Chickasaw Capital Management

The Evolution of Midstream Energy Infrastructure: Poised for the Transition

EPISODE 10

Midstream Capital Allocation Overview, Part II

SEPTEMBER 2023

CONFIDENTIAL

Free Cash Flow

Midstream companies are in a unique position to execute capital allocation strategies with their free cash flow to boost equity holder total returns at least through 2030.

Cash Flow From Operations (CFFO) − All Capital Expenditures = **Free Cash Flow**

Options for Free Cash Flow Returns

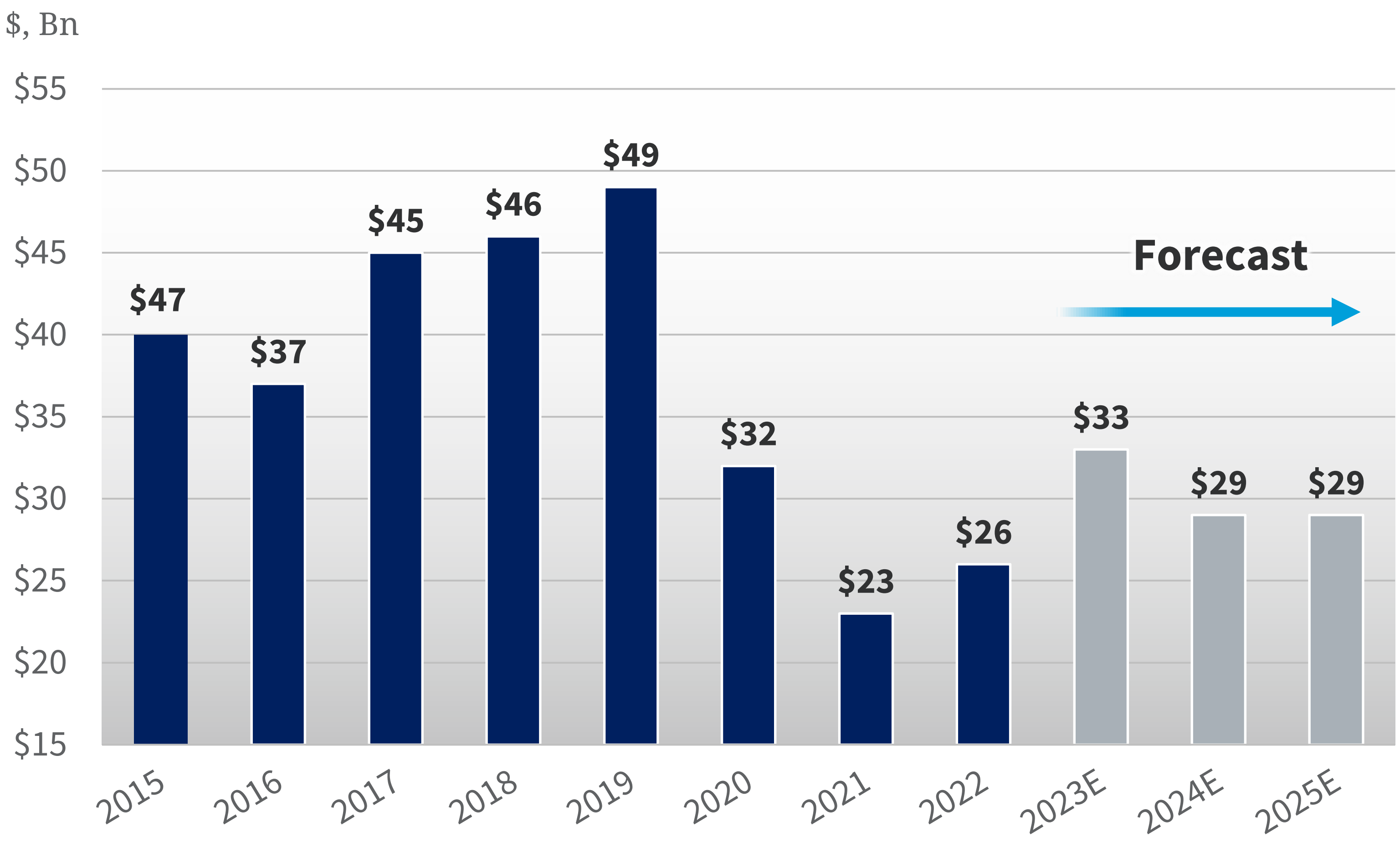
The options for free cash flow to create equity value appear simple.

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.

Organic Growth Criteria

Organic growth capital spending earning a high risk-adjusted ROIC is compelling for long term value creation.

ORGANIC GROWTH

- ✓ Risk adjusted returns > Alternatives
- ✓ Creates economic value
- ✓ Greater than Firm’s weighted ROIC
- ✓ Funded fully by cash flow

Repurchase Advantages

Companies repurchasing their equity can create distinct advantages for their investors.

Fewer shares = higher per share equity value

Cash payout savings = higher terminal growth rate and funding for more growth capital

Alerian Weighted P/DCF

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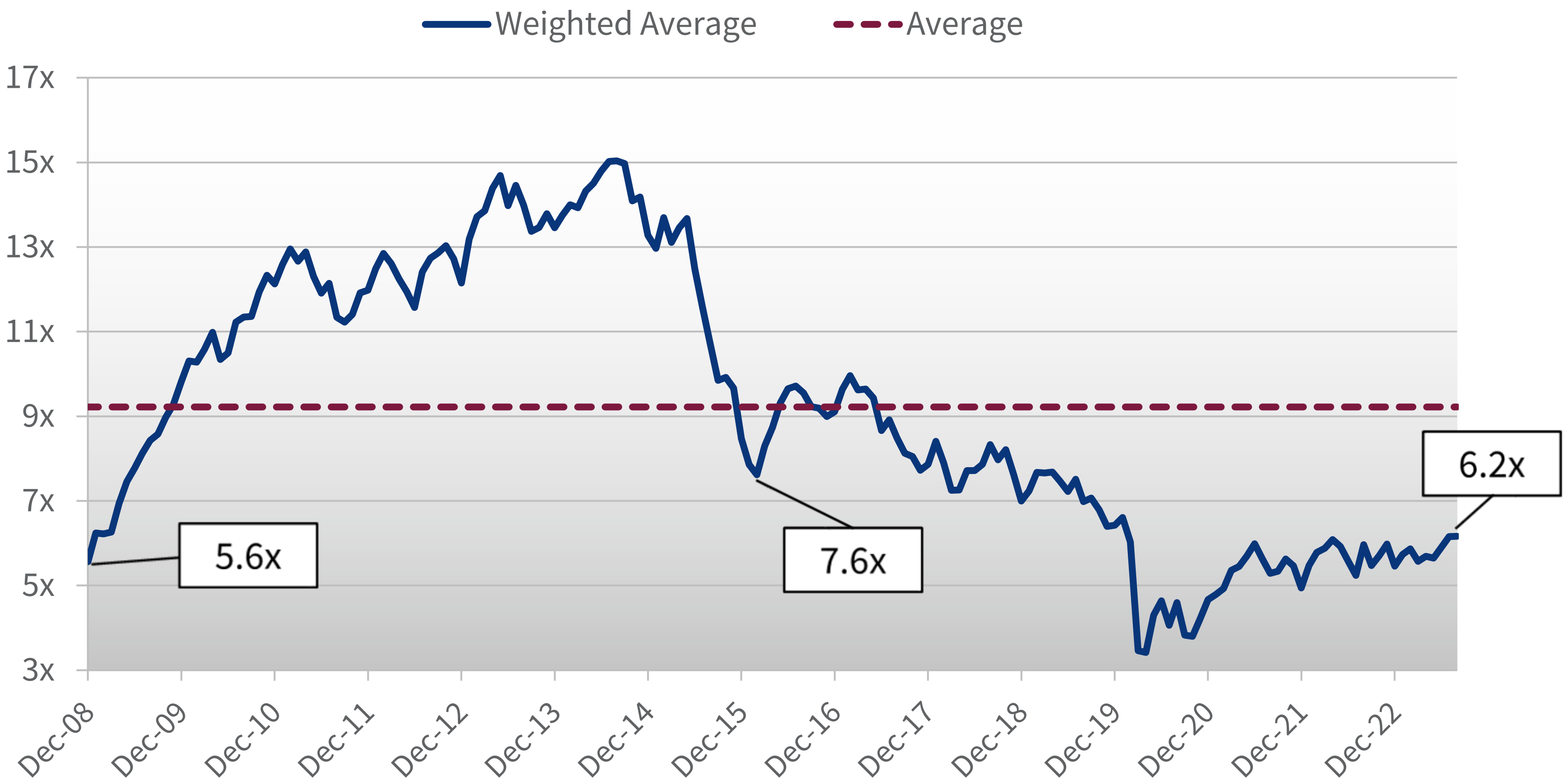
The current Price/DCF ratio remains at the low end of its historic range and below the average for the historic period since 2008.

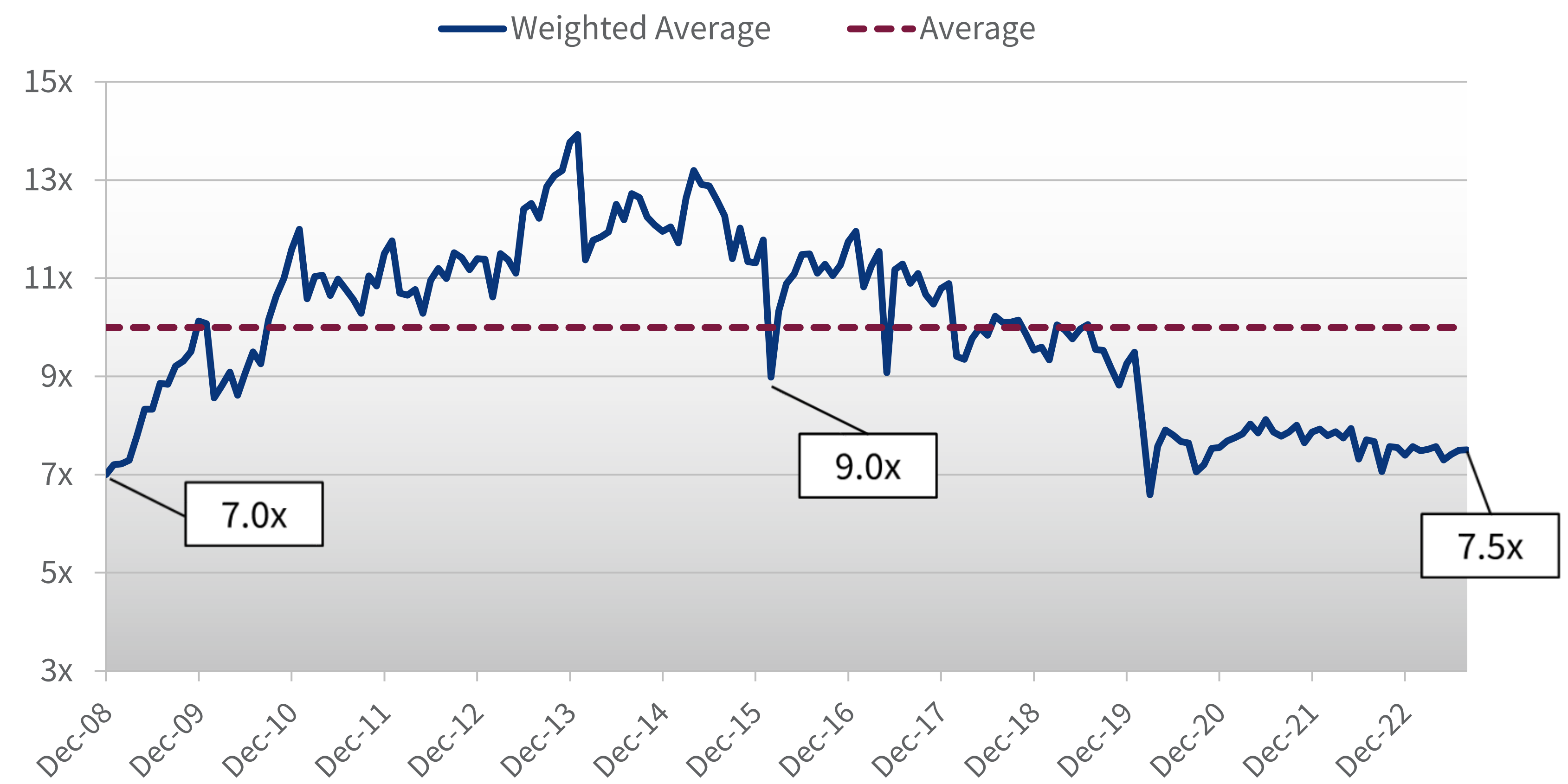


Average = 9.2x | Current = 6.2x | Minimum = 3.4x

Source: Bloomberg LP, CCM

Alerian Weighted EV/EBITDA

The current EV/EBITDA ratio remains at the low end of its historic range and below the average for the historic period since 2008.



Average = 10.0x | Current = 7.5x | Minimum = 3.4x

Source: Bloomberg LP, CCM

Free Cash Flow After Distributions/Dividends (FCFaD)

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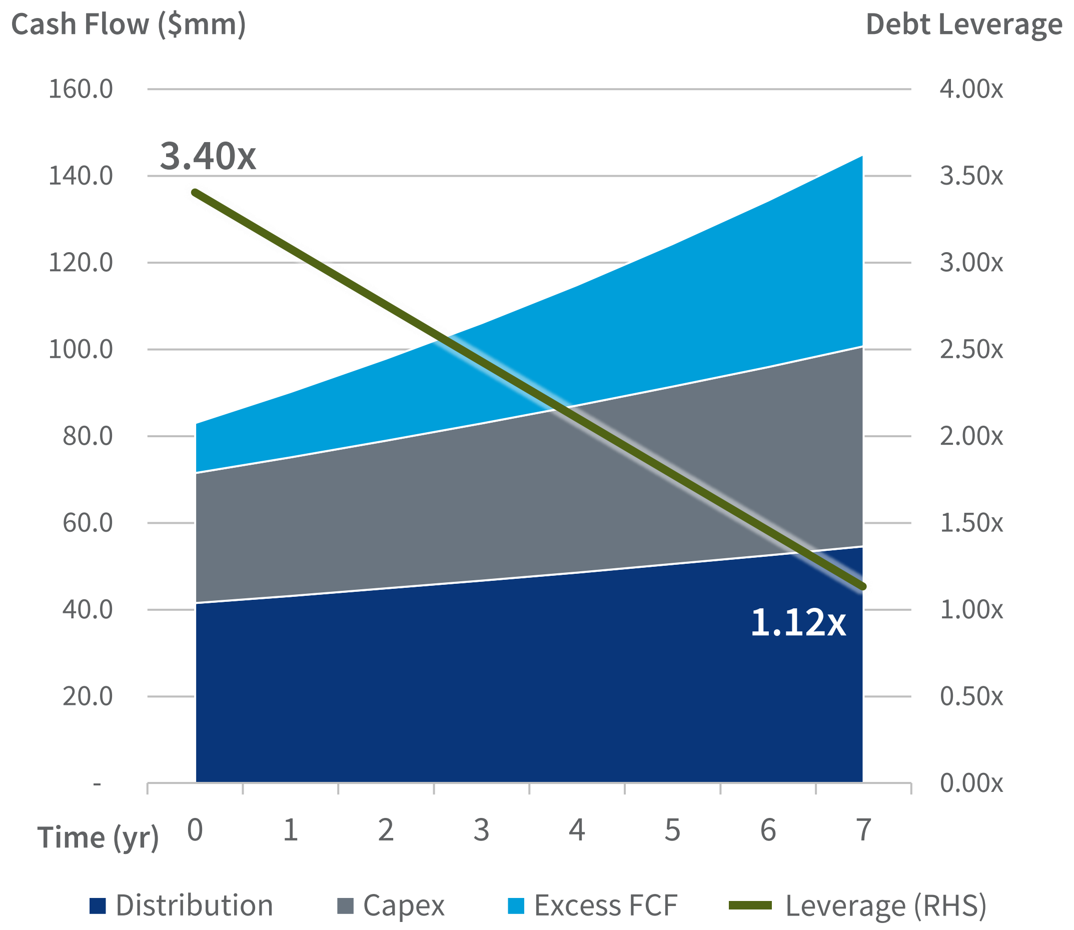
To create value for investors, management teams must make prudent use of excess free cash flow after distributions/dividends.

Without an actionable plan, this example shows a business reaching a point of under leverage.



Assumptions	
Starting EBITDA	$100mm
Base CFFO Growth	3.0%
Initial Distribution Payout %	50.0%
Capex % of EBITDA	30.0%
Incremental ROIC	12.0%
Distribution Growth	4.0%
Distribution Yield	7.4%
Beginning Leverage	3.4x
Interest Rate	5.0%

Illustrative example only

Source: CCM

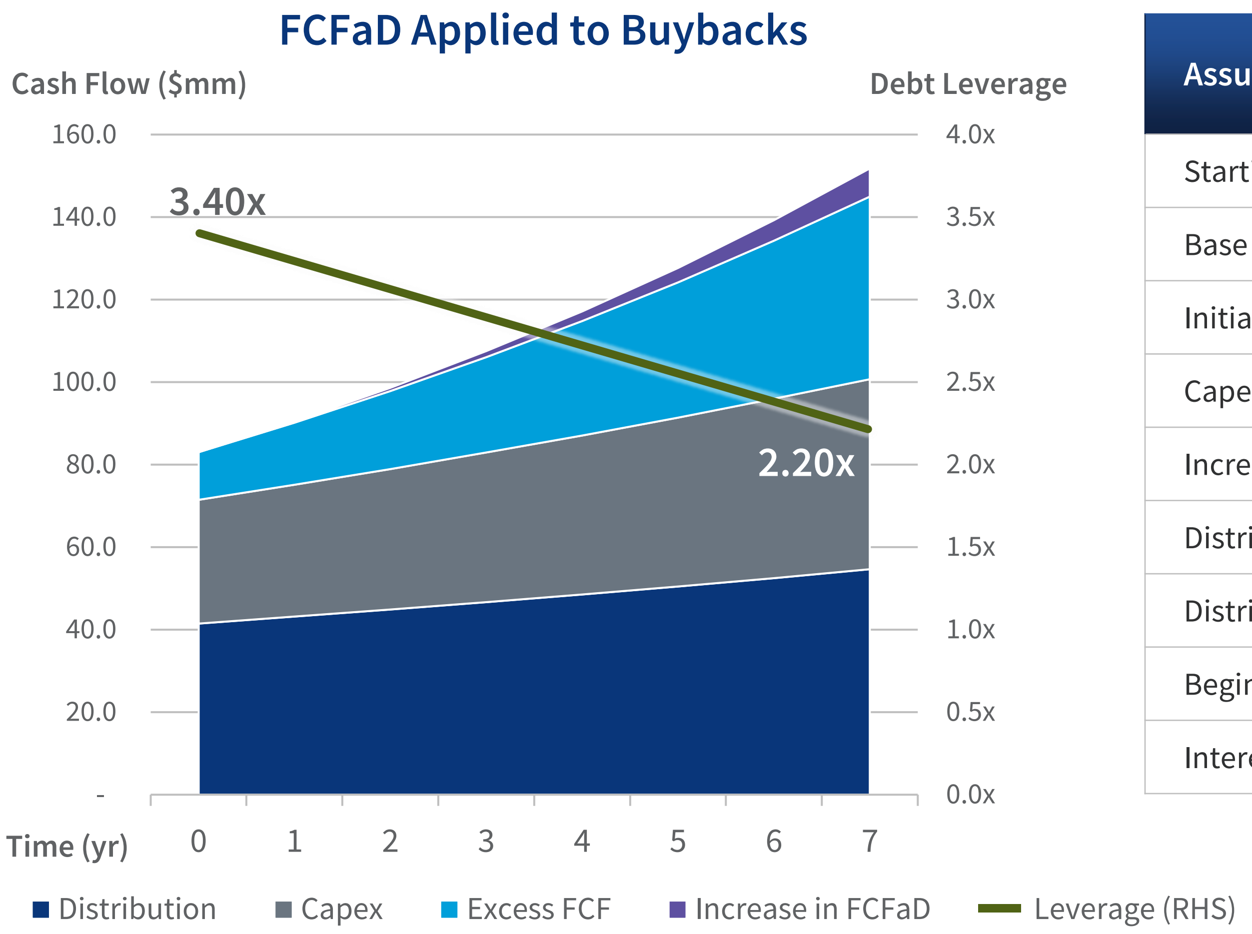
FCFaD Applied to Buybacks

Using available free cash flow for equity buybacks is self perpetuating, thus creating more cash flow optionality for Midstream management teams.

Prudent allocation and communication could increase market valuations ascribed to these cash flows, particularly around per unit/share metrics.

Illustrative example only

Source: CCM



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AMZ Free Cash Flow Available for Buybacks Forecast

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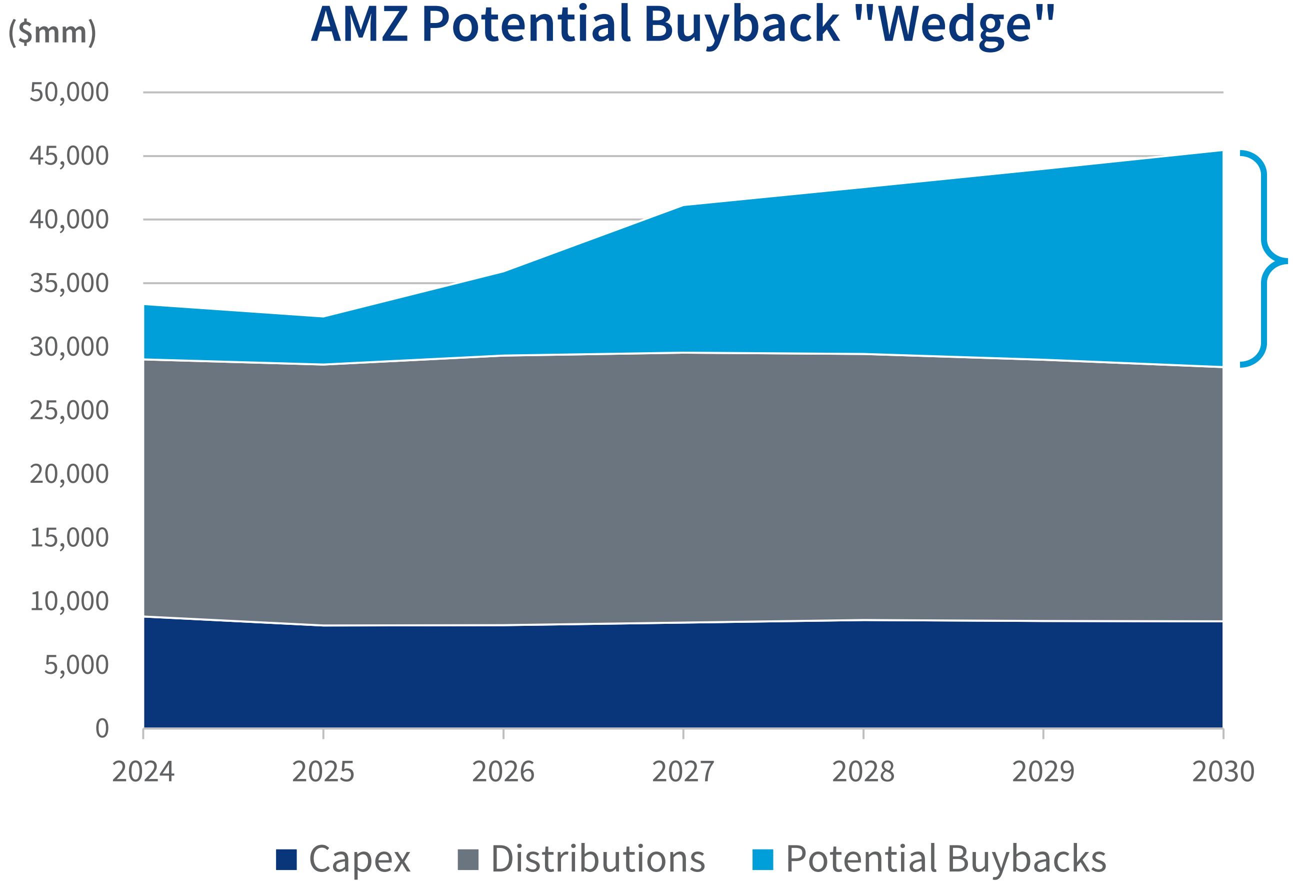
Our forecast indicates the AMZ constituents could cumulatively repurchase $71 billion of their equity through 2030, or ~36%.

Additionally, repurchasing this much equity provides $4 billion of annual savings in 2030 vs. no repurchases.

Actual share/unit repurchases may vary significantly.

Source: VettaFi LLC, and CCM

AMZ Potential Buyback "Wedge"



Assumptions
8/31/23 constituents
3.0x debt leverage
4% distribution growth
CCM modeled capex
All FCFaD applied to buybacks

AMZ Shifting Capital Allocation Forecast

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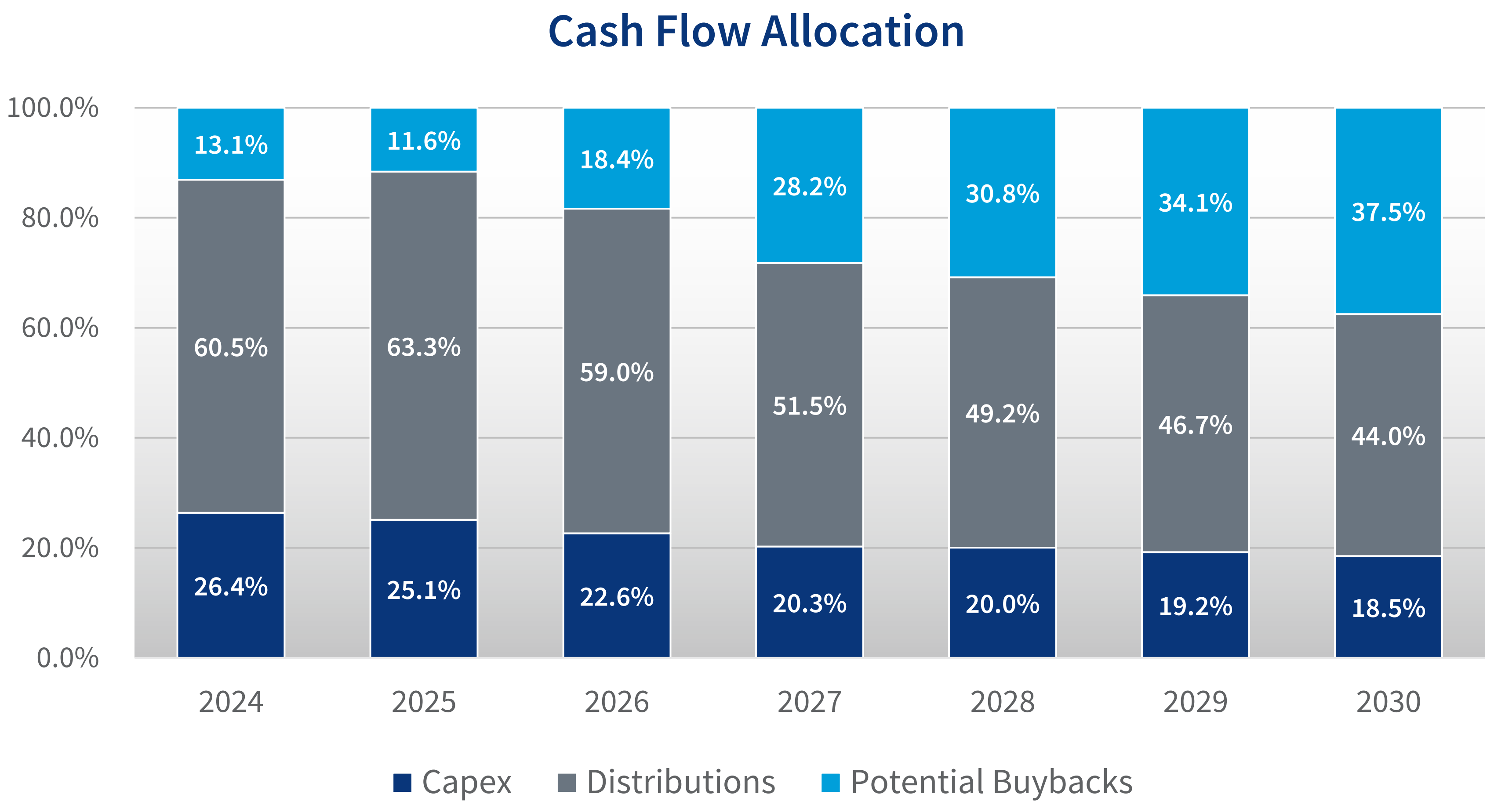
Our forecast indicates an increasing amount of total cash flow going towards repurchases through 2030.

Actual share/unit repurchases may vary significantly.

Source: VettaFi LLC, and CCM

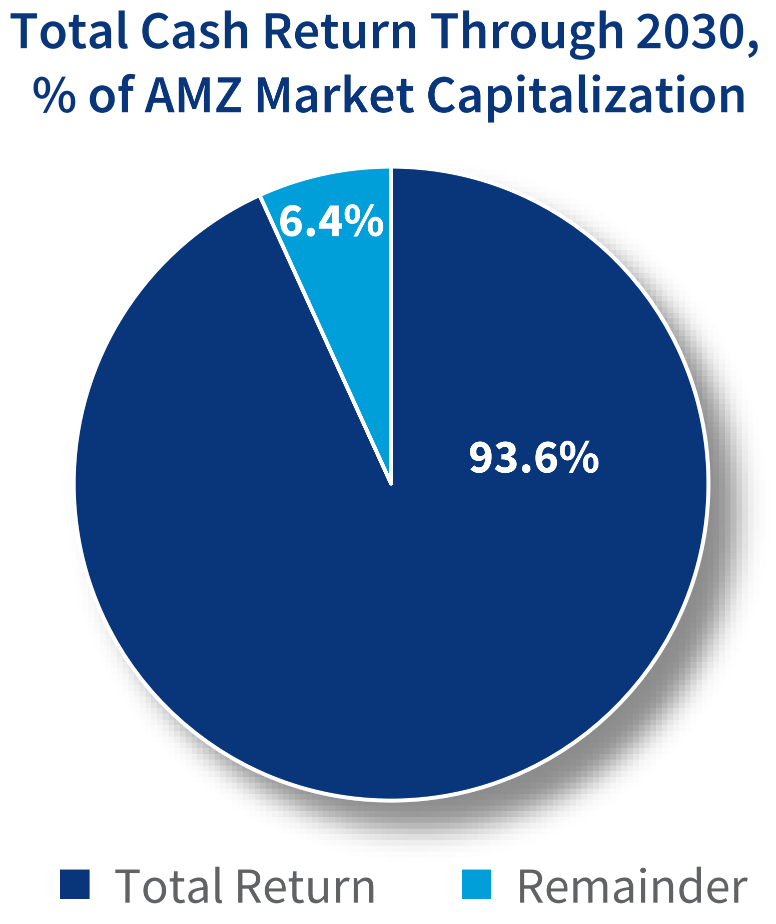


Cash Return Forecast as a Percentage of the AMZ, 2024-2030

Summing distributions and buybacks to show cash returns to investors, we estimate the investors could receive ~94% of the current market capitalization of the AMZ by the end of 2030.

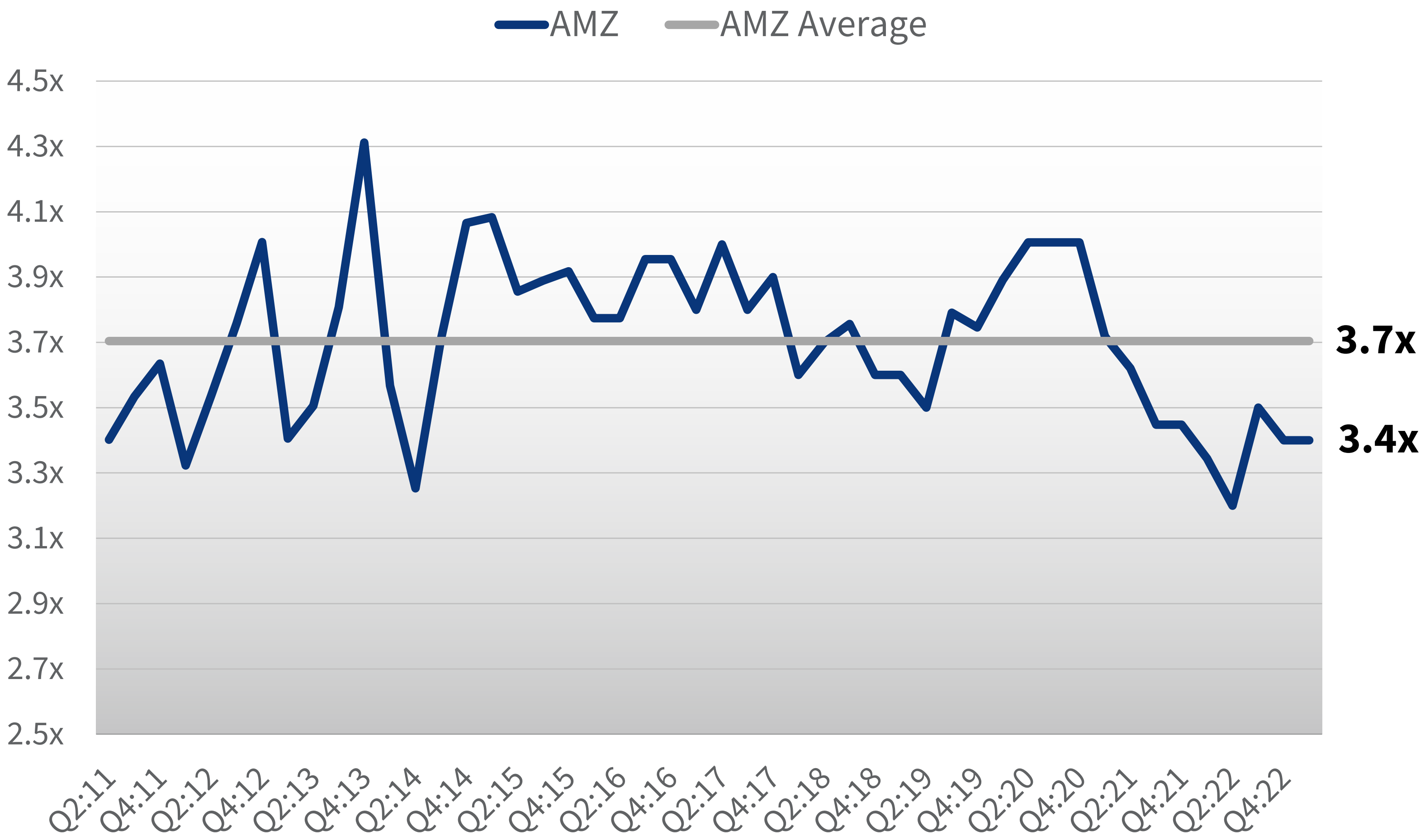
Actual distributions and share/unit repurchases may vary significantly.

Source: VettaFi LLC, Bloomberg LP, and CCM



AMZ Debt to EBITDA Leverage

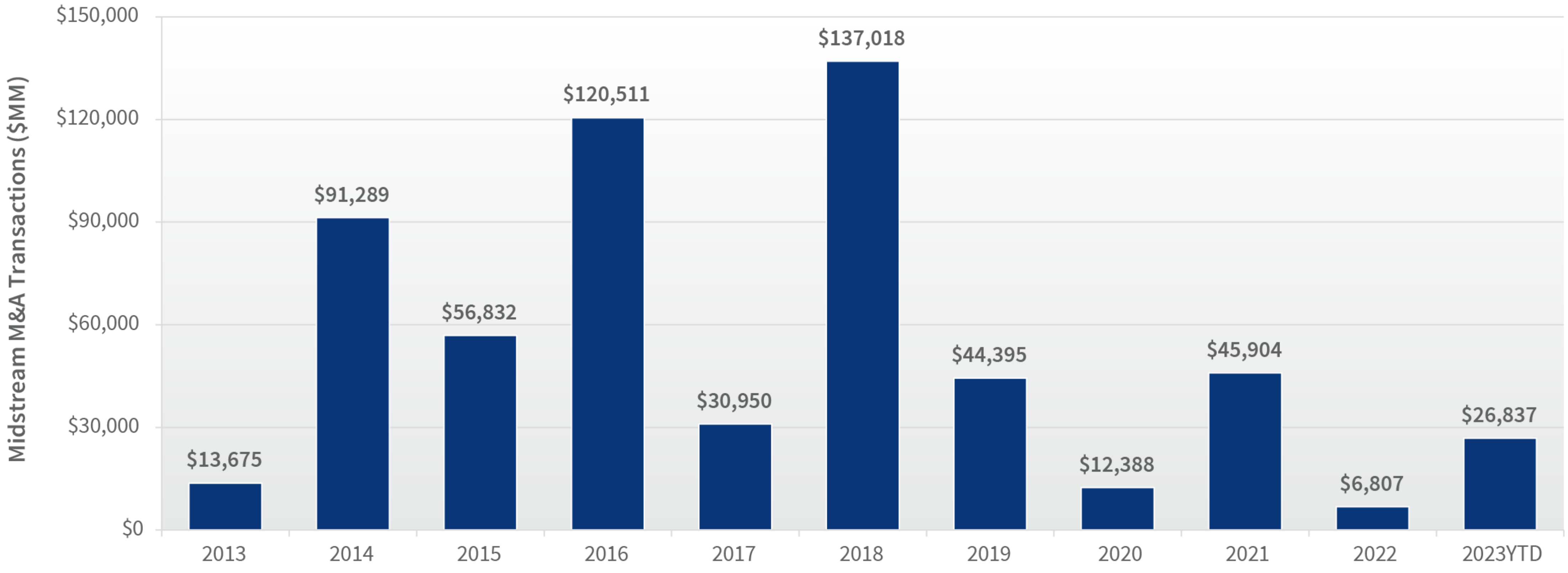
The current 3.4x weighted average debt to EBITDA ratio of the AMZ is well below the long term average of 3.7x.



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

Midstream M&A

Midstream companies have a long history of company to company M&A with varying levels of success.



Source: Wells Fargo Securities, "Midstream Monthly Outlook", 9/5/23

Management Communication

Robust free cash flow forecasts should give management teams confidence to communicate long term cash returns to investors.

COMMUNICATE CLEARLY

EQUITY REPURCHASE

- Initiate
- Execute
- Be consistent

BALANCE

DISTRIBUTION INCREASE

- One time step ups
- Apply forecast to ratable, higher growth rate

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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.

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

Enterprise Value (EV) measures a company's total value, often used as a more comprehensive alternative to market capitalization. EV includes in its calculation the market capitalization of a company but also short-term and long-term debt and any cash or cash equivalents on the company's balance sheet.

EV/EBITDA is a ratio used to determine the value of a company. The enterprise multiple looks at a firm as a potential acquirer would, because it takes debt into account – an item which other multiples like the P/E ratio do not include. Enterprise multiple is calculated as: Enterprise multiple = EV/EBITDA.

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 undertake 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 - Tax rate) / (Total Assets – Total Liabilities).

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

Slides 7-8: Prices and data as of 8/31/23; prices sourced from Bloomberg LP; Distributable Cash Flow (DCF) data is CCM-calculated consensus of Wall Street estimates. All data is current year information.