



First Quarter 2020 Conference Call Remarks

Jennifer Gordon, Vice President, Investor Relations

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. I would first like to express our hope that all of you listening and your families are safe and well.

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.

As a result of the COVID-19 pandemic, our operations, and those of our business partners, suppliers and customers, including Hess Corporation, have experienced and may continue to experience adverse effects, including disruptions, delays or temporary suspensions of operations and supply chains; temporary inaccessibility or closures of facilities; and workforce impacts. In addition, the pandemic has adversely impacted and may continue to adversely impact demand and marketability of crude oil, natural gas and NGLs that we gather, process and terminal for Hess and other third-party producers. To the extent we or our business partners, suppliers and customers continue to experience these or other effects, our financial condition, results of operations and future growth prospects may be adversely affected. The timeline and potential magnitude of the COVID-19 pandemic is currently unknown. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our annual report on Form 10-K for the year ended December 31, 2019. 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, 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 first quarter 2020 conference call. I hope everyone is safe, well and healthy during these exceptionally challenging times. Today I'll review our operating performance and highlights as we continue to execute our strategy, provide additional details regarding our 2020 plans, and discuss Hess Corporation's latest results and outlook for the Bakken. Jonathan will then review our financial results.

First, I'd like to describe the actions Hess Corporation and Hess Midstream are taking to protect the health and safety of our workforce and assure business continuity in the midst of the global pandemic. A cross-functional response team has been implementing a variety of health and safety measures in consultation with suppliers and partners that are based on current recommendations by our public health agencies and consistent with government and regulatory directives. This includes travel restrictions, health screenings, enhanced cleaning protocols, and physical distancing initiatives such as remote working and minimizing the number of personnel on work sites wherever possible. As a result of these measures, Hess Corporation and Hess Midstream have had no reported cases of COVID-19 among employees.

Now turning to our first quarter 2020 results. Hess Midstream delivered impressive volume growth across all systems, with strong performance from both Hess and third-party customers. Gas processing volumes averaged 322 million standard cubic feet per day in the quarter, or 92% of nameplate capacity, a volume increase of 5% compared to the fourth quarter of 2019. Crude terminaling volumes were 163 thousand barrels of oil per day, a 10% increase over the fourth quarter 2019, and water gathering volumes were 54 thousand barrels of water per day, an 8% increase over fourth quarter 2019. Strong volume delivery was the primary driver of Hess Midstream exceeding Adjusted EBITDA guidance for the first quarter.

Now turning to Hess Upstream highlights. Earlier today, Hess reported strong first quarter production results, capitalizing on the success of its plug and perf completion design and benefiting from mild weather conditions. As a result, Hess was able to achieve its 200 thousand barrels of oil equivalent per day goal for 11 days in March, well ahead of schedule, demonstrating the exceptional strength and production capability of Hess' Bakken position. First quarter Bakken production averaged 190 thousand barrels of oil equivalent per day, an increase of more than 46 percent from the year ago quarter and above guidance of approximately 170 thousand barrels of oil equivalent per day.

For full year 2020, Hess now expects to drill approximately 70 wells and to bring approximately 110 wells online. Additionally, Hess plans to complete wells that are drilled and keep wells online unless netback prices drop below variable cash production costs or Hess is unable to physically move the barrels. Hess does not expect to shut-in any production due to marketing arrangements and the use of Very Large Crude Carriers or VLCCs they've put in place.

In the second quarter, Hess forecasts its Bakken net production will average approximately 185 thousand barrels of oil equivalent per day and for full year 2020, Hess forecasts production to average approximately 175 thousand barrels of oil equivalent per day. Assuming a one rig program next year, Hess forecasts net Bakken production in 2021 will average between 155 thousand and 160 thousand barrels of oil equivalent per day, approximately 10 percent lower than full year 2020.

Turning to Hess Midstream throughputs, and our expectations for the rest of 2020. Hess Corporation's ability to secure takeaway capacity for its production underscores the strength of our anchor customer and provides confidence to our throughput projections. In the first quarter, we also continued to see strong third-party throughputs, which comprised approximately 25% of our gas and 15% of oil volumes. In recent weeks, third party production curtailments have increasingly emerged, as producers respond to lower commodity prices and product takeaway challenges.

Given the uncertain duration of these curtailments, we have chosen to act prudently and reset our full year 2020 throughput and financial guidance to provide transparency to the already announced curtailments impacting third-party throughputs. The low end of our updated volume guidance range reflects a

conservative assumption that Hess Midstream will effectively receive zero third-party volumes beginning in May and continuing through the rest of 2020. While we do not anticipate this being the most likely outcome, this downside scenario demonstrates the strength of our contract structure with Hess Corporation, which allows us to continue to deliver our targeted 5% annual distribution per share growth in 2020 with coverage of greater than 1.1x even in the event that we receive no further third party volumes for the remainder of the year.

Now focusing on the second quarter, consistent with the midpoint of our second quarter financial guidance, we expect gas processing and oil terminaling volumes to each be approximately 15% lower compared to the first quarter, with water gathering volumes approximately 5% higher. The midpoint of our financial guidance also assumes that third parties contribute approximately 10% of total oil and gas throughputs in the quarter, primarily due to strong performance in April, prior to the emerging third-party curtailments.

For the second half of 2020, we expect the majority of our systems to be operating at or below MVC levels, as our outlook incorporates the planned 45-day TGP turnaround, and we begin to see volume reductions from Hess later in the year, driven by the reduced rig count. We're continuing planning activities for the TGP maintenance turnaround in the third quarter, while closely monitoring potential COVID-19 risks. Our full, updated volume guidance is available on our earnings release, which was issued earlier today.

Turning to Hess Midstream's capital program. Our 2020 capital guidance comprises approximately \$255 million of expansion capital and \$20 million of maintenance capital, which incorporates a \$70 million reduction from our original 2020 capital program. We plan to invest approximately \$160 million in gas processing, primarily related to the already announced and well-advanced expansion of TGP. The expansion continues to progress ahead of schedule, with plant tie-ins expected to be conducted during the maintenance turnaround. Facility construction is expected to be completed by the end of 2020, and incremental processing capacity is expected to be available in 2021 coincident with residue and NGL take-away expansions. The expansion of TGP competitively positions Hess Midstream to capitalize on continued development in the basin and enables producers to meet tightening flaring targets, particularly north of the Missouri River where processing capacity is limited and well productivity is strong. In addition, under Hess Midstream's contracts with Hess Corporation, and consistent with all other investments, Hess Midstream earns a contracted return on capital deployed for the TGP expansion. Finally, in 2020, we expect to invest \$25 million in gas compression, and \$70 million in oil, gas and water pipeline and well pad interconnects.

In summary, we'll continue to meet the challenges of 2020 and beyond with careful planning, increased safety measures and focused execution. We're also able to provide a level of visibility and certainty as a result of our contract structure which provides MVCs for approximately 97% of projected revenues for the second half of the year. This underpins our 2020 Adjusted EBITDA guidance range of \$675 million to \$700 million, which is broadly unchanged across a dynamic macro backdrop that is impacting overall volumes and the industry at large. Additionally, looking forward to 2021, we expect Adjusted EBITDA growth of 25% relative to our 2020 guidance with approximately 95% MVC protection. All of which demonstrates that Hess Midstream is well positioned to weather the current market conditions and continue to deliver strong operational and financial performance in 2020 and for the long-term.

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.

Hess Midstream continues to be differentiated based on our strong contract structure and the proactive steps that we have taken, providing visibility and stability to our forward trajectory through 2022, even during this period of significant uncertainty.

While John has described recent third-party curtailments and Hess' reduction of activity from six rigs to one rig, our contract structure and financial strength provide a unique level of stability. Our updated guidance, supported by downside protection and cash flow stability mechanisms in our contract, still delivers our financial targets including approximately 25% EBITDA growth in 2020 and 2021 as well as \$750 million of free cash flow, defined as EBITDA less capex, in both 2021 and 2022 sufficient to be free cash flow positive after growing distributions.

As a reminder, our contract structure includes a unique combination of Minimum Volume Commitments, or MVCs, and an annual rate redetermination mechanism that adjust rates based on changes in volume and capex to maintain a return on our invested capital, including our approximately \$4 billion of historical investment. In the current environment where throughput volumes are expected to be lower than Hess' development plan at the end of 2019, our tariff rates will adjust higher as part of the annual rate redetermination to maintain our return on capital.

Our contracts worked effectively during the commodity price downturn of 2015-16, during which the MVCs and rate reset mechanisms worked together to maintain and grow Adjusted EBITDA even during a period of reduced activity and production by Hess. Consistent with that experience, our guidance for 2020 and 2021 is supported by the combination of MVC protections and the rate redetermination that will occur at the end of 2020.

In addition to our best-in-class contract structure, we have taken proactive and prudent steps to reinforce our long-term financial strength. In March, we reduced our 2020 and 2021 capital plans by a total of \$200 million, essentially bringing our capital investment in 2021 to sustaining levels that is primarily related to oil, gas and water pipeline and well pad interconnects. We also revised our targeted annual distribution per share growth rate to 5%. As I will discuss, these proactive steps, combined with our unique contract structure, positions us to provide visibility through 2022.

- 1) The midpoint of our updated 2020 EBITDA guidance still delivers 25% EBITDA growth relative to 2019 despite Hess reducing rig activity from six rigs to one rig and significant third-party curtailments
- 2) Our 2020 EBITDA guidance includes approximately 97% of our revenues protected by MVCs in the second half of the year. The lower end of our 2020 guidance, conservatively assumes zero third party volumes starting in May with revenues that are 95% protected by MVCs and still provides distribution coverage greater than 1.1x.
- 3) Looking forward, Adjusted EBITDA is expected to increase by 25% in 2021 relative to our 2020 guidance, supported by the annual rate redetermination at the end of 2020 and higher MVCs in 2021.
- 4) This EBITDA increase, together with our proactive capital expenditures reductions, drives approximately \$750 million in annual free cash flow in both 2021 and 2022 with approximately 95% of our revenues protected by MVCs, sufficient to fully fund our interest expense and 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 first quarter of 2020 to the fourth quarter of 2019.

For the first quarter of 2020, net income was \$129 million, compared to \$75 million for the fourth quarter of 2019. Fourth quarter 2019 net income included approximately \$26 million of costs related to our acquisition of Hess Infrastructure Partners. Adjusted EBITDA for the first quarter of 2020 was \$195 million compared to \$158 million for the fourth quarter of 2019, excluding these transaction costs.

The change in Adjusted EBITDA relative to the fourth quarter was primarily attributable to the following: Our total revenues increased by 15%, quarter-on-quarter, including:

- Revenues for our gathering segment increased by approximately \$18 million primarily driven by higher Hess production and higher tariff rates from the annual rate recalculation at the end of 2019;
- Revenues for our processing segment increased by approximately \$10 million, primarily driven by completion of the ramp-up of the LM4 gas processing plant and the continued backfill of TGP as well as higher tariff rates from the year end rate recalculation that accounted for the delay in startup of LM4;
- Revenues for our terminaling segment increased by approximately \$4 million primarily driven by higher Hess production and higher tariff rates from the end of 2019 annual rate recalculation;

Total operating expenses, including G&A, but excluding depreciation and amortization, pass-through and transaction costs were lower, increasing Adjusted EBITDA by approximately \$6 million, including:

- Lower maintenance services and professional fees during the period of approximately \$4 million; and
- Lower overhead of approximately \$2 million.

LM4 processing fees, net of our proportional share of earnings and depreciation reduced Adjusted EBITDA by approximately \$1 million.

Resulting in first quarter 2020 Adjusted EBITDA of \$195 million, a 23% increase relative to the fourth quarter 2019.

First quarter 2020 maintenance capital expenditures were approximately \$2 million and net interest, excluding amortization of deferred finance costs was \$23 million. The result was that Distributable Cash Flow was approximately \$170 million for the first quarter of 2020, covering our distribution by approximately 1.4x.

Expansion capital expenditures in the first quarter were \$55 million.

At quarter end, debt was approximately \$1.8 billion, representing approximately 3x leverage on a trailing twelve months basis.

Turning to our outlook for the rest of 2020 and beyond. As mentioned, we are uniquely positioned to provide visibility to our forward trajectory through 2022. We have prudently set the lower end of our annual and quarterly guidance ranges for 2020 to assume zero third party volumes starting in May and continuing through the rest of the year. This low end includes revenues that are 95% protected by MVCs with the remaining revenues fully attributable to volumes from Hess, which has announced they do not expect to curtail production. As a result, revenue outcomes below the low end of our guidance are not reasonably expected given the contractual mechanisms in place.

In the second quarter of 2020, we expect Net Income to be approximately \$90 million to \$105 million and Adjusted EBITDA to be approximately \$155 million to \$170 million. Second quarter maintenance capital expenditures and net interest, excluding amortization of deferred finance costs, are expected to be approximately \$30 million, resulting in expected DCF of approximately \$125 million to \$140 million, delivering distribution coverage at the midpoint of the range of approximately 1.1x with approximately 90% of projected revenues protected by MVCs. At the lower end of our guidance, 95% of our expected revenues would be protected by MVCs.

Relative to our first quarter results, the expected decrease in financial results is primarily driven by the reduction in third-party volumes from reduced activity and curtailments, as John described. While we expect to receive approximately \$5 million to \$10 million of MVC payments in the second quarter, revenues are expected to be lower since total volumes, including third parties, while declining are expected to generally be above MVC levels, in the month of April. In addition, we expect to begin work on the TGP turnaround in the second quarter including approximately \$7.5 million of costs across operating expenses and maintenance capital.

Looking towards to the rest of 2020, starting in the third quarter we expect volumes to be primarily below MVCs resulting in significant revenue protection in both the third and fourth quarters. During the third quarter, we expect \$20 million to \$25 million of costs across operating expenses and maintenance capital related to the planned maintenance turnaround at TGP. As a result, we expect distribution coverage of approximately 0.95x in the third quarter with approximately 97% of revenues protected by MVCs. Without the one-time costs related to the turnaround, our second quarter distribution coverage would be approximately 1.15x.

In the fourth quarter, with increasing MVCs relative to the second and third quarter and lower operating costs and maintenance capital as the TGP turnaround is completed, we expect distribution coverage to be approximately 1.2x with revenues that continue to be approximately 97% protected by MVCs.

For 2020 overall, full year Net Income is expected to be in the range of \$410 million to \$435 million. Adjusted EBITDA is expected to be in the range of \$675 million to \$700 million. We still expect to maintain approximately 75% EBITDA margin in 2020, consistent with our historical margin. Highlighting our stability, at the midpoint, our updated Adjusted EBITDA guidance still delivers an approximate 25% increase over our 2019 results.

Maintenance Capital and Cash Interest are projected to total approximately \$110 million for the full year 2020. Distributable Cash Flow for 2020 is expected to be in the range of \$565 million to \$590 million, resulting in an expected distribution coverage of approximately 1.2x. As noted, the bottom of our guidance assumes no third-party volumes starting in May of 2020 and still delivers distribution coverage greater than 1.1x.

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

At the end of 2020, as part of the annual tariff rate redetermination process, our tariffs rates for 2021 and all forward years of the contract, will be reset to maintain our contractual return on capital deployed. Through this process, rates are expected to account for lower volumes delivered in 2020 as well as lower expected volumes in future years of the development plan going forward compared to the prior plan. Primarily driven by this rate increase as well as higher MVCs in 2021, we expect a 25% increase in Adjusted EBITDA in 2021. Based on this Adjusted EBITDA increase together with our previously

announced 50% capex reduction in 2021 that brings us to sustaining expansion capital of approximately \$100 million, we expect \$750 million of free cash flow in both 2021 and 2022. In both years we expect revenues that are more than 95% protected by MVCs and distribution coverage of at least 1.4x.

In summary, considering the significant challenges and volatility of the macro environment, we are truly differentiated by our financial strength and ability to provide more than 2.5 years of forward visibility:

- 1) Our 2020 guidance still delivers 25% EBITDA growth relative to 2019, includes revenues that are 97% MVC protected for the second half of the year and at least 1.1x distribution coverage, even conservatively assuming zero third party volumes for the rest of the year
- 2) Our annual rate redetermination at the end of 2020 and increasing MVCs drive an expected 25% growth in EBITDA in 2021,
- 3) This increased EBITDA and our proactive capex reductions are sufficient to allow us to be free cash flow positive after distributions in both 2021 and 2022, without the need for any incremental debt or equity.

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 projected budget and capital expenditures (including for maintenance or expansion projects and environmental 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, 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 in a timely manner, if at all, including those necessary for capital

projects, 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” (“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.