TEEKAY SHIPPING (CANADA) LTD. Q1-2016 EARNINGS RESULTS

Conference Call Transcript

Moderator: Emily Yee
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Operator: Welcome to Teekay Corporation's First Quarter 2016 Earnings Results Conference Call. During the call, 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 1 to register for a question. For assistance during the call, please press star 0 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 Mr. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins, I would like to direct all participants to our website at www.teekay.com where you will find a copy of the first quarter 2016 earnings presentation. Mr. Evensen 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 2016 earnings release and earnings presentation available on our website.

I will now turn the call over to Mr. Evensen to begin.

Peter Evensen Thank you, Ryan. Hello, everyone and thank you for joining us today for Teekay Corporation's first quarter of 2016 earnings conference call. I am joined for the Q&A session by our CFO, Vince Lok; Chief Strategy Officer, Kenneth Hvid; and our Group Controller, Brian Fortier. During our call today, we will be taking you through the earnings presentation, which can be found on our website.

Turning to Slide 3 of the presentation, I will briefly review some recent highlights for Teekay Corporation. During the first quarter, we generated consolidated cash flow from vessel operations, or CFVO of $359 million, an increase of 12% over the same period of the prior year. The increase in cash flows was driven

mainly by the delivery and acquisition of various growth projects during 2015, which more than offset the lower revenues from Teekay Offshore's Varg FPSO as the unit begins to wind down operations after almost 18 years on the Varg Field, which I will touch upon in more detail later in the presentation.

Teekay Corporation reported an adjusted net loss of $6 million or $0.08 per share in the first quarter compared to an adjusted net income of $16 million or $0.22 per share in the same period of the prior year. For the first quarter of 2016, Teekay Corporation declared a cash dividend of $0.055 per share consistent with our fourth quarter of 2015 dividend. To bolster the Teekay Group's financial position, we have completed or are nearing completion a number of financing initiatives at Teekay Offshore, which addresses their 2016 and 2017 funding requirements and at Teekay Parent, which reduces our financial leverage and increases our liquidity. I will touch on these initiatives later in the presentation.

Turning to Slide 4, I will review some recent highlights from our three publicly traded daughter entities. For the fourth quarter, Teekay Offshore Partners generated CFVO of $166 million, an increase of 22% from the previous quarter driven by the acquisition of the Knarr FPSO in July 2015 and continued high uptime and utilization of our offshore units. For the first quarter, Teekay Offshore declared a cash distribution of $0.11 per unit, resulting in the strong distribution coverage of 5.16x. As mentioned earlier, Teekay Offshore is completed or is nearing completion various financial initiatives. These initiatives, which have been strongly supported by our financial stakeholders fully address Teekay Offshore's near and medium term debt maturities and fully finance its growth projects through 2018.

Similar to other companies in the offshore business, Teekay Offshore has continued to be proactive during this period of rapid deflation in field development and production costs across the value chain and is implementing various cost saving initiatives across the organization, which are expected to result in sustainable cost savings of over $30 million per year in G&A and vessel operating costs. Teekay Offshore is also preparing to take delivery of its extensive pipeline of growth projects in 2016 through early 2018, which our customers require for their contracted offshore field development.

For the first quarter, Teekay LNG Partners generated CFVO of $114 million, a slight decrease from the same period of the prior year. For the first quarter, Teekay LNG declared a cash distribution of $0.14 per unit, resulting in the strong distribution coverage of 4.79x. During the first quarter, Teekay LNG's first

MEGI LNG carrier newbuilding, the Creole Spirit, commenced its 5-year charter contract, with Cheniere Energy, which delivered in late February and subsequently transported its first U.S. shale gas cargo to Europe from Cheniere's Sabine Pass LNG export facility. The partnership's second MEGI LNG carrier newbuilding is now undergoing sea trials and it is on track to commence its 5-year charter with Cheniere in the third quarter of 2016.

Over the past few months, Teekay LNG has continued to make significant progress on financing its growth projects, which delivered through 2020. The sponsors of the Yamal LNG project recently announced a significant milestone for the project in securing long-term planned financing. And our joint venture partner with China LNG has recently received multiple offers from Chinese financiers to finance our jointly owned Arc7 ice-class LNG carrier newbuildings. In addition, Teekay LNG is also in advanced discussion to finance its MEGI LNG carrier newbuildings, which deliver in 2017 and 2018, including the five vessels charter to Shell on 6 to 8-year charter contracts.

Teekay Tankers continued to generate strong free cash flow of $66 million or $0.42 per share. Many of the positive tanker fundamentals in 2015 have continued into 2016 supporting crude tanker demand, including growing oil demand, high crude oil supply from OPEC, ongoing strategic and commercial stockpiling and port and ullage delays. However, spot tanker rates softened during the quarter mainly due to heavy refinery maintenance, a mild winter in the Northern Hemisphere and higher bunker fuel costs. Yesterday, Teekay Tankers declared a cash dividend of $0.09 per share based on 30% of its Q1 adjusted net income. During the quarter, Teekay Tankers continue to focus on de-levering its balance sheet, resulting in a reduction of its net debt of approximately $50 million. And lastly, based on continued positive tanker fundamentals, Teekay Tankers expects to continue generating strong free cash flow from what is anticipated to be a healthy spot tanker market in the remainder of 2016.

Turning to Slide 5, we provided a summary of the current Teekay Parent financial initiatives. We are undertaking that will further de-lever our balance sheet, increase our liquidity and enhance our ability to provide continued strong sponsorship of our two MLPs, which we believe strengthens the entire Teekay Group. This includes bank refinancings and a new common equity issuance. Our bank financing initiatives include a $150 million refinancing of the equity margin revolver, which immediately increases our liquidity by $114 million. Between $112 million and $150 million refinancing of the TPO facility secured by three FPSOs, including the Petrojarl Banff, the Petrojarl Foinaven and the

Hummingbird Spirit and a $50 million refinancing of the Shoshone Spirit VLCC tanker facility. In May, we closed the $50 million VLCC tanker refinancing and we received all the bank commitments to refinance the equity margin loan and the minimum amount on the FPSO facility.

We also announced we priced $100 million common equity private placement issuance yesterday with $40 million of the common shares issued to the two trusts established by Teekay Corporation's Founder, one of which is our largest shareholder, with the remaining to a group of institutional investors. Lastly, we have reviewed our upcoming capital commitments. And in mid-May, we agreed to sell our 50% interest in the Prelude infield support vessel tugs to our joint venture partner, KOTUG for $8 million. We expect to complete all of these initiatives by June 30. On completion of these initiatives on a pro forma basis, Teekay Parent will substantially reduce its financial leverage to 41% from 48% on a net debt to estimated fair value basis and increase our liquidity to $335 million from $148 million.

On Slide 6, we provided a summary of the current Teekay Offshore financing initiatives, which we are undertaking to address TOO's upcoming funding needs in 2016 and 2017. Since early this year, Teekay Offshore has been working on a number of important initiatives involving each of our main sources of capital. This includes new bank facilities, amendments to certain of our existing Norwegian unsecured bonds and a new preferred equity issuance, all of which are expected to be completed by June 30 of this year. Teekay Offshore's bank financing initiatives include a new $250 million pre and post-delivery debt facility to finance our three newbuilding shuttle tankers, which are being constructed to service our East Coast Canada contracts. A new $40 million debt facility secured by a fleet of six of our currently un-mortgaged shuttle tankers and FSO units, a $35 million add-on trench our existing loan facility financing the Samba Spirit and Lambada Spirit shuttle tankers and the $75 million refinancing of the Petrojarl Varg FPSO.

In April, TOO closed the $35 million shuttle tanker and-on trench and we have received commitments for the new $250 million and $40 million facilities. TOO has received commitments for the majority of the existing Varg syndicate banks and we expect to secure the remaining commitments for this financing within the next week. Our bondholder initiatives relate to amendments to two of TOO's existing Norwegian kroner bonds due in January 2017 and 2018 respectively. Through negotiations with the largest holders of these two bond series, we have

reached an agreement whereby the final maturity dates will be extended to November and December of 2018, respectively.

For the $101 million January 2017 bonds, 30% of the issuance will amortize in each of October 2016 and 2017. And for the $144 million January 2018 bonds, 20% of the issuance will amortize in January 2018. TOO has now issued a summons package to all of the bondholders of these two bonds to formally vote on the agreement in early June, which only requires approval from two-thirds of those voting. As of today, bondholders representing more than a majority of the outstanding bonds have already given their undertaking to vote in favor of the proposal, which makes us confident in securing the requisite approval level.

TOO is also in advance discussions with a select group of equity investors for a new $200 million issuance of preferred units, with a warrant structure, which we expect to finalize in the next two weeks, following the completion of due diligence and documentation. To minimize the effects on near-term liquidity during the first 2 years, dividends on these new units would be paid in kind with new common units of Teekay Offshore. Finally, we have also reviewed TOO's existing asset base and upcoming capital commitments to free up additional liquidity. In the fourth quarter of 2015, we completed the sale of two of our conventional tankers. And in the first quarter of 2016, we completed the sale lease back of our remaining two conventional tankers, with both initiatives bringing in a combined $60 million of liquidity. In addition, we are in discussions with the shipyard to defer delivery of our final two UMS newbuildings, which would result in the deferral of approximately $400 million of CAPEX payments.

Turning to Slide 7, we provided an update on TOO's proportionally consolidated run rate 2017 CFVO estimate, incorporating our latest assumptions on the delivery of our growth projects over the next 2 years and the impact of our cost savings initiatives. CFVO is expected to increase from a combination of various cost saving initiatives where -- which are expected to translate into OpEx and G&A cost savings and the scheduled delivery of various growth projects. Our growth projects include the delivery of four state-of-the-art long distance towing and offshore installation vessels during 2016 and 2017, the upgrade of the Petrojarl 1 FPSO and the commencement of its 5-year charter with QGEP in the fourth quarter of 2016.

The Gina Krog FSO, which is scheduled to commence its contract will start early in the first quarter of 2017 and the newbuilding, Libra FPSO, which is scheduled to commence its 12-year charter contract with the Petrobras led consortium of major oil companies in 2017 and finally, the delivery of two of three newbuilding

shuttle tankers in 2017 that will operate under 15-year contracts for a consortium of oil companies in East Coast Canada.

These increases will more than offset the cash flow reductions resulting from the Varg FPSO contract termination, the redelivery of the Navion Saga FPSO and the sale of our four conventional tankers. We continued to receive strong interest from customers to utilize the NORSOK compliant Varg FPSO on various fields in Norway as a low cost and quick to market solution. Factoring in all of these initiatives, we are now expecting to generate run rate 2017 CFVO of approximately $850 million. Assuming the projects are operating for full year, which represents an increase of 25%. This excludes of course, the additional contribution from the third East Coast Canada shuttle tanker, which we will deliver in early 2018.

Turning now to Slide 8, we have provided an update on Teekay LNG's projected run rate CFVO, including the proportionate share from its equity accounted investments. We currently anticipate a CFVO run rate of approximately $470 million and we expect this to be relatively stable, increasing moderately as we take delivery of the Cheniere LNG carriers and begin to take delivery of TGP's other MEGI LNG carriers in 2017, partially offset this year by the 1-year deferral of a significant portion of charter payments on two of our 52% owned LNG carriers, which are on fixed rate charter to the Yemen LNG project, which is related to the political unrest in Yemen and the subsequent closing of that LNG facility.

The sale of two conventional tankers related to the charter exercising its option under the charter contract to purchase both vessels and the planned sale of one of the conventional tankers over the next year. Given the back end loaded nature of TGP's newbuilding deliveries, Teekay LNG's run rate CFVO will really begin to ramp up post-2017 when we expect to add an incremental $250 million of annual run rate CFVO by 2020.

Turning to Slide 9 and looking ahead, Teekay will take a phased approach to creating value for its shareholders with the ultimate goal of returning to begin an asset light high dividend owner of two GP, two general partners. The first step towards value creation is to strengthen Teekay Parent and Teekay Offshore's balance sheets, which will occur upon the completion of various financing initiatives we have been working on and talked about today, including the equity raise announced by Teekay.

We believe that having a strong sponsor will benefit our daughters and will assist with our discussions with rating agencies. In addition, in today's uncertain energy markets, we believe financial strength is increasingly important to our customers and the completion of these initiatives will aid in current and future discussions. I am pleased to report we have received the majority of these financial commitments as I have talked about and we are on track to close all of them by the end of June.

The second phase of our approach to value creation is to optimize the asset portfolio by selling all or a portion of certain assets where it makes sense and to focus on redeploying our assets on the new charters or extensions. A strong asset and contract portfolio will in turn allow us to optimize our balance sheets across the Teekay Group. Upon completion of the initiatives announced at Teekay Parent and Teekay Offshore, we will have successfully funded all of Teekay Offshore's growth projects and dealt with a majority medium-term maturities at both entities and this runway will provide us with flexibility to focus on optimizing our balance sheets.

The last phase of our approach is to create value at Teekay is to increase the cash distributions at Teekay LNG and Teekay Offshore, which benefits Teekay as the owner of both GPs. When we reduced our distributions in December of last year, we told you that the cuts were temporary and the reaction to dislocated capital markets. It was not an issue related to the underlying cash flows of our businesses. The completion of the financing initiatives we have talked about today will position both partnerships to increase their distributions in the future, which will benefit our IDRs and allow us to revert back to a high dividend GP. Importantly, unlike other early phased GPs where it can take several years to get the distributions up the IDR steps, we have the ability to get there quickly to unlock the GP value, because of the current high coverage ratios of our two MLPs and the stability of the underlying cash flows, which continued to grow as I have talked about.

Looking at Slide 10, we have recreated our sum of the parts analysis and compared this values from where we were in September 2015 with where we are today. As you can see, the value of our direct owned assets has actually gone up since then and our net debt has decreased. The only real change during this time is to the value of our equity ownerships and most importantly, the value of our GPs, which is now adding only $0.26 per share to today's value. As I mentioned on the previous slides, the ability to increase the distributions at both MLPs will materially affect the value of our LP units, but more importantly, the value of our two general partners. This is why at today's stock price, we

don't believe the markets are ascribing any value to the expected recovery in our LP or GP ownerships, which provides Teekay shareholders with tremendous option value, especially given the progress we have made on the financing initiatives outlined on this call.

Finally, as I said earlier on the Teekay Offshore call, I really want to thank all of our financial partners and stakeholders who have participated in the financing initiatives and shown confidence in our business model and strategy. Thank you for joining us on the call today. And operator, we are now ready to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

And our first question will come from the line of Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey, good morning guys. How are you?

Peter Evensen: Good. Thanks.

Michael Webber: I wanted to first dive into some of the OPCO assets. And Vince, I know it can be bit of a complicated exercise, but if I think about the EBITDA and the cash flow. The cash flow available for distribution is delivered from the OPCO asset this quarter and sort of true that up with the EBITDA guidance around the -- not the guidance, EBITDA expectations, I guess, around the existing FPSOs and the tanker assets. I am just trying to figure out what, aside from delay of costs on the LNG carriers, what drove OPCO Bcf down to the point where it was ((inaudible)). So, is there anything else baked into that cash flow line item this quarter that we wouldn't have expected last quarter?

Vince Lok: Yes, hi, Mike. This is Vince. I will point out maybe three things in the first quarter OPCO EBITDA that you see there. First is in the in-charter conventional tankers line, we did make a termination fee payment to Teekay Offshore for $4 million to terminate the Kilimanjaro charter. So, that's a one-time item in the first quarter. Secondly, on the FPSO line, as you know, we have the temporary outage of the Banff in the first quarter. So, the combination of loss revenues and the repair cost was about $5 million in the first quarter. So, that's also a one-time item. And thirdly, in the other call -- on other row there, the Arctic and Polar, as you

know, was idle during the first quarter and that has a negative drag of about $9 million per quarter. So, those are the three things that total about $18 million.

Michael Webber: Right. And if I strip out the one-time cost, then I go to the guidance slide where you guys have -- you have included some of the SNPC associated with TIL and some of the OpEx savings, they get to about $1.5 million bump on a cash flow basis sequentially, which implies a loss of the OPCO for Q2. Is there anything else that would need to be stripped out of or would be included in that Q2 guidance that would improve that figure?

Vince Lok: No, I think that's fully reflected in that Q2 guidance, Mike.

Michael Webber: Okay. I think it's a complicated exercise. Let me dig into it offline. But maybe a higher level and for Vince or Peter, you mentioned Vince one of the drags on the OPCO cash flow to the LNG carriers that are chartered in and either in line ((inaudible)) at 50,000 a piece I believe. I am just curious whether what the employment prospects look like for the assets whether its public plan and I guess now expectations there changing?

Peter Evensen: Sure. Both ships have been repositioned to Asia near Singapore and we are in talks with numerous potential customers from multiyear time charters, but we don't think they will start up till Q1 '17. So, we anticipate we will get a drag for '16. We may get some short-term charters, but that's not our budget right now given the weak LNG market. Most of these potential charterers or customers, they are targeting niche trades to China like the Shenzhen or the Guangdong import terminal. Even though not all of them are Chinese companies, but it allows these ships that can go higher up these rivers to access import terminals that a bigger LNG carrier couldn't do.

So with these ships working niche trades, as you know, they used to be trading to Argentina up the rivers, the higher rates that we are discussing now exceed what owners might reasonably expect for standard LNG carriers given that they have unique attributes that can be used in China and Argentina. So, that's our base operating model.

Michael Webber: Right. And the expectation here is that trading those on a spot basis or position to trade on a spot basis to bring in even if its $25,000, $30,000, the cost associated with positioning into that it would outweigh the potential benefit payrolls of the contracts?

Peter Evensen: Yes. I will talk more about the LNG market in tomorrow's call, but the reality is $25,000 or $30,000 that people are looking at, you have to adjust that by

utilization. And there is cost to being warm and cost to being cold. So, we actually don't actually think you will realize an incremental $30,000. But the good news is that these -- the Arctic and the Polar are good for niche trades whether it's Argentina or China up the rivers or Alaska assuming that you can get some long-term exports out of LNG, which is where -- which is the trade they were built for.

Michael Webber: Fair enough. Okay. Just wanted to talk about FPSO for a second, then I can turn it over. On the call earlier, you mentioned in the call and I think you mentioned in your prepared remarks for the parent call here. I guess two questions around it. On the call earlier, you mentioned the evaluation from a third-party broker or third party source of kind of 250 to 300, which brought our attention simply because it implies a pretty healthy multiple. So one, I guess, the question will be is that on an as-is basis and is that applicable for us, your fleet even in the parent FPSOs, which would certainly impacts the way we think about NAV? And then secondly, with that asset specifically, I know you are in conversations around getting that employed, but heading into the North Sea and the idea that it would need to go to the shipyard for any sort of upgrades, what's the -- where is the red line in terms of getting that ready to actually hit the summer window next year or 2018 rather to get employed or where you would actually be? Where is the red line to actually hit that summer window for the North Sea, for the Varg?

Peter Evensen: Okay. So what I said on the previous call and this is the Varg FPSO, which is owned by Teekay Offshore, not Teekay Corporation is that we had received charter valuations without contract as-is of 250 million to 300 million. And so that's the basis that you use before you put into the cost of advertising upgrades in order to get the charter rate. So, that's why while it was producing 6,000 barrels on its current contract, it can produce, as Kenneth said, well over 50,000 barrels, 57,000. It has gas export. So, it has a lot of great attributes as well as being the only FPSO available in the Norwegian sector. But you can't read through that every FPSO is worth the same as the Varg. Each FPSO has different attributes, including its production, whether it has gas compression, what its storage is. So that isn't something you can simply multiply.

Michael Webber: Right. Now, I am just looking multiple of something between the line of between 6 times and 7 times, how applicable is that to your parent fleet?

Peter Evensen: I would say that without getting totally drawn, I would say that we would expect that the new contract that we get for the Varg to give us a higher CFVO than the current contract, which was $50 million per annum, because it is worth more to

that charterer on a per barrel basis and that's -- and so that's what we see. And the upgrade is dependent on the contract. But what I said of the previous call was that we see a startup on that in more likely to be 2019, but that would be a multi-year contract that would allow us to make any upgrades.

Michael Webber: That's it, that's helpful. And I...

Peter Evensen: And that's the discussions we are having with people. If there was an early well test, which has a lower probability, it could start in 2018. But we are not really interested in early wall test, we are interested in positioning it for a long-term, medium-term contract.

Michael Webber: Okay, fair enough. I can follow-up online. I appreciate it. Thank you.

Peter Evensen: Thanks.

Operator: And your next question will come from the line of Gregory Lewis of Credit Suisse. Please go ahead.

Gregory Lewis: Thank you and good morning and thank you for taking my questions.

Peter Evensen: Hi Greg.

Gregory Lewis: So Peter, you mentioned the potential to contract the Varg and this kind of goes across the whole platform. As we think about taking delivery of assets, newbuilds that are on contract as potentially going out and upgrading existing assets, just given all the issues we have seen in the oil and gas space with counterparty risk, when these contracts are written, what types of termination clauses and I realize they can all be different, but when Teekay is in negotiations on these types of contracts, what types of termination penalties are there for the customer should they -- should you be in the process of upgrading the Varg and all of a sudden, you mentioned 2019, the 2019 for whatever reason doesn't become 2019, yet you have already started investing, how does that mechanism work?

Peter Evensen: Well, I think let me clear up some misconceptions. So if you are in the exploration side of things, you are not as time sensitive. In other words, if you want to cut short a drilling program and you decide you don't want to drill it, that's fine. You just terminate those. But when you are in a field development like for example, what the Libra is going through or the Petrojarl 1, there isn't -- there is much more money being committed by the customer than just taking our unit on contract. They are laying sub-sea lines. They are putting in place

risers and so they have already committed well over double what they are going to pay us. So it isn't a question for them abdicating, they are already committed. And so it's only a question of when they start up that field. So that's why even though you could see various plants like Chevron going over budget on Corgan, they are going to complete it.

And the same thing is true with these multi-year oilfields. If you are Gina Krog or any of these other ones, they are going to complete them. And, by the way, they want our units. So the big issue is they need our units and that's what gets into the contract. Now once the contract is up and operating, then people can come to you and say, can we work on efficiencies and obviously in the current market, every oil company is reaching out to their suppliers and saying is there a way to cut costs, can you cut. And by the way, as part of our $30 million cost savings, we are reaching out to our own suppliers. And that's why we call the continual cost deflation coming in. But the main point that we see is that our customers need us to produce the assets. And so whether the field is profitable or not at $40 or $50 oil, our marginal cost of lifting is always usually down in the teens.

And as we pointed out, our lifting costs are on average, $13 a barrel across all of our fleet, with the biggest ones being ((inaudible)) where those lifting costs are $3 to $5 a barrel. So that isn't anything, that when you stop and think about that, that customer, they are getting the other -- if the price is $50, they are getting the other incremental $45. So they don't want us to not work or abrogate the contract because they are the ones who lose. So being in the production chain really works. Now on the Varg, let me contrast that with the Varg. On the Varg, the marginal cost of lifting that they were paying us was $40 to $50 a barrel.

And therefore Repsol, which bought Talisman, which was on that field after 18 years, we were once producing over 50,000 barrels, but we were down to producing 6,000 barrels. So then it wasn't economic at $40 to $50. That isn't to say that they may not change their mind, but right now, that isn't the prevailing thing because you have to plan going forward. So they have planned for the termination.

They have given us the termination notice and that actually gives us the opportunity to know definitively that we can go and reemploy the Varg. And the Varg, as Kenneth talked about on the last call, is the only on existing asset that can work on the Norwegian sector. And therefore, it has a real advantage. And that's why guys are talking to us today for projects that will start up in 2019 because we need to agree that contract in the next year, so we can make

whatever upgrades and they can have certainty when they lay down all their surf as their -- with their sub-sea lines. So that was a long explanation, but I hope that clears up the misconceptions that drilling and being into exploration phase is finally different than when you are in the production phase.

Gregory Lewis: Yes. Absolutely, I mean but we have seen some issues on -- with some other FPSOs outside of Teekay as well. That's kind of why I was getting at that. And then my other question was, so just as I think about the equity issuance, I mean that seems like the absolute right move and then the preferred issuance at TOO, are the -- these are pending -- is the Teekay equity a pending transaction or is this something that has already occurred?

Vince Lok: Hi Greg, the Teekay common equity is all committed foreign priced. It's just conditional upon the completion at the TOO $200 million preferred offering, which we expect to complete sometime in June. But everything else is locked down, the pricing and the commitments and the allocations.

Gregory Lewis: Okay. And then just as I look at this, I mean you guys have been doing a lot of a work here with the refinancing and all these. As you sort of -- when you sort of like lay this down and the fact that now you are talking about potentially it seem like there was a noticeable shift change or you are actually talking about distribution increases again, just -- as I mean -- and I realize this is a very volatile market out here, but as you go ahead and look forward, I mean it seems you kind of view this as kind of all our solvency issues are kind of behind us with these capital raises?

Vince Lok: Well, as Peter said on Slide 9, it is a phased approach here. It isn't -- it's a multi-year plan to create long-term shareholder value. And the big -- the initial step, the first step here is really to fortify the balance sheets of the group here. And the completion of these financing initiatives will do that and alleviate any concerns over the near-term and medium-term above liquidity. It gives us a clear runway and a lot of financial flexibility moving into the other phases as we detailed on the slide here.

Gregory Lewis: Okay, great. Thank you very much for the time.

Vince Lok: Thank you.

Operator: Your next question is coming from Fotis Giannakoulis of Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes. Hi guys and thank you again. I want to ask about how do you view the repayment of the debt of the parent, are there any thoughts of potentially selling any shares of the daughter companies, I am trying to understand what is the cash flow of the parent and I see that the EBITDA in this quarter, excluding the dividends was around $4 million. And it seems that with the Hummingbird Spirit coming off contract a year from now, basically that might be turning negative, can you explain what am I missing here?

Vince Lok: Hi, Fotis. Obviously, with the equity offering we are doing here, that's one step towards the de-levering. Going forward, obviously, with the distribution cuts in TGP and TOO, that is reducing our free cash flow at the parent temporarily. But as Peter indicated, we have the capacity down the road to increase those distributions, what obviously will have a significant impact on our free cash flow at the parent, particularly given the IDRs of the GP. So, that's from a free cash flow perspective. And in terms of the remaining assets at the parent company, we have the VLCC, the Shoshone Spirit.

That is still on a short-term charter that runs to the end of this year. It's generating good cash flow. But our intention is to sell that asset and that will be another source of de-levering. In terms of the remaining FPSOs, our intention over the long-term still is to sell those assets to TOO once it has more balance sheet capacity and that will be another major source of de-levering. So, our plan to de-lever the parent towards net debt free hasn't changed. It's just going to take a little bit longer than originally anticipated.

Peter Evensen: We are confident we will reemploy the Arctic and the Polar, which is generating significant negative CFVO right now, and we are in -- and we are talking with Centrica, which charters the Hummingbird FPSO. And we hope to extend the term of the Hummingbird FPSO contract beyond its current expiry of March 31 of next year. So, we will provide further details if and when a contract extension is signed.

Fotis Giannakoulis: Peter, can you give us a little bit more color on the particular field at what level it's operating right now?

Fotis Giannakoulis: No. We are in discussions to extend that Hummingbird FPSO contract. So, that's pretty much tells you the physical side of that field. It has more oil in it.

Peter Evensen: No. We are in discussions to extend that Hummingbird FPSO contract. So, that's pretty much tells you the physical side of that field. It has more oil in it.

Fotis Giannakoulis: Thank you. One last question, on the other segment that you are reporting, would you be able to remind us which are the assets that you have and what is the impact of the Yemeni vessels that they are right now not operating and if there is any update on these vessels? I understand that the parent is providing some cash flow to TGP on these vessels.

Peter Evensen: No, the Yemen LNG is subject to the Teekay LNG and I will be glad to answer that question tomorrow on the Teekay LNG earnings call.

Fotis Giannakoulis: And would you be able to remind us the assets on the other segment that you have?

Vince Lok: You are referring to the free cash flow statements, Fotis, in the other segment in OPCO?

Fotis Giannakoulis: Correct, yes.

Vince Lok: Yes, that's mainly in-charters. And the most significant drag there, as I mentioned earlier, is the Arctic and Polar Spirit, which is in-charter from TGP. Maybe that's what you are referring to instead of Yemen. And as we said, that currently has a negative drag of about $9 million a quarter. But as Peter said, we are looking at a number of charter opportunities that would commence in early 2017. So, that's the most significant drag there. The other income would include things like fees that we would generate from our management of TIL and Bill and a few other miscellaneous items. Those are the most significant.

Fotis Giannakoulis: Thank you.

Operator: And your next question will come from the line of Amit Mehrotra from Deutsche Bank. Please go ahead.

Amit Mehrotra: Yes, thanks so much. Good morning, guys. I just had a quick question on the common equity offering. $100 million is, I guess, a nice round number. Just wondering how you got there. And I know it lowers net debt to, I guess, the 41% level. I am wondering if you ever thought about actually raising more than that

and how you got to that number given the organic de-leveraging plans sort of in place at the parent level? Thanks.

Peter Evensen: Well, there is always a balance between financial strength and stability and dilution. And this is the first time Teekay Corp. has issued equity in gosh, really since we did the mandatory convertible preferred, I think in '03. So, it isn't a common occurrence. It was not our preferred. We just felt that issuing a $100 million, we could -- that would really having a strong sponsor will benefit our daughters and it will very much assist in our discussions with the rating agencies. So, we wanted to take some risk off the table in today's uncertain markets. And the financial strength is important when we are negotiating long-term contracts. And it will also help us complete all the financial initiatives we have talked about today. There are a lot of financial initiatives.

A lot of banks have given us a lot of new money. So, they want to know that the parent as well as the daughters are in good shape. And so that helps us complete the financing not -- I have spent a lot of time talking about Teekay Offshore, but we are also completing the financing at Teekay LNG. So, this $100 million will give a lot of confidence, a lot of different ways. And I also said, as the number two part on Slide 9, I think it will help us optimize the asset portfolio and the balance sheet. And so we have rising cash flow. And so while it hurts a little bit on a diluted basis, I think we will more than make up for that with the increases in the LPs and ultimately the GP value.

Amit Mehrotra: Yes, okay. Now that makes sense. And one more for Vince on the two LNG tankers, did you say it was $9 million a quarter and then basically expect to get that re-charted in the first quarter of the year, so should we think of that as sort of $36 million headwind prospectively through the course of the year?

Vince Lok: Yes, it's a $9 million quarter, so I give the worst case, which is that we don't get a multiyear contract since Q1 '17. So, that doesn't mean we are not out trying to get short-term charters for it. And I am just trying to give a realistic view of when we think we will get a multiyear contract.

We have lots of people coming in and asking for it, but we are kind of being choosy in trying to lock it up on its multiyear charter. We had it done, first it was in Alaska for a long time and Kenai looks like it might start to have export volumes. We had it done in Argentina. And now there is a lot of potential in China where it's been on short-term charters before. So, we see increased imports of LNG into China, and we know those import terminals need to take our

kind of vessel with shallow draft. So, it's a little choosy, but I would rather get the multiyear contract.

Amit Mehrotra: Yes, sorry to interrupt there. Just maybe I don't know if you can offer any color in terms of what the maybe near-term opportunity cost associated with sort of being a little choosy. I understand that $30,000 a day is fully appreciated that it's based on some probably gross utilization levels or full utilization levels. Is there any indication in terms of what kind of money you guys are leaving on the table in the near term to maybe get in that longer term cash flow?

Vince Lok Well, it all depends. Because in order to be ready to take a cargo, you have to cool it down and it costs several million dollars to cool down a ship. So, what's happening is it can cost you a lot of money to be in a ready to pick up a cargo state. So, we have let it warm up. And so that's why that kind of vessel is better off to move it out where it can be utilized and then wait for a multi-year contract.

Amit Mehrotra: Okay, got it. Okay, guys. Thanks so much. Appreciate it.

Peter Evensen: Thank you.

Operator: It appears that there are no further questions at this time. Mr. Evensen, I would like to turn the conference back to you for any additional or closing remarks.

Peter Evensen: Okay, thank you all. As you see, I am very proud of the team for having accomplished a lot especially on the financial side and we look forward to reporting back to you next quarter as well as incremental views as we complete the rest of these financial initiatives. Thank you very much for listening.

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

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