

# 4Q 2020

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Earnings Conference Call  
January 28, 2021



# Disclosures

## Forward Looking Statements

Statements contained in this conference call with respect to the future are forward-looking statements. These statements reflect management's reasonable judgment with respect to future events. Forward-looking statements involve risks and uncertainties. Actual results could differ materially from those anticipated as a result of various factors, including cyclical or other downturns in demand, significant pricing competition, unanticipated additions to industry capacity, changes in the Jones Act or in U.S. maritime policy and practice, fuel costs, interest rates, weather conditions and timing, magnitude and number of acquisitions made by Kirby, and the impact of the COVID-19 pandemic and the related response of governments on global and regional market conditions. Forward-looking statements are based on currently available information and Kirby assumes no obligation to update any such statements. A list of additional risk factors can be found in Kirby's annual report on Form 10-K for the year ended December 31, 2019 and in subsequent quarterly filings on Form 10-Q.

## Non-GAAP Financial Measures

This conference call may refer to certain non-GAAP or adjusted financial measures. Kirby uses certain non-GAAP financial measures to review performance including: Adjusted EBITDA; operating income (excluding one-time items); earnings before taxes on income (excluding one-time items); net earnings attributable to Kirby (excluding one-time items); and diluted earnings per share (excluding one-time items). Management believes that the exclusion of certain one-time items from these financial measures enables it and investors to assess and understand operating performance, especially when comparing those results with previous and subsequent periods or forecasting performance for future periods, primarily because management views the excluded items to be outside of the company's normal operating results. Kirby also uses free cash flow, which is defined as net cash provided by operating activities less capital expenditures, to assess and forecast cash flow and to provide additional disclosures on the Company's liquidity as a result of uncertainty surrounding the impact of the COVID-19 pandemic on global and regional market conditions. Free cash flow does not imply the amount of residual cash flow available for discretionary expenditures as it excludes mandatory debt service requirements and other non-discretionary expenditures. These non-GAAP financial measures are not calculations based on generally accepted accounting principles and should not be considered as an alternative to, but should only be considered in conjunction with Kirby's GAAP financial information. Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures are included in our earnings press release, and are also available on our website at [www.kirbycorp.com](http://www.kirbycorp.com) in the Investor Relations section under Financials.



# 4Q 2020 Overview

## Financial Summary

\$ millions except earnings (loss) per share	4Q 2020	4Q 2019	Variance	%	3Q 2020	Variance	%
Revenues	\$ 489.8	\$ 655.9	\$ (166.1)	-25%	\$ 496.6	\$ (6.8)	-1%
Operating income	24.8	16.2	8.6	53%	29.9	(5.1)	-17%
Net earnings attributable to Kirby	22.2	2.8	19.4	693%	27.4	(5.2)	-19%
Earnings per share	0.37	0.05	0.32	640%	0.46	(0.09)	-20%
<b>Excluding one-time items:</b>							
Operating income <sup>1</sup>	24.8	56.5	(31.7)	-56%	29.9	(5.1)	-17%
Net earnings attributable to Kirby <sup>1</sup>	22.2	34.5	(12.3)	-36%	27.4	(5.2)	-19%
Earnings per share <sup>1</sup>	0.37	0.58	(0.21)	-36%	0.46	(0.09)	-20%

Note: For more information, see the Reconciliation of GAAP to Non-GAAP Financial Measures Excluding One-Time Items on Kirby's website at [www.kirbycorp.com](http://www.kirbycorp.com) in the Investor Relations section under Financials.

- 1 4Q 2019 operating income, net earnings attributable to Kirby, and earnings per share exclude \$40.3 million of before-tax charges or \$0.53 per share as follows:
- Inventory write-downs of \$35.5 million before-tax, \$28.0 million after-tax, or \$0.47 per share
  - Severance and early retirement expense of \$4.8 million before-tax, \$3.7 million after-tax, or \$0.06 per share



# FY 2020 Overview

## Financial Summary

(\$ millions except earnings per share)	2020	2019	Variance	%
Revenues	\$ 2,171.4	\$ 2,838.4	\$ (667.0)	-23%
Operating income (loss)	(420.8)	242.0	(662.8)	-274%
Net earnings (loss) attributable to Kirby	(272.5)	142.3	(414.8)	-291%
Earnings (loss) per share	(4.55)	2.37	(6.92)	-292%
<b>Excluding one-time items:</b>				
Operating income <sup>1,2</sup>	140.5	282.3	(141.8)	-50%
Net earnings attributable to Kirby <sup>1,2</sup>	110.0	174.0	(64.0)	-37%
Earnings per share <sup>1,2</sup>	1.84	2.90	(1.06)	-37%

Note: For more information, see the Reconciliation of GAAP to Non-GAAP Financial Measures Excluding One-Time Items on Kirby's website at [www.kirbycorp.com](http://www.kirbycorp.com) in the Investor Relations section under Financials.

- 2020 operating income, net earnings attributable to Kirby, and earnings per share exclude the following one-time items:
  - Income tax benefit related to 2018 and 2019 net operating loss carrybacks under the U.S. Coronavirus Aid, Relief, and Economic Security Act of \$50.8 million or \$0.85 per share; and
  - Impairments of goodwill, intangible assets, fixed assets, and inventory related to distribution and services totaling \$561.3 million before-tax, \$433.3 million after-tax, or \$7.24 per share
- 2019 operating income, net earnings attributable to Kirby, and earnings per share exclude \$40.3 million of before-tax charges or \$0.53 per share as follows:
  - Inventory write-downs of \$35.5 million before-tax, \$28.0 million after-tax, or \$0.47 per share
  - Severance and early retirement expense of \$4.8 million before-tax, \$3.7 million after-tax, or \$0.06 per share



# Marine Transportation – 4Q Overview

## Market Overview

- Challenging markets continue in inland and coastal
- Gulf Coast hurricanes impact operations
- Slight sequential reduction in refinery utilization, averaging 77% compared to prior 5-year average of 90%
- Average chemical plant utilization of 75%, up 1% sequentially
- Limited spot market requirements
- Pricing pressure during the quarter

## Kirby Barge Utilization

- Inland in the high 60% range
- Coastal in the mid-70% range



# Distribution & Services – 4Q Overview

## Overall

- Revenues increased 8% sequentially
- Operating margins were slightly below breakeven

## Commercial and Industrial

- Increased demand for parts and service in the on-highway and power generation businesses
- Higher product sales in Thermo-King and increased sales of new marine engines
- Seasonal reductions in power generation rental fleet utilization and marine repair overhaul activity



## Oil and Gas

- U.S. frac activity improved throughout the quarter with active frac fleets increasing above 150
- Increased sales of new transmissions, parts, and service
- Received new orders for environmentally friendly pressure pumping equipment
- Deliveries of new fracturing equipment down sequentially

# Marine Transportation

## 4Q 2020 Financial Summary

\$ millions	4Q 2020	4Q 2019	Variance	%	3Q 2020	Variance	%
Revenue	\$ 299.4	\$ 402.0	\$ (102.6)	-26%	\$ 320.6	\$ (21.2)	-7%
Operating income	29.2	54.5	(25.3)	-46%	32.4	(3.2)	-10%
Operating margin	9.7%	13.6%	-3.9%		10.1%	-0.4%	

### ■ Inland

- Contributed 75% of marine transportation revenues with average barge utilization in the high 60% range
- Term contracts represented ~70% of revenue with ~62% attributed to time charters
- Term contracts renewed lower in the low double digits on average
- Spot market rates declined approximately 10% sequentially and 25% year-on-year
- Operating margin in the low to mid-teens

### ■ Coastal

- Contributed 25% of marine transportation revenues with average barge utilization in the mid-70% range
- Term contracts represented ~85% of revenue with ~85% attributed to time charters
- Term contracts renewed lower in the mid-single digits; spot market rates stable
- Negative low to mid-single digit operating margin



# Barge Construction and Retirements

## 4Q 2020 Update and FY 2021 Outlook

Inland <small>(barrels in millions)</small>	4Q 2020		FY 2020		FY 2021 (Projected)	
	Barges	Barrels	Barges	Barrels	Barges	Barrels
Beginning of period	1,084	24.5	1,053	23.4	1,066	24.1
Additions:						
Savage Inland Marine	-	-	92	2.5	-	-
Reactivations	2	-	12	0.3	-	-
Purchases	1	-	6	0.1	-	-
Reductions:						
Retirements	(20)	(0.4)	(94)	(2.2)	(26)	(0.7)
Transfer to Coastal	-	-	(1)	-	-	-
Charters returned	(1)	-	(2)	-	-	-
End of period	1,066	24.1	1,066	24.1	1,040	23.4

Coastal <small>(barrels in millions)</small>	4Q 2020		FY 2020		FY 2021 (Projected)	
	Barges	Barrels	Barges	Barrels	Barges	Barrels
Beginning of period	47	4.3	49	4.7	44	4.2
Additions:						
Transfer from Inland	-	-	1	-	-	-
Reductions:						
Retirements	(2)	(0.1)	(5)	(0.5)	(1)	(0.2)
Charters returned	(1)	-	(1)	-	-	-
End of period	44	4.2	44	4.2	43	4.0



# Distribution & Services

## 4Q 2020 Financial Summary

\$ millions	4Q 2020	4Q 2019	Variance	%	3Q 2020	Variance	%
Revenue	\$ 190.3	\$ 253.9	\$ (63.6)	-25%	\$ 176.0	\$ 14.3	8%
Operating income (loss)	(2.9)	(2.7)	(0.2)	-7%	1.1	(4.0)	-364%
Operating margin	-1.5%	-1.1%	-0.4%		0.6%	-2.1%	

### Commercial and industrial

- Improved sequential demand for parts and service in on-highway and power generation
- Increased product sales in Thermo-King and new engine sales in marine repair
- Seasonal reductions in the power generation rental fleet and marine repair overhaul activity
- Represented ~78% of segment revenue
- Operating margin in the low single digits

### Oil and gas

- Results sequentially lower due to the timing of new pressure pumping equipment deliveries in manufacturing, offset by increased demand for new transmissions, parts, and service in parts and service in distribution
- Represented ~22% of segment revenue
- Negative operating margins in the mid-teens



# Balance Sheet, Capital Expenditures, and Liquidity

## Strong Liquidity and Free Cash Flow Position

As of December 31, 2020

Total  
Debt

**\$1.47B**

Cash and  
Cash Equivalents

**\$80M**

Available  
Liquidity

**\$684M**

- Fourth quarter results:
  - \$85.1 million of net cash provided by operating activities
  - \$18.8 million of capital expenditures
  - \$109.8 million reduction in total debt
  - \$100+ million tax refund now expected to be received in 1Q 2021
- 2021 capital expenditures expected to be \$125 to \$145 million, a reduction of ~10% year-on-year
- 2021 tax rate expected to be ~25%

**Free cash flow\* generation of \$230 to \$330 million expected in 2021**

\* Free cash flow is defined as net cash provided by operating activities less capital expenditures



# Marine Transportation – FY 2021 Outlook

## Challenging markets near-term, but material improvement is expected in H2-2021

### ▪ Inland

- Market weakness expected to continue through the first quarter, with gradual improvement in the second quarter, and a more meaningful recovery in the second half of 2021
- First quarter revenues and operating margin sequentially lower, with increased seasonal weather delays and continued pricing pressure on term-contract renewals
- New petrochemical plants, limited new barge construction, and barge retirements should help the market improve and contribute to increased barge utilization into the high-80% to low-90% range by year end
- FY 2021 revenues and operating margins to be down compared to FY 2020

### ▪ Coastal

- Demand reductions due to COVID-19 expected to have a meaningful impact on FY 2021 with term contracts renewing lower
- Expect reduced revenues and increased operating losses in 1Q (vs. 4Q '20) and the full year
- Retirements of older large capacity vessels in 2020 and 2021 will impact year-on-year comparisons
- Expect market conditions will improve in the second half of 2021

# Distribution & Services – FY 2021 Outlook

Meaningful year-on-year improvement in revenue and operating income

- **Commercial and industrial**

- On-highway and power generation to benefit from improving economy and reduced lockdowns
- Expected to represent ~70% of segment revenue in FY 2021

- **Oil and gas**

- Favorable oil prices expected to drive continued improvement in U.S. frac activity
- Anticipate increased demand for new transmissions, parts, and service, as well as improved remanufacturing activity
- Expected to represent ~30% of segment revenue in FY 2021

- ESG focus expected to increase demand for Kirby's environmentally friendly industrial and oilfield equipment
- Segment revenues expected to materially increase year-on-year
- Segment operating margins expected to be positive in the low to mid-single digits for the full year



# Final Thoughts

## The long-term outlook for Kirby remains very positive

- Near-term uncertainty remains, and the first quarter is expected to be challenging
- Kirby is in a strong position to recover once COVID-19 moderates and a material economic recovery occurs
- Marine transportation markets were very strong not long ago, and supply is not a near-term threat
- Kirby's inland barge capacity has increased ~40% in the last three years and has significant earnings potential
- An improved economy is expected to increase demand for D&S products, parts, and services going forward
- Strategic actions to streamline and strengthen D&S during 2020 further increase long-term earnings potential
- Strong free cash flow generation is expected to continue



