TEEKAY CORPORATION’S Q4 AND FISCAL 2017 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay Shipping (Canada) Ltd.**

Moderator: **Emily Yee**

Date: **Thursday, 22nd February 2018**

Conference Time: **14:00 ET**

Operator: Welcome to Teekay’s Corporation Fourth Quarter and Fiscal 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 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 Mr Kenneth Hvid, Teekay’s President and Chief Executive Officer. Please go ahead, sir.

Lee Edwards: Before we begin, I would like to direct all participants to our website at www.teekay.com where you will find a copy of the fourth quarter of 2017 earnings presentation. Kenneth and Vince will review this presentation during today’s conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the fourth quarter of 2017 earnings release and earnings presentation available on our website. I will now turn the call over to Kenneth to begin.

Kenneth Hvid: Thank-you, Lee and thank you all for joining us today for Teekay Corporation's fourth quarter of 2017 earnings conference call. I'm joined this morning by our CFO, Vince Lok.

Starting with Slide 3 of the presentation:

In the fourth quarter, Teekay Corporation generated total consolidated cash flow from vessel operations, or CFVO, of approximately $184 million and a consolidated adjusted net loss of approximately $10 million, or 11 cents per share, which is significantly improved from last quarter's loss of 41 cents per share on the back of stronger results across the Teekay Group, including our three directly-owned FPSOs, which have fixed-rate floors with upside exposure to production and oil prices. As a reminder, since we deconsolidated Teekay Offshore on September 25th, our consolidated CFVO in the fourth quarter only includes 14% of Teekay Offshore's CFVO whereas in the third quarter, it included 100% of Teekay Offshore's CFVO up to September 25th. Had we continued to consolidate Teekay Offshore, our reported CFVO would have been over $300 million in the fourth quarter of 2017.

In mid-January, Teekay completed two capital issuances; $97.5 million of common equity and $125 million of convertible bonds for gross proceeds of $222.5 million. We and our Board viewed this as a prudent time to further strengthen Teekay Parent's balance sheet and begin addressing our January 2020 bond maturity, providing us with flexibility and optionality to do so with total liquidity of almost $540 million, pro forma for these two capital raises.

I won't spend a lot of time going through Teekay LNG's Recent Results and Highlights on Slide 4, because I will assume most of you listened-in to their earnings call earlier today.

Teekay LNG Partners generated Distributable Cash Flow, or DCF, of approximately $52 million, resulting in DCF per limited partner unit of 65 cents, and total CFVO of approximately $127 million, up 19 percent from last quarter. The Partnership continues to generate stable cash flows that are in-line with our expectations and which we expect will grow as newbuildings deliver over the next couple of years. Teekay LNG recently delivered 6 LNG carriers onto long-term contracts and we have a total of 11 LNG carriers delivering by the end of 2018 and 18 by the end of 2020.

We expect TGP's LNG carrier deliveries to generate approximately $250 million of CFVO to the Partnership.

The financings for TGP's LNG newbuilding program is now largely complete and TGP has also made progress on the refinancings coming due for certain of its existing LNG carriers.

On Slide 5 we have summarized Teekay Offshore's recent results and highlights and the status of its growth projects:

Teekay Offshore Partners generated DCF of approximately $34 million, resulting in DCF per limited partner unit of 8 cents, and total CFVO of approximately $145 million, up 17 percent from last quarter.

The Teekay Offshore team has been extremely busy delivering projects onto contracts and is looking forward to the start-up of one of its more complex units, the Petrojarl 1 FPSO, which is scheduled to commence its charter this April.

Two FPSOs have secured contract extensions and the Partnership ordered two additional LNG-fueled shuttle tanker newbuildings to serve as part of its North Sea COA portfolio.

As can be seen on the right-hand side of this slide, TOO has now taken delivery of almost all of its near-term growth projects and collectively these are expected to generate approximately $200 million of cash flow upon the start-up of the last couple of contracts, with a significant portion of this cash flow not fully recognized until the first and second quarters of 2018.

Looking at Slide 6, Teekay Tankers reported an adjusted net loss of approximately $6 million, or 3 cents per share, and total CFVO of approximately $32 million.

Elevated levels of tanker deliveries and global oil inventory drawdowns contributed to weak spot tanker rates in the fourth quarter and, while we expect 2018 to be challenging for the tanker market, the supply and demand fundamentals indicate a tanker market recovery towards the end of this year and into 2019.

In November, TNK completed its strategic merger with Tanker Investments Ltd, or TIL, which creates the world's largest publicly listed mid-size tanker company, with a combined fleet of 58 tankers.

We believe Teekay Tankers' stock represents compelling value and therefore, during the fourth quarter, Teekay Corporation increased its ownership in TNK from 24% to 29% which approximates our pre-merger ownership level. A portion of the proceeds to fund the acquisition of these shares were reallocated from the divestment of our non-core investment in drybulk carriers. Importantly, we see these purchases of TNK stock at a level that is below TNK's net asset value, or NAV.

Looking to the right of this slide, we see significant value in TNK's equity when the tanker market and asset prices recover, even just to mid-cycle levels, which we define as the median of the past 15 years.

From an asset point of view, we believe TNK's NAV will increase by over 140% or more when ship values revert to their long-term average level.

And as the chart at the bottom right of the slide depicts, if Aframax rates revert back to mid-cycle levels of just under $25,000 per day, we believe that TNK can generate approximately $1.05 per share in Free Cash Flow, roughly equal to the current share price.

This is a business that we have been in for over 40 years and we understand the power a recovering market can have on tanker equities.

I would like to finish the call today on Slide 7. We really see that Teekay is at an inflection point; financially, operationally in terms of project deliveries, and from a fundamental energy market point of view. We have taken great strides over the past couple of years raising liquidity and executing on our financial and operational goals and we are now well-positioned to increase the value of our companies. In particular, we see three key drivers that are aligned to increase the intrinsic value of our companies:

First, the financial strength of our companies has improved with the financings of our projects and the completion of various strategic transactions in 2017,

Second, we are enjoying tailwinds from an improving macroeconomic backdrop in each of our core segments, and

Third, we have embedded cash flow growth most of which has not yet been included in our results as the projects are just now beginning to come into operations.

Let's analyze how these three key drivers will increase the value of our companies:

Teekay LNG has done a great job completing the financings for its newbuilding program, removing the financing uncertainty that has been surrounding TGP for the past couple of years. And while Teekay LNG's leverage is currently high mainly because it is warehousing its large newbuilding program, it will naturally delever as its newbuilds deliver and begin to cash flow. Looking ahead, the volume of LNG traded has increased remarkably, up 11% year-over-year and predicted to grow an additional 24% by 2020 as the world transitions away from coal-fired power plants to cleaner gas-powered plants to fuel increasing electrification needs. And lastly, Teekay LNG's newbuilds will continue to deliver over the next few years, adding approximately $250 million of cash flow.

In mid-2017, Teekay and Teekay Offshore entered into a strategic partnership with Brookfield which significantly strengthened Teekay Offshore's balance sheet and, similar to Teekay LNG, Teekay Offshore's balance sheet will naturally delever as its projects begin to cash flow. During the last seven or eight months, oil prices have increased and with it, our primary customers, comprised of the oil majors, are enjoying higher margins than they were at $100 oil due to lower input costs. However, the majors have also under-invested over the past few years and with global oil demand increasing, we are now witnessing increased activity in the offshore space, particularly in our core markets, and Teekay Offshore is well-positioned to participate in this upturn. The majority of Teekay Offshore's projects have now delivered and over the next few quarters, the associated $200 million in annualized cash flow will also be realized.

In November of last year, Teekay Tankers completed its merger with Tanker Investments and in December, TNK completed the refinancing of two of its assumed financings, stretching out TNK's debt maturity profile during a time of expected market weakness. Both of these transactions increased the financial strength of Teekay Tankers and helped to position it for the tanker market recovery that we see coming, which is based on favorable supply and demand fundamentals. Growth in the tanker fleet is slowing just as scrapping is picking-up, combined with continued strength in global oil demand. And under a recovery scenario, Teekay Tankers is expected to generate strong Free Cash Flow which will increase the value of TNK, and our investment in TNK.

And looking to the far right-hand column on this slide, Teekay will benefit alongside fundamental improvements across each of our companies. As I spoke about earlier in my remarks, the capital raised by Teekay in January of this year helped us to build financial strength by providing us with optionality and flexibility as we look to reduce our overall financial leverage. Each of our businesses will benefit from growing oil and gas demand and growing cash flows which should ultimately translate into growing Free Cash Flow for Teekay Corp.

So summing up this slide, we believe that we are at an inflection point and our key drivers are aligned; each of our companies has and will continue to strengthen financially, the energy markets are providing tailwinds for our businesses and our cash flows are growing, noting that the majority have not yet been reflected in our financial results. As these factors continue to strengthen in unison, the intrinsic value of our

Operator, we are now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are joining us today using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is the star key followed by the digit one. We'll pause for just a moment.

And at this time we'll take your first caller who will come from Michael Webber with Wells Fargo Securities.

Michael Webber: Hey guys. Good morning, how are you?

Kenneth Hvid: Morning.

Vincent Lok: Hey, Mike.

Michael Webber: Hey. Kenneth, I wanted to start first with the recent capital raise and the idea that – I mean, it clearly seems like you guys are trying to, kind of, get ahead of the refinancing, the January 2020 bonds. Seems like the biggest bogie out there. Can you talk a little bit about: one, how you would, kind of, attack that with, I guess, the recently raised capital as well as any eventual uptick in organic cash flow. And maybe just, kind of, help lay out the plan. You've got some time, obviously, but it does seem like you're trying to get ahead of it, so I feel like it's warranted to, kind of, run through it.

Vincent Lok: Hi, Mike, it's Vince here.

Michael Webber: Hey, Vince.

Vincent Lok: Yeah, with the capital raises in January, first of all we felt it was a prudent thing to do. As you've seen, financial strength is across the Teekay Group and in fact is one of our strategic initiatives. This allows us to de-lever the parent balance sheet and increase our liquidity, which is over $500 million now. And it does give us a lot of financial flexibility and a lot more options to address our liability management going forward and, as you mentioned, the 2020 bonds. And so this allows us to right size the balance sheet, and ultimately refinance a smaller amount to the bonds.

So, for example, if we were to be able to reduce our bonds down to, say, $300 million that would save annual interest expense of more than $25 million, which obviously increases our free cash flow, so, for example. So, in terms of addressing the bond, this is something that we are discussing with our banks and our board on our liability management strategy over the course of this year. We do have some time though. But we're going to look at –

Michael Webber: Sure.

Vincent Lok: - a number of alternatives and choose the one that's going to be – you know, that's going to create the most value over the long term.

Michael Webber: Right.

Vincent Lok: But I think it just gives us an opportunity to work from a position of strength. Our free cash flow is improving, as you noted but our asset coverage is also improving given that our daughter companies have stable capital structures, their cash flows are increasing. Another potential source of capital, of course, is our three FPSOs and if we're able to sell some of those over the next couple of years that's another source of de-levering

Michael Webber: Yes. That was – actually my next question was around, you know, whether there's a bid for those. It seems like at least the tariffs are closer to being in the money, at least with the way the splits work – and whether there is a realistic opportunity to sell those today if you needed or wanted to? I guess it's such a thin market, I'm just curious whether that's something that you would explore today, or would you wait for the market to firm?

Kenneth Hvid: Yeah, this a theme that we've been talking about, I guess, for the past couple of years, so – and I think we've been pretty consistent in terms of saying that we're definitely not sellers when the oil prices were low, and there was zero interest for assets like this.

Michael Webber: Sure.

Kenneth Hvid: And in a recovering market – and that was the reason why we also, I think, restructured some of our contracts here so that we would be more participating with our customers in the market downturn but also in the upturn and, as you point out, we are now seeing that upside. So, with that, and not surprisingly, we are of course also seeing some inbound enquiry for some of the more marginal appeals that are looking forwards for cheap development solutions.

So same as we are seeing on TOO, we do actually have inbound enquiries especially one of the assets that's coming up. Both of them – I mean, if you take Hummingbird, we just put on the new contract, the new well is flowing, there's a well stimulation vessel on there. It is not quite flowing at the rate that we expected, but the oil is there, so our customers is working on that right now, actually, with the well stimulation, and we're looking at other means that we can try and further stimulate that well. So that looks pretty promising on the backing of the drilling campaign that our customer committed to there.

On Banff, that continues to flow. There's a lot of gas coming in to that unit. but it's actually –you know it's a small unit. It's that fairly universal unit that's in good condition that can produce a number of different fuels. So people know that this is an asset that's coming up, an incentive for renewal and we are receiving some interest in that unit, and the Foinaven of course will continue for longer.

Michael Webber: I guess maybe if I take another run at that, in a maybe more straight forward way, you know, is it fair to say that in 2018 you're looking at, kind of, operational upsides on those assets and if you were to actually liquidate in that optimism, I guess, would it actually permeate into the SMP market for those? That would be more of a 2019 or 2020 event?

Kenneth Hvid: Not necessarily. I think we have always been on this stated path of not owning ops assets directly upstairs and as we talked about it last quarter, we reduced our exposure to the conventional tanker markets and have no assets there. Our polar and arctic are redelivering over this quarter and next quarter so that reduces that and what's really left are the three FPSOs, as you point out, so we are close in also evaluating the strategical terms in concert with that we are trying to maximise the cash flows on those assets now so I think the straight answer to your question is we are quite flexible in terms of what makes the most sense if there is an interested party in those assets.

Michael Webber: Alright. But the inbound isn't operational, you're not getting inbound from people looking to buy them.

Kenneth Hvid: Yes we are.

Michael Webber: Okay. Okay. Good. Alright that's all. I'll turn it over. Thanks guys.

Kenneth Hvid: Thanks, Mike.

Operator: We'll hear next from Randy Givens from Jefferies.

Randy Givens: Hey. Thanks. I don't think there were enough questions on those FPSOs so I have a few more. Is the only buyer going to be TOO or are you, kind of, book marking them for drop down candidates? Or are you open to, kind of, third party sales as well?

Kenneth Hvid: We obviously have – dating back to when we established TOO and omnibus agreement where these assets have been offered or can be offered to Teekay Offshore, but the parties that we are having discussion with are also now are external parties, so we don't have a restriction. There is an opportunity for TOO to buy, of course, but there is also an opportunity for other people to invest in these assets.

Randy Givens: Sure, and then I guess you looked at those as a source of cash. Let's say you were to sell all three. Give us a, kind of, ball park for their range of expected proceeds and then – or just more pointedly against those that you would have to pay off, so the, kind of, net cash benefit of sales.

Kenneth Hvid: Yeah and back to, I guess, my answer to Mike before, it's quite clear that these assets are either worth what is meaningful and that all depends on what it is the next opportunity and can somebody use the assets right and that where, in the last downturn here, that we saw there wasn't a lot of inbound enquiry and therefore assets like this don't have a lot of value but if you can actually match with an asset with the right feel then obviously the conversation changes. So I don't think I really want to be drawn on what we have as a minimum sales price but it's clear that the value from these assets comes from paring them with the next opportunity and that's, of course, a pretty exciting dialogue in a strengthening market.

Vincent Lok: In terms of the debts on these three assets, we had $83 million drawn on these three assets as of 31st December. However, with the capital raises we did in January that $83 million has been paid down in the revolvers. We have nothing drawn on those three assets.

Randy Givens: So any sale would be straight net cash.

Vincent Lok: From where we sit today, yes, that is right.

Randy Gibbons: Perfect. Alright. And then, I guess, one more question, looking at the dividend, any chance of increasing that without distribution at the daughter levels? Or is it, kind of, waiting on TGP to increase there before you increase your dividend?

Vincent Lok: Yeah. Right now, we don't have any plans to change the dividend in the near term. I think, as Kenneth mentioned in his prepared remarks, our focus is increasing the value of the entire group, first and foremost, but in terms of capital allocation decisions around dividends it's something always is discussed with our board.

Randy Givens: Fair enough. I'm sure you all had a busy day, so I'll let you go. Thank you.

Vincent Lok: Thank you.

Operator: At this time, there are no additional callers in the queue. I'd like to turn the conference back over to Mr. Hvid for any additional or closing comments.

Kenneth Hvid: Well, thank you for your interest in all our calls today and we look forward to reporting back to you next quarter on our progress. Thank you.

Operator: That does conclude today's teleconference. We thank you all for your participation.