2022 Fourth Quarter
Results Conference Call
February 22, 2023

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 Fourth 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.

Our market leading businesses continued to perform in-line with, or actually ahead of, our internal expectations in the fourth quarter, especially since we experienced un-planned downtime from several of our offshore customer locations which negatively affected the quarter by some 10 million dollars. For the full year, we generated Adjusted EBITDA of $717 million, which was up approximately 25 percent over our initial 2022 guidance range, or up approximately 18 percent over our initial range, even if you exclude the $41 million of non-recurring income we recognized in 2022. Importantly, we once again saw a reduction in our quarter-end leverage ratio, as calculated by our senior secured lenders, to 4.14 times, which is down, in less than fifteen months, from our third quarter 2021 leverage ratio of 5.51 times and fast approaching our targeted, long-term leverage ratio of 4 times.

As we look ahead to 2023, the fundamentals and macro conditions across our largest business segments continue to be as positive as we have ever seen them. We believe this backdrop provides the foundation for us to continue to improve our balance sheet, generate increasing amounts of free cash flow from operations and deliver value for everyone in our capital structure in the coming years. We expect to see steady activity levels in the Gulf of Mexico including new in-field development wells and sub-sea tiebacks to existing deepwater production facilities for which we are the exclusive midstream provider, and we will benefit from a full year's worth of volumes from both King's Quay and Spruance, both of which came on-line last year and continue to exceed pre-drill expectations. We also expect to finally see new volumes from Argos, which, we are told, is currently scheduled to start up in the middle of this year.

The soda ash market remained increasingly tight as we moved throughout 2022 which provided us with a constructive backdrop in the fourth quarter when we finalized the price negotiations on the vast majority of our uncontracted volumes for 2023. As we mentioned in the release, we can now report that we have contractually agreed on the pricing for approximately 85% of our anticipated sales volumes of soda ash and related products, including the additional 600,000 – 700,000 incremental tons from Granger expected in 2023. Based on these contracted prices, we expect our weighted average realized price for 2023 will exceed the weighted average realized price we received in 2022.

In our marine transportation segment, we are also seeing full utilization, as a practical matter, for all classes of our Jones Act vessels, which is affording us the opportunity to drive day rates for spot and contract charters to levels not seen since 2014 and 2015.

Based on these factors and our increasingly clear line of sight, we are again raising our guidance for 2023 and now expect to generate Adjusted EBITDA in the range of 780 to 810 million. Prudently… we believe… this range takes into account the potential negative effects on our financial results if a significant worldwide recession were to unfold as we move through the year. To the extent such recession scenario does not come to fruition… or either it is milder than modeled or in fact the tailwinds from the green transition offset all or a part of the headwinds from a potential reduction in global industrial activity… there could in fact be bias to the upside of even the top end of our Adjusted EBITDA guidance range. This anticipated financial performance positions Genesis with a clear path to increasing financial flexibility and opportunities to continue to build long-term value for all of our stakeholders. Importantly, we also expect to exit 2023 with a leverage ratio at or below 4 times.

Given this constructive backdrop, we recently took the opportunity to eliminate our nearest unsecured maturity and extend and expand our revolving credit facility. In mid-January, we opportunistically accessed the capital markets and successfully priced an offering of $500 million dollars of 8.875% senior unsecured notes due 2030, using the net proceeds from the new notes to redeem in full our 5.625% senior unsecured notes due 2024, with the remainder being used to repay borrowings outstanding under our revolving credit facility. Then on February 17th, just last week, we successfully syndicated and closed on an extension and upsizing of our existing revolving credit facility with $850 million dollars in commitments from both existing and new lenders. Notably our new credit facility will have expanded general and permitted investment baskets which will give us increased flexibility to potentially purchase existing private or public securities across our capital structure that we might at any given point perceive to be mis-priced… and a high-valued use of our capital. We very much value the relationships with the banks in our bank group and are very appreciative of their continued and, in fact, increased support of Genesis.

Importantly, with these steps, we now have no maturities of long-term debt until late 2025, and when combined with our clear line of sight to increasing amounts of free cash flow from our operations, we believe we are well positioned with ample liquidity and financial flexibility to comfortably complete the remaining spend associated with our Granger soda ash expansion project in 2023, as well as complete the construction of the SYNC lateral and CHOPS expansion projects in the Gulf of Mexico in the second half of 2024. As we then start to harvest the incremental cash flow from these growth projects along with the continued strong performance of our base businesses, we believe we are in very good shape to begin simplifying our capital structure and perhaps even start looking at ways to return capital to our bond and common equity holders in one form or another, all while maintaining a leverage ratio at or below 4.0 times.

Now I will touch briefly on our individual business segments.

As we mentioned in our earnings release, our offshore pipeline transportation segment performed in-line with our expectations. During the quarter we saw volumes from Murphy Oil's King's Quay development continue to perform ahead of pre-drill expectations and according to Murphy's latest public disclosure, King's Quay is currently producing approximately 115,000 barrels of oil equivalent per day from the 7 original wells at their Khaleesi, Mormont and Samurai fields, which is approximately 15 percent higher than its original nameplate capacity. Murphy is currently in the process of drilling and completing an additional well at their Samurai field, the Samurai #5 well, and is expected to bring it on-line through the King's Quay production facility in the second quarter. Importantly, Murphy has publicly stated they expect to maintain these current production levels at King's Quay for roughly three years without any additional field development.

Just to add a little more context to the current upstream economics in the Gulf, Murphy stated in their most recent earnings conference call, that King's Quay was now the largest asset within their company and they were forecasting full-cycle project payout in the second quarter of 2023… amazingly, just fifteen months after first production, which is approximately five years ahead of payout under their original sanctioning case. Mind you, this is along with an estimated useful life of the production platform of 40 plus years and a current production forecast that runs out through 2040. Furthermore, they stated their Samurai field alone could be near 100 million barrels of recoverable oil and that each of the three initial fields connected to King's Quay have recompletion opportunities up hole and different ways to perf or access additional zones just through OpEx with de minimis future CapEx required.

As a reminder, we have life of lease dedications to transport one hundred percent of the crude oil and natural gas production from King's Quay… and we touch these molecules four times on their way to shore… with the crude oil going through our 100 percent owned Shenzi lateral and then split evenly on our 64 percent owned CHOPS or Poseidon pipelines for transportation to shore and the natural gas is transported through our 100 percent owned Anaconda gas lateral and then on our 26 percent owned Nautilus System for transportation to shore. It is safe to say we have been very encouraged with Murphy's operating performance to date and believe their recent comments would suggest we should see strong volumes from King's Quay for many many years ahead.

We have also started to receive volumes from all six of the previously discussed new in-field, sub-sea wells that were planned for the back half of 2022 and early 2023. Each of these wells required zero of our capital to connect and each will flow first through a 100 percent Genesis owned lateral prior to transportation to shore through either of our 64 percent owned and operated Poseidon or CHOPS pipeline systems. We are currently seeing about 35,000 barrels of oil a day from these new wells, with three of the wells currently choked back due to capacity constraints on their host production facility. All this does, as a practical matter, is elongate the time period over which we will see financial contribution from these wells. These types of volumes and their financial contribution in large part help offset any natural decline of other volumes flowing through our industry leading infrastructure in the central Gulf of Mexico.

First oil from BP's operated Argos floating production facility and the 14 wells pre-drilled and completed at the Mad Dog 2 field development is currently expected towards the middle of the year, but we are awaiting final confirmation from BP and their partners. We continue to expect volumes from Argos will ramp close to its nameplate capacity of 140,000 barrels of oil per day over the 9 – 12 months subsequent to the date of initial production. As a reminder, 100 percent of the volumes from Argos will flow through our 64 percent owned and operated CHOPS pipeline for delivery to shore and required zero capital from Genesis' perspective.

These larger developments, along with other in-field development drilling and other sub-sea tiebacks to production facilities connected to our critical infrastructure, will provide a bridge to the next wave of volumes which includes the approximately 160,000 barrels of oil per day of production handling capacity we expect in late 2024 and early 2025 from our recently contracted developments, Shenandoah and Salamanca. The construction of the SYNC lateral and CHOPS expansion to support these new volumes remains on schedule and will further solidify our position as the leading independent provider of midstream services in the central Gulf of Mexico. As our industry leading infrastructure in the central Gulf of Mexico continues to expand, we should be well positioned to attract additional upstream developments in the years and decades ahead.

Along those lines, we continue to pursue multiple in-field, sub-sea and/or secondary recovery development opportunities representing upwards of an incremental 150,000 – 200,000 barrels of oil per day in the aggregate that could turn to production on our pipeline systems over the next 2 to 4 years, all of which have been identified but not yet fully sanctioned by the operators and producers involved. The combination of a growing, steady and stable base of production combined with the large scale contracted projects that have or will come on-line every year from 2022 through 2025 demonstrates the stability, longevity and future potential of the deepwater areas of the central Gulf of Mexico and its ability to regenerate itself and support long-term, stable and growing cash flows for many years and decades to come.

In that vein, it is interesting to look back at some of the sell-side reports and investor commentary that was written in 2015 when we acquired the majority of our offshore business, which added significantly to the footprint we established in each of 2010 and 2012. While we had many opportunities to follow the crowd and deploy significant capital onshore, we took the contrarian view. I believe the Gulf of Mexico is and will prove to be the better long-term midstream opportunity, with almost insurmountable barriers to entry, a multi-generational resource base, production forecasts that last decades, life of lease midstream dedications, a customer base consisting of large investment grade operators along with very large, well-capitalized private operators and, importantly, the fact that the upstream production from the Gulf has the lowest carbon footprint of any barrel of oil produced, refined and consumed in the United States.

While we report it on a consolidated basis, we have always tracked separately what we generate each quarter from the assets we acquired in 2015, and I can report that in 2022 we realized full cumulative payback of more than our original $1.5 billion dollar investment and now have decades and decades of continued cash flow ahead of us. There is no doubt it was difficult to not follow the shale hysteria onshore, but we understood the opportunity in the offshore and are now the proud owner and operator of an industry leading footprint with extremely high economic and practical barriers to entry. Our unit rates per barrel are actually going up…not down as we often hear about in the onshore…and our assets are currently generating some $400 million plus per year in Segment Margin with clear line of sight to meaningful growth in the not too distant future from multiple, contracted growth projects, and decades of known inventory and to be discovered developments ahead of us…a pretty enviable position to be in if you ask me.

Turning now to our sodium minerals and sulfur services segment. The bullish macro story for soda ash remains intact as worldwide demand, ex-China, continues to rise at the same time no significant new production has come on-line… with the cost structure of synthetic production remaining elevated primarily due to its higher energy intensity. This market dynamic provided the framework for steadily increasing soda ash prices throughout 2022, with our quarterly contract prices increasing by approximately 40 percent from the first quarter to the fourth quarter last year, all while Chinese exports were reported to be up some 170% in 2022 versus 2021.

As I mentioned earlier, we have successfully locked in the price for approximately 85% of our anticipated sales volumes of soda ash and related products in 2023, including our new soda ash volumes from Granger, and our weighted average realized price for the full year is expected to exceed the weighted average price we received in 2022 as many customers continue to focus on security of supply versus price. We will be closely monitoring the re-opening activity levels within China and might reasonably expect them to mirror those we saw in the United States and the European Union coming out of COVID lockdowns, where economic activity dramatically increased above long-term trend, at least initially, after relaxation of the COVID related policies. In addition to this potential resumption of regular way demand growth within China, third party industry reports are estimating significant demand growth for soda ash within China primarily driven by growing solar glass production, which, in large part, is driven by subsidies and policy directives and is reasonably invariant to other economic activity. Solar glass production within China totaled 16 million metric tons in 2022, but the current installed capacity for 2023 is now at 31 million metric tons after the start-up of three new production lines… meaning there is the potential for a significant increase in demand for soda ash solely from this sector within China in 2023. These are exactly the types of tailwinds I mentioned earlier that could more than offset any headwinds from a general economic slowdown or recession elsewhere in the world. If this indeed plays out, we could expect this increasing demand for soda ash within China to absorb any excess supply which could, in turn, limit Chinese exports of synthetic soda ash and have a positive impact on prices for our open volumes in Asia as we go throughout 2023.

Generally speaking, soda ash demand tracks industrial production, which historically has increased by 2 to 3 percent per year. In a market outside of China, of approximately 36 million tons, that would imply annual growth of roughly 700,000 to 1 million tons per year. If the market is tight… which it is… and if there is growth with no or limited new supply, then the market gets even tighter. So even if there were to be no growth or limited growth, the market can easily remain tight. Just as solar glass production and a re-opening potentially could mean declining Chinese exports in 23 over 22, let us not forget the tailwinds from electric vehicle production, again somewhat policy and subsidy driven and reasonably invariant to other measures of economic or industrial activity. For instance, forecasts from Albemarle, the world's largest producer of lithium, would suggest the incremental demand for soda ash required just for electric vehicles could add an additional 500,000 tons per year of soda ash demand worldwide for the rest of this decade. This again is another tailwind that could possibly offset any headwinds. We shall see as we progress through the year, but there are some indications that offered Chinese export prices are in fact rising with limited physical availability of product at those higher prices… all occurring before the end of Chinese New Year and occurring before the full re-opening of that economy in a post-lockdown environment.

I am happy to report that we safely and responsibly re-started our legacy Granger production facility ahead of schedule and had first soda ash "on the belt" on January 1st, 2023. We expect production from the legacy Granger facility to ramp over the first part of the year to its nameplate capacity of 500,000 tons of annual soda ash production. Furthermore, our Granger expansion project remains on schedule for first soda ash "on the belt" sometime in the second half of 2023. The net result of our original Granger facility coming back on-line in January and the Granger expansion starting up in the second half of the year means we would expect to have total production capacity of approximately 4.2 million tons in 2023 and approximately 4.7 – 4.8 million tons in 2024 and beyond.

The incremental tons we expect in 2023 from our Granger facility should easily be absorbed and welcomed by an extremely tight market as it represents less than one year's worth of expected regular way growth and only makes a small dent in the incremental demand from solar panel production and the electrification of transportation vehicles. Based on our current long-term supply and demand outlook, we believe the market outside of China will continue to be tight until at least later this decade when other announced natural production expansions are planned to come online… which we already know from watching our competitors, do not always remain on schedule or come to fruition. With our existing cost structure at Westvaco, our soon to be optimized cost structure at Granger and our reserve life of 3 to 4 hundred years, let me repeat that, 3 to 4 hundred years, we are very excited how our soda ash operations are positioned for the coming years, decades and even centuries.

Our legacy refinery services business continues to be a steady contributor for Genesis. The primary end markets we serve, specifically copper mining and the corrugated paper market, continue to provide us a stable baseline of business despite any concerns of a broader economic slowdown. As we have said in the past, the outlook for copper demand remains as strong as ever given its importance in the global economy and specifically the green energy revolution for the foreseeable future, especially based on the various forecasts of electric vehicles, solar panels and the build out of the electric transmission and charging infrastructure. The current and expected demand for copper is further evidenced by current copper prices, which are above four dollars per pound. Although this is a relatively fixed margin business for Genesis… reasonably invariant to commodity prices… these high copper prices will continue to support demand for volumes of our sulfur-based products from our copper mining customers, and when combined with the steady demand from the pulp and paper and other industrial applications, will provide us with steady to increasing results from this business in the years ahead.

This is another of our businesses we have tracked separately since our original acquisition even though it is now reported consolidated with our soda ash financial results. It is interesting to note… at least from my perspective… that our refinery services business has generated margin of approximately 68 million dollars per year, on average, since we first acquired the business in 2007, more than 15 years ago…including about 73 million in 2022. This earnings consistency has been demonstrated through multiple business cycles, including the great financial crisis of 2008 to 2010 and the demand destruction associated with Covid in 2020 and 2021. While there is certainly some fluctuation year to year, if you look at the business over time, you will see it is remarkably consistent and is supported by tremendous underlying supply positioning and end market fundamentals. I think its historical performance is something one must admire… as it has performed across multiple cycles, and I believe it has a better and longer-term repeatable outlook than most other quote, unquote "traditional" midstream businesses.

Our marine transportation segment continues to exceed our expectations as market conditions and demand fundamentals continue to support activity levels at or near 100 percent utilization for all classes of our vessels. The current market dynamic has been driven in large part by the significant reduction in marine vessel construction over the last three years and the necessary retirement of older tonnage. In fact, according to industry publications there were zero, zero, new internal heater barges built in 2022. Last year was the second year in a row in which the industry did not take delivery of any heater-equipped tank barges, which typically are used to transport asphalt or black oil products such as residual fuel oil, and which represent our area of focus and expertise…with a total of 78 of our 82 inland barges being internal heaters.

The net reduction in the practical supply of Jones Act equipment and the lack of new marine tonnage being built because of increased costs and long lead times for new construction, combined with strong refinery utilization rates and increasing demand to move intermediate products and refined products from one location to another, has driven spot rates and longer term contracted rates in our brown water and blue water fleets to levels approaching those last seen in 2014 and 2015. As we mentioned in our release, the American Phoenix recently started its twelve-month charter with an investment grade counterparty that will run in to January 2024 at a day rate comparable, but still below, to the original rates it commanded when we first purchased the vessel in 2014. We believe these structural supply issues along with strong export demand, will keep the market for Jones Act tonnage tight even if the U.S. were to experience a slight to moderate policy induced recession.

As I hope you can tell, we are very excited about what lies ahead for Genesis and continue to believe the underlying fundamentals and our future prospects are better than ever. We plan to continue to execute and focus on our strategy of managing our calculated leverage ratio to a level at or below 4 times, while increasing our financial flexibility and utilizing the increasing amounts of free cash flow from operations to finalize the spend on our high return growth projects. As we then begin to realize and harvest the increasing amounts of free cash clearly there for the taking, we will look at ways to simplify and deliver value to everyone in our capital structure.

The management team and board of directors remain steadfast in our commitment to building 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 am extremely proud to be associated with each and every one of you.

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

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