TEEKAY GROUP FIRST QUARTER 2025 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Group

Date: Thursday, 8th May 2025

Conference Time: 11:00 ET

Operator: Welcome to the Teekay Group First Quarter 2025 Earnings Results Conference Call. During the call, all participants will be in a listen only mode. Afterwards, you will be invited to participate in a question and answer session. At that time, if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder, this call is being recorded. Now, for opening remarks and introductions, I would like to turn the call over to the company. Please go ahead.

Ed: Before we begin, I would like to direct all participants to our website at www.teekay.com, where you'll find a copy of the Teekay Group's first quarter 2025 earnings presentation. Kenneth 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 2025 Teekay Group earnings presentation available on our website. I'll now turn the call over to Kenneth Hvid, Teekay Corporation and Teekay Tankers, president and CEO to begin.

Kenneth Hvid: Thank you, Ed. Hello everyone, and thank you very much for joining us today for the Teekay Group's first quarter 2025 earnings conference call. Joining me on the call today for the Q&A session is Brody Speers, Teekay Corporations and Teekay Tankers, CFO, Ryan Hamilton, our VP of Finance and Corporate Development, and Christian Waldegrave, our Director of Research.

Starting on slide three of the presentation, we will cover Teekay Tankers recent highlights. Teekay tankers reported GAAP net income of $76 million or $2.20 per share, and adjusted net income of $42 million or $1.21 per share in the first quarter. Teekay Tankers also generated approximately $65 million in free cash flow from operations during the quarter.

Over the last several years, Teekay Tankers has created significant value through a strategy of maximizing our operating leverage to a strong tanker market, both by keeping our fleet spot exposed as well as opportunistically increasing our exposures through well-timed in charters. As asset values have been plateauing and remain at historically high levels, we have focused on reducing our exposure to 18 to 19-year-old tankers, as well as opportunistically selling some 2009 built Suezmaxes.

Altogether, since the beginning of the year, our pace of vessel sales has increased as we have sold six vessels for total gross proceeds of approximately $183 million for a total expected accounting gain on sale of approximately $53 million. In addition, as previously announced, we have also agreed to acquire a modern LR2 vessel, which we expect to take delivery of at the end of the month. All of this is part of our fleet renewal plan, which includes selling older vessels and acquiring modern vessels. While we have been more active recently in selling rather than buying, we expect this trend to change over time as we see opportunities to acquire more modern tonnage.

Looking at our second quarter to date rates, the spot tanker market has strengthened, and we are booking rates at meaningfully higher levels than the first quarter. We have secured spot rates of $40,400 per day and $36,800 per day for our Suezmax and Aframax / LR2 fleets, respectively. With approximately 45% of our spot base booked. We will discuss the drivers of the market in the subsequent slides.

Teekay Tankers has declared its regular quarterly fixed dividend of $0.25 per share. In addition, we have declared a special dividend of $1 per share for a total dividend payout of $1.25 per share, payable in May. Since updating our capital allocation plan in May 2023, Teekay Tankers will have paid out a total of $6.25 per share, which includes both our regular quarterly fixed dividend of $0.25 per share and a total of $4 per share of special dividends.

More importantly, over the same period, Teekay Tankers has grown its book equity per share by over $21 or close to over $27, including dividends to a book equity of approximately $53 per share as of March 31, 2025. As evidenced by our recent gains on asset sales, current market values exceed our historical book values. Lastly, Teekay Corporation also declared a special dividend of $1 per share payable in July. Please refer to the appendix for more details on Teekay Corporations updates and results.

Moving to slide four, we look at recent developments in the spot market. After a sluggish start to the year, mid-size tanker spot rates have increased to the highest levels in over 12 months. Rising oil production, particularly from the Americas, and the imposition of US sanctions on Russian and Iranian shipping since the beginning of the year has led to Asian buyers sourcing more crude from the Atlantic Basin, resulting in higher mid-size tanker tonne-mile demand. In addition, fleet supply has tightened as more vessels have been drawn into the Russian trade to replace sanctioned vessels, and as the price of crude has fallen below the price cap of $60 per barrel, allowing some owners to carry Russian crude without penalty.

Turning to slide five, we have highlighted two examples of how trade dynamics have benefited the mid-size tanker market since the start of the year. Starting with the chart on the left, Suezmax tanker tonne-miles demand has benefited from a strong increase in the export of Kazakh crude oil from the Caspian Pipeline Consortium or CPC terminal in the Black Sea with Suezmax loadings at a record high during March. In addition, we've seen an unusually high number of CPC cargoes heading long haul to Asia, almost all of which are transiting via the Cape of Good Hope due to ongoing instability in the Red Sea. A voyage from the CPC terminal to China via the Cape takes around 50 days compared to just five days for voyage to the Mediterranean, or 12 days to Northwest Europe, thereby creating significant tonne-mile demand.

We've also seen an increase in Aframax loadings from Vancouver via the TMX pipeline in the past couple of months with a record high 30 loadings in both March and April. These cargoes have been increasingly transiting directly through Asia on Aframaxes with a record 14 direct transits in April, an Aframax voyage from Vancouver to China takes around 18 days compared to four days to Southern California. The increase in direct transits to Asia is therefore leading to higher Aframax tanker tonne-mile demand in the Asia Pacific region. We expect that this trend will continue as China and other Asian countries look to diversify their sources of oil supply.

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These are just two examples of the shift in trade patterns, which have boosted tanker rates since the start of the year with mid-sized tanker tonne-miles in March, reaching the highest level in 18 months, and holding at elevated levels during April.

Turning to slide six, we look at near-term oil market fundamentals, which we believe could give support to tanker rates in the coming weeks and months. Global oil prices are currently at a four-year low due to concerns over the impact of US tariffs on future oil demand, and the announcement from the OPEC+ group that they'll accelerate the unwind of voluntary supply cuts during May and June and potentially beyond. Low oil prices support the tanker market through reduced tanker fuel prices, which is our largest operational cost and potentially higher oil demand. Tanker markets could find further support if the oil price futures curve move into a steeper contango structure, which typically stimulates additional storage demand.

As shown by the chart on the right, OECD oil inventories, including both commercial and government stockpiles are currently at the bottom of the five-year range. Government and industry bodies could therefore use this window of lower oil prices as an opportunity to rebuild oil inventories, thereby driving additional tanker demand. We're already seeing some evidence of this in China with crude oil imports during March, reaching the highest level since late 2023, while the United States has also signaled its desire to replenish its strategic petroleum reserve in the coming years.

Turning to slide seven, we'll look at some of the uncertainties surrounding the medium-term tanker market outlook due to recent economic and geopolitical developments. The imposition of trade tariffs by the United States and subsequently retaliatory tariffs have clouded the outlook for the global economy and oil demand.

While the outcome remains uncertain, industry analysts have started to adjust their global economic and oil demand forecast downwards due to concerns that tariffs may harm global trade and lead to lower economic growth. It is worth noting that all of the major oil forecasting agencies are still expecting demand growth for this year and next, with the average of forecast from the IEA, EIA and OPEC projecting 1.2 million barrels of growth in 2025 and a further 1 million barrels per day in 2026. However, uncertainty does exist with the potential for further downgrades on global oil demand growth depending on how things progress during the year with the increased risk of a potential global recession.

In addition, last month's saw an outdated proposal from the US trade representative regarding the imposition of fees on Chinese owners and operators and Chinese built ships calling at US ports. While the final outcome is still uncertain, the most recent proposal is less impactful to non-Chinese tanker owners compared to the one which was initially put forward in February. We believe that the current proposal shouldn't be enforced, will be manageable, both from an industry and a TNK perspective due to the various exemptions granted to non-Chinese operators of Chinese-built vessels. A further hearing of the proposal is due to be held on May 19, following, which we would expect to have more clarity on how these rules will impact the wider tanker market.

The geopolitical landscape adds another layer of complexity to the outlook, including the ongoing war in Ukraine, the US maximum pressure campaign against Iran and the safety situation in the Red Sea, which continues to limit vessel transits. Any changes to these factors could impact the tanker market in the coming months, potentially adding to supply chain inefficiency or significant rerouting of trade flows. It remains very difficult to predict how these events will unfold and what impact they will have on the market.

Turning to slide eight, we look at fleet supply dynamics, which remain supportive through at least the medium term. The pace of tanker newbuild orders has slowed significantly since the middle of 2024 with just 2.8 million deadweight tons of orders placed in the first quarter of 2025, the lowest quarterly total since Q3 of 2022. Although the pace of tanker ordering has slowed, shipyards continue to receive orders in other shipping sectors, and we estimate the global shipyard capacity is essentially full through 2027 and approximately 70% full for 2028.

In addition, a lack of tanker scrapping means that the tanker fleet continues to age with the average age of the global tanker fleet standing at 13.9 years as of April 2025. The highest since 2001. Should tanker conditions worsen, there would be increased pressure on the large and growing pool of scrap candidates to leave the market providing a mechanism to rebalance the global fleet. We therefore believe the combination of the current orderbook and aging tanker fleet and constraints on available yard space points toward a balanced supply outlook and should result in continued low levels of tanker fleet growth over the medium term.

Turning to slide nine, we highlight how Teekay Tankers has strong cash flow generation while remaining patient for future fleet renewal. Teekay Tankers free cash flow breakeven has declined over the last several years to its lowest level of $13,200 per day from a peak of $21,300 per day in 2022. Combined with our operating leverage, we can generate cash flow in almost any market conditions. To emphasize, every $5,000 increase in spot rates above our break even produces $2.01 per share of annual free cash flow or 4.4% on a free cash flow yield basis.

The shipping industry is a cyclical capital-intensive business, which requires reinvestments as vessels age. While we have been returning capital to shareholders through dividends, a key priority is to retain significant cash flows to ensure we can act when the right opportunities present themselves as part of our fleet renewal strategy. While we continue to exercise patience, we are well positioned to generate cash flows in almost any tanker market and are ready to use our balance sheet to take advantage of opportunities as they emerge. With that, Operator, we are now available to take questions.

Operator: Thank you. We'll take our first question from Jon Chappell with Evercore ISI.

Jon Chappell: Thank you. Good morning. Kenneth, on that last point of patience, and it's been brought up a couple times in the past as well. Obviously, you've been more of a seller than a buyer. You insinuated in the press release that, that strategy may shift but I just have a tough time aligning the positive view on the market with a view that asset prices may come back in to a level that's attractive to you. Can you talk maybe a little bit about market outlook, why asset values may become more attractive and what it may take for you to shift from that seller mentality to more of a renewal mode?

Kenneth Hvid: Good morning, Jon. It's obviously a very good question. As we point out, we're trying to balance this thing of having a fleet that still generates significant cash flows, and as we are running all ship years, as you know, we've been doing over the last years without really reinvesting in new ship years. You come to a point where in a cyclical industry at some point, you got to reload with new ship years. The longer it goes, we we're back to the classic discussion that we had as you and I remember back in 2008 and 2009. It's a stronger for longer, and when is it going to turn?

History tells us that it will turn at some point and markets will come down, and when it does, it happens suddenly and we tend to get surprised and that's when opportunities to reload opens up. Staying disciplined in this, we are very clear on what breakeven levels, we can run a calculator, as most of our peers can. We understand what levels you – it is a good time to make a 20-year investment where we think we can have a good chance of making a return.

You're absolutely right, of course, it's a challenge that we have a strong market and the medium-term outlook is actually pretty good. At the same time, we're running off ship years and we would like to load on some new years. That's why we are leaning in slowly and picking a couple of ships. If we look at other sectors, you have seen ordering coming down and as that comes down, we typically see also shipyard prices coming down, and that's what we expect will happen towards the end of this year.

Jon Chappell: I understand it's difficult to answer that, maybe difficult to answer this follow-up too. Putting on your Teekay Corp hat for a second. I know that the group in general has had the struggle with finding attractively priced assets in any sub-segment. Here, you have this subsidiary that you own a big stake in TNK trading by anyone's calculator, a massive discount to NAV.

I understand that you're trying to be patient and there's going to be a reload opportunity at some point, but it seems like it's almost not mutually exclusive when you have almost a billion dollars of liquidity at TNK, and I don't know what the liquidity is at Teekay, but I imagine it's quite large as well. Wouldn't TNK shares, either from the Teekay corporate level or the TNK subsidiary level, just be the most attractive use of that liquidity today as you wait for the asset values to come in a little bit?

Kenneth Hvid: It's a good point. It's obviously one we're assessing and the whole space took a dive here in Q1. Everybody, irrespective of what our strategies are and what our fleet profiles are, what our dividend policy are, we're largely trading at these discounts that you refer to. That obviously always makes it complicated. Do you to run that calculator and just increase your NAV by buying back stock? At the same time, we're an operating company and at some point, we need to buy steel so we can generate future cash flows.

As you've seen in the past, we've been buying back stock, especially at Teekay actively, and we did that because we're trading at an even bigger discount there. Now, we're trading in line, which we think is the right parity that we should have. Of course, we're looking at NAVs and especially at the valuation we have at TNK, I agree, it looks attractive.

Jon Chappell: Okay. Thanks, Kenneth.

Kenneth Hvid: Thanks, Jon.

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Operator: We'll now take our next question from Omar Nokta with Jefferies.

Omar Nokta: Hi. Thank you. Hi, Kenneth. Maybe just following up on Jon's line of questions. You mentioned clearly you've been a net seller, but that could change as time goes on. I guess when we think about the footprint you have today, is there a level you need to stay above in terms of maintaining a critical mass? You have the 20 Suezmaxes, 15 Afras, what's the threshold where you don't want to get below and that starts to maybe affect your commercial presence?

Kenneth Hvid: Morning, Omar. That's a great question as well, and obviously one we're looking at and discussing. I would say, we still have a bit of room, but there is of course, a level. Without giving you the exact number, I would say that there is a point, being an integrated operating company that we don't really want to tip below. I would say from a commercial trading point of view, we haven't really seen the impact on commercial performance. We seem to be able to get our ships around and get the right charters on them. The performance considering the profile of the fleet and everything is actually very good especially on the Aframaxes on a relative basis, and the Suezmaxes were holding up as well.

It's not really impeding the commercial trading of it, but of course, there's always a scale consideration that we have here. That's also why we're saying that we're probably going to be slowing down on the sales and look for opportunities. I would say it's, close to where we are now. We could go a little bit lower. Of course, the exciting part is that we now have significant investment capacity to renew the fleet when the right opportunities arise and in shipping, they do come around. We're excited about that outlook.

Omar Nokta: That's clear and helpful. Maybe just to follow up to that. I know I've asked you this before, but just in general, clearly you've gotten to a point where the cash is just coming in the door very, very quickly. You paid off all the debt and now you get to enjoy the benefit of seeing that cash come in and completely understand the reluctance to want to distribute it to shareholders, given that there is a need to replenish and modernize the fleet.

I guess maybe as you think about that big picture, does it still make sense to want to put capital to work in tankers? You just said that these opportunities show up very quickly. Does it make sense maybe to shift the mindset altogether, the company where you've made these winnings, "from a strong spot market?" Do you take that capital and try to maybe redeploy it into something completely different where the earnings quality is perhaps better than a spot-driven tanker business?

Kenneth Hvid: That's another really good question, Omar. We've spent a lot of time looking at other sectors and also looking at it from a Teekay Corp perspective historically. So far, we're very happy not having invested in other sectors in the last couple of years. The sector we are in here has actually performed extremely well, and we clearly have an operating franchise that is performing well and that's where we have the skillset.

I would say that what we are always looking at that is interesting is of course, the adjacency to the core segments that Teekay is in. We have Aframaxes where we traditionally have been very large and we have Suezmaxes where we're actually larger today. Of course, the adjacent sectors to that is moving up one size up to VLCCs and is moving one size down to MRs. That's all within our wheelhouse.

We are constantly comparing, contrasting the relative return expectations or attractiveness of each of those sectors. That gives us a pretty sizable sandbox in which we can reallocate capital into in terms of segments where we really feel are close to our core operations and core skills and where we have the customer relationships. I'm pretty sure that we'll find what we consider good entry levels in any of those spaces here in the next year or two. I would be very surprised if that doesn't happen.

Omar Nokta: Okay. Very good. Thanks, Kenneth.

Kenneth Hvid: Thanks.

Operator: We'll now take a question from Ken Hoexter with Bank of America.

Ken Hoexter: Hey. Good morning, Kenneth. You talked about at the beginning of the call, the super seasonality of rates lasting into 2Q here and maybe even staying a little stronger. Maybe you can talk a little bit about that strength and your thoughts as we've moved deeper into May and the continuation of that. Then on that same vein, you threw out the shift to Asia coming out of Vancouver would continue. Maybe just add on some thoughts on, if we start getting increasing peace discussions with the Houthis around the Red Sea or Ukraine and Russia, would you see that abate and see some rapid pressure on those rates or maybe just your thoughts on the pace with which we could see that alter?

Kenneth Hvid: Morning, Ken. That's a good crystal ball question, trying to predict what's going to happen in the world here. The way we, I guess think about it is that when you look back the last two quarters were lower than what we have experienced in the past three years. Sequentially down, clearly what's driving the rates right now are everything I mentioned in our prepared remarks. We have a low oil price, and we are seeing that V's for the first time in three years are actually outperforming the other sectors. That's interesting.

It feels a little bit more back to normal how the tanker markets used to work, but when you look at the world, we're certainly not back to normal. There's a lot of moving pieces in the world right now. It's incredibly difficult to predict exactly how that's going to flow down to tanker rates.

What I can say is that as we also point out and what we focused on is that when you have low oil price and you have low inventories, you typically have a couple of quarters where you see some pretty good demand, but of course, it doesn't last forever. Therefore, at some point our expectation is that yeah, there'll probably be some correction. I would say the outlook, especially for the larger ships right now looks very positive.

Ken Hoexter: That's a great point on the low inventories and the sustainability of that. Let me jump over to your slide eight which had the 309 on the orderbook and 109 that are over 20 years, and then you got a range of 319 that are 15 to 19. Some of those obviously could be closer to 15 than 19. I look at that and see an order book that continues to build and maybe outpace those retirements, which is – why are you not fearful that, that can put pressure? Again, your cash flow breakeven so low. It's not like we're talking about those levels, but just wondering your thoughts on why we should not expect to see some additional pressure on rates.

Kenneth Hvid: I wouldn't say we're not fearful. We're always running the business with being mindful of what could happen to rates. You raised a good point. We pointed out on our call last quarter. If you look at the medium-sized tanker space and include the LR2s, and so you look at Aframaxes and Suezmaxes, as we pointed out last quarter. If we don't have any scrapping happening over the next two years, three years, we will have a fleet which counts 600 vessels that are over 20 years old in that space.

To be honest, that is the big valve that we're all looking at, because as long as there's no scrapping happening in that age group, and you see utilization of that age of vintage of vessels, then I would say at some point the rates should come down. We're also pointing out in our prepared remarks here that as the market corrects and we haven't seen that dip yet, you have a big release valve here where there's a lot of vessels that naturally should be scrapped.

From a historical point of view, that's very different again, from what we saw in 2008. The issue in 2008 that we had the youngest fleet that we've had in 20 years. Today, we have the oldest average three days that we've had in 20 years. Of course, the incentive to scrap a 20 or 22-year-old ship is very different from scrapping a 70-year-old ship, which was the situation we had back then. That's how the situation is a little bit different. We're very mindful of that. We're probably going to see some correction, but we also think that there are some valves that very effectively we'll take care and putting some of the older tonnage away.

Ken Hoexter: Certainly. If I could just get a follow-up there on the restocking of the oil inventories. Anything you can quantify in terms of where we are relative to normal levels, if you go back to that chart or how quickly you think that could absorb some capacity in a slow summer or a low period to keep the rates elevated again, putting that crystal ball back on?

Kenneth Hvid: We have Christian Waldegrave on the call as well who follows this very closely. I'll hand it over to him to comment.

Christian Waldegrave: Thanks, Kenneth. It's difficult to quantify in terms of how much actual demand or how much it's going to influence the rates. The fact that the inventories are at the bottom of the five-year range both commercial and strategic, as we pointed out in the remarks there, means that there's – as OPEC starts increasing production and we can get more non-OPEC supply coming on this year with, we've got five FPSOs coming on in Brazil and Guyana over the next few months.

We should have a relative oversupply of oil relative to demand. Given where all prices are at, it should add to inventories and flow into inventories. On land, storage will get filled first. Who knows if the curve goes steeper into contango, at times you might see some floating storage as well, which then starts to tie up tonnage. As Kenneth pointed out, it's not a situation that will last forever, but these periods where you do get inventories being refilled and a low oil price and contango situation, we know from the past that they can be quite positive for rates.

It's coming at a good time because normally, going into Q2 and Q3 and the summer months, you would start to see the seasonal dip in tanker rates. We might get some counter-seasonal strength here through the summer. Then beyond that, like Kenneth said, the refilling the inventories is good for a period of time. After that, once the inventories have refilled, you might start to see OPEC cutting production again, or non-OPEC production coming off if the oil price stays low for longer. It is definitely a window of opportunity here where we could see some counter-seasonal strengths. As Kenneth said, the longer-term picture is still a little bit unclear given everything that's going on in the world.

Ken Hoexter: Great. Kenneth, Christian, thank you for your time.

Kenneth Hvid: Thank you.

Operator: That does conclude our question and answer session. I'd like to turn the conference back to the company for additional or closing remarks.

Kenneth Hvid: Thank you, everyone for joining us on our call today. We look forward to reporting back to you next forum. Have a great day.

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