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# EnLink Midstream LLC (ENLC)

Q3 2021 Earnings Call

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**Barry E. Davis**

*Chairman & Chief Executive Officer, EnLink Midstream LLC*

**Benjamin D. Lamb**

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**Pablo G. Mercado**

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## OTHER PARTICIPANTS

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**Christopher Jeffrey**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to EnLink Midstream's Third Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Brian Brungardt, Director of Investor Relations. Please go ahead.

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**Brian Brungardt**

*Investor Relations Director, EnLink Midstream LLC*

Thank you and good morning, everyone. Welcome to EnLink's third quarter of 2021 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 Pablo Mercado, 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. A replay of today's call will also be made available on our website at [www.EnLink.com](http://www.EnLink.com).

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 discussions pertaining to certain non-GAAP financial measures. Definitions of these measures as well as reconciliation 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 today's call with a set of brief prepared remarks by Barry, Ben and Pablo 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.

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**Barry E. Davis**

*Chairman & Chief Executive Officer, EnLink Midstream LLC*

Thank you, Brian, and good morning, everyone. Thank you for joining us today to discuss our third quarter 2021 results. On the call today, we will discuss our strong financial results, the improving operating environment and EnLink's active role in the energy transition that is transforming our industry and positioning companies like EnLink for a sustainable future.

As I sit here today, I'm inspired by the people at EnLink and what we have achieved over the past 18 months or so since the pandemic changed the world. The EnLink team knows what it takes to show up, fire on all cylinders and execute with excellence, and I believe it's our focus that has empowered EnLink to navigate this season to where we are today. We are strongly positioned to achieve our vision to become the future of midstream by leading in innovation and creating sustainable value.

We entered 2021 with a focus on improving our financial flexibility. In addition to that focus, the significantly improved commodity price environment has allowed us to accelerate those plans and make meaningful progress on our company's execution plan. With this backdrop, I will now discuss four key focus areas that are helping us achieve our vision.

The first is our relentless focus on operational excellence. By implementing technology, process improvements and innovations, we have transformed the way we operate and created a lower and sustainable cost structure. We have an intense companywide focus on improvement and innovation. Every single employee has been empowered to look at how they do things and think how can this be better; we call this the EnLink Way. And while there are more examples than we have time for on this call, a few recent ones include: utilizing technology to debottleneck our purity product pipelines to accommodate incremental volumes, leveraging real-time data and expertise from a cross functional team to optimize plant recoveries; and implementing robotic process automation to save hours and hours of spreadsheet manipulation giving us valuable time to think and make improvements. These are just a few examples of projects that are driving current results higher and creating real long-term value while reducing inefficiencies and transforming our business.

The second is taking full advantage of EnLink's large scale positions in key basins, which strategically provide us with scale and access to strong customers and demand markets. In the Permian, we are well aligned with solid operators, and we're growing with them through capital efficient, high return projects like Project War Horse and now Project Phantom. In Louisiana, we have over 4,000 miles of pipeline in the ground connecting to that diversified and growing demand markets. This positions us well to unlock additional growth through attractive downstream projects we working on, which are similar to our Venture Global project last year.

In addition, our unique position along the Mississippi River corridor gives us the capability to utilize existing pipelines for CO2 transportation in one of the highest emitting areas in the United States, while meeting existing

commercial arrangements, continuing the services we provide today. And lastly, our substantial positions in Oklahoma and North Texas, which are generating significant cash flow, are well-positioned to benefit from increased activity given the strength in natural gas and NGL prices.

The third area is our active role in the energy transition. EnLink is committed to seeking out innovative projects that create value for our unitholders, while reducing the impact of carbon emissions. Earlier this year, we set a meaningful path to net zero by 2050. And yesterday, we announced a 15-year agreement to sell 100,000 metric tonnes per year of CO2 emitted from our Bridgeport plant to be purified for use in food, beverage and similar applications. This agreement advances us down our decarbonization path while making a modest profit.

Our Carbon Solutions Group continues to build our vision for providing customers a complete capture, transportation and sequestration offering, and we continue to make solid progress on opportunities with potential customers. Our unique ability to utilize existing pipeline in the ground to transport CO2 to potential sequestration locations nearby allow us to offer a cost-efficient transportation solution for all parties involved, and of equal importance, significantly reduce the environmental impact when compared to new pipeline construction in environmentally sensitive areas. We remain very excited about the prospects for this new business opportunity and we'll continue to provide updates as the team executes on our vision.

And lastly, the financial discipline that has enabled us to have best-in-class free cash flow yield while growing the business. Entering this year, our initial guidance implied flat adjusted EBITDA year-over-year at the midpoint of the range, excluding the impact of the expiring MVC. We then increased guidance by approximately 7% at the midpoint in June, and now we expect to end the year in the upper end of the new range of \$1.02 billion to \$1.06 billion delivering growth over 2020. We also entered this year forecasting leverage to be 4.3 times at the midpoint of our guidance, while today we are within arm's reach of our near-term leverage goal of under 4 times, which will enable us to take a more balanced approach to our use of free cash flow.

Moving to our third quarter results, we exceeded our internal forecast, excluding the modest impact of Hurricane Ida and achieved adjusted EBITDA of \$256 million in the third quarter of 2021. The robust EBITDA, coupled with our capital-light approach, allowed us to continue to generate free cash flow after distributions of \$81 million for the quarter. Importantly, the solid results were not only driven by continued focus on efficiencies and cost containment, but also by throughput volume momentum across our operating systems. Producers have only recently begun to take advantage of the more supportive commodity price environment, and we view the recent commodity strength as a game changer for operations in 2022 and beyond.

The clear takeaway for our investors should be that there is a modest uplift in activity for the remainder of 2021, and we anticipate meaningful upside potential in 2022 and beyond. In summary, our business showed solid results during the third quarter and our outlook continues to improve.

With that, I'll turn it over to Ben to discuss our operational update.

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## Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Thanks, Barry, and good morning, everyone. I'll start with the Permian segment, which continues to see robust activity and generated \$69.1 million in segment profit. Segment profit in the quarter included approximately \$9 million of operating expenses related to Project War Horse and unrealized derivative gain of approximately \$10 million. Excluding War Horse OpEx and unrealized derivative activity, segment profit in the third quarter of 2021 grew an impressive 9% sequentially and 47% over the prior-year quarter. The third quarter of 2021 also marked the fifth consecutive quarter of positive segment cash flow, with \$43.3 million being generated.

Average natural gas gathering volumes were 8% higher compared to the second quarter of 2021 and increased by approximately 20% compared to the third quarter of 2020. Average natural gas processing volumes for the third quarter were 11% higher compared to the second quarter of 2021 and increased by approximately 14% over the prior-year quarter.

Project War Horse came online as expected during the quarter, and the follow-on 15 million cubic feet per day plant expansion project remains on pace to be completed during the fourth quarter, bringing total plant capacity to 95 million cubic feet per day. Last night, we announced our second plant relocation with Project Phantom, which will move our underutilized Thunderbird Plant from Oklahoma to the Midland Basin. The relocation will add 200 million cubic feet per day of processing capacity at about half the cost of a newbuild plant and is expected to be online in the fourth quarter of 2022. Shifting to the Delaware, we continue to see activity picking up as expected and plan to start the Tiger plant in early 2022.

Turning now to Louisiana, where the second quarters and third quarters are seasonally lower, segment profit for the third quarter of 2021 came in at \$63.7 million. Segment profit included unrealized derivative losses of approximately \$9 million and an estimated negative impact from Hurricane Ida of approximately \$4 million. Excluding the impact of unrealized derivative activity and Hurricane Ida, segment profit in the third quarter of 2021 was approximately flat relative to the second quarter of 2021.

In addition, Louisiana continues to generate very strong cash flow with \$63.3 million reported in the third quarter of 2021, and we continue to forecast strong cash flow for the remainder of the year. I'd like to take a moment to thank everyone involved in our Louisiana operations for their dedicated efforts in responding to Hurricane Ida. Thankfully, all of our employees and their families were safe and we incurred no significant damage to our assets.

Moving to Oklahoma, where we saw momentum pick up during the quarter as customers increased drilling activity, segment profit for the third quarter of 2021 came in at \$87.1 million. This compares to \$85.6 million reported in the second quarter of 2021. Oklahoma also continued to show significant segment cash flow of \$76.8 million in the quarter. The Devon-Dow JV continues to progress as planned with its two-rig program for 2021. The first volumes began to flow during the third quarter, but will be more significant in the fourth quarter ending 2022.

Consistent with our last call, we continue to see our customers, particularly private operators, be more active as they look to take advantage of the improved commodity price backdrop. There is a time lag between this drilling activity and the time that the well start to flow through our systems. We anticipate that approximately half of all the wells that will come online in Oklahoma this year will come on during the fourth quarter, giving us great momentum going into 2022. With this improved outlook for Oklahoma activity, we now expect 2022 volumes to be approximately flat to 2021 volumes.

Wrapping up in North Texas, segment profit for the quarter was \$60 million, which was slightly above the \$57.9 million reported for the second quarter of 2021. Gathering and processing volumes for the third quarter of 2021 were approximately flat from the prior quarter. With the improved commodity price backdrop, we expect to see our customers continue to focus on re-stimulation and recompletion activities and we also expect to see a modest level of new drilling in 2022. This activity will help to moderate the decline rate on our system in this mature basin.

To elaborate on Barry's comments, we announced last night the advancement of our carbon emission reductions goals with the Bridgeport CO2 project. We recently entered into a 15-year agreement to capture CO2 from our Bridgeport facility and sell it on a firm basis to Continental Carbonic Products. The captured CO2 will be purified for use in food, beverage and similar applications. We will capture and sell approximately 100,000 metric tonnes

of CO2 per year, taking a significant step on our way to our 2030 target to achieve a 30% reduction in total CO2 equivalent emissions intensity. This project is expected to be online in early 2024.

With that, I'll pass it over to Pablo to discuss our financial results.

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**Pablo G. Mercado**

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Thank you, Ben, and good morning, everyone. I'll start with the third quarter highlights. As Barry mentioned, EnLink delivered a solid third quarter which exceeded our internal forecast, excluding the approximately \$4 million impact of Hurricane Ida. EnLink achieved \$256 million of adjusted EBITDA and \$81 million of free cash flow after distributions with all four of our asset segments once again delivering positive cash contributions. Excluding the impact of the MVC that rolled off at the end of last year, adjusted EBITDA increased almost 4% from the third quarter of 2020. Also, although there's always volatility in quarterly cash flows due to the timing of capital expenditures, EnLink continues to deliver solid free cash flow after distributions with approximately \$340 million reported over the last 12 months. Given the positive industry backdrop and the seasonal strength of our Louisiana business in the winter months, we continue to be on pace to end 2021 in the upper end of the adjusted EBITDA guidance range that we increased in June to \$1.02 billion to \$1.06 billion.

Now, with respect to cost, last quarter we discussed some inflationary pressures that we continue to manage with the work our team is doing on the efficiency front. Despite being in the modest growth and inflationary environment, our operating and general and administrative expenses in the first nine months of 2021 were approximately flat from the same period in 2020 after adjusting for Project War Horse and the noise from Winter Storm Uri. Additionally, to the extent we continue to see sustained inflationary pressures, the overwhelming majority of our G&P contracts include annual market-based inflation adjusters providing an additional buffer.

On the capital expenditures front, our team continues to do a great job with our capital-light high returns approach. Ben mentioned our announcement of Project Phantom, now our second plant relocation from Oklahoma to the Midland Basin to accommodate rapidly growing volumes from our producers. The total project is expected to cost \$80 million, with approximately \$50 million of that to be classified as operating expenses for GAAP purposes.

The project is a great use of our existing asset base and represents cost savings of approximately 50% over an illustrative newbuild processing plant. With the start of Project Phantom, the expansion of Project War Horse and the positive momentum and greater visibility in producer activity, we now expect our 2021 CapEx to come in at around \$225 million. This modest increase in CapEx spending is focused on projects with very high returns and quick paybacks that will allow us to grow the business next year, while keeping us generating very significant free cash flow for 2021.

On the balance sheet side, our team's actions over the past 18 months or so have put us in a strong financial position. During the quarter, we paid down an additional \$100 million of our term loan. And we are well-positioned to repay the remaining \$150 million by year end, given our strong cash generation and our \$1.75 billion undrawn revolver.

Additionally, during the quarter, we expanded our AR facility by another \$50 million to \$350 million and improved the pricing while extending the maturity to September of 2024. Our debt-to-adjusted EBITDA ratio under our credit facility was just below 4.1 times at quarter end, and that puts us very close to our near-term leverage goal of under 4 times. With the continued progress on our balance sheet, as we have discussed, we intend to employ a more balanced capital allocation approach that allows us to continue to de-lever the balance sheet, but mixes in



more return of capital to unitholders. This may include modest common unit distribution increases as well as common unit buybacks. To that end, we've repurchased \$12.5 million in common units during the third quarter.

Now, as we get closer to exiting 2021, we continue to feel very good about finishing the year strong and our outlook for 2022 and beyond continues to improve. The current commodity price momentum is a game changer for drilling and completions activity in our portfolio, and we stand to benefit from both higher volumes and improved realized pricing. Our Permian segment has seen tremendous growth this year, driven primarily by the activity in the Midland Basin. We expect that to continue and now we also see that Delaware ramping nicely next year. In addition, natural gas and combo plays are benefiting from robust natural gas and NGL prices, and we now expect Oklahoma to deliver flat volumes in 2022. Importantly, this is all within the context of continued producer capital discipline, which we believe will result in a longer commodity price bull market. We're excited about the future and look forward to providing specific 2022 guidance early next year as we finalize our plans.

With that, I'll turn it back to Barry.

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### Barry E. Davis

*Chairman & Chief Executive Officer, EnLink Midstream LLC*

Thank you, Pablo. In summary, our team continues to deliver solid results and our outlook continues to improve. We are very well positioned to benefit in 2022 and beyond from a more supportive industry environment while we work to create sustainable value for our unitholders. And we continue the momentum of building upon our vision to become the future of midstream by leading in innovation and creating sustainable value.

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

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## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Brian Reynolds with UBS. Please go ahead.

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### Brian Reynolds

*Analyst, UBS Securities LLC*

Hi, good morning, everyone. Maybe to start off [indiscernible] (00:21:54) 2022 growth in the Permian, it looks like combining the process and expansions, Project War Horse and Phantom in the Midland and the potential for the Delaware Tiger plant to be un-idled in 2022 [indiscernible] (00:22:05) a significant amount of processing capacity in areas where the Permian is tight. Could you perhaps talk about some of the growth you've seen on the Permian footprint and whether the existing capacity supports organic growth from existing customers, or whether EnLink looks to attract new businesses and volumes on to its system where processing capacity is tight in the region? Thanks.

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### Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Yeah. Good morning, Brian. This is Ben. I'll talk about each side of the basin. On the Midland Basin side, we have a very diverse group of customers and we've seen a lot of commercial success this year in 2021 that sets us up for 2022. And so, the relocation of the Phantom plant to the Midland Basin is really to serve that growth. It's

growth from the customers that we had coming into the year and also some commercial success that we have already executed on in 2021 and leaves us a little bit of room for additional growth beyond 2022.

On the Delaware Basin side, it's more about the rising tide in the whole basin. We also have a diverse book of business there, though as we've acknowledged before, XTO is one of our major customers and XTO's plans – or ExxonMobil's plans involve a significant amount of increased production on the acreage that's dedicated to us. And that along with some other business is what's driving the restart of the Tiger plant, and I expect that to be effectively in January that the plant will start and run all year.

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**Brian Reynolds***Analyst, UBS Securities LLC*

Q

Great. I appreciate that color. And as a follow-up, if we could just talk about capital allocation for a minute. As leverage starts to tick below 4 times and EnLink remains free cash flow positive, is there a way we should be thinking about buybacks or dividends or profit option as we think about return of capital options in 2022?

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**Pablo G. Mercado***Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. Hey, Brian, it's Pablo. Look, on the capital allocation side, our posture of our thinking hasn't really changed from what we discussed last quarter. It starts with the strong free cash flow that we're generating, as we pointed out, \$340 million over the last 12 months, and that gives us a lot of optionality. So we're very close to that part of leverage ratio of below 4 times. That gives us an opportunity to pivot to a more balanced capital allocation approach. And that's really the key to it. It's balanced. We will see a bit of an increase in returns to the equity holders. You've seen us be pretty light touch on the buyback side, but we do plan to employ that program and we also think it is time to look at the distribution. So, we'll be doing that with the board here in the near term.

You mentioned the preferreds, that is certainly part of the toolkit. We would like to reduce those over time, and we view that as a productive way to reduce overall leverage on the balance sheet. That said, they're less liquid than, say, buying common units in an open market repurchase program and so not as much within our control as some of the other tools.

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**Brian Reynolds***Analyst, UBS Securities LLC*

Q

Okay. All makes sense. That's all for me. Have a great day.

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

A

Thank you, Brian.

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**Operator:** The next question comes from Michael Cusimano with Heikkinen Energy. Please go ahead.

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**Michael Cusimano***Analyst, Heikkinen Energy Securities LLC*

Q

Hey, good morning, everyone. Thanks for taking my questions. I just want to start with the realized hedge losses in 3Q in Louisiana. I understand the way you typically hedge, but can you provide any color on how we should think about those hedge realizations in 4Q and beyond?



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

A

Yeah. Hey, Michael. It's Ben. Let me try to unpack that a little bit. Specifically in Louisiana, you have a couple of things going on. The biggest item is we produce all of the purity products all year long, but some of them we sell seasonally, particularly butane, because there's a winter market that's stronger than the summer market. And so, there's a portion of our butane that we store through the summer for sale in the winter and we hedge it. And oftentimes, we roll those hedges on a monthly basis. So, you may realize the negative side of the hedge on a monthly basis, but you don't get to realize the gain on the product, the physical product until you sell it. And so, that's why we – a big reason why we have a stronger seasonal fourth quarter and first quarter than we have a second and third quarter in that business.

Now this particular year, it's exacerbated for two reasons. Number one, because the market price of the products has risen so quickly that our normal hedging activity just gets you to a larger absolute numbers than it would have done, say, in prior quarters. And the second thing is it was exacerbated by the hurricane because during the hurricane, we had some downtime. And during that downtime, we put product into storage, wide grade product into storage that we will fractionate and sell in the fourth quarter, and then we'll realize the physical side – the physical gain that offsets that realized hedging loss. So, it does generate quite a bit of a derivative noise in the third quarter results. My expectation is that you will see a significant positive offset in the fourth quarter and into the first quarter of next year that represents the physical gain that offsets the unrealized – pardon me, the realized derivative loss.

**Michael Cusimano***Analyst, Heikkinen Energy Securities LLC*

Q

Got it. Yeah. Okay. That's actually helpful. And then if I could follow up, looking at the – the CapEx increased to \$225 million, are you seeing any cost creep in like current projects that you had – or I guess I should say previous projects that you had in the backlog, or is the increase mostly attributable to like Phantom and maybe some timing going [ph] forwards on (00:28:41) projects?

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

A

Yeah. The overall increase in CapEx is overwhelmingly driven by producer activity. So, the increase is the first several million dollars of the Phantom plant, in addition to that more well connect to Oklahoma, more well connects and compression projects in the Permian. Now, on the question of inflation, there are some realities out there, like steel prices, that we're all exposed to. But at this point, that is still a relatively minor driver in the overall picture of our capital spending. And we have a very proactive supply chain team here that has done a lot of great work to help insulate us from some of those price pressures relative to our peers.

**Michael Cusimano***Analyst, Heikkinen Energy Securities LLC*

Q

Understood. Okay. Well, that's all I had. Thank you for the details.

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

A

Thanks, Michael.

**Operator:** The next question comes from Christopher Jeffrey with Mizuho Securities. Please go ahead.

**Christopher Jeffrey***Analyst, Mizuho Securities USA LLC*

Q

Hi, how are you doing? I was just curious on the CO2 deal with Continental. I was wondering if they have previous experience with similar deals in place, or would this be the first of its kind for them as well.

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

A

Yeah. No, this is very much in line with what Continental does. If you want to go and take a look at their organization, they're a part of Matheson Tri-Gas, which is a national provider of a very wide range of industrial gases. CO2 is only one small part of it. And then more broadly, they're part of a global conglomerate named Nippon Sanso Group based in Japan. So, no, this is our first rodeo with CO2 capture and sale, but certainly not theirs.

**Christopher Jeffrey***Analyst, Mizuho Securities USA LLC*

Q

Got it. And then following up on that \$225 million in 2022 CapEx, should we expect a similar allocation by basins what we saw – or [indiscernible] (00:30:51) Oklahoma?

**Pablo G. Mercado***Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. So, as Ben was saying – this is Pablo, by the way. As Ben was saying, most of the increase has to do with producer activity. And so, that's strongest in the Permian Basin. And we also have an uptick in Oklahoma where we're connecting more wells. And then the start of the Phantom plant will obviously be in the Permian Basin as well.

**Christopher Jeffrey***Analyst, Mizuho Securities USA LLC*

Q

Got it. Thank you, everyone.

**Operator:** The 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 staying on Oklahoma there, what's the customer mix for you all for private operators versus public for current rig activity or volumes on your system and do you think that the difference of activity levels for the private versus public stays pretty consistent given just where current gas and NGL prices are? Thanks.

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

A

Hey, T.J., this is Ben. Yeah. In Oklahoma in recent days, we've seen anywhere from 7 to as many as 11 or 12 rigs operating on the system. Of those, as many as 5 have been public operators. I think today we're 7 or 8 rigs and only two of them are public operators, which is the Devon-Dow JV activity. I do expect to continue to see more activity from the privates than from the publics, and I think that's because the private operators have a little bit more flexibility than the public operators do to ramp up activity because they have a have a different investor

base, they may have different priorities than what the public operators are hearing from their own investor base. And so, I think that just goes to the point of the benefit of having such a diverse group of customers in Oklahoma. Whether it's public activity or private activity that predominates in a given environment, we have exposure to everyone who operates in the basin and that we're being rewarded for that today.

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

Q

Got it. Makes sense. And then just a question on the potential for downstream projects in Louisiana. You mentioned that could be similar to Venture Global type of transaction. And just looking for any more color on the types of projects you're looking at here, are projects more natural gas or NGL-focused, or are there assets you're looking to repurpose, or – and just anything that require larger amounts of capital that you're looking at? Thanks.

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

A

Yeah. T.J., thank you. This is Barry. Let me say that this is consistent with what we've always said about just the great asset base that we have there with over 4,000 miles of pipe basically traversing through the demand center of Louisiana. So, by the nature of that pipeline, I mean, we are focused on the downstream delivery type projects across all products. And so the Venture Global project last year, as we cited in the prepared remarks, is a good example of the types of things that we have. And we have more projects like that, that are for expanded gas service and also for NGL service.

Conversion of pipe is always an option for us, because we've got the multiple pipelines in most corridors there. And so, again, lots of optionality as we look at the CCUS business, the NGL business and the natural gas business. Good progress. I noted in the prepared remarks that we've made good progress on those projects. I look forward to being able to communicate to you when they're completed. When they are, they're going to be relatively capital-light, because we're building off of existing infrastructure and they're going to be high return projects. So, good area for us, lots of opportunity.

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

Q

Great. Thanks, Barry.

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**Operator:** [Operator Instructions] The next question comes from Colton Bean with Tudor, Pickering, Holt. Please go ahead.

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

Q

Morning. So, maybe just back on the carbon utilization project: one, I guess, will EnLink be funding the capture build-out and then any transportation infrastructure, and if so, any preliminary expectations on magnitude and timing?

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

A

Yeah. Colton, this is Barry. Let me start by saying we continue to be really encouraged by the work that we're doing in the CCUS space. As you know, I mean, this is – the amount of time that we've been focused on this is measured in months right now because it's relatively new for all of us, but we've made great progress.

I'll start with kind of the bigger picture. We're encouraged by what we're seeing from a legislative standpoint. I think we're seeing everyone recognize that carbon capture will be an important part of meeting the global decarbonization objectives. We're seeing – unlike many other things in Washington, we're seeing good bipartisan support. And so, that's helpful. And I think that's evidenced by looking at the current bill that's being discussed, which really has three things in it that we think are very helpful to the CCUS business. First of all, the increase to the 45Q credits, basically a 70% increase for both sequestration and EOR capture and removal of carbon.

The second thing it does, it extends the eligible construction from 2026 to 2032, which gives us more time to develop these projects. And then lastly and maybe most importantly is the direct pay aspect of it that is included in the bill. And so, good things happening in that direction. Our focus right now has been on providing a total solution to the market. And what I mean by that is we have in place basically a transportation infrastructure, but we want to be able to provide to any customer the capture and the sequestration aspects of it. And so, we're very focused on doing that. We could do that independently, but we think a better approach would be to do it with someone who has that expertise and skill set today. And so, we're focused on working with partners on the upstream capture and the downstream sequestration and then what we would bring to the table is the transportation piece. But as I said, we could do all of it, but we don't think that's the best approach

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**Colton Westbrooke Bean**

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

Q

Yeah. And maybe just clarifying the 15-year term, is that structured as a dedication or does EnLink have to deliver minimum volumes over the duration of the contract?

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**Benjamin D. Lamb**

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Hey, Colton. This is Ben. So, I think Barry was talking there about our broad vision for CCUS in Louisiana. What you're talking about it at Bridgeport is a project where we already do the work to capture the CO2 today, and that just goes to show that it's a skill set that we already have within EnLink. It's just that today the CO2 gets vent into the atmosphere. We're going to stop venting it to the atmosphere and instead deliver it in a pipeline to our partner, Continental Carbonic Products, they will purify it and convert it to liquid CO2 and dry ice and they will do that there at the Bridgeport plant on site for that term of 15 years.

Did you have a specific question about the term?

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**Colton Westbrooke Bean**

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

Q

Yeah. Effectively just thinking about long-term risk, is there – is it structured as a dedication where any CO2 that's produced goes to Carbonic or do you all have to deliver minimum volumes over the entirety of the 15 years?

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**Benjamin D. Lamb**

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. There's no minimum volume commitment, and they are constructing their plant to handle 100,000 metric tonnes per year. Today, we produce significantly in excess of that.

---

**Colton Westbrooke Bean**

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

Q

Perfect. And maybe just a final one for me here, you all mentioned the growth you expect in Delaware next year, I think we just passed the five-year anniversary of the Delaware Basin JV. So, can you just update us on how you view the platform strategically and whether consolidation could be an option down the road?

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

A

Yeah. Colton, first of all, let me say this. The partnership has worked – it has worked well. You might recall that five years ago, we were at a moment in time where we needed a financial partner. It just didn't make sense for us to do all of that on our own. Shortly thereafter, by the way, we might have had a different decision, but NGP's been a great partner for us. We continue to think about the – what we do with that long term. But at this point, I would say, there's nothing that we foresee in the near future that would be different than continuing with the 50/50 partnership with NGP in that area.

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

Q

Great. I appreciate the time.

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

A

Thank you.

**Operator:** The next question comes from Vinay Chitteti with JPMorgan. Please go ahead.

**Vinay Chitteti***Analyst, JPMorgan India Pvt Ltd.*

Q

Hi. Good morning, guys. My first question is on the exposure to POP [indiscernible] (00:40:47) contracts. Can you break down how the exposure is in different basins? And also we're seeing some of the industry moving towards keeping the volumes open and unhedged. Maybe just your thoughts on how you want to – how you see about commodity exposure in 2022 and for the rest of the year?

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

A

Hello, Vinay. It's Ben. I'll take the first half of your question and then Pablo will probably want to address the second half of your question. In terms of our POP/POL exposure, I'll start by reminding everyone that we are about 90% fee-based in our overall contract mix. Where we have POP/POL exposure is in the Permian Basin and in particular in the Midland Basin. Even there, it's not the majority of our contracts. So, it's a relatively small part of the overall business mix. But in environments like these, it does give us a tailwind as commodity prices rise, which is a good lead into the second half of your question.

**Pablo G. Mercado***Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. Vinay, it's Pablo. Yeah. So, look, the way our hedging program is designed, it's built to give us additional cash flow stability in the near term. So, we layer on hedges on expected equity volumes in the near term so that we're pretty well hedged one quarter out. And then it steps down to about 25% four quarters out. So, what that does is, in the rising commodity price environment, you've got good price stability at the front-end in the near term

and then you've got commodity price exposure that you can, one, have high realized prices and, two, hedge into higher prices as you move down that timeline.

In terms of the overall approach, the goal here is to provide that cash flow stability for the business and to be able to sort of hedge against the forecast or guidance or a budget that that we all believe in.

**Vinay Chitteti**

*Analyst, JPMorgan India Pvt Ltd.*

Q

Got it. Thanks. Maybe just following up on the project here, Project War Horse and Project Phantom, so given you are shifting your processing facility there, I'm assuming the gross profit does definitely go up in the Permian. But any details if you could share on how the per unit margins would be on the new plants?

**Benjamin D. Lamb**

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. If I understood your question correctly, certainly you're right that the relocation of the Phantom plant allows for the Permian segment to keep growing, and so the segment profit will go up in the Permian as the plant fills up. In terms of the unit margins, I don't expect it to be very different from the unit margins that we're seeing today because the plant is being relocated to serve the same book of business that we have in place today, along with, as I mentioned earlier, some of the commercial success we had in 2021.

**Vinay Chitteti**

*Analyst, JPMorgan India Pvt Ltd.*

Q

Got it. That's it from me. Thanks, guys.

**Barry E. Davis**

*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Thanks, Vinay.

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

**Barry E. Davis**

*Chairman & Chief Executive Officer, EnLink Midstream LLC*

Thank you, Tom, for facilitating our call this morning. And thank you, everyone, for being on the call today and for your support as always. We appreciate your continued interest and investment in EnLink, and we hope you have a great day. Thank you.

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



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