Transcript of
NGL Energy Partners LP
NGL Energy Partners 2Q27 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, Water Solutions, NGL Energy Partners LP

Analysts

Derrick Whitfield - Texas Capital

Presentation

Operator

Good afternoon and welcome to the NGL Energy Partners Second Quarter 2027 Earnings Conference Call. At this time, all participants are in a listen-only mode, and we will open the floor for your questions after the presentation. [Operator Instructions].

It is now my pleasure to turn the floor over to your host, Brad Cooper, CFO. The floor is yours.

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 within the meaning of the U.S. federal securities laws. 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.

We are pleased to report a strong second quarter and continued execution on our multi-year strategy of deleveraging the balance sheet through non-core asset sales and high-return Water growth projects. The Water Solutions segment continues to outperform our internal forecasts, and we continue to have a long runway of extremely accretive Water growth projects. The EBITDA growth in the Water Solutions segment provides for further deleveraging, positioning the partnership to address the majority of the remaining Class D Preferred Units later this fiscal year.

During the second quarter of fiscal 2027, we achieved record produced water volumes again, physically disposing of approximately 3.45 million barrels per day, an increase of 23% from the second quarter of fiscal 2026. The record water volumes also generated record Water Solutions adjusted EBITDA for a single quarter. These results continue to validate the highly accretive growth capital projects we executed in fiscal 2026, and we are starting to see the impact in our results of the growth capital projects we have placed in service so far in fiscal 2027. The Delaware Basin continues to be short on large-scale water takeaway and disposal capacity, and as a result, we have additional growth opportunities this fiscal year that will set us up for a strong start to fiscal 2028.

Accordingly, we are raising our fiscal 2027 growth capital guidance from approximately $200 million to a range of approximately $250 million-$270 million. With our performance this quarter, the confidence we have in our customers' execution, and the increased growth capital expenditures for fiscal 2027, we are raising our fiscal 2027 adjusted EBITDA guidance by another $10 million, from a range of $725 to $735 to a new range of $735 to -$745 million. Much like fiscal 2025 and fiscal 2026, the growth capital expenditures for fiscal 2027 will contribute only about one quarter's worth of EBITDA in the current fiscal year.

As mentioned, this growth capital sets up for another strong year in fiscal 2028. While we are not providing fiscal 2028 guidance today, we do expect continued EBITDA growth into fiscal 2028. During the second quarter, we continued to expand our long-haul LEX pipeline system to 81 mi, with the capacity to transport approximately 560,000 barrels per day of produced water from Eddy and Lea counties in New Mexico to Andrews County in Texas.

The LEX II extension is underwritten by a newly executed long-term contract that includes increased minimum volume commitments and an additional four-township dedicated area in Eddy County. The LEX II extension is expected to be in service over the next few weeks. Permitted injection capacity increased by approximately 255,000 barrels per day during the second quarter of fiscal 2027. This brings new permitted injection capacity for fiscal 2027 to approximately 450,000 barrels per day.

The additional growth projects this fiscal year will continue to add incremental disposal capacity. We continue to improve the credit profile of our customer base, with over 90% of our produced water delivered from investment-grade counterparties and over 87% of our trailing 12 months adjusted EBITDA generated from our Water Solutions segment.

We reduced leverage slightly in the second quarter, even with our growth capital spend heavily weighted to the first half of this fiscal year. We expect the deleveraging trend to continue and accelerate over the remainder of the fiscal year as we generate the majority of our free cash flow from October through March. We expect leverage to be approximately four times by the end of the fiscal year.

Turning to our quarterly results, consolidated adjusted EBITDA from continuing operations was $192.4 million in the second quarter, compared with $167.3 million in

the second quarter of last year, an increase of 15%. This increase was driven by the performance of our core Water Solutions segment. Water Solutions adjusted EBITDA was $178.3 million in the second quarter, compared with approximately $152 million in the prior year quarter, a 17% increase. For the quarter, Water Solutions generated 93% of the partnership's consolidated adjusted EBITDA.

Physical water disposal volumes were 3.45 million barrels per day in the second quarter, compared with 2.8 million barrels per day in the prior year quarter, a 23% increase. Total volumes we were paid to dispose of, including deficiency volumes, were 3.49 million barrels per day in the second quarter, compared with 3.15 million barrels per day in the prior quarter, an increase of approximately 11%.

The increase in EBITDA has two primary drivers: higher disposal volumes from contracted producer customers and higher skim oil revenue. Skim oil volumes increased significantly with higher physical water volumes disposed, and we also benefited from higher crude prices during the quarter on the unhedged skim oil barrels.

Operating expenses in Water Solutions were $0.20 per barrel in the second quarter, $0.02 lower than the same quarter last year, a 9% decrease. Higher volumes will continue to spread the fixed cost component of our cost structure over time. Crude Oil Logistics adjusted EBITDA was $11.9 million in the second quarter, compared with $16.6 million in the prior year quarter.

During the quarter, volumes on the Grand Mesa pipeline averaged approximately 64,000 barrels per day, compared to 72,000 barrels per day in the second quarter of fiscal 2026. Liquids Logistics adjusted EBITDA was $14.2 million in the second quarter, compared with $10.5 million in the prior year second quarter. The largest driver for the increase year-over-year was additional contracted activity through our remaining butane terminals.

Moving to the capital structure, we took two actions, one during the quarter and one shortly after quarter end. On September 16th, we repriced our Term Loan B, reducing the applicable SOFR margin by 50 basis points. This continues our multi-year strategy. As our operating and financial performance continues to improve, we will continue to return to the market to take cost out of the capital structure and increase our free cash flow. Since the inception of the Term Loan in our capital structure, we have reduced the SOFR margin by 150 basis points.

On October 13th, we exercised $50 million of the accordion feature on our ABL facility, raising total commitments to $475 million. This increase provides ample liquidity to manage working capital needs at these higher commodity prices, and to also fund the highly accretive Water growth projects in our portfolio. Total liquidity was approximately $130 million as of September 30th, with approximately $249 million drawn on the ABL. The higher draw reflects the elevated capital spending in Water Solutions that is funding the growth we have been discussing. We expect to pay down the ABL with free cash flow over the remainder of the fiscal year.

As I mentioned earlier, we have raised our fiscal 2027 EBITDA guidance and growth CapEx guidance as a result of increased water takeaway demand from our core customer base. We continue to have active dialogue with the producers in our footprint to add additional takeaway and disposal capacity at very attractive returns. This will allow the partnership to continue deleveraging the balance sheet. This has been a multi-year plan, with the ultimate goals of further reducing the Class D Preferred Units and eventually reinstating distributions on the common units.

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. As you have heard, another outstanding quarter, contributing to a strong first half of the fiscal year and allowing NGL to increase adjusted EBITDA guidance for a second time. Just to reiterate what Brad said, we are getting closer to achieving our goals of becoming a pure-play water company, repurchasing the Class D Preferreds, reducing leverage, and reinstating common unit distribution. As we all know, actions speak louder than words.

With that, operator, please open up the line for Q&A.

Operator

Thank you. The floor is now open for questions. [Operator Instructions]. Please hold on a moment while we poll for questions. Our first questioner comes from Derrick Whitfield with Texas Capital.

Q: Hey, guys. Good afternoon, and congrats on another strong quarter with your Water business.

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

Thanks, Derrick.

Q: I wanted to start with your CapEx increase for fiscal 2027. While I understand you are not offering 2028 guidance today, could you just speak to the Think about it from the standpoint of growth and run rate volumes of EBITDA, and EBITDA associated with the investment. I think you mentioned in your earlier comments that $10 million of EBITDA increase associated with maybe one quarter of a benefit. Would we be correct in thinking about that as $40 million of potential uplift?

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

I think that the incremental CapEx that we guided to here is in line with our kind of previous return type capital expenditures from the last two fiscal years. My comments in the prepared remarks were to kind of outline it as we are spending this capital in

this fiscal year. The capital spend is very front-end loaded. We are getting very little EBITDA from that capital spend in this fiscal year.

We really get about one quarter's worth of EBITDA out of the total capital spend this fiscal year. Said differently, the majority of the EBITDA we are going to see next year, much like this year, we are seeing the benefit from all the spend in fiscal 2026 that came on service kind of in the same timeframe, this November, December timeframe.

Q: Sure. Not a lot of contribution this year. Similar return to past investments in terms of EBITDA uplift as we think about 2028. Any commentary just on volumes, just so we can try to size that?

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

Doug, you want to take volume? We have put on 450,000 barrels a day this year of new disposal capacity, and I think you are seeing it through our results that this capacity is getting filled up pretty quick as it comes online. Doug, you want to kind of maybe speak to what you see going into next year from a volume standpoint?

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

Yes. Brad, you are accurate on the 450,000 a day increase. To your point, we are certainly utilizing those capacities, all of our capacities at a high rate, high percentage. To support that, basically every well we bring online, we have it either underwritten today or underwritten with prospective forecasts on our existing or new contracts. I would just leave it at that. It will continue to grow, and we will continue to grow at maybe the same pace as this year. You will see the spend be reflected in next year's EBITDA, and it is all contracted.

Q: Just thinking beyond this specific quarter and the update for CapEx, just broadly, how would you characterize the opportunity you are seeing for continued growth in light of the recent upstream and midstream M&A we have seen across the Delaware Basin?

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

Doug, you want to take that one?

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

Sure. The consolidation, they are all our customers, right? Now that they have consolidated, we have not seen them reduce their activity. The name has changed, I will say, in the consolidations. Our response to that, such as our LEX II expansion this year, we will talk a little bit more about LEX 3 maybe here in a little bit, expands the reach of our network, expands our opportunities into new pore space. As we develop that pore space, we have the same acreage footprint.

Now we are just working on deals around the consolidated entities. It actually makes them more efficient and better planned, I will say. So we are seeing a reflection of that as we negotiate either new extensions, or completely new agreements within certain development areas under those consolidated companies.

Q: Terrific. Staying on water, Doug, just on kind of beneficial reuse projects and the things we have talked about in past quarters, where do those currently stand right now?

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

We are very, very engaged with planning for those. We are in the early stages of planning a couple of different desalination facilities, one in the Barrow Ranch area we have discussed before, another at our Orla location down at Red Bluff. I will go ahead and let you know, we expect to have our final draft permit maybe as early as tomorrow, so stay tuned on that. That is big progress.

Keep in mind, we have been working for three years toward that. There is a lot at play. We are having a lot of conversation and actually entered into an MOU with a developer of data centers, along with the power plants that we have been working on. There is a lot of demand for it.

We will leave it at that for now as those deals come together and solidify, but it is certainly very, very at the very forefront of what we are working on, alongside these new produced water contracts. They will serve as the feed water for those desalination projects.

Q: Sounds really encouraging.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Hey, Derrick?

Q: Yes, please.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Got another question, Derrick. This is Mike.

Q: Yeah. I was just going to ask, just on the regulatory environment, clearly we've seen a blue sweep, and there's been a lot of change even within the Texas Railroad Commission. As you guys look at how things could change, what are your expectations? And I know that you guys have been evolving, you've been involved in regulatory in the past, so any color that you could offer on that would be extremely helpful.

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

I can take that, Mike, if that's okay.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Yes.

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

Yep.

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

Okay, great. We see the change coming on the regulatory side. It is continuing to just become more and more developed and mature, which is, we see as a very positive thing for the industry. The change on the Railroad Commissioner, which is coming here in a couple months, we see that the incoming new commissioner, we expect to continue to be supportive of the industry.

While there might be some new ideas, new ideas are not a bad thing. NGL sees it, we are very excited about what is to come, and we will intend to stay engaged. There are three commissioners with three separate votes, and we hope and expect, actually, they are working together to improve what we are doing out there. We see it as a potential positive, and we are looking forward to working together with the new commissioner.

Q: Terrific, guys. I will hop back in the queue. Congrats again on the quarter.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Derrick, I had a couple thoughts to your original question, because the timing is a little perhaps confusing. When we start a fiscal year, we provide a guidance based on the business we have and the contracts that we have signed. As we go through the year, we can increase that guidance based on what we are actually achieving. In the first two quarters here, Water is over budget in excess of $20 million.

We have increased guidance by that $20 million. That is really business that is already happening. To the extent we sign new contracts during the year, we do not increase our guidance for those contracts until they actually are producing EBITDA. Right? The fact that we are increasing our CapEx is good for next year's number. It will be good for this year if those projects are placed in service this year. Brad's earlier comment is, it is really setting up all the growth for next year.

Operator

Derrick, if you would like to respond, please rejoin the queue by pressing star one. We have Derrick again.

Q: Got that. Appreciate the clarification. Certainly sounds like there is more growth on the come, A, and then B, potentially revisions as that growth comes. Thanks for clarifying just with where you were with guidance and how you have set it up for the year and what you have seen so far in terms of outperformance.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Great.

Q: Thanks, guys.

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

Thank you, Derrick.

Operator

There are currently no remaining questions in the queue, so I would like to turn the floor back over to your call hosts for any closing remarks.

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

Thanks, everyone, for your interest in NGL, and we look forward to catching up with everyone in early February on our third quarter fiscal 2027 call.

Operator

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.