

Eagle MLP Strategy Quick Note - July 2020

From the EGA Portfolio Management Team

CNX Resources To Buy Remaining Shares in CNX Midstream

CNX Resources (CNX) announced a deal with CNX Midstream (CNXM) to acquire all of the ~42.1M outstanding CNXM units that CNX does not already own in exchange for CNX common stock valued at ~\$357 million. The exchange ratio of 0.88 CNX shares per CNXM common unit is based on a 15% premium to the average exchange ratio during the 30 trading day period ending on July 24, 2020.

Eagle Takeaways:

- While the timing was surprising, we believe the transaction makes sense given CNXM served little strategic value as a standalone entity for parent CNX since its IDRs were taken out earlier this year and capital market accessibility remains limited for midstream companies.
- The CNXM Board also announced a final \$0.50/unit cash distribution for record holders as of August 7, 2020 (versus the Q2 2020 estimate of \$.0829/unit) which we assume was declared to help offset any tax burden incurred by unit holders as a result of the transaction; the transaction will be a taxable event for CNXM unit holders.
- The exchange ratio represents a 28% premium (\$8.47/un) to the closing prices for CNX/CNXM on July 24th.

Why did we own CNXM?

Our position in CNXM was based on a view that Northeast natural gas production will remain resilient as associated gas volumes from crude oil basins decline due to COVID-19 related demand destruction. CNXM in particular also benefits from a relatively clean balance sheet with minimal long term firm transportation obligations.

Other Press Release Highlights:

- The targeted transaction closing date is in Q4 2020, with CNX's 53.1% ownership interest to be voted in favor of the deal.
- CNXM's remaining IDR-related payments will be eliminated while its midstream notes will remain outstanding.

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