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The Williams Cos., Inc. (WMB)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Good day, everyone, and welcome to The Williams and Williams Partners Update Conference Call. Today's conference is being recorded. And at this time, for opening remarks and introductions, I would like to turn the call over to Mr. John Porter, Head of Investor Relations. Please go ahead, sir.

John D. Porter
Head-Investor Relations, The Williams Cos., Inc.

Thanks, Jenny. Good afternoon and thank you for your interest in Williams and Williams Partners. This afternoon, we released important information regarding the financial repositioning steps we are taking to continue our long-term, sustainable growth as North America's premier natural gas infrastructure company. Our website has a related press release and the slide deck that our President and CEO, Alan Armstrong, will speak to momentarily. Our CFO, Don Chappel, is also here this afternoon.

Due to schedule constraints, we'll not be able to take questions on this call, but feel free to follow up with our Investor Relations team with any questions you might have. In our presentation materials, you will find an important disclaimer related to forward-looking statements. This disclaimer is important and integral to all of our remarks, and you should review it. Also included in our presentation materials are various non-GAAP measures that we reconcile to Generally Accepted Accounting Principles. These reconciliation schedules appear at the back of the presentation materials.

And so, with that, I'll turn it over to Alan Armstrong.

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

Great. Thank you, John, and good afternoon, everyone. I am going to tag team this with Don, and so I'll provide some opening comments, have Don walk through the particulars of the transaction, and then I'll follow up with the business rationale and a look forward. So, just to start off, very excited to be announcing this transaction. We felt like the uncertainty of the IDRs has been a detriment to the value of securities at both Williams and Williams Partners, and we think this move really puts us in a very strong position of both coverage at PZ, very strong credit metrics, and I think, undeniably, one of the best growth trajectories from operating cash flows in the business both in terms of what we've been able to do over the last 18 months, as well as what we have looking forward in terms of the business.

So, we're really excited to reposition the structure, and really take a lot of the guessing game out of the IDR load that we've developed. So, I would just say we feel like this again puts us in a strong point of coverage.

And importantly, I think very sustainable trajectory of distribution and dividend growth that is commensurate with the strong operating cash flow growth that we have coming from the business. And so, we've been working at this for quite some time. We've looked at a number of different alternatives, but we think, by far, this is the best path and the best step for us to take at this point. And so, with that, I'm going to ask Don to step through the transaction particulars, and then I'll come back and talk a little more about the benefits of that.

Donald R. Chappel

Chief Financial Officer & Senior Vice President, The Williams Cos., Inc.

Okay, great. Thanks, Alan. Let's turn to slide number 5, transaction rationale and highlights, again we've announced comprehensive measures that really enhance Williams' position as North America's premier natural gas infrastructure company, and really enable us to drive value for investors along with the growth opportunities, the very attractive growth opportunities we see in the business.

Importantly, we expect this transaction to significantly lower WPZ's cost of capital. Certainly, WPZ's cost of capital was high. I think we've all recognized that it was too high, and we believe the IDRs were a big part of that. Certainly, Williams has enjoyed the benefits of those IDRs over the years, but certainly, it's come to a point here where it was becoming more of a burden than a benefit. So, we've announced a permanent waiver of the IDRs, as well as a conversion of our 2% economic general partner interest into a non-economic interest, and right-sized the distribution payout and that will reduce WPZ's cost of equity.

So we think those are very important moves, and it will position WPZ as a very efficient financing vehicle for the Williams complex that's able to take advantage of the robust opportunity set that we see before us. It eliminates external equity financing needs, and the transaction is expected to eliminate any need for WPZ to access the public equity markets for the next several years, removing that capital market risk from WPZ's growth plans, we think that's very, very important.

I would be clear that The Williams is expected to no longer participate in the DRIP program, so Williams will cease to participate in the DRIP program immediately. And WPZ no longer has any plans to access the ATM market or other public equity markets. The transactions will enhance our growth outlook, and we're targeting annual distribution growth at WPZ of 5% to 7% annually over the next several years, and as well we're targeting annual dividend growth at Williams of about 10% to 15% annually over the next several years.

And I would just note that the Williams' growth rate is quite a bit higher than PZ in part, because we would be reducing coverage, and we're maintaining very robust coverage of Williams early on here, as we reduce some revolver debt at Williams. But as we reduce that debt, we will then turn to be able to put that excess cash flow back into the dividend that facilitates long-term, sustainable coverage, again looking at WPZ, we expect distribution coverage of 1.2 times or more in 2017 and maintaining a strong coverage in excess of 1.1 times thereafter.

And I would note that in calculating our coverage, we did reduce EBITDA in that DCF calculation by $240 million, which represents the non-cash EBITDA associated largely with the Barnett prepay of those MVCs. So – as well dividend coverage at Williams is expected to be 1.3 times in 2017, again without excess cash being used to pay down debt on our credit facility. And we would expect again to reduce that coverage in the future after we get that debt paydown to a level.

Let's focus on debt reduction, the transaction will enable a significant reduction of debt at WPZ, and we do have a meaningful amount of long-term debt that we can take out here in early 2017 including some callable ACMP bonds and some debt becomes due at PZ in the month of February. It significantly will improve WPZ's credit profile and solidify the investment grade ratings.

Again, we feel very strongly about the attractiveness of the set of transactions to credit and the reduced distribution, the strength and coverage, and the upfront equity raise, and the lack of the need to raise equity capital will be powerful factors in our ratings, and we're looking forward to the rating agencies making some statements with regard to these transactions.

I already spoke to the excess Williams coverage being used to reduce holding company debt. And again, we believe the transactions will provide continued strategic and financial flexibility, the simplified structure will increase transparency, and the dual MLP / C-corp structure will allow us maximum flexibility over time from both a strategic and a financial perspective.

Just to turn the page to slide number 6, summary business update. We believe talking about the business, our compelling market fundamentals, we have clear line of sight to strong growth in natural gas demand driven by LNG exports, industrial LDCs, power generation, Mexican exports, and other factors.

We're operating in the best supply basins, and we expect those supply basins to respond to this demand growth, and we'll be participating in a big way in relieving some of the infrastructure constraints, and that will drive our growth in volumes as well as projects.

And again, the natural gas market growth will really equal and drive Williams growth. I think it's not debatable that Williams has premier assets. I think we believe so, and I think we've heard from most of you the same thing. And our asset base is positioned for an outsized share of market growth led by Transco, but as well with very strong growth outlook in the Northeast, as well as in other areas of our portfolio.

Transco, the nation's largest and fastest growing pipeline, has an unrivaled proximity to very large growing markets in the Mid-Atlantic, southeast and Gulf Coast, and as well an abundance of projects, long-term contracted projects in those areas that provide again a clear line of sight to the growth in Transco over the next several years, as well we're largest gas gatherer in the fastest growing basin, that is the Marcellus and Utica with currently more than 6 Bcf a day of gathered volume.

Turning next to the focus on fee-based business and our advantaged position, we expect to be at 97% fee-based revenue, pro forma for the Geismar monetization process, and we're well along in that monetization process and we would expect to be able to announce a transaction late in the first quarter, with likely closing in the second quarter.

As well we have strong midstream franchises in the Northeast Marcellus, Southwest Marcellus, Utica, Haynesville, Rockies, San Juan, as well as the Deepwater Gulf of Mexico. Transco, Northwest Pipeline and Gulfstream interstate pipelines all fully contracted demand-pull natural gas transmission pipelines with very solid cash flow profiles and growth.

Finally, growing fully contracted, fee based revenue, again, I've already spoken to Transco, but we expect to double Transco's capacity contracted capacity during the period 2018, reaching over 16 Bcf a day of fully-contracted, long-term demand-charge expansion projects. And then, finally, strong production growth in the core G&P areas including Marcellus, Utica and Haynesville will round out our growth for many years to come. Back to Alan.

Alan S. Armstrong

President, Chief Executive Officer and Inside Director, The Williams Cos., Inc.

Great. Thank you very much, Don, appreciate you going over that. Just something we skipped over there on slide 4 as we described the transaction. You can see at the bottom of slide 4 there, we talk about the asset portfolio review, and we are targeting after-tax proceeds of a little more than $2 billion from asset monetizations, primarily that is Geismar.

We also have some NGL Petchem assets in and around the support of our olefins business there in the Gulf Coast, and as well we have some assets in the mid-continent area that do not have the typical scale and competitive advantages that we seek in our operations. And so, while those – balance of those are not very large, just further move towards very tight focus on our strategy and having very clean exposure to the natural gas volume growth that we are so well exposed to.

So, we really are trying to remove any and all distractions from what we think is by far the best long-haul assets in the business, and as well the very best positions in the gas supply basins, and we want to make sure that we've eliminated any distractions from that for the benefit of our shareholders. And so, as we go through asset monetization, that's a big part of that goal, as well as reducing leverage at the WPZ level.

I'm going to flip over to slide seven now, and looking at the key guidance metrics that we have there, first of all the WPZ EBITDA guidance, we're putting out the $4.6 billion number now for 2017. DCF of $2.8 billion, I'll remind you as Don did, that that excludes on the DCF line, that excludes about $240 million that's associated with earnings that we took the cash in for in 2016. Now we didn't record that cash in 2016 as DCF, and we're not reporting it in 2017 as DCF, but we want to have something that's sustainable and in line with the cash that we're actually taking in going forward here.

The distribution and growth rate starting out at $2.40 in L.P. unit with an annual growth rate, as Don pointed out, of 5% to 7%, and we think that's very healthy, and again, very much in line with the continued deleveraging of the business and the ability to grow the business on the back of debt rather than equity for the next several years and within our planning horizon.

On the cash coverage ratio, approximately 1.2 times here in 2017 or better, and again, that's reduced for that DCF measure that I just mentioned. And then on the growth CapEx side, total at WPZ of $2.1 billion to $2.8 billion. The range I would tell you is largely driven by deciding on final timing of construction on Atlantic Sunrise, and how much of that gets done in 2017 versus 2018, as well as some of the gathering build-out that's relatively small, but some gathering build-out in the Northeast that comes in behind Atlantic Sunrise and fills in volumes for customers like Cabot.

On the leverage side of WPZ, there, less than 4.5 times in 2017, and again, that's a rating agency version of that number, it will be a little bit of – that number, if it was on a book basis, it would look a little bit better than that, but that is on a rating agency adjusted number.

On the WMB side, excited to announce a 50% increase in the dividend to $1.20 with a 10% to 15% annual growth rate, and initially, that excess coverage of 1.3 will be used to take down some additional [ph] consolidated (15:36) debt at the WMB level, and in 2017, we would be targeting less than $5.25 for the debt to EBITDA metric, again on a credit rating agency basis for that number.

So, really excited to get the business in a position here where we have very strong financial metrics against our peers in terms of coverage, in terms of credit metrics, and in terms of the underlying growth of our business, and we really think this puts us in a very strong position relative as a comp to our peers.

And if you move on to slide 8, I would tell you this is an item I keep a very close eye on, is how we're trading from an EV to EBITDA multiple, and you can see that historically, we've enjoyed some pretty attractive position relative to the peer group, and then post the ETE transaction, we fell well below that, falling about two times below that.

We've made a little bit of ground back on that but not near enough, and so, we really think, given the strength of our business and the clear trajectory of growth in our business that's associated with the strong fundamentals behind natural gas, domestic natural gas volume growth, we really believe that we ought to be trading at the top of our group and certainly not below it.

And so, this is a goal that we certainly have, as we look forward is to move back up to trading above our peers instead of below our peers on this multiple basis, and we think getting ourselves in this very stable and strong financial position is a key element of that, so very excited about that.

Moving on to slide 9, just to summarize here, getting rid of the uncertainty associated with the IDR, getting to a very sustainable and clear cash flow payout, reducing our cost of equity. As Don pointed out, we don't plan on using that equity here for the next several years because we – this equity issuance, along with the debt capacity that we're going to be building with strong improving cash flows, takes care of our needs for the next several years. And so, we're excited about that. The distribution growth rate we just talked about, and importantly, really moving away from any dependence on equity either through DRIP, ATM, or an outright issuance of equity.

We certainly think this puts us in a strong position for WPZ's investment grade rating. And we think because we have outperformed what we told the rating agencies last summer, both in terms of operating cash flow, in terms of execution on the Canadian asset sale, and in terms of reducing our exposure to Chesapeake from a little over 20% down to 13%, and putting Total's credit in the place of Chesapeake's into Barnett, we think all of those things are very positive versus what we told the rating agency.

And we think even further, moving forward to sell Geismar, reduces our exposure to commodities. We really get to the point where we have very highly predictable cash flow streams coming from this business, and we think puts us in a position to really move up the scale from a credit rating standpoint, as we moved forward both on the strength of our business mix and the low risk business mix that we have, as well as the positive movement against the actual metric itself.

We continue to strengthen our asset portfolio as we always do, and really narrowing it down to the assets, they're going to drive the most value for our shareholders. And then finally, I would just say, we think that getting to this very sustainable growth rate with for years to come is very powerful, and we think completely repositions the value proposition for the Williams Partners and WMB stakeholders, and that is really what we are trying to get to is really a very predictable both in terms of coverage and credit backing this, as well as identifiable growth in our business.

So, with that, that concludes our presentation. And we appreciate your time this afternoon, and look forward to successful equity offering. Thank you.

Operator: And again, that does conclude the call. We would like to thank everyone for the participation, and you may now disconnect.