2021 Fourth Quarter
Results Conference Call
February 17, 2022

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 2021 Fourth 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.

[Grant]

Good morning to everyone.

As we stated in our earnings release this morning, 2021 was expected to be a year of transition as our businesses recovered from the impacts of the Covid-19 pandemic and the unprecedented hurricane season of 2020. We did in fact see our businesses begin to recover and our financial performance for the fourth quarter and all of 2021 was in line with our expectations.

As we look forward to 2022, we are very excited about the continuing recovery and the future trajectory of our businesses. Our two largest businesses meaningfully improved as we moved through 2021 and that momentum is expected to accelerate as we move thru '22. Because of the increasingly tight conditions in the world soda ash market, we expect our weighted average price this year to be at or above what we realized in 2019, or before any of the effects of the pandemic. This recovery in pricing is at least one year ahead of schedule, based upon our previous expectations and taking into account the caps and collars we have in place for a significant percentage of our sales contracts. We are also excited because we expect that 2022 will be a year of dramatically increasing volumes out of the deepwater Gulf of Mexico as King's Quay and Argos begin ramping production. Together, these two projects represent some 12 to 15 billion dollars of capital invested over the last several years in the deepwater Gulf of Mexico, one of the lowest, if not the lowest, carbon footprint crude oil basins in the world.

As we look forward and not backwards, we are rolling out initial guidance for 2022 of total

Segment Margin expected in the $620-$640 million range and Adjusted EBITDA expected in the $565-$585 million range. Both of these ranges reflect zero payments from our legacy CO2 pipeline business (which totaled $70 million in 2021), only a 64% interest in CHOPS for the entire year and no add-backs or pro forma adjustments as explicitly allowed under our senior secured credit facility to determine covenant compliance and/or pricing thereunder.

The Segment Margin and Adjusted EBITDA expectations for 2022 are both higher by more than 15% year over year, adjusting 2021 for the $70 million we received from Denbury and even though we owned all of CHOPS for some 10 and a half months last year.

I will now focus on our individual business segments.

During the quarter, our offshore pipeline transportation business performed in line with our expectations. Notably we made the strategic decision to sell a 36% equity interest in our CHOPS pipeline for gross proceeds of approximately $418 million. We felt this transaction helped us accomplish three main objectives, the first of which was taking any perceived covenant risk off the table. We used the proceeds to pay down 100 percent of our term loan with the remainder being used to reduce the amounts outstanding under our senior secured revolving credit facility which contributed to us having a leverage ratio under five times, as calculated pursuant to our senior secured credit facility, for the first time in almost two and a half years. Second, the transaction provided us with ample liquidity to fund the remaining capital associated with our Granger expansion project with more cost efficient dollars, which we estimate will save us over $10 million dollars annually in the coming years, versus drawing additional funds under the Alkali asset level preferred. Finally, the transaction, based on an 8/8ths valuation of $1.16 billion and an estimated earnings range for CHOPS of around $110 million in 2023, implied a multiple of roughly 11 times forward earnings for CHOPS. We believe this is a tangible, recent and real valuation marker that should help the investment community, whether you're on the buy side or the sell side, quote un-quote, re-price our entire offshore segment in your sum of the parts valuation models. If one were to apply this multiple to our 2022 segment margin guidance for offshore of some $345 million, which by the way will be even higher in 2023, one could derive a stand-alone valuation for just this part of our business of some $3.8 billion dollars.

As we said in the release, our two large upstream developments are now just months away from achieving first production. Both the Argos and King's Quay floating production systems have been anchored in place in the Gulf of Mexico and both are working to achieve first production soon. We anticipate them ramping production up to their design capacities of some 80,000 barrels a day and 140,000 barrels a day, respectively, as we move through 2022 and into 2023. Activity levels in and around our assets continue to be exciting in terms of future opportunities to provide midstream services to the upstream community in the Gulf of Mexico, as they continue to spend billions and billions and billions of dollars in one of the most prolific, profitable and lowest carbon footprint crude oil basins in the world.

Now turning to our sodium minerals and sulfur services segment.

As we mentioned in our earnings release, the demand for soda ash continues to improve through a combination of a recovery in global economic activity along with the various tailwinds associated with the energy transition and specifically its applications for both solar panels and lithium batteries. This rapidly increasing demand coupled with, as a practical matter, a net decrease in supply provided a favorable environment for price redetermination for our volumes to be sold in 2022. As such, we anticipate our weighted average realized price in 2022, even after taking into account the caps and collars under a significant percentage of our multi-year sales agreements, to actually exceed the weighted average price we realized in 2019.

This favorable environment also afforded Genesis and ANSAC the opportunity to continue to optimize contract terms to not only take advantage of current prices but also to further reduce our exposure to any significant fluctuations in energy prices and bulk shipping rates. As of today, approximately 50% of our domestic sales contracts and 75% of our international sales contracts via ANSAC contain provisions that allow us to pass along certain increases in energy costs directly to our customers. As contract terms allow, we will look to include similar provisions in all of our remaining contracts. In the case of ANSAC, a fuel surcharge for increases in bunker fuel related to its cost of maritime transportation has now been implemented for 100% of its contracts. The range in the guidance we provided today reflects these improvements in our soda ash contracts, which are ultimately designed to limit our exposure to volatility in natural gas prices and marine transportation costs.

While domestic markets continue to recover, we have seen demand in Latin America recover to at or above pre-pandemic levels. Demand in Asia outside of China remains slightly below pre-pandemic levels, but including China, total demand across Asia is now above pre-pandemic levels, even as the market deals with the temporary reduction in economic activity associated with the Chinese New Year and hosting of the Olympic Games. Any effects of this temporary lagging demand in Asia should be more than offset with supply rationalizations, including a closure of a 1.3 million ton per year synthetic soda ash facility in China just in December of last year, as well as the increasing cost structure of synthetic producers in China and across the globe as a result of higher energy input costs, stricter environmental regulations and increasing container shipping rates for export volumes. Chinese exports remain below historical averages as Chinese exporters continue to supply the domestic market which ultimately reduces the amount of soda ash available to markets in Asia outside of China.

While on the topic of Chinese soda ash, I wanted to touch briefly on the assessments of physical spot prices, FOB China, which are reported by a certain financial news service to which many folks subscribe. No matter what the reported FOB Chinese price is, it is important to note that neither Genesis nor ANSAC sell any volumes directly into the spot market for which this price is at all relevant, primarily because of the lengthy supply chain from Green River, Wyoming to Asian markets, as well as the fact that each distinct geographic market has its own supply and demand dynamics driven in large part by the existence or non-existence of local synthetic production and the transportation costs from other exporting regions. I'm not 100 percent sure, in fact, that this reported price has ever even been mentioned in any of our pricing discussions with any of our customers. If we were to try and sell significant volumes into China's domestic market, we would face tariffs and substantial intra China transportation expenses. This reported price, or maybe even just its movements, is reasonably relevant for the supply/demand balance inside China. It is also indicative and reflective of the increased costs faced by Chinese synthetic producers. To compete internationally, those synthetic producers would also face transportation expense to get to an export point and container freight expense on top of this price to get to other markets. It's just not that simple to translate or calculate its absolute relevance to our, or any other US producers', financial results this quarter or even this year given the structure of our contracts.

Having said that, it clearly ran up through most of '21, then dipped slightly in anticipation of the events I mentioned earlier, and now has reversed and is increasing again. Directionally that's a good thing. Given its quantum shift to the upside over the last year or so, one could surmise that there is ample room for prices, FOB Green River, Wyoming, to increase in coming years, beyond the increases we will already realize in 2022.

As we look forward, we do not see anything on the horizon to significantly alter this higher priced environment. Demand growth with flat supply will always drive prices higher. As we have discussed, the costs associated with synthetic producers have dramatically increased, providing a constructive backdrop for soda ash prices. If the current supply and demand dynamic and other macro-economic conditions hold, all else being equal, and even after taking into account the caps and collars in our multi-year contracts, our weighted average realized price in '23 could easily move higher by more than $10 per ton, across all of the 3.5 million tons we sell just from our Westvaco production facilities.

Based on current, and our expectation of future market conditions, we have made the decision to restart our original Granger production facility and its roughly 550,000 tons of annual production in the first quarter of 2023. The Granger expansion, representing an incremental 750,000 tons or so of annual production remains on schedule and, importantly, on budget for first production in the third quarter of 2023. This incremental production, both from the restart and the expansion of the Granger facility, will further increase our produced tons to primarily serve rapidly growing demand in our export markets.

When fully expanded and on-line in the 3rd quarter of 2023, the Granger expansion will be the first global expansion of natural soda ash in over 4 years and we would expect to ramp to its design capacity of 1.3 million tons per year over the subsequent 9 – 12 month period. The Granger design is based upon our patented ELDM alkaline brine-based technology which we have been operating for more than 25 years.

Interestingly, export prices, FOB Wyoming, are expected to be some 20 dollars per ton higher in 2022, and maybe more in '23 and beyond, than those we were receiving when we originally sanctioned the Granger expansion in the third quarter of 2019. At that time, we indicated the expansion was around a 6 or 7 times deal given a $350 million investment. If export prices and market conditions hold, then the Granger expansion could turn out to be more like a 4 or 5 times deal once fully ramped and on-line. The Granger expansion appears very, very attractive, and the remaining capital to be spent represents the lion's share of the several hundred million dollars of growth capital we expect to spend this year.

Also of note, during the fourth quarter, we saw Sisecam, a multi-national glass and chemicals manufacturer our of Europe, acquire a controlling stake in one of our neighbors in Green River, Wyoming. The consideration paid implied a transaction value of roughly $530 per ton of existing production capacity. This recent data point, if applied to our fully expanded 4.8 million tons of production capacity, would imply a valuation of over $2.5 billion dollars for our soda ash business by itself. Sicecam's published investment presentation laid out their investment rationale and highlighted some key topics. The first was that global demand for soda ash was going to continue to grow by approximately 3 percent per annum, at least, through 2028, due to the resiliency of end markets and the tailwinds associated with various green initiatives. I will note this growth forecast was also recently confirmed by IHS on a call hosted by sell-side research just within the last couple of weeks. Starting from a base, world-wide market including China of around 60 million tons, that's dramatic in terms of the incremental supply required to meet that demand. Furthermore, Sisecam mentioned ESG considerations was leading a structural shift to natural soda ash sources due to its lower emissions and more environmentally benign footprint when compared to the synthetic production alternative. They concluded by suggesting they believed there was significant upside potential for future soda ash prices, primarily driven by this increasing demand, the rising costs of synthetic production and ESG considerations.

It is reasonable to say this transaction further reinforces and validates our original investment thesis of natural soda ash being structurally advantaged on the global market versus the synthetic alternative, through a combination of lower production costs, lower energy input costs and a lower carbon footprint. We are confident this thesis will continue to provide the framework for continued improving results from this segment over the years ahead.

Our legacy refinery services business continues to perform in line with our expectations. We continue to see steady demand from our copper mining customers as copper prices remain at or near an all-time high given its important role in the energy transition. Along with being one of the most environmentally friendly methods to handle sulfur entrained in the crude oil consumed at a refinery, we continue to see utility and other manufacturing customers use our sulfur removal by-product to help them reduce harmful emissions in their respective operations.

This business has been remarkably resilient and a steady financial contributor over the 15 plus years that we've owned it, and over the decades before we became involved. We would argue this legacy refinery or sulfur service business is deserving of a low double digit multiple, given that history of consistent financial performance across multiple economic cycles. If one were to agree with that premise and then one were to add to that the recent market valuation of our soda ash operations mentioned earlier, one could come up with a valuation of our total Sodium Minerals and Sulfur Services segment of north of 3 billion dollars; again for those interested in actually analyzing and deriving a sum of the parts valuation of our businesses.

Moving on, overall market conditions in our marine transportation segment continue to improve as we have seen utilization rates on our equipment steadily increase as refinery utilization continues to recover and light / heavy differentials return to historical norms. More importantly the industry has been disciplined with little to no new equipment being built over the last several years. This, when combined with the continued retirement of older equipment, has contributed to a net reduction in overall supply of marine tonnage across all classes of Jones Act vessels. We believe this macro theme should provide the backdrop for increasing utilization and day rates as we move through 2022 and beyond. As a result, we expect the Segment Margin for marine, as we have historically presented it with a significant portion of maintenance capital being expensed as a practical matter in our presentation of Segment Margin, to be approximately 50 million, at the midpoint of our expectations for 2022.

In our onshore facilities and transportation segment, we expect increasing volume activity in an around our assets in the Baton Rouge corridor as we move through the year. We would also expect volumes and utilization of our terminals and pipelines in Texas City and South Louisiana to improve this year as we see volumes ramp from the offshore and make their way to our increasingly integrated onshore facilities for further distribution to refining centers or other infrastructure along the Gulf Coast. As a result, we would expect the midpoint of Segment Margin for our onshore facilities and transportation segment to total approximately $25 million in 2022, which will start out relatively small on a quarterly basis but accelerate through the year.

In summary, as we get 2020 and 2021 in our rear view mirror, we remain very excited with the expected improving financial results of our market leading businesses and continue to have an increasingly clear line of sight of $700-$800 million of annual Adjusted EBITDA in coming years, even after the sale of a minority interest in CHOPS. This outlook highlights the resiliency of our businesses and demonstrates the tremendous operating leverage we have to overall improving market conditions. The management team and board of directors remain steadfast in our commitment to build long-term value for all of our stakeholders, and we believe the decisions we are making reflect this commitment and our confidence in Genesis moving forward.

I would like to once again recognize our entire workforce, and especially our miners, mariners and offshore personnel for their efforts and unwavering commitment to safe and responsible operations. I am proud to be associated with each and every one of you.

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

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