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Transcript of Adams Resources & Energy, Inc.
Fall Investor Summit
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Participants

Townes Pressler – Chairman of the Board
Kevin Roycraft – President, Service Transport Company, and Interim President, GulfMark Energy, Inc.
Tracy Ohmart – Executive Vice President, Chief Financial Officer and Treasurer

Presentation

Townes Pressler – Chairman of the Board
I'm Townes Pressler, Chairman of the Board of Adams Resources & Energy, and also Executive Chairman of the company. Welcome. Before we get started, let me draw your attention to the cautionary statement that we start off with, and the message that it sends with regard to our presentation today and the information that you will receive today and in the handout which you have.

With me are Kevin Roycraft and Tracy Ohmart. Tracy Ohmart is CFO of Adams Resources & Energy. Kevin is president of Service Transport Company, a wholly-owned subsidiary of Adams Resources. Kevin is also an interim president of GulfMark Energy, the second wholly-owned subsidiary of Adams Resources. Both Tracy, myself and Kevin have spent our career in the energy business and the transportation business and in the trucking business. Tracy is a graduate of the University of Kansas with a BS degree in accounting and came up through the ranks of ARCO Pipeline Company, TEPPCO and Enterprise Products and he joined our organization as CFO in June of last year so he's been on-board just over a year. Kevin Roycraft is a graduate of Purdue. He spent his career in the trucking business, coming up literally all the way through the ranks and he came to us, came to work for Adams Resources in November of 2017. Myself, I'm a petroleum engineer by degree from the University of Texas and spent my career in the oil and gas industry in operations, oil and gas exploration and reservoir analysis. The third executive in our group who unfortunately is not here today is Sharon Davis. Sharon is a 27-year veteran with Avantree [ph] Services. She is vice president of operations for the company and she is the chief accounting officer for the company.

The four of us constitute the senior management or executive level management of the company and we also constitute the Office of the Chairman, which acts as a group as the executive officer of the company.

Adams Resources was formed in 1947 by the late K.S. Bud Adams, who you all probably heard of, which was almost as owner of the Houston Oilers and later the owner of the Titans, which the family still owns 100% the Tennessee Titans. Interestingly, the formation in 1947 was made by a franchise that Bud Adams received from Phillips Petroleum Company to market Phillips refined products in Houston. And so in 1947 he set up the company with one truck and two employees. Today, we have 500 trucks and 700 employees.

Adams Resources & Energy today is a transportation company. It has two subsidiaries, wholly-owned subsidiaries, as I mentioned, GulfMark Energy and Service Transport. GulfMark Energy is involved in the marketing of crude oil. It gathers crude oil. It delivers it and barrels it at the lease and takes it to our customer and sells it to our customer. Service Transport is a pure over land transportation company, running 18-wheelers, and has operations, if you would, all along southern United States, the eastern seaboard, and we make deliveries as far north as into Canada. We've made deliveries to the west coast, in California, and we go down to Mexico, but we don't go in to Mexico.

The structure of Adams is such we have a six member board, as was mentioned to you. The six member board consists of four independent directors and two inside directors. Myself, and the representative of a major owner company or the inside directors, and our outside independent directors bring banking experience leading A&E work, oil and gas and energy. We're all oil and gas people and spent our career, we're from Houston, Texas. We're based in Houston, Texas and everybody is oil and gas operations-oriented.

I do want to say that we embarked on a transition of this company in 1978, on September the 8th in 2017, two years ago, basically. This company had been operated as a very quiet company until that time. And the major shareholder, who is the Adams descendants, and who own 48% of the stock, decided that they wanted to grow this company, extend the legacy of their father and they wanted to use this company as a tool to grow. We have the rig in place, we have a new executive team in place, and we have a mind-set to grow our company, to grow our profits, and to be in business and to survive in business for a long, long time going forward.

I have a 20-year view. I'm not going to be here 20 years, but I have a 20-year view for the company and beyond.

We have about 4.2 million shares, a little over 4.2 million shares outstanding. They're traded on the New York American Stock Exchange. We have embarked on this new path. We've made two transactions, two acquisitions thus far in the last 12 months. We intend to make more. Our acquisitions are going to be accretive. They're going to be driven by making a profit. It's not that we're not going to make any acquisitions because we need to do a deal. We're a conservative company and we're interested in making money, and that's the path we're on and that's the path we're going to continue on.

Further on the structure is the company itself, Adams Resources & Energy, has two wholly-owned subsidiaries, GulfMark and Service Transport. I'm going to talk about GulfMark just a little bit to tell you its business is collecting oil at the lease where it's produced and barreling that oil and then transporting it by truck to a refinery or to a pipeline or to one of our terminals. When we get to our customer we then sell that oil. We've bought it at the lease, trucked it over to the customer, we sell it to the customer. Where we make our money is on the spread. The point I'm trying to make is we buy it at a price, a market price, and we sell it at a market price. The buy and the sell is virtually simultaneous and we are not exposed to commodity risk, and we are marketers, not traders. That's a pretty important concept to get on the operations and profitability and the sustainability and the predictability of the GulfMark operation.

On the other hand, in Service Transport, it's a more basic transport company. We have about 250 trucks in service. We have about 250 trucks in GulfMark also. We have about 500 trucks total. In the service side, it's a classic transportation operation where we just charge a fee for service. In other words, we haul from point A to point B and charge a fee.

I think at this point I'm going to turn it over—let me just go through these slides very quickly, and just give you a glance at Adams. Our revenues this year will probably—not probably, they will top $1.8 billion. Our revenues are largely driven by the amount of oil that we buy and we're buying and hauling well over 100,000 barrels a day. So, you can translate this nominally at $50 a barrel. Every day we're spending a lot of money and we're also selling that oil for a lot of money. And, we just make the margins so that drives our revenues.

We have cash in the bank of about $125 million to $130 million, and we have no debt. We have a sterling balance sheet. We have had and we will continue to have. There's the strength of our cash position.

Importantly, we started paying a dividend. In 1994, we started with $0.03. We've had 16 increases over the years until today where we're paying $0.96 a share with a $0.96 a share rate. This was put in place in the spring, so this calendar year will be slightly less than $0.96 but we're on a $0.96 rate. And, our dividend, and you can see from this graph, has increased and expectations are that we will continue to increase the dividend where it's meaningful to do so and appropriate to do so. We have not missed a single payment in 26 years.

On operating areas, you can see we're spread pretty much to the east of the United States. We do gather oil in North Dakota, in the Bakken. We have on there that we're expanding. In addition to our two acquisitions that we've made in the last year, we're also expanding our footprint and will continue to expand our footprint because we're going to grow both organically as well as by acquisition. And again, let me assure you that our acquisitions will be driven by profit and they will be accretive acquisitions and they will be driven solely by that and not by the need for activity.

I'd like at this time to turn the speaker over to Kevin who will pick up on GulfMark and Service.

Kevin Roycraft –President, Service Transport Company, and Interim President, GulfMark Energy, Inc.
Thank you, Townes. I'd like to start out my presentation by giving a shout out to United Airlines and their baggage handling crew. We'll start with that piece. It's been a long 12 hours for me, but we move on.

I'll go briefly into the operations for both companies. Townes touched on both of them. I'll start with the larger of the two entities, GulfMark Energy. Townes described what GulfMark does. Basically we supply oil for us, specific grades of oil from the wellhead. We have specific customers, upstream companies and refineries that are looking for these grades of oil. So, we buy the oil, sell it to the refineries. Then, we offer the added service of offering delivery. So, since the deliveries are not connected—the owner of the oil originally and the buyer of the oil are not connected, then we offer the service of buying it, delivering it, and selling it. A lot of times we buy them at the wellhead, we'll deliver to the refinery's pipeline, we'll deliver it directly to the refineries or we may deliver it to barges that either we own or that they own.

To give you an idea of the barrels we're marketing each day, back in Q1 of 2017 we were doing between 64,000 and 70,000 barrels a day. In Q4 of 2018 we did an acquisition of Red River Holdings, opening up the North Texas and Oklahoma markets for us, increasing our barrel count per day of about between 30,000 and 40,000 barrels a day. So, we're averaging between 110,000 and 100,000 barrels each day that we're marketing and delivering.

We also offer storage facilities. So, we have storage locations throughout the Gulf Coast. On a given day, we have the ability to store up to 835,000 barrels of oil. This provides us an advantage as well. So, we pick up from the wellhead, we deliver to our storage locations. We buy it at the truckload level, we store it, and then we're able to sell to the refineries at a bulk level in barges. So, our storage locations are located on ports that we operate. We then bring the barges in and deliver those to the refineries.

These are the locations where our 835,000 barrels are stored. We have Beaumont, Texas, Bay City, Port of Victoria, [indiscernible].

This is a breakdown of where the diversification of our marketed barrels. This does not include Red River acquisition. But you can see most of our barrels are marketed in the Eagle Ford and the Permian in South Texas. When you throw in the Oklahoma and North Texas we just opened up, it drops the Eagle Ford to about 60%; the North Texas and Oklahoma make up about 38%. And then the remainder of the barrels are between Michigan, North Dakota, and Louisiana.

I mentioned our barging and storage infrastructure. We lease and operate a single barge and a single tug that go along with that, but we schedule between 25 and 35 customer-owned barges into our ports each month. So, again, that's an added advantage, I think, that puts us up a leg over much of the competition to be able to gather the oil and deliver on a bulk level.

I'll touch a little bit on safety because it is such an important, critical portion of our culture for both Service Transport and GulfMark. Both companies really outfit their trucks with the latest in safety equipment. Both companies have industry-leading CSA scores and that's critical when it comes to insurance. So, not only to keep our drivers safe and the public safe and the environment intact, but there's a cost to having poor safety performance. We have excellent safety performance. Insurance has become a big driver for transportation companies that struggle in the industry, seeing 25% to 55% increases this year when they go for renewals. We expect to see a reduction in our insurance based on our investment to our equipment and our performance out on the road. So, we're really proud of our safety performance.

I'll touch on Service Transport Company. As Townes mentioned, Service Transport is a more over the road trucking company, both chemical and—liquid and dry bulk chemical hauling company, located throughout the Gulf Coast. Our flagship location is in Houston, Texas, stationing about 120 drivers, has a 6-bay tank wash, a 4-bay maintenance facility, our corporate offices and our trucking terminal there, and then other locations throughout the Gulf Coast. We'll be opening up—part of our gross strategy is both acquisitive and organic, and we will open up in the North Carolina and Spartanburg, South Carolina in Q4 this year.

Service Transport has a long history of performing well from a financial standpoint, but in 2014 began to struggle. Townes came in and took over as chairman of the board and really set a new direction for the company, bringing in a new management team in late November of 2017. Service Transport in 2017 had lost $4.5 million of net income. The new management team was successful in securing new customers, new rates, diversified product lines and really flipped the company as far as net income goes 180°, so from a $4.5 million loss to $1.5 million net income turnaround. We expect that to continue in 2019 to be up around $1.8 million, $1.9 million. All doing that with putting in $22 million in capex for new tractors, and increasing our driver pay up over 20%.

I'll touch briefly on our customer base. This is critical because we have long-term customers; BASF is our largest, Dow is our second largest. We've been doing business with them for over 30 years. They don't do business with just any trucking companies. You have to be the premier companies as far as safety goes. So, we're really proud of our customer base.

I mentioned the tractor purchases, $22 million investment in new equipment. Driver pay increasing 20%. One of the challenges the transportation industry is facing now is driver shortage and driver turnover. At 80%, we were already below the turnover rates for most trucking companies out there, but we really went on a drive to improve that. So, last year we were around 60%. This year our goal is to be in the mid-40%s. Q1 were at 9%. So, we're well on our way to getting there. New equipment and better pay for drivers is equal to improved turnover.

I mentioned safety before, our industry-leading CSA scores, I won't spend too much more time on that.

And before I turn it over to Tracy for a financial review, we are members of Responsible Care, which is ACC's partnership with chemical manufacturers, and shippers, and the trucking companies who have those products. It's an auditing process and best practices organization that we have to be part of to do business with the Dows and the BASFs of the world. We just went through our Responsible Care audit in December of 2018 and were renewed for another three years.

And then we're also members of SmartWay, which is the EPA's carbon footprint measuring program. It's really important being in the oil industry and the trucking industry to be concerned and thoughtful about the environment, so we are officially partners of this organization. We will measure our carbon footprint and look for improvements each year over that.

Now I'll turn it over to Tracy for a financial review.

Tracy Ohmart – Executive Vice President, Chief Financial Officer and Treasurer
I'll just hit on a few of the highlights. Again, we are traded on the New York Stock Exchange, the American part. About 4.2 million shares outstanding, approximately just a little less than 2.1 million of those are still owned by the Adams family, again they own about 48%. So, recognize we don't have a float out there.

Our market price recently mid-$30 range with the market cap right around $130 million approximately, paying a $0.96 per share dividend on an annual basis going forward. Dividend yield a little over 3%. Again, $128 million in the bank at the end of June, with no debt. Again, about 700 employees.

Then just recap the graphs that we had shown earlier, again, we're expecting EBITDA to grow quite a bit this year. Revenue again is driven really by the price of oil but we've been driving volumes up in addition to price helping us, and then consistent dividend payer and want to maintain that.

We're focusing on where we are, solid company, solid balance sheet, support by the board. We have a new management team focused and looking for growth, looking to not just be the same old company that we've been historically. And, we have support for doing that. About a year and a half ago, the shareholders voted to put in an incentive program for stock incentives for management and employees and the board. So, it's very small but there is some of those things happening.

One of the acquisitions we just recently did, we issued shares of stock as part of that acquisition as well. So, we're open to becoming a little different than what we were historically.

Really with that, we'll turn it over for questions. If we have any questions or not, I think our time is about up, too.

Q: North Carolina, South Carolina expansion, how is that going? [Speaker off-mic].

Kevin Roycraft –President, Service Transport Company, and Interim President, GulfMark Energy, Inc.
The managers have been hired. They're in the process of going through our training program now and then [speaker off-mic] drivers and equipment has been purchased, so [speaker off-mic]. We would expect to start hauling loads there in November. One of the re-riders [ph] into that area was a customer-driven opportunity, asking us to go to this area. And also we have around 3,000 loads a year that are delivered to the southeast and have come back to Texas empty. So, we don't have to put a lot of power out there in order to power load down in the areas [ph]. We have [speaker off-mic]. That's the first area of focus, and then we'd look into the Midwest.

Q: What towns? Like [speaker off-mic]?

Kevin Roycraft –President, Service Transport Company, and Interim President, GulfMark Energy, Inc.
We don't know yet—Charlotte [ph] and Spartanburg.

I think our time's up. [Speaker off-mic].