Hess Midstream

Fourth Quarter 2021 Conference Call Remarks

Jennifer Gordon, Vice President, Investor Relations

Thank you. Good afternoon everyone and thank you for participating in our fourth 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.

John Gatling, President and Chief Operating Officer

Thanks, Jennifer. Good afternoon, everyone, and welcome to Hess Midstream's fourth quarter 2021 conference call.

Today I'll review our operating performance and highlights as we continue to execute our strategy, provide details regarding our 2022 plans, and discuss Hess Corporation's latest results and outlook for the Bakken. Jonathan will then review our financial results.

2021 was a year of strong performance and strategic execution for Hess Midstream. We're proud of our continued safe and reliable operating performance and project delivery, highlighted by the successful execution of the planned maintenance turnaround and tie-in of the gas processing expansion at the Tioga Gas Plant.

Following the turnaround, stable and reliable operating performance in the fourth quarter enabled a strong finish to the year with record gas gathering and processing volumes driving full year Adjusted EBITDA above guidance, to $909 million, an increase of 21 percent compared to 2020 and 4 percent above the midpoint of our original 2021 Adjusted EBITDA guidance.

Looking forward, the continued investment in low-risk system expansion gives us the needed capacity to capture volume growth through mid-decade. We remain focused on operational, infrastructure, and commercial execution to capture increasing gas volume growth, which by 2024, is expected to increase by more than 30 percent relative to Hess' 2021 nomination.

We expect gas gathering and processing volumes to continue to comprise approximately 75 percent of our revenues, and with a visible growth trajectory, we expect volumes to rise above MVCs in 2023 and continue to grow into 2024.

Now, focusing on Hess Midstream's fourth quarter 2021 throughput performance.

Gas processing volumes averaged 330 million standard cubic feet per day, as our post-turnaround ramp-up drove results above expectations. Fourth quarter crude terminaling and water gathering volumes averaged 113 thousand barrels of oil per day and 72 thousand barrels of water per day, respectively.

Now turning to Hess upstream highlights.

Earlier today, Hess reported fourth quarter results with Bakken net production averaging 159 thousand barrels of oil equivalent per day, reflecting increased drilling activity, strong development performance, and continued focus on gas capture. For full year 2021, Bakken net production averaged 156 thousand barrels of oil equivalent per day, in line with guidance.

For 2022, Hess plans to operate a three-rig program and expects to drill approximately 90 gross operated wells and bring approximately 85 new wells online, an increase of 67 percent compared to 2021. This leaves more than two thousand future drilling locations beyond 2022 which generate attractive returns at $60 WTI per barrel and represents approximately 70 rig years of activity.

In 2022, Hess forecasts Bakken net production to average between 165 and 170 thousand barrels of oil equivalent per day, a 6 percent to 9 percent increase over 2021, and expects production to steadily ramp over the year and average between 175 and 180 thousand barrels of oil equivalent per day in the fourth quarter.

Additionally, Hess reiterated its commitment to sustainability as a top priority, announced its endorsement of the World Bank's Zero Routine Flaring by 2030 initiative, and set company targets to eliminate Zero Routine Flaring from its operations by the end of 2025. Hess Midstream is proud to partner with Hess to achieve its sustainability and climate goals.

Turning to Hess Midstream guidance. Our complete financial and operational guidance was released yesterday and is available on our website.

For full year 2022, we expect gas processing volumes to average between 330 and 345 million standard cubic feet per day, representing growth of approximately 11 percent compared to full year 2021, primarily driven by Hess production growth and focused gas capture. Gas processing volumes are expected to remain generally at or below MVC levels in 2022, which are approximately 13 percent higher compared to 2021 physical volumes.

For full year 2022 we anticipate 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.

As physical volumes on most of our systems are at or below MVC levels, our 2022 forecast is approximately 95 percent revenue protected, giving a high degree of confidence to our financial guidance, which projects Adjusted EBITDA in the range of $970 million to $1.0 billion, an increase of approximately 8 percent, at the midpoint, compared to full year 2021.

We expect first quarter physical gas, oil, and water volumes to each be approximately flat compared to fourth quarter 2021, reflecting severe winter weather in North Dakota.

Turning to Hess Midstream's 2022 capital program.

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

Approximately $135 million of the 2022 expansion capital budget is focused on the completion of two new compressor stations and associated pipeline infrastructure. 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.

In addition, Hess Midstream expects 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 development in the basin. By the end of 2023 we will have more than doubled our compression capacity from a few years ago, growing it in line with Hess' drilling activity and our increased processing capacity.

Reflecting increasing drilling activity by Hess, approximately $90 million is allocated to gathering system well connects.

In summary, we're continuing 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.

Jonathan Stein, Chief Financial Officer

Thanks, John, and good afternoon everyone.

Today I will summarize our financial highlights from 2021, discuss our recently completed nomination process with Hess, provide details on our 2022 guidance and long-term outlook as well as our framework for continued return of capital to shareholders.

We delivered strong results in 2021, growing full year Adjusted EBITDA to $909 million, an approximate 21 percent increase compared to the prior year. As we look forward to 2022 and beyond, we have clear visibility to expected revenue and Adjusted EBITDA growth supported by increasing MVCs in 2022 followed by continued organic growth in 2023 and 2024, as John described.

Return of capital to shareholders is a key priority of our financial strategy. In 2021, we optimized our capital structure and utilized our excess free cash flow beyond our growing distributions to provide increased return of capital to our shareholders through both a 10 percent increase in our quarterly distribution levels and a $750 million repurchase of units from our sponsors. Together, these actions delivered immediate, accretive, and meaningful return of capital to Hess Midstream shareholders.

Looking forward, we will continue our financial strategy that includes consistent and ongoing return of capital as a primary objective.

Our return of capital framework includes the following key elements:

- Distributions that are targeted to grow 5 percent annually on a per share basis through at least 2024;
- Continued incremental return of capital beyond these annual distribution increases, through share repurchases and/or additional distribution increases funded by leverage capacity below our conservative 3x Adjusted EBITDA target and excess Adjusted Free Cash Flow after distributions.

For 2022, we expect to have significant financial flexibility for a potential incremental return of capital beyond our distributions that are targeted to grow 5 percent annually on a per share basis.

Turning to our results, we continued to deliver strong performance with fourth quarter 2021 results beating our quarterly guidance.

For the fourth quarter, net income was $165 million, compared to $131 million for the third quarter. Adjusted EBITDA for the fourth quarter was $247 million compared to $205 million for the third quarter.

The change in Adjusted EBITDA relative to the third quarter was primarily attributable to the following:

- Total revenues, excluding pass-through revenues, were up by $20 million driven by a strong volume ramp following the Tioga Gas Plant turnaround, resulting in segment revenue changes as follows:
    - An increase in processing revenue of approximately $11 million;
    - An increase in gathering revenue of approximately $10 million;
    - Terminaling revenues decreased by approximately $1 million driven by slightly lower MVC levels.
- Total costs and expenses, excluding depreciation and amortization, pass-through costs and net of our proportional share of LM4 earnings, decreased by $22 million, as follows:
    - Lower operating expenses related specifically to the Tioga Gas Plant turnaround that was completed in the third quarter of approximately $14 million;
    - Lower other seasonal maintenance activity at the Tioga Gas Plant of approximately $5 million;
    - Lower other costs and expenses, net of our proportional share of LM4 earnings of approximately $3 million.

Resulting in Adjusted EBITDA for the fourth quarter of 2021 of $247 million, exceeding our guidance, primarily driven by lower-than-expected operating and maintenance expenses.

Fourth quarter maintenance capital expenditures were approximately $2 million and net interest, excluding amortization of deferred finance costs was approximately $29 million.

The result was that Distributable Cash Flow was approximately $215 million for the fourth quarter, covering our distribution by 1.6x.

Expansion capital expenditures in the fourth quarter were approximately $52 million, resulting in Adjusted Free Cash Flow of approximately $163 million. At year end, debt was approximately $2.6 billion, representing leverage of approximately 2.9x Adjusted EBITDA on a trailing twelve-months basis.

Turning to our annual nomination process.

Our contracts continue to provide a unique and differentiated level of downside protection through a combination of our annual rate redetermination process that maintains a contractual return on capital deployed and MVCs that provide revenue floors set at 80 percent of expected throughput three years in advance. With the contract extensions completed at the end of 2020, we now have commercial contracts with Hess with downside protection through 2033.

At the end of 2021, we completed our nomination process with Hess and updated our tariff rates for 2022 and all forward years. As with prior cycles, the nomination process considered changes in actual and forecasted volumes and capex to maintain our contractual targeted return on capital deployed. 2022 tariff rates were generally stable relative to 2021, as higher expected volumes from Hess' accelerated development activity were mostly offset by higher expected capital investment.

In our recent guidance release, we provided MVCs for the years 2022 through 2024. As part of the nomination process, MVCs for 2022 and 2023 were reviewed and, where required, increased while MVCs for 2024 were newly established based on 80 percent of the nominated volumes for each system in that year. Our MVCs provide line of sight to expected long-term growth in system throughputs and incremental revenue growth each year through a combination of increasing MVCs in 2022 followed by higher expected physical volumes in 2023 and 2024.

For 2022, MVCs remained substantially unchanged from those previously set under higher historical, pre-pandemic basin activity levels and we expect 2022 physical volumes to be generally at or below MVCs.

Most of our 2023 MVCs were revised higher, reflecting Hess' accelerated pace of development in the Bakken and additional gas capture, and we anticipate physical volumes will grow above MVC levels in 2023.

MVCs for 2024 were set at 80 percent of nominated throughputs and provide line of sight to potential long-term growth in system throughputs. For example, looking at gas processing, Hess' nomination for expected volumes for 2024 was 425 million standard cubic feet per day, resulting in a MVC of 340 million standard cubic feet per day, set at 80 percent of the nomination level, implying greater than 30 percent growth and an approximate 12 percent annualized growth rate in physical volumes from 2021 actuals.

We continue to expect gas gathering and processing to comprise approximately 75 percent of total affiliate revenues, excluding passthrough revenues. As a result, we have clear visibility to revenue and Adjusted EBITDA growth through 2024 with MVC supported growth in 2022 followed by year-on-year organic growth in 2023 and 2024.

Turning to guidance for 2022.

For the first quarter of 2022, we expect Net Income to be approximately $150 million to $160 million and Adjusted EBITDA to be approximately $235 million to $245 million.

First quarter maintenance capital expenditures and net interest, excluding amortization of deferred finance costs, are expected to be approximately $30 million, resulting in expected distributable cash flow of approximately $205 million to $215 million, delivering distribution coverage at the midpoint of the range of approximately 1.6x.

For the full year 2022, we expect Net Income of $630 million to $660 million and Adjusted EBITDA of $970 million to $1 billion. At the midpoint of guidance, full year Adjusted EBITDA is expected to increase by approximately 8 percent from 2021, primarily driven by higher gas gathering and processing MVC levels as we expect our physical volumes to be at or below MVCs with an Adjusted EBITDA margin consistent with our historical margin of greater than 75 percent.

For 2022, with total expected capital expenditures of $235 million, we expect, at the midpoint, to generate Adjusted Free Cash Flow of $630 million.

Highlighting our financial strength, we expect distribution coverage greater than 1.5x and excess Adjusted Free Cash Flow of approximately $90 million after fully funding our targeted growing distributions. As a result, we expect declining leverage of approximately 2.6x Adjusted EBITDA on a full year basis in 2022, below our conservative 3x Adjusted EBITDA target.

The combination of Adjusted Free Cash Flow beyond our distributions and leverage below our target provides significant financial flexibility for a potential incremental return of capital to shareholders beyond our targeted 5 percent annual distribution per share growth.

Looking beyond 2022, as described, our MVCs provide visibility to continued expected growth in Adjusted EBITDA supporting our ability to continue to fully fund our growing distributions from growing Adjusted Free Cash Flow through at least 2024 and to maintain ongoing financial flexibility for disciplined capital allocation.

In summary, we are very pleased to have delivered a strong 2021 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 to our shareholders.

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.