22-Oct-2018

EnLink Midstream Partners LP (ENLK)

Acquisition of EnLink Midstream Partners, LP by EnLink Midstream, LLC Call

CORPORATE PARTICIPANTS

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

Barry E. Davis
Executive Chairman, EnLink Midstream Partners LP

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

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

OTHER PARTICIPANTS

T.J. Schultz
Analyst, RBC Capital Markets LLC

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

Spiro Dounis
Analyst, Credit Suisse Securities (USA) LLC

Joshua P. Golden
Analyst, JPMorgan Investment Management, Inc.

David Meagher Amoss
Analyst, Heikkinen Energy Advisors LLC

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc.

Barrett Blaschke
Analyst, MUFG Securities America, Inc.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the EnLink Midstream Announces Simplification Transaction Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this call is being recorded today Monday, October 22, 2018 at 10 A.M. Eastern Time.

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

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 simplification transaction announcement. 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 a press release and a presentation 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 our SEC filings and in the simplification press release we issued this morning and the simplification presentation accompanying this call located at enlink.com. This call also includes references to certain non-GAAP financial measures.

Definitions of these measures as well as reconciliations of comparable GAAP measure, if required, are available in the simplification press release that we issued this morning and the simplification presentation accompanying this call located at enlink.com. We encourage you to review the cautionary statements and other disclosures made in those materials and in 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 on the call. Today is a very exciting day for EnLink. As you saw this morning, we announced our intention to simplify EnLink's corporate structure and to create a unified $13 billion enterprise value company. With this new organizational structure, we will elevate our financial foundation from a position of strength and pave the way for a sustainable, long-term distribution growth of 5% or greater annually for the next three years.

We've been very focused as a management team on determining the right long-term corporate structure for EnLink. We evaluated multiple alternatives and undertook a deliberate process to accomplish our objectives. We wanted a structure that strengthened our balance sheet, eliminated the incentive distribution rights burden, improved access to a lower cost of capital and enhanced EnLink's valuation relative to our peers. We believe today's announced simplification will achieve all of these objectives and positions the company to realize a bigger impact for all our stakeholders.

With that, I'll turn it over to Mike, to further discuss the benefits of this transaction.

Michael J. Garberding

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

Thanks, Barry, and good morning, everyone. I certainly share Barry's enthusiasm and excitement this morning and take our simplification transaction takes a big step forward in advancing EnLink's next chapter of growth. As you saw in this morning's press release and presentation ENLC agreed to acquire all common units of ENLK not already owned by ENLC and the transaction was approved by the Conflict Committees and the board of directors of both ENLC and ENLK. ENLK common unitholders will receive 1.15 ENLC units for each outstanding ENLK common units, which represents a value of $18.46 per ENLK unit based on the October 2019 closing trading price.

A simplified structure will deliver immediate accretion to distributable cash flow per unit for both ENLC and ENLK unitholders and will create a single publicly traded midstream energy company in ENLC. We expect our trading liquidity to improve with the larger public unit float and we expect to attract an expanded pool of investors who will find our new structure and financial tenets very compelling. Although, our structure will change, a number of key things will stay the same for us. Our ambition and opportunity sets are unchanged. Our business model being in the right places with the right partners and executing our right plan with excellence remains unchanged and the company's focus on our seven growth strategies remains unchanged.

Barry highlighted that we're evolving from a position of strength, and I wanted to expand on what we've accomplished year-to-date to strengthen that position. First, we reported increased segment profit in all asset regions for the second quarter of 2018 as compared to the same period the prior year. Second, we are successfully executing in our three-year growth plan for Oklahoma and are achieving the results we forecasted when we acquired assets in Central Oklahoma in early 2016. Third, we facilitated volume stability in our North Texas assets and now expect long term volume decline rates to be 5% or less. Fourth, we have strengthened our relationship with our strategic partners. We established and grew our relationship with global infrastructure partners who has been aligned with us and supportive of us since day one.

We announced Avenger, our first crude gathering platform with Devon in the Delaware Basin. And we announced Redbud, our first crude gathering platform with Marathon Oil in Oklahoma's prolific STACK play. And lastly, from a strategic planning perspective, we've executed tremendously well for our 2018 [indiscernible] (00:06:27) our financial results [ph] have kept (00:06:30) to that progress. We revised 2018 and 2019 guidance upwards for ENLK halfway through the year due to our team's outstanding execution as well as supportive fundamentals for our business and we expect to close out 2018 at the high-end of our ENLK increased financial guidance range.

We've accomplished a lot this year and we look forward to this next step in EnLink's journey where we'll execute our growth plans under a simplified structure with a stronger more competitive financial platform. For the past four years, we've delivered significant adjusted EBITDA growth and that growth will continue. We're committed to growing both top and bottom lines of our business and this new structure positions us very well to focus on what we do best, operate and expand our midstream business in some of the best supply basins and demand regions in the country.

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

Eric D. Batchelder

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

Thank you, Mike, and good morning everyone. I think Barry and Mike have done a great job outlining the simplification transaction and its expected benefits. I'll now take a moment to round out the discussion by focusing on our four core financial tenets. Tenet one, leverage; pro forma for the transaction we are targeting long-term leverage of 3.5 times to 4 times as calculated under the terms of our credit facility. Our commitment to running the business with investment grade style metrics remains unchanged, and our focus on fee based revenue provides us with strong cash flow stability and visibility.

We have been in discussions with all three rating agencies around our simplified and streamlined corporate structure and we expect all three agencies to reaffirm our current credit ratings. Tenet two, distribution growth. We are forecasting that pro forma for this transaction, the compound annual growth rate for ENLC's distributable cash flow per unit through 2021 will exceed 10% and that's a great outcome. It's been a goal of ours to give a long-term outlook for sustainable distribution growth and we are happy to announce that pro forma for this transaction, we intend to grow ENLC distributions to our unitholders by 5% or greater for the next three years, which could translate into distribution growth in the mid to high single digits.

Tenet three, self-funding. It's been another goal of ours to fund an increasing amount of our growth capital expenditures with cash flow from the business and this transaction will allow us to do just that. Pro forma for the transaction, we forecast that we'll have the ability to self-fund the growth capital expenditures of around $700 million over the next three years, which will provide us with greater flexibility to execute our growth plan on our own financing terms. And finally, tenet four, distribution coverage. This new structure will drive a significant improvement in our distribution coverage, which directly supports the growth in self-funding that I just discussed.

Pro forma for the transaction, we expect ENLC's coverage ratio to be in the range of 1.3 times to 1.5 times for the next three years, significantly enhancing the durability and stability of our business over the long-term. I'll wrap up by saying that big picture, EnLink's simplification transaction is the logical next step in executing our strategy that Mike outlined earlier. We are adapting to a changing corporate structure landscape at the right time for EnLink and the simplified structure we have outlined today will allow us to effectively manage our financial resources as we continue to execute on our growth plans.

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

Michael J. Garberding

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

Thanks, Eric. To sum it up, we view that the simplification transaction as a big step forward in advancing EnLink's next chapter of growth. When GIP entered our story a few months ago, the fairway of opportunities available to us was expanded and now we will have a new structure that will enhance our returns as we execute on those opportunities.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And today's first question comes from T.J. Schultz of RBC Capital Markets. Please go ahead.

T.J. Schultz

Analyst, RBC Capital Markets LLC

Q

Great. Thanks, good morning. I think just first, how have discussions with GIP evolved since their entry, and then through this simplification can you just try to frame those discussions around the view for EnLink's organic growth to potentially expand or the ability to do more M&A?

Michael J. Garberding

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

A

T.J., this is Mike. So we've always said really from day one, we and GIP have been very aligned on what we're trying to do. For both of us it starts with the fundamentals of the business and belief in what we're seeing in the marketplace and the opportunities around that. It then goes to – what we've been executing on ultimately, which is what we call the right places, the right partners, and ultimately what we call our seven execution growth strategies. They're very much aligned with what we're doing and have been and it's all about those two things. It's about the market and the execution that will drive the cash flows and you see it – we laid it out here of having that kind of double-digit growth for DCF per unit over the next three years. So with regard to simplification, GIP looks at it that – what is the best way for us to successfully execute on our plan forward and we both agreed the simplification gives us the best cost of capital, gives us the best capability to execute on that strategy. So I would say from day one, they've been very aligned with how we're executing on the business and where we're going with the business.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Okay. And then, I guess, as we think about that in the context of funding, you retain more cash for the next few years, but do you envision a growing opportunity set of projects with the improved cost of capital? And in the context of it – of self-funding, maybe what external funding needs to be on retained cash could play out?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

So T.J., this is Mike again. So for us we've seen tremendous opportunities around our core platform. If you use 2018 as example, our midpoint of capital at – in our case, its north of $700 million and all that money is going toward bolt-on transactions on our core position. We feel great about that. If you look at our seven strategies and start thinking about strategies sort of four through seven – our four, five, six, it's all about growth in the demand center and that's going to be again looking at all the things we can do linking our supply basins to our demand center and what ultimately can happen in Louisiana. So from a capital opportunity standpoint, again, we think we have great capital opportunities around our core platform. However, with this transaction with GIP, we do think that the fairway has widened for opportunities for us and we'll continue to look at things that make sense and create value.

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

A

Yeah. And T.J. it's Eric. I think that from a funding perspective, with this additional coverage, this positions us well to reinvest in the business and make efficient capital allocation decisions. I think ultimately as we evaluate the capital program, we may opportunistically utilize the ATM program, but I think that will be a relatively small number. And the plan is really to utilize this cash flow that will be generated at the 1.3 to 1.5 times coverage to reinvest in some of the projects that Mike alluded to before.

T.J. Schultz
Analyst, RBC Capital Markets LLC

Q

Okay, great. I'll leave it there. Thank you, guys.

Operator: And our next question today comes from Ethan Bellamy of Baird. Please go ahead.

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

Q

Hey, good morning, guys. Congrats on getting this done. Appreciate it. Couple of questions. What is the pro forma leverage? What are the pro forma tax loss carry forwards? And when should we book the $20 million in one-time deal related expenses?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

So, Ethan, this is Mike. So when you say pro forma leverage, I mean, I think last quarter, we were sitting in about 3.8 times, is where we ended the second quarter. So if you look what we've done over the past couple of years, we've really been operating within our leverage targets and will continue to do on a go forward basis. With loss carry forwards, that's all factored into what we laid out from a tax standpoint and goes into that. So within here, we said we feel very good about the taxes through 2023 and that's factored ultimately into that. And so, I think you will have more information ultimately out in the S-4 on that and you can dig through there and put those pieces together.

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

Yeah, I mean the transaction costs will be probably fourth quarter and first quarter depending on the arrangements with what gets paid at closing versus what gets paid at announcement, et cetera. But those are just regular way fees that you would see [indiscernible] (00:16:02)?

Ethan Heyward Bellamy
Analyst, Robert W. Baird & Co., Inc.
Q

Got it. So for now just split it up?

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

Yeah.

Ethan Heyward Bellamy
Analyst, Robert W. Baird & Co., Inc.
Q

Okay, great. Thanks. Appreciate it.

Operator: And our next question today comes from Spiro Dounis of Credit Suisse. Please go ahead.

Spiro Dounis
Analyst, Credit Suisse Securities (USA) LLC
Q

Hey, good morning. Congrats and thanks for taking the question. I wanted to go back to distribution growth, if we could, the 5% or greater and maybe focus on the greater part. I guess just trying to figure out what are the factors that, that could really drive that number higher? Is it better performance or is it more discretionary and how you think about using capital return?

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

Yeah, thanks Spiro, it's Eric. I think that it's really about – fundamentally this is about the business, right? I think that we have very good line of sight and feel very good about that 5% or greater number as we talked about balancing – leverage distribution coverage, reinvestment. These are all levers that go into it. But ultimately it's driven by the business performance so to the extent that we see strong business performance as we go forward that's what's going to drive our decision in terms of returning capital via distribution growth or reinvesting in the business. Some of it will depend on the opportunity set, some of it will depend on the returns we're generating and how the business is performing. But ultimately, it's a lot of different factors that go into that calculation.

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP
A

Yeah, this is Mike. As you know at the end of the day it's about creating sustainable distribution growth that's driven by the business performance like Eric said. And if you look at the DCF per unit growth we're seeing or expect to see over the next three years that's the metric that's so important that gives us that line of sight to that kind of capability for distribution growth.

Spiro Dounis
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. And I guess one bucket I didn't hear mentioned is, is share buybacks. I guess, where do you guys stand on, on using some excess capital there as opposed to raising the distribution?

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

A

Yeah. I think, Spiro, as I indicated before, [indiscernible] (00:17:55) that goes into the bucket of capital allocation overall, right? So share buyback, distribution growth, reinvestment in the business, it's all about valuating the projects and the returns we have in front of us, which we will continue to do on an ongoing basis.

Spiro Dounis
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. And just one more if I may. Just around the investment grade status, I was just curious, do you guys have a pathway forward on regaining that? And any color you can share on timing?

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

A

Yeah. I think from a timing perspective, obviously, we wouldn't be – we won't speculate on what the agency actions may be. We've been in very detailed discussions with them as it relates to this transaction and expect them to reaffirm their current ratings and we believe this is a credit enhancing transaction that allows us to operate the business with investment grade metrics and we'll continue to do so.

Spiro Dounis
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Appreciate all the color. Thanks, everyone.

Operator: And our next question today comes from Josh Golden of JPMorgan. Please go ahead.

Joshua P. Golden
Analyst, JPMorgan Investment Management, Inc.

Q

Hi. You've touched base about the credit ratings at the ENLK level. Given the distribution pro forma reduction, can you talk a little bit about the credit ratings and any type of conversations you've had with the agencies around the Stetson term loan model?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah, this is Mike. So we have not had discussions; that is a single discussion by GIP. Again, it goes back to what Eric said in the last question. It's in and around what we think is a very credit enhancing transaction for the ENLK family. I think it was important to note that Eric did mention that we believe all three agencies will reaffirm their ratings with this, and do believe this is a positive transaction for us.

Joshua P. Golden
Analyst, JPMorgan Investment Management, Inc.

Q

At your level, correct, but are you essentially saying that we need to contact GIP with regards to pro forma ratings and cash flow at the Stetson level? Or can you comment on that?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah. So, this is Mike again. Yes, that's ultimately their debt and is very separate from us and not factored in ultimately to how we think about our leverage metrics and the agency's. The agency agrees with that.

Joshua P. Golden
Analyst, JPMorgan Investment Management, Inc.

Q

The rating agencies, yourself, are they taking into account and if that's a midstream pro forma and factoring that in qualitative or quantitatively into your ratings at all?

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

A

No. We don't believe so. We think that, Mike said, that's a very separate piece of paper that GIP has put in place and we've talked to the agencies about it and expect that we will continue with the tenets and the leverage metrics and everything as it relates to ENLK and ENLC on its own.

Joshua P. Golden
Analyst, JPMorgan Investment Management, Inc.

Q

And you spoke about how supportive they've been. Were there conversations with them with regards to the reduction in distribution and the reduction of cash flow, potentially flowing through GIP?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah. This is Mike. Yes, I mean ultimately like I said, we've been aligned with what we want to do, which includes a simplification. So, they're working hand-in-hand with us thinking through this to ensure that we position the company the right way for us to execute on our long term plans and they are completely aligned with us on that.

Joshua P. Golden
Analyst, JPMorgan Investment Management, Inc.

Q

Okay. Thanks, gentlemen. Appreciate your time this morning. Thank you.

Operator: [Operator Instructions] Today's next question comes from David Amoss of Heikkinen Energy. Please go ahead.

David Meagher Amoss
Analyst, Heikkinen Energy Advisors LLC

Q

Hey, good morning, guys.

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Good morning.

David Meagher Amoss
Analyst, Heikkinen Energy Advisors LLC

Q

Mike, I think in the past, you had quantified the potential improvement to your cost of capital in the 200 bps to 250 bps range; A, is that still a good number? And B, does that assume any specific ratings level from the agencies in that number?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah. David, this is Mike. So when I talk about that earlier this year, you've got to take that in context of where we are trading at that point in time versus our peers and I think the point I was trying to make is that we did not believe it was sustainable to have a long term cost of capital differential versus our peers and to be effectively compete with them. And so that goes into the mix here. Ultimately, we believe that this is structured in the right way as far as the distribution growth, the self-funding coverage and leverage that we believe will trade more in line with our peers and should trade more in line with our peers because the differentiation between the two really was the corporate structure question. Fundamentally, at the end of the day, it all comes down to how is the business performing and I think you see in the second quarter and with what we've put out as far as expectations in here, we feel great about how the business is performing. So we do think that will close. I do think the numbers are different today, but think of it in terms of how we trade in response to our peers.

David Meagher Amoss
Analyst, Heikkinen Energy Advisors LLC

Q

Okay, got it. And then just thinking about the impact that that would have on your corporate level hurdle rates. Like any quantification of the size of the – or number of projects that you could potentially add now with the lower cost of capital that you couldn't potentially add previously? And is any of that in your growth guidance going forward?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

So David, it's Mike again. So think of it in terms of again creating value. I mean we're very focused on how do we create the right value for stakeholders. And so for us, what this does is allow us to create additional value for the stakeholders. We always think about the right mix of projects as far as where the returns are. And for us it's not an issue ultimately of having more projects come online, because of the lower cost of capital. It's more about creating additional value with the lower cost capital on the execution we're doing. I think you see we're very, very focused on executing around our core platform, our core positions and that's not going to change – tomorrow, the next day after that. That's what we're doing. And so we have great capability with those bolt-on projects and that's what we'll do. So it's not, we don't look at it in terms of this many projects, come on now, we're looking in terms of more – creating additional value for stakeholders.

David Meagher Amoss
Analyst, Heikkinen Energy Advisors LLC

Q

Okay, so the same backlog assumption in the guidance, but just a higher return level?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah, but I would say that – I did say the fairway widens. I mean we'll keep looking at things with the same, same process we've used in the past with GIP being very supportive of how we're doing things and now really positioning ourselves financially long-term. We'll look at a lot of stuff but we're going to use the same process we have in the past as far as why we might find it interesting or not.

David Meagher Amoss
Analyst, Heikkinen Energy Advisors LLC Q

Got it. That's helpful. Thank you.

Operator: And today's next question comes from Craig Shere of Tuohy Brothers. Please go ahead.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc. Q

Good morning. Mike, I think in response to T.J.'s questioning you said that the GIP relationship kind of widened the fairway, if I heard correctly. My first question is, do you see this new sponsor relationship specifically improving your position to pursue M&A outside of your organic growth projects and have you and your sponsor had any specific – are both of you open in the future to the possibility of specifically receiving dropdowns from other sponsored midstream businesses?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP A

Yeah, Craig, this is my Mike. So, let me start by always saying, look, our focus is again on executing our seven strategic growth factors that allows us to create the best value for everyone. And so that will not change, that is what we're doing as a business and that's what we're executing on. So when I say widening the fairway, widening the opportunity set, we have a very supportive sponsor that has a deep knowledge of the business and financial capabilities that is working hand-in-hand with us to create value. And so, that could come in the form of M&A that could come in the form of different opportunities, but we're very much aligned on trying to create value.

You haven't seen us do anything in M&A market for a while. It's been, I would say, a little bit of a harder market and we're always going to hold ourselves to the standards we've held ourselves to on that regard. But feel great about the ultimately, the alignment with GIP. On dropdown from the sponsors, we've been real clear on that in the sense that GIP is investing directly in EnLink for EnLink, and that's where the focus is. Other assets they hold can – are separate individual investment decisions, and so if there's an opportunity for us to do something in the future on an arm's length basis, we'll consider it. But that's not our focus; our focus again is organic growth on our seven growth strategies. That's where we're spending our time.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc. Q

Understood. And Eric, on Spiro's question, I was a little confused about the drivers for better potential distribution growth the next two to three years. Do I understand that if things are really good and you have more growth CapEx that would be funded the next two to three years that you may in fact be more conservative with near-term distribution growth? Or are you thinking that of just the underlying business regardless of growth CapEx commitments – that OCF is exceeding original conservative plans that that would be the major driver of that above 5% growth?

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

A

Yeah. Craig, thanks. Let me just try to clarify that a little bit. I think ultimately on distribution policy and improvement – it's about doing something that's sustainable, right? So we want to make sure that if we do continue to grow and if that number gets above the 5% that that's something that's a result of the sustainable underlying business as opposed to any one quarter that will be balanced by the growth CapEx need. So I think it's really evaluating as the business performs and continues to perform. What that allows us to do in a sustainable basis on distribution growth versus reinvesting in the business. So I don't think there is a lean one way or the other as we sit here today, it's about evaluating that at every step.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc.

Q

Fair enough. Thank you.

Operator: And our next question today comes from Barrett Blaschke of MUFG. Please go ahead.

Barrett Blaschke
Analyst, MUFG Securities America, Inc.

Q

Hey, guys. One of the material changes here, looks like is the improvement in coverage and retain cash. And I'm just wondering what are the thoughts on longer term on the Preferred Units? And is it a positive for the rating agencies, if you guys can sort of work those out of your structure over time?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah, Barrett. This is Mike. So first, when we put those Preferred units in place with the acquisition in 2016 – we had a structure that took into consideration the simplification, so we had a clear roadmap ultimately for those Preferreds within the current simplified structure When we think about the Preferred, yes, we do we do think that it is something that will work its way out. It has the metric where it's a 150% greater than the $15 issuance price and that was all at ELNK. So you have to take that – the exchange ratio into consideration, because those ultimately will move when they convert to ENLC equity. But, yes, from an agency standpoint depends on the agency on which ones will be positive but ultimately it would be because it move off equity.

Barrett Blaschke
Analyst, MUFG Securities America, Inc.

Q

Okay. And then, I guess the other sort of follow on to that is do you think of it in terms of where your cost of capital is going to likely move with this transaction? Is this now a materially more expensive set of Preferreds or capital?

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Yeah, I think you have to take it all in consideration ultimately as far as what it allowed us to do because it gave us an opportunity to take something like Oklahoma and grow it to the position it is today. And so – and that's a big piece of what's driving ultimately our cash flow of our business. And then also Oklahoma's link into the opportunities in Louisiana. So, I think you have to take all that into context, but yes, we do believe that we'll continue to grow the business and have a good chance of ultimately converting that at the point in time.

The one thing just on another note that I don't think been talked about and I'm going to go there real quick is just timing of this and we said first quarter. But I think it's important to note and this goes to your Preferred B question – it's a good process going forward. We don't really have a lot to do. You have the HSR, you have the S-4, which we filed in early November and have the SEC process, but we have an expectation of closing in the first quarter. You will have board votes at ENLC and ENLK with ENLC GIP has voted for it already and so that is what needs to be done there. From an ENLK basis, we do have voting support from GIP from the shares held at ENLC as well as the Preferred B's, which gives us greater than 50% voting support for that too.

Barrett Blaschke
Analyst, MUFG Securities America, Inc.

Q

Okay. Then, this is a longer term question, but it speaks to the sustainability of dividend growth. How do you think about that as you sort of look out and then say – we're not paying any material federal income tax through 2023. And I realize this is longer-term, but how do you look at sustainable growth then? And is that 5% that you're talking about factoring through 2021 factoring that in, or is that something that might have to materially come down again as taxes begin to rise?

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

A

Yeah, I mean, Barrett, I think we've got what we feel is pretty good visibility based on DCF per unit growth of north of 10% from the next three years. Once you get out beyond that, you're looking at two more years in the tax period, obviously, we'll be reevaluating our tax position each year and spending capital has an impact on that. As you know there's a lot of factors that go into that. So I think it's probably a little premature to indicate what we think we'll be doing post 2021. But I think where we sit today, we feel very good about looking forward.

Barrett Blaschke
Analyst, MUFG Securities America, Inc.

Q

Thank you.

Operator: [Operator Instructions] Today's last question comes from Shneur Gershuni of UBS. Please go ahead.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

Hi, good morning, guys. Just a quick question specifically about your guidance of 5%. If I recall on the last call, I think you had guided towards 5% to 10%. Is that a function of you lowering the guidance to 5% growth rate or the business has done even better so it's within the same ballpark? I was just wondering if you can sort of clarify that for us.

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

A

Hey, Shneur, this is Mike. And so, I think as you alluded to, we feel great about business performance. We've seen it through the second quarter as far as results we've seen. You also saw it in there that for 2018 we said we expect to be at the high side of guidance that we put out with the second quarter, which again the guidance of the second quarter for ENLK was $1 billion to $1.05 billion. So the business has been performing incredibly well in 2018 and we expect it to perform very well through the end of 2018. With regard to 2019, we did put out revised guidance at the end of the second quarter which was the 5% to 10% above the midpoint of revised guidance for ENLK.

So, the revised guidance for ENLK midpoint was $1.25 billion and so we said the 5% to 10% off that. Right now, we're saying is – yeah, 2018 has been incredibly good. As we look into 2019, we still feel very good about the performance of the business and what it's doing but as we sit here today that seems like it was the right growth factor we're seeing because of how the business has outperformed in 2018. We'll continue to look at that and put guidance out – for 2019 more towards the end of the year and there'll also be some additional information coming in the S-4 you can look at.

Shneur Z. Gershuni Q
Analyst, UBS Securities LLC

Okay. So just to clarify, is the right way to think about that the midpoint has in theory moved up or you've taken 5% off the growth rate?

Michael J. Garberding A
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

So for what – to think of 2019 is, we feel more comfortable with the 5% of the midpoint that we put out in the second quarter with where we sit today. And so we're just trying to give you the best information we have as of today. But as I said as we gain more knowledge and you'll hear more coming up on our third quarter call. You'll get some additional color on that. But as we sit today, we think that's the right guidance for 2019

Shneur Z. Gershuni Q
Analyst, UBS Securities LLC

Okay, fair enough. And just one follow-up question, just if I remember correctly, GIP, it actually levered its own position up separately and there were some questions about the agencies potentially having some issue with that. Has that now been resolved with the credit enhancing move that you're doing today by combining the two entities?

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

Hey, Shneur, it's Eric. Yes, we've talked to the agencies in the context of this transaction. We expect them to reaffirm their current rating, which reflects the resolution of that previous matter. So we would expect that we'll be evaluated on the ENLC, ENLK credit position and that that will allow us to maintain where we are currently at all three agencies.

Shneur Z. Gershuni Q
Analyst, UBS Securities LLC

Got it. Perfect. Thank you very much. Thanks for the clarification guys.

Operator: Ladies and gentlemen, we have completed our question-and-answer session. I would like to turn the conference back over to the management – to Mike Garberding for any final remarks.

Michael J. Garberding
President, Chief Executive Officer & Director, EnLink Midstream Partners LP

Thank you, Rocco 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 Q3 2018 results in a few weeks.

Operator: Thank you, sir. Today's conference has now concluded, and we thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.