Final

2015 Fourth Quarter
Results Conference Call
February 18, 2016

Notice: This transcript contains references to non-GAAP financial measures. A presentation of the most directly comparable GAAP measures and reconciliations to non-GAAP financial measures used in this presentation is available on our website at genlp.com and click on the non-GAAP Reconciliations icon at the Investor Relations page.

Welcome to the 2015 Fourth Quarter Conference Call for Genesis Energy. Genesis has five business segments. The Offshore Pipeline Transportation Division is engaged in providing the critical infrastructure to move oil produced from the long-lived, world-class reservoirs from the deepwater Gulf of Mexico to onshore refining centers. The Onshore Pipeline Transportation Division is principally engaged in the pipeline transportation of crude oil. The Refinery Services Division primarily processes sour gas streams to remove sulfur at refining operations. The Marine Transportation Division is engaged in the maritime transportation of primarily refined petroleum products. The Supply and Logistics Division is engaged in the transportation, handling, blending, storage and supply of energy products, including crude oil and refined products. Genesis' operations are primarily located in Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida, Wyoming and the Gulf of Mexico.

During this conference call, management may be making forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The law provides safe harbor protection to encourage companies to provide forward-looking information. Genesis intends to avail itself of those safe harbor provisions and directs you to its most recently filed and future filings with the Securities Exchange Commission. We also encourage you to visit our website at genesisenergy.com where a copy of the press release we issued today is located. The press release also presents a reconciliation of non-GAAP financial measures to the most comparable GAAP financial measures.

At this time, I would like to introduce Grant Sims, CEO of Genesis Energy, L.P. Mr. Sims will be joined by Bob Deere, Chief Financial Officer, and Karen Pape, Chief Accounting Officer.

Introduction and Comments on Third Quarter 2015

[Grant]

Good morning and welcome to everyone.

This morning, we reported Available Cash before Reserves of 102.3 million dollars, providing 1.42 times coverage of the total distribution we paid on February 12th. That distribution of 65.5 cents per unit represents the 42nd consecutive increase in our quarterly distribution, 37 of which have been greater than 10 percent over the prior year's quarter and none of which has been less than 8.7 percent.

As we stated in the earnings release, we are not totally immune to certain macroeconomic effects of a bursting bubble in the energy space. A lot of the headwinds have already manifested themselves, like competition for the marginal barrel in certain areas where we historically gathered lease crude but cannot now compete against those that have sunk cost economics downstream. We have discussed over the years the reduction in contribution in our heavy fuel oil business, an indirect victim of the shale revolution. We have also discussed the direct effect on the price of the 30,000 barrels per quarter of PLA we collect, not a big number volumetrically, but when prices drop as precipitously as they have, it can mask the contribution of increasing volumes on our pipelines. The cumulative effect of these headwinds, by our analysis, is approximately a negative plus or minus 10 million dollars a quarter.

Starting in the first quarter, we are seeing pressure on rates and utilization of our blue water, coast wise barges. There are a number of factors contributing to this including, but not necessarily limited to: significant new builds, both M/R's and ATB's, coming into the market at the same time as the arb to the east coast has closed, there's significant declines in Eagle Ford production, a relatively mild winter and because the paper market for crude and products is in such steep contango, people are economically incented to keep barrels in storage. Our inland fleet, comprised almost exclusively of internal heater barges not moving crude but rather intermediate refined products for refiners, and the American Phoenix, which is under contract through September 2020, continue to perform well. However, we will have to deal with perhaps as much as 5 million dollars a quarter in reduced contribution from our blue water fleet for the foreseeable future, meaning the Hornbeck acquisition we did in 2013 will back all the way up to a 9.5 multiple instead of the 5.5 multiple we enjoyed when times were good and which we recognized would not last forever.

The cumulative negative effect is about 15 million a quarter to us, not inconsequential but certainly manageable. In one sense, it puts us in a 1.3 to 1.4 coverage world instead of a 1.5 to 1.6, not a bad position to be in, with the practical effect of not being able to pay down Libor plus 250 debt as fast as we would with the greater excess cash we would generate if we lived in a perfect world.

Most importantly, we have positioned the partnership not to have to access external capital sources before July of 2019, the expiration date of our secured credit facility. We have four tranches of senior un-secured bonds, one each maturing in 2021, 22, 23 and 24 by design. We have absolutely no need for equity, as our excess coverage provides us with substantial financial flexibility.

I will also mention that as we began to see the effect of some of these challenges, we began a process last fall to evaluate how we might best respond to them. We are diligently taking actions to ensure that our costs are aligned with our business opportunities. Unfortunately, one of those steps necessarily required an evaluation of employee headcount at both the operational and corporate levels. We will take a charge in the first quarter of approximately three and a half million dollars to reflect certain severance and restructuring expenses. We would expect, in combination with other identified cost initiatives, to realize approximately a 2 million dollar benefit in the second quarter and a full 3 million dollar a quarter run rate in savings beginning third quarter of this year.

We are not overly anxious nor concerned about the near or long term prospects for the partnership. Our business and strategies that we have put together, coupled with the growth projects that will be ramping up in terms of financial contribution throughout the next several years, should position us well to continue to achieve our goals, which by the way haven't changed in 10 years, of delivering low double-digit growth in distributions, an increasing coverage ratio, and ultimately an investment grade leverage ratio, all without ever losing our cultural focus on providing safe, responsible and reliable services.

With that, I will turn it over to Bob.

Results of Operations

Comparison of Fourth Quarter 2015 to 2014

[Bob]

Thank you, Grant

In the fourth quarter of 2015, we generated total Available Cash before Reserves of $102.3 million, representing an increase of $39.4 million, or 63%, over the fourth quarter of 2014. Adjusted EBITDA increased $55.1 million over the prior year quarter to $137.6 million, representing 67% year over year growth.

Net income attributable to Genesis for the quarter was $27.4 million, or $0.25 per unit, compared to $26.2 million, or $0.28 per unit, for the same period in 2014.

Segment Margin from our Offshore Pipeline transportation segment increased $51.4 million, or 205%, between the fourth quarter periods. The increase was primarily the result of the acquisition of the offshore pipeline business of Enterprise Products in the third quarter of 2016. The acquired business is performing at or slightly above expectations. On a comparable basis, throughput volumes on our offshore pipelines increased in the aggregate both sequentially and on a year over year basis as a result of new fields such as Lucius and Delta House being brought on stream as well as the result of development activities in existing fields. The Gulf of Mexico deepwater fields are typically long-lived productive assets that are developed by integrated oil and gas companies or independent producers with strong balance sheets. These fields continue to experience on-going development activities as they rank favorably for companies prioritizing investment in long term return projects.

Onshore Pipeline transportation segment margin increased $0.6 million, or 4%, between the fourth quarter periods. The increase was primarily the result of an increase in volumes and associated tariff revenues mainly on our Texas and Louisiana pipeline systems, as well as the initial throughput volumes and tariff revenues earned on our new Wyoming pipeline system from our new receipt locations in Campbell and Converse counties with delivery to our Pronghorn Rail Facility. These increases were partially offset by decreases in volumes and revenues on our other onshore pipeline systems.

Refinery services segment margin decreased $0.3 million, or 2%, between the fourth quarter periods. That decrease primarily resulted from lower total volumes as compared to the 2014 Quarter. The decline was attributable to the bankruptcy of one mining customer and reduced sales to a major customer as they work through an atypical ore seam as a result of a landslide, coupled with increased prior year volumes generated from heavy turn around schedules at certain customers. We were able to realize benefits from our favorable management of the purchasing (including economies of scale) and utilization of caustic soda and our logistics management capabilities, which somewhat offset the effects on Segment Margin of decreased NaHS sales volumes.

Segment Margin from our Marine transportation segment decreased $1.0 million or 4%, between the fourth quarter periods. This decrease is primarily attributable to fewer working days relative to the 2014 quarter due to previously scheduled regulatory drydockings of certain vessels in our inland and offshore fleets. The decrease is partially offset by a full quarter of operating results from the M/T American Phoenix in the 2015 quarter, which we acquired in November 2014.

Supply and logistics Segment Margin increased by $0.1 million, or 1%, between the fourth quarter periods, primarily due to improved operating results in our now right-sized heavy fuel oil business relative to the 2014 quarter, as well as an increase in rail volumes at our Scenic Station rail terminal. These increases were partially offset by continued lower demand in our historical back-to-back, or buy/sell, crude oil marketing business associated with aggregating and trucking crude oil from producers' leases to local or regional re-sale points. We continue to find it difficult to compete with certain persons in the market who are willing to lose money on such local gathering because they are attempting to minimize their losses from minimum volume or take-or-pay commitments they previously made in anticipation of new production that has not yet come online.

Corporate general and administrative expenses included in the calculation of Available Cash before Reserves decreased by $4.3 million mainly due to lower employee related costs associated with our annual bonus program. Interest costs for the fourth quarter of 2015 increased by $14.5 million from the fourth quarter of 2014 primarily due to an increase in our average outstanding indebtedness from recently acquired and constructed assets, principally related to additional debt outstanding as a result of financing the Enterprise acquisition. Interest costs, on an ongoing basis, are net of capitalized interest costs attributable to our growth capital expenditures.

In addition to the factors impacting Available Cash before Reserves, depreciation and amortization expense increased $27.7 million between the quarterly periods primarily as a result of the effect of placing recently acquired and constructed assets in service during calendar 2014 and the early part of 2015. Equity earnings in our unconsolidated joint ventures also decreased by $9.4 million between the quarterly periods. As a result of the Enterprise acquisition, the composition of our equity investments has changed from year earlier periods and certain basis adjustments have been recognized.

Grant will now provide some concluding remarks to our prepared comments.

Summary Remarks

[Grant]

Thanks Bob.

As discussed, our businesses are performing well, and we would expect them to continue to do so in spite of challenges or headwinds that always seem to pop up. In fact, we expect a major turnaround at one of our largest refinery customers to straddle the first and second quarters, temporarily affecting rail and pipeline transportation volumes in Louisiana. That's the bad news. The good news is that one of the primary reasons for the turnaround is to be able to handle more of the barrels efficiently at and through the rail, pipeline and marine terminal facilities we are currently completing. We are aware of several significant turnarounds scheduled to occur in the first and second quarters on several deepwater production facilities. Again, that's the bad news. The good news is the turnarounds are associated with handling new production which will ultimately go through our pipeline facilities.

We expect to continue to be well-served by our business strategies, including being primarily refinery centric….after all the only consumer of crude oil is a refinery, and supporting long-lived, world-class oil developments of integrated and large independent energy companies, that have been around for decades and gone through and survived many commodity cycles.

As always, we would like to recognize the efforts and commitment of all of those with whom we are fortunate enough to work, including their commitments to providing safe, responsible and reliable services. I realize it means little to those who have been affected by our recent personnel actions, but we thank each of you for your past contributions and wish you nothing but success in your future endeavors.

With that, I'll turn it back to the moderator for any questions.

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