

## Analysts react to ETE private offering announcement

By CASEY SMITH World Business Writer | Posted: Friday, March 11, 2016 12:00 am

The private offering that Energy Transfer Equity disclosed Wednesday indicates just how tough of a liquidity position the Dallas-based company that is in a proposed merger agreement with Williams Cos. is in, according to local analysts.

“It’s really telling the same story that has been told from the day that the merger talks began and the agreement was final between the two companies,” said Tulsa-based money manager Fred Russell. “It underscores the tough liquidity position that ETE finds itself in.”

ETE announced Wednesday that it had executed a private offering of Series A Convertible Preferred Units with accredited investors. Under the plan, unitholders agreed to forgo a portion of their future potential cash distributions on common units for a period of up to nine fiscal quarters.

ETE issued 329,299,267 convertible units to the electing unitholders at the close of the offering. This represents the participation by common unitholders with respect to approximately 31.5 percent of ETE’s total outstanding common units.

Only accredited investors were able to participate in the plan. According to the filing, ETE initially intended to provide all of its common unitholders the opportunity to participate in the offering. However, Williams Cos. wouldn’t allow its accounting firm to consent to a public offering, the filing said.

The merger agreement between ETE and Williams requires each party to obtain the other party’s consent to take certain actions prior to the closing of the merger.

Russell, CEO of Fredric E. Russell Investment Management Co., said it's hard to say whether it was Williams itself or the company's CPAs who initiated the decision to close off this offering to anyone except accredited investors.

"It tells us that it's serious risk here," Russell said. "It's not only very complicated — given all of the debt that ETE has — it's just another reminder that there may be synergies from the ETE-Williams deal, but that those synergies don't come without a significant cost. And that cost is further debt and complications that debt always produces."

To be considered an accredited investor in the United States, Ying Qi and Qian Zhang, also with Fredric E. Russell Investment Management Co., said that one must have a net worth of at least \$1 million, excluding the value of one's primary residence.

To be eligible the investor must have earned at least \$200,000 each year for the last two years with the expectation of making at least the same amount in the current year.

"This is an offering for an exclusive group of sophisticated, affluent investors who are probably very close to Kelcy Warren and are impressed by his leadership and achievements and believe his success and acumen will continue," Russell said.

Keith Goddard, CEO of Tulsa-based Capital Advisors Inc., also said that the private offering seems to indicate that ETE is in a tough position financially.

"The message I take from this complex private deal is that ETE's balance sheet is stretched to the limit," Goddard said. "This isn't the kind of thing a company with a solid financial foundation needs to resort to. It's desperate in my opinion."

ETE is effectively selling about \$519 million worth of stock at \$6.56 per unit through the offering, Goddard said. At that stock price, the cost of capital for this \$519 million is more than 17 percent.

"Raising equity at a 17 percent cost of capital looks like desperation to me," Goddard said.

Goddard said it's unclear whether or not Williams' lack of consent might be due to a disagreement with the plan, or due to a lack of sufficient time to conduct the due diligence that the company felt would be needed before offering consent.

“If it is a lack of time, that wouldn’t reflect well on how quickly ETE felt they needed to push this through,” Goddard said.

Williams declined to comment on ETE’s announcement Wednesday, but on Thursday the company issued a statement that says the Williams board of directors remains open to working collaboratively with ETE.

“We are in support of ETE and Williams finding ways to strengthen the balance sheets of both companies. While we recognize that ETE has taken steps to finance the transaction, we had offered to work with ETE to develop a way of accomplishing this goal that is more beneficial for both companies’ investors,” the statement reads.

“Going forward, the Williams Board remains open to working collaboratively with ETE to enhance the financial profile of the combined company and provide benefits to all holders of the combined entity.”