Final

2016 Third Quarter
Results Conference Call
November 3, 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 2016 Third 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 2016

[Grant]

Good morning and welcome to everyone.

Given the continuing challenging operating environment in the energy midstream space, we are very pleased with the financial performance of our diversified, yet increasingly integrated, businesses. Relative to the year earlier period, for EBITDA to be up some 4 percent in the aggregate, in the face of such headwinds, demonstrates the resiliency of our assets and especially our people.

Before Bob goes into our typical detail about this past quarter, I thought it might be useful to simplistically review what those headwinds we mention have meant to us in terms of financial performance relative to historic periods. In round terms, our onshore pipeline segment is down about 5 million dollars a quarter, in large part due to volume cannibalization and margin compression. Our supply and logistics segment has suffered around 5 million a quarter, again due to volume cannibalization and margin compression. Finally, our marine segment is off almost 10 million dollars a quarter, and you guessed it, primarily due to volume cannibalization and margin compression.

Volume cannibalization and margin compression are symptomatic of excess capacity. Excess capacity is not necessarily resolved overnight or by underlying commodity prices rebounding 10 or 20 dollars a barrel. It takes time and having the assets and services that people want even in difficult operating conditions is not a bad place to be.

For example, as we stated in the release, less than 5 percent of our total gross margin in the quarter was derived from minimum volume commitments or take-or-pay type agreements. To us, that's a good thing. It has nothing to do with fixed fee versus commodity sensitive fees or otherwise. It means our customers by and large actually need, value and use our assets and services, even in what many have called an historic down cycle in the energy space.

If people mean, when they talk about things in the midstream space getting better in late 2017 or 2018, that activities are going to return to 2014 or early 2015 type conditions, then we'll benefit from that and do even relatively better. However, we have tried very hard to position the partnership to do reasonably well even if things don't get better. That's not to say it's impossible for us to take additional, marginal steps backward. However, we are close to beginning to realize the incremental contributions from a number of organic initiatives starting this quarter and accelerating throughout 2017, which should hopefully more than offset incremental challenges if and when they might arise.

With that, I'll turn it over to Bob to discuss this stand-alone quarter's results in more detail.

Results of Operations

Comparison of Third Quarter 2016 to 2015

[Bob]

Thank you, Grant

In the third quarter of 2016, we generated total Available Cash before Reserves of $95.0 million, representing a decrease of $1.3 million, or 1%, over the third quarter of 2015. Adjusted EBITDA increased $4.9 million over the prior year quarter to $131.8 million, representing 4% year over year growth.

Net income attributable to Genesis for the quarter was $32.7 million, or $0.28 per unit, compared to $363.2 million, or $3.38 per unit, for the same period in 2015. The third quarter of 2015 included a one-time non-cash gain of $335.3 million resulting from a step up in basis to fair value of our historical interests as result of certain interests acquired in the acquisition of the offshore pipeline and services business of Enterprise. Exclusive of that gain, net income attributable to Genesis would have been $27.9 million for the third quarter of 2015 representing a comparative increase in 2016 of $4.2 million or 15%.

Segment Margin from our Offshore Pipeline transportation segment increased $15.6 million, or 22%, between the third quarter periods. This increase is primarily due to our acquisition of the offshore pipeline business of Enterprise, which closed in July 2015. As a result of our Enterprise acquisition, we obtained interests in approximately 2,350 miles of offshore crude oil and natural gas pipelines (including increasing our ownership interest in each of the Poseidon, SEKCO, and CHOPS pipelines) and six offshore hub platforms. The operating results of the offshore pipeline assets acquired from Enterprise continue to meet or exceed our expectations, with a net increase in volumes as compared to the third quarter of 2015 for the most significant of those offshore crude oil pipelines we acquired.

Onshore Pipeline transportation segment margin decreased $4.4 million, or 29%, between the third quarter periods. This was primarily the result of decreased volumes on our Texas pipeline system, particularly delivery volumes to the Texas City refining market. We believe such lower volumes to historical customers will last indefinitely as those customers have made alternative arrangements as a result of our endeavors to expand, extend and repurpose our facilities into longer live, higher value service. In addition, our Louisiana system experienced lower volumes between the respective quarters, as a major refinery customer emerged from a turnaround during the 2016 Quarter. We anticipate a ramp up in such volumes during the fourth quarter. Volume variances on our other onshore pipeline systems had a less significant impact on the decrease in tariff revenues between the respective quarters due to a mix of tariff rates amongst these systems and less significant decreases in volumes.

Refinery services Segment Margin for the 2016 Quarter decreased $0.2 million, or 1%. NaHS volumes increased, primarily driven by an increase in sales volumes to our South American mining customers relative to the 2015 quarter. Sales volumes between quarters to customers in South America can fluctuate due to the timing of third party vessels available to transport bulk deliveries. The pricing in our sales contracts for NaHS typically includes adjustments for fluctuations in commodity benchmarks (primarily caustic soda), freight, labor, energy costs and government indexes. The frequency at which those adjustments are applied varies by contract, geographic region and supply point. The mix of NaHS sales volumes to which we are able to apply such adjustments may vary due to timing or other factors such as competitive pressures, which had a negative effect on margin realized from NaHS sales for the 2016 quarter and when combined with decreased sales of caustic soda, offset the increase in NaHS sales volumes and revenues.

Segment Margin from our Marine transportation segment decreased $9.9 million or 37%, between the third quarter periods. The decrease in Segment Margin is primarily due to a combination of lower utilization and lower day rates across our various marine asset classes, excepting the M/T American Phoenix which is under long term contract through September 2020. In our offshore barge fleet, as a number of our units have come off longer term contracts, we have chosen to primarily place them in spot service or short-term (i.e. less than a year) service, as we believe the day rates currently being offered by the market are at, or approaching, cyclical lows. In our inland fleet, we saw somewhat of a strengthening in utilization and stabilization in spot day rates towards the end of the quarter, especially in the black oil, or heavy, intermediate refined products trade in which we are almost exclusively involved.

Supply and logistics Segment Margin decreased by $0.6 million, or 7%, between the third quarter periods. In the 2016 Quarter, the decrease in Segment Margin is primarily due to lower demand for our services, compared to the 2015 Quarter, 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 have found it difficult to compete with certain participants 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 and is unlikely to come online. In addition, a portion of this decrease can be attributed to decreased rail volumes. While rail volumes were down compared to the 2015 Quarter, our results reflect the beginning of a ramp up as a major refinery customer supported by our Baton Rouge facilities emerged from a refinery turnaround during the 2016 Quarter and we expect this ramp up to continue into the fourth quarter. These decreases were partially offset by the improved performance of our now right-sized heavy fuel oil business after reducing volumes and related infrastructure to match new market realities resulting from the general lightening of refineries' crude slates which has resulted in a better supply/demand balance between heavy refined bottoms and domestic coker and asphalt requirements.

In addition to the overall net increase in Segment Margin, as impacting both Net Income and Available Cash before Reserves, the 2015 quarter also included a $335.3 million non-cash gain resulting from a step up in basis to fair value of our historical interests in certain of our equity investees as a result of our acquiring the remaining interest in those equity investees when we completed our Enterprise acquisition in July 2015. Depreciation and amortization expense increased $13.1 million between the quarterly periods primarily as a result of the effect of placing recently acquired and constructed assets in service during 2015 (including the offshore pipeline assets acquired as a result of our Enterprise acquisition). Interest costs for the 2016 Quarter increased by $5.1 million from the 2015 Quarter primarily due to an increase in our average outstanding indebtedness from recently acquired and constructed assets (principally from additional debt outstanding as a result of financing our Enterprise acquisition). Interest costs, on an ongoing basis, are net of capitalized interest costs attributable to our growth capital expenditures. General and administrative expenses decrease by $15.6 million. This decrease is primarily due to higher third party costs related to business development and growth activities, i.e. financing, legal, accounting and business development activities surrounding the Enterprise acquisition as previously discussed.

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

Summary Remarks

[Grant]

Thanks Bob.

As discussed, our businesses are performing reasonably well, and we would expect them to continue to do so in spite of the challenges we have laid out.

We are, in essence, mechanically complete with our significant infrastructure projects in the Baton Rouge area and would expect to see meaningful contribution beginning to ramp in the fourth quarter. We are nearing completion with our repurposing project in Texas and would expect to see volume and financial contribution starting to ramp in the first quarter of 2017. At Raceland, in south Louisiana, we would expect to see volumes starting to ramp in mid-2017 as we will be fully capable of receiving and terminalling heavy crudes via rail and medium sour crudes via pipeline.

To understand the economic background and commercial rationale for these projects, we would encourage market participants to research and analyze, for example, a number of publicly available studies estimating the growing material imbalance between rising Canadian production, even in this price environment, and lack of pipeline takeaway capacity, and no that has nothing to do with DAPL.

Additionally, for those who don't understand or appreciate what's really going on or is relevant in the deepwater Gulf of Mexico, we provide a lot of publicly available information in our posted investor presentations which hopefully should help market participants better understand and make informed decisions regarding the resiliency of the deepwater over the years and decades to come, even in this lower for longer price environment.

We know we don't live in a perfect world. We work hard to anticipate the negatives and position the partnership to do reasonably well across the cycle.

As we mentioned, we have taken steps to bolster our liquidity and strengthen our balance sheet to maintain our financial flexibility.

Because of these financial steps, the continuing performance of our diversified businesses in an extremely challenging environment and the growth we anticipate from our major projects which are substantially complete and paid for, we believe we are well positioned over the next 4 or 5 years to deliver mid-single digit growth in distributions to unitholders as well as continue our de-leveraging process of actually beginning to pay down debt in 2017 while anticipating increasing EBITDA.

As always, we would like to recognize the efforts and commitment of all those with whom we are fortunate enough to work, including their commitment to providing safe, responsible and reliable services.

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

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