

Williams deal poises Energy Transfer to become one of the largest energy franchises in world

By CASEY SMITH World Business Writer | Posted: Sunday, October 11, 2015 12:00 am

During Energy Transfer Equity's Sept. 28 investor call announcing the acquisition of Williams Cos., an analyst from Deutsche Bank brought up Energy Transfer's active history of mergers and acquisitions.

"Can you talk about, maybe time frame to do additional third party M&A, or how I should be thinking about that in the context of the Energy Transfer external story going forward?" Kristina Kazarian asked.

After a quip about letting Energy Transfer leadership "take a breath," CEO Kelcy Warren reiterated what many tracking the family of companies the Dallas-based CEO helms have suspected.

Even though Energy Transfer Equity's purchase of Williams would make it the fifth-largest energy company globally with an enterprise value of \$149 billion, Warren made it clear that more mergers and acquisitions will be in Energy Transfer's future.

"We never have felt like we were fixed," Warren said. "We always felt a little flawed, and so we've been trying to fix those imperfections.

"We've done it by moving across the business lines. We truly believe that when you're a service provider you must provide all the services. That would be NGL (natural gas liquids) takeaway, natural gas takeaway, crude fractionation, export capability — all the services that would be required by the producer and oftentimes the market. There are still some things out there that are appealing to us, but we've got some work to do here, a little bit of woodchopping. And then hopefully we'll be able to get back and begin executing our vision going forward."

With Energy Transfer's announced acquisition of Williams Cos., you have a 20-year-old company purchasing a 107-year-old company, said Jake Dollarhide, a Tulsa-based wealth manager who is the CEO of Longbow Asset Management.

What ETE wants to do is increase its footprint, he said.

"Williams fits into building a bigger continuous footprint," Dollarhide said. "Williams has things ETE doesn't have, namely the Transco pipeline going right into Manhattan."

In addition to the 10,200-mile interstate transmission Transco natural gas pipeline system extending from South Texas to New York City, Tulsa-based wealth manager Fred Russell also pointed to Williams' 3,900-mile Northwest Pipeline that runs through the Pacific Northwest to the Canadian border.

"I'm sure the CEOs of Energy Transfer have been salivating about that prospect for years," said Russell, CEO of Fredric E. Russell Investment Management Co., referring to the access to both the Transco and Northwest Pipelines that a deal with Williams would give ETE.

History of takeovers

Warren, who established the Energy Transfer brand in 1995, began his corporate family's history of takeovers in 2004 when Energy Transfer Partners acquired the TUFCO pipeline system from TXU Corp. for \$500 million.

Numerous acquisitions followed, and in 2012 ETP completed the \$5.3 billion merger with Sunoco Inc. and acquired Sunoco's general partner interests, incentive distribution rights, and 32.4 percent limited partner interest in Sunoco Logistics Partners LP.

According to an article from 24/7 Wall St., the deal gave ETP an entry into the transportation of liquids like crude oil, natural gas liquids and refined products as well as Sunoco's retail business that includes some 4,900 locations in the U.S.

In 2014 ETP acquired gasoline retailer Susser Holdings and the General Partner of Susser Petroleum Partners LP, which was renamed Sunoco LP, in a \$1.8 billion deal. In April of this year ETP completed a merger with Regency Energy Partners LP.

No one from Energy Transfer's leadership was available for an interview with the Tulsa World last week, but during the Sept. 28 investors call, Energy Transfer Equity

CFO Jamie Welch referred to the behemoth that Energy Transfer will become following a combination with Williams Cos.

“We find ourselves, to be quite candid, in unfamiliar territory as we are now one of the largest energy companies or groups in the world,” Welch said. “We are ready to turn the cliché about being big on its head and remain a dynamic, entrepreneurial, fast-growing enterprise that recognize speed to market and decision making are key to in fact being successful and creating value for our stakeholders.”

Energy Transfer would control 104,000 miles of pipeline when its 71,000 miles of pipeline are combined with Williams’ 33,000 miles in assets.

That surpasses the approximately 80,000 miles of pipeline that rival energy infrastructure company Kinder Morgan owns an interest in or operates, said Qian Zhang, an investment manager with Fredric E. Russell Investment Management Co.

Russell pointed to Energy Transfer’s shrewd history of acquiring more pipeline in highly distressed periods when fear and anxiety dominate the marketplace.

“There are many inherently attractive things about pipelines,” Russell said. “Pipelines are very expensive to build, so it’s unlikely you’re going to see a tremendous number of pipelines come forth in the next 10 years. They cost \$2.5 million per mile.”

The next steps

ETE has said the acquisition of Williams will be complete by the end of the second quarter of 2016.

As outlined on Sept. 28, the deal combines a transaction valued at approximately \$37.7 billion, including the assumption of debt and other liabilities. Under the terms of the transaction, Energy Transfer Corp. LP, an affiliate of ETE, will acquire Williams at an implied current price of \$43.50 per Williams share.

Williams’ stockholders will have the right to elect to receive as merger consideration either ETC common shares, which would be publicly traded on the NYSE under the symbol “ETC,” cash or a combination of the two.

But Dollarhide pointed to steps the deal needs to go through before it can close, including passing the Federal Trade Commission’s oversight.

“It has to pass (Williams) shareholder approval,” Dollarhide said.

“It has to pass regulatory approval from the FTC. The fact that Kinder Morgan even exists makes this deal possible.”

It's not votes from the rank and file investors in Tulsa whose opinion on the ETE acquisition will carry the most clout, Dollarhide said. Nine out of 10 of those stakeholders would likely vote no, he said, because they don't want to see Tulsa lose the historic company.

“It's going to come down to the large institutional shareholders, the big boys on the East and West coasts who say, “This is good deal,”” Dollarhide said, pointing out that the biggest holder of Williams Cos. stock is Vanguard. “The largest mutual fund company in the country is the largest holder of Williams.”

And there's still a due diligence period where another bidder could come in and make a bid for Williams, he said.

The current offer price of \$43.50 also isn't definite.

“There are some big, established players. They remember (the) \$65 (offer),” said Dollarhide, referring to the higher per share price that was part of an ETE offer that the Williams Cos. board of directors turned down in June.

“Are they OK with \$43.50? If WMB starts trading above \$43.50 and stays there for a prolonged period of time, shareholders are expecting a higher price. The market creates its own rules. It was the first reality TV.”



Loading pipeline

Energy Transfer Equity's purchase of Williams would make it the fifth-largest energy company globally with an enterprise value of \$149 billion. Courtesy