CHICKASAW
CAPITAL MANAGEMENT

The Midstream Brief
What Allocators Need to Know

APRIL 2024

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Midstream Investment Environment

- Potential total return drivers favorable (AMZX)
  - Yield: 7.0%
  - Attractive valuation: 7.6x P/DCF
  - Free Cash Flow Yield: ~9.0%
- Capital allocation skewed toward equity holders:
  - Buybacks: $3.7bn 2023; ~$11.6bn executed since 9/30/20
  - Dividend/Distribution growth: +6.6% for the AMZX
  - Capex needs modest
  - Leverage: 3.4x Debt/EBITDA
- 2023: De-coupled, positively, from E&P/WTI
  - AMZX +26.6% vs. WTI -10.7%
  - Contractual inflation protection
- Outlook:
  - Strong total return potential through the end of the decade
  - Increasing domestic gas demand: LNG & Data Centers
  - Global energy security at forefront
  - Benefits from tight global capacity
  - Energy Transition growth potential

Source: CCM, Bloomberg, LP, Wells Fargo Securities, Company Announcements, as of 3/31/24.

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

Midstream Metrics: Where are we now?

2017 was the last year Midstream had substantial reliance on issuance in equity capital markets.

Today, Midstream is distinctively different with equity buybacks, and positively positioned for investors across several metrics.

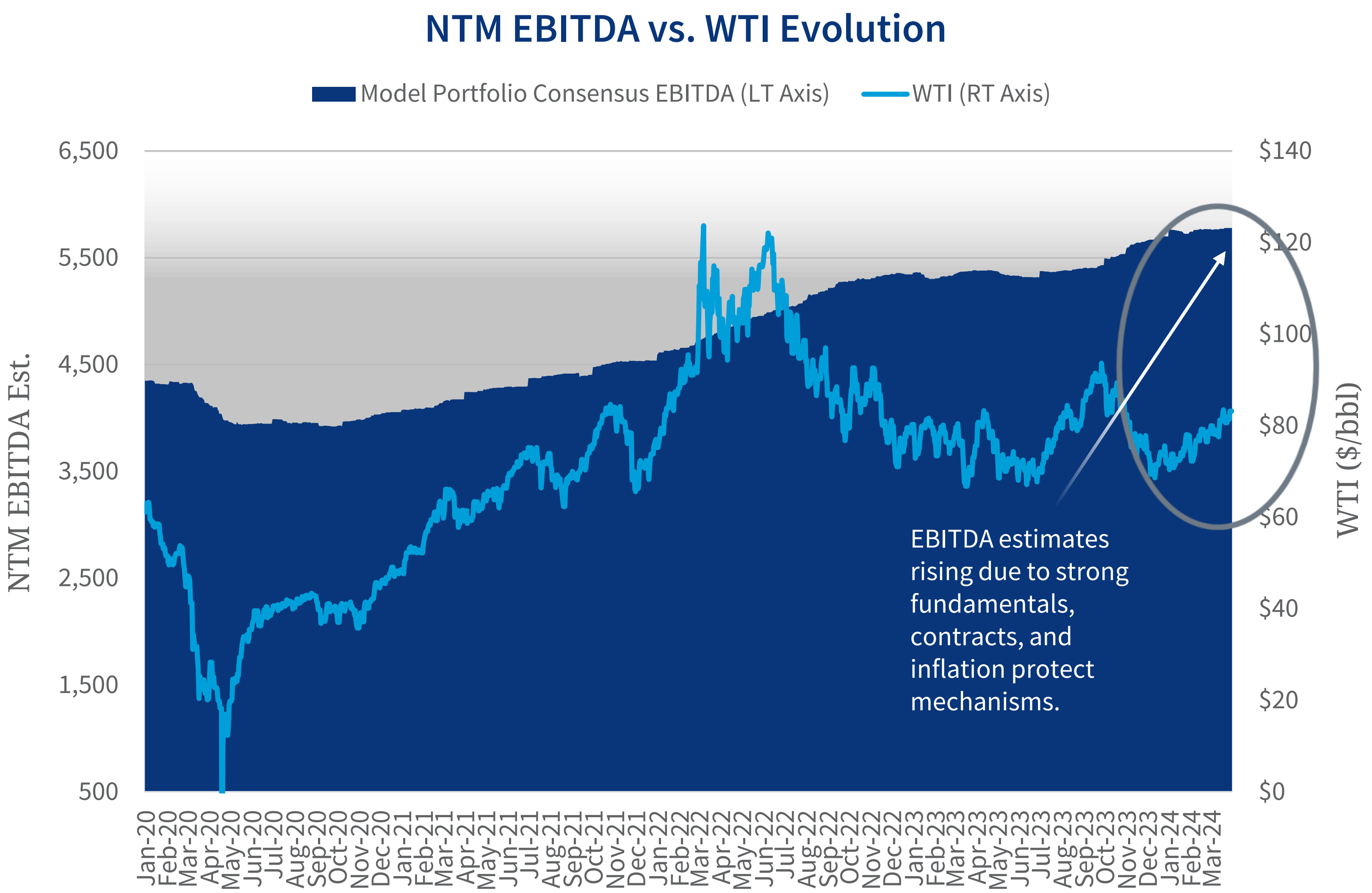
	2024e	2017
Yield[1]	7.0%	7.8%
Coverage[1]	1.9x	1.2x
FCF Yield[1]	9.0%	1.9%
Capex[2]	$20 Billion	$35 Billion
ROIC[1]	12.0%	7.9%
D/EBITDA[1]	3.4x	3.9x
EV/EBITDA[1]	7.7x	10.8x
Net Equity Issuance[3]	($3.7 Billion)	$8.5 Billion
TTM Net Fund Flows[2, 4]	($2.0 Billion)	$4.7 Billion

(1) AMZ | (2) Sector | (3) Overnight, ATM, IPO, buybacks | (4) Active & Passive Midstream Products

Source: Bloomberg, LP; Morningstar, Company filings, Wells Fargo Securities, CCM

Midstream EBITDA vs. WTI

Due to predominantly fee-based contracts, Midstream consensus EBITDA estimates have shown little correlation to the price of WTI.

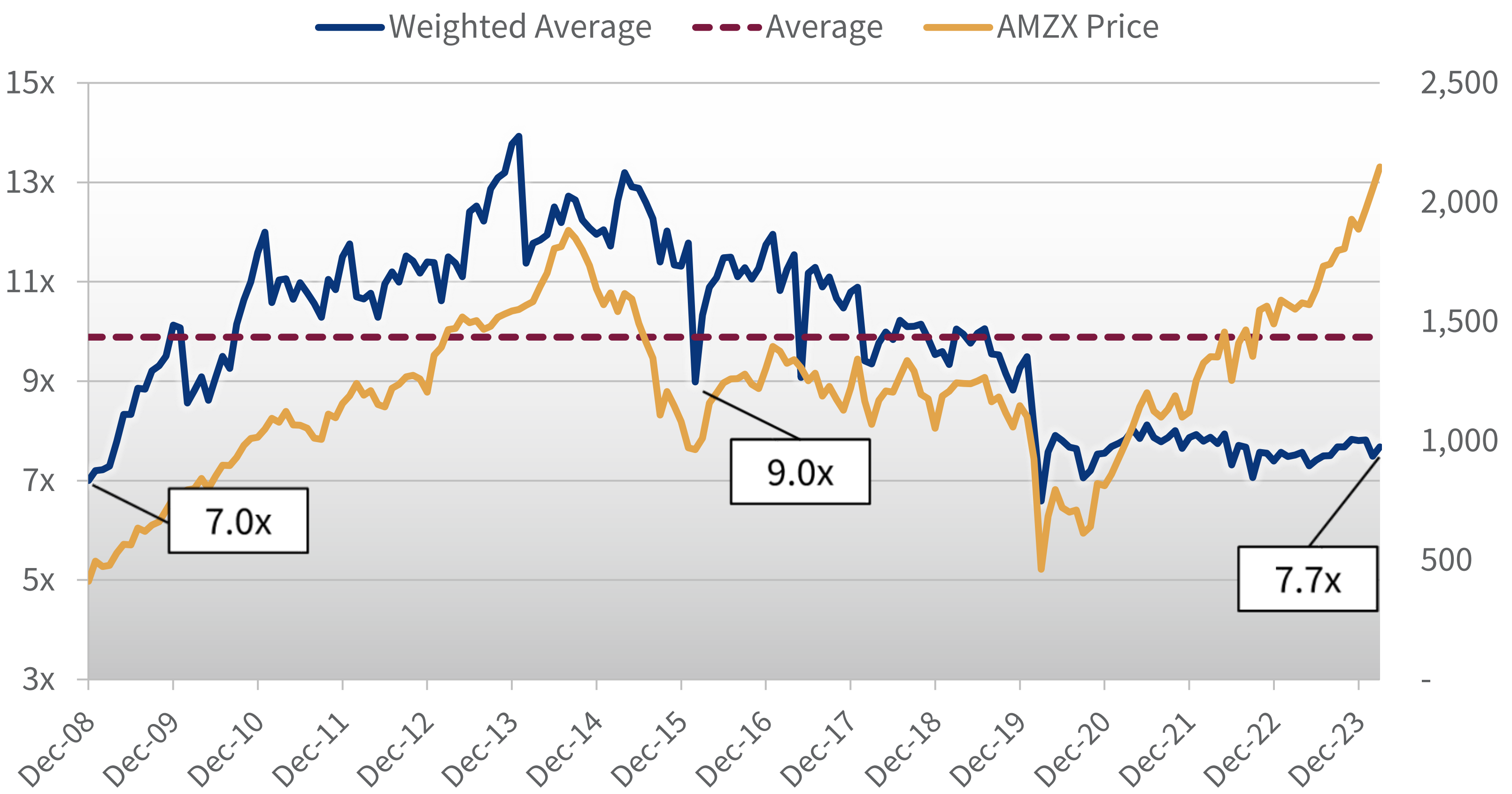


Source: Bloomberg, LP at 3/31/24. All figures shown for current model portfolio weights and holdings. EBITDA is the consensus estimate at each point in time for the weighted sum of each portfolio holding for the next twelve months (NTM).

AMZ Weighted EV/EBITDA

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

Total return performance and valuation have widely diverged since 2020.

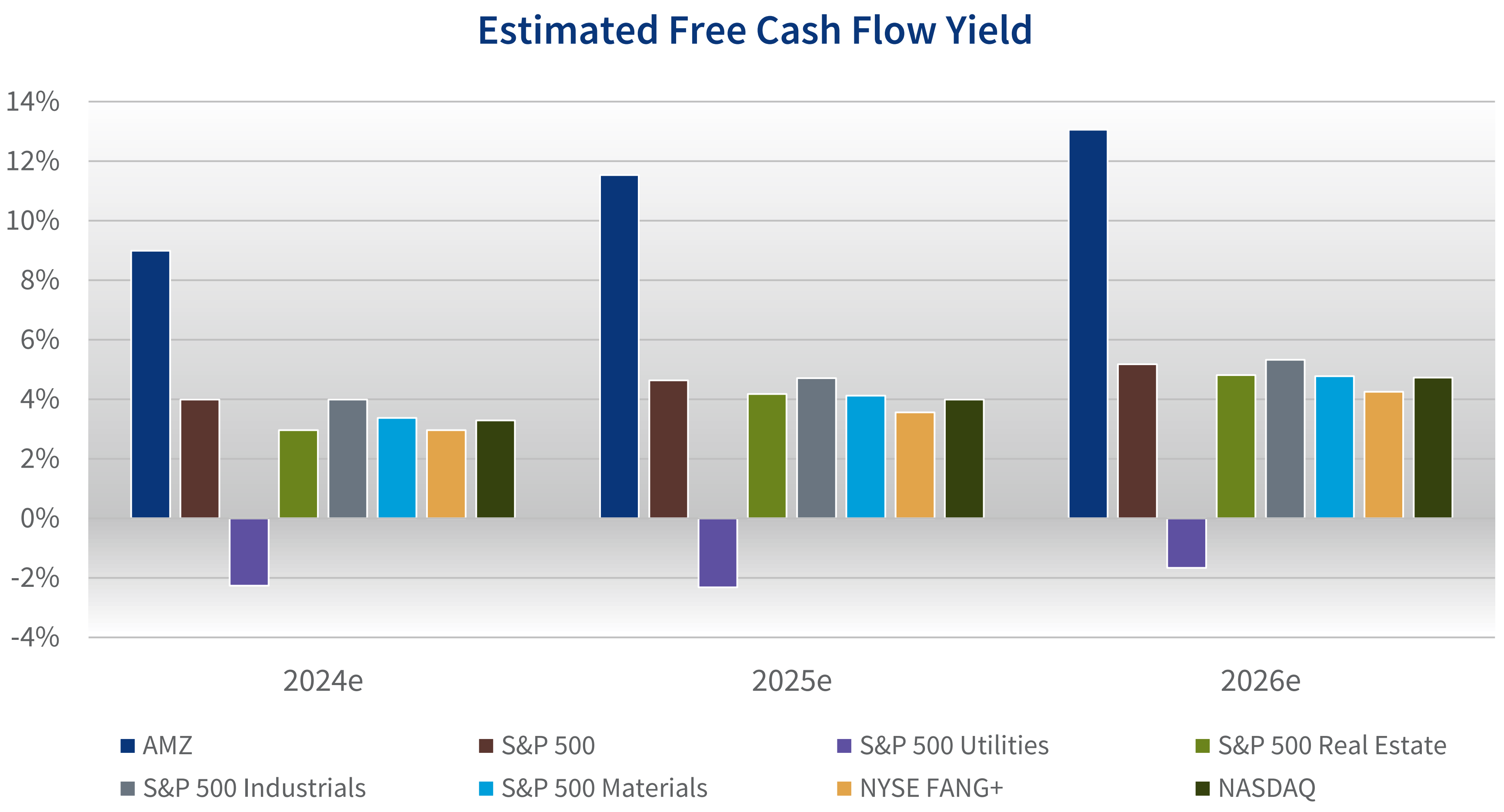


Average = 9.9x | Current = 7.7x | Minimum = 3.4x

Source: Bloomberg LP, CCM, as of 3/31/24

AMZ FCF Yield Versus Other Indices

The FCF yield of the AMZ appears quite dislocated from other relevant indices.



Source: Bloomberg, LP at 3/31/24.

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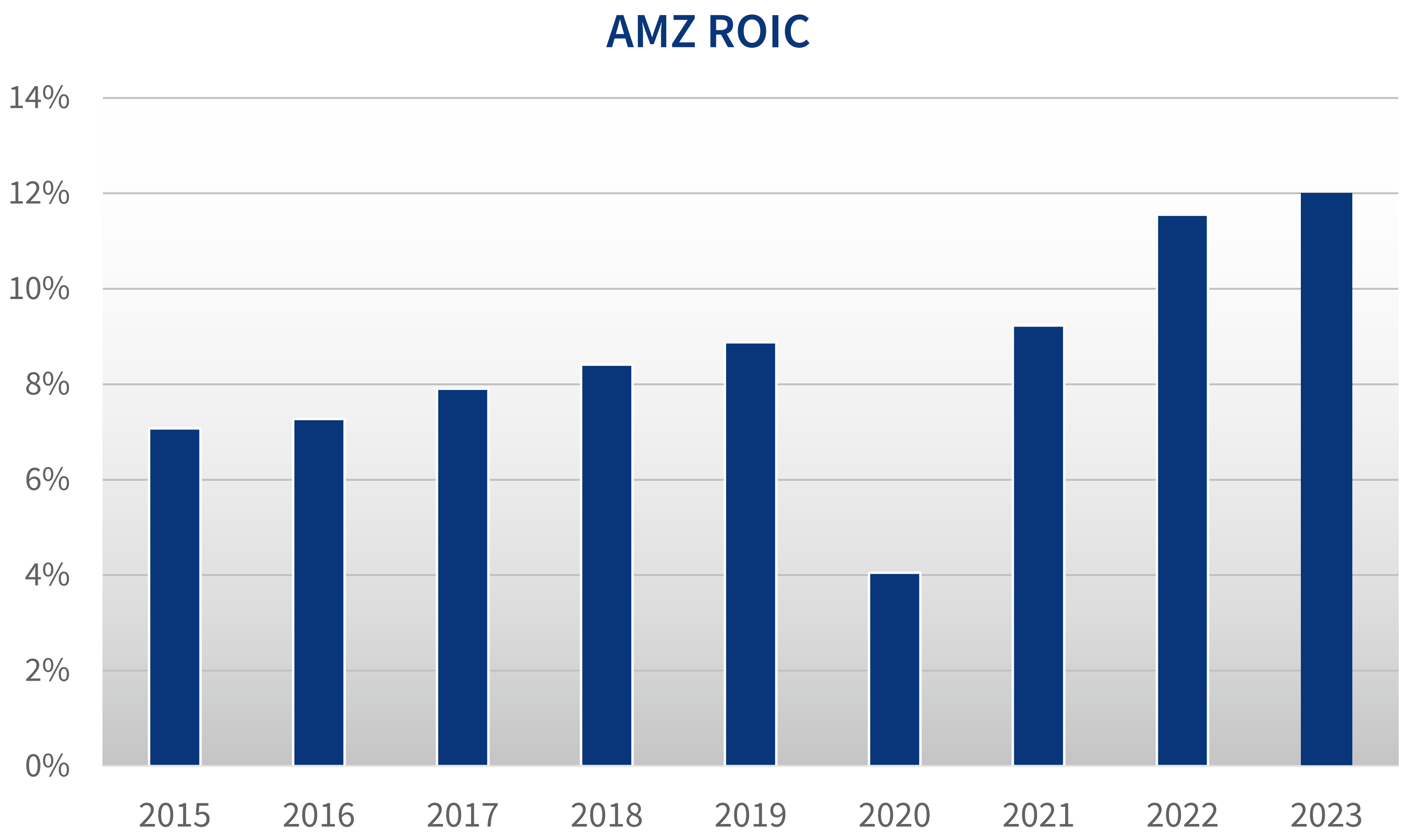
AMZ Return on Invested Capital (ROIC) 2015 – 2023

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 3/31/24.

AMZ Free Cash Flow Available for Buybacks Forecast

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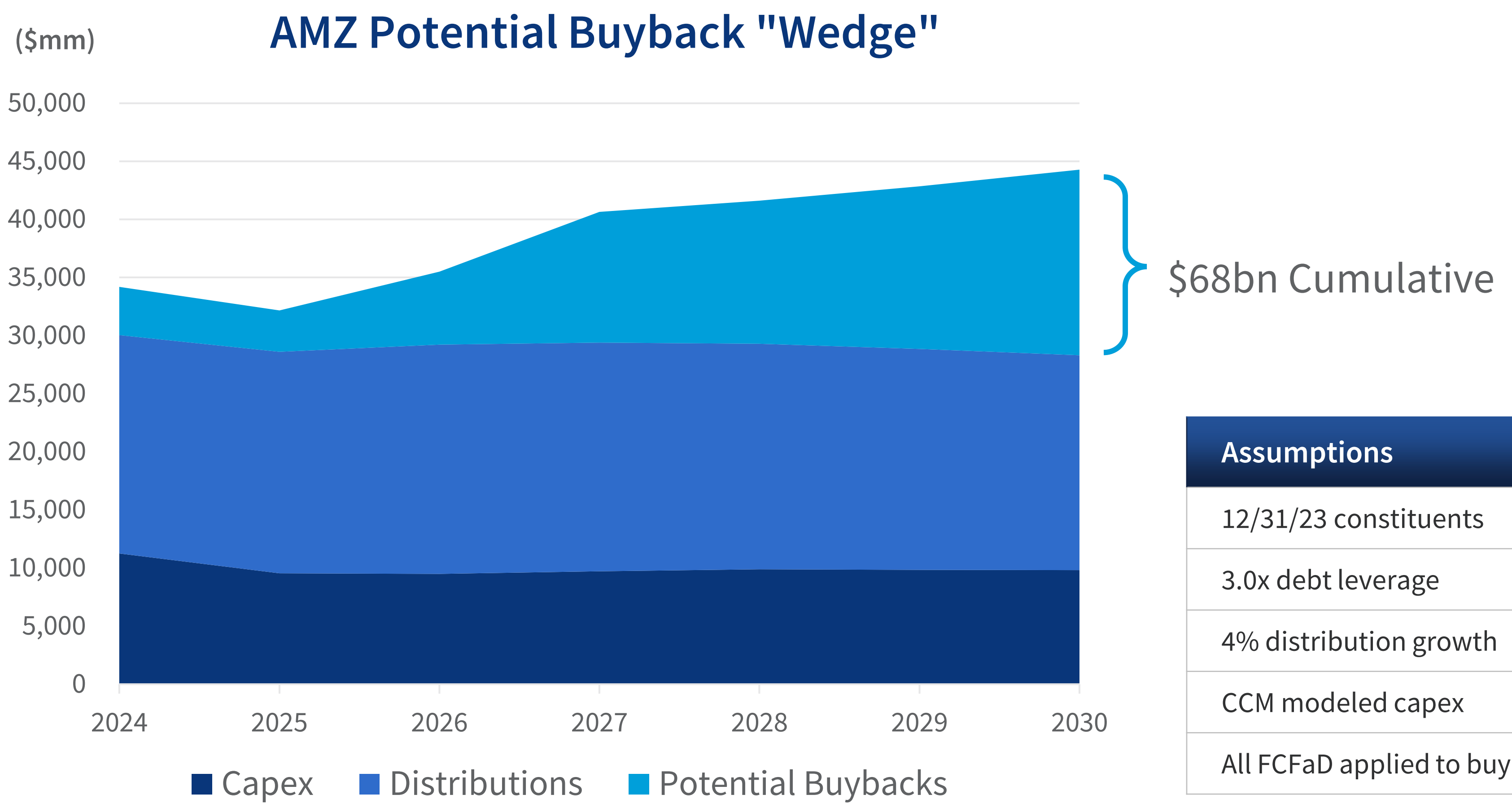
Our forecast indicates the AMZ constituents could cumulatively repurchase $68 billion of their equity through 2030, or ~36%.

Additionally, repurchasing this much equity provides $5 billion of annual savings in 2030 vs. no repurchases.



Assumptions
12/31/23 constituents
3.0x debt leverage
4% distribution growth
CCM modeled capex
All FCFaD applied to buybacks

Actual share/unit repurchases may vary significantly.

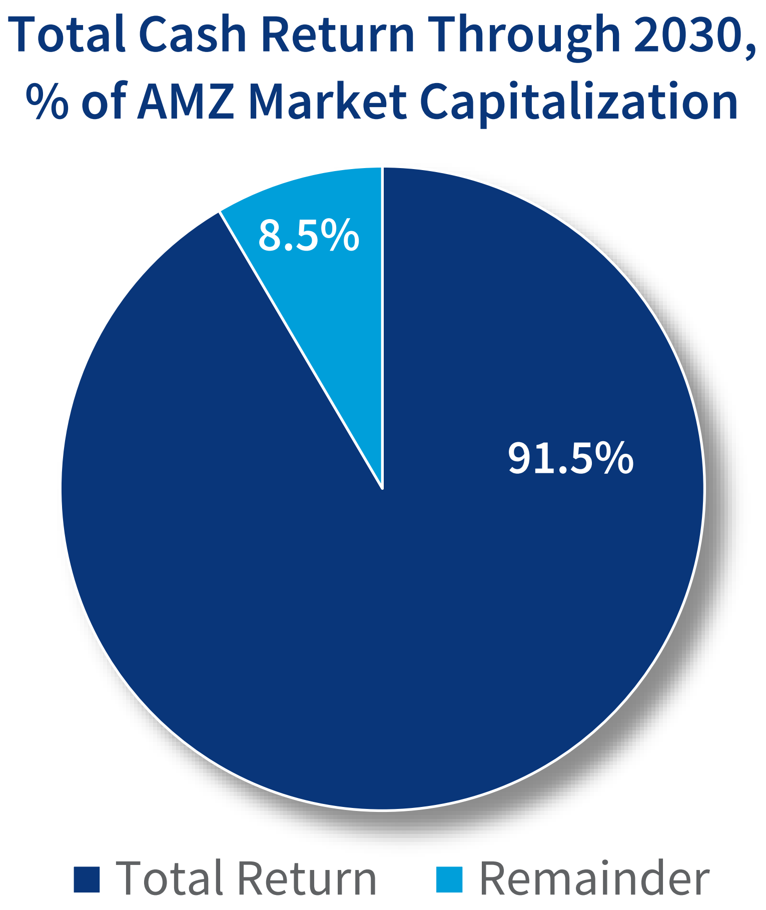
Source: VettaFi LLC, and CCM

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 ~92% of the current market capitalization of the AMZ by the end of 2030.

Actual distributions and share/unit repurchases may vary significantly.

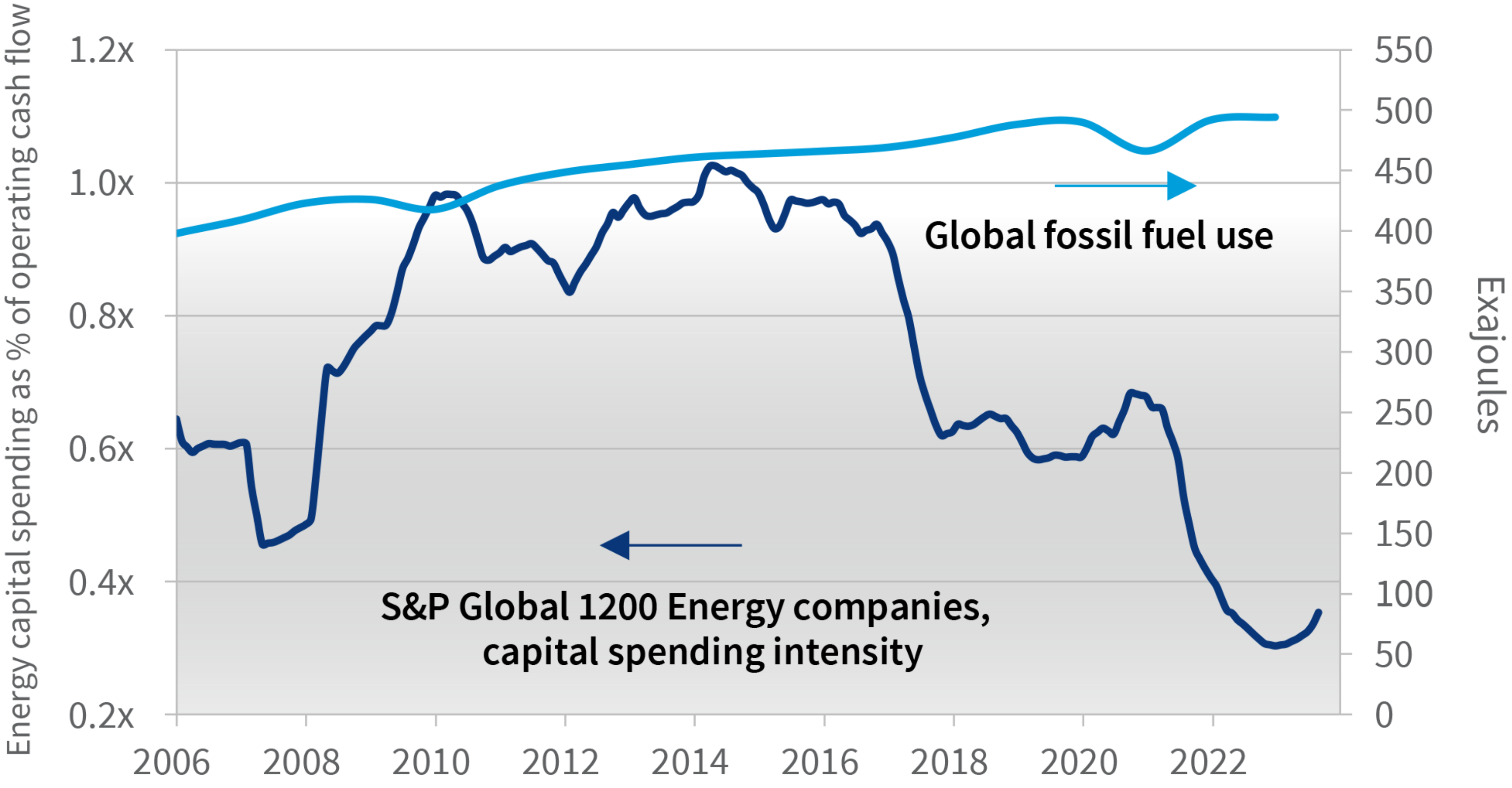
Source: VettaFi LLC, Bloomberg LP, and CCM



Underinvestment in Global Energy Supply

Capital markets have dissuaded public energy companies from making new investments during the most recent period.

However, global primary energy use has recovered to pre-pandemic levels, and the U.S. and Global economies run the risk of having a greater demand for fossil fuels than what the market can supply.



Source: JP Morgan, "Eye on the Market", 9/27/2023.

Long Term Driver: U.S. Hydrocarbon Exports

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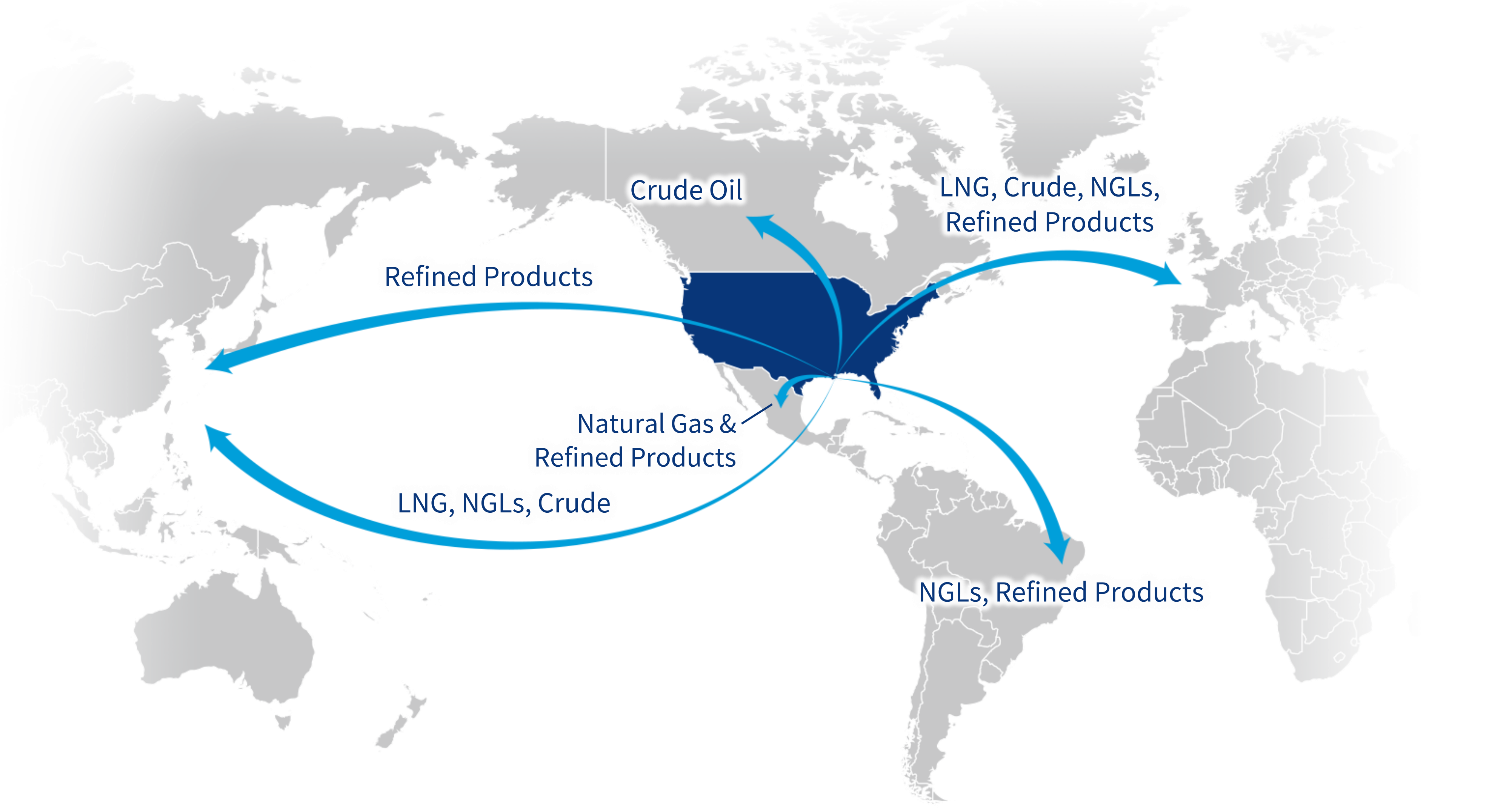
The U.S. has the ability to export all raw and finished hydrocarbons produced domestically to serve global demand.

This helps global economies that have energy deficits, and could continue to provide growth opportunities for Midstream companies which own the critical infrastructure needed to move molecules.



Source: EIA, CCM

Long Term Driver: LNG Demand Forecast

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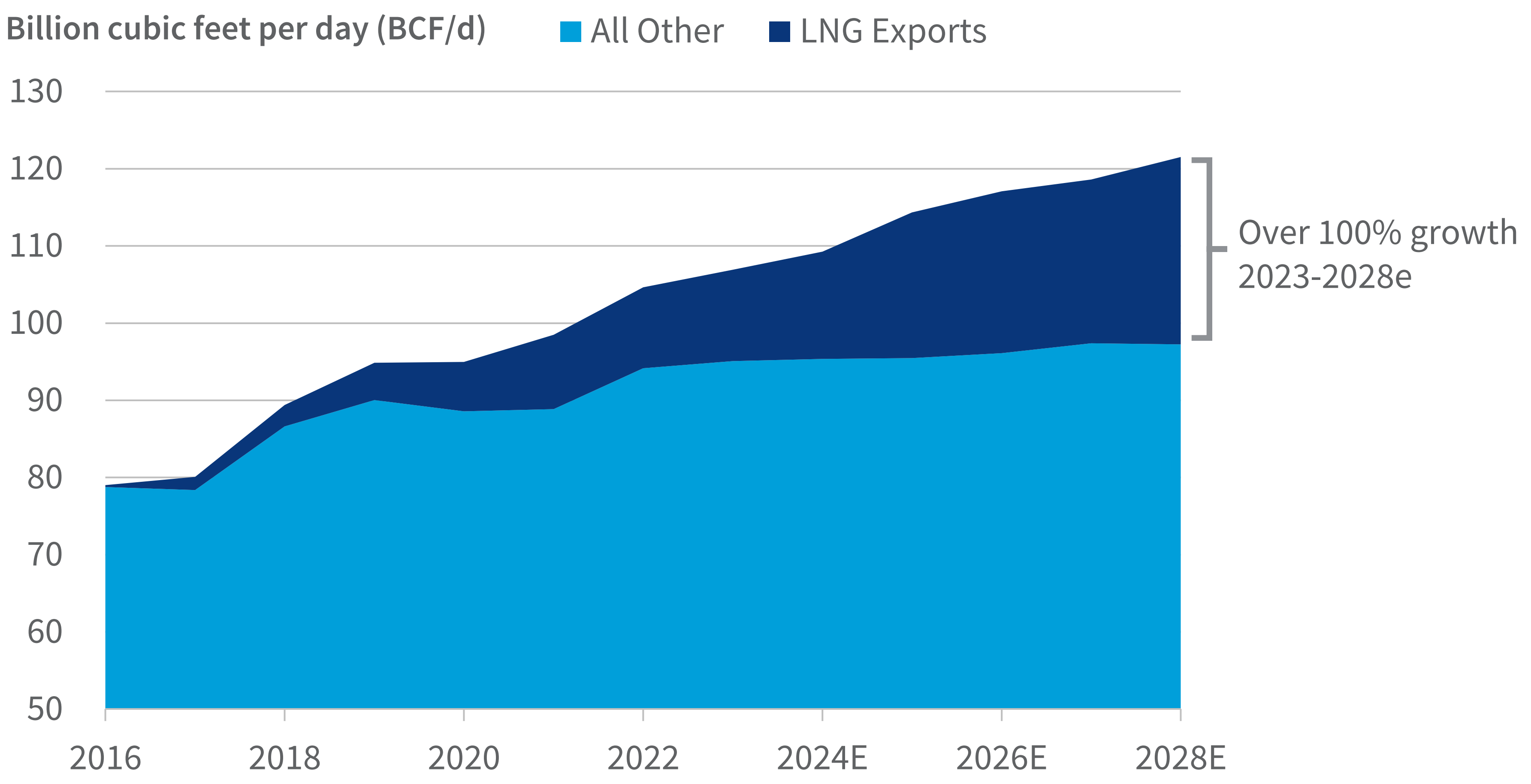
Liquefied Natural Gas (LNG) demand growth of ~100% from 2024e through 2028e far outpaces the traditional sources of demand of ~2%, which is in line with the historical trend.

If additional projects are approved, 2028e forecasted demand of ~24 billion cubic feet per day (Bcf/d) could increase further by the end of the decade.



Source: EIA, CCM.

Data for periods is presented as an estimate where indicated.

Model Portfolio vs. the Alerian MLP Index (AMZ)

The Model Portfolio compares favorably to the AMZ.

Model Portfolio Characteristics

Market data as of 3/31/24

Portfolio Attributes*	
Positions	18
Market Capitalization (MM)	$31,028
Yield	6.2%
Coverage Ratio	2.61x
Growth Rate	4.0%

Subgroup Allocations*	
Natural Gas Pipelines	11.8%
Refined Products Pipelines	3.0%
Crude Pipelines & Gathering	18.1%
Storage & Terminaling	4.5%
NGL Logistics	17.3%
Other Logistics/Marketing	5.4%
Natural Gas Gathering & Processing	34.8%
Propane	0.0%
Exploration & Production	0.3%
Shipping	0.5%
Other	4.4%

Alerian MLP Index Characteristics

Market data as of 3/31/24

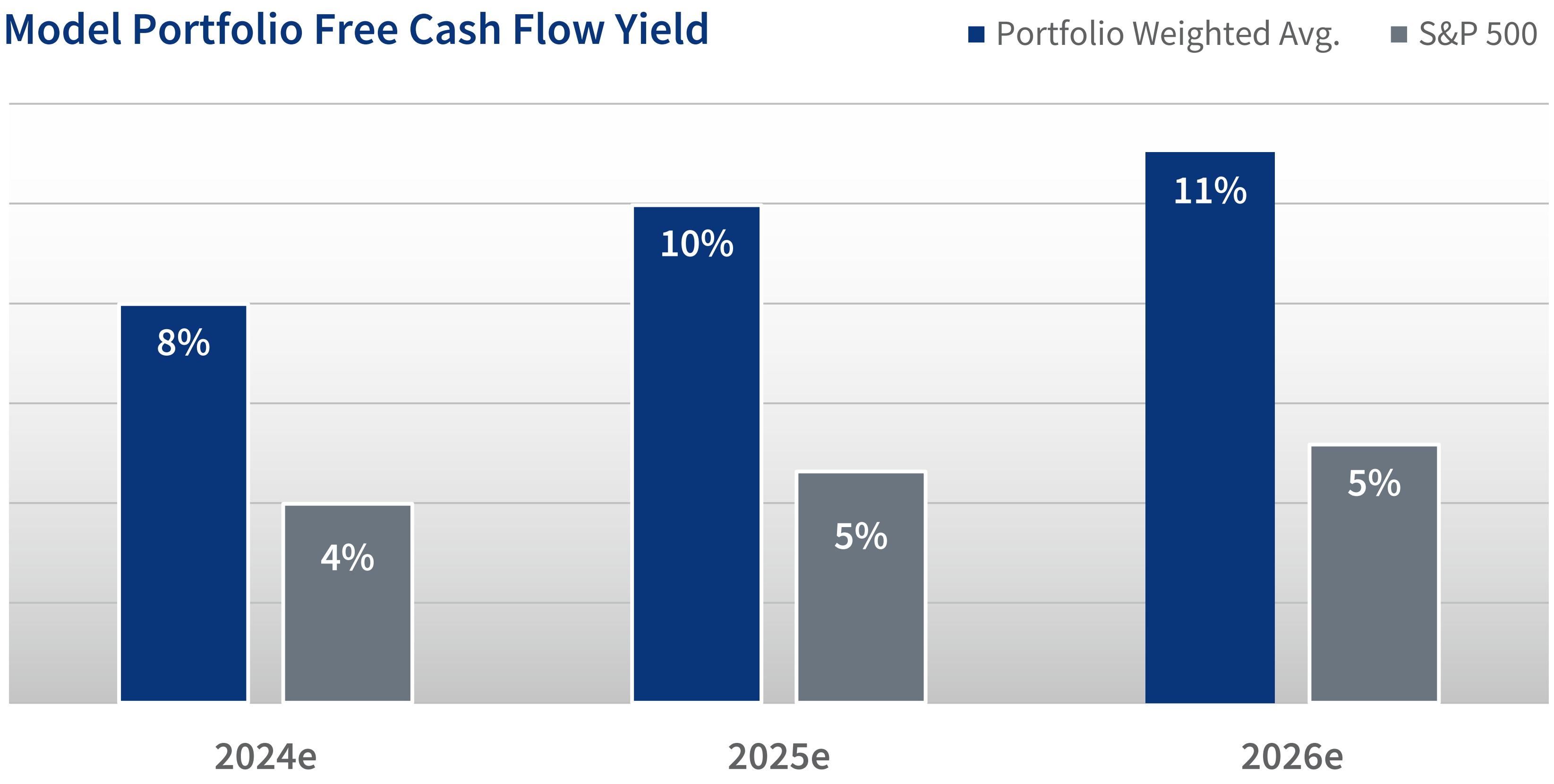
Portfolio Attributes*	
Positions	22
Market Capitalization (MM)	$21,851
Yield	7.0%
Coverage Ratio	1.88x
Growth Rate	6.5%

Subgroup Allocations*	
Natural Gas Pipelines	8.2%
Refined Products Pipelines	3.9%
Crude Pipelines & Gathering	21.6%
Storage & Terminaling	6.4%
NGL Logistics	9.5%
Other Logistics/Marketing	12.6%
Natural Gas Gathering & Processing	22.5%
Propane	3.0%
Exploration & Production	0.0%
Shipping	0.4%
Other	11.9%

*Growth Rate refers to the estimated 2024 weighted average Distributable Cash Flow (DCF) growth rate. This is not a forecast of the portfolio's future performance. DCF growth rate for the portfolio's holdings does not guarantee a corresponding increase in the market value of the holding or the portfolio.

Model Portfolio FCF Yield vs S&P 500

Our model portfolio FCF yield for the next three years using consensus estimates is attractive.



Source: Bloomberg, LP at 3/31/24. Using Bloomberg definition of Free Cash Flow to Equity of cash flow from operations (CFFO) less capex.

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

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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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NASDAQ: A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures.

NYSE FANG+ Index: The NYSE FANG+ Index is an equal-dollar weighted index designed to represent a segment of the technology and consumer discretionary sectors consisting of highly-traded growth stocks of technology and tech-enabled companies such as Facebook, Apple, Amazon, Netflix, and Alphabet's Google.

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

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

S&P 500 Real Estate Index: The S&P 500® Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS® real estate sector.

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 (continued)

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 12 is for estimated 2023 coverage on a weighted average basis.

E&P is short for exploration and production, which is the early stage of energy production that consists of looking for oil and gas and then extracting it.

Earnings growth is the annual rate of growth of earnings from investments.

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

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.

Free Cash Flow to Equity (FCFE) represents the amount of cash a company can pay to equity shareholders after all expenses, reinvestments, and debt payments.

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.

Midstream companies, as used herein, are companies engaged primarily in midstream energy infrastructure regardless of entity structure or tax status. Midstream companies includes master limited partnerships (MLPs) that are organized as partnerships or limited liability companies which elect to be taxed as partnerships, as well as corporations and other entities which elect to be taxed as corporations (i.e., C-corps), many of which are the successors to MLPs that have consolidated into or with a C-corp parent or subsidiary thereof. Midstream interests, as used herein, are securities issued by Midstream companies.

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).

West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content. It is the underlying commodity of Chicago Mercantile Exchange's oil futures contracts.

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

Slide 4:

- Information contains current holdings DTM, which IPO'd on 9/13/21 and KNTK which was reorganized in November 10, 2020. Information up through both dates, respectively, is adjusted to exclude the current weighting in DTM & KNTK. Impact to results is *de minimis*.

Slide 13:

- Prices and data as of 3/31/24; prices and distribution estimates sourced from Bloomberg LP; Distributable Cash Flow (DCF) data is CCM-calculated consensus of Wall Street estimates. All data is current year information.
  - The coverage ratio and growth rate has been adjusted to exclude companies for which there are not DCF estimates, and then re-weighted with holdings for which DCF estimate data is available.
  - For the Model Portfolio, this is ~1% and excludes: PSX
  - For the Alerian, this is ~7.0% and excludes: CAPL, CCLP, DKL, GLP, GPP, MMLP, SGU, SMLP
- Market Capitalization, Portfolio Yield, Coverage Ratio (DCF/Distribution) and Distributable Cash Flow (DCF) Growth are weighted averages.
- Yield and Coverage Ratio are the consensus estimates for 2024. Distributable cash flow Growth refers to the consensus forecast from 12/31/23-12/31/24.

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