2021 First Quarter
Results Conference Call
May 5, 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 2021 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.

As we mentioned in this morning's earnings release, the first quarter of 2021 demonstrated our market-leading businesses are in fact resilient and our financial results were consistent with, if not slightly ahead of, our internal expectations. As we look forward, we remain increasingly confident that improving macro-economic conditions provide us significant operating leverage to the upside. In combination with our de minimus capital requirements, outside of our Granger soda ash expansion project, we believe we are poised to deliver significant value in future periods to all of our stakeholders.

Our actions taken in early April to extend our senior secured credit facility coupled with the tack-on offering to our senior unsecured notes due 2027, have positioned Genesis with no maturities of long-term debt until 2024, while providing ample liquidity and flexibility to deal with the trailing impacts of Covid-19 and the 2020 hurricane season. While we continue to expect 2021 to be a year of transition, the partnership is well positioned for long-term success with a recovery in our soda ash business, significant additional free cash flow coming from our two contracted projects in the Gulf of Mexico, and first production from our fully expanded Granger soda ash facility in the back half of 2023.

Now turning to our individual business segments

Our offshore pipeline transportation segment performed in-line with our expectations and achieved a more normalized earnings run rate during the first quarter. As we look forward, the second quarter is typically a heavy maintenance quarter for our producer customers in the Gulf of Mexico and we would expect a certain level of planned downtime associated with these activities. Even with this expected downtime we still anticipate to achieve quarterly Segment Margin in the second quarter of around 80 million.

Our two large contracted offshore projects, Argos and King's Quay, continue to remain on track for first oil in the first half of 2022. BP and Murphy have both publicly reaffirmed their respective project schedules for the first and second quarters of 2022. We continue to anticipate that these two fields, when fully ramped, will generate in excess of $25 million a quarter, or over $100 million a year, in additional Segment Margin and free cash flow net to Genesis.

We remain in discussions with three separate new stand-alone deepwater production hubs in various stages of sanctioning with anticipated first oil starting in the late 2024-2025 time frame assuming they are sanctioned by the end of this year or early next year. We understand from our discussions with the producer community that drilling and development activity on existing and valid leases in the Gulf of Mexico is continuing pretty much the same as it always has. The recent announcement of BP's Puma West prospect is yet another example of producers building around and leveraging their existing footprints and expertise in the Gulf of Mexico. Along with Equinor's Monument discovery and Beacon's Winterfell discovery, the opportunity set of future new developments, all of which more likely than not, will need to access our existing infrastructure over the decades to come continues to grow.

We continue to believe that a large percentage of the economic acreage in the Gulf of Mexico, which can be developed under current drilling technology, has already been leased. This inventory of existing and valid leases should provide decades worth of drilling, development and production opportunities, regardless of when the statutorily mandated leasing programs in the Gulf resume.

To further elaborate on my comments from last quarter, crude oil from the deepwater Gulf of Mexico remains some of the lowest carbon intensity barrels produced and refined in North America, if not the world. Several large producers, including Super-majors such as BP and Chevron have recently indicated the Gulf of Mexico is core to their future carbon neutral initiatives and the cash flow from these low carbon barrels will help fund and fuel their growing renewables initiatives to help them meet their emissions targets or net-zero goals. Recently BP's CEO Bernard Looney said, and I quote "Hydrocarbon projects like Mad Dog 2 are crucially important in our new strategy. The cash flow these developments provide will drive our company's transformation." These types of comments, and the continued activity in and around our footprint, further drive our confidence that the Gulf of Mexico will remain one of the leading North America basins for years and years to come.

Now turning to Sodium Minerals and Sulfur Services.

Our soda ash business continues to recover as demand for soda ash is steadily increasing as the world's economies re-open and trending towards pre-Covid levels. The global supply and demand dynamic for soda ash continues to tighten, and we believe all natural producers are sold out globally for 2021. Remember, we don't compete with an alternative product. We compete with synthetically produced soda ash which costs nearly twice as much to produce and has a carbon and other environmental footprint far in excess of naturally produced soda ash. Listen, markets work. Low cost and environmentally conscious natural soda ash production will be base loaded to meet the world's demand and the market will swing on synthetic production, which, given its cost basis, will provide the backdrop for significantly improving pricing as the world's economies recover from the effects of the pandemic.

Within China, against whom we primarily compete in Asia, certain synthetic production has come off-line due to environmental restrictions while domestic demand for soda ash continues to increase, ultimately reducing the number of tons available to be exported outside of China. Lower export volumes from China and recent increases in container shipping rates are also driving up costs associated with Chinese synthetic production on a delivered basis to markets in Southeast Asia. In response to this dynamic, ANSAC announced a price increase for soda ash in early March for the second quarter on all of their non-contract sales of soda ash and on contracted sales when contracts allow. We believe this increasingly tight supply and demand dynamic will continue to support prices rising through the remainder of the year, especially towards the end of the year when we would otherwise re-determine most of our contract prices for the majority of our sales for 2022.

In addition to rapidly recovering demand from a resumption of economic activity and longer term demand growth from existing applications, we remain encouraged with increasing demand for soda ash from a variety of the green initiatives around the world. Lithium producers utilize soda ash in a 2 to 1 ratio to support their production of lithium carbonate, which is also used to make lithium hydroxide, both of which are building blocks to new generation lithium ion/phosphate batteries that are placed in the exponentially growing electric vehicle and battery storage markets. Lithium batteries are the primary energy source for battery operated vehicles and depending on your assumption of EV penetration rates in to the overall automobile market, we could see a meaningful impact to the demand for soda ash over the coming years.

Soda ash is also a critical component in the glass manufacturing process and subsequently in the manufacturing process of solar panels. In fact, there are recent reports of up to 5 new glass float furnaces coming on-line in China to build more solar panels, all of which importantly will consume higher cost Chinese synthetic soda ash thus further reducing Chinese synthetic soda ash volumes available for export. The increasing demand to manufacture additional solar panels in both China and the United States, when combined with the increasing demand from the lithium producers and battery manufacturers, should provide our soda ash business with increasing levels of participation and financial benefit from the various green initiatives around the world.

Looking out a couple years, we also have reason to believe that certain competitors are shelving or otherwise delaying their respective production expansions due to company specific reasons. This dynamic could suggest our Granger expansion project remains the only material natural production expansion project in the world that will come on-line by late 2023. Once expanded and optimized, Granger's significantly reduced cost structure will allow its production to compete favorably on the global market to capture just normal demand growth resulting from GDP growth as well as renewables driven demand, or at a minimum displace higher cost synthetic soda ash production.

Our legacy refinery services business performed in line with our expectations. During the quarter we saw steady production levels combined with a strong demand from our copper mining customers and improving volumes from our pulp and paper customers. Copper prices remain at near decade high levels driven by the tremendous demand for copper from the re-opening of the world's economies and the insatiable appetite for renewable and green initiatives around the world. While copper remains a foundational building block for many mainstream items in our lives, it is a critical component for the energy transition and in particular wind and solar technology, energy storage and electric vehicles. To provide some additional color, if you looked at the amount of copper in a traditional internal combustion engine vehicle it would require roughly 48 pounds of copper while an electric vehicle requires approximately 3.8 times the amount of copper, or up to

180 pounds per vehicle. We believe the demand for copper from the various green initiatives will only continue to increase as we move forward, which should help provide us with steady, and possibly increasing, demand for our sodium-hydrosulfide product in future years if and when any copper mining expansions come on-line.

As you can surmise, our sodium minerals and sulfur services segment is well positioned to benefit from various energy transition initiatives, not only to directly and indirectly contribute to lowering carbon emissions but in fact to PROFIT from the energy transition. We provide the "picks and shovels", or the mission critical building blocks, to both lithium producers and copper miners today as they continue to produce the raw materials needed to help drive the energy transition and future green initiatives around the world.

As mentioned above, in early April, we successfully refinanced our senior secured credit facility receiving $950 million in total commitments consisting of a new $650 million revolver and a $300 million term loan all held with a syndication of 13 banks. We proactively reduced the size, extended the tenor to March of 2024, and obtained certain additional flexibility to address any uncertainty of covenant compliance as we deal with the trailing impacts of COVID-19 and the 2020 hurricane season, even as our businesses are rapidly recovering. In mid-April we successfully priced a tack-on offering of additional 8.0% senior notes due 2027 at a premium of 103.75 percent and received net proceeds of approximately $256 million. The proceeds from this offering were used for general partnership purposes, including repaying a portion of the borrowings under our recently extended revolver to further improve our liquidity position. As of March 31, pro-forma for these transactions, we would have had approximately $150 million outstanding on our $650 million senior secured revolving facility. While our total adjusted debt was sequentially flat from last quarter, we did liquidate crude oil inventory that had been hedged in the contango market. We sold such barrels for approximately $22 million in March but did not receive the cash proceeds until April, or after quarter end. Had we received the proceeds in the first quarter we would have sequentially reduced our total adjusted debt by $22 million during the quarter.

I'll switch gears now and touch on our view for the remainder of 2021.

We remain on track with our previously announced guidance for full year Adjusted Consolidated EBITDA, as defined in our senior secured credit agreement, coming in a range between $630 and $660 million, which includes approximately $30 - $40 million of pro-forma adjustments. In addition, we continue to expect to generate free cash flow, after all cash obligations, in the range of $80 and $110 million in 2021. That being said, given the anticipated cadence of the future spend on our Granger expansion project, we might choose to spend some of this or future periods' free cash flow to fund portions over and above the $250 million minimum obligation for us to draw under our asset-level preferred funding arrangement. This option does not take away from the fact we will continue to generate increasing amounts of free cash flow and our ability to accelerate our deleveraging plan remains on track and we are steadfast in our commitment to achieving our long-term target leverage ratio of 4.0 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 protocols and procedures with no impact to our business partners and customers with limited confirmed cases amongst our some 2,000 employees and no known workplace transmissions.

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.

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