2020 Fourth Quarter
Results Conference Call
February 18, 2021

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 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.

As we mentioned in this morning's earnings release, 2020 was understandably a challenging year for our businesses due to the Covid-19 related demand destruction, lower refinery utilization and crude differentials as well as an unprecedented hurricane season. Despite these challenges, we were able to generate approximately $602 million of Adjusted Consolidated EBITDA, as calculated under our senior secured credit facility, hitting the mid-point of our previously announced guidance. In fact, we were able to pay down and otherwise reduce Total Adjusted Debt by some $62 million despite paying approximately $45 million of financing fees associated with two unsecured re-financings during the year and paying $50 million in the first quarter of this year that was actually associated with the quarterly distribution for the fourth quarter declared for the fourth quarter of 2019.

While we expect 2021 to be somewhat a year of transition as our base businesses continue to recover and we move ever closer to the significant contribution from several contracted offshore projects, we are increasingly confident in the long-term fundamentals of our businesses and our significant operating leverage to the upside as the global economy continues to improve.

Our offshore pipeline transportation segment was challenged in 2020 from an unprecedented hurricane season, but the outlook remains strong. While the downtime and the non-recurring costs associated with the inspections and repairs to the Garden Banks 72 platform, negatively impacted 2020 Segment Margin by some $40 million, the first quarter of 2021 remains on track to generate a more normalized earnings profile of approximately $85 million per quarter.

Regarding the new administration's most recent Executive Order, which directs the Department of the Interior to temporarily pause new oil and natural gas leasing on federal lands, in our estimation it is very important to note the targeted pause by the Department of Interior "does not impact existing operations or permits for valid, existing leases, which are continuing to be reviewed and approved." In fact, since January 21st, the Bureau of Ocean Energy Management has issued 63 new permits, including 38 revised new well permits and 4 brand new well permits through February 16th, so basically the last three weeks.

I'd like to put this in perspective because the sheer magnitude of the deepwater Gulf is often misunderstood and, in my opinion, underappreciated. The recoverable reserves from a single deepwater well is often in the range of 15 to 20 million barrels of oil equivalent. Let me repeat. 15 to 20 million barrels are often recovered from a single well. So permitting and drilling a single well tied back into a production facility connected into one of our pipelines can be the equivalent of hooking up 25 or 30 onshore shale wells. The producers must hook these wells into a deepwater production handling facility, where once separated, the oil would then be metered into one of our pipelines, which as a practical matter is the only pipeline option. These kinds of typical deepwater wells are often at flush production for 2 or 3 years, not 2 or 3 months or weeks, and often have a productive economic life of 7 to 10 years per well. It is a completely different world than onshore, especially shale basins.

If the temporary ban on new leases were to be extended or become permanent, which we believe would require a change in the law, it is important to note we have hundreds of thousands of acres that are dedicated to our offshore pipeline systems under life of lease dedications, all of which are existing, valid leases under primary term, previously granted extensions of their primary term or held by production in perpetuity, alone or in recognized units. We believe there is a tremendous inventory of incremental drilling and sub-sea tie back opportunities on these existing, valid leases that can keep our base production levels flat to slightly growing for many years, if not decades, to come.

Near to intermediate term activity is quite robust around our producing customers' facilities. Occidental Petroleum has recently drilled and completed two new wells in the Lucius Field, both of which are already contractually obligated to flow through our 100 percent owned SEKCO pipeline and on to shore through our 64 percent owned Poseidon pipeline. BHP Petroleum has recently increased its working interest share in its operated Shenzi field. It has publicly announced its intent to dill several more infill wells in Shenzi proper, along with its intent to pursue a new two well, subsea development from what it calls Shenzi North. All of the production from these new wells are already contractually obligated to flow through our 100 percent owned Shenzi lateral and on to shore through either Poseidon or our 100 percent owned CHOPS pipeline. Additionally, an affiliate of Beacon has just announced a new discovery at Winterfell, and late last year, Equinor announced a major new discovery at its Monument prospect. Together, these two new discoveries represent hundreds and hundreds of millions of barrels of newly discovered resources that are closer to our existing pipeline infrastructure than anyone else's.

All of this is of course in addition to our larger, contracted offshore projects, Argos and King's Quay, which have both recently been publicly confirmed that they remain on track for first oil in 2022. We anticipate that these two fields, when fully ramped up, will generate in excess of $25 million a quarter, or over $100 million a year, in additional segment margin. We also remain in active discussions with three separate new stand-alone deep water production hubs, in various stages of sanctioning and with first oil starting in the late 2024-2025 time frame totaling more than 220,000 barrels a day of potential new Gulf of Mexico production.

Before moving on, I'd like to discuss the deepwater's carbon footprint and its critical role in the transition to a lower carbon world. The Gulf of Mexico is already one of the most highly regulated upstream basins in North America from an environmental point of view. I mean there's no basin other than the Gulf of Mexico that's overseen by BSSE or the Bureau of Safety and Environmental Enforcement. There is no hydraulic fracking and very, very stringent anti-flaring rules in the Gulf. As a result, oil produced in the Gulf has some of the lowest carbon intensity on a per barrel basis of any hydrocarbon production in the world. In fact, according to third party research, after taking into account the additional emissions incurred in shipping various imports to the United States, the barrels safely and responsibly coming to shore from the Gulf are less emissions intensive, from reservoir to refinery, than any other barrel refined by Gulf Coast refineries. Based on this information alone, notwithstanding other things like jobs, energy security, balance of trade etcetera, not to mention the billions of dollars that go into the US treasury on an annual basis in royalties, we conclude that it makes absolutely zero sense from a US or global perspective to potentially impede further activity and production in the Gulf of Mexico, even as we focus on climate change and an orderly and practical transition to a lower carbon world.

Switching gears to our second largest segment…Sodium Minerals and Sulfur Services.

Our soda ash business continues to improve from one of the most challenging operating environments in recent history. Global demand for soda ash continues to recover but total demand remains below pre-pandemic levels driven by the wide ranging impact on demand from Covid-19. As a result, we expect both domestic and export prices in 2021 will be marginally lower thanwe experienced this past year.

That being said, we were sold out in the fourth quarter and currently expect to be sold out of 100 percent of our production from our Westvaco facility in 2021. This incremental volume over 2020 will drive a growth in Segment Margin contribution and allow for greater fixed cost absorption and an improved cost structure. We believe all natural producers globally are in a similar situation of being sold out. As we progress through this year and demand continues to recover, the incremental tons must be supplied with synthetic production, which in general is twice as expensive to make as natural soda. This dynamic is why we believe prices will rise as we go through the year and the market will continue to tighten, towards the end of the year when we would otherwise re-determine most of our contract prices for the majority of our sales in 2022.

Future prospects of incremental demand for soda ash remain strong as it is an integral building block in the global economy. With just over 50 percent of the market being glass, which includes flat glass, auto glass, container glass, consumer products and much more, soda ash is well positioned to benefit from a continued economic recovery worldwide. Furthermore, the glass manufacturers use soda ash to lower the melting point of other raw materials, mainly sand, which in turn reduces their energy consumption and lowers the greenhouse gas emissions at their respective manufacturing sites.

Our legacy refinery services or our sulfur services business continued to improve during the quarter, as we have moved past certain supply disruptions in our supply chain caused by the active hurricane season along the Gulf Coast. Demand for NaHS has returned almost all the way to pre-pandemic levels, driven in large part by pulp and paper as well as our mining customer's production levels returning to pre-pandemic levels driven by the recent dramatic run up in copper prices, which we think is driven by rapid economic recoveries in the world's economies.

While the recovery in our sodium minerals and sulfur services segment is predominately underpinned by economic recovery and global GDP growth, the future is also going to be exciting because we are ALREADY very well positioned to actively participate in many aspects of the energy transition. We are confident these businesses will benefit significantly from various green and emissions-related initiatives.

Our soda ash business will increasingly participate in multiple renewable energy themes moving forward including the production of new LEED certified glass windows to retro-fit older buildings, manufacturing of glass for solar panels and the production of lithium carbonate and lithium hydroxide, the basic building blocks of lithium ion/phosphate batteries used in both the electrification of vehicles and long-term battery storage. In addition to being a building block of lower emission initiatives, U.S. natural soda ash, according to third party reports, has a greenhouse gas footprint roughly 37 percent less than Chinese synthetic soda ash when leaving their respective manufacturing sites and approximately a 22 percent less greenhouse gas footprint than Chinese synthetic soda ash on a delivered basis to customers in Japan and southeast Asia after factoring in emissions incurred in rail and shipping transportation. The process to produce synthetic soda ash also creates by-products such as calcium chloride and ammonia chloride which need further handling and ultimately increase synthetic soda ash's carbon footprint. This further demonstrates how low cost natural soda ash produced from the largest known natural deposits of trona in the world, right here in the United States, is the most economic and, equally important, most environmentally friendly soda ash in the world.

Our refinery service business continues to facilitate the eco-friendly removal of the sulfur entrained in crude oil so it doesn't remain in finished refined products like gasoline, jet and diesel fuel, which, when combusted, would otherwise end up in the atmosphere. Additionally we help our host refineries lower their emissions by processing their sour gas streams using our proprietary, closed-loop, non-combustion technology to remove sulfur from their hydrogen sulfide gas streams. This compares more favorably than the refinery's alternative of a traditional sulfur recovery unit utilizing the Claus process, which combusts hydrogen sulfide gas and releases certain levels of harmful gases and incremental carbon dioxide emissions into the atmosphere. In addition to our production process lowering emissions at our host refineries, sodium hydrosulfide or NaHS is used by our customers in many ways to help further reduce air emissions from various chemical and industrial activities. For example, NaHS is used to remove Nitrogen Oxide (NOx), which is a lot worse than carbon dioxide, from the emissions stacks of certain activities around metal refining and finishing. NaHS and soda ash are also both used in flue gas scrubbing to remove harmful particulates from what would have otherwise been released into the atmosphere, especially at large industrial complexes and hydrocarbon fired power plants.

While we are highly confident that crude oil will have a significant role to play for the foreseeable future, as hopefully you can tell, we continue to look at ways to position ourselves to operate and importantly participate in a lower carbon world. Along these lines, we are also pleased to announce that we are very near to launching our ESG web site which will greatly increase our disclosures and illustrate to all investors that we are committed to operating our business in an ESG responsible manner.

I'll switch gears now and focus quickly on the balance sheet and our view of 2021.

In addition to the successful refinancing of our 2022 notes earlier in the year, in December 2020 we accessed the unsecured bond market and completed an upsized $750 million note offering to fully call and redeem our 2023 notes. The remaining proceeds were used to pay down our senior secured credit facility by approximately $350 million, leaving us with ample capacity heading into 2021 and with our nearest unsecured maturity now in June of 2024. This increased interest expense from tilting towards longer-term, fixed-rate versus shorter-term, floating-rate debt will likely pressure our ability to live comfortably within the interest coverage ratio in our existing bank agreement perhaps by the end of the second quarter. However, we are highly confident we will enter into a new senior secured facility, which would replace our current facility that expires in May of 22 anyway, during the first half of this year to ensure our continuing financial flexibility and increased tenor as our businesses recover from the challenging environment of this past year.

Our reported leverage ratio increased in the quarter primarily due to the $40 million in weather related impact we incurred in the second half of the year in the Gulf of Mexico. If only we had experienced a more “normalized” hurricane season, our total leverage ratio at the end of 2020 would have been closer to 5.22 times versus the reported 5.57 times.

Looking forward to 2021, we would reasonably expect to generate Adjusted Consolidated EBITDA in 2021, as calculated under our senior secured credit facility, between $630 and $660 million, which includes some $30 to $40 million of pro forma adjustments. We currently expect cash obligations for 2021 totaling approximately $500 million, which includes all cash taxes, interest on bank debt and bonds, all maintenance capital spent, growth capital spent, asset retirement obligations, financing fees, estimated changes in working capital, preferred cash distributions and common distributions at the current $0.15 per unit quarterly payout. At this point, we have budgeted approximately $40 million of growth capital outside of the Granger expansion, which dollars for Granger are expected to be paid via the redeemable preferred structure at the soda ash operational level. This minimal growth capital is predominantly allocated to the offshore segment for additional upgrades to our existing systems for anticipated future volumes. Importantly, we expect to generate free cash flow after these identified cash obligations of $80 to $110 million which we intend to use to repay debt.

In summary, we are highly encouraged by the rebound in our businesses, and we still believe we have a clear line of sight to 700 to 800 million dollars in annual Adjusted Consolidated EBITDA in the coming years. Just a return to 2018-2019 soda ash pricing combined with the incremental contribution margin from our contracted offshore volumes, would add upwards of $100 million of additional Segment Margin to the 2021 guidance described above. With this accelerating ability to pay down debt and with relatively de minimus capital requirements to realize the financial benefits of these improving business conditions, we remain steadfast in our commitment to achieving our long-term target leverage ratio of 4 times.

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 folks.

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

##################################