2020 First Quarter
Results Conference Call
May 6, 2020

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 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.

Introduction and Comments on First Quarter 2020

[Grant]

Good morning.

I would doubt most of you are all that interested in the results for the quarter ended March 31. Nonetheless, we had a pretty good quarter as discussed in greater detail in the earnings release we issued earlier this morning.

As we pointed out, several obvious challenges, by no means unique to Genesis, started to arise in February and March and have continued into the second quarter.

So let's just cut to the chase. Our, and virtually every other energy/industrial company's, operating environment is the most challenging it has likely been in multiple generations, driven by the demand destruction of shutting down large swaths of economic activity, across the world, to deal with COVID-19. There will be a recovery…just no one knows when it will start, although maybe it has, or what it will look like.

In our particular case, we believe we have already taken all the necessary steps and have all the tools we need in place to navigate through the next few quarters and be able to maintain our financial flexibility and manage our balance sheet and especially compliance with the covenant in our senior secured credit facility.

With the pro-active decision to reduce our quarterly distribution, we reduced our recurring annual cash obligations by approximately 200 million dollars, bringing our run rate to around 410 to 420 million dollars per year, inclusive of maintenance capital spent, but before growth capital and asset retirement expenditures. With limited growth capital and asset retirement expenditures of approximately 50 million dollars over the next twelve months, our Adjusted EBITDA would have to be less than, call it, 470 million dollars for us to NOT be a net payer of debt outstanding over this period. Looking forward, given our recurring cash obligations and de minimis growth capital requirements, outside of the Granger expansion which can be funded through our agreements with GSO Capital Partners, we have no need to access the capital markets and therefore expect to be a net payer of debt for the foreseeable future.

No matter how challenging the environment is and remains, we just don't come up with a scenario that becomes insurmountable, and that's a good segue into a discussion of our individual business segments.

We expect total volumes out of the deep water Gulf of Mexico to grow this year and for us, at least certainly over the next several years. While in the last twelve months onshore rigs have fallen by somewhere from 50 to 55 percent, mobile offshore drilling units working in the deepwater Gulf of Mexico have remained constant.

These are long-lived development and resource exploitation projects. As an example, just in March we received an inquiry from a deepwater operator regarding capacity for more than 100 thousand barrels a day, starting in late 2024 and going through 2046. Although the likely sanctioning of brand new projects like this might be delayed in the current environment, we see little risk to the completion of or significant delays, in our contracted and known/sanctioned projects in progress like Atlantis Phase 3, Argos and King's Quay, a significant portion of which have take-or-pay features, limiting our timing risk and production and reserve risk.

There has been a lot of speculation about potential shut-ins due to the current low price environment in the Gulf of Mexico. While we have seen some, they are not significant, much less material, from a financial point of view for our offshore segment. Because of confidentiality obligations and Interstate Commerce Act, we can't go into a lot of details, but I will summarize in general terms what we're seeing across our assets. We expect a total of approximately 12-15 thousand barrels a day to be shut-in in May and June across our footprint. In addition to this, we expect approximately 35 kbd to be shut-in in for the entire month of May, but this same production was going to be shut-in for 7 to 10 days for certain planned maintenance in any event and is expected to be fully back on-line in June. Finally, on a minority owned, non-operated pipeline, we just became aware of additional shut-ins for at least the month of May which could represent a total of less than 750 thousand dollars a month net to our ownership interest.

In summary, the second and third quarters in the offshore world typically exhibit a lot of shut-ins for maintenance and often weather related downtime. Given the low price world, it would be logical to see extended maintenance, but as described above we do not expect significant declines in throughput or financial performance directly from this this low-price environment.

Turning to onshore, as we mentioned in the release, we would expect to see crude-by-rail volumes go to zero for the rest of the year. While we do have certain protections to the downside in terms of minimum take-or-pay commitments through 2020, stepping down in 2021 and lasting through the first quarter of 2022, we nonetheless expect to experience some 15 to 20 million less in terms of reported segment margin than we would have otherwise expected through the remainder of 2020. That being said, certain contango opportunities have appeared that will help to offset, but by no means totally make up for, lost segment margin this year. Other than that, we have not seen significant changes to our other onshore volumes and/or operations relative to the first quarter.

Our marine group turned in their best quarter since the fourth quarter of 2015. We expect the fundamentals in the second quarter to be relatively consistent with the first quarter. Performance was driven by strong utilization and improving fundamentals and day rates across our inland and offshore fleets as the demand for our types of marine equipment continued to increase.

Our inland fleet, which is focused on intermediate refined products, and not crude oil or finished clean products, continues to benefit from refineries needing to move these intermediates from one location to another. Market volatility and uncertainty is actually a positive for us as the flexibility represented by marine assets is highly valued in getting the right barrel to the right location at the right time.

I'll turn now to our sodium minerals and sulfur services segment. Our legacy refinery services business has experienced some volume loss starting at the end of the first quarter and continuing into the second. There are really two sources of this, both of which we think will resolve themselves and turn around fairly quickly.

First, a number of our mining customers in South America, and primarily in Peru, have been mandated to be shut in, in order to combat the spread of COVID-19. We expect, as we move forward through the quarter, we will see a re-opening of the mines and believe the lost volumes are likely to be exclusively in the second quarter and we could return to normal volume levels in third quarter and beyond.

Second, a number of our pulp and paper customers are pushing out turn-arounds and outages as long as possible to avoid having third-party service providers entering their facilities during current mitigation efforts regarding COVID-19. We do not believe they can go much longer without replenishing the sulfur and sodium molecules in their processes. As a result, these currently missing sales we believe have a high probability of showing up in the back half of the year.

Volumes in our soda ash business are challenged, especially in the second quarter, because of the demand destruction from the mitigation efforts for the virus, primarily in the export markets. We have reacted to these diminished sales volumes by placing our Granger facility in "hot hold" mode, probably through the end of September, thereby reducing our total production in 2020 by some 300 thousand tons. We believe this is the minimum necessary to balance our total anticipated sales, both domestically and internationally for calendar year 2020.

Demand has slowed across all geographies, with the flat glass segment being the most affected. With the year having started off with high inventory levels, as we explained in our fourth quarter call, and now with the demand issues resulting from COVID-19, the rest of 2020 and perhaps into 2021 is going to be challenging. While export prices are under some pressure, it is really not a matter of price. With large portions of economic activity still shuttered world-wide, there just isn't the demand. If it goes on much longer, we believe synthetic capacity could be shuttered and natural production will take market share given its tremendous cost advantage.

As the world economies start to re-open, demand for soda ash should ultimately take care of itself. We're seeing construction activities in more and more states pick up. Detroit is looking at May 18th as the targeted date to restart most automobile factories. Germany, Austria and Italy as well as other European and Asian economies are starting to open back up. As I said earlier, there's going to be a recovery, we just don't know when and what it will look like. Anecdotally, we have picked up around 30 thousand tons of incremental domestic sales, but all in the back half of the year.

An interesting phenomenon coming out of the pandemic might be a change in consumer preferences. For instance, there is evidence starting to emerge that single-family homes might be increasingly desirable relative to apartments or high rises in densely populated areas. Also, the demand for cars, as evidenced after the re-opening of Wuhan, could be quite robust given that public transportation and/or ride share services might be considered risky from a personal health point of view for an extended period of time. If these patterns emerge and stick, they could potentially contribute to an even stronger recovery in both our soda ash and sulfur businesses.

In summary, we and almost every business enterprise faces some challenges. We believe we have taken the steps and have the ability to manage our way through these challenges. We have confidence in the resiliency of our businesses. They have existed, survived and thrived for many decades, not years, and through numerous previous cycles. There's no doubt they will continue to do so.

I would like to recognize our entire workforce, and especially our miners, mariners and offshore personnel during this time of social distancing and other mitigation efforts. We started screenings and other changes to our policies and procedures to protect our employees and their families and communities starting in late February and continued to modify and communicate our procedures and protocols as local, state and federal guidelines were updated. I can proudly say, with their commitment, we have safely operated all of our assets under our company recommended procedures with no impact to our customers or our operations and have had less than a handful of confirmed cases of COVID-19 amongst our somewhat 2,200 employees.

It is a pleasure to have the opportunity to work alongside such quality people."

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

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