Conference Call CEQP
8:00 am CT February 19, 2019
Script Outline

Operator

Good morning, and welcome to today's conference call to discuss Crestwood Equity Partners Fourth Quarter 2018 Financial and Operating Results and 2019 Outlook.

Before we begin the call, listeners are reminded that the Company may make certain forward-looking statements as defined in the Securities and Exchange Act of 1934 that are based on assumptions and information currently available at the time of today's call. Please refer to the Company's latest filings with the SEC for a list of risk factors that may cause actual results to differ.

Additionally, certain non-GAAP financial measures, such as EBITDA, adjusted EBITDA, and distributable cash flow will be discussed. Reconciliations to the most comparable GAAP measures are included in the news release issued this morning.

Joining us today with prepared remarks are:

- Chairman, President, and Chief Executive Officer, Bob Phillips; and
- Executive Vice President and Chief Financial Officer, Robert Halpin; and
- Executive Vice President and Chief Operating Officer, Heath Deneke

Additional members of the senior management team will be available for the question and answer session with Crestwood's current analysts following the prepared remarks.

Today's call is being recorded. *(Insert Operator Instructions)*

At this time, I will turn the call over to Bob Phillips.

Bob Phillips

Thank you operator, good morning and thank you all for joining us. We are thrilled to discuss our 2018 results this morning and look forward to providing additional color our on bright 2019 outlook. Crestwood's strategy of organically investing in our high-quality core growth basins, while maintaining financial discipline is working and evident in the strong financial results we were able to deliver in 2018. During the year, we exceeded our internal expectations on both Adjusted EBITDA and distributable cash flow, generating Adjusted EBITDA of over $420 million, which exceeded our guidance range and consensus estimates, and Distributable Cash Flow of $224 million, which resulted in very strong coverage of 1.3 times.

Looking into 2019, our strategy is unchanged. The formula for success that we adopted back in 2016, in response to the changing market environment and listening to our investors, has clearly driven results and led to our outperformance within our peer group for the last two years. Some research firms have called this the “early reformers” and others have referred to it as “Midstream 2.0.” At Crestwood, we refer to our strategy as simply “Sticking to the Basics” to deliver value for our investors.

That strategy means we will pursue organic investment projects in high-quality growth basins, with the best rock in the country, and combine that with capital efficiency and financial discipline to generate DCF per unit growth. As result, we expect to grow DCF per unit of $3.14/unit in 2018 by over ONE DOLLAR by year-end 2020. This growth will result in a leverage ratio between 3.5-4.0 times and coverage of ~1.75 times.

Our capital program over the last two years and again in 2019, will be targeted in the prolific Bakken, Powder River and Delaware Basins, and longer term we would expect to see opportunities in the Northeast Marcellus with Con Edison. We consider these four basins our core assets and core drivers of value creation. Throughout this 3-yr investment program, Crestwood will have invested approximately $850 million that results in incremental EBITDA of approximately $160 million. As a result of this high return profile, we will continue to invest in infrastructure in these basins to meet growing producer forecasts and where appropriate, we will evaluate opportunities for Crestwood to continue to expand its franchise positions in these assets. In our non-core basins, particularly our legacy dry gas positions, we continue to see value for them in our portfolio for their stable and predictable cash flow streams, and minimal capital requirements. We have dedicated teams in these basins that continually find opportunities to optimize their productivity and minimize expenses.

Finally in 2019, we are on-track to implement an MLP industry leading sustainability program. While MLPs have taken strides to increase transparency on key ESG issues, we believe taking the next step to publish a report in accordance with the GRI standards, will provide deeper insight to our process of managing ESG risks. As the industry seeks incremental investment from non-traditional MLP investors we believe enhanced transparency from MLPs is a necessary step. For example, our sustainability report will include additional insight into our compensation key performance indicators. At Crestwood, our compensation is driven by strict performance based metrics such as, Adjusted EBITDA, extensive safety metrics, total unitholder return relative to peers and, and finally, a DCF per Unit metric.

These metrics selected by our Board highlight management's incentive to conduct operations and manage our capital investments in a manner that maximizes value by responsibly creating true accretive growth per unit. We have demonstrated our ability to identify key growth basins and our ability to execute projects, with thoughtful financing, to maximize cash on cash yield and returns. We are committed to prudently growing our core franchise positions and believe we are in a great position going into 2019.

With that, I will turn it over to Robert for a review of our 2018 financial results and 2019 guidance outlook.

Robert Halpin

Thank you Bob. I am extremely pleased with the financial results we delivered in 2018. When we began 2018, we guided an Adjusted EBITDA range of $390 million to $420 million and for the year, we generated Adjusted EBITDA of $420.1 million, just above the high end of the guidance range. The driver of this outperformance was solid operational and project execution, a focus on cost control and strong business fundamentals across our three operating segments that highlight the value of our diversified portfolio of assets. Distributable cash flow available to common unitholders in 2018 was $224 million, net of our quarterly cash distribution to our Class A preferred unit holders. For the fourth quarter 2018, we declared a distribution of 60 cents to our common unitholders resulting in distribution coverage for the quarter of approximately 1.5 times.

As we look into 2019, we are guiding Adjusted EBITDA to be $460 million to $490 million and Distributable cash flow to be $245 million to $275 million. At these ranges, we would expect our full-year distribution coverage ratio to be in the 1.4x to 1.6x range and our year-end leverage ratio to be between 4.0x and 4.5x. We expect to invest $275 million to $325 million on growth projects in 2019 primarily focused on our core growth assets in the Bakken, Powder River Basin and Delaware Basin. Finally, we expect maintenance capital spending in the range of $20 million to $25 million.

As we execute our 2019 plan, we will be very mindful of our balance sheet. As of December 31st, Crestwood had approximately $1.8 billion of debt outstanding, including $1.2 billion of fixed rate senior notes and $578 million in outstanding borrowings. This resulted in a leverage ratio of 4.25 times. In 2019, we expect our growth capital to be slightly front loaded as we target placing Bear Den II into service by the early third quarter. Once in-service we expect an immediate cash flow ramp as we begin to process 100% of Arrow's gas volumes. Given the timing of our capital spend and the subsequent cash flow ramp, it is possible that our leverage ratio temporarily sits above our targeted range in the third quarter but quickly adjusts in Q4 and in the first half of 2020.

As Bob discussed, our strategy over the past two years was to prioritize our excess cash flow to 1) invest in organic projects that offer sub-6x economics and 2) protect our leverage and coverage metrics. We have financed our growth projects with excess cash flow, revolver borrowings, joint-venture partners and opportunistic asset sales. As we complete the expansion of the Bear Den processing plant and the Bucking Horse and Jackalope systems, we will continue to prioritize our excess cash flow toward completing these projects and maintaining a strong balance sheet. As a result, all factors being equal, we would expect to maintain our distribution at the current annual level of $2.40 per unit, until we place these large-scale projects into service and we achieve our targeted sub-4x leverage ratio, which we expect will occur in 2020.

With that, I will now turn the call over to Heath to provide an update on our capital projects and business outlook.

Heath Deneke

Thanks Robert. I want to start by recognizing the great work that our commercial and operating teams performed in 2018 to deliver another strong year of financial & operating results, outstanding safety performance across our asset base, and solid execution of our 2018 and YTD 2019 capital programs in the Bakken & Delaware Permian. The company has built a lot of positive momentum coming into 2019 and we continue to remain laser focused on achieving our 2019 plans. Despite the industry headwinds that emerged in the 4Q-2018, we have continued to see resilience in our producer's development activity & plans across our core growth basins in 2019 and beyond. As we finalized our 2019 guidance that Robert shared with you in his remarks, we remained in very close communication with each of our customers to understand and reconfirm their development plans across our assets. As we sit today, we believe our guidance reflects our producer's activity levels taking into consideration both the current price outlook as well as the E&P sector's renewed focus on capital efficiency and returns focus vs production growth.

With that, let's jump to the Bakken where we are seeing tremendous producer activity that has led to RECORD volumes on our Arrow system. In January 2019, the Arrow system set record daily gathering volumes of 102,800 Bbls/d of crude oil, 77.7 MMcf/d of natural gas and 61,600 Bbls/d of produced water. During 2018, we connected 54 new wells to the Arrow system. With a majority of the gathering system debottlenecking projects now complete, we expect to connect approximately 30 new wells in the first quarter 2019 about half of which have already been completed to date and approximately 100 new three product wells by the end of 2019.

In 2019, Crestwood expects to invest capital in the Bakken to complete the Bear Den II processing plant which will expand Crestwood's total processing capacity to 150 MMcf/d. We are on-track for a third quarter 2019 in-service date, at which point, Crestwood will be able to process 100% of Arrow's gas gathering volumes. In the fourth quarter 2018, Crestwood entered into a new commercial agreement with Enerplus, an existing Arrow customer, to dedicate a substantial amount acreage surrounding our FBIR footprint to the Arrow system. As a result, we are further expanding the Arrow produced water gathering system by 30,000 BBls/d at a cost of approximately $60 million that will be spent across 2019 and 2020. We expect to connect over 50 water-only wells for Enerplus during 2019 and estimate a total inventory of ~300 wells that could be completed on the newly dedicated acreage. Based on current and projected water volumes the Enerplus Water expansion is expected to generate a 4x project build multiple. Based on Crestwood's 2019 financial guidance, the Company is forecasting the Arrow gathering and processing system to generate approximately $230 million of EBITDA in 2019, which is 40% above 2018 EBITDA.

Now let's turn to the Powder River Basin. The Powder River Basin has recently been highlighted as the best emerging growth opportunity in North America and producers are seeing initial production rates that are exceeding 3,000 barrels of oil equivalent per day from the Turner formation. Given the current outlook, we expect the Powder River Basin to be Crestwood's second largest growth driver in 2019 and 2020 due to strong producer economics, reservoir quality and strong forecasted volume growth in the basin by Chesapeake and notable offset producers. During the fourth quarter 2018, we completed the 145 MMcf/d Jackalope system expansion and immediately reached max capacities. Chesapeake Energy reiterated in its Jan 2019 operational update that it plans to maintain a 5 rig program targeting the prolific Turner formation throughout FY 2019 with an estimated 60 to 70 new wells brought on line by the end of the year. As a result, exit rate system volumes are expected to double by year-end 2019. Additionally, Jackalope recently entered into a long term gathering & processing dedication with Panther Energy, a Kayne Anderson back company. The new Panther agreement covers approximately 30,000 acres that will connect into the existing Jackalope gathering system with volumes ultimately being processed at the Bucking Horse II plant when complete.

2019 is a key execution year for Jackalope as we work to complete the expansion of the Bucking Horse processing plant and gas gathering system to bring total system capacities up to 345 MMcf/d. Jackalope will continue to prudently evaluate growth opportunities in the basin to gather and process offset producer volumes or provide crude gathering services that meet our disciplined investment criteria. Based on Crestwood's 2019 financial guidance, the Company is forecasting the Powder River Basin gathering and processing assets to generate approximately $31 million of recordable EBITDA in 2019, or 21% above 2018 recordable EBITDA. On an 8/8ths basis, the asset is expected to generate approximately $100 million of cash EBITDA in 2019.

In the Delaware Basin, during the fourth quarter 2018, the Willow Lake and Nautilus gathering assets averaged natural gas volumes of 182 MMcf/d, a 63% increase over the fourth quarter 2017. Currently, there are five active rigs operating on Crestwood's Delaware Basin gathering systems and we expect 70 to 80 new wells will be connected during 2019. Additionally, we expect to see a pickup in processing volumes at Orla in the second half of 2019 as the NGL volumes leaving the plant benefit from more favorable T&F pricing as our contract with Chevron Phillips Chemical ramps up in July.

In our S&T segment, our Stagecoach joint venture with Con Edison will see a 10% step-up in cash flow beginning in July 2019 and our COLT Hub facility expects to continue to see strong rail loading demand throughout 2019, which should drive 2019 EBITDA of $20 million.

In our MS&L segment, we expect our NGL and crude marketing teams to benefit from favorable market conditions through utilization of our extensive transportation and terminal assets. Over the past 12-months, we've continued to benefit from the increased integration and collaboration between our G&P and MS&L segments which has allowed Crestwood to capture additional value in our underlying assets base while providing our customers with a complementary suite of midstream services that enhances net backs and flow assurance in constrained markets.

Before we open the line for questions, I wanted to reiterate how pleased we are with Crestwood's positioning going into 2019. Our assets support some of the best customers in the industry and are underpinned by the most economic hydrocarbon resources to develop in North America. We have refreshed and re-verified all of our producer plans in each of our basins for 2019 and are making good progress on executing our remaining capital projects in the Bakken and Powder River Basin. I am very proud of the work our employees have done in 2018 and I look forward to another strong year of execution.

With that, operator, we are ready to open the line up for questions.