Third Quarter 2021 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 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 2021 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.

We continued to deliver strong operational performance in the third quarter anchored by the safe and successful execution of the Tioga Gas Plant turnaround. Extensive COVID-19 protocols were implemented to keep the workforce of more than 650 people safe. We're proud of our team for their outstanding execution under challenging conditions. Following the safe and quick ramp-up of TGP the team has turned their attention to the commissioning of the 150 million standard cubic feet per day expansion, which is underway and progressing well—the additional capacity is expected to be available at yearend concurrent with the completion of the WBI residue export tie-in.

Focusing on our third quarter performance.

Gas throughputs exceeded expectations as processing volumes ramped more quickly than anticipated following the turnaround. Third quarter gas processing volumes averaged 285 million standard cubic feet per day and as expected remained below MVC levels.

Third quarter crude terminaling volumes averaged 111 thousand barrels of oil per day, and water gathering volumes averaged 75 thousand barrels of water per day.

Now turning to Hess Upstream highlights.

Earlier today, Hess reported third quarter production results, with Bakken net production averaging 148 thousand barrels of oil equivalent per day versus guidance of 145 thousand barrels of oil equivalent per day primarily driven by the strong execution of the TGP turnaround.

Hess confirmed that the third drilling rig commenced operations in September, allowing Hess to accelerate the development of their inventory of high return well locations. A three-rig program allows Hess to grow production and leverage our strategic infrastructure, driving incremental volume growth for the midstream. The additional rig, combined with our aggressive gas capture strategy, positions Hess Midstream for strong organic growth.

For full year 2021, Hess expects Bakken net production to average approximately 155 thousand barrels of oil equivalent per day.

Now turning to our guidance. For full year 2021, we now expect gas processing volumes to average approximately 300 million standard cubic feet per day, modestly higher than previous guidance, primarily driven by the successful execution of the TGP turnaround and the strong ramp-up upon resuming operations.

We expect full year 2021 crude terminaling volumes to average approximately 120 thousand barrels of oil per day and water gathering volumes to average approximately 75 thousand barrels of water per day.

Our full year throughput guidance continues to anticipate that third parties will contribute approximately 10 percent of our gas and 15 percent of our oil volumes.

Our higher expected full year gas volumes are the primary driver for increasing our 2021 Adjusted EBITDA guidance to $900 million at the midpoint. Our full financial and operational guidance is included in our earnings release and is available on our website.

Now turning to our 2021 capital program. We continue to make good progress on our capital program. The commissioning of the TGP expansion and focused build-out of our gas compression system ensures we're well positioned to meet Hess' accelerated development pace.

During the third quarter turnaround, we completed a series of plant tie-ins for the TGP expansion which is now being commissioned. We expect final export tie-ins to be completed by the end of this year, concurrent with the WBI residue system start-up, taking Hess Midstream's total processing capacity up to 500 million standard cubic feet per day enabling us to meet our customers' expected accelerated development pace.

In 2022, we anticipate substantial organic growth in gas processing volumes, although we expect physical volumes to remain generally at or below MVC levels, which are approximately 15 percent higher compared to our 2021 physical volume guidance. We expect physical volumes to move above currently set MVCs in 2023, in line with our previous guidance.

Construction activities have commenced on two new greenfield compressor stations which will expand our gas compression capacity by approximately 20 percent when online in 2022. Approximately 50 percent of the expenditures for the new stations and related infrastructure is expected to be incurred in 2021, with the balance planned for 2022, when we complete construction and bring the stations online. We are also executing our oil, gas and water well connect program to meet Hess' accelerated development plan.

Full year 2021 capital expenditure guidance is unchanged at $180 million. We expect expansion capital to be approximately $165 million, which is comprised of $95 million for compression projects, $60 million for low pressure gathering and well interconnects and $10 million for gas processing. Maintenance capital is expected to be approximately $15 million.

In summary, we're continuing to execute our strategy, making focused investments to expand infrastructure to meet the needs of our customers, delivering safe and reliable operating performance and strong financial results, which provides the flexibility to take advantage of future accretive growth opportunities, including potential incremental return of capital to shareholders.

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

Jonathan Stein, Chief Financial Officer

Thanks, John, and good afternoon everyone.

During the third quarter, we continued to execute on our financial strategy that optimizes our capital structure and utilizes free cash flow generation to provide increased return of capital to our shareholders. On August 13, we paid our second quarter distribution including a 10 percent increase in the distribution level compared to the first quarter of 2021 in addition to a quarterly increase consistent with Hess Midstream's targeted 5 percent growth in annual distributions per Class A share.

During August we also completed a $750 million repurchase of units from our sponsors, optimizing our capital structure and bringing our leverage to approximately 3x Adjusted EBITDA on a full year 2021 basis.

Together, these actions delivered immediate, accretive, and meaningful return of capital to Hess Midstream shareholders. Hess Midstream continues to target annual distribution per Class A share growth of at least 5 percent through 2023 with distribution coverage of at least 1.4x. In addition, we maintain significant financial flexibility including expected ongoing free cash flow after distributions and leverage declining below our 3x Adjusted EBITDA target in 2022, allowing for potential future accretive opportunities, including incremental return of capital to shareholders.

Turning to our results. For the third quarter, net income was $131 million, compared to $162 million for the second quarter. Adjusted EBITDA for the third quarter was $205 million compared to $230 million for the second quarter.

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

- Gas processing revenue, excluding pass-through revenue, was lower by $1 million as our throughputs were generally below MVC levels in the third quarter driven by the planned turnaround at the Tioga Gas Plant.
- Total operating expenses, including G&A, but excluding depreciation and amortization and pass-through costs were higher, decreasing Adjusted EBITDA by approximately $23 million, including:
    - Operating expenses related specifically to the Tioga Gas Plant turnaround of approximately $15 million;
    - Higher other seasonal maintenance activity at the Tioga Gas Plant of approximately $7 million;
    - Higher operating G&A of approximately $1 million.
- LM4 proportional share of earnings and depreciation, net of processing fees decreased Adjusted EBITDA by approximately $1 million.

Resulting in Adjusted EBITDA for the third quarter of 2021 of $205 million, at the top end of our guidance, primarily driven by lower than expected seasonal maintenance and higher gas gathering revenues from the strong volume ramp following the TGP turnaround.

Third quarter maintenance capital expenditures were approximately $7 million and net interest, excluding amortization of deferred finance costs was approximately $26 million.

The result was that Distributable Cash Flow was approximately $172 million for the third quarter, covering our distribution by 1.3x.

Expansion capital expenditures in the third quarter were $52 million. At quarter end, debt was approximately $2.6 billion, representing leverage of approximately 3x Adjusted EBITDA on a trailing twelve-months basis.

Turning to guidance.

As John described, strong gas capture performance has enabled us to once again increase our full year financial guidance. We expect Net Income to be in the range of $605 million to $615 million. Adjusted EBITDA is expected to be in the range of $895 million to $905 million, representing, at the midpoint, 20 percent growth compared to full year 2020 results.

Maintenance Capital and Cash Interest are projected to total approximately $115 million for the full year 2021, and Distributable Cash Flow is expected to be in the range of $780 million to $790 million, resulting in an expected distribution coverage of greater than 1.4x.

As implied in our full year 2021 guidance, we anticipate fourth quarter Net Income and Adjusted EBITDA to be significantly higher compared to third quarter results, supported by increasing volumes and lower operating costs with the completion of the TGP turnaround and lower seasonal maintenance activity. At the midpoint of our guidance, we expect fourth quarter Adjusted EBITDA to be approximately $240 million, or 15 percent higher than third quarter results, with distribution coverage of approximately 1.6x with revenues that are approximately 95 percent protected by MVCs. We expect to end the year with leverage at our conservative 3x Adjusted EBITDA leverage target.

In 2022, in addition to organic growth, we expect higher revenues that are approximately 95 percent protected by generally increasing MVCs. We expect this revenue growth to continue in 2023, as our physical volumes increase above MVCs from higher Hess production and continued increasing gas capture.

As a result, we have visibility to continued growth in Adjusted EBITDA and generation of Adjusted Free Cash Flow after distributions and expect to delever below our conservative 3.0x Adjusted EBITDA leverage target in 2022, providing continuing flexibility to take advantage of future accretive growth opportunities, including potential incremental return of capital to shareholders.

In January, we will release our 2022 operational and financial guidance, including 2024 MVCs.

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 define "Adjusted Free Cash Flow" as DCF less expansion capital expenditures and ongoing contributions to equity investments. We believe that investors' understanding of our performance is enhanced by disclosing these measures as they may assist in assessing our operating performance as compared to other publicly traded companies in the midstream energy industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods, and assessing the ability of our assets to generate sufficient cash flow to make distributions to our shareholders. These measures are not, and should not be viewed as, a substitute for GAAP net income or cash flow from operating activities and should not be considered in isolation. Reconciliations of Adjusted EBITDA, DCF and Adjusted Free Cash Flow to reported net income (GAAP) and net cash provided by operating activities (GAAP), are provided in our accompanying release. Hess Midstream is unable to project net cash provided by operating activities with a reasonable degree of accuracy because this metric includes the impact of changes in operating assets and liabilities related to the timing of cash receipts and disbursements that may not relate to the period in which the operating activities occur. Therefore, Hess Midstream is unable to provide projected net cash provided by operating activities, or the related reconciliation of projected Adjusted Free Cash Flow to projected net cash provided by operating activities without unreasonable effort.