Panel Discussion – Recent M&A Trends and Future Outlook

MLPA Investor Conference | June 2016
Meet the Panel

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US Oil & Gas M&A Deal Activity Trends

Source: Thomson
US Oil & Gas M&A Deal Activity Trends

Source: Bloomberg, Thomson
MLPs have seen their market prices fall meaningfully and, even though some recovery has occurred, there remains the possibility of consolidation among MLPs.

- Smaller MLPs will find it harder to survive, which should generate acquisition opportunities for larger MLPs.
- Future structure of the MLP will likely be different (lower or no IDRs, longer subordination).
MLP Distribution Cuts
Energy Bankruptcies - Filings Since 2015

1Q 2015: 6
2Q 2015: 7
3Q 2015: 18
4Q 2015: 12
1Q 2016: 16
2Q 2016: 20

Source: Thomson
Who Controls Our Fate?

DOOR #1

DOOR #2

DOOR #3
Who Controls Our Fate?

DOOR #1
Hillary Clinton

DOOR #2
Donald Trump

DOOR #3
Prince Mohammed bin Salman
Recent M&A Trends and Future Outlook

Recent Transactions

Related Party M&A and The Conflicts
Committee Process
SemGroup Corp. / Rose Rock Midstream, L.P.

<table>
<thead>
<tr>
<th>TRANSACTION OVERVIEW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ACQUIRER</strong></td>
</tr>
<tr>
<td><strong>TARGET</strong></td>
</tr>
<tr>
<td><strong>SUMMARY</strong></td>
</tr>
<tr>
<td><strong>TRANSACTION VALUE</strong></td>
</tr>
<tr>
<td><strong>DATE ANNOUNCED</strong></td>
</tr>
</tbody>
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<tr>
<th>STRATEGIC HIGHLIGHTS</th>
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</thead>
<tbody>
<tr>
<td>• SemGroup’s c-corp structure attracts a broader investor audience with a simplified capital structure expected to improve cost of capital</td>
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<td>• 100% ownership of Rose Rock’s EBITDA</td>
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<td>• SemGroup liquidity pro-forma expected to be ~$1.1 billion</td>
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<td>• Allows SemGroup to execute on growth plan including strategic acquisitions</td>
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<td>• Pro-forma company expects to see long-term tax depreciation related to the transactions</td>
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**ADDITIONAL INSIGHT**

Acquisition Provides SemGroup with Simplified Structure

Source: Company Investor Presentation
Western Gas Partners LP acquired Springfield Pipeline LLC from Anadarko Petroleum Corp. for $750 million. The partnership funded the transaction through the issuance of $449 million in aggregate amount of 8.5% perpetual convertible preferred units of Western Gas Partners LP and Western Gas Equity Partners LP to First Reserve Corp. and Kayne Anderson Capital Advisors LP at a price of $32.00 per unit, the issuance of 1,253,761 and 835,841 WES common units at a price of $29.91 per common unit to Anadarko and Western Gas Equity Partners LP, respectively, and the borrowing of $247.5 million on its revolving credit facility.

**STRATEGIC HIGHLIGHTS**

- High-quality addition of mature assets to midstream portfolio requiring minimal ongoing capital
- Expands Eagle Ford position with 548 miles of gas and 241 miles of oil gathering pipeline as well as 24 compressor stations
- Immediately accretive with 100% fee-based cash flows and recently negotiated term extension through 2034

**ADDITIONAL INSIGHT**

Asset Overview

Source: Company Investor Presentation
Recent M&A Trends and Future Outlook

Recent Transactions

Third Party M&A
TransCanada Corp. has agreed to buy Columbia Pipeline Group Inc. for $13 Billion in cash and debt transaction. The transaction is valued at $13 billion, comprised of $10.2 billion in cash and $2.8 billion in debt. On completion of the transaction, Columbia shareholders will receive $25.50 per common share, an 11% premium based on Columbia’s closing stock price on the NYSE of $23.00 as of March 16, 2016.

**STRATEGIC HIGHLIGHTS**

- Significant position in Marcellus and Utica shale plays which adds diversification to TransCanada’s current operations
- Pro forma, company creates one of the largest natural gas transmissions in North America (56,900 miles)
- Targeted annual cost, revenue and financing benefits ~US$250 million
- Results in a combined US$23 billion portfolio of secured, near-term growth projects
- Financing plan includes issuance of US$4.4 billion of subscription receipts, announced planned sale of US Northeast merchant power assets and monetization of minority interest in Mexican natural gas pipeline business

**ADDITIONAL INSIGHT**

Expands Natural Gas Footprint
Public GP Simplifications
• With a publicly traded GP, a simplification can take several forms, including (i) a merger of the GP into a subsidiary of the MLP, (ii) an exchange of IDRs for MLP common units and a liquidation of the GP or (iii) the GP acquires the MLP via merger
  – Vote of the GP equityholders to approve the transaction is typically required
  –Vote of the MLP equityholders is typically not necessary, but may be advisable
• Typically the MLP public unitholders obtain voting rights for the board of directors, but there are examples where the sponsor retained control
• Examples:
  – *Buckeye Partners* (2010): MLP buys GP

Source: Company Investor Presentation
Simplification

• For publicly traded GPs, merger (or liquidation) will require unitholder vote under terms of constituent documents
  – Proxy solicitation will likely take several months
  – Where unitholder vote at GP is required, vote at MLP may be advisable (but not required) to obtain approval of conflicts of interest under MLP LPA
• For private GPs, approval can be obtained immediately, obviating need for delayed closing
• Exchange rules do not require MLP unitholder approval for issuance of new equity
• Simplifications are generally non-taxable except to the extent of cash received
  – Contributions to partnerships are generally non-taxable
  – Exceptions for cash distributions, liability shifts and recent property contributors
  – Public GP simplifications normally include tax opinions to both public groups that no tax will be recognized other than these exceptions
Recent M&A Trends and Future Outlook

Roll-Ups
Some corporate sponsors have found it advisable to merge their MLP into the corporation for equity.

Examples:
- Targa Resources Partners – Targa Resources Inc.
- Pioneer Southwest Energy Partners – Pioneer Natural Resources
- Phosphate Resource Partners – IMC Global
Roll-Ups

• The timeline for roll-up transactions is very similar to the timeline for public company merger transactions generally, 2-4 months from signing to closing depending on the length of SEC review process of disclosure document
  – Typically completed through a reverse triangular merger, with unitholder approval at MLP
    o If the MLP is out of subordination, MLP units held by a sponsor can typically be counted towards majority approval
  – If shares issued at corporate or LLC parent are in excess of 20% of outstanding shares, vote will also be required at parent

• The time between signing and closing, and the fact that there is often a unitholder vote, increases litigation risk during pendency of the transaction
  – Litigation will often challenge:
    o Elements of the process utilized in approving the transaction
    o The price or exchange ratio
    o Alleged omissions in the disclosure document
  – Time between signing and closing provides an opportunity for settlement of litigation, if desired
Roll-Ups

• If a parent has a Schedule 13D on file with respect to MLP, an offer to take the MLP private may trigger a required amendment
  – This leads many parent companies to make the initial “take private” proposal public

• If the roll-up transaction involves any cash payment or consideration, it may be considered a “take private” transaction governed by Rule 13e-3
  – Would require additional disclosures, including filing of all bank books provided to parent and MLP boards

• In taxable roll-up transactions, special consideration should be paid by the conflicts committee or other body charged with evaluating the transaction on behalf of unaffiliated unitholders
  – Fairness opinions from investment banks typically do not take into account tax implications, but advisors can help in analysis
  – Tax liability may vary significantly from unitholder to unitholder, depending on basis
  – Unitholder views on taxes (including as compared to value of any cash consideration received) may sway voting decisions
  – Recent roll-up complaints have focused on tax impacts on unaffiliated unitholders
Equity Recapitalizations
Equity Recapitalizations

- With distribution cuts due to industry changes, an MLP’s capitalization may no longer be appropriate for the cash-generating potential of its business
  - “Out of the money” subordinated units may provide a band through which the business (and aggregate distributions) has to grow before common unit distribution growth is realistic
  - IDR may be so out of the money as to not provide the same incentives for sponsor drop downs
- Several MLPs have revised the terms of their capital structure to eliminate subordinated units and rationalize the IDR, and in some cases provide new capital for the MLP:
  - Genesis Energy
  - Eagle Rock
  - Niska Gas Storage
  - American Midstream
  - Westmoreland (Oxford)
  - BlueKnight (Semgroup)
Niska Gas Storage LLC

- Niska was a gas storage MLP with assets in Canada, California and Oklahoma
- Completed its initial public offering in May 2010 with traditional capital structure of common units, subordinated units and IDRs
- Suspended distributions on subordinated units in November 2011, continued paying MQD on common units
- In April 2013, announced a restructuring whereby Niska’s sponsor (affiliates of Carlyle/Riverstone) converted their existing subordinated units and IDRs into “new IDRs”
- New IDRs entitle Carlyle/Riverstone affiliates to receive 48% of all distributions to unitholders in excess of $0.35 per common unit per quarter (the same “MQD” as IPO), after the payment of any arrearages on common units
  - “Old IDRs” had been entitled to receive increasing percentages (ranging from 13% to 48%) of incremental cash distributions after Niska’s unitholders (both common and subordinated) exceeded quarterly distributions ranging from $0.4025 per unit to $0.5250 per unit
  - No unitholder approval
Who Does Deals?
Make MLPs Great Again