[SPH] - Suburban Propane Partners L.P.
First Quarter 2021 Earnings Call
Thursday, February 4, 2021, 9:00 A.M. ET

Officers
Davin D'Ambrosio, VP, Treasurer
Mike Stivala, President, CEO
Mike Kuglin, CFO, CAO

Presentation

Operator: Good morning, and welcome to the Suburban Propane Partners L.P.'s First Quarter Results. (Operator Instructions). After today's presentation, there will be an opportunity to ask a question. (Operator Instructions).

This conference call contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to the partnership's future business expectations and predictions and financial condition and results of operations. These forward-looking statements involve certain risks and uncertainties. The partnership has listed some of the important factors that could cause actual results to differ materially from those discussed in such forward-looking statements, which are referred to as cautionary statements in its earnings press release, which can be viewed on the company's website.

All subsequent written and oral forward-looking statements attributable to the partnership or persons acting on its behalf are expressly qualified in their entirety by such cautionary statements. Please note this event is being recorded.

I would like now to turn the conference over to Davin D'Ambrosio, Vice President and Treasurer. Please go ahead.

Davin D'Ambrosio: Thank you, Alli. Good morning, everyone. Thank you for joining us this morning for our fiscal 2021 first quarter earnings conference call. Joining me this morning are Mike Stivala, our President and Chief Executive Officer; Mike Kuglin, our Chief Financial Officer and Chief Accounting Officer; and Steve Boyd, our Chief Operating Officer.

This morning, we will review our first quarter financial results, along with our current outlook for the business. Once we've concluded our prepared remarks, we will open the session to questions.

Our Annual Report on Form 10-K for the fiscal year ended September 26, 2020 and Form 10-Q for the period ended December 26, 2020, which will be filed by the end of business

today, contain additional disclosure regarding forward-looking statements and risk factors. Copies may be obtained by contacting the partnership or the SEC.

Certain non-GAAP measures will be discussed on this call. We have provided a description of those measures, as well as a discussion of why we believe this information to be useful in our Form 8-K, which was furnished to the SEC this morning. Form 8-K will be available through a link in the Investor Relations section of our website at suburbanpropane.com.

At this time, I will turn the call over to Mike Stivala for some opening remarks. Mike?

Mike Stivala: Thanks, Davin, and good morning, thank you all for joining us today. First, I hope you and your families all remain safe and healthy, as our nation continues to contend with Covid-19. At Suburban Propane, we are continuing to take necessary precautions to protect the health and safety of our employees and customers, while ensuring that we can seamlessly provide the outstanding essential services that our valued customers rely on.

A brief update on the impact of Covid-19 on our business: As the first quarter progressed, we continued to see demand softness in the commercial sector, albeit not to the extent of the declines that we experienced in the early part of the pandemic. These declines were offset somewhat by increased usage in the residential sector due to widespread stay-at-home initiatives, as well as in certain other customer segments, such as resellers, restaurants and others that benefitted from the demand for temporary portable energy solutions.

All that said, customer demand in the fiscal 2021 first quarter was most affected by unseasonably warm weather that dominated the quarter throughout the majority of our service territories. In fact, November registered as one of the warmest on record, and the overall heating degree day index for the quarter was 13% warmer than normal and 9% warmer than the prior-year first quarter. Cooler temperatures kicked in toward the end of December and created some momentum heading into the second quarter.

Throughout the first quarter, our operations personnel did an outstanding job staying focused on adhering to our safety and operating protocols, managing margins and expenses, and executing on our customer base growth and retention initiatives.

Overall, adjusted EBITDA was $80 million for the first quarter, which was $5.4 million below the prior year. And Mike Kuglin will give some details on that in a moment.

On the strategic front, we continued to advance our growth initiatives with the acquisition of a well run propane business in North Carolina, as well as further investments in Oberon Fuels to support our collective efforts to commercialize renewable dimethyl ether as a blend with propane to reduce its carbon intensity.

We are also committed to advancing our advocacy and innovation initiatives for the clean attributes of propane as a solution for a sustainable energy future. And we achieved another important milestone for our Go Green corporate initiative with the recent official

registration of our Go Green with Suburban Propane logo with the United States Patent and Trademark Office.

So despite the challenges from the ongoing effects of Covid-19 pandemic, we remain focused on our strategic growth objectives, which includes a combination of organic customer-based growth, new market expansion through greenfield development in attractive markets, investments in propane acquisitions and strategic diversification with a focus on building a renewable energy platform, all while continuing to also work toward our debt reduction targets to further strengthen our balance sheet.

In a moment, I'll come back for some closing remarks. However, let me turn it over to Mike Kuglin to discuss the first quarter in some more detail. Mike?

Mike Kuglin: Thanks, Mike, and good morning, everyone. To be consistent with previous reporting as I discuss our first quarter results, and excluding the impact of unrealized mark-to-market adjustments on our commodity hedges, which resulted in an unrealized gain of $4.9 million for the first quarter compared to an unrealized gain of $2.8 million in the prior year.

Excluding these items, as well as the non-cash equity in earnings of an unconsolidated affiliate, which is Oberon Fuels, net income for the first quarter was $33.4 million or 50% per common unit compared to net income of $37.4 million or $0.60 per common unit in the prior year.

Adjusted EBITDA for the first quarter was $80 million, which was $5.4 million lower than the prior year. As Mike indicated, the first quarter earnings were most significantly impacted by lower demand, resulting from widespread unseasonably warm temperatures and continued softness in certain segments of our commercial and industrial customer base as result of the economic slowdown due to Covid-19.

While weather and economic conditions were headwinds for the quarter, we reported organic customer base growth and saw incremental demand in our residential and certain other customer segments.

Retail propane gallons sold in the first quarter were 111.7 million gallons, which was 7.8% lower than the prior year as a significantly warmer weather pattern more than offset the incremental usage from stay-at-home initiatives and from new temporary outdoor heating demand.

Overall, average temperatures across our service territories were 13% warmer than normal, and 9% warmer than the prior year. The decrease in heating degrees days compared to the prior year were concentrated in the months of October and November, as average temperatures for the 2-month period were 20% warmer than the prior year and 18% warmer than normal, which contributed to lower demand for heating purposes. For the month of December, average temperatures were 9% warmer than normal and comparable to December, 2019. Unseasonably warm temperatures were widespread, but particularly concentrated in our East Coast and Midwest markets.

From a commodity perspective, wholesale propane prices increased rather steadily during the quarter primarily due to the decline in U.S. propane inventory levels resulting from higher propane exports. Overall, average wholesale prices for the first quarter were $0.57 per gallon (inaudible) Mont Belvieu, which was 15% higher than the prior-year first quarter and the prior sequential quarter.

According to a most recent report from the [AA], U.S. propane inventory levels were 58 million barrels, which is 25% lower than a year ago, and 9% lower than the 5-year average for this time of the year. Given the continued decline in the nascent propane inventory, along with other factors, propane prices have continued to rise. This week, wholesale propane is in the $0.85 to $0.90 per gallon range, with propane [has an] increase of about 28% from the end of the first quarter and 115% from the comparable period last year.

Total gross margins of $197 million for the first quarter decreased $15.5 million or 7.3% compared to the prior year primarily due to lower propane volume sold. Excluding the impact of the mark-to-market adjustments that I mentioned earlier, propane unit margins were slightly higher than the prior year despite the challenges from the rising commodity price environment and competitive landscape.

With respect to expenses, with combined operating and G&A expenses of $116.1 million for the first quarter, decreased $10 million or 8% compared to the prior year primarily due to lower variable-volume-related operating costs, savings from various cost-containment efforts including lower payroll and benefit-related cost and lower variable compensation expenses. In addition, the prior year included a charge of $5 million for the settlement of certain product liability and other legal matters.

Net interest expense of $18.1 million for the first quarter was $1 million or 5% lower than the prior year primarily due to a lower level of average outstanding borrowings under our revolving credit facility, coupled with a reduction in benchmark interest rates.

Total capital spending for the quarter of $5.8 million was $7.2 million lower than the prior year due to a higher level of investments made in the prior year for new technologies and equipment utilized by our field personnel to enhance the customer experience and drive incremental operating efficiencies, as well as the timing of tank and cylinder purchases to support customer growth.

Turning to our balance sheet, given the seasonal nature of our business, we typically borrow under our revolving credit facility during the first quarter to help fund a portion of our seasonal working capital needs, as well as for investments in our strategic growth initiatives within the quarter including acquisition funding. With that said, despite borrowings to fund our normal working capital requirements and the acquisition that Mike mentioned in his opening remarks, our total debt as of December 2020 was approximately $50 million lower than December of last year.

At the end of the first quarter, our consolidated leverage ratio for the trailing-12-month period was 4.86x, which was slightly higher than where we ended the prior-year first

quarter, due to the impact of warmer weather on our earnings, yet well within our debt covenant requirement of 5.75x. Our working capital needs typical peak towards the end of the heating season, late February or early March timeframe, after which we expect to continue reducing outstanding borrowings on our revolver with cash flows from operating activities.

With our continued focus on investing excess cash flows in a balanced way with strategic investments and debt reductions, combined with improving earnings profile, we'll begin to see our overall leverage metrics improve toward our target threshold of below 4x. We have more than ample borrowing capacity under our revolver to fund our remaining working capital needs for the heating season, as well as to support our strategic growth initiatives.

Back to you, Mike.

Mike Stivala: Thanks, Mike. As announced on January 21, our board of supervisors declared our quarterly distribution of $0.30 per common unit in respect of our first quarter of fiscal 2021, which equates to an annualized rate of $1.20 per common unit. Our quarterly distribution will be paid on February 9 to our unit holders of record as of February 2.

Our distribution coverage continues to remain strong at 1.48x based on our trailing-12-month distributable cash flow, despite the slightly lower earnings for the quarter. However, considering the annualized cash requirements at our current annualized distribution rate of $1.20 per common unit, our pro forma distribution coverage is more like 2.2x.

Looking ahead, now that we are 6 weeks into the fiscal second quarter, the cooler temperatures that started at the end of December have persisted into the early part of the second quarter. Average temperatures have been colder than the comparable period in the prior year, yet remained below normal levels for this time of year. Heat-related customer demand has responded to this period of sustained cooler temperatures, which has impacted significant portions of our operating footprint. There's still plenty of heating season ahead.

Operationally, we are very well positioned to meet increased heat-related demand, and to adapt to changing demand patterns, including in the event we experience a shift back to unseasonably warm weather, or are faced with further demand softness from Covid-19 restrictions.

Financially, we have more than adequate resources to continue to advance our strategic growth initiatives. As our nation recovers from the economic and health effects of Covid-19, we expect to see additional opportunities for the clean burning, cost effective and versatile qualities of propane as a solution to support that recovery and to help achieve long-term sustainability goals.

And finally, I'd like to once again thank all of the more than 3,200 employees at Suburban Propane for their unwavering focus on the safety and comfort of our customers

and the communities we serve, especially during these ongoing challenging environments.

As always, we appreciate your support and attention. I would now like to open the call for questions and Alli, would you mind helping us with that?

Operator: Of course. We will now begin the question-and-answer session. (Operator Instructions). And at this time I'm not showing any questions, so I'd like to turn the conference back to Mike Stivala.

Mike Stivala: Great, thank you, Alli, and thank you all for your attention. Stay warm; cool weather is here. We're excited to see the demand pick up, and we look forward to talking to you in early May to talk about our second quarter results. So thank you again.

Operator: The conference has now concluded. A replay of the call can be accessed by dialing 1-877-344-7529 and entering code 10150800. Thank you for attending today's presentation. You may now disconnect.