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NS - NuStar Energy LP Conference Call to Discuss its Definitive Agreement to Acquire Navigator Energy Services, LLC

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NuStar Energy L.P. Acquisition of Navigator Energy Services, LLC Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Mr. Chris Russell, Treasurer and Vice President of Investor Relations. Sir, you may begin.

Chris Russell - *NuStar Energy L.P. - VP of IR for NuStar GP LLC and Treasurer of IR for NuStar GP LLC*

Thank you, Skyler. Good morning, everyone, and welcome to our conference call to discuss our announcement yesterday that NuStar Energy L.P. entered into a definitive agreement to acquire Navigator Energy Services, LLC. On the call today are Brad Barron, NuStar Energy L.P. and NuStar GP Holdings, LLC's President and CEO; and Tom Shoaf, Executive Vice President and CFO, along with other members of our management team.

Before we get started, we'd like to remind you, during this conference call, NuStar management will make statements about our views concerning the future performance of NuStar that are forward-looking statements. These statements are subject to the various risks, uncertainties and assumptions described in our filings with the Securities and Exchange Commission. Actual results may differ materially from those described in the forward-looking statements.

Before I turn the call over to Brad, I want to advise you, those participating on this call, that due to our recently announced equity offering, we will not be able to have a Q&A session after the call.

Now I'm going to turn the call over to Brad.

Bradley C. Barron - *NuStar Energy L.P. - CEO of NuStar GP LLC, President of NuStar GP LLC and Director of NuStar GP LLC*

Thanks, Chris. Good morning. Thank you for joining today. This morning, I'm very glad to report we've entered into a definitive agreement to acquire Navigator Energy Services, LLC for approximately \$1.475 billion. We expect to close on the transaction in the second quarter of 2017, subject to regulatory approvals and customary closing conditions.

Before I get into the details of the transaction, I'd first like to set the stage for why this acquisition makes sense for NuStar. For the last 3 years, we've been focused on de-risking our business, refocusing on our core pipeline of storage business, restoring our distribution coverage and strengthening our balance sheet. With solid execution by our management team and our employees, we've now set the stage for future growth.

It's been no secret that we've been actively searching for a way to break into the Permian basin, which currently represents approximately 40% of all U.S. onshore rig activity. For the past 18 months or so, we've actively looked at opportunities in the Permian but for one reason or another, they've not met our acquisition criteria or they included assets that were either too risky or outside of our core areas of expertise.

So I'm very excited about this significant acquisition because it will not only mark our entry into the Permian, but it's also an acquisition that is right down our fairway. And it complements our existing portfolio. Simply put, these assets couldn't be a better fit for NuStar.

This acquisition provides us a strong growth platform that when coupled with our existing Eagle Ford system will solidify our presence in 2 of the most prolific basins in the United States. In addition, this deal makes sense for us for a few very important reasons.

First, the Navigator assets are located in 5 of the 6 most prolific counties in the Midland Basin. So not only would this be considered first-tier acreage, what we're talking about here is the core of the core of the Midland Basin. Second, we're very impressed with the quality of the build. These are mostly new build assets, and our operations team is very impressed with their physical construction.

The thought that went into the planning and development is quite impressive. They're built and interconnected to strategically maximize current demand and allow for future expansion. Also, the contracts and terms and tenor of the system are first-rate.

The Navigator assets are consistent with our existing crude oil operations and that there's no first purchasing or gas processing exposure. Additionally, we expect these assets will provide significant growth prospects through volume ramp from existing producers with bolt-on acquisitions and larger takeaway capacity opportunities.

But most importantly, these assets are diversified with a high-quality producer portfolio and attractive, long-term, fee-based contracts. Of the 16 producers shipping on the gathering system today, 50% are publicly held and 70% are pure-play Permian producers.

Before I get into the financing plans for this acquisition, I'd like to first go over with you some more detail on the asset themselves. As I mentioned, the Navigator system is located in 5 of the 6 most active counties in the Midland Basin, one of the most economic, resilient and fastest-growing basins in the United States. These counties have some of the lowest breakeven values of any counties in the country.

The system has a fully integrated crude platform with over 500 miles of pipeline and 412,000 barrels per day of capacity -- storage capacity -- it's just capacity, sorry, and 1 million barrels of storage. It also has a pipeline gathering with over 500,000 dedicated acres and additional 500,000 of undedicated acreage opportunities adjacent to the system. In addition, there's also 4.7 million acres of areas of mutual interest or AMI for certain producer customers.

Again, these are all new well-built assets so expect minimal annual maintenance CapEx. The system also has attractive downstream market delivery access to Midland, Colorado City and Big Spring. The main pipeline system is structured with long-term, fixed-fee contracts with approximately 74,000 barrels per day of ship-or-pay volume commitment and a nearly 7-year average contract life spread across 9 customers.

The pipeline gathering contract portfolio has an average life of over 10 years, and the 440,000 barrels of contracted storage has an average life of nearly 7 years. We expect rapid volume growth in the system later this year and in 2018 and beyond, which we expect to be driven by existing customers. We also expect further upside potential as the industry continues to improve its drilling results and technology.

We will also have opportunities to expand the system organically and bolt-on future acquisitions and possibly develop larger takeaway capacity projects, including a solution that could link the Navigator system all the way to our docks in Corpus Christi, Texas, by where -- way of our existing Eagle Ford operations.

To finance the \$1.475 billion purchase price of the Navigator assets, we plan to access the capital markets through a combination of equity and debt offerings, which will be consistent with NuStar's targeted credit profile.

When we announced this acquisition yesterday, we also announced our public offering of 10.5 million common units, which due to high demand has since been upsized to 12.5 million common units and will raise approximately \$580 million of gross proceeds. Proceeds from this offering will be used to partially fund the purchase price for this acquisition.

In the coming weeks, we plan to seek additional financing to fund the balance of the acquisition via 2 more capital market transactions. We also have a committed bridge financing facility in place from Mizuho Bank to backstop our capital markets activity. Although we have no plans to use that facility, it is available if conditions in the capital markets were to deteriorate.



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Additionally, our general partner, NuStar GP Holdings, LLC, has demonstrated their strong support for the transaction by agreeing to forego all incentive distribution rights or IDRs to which it would be entitled from any NuStar Energy L.P. common equity issuances for a period of 10 quarters from the date of the acquisition which will be capped at \$22 million.

I want to emphasize that no IDRs on existing units will be impacted. This would only relate to the IDRs on any new units starting on the day that we signed the acquisition agreement, which was yesterday.

The purchase price, when coupled with modest future growth CapEx to build out the system, results in a high single-digit multiple as volumes ramp over time, which we believe is in line with previous Permian transactions. It's important to note this estimate does not consider any upside growth through new customers, projects or bolt-on opportunities.

Over the next 5 years, we expect to spend a couple of hundred million dollars in growth capital on the system. This spending will allow us to increase the pipeline capacity of the system.

By the time of the first quarter conference call in just a few weeks, we will update you on our guidance on our existing base business and economics in regard to the acquisition. As you can see, we're excited about the opportunities this acquisition brings to NuStar, and we're equally excited to announce this next platform for growth for the partnership.

As Chris mentioned at the beginning of the call, we're in active equity process so we're not taking Q&A. But I do want to finish by saying this is a transformative acquisition for NuStar, and we look forward to welcoming the Navigator employees and customers to the NuStar family. Thank you for your time.

Chris Russell - NuStar Energy L.P. - VP of IR for NuStar GP LLC and Treasurer of IR for NuStar GP LLC

Skyler, back over to you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone have a great day.

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