



# TEEKAY TANKERS LTD.'S THIRD QUARTER 2021 EARNINGS RESULTS CONFERENCE CALL

**Company: Teekay Tankers Ltd.**

**Date: Thursday, November 4<sup>th</sup> 2021**

**Conference Time: 12:00 ET**

Operator: Welcome to the Teekay Tankers Ltd's Third Quarter 2021 Earning Results Conference Call. During the call, all participants will be in a listen-only mode. Afterward, 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 touch-tone phone. As a reminder, this call is being recorded. Now, for opening remarks and introductions, I'd like to turn the call over to the company. Please go ahead.

Ryan Hamilton: Before we begin, I'd like to direct all participants to our website at [www.teekaytankers.com](http://www.teekaytankers.com) where you will find a copy of the third quarter of 2021 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 third quarter 2021 earnings release and 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, Ryan. Hello everyone, thank you very much for joining us today for Teekay Tankers third quarter 2021 Earnings Conference Call. Joining me on the call today are Stewart Andrade, Teekay Tankers CFO, and Christian Waldegrave, Director of Research.

Moving to our recent highlights on slide three of the presentation, Teekay Tankers had a negative adjusted EBITDA of \$16 million during the third quarter down from negative \$7 million in the prior quarter. We also reported an adjusted net loss of \$50 million or \$1.48 per share during the third quarter compared to \$42 million or \$1.23 cents per share last quarter. Our results are largely due to weak spot tanker rates and a heavy drydock schedule during this quarter.

Despite another challenging quarter, we continue to maintain a strong balance sheet, with pro-forma liquidity of \$209 million and a net debt to capitalization of 39% at the end of the third quarter. In addition, we completed the refinancing of eight vessels with new lower cost sale-leaseback financings which lower our overall cost of capital. Stewart will elaborate on this later in the presentation.

In the freight market, spot tanker rates sank to historic lows during third quarter with the weakest rates seen since the 1980s. However, rates have seen a modest improvement in the start of the fourth quarter due to a combination of higher trade volumes and positive short-term factors with further potential upside over the winter months. Although the timing of a more significant market recovery remains uncertain due to COVID-19, we believe many key indicators continue to trend in a positive direction which I'll touch on in more detail later. Lastly, the company took advantage of relatively firm secondhand tanker prices by selling a 2003 built Aframax for approximately \$12 million.

Turning to slide four, we look at recent developments in the spot tanker market. As noted in my opening remarks, spot tanker rates sank to historic lows during the third quarter, this was primarily due to ongoing OPEC+ supply cuts as well as a series of unplanned outages in non-OPEC countries which led to relatively low trade volumes during the quarter. Tanker demand was also negatively impacted by the Delta COVID-19 variant particularly in Asia where renewed lockdowns led to reduced mobility. This was further compounded



by relatively weak Chinese crude oil imports due to a combination of inventory drawdowns and reduced import quotas for independent refiners. Finally, an increase in crude oil price led to higher bunker fuel prices for our vessels, further weighing on vessel earnings during the quarter.

Spot tanker rates have modestly improved at the start of the fourth quarter as shown by the chart in the middle of the slide. This improvement has been spurred by an increase in trade volumes in recent weeks as OPEC+ returns more supply to the market and as some of non-OPEC outages seen in Q3 starts to ease. Looking ahead, the IEA projects an increase in global oil production of 2.7 million barrels per day between September and the end of the year due to the continued unwinding of OPEC+ supply cuts as well as more supply from non-OPEC countries. This should lead to a further increase in crude oil exports, and therefore tanker demand, over the winter months. However, we should caution that although low global oil trade is improving, it remains well below pre-COVID levels and more oil supply is needed if the market is to return to full health. Global oil demand is expected to improve during Q4 and could get a boost this winter from the global energy crunch, which has led to record high in natural gas and coal prices in some regions. And is encouraging some power plants to switch to cheaper oil for power generation, shown by the chart on the right side of the slide. The IEA expects fuel switching to add 0.5 million barrels per day to global oil demand in the coming months though a very cold winter could boost demand by up to a million barrels per day compared to the base case due to additional heating requirements. This, coupled with normal seasonal factors such as weather delays, are potential positive factors for spot tanker rates this winter.

Turning to slide five, we provide a summary of our spot rates in the fourth quarter to date. Based on approximately 50% and 37%, the spot revenue days booked, Teekay Tankers' fourth quarter-to-date Suezmax and Aframax bookings have averaged approximately \$11,600 per day and \$10,300 per day respectively. For our LR2 fleet, based on approximately 35% of spot revenue days booked, fourth quarter to-date bookings have averaged approximately \$10,200 per day, all of which are higher than the rates achieved in Q3.



To optimize vessel utilization in anticipation of a tanker market recovery, we have tactically brought forward four additional dry dockings into the fourth quarter. For more details, please refer to the appendix slide summarizing our dry dock and off-hire schedule.

Turning to slide six, I'll give an update on some of the key indicators we track which we believe point towards a significant future tanker market recovery.

One of the main reasons that tanker rates have been so weak in 2021 is that while oil demand has recovered and now stands at less than two million barrels per day below pre-COVID levels, oil trade has remained relatively flat. Global oil production has trailed demand for most of the year due to OPEC+ supply cuts resulting a large drawdown in global oil inventories to levels well below the five-year average. The tanker market is linked to the oil inventory cycle and periods where we see large inventory drawdowns tend to contribute to weaker spot tanker rates as drawdowns essentially displace oil imports. This has been the case for virtually all of 2021 and helps explain why spot tanker rates have been in historic lows this year.

Looking ahead to 2022, global oil demand is expected to rise by between three and four million barrels per day as the recovery from the COVID-19 pandemic continues. The world will therefore need significantly more oil in the coming months and years to meet rising demand and to replenish depleted oil inventories. With this in mind, the OPEC+ group plans to unwind its remaining supply cuts by September 22 while non-OPEC countries are expected to add a further two million barrels per day. Together, this should lead to significant increase in oil production next year, and more importantly for the tanker market, an increase in oil trade.

Turning to fleet supply, the outlook continues to be very positive. New tanker ordering ground to a virtual halt in the third quarter with just 0.8 million deadweight tons of orders placed, the lowest quarterly total since the second quarter of 2009. Elevated newbuilding prices, which are currently the highest since 2009, are expected to limit for the newbuild orders in the near term. Meanwhile, shipyard availability is becoming increasingly scarce, as record container ship ordering has filled shipyard capacity well into 2024. The third



quarter of 2021 also saw an increase in tanker scrapping with 4.7 million deadweight tons removed, the highest quarterly scrapping total since the second quarter of 2018.

The combination of low tanker ordering and higher scrapping bodes well for limited future fleet growth, and we currently estimate approximately 2% fleet growth in both 2021 in 2022 before minimal fleet growth in 2023, as scrapping is expected to largely offset new vessel deliveries.

In sum, the fundamentals continue to trend in the right direction and point towards a future market recovery. The exact timing of this recovery remains uncertain however and will continue to depend to a large extent on how the COVID-19 pandemic and the global economy evolve in the coming months. I'll now turn the call over to Stewart, to cover the financial slide.

Stewart Andrade: Thanks, Kevin. Turning to slide seven, we highlight the Company's strong financial foundation.

As a result of our focus on reducing debt and building financial strength during last year's market upswing, we have maintained a strong balance sheet. The company has a pro-forma liquidity position of \$209 million, which provides financial resilience in this weak freight market.

Since May 2021, the company repurchased eight vessels that were under higher-cost sale-leaseback refinancings using existing liquidity. In May, two of these vessels were repurchased for \$57 million while the remaining six vessels were repurchased in September for \$129 million. I am pleased to announce that we completed lower-cost sale-leaseback refinancings for all eight vessels in September and November. While our repurchases and refinancings decreased our quarter over quarter pro-forma liquidity by approximately \$30 million, we have materially reduced our overall cost of capital with estimated interest expense savings of approximately \$11 million in the first 12 months alone.



Lastly, we also have a low financial leverage with net debt to capitalization of 39% and a manageable debt repayment profile with no significant maturities until 2024. With that, I will turn the call over to Kevin to conclude.

Kevin Mackay: Thank you Stewart. As I've said in past quarters, I'll again like to thank all our seafarers and shore-based staff for their continued dedication to providing safe and uninterrupted service to our customers during these challenging times. We continue to focus on the safety and wellbeing of our seafarers as we look forward to the continued transition to a more normalized world.

With a strong financial position and high operating leverage, we believe that Teekay Tankers is well positioned to continue to weather the current market challenges and benefit from an anticipated tanker market recovery. With that, operator, we're now available to take questions.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker-phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star one to ask a question. Our first question comes from John Chappell, with Evercore ISI.

John Chappell: Thank you. Good morning, good afternoon. Kevin, just a big picture one, maybe simple, maybe complicated. Where to from here? So two years ago you laid out this path in the investor day. A heck of a lot's changed in that period, but you've accomplished everything on the financial side as far as the sale-leasebacks are concerned and the balance sheet and now here you are with probably the best balance sheet in the industry. But a bit of an older fleet on the precipice of what's hopefully a big recovery off as you noted the worst market since the 80s. Where's the focus for the next 12 months as it relates both to the operational leverage and the financial leverage?

Kevin Mackay: Well, good question, John. I think the main focus right now is just keeping our eye on the ball as we look to what uncertainties COVID-19 puts in front of us, if any. It appears that on that front, we seem to be



getting ahead with vaccines around the world and hopefully that plays into what we see as improving tanker market. So strategically, I think what we've done, as you said, over the last couple of years is really to strengthen the Company and get our organization in a better place to get ready for the up-turn. When it does come, it's really looking at maximizing our returns from the fleet that we have. Currently we have 50 ships, we feel that's a comfortable size. The age profile is average in the rest of the industry; as you've seen us report, this quarter where we're selling some of the older units as we can get good pricing for them. So I think the focus right now is just making sure that we weather the rest of this storm that's in front of us and that we're - we've been going through for the last two years and then making sure that we can drive revenue going into a much stronger market. Beyond that, I think the eye is obviously on the challenges that the industry has faced in terms of reducing emissions and development of new technologies. As our older fleet starts to sell off, we'll have to look at some of that new technology and make some decisions with regards to fleet renewal, but I think that's further down the road. At the moment, it's more focused on the next year or two years of maximizing our revenue generation and building an even stronger organization.

John Chapell: Yeah, that makes sense. And then finally, just to be fair, I've asked all the other tanker companies this week, the same question, you've laid out all these different inflection points, for you, it was on page six of the slide deck that's just really compelling and how we're so much closer hopefully to the recovery. But what can go wrong? I mean, if we just take new variants in the pandemic out of the mix even though we're not necessarily completely through that, where else can maybe something kind of come up and trip a recovery before it really gets underway?

Kevin Mackay: Well, let's take a simple one. On the fleet supply side, I don't see anything in the forecast that could trip up the recovery. I mean, the shipyards are full, the container ordering seems to continue unabated, there's LNG ordering to come. So I can't see, certainly in the next couple of years, where fleet supply will be a challenge. So it really comes down to what's lining up on the oil side and as we look at all the different variables that play into a market, and that makes trying to judge when this recovery really starts to take off in earnest, there's nothing in our line of sight other than reduced overall demand that can drive a scenario that isn't positive for our industry. I think calling the actual inflection point is futile because nobody really knows



when this thing's going to turn, but as we've pointed out in our slides, all of the elements that we keep an eye on and more beyond that, are all pointing to much more positive environment for us going forward.

John Chapell: Okay. Appreciate your insights, thank you, Kevin.

Kevin Mackay: Thanks, John.

Operator: Thank you. Our next question comes from Randy Giveans with Jeffries.

Randy Giveans: Howdy, gentlemen, how's it going?

Kevin Mackay: Great. Great, Randy. How're you?

Randy Givens: Great. On the last call, we mentioned that you were starting to clean up a few of your dirty LR2 kind of Aframaxes to go back to the clean products trade. Any kind of updated thoughts or commentary around that? Are you getting more bullish on the product side of the equation or do you still think kind of crude leads these results?

Kevin Mackay: We did actually, we followed on during the over the summer period and in total we converted four ships in the fleet to trading clean cargos which has had positive results. I think going forward though, the anticipated recovery in the product side to sort of lead, the crude side, hasn't really materialized. And if you look at sort of the Aframax LR2 returns on balance today I think we're uncertain whether the LR2s will continue to be the place to trade in. So we've actually got a couple of ships that are coming open the next few weeks and the determination at the moment, we probably could turn those back into the crude trade. But I've said this many times on calls before, that's the beauty of the LR2, we can clean them up and if we don't like what we see going forward, we can turn them quite easily back into the crude side.





Randy Givens: Sure, that's fair. And then kind of a follow-up question on the balance sheet, we're still in the high 30s, let's call it a net debt to cap. Have you kind of announced or do you have any kind of real goal targets there on leverage ratios before you make a strategic shift in capital allocation, or is it just all kind of market sentiment and timing?

Kevin Mackay: No, we don't have a fixed number that we're aiming to get to. I think a lot comes down to what we see is as lying ahead for us as a company both in terms of our market as well as the profile of our fleet and what we're doing. But also we've said this many times, that we're in the tanker market and the tanker industry is a very cyclical business. So the stronger we can build our balance sheet and the lower we can, the lower the debt level that we can carry that provides us financial flexibility that allows us to make the right decisions at the right points in the cycle. So I think, going forward, I don't see us changing that strategy or that approach to how we run the company or our balance sheet.

Randy Givens: No, that's fair. So nice to see some progress there on the quarter-to-date rates so hopefully that continues. Thank you.

Kevin Mackay: Thanks, Randy.

Operator: Thank you. Our next question comes from Magnum Fyhr with HC Wainwright

Magnum Fyhr: Yeah. Good afternoon, or I guess it's a morning on the west coast still. Kevin maybe this is a question for Stewart, but you guided I mean, OpEx, you did a great job on OpEx in the quarter, it came in significantly below your guidance. I think you guided at \$44 million, came in at \$39 million, and going forward, you guided for \$40 million. Can you tell us a little bit about what's going on there and then you've got the good run rate for 2022?

Stewart Andrade: Sure, I can take that one. So in Q4 we had a little bit less expense related to some of our crew changes than we were expecting, so that helped reduce our OpEx and we also tend to do a lot of bulk



purchasing at the beginning of the year to try and get volume purchases to reduce our OpEx, and that bulk purchasing program was actually even a little more positive than we had expected which reduced our spend in Q4 as well. So overall we were, as you said, we had a good quarter for OpEx. In terms of our Q4 guidance, as you said, we got it around \$40 million for Q4, and I think for a run rate, probably about 41 is a reasonable run rate. As I said, we tend to have a little bit higher OpEx at the beginning of the year as we do bulk purchasing.

Magnum Fyhr: Okay. So I guess we were running higher through most of the earlier in the year. So what kind of costs besides the - buying some of these supplies early in the year, is there anything else there that contributes to the lower run rate? Because that's pretty a lot lower than the previous run rate.

Stewart Andrade: Yeah, I think the two main factors there, as I said, is the bulk purchasing program and then also some of the expenses related to COVID and crew changes and some of those things that we were taking on earlier in the year and that were a little more expensive earlier in the year. And those costs have come down through the year.

Magnum Fyhr: Okay. Thank you for answering my questions.

Stewart Andrade: Yep. You're welcome.

Operator: Thank you. Our next question comes from Ken Hoexter with Bank of America.

Ken Hoexter: Hey, great, good morning. Kevin, can you talk a little bit about trends historically on the drawdowns? You mentioned the drawdown of inventory, so is there historically a level where you see the market say, okay, that's as low as we want to go and then start to build the stocks up again. Is there kind of any inflection point you can point to historically?



Kevin Mackay: Well, I think a year ago I probably would've told you, Ken, that if we get them to the five-year average historically or slightly below the five-year average, you typically start to see oil producers open the taps a little bit. But as we stand here today, we're 215 or 220 million barrels below the five-year average which is almost the same as what we were above it. We were, in second half of 2020, we were 250 million barrels above the average, so we have come down a massive amount and we might learn something later today when the OPEC meeting adjourns, but so far it appears that the appetite is to release barrels into the market at a slow and steady pace rather than to open up fully. So I don't think there's a number. There's certainly not a number that we at TNK look at and say, okay, when we hit this number of inventory level things are going to change. I think it's just one more factor in the whole mix of variables that come into how our market operates. But I think we're optimistic, it can't go much lower, we're - Christian, you might be more accurate on this, but I think we're something like getting close to 60 days of reserve supply. I mean, historically when you get down to those levels, two things happen, one, oil price goes up, and two, eventually they turn the taps back on more significantly. Christian, anything to add?

Christian Waldegrave: No, no. I was just going to echo that point, we're at about 62 days of forward cover at the moment in the OECD and like Kevin said, once you get below 60, that tends to be the point at which you get a bit of an oil price spike. So, with inventory still drawing in the short-term here, I think we could expect the situation to stay pretty tight and inventory to come down a bit further. But as OPEC keeps releasing oil onto the market at the pace that it's doing, plus some non-OPEC+ supply coming back hopefully, we'll start to look a little bit better as we get into 2022 on the oil supply front and that should then help start replenish those inventories and that'll obviously be positive for the tanker market.

Ken Hoexter: Well, I guess that's not too encouraging if we're going to be driving in the near term. The structure, let me - Kevin, I guess if you're looking at rates that are rebounding, is there thoughts now of maybe adding more charter-in vessels or do you - are you, you mentioned that you're comfortable with the 50 vessels before, it would, would you take any moves now to position yourself even more for that inflection or you've just given the unknown, it's not worth setting it up?



Kevin Mackay: No, I think we've got different levers and the in-charter portfolio has been a very good lever for us historically, going into what we think is going to be a strengthening the market. So although we say we're comfortable with the 50 ships that we have today, we say that because asset prices are at ten year highs and we don't feel that there's value there to be a purchaser of ships. But on the in-charter, side we've done these three in-charters already earlier in the summer and we said after we did those, we would take a pause and we would look at where we see the economy going and the recovery coming and what COVID had to offer. And I'm glad we did because I think the markets softened or stabilized, I would say not softened but more stabilized. So I think we've got an opportunity to go back in and add to that portfolio of three ships. I think as the green shoots appear, I think you'll probably see us go back in and try and get some ships on a short-term mid-term basis, anywhere from six months out to three years, something like that. It all depends on the ship and at the rate that we can bring it in at, if there's value to be had.

Ken Hoexter: So maybe something we see more activity depending on where rates go. Looking at your chart on page four, just looks like we're maybe a little delayed in the seasonal rebound from that, I guess typically it starts a little bit more end of October, I thought it was more Thanksgiving that you started to see that ramp up. Is that something you -any reason to not see that seasonal strength given the environment you set up for the - as we move to the end of the year here?

Kevin Mackay: Well, I think every year we say that the fourth quarter is a stronger quarter. Some years, I have seen it kick off right at the beginning of end of September going into October, and some years I've seen it happen in the first week of December. So I don't think there's a specific week or a specific month where you'd expect things to take off. And I think what we've seen already is that in October things picked up and that strength seems to have continued in November. Where it goes from here, I think it will be a stronger quarter definitely compared with Q3, but will it return to sort of levels we saw it in the early part of 2020? No, I don't think we're going to get to those kinds of highs, not when we have 4.7 million barrels of crude still not being transported around the world. But I think it'll still be a healthy quarter and we may see further improvement as weather delays and other seasonal limitations on the logistics chain come into play.



So certainly, what we're seeing across the Aframax segment and the Suezmax segment to a lesser degree is we're getting more pockets of volatility. In the summer, it was more - you had Hurricane Ida and that affected the US Gulf and everywhere else was a little bit flat whereas now we're seeing the MED pickup a little bit, we're seeing some volatility in the North Sea, North Asia is starting to tighten, so to us, it's indicating that things are starting to tighten up, not massively, or are overly tightening but it's certainly more tight than it was during the trough in the summer. I wouldn't sit here today and trying to predict exactly how high it's going to go.

Ken Hoexter: Great. Kevin, Stewart. Appreciate the time. Thanks.

Kevin Mackay: Thanks, Ken.

Operator: Thank you. This concludes our question-and-answer session. I would like to now turn it back to the company for any closing remarks.

Kevin Mackay: Thank you for joining us today and thank you for your support in TNK. Talk to you next quarter. Bye-bye

Operator: Thank you, ladies and gentlemen, this concludes today's presentation. You may now disconnect.