



EnLink Midstream LLC (ENLC)

Q3 2020 Earnings Call | November 5, 2020

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ANALYST PARTICIPANTS

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Christine Cho, *Analyst, Barclays*

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Operator

Ladies and gentlemen, thank you for standing by and welcome to the EnLink Midstream Third Quarter of 2020 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded on Thursday November 5, 2020 at 9 AM Eastern Time.

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. Welcome to EnLink's third quarter of 2020 earnings call. Participating on the call today are Barry Davis, Chairman and Chief Executive Officer; Ben Lamb, Executive Vice President and Chief Operating Officer; and Pablo Mercado, Executive Vice President and Chief Financial Officer. We issued our earnings release and presentation after the markets closed yesterday and those materials are on our website. A replay of today's call will also 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 the factors that could cause actual results to differ can be found in our press release, presentation and SEC filing.

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 disclosures made in our press release and our SEC filings, including those under the heading Risk Factors.

We'll start the call today with a set of brief prepared remarks by Barry, Ben, and Pablo, 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 third quarter results. We'll also give you an update on our full-year 2020 expectations and our longer term outlook. On behalf of EnLink, we hope you, your families and colleagues are staying safe and healthy as we continue to navigate the ongoing pandemic. I would also like to take this opportunity to thank all of our EnLink employees who continue to show dedication, focus and resolve during these challenging times. Our team is doing a tremendous job across all of our operations not only through this pandemic, but through a record number of Gulf Coast storms and recent severe winter weather in Oklahoma.

Turning now to the quarter, EnLink delivered another strong resilient quarter. We achieved adjusted EBITDA of \$262 million, up 3% from last quarter and solidly beating expectations. The strong performance of the business sets us up to meet or exceed the high end of full-year 2020 adjusted EBITDA guidance. This is a tremendous outcome during one of the most challenging periods in our industry's history. We also generated \$99 million of free cash flow after distributions for the quarter, marking a substantial increase compared to the first two quarters of this year. Importantly, we expect to exceed the high end of our 2020 guidance range for free cash flow after distributions. This is a critical metric for us as we continue to reduce debt.

Our team is doing great work, very hard work, which is positively impacting results across our footprint, and we will continue to do so as we navigate the dynamics of the road ahead. When we drill down into our asset segments, all four segments are generating strong free cash flow. We have already invested approximately 85% of the capital we plan to invest this year and are on track to generate strong free cash flow after distributions for the fourth quarter of 2020 and in 2021. EnLink's strong cash flow generation during 2020 and our view to a repeat of strong cash flow generation in 2021 brings up the question of capital allocation.

Together with our earnings release, we announced board authorization of the unit repurchase program. This puts another tool in our toolkit as we look to balance capital allocation with a clear focus on deleveraging the balance sheet. As you all know, in response to the significant change in market conditions early this year, we reduced our common unit distribution by two-thirds. The unit repurchase program provides us another flexible avenue to return capital to unitholders.

Now, let's turn to our execution plan, and I'll give you an update on how we're progressing with our four priorities. Our first execution plan priority is to optimize the profitability of our existing business. We are challenging how we run our business in every possible way and are turning over every stone as we pursue a continuous process to reduce costs and improve efficiencies. We have achieved a greater than 20% reduction in operating and general and administrative costs compared to 2019 on essentially the same

business operations. This makes us an industry leader when it comes to operating efficiency and necessary cost reductions in our sector. We are committed to making sure the majority of those savings are sustainable, and our operational excellence team has a number of key initiatives underway to ensure that we do that.

The second priority of our execution plan is to maintain financial strength, and we have made significant progress this year. As I've mentioned already, we are generating strong cash flow as a result of our team's relentless focus on strong execution, cost reductions, and capital discipline. We have reduced net debt by approximately \$145 million during the third quarter and our already ample liquidity has been bolstered by a new accounts receivable securitization facility that we announced recently. Pablo will cover this in more detail.

Our third execution priority is to drive organizational efficiency. As I mentioned at the beginning of this call, I am grateful for our employees' focus, dedication and perseverance during these challenging times. Despite the distractions and storms, EnLink safety performance continues to be the best it has ever been. In addition, our team has risen to the challenge of working effectively with the global pandemic. Our top priority is the health of our employees and we have found ways to make the workplace safe with a combination of safety precautions and a rotational schedule that allows us to maintain important in-person interaction while keeping density low in the workplace.

Our fourth and final priority is to ensure we position EnLink for the future. 90% of EnLink's business is centered around natural gas and natural gas liquids, and companies like EnLink will play a critical role in the long-term energy transition. We are very well-positioned as natural gas becomes increasingly important as a leading source of clean, reliable energy. Over the long term, we will leverage our leading positions in key producing basins to improve operational efficiencies, increase profitability and capture attractive returns. On the demand-facing side of our business, the Gulf Coast continues to provide an inventory of long-term opportunities as industrial demand and export markets resume growth.

We also see a number of small-scale capital-like tuck-in type of opportunities around our assets that are very capital-efficient and have the types of compelling return profiles we are searching for. We will continue to evaluate every opportunity through that critical return on investment plans and will not execute on anything that isn't highly accretive to the strong platform we operate today.

With that, I'll turn it over to Ben to discuss our operational update.

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

Thanks, Barry, and good morning, everyone. I'll start with the Permian. We achieved strong segment profit in the Permian for the quarter, reporting \$46 million, which is approximately 7% higher than the second quarter of 2020 and approximately 28% higher than the third quarter of 2019. Strong results for the third quarter were driven primarily by growth in natural gas volumes with additional contributions from cost reductions.

Segment free cash flow turned positive during the quarter, generating \$18 million as our main capital project, the Tiger natural gas processing plant, was completed during the quarter. Average natural gas gathering volumes for the third quarter were approximately 6% higher compared to the second quarter

of 2020 and approximately 23% higher compared to the third quarter of 2019. Natural gas volume growth on our Permian footprint outpaced basin growth for those same periods. Average natural gas processing volumes for the third quarter increased by approximately 4% and 16% compared to the second quarter of 2020 and the third quarter of 2019, respectively.

Drilling activity remained strong on our footprint throughout the third quarter and the pace of well completions has picked up during the fourth quarter. We have large well-capitalized producers in the Permian and have a large inventory of docks on our footprint, which bodes well for volume growth next year. One of the key questions we have been fielding recently has to do with our exposure to federal lands. Company-wide, our exposure is limited and relates primarily to our operations in the New Mexico portion of the Delaware Basin.

For the most part, our operations in that area are in a joint venture, of which we own 50%. Even within the joint venture, only a portion of the operations are on the New Mexico side. So, we are even further limited in terms of impact should activity slow down in that area. In addition, operators have been very proactive and have accumulated a multi-year inventory of drilling permits.

Pivoting a bit to the topic of asset rationalization. In the materials we issued yesterday, we mentioned that we were successful with a small asset sale, and I'll give a few more details on that now. We sold the Victoria Express Pipeline System in the Eagle Ford for \$20 million, \$10 million to be received in 2020 with the remainder to be collected throughout 2021. As we've said before, we really like the four core areas we're in and the assets we have. But to the extent that there are small assets that have more value in someone else's portfolio, we'll explore a sale. VEX is a great example of that, where the asset is a stronger strategic fit in the acquirer's portfolio and we were able to get a very high cash flow multiple for it.

Turning now to Louisiana, segment profit for the quarter remained stable at \$69 million even when accounting for \$2 million of one-time power expenses due to Hurricane Laura. Segment profit for the quarter was flat compared to the second quarter of 2020 and approximately 3% higher compared to the third quarter of 2019. The stability in segment profit was primarily due to steady natural gas and NGL demand from our downstream customers. Our Louisiana business is primarily driven by end-user demand and it's very different from our other segments, which are more supply push in nature. We engage in very little gathering activity in our Louisiana segment. And as such, Louisiana provides an element of diversification to our asset platform.

The build on the stability point of our Louisiana asset, NGL fractionation volumes for the third quarter were approximately 2% higher compared to the second quarter of 2020 and 3% higher than the third quarter of 2019. Average natural gas transportation volumes during the third quarter were approximately 5% higher compared to the second quarter of 2020 and 6% lower compared to the third quarter of 2019.

Average crude volumes handled in EnLink's Ohio River Valley operations for the quarter were flat compared to the second quarter of 2020 and lower by approximately 26% compared to the third quarter of 2019. Volumes continue to be negatively impacted by macro demand weakness for crude oil during the third quarter.

Segment free cash flow for the quarter was \$61 million, representing an increase of over 10% compared to the second quarter of 2020 and an increase of 33% compared to the third quarter of 2019. The main

driver was a reduction in capital expenditures as a number of projects have been completed and the connection to Venture Global's Calcasieu Pass LNG facility is nearing completion.

Moving onto Oklahoma next, we delivered \$108 million of segment profit for the third quarter of 2020, which was approximately 9% higher than the second quarter of 2020. Cash flow ticked up during the quarter as did volumes due to production curtailments and temporary shut-ins ending. Natural gas gathering volumes increased by approximately 2% sequentially with processing volumes up 4% sequentially. Compared to the third quarter of 2019 however, gathering volumes were down 18% and processing volumes were down 15%. Oklahoma continues to be a very strong source of segment free cash flow for us, delivering \$105 million for the third quarter, which represents an increase of approximately 6% from last quarter and 72% from the third quarter of 2019. We expect Oklahoma to continue to generate significant segment free cash flow for the remainder of the year. With the fourth quarter underway, we recently experienced some severe winter weather in Oklahoma resulting in disruptions to our operations. The financial impact will likely be the loss of a few million dollars. I'm proud of the team and how hard they are working managing the situation.

Wrapping up with North Texas, segment profit for the quarter was approximately \$67 million, which decreased by approximately 3% compared to the second quarter of 2020 and 4% from the third quarter of 2019. The decline in segment profit was driven by expected volume decline in this mature basin. Segment free cash flow for the third quarter was \$64 million and it is important to note that this is the same result that we achieved last year. This highlights our team's great work and ability to control costs in a declining volume environment. North Texas continues to be a predictable, stable and significant source of free cash flow for us.

And lastly, on October 1, the transaction between Devon and BKV closed and we have begun teaming with BKV on their ownership transition. We are excited to partner with them as they come in with fresh eyes and keen attention to maximizing value from the acreage. As we've mentioned before, with BKV transitioning into Devon's ownership position, we will see a reduction in processing fees in our North Texas segment that is expected to be more than offset by enhancements to our NGL business.

With that, I'll pass it over to Pablo to discuss our financial update.

Pablo G. Mercado

Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

Thank you, Ben, and good morning, everyone. I'll start with the third quarter highlights. As Barry mentioned, EnLink delivered a very strong third quarter of 2020, achieving \$262 million of adjusted EBITDA. This result not only – is not only a modest increase from the last quarter, but it's also unchanged from the third quarter of 2019. That is a remarkable outcome in the current environment and underscores the stability and resilient earnings power of our platform. Our team showed great focus on execution and cost containment during the third quarter, overcoming the operational headwinds caused by Hurricane Laura that Ben mentioned. EnLink also achieved \$99 million of free cash flow after distributions for the third quarter of 2020, with all four of our segments delivering strong contributions.

Free cash flow after distributions increased by approximately 70% compared to the average of the first two quarters of 2020. We are well-positioned to deliver strong free cash flow in the fourth quarter of this year and beyond. A key contributor to our success in the current market environment has been the

tremendous work the team has done on our cost structure, and this continues to show through in our financial results. Our team's focus on cost and efficiency has allowed us to take out over 20% of operating and general and administrative costs from our structure. This has been highlighted by top sell-side analysts as peer-leading, and our people can be proud of that result. We believe that a very high percentage of our cost reduction is sustainable over time. Although some of the savings are variable in nature and will come back as industry activity increases. We expect 85% to 90% to be sustainable even in a modest growth environment. Additionally, we have a continuous improvement process and I'm confident that our team will continue to find ways to operate more efficiently.

In addition to our focus on cost, our team is showing great capital discipline. Capital expenditures net to EnLink for the quarter were \$38 million, down close to 35% from the second quarter of 2020 and down 70% compared to the third quarter of 2019. We expect to come in around the midpoint of our capital expenditures guidance range for this year, which is \$190 million to \$250 million. In addition, after the end of the quarter, we successfully closed a small asset disposition that Ben discussed, which adds approximately \$20 million of cash available for reallocation of high-return opportunity.

With substantially all of our large projects complete, we expect a significant step-down in capital expenditures next year. At this time, we expect 2021 capital to be heavily weighted to well connects and gathering infrastructure. These are projects that have very high returns and quick payback, and we will have a high hurdle rate for other new projects. We will continue to evaluate small tuck-in acquisition opportunities around our existing footprints, but those investments will also have to clear a high bar with respect to returns and not impede our deleveraging objective.

One of our top priorities continues to be to maintain our strong liquidity and financial position. We reduced net debt during the third quarter of 2020 by \$145 million and ended the quarter with debt-to-adjusted EBITDA of 4.2 times as calculated for our credit agreement. Reducing leverage below 4 times continues to be our initial objective and we will likely set a lower objective over time. Subsequent to the end of the quarter, we completed a three-year \$250 million AR securitization facility with an attractive rate of LIBOR plus 162.5 basis points.

Pro forma for the application of the proceeds of the new facility, we ended the quarter with only \$75 million drawn on our \$1.75 billion revolving credit facility. In addition, we have \$55 million of cash on the balance sheet. We expect to go into 2021 with an undrawn revolver and to generate significant cash flow after distributions similar in magnitude to what we expect to achieve this year. Although a small relative to the size of our balance sheet, the AR facility is an important transaction for us. When coupled with a strong free cash flow generation of our business and our ample revolver availability, we are solidly positioned to repay our \$850 million term loan before or at its maturity at the end of next year without having to access the capital markets.

As we look forward, we have a favorable senior notes maturity horizon with approximately 35% of our bonds not maturing for 20 years or more. Our net senior notes maturity is not until 2024. The EnLink team has not only adjusted our business model to self-fund all CapEx and distribution, but to also generate significant free cash flow after distributions. We are committed to a disciplined and balanced allocation of that excess free cash flow. While deleveraging the balance sheet continues to be our top objective, we have the financial flexibility to pursue other high-return opportunities. To that end, as Barry mentioned, our board has approved a unit repurchase program of up to \$100 million. The program provides another

tool to return capital to unitholders and as we evaluate other uses of cash, we will measure them against the return that can be generated through equity repurchases, which is currently very attractive.

Let me turn to our 2020 full-year outlook. From an adjusted EBITDA standpoint, we are now on track to meet or exceed the high end of our previously guided range of \$950 million to \$1.025 billion. We are very pleased with the resiliency that our business has shown this year, positioning us to end the year on a high note. With respect to the free cash flow after distributions, we now expect to exceed the high end of our previously guided range, which was \$280 million, by 5% to 10%, putting us in the ZIP code of \$300 million. We are generating a free cash flow yield of close to 40%, setting us apart in our industry.

Before I turn the call back to Barry, I want to thank our team for their very high level of commitment to our success and their strong execution focus. Their efforts have helped us to strengthen our financial position and given our ample liquidity, we are now on a solid path to meet our financial objectives.

With that, I'll turn it back to Barry.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Pablo. I'll sum up our discussion so far by saying this. EnLink delivered another strong quarter and is solidly on track to meet or exceed the high end of adjusted EBITDA guidance for 2020 and, more importantly, we're on track to exceed the high end of free cash flow after distributions guidance by 5% to 10%. The momentum we have created will carry into 2021 when we expect to generate free cash flow after distributions similar in magnitude to this year's results. Our strong performance has enabled us to reduce leverage and we have outlined a clear path to continued leverage reduction. And we're not stopping there. Our team wakes up on go every day and we will continue to mine for and deliver value each and every day while we maintain safe and reliable operations for our employees, customers and the communities we work in.

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

QUESTION AND ANSWER SECTION

Operator

And ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Shneur Gershuni with UBS. Please go ahead.

Shneur Z. Gershuni, *Analyst, UBS Securities LLC*

Hi. Good morning, everyone. Maybe to start off, I was wondering if we can talk about the unit buyback authorization. I just wondering if you can walk us through any targets you have in terms of utilizing it, how you are toggling and thinking about it. And as part of the question, how do you measure the benefit of buying back the units versus, let's say, buying back some of your longer dated maturities that are trading in the 60s?

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

Yeah, Shneur, good morning and thank you. This is Barry. I'll start and then Pablo will probably want to add some comments here. First of all, let me just say that the strong business results that we have so thoroughly communicated to you this morning in the prepared remarks I think is the starting place. And when you look at the free cash flow generation, it really creates an opportunity for us to use several tools to create value and provide return to our stakeholders. And so the share repurchase program is another tool in our toolkit and we intend to use it. We think that given our forecast for the business that it will make sense to do that.

That said, let me be clear that deleveraging is the top priority and we are very focused on our initial target of getting below 4 times in terms of our overall leverage. So, let me just say specifically to the question that you've asked around the pace, we do not have a specific or formulaic approach as to how much of our cash flow that we will actually allocate to the share repurchase program. We'll look at a number of factors and we'll really be looking for what we think is the greatest opportunity to improve the financial position and create value for the company.

So next year, as we've said, we anticipate having something in the range of \$300 million of free cash flow. And so when we look at that compared to the authorization for \$100 million of share buyback, what I would say is that we will only use a small portion of our free cash flow next year. Don't hear us say that we would anticipate in 2021 using all of that authorization in the buyback. But we will use some assuming that the forecast and the business continues to operate the way it is. So, another tool in the toolkit. And Pablo, maybe you want to comment on the debt repurchase as well?

Pablo G. Mercado, *Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Sure. Yeah. Just to re-emphasize what Barry said, it is – we like the flexibility of the unit repurchase program as a flexible way to return capital to shareholders. As you said, Shneur, in your report, it's another arrow in the quiver, and we like that. Of course, the other tool that can help us de-lever is debt buyback. I think you saw us do some of that in the second quarter where there were very attractive discounts in our bonds and we were able to buy back close to \$60 million of bonds that are about a 50% apart. The discount is not as attractive today, but it's certainly a tool that's in the toolkit that can help us de-lever and we look forward to that.

Shneur Z. Gershuni, *Analyst, UBS Securities LLC*

Appreciate the color. And maybe, Pablo, we'll talk offline on the idea of unit buyback versus long-term debt being taken out.

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

Hey, Shneur. Let me just comment a little bit more. I think I would say the – if the last nine months have shown us anything is just how quickly things can change and how opportunities can arise in different parts of the balance sheet. And so, we wouldn't have anticipated that after a two-thirds cut in our distribution, we'd still be trading at a 15% yield. And so that's an opportunity as we look at the units today. Likewise, a few months ago, we wouldn't have anticipated that we would be able to buy the debt back at somewhere in the range of \$0.50 on a dollar. And so, I think we're at a great position. We have strong free cash flow. We have lots of tools in the toolkit and we will be very active in the way that we think about those opportunities.

Shneur Z. Gershuni, *Analyst, UBS Securities LLC*

That makes perfect sense. And I like the fact that you guys are being able to pivot between the different opportunities. Just in the interest of time and to the other listeners as well too, just wanted to focus a little bit on the costs and asset optimization side. You highlighted that obviously variable costs will potentially increase if volumes come back. But I was wondering if there is more that you could do that could potentially offset that, that you could actually continue at this run rate even if volumes came all the way back.

And then, secondly, just with respect to capital efficiency and so forth, we're seeing some other players chopping up plants and moving them to other basins and so forth. And you've talked about that in the past as well too. But I was wondering if it's possible to even just sell an asset to somebody else who could make a better use of it by moving it as well to and if that's an option that you're considering.

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

Hey, Shneur. It's Ben. Yeah, there's a lot there to unpack. First, on the cost reductions, as you yourself have highlighted, we've taken a larger portion of the cost out than probably anybody else out there and we're proud of the work that we've done. But what I want to emphasize for everyone is that this is a – continue its improvement process when it comes to cost management. And so, we will be focused on continuing to drive cost out and trying to find those offsets.

In fact, the day before yesterday, I was sitting down with our supply chain leader and we were talking about his priorities for next year. He said something that really impressed me. He said there are a few places where we haven't done as much work as we've done in some of our big spend categories. But the biggest opportunity is to continue to manage our big spend categories with excellence. And he went on to say that he felt like all too often supply chain leaders fail to do that. And he assured me that we will have a continuous improvement process. And so, I do think that we'll continue to find opportunities.

On the capital efficiency question, I'd say we've been doing that before it was cool. We moved an entire compressor station out in the Permian last quarter. We've moved tens of thousands of horsepower compression equipment from North Texas and Oklahoma into the Permian. And where there are opportunities, as you say to cut up plants and move them, if we get to the point where we need to expand capacity in the Permian that is very much an option that's on the table.

And as for asset sales, that's something we've done as well. You might remember that last year we did a very small acquisition in North Texas and part of the way we've realized the return on the acquisition was to sell a lot of the equipment that we acquired that we didn't need because we can't handle the volume with assets that we already have on the ground. And maybe a final point on that is you can go a little bit bigger on that and I'd highlight the sale that we announced of Victoria Express. Not a big asset for us, but something that we were able to get a very high cash flow multiple for and put that money back into the capital allocation mix.

Shneur Z. Gershuni, *Analyst, UBS Securities LLC*

Great. Perfect. Really appreciate the color on that, guys. Take care, and have a safe day.

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



Thank you, Shneur.

Operator

And our next question will come from T.J. Schultz with RBC Capital Markets. Please go ahead.

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

Hey. Good morning.

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

Good morning.

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

So, how does all of the announced Permian upstream consolidation impact your current dedications or outlook on growth in the Permian? And are you seeing or expecting similar consolidation in the STACK from some of your smaller producer customers or seeing any activity increase in the STACK given the relative gas price improvement? Thanks.

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

Yeah. Well, starting with the Permian, T.J., you're right. We've seen three big deals in the Permian. Two of those deals involved companies with whom we have significant Permian operations or business. I think – look, it's way too soon to talk specifically about how it changes things, but what I would say is we feel like the acreage that's dedicated to us is some of the best in the basin, particularly on the Midland Basin side. And we think that part of the reason that these deals are happening is because people want to high grade their portfolios and focus on the best acreage. And so, I think that that over time should benefit us. Having larger, even better capitalized disciplined producers with good planning horizons to do what they say they're going to do will be a benefit for us.

In the STACK, I would say certainly less activity than what we've seen in the Permian. Most of our customer base in the STACK consists of the large independents like Devon, like Marathon, like Ovintiv. I will say though that in time, there needs to be a rationalization of the smaller private equity-backed companies that are in Oklahoma. Some of that has begun primarily with the private equity sponsors combining some of their portfolio companies. But I think in time, there is some consolidation to happen there. I'm just not sure whether it's today's issue.

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

Okay. And then just activity levels in the STACK with the gas prices where they are?

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

Yeah. So, I would say unchanged today from what we've been telling you really for the last two quarters. Average activity level of two rigs or so I think today it happens to be one rig. Outlook, T.J., I would say, two pieces of it. First, we're looking forward to the commencement of the Devon-Dow JV. If you look at Devon's materials from a few days ago, you saw that they speak in there about the potential to commence that early next year. I'd say that's certainly my expectation. And then, outside of the Devon-Dow JV, you're

right, it is gas price dependent in part. I'd say it's too soon to say just given the – where – we all are including our producer customers in their budgeting cycle.

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

Okay, makes sense. And then, just lastly, some of the growth projects you discussed potentially longer term, do any of the projects beyond from the well connects that you target for next year potentially compete for capital over the next year or two? And is that more likely Midstream consolidation within G&P or the tuck-ins you discussed? Is it more downstream-focused? Are there energy transition projects? Just any further details on what the likely next steps from a strategic perspective are for you all, assuming a more stable market and debt profile. Thanks.

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

Yeah. Thank you, T.J. Let me just say all of the above. We certainly wake up every day looking at all of the opportunities to allocate capital to growth projects. Today, our focus is on what we described earlier in the prepared remarks as being kind of small tuck-in capital-light projects that have a high return and a very immediate return of cash flow. And so, you've seen us do those Venture Global project as an example of that, which will come on in 2021. We see other opportunities and are very proactively pursuing those opportunities, in particular downstream. We are overallocating resources, if you will, to the downstream area, the demand pricing area and we expect to see those opportunities continue much like what we see with the Venture Global opportunity. So, we see those in all the basins that we operate. And I would say we're working on, again, the small high return, but also some of the bigger more strategic things we're always looking at.

From a consolidation standpoint, I'm sure that's a bigger topic that folks are kind of talking about and wanting to know how we think about that. And I'll say that the question of consolidation in the midstream space is really the broader issue of all of us trying to move to what we think the midstream company the future ought to look like. I think the same thing that the E&Ps are trying to accomplish with the consolidations we're seeing there. So, when you look at that, what we want is a company that will attract investors and give us access to consistent and strong capital in the future. I think operational efficiency, I think scale, diversity of assets, and integrated value chain, those are some of the important attributes that we as a company or others will be trying to move towards.

And I think one could argue that a quick way and a decisive way to get there would be through consolidation. And so there's a lot there, but those are the things that we're thinking about. We're right in the middle of our annual strategic planning process and so these things are certainly top of mind for us. Maybe I'll wait for another question before we talk about the energy transition, but certainly that's something that we're focused on as well.

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

Okay. I appreciate that, Barry. Thank you.

Operator:

And our next question will come from Christine Cho with Barclays. Please go ahead.

Christine Cho, *Analyst, Barclays*

Thank you. Good morning. Maybe in response to an earlier question, you talked about selling equipment that you didn't need. And so, when we think about some of the permanent cost savings that you've achieved to date, have you idled any facilities and redirected those volumes to your other nearby assets? And could there be opportunity to sell the assets that you just idled?

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

Yeah, Christine, this is Ben. We have idled some assets including two processing cranes in Oklahoma over the course of the year. There can be opportunities to sell those, but it's not a big number, right, by its nature especially in a market like this. It's not like there's a lot of people out there that are looking for that equipment. So, we do it opportunistically when it makes sense to do. But it's not – I don't see it as being a big driver.

Christine Cho, *Analyst, Barclays*

Okay. And then just sort of with the NBC roll-off next year that is going to be an EBITDA headwind, should we think that you guys would spend a majority of the discretionary cash flow just to keep leverage flat? Would that be a priority or are there other puts and takes I'm not thinking about?

Pablo G. Mercado, *Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

Christine, its Pablo. Decreasing leverage is a top priority of course for us. We're very close to that at this time to the 4 times. We're at 4.2 times. And as you pointed out, we do have very strong excess free cash flow this year and going into next year. We haven't given guidance yet on the EBITDA side. But on the free cash flow side, we do feel good about that because of the step-down – significant step-down in capital expenditures that the two big projects that we have this year are complete. We don't see things like that at this time in our plans for next year. So, it's going to be very capital-light things like well connect, which are very, very good returns and any other new projects we'll have a very, very high bar.

Christine Cho, *Analyst, Barclays Capital, Inc.*

And then maybe last one for me, where in the value chain are you looking for tuck-in acquisitions and is there a certain division that you're focusing on?

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

Yeah, Christine, I would say, as I said earlier, we are overallocating resources on the demand-facing side of our business. We think that we have good opportunities there and we like the way that it further diversifies our business and integrates us across the value chain. And so – but we're looking at it in all of the basins in which we operate and so I'd say all of the above with an overemphasis in the Louisiana or Gulf Coast demand-facing assets.

Christine Cho, *Analyst, Barclays*

Got it. Thank you.

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

Thank you Christine.

Operator



And this will conclude our question-and-answer session. I'd like to turn the conference back over to Barry for any closing remarks.

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

Thank you, Cole, for facilitating our call this morning, and thank you, everyone, for being on the call with us and for your support. As always, we appreciate your continued interest and investment in EnLink. We look forward to updating you with our fourth quarter results in February. In the meantime, we wish you all well and stay healthy. Have a great day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time, and have a great day.