2020 Third Quarter
Results Conference Call
November 5, 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 Third 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 Third Quarter 2020

[Grant]

Good morning.

As we mentioned in our earnings release, during the third quarter we were successful in paying down approximately 70 million dollars in debt, in spite of continuing, but improving, macro challenges from the worldwide COVID-19 pandemic as well as the most disruptive hurricane season since 2005. We are continuing to realize the benefits of the actions we took earlier this year to maintain and improve our financial flexibility and are encouraged about what these actions will bear for the remainder of 2020 and in the years ahead. We have clear and defined opportunities to realize improving financial results in future periods as the upstream community gets back to normalized operations in the Gulf of Mexico and the demand for some of our goods and services continues its return to pre-pandemic levels, which will more than likely grow from there.

Now turning to our individual business segments.

Our offshore pipeline transportation segment was negatively impacted from hurricanes Marco and Laura combining for basically two weeks of complete temporary cessation of production in the central Gulf of Mexico during the quarter. As we have previously discussed, a platform that our CHOPS pipeline goes up and over incurred some limited structural issues which has required investigation and analyses. We continue to discuss with the Bureau of Safety and Environmental Enforcement to determine how best to return to normal, safe and responsible operations on CHOPS as soon as practicable. To date, we have been successful in routing all affected volumes through our Poseidon pipeline system and are close to revenue neutral, although the financial impact from Poseidon is on a one month lag due to it being effectively a joint venture.

So far in the fourth quarter, we have experienced almost 15 days of disruptions to the production flowing through our pipes from Hurricanes Delta and Zeta. To put this in perspective, the aggregate financial impact to us in this remarkable year resulting from the disruptions to producer activity and incurrence of extraordinary operating expenses, including several million in costs that will show up this quarter, will likely be in the 40 to 50 million dollar range as opposed to the approximately 8 to 10 million that would be reasonably expected in a quote, unquote normal year. On top of this, there is some major maintenance happening this quarter. While a negative now, we believe it is an acceleration of work that was needed to occur in any event allowing for more sustainable production and throughput in future quarters beginning in 2021.

Despite these challenges, nothing, and I want to emphasize ABSOLUTELY nothing, has occurred to lose any future production or existing reserves from dedicated fields or to alter the normalized earnings profile of our offshore segment. I would point everyone to the first quarter of this year's financial results of approximately 85 million dollars as the current normalized quarterly earning capability of our industry critical infrastructure assets in the Gulf of Mexico. In fact, we would reasonably expect overall increasing volumes as Atlantis Phase 3 and Katmai continue to ramp. We always anticipate scheduled and unscheduled maintenance downtime, as well as weather related downtime. But, under ANY kind of historically normalized scenario, an average of 80 to 85 million dollars a quarter is our expected average quarterly run-rate as we currently see it.

Plus, we're now just some 12-18 months from initial flows from Argos and Kings Quay, which required minimal capital from us and in the case of King's Quay, come with take-or-pay agreements covering a significant portion of expected production. These two fields are scheduled for first production in late 2021 or early 2022 and early to mid-2022, respectively. When fully ramped up, they will likely generate in excess of 25 million a quarter, or over 100 million dollars a year, in incremental segment margin, EBITDA and importantly cash flow to us in the very near future.

It is important to note that while volumes from onshore shale plays are seeing accelerating declines, production and throughput in the central Gulf of Mexico continues to increase, even in this current environment. For example, we are pleased to announce today that we have recently entered into agreements with LLOG, and other working interest owners, to provide downstream transportation services for all of the crude oil associated with their recently announced Spruance discovery. Spruance is located in Ewing Bank blocks 877 and 921 and was initially discovered by LLOG and its partners in mid-2019. The volumes from Spruance, with first oil expected in early 2022, are 100 percent dedicated to Poseidon for the life of lease, contain certain take-or-pay features and required exactly ZERO dollars from us to capture this incremental cash flow.

This is just one example of an active and steady backlog of additional development wells and sub-sea tiebacks that will keep base production flat to slightly increasing while lumpy projects such as Argos and King's Quay, as well as Anchor, which happens to be dedicated to a competitor's pipeline that by the way happens to be currently oversubscribed, will all be coming on-line over the next few years. Additionally, there remains a number of other projects that could reach their FID (final investment decision) in the next twelve to twenty-four months that would otherwise represent additional incremental production to come on-line in 2023 or 2024 and beyond. All of these projects will support continued steady to potentially significantly increasing production and throughput from the central Gulf of Mexico. We remain resolute in our belief that the Gulf of Mexico will be an important producing province for the U.S., and the world as a whole, for decades and decades to come.

Switching gears to our second largest segment, our sodium minerals and sulfur services segment continues to improve from the depths of the second quarter. Recent data points would suggest the soda ash market is re-balancing and improving, and early indications would suggest we will be sold out this quarter from our Westvaco facility and that will continue into and throughout 2021. Not only do we expect to pick up additional sales, but this is very important to our cost side given the loss of fixed cost absorption and other inefficiencies we have experienced by not running Westvaco at full design capacity over the last 6 months or so.

In terms of soda ash market dynamics, we are seeing a steady, near-term improvement in world-wide supply and demand balances for soda ash as the world's economies begin to re-open along with certain supply responses, like the temporary mothballing of our Granger facility and more permanent reductions in capacity in China as well as short-term supply disruptions from flooding in central China. In other words, the market is working through inventories and existing bulges in the soda ash supply chain that developed at the end of last year and became materially worse as a result of the economic reaction to COVID-19.

While one would expect to see prices rise under these developing market conditions, we are taking a conservative view and expect prices to be reasonably muted entering 2021 but see prices increasing, perhaps meaningfully, as we move through next year, provided we do not see a second shut down of economic activity in response to the virus. It is very important to recognize that our naturally produced soda ash doesn't compete with a substitute product, it competes with synthetically produced soda ash which basically costs TWICE as much as our natural production, an enviable position to be in, in any market.

Regarding the decision to mothball our Granger facility until the expansion is complete, I would point out that this was by far our highest cost facility at its then annual production rate of 500 to 600 thousand tons. Even at 2019 prices, operating Granger was marginally profitable at such an inefficient level of operations. It's important to point out that if our Westvaco facility is sold out of its roughly 3 and a half million tons per year of production AND there's a return to something akin to 2019 prices, our soda ash business is quite capable of generating 160 million dollars plus per year of segment margin and EBITDA, even with no volumes from Granger. Having said that, we remain excited and on track with our Granger expansion project. We believe, when it comes on-line in late 2023 at an expanded 1.2 million tons per year, our Granger plant will be one of the most economic soda ash production facilities in the world, similar to our world-class, if not leading, Westvaco production facility. This will allow all of our production from Granger to compete more favorably for both growing incremental global demand as well as displacing significantly more expensive synthetic production.

Longer term, it would be hard to conceive of a brighter future than what we envision for this segment. Whether it is general fiscal stimulus, general infrastructure expenditures or spending targeted at energy conservation and a lengthy process of transitioning from hydrocarbons as the primary transportation fuel, these businesses will materially benefit.

Soda ash, among other applications, is an essential component used in glass manufacturing and the production of lithium ion/phosphate batteries. Construction of new homes and new automobiles, as well as the retro-fitting of older buildings with new L-E-E-D certified glass windows will continue to drive increasing soda ash demand. The demand from the production of new batteries to facilitate the storage and usage of developing renewable sources of energy is likely to be a major contributor to increasing demand for soda ash in the years ahead. By some accounts, the demand for soda ash to produce new batteries alone may be an additional 6 to 7 million tons a year by 2030. This alone represents more than a 15% increase in demand for soda ash outside of China relative to today. All of these growth drivers are in addition to the intrinsic growth of 2-3% per year we would expect as the developing countries resume their inexorable path of growth towards the per capita consumption levels of the more mature OECD economies.

Our legacy refinery services business performed in-line with our expectations. We saw demand for NaHS, the sodium and sulfur based product we produce, increase during the quarter as our copper mining customers, which is our primary end market, resumed operations that were otherwise halted or cut back in the second quarter from government or self-imposed shutdowns associated with the pandemic. Copper is used in everything from phones to automobiles to bridges and will undoubtedly benefit from the continued economic recovery and future global economic expansion which in turn will drive the demand for NaHS for decades to come. Furthermore, our process helps our host refineries limit their air pollution via a closed chemical reaction as opposed to their alternative method of a conventional combustion process to remove sulfur from their finished products.

Our marine transportation segment performed in-line with our expectations for the quarter. We are starting to see the negative impacts of lower refinery runs in the Midwest and Gulf Coast which is putting pressure on both day rates and utilization, especially in the inland world. We do expect to see an acceleration in asset retirements beginning this year, into and throughout 2021, which will help balance supply with the current reduced demand for marine tonnage. At the end of the quarter, we successfully re-contracted the American Phoenix with a credit-worthy new customer, albeit at a lower rate. We only re-contracted her, inclusive of our customer's options, through next year, as we believe the market will tighten given expected asset retirements and a recovery of demand as we move through 2021. None the less, given the pressure on utilization, rates and this new contract starting for the Phoenix, the fourth quarter is going to be challenging for marine.

Our onshore facilities and transportation segment performed in-line with our expectations. We have started to see certain rail volumes return at our Scenic Station in the fourth quarter, but we will not see any significant financial impact from these movements as our main customer will be utilizing pre-paid credits. Assuming a return of refinery demand and upstream production, along with the government of Alberta's recent announcement to eliminate their self-imposed two years' worth of production curtailments on December first, we could see this trend continue in 2021. Additionally, if something happened to the operations of DAPL, we would expect to benefit as more volumes would have to move by rail if such a conduit were shut off by regulatory fiat.

As previously disclosed, we received approximately 41 million dollars in cash from Denbury which was included in segment margin and Adjusted Consolidated EBITDA in the quarter. As we further disclosed yesterday, we have finalized an agreement with Denbury which allows us to totally exit the CO2 pipeline business, a non-core business for us. We will receive an additional 22.5 million in cash in this fourth quarter and an additional 70 million in cash, to be paid in equal payments of 17.5 million in each quarter of calendar year 2021. Combined, we will receive approximately 134 million dollars in cash from Denbury which we will use to pay down debt. Additionally, we will recognize all of that 134 million as Adjusted Consolidated EBITDA under our bank revolving credit facility for purposes of complying with our covenants therein.

The run-rate on these two pipeline assets had fallen to around 24 to 25 million of margin and EBITDA a year. By their explicit terms, they were essentially going to zero in 5 or 6 years anyway. We felt it was better to work with Denbury, who had exclusive use of these assets, to accelerate the monies due us to let us pay down debt more quickly and importantly recognize significantly incremental EBITDA while our two main businesses significantly improve and ramp over the next 4 to 5 quarters.

As we look forward for the remainder of 2020, we now expect Adjusted Consolidated EBITDA, as defined by our banks and used to calculate compliance with our covenants, how we have always represented it, for the full year, to come in a range of 590 to 610 million. We will continue to evaluate additional sales of non-core assets and examine our general, administrative and operating expenses in the context of the economic operating environment.

Accordingly, we see no scenarios where we have the risk of not comfortably complying with all of our financial covenants, and look forward to the improving financial performance of our core businesses as previously described. In the third quarter, we added back approximately 19.7 million to our LTM Adjusted Consolidated EBITDA, which included 13 and a half million from the one-time charges associated with our cost savings initiatives which we are permitted to add back through the first quarter of 2021. The remaining 6.2 million is from the material project completion credit for approximately 12 million of additional infrastructure we are installing in the Gulf of Mexico that is supported by certain take or pay contracts. This project was approximately 18 percent complete as of the third quarter. I wanted to point out to everyone that we have added a footnote in our earnings release which describes these pro forma adjustments in greater detail so investors and analysts alike can more closely approximate how we and our banks evaluate our financial results.

With this accelerating ability to pay down debt and with relatively de minimus capital requirements to realize the financial benefits of these improving business conditions, we foresee no issues in extending our senior secured credit facility and re-financing our near-term un-secured maturity, which is still some two and a half years out.

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 procedures and protocols with no impact to our business partners and customers with limited confirmed cases 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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