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EnLink Midstream LLC (ENLC)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to EnLink Midstream's Fourth Quarter 2020 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this call is being recorded today Wednesday, February 17, 2021, at 9:00 AM Eastern Time.

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

Kate Walsh
Vice President-Investor Relations & Tax, EnLink Midstream LLC

Thank you and good morning everyone. Welcome to EnLink's fourth quarter of 2020 earnings call. Participating on the call today are Barry Davis, Chairman and Chief Executive Officer; Ben Lamb, Executive Vice President and Chief Operating Officer; and 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.

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

This call also includes discussion pertaining to certain non-GAAP financial measures. Definitions of these measures as well as reconciliations of comparable GAAP measures are available in our press release and the

appendix of our presentation. We encourage you to review the cautionary statements and other disclosures made in our press release and our SEC filings, including those under the heading Risk Factors.

We'll start 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.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Kate, and good morning everyone. Thank you for joining us today to discuss our fourth quarter and full year 2020 results. We'll also spend time discussing and unpacking our 2021 outlook. On behalf of EnLink, we hope you, your families and colleagues are staying safe and healthy as we continue to navigate the ongoing pandemic. I also want to acknowledge those on the frontlines battling our most recent significant weather event where extreme cold is having a severe impact on a number of our home states. I want to personally thank our EnLink team members who have and continue to work through frigid temperatures to get impacted operations back up and running and to ensure that we all have the energy that we need to power our lives. Thank you for what you're doing.

After an incredibly challenging 2020, we are truly proud of EnLink's performance. We took swift and aggressive action at the beginning of the pandemic, and our EnLink team continuously stepped up to the challenges all year long to produce strong financial and operational results. And it's the strength of the 2020 results that is the foundation for the solid 2021 guidance targets we have set.

For the fourth quarter, EnLink delivered another strong resilient quarter. We achieved adjusted EBITDA of $262 million and we achieved $92 million of free cash flow after distributions, right in line with our expectations. Fourth quarter rounded out overall 2020 performance where we exceeded the high end of our guidance ranges for both adjusted EBITDA and free cash flow after distributions. We achieved over $1 billion of adjusted EBITDA and over $300 million of free cash flow after distributions for the year. When we drill down into our asset segment performance, all four segments generated free cash flow during 2020.

This is a tremendous outcome from one of the most challenging periods in our industry's history. We couldn't have achieved our 2020 results without relentless execution from our team. We reduced our cost structure by 23%, removing over $140 million of costs from what is essentially the same-store business. We elevated our return thresholds and reduced total CapEx net to EnLink by 65% year-over-year. And we reduced leverage, improved liquidity and strengthened our capital structure.

Now, let's talk about what we're going to accomplish in 2021. We have four key focus areas that our team is executing on today. First is operational excellence and innovation. We have developed a rigorous company-wide program to mine for opportunities which elevate our efficiency, and we execute the ones with the highest returns. Our goal is to be a leader in innovation and efficiency, and we are well on our way with what our team is accomplishing. We have fully embraced an efficiency mindset and are challenging how to operate our business better each and every day. We have over 100 initiatives identified which push forward how we maximize asset utilization while minimizing capital spending and achieve substantial improvements in our processes and operations, all of which improved our bottom line.

Our second focus area is financial discipline and flexibility. The tremendous cost savings we achieved in 2020 are largely sustainable in 2021, and likely beyond. And with the operational excellence and innovation focus I just discussed, we think we can reduce costs further in certain areas. We continue to sharpen our approach to capital

expenditures and are reducing CapEx by 25% this year. And we are forecasting another year of very strong free cash flow after distributions in 2021, similar to what we achieved in 2020.

Our third focus area is strategic growth. We are going to be deliberate and disciplined with our approach to strategic growth. Our plan is centered around finding small, highly accretive bolt-on opportunities around our footprint that are leverage-neutral or better. We are dedicating an outsized portion of our business development efforts to finding opportunities that leverage our extensive Gulf Coast infrastructure and which will increase our natural gas and NGL presence downstream.

We also see a number of small-scale, capital-light, tuck-in-type opportunities around our assets that are very capital-efficient and that have the types of compelling return profiles we are searching for. As Ben will discuss, we recently completed a small transaction whereby we acquired the Jefferson Island Storage & Hub assets. These assets provide a unique opportunity for us because of the interplay they have with our Henry Hub assets and our existing Louisiana natural gas network. We will continue to evaluate every opportunity through our return on investment lens and will not execute anything that isn't highly accretive to the strong platform we operate today.

And our fourth and final focus area is sustainability and safety. Having high standards for sustainability and safety is in our DNA at EnLink, and we consider sustainability and safety in everything that we do. You will see us ramp up our efforts both in substance and communication in 2021. We're working on new emission reduction targets which, along with our third sustainability report, we will make public this year. To achieve our goals, we'll use technology and innovation to lower our carbon footprint. For example, we are going to increase the use of renewable energy in our own operations. And one last key point; despite the distractions and storms over the past 12 months, EnLink's safety performance continues to be the best it has ever been.

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

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

Thanks, Barry, and good morning everyone. Before I give our asset update, I want to address the severe weather event Barry mentioned that we've experienced recently and that we're still dealing with. As you all know, the areas in which we operate have experienced extreme prolonged cold weather during the past 10 days in which the frigid temperatures, along with unusual levels of ice and snow, have wreaked havoc on the energy grid. Our operations have felt the repercussions of the recent weather, and we've experienced a significant but short-term reduction in volumes, mainly in Oklahoma and Texas. At this point, the financial impact isn't quantifiable. But one thing that is certain is how proud we are of our EnLink team for how they have responded and for operating in the freezing cold not only to minimize the impact to our business but, more importantly, to make sure we get natural gas and NGLs back online to heat our homes and power our lives.

Now, let's walk our assets and let's start with the Permian. We achieved strong segment profit in the Permian for the quarter, reporting $48 million, which is approximately 3% higher than the third quarter of 2020 and approximately 29% higher than the fourth quarter of 2019. Strong results for the fourth quarter compared to a year ago were driven primarily by growth in natural gas volumes, with additional contributions from cost reductions.

Average natural gas gathering volumes for the fourth quarter were approximately flat compared to the third quarter of 2020 and approximately 16% higher compared to the fourth quarter of 2019. Average natural gas processing volumes for the fourth quarter decreased sequentially by approximately 2% driven by lower onloaded volumes from neighboring midstream companies, but increased by 7% compared to the fourth quarter of 2019.

Drilling activity remains strong on our footprint throughout the fourth quarter and continues to be consistent as we make our way through the first quarter of 2021.

Top of mind these days for the investment community when we talk about our Permian business is our exposure to federal land. Company-wide, our exposure is very limited, around 4% of total segment profit net to EnLink. The impact to us is primarily limited to our operations in New Mexico. And for the most part, our business in that area is in a joint venture, of which we own 50%. Also, producers on our footprint have been very proactive in accumulating a multi-year inventory of drilling permits.

Pivoting to the Midland side of the Permian, yesterday, we announced a low-cost, high-return natural gas processing capacity expansion. We are going to relocate an underutilized plant on our Oklahoma footprint to the Midland Basin. We are forecasting the relocation to cost approximately $30 million, which represents savings of roughly 65% as compared to a newbuild. The expansion will add 80 million cubic feet a day of natural gas processing capacity and should be operational during the second half of this year.

When we look forward, we are projecting another strong year of growth for our Permian business. At the midpoint, we are forecasting that segment profit will increase by over 20% to $210 million. The expected growth is primarily driven by our Midland natural gas footprint, which is why we need the additional processing capacity in the second half of the year. We also have a deep inventory of drilled but uncompleted wells on our footprint, and it is our expectation that many will get completed throughout 2021.

Turning now to Louisiana, segment profit for the quarter was strong, coming in at $88 million. This represents a 27% increase from the third quarter of 2020 and a 2% increase from what was a very strong fourth quarter in 2019. The strength in segment profit was driven primarily by seasonal tailwinds in our NGL subsegment and was also bolstered by NGL enhancements coming out of North Texas and strong natural gas transportation volumes throughout the quarter.

Louisiana segment profit for 2021 is forecast to be $305 million at the midpoint, which is similar to what we achieved in 2020. Our natural gas subsegment is expected to benefit from strong demand throughout 2021. The growth in the natural gas business is expected to be somewhat offset by a lower current run rate in the Ohio River Valley subsegment and slightly muted results in the NGL subsegment as a result of near-term excess fractionation capacity in the Gulf Coast market. That said, our business development team is very focused on additional business opportunities like our transportation agreement with Venture Global's Calcasieu Pass LNG facility which began as of this month.

During the fourth quarter of 2020, we closed on a small bolt-on transaction that is consistent with our strategy of focusing on highly accretive tuck-in opportunities around our footprint, with an emphasis on downstream projects. We bought the Jefferson Island Storage & Hub assets which include 2.25 bcf of working natural gas capacity strategically connected to our Louisiana natural gas system. These assets can be expanded at an attractive cost, and we will provide transportation services across a variety of pipelines which access markets via these new assets and the Henry Hub, which we own and operate. The Jefferson Island assets are uniquely valuable to us because of the connectivity with our existing footprint, and it's a great example of the types of opportunities we're evaluating across our asset base.

Moving on to Oklahoma next, we delivered $104 million of segment profit for the fourth quarter of 2020, which was approximately 4% lower than the third quarter of 2020 and 11% lower than the fourth quarter of 2019. Natural gas gathering volumes decreased by approximately 7% sequentially and decreased 20% year-over-year. Natural gas processing volumes were down 6% sequentially and down 15% year-over-year. Oklahoma continues to be a

very strong source of cash flow for us. We will see that cash flow step down a bit in 2021 with the roll-off of the minimum volume commitment we had with Devon where we had been collecting deficiency payments. This is the last significant roll-off of an MVC deficiency that we have in our contract portfolio.

For 2021, we are forecasting Oklahoma segment profit to be $310 million at the midpoint, representing roughly a 25% reduction from 2020. More than half of that reduction is related to the MVC expiration. During the second half of 2021, we expect to begin receiving volume from Devon's joint venture project with Dow. The JV brought rigs onto our footprint in early January. And while we see a modest impact to our 2021 results from this project, we will realize the full benefit in 2022.

Wrapping up with North Texas, segment profit for the quarter was $62 million, which decreased by approximately 7% compared to the third quarter of 2020 and by 14% from the fourth quarter of 2019. The lower segment profit was driven in part by expected volume decline in this mature basin and also in part due to the reduction in processing fees charged to BKV in exchange for NGL enhancements realized in our Louisiana segment. For 2021, we are forecasting segment profit of $230 million, at the midpoint of our guidance range. North Texas continues to be a predictable, stable and significant source of free cash flow for us. And if we continue to see consistency in natural gas price strength, there could be additional upside to harvest as the year progresses.

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

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 strong fourth quarter, achieving $262 million of adjusted EBITDA. This result is the same as last quarter and underscores the stability and resiliency of our platform. EnLink also achieved $92 million of free cash flow after distributions for the fourth quarter of 2020, including an $11 million expense to unwind interest rate hedges associated with our term loan repayment. Importantly, all of our four segments delivered strong cash flow contributions. For full year 2020, EnLink delivered adjusted EBITDA of $1.039 billion and free cash flow after distributions of $311 million. We exceeded the high end of our guidance ranges for both key metrics as a result of our team's strong execution, capital discipline and ongoing cost control. Our team continues to do tremendous work on all fronts as we begin 2021.

On the cost control front, our team's focus on efficiency allowed us to take out 23% of annual operating and general and administrative costs from our structure relative to 2019. This is something that our team can truly be proud of. We took swift and necessary actions to position EnLink financially and operationally for long-term success. 100% of the 2020 cost reductions will be sustained in 2021. Although some of the savings are variable in nature and will come back as industry activity increases, we expect 85% to 90% to be sustainable, even in a moderate growth environment. Additionally, we have a continuous improvement process embedded in our operations, and I am confident that our team will repeatedly find ways to operate more efficiently.

Along with the tremendous focus on costs, our team is showing great capital discipline. Capital expenditures net to EnLink for the quarter were $33 million and $219 million for full year 2020, in line with our guidance midpoint. CapEx was down 65% from 2019 and will step down again in 2021. We are committed to a disciplined investment approach with high hurdle rates and quick paybacks.

One of our top priorities continues to be maintaining our strong liquidity and financial position, and our team did great work in this regard during the fourth quarter. We completed a three-year $250 million AR securitization facility with an attractive rate of LIBOR plus 162.5 basis points. We also issued $500 million of seven-year senior

unsecured notes with a coupon of 5.625%. We'll use the proceeds to repay $500 million of our $850 million term loan. Although there was ample demand to grow the offering, we chose to keep $350 million on the term loan so that we can continue to reduce that through free cash flow.

Also, in the fourth quarter, we repaid the remaining $75 million of borrowings under our revolver, ending the year with nothing drawn on the $1.75 billion facility. Our debt to adjusted EBITDA ratio was 4.1 times at year end, as calculated per our credit agreement. Reducing leverage below 4 times continues to be our objective, and we will likely set a new lower objective over time. With the strong free cash flow generation of our business and our ample revolver availability, we are solidly positioned to repay the remaining $350 million term loan balance by the end of the year. As we look forward, we have a very favorable debt maturity horizon with over 30% of our bonds not maturing for another 20 years or more and our next senior notes maturity not until 2024.

Next, let me turn to the 2021 guidance we announced yesterday. From an adjusted EBITDA standpoint, we are forecasting a range of $940 million to $1 billion with a midpoint of $970 million. When you remove the $56 million of MVC deficiency payments we received from Devon during 2020, the 2021 adjusted EBITDA midpoint is forecasted to be close to flat year-over-year. In addition, the MVC roll-off is a one-time event as we don't have other significant MVCs on which we are collecting payments expiring in coming years. Approximately 90% of our adjusted EBITDA is fee-based, leaving the remaining 10% directly linked to commodity prices.

Our guidance is based on average prices of $0.55 per gallon for NGLs, $3 per MMBtu for natural gas, and $50 per barrel for WTI. If the commodity backdrop improves throughout the year, we will likely be able to capture some additional upside from prices and customers may also ramp up activity, which could contribute to volumes. We expect EBITDA to ramp up in the second half of 2021 as additional volumes come online, incremental to normal seasonal strength that we see in our Louisiana business in the fourth quarter.

Total capital expenditures, which include the costs associated with Project War Horse, the plant relocation that Ben discussed, are forecasted to be between $140 million and $180 million in 2021. Aside from Project War Horse, we expect 2021 capital to be heavily weighted to well connects and gathering infrastructure, projects that have very high returns and quick paybacks. Although 2021 CapEx is 25% less than 2020, we believe that this level is sufficient to support a modest level of EBITDA growth beyond 2021. We will continue to evaluate small tuck-in acquisition opportunities around our existing footprint, but those investments will have to clear a high bar with respect to returns and not impede our deleveraging objective.

With respect to free cash flow after distributions, we are forecasting a 2021 range $275 million to $325 million, which is $300 million at the midpoint, very similar to our 2020 results. The free cash flow generation of our platform is tremendous, with all four segments contributing. We are committed to a disciplined and balanced allocation of our free cash flow. While delevering the balance sheet remains our top objective, we have the financial flexibility to pursue other high-return opportunities and return capital to unitholders. We feel our distributions are at a very sustainable level. In addition, we completed approximately $1 million of unit repurchases in the fourth quarter of 2020 at a yield of 12.5%, and we will remain dynamic with our unit repurchase program rather than having a formulaic approach.

The last thing I want to mention is a thank you to our team for their very high level of commitment to our success and their strong execution focus. The team's efforts have helped us to strengthen our financial position and exceed our financial objectives for 2020. I am confident in our team, our platform and our ability to continue to deliver in 2021. With that, I'll turn it back to Barry.

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

Thank you, Pablo. As you know, about 90% of EnLink's business is natural gas and NGL services. When I walk around our assets, there is a lot to be optimistic about going forward. Our Permian business continues to see a very high level of rig activity on our footprint, and we are forecasting double-digit growth again this year. In Louisiana, we have the largest natural gas pipeline network in the state, and the bullish demand market for natural gas and NGLs offers significant upside and opportunity for us.

In Oklahoma, we have a leading midstream position in the STACK, and the Devon-Dow JV has been running two rigs on our acreage since early January, and this commodity price environment could incentivize incremental rig activity. In addition, we see compelling opportunities for midstream asset rationalization, which could lead to attractive small bolt-on acquisitions around our footprint. And in North Texas, we have a leading midstream position in the Barnett. And although it is a mature natural gas play, the strong natural gas demand outlook could spur new activity on our footprint as the year progresses.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question is from James Kirby with JPMorgan. Please go ahead.

James M. Kirby
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning.

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

A

Good morning, James.

James M. Kirby
Analyst, JPMorgan Securities LLC

Q

Good morning. Just wanted to start off with the Permian. Looks like processing volumes were down slightly sequentially. I think you cited lower onloaded volumes from midstream peers nearby. Are you seeing that continue into 2021? And then just larger picture in the Permian. How are you thinking about well connection and cadence for the year in the basin?

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

A

Yeah. Hey, James. It's Ben. On the first part of your question, yeah, processing volumes were down a little bit, but gathered volumes were up. And so what that's telling you is that we've got more full service field production from dedicated acreage. And in this particular quarter, it happened to be offset by less onloaded volume from our neighboring midstream companies. And that's not unexpected; we expected that to happen. And that's fine because it frees up the space that we need for the growth that we're expecting to see in the Midland Basin in

2021. In terms of well connect cadence, it's been a busy first quarter, and I think it will continue to be busy throughout the year. We have a record level of DUC inventory as a result of the fact that our producers drilled through the cycle last year even as, at times, they kind of took a frac holiday. So we expect to see robust volume growth especially on the Midland Basin side of the Permian.

James M. Kirby
Analyst, JPMorgan Securities LLC

Q

Got it. Thanks. That's helpful. And then maybe just shifting to the – you mentioned commodity upside in the business. And I was wondering if there's any color commentary you can share on maybe sensitivities to each commodity. Or maybe in the context of the guide, is the upper end – are higher prices kind of built into the upper end of that guide there?

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

A

Yeah. This is Pablo. That's a good question. So first of all, we refer to the guidance range which is plus or minus $30 million from the midpoint, so that's about a 3% range. We provided the price deck that we use for that guidance. And yes, you would note that given today's commodity prices and the forward curve, there's a little bit of upside there, particularly with respect to NGLs. So price, that would have some impact and we have the ability to put us towards the top end of the range. The other factor of course is the pace of activity ramp up in the Midland Basin and in Oklahoma with the Devon-Dow JV, and how our volumes can also flow and affect our Louisiana business. So not specific on what the pricing upside would be just because it's complicated with NGL prices, gas prices, differentials, C2/C3 spread and other factors. But suffice it to say that there is little upside from pricing there.

James M. Kirby
Analyst, JPMorgan Securities LLC

Q

Okay. Got it. Thanks. I'll leave it there. Appreciate it.

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

A

Thank you, James.

Operator: The next question is from Gabe Moreen with Mizuho. Please go ahead.

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, everyone. Barry, if I could circle back to your comments on M&A. You mentioned, I think, tuck-in acquisitions and I think trying to target certain areas strategically like NGL downstream. Can you maybe elaborate a little bit more on that? And then, as far as the nature of the M&A being tuck in, would you characterize it as precluding bigger midstream deals at this point? Clearly, there was a major transaction announced this morning. Just curious for your thoughts there, too.

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

A

Yeah. Thank you, Gabe. As I said in the prepared remarks, our focus today is on the close-in consolidation-type opportunities we see or things that are really leveraging off of our existing footprint. And just to highlight, I mean, I

think if you go around the areas that we focus, you've got kind of different stages of readiness, if you will. I mean, we've been doing that in North Texas for some time in a more mature basin. I think Oklahoma certainly is in the middle of a consolidation, and I think the Permian is sometime in the future. So that is our focus. We think we'll see opportunities there.

And then as far as the bolt-on opportunities in Louisiana, glad to deliver on something in the Jefferson Island Storage acquisition. A great addition to our assets there, very complementary with everything we're doing around the Henry Hub and our existing storage facilities and just really the merchant business that we're in there in Louisiana. So that's our focus. I think it's a lot like what we've said a lot about which is we're focused on internal, the self-help things that we can do, and certainly those close-in opportunities are in that vein.

As it relates to larger scale, I guess I was prepared last night to answer the question on that by saying that I felt like all of us were focused more internally on self-help things, but we saw the announcement this morning. But I guess I would say, notwithstanding that announcement, most of us are focused internally making our businesses better, and we're doing some really good work around that. And so I do think that the subject of consolidation or combinations is one that the market will continue to focus on. And I think it's a good thing when you can accomplish, the result of increased scale, stronger financial position; when you can achieve synergies and cost efficiencies. Those are good things, and I think the market will continue to focus on that.

So the challenge will be to deliver that for all of us. If we look at things in the future, I think that's what we've got to do. We've got to deliver on them. Larger for larger's sake is not the game today, and we have to deliver on the things that we're after if we look at combinations.

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Q

Thanks, Barry. And if I could just follow-up with kind of two smaller ones. One is just on Jefferson Island. If you'd be willing to disclose the costs and maybe contracts behind that asset. And then also, I think the comments on renewable energy incorporating that. Is that something you're actually going to be spending any CapEx on or is it – or just contracting for potential renewable power?

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

A

Yeah. Hey, Gabe. I'll start on Jefferson Island. It was about a $30 million acquisition. So like Barry says, a small tuck-in. The assets really work well with what we have. A little bit of history. Probably most people don't realize Jefferson Island was actually developed by LIG, which is a system that we own today. And then when the previous owner of LIG sold the assets, they chose to split them up. And so what we're really doing is putting the assets back together. But they were built to work together and it gives us a salt dome storage cavern that is directly connected to our Henry Hub assets and lets us offer a pretty unique product to the market, and also has interconnectivity with pipelines that we didn't have on our gas system. And so it's a pretty unique way to integrate an acquisition.

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

A

Yeah. Gabe, let me address your renewable energy question towards the end. Let me say this. Our focus right now is to do the things that are practical, the things that we can do to leverage off of our business to make it better and to continue to expand on the really good position that we have today which is 90% of our business is on the lower carbon natural gas business. And we believe natural gas will be a major component of global energy

for the next several decades. But there are things that we can do to become better, and we're focused on those. Longer-term, I think we can use our extensive assets and the relationships that we have with our customers to participate in opportunities that make sense. But I want to be really clear about this. We won't chase renewable energy just to say that we've done renewable energy; it's got to make sense for us, it's got to be strategic, and it's got to have a return associated with it. And so when we see those opportunities, we'll be in a position to take advantage of it.

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Q

Thanks, Barry.

Operator: The next question is from Shneur Gershuni with UBS. Please go ahead.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

Hi. Good morning, everyone. Maybe to start off a little bit here. I just kind of wanted to focus on the cost and optimization side. In your prepared remarks, you talked about being able to mostly maintain the cost reductions that you achieved in 2020 and are focused on incremental opportunities. And I understand the fact that when volumes grow, variable costs could go up as well, too. So in this scenario, or hypothetical, just holding that flat if volumes don't change. Can you give us some details and color around what kind of cost reduction exercises you're now pursuing? Is it further labor cost reductions or are those mostly done? What other type of opportunities and is there kind of a dollar target that you've set internally to achieve in that respect?

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

A

Yeah. Sure. I think, again, to highlight what we said in the prepared remarks. First of all, we believe that the cost savings that we were able to experience, first of all, are industry-leading, to be able to reduce by 23%; we're very proud of that. Secondly, it is a mindset. It is something that we were working on well before we got into the global pandemic situation of early 2020. In the second half of 2019, we started making significant adjustments to the way that we run our business and started taking costs out. And so we were in a good position going into 2020 to continue that effort.

That mindset continues today. We have teams that are – woke up this morning who are very focused on driving costs out of the business and getting more efficient. As I mentioned, we've got 100 initiatives that we're currently evaluating and processes that we are running to do a better job of running our business efficiently. So we're getting better all the time. Again, as we said, the cost savings that we saw in 2020 are largely sustainable in 2021. It's hard for us to predict that we're going to see enough change in 2021 to see those costs come back. As we get into 2022, then certainly, as we see more activity, you could see some of that come back. But again, I think we will be finding new savings that will offset the costs that may come back into the business. So our goal or our challenge will be to maintain as much of that, and largely we think we can. Ben? Pablo? Would you go to any specific areas on that?

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

A

Yeah. I'd just say, Barry, you covered it that, Shneur, it's all across the business. It's operating expense, it's G&A expense; it's every facet of the business. And what I want to really emphasize is that it is a continuous improvement process. We define and measure ourselves. We find solutions and implement those solutions. And

then, most importantly, we control those solutions over time so we don't let anything backslide. And over time, we can go through our business piece-by-piece and just continue to drive that cost out and drive the efficiency in the business. And that's the magic, is you're never done; it's truly a continuous process.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

So Ben, are you effectively instead of – maybe asking the question a little differently. Instead of asking for a dollar target and so forth, are you setting an efficiency target or a productivity target? Like, we want to have X percent increase in productivity or efficiency during 2021?

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

A

Yeah. Shneur, I would say it's in so many pieces that it doesn't lend itself to an easy soundbite. But just to give you one example, last year, we had a goal for our field compressor stations to be online 98% of the time, which we think is already probably 100 basis points better than the industry. This year, we're at 98.5% on that goal. And if we achieve that the next year, we may move up. And that's one example. There's dozens of those kinds of targets that we set for ourselves.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

Okay. That makes sense. And maybe to ask a question on the revenue optimization side as well, too. I noticed in your remarks and in the slides that you're talking about centralizing and so forth. Is that the way – or centralizing controls. Is that the way that you plan to capture some revenue opportunities as well also? Like, you capture irregularities in the market faster and are able to pounce on them when they arrive? I'm just wondering if you can give some examples on revenue optimization opportunities.

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

A

Yeah. Shneur, you're thinking the right way about that. And maybe an easy example is we have fantastic operating teams in the field at all of our plant sites, and they do amazing jobs every day. But their job is hard. They're running the plant but they're also managing any contractors that might be in the plant that day. They're interacting with the field operations team. And so we have a second layer of monitoring that happens in a central location where we can see all of the plants in real time, the exact same screen that the plant operators can see in the plant control rooms.

And when that second layer of monitoring sees an opportunity, sees that with a change in pressure or a change in temperature within the plant we could perhaps get a little bit more recovery or use a little bit less fuel, then we have the ability for them to communicate in real time and make sure that we never miss that opportunity. And that also promotes best practice sharing. What we find works well at one plant often can be translated into others. And so it's a very collaborative approach and it promotes a lot of communication between our central monitoring center in the field and also between the various field operations themselves.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

Okay. Great. Maybe one final question just for Pablo here. With the expected free cash flow after distribution expected to be generated this year, is the goal to direct it primarily towards paying off the term loan or will there be some flexibility for buybacks?

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

A

Shneur, yeah. Thanks for that question. Our approach is really a balanced approach. It's not so formulaic, but deleveraging the balance sheet is clearly the top priority, so you'll likely see most of the cash flow go to that. I do think we find ourselves with good financial flexibility, and Barry talked about our focus on growth projects or tuck-ins with very high returns and quick paybacks. We can also return capital to shareholders, which we're doing through a very stable distribution. But it's not a formulaic approach on the share repurchase program.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

All right. Perfect. Thank you very much. Appreciate the color today and stay safe and stay warm.

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

A

Thanks, Shneur.

Operator: [Operator Instructions] The next question is from T.J. Schultz with RBC Capital Markets. Please go ahead.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. Hey, good morning. Just first for the Midland outlook this year, just a follow-up on the record DUCs that you mentioned. It sounds like you've been busy so far this year. Can you just provide your view on sensitivity to the oil price for completion activity to continue at that pace or maybe even accelerate quicker if the outlook moves to $60 oil rather than $50 oil? Thanks.

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

A

Yeah. Hey, T.J. It's Ben. So I think that for the most part, the big public producers who account for the majority of our business in the Permian, I think their plans are largely set for this year. And I think if they see higher crude prices, then that becomes a capital allocation question for them that probably doesn't turn into incremental 2021 activity. I think it could turn into incremental 2022 activity if we see those prices hang in. Where we might see a little bit of change in pace or even a little bit of incremental activity would be among our private customers who perhaps have different expectations from their investor base than the public guys do. So for the most part, I think the table is pretty well set. And the good news is it's set well for us with the number of DUCs that we have on the system and supportive price environment. I think we'll see the completion schedule come to fruition and maybe a little bit of upside around the edges on the private side.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks. And then are the tuck-ins and bolt-ons that you've talked about, including Jefferson Island and what may be anticipated, all considered within the growth capital budget you gave for 2021 or is it additive? Thanks.

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

A

T.J., this is Pablo. Those would be additive. So in the capital budget, that's primarily the well connects and associate infrastructure primarily in the Midland Basin and in the Project War Horse plant. Anything outside of that would be incremental.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Okay. Perfect. Thanks.

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

A

Thank you, T.J.

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

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

Thank you, operator, 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 quarterly results in May. And in the meantime, we wish you all well. Stay healthy and stay warm. Have a great day.

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