2018 First Quarter
Results Conference Call
May 4, 2018

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 2018 First Quarter Conference Call for Genesis Energy. Genesis has four business segments. The Offshore Pipeline Transportation Division 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 Division 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 Division is engaged in the transportation, handling, blending, storage and supply of energy products, including crude oil and refined products. The Marine Transportation Division 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, and Karen Pape, Chief Accounting Officer.

Introduction and Comments on First Quarter 2018

Grant

Good morning and welcome to all.

We are pleased to announce that we remain on track with our previously announced guidance for visible, achievable long-term distribution growth and a clear path forward to deleveraging. In spite of the ninety-day quarter and certain operational hurdles which we expect to be resolved in coming quarters, our businesses delivered financial results that provided a 1.6 times coverage of our sequentially increased quarterly distribution, at the high end of our guided range of 1.4 to 1.6 times. During the quarter we spent a disproportionate amount of our announced growth capital for 2018. We successfully commissioned our expansion at the Port of Baton Rouge and completed additional gathering infrastructure in the Powder River Basin. This front end loading of capital expenditures puts us in a position to use excess cash flow in the back half of 2018 to begin repaying borrowings under our revolving credit facility at the same time that we expect to see increasing levels of EBITDA, working together to begin reducing our calculated leverage ratio.

In keeping with our precedent, we won't spend a lot of time on this quarter's results compared to the year earlier period. Rather, we will attempt to provide a little color around each individual segment, their quarterly results and how we view the short, intermediate and longer term financial performance of the businesses.

Our offshore results were essentially flat to slightly up sequentially, when adjusting for the number of days in the respective quarters. Turnarounds and certain delays beyond our control in achieving producer provided forecasts were the main drivers in slightly underperforming our internal expectations. Although we have been told to expect certain other extended producer turnarounds in the second quarter, we continue to believe the overwhelming majority of physical underperformance in any particular quarter is mechanically driven and not related to reservoir or reserves in place issues. In fact, we remain encouraged by the amount of continuing investment and producer activity in the deepwater Gulf of Mexico. We agree with the EIA's forecast of increasing production from an already record year in 2017, and we are very pleased with the current and future potential of our critical and strategic asset base in the deepwater, where break-even development prices have been driven to $35-$45 a barrel.

We continue to expect to move excess volumes from third-party owned and operated pipelines that are anticipated to have insufficient capacity to move volumes dedicated to their systems starting later this year and possibly continuing into the 2021 time frame. In addition, we have executed agreements for two third-party operated subsea developments being tied back to existing dedicated and connected hubs, one with first delivery anticipated in late 2018 and another in late 2019 with zero of our capital required. Finally, there continues to be in-field development drilling in and around a number of our dedicated hubs.

As previously discussed, we continue to have active discussions with several other third-party and/or host operated sub-sea tie-backs to existing dedicated and connected hubs. Additionally, we are responding to RFPs for several new +/- 75 kbd standalone new hub-type developments anticipated to be sanctioned in 2018 or 2019, with first deliveries expected in the 2022-2024 time frame. These are all in addition to the +/- 140 kbd expected from Mad Dog 2 in late 2020 or 2021 that is dedicated to us and requires zero of our capital.

Our recently acquired soda ash operations have continued to exceed expectations and remain on track to meet or exceed previously discussed guidance. The first quarter was positively impacted by higher than expected ANSAC or export pricing, a trend we are increasingly confident could continue in future periods. This in part is being driven by robust demand growth worldwide. In addition, there are, by our estimation, a number of factors negatively weighing on global supply. Exports out of China are trending lower year over year as a result of extremely high input prices for China's synthetic soda producers and operating restraints placed on certain producers to address environmental or pollution issues within China. Additionally, we believe the new Turkish supply is not ramping up as fast as originally expected, and due to certain lagging logistics investments, full production might be delayed into mid to late 2019, which, everything else the same, would allow the global market demand to continue to grow and more orderly absorb the incremental cost advantaged natural supply being developed in Kazan. Finally, a not insignificant synthetic production facility in Eastern Europe has been recently shut for an undetermined period of time due to an unfortunate spill and resultant pollution of a neighboring river and adjacent farmland. While of no direct effect to our operations, given we don't compete in that particular geography, it could nonetheless have an effect on worldwide supply in what otherwise appears to be a reasonably balanced market.

Our refinery service business continues to benefit from many of the macro factors and worldwide GDP growth positively affecting soda ash as well. Volumes are quite strong given, especially, the downstream demand for copper and pulp. Interestingly, a bauxite/alumina facility in the Caribbean, which shuttered in early 2009 at the depths of the Great Recession, restarted commercial operations late last year and represents a potential 4 to 5 thousand tons annually of market demand that we haven't supplied in almost 10 years.

Volumes in our onshore pipelines, while up from the year earlier quarter, were down sequentially primarily as a result of upstream or downstream operations beyond our control. A downstream pipeline in Texas, owned and operated by our primary customer, is operating at significantly reduced rates while certain integrity enhancement operations are undertaken by them. We would expect those to be completed or resolved by sometime in the third quarter and accordingly, would expect to see volumes to resume ramping thereafter. Volumes in Louisiana, on a sequential basis, were negatively affected by certain turnaround activities at the host refinery, and challenging operating conditions on railroads on which our customer ships.

We have long maintained that we would expect a ramp in volumes throughout 2018, and it was our belief that it could take until the fourth quarter of this year and perhaps even a bit longer, to see the full contribution from a number of our organic opportunities. We still believe that to be the case.

Volumes in Wyoming increased on a sequential basis reflecting ramping activity by producers in the Powder River Basin. We continue to be very encouraged by the upstream activity and recent well results in and around our existing footprint and significant dedicated acreage. We are well positioned to capture increasing volumes as producers continue to add rigs and move from delineation to full scale development drilling.

Our historic crude lease purchasing, or gathering by truck, business remains challenging, losing $1.4 million in the quarter versus contributing an average of $1.2 million per quarter in 2017. The lease business is not, and never really has been, a large contributor or focus for us, and that goes for any other merchant or trading activity by the way, or what others have dubbed supply and logistics activities. As we have talked about for some time, we can no longer economically compete for barrels gathered via truck in geographies where others either own pipelines or have take-or-pay and/or volume commitments on owned or third-party pipelines. As a result, we are in the process of winding down operations in south and west Texas, and focusing our efforts in Louisiana, Mississippi, Alabama, Florida and Wyoming, where we have the opportunity to touch the barrel again so to speak. We would expect to reflect a one-time charge of potentially a couple of million or so in the second quarter reflecting the cost of these unfolding actions.

Turning to marine transportation, segment margin actually increased slightly on a sequential basis, even with the short quarter and after taking into account the re-pricing to current spot rates for one of our blue water barges as our last legacy term contract rolled off, amounting to an approximately $1.2 million negative sequentially. While we are reasonably hopeful we have now put in a bottom, we have no grandiose expectations of the fundamentals for marine transportation showing any significant improvement through potentially at least the next several years. However, given the quality of our mariners and equipment, we believe we are positively levered to financially benefit from improvements in marine fundamentals whenever they indeed do occur, and without question they ultimately will.

In summary, given our recent and continuing actions to increase liquidity and strengthen our balance sheet, the integration and financial contribution of the soda ash business and the continued expected ramp of volumes and contribution from our recent organic capital program along with expected performance from our legacy businesses, we believe we are well positioned to continue to deliver long term value to all of our 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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