TEEKAY GROUP SECOND QUARTER 2026 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Group

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Conference Time: 11:00 ET

Operator: Welcome to the Teekay Group Second Quarter 2026 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 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. 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 Teekay Group's Second Quarter 2026 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 Second Quarter 2026 Teekay Group Earnings Presentation available on our website.

I will now turn the call over to Kenneth Hvid, Teekay Corporation's 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 Second Quarter 2026 Earnings Conference Call. Joining me on the call today for the Q&A session is Brody Speers, Teekay Corporation's and Teekay Tankers' CFO, Ryan Hamilton, our VP 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 $226 million, or $6.49 per share, and adjusted net income of $194 million, or $5.56 per share in the second quarter, which was 50% better than our results posted last quarter. This quarter also marks the highest ever quarterly adjusted net income for the company, surpassing the previous record set in the first quarter of 2023.

Spot tanker rates during the second quarter were the highest ever as well, averaging $109,200 per day and $74,100 per day for our Suezmax and Aframax LR2 fleets, respectively. With our significant spot exposure and a low free cash flow breakeven, we generated approximately $200 million in free cash flow from operations, which, along with a vessel sale, has increased our cash position to over $1.2 billion with no debt as of quarter end.

We continue to execute on our fleet renewal strategy, which includes acquiring modern vessels while selling our older vessels. In the second quarter, we completed the previously announced transactions, including acquiring two Korean Suezmax newbuildings for a total of $190 million, which are expected to be delivered in 2027, and we sold one 2009-built Suezmax for $53.5 million, recording a gain on sale of $32.3 million during the quarter. At the beginning of July, we completed the previously announced VLCC sale for $84.5 million, and we expect to record a gain on sale of approximately $23 million in the third quarter. In addition, I want to highlight that all three Aframaxes acquired at the beginning of the year have been redelivered from their bareboat charters and are now being operating under Teekay technical and commercial management and trading in the strong spot tanker market.

Looking ahead to the third quarter, we have secured spot rates of $104,800 per day and $59,900 per day for our Suezmax and Aframax LR2 fleets, respectively, for approximately 44% spot dates booked. I'll touch on the market more in the next slide.

Lastly, Teekay Tankers has declared its regular fixed quarterly dividend of $0.25 per share.

Moving to slide four, we look at recent developments in the spot tanker market. Spot tanker rates in the second quarter of 2026 reached a record high, with Teekay Tankers achieving average mid-size tanker rates of approximately $91,000 per day. This beat the previous record of just over $60,000 per day in the first quarter of 2023 by 50%, highlighting the incredible strength in the spot tanker market. The strength continued in the Suezmax tanker segments, with rates remaining at near record levels so far in the third quarter. In the Aframax sector, we experienced some softening of rates mid-quarter due to a build-up of tonnage in the Atlantic and a lack of arbitrage opportunities. However, spot rates have strengthened again in the Aframax sector during July, particularly in the Atlantic, where we are currently seeing rates of over $100,000 per day.

Turning to slide five, we highlight several geopolitical events, which have caused a series of disruptions to trade flows in recent months. While these events have not directly impacted the safety or operations of our vessels, they are driving volatility in the oil and tanker markets. The war between the US and Iran has significantly impacted vessel transits and oil flows through the Strait of Hormuz, which I'll cover in more detail on the next slide. More recently, the resumption of attacks by Houthi rebels in the Red Sea is impacting the flow of oil heading south via the Bab-el-Mandeb Strait. Should this continue, a safer outlet for Saudi Arabian crude loading from the Red Sea port of Yanbu is through the Suez Canal, which would potentially add to tanker tonen-mile demand through longer voyage distances.

Recent months have also seen an increase in attacks on Russian oil infrastructure, including the targeting of vessels loading from the Caspian Pipeline Consortium, or CPC terminal in the Black Sea. As a result, we are now in an unprecedented situation whereby attacks on vessels are occurring in three separate regions that are vital to the global oil trade. Not only does this represent a severe risk to ships and crews operating in these regions, but it also adds further complexity to global oil trade flows and creates fresh trading inefficiencies, which leads to further spot rate volatility.

Despite the severe disruption to oil exports and attacks on commercial vessels, the crude oil and shipping markets have remained resilient due to a combination of rising exports from other regions, oil inventory drawdowns, and lower demand, particularly in Asia.

These trends are most clearly demonstrated when looking at the United States and China. US crude oil exports reached a record high in June, supported by the release of oil from strategic reserves, which boosted mid-sized tanker demand in the Atlantic. Meanwhile, Chinese crude oil imports fell to a ten-year low in June due to refinery run cuts and inventory drawdowns, which offered some relief to global oil markets and prevented oil prices from spiraling out of control. How these dynamics play out in the coming months will be key to determining whether the oil market can continue to cope with the loss of oil from key export regions.

Turning to slide six, we provide an update on the Strait of Hormuz disruption. As shown by the chart on the left, transits through the vital Strait of Hormuz waterway collapsed in March before undergoing a partial recovery in June after the US and Iran signed a framework agreement aimed at ending hostilities. However, renewed hostilities at the start of July, including attacks on vessels transiting the Strait of Hormuz, have led to a collapse of the agreement and a sharp slowdown in movement through the Strait.

As mentioned on the previous slide, the oil market has adjusted to the loss of Middle Eastern exports through a combination of Saudi Arabia and the UAE diverting supply to alternative ports, including Yanbu and Fujairah, which lie outside of the Middle East Gulf, and rising output from the Atlantic Basin. While this doesn't fully cover the loss of supply from the Middle East, a combination of longer voyage distances and increased trading inefficiencies have supported spot tanker rates.

Finally, the tanker market has also benefited from vessels being kept off market, either because they are trapped behind the Strait of Hormuz, or because they're empty and sitting idle outside of Hormuz waiting for a resolution. Should Asian refiners look to increase supply from the Atlantic basin in light of new disruptions, a large number of tankers will have to ballast again to the Atlantic, which will stretch the fleet and give support to overall tanker demand. In short, the ongoing disruption to trade flows and resulting inefficiencies could benefit spot tanker rates.

Turning to slide seven, we look at the medium-term tanker supply and demand outlook. Given recent events in the Middle East and the ongoing war between Russia and Ukraine, it is difficult to predict the future pathway for oil supply and demand. However, it is clear that global oil inventories are being depleted due to the reduction in supply from the Middle East, with strategic and commercial inventories in the OECD currently at a 20-year low. The eventual replenishment of these inventories, once market conditions allow, should provide a significant boost to oil and tanker demand.

On the fleet supply side, a high-level of new tanker orders in 2026 has expanded the orderbook, which now stretches into 2030. Scrapping activity remains limited, though pressure is building on the dark fleet of older vessels due to fewer trading markets as sanctions are lifted and as regulatory scrutiny increases. In addition, the tanker fleet continues to age, with the average age of the mid-sized tanker fleet now the oldest in over 30 years. We believe the eventual removal of these older vessels should help in reducing the impact of rising tanker deliveries in the coming years.

Turning to slide eight, we continue to build value and have significant financial strength and optionality. This includes, first, our ability to generate significant free cash flow with a low free cash flow breakeven. With the majority of our vessels trading in the strong spot market, we generated near record free cash flows in the first half of 2026. As an illustrative example, if we annualize our first half 2026 free cash flows, TNK would generate free cash flows of $684 million, or almost $20 per share by the end of the year. With a free cash flow breakeven of approximately $9,700 per day over the next 12 months, we believe our operating leverage provides a powerful platform for continued cash generation and long-term value creation.

Second, we're executing on our fleet renewal strategy by selling older assets in today's high asset price environment and recycling that capital to acquire more modern vessels in a disciplined manner. Looking back 12 months, we have sold nine older vessels for $369.5 million, with combined gains of $125 million and acquired or committed to seven modern vessels for approximately $427 million, including two Suezmax newbuildings delivering in 2027. These transactions have lowered our average fleet age while maintaining significant operating leverage through the strong tanker market, as highlighted by our record adjusted net income during the second quarter.

Third, we have significant investment capacity, which allows us to incrementally progress our fleet renewal requirements while being patient for larger transactions in the future at more attractive entry points. The tanker shipping industry is capital intensive, cyclical, and increasingly dynamic, and we believe having significant investment capacity provides financial flexibility to pursue opportunities swiftly when the timing is right.

Although the near-term tanker market outlook remains complex, unpredictable, and subject to significant influence from geopolitical events, we believe Teekay Tankers' low cash flow breakeven levels, significant free cash flow generation, and sizeable investment capacity positions us well to simultaneously renew our fleet and create shareholder value.

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

Operator: Thank you. And if you are dialed in via the telephone and 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, you can press Star One to ask a question, and we'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll now go to your first question. That will be coming from Omar Nokta with Clarksons Securities.

Omar Nokta: Thank you. Hi, Kenneth. Good morning. Thank you for the detail and congrats on a record quarter. Had a couple of questions. Maybe one a bit more market-specific and then one on Teekay Tankers. And you referenced this in your presentation just in terms of how this market's really been evolving into something quite a bit different than what we've been used to seeing or at least saw in the past.

Can you talk about how you're seeing the Suezmax, Aframax segments react in this environment that we're in today? Specifically, now that you're maybe seeing a shift in some of those, as you referenced, those Saudi barrels going up to the Med now. There's been a lot of conversations the past week or two about how VLCC activities really picked up to handle some of those cargoes. But I guess maybe long term, how do you think about it? If indeed that becomes a new trade, where do the Suezmax, Aframaxes fit in in that market?

Kenneth Hvid: Good morning, Omar. Thanks for the question here, I think it's a great question. As you say, we're definitely seeing patterns at the moment, which are unprecedented. I think if we look at what happened in the quarter at our fleet, we saw, as I said in my prepared remarks, that Suezmaxes held up really well. And I think they were basically just following trailing the VLCC rates throughout. So we saw good utilization, good demand. They're still incredibly flexible vessels. There's a lot of ports where the VLCCs can't go in fully laden. For example, if you take a VLCC through Suez up north, you can only do it partially laden, so you'll need to do STS. All depending on where that VLCC is going, you will have a consideration whether it's more beneficial to use a Suezmax instead for a shorter route. I think you're going to see a lot of those decisions that are going to be going around, and that's before you get to what size of parcels that are being traded.

What we have seen for the first half of this year is basically, yeah, the Suezmaxes performing extremely well, being pulled up by a very, very strong VLCC market. And I think the Aframaxes, if you look at them, have always continued at a time to fill some of the slots where again, you have parcels, you have ports where the Suezmaxes can't go into, where the Aframaxes come in.

For the first time in actually four years, we saw a bigger divergence on the Aframax versus the Suezmax rates. I think it's more better explained by actually that the Vs and the Suezmaxes outran the medium-sized segment or the Aframax segment. But when we look at it in absolute terms, of course, the Aframax rate was just very, very strong. And what we've seen just over the last couple of weeks is that we've actually seen a couple of examples where we are fixing now our Aframaxes out at higher rates than what we're fixing the Suezmax vessels out at. So all I can say is that it's incredibly dynamic and we seem to be utilizing all of the assets underwater, depending on what position that they're in and I think all three sectors are performing extremely well.

Omar Nokta: Thanks, Kenneth. That's helpful detail in terms of just thinking about this market. And I guess maybe as you were talking about, obviously, the balance sheet is exceptionally strong, the best it's ever been for Teekay. And you're continuing to just fine-tune the business, and then maybe there's an opportunity that comes your way at a better entry point than obviously where prices are today.

But I guess maybe in that context, given capital allocation, the way it's set up at the moment, I wanted to ask about the dividend at this point. You've got the special payout that comes out in the first quarter of each year. At least that's been the case the past three or four years. But in terms of, say, the base payout of $0.25, which has been in place since the beginning, I think of '23, you're in a completely different world today both earnings-wise and balance sheet-wise.

Does it make sense to revisit that base dividend? Not saying it needs to be transitioning to a high payout model. But do you see a world in which, say, TNK starts to ratchet up the payout on an ongoing basis rather than keep it flat at this $0.25 the past three plus years?

Kenneth Hvid: First of all, I would say that, obviously, I think we all agree this year has turned out much, much stronger for the tanker markets than any one of us saw, and even what we saw when we reviewed it with our board in March here. I think we've had a good cadence in terms of having the fixed dividend and then the special discussion after the first quarter every year. We like that cadence, but it's clear it's something that we need to continue to discuss with our board at our board meetings. We normally would signal to the market that we do it on an annual basis.

I don't expect that that's going to change, but it's clear that when you have this unprecedented cash flow generation, then, of course, we are intensifying our capital allocation discussions with the board. Because the position we are in right now it's a high-class problem to have. But we have generated a lot of excess cash here. So we're looking at it. Our plan when we entered into the year, and we're very clear on that, I think on our previous calls, was that we expected to have a faster fleet renewal. What happens when we see rates like this going on for a couple of quarters is that we're also seeing the highest premiums for on-the-water tankers that we've seen in – probably ever, I think, when you go back. So that makes it a little bit harder, and it requires that discipline to do that. But of course, we totally understand that by the end of the day, we work for our shareholders. We are always focused on, first and foremost, creating the value. We have a strong conviction in that eventually the market will recognize the value that we're creating as a company, and whether we change the dividend a little bit here, I think it just signals what we believe. But I think our cash flows that we generate, I think, is a clear demonstration of that we're creating a lot of value and making the company a lot more valuable.

Omar Nokta: Yeah, absolutely. Thanks, Kenneth. I appreciate your comments. I'll turn it back.

Kenneth Hvid: Thanks, Omar.

Operator: Next question will come from the line of Ken Hoexter with Bank of America.

Ken Hoexter: Hey, Great. Good morning, Kenneth. I guess maybe just real quick, you mentioned some of the threats and dangers to the ships in multiple regions now that it has changed. Anything you can talk to and actions you've taken or routes that you've changed or insurance cost changes? That's just a preliminary question.

My question was going to be on your chart on page seven giving the oil inventories which are going to need restocking. Are you seeing accelerating drawdowns in this third quarter, which is normally a period of fixing some drawdowns? Or is that – you mentioned what China was doing, are you still seeing that drawdown at this point?

Kenneth Hvid: Morning, Ken. Thanks for the questions. I'll take the first part, and then I'll pass it on to Christian for the second part.

I think in terms of trade routes that we're seeing, what we're seeing in the world right now is that we're seeing an unprecedented number of attacks on commercial shipping in more regions than we've ever seen historically, and that's a fact. And that just means that there are fewer areas or more areas where we have to apply our security principles, which is no different from when we had specific regions in the past. We would always go in and assess whether it was safe to go in.

And we always have a policy that if we don't deem it to be safe for our crews and vessels, then we won't make the call.

So as an example, we haven't been transiting south through the Red Sea for a long time. We haven't gone into the Strait of Hormuz. That's a decision we've made. Some people have, we have not. There is the ongoing at the moment in the Black Sea to go into the terminals. That's a very dynamic situation as it is right now. And as of this morning, we saw that there were attacks into the Med.

So I would say in terms of how we approach it, it's always safety and security first, irrespective of what region we're looking at. And I think the sheer number of ports that we consider unsafe today that's definitely at a higher number today than I can recall we've ever had. So the world is getting a lot more complex and much more dynamic because these windows, they open and close, and that just leads to a lot of inefficiencies, as I said in my remarks.

On your second question, I'll pass it on to Christian to weigh in on the inventory drawdowns and which numbers we know and what we don't know at the moment.

Christian Waldegrave: Hi, Ken. With regards to the inventory situation, obviously, when inventories get restocked will depend on the situation in the Middle East. At the moment, obviously, we're still in a supply deficit with Hormuz being closed, so inventories continue to get drawn down. So the timing of when inventories might start to get restocked is wholly dependent on that situation getting resolved.

Once that situation is resolved, there should theoretically be plenty of oil in the world to restock inventories. If you look at projections by the likes of the IEA, they're forecasting quite a big supply surplus next year should Middle East production get back to somewhat normal levels. At that point, obviously, if there's an oversupply of oil, it should push down prices, and that will be the stimulus for oil inventories to start restocking again. And there's a big need for it.

As we've shown on slide seven, oil inventories are at a 20-year low in the OECD. You look at the US SPR, it's down to just over 300 million barrels, which is the lowest in 43 years. I think prior to COVID in 2020, it was at 635 million barrels. So that's over 300 million barrels of oil that I think the US would like to restock. China's been probably drawing down their inventories at a rate of about a million barrels per day for the past three months. So that's another 100 million barrels of oil. Japan's been drawing down stocks. Europe has released a lot of product inventories. So the need is definitely there. But the timing of it will depend on a successful resolution to this situation in the Middle East and the pace of the restocking will depend on market conditions, specifically oil price. But I think it will definitely provide a tailwind to tanker demand as and when it comes. But we just can't accurately predict right now when that might happen.

Ken Hoexter: Great. Thanks, Christian. And then I guess two quick ones. Kenneth, I think it's on page 16 you had a 3Q outlook, thanks for the detail there. Maybe you can just fill us in on your thoughts on what's included there. I know you've got 48% of days booked. I don't know if you want to talk about what the assumptions are to get to the full numbers.

And then, just, I'm sorry, but a dumb one on drydocking. Is there any movement on those? Just you talked about these record rates in the third quarter and what is normally seasonally low pricing. So I understand why you'd ramp up the number of days. But given where rates are, is there anything you can do to push that out? Would you want to, or do you definitely want the vessels ready for the fourth quarter run-up? Maybe just your thoughts on that timing?

Kenneth Hvid: I can take the drydocking timing first, and then I'll pass it on to Brody on some of the other details there.

The reality is we pushed them out from Q2 to Q3, so we don't have a ton of flexibility. As you know, we have these anniversaries where everybody needs to drydock their ships, and ours are coming due this year. And I'm glad that we pushed it out to Q3, but I think we need to get on with them now and get them done and then get them out. And of course, the focus is on getting good voyages into the region where we're drydocking, get them turned around as quickly as possible, and then get them out again and pick up a cargo. But we need to get on with them, so I don't think we will see a lot of movement in the actual dry dock things that we're doing in Q3.

Ken Hoexter: Helpful.

Brody Speers: Hey, Ken, I can take the outlook question. Yeah, on the revenue side, as Kenneth mentioned, we have a number of drydockings in Q3, so we're projecting 260 days of off-hire related to that. And outside of that, it's just the remaining unfixed days on the spot market. On the cost side, we're expecting OPEX and G&A to come down a little bit in Q3 versus Q2. So we'll see about a $3 million reduction there is what we're expecting, and a little bit lower tax expense in Q3 as well. But otherwise, it's obviously largely rate dependent on where we end up.

Ken Hoexter: Sure. Thanks, guys. Appreciate the time and thoughts. Thank you.

Kenneth Hvid: Thank you.

Operator: And it appears there are no additional questions at this time. I will turn the call back to the company for any additional and closing remarks.

Kenneth Hvid: Well, thank you very much for tuning in today. We look forward to reporting back to you next quarter. Have a great day.

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