TEEKAY TANKERS LTD.'S THIRD QUARTER 2017 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay Tankers Ltd.**

Moderator: **Emily Yee**

Date: **Thursday, 9 November 2017**

Operator: Good day ladies and gentlemen, welcome to Teekay Tanker's third quarter 2017 earnings results conference call. During the call all participants will be in a listen-only mode. Afterwards, you will be invited to participate in the 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 Mr Kevin Mackay, Teekay Tanker's Chief Executive Officer. Please go ahead, sir.

Ryan: Before Kevin begins, I'd like to direct all participants to our website at www.teekaytankers.com, where you'll find a copy of the third quarter 2017 earnings presentation. Kevin 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 the 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 third quarter 2017 earnings release and earnings presentation, available on our website. I'll now turn the call over to Kevin to begin.

Kevin Mackay: Thank you, Ryan. Hello everyone, and thank you very much for joining us today. With me here in Vancouver are Vince Lok, Teekay Tanker's Chief Financial Officer and Christian Waldegrave, Head of Strategic Research at Teekay Corporation. During today's call I will be taking you through Teekay Tankers third quarter 2017 earnings results presentation which can be found on our website.

Beginning with our recent highlights on slide three of the presentation, Teekay Tankers reported an adjusted net loss of $14 million or eight cents per share in the third quarter of 2017, compared to an adjusted net loss of $7.1 million or four cents per share in the second quarter. We generated cash flow from vessel operations of $20.6 million during the quarter compared to $28 million in the previous quarter. The results were negatively impacted by lower spot tanker rates which were the lowest seen in several years. In accordance with our dividend policy, Teekay Tankers declared a dividend of three cents per share for the third quarter of 2017, representing the minimum quarterly dividend.

In relation to the merger with Tanker Investments Ltd., we are excited to announce that Teekay Tankers has received support from its four largest shareholders who have voted their shares in favour of the merger. Further, two leading independent proxy advisory firms, ISS and Glass Lewis have recommended the company shareholders vote for the merger proposed charter amendment to permit the merger. I will expand upon this and information regarding the special meeting of shareholders later on in the presentation.

Since August, we entered into agreements to sell two 1999-built Aframax tankers for aggregate proceeds of approximately $12.7 million. One Aframax tanker delivered this past September, with the other expected to deliver later this month.

Lastly, in September this year, Teekay Tankers announced a share repurchase programme for the repurchase of up to $45 million of the company's Class A common shares. The programme provides the company with another lever to create shareholder value, allowing us to opportunistically take advantage of dislocations in the capital markets when we have excess capital. However, our key priorities remain strengthening our balance sheet by further reducing financial leverage and increasing liquidity.

Turning to slide four, I'd like to take a moment to review why we are so excited about the proposed merger with Tanker Investments Ltd. First, this combination is consistent with our long-term strategy of increasing shareholder value by investing and operating throughout the tanker cycle. The merger with TIL will better position Teekay Tankers to capitalize on a potential market turnaround through expanded scale and market presence. This combination will create the world's largest publicly listed mid-size tanker company with a combined fleet of 58 owned tankers operating in key global markets. We anticipate that our expanded scale will result in increased triangulation opportunities, driving fleet utilisation and improved earnings for the company.

Combining with TIL will also modernize our fleet. The addition of TIL's 18 vessels with an average age of approximately seven years will reduce Teekay Tankers average fleet age from ten years to nine. This means that as market conditions improve, we will have the scale to sell older assets, further strengthening our financial position while not diminishing our market penetration or customer service capability. Finally, as Teekay Tankers is currently responsible for the commercial and technical management of TIL's fleet, we do anticipate a smooth and seamless integration.

Turning to slide five, the merger has compelling financial benefits. We expect this transaction to be immediately accretive to earnings per share based on 2016 pro forma results. We are acquiring TIL at a time when tanker prices are at historic lows. In addition, the merger economics remain intact and represent excellent value for Teekay Tankers and its shareholders as the fair market values of each respective fleet have remained relatively constant since our initial announcement. The merger is also expected to significantly strengthen our balance sheet, reducing our financial leverage and increasing total pro forma liquidity by approximately $90 million to around $190 million. Finally, we anticipate that the combination will generate an estimated $3 million of annual cost savings. In summary, we believe this merger will create significant value for Teekay Tankers shareholders.

Turning to slide six, I'll discuss some of the specifics in relation to the special meeting of shareholders. As I touched upon earlier, Glass Lewis and ISS have recommended that shareholders vote for the proposed charter amendment to permit the merger with TIL in a special meeting with shareholders scheduled for November 17, 2017. We value all shareholders' votes, and strongly encourage those who own Teekay Tankers Class A common shares to do so. This merger cannot be completed without the approval of at least 50% of all outstanding shares, therefore a non-vote is the same as voting against the merger. If you have questions or require any assistance, please contact MacKenzie Partners using the contact information provided in this slide.

Turning to slide seven, we look at recent developments in the crude tanker spot market. Tanker spot rates in the third quarter of 2017 were the lowest in several years. The combination of high fleet growth, OPEC supply cuts and the unwinding of floating storage put downward pressure on rates. This was compounded by normal seasonality, with the third quarter typically being the weakest quarter of the year for tanker rates. Average spot rates have, however, improved in the early part of the fourth quarter. This is partly due to seasonality, as refineries start to increase throughput ahead of the winter demand season, as well as some weather delays in the US Gulf in early October. There have also been some structural factors behind the recovery, including strong Asian import demand and an increase in long-haul oil movements from the Atlantic to the Pacific Basins. This is an encouraging development as we head towards the winter months, which is typically the strongest part of the year for spot tanker rates.

Turning to slide eight, we look at some positive developments on the tanker supply side which we believe will set the stage for tanker market recovery. As shown by the chart on the slide, 2017 will be the peak year for mid-size tanker deliveries which are set to decline into 2018 and 2019. In addition, there has been a significant uptick in tanker scrapping in recent months, with eight million deadweight tons scrapped so far in 2017, compared with 2.5 million deadweight tons last year. This increase in scrapping has been driven by a combination of low freight rates and increase in scrap prices, and upcoming legislation on ballast water and low-sulphur bunker fuels, which are encouraging some owners to scrap rather than put vessels through costly dry-docks. We also understand that some new building orders placed earlier in 2017 have been cancelled, as shipyards have been unable to secure refund guarantees, while many of the new build options have also not been taken up. Taken together, we believe that net tanker fleet growth will grow by around 5% in 2017, falling to around 3% in 2018 and 2% in 2019.

Turning to slide nine, I'll briefly recap some of the supportive oil market fundamentals for 2018 which we believe will further aid the tanker market recovery. Firstly, global oil demand remains very strong with the IEA having revised its 2017 oil demand growth forecast up by around one third over the past year. We believe there could be similar upward revisions for next year, giving the increasing strength of the global economy. This strong oil demand, coupled with OPEC supply cuts is leading to a draw-down in global oil inventories. Although this is negative for tanker demand in the short term, it sets the stage for a much more balanced oil market in 2018. We believe that with a more balanced oil market and with oil prices rising to their highest point in over two years, there may be some scope for OPEC to increase production next year, if not by agreement then potentially via reduced member compliance, which would be positive for tanker demand. Non-OPEC production is expected to grow by 1.3 million barrels per day next year, with most of the increase coming from the US. This is positive as the US is developing into a significant exporter of crude oil, recently hitting a record high of around two million barrels per day. This is positive for tanker demand across all crude segments as well as for our Aframax reverse lightering volumes in the US Gulf. In sum, we are encouraged by recent developments on both the tanker supply and demand side and believe that these factors will pave the way for tanker market recovery in the coming years.

Turning to slide ten, I'll provide an update on spot tanker rates for the fourth quarter of 2017 to date. Based on approximately 50% and 46% of spot revenue days booked, Teekay Tankers fourth quarter to date Suezmax and Aframax bookings have averaged approximately $12,800 and $13,000 per day respectively. For our LR2 segment, with approximately 41% spot revenue days booked, fourth quarter to date bookings have averaged approximately $15,100 per day.

In closing, we believe that the merger of Teekay Tankers and Tankers Investments is in the best interest of all shareholders as it is immediately accretive to earnings, reduces our average fleet age, reduces our cash break-even rate and strengthens our balance sheet. We have set the date of the special meeting of shareholders for November 17, 2017 and we encourage all shareholders to vote in favour of increasing the authorized share count, which in turn will allow us to move ahead with the proposed merger. With that, operator, we are now available to take questions.

Operator: Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please press star one on your touch tone telephone. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star one if you have a question today, and we'll pause for just a moment.

We'll take our first question from Noah Parquette, JP Morgan.

Noah Parquette: Thanks. To start, focusing on the share purchase programme, can you talk a little bit more about under what conditions you guys think you'd find yourself repurchasing those shares? And maybe more specifically, what kind of targets you guys are aiming for on the deleveraging front?

Kevin Mackay: I think, Noah, I think I'll start and then maybe hand it over to you, Vince. Just, an overview of the share repurchase programme, one of the deliberations that we've had with our board over several quarters in the last year or so has been our capital allocation programme. And we felt that going forward, we had various levers in our toolkit, if you will, to manage capital allocation but with a continuous offering programme out there on one side, we felt that it was beneficial to have something on the adjacent side where, when we find dislocations in our share price relative to our value, we can take excess capital that we haven't assigned for other purposes to buy back shares and increase shareholder value that way. So, this was really just to flush out our financial toolkit and give us different options at different points in the cycle. So, as it comes to when we actually execute on those, as we with all other aspects of our business, we take a portfolio approach and look at each point in the cycle, what is the best use of our capital and where can we maximize value for the shareholders? So, the share buyback programme will be something that the management will be talking through on a continual basis and we'll be sharing our thoughts and getting guidance from our board in terms of at which point in the cycle we decide to use it.

Vince Lok: And just to build further on that, and to answer your question about balance sheet strength. Obviously one of the key benefits of the TIL merger is giving us a bigger balance sheet and a stronger balance sheet as well as stronger liquidity position. I think we've been very consistent in saying that one of our goals is to continue to de-lever the balance sheet and that's something we want to continue to do, even post-merger, and you've seen that in terms of some of the asset sales of other vessels. So, as Kevin said, it is, the share buyback programme is another capital allocation tool that we can use to create value. So, when we do have excess capital, we do need to look at whether investing in additional vessels versus buying back our stock, which one is going to create the most shareholder value.

Noah Parquette: Okay, and then, shifting gears, for your lightering business, can you talk about, was it affected at all by the hurricane at all during the quarter and how's it looking so far this quarter?

Kevin Mackay: Yes, I mean, obviously Hurricane Harvey was very disruptive to the logistics supply chain within the US Gulf, both on an import basis and an export basis. Whether that was lighterings, or reverse lighterings or voyages, all schedules and plans were dramatically altered. But given our scale and our access to our poo vessels, we were able to manage through it without any major impact. It did increase demand in the short term, as dislocated vessels weren't able to get into port and subsequently drove higher demand. So, there was a positive that came out of it, and I think as we look through the rest of the fourth quarter, we are seeing an increase in export volume from the Gulf, which is positive for both our reverse lightering business, but also our Aframax and Suezmax business, which is taking cargoes directly from port across the Atlantic to European buyers. So, we're seeing the positive on both sides of our business.

Noah Parquette: Okay, then just really quickly, assuming the merger – the vote goes okay, you expect it to close by the end of the year?

Christian Waldegrave: Yeah, as Kevin said, the meeting date is November 17th and if the vote is approved then we are targeting to close the transaction probably, I would say end of November, early December, in that time frame.

Kevin Mackay: Just to add to that, given the fact that, I mentioned it in my comments that the fact that we commercially and technically manage these vessels already means that the close and the integration is going to be smooth and seamless, really.

Noah Parquette: Great, thank you.

Operator: Once again, ladies and gentlemen, it is star one if you have a question. There appear to be no further questions. Mr. Mackay, I'll hand things back for any additional or closing remarks.

Kevin Mackay: Thank you. We encourage all shareholders to vote prior to November 17th and we look forward to speaking to you next quarter. Thank you.

Operator: Ladies and gentlemen, that does conclude today's conference. We would like to thank you all for your participation, you may now disconnect.