Fourth Quarter 2020 Conference Call Remarks

<u>Jennifer Gordon, Vice President, Investor Relations</u>

Thank you. Good afternoon everyone and thank you for participating in our fourth quarter earnings conference call. Our earnings release was issued this morning and appears on our website, www.hessmidstream.com.

Today's conference call contains projections and other forward-looking statements within the meaning of the federal securities laws. These statements are subject to known and unknown risks and uncertainties that may cause actual results to differ from those expressed or implied in such statements. These risks include those set forth in the risk factors section of Hess Midstream's filings with the SEC.

Also, on today's conference call, we may discuss certain non-GAAP financial measures. A reconciliation of the differences between these non-GAAP financial measures and the most directly comparable GAAP financial measures can be found in the earnings release.

With me today are John Gatling, President and Chief Operating Officer; and Jonathan Stein, Chief Financial Officer. In 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.

<u>John Gatling, President and Chief Operating Officer</u>

Thanks, Jennifer. Good afternoon everyone, and welcome to Hess Midstream's fourth quarter 2020 conference call.

Today I'll review our operating performance and highlights as we continue to execute our strategy, provide details regarding our 2021 plans, and discuss Hess Corporation's latest results and outlook for the Bakken. Jonathan will then review our financial results.

2020 was another year of strong performance and strategic execution for Hess Midstream in an exceptionally challenging macro-environment. First, we are most proud of maintaining safe and reliable operations throughout this unprecedented pandemic.

Hess and Hess Midstream implemented comprehensive COVID-19 health and safety measures including health screenings, extended work schedules for rotational employees and social distancing initiatives, based on government and public health agencies recommendations. The safety of our workforce and the communities where we operate is and will continue to be our top priority.

Despite the macro-headwinds throughout 2020, Hess Midstream delivered very strong operational performance, achieving year-on-year double-digit percentage increases in volumes across all of our systems, resulting in annual Adjusted EBITDA growth of 36 percent compared to full year 2019.

Hess Midstream also completed the investment phase for a series of strategically important projects during 2020, further enhancing our gas capture capability and providing the platform for future growth.

In December of last year, we completed construction activities for the Tioga Gas Plant expansion. The expanded plant, including the residue and natural gas liquids takeaway pipelines, will be tied in during the maintenance turnaround currently planned to commence in the third quarter of 2021, increasing Hess Midstream's total Bakken processing capacity to 500 million standard cubic feet per day, double the system capacity at the time of our IPO in 2017.

Over the past 12 months, we also completed several other projects that enhanced our gas capture capability, which enabled immediate volume growth. We successfully completed expansions of two existing compressor stations and restarted two additional legacy compression facilities, increasing gas gathering capacity by 70 million standard cubic feet per day, or approximately 30 percent over 2019.

These projects were delivered on time and on budget, as we continued to leverage our lean manufacturing capabilities and a standard design philosophy, eliminating waste, and reducing cycle time and cost.

Incremental gas compression, together with consistently reliable performance at our processing plants, enabled increased gas capture in 2020, and positions Hess Midstream for future volume growth as we continue to support Hess and our other customers in meeting North Dakota state flare reduction targets.

Reflecting this positive outlook, our longer-term guidance, as shown by our 2023 minimum volume commitments, which was released earlier this week, highlights that organic volumes from Hess and third parties are expected to grow above current MVC levels once again.

In addition to our gas capture performance, our crude oil assets which are key components of our integrated service offering, continue to perform well. Our fully integrated crude oil system located North and South of the Missouri River has capability to transport oil by pipe and rail, giving Hess and third-party customers valuable export reliability and optionality.

Furthermore, our water services business made great progress in 2020, achieving significant growth in gathering throughputs as we extended our system, reduced trucked volumes and delivered material improvements in operating efficiency, and brought new saltwater disposal facilities into service at very competitive costs.

Further supporting our longer-term growth, the renewal of our agreements with Hess Corporation continues to provide Hess Midstream a contract structure with 100 percent fee-based revenues and volume protection through 2033.

Now turning to Hess Midstream's fourth quarter 2020 performance. Gas processing volumes averaged 317 million standard cubic feet per day, as strong performance from Hess Corporation and our newly available gas gathering capacity, coupled with mild weather, drove results above expectations. Crude terminaling volumes were 132 thousand barrels of oil per day, in line with guidance.

Third parties contributed approximately 10 percent of our gas and oil volumes in the fourth quarter, approximately flat with the third quarter, and in line with expectations.

Water gathering volumes averaged 81 thousand barrels of water per day in the fourth quarter, a modest increase from the third quarter as we continued to capture incremental water into our expanding gathering system.

The strong end to the year enabled us to exceed our throughput and financial guidance for the fourth quarter and full year 2020.

Now turning to Hess Upstream highlights.

Earlier today, Hess reported strong fourth quarter production results, with Bakken production averaging 189 thousand barrels of oil equivalent per day, an increase of approximately 9 percent above the year-ago quarter, reflecting the strong performance of plug and perf completions, increased gas capture and the quality of Hess' acreage position.

For the full year 2020, Bakken net production averaged 193 thousand barrels of oil equivalent per day, compared to 152 thousand barrels of oil equivalent per day in 2019 and well above the original full year guidance of 180 thousand barrels of oil equivalent per day — despite dropping from six rigs to one rig in May of last year.

Hess continues to maintain a robust inventory of more than 1,800 drilling locations in the Bakken that can generate attractive returns at current oil prices, representing approximately 60 rig years of activity. With WTI prices now in the range of $50 per barrel, Hess plans to add a second operated drilling rig during the first quarter. For the full year 2021, Hess forecasts Bakken net production to average approximately 170 thousand barrels of oil equivalent per day.

Turning to Hess Midstream guidance. Our complete financial and operational guidance was released earlier this week 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. This guidance incorporates the previously announced 45-day TGP maintenance turnaround, 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. As we progress the turnaround planning activities, we will continue to closely monitor potential COVID-19 risks.

Our full year guidance anticipates that third parties will contribute approximately 10 percent of our gas volumes, consistent with levels we achieved in the fourth quarter of 2020.

Turning to our crude oil assets, for full year 2021 we anticipate crude terminaling volumes to average between 120 and 130 thousand barrels of oil per day. Third-party throughputs are expected to comprise approximately 15 percent of our total crude oil volumes.

As the physical volumes on most of our systems are at or below MVC levels, our revenue forecast is approximately 95 percent revenue protected, giving a high degree of confidence to our guidance, which projects Adjusted EBITDA 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 first quarter gas, oil, and water volumes to each be modestly lower compared to fourth quarter 2020, reflecting production decline and potential seasonal winter weather conditions.

Turning to Hess Midstream's 2021 capital program.

With the completion of the greenfield construction activities at TGP, we plan a reduction in capital expenditures on an ongoing basis relative to prior years, with activities focused on gas compression capacity additions, system optimization and well pad interconnects.

Full year 2021 capital expenditures are expected to total $160 million, approximately 35 percent lower than full year 2020. Expansion capital is planned to be $140 million, comprising of $90 million in gas compression, $40 million in gathering and well pad interconnects, and approximately $10 million in gas processing, as we tie-in residue and liquids export to the TGP expansion.

Compression capital is focused on the construction of two new greenfield compressor stations which, when online in 2022, will provide a further 64 million standard cubic feet per day of gas compression capacity, expandable to approximately 130 million standard cubic feet per day, further improving gas capture capability and supporting Hess' development in the basin.

In summary, Hess Midstream is an increasingly differentiated story in the sector, with volume growth, free cash flow, growing dividend, and contract protection through 2033. We remain focused on executing our strategy to drive long term and sustainable growth.

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 proud with the progress we made in 2020 on executing our strategy, continuing our track record of delivering strong results, and demonstrating how both our contract structure and financial strength differentiate our business model.

During 2020, our conservative financial strategy, combined with proactive reductions in capital expenditures, enabled us to respond quickly and successfully navigate through a challenging macro environment.

Our fourth quarter results again beat our quarterly guidance and we completed 2020 with full year Adjusted EBITDA of $749 million, representing 36 percent growth compared to 2019, with leverage of 2.6x Adjusted EBITDA, below our 3x target and clearly differentiated from our peers.

For the fourth quarter 2020, net income was $132 million, compared to $116 million for the third quarter. Adjusted EBITDA for the fourth quarter was $199 million compared to $182 million for the third quarter.

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

- Total revenues increased by $9 million primarily driven by increased gas capture including an increase in processing revenues of approximately $7 million and an increase in gathering revenues of approximately $2 million;
- Total operating expenses, including G&A, but excluding depreciation and amortization and pass-through costs were lower, increasing Adjusted EBITDA by approximately $9 million, including:
    - Lower seasonal maintenance activity in our gathering segment of approximately $6 million; and
    - Lower maintenance activity in our processing segment of approximately $3 million, as work related to the deferred turnaround was completed in the third quarter.
- LM4 proportional share of earnings and depreciation, net of processing fees decreased Adjusted EBITDA by approximately $1 million.

Resulting in fourth quarter Adjusted EBITDA of $199 million, exceeding the top end of our guidance range by approximately 8 percent, primarily due to higher than expected gas capture volumes and lower than expected maintenance activity.

Fourth quarter maintenance capital expenditures were less than $1 million and net interest, excluding amortization of deferred finance costs was approximately $22 million.

The result was that Distributable Cash Flow was approximately $177 million for the fourth quarter, covering our distribution by approximately 1.4x. On January 25th, we announced our fourth quarter distribution that increased 5 percent on an annualized basis. This increase represents our fourteenth consecutive quarterly distribution increase since our IPO.

Expansion capital expenditures in the fourth quarter were $50 million.

As I highlighted earlier, at quarter end debt was approximately $1.9 billion, representing leverage of approximately 2.6x Adjusted EBITDA on a trailing twelve months basis, and below our conservative 3x Adjusted EBITDA target.

Turning to our commercial agreements. On December 30, 2020, Hess Midstream exercised its renewal option to extend for an additional 10-year period, through December 31, 2033, its crude oil gathering, terminaling, gas processing, storage service and certain gas gathering commercial agreements with Hess. There were no changes to any terms of the commercial agreements as a result of the exercise of the renewal option.

At the end of 2020, we also completed our nomination process with Hess and updated our tariff rates for 2021 and all forward years. As with prior cycles, the nomination process considered changes in actual and forecasted volumes and capex to maintain our contractual targeted return on capital deployed. Tariffs increased in 2021 primarily from lower expected volumes compared to the previous year's nomination, as Hess reduced rig activity in the Bakken.

As part of this process, we also established a new MVC for 2023 based on 80 percent nominated volumes for each system in that year. In our recent guidance release, we provided MVCs for the years 2021 through 2023. Our MVCs provide line of sight to expected long-term growth in system throughputs and incremental revenue growth each year through a combination of increasing MVCs and higher expected physical volumes through 2023.

For example, looking at gas processing, we expect physical volumes to generally be at or below MVCs in 2021 and 2022, during which time our MVCs grow from 292 million standard cubic feet per day in 2021 to 345 million standard cubic feet per day in 2022. In addition, the MVC for 2023 is set at 292 million standard cubic feet per day, which when grossed up from the 80 percent to the 100 percent nominated level, implies an expected volume of 365 million standard cubic feet per day, an increase compared to the 2022 MVC of 345 million standard cubic feet per day.

Turning to 2021, in line with prior guidance, we expect, at the midpoint, full year 2021 Net Income of $605 million and Adjusted EBITDA of $875 million, representing 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.

The expected increase in Adjusted EBITDA combined with lower ongoing capital expenditures is expected, at the midpoint, to generate Adjusted Free Cash Flow of $625 million, with our definition of Adjusted Free Cash Flow updated to be Distributable Cash Flow less Expansion Capex.

We continue to target annual distribution per share growth of at least 5 percent in 2021 with approximately 1.4x distribution coverage and expect to maintain an Adjusted EBITDA margin consistent with our historical margin of greater than 75 percent.

Highlighting our financial strength, we have the ability to fully fund our distributions with Adjusted Free Cash Flow in excess of approximately $100 million. With this positive Adjusted Free Cash Flow after distributions, together with expected leverage of approximately 2x Adjusted EBITDA on a full year basis in 2021 that is below our conservative 3x Adjusted EBITDA target, we maintain significant financial flexibility.

For first quarter of 2021, in particular, we expect Net Income to be approximately $150 million to $160 million and Adjusted EBITDA to be approximately $215 million to $225 million, an approximate 10 percent increase in Adjusted EBITDA at the midpoint relative to the fourth quarter of 2020 based on higher tariff rates and seasonally lower opex.

First 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 $190 million to $200 million, delivering distribution coverage at the midpoint of the range of approximately 1.5x.

As John described, we anticipate commencing a maintenance turnaround at TGP in the third quarter, during which time we will incur higher operating expenses and maintenance capital, resulting in expected distribution coverage below our full year guidance of 1.4x for the period of the turnaround. The turnaround is expected to last 45 days and has been fully incorporated into our 2021 volume and financial guidance. As a reminder, Hess Midstream will receive MVC payments during the turnaround.

Our contract structure and financial strength enable us to also provide visibility and stability to our forward trajectory beyond 2021.

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 focused primarily on well connects and targeted compression projects, we have a unique level of visibility across our financial metrics in 2022 and 2023 including:

- Continued growth in Adjusted EBITDA and Adjusted Free Cash Flow;
- Targeted distribution per share growth of at least 5 percent;
- Fully funding our growing distribution with Adjusted Free Cash Flow and without incremental debt or equity funding.

The combination of positive Adjusted Free Cash Flow after distributions and leverage below our conservative 3x Adjusted EBITDA target, provides us with significant financial flexibility for accretive capital allocation including potential return of capital to shareholders.

In summary, with our strategic asset base, visible financial metrics and unique contract structure, we have a differentiated value proposition across the midstream sector with visible financial metrics including:

- Line of sight to expected revenue growth supported by growing MVCs protecting 95 percent of revenues in 2021 and 2022 and implied volume growth in 2023;
- Adjusted EBITDA growth of approximately 17 percent in 2021 with continued growth in 2022 and 2023;
- Adjusted Free Cash Flow of approximately $625 million at the midpoint of our guidance in 2021 with continued growth expected in 2022 and 2023;
- Continued positive Adjusted Free Cash Flow after fully funding distributions growing at least 5 percent annually on a per share basis through 2023.

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 (“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 previously reported the non-GAAP measure of "free cash flow", which we defined as Adjusted EBITDA less capital expenditures. As this definition varied from other definitions of free cash flow, we determined it was appropriate to discontinue reporting free cash flow as previously defined and to report Adjusted Free Cash Flow beginning with the fourth quarter of 2020. 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.