First Quarter 2021 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.

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 first quarter 2021 conference call.

Today I'll review our operating performance and highlights as we continue to deliver our strategy and discuss Hess Corporation's latest results and outlook for the Bakken. Jonathan will then review our financial results.

We're pleased with the progress we're making on executing our strategy, and we're excited about the stable and visible earnings growth ahead of us.

Over the past 24 months, Hess Midstream has undertaken a strategic effort to increase our gas capture capability by expanding our gas compression and processing capacity. This year, we expect to progress construction of two new greenfield compressor stations which, when online in 2022, will meaningfully expand our gas compression capacity by another 20 percent.

In addition, the final tie-in of the Tioga Gas Plant expansion will increase our processing capacity and solidly position us to capture incremental volumes as we support Hess and third-party customers meet North Dakota's tightening flare reduction targets.

Our contract complements our strategic asset base, and provides resilience and stability to our financial performance, as demonstrated by the strong results we delivered in the first quarter despite the challenges of the last year, and further supports our 2021 Adjusted EBITDA guidance which is underpinned by 95 percent revenue protection.

Now, turning to Hess Midstream's first quarter 2021 performance.

Throughputs and operating results in the first quarter were in line with expectations, though adverse weather did impact operations in February, resulting in some planned maintenance activities pushing into the second quarter.

First quarter gas processing volumes averaged 302 million standard cubic feet per day, crude terminaling volumes were 125 thousand barrels of oil per day, and water gathering volumes averaged 70 thousand barrels of water per day.

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

Now turning to Hess Upstream highlights.

Earlier today, Hess reported first quarter production results, with Bakken production averaging 158 thousand barrels of oil equivalent per day. As previously announced, Hess added a second operated drilling rig to the Bakken in February.

For the full year 2021, Hess forecasts Bakken net production to average between 155 and 160 thousand barrels of oil equivalent per day, reduced from previous guidance of 170 thousand barrels of oil equivalent per day, primarily driven by lower natural gas liquids ("NGLs") volumes received by Hess under percentage of proceeds contracts, or POP, and the previously announced sale of non-strategic Bakken acreage. POP volumes relate to the recovery of non-operated processing fees directly received by Hess and does not impact Hess Midstream's throughputs. Furthermore, the acreage Hess agreed to sell is not being or planned to be gathered by Hess Midstream.

Hess expects Bakken net production to build in the second half of 2021 and to exit the year between 170 and 175 thousand barrels of oil equivalent per day.

Turning to Hess Midstream guidance.

We're reaffirming our full year financial and operational guidance, which was included in this morning's earnings release and is available on our website.

For full year 2021, we expect gas processing volumes to average between 270 and 280 million standard cubic feet per day. Our processing guidance incorporates the previously announced 45-day maintenance turnaround at the Tioga Gas Plant, which is planned to commence in the third quarter, reducing our annual gas gathering and processing volumes by approximately 30 million standard cubic feet per day.

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

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

As the physical volumes on most of our systems are at or below MVC levels our revenue forecast is approximately 95 percent protected and expected to deliver Adjusted EBITDA guidance in the range of $860 million to $890 million, an increase of approximately 17 percent, at the midpoint, compared to full year 2020.

We expect second quarter gas, oil, and water volumes to each be modestly lower compared to first quarter, as increasing wells online and recovery from winter weather is offset by production declines and planned maintenance activities.

Turning to Hess Midstream's 2021 capital program.

We're making excellent progress on executing our 2021 capital program, with activities primarily focused on strengthening our gas capture and water gathering and disposal capacity.

Full year 2021 capital expenditures are expected to total $160 million, approximately 35 percent lower than full year 2020, reflecting lower ongoing capital needs, following the completion of expansion construction activities at the Tioga Gas Plant. We continue to forecast expansion capital of approximately $140 million and maintenance capital of approximately $20 million.

In summary, we continue to advance our strategy as we build out our infrastructure and prepare for future organic growth. With 95 percent revenue protection through 2022, we are uniquely positioned and expect to deliver sustainable and growing Adjusted EBITDA, adjusted free cash flow, and distributions with low leverage and contract protection.

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 continue to make good progress in executing our strategy and are pleased to have delivered another strong quarter to start 2021 that demonstrates how both our contract structure and financial strength differentiate our business model.

For the first quarter of 2021, net income was $160 million, compared to $132 million for the fourth quarter of 2020. Adjusted EBITDA for the first quarter of 2021 was $227 million compared to $199 million for the fourth quarter of 2020.

The change in Adjusted EBITDA relative to the fourth quarter of 2020 was primarily attributable to the following:

- Total revenues increased by $26 million primarily driven by higher tariff rates resulting from our annual rate redetermination process, partially offset by lower throughput volumes, resulting in segment revenue changes as follows:
    - An increase in gathering revenues of approximately $13 million;
    - An increase in processing revenues of approximately $8 million; and
    - An increase in terminaling revenues of approximately $5 million.
- Total operating expenses, including G&A, but excluding depreciation and amortization and pass-through costs were lower, increasing Adjusted EBITDA by approximately $2 million, including:
    - Lower seasonal maintenance activity in our processing segment of approximately $3 million; partially offset by
    - Higher G&A expenses of approximately $1 million primarily related to our equity offering.

Resulting in Adjusted EBITDA for the first quarter of 2021 of $227 million, modestly above our guidance, primarily due to lower operating costs as adverse weather conditions resulted in certain planned maintenance activities being deferred to the second quarter, as John described.

First quarter 2021 maintenance capital expenditures were approximately $1 million and net interest, excluding amortization of deferred finance costs was approximately $21 million.

The result was that Distributable Cash Flow was approximately $205 million for the first quarter of 2021, covering our distribution by approximately 1.6x. On April 23rd, we announced our first quarter distribution that increased 5 percent on an annualized basis, representing our fifteenth consecutive quarterly distribution increase since our IPO.

Expansion capital expenditures in the first quarter were $22 million. At quarter end, debt was approximately $1.9 billion, representing leverage of approximately 2.5x Adjusted EBITDA on a trailing twelve months basis, and below our conservative 3x Adjusted EBITDA target.

Turning to guidance.

For the second quarter of 2021, we expect Net Income to be approximately $145 million to $155 million and Adjusted EBITDA to be approximately $210 million to $220 million, modestly lower at the midpoint relative to the first quarter of 2021, primarily driven by higher operating costs from seasonal maintenance and activity deferrals due to winter weather in the first quarter. As physical volumes on our systems remain generally below MVC levels, we expect second quarter revenues to be relatively stable, compared to the first quarter.

Second quarter maintenance capital expenditures and net interest, excluding amortization of deferred finance costs, are expected to be approximately $25 million, resulting in expected distributable cash flow of approximately $185 million to $195 million with distribution coverage at the midpoint of the range of approximately 1.5x.

For the third quarter, we anticipate commencing a maintenance turnaround at TGP. As John described, 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.

As a result, with operating costs including the turnaround expected to be higher than the second quarter and relatively stable MVC supported revenues, we expect lower net income, Adjusted EBITDA and distribution coverage in the third quarter relative to the second quarter.

In addition, we are reaffirming all full year 2021 financial guidance including at the midpoint, full year 2021 Net Income of $605 million and Adjusted EBITDA of $875 million. This Adjusted EBITDA guidance represents annual growth of approximately 17 percent from full year 2020, primarily from our annual rate redetermination and increasing 2021 MVCs, which provide approximately 95 percent protection to our revenues.

With no change to our full year financial guidance and lower expected net income and Adjusted EBITDA in the second and third quarters relative to the first quarter, we expect increased financial results in the fourth quarter supported by MVC protected revenues and lower operating costs with the completion of the TGP turnaround and lower seasonal activity.

Highlighting our financial strength, we expect Adjusted Free Cash Flow to be in excess of distributions by approximately $100 million in 2021.

With this positive Adjusted Free Cash Flow after distributions, together with expected leverage of approximately 2x Adjusted EBITDA on a full year basis that is below our conservative 3x Adjusted EBITDA target, we maintain significant financial flexibility for accretive capital allocation including potential return of capital to shareholders.

Our revenues continue to be 95 percent protected by generally increasing MVCs in 2022 and we expect continued higher revenues in 2023 as physical volumes are expected to be above MVCs. With this increasing expected revenue and lower ongoing capital spending we have visibility to continued growth in Adjusted EBITDA and Adjusted Free Cash Flow.

In summary, 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, 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; 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 below. 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.