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# EnLink Midstream LLC (ENLC)

Q3 2019 Earnings Call

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Kate Walsh

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*Chairman and Chief Executive Officer, EnLink Midstream LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to EnLink Midstream's Third Quarter 2019 Earnings Conference Call. 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 also note, today's event is being recorded.

I would now like to turn the conference call over to Ms. Kate Walsh, Vice President of Investor Relations. Ma'am, you may begin.

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### 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 third quarter results. Participating on the call today are Barry Davis, Chairman and CEO; 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 earnings press release and quarterly report to the Investor Relations section of our website. During today's call, we will refer to certain slides included in our quarterly report. A replay of today's call will be made available on our website at [www.enlink.com](http://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 earnings press release, quarterly report, 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 earnings press release and the appendix of our quarterly report. We encourage you to review the cautionary statements and other disclosures made in our earnings press release and our SEC filings, including those under the heading Risk Factors.

As a quick reminder, we modified our segment reporting earlier in 2019 to better align with how we're running and tracking our business. Any comparisons between 2019 and 2018 at a segment level utilize 2018 segment results that have been recast to align with the 2019 segment reporting methodology.

We'll start today's call with a set of prepared remarks by Barry, 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.

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### Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

Thank you, Kate, and good morning, everyone. Thank you for joining us today as we report our third quarter results and discuss expectations for the remainder of 2019. We will also give a preliminary outlook related to 2020 and discuss the execution plan we put in place to ensure our success going forward.

In the third quarter, we navigated market dynamics and executed effectively to deliver financial results in line with our expectations when you take into account a severance cost related to our CEO change and the regular seasonality in our Louisiana segment.

Adjusted EBITDA was \$261 million for the third quarter of 2019. After netting out the severance cost and taking into account the seasonal uplift we expect in the fourth quarter, our fourth quarter adjusted EBITDA is expected to be higher such that our adjusted EBITDA outlook for full year 2019 is forecasted to be at the low end of our guidance of \$1.07 billion.

From a growth capital expenditure standpoint, we invested \$150 million across all of our assets during the third quarter. And since all of our major projects for 2019 are now in service, we expect to be at the low end of our growth CapEx guidance range for 2019, coming in around \$630 million. We continue to see producer moderation in Oklahoma in response to the lower natural gas and NGL commodity price backdrop. And I am very proud of how effectively our team and our platform have been able to flex growth capital in response to these market conditions.

With a reduction in growth capital spending this quarter combined with our strong base of diversified cash flows, we generated positive free cash flow, and we expect free cash flow to be significantly higher in the fourth quarter and into 2020. For fiscal year 2020, we are forecasting an approximate 50% reduction in growth capital spending as compared to our 2019 CapEx, which will enable us to continue to generate free cash flow.

Being back in the CEO role now for around three months, I've had the opportunity to reconnect closely with our employees, our customers and our investors. After a comprehensive evaluation of where EnLink is today and where we want to be in the future, we have developed an execution plan with clear priorities aimed at strengthening our financial position and our business. The philosophy behind our execution plan is simple. It is to take excellent care of what we already have. We are committed to maximizing our current asset platforms profitability, while preparing the company to take advantage of opportunities over the long term.

The first priority in our execution plan is to enhance the profitability of our existing business. We currently estimate that we can generate up to \$75 million of adjusted EBITDA on a same-store basis in 2020 versus 2019 by executing our plan. We have a number of initiatives that are targeted at improving our asset utilization and margins in New Mexico, Texas, Oklahoma and Louisiana. We are focused on keeping our assets full and creating new capacity to efficiently take on new business, all while reducing cost and improving processes throughout our operations.

The second priority in our execution plan is to position EnLink to capture long-term opportunities. In the Permian Basin, we have a strong roster of producer customers that are well-capitalized and very active. The real opportunity for us here is centered around growing alongside our customers, filling up our assets and then investing in low cost, high return bolt-on projects when we need more capacity. This is very similar to what we've achieved historically at EnLink and are doing around our platform today.

In Louisiana, strong demand growth along the Gulf Coast is the key driver to our opportunity set. When we look at the growth opportunities across our platform, about half are in Louisiana. For example, we recently announced an agreement with Venture Global to transport natural gas to their Calcasieu Pass LNG facility. And yesterday, we announced our latest commercial win by entering into a natural gas purchase agreement whereby we will transport natural gas from Northern Louisiana to demand markets along the Gulf Coast at an attractive long-term rate.

In Oklahoma, we have the leading midstream position in the stack play. Our size and scale in Oklahoma position us well to benefit from consolidation in the basin, and we have great operational leverage available when natural gas and NGL prices improve.

In north Texas, another area in which we have the leading midstream system, our size and scale position us well to benefit from midstream consolidation in the Barnett Shale play. Our anchor customer Devon Energy is currently in the process of selling their acreage position in the Barnett. And while we aren't planning for it in the budgeting process, if the new buyer is more active than Devon has been, we could see some upside in the future.

Stepping back a bit and thinking longer term, I see the main objective of this priority as increasing our downstream presence. We are more heavily weighted towards the gathering and processing end of the midstream value chain right now, and we envision a future state whereby we are more balanced throughout the value chain. We are one of only a few midstream companies that has the asset platform to leverage into the downstream.

The third priority in our execution plan is to strengthen our financial position. The key step we are taking in 2020 with respect to this strategy is to reduce our growth capital expenditures program by approximately 50% which will lead to strong free cash flow generation. We are forecasting our growth capital spending to be in the range of \$275 million to \$375 million with most of that capital deployed on high return well connects and gathering lines. This type of capital is quick to cash, low risk and usually results in an EBITDA multiple in the sub 4 times range. Our long-term leverage and coverage targets remain unchanged, where we continue to target credit facility leverage of sub 4 times over time and coverage in the 1.3 to 1.5 times range.

Our fourth and final priority centers around driving organizational efficiency while maintaining a high level of customer service and safety. There are a number of initiatives that we've identified and are pursuing which will lead to meaningful general and administrative cost savings. These initiatives will have a direct and positive impact to our bottom line in 2020 and beyond.

As we look forward and think about the big picture for 2020, there are two important variables to consider. First, our producer customers are currently undergoing their budgeting process for next year in which they are working to determine their capital allocation priorities. Second, commodity markets, specifically natural gas and NGLs remain less constructive in certain areas, which influence the cadence, magnitude and location of producer spending.

Based on these variables, we recognize, as many of you have called out, that there could be significantly less activity in Oklahoma during 2020 than what we experienced from 2017 through 2019. We are acting with a strong sense of urgency and are taking the necessary steps today to effectively manage our business and to realize the opportunities of our execution plan, which we estimate to provide up to \$75 million of adjusted EBITDA during 2020. A number of initiatives are already underway, which are expected to generate significant positive results in the near term.

But here's what we want you to hear today. Given everything we know, we are confident that we can achieve modest growth in adjusted EBITDA in 2020 compared to 2019. We look forward to updating you in February with our detailed 2020 guidance outlook, which will be based on the added clarity provided by our producer budget. In the meantime, I can assure you that we are taking a comprehensive look at everything in our control, and we are taking action on execution priorities for the benefit of all EnLink stakeholders.

I'll now turn it over to Ben to discuss our asset segments in more detail.

## Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Thanks, Barry, and good morning, everyone. As Barry mentioned, EnLink executed effectively during the third quarter and delivered results in line with our own expectations. In the Permian Basin, segment profit was \$36 million, representing approximately 13% of total segment profit. Average natural gas volumes experienced strong growth as gas gathering and processing volumes increased by approximately 10% as compared to the second quarter of 2019.

In late September, we brought our 65 million cubic foot per day Riptide expansion online in the Midland Basin and are evaluating further expansions to the facility in response to our producer's growth activity in that area. Our Permian natural gas assets now support over 800 million cubic feet a day of processing capacity. The Tiger gas processing plant construction in the Delaware Basin is progressing well and is expected to become operational in the second half 2020 as planned. Once operational, EnLink processing capacity will exceed 1 billion cubic feet per day in the Permian Basin.

On the crude service side, we are seeing solid crude gathering activity in the Delaware Basin but have experienced some volatility on the crude trucking side in the Midland Basin. Average Permian crude volumes were down 22% for the third quarter of 2019 as opposed to the second quarter of 2019 due in part to a reduction in first purchase crude volumes in the Midland Basin.

Turning now to Louisiana, segment profit was \$67 million for the quarter, representing approximately 23% of total segment profit. Average NGL fractionation volumes were down slightly by 3% during the third quarter of 2019 as compared to the second quarter due to a lower ethane composition in the average barrel as a result of increased industry ethane rejection during the quarter. We saw the ethane rejection trend reverse somewhat in October and currently expect average volumes to be moderately higher in the fourth quarter as compared to the third quarter.

NGL volumes increased approximately 10% year-over-year as a result of the Cajun-Sibon III expansion placed in service in the second quarter of 2019. Average natural gas gathering and transportation volumes in Louisiana for the third quarter were approximately 9% higher than the second quarter, although segment profit contribution was down from the second quarter.

Several of our long-term Louisiana natural gas contracts came up for renewal over the last few years, and we re-contracted some volumes in a lower rate environment. We are now through the cycle of contract roll-offs and we are seeing improved demand for our services across our system. Our Ohio River Valley assets continue to perform well and consistently. Average volumes were 5% higher during the third quarter of 2019 as compared to the second quarter, and segment profit contribution grew by 9%.

Taking a look at Oklahoma now, segment profit for the quarter was approximately \$109 million, representing approximately 39% of total segment profit this quarter. Average natural gas gathering and processing volumes experienced modest growth of between 2% and 3% for the quarter as compared to the second quarter of 2019. Segment profit was down by 4% for the third quarter as compared to the second quarter, primarily as a result of lower NGL and natural gas prices and the resulting impact on fixed recovery contracts.

Crude volumes increased by 10% for the third quarter as compared to the second quarter, as we continue to gather incremental volumes for Devon and Marathon in the STACK. Overall, we continue to see producers moderate activity in Oklahoma in response to commodity prices. And as Barry mentioned, we've done a

tremendous job flexing our growth capital spending across our diversified asset platform as drilling programs ebb and flow.

We now expect to spend approximately 35% of our 2019 CapEx budget in Oklahoma, and we can see that percentage cut in half for 2020 spending. Our spending remains nimble, and we'll continue to monitor market conditions to ensure we're deploying capital to the highest impact opportunities. Barry also mentioned that the producers are currently underway with their 2020 budget planning. As we all know, there are a number of variables in play, and we will have a much better view to share with you when we release detailed 2020 guidance.

For context today though, in a scenario in which our Oklahoma assets experience about half the activity in 2020 that we are experiencing in 2019, we could see Oklahoma volumes decrease by a mid- to high-single-digit percentage and segment profit reduce by low-single-digit percentage from full year 2019 levels. We have minimum volume commitment on certain acreage positions which help mitigate the margin impact relative to the volume effect.

As Barry mentioned, when you combine our sensitivity analysis in Oklahoma with the overall adjusted EBITDA improvements we've already identified, that should enable us to achieve modest adjusted EBITDA growth in 2020 as compared to 2019 even with substantially lower activity in Oklahoma.

I'll round out my comments by touching on North Texas. Segment profit for the quarter was approximately \$69 million, representing approximately 25% of total segment profit. We saw average natural gas gathering, transportation and processing volumes stay roughly flat for the third quarter of 2019 as compared to the second quarter.

New activity is limited in the area, so we made a small acquisition in the second quarter of 2019 which has been a great project for us, earning an EBITDA multiple of sub-3 times. Overall, segment profit in North Texas was down by approximately 5% due to a change in contract mix.

And with that, I'll turn the call over to Eric to discuss our financial highlights.

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## Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Thank you, Ben, and good morning, everyone. EnLink delivered another solid quarter of cash flow results for the third quarter of 2019. We achieved adjusted EBITDA of \$261 million in line with our own expectations for the quarter when you adjust for severance costs and normal seasonality. We achieved distributable cash flow of \$168 million for the quarter.

EnLink's declared distribution of \$0.283 per unit to common unitholders for the third quarter of 2019, which is consistent with our second quarter common unit distribution, results in distribution coverage of 1.2 times for the quarter. We are projecting that 100% of our common unit distributions over the next three years will be characterized as return of capital for tax purposes, making these cash distributions highly efficient for tax purposes.

During the third quarter of 2019, we invested approximately \$150 million in growth capital projects and have invested approximately \$510 million year-to-date. With all 2019 major projects now in service, we are expecting lower capital spending during the fourth quarter and estimating full year 2019 capital expenditures to be in the neighborhood of \$630 million which is at the low end of our guidance range of \$630 million to \$710 million.



As a result of our asset base generating strong cash flow and the reduction in our capital program, we generated free cash flow during the third quarter of 2019, and as our growth capital moderates, we expect free cash flow to increase. From a leverage perspective, our debt to adjusted EBITDA ratio during the third quarter of 2019 as calculated under our credit facility was 4.2 times, as compared to approximately 4 times in the second quarter. Our long-term leverage target remains unchanged at below 4 times.

As mentioned earlier, we are currently expecting to reduce growth capital expenditures by approximately 50% in 2020 and have indicated a preliminary guidance range of \$275 million to \$375 million. Of our 2020 growth capital, we are expecting to invest approximately 20% in our Tiger project, a new natural gas processing plant in the Delaware Basin currently under construction which will serve XTO as its primary customer, beginning in the second half of 2020. We are projecting that another 45% to 50% of our CapEx will be allocated to the Permian for gathering infrastructure.

We are planning to spend 15% to 20% of our total growth CapEx in Louisiana, partially on our natural gas transport project with Venture Global's Calcasieu Pass LNG facility, which is expected to be operational in early 2021. The remaining 10% to 15% is expected to be invested in Oklahoma, primarily on highly efficient, quick-to-cash well connect projects.

Our capital allocation philosophy remains unchanged. We are prioritizing investments in low multiple, high return projects across our footprint while maintaining a common unit distribution level supported by the business. We expect to manage our debt level through increasing free cash flow from the business, prudent growth capital spending, and potential asset monetization initiatives if we feel there is an opportunity to realize value from any dislocation between the private and public valuations of our assets.

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

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## Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

Thank you, Eric. Before we open the call for questions, I'll summarize where we are. EnLink is a strong midstream company, generating over \$1 billion of adjusted EBITDA. We are entering a new chapter where our focus is on generating free cash flow and running a highly efficient, profitable business in the areas where we are today.

We are mining our assets for opportunities to enhance profitability and have identified up to \$75 million of adjusted EBITDA we expect to achieve in 2020. Our growth capital expenditures are significantly decreasing in 2020 because we have the backbone of all of our systems in place. We are committed to managing our balance sheet prudently and managing to our long-term target metrics. And by doing all of this, we are preparing ourselves to capture accretive opportunities over the long term.

With that, you may open the call for questions.



## QUESTION AND ANSWER SECTION

**Operator:** Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] Our first question today comes from T.J. Schultz from RBC. Please go ahead with your question.

T.J. Schultz

*Analyst, RBC Capital Markets LLC*

Q

Great. Good morning. I think just first you indicated a high level view on 2020 EBITDA higher than 2019. What does that assume right now for volumes from the STACK in 2020 rigs on your acreage or expected well connects? Just any more color there would be helpful.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. Good morning, T.J. This is Barry. Let me start that and then if there's comments that Ben wants to make around that. But first of all, let me just remind you that we will issue detailed guidance in February. And so what we were trying to do today is simply give you a view into 2020 on the things that we do know. And so we highlighted the opportunities that we think we have to improve the business 2020 over 2019 on a same-store basis. And let me be clear what I mean when I say that. If you just take the business that we have, the assets that we have in 2019, and project those into 2020, we believe the \$75 million is something that we can drive out of this business.

In fact, let me be clear. We already have executed on or have totally in our control the ability to execute on more than half of that \$75 million, and the effectiveness of that will be between here and the first of the year. So we'll hit the ground running with these improvements in 2020. But as to how that actually – the remainder of the business, T.J., we really need to see our producer plans. We really need to see capital budgets finalized. And maybe I'll turn it over to Ben to shape some of the things that we think about as we await those details from the producers.

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah, T.J., on Oklahoma, the truth is we don't know today what activity we're going to see next year because we don't yet have plans from our producer customers. So what we wanted to do was to give you guys a sense for what things could look like. And just to reiterate in the prepared remarks, if the activity level gets cut in half, we think that looks like a mid- to high-single-digit volumetric decline and a low single-digit gross margin decline. And I think there's been some pretty wild speculation out there about what those numbers would look like. And so hopefully, that will give folks a little bit of a comfort that even with a significant reduction in Oklahoma activity, it's not as though the sky is falling.

T.J. Schultz

*Analyst, RBC Capital Markets LLC*

Q

Okay. Understood. On the \$75 million plan there, can you just break out what of that is taking costs out of the business versus margin enhancements versus some of the commercial wins? Just any more detail there.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah, great. T.J., again, the message that we want to make sure that you hear is that our focus has shifted to optimization across the business. We're really coming out of a cycle of over five years of really a high growth period. As everyone knows in a high growth period, we are focused on optimization, but not – it isn't the first priority, and we don't have the same sense of urgency that we have when we see a cycle flatten, if you will. And so, what we've done over the last 60 days or so is to identify everything that's possible. And let me tell you that we think there are more things to do, but it is across the business. In terms of themes, it's cost reductions both in field operations and in overhead. It is expanding margins in all aspects of our business where we think our services deserve more of a fee. And then lastly, it's winning new business across the existing assets, where we would have low capital investment to achieve that. And so, let me ask Ben, I think he will give you some good examples across all of those things.

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

A

Yeah. Certainly, T.J., a big part of it is cost, and I think Barry addressed that well. When you think beyond cost, I can give you some examples. We're looking at low to no capital opportunities to further debottleneck the NGL system, and I'm not talking tens of thousands of barrels a day, I'm talking hundreds or thousands of barrels a day that over time add up and create capacity that is virtually free for us. We're looking at things like on the NGL pipeline, now we have five pump stations, and those five pump stations have five different cost of electricity. So, that creates an optimization opportunity for us to go and dispatch those stations in the most cost effective way. And an advantage that we have in doing this optimization work is our access to GIP. They give us extra hands and also extra tools in the toolkit for executing on these optimization initiatives.

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

A

Yeah, let me – I want to add to that, Ben, just a little bit of detail on the specifics because I want to be sure you hear that these things are already happening. Specific examples. We were providing a service for a north to south movement in Louisiana. Given the market dynamics that have evolved in Louisiana, we saw an opportunity to expand those margins. And so, we announced yesterday a contract where we're purchasing volumes in North Louisiana transporting to South Louisiana to serve all of our markets across the Gulf Coast at expanded margins, in fact significantly expanded margins. And so there's an opportunity where we've done that.

As far as winning new business in both our Midland and Delaware Basins, we've entered into new contracts to essentially provide more service to higher utilization on our existing assets just in the last few weeks. So those opportunities are happening. There are specific examples. The Venture Global that we announced last quarter is another great example of a large volume of new gas coming onto our existing systems. And so as I said, that is our highest priority. It is always a priority, but today, we wake up with a great sense of urgency to drive those new opportunities and expanded profitability on the existing assets.

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**T.J. Schultz***Analyst, RBC Capital Markets LLC*

Q

Okay. Understood. Just one last one maybe for Eric. What's your view on the dividend, just the potential to reset that lower potentially as part of the financial plan? Thanks.

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

A

Yeah. Thanks, T.J. Look, you will note that we have taken the growth rate of the distribution to zero this quarter which will pay out next week. And as we've talked about in the past, we evaluate this distribution policy regularly,

and as a management team and also with the board to set that policy, as Ben pointed out, as the budget comes together and producer perspectives become more clear in the coming weeks, that will be part of the analysis that we go through as to the business that we have to support the distribution and what the right policy will be going forward.

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T.J. Schultz

*Analyst, RBC Capital Markets LLC*

Okay. Thank you.

Q

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**Operator:** Our next question comes from Jeremy Tonet from JPMorgan. Please go ahead with your question.

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Jeremy Tonet

*Analyst, JPMorgan Securities LLC*

Hi. Good morning. Just wanted to follow up on the Oklahoma scenario that you guys outlined there. If activity proceeds as such next year, would you be able to provide kind of like a rough estimate as far as what CapEx would be needed to kind of keep EBITDA flat?

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Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Well, yeah. Hey, Jeremy. It's Eric. This is something that we've talked about on a regular basis. I think you can see what Ben went through and we're not getting into more specific detail of exactly what the expectation is for Oklahoma. But when you look at the CapEx that we have for next year in Oklahoma, it is very high return projects. It's sub 4 times well connect and gathering. And one of the questions we have gotten as well as we've talked to folks in the last couple of months is you're going to have 50% lower CapEx, how does that flex? And what that will flex on is with activity levels. And so, as we go into the year with Oklahoma, that is very flexible capital as it has been this year, and we anticipate that that will support some of the high level items that Ben laid out.

A

I think when you think about the sustainability of a CapEx number over the business, we need to think about that over a long period of time because of the layering of projects. We've referenced the Tiger project which we won't get benefit for until late next year. The Global Venture program is late – more likely early 2021. And so when you think about that, the sustaining number needs to be evaluated over a long term. And we think that we've got the right program in place to maintain and grow the business over the long term.

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Jeremy Tonet

*Analyst, JPMorgan Securities LLC*

So, I guess maybe just over that long-term basis then, what do you think is kind of a normalized number for CapEx to sustain EBITDA?

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Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Yeah. Jeremy, I mean as we have in the past, we're not going to give a specific number on that. But I think if you look at what we're doing this year, we're addressing the lower levels of activity by moderating CapEx accordingly and managing that along with the initiatives that Barry laid out to maintain our EBITDA and have modest growth going into next year.

A

Jeremy Tonet

*Analyst, JPMorgan Securities LLC*

Q

Okay. Just one last one if I could, given Devon and Roan don't seem to be running rigs right now in Oklahoma, just wondering if you could provide sensitivity if for some reason activity declines by more than 50% next year. Just for modeling purposes, we're trying to work that out as we monitor the rig count.

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Yeah, Jeremy. First, let me say, we do not envision a no-activity case. We don't think that's realistic at all. But to put a floor under it if you will, if we had no well connects at all in Oklahoma next year, we think the volumetric decline is mid-teens and we think the gross margin decline is high single-digit percentages relative to full year 2019. So contrast that to the hypothetical scenario in the prepared remarks of activity being cut in half and you're looking at high single-digit volumetrically, low single-digit gross margin. So, again, I think that there's been some pretty wild speculation out there about what Oklahoma could look like in a downside scenario and some of it has been a bit overblown. But again, we do not see a no-activity case as being something that's even in the realm of possibility.

Jeremy Tonet

*Analyst, JPMorgan Securities LLC*

Q

I'll stop there. Thanks for taking my question.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Thank you, Jeremy.

**Operator:** Our next question comes from Colton Bean from Tudor, Pickering, Holt. Please go ahead with your question.

Colton Bean

*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Morning. So just to follow up on the question around the dividend, so you spoke to the urgency in realizing some of the cost saving initiatives. What sort of timeline do you evaluate reaching your leverage and coverage targets on?

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah, Colton. This is Barry. Let me just again just add to what Eric said earlier. We hear you. We hear the market as it has spoken loudly into this subject, and there have been a lot of different voices, let me just acknowledge that. And what we've consistently said is that the distribution is appropriate for our business. And the factors that we consider as we look at that are the projections for our business and the resulting distribution coverage and leverage as you speak to. And so that will continue to be a high priority for us to manage our balance sheet. We're serious when we say that we want a sub-4 leverage position and we want distribution coverage to be in the 1.3 to 1.5 times.

When it is clear to us that the business can't support that, then we would certainly have a different answer. The pace of change that we've seen in the last several months has been dramatic. And as you know, in response to

that, we've discontinued the growth of the distribution. And I think all we can say today is that we will continue to evaluate and assess the appropriate distribution. And if we saw something that told us it should be different, then we would be quick to act. But today, we still believe that this is the right distribution for the business that we're operating.

Colton Bean

*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Got it. And just on that point, are there any external factors as you evaluate the dividend to take into consideration whether that be a kind of secondary leverage on that dividend or is it solely ENLC financial metrics?

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah, no consideration on what it may mean to others, other than the fact that we care about all of our stakeholders and we want to do the right thing for our stakeholders. But if you're specifically referring to what it might mean to the leverage from a GIP perspective, we don't think that that's a factor. We think that what the metrics for ENLC are what's critical and we need to be able to see leverage and distribution coverage be at the appropriate level.

Colton Bean

*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Got it. That's helpful. And just the final one for me, so on the mid-teens decline rate in a no-activity scenario, is there material diversions here between what you're seeing on oil and gas declines? I mean is there something going on with the GOR shift or just kind of any additional commentary there would be helpful. Thank you.

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah, Colton. Certainly, in the basin, we see oil decline faster than gas. I think that Devon addressed this in their call and I would point you back to their comments about their particular acreage portfolio, but I think they talked about a 30s – high 30s decline on the oil in year one and only a high 20s decline on gas in year one. So yeah, the GOR broadly speaking in Central Oklahoma is an increasing function over the well's life.

Colton Bean

*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Great. Thank you.

**Operator:** Our next question comes from Ethan Bellamy from Baird. Please go ahead with your question.

Ethan H. Bellamy

*Analyst, Robert W. Baird & Co., Inc.*

Q

Hey, guys. If these commodity prices of mid-50s and sub-3 are the new normal and you're seeing rig and capital life from Oklahoma, what do you think that means for Oklahoma longer term? Is it simply a more marginal basin than what you thought it was? And what does that mean strategically for, say, the next five years?

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Hey, Ethan. It's Ben. Yeah, I'll start. Barry may want to add on at the end. And first, you're right, the challenge in the STACK right now is that it's a combo play and it's more dependent on gas and NGLs for the economics of the wells than say the Permian is where it's really the gas and NGL is an afterthought. In terms of the long-term competitiveness of the play, it's a multi-variable equation. Certainly, gas and NGL prices matter.

I think something that has been interesting to hear this week from Devon as an example is that they've managed to reduce the well cost in the basin by as much as 30%. And that's getting them close to competitiveness in their capital portfolio even at these prices that we're seeing today. And so, I take that to mean that we don't need a heroic improvement in prices. We probably just need a bit more support particularly from the NGL barrel that we think will come in time as we see more cracker capacity come on in the Gulf Coast and more LPG export capacity come online as well.

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Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. And Ethan, I would I add onto that. I think that the execution priorities that you've seen us lay out are exactly what we should be doing in response to a moderated activity level in Oklahoma that could be a long-term scenario. And first and foremost is to be as efficient as possible in our operation in Oklahoma, looking for synergies, looking for efficiencies that could come from midstream consolidation. Again having the largest position in Oklahoma will put us in a position to drive those opportunities and to benefit from those more efficient operations.

Secondly, we need to do what we said we're doing which is position ourselves to grow in other places. And our focus downstream to leverage our Louisiana Gulf Coast NGL and gas position for future growth is the right thing to do. We also have a great platform in the Permian, and we will expect Permian to continue to provide great opportunities. So longer term growth in the downstream, growth in the Permian and in the immediate term driving efficiencies in Oklahoma to make sure that we're rightsizing the business to match the growth.

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Ethan H. Bellamy

*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. Thank you, Barry. One more question more – I don't know if it's cosmetic or just incentive-based, but you may disagree with me, but I think the utility of distributable cash flow as a metric is pretty poor. That has no traction with generalist investors, and even dedicated midstream investors are now focused on free cash flow after distributions. What are your thoughts on targeting free cash flow particularly when that's the metric all your producer customers are headed for?

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Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. Ethan, it's Eric. Thanks. Good question, and that's something that that's been a long conversation and still not – I take your point on perhaps some level of convergence, although I might argue that we're not quite there yet in terms of full convergence on how everybody defines that. But I think ultimately, we're looking at trying to generate as much cash as we can from the assets we have which is part of what Barry and Ben have laid out, and minimizing our CapEx to do that is a step towards trying to achieve that excess cash flow and that's all of what goes into the analysis I talked about before in terms of fine tuning those policies as we get more clarity on the 2020 outlook.

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Ethan H. Bellamy

*Analyst, Robert W. Baird & Co., Inc.*

Q



All right. Thanks, Eric. Good luck.

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Thanks.

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Thank you.

**Operator:** Our next question comes from Shneur Gershuni from UBS. Please go ahead with your question.

Shneur Z. Gershuni

*Analyst, UBS Securities LLC*

Hi. Good morning, everyone. Just wanted to clarify one of your responses to a previous question. We've been modeling a down 14% decline rate if there was no new well connections. Is that consistent with what you're seeing? Did I hear correctly that you said it would be high single digit to mid-teens?

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Yeah, Shneur. So in a zero well connection scenario, we think it would be mid-teen. So that sounds like it's in the range that you're describing. We don't think that zero well connections is realistic. We do think it is completely possible that Devon may run no rigs in the play. But when we look across our entire portfolio of producer customers, we're confident we're going to have some activity next year. We just don't know quite how much that's going to be yet. And so between the prepared remarks and then in the Q&A here, hopefully, we've given folks enough sensitivity to know what a reduction by half would look like and what a complete reduction to zero would look like and you can calibrate with your own view accordingly.

Shneur Z. Gershuni

*Analyst, UBS Securities LLC*

Great. And just two follow-ups. Just first on the \$75 million of reduction, is all of that sort of an expense reduction, whether it's headcounts or optimization of expenses and so forth? Is any of it coming from optimization of your assets themselves in terms of being able to run them harder, operating leverage and so forth? Look, I recognize you're sort of going on a 2.0 type of strategy here and just wanted to understand if it's just the \$75 million and it's an expense reduction and there's still an opportunity for asset optimization or that sort of encapsulates all of it.

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Yeah. Shneur, I'll start and then Barry may want to round us off. When we talk about an opportunity of up to \$75 million, it certainly includes a lot of expense reduction, but it does also include facility optimization. And so that includes things like optimizing the way that we dispatch the system from both a marketing and an operating cost perspective. It includes things like some bottlenecking projects that we've done on the NGL system. It includes some work that we've done to create a central monitoring station here at the company's headquarters where we can monitor the performance of the gas plants and the fractionators remotely and provide support to the field personnel who are operating those facilities so that we improve ethane recoveries as an example in the gas



plants. So, all of that is on the table. Now having said that, is \$75 million where the opportunity ends? No. We don't think it is, though we think that that's a realistic range of what we could achieve for 2020.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah. I think that's complete answer. Ben, the only thing I'd emphasize is your last point. I mean this is the work that we've done today and this work will continue. In fact, many of the initiatives that we've initiated will continue to evolve and we believe the \$75 million is a great start.

Shneur Z. Gershuni

*Analyst, UBS Securities LLC*

Q

No, appreciate that. And obviously, we've seen that from some other players as well, too. Just to, I guess, beat the horse dead completely, if we can talk about the distribution one more time, it's obviously discretionary to decision of the board, can you describe to us the discussion at the board level for this most recent declaration? Was it a unanimous decision to maintain the distribution where it was at? Was the information around Devon running zero rigs already available at that point because it sort of feels like – and obviously with all the questions that you've been getting, that that's clearly a focus. Obviously, you want to get your leverage down as well, too, and it's probably the biggest lever that you can probably pull.

And so just kind of wanted to understand how that discussion sort of evolved and the key points in terms of the decision because it sort of seems like it would actually remove an overhang on your stock if you were to actually reset that level and give people clear comfort on where your leverage is headed.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Yeah, Shneur, thank you. And I mean, you've said a lot. I won't repeat what you've said, but we hear you. Again, we hear you and I'm sure we'll continue to hear the market's voice on this topic. Let me just respond maybe first and foremost to the alignment that we have in the boardroom. I don't know of any situation in my tenure that we don't have alignment. We stay there until we do have alignment. And so the board is aligned. The board believes that the distribution that we've set is the appropriate distribution for the business today. But also, let me say what – repeat what you said that the pace of change in recent days has been dramatic. And so every day, we have more information than we had the day before. In the days ahead, we will have more information around producer activity and our projections for the business going into 2020, and we will continue to assess the distribution and what's appropriate.

The last thing I'll do is just acknowledge what you said. It's a big lever, and it's also an important aspect of the way people invest in the company. And so we take all that into consideration and do everything we can to come up with a right answer as to what the distribution ought to be.

Shneur Z. Gershuni

*Analyst, UBS Securities LLC*

Q

All right. Perfect. Thank you very much and have a great weekend.

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Thanks, Shneur. You, too.

**Operator:** Our next question comes from Praneeth Satish from Wells Fargo. Please go ahead with your question.

Praneeth Satish

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. Are there any changes on your view of asset sales? Is that something you're looking at more closely now as one of the options that you're considering?

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Shneur, this is Barry. Let me just say that, first of all, we think the number of core basins or core segments that we have in the business is in the right ZIP Code. We think four core areas. We think that the opportunities represented by each of those are a fit in our portfolio. We're always looking at small things that we may have outside of that and actually have executed on some sales, some small sales over the last several months that were so small that we quite frankly haven't pointed them out. We will continue to evaluate all of our assets. Everything is on the table, and to the extent we see a dislocation in the way the market views the value of one of our assets compared to the way it is valued in our portfolio, we will evaluate that and consider a divestiture of something that is more significant than small assets. But today, it's not something that we think is appropriate or necessary in the business.

Praneeth Satish

*Analyst, Wells Fargo Securities LLC*

Q

Okay. Got it. And then just in terms of the cost savings in debottlenecking projects, could you see some of that momentum spill over into 2021, or is this mostly a 2020 initiative?

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Hey, Praneeth, it's Ben. No, it doesn't stop the calendar. The calendar is irrelevant. As Barry said, of the initial view of up to \$75 million, we have more than half of that either executed or completely within our control and to be executed by the 1st of January, so that will be in effect for next year. And we will be attacking it with urgency all year, next year, and there's no reason why that would stop at any point.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

No. And I would say, Ben, I think it's a theme that's consistent throughout the industry. I mean we're seeing it from upstream, downstream and midstream that we are all driven to find ways to provide and to drive free cash flow out of these businesses. So I think it's a necessary and appropriate thing for us all to be focused on.

Praneeth Satish

*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

**Operator:** Our next question comes from Chris Sighinolfi from Jefferies. Please go ahead with your question.

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Hey. Good morning, guys.

Q

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

Morning, Chris.

A

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Hey, Chris.

A

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

To start, Barry, you had mentioned in your prepared remarks just some severance costs which I think you said were recorded in the third quarter. I didn't see those quantified in the release. I suppose they'll be in your Q when that's published, but I was just wondering if you or Eric could just provide some quantification of what those impacts were.

Q

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Yeah. There's about \$5 million.

A

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Okay. And that's all recorded, Eric, in 3Q and there's no spillover effect we should anticipate next quarter? Is that also correct?

Q

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Those were all in 3Q.

A

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Okay. And then, Eric, I guess I had another follow-up on some of the conversation around activity levels and I see – well, you list well connect activity or capital as a meaningful portion of the 2020 growth capital budget. And I think you and Barry, both characterize that type of spend as low multiple and quick to cash type of outlay. But in going through your annual and quarterly filings, I also see well connects as something you volunteer as an example of maintenance activity. So I'm just wondering either from you or from Ben, how do you I guess characterize or distinguish one type of well connect from another type of well connect?

Q

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Yeah. I'd say some of it in North Texas historically has been well connects because that's been a clear declining basin. And I think that as we continue to evaluate the business, the – we'll continue to evaluate what's appropriate

A

for a maintenance number. But what you've seen historically is that number has been the North Texas piece of it because...

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

So is that to say...

Q

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

...it's a clear declining basin.

A

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Okay. So if – let's just pretend that Oklahoma or some other basin were to not see any activity for a sustained period of time, would you – I guess this is the nature of my question. Would you re-determine, I guess, activity levels even if it's a modest – Ben was saying he doesn't expect no well connects. So if it's a modest amount of well connects but that goes on for two or three years, do you re-determine that basin to be a maintenance type of activity as opposed to a growth activity? And I guess it's all...

Q

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Yeah. I mean, I think...

A

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Go ahead.

Q

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Yeah. I mean, I think broadly speaking, you're kind of getting into angels on the head of a pin kind of discussion, because when is that point in time. But I think, theoretically, you'd have to continue to evaluate that.

A

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Okay. And I guess final question for me is that we obviously talked a lot about Oklahoma. I've noticed that Haynesville rig count hasn't reacted quite the same way to gas prices like they have in Appalachian and other areas. So I'm just wondering, Ben, what's the expectation for Louisiana next year?

Q

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

Yeah, Chris. I mean, look, our – there's a couple things to unpack there. Our Louisiana business really isn't driven by the Haynesville rig count. There was a time perhaps when it was, but now the bulk of the Louisiana business is the NGL segment. And if you look at the Louisiana gas business, we've had some historic contracts roll off. We printed \$8.7 million of segment profit for the quarter. That or maybe a number slightly higher than that is really a good run rate going forward for that particular sub segment. So not really looking to Haynesville as a catalyst per

A

se. As far as the broader Louisiana outlook, I think we're just going to need to wait till the point where we do full guidance and we'll talk about the outlook for each segment next year.

Christopher Paul Sighinolfi

*Analyst, Jefferies LLC*

Q

Okay. Thanks a lot for the time this morning, guys. Appreciate it.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Thanks, Chris.

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Thanks, Chris.

**Operator:** Our next question comes from Sunil Sibal from Seaport Global. Please go ahead with your question.

Sunil Sibal

*Analyst, Seaport Global Securities LLC*

Q

Yeah. Hi. Good morning, guys, and thanks for all the clarity on the call. I just wanted to get a little bit thought on more recent trends in the Permian crude gathering site. I know you mentioned that there were some declines in third quarter, but I was curious what kind of trends you're seeing there and what's the competitive environment there like.

Benjamin D. Lamb

*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah. Sunil, let's take that in pieces. The biggest part of our Permian crude business is pipeline gathering, both on the Chickadee system in the Midland Basin and the Avenger system in the Delaware Basin. And we've seen solid activity on both of those systems throughout the year.

The sub segment where we've seen some weakness particularly in this quarter is our crude marketing business which includes the trucking business and some other related activities. And most of the decline in volume quarter-over-quarter is driven by a reduction in that area. And one element that you are seeing there is some discipline on our part not to buy market share and lose money to retain volume. So in the spirit of what Barry was saying earlier about making sure that we make the most money we can with the assets we have, in some cases, that may mean having some discipline around the business that we choose to do.

Sunil Sibal

*Analyst, Seaport Global Securities LLC*

Q

Okay. Got it. And then just one question on balance sheet, just curious I think some of the rating agencies have you on a bit of an evolving view. Had there been any recent discussions with the rating agencies, especially since like operating environment has changed significantly over the course of last three, four months?

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. Sunil, it's Eric. I think you're referring to Fitch. But we have – look, we're in regular dialog with the agencies as we always are. And I think one of the other big points that we've been discussing with S&P is how their evolution of treating of preferred securities has gone. But I'd say there's nothing unusual in the nature of the conversations, just regular way discussions with the rating agencies, and we will expect to meet with them early next year when we have the full budget completely baked as we always do.

Sunil Sibal

*Analyst, Seaport Global Securities LLC*

Okay. Got it. Thanks, guys.

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Thanks, Sunil.

**Operator:** Our next question comes from James Carreker from US Capital Advisors. Please go ahead with your question.

James Carreker

*Analyst, USCA Securities LLC*

Hi. Thanks for taking my call, 59 minutes in. If I could ask for any update on the status and perhaps balance of GIP's term loan that was collateralized by the units they received, has there been any paydown of that or any other color you can provide?

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

James, this is Barry. First of all, thanks for your patience and for staying with us this morning. No comment on GIP. In fact, I'm not familiar with the details of what's evolved in that loan and so we really don't have any comment on it.

James Carreker

*Analyst, USCA Securities LLC*

I guess could you then talk about – I believe the loan balance at the time of their acquisition was \$1 billion and the value of their units now is probably somewhere around \$1.3 billion. Could you talk hypothetically about what would happen if that unit value did happen to fall below the \$1 billion balance?

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

James, again, that's a shareholder loan. That's not a company loan, so that's not something that I think we're prepared to talk about.

James Carreker

*Analyst, USCA Securities LLC*

Well, I do ask because you guys do specifically mention in your risk factors that GIP's credit worthiness is directly impactful to your credit worthiness. And so, any additional color on that I think is useful.

Eric D. Batchelder

*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. I mean, we'll be happy to talk about it offline, if you want about the specifics of the risk factor, but I don't think that that's for this call right now.

James Carreker

*Analyst, USCA Securities LLC*

Q

Okay. Appreciate it. Thank you.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

A

Thank you, James.

**Operator:** And ladies and gentlemen, we have reached the end of the allotted time for today's question-and-answer session. At this point, I'd like to turn the conference call back over to management for any closing remarks.

Barry E. Davis

*Chairman and Chief Executive Officer, EnLink Midstream LLC*

Thank you, Jamie, for facilitating our call this morning, and for everybody on the call, we appreciate your participation and your support. As always, we appreciate your continued interest and investment in EnLink, and we look forward to updating you with our fourth quarter results in February, and anywhere we may see you on the road between here and there. Thanks, again. Have a great day and a good weekend.

**Operator:** Ladies and gentlemen, well, that will conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.

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