

The Evolution of Midstream Energy
Infrastructure: Poised for the Transition

EPISODE 9

Midstream Capital Allocation Overview, Part I

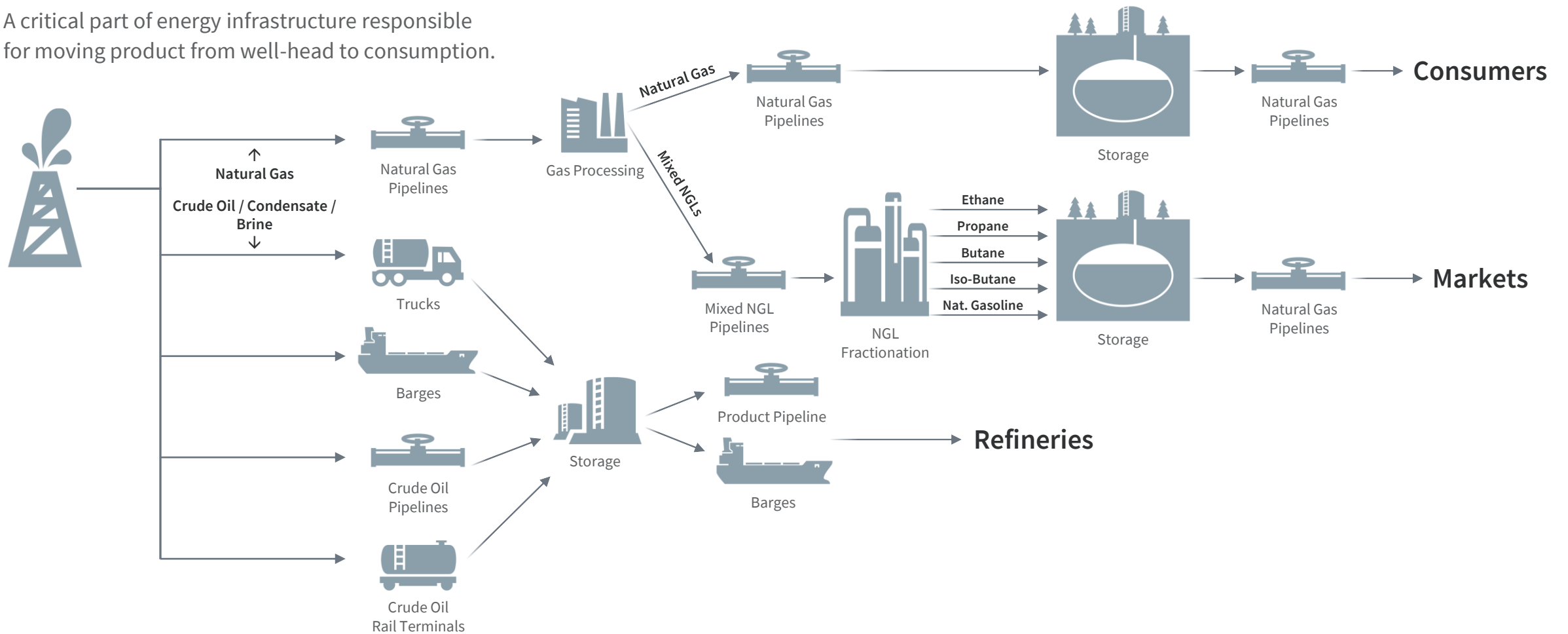
SEPTEMBER 2023

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The Midstream Value Chain

A critical part of energy infrastructure responsible for moving product from well-head to consumption.



Source: EnLink Midstream, LLC

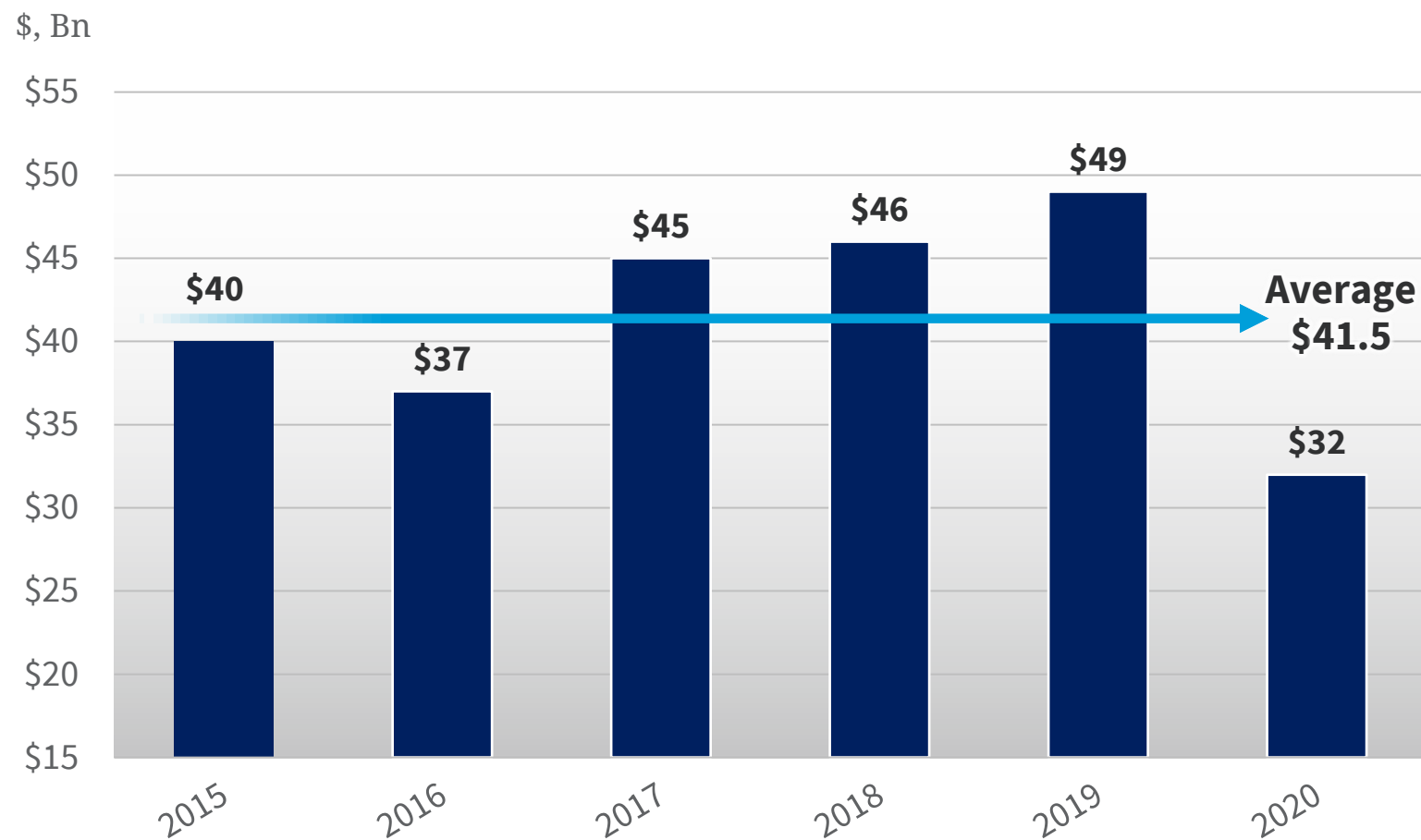
Historical Use of Free Cash Flow

Historically, the majority of Midstream cash flows were paid out as distributions or dividends.



Historical Midstream Capital Expenditures

Midstream capital expenditures averaged nearly \$42 billion from 2015 through 2020.



Source: Wells Fargo Securities Equity Research, July 5, 2023.

Data for periods is presented as an estimate where indicated as companies have not reported financial results for the period.

Topic	Midstream 1.0	Midstream 2.0 2017-2020	Midstream 2.0 2020-Present
General Partners	Yes	No	No
Coverage	1.0-1.1x	1.3x or higher	2.0x or higher
Growth	Distribution growth	DCF/unit growth	DCF/unit growth; FCF
Funding	Equity Capital Markets	Equity Self Funding	Equity Self Funding; Debt Refinancing
Leverage	3.5 – 4.5x	< 4.5x	~3.5x
Yield	Important	Important	Important
Capital Returns	Distributions & Dividends	Distributions & Dividends	Distributions & Dividends, Equity Repurchases, Special Dividends & Distributions

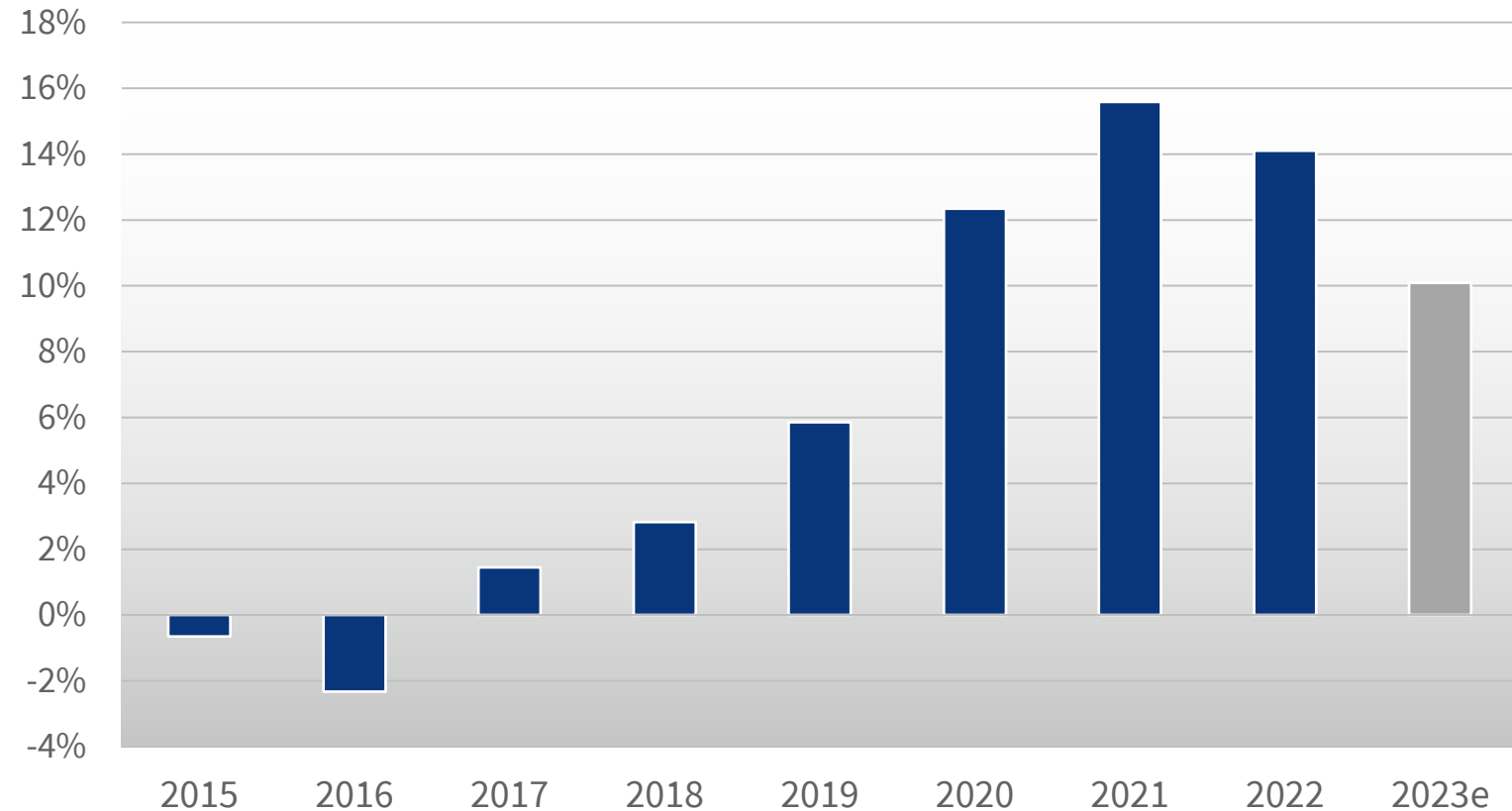
Midstream free cash flow yields were low during most of the large capital expenditure period, leaving less cash to return to equity holders other than through distributions.

2023e is lower Y/Y due to higher equity performance, somewhat slower cash flow growth, and slightly higher capex.

Source: Bloomberg LP, as of July 31, 2023.

Data for periods is presented as an estimate where indicated as companies have not reported financial results for the period.

AMZ Free Cash Flow Yield



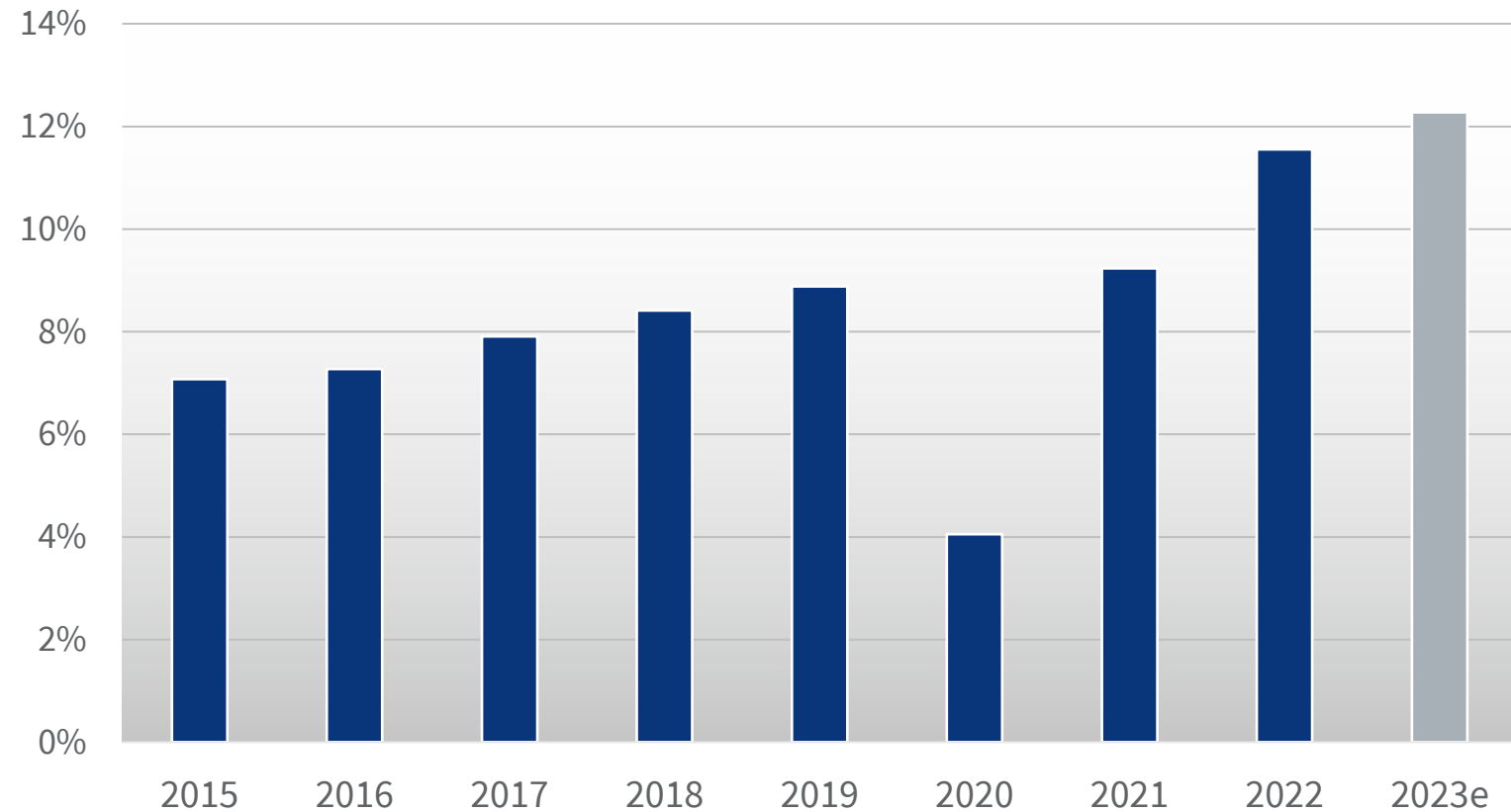
Midstream ROICs, while increasing, were low during the 2015-2020 investment period.

ROICs have meaningfully increased since 2020 and could continue to move higher in future years.

Source: Bloomberg LP, as of July 31, 2023.

Data for periods is presented as an estimate where indicated as companies have not reported financial results for the period.

AMZ ROIC



The options for free cash flow to create equity value appear simple.

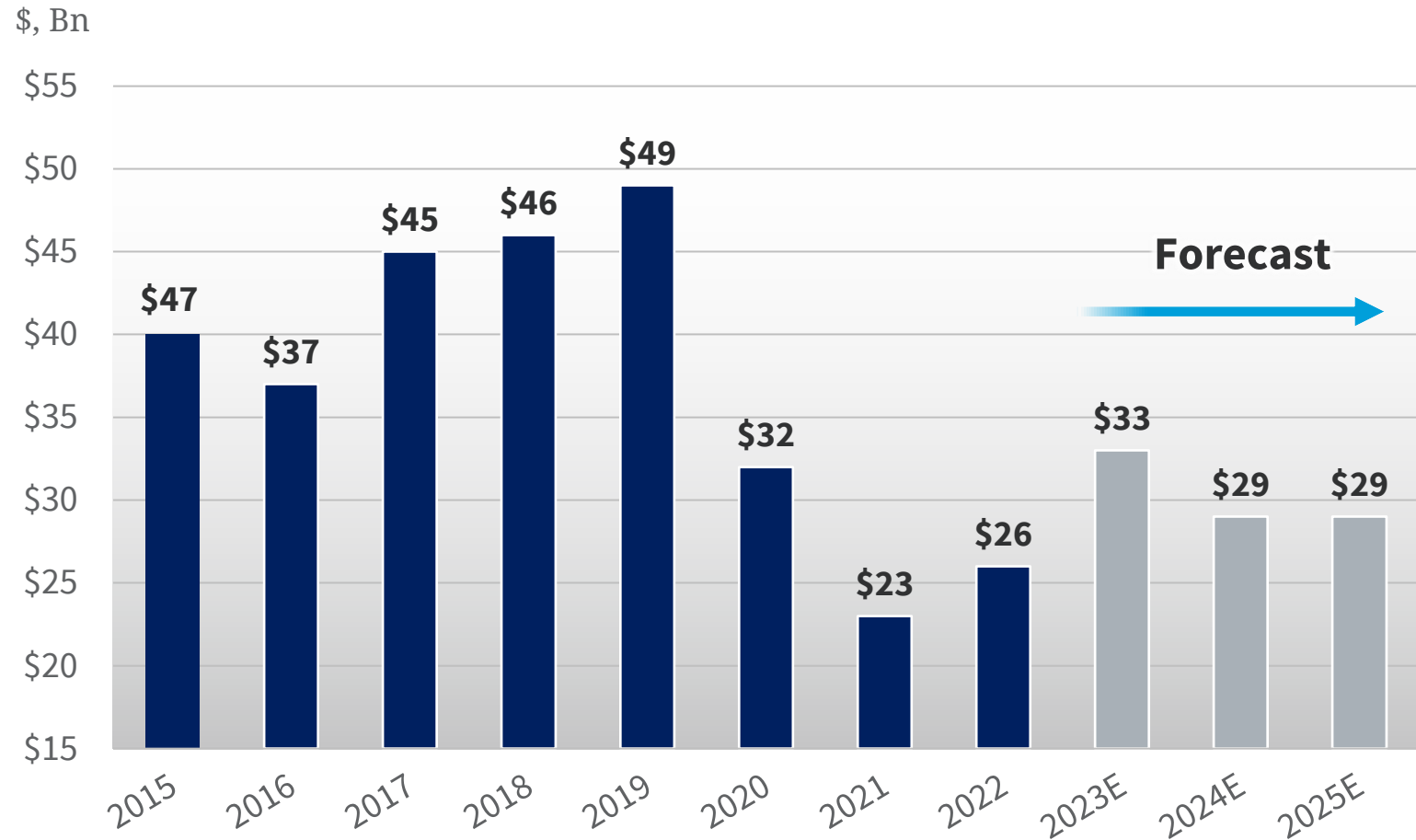
However, the philosophical application of them can potentially have very different outcomes for equity holders.



Change in CapEx Assumptions

Midstream capital expenditures have decreased materially, reflect discipline, and remain modest through the forecast period.

In addition to lower capital spending levels, we estimate the returns on that capital could be higher.

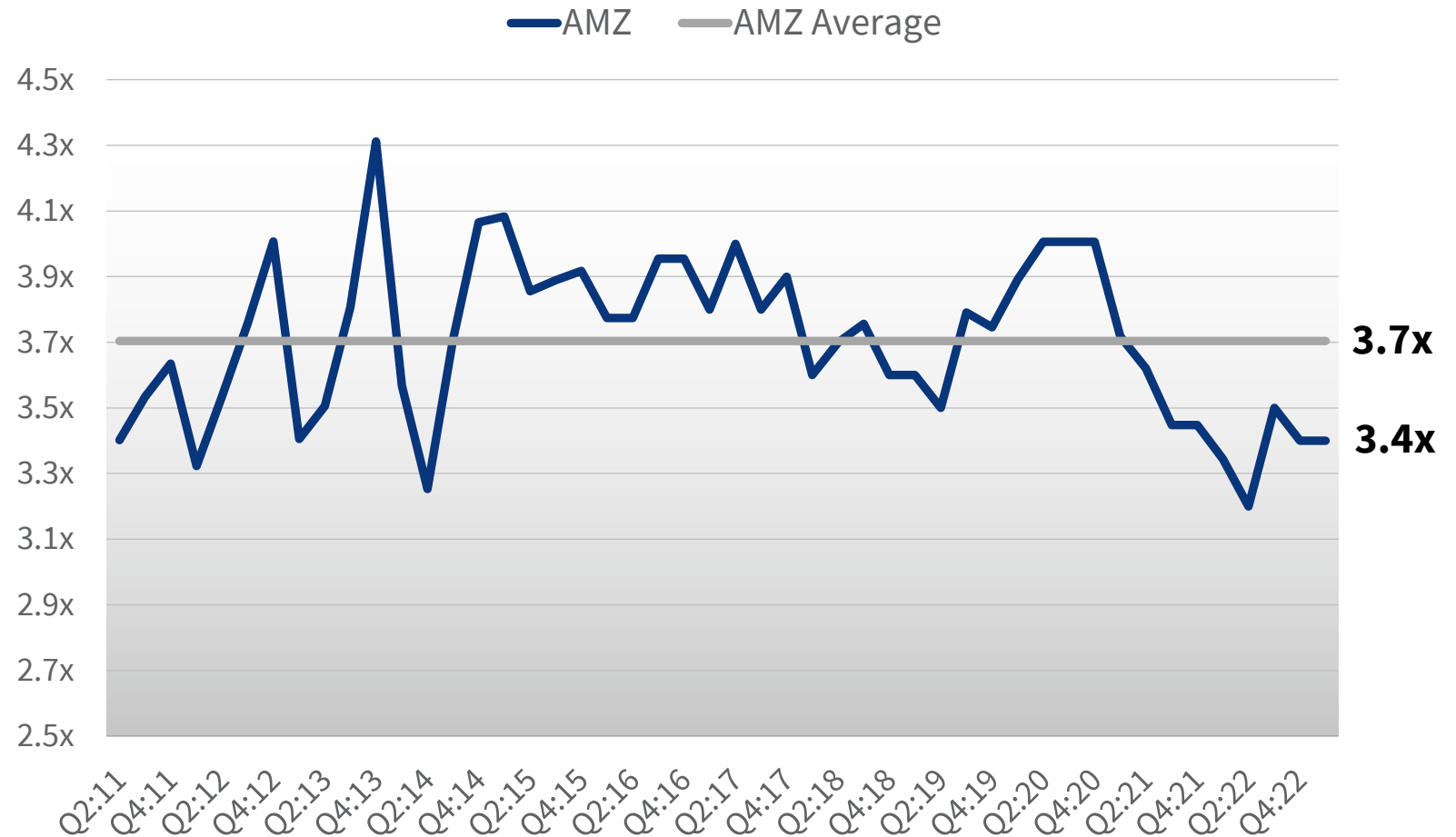


Source: Wells Fargo Securities Equity Research, July 5, 2023.

Data for periods is presented as an estimate where indicated as companies have not reported financial results for the period.

AMZ Debt to EBITDA Leverage

The current 3.4x weighted average debt to EBITDA ratio of the AMZ is well below the long term average of 3.7x.



Source: Bloomberg, LP, company filings and CCM estimates at 6/30/23.

Comparative Yield Versus Other Yield Instruments

MLPs have a relatively higher current yield than many other income-oriented investments.

Current Yield Comparison ¹	8/31/2023
Alerian MLP Total Return Index	7.7%
10 Year U.S. Treasuries	4.1%
Moody's Baa Bonds	5.9%
Bloomberg High Yield Index	8.4%
DJ Americas Select Real Estate Index	3.8%
S&P Utilities Index	3.5%
S&P 500 Index	1.5%

(1) Prices and data as of the date listed in the table; sourced from Bloomberg LP and VettaFi LLC.

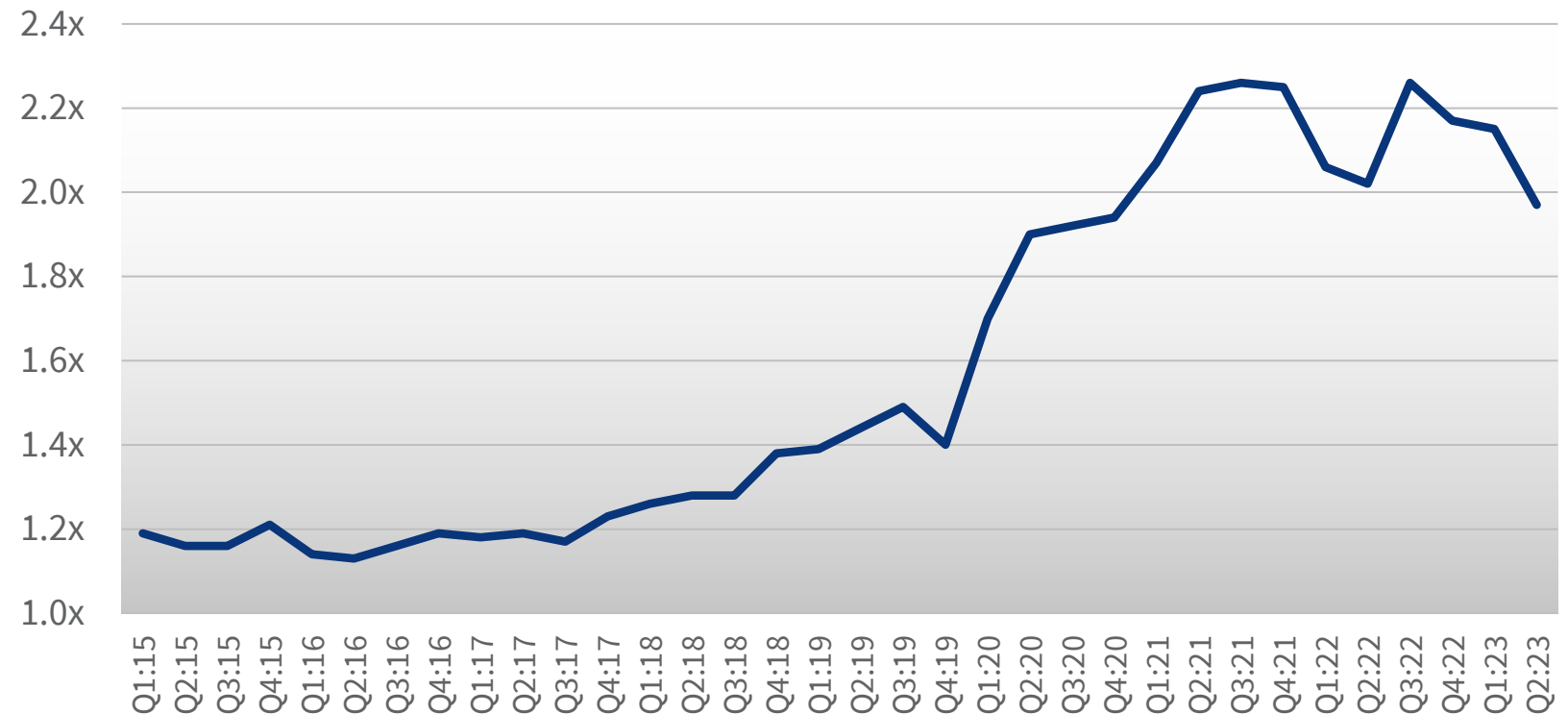
Higher-yielding instruments may carry more risk. Yields are not guaranteed.

Past performance does not guarantee future results.

AMZ Distribution Coverage 2015-2023

Since 2015, coverage has increased dramatically providing stronger support for distributions and greater flexibility for additional cash returns to equity holders.

AMZ Coverage Ratio



Source: Bloomberg, LP and CCM.

Midstream Repurchase Authorizations

19 Midstream companies have authorized repurchases, including re-loading of completed programs.

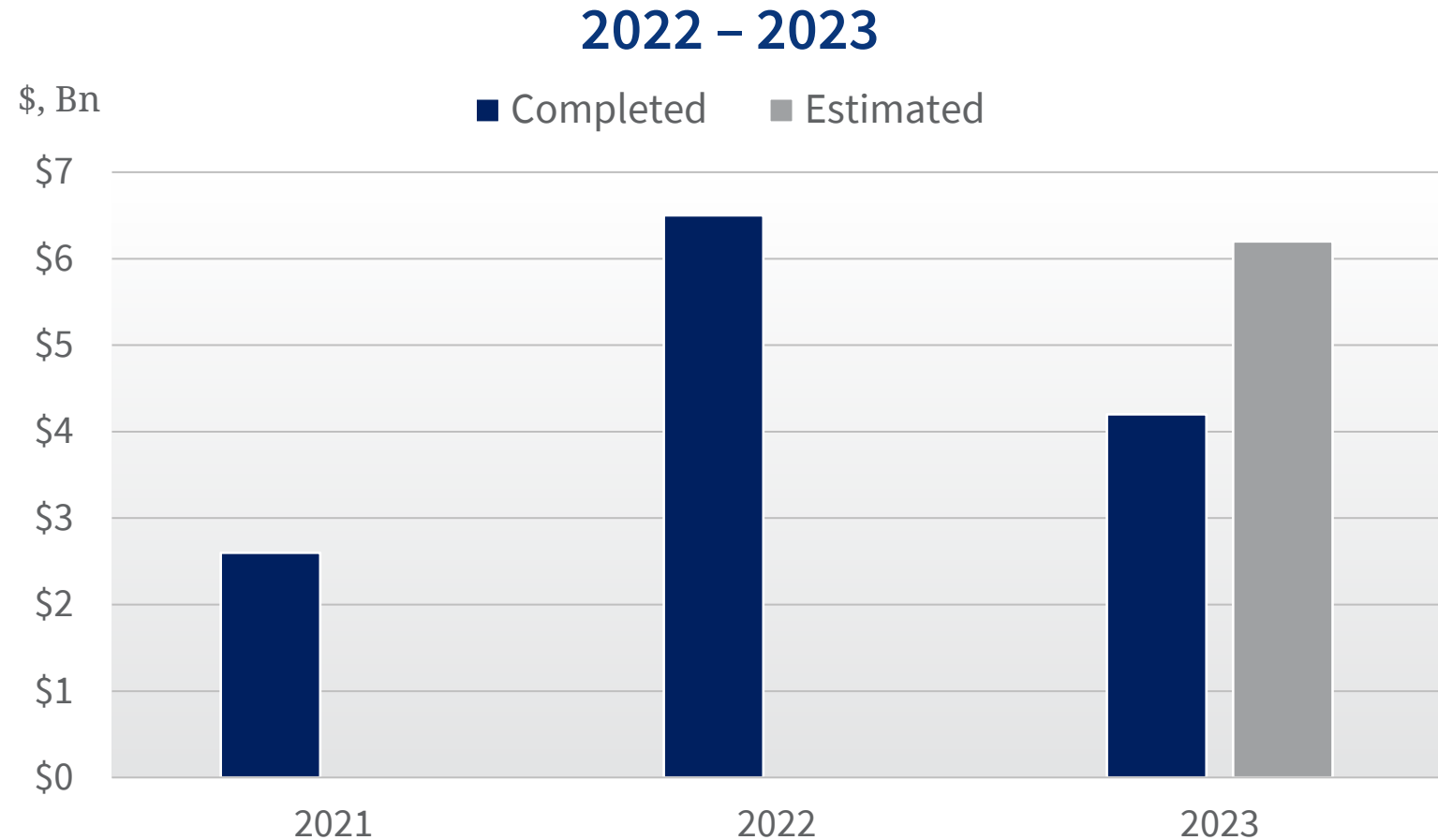
An estimated ~\$13 billion of existing authorizations remain available.

Announcement Date	Ticker	Company Name	Total Authorized Repurchase (\$MM)	% of Float at Announcement	Amount Remaining (\$MM)	% of Float at Announcement Remaining
August 12, 2019	AM	Antero Midstream	\$300	2.2%	\$150	4.8%
March 25, 2021	CEQP	Crestwood Midstream	\$175	10.3%	\$175	12.0%
January 5, 2022	ENB	Enbridge Energy	\$1,181	1.5%	\$986	1.2%
November 4, 2020	ENLC	EnLink Midstream	\$41	14.7%	\$0	0.0%
February 15, 2022	ENLC	EnLink Midstream	\$200	6.7%	\$0	0.0%
December 22, 2022	ENLC	EnLink Midstream	\$200	3.6%	\$149	6.0%
January 31, 2019	EPD	Enterprise Product Partners	\$2,000	5.2%	\$1,252	3.5%
February 18, 2015	ET	Energy Transfer Partners	\$2,000	6.9%	\$880	2.9%
August 22, 2023	GEI.CN	Gibson Energy Inc	\$220	7.5%	\$220	7.5%
July 28, 2021	HESM	Hess Midstream Partners	\$750	11.0%	\$0	0.0%
April 4, 2020	HESM	Hess Midstream Partners	\$400	5.4%	\$0	0.0%
July 19, 2017	KMI	Kinder Morgan Inc	\$2,000	5.2%	\$1,945	5.6%
June 3, 2019	LNG	Cheniere Energy Inc	\$1,000	6.2%	\$0	0.0%
September 12, 2022	LNG	Cheniere Energy Inc	\$4,000	10.3%	\$2,764	6.7%
January 21, 2020	MMP	Magellan Midstream	\$750	5.2%	\$0	0.0%
October 20, 2021	MMP	Magellan Midstream	\$750	7.0%	\$163	1.6%
November 2, 2020	MPLX	MPLX	\$1,000	14.8%	\$846	9.1%
August 29, 2017	NGL	NGL Energy Partners	\$15	1.3%	\$15	9.0%
February 25, 2021	PBA	Pembina Pipeline	\$955	12.1%	\$605	3.3%
November 9, 2022	PSX	Phillips 66 Corp	\$5,000	9.9%	\$3,447	8.3%
November 2, 2020	PAA	Plains All American	\$500	3.8%	\$197	3.9%
October 5, 2020	TRGP	Targa Resources Corporation	\$500	13.8%	\$0	0.0%
May 3, 2023	TRGP	Targa Resources Corporation	\$1,000	6.4%	\$1,000	6.4%
November 9, 2020	WES	Western Midstream	\$250	12.0%	\$0	0.0%
February 23, 2022	WES	Western Midstream	\$1,000	19.4%	\$505	9.6%
September 8, 2021	WMB	Williams Companies	\$1,500	5.0%	\$1,418	3.8%

Note: Actual share repurchases may vary significantly.

Source: Company filings, CCM as of 6/30/23.

Since repurchase programs began in earnest, Midstream companies have repurchased over \$11 billion of equity.



Source: Company filings, Wells Fargo Securities, CCM as of 8/31/23.

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The Alerian MLP Index is a composite of the most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis (NYSE: AMZ), and the corresponding total-return index is disseminated daily (NYSE: AMZX). Relevant data points such as dividend yield are also published daily. For index values, constituents, and announcements regarding constituent changes, please visit www.alerian.com.

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Bloomberg Barclays US High Yield: measures the USD-denominated, high yield, fixed rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

DJ Americas Select Real Estate Securities Index: Measures the performance of publicly traded real estate securities. Designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. Represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the Americas region.

S&P 500 Total Return Index: Tracks the total return of the S&P 500 Index, an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. Dividends are reinvested. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

S&P 500 Utilities Index: The S&P 500® Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

One cannot directly invest in an index.

Additional Information

Cash Flow is a revenue or expense stream that changes a cash account over a given period. Cash inflows usually arise from one of three activities - financing, operations or investing - although this also occurs as a result of donations or gifts in the case of personal finance. Cash outflows result from expenses or investments. This holds true for both business and personal finance. Cash flow can be attributed to a specific project, or to a business as a whole. Cash flow can be used as an indication of a company's financial strength.

Cash Flow from Operations (CFFO) indicates the amount of money a company brings in from its ongoing, regular business activities, such as manufacturing and selling goods or providing a service to customers.

Distributable Cash Flow is calculated as net income plus depreciation and other noncash items, less maintenance capital expenditure requirements.

Distributions are quarterly dividend payments made to Limited Partner (LP) and General Partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio is calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing. The coverage ratio on slide 24 is for estimated 2023 coverage on a weighted average basis.

EBITDA is earnings before interest, taxes, depreciation and amortization.

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Growth Capital Expenditures or Growth CapEx or GCX refers to the aggregate of all capital expenditures undertaken to further growth prospects and/or expand operations and excludes any maintenance and regulatory capital expenditures.

Net Debt To EBITDA Ratio is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The net debt to EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant. If a company has more cash than debt, the ratio can be negative.

Return on Invested Capital (ROIC) is the amount of money a company makes that is above the average cost it pays for its debt and equity capital. ROIC is used to assess a company's efficiency at allocating the capital under its control to profitable investments. $ROIC = EBIT (1 - \text{Tax rate}) / (\text{Total Assets} - \text{Total Liabilities})$.

Yield refers to the cash dividend or distribution divided by the share or unit price at a particular point in time.

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