

Transcript of
NGL Energy Partners LP
NGL Energy Partners 1Q26 Earnings Call
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Participants

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Doug White - Executive Vice President of Water Solutions, NGL Energy Partners LP

Analysts

Tarek Hamid - JPMorgan

Derrick Whitfield - Texas Capital Securities

Presentation

Operator

Welcome to the NGL Energy Partners 1Q '26 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]. Please note, this conference is being recorded. I will now turn the conference over to your host, Brad Cooper. You may begin.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Good afternoon, and thank you to everyone for joining us on the call today. Our comments today will include plans, forecasts and estimates that are forward-looking statements under the U.S. securities law. These comments are subject to assumptions, risks and uncertainties that could cause actual results to differ from the forward-looking statements. Please take note of the cautionary language and risk factors provided in our presentation materials and our other public disclosure materials.

During the first quarter, we closed on the sale of our Rack marketing business, the interest in the Limestone Ranch and a majority of the wholesale propane business that included 17 terminals. As discussed on previous calls, we will continue to look for opportunities to shrink the remaining footprint of the Liquids segment with further asset sales. We used a portion of the proceeds to completely pay down the ABL during the quarter. We did end the quarter with a small ABL balance, but this is expected as we began our butane build within the Liquids segment. In addition to paying down the ABL, we opportunistically attacked other pieces of the capital structure with the proceeds.

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Mike will elaborate on these efforts during his prepared remarks. We continue to execute on our multiyear strategy of rightsizing the asset footprint, paying down debt and reducing overall leverage of the company. Let's get into the quarterly results. Consolidated adjusted EBITDA for the quarter came in at \$144 million versus \$138.6 million in the prior year first quarter or approximately 4% higher than the prior year's first quarter.

This increase was primarily driven by the performance of our Water Solutions business segment. We are reaffirming our full year adjusted EBITDA guidance of \$615 million to \$625 million. Our Water segment continues to perform above our expectations thus far, and we will reevaluate our full year guidance after the second quarter closes. Water Solutions adjusted EBITDA was \$142.9 million in the first quarter versus \$125.6 million in the prior first quarter, a 13.8% increase. Physical water disposal volumes were 2.77 million barrels per day in the first quarter versus 2.47 million barrels per day in the prior year first quarter, a 12.4% increase.

Total volumes we were paid to dispose that includes deficiency volumes were 3.1 million barrels per day in the first quarter versus 2.6 million barrels per day in the prior year first quarter. So total volumes we were paid to dispose of were up approximately 18% first quarter of fiscal '26 over first quarter of fiscal 2025. The increase in EBITDA was primarily driven by higher disposal revenues due to an increase in produced water volumes processed from contracted customers as well as higher water pipeline revenue due to the LEX II pipeline commencing operations during the quarter ended December 31, 2024.

Operating expenses for the quarter on a per barrel basis were lower by \$0.02 when compared to the same quarter of the previous year. For the first quarter, our operating expenses in Water Solutions was \$0.22 per barrel. With the current market sentiment and oil price uncertainty, we have not seen any drop-off in activity from our customers in the core of the basin. We have continuous conversations with the producers to monitor activity levels and the impacts the macro backdrop could have on our Water Solutions segment.

As highlighted in our earnings call presentation, we are well positioned with 90% of our volumes committed through acreage dedications and MVCs. Recall, 80% of our total volumes are with investment-grade counterparties. Crude Oil Logistics adjusted EBITDA was \$9.6 million in the first quarter of fiscal '26 versus \$18.6 million in the prior year's first quarter. During the quarter, volumes on the Grand Mesa pipeline averaged approximately 55,000 barrels per day compared to 63,000 barrels per day for the first quarter of 2025. The decrease was due primarily to reduced sales as a result of lower production on acreage dedicated to us in the DJ Basin and lower crude oil prices.

As we have previously discussed on these calls, we have been anticipating an increase in volumes on the Grand Mesa system for a while now. For the month of July, volumes were approximately 25% higher than June volumes. So we anticipate

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stronger quarters ahead for the Crude Logistics segment. Liquids Logistics adjusted EBITDA was \$2.9 million in the first quarter versus \$5.7 million in the prior first quarter. This is adjusted for the previously announced asset sales that closed in the quarter. The primary EBITDA contributor of the Liquids Logistics segment going forward will be our butane blending business. And recall that a majority of the EBITDA from this segment occurs in the back half of the fiscal year.

With that, I would now like to turn the call over to our CEO, Mike Krimbill.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Thanks, Brad. Good afternoon. I have just some brief comments. With respect to the first quarter results, as Brad said, we have exceeded our expectations. Water Solutions experienced a strong quarter, continues to reduce its cost per barrel. We expect strength in the back half of the year from our Crude Oil Logistics segment as volumes on Grand Mesa ramp up. The remaining Liquids Logistics business generates enough adjusted EBITDA to cover our corporate costs. If our results continue to exceed expectations, we will consider raising guidance at the time of our second quarter earnings call in early November.

Now as you can see from our first quarter actions, we are exercising an opportunistic strategy with regards to the use of our free cash flow. Cash is being used to purchase, repay debt and equity that provides the highest return and greatest benefit to the partnership while considering liquidity and leverage. These opportunities may change as the markets continue to move. So first, during the quarter, we purchased \$19 million of our outstanding 2032 notes at a discount as our bond prices temporarily declined due to the tariff announcement in early April.

We paid off \$72 million of debt that was outstanding on our ABL at March 31. We then repurchased 70,000 units or approximately 12% of our outstanding Class D preferred units. The successful refinancing in February last year and the full payment of the preferred arrearages allows us to purchase any of our preferred classes B, C and D in the open market or call them at our discretion. We have a couple of years to redeem the Class D preferred, so we are beginning that process now and anticipate additional purchases this fiscal year.

And finally, under the Board authorized common unit repurchase plan, we have purchased a total of approximately 4.7 million common units at an average price of \$4.30 per unit. This represents approximately 3.5% of the outstanding common units. So in conclusion, as we move forward, the balance sheet remains a priority, but we are very focused on growing our adjusted EBITDA as it reduces leverage and provides additional cash for the balance sheet improvement.

And so with that, operator, let's open up the line for Q&A.

Operator

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Certainly. At this time, we will be conducting a question-and-answer session. [Operator Instructions]. Your first question for today is from Tarek Hamid with JPMorgan.

Q: Hi, this is Nevin [ph] on for Tarek. I know you just mentioned that you'd be remaining opportunistic with capital allocation. But just going forward, do you expect further common unit repurchases? Or is this -- would you consider this quarter more as a one-off and you'll be remaining more concentrated on the Class Ds?

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

This is Brad. I think we'll continue to be opportunistic. If the unit prices kind of hang out in the same level they've been this last quarter, I think you'll see us nibble at that. If the bonds trade down based on some macro event, we'll nibble at those, and we'll continue to attack the Class Ds. So I don't think we're going to set a path right now in terms of what we're just going to go after solely. It will be a little bit of each at these levels.

Q: Got it. Thank you.

Operator

Your next question is from Derrick Whitfield with Texas Capital.

Q: Good afternoon guys and congrats on the opportunistic purchases.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Thank, Derrick.

Q: With respect to the produced water volumes for the quarter, they were a little bit lighter than what we were expecting. Just wanted to see if you could add some color as to perhaps some of the moving parts for the quarter itself.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Doug, do you want to take kind of Q1's water volume question?

Doug White - Executive Vice President of Water Solutions, NGL Energy Partners LP

Sure. They were quite a bit close to where we were expecting. There were some -- there were in June, there were recycling jobs that ramped up, which we're now

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seeing those volumes on the takeaway side this quarter. But we feel pretty good about the volumes in Q1. We came in about 79,000 barrels a day over budget for the quarter over our internal budget. So we felt those were pretty solid. We see that continuing for the balance of the year based on our customer forecast at this time.

Q: Very good.

Q: Please go ahead.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Derrick, let me add to that. So when we look at volumes, we see the physical volumes we move. Then we see the -- we call it, financial volumes under the MVCs we get paid for that physically didn't move. And then what we do not record in the quarter are additional MVC volumes we will get paid for next quarter. So you're not seeing all the volumes that the system is actually, I'll say, receiving. And you won't see it next quarter when we sell off on an MVC.

Q: Got it. That makes sense. And then maybe just higher level, I wanted to get your thoughts on the Aris [ph] acquisition by Western. I mean, from our perspective, while we look at it and question the timing from a value recognition perspective, it definitely supports the Delaware water thesis that we have for your business and the revaluing of that core space over time.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Yes. I'll start, and Doug, you may have some thoughts, too. But I think we congratulate Aris for getting a premium price for their business. That's a price we would never have paid. And our model is a little different, too, as we do not focus on recycling. There are some other companies out there that do a great job who's really focused on that business. And Doug, do you have any other thoughts?

Doug White - Executive Vice President of Water Solutions, NGL Energy Partners LP

Yes. I think it's great for the industry, great sign. Consolidation has been positive in the Delaware for -- even on the producer side, once the consolidation happens, you build and continue to build more of a foundation of an asset base, be it whether the producer side or the midstream side. So we welcome seeing consolidation, which also includes fewer parties at the ball game. The remaining groups that are out there, I think a couple more of them are looking to be consolidated.

So over time, this will come down to a few parties in the midstream water business, and it will then eliminate the spending of CapEx on duplicate assets, duplicating such the existing other competitor assets, which I think is good for the industry. The larger diameter pipes, more centralized operation of a larger contiguous area of

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assets. I think that's just good for the industry. And once good for the producers, producers become more efficient, drill more wells and create more water.

Q: That's perfect. Thanks for your time and color guys.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Thanks, Derrick.

Operator

We have reached the end of the question-and-answer session, and I will now turn the call over to Brad Cooper for closing remarks.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Thanks, everyone, for your interest in NGL. We look forward to catching up with everyone in early November during our second quarter call for fiscal '26.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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