Second Quarter 2022 Conference Call Remarks

Jennifer Gordon, Vice President, Investor Relations

Thank you. Good afternoon everyone and thank you for participating in our second 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.

John Gatling, President and Chief Operating Officer

Thanks, Jennifer. Good afternoon, everyone, and welcome to Hess Midstream's second 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 second quarter Bakken net production averaging 140 thousand barrels of oil equivalent per day, reflecting the impact of severe weather in April and May.

Hess' production is recovering, well results continue to meet or exceed expectations, and Hess anticipates production to build in the second half of the year as they bring approximately 50 wells online, compared to 32 wells in the first half of 2022.

Hess' Bakken net production for the third quarter is expected to increase to between 155 and 160 thousand barrels of oil equivalent per day and further grow to between 160 and 165 thousand barrels of oil equivalent per day in the fourth quarter.

For the full year 2022, Hess forecasts Bakken net production to average between 150 and 155 thousand barrels of oil equivalent per day.

Furthermore, Hess announced that a fourth drilling rig commenced operations in the Bakken during July, supporting Hess' planned production ramp to approximately 200 thousand barrels of oil equivalent per day by 2024.

With Hess Midstream's focused gas infrastructure expansion, we're ready to meet Hess' accelerated development pace, which is expected to drive volume growth through our system allowing us to reaffirm our expected throughput growth above MVCs in 2023 and 2024.

Turing to Hess Midstream results.

Our second quarter throughput volumes averaged 292 million standard cubic feet per day for gas processing, 93 thousand barrels of oil per day for crude terminaling, and 65 thousand barrels of water per day for water gathering. As physical volumes were already expected to be at or below MVC levels, there was no material impact to our second quarter financial results relative to guidance.

The weather-related deferral of planned maintenance activity to the second half of the year drove lower than anticipated operating costs for the second quarter, resulting in Adjusted EBITDA of $243 million, compared to our guidance of approximately $235 million.

Turning to Hess Midstream guidance, which was included in our earnings release and is available on our website.

We are reaffirming our previously announced full year 2022 financial guidance and updating our throughput guidance to reflect the impact from the severe weather experienced in the second quarter.

For full year 2022, we now expect gas processing volumes to average between 315 and 330 million standard cubic feet per day and crude terminaling volumes to average between 103 and 108 thousand barrels of oil per day.

Reflecting strong growth and operating performance, we continue to expect water gathering volumes to average between 70 and 75 thousand barrels of water per day for full year 2022.

As a reminder, with physical volumes on our systems expected to be at or below MVCs in 2022, our 95 percent revenue protection gives us a high degree of confidence in our financial guidance.

Turning to Hess Midstream's 2022 capital program.

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 capture infrastructure.

We recently completed construction and commenced commissioning of the second of two new compressor station start-ups planned this year. We expect to bring the station online in the third quarter, completing the project below budget and several months ahead of schedule.

In aggregate, our two new compressor stations provide an additional 85 million standard cubic feet per day of installed capacity in 2022 and can be efficiently expanded up to 130 million standard cubic feet per day in the future.

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 installed capacity in 2023, further growing our capacity and supporting Hess' accelerated development.

In addition, our close integration with Hess and lean focused standard design philosophy has enabled us to largely mitigate near-term inflation and maintain our full year capital guidance.

2022 capital expenditures are expected to total approximately $235 million, comprised of $225 million of expansion and $10 million of maintenance activity. We expect to invest approximately $120 million in compression expansion and, reflecting increasing drilling activity by Hess, approximately $105 million in gathering system well connects.

In closing, we continue to execute our strategy, making efficient and low-risk infrastructure investments to meet basin growth demands, delivering safe and reliable operating performance and strong financial results, enabling us to grow our business 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' accelerated development in the Bakken, while continuing to deliver on our strategy of consistent and ongoing return of capital to our shareholders.

Over the past 12 months, we have executed in excess of $1 billion in accretive share buybacks, announced two separate distribution level increases, and continued our track record of growing our distribution per share every quarter since our IPO in 2017.

We recently announced our second quarter 2022 distribution growing 1.2 percent quarterly, consistent with our targeted 5 percent annual distribution growth per Class A share through at least 2024 with expected annual distribution coverage greater than 1.4x, including distribution coverage greater than 1.5x in 2022.

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 increasing MVCs in the second half of 2022 followed by organic growth above MVCs in 2023 and 2024, underpinned by Hess' recent addition of a fourth operating rig.

Based on our 2024 MVCs, set as part of Hess' nomination at the end of 2021 at 80 percent of our expected 2024 gas gathering and processing throughputs, our volumes are expected to grow by approximately 20 percent relative to our 2022 MVCs.

Gas revenues, excluding passthrough revenues, comprise approximately 75 percent of total affiliate revenues, emphasizing the visibility we have to continued growth in Adjusted EBITDA.

Looking forward, annual capital expenditures to deliver this growth plan through 2024 are expected to remain stable relative to 2022, with activity tightly focused on phased buildout of compression, well connects and system optimizations aligned with Hess' development plan.

As a result, with growing Adjusted EBITDA and stable capex, we 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.

Turning to our results.

For the second quarter, net income was $152 million, compared to $160 million for the first quarter. Adjusted EBITDA for the second quarter was $243 million compared to $242 million for the first quarter.

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

- Total revenues, excluding pass-through revenues, increased by approximately $4 million, primarily driven by higher MVC levels, resulting in segment revenue changes as follows:
    - An increase in processing revenue of approximately $3 million;
    - An increase in gathering revenue of approximately $1 million.
- Total costs and expenses, excluding depreciation and amortization, pass-through costs and net of our proportional share of LM4 earnings, increased by $3 million, as follows:
    - Higher operating and maintenance activity on our expanding gathering infrastructure of approximately $4 million;
    - Partially offset by lower G&A of approximately $1 million.

Resulting in Adjusted EBITDA for the second quarter of $243 million, above our guidance of approximately $235 million, primarily due to the deferral of certain maintenance activities to the third quarter.

Our Gross Adjusted EBITDA Margin for the second quarter is greater than 80 percent, highlighting our continued strong operating leverage.

Second quarter maintenance capital expenditures were approximately $1 million and net interest, excluding amortization of deferred finance costs was approximately $35 million. The result was that Distributable Cash Flow was approximately $206 million for the second quarter, covering our distribution by 1.5x.

Expansion capital expenditures in the second quarter were approximately $70 million, resulting in Adjusted Free Cash Flow of approximately $136 million. At quarter end, and following the completion of our recent unit repurchase, debt was approximately $3 billion, representing leverage of approximately 3.2x Adjusted EBITDA on a trailing twelve-months basis. By year end, we expect leverage to return to our 3x Adjusted EBITDA target and decline below this target in 2023, providing flexibility for incremental return of capital to shareholders.

Turning to guidance.

We are reaffirming our previously announced guidance for full year 2022, for which we expect Net Income of $610 – $640 million and Adjusted EBITDA of $970 million and $1 billion. With total expected capital expenditures of $235 million, we expect, at the midpoint, to generate Adjusted Free Cash Flow of $615 million.

As implied in our guidance, we anticipate Adjusted EBITDA in the second half of the year to be higher relative to the first half, supported by MVCs that are generally increasing through the year.

We expect third quarter Adjusted EBITDA to be approximately flat relative to second quarter results as increasing revenues driven by higher MVCs are offset by higher seasonal operating costs, including maintenance activities that were deferred from the second quarter.

For the third quarter of 2022, we expect Net Income to be approximately $150 million to $160 million and Adjusted EBITDA to be approximately $240 million to $250 million.

Third quarter maintenance capital expenditures and net interest, excluding amortization of deferred finance costs, are expected to be approximately $40 million, resulting in expected distributable cash flow of approximately $200 million to $210 million, delivering distribution coverage at the midpoint of the range of approximately 1.5x.

In the fourth quarter, we expect continued Adjusted EBITDA growth relative to the third quarter on higher MVCs and expected lower seasonal opex.

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.

<u>Cautionary Note Regarding Forward-looking Information</u>

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.

	Second 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	$ 151.8	$ 162.0
Plus:		
Depreciation expense	45.0	40.4
Proportional share of equity affiliates' depreciation	1.3	1.3
Interest expense, net	37.4	22.9
Income tax expense (benefit)	7.1	3.6
Adjusted EBITDA	242.6	230.2
Less:		
Interest, net[(1)]	35.2	21.2
Maintenance capital expenditures	1.2	1.5
Distributable cash flow	$ 206.2	$ 207.5
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	$ 213.2	$ 224.6
Changes in assets and liabilities	(6.3)	(15.5)
Amortization of deferred financing costs	(2.2)	(1.7)
Proportional share of equity affiliates' depreciation	1.3	1.3
Interest expense, net	37.4	22.9
Earnings from equity investments	1.0	2.9
Distribution from equity investments	(1.4)	(4.0)
Other	(0.4)	(0.3)
Adjusted EBITDA	$ 242.6	$ 230.2
Less:		
Interest, net[(1)]	35.2	21.2
Maintenance capital expenditures	1.2	1.5
Distributable cash flow	$ 206.2	$ 207.5
Less:		
Expansion capital expenditures	70.5	44.9
Adjusted free cash flow	$ 135.7	$ 162.6
Distributed cash flow	133.3	143.5
Distribution coverage ratio	1.5x	1.4x
Distribution per Class A share	$ 0.5559	$ 0.5042

(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	$	610 – 640
Plus:		
Depreciation expense*		190
Interest expense, net		145
Income tax expense		25
Adjusted EBITDA	$	970 – 1,000
Less:		
Interest, net, and maintenance capital expenditures		145
Distributable cash flow	$	825 – 855
Less:		
Expansion capital expenditures		225
Adjusted free cash flow	$	600 – 630

**Includes proportional share of equity affiliates' depreciation*

(in millions)	Second Quarter 2022 (Unaudited)	
Reconciliation of gross Adjusted EBITDA Margin to net income:		
Net income	$	151.8
Plus:		
Depreciation expense		45.0
Proportional share of equity affiliates' depreciation		1.3
Interest expense, net		37.4
Income tax expense (benefit)		7.1
Adjusted EBITDA	$	242.6
Total revenues	$	313.4
Less: pass-through revenues		19.9
Revenues excluding pass-through	$	293.5
Gross Adjusted EBITDA Margin		83%