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EnLink Midstream Partners LP (ENLK)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the EnLink Midstream Second Quarter 2018 Earnings 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 note that this call is being recorded today Wednesday, August 1, 2018 at 9 o'clock A.M. Eastern Time.

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

Kate Walsh

Vice President-Investor Relations & Tax, EnLink Midstream Partners LP

Thank you, and good morning, everyone. Thank you for joining us today to discuss EnLink Midstream's second quarter of 2018 earnings. Participating on the call today are Barry Davis, Executive Chairman; Mike Garberding, President and Chief Executive Officer; Eric Batchelder, Executive Vice President and Chief Financial Officer; and Ben Lamb, Executive Vice President and Chief Operating Officer.

To accompany today's call, we have posted our second quarter of 2018 earnings press release and operations report to the Investor Relations portion of our website. Shortly after today's call, we will also make available a webcast replay on our website.

I will remind you that statements made during this conference call about the future, including our expectations or predictions, should be considered forward-looking statements within the meaning of the federal securities laws. Actual results may differ materially from what is described in these forward-looking statements. Forward-looking statements speak only as of the date of this call, and we undertake no obligation to update or revise any forward-looking statements.

Additional information on factors that could cause actual results to differ from what is described in the forward-looking statements is available in the earnings press release and the operations report located at enlink.com and in our SEC filings.

This call also includes 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 operations report on enlink.com. 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.

The structure of the call will be to start with prepared remarks by Barry, Mike and Eric; and then, leave the remainder of the call open for a question-and-answer period.

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

Barry E. Davis

Executive Chairman, EnLink Midstream Partners LP

Thank you, Kate, and good morning, everyone. Thank you all for joining us today. We were very pleased to discuss our second quarter 2018 results this morning. As you saw in the press release and operations report we issued yesterday, we achieved another strong quarter of operational and financial results and it's off this strong base that we are increasing our outlook for the year. As a result of the businesses' strong performance during the first half of 2018 combined with our robust outlook for continued growth, we raised ENLK guidance for 2018. Reaching \$1 billion of adjusted EBITDA is an important milestone for EnLink and we're on track to not only reach it but exceed it this year.

And with the expansions we're executing on today and the strong consistent rig activity we continue to see across our footprint, we expect another year of attractive growth in 2019. We believe ENLK's 2019 adjusted EBITDA will increase between 5% and 10% over our new expectations for ENLK's 2018 full year results. Over the past year, one of our key focus areas has been to increase distribution coverage and we are very pleased with our success on this front. Our improving coverage position at ENLK accomplishes two objectives.

First, it improves our financial position and more closely aligns us with the investment grade style credit metrics we target. And second, it allows us to self-fund an increasing portion of our growth capital expenditures, which we believe delivers greater value to our unitholders. ENLC also delivered another strong quarter and as a result of the stability of ENLC's distribution coverage, and consistent with our commitment to returning value to unitholders, we declared a third consecutive quarterly distribution increase at ENLC and remain right on track with our guidance for 5% growth in 2018 declared distributions that we communicated earlier this year.

In addition to the business performing well, a new strategic partner joined the EnLink family. Global Infrastructure Partners acquired all of Devon's equity interests in EnLink in a deal that closed in mid-July. GIP is well-positioned to support our growth in this next chapter of our evolution and we'll be highly focused on enhancing and expanding our midstream services. Devon will continue to play a key role in our success as a company, remaining a core customer and a significant commercial relationship for EnLink.

A great recent example of this is our collaboration with Devon in the Delaware Basin where we are building the Avenger Crude Gathering System to support their significant investments in the Todd and Potato basin areas. Our business continues to take meaningful strides ahead, all because we are in the right places with the right partners and we have the right team executing the right plan.

And with that I'll turn it over to Mike to provide an update on our seven growth strategies.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

Thanks, Barry and good morning everyone. As Barry said, we are very pleased with our second quarter results and 2018 is shaping up to be a great year for us. We are excited to raise guidance halfway through the year and we are very pleased with our distributable cash flow growth, our distribution coverage bill and our improving ability to self-fund growth capital expenditures.

Before I move to an update on our seven growth strategies, I'd like to build on what Barry said about our new partner GIP. GIP is teaming up with EnLink in an exciting time. We have a rich opportunity set for growth across our seven strategies, and importantly GIP is closely aligned with EnLink on executing that growth plan. GIP brings deep midstream expertise and will be able to evaluate and enhance our capabilities to execute our plan with excellence. GIP is also aligned from a cultural standpoint, bringing many of the same values that drive the way we operate day in and day out.

Numerous investors and analysts asked me and asked GIP, what GIP saw in EnLink, and I love the answer. GIP is bullish on U.S. energy infrastructure and they see EnLink as being a very well-positioned in cost advantage basins with the ability to move commodities through the value chain to one of the country's biggest demand markets, the Gulf Coast. GIP felt that this was a tremendous time to invest in EnLink due to our future outlook, including the confidence they have in our team's ability to execute on that growth plan. GIP is a proven leader in the midstream space with a great track record, and their investment marks a strong seal of approval of the EnLink story.

Turning now to our seven growth strategies. Our first growth strategy is to maximize our strategic position in Oklahoma. Oklahoma continues to be a tremendous success story for us. We experienced more than 50% growth in segment profit this quarter as compared to the second quarter of 2017 and volumes in our gathering and processing operations are up over 60% from this time last year. 2018 is all about building on the momentum we achieved in 2017. Chisholm II and III service and we are processing close to 1 bcf per day of natural gas right now in Central Oklahoma. We'll be adding just-in-time capacity when we bring on our next \$200 million a day plant, Thunderbird in the first quarter of 2019, which will bring our total Central Oklahoma processing capacity just over 1.2 Bcf a day.

We continue to develop scale on our crude oil gathering systems in Central Oklahoma. Our Black Coyote system which supports Devon's large-scale developments is full on crude oil today and we are bolting on our Redbud system which supports Marathon Oil. These are great examples of low, risk high return projects with a quick to cash payoff for the capital we're investing.

Our second growth strategy is to increase utilization of our Midland Basin assets. Natural gas volumes were up over 20% across our Midland system from this time last year. One of the great things about our natural gas system in Midland is that we have the infrastructure in place to handle the volume growth we see throughout the rest of 2018 and into 2019. We're at about 65% utilization today, with the expectation that we'll average 80%

utilization in the fourth quarter of 2018. On the crude gathering side, we continue to be on track to achieve 50% volume growth during 2018 over 2017 average volumes, and are pleased with our volume throughput growth during this past quarter.

Our third growth strategy is to build scale in the Delaware Basin. Similar to what we saw in the Midlands side, natural gas volumes saw nice increase this quarter. Year-over-year volumes were generally up over 100%. Development of our Lobo III facility a 200 million cubic feet per day processing expansion is progressing and is now expected to be fully operational during the first quarter of 2019. We expect the first 100 million a day to be in service during the fourth quarter 2018.

In June, we also announced the construction of a new crude oil gathering system, the Avenger System. Avenger is backed by a 10-year contract with Devon and is a great example of us continuing to grow our commercial relationship with Devon. Avenger's initial phase is up and running and we are currently flowing first volumes. The system is expected to be fully operational during the first quarter of 2019.

Our fourth growth strategy is to drive growth in our Gulf Coast NGL platform. Our Cajun-Sibon pipeline continued to run close to capacity throughout the second quarter of 2018 and we expect those levels to continue throughout the balance of the year. As expected during the second quarter, we saw seasonally driven decrease in segment profit contribution from our NGL activities. The second and third quarters are traditionally the shoulder season for this business and we have fewer fee capture opportunities at this time in the cycle.

With our NGL facilities operating close to full capacity, we continue to actively evaluate our next phase of expansion. Fortunately, we have a great opportunity set surrounding this growth strategy by being in the right places along the Gulf Coast where 85% of the U.S. Petchem facilities are operating. We expect to be in a position to discuss our expansion plans over the coming months and continue to explore several opportunities in depth.

Our fifth growth strategy is to capture incremental gas opportunities in Louisiana and our sixth growth strategy is to repurpose redundant Louisiana gas infrastructure. We continue to experience strong natural gas volume throughput across our system and see sizable incremental opportunities with the next wave of LNG activity and industrial expansions. We are well underway with evaluating natural gas, NGL and crude opportunities and see this as an attractive strategy for growth over the next three to five years.

Our seventh growth strategy is to proactively participate in the Barnett Shale redevelopment. We continue to see producers make progress in the Barnett, with acres trading hands, more capital being allocated and active drilling rigs. We're encouraged by the activity we're seeing in our footprint and think the long-term annual decline rate across EnLink's Barnett footprint could be less than 5% per year given the activity we expect to see.

For this quarter, volumes on our system experienced a slower pace of decline as compared to the first quarter of 2018. Processing volumes held flat while gathering and transportation volumes declined by only 1%.

During the first quarter of 2018, we experienced some weather-related impact that wasn't repeated this quarter. Segment profit remained solid for the quarter, increasing by 4% as compared to the first quarter of 2018. Circling back to where we started, when you think of EnLink you should think of these seven growth strategies. They define how we drive our business and will serve as a catalyst to our attractive growth for years to come.

Our strategies around Oklahoma, Midland and the Delaware are our near-term growth strategies and we expect those strategies to drive the majority of our growth in the next one to three years. The strategy centered around

Louisiana and the Gulf Coast will drive a future wave of growth over the next three to five years and we'll continuously pursue opportunities in the Barnett to ensure cash flow stability over the long term.

With that, I'll turn it over to Eric to provide an update on our financial highlights.

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream Partners LP

Thank you, Mike and good morning everyone. As Barry and Mike both highlighted, EnLink delivered strong results for both the second quarter and first half of 2018. I'll start with ENLC, which achieved a solid quarter with \$58 million of cash available for distribution, representing 10% growth from where we were this time last year. From an ENLK perspective, we achieved adjusted EBITDA net to ENLK of \$257 million for this quarter, which represents 23% growth from the second quarter of 2017. The double-digit growth was the result of year-over-year segment profit growth in all of our regions, with Oklahoma being the primary driver where volumes and segment profit were up over 50% from the second quarter of 2017.

As Barry mentioned earlier, as a result of the strong track record of growth and the conviction we have in the business, we increased ENLK's 2018 full year guidance, which includes increasing our ENLK adjusted EBITDA guidance range. We are raising ENLK's adjusted EBITDA midpoint by 4% from \$985 million to \$1.025 billion. At our new 2018 range of \$1 billion to \$1.05 billion, we are setting the floor for our adjusted EBITDA expectations this year at \$1 billion. For 2019, we are projecting ENLK adjusted EBITDA to increase between 5% and 10% over ENLK's increased 2018 full year expectations, representing attractive project-led growth for quarters to come.

From a cash flow perspective, ENLK's distributable cash flow is up an impressive 16% from the second quarter of 2017. This is at the high end of our expectations and results in strong distribution coverage of 1.17 times for the quarter, which is up from the 1.02 times coverage we had this time last year. In addition to our expectations for adjusted EBITDA generation this year, we also increased our distributable cash flow and distribution coverage expectations. We raised our distributable cash flow guidance range which results in a midpoint increase of 6% from \$650 million to \$695 million, and we raised our distribution coverage guidance range, which results in a new midpoint of 1.13 times, up from a previous midpoint of 1.05 times. The gains that we are achieving in adjusted EBITDA are translating into free cash flow for the business, which leads to great strength and flexibility across our business, including an improved ability to self-fund a greater portion of our growth capital.

From a balance sheet perspective, we ended the quarter with a solid leverage position with debt to adjusted EBITDA of 3.82 times as calculated per our credit facility. This is an improvement over the 3.99 times we had this time last year. We continue to maintain a flexible liquidity position and exited the quarter with ENLK revolver liquidity of approximately \$1 billion.

Our long-term approach to capitalizing the business centers around maintaining leverage in the 3.5 times to 4 times range, maintaining strong distribution coverage, which means targeting above 1.2 times and financing long-term assets with a mix of long-term debt, equity and excess cash flow from the business. Year-to-date, we have issued little under our aftermarket program and only use the ATM if that makes economic sense through the lens of our long-term approach to capitalization.

Before I turn the discussion back to Mike, I'll give an update on how our analysis of our long-term corporate structure is evolving. First, GIP is fully aligned with EnLink's approach to evaluating the right long-term structure for EnLink and is already taking an active role in the analysis. Second, GIP is just as committed as EnLink's management to solve for the right comprehensive long-term solution for EnLink that will provide a competitive

cost of capital to fund our growth strategy. Finally, this is a top priority for our team and we are advancing through the stages of our evaluation.

And with that, I'll turn it back to Mike.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

Thanks, Eric. 2018 is all about execution and growth and we're seeing firsthand that our execution is translating into growth. We're raising guidance and our expectations for 2018 and 2019 based on our conviction that the team will continue to execute on our growth plans. The fundamentals of our business are strong, the commodity backdrop is constructive and we've reached the point in our evolution where our previous long-term investments are paying off today.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question will come from Darren Horowitz of Raymond James. Please go ahead.

Darren C. Horowitz

Analyst, Raymond James & Associates, Inc.

Q

Good morning, guys. First question from an operational perspective, in Oklahoma what's the expectation for the back half of this year's well connects, and then beyond the \$250 million to \$270 million that you're going to spend in G&P growth capital, just based on some of the successes through the drill bit of your customers there, what's the early look on how you think 2019 cap spend shapes up?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Hey, Darren. It's Ben Lamb. I appreciate the question on Oklahoma. You're right. Certainly, through the first half of the year, Oklahoma has performed extremely well and has exceeded our expectations. If you look at where we were on volumes for the second quarter, we were up about 18% just quarter-over-quarter and we were up over 60% year-over-year. So the growth has been – has been phenomenal.

As far as the back half of the year, I see that trend continuing. I see us exceeding our expectations for Oklahoma that we set out at the beginning of the year. Now, I want to always take the opportunity to remind folks that that may be lumpy, and so it may – more of it may hit in one reporting period than in another reporting period. But I think the trend is very much in line with what you've seen up to now.

As far as capital, I hesitate to say too much about 2019 capital until we get to 2019, the point when we do guidance, but the good news is the capital that we're spending on well connects and compression is the best capital that we spend, because it's highly efficient, earns a return very quickly and builds upon all the backbone capital that has gone before it.

Darren C. Horowitz

Analyst, Raymond James & Associates, Inc.

Q

I appreciate the color on that. And then just taking that a step further, if I could Ben, and we've talked about this before. When you guys talk about kind of extending that value chain approach in connecting Central Oklahoma down into the Gulf Coast footprint and maybe some ability to further move hydrocarbons not just south, but to the east, has anything changed with regard how you're looking at optimizing those assets or maybe from a directional perspective possibly doing something slightly different to maximize producer economics and net backs to the wellhead?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Well, I would say nothing really is different, Darren. If you look at the NGL business, you'll see we had record volumes in the second quarter. We ran about 154,000 barrels a day on average and that growth really was driven by Oklahoma. I don't have an average for the quarter off the top of my head, but I can tell you that in recent days, it's been 40,000 barrels to 45,000 barrels a day of our Louisiana frac position has been fed from our Oklahoma business, which has obviously really all happened in the last 18 months or so. Touching on the fractionation opportunity which I think is where you're going with that, we're continuing to look at a range of options and that could be something really simple, it could be as simple as contracting for an attractive frac position with a third-party provider, but we're also working in parallel, the potential to develop projects. And some of those projects that we're looking at, yes, do go to the east and go to Louisiana. Today, I don't have a detailed update that I can share with you from a project perspective other than to say that we're very focused on it. We've spent a lot of time on it over the last quarter and I expect we will have a more detailed update to share with you later this year.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yes. Hey Darren, this is Mike and it really goes to the strategies around Louisiana of having the pipe in the ground and being able to repurpose that from a cost and time advantage, and so that goes into the mix of how we're looking at gas crude and NGLs. So we feel very good about that. And from a growth standpoint that's where we're very focused on from early that next leg of growth in the years three through five.

Darren C. Horowitz

Analyst, Raymond James & Associates, Inc.

Q

Okay. Yes. that makes sense. And the last question for me Eric, just one from a structural perspective. As you mentioned in your prepared commentary, thinking about with GIP, the right comprehensive structure of course with the competitive cost of capital, improved liquidity and everything that goes with that. As you guys are looking at the amount of growth CapEx that you're going to spend and early expectations for how 2019 looks, what does that mean with regard to the timing of coming to a structural resolution just based on what could be a meaningful amount of incremental return on invested capital that you guys could achieve on a consistent basis? If the structural solution ends up becoming a bit more transparent sooner versus later, I mean is it a situation where you're looking at the cost of capital now and you feel like based on the opportunity set this is something that needs to be resolved in the next couple of months if not quarters, or is it a situation where maybe there's a bit more discussion around from a structural perspective with the ratings agencies, how they might look at consolidated leverage versus transparent cash flow? Can you just give us a little bit of color as to how you guys are thinking about it now post GIP?

Barry E. Davis

Executive Chairman, EnLink Midstream Partners LP

A

Yeah. Sure. Thanks, Darren, great question, and I really appreciate it. I'd say look, we are very aligned with GIP and have been since day one on our strategy and the seven growth strategies that Mike went through as well as evaluating the overall corporate structure and as I mentioned in the prepared remarks is a top priority for us. As you mentioned, there's a lot of elements that go into this evaluation and in no particular order. It's obviously value to investors, cost of capital, reporting requirements, tax implications et cetera, et cetera and rating agencies is one of those elements. I would just reiterate that this is a top priority for us and the sense of urgency that we have and GIP have has not changed as a result of the transaction. It's something that we're very focused on.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

The other point I'd make Darren is just coverage. I mean, look at the coverage for the quarter. Look at the coverage for the first-half of the year and the self-funding. So, we've used very little ATM from a leverage ratio. We're within the range we want to be. So the business is continuing to provide us flexibility in financing the business because as Ben alluded to, we're spending the capital that is the capital you guys should want us to spend, which is that follow on bolt-on capital.

Darren C. Horowitz

Analyst, Raymond James & Associates, Inc.

Q

Thanks, guys.

Barry E. Davis

Executive Chairman, EnLink Midstream Partners LP

A

Thank you.

Operator: [Operator Instructions] Our next question will come from Jeremy Tonet of JPMorgan. Please go ahead.

Jeremy Bryan Tonet

Analyst, JPMorgan Securities LLC

Q

Good morning.

Barry E. Davis

Executive Chairman, EnLink Midstream Partners LP

A

Good morning.

Jeremy Bryan Tonet

Analyst, JPMorgan Securities LLC

Q

Just wanted to build – want to build on the GIP conversation here, and even beyond kind of the comprehensive solution discussion, just wondering if you could expend a bit more as far as what GIP sees as the strategic vision for EnLink here and more the kind of, I guess synergies that GIP can bring to the equation for the EnLink future.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Hey Jeremy, it's Mike. Before I jump into that, I would say we have had just a great run with Devon and we'll continue to, as a partner in the creation of EnLink and now as a key partner and customer at EnLink. So, I feel very good about that relationship and that ongoing growth together.

When you look at GIP, I think there's a couple of things when you think before you jump into the strategy which is one, they are completely aligned with us on how we're running the business, the focus of the business, the seven core growth strategies. The way to think of it is that we hit the ground running day one because of that alignment and really we're focused on what we needed to do, again execution of business number one.

Number two is what Eric was talking about, which is how do we get the right cost to capital for the business and that goes to the structure question and that is top of mind and what we're focused on together and solving together. And then when you step back and start seeing what else could we do together, I think that GIP allows us to really widen the lens and really think strategically around our core position what else we can do. And I am – when I say core position, we are where we want to be. So, how can we expand our capability to execute on those core positions with GIP as our partner and they can play a lot of different forms; they have a deep knowledge in the business; they have a really belief in what we're seeing here domestically from a commodity and infrastructure standpoint and ultimately, they can be a capital partner and help us with these opportunities. So, we feel very, very good about the alignment between ourselves and GIP.

Jeremy Bryan Tonet

Analyst, JPMorgan Securities LLC

Q

That's helpful. Thank you. And just want to go back to the guidance range here. Congrats there. Was just wondering if you could build a bit more as far as what's materialized ahead of expectations? Is this really Oklahoma and Louisiana here that's doing better and with regards to Oklahoma and Devon and Showboat, was just wondering is that tracking kind of your expectations? Is that ahead of your expectations? And for Oklahoma, the growth, what's kind of split between Devon and others. It seems like you've really kind of diversified your producer customer mix at this point?

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

So Jeremy, this is Mike again. I'll start and then pass it to Ben. But when you think about this quarter, a couple of takeaways. One is all segments were performing above where they were a year ago and so what I would say is that the execution of the business across the business is really driving this opportunity and driving the change in guidance for us, because ultimately if you look at the capital change, capital change is a lot around the crude strategy we've been acting over the last year, year and a half on top of what we're seeing in the GMP strategy and NGLs. So you see that consistent strategy among Oklahoma and both sides of the Permian. So – so again the core execution really and our strategic plan is really what's driving that change and we feel good about that. I'll let Ben to talk through Oklahoma.

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Yes. I'll – I'll take apart some of the more detailed part to your question. Certainly, Oklahoma is ahead of our expectations through the first half. And one part of your comment that I really want to emphasize is the diversity of customers. That's something we've been talking about for a long time and I'm not sure that people have ever truly comprehended that we do have 20 – 25 customers in Oklahoma and while Devon is the biggest customer, they're far from the only customer. So while we're happy with what we've seen out of Devon, we're equally happy with

what we've seen out of companies like Newfield where we've seen very significant increases in the volume that Newfield is moving on our systems.

Specifically, with respect to the Showboat development, the gas production at Showboat is broadly in line with our expectations. The decline rate might be a bit higher. I think that's in line with what Devon has said about it. That development was testing 12 wells in the Merrimack. And I think that their next tests, the Barnhardt and the Horsefly are testing eight and 10 wells. And so, clearly, they along with the other operators in the play are working on figuring out what is optimal. And I think that what they will discover – I know that what they will discover; is it's going to be different in different parts of the play. In some parts of the play it may be 12 wells, in some parts of the play it may only be four. But I think the good news is we continue to see this growth showing up on the platform. The proof is very much in the results that we've shown this quarter to say nothing of the last four quarter or five quarters in a row.

One thing too, in terms of diversity that I want to make sure we don't miss is how well the multi-commodity strategy in Oklahoma is working. I touched on earlier the degree to which we're connecting the NGLs down into Louisiana. But remember also that we have first flows on our crude systems in Oklahoma this quarter. Black Coyote came in service, flowed I think about 6,500 barrels a day average for the quarter. The Redbud system will be in service in the second half. In fact I expect it to be in service here very shortly, and we're excited to have all three commodities contributing now to Oklahoma.

Jeremy Bryan Tonet

Analyst, JPMorgan Securities LLC

Q

Great. Thanks. And just want to touch on one point there, make sure I had it straight. So as far as what you're talking about with Showboat, is it maybe the volumes might be a little bit less if decline rates are higher than what you expected, but there'll be the opportunity to kind of connect more wells and that's going to drive in the higher expectations there?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Well, really we need Devon and the operators, the other operators to decide the optimal well spacing. My comment was Showboat from a gas perspective was broadly in line with our expectations, certainly from an IP perspective. I think the wells have fallen a little bit harder, which is not terribly surprising, given that they were drilled densely and also given the fact there is a producer already in that section that dates all the way back to 2015. One thing we've seen is the longer that an existing producer is in a section, the more potential for parent child degradation that we see. So it's not terribly surprising. We saw a little bit of that with Showboat. But I think that what we will see coming out of this test as well as the Horsefly and the Bernhardt, and the other industry tests like Marathon, Tan, like Newfield developed at June is we'll see the operators zero in on the right recipe for each part of the play.

Jeremy Bryan Tonet

Analyst, JPMorgan Securities LLC

Q

That's helpful. Thanks and then just one last one if I could, corporate expenses were a bit higher this quarter than what we've seen in the past. Is this just a mark-to-market on hedging or is there anything else happening there?

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

No. You hit the nail right on the head, so mark-to-market is driving most of that.

Jeremy Bryan Tonet

Analyst, JPMorgan Securities LLC

Q

That's all for me. Thank you very much.

Operator: [Operator Instructions] Next question will come from Barrett Blaschke of MUFG Securities. Please go ahead.

Barrett Blaschke

Analyst, MUFG Securities America, Inc.

Q

Hey, guys. Could you give us a little bit of a breakdown on the incremental CapEx as far as – is that going mostly to Oklahoma or is it going into West Texas? And then just a follow-up that would be any additional color you can give us on changes and plans in Louisiana?

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yes. Hey, Barrett. This is Mike. To start with, I think I would say that we're really excited about this growth in CapEx because it's the CapEx we want to be spending. The core drivers are the projects we talk to you about, that Ben just alluded to. The main driver is really the crude that you're seeing in and around Oklahoma and the Permian. The next driver is the growth in Oklahoma. But that's two big step changes you're seeing that moved our guidance up on CapEx. But I want to reiterate that is the capital you want us to spend. This is that quick-to-cash capital we're building on our core system.

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Just to follow up on the Louisiana part of your question, Barrett, there's really no change in the strategy. We're really happy with the results. If you look at the Louisiana gas contribution, that business had the best quarter it's had in a long time. If you look at the NGL contribution, remember, that's a seasonal business. We tend to have higher results in the fourth quarter and the first quarters. So the best comparison you can make there is second quarter of this year compared to second quarter of last year so that you take out the seasonality and we're up nearly 20% on a segment profit basis year-over-year like quarter over like quarter. Really no change in strategy. We're still looking at the same range of potential next steps on the frac solution that we've talked about before, made good progress just not ready at this point to communicate a detailed update.

Barrett Blaschke

Analyst, MUFG Securities America, Inc.

Q

Is it opportunity set kind of narrowing or are you finding more focus on where you want to make changes in Louisiana as far as repurposing pipe?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

We are. Yes. It is becoming more focused. We started with a pretty broad group of possibilities. We have narrowed that and that's part of the progress that we've made toward we're being able to give you more detailed update later in the year.

Barrett Blaschke

Analyst, MUFG Securities America, Inc.

Q

But you do think it will be later this year that we'll probably have something more definitive?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Yes. That's my expectation. Let me say though, it may not be all one grand big announcement. It may be a solution to the opportunity that the NGLs create for us; but it comes in steps and stages. We'll have – hopefully we'll have more for you soon.

Barrett Blaschke

Analyst, MUFG Securities America, Inc.

Q

Thank you.

Operator: The next question will come from Dennis Coleman of Bank of America. Please go ahead.

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

Q

Great. Thanks. Good morning, everyone. I apologize if some of these have been hit on. I've had a little bit of technical problems on and off the call a little bit, but I want to start with the 2019 guidance, the 5% to 10% range. Can you talk about what gets you to the high end. We've talked a lot about different projects in different areas, but what gets you to the high end of that 10% range for 2019?

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Okay, Dennis. This is Mike. So it's a level set, let's make sure everyone knows that that 5% to 10% is off the new guidance that we just put out with regard to ENLK. And so again when you think about 2019 that would ultimately be revised up as [indiscernible] (36:22) was revised. So, I think that shows the conviction we have ultimately in the execution of the business.

When you think about what's driving that, that's really what we're doing today. You can just look at the projects we're executing on today. You have Thunderbird coming in really at the beginning of 2019. You have Lobo coming in really at the end and beginning – end of 2018, beginning of 2019. You have the crude systems in Oklahoma coming in over this year, the crude systems in the Delaware are coming in and the continued utilization of our existing processing capacity in Midland. And so, that's the drivers or the core drivers. When you think about the range, it's really more pace of development and how you think of that. If you look at what we've seen in 2018, and Ben alluded to it is that, specifically Oklahoma we've seen a great pace of development and we believe we'll continue to see that. But the differentiation really is really what we think those producers will do.

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

Q

Okay. So it doesn't revolve around sort of what you decide in Louisiana on what to frac and what not? That would be beyond 2019?

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yes. So when about the growth like we've laid out, really those first three growth goals centered around Oklahoma and the Permian are really driving near-term, and that Louisiana is something we said where we think that's more three to five years. So we don't have an expectation that you're going to see much change in Louisiana until you kick off that next leg of growth.

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

Q

Okay. And just – I guess maybe just stand there. On Avenger, the spend is \$30 million to \$40 million this year, and you're already starting to operate there, but you've said growth in 2019 or potential additional spending. Can you frame that for us? I mean is it similar to what you've got with Black Coyote or Redbud, or is this something bigger?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Yes. Dennis, it's Ben. As I did earlier with a similar question on Oklahoma, I'm going to hesitate a bit to say too much about 2019 capital. Certainly at the project level, it's driven by producer activity, in this case Devin's activity on Todd and the database and development areas. So you've got the right range for this year. Next year, certainly I don't think that it is either a large multiple or a small fraction of that number. I mean, I think that's the range, but I can't. At this point I'm not comfortable being too much more specific than that.

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

Q

Right. Okay. I guess switching a little bit to the credit rating, and there has been some discussion about the impact of credit ratings on any kind of consolidation solution. I know there was – S&P, I guess, had some issues with the Stetson loan that was done by GIP. Has that been resolved? Is that still ongoing? What's the update? And then, I guess the bigger picture question beyond that is some pretty good results here. The credit ratios look great and better than – than where you had been. I can't help but wonder did the agencies have all that information before they took their action? Is this something that you might think about getting back to [indiscernible] (39:44) quickly than you thought?

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream Partners LP

A

Hey, Dennis. It's Eric. Thanks and appreciate the questions and thanks for calling out the good results because that's what I would have started with a reminder. So I appreciate you taking that for me. I'd say when we think about the credit rating and the corporate structure overall, as I mentioned in my prepared remarks, it's a top priority for us. It's something that we share a sense of urgency with GIP on and are very aligned on, focused on achieving that. As part of it, there is a lot of elements that go into it of which the ratings is one of them and that's something that we'll continue to evaluate in the context of not only this quarter's performance, but also of how we think about things going forward.

Our financial strategy and financial policy hasn't changed as a result of the GIP transaction. We plan to manage the unlinked balance sheet to investment grade style metrics and we're looking to get to 1.2 times coverage, 3.5 times to 4 times debt-to-EBITDA and we'll continue to do so and that's something that we're very aligned with our

new partner with. And that's something that we'll incorporate into not only our go forward operational strategy, but also anything that may come out of our valuation of the corporate structure.

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

And [indiscernible] (41:01)

Q

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

What I was going to say is anything we do from a corporate structure standpoint is really credit enhancing. And so, we're always focused on how do we improve the overall credit metrics of the business. So before making decisions in and around corporate structure, you can assume those would all be positive to the metrics you're looking at today.

A

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

Okay. Okay. Last one for me. Just one quick question on the Barnett, you talked about reinvigorating activity there. That's a \$0.50 word if I ever heard one. So I just wonder what might would you look for? I mean are you seeing rig counts going up or anticipating that?

Q

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

Yes. Dennis, I'm glad to get some good press for the Barnett after it feels like that's something that people have really had concern about for a long time. As you saw in the quarter we had very stable volumes and you're right, that was driven by a reinvigoration of producer activity. We've had more than 20 wells that we've connected to the Barnett system, new wells so far this year and that's more than just Devon. We've talked a lot about Devon's activity with their Dow JV in the Barnett and we've actually had five different producers request new well connections in the Barnett year-to-date.

A

As far as looking forward, we have a clear line of sight on the Dow-Devon JV and the continued development in the Barnett rich that comes out of that JV. We also have a clear line of sight to a big re-frac program. It's about 50 re-fracs this year that Devon is doing predominantly in the Barnett lane. And we do expect to see other operators continue to drill new wells. So, I don't expect that we will see the decline on our assets completely arrested by that activity. But we do think that it could drive us to the point that we are between 0% and 5% net decline over the next several years which is obviously a better place than we've been in the last few years.

Dennis P. Coleman

Analyst, Bank of America Merrill Lynch

Great. Thanks, Ben. Thanks for all of the answers.

Q

Operator: [Operator Instructions] The next question will come from Shneur Gershuni of UBS. Please go ahead.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Hi, good morning, everyone. Most of my questions have been asked and answered, but maybe a couple of follow ups. First, just going back to the credit rating process, I mean is it fair to assume that you would pursue a

Q

simplification regardless of how the agency is treated, just given that it would be credit enhancing? Is that the right way to be thinking about it?

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream Partners LP

A

I think Shneur, it's Eric. And thanks. Again, I would go back to my comment about there being a large mixing bowl with many ingredients that go into it and that's something that we will evaluate. I'm not sure there is any one particular element that really will determine the outcome. It's really everything has a value in it and we'll evaluate all of those in due course.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yes. And this is Mike. We haven't brought anything or done anything with the agencies. All we've done with the agencies was talk about GIP coming in as a new partner. And so, until we actually sit down with them and walk through what our goals are and walk through what the metrics are and really – and show them what we're doing, which again I alluded to in the last question which is you wouldn't do it unless its credit enhancing. To me that's going to be the gating item to have this discussion. There's a lot of talk out there because S&P put something out, but again, we haven't sat down with them and said we're going to do X and this is how it's going to look. So, to me that's the gating item ultimately that will start that process with how they think about it.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Q

Okay. And maybe just kind of as a follow-up. When I look at your consolidated leverage, I mean it feels like you're inside the IG box, I guess towards the higher end and they sort of raise coverage as an issue. In your last response to Dennis, I think you did mention something about a target of 1.20. Is that good enough for the agencies and the discussions that you have had with them or are they looking for something higher? I was just wondering if you can talk about it, just given the fact that you've actually posted two good quarters in a row on coverage?

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream Partners LP

A

Yes, Shneur, it's Eric again. I think that as you're aware, there's a lot of pieces that go into the credit rating. Coverage is certainly one of them and not an insignificant one. But I don't think there is a bright line anywhere on any of the metrics with the rating agencies. I think that they evaluate all the pieces and they certainly have boxes and guidelines. But there's also subjective judgment as to how they weigh each of those. So, we're focused on continuing to build that coverage. We're really pleased with the quarter we've had, and been able to use some of that excess cash flow in the business and are looking forward to continuing on executing.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Q

Great. And one final question, just since you brought up the Barnett in the last question, I realize we have the benefit of the Dow JV, but other things that have been going on have been the re-fracs. I was wondering if you can talk about kind of your expectation about the re-fracs in 2019 and beyond. Is there some synergistic benefit to Devon in terms of what they're doing for the Dow JV in terms of also for their own re-fracs as well so?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Yes. So hey, Shneur, it's Ben. I think that and I'll try to make sure I answer your question. If I don't, ask me again, but in terms of the Dow JV there is line of sight there to about 120 wells over a four or five year period. And so, we're just at the very beginning stages of that. On the re-fracs, there's not a similar structure around them. That's a Devon decision to deploy that capital and this year they've decided to do about 50 of those in the lean part of the Barnett.

Into 2019, I hesitate to give too much of a prediction, but what I can say is, I think that these re-fracs, the only reason they're doing them is because they are very competitive in Devon's portfolio and I don't see any reason for that to change. I think they will continue to be competitive in Devon's portfolio, but I can't say with certainty that Devon's going to do 50 of them again in 2019.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Q

I mean is there a chance that the rig that they're using for the Dow JV when it's idle, they would then use it for re-fracs because I assume it wouldn't be available 100% of the time?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

No. That's obviously a better question for Devon than it is for us, but my perception is that they've got a rig busy most of the time with the Dow JV. So, if you think about 20 to 24 wells a year and you think about a Barnett well probably taking two weeks from spud to rig release, that's pretty much a sustained one rig program and it's a different – it's different equipment that you can use on the re-frac. You don't need the full drilling rig like you do when you're drilling the new wells.

Shneur Z. Gershuni

Analyst, UBS Securities LLC

Q

Right. Got it. Really appreciate the color guys. Thank you very much.

Operator: [Operator Instructions] The next question comes from Mirek Zak of Citigroup. Please go ahead.

Mirek Zak

Analyst, Citi

Q

Hi. Good morning, everyone. So you deal with quite a few producers out in the Permian right now. So, can you comment on how those producer volumes or EnLink is generally positioned on takeaway out of the basin over the next few quarters or if you've seen any signs or have any concerns of potential slowdowns from any of those producers maybe temporarily at this point?

Benjamin D. Lamb

Executive Vice President-Corporate Development, EnLink Midstream Partners LP

A

Hey, Mirek. It's Ben, happy to comment on that and I'll do it in pieces. I'll start on the Midland side of the basin. On the Midland side of the basin, EnLink markets the majority of the of the residue gas. And we have more than enough firm pipeline capacity to move our residue. Most of that capacity goes to Waha. And so we may not love the price, but we have flow assurance and that's what our customers demand. That's what they're interested in, is flow assurance.

On the crude side, we obviously don't market the crude for most of our customers. But if you think about our customer base on the Midland side of the basin, far and away our two biggest customers are Concho and Diamondback. And both of those companies, if you look at their Investor Relations materials, they've done extensive discussion of how they're managing their take away from the Midland Basin and we feel good about them.

As I go further down the customer list, I continue to feel good about our customers. Now we've got 30 some customers. I don't know how each and every one of them is fixed for transportation, but I think our big customers are very well taken care of and we have seen no sign at all that a take away concern is becoming an issue for us in the Midland Basin.

Over in the Delaware Basin, in general, our producer customers market both their gas and their crude. Again though on that side of the basin, our customers are the very large cap independents, the major oil companies. They do a very good job planning multiple years in advance their take away needs. And so again there, while the marketing arrangement is different, we have no indication that takeaway concerns are a near-term issue for us.

Mirek Zak

Analyst, Citi

Q

Okay. Fantastic. And just one clarifying question. Are you expecting to internally fund only the announced incremental CapEx? Or is that on all second half capital spend, removing the need of leaning on the ATM for the rest of the year?

Eric D. Batchelder

Executive Vice President & Chief Financial Officer, EnLink Midstream Partners LP

A

Mirek, I'd say look, we'll continue to evaluate the CapEx needs and financing the business through a mix of the excess coverage, the credit facility and we are always evaluating the equity markets. But I'd say that, we will – we'll continue to use excess coverage in the credit facility as our primary focus and then evaluate everything that goes into funding our capital needs for the business on a go forward basis.

Mirek Zak

Analyst, Citi

Q

Okay, great. Thank you. Thanks for the time.

Operator: And this concludes our question-and-answer session. I would now like to turn the conference back over to Mike Garberding for any closing remarks.

Michael J. Garberding

President, Chief Executive Officer & Director, EnLink Midstream Partners LP

Thank you, Carrie for facilitating our call this morning and for everyone on the call today. Thank you for your participation and for your support. We'll look forward to updating you on our third quarter results in November.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.

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