2021 Second Quarter
Results Conference Call
August 4, 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 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.

As we mentioned in this morning's earnings release, the second quarter was in line with our expectations, but more importantly, the longer term Genesis story continues to improve as we move through 2021 and into 2022 and beyond. Our two contracted upstream developments in the Gulf of Mexico remain on track for first oil in the front half of 2022 and are expected to ramp to full run rates sometime in late 2022 or early 2023. We also expect a continuing recovery in our soda ash business with longer term growth driven by a combination of a return to pre-pandemic economic activity, a resumption of normalized GDP growth, and the expected demand growth for soda ash given its critical importance as a fundamental building block for many activities in the unfolding green energy transition. As a result, we believe Genesis is very well positioned to see increased amounts of Adjusted Consolidated EBITDA, free cash flow and an improving balance sheet over the coming years.

Now turning to our individual business segments.

Our offshore pipeline transportation segment performed slightly ahead of our expectations during the quarter despite the increased level of maintenance and downtime from our producer customers. While we expect some producer maintenance from the second quarter to cross over in to the third quarter, and assuming we experience no worse than a normalized hurricane season, we would reasonably expect our third quarter to come in towards the lower end of our previously announced range of $80 - $85 million of Segment Margin per quarter.

As we look forward to 2022, our two large contracted upstream developments, Argos and King's Quay, continue to move closer and both remain on track for first oil. In fact, Murphy recently announced the King's Quay floating production platform is scheduled to sail away to its final home in the Gulf of Mexico sometime this quarter. In anticipation of first oil, BP and Murphy both have a number of wells pre-drilled at each of their respective fields which should allow for a rapid ramp in the anticipated production over a 6 to 9 month period. We continue to expect these fields, when fully ramped up, will generate in excess of $25 million a quarter, or over $100 million a year, in additional Segment Margin and free cash flow.

Additionally, we remain in active dialogue and continue to advance our discussions to provide midstream services using our existing footprint, along with the potential to deploy new capital at contracted low single digit build multiples, with three new stand-alone deepwater developments in various stages of sanctioning with anticipated first oil in late 2024 to 2025 time frame. These developments represent up to approximately 200,000 barrels per day of incremental production in the central Gulf of Mexico, and we would anticipate the producers of each of these projects will make their respective final investment decisions in the second half of this year.

The producer community in the Gulf of Mexico continues to operate business as usual and current activity levels continue to suggest that the Gulf of Mexico remains one of the most economically competitive and lowest greenhouse gas intensive basins in North America. Even as major upstream companies continue to focus on the energy transition, we expect to see continued development in the Gulf of Mexico. Evidence of this belief was again on display last Monday when both Shell and Chevron announced their final investment decision for Whale, another multi-billion dollar deepwater development in the Gulf of Mexico. While this development is unlikely to be tied-in to any of our pipelines, we view the decision and their associated commentary, specifically around the lower greenhouse gas intensity of the production and the significant cash flow generation capabilities, as further evidence that activity in the Gulf of Mexico will be around for decades to come.

In addition, despite some of the public rhetoric, the regulatory environment continues to be supportive of continued development in the deepwater Gulf of Mexico. The Bureau of Ocean Energy Management has issued over 375 permits since late January to support activity in the Gulf, and then just in June, a federal judge in Louisiana granted a preliminary injunction against the Biden administration's suspension of new oil and gas leases on federal land and waters. While it is our belief that a substantial amount of the highly prospective acreage in the Gulf of Mexico under current technology and economics has already been leased, we believe this ruling will ultimately lead to the resumption of federal lease sales and additional exploration and development opportunities of the vast resources in the Gulf of Mexico.

Turning to our second largest segment, the overall macro story in soda ash remains intact with, by our estimation, all natural producers being sold out and higher cost synthetic production being needed to support rapidly increasing demand as we continue to recover from the shut-down of economic activity resulting from early measures to deal with COVID-19.

Historically, exports of Chinese synthetic soda ash have cleared international markets at the margin, and therefore influence the price for our export volumes in Asia and Latin America as well as ultimately our domestic pricing. Recent Chinese export statistics show Chinese export volumes of soda ash are at their lowest levels in over 15 years. This, combined with rising energy input costs and increasing container and shipping rates that Chinese synthetic producers are facing, further supports significantly higher prices for the increased tons being demanded abroad and in the US.

In response to this dynamic, ANSAC announced another price increase for soda ash in early June for the third quarter on all of their non-contract sales of soda ash and on contracted sales when contracts allow. ANSAC, as the largest domestic exporter of soda ash, uses its scale to manage a laddered portfolio of time charters and certificates of affreightment to hedge against any volatility in dry bulk shipping costs. ANSAC entered 2021 with a full eighty percent of its 2021 shipping requirements contracted and is currently instituting a fuel surcharge moving forward where contract terms permit. Additionally, ANSAC is looking to manage any future volatility in dry bulk shipping costs by including indexing provisions that will pass on increased costs to its customers above a certain level of assumed base freight expense.

Due to the nature of our contract structures and geographic sales mix, we do not realistically expect to see a material financial impact of these increasing prices in 2021. However, there is no question in our minds that this increasingly tight supply and demand dynamic will continue to support prices rising throughout the remainder of the year. This is very important, especially towards the end of this year when we would otherwise re-determine most of our contract prices for the contract year 2022 for both our domestic sales, representing approximately fifty percent, and our international sales through ANSAC, including to Latin America and Asia, representing the balance of our total annual sales.

Accordingly, we expect soda ash prices to be sequentially higher in 2022, but our weighted average price will not likely fully return to pre-pandemic levels next year, primarily due to our longer term domestic contracts containing caps and collars. However, we continue to believe the market dynamic exists where our weighted average price should move increasingly closer to pre-pandemic levels as we enter 2023, or we would suppose 2024 at the absolute latest, which would coincide well with our Granger expansion coming online and be at or above the price deck we originally assumed when we sanctioned the project in the third quarter of 2019. Our Granger expansion remains on schedule for first production in the third quarter of 2023, and we would expect production to ramp to its design capacity of 1.3 million tons a year over the subsequent twelve to fifteen months. As mentioned on our last earnings call, we continue to evaluate the anticipated cadence of the future spend on the project and the potential to deploy some of our anticipated free cash flow to fund portions over and above the $250 million, which we are obligated to draw under our asset-level preferred funding arrangement. We would expect to make that decision in the second half of this year.

We continue to see increasing demand for soda ash as a fundamental, required and non-substitutable commodity for various green initiatives, in particular lithium battery production that will accelerate over the next few years. As previously discussed, lithium producers utilize two parts soda ash to one part lithium to support their production of lithium carbonate, or in certain technologies ultimately lithium hydroxide, both of which are building blocks to lithium-iron-phosphate batteries. While there are various configurations for new generation electric batteries, lithium-iron-phosphate continues to be a cost effective solution as it is not dependent on ultra-scarce and price-volatile raw materials like cobalt and nickel. As a result, we have seen electric vehicle manufacturers' state lithium-iron-phosphate batteries will be an integral part of their strategy going forward. For example, Elon Musk recently stated Tesla was making a long-term shift toward lithium-iron-phosphate battery cells in their energy storage products and entry-level electric vehicles. Furthermore, Ford CEO Jim Farley said the company would also use lithium-iron-phosphate batteries in some of their commercial vehicles and Volkswagen CEO Herbert Diess announced that lithium-iron-phosphate would be used in some of their entry-level batteries. All of these data points further reinforce our belief that demand from lithium producers and battery manufacturers will continue to be a driving force for incremental soda ash demand on top of the other green initiatives like solar panels and retrofitting windows with more energy efficient glass products.

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

Given our current expectation of no crude by rail activity in the second half of the year, a slightly slower than previously expected recovery in our marine segment, and a non-cash increase in G&A expense associated with long-term incentive-based compensation, we currently expect to come in towards the low end of our previously announced guidance for full year Adjusted Consolidated EBITDA of $630 and $660 million, which includes approximately $30 to $35 million of pro-forma adjustments.

Longer term, however, the outlook has never been brighter as we have clear line of sight to increasing amounts of Adjusted Consolidated EBITDA, free cash flow and an improving balance sheet. We expect the Gulf of Mexico to see significant near term volume increases starting in 2022, and we remain optimistic around several new developments reaching their final investment decisions in the back half of this year for first production in the 2024 to 2025 time frame. As we move past the demand shock from COVID and the global economies continue to re-open, the soda ash market continues to balance and tighten as evidenced by significantly rising export prices. As a leading low cost producer of natural soda ash with hundreds of years of recoverable reserves of trona, we remain well positioned to continue to benefit from the recovery in demand to pre-pandemic levels, normal future demand growth driven by the inexorable maturation of the world's economy, and the exciting incremental growth driven by the green energy transition. Our team continues to work diligently to position the partnership to fully realize the benefit of the growth in front of us, and I remain confident in the Genesis story and confident that our performance will only improve in the years ahead.

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 health and safety protocols and procedures with no impact to our business partners and customers with limited confirmed cases of Covid-19 amongst our some 2,000 employees.

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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