2020 Second Quarter
Results Conference Call
August 5, 2020

Notice: This transcript contains references to non-GAAP financial measures. A presentation of the most directly comparable GAAP measures and reconciliations to non-GAAP financial measures used in this presentation is available on our website at genlp.com and click on the non-GAAP Reconciliations icon at the Investor Relations page.

Welcome to the 2020 Second Quarter Conference Call for Genesis Energy. Genesis has four business segments. The offshore pipeline transportation segment is engaged in providing the critical infrastructure to move oil produced from the long-lived, world-class reservoirs from the deepwater Gulf of Mexico to onshore refining centers. The sodium minerals and sulfur services segment includes trona and trona-based exploring, mining, processing, producing, marketing and selling activities, as well as the processing of sour gas streams to remove sulfur at refining operations. The onshore facilities and transportation segment is engaged in the transportation, handling, blending, storage and supply of energy products, including crude oil and refined products. The marine transportation segment is engaged in the maritime transportation of primarily refined petroleum products. Genesis' operations are primarily located in Wyoming, the Gulf Coast States and the Gulf of Mexico.

During this conference call, management may be making forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The law provides safe harbor protection to encourage companies to provide forward-looking information. Genesis intends to avail itself of those safe harbor provisions and directs you to its most recently filed and future filings with the Securities Exchange Commission. We also encourage you to visit our website at genesisenergy.com where a copy of the press release we issued today is located. The press release also presents a reconciliation of non-GAAP financial measures to the most comparable GAAP financial measures.

At this time, I would like to introduce Grant Sims, CEO of Genesis Energy, L.P. Mr. Sims will be joined by Bob Deere, Chief Financial Officer and Ryan Sims, Senior Vice President – Finance and Corporate Development.

Introduction and Comments on Second Quarter 2020

[Grant]

Good morning.

As we mentioned in our earnings release, over the course of the last few months we have taken the proactive steps necessary to improve our financial flexibility and be a net payer of debt even in such a difficult operating environment. Let me repeat that….we expect to be a net payer of debt even in this generationally challenging environment. We reduced our quarterly distribution which saved us approximately $200 million dollars, to be primarily used to reduce debt. We amended our agreements with GSO Capital Partners to allow us to delay the capital expenditures associated with our Granger Optimization Project by up to twelve months. We recently implemented cost savings initiatives that are expected to generate approximately $38 million in annual savings beginning this quarter. We amended, with the unanimous support of our 19 banks, our senior secured credit facility to be able to add back $13.5 million in one-time charges associated with our cost savings initiatives as well as increasing our covenants through 1Q 2021. Early in the second quarter, we were also successful in purchasing approximately $96 million worth of our unsecured notes on the open market at a weighted average price of just under 79 cents on the dollar resulting in a gain as well as a net reduction of total debt of approximately $20 million dollars.

Now turning to our individual business segments. Our offshore pipeline transportation segment continued to perform in-line with our expectations with the exception of unexpected downtime associated with Tropical Storm Cristobal. During the quarter we saw producers shut in volumes in May, with some continuing into June, representing maybe 2-3% of total volumes for the quarter, as a response to the dramatic fall in commodity prices during late April and May. Virtually all of these volumes, with the exception of around maybe 5 thousand barrels of oil equivalent a day, are back on-line as of July 1st.

As we mentioned in our second quarter call, the third quarter is typically a very heavy quarter for scheduled maintenance and downtime, some of which does ultimately result in higher output in future periods. In addition, we are currently in the midst of hurricane season and still have roughly two months left with no guarantee we will not have additional shut-ins as a result of a named storm or more than one named storm in the Gulf of Mexico.

Additionally, we did re-confirm during the quarter the anticipated timing of several major offshore projects which are already contracted to our expansive infrastructure in the central Gulf of Mexico. Argos (formerly Mad Dog 2) and the King's Quay floating production system, which supports theKhaleesi, Mormont & Samurai fields, are still scheduled for first production in late 2021 or early 2022 and early to mid-2022, respectively. These two fields alone, which require almost zero capital from us, are expected to generate well in excess of $100 million dollars of annual segment margin to us when ramped up to anticipated full production.

I thought it might be useful to touch briefly on the current political environment and some of the policy rhetoric that is out there. While I am not going to speculate on the election or future policy, I would say that we continue to believe the future of the Gulf of Mexico remains strong, especially in the near to medium term, with the existing contracted volumes dedicated to our systems. Additionally, a significant portion, but by no means all, of the highly prospective acreage in the deepwater Gulf has already been leased under primary terms of ten years, and the upstream community has already paid the federal government billions in lease bonuses and has spent tens of billions more on exploration activities and production facilities to date. Under previously approved plans of exploration or plans of development, there are literally hundreds and hundreds of wells already permitted to be drilled on leases under primary term, leases that have an already approved plan of development or suspension of production and/or leases which are held in perpetuity by having established already production thereon. The upstream community continues to spend significant amounts of money despite the perceived political risks, and we continue to have discussions with producers about providing critical infrastructure for their future developments.

During the quarter our onshore facilities and transportation segment performed as expected, and we did see some short term benefit from contango during the quarter but do not expect that to repeat in future periods. We continue to see zero crude-by-rail volumes from Canada at our Scenic Station and continue to bill at our minimum volume commitment levels. If the recent news about a potential DAPL shut down comes to fruition, we could potentially see certain crude-by-rail volumes from North Dakota sent to our rail unloading facilities, and specifically our Raceland terminal, given the direct routing from virtually every loading facility in North Dakota via the BNSF railroad.

Marine fundamentals during the quarter were relatively consistent with our expectations. We continue to monitor refinery utilization as lower refinery runs in PADD II and PADD III have started to have a financial impact on us, specifically on our brown water fleet given there's less intermediate refined product volumes needing to be moved between refinery and terminal locations. Our offshore, or coastal, barges have fared remarkably well and utilization and rates have held in this quarter, at least so far, consistent with the first half of the year. The American Phoenix's existing contract is up in late September. In early March, we were in active discussions on new terms in the neighborhood of her current contract. Unfortunately, the dislocations resulting from Covid-19 has caused a near term supply/demand imbalance in Jones Act tonnage and we would otherwise expect her to re-contract at a day rate south of her current contract.

The second quarter was challenging for our sodium minerals and sulfur services segment, even more challenging than we reasonably expected at the time of our first quarter call. Our legacy refinery services business experienced some volume loss during the quarter, in domestic pulp and paper sales but especially in South America as mining activities were ordered curtailed or shuttered by local governments in response to those countries attempting to address the spread of Covid-19. In July, Freeport McMoran indicated they were allowed to restore their copper mining operations in Peru during the second quarter following the Covid-19 restrictions that were imposed by the Peruvian government in March 2020. The company indicated they exited the second quarter at roughly 80% of their 2019 operating capacity. Copper prices are at or near their highs for all of 2019 reflecting the effects of the production lost in the second quarter and hopefully increasing demand as more and more economies attempt to re-open. Our pulp and paper customers attempted to avoid turnarounds in the quarter in order to limit the number of non-employees on location due to protocols on combatting Covid-19, and during which they would normally use large amounts of sodium hydrosulfide or NaHS. So far this quarter, we are starting to see more normal volumes as those facilities no longer can avoid the turnarounds and ignore their need to replenish the sodium and sulfur molecules critical to their processes. As a result, we're increasingly confident that our NaHS sales are likely to fully recover as we approach the end of the year.

In soda ash we are facing a generationally difficult operating environment. Beginning in

May and accelerating into June, our domestic and international customers for soda ash began cancelling orders for the remainder of the year as they adjusted to the demand destruction associated with Covid-19 for their final products in which soda ash is used. In fact, since our last earnings call, we have received cancellations of orders for slightly more than 300,000 tons through the rest of this year alone. This physical demand destruction dwarfs the downdraft to our soda operations experienced during the financial crisis of 2008-2009.

To respond to such imbalance, we made the decision to cold stack (meaning we could return to normal operations in 3-6 months) our existing operations at Granger, which currently is our highest cost facility, resulting in a reduction in our supplies to be sold by some 550,000 tons on an annual basis. We know other domestic producers have also reduced supplies, and we are aware of a major synthetic producer in China shutting down as the worldwide market for soda ash adjusts to the current demand environment. Additionally, we delayed our Granger expansion project by a year and currently expect to bring on a fully expanded Granger facility in late 2023 at a full expanded capacity of 1.2-1.3 million tons a year and optimized such that it will join our Westvaco facility as one of the most economic soda ash production facilities in the world. The market for soda ash can tighten very quickly as demand recovers along with increases in economic activity, especially given the supply responses we have already seen. There is no doubt in our minds that the demand for soda ash will ultimately rebound and that we will benefit from being one of the world's largest and lowest cost suppliers of such a critical industrial component.

There are a few signs that maybe we've put in a bottom from a volume point of view. Export orders have stabilized over the last 4-6 weeks and July domestic sales were up relative to June which were marginally up from May. We have also seen that reported Chinese soda ash inventories have decreased almost 18% over the last several weeks. While encouraging, we know that economic activity has to continue to recover worldwide before we see a return to 2019 type levels.

Longer term, we are encouraged by certain emerging macro trends beyond just a recovery in economic activity to pre-pandemic levels. It appears people are increasingly interested in living horizontally rather than vertically, which would be more soda ash intensive. Similarly, we believe auto sales are likely to increase as fewer commuters want to ride congested public transportation at the same time that the average age of the automobile fleet in the US is at an all-time high. There are also a couple of Green initiatives starting to underpin soda ash demand. Demand for soda ash from the lithium carbonate producers in South America and elsewhere is growing rapidly. There is slightly more than two parts of soda ash required for each part of lithium to make lithium carbonate, the major constituent of new generation lithium batteries. Additionally, accelerating endeavors to retrofit older buildings to meet the standards for LEED certification should lead to significant new demand for glass and hence soda ash.

As we look forward to the second half of 2020, we would expect Adjusted Consolidated EBITDA, as defined by our banks and used to calculate compliance with our covenants, to come in a range of $570 million to $610 million, or generally in line with current street expectations. While challenges certainly remain, given the steps we have already taken and given our lack of future capital requirements, we believe we have positioned the partnership to comfortably live within its means and navigate the current macro-economic environment.

The pace and scope of the recovery in the world's economies is not abundantly clear and could well extend into 2021. In any event, we believe we are well positioned to weather the storm regardless of duration and will still be cash flow positive and be a net payer of debt this year and in subsequent years.

A more important focus, from our perspective, is for everyone to recognize the significant operating leverage we have to produce increasing financial results in future periods with no capital as the world's economies recover and contracted offshore volumes come online.

I would like to once again recognize our entire workforce, and especially our miners, mariners and offshore personnel who live and work in close quarters during this time of social distancing. I am extremely proud to say we have safely operated our assets under our own Covid-19 safety procedures and protocols with no impact to our business partners and customers with limited confirmed cases amongst our some 2,000 employees.

It is an honor to have the opportunity to work alongside such quality people.

With that, I'll turn it back to the moderator for any questions.

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