First Quarter 2022 Conference Call Remarks

<u>Jennifer Gordon, Vice President, Investor Relations</u>

Thank you. Good afternoon everyone and thank you for participating in our first quarter earnings conference call. Our earnings release was issued this morning and appears on our website, www.hessmidstream.com.

Today's conference call contains projections and other forward-looking statements within the meaning of the federal securities laws. These statements are subject to known and unknown risks and uncertainties that may cause actual results to differ from those expressed or implied in such statements. These risks include those set forth in the risk factors section of Hess Midstream's filings with the SEC.

Also, on today's conference call, we may discuss certain non-GAAP financial measures. A reconciliation of the differences between these non-GAAP financial measures and the most directly comparable GAAP financial measures can be found in the earnings release.

With me today are John Gatling, President and Chief Operating Officer; and Jonathan Stein, Chief Financial Officer. In case there are audio issues, we will be posting transcripts of each speaker's prepared remarks on www.hessmidstream.com following their presentation. I'll now turn the call over to John Gatling.

<u>John Gatling, President and Chief Operating Officer</u>

Thanks, Jennifer. Good afternoon, everyone, and welcome to Hess Midstream's first quarter 2022 conference call.

Today, Jonathan and I will review the highlights from our recent transactions, as we continue to execute our financial strategy to return additional capital to shareholders. I will also discuss our operating performance, progress of our capital program, and review Hess Corporation's results and outlook for the Bakken. Jonathan will then review our financial results and guidance.

We recently delivered several positive announcements for Hess Midstream. In early April, we completed a $400 million unit repurchase from our sponsors. The repurchase provided significant and immediate accretion to our shareholders while optimizing our capital structure to a conservative 3x Adjusted EBITDA leverage target on a full year 2022 basis.

In addition, earlier this week we announced a 5 percent increase in our distribution per share level relative to the previous target, using our financial flexibility to return free cash flow to shareholders on an ongoing basis while maintaining a conservative distribution coverage ratio of at least 1.5x in 2022.

With the announcements, we again demonstrate our financial strength and commitment to consistent and ongoing return of capital to our shareholders.

Now, turning to Hess Midstream operations.

In the first quarter throughput volumes averaged 316 million standard cubic feet per day for gas processing, 108 thousand barrels of oil per day for crude terminaling, and 72 thousand barrels of water per day for water gathering, reflecting impacts from severe winter weather. As physical volumes were expected to be at or below MVC levels, there was no material impact to our first quarter financial results.

Now turning to Hess upstream highlights.

Earlier today, Hess reported first quarter results with Bakken net production averaging 152 thousand barrels of oil equivalent per day, reflecting impacts of severe winter weather.

Poor weather conditions, which continued into April, are transitory, and Hess expects to recover and resume normal operations over the balance of the second quarter. Reflecting weather impacts, Hess forecasts Bakken net production will average between 140 and 145 thousand barrels of oil equivalent per day in the second quarter and they expect to come in near the low end of their full year 2022 guidance range of 160 to 165 thousand barrels of oil equivalent per day.

Hess' well results remain strong, with IP180s and EURs largely inline or better than expected, and Hess anticipates production to build in the second half of the year, reaching an average of between 175 and 180 thousand barrels of oil equivalent per day in the fourth quarter.

Hess is currently operating a three-rig program in the Bakken and is giving strong consideration to adding a fourth rig later this year. A four-rig program would accelerate Hess' production ramp up to approximately 200 thousand barrels of oil equivalent per day and drive material growth through Hess Midstream infrastructure.

Turning to Hess Midstream guidance, which was included in this morning's earnings release and is available on our website. We're reaffirming our previously announced throughput guidance for full year 2022, despite the severe weather that impacted basin operations over the last two weeks.

We expect second quarter gas, oil, and water volumes to be approximately 5 percent lower compared to first quarter. In the second half of 2022, we anticipate significant organic volume growth on our systems as Hess plans to bring 54 new wells online, compared to 31 wells in the first half.

For full year 2022, we expect gas processing volumes to average between 330 and 345 million standard cubic feet per day. Additionally, we expect crude terminaling volumes to average between 110 and 115 thousand barrels of oil per day and water gathering volumes to average between 70 and 75 thousand barrels of water per day.

We expect physical volumes to remain at or below MVC levels in 2022 providing approximately 95 percent revenue protection to our forecast, giving a high degree of confidence to our financial guidance which continues to project Adjusted EBITDA in the range of $970 million to $1.0 billion.

Looking beyond 2022, we expect physical volumes to rise above MVCs in 2023 and continue to grow into 2024.

Turning to Hess Midstream's 2022 capital program.

We're making excellent progress on executing our capital plans, with activities primarily focused on expanding our gas capture capacity and supporting Hess' development in the basin.

In the first quarter, we brought online the first of two new compressor stations planned this year. The project was completed ahead of schedule and below budget. Construction is progressing well on the second station, which we expect to bring online in the third quarter. In aggregate, the new stations are expected to provide an additional 85 million standard cubic feet per day of installed capacity in 2022 and can be expanded up to 130 million standard cubic feet per day in the future.

As previously announced, we expect to initiate construction on a third compressor station in 2022, which is expected to provide an additional 65 million standard cubic feet per day of installed capacity in 2023, further enhancing our gas capture capability and supporting Hess' pace of development.

Full year 2022 capital expenditures remain unchanged and are expected to total $235 million, comprised of $225 million of expansion activity and $10 million of maintenance activity.

Leveraging our unique integrated development planning process with Hess and phased infrastructure execution approach we are well positioned to accommodate an acceleration of Hess' development activity. The infrastructure is already considered in our plan and supports the volume projections implied in our 2024 MVCs.

And finally, we're proud to have achieved a significant milestone in the first quarter with the publication of our inaugural 2020 Sustainability Report, detailing our Environmental, Social and Governance strategy and performance. Sustainable and responsible operations are the foundation of our business and creates value for the benefit of all our stakeholders, shareholders, business partners, and the communities where we operate.

Hess Midstream is aligned with and supports Hess Corporation's aim to help meet the world's growing energy needs while reducing emissions. We support Hess' greenhouse gas emissions reduction efforts by providing the infrastructure to move natural gas to market and reduce total flaring, and equally important take action to reduce Hess Midstream's GHG emissions, which are included in Hess' overall emissions footprint.

In summary, we continue to execute our strategy, making focused low risk infrastructure investments to meet basin demands, delivering safe and reliable operating performance and strong financial results, which enables us to take advantage of future accretive growth opportunities, including potential incremental return of capital to our shareholders.

I'll now turn the call over to Jonathan to review our financial results and guidance.

<u>Jonathan Stein, Chief Financial Officer</u>

Thanks, John, and good afternoon everyone.

As John described, we have continued to execute our financial strategy that includes delivering consistent and ongoing return of capital to our shareholders as a priority.

First, we completed an accretive $400 million repurchase of units from our sponsors utilizing our financial flexibility that brings our leverage to 3x Adjusted EBITDA on a full year 2022 basis. The purchase price per Class B unit of $29.50 was the same per Class A share price paid by the public in a simultaneous approximately $300 million underwritten secondary public offering by the Sponsors that supports continued increasing liquidity in our shares. Highlighting the opportunity for increased indexation from this higher liquidity, Hess Midstream was recently included in the Alerian AMLP Index.

The repurchase transaction reduced the consolidated number of outstanding shares and is approximately 4 percent accretive on a Distributable Cash Flow per Class A share basis. The terms of the repurchase transaction were unanimously approved by the Board, based on the approval and recommendation of its conflicts committee composed solely of independent directors.

The unit repurchase closed on April 4 and, together with the secondary offering, public ownership of Hess Midstream on a consolidated basis has now increased to approximately 18 percent.

In addition, supported by the repurchase, we recently announced a further return of capital to our shareholders through an immediate 5 percent increase in our quarterly distribution levels, utilizing our excess adjusted free cash flow beyond our growing distributions.

Hess Midstream continues to target 5 percent annual distribution growth per Class A share through at least 2024 from this new higher level with expected annual distribution coverage greater than 1.4x, including distribution coverage greater than 1.5x in 2022.

Our recently announced distribution increase of 6.3 percent includes the new 5 percent increase in the distribution level as well as the targeted 5 percent annual growth in distributions per class A share. The quarterly distribution will be payable on May 13 to Class A shareholders of record as of the close of business on May 5.

As we execute our plan, we will continue to pursue our financial strategy that includes consistent and ongoing return of capital as a primary objective. We expect to continue to have financial flexibility, including expected ongoing Adjusted Free Cash Flow after distributions and leverage declining below our 3.0x Debt / Adjusted EBITDA target as early as 2023, allowing for potential further return of capital to shareholders.

Turning to our results.

For the first quarter of 2022, net income was $160 million, compared to $165 million for the fourth quarter of 2021. Adjusted EBITDA for the first quarter of 2022 was $242 million compared to $247 million for the fourth quarter of 2021.

The change in Adjusted EBITDA relative to the fourth quarter of 2021 was primarily attributable to the following:

- Total revenues, excluding pass-through revenues, were down by approximately $6 million primarily driven by lower volumes impacted by severe winter weather and lower MVC levels, resulting in segment revenue changes as follows:
    - A decrease in terminaling revenues by approximately $4 million;
    - A decrease in processing revenue of approximately $2 million.
- Total costs and expenses, excluding depreciation and amortization, pass-through costs and net of our proportional share of LM4 earnings, decreased by $1 million, as follows:
    - Lower maintenance activity at the Tioga Gas Plant of approximately $3 million;
    - Partially offset by higher operating G&A, property taxes and other costs of approximately $2 million.

Resulting in Adjusted EBITDA for the first quarter of 2022 of $242 million. First quarter maintenance capital expenditures were approximately $1 million and net interest, excluding amortization of deferred finance costs was approximately $29 million.

The result was that Distributable Cash Flow was approximately $212 million for the first quarter, covering our distribution by 1.6x.

Expansion capital expenditures in the first quarter were approximately $37 million, resulting in Adjusted Free Cash Flow of approximately $175 million. At quarter end, prior to the completion of the unit repurchase, debt was approximately $2.6 billion, representing leverage of approximately 2.8x Adjusted EBITDA on a trailing twelve-months basis.

Turning to guidance.

For the second quarter of 2022, we expect Net Income to be approximately $145 million and Adjusted EBITDA to be approximately $235 million, reflecting the impact of the severe weather conditions that John described, together with expected higher seasonal operating costs.

Second quarter maintenance capital expenditures and net interest, excluding amortization of deferred finance costs, are expected to be approximately $40 million, resulting in expected Distributable Cash Flow of approximately $195 million, delivering distribution coverage of approximately 1.5x.

For the full year 2022, we are reaffirming previously announced guidance for throughput volumes, Adjusted EBITDA and capital expenditures and updating net income, DCF and Adjusted Free Cash Flow guidance primarily to include the impact of incremental interest expense on the $400 million in aggregate principal amount of 5.500 percent senior unsecured notes due 2030 issued in April to repay borrowings under our revolving credit facility used to fund the accretive unit repurchase transaction.

For the full year 2022, we expect Net Income of $610 to $640 million and Adjusted EBITDA of $970 million to $1 billion. With total expected capital expenditures of $235 million, we expect, at the midpoint, to generate Adjusted Free Cash Flow of $615 million.

As implied in our guidance, we anticipate Adjusted EBITDA in the second half of the year to be approximately 6 percent higher relative to the first half, supported by MVCs that are generally increasing through the year. We expect third quarter Adjusted EBITDA to be higher relative to second quarter guidance on increasing MVCs, with continued Adjusted EBITDA growth in Q4 on higher MVCs and expected lower seasonal operating costs.

In summary, we are very pleased to have delivered additional incremental return of capital to Hess Midstream shareholders and look forward to a visible trajectory of growth in our operational and financial metrics that underpins our unique and differentiated financial strategy with a focus on consistent and ongoing return of capital.

This concludes my remarks. We will be happy to answer any questions. I will now turn the call over to the operator.

Cautionary Note Regarding Forward-looking Information

This script and accompanying release contain "forward-looking statements" within the meaning of U.S. federal securities laws. Words such as "anticipate," "estimate," "expect," "forecast," "guidance," "could," "may," "should," "would," "believe," "intend," "project," "plan," "predict," "will," "target" and similar expressions identify forward-looking statements, which are not historical in nature. Our forward-looking statements may include, without limitation: our future financial and operational results; our business strategy; our industry; our expected revenues; our future profitability; our maintenance or expansion projects; our projected budget and capital expenditures and the impact of such expenditures on our performance; and future economic and market conditions in the oil and gas industry.

Forward-looking statements are based on our current understanding, assessments, estimates and projections of relevant factors and reasonable assumptions about the future. Forward-looking statements are subject to certain known and unknown risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations of future results expressed or implied by these forward-looking statements. The following important factors could cause actual results to differ materially from those in our forward-looking statements: the direct and indirect effects of the COVID-19 global pandemic and other public health developments on our business and those of our business partners, suppliers and customers, including Hess; the ability of Hess and other parties to satisfy their obligations to us, including Hess' ability to meet its drilling and development plans on a timely basis or at all, its ability to deliver its nominated volumes to us, and the operation of joint ventures that we may not control; our ability to generate sufficient cash flow to pay current and expected levels of distributions; reductions in the volumes of crude oil, natural gas, natural gas liquids ("NGLs") and produced water we gather, process, terminal or store; the actual volumes we gather, process, terminal or store for Hess in excess of our MVCs and relative to Hess' nominations; fluctuations in the prices and demand for crude oil, natural gas and NGLs, including as a result of the COVID-19 global pandemic; changes in global economic conditions and the effects of a global economic downturn on our business and the business of our suppliers, customers, business partners and lenders; our ability to comply with government regulations or make capital expenditures required to maintain compliance, including our ability to obtain or maintain permits necessary for capital projects in a timely manner, if at all, or the revocation or modification of existing permits; our ability to successfully identify, evaluate and timely execute our capital projects, investment opportunities and growth strategies, whether through organic growth or acquisitions; costs or liabilities associated with federal, state and local laws, regulations and governmental actions applicable to our business, including legislation and regulatory initiatives relating to environmental protection and safety, such as spills, releases, pipeline integrity and measures to limit greenhouse gas emissions; our ability to comply with the terms of our credit facility, indebtedness and other financing arrangements, which, if accelerated, we may not be able to repay; reduced demand for our midstream services, including the impact of weather or the availability of the competing third-party midstream gathering, processing and transportation operations; potential disruption or interruption of our business due to catastrophic events, such as accidents, severe weather events, labor disputes, information technology failures, constraints or disruptions and cyber-attacks; any limitations on our ability to access debt or capital markets on terms that we deem acceptable, including as a result of weakness in the oil and gas industry or negative outcomes within commodity and financial markets; liability resulting from litigation; and other factors described in Item 1A—Risk Factors in our Annual Report on Form 10-K and any additional risks described in our other filings with the Securities and Exchange Commission.

As and when made, we believe that our forward-looking statements are reasonable. However, given these risks and uncertainties, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur and actual results may differ materially from those contained in any forward-looking statement we make. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise.

Reconciliation of U.S. GAAP to Non-GAAP Measures

In addition to our financial information presented in accordance with U.S. generally accepted accounting principles ("GAAP"), management utilizes certain additional non GAAP measures to facilitate comparisons of past performance and future periods. "Adjusted EBITDA" presented in this script and accompanying release is defined as reported net income (loss) before net interest expense, income tax expense, depreciation and amortization and our proportional share of depreciation of our equity affiliates, as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, such as transaction costs, other income and other non cash, non recurring items, if applicable. "Distributable Cash Flow" or "DCF" is defined as Adjusted EBITDA less net interest, excluding amortization of deferred financing costs, cash paid for federal and state income taxes and maintenance capital expenditures. DCF does not reflect changes in working capital balances. We define "Adjusted Free Cash Flow" as DCF less expansion capital expenditures and ongoing contributions to equity investments. We believe that investors' understanding of our performance is enhanced by disclosing these measures as they may assist in assessing our operating performance as compared to other publicly traded companies in the midstream energy industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods, and assessing the ability of our assets to generate sufficient cash flow to make distributions to our shareholders. These measures are not, and should not be viewed as, a substitute for GAAP net income or cash flow from operating activities and should not be considered in isolation. Reconciliations of Adjusted EBITDA, DCF and Adjusted Free Cash Flow to reported net income (GAAP) and net cash provided by operating activities (GAAP), are provided in our accompanying release. Hess Midstream is unable to project net cash provided by operating activities with a reasonable degree of accuracy because this metric includes the impact of changes in operating assets and liabilities related to the timing of cash receipts and disbursements that may not relate to the period in which the operating activities occur. Therefore, Hess Midstream is unable to provide projected net cash provided by operating activities, or the related reconciliation of projected Adjusted Free Cash Flow to projected net cash provided by operating activities without unreasonable effort.