Third Quarter 2022 Conference Call Remarks

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

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 and our transcript of today's prepared remarks.

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.

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

Thanks, Jennifer. Good afternoon, everyone, and welcome to Hess Midstream's third quarter 2022 conference call.

Today, I will review the progress we're making on executing our strategy, discuss our operating performance and capital program, and review Hess Corporation's results and outlook for the Bakken. Jonathan will then review our financial results and guidance.

Beginning with Hess' upstream results. Today, Hess reported third quarter Bakken net production of 166 thousand barrels of oil equivalent per day, which was above their guidance range of 155 to 160 thousand barrels of oil equivalent per day, reflecting strong execution and recovery following challenging weather conditions in the first half of the year.

Hess anticipates fourth quarter Bakken net production to be in the range of 165 to 170 thousand barrels of oil equivalent per day and full year 2022 Bakken net production to average approximately 155 thousand barrels of oil equivalent per day, which is at the high end of Hess' previous guidance range of 150 to 155 thousand barrels of oil equivalent per day.

Hess' fourth Bakken drilling rig commenced operations in July, supporting Hess' planned production ramp to approximately 200 thousand barrels of oil equivalent per day in 2024, which drives long-term volume growth for Hess Midstream. Looking ahead, we expect all our systems to be above MVC levels in 2023 and 2024, primarily driven by Hess' planned production growth and its goal of achieving zero routine flaring by the end of 2025.

Turning to Hess Midstream results.

Our third quarter throughput volumes recovered strongly, growing approximately 20 percent on average, from the second quarter. Third quarter volumes averaged 110 thousand barrels of oil per day for crude terminaling and 83 thousand barrels of water per day for water gathering.

Reflecting strong gas capture, third quarter gas processing volumes exceeded MVC levels, averaging 354 million standard cubic feet per day, contributing to third quarter Adjusted EBITDA of $254 million, which was above the top end of our guidance range.

We anticipate fourth quarter gas, oil, and water volumes to be relatively flat compared to third quarter driven by planned maintenance activities deferred from the third quarter.

Now moving to Hess Midstream guidance, which was included in our earnings release and is available on our website. We have updated our volume guidance to reflect third quarter performance and now expect full year 2022 gas processing volumes to average approximately 330 million standard cubic feet per day, crude terminaling volumes to average approximately 105 thousand barrels of oil per day and water gathering volumes to average approximately 75 thousand barrels of water per day.

We continue to make excellent progress on our 2022 capital program, with activities primarily focused on flare reduction through the continued expansion of our gas gathering infrastructure.

In September, we brought online the second of two new compressor stations planned this year. In aggregate, the two stations provide an additional 85 million standard cubic feet per day of capacity and can be expanded up to 130 million standard cubic feet per day in the future. Additionally, the stations were safely completed several months ahead of schedule and below budget, demonstrating the benefits of our lean approach to standardized compression design. We're proud of our team for outstanding execution amid a challenging inflationary cost environment.

As previously announced, we expect to initiate construction on a third compressor station in the fourth quarter, which would provide an additional 65 million standard cubic feet per day of capacity in 2023, to further support Hess and third-party production growth.

We expect full year 2022 capital expenditures to total approximately $235 million, comprised of $120 million in compression expansion, $105 million in gathering system well connects, and $10 million of maintenance activity.

In closing, we continue to execute our strategy, focused on safe and efficient operations, preserving cost discipline through our lean-driven standard design and build philosophy, allowing us to efficiently grow throughputs, sustainably generate cashflow, and return capital to our shareholders.

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

Jonathan Stein, Chief Financial Officer

Thanks, John, and good afternoon everyone.
As John described, we are making good progress in executing our strategy and we are excited to support Hess' development in the Bakken, while continuing to deliver on our strategy of consistent and ongoing return of capital to our shareholders.

Beginning with our results.

For the third quarter, net income was $159 million, compared to $152 million for the second quarter. Adjusted EBITDA for the third quarter was $254 million compared to $243 million for the second quarter.

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

- Total revenues, excluding pass-through revenues, increased by approximately $19 million, primarily driven by a combination of higher MVCs and throughput volumes that exceeded our MVCs in gas processing and one of our gas gathering subsystems, resulting in segment revenue changes as follows:
  - An increase in processing revenue of approximately $5 million;
  - An increase in gathering revenue of approximately $14 million.
- Total costs and expenses, excluding depreciation and amortization, pass-through costs and net of our proportional share of LM4 earnings, increased by $8 million, as follows:
  - Remediation expenses for a produced water release of approximately $6 million, inclusive of both actual costs incurred to date and estimated total future expenses;
  - Higher operating and maintenance activity of approximately $2 million in our gathering segment that was seasonally higher compared to the second quarter but lower than anticipated as a result of the deferral of some maintenance activities until the fourth quarter.

Resulting in Adjusted EBITDA for the third quarter of $254 million, above the top end of our guidance range.

Our Gross Adjusted EBITDA Margin for the third quarter was maintained at approximately 80 percent, highlighting our continued strong operating leverage.

Third quarter maintenance capital expenditures were approximately $1 million and net interest, excluding amortization of deferred finance costs were approximately $38 million. The result was that Distributable Cash Flow was approximately $215 million for the third quarter, covering our distribution by 1.6x.

Expansion capital expenditures in the third quarter were approximately $59 million, resulting in Adjusted Free Cash Flow of approximately $156 million. At quarter end debt was approximately $2.9 billion, including a drawn balance of $43 million on our revolving credit facility, representing leverage of approximately 3.0x Adjusted EBITDA on a trailing twelve-months basis. We expect to decline below this target in 2023 with increasing Adjusted EBITDA, providing flexibility for incremental return of capital to shareholders.

Consistent with our return of capital framework, earlier this week we announced our third quarter distribution that increased 5 percent on an annualized basis and represents a 10 percent increase compared to the third quarter of 2021, including our distribution level increase earlier this year.

Turning to guidance.

We anticipate fourth quarter Net Income and Adjusted EBITDA to be approximately flat compared to our higher third quarter results, reflecting the combination of the following:

- Stable revenues for the majority of our systems with throughputs below MVC levels;
- Downtime from planned maintenance activity that was deferred from the third quarter driving expected lower throughput volumes and revenues at our gas gathering system operating above MVCs;
- Lower total opex in the fourth quarter with the produced water remediation expenses in the third quarter.

Reflecting these fourth quarter expectations and our strong third quarter results, we have updated and raised our full year financial guidance relative to the midpoint of our prior guidance. We now expect Net Income to be approximately $630 million and Adjusted EBITDA of approximately $990 million, representing 9 percent growth compared to full year 2021 results.

Maintenance Capital and Cash Interest are projected to total approximately $150 million for the full year 2022, and Distributable Cash Flow is expected to be approximately $840 million, resulting in an expected distribution coverage of greater than 1.5x.

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

Looking forward, in January, we will release our 2023 operational and financial guidance, including 2025 MVCs. We expect to continue to execute our financial strategy over coming years as we have clear visibility to expected revenue and Adjusted EBITDA growth supported by organic growth above MVCs in 2023 and 2024.

Emphasizing this visibility to continued growth in Adjusted EBITDA, our current MVCs for 2023 and 2024 reflect continued organic growth in gas processing and gathering throughputs driving increasing gas revenues that, excluding passthrough revenues, comprise approximately 75 percent of total affiliate revenues.

As a result, we anticipate continued growing Adjusted EBITDA and stable capex and expect growing Adjusted Free Cash Flow sufficient to support our growing distributions and incremental financial flexibility allowing for continued return of capital to shareholders, consistent with our financial strategy.

In closing, we are very pleased with the progress we are making in our business and look forward to a visible trajectory of growth in our operational and financial metrics that underpins our unique and differentiated financial strategy with a focus on consistent and ongoing return of capital.

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, its ability to deliver its nominated volumes to us, 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; the actual volumes we gather, process, terminal or store for Hess in excess of our MVCs and relative to Hess' nominations; 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 define "Gross Adjusted EBITDA Margin" as the ratio of Adjusted EBITDA to total revenues, less pass-through revenues. 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, Adjusted Free Cash Flow and Gross Adjusted EBITDA Margin 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.

	Third Quarter (unaudited)	
	2022	2021
(in millions, except ratio and per-share data)		
Reconciliation of Adjusted EBITDA and Distributable Cash Flow to net income:		
Net income	$ 159.4	$ 131.1
Plus:		
Depreciation expense	45.5	41.5
Proportional share of equity affiliates' depreciation	1.3	1.3
Interest expense, net	39.9	28.0
Income tax expense (benefit)	7.5	3.1
Adjusted EBITDA	253.6	205.0
Less:		
Interest, net[(1)]	37.4	26.1
Maintenance capital expenditures	1.4	7.4
Distributable cash flow	$ 214.8	$ 171.5
Reconciliation of Adjusted EBITDA, Distributable Cash Flow and Adjusted Free Cash Flow to net cash provided by operating activities:		
Net cash provided by operating activities	$ 234.7	$ 182.0
Changes in assets and liabilities	(20.9)	(3.9)
Amortization of deferred financing costs	(2.4)	(1.9)
Proportional share of equity affiliates' depreciation	1.3	1.3
Interest expense, net	39.9	28.0
Earnings from equity investments	2.8	3.0
Distribution from equity investments	(1.4)	(3.1)
Other	(0.4)	(0.4)
Adjusted EBITDA	$ 253.6	$ 205.0
Less:		
Interest, net[(1)]	37.4	26.1
Maintenance capital expenditures	1.4	7.4
Distributable cash flow	$ 214.8	$ 171.5
Less:		
Expansion capital expenditures	59.2	51.7
Adjusted free cash flow	$ 155.6	$ 119.8
Distributed cash flow	135.0	129.3
Distribution coverage ratio	1.6x	1.3x
Distribution per Class A share	$ 0.5627	$ 0.5104

(1) Excludes amortization of deferred financing costs.

(in millions)	Guidance Year Ending December 31, 2022 (Unaudited)
Reconciliation of Adjusted EBITDA, Distributable Cash Flow and Adjusted Free Cash Flow to net income:	
Net income	$ 630
Plus:	
Depreciation expense[1]	190
Interest expense, net	145
Income tax expense	25
Adjusted EBITDA	$ 990
Less:	
Interest, net[2], and maintenance capital expenditures	150
Distributable cash flow	$ 840
Less:	
Expansion capital expenditures	225
Adjusted free cash flow	$ 615

(1) Includes proportional share of equity affiliates' depreciation

(2) Excludes amortization of deferred financing costs.

(in millions)	Third Quarter 2022 (Unaudited)
Reconciliation of gross Adjusted EBITDA Margin to net income:	
Net income	$ 159.4
Plus:	
Depreciation expense	46.8
Interest expense, net	39.9
Income tax expense	7.5
Adjusted EBITDA	$ 253.6
Total revenues	$ 334.8
Less: pass-through revenues	22.1
Revenues excluding pass-through	$ 312.7
Gross Adjusted EBITDA Margin	81%