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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q2 2020 DCP Midstream earnings conference call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Ms. Sarah Sandberg, Senior Director of Investor Relations. Thank you. Please go ahead.

Sarah Sandberg - *DCP Midstream, LP - Senior Director of Communications & Public Affairs*

Thanks, Jimmy. Good morning, and welcome to the DCP Midstream Second Quarter 2020 Earnings Call. Today's call is being webcast, and I encourage those listening on the phone to view the supporting slides, which are available on our website at dcpmidstream.com.

Before we begin, I'd like to point out that our discussion today includes forward-looking statements. Actual results may differ due to certain risk factors that affect our business. Please review the second slide in the deck that describes our use of forward-looking statements, and for a complete listing of risk factors, please refer to the partnership's latest SEC filings. We will also use various non-GAAP measures, which are reconciled to the nearest GAAP measure in schedules in the appendix section of the slides. Wouter van Kempen, CEO; and Sean O'Brien, CFO will be our speakers today. And after their remarks, we'll take your questions.

With that, I'll turn the call over to Wouter.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Thank you, Sarah, and good morning, everyone. We appreciate you joining us, and hope you're all safe and well. On today's call, we will discuss our strong Q2 and first half results, our guidance and outlook for the remainder of the year and new developments in the DJ Basin.

I want to first say thank you to team DCP. An incredible credit goes to every employee for delivering some of our best safety, reliability and financial results in what has been an exceptionally challenging environment. Our team and our diversified asset base is strong. Our strategy remains consistent and effective. And the earnings power of the DCP business model is evidenced by our outstanding financial results.

We generated $220 million of distributable cash flow in the second quarter and $440 million year-to-date, representing our strongest performance since the company was combined with DCP Midstream LLC. As a result of our early and aggressive efforts to optimize cash, we created $54 million of free cash flow in the second quarter, and our bank leverage improved from Q1, now down to a target of 4.0x. Underpinned by our strong year-to-date performance and recent market stabilization, we have reissued our original adjusted EBITDA and DCF guidance, which Sean will discuss shortly.

During the quarter, volumes across both segments remained stronger than our worst-case scenarios as a result of fewer than anticipated shut-ins and the earlier return of curtailed production. Importantly, we were also able to proactively work with our customers to optimize their netbacks throughout our integrated value chain. This ensured that when shut-in decisions were made, DCP was the service provider of choice and volume stayed on our system, creating a win-win for our customers and for DCP. On our pipes, ethane recovery and opportunistic NGL marketing kept our utilization rates high and our earnings balanced.

Looking to other highlights in the quarter, with our liquidity now squarely secured through successful capital market execution, our primary financial focus is to utilize our growing free cash flow to delever the company. Our supply-long, capacity-short capital allocation strategy, DCP 2.0 transformation, and integrated footprint will continue to drive efficiencies and generate significant free cash flow throughout 2020 and 2021. Finally, several positive developments in the DJ Basin have completely unleashed the future potential of production, and I look forward to discussing those later in the call.

On Slide 5, I will outline how a combination of strategic execution and deliberate self-help measures in the first half of this year has helped us overcome a year-over-year adverse price impact of $125 million and while also positioning us well for long-term sustainable success.

First, and most importantly, our COVID-19 response has prioritized and protected the health and well-being of our workforce. Next, as the downturn took hold, our fully integrated footprint became a critical asset. Approximately 65% of our Q2 adjusted EBITDA was generated by our logistics and marketing segment, demonstrating the earnings power of our pipelines and downstream assets and highlighting the drive of our commercial teams. Not only has this segment produced high quality earnings, but our ability to optimize producer customers' netbacks was critical to keeping volumes on our system and throughput rates high. As a result of our efforts and increased ethane recovery, average Q2 NGL throughput remained flat compared to Q1.

On top of a great portfolio of assets, we are retaining nearly $900 million of cash on an annualized basis with the sole purpose of strengthening the balance sheet, which has made a critical impact in the first 6 months of this year. Our costs are down $87 million year-over-year, driven by relentless dedication to improving efficiencies in our contract services, consumables, labor and utilities. Our sustaining capital is down $23 million year-over-year due to fewer well connects, risk-based prioritization for projects and deferral of some innovation efforts. And finally, our DCP 2.0 transformation effort allowed us to not only take cost out of the system early, it also enables us to continually optimize margin, enhance flexibility and speed within the organization and perform operations completely remote, including safely operating gas processing plants from employees' homes.

Our team has achieved significant success and proven our resiliency in navigating this downturn, as demonstrated by the impressive financial and operational excellence outcomes of the past 6 months, including an 11% increase in DCF and a 5% increase in adjusted EBITDA compared to the first half of 2019.

Now to talk through the details of our Q2 results, guidance, outlook and financial position, I'll turn it over to Sean.

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

Thanks, Wouter, and good morning. On Slide 6, you'll find the key drivers to our strong second quarter financial results. In Q2, we generated adjusted EBITDA of $311 million and DCF of $220 million, representing a 27% increase in DCF year-over-year and driving an improved leverage metric of 4x despite one of the most challenging quarters our industry has ever seen.

Our results were driven by our early and proactive execution on cost and sustaining capital reductions and strong L&M performance. In Q2, we achieved the lowest quarterly cost in the history of the company and set our lowest first half trend ever. Our L&M segment adjusted EBITDA increased 18% year-over-year, driven by solid Gulf Coast Express and NGL marketing results and strong volumes from our NGL logistics assets supported by ethane recovery, all partially offset by lower Guadalupe earnings.

We continue to effectively manage our sustaining capital reducing our year-over-year spend by $13 million while still ensuring safe and reliable operations. In total, these efforts more than compensated for an unfavorable year-over-year commodity price impact of $39 million net of hedges, due to NGL and crude price declines of 37% and 53%, respectively, over the same period of time. Finally, G&P margins were down $9 million as a result of lower overall volumes in the G&P segment, tied to our Eagle Ford and Midcontinent assets, which were partially offset by increased DJ Basin and Permian volumes.

I want to close out my Q2 comments by giving a little color of what we're seeing from a volume standpoint early in Q3. July NGL volumes on Sand and Southern Hills have both increased over Q2 average throughput and G&P volumes remain relatively flat versus our Q2 average.

With our strong first half of the year setting a solid foundation on Slide 7, you'll see that we've reissued our 2020 adjusted EBITDA and DCF guidance, originally given on our February call this year. We've also added a free cash flow measure, defined as distributable cash flow, less distributions and less expansion capital expenditures. With our current distribution coverage sitting at 2.7x for the quarter, free cash flow has been replaced -- coverage as a more relevant financial target, highlighting a comprehensive measure of cash flow and indicative of our ability to delever.

Looking to our guidance. As expected, the composite of our earnings has shifted from earlier this year, driven by strong self-help actions focused on preserving cash flow to offset the unprecedented impacts of COVID-19 and a dampened price environment. With that said, we see strong DCF performance this year, driving toward the midpoint of our range, with EBITDA trending toward the low end, as many of our self-help measures were strongly focused on cash generation, which is not captured within EBITDA. We've also updated our sensitivities due to the shift into ethane recovery.

Slide 8 gives some color around our current second half year outlook and potential upside and downside drivers. We're expecting relatively flat NGL throughput across our full portfolio of pipelines with ethane rejection forecasted in the fourth quarter, resulting in potential declines. Our residue takeaway earnings will increase beginning in Q3, driven by incremental earnings from the newly in service Cheyenne Connector. On the G&P side of the house, we expect second half overall welled volumes to be slightly higher than Q2 averages. We continue to maintain frequent dialogue with our customers and expect all previously shut-in volumes to be back on our system during Q3.

Finally, as you know, we have dedicated substantial effort to reducing our costs and capital this year. With a year-to-date cost reduction of $87 million from 2019, we expect to see higher costs in the second half of the year. But again, we're still on target for a more than $120 million decrease year-over-year. Our sustaining capital will be more heavily weighted to the back half of the year, and our growth capital will be significantly lower for the remainder of 2020 as we spent the vast majority on projects in the first half of the year and are now expecting our spend to trend to the high end of our $150 million to $190 million range, but still down approximately $400 million from our original guidance.

Taking all of this into consideration, we're projecting free cash flow to substantially grow in the second half of the year, which we will prioritize on reducing debt and strengthening our balance sheet. As the industry outlook continues to remain dynamic, on the right side of the slide, we've highlighted some potential tailwinds like sustained ethane recovery and also headwinds that could result from ongoing pandemic volatility that we will monitor for the rest of the year.

On Slide 9, I want to highlight our solid and improving financial position. Our multiyear evolution to fully integrate our footprint and increase our logistics asset, coupled with our strategic hedging program, have enabled us to achieve an 81% fee-based and hedge ratio, exceeding our goal of 80%. This de-risks our earnings and provide stable cash flows, evidenced by our strong first half performance. In Q2, we significantly shored up our liquidity with strong execution of our $500 million bond transaction, bringing our Q2 liquidity to approximately $1.1 billion. With abundant liquidity now secured, our primary financial priority is to utilize our growing free cash flow to delever the company. In Q2, we produced $54 million of free cash flow, allowing us to lower our leverage to 4.0x. We expect to be significantly free cash flow positive for the remainder of the year and throughout 2021, enhancing our liquidity and allowing for debt reduction.

To close, we are continuing our track record of meeting our financial commitments even in extremely challenging times. Now I'll hand it back over to Wouter.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Thank you, Sean. On Slide 10, I want to highlight one of the premier basins in our country. We said for years that our producers are drilling some of the best rock with the strongest returns right here in Colorado. And we're excited to see the potential of the DJ Basin now fully unleashed. Just a few weeks ago, several developments ensured political and regulatory certainty in Colorado for years to come. First -- plus confirmed that there will be no anti industry statewide ballot initiatives during the 2020 elections. And following that announcement, Governor Polis reaffirmed that the oil and gas wars are over by announcing a growth coalition to support the implementation of Senate Bill 181. This included an agreement with key stakeholders, including environmental NGLs and state-elected leaders to actively oppose any oil and gas ballot initiatives or any substantial legislation on oil and gas through 2022.

Colorado is open for business and will continue in its essential role, providing our nation with a critical energy supply we demand. To ensure that supply can get to markets. In Q2, the 600 million cubic feet a day Cheyenne Connector came online, providing residual gas takeaway from the DJ Basin to the Rockies Express pipeline. Additionally, the Front Range and Texas express expansions went into service, allowing for incremental NGL takeaway capacity.

These projects, in addition to the recently in service Southern Hills extension have now eliminated all logistic constraints in the basin. The Latham 2 offloads, originally slated for a mid-2020 in-service date, will now be online in Q4, allowing us to meet our minimum volume commitments and ensuring we're in lockstep with our customers' production forecast. With the political risk within Colorado substantially minimized by the state's top elected officials and our final projects coming online, the DJ Basin is ready to realize its full potential.

To wrap things up on Slide 11. As we enter 2020, we said that our past and future success comes down to driving strategy built around operational excellence and sustainability, our solid financial execution and advancing our DCP 2.0 transformation efforts, and this has absolutely held through. We have delivered our strongest first half DCF and lowest first half cost during one of the worst economic and industry crisis we have ever experienced, demonstrating our stability and our resilience. We secured our liquidity, became free cash flow positive and improved our leverage as a result of our premier and fully integrated value chain, early and aggressive self-help measures and our investments in our DCP 2.0 transformation. We expect to be significantly free cash flow positive in 2020 and beyond, funding our distribution and all capital expenditures, while prioritizing long-term delevering and maintaining an attractive yield for our unitholders.

On the capital side, we've always been clear that we have no intention of building the last plant or the last pipeline. This disciplined supply-long, capacity-short approach to capital allocation has ensured high utilization rates and attractive returns on our projects. Additionally, as part of our efforts to mitigate against overbuilt, coming into 2020, we have executed all floats in every region of our footprint, and we're able to return volumes to our system to improve our own utilization rates during the downturn.

Finally, and most importantly, we remain steadfast in our commitment to operational excellence as evidenced by the execution of our pandemic response plan, which has ensured the safety of our workforce and reliability of our operations. The past 2 years have represented our best safety outcomes in the history of the company. And we were recently honored by the GPA Midstream Association with the Energy Conservation award and the Award for Environmental Excellence. These successes are a result of a dedicated and strategic execution. And we will continue our proven track record of effectively managing through the cycle.

In a future of limited growth, our multiyear strategy of transforming the company has prepared us well, and we're confident in our ability to continue to harvest strong returns from a premier asset base. Finally, I'll say thank you again to our employees for their incredible accomplishments and to our investors for their continued commitment to DCP.

With that, we look forward to taking your questions. And Jimmy, please kick us off.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Sighinolfi with Jefferies.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

We've seen a lot of companies cut costs and lead to a significant improvement in operating results, but I think nobody quite like you guys have. So congrats on all the progress made to date on those fronts. If I could, that's kind of where I want to start. Clearly, you've had overarching initiatives for a couple of years with regard to technological adoption, remote facility operation, things of that nature. You did have a cost reduction associated with headcount reduction earlier this year, which you announced. And so I'm just kind of getting -- I guess I want to get a better flavor, given Sean's comment about costs will rise in the back half of the year, as to maybe what were the acute drivers in 2Q that might reverse? You did it because business conditions mandated it and heightened uncertainty and COVID limits, things of that nature. And what of it is sort of a sustainable carryforward effect into, in your mind, sort of a permanent level set for the company?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. Great, Chris. And Sean, I'll tag team, appreciates your comments. Just overall to say, I think it's great when 1,900 people row in the same direction and all that hard work pays often. That's what the employees of DCP Midstream have done here over the last 6 months. And I think you're seeing the results of that.

To your point of cutting costs and what else can you do and what's kind of a sustainable kind of run rate. You heard Sean talk about that. $120 million is what we're looking at for the year. So we feel very strong, you can take that $120 million of cost cutting to the bank. Is there a little bit of shake to that? Yes, there absolutely is. We have $87 million kind of in the first half. And then in the second half, we do see some of the costs kind of come back that were kind of temporary.

So let me give you an example of that. DCP 2.0 transformation. We talk about remote operations. And you know how we have running 20-plus facilities remotely from the 23rd floor here in Denver. Our goal for this year was to get another 15 or 20 facilities remotely operated. And what we decided in the first half and kind of in the March time frame that when you stare kind of a double black swan crisis in the face, what you're doing is you're going to focus on liquidity and saving every penny. So we decided to defer that and move that out and say, let's see how we get through this kind of -- this crisis. So we may start picking up some of those costs again in the back half of the year, investing in the business to make sure that we can continue to have great margins, lower our cost in the future. So that is kind of one thing.

We did things around our workforce. I think that is tremendously sustainable. We always look at, what can we do from a company? How do we make sure, from an operational excellence point of view, reliability, safety, can we run reliable and safely? We have some of the best reliability and safety records in the history of the company here in the last 6 months and the last 2 years. So we believe that we're very prudent there and we can continue to be safe. So overall, yes, there is going to be a little bit of shake, but I think the important thing for you all to know is that $120 million that we kind of talk about of savings year-over-year. We feel very, very strong about that. And we believe that can take in -- the vast, vast majority can be taken into 2021. Sean, do you want to add to that?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

Yes, only a couple of things to add, Chris. We typically are mid- to back-end loaded on overhauls on turnarounds and things of that nature. So my comments earlier really also point to those types of activities that really didn't occur that very -- in very little fashion in the first half of the year; you'll see a lot more of that in the second half of the year. And then Wouter alluded to it, one thing I do want to -- in terms of sustainability of our costs, some of the actions we've taken this year, headcount reductions, various things on efficiencies, things we've learned that we can do differently via the COVID environment and utilizing all of the work that we've done to digitize the company, we'll get a full year benefit of many of those things next year. And we're not getting that -- we're getting a partial year this year. So that -- I'm really excited about that. I mean the headcount reduction, we took that $9 million charge in Q2. But the ongoing annual savings of that, I think we're sort of thinking on a loaded basis is $40 million to $50 million. So you'll see more of that next year. So at the end of the day, a lot of what we're doing is sustainable, definitely some back-end shape this year. Just -- I want to make sure you guys were aware of that. But I'm incredibly pleased with the performance on the efficiencies that the company has been able to deliver.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

That's great. The added color is very helpful. I think maybe following on your comments about the shake for the back half, and Sean, you've noted overhaul turnaround activity in the back half, is sort of a typical cadence. I did notice your -- what you define as maintenance CapEx went up to a midpoint of $85 million. You've only spent 19% of that midpoint number in the first half. So -- and in contrast, you've already spent, I think, above the midpoint on the growth side in the first half. So can you just talk about maybe some of the items that might have shifted around there? And should we just really think about it as an aggregate capital number and sort of dispense with this bifurcation?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

Since we've gone to a free cash flow measure that includes them both, I think I like your recommendation of just putting them both in. But I think -- so since we're focused on that and they both come out of it, probably not as big of a deal, but they don't always link. Most of the projects, if you come off the growth capital where the majority of that has already been spent, most of those projects were front-end loaded. And then obviously, the big project that we pulled off, the $400 million, the Sweeny option, was more back-end loaded or mid to back-end of the year.

On sustaining capital, a couple of things to think through. I mentioned 2 drivers. Obviously, we spent some of that money on overhauls and on turnarounds. Additionally, volumes are down in some key areas, well connects are down. So you would expect product replacement to be down in the first half. We may expect to see some increases there. We'll wait and see. Some producers have given us some outlooks that could require a little more in the back half of the year. There's some environmental spend, Chris, that we're looking at doing in the back end of the year, which would hit sustaining capital. So that's sort of shaping it. And then I think those are the primary drivers. And then Wouter mentioned some transformation costs. We pretty much put it for the most part on hold, you'll see -- and those hit sustaining capital, by the way. You'll see those hit more in the second half of the year as well.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. Maybe, Sean to quickly add on well connects. Obviously, not a lot of well connects in the second quarter. But if you look at our largest customer in the DJ Basin that announced our earnings yesterday, they're going to put a completion crew in here in the third quarter. They expect to grow their DJ volumes. So that will give some well connect capital, which is great. We love that. If you look at our largest customer in Southeast New Mexico that announced their earnings yesterday, they're talking about the drilling that they're doing in the Delaware, in Southeast New Mexico on volumes that are coming our way. So all of that will create some well connect capital. And again, I'm like -- we like well connect capital, especially in the DJ, especially the Permian, because those are our high margin regions.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

That's great. I also appreciate the color there. Final question for me and then I'll hop back in the queue. Is -- the distributions from your own consolidated affiliates were sort of a surprise to us that the strength of that, it's up significantly year-on-year. You do detail that in pretty specific detail in your 10-Q, but feeling impatient this morning, I just want to ask. Was there one of the assets that stood out in terms of cash contribution to you this period that you'd cite?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

Sand Hills. Short answer, Chris, Sand Hills. They had some pretty strong cash distribution. So you remember, the second half -- from a cash perspective, distribution perspective, Q1, there's always tax acts and lowering payments that the assets make. So they're usually a little bit lighter. The assets had a good Q2 performance. I don't want to discount that with going back into recovery mode. The commercial team did a great job of making sure volumes stay on those pipes. But Sand Hills was the driver.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

Was there something there, Sean? Like is that a special one-timer type of distribution we see that from time to time?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

No.

Operator

Our next question comes from Jeremy Tonet with JPMorgan.

Jeremy Bryan Tonet - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Just wanted to get a little bit more color, I guess, on the ethane, I guess, the extraction and how that kind of filled up your volumes there. Just trying to see what's baked into your guide on ethane capture. It feels like we're stuck in the low 20s, so not sure what the economics look like today to extract C2 in the DJ and Permian, but just want to get a sense there on how that influences DCP.

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

So we went into recovery mode in the second half of Q2, as did the industry. So when you look at -- Chris was just asking about the strong cash flows from the pipeline; that was a pleasant surprise from us. Our models -- to be honest, we did not have recovery baked in, in Q2. So that was a definitely a pleasant surprise. Obviously, when we look at those economics, we're -- a couple of things we're factoring in; obviously, the frac spread, the value of gas versus the value of the C2. And then don't forget, we also bake in the value of the transport on pipes like Sand Hills and Southern Hills. So we're in recovery mode; a lot of our third parties that put volumes on our pipelines went into recovery mode. It was a benefiting factor for Q2.

As we sit here today, you asked a little bit about the future outlook. We're still in recovery mode. I think some third parties may have pulled off. I'm not privy to their economics and why they did that. But we're still generally in recovery mode. You may have heard our comments; we expect based on future frac spread to potentially go back into rejection in Q4. If we end up not doing that and ethane stays strong and gas doesn't strengthen as much as the forward says it will, that would be a tailwind for the company. That would be upside potentially because the pipelines would get some additional volumes. But as we sit here right now, I think we're thinking Q3 recovery, Q4 potential to go back into rejection.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. So I think, Jeremy, I'm wanting to add to what Sean is saying. I think we have a relatively conservative assumption in our outlook for the second half, where we will see the volumes on the pipes go down a little bit because of the lack of ethane recovery. At the same time, and you mentioned kind of where we're sitting from a pricing point of view, ethane is hanging at $0.22, net gas is at $2.25. So what's really interesting here is if you look at what our price forecast is for the second half, we have net gas at $195 million. So we're 15% above that. We have NGLs at $0.40 -- we're at

$0.46 NGLs. We have $40 crude in our forecast. We're at $42.5. So the thing is very, very strong demands for ethane right now. I like one thing that COVID-19 has brought us is actually a significant increase of single-use plastics and ethane as a feedstock for that.

So 1 of 2 things is going to happen. It's either gas is coming down if ethane stays the same, or ethane prices have to start running with net gas to make sure that all of us are staying in recovery. If the latter happens, that is kind of a 3x good guy for us. We benefit from higher gas prices. We benefit from higher ethane prices. And we benefit from higher volumes on our pipeline. So that's obviously the scenario that we're rooting for, but it's not what we have baked into our plan for the second half and trying to be conservative and saying, hey, we're just looking at what the strip is telling us right now and that's what we're putting in.

Jeremy Bryan Tonet - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Got it. That's very helpful. And it's been a very volatile year so far, but it seems that things are settling out a bit here. You guys brought back your guidance. Seems like producers, I think, have settled out in their plans a bit. And I appreciate -- I might be getting a bit ahead of myself here. But just wondering, any preliminary thoughts as you think about 2021 trajectory and trends relative to the back half of 20 -- any early thoughts you could share here?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

I think we'll talk on that, and I appreciate you saying very volatile. I think that probably -- will be the understatement of the day. It's been definitely -- it's been pretty crazy, obviously. Again, I think what 1,900 people at this company have done to kind of work ourselves through that is really, really monumental. But yes, it feels like a little bit more calm, even though the environment is still pretty rapidly changing every single day.

But as it pertains to 2021, Mike (sic) [Jeremy], we're going to give guidance in February. So we're not going to give you an awful lot here. You heard me say and Sean say that we believe we will be significantly free cash flow positive in 2021 as well. So I think that's going to be a pretty good outcome. This company can throw off a lot of cash. You're seeing that right now. And when we're not spending an enormous amount on building infrastructure, that means there is significant cash leftover to delever the company, and that's really our primary focus. And we feel very good about that in 2021.

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

A couple of things to add. The outlook does feel pretty strong right now, but we've got some good tailwinds. You've got a full -- Cheyenne Connector just came online. You've got those earnings as you think about 2021. Wouter alluded to in his comments, the growth capital, we took our -- we went down 400, but still somewhere in that high range of $190 million. I anticipate that to be lower next year. So you've got some benefits there. I mentioned earlier, Jeremy, that you're going to get a full year of headcount savings. That's not small, $40 million to $50 million annually. We didn't see all that benefit this year. So we've got a lot of good things for the company going into next year that I think could set us up quite well. Obviously, we'll give you a full detail, as Wouter alluded to, in February.

Operator

And our next question comes from Tristan Richardson with Truist Securities.

Tristan James Richardson - *Truist Securities, Inc., Research Division - VP*

Just quick question on -- you mentioned in prepared comments around sort of optimizing netback to customers. I mean curious -- you talk a little bit about that, like what does that primarily look like? Is it incentivizing volumes on fee? Or some of these temporary arrangements or some of this more kind of a permanent blend and extend type as we think about fees beyond just 2020?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. I think you should really think about some things that you can do in the short term. Obviously, things are really difficult for everyone. But producers have difficult times, producers made choices around shutting in. And most producers have had a choice and can say, "I can shut something in over here that maybe goes to midstream service provider A, or I can shut something in that goes to midstream service provider B." And what we did -- and our strategy has always been here, for the last number of years, to make the company a fully integrated midstream service provider, which means severe clipping coupons all the way from the wellhead to the market center. And when you do that, you have an opportunity to go back to your customer and say, "I can help you here on a short-term basis. I can make things a little bit more attractive for you for the next couple of months so you stay on our system and maybe you take your volumes off midstream service provider B." And that's kind of the type of arrangements that we did with our customers. Incentivize them to stay on our system. That means we may have given them a discount somewhere along the value chain. But what you're doing is you're creating a win-win. And like your customer who's having a difficult, difficult time, you're helping them out. It's a win for DCP midstream because we continue to keep the volumes on our system. And I think it also creates a longer-term win with your customer. But when times are tough and you're there to help your customer, people tend to remember that. So that's the type of arrangement that we have done. And then we kind of go back to the normal when normal happens. And the good thing is the margin impact is not enormous. And you'd see that in like our second quarter margin was great, and our earnings were great, and our profitability was very strong. So it's just one of the right things to do in an environment that is pretty tough.

Tristan James Richardson - *Truist Securities, Inc., Research Division - VP*

Helpful. And then maybe just on the other side of that coin, with -- on the downside in terms of revenue floor protections. Is there a dollar number on how to think about how revenue floors kicked in just during all the disruption we saw in 2Q?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

So we have in a variety of places, we have minimum volume commitments and other stuff. And we've never really hit those. So people were always above their minimum volume commitments everywhere throughout our system, be it on the G&P side or the logistics and marketing side. So we've never had any issues there.

Operator

Our next question comes from Spiro Dounis with Crédit Suisse.

Spiro Michael Dounis - *Crédit Suisse AG, Research Division - Director*

Sean, first one for you just on deleveraging. It sounds like it's still very much a priority, but maybe some of the pressure's come off here a bit. So just curious, can you walk through what the plan is now and maybe how aggressively you plan on approaching it? I guess is there an appetite to buy back debt or preferreds? Are you looking at asset sales? And then can you take external capital or even a second distribution cut off the table at this point?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

Yes. I'll try and hit those in sequence, and maybe I'll let Wouter chime in at the end. But in terms of -- I think you're picking up on it exactly right. I mean our focus is to delever -- we were able to -- I was incredibly pleased that we took our leverage ratio down from Q1. That is amazing, from 4.1 to 4.0. Sets us up. We're in a really good position. As you guys all know, we have the 5.0 covenant. We're a full turn away from there. We added this cash -- free cash flow measure so people can see how much are we generating. Again, our priority is to delever with that cash flow. And I think that can be -- that can happen relatively quickly and be pretty substantial over the next 18 months, 12 months, 2 years. And that is a primary goal of this company is to continue to utilize that free cash flow to delever, set the company up well. Wouter used a keyword, harvest. We've invested over the last half decade a lot in our assets. We don't feel like we have to spend a lot more, and we've set ourselves up quite well to continue to harvest and do those types of things. I want to be clear, we're targeting 3.5. We're sitting at 4.0. I would really like to get the company down to 3.5 on the bank metric. I think that gives us a lot of flexibility. Let's face it. We're in an industry that's going to have some downturns, ups and downs; at 3.5 I think that sets us up quite well. It also brings our rating agency metrics down considerably, maybe even half to a full turn. I think that goes a long way with the RA. So clearly, a focus of the company over the future. We definitely are focused on delevering.

In terms of distribution -- and obviously, once we get to that 3.5, and I'll hand it over to Wouter in a minute, but there's various things we can do. You can buy back debt. You can buy back shares, you can, at some point, potentially, reinvest in some limited growth projects that come our way. And of course, you can always, at some point down the road when we get leverage where we want to be potentially raise the distribution. I'm going to hit the buyback real quick. We were very focused on liquidity coming into this year -- or coming into this quarter with terrific job by our treasury team to get that $500 million deal off. Puts us -- sets us up massively well on liquidity. We will grow our liquidity -- if you're looking into the future, we have a $500 million maturity in September next year. We're going to be in phenomenal shape if we need to put that on the revolver, and we'll still be $1 billion plus on that. So there are opportunities right now. All the debt that I've looked at is trading at a premium, so not a lot of opportunity. But nothing's off the table. I'll let Wouter talk about long-term distribution policy.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. Tristan (sic) [Spiro], I think Sean hit most of it. I think one of the things you asked is say, would you buy back preferred? Wouldn't buy back -- or sorry, Spiro, wouldn't buy back preferred because you get equity treatment on that. So that actually doesn't help you or help your leverage. But I think as it comes to what is the distribution policy. In March, we tried to have a very balanced approach of taking growth capital off the table, looking at our distribution policy, looking at our balance sheet, and trying to kind of make sure that between all of our stakeholders, we're doing the right thing, i.e. we're freeing up capital so we can start delevering the company. We are still keeping a distribution in place. So our long-term equity holders that value that distribution, they still get a distribution and then take kind of some growth capital off the table. If I look at kind of where we are here in the next kind of 6, 12, 18, 24 months, every model that I'm staring at, and some of them are pretty bearish models, we're good from a leverage point of view. We're not coming to any kind of -- close to any type of issues around leverage. And I think what we do -- are significantly free cash flow positive. We're going to use that cash to delever the company. And after that, and maybe if it's next year or 2022, we should have this company to that kind of 3.5x, what Sean was talking about. By that time, this continues to be the cash machine still, throwing off a lot of cash and we can decide what we want to do at that very moment. But right now, I don't look at anything that says there's another distribution cut in the works.

Spiro Michael Dounis - *Crédit Suisse AG, Research Division - Director*

Got it. That's helpful. Second question is just how you're thinking about 2021 CapEx. Specifically, I think last quarter, you sort of talked about the range of $50 million to $150 million. And it sounds like that was mostly producer-activity driven. So just curious, it sounds like overall activity is faring a little bit better. Curious if you're steeling to either side of that range at this point?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

I think, Spiro, I think on the growth capital side, we'll still -- I think we gave guidance that we'd probably be at the low end of that range. Or -- we gave you an outlook. I shouldn't use the word guidance. Then I think we'll be at the low end of that range on the growth. Sustaining capital you could see go up a little bit. You see product replacement coming in, you see a little more activity. The industry dampened and volumes have come off since '19. So until we get back to that level of getting the volumes back to flat, everything will be mostly sustaining really for a while. So I think your thought process is right, more sustaining potentially, but I don't see a big tick in growth capital.

Operator

And our next question comes from Shneur Gershuni with UBS.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Wouter, maybe I wanted to follow-up first on one of the questions that Spiro just asked in terms of your response. Is there no appetite at all to go after any of the preferreds or junior sub notes? I mean I get that you get equity credit for it, I think 50% percent. But is there a yield level where it's high enough where it's kind of worth it because you -- you're able to effectively get the same credit back within a year or 2, basically just because of how you improved your EBITDA to cash conversion ratio?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. So I'll let Sean kind of go through that. Obviously, Shneur, we're looking at this kind of stuff every single day and say, what can you optimize? But you also get 100% bank credit for it. So Sean, maybe you take it.

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

I mean you're getting 100 -- 50% from the RA, Shneur, 100% on the bank equity treatment. So that's very, very advantageous. Look, every time, when the debt was trading at a discount, when the press were trading at a discount, we looked at it pretty hard, obviously, liquidity at that point until we got out and got that phenomenal debt transaction done, liquidity is king. I would tell you, Shneur, liquidity is still king. I think we have -- we were performing very, very well. There's still -- COVID -- the second half of the year, we're still seeing some COVID implications. Those could continue. I want to stay focused on liquidity. We are delevering with free cash flow. I know some of these other things could help us delever and generate some cash a little more. But I'm going to focus on making sure we have liquidity. That September seems like forever from now, but that September maturity, I want to make sure the company is in great shape. That if we had to, hopefully, we don't, Shneur, put that on the revolver. But as I said, we want to set the company up that if we had to, we'd still have over $1 billion of liquidity, set ourselves up well. And again, it's really hard to get over that 100% equity treatment on the bank.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

I think, Shneur, I think Sean said it really well. I think it's a bit of a balance, okay? So is there a way that you can potentially arbitrage buying some of that back? Yes, there is. But what are you going to say? If you're going to maybe $10 million, maybe $20 million or so. And that's not immaterial, and that's good. But the flip side is, do you want to have liquidity? And if there's something you want to prioritize and say, "Hey, I want to have plenty of liquidity in a world that is still pretty darn uncertain," or "I want to go after being kind of greedy and try to save $10 million or $20 million," guess what? I know what I take. I'll take liquidity any single day of the week. So that's kind of how we're looking at it. And you know what? Who knows where we are in 3 months from now, 6 months from now, 9 months from now. Things can change, things can look better. And we'll obviously look at things and be trying to figure out how you can arbitrage something, but liquidity continues to be king.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay. Fair enough. I just kind of wanted to understand that. So my 2 questions actually were -- I know that you guys are big data folks. Given the fact that we had a pause in capital spend during the second quarter, you had wells that went offline, and you have wells that came back online. Are you able to share with us an updated view on what the decline rate looks like? Is it actually trending better than you would have previously thought? Worse? Just any color that you can give us just based on the data because of the pause in capital spend that it's a unique opportunity to take a look at it?

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Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

Yes. I think there's a couple of ways to look at it, Shneur. And we alluded to it a little bit. The models that we had and we are -- the data that we had showed bigger declines, obviously. You look at the -- it was a big driver on the G&P side. Even though volumes are down, they're not down anywhere near what we had anticipated and obviously, what many of you had anticipated. Couple drivers to that, and then we'll talk about natural declines. But the shut ins, again, were not as severe, not as -- and the duration was much shorter than we anticipated. That was a great thing. The other thing that we saw, and I think it's an interesting point, the diversity of our portfolio, we have these assets in the Eagle Ford and the DJ and the Delaware, in the SCOOP/STACK. What we saw is some declines that did come in at the levels we might have anticipated in areas like the Eagle Ford, the Mid-Continent. But because of the strong economics in the Delaware, Wouter talked about this earlier, the strong economics in the DJ, we actually were pleasantly surprised. We did not see the volume declines to the levels that we had anticipated. So shut-ins were, again, not as deep, not as long in duration. In terms of natural declines and the outlook there, I think we gave you some guidance that we actually expect second half of the year G&P volumes to be slightly up versus first half. Again, that's going to vary by region. I think those 2 regions I mentioned there will do better than Mid-Continent and Eagle Ford. But the diversity of this portfolio has helped us weather this, the ability for price to come back a little bit sooner. I mean these prices are not what I'd call high, but they're much stronger than I think people anticipated 2 months ago, has kept the producers, kept their breakevens in line and kept our outlook a little bit better. And again, listening to their calls this week and last week, the outlook appears to be a little bit better than what we would have thought just a little while ago. So that's kind of how we're thinking about the volume profile and what we saw in Q2 and what we'll see the remainder of the year.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay. Now that's great. And then maybe one final question, just to go back to the whole ethane discussion. In some of your responses, I think it was both to Chris and to Jeremy, you sort of talked about the ethane recovery. I think at one point, you had said that you are expecting a reversion to projection in the fourth quarter. At the same time, you talked about the pricing impact. How much of your guidance uplift is specifically about the stronger ethane recovery number versus price? Like to separate out price, separate out the cost improvements that you've done, how much is specifically about a better-than-expected ethane recovery angle?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

So far, it was great to see, Shneur, it happened late in Q2. And obviously, we're expecting some of that in Q3. It's not a huge driver. I think when you really think about what is -- what put this company back to be able to reissue the guidance, it's the self help. It's the way the company has executed. Hopefully, it's come across from Wouter and I that we're incredibly thankful to how the 1,900 employees at this company are delivering on the cost, on the efficiencies. The assets are running really well. They're running the safest they've ever been. I wouldn't -- I mean it's great, I love that we're in recovery mode. Didn't see it coming, didn't have it in our models. It is not in the top 2 drivers of why we feel comfortable reissuing guidance, but I'll take it.

Operator

Our next question comes from James Carreker with U.S. Capital Advisors.

James Eugene Carreker - *U.S. Capital Advisors LLC, Research Division - Executive Director*

Congrats again on the quarter. If I could just ask a question about the reinstated EBITDA guidance. It looks like you're targeting the low end of that. And just given 6 months of actuals, just wondering if you had given any thought to kind of revising that. Should we think about the low end as the midpoint? And is the upper end of that achievable? Or what would you need to see to get kind of towards -- to the mid or to the higher side of that?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream GP, LLC*

I think, one, the company is heavily focused on cash flow. That's why we added the free cash flow measure, not that EBITDA does -- I mean the 2 share a lot of commonalities. But all the negatives are hitting EBITDA. They're also hitting DCF, the volume declines. The fact that price -- we're happy, you heard Wouter say prices are better than we thought. The spot is better than our guidance, but there's still nowhere near where prices were last year. Those things are adversely affecting EBITDA and DCF. Why we went to the low end on the EBITDA is if you think about some of the levers that we pulled, cash levers, they do not -- they're not embedded in the EBITDA calculation. All the sustaining capital work that we've been able to do and the efficiencies there benefit DCF. I'll take it all day long, benefit free cash flow, take it all day long. The reductions in our growth capital, ultimately, in the short run, really are more of a cash metric. They're not going to affect DCF -- or I'm sorry, EBITDA immediately.

So that's why we feel so comfortable on the DCF being back to the middle of the range. We guided towards the lower end on EBITDA. A lot -- certain self-help measures are really just helping DCF. They're not helping EBITDA. But we gave you also some tailwinds that could help us get to the midpoint of the range on EBITDA, and we'll continue to monitor those. So far into Q3, we're seeing some pretty good things. But that's why you see the difference. More cash focused, helping DCF, not always impacting EBITDA in the calculation.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. James, Wouter here, and there's still a lot of uncertainty. There's still a lot of volatility. And like we're -- we don't really know what's going to happen with COVID-19. And if something going to happen here in the second half of the year. Rigs are down fairly significantly. So how do you plan for that? I think planning for the worst, hoping for the fastest -- the right strategy to take here. Commodity is pretty strong right now. If you look at kind of what we have in our outlook for the second half, we're probably trading 15% up or so on commodity around NGL, around gas and oil. We have ethane rejection. We have that modeled in for the second half of the year. So there is a lot of different things that can kind of continue to shape and shift things here in the second half. July looks really good. We're very pleased to see July volumes and kind of how the cost and our stuff is coming in. So I think the company continues to be on a really, really good trend. At the same time, I'm a big believer in you plan for the worst, you hope for the best. That's what we're doing here. And there's still a decent amount of uncertainty.

James Eugene Carreker - *U.S. Capital Advisors LLC, Research Division - Executive Director*

Yes. And I guess, just to ask another way, if you're initiating this new range and expecting to come into low end, I mean in your conservative outlook, I mean -- and maybe there's some headwinds and some uncertainty, do you still feel comfortable with the ability to hit the low end of that guidance?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

We obviously do. That's why we -- we're very comfortable around that. So yes, I can't sit here and unfortunately don't have a crystal ball kind of say, "Hey, what are things going to look like on January 5 when Sean collects all the numbers?" But yes, we are with what we're looking at here today with the assumptions that we have given you, with knowing that, hey, there is still a lot of uncertainty. We're very comfortable with what we've given you here. That's why we decided to reinstate it. Still knowing that there's a lot of ins and outs that could happen here over the next 5 months.

James Eugene Carreker - *U.S. Capital Advisors LLC, Research Division - Executive Director*

And then I guess just thinking about the recovery broadly and NGL volumes kind of holding in, maybe a little bit better than we expected, maybe better than you expected. At what point does that Sweeny frac option come back on the table for you guys? Is it something that you still have available? Or has it been completely written off? Or kind of -- are there some goalposts that you need to see and where that -- that comes back on the table as a potential investment?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Yes. So yes, we kind of said that we were not going to exercise the option. At the same time between Phillips 66 and between us, I think we both agreed that strategically, it makes tremendous sense for us to own part of the Sweeny complex. So we've had those discussions between ourselves and Phillips. I think we have alignment around that, that strategically just makes a lot of sense. We are the largest raw mix provider into Sweeny. So that makes, I think, combining strategically something -- between the 2 of us makes a tremendous amount of sense. At the same time, here over the last 3 months, we haven't had any detailed discussions about what we would do, when we would do it. The agreement we have with Phillips 66 on delivering raw mix into Sweeny 2 and 3 is a pretty long-term agreement. So we have time, I think, when all the stars align, to say, "Hey, maybe we should do that again." So I think we'll pick up those discussions when the time is right.

James Eugene Carreker - *U.S. Capital Advisors LLC, Research Division - Executive Director*

And if I could fit one more in real quick. I was wondering if you guys have ever quantified exactly how much of your Permian position is exposed to federal lands, if something were to happen with the election and that there becomes some sort of drilling moratorium or something. Do you guys have that number off the top of your head?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream GP, LLC*

Well, we do have quite a lot of detail around that. I think just first to talk about this. Our portfolio has very limited federal land exposure. The vast majority of our portfolio is on private land in all the states that we're doing business. The largest exposure would be in Southeast New Mexico. I think it has been very clear for everyone that if something would happen and you would get a moratorium on fracking on federal lands, you can't put that in on a retroactive basis. So the amount of land that our largest service provider -- our largest producers have in Southeast New Mexico is very, very significant. And there's no -- there's no scenario under which they cannot continue to develop that for the next 10-plus years or so. So I think that is kind of the key item here.

I think the other thing that I always kind of try to point out to people is, yes, that could be a potential negative that sits over the industry. At the same time, there could be a kind of corollary positive to that as well. And what is happening to prices when that is going to happen. I would think prices are probably going up and you would probably benefit from that. So absolutely, no short-term exposure for us. This is probably something that will be a long, long time away. The other thing is that the vast, vast majority of the portfolio is all on private land.

Sarah Sandberg - *DCP Midstream, LP - Senior Director of Communications & Public Affairs*

Those are all of our questions in the queue. I want to thank you for joining us today. And if you have any follow-up questions, please don't hesitate to give me a call. Have a good day.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude your program, and you may now disconnect.
