2022 First Quarter
Results Conference Call
May 4, 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 2022 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 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 and thanks for listening in.

As we stated in our earnings release this morning, the first quarter of 2022 was an exciting quarter for Genesis as the performance of our market leading businesses exceeded our internal expectations. Strong demand for soda ash drove increased prices in all of our markets, especially the export market, and we are starting to see activity levels in the Gulf of Mexico begin to ramp with first production from Murphy's King's Quay starting last month and first volumes from Argos just around the corner. We continue to see fundamentally driven momentum in our soda ash business which, when combined with the expected ramp in volumes on our Gulf of Mexico infrastructure, will continue to drive earnings growth and improving leverage metrics over the remainder of 2022 and into the years ahead.

I wanted to take this opportunity to provide an update on the new opportunities in the Gulf of Mexico that we have mentioned over the past several quarters. Today, I am excited to announce that we have entered into definitive agreements to provide gathering and transportation services for 100 percent of the crude oil production associated with two brand new, standalone deepwater upstream developments with a combined production handling capacity of some 160,000 barrels of oil per day, with first oil from both expected in the late 2024 or early to mid-2025 time frame.

In conjunction with these new upstream developments, we expect to spend approximately $500 million dollars, net to our ownership interest, spread out over the next 3 years, expanding the capacity of the CHOPS system, as well as building a new 100 percent owned, approximately 105 mile, 20 inch diameter pipeline, what we call the "SYNC" pipeline, to connect one of the upstream developments to our existing footprint. Both of these new upstream developments include life-of-lease dedications to our assets. Additionally, they both include long term take-or-pay arrangements that represent a roughly 5 times build multiple on a combined basis, which multiple would be closer to 4 times if the producers hit just seventy-five percent of their expected production profiles.

It's important to recognize that these calculated multiples assume absolutely zero other production or additional developments ever being tied into SYNC or CHOPS, which is totally unrealistic. In fact, we are already in early discussions with the operators of several additional new opportunities representing potentially some 150 thousand barrels a day of incremental production which more likely than not will seek to access at least a portion of this new capacity starting as early as 2024. These volumes are newly identified sub-sea tie-backs or secondary recovery operations like water-flood projects, designed by the operator to increase and/or extend the production handled at existing, stand-alone developments already connected to, or that can otherwise access, our pipelines to shore. We are also currently aware of at least one new stand-alone development that, if ultimately sanctioned, could potentially come our way.

Our new 100 percent owned SYNC pipeline will connect the Walker Ridge area of the Gulf of Mexico directly to the CHOPS system and the Garden Banks 72 platform with the Shenandoah development serving as the anchor production facility. The Shenandoah project, operated by BOE Exploration and Production, is located in Walker Ridge blocks 51, 52 and 53 and will have production handling capacity of approximately 100,000 barrels per day with first deliveries of oil anticipated in late 2024 or early 2025, and will be further transported to shore through our 64 percent owned CHOPS pipeline.

The second upstream development, Salamanca, is operated by LLOG and located across multiple blocks in the deepwater area of Keathley Canyon with an expected production handling capacity of approximately 60,000 barrels per day and first deliveries of oil anticipated in early to mid-2025. The Salamanca development will be directly connected into our 100 percent owned SEKCO pipeline for further transportation downstream through our existing pipeline footprint. As we alluded to in our release, we have also entered into an agreement with LLOG to sell our idled Independence Hub platform to serve as the floating production system for the Salamanca development. The re-purposed Hub will not only accelerate the date of first oil and reduce the total development cost but will also reduce the environmental footprint of this development relative to the option of constructing a new deepwater production facility…a win-win situation for the producers and us.

The sale of the Independence Hub platform for gross proceeds of $40 million dollars will result in a gain and a cash distribution of $32 million net to our 80 percent ownership interest. These proceeds, when combined with the gross proceeds of approximately $418 million we received from the sale of a 36 percent minority interest in the CHOPS system, have effectively allowed us to pre-fund the vast majority of the capital required to expand the capacity of CHOPS and construct the SYNC pipeline. We would expect to use increasing cash flow and availability under our senior secured credit facility to fund the capital expenditures over the next few years. In addition, we will receive project completion credit associated with the capital we spend over the next several years under our calculated leverage ratio for bank compliance purposes.

These two new upstream developments, along with the SYNC pipeline and CHOPS expansion represent a tremendous opportunity for Genesis. We are able to deploy capital at an extremely attractive multiple that is underpinned by life of lease dedications and credit-worthy take-or pay arrangements, much the same as our very successful SEKCO pipeline which was constructed some 8 years ago, and that quite frankly has already contracted two additional fields that were unknown at that time. By extending our reach geographically in the central Gulf of Mexico and adding capacity to the CHOPS system, both of which have effectively been underwritten by these two anchor developments, Genesis is well positioned to attract high margin incremental volumes to our industry leading network of offshore pipelines at little to no future capital ever required. I'd also point out that the realized margins per barrel, both on our laterals and on the Poseidon or CHOPS systems are increasing as we facilitate the gathering and transportation to shore from the very active central Gulf of Mexico deepwater areas as pipeline capacity becomes a dramatically more scarce commodity. We believe, and have demonstrated it time and time again, that these types of investments will provide long-term value to all of our stakeholders for many, many decades to come.

Now I will touch briefly on our individual business segments.

As we mentioned in our earnings release, the first quarter was challenging in our offshore business from an operational and mechanical point of view. In fact, relative to our expectations, we would estimate that quarterly margin in the first quarter was negatively affected by some $8 million dollars. Most, if not all, of the issues we experienced have since been rectified and the second quarter, so far, is reflective of more normal and expected operations.

There is no doubt that the rest of 2022 will be exciting for us in the offshore. On April 12th, Murphy announced that they achieved first oil at their King's Quay floating production system which is supporting their Khaleesi, Mormont and Samurai field developments in the deepwater Gulf of Mexico, and we have started to receive these volumes on our pipelines. Volumes from King's Quay are expected to ramp to its design capacity of some 85,000 barrels per day and 100 million cubic feet of gas per day as incremental wells are connected in the coming months. As a reminder, we will handle these molecules some four times with all of the oil produced being gathered through our 100 percent owned Shenzi lateral and then split evenly between our 64 percent owned CHOPS system and our 64 percent owned Poseidon system for transportation to shore. In addition, all of the associated gas production will flow on our 100 percent owned Anaconda gas gathering system and then on our 26 percent owned Nautilus gas system for ultimate transportation to shore.

The second major project we expect to come on-line this year is BP's Argos floating production system, which is supporting their Mad Dog 2 development and remains on track for first oil in the third quarter. With a large number of wells pre-drilled, volumes from Argos are expected to ramp to its nameplate design capacity of 140,000 barrels per day over the subsequent six months or so after the date of first production.

King's Quay and Argos combined with Shenandoah, Salamanca and the newly identified opportunities I referenced earlier all coming on within the next 4 or 5 years, represent a tremendous runway of additional growth in volumes, and importantly, significant incremental financial performance that we expect to see from our Gulf of Mexico franchise in the coming years.

Turning to our sodium minerals and sulfur services segment, we continued to see robust demand for soda ash across the globe and specifically in our export markets. The market for soda ash worldwide remains very tight and is leading to strong soda ash pricing in all of our markets. We are starting to see the real effects of strong demand and soda ash supply being impacted by a net decrease in global supply we mentioned last quarter, when a 1.3 million ton synthetic production facility in China closed at the end of 2021.

According to our analyses as well as third party reports, for the global supply and demand of soda ash to balance, the market requires China's installed synthetic production capacity to operate at a roughly 95 to 96 percent rate. Historically, China has only operated around a 90 percent rate. In January and February of 2022, Chinese operating rates dropped to some 83 percent and 84 percent, respectively. As a result, the world-wide market is even tighter than what we would have otherwise expected. I'd also note that the situation in Ukraine is not overly relevant to the world's soda ash market, and we have no direct exposure to such a terribly unfortunate situation.

We do however continue to monitor geopolitical events and recognize there could possibly be a slowdown in economic activity worldwide, especially as measured against recent periods where the world was recovering from the policy decisions made during the height of the COVID pandemic. However, it's our view that it would take a heretofore, unidentified black swan event to significantly, much less materially, affect the current and forecasted supply and demand dynamics for soda ash.

These fundamentally driven market conditions, coupled with the rise in energy input costs and increasing awareness of the environmental footprint of synthetic production, provide, we believe, a very constructive backdrop for soda ash pricing for the remainder of this year. We would expect these conditions to continue over the near to intermediate term and, importantly, still be in place as we discuss re-determinations for 2023 prices towards the end of this year. Should these conditions hold, and as I said earlier we believe it's more likely than not that they will, we would reasonably expect to see prices increase another $10 - $15 dollars per ton across all the tons we sell, even after taking into account our multi-year arrangements that often contain caps on annual increases.

We remain very excited to re-start our original Granger production facility and its roughly

500,000 tons of annual production in the first quarter of 2023. Furthermore, our Granger expansion project, representing an incremental 750,000 tons or so of annual production, remains on schedule and on budget for first production in the third quarter of 2023. We continue to believe the expanded Granger facility and its incremental 1.2 to 1.3 million tons per year will be the most significant addition of new, natural, baseload supply to the market for several years to come. Assuming prices remain at least where they are today, or quite frankly even if they pull back some, we would expect that the Granger project will exceed our original forecasts for incremental segment margin once fully ramped and on-line.

On the cost side, we have a fair amount of tools already in place to be able to largely maintain our margins per ton sold. Approximately 75 percent of our existing contracts have a natural gas surcharge already in place, and we will move to 100 percent as contracts allow and are re-opened. We have also hedged a significant amount of our fuel requirements for at least 2022 that aren't already covered by such contractual surcharges. One hundred percent of our export sales have a bunker fuel surcharge. Through ANSAC, we have a very high percentage of our dry bulk transportation costs contracted under favorable terms for the next year or so, and all of our competitors face the same increases we will ultimately face, all of which will ultimately be passed on to, and paid by, the retail consumer.

Our historical refinery services business exceeded our expectations as the demand for our sulfur based products was quite strong as copper and corrugated paper markets remain robust.

Both our marine and onshore facilities and transportation segments continue to show improvements. Market conditions in our marine transportation segment continue to improve across all classes of vessels as the volatility in crude oil and refined product imports creates opportunities at the same time there is continued tightening in overall supply and demand of both the blue and brown water fleets. We remain excited with the trajectory of our marine business and would expect market conditions to continue to improve throughout the remainder of 2022 and into 2023 as the industry deals with net tonnage retirements and rapidly inflating replacement costs.

We continue to expect to see increasing volumes at our onshore terminals and pipelines in both Texas and Louisiana over the remainder of the year as new volumes in the Gulf of Mexico from both King's Quay and Argos come online and need to be further transported to refineries and market demand centers along the Gulf Coast. In addition, the new developments we announced this morning, with expected first oil in late 2024 and into 2025, will potentially add volume growth to these onshore assets in the years ahead. During the quarter we were also successful in extending our agreements with our main customer in and around our Baton Rouge terminal. The agreements provide a framework for future activity, which further reinforces the integration of our assets in to their future operations and plans.

The robust outlook for Genesis over the remainder of the year remains unchanged as our businesses continue to demonstrate their resiliency. New volumes in the Gulf of Mexico combined with strong pricing in our soda ash business and a recovery in our marine segment highlight the tremendous operating leverage we have to overall improving market conditions. As we sit here today, we would reasonably expect our 2022 financial performance to come in towards the high end of our previously announced Segment Margin and Adjusted EBITDA guidance range of $620 - $640 million and $565 - $585 million, respectively, even after the challenging first quarter in our offshore operations discussed earlier. Furthermore, our guidance does not include the gain and cash distribution proceeds from the sale of our interest in the Independence Hub platform as discussed earlier. That $32 million dollar gain will be additive to both Segment Margin and Adjusted EBITDA in the second quarter of 2022 and will be included in our bank leverage ratio as calculated in accordance with our senior secured credit agreement. As a matter of fact, had we completed the sale of the Independence Hub platform by March thirty-first, our calculated bank leverage ratio would have been 4.79 times, or some three tenths of a turn lower than what we recorded for the quarter. In any event, this gain will be included in our financial results next quarter and will stick with us for both covenant compliance and pricing purposes under our senior secured revolving facility through the first quarter of 2023.

The management team and board of directors remain steadfast in our commitment to building 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 once again like to recognize our entire workforce for their efforts and importantly their unwavering commitment to safe and responsible operations. I'm 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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