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UAN - Q3 2019 CVR Partners LP Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the CVR Partners, LP Third Quarter 2019 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Jay Finks, Vice President of Finance and Treasurer. Thank you. You may begin.

Jay Finks - *CVR Energy, Inc. - VP of Finance & Treasurer*

Thank you, Michelle. Good morning, everyone. We appreciate your participation in today's call. With me today are Mark Pytosh, our Chief Executive Officer; Tracy Jackson, our Chief Financial Officer; and other members of management.

Prior to discussing our 2019 third quarter results, let me remind you that this conference call may contain forward-looking statements as that term is defined under federal securities laws. For this purpose, any statements made during this call that are not statements of historical facts may be deemed to be forward-looking statements. Without limiting the foregoing, the words outlook, believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements.

You are cautioned that these statements may be affected by important factors set forth in our filings with the Securities and Exchange Commission and in our latest earnings release. As a result, actual operations or results may differ materially from the results discussed in the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

This call also includes various non-GAAP financial measures. The disclosures related to such non-GAAP measures, including reconciliation to the most directly comparable GAAP financial measures, are included in our 2019 third quarter earnings release that we filed with the SEC yesterday after the close of the market.

With that said, I'll turn the call over to Mark Pytosh, our Chief Executive Officer. Mark?

Mark A. Pytosh - *CVR Partners, LP - CEO, President & Director of CVR GP LLC*

Thank you, Jay. Good morning, everyone, and thank you for joining today's call. The summarized financial highlights for the third quarter of 2019 included net sales of \$89 million; a net loss of \$23 million; adjusted EBITDA of \$18 million; and the Board of Directors declared a third quarter distribution of \$0.07 per common unit, which will be paid on November 12 to unitholders of record at the close of market on November 4.



During the third quarter 2019, we had strong utilization at both facilities and began a plant turnaround at East Dubuque, which was completed in mid-October. At Coffeyville, the ammonia plant operated at 98% utilization for the quarter, above the third quarter 2018 at 94%. At East Dubuque, the ammonia plant also operated at 98% utilization, leading up to the turnaround compared to utilization of 100% in the prior year period.

For the third quarter of 2019, our combined operations produced approximately 196,000 gross tons of ammonia; 318,000 tons of UAN; and 56,000 net tons of ammonia available for sale compared to production of 212,000 gross tons of ammonia; 338,000 tons of UAN; and 63,000 net tons of ammonia available for sale in the prior year period. We sold approximately 340,000 tons of UAN during the third quarter of 2019 at an average price of \$182 per ton. UAN pricing for the quarter increased 7% over the prior year period. In addition, we sold approximately 33,000 tons of ammonia during the third quarter of 2019 at an average price of \$337 per ton. Ammonia pricing for the quarter increased 13% over the prior year period.

While our UAN sales increased by 10% over the prior year quarter, and we benefited from higher fertilizer and lower natural gas prices, increases in direct operating expenses and pet coke pricing drove the slight decline in our EBITDA year-over-year. We continue to expect the favorable spring 2020 planting season compared to 2019, which I will discuss further in my closing remarks.

I will now turn the call over to Tracy to discuss our financial results.

Tracy D. Jackson - CVR Partners, LP - Executive VP & CFO of CVR GP LLC

Thank you, Mark. Turning to our results for the third quarter of 2019, we reported net sales for the period of \$89 million and an operating loss of \$8 million compared to net sales of \$80 million and operating income of \$3 million in the third quarter of 2018. Net losses for the third quarter of 2019 were \$23 million or \$0.20 per common unit and adjusted EBITDA was \$18 million. This compares to a net loss of \$13 million or \$0.12 per common unit and adjusted EBITDA of \$19 million for the prior year period. The slight decrease in adjusted EBITDA was driven predominantly by higher operating cost and higher pet coke prices.

Direct operating expenses for the third quarter of 2019 increased \$48 million from \$35 million in the prior year period. Excluding inventory impacts, direct operating expenses increased by approximately \$8 million year-over-year, primarily related to turnaround expenses.

Turning to capital. During the third quarter of 2019, we spent \$7 million on capital projects, which was primarily maintenance capital. We continue to estimate total capital spending for 2019 to be approximately \$20 million to \$25 million, excluding turnaround spending. Turnaround expenses for the year are expected to be approximately \$9 million.

Looking at the balance sheet, as of September 30, we had approximately \$106 million of liquidity, which was comprised of \$84 million in cash availability under the ABL facility of \$48 million, less \$25 million in cash included in our borrowing base. Within our cash balance of \$84 million, we had approximately \$16 million related to customer prepayments for the future delivery of product.

Our long-term gross debt and finance lease obligations of \$647 million, including current portion, remains unchanged. Available cash for distribution of \$8 million is derived from our positive adjusted EBITDA for the quarter after consideration of reserves of \$15 million for debt service and \$13 million for maintenance capital expenditures and turnaround expenses. In addition, we released \$18 million of cash reserved in prior quarters for maintenance turnaround and other operating needs.

We are a variable distribution MLP, we will review our previously established reserves, evaluate future anticipated cash needs and may reserve amounts for other future cash needs as determined by our general partner's Board. As a result, our distributions, if any, will vary from quarter-to-quarter due to several factors, including, but not limited to, operating performance, fluctuations in the prices received for finished products, capital expenditures and cash reserves deemed necessary or appropriate by the Board of Directors of our general partner.

Looking ahead, we estimate our ammonia utilization rate for the fourth quarter of 2019 to be between 95% and 100%, excluding the impact of plant turnarounds. We expect direct operating expenses to be approximately \$40 million to \$45 million, excluding inventory and turnaround impact and total capital spending to be between \$8 million and \$10 million.



With that, I turn the call back over to Mark.

Mark A. Pytosh - *CVR Partners, LP - CEO, President & Director of CVR GP LLC*

Thanks, Tracy. We completed our turnaround at East Dubuque last week, which took a few days longer than we expected due to completing more repairs on the reformer piping and vessels. We also spent \$2.7 million more than planned, primarily to further improve long-term reliability as we made a number of improvements to the primary and secondary reformers.

As I mentioned on the last call, over the next several turnarounds at both of our plants, we will be targeting projects that are intended to improve our reliability and debottleneck in incremental ways to gain added production for low capital investment. While our plants have been strong performers in the past several years, we continually look for ways to further improve operations and reliability.

Customers purchased UAN for the summer fill and ammonia prepay for fall application in early August as the timing of the normal fertilizer purchasing cycle has been a little later than normal. Consistent with the past 18 months, customers have been buying fertilizer more ratably, and the expectations that harvest will be later than normal has led customers to stage their buying.

Weather is going to dictate the timing of harvest and the available window for ammonia application. There continues to be a lot of speculation about the yield numbers for corn and soybeans, and the USDA numbers have been more aggressive than most analysts believe. The existing corn and soybean inventory levels have been lower-than-expected and some early cold weather has caused crop prices to rise to their highest levels over the past couple of months. If these prices hold up to the rest of the fall, spring 2020 planted acres should be favorable compared to 2019.

Fertilizer inventories are at comfortable levels for distributors and retailers for this time of year, but depending on the amount of fall ammonia application, there should be another wave of purchasing to fulfill nitrogen needs. At CVR, we have a good order work -- order book for UAN at both of our plants, and we'll continue to participate in the market when liquidity is available.

At East Dubuque because of our turnaround, we have sold most of our existing UAN production for the rest of the year and we'll look to participate in the rest of the fall purchasing program for ammonia as application accelerates. I want to reiterate that the partnership will continue to focus on maximizing free cash flow by safely operating our plants reliably and at high utilization rates, prudently managing our cost, being judicious with our capital, but selectively investing in reliability projects and incremental additions to production capacity, and maximizing our marketing and logistics activities.

In closing, I'd like to thank all of the employees for their contributions in the third quarter to drive continued high utilization at both facilities and safely completed -- completing the plant turnaround at East Dubuque.

With that, we are ready to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

First, Mark, I would love to get just a little bit more color on the cadence, on sales cadence through the back half of the year. And specifically, in the quarter, how much of your third quarter sales do you think actually went to ground, probably more springlike pricing versus kind of the fall reset? Just want to just calibrate a little bit, just how much of the late summer might have helped you in the third quarter.

Mark A. Pytosh - CVR Partners, LP - CEO, President & Director of CVR GP LLC

Actually, I don't think it really helped a lot this quarter. July was pretty light because there was a lot going on at the ground at the end of the season. So I don't think we got a lot of lift down on there. I think the pricing that you see in the quarter was largely the fill -- for UAN, was largely the fill pricing and the ammonia pricing was the summer fill on prepay. So I don't think there was a lot of carryover from our book. Our book was pretty low at the end of June. And even though the season went longer, we didn't see a great deal of flow out of our book in July. So that price is kind of what we took in the quarter.

Adam L. Samuelson - Goldman Sachs Group Inc., Research Division - Equity Analyst

All right. So in that sense then, your -- as you think about sales -- selling pricing for the fourth quarter, third quarter is a recent gauge of kind of -- a good decent gauge of where you might shake out, just usually you sell a lot of your second half volumes through the summer fill, right?

Mark A. Pytosh - CVR Partners, LP - CEO, President & Director of CVR GP LLC

Yes. It usually -- for UAN, this is UAN I'm talking about, the quarter price is pretty reflective of what the second half price that's the fill, kind of fill levels. And there's been some ratable buying, but it's been kind of around those numbers. So I think that's consistent -- that's a consistent second half. Like it is, normally, for us.

Adam L. Samuelson - Goldman Sachs Group Inc., Research Division - Equity Analyst

Right. That's helpful. And then as you look at just the bonds, just can you talk about the decision, maybe, not to go on tender and look for refinancing? Or just how you're looking at that today? Just, it seem like a pretty attractive refinancing opportunity with where rates are and just how you're approaching that.

Tracy D. Jackson - CVR Partners, LP - Executive VP & CFO of CVR GP LLC

We'll continue to evaluate it. At the time that we were looking at it, we just felt like the payback period was not sufficiently short enough for us to move forward and the certainty around the rate that we will be able to take out of the market wasn't as strong as we wanted it to believe, and we decided to look at it again next year when the call premium comes down again.

Adam L. Samuelson - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it. Okay. And then as you think about kind of just inventories, I mean there's a lot of questions about the ultimate planted acres this year. Coming out of the spring, Mark, do you think inventories in the channel were really depleted for both UAN and ammonia? Or do you think that there was some carryover product more than average? Or do you think people can't find -- manage to come out of the spring empty?

Mark A. Pytosh - CVR Partners, LP - CEO, President & Director of CVR GP LLC

I would say it was geographic. There were pockets where it's empty and there were some pockets where people were still carrying some product. I'd say, generally, the market kind of emptied out pretty well at the end of the season, which -- that's why the fill was later this year than we've seen in prior years. So I think the system was in pretty good shape. But there were pockets that carried over from the spring, where there was still some inventory out there. We didn't really see that in our markets, but we -- some markets where we don't really participate, we had been hearing from customers that there was inventory out there.

So I think the inventory situation right now is very comfortable in the marketplace. It's not heavy, it's not light. I think it's comfortable. There is a need, I think, in the horizon to buy some more, which is typical for this time of the year. So I think we're in a pretty good spot.

I would just tell you that, surprisingly, the last week, the weather has been helping us, generally, the industry. It's been a little drier, a little colder and harvest has picked up momentum. And we're starting to see pockets of ammonia application already, which is early. That's not kind of what I think that most people thought the scenario would be, but we're seeing the harvest not everywhere, but in pockets getting done and clearing the fields, and then they're coming in right behind with ammonia because it's been cold enough to lower the soil temperature. So we're seeing pockets of early ammonia application, which I think bodes well for the rest of the fall.

Operator

(Operator Instructions) Our next question comes from the line of Charles Neivert with Cowen.

Charles Nathan Neivert - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Look, one question, I guess. When you look at typical fall application, I mean it looks like you guys may have held back some of the ammonia to be available for the fall, assuming -- sorry. I assume for the fall -- for the fall to be applied in the fall application. So if you get -- like you said, you get a little bit ahead of the game right now, and if assuming things stay as they are, is it possible you'll run through that inventory and sort of come into January pretty clean?

And also, is there any -- in looking at production for this quarter, are you guys going to be sort of producing a little less UAN or consuming a little less ammonia, I think is a better way to put it, consuming a little less ammonia through UAN and then using -- putting that down as well or getting that ready for application. So I mean, again, there's the balance of production for the quarter.

Mark A. Pytosh - CVR Partners, LP - CEO, President & Director of CVR GP LLC

Yes. What I would -- let me start with the last end of that question and I'll move my way back up to the front.

I think we're going to -- right now, and this could change depending on what the market tells us, we don't -- we've got a little ways to go to see all the ammonia application. I think we're in pretty good shape with our ammonia prepaid book and the inventory that we're carrying now. And we're just going to look and see what kind of windows we get -- this is really around East Dubuque. The window that we get for ammonia application there, we probably would run our normal production slate there. We've got good demand for UAN and ammonia.

And really just waiting to see if around the plant where we normally deliver a product, how -- what the harvest is going to be, and when that application occurs, we can always dial back the UAN. If we have a good long run, we could always dial that back and make some more ammonia and deliver it. So that's really -- we have the flexibility there to pull back in the plant. Right now, we're just going to run a full slate, normal slate, because we have -- again, we have drilled out of the plant for both ammonia and UAN.

What I would tell you is, if you remember, last year, in the fall, we -- it just stayed wet all the way through November and we never got windows. And this year, at least in the front end of it, we're seeing drier weather than we saw last year. And so harvest has been able to progress around East Dubuque. And we're seeing the crops coming out in the field, which bodes well. We're going to get the soil temperature in the right spot. But it bodes better this year so far because we had a wet October last year. We haven't had that wet October this year. So we're feeling like we could, maybe, get a full run of ammonia application this year.



Charles Nathan Neivert - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. Which would -- wouldn't, in that case, would put you guys through, basically, between the prepay you've got, and again, a full run. You would basically bring the inventory down a lot lower on the ammonia side. Again, in 3Q, you had a lot of excess.

Mark A. Pytosh - *CVR Partners, LP - CEO, President & Director of CVR GP LLC*

Yes. That's -- I mean, I think our goal would be to come into the end of the year with pretty low inventory number, and kind of get ready for the spring. That's going to be more weather-dependent. Last year, we didn't get it. This year, we're starting off on a much better footing than we did last October.

Operator

We have reached the end of our question-and-answer session. I'd like to turn the call back over to management for any closing remarks.

Mark A. Pytosh - *CVR Partners, LP - CEO, President & Director of CVR GP LLC*

Well, I just wanted to thank everyone, again, for joining the call today. And we look forward to sharing with you our fourth quarter results coming up after the new year. Thank you.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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