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The Williams Cos., Inc. (WMB)

Jefferies Energy Conference

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MANAGEMENT DISCUSSION SECTION

Christopher Paul Sighinolfi
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Guys, we're on the clock so we're going to get started. Very pleased to announce our third mid-stream presentation of the day. We have with us Alan Armstrong, who is President and CEO of Williams. I see Don sitting over in the corner, too. So he's here for – they're both here to answer your questions. We are going to have a breakout. Alan informs me his presentation is probably going to take the full 25 minutes so don't be alarmed if there's no time for questions here. We're going to do a breakout down the hall in the [ph] John Jacob (00:30) room. It's the last door on your right.

So without further ado, Alan?

WMB 11/29/2016

Great. Thank you, Chris, and good morning, everyone. Really excited to be up here today telling the story on Williams, and particularly a lot of focus around natural gas. We very much are centered – our strategy is centered around natural gas, and so I'll get right into the presentation here. You've all seen forward-looking statements like those before and move right here to the key drivers for our business.

And so as I said, we really have – really doubled down on our belief in the growth in the natural gas market. We're really not dependent on price on natural gas, but we are extremely well positioned to take advantage of the growing natural gas. And so I'm going to speak a little bit this morning about some of the fundamentals that are driving our confidence in that. And then, as I move through, I'll boil it down into specific projects that show why we are so confident in how much of that market that we're capturing as Williams.

So just to give you a few stats around where we are today. We are about 30% of the U.S. natural gas today we handle on our systems. So we're extremely exposed to natural gas. And most all of our investment going forward is into the natural gas space. We are the largest gatherer in the Marcellus and the Utica, and that's not a small issue. And that can become very, very important as the natural gas demand starts to pick up along our interstate systems. And the Transco system, which most people are familiar with, that pipeline is pretty impressive. It's the

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largest natural gas pipeline in the U.S. It is also the fastest-growing interstate natural gas. That is no small feat to be both the largest and the faster growing. And in fact, from 2008 through 2018, we will have doubled the capacity on the nation's largest natural gas pipeline. And what that means for us is tremendous steady predictable cash flows.

We don't have any project right now on any of our intestates that are not fully contracted. Every single one, you'll see a long slew of projects. Every one of those projects is 100% contracted and tenured between 15 and 25 years. And so we have extremely predictable growth right now coming into our business as we continue to ramp up our focus on fee-based revenues. And we're moving with the sale of our Geismar asset that we plan to do next year. We'll be at about 97% of our gross margin is from fee-based sources. So we really are moving purely to a natural gas volume play and we think – as I go through the slides this morning, we think there's a good reason to believe in the fundamentals that are driving our business.

And so this is a picture, and a lot of this – the presentation and the thought is anchored around this. So, I'm going to spend just a moment around this. Look at the growth that occurred in the CAGR between – the growth that occurred in natural gas. If you look up there to the left, the gas price back in 2008 – this is kind of hard to remember, but in 2008, the gas prices was $8.90. And if you think you can call price, just think back to how much things have changed like that. And even on the back of that high-priced gas, look how much gas grew during this period at 2.9% CAGR from 2008 to 2016. And now, we're predicting, and this is actually Wood Mackenzie, and most of the independent consultants all have this same range of growth showing at 3.1% CAGR in growth between 16% and 20% on the backs of gas prices that is about a third of what we had in 2008.

And so where is that growth coming from? I think this is also very interesting and I think shows how conservative this forecast is. Look at the power growth. The power growth is in yellow there. This is showing no growth in power demand. And as you'll see on our slides, we are already capturing a lot of growth in power and in coal to gas conversion along our system. So we think this is extremely conservative and we think this forecast of 3.1% CAGR in the earnings period is actually very conservative. But I want to anchor on that for a minute because a lot of the growth in our basins is anchored around this in a comparison of this Wood Mac study. So it's important that you understand the drivers.

And really, the driver here is LNG export and industrials. On the industrial side, this is something that's sneaking up on people I will tell you, because we hear about the big LNG projects, we know how big they are, they're huge. When they come on, they're meaningful. There are 59 different industrial projects that are announced, permitted projects that are deriving that growth there on the industrial side in the purple. And you don't hear much about them because they're $150 million to $200 million a day increases. And even though they're permitted – and again, it's on the backs of that low-cost natural gas – you're not hearing about them just because they're in smaller increments. But this driver and this kind of growth rate, we're seeing much higher growth rate on our particular systems. This is across the domestic U.S., but let me move now into where we're positioned as Williams.

And so if you look at this slide, you can see the growth in blue is the supply growth, and you can see a 50% increase in expected growth coming out of the Northeast from the gas supply side, and a plus 3% or less than 10% growth in the Gulf Coast markets for gas but you can – sorry, in the production side. But you can see in the yellow there that's the expected demand growth that's coming from those areas. And Transco has the luxury of being connected into many of those spaces. In fact, on the LNG front, we are – the projects that are expected now to come on through 2020, which is pretty well understood, all four of those projects we are contracted to supply.

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So Cove Point, we're contracted to supply, Sabine, Freeport in Corpus Christi. We're contracted to supply all of those. And the reason we are is because we're connected in to all that cheap source of supply up in the Northeast, and that's really driving the growth on our system.

If you look at how we're positioned in the Northeast, you heard me mention a while ago that we are exposed to about 38% of the production in this, and that's through to the end of 2015. You can see here what is expected in terms of takeaway capacity with first the company-announced, so that dash line above there just sums up the company-announced projects. Wood MacKenzie then on their analysis does some haircutting of that, and some risking of that to get to that goal, but you can see the forecasted growth here for the Marcellus and the Utica is actually much, much lower than that. Again, even more conservative than the amount of takeaway capacity that is being built for the area.

And when you move into the areas that we're positioned in, this is an interesting chart because this takes all the sub-plays in each of these basins and looks at the areas that we're actually exposed to, and this is county by county in terms of the growth in these various areas. And you can see the production forecast that is served in counties that are served by our assets versus the other areas. And you can see Williams is positioned in all the right spots, in all the right acreage in the Marcellus and the Utica.

And even in the Haynesville, we are in the core in terms of our gathering system there in the Haynesville. And I would tell you, I think the Haynesville can play an interesting role because if these projects are delayed the way Wood MacKenzie is projecting them to be delayed, that demand that we've already contracted for, this isn't speculation on our part, it's already demand that we've contracted for on our system, is going to have to be met from somewhere. And if it's not going to come from the Marcellus and the Utica, it's very likely going to come from the Haynesville, and we've got the growth covered in that area as well in terms of our gathering system.

So we think we're extremely well positioned as the growth comes from these areas for Williams to capture that growth in our business. And the good news here is that very low incremental capital. We have spent a lot of the big capital in the Marcellus and the Utica and the Haynesville. And really, what we're talking about now is fairly low incremental capital investment to tie into our existing big backbones and big trunk systems that we've already got up there that – we've already built for the future and already has the capacity on. So very high incremental return in these supply areas.

As we look to the demand side, again, fully contracted. So when these projects go into service day one, we get paid for 100% of the expected EBITDA. There's no risking of that. That's the way the contracts work and those contracts again are between 15 and 25 years, so we're not having to guess. And the thing that should give you some confidence about the demand side that's going to be pulling those supplies we just talked about is the fact that these are very large obligations from these customers that meet the demand on their systems and they wouldn't be going – entering into those if they didn't have the business.

An interesting addition to this slide is you can see here of these contracted projects, the ones in yellow are either LDC expansion. So a lot – for instance, up in the the New York Bay expansion, a lot of that is people getting off of fuel oil on to natural gas so that's driving a lot of that growth. And then you see things like Virginia Southside II, which is a power plant, and then the Dalton Expansion is a combination of a power plant as well as expansion on the AGL or now Southern Systems as well.

So a lot of work going along our system expanding into both power generation and LDC expansion. As you move in to the southeast, and particularly the Gulf Coast, you can see the LNG projects there and you can see the purple is the St. James Supply. And that actually is one of the single largest industrial loads that is listed in the

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Wood Mackenzie study that I mentioned earlier looking at industrial supply. So we are capturing much more than our share of that 3.1% CAGR growth that you saw because our pipelines are – particularly Transco and Northwest are really in the right spot.

And a lot of people have said, well, gee this is all great and we get this and it's pretty easy to read through on this, but what about beyond that? We have 20 additional projects right now that are in the development stages that take advantage of this continued low growth on the system and very excited about those. And we'll continue to be announcing those projects as we bring those to fruition as well. The Atlantic Sunrise, as you can see there is both LNG as it serves Cove Point. About $350 million a day of that load goes to Cove Point, and the balance about another $1.35 billion comes down and serves market in the Southeast to companies like the Southern companies.

A lot of concern – and I think for good reason, a lot of concern has been expressed around the permitting status, and certainly, situations like the DAPL pipeline have got people's attention around permitting. I would tell you that the gas industry is a little different because it follows under the FERC regulation. And so it's under the Natural Gas Act, which means that you have to have it certificated, which means you have to have an EIS or an Environmental Impact Study done before you ever enter any of these big projects that we take to the FERC or a scale that they require in EIS.

And so, a lot of the issues have to be settled on the front end before you ever go to construction, and we think that's actually good because it keeps us from getting held up in the middle of construction. But things have been moving slow. The one project that we've hit a wall on and are in court on is constitution. But other than that – and that certainly get's a lot of attention – projects are moving pretty nicely. And you can see here we have five major projects right now under construction and those all went through the permitting processes. Some of them were fairly difficult. The Dalton expansion is in Georgia, and we don't really think of Georgia sometimes being somewhere hard to build. I can tell you, this one goes right up through Atlanta. It starts near the airport where our main line crosses just south of the airport and runs north up to the Tennessee border. And you can imagine there's a lot of heavily populated area there.

We had the Sierra Club actually come into federal courts and challenge us here about two weeks ago, and the courts have already said thanks, but no thanks. They did the process correctly, and we're not going to hear your complaint. And so we're really excited about the projects that are moving ahead. We actually saw some pretty positive movement in the second circuit. And on November 16, there was a hearing on the Constitution project in front of federal court and we got a lot of the things that we were hoping to get asked by the judges got asked. So I would tell you historically, we haven't been all that optimistic about winning some of those battles there but really like the way that the federal court hearing went there.

So a lot of things happening. Atlantic Sunrise is moving ahead. Very comfortable with what's going on there. The Governor Tom Wolf is extremely supportive of getting Atlantic Sunrise built. He wrote a letter to the legislator making it clear to them that he was highly supporting of getting it built. And so, unlike Constitution, where we had Governor Cuomo that was just dead set against any use of fossil fuels and any new expansions there. Governor Wolf understand how important getting all these gas reserves unlocked and getting the infrastructure built. And so the nice thing about Atlantic Sunrise, which I think a lot of – tons of people misunderstand. We've moving 1.7 Bcf out of that state, all the way into the Alabama pool markets, which is station 85. And that project, the only pipeline we have to build for that project is just in the state of Pennsylvania.

So we're getting to sell our capacity twice. Our capacity is sold got moving to the north to our typical LDC. And now we're turning around the zone capacity going to the south, and the only construction that we have to do on

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that is that mainline up in Pennsylvania. That's pretty rare these days to be able to make that big a move and that big a haul on transport just by building in the State of Pennsylvania.

And our team was smart in that regard. In fact, when that project first got developed, we actually were building pipeline in Maryland as part of that project and we had two options. We could put in more compression on our existing sites or we could build more pipeline. And the team chose to go with compression, because what in that was the only greenfield or only new construction we had to do off property that we don't own was in the State of Pennsylvania.

So you've seen all of this pushback on Cove Point in Maryland, and we felt like we would've faced a lot of that opposition. So a lot of kudos to our project developers who are really starting to think very creatively about where we can get things permitted, where we can't. And in this case, the team made a really nice call about limiting our pipeline construction on that project just to Pennsylvania, despite the fact that we're able to move gas all the way to Alabama with that project.

So we've certainly been focused ever since the energy transfer, merger terminated in June of this year. We've set out on repositioning the company. And you can see the long list of things that we've been taking on, a lot of great execution by the team. We're continuing to grow our cash flows in a very positive manner despite looking back and looking at the oil price decline, we're one of the few large MLPs that is really seeing some strong growth in our EBITDA during this period.

So let me move in to that. And so first of all, this is looking through 2015 and you can see here our fee-based revenues have doubled since 2011 with the list of all these projects that we've executed and invested in. And so – and moving against that, of course, is the NGL margin on the bottom there, and that's as crude oil prices fell and NGL prices felt that decline. But you can see, we well overcame that decline with the growth in our fee-based revenues through those projects.

And so that was through 2015, but now let's look at what that trajectory looks like more recently. Look at the blue line there. That is the adjusted EBITDA growth in our WPZ financials. Look at that growth and find me another major MLP that has seen that kind of growth in their EBITDA during this period just behind the crude oil price collapse. And so remember that November 14 is when OPEC and Saudi Arabia came out and said that they were going to not help everybody else out with price support anymore. And we saw crude oil prices starts to dive then, but despite that, you can see because our business is so focused on natural gas and the movement of natural gas, we're one of the few parties that's continued to grow.

And you can look at that number and you can see that that's more in terms of EBITDA and quarterly EBITDA, that's more than a 20% growth from Q1 to Q3 of 2016 as all of these projects have continued to come online for us. So really excited to see the kind of continued growth in our business here. And in some of that, I want to apologize for some of that has come through cost reduction and the team's done a really nice job.

A lot of that cost reduction has come on the fact that when we moved into the Northeast, we went hard end of the Northeast in the Marcellus and the Utica because we saw it was a very critical supply basin for Transco, and would allow Transco to expand off the backs of those supplies up there and be able to sell capacity in both directions. And so we knew we needed to be there. We invested very heavily there, and so when we first got up there I would tell you our focus wasn't on cost. Our focus really was on getting ourselves positioned up there. We've done that now and now we're really able to start to take some of the cost out of that business as we turn it to a more normal mode of operation.

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And so this is a picture of kind of where the stock price has been. And I'm going to explain to you my aspiration and expectation for where we're headed as a company. You can see over on the left hand chart there, Williams is in the dark blue there. And you can see in June of 2013, we had the Geismar explosion and so we fell below our peers during that period in terms of multiples, and this is enterprise value to EBITDA multiple, and you can see we fell below that. But then you can see after that, we're trading well above our peers in terms of multiple because people have really started to appreciate the natural gas strategy that we had.

And then the energy transfer announcement happened there in June of 2015, and you can see we've started moving well down below our peers in terms of that multiple all the way through February of 2016. So we went from being on a high horse to a low horse in terms of multiples against our peers. But you can see ever since June of 2016 when that merger terminated, we started to move back up and we should not be at the median. We should be well above our peers in this because we do have all this predictable growth and we've continued to grow our business in spite of lower commodity prices. And so really, our aspiration is to be in that top quartile which is really where we used to run up against our peers whose in that top quartile and we certainly expect to get back to that position as people begin to get refocused on the strength of our business and our strategy.

So just to close up here, our business, the key drivers really are around the growth in steady natural gas demand. We think it's very predictable. It's very hard to predict. I would argue, it's very hard to predict crude oil prices and crude oil – domestic crude oil growth. It's not so hard to predict natural gas demand because you don't go build an LNG plant overnight. It takes a long time. It takes a long time to build these industrial plants. It takes a long time to build these power plants and it's very predictable. You have to do a lot of study and a lot of work. We think Wood Mackenzie has done a nice job of that. And we are seeing – actually, if you look at the growth on our systems, it's well above – in terms of already contracting capacity, it's well above that CAGR growth, and we think that the Marcellus and Utica is going to have to come behind that to meet that supply. And when it does, we get it on both ends. So we get the demand growth via the investments in our pipeline, and we get the supply growth in terms of incremental volumes on our gathering system upstream with very little incremental capital on our part. So we really think as this gas market expands, Williams is really going to enjoy the benefits of that, and we don't think it's a very hard story to understand relative to crude oil prices or other commodity prices.

So that's our story. We're really excited to be where we are today. We think we've got the best assets. We've got an organization that's very excited about executing against our plan and we're working hard to do that. And with, we'll turn it over to questions.

Chris, are we going to the breakout room?

Christopher Paul Sighinolfi
Analyst, Jefferies LLC

We have a minute.

Alan S. Armstrong
President and Chief Executive Officer, The Williams Cos., Inc.

Okay. I'll take a minute worth of questions.

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QUESTION AND ANSWER SECTION

Alan S. Armstrong
President and Chief Executive Officer, The Williams Cos., Inc.

A

Yes, sir?

Q

Yeah. Can you talk about the Haynesville?

Alan S. Armstrong
President and Chief Executive Officer, The Williams Cos., Inc.

A

Right.

Q

If you're driving that supply-demand, and with the prices going up. I mean, what's the capacity that you have in the Haynesville to ramp up quickly if we do see a nice...

Alan S. Armstrong
President and Chief Executive Officer, The Williams Cos., Inc.

A

Yeah. We have the capacity there to-date of about 1.6 Bcf a day, and we're moving just under 1.2 Bcf a day there. So without – we'd have to spend money on well connects there, but the way our contracts is structured there, we don't have to put much of that capital in the well connect. So up to 1.6 Bcf, so another 400 million a day, there's very little capital on our part in Haynesville.

[Abrupt End]

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