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EnLink Midstream Partners LP (ENLK)

Q4 2015 Earnings Call

CORPORATE PARTICIPANTS

Jill McMillan

Vice President, Communications & Investor Relations

Barry E. Davis

President, Chief Executive Officer & Director

Michael J. Garberding

Chief Financial Officer & Executive Vice President

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business

McMillan Hummel

EVP & President-Natural Gas Liquids and Crude Oil Business

OTHER PARTICIPANTS

T.J. Schultz

RBC Capital Markets LLC

Helen Jung Ryoo

Barclays Capital, Inc.

Ethan H. Bellamy

Robert W. Baird & Co., Inc. (Broker)

Jerren A. Holder

Goldman Sachs & Co.

Darren C. Horowitz

Raymond James & Associates, Inc.

Mirek Zak

Citigroup Global Markets, Inc. (Broker)

Christopher Paul Sighinolfi

Jefferies LLC

Neal BasuMullick

JPMorgan Securities LLC

Barrett Blaschke

Mitsubishi UFJ Securities (USA), Inc.

Jeff Birnbaum

Wunderlich Securities, Inc.

Noah Lerner

Hartz Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Q4 and Full Year 2015 EnLink Midstream Earnings Conference Call and 2016 Guidance. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Jill McMillan of EnLink Midstream. Please go ahead.

Jill McMillan

Vice President, Communications & Investor Relations

Thank you, Dan, and good morning, everyone. Thank you for joining us today to discuss EnLink Midstream's fourth quarter and full-year results for 2015 and 2016 guidance. For this quarter's call, we will utilize a new format than we have previously. Our prepared remarks will be shorter, so we have more time to address your questions.

We issued our fourth quarter and full-year 2015 earnings and 2016 guidance release and operations report yesterday evening and we will file the 10-K later today. To accompany today's call, we posted the earnings release and operations report on the homepage and Investor Relations page of our website. We recommend that all listeners review the operations report as it gives greater detail on our 2015 accomplishments and the outlook for our business in 2016. If you would like to listen to a recording of today's call, you can access a webcast replay on our website.

Participating on the call today are Barry Davis, President and Chief Executive Officer; and Mike Garberding, Executive Vice President and Chief Financial Officer. Additionally, Steve Hoppe, Executive Vice President and President of the Gas Business; Mac Hummel, Executive Vice President and President of the Liquids Business; and Ben Lamb, Senior Vice President of Finance and Corporate Development, will be available in the Q&A portion of the call.

I will remind you that any statements about the future, including guidance information, our expectations and our predictions, should be considered forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are subject to a number of assumptions and uncertainties that may cause our actual results to differ materially from those expressed in these statements. And we undertake no obligation to update or revise any forward-looking statements.

We will discuss certain non-GAAP financial measures and you'll find definitions of these measures as well as reconciliations of these non-GAAP measures to comparable GAAP measures in our earnings release available on the Investor Relations page of our website at www.enlink.com. We encourage you to review the cautionary statements and other disclosures made in our SEC filings, specifically those under the heading Risk Factors.

I will now turn the call over to Barry Davis.

Barry E. Davis

President, Chief Executive Officer & Director

Thank you, Jill, and good morning, everyone. Thank you for joining us today. There is no doubt that 2015 was a year of challenges and change for our industry. We recognize the pressures these headwinds have put on

companies in our sector. While the challenges have continued in the 2016, we all know this is a cyclical industry. In fact, our industry has seen five significant cycles in the past 30 years. And you could say we've been here before. The big difference with this down cycle is that it's the one we're currently in and possibly the most significant we've seen.

At EnLink, we didn't predict this type of the lower-for-longer commodity environment, but we were certainly prepared for it. We are executing on the plan we laid out and completed – and financed approximately \$4.5 billion of acquisitions, dropdowns and growth projects, primarily focused in Oklahoma, the Permian and Louisiana. We have best-in-class assets positioned in the core of the core across the most-attractive plays in the country and we remain confident in our ability to execute on future opportunities from our strong platform of assets and services.

We have stable cash flows from our contracts with Devon and other high-quality investment-grade customers. And we have a team of employees that are focused and committed to delivering results. And finally, we have a proven business model that has delivered solid results since the creation of EnLink due to our financial strength and the stability of our platform and assets. I'm confident we will emerge from this cycle well positioned to seize on the opportunities we've created.

Today, we are focused on a disciplined execution of our plan. We consistently benefit from stable cash flows, supported by fee-based contracts with minimum volume commitments and have minimal direct commodity exposure. We maintain a diversified and integrated business model and remain confident in our long-term strategy to be one of the premier midstream companies in the nation.

Let me highlight three reasons that are the basis for our confidence. First, we have been here before. We have a seasoned management team that is taking lessons learned and applying them today to ensure we remain well positioned for the long term. Second, we know this year will require focus and execution. We've identified several core strategies to further strengthen our foundation and navigate industry headwinds. First, we are maximizing cash flows from our assets and working to reduce costs, by increasing operating efficiencies, renegotiating service fees, benefiting from lower materials, equipment and construction costs and cutting unnecessary expenses wherever possible.

Second, we are focused on executing on growth in our core areas of operation, which include Louisiana, Oklahoma and the Permian. Production areas like the Permian, STACK and Cana-Woodford remain active and our core demand center in Louisiana has continued to grow. We have stable cash flows from fee-based contracts with minimum volume commitments from Devon Energy and other producer customers. And we continue to focus on those areas that would drive long-term growth and deliver enhanced value for our unitholders.

Third, we are committed to delivering best-in-basin competitively-priced services and are working with our customers to drive value for not only them, but for us too. For example, in the fourth quarter of 2015, we brought on an additional 100 million cubic feet of gas in a two-week period at our Cana Plant to support Devon's production. This region was then impacted by severe weather and our Cana facility was one of only a very few plants operating during this challenging time. We had record volumes in November through January due to the hard work of this team, the flexibility of our operations and our ability to operate when our competitors were not.

And the final reason we remain confident in EnLink is because of who we are. Challenging times like this create opportunities to improve upon the things we already do well. That remind us of why we do what we do. We have 1,500 employees who wake up every morning focused on excellence and safety, deepening our relationships with customers to drive value for them and for us and remaining true to our core values, which differentiates us from our peers. By improving upon these competitive advantages, we are confident we will emerge as a premier midstream company in the industry.

In summary, the fundamentals of our business are good and we have a sense of urgency and focus on the key strategies we will execute this year. We remain committed to maintaining our financial strength and flexibility, and our strong balance sheet and proven track record will enable us to capitalize on the opportunities that come from cycles like this.

We remain confident that we can perform and execute to create value for our unitholders and our customers with stable fee-based contracts, strong customer relationships, diversity of basins and services and a strong partnership with Devon.

I will now turn the call over to Mike to review the financials.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

Thank you and good morning, everyone. Before I discuss the 2016 guidance and expectations, I'd like to quickly review 2015 results. I'm proud of our overall business performance considering the challenging year for our industry. I don't believe 2016 will be any easier; however, we are focused on executing on our plan, maintaining a strong balance sheet and adhering to our core values.

We've positioned ourselves well with a strong balance sheet, which started with a creation of EnLink. We issued around \$4.8 billion in equity to Devon with very little impact to overall debt when EnLink was created. Subsequent to that, each one of our acquisitions was financed with the same approach. We consistently matched duration of the assets and liabilities through the utilization of equity and long-term debt. We also utilized equities to manage the risk of the asset and our overall balance sheet. For example, the majority of Tall Oak acquisition was financed with equity through the convertible preferred and the ENLC equity issued to the sellers. This strategy had allowed us to be in a good position from a balance sheet perspective and gives us the stability we need to navigate in today's environment.

In 2015, our full-year annual consolidated adjusted EBITDA was approximately \$728 million, which was within 2% of our annual guidance of approximately \$740 million. The Partnership's annual distributions increased by approximately 5% and achieved distribution coverage of approximately 1 times. The General Partner's annual distributions increased by approximately 16% and achieved distribution coverage of approximately 1.2 times. That represents solid distribution coverage in a difficult year.

Furthermore, we financed approximately \$4.5 billion worth of acquisitions and dropdowns. We also ended the year with \$1 billion of liquidity on our investment-grade balance sheet and a debt to adjusted EBITDA ratio of around 4 times. This is a testament to the stability of our business and our ability to execute.

Turning to 2016, we expect EnLink to generate consolidated adjusted EBITDA of \$770 million, which represents our base case for guidance. We believe the guidance range of \$720 million to \$800 million, around our base case, shows the business has good stability during a difficult time. This guidance range is based upon crude pricing from approximately \$27 per barrel on the low side to approximately \$60 per barrel on the high side.

We don't expect significant upside from our base case, primarily due to the timing between commodity price improvements and producer actions to take advantage of a better environment. The majority of the upside for 2016 represents improvements in our commodity-based contracts, which represent a small piece of our overall consolidated cash flows.

During 2016, we expect to maintain flat ENLK and ENLC distributions, with distribution coverage at or above 1 times at both entities. In addition, we're expecting debt-to-adjusted EBITDA by year end of 2016 of approximately 4.2 times, based on our current financing plans. We are also very focused on maintaining our strong balance sheet. EnLink currently has around \$1.3 billion of available liquidity on its revolving credit facilities at The Partnership and the General Partner.

We currently have no marketed equity or debt needs in 2016 and no debt maturities until 2019. We also have significant optionality to finance our growth capital. This includes delaying certain capital projects, issuing additional preferred equity for Tall Oak growth and selling non-core assets. We expect consolidated growth capital expenditures to be around \$445 million to \$570 million for 2016, which will be spent on our core growth areas.

From a General Partner cash tax standpoint, we expect to only pay around \$2 million for 2016. And finally, from a credit rating perspective, we have started the process of getting an additional rating from Fitch.

We understand that there are significant challenges in our industry this year, but we are well positioned and committed to address them. These challenges include credit risk related to deteriorating credit quality of certain customers. More than 90% of our revenue comes from customers with an actual or implied investment-grade credit rating. Our top customers are companies like Devon, Dow, Williams and Marathon, great counterparties. Commodity risk related to direct commodity exposure contracts. Around 95% of our gross operating margin comes from fee-based contracts. Volumetric risk related to commodity impacts on existing customer's drilling plans. More than 75% of our gross operating margin from the gas business unit is supported by contracts with minimum volume guarantees or firm commitments. And financing risk associated with unstable financial markets.

Despite this challenging environment, EnLink has more than \$1 billion in available liquidity for 2016 with no marketed equity or debt needs in 2016 and no debt maturities until 2019. We are confident that EnLink's business structure is well positioned to withstand difficult times as we're experiencing today.

We're hyper-focused on executing in our core growth areas. In Oklahoma, we see many opportunities to expand and grow. We expect to spend approximately \$180 million to \$210 million of growth capital in Oklahoma in 2016 by extending our system south into the SCOOP play and consolidating the Cana and Tall Oak systems to optimize capacity utilization among our plant super-system and minimize capital spending. We originally projected to spend approximately \$350 million in 2016 when we announced the acquisitions, but we were able to lower this estimate by integrating our assets, postponing certain capital expenditures and taking advantage of lower construction costs.

The Permian Basin continues to be one of the best oil and gas regions in the country, accounting for about 32% of all rigs operating in the United States today. We're focused on executing on opportunities we see in this region as producers remain active despite current commodity prices. We expect to spend approximately \$120 million to \$140 million of growth capital in Texas, the majority of which will be spent in the Permian Basin.

This includes the completion of two processing plants that will add 220 MMcf per day of capacity in the Midland and Delaware Basins. The 100 million MMcf a day Riptide plant in the Midland Basin is scheduled to come on line in the first half of this year. We recently began construction on the Lobo II plant in the Delaware Basin, which will utilize equipment we already had in inventory. This new plant will add up to 120 MMcf a day of capacity and include the construction of additional gathering pipeline in Loving County in Texas and Eddy and Lea Counties in New Mexico.

We've executed a contract with a large investment-grade counterparty, who will serve as the anchor customer on Lobo II, which is scheduled to come on line in the fourth quarter and will have initial capacity of 60 million MMcf a day.

In Louisiana, we have market-driven platform that is well positioned in an area characterized by increasing demand for natural gas and NGLs. Our combined platform allows us to capitalize on serving the needs of new and expanding customers that we couldn't serve before the acquisition of Chevron's natural gas pipeline and storage assets.

We expect to spend approximately \$60 million to \$70 million of growth capital on opportunities from our premier natural gas and NGL platforms, including capturing bolt-on opportunities from our Cajun-Sibon system, activating our gas storage assets in Napoleonville, constructing the Ascension Pipeline and connecting transmission pipeline to a new industrial customer who is expected to require 150 million MMBtu per day of contracted demand volumes.

In summary, we have a strong balance sheet, good contract structures, great counterparty in Devon and limited direct commodity exposure.

I'll now turn the call back to Barry for closing remarks.

Barry E. Davis

President, Chief Executive Officer & Director

Thank you, Mike. As I stated earlier, we remain confident that we can perform and execute to create value for our shareholders and our customers with stable fee-based contracts, strong customer relationships, diversity of basins and services and a strong partnership with Devon. We will focus on strong execution in 2016 through our diversified and integrated platform, which will allow us to continue to operate from a position of financial strength and flexibility with limited credit risk.

With that, I'll turn it over to our operator, Dan, and you may open the lines for questions. And I ask that we limit the amount of questions to one per caller, please. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from T.J. Schultz of RBC. Please go ahead.

Barry E. Davis

President, Chief Executive Officer & Director

A

Good morning, T.J.

T.J. Schultz

RBC Capital Markets LLC

Q

Hey. How are you doing? I guess, I'll just ask a question on Tall Oak and some of the CapEx moving around. So, for 2016, CapEx, as I think about the lower spending around the Tall Oak assets this year, you all mentioned some of this is from integration of assets and some is from deferral. So, maybe if you could just discuss your view of the Tall Oak transaction now, your position in the SCOOP and how you envision that cash flow evolving, where you'd previously seen a path to maybe \$300 million of EBITDA by 2018? But just now trying to figure out kind of how to think about that ramp in the context of some of this integration and then the deferral of certain projects given where Devon's spending?

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

A

Yeah. Hi, T.J. It's Ben. First, let me just tackle the part about the CapEx. At the time we announced the acquisition, we said we thought we had about \$350 million in CapEx to follow on with this year and now that number is down to more like \$180 million. Where that came from is a few places. One is deferring the second Chisholm Plant out in time. And the reason that we're able to do that is by integrating our systems, we are going to be able to take advantage of capacity that we expect to have available at our existing Cana facility later this year. That's the biggest piece of the capital change. The rest of it is to do with more carefully timing the extension of the gathering system and realizing cost benefits on labor and materials, just like Barry said in his opening remarks.

As far as our view of the asset, it really hasn't changed. Certainly, acknowledge that there are headwinds in the market that affect every basin, but this continues to be one of the very best resource plays in the country and we continue to see very robust levels of activity around the system. One thing that you mentioned in your question was the extension south into the SCOOP. If you look at page 14 of our operations report and you see the little dotted line extending south into Grady County, the little square at the top of that line is our [ph] Anthem (20:12) compressor station we expect to have on in April and that's going to bring on a whole new area of the system that has been very prolific over the last couple of months in terms of drilling activity and well results. So, we continue to feel very, very good about where we are with the Tall Oak asset.

Barry E. Davis

President, Chief Executive Officer & Director

A

T.J., this is Barry, and I would just add on to that. I think Ben referred to page 14 of our operations report. I think Devon did a terrific job this morning of covering their thoughts around the Felix position and the STACK. So, I'd refer you also to that. What we're seeing is continued increasing performance of the wells in that area. And as Ben said, we like rock, we like to play more everyday that we are involved with it. Thank you for question.

T.J. Schultz

RBC Capital Markets LLC

Okay. Great. Thanks, Barry.

Q

Operator: And our next question comes from Helen Ryoo of Barclays. Please go ahead.

Helen Jung Ryoo

Barclays Capital, Inc.

Thank you. Good morning.

Q

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

Good morning, Helen.

A

Helen Jung Ryoo

Barclays Capital, Inc.

My question is around your balance sheet. I think Mike you mentioned that you expect to end the year at 4.2 times debt to EBITDA, based on your current financing plan, could you maybe elaborate what that is? I think you also mentioned that there is no marketed debt or equity needs. So, maybe if you could talk about how much of ATM sort of equity is in there or not even that? And then, I guess, one – the other thing about your funding, as laid out in the presentation, is that you may do some asset sales and maybe, Barry, you could – maybe if you could talk a little bit about what that M&A market looks like, whether we hear about a lot of private equity monies in the sideline, and maybe asset sale wise, how much you think could be done? Thank you.

Q

Michael J. Garberding

Chief Financial Officer & Executive Vice President

Good question, Helen. So, I think the first thing is really to highlight ending the year at 4 times debt to EBITDA, we think, is a great thing. And then, exiting the year, what we believe, is around 4.2 times, again, is a great thing and a testament to how we finance the business and what we've done here. So, when you think about what we've done, a big thing would be the Tall Oak acquisitions where we used almost all equity to finance the \$1 billion we paid ultimately in January of this year. And that was a great thing for our balance sheet.

A

So, when we think about the year to come, the leverage we have, like I mentioned, our capital, right. So, we have a capital range of, in general terms, \$450 million to sort of \$570 million, and we can think about the timing of spending that and when we spend that. Another lever is the preferred – having the capability to issue additional preferred for the Tall Oak capital and we have asset sales plus, again, as you mentioned, we have an ATM or equity. When you look at that overall spending, we believe we have equity needs less than \$200 million for the year to achieve what we laid out here, which we think is very achievable with the options we have. I'll let Barry walk through the asset sales.

Barry E. Davis

President, Chief Executive Officer & Director

Yeah. Helen, let me just say, asset sales is obviously a part of the capital program that we would look at. We are doing all the things that you would want to be doing to be sure that we have optionality around the potential for any asset sale. But we really haven't come to any conclusions, wouldn't want to talk about any specifics around what those assets might be. But certainly, that's a part of what we're evaluating. You acknowledged the private

A

equity in the marketplace. I would say that that is true, we agree with you that there is private equity available, whether it be for a potential asset sale that we might look at or even some opportunity that we are able to identify in this down cycle, that might work from a joint venture or something using private equity. So, have great relationships in that part of the capital sector and we'll continue to have dialog around that.

Helen Jung Ryoo

Barclays Capital, Inc.

Q

Thank you very much.

Operator: And our next question comes from Ethan Bellamy of Baird. Please go ahead.

Ethan H. Bellamy

Robert W. Baird & Co., Inc. (Broker)

Q

Hey. Good morning, everybody. So, Mike, I want to dive into the guidance a little bit. You've got a pretty massive commodity price range on there that I appreciate. I'd love it if we got to the top end of that guidance, but I don't think we will. Can you talk about how that guidance is constructed? Does that include just commodity price sensitivity holding all other factors equal or does that include a range of volume expectations based on prices?

And then, secondly, you've got some customers that are on the E&P side in fairly dubious condition. And I'm curious, if you've done kind of an in-depth counterparty credit risk analysis? And if you have in the downside of your guidance the potential for some customer bankruptcies in there, and obviously that's a big question for the industry. I'd just love to hear how you guys think about the viability of our customers and what that does to volumes.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

So, good question. So, you got around Barry's statement of one question by asking the one question with four parts. So, let's start with guidance. It's good just to lay out an overview of it and then I'll turn to Mac and Steve to give a perspective from the business units. But when you think about guidance, again, we start with really what we think our base case is. And our base case under what we laid out for you guys today was the \$770 million in consolidated adjusted EBITDA, based on an average crude price deck of \$40 and average gas price deck of \$250. That's sort of the center point. And again, we were trying to be realistic given the environment we're in today, when we worked through that.

Then when we think about upside and downside, step one of that is the commodity piece or is moving crude to \$60 and moving below \$30. When you think of the upside, you really only have a \$30 million upside and we project that to be conservative, because our belief is if you're going to see really that growth in the commodity cycle, it's likely we'll see value back on our contracts, but it probably will take some time for producers to get rigs back out there when we see volumes. So, as I mentioned in our guidance, we probably see limited volume upside really with regard to this guidance. On the downside, again, is the price risky you'd see. And there, we do take into consideration some further deterioration in volumes. So, that's why you see a broader downside. And I'll turn over to Steve and Mac to talk about that.

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business

A

Yeah, Ethan, this is Steve. So, just to kind of give you a little more color on the Permian. We definitely have some upside associated with our POP contracts in the Permian. So, that's part of what's factored into the upside. As

Mike said, we also see some opportunities for a little bit of increased volumes in the Permian, if prices improve. When you look at our Oklahoma position, really what we're seeing there is an opportunity on well performance. I'll refer you to Devon's operating report, where they've shown such a significant increase in just recent well completions. So, as we continue to see drilling and prices improve, we think that we'll get the benefit of those enhanced completions in Oklahoma and also in the Permian. So, we're very optimistic about how producers are managing their business and how they're reducing cost and delivering better results with their wells.

McMillan Hummel*EVP & President-Natural Gas Liquids and Crude Oil Business*

A

Yeah. Ethan, this Mac Hummel, and just to jump on to what Steve and Mike have talked about, likewise in the LBU, the upside is primarily oriented around price. Like Mike talked about, it's hard to see increased prices soon enough and significant enough that that results in activity that really manifests itself in 2016. That's probably more of a 2017 opportunity for us. But we entered the basins we did because we felt like they were the right basins to be in, we felt like they were resilient, they were areas that would see drilling in times when we're struggling as an industry, which we clearly are today. And when the price environment becomes more constructive, we think we're in a great position in those basins to participate as the market recovers.

Barry E. Davis*President, Chief Executive Officer & Director*

A

So, Ethan, maybe four parts to the answer to your question. And I'll kind of pile-on with these comments. I think when you look at our guidance, there is a bias to the downside. We're giving you a forecast of \$770 million with a \$50 million down to the \$720 million on the downside and then only \$30 million to the upside. I think that's reflective of the environment that we're in. We've seen a lot of headwinds and so our bias to the negative is partially out of conservatism and just kind of the negative sentiment in the market. But we feel good about the \$770 million forecast that we've put in front of you.

Michael J. Garberding*Chief Financial Officer & Executive Vice President*

A

Yeah. Just to round that out and then I'll address credit. So, we do have the commodity different prices that we use for the upside, downside. But a \$40 to \$50 commodity price deck is incredibly good for the basins we're in, like Mac said. So, it's not saying we need a \$60 commodity price to return the growth. It's not the case there. From a credit perspective, I'd point you to page seven of the operations report, I mean the key to credit is customers and for us 90% of our revenue is from investment-grade customers. That's what's key, right? It's who are the customers driving the value; the Marathons, the Dows, the Devons, that's the first part. So, the 10%, the key there is not having any big customers that represent a large piece of that. So, we don't feel we have a large credit risk from a non-investment-grade counterparty.

And then lastly, it's what type of services are you performing for them. We feel good about the services we're performing for them. The majority of it is gathering and processing. There is some transmission in there. But we feel good about the type of services we're [ph] performing for (30:31) them and the rates we're charging. So, right now, we feel good about the portfolio we have from a credit perspective.

Ethan H. Bellamy*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. I appreciate that. And then one more, I think the jury is out on whether IDRs are permanently disabled for MLPs or not, but nevertheless dislocations in the GP stock prices certainly provide some opportunity for further compression trades, bearing in mind it hasn't always been the most successful outcome for investors. Have you

guys seriously considered compressing C and K together here? And then, I'll take my – the rest of the answer offline, but just want to say thanks for the shortened call format and for the sensitivity on guidance, it's very helpful.

Barry E. Davis

President, Chief Executive Officer & Director

A

You bet. Ethan, this is Barry. What I would tell you is that we still believe that the MLP/GP model works. We think it's a good model that's demonstrated over a long period of time that it works. So, we don't think the model is broken, but what we would say is that the capital markets that we're in today we do think are broken. And we think that the market is kind of lost its ability to value the MLP and its related GP. And so, we're having to think about things that in all parts of our business that we wouldn't have had to think about six months ago or a year ago. And so, we'll think that through and we will watch the evolution of the capital market as well as the MLP/GP model. And I think you'd see us be proactive if something changes there.

Ethan H. Bellamy

Robert W. Baird & Co., Inc. (Broker)

Q

Thanks much.

Barry E. Davis

President, Chief Executive Officer & Director

A

You bet. Thank you.

Operator: And our next question comes from Jerren Holder of Goldman Sachs. Please go ahead.

Barry E. Davis

President, Chief Executive Officer & Director

A

Good morning, Jerren.

Jerren A. Holder

Goldman Sachs & Co.

Q

Good morning. Switching over maybe to dropdowns, what's the outlook there? I know Devon has outlined that they want to sell some midstream assets, maybe Access Pipeline in the first half. Is there a right of first offer? How you guys think about financing that just given capital markets, where your bonds are trading, where the equity is trading? And how does that impact what you can price maybe preferred, if that's an option too?

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

A

Yeah. Hi, Jerren. It's Ben. On Access Pipeline, you're right. Devon has indicated that they want to sell that in the first half. And first, let me say, it's a very good asset. We've done a lot of work on the Access Pipeline to understand the opportunity there. At the same time, as Barry just said, we're living in capital markets for the MLPs today at are broke. And as a result, we have to be very selective and deliberate about where we allocate our capital dollars this year. And we are more focused on our core areas of growth in Oklahoma, the Permian and Louisiana. And that's because they are fundamentally a bit more strategic to us than a more isolated asset in Canada, as great of an asset as it is.

So, while we remain in the room with Devon on the opportunity, I think it is become less likely that we become the owner of that asset. But we continue to explore the flexibility that we have along the lines that you said with preferred equity and other sources of financing, if things changed and, again, it made sense for us to own the asset.

Jerren A. Holder

Goldman Sachs & Co.

Q

Okay. Thank you very much.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, Jerren.

Operator: And our next question comes from Darren Horowitz of Raymond James. Please, go ahead.

Darren C. Horowitz

Raymond James & Associates, Inc.

Q

Mike, in your discussion...

Barry E. Davis

President, Chief Executive Officer & Director

A

Good morning.

Darren C. Horowitz

Raymond James & Associates, Inc.

Q

...around high grading growth CapEx, can you quantify how your leverage internal rate of return threshold may have changed? What your new target is? And how much additional growth CapEx that may not be committed could be further adjusted or deferred, if this current, as you said, broken capital environment continues?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

It's a great question. So, how we look at capital is we go from the bottoms up on each business and then rank and stack it based on priority, as Ben said, with where its location is and, secondly, really from risk-return standpoint. So, when we look at the capital return, we look at an unlevered return from an asset where historically you probably saw something in maybe the 12% to 15% rate and you see that or higher today is what your expectations are. And how do you do that? You can do that sort of two ways. You can do that ultimately through the contract and the cash flows or you can do that through the capital that you're spending. So, an example I'll give you is the Lobo II plant in the Delaware Basin. You've taken a plant that was inventory. You are minimizing capital as much as possible to serve the customer, but leaving yourself a lot of optionality to grow that asset.

So, we're really focused on both pieces of that equation to ensure that we're getting the returns we need on that capital. Then other piece would be like the Ascension Pipeline in Mac's business unit. I mean, that's a great example really that won't give much cash flow to 2016, but from 2017 and long term, is great asset.

Darren C. Horowitz

Raymond James & Associates, Inc.

Q

Thank you.

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business

A

Darren, this is Steve, I'll just add on to that. One of the questions you asked was is there any continued capital reductions that we could see going forward in the year. And I just would like to point out that we are seeing a reduction in construction costs. We're seeing reductions in pipe and steel materials. So, we are definitely going to be very aggressively pursuing reducing those costs in our new projects going forward. So, we expect to see some improvement.

McMillan Hummel

EVP & President-Natural Gas Liquids and Crude Oil Business

A

This is Mac. I might point out one other thing here. As I think about the current environment we're in and the diligence people are placing on capital these days, that's not a new discipline for us. I need only to think back to last year, when we were pursuing the Condensate Pipeline in our Ohio River Valley business. And we looked at it, we looked at the environment, we looked at the level of drilling there and made the decision even before this, the current cycle we're in or the depths of the cycle we're in and made the decision that it just wasn't prudent for us to spend that money. And so, I think what you're seeing now is just a continuation of the same discipline that we've applied in the past.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, Darren.

Operator: And our next question comes from Mirek Zak of Citi. Please go ahead.

Mirek Zak

Citigroup Global Markets, Inc. (Broker)

Q

Hi. Good morning, everyone. I know this might be a little bit early, but I just wanted to see how you're looking at 2017 at this point regarding crude price estimates, drilling activity expectations. Simply considering you're going to have about 1 times coverage at ENLK for this year, assuming a roughly \$44 crude price and considering you have some PIKs converting this year and the Tall Oak preferreds converting next year, kind of what needs to happen or what kind of options and flexibility do you have around that to meet distributions for next year and have coverage above 1 time?

Barry E. Davis

President, Chief Executive Officer & Director

A

Yeah. Let me start with – in times like this, you've heard us talk about focus and execution in 2016 and so I want you to clearly hear that we are very focused on today and executing the plan in 2016. Helen acknowledged it earlier and that is the limited or I would say is the absolute minimum contribution that we're getting from some of the things that we've done most recently. And we still believe it doesn't take much of an improvement in price to see significantly higher activities in the Central Oklahoma around the Tall Oak and around our Cana position, similarly in the Delaware, in the North Midland Basin. I mean, those are three of the absolute best places to be and we're in the core of the core there. So, we're going to see benefits from that.

As you get into our crystal ball for 2017, it's no better than anybody else's. And what I would tell you, though, is we think that you're going to see an improvement in the second half of this year that would drive increased activity into 2017 and we would benefit quickly from that in our key growth areas.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. From a financing standpoint, Mirek, you are correct. We do have the Coronado PIK units converting this year and that's taken into consideration in our guidance. And then, the second piece was a preferred units on Tall Oak ultimately converting really in the third quarter of next year. But if you remember, they convert and they have a cap on cash pay. So, we try to be really thoughtful in the sense of how we structured this to ensure that we protected against the downside, but gave great opportunity for the upside. So, I would leave it again, like Barry said, from a productive crude price, we think that \$40 to \$50 range [indiscernible] (39:25 - 39:33)...

Mirek Zak

Citigroup Global Markets, Inc. (Broker)

Q

Okay. Thank you.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thanks.

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

A

Yes. Thank you.

Operator: And our next question comes from Chris Sighinolfi of Jefferies. Please go ahead.

Christopher Paul Sighinolfi

Jefferies LLC

Q

Hey. Good morning, guys. Mike, just a point of clarification from me with regard to the guidance, the delta between the ENLK EBITDA and the consolidated EBITDA, is there anything more in that spread than just ENLK's - sorry, ENLC's ownerships of Tall Oak?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

No, that's just a 16% of Tall Oak is all it is.

Barry E. Davis

President, Chief Executive Officer & Director

A

Yeah.

Christopher Paul Sighinolfi

Jefferies LLC

Q

Okay. And have you - just as another point of clarification. Is that assumed flat at 16%? I know in the December call, you had mentioned, obviously, the Tall Oak acquisition sort of lends itself to maybe some dropdown opportunities. I just want to better understand if that's held constant at 16% in the guide?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

It is. Right now, we don't have – we have not assumed any dropdowns from ENLC to ENLK. It's just it assumes ENLC.

Christopher Paul Sighinolfi

Jefferies LLC

Q

Okay. Perfect. And then, just final point on Tall Oak for me is just I know that there was an option for the second installment of that payment to further defer 50% of it for another year. When you were talking with Helen about the leverage and the financing guidance portions of the presentation, is that assumed that you would exercise that option?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. We would always exercise the option to push capital out. So, right now that is \$250 million due in January of next year and then \$250 million due in the January in the following year.

Christopher Paul Sighinolfi

Jefferies LLC

Q

Perfect. Thought so, but just wanted to confirm. Appreciate your time.

Operator: And our next question comes from Jeremy Tonet of JPM Securities (sic) [JPMorgan Securities]. Please go ahead.

Neal Basu Mullick

JPMorgan Securities LLC

Q

Hey. Good morning. This is Neal on for Jeremy. So, I guess, you've been executing pretty quickly on Tall Oak with all three systems interconnected by next quarter. But given the new \$180 million spending this year, how is the three-year kind of \$650 million expected CapEx and the growth trajectory changed, if at all?

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

A

Yeah. I would say that if you think about the big buckets that I laid out earlier in terms of the reduction from \$350 million to \$180 million, most of that is a deferral out of 2016 into future periods. Now, what could change that would be our Oklahoma Express project, because if we were to construct the Oklahoma Express project that would connect our Oklahoma assets to our North Texas assets, that would be in lieu of continuing to expand processing capacity up in Oklahoma and would give us and our producers the benefits of better residue markets and NGL markets that we have in North Texas. But most of that is a deferral into future periods.

Neal Basu Mullick

JPMorgan Securities LLC

Q

Got it.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Although I think of capital really to, like Ben said, is really you're pushing capital ultimately more into 2017 and 2018 from a timing perspective. And then, if you think about associated EBITDA as far as expectations, we're right now not projecting to be too far off what our initial projections were, and we think that's going to be driven a lot by what we're seeing from the well results ultimately that producers are seeing.

Neal BasuMullick

JPMorgan Securities LLC

Q

Got it. Appreciate it.

Operator: And our next question comes from Barrett Blaschke of MUFJ Securities. Please go ahead.

Barrett Blaschke

Mitsubishi UFJ Securities (USA), Inc.

Q

Hey, guys. I know we got into the issue of potential bankruptcies, but just as far as – on contracted parties. But I guess the other thing is what happens in terms of your rating if we start seeing basically the percentage of your contracts that are with, I guess, non-investment-grade counterparties? Have the rating agencies given you any clarity on that?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

So, again, the percentage of contracts we have from a revenue standpoint is only 10% and there is no one counterparty that represents a material portion of that. So, from a credit perspective, we feel very good, the position we're in. So, again, I personally don't see that as a ratings issue.

Barrett Blaschke

Mitsubishi UFJ Securities (USA), Inc.

Q

Okay. So, if that were to increase from 10%, I mean, if you were to start to see downgrades at the E&P side, that doesn't have an impact on you?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

No, in the sense of – the main customers again are the ones I pointed out, right. So, it all depends on where they ultimately end up and which rating agencies rate them at what level.

Barrett Blaschke

Mitsubishi UFJ Securities (USA), Inc.

Q

Right.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

So, you see the top customers and so there's a lot to that. So, right now, we feel very comfortable on that.

Barrett Blaschke

Mitsubishi UFJ Securities (USA), Inc.

Q

Okay. And just wanted to follow-up and that's, is there anything you can quantify as far as the cost declines on the average build-out multiples when we're seeing labor and materials cost coming down?

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business

A

Yeah. Just proportionately, what we're seeing right now is anywhere from a 10% to 30% reduction in our construction cost, and that represents probably half of the cost of the project and then probably a 30% to 40% in materials cost. Now, I'll caution you on that a little bit, because when you look at some projects where we're using some existing inventory of assets, those costs would still come in at some old prices. So, on our Lobo project, for example, we've got costs associated with that one – with its original purchase price. And some of the pipeline that we have acquired as inventory for projects, we are utilizing that as well. So, it's kind of a mixed bag, but I would say, overall, we're probably in the 20% to 30% range of opportunity cost coming down associated with projects.

Barrett Blaschke

Mitsubishi UFJ Securities (USA), Inc.

Q

Okay. Thank you.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, Barrett.

Operator: And our next question comes from Jeff Birnbaum of Wunderlich. Please go ahead.

Barry E. Davis

President, Chief Executive Officer & Director

A

Hey, Jeff.

Jeff Birnbaum

Wunderlich Securities, Inc.

Q

Good morning, guys. Mike, just a couple of follow-up questions on the balance sheet, most of my other questions have been answered. I guess, starting with the equity, if you decide to go the route of issuing the additional preferreds, obviously you'll have the access to another \$500 million, do those funds need to go to Tall Oak investment or is it up to you to which investments you can direct that toward? And the terms of that preferreds, are those up for negotiation or are they effectively locked in at the same terms as the existing preferreds? And then, I guess, just on the debt side, you mentioned you're engaging Fitch for additional ratings and – I appreciate your guidance on leverage, but I guess I'm wondering where you're comfortable taking leverage with an eye towards your IGRatings, if you're not satisfied with the options at your disposal to fill those \$200 million in equity needs that you mentioned?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. So, good question. So, first one on the Tall Oak preferred, we do have a right to issue an additional \$500 million of preferred and that would be for Tall Oak capital or for Tall Oak deferred payment. So, that is limited ultimately to what we're doing on Tall Oak. From a structure standpoint, that would be all negotiated, except for price. We have mutually-agreeable terms on how look at the price of those. But otherwise, the terms would be the same as the existing preferreds you'd see.

But again, that's just one piece of it, right. So, as I mentioned, we think we have equity needs less than \$200 million. So, you have a lot of levers to do that, as well as Barry mentioned, looking at other non-traditional sources

to fund capital in certain areas. So, we don't feel that it's difficult even in this kind of market to find capital to do the level of capital we're trying to do. So, we feel comfortable on that.

From an agency standpoint, on leverage, we've always told the market, we like to be between 3.5 times to 4 times, that's where we think we need to be from a balance sheet perspective and that's where we work to get our balance sheet. Times like this, where you have a complete dislocation of the capital markets, are interesting. But we've prepared for it and we feel comfortable with our options; not having to go to the capital markets and not having any maturities and having a lot of liquidity. That's really what you want in times like this. So, we'll continue to manage our leverage in and around those areas as we think that's where we need to be.

Jeff Birbaum

Wunderlich Securities, Inc.

Okay. Thanks.

Q

Barry E. Davis

President, Chief Executive Officer & Director

Thanks, Jim.

A

Operator: And our next question comes from Noah Lerner of Hartz Capital. Please go ahead.

Noah Lerner

Hartz Capital, Inc.

Good morning, everyone.

Q

Barry E. Davis

President, Chief Executive Officer & Director

Good morning.

A

Noah Lerner

Hartz Capital, Inc.

You touched on it a little bit. Thanks. Other than the impact of possibly not ending up owning the Access Pipeline, I was curious what other thoughts you might have to Devon's announcements as far as they're looking to sell the non-core assets? I don't know if it would include any production that might actually diversify your counterparty. I was just wondering what kind of internal thinking you guys have along those lines.

Q

Barry E. Davis

President, Chief Executive Officer & Director

Yeah. Noah, this is Barry, I'll start. Let me say, first of all, we know what Devon is in the middle of today. I mean, it's really tough times to do the things that you need to do in a tough cycle like this. But as tough as it is, it's the right thing to do and they are making some very tough decisions around getting costs down, becoming more competitive, becoming more focused. In the long term, those are very positive things for us. Strong Devon means a strong relationship, a strong sponsor for us. And so, we're glad to see that. Having a little bit of insight into what we read and what we're seeing there, what we would tell you is we're encouraged that the assets that they've identified for sale, they will be successful on some or all of those, which are necessary to fund their capital program. And again, that's good for us.

A

And so, we think they're doing the right things as far as the ultimate impact on that. To the extent any of those assets are behind the facilities that we currently own, we think that's probably a positive. They'll be in hands of folks that don't have the STACK or don't have the Delaware, or don't have the Eagle Ford, the three places that Devon is primarily going to spend its money. And so, we see what they're doing as a very positive, but tough times.

Noah Lerner

Hartz Capital, Inc.

Q

Great.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

And maybe to add a little – Noah, with a little bit of detail, the one asset that is on the divestiture list that is most relevant to EnLink is their 15,000-acre position in Martin County, which is almost entirely undeveloped and dedicated to EnLink. And just as Barry said, for a company like Devon, 15,000 acres fairly isolated relative to the rest of their portfolio is unlikely to attract capital dollars. But we think there is a decent chance that that asset ends up in the hands of a very focused producer in that area. You don't have to look very far to see what Diamondback, RSP and others have paid for acreage in that area. It's a very, very good stuff. It's just stuff that Devon hasn't gotten to and may be now somebody else will.

Noah Lerner

Hartz Capital, Inc.

Q

And I presume that, obviously, your contract stays intact and would follow the assets with the divestiture of that asset?

Barry E. Davis

President, Chief Executive Officer & Director

A

That's correct.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

That's correct.

Noah Lerner

Hartz Capital, Inc.

Q

Great. Guys, thanks and good luck steering us through this mess.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, Noah.

Operator: And ladies and gentlemen, that concludes our question-and-answer session. I would like to turn the conference back over to Barry Davis for any closing remarks.

Barry E. Davis

President, Chief Executive Officer & Director

Thank you, Dan. In closing, this morning, just want to remind you and I hope you leave this call today understanding that we're focused on the key strategies that we've laid out and we will execute on those strategies this year. We remain committed to maintaining our financial strength and executing on the opportunities that will come from a cycle like this.

So, we appreciate your support. We appreciate your patience as we work through this cycle. And we look forward to communicating as we have the opportunity in the future. Thank you and have a great day.

Operator: And thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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