THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

# Martin Midstream Partners L.P. (NASDAQ: MMLP)



**ROBERT D. BONDURANT** serves as President and Chief Executive Officer of Martin Midstream Partners L.P. and is a member of the board of directors of its general partner. Mr. Bondurant joined Martin Resource Management Corporation in 1983 as Controller and subsequently as Chief Financial Officer from 1990 through 2020 and continues as a member of its board of directors. Mr. Bondurant served in the audit department of Peat Marwick, Mitchell and Co. from 1980 to 1983. He holds a bachelor of business administration degree in accounting from Texas A&M University and is a Certified Public Accountant, licensed in the state of Texas.

**SECTOR — ENERGY**

**TWST: Let's start, if you wouldn't mind, by introducing Martin Midstream to our readers with a bit about the company's history and milestones over the years, as well as a snapshot of what the company looks like today.**

**Mr. Bondurant:** The company began in 1951 as a family-owned business started by R.S. Martin, Jr., after he returned from the Pacific in World War II and then attended the University of Arkansas under the G.I. Bill. The company's name was Martin Butane, and its business was to deliver propane to drilling rigs in the East Texas oilfield. What is interesting is that the East Texas oilfields' natural gas production was sour and area gas plants had sulfur products that they just wanted to get rid of, so Mr. Martin set up a trucking operation to haul sulfur from East Texas to fertilizer plants in Houston. This began the company's involvement in trucking, sulfur logistics and natural gas liquids.

From that, Martin expanded into marine transportation, continued further downstream in the sulfur business through fertilizer plant acquisitions, and developed terminal locations to support its sulfur and natural gas liquids business.

In the early 2000s, specifically 2002, we took the suite of qualifying assets and dropped them down from the private company, Martin Resource Management Corporation, into a publicly traded Master Limited Partnership structure, primarily to gain access to the capital markets in order to be able to expand the business when opportunities presented themselves.

From the IPO date of November 2002 through 2014, we had substantial growth through access to capital. Some of this growth was in areas that had upstream energy exposure, such as gas processing and fractionation in East Texas, and investment in West Texas LPG, which is an NGL pipeline, a crude storage terminal in Corpus Christi, and natural gas storage in North Louisiana and Mississippi. These investments were large and had nice early returns, but with the energy commodity price collapse that began in late 2014, we made strategic decisions in 2015 to sell assets that had volatile upstream exposure and refocus on what we do best — providing services to refineries, including logistics through land and marine transportation, as well as terminal services. We also provide marketing services for the byproducts that refiners produce, such as sulfur and natural gas liquids.

As a result, we have four segments: terminalling and storage, sulfur services, transportation, and natural gas liquids. Although these four segments are different, they have a common thread — all of these segments are servicing refiners in some form or fashion.

**TWST: Is there more detail about those four business lines that you would add so readers know more about the company's operations and services?**

**Mr. Bondurant:** Absolutely. Let me begin with the terminalling and storage segment. First, we have approximately 30 terminal facilities, mostly located along the Gulf Coast, with storage capacity of approximately 2.8 million barrels. Our specialty terminals receive hard-to-handle products from refineries and natural gas processing facilities, storing them for delivery to our customers. These specialty products include asphalt, natural gasoline, sulfuric acid, and ammonia, just to name a few.

Also within this segment, we own and operate a small naphthenic lubricant refinery located in southern Arkansas that includes a lubricant packaging facility, where we blend and package private label lubricants for use in the automotive and commercial industries.

Finally, within this segment we operate facilities in Kansas City, Missouri, in Houston, Texas and Phoenix, Arizona, to process and package specialty grease products, such as post-tension grease.

Next is our sulfur services segment. Within this segment we have two business lines. First, in what I like to refer to as the pure sulfur segment, we aggregate, store and transport molten sulfur from Gulf Coast refineries to our terminals in Beaumont, Texas. The molten sulfur is shipped by our own barge to Tampa, Florida, where it is used in domestic fertilizer production.

We also convert molten into prilled sulfur, which we store for our refinery customers. Basically, the molten sulfur goes through a water bath process that converts the liquid to a small solid pellet. This prilled sulfur is eventually loaded onto dry bulk vessels for international delivery, where it is remelted for use in fertilizer production. Based on a five-year average, approximately 70% of prilled sulfur exports from the U.S. Gulf Coast originate at our terminal in Beaumont.

The second business line within our sulfur segment is the production of sulfur-based fertilizers, which are marketed to wholesale fertilizer distributors and industrial users. Here we purchase molten sulfur from refineries and use it as a feedstock to convert to fertilizer. These sulfur-based fertilizers are used in corn crop production, making corn acres planted a key driver of this business.

Moving to our transportation segment, we own both land and marine assets. Our fleet of tank trucks service the petroleum, petrochemical and chemical industries. We deliver hard-to-handle products for refineries and chemical companies across the U.S. with our fleet of specialty trailers. In addition, our land assets are utilized by our other business segments. For example, land transportation delivers sulfur from refineries to our sulfur terminals; NGLs for the natural gas liquids segment; and lubricants for the terminalling and storage segment. On the marine side, we utilize both inland and offshore tows to provide transportation of petroleum products and petroleum byproducts. As within the land group, we handle specialty products for oil refiners and international and domestic trading partners.

Finally, our natural gas liquids segment purchases and stores NGLs, both from and for delivery to refineries, as well as industrial users and propane retailers. Within this segment, we have approximately 2.1 million barrels of underground storage. Of that, approximately 400,000 barrels are used in our seasonal propane business. The other 1.7 million barrels are dedicated to our butane optimization business. Refineries excess butane during the summer months, but require butane during the winter months for gasoline blending purposes. This supply/demand imbalance creates opportunities for us to utilize our underground storage assets in service to the refineries.

Lastly within the NGL segment, we deliver natural gasoline from refiners and natural gas processors to our Spindletop terminal in Beaumont, Texas. This terminal then supplies the local petrochemical industry with natural gasoline for use as a feedstock.

In summary, Martin is a diversified refinery services company with four distinct segments that each contain multiple business lines. We like this diversification as it provides stability in our cash flows.

**TWST: What trends are you seeing and what are you hearing from your customer base in terms of their businesses, and how does that impact supply and demand and your company's bottom line?**

**Mr. Bondurant:** It really depends on the particular business line. Overall the COVID-19 pandemic impacted us negatively in 2020, primarily because of reduced refinery utilization. This has affected the transportation segment, primarily in marine transportation, but it has expanded to land transportation. As the volume of products purchased by refineries has been reduced, demand for our service has been less. However, I believe with the COVID vaccine rollout, if we can get our country immunized over the next several months, refined product demand will improve as people get back to work and begin to travel again. This should help our transportation segment return to normal.

On a more positive note, agricultural commodity prices including corn are strong, and coupled with a forecast of 91 million corn acres planted, bodes well for a strong fertilizer year.

So to sum up, COVID-19 negatively impacted us primarily in our transportation group in 2020, but we see that overhang lifting in the back half of 2021 and see improved performance in our fertilizer and packaged lubricant and grease businesses.

**TWST: You haven't released your fourth quarter announcement yet so I realize it is too early to talk about that, but could you give us the highlights of your third quarter?**

**Mr. Bondurant:** Although the third quarter is our seasonally weakest quarter, I was pleased with our performance, which exceeded our internal forecast. We saw the beginning of a recovery in our land transportation division and strength in our terminal operations as we focused on asset optimization to lessen the impact of reduced refinery utilization. We did see negativity in our marine transportation business as vessels came off term charters and entered into the spot market at reduced rates, along with reduced utilization due to the run rate of our Gulf Coast refinery customers. But again, overall, we did exceed our internal forecast in the third quarter.

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**TWST: If I recall correctly, the company was operating at a net loss at that point. Can you talk about what's behind that and when you expect that to turn positive? Also, has that had any impact on your distributions?**

**Mr. Bondurant:** Let me begin by answering broadly in terms of free cash flow versus net income. Due to our sizable fixed-asset base, we have a substantial depreciation expense charge that negatively

impacts our net income. This non-cash charge usually approximates $60 million each year, which reduces net income. I like to compare this charge to actual maintenance capital expenditures, which is significantly lower than the annual depreciation charge. Maintenance capex generally runs $15 million to $20 million annually.

As I view our long-term business plan, beginning in 2021 we are forecasting positive free cash flow annually going forward. This is fundamentally net income plus depreciation minus both growth and maintenance capex. This forecasted free cash flow will allow us to pay down debt every year in order to reach our stated leverage goal of less than 3.75 times. This deleveraging of the company should create value for the unitholder.

As we reach a more appropriate leverage ratio, I believe there could be an improvement in our valuation multiple. Currently, our enterprise valuation multiple is roughly 5.5 times, which is at least two times lower than the average of our peers. So, I believe there's a valuation gap that can be closed as we execute our deleveraging plan over the next several years.

And to your other question about impact on distributions, we have cut our distribution to a minimal level of $0.02 per year, and based on our long-term positive free cash flow outlook, I do not anticipate the need for further reduction of our distribution. On the flip side, we have to reach our goal of less than 3.75 times leverage before we consider increasing our distribution. However, as I just pointed out, I believe this deleveraging process can create a total return opportunity for our unitholders, especially if we can close the valuation gap we currently have with our peers.

**TWST: Recently the company announced the sale of Mega Lubricants. Why are you selling this business, and how is this or similar transactions a part of your overall financial strategy?**

**Mr. Bondurant:** Mega Lubricants concentrated on selling blended lubricants to marine vessels, primarily in the Houston Ship Channel. This business was outside our focus of refinery services, and the multiple of cash flow we received helped our process of lowering leverage toward our goal of less than 3.75 times, as the proceeds were used to reduce debt.

**TWST: Broadly speaking, big picture, what are your expectations for your industry overall and the company in particular this year, especially given the pandemic and its impact on economic activity, as well as policies coming out of the new administration in the White House?**

**Mr. Bondurant:** I talked about our outlook a bit in some of my earlier comments, but fundamentally I feel good about 2021. In the first half of the year I'm optimistic about our fertilizer group, as corn prices and forecasted corn plantings are strong. At the same time I do see headwinds in our transportation business, as refinery utilization in Padd III, our area of operation, is currently running at about 82%. However, later in the year, as vaccinations are more widely distributed and the virus risk to our country comes off the table, I expect the U.S. economy to improve, and a corresponding increase in refinery utilization, which is positive for our transportation segment.

Regarding the movement towards decarbonization, first, I believe this will take a considerable amount of time to implement. Second, I believe our assets and the majority of our operations around the Gulf Coast refinery corridor are strategic longer term. Refineries in our area of operations are the largest and some of the most sophisticated refiners in the U.S. There's adequate crude supply to them by pipeline and by VLCCs. In fact, some of these Gulf Coast refineries have made investment decisions to expand over the next two to three years. Because of these investment decisions, it appears they plan to operate the assets long term.

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So my point is this: If there is a time in the future where there will no longer be any need for gasoline, diesel, jet fuel, marine fuels, or even asphalt, my view is that refineries we service in the Gulf Coast will be the last refineries to cease operation.

**TWST: For now, what sort of access to liquidity and/or what sort of financial flexibility does the company have?**

**Mr. Bondurant:** Last August we executed a major refinancing of the debt components of our balance sheet. We currently have a $300 million revolving credit facility with our syndicated bank group that matures in August 2023. We also refinanced our bonds that were due in February of this year with two new tranches of bond debt, leaving a small stub of $29 million. We will use our revolving credit facility to pay off these stub notes at maturity.

One of the new debt instruments is $292 million of second-lien paper that matures in 2025. We consider this piece of debt expensive and have an ability to refinance this tranche in August of 2022 with no prepayment penalty, potentially lowering our cost of capital. The second instrument is a $54 million, 1.5-lien issuance that matures in 2024 and has a lower cost of capital than the second-lien paper. We have the ability to prepay this tranche at a slight penalty in August of 2022.

To sum it up, we currently have adequate liquidity and will continue to create more liquidity as we pay down debt over the next several years from free cash flow, improving our balance sheet.

**TWST: Are there any other macro topics that are top of mind for you, in terms of challenges but also opportunities for the company?**

**Mr. Bondurant:** I've spoken to the near-term challenges regarding the impact of COVID on our business, so I would like to discuss our opportunities. We're seeing a lot of new commercial demand in our trucking business, especially in chemical hauling. I think these customers are anticipating the economic expansion that is around the corner and have been reaching out to us for new transportation solutions.

Longer term, I believe our Neches Terminal is strategically located with deepwater access on the river along with 96 undeveloped acres, serving as a great location to export energy on the water. Prior to COVID we had several conversations regarding energy export opportunities, whether in refined products or natural gas liquids. This deepwater terminal outside the heavily congested Houston Ship Channel provides multiple opportunities for us for long-term development.

**TWST: You stepped into the CEO position just at the beginning of the year. What, if any, changes to the company's overall business strategy do you foresee? What will be your primary focus and goals for the next year or so?**

**Mr. Bondurant:** I'll share with you what I shared with our employees when I stepped into this role. My immediate goal is to make Martin Midstream attractive to investors again, and I have identified five ways we can do that. Number one, we must continue to reduce our debt to a target level of 3.75 times our annual cash flows. Number two, we must be more consistent on delivering on our expected cash flows, which will provide the fundamental path to paying down our debt. Number three, we must increase utilization of our existing asset base through expanding existing commercial relationships. Martin Midstream has a unique set of assets that are designed to work in concert with one another. Placing focus on leveraging the synergistic nature of our assets is the path to increased utilization.

Number four, we must become even more cost conscious throughout the entire organization. Number five, we must identify and execute on low-risk organic growth opportunities having a financial return significantly above our current cost of capital.

By executing this plan, I believe that in the next 12 to 24 months we can achieve our goal of attracting new investors and significantly increase the value of Martin Midstream.

**TWST: Is there anything else that you'd like to add that you'd like readers to know about Martin Midstream?**

**Mr. Bondurant:** Well, for the past year, midstream and energy investors in general have been on the sidelines. 2020 demand destruction for oil due to the pandemic, uncertainty within OPEC and OPEC Plus, and the political climate have given them reason for pause. More specifically, investors clearly consider Master Limited Partnerships an income opportunity. However, MLPs can also provide — as I believe Martin Midstream does — a compelling total return opportunity. Increased refinery utilization as vaccines are distributed and the economy opens up, positive free cash flow to reduce leverage, and the potential for improvement in trading multiples are the framework for adding value to our unitholders.

**TWST: Thank you. (MN)**

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