TEEKAY TANKERS LTD.'S FIRST QUARTER 2024 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Tankers Ltd.

Date: Thursday, 9th May 2024

Conference Time: 11:00 ET

Operator: Welcome to Teekay Tankers Limited's first quarter 2024 earnings results conference call. During the call, all participants will be in a listen-only mode. Afterwards, you'll 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'll find a copy of the first quarter 2024 earnings presentation. Kevin and Stewart 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 of 2024 earnings release and earnings presentation available on our website. I'll now turn the call over to Kevin Mackay, Teekay Tankers' president and CEO to begin.

Kevin Mackay: Thank you, Ed. Hello, everyone, and thank you very much for joining us today for Teekay Tanker's first quarter 2024 earnings conference call. Joining me on the call today is Stewart Andrade, Teekay Tankers' CFO, and Christian Waldegrave, our Director of Research.

Moving to our recent highlights on slide three of the presentation, Teekay Tankers generated total adjusted EBITDA of $151 million, up from the $127 million we generated last quarter. The Company reported adjusted net income of $132 million or $3.86 per share, an increase from $100 million or $2.91 per share in the fourth quarter of 2023. With our fleet of mid-sized tankers trading almost entirely in the strong spot market, Teekay Tankers' high operating leverage enabled us to continue generating significant earnings. As a reminder, for every $5,000 increase in tanker rates above our free cash flow breakeven of $16,000 per day, we expect to generate approximately $2.40 of annual free cash flow per share. Stewart will provide further information on this later in the presentation.

In March, we completed the repurchase of the remaining eight vessels on sale-leaseback arrangements for $137 million, reaching a major milestone of being debt-free. With our balance sheet strength, recent financial performance, and the positive market outlook, we continue to take a balanced approach to capital allocation. In line with our capital allocation plan, we have declared a fixed quarterly cash dividend of $0.25 per share for the first quarter of 2024. In addition, we have declared a special dividend of $2.00 per share. Including these dividends, Teekay Tankers has declared cash dividends of $4.25 per share since updating our capital allocation plan last year.

Teekay Tankers' mid-size spot rates for the first quarter of 2024, the second highest in the Company's history, second only to last year's spot rates. These firm spot rates have continued through the first half of the second quarter as well. The recent expansion of the Trans Mountain Pipeline to Vancouver with first cargoes planned for this month, will create a new source of Aframax demand, which is expected to support Aframax spot tanker rates as volumes ramp up over the coming months. I will talk more about this important development later in the presentation.

Looking ahead, tanker supply and demand fundamentals remain positive and point toward continued tanker market strength in the medium term. Finally, we completed the previously announced sale of one 2004-built Aframax during the first quarter for total proceeds of $23.5 million, recording a gain on sale of $11.6 million.

Turning to slide four, we look at the dynamics in the spot tanker market. As mentioned in the highlights, Q1 saw the second highest mid-sized tanker spot rates for a first quarter in Teekay Tankers' history, second only to the exceptional rates recorded in Q1 of last year. Rates were supported by a combination of factors including firm tanker tonne-mile demand, limited fleet supply growth, normal seasonality, and trade route disruptions due to geopolitical events, which led to an increase in average voyage distances.

These factors have continued to support spot tanker rates during the second quarter with rates remaining at firm levels. Looking to the second half of the year, we expect the rates will remain well supported by rising oil demand, an expected increase in crude oil supply from non-OPEC countries, predominantly in the Atlantic basin, and the start of exports from the newly expanded Trans Mountain Pipeline.

Turning to slide five, we provide an update on our Suezmax and Aframax-sized spot rates in the second quarter to-date. Based on approximately 59% and 54% of revenue days booked, Teekay Tanker's second quarter to-date Suezmax and Aframax-sized vessel bookings have averaged approximately $45,100 per day and $43,900 per day, respectively. Importantly, I would once again highlight the value being created by Teekay Tankers' eight vessel chartered-in fleet, of which seven are trading in the strong spot market. With an average in-charter rate level of $25,400 per day, the chartered-in fleet has a current mark-to-market value of approximately $54 million.

Turning to slide six, we look at the impact to the Trans Mountain Pipeline Expansion, or TMX, which we believe will provide a significant boost to Aframax specific demand going forward. On May 1st, the Trans Mountain Pipeline Expansion commenced commercial operations, with first cargoes expected later this month. The new pipeline has a

capacity to carry 590,000 barrels per day of Canadian crude oil for loading onto Aframax tankers, which is the maximum size of vessel that can load from the terminal due to draft restrictions.

Given that the first cargoes have yet to load, there is still uncertainty regarding the ultimate destinations of the crudes exported from TMX. However, we have identified four potential trades, which could develop to bring this oil to market. First, given the characteristics of Canadian crude, we believe that the barrels are well suited to refineries in the US West Coast, particularly in California, where cargoes would be transported directly on Aframaxes. Secondly, we expect that Asian buyers will look to acquire Canadian oil given its price discount to equivalent grades from other sources. This oil could be transported directly to Asia on Aframaxes, and we've already seen one customer booking an Aframax for May loading dates with discharge in China.

Alternatively, Asian buyers may find that there are economies of scale to be gained from parceling up Aframax cargoes to a larger VLCC or Suezmax. The most likely locations for these reverse lighterings are in the Pacific Area Lightering zone off the coast of southern California, or off Panama, where other grades of Latin American crude may be co-loaded. Again, we have already seen a customer taking this latter option with reports that a major refiner has booked Aframaxes from TMX for parceling up to a VLCC off Panama for onward delivery to India.

These new trade routes are expected to increase Aframax demand going forward, particularly as Vancouver is relatively far from the main Aframax trade lanes in Asia and the U.S. Gulf, meaning that vessels will have to be pulled in from these regions to meet demand. To give some context, the distance from Vancouver to southern California is around 1,200 nautical miles or 12 voyage days on a round trip basis, including load and discharge time. While the distance from Vancouver to China is around 6,000 nautical miles or 44 voyage days. Assuming a 50-50 split between these two destinations, we estimate that the Trans Mountain Expansion could create incremental demand for around 25 to 30 Aframaxes once the pipeline is at full capacity.

Turning to slide seven, we look at supply and demand factors, which we believe support continued tanker market strength over at least the medium term. Fleet supply fundamentals continue to look positive. Despite an increase in the pace of new tanker orders in recent months, the tanker orderbook is small by historic standards at 9% of the fleet delivering over the next three years. The orderbook is particularly small this year with just 2.4 million deadweight tons of new tankers delivering into the fleet during the first quarter of 2024, which is the lowest delivery total for a first quarter since 1989.

Furthermore, the tanker fleet is aging with the average age of the global fleet at its highest point since 2003, coming in at 13.2 years. While ships are not being scrapped in the current high spot rate environment, vessels that trade beyond age 20 are seeing a significant drop in utilization compared to the vessels below 20 years of age, thereby reducing effective fleet supply. As a result, we project close to zero tanker fleet growth in 2024 with modest growth of around 1% in 2025.

Looking at demand, the average forecast for the major oil agencies projects healthy oil demand growth of 1.5 million barrels per day in both 2024 and 2025. The majority of this demand growth is expected to be met by increasing oil supply from the non-OPEC+ countries, particularly from producers in the Atlantic basin, which suggests that tanker tonne-mile demand will continue to benefit from an increase in long-haul movements from the Atlantic basin to Asia.

As shown by the chart on the right of the slide, tanker tonne-mile demand growth is expected to outstrip fleet supply growth both this year and next, continuing the trend that started in 2022. This compounding impact of demand growth exceeding supply growth should continue to support high levels of tanker fleet utilization and firm rates through at least the medium term. I'll now turn the call over to Stewart to cover the next slide.

Stewart Andrade: Turning to slide eight, we highlight how well Teekay Tankers is positioned to continue creating significant shareholder value in 2024, a year that we expect to be another strong tanker market. With 98% of our 51-vessel fleet operating in the strong spot tanker market that is being supported by the various factors

we have talked about today; we feel confident in our ability to continue creating significant shareholder value. In the first quarter, TNK generated $156 million or $4.54 per share of Free Cash Flow. If we use the trailing twelve-month average of TNK's realized spot rates and project that forward, our annualized free cash flow would be approximately $14 per share or a free cash flow yield of approximately 22%.

As Kevin mentioned in his opening remarks, Teekay Tankers has reached a milestone by becoming debt free after repurchasing our eight vessels on sale-leaseback arrangements during the first quarter. Based on a holistic assessment of the Company's position, including being debt-free, continuing strong operating results, our desire to retain capital for fleet rejuvenation, and a very positive market outlook. The Board has declared a special dividend of $2.00 per share for a combined dividend of $2.25 per share, including a regular quarterly dividend of $0.25 per share. With these dividends, Teekay Tankers has returned capital to shareholders totaling $4.25 per share since announcing our revised capital allocation plan in May of last year. I will now turn the call back to Kevin to conclude.

Kevin Mackay: Thanks, Stewart. In summary, the key drivers of the strong markets for mid-size tankers remain firmly in place. As we look ahead at both supply and demand, we are increasingly upbeat on the prospects over a multi-year period. In this environment, our high operating leverage continues to create significant value for Teekay Tankers' shareholders. Our board of directors' decision to declare a special dividend reflects our balanced approach to capital allocation. While we continue to prioritize building capacity for fleet rejuvenation, the special dividend reflects our optimism about what lies ahead for our industry segment and our company. With that, Operator, we're 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're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. We'll go first to Jon Chappell with Evercore ISI. Your line is open. Please go ahead.

John Chappell: Thank you. Good morning. Starting with the market one –

Kevin Mackay: Morning, Jon.

Jon Chappell: Morning, Kevin. Maybe for Christian, Kevin, you could answer it as well, but I think the slide four on the right-hand side is pretty interesting. I mean, there's a lot going on in this industry right now and a lot of geopolitical upheaval, yet when I look at the Suez and Aframax rates that you put in slide four, they're in a super tight range for the last six months. Obviously, at elevated levels, but within a pretty tight range. So just any commentary on why maybe some of the volatility that's usually in this sector and one would conceptually think would be even elevated in this day and age is resulting in such stable, yet strong rates in the two asset classes where you're primarily involved?

Christian Waldegrave: Yeah. Hi, Jon. Christian here. I think that was our kind of takeaway as well in that given everything that's going on in the world and all the events, it is interesting to see that spot tanker rates, at least in our sectors, have been quite consistent since the winter. And normally during this part of the year, we would expect rates to fall seasonally, going into kind of the shoulder season as refineries go into maintenance. And I think what's worked in our favor since the beginning of the year is that a couple of those event factors of what have been positive for tonne-mile demand. So, you've obviously had disruptions in the Red Sea because of the attacks on merchant shipping, which has sent tankers going on longer voyages around the Cape of Good Hope, which has affected both crude and product. It's probably been more pronounced on the product side and the LR2s, but certainly, we've seen some crude diverted as well.

And then with Ukrainian attacks on Russian refineries, we've also seen that Russian exports have stayed elevated as well. So, I think there have been some factors there that have supported tanker rates during what would ordinarily be a seasonally weaker part of the year. And that probably bodes well for the second half as well because as Kevin said in his prepared remarks, we now have the Trans Mountain Pipeline coming online and ramping up into the

second half Q2 here. And we certainly expect volumes there to be supportive of Aframax demand as we go into the second half of the year, and we should see more oil volume come online in the second half as well. It has been a positive development that rates have stayed elevated through Q2 and that it gives us some confidence for the rest of the year here as well.

Jon Chappell: Okay, that's helpful. Thanks, Christian. And then just for my follow-up in the interest of playing the hits. Kevin I think the special dividends being widely applauded today, you're down to a net cash position. So, I'm just not asking you to completely show your hand, but maybe just a clarification on path from here. If you could just prioritize how you think about this massive cash flow that Stewart pointed out in the coming quarters, how would you prioritize the uses of capital, let's call it through the rest of 2024 and through 2025?

Kevin Mackay: Yeah, it's obviously a fantastic situation to be in after the markets that we've had to come through over the last few years. But it's something that as a management team and in conjunction with our Board, we're always looking at and always trying to discuss. We do have fleet renewal to look at and although pricing today is elevated on both newbuilds and secondhand, there is a need for us to replenish. As we sell ships, we still want to keep exposure to the spot market because of the confidence we have in the underlying fundamentals of the market. As we roll off some of the older ships, you may see us use some of that capital to reinvest and keep our spot exposure at a high level. So some of the cash may be used for that.

We also have to look beyond that and look to the future as to doing larger fleet rejuvenation exercises, which we're not advocating to do now but we are cognizant of the cyclicality of our market and keeping that powder dry for that use is important for us to be able to provide long-term value to shareholders. And then, obviously, we understand and fully respect that shareholders would like a yield, and in that respect, our capital allocation plan that we came up with last year we felt was a prudent long-term orientated plan that satisfied both the rebuilding of the fleet as well as replenishing some capital back to shareholders in the meantime.

Jon Chappell: Okay. yeah, that's very clear. Thank you, Kevin. Thanks, Christian.

Kevin Mackay: Thanks, Jon.

Operator: We'll go next to Omar Nokta with Jefferies. Your line is open. Please go ahead.

Omar Nokta: Thank you. Hey, guys. I just wanted to follow up maybe on Jon's question, and I know it's something that constantly comes up, but clearly, now you're in the net cash position completely debt-free, so congrats obviously on that. It's been a long time coming but did notice you've accounted for two ships as available for sale as of the end of the quarter, so it looks like you're going to continue to scale as you were just talking about, Kevin. You got 42 tankers in the fleet. After those two, there's going to be 40. You mentioned looking to replace ships as you sell them.

I guess kind of just thinking about that, if we think about the fleet size today, say post those sales we'll have 40 vessels, is there a certain critical mass or a certain number that you're comfortable wanting to stay above in order to continue to achieve these types of rates? And should we expect sort of like a sooner replacement of vessels versus what we've seen here over the past few years?

Kevin Mackay: Obviously, scale provides us a lot of optionality to trade in different markets and be able to be in different places as the volatility that is inherent in strong markets plays out and we want to have enough scale to be able to play across several markets. So, as we look at some of the older ships that we sold at the end of last year, we do currently hold a Suezmax and an Aframax for sale. Looking just to take value off the table for that older class of ship.

If there is an opportunity to find a newer, more modern vessel yes, we would redeploy that capital to keep the exposure on, but we're not looking at a set number or anything of that nature. It's more around being able to distribute a large enough fleet across several markets to make sure that we can capitalize on the volatility that we expect to continue to see. So that's really how we think about it, Omar.

Omar Nokta: Okay, thanks. And how does TC-Ins play into that? Clearly, several quarters ago you brought in a good chunk of ships to take advantage and have that spot exposure that's stabilized and that fleet hasn't really grown. Is that an option or is it you prefer to do it via ownership?

Kevin Mackay: No, we have a lot of options. We've got a lot of tools in the toolkit. We've built a good in-charter book. We got in early before the market really took off and we've really enjoyed the added profit that that fleet's been able to provide. But we're at a point in the market where there is a bid-ask spread and it's rather large at the moment between what other owners want for their ships and what we're willing to pay. So, you have seen a slowdown that is a natural effect of the market reaching the sort of levels that we're seeing. But that doesn't preclude us from adding additional ships, it's just finding the right ship at the right price often in the right location, which has a massive impact on your overall earnings.

We have several ships that will be coming off later as their charters roll off and we've already started discussions with the owners to see if we can find a number that's equitable to both sides to keep those ships on. So, it's definitely a toolkit or a tool that we've got in the toolkit that we expect and are always looking to try and utilize. Similarly, as I've been asked on previous calls as to whether we'd lock in our own ships at these kind of levels and put them out, the answer is the same there, if we can find the right opportunity that pays the right price, we'll certainly execute on it and be able to report on it.

Omar Nokta: Got it. Thank you for that, Kevin. And maybe just one more for me. Regarding TMX as you've been highlighting that the past couple of quarters, we're getting closer and closer to that having an impact, and you

mentioned the different potential trade lanes and reverse lightering and whatnot, but maybe are you able to give us maybe some perspective on how you think about that market developing? You highlighted how it's in somewhat of a remote location relative to the normal trade lanes that Aframaxes will traffic in?

How do you think that spot market develops for cargoes there in terms of kind of maybe enticing ships to stay there since it's kind of an isolated area, at least relative to other areas? So, I guess maybe how does the spot market play out there? And I know that's kind of trying to give some sort of crystal ball approach, but if not able to do that, maybe just in terms of what you're seeing now in terms of what the rates offered in that region are versus where they are globally on average? Any kind of color you can give on pricing in that region.

Kevin Mackay: Well, first, I think we've got to be honest, as we've laid out in our presentation, it's early days yet. The cargoes are starting to come. We've seen a couple of fixtures in the market. From a positive standpoint for us, they seem to be long haul both to China and then down to 15 days down to Panama. So, where the cargoes go, at this point, we don't know. We have to wait and see. We think that there's four main options that the customers will take. A lot will depend on oil pricing and the differences between oil prices in different regions, which again, I'm not going to stand here and in any way try and predict that.

What I do think will happen though is the oil will have to move and it will be priced into the right market and that will include shipping cost. And if that means that ships in the far East have an option as they come into north Asia for discharge, they now have an option to look to ballast across to Vancouver and pick up a nice long-haul voyage from there. Similarly, ships that do end up trading into the West Coast or through Panama, they now have that option to go up.

So, I think it's something that owners will have to wait and see as the trades develop. I don't think necessarily it will mean that you will have ships that will station themselves there. I think they will move in from other regions as, and when the requirements pick up. And from the freight standpoint, it will be priced according to the earnings that the

owners expect versus relative to what they can do in other markets. But I think the real benefit we're going to see is the additional tonne-miles specific to the Aframaxes because the Aframax is the largest ship you could move into Vancouver. You can put in a smaller Panamax, but stem sizes are too big for a Panamax and you don't have a lot of storage up in Vancouver. So, the Aframax really is the vessel that this port needs to use. And I think whether it does go into the West Coast or to lighterage or Panama or to Asia, the Aframax is going to be the ship that's going to have to service that and it's going to cause dislocation. It's going to pull ships from the US Gulf, it's going to pull ships from Asia and that's going to benefit possibly Suezmaxes and other Aframaxes in those regions as the supply diminishes.

Omar Nokta: Yeah, it'll be very interesting to see how it starts to develop here in the next few months. Well, thanks, Kevin. I really appreciate that perspective.

Kevin Mackay: No worries. Thanks.

Operator: We'll move next to Ken Hoexter with Bank of America. Your line is open. Please go ahead.

Ken Hoexter: Hey, great. Good morning. And Kevin, I guess just to follow on that thought process. If we get those moving down into California, I guess then you'll still have product that needs to move that longer haul that replaces that, the product that California would have been pulled in, you'd make up with even longer-hauls?

Kevin Mackay: Yeah, I think, at the moment, you could see Canadian crude backing out some of the long-haul Arab barrels, which they'll displace those barrels, and they'll have to go somewhere else. So that's what's really exciting about this development is it's going to impact primarily and initially the Aframaxes, but it could have knock-on effects into other areas as well, which is going to be interesting to see how it develops and to be able to react to that.

Ken Hoexter: So, to follow – thanks for that, Kevin. So, I guess to follow up, Christian talked about rates earlier to Jon's question, but Afras seem to be getting hit, I guess relative to your quarter to-date rates that are booked. So going from call it $48,000 to $44,000 a day while Suezmaxes are flatter at $47,000 to $45,000. I guess just, is the market not anticipating or adjusting for that potential Aframax tightening yet, or is it just too early to react to TMX at this stage?

Kevin Mackay: I wouldn't read into such a small differentiation on the rate, especially at rates in the mid-40s. We haven't seen these rates in 20 years. So, I think it's a function of the elasticity of the fleet moving up and down. And I think the US Gulf market is probably one of the most volatile. You can have rates dropping to $30,000 a day and within a week's time, it could be back up at 65. So, I think we've got to look at, or if we are trying to look at what patterns develop, I think we've got to look at it over a much longer period. I wouldn't read into it too much in the short term. And I think the market isn't going to front-run the rates in anticipation of the cargoes. We have to wait until the TMX volumes come in and they come in at the levels that the pipeline owners have indicated. And when we see the volume, that's when I think you'll start to see the impact on the Afras.

Ken Hoexter: So gradually, even though it's not all just – once you open up in the end of May as you get those volumes coming online through the year. So, you noted tougher discussions on charter-in rates or even your thoughts on charter-outs. How about the purchase price of new vessels? And Kevin talked about or, I'm sorry, Stewart talked about the fleet renewal process. What are your thoughts on entering that low-order book? Or are rates just uneconomical given where, I mean, I guess if you're talking mid-40s, when does it become economical?

Kevin Mackay: Yeah, it's certainly an interesting challenge to think through because we have to acknowledge that both secondhand pricing and new-build pricing is high. But as you said, so is rates. So, I think all I can speak

to our thoughts on that, Ken, is that as of today, we haven't ordered any new ships at these pricing levels. And if we are going to do anything, I think you'd probably see us chipping away at secondhand market first just to replenish the lost spot exposure from the sale of the two ships that we had in December and January. And if we do sell two more, you'll probably see us in the secondhand market trying to replace those because you really – if you're paying these kinds of prices, you want to have those ships earning from day one and you want them earning $40,000, $45,000 a day like we are today. So, it would be more prompt purchasing than looking towards more of the longer-term replenishment.

Ken Hoexter: Great. Appreciate the thoughts. Thanks, Kevin.

Kevin Mackay: Thanks, Ken.

Operator: And with no other questions holding, I would like to turn the conference back to the company for any additional or closing comments.

Kevin Mackay: Thank you for joining us and we will speak to you next quarter.

Operator: Thank you. Ladies and gentlemen, that will conclude today's call. We thank you for your participation. You may disconnect at this time.