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USAC - Q3 2019 USA Compression Partners LP Earnings Call

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## PRESENTATION

### Operator

Good morning. Welcome to the USA Compression Partners LP third quarter 2019 earnings conference call. (Operator Instructions) This conference is being recorded today, November 5, 2019.

I would like to now turn the call over to Chris Porter, Vice President, General Counsel and Secretary. Please go ahead.

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**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 September 30, 2019. You can find our earnings release as well as a recording of this call in the Investor Relations section of our website at [usacompression.com](http://usacompression.com). The recording will be available through November 15, 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 and in our SEC filings. Please note that information provided on this call speaks only to management's views as of today, November 5, 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.

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**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. Also with me is Matt Liuzzi, our CFO.



This morning we released our financial and operational results for the third quarter of 2019. The third quarter represented yet again 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 accretive organic growth.

First a shout-out to our Permian-Delaware operating team. During the third quarter, our technicians in this region drove about 5.5 million miles with zero at-fault wrecks. Zero incidents in all we do is one of the core mantras we target each and every day at USA Compression. We are proud of our employees' focus on safety and the resulting benefits for both our customers and our entire workforce. Keep up the great work, gang.

I would next like to mention some key metrics for the quarter that highlight the continued progress we have made as a combined company now for over a year. Net income of \$13.3 million was a meaningful increase over the third quarter of 2018. Adjusted EBITDA of \$104.3 million was up over 15% from a year ago. During the quarter our overall gross operating margin was 67.3%, consistent with previous quarters.

We added over 38,000 horsepower to our fleet, predominantly large-horsepower units focused on the 2,500-horsepower class and above that generate highly attractive financial returns with strong counterparties. Our revenue-generating horsepower at period end was approximately 3.3 million horsepower, and our average horsepower utilization for the third quarter was 93.9%.

In October we announced the cash distribution to our unitholders of \$0.525 per common unit, consistent with the previous quarter. During the quarter the Class B units, which were part of the consideration for the CDM acquisition and held by Energy Transfer, converted to regular-pay common units, which resulted in coverage of 1.08x. This distribution is USA Compression's 27th distribution since our IPO, and by the end of this week we will have returned over \$840 million in distribution value to our common unitholders since going public. Finally, our bank covenant leverage continues to stay manageable at 4.5x for the quarter, consistent with Q2.

Even though we had a very successful quarter financially and operationally, we continue to read headlines and get asked questions about the overall health of the energy industry and the outlook for compression in the months and years ahead.

First, let me touch on what we have seen throughout 2019. As we've discussed, the demand-driven nature of our contract compression services business sets USA Compression apart from other energy-related business that have exposure to commodity prices. Our assets are critical to the operation of natural gas pipelines, and you will find compression either owned or provided by a third party like ourselves used by every business in the world that transports natural gas through pipelines.

Our customers require our services on a recurring basis. We typically don't provide compression for a short time and then have to move our equipment elsewhere to a different customer. Instead, our assets are often installed and stay in place in a producing region for a long period of time through multiple commodity price and contract cycles. As our customers, some of which are the most active and financially secure midstream and E&P companies in this country, continue to invest capital to move, process and deliver natural gas, our equipment is required.

During the third quarter and for the first 9 months of 2019, we've seen the continued increase of natural gas production in the U.S., aimed at meeting continually increasing demand. The EIA expects average daily 2019 gas production, at almost 92 Bcf per day, to be approximately 10% above 2018 levels. That gas is moving through the pipeline grid, and compression is doing the work to get it where it needs to go.

Takeaway capacity out of producing regions, while improved over the course of this year, still continues to get attention, in part because many of the major pipelines have little if any open capacity remaining. As further debottlenecking takes place, increased development should happen, but in the near term, it should further help restrain overinvestment and ultimately lead to better price realizations, which will help midstream volumes in the entire value chain.

As we look at the rest of 2019 and into 2020, we expect to see some pullback in terms of capital budgets and less activity levels. Budgets across the industry are being scrutinized with an emphasis on capital discipline. In addition, due to some amount of uncertainty relating to global trade issues and the pending U.S. presidential election, we expect activity will moderate somewhat as we get to the end of 2019 and into 2020.

Just as our 2019 CapEx program will be a reduction versus 2018, we currently expect 2020 to be below 2019's level. Based on what we are seeing out of the market as well as a desire to strengthen our balance sheet and avoid undue reliance on the capital markets, we are taking our foot off the pedal for 2020. We currently have 56,500 horsepower on order for delivery next year, all of which is committed to several large long-time customers.

As our utilization indicates, we continue to manage and optimize our compression fleet. While utilization decreased slightly during the quarter because of the timing of some returned units, we continue to put those units back out with customers in other areas at attractive rates. Regardless, we continue to be effectively sold out of large-horsepower compression units. That stability in utilization has been an important part of USA Compression's 20-plus-year operating history.

Now to touch on some operating metrics and overall achievements from the third quarter. Our fleet utilization remained generally consistent with the first half of the year, demonstrating the stability and strength of the large-horsepower installed market. Pricing increased from second quarter levels, reflecting our ongoing efforts to make sure we are earning an appropriate return for our services. Operating margins continued to be consistent with past levels.

Growth capital during the quarter was approximately \$53 million and will taper off considerably during the rest of 2019, and we continue to focus on the balance sheet and distribution coverage, both of which we believe remain at levels acceptable for our stable business model.

Last month we declared our quarterly distribution of \$0.525 per unit, which equates to a current yield of around 12%, consistent with levels throughout this year. As we have discussed, we have always planned for a future where self-funding is the norm and additional equity is not required for our CapEx program. The remainder of our 2019 CapEx program and initial orders for 2020 reflect modest growth and are focused on accretive, high-return investment opportunities, which we believe is an appropriate balance and generate attractive incremental financial returns for USA Compression's unitholders.

Overall at this point of the year, the market for compression services has played out much as we expected. Even with the ongoing uncertainty out there around commodity prices, E&P growth and the associated impact on midstream infrastructure, we believe there will be incremental demand for our services, and we have taken prudent steps not to over-commit or overbuild equipment. We continue to believe our focus on stable, large-horsepower, infrastructure-oriented applications with financially strong counterparties differentiates USA Compression from our peers.

So some third quarter results. The third quarter demonstrated a continued strong market for compression services, with average utilization during the quarter of 93.9%, very consistent with average utilization during the first half of the year in the low to mid 94% range. The slight decrease from Q2 was primarily due to the return of some units during September that customers no longer needed. Those units have largely been redeployed, reflecting the continuing demand for the largest horsepower classes.

At this point in the year, the substantial majority of our capital plan has been achieved. For the remainder of 2019, we have approximately 8,750 new horsepower set to be delivered. Those units are already earmarked for specific customers.

From an operating perspective, our total fleet horsepower at period end was up modestly at approximately 3.7 million horsepower. Active horsepower decreased slightly, as reflected in the utilization metric. And as I previously mentioned, this movement was due primarily to the return of certain large-horsepower units. We have already redeployed a portion of that equipment back out in the field in other regions.

Consistent with the past, the relatively small amount of idle equipment in our fleet consists primarily of the much smaller horsepower units. There is a market for those assets, and we continue to look for ways to cost-effectively get those smaller horsepower units back out to the field and working.

Average pricing across the fleet increased again over the previous quarter, which reflected new delivery of units and the benefit of selective service rate increases on equipment already deployed and working in the field. For the third quarter, we saw average monthly revenue of \$16.73 per horsepower, up from \$16.60 in the second quarter.

While we continue to evaluate the entire fleet and look for opportunities to increase prices, we expect the overall trajectory of pricing on new delivered units to moderate going into 2020. Combined with the average we've made on repricing our existing fleet, our view is that on the whole, we expect increased pricing to be less of a driver of our results in the near term.

We expect growth CapEx to end this year between \$145 million and \$155 million. This amount has remained generally consistent all year. Q3 growth capital was approximately \$53 million, including delivery of approximately 38,000 total new horsepower. Of that total growth CapEx number, about two-thirds was related to those new unit deliveries. As usual, the new unit deliveries were predominantly larger 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 stabilized at levels closer to 30 weeks for the largest engine classes, which gives USA Compression the ability to defer additional CapEx commitments by 2 or 3 quarters. In general, there continues to be prudent capital spending within the industry, and we aren't seeing any overbuilding on equipment.

As I mentioned, the third quarter financial performance reflected another solid quarter as we worked through 2019. We again reported stable horsepower metrics and improved pricing driven by the deployment of new units into the field. While adjusted EBITDA of \$104.3 million was consistent with the second quarter, the recurring contract operations business did grow during the quarter, reflecting strong underlying business. The adjusted EBITDA margin of 59.4% also continued our history of achieving very attractive operating margins.

Our bank covenant leverage was 4.5x for the quarter, consistent with Q2, and our distributable cash flow coverage ratio, which now includes the converted Class B units, was 1.08x. As a reminder, the Class B units converted during the third quarter and began receiving distributions. If they had not converted, the coverage ratio would have been approximately 1.16x.

So turning to a little market color and some demand drivers in the industry, the market generally remained consistent throughout the third quarter, marked by continued general uncertainty around the economy and a cloudy outlook for the energy sector as a whole. However, even with that general market sentiment, we continue to see natural gas as a game changer in meeting the world's energy demand, and I think you are seeing the positive impact of that reality in the ongoing investment by end users.

These end users -- petrochemical companies, LNG exporters, power generators and others -- continue to invest in domestic facilities. These facilities are expected to continue to drive demand, which results in more gas moving through the system, ultimately requiring more compression from guys like us along the way. I have often referred to USA Compression's business as a demand-driven business. And based upon what we've seen in the marketplace for natural gas demand, we like how we are positioned.

More broadly, we are seeing our customers continue to exercise caution on capital spending. It is no secret that the E&P budgets have been drastically curtailed, and you are seeing the trickle-down impact on rig counts and other providers of one-time services. This moderation in activity ought to lead to a more balanced overall marketplace, and in anticipation of this new reality at USA Compression, we are also taking the prudent steps to avoid an oversupplied situation. As I have mentioned, we have pared back our growth CapEx plans for 2020, pursuing a very limited number of highly attractive projects with a few major customers. We will keep an eye on things, and to the extent market conditions dictate, we will have the ability to allocate additional growth capital to meet specific core customers' needs.

The bottom line is that we expect demand for domestically produced natural gas to continue to increase over the coming years, which drives infrastructure investment and is good for compression demand. On a regional basis, the Permian and Delaware basins continue to be the center of activity, albeit with slower growth than in recent years. The investment in development in that region has moderated but continues on, and that is where we currently expect to allocate the vast majority of our capital in 2020. Significant new takeaway capacity with the completion of new crude oil and natural gas pipelines is imminent, which we believe will lead to continued demand for incremental compression.

In the mid-continent, where the focus has been on the SCOOP and STACK plays as well as the Fayetteville shale, operators are adjusting to changing supply and market conditions. As they do, we have selectively moved equipment out of those regions and redeployed it in other areas. This has demonstrated the benefits of having a flexible mobile fleet. When things change in a given producing area, our assets are not left out to dry. Instead,



we actively manage and redeploy the fleet and work to keep those assets out in the field, generating cash flow. Our other operating regions, the Marcellus and Utica shales, South Texas, the Eagle Ford shale, Louisiana as well as Colorado, continue to be stable.

Our business strategy has not changed throughout this year nor as we look into next year. We are focused on strong operational performance, continued expense controls and prudent capital spending while making sure we are taking care of our customers who require large-horsepower, infrastructure-based applications and value our services.

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

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

Thanks, Eric, and good morning, everyone. Today USA Compression reported another strong quarter, including quarterly revenue of \$176 million, adjusted EBITDA of \$104 million and DCF to limited partners of \$54.9 million.

Similar to last quarter, we did receive some property tax refunds during the quarter, although the Q3 amount of approximately \$1.3 million was considerably less than Q2, which was about \$4.7 million. At this point we have received substantially all of these refunds and expect future amounts to be minimal.

In October 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 1.08x, taking into the account the conversion of the Class B units into distribution-paying common units.

Our total fleet horsepower as of the end of Q3 was consistent with Q2 at just under 3.7 million horsepower. Our revenue-generating horsepower at period end was also consistent at approximately 3.3 million horsepower. Our average horsepower utilization for the third quarter was 93.9%. Pricing, as measured by average revenue per revenue-generating horsepower per month, was \$16.73 for Q3, which was a slight increase from Q2 levels.

Total revenue for the third quarter was \$176 million, of which approximately \$170 million reflected our core contract operations revenues. Parts and service revenue was \$5.8 million.

Gross operating margin as a percentage of revenue was 67% in Q3. Net income for the quarter was \$13.3 million. Operating income was \$46.2 million in the quarter. Net cash provided by operating activities was \$61.3 million in the quarter, and maintenance capital totaled \$7 million in the quarter, with cash interest expense net of \$30.7 million.

Consistent with past practice, at this point in the year we are providing updated guidance for 2019 along with slightly narrowed ranges. We currently expect 2019 adjusted EBITDA of between \$405 million and \$415 million and DCF of between \$210 million and \$220 million. 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.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Jeremy Tonet with JPMorgan.

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**Charles W Barber** - *JP Morgan Chase & Co, Research Division - Analyst*

This is Charlie on. I wanted to ask on the higher guidance range here, can you just talk a bit about the drivers to the lower end and upper end of that range? And just thinking about what you've achieved year-to-date, it feels like the midpoint and maybe above seems pretty achievable. So maybe if there's anything that we should be thinking about that could temper those expectations. I know you had the one-time items that showed up in 2Q and 3Q.

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

Yes, Charlie, it's Matt. That was really the main driver is we've had those collections over the course of the year. So I don't know that I really have anything to add in terms of hitting the high or the low ranges. But obviously, we moved it up for a reason and feel comfortable ending up in that range.

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**Charles W Barber** - *JP Morgan Chase & Co, Research Division - Analyst*

All right, fair enough. On 2020 CapEx, I understand that your customers are still assessing budgets and how it looks. At what point do you think you'll be able to firm up that guidance number, like when do you think you'll have visibility? Is that going to be early into the next year, 1Q, 2Q?

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

Yes, I think at this point, those are obviously the orders that we've put in. We do usually give guidance for the full year at the time of the fourth quarter earnings call, and so I'd certainly expect more color there. I think, as we've mentioned, with lead times coming in, that that's given us a little bit more flexibility in terms of when we have to place those orders, when we have to commit to spending the dollars, et cetera. So I think in past practice, we'll obviously have a pretty good initial view come the beginning of the year and then watch things throughout the year.

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

Charlie, this is Eric. Maybe one takeaway from this is there continue to be very attractive incremental growth opportunities for us in the marketplace. I think ourselves, and I know that the R Truck guys the other day on their call indicated that they're dialing back their growth CapEx as well. So it's not that the opportunities don't exist. Yes, E&P companies are slowing down, but they're not completely ceasing their activities.

With some of the new takeaway capacity projects that are coming onstream in the Permian and Delaware basins imminently and on into next year, it's going to continue to stimulate the completion of drilled and uncompleted wells. So there's going to be activity that on-goes, and frankly, all of us in our sector are continuing to high-grade our investment opportunity sets. So it's not that we're seeing a slowdown in our universe; it's frankly that we are choosing to rein in our growth CapEx and only focus on the most attractive financial returns with extremely strong counterparties out there in the marketplace.

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

Great. That definitely makes sense. Let me just ask one more quick question that I want to squeeze in. I think you said on the prepared remarks that some of your customers retired some units in September. You redeployed those. Where are those being redeployed to?

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

Permian and Delaware.



**Operator**

Our next question comes from Praveen Narra with Raymond James.

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**Praveen Narra** - *Raymond James & Associates, Inc., Research Division - Analyst*

I just wanted to stick on the capital discipline theme. So you're talking about being more disciplined in terms of acquiring a certain return before you're deploying growth CapEx. Can you help us define that? Is there a certain targeted return where you have to be exceeding or you're acquiring a contract with payback? Is there some financial metric we can think about that would be required for you to spend that additional money?

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

Yes, Praveen, it's Matt. I would answer it by saying I wouldn't say we have a bright line on a certain return threshold. But obviously, as we look at our cost of capital is what it is currently and has been. So certainly any projects that we're looking at are going to be -- have to be not just barely above that level, but we're looking for meaningfully above that level. It's a little hard to generalize because certain projects will have different characteristics which may drive returns. We do some station services, which are larger projects and you generally get some more attractive economics there than putting out a single unit. So a lot of our focus has been on bigger projects like that.

But I would say it's something, at the very low end, a mid-teens to upper teens on the very low end, and then above there, depending on the exact situation.

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**Praveen Narra** - *Raymond James & Associates, Inc., Research Division - Analyst*

Sure, absolutely. And then if we can touch on pricing a bit, obviously, you guys talked about pricing moderating, but pricing has been growing for quite some time now. Can you give us a sense as to where the average horsepower is currently being priced versus where leading edge is? I would imagine leading edge is still a pretty decent bit higher than what we're seeing flow through the financial statements. But maybe if you could touch on that.

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

Yes, so I think on the leading edge, we've seen -- I think Eric mentioned a moderating of those new unit delivery pricing. I think we've probably effectively found the top, if you will. That really hasn't come off significantly. Obviously, with a little bit more supply out there now, things aren't quite as hectic as they were, call it 12 months ago. But I think the pricing on the new units has stayed -- has strengthened.

The other thing we've done is we've gone through the rest of the fleet and made an effort to really term up some contracts, reprice things to market-based rates. And so you're seeing a little bit of the impact of that trickle through. So, and again, depending on the unit, that's going to really depend on what that dollar per horsepower number is that you mentioned. So I wouldn't want to generalize and say it's \$16 or it's \$20. It really does depend on the type of unit, but I think generally speaking, you're going to still have continued strong, attractive pricing on the new stuff that we put out for the rest of this year and then next year. And then really, as we mentioned, a lot of that price increase on the existing fleet has taken effect. And so that will trickle through a little bit more, but I think you're going to see less of that driving financials going forward.

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**Operator**

Our next question comes from T.J. Schultz with RBC.





**Torrey Joseph Schultz** - RBC Capital Markets, Research Division - Analyst

Just as you have some of this horsepower returned, how quickly and at what costs are you able to redeploy? And is any of that old enough to just retire or do you plan to retire any unit across your fleet?

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

Good question, T.J. The particular units that we referred to were assets that were located in the Fayetteville shale. They've been deployed anywhere between 5- to 8-year type scenario with a producer or 2 who also have some company-owned assets. So as they have completely stopped their drilling program and volumes have started to decline, we had a lot of forward visibility associated with this equipment.

So the technical configuration is such that we can literally pick these assets up, move them directly to the Permian and Delaware basin with no modification in the pieces of equipment. So it's the same pressure regimes, same cylinder configurations, and these are assets that don't need a major overhaul, don't need to have a swing engine or something like that installed. So a long-winded way to say we literally pick the machines up, put them on a truck, ship them out to West Texas or Southeast New Mexico, and 2 weeks later they're up and running again. So these are not assets that have any technological obsolescence and are not assets that clearly would be written off from our balance sheet.

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

And T.J., I'm just at, we obviously made that comment just to explain the movement. But if you're talking about 0.5% of the fleet, you're talking about 10,000 to 20,000 horsepower, so maybe it's a dozen machines total. So it really, in the scheme of things, it hasn't been a huge. There's no wholesale returning going on.

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**Torrey Joseph Schultz** - RBC Capital Markets, Research Division - Analyst

Okay, understood. Just lastly from me, just you mentioned the goal to continue to strengthen the balance sheet. I'm just trying to understand what debt leverage you're really comfortable running the business. And I also want to get at your comfort level or interest to maintain this distribution level, just into the cycle, maybe where you're not deploying as much horsepower over the next year.

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

T.J., as I mentioned, the company's been around for 21 years. We've been public since January of 2013. Prior to that, we ran leverage at significantly higher levels than we do now. As a public company, we know that the desire of our investors is to continue to focus on pulling that leverage down. We continue to focus on that, and I think over time, methodically we'll continue to bring that leverage down from where we are today.

So we're comfortable with where we are, both from a coverage perspective and from a leverage perspective, but we understand the drivers of the investors, and we'll continue to listen to those folks and continue to focus on improving coverage and reducing leverage.

As far as the distribution going forward, that's a decision that our Board makes on a quarterly-by-quarterly basis. Can't speak for them today, but when we look at it with our yield pushing 12%, we don't see that there's any incentive for us to increase our distribution, nor do we think that the company, coming into what you suggested was a slowdown, we've seen lots of activities like this before, and people take their foot off the accelerator from drilling new wells, but when they quit drilling new wells, volumes and throughput need to be maintained. And actually, pressures tend to come down and it requires actually even more compression horsepower.

So the environment that we're living in, so long as you don't see a massive collapse in commodity prices and people shutting in production, which we don't think will occur. We've actually seen now, starting to see the impact or the reduced drilling rig counts. People have taken their foot off the accelerator a little bit. You've seen crude prices and natural gas prices start to creep up incrementally. And all the things we read coming out of OPEC and the EIA are suggesting that over the course of the next 18, 24, 36 months, supplies are going to continue to tighten, demand's going

to continue to increase. So we think that we're positioned extremely well for an environment which is going to be fairly stable, and we'll allow USA to continue to just do what we do day in, day out, to focus on operational excellence, continue to improve our leverage and coverage and focus on the metrics at hand.

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**Operator**

Our next question comes from Sharon Lui with Wells Fargo.

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**Sharon Lui** - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Eric, can you just touch on the credit risk of some of your key customers and whether USA may have some exposures to some of the destructing piece recently?

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

Yes, Sharon, this is Eric, and that's something that I would say that maybe concerns other folks more than it does us. We have had in the past several customers go through the bankruptcy process. And if you envision what a compressor does, which is no different than the heart of the human body pumping blood through the human or gas through the pipeline system, without the compressors working, there's no cash flow. So in the past over the history of the company in 2 or 3 different cycles, we have had customers go through the bankruptcy process.

We go to the bankruptcy court. We ask the court to approve ourselves as a mission-critical supplier to confirm the pre-petition billings, the financial obligations that have occurred prior to the bankruptcy, and then to confirm our contracts going through the bankruptcy process. We have, in the literally 21 years in the history of the company, we have not been confirmed as a critical supplier in any of these processes.

In looking at our contract book today, our counterparties are stronger than they have been at any time in the past. There are a couple of folks that we're keeping our eye on at this time. And to the extent that they enter into the bankruptcy process, we'll go through that process that I just mentioned of going to the court, being confirmed in the process.

And ultimately, what ends up happening is we continue to be paid. We're not seeing any collections issues at the current time. In fact, a couple of the folks that are on everybody's radar list right now of having some potential difficulties by the end of the year are not just current, but they're current within 30 days. So they're not dragging out their payables to 90 or 120 days or anything along that line.

So we think that the risk is minimal, both from a legal perspective as well as from a practical perspective. And I think we've had some slides we've talked about in the past that on pushing a couple of billion dollars of revenue, we've only had \$1 million or \$1.5 million of bad receivables over the history of the company. And I think we're in the same situation today.

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**Sharon Lui** - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Okay, that's very helpful. And just a quick question on the 2020 CapEx. The amount of horsepower you have on order, what does that translate in terms of dollar amount?

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

Yes, Sharon, we're not giving out direct CapEx guidance, I think. But in the past as a rule of thumb, I think you could use anywhere between \$900 to \$1,000 per horsepower as a general industry rule of thumb. So that gives you at least an idea on that amount.



**Operator**

Our next question comes from Shneur Gershuni with UBS.

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**Shneur Z. Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

I just wanted to start off, when I think about the last couple of cycles where rig counts fall, typically your business seems to have a lag. And you've obviously acquired a lot of assets since the last downturn. I was just wondering if you can update us to how the typical lag rolls through the cycle here from the rig count peak to when you would see an impact on your business. Is that now 12 months, 18 months? I'm just wondering if you can give us a little bit of color on how we should think about that.

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

Yes, great question, Shneur. And I think as we've pointed out in the past, the bulk majority of the assets that we have at USA Compression are large horsepower. If you think of the last downturn, which was coming into the December of 2014 on into early 2015, since that point in time, we've continued to focus and add just the biggest of the biggest horsepower. There's 2,500 horsepower or above type of assets, which are really big baseload type of assets.

When you look at 2008, which was the financial meltdown, on into 2014, that second downturn, we have amped up significantly larger on our average horsepower. Our contract book tends to be longer, so the primary terms and the remaining term are better positioned than we were in December of 2014 and, frankly, the fall of 2008. And when you look at that 2014 to 2015, the biggest impact we had on our utilization degradation was smaller-horsepower gas lift equipment, which has become an even smaller and smaller percentage of the assets that we have in the company.

So we typically see a 12- to 18-month lag time from the peak of the drilling cycle or rig count to the trough. And I think that's why I think ourselves and maybe a couple of our peers have said, "Yes, maybe it's time to take our foot off the gas a little bit. Let's make sure that we can redeploy assets that maybe are in a basin that has slowed down," i.e., the Fayetteville shale significantly. There's not any drilling activity going on.

So you think about the mechanics of the shale wells, you see that flush production. This big hyperbolic decline occurs in the first 18 to 24, maybe 30 months into the life of the well. Once that flush production has declined and then stabilized, you go into a more steady-state mode. So I think what we have seen in those past cycles, from peak to trough back to activity pickup, is that 12- to 18-month component. You might see in a big station that has 8 or 10 big, big, big horsepower compressors, instead of needing 10 machines that are running fully upload, if there's minimal activity behind the system, you might see 1 or 2 units that need to be redeployed in 18 or 24 months down the road.

So we've been through this before. We see the mechanics of how these things behave. So I think you've pointed out adroitly that we're a lagging indicator for the next 18 to 24 months, so that's why we take our foot off the gas a little bit on growth CapEx, make sure that the assets are running at load or close to full load. And then to the extent we see poor visibility in working with our customers, that there's a slowdown in a certain geographic area, we'll pick those assets up, redeploy them to either a new part of the basin or a new customer in the basin and really not ever miss a beat.

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**Shneur Z. Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

That makes perfect sense. I really appreciate the color there. And then one final question: if I recall when Energy Transfer and USA Compression constructed their deal, that their acquisition of the general partner had a clause in it, I think, that you could actually acquire it back after some point in time. Have we hit that point, and is that something that you would consider doing?



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

Shneur, it's Matt. There is -- your recollection is correct. It's a 2-way mechanism. One was that Energy Transfer has the option to put it to the partnership. That happened after a year, so that time has expired, so now they can put it back to the partnership whenever they want. The flip side of it, which is the partnership's ability to call it from Energy Transfer, that only gets triggered when the Energy Transfer holdings are reduced roughly about by 75% to 80% of their LP interest from where they were at the beginning of the deal. And quite frankly, we're there now. So it really requires them to sell down a significant amount of their holdings before the partnership itself could call that general partner interest.

**Shneur Z. Gershuni** - UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

But in theory, they can put it to you as well, too?

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

Yes.

**Shneur Z. Gershuni** - UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

They don't have to sell it down to put it to you, okay. And if you had control of the general partner, would that create more options for you that you're not pursuing today or the course of direction that you're in the game?

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

No, I think it would be business as usual. I think, honestly, the general partner interest obviously allows Energy Transfer to have control and appoint the Board, et cetera. But on the same hand, they've got an investment that's \$800 million or \$900 million worth. So it all seems to fit well together now. And then, obviously, when they sell down, that won't be as important a concern to them. So I don't think, whether it was under the partnership or held by Energy Transfer, I don't think that changes our day-to-day, our commercial initiatives, our growth, et cetera.

**Operator**

Our next question comes from Thomas Curran with B. Riley FBR.

**Thomas Patrick Curran** - B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst

I'm curious. Do you still see potential for, and even expect for the consolidation? Or is it more likely that there will be a pause in M&A activity at this point?

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

As we've pointed out in the past at USA, for the vast majority of the history of our company, we've focused on organic growth. We have made 2 acquisitions, one with the small gas load assets that we acquired 5 or 6 -- 4 or 5 years ago -- and then the strategic combination with CDM.

Our view in the current marketplace is the cost of capital is high. We have a platform which is extremely efficient and effective. To the extent that there were some bolt-on opportunities that were highly accretive, the right type of equipment with the right type of counterparties, sure, we would be open to something like that. But with our cost of capital like it is today and with lack of capital access, frankly, across the energy sector in general, it's probably a long putt to assume that there might be some activities like that.

So our view of the world is business as normal. We'll keep doing what we do, day in, day out, which is to optimize the life cycle of compression equipment and to make sure that we have the financial discipline in place to maintain the level of distribution that we have that benefits our long-term investors and unitholders in our public partnership. So yes, there might be some opportunities out there, but we're not actively pursuing them, nor have we actively really pursued things in the past.

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**Thomas Patrick Curran** - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

Okay. And then sticking with the competitive landscape, based on your eyes and ears out in the field, do the majority of the midsized to small contract compression providers appear to be following the lead of you and the other heavyweights when it comes to fleet expansion? Have most of them seemingly started to pump the brakes on their volume of new build ordering as well?

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

Yes, I think it varies from company to company. There are small operators who they might look at adding 10,000 horsepower as being 25% growth, and yet that level of horsepower is immaterial to the overall marketplace. To the extent that there are some folks out there that are private and a little bit larger and continue to build, these are guys that maybe haven't been through cycles like this before. These are guys that maybe haven't had to deal with bank covenants in the past. And it's a little bit different world when you get to be a bigger company and you come into a little bit of a slowdown with not having any room under your bank facility and live within your means.

So I'd say that a couple of the bigger guys, we've been through this before. We want to make sure that we sleep well at night and don't run up against the wall. So I think the reality is if there are 1 or 2 players out there who are not as financially disciplined, they'll fairly quickly get the financial discipline because I think it will be brought upon them by some of their other outside influences -- their bank route or note holders or equity guys or whomever it might be.

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**Thomas Patrick Curran** - *B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst*

Well, it certainly helps when the big experienced players control so much of the outsourced horsepower and are all acting in such a disciplined, prudent way. So I appreciate the responses.

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**Operator**

Thank you. There are no additional questions at this time, so I can now turn it back to our presenters for closing remarks.

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**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. Our third quarter performance represents another strong quarter in what will end up being a record year for USA Compression and highlights the strength and stability of our contract compression services business model. As we work through the remainder of 2019 and into 2020, we are focused on driving utilization, optimizing pricing and controlling expenses, all while operating in a safe manner and providing our customers with the high level of service to which they are accustomed. You can expect to see continued prudent capital spending in the coming year to help drive attractive economic returns as we seek to provide a long-term, attractive investment opportunity for our unitholders. We look forward to updating you on the next quarterly call. Thank you for your continued interest in and support of USA Compression.

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**Operator**

Thank you, ladies and gentlemen. This concludes today's presentation. You may now disconnect.

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