Hess Midstream

# *Second Quarter 2021 Conference Call Remarks*

**Jennifer Gordon, Vice President, Investor Relations**

Thank you. Good afternoon everyone and thank you for participating in our second 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 second quarter 2021 conference call.

Today, Jonathan and I will review the highlights from a series of announcements that Hess Midstream and Hess Corporation made earlier this morning. We'll also discuss our operating performance and financial results as we continue to deliver our strategy, provide an update to our 2021 guidance, and review Hess Corporation's latest results and outlook for the Bakken.

The announcements we made this morning delivered multiple positive catalysts for Hess Midstream.

First, we reported strong second quarter results that surpassed our quarterly guidance, driven by increasing gas capture and lower than anticipated operating costs.

Second, driven by strong performance in the first half of 2021, we're raising key full year throughput and financial guidance, and confirming our transition to significant free cashflow generation. Full year Adjusted EBITDA is now anticipated to be in the range of $880 million to $900 million, representing an increase of approximately 19 percent, at the midpoint, compared to full year 2020.

Third, Hess Midstream announced a 10 percent increase in our distribution per share level relative to the previous target, allowing us to use our financial flexibility to return free cash flow to shareholders on an ongoing basis while maintaining at least 1.4 times coverage.

Fourth, the Board of Directors of our General Partner also approved a $750 million unit repurchase from Hess Midstream's sponsors. The unit repurchase optimizes our capital structure to a conservative 3x Adjusted EBITDA leverage target and generates ongoing accretion to shareholders. The repurchase and distribution increase demonstrates the strength of our financial position and allows us to deliver an immediate and meaningfully accretive return of capital to our shareholders.

Finally, Hess Corporation announced plans to add a third operated rig in the Bakken in September 2021, reflecting the improvement in oil prices and continued strength of their inventory of high return drilling locations. Moving to a three-rig program allows Hess to grow cash flow and production, better leverage our strategic infrastructure, and drive incremental volumes growth for the midstream. The additional rig, combined with our aggressive gas capture strategy, leaves Hess Midstream poised for strong organic growth.

Focused expansion of our gas compression and processing capacity ensures that we're well positioned to meet Hess' accelerated pace of development. We're about one third of the way through a well-planned maintenance turnaround at the Tioga Gas Plant and when final export tie-ins are completed towards the end of the year, Hess Midstream's total gas processing capacity will increase by 40 percent, to 500 million standard cubic feet per day.

Additionally, procurement and fabrication activities continue on two new greenfield compressor stations which, when online in 2022, will meaningfully expand our gas compression capacity by approximately 20 percent, further supporting Hess and third-party customers in meeting North Dakota's flare reduction targets.

With our expected strong 2021 performance, Hess' plans to increase development pace, and the continued execution of our gas capture strategy, we're well positioned for sustained free cash flow sufficient to fund growing distributions, and the potential for future accretive opportunities, including additional return of capital to shareholders.

Now, turning to Hess Midstream's second quarter 2021 performance. Throughput volumes in the second quarter exceeded expectations, primarily driven by increasing gas capture and strong delivery across the business.

Second quarter gas processing volumes averaged 304 million standard cubic feet per day, crude terminaling volumes averaged 116 thousand barrels of oil per day, and water gathering volumes averaged 74 thousand barrels of water per day.

Third parties contributed approximately 10 percent of our gas and 15 percent of oil volumes in the second quarter, consistent with the first quarter, and in line with guidance for the full year.

Turning to Hess Upstream highlights.

Earlier today, Hess reported strong second quarter production results, with Bakken net production averaging 159 thousand barrels of oil equivalent per day. This was above Hess' guidance of approximately 155 thousand barrels of oil equivalent per day, primarily reflecting increased gas capture which has allowed Hess to drive flaring to under 5 percent, well below the state's 9 percent limit. For full year 2021, Hess continues to expect Bakken net production to average between 155 and 160 thousand barrels of oil equivalent per day.

Turning to Hess Midstream guidance.

As mentioned earlier, we're increasing our full year operational and financial guidance, which was included in this morning's earnings release and is available on our website.

For full year 2021, we now expect gas processing volumes to average between 285 and 295 million standard cubic feet per day, an increase of approximately 5 percent at the midpoint compared to previous guidance. Our guidance incorporates the planned 45-day maintenance turnaround at TGP, which commenced on July 12, is progressing to plan, and is expected to conclude by the end of August.

Turning to our crude oil assets, we expect full year 2021 crude terminaling volumes to average between 120 and 130 thousand barrels of oil per day, unchanged from previous guidance.

Full year water gathering volumes are expected to average between 70 and 80 MBWPD, an increase of 15 percent at the midpoint compared to previous guidance, reflecting excellent performance year to date. We are continuing to build out our system and apply lean learnings to improve operational efficiencies and drive more water into pipe.

Our full year throughput guidance continues to anticipate that third parties will contribute approximately 10 percent of our gas and 15 percent of our oil volumes, which is comparable with the levels we achieved in the first half of 2021.

Now focusing on the third quarter. With the planned maintenance turnaround at TGP in progress, we expect third quarter gas volumes to be below MVC levels, before returning to normal operating levels in the fourth quarter. Oil and water volumes are each expected to be approximately flat compared to the second quarter.

Turning to Hess Midstream's 2021 capital program.

We've made several optimizations to our plans, accelerating field compression and low-pressure gathering well connections to accommodate Hess' increasing development pace. Full year 2021 capital expenditures are now expected to total $180 million, an increase of $20 million from previous guidance. We expect expansion capital to be approximately $165 million, which is comprised of $95 million for compression projects, $60 million for low pressure gathering and well interconnects and $10 million for gas processing. Maintenance capital is expected to be approximately $15 million.

In summary, we're continuing to deliver our strategy, making focused investments to expand infrastructure to meet the accelerating development plans from our customers, delivering safe and reliable operating performance and strong financial results, enabling Hess Midstream to deliver accretive and meaningful 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.

As John described, we are pleased to have made some important announcements this morning that deliver immediate, accretive, and meaningful return of capital to Hess Midstream shareholders.

First, we are returning excess free cash flow to shareholders through an increase in the level of our distribution by 10 percent while continuing to target 5 percent annualized growth through 2023. As we've said before, the dividend is an output, not an input, that should be consistent with our financial metrics and strategy. We are unique in that we have the visibility and balance sheet to deliver an ongoing and lasting return of capital to our shareholders.

Second, we are optimizing our capital structure through an accretive $750 million repurchase of units from our sponsors that brings our leverage to 3x Adjusted EBITDA on a full year 2021 basis. We believe that a conservative 3x Adjusted EBITDA leverage target is the optimal capital structure for our business and are excited to execute on our financial strategy today.

After these announcements, we will continue to have financial flexibility including distribution coverage of at least 1.4x, expected ongoing free cash flow after distributions and leverage declining below our 3x Adjusted EBITDA target as early as 2022, allowing for potential future accretive opportunities, including incremental return of capital to shareholders.

Let me provide some additional details on these announcements.

Our second quarter distribution represents an approximate 11 percent increase compared to the distribution for the first quarter of 2021, including a 10 percent increase in the distribution level in addition to a quarterly increase consistent with Hess Midstream's targeted 5 percent growth in annual distributions per Class A share.

Hess Midstream continues to target annual distribution per Class A share growth of at least 5 percent through 2023 from this new higher distribution level and expected annual distribution coverage of greater than 1.4x. The quarterly distribution will be payable on August 13, 2021 to Class A shareholders of record as of the close of business on August 9, 2021.

Turning to the unit repurchase. The $750 million unit repurchase from Hess and GIP is consistent with Hess Midstream's 3.0x Adjusted EBITDA leverage target on a full-year 2021 basis and is expected to be approximately 8 percent accretive on a distributable cash flow per Class A share basis. The unit repurchase is expected to result in distribution savings to Hess Midstream of approximately $30 million in the second half of 2021 on a consolidated basis.

The purchase price per Class B unit is $24.00 - that is equivalent to an approximate 4 percent discount to the 30-day volume weighted average trading price of Hess Midstream Class A shares through July 27, 2021. The repurchase transaction reduces the consolidated number of outstanding shares and units by approximately 31.25 million units, or 11 percent. As a result, public ownership of Hess Midstream on a consolidated basis will increase to approximately 9.5 percent. The terms of the proposed 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 is anticipated to close in August 2021, and Hess Midstream expects to fund the repurchase through new debt financing.

Following the distribution increase and repurchase transaction, Hess Midstream expects to continue to generate ongoing free cash flow after distributions over the next several years. For full year 2021, we expect Adjusted Free Cash Flow in excess of distributions to be approximately $75 million.

In 2022, in addition to organic growth driven in part by the planned addition of a third Hess-operated rig in the Bakken later this year, our revenues continue to be approximately 95 percent protected by generally increasing MVCs. In 2023, we expect continued higher revenues with physical volumes growing above MVCs from higher Hess production and continued increasing gas capture.

With this increasing expected revenue and lower ongoing capital spending relative to historical levels, we have visibility to continued growth in Adjusted EBITDA and generation of Adjusted Free Cash Flow after distributions and expect to delever below our conservative 3.0x Adjusted EBITDA leverage target as early as 2022, providing continuing flexibility for future accretive growth opportunities, including incremental return of capital to shareholders.

Turning to our results.

For the second quarter, net income was $162 million, compared to $160 million for the first quarter. Adjusted EBITDA for the second quarter was $230 million compared to $227 million for the first quarter.

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

- Total revenues were up by $6 million primarily driven by increasing gas capture and higher MVC levels, resulting in segment revenue changes as follows:
    - An increase in gathering revenues of approximately $2 million;
    - An increase in processing revenues of approximately $2 million; and
    - An increase in terminaling revenues of approximately $2 million.
- Total operating expenses, including G&A, but excluding depreciation and amortization and pass-through costs were higher, decreasing Adjusted EBITDA by approximately $3 million, including:
    - Higher seasonal maintenance activity in our gathering and processing segments of approximately $4 million; partially offset by
    - Lower G&A expenses of approximately $1 million.

Resulting in Adjusted EBITDA for the second quarter of 2021 of $230 million, or 4.5 percent above the top end of our guidance, primarily due to higher revenues and lower than expected operating costs as certain maintenance activities were deferred to the third quarter of 2021.

Second quarter 2021 maintenance capital expenditures were approximately $2 million and net interest, excluding amortization of deferred finance costs was approximately $21 million.

The result was that Distributable Cash Flow was approximately $207 million for the second quarter of 2021, covering our increased distribution by approximately 1.4x.

Expansion capital expenditures in the second quarter were $45 million.

At quarter end, debt was approximately $1.85 billion, representing leverage of approximately 2.2x Adjusted EBITDA on a trailing twelve-months basis.

Turning to guidance.

As a result of strong first half performance, we are updating our full year 2021 financial guidance. Full year 2021 Net Income guidance is $590 million to $610 million. We expect full year 2021 Adjusted EBITDA of $880 million to $900 million, an increase of 2 percent at the midpoint compared to previous guidance, and an approximate 19 percent increase compared to full year 2020.

Focusing in more closely on the balance of 2021.

As John described, the Tioga Gas Plant turnaround commenced earlier in July. As previously guided, we expect to incur additional operating expenses of approximately $15 million and maintenance capital of approximately $15 million related specifically to the turnaround.

As a reminder, Hess Midstream will receive MVC payments during the turnaround, with revenues expected to be modestly lower than the second quarter, where certain systems were above MVC levels.

In addition to costs incurred specific to the turnaround, we expect other operating costs to be approximately $10 million higher relative to the second quarter, as we conduct routine seasonal maintenance activities, including activities deferred from the second quarter.

As a result, for the third quarter of 2021, we expect Net Income to be approximately $120 million to $130 million and Adjusted EBITDA to be approximately $195 million to $205 million.

Third quarter maintenance capital expenditures are expected to be approximately $15 million, and net interest, excluding amortization of deferred finance costs, are expected to be approximately $25 million, resulting in expected distributable cash flow of approximately $155 million to $165 million with distribution coverage at the midpoint of the range of approximately 1.2x.

In the fourth quarter, we expect increased financial results supported by MVC protected revenues and lower operating costs with the completion of the TGP turnaround and lower seasonal activity.

In summary, we are excited to have made these important announcements that deliver immediate, accretive, and meaningful return of capital to Hess Midstream shareholders. Looking forward, we continue to have financial flexibility including distribution coverage of at least 1.4x, expected ongoing free cash flow after distributions and declining leverage. As we move below our 3x Adjusted EBITDA leverage target and our free cash flow continues to grow, we will continue to execute our financial strategy and maintain an optimized capital structure, allowing for potential future accretive opportunities, including incremental return of capital to 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; the expected timing and completion of the Class B unit repurchase from Hess and GIP; 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 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; 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; our ability to satisfy the closing conditions of the Class B unit repurchase, including obtaining necessary debt financing; 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.