



## Teekay Offshore, NYSE: TOO

Update to our January 2018 presentation:  
***“When 1 + 1 = TOO”***

Harvard Club of New York City  
October 28, 2018

Our original presentation “When  $1 + 1 = \text{TOO}$ ”  
can be viewed at:

**<https://jdpcap.com/when-1-1-too/>**

## Abandoned public stub of a Brookfield Business Partners (BBU) private equity deal

Ticker: **NYSE: TOO**

Market Cap: **\$900 million**

Enterprise Value: **\$4.2 billion**

Shares outstanding: **475 million**  
(assumes full warrant dilution)

52-week Hi/Lo: **\$3.12 - \$2.08**

### Ownership

60% Brookfield Business Partners (NYSE:BBU)

14% Teekay Corporation (NYSE: TK)

12% 13F filers (JDP estimate)

6.6% FMR

**~7% freely-tradable float** (JDP estimate)

## What TOO is

- Lease receivables business: Collection of multi-year contracts with largest E&Ps
- Leveraged to capex spending of very specific, high quality 30 to 50-year offshore projects
- Duopoly in North Sea, Monopoly in Canada, Triopoly in Brazil
- End-to-end value-chain assets
- 2/3 of debt is project-level and aggressively amortizes with individual contracts

## What TOO isn't

- ✗ A bet on oil
- ✗ Commoditized shipping such as:
  - ✗ Dry bulk
  - ✗ Conventional tankers
  - ✗ Container shipping
- ✗ No "BadCo" assets
- ✗ Over-leveraged or high-risk leverage
- ✗ Mature non-growth business paying out earnings

## Brookfield and their pension co-investors got an incredible deal

- ✦ Recapitalized by BBU in **July 2017**
- ✦ BBU paid \$2.50 per share for 60% of company by injecting \$640 million
- ✦ Margin of safety: \$3 - \$4 per share in contracted run-off value
- ✦ Balance sheet repaired as of **2Q 2018**
- ✦ Early stages of a major sector rebound
- ✦ **JDP estimated 200%+ upside from current \$2.10 per share**

## Taking advantage of dislocations in lease-finance

### **Brookfield** Business Partners

**\$1.34 BN INVESTED**

\$640M equity investment in July 2017

\$700M private unsecured notes June 2018



TEEKAY OFFSHORE PARTNERS



**\$1 BN INVESTED**

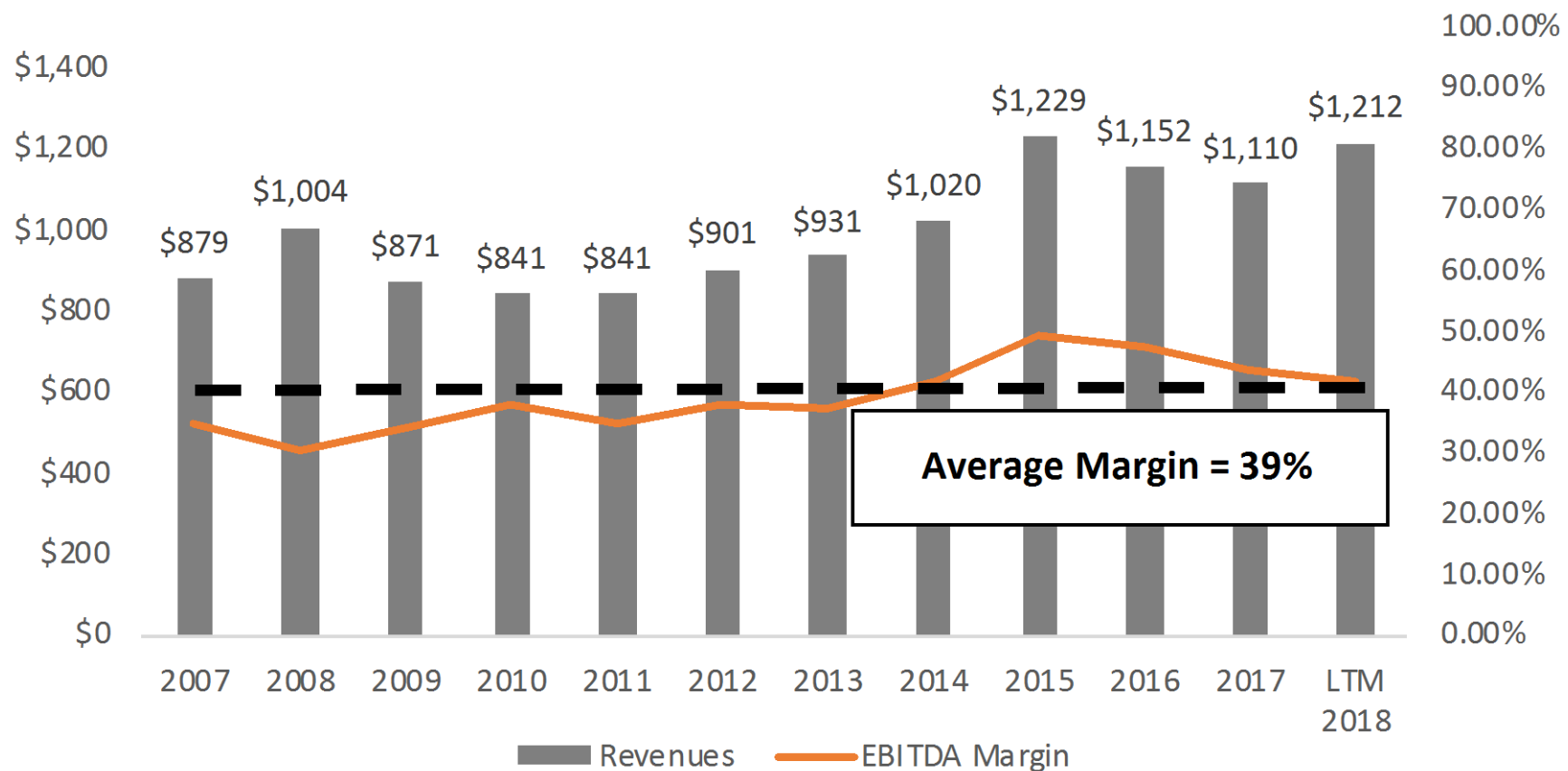
David Sokol appointed Executive Director April 2017

Fairfax \$500M hybrid investment in January 2018

Fairfax increases equity investment by \$500M May 2018



## Predictable revenue and margins driven by long-term lease contracts (think airplane leasing vs. airlines)



## Underlying free cash flow is stable and growing

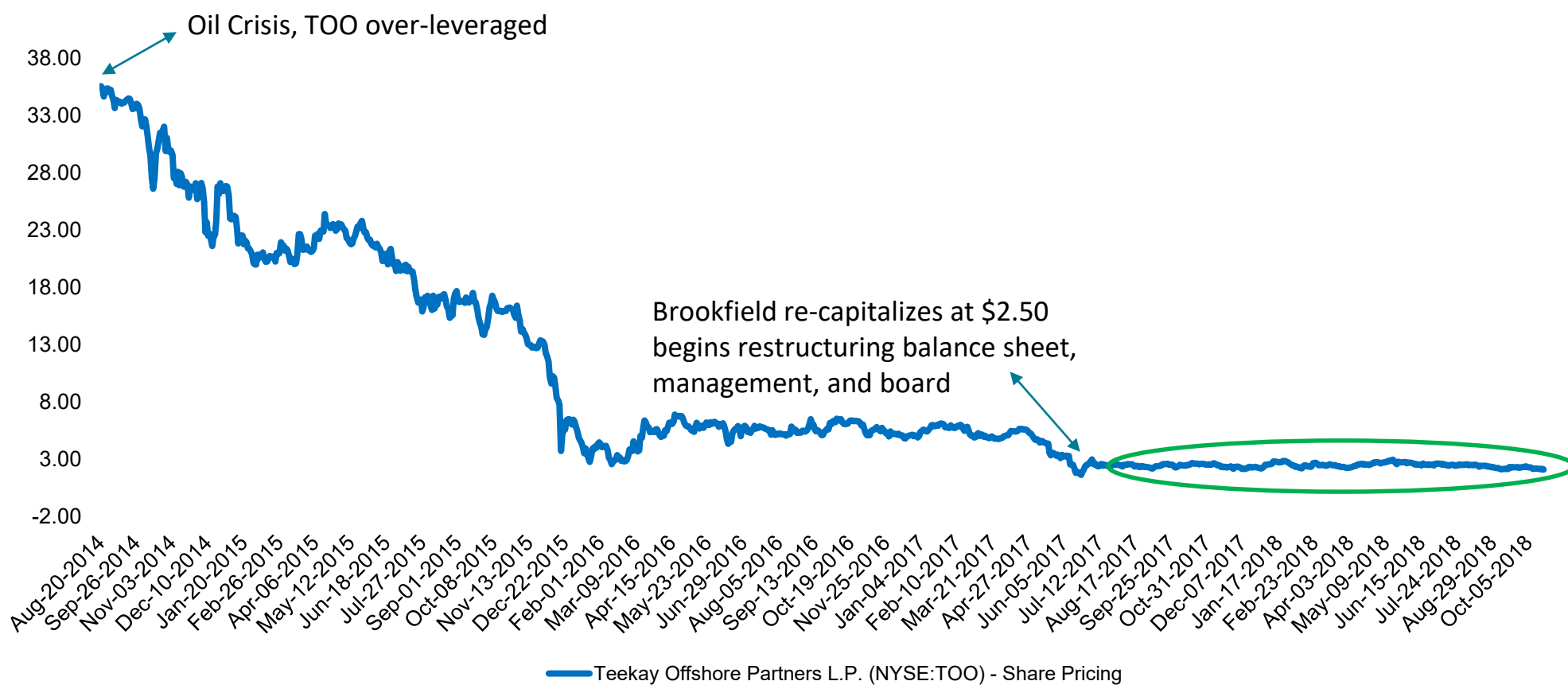
- ✧ GAAP free cash flow is temporarily depressed by:
  - ✧ Higher project-level amortization
  - ✧ Mismatched D&A versus Replacement costs
  - ✧ Significant Brookfield re-financing and high transaction fees
  - ✧ Pulled forward shuttle-tanker maintenance
  - ✧ Petrojarl FPSO contract step-up structure value not reflected

## Recent contact awards lock in additional growth



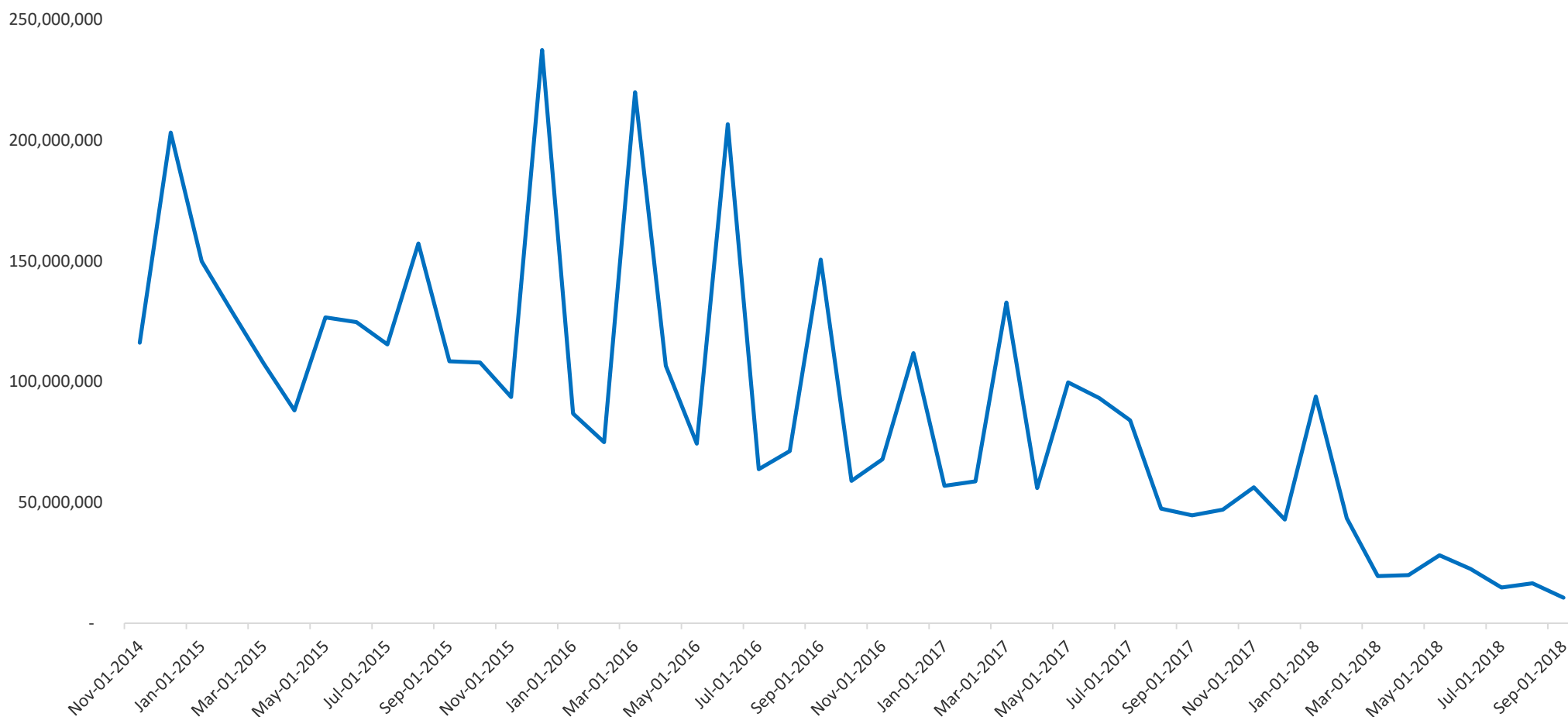
# An institutionally-constrained stock

## TOO stock has flatlined since the BBU recapitalization



# Notional trading volume

Monthly notional trading volume in **down 97%** from peak to current in US\$

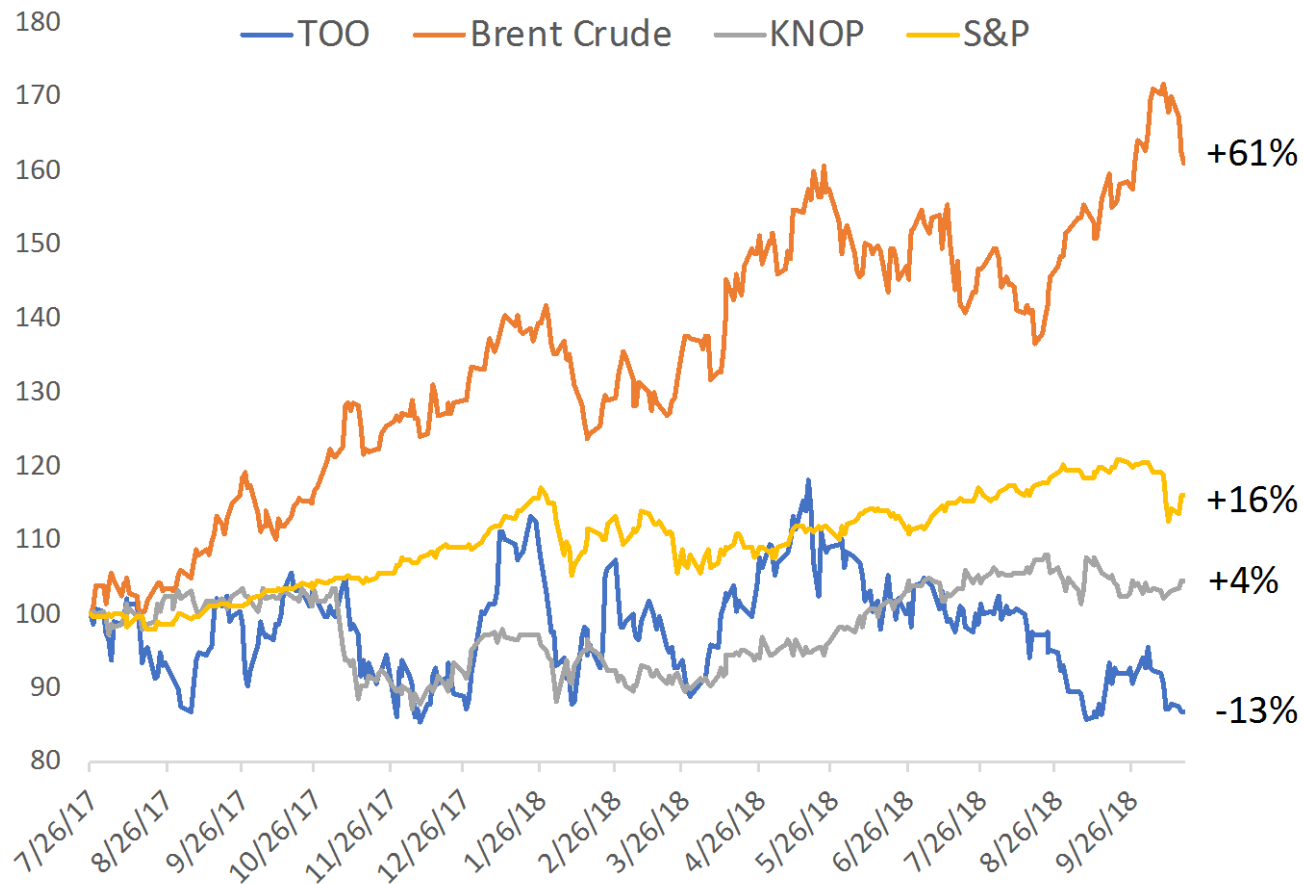


## Opportunity currently limited to micro-sized hedge funds and retail investors

- ✧ Traditional asset managers temporarily constrained by TOO's debt rating
- ✧ Daily notional trading value ~\$400,000, often much less
- ✧ No dividend: Former MLP shareholder base blown out
- ✧ Generalists overly focused on DCF **while missing Brookfield's strategy**
- ✧ Lack of investor relations to communicate goals

# Since the BBU re-capitalization

## TOO vs. Brent, KNOP (peer), and S&P 500



# Updated valuation range

Cash Flows (\$mm)	Scenario Analysis		
	YE 2018	Base 2019	Growth 2019
EBITDA	\$640	\$675	\$725
Cash Interest	180	180	180
Tax	0	0	0
Replacement	240	240	240
Preferred Interest	<u>28</u>	<u>28</u>	<u>28</u>
<b>Free Cash Flow</b>	<b>\$192</b>	<b>\$227</b>	<b>\$277</b>
Free Cash Flow per Unit	\$0.40	\$0.48	\$0.58
FCF Yield at \$2.19/Unit	19%	22%	27%
Multiples Valuation			
Target EBITDA	8.0x	10.0x	10.0x
Target Price	\$4.00	\$7.26	\$8.32
Upside	83%	232%	280%
Target FCF Yield	10.0%	8.0%	7.0%
Target Price	\$4.04	\$5.97	\$8.33
Upside	85%	173%	280%

## BBU's exit will require fixing the stock and liquidity well ahead of selling their stake

- ✧ BBU is a private equity fund, objective to recycle capital in 5 years or less
- ✧ BBU's IRR on TOO equity running -60% behind target goal
- ✧ Stabilized leverage range 4x - 5x
- ✧ Brookfield exit options for TOO:
  - ✧ Highest probability to use public stub to exit
  - ✧ Sell entire company
- ✧ Stock continues to disconnect away from business value

JDP

CAPITAL MANAGEMENT

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