

Eagle MLP Strategy Quick Note - November 2019

From the EGA Portfolio Management Team

NBLX Announces Purchase of NBL Assets/IDR Elimination

Noble Midstream Partners LP (NBLX) announced on November 15th an agreement to acquire the Partnership's incentive distribution rights (IDR's) and the remaining dropdown midstream assets of Noble Energy (NBL) for \$1.6 billion.

Eagle Takeaways:

- **Improved Ownership and Financial Alignment:**
 - NBL and NBLX Midstream ownership is better aligned because NBL no longer owns Incentive Distribution Rights. Instead, they own LP units. Also, NBL no longer disproportionately benefits from growing distributions at the expense of distributable cash flow coverage.
 - The purchase of the NBL dropdown assets by NBLX creates a better alignment of incentives between NBL drilling activity and NBLX midstream operations. NBLX is agnostic to NBL's drilling plan since it now owns 100% of midstream assets in all NBL focus areas.
 - Cost of capital is improved post simplification. With the removal of NBLX's incentive distribution rights, the marginal cost of equity improves by 18%.
- NBLX is paying an attractive valuation for the remaining NBL dropdown assets and Incentive Distribution Rights (8x Cash Flow). This is more attractive than precedent transactions which have occurred in the midstream universe over the last five years.
- Although NBLX is lowering its long-term distribution growth rate target to 10% annually (from 20%), the transaction has improved NBLX's leverage meaningfully. NBLX expects to exit 2020 with 3.1x leverage and targets 3.5x over the longer term.

Other Press Release Highlights:

- Management expects the transaction to be 5% accretive to NBLX's 2020 estimated distributable cash flow per unit.
- The \$250 million in Private Investment in Public Equity ("PIPE") increases common float by ~55%, which improves NBLX trading liquidity.

Curt Pabst
713-952-3550
cpabst@eagleglobal.com

David Chiaro
713-952-3550
dchiaro@eagleglobal.com