

## **Gloves could come off in Williams-ETE saga soon**

**By ROD WALTON World Business Editor | Posted: Saturday, July 11, 2015 12:00 am**

The battle in Energy Transfer Equity's \$53 billion bid for Tulsa-based Williams Cos. so far has been mainly behind the scenes, but it could spill out into a Wall Street fight in the coming weeks or months.

The relationship between the two natural gas infrastructure giants has not gone officially hostile yet, but it's no courtship either. Dallas-based Energy Transfer's unsolicited offer, and Williams' decision to reject it and seek strategic alternatives, has let the cat out of the bag, opened Pandora's box and a can of worms.

Pick your metaphor. The world for 108-year-old Williams has changed, analysts say.

"They're already hostile," Jake Dollarhide, CEO of Tulsa-based Longbow Asset Management Co., said Friday. "By taking it public, they've made it hostile."

In other words, what Energy Transfer has started someone else may finish. The Dallas firm is offering \$64 per share, but Williams has rejected that while continuing with its own plan to buy up the outstanding units in its own Williams Partners and combine them into one Williams.

But like RJR Nabisco found out nearly 30 years ago when it put itself up for sale, the stock market does not always let one company decide who buys whom. Does ETE win, does Williams stay whole or does an even bigger pipeline giant like Kinder Morgan make a move?

"I think a lot of people are waiting to see if another player comes in," Dollarhide agreed. "I think the market is kind of setting back and waiting to see if something of additional substance comes out."

Williams has stayed relatively quiet since announcing the bid on June 21. CEO Alan Armstrong has tried to reassure employees that management and the board is working hard on the plan to fold in Williams Partners, while also letting shareholders know it is considering all viable options to create market value.

“We are confident about our strategic plan, and the significant value that will be created through the acquisition of Williams Partners and our other growth projects,” Armstrong wrote in a Thursday email to employees.

A Bloomberg story last week, citing unnamed sources, reported that Williams had contacted more than 15 potential buyers and asked them to sign “standstill provisions” promising not to go hostile, or seek a shareholder vote against the company’s wishes. Energy Transfer Equity CEO Kelcy Warren allegedly was the only one who declined to take that option.

Both Williams and ETE mainly have declined to comment on those reports. Williams did respond Friday to one comment from a source close to ETE who told the Tulsa World that the Williams Partners foldup would cost more jobs than the ETE takeover.

Williams released an official statement refuting that. It already owns the management interest in Williams Partners.

“All of our employees, including those here in Tulsa, work for Williams, not Williams Partners,” the company statement read. “We anticipate no employment impacts as a result of Williams’ acquisition of Williams Partners.”

Dollarhide, whose company holds a large position in Williams Partners, said he believed that an ETE takeover would cost “significantly more jobs” than the Williams Partners deal.

### **Gaps and speculation**

Other than that, Armstrong cautioned employees in that Thursday email not to take rumors and un-named sources too seriously.

“As this process unfolds, it is important to remember that media coverage may not always reflect the reality of the situation,” Armstrong wrote. “Confidentiality in these situations is mandated and therefore gaps in information will exist. Please note that anything other than an official statement from Williams is often nothing more than folks filling in these gaps with speculation.”

Actions speak louder than words, in other words.

ETE's Warren made a pretty big statement earlier this week when he bought 1 million units in his own company at an average \$63 per unit, increasing his overall stake to about 37 million units worth an accumulated \$2.46 billion.

Fred Russell, who heads up Fredric E. Russell Investment Management Co. in Tulsa, theorized that Warren bought ETE shares primarily because the CEO believes his company is undervalued despite its extensive pipeline network. Yet Russell contended that Warren's move was also meant to send a message to Williams Cos.

"I'm willing to spend \$63 million to show I believe in my company, and you owe it to your shareholders to show that you are seriously considering this bid," Russell said Friday.

Most companies outwardly reflect "The Godfather" ethic that "it's business, not personal" but don't kid yourself. There's a lot of money and ego involved, Russell said.

"You have two CEOs in control of their worlds all of a sudden thrust into battle with each other. No one wants to look weak or silly or cave in," he added.

"Very few CEOs are immune to the temptation to make their companies bigger. Maybe there's nothing wrong with that; if you don't get bigger you get smaller."

Although ETE has been critical of Williams' lackluster response to its advances, Russell rated the Tulsa company as having behaved pretty well.

The smart initial response to a first bid is by saying it's too low, which Williams has, Russell noted. Objectively, however, the Tulsa money manager conceded that ETE's bid was at 32-percent premium to where Williams stock was trading at \$48 per share before the bid was announced.

### **Is this a win-win for Williams?**

News of the takeover offer pumped Williams up to \$60 per share before receding slightly to nearly \$58 Friday. Albert Alfonso, who writes for financial website Seeking Alpha, earlier this week wrote that Williams has been "rather defensive" since the ETE bid was revealed.

Alfonso concluded that ETE could sweeten the pot a little by making it a straight up one-for-one stock deal. ETE is currently offering to trade 0.9359 ETE units for one Williams share.

Meanwhile, Williams continues toward its buyout and foldup of Williams Partners into one company expected sometime in the third quarter. ETE has vowed to fight that, by what means unknown at this time, but it could include “hostile” measures such as buying shares, nominating directors and directly lobbying to investors.

“My view is that in pretty much any scenario, Williams comes out as a winner,” Alfonso wrote in Seeking Alpha. “Under ETE, Williams would see faster dividend growth, in exchange for its independence. If Williams were to combine with its MLP, it would become the next Kinder Morgan-like entity in its sector.”

That’s a decidedly Wall Street view. The vantage point from Tulsa and the BOK Tower, Williams’ headquarters, is likely much different.

“I’m proud of the 108 years of history,” Dollarhide said. “That’s not an investor’s point of view.”

Nonetheless, Tulsa has lost too many headquarter companies to forget that feel-good history often gives way to market realities.

“I wouldn’t be surprised, unless Williams finds a way to fend this off, that someone else doesn’t step in,” Dollarhide said. “A name like Williams doesn’t hit the auction block very often.”



Williams Cos.'s interstate Transco natural gas pipeline system

A Williams crew works at an undisclosed station on the interstate Transco natural gas pipeline system. Williams Cos. was one of the best stock performers among the Tulsa Index in the second quarter. Courtesy