2019 Third Quarter
Results Conference Call
November 6, 2019

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 2019 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 2019

[Grant]

Good morning and welcome to all.

As customary, we have provided a significant amount of detail around the quarter in this morning's earnings release, I thought it would be helpful to provide more detail on the macro themes and encouraging dynamics around each of our market leading business segments as we look towards 2020 and beyond.

In the Gulf of Mexico, which according to some was a dead and declining basin as of a few years ago, we continue to see robust activity which should drive production growth in the coming years. According to the EIA, at the end of 2018, deepwater Gulf of Mexico production had grown approximately 24% from 2015. Furthermore, as of October 2019, the EIA is forecasting total Gulf of Mexico production to grow to roughly 2 million barrels per day in 2020 or approximately 33% higher than 2015 and approximately 15% higher just since the end of 2018. Specific to our footprint, as compared to the first 9 months of 2019, volumes on our main pipelines to shore, CHOPS and Poseidon, have increased approximately 13% since 2015 and are up approximately 12% since the end of 2018. These volumes, along with the continued development drilling and various recently sanctioned developments, further provides evidence the Gulf of Mexico is not dead and will drive significant volume growth in our Offshore Pipeline Transportation segment in the coming years ahead.

As mentioned in this morning's release, we have recently entered into agreements to move forty thousand barrels per day on our CHOPS system and twenty thousand barrels per day on Poseidon that are delivered to us by a third-party pipeline that has insufficient capacity to deliver such volumes all the way to shore. The agreements include ship-or-pay provisions, have terms as long as five years and required no capital on our part. Most of these volumes were flowing in the third quarter, and the terms for five years is indicative that the producing community views the third party pipeline will have extended capacity issues to shore.

We are finalizing agreements to move a total of what is anticipated to be twenty-five to thirty-five thousand barrels per day of incremental production on Poseidon. These are brand new lease dedications from several new tie-back developments, with five to ten thousand barrels per day anticipated by the first quarter of 2020 and twenty to twenty-five thousand barrels per day anticipated in mid-2020. The volumes expected mid-next year will flow through one of our wholly-owned laterals that connects subsea into Poseidon. No capital will be required by us to provide any of these movements.

Additionally, we are finalizing agreements with the operator of a new deepwater floating production unit designed to exploit local reserves and serve as a production hub for sub-sea, tie-back opportunities. The total design capacity of the new unit is eighty thousand barrels of oil per day and one hundred million cubic feet of gas per day. No capital will be required by us, as the producers are obligated to build to our existing facilities for downstream transportation. The oil will be one hundred percent dedicated to one of our wholly-owned laterals and split almost evenly for transportation to shore on our CHOPS and Poseidon pipelines. The gas will be one hundred percent dedicated to our Anaconda Gas Pipeline. The agreements will contain ship-or-pay provisions, dedicate all known and future production through and across the facility to us, and have a term coincident with the useful life of the floating production unit which is designed for a minimum of forty years. First deliveries of oil and gas from this new development into our facilities is anticipated in mid-2022. I might also point out our rates are actually increasing on these new dedications and term contracts, and we are including escalators in virtually all new contracts. Finally, we continue to anticipate first deliveries from Argos (formerly Mad Dog 2) of up to one hundred and forty thousand barrels a day into our CHOPS system in late 2021 if not earlier that year. This is new production from leases that have been dedicated contractually to CHOPS since 2005.

Turning to our Sodium Minerals and Sulfur Services segment, we are starting to see signs of some potential slowdown in demand growth globally, particularly in Asia, which we believe is tied to the ongoing economic uncertainty related to the US-China trade war. The near term manifestation appears to be a reduction in inventories as our customers and their customers take a more cautious approach into the end of the year in light of the uncertainty.

Specifically for soda ash, the medium and longer-term growth trend is still positive and the market fundamentals continue to point to global demand growth without corresponding supply growth until 2022. We remain confident in our decision to expand our Granger facility as the expansion will not only bring new low-cost tons to the market, but it will also lower the operating costs at our Granger facility, making it one of the lowest cost plants in the world and further enhancing Genesis Alkali's cost position globally. With only approximately 26% of global soda ash demand supplied by low-cost natural production world-wide, we remain confident our global-leading cost position will allow us to navigate the next few years and be well positioned to capture market share currently supplied by synthetic production and incremental global demand growth between now and 2022.

Based on this long-term outlook, on September 23rd, we announced our final investment decision to expand our Granger soda ash facility by approximately 750 thousand tons per year. The expansion, through a combination of the incremental tons and margin improvement on the existing production through fixed cost absorbtion, is expected to generate approximately $60 million in incremental annual EBITDA beginning in mid-to-late 2022 for a total anticipated capital expenditure of $330 million (including contingency) to be spent over the next three years. We estimate the Granger production facility, as expanded to approximately 1.3 million tons per year, has a minimum reserve life of well in excess of 125 years.

In conjunction with such decision, we entered into agreements with funds affiliated with GSO Capital Partners LP for the purchase of up to $350 million of fully redeemable, preferred interests in all of our soda ash operations, thereby providing an external source for up to all of the anticipated capital expenditures of the expansion project. The structure of the financing arrangement is credit neutral to Genesis and requires no cash outlays or payments by us during the anticipated 36 month construction period. After exhaustive evaluations, we concluded this was the best way to pursue such an accretive opportunity given the current state of capital markets and allow Genesis to maintain its position as North America's largest producer of natural soda ash.

We believe the structure provides Genesis with significant optionality over the construction period to use excess cash flow to pay down borrowings under our senior secured credit facility or internally fund any future attractive opportunities, which currently there are none identified, across our diverse and market leading business segments.

Our Marine Transportation segment continues to perform as expected and segment margin increased slightly for the seventh quarter in a row. We experienced steady utilization in our brown water fleet and particularly in our blue water fleet. With IMO 2020 upon us, we remain optimistic that we have seen the bottom for the quarterly segment contribution from our entire fleet of assets, and recent strength in near term day rates and utilization rates is reflective of an improving market.

Turning to our Onshore Facilities and Transportation Segment. On October, 31, the provincial government of Alberta announced, that beginning in December, curtailment relief will be granted to operators for incremental production that is shipped by rail. We view this as a potential catalyst going in to 2020 as certain of our customers have incremental rail capacity and the ability to increase production that otherwise would not get produced. We are seeing a slight ramp in volumes scheduled for November and December due to the widening of differentials and we believe we could see incremental volumes on top of this in December due to the curtailment relief. Longer term, assuming the provincial government removes itself and lets free markets prevail, we believe the conditions exist for rail to play a fundamental role in transporting crude oil out of Canada.

At our Raceland Terminal, we successfully commissioned a new pipeline connection with Exxon Mobil's south pipeline to move volumes north from our Raceland terminal, which receives offshore volumes directly from our Poseidon pipeline, directly to Exxon's Baton Rouge refinery. This connection is consistent with our previously stated goals of further integrating our offshore pipelines and onshore terminals to help facilitate the movement of offshore production to additional onshore markets.

For the quarter, our businesses generated financial results that provided 1.22 times coverage to our common unit holders, inclusive of a full quarter of cash distributions paid to our preferred unit holders, and a sequentially decreasing leverage ratio from 4.96 times to 4.91 times. Our target coverage ratio, including all preferred cash distributions, remains 1.4 to 1.6 times and we expect our quarterly distribution rate will remain at $0.55 per common unit for the foreseeable future.

As we near the end of 2019 and begin focusing on 2020 and beyond, the fundamentals of our businesses remain solid and our prospects are exciting and increasingly clear as discussed earlier. We reasonably expect Segment Margin in our offshore pipeline transportation segment to be up $20-$30 million year over year in 2020. With the production hiccups behind us and assuming no significant slowdown in economic activity, we would expect our sodium minerals and sulfur services Segment Margin to be stable to slightly up year over year. Likewise, we expect stable to marginally improved performance in our marine transportation segment in 2020. We also believe, based on the curtailment relief I mentioned earlier, that we should average at least one train a day, less than half of our handling capability, at our Scenic Station facility in Baton Rouge, which would increase Segment Margin in our onshore facilities and transportation segment by approximately $10 million in 2020 over 2019. Outside of our Granger expansion project, which is fully committed to be funded by GSO, we do not currently anticipate any significant growth projects in 2020 and we expect our maintenance capital expenditures to be consistent with prior years.

Independent of achieving these improvements, we believe that in 2020, based on our current expected cash outflows, including all interest, cash distributions, and capital expenditures, we will be cash flow positive. If some or all of the margin improvements above come to fruition, we will have even stronger cash flow, higher coverage of our current cash distributions and will be able to proceed more rapidly with de-levering our balance sheet towards our long-term leverage target of 4.0 times.

As always, we intend to be prudent, diligent and intelligent in achieving and maintaining the financial flexibility to allow the partnership to opportunistically build long-term value for all our stakeholders without ever losing our commitment to safe, reliable and responsible operations.

As always, we would like to recognize the efforts and commitment of all those with whom we are fortunate enough to work.

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

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