TEEKAY GROUP FOURTH QUARTER AND ANNUAL 2024 EARNINGS RESULTS CONFERENCE CALL

Date: Thursday, February 20th, 2024

Conference Time: 11:00 ET

Operator: Please stand by, we're about to begin. Welcome to the Teekay Group Fourth Quarter and Annual 2024 Earnings Results Conference Call. During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question-and-answer session. At that time, if you have a question, participants will be asked to press star one to register for a question.

For assistance during the call, please press star zero on your touchtone phone. As a reminder, this call is being recorded. Now, for opening remarks and introductions, I would like to turn the call over to the company. Please go ahead.

Edward Lee: Before we begin, I would like to direct all participants to our website at www.teekay.com, where you will find a copy of the Teekay group's fourth quarter and annual 2024 earnings presentation. Kenneth will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements.

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the Teekay Corporation and Teekay Tankers fourth quarter and annual 2024 earnings releases, and the Teekay Group earnings presentation available on our website. I will now turn the call over to Kenneth Hvid, Teekay Corporations' and Teekay Tankers' President and CEO, to begin.

Kenneth Hvid: Thank you, Ed. Hello, everyone, and thank you very much for joining us today for the Teekay group's fourth quarter and annual 2024 earnings conference call. Joining me on the call today for the Q&A session are Brody Speers, Teekay Corporations' and Teekay Tankers' CFO, Ryan Hamilton, our VP of Finance and Corporate Development and Christian Waldegrave, our Director of Research.

Starting on slide three of the presentation, we will cover Teekay Tankers' recent highlights. Teekay Tankers reported adjusted net income of $52 million, or $1.50 per share, in the fourth quarter, and for the full year 2024 adjusted net income of $355 million, or $10.31 per share. Despite softer-than-expected spot rates towards the end of the year, the company still generated $69 million in free cash flow in the fourth quarter and $415 million for the year.

In the last few weeks, as part of our opportunistic approach to ongoing fleet management, we sold two 2009-built Suezmaxes and one 2006-built LR2 for a combined $96 million. Two of these vessels have already been delivered to their buyers, while the third is expected to be delivered by mid-March, upon completion of its current voyage. Including the previously announced two vessels which sold during Q4, we have sold a total of five 2005 to 2009 built vessels for combined proceeds of $160 million, resulting in expected book gains on sale of nearly $60 million.

Further, I'm pleased to report that just today we lifted subjects and signed an MOA to acquire a modern LR2 tanker, which we expect to close in the second quarter. These sales and purchase are part of our ongoing fleet management and fleet renewal plan, where we naturally sell older vessels and acquire more modern tonnage over time when the opportunity is right.

In addition, we have now completed TNK's acquisition of the Teekay Australia business and the transfer of all the remaining management services companies not previously owned by TNK. These transactions transformed Teekay tankers into a fully integrated shipping company and the sole operating platform within the Teekay group.

We also made a passive investment in Ardmore Shipping Corporation, where we now own 5.1% of the company. Historically, Teekay has had investments in adjacent sectors to our medium-sized crude tanker business, including some exposure to the MR sector in the past. We believe that this investment represents good value in the product sector.

Looking at our first quarter-to-date spot rates, our rate book-to-date are slightly below our fourth quarter levels, but remain volatile and trending upwards based on the latest Clarksons report spot rates. Although these rates are down from historical highs from 2023 and 2024, current rates are well above our fleet's free cash flow breakeven levels, meaning Teekay tankers continues to generate substantial free cash flow and earnings in the current market environment. We will discuss the drivers of the market in subsequent slides.

Lastly, Teekay Tankers has declared its quarterly fixed dividend of $0.25 per share, payable in March. For the full year, we have paid $3 per share in dividends.

Moving to slide four, we look at recent developments in the spot market. Weak Chinese oil demand during the latter part of the year weighed on the VLCC market, which in turn had a dampening effect on Suezmax and Aframax spot rates. While seasonal weather delays failed to give any uplift to the tanker market during the winter months. Rates were still above the long-term average levels and well above TNK free cash flow breakeven of approximately $14,300 per day.

Average Q1 to-date spot tanker rates are slightly below fourth-quarter levels but have been trending upwards in recent weeks. The imposition of additional US sanctions on 153 tankers servicing the Russian oil trade has increased rate volatility. Particularly in the larger crude tanker asset classes as replacement shipping capacity was booked for transporting oil to China and India.

In addition, Atlantic-based crude oil has been attractively priced when compared to Middle Eastern crude in recent weeks, which has opened the arbitrage for the long-haul movement of oil from the Atlantic Basin to Asia. This has been positive for ton-mile demand in the near term, particularly for VLCC and Suezmax tankers.

Turning to slide five, we look at some of the geopolitical events that are currently unfolding, which seem to change day by day, and there are likely more questions and answers on how things will progress over the course of this year.

As highlighted by the slide, there are an unusually large number of factors this year which could influence the direction of the tanker market. I won't go into every single point in detail, but it's worth highlighting three of the key factors which we believe could impact the tanker market, depending on how they unfold in the coming weeks and months.

Firstly, the red highlights the current conflicts in Ukraine and the Middle East. Starting with the war in Ukraine, the situation has become extremely dynamic in recent weeks. While we do not know how events will unfold in the future, we do know that there could be wide-ranging consequences for both tanker ton-mile demand and the future of the shadow fleet of ships that are currently servicing Russian oil exports should a peace agreement be reached. In the meantime, we can envision scenarios whereby sanctions against Russia are either tightened or loosened, depending on how discussions between the various parties develop. For example, we understand that the EU is planning a new round of sanctions next week, which will include another 73 ships being added to the sanctions list. These sanctions could further impact Russia's ability to export oil, as evidenced by the last round of sanctions in January, where logistical constraints meant that India and China had to source replacement barrels from the Middle East and Atlantic basin on non-sanctioned vessels to make up for the shortfall in Russian supply.

In the Middle East, the recent ceasefire between Israel and Hamas has led to the Houthi group in Yemen pledging to stop attacks on shipping. This may eventually result in the resumption of tanker transit through the Red Sea region, which, depending on how things unfold, could impact seaborne trade patterns and reduce tanker ton-mile demand.

However, the situation is fragile and for the time being, we expect that owners, like Teekay, and cargo interests will continue to stay away from the region until there is more certainty around the safety of crews, vessels, and cargoes.

Secondly, the yellow highlights the impact of sanctions on crude oil exports from Russia, Iran, and Venezuela, as well as the fleet of ships servicing them. I've already touched on the situation with regards to Russia, but another key development this year is the return of the United States' "maximum pressure" campaign on Iran in a bid to reduce Iranian oil exports to zero. In 2024, Iranian crude oil exports averaged 1.5 million barrels per day, the majority of which went to China. Tougher sanctions on Iranian crude oil exports could therefore lead China to import oil from other sources via the compliant fleet, which would be positive for tanker demand.

Finally, the blue highlights the potential impact of tariffs on oil trade flows. In early February, the US announced 25% tariffs on imports from Mexico and Canada, with a lower 10% tariff on Canadian energy, though the implementation of these tariffs was suspended for 30 days. Should these tariffs come into force, we could see Canada and Mexico looking to divert some of their crude exports away from the US to other regions such as Europe and Asia, while the US refiners may have to find replacement barrels from further afield. Both of which would be positive for tankers ton-mile demand.

Regarding Canadian exports, we note that there are plans to commence nighttime loading from the Trans Mountain Pipeline terminal in Vancouver later this year, which would allow the terminal to reach 28 to 30 Aframax cargoes per month, compared to 22 to 24 at present.

It is difficult to predict 2025 impacts, but geopolitical uncertainty and changes to seaborne oil trade patterns usually increase tanker market volatility and supply chain inefficiencies.

Turning to slide six, we look at the underlying tanker demand and supply factors which we believe continue to support a balanced market notwithstanding the geopolitical events that I just touched on. Starting with tanker demand drivers, global oil consumption is projected to grow by 1.3 million barrels per day in 2025. Virtually all of this demand growth is being driven by non-OECD countries led by Asia. Global oil supply is also set to grow with production from non-OPEC+ countries set to increase by 1.5 million barrels per day in 2025, led by United States, Brazil, Norway, Canada, and Guyana.

Given that these sources of oil are mostly in the Atlantic basin, while oil demand growth is focused on Asia, we expect an increase in long-haul crude oil movements from west to east, which should boost tanker ton-mile demand. The OPEC+ group could also provide additional seaborne transportation volumes, should they start unwinding their voluntary oil supply cuts from April 2025 onwards, consistent with their most recently announced plan.

Turning to fleet supply, mid-size tanker fleet growth is expected to remain relatively low in the medium term. As shown by the chart on the bottom right of the slide, the current size of the tanker orderbook is relatively similar to the fleet of older tankers turning age 20 during the same time period. With 307 mid-sized tankers currently on order for delivery through 2028, compared with 312 existing mid-size tankers that will turn 20 over the same timeframe.

In addition, there are 301 mid-size tankers, which are already over the age of 20, the majority of which operate as part of the shadow fleet servicing sanctioned trades, and which are facing increased scrutiny from US and European authorities. In sum, assuming no scrapping, we could have over 600 mid-sized tankers, or approximately 30% of the fleet over the age of 20 years old in three years time, which is unprecedented. For comparison, at the end of 2021, there were around 115 mid-size tankers over the age of 20.

This illustrates the scale of the excess fleet supply that could be phased out should trade normalize. While it is difficult to predict what will ultimately happen with the shadow fleet, and it is uncertain when we may see an uptick in vessel recycling, we believe that with a manageable orderbook, a lack of available shipyard capacity until 2028, and a tanker fleet which is currently the oldest in well over 20 years. Tanker fleet growth will remain at low levels over the next three years.

In sum, while there are a wide range of potential outcomes from the various current issues impacting global trade, security, and energy, we remain encouraged by the underlying tanker supply and demand fundamentals which we believe points towards a balanced tanker market over the medium term.

Turning to slide seven, we highlight how Teekay Tankers is well-positioned for any market conditions. With our high operating leverage and a low free cash flow breakeven of $14,300 per day, we can generate significant cash flow in almost any market conditions. To emphasize every $5,000 of increase in spot rates above our break-even produces $2.15 per share of annual free cash flow, or over 5% on a free cash flow yield basis. Combined with our strong balance sheet, we have built optionality and capacity to maximize shareholder value in any market outcome.

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

Operator: Thank you. If you are dialed in via the telephone and would like to ask a question, please signal by pressing star one on your telephone keypad. Using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. If you are in the event via the web interface and would like to ask a question, simply type your question in the “Ask a Question box” and click send. We will move to our first question from Jon Chappell with Evercore ISI.

Jon Chappell: Thank you. Good morning. Kenneth, you touched on it briefly in your introduction but if you could just provide a little bit more insight on the Ardmore investment. It just seems a little curious, given it's a part of the tanker sector that Teekay hasn't really been involved in much in the past. I get it cheap and so is TNK, and it's also just a lot less liquid than TNK as an investments concern. Maybe explain the thought process behind that and also how you looked at that investment vis-a-vis buying back your own shares.

Kenneth Hvid: Yeah. Thanks, Jon. Good morning. I kind of expected that question. I just want to emphasize that our number one priority is obviously our core fleet and our core business at Teekay with the fleet renewal, which is how we get a chance to discuss as well. But the investment here is not a straying really away from what we've done in the past. As you will remember, we've always had some MR exposure. We haven't had it for some time, we looked around the market was up for some time, when it took a big dip last year towards the end, we thought Ardmore was just very good value. We made a very small investment as you can see in that company relative to our asset base here. It was always meant to be small, it was opportunistic, and it was a financial investment. Then what happened was, as you saw last week, Ardmore announced that they bought about 4%

of their shares and that kind of brought us into the 5.1%. But I just want to emphasize it's a small investment, we think it's good value. When you have a bit of investment here, I think it keeps us focused on the adjacent sectors in a different manner.

Jon Chappell: Okay. Then in my follow-up, you just announced this morning the new LR2 that you're purchasing that you're going to get in the second quarter. You're still selling at a quicker pace than you're replacing, which I think makes sense in this asset value environment. Kind of a similar question. How do you think about the continued pace of renewal buying versus selling?

Then also in the last two years, in the first quarter, you've had special dividends. I would think that given the cash balance today, the proceeds that you're raising from these vessel sales, you're in an even stronger position. But on the other hand, the market's a bit more uncertain. A lot in there but kind of pace of replacement and capital allocation within that.

Kenneth Hvid: Yeah. Great questions and obviously what we're spending all our time discussing and making decisions around here. I would say on the fleet renewal you're right and as I commented on in the remarks and the Q&A at the last quarter, we were looking at selling some of our older vessels, and we're looking at buying some newer vessels. That's all part of being an operating company, obviously. The renewal of our fleet, as you all know, we've been sweating our assets heavily over the past three years. I think that's been great. We've also been running off ship years, and we think now is a pretty good time to start leaning in. You correctly pointing out that we're selling more vessels than we're buying up to now. If you look at it in ship years, we are actually buying more ship years than we're selling. I think it just speaks to how we're trying to manage where we are in the cycle and at the same time try and renew the fleet here. We're leaning in.

To your second question on capital allocation. it's clear we're in a very strong position. When we embarked on this cycle a couple of years ago here, we always had it as a stated objective that we wanted to rebuild financial strength and financial flexibility at Teekay. I think anybody looking at our balance sheet can say that that's what we've done, and we're pretty excited about that. That's what you need to do in a cyclical business that is capital-intensive. I think the next couple of years are going to be interesting, so clearly for people that have the capital to make investments, I think we are in a position where we can hopefully make some investments that's going to create some good long-term shareholder value. Then that brings you to the question that you're asking around special dividends, which is always part of the capital allocation plan. As we're not the company out there that's paying out all our earnings and we've been very clear on that from the beginning. We have a fixed dividend which we also declared this quarter. Once a year, we have the discussion with the board, whether there is a special dividend coming. That's on the agenda for this board meeting that's coming up soon.

Jon Chappell: Okay. Thanks for the thoughts, Kenneth.

Kenneth Hvid: Thanks. Appreciate it.

Operator: We'll move next to Omar Nokta with Jefferies.

Omar Nokta: Thank you. Hi, Kenneth and team. A couple from my side. Maybe just first, kind of a follow-up to Jon's question and then a market-related question. But just kind of on the last topic obviously you're flush with cash, no debt, plenty of liquidity, and the cash is coming in much faster than you're able to deploy it. Maybe just kind of bigger picture on how you see TNK from here.

Do you see the platform maybe evolving in terms of the Ardmore stake perhaps is not a one-off and that you have your operating tanker fleet, you've got the marine business with Teekay Australia. Do you think that you're going to have a growing portfolio approach, perhaps, where you're taking stakes in other equities, and that's sort of an avenue of exposure to the sector without having to put capital to work physically?

Kenneth Hvid: No, I don't I think I just want to emphasize that the Ardmore investment is really small in our total capital allocation plan here. The number one priority is obviously looking after our core fleet. We are an operating company, and we are keen to deploy capital in a manner where we invest in our operating platform, which as you know is fully integrated with technical management and commercial management. We're looking to add assets where we can bring value to those assets by putting them on our platform. That's obviously not by investing in other companies. I just want to be very clear on that, that that's our number one priority.

As you point out, Omar, we're generating cash faster than we're able to deploy it. I would say it's not a problem to deploy cash. I think it's maybe hard to be patient in the market like we were in. But we are and we've been through a lot of cycles over the past 50 years as a company and many of us have been through a few cycles. I think we know that to be patient sometimes pays off but that's exactly what we're doing here. I don't think it's a matter of that we cannot deploy it, I think it's a matter of being patient.

Omar Nokta: Okay. Thank you. One quick follow-up, just on that note, and I appreciate your comment of having taken a sub 5% stake, but by virtue of the buyback, you've now had to file the 13 G. Do I take it that this is just as you say? It's a small opportunistic holding with no plans, perhaps, of wanting to increase the size of that position.

Kenneth Hvid: Yeah. That's right. I had a fellow CEO call yesterday and we chuckled about it, but they clearly saw that there was good value there as well, and it wasn't really our fault. Yeah, you're right.

Omar Nokta: Okay. All right. Then if I could just ask a question about the market and you referenced this in your presentation, just all the sanctioned discussion and how potentially there's 73 ships coming on into sanction next week. I think you said from the EU, just I guess in general, given your significant kind of market presence within the Aframaxes, the 150 or so tankers that were sanctioned in January by the US. Obviously, there's all kinds of uncertainty as to how long those sanctions may hold. I just wanted to get a sense from you, given your active participation in this space. Have you seen an effect or an impact of those sanctions yet on the Aframax market? Then how do you see it affecting things if those get lifted?

Christian Waldegrave: Yeah. Hi, Omar. I think we have seen an impact from the sanctions that were placed on January 10th. Of those ships that were sanctioned, it was over 150 tankers, and the majority of those were serving the Russian Far East trade out of Kozmino. In the weeks following that, we've certainly seen difficulties in Russia getting that oil out of Kozmino, into China. We've also seen India as well, having to look at alternative sources. If you look at what's happened in the market over the past month, we are seeing a bit of a drop in Russian exports and Chinese and Indian buyers are having to look for alternative sources of crude.

We've seen an increase in volumes from the Middle East, but also from West Africa and other parts of the Atlantic, to make up for the shortfall here. Which is why we've seen some volatility on the VLCC side in particular, which is then helping out the Suezmax is a little bit as well. The OFAC sanctions, they are having an impact. As you said, we don't know what the future is from here, whether we're going to get more sanctions or a relaxation on sanctions. But as Kenneth said in his remarks, all this, uncertainty does create volatility. When you have changes to trade patterns, disruptions, it all speaks to volatility. We are seeing a bit of an impact in the freight market but as you said very difficult to sort of project forward how this is going to evolve in the coming months.

Omar Nokta: Good. Thanks, Christian. Appreciate the color there. Kenneth, thank you as well. I'll turn it over.

Kenneth Hvid: Thanks, Omar.

Operator: We'll move next to Ken Hoexter with Bank of America.

Ken Hoexter: Hey, good morning. I guess talking about the rates, so we had a $24 and $28,000 per day for the Suezmax and Aframax at just about two-thirds and just over half of the quarterly days booked. That's down a bit from the fourth quarter but yet we're talking about more sanctions having a positive impact. Seasonally colder weather, increasing power needs, so is the additional capacity creating the bigger overhang? What's your thoughts on what's driving pressure on rates near term here?

Kenneth Hvid: Yeah. For sure I think in Suezmax there was a weaker finish to 2024 and a weaker start to 2025. I think what we've seen now is an uplift. Certainly this week the fixture list is significantly stronger than what we averaged. I think what's driving that as we talked about in the prepared remarks, Ken, is really the west-east arbitrage, that's moving up, and the VLCC that's been moving up, and then some replacement barrels that's really beginning to kick in. Now, as you recall the sanction vessels, there was a bit of a delay on, and they needed to offload. Then there was a scrambling for cargoes and that's driving it. We just see more cargo demand in that direction.

Ken Hoexter: Okay. Then if we think about, I guess the delays in the tariffs and some of the delays that have gone on. If we start getting toward a point of peace in between Russia and Ukraine, and that's going to take some time to develop same thing in the Middle East with the Houthis. What's your thought on how that pans out? What shifts you see first, how quick, I guess, based on historical experience?

Kenneth Hvid: Yeah. I think that's where we're in unprecedented territory. We haven't really, as I think back historically, had this situation before. As I said, if we just look at the medium-sized tankers, what really stands out is that before the invasion, I said we just had just over 100 ships that were over 20 years old. They were typically trading with charterers that didn't have the typical age restriction. They were typically lifting cargoes from countries where you had a various degrees of sanctioned oil. Of course, what the war created was this demand for additional vessels to facilitate that trade. As we point out, that fleet has now grown. Well, the fleet is larger, but the number of vessels over 20 today is over 300 vessels. It's grown just in three years from 100 to 300, basically because nothing has been scrapped. What we are then also saying is that if that continued the sanctions, even though you can argue that the parallel fleet here is maybe becoming saturated. But then you have another round of sanctioned vessels that are taking place. Then there's demand for more vessels that are not sanctioned that can carry the oil. As long as that persists, I think there is a demand for the older tankers. If nothing happens and we didn't scrap any vessels in that category, as we pointed out, we would actually be at 600 vessels that are over 20. There's nothing in history that kind of tells us how quickly that can unfold.

I think what we can say is that if the trade normalizes and what we all are subjected to in kind of the regular trade. We do see the age restrictions, especially at 20, really starts kicking in and in some cases with some charterers even earlier than that. There is a lot of vessels here that I think will either be operating with very low utilization or will be parked somewhere or will start going to the scrapyards. At what pace that that's going to happen? I think that's the million-dollar question and I think it's the right question to ask. But I'm afraid we don't have the answer.

Ken Hoexter: I appreciate that that's true. That's an awful lot compared to normal. Maybe just two quick ones just to wrap up. The seasonality that you normally see in through 1Q into 2Q, maybe can you just remind us of that. Then, you mentioned the vessel purchased. Are you seeing a lot of, especially with that much over capacity potentially hitting and what that could do to rates. Are you seeing more books come across your desk in terms of vessel sale opportunities?

Kenneth Hvid: Yeah. Good question. First of all, just on where we see the rates, I think we kind of touched on it. When we looked at it, typically when you come into Q4 and go out of Q1, you kind of have rates that's not low and go up, and then they start coming down as you get into Q2. These past two quarters, we've kind of seen the inverse of that, I would say so a little bit unusual, but we've had unusual years in the past couple of years. But that's kind of where rates have been growing. We definitely looks like we're moving stronger into Q2 but it's kind of the inverse of what we saw last year.

In terms of S&P opportunities, market has come down on vessels, which is also why we're beginning to lean in a bit as we said to Jon. As we talked about on the last quarter, we kind of see ourselves maybe selling a little bit faster than we're buying. But we have fleet replenishment, and we haven't done a lot in recent years. We've seen prices come into kind of zip code that we're beginning to like again, so that's why we acquired one ship today.

We'll continue to look for opportunities when people have had a couple of good years, as most tanker owners have had, some owners have different priorities. As we continue to say, we're an operating company, we like to have a certain scale in the market. We'll obviously be focused on trying to renew the fleet, but we'll do it at a very measured pace here.

Ken Hoexter: Very helpful. Appreciate the thoughts. Thanks, guys.

Kenneth Hvid: Thanks. Appreciate it. Thanks, team.

Operator: That will conclude the Q&A portion of today's call. I will now turn the call back to the company for any additional or closing remarks.

Kenneth Hvid: Thank you very much for listening in to our call today. We look forward to reporting back to you next quarter. Thank you. Have a good day.

Operator: Thank you. Ladies and gentlemen, that will conclude today's call. You may now disconnect.