# Third Quarter 2020 Conference Call Remarks

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

Thank you. Good afternoon everyone and thank you for participating in our third-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 compliance with social distancing protocols as a result of COVID-19, we are conducting the call remotely, so please bear with us. 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 third quarter 2020 conference call. Today I'll review our operating performance and highlights as we continue to execute our strategy and discuss Hess Corporation's latest results and outlook for the Bakken. Jonathan will then review our financial results.

Third quarter results reflect continued strong Bakken performance by Hess Corporation and increased gas capture by Hess Midstream, which drove throughputs above expectations. This, along with our continued disciplined approach to managing costs, enabled us to exceed our guidance for the third quarter, and has allowed us to again raise our full year 2020 guidance.

We now expect our 2020 full year Adjusted EBITDA to be in the range of $725 million to $735 million, which represents a 33 percent growth year over year at the midpoint. We're also reiterating Adjusted EBITDA guidance for 2021, where we anticipate an approximate 20 percent increase from our expected 2020 out-performance. In addition, our targeted annual distribution per share growth of 5 percent through 2022 remains unchanged, validating the strength, stability, and visibility of our financial outlook.

Focusing in more closely on our third quarter results, gas processing volumes averaged 296 million standard cubic feet per day, and crude terminaling volumes were 141 thousand barrels of oil per day, both approximately flat compared to the second quarter. Third parties contributed approximately 7 percent of our gas and 9 percent of our oil volumes in the third quarter, also flat with the second quarter, and slightly ahead of expectations at the midpoint of the Adjusted EBITDA guidance range.

Water gathering volumes averaged 78 thousand barrels of water per day in the third quarter, an 18 percent increase compared to the second quarter as we continued to capture incremental trucked water into our expanding gathering system.

Now turning to Hess Upstream highlights. Earlier today, Hess reported strong third quarter production results, with Bakken production averaging 198 thousand barrels of oil equivalent per day, an increase of 21 percent from the year ago quarter, and above guidance of approximately 185 thousand barrels of oil equivalent per day. During the quarter, Hess continued to leverage Hess Midstream's pipeline and rail terminal system which provides significant export capacity and optionality north and south of the Missouri River to key markets throughout the United States.

For full year 2020, Hess forecasts Bakken production to average approximately 190 thousand barrels of oil equivalent per day, an increase from previous guidance of 185 thousand barrels of oil equivalent per day.

Turning to Hess Midstream guidance.

As a result of continued strong performance, we have increased our full year throughput guidance for gas gathering and processing. Through the first nine months of the year, the installation of an additional 40 million standard cubic feet per day of gas compression capacity has significantly improved our gas capture capability, which helped mitigate the anticipated throughput impact from Hess' rig reduction.

Furthermore, we expect to add approximately 30 million standard cubic feet per day of additional compression capacity in the fourth quarter, with the re-start of two newly refurbished legacy compressor stations, an innovative solution that created near-immediate capacity at a low incremental cost. This highly localized approach is an important component of our strategy to capture more Hess and third-party volumes and enables customers to continue to meet or exceed North Dakota's well head gas capture targets, which are increasing to 91 percent effective November 1st, 2020.

As a result, we now expect gas gathering volumes to average 315 to 320 million standard cubic feet per day and gas processing volumes to average 300 to 305 million standard cubic feet per day for the full year 2020, both increasing 8 percent at the midpoint compared to previous guidance. Our complete financial and operational guidance is available in our earnings release that was distributed earlier this morning.

For the fourth quarter, we expect gas throughputs, which generate approximately 75 percent of our revenues, to be roughly flat compared to the third quarter. Fourth quarter oil and water volumes are expected to decline compared to the third quarter, in line with Hess' guidance. The midpoint of our financial guidance also assumes third party activity remains consistent with the third quarter.

Turning to Hess Midstream's capital program, our 2020 guidance remains unchanged. Full year 2020 expansion capital is expected to be $250 million, comprising of approximately $140 million in gas processing, $25 million in gas compression, and $85 million in gathering and well pad interconnects. We continue to make excellent progress on the expansion of the Tioga Gas Plant and as previously announced expect construction to be complete by the end of 2020. Incremental gas processing capacity is planned to be available in 2021 upon completion of the turnaround, during which time the expanded plant, including the residue and natural gas liquids takeaway pipelines, will be tied in.

Maintenance capital guidance remains unchanged at $10 million.

In summary, we continue to demonstrate strong operational and financial performance in a challenging macro environment. We're again increasing volume guidance, enabling us to raise our full year 2020 Adjusted EBITDA guidance to be in the range of $725 million to $735 million. In addition, we're reaffirming our 2021 guidance where we expect another year of double-digit Adjusted EBITDA growth, a growing distribution per share, and with the tie-in of the 150 million standard cubic feet per day expansion of the Tioga Gas Plant which creates significant new opportunities for gas capture growth in the basin for years to come.

Finally, we want to, again emphasize our continued commitment to operating safely and reliably during this unprecedented pandemic. The safety of our workforce and the communities where we operate remains our top priority.

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

**Jonathan Stein, Chief Financial Officer**

Thanks, John, and good afternoon everyone.

As John described, we have continued our track record of delivering strong results within a challenging macro environment, again emphasizing how both our contract structure and financial strength differentiate our business model.

Our third quarter results again beat our quarterly guidance and, as a result of our continued strong volume performance and our expectation that we will maintain our higher third quarter EBITDA level in the fourth quarter, we are again raising our full year 2020 financial guidance.

We are increasing our full year 2020 Net Income guidance to be in the range of $465 million to $475 million. Adjusted EBITDA is expected to be in the range of $725 million to $735 million, representing, at the midpoint, 33 percent growth compared to full year 2019 results, and an increase of 4 percent compared to the midpoint of our previous guidance. We expect to maintain approximately 75 percent EBITDA margin for 2020, consistent with our historical margin.

Maintenance Capital and Cash Interest are projected to total approximately $100 million for the full year 2020, and Distributable Cash Flow is expected to be in the range of $625 million to $635 million, resulting in an expected distribution coverage of approximately 1.3x.

We expect to end the year with leverage at or below our conservative 3x Adjusted EBITDA leverage target.

Our contract structure and financial strength enable us to provide visibility and stability to our forward trajectory. We are reiterating our 2021 Adjusted EBITDA guidance, which is growing 20 percent from our updated 2020 Adjusted EBITDA guidance primarily from our expected annual rate redetermination at the end of this year as well as the contractual inflation escalator and increasing 2021 MVCs. In both 2021 and 2022, we also expect approximately $750 million of free cash flow, defined as Adjusted EBITDA less capex, that includes approximately 95 percent of our revenues protected by MVCs, sufficient for Hess Midstream to be free cash flow positive after funding interest expense and growing distributions, while maintaining distribution coverage of approximately 1.4x, without the need for any incremental debt or equity.

Turning to our results, I will compare results from the third quarter to the second quarter.

For the third quarter, net income was $116 million, compared to $108 million for the second quarter. Adjusted EBITDA for the third quarter was $182 million compared to $173 million for the second quarter.

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

Total revenues increased by $12 million, including:

- An increase in gathering revenues of approximately $8 million, driven by higher Hess production, gas capture, and increasing MVCs;
- An increase in processing revenues of approximately $3 million, driven by higher Hess production and gas capture;
- An increase in terminaling revenues of approximately $1 million, driven by increasing MVCs.

Total operating expenses, including G&A, but excluding depreciation and amortization and pass-through costs were higher, decreasing Adjusted EBITDA by approximately $4 million, including:

- Seasonally higher maintenance and operating costs of approximately $4 million;
- Higher overhead of approximately $2 million;
- Higher insurance and property tax of approximately $1 million; offset by
- Lower costs associated with the TGP turnaround of approximately $3 million.

LM4 proportional share of earnings and depreciation, net of processing fees increased Adjusted EBITDA by approximately $1 million.
Resulting in third quarter Adjusted EBITDA of $182 million, exceeding the top end of our guidance range by approximately 10 percent, primarily due to higher than expected volumes.

Third quarter maintenance capital expenditures were approximately $4 million and net interest, excluding amortization of deferred finance costs was $22 million. The result was that Distributable Cash Flow was approximately $156 million for the third quarter, covering our distribution by approximately 1.2x. On October 26th, we announced our third quarter distribution that increased 5 percent on an annualized basis.

Expansion capital expenditures in the third quarter were $63 million.

At quarter end, debt was approximately $1.9 billion, representing leverage of approximately 2.7x Adjusted EBITDA on a trailing twelve months basis, and below our conservative 3x Adjusted EBITDA target.

Turning to expectations for the fourth quarter. As implied in our updated full year 2020 guidance, we anticipate fourth quarter Net Income and Adjusted EBITDA to be relatively consistent, at the midpoint, with our higher than expected third quarter results that we reported today.  In the fourth quarter, with seasonally lower operating costs, we expect distribution coverage to be approximately 1.2x with revenues that are approximately 95 percent protected by MVCs.

In summary, even in this period of macro uncertainty the strength of our business model is clear, and we maintain differentiated visibility to our financial metrics including:

- Adjusted EBITDA growth of approximately 33 percent in 2020 and approximately 20 percent in 2021 with revenues that are 95 percent protected by MVCs
- Expected free cash flow of $750 million in 2021 and 2022
- Distributions per share targeted to increase 5 percent annually and fully funded from FCF in 2021 and 2022
- Conservative leverage expected to be approximately 2x Adjusted EBITDA in 2021, on a full year basis

With our strategic asset base, visible financial metrics and unique contract structure, we have a differentiated value proposition across the midstream sector. 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 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 and produced water we gather, process, terminal or store; fluctuations in the prices and demand for crude oil, natural gas and natural gas liquids, 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. "Free cash flow" is defined as Adjusted EBITDA less capital expenditures, excluding acquisition capital expenditures. 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 free cash flow to reported net income (GAAP) and net cash provided by operating activities (GAAP), are provided in the accompanying release.