

Enviva

Q1 2018

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CORPORATE PARTICIPANTS

Ray Kaszuba – *Treasurer*

John Keppler - *Chairman and Chief Executive Officer*

Steve Reeves – *Chief Financial Officer*

PRESENTATION

Operator

Good day and welcome to the Enviva First Quarter 2018 Conference Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would like now to turn the conference over to Ray Kaszuba, Treasurer. Please go ahead.

Ray Kaszuba

Thank you. Good morning and welcome to Enviva Partners LP First Quarter Financial Results Conference Call. We appreciate your interest in Enviva Partners, and thank you for participating today.

On this morning's call, we have John Keppler, Chairman and CEO; and Steve Reeves, Chief Financial Officer. Our agenda will be for John and Steve to discuss our financial results release this morning and provide an update on our current business outlook. We will then open up the phone lines for questions.

Before we get started, a few housekeeping items. First, please keep in mind that during the course of our remarks and the subsequent Q&A session, we will be making some forward-looking statements and we will refer to certain non-GAAP measures. Our forward-looking statements or comments about future expectations are subject to a variety of business risks. Information concerning the risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements can be found in our release issued this morning, which is posted on the Investor Relations section of our website, www.envivabiomass.com, as well as in our 10-K and our other recent filings with the SEC. We assume no obligation to update any forward-looking statements to reflect new or changed events or circumstances.

During this call, we will be discussing GAAP and non-GAAP figures and we want to be clear on the basis of each. As of January 1, 2018, the partnership adopted FASB ASC 606, revenue from contracts with customers. Unless otherwise indicated, the financial results for the three months ended March 31, 2018 discussed on this call are prepared on this basis.

In addition to presenting our financial results in accordance with GAAP, in certain cases we have provided financial results excluding the full financial impact of the Chesapeake incident. References to the full financial impact of the Chesapeake incident included the approximate costs incurred through March 31, 2018 in connection with emergency responses, disposal of wood pellet inventory, asset disposal and repair, as well as associated business continuity expenses which include incremental logistics costs and loss of margin on incremental wood pellet production offset by insurance recoveries received to-date. Reconciliation of non-GAAP measures to GAAP measures may be found in today's press release.

I would now like to turn it over to John.

John Keppler

Thank you, Ray. Good morning, everyone and thanks for joining us today. As we reported in our earnings release published this morning, we had a decent quarter, especially in light of the events that transpired involving our Chesapeake terminal.

First and foremost, our underlying operations continue to demonstrate the year-over-year productivity improvements we expect.

Second, our business responded well to the challenges presented by the fire at the Chesapeake terminal, and we expect to resume normal operations by the end of the second quarter.

And last, the business continued to progress towards our growth and diversification goals, and the overall market environment has never been better.

Before I highlight the first quarter's results, it is important to note that as we communicated in our press release following the incident and in the special letter to investors we published last month, the fire we experienced at the Chesapeake terminal did disrupt our cost position during the quarter, and will again in the second quarter.

I'll let Steve go into the financial details of the incident shortly, but would like to take the time to describe the strength of the underlying operating performance of the business, as we believe the effects of the incident itself are temporary in nature and that substantially all of the costs of the incident are recoverable.

First, the improvements in our production profile that we discussed last year continued into 2018, as our facilities increased production by 4% over the same period of last year. This increase was after an approximately 25,000 ton, or additional 4% derate at the Mid-Atlantic plant, as we overcame the initial delays associated with our extended logistic chain following the Chesapeake incident.

On an apples-to-apple basis, the plants were up nicely over the Q1 2017 production profile and on an adjusted EBITDA basis, Q1 was still up over the same seasonally soft first quarter of last year despite the complications of the Chesapeake incident. So, net-net, the core business is performing better than last year and at rates that contribute to our expected organic annual EBITDA growth in the 7% to 10% range.

Given this continued stable and growing underlying operating performance our Board has elected to declare a quarterly distribution of \$0.625 per unit. This represents the 12.6% increase over the corresponding quarter of last year and is our 11th consecutive quarterly increase.

As we have previously expressed, our Board in the normal course evaluates coverage on an annual basis due to the modest seasonality and timing attributes of our business. The timing of insurance recoveries exacerbates that this year, but as I indicated, the underlying business is healthy, and we expect no change to its overall trajectory due to the temporary issues associated with the Chesapeake incident.

On the customer front, you will also note from our release that we have continued to extend and increase our contracted position with our long-standing customer NG for both its internal European consumption as well as its global trading operations. It is worth noting, that although it occurred in the serious of transactions we have now largely re-contracted our original volumes with NG. While we do not have additional specifics to announce at this time, our negotiations with existing customers and prospective customers in both the European and Japanese markets continue on track, and we expect to announce several incremental contracts during the course of the year.

I would like to now hand it over to Steve to discuss financial results, before returning to provide an update on the market and where we see additional growth opportunities.

Steve Reeves

Thanks, John. As Ray has mentioned, unless otherwise indicated, the financial results in the three months ended March 31, 2018 discussed in this call are prepared in accordance with ASC 606.

As noted in our Letter to Investors, costs directly associated with the Chesapeake incident itself, including event management, inventory loss and disposal, and equipment loss and repair net of insurance recoveries received to date, have been added back in our calculation of adjusted EBITDA.

Associated effects to our operations, including incremental logistics cost and the temporary curtailment of production as the logistics chain was put into place net of insurance recoveries, have not been added back in adjusted EBITDA, unless other indicated.

We expect these associated costs to extend through the point that the Chesapeake terminal is returned to operations at the end of the second quarter. We also expect substantially all costs related to the incident to be recoverable from insurance or other responsible parties.

However, due to the timing of the incurrence of the costs and the ultimate recovery, quarterly results will be affected. While the costs are incurred before insurance proceeds are received, we have ample sources of liquidity to accommodate the short-term effect of this incident.

For the first quarter of 2018, on a GAAP basis net revenue was \$125.8 million, representing an increase of 2.7% over the corresponding period of 2017. Pellet sales revenue was \$122.8 million as compared to pellet sales of \$119 million for the first quarter of last year.

For the quarter, we sold 648,000 metric tons of wood pellets, as compared to 623,000 metric tons during the first quarter of 2017. Had ASC 606 been in effect last year, we would have reported pellet sales revenue of \$127.9 million on sales of 667,000 metric tons.

As we have said in the past, our sales are generally ratable over the course of the year, although that can be affected by shift timing around quarter-end. With a sales book of approximately 3 million tons for 2018, the 648,000 tons sold in the quarter are roughly 100,000 tons below simple quarterly average. The difference is largely a function of the mutually agreed deferral of customer shipments to later quarters based on their inventory positions, unrelated to the Chesapeake incident. The shipments will be fulfilled later in the year from higher ending inventories at the end of the quarter, new production and existing sources of supply.

The margin impact of the 43,000 tons of product lost in the dome has been recovered and is recorded in other income. We believe substantially all of the value of the 25,000 tons lost due to the curtailment of production are recoverable from insurance or other responsible parties.

For the first quarter of 2018, gross margin was negative \$4.5 million, a decrease of \$20.9 million from the same period in 2017 due mainly to \$19.6 million of expenses net of insurance recoveries received to date related to the Chesapeake incident.

On a reported basis, adjusted gross margin per metric ton was \$7.35 for the first quarter of 2018. Excluding the full financial impact of the Chesapeake incident, adjusted gross margin per metric ton would have been \$38.11 for the quarter, which was roughly flat to the adjusted gross margin per metric ton of \$38.57 for the first quarter of 2017, adjusted for the impact of ASC 606 for comparison purposes only.

On a GAAP basis, net loss for the quarter of 2018 was \$19.3 million versus a small net loss of \$45,000 for the corresponding quarter of 2017. The decrease is mainly due to \$19.5 million of expenses related to the Chesapeake incident, again net of insurance recoveries.

Adjusted EBITDA for the first quarter of 2018 was \$17.6 million, as compared to \$21.3 million for the corresponding quarter of 2017. Excluding the full financial impact of the Chesapeake incident, adjusted

EBITDA would have been \$21.8 million for the first quarter of 2018.

Distributable cash flow prior to any distributions attributable to [indiscernible] distribution rates paid to the general partner was \$8.8 million for the first quarter of 2018, which covers the first quarter 2018 distribution at 0.46 times.

For the timing reasons we have discussed, we expect the second quarter will have coverage below one-time and we may not achieve the \$50 million to \$55 million EBITDA target for the first half of the year that we mentioned in our call in February.

However, as we believe that substantially all the costs resulting from the Chesapeake incident will be recoverable, we expect that the full year 2018 adjusted EBITDA guidance of \$118 million to \$122 million, as well as the distributable cash flow guidance of \$79.5 million to \$83.5 million we provided during our last earnings release remains achievable, partially dependent on the amount and timing of recoveries from insurers and other responsible parties.

We also expect our annual coverage ratio to increase to levels you've come to expect from us. As such, the partnership reaffirms full year 2018 per unit distribution guidance of at least \$2.53, with continued quarter-over-quarter increases expected throughout the year.

From a liquidity perspective, despite the incremental expense associated with the Chesapeake incident, we were undrawn on our \$100 million revolving credit facility at the end of the first quarter of 2018, and our first debt maturity is in 2020.

In support of our internal growth rates that John mentioned, we continue to implement modest growth capital projects to drive greater throughput and margin per ton. With recent examples including the expansion of our use of sawdust, which requires investment in dry storage at our production facilities and increasing our use of soft wood recurring enhanced emissions control equipment.

Before I hand it back over to John, I would like to note that after the first quarter distribution is paid, we will have met the requirements for the termination of the subordination period of our sponsored subordinated units and they will convert to common units. As we have said in the past, our sponsor remains committed to the business and its growth prospects.

Now, I'd like to turn it back to John.

John Keppler

Thanks, Steve. Before we discuss the market outlook, I would like to make one final point on the Chesapeake incident. While unfortunate in its occurrence, in many ways the incident and our response validate our business model and portfolio approach and demonstrate our reliability as the preeminent supplier to the industry.

I would note that terminal operations was the only substantial aspect of our business where we subcontracted the operations of our assets to a third party. We have now brought those operations in-house at our Chesapeake and Wilmington terminals.

As we look forward, our strategy continues to be to fully contract our production capacity and our weighted average remaining term of off-take contracts is nine years, with revenue backlog from firm contracts of \$6 billion.

According to independent industry experts, global industrial wood pellet demand increased by 15% in

2017. It is expected to increase by a compound average growth rate of 18% per year through 2021, driven by continued growth in the European industrial pellet market and rapid expansion in Asia, demonstrated by several recent noteworthy developments.

Let's start with Europe, where demand continues to quickly grow to meet the binding 2020 renewable energy mandates. These binding legal obligations become potentially far more restrictive by 2030, where new policy mandates a 35% reduction in carbon emissions.

A few highlights from across the continent illustrate the growing opportunity. In the Netherlands, the government has stated its intent to close the country's largest natural gas field and is encouraging the 200 largest users of natural gas to convert to an alternative source of energy, preferably renewable. This is further enhancing interest in biomass industrial heat projects, which are beginning to access a government incentive program for industrial steam projects using wood pellets.

The Dutch government recently allocated a further €6 billion to low carbon energy projects, including this program. The Dutch government has also launched a program to take a quarter of Dutch homes, about 2 million, off of natural gas by 2030, with the goal of a complete phase out of natural gas from all Dutch homes by 2050.

In Germany, the new energy minister has stated coal emissions need to fall by 60% in order to reach the country's binding 2030 carbon reduction mandates. With all German nuclear generation expected to retire by 2022 and an ongoing need for dispatchable heat and electricity, industrial scale biomass is expected to become an increasingly attractive option.

In addition to these positive developments, during the first quarter we delivered several bulk shipments into the French heating market and recently executed a firm contract to deliver a large bulk shipment to one of the largest pellet distributors in Italy.

Shifting to Japan, METI has already approved 14 gigawatts of biomass capacity as of September 2017, far exceeding its original target. Additionally, a number of major utilities have received METI approval for their feed-in tariffs since that time. An interesting new development to watch is that several projects are currently being developed without necessarily relying on feed-in tariffs, as only 7 of the 42 operable nuclear power reactors have restarted. The continued uncertainty around a nuclear restart, and the Japanese government's push to reduce carbon emissions and increase renewable generation will be important drivers going forward.

Another important potential market is South Korea, where the country's sustainable certification system, set to take effect on October 1st of this year, is likely challenging for many existing suppliers, particularly in Southeast Asia, and may result in a structural shift in utility companies' biomass procurement practices.

Potential supply dislocations like this have emerged for a variety of reasons beyond those of sustainability and legality, which is why our customers seek the stability of the sustainability harvested, robust natural resource of the Southeast United States and to de-risk their fuel supply chain with the benefit of the portfolio of plants and ports that Enviva delivers. As a result, in light of the recent European and Japanese contracts that we have announced, and the negotiations that are progressing for several other contracts in both geographies, I also want to provide an update on our sponsor's activities developing the plant and port capacity intended to serve this and other growing demand.

Our sponsor's first joint venture with John Hancock continues to construct a production facility in Hamlet, North Carolina, a nameplate 600,000 metric ton per year facility based on the design of our existing facilities, which our sponsor anticipates could begin production in the first half of 2019.

As we previously described, last quarter our sponsor extended its development relationship with John Hancock with a new joint venture. The first investment in the new JV was the acquisition of the production facility in Greenwood, South Carolina, which closed in the first quarter. The JV is expected to complete its ramp and invest incremental capital, subject to the receipt of the necessary permits to increase the production of the plant, to a 600,000 metric ton per year run rate in 2019.

As a result, the visible dropdown inventory today consists of the additional EBITDA from our Wilmington terminal, with volumes from the Hamlet plant, the Hamlet plant itself, which is expected to supply the Macquarie-backed MGT Teesside project in the UK, and the Greenwood plant, which lines up quite nicely to the long-term demand from Asia. We expect the second portion of the Wilmington terminal dropdown to be completed in early 2019 and then one plant dropdown acquisition in 2019 and the other in 2020.

In addition, the new Hancock JV is expected to develop at least two additional production facilities as well as a terminal in support of additional off-take contracts. Here our focus has been on the development of a deep water marine terminal at the Port of Pascagoula, Mississippi and additional plants in our clustered model, including a site under evaluation in Lucedale, Mississippi.

Our sponsor's practice has been to fully contract, develop, de-risk and then drop the facilities into the partnership once they have achieved full scale operations. Our sponsor's expectation is that it will make a final investment decision on the Pascagoula Port and Lucedale plant around the end of the year.

To wrap up my prepared remarks, while the Chesapeake incident has a short-term impact on our results, the underlying long-term fundamentals of our business persist; durable cash flow generation with a substantial platform for growth that enables us to increase per unit distributions over time.

As you know, I'm fond of saying we're just getting started, and that's certainly still the case. As we close, I would like to thank all the great people at Enviva for their dedication, resilience and hard work. I could not be more proud of our associates as they managed the Chesapeake incident while keeping everyone safe.

Operator, can you please open the line for questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time we will pause momentarily to assemble our roster.

The first question comes from Brian Maguire with Goldman Sachs. Please go ahead.

Derrick Laton

Hey, good morning guys. This is Derrick Laton on for Brian.

Steve Reeves

Good morning, Derrick.

Derrick Laton

Appreciate the color you gave there on what the adjusted gross profit would have been excluding

Chesapeake. And just kind of looking at the average price per ton in the quarter, it fell a little bit sequentially there and I'm just curious if there was any impact from Chesapeake on that or maybe it's just a function of customer mix? Any color there would be helpful.

Steve Reeves

That was just fundamentally a customer mix, the incident had no impact on that.

Derrick Laton

Okay, great. Thanks for that. And then in regards to your growth prospects out there for winning new contracts, I'm just curious if you could talk a little bit about the landscape that you're seeing now and maybe any increase in competition and pricing, on winning any of those new contracts in areas in Europe and in Asia?

John Keppler

No, thanks, great question. I would say that, as I indicated in my prepared remarks, the market environment has never been better. The growth profile that we see, both within our European customer base and I think the most recently contracted NG volumes are a good indication of that, as Europe continues to grow and the prospects for growth continue, apace with the historical growth rates.

The emerging market in Asia, and as we have discussed and described, largely intermediate by trading houses, and I think we've been clear in some of the progress we made there last quarter with the announcement of the Marubeni long-term contract. Because it's a trading house intermediated market, I think you're going to see a global participant base, and NG is a good example of that as well, serving multiple markets and multiple geographies.

Our progress, certainly with the largest biomass project announced yet to date, the 630,000-metric ton per year contract that we have previously described, continues right on track. We expect the conditions precedent to that contract becoming firm by the end of the year, as well as multiple incremental contracts to be announced by the end of the year, both in Asia as well as Europe.

Derrick Laton

Great. That's really helpful. Thanks. And then maybe just one last one. You've had a lot of the companies here throughout earnings season so far have reported some incidence of wet weather, particularly down in the south where a lot of your assets are. I was just curious if you saw any those of impacts to your operations in the quarter.

Steve Reeves

No, we just had our seasonal effects, nothing out the ordinary.

Derrick Laton

Great. Thanks very much.

Steve Reeves

Thanks, Derrick.

Operator

The next question comes from Ryan Levine with Citi. Please go ahead.

Ryan Levine

Good morning. Regarding the comments you made around the Japanese contract, given the LCOE for pellet biomass, what's the driver of the projects without [indiscernible] tariffs in Japan?

John Keppler

I think as the Japanese government has continued to emphasize, they have a generation mix target that I think includes approximately about 44% of non-fossil fuel based generation. With the questions around the likelihood of nuclear restarts. That pushes increasing pressure on and frankly opportunity as a result of that for utilization of biomass either on a large scale coal-fired basis, or on a new dedicated biomass build basis. And I think that many of our utility customers and their joint venture and development partners are beginning to evaluate those investments outside of the context of a direct FIT award.

Ryan Levine

Okay. And then switching gears to Chesapeake, what was included in the \$16.59 million term loan event line item in your DCF calculation? And then also the further adjusted EBITDA number that you put out with about \$4.2 million of incremental EBITDA adjustment, I was curious what was included in that number as well.

Steve Reeves

Sure, we drew a distinction - this is Steve. We drew a distinction between the reasonably discrete events of the event itself, which included the control of the event, the write-off and the disposable of the inventory as well as the associated write-off and repair of the fixed assets as being representative of that \$16 million net of insurance recoveries in the cash flow statement.

Within the add back to adjusted EBITDA to get back from 2017 to 2021, the \$4 million delta, that reflects, for lack of a better word, the business continuity implications of an elongated supply chain, the longer trucking hauls from the Mid-Atlantic region to the Wilmington terminal, for instance, as well as setting up the temporary storage facilities in the Norfolk region. We expect all of those to be recoverable from insurance, but we separated the two items along those lines.

Ryan Levine

So, you're saying that even the \$4.2 million is recoverable by insurance?

Steve Reeves

That's our belief, yes, insurance and other responsible parties. Yes.

Ryan Levine

Okay. And then is there any timing delays for shipments, and what's the financial implication for that?

Steve Reeves

You saw a little higher inventory. We had to readjust the shipping schedule in process, so we ended up with probably a little higher inventory than we would have otherwise expected. So those shipments will occur through the balance of the year, as we've indicated. We're not going to miss any shipments to our customers. Unrelated to the incident itself certain of our customers, as happens from time-to-time under our take or pay contracts, request, and we commercially discuss adjustments to timing, and there were already some deferrals coming out the first quarter into the back half of the year. So, full year, we'll still meet all our contractual obligations relative to our customer obligations.

Ryan Levine

Okay. And then last question. So, then are you saying that we should experience some decline in Q2 as well and then a pickup in Q3 as the timing gets adjusted?

Steve Reeves

Yes, exactly. So that has more to do I think with the fact that we will still have the longer logistics chain in the second quarter until the terminal comes back up, at which we're projecting to be at the end of the second quarter. So, we'll continue to incur again, for a lack of a better word, business continuity costs with the elongated supply chain or extended supply chain through the second quarter, and the recoveries against those from insurance and other responsible parties will occur in the back half. So, there will be, as John indicated in this call, it will have a dramatic effect on quarterly results, but I think for the full year you should expect us to be back to our full year guidance.

Ryan Levine

Thank you.

Steve Reeves

Thanks, Ryan.

Operator

The next question comes from Pavel Molchanov with Raymond James. Please go ahead.

Pavel Molchanov

Thanks for the taking the question, guys. You referenced the recent comments by the German Minister, and as Europe's largest power market moves towards potential full phase out of coal, I'm curious kind of the extent of your conversations with perspective off-takers in Germany specifically. And in particular if you can address kind of Eon, one of your historical customers, how they might be thinking about their domestic market in Germany vis-a-vis pellets.

Steve Reeves

Well, thanks, Pavel. I think we need to be a little bit sensitive about talking about any one customer specifically prior to their publicly announced plans. But what I would describe is for any of the major German generators, and those are the large scale multinational ones, and I would also add the more regional and localized Stadtpark [ph] generators, these are system critical assets currently running on coal to generate both thermal energy and condensing power. These are very important grid relevant system critical assets to German industry and to German power generation, and with a complete phase out of coal and no nuclear strategy, it's going to be very, very difficult for that country to achieve those goals without the adoption of something like biomass.

And so the way I would specifically answer your question is, the generator led discussions are increasing at a pace consistent with the expectation that there will be an end to coal and there will be a limited to no appetite for nuclear. And that creates a very interesting market opportunity for us over time.

Pavel Molchanov

Okay. That's helpful. And regarding the near-term distribution strategy, so obviously in Q1, you ran a net negative coverage, or less than one times coverage and in Q2 there is a good chance you'll be below one times as well. Is it safe to say that starting in Q3, you're targeting getting back to a more normalized coverage level of at least I think 1.1 times that you've historically looked at?

Steve Reeves

Yes, I'd agree with your assertion there that obviously the first quarter was below one and we expect the second quarter to be below one as well. We expect the back half to recover and therefore be over our historical target in order to get us back to the full year's target of 1.15 times, which hasn't changed.

Pavel Molchanov

Okay. Appreciate it, guys.

CONCLUSION

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

John Keppler

Thank you. And for all on the call, thank you again for joining us today. We really appreciate your time and attention, and we very much look forward to our next conversation. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.