2019 First Quarter
Results Conference Call
May 2, 2019

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 2019 First 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 Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida, Wyoming 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, Karen Pape, Chief Accounting Officer and Ryan Sims, Senior Vice President – Finance and Corporate Development.

Introduction and Comments on First Quarter 2019

[Grant]

Good morning and welcome to all.

As mentioned in this morning's release, we announced total segment margin of $173.6 million in the quarter. Everything else the same, total segment margin, Adjusted EBITDA and Available Cash before Reserves, in the quarter were negatively impacted by approximately $11.5 million due to a couple of discrete items. First, we experienced an unexpected electrical transformer failure at one of our soda ash production facilities resulting in reduced realized margin of approximately $5.0 million from lost sales volume. Second, as previously disclosed, we saw a negative impact from the Alberta production curtailment, which potentially cost us approximately $6.5 million on a sequential quarterly basis assuming that volumes would have remained consistent with the fourth quarter 2018. Notwithstanding these events, which I'll comment on later, our business performed as expected, highlighted by increased contribution from our offshore segment, and we remain on track with our previously announced guidance for full year 2019.

Before getting to our customary remarks on our individual businesses, I wanted to briefly touch on the current crude by rail dynamics out of Canada. We generally view the recent election results in Alberta as a positive, but time will tell how quickly the pricing spread between WCS and the Gulf Coast reflects market driven supply and demand fundamentals for take away capacity out of Alberta. Future spreads currently indicate a widening spread between WCS and the Gulf Coast thus making rail movements out of Alberta to our Scenic Station rail facility and Baton Rouge export terminal economical. Physical volumes resumed moving to our Baton Rouge facility in April, albeit slightly below the minimum take-or-pay volumes, but we now expect volumes in May and June to be at or above our minimum take-or-pay volumes. We expect our main customer will utilize pre-paid transportation credits from the first quarter for any over performance in the second quarter, with any continued over performance not being reflected in our non-gaap financial results until the second half of 2019. Assuming no material change in government policy or supply / takeaway capacity, we expect to continue to see volumes ramp-up throughout the second half of the year and ultimately return to or exceed the fourth quarter 2018 volumes delivered into our Baton Rouge facilities.

Turning to offshore, I would mention again, that in my thirty plus years of focusing on the infrastructure in the Gulf of Mexico, I have rarely seen such an active backlog of known and sanctioned developments by the producing community, especially as it relates to our current footprint of strategically located assets with capacity all the way to shore. During the quarter we saw increased volumes across our asset footprint and we began receiving volumes on Poseidon and CHOPS from production delivered to us by a third party pipeline that has insufficient capacity to directly deliver all of its committed volumes to shore.

To avoid any confusion, I thought I should expand a little bit on this situation. There is a third-party pipeline system that has a 24 inch diameter pipeline that goes all the way to shore with notional capacity of 280 thousand barrels per day, or kbd. Additionally, it has an affiliated 16 inch pipeline that can notionally move 50 to 80 kbd to the Eugene Island Pipeline System for further transportation to shore, which for a variety of reasons is not an overly attractive option for most producers. Finally, it has a 20 inch pipeline that comes aboard our platform in Ship Shoal 332 where the third party pipeline can deliver into our 100 percent owned and operated CHOPS pipeline and/or into our 64 percent owned and operated Poseidon pipeline for further transportation to shore. We have to date entered into take-or-pay agreements with at least four shippers dedicated to said third party pipeline for downstream delivery of their produced volumes on CHOPS and/or Poseidon with the most recent agreements having a term ranging from 12 months to 5 years. We are in active discussions to possibly expand and extend these existing agreements as well as enter into new arrangements with additional producers. Therefore, we would reasonably expect to benefit from the transportation all the way to shore of what likely will be growing volumes for certainly the next several years.

We remain on track to exit 2019 with an additional 40-50 kbd, relative to the fourth quarter of 2018, from infield development drilling and sub-sea tie backs, including the LLOG-operated Buckskin prospect. Our team continues to finalize agreements adding incremental, dedicated volumes approaching 80 kbd in 2020 (including Atlantis Phase 3), 70 kbd in 2021 and 150 kbd in 2022 (including Mad Dog 2) none of which requires any capital expenditures by us. We are in early but active discussions regarding incremental volumes that could possibly come in the 2022-2025 time-frame. We believe we are well positioned to capture incremental volumes as we are the only major pipeline operator in the central Gulf that does not have affiliated equity production to be concerned with and has current significant excess capacity to shore. However, unless and until the parties enter into definitive agreements, there is no guarantee that we will be successful in capturing some or any of these volumes.

Our onshore facilities and transportation segment experienced the negative impact from the government imposed mandatory production curtailments, which was reflected in our first quarter with approximately zero volumes moved through our Scenic Station facility in February and March. Our other legacy businesses in our offshore facilities and transportation segment performed as expected. We continue to evaluate opportunities to integrate our onshore assets with some of our offshore assets in the Houston area and lower Mississippi corridor that might ultimately complement the growth boom of international exports.

Despite the unexpected operational interruption in the quarter, our soda ash operations continue to exceed our expectations. We have replaced the damaged transformer and we are back to running at full capacity. We expect to offset this first quarter negative with higher volumes and stronger pricing in both the domestic and export markets and remain on track for our full year guidance for 2019. The international market supply/demand balance continues to remain tight, and we believe prices are likely to strengthen in the coming years. We continue to evaluate our Granger expansion opportunity, which at today's prices, we believe to be a sub 5 times investment.

Our refinery services business continues to perform at expectations and we believe it will continue to do so for the foreseeable future.

Our marine transportation segment continues to perform as expected and segment margin increased slightly for the fifth quarter in a row. We remain optimistic that we have put in a bottom for the quarterly segment contribution from our entire fleet of assets, and recent strength in near term day rates and utilization rates is reflective of an ever-so-slightly tightening market. We continue to see strengthening in Jones Act tanker rates, possibly indicating that more and more shale volumes delivered to the Gulf Coast are needing to be delivered to the PADD 1 and PADD 5 refineries on Jones Act vessels, in addition to international exports. We believe this trend will continue as more pipeline capacity comes on-line out of the Permian bringing more light sweet crude to the Gulf coast that ultimately needs to be cleared. Regarding IMO 2020, we expect to see an increased demand for our type on inland barge that can get the right intermediate refined barrel to the right refinery location under the more stringent requirements for finished products.

In summary, our businesses generated financial results that provided 1.42x coverage to our common unitholders, inclusive of one month of the preferred cash distribution, and a leverage ratio that slightly decreased on a sequential basis. We expect our coverage ratio to be slightly lower in future periods, everything else the same, as we move totally out of the paid-in-kind period on our preferred units. We will use any excess cash flow to repay amounts outstanding under our revolving credit facility or to internally fund potential attractive, low multiple, organic growth opportunities. This coupled with our expected growth from our existing asset footprint, which requires little or no capital, keeps us on track to naturally de-lever our balance sheet. We currently expect for our quarterly distribution rate to remain at $0.55 per common unit for the foreseeable future.

Our outlook for the remainder of 2019 remains unchanged from our previously stated guidance. We remain encouraged by our view of the current operating environment for our businesses, especially in the Gulf of Mexico with a number of exciting tie-backs and infield developments being completed in the second half of the year. We intend to be prudent and diligent in maintaining our financial flexibility to allow the partnership to opportunistically build long term value for all stakeholders without ever losing our commitment to safe, reliable and responsible operations. As always, we would like to recognize the efforts and commitment of all those with whom we are fortunate enough to work.

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

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