TULSA WORLD

Casey Smith: Dramatic decline seen in Kelcy Warren's wealth

By CASEY SMITH World Business Writer | Posted: Tuesday, April 12, 2016 12:00 am

When Kelcy Warren invited Alan Armstrong to his home in May 2015 to discuss a potential combination of Energy Transfer Equity and Williams Cos., the Dallas billionaire had an estimated net worth of $6.9 billion.

On April 5, the day before Williams Cos. filed a lawsuit in Dallas County District Court alleging that Warren wrongfully interfered with the merger agreement executed on Sept. 28, the Energy Transfer executive had a net worth of approximately $1.85 billion — a 73 percent drop.

Those net worth estimates come from Forbes, which has been tracking the fortunes of the world's richest people for more than a quarter century. A couple of years ago, the news outlet began updating those wealth profiles in real-time, making adjustments as the price of public holdings changes.

And, oh, how the value of those public holdings has changed since Energy Transfer Equity and Williams finally solidified that merger agreement in September.

Market data from Google Finance show that prices for ETE and Williams stock fell 71 percent and 63 percent, respectively, between Sept. 25 (the last trading day before the merger agreement was announced) and Wednesday.

Sure, commodity prices have fallen during that period. But Qian Zhang, an analyst with Fredric E. Russell Investment Management Co., points out that the price of natural gas fell less than 30 percent over that period.

A significant drop, but not one that's near the 60 percent to 70 percent range.

Money manager Fred Russell said that he thinks the combination of down commodity prices combined with investor wariness about what the debt level of a combined ETE-Williams would look like is what has driven the large decline in stock prices we're seeing.

"They were going into panic mode, thinking this combined entity with all of this debt will face a very, very difficult situation," Russell said.

During fiscal year 2015, ETE had an operating income of $2.3 billion and an interest expense of $1.6 billion, Russell said, whereas Williams ended its year with an operating loss of $1.133 billion and an interest expense of $1.040 billion.

For contrast, Russell also described the situation at Helmerich & Payne, a Tulsa-based energy company known for its cautious attitude toward debt levels.

For H&P's 2015 fiscal year, the company recorded an operating income of $675.8 million with an interest expense of only $15 million.

The litigation Williams filed against Warren on Wednesday is a result of the private offering of Series A Convertible Preferred Units that ETE announced in March.

The units, which were made available to certain elite stockholders, were presented as a way for ETE to raise cash, but critics have described the deal as convoluted and stated that it is a way for Warren to protect his own wealth and the wealth of certain investors.

Those who participate in the private offering won't receive dividends for up to nine quarters, but after that period has passed they are guaranteed a payout. Regular investors, however, won't be guaranteed any amount of money — there has been increasing speculation that ETE could reduce its dividend payments over the short term or eliminate dividends completely.

Warren decided to have substantially all of his ETE common units participate in the private offering, according to the lawsuit, and his holdings alone account for nearly 60 percent of all ETE common units participating.

"Mr. Warren designed the Special Offering to guarantee himself at least $53 million every quarter (in some combination of cash and Aggregate Conversion Value) or well over $200 million every year-for the entire Plan Period," the lawsuit reads. "By contrast, Williams' stockholders, who will receive ETC common shares, will not be guaranteed any distributions and may well get none at all."

The lawsuit continues:

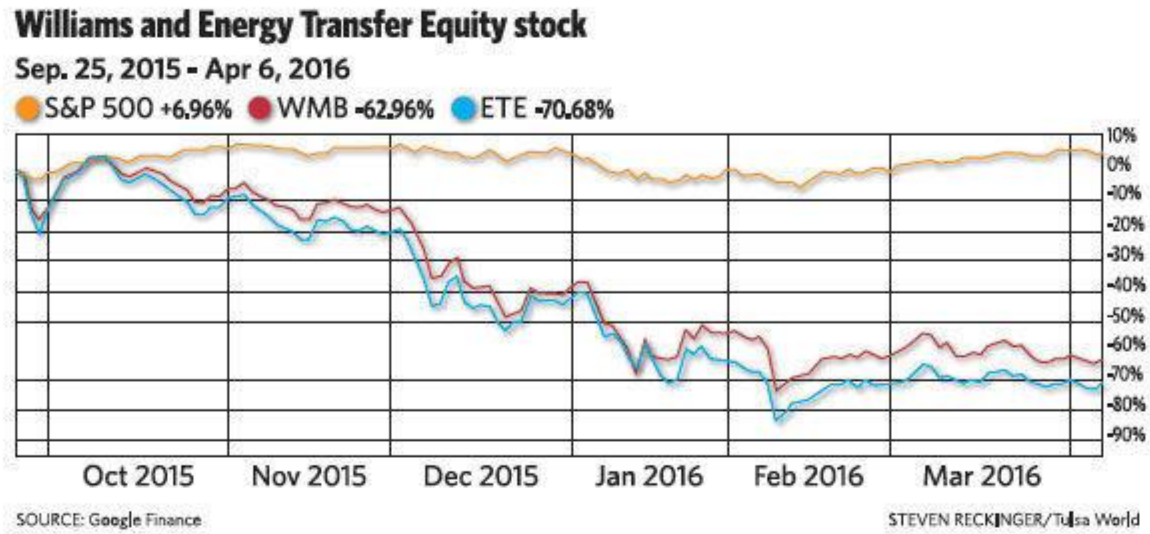
"In the current report on Fonn 8-K that ETE filed with the Securities and Exchange Commission (the "SEC") to announce the Special Offering on March 9, 2016 (the "8-K"), 2 ETE presented the Special Offering as a means to protect ETE's cash in an uncertain economic climate. However, this is a pretext. In reality, Mr. Warren is using difficult market conditions as cover to protect and expand his own economic interests to the tune of more than $200 million a year."

Williams is also suing ETE in the Delaware Court of the Chancery. ETE acknowledged both suits Wednesday, saying that the claims aren't true.

The lawsuits Wednesday actually ended up being positive for the prices of both companies, with a Seeking Alpha article stating that the drama further increases the odds of the deal crumbling.

Williams and ETE both enjoyed strong gains on Wednesday and Thursday, with ETE's price increasing 9.6 percent after trading closed Thursday and Williams' price increasing 6 percent. Prices for affiliate companies, Williams Partners and Energy Transfer Partners, increased 31.7 percent and 4.4 percent, respectively.

Warren was doing better post-suit as well. On Friday Forbes estimated his net worth was back up to $2.1 billion.



Williams and Energy Transfer Equity stock