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HEP - Q4 2018 Holly Energy Partners LP Earnings Call

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## CORPORATE PARTICIPANTS

**George J. Damiris** *Holly Energy Partners, L.P. - President, CEO & Director of Holly Logistic Services LLC*

**Jared Harding**

**Richard Lawrence Voliva** *Holly Energy Partners, L.P. - Executive VP & CFO of Holly Logistic Services LLC*

## CONFERENCE CALL PARTICIPANTS

**Joseph Robert Martoglio** *JP Morgan Chase & Co, Research Division - Analyst*

## PRESENTATION

### Operator

Good afternoon, and welcome to Holly Energy Partners Fourth Quarter 2018 Conference Call and Webcast. (Operator Instructions) Please note that this conference is being recorded. It's now my pleasure to turn the floor over to Jared Harding. Jared, you may begin.

### Jared Harding

Thanks, Adam. Thank you all for joining our fourth quarter 2018 earnings call. I'm Jared Harding with Investor Relations for Holly Energy Partners. Joining us today are George Damiris, President and CEO; and Rich Voliva, Executive Vice President and CFO.

This morning, we issued a press release announcing results for the fourth -- for the quarter ending December 31, 2018.

If you would like a copy of today's press release, you may find one on our website at [hollyenergy.com](http://hollyenergy.com).

Before George and Rich proceed with their remarks, please note the safe harbor disclosure statement in today's press release.

In summary, it says statements made regarding management expectations, judgments or predictions are forward-looking statements. These statements are intended to be covered under the safe harbor provisions of federal securities laws. There are many factors that could cause results to differ from expectation, including those noted in our SEC filings.

Today's statements are not guarantees of future outcomes. Also, please note that information presented on today's call speaks only as of today, February 19, 2019.

Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or reading of the transcript.

Finally, today's call may include discussion of non-GAAP measures. Please see today's press release for reconciliations to GAAP financial measures. And with that, I'll turn the call over to George.

**George J. Damiris** - *Holly Energy Partners, L.P. - President, CEO & Director of Holly Logistic Services LLC*

Thanks, Jared, and thanks to each of you for joining the call this afternoon. HEP wrapped up 2018 with solid fourth quarter results and announced the distribution of \$66.75 per unit. Our 57th consecutive distribution increase since our IPO in 2004, and a 3% increase over the same period last year.

Overall, pipeline volumes increased 8% compared to the fourth quarter of 2017, primarily driven by the acquisition of the remaining interests of the Salt Lake City in Frontier pipeline as well as higher crude oil volumes from our Permian gathering system.



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This increase was partially offset by lower refined products and refinery process -- processing unit volumes resulting from maintenance at HFC's Woods Cross refinery. The refinery is now operating at normal rates, and we anticipate stronger seasonal volumes on the UNEV Pipeline next quarter, as the arbitrage between the Las Vegas and Salt Lake City markets have since reopened.

During the quarter, we completed several small organic projects that expanded the capacity of our Permian crude oil gathering system to approximately 160,000 barrels per day. In January, we completed the construction of the diesel truck loading rack in Orla, Texas.

This diesel rack is a prime example of a win-win project where HEP partners with HFC to capitalize on commercial opportunities that benefit and add value to both companies.

Looking ahead into 2019, we will continue to leverage our existing footprint to execute organic projects.

As production continues to increase in the Permian, we'll pursue opportunities to expand our crude gathering and product distribution systems in the region.

And with that, I'll turn the call over to Rich.

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**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - Executive VP & CFO of Holly Logistic Services LLC*

Thank you, George. Net income attributable to HEP for the fourth quarter was \$48 million compared to \$86 million in the fourth quarter of 2017. This decrease was primarily driven by a onetime noncash gain of \$36 million, which was included in the fourth quarter of 2017, relating to HEP's acquisition of the SLC and the Frontier pipelines.

HEP generated distributable cash flow of \$64.2 million in the quarter, a 2% decrease compared to the same period in 2017. The decrease is primarily due to unplanned maintenance on HEP's fluid cat cracker at the Woods Cross refinery, which resulted in lower processing unit revenue as well as higher OpEx related to these repairs.

For the quarter, HEP's coverage ratio was 0.94x, and for full year 2018, 0.98x.

In 2019, we expect to increase our distribution by \$0.25 per LP unit per quarter with an average distribution coverage ratio of 1.0x for the year and higher coverage ratios in the second half of the year due to contractual tariff escalators.

Our capital expenditures for the quarter were approximately \$19 million including \$4 million of maintenance CapEx and \$2 million of reimbursable CapEx.

In 2019, we expect to spend approximately \$7 million to \$10 million for maintenance CapEx and \$20 million to \$25 million for expansion capital, excluding any acquisitions and capital expenditures reimbursed by HollyFrontier.

As of December 31, HEP had \$1.4 billion of total debt outstanding, resulting in a year-end debt-to-EBITDA ratio of 4.1x.

Our reasonable leverage coupled with a strong liquidity position of almost \$500 million allows us full flexibility in financing growth opportunities. And with that, I'll turn the call over to Adam, for any questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question comes from Jeremy Tonet from JP Morgan.



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**Joseph Robert Martoglio** - *JP Morgan Chase & Co, Research Division - Analyst*

This is Joe, on for Jeremy. First, I wanted to ask about leverage. I wanted to see if you are still expecting to hit the 4.0x leverage in early 2019? And then also get your views on leverage longer term, whether you would still target 4x or potentially look at how lower leverage in the long term?

**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - Executive VP & CFO of Holly Logistic Services LLC*

Yes. I think, Joe, we're -- probably, sometime in 2019, I'm not sure it's necessarily going to be in the first quarter or first half, but we do expect to hit 4x during 2019. I think that is still our long-run target level, which will vary given the commercial profile of HEP. We feel very, very comfortable with that leverage level.

**Joseph Robert Martoglio** - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. That's helpful. And then maybe also 1 on the coverage you're targeting. I know you said 1x for 2019, but wanted to see if the 1 to 1.2x target was still intact? And if after 2019 you expect it to move more towards the middle of that range?

**Richard Lawrence Voliva** - *Holly Energy Partners, L.P. - Executive VP & CFO of Holly Logistic Services LLC*

Yes, I think, we'll look at this annually. Our desire is to continue to grow the distribution and we believe that's very important to our unitholders. And that said, we're going to do that with no less than a 1x coverage ratio in the long term, but we'll continue to evaluate this as we go.

**Operator**

(Operator Instructions) And if there are no further questions, I'll now turn the floor back over to Jared for any closing remarks.

**Jared Harding**

Thanks, again, for joining the call today. Feel free to reach out to Investor Relations if you have any questions. Thanks.

**Operator**

And this does conclude today's conference call. You may now disconnect. Thank you for joining, and have a great day.

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