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USAC - Q2 2019 USA Compression Partners LP Earnings Call

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CORPORATE PARTICIPANTS

Christopher W. Porter *USA Compression Partners, LP - VP, General Counsel & Secretary of USA Compression GP, LLC*

Eric D. Long *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Matthew C. Liuzzi *USA Compression Partners, LP - VP, CFO & Treasurer USA Compression GP, LLC*

CONFERENCE CALL PARTICIPANTS

Jeremy Bryan Tonet *JP Morgan Chase & Co, Research Division - Senior Analyst*

Praveen Narra *Raymond James Euro Equities - Former Research Analyst*

Timothy D. Howard *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

PRESENTATION

Operator

Good morning. Welcome to the USA Compression Partners LP's Second Quarter 2019 Earnings Conference Call. (Operator Instructions) This conference is being recorded today, August 6, 2019. I would like to now turn the call over to Chris Porter, Vice President, General Counsel and Secretary.

Christopher W. Porter - *USA Compression Partners, LP - VP, General Counsel & Secretary of USA Compression GP, LLC*

Good morning, everyone, and thank you for joining us. This morning we released our financial results for the quarter ended June 30, 2019. You can find our earnings release as well as recording of this call in the Investor Relations section of our website at usacompression.com. The recording will be available through August 16, 2019.

During this call, our management will discuss certain non-GAAP measures. You will find definitions and reconciliations of these non-GAAP measures to the most comparable GAAP measures in the earnings release.

As a reminder, our conference call will include forward-looking statements. These statements include projections and expectations of our performance and represent our current beliefs. Actual results may differ materially. Please review the statements of risk included in this morning's release in our SEC filings. Please note that information provided on this call speaks only to management's views as of today, August 6, and may no longer be accurate at the time of a replay. I'll now turn the call over to Eric Long, President and CEO of USA Compression.

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Thank you, Chris. Good morning, everyone, and thanks for joining our call today. Also with me is Matt Liuzzi, our CFO.

This morning, we released our financial and operational results for the second quarter of 2019. The second quarter represented another solid quarter for USA Compression both from an operational as well as a financial standpoint. Our results point to the strength of our business model with both stability in revenues, fleet utilization, margins as well as continued modest, yet highly accretive organic growth.

First, some highlights for the quarter. Net income of $9.9 million was up substantially compared to the second quarter of 2018. Adjusted EBITDA of $104.7 million was up over 9% from a year ago.

In Q2, our overall gross operating margin was 67.6% in line with historical USA Compression standalone levels. We added 47,000 horsepower to our fleet. Predominantly, large horsepower units focused on the 2,500 horsepower class and above.

Our revenue generating horsepower at period end was approximately 3.3 million horsepower and our average horsepower utilization for the second quarter was 94.6%.

In July, we announced a cash distribution to our unitholders at $0.525 per LP common unit consistent with the previous quarter, which resulted in coverage of 1.14x in line with Q1. This distribution is USA Compression's 26th distribution since our IPO in January 2013, and every one has been at a consistent or increased level from the previous quarter.

Including the distribution being paid Friday, we have now returned over $780 million in distribution value to our common unitholders since going public.

Finally, our bank covenant leverage continues to improve and was 4.46x for the quarter, down from 4.54x in Q1.

The stability of our contract compression services business model demonstrates the demand-driven nature of our business rather than dependency on cyclical commodity prices. While other sectors of the industry inherently may have more exposure to absolute commodity prices, our contract compression services business model is designed to benefit from the ongoing domestic infrastructure buildout driven by the continued production of natural gas in this country.

In the past, we highlighted the unique position of contract compression. The demand for our services, which, by their nature, are recurrent and not onetime events, is driven by volumes of natural gas and corresponding regional pipeline pressures.

Simplistically, our large horsepower compression fleet is used to move natural gas into and through the domestic pipeline grid.

Gas volumes are meaningfully up across the basins in which USA Compression operates, which has led to the growth in horsepower that we have deployed over the last several years.

And since there have been a lot of headlines around overall commodity production, both oil and gas, as well as rig count, takeaway capacity and general economic uncertainty, I want to give you my view of how those factors have limited impact on USA Compression's core business.

Remember that compression is not a onetime event for our customers, but rather a service that is required throughout the life of a producing region.

Generally, we'll need more compression as reservoir pressures decline as oil and gas flows age.

Takeaway capacity out of the regions in which we operate continues to be an important topic, and we expect the debottlenecking of key regions will continue over the coming years.

In certain regions, producers have slowed development activity waiting upon announced pipeline projects to be built and commissioned. You can't build a pipeline overnight, but as these important projects come online, we expect to see better pricing realizations for producers, which in turn stimulates production and ultimately, the volumes of flow through our midstream infrastructure.

General economic uncertainty for the near future has prompted many in our industry to slow down or pause, and we have done no different.

As we have discussed, our 2019 growth CapEx budget is significantly below what we spent in 2018, and we currently expect 2020 to be below 2019. So we've taken our foot off the gas pedal just as we have done in years passed to avoid overbuilding.

Because of how we spend capital, we have the luxury of waiting to see how things develop before committing to additional spending.

Our view is that as we get into the back half of 2019 and our large strong creditworthy customers work through their budgets for 2020, we'll have a much better feel for what our incremental growth spending levels may be for 2020. This has long been the story of USA Compression. We grow when it makes sense to grow. We back off on spending when market conditions suggest that we do so. Regardless of capital spending levels, our efforts to manage and optimize the existing USA Compression fleet continue as they have in the past, and that is the stability part of the USA Compression story.

Now to touch on some operating metrics and overall achievements for the second quarter. Our fleet utilization remained consistent with the first quarter level demonstrating the stability and strength of a large horsepower installed market.

Pricing increased from first quarter levels were reflecting our continuing efforts to ensure that we are getting paid appropriately for our services. As I mentioned, operating margins were consistent with where we have operated our core compression services business over time.

We prudently spent growth capital during the quarter, and we'll continue to self-fund our 2019 CapEx program with no equity issuance anticipated. And we continue to be focused on the balance sheet and distribution coverage both of which remain at levels acceptable for a stable business model.

Last month, we declared our quarterly distribution of $0.525 per unit, which equates to a current yield of around 12% to 13%. Given the realities of the equity market, we continue to plan for a future where self-funding is the norm and additional equity is not required for our CapEx program.

Our 2019 CapEx program continues to reflect modest growth focused on accretive, high return assets, so as to balance customer demand and our balance sheet capabilities.

We believe this results in attractive financial returns for USAC unitholders. Our business is driven by the production of natural gas and the movement through pipeline systems and processing plants.

Demand for natural gas continues due to its relative abundance, attractive pricing for end users worldwide and environmentally friendly characteristics.

We don't see this changing anytime soon. And as we've said, the more gas moving through the system, the more demand for our compression services.

The EIA continues to see increasing production in the U.S. It estimates 91 BCF per day in 2019, reflecting almost a 10% increase over 2018 levels. This increase in production, which is being transported throughout the U.S. and far beyond our shores, is requiring our customers to continue to invest in infrastructure to move, process and ultimately deliver that gas.

I mentioned the stability in our fleet utilization and the increase in pricing. We continue to be effectively sold out of available idle equipment in large horsepower classes, and so we don't expect utilization to creep too much higher. But we continue to work to optimize our pricing across the fleet with selective rate increases out in the field.

Halfway through 2019, the market for our services continues much as we expected. Even with some uncertainty out there relating to growth by E&P companies and the associated impact on midstream infrastructure and marketplace, we believe we have the right equipment and flexibility to manage through whatever commodity price environment in which we find ourselves.

Our prudent approach to capital spending and our focus on the existing fleet and our customers should position us for a solid second half of the year. We continue to believe our focus on stable large horsepower, infrastructure-oriented applications differentiates USA Compression from our peers.

So now some second quarter results. In the second quarter, the market for compression services remains strong, with average utilization during the quarter of 94.6%, very consistent with Q1 average utilization of 94.2%.

As I mentioned, we don't expect this number to increase meaningfully from current levels, mid-90% is generally considered pretty fully utilized. But demand for the largest horsepower classes has continue to remain strong.

For the remainder of 2019, we have approximately 47,000 new horsepower set to be delivered. Those units are already earmarked for customers. From an operating perspective, our total fleet horsepower at period end was up slightly at approximately 3.7 million horsepower.

While active horsepower decreased slightly due primarily to the redeployment of small horsepower units from 1 customer. This was offset by an increase on on-contract prepended equipment, which is equipment earmarked for customers, but not yet in our active category.

As usual, the relatively small amount of idle equipment consists primarily of the much smaller horsepower units. We saw average pricing across the fleet increase almost 1% over the previous quarter, which reflects new delivery units and the benefit of selective service rate increases on equipment already deployed and working in the field.

Average monthly revenue was $16.60 per horsepower for Q2, up from $16.45 in the first quarter.

This will continue to be a focus for us as we move through the back half of the year, making sure we're generating the optimal financial returns from our assets.

As regards growth spending, we continue to expect to spend between $140 million and $150 million in expansion capital for the year.

This amount has not changed all year. Q2 growth capital was approximately $51 million, including delivery of approximately 47,000 total new unit horsepower.

Of that total growth CapEx number, about 80% was related to those new unit deliveries. As I mentioned, the new deliveries were predominantly the large horsepower units focused on the 2,500 horsepower class and above.

In terms of equipment supply and demand, new equipment lead times for the large horsepower equipment have been reduced to levels much more in line with historical levels, closer to 30 weeks for the largest engine classes.

We continue to see prudent capital allocation within the industry. The shortened lead time provide USA Compression and our customers a little additional time cushion to make sure that we collectively, that we don't overbuild on equipment.

With that, just as we've been prudent with our 2019 capital plan, we are taking a cautious approach to new unit orders in 2020.

During the quarter, we did place orders for a total of approximately 48,000 horsepower scheduled to be delivered predominantly during the first half of 2020 with the majority concentrated in Q2 of next year.

This order was predicated on specific existing customer needs. Given the lead times, we will continue to stay in close contact with our customers' other needs, and we can enter into additional orders should market conditions dictate.

So a little financial overview. The second quarter financial performance reflected the solid quarter as we reported stable horsepower metrics and improved pricing even as we have fewer active units deployed in the field, due primarily to the removal of certain small -- smaller horsepower units.

Adjusted EBITDA of $104.7 million and an adjusted EBITDA margin of 60.3% reflected the solid operating performance by our team and continued commitment to controlling the expenses.

In Q2, our overall gross operating margin was 67.6%, in line with historical levels. We did have some minor nonrecurring items that benefited our results during the quarter, and Matt will touch on those later on the call.

Our bank covenant leverage was 4.46x for the quarter, down from 4.54x in Q1, and our distributable cash flow coverage ratio was 1.14x, essentially flat with 1.16x in Q1.

So a little color on the marketplace and some demand drivers. When we look at the broader market dynamics, I always like to mention commodity price movements in part because I like to contrast the moves with the impact on our business.

At the end of 2018, WTI was $45 per barrel and Henry Hub gas was trading at $3.25 per Mcf. In mid-February, crude had moved up to $56 per barrel and gas had moved down to $2.60 per Mcf, and by early May, crude had continued its climb up over $60 a barrel, while gas had stabilized around the $2.50 to $2.60 per Mcf level.

As of today, crude has declined to around $55 a barrel, while gas is down to around $2.10 to $2.15 per Mcf range.

So I see a lot of volatility in the price of crude due in part to geopolitical events and overall economic uncertainty, while gas has continued its steady decline due in part to a continued abundance of supply.

Our business at its core, however, is a demand-driven business. Driving that demand is with demand for and corresponding production of natural gas.

As everyone knows, low prices tend to stimulate demand, and we see that on the natural gas side of things where we operate. The incredible amount of natural gas reserves in our country and the continued increase in production half is expected, have the price relatively range-bound and at the lower end of historical levels.

The result is that for the end user, chemical manufacturers, LNG exporters, power generators, et cetera, the raw material cost has become so competitive with global peers that they are investing in domestic facilities, whether world scale chemical plants, new clean burning power generation facilities or the massive infrastructure needed to liquefy and export natural gas all over the world.

This investment will naturally have triple down effects to guys like us, who help move that gas from producing regions to areas where it can be consumed or exported.

We've discussed before the impact that crude oil economics have had on the production of associated gas and how that associated gas has been driving a lot of our growth, particularly in West Texas and the Delaware basin.

While those economics are still relevant, we have seen further discipline on capital spending as broadly indicated by a decrease in the rig count.

Producers are focused on capital allocation, and you are seeing the impact on a broad array of oil field service providers. That would indicate to us that the crude oil and associated gas production growth is likely to moderate in the near future reversing the perceived oversupply from the U.S., which ought to lead to more balanced markets and potential price strengthening.

Again, we have pared back our growth CapEx plans in light of market dynamics, which we believe is the prudent course of action. As the market rebalances and the demand for crude and gas once again increase, we will have the ability to allocate additional growth capital as may be appropriate to meet our core customers' needs.

And so overall, our view of the market hasn't changed. We expect demand for domestically produced natural gas to continue to increase over the coming years, more gas moving around the country and now the other parts of the world requires more gas infrastructure and thereby increased demand for compression.

The Permian and Delaware basins continue to be where the activity is, even at somewhat slower levels of growth. The majors or larger producers are positioning themselves for years of investment.

We continue to see the bigger producer still moving ahead with their investments and development plans. Our large horsepower units out there serve existing production, so while the near-term growth rate for gas production may move around, the overall trend is increasing levels of natural gas production that needs to find a way out of the basin.

Other operating regions, the SCOOP/STACK merge plays, the Marcellus and Utica shales, South Texas, the Eagle Ford Shale, Louisiana as well as Colorado are all staying active albeit with different rates of activity that varies from customer-to-customer.

As we discussed in the past, we are not interested in growing just to grow, but rather in this environment, making sure that the projects we take on are worthwhile.

With the strongest of our investment grade core customers who value our services and appreciate the long relationship with USA Compression.

We believe this business strategy is most appropriate, and we are focused on strong operational performance, expense controls and prudent capital spending, all while staying true to our strategy of large horsepower infrastructure-based applications.

I will now turn the call over to Matt to walk through some of the financial highlights of the quarter. Matt?

Matthew C. Liuzzi - *USA Compression Partners, LP - VP, CFO & Treasurer USA Compression GP, LLC*

Thanks, Eric, and good morning, everyone. Today, USA Compression reported a solid second quarter, including quarterly revenue of $174 million, adjusted EBITDA of about $105 million and DCF to limited partners of $54.1 million.

In July, we announced a cash distribution to our unitholders of $0.525 per LP common unit, consistent with the previous quarter, which resulted in coverage of 1.14x.

Our total fleet horsepower as of the end of Q2 was just under 3.7 million horsepower. Our revenue generating horsepower at period end was approximately 3.3 million horsepower. The slight decrease in active horsepower during the quarter was primarily due to the removal for redeployment of certain small horsepower units predominantly from 1 customer.

Our average horsepower utilization for the second quarter was 94.6%. Pricing is measured by average revenue per revenue generating horsepower per month was $16.60 for Q2. This represented about 1% increase from quarter 1 level.

Total revenue for the second quarter was $174 million, of which approximately $169 million reflected our core contract operation revenues consistent with recent quarters.

Parts and service revenue was $4.4 million. Gross operating margin as a percentage of revenue was 68% in the quarter.

Net income for the quarter was $9.9 million and operating income was $42.9 million in the quarter. Net cash provided by operating activities was $99.8 million in the quarter, maintenance capital totaled $7.9 million in the quarter and cash interest expense net was $30.7 million.

Earlier, Eric mentioned certain nonrecurring items that benefited adjusted EBITDA and DCF. During the quarter, we received approximately $4.7 million in property tax refunds related to prior years and those were credited against our property tax expense during the quarter.

While some refunds due are still outstanding. We don't expect future quarters to benefit to the degree that Q2 did.

And now that we are halfway through the year, we are updating our guidance for 2019. Please note that the midpoints of the ranges remain the same as previously provided, we are merely narrowing on the ranges.

We currently expect 2019 adjusted EBITDA between $390 million and $410 million, and DCF between $190 million and $210 million.

And last, we expect to file our Form 10-Q, with the SEC as early as this afternoon. And with that, we'll open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Praveen Narra with Raymond James.

Praveen Narra - *Raymond James Euro Equities - Former Research Analyst*

I just want to touch on the pricing trends and what you guys are saying given the headwinds the industry has been facing. So obviously, you guys have sold out equipment, the industry is still very tight. Are you seeing any pushback or anything from your customer base in terms of pushing pricing? And then also if you can talk through how you, kind of, think of how the revenue per horsepower will trend to the remainder of the year?

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Yes. This is Eric. I think maybe a fair way to say it is, the trajectory is starting to flatten a little bit. If you look back the last 2 or 3 years, you'll -- we had consistently push through high single-digit, low double-digit increases in our monthly service fees. We've been fortunate that we've been able to pull some of our -- some cost out of our packaging cost helping to improve our margins.

So I think a fair way to say it is we've locked in the back half of 2019. We've locked in the first part of our 2020 or organic growth CapEx programs that will assure us very attractive rates in returns on the capital deployed. And I think, going forward, you'll see the rate of change that second derivatives starting to kind of rollover a little bit and flatten.

Praveen Narra - *Raymond James Euro Equities - Former Research Analyst*

That's very helpful. And then, so as we think about the 2020 CapEx budget and the idea that it will wait, can you give us a sense of what you need to see in order to deploy more CapEx? Or how you think about making the decision on either stopping it or kind of increasing it from here?

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Great question. As you've heard us on this call and other calls, yes we're starting to see more and more interest by the major oil companies, particularly in the Permian and the Delaware basin, the most active drillers of the U.S. are the major oil companies. So I think what we are waiting to look and see to make additional commitments on equipment is commitments from 1 or 2 or 3 of those type of players. If you look at their needs, if you look at our capabilities, large volume, big horsepower infrastructure-oriented equipment, there is just a few of us in the industry capable of taking on these kind of projects.

I think it's fair to say that all of us in our peer group are laser-focused on looking at return on capital deployed. So to the extent that we can live within our means, make sure that our customers' needs are met while also assuring adequate returns on the capital that we deploy, staying within our balance sheet, living within our commitments to our unitholders not to go out and require equity issuance, then we'll weigh that together.

So I think it's -- who is our counterparty? How long are the contracts? Do we have the equipment that they need and at what kind of service fee? And we triangulate all those things together. So with the right customer, for the right fee, at the right time, with the right amount of capital, then we'll make some commitments. To the extent they don't make sense, then we'll obviously slow that growth down.

Operator

(Operator Instructions) And our next question comes from Jeremy Tonet with JP Morgan.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just wondering if you might be able to expand a bit more or provide some reference as far as kind of how your conversations with customers are now? And just how they -- the demand that you see now versus what you saw 6 months or a year ago, is there any way to kind of frame that, the context or just to get a sense for how this trajectory is looking at this point?

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Again, when you see the customer mix moving from private equity backed independence to major oil companies with multi-decade developmental plans, they're looking for strength from their service providers, people with strong safety programs, people with strong balance sheets, people who have a big base of operations. So from a demand perspective, the signals that we see remain very, very strong. I don't think that's the case for participants in smaller horsepower. Folks that are focused explicitly on the well-hit rather than kind of on the midstream infrastructure that goes to support that.

I think we've said it before, I'll say it again. We, frankly, have more demand signals than we have balance sheet and operational wherewithal at this juncture.

So we continue to pick and choose on high grade, our CapEx plans with the biggest of the biggest.

So we're -- Matt, chime in. I don't think we're seeing much change in our customer book and demand signals from our core customer base.

Matthew C. Liuzzi - *USA Compression Partners, LP - VP, CFO & Treasurer USA Compression GP, LLC*

Yes. And Jeremy, I would just add, Eric mentioned kind of the bigger and bigger guys who are active. And I mean, again, these guys are taking -- they're not on 6, 9, 12 months kind of investment horizons. They're out there literally mining the commodities out of the ground, and so they're looking at it the next 5, 10-plus years.

And so those are the kind of conversations that we're having and people are literally talking about their infrastructure buildout plans for the next couple of years.

So I think it still remains strong. And I think we kind of touched on -- everyone's kind of aware of the geopolitical events and everything in the volatility. But the big guys continue to be active because you go back to our core business model, which is moving natural gas around and that seems to be certainly high in demand both for kind of domestic use and export.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

That's helpful. And just want to turn over the guide real quick here. And it seems kind of what you guys have accomplished here. If I just annualize the quarter looks like you'd hit kind of like the high end or above the guidance range here.

So just wondering, if there is anything we should be thinking about as far as a little slowdown in the back half of the year or seasonality or anything else that would kind of preclude the back half of the year from matching what you did in the first half of the year?

Matthew C. Liuzzi - *USA Compression Partners, LP - VP, CFO & Treasurer USA Compression GP, LLC*

No. Jeremy, I mean, the one thing I would not annualize this quarter, but I did mention we had that kind of onetime benefit to the tune of about $4.5 million. That was property tax related that basically expenses that we had paid in, in previous years and had gotten refund.

So that benefited it. So I think truthfully when you kind of take that out, you basically have results that are sort of, I would say, very much in line with, I think, where you and a lot of your peers were in terms of estimates. And if you were to annualize that amount, you are much more kind of, I think, in line with sort of where the full year guidance rests.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Got you. And just to confirm there, those taxes show up in EBITDA?

Matthew C. Liuzzi - *USA Compression Partners, LP - VP, CFO & Treasurer USA Compression GP, LLC*

Yes.

Operator

And our next question comes from Selman Akyol with Stifel.

Timothy D. Howard - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

This is Tim on for Selman. Could you guys just update us on what you're seeing and hearing in the Northeast? I think that basin is in the process of slowing down, and interested if any producers are seeking rate relief, and maybe your expectation on utilization over the next kind of 12 to 18 months up there?

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

The Northeast is an area that we have been active literally since the formation of the company. We compress the very first Marcellus shale well for Range Resources back a gazillion years ago.

What we're seeing is some lag time with several of the larger takeaway pipelines being developed.

There's like some litigation involved, which has now caused 2 particular large lines to be delayed from implementation.

There are some very large volume wells that are being drilled. The good news for U.S.A. is we are in the midst of the core of the core of both the Marcellus and the Utica.

Our customers are some of the largest in the area, and we see continued modest growth. Our utilization in the Northeast has remained strong. And as part our new organic growth units, we will deploy some additional growth units to the Northeast next year.

That said, the Northeast 3 or 4 years ago, it started to slow down a little bit. In fact, if you look at some of the EIA projections, what we saw, what the EIA projects was a slowdown in dry gas development at about this point in time, starting a couple of years ago, slow growth and even some declines on dry gas development due to the volumes of associated gas that were coming on stream.

So I think your assessment is accurate that the Northeast will see somewhat of a slowdown, particularly on the E&P side. But with guys like us working with the largest of the largest guys, the throughput remains relatively constant. So the needs for existing compression are high. The rate of change for deployment of growth CapEx has moderated a little bit. And our belief is that the Northeast, and, for example, the North Louisiana Haynesville area with big volumes and large supplies of dry gas will hold a lot of future growth -- a lot of growth in the future 5, 7, 10, 15, 20 years on down the road.

The deal du jour today is developing the Permian or the Delaware for the oil side of the equation. We're not up in North Dakota, so we're -- we don't have any exposure to that area. But associated gas coming from the Permian and Delaware is kind of the growth driver and the rest of the stuff. What we see is what we get, it stays deployed and just a little bit slower growth.

Matthew C. Liuzzi - *USA Compression Partners, LP - VP, CFO & Treasurer USA Compression GP, LLC*

And Tim, it's Matt. One thing I would also just note. I mean, think about what's going on in the Northeast, in the Mid-Atlantic that over time, I think, you're going to continue to have strong demand. I mean, first of all that area produces a ton of gas, kind of the lion's share for the country. But it's this -- as the Shell chemical plant comes online in the next couple of years, you're getting a lot of more power generation in the Mid-Atlantic that's turning from coal into gas and that gas is being fed from kind of Marcellus, Utica.

So I mean -- yes, I think, some of the industrial factors there kind of underpin what Eric was going through, which is, yes, the growth is not through the roof. But it's an important source of gas for the country and certainly as export facilities continue to get built out, I think you're going to continue to see flows from that area.

Timothy D. Howard - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

That's helpful. And then pivoting to owner operated compression. Are -- have those conversations increased, decreased over the last kind of call it, 3 to 6 months? And just any major sticking points that you'd highlight of kind of getting deals done where you'd require those units.

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Yes. I would say that there is a lot of interest right now on the outsourcing, call it, monetization of some existing fleet or even monetization of prospectively going forward assets.

The sticking point in the discussions are always cost of capital. So we're talking to folks who have a lot of assets that they'd like to monetize. The debt markets are constrained. The equity markets are constrained.

So when we have the ability to deploy our capital into organic growth projects with the type of returns that we're able to create, the EBITDA multiples that we're deploying these assets at. When we look at some of the expectations of the "sellers", there's a disconnect between the bid-ask so to speak.

So right now the world we're living in, there are far more opportunities for organic growth. And frankly, for monetization, say, leasebacks or moving forward alternatives to company-owned machines that are gaining some traction.

But our industry and our -- the couple of our peers, who can handle this large horsepower equipment are looking at the market just like we are. Way too many opportunities, not enough capital, our return expectations are high, and to consummate transactions with prospective outsourcing sellers of equipment got to get a little more realistic as to what these return expectations and hurdles are. Too many deals, not enough capital.

Operator

(Operator Instructions) And at this time, I'm currently showing no questions in the queue. I will now turn the call back over to CEO, Eric Long.

Eric D. Long - *USA Compression Partners, LP - President, CEO & Director of USA Compression GP, LLC*

Thank you, operator. And thank you all for joining us on the call today. The second quarter was a solid quarter and demonstrates the stability of our contract compression services business model.

The market for compression services continues to be strong and our focus hasn't changed. Driving utilization and pricing, watching the expenses while operating in a safe manner and providing our customers a high level of service.

We are focused on driving attractive economic returns for our unitholders over the long term and doing so through prudent capital spending and aligning with our core, financially strong customers under long term fee-based contracts. We look forward to continuing to deliver results for our unitholders, and we look forward to updating you on the next quarterly call. Thank you for your continued interest in and support of USA Compression.

Operator

Thank you, ladies and gentlemen. That concludes today's teleconference. You may now disconnect.