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Moderator: David Butters, Niall Nolan
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OPERATOR: This is Conference # 5093159

Operator: Thank you for standing by, ladies and gentlemen, welcome to the Navigator Holdings Conference Call on the third quarter 2019 financial results. We have with us Mr. David Butters, Executive Chairman; Mr. Harry Deans, Chief Executive Officer; Mr. Niall Nolan, Chief Financial Officer; and Mr. Oeyvind Lindeman, Chief Commercial Officer.

At this time all participants are in a listen-only mode. There'll be a presentation followed by a question-and-answer session. At which time, if you wish to ask a question, please press "star" and "1" on your telephone keypad and wait for an automated message stating your line is open.

I must advise you that the conference is being recorded today. And now I pass the floor over to one of your speakers, Mr. Butters. Please go ahead, sir.

David Butters: Thank you, (Summer), and good morning, everyone. And welcome to Navigator's Third Quarter 2019 Earnings Conference Call. Now before we actually begin our formal remarks, let me take a moment or two to do some housekeeping items. And to that end, I would just point out that as we conduct today's conference call, we will be making various forward-looking statements.

These statements include, but not limited to, future expectations, plans, and prospects, from both the financial and operational perspective. These forward-looking statements are based on management's assumptions, forecasts, and expectations, as of today's date and are as such subject to material risks and uncertainties.

Actual results may differ significantly from our forward-looking information and financial forecast. Additional information about those factors and assumptions are included in our annual and quarterly reports filed with the Securities and Exchange Commission.

Now in today's conference, we will follow our usual format, which includes comments from Niall Nolan, our Chief Financial Officer and Oeyvind Lindeman, our Chief Commercial Officer, but importantly, it will also provide, for the first time, an opportunity for Harry Deans, our Chief Financial Officer to comment on his first impressions on his new role and how he views the road forward for Navigator.

Now I share the enthusiasm of the whole Navigator team both here in London and Poland in welcoming Harry and fully and firmly believe his background, his experience, his moral compass will be a huge factor in fulfilling Navigator's promise.

So let me now hand the call over to Niall who will cover the financial events during the last quarter.

Niall Nolan: Thank you, David, and good morning all. The third quarter's results were much improved from those of the second quarter albeit at a loss of $2.9 million, which included a $1 million noncash foreign exchange movement against the $7.7 million loss incurred last quarter.

Revenue for the third quarter was $75.6 million, $2 million up on the $73.6 million generated during the last quarter but $5.2 million down from revenue generated during the comparable third quarter of 2018.

Revenue for the nine months ended September 30 was $225.3 million, not dissimilar from the $231.8 million generated during the nine months of last year. So there was a modest improvement in charter rates seen during this quarter relative to both the last quarter and the third quarter of last year.

The average charter rates for this quarter were $21,446 per day or $652,300 per month compared to rates of $19,940 per day last quarter and $20,987 per day for the third quarter of 2018.

Similarly, charter rates improved slightly over the comparative nine months period at $21,063 during the nine months of this year against $20,083 for last year. Utilization, however, has continued to be a challenge at 84.6 percent during this third quarter compared to 85.2 percent for last quarter, and 87.5 percent for the third quarter of last year.

Nine-month utilization rates for this year and last were 84.8 percent and 89.8 percent, respectively.

During the third quarter, time charter's increased to 67 percent of all the vessel operating days, while 33 percent of operating days were spent undertaking spot or voyage charters. As expected, 77 percent of time charter days were engaged in transporting LPG, but spot charter days were split 69 percent for transporting petrochemicals and 31 percent for LPG.

During the nine months of 2019, we have undertaken six dry dockings, taking an aggregate of 181 days, which includes the time taken to sail to their respective yards and costing approximately $11.8 million. Two of these dry dockings were completed during the third quarter, taking a total of 64 days and a final three vessels will be dry docked during the fourth quarter at an expected cost of $3.5 million.

We are scheduled to dry dock a further 10 vessels during 2020 at the provisional cost of approximately $15.8 million, all of which now includes the mandatory ballast water treatment systems.

Vessel operating expenses, or OpEx, was $26.8 million for the three months ended September 30, the same level as incurred for the comparative three months of last year, which results in an OpEx of $7,672 per vessel per day. Vessel OpEx for the nine months of this year was $83.7 million, or $8,072 per vessel per day compared to $79.6 million or $7,675 per day for the first nine months of 2018.

General and administrative costs were reasonably consistent quarter-on-quarter and year-on-year at $4.6 million and $14.6 million, respectively.

Interest cost during the quarter were $12.4 million, an increase of 12.6 percent compared to the $11 million incurred during the third quarter of 2018, and a $37.8 million versus $32.9 million for the respective nine-month period, an increase of $4.9 million. These increases were primarily as a result of the interest on the November 2018 Norwegian kroner bond and also some increased amortization of deferred financing costs.

As a result of a record weak Norwegian kroner against the U.S. dollar, we've incurred a book loss of $1 million on exchange rate movements on our Norwegian kroner-denominated bond during the third quarter.

As we are required to mark-to-market the value of our foreign currency swap, resulting in a $5.2 million loss and translate our Norwegian bond at the prevailing rates at September 30, resulting in a $4.2 million gain.

Neither of these movements have any cash effect and both will be reversed during the life of the bond. We reported a net loss for the quarter ended September 30 of $2.9 million, or a loss per share of 5 cents. As I mentioned at the outset, this compares to a net loss of $7.7 million last quarter, with a profit of $600,000 for the third quarter of 2018.

EBITDA for the third quarter was $28.4 million, and $79.8 million for the first nine months of 2019.

Turning to the balance sheet, cash stood at $56.9 million at September 30. The aggregate amount contributed to the ethylene terminal at September 30 was $113 million, and a further $10 million has been contributed since the quarter end. This results in a balancing contribution of $32 million from the total budgeted contribution of $155 million, a majority of which will be remitted during 2020, and is expected to be financed solely from these specific terminal credit facility referred to previously.

At September 30, total debt stood at $881.3 million, which includes five bank loans, the unsecured $100 million Norwegian bond, and the $600 million Norwegian kroner bond. You may be aware that we have sought and received bondholders' agreement during the quarter to vary one of the covenants contained in the 2017 $100 million unsecured bond.

This was to amend the EBITDA-to-interest covenant from 2.25x to 2x to realign it with all of our bank credit facilities. The amendment will provide additional headroom on the covenant as we deemed there to be limited headroom during the last two quarters of this year as stated at the second quarter until the terminal becomes operational next month.

Finally, since the quarter end, we have undertaken the refinancing of one of our vessels, Navigator Aurora, through a sale and leaseback with the aim of further strengthening our balance sheet. The sale price was agreed at $77.5 million with the buyer paying 90 percent of the vessel value or $69.75 million and the seller's credit representing the remaining 10 percent.

From these proceeds, $44.5 million was used to repay the vessel-secured tranche on the December 2015 secured term loan facility, with the remaining $25.25 million available for corporate purposes.

Simultaneous with this sale, the company entered into a variable charter for the vessels for a period of up to 13 years with break clauses at years 5, 7, and 10. And the transaction was closed on October 29.

And with that, I'll hand you over to Oeyvind

Oeyvind Lindeman: Thank you, Niall, and good morning to everybody. We're pretty excited to see customers continue to engage with ethylene export terminal. These customers take a long-term view based on the competitiveness of the U.S. natural gas liquid fundamentals.

They take into account the industry's confidence and competitively priced NGLs and ethane, providing cheap energy and cheap feedstock, which in turn puts American-produced ethylene at the lowest range on the international cost curve comparisons. This unique cost advantage is predicted to remain for a very, very long time, which enables these customers to adopt this long-term view, which is very healthy.

The handysize ethylene shipping segment has yet to see the full impact of the U.S. ethylene exports, as the industry is waiting for the terminal to become operational, which will happen next month.

The impact will come in stages, Phase I will be at a reduced nameplate capacity until the completion of the 60,000 cubic meter storage tank is commissioned a year from now, at which point, the Phase II with capacity of about 1 million tons per annum will have a major impact.

What we do know, however, is this, the incremental ethylene export, Phase I or Phase II, should have positive impact on the freight environment due to the limited availability of ethylene handy ships on the water at that point in time. This is simple supply-demand dynamics, which will kick in once the volumes are flowing.

We can spend the whole day talking about our excitement in the various ethylene and petrochemical opportunities, but let's not forget about the petrochemical's bigger brother, propane and butane. We predict LPG to play a larger role to our employment compared to the last three years and be more akin to the heights of 2015, 2016 period.

The Very Large Gas Carrier segment is, after many years, with extremely poor earnings, finally doing much better with assessed 12-month charter rates at $1.3 million per month, which in turn, positively impacting the Medium Gas Carrier segment now being assessed at $740,000 per month for one-year charter, which again, in turn, has positive effect on the handysize segment.

We do see the trickle-down effect, however, the positive impact is not instantaneous and sometime lag is apparent.

Utilization for the third quarter hovered around the mid-80. – 80 percent mark as Niall mentioned, and we see this number creeping slowly upwards, mainly driven by LPG and the trickle down from the larger LPG shipping segment. This is reflected in the rising proportion of the LPG to our earnings base.

As an example, end of first quarter, this year, LPG stood at 46 percent, end of second quarter, LPG stood at 53 percent, end of the third quarter 63 percent of our earnings base were LPG, proving that the trickle-down effect is happening. We expect to see stronger impacts from LPG into 2020, particularly with the commencement of the various new terminals coming into play, as mentioned during last earnings call.

There seems to be no letup in the strategy by, for example, Pembina, Repauno in their efforts in putting infrastructure in place in British Columbia, Canada, and in New Jersey in the U.S., to enable NGL producers to access international markets. As far as we are aware, the projects are on time to start in second quarter and third quarter next year, adding incremental volume and demand for handysize vessels.

In the meantime, we continue to promote the handysize versatility to capture additional LPG in petrochemical volumes, we continue to push for new markets and new trades, and we are working creatively with our partners to establish efficient flow of U.S. petrochemical to international markets.

And with that, I'll leave you to Harry.

Henry Deans: Thank you, Oeyvind. And good morning to everyone on the call. I was very fortunate to be asked to join the Board of Navigator Gas as a non-Executive Director in late November 2018. Over the course of the following six months, I got to know the directors, the management and the employees of the company extremely well. It was if you like, an extended interview for both myself and the company.

And I can tell you, I really like what I saw. It's rare that someone's background knowledge and experience fit so perfectly with the Board of Directors, the management team and the company's vision and values, everything just seems to click into place for me. I was, therefore, delighted and honored to accept the position of President and Chief Executive Officer of the company in late August this year.

Navigator Gas is a young, vibrant, entrepreneurial company with an impressive track record of growth and partnership. In no time at all, it has grown from 5 to 38 vessels with the market share in the handy segment of more than 30 percent.

There is perhaps no coincidence that in my 26-year career in agriculture and petrochemicals, working over the years for BP Chemicals, INEOS and Agrium, I have produced and managed, at one time or another, all the liquefied gases that we transport. In these first few months, I've been very impressed by the commitment, expertise and the caliber of our people at all levels in the company.

Our deep functional expertise of liquefaction and olefins gas combined with the superb fleet and terminal infrastructure instills customer confidence. Our partners trust us to deliver the precious cargoes safely, reliably and securely to the final destination in the most economical environmentally friendly manner.

It's been a very exciting time for me to join Navigator. In my short time here, I've witnessed the fantastic progress we've made with Enterprise Product Partners as we build, commission and eminently start up on ethylene liquefaction terminal and joint venture. With the superb infrastructure and fantastic location at Morgan's Point, on the Houston Ship Channel. I look forward to also seeing the fruits of that investment in terms of cash hitting our bottom line in 2020.

So far, Navigator Gas has exceeded my expectations. It's uniquely positioned through its recent investment in terminal infrastructure to provide much-needed optionality, versatility and the cost-effective route to market for our petrochemical and midstream partners. That investment will enable our customers to fully load their assets, optimize the cracker complex variable costs and monetize the U.S. shale advantage through access to secure export markets.

I look forward to building on David's superb legacy and all his great work as we grow and develop the company, and I'm confident that the next 19 years will be just as dynamic and just as fruitful as the past. I'm so excited to be part of it.

Oeyvind Lindeman: Thank you, Harry. And now I think we can pass some of them back to our conference and open it up for question and answers.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. As a reminder, it's "star" and "1" on your telephone keypad if you'd like to ask a question. (Inaudible) automated message stating your line is open. Please state your first and last name before you ask your question. If you wish to cancel, please press "star" and "2". Once again, it's "star" and "1" to ask a question.

Our first question comes from the line of Jon Chappell from EverCore.

Sean Morgan: This is Sean Morgan. I'm actually on for Jon Chappell this morning. So I guess my first question is on the sale and leaseback of Navigator Aurora. It looks like you guys are doing $69.75 million of the proceeds upfront, then there is a 10 percent sale price deferral. When do you expect that to be paid out?

Niall Nolan: Sean, this is a seller's credit. So in fact it won't be paid out. The sale is effectively a financing, or is a financing in substance. A sale and leaseback is just a mechanism of obtaining a high loan to value for finance of the vessels. So I mean – it will not feature as a sale in the accounts because substance or U.S. GAAP will determine just to be put in as a financing. And that's where the options kick back in, in the various stages.

Sean Morgan: Yes. And that's how we've been treating most of these sale leasebacks across the other sectors, tankers and bunkers. And so usually people have been kind of treating these things as there is a bit of an ARB in the cost of capital improvement for this sale leasebacks as opposed to more traditional financing.

And I think you guys refinanced the 2015 facility, which has a margin of 2.1 percent, so should we – as we kind of model this, should we think about a margin that's kind of inside that on a floating basis or would it be a fixed basis around like 4 percent, or would that be kind of a floating type...

Niall Nolan: It's – no, it's LIBOR plus. So it's the same format as the banking but because of the 90 percent LTV, then it's 4.3 percent.

Sean Morgan: OK, 4.3 percent, great. And then you mentioned in your press release that the strong market had started to spur a little bit of orders, in medium carriers and I guess to a lesser degree, for the handysize. And then you also mentioned in your 6-K that you might be placing newbuild orders.

So I guess the following question from sort of those two statements in the documents last night is, should we be thinking that Navigator has been getting a lot of strong time charter interest to sort of cover any newbuilds, or is that still any newbuilds kind of still further out in the CapEx horizon for Navigator?

Oeyvind Lindeman: Hi, Sean. It's Oeyvind. Let me answer at least the first question regarding orders. So the handysize and particularly the Medium Size Gas Carrier segment, so the order book was extremely low at about 2 percent.

So with the high earnings of the Very Large Gas Carriers picking up than the Medium Size today being assessed at $740,000, and the confidence in LPG production, particularly in the U.S. for export markets, as you know, what Enterprise Phillips 66, Targa, they are all thinking and doing or have announced expansions for LPG export.

So the confidence is very much on the LPG side, and with the low to next to nothing order book, it's to be expected that some new building orders have been placed. But most of that has been in a medium-sized market and those ships are particularly coined for LPG and ammonia, not so much petrochemical. So that's – we haven't seen much, but you'd expect to see some orders than some of them have come. And that's really the explanation, more LPG, stronger market, it's natural.

David Butters: Buildings? Let me just clarify. Right now we have no intention of placing any orders for new buildings. I think I've made that clear in the past. So maybe reading was a little bit aggressive in what we're going to do, but our intention is clearly not to go out and speculate the order any new vessels.

Sean Morgan: OK, great. And then you said that 75 percent of the volumes are now contracted through the new export terminal, are you starting to get a clearer idea of what the shipping requirements might be for Navigator's fleet with regards to that new terminal?

Oeyvind Lindeman: So when the – sort of Phase I kicks in. So there's the commissioning cargo in December to make sure everything is fine and then the flow starts coming then January onwards. But talk about Phase I, so we know, as I mentioned in the notes that there's about – there's very limited handysize available ethylene ships on the water for next year. So out of the 30-odd ships, maybe 17 are available and they're all trading with different trades today.

So those ships then have to take up the new volume that is coming from the terminal. So again, going back to extremely basic supply-demand theory, you think that the ethylene shipping market for handysize should go up because suddenly you have new volume coming from the U.S. And take-or-pay contracts and the main, the key destinations are chiefly Asia, some to Europe, and you run the ton-mile module, and you get to healthy numbers on the existing limited ships.

So we expect the ethylene freights to rise once this thing is coming.

Operator: We'll now take our next question.

Randy Giveans: It's Randy Giveans with Jefferies. Dr. Dean's welcome to the call.

Henry Deans: Thank you. Thanks, Randy.

Randy Giveans: All right. So on the last call, management mentioned utilization in the third quarter should be in line with the second quarter, which it was, and you did some explanation of kind of the weakness thus far. That said, how's utilization been kind of the past six weeks looking at the fourth quarter and do you expect utilization to be 87 percent, 88 percent, 89 percent in 2020?

Oeyvind Lindeman: Hi, Randy. It's Oeyvind. So for 2020 that's a different question. For next – this quarter – fourth quarter, so I mentioned in the initial remarks that utilization is creeping upwards. We're not talking massive jumps, but the reason for that is chiefly LPG. So I mentioned that in the last six months, our proportion of LPG earnings base has gone from 43 percent to 46 percent to 63 percent.

And that is making the utilization go up a couple of notches. So whether we can maintain that, or that continues for the next six weeks until New Year, time will tell, but it's taking a little bit rosier than the 84 percent that Niall was mentioning in the second and third quarter. But we're not promising big jumps.

Randy Giveans: OK, that's fair. Slow and steady wins the race. But with that, are you confident that this would be kind of the last quarterly earnings loss for at least the next year or so?

David Butters: Oh, come on, Randy. Look, on that, we always talked about the road to 2020 how fundamentally things would change once we entered into the next year. And I think that's clearly coming about and it's within striking distance now. And in the terminal, a month from now, we'll be loading its first cargo.

It's going to be an active one. We've got a number of different factors in 2020, the number of different terminals opening up, but we are comfortable that way. We are in this transition period, this fourth quarter and we are hopeful that the direction we have seen into the third quarter can be maintained and that by 2020, we will be rolling. I think that's what I've tried to say in the past, and I'm still holding to it.

I think you know the excitement around obtaining these last cargo, the last contracts to bring us up to 75 percent was a major event for us. We are extremely excited about that. I can't tell you how happy we are, and I don't think it's the end of the contracts commitment for that terminal.

So yes, I think, everything is in place. The timing of any kind of breakout is, of course, dubious to be terribly precise. But we're moving clearly in that direction. And 2020 will be a definitive turn in that direction, Randy.

Randy Giveans: Sure. All fair. Just wanted to give you the opportunity to give a little guidance, but understand that. All right. Well, last question...

David Butters: Randy, you know how volatile it is.

Randy Giveans: I am well aware, and trust me. That said, you had 12-month charter, major petrochemical producer for one of the ethane-capable vessels, excess of 30,000 a day. Any chartering activity or talks, at least for some of the ethylene-capable handysize ships especially for the new ethylene export project?

Oeyvind Lindeman: I think it's fair to say, Randy, that we are a month away from – about a month away from the commissioning the first and then the gates are open. So people are getting in line and more firmly discussing the opportunities today than last quarter.

So we are discussing with a host of different people that are contracting or thinking of contracting with the ethylene terminal for freight. We have the largest fleet of these ships, you need the large ships to get the efficiency and economies of scale to the destination than users in Asia or in Europe. So big size, and we'll get there.

Operator: There are no other questions at this time. As a final reminder, it's "star" and "1" if you would like to ask a question.

David Butters: Well, good. Sorry.

Operator: Sorry, would you like to take another two questions that come through. So the first one comes from (Nick) (inaudible) from (inaudible).

(Nick): Can you tell us who ordered the six MGCs in the last quarter and are any of those ethylene- or ethane-capable?

Oeyvind Lindeman: Hi, (Nick). Those are ordered by Greek shipowners, and they are fully refrigerated LPG carrier, i.e. not ethylene or ethane.

David Butters: (Summer), anything else?

Operator: Yes. We have one more question from the line of Ben Nolan.

Frank Galanti: This is Frank Galanti on for Ben Nolan calling from Stifel. I wanted to ask about the – now that the export terminal is at 75 percent capacity here – or sorry, booked capacity. I wanted to get a sense if you had any destination to cargoes, based on the customer mix that you guys have, do you have a sense for where the majority of those cargoes are going to be going?

Oeyvind Lindeman: I think – hi, Frank. I think, the last earnings call and the Analyst Day and so forth, we kind of modeled the destination a 25-75 split, meaning 25 percent to Europe, 75 percent to cross Pacific whether that is North Asia or Southeast Asia. So we haven't changed our opinion on that fundamentally. So it's about that.

Frank Galanti: OK. And that's what's lining up with the current contracts?

Oeyvind Lindeman: Yes, you see, the customers can take the cargo wherever they want, obviously. So it depends a little bit case by case at the time. So it's not as set where some of these cargoes will go 100 percent.

Frank Galanti: OK, that's fair, that make sense. And then I guess, further – so I understand that expansion possibilities are present for the ethylene export terminal, and that would probably be a first priority from a capital perspective, but are you guys on the path or down the road a little bit on any similar opportunities in the infrastructure side?

David Butters: You're right about the priority. We do expect that sooner or later this current terminal that we jointly owned with the Enterprise will be fully utilized, fully committed. Hopefully, we can talk about that in the not-too-distant future.

Once that is done, obviously, it makes sense to sit down with Enterprise, sit down with the customers that have been knocking on the door about incremental volumes and make a decision about whether or not there is a need for further expansion of the existing terminal. So you're right, that would be a priority.

And it is especially important for us because as everyone knows, incremental capital expenditures and expanding and existing facility is always the most delicious part of a return on your capital. So we will be focusing on that as our priority. Whether or not other opportunities on a global basis present themselves, we are looking at things. We are an entrepreneurial company, we are a logistically focused company. And to the extent that something comes up, we will grab it. Harry, you have any views on that?

Henry Deans: Yes. Thanks, David. Frank, and I guess, when are these – let's get the tank commission first and prove out the nameplate capacity. But the other thing I would say, I have been hung about with engineers for 25 or 26 years. They always leave a good 10 percent or 15 percent off their sleeves.

So I would be disappointed that we can squeeze more capacity out of the existing terminal. So let's sweat that asset and get it working like a clock and see how many tons we can squeeze out of it and then the world is our oyster, as David said, and we can look at other expansion opportunities.

Operator: There are no further questions at this time. So I will would like to hand back to the speakers.

David Butters: OK, well, thank you all for joining us this morning. I think it was an exciting quarter for us in accomplishing some of the goals that we really set out to accomplish on our road to next year. And when we talk next time, it will be 2020, and hopefully, we will see the tangible results of what we've been talking about.

Thank you for joining us and good day.

Operator: That does conclude our conference. Thank you for participating.

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