

16-Feb-2022

# EnLink Midstream LLC (ENLC)

Q4 2021 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and welcome to the EnLink Midstream Fourth 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, today's 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 Joseph Brungardt**

*Director-Investor Relations, EnLink Midstream LLC*

Thank you, and good morning, everyone. Welcome to EnLink's fourth 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 files.

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 fourth quarter and full-year 2021 results. We'll also discuss our 2022 outlook, which will advance our vision to become the future of midstream by leading in innovation and creating sustainable value. Additionally, we will share an exciting opportunity ahead of us in Louisiana and discuss how we plan to build a substantial carbon solutions business and play a big role in the energy transition.

We headed into 2021 with the intent to drive value for our unitholders, partners, and employees, and to make our business more resilient and sustainable for the long term. I am very proud of our team for their focus and relentless execution in doing just that. Their dedication resulted in exceptional progress in 2021 and has allowed us to enter 2022 from a position of strength.

For the fourth quarter, EnLink achieved adjusted EBITDA of \$286.4 million, taking our full-year adjusted EBITDA to \$1.05 billion. The robust fourth quarter results placed us within the upper end of the increased guidance range that we provided in June. I am also proud to report that on a year-over-year basis, we delivered adjusted EBITDA growth of over 17% in the fourth quarter, after excluding the impact of MVCs that rolled off in 2020.

EnLink delivered robust growth in our Permian and Louisiana segments, and we began to see the stability we've projected in Oklahoma and North Texas, as higher commodity prices spur an increase in activity.

Through our innovative operational excellence program, which we call the EnLink Way and is the road map for how we operate, we've been able to sustain peer leading cost structure reductions enacted in 2020, despite returning to a growth environment and seeing some inflationary pressures. With the strength of our business and our disciplined financial approach, EnLink delivered another year of cash flow of over \$300 million, which allowed us to reach our leverage goal with a ratio of under 3.9 times.

As a result of this solid execution, we were pleased to announce in December several actions that reflect a more balanced approach to capital allocation and increased returns to our unitholders. Our base business has shown tremendous execution, and I am excited about the progress we are seeing in our carbon solutions business, which is pursuing carbon capture and other opportunities that it will allow EnLink to play an even more active role in energy transition.

In a few short months, we have begun to make real progress in building a comprehensive offering in Louisiana. Yesterday afternoon, we announced an alliance with Talos Energy to provide customers a complete solution for their carbon emissions in Louisiana. Each of these successes is impressive and combined, they made 2021, one of our best years to-date and have positioned this well to further excel in 2022.

Last night, we issued our 2022 financial guidance, which showcases the tremendous improvement across our business. We are forecasting adjusted EBITDA year-over-year growth of approximately 10% at the midpoint. The robust growth of our business, coupled with our capital discipline, allows us to continue to generate significant free cash flow and to maintain our strong financial flexibility. At the midpoint, we are forecasting our third consecutive year, with free cash flow after distributions in excess of \$300 million.

We are entering 2022 with an incredibly bright future ahead. EnLink's path forward, we focused on becoming the future of midstream. We believe the midstream company of the future must have the following five key characteristics: an integrated business model; a large-scale cash flow generating platform; proven operational excellence; a focus on delivering energy solutions for the future; and a focus on environmental and responsible operations.

We believe EnLink is well on its way in these five areas, and we are focused on moving them forward with diligence and urgency as the future of midstream demands. Here's how. First, our large-scale cash flow generating platform generates over \$1 billion of EBITDA and is delivering growth. Our robust free cash flow allows us to invest in our – growing our business, while providing attractive capital returns to our unitholders and continuing to improve our balance sheet.

Second, we have an integrated business model, with scale positions in G&P across multiple basins connected to key downstream demand markets.

Third, we are powered by operational excellence. We are deploying new technology to build on our position as one of the lowest cost most efficient operators in our industry. Our leading experienced operations teams maintains both a customer-centric mindset and a strong safety focus.

Fourth, we are well-positioned to deliver energy solutions for the future. Our business is approximately 90% natural gas and NGLs, which are expected to show demand growth through the energy transition, and we are building a promising carbon solutions business.

Last but certainly not least, we are focused on environmentally responsible operations. In a few short months after establishing near-term emissions targets, we have made solid progress as demonstrated by an agreement to capture and sell CO2 at our Bridgeport facility in North Texas.

As I touched on earlier, we have a unique and very real opportunity to build a significant CCS business over time by repurposing existing assets in Louisiana. I'd like to provide some color on the efforts EnLink is pursuing. We believe CCS provides a meaningful path forward to help industrial CO2 emitters achieve their emission reductions goals.

Within the United States, CO2 emissions from industrial and power generation make up nearly half of all CO2 emissions. The State of Louisiana is the second largest industrial emitting state in the country and also ranks as the state with the second greatest sequestration potential due to its geology. The majority of the emission sources are industries that are critical to our daily lives like fertilizer plants and chemical plants that make a key component used to make plastics.

EnLink is the natural service provider in the State of Louisiana, particularly with the highly dense area of the Mississippi River corridor, where we bring decades of relationships and reliable operating experience, plus over 4,000 miles of pipe already in place. In addition, our pipeline systems are located within close proximity to multiple potential sequestration sites.

All of that brings me to our latest announcement. We are excited to be working with Talos Energy to jointly develop a complete CO2 capture, transportation, and sequestration solution for industrial-scale emitters in Louisiana. Talos brings substantial subsurface expertise and access to potential sequestration sites, while we bring the significant midstream assets, customer relationships, and the other elements that I mentioned. As a result, we are very excited for 2022 and beyond, both for the trajectory of our base business and for the transformational potential of our carbon solutions endeavors.

With that, I'll turn it over to you, Ben, for an 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'd like to start by thanking all of our team members out in the field. They not only operated in tough conditions during 2021, which included Winter Storm Uri and Hurricane Ida; but most importantly, they did it safely. EnLink followed up a record safety performance in 2020 with another record in 2021. Our 2021 total recordable injury rate came in at 0.44, less than half the industry average of a little over 1.0. This is testament to the actions we take to operate our assets with excellence, while never compromising on safety.

Now, let's walk through our assets and let's start with the Permian, where we achieved another record by generating segment profit of \$73.8 million during the fourth quarter of 2021. Segment profit in the quarter included approximately \$5 million of operating expenses tied to plant relocations and unrealized derivative losses. Excluding plant relocation OpEx and unrealized derivative activity, segment profit in the fourth quarter of 2021 grew an impressive 16% sequentially and over 66% from the prior-year quarter.

The fourth quarter of 2021 also marked the sixth consecutive quarter of positive segment cash flow. Average natural gas gathering volumes for the fourth quarter were approximately 8% higher compared to the third quarter of 2021 and approximately 28% higher compared to the fourth quarter of 2020. Average natural gas processing volumes for the fourth quarter were approximately 7% higher sequentially and approximately 25% higher compared to the fourth quarter of 2020. Producer activity across our footprint has remained robust from the fourth quarter of 2021 and into early 2022. As previously announced, we reactivated the Tiger plant in December of 2021. Additionally, we continue to make solid progress with Project Phantom, which is on schedule to be placed into service in the fourth quarter of 2022.

When we look forward, we are projecting another year of significant growth for our Permian business. At the midpoint, we are forecasting that segment profit will increase by nearly 40% to \$320 million, which includes \$40 million of operating expenses related to our plant relocation. As we grow alongside our customers, the Permian is likely to exit 2022 as our largest segment, after adjusting for the Phantom relocation expenses. Unlike last year, when the growth was primarily driven by Midland activity, the Delaware will also be adding more to the pie, following the Tiger plant restarting. For example, one of our customers in the Delaware, ExxonMobil, has announced plans to grow their Permian volumes by 25% in 2022.

Turning now to Louisiana, we experienced expected favorable seasonality with segment profit for the fourth quarter of 2021, coming in at \$111.7 million. Segment profit included unrealized derivative gains of \$19.3 million with the majority of this associated with our gas and NGL storage positions. Excluding the impact of unrealized derivative activity and Hurricane Ida in the third quarter of 2021, segment profit in the fourth quarter of 2021 increased approximately 21% sequentially and 16% from the prior-year quarter.

Relative to the prior year, both the gas and NGL businesses are showing strong growth, benefiting from increased volume and higher margins. The robust segment profit drove record segment cash flow of \$107.8 million.

Looking forward, Louisiana segment profit for 2022 is forecasted to be \$355 million at the midpoint of guidance, representing a 9% increase from 2021. The growth is largely driven by the NGL side of the business through increased volumes and higher margins compared to 2021.

Moving up to Oklahoma, we delivered segment profit of \$99.4 million for the fourth quarter of 2021. Segment profit in the quarter included approximately \$1.4 million of operating expenses tied to plant relocations and unrealized derivative gains of approximately \$9.4 million. Excluding plant relocation OpEx and unrealized derivative activity, segment profit in the fourth quarter of 2021 increased 2% sequentially. Segment profit grew nearly 10% from the prior-year quarter, after excluding \$17.6 million of now expired MVC deficiency payments received in the fourth quarter of 2020.

The volume story out of Oklahoma continues to improve as producers have responded to the improving pricing environment. Natural gas gathering volumes increased 2% sequentially and decreased only 2% compared to the prior-year quarter. Natural gas processing volumes increased 4% sequentially and decreased only 2% over the prior-year quarter. Oklahoma continues to deliver solid and stable cash flow for us.

During the fourth quarter of 2021, we generated \$86.1 million in segment cash flow. For 2022, Oklahoma segment profit is forecasted to be \$345 million at the midpoint, which includes \$5 million of operating expenses related to our plant relocation. This outlook is approximately flat from 2021, when you exclude the adverse impact of Winter Storm Uri.

We continue to be very encouraged with producer activity in the basin. We discussed in our last earnings call the expected well connect activity in Oklahoma, and the fourth quarter came in as expected with December having more well connects than we saw in the entire first half of 2021. This improved activity gives us great momentum and confidence that volumes will be approximately flat in 2022.

Wrapping up with North Texas, segment profit for the quarter was \$56.1 million and included unrealized derivative losses of \$3.5 million. Excluding unrealized derivative activity, segment profit in the fourth quarter of 2021 declined only 1% sequentially and 4% from the prior-year quarter. Natural gas gathering volumes actually increased 1% sequentially and were flat compared to the prior-year quarter.

For 2022, the North Texas segment profit is forecasted to be \$230 million at the midpoint. This outlook reflects a stable source of cash flow, when you exclude the modest impact of Winter Storm Uri. We continue to be encouraged with producer activity in the basin as BKV is expected to commence a modest new drilling program in 2022.

Finally, I want to give a quick update on the EnLink Way and driving value for our stakeholders. We completed 25 operational excellence initiatives in 2021. For example, we piloted the remote operation of a processing facility. And now, our Silver Creek plant is operated entirely by the team at our Bridgeport facility.

As an example, outside of operations, we've begun implementing robotic process automation to reduce manual work and manipulating data, giving our team time to do more value-added work and reducing the chance for errors. These efforts are part of an ongoing process to always operate our business better and to create sustainable value.

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

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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 fourth quarter highlights. As Barry mentioned, EnLink delivered a solid fourth quarter, achieving \$286 million of adjusted EBITDA. Excluding the impact of the MVC that rolled off in 2020, adjusted EBITDA increased over 17% from the fourth quarter of 2020. This result reflects robust growth out of the Permian, solid growth in Louisiana, and relatively stable operations in Oklahoma and North Texas.

EnLink also achieved \$67 million of free cash flow after distributions for the fourth quarter of 2021, with all four of our asset segments, once again delivering positive cash contributions. For the full-year of 2021, EnLink delivered adjusted EBITDA of \$1.05 billion and free cash flow after distributions of \$314 million. On the cost control front, our team's focus on efficiency allowed us to sustain our peer-leading reduction in operating and general and administrative expenses from 2020. After adjusting for plant relocation costs and the noise from Winter Storm Uri, our total cost structure in 2021 was still 23% lower than in 2019.

Capital expenditures net to EnLink and plant relocation expenses were approximately \$85 million for the fourth quarter and \$220 million for the full-year of 2021. These investments were flat from the prior year, despite the growth that our operations delivered. This can be attributed to the excellent work the team has done to execute on our capital-light strategy, which includes optimizing the use of existing assets as we have done by relocating significant processing capacity from Oklahoma to the Midland Basin. Going forward, we remain focused on the disciplined investment approach with high-return hurdle rates and quick paybacks.

On the balance sheet side, our actions over the past two years have put us in a solid financial position with ample financial flexibility. During the quarter, we repaid the remaining balance of our term loan and ended the year with a debt-to-adjusted EBITDA ratio of under 3.9 times. Consistent with the strategy that we have been discussing with you over the last several quarters, we announced at the end of December plans to deploy a more balanced capital allocation approach.

In the fourth quarter of 2021, we increased our common unit distribution by 20% and accelerated our common unit buybacks, bringing the 2021 total to \$40 million spent. We also redeemed \$50 million of our Preferred B Units in the fourth quarter and another \$50 million at the beginning of this year, both at a price of 101% at par.

The net impact of the distribution increase and the repurchases and redemptions on our overall distribution payout is approximately \$25 million on an annualized basis. Also in December, our board refreshed our common unit repurchase authorization to \$100 million, and we expect to continue to be active with the program.

To that end, we recently entered into an agreement with GIP, in which they will participate on a pro rata basis in the common unit buyback activity. This will have the effect of protecting our public float on a percent basis and maintaining GIP's current economic ownership level flat at approximately 46%.

Next, let me turn to the 2022 guidance that we announced yesterday. We are forecasting another year of solid growth, driven by disciplined investments and a continued focus on cost efficiencies. From an adjusted EBITDA standpoint, we are forecasting a range of \$1.11 billion to \$1.19 billion. This represents growth of approximately 10% at the midpoint of the range. It is driven by robust growth in the Permian, strong growth in Louisiana, and stable operations in Oklahoma and North Texas. Exiting 2022, the Permian will likely be our largest segment as we continue to execute on our disciplined growth strategy to meet customer needs.

While approximately 90% of our business is fee based, we do benefit from the strong commodity prices we are seeing today. Current forward prices as of yesterday are sufficient to put adjusted EBITDA at the top end of our range.

More importantly, strong commodity prices can drive incremental producer activity, as we experienced in 2021. Now, as a reminder, while we don't provide quarterly guidance, we typically experience some seasonality, especially in our Louisiana business, with our strongest quarterly results in the fourth quarter and a small sequential decline in the first quarter.

On the investment front, total capital expenditures, plus operating expenses associated with Project Phantom are forecasted to be between \$285 million and \$325 million in 2022. Aside from Project Phantom, we expect 2022 capital to be heavily weighted to well connects and gathering infrastructure, projects that have very high returns and quick paybacks.

Our capital-light approach allows us to grow alongside our customers in a disciplined manner, while generating very significant free cash flow. With robust forecasted EBITDA balanced by modest increases in CapEx and the previously announced 20% increase to the distribution, we forecast free cash flow after distributions in the range of \$285 million to \$345 million. This will mark at the midpoint the third consecutive year of free cash flow after distributions of over \$300 million.

In summary, the EnLink team delivered solid results in 2021 and the outlook for our operations in 2022 is even better. We're seeing a welcome shift in activity in our Oklahoma and North Texas segments, which we expect to be much more stable in 2022, resulting in an overall growth forecast for EnLink.

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. As you can see, EnLink continues to deliver and we are entering 2022 with an incredibly bright future ahead, including the realization of our vision to become the future of midstream by leading in innovation and creating sustainable value for the long term.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] And today's first question comes from Michael Cusimano with Pickering Energy Partners. Please go ahead.

**Michael Cusimano**

*Analyst, Pickering Energy Partners*

Q

Hey. Good morning, everyone. Thanks for the details today. I was hoping we could start on where we are today with Oklahoma activity and how the – I believe the comment previously has been that you need less than seven rigs to hold volumes flat. Curious how that plays out with 2022 guidance and if that expectation has changed at all?

**Benjamin D. Lamb**

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

A

Yeah. Good morning, Michael. It's Ben. That's about right. Today, we are seeing a higher level of activity than that. Just right at the moment, it's 11 rigs on the footprint. And what's most encouraging about that is those rigs are operated by eight different customers. And the most exciting news of recent days is the addition of a third rig to the Devon/Dow JV. When you take all of that together along with the level of activity that we saw in the fourth quarter that we talked about in the prepared remarks, it gives us a lot of momentum going into 2022 and confidence that the decline in Oklahoma has stopped.

**Michael Cusimano**

*Analyst, Pickering Energy Partners*

Q

Okay. Great. And then pivoting a little bit, can you talk about how much of an increase in – for your 2022 guidance was a result of, I mean, like inflation adjustments that you'll have in your contracts? I don't think you quantified that in the release, but I'm curious if you saw any green shoots there.

**Benjamin D. Lamb**

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

A

Yeah. I – you know, Michael, I would say, in general, on the revenue side of the equation, we made an assumption that was not very different from our historical assumptions around inflation. So, there's not an outsized benefit built in there. Now, we were thoughtful in doing our OpEx forecast and our capital budget to incorporate in there to the best that we are able the expected inflation that we'll – that we may see in materials prices as the year goes on. But, to-date, it has not been a major factor for us.

**Pablo G. Mercado**

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

A

Yeah, Michael. I'd just add – this is Pablo. I'd just add that we are seeing a little bit of inflation. And as Ben said, it's baked into our forecast. At the same time, we're working on our operational excellence initiatives, which have yielded really good results. And part of the focus there is to be able to maintain a cost structure that's flat, particularly on the G&A side, even despite the inflation pressures that we're seeing in labor and the OpEx of chemicals and lubricants and that kind of thing.

**Michael Cusimano***Analyst, Pickering Energy Partners*

Q

Okay. That's helpful. I do have one more, if I can. The – you realized about \$24 million of hedge losses this quarter. I'm curious if you can just give us an idea of how maybe like in a stable strip scenario or like flat with today what those hedge realizations look like in 2022, because I know they've been material for the last few quarters. So, it would be helpful, if you can give us an idea what that looks like going forward?

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

A

Yeah, Michael. This is Pablo again. Let me sort of take that up a notch and just remind everyone that we're about 90% fixed fee, and so we've got limited commodity price exposure. We do benefit some from commodity prices directly, but even more importantly through the activity that higher commodity prices like we have today can drive.

I'd say in 2021, we saw some hedge losses as we had layered in some hedges at lower prices and we're in a rising commodity price environment. I think that's going to be different in 2022. We entered the year less hedged. And as I'd commented before, we see it more curved currently that's higher than the midpoint – that's implied in the midpoint of our range and it would point us to the upper end of the range. We have been here recently able to layer in some hedges along with our programmatic approach at those higher prices. And so, we expect to see some of that benefit as well.

**Michael Cusimano***Analyst, Pickering Energy Partners*

Q

All right. That's really helpful. Thank you all and I appreciate all the color.

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

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

Q

Great. Good morning. Maybe Barry, to the extent possible on the CCS opportunity, can you just give us any framework on timing to market the project, any expected cost and cash flow from the overall projects, considering the advantage you have on capital avoidance by repurposing pipe?

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

A

Yeah, T.J. Good morning. This is Barry. Thank you. First of all, again, we're really excited to be where we are. This is something that we've worked very diligently on for just over a year. It's a very fast-moving opportunity, and I think we have a great opportunity to be a first mover.

In saying that, I think it makes the answer to your question a little complicated, because there are so many things, we're doing that there are no precedence for. And so, as we negotiate with customers, as we go through the permitting process, etc., much of this will be the first time that it's been done. So, I'm going to hand it over to Ben. I think he'll go into some details as to what we think this process looks like.

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

A

Yeah, T.J., from the perspective of timing with Talos having secured the lease of 26,000 acres, all of which lie directly under or adjacent to our existing pipe, the critical path item on operations is securing Class 6 permits for sequestration wells. Talos expects to file for those later this year. And then, today, it's about an 18-month process. Perhaps that gets sped up a bit if Louisiana gets primacy over the permitting process, as we expected to do later this year.

From a customer perspective, the marketing process is happening now. And what we have heard from potential customers is that they're looking for two things.

Number one, they're looking for a complete solution, not a partial solution. And with today's announcement, we now have the complete solution. We have a transportation solution. We have a sequestration solution. And to the extent that the customer desires it, we have a capture solution.

The second thing they're looking for is a cost-effective option and with the advantage that we bring with pipeline already in the ground, we have a cost advantage over the competition. And so, the marketing is ongoing. We're probably a couple of years away from operation when you consider the permitting timeline. But we've – as Barry said, we've never been more excited about the CCS potential than we are with the announcement in today's alliance.

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**T.J. Schultz**

*Analyst, RBC Capital Markets LLC*

Q

Okay. That all makes sense. We'll stay tuned. Just shifting gears at slide 18 and 19 were pretty helpful in your deck on capital allocation and CapEx. The first part of the question just on growth CapEx and on slide 18, the other bucket, if you can kind of detail what's in there, what type of projects are you considering outside of G&P?

And then the second part for free cash flow after distributions on slide 19, you have \$165 million allocated to either additional growth projects or debt reduction. Just any color on how you are considering that allocation. Is it just a function of rig activity that, that you may need to react to it with additional, well connects? Thanks.

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**Pablo G. Mercado**

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

A

Yeah. Let me start on the CapEx question and then we'll move to the capital allocation question. I'll probably ask Ben to chime in on CapEx as well. So, T.J., you know, our CapEx budget for this year is just about the best capital you can spend. You know, first, the biggest piece is the plant relocation with the Phantom facility, it's our second plant relocation. First one, as you know, went really well and of course, that's had a fraction of the cost of a new built plant. The rest of the capital is really focused on well connects and the gathering infrastructure that goes with that, which again is some of the best capital you can spend with paybacks helps us support the growth in volume that we're seeing, not only in the Permian Basin, but now good activity across the board.

Ben, what would you add to that on the CapEx side?

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**Benjamin D. Lamb**

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

A

Yeah. In terms of the other bucket, T.J., it's mostly, well connect adjacent. So, compression projects, larger pipelines that aggregate volumes from multiple well connects into the main system. And also, some work, I would describe as, around enhancing the Louisiana NGL business. When you think about that NGL business, it was originally scoped – for pages about pipeline was originally scoped is about 110,000 barrels a day. Today, we're

running 185,000 or so day-in and day-out to those Louisiana fracs. And so, it's some reliability work to make sure that we can do that day-in and day-out. Those were the projects.

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

A

And, T.J., on your capital allocation question, look, I'd start by saying we're in a fortunate position where we've been able to invest in growing the business in a very disciplined way, and also pivoted to a more balanced distribution of capital, including a 20% increase to the distribution.

So, with all that, we're still generating in excess of \$300 million of free cash flow after distributions, as we've done in the last couple of years. That's, you know, higher than that at the midpoint of our guidance range.

And if you look at that slide 19 in our deck. First of all, the board has authorized us to spend another \$100 million on common unit repurchases. We've been active at the beginning of the year, have already spent \$10 million and expect to continue to be active returning capital to unitholders that way.

We've also, importantly, I think, bought \$100 million of Preferred Bs. We did \$50 million in the fourth quarter and followed that up early this year with another \$50 million, which opens the door to potentially doing more of that. It's added a good price, yielding almost 8.5%. So, it's another great way to reduce leverage on the balance sheet. You pointed that – to that \$165 million slice that, sort of, unidentified and talks about growth projects and leverage reduction. We would expect and hope that we can do more of the preferred buybacks with that capital.

In terms of growth projects, as you know, we are always looking to build our downstream business, with projects like the Venture Global deal that came online at the beginning of last year. So, we're looking at similar things. And now with the CCS announcement, I don't expect much capital this year, but that's certainly another good use of capital down the road.

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

Q

Great. That's all helpful. I'll stop there.

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

A

Thanks, T.J.

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**Operator:** Thank you. Our next question today comes from Colton Bean at Tudor, Pickering, Holt & Co. Please go ahead.

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

Q

Good morning. So, [indiscernible] (38:58) year-on-year step-up in Permian segment profit. Is there any rough breakout you could provide in terms of the relative contribution from higher commodity margins versus higher throughput?

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

A

Hey, Colton. It's Ben. It's a little bit hard to get to that level of detail. But I'd say, look, if you're looking sequentially, 3Q to 4Q, and you're correcting for the plant relocation, OpEx and the unrealized derivatives that we give you detail on. There was not a huge difference in the price deck. Where there's a bit of a difference in the price deck is from 4Q of last year or even 1Q of last year to this past quarter. And so, there's – both elements are contributing in the year-over-year growth, but it's primarily been volumetric growth in recent days.

I think that the broader picture on our Permian growth for this year, which is in the 40% range is that it's driven by both sides of the basin. So, last year, the vast majority of the growth in the Permian came from Midland and particularly from the Midland gas business. This year will be more balanced. We expect to see a significant additional contribution from our Delaware business and also to see significant additional contributions from our crude businesses. Those were a bit smaller than the gas businesses, but they still make a difference. So, this year, the Permian business is going to be firing on all cylinders to deliver greater than 40% growth over last year.

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**Colton Westbrooke Bean**

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



Okay. And that's actually a good segue there. So, you mentioned the growth you're expecting in the Delaware. I know you've spoken to this in the past. But with the sixth anniversary of the Delaware JV coming up later this year, can you just update us on how you all are thinking about that partnership, whether consolidation might make sense down the road or any changes there?

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**Pablo G. Mercado**

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



Yeah. This is Pablo. Colton, it's been a great partnership. NGP sees the world the same way we do. It's been growing nicely here recently with the need to add the Tiger plant back on, and we see really good growth prospects.

I'd say they're very patient. All private equity firms have become a little bit more patient in terms of seeing good returns in the space, so wouldn't expect anything in the near term. But, yeah, over time, it would make sense for us to own that in-house.

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**Colton Westbrooke Bean**

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



Great. Appreciate it.

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**Operator:** Thank you. And our next question today comes from Spiro Dounis with Credit Suisse. Please go ahead.

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**Spiro Dounis**

*Analyst, Credit Suisse Securities (USA) LLC*



Thanks, operator. Good morning, guys. Two quick follow-ups for me. First one sticking with the Permian and just thinking about processing plant capacity. Obviously, you mentioned Exxon growing at about 25% clip this year. And so, as you think about the need for the next processing plant beyond Phantom, how are you thinking around that timing? And is there another relocation option available to you guys again?

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**Benjamin D. Lamb**

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



Hey, Spiro, yeah. On that, I would say, you know, first in the Delaware, we're well taken care of for this year with the restart of Tiger. You know, Tiger is good for 240, and so, it's a nice addition of capacity and that will take care of the growth we expect to see from ExxonMobil and from a variety of other customers in the Delaware business this year.

Phantom is projected to come online in the second half, later in the second half of this year, and that will add 200 million cubic feet a day of capacity to the Midland Basin. I think it's too early to talk about timing on the next Midland expansion. I think we need to get through this year, get the Phantom plant online and then see how the market develops into 2023 before we can pinpoint timing on another expansion.

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**Pablo G. Mercado**

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

A

Actually, when we get there, we'll be very disciplined in our approach and look at the full range of options as we did here, including – you know, sort of building up through offloads for a period of time. And look at the capital efficient alternatives, as we've done in the past.

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**Benjamin D. Lamb**

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

A

Yeah. And in fairness, you did ask there whether there's another relocation alternative. There is another relocation alternative. Obviously, we chose to relocate Thunderbird now with Phantom, because it was the best option that we had. But we do have other options for plant relocations. And as Pablo says, we'll take those into consideration when the time is right.

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**Spiro Dounis**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. It's a good color. Thanks for that, guys. Second one, just shifting gears over to LNG. When you think about scaling up your relationship with Venture Global going forward, you mentioned Calcasieu Pass, obviously up and running now. Is there an opportunity to do more there? And when you think about Plaquemines, I think that's kind of a stone's throw away from being sanctioned here. Should we imagine a similar setup with that facility and how you think about utilizing some of your current network to facilitate that as well?

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**Pablo G. Mercado**

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

A

I'd broaden that and say that we're very well positioned to support LNG growth in Louisiana, and the deal that we did on Calcasieu Pass is a great example of that. We don't think that that will be the last one. As you point out, Calcasieu Pass is in the very early stages of its initial operations. And so, I think it's probably too soon to talk too much about what comes next.

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**Spiro Dounis**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Fair enough. Thanks for the time, guys.

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**Pablo G. Mercado**

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

A

Thanks, Spiro.

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

Thanks, Spiro.

A

**Operator:** And the next question today comes from Vinay Chitteti with JPMorgan. Please go ahead.

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

Hi. Good morning. Maybe I just wanted to follow up on the [indiscernible] (44:55) partnership with Talos Energy there. I remember you previously described some projects are viable under the current existing 45Q tax structure. But we have heard some of your peers discussing there could be mechanical and integrity issues and conversion of nat gas. The CO2 pipe is a bit expensive.

Q

And maybe just wondered if you are – any of your – any thoughts on your preliminary work. What kind of cost savings could you see from nat gas pricing conversion to CO2 pipes? And also, if talking specifically about this partnership, if you could share any direction what CapEx would that be and EBITDA upside you could see in the next few years?

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

Yeah. Hey, Vinay, several parts of your question there. Let me start and then I expect Pablo and Barry will probably want to add on. So, let me start with the question about the conversion of natural gas pipelines, because I do think there's been a little bit of misinformation out there. The advantage that we have is that our existing natural gas network, number one, has significant redundancy in it today. Because we own two pipeline systems that both serve the Louisiana industrial market, the LIG system and the Bridgeline system. So, we have the ability to repurpose some of those lines without having a significant impact on the gas business that we have today.

A

Secondly, those pipelines tend to be a very large diameter. So, we're talking 24-inch, 30-inch and 36-inch pipelines. And because those pipelines are so large, we have the ability to move very significant quantities of CO2 in the gaseous phase, without having to be in the supercritical phase. We're highly confident of that, having done a tremendous amount of engineering work. And I would say that everyone we've spoken to in terms of potential partners and in terms of potential customers, when they see the work, they agree with us. So, that's not a concern at all from our perspective.

On 45Q at \$50 today, the emitters that we are targeting are economic. Now, if the Congress were to increase 45Q whether to \$85 or some other number, then certainly that further expands the pie. But even in today's regime, there are sufficient emissions available that are economic to build a scale business in CCS in Louisiana.

And I think a third part of your question was the cost savings that comes from having pipeline in the ground. And the answer is, if savings both in terms of time and in terms of capital, because as you will see when you look at the map of the EnLink-Talos alliance, all three of the land parcels in the River Bend sequestration scope are directly beneath or directly adjacent to existing EnLink pipelines, which means that we expect very limited additional pipeline infrastructure to be needed to move CO2 to those sites. So, that's a savings of time in terms of permitting and construction and the savings in term of capital and, frankly, an environmental benefit to the State of Louisiana, because you're not crossing sensitive wetlands with new pipelines. You're using assets that are already in the ground today.

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

Great answer.

A

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

Got it. Thanks a lot for all the color there. Just one follow-up on that. Is it possible to maybe quantify a potential EBITDA opportunity here and CapEx or are we too early for that right now?

Q

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

Yeah, Vinay. This is Barry, let me say that it is early. And much of that will be determined – I think the thing that we would say is, this is going to play out in the near term. As Ben mentioned earlier, contracting with our customers is happening now, as we speak. We are defining plans in terms of exactly the layout of the systems, and so we will know more in the very near future.

A

I think from a timing perspective, we just highlighted – you know, we believe this business starts to operate in late 2023, early 2024 in the amount of capital between here and there would be very limited on our side, again, because of the proximity of the sequestration sites and the customers, the redundancy of pipe. And so, we think what we call phase 1 will be a very efficient start-up process.

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

Got it. Thanks a lot. And then, just following up on producer activity, I guess, you guys have given a lot of commentary on all the particular basins earlier. I just wanted to follow up, is that frac – is the activity upside driven primarily from private, smaller operators going on right now or – I know you have mentioned, so I'm talking about 25% growth next year. Do you see any further upside from large caps and other majors in 2022?

Q

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

So, in terms of the levels of activity and how it's being driven. In the Permian, it is a very diverse mix of both large public companies and some of the premier private operators, particularly in the Midland Basin. We have a very balanced business there.

A

In Oklahoma, last year, it was mostly driven by the private companies. What we've seen in early 2022 is the addition of a third rig to the Devon activity. So, from two to three, and then, a little bit of activity from some of the other public companies, while we have also seen the private activity level continue and even strengthen a bit. In fact, I think just right today on the 16th of February, we've got more rigs operating in the basin than we've had since the summer of 2019, which is a really nice thing to see.

In terms of the outlook, I think that if commodity prices stay strong, there's a potential to see a bit more activity. But I do think that particularly among the public companies, they're going to be very disciplined and try to stick to the plans that they've laid out. And, frankly, that's okay with us, because greater than 40% growth in the Permian is a fine place for us to be in 2022.

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

Got it. That's it for me.

Q

**Operator:** Thank you. [Operator Instructions] Today's next question comes from Sunil Sibal with Seaport Global Securities. Please go ahead.

**Sunil Sibal***Analyst, Seaport Global Securities LLC*

Yes. Hi. Good morning, folks, and thanks for all the commentary and the call. So, first one, clarification on the CCS opportunity, seems like CapEx on this is fairly manageable. So, is it fair to assume that you will be funding all of this on your own balance sheet or should we think about any of the structure that may be put in place for funding?

Q

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

Yeah, Sunil. It's Pablo. Look, early on, it's going to be minimal capital, certainly this year, maybe a few million dollars of capital. As we see the opportunities develop, we'll know more about the capital needs. Initially, I would expect, as Ben was mentioning, relatively light, because it's connections to existing pipe, so relatively short distances. But we'll see. I think we are excited about the prospects of this business and how big it could be over time. I'd say, we will likely fund it internally even long term, but you never know, and we'll consider all of our options for the best and lowest cost of capital.

A

**Sunil Sibal***Analyst, Seaport Global Securities LLC*

Got it. Then on balance sheet, you know, could you remind us how the Preferreds are treated by the rating agencies in terms of, you know, your capital stack? And then, you know, a little bit of a longer or bigger term question, how do you think about, your ratings? So, it seems like, when I look at credit markets, there is kind of limited upside in terms of, you know, credit yields going from a high – high quality, you know, high yield player versus investment grade. So, I just kind of curious, do you see any business kind of, you know, benefits of going to an IG or how should we think about that, you know, the whole issue?

Q

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

Yeah. So the Preferred Bs are do get equity credit. It varies by agency, but we do get some equity credit, certainly from our credit facility ratio we get full equity treatment for those. That said, you know, it is our highest cost of capital in the capital structure and buying them back at almost an 8.5% yield, we think is a great way to continue to delever the balance sheet, regardless of the equity treatment.

A

From a rating agency perspective, I think we've got very good momentum with the agencies. I would say that we've beat any forecast that we've put in front of them over the last couple of years. And we – our credit profile has improved significantly. I would also add that investment-grade ratings are probably not an objective in and of themselves, as you point out. From a cost of capital perspective, I think we can achieve good cost of capital. But we are working our way back towards those metrics and expect some progress there.

**Sunil Sibal***Analyst, Seaport Global Securities LLC*

Got it. Thanks for that.

**Operator:** Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to the management team for any final remarks.

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

Thank you, Rocco, 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. We look forward to updating you with our first quarter results in May. In the meantime, we wish you all well, stay healthy, and have a great day.

**Operator:** Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may disconnect your lines and have a wonderful day.

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