker demand.

Finally, despite an almost total absence of tanker recycling, the global tanker fleet saw less than 2% growth in 2023 due to a very small orderbook. This was far outweighed by tanker tonne-mile demand growth of well over 7% leading to an increase in fleet utilization and strong rates.

Spot tanker rates have remained firm at the start of 2024 due to a combination of strong underlying fundamentals, seasonal factors such as weather delays, and various regional disruptions. I'll give more detail on these factors later in the presentation.

Turning to slide five, we provide an update on our Suezmax and Aframax size spot rates in the first quarter to date.

Based on approximately 68% and 67% of revenue days booked, Teekay Tankers first quarter to date, Suezmax and Aframax size vessel bookings have averaged approximately $50,100 per day and $50,900 per day respectively.

Importantly, I once again highlight the value being created by TNK's eight-vessel chartered-in fleet with seven ships trading in the strong spot market. With an average in-charter rate level of $25,400 per day, the chartered-in fleet has a current mark-to-market value of approximately $60 million, which is in addition to our owned fleet.

Turning to slide six, we look at tanker supply and demand fundamentals, which we believe will continue to support high tanker fleet utilization for at least the next two to three years.

Global oil demand is projected to grow by around 1.4 million barrels per day in 2024, as per the EIA with further growth of 1.3 million barrels per day in 2025. This is in line with pre-pandemic levels of growth and indicates that demand growth for oil remains robust with consumption projected to reach 103.7 million barrels per day by the end of 2025, 3.0 million barrels per day higher than the levels seen prior to the COVID-19 pandemic.

Meanwhile, the outlook for tanker fleet supply remains extremely positive with minimal tanker fleet growth expected over the next two to three years. This is especially true for 2024, with just 9 million deadweight tons scheduled to be delivered, the lowest annual total since 1997. The tanker orderbook remains small by historical standards at around 7% of the existing fleet size while forward orderbook cover at global shipyards stands at three and a half years, meaning there is little spare shipyard capacity until 2027. The combination of a low orderbook, an aging tanker fleet, and a lack of shipyard capacity until 2027 should lead to exceptionally low levels of tanker fleet growth over the next three years, including virtually no fleet growth in 2024.

As shown by the chart on the bottom of the slide, tanker tonne-mile demand growth is expected to outstrip fleet supply growth this year and in 2025, continuing the trend that started in 2022 and extended into 2023. This compounding impact of demand growth exceeding supply growth should continue to support high levels of tanker fleet utilization and firm tanker rates.

Turning to slide seven, we look at various events that are impacting tanker trades this year, which are creating additional rate volatility in an already tight market.

Starting on the right side of the slide, Russian crude oil exports flowing long-haul to India and China via the shadow fleet should continue to support midsize tanker demand in 2024. In addition, there have been increased attacks on Russian refineries and storage facilities in recent weeks, which may cut Russia's ability to produce refined oil products and lead to more crude oil being available for export.

In terms of oil supply, the majority of production growth in 2024 is expected to come from non-OPEC countries in the Atlantic Basin led by the United States, Brazil, and Guyana. Given that oil demand growth is expected to be concentrated in Asia, there could be an increase in Atlantic-to-Pacific crude oil movements, which would be beneficial for tanker tonne-mile demand.

Disruptions to vessel transits in both the Panama and Suez Canals are also impacting the tanker market this year. While the Panama Canal is not a major transit corridor for crude oil tankers, the inability to transit the canal limits tanker owners’ ability to reposition ships between the Pacific and Atlantic basins and therefore creates inefficiencies, which from a tanker market perspective, is generally positive as it leads to increased tanker utilization.

With regards to the Red Sea, the increase in attacks on merchant shipping since last December is having an impact on tanker trade patterns. This is a dynamic situation, but in recent weeks, there have been an increasing number of ship owners and operators avoiding the region and seeking alternative routes that involve longer voyages. For many vessels, this means sailing around the Cape of Good Hope, adding a significant number of voyage days, and creating additional tanker tonne-mile demand. For example, a Suezmax voyage from Basrah, Iraq to the Mediterranean is about 4,000 nautical miles or 13 days via the Suez Canal compared to around 12,000 nautical miles or 40 days via the Cape of Good Hope. While it is impossible to predict how this situation will evolve, the rerouting of cargoes is likely to continue creating additional tanker demand in the near term.

Finally, the expansion of the Trans Mountain pipeline to Vancouver, Canada later this year will lead to a new source of Aframax specific demand. This pipeline with an increase in capacity of 590,000 barrels per day is intended to provide a new seaborne outlet for Canadian crude oil exports. Given that the terminal is restricted to Aframax-size vessels, it is anticipated that the expansion could result in up to 30 to 35 Aframax loadings per month. This is an exciting development and has the potential to create significant Aframax demand once the pipeline is up and running with the operator currently expecting the start of oil flows through the pipeline during the second quarter of 2024.

So in sum, the numerous changes to trade patterns around the world, which I've just described, are leading to increased complexity and supply chain inefficiency, creating additional tanker demand as a result and spot rate volatility in what is already a fundamentally very tight market. I'll now turn the call over to Stewart to cover the next two slides.

Stewart Andrade: Thanks, Kevin. Turning to slide eight, we outlined some of Teekay Tankers' key accomplishments in 2023.

As noted earlier in the presentation, financially, 2023 was a record-breaking year with the Company generating just over half a billion dollars of adjusted net income and over $575 million of free cash flow. These strong results allowed us to transform our balance sheet repurchasing 19 vessels from sale leaseback arrangements, and refinancing them with a new $350 million revolving credit facility, which provides us with greater financial flexibility. In addition, TNK ended the year with a net cash position of $226 million.

As a reminder, after the repurchase of our final eight vessels in sale leaseback arrangements, we expect to be completely debt free by the end of the first quarter.

2023 was also a year of strong operational performance with 99.8% fleet availability and zero loss time injuries – a metric that we don't often touch on during these quarterly investor calls, but which is extremely important for the safety of our crews and the reliability of our operations.

Commercially, we continue to manage our lucrative time charter portfolio by extending in-charters at rates well below the current spot market, enabling us to profit significantly from spread.

With all of these accomplishments in 2023, the successful execution of our strategy has created significant value for our shareholders through a combination of returning capital via dividends and the appreciation of our share price. Since the beginning of 2023, we have generated total shareholder return of 109%, which further builds on the significant shareholder value Teekay Tankers created in 2022.

Turning to slide nine, we highlight the potential for TNK to continue creating significant shareholder value in 2024, a year that we expect to be another strong tanker market.

With 98% of our 51-vessel fleet operating in a strong spot tanker market that is supported by robust tanker supply and demand fundamentals and driven further by the various factors we have talked about today, we feel confident about our ability to continue creating shareholder value.

As a demonstration, if we use the trailing 12-month average of TNK's realized spot rates and project that forward, our annualized free cash flow would be approximately $16.30 per share, or a free cash flow yield of approximately 28%.

With this kind of operating leverage, strong prospects for mid-size tankers moving forward and a growing cash position, we're making progress in building Teekay Tankers' strategic optionality for future fleet reinvestment. I will now turn the call back to Kevin to conclude.

Kevin Mackay: Thanks, Stewart. In summary, as we experienced in 2023, the fundamentals of our business continue to be highly supportive for what could be a protracted period of mid-sized tanker market strength. Most notably, a very positive tanker supply outlook grounded by a negligible multi-year newbuild delivery schedule. Oil demand continues to grow past the post-pandemic rebound. Beyond the fundamentals, a range of factors are introducing complexity and inefficiency into the market, tightening the supply and demand balance still further. Overall, we believe that our mid-size tanker focus and spot market strategy places Teekay Tankers in an ideal position to continue capturing upside and realizing shareholder value moving forward.

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

Operator: Thank you. If you would 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 your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone opportunity to signal for questions.

We will take our first question from Jon Chappell with Evercore.

Jon Chappell: Thank you. Good morning, Stewart and Kevin. First question is simply what's next? You pointed out a great outlook for the industry. Your operating leverage is immense. You'll be debt free in a matter of weeks. What comes next? The deleveraging's done.

Kevin Mackay: Yeah. Jon, it's a good question and I think it's really more of the same. I think we've been clear over the last few quarters in explaining what our focus is. Our strategy is to continue to both build the strong cash position to reinvest in our fleet and to reinvest in our business. And B, to reward shareholders through some of the capital allocation tools that we laid out in our capital allocation plan. So I think just because we've crossed, or we will cross the milestone of being debt free, the strategy will remain the same.

Jon Chappell: It seems like since the special dividend, I think nine months ago now, there's been no real acceleration in the capital allocation. I don't think there's been much in the terms of buyback despite trading at a pretty big discount to most estimates of NAV. Do you think that that's something that accelerates now in 2024 as you wait for the opportunity to reinvest in the fleet?

Kevin Mackay: It's definitely something that, as I said, is in our tool bag. Nine months ago when we rolled out our capital allocation plan, it was based on a holistic view of our needs as well as what shareholders are looking for. And I wouldn't read into the fact that we may not have used one or two of the tools so far. We put them in there for a specific reason, and the discussion that we have at management level and with the board is always a holistic one around where are we going, where can we add the best value and what should we do with the money we're generating? I wouldn't read into the fact that we haven't used anything so far as something that indicates that we won't be using them in the future.

Jon Chappell: Okay. Just one more quick one. Selling older assets makes a ton of sense, especially at these levels, and you're continuing to do that. Should we maybe think about renewing the fleet through sale and then just creating this massive buffer for when the cycle inevitably turns and then being opportunistic at some point in the medium to distant future?

Kevin Mackay: I think there's a lot of ways you can look at it and we are agnostic to where we can bring the most value to shareholders over time. So in terms of what we're looking at whether it's small acquisitions, large acquisitions, fleet dispositions, exiting individual ship assets as we did last quarter, those are all in the discussion that we have at both management and board level.

Jon Chappell: Okay. Thank you, Kevin.

Kevin Mackay: Thanks, Jon.

Operator: We will take our next question from Omar Nokta with Jefferies.

Omar Nokta: Thank you. Hi, Kevin. Hi, Stewart. Thanks for taking my question. I do have a couple and definitely continuing the theme of Jon's questions. Stewart, you mentioned in your opening comments about, we're getting to the point now we have optionality for future fleet reinvestment and you've been selling the older vessels, makes sense. You haven't been replacing them with modern ones, but just wanted to check how you're thinking about perhaps planned retooling of Teekay Tankers. Given the fact that asset values have started to really run away, are you thinking that maybe you closed the book on reinvestment in this upcycle and is the plan basically, you build a war chest and be prepared for investment when the market eventually rolls over? That's one question I have, and then maybe the second part of that is perhaps, is Tankers where you want to be long term or are you thinking of diverting down the line?

Stewart Andrade: Hi, Omar. Thanks for the very good questions. So maybe taking the first one. We've been selling some vessels, a couple of vessels are 2004-builts, which were about to turn 20 years old and were drydock due. So that's just a normal part of moving those vessels on. In terms of looking at reinvestment, I guess there's a couple ways to look at it. Yes, asset prices are quite high. We also have a view that the tanker market is going to be very robust over the next few years. So part of the consideration is always what are you paying for those assets? How much cash flow can you generate from them over the next few years? Potentially paying them down to a level that you would be comfortable at.

So just like time charters in and out, are always looked out. We're also looking at S&P, so I don't think that we've closed the book on the opportunity to buy vessels. So it's not that we've – we haven't closed the book and we said, "Well, we'll just come back when asset values come down." So it's something that we're always evaluating. With our growing financial strength, we look at all sorts of opportunities, including the potential to acquire fleets, M&A, everything.

So as Kevin likes to say, we are agnostic over the approach that we would take and we look at all those things as opportunities to reinvest in the fleet. So we are committed to reinvestment, and if we can do it sooner and there's opportunities that we think will create value for shareholders, then we'll go ahead and do that. If we have to be more patient and wait, then we'll do that. So our eyes are always open and we're looking for opportunities.

In terms of the second part of your question about other segments, we're a tanker company. We've been in Tankers since we were formed in 2007, and that is where our focus is. If we end up in a situation where we have a lot of capital to deploy and the window isn't open for tankers, but there's other opportunities in other segments, then of course as a company, we would consider wherever we can create shareholder value. But we are a tanker company and that's what we've been focused on and at the moment, there's no intention to pivot away from that.

Omar Nokta: Okay. Thanks Stewart, for that color. Just was wondering if perhaps maybe the reason why we haven't seen the reinvestment is perhaps thinking a bit more strategically outside of tankers. And I guess, at what point do you think – as you highlighted at the end of the quarter, you'll pay off the capital leases, the cash is going to start to really accrue fairly rapidly in the next few quarters, assuming obviously the market remains afloat and as you highlighted, you think it can last a couple two or three years. Is there a point at which point you start to think, "Wow, the cash is building too much, we need to now move this?" Have you thought about that and is there a cash balance trigger that really starts to make you think, "Okay. We have to put this capital to work?"

Stewart Andrade: I don't think there's any trigger, first of all, let's say that. I don't think there's a number or a trigger. And when we put in our capital allocation approach, which was a sustainable quarterly dividend, which given our transform balance sheet, we thought we would be able to continue to pay for the long term, and then the flexibility to pay special dividends when deemed appropriate. We did that for that exact reason, so we could be flexible and we could make large returns of capital or small returns of capital depending on the position of the company and how we saw our prospects going forward.

So the situation that we're in now is as you said, we're generating a lot of cash flow, which at the end of the day is equity value for shareholders. And as we've seen in the last year, quite a bit of that equity value has come through in terms of our share price. And we had over a 100% total shareholder return during 2023, during 2022, it was even larger than that. So we feel like that equity value is being realized in terms of our share price.

But then the question becomes, well, what do we do with that cash flow or that equity value, and how do we best deploy that to create value for our shareholders? And that's the conversations that we have, should we return a certain amount to shareholders via direct capital return or do we think we'll create more value by having that financial strength that we can reinvest at the right time to create even more value? So that's really the basis of the conversations that we have. And as you rightfully note, if this market stays strong for the next two years, TNK will be in a much different position than we are today. And I would expect the conversations that we have around the capital allocation would be informed by that changing nature of our balance sheet. And again, we will use the same criteria, which is how do we create value for our shareholders, but the answers might be different as we move forward.

Omar Nokta: Okay. Thank you. It's a great situation to be in nonetheless. So yeah, I appreciate those comments. And if I could just ask one quick one just on the market. Kevin, you were highlighting the Trans Mountain pipeline and just want to get a sense from you, does this – you mentioned the 30, 35 Aframax loadings, is this a brand new trade pattern that can start to evolve or is there already, a market for Aframaxes in that region, and where do those cargoes you think end up going? Thank you.

Kevin Mackay: It's a good question. At the moment you have approximately one Aframax lifting a week. So it really is a significant uplift in export capacity. There's various markets that, that crude can move into: it can move down to the US West Coast, it can move down to Panama to be put on VLCCs or co-loaded to send further over to Asia, it may even be put through the Panama Canal at this point in time. We don't know. All we know is that the operator is indicating that the pipeline will open and have oil flow at some point in the second quarter of this year. But in terms of the destinations of those cargoes, we'll have to wait and see how the trading or the oil trading environment picks up on that oil and where they can probably make the best margin.

The only sure thing is that you can only load an Aframax out of Vancouver. You can't take a Suezmax or a VLCC in there. From a demand perspective, it's a really exciting area that we really keen to keep an eye on and it could bode well with our capacity that we have currently in the US Gulf and with our Suezmax fleet also trading around that area. It could move a really good dynamic for the mid-size tanker space overall.

Omar Nokta: Okay. Very good. Well, thank you. Thanks for that color and I'll turn it over. Thanks guys.

Kevin Mackay: Thanks, Omar.

Stewart Andrade: Thanks Omar.

Operator: We will take our next question from Ken Hoexter with Bank of America.

Ken Hoexter: Hey, great. Good morning Kevin and Stewart, and it's amazing that this discussion so far in terms of finally getting rid of all that debt and you're going to be debt free in a few weeks, so it's just such an exciting time. I want to talk about the market though. We haven't talked much about the market. It seemed like rates right now are about $60,000 a day or trended I guess even in the back half of last quarter for both Afra and

Suez and you're averaging 50,000. I think the stock moved this morning, is showing a little bit of that disappointment in where rates are in the first quarter to date, and then even where you averaged in the fourth quarter. Maybe run through, was that maybe some more moves of clean versus dirty? I don't know [inaudible] the market through the quarter, to that extent.

Kevin Mackay: Yeah. Hi, Ken. I can't speak to TNK share price movement today, but in terms of the market, I think I would characterize it as being a slightly less robust fourth quarter than what we had the year prior, but still a historical level. TNK's performance in the fourth quarter was hampered slightly by some of our positioning at the end of Q3 with our Suezmax fleet, where we bunch up some ships and ended up having to take rates that were significantly lower at the back end of the third quarter than what we've seen since then and that impacted our result for the fourth quarter.

But as you can see from our first quarter to date numbers averaging $50,000 across both segments, they're extremely healthy numbers. They're back up close to 2022 and early 2023 levels. And I think that is a function of the fact that the market is strong, demand is strong, and tonne-mile is being expanded by all of those issues that I highlighted in the presentation. So I think our view is that the market should stay strong.

There's obviously going to be volatility. You mentioned $60,000 a day. The LR2s have been at that level, but they're slowly coming off. The Aframaxes in the US Gulf have been $80,000 a day at points during the first quarter and have come off since then. Other areas, the Far East is still holding fairly strong. So I think we're going to see – while the fundamentals are strong, you're still going to see volatility. So capturing that and making sure that our fleet deployment is in the right areas at the right time to capture that volatility, is going to be important to maintain the returns that we had last year.

And I'm confident that looking at what we've been doing thus far in the first quarter, we should continue to perform well quarter-over-quarter. And I don't really focus on an individual quarter because as I said, a lot depends on where the fleet ends up being positioned based on the voyages that we fix. But over a series of quarters, I'd expect us to be robust in terms of our performance.

Ken Hoexter: Yeah. Thanks. It's great run through Kevin, and I'm not arguing the robustness, it certainly is robust. That's obviously what's generating the cash flow. I'm just arguing, or trying to understand why such a consistent difference or under performance relative to Clarkson averages, which would be the average of all the lanes. And I think I got it now from the end of the third quarter that impacted fourth quarter. But was there more of that as you entered the first quarter or are you seeing then the next level of bookings improve from where you were? Just trying to understand if there's going to be an acceleration or you mentioned a couple pullbacks versus other regions that are really strong. So is that just a more a factor of where your vessels are?

Kevin Mackay: I think it's a factor of a broker's assessment of the market looks purely at a singular voyage and when you're trading a fleet of 50 ships, some ships sit in demurrage, some ships are held up waiting to go through canals. A lot of operational factors come in that impacts your final returns. There's also the timing, it's not a straight average that you're getting, that a broker calculates based on daily rates. It's fixing a certain amount of your fleet at a certain point in time in that quarter, and that has an impact. Sometimes, as I've said in the back end of the third quarter, not a very good impact. Other times the impact is really positive. So I wouldn't look at broker assessments and then judge every ship owner's performance necessarily against that on an individual quarter.

Ken Hoexter: Great. And then I guess two quick Stewart questions. One, can you talk about the new break-even level as you get past this final debt pay down? Maybe just how we should think about that. And then secondly, you mentioned it's not the right time to buy yet, you want to keep looking at the market. Do you go back to the special dividend policy or do you enhance the buyback? Do you have a favorite move in the interim if you're starting to build the cash that you were just talking previously about?

Stewart Andrade: Yeah. Thanks, Ken. In terms of the break-even level, so once we repurchase these final vessels, expect the breakeven level to be between $15,500 and $16,000 a day, depending on a few factors, but that's about where it is. So above that level, we would generate positive free cash flow. And just to be clear, that's an all-in number includes CapEx, maintenance CapEx, and everything else. That's a fully baked number.

In terms of capital allocation, when we announced the capital allocation policy three quarters ago, we did characterize the special dividends as something that we would use periodically to return more capital to shareholders. We certainly haven't changed that. So it's not really a matter of going back to it. I guess it's in place there and we're using it the way that we had intended to use it. And we'll continue to have discussions around when and how to use that special dividend. So at the moment I would say that if there's capital allocation in addition to our fixed quarterly, that it's more likely to be in the form of special dividends than buybacks.

The buyback program was put in place mainly to deal with, if we thought there were sustained long-term dislocations in the market, which was affecting our share price, so we could act opportunistically. But I would say that as we did in 2023, special dividends are more likely a use of returning capital in the near term.

Ken Hoexter: Very helpful. Thanks Kevin. Thanks Stewart. Appreciate the insights.

Kevin Mackay: Thanks, Ken.

Operator: We will take our next question from Eirik Haavaldsen with Pareto Securities.

Eirik Haavaldsen: Yeah. Hi. Thank you. So just to follow up, I was just curious because did I understand you correctly when you said that you don't really have a limit as to how big your cash coffers could really grow here because of course, you're already at very decent levels and at current markets, that's growing rapidly. So you don't see swollen cash coffers as a – and there's no limit basically to where we can be.

Stewart Andrade: Hi Eirik, thanks for the question. Right. So we don't have a number in mind that says, once we reach this number, that we would feel compelled to do something with that capital. Again, it's looking at the opportunities in the market, the need for fleet reinvestment, our view on when those opportunities might arise, how much capital we would need to take advantage of those, and then making a decision around our overall capital allocation. So where we stand today, we think that we will continue to build balance sheet strength and we will balance that off against returning capital to shareholders via our capital allocation policy that we've outlined. And we can't really look into the crystal ball and say, "Well, 12 months from now, what will our decision be around capital allocation?" But where we are today is that we're in the same place roughly when we announced our capital allocation nine months ago, which is our primary focus will continue to be on building financial strength so we can make reinvestments in the fleet, balance that off against returning capital directly to shareholders. And if and when we get to a stage that we think that's not the appropriate capital allocation policy, and we should do something different which could be investing that capital, it could be returning it to shareholders, whatever it is, then if we get to that stage, we will definitely communicate that to the market and we'll go from there.

Eirik Haavaldsen: Okay. But I think previously you said that newbuild prices weren't really attractive, or at least lead times were not really compelling. So has that changed at all over the past six months?

Stewart Andrade: As I mentioned earlier, the newbuilding prices are quite high, and as I said, I think one of the things we need to balance that off against, and I think probably all ship owners are, is the view of the market over the next few years and the strong cash flows that we could produce over that period. And putting the context of, or putting the cost of vessels in that context. There's also M&A potential opportunities, there's time charter opportunities, there's a number of things or ways that we could deploy that capital, and those are things that we're always looking at and analyzing.

Eirik Haavaldsen: Yeah. Okay. But fine then. When you mention M&A and you do highlight shareholder value creation here a number of times. But in terms of M&A, do you look at your price to NAV, do you feel your share prices is fairly reflecting where the underlying values are at the moment? Just I'm curious.

Stewart Andrade: Yeah. So our shares have traded in a range over the last 52 weeks. Obviously we started the year at the beginning of 2023 at $28 a share. We traded up to over $64 a share. So it moves in a range. Sometimes we probably thought that, that range was more reflective of the underlying value of the company than others. But I guess our focus is on running the company as best we can, creating shareholder value and trying to illuminate our strategy, and hoping that is reflected adequately in the share price. If we think that there is a dislocation that gives us an opportunity to buy back shares, we have that available to us, which we can use. But again, our focus is on long-term value creation, more so than short-term share price movements.

Eirik Haavaldsen: That's fair. Thank you.

Stewart Andrade: Great. Thank you.

Operator: At this time, I would like to turn the call back over to the company.

Kevin Mackay: Thank you for joining us today, and we'll speak to you next quarter.

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