Ken Hoexter: ...enjoyed lunch. I thought a really interesting insight and presentation from some of the regulators and legislative perspective. So next up we've to Kirby Corp. David Grzebinski, the President and CEO, are here along with Andy Smith, the Chief Financial Officer. In the audience you've got Sterling Adlakha from Investor Relations. David has served as President and CEO of Kirby since April, 2014 so just passed your two year anniversary. Congratulations. He has served as CEO since 2014 and CFO from 2010 up until that point. So I believe you're going to open it up with a couple minutes of opening remarks and then we'll bring him back and put him in the hot seat with him and Andy and we'll do some Q&A.

David: Great. I was just going to flip through a couple quick slides. We'll go real quick through it since most everybody knows a good bit about the story. We'll just start. Market cap is about $3.4 billion. We are the largest marine transportation public company in the space. We participate in the inland barge market and the coastwise barge market but we also have a diesel engine services business. I'll get into a little more detail on each one of these. We are a consolidator in both these industries having done approximately 50 acquisitions over the years.

This is a list of our acquisitions in the marine transportation space. We just completed an acquisition in April of the Seacor 30,000 barrel barge fleet. You can see it listed there on the bottom. This is the diesel engine space. We've done a number of acquisitions there as well. Many of these names you won't recognize.

Our historical revenue growth over the years, you can see it's self-explanatory. Also, EPS growth until recently has been pretty good. We're struggling a little bit here lately due to the market turn, which I'll talk about in a bit.

Moving into the marine transportation space, a little more detail here, we operate on the inland side on the Mississippi River system. It's the yellow lines. And then the intercoastal waterway, which is the red line. But on the coastwise side we operate the East Coast, West Coast, Gulf Coast and Alaska and Hawaii. We are principally in the United States.

We are in the liquid side of the business. There's a much larger dry cargo side. We operate about -- well, there are about 3,900 barges in the liquid side and about 18,000 on the dry cargo side. We tend to stay in the liquid side. We do benefit from the Jones Act, which we can talk about if you'd like. But it requires that any move of cargo from one US port to another US port is done in a US built vessel, a US owned vessel and a US crude vessel and we fit all of those with our fleet.

The products that we move, about 50 percent of what we move is petrochemicals. But we also move black oil products and refined products as well as some ag chemicals. You can see the breakdown there. Safety is important given who we move things for and the cargos we move. Many of them are hazardous. So we have a very strong emphasis on safety.

Digging into the inland tank barge market a little more, this is the inland tank barge fleet. As I said, there's about 3,900. You'll see since 2011 the fleet's grown quite a bit. A lot of that growth was fueled by the crude moved by barges. Now that has tapered off and in effect many of those barges are being returned out of crude service and put into other service, whether it's chemicals or refined products and that is what's put some downward pressure on pricing for our industry over the last 18 months or so.

This is the age profile of the fleet. You'll see that there's a number of barges that are 30 years or older. That's usually the useful life of a barge is around 30 years, 35 years. So we do have some obsolescence that will take some capacity out of the fleet and particularly in this time of the market where we've had a little pricing pressure it's a good time for older equipment to retire.

Asset utilization, we have the largest fleet so we're able to have barges in the right position with the right prior cargo for many of our customers. So our large fleet is an advantage. We also have a large towboat fleet and a good portion of that towboat fleet, about a third, is chartered in so that we can flex up and down to keep our towboat utilization high and release chartered in boats when we're not as busy.

This is the composition of the fleet. You can see that the vast majority of the fleet is in what we call clean service, which would be refined products in petrochemicals. But we also have barges that are specialized that move black oil where they're heated or pressure barges where they can contain stuff under pressure. And then you see a few other specialty barges there at the bottom.

This is a list of our competitors. You can see we're at the top. We're over twice our nearest competitor. Anybody on this list would be somebody we'd be willing to acquire, and as Andy will share with you, have the financial horsepower to do so. It's just a matter of being able to get something done at a reasonable price. But this is our competitive landscape here.

In the coastwise market you'll see there's a picture of a coastwise barge, they're much larger than the inland barge and they're more expensive. Our fleet consists of about 70 barges. We are adding to it. We've got four barges under construction right now. I guess three because one just got delivered here last week. But we're adding a little bit to our coastwise capacity.

This is the age profile of the coastwise fleet. You can see that there is a good portion of these fleets, about 45 of the barges are 30 years or older and they need to retire. On a base of about 270 barges that's a good portion that needs to retire. That's a good fact for our business going forward. This is a list of our competitors. You can see that it's a smaller list than the inland side, about 15 different competitors.

Diesel engine services, we're in basically three parts. We repair diesel engines on marine vessels. That's the biggest piece right now. The marine business is about 42 percent, 43 percent of our business. We also repair and build frac(?) spreads and the diesel engines around those. And then we have a smaller business, the power generation, where we make backup power generation equipment for nuclear plants and other industrial uses.

These are the types of engines that we work on. Some of the names you'll be familiar with, some of them you won't. But it's the typical ones you would expect, Cat, Cummins, MTU, Detroit Diesel, John Deere, etcetera.

We are in the land-based oil services market so we have been impacted recently as you've seen as pressure pumpers and A&P companies have been under pressure. This is the pressure pumping market and its size. There's roughly 19 million horsepower out there. Those are all engines and transmissions that we can repair. Frankly we think about half the fleet is in disrepair right now so that that could be some future business for us. But I will say this. Currently our diesel engine land-based business is basically under stress and we're losing money in that business. But we do expect that at some point it will come back.

The outlook: I'm going to turn the outlook and the financial slides over to Andy.

Andy: Sure. Thanks. 2016 guidance, we have issued second quarter guidance of $0.65 to $0.75 per share, full 2016 guidance of $2.80 to $3.20 per share. Financial highlights: Again in the first quarter we did $0.71 per share. That included a $0.06 charge for severance for a reduction in force that we executed in the first quarter.

You can see our operating margins have been pretty consistent, certainly within the marine space, even through the last downturn if you can look there in the 2009-2010 timeframe. We were able to maintain our margins, largely by the way that we manage our horsepower fleet, which we charter in about a third of our N1(?) horsepower fleet. So as our utilization falls we're able to give that fleet back to the charter owners and offset our costs. You've seen it come down a little bit here over the last 18 months. Again, mostly pricing. And then the sharp drop you see in the diesel engine services is really the oil field service downturn in our land-based business.

EBITDA per share growth, obviously we've thrown off a lot of kind of the proxy for cash flow on a per share basis going back over 20 years. You can see our cash from operations has always exceeded our capital expenditures. We have a capex guidance this year of $230 to $250 million. That's higher than our ordinary maintenance capex. That's because of these large offshore units that we're building. I would look for that number to fall as we go forward absent any new plan to build new equipment. And we would expect our cash from operations to well exceed that this year as well.

Debt to total cap: We are at the end of I guess the first quarter 23.5 percent debt to total cap. That's before we spent $88 million on the acquisition of 27 30,000 barrel tank barges from Seacor. The number has jumped up a little bit but it's right around the 24-25 percent range. Again, we try to keep our balance sheet in very good shape because we like to be opportunistic with our acquisitions.

Financial strength: We do have $500 million in private placement debt outstanding. $150 million matures in 2020, $350 in 2023. We have a $550 million revolver. It's at LIBOR plus one. And again, at March 31st we had $212 million outstanding on it. We did bump that up a little bit with the acquisition of the Seacor assets.

Again, Kirby, very long-term track record of success. We've grown very well via M&A and have executed very well over the years. Marine transportation, we are certainly well-positioned or one of the largest in terms of market share in both of our industries, both inland and coastwise. Diesel engine services, while the inland is depressed or the land-based is depressed right now, certainly the signs are that we should see a recovery in some pressure pumping over the near to intermediate term and that business should recover pretty well.

With that, I guess we'll turn it over to Q&A.

Ken: Thanks, Andy. Thanks, David. You know what? I guess we'll go back to the end of last quarter, David. On the call your commentary maybe seemed to be a bit more optimistic on the inland market business and I guess maybe I'm talking more specific on pricing in terms of maybe finding that stabilization point or floor.

Maybe you want to talk a little bit about that and is that because oil is stabilized so you're not seeing any more conversion? Because volumes were still down double digits on the inland barge side. I'm talking more specific to the inland barge side.

David: Sure. Yeah, to your point, ton miles we're down about 10 percent to sequentially and year-over-year if you look at ton miles. But you've got to be careful looking at ton miles because we can be not moving in the Houston Harbor waiting on dock space and still getting paid and not generating any ton miles whereas we were moving crude down the Mississippi from up in the Utica and that's a lot of ton miles. So what you saw in ton miles is principally because the crude volumes have fallen off we're not generating as many long moves of crude down the Ohio and Mississippi River system. But we're still staying fairly business. Our utilization of our fleet has stayed busy, kind of in that 90 percent range. And a lot of that is in the Gulf Coast where there's not a lot of ton miles. So that's part of the volume question, the answer to the volume question.

But as we look through the quarter, we did see pricing was down for us in the quarter on the inland side. We said it was down about mid-single digits. But in April we saw on the spot market, the low end of the spot market, we saw that firm up a little bit and come back up towards contract pricing, which is good. But as you know in pricing, when spot's below contract that's not necessarily a good situation and to see it firm up a little bit in April was nice to see. But I would caution everybody that that's a data point of one and it's hard to extrapolate. And the reason we'd be a little cautious here is there's still a lot of volatility in the market in terms of our end customers as they deal with the volatility in the crude prices and other commodity prices.

But as we look at supply and demand, we're very close or getting closer to being in balance on the inland side because the number of crude barges. At the peak there were about 550 barges moving crude. At the end of last year, the end of '15 it was down to about 175 and then at the end of the first quarter it was about 175 as well. So it looks like the number of crude barges being returned has stabilized. And other volumes, for example, petrochemical volumes are starting to pick up a little bit. So we're closer to balanced than we have been in a while and that could be a positive.

Now whether we start to get pricing on a sustained basis or not, we'll see. It could take a while. It could be into next year even. But the signs are looking like we're close to balance than we have been in a while.

Ken: So balance, would that be more a factor of some of the liquid barges having been taken out of -- you talked about the retirement of some of the older fleet or is that a factor of kind of, I don't know, end market demand, just because everything we hear on the consumer side just remains extremely weak. So I just wonder or is that more manufacturing picking up? Where are you seeing that in demand?

David: Well, we have remained busy around 90 percent utilized and typically in our business when you're above 85 percent utilized and the customers believe you're going to be there for a while you get pricing increases. Paradoxically we've had pricing declines over the last 18 months while we've been fairly utilized. And the reason we believe that is is these crude barges coming back into the market have put downward pricing pressure.

Now what we think is tightening up supply and demand is the new petrochemical problems coming on. Two methanol plants have come on just recently. We're seeing a little better refined products volumes out there. And then as you look at retirements, I know for our fleet is the only one we know definitively. This year we are going to build seven new barges and retire 34. So we've got a net down of barges and if the rest of the industry is somewhat like that and the new build number is in check it should help keep supply in check and maybe even take a little supply out whereas we get a little bit of demand coming from petrochemicals and other things it could help tighten it back to where even though we're at 90 percent the customers start worrying about the barge availability and that's what really drives the pricing up.

Ken: So just on that build seven, retire 34, strictly inland?

David: That's just Kirby inland. Correct.

Ken: Okay. Talking about the demand side there or, yeah, the demand side, you talked about the two petrochem plants and two methanol plants. There was this kind of hundred billion wave of chemical plant forecasted production that was going to be built. I guess now we've heard more of $50 billion worth of number of plants, facilities actually progressing. How does this impact Kirby's business? Is it can you even tell yet what's going to come import/export of the either? What is going to create more liquid demand?

David: Yeah. The short answer is no, we don't know yet. What we do know is that some of the plants that are going to get built are just ethylene plants and they'll go straight to polyethylene. That would have very little impact on Kirby at all. There would be almost no barge moves associated with that.

Now some of the other plants will have downstream byproducts coming off of them. They'll go maybe into some of the other chemicals. That could have significant barge movements. The issue is we don't know all the downstream plants that are being planned or built. We get some indication from some of our customers but it's really hard to pinpoint exactly the number of barges that could end up being needed for the petrochemical account(?). But to your point, some of it won't have barge moves. Others may go straight to export and that wouldn't necessarily have barge demand.

Now what I will say is this. The more volumes on the system usually does lead to a better environment for us because all plants tend to have logistics issues here or there and tankage gets full or there's an upset in the plant or there's a turnaround. So just larger volumes in general, whether it's export or not or for domestic use is generally a good thing for us because our business really is a logistics business and when logistics get complicated that's where barging can help.

Ken: So have any of those projects that were kind of under construction, are they delayed, canceled, anything that was in that first wave?

David: We've heard, well we've heard one that was canceled, one methanol plant. I think it was with Valero that was canceled or never even really started. We heard Sass(?) Oil, they have a big $8 billion facility I think in Lake Charles that they're slowing down a little bit some portions of it. I haven't heard of many outright cancellations. There may be some that were on the drawing board that haven't started that won't get started. But we track them and in our IR presentation you can see that Sterling tracks every announcement. And I'd say a good 65 percent of them have broken ground. So I think if they've broken ground there's a reasonable likelihood that they'll go through to completion.

Ken: And you would expect those to start coming online end of this year, beginning of next year?

David: I think the vast majority are planned to come on in '17 if you use ethylene as the product. If you look at the ethylene predictions, a good bump up in '17 is when they're expected.

Ken: So would you then -- again, it's tough to forecast what the demand is going to be if you figure out the domestic moves, international moves. When do you need to start getting the barges on order to prep for an increase in demand? Or do you chew up that five percent excess capacity and then you say, okay, well obviously now we've got to push the ...

David: Yeah, I think it's the latter. Look, you can go to Trinity or a couple of the other inland barge manufacturers and probably get new barges within six months particularly in this environment. But I think they'll soak up the excess capacity first and then we'll start seeing maybe some need to build some. We'll see.

In terms of growth the way we like to think about it is the volumes of the products we move usually grow at GDP. So this chemical build out may add GDP plus a couple percent. It could be even more than a couple percent. It could be two to five percent. We're not sure. It just depends. But it's going to be GDP plus something is the way I like to think about it.

Ken: Was the purchase of Seacor's fleet in response to that anticipated increase in demand? Was that opportunistic?

David: I would call it more opportunistic. We like to consolidate the industry. Putting barges into our system we get the synergies are pretty quick because we don't add a lot of infrastructure when we add new barges. It's literally renumbering the barges into our computer system and letting our sales corp start selling them.

Ken: Utilization, do you expect that to shift much from that in the near-term? I guess that 90-ish, low 90s percent range?

David: It's hard to say. Utilization has bounced around a little bit. It's not been as steady as you would hope. But we saw it in the first quarter. We saw it in the 90 percent range. The fourth quarter we saw it dip down into the high 80s for a while. I think as long as we have volatility in the commodity prices we'll see some volatility in utilization. But right now we're still fairly well-utilized right around that 90 percent number plus or minus a little bit.

Ken: It sounds like you're fairly encouraged compared to what you've been going through on the reduction of your estimates in terms of being more balanced or approaching that balance.

David: Well, I think we're more encouraged about the not too distant future being closer to balanced on the inland side. I think when you look at the diesel engine side that was principally the reason for our reduction in guidance is land-based...

Ken: Before we get to diesel, let's go to the coastwise side.

David: Yes. Coastal is a little different in terms of supply and demand. There's, as you saw on the slides, about 45 barges that are 30 years or older. They need to come out. Now what's happening though is there are 20 new builds coming in. And it's the timing of the new builds coming in and the older equipment going out that's putting a little more pressure on us I think. We've talked about this on the call. You'll see a little more spot exposure.

We've gone from about 95 percent contracted at its peak. Now we're probably in the high 70s, 78 percent contracted and that puts pressure on earnings because in between spot moves it's there's costs associated with it. But also with the customers taking a position that they'll take the chance in the spot market, generally it's not a very positive thing in terms of pricing and we said on the call pricing had kind of leveled out there. All through last year on the coastwise side we saw pricing increases and we had pricing increases in the first quarter but that was more about a legacy contract that rolled over, a couple legacy contracts that were off market and coming up. If you took out kind of that catch-up I would say pricing was kind of flattish to down very slightly in the first quarter on the coastwise business.

I do think given the number of barges that will come out of that business, 45 need to come out and 20 coming in over the next couple of years, it's all about the timing of when those older barges come out. But it should be okay. We may see a little more pressure in that business but longer-term it should be closer to balance because of the older equipment than not.

Ken: But if some of those start coming out, don't the ones that are still operating those vessels decide to keep them in longer if they can still make money at them versus scrap them?

David: Yes. That's -- it usually comes down to just that. You've got a big shipyard and an old piece of equipment coming up. You go into the shipyard. You get an estimate how long, how much it would take to extend the life and depending on how much steel replacement you have to do that kind of drives an economic decision. Can I extend this life another 30 months and do I think I can get my X million dollars back over that 30 month period?

So you're absolutely right. The older equipment tends to stay around longer than it should. But we, Kirby, have just retired two of our older barges. I think you'll -- as people bring it into the shipyards there'll be an economic decision on whether to extend the life or not. And it does tend to stick around longer than you expect. But ultimately it's got to come out. Some of the customers are getting their vetting standards where they don't want the older equipment. So that will help.

Ken: Was that a KC Highliner(?) or Penn(?)? Take you back a little bit.

David: I think it was a Penn, one Penn and one KC Highliner.

Ken: How about when you look at your peers? Are you comfortable that they're going to continue this? I mean do you get a feel as to timing of retirement? So you can't tell until they...?

David: You can't tell. It's everybody's going to make their own economic decision and it's hard to say.

Ken: I was going to jump to your outlook but let's go to diesel since you started down that path. Do you want to kind of finish your sentence there on the state of the market?

David: Sure. Yeah, the state of the market, the diesel land-based business is we saw it in the first quarter. Our land-based business basically didn't have much inbound at all and we took a lot of costs out. Unfortunately we've taken our headcount in that business down from 950 down to about 350 in response to the market. There's just not a lot of inbound. If you look at our pressure pumping customers, they don't have much cash. Some of them have gone into bankruptcy. Some of them are on their way or close to it. So they don't have the cash to, one, to repair their frac fleets much less build new frac fleets. Now I think that's going to leave big pent up demand for frac equipment. I think that 19 million horsepower number, we hear estimates of about only 40 percent of it's working and of the 60 percent that's remaining probably a good portion of that is in disrepair and not able to operate. So we do believe that that will come back and need to be repaired at some point.

Ken: So, Andy, when you look at your recently lowered guidance does this factor in the stabilization of rates and utilization or is it kind of looking at some continued downward pressure on the market? I'm just trying to figure out, it seems like you kind of -- have you thrown in the towel?

Andy: None of our assumptions really changed on our marine market. It's really where the change was was on our land-based diesel engine services business, which we said when we went into the year we thought we would lose a little bit of money in the first half of the year with some bounce back in the back half of the year.

We had some things go through in the first quarter with some of our customers, some of our major customers where they indicated that their levels of spend were going to be significantly lower than what they had initially indicated to us. And so we thought it would be wise just to say look, the first quarter is going to be representative of all four quarters of the year and we're going to lose more money on that business. And so, as we looked at that we said well, let's just reset our guidance for that. But again, none of that really had much to do with the marine business.

Ken: Any questions? Yes?

Q: What portion of your coastal business is related to crude shipments? Is there any impact from crude shipments?

David: Yes. Right now we have I think two barges in crude out of 70.

Q: Okay. So it's minimal.

David: Yes. It's minimal.

Ken: That was in the coastwise trade.

David: That's the coastwise.

Ken: Not inland.

David: Well, inland we can give you the exact number there. We have 12 inland barges in crude out of a base of 912.

Ken: Yes, sir?

Q: And how much is pricing down from the peak in the coastal _____? And how much of that will drop to the bottom line...

David: Yes, most of it goes straight to -- unfortunately most of it goes straight to the bottom line. I would say on the inland side we're down I want to estimate 20 percent in pricing from the peak.

Andy: Not that far. No, I would say we're more around the range of 10 percent give or take. It depends on what kind of contract you're looking at on the inland side. And again, that kind of goes to the bottom line. On the coastwise side we haven't seen any pricing decrease.

David: Yes, no, coastwise is flat. It's somewhere between 10 and 20 percent on the inland side. There's different trade lanes that have moved. For example, black oil is a little different than clean and some other things. But that's a good range.

Ken: How about margins? Last question from me is on margins between coastwise and inland. You've obviously peaked out and rolled over with pricing. Can you still close the gap between the two or will there always be a structural difference?

David: Yes. I think there will always be a gap. I would expect that inland will always have a little higher margin.

Ken: Because of a more constrained market even with the consolidation?

David: No, because of our ability to use horsepower. If you think about it coastwise you've got one barge and one tug together. And inland you're able to use one tug for multiple or one towboat for multiple barges so you get a little better horsepower utilization there and frankly the horsepower is where the bulk of the cost is.

Ken: Wonderful. Any other? David, Andy, thank you very much for the time. Appreciate the insight.

Andy: Thanks.

David: Thank you, Ken.

Ken: Thank you.

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