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EnLink Midstream LLC (ENLC)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to EnLink Midstream's First Quarter of 2020 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note that this call is being recorded today, Friday, May 8, 2020, at 9 A.M. Eastern Time.

I would now like to turn the meeting over to Kate Walsh, Vice President of Investor Relations and Tax. Please go ahead.

Kate Walsh

Vice President-Investor Relations & Tax, EnLink Midstream LLC

Thank you, and good morning, everyone. Welcome to EnLink's first quarter of 2020 earnings call. Participating on the call today are Barry Davis, Chairman and Chief Executive Officer; Ben Lamb, Executive Vice President and Chief Operating Officer; and Eric Batchelder, Executive Vice President and Chief Financial Officer. We issued our earnings release and presentation after the markets closed yesterday and those materials are on our website at www.enlink.com. A replay of today's call will also be made available on our website.

Today's discussion will include forward-looking statements, including expectations and predictions within the meaning of the federal securities laws. The forward-looking statements speak only as of the date of this call, and we undertake no obligation to update or revise. Actual results may differ materially from our projections, and a discussion of factors that could cause actual results to differ can be found in our press release, presentation and SEC filings.

This call also includes discussion pertaining to certain non-GAAP financial measures. Definitions of these measures as well as reconciliations of comparable GAAP measures are available in our press release and the appendix of our presentation. We encourage you to review the cautionary statements and other disclosures made in our press release and our SEC filings, including those under the heading Risk Factors.

We'll start the call today with a set of brief prepared remarks by Barry, Ben and Eric, and then leave the remainder of the call open for questions and answers.

With that, I would now like to turn the call over to Barry Davis.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Kate, and good morning, everyone. Thank you for joining us today to discuss our first quarter 2020 results. We will also discuss the operating environment around us and a revised outlook for our business for the remainder of the year. On behalf of EnLink, we hope you, your families and your colleagues are healthy as we all navigate the uncertainty surrounding life with COVID-19. I want to personally thank those on the frontlines, including medical personnel and first responders for all of the great work they are doing.

I would also like to thank all of EnLink's employees for their hard work and dedication in ensuring we deliver essential energy services safely and reliably. To date, EnLink has had no known cases of the virus among our employees and no business interruptions. We continue to take seriously our corporate responsibility to ensure compliance with government recommendations and are adhering to strict health and safety practices across our organization.

In the midst of a challenging environment, EnLink reported solid results for the first quarter. We achieved adjusted EBITDA of \$260 million, which includes a \$6 million expense related to severance as part of our workforce reduction, and we generated \$44 million of excess free cash flow.

As we look forward to the rest of 2020, everyone knows that the pandemic has caused tremendous demand destruction for energy products. The recent oil price collapse has spurred a very sharp pullback in crude oil production across the United States and that will have a material impact on the volumes across our systems and, in turn, the revenue that EnLink generates this year and likely next year.

The range of possible outcomes that could unfold for EnLink during 2020 is wide. As we progress forward through these uncharted waters towards a new normal state, it is impractical for us to provide clarity with regards to volume and segment profit expectations. Later, Ben will discuss a few of the cases that we've evaluated along with high-level impacts those cases could have on our segments.

What I can share is that we're currently seeing adjusted EBITDA being in the range of \$950 million to \$1.025 billion for the full year. Given the assumptions and scenarios that we have evaluated and knowing what we know today, this level of EBITDA coupled with capital expenditure and distribution reductions we have made to date would generate significant excess free cash flow in the range of \$260 million to \$280 million.

With our asset platform generating strong excess free cash flow, we have the ability to effectively manage our leverage and expect to be below our key financial covenant metric, which is 5.0 times debt-to-adjusted EBITDA as calculated by our credit facility. As we navigate through the days ahead, our execution plan has four priorities. Number one is to maintain financial strength. We took a number of decisive steps during the first quarter to

execute on this priority. We reduced our common unit distribution by 67%. We believe the distribution is at a sustainable level given what we know about our current operating environment.

We reduced our capital expenditures program by 40% as compared to our original budget and we'll be spending 66% less this year as compared to 2019. We'll continue to evaluate every dollar we're spending and could potentially reduce CapEx by an incremental \$50 million depending on producer activity. We took significant steps to drive out expenses in our business and expect to save \$100 million in operating and G&A expenses versus 2019 levels.

The combination of these actions results in EnLink retaining roughly \$600 million of cash during 2020 which we will use to ensure we have adequate liquidity to run our business and effectively manage leverage.

Our second priority is to drive organizational efficiency. Our teams are doing a phenomenal job of incorporating technology in new ways and streamlining our internal processes to adapt to the new business climate. The third priority for us is to optimize the profitability of our existing business. We are challenging how we run our business in every possible way and are turning over every stone to find incremental operational efficiencies and savings.

And the fourth priority for us is to position EnLink for the future. We have our eyes squarely on what lies ahead for EnLink as global economies recover and the new energy landscape comes into view. We will leverage our leading positions in key producing basins and in Louisiana Gulf Coast market. We are seeing an increased level of engagement on a number of low-cost, high return projects, primarily targeting efficiencies around our asset footprint and we continue to see compelling long-term opportunities in Louisiana.

This is a defining moment for energy companies and EnLink has successfully endured challenging economic cycles before. With the ongoing dedication of our employees and the diversity of our asset platform, we believe EnLink will effectively manage through this period, taking advantage of unique opportunities this operating environment offers and we will emerge stronger than ever.

With that, I'll turn it over to Ben to discuss the details of our operations.

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

Thanks, Barry, and good morning everyone. As Barry mentioned, EnLink had a solid first quarter. All four segments performed well with our Permian natural gas volumes increasing over 20% from this time last year, and our NGL volumes in Louisiana increasing by approximately 15% from this time last year.

As Barry also touched on, it is difficult to accurately predict how our operations will be impacted by the evolving market dynamics. We are in constant contact with our customers and have taken into consideration a range of volume assumptions related to the activity in order to develop a revised view of 2020. As I discuss our first quarter 2020 segment results, I'll also give color on how we are looking at each segment for the rest of the year.

In the Permian, we experienced strong natural gas volume growth year-over-year due to fairly consistent drilling and completion activity over the last 12 months on both the Delaware and Midland sides of the basin. Inversely, we experienced a decline in crude oil volumes gathered year-over-year as we are exiting the first-purchase business in the Permian and expect no longer to be in that business by the end of the second quarter. We are choosing to step away from crude first-purchase operations due to the sheer competitiveness of that line of business and the inability to earn the returns we can elsewhere.

Despite strong natural gas volumes during the first quarter of 2020, our Permian segment profit decreased 16% year-over-year. Net profit was negatively impacted by lower natural gas and NGL prices but was partially offset by approximately \$2.5 million of realized hedging gains that are reported in our corporate segment. Our Tiger plant becomes operational as planned during the second half of 2020. Our Tiger operations are underpinned by Exxon's Corral Canyon development and our customer has reaffirmed that the Corral Canyon plans have not changed as a result of the market environment.

That said, we expect to see significantly lower well connect activity in both the Delaware and Midland basins. Virtually all upstream companies in the basin have reduced or deferred activity in response to the market. Like many operators in the field, we expect the second quarter of 2020 to be the trough of the cycle. It's unknown what the pace of recovery will be and we anticipate producer drilling and completion schedules to be relatively fluid for a number of months to come.

Turning now to Louisiana, we had a strong quarter for NGL volumes through our system averaging slightly over 190,000 barrels a day, which is a record for us, and is 15% higher than this time last year. Average natural gas gathering and transportation volumes held up well through the quarter and were roughly flat compared to the first quarter of 2019.

Average natural gas processing volume for the quarter were significantly lower year-over-year as a significant part of our processing operation in Louisiana is opportunistic in nature and dependent on commodity prices to incentivize processing. Attractive economics for processing the fairly lean gas we see in Louisiana were not present during the first quarter compared to this time last year.

Our operations in the Ohio River Valley had a good quarter, with volumes increasing 16% year-over-year. Although volumes for the most part were strong in the first quarter of 2020, segment profit for Louisiana declined by approximately 5% year-over-year. Financial results were pressured in particular by NGL mark-to-market impacts but were partially offset by approximately \$3 million of realized hedging gains reported in our corporate segment.

We anticipate a reduction in NGL equity barrels flowing from our Permian and Oklahoma operations for the rest of 2020 and we are focused on optimizing the value created by our fractionation assets in a variety of volume scenarios. We expect our activities in the Ohio River Valley to be significantly impacted by the reduction in refinery runs happening in that area. As a result of those market dynamics, we booked \$168 million non-cash asset impairment related to our ORV assets during the first quarter of 2020.

In the gas business, our Venture Global Project is on track and we expect to be ready to provide service to Venture Global's Calcasieu Pass LNG facility by the end of this year. All in all, we expect Louisiana activity to be lower and we'll have further clarity in the coming months as to the related financial impact.

Turning now to Oklahoma, we experienced slightly lower natural gas gathering volumes year-over-year, and processing volumes year-over-year were down by about 6%. Crude volumes experienced a strong 25% increase year-over-year but we've seen rig activity drop off our crude footprint and we are forecasting declining volumes throughout the rest of 2020.

Segment profit for Oklahoma decreased 6% year-over-year, which was primarily driven by a reduction in natural gas volumes. When we step back and look at 2020, we expect producer activity to be very limited for the remainder of the year. We have cash flow support to insulate some of the volume decline with minimum volume deficiency payments expected in the range of \$60 million to \$65 million. Also, Devon mentioned on their earnings

call that they expect their joint venture with Dow will defer drilling activity, which defers any activity for us as well. We're not expecting any cash flow to result during 2020 from this JV in our original guidance.

Wrapping up with North Texas, we experienced year-over-year natural gas volume declines in the 4% to 6% range as expected. In comparison, segment profit year-over-year was down by approximately 2%, as the team continues to do an outstanding job focusing on operational efficiencies and cost control.

As we think about the rest of 2020 for North Texas, we don't expect any drilling activity, but we may also see mild volume impacts as producers defer investments like work-overs in the current price environment. We also know that Devon's sale of BKV has been delayed to the end of the year but Devon continues to expect that deal will close in the fourth quarter of 2020.

With that, I'll pass it on to Eric to discuss our financial update.

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

Thank you, Ben, and good morning, everyone. As Barry and Ben have both mentioned, EnLink delivered a solid first quarter of 2020, achieving \$260 million of adjusted EBITDA which includes approximately \$6 million of severance costs associated with a reduction in our workforce. EnLink also achieved \$44 million of excess free cash flow which we define as distributable cash flow, less growth capital expenditures net to EnLink and distributions to our common unitholders.

Adjusted EBITDA for the first quarter of 2020 declined slightly by 3% from the same period last year, primarily due to three key factors. First, lower natural gas and NGL prices impacted segment profit in the Permian and Louisiana segments. Second, we experienced lower volumes in Oklahoma due to reduced producer activity and deferral of well completions; and third, the severance costs previously mentioned.

Debt-to-adjusted EBITDA for the first quarter of 2020 was 4.6x as calculated by our credit facility. However, it is important to note that we exited the quarter with \$195 million of cash net to EnLink on our balance sheet. When accounting for this cash on hand, debt-to-adjusted EBITDA is 4.4x for the first quarter of 2020.

It is a top priority for EnLink to manage leverage and preserve liquidity, especially in this environment. As Barry mentioned, we have taken significant steps over the course of the last four months to preserve roughly \$600 million during 2020 to ensure we maintain a strong balance sheet that will allow us to sustainably run our business.

First, we have reduced our common unit distribution by 67%. Second, we have reduced our total capital expenditures by 66% as compared to 2019 and have the ability to further reduce capital by up to \$50 million depending on producer activity levels. And third, we have reduced operating expenses as well as general and administrative expenses by approximately \$100 million or 10% of adjusted EBITDA as compared to 2019 through significantly cutting costs at every level of the company.

These \$100 million of costs are comprised of approximately \$50 million in cost savings announced in November, which were a component of the \$75 million of initiatives to increase adjusted EBITDA plus an additional \$50 million of cost savings that we have identified in the first quarter of 2020. We have made these difficult decisions to ensure that we manage our leverage below our bank covenant of 5.0x even if the operating environment worsens and the pace of economic recovery is slower than anticipated.

Taking a closer look at our total capital expenditures, our current outlook for 2020 inclusive of both growth and maintenance capital is a range of \$190 million to \$250 million. As Ben noted, we expect to spend roughly \$60 million this year to complete our Tiger natural gas processing plant in the Delaware Basin, which is expected to be operational in the second half of the year.

In Louisiana, we expect to spend roughly \$20 million on our Venture Global Project to tie our Bridgeline system into their Calcasieu Pass LNG facility, which is currently under construction. We expect to spend approximately \$30 million on maintenance activities this year across our platform. Most of the remaining capital is projected to be spent on well connections and gathering infrastructure. For the first quarter of 2020, we invested approximately \$90 million in the projects I just mentioned and expect our capital spending to step down each quarter for the rest of the year.

I'll now spend a minute addressing the strong credit quality of our customers and the fee-based nature of our business. 90% of our first quarter 2020 revenues were generated by counterparties with investment-grade ratings or parties who have provided security to us. Our top 10 counterparties represent 66% of our first quarter 2020 revenues and 90% of those customers have investment-grade credit ratings, with the remaining 10% having provided security to us. Finally, we have limited direct commodity price exposure as approximately 90% of our business is under fee-based contracts.

Next, I will discuss our view on liability management. Our debt horizon is favorable in that we do not have any near or medium-term senior note maturities and approximately 35% of our senior notes mature in 20 years or beyond. Our next debt maturity is our \$850 million term loan which is due in December of 2021. We will continue to evaluate several options to refinance this loan.

As a backstop, we expect to have sufficient financial flexibility under our revolving credit agreement to repay the term loan in its entirety which would have no impact to our leverage position. We remain diligently focused on our financial strength which includes maintaining our strong balance sheet with adequate liquidity to sustainably operate our business, and being disciplined with respect to our allocation of capital to the highest return opportunities.

With that, I'll turn the call back to Barry for closing remarks.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thanks, Eric. Yesterday, we also published our 2019 sustainability report which we expanded to provide more data, transparency and accountability. EnLink has been a sustainable company from day one as our core values have always ensured our commitment to providing safe, responsible and ethical operations that respect the environment, support employees and communities and deliver value for unitholders. I am pleased to share our 2019 report with you which sets the stage for future sustainability momentum that we believe is supportive of our overall business success.

Before we open up the call for Q&A, I want to again thank our entire EnLink team for the hard work, innovation and endurance they have shown through this extraordinary time. We've continued to safely provide great services to our customers while making tough decisions and working long hours to accomplish what feels like a year's worth of work in only a few short months. To every stakeholder of EnLink, from employees to customers, from unitholders to bondholders, thank you.

With that, you may now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Shneur Gershuni with UBS. Please go ahead.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Q

Hi. Good morning, everyone. Maybe – good morning. Maybe to start off a little bit, you talked about the \$50 million of flexibility in your CapEx budget currently right now, I guess my question here is that as it stands today you would think in the current environment you'd want to be as free cash flow as – as highly free cash flow positive as possible. What are the odds that this actually gets spent as you speak to the current producers?

And then, in thinking about that, assuming it does not get spent and everybody runs at maintenance capital as far as the eye can see from a producer perspective, what does it do to your decline rate for your asset footprint? What is the decline rate in 2021 if you've not invested any incremental capital at this point right now, or your producers haven't rather?

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Hey, Shneur. It's Ben. I'll start and others may want to expand. The \$50 million of additional CapEx flexibility that is substantially all well connect and compression capital. And so the question as to whether we'll spend it or not will be entirely driven by producer activity levels. So that's what we'll be looking to there. In terms of how does that read through to volumes, I'm going to stay away from getting into what 2021 is going to look like, but obviously the less producer activity we see the less capital we spend, equally, the less volume that we'll see. We've talked – I know there's been interest in our Oklahoma volumes, we talked at the end of last year about some volumetric scenarios including an extreme case where we saw no activity in Oklahoma in 2020 and we said that, that would result in a high-teens volumetric decline. Our view on that hasn't changed. So that gives you a sense in Oklahoma.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah. Shneur, this is Barry. Let me just add that part of that \$50 million will be the management of our ongoing capital projects and the things that we can continue to do to actually deliver those projects at less cost or under cost that we're currently projecting. And there's a real opportunity for that in this environment. We're seeing costs come down. We're working extremely hard with our vendors and our teams are doing a great job with that. So, we'll continue to do that going forward and hopefully, it not only speaks to the activity level, but also the way that we can deliver things at lower cost than we could have yesterday.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Q

Yeah. Appreciate the color guys, and I guess the – my point of the question was that we are at that extreme scenario right now unfortunately, and I assume that a lot of the flexibility was related to well connects which is – which was kind of the question. Maybe you can share with us the decline rates for the Permian as well too under what seemed like an extreme scenario a year ago, but is becoming a reality today.

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Shneur, I don't really have something I can share with you on that. I can point you back to what we talked about in Oklahoma that given all the uncertainty we're facing today, I can't go further on Permian volumes.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Okay. Fair enough. Maybe on the...

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

One last thing Shneur, I want to go back to your comment on the maintenance capital. Let me assure you and all of our stakeholders that we're doing what needs to be done from a maintenance capital standpoint to preserve the systems, to maintain the integrity of all of our facilities. That being said, in an environment like this, there are certain things that we can defer because we're just not seeing as – running the equipment as hard, et cetera. So again, we have taken some of the cost out on what you would characterize as maintenance capital and we'll continue to work extremely hard on that as we look to every possible way to preserve cash and to manage our balance sheet and liquidity going forward.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Okay. Great. And maybe on the flipside here, I mean natural gas has been rallying and so forth, are you seeing any activity in your dry gas exposure at all or at least some conversations?

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. Sure. Let me start that and I'll say that we're – maybe for the first time in some time, we feel really good about the concentration that we have in the more gassy areas. And certainly, as we look out at the strip pricing (00:25:55) going forward, there is something to be optimistic about with gas prices above \$3 when you get into the winter – the coming winter 2021. We also are – when we look at the supply/demand scenario for natural gas versus crude oil, what we see is less dramatic impact on the gas side and in fact a quick recovery. We think we'll get back to something that looks like a normalized 2019 kind of demand and we are going to expect to see some supply declines on the gas side with associated production – with associated gas production with crude oil. So we're optimistic about the gas supply/demand scenario and what that could mean for our North Texas and Oklahoma, as well as our markets in Louisiana.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Okay. And maybe one final question, Eric, you brought up the 2021 term loan and the options you're looking at. You also bought back a little bit of debt during the quarter but not really that much. Just trying to understand kind of what the strategy is right now. Do you have to deal with the 2021 and that keeps you out of the market for buying debt because your debt trading fairly discounted at this point right now? Just trying to understand the options that you're thinking about and how you're weighing kind of dealing with liquidity versus the fact that you can pretty much pick off a lot of your debt in the low teens in terms of the yield-to-worst right now.

Eric D. Batchelder*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yes. Shneur, thanks. It's a great question and obviously you've hit on kind of all the levers that we're thinking about and things that we're managing. But if you look at the pace of our CapEx and the free cash flow generation of the business, we're wrapping up the Tiger program spend and so the cash flow for the first part of the year, the first quarter, was about \$44 million and we were able to take advantage of some of the market conditions at the time and repurpose a small amount of debt.

As we generate more cash flow throughout the year, we'll be evaluating all the opportunities to use that and allocate that to highest return while managing liquidity. I think when we think about the two pieces of the balance sheet that are most important right now, it's certainly leverage and liquidity. And the steps that we've taken to create a significant amount of cash in the next three quarters will help us manage all of that and some of that may include opportunistic debt repurchases and also just managing through the cycle in a way that we can continue to run the business.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Have you done any debt purchases since the quarter ended?

Eric D. Batchelder*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

We have done a little bit, yes.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Perfect. Thank you very much, guys. Appreciate the color today. Stay safe and have a great weekend.

Eric D. Batchelder*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

You do the same, Shneur. Thank you.

Operator: Our next question comes from Colton Bean with Tudor. Please go ahead.

Colton Bean*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Good morning. So on the \$100 million of expected full year cost savings, can you just update us on where you are in the process today, maybe to what degree Q1 saw benefits from reductions thus far?

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. Colton, this is Barry. Let me start that and basically acknowledge again the great work that we've done. When you look at our cost structure across the company, we've taken about 20% of the total cost from operating expense and G&A. On an overhead basis, it's even greater than that. When you look at that as a percentage of EBITDA, we've taken approximately 10% of our EBITDA and added that back as cost reduction.

So terrific work. Painful work, but we've done what we need to do. We think that we've seen the benefit of that, much of that in the first quarter and so as you think about the run rate going forward it will increase slightly as far as the net effect of that through the second quarter and forward, but certainly we got a lot of it out in the first quarter. And you can see that in the financials in the OpEx and the G&A.

Colton Bean*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Got it. And then, I understand the difficulty here but with the Dow and Devon JV being deferred and the MVC set to expire at the end of the year, any preliminary thoughts on the Oklahoma earning trajectory next year?

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Colton, it's Ben. We're going to stay away from getting into 2020 guidance, other than to acknowledge that we pegged the MVC between \$60 million and \$65 million. And we – just to remind everyone, we never expected a contribution in 2020 from the Devon-Dow JV. So, no change in this year.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

This is – the only thing I'd take it up a little bit and just say that I think Devon and Dow both would be optimistic about the potential for that joint venture seeing the additional strength, even since the time that they signed that, when you look at longer-term gas prices I don't see any lack of conviction on their part to do this in time.

Colton Bean*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Understood. And just a final one, it sounds like the updated guidance assumes a pretty sharp drop in ORV activity. Historically, I think that business was tied to Antero and they said that they had not have to shut-in to date. So the assumed drop, is that associated more with base declines or are you guys assuming a degree of curtailment there as well?

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Colton, it's Ben. So Antero is certainly a piece of it but by no means the majority. So in that business we have gas compression customers Antero and one other, we have condensate stabilization, again, Antero and one other. We have the pipeline, we have the first-purchase business, we have a terminal business on the river and the simple fact is, we make money as product moves in that basin. And given that a fairly small refining market that has been hit harder by run cuts faster than most others, we expect to see less product moving in that area. Having said that, it's only about \$10 million of segment profit [a quarter], so it's a small business for us. But I would say of all of our businesses, it was the one that felt the impact of the market conditions the fastest.

Colton Bean*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Great. I'll leave it there. Thanks.

Operator: Our next question comes from T.J. Schultz with RBC Capital Markets. Please go ahead.

T.J. Schultz*Analyst, RBC Capital Markets LLC*

Q

Hey. Good morning. Just first, what level of curtailments and shut-ins and for what duration are you assuming in the low end and high end of your new EBITDA guidance range?

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Hey, T.J. I'm not going to talk necessarily about the both ends, but what I would say is within the range that we've provided, we've allowed for something greater than what we are seeing today. So if I were to go around the [ph] the horn (00:32:55) and say what are we seeing today, in Oklahoma we're seeing a curtailment that approaches 10% on a volume basis. In West Texas on the gas systems we've been fairly fortunate, we had not seen a 10% curtailment in field gas, it's more like 5%.

We've seen some additional curtailment though in West Texas from our midstream on-load customers as opposed to wellhead gas which is just a secondary impact because they see less volumes, they want to send us less. And we've seen a bit more pronounced impact on the Chickadee system, crude gathering systems, it's more like in the 20% to 30% range. We could see a curtailment of that scale continue for a number of months and still be within the range. So we feel like the range incorporates an appropriate level of conservatism given everything that we know today.

T.J. Schultz*Analyst, RBC Capital Markets LLC*

Q

Okay. And then lower equity NGL barrels flowing into the fracs, you mentioned ways to optimize your capacity. Just what are some of the options available or that you are considering? Thanks.

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. T.J., so as we've said for a while now I'll remind folks that we are not entirely dependent upon equity barrels for NGL supply. So we have a portfolio of supply both our plants in Oklahoma and the Permian and even to some extent in North Texas and third party supply which is a variety of customers. At the same time, downstream, we have a range of frac options.

So we have the fracs that we own, wholly own in Louisiana, we have our 50,000 barrels of space in Gulf Coast Fractionators, that's a joint venture, we also have a couple of term fractionation deals with other midstream companies. So what we do on a month-to-month and, really now, a day-to-day basis, is we assess where do we make the most money by sending those barrels.

In general, sending the barrels to Louisiana and keeping Louisiana fracs relatively full that's usually the answer, not always. But what we will do every month, every day is make sure that we have the right recipe for maximizing margin on the day and that may mean taking our third party frac deals to contractual minimums. It may mean preferring Louisiana over GCF. It will be dictated to some extent by the strength of the purity markets and they're relative in the different geographies.

T.J. Schultz*Analyst, RBC Capital Markets LLC*

Q

Okay. Got it. Thanks. Just lastly, a follow-up on some of the discussion around the optimism on the gas side. Just generally, has that materialized through to anymore kind of recent discussions with customers in the STACK and do you have any expectation that the Dow JV would spud this year? Thanks.

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah, T.J. It's Ben. I don't think the Dow JV will spud this year because I think that Devon, like every other upstream company in the space, is really focused on managing capital and liquidity through 2020, so I don't expect to see that. More broadly though, I agree with Barry that I think commodity price environment as you look out in time a bit is more supportive today of that kind of activity than it was, frankly, than it was pre-crisis. And I think that there are other companies in the STACK, if they consider their opportunity set in the STACK versus their opportunity set in perhaps oilier basins, I do believe that people are considering what the future – a range of scenarios for what future commodity prices could hold and what that might mean for activity, in some cases it could mean some activity coming back to the STACK.

T.J. Schultz*Analyst, RBC Capital Markets LLC*

Q

Perfect. Thank you

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Thank you, T.J.

Operator: [Operator Instructions] Our next question comes from Gabe Moreen with Mizuho. Please go ahead.

Gabriel Moreen*Analyst, Mizuho Securities USA LLC*

Q

Hi. Good morning, everyone. Twofold question on the Permian, one, in terms of the crude gathering exit, can you just remind us in terms of what the expected impact is on profitability? Will that start showing up maybe in the back half of the year in terms of any additional margin? And is there also any working capital benefit there? And I'm just curious in terms of the Tiger plant just what the expected utilization there. Are there wells behind that plant waiting to be completed, kind of waiting on that plant at this point? So I'm just curious what the outlook is for utilization upfront.

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Hey, Gabe. It's Ben. So, on the Permian, we've already seen the impact in profitability from our pending exit of the first-purchase business. It's gotten so competitive in this environment that it got to the point we really weren't making money. And so when you look at the segment profit for crude, you've already had that impact. I'd also go ahead and take the opportunity to point out that when you look at the sequential segment profit in Permian crude, in addition to that impact, there's also a \$1 million to \$2 million risk management transaction where we realized the negative side of it in the first quarter but we'll realize the positive side of it in Q2. So it's a bit artificially depressed in Permian crude.

Over on the Tiger plant, we don't have wells waiting on the plant, what we have is a customer with an active drilling program running four rigs today on our dedicated acreage and we've received assurances from that

customer that they don't have any intention to change their plans this year or next year on that dedicated acreage and so that's why we have the confidence to continue going forward with the plant.

Gabriel Moreen

Analyst, Mizuho Securities USA LLC

Q

Thanks, Ben. And then if I could ask a follow-up question on some of the elective processing in Louisiana on those straddle plants - ethane has obviously been bouncing around a lot here and it seems like there is a viewpoint that additional ethane barrels could be extracted going forward here. Can you just talk about that and your Louisiana plants and whether anything is embedded in your guidance for that?

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Yeah.

Gabriel Moreen

Analyst, Mizuho Securities USA LLC

Q

And how about the margin offside potential there, too? Sorry.

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Yeah. Gabe, I would say there is not much embedded there on Louisiana processing. Today, you're right, live on the 8th of May ethane is \$0.20 or \$0.21 where at the end of last month it was \$0.11 or \$0.12 and so the economics for processing have improved. And so as the year goes on, we may see some benefit from that, but we – certainly, in developing our outlook, we're not counting on that to happen.

Gabriel Moreen

Analyst, Mizuho Securities USA LLC

Q

Thanks, Ben.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Thanks, Gabe.

Operator: Our next question comes from Jeremy Tonet with JPMorgan. Please go ahead.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Good morning.

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Good morning.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Thanks. Just wanted to start off with the corporate segment, the \$19 million there was a bit higher than what we were expecting and what we've seen in recent quarters. And so, I was just wondering if there's kind of hedge gains going through there or what was happening in that segment exactly?

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Let me start, Jeremy, and then Eric may want to expand on it. You're right. We recognized realized hedges in the corporate segment. And so if you look at page 11 of the quarterly report and you look at the segments, I think I can help you understand the trajectory of some of that and the way it rolls through corporate.

So, one place I'm going to point you to is Permian gas where you see a quarter-over-quarter 1Q 2020 over 4Q 2019, a slight decline in segment profit. That is driven by our exposure to POP contracts and the fact that we have weak NGL prices in the quarter. There is a \$2.5 million realized hedge sitting in that corporate segment that you're talking about that offsets a portion of that. So if you were to add that \$2.5 million back to the 1Q 2020 Permian gas segment profit, it's in line with 4Q 2019 and that's just telling you that the volumetric increase we saw was offset by the unhedged portion of the commodity exposure.

Second thing I point you to is in Louisiana NGL, we had an \$8 million non-cash mark-to-market, negative mark-to-market on NGL inventory that is embedded in that \$49.1 million segment profit and that was driven by the very rapid decline in NGL prices. So just as an example, natural gasoline at the end of 2019 was at \$1.24, when we mark-to-market for the quarter, it was at \$0.36.

Now there is some inventory hedging that we do against that and there's a \$3 million to \$4 million realized derivative again sitting over in corporate that offsets a piece of that but you don't see it here in the segment analysis.

Eric D. Batchelder*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. Nothing to add. I think Ben hit it – that realized activity that's for accounting purposes goes through corporate.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Got it. That's helpful. Thanks. And I think the curtailment question has been asked couple different ways but I'm not sure if you guys kind of talked about what level of duration of curtailments was kind of baked into the guide the lower end or the upper end or what you could say there?

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. I would describe it as we can see a level of curtailments similar to what we're seeing today which we believe will be the trough, recognizing there's plenty of uncertainty in the world, we believe this will be the trough. We could see this level of curtailment continue for a few months and still be within the range so we feel like the range is appropriately conservative.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Got it. That makes sense. And just a theoretical question here I guess, I was looking at the stock comp expense and the \$9 million there and just thinking, at these share price levels versus where it's been before kind of the dilution ticks up a bit more. Just wondering if there's any thought of changing that to cash or anything else on that just given level of dilution with the current unit price. Thanks.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. Jeremy, this is Barry. I think you're hitting on something that's important for – maybe to take up the opportunity to point out, and that is the exposure that we as a team, and I think it's across the entire team of EnLink, is very much compensated with stock-based comp, and for our executive team, roughly 80% of our compensation is tied to performance of the business and the majority of that being in the form of stock-based compensation. So we think it's been appropriate for the past and we'll continue to look at it. But that really speaks to the issue that you're pointing out.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Okay. Just maybe a follow up there, what were the key metrics it's tied to because it looks like it's remained relatively unchanged over the past several quarters here.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. The metrics that we use are first of all relative stock performance, relative TSR for our long-term incentive and also distributable cash flow per unit. And we effectively have targets for distributable cash flow per unit that are tied into the LTI. On the short-term incentive, it is also a distributable cash flow per unit and an EBITDA performance. And so and then there are also various metrics throughout our operations that we have tied into the short-term incentive. So you should see fluctuations. Unfortunately, the way we accrue that in the stock-based comp is a little bit more consistent than what we're actually seeing in terms of the value that is accruing to the employees because the accrual is based on the original grant value.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Got it. That's it for me. Thank you.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Thank you Jeremy.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Barry Davis for any closing remarks.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

Thank you, Sarah, for facilitating the call this morning, and thank you everyone for being on the call today and for your participation. As always, we appreciate your continued interest and investment in EnLink and we look forward to updating you with our second quarter results in August. We wish you all well, and stay healthy. Have a great day.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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