

Casey Smith: Williams' stock surges 34 percent Thursday, but doubts remain about ETE deal

By CASEY SMITH World Business Writer | Posted: Friday, January 15, 2016 12:00 am

Williams Cos. stock closed at \$18.29 on Thursday, showing a 34 percent rally compared to Wednesday's dismal close (and calendar year low) of \$13.61 per share.

Energy Transfer Equity's unit price went up as well on Thursday. The MLP closed at \$10.01 per unit, up 24 percent compared to the previous day's \$8.09 per unit.

"The stocks move together as if they were married, but there are a lot of people who don't think they'll meet at the altar," said Fred Russell, Tulsa-based money manager and CEO of Fredric E. Russell Investment Management Co.

If they do meet, Russell said, it's going to be a shotgun wedding.

The deal that Russell is referring to is one that many investors — and many Tulsans — have been playing close attention to since the Sept. 28 announcement that Energy Transfer would purchase Williams for a transaction valued at approximately \$37.7 billion, including the assumption of debt and other liabilities.

High-level, it makes sense.

But the structure of the transaction put the deal in jeopardy from the beginning, Russell said, because stock prices are inherently volatile, and energy prices are the most volatile of all.

The deal, built on shaky ground from the get-go, is further aggravated by the abrupt decline in energy prices — which Russell points out no one could have predicted — and a whole slew of other factors.

I'm including the basic structure that ETE and Williams announced on Sept. 28 in a box.

But focus on this bit: "If all Williams' stockholders elect to receive all cash or all stock, then each share of Williams common stock would receive \$8.00 in cash and 1.5274 ETC common shares."

That scenario isn't necessarily the way a conversion for Williams shareholders would go because the deal's terms make it further complicated by proration, how many shareholders choose cash and how many shareholders choose stock, Russell said.

But using the 1.5 percent plus \$8 formula with ETE's closing price today yields a value of \$23.29. And that's far from Williams current value of \$18.29.

"When the company being taken over sells at a supreme discount to the takeover price, what you can conclude is a lot of people think the deal will fall through," Russell said.

And Williams stock is down 56 percent compared to the stock's closing value of \$41.60 on Sept. 25, the Friday before the merger with billionaire Kelcy Warren's Energy Transfer Equity was announced.

To continue Russell's metaphor, calling off the wedding wouldn't be painless. There's a breakup fee.

Williams Cos. may be on the hook to Energy Transfer Equity for nearly \$1.5 billion if the board of directors changes its mind and recommends a vote against the merger agreement.

"There are so many factors," Russell said. "The strength of large shareholders, the price of energy, the factor of the breakup fee. All of it highly aggravates the inherent uncertainty and the structure of the deal in the first place.

"Right now the arbitrageurs and insiders are saying, 'No, it (the deal) is not going to happen,' because of the discrepancy of the agreed-upon value and the prices on the NYSE. But who knows."



As stock prices drop, some Wall Street investors are questioning whether the Williams Cos. and Energy Transfer merger will take place. Tulsa World file

ETE and WMB merger

Deal terms that ETE and Williams released the morning of Sept. 28.

- Under the terms of the transaction, Energy Transfer Corp LP (“ETC”), 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” and/or cash.
- Elections to receive ETC common shares and cash will be subject to proration.
- Cash elections will be prorated to the extent they exceed \$6.05 billion in the aggregate and stock elections will be prorated to the extent the full \$6.05 billion cash pool is not utilized.
- Williams stockholders electing to receive stock consideration will receive a fixed exchange ratio of 1.8716 ETC common shares for each share of WMB common stock, before giving effect to proration.
- If all Williams’ stockholders elect to receive all cash or all stock, then each share of Williams common stock would receive \$8.00 in cash and 1.5274 ETC common shares.
- In addition, WMB stockholders will be entitled to a special one-time dividend of \$0.10 per WMB share to be paid immediately prior to the closing of the transaction. The special one-time dividend is in addition to the regularly scheduled WMB dividends to be paid before closing.