



SemGroup Corporation

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CORPORATE PARTICIPANTS

Alisa Perkins – *Vice President of Investor Relations*

Carlin Conner – *Chief Executive Officer*

Bob Fitzgerald – *Chief Financial Officer*

Dave Gosse – *President of SemCAMS Midstream*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to SemGroup's Conference Call. As a reminder, this call is being recorded. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one, on your touchtone phone. To withdraw your question, please press star, then two.

I will now like to turn the call over to SemGroup's Vice President of Investor Relations, Alisa Perkins. Ms. Perkins, please go ahead.

Alisa Perkins

Thank you. Good morning, everyone. Before we begin today, I would like to remind you that our press release and presentation for today's call may include projections, forward-looking statements, and certain non-GAAP financial measures. We encourage you to read our full disclosures in our latest press release, slide presentation, and SEC filing for a discussion of those items.

Hosting the call today are Carlin Conner, our CEO; Bob Fitzgerald, our CFO; and Dave Gosse, President of SemCAMS Midstream.

With that, let me turn the call over to Carlin.

Carlin Conner

Thank you, Alisa. We appreciate everyone joining us. This morning, we announced two related and strategic transactions that deliver on several of our promises. First, SemGroup and KKR have formed a joint venture, SemCAMS Midstream ULC, to further develop our Canadian Midstream platform. SemGroup will contribute our SemCAMS business at a \$1.15 billion Canadian valuation, plus earn outs for cash proceeds, and a 51% interest in the new joint venture, and KKR will contribute cash, 49% interest. Second, the JV agreed to acquire Meritage Midstream ULC, a Montney Midstream company located in the middle of our footprint, for a total price of \$600 million Canadian.

The monetization, as a part of SemCAMS, at an attractive valuation, allows SemGroup to reduce consolidated debt by approximately 20%, and immediately improve our balance sheet, while the partnership with KKR has allowed us to expand and grow our footprint in the core of a top quartile North American energy play.

Before I hand the call to Bob and Dave to provide more details on these transactions, I would like to discuss how these transactions materialized, and touch on the long-term value that will be created. In our normal evaluation of opportunities to pursue an action to be taken, we recognize that we could create value and reduce our consolidated leverage by joining with a strong financial partner that would help shoulder our current growth projects. At the same time, this partnering approach enables us the opportunity to consolidate Meritage. More to come on Meritage, but I would highlight that this company has done a terrific job amassing a very large area of interest, serving some of the highest growth

producers in the Montney, where well-head economics rank very high across the North American production landscape.

Additionally, these transactions were executed to achieve a favorable valuation arbitrage by exchanging a non-controlling interest in our SemCAMS business, for a controlling interest in the Meritage business, which has similar cash flow security, but a higher growth rate.

Finally, the long-term benefits of acquiring these assets in the middle of our footprint are difficult to quantify, but assuredly, the scale, operational leverage, reliability, and capital efficiency of the combined assets creates long-term value.

Bob will now discuss the details of the transactions.

Bob Fitzgerald

Thanks, Carlin. Turning to Slide 4 by our IR presentation, we'll spend some time discussing the joint venture structure of the SemCAMS Midstream and its acquisition of Meritage Midstream. For clarity, we will discuss this transaction in terms of Canadian dollars, but all the relevant conversions to US dollars are provided in the slide.

Under the terms of the joint venture, SemGroup will contribute to shares and assets of SemCAMS, valued at \$1.15 billion, in exchange for \$615 million of cash proceeds, and 51% common equity ownership. KKR will contribute \$515 million of cash in exchange for 49% of the common equity ownership. KKR will also acquire a \$300 million perpetual preferred equity interest in the JV. In addition, the joint venture will enter into an \$800 million underwritten bank credit facility.

The Meritage acquisition price of \$600 million equates to \$500 million for the base business, plus an estimated \$100 million capex reimbursement, through year end 2018, for phase three expansion. The expansion project, which will double the Meritage processing capacity to 400 million cubic feet per day, is expected to cost an additional \$175 million to complete in 2019, for an estimated total cost of \$275 million.

Meritage had a year end 2018 EBITDA run rate of about \$50 million, which was generated only from the base business. There is also operational leverage related to the base business that could increase EBITDA by approximately 10% going forward without any additional capital. Dave will provide more details about this project, as well as Meritage's base assets in a few minutes.

We expect to close these transactions in the first quarter of 2019, subject to customer and regulatory approval and closing conditions.

Slide 5 is a representation of the structure of the new JV company that we have just discussed.

Moving to Slide 6, the joint venture will finance the Meritage acquisition and the \$650 million cash proceeds back to SemGroup, from \$515 million of cash received from the common equity issued to KKR, the issuance of a \$300 million preferred shares, and a fully underwritten credit facility. This

facility is comprised of a \$350 million term loan A, and a \$450 million revolving credit facility. We expect to use the JV's operating cash flows and credit facilities to fund future growth projects and ongoing working capital requirement. We are targeting a 3 to 3.5 times leverage at the joint venture. The SemCAMS Midstream's credit facilities are non-recourse to SemGroup; \$300 million special preferred equity issuance has a dividend of 8.75%, and includes the ability to pick for the first 10 quarters.

Slide 7 provides a snapshot of the JV's anticipated capital structure at closing. I would also like to point out that we will be fully consolidating SemCAMS Midstream and SemGroup's financial statement.

Slide 8 summarizes the strategic rationale of these two transactions. One of the top corporate priorities is to improve our balance sheet by reducing our consolidated leverage. These transactions are expected to reduce leverage by a half turn in the near term. The acquisition of Meritage expands the existing SemCAMS's portfolio, diversifying our customer base while broadening our Midstream service offerings, and increasing our processing capacity.

Also, partnering with KKR helps enable us to fund future growth opportunities in Canada. KKR is an industry-leading investor, with extensive experience in the energy sector, and has been active in the Canadian energy space and the Montney area.

Dave will now review these assets.

Dave Gosse

Thanks, Bob, and good morning, everybody. We're very excited about these transactions and the opportunities they will afford SemCAMS Midstream. A strategic location of the Meritage assets in close proximity to SemCAMS existing infrastructure provides opportunities for optimization, and to capitalize on the potential for growth. Including growth projects under construction, the combined assets will have 1.3 billion cubic feet per day total operating capacity, approximately 700 miles of natural gas pipelines, and approximately 60 miles of liquids pipelines. The joint venture also has a number of additional growth projects under development.

Moving on to more detail about Meritage Midstream on Slide 10, as you see from the map, the assets are in the heart of the Montney, in the Gold Creek and Karr regions. The Montney is a top-quartile play with highly competitive well economics, even in the current commodity price environment. Producer internal rates of return are 30% to 50% based on pricing of \$50 ED Par oil and \$2 AECO gas.

Development of Meritage is underpinned by a combination of area dedications, roughly 400,000 acres, and contracted minimum volume commitments with top-tier producers. These private equity-backed producers are incentivized to continue acreage delineation and enhance value. Development plans are expected to support future growth of the Meritage System.

As we begin discussing Meritage's assets and future growth, we think it might be helpful to clarify exactly what we're buying. For the \$500 million, we will acquire an operating portfolio of approximately 195 million cubic feet per day of natural gas processing capacity, 101 miles of gas gathering pipelines,

38 miles of oil gathering pipelines, and 18 miles of emulsion and gas lift pipelines, as well as interconnects for residue gas, raw gas, and oil. Additionally, the estimated \$100 million will be used to reimburse the capital expenditures already spent on Meritage's 200 million cubic feet per day gas processing expansion under construction, which is expected to come on line during the third quarter of 2019.

Meritage service offerings continue to expand, providing reliable midstream solutions as producers continue development of this vast resource.

On the next slide, we'll spend a few minutes discussing the prolific resource in the Gold Creek and Karr region that sets the stage for future growth.

First and foremost, this area features a significant inventory of approximately 5,000 well locations. This large-scale development opportunity is driven by low-cost drilling and completions, which continue to be optimized.

The area has approximately 400,000 liquids-rich dedicated acres, which means producers are able to fund development growth with attractive returns. The high condensate and light oil content help insulate producers from challenges in the gas market.

As I mentioned earlier, this area has attracted significant private equity backing, highlighting that growth-oriented counterparties with the financial capacity to fund growth recognize the significant opportunities in this play.

I'll now turn it back to Carlin.

Carlin Conner

Thanks, Dave, and congratulations to both the Meritage and SemCAMS team that will now join together to operate SemCAMS Midstream. Before we move to Q&A, I would like to leave you with the following thoughts. We have been very active in executing our strategy, which included multiple capital raises in these difficult markets. This project is another example of this execution, and delivering on core promises with financially efficient methods.

To summarize what we announced today, we have partnered with KKR to accelerate our Canadian growth strategy by contributing a portion of our SemCAMS business at an attractive valuation. Acquire the Canadian assets of Meritage Midstream, while also receiving cash as SemGroup, strengthening our capital structure by reducing our consolidated debt by 20%.

With that, we'd like to turn the call over for questions. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press star, then one, on your touchtone phone. If you are using a speakerphone, please pick up your handset before

pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question today comes from Shneur Gershuni with UBS. Please go ahead.

Shneur Gershuni

Hi, good morning, guys. Just starting off on some minor details here, but I was wondering if you can sort of give us some color on expected capex, both for the legacy SemCAMS assets, and then separately the assets from Meritage Midstream, kind of what you're thinking is going to be spent in 2019?

Bob Fitzgerald

Good morning, Shneur, this is Bob, I'll take that one. First off, we will be giving our 2019 guidance which will include capital and EBITDA, as we usually do when we give our fourth quarter earnings. So we'll give a little more color here in the next four to six weeks when we do our next update.

But specifically, I can make a couple of points. On the legacy SemCAMS business, we're still in the process of completing the [indiscernible] plant. I want to highlight that that plant's actually coming on early. We are in the process of commissioning it right now, and we expect it to be operational by the end of this month, so that's faster than what we had originally expected. So kudos to the team that's been working on that in Canada.

Secondly, we have a couple other projects that we talked about, specifically Smoke Lake. That project is also coming on later this year, along with Pipestone pipeline. So those are ones that we previously talked about, so that's going to continue in '19. And then from a Meritage perspective, the big opportunity there is the completion of the phase three expansion. And as we mentioned, we expect that capital to be about \$175 million in 2019.

Shneur Gershuni

Okay, great. You also had in your slides that you are expecting leverage to be 3 to 3.5 at the entity. Is that starting today, or is that when you approach the IPO at the next 12 to 18 months?

Bob Fitzgerald

Well, we expect to be within that range, if not lower than that range when we do close, but we expected it to operate within that area overall as a financial policy. So today and going forward, you should expect that we'd be operating the 3, 3.5 times rate.

Shneur Gershuni

Great. And just one final question just with respect to sort of the whole flow of cash flows and so forth. Does the movement of the assets plus the cash reimbursement from KKR and so forth, does that impact SemGroup at the corporate level in terms of cash flows, in terms of ability to be able to fund your 2019 capex, dividends and so forth?

Bob Fitzgerald

After we create the joint venture, what SemGroup will be getting will be cash distributions coming back from the joint venture, and we'll be getting 51% of that. Those cash proceeds coming back to SemGroup will be used to redeploy to invest in future growth opportunities, whether they're in the US or needed up in Canada. So we have a lot of flexibility on that cash.

Shneur Gershuni

So will there be cash distributions on day one from this entity, or you're talking about at some point in the future?

Bob Fitzgerald

There's going to be cash distributions throughout time as those capital projects get developed. It'll be dependent upon where we're at with the capital spending and how we reinvest within the JV, versus those capital distributions coming back to each of the shareholders.

Shneur Gershuni

Great, perfect. Thank you very much for the color. I'll jump back in the queue.

Operator

Again, if you have a question, please press star, then one. The next question comes from Sunil Sibal with Seaport Global Securities. Please go ahead.

Sunil Sibal

Hi, good morning, guys, and thanks for all the clarity on the call. I just had a couple of questions. First of all, on the debt reduction target that [indiscernible] consolidated level is debt reduction that you talked about. [Indiscernible] after you close the transaction, correct?

Bob Fitzgerald

The reducing of leverage is based upon the cash payments coming back to SemGroup at close. So we'll be getting that \$615 million Canadian coming back at closing, and that will be the catalyst for that de-levering.

Sunil Sibal

Got it. And then, could you remind us how much you spent on the Canadian projects in '18, and how much remaining will still be spent?

Bob Fitzgerald

Well, we'll give an update on our spending for '18 at the SemCAMS legacy business, as well as all the SemGroup, when we give our earnings coming out here at the end of February.

Sunil Sibal

Okay, got it. And then, just shifting gears a little bit on the Gladiator Pipeline project that you recently talked about. Is there any update on that, in terms of moving ahead on that project?

Carlin Conner

Yes, this is Carlin. We're getting really good feedback from producers and potential shippers. Stay tuned as we continue to develop that project. We're quite excited about connecting Cushing to our waterfront down at Hoffco [ph], and it feels like we have a project that is definitely gaining some traction.

Operator

The next question comes from Tristan Richardson with SunTrust. Please go ahead.

Tristan Richardson

Good morning, guys, just a quick one in terms of the capex being deployed at Meritage. Could you talk a little bit about sort of what that implies for valuation, kind of either on a '19 or '20 basis, as we think about when phase three comes on and the contributions there?

Bob Fitzgerald

I'm sorry, Tristan, are you asking about the potential earnings from that phase three expansion?

Tristan Richardson

Yes, sir.

Carlin Conner

Yes, so when that project comes on line, we see, we're obviously doubling our processing capacity at Meritage, and we believe that that associated gas that we'll be bringing on line, which, by the way, our MBCs will help support, we'll continue to grow our EBITDA where we're going to be growing down the multiples from our base business. We bought this business, the base business, I like to look at it as \$500 million for roughly \$50 million of EBITDA, and we have ongoing construction in progress that we're spending on. Well, that construction and progress, obviously, will be generating incremental EBITDA, and we're only going to go down further from that ten multiple as we move forward through the development cycle.

More information to come as we develop those projects, but they're quite comfortable with the long-term value creation of that investment.

Bob Fitzgerald

Tristan, this is Bob, the other thing I'll add to Carlin's comments is, that project is going to be similar to some of our other projects that we've done in Canada where the development of the phase three expansion is going to be within that five day times multiple range that we typically target. And the thing we like about this is even in today's markets, we see that kind of going down to that lower end over time. So we're very, very pleased about this area because of where this asset is located and the development activity is still going on there.

Tristan Richardson

Helpful, thanks, Bob. And then, you just talked about operating leverage at Meritage to the tune of 10%. Curious sort of what drives that operating leverage, and just some of the leverage there?

Carlin Conner

Yes, this is Carlin again. First off, the current base business, there's in our forecast and project economics, the plant's not full. We call it phase two, is not full. If we can fill that plant up in the near term, then we will outdo our forecast for 2019, and we call that operational leverage clearly, filling up that plant.

I'll also say that in addition to that very direct answer, we have, we believe, a lot of opportunity once we own these assets, to connect into our system, where, as you know, we have tremendous amount of processing capacity and it will create a lot of flexibility, where we can move gas around the system, and we could, one, become a much more—we're already very reliable midstream player, but we would become even more reliable by leveraging that system. By moving gas around, we also, I think, become more capital efficient, and we can possibly, I think, grow our earnings at a very low multiple by having the scale in the flexibility of connecting into the system.

The direct answer is we have capacity in phase two that we are not accounting for in our economics, so we can grow into that, and beyond that we have, I think, really, some really interesting opportunities to pull the Meritage assets into our system and find a lot of synergies.

Tristan Richardson

Great. Thank you, guys, very much, appreciate it.

Operator

Next question comes from Colton Bean with Tudor, Pickering, Holt & Co. Please go ahead.

Colton Bean

Good morning. Carlin, you mentioned integrating the assets there. Just wanted to get the updated thoughts on the potential for a liquid system, and how this transaction may impact that.

Carlin Conner

Well, we're fortunate today to have Dave Gosse, the President of SemCAMS Midstream with us, and he's working that project, so I'm going to let him answer.

Dave Gosse

Yes, sure, good morning. The [indiscernible] markets pipeline, we're still in our open season right now. We're getting some very good traction with area producers, in terms of volume commitments to that project. And we think that we still got a very good project, very viable, moving forward, and we expect in the next short period of time that we'll be able to get the [indiscernible] to be able to make that project go ahead.

Colton Bean

Got it, thank you.

Operator

Next question is a follow-up from Shneur Gershuni with UBS. Please go ahead.

Shneur Gershuni

Hi, Happy New Year again. Just to confirm, the proceeds from the SemCAMS sale, will that just go strictly to paying off debt, or do you expect to recycle 100% of that capital into projects that you're thinking about?

Bob Fitzgerald

The intent is to take that cash coming back to SemGroup and to use it to de-lever. So it's going to go all against reducing debt.

Shneur Gershuni

Okay, great. And just to clarify, the agencies have confirmed that all the debt at the new entity will be consolidated [indiscernible].

Bob Fitzgerald

Well, we've [indiscernible] agencies, we believe that they're going to continue to consolidate the JV with SemGroup. We haven't heard from one of them yet. They're still reviewing the process. But we have heard from S&P, and they are going to continue to report like they had in the past.

Shneur Gershuni

All right, perfect, appreciate it. Thank you very much, guys.

CONCLUSION**Operator**

This concludes our question and answer session. I would now like to turn the conference back over to Carlin Conner for any closing remarks.

Carlin Conner

Thank you all very much for joining us today. We appreciate your continued interest and support. Have

a great day.

Operator

This conference is now concluded. Thank you for attending today's presentation. You may now disconnect.