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USAC.N - Q1 2025 USA Compression Partners LP Earnings Call

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PRESENTATION

Operator

Good morning. Welcome to USA Compression Partners first quarter 2025 earnings conference call. (Operator Instructions) This conference is being recorded today, May 6, 2025.

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

Christopher Porter - *USA Compression Partners LP - Vice President, General Counsel, Secretary*

Good morning, everyone, and thank you for joining us. This morning, we released our operational and financial results for the quarter ending March 31, 2025. You can find a copy of our earnings release as well as a recording of this call in the Investor Relations section of our website at usacompression.com.

During this call, our management will reference certain non-GAAP measures. You will find definitions and reconciliations of these non-GAAP measures to the most comparable US GAAP measures in our earnings release.

As a reminder, our conference call will include forward-looking statements. These statements are based on management's current beliefs and include projections and expectations regarding our future performance and other forward-looking matters. Actual results may differ materially from these statements.

Please review the risk factors included in this morning's earnings release and in other public filings. Please note that information provided on this call speaks only to management's views as of today, May 6, 2025, and may no longer be accurate at the time of a replay.

I will now turn the call over to Clint Green, President and CEO of USA Compression.

Clint Green - *USA Compression Partners LP - President and Chief Executive Officer*

Thank you, Chris. Good morning, everyone, and thank you for joining our call. This morning we released our first-quarter 2025 results.

We are extremely pleased that we were once again able to deliver strong revenues, adjusted gross margin, and average horsepower utilization, leading to a record average revenue per horsepower per month for the quarter. On the operational front, we continue to improve top-line revenue per generating horsepower with new and recontracted rates moving higher, benefiting from continued tightness in the market.

In Q1, we ordered approximately 40,000 new horsepower, the majority of which will be delivered before year end. We are also evaluating opportunities for the remaining new horsepower to be delivered before year-end. Additionally, we are actively responding to 2026 proposals and anticipate more ratable quarterly increases to new horsepower next year.

Finally, we have completed the idle to active initiative that commenced early last year. Although our total active horsepower was essentially flat on a sequential quarter basis, our large horsepower continues to be close to fully utilized. Going forward, we expect our most significant gains in horsepower will occur as we continue our disciplined growth strategy of acquiring large horsepower, barring significant changes in small horsepower utilization.

Since our last call in February, commodity prices have softened considerably tied to tariff-driven market uncertainty. However, thus far in Q1, we have seen key upstream companies in the Permian and the Northeast reaffirm their full-year capital and production targets, but also provide the market capital allocation options in the case that low commodity prices persist.

On the gas demand side, Amazon, Microsoft, and Nvidia reaffirmed that the data center market remains strong and both Range and EQT highlighted incremental power demand growth in the Northeast, where USA holds the largest contract compression fleet totaling around 900,000 horsepower.

At USAC, we are actively monitoring the daily movement on tariffs and see a potential for minimal impacts to our parts and materials business once we begin to work through current inventories. On the capital front, we do not anticipate a tariff impact to our 2025 new horsepower costs as costs were locked in at the time of order placement.

Looking forward, it is too early to tell. Many of the capital components of our business are tied directly to US manufacturing entities who source steel evenly from both international and domestic markets. We would expect those entities to work through inventories and then decide if a contract rate in excess of historical increases is reasonable and justified if a tempered market outlook exists.

As our investors know, the compression business is sustained by long-term agreements and is less susceptible to short-term commodity prices. Nonetheless, we keep a watchful eye on our industry and the potential impacts to slow production from current market uncertainty given the natural gas and crude oil are a feedstock for so many things that we use every day.

At this time, we believe we can maintain our adjusted operating margins for the foreseeable future, which have consistently been around 67%, remaining an even-handed partner for our customers to enhance their value and ours.

On the personnel front, I want to highlight Chris Wauson's promotion to Chief Operating Officer, a recognition that is well deserved given his long-standing leadership in our Permian operations and 26 years of experience in the compression industry. Chris is joining us on the call today.

Under the shared services front, we have fully transitioned IT and HR functions in Q1 and remain on track for a Q1 2026 ERP implementation. It should yield meaningful improvements in daily management of the business.

With that, I will turn the call over to Chris Paulsen, our Chief Financial Officer, to discuss our first-quarter highlights and 2025 guidance in more detail.

Christopher Paulsen - USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner

Thanks, Clint. In the quarter, our sales team continued to build upon pricing improvements, up to an all-time high of \$21.06 per average horsepower for the first quarter, 1% increase in sequential quarters and 6% compared to a year ago. Average active horsepower remained flattish at 3.56 million. Our first-quarter adjusted gross margins were nearly 67%.

Regarding the consolidated financial results, our first-quarter 2025 net income was \$20.5 million. Operating income was \$69.4 million. Net cash provided by operating activities was \$54.7 million, and cash interest expense, net was \$45.1 million. Our leverage ratio is currently at 4.08x.

Turning to operational results. Our total fleet horsepower at the end of the quarter was approximately 3.9 million horsepower, essentially unchanged to the prior quarter. Our revenue generating horsepower also was flat on a sequential quarter basis and up 2% from a year ago.

Our average utilization for the first quarter was 94.4%, in line with the prior quarter of 94.5%. First-quarter 2025 expansion capital expenditures were \$22.2 million, and our maintenance capital expenditures were \$10.9 million.

Expansion capital spending primarily consisted reconfiguration and make-ready of idle units, while maintenance capital increased to a level consistent with regular minor overhaul cycles that had previously been deferred during 2024's make-ready efforts. For the remainder of the year, most capital will be focused on reconfigurations and new horsepower.

We maintain our adjusted EBITDA range of \$590 million to \$610 million, distributable cash flow range of \$350 million to \$370 million, expansion capital range of \$120 million to \$140 million, and maintenance capital between \$38 million and \$42 million. As a reminder, the expansion capital budget will be back-end loaded with much of the new horsepower delivery in Q4.

To the extent deliveries move into Q1, capital may be deferred and our expansion capital budget will be updated accordingly. As stated in Q4 2024, the company made great progress in steadily reducing its leverage ratio over the last several years, and we remain committed to that in 2025.

As previously discussed, our leverage ratio will largely be maintained and then marginally increase later in the year as we fund new growth projects that are back-end loaded. These project returns substantially exceed our cost of capital and are anticipated to pay back within the contract term.

In the near term, this means our target at or below 4x debt-to-EBITDA is a reasonable metric by which to aspire. We will continue to revisit this metric as market dynamics change, but don't anticipate a meaningful change.

Finally, I want to address debt refinancing in light of the recent market fundamentals in the high-yield market. Since Liberation Day, the high-yield market has settled, though pricing is considerably higher than prior to April 2.

We are in no hurry to rush into notes market where both spreads and yields have pushed higher and will remain patient until borrowing costs improve. That being said, the market for asset-backed credit facilities has remained very strong and has been unimpacted by the near-term volatility tied to tariffs. As a result, we expect to move forward with refinancing our ABL in the near term.

And with that, I'll turn the call back to Clint for concluding remarks.

Clint Green - USA Compression Partners LP - President and Chief Executive Officer

Thanks, Chris. I have been outspoken about disciplined growth. And at times of uncertainty, this approach should resonate with the investment community.

Along with our industry-leading return of capital framework, equity volatility is also mitigated by a large shareholder in Energy Transfer, who has partnered through shared services to ensure our business is cost efficient and capable through cycles.

USAC is characterized by world-class customers and employees who value safety as our top priority. It is important that we reiterate the safety commitment to our employees, our contractors, and our customers' employees daily; and we make it a part of all we do. And I want to thank each and every employee that makes that happen.

And with that, I will open the call up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Irwin, Citi.

Doug Irwin - Citi - Analyst

I just want to start with the '25 guidance range here. Just looking at the first-quarter run rate, it seems like it's putting you pretty well on pace for the midpoint of the range. Just given some of the fleet additions you talked about coming in the second half of the year, is it fair to say you're probably trending towards the upper half of that range today?

Christopher Paulsen - USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner

Yes, Doug. Thanks for the question. This is Chris Paulsen. We set forth the range of \$590 million to \$610 million. We're maintaining that range today. As you pointed to, the Q1 annualized number would put us right in the middle of that.

Our horsepower overall is, as noted, largely back-end loaded. And most of that horsepower will come in into Q4. And we expect for it to come in Q4. We don't expect for that to materially slip, but its impact on Q4 will likely be minimal. So therefore, maintaining the guidance in the \$590 million to \$610 million range.

Doug Irwin - Citi - Analyst

Understood. That's helpful. And then just trying to ask about the growth outlook beyond '25. Great to see you highlight some of these orders coming on in the fourth quarter. Just curious how your conversations are progressing into '26, particularly given the current macro environment? Have you still seen strong interest or have discussions maybe slowed near term given uncertainty?

Christopher Paulsen - USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner

We noted that we've ordered 40,000 horsepower in Q1. We expect to order additionally into Q2, and we're starting to undertake RFPs for 2026. So the interest is there.

We are digesting the market real time as is everyone else. It's interesting. I think the market is in far better shape than we were in during the last downturn.

We've seen a lot of consolidation in the market. I think that consolidation has brought with it far stronger balance sheets and production growth in fewer hands, production growth in larger companies, production growth housed within the major oils who really look towards this time to really differentiate themselves and have been built for uncertain markets.

What we've seen generally is that while those companies have reaffirmed their growth targets, we've also seen the independents largely reaffirm those targets as well. I know Diamondback had some softer guide yesterday. I don't see it being a real impact on production overall.

We've seen, by contrast, some of the companies in the Northeast really reaffirm those targets and really lean into potential for growth in the next several years. I think that's a difference maker for our company, in particular.

We've noted 900,000 horsepower there in the Northeast. And we've even seen, as early as this morning, companies like Coterra look to move some of their rig count over to the Northeast.

So overall, we're digesting things real time as you are, but we're continuing to take RFPs. And there is continual interest for 2026. How that ultimately plays out for 2026, it's too early to tell.

Operator

Robert Mosca, Mizuho Securities.

Robert Mosca - *Mizuho Securities USA - Analyst*

So on your last call, I think you said you were looking to grow operating horsepower by about 1.5%. So the 40,000 horsepower of new addition seems a little bit lower than what's implied by that metric. So is that a function of just having some remaining units that you plan to activate or maybe a little bit of pullback in terms of customer demand and how you're staging those new units that you're going to order in 2Q?

Christopher Paulsen - *USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner*

Yeah. Thanks for the question, Robert. The 40,000 is below our full year forecast for new compression. As noted, that 1.5% would imply something more akin to 52,000 to probably 55,000 horsepower.

I think we're very pleased that we've been able to move forward with as much as 40,000 horsepower in the quarter and anticipate that the remainder will be satisfied through year end. Hopefully, as early as Q2, we're well on our way towards that end.

Robert Mosca - *Mizuho Securities USA - Analyst*

Got it. That's helpful. And maybe asking about the growth outlook beyond '25 in a different way. How are you approaching those commercial discussions with the macro backdrop and perhaps the need to wait out the high-yield market a little bit longer for attractive refinancing terms? Is that affecting your growth outlook on '26 at all?

Christopher Paulsen - *USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner*

Yeah. The high-yield market today is still open. And in fact, I think there -- within the last several weeks, there's been quite a bit of interest in the market. The market has moved up overall. Our cost to issue notes, for instance, has probably moved up 50 basis points since prior the Liberation Day.

That number at one point was probably 150 basis points higher. So it's come back in by quite a bit. You've seen new issuances here recently. You've seen our bonds, in particular, trading much tighter here in the last several weeks.

So we could go out today probably 50 basis points higher than where we were a few months ago. That's less interesting, frankly. I think we can be patient here. There's no need to rush. We really have quite a bit of time as it relates to our note issuances.

As I mentioned, though, on the ABL side, I think we'll continue with the plans that we had prior to tariff discussion. We'll really embark upon refinancing our ABL in the second half of this year. From what I've seen from initial offerings and proposals there, we have really, really strong commitments from our banks.

We have more banks that are interested, and I'm hopeful that that will mean, at the end of the day, lower financing cost. But we'll let the process play out and then come back to you guys in the second half once that process is played out.

Operator

Jeremy Tonet, JPMorgan.

Eli Jossen - JPMorgan - Analyst

This is Eli Jossen on for Jeremy. Just maybe wanted to think about a little bit more of the contracting environment. In your discussions with customers, are you seeing more opt for term? I think that's been topical in recent conversations.

Or are you seeing longer-term contracts? And how have pricing discussions gone relative to historical, just again, weighing some of the more macroeconomic volatility that we've been seeing?

Christopher Paulsen - USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner

I'm not sure we've seen anything really different in terms of duration or term in those contracts. From a USA perspective, I think we ultimately would like to re-term as much as we possibly can. I think we'll continue to move towards that end, make sure that we have as much on term, especially in the event of softening of the cycle.

I think it makes sense for all parties to do that. I think if you have a movement in a cycle, I think most parties want to have their economics locked in and understood to continue investments. And that's, I think, generally, what we're seeing. And that's been pretty consistent over the course of the last many years, but really haven't seen any change in discussion at this point in time.

Eli Jossen - JPMorgan - Analyst

Got you. And then maybe just thinking about lead times, which have been topical recently. Maybe -- I don't know if tariffs or other manufacturing changes have impacted the OEM market as you see it. But where do you see lead times right now? And what's your view on that part of the market?

Clint Green - USA Compression Partners LP - President and Chief Executive Officer

Yeah. This is Clint. So lead times still stay around the same as they have been. We're seeing CAT at about 48 weeks. Waukesha at about 25, Ariel at 24 to 26. Those haven't really pushed out yet.

And then from -- packagers is running between 30 and 40 weeks. So it really hasn't changed yet. Now depending on what happens with the tariffs, it could; but our stuff is locked in for most of it for the end of the year delivery. And as these RFPs come through for '26, we'll continue to try and get those orders in place in time to make deliveries.

Operator

(Operator Instructions) Connor Jensen, Raymond James.

Connor Jensen - Raymond James - Analyst

I just had one quick one. It looked like you had some modest asset sales or retirements in the quarter. How should we think about this trending for the rest of the year as opposed to the assets you're bringing online?

Christopher Paulsen - USA Compression Partners LP - Chief Financial Officer, Vice President, Treasurer of General Partner

Yeah, so we continue to look at ways to optimize our portfolio. As you mentioned, those were relatively modest sales and/or asset swaps as well. So to the degree that we can optimize our portfolio in various ways, we'll do it and undertake those.

To the degree that we have certain assets that have been sitting on the fence for a long portion of time, we'll also look at a disposition there. So we're going to continue to find ways to really improve the overall efficiency of our horsepower.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes today's call. Thank you all for joining, and you may now disconnect.

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