2022 Second Quarter
Results Conference Call
July 28, 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 Second 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.

The second quarter was a great quarter for Genesis as our market leading businesses exceeded our internal expectations… setting the stage for what we believe is significant growth and improving financial performance over the coming quarters and years. These results were largely driven by a return to normal operations <u>and</u> increasing volumes in our offshore segment relative to the first quarter, as well as sequential quarterly growth in each of our other segments… which is reflective of the constructive backdrop for each of our specific businesses. Because of our financial performance in the first half and our expectations for the remainder of 2022, we are today raising our full year guidance for Adjusted EBITDA to a range of 670 to 680 million dollars, which includes the 37 million of non-recurring benefits in the second quarter we outlined in our release. Importantly, we fully expect to exit 2022 with a leverage ratio, as calculated by our senior secured lenders at or below four point five times…which, by the way, is the only relevant leverage covenant <u>anywhere</u> in our capital structure…and the only calculation that I think is worth analyzing and talking about. As we mentioned in the release, this quarter just ended is the first time we have reported a leverage ratio under four point five times since the fourth quarter of 2014.

As we look ahead to 2023, we expect sequential growth in our full-year financial results driven primarily by visible, growing volumes out of the Gulf of Mexico as well as increased volumes of soda ash as we re-start our Granger facility in January and bring the full expansion on line in the third quarter. Given the fixed cost economics in the Gulf of Mexico and the structural undersupply in the world-wide soda ash market, it's our view, as we sit here today, that virtually any sort of, quote unquote, normal… policy driven economic slowdown or recession, will have a limited, if not negligible, impact on the upward trajectory of our businesses.

Accordingly, we do not see <u>any</u> reasonably likely scenario where we do not generate Adjusted EBITDA next year in the low-to-mid $700 million range, and…we would expect to exit 2023 with a leverage ratio, again as calculated by our senior secured lenders, near, or potentially even below, four times… pretty remarkable given the challenges of the last several years but… in our view, it is reflective of the recent credit enhancing transactions we've undertaken, the operating leverage of our existing assets and our identified growth projects.

Now I will touch briefly on our individual business segments.

As we mentioned in our earnings release, our offshore pipeline transportation segment benefited from a return to normal operations for our base business in the second quarter, along with increasing volumes from Murphy's King's Quay development, which, by the way, continues to meet or even exceed our pre-production expectations. We look forward to King's Quay continuing ramp to its design capacity of 85,000 barrels of oil and 100 million cubic feet of gas per day over the remainder of the year. In addition, in June we started to receive volumes from LLOG's Spruance field development, which is a new two-well subsea tie-back development located in Ewing Bank blocks 877 and 921 that is currently producing approximately fifteen thousand barrels of oil per day. As a frame of reference, the Spruance development achieved first production in less than three years after the initial exploratory discovery well was drilled. This is yet another example of an experienced operator leveraging existing infrastructure, including production platforms and pipelines in the Gulf of Mexico, to develop near-by reservoirs on existing and valid leases on an accelerated schedule. This will continue to be a common theme in the Gulf of Mexico moving forward over the remainder of 2022 and in the many years and decades ahead.

BP's operated Argos floating production system is expected to achieve first oil later this year, although we are awaiting an update of when that might be. Nonetheless, with 14 wells pre-drilled at the Mad Dog 2 field, we continue to expect volumes to ramp to its nameplate capacity of 140,000 barrels of oil per day over the subsequent 9 to 12 months after first production. In addition to Argos, we have knowledge of, and actually have contracts in place for another 5, and possibly 6, in-field or sub-sea tie-back wells that will initiate production over the coming months, cumulatively representing approximately 50,000 barrels of oil per day of additional production that will flow through our pipelines, including, in all cases, through a one hundred percent Genesis owned lateral prior to transportation to shore through either of our sixty four percent owned and operated Poseidon or CHOPS pipeline systems, as the case may be.

It is important to point out that the operators of these developments and their partners have already spent hundreds of millions, if not billions, of dollars on constructing and installing these existing deepwater production facilities and drilling and completing the original wells and these new development wells. No broader economic slowdown or precipitous plunge in oil prices is going to affect the progression of these developments, including the some 160,000 barrels of oil per day we expect in late 2024 and early 2025 from our recently contracted developments, Shenandoah and Salamanca, which we announced last quarter. Also of interest, we are in various stages of commercial discussions with multiple incremental opportunities representing upwards of 200,000 barrels of oil per day in total that we believe have a high probability of turning into new volumes to be moved through one or more of our pipelines over the next few years.

Given this contracted and identified runway of new developments, we could not be more excited about the coming years and decades in the central Gulf of Mexico. This is especially true given the Gulf's importance to secure… domestic oil production, its proximity to Gulf Coast refinery complexes and the fact it has the absolute lowest carbon footprint of any barrel of oil produced, refined and consumed in the United States.

Turning now to our sodium minerals and sulfur services segment. The market for soda ash is structurally short of supply. There's just no other way to describe it or get around that fact. This tightness is fundamentally the result of some 2 million tons a year of supply having been taken offline since 2019. The supply shortage has been exacerbated by multiple production disruptions and force majeure events experienced and declared by other natural producers in the United States over the last 5 or 6 months… at the same time that demand is exceeding 2019 levels. This is extremely robust demand, especially considering that the automobile manufacturing business world-wide has been in a recession, as a practical matter…having produced millions of fewer cars over each of the last several years primarily because of the lack of computer chips. This supply shortfall in soda ash means prices must rise to allocate scarce tons and ultimately solicit incremental, high cost synthetic production to balance the market at the margin… all at a time when the synthetic producers' costs have increased dramatically, owing primarily to rising energy and other input costs.

Fundamentally, Genesis Alkali is a major supplier into a soda ash market that is roughly a thirty five million ton a year market (excluding-China) that has a long-term, normalized growth of around 2 or 3 percent per annum, or some seven hundred thousand to one million tons per year. This normally expected growth is, in fact, before the five hundred thousand or so tons a year of incremental demand that has been projected by third parties, specifically from solar panel and lithium battery manufacturers that hasn't existed… at least to this degree, in previous years.

The soda ash market currently finds itself in a spot where worldwide inventories are approaching historical lows and have never been so low immediately prior to entering a potential… policy induced, cyclical slowdown. By way of example, it has been reported that at the end of 2021, Chinese inventory levels were approximately one point eight million metric tons and today they are approaching three hundred thousand metric tons, which is more than an eighty percent drop in just 6 months. This provides, in part, the answer to the question of how has China's rolling shutdowns to manage COVID affected soda ash demand and supply dynamics within China…it's fairly obvious to us the net negative effect has been on the supply side of the equation meaning even fewer tons to potentially seek markets outside of China.

All of this has contributed to the fact that our contracted soda ash prices for the third quarter of 2022 will be higher than those in the second quarter… and this is in a macro environment where, technically, at least the EU and the United States may be, or already are, in a recession. We fully expect this structural tightness and corresponding high price environment to continue to exist… in large part independent of changes in broader economic conditions… as we discuss price redetermination for our non-contracted sales volumes in 2023 later this year.

We have spent a lot of time analyzing the last 15 to 20 years of soda ash supply and demand. The primary difference between what we are experiencing now and what we experienced in previous economic slowdowns, including the great recession of 2008 and 2009 and the pandemic in 2020, was that heading into those economic cycles, the soda ash market was very well supplied, and thus any significant reduction in demand triggered a corresponding and somewhat immediate price response, albeit short term. As we pointed out above, market conditions today reflect a very different story with a market that is structurally short of supply. Just as the world is experiencing in the crude market, there just isn't any real, meaningful, incremental supply sitting on the sidelines just waiting to be turned on and drive prices lower. We believe any pullback in demand would only help further balance the market and not cause any significant downward pressure on prices. In fact, current spot market clearing prices today could fall some 20 to 30 percent or more heading into next year, and we would still expect our total weighted average realized price to be higher in 2023 than what it will turn out to be in 2022.

For the full year, we expect our soda ash business to contribute around 200 million dollars of segment margin to Genesis in 2022. This compares to approximately 183 million in 2018, which was the best year since we owned it, as well as its best year ever in 2012 of 192 million, when it was owned by FMC Corp. It should be pointed out that legacy Granger capacity was online and contributed around five hundred thousand tons of soda ash sales in each of 2012 and 2018, while it will effectively contribute zero volumes here in 2022.

Given that context, we are very pleased that our Granger expansion continues to be on schedule and on budget. We expect to be mechanically complete with the expansion facilities by the end of this year. This should allow us to bring our original Granger facility back on-line as early as in January and be in position to have first production from the expansion facilities in the third quarter of twenty three. Once expanded, Granger will join our Westvaco facility as one of the lowest cost soda ash production facilities in the world. When Granger comes on-line, Genesis Alkali will be the only U.S. soda ash producer with multiple production sites, along with an unrivaled supply chain network from resource in the ground to the customer. We see no other meaningful expansions of production capacity in the ex-China market over the next 3 or 4 years other than possibly some modest expansions to serve localized markets. It is important to note that even if economic activity were to slow down and the expected normalized annual growth I mentioned earlier did not occur or was otherwise simply delayed, we would not be at risk of not being able to place the Granger tons. At worst, we would displace high cost synthetic production in the market place, and, given our competitive cost structure, would still realize very attractive netback values and margins for the Granger tons. Assuming soda ash prices remain in the zip code of where they are today (and as we have argued, we believe there is bias to even higher prices at least certainly for the next 3 to 4 years), we would expect that the Granger expansion project could meaningfully exceed our original forecasts for incremental segment margin once fully ramped and on-line.

Our legacy refinery services business once again exceeded our expectations. While we were able to capitalize on certain spot volumes during the second quarter due to our geographically diverse supply and terminals sites, these same competitive advantages will help us absorb and manage certain planned supply reductions over the next several quarters as several of our host refineries go through major turnarounds. Regardless of any potential softening in demand in the short-term, the long-term outlook for both copper and corrugated paper markets is robust, and we remain confident in our ability to continue to benefit from and capitalize on the long-term fundamentals supporting these end markets. This is especially true in the mining and processing of copper, the largest market for our sulfur based products, given copper's critical importance in the green energy revolution that is rapidly unfolding.

Our marine transportation segment exceeded our expectations and appears poised to continue its recovery off the cyclical low coming out of the COVID shutdowns. Utilization is at or near 100% across our entire fleet, and in some cases we are seeing day rates approaching those we commanded back in 2015. There appears to be a growing structural supply shortage of marine equipment given the net equipment retirements over the last few years along with the increasing cost of steel and extended timeline to build new vessels. At the same time, demand for marine equipment is increasing across the board. We do not believe a reduction in demand due to the compression of crack spreads or other demand responses to a broader economic slowdown or recession will cause a meaningful change in the current supply and demand balance for marine tonnage in the aggregate. Thus, we believe we remain well positioned to benefit from this dynamic across our relatively young fleet in the coming quarters and years ahead.

Our onshore terminals and pipelines in both Texas and Louisiana remain well positioned to benefit from the tremendous volume growth expected from the Gulf of Mexico over the years ahead, and like I said earlier, none of which will be impacted by any broader economic slowdown or precipitous drop or volatility in crude oil prices.

The last two and a half years have been both interesting and challenging. However, as we sit here today, I have never been more excited about the future of Genesis. The continued performance of our market leading businesses combined with our contracted growth projects in the Gulf of Mexico and the Granger expansion have positioned the company for increasing financial performance in the coming years. This expected growth in earnings and the increasing amounts of cash generated by our businesses will provide us with the flexibility and liquidity to comfortably fund our remaining growth capital expenditures as well as the flexibility to manage and further simplify our capital structure in the coming years.

The management team and board of directors remain steadfast in our commitment to build 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 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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