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EnLink Midstream LLC (ENLC)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the EnLink Midstream Fourth Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the meeting over to Kate Walsh, Vice President of Investor Relations and Tax. Please go ahead.

Kate Walsh

Vice President-Investor Relations & Tax, EnLink Midstream LLC

Thank you, and good morning, everyone. Thank you for joining us today to discuss EnLink Midstream's fourth quarter and full year 2019 results. Participating on the call today are Barry Davis, Chairman and Chief Executive Officer; Alaina Brooks, Executive Vice President and Chief Legal and Administrative Officer; Ben Lamb, Executive Vice President and Chief Operating Officer; and Eric Batchelder, Executive Vice President and Chief Financial Officer.

To accompany today's call, we have posted our fourth quarter and full year 2019 press release and presentation to the Investor Relations section of our website. During this call, we will refer to certain slides included in our presentation. A replay of today's call will be made available on our website at www.enlink.com.

Today's discussion will include forward-looking statements, including expectations and predictions within the meaning of the federal securities laws. The forward-looking statements speak only as of the date of this call, and we undertake no obligation to update or revise. Actual results may differ materially from our projections. And a discussion of factors that could cause actual results to differ can be found in our press release, presentation and SEC filings.

This call also includes discussion pertaining to certain non-GAAP financial measures. Definitions of these measures as well as reconciliations of comparable GAAP measures are available in our press release and the appendix of our presentation. We encourage you to review the cautionary statements and other discussions made in our press release and our SEC filings, including those under the heading Risk Factors.

We'll start today's call with a set of brief prepared remarks by Barry, Alaina, Ben and Eric, and then leave the remainder of the call open for questions and answers.

With that, I would now like to turn the call over to Barry Davis.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Kate, and good morning everyone. Thank you for joining us today to discuss our fourth quarter and full year 2019 results. We will also continue the discussion around our 2020 guidance and longer-term outlook.

First, I'll start with fourth quarter highlights. As discussed in our 2020 guidance announcement in mid-January, we achieved very strong adjusted EBITDA results for the fourth quarter of 2019. We reported record adjusted

EBITDA of $291 million. Our strong fourth quarter results allowed us to achieve record full-year adjusted EBITDA results of $1.08 billion for the year.

Fourth quarter adjusted EBITDA increased by 11% as compared to the third quarter of 2019, with growth driven primarily by the strength of our NGL business. The fourth quarter represents the seasonal high for our NGL business and with the benefit of our Cajun-Sibon pipeline expansion completed in earlier in 2019, we achieved record NGL throughput on our system during the quarter.

We also realized strong operational results in the Permian, and reported record natural gas gathering and processing volumes across both our Delaware and Midland systems.

Yesterday, we announced the addition of two new board members and a senior level executive to oversee our operational excellence program. These appointments bolster diversity of experience and thought and add valuable downstream expertise to our team, which Alaina will give further details on shortly.

Looking back on 2019, the last 12 months have represented a transition year for EnLink. We have evolved from several years of high growth to now a period of moderate growth, focused on optimizing our current operations. We are growing into an excess free cash flow story, with 2020 representing an important inflection point for our capital investment. We are reducing our total capital spend by approximately 40% in 2020 as compared to 2019 actuals. And we will be fully funding our total capital spend with internally generated cash flow.

Generating strong cash flow, investing in high-return opportunities and returning capital to unitholders are critical components of our investment profile. We evaluate the common unit distribution quarterly, and expect to keep the 2020 quarterly distribution consistent with fourth quarter of 2019 distribution amount.

We issued our 2020 financial guidance earlier this year, and based on everything we know today, we are reaffirming the ranges and outlook laid out in mid-January. We expect the diversity of our business and the predominantly fee-based cash flows we generate to help insulate us from weaker macro environment the industry currently faces.

However, if current commodity price conditions persist, we could see this resulting in an outcome at the lower end of our 2020 guidance ranges. All-in-all, when we combine the earnings power of our platform with our execution plan and the strength of our team, we are confident we will deliver solid returns for investors over the long term.

I'll wrap up with four key points I want to make sure you take away from this call. Our strong fourth quarter adjusted EBITDA provides momentum into 2020. Our growth capital for 2019 was 5% below the low end of our guidance range, and we are going to continue to demonstrate capital discipline going forward. We have confidence in our 2020 guidance outlook. We have good visibility into our Permian footprint's growth trajectory and Oklahoma well connects are on track. North Texas is easy to predict, and Louisiana's advantaged system is providing a wealth of longer-term development opportunities for us.

And finally, because of what we're working on today, we can see a time in the next three to five years, where our Louisiana segment's contributions are significantly increased from where they are today.

With that, I'll turn it over to Alaina.

Alaina K. Brooks

Executive Vice President, Chief Legal and Administrative Officer & Secretary, EnLink Midstream LLC

Thanks so much, Barry. I'm pleased to join the call today to discuss EnLink's long-standing commitment to sustainability and corporate responsibility. EnLink was founded on corporate responsibility, as demonstrated by the core values we live by, which include being good stewards of the environment and our communities, a focus on people, applying ethics in how we operate and govern, striving for excellence in all that we do, and delivering results for our customers and stakeholders.

At EnLink, we don't view sustainability as a separate work stream from financial performance. We believe it is a foundation of a company's overall success. On slide 5 of our quarterly report, we highlight several initiatives we've implemented across our organization, each with a focus on generating sustainable value for our stakeholders.

As a further example, we are very pleased to report that we just announced two new directors, who will bring fresh viewpoints and diversity to our board. Deborah Adams and James Lee will join the company's board effective March 1. Debbie and James each bring extensive experience in oil and gas leadership and unique perspective to our boardroom. In addition, Debbie brings experience in sustainability, having created the Social Responsibility Committee as a Director on the Gulfport Energy board. Demographically, our board has both gender and ethnic diversity and four independent directors.

On our broader sustainability efforts, we are in the process of significantly enhancing our reporting, especially as it relates to the environment. Our 2019 Sustainability Report, which will be issued in May, will include a comprehensive set of metrics on a three-year historical basis that will allow our stakeholders to better appreciate and track our ongoing performance.

To close, EnLink has emphasized corporate responsibility since its inception as it is rooted in the core values that we follow day-in and day-out. We look forward to sharing more about our progress in May when we release our 2019 Sustainability Report.

With that, I'll pass it on to Ben.

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

Thanks, Alaina, and good morning everyone. As Barry mentioned, EnLink had a strong fourth quarter from an operational standpoint. All four segments performed well, with our Permian natural gas and the Louisiana NGL businesses achieving record volumes, and our Oklahoma and North Texas segments generating significant free cash flow.

Focusing on the Permian first, we achieved record daily natural gas volumes across gathering and processing systems, driven by strong producer activity. Average natural gas gathering volume for the quarter increased 8% sequentially, with natural gas processing volumes up 6% sequentially. On the crude oil side, volumes increased by approximately 9% as compared to the third quarter of 2019, primarily driven by Devon Energy's focus in the Delaware Basin. Segment profit was up 2.5% in the fourth quarter as compared with the third quarter of 2019 as a result of these higher volumes.

Turning to our 2020 volume outlook, because we continue to see strong producer activity, we recently announced a series of low-cost, high-return expansions and debottlenecking projects that will add approximately 70 million cubic feet per day of natural gas processing capacity to our Midland Basin footprint over the course of 2020.

As these projects are low cost and highly efficient from a capital perspective, we are able to execute these capacity expansions within our previously announced 2020 capital expenditure guidance range.

Construction of our previously announced Tiger natural gas processing facility in the Delaware Basin continues to progress well, and remains on track to become operational during the second half of 2020. This plant will primarily process natural gas gathered from Exxon's Corral Canyon development.

Upon the completion of the Tiger plant in the Midland Basin capacity expansions, we will have approximately 1.1 billion cubic feet per day of processing capacity in the Permian. Our excitement around our growth profile in the Permian is underpinned by the solid rig activity we have had on both our Delaware Basin and our Midland Basin acreage. We have top tier producers running consistent rig programs and the producers we serve are constantly improving their drilling efficiencies and well productivity. We have not seen any of our key producers reduce their drilling outlook for 2020, despite the challenging commodity price environment.

Looking out into Louisiana, segment profit increased 28% for the fourth quarter as compared to the third quarter of 2019. The fourth quarter is our seasonal high for the NGL business and this year was no exception. We achieved record NGL volume on our system for the fourth quarter of 2019. The team did a tremendous job keeping our assets operating reliably and safely while optimizing results.

On the natural gas transportation side, volume was steady. And in our ORV business, we achieved another quarter of consistent results.

As we look into 2020, we are projecting our Louisiana segment profit to increase by approximately 5% as compared to 2019 results. Much of the growth will come from the NGL business, with a full year of our Cajun-Sibon III expansion driving most of the increase.

Looking further out, we see our downstream operations in Louisiana playing a bigger part in the overall EnLink picture. We are increasingly dedicating resources to develop multi-commodity opportunities and we have numerous projects in various stages that we are working on. We hope to have some exciting projects to announce on this front in the coming quarters.

Taking a look now at Oklahoma, segment profit for the fourth quarter increased by 7% as compared to the third quarter of 2019. The segment profit increase was due a few factors, including cost reduction initiatives along with a slightly larger deficiency payment from Devon related to a minimum volume commitment, which expires at the end of 2020.

Average fourth quarter daily natural gas gathering and processing volumes decreased by approximately 4% and 5% respectively from the third quarter of 2019, and we expect to see volumes decline by mid-to-high single digits for 2020 as compared to full-year 2019.

The volume declines are directly correlated to a step down in activity we've experienced in the STACK due to the commodity environment. We've seen multi-basin producers like Devon choosing to develop acreage in oil-centric basins and reduce development in Oklahoma STACK play due to its proportionally higher production of NGLs and natural gas.

Meanwhile, we've seen good consistency with single basin producers in Oklahoma and believe that the activity we'll see during 2020 should result in connecting approximately 80 to 90 wells throughout the year. We're off to a solid start in January and February, and have connected 19 wells so far.

Also, during 2020, we expect to receive approximately $55 million to $65 million of deficiency payments from Devon related to the MVC I mentioned earlier. We had initially budgeted the deficiency payment for 2020 to be around $50 million, but due to changes in well connection timing and an update to Devon's production plans, we've updated our estimates.

I'll round out my comments by touching on North Texas. Segment profit for the fourth quarter was approximately 4% higher as compared to the third quarter of 2019, driven by successful cost reduction initiatives and margin enhancements. Average natural gas gathering and transportation volumes for the fourth quarter were relatively unchanged as compared to the third quarter of 2019.

For 2020, we are forecasting segment profit to be approximately 14% lower than full-year 2019. The year-over-year reduction in segment profit is due to natural volumetric decline in this mature basin, along with changes in business mix and a reduction in processing fees charged to BKV as they transition into Devon's ownership position. This reduction in processing fees is expected to be more than offset by enhancements to our NGL value chain.

With that, I'll turn it over to Eric.

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

Thank you, Ben, and good morning everyone. As Barry mentioned, EnLink delivered a strong fourth quarter of 2019, achieving $291 million of adjusted EBITDA. This represents an 11% increase as compared to the third quarter of 2019, which is the result of the strong earnings power of our platform, along with the normal seasonal uplift in the NGL business.

While we don't provide quarterly guidance, I will provide some high-level qualitative direction for 2020. As we exit the seasonal high of the fourth quarter, we expect segment profit to trend lower through the second quarter of 2020, which is expected to mark our seasonal low. Like 2019, we expect the second half of 2020 to be stronger than the first half, with the fourth quarter of 2020 again marking our seasonal high.

We generated excess free cash flow of $21 million for the fourth quarter of 2019 and expect to generate excess free cash flow again during the second half of 2020. We see excess free cash flow continuing to grow throughout 2021. As a reminder, we define excess free cash flow as distributable cash flow, less growth capital expenditures net to EnLink and distributions to our common unitholders. Distribution coverage for the fourth quarter of 2019 was 2.2 times and debt-to-adjusted EBITDA as calculated by our credit facility was 4.3 times.

Full year adjusted EBITDA was approximately $1.08 billion for 2019, with distributable cash flow of $724 million and distribution coverage of 1.4 times. Our growth capital expenditures for 2019 were $600 million, which is $30 million below the low end of our guidance range of $630 million to $715 million, demonstrating the commitment we have to capital discipline.

New projects continue to have a very high bar to reach approval, and our team continues to do a great job finding creative ways throughout the year to recycle and redeploy assets around our footprint to reduce costs. We expect to see steady improvement in capital efficiency throughout 2020 with the work that our teams are doing.

We will continue to invest in new high-return projects and we'll balance our capital allocation between these new projects and effectively managing leverage. Our major capital project underway for 2020 is the construction of our Tiger natural gas processing plant in the Delaware Basin and its associated infrastructure such as gathering lines

and compression. We expect to spend roughly $60 million in the first half of 2020 related to this project. And as Ben mentioned earlier, Tiger is expected to be in service during the second half of 2020.

We are also investing approximately $20 million in our natural gas transportation network in Louisiana to connect the Venture Global's Calcasieu Pass LNG facility to our system, with an anticipated in-service date of early 2021. The remainder of our growth capital program is dedicated to high-return, low-cost bolt-on projects such as the capacity expansions in the Midland Basin that Ben referenced, NGL system enhancements in Louisiana, and well connections across our dedicated acreage.

Maintenance capital for 2020 is expected to be between $40 million and $50 million and when combined with the midpoint of our growth capital guidance range, we are expecting total capital expenditures for the year to be roughly $370 million, given the projects we've announced and the development we have underway to achieve growth in adjusted EBITDA during 2020.

It has been five weeks since we issued our 2020 financial guidance. And we have taken a hard look at the results for the first two months and the potential impact the current commodity environment could have throughout the remainder of the year, and remain confident that our 2020 guidance ranges remain intact. As with every year, there will be puts and takes within each segment and within each quarter.

We built our 2020 guidance ranges from the bottom-up and feel that modest EBITDA growth over 2019, driven by strong growth in the Permian and underpinned by stability in Oklahoma is still our base case. We see a clear path to lower leverage throughout 2020 and remain committed to reducing leverage below 4 times as calculated by our credit facility during 2021. We have no planned capital markets activity during 2020 and have no near term or medium term senior note maturities. In fact, approximately 30% of our long-term debt doesn't mature for nearly 25 years or beyond.

I would like to also briefly remind people of our cash tax position. Based on our projections, we do not foresee EnLink incurring cash outlays related to corporate federal income taxes over the next four years. Beginning in 2024, we expect to pay a limited amount of cash federal income taxes as a result of the 2017 tax reform changes, which introduced a limitation to the use of loss carry forwards generated post tax reform. In terms of our common unit distribution projections, we expect that 100% of our common unit distributions for the next three years will be characterized as return of capital for tax purposes.

Before I turn the call back to Barry, I'll wrap up by summarizing the strength of our financial position. We achieved strong adjusted EBITDA for the fourth quarter of 2019 and the full year 2019. We generated excess free cash flow for the fourth quarter of 2019 and are on track to generate excess free cash flow in the back half of 2020 and into 2021.

We have no near term debt maturities, no need to access capital markets in 2020 or 2021, and no cash taxes forecasted over the medium term. We are spending 40% less on total capital in 2020 as compared to 2019 and see the potential for 2021 capital spend to be lower than 2020. We have the capability of fully self-funding our total capital program for 2020, and can continue to self-fund the capital program that generates modest EBITDA growth going forward.

We continue to find ways to increase the capital efficiency of our platform by recycling and redeploying assets, and our operations optimization team continues to find impressive ways to get more out of the systems we have.

With that I'll turn the call back to Barry.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

Thanks, Eric. To sum it up, 2020 is straightforward for us. We are focused on what we can control. We have a strong record of execution and we will continue optimizing our business as we further develop our critical downstream platform in Louisiana. As we face today's headwinds, we believe that the earnings power of our diversified platform, coupled with our ongoing cost management initiatives support the guidance we issued for 2020.

EnLink is a strong midstream company, generating over $1 billion of adjusted EBITDA. We are in a new chapter where our focus is on generating free cash flow and running a sustainable, efficient, profitable business. We are mining our assets for opportunities and we are committed to financial discipline, and managing to our long-term targets.

At EnLink, we continue to operate with discipline and a sense of urgency. I'm confident our team will solidly deliver throughout 2020. By doing all of this, we are creating an advantage position from which we will capture accretive opportunities over the long term.

With that, you may now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question is from T.J. Schultz of RBC Capital Markets. Please go ahead.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Hey, good morning. I think just first for the single basin producers, and I'm thinking about the 80 to 90 well connection in the STACK, can you give any details on typical size and capitalization of those counterparties, maybe if they have any hedges in place that are helping returns in the STACK? And then your outlook for those well connects this year, is that [ph] risked at all (22:44) versus some of the budgets from those single basin producers or could that well connect number surprise you to the downside, if current commodity prices persist? Thanks.

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Hey, T.J., it's Ben. Good morning. In terms of the 80 to 90, you're right. It's about 70% of those coming from the single basin producers. That's not just one or two parties, that's approximately eight parties that we have drilling schedules from this year in Oklahoma.

As to the capitalization, many of them are private and others are small-cap publics. And, yeah, they're not, perhaps, not as well capitalized as the big independents, but we think they have sufficient resources to run the plants that they expect to run this year.

In terms of the outlook, I feel good about the well connect number. We've seen a couple of things move around, but in the aggregate, we are looking at pretty much the same, in fact maybe a couple more wells than we expected a month ago in Oklahoma.

As far as the commodity price outlook, certainly the front-end of the natural gas curve is not helpful, but when you look out down the curve, prices are still at a point where these producers can generate economic returns in Oklahoma and so we don't, at this point, anticipate any kind of a downside surprise.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks. Just on the cost improvement optimization plan, that $75 million, any update there, just timing to realize that size of that initiative? Any details there would be helpful.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah, T.J., this is Barry, as we've said in a couple of communications with you and others over the last couple of months, we feel great about our ability to accomplish that $75 million really before the end of the year. And so, it's done. You saw some of that impact in the fourth quarter as we saw cost reductions and other impacts across the business, but really the way to think of it is it's fully in our business here as we enter the first quarter. We'll continue to work really hard to drive additional opportunities and additional cost savings throughout the year, but I think you should think of the $75 million being in the guidance and really in the bag as far as the things we needed to do.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Okay. Great. Thanks, Barry.

Operator: The next question is from Jeremy Tonet of JPMorgan. Please go ahead.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Just want to start off on the role of SVP of Operational Excellence here, and just want to dive in a little bit more in this role. And if you could explain like how this varies from the COO responsibilities and I guess, maybe what goals specifically do you have for this role? And as you're talking about the $75 million of optimization, is it tied to achieving that or anything else you can share with us there?

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah, Jeremy, thank you. We're excited to have Walter Pinto come onboard with us. Walter brings importantly downstream experience really – running very complicated operations from front-line site management to all the way to executive level leadership. And so, Walter is the right guy and we're excited to bring him onboard to be a part of the organization.

Much of what we're doing there is already underway and we've been utilizing resources, both our internal resources as well as GIP to accomplish those things that Walter will now step into and really lead and give us additional thought, give us additional arms and legs, if you will, to go do those things. So, specifically – well, let

me say this, it really is across the organization from procurement to accounting to commercial operations to field operations. We are optimizing our processes across all of those things to just simply get better. And we think that while we already operate at a very high level from an excellence standpoint, we think there's always a chance to get better. And this business today demands that we find efficiencies and drive additional profitability. So, let me turn it over to Ben. He may have a couple of examples that he would want to give.

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Yeah. I'll expand first, Barry, on the comment you made there. When we went and sought someone for this position, we were purposeful in not wanting someone from our own industry. We wanted to find someone from the refining or the petrochemical industry because we think that they have long operated at a level that's different than what midstream operators do. So, I agree with Barry, we've got about 1,000 people in our plants and in the field already doing an excellent job, but we think there's another level not just for us but for midstream. And we think that this position puts us in a position to attain that.

Some examples, rotating equipment reliability, making sure that the compressor stations in the field have the greatest uptime possible, so that we never miss a molecule. Things like reducing our fuel and our power usage. Things like optimizing the recoveries in the cryo plants to drive more volume into the NGL system. Those are the sorts of operational things that we've been working on and we'll continue working on.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

That's helpful, thanks. And just a couple last ones if I could. With regards to the write-down, just wondering if you could give us more details on the impairment in which assets or businesses that is, if it's wholly-owned or if that's equity earnings, any color there would be great.

And as you talk about free cash flow and look to maximize that over time, just wondering if you could provide any thoughts with regards to, the level of capital that would help kind of sustain EBITDA as it is and just kind of thinking through maximizing free cash flow through pulling back on CapEx, but also at the same time what that means for EBITDA run rate.

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

A

Hey, Jeremy, it's Eric. Thanks a lot for joining the call and your questions today. I'll tackle both of those. I'll start with the impairment. Just as a reminder of the genesis of the bulk of the goodwill that was on the books, that was from when EnLink was formed in 2014. And then as a result of the simplification, the goodwill that had previously been allocated to the IDRs was required to be pushed out to the segments.

We allocate and review and value our goodwill each year around October 31. And then because of the decline in the unit price that happened late in the fourth quarter this year, we were required to take another look at it, and that's where we realized that the impairment needed to be taken, and it's related to the North Texas and Oklahoma goodwill that have been allocated as part of the simplification. So, the goodwill associated with both of those asset groups has been written off completely, and what remains is about $185 million of goodwill for the Permian business.

On your second question on sustaining capital, look, over time, we've had this discussion a lot, and as you know, calculating a precise number is a very dynamic exercise for any of us in the industry. There's a lot of variables and

interdependencies across the business, whether it's capital cost, operating expenses and other requirements across different geographies and different business lines quite frankly.

But if you look at our 2020 program, there's a few discrete projects. As we've mentioned, there's Tiger and Venture Global that really won't be generating big EBITDA until 2020 – until beyond 2020. And so, if you take these out, we're spending in the neighborhood of a couple hundred million dollars to support the 2020 growth in EBITDA over 2019, so that gives you a flavor of the type of level of spending that's supporting this year's EBITDA.

When you look at that over time, you look at the efficiencies we've gotten and the cost to connect wells in Oklahoma, for example, significantly lower over the last couple of years and looking over a longer time period, you could see that number come down a little bit on average as well.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

That's all from me. Thanks for taking my question.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Thank you.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Thank you.

Operator: The next question is from Colton Bean of Tudor, Pickering, Holt & Company. Please go ahead.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Good morning. So, actually just wanted to follow up on the well connect disclosure and the reduction in capital cost there. Does that reflect a change in scope or the wells being drilled closer to the existing infrastructure? Just any further explanation there would be helpful.

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Hey, Colton, it's Ben. It's primarily the second of those items, and really it's more that we have the field pretty well covered up in pipeline. Just look at the map and you'll see that we are well covered across the play. And so, almost anywhere in the play a well gets drilled, it's a fairly efficient connection for us. That coupled with the team's focus on doing everything as efficiently as we can do it.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Got it. And then, I appreciate the disclosure on project multiples. But given that reduction in well costs, how are you looking at full cycle rate to return on those wells now or maybe that payback period required?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Well, every – look, everyone is different but certainly with the average gas well connect now in the $200,000 area, I mean, the payback on those on average is less than a year. That's the best capital that we spend.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Got it. That's helpful. And then, just finally the MVC payment there in the Oklahoma segment, with that being a little bit larger, is that a timing consideration? I guess, as you look at 2020 with the $55 million to $65 million, should we be aware of any quarterly variances there?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Yeah. I mean, it's going to grow over the course of the year and that is due to a couple things. One is the MVC level itself steps up sequentially each quarter. And so, the highest MVC level is in the fourth quarter of 2020. And then it will also fluctuate as wells are brought on because Devon does have about 10 wells that were drilled last year that are waiting on completion later this year. And the moving around in time of those wells is part of what drove the revision in our estimate of the MVC. So, yeah, you will see some shape to it, and it's likely to be higher at the end of the year than at the beginning.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Understood, appreciate the time.

Operator: [Operator Instructions] The next question comes from Praneeth Satish of Wells Fargo. Please go ahead.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Hi, good morning. Just two questions for me. I guess, just one in terms of the new projects or potential projects you're looking at in Louisiana, can you give us a sense of the size of these projects and, I guess, how that fits into your CapEx budget? Is that in the guidance for this year or how it fits into 2021 CapEx?

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah, Praneeth, this is Barry. First of all, let me reference to the slide 14 in our presentation today. I think it does a good job of supporting what we're focused on in Louisiana and really what we're focused on as a market that is very constructive for additional facilities or infrastructure to serve that growing market, both from an LPG export standpoint, LNG export and then the domestic gas consumption.

We are uniquely positioned in that marketplace to serve those growing markets. And so, that's what we're focused on. As Ben said in his prepared remarks, we've added resources. In fact, we have added strategic resources with lots of experience in that marketplace to go along with our great team that we already had. And so, we expect to do some things there over the next couple of years. This is not a very near term. So, getting specifically to your question around capital in the 2020 budget, we really don't have capital in the budget for Louisiana growth. This would be something that would be likely towards the end of the year before we would reach commercial conclusion and then probably a spend, which start to happen after 2020. The impact from an EBITDA perspective or contribution is certainly a 2021 or 2022 in forward timeframe.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Got it. And then, the industry is building a lot of new frac capacity at Mont Belvieu, which is going into service this year. I'm just wondering as this capacity is placed into service, could that impact or pull any of the volumes away from your fracs in Louisiana or are they secured under take-or-pay contracts?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Hey Praneeth, it's Ben. We have a portfolio approach on both sides of the NGL business. So, on the supply side, the majority of our volume is equity volume from our own gas plants in West Texas, Oklahoma and to a lesser extent in North Texas, but we also have a portfolio of third-party supply and those contracts have terms associated with them. Some of them are quite long term in nature.

On the frac side, we have not only our own fractionators in the Louisiana, but also our space at our joint venture asset Gulf Coast Fractionators in Belvieu. And then, we have third-party frac deals with varying terms on them in Mont Belvieu and in Louisiana. So, when I look across the portfolio management that we do every month, I'm not concerned about the addition of Mont Belvieu frac capacity having an impact on the volumes that we direct to our fractionators.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you.

Operator: The next question is from Ethan Bellamy of Baird. Please go ahead.

Ethan H. Bellamy
Analyst, Robert W. Baird & Co., Inc.

Q

Hey all, good morning. This is a bit of a tough question, but your yield is about three times that of what would be considered healthy historically. I mean, the market is clearly not buying into your arguments or your forecast right now. Where do you think the disconnect is? Do you think you should have cut the payout even further to deleverage faster? And at these equity price levels, why wouldn't GIP just roll up the rest of the equity? It doesn't seem like there's much benefit to be in public right now?

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah. Thank you, Ethan. This is Barry. And you warned us with a tough question. Let me try to start with the distribution level, which we set just a month ago. And as we said then, we set the distribution at a level that we believed was appropriate for the business that we operate today. Let me remind you that we're $1.1 billion of EBITDA, about $750 million of distributable cash flow. Our objective was to set that distribution at a level that would allow us to pay for all of our capital expenditures and our distributions and have excess free cash flow with which we would manage leverage throughout 2020 and into 2021, where we would be below our target of 4 times leverage.

The market's response to that, quite frankly, there's been so many things that have happened over the last 30 days. It's difficult to decipher what the market is saying about anything right now quite frankly. And so, as I said earlier, we are focusing on the things that we can control, and that is driving increased profitability across our

systems. And our team is doing a great job with that. Secondly, we are managing for financial strength and the excess free cash flow. Thirdly, every day we're getting better in the business, we're adding resources to continue to get better at operational efficiencies, organizational focus, all the things that we need to do to improve an already excellent running business.

And then, lastly, we want to be in a position to do things, where we see opportunities, particularly downstream. And so, Ethan, I think all of that is to say that we don't want the current conditions in the market to distract us. At the same time, I think these are extraordinary times and it requires extraordinary thinking. And so, that is the lens through which we are looking at everything in front of us. Everything is on the table in terms of what we need to do to provide a catalyst that would differentiate the way the market is valuing us today.

A last point I'll say on GIP is you could not find a more supportive and collaborative sponsor, if you will, or a large shareholder than the way that we've seen GIP behave over the 18 months that we've been working with them. We see tremendous resource allocation. And I think the alignment with our stakeholders is excellent. They're our largest common shareholder. That's the position they're in and that's a position I think that they operate from. So, that's what we're focused on today.

Ethan H. Bellamy
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you, Barry. Good luck.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Appreciate it.

Operator: The next question is from Chris Tillett of Barclays. Please go ahead.

Christopher Tillett
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning, guys.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Hi, Chris.

Christopher Tillett
Analyst, Barclays Capital, Inc.

Q

I guess, just wanted to focus on the Permian here for a second. If you look back across 2019, you guys increased processing volumes there by almost [ph] 300 Ms (40:36) per day. Yet, on a quarterly basis, segment profit still continues to hover in that, call it, $35 million to $40 million per quarter range. I guess, looking forward into 2020, is there anything that you guys are doing differently with some of the expansions you have going on there at the new plant that can give us confidence that the profitability on that – those new assets is going to improve that you might be able to hit your guide?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Hey, Chris, it's Ben. Yeah. Let's take that apart a little bit. So, you have two pieces in the Permian. You have the gas business and the crude business. The crude business has gone lower over the course of the year as a result of a – at the segment profit level as a result of a couple of factors. One of those is a decline in the profitability of the trucking business, that's a business that we have significantly de-emphasized because it's a low-margin business and requires a lot of cost to operate. And so, we've walked away from, to a great extent, that piece of the business.

Also you have some volatility in the crude segment in Oklahoma in what's reported as segment profit from a mismatch in where the realized hedges on that business were booked. So, just take the fourth quarter of 2019, there's about a $5 million realized crude hedge that will show up in corporate. You'll see that when the 10-K gets filed later today.

If you kind of take crude out of the equation and you look at the gas business, from Q4 2018 to Q4 2019, you're right, the gathered volume is up about 30% or so. The segment profit is up about 20%. The reason that's not more of a one-to-one relationship is we had declining commodity prices over the course of the year. And out in Midland, we do have an element of POP contract exposure that feels some of that commodity price decline.

When I look at Q4 2019, result in the gas business and how the volume builds over the year, we've seen a pretty significant increase in activity level over the past few months on the – really on both sides of the basin, certainly on the Midland Basin side in particular. And so, the rigs that you see on the system today in the 13, 14 mid-teens area, the wells that those rigs are drilling today come on over the course of the year and will drive a second-half-weighted volumetric increase that will then drive the segment profit.

The one kind of note of caution that I'll put in there is with that POP exposure in Midland, and with the spot commodity prices that we're seeing in the first quarter, I do think the first quarter will be a little bit soft, a little bit muted in terms of growth, but when I look out over the course of the year, I feel good about how we're set up in the Permian for the year.

Christopher Tillett
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks for that. Is there any – like, are you adding any additional POP exposure with the Midland expansion or is that – should we expect that level to remain sort of where it is?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

No, we're not adding any additional POP exposure. The – almost everything we do at this point is fee-based in terms of new contracts. And I'll say, too, there's been a little bit of talk about other companies trying to reduce their POP exposure. I want to make a bit of a distinction. I think in most cases, what they're talking about is trying to add a fee component to a contract that is wholly POP, most – the overwhelming majority of our contracts have a fee component already. So, we have a floor so to speak. And so, we're not looking to change the POP mix today because to do that, the starting point of negotiation is what's the fee equivalent of the POP that you're receiving today and we wouldn't want to lock in at these levels.

Christopher Tillett
Analyst, Barclays Capital, Inc.

Q

Understood. Appreciate that. And then, last from me in Louisiana quickly, some of the contract changes that you guys had mentioned in the NGL segment when you announced your 2020 guidance, sounded like we should

expect some uptick in Louisiana from those through 2020. Just curious to know if any of that materialized in the fourth quarter or is that purely a 2020 event?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

That's purely a 2020 event and that is tied to Devon's sale of their North Texas position, the BKV, and we don't expect that to close until April. And so we won't see any impact from that transaction until after that transaction closes.

Christopher Tillett
Analyst, Barclays Capital, Inc.

Q

Okay. That's it from me. Thank you very much.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Thanks, Chris.

Operator: The next question is from Chris Sighinolfi from Jefferies. Please go ahead.

Christopher Paul Sighinolfi
Analyst, Jefferies LLC

Q

Hey. Good morning, guys.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Good morning.

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Hey, Chris.

Christopher Paul Sighinolfi
Analyst, Jefferies LLC

Q

I appreciate the color on Permian. I had similar question, so kind of appreciate all the thoughts there. I really just have one question and it's just more of a clarification point for Eric. When I look at the fourth quarter reported results, you guys clarified a lot of things that were kind of one timing on the consolidated side. Just curious more about the equity earnings report for 4Q, just because it had been such a stable contribution for about 10 quarters, and then there is a very significant sort of equity earnings loss for fourth quarter. I'm just curious what drove that?

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

A

Yeah. That has to do with a write down of a piece of our investment in Oklahoma venture.

Christopher Paul Sighinolfi
Analyst, Jefferies LLC

Q

Okay.

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC
A

[indiscernible] (46:29) equity earnings.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC
A

Yeah.

Christopher Paul Sighinolfi
Analyst, Jefferies LLC
Q

Yeah. So, similar dynamic to what maybe caused your own write-downs around distribution...

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC
A

Yeah, yeah. No. Exactly. Yeah. It's Oklahoma activity level around that particular asset.

Christopher Paul Sighinolfi
Analyst, Jefferies LLC
Q

Okay. All right. That's all I had. Thank you very much.

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC
A

Thank you.

Operator: The next question is from Becca Followill of US Capital Advisors. Please go ahead.

Becca Gill Followill
Analyst, USCA Securities LLC
Q

Good morning. If you're successful in pursuing and bringing to fruition some of these projects in Louisiana, which sounds like they could be substantial. How do you balance the need for CapEx versus your desire to be – to generate excess free cash flow?

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC
A

Yeah, Becca, thank you. Look, I mean, I think one of the points that we want to make is that that is a 2021 and forward spend and I think it's important to note that. Secondly, because of the redundancy of facilities that we have or the overall platform in Louisiana, we would expect for significant projects there to be relatively capital-light. In most cases, we will be converting facilities or building off of existing facilities on the things that we're working on. So, I think you could see disproportionate EBITDA versus the capital that we would spend, but obviously that's something that we've got to – we have to look at and something that, as we develop these projects further, that we will pay great attention to and that is the best way to structure it from a financing standpoint. Eric, I don't know if you'd add anything to that.

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC
A

Yeah. No, I think in addition to them being capital-light that we recognize that we'll need to make sure that they are projects that provide an appropriate amount of return and the ones that we'll need to – we'll be very clear on what it is we hope to achieve and how it pushes us forward and why the capital makes sense.

Becca Gill Followill
Analyst, USCA Securities LLC
Q

Said another way, would you want to be in a position where you did generate excess free cash in 2021 so that you would CapEx or minimize CapEx in order to be able to generate that free cash flow?

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC
A

Yes. I mean I think, as you've seen in the fourth quarter what we've done here, I mean, I think we're being pretty disciplined about projects that we're undertaking and it's important to make sure that the bar continues to be very high to make sure that in order to get capital projects approved, it fits into the overall goals.

Becca Gill Followill
Analyst, USCA Securities LLC
Q

Thank you.

Operator: The next question is a follow-up from Jeremy Tonet of JPMorgan. Please go ahead.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Hi. Thanks for squeezing me in here. I just want to kind of build off, I guess, a question I had earlier and maybe what Ethan was talking about as well, I think in just, when you said, you reset the distribution level to a level that you think is right for the business, just wondering if you could refresh us on what the drivers are there, just we're trying to see how much capital is needed to keep EBITDA flat. And if that's kind of unclear, just trying to understand how you guys determine what the right level of payout is, because again the market seems to have a different opinion at this point I guess.

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC
A

Well, I guess, Jeremy, I'm not sure if I was unclear if you didn't understand how I was walking through it. But I think that when I walked through the analysis of the discrete projects and what we have this year of about $200 million that's supporting this year, the EBITDA and we expect that to be the number that potentially goes down as we get more efficient. But it's sort of in that range. So, that's how we think about what would be a run rate for a lot of the capital that's supporting the current level of EBITDA.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

That's helpful. Thanks. So, I guess, that's more of maybe a kind of a run rate CapEx level. But just maybe going back into like determining what the right payout level is, just wondering if you can provide some more color on how you guys go about thinking that.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah, so, Jeremy, let me say what we said in January, which is that we started with our EBITDA projection of the business at $1.1 billion of midpoint and the range that we gave, and then we really solve for what we thought was the appropriate amount of excess free cash flow after distribution and capital. And we gave a range of $10 million to $70 million of excess free cash flow that comes from that business operation or the cash flow from the business. And so, we never really set out to solve for a certain distribution yield.

Quite frankly, we've not seen that be successful, and I don't think it would drive us today if we were today be faced with the appropriate level of distribution with everything that we know, we think it would be what we set out last month and that is because it's appropriate for the business today. And look, I suspect that much of the questions has been because some of the changes that we've seen in the last 30 days and some of the headwinds that have arisen, particularly the commodity price. It's early in the year. We'll continue to monitor that. We'll do everything we can to offset that with efficiencies across the organization, and I do think we've got some opportunity to do that. Our team is extremely focused and committed to doing what we need to do to execute through this environment.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Okay. I'll stop there. Thank you for squeezing me in.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Thank you.

Eric D. Batchelder
Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

A

You bet.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Barry Davis for closing remarks.

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Kate, for facilitating our call this morning and for everyone on the call today, thank you for your participation. As always, we appreciate your interest and investment in EnLink and we look forward to updating you with our first quarter results in May. Have a great day.

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