Trust the Numbers, Not Just Management

"How Simple Financial Statement Analysis Could Save Your Clients Big"

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About Valuentum Securities

Valuentum (val·u·n·tum) [val-yoo-en-tuh-m] Securities Inc. is an independent investment research provider, offering premium equity reports and dividend reports, as well as commentary across all sectors/companies, a Best Ideas Newsletter (spanning market caps, asset classes), a Dividend Growth Newsletter, modeling tools/products, and more. Independence and integrity remain our core, and we strive to be a champion of the investor. Valuentum is based in the Chicagoland area.

Valuentum serves money-management institutions, financial advisors, and individual investors.

About the Principal

Brian Nelson is the President of Equity Research and ETF Analysis at Valuentum Securities. Before founding Valuentum in early 2011, Mr. Nelson worked as a director at Morningstar, where he was responsible for training and methodology development within the firm's equity and credit research department. Prior to that position, he served as a senior industrials securities analyst, covering aerospace, airlines, construction and environmental services companies. Before joining Morningstar in February 2006, Mr. Nelson worked for a small capitalization fund covering a variety of sectors for an aggressive growth investment management firm in Chicago. He holds a Bachelor's degree in finance and a minor in mathematics, magna cum laude, from Benedictine University. Mr. Nelson has an MBA from the University of Chicago Booth School of Business and also holds the Chartered Financial Analyst (CFA) designation.

Agenda

1) Recapping the Kinder Morgan Call
    a) Discrepancies in the Financial Statements
    b) Considering the Magnitude of Key Sensitivities
    c) Assessing Credit Quality in Reported Fashion
    d) Determining Valuation in the Correct Context

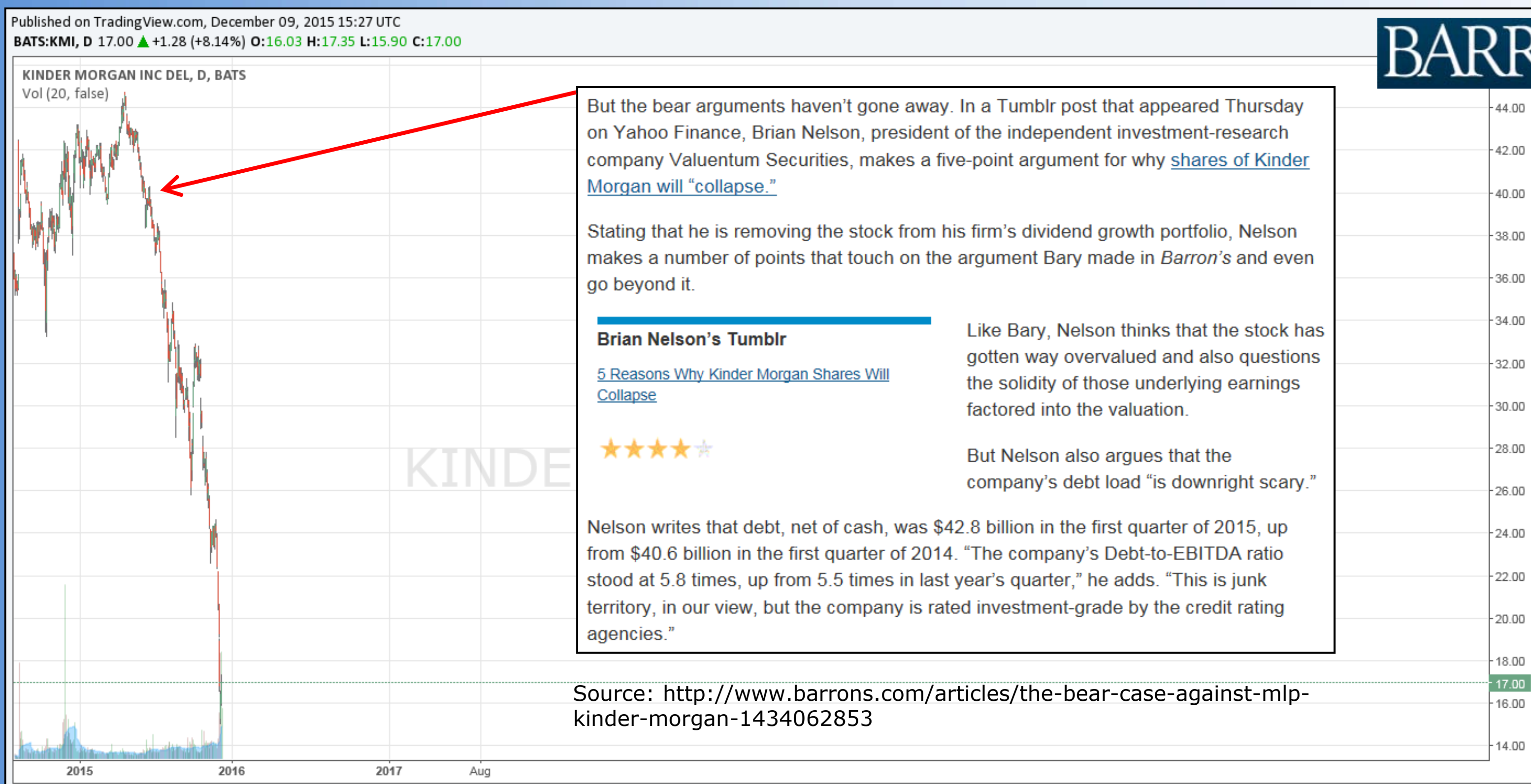
2) Understanding the Great Pipeline Cash Shortfall
    a) Overleveraged and Insufficient Free Cash Flow
    b) MLPs Are Systematically Mispriced
    c) Which Ones Will Be Next To Cut?

3) Thoughts on Uncovering the Next "Big Fall"

“The Bear Case Against Kinder Morgan” – Barron’s, Jun 11 2015

“5 Reasons Why We Think Kinder Morgan’s Shares Will Collapse,” by Valuentum

BARRON’S (1)



But the bear arguments haven’t gone away. In a Tumblr post that appeared Thursday on Yahoo Finance, Brian Nelson, president of the independent investment-research company Valuentum Securities, makes a five-point argument for why shares of Kinder Morgan will “collapse.”

Stating that he is removing the stock from his firm’s dividend growth portfolio, Nelson makes a number of points that touch on the argument Bary made in *Barron’s* and even go beyond it.

Brian Nelson’s Tumblr

5 Reasons Why Kinder Morgan Shares Will Collapse

★★★★☆

Like Bary, Nelson thinks that the stock has gotten way overvalued and also questions the solidity of those underlying earnings factored into the valuation.

But Nelson also argues that the company’s debt load “is downright scary.”

Nelson writes that debt, net of cash, was $42.8 billion in the first quarter of 2015, up from $40.6 billion in the first quarter of 2014. “The company’s Debt-to-EBITDA ratio stood at 5.8 times, up from 5.5 times in last year’s quarter,” he adds. “This is junk territory, in our view, but the company is rated investment-grade by the credit rating agencies.”

Source: http://www.barrons.com/articles/the-bear-case-against-mlp-kinder-morgan-1434062853

(1) Barron’s is not affiliated with Valuentum. The Barron’s logo and name are registered trademarks of Dow Jones & Company.

The “10 Reasons” of the KMI Call – released June 2015

1) The valuation paradigm has changed.
2) Kinder Morgan's dividend growth endeavors will disappoint.
3) The company's net debt load is $40+ billion.
4) The company is trading at 40+ forward earnings.
5) The natural reaction from shareholders will be skepticism and disbelief.
6) Kinder Morgan's dividend is in part organic, in part financially-engineered.
7) The traditional "blind" use of the dividend discount model does not apply to Kinder Morgan.
8) The company's implied leverage is 19 times after considering all cash, debt-like commitments, at least in the eyes of shareholders.
9) Bondholders will start to care. Equity holders will start to care. They will - and then it all unravels.
10) Highly-publicized insider purchases are not a sign of support, in the case of Kinder Morgan, but an admission of vulnerability.

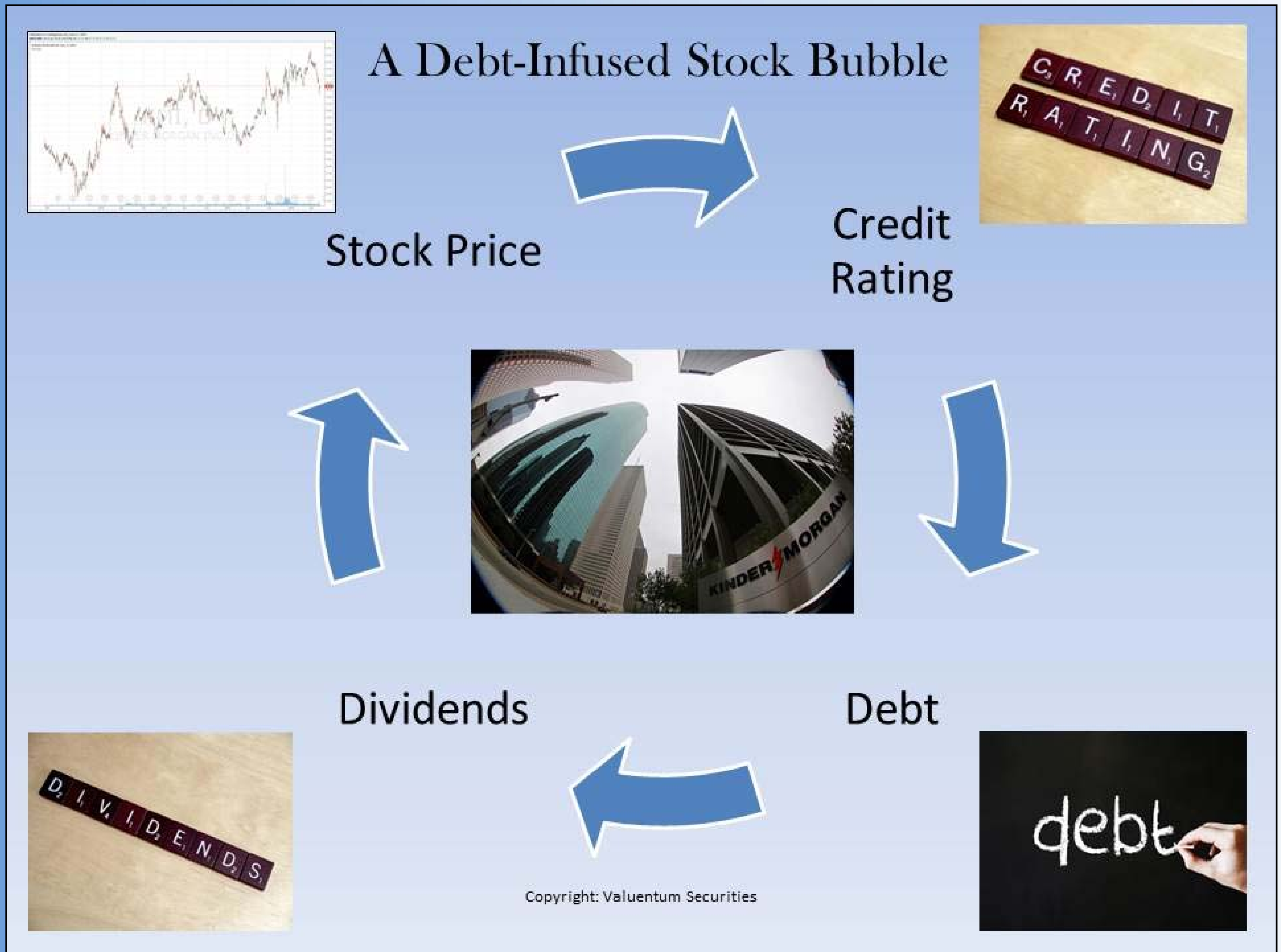


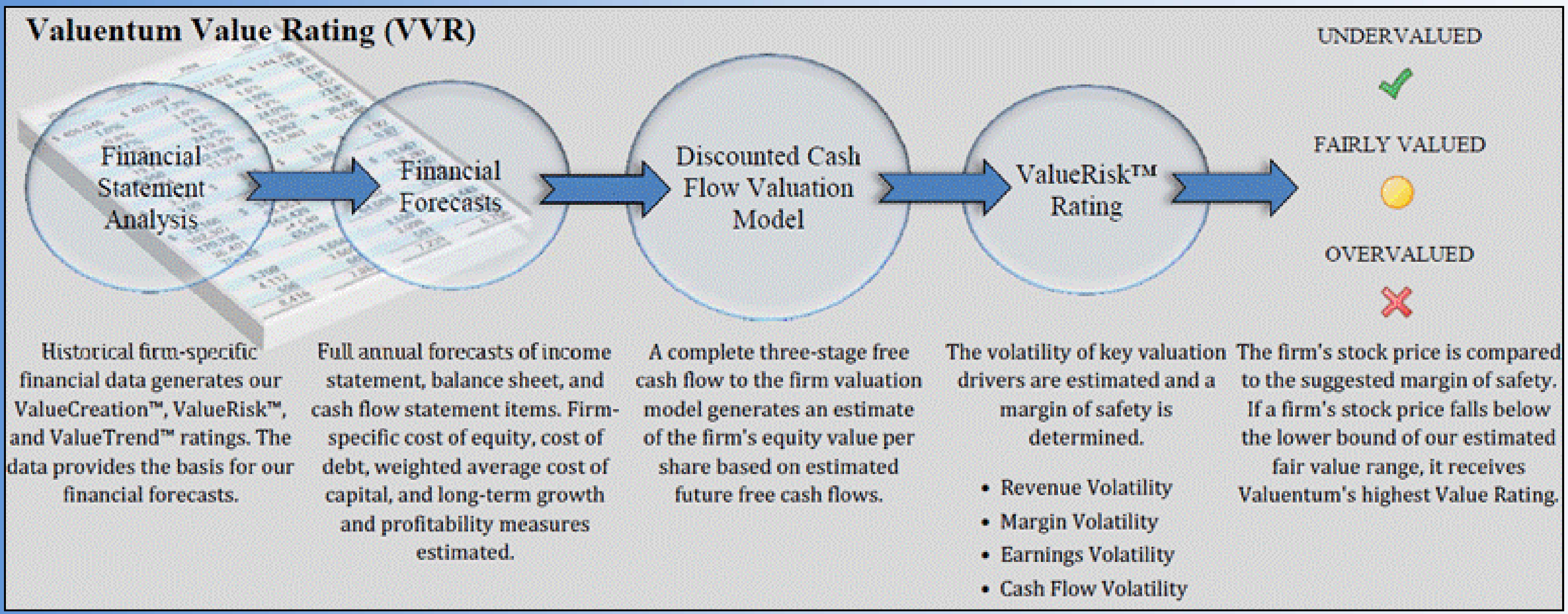
Image Sources: Roy Luck, Simon Cunningham, Images Money, Trading View. No alteration has been performed on the pictures.

From: *“5 More Reasons Why We Think Kinder Morgan’s Shares Will Collapse”*

“A fresh, unbiased voice is saying: ‘Your stock is trading at ~100 times the trailing 3-year average of free cash flow, ~40+ times forward earnings, the company has implied leverage of 19 times after considering all of your cash, debt-like commitments, and it has negligible cash on the books. Yet ‘everybody’ loves both your equity and your debt?’ Clearly, something is wrong.”

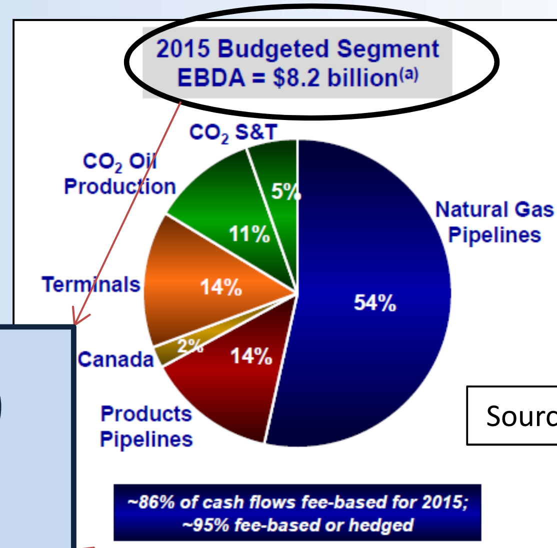
– June 2015, Brian Nelson, CFA

Understanding the Financial Statements

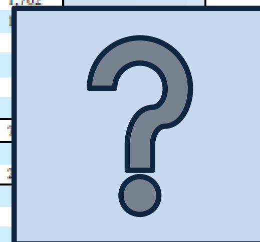


KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Millions, Except Per Share Amounts)

	Year Ended December 31, 2014	2013	2012
Revenues			
Natural gas sales	$ 4,115	$ 3,605	$ 2,511
Services	7,650	6,677	5,013
Product sales and other	4,461	3,788	2,449
Total Revenues	16,226	14,070	9,973
Operating Costs, Expenses and Other			
Costs of sales	6,278	5,253	3,057
Operations and maintenance	2,157	2,112	1,702
Depreciation, depletion and amortization	2,040	1,806	
General and administrative	610	613	
Taxes, other than income taxes	418	395	
Loss on impairments of long-lived assets	272	—	
Other expense (income), net	3	(99)	
Total Operating Costs, Expenses and Other	11,778	10,080	
Operating Income	4,448	3,990	
Other Income (Expense)			
Earnings from equity investments	406	327	
Amortization of excess cost of equity investments	(45)	(39)	(23)
Interest, net			
Gain on remeasurement of previously held equity investments to fair value (Note 3)			
Gain on sale of investments in Express pipeline system (Note 3)			
Other, net			
Total Other Income (Expense)			
Income from Continuing Operations Before Income Taxes			
Income Tax Expense			
Income from Continuing Operations			
Discontinued Operations (Note 3)			
Income from operations of the FTC Natural Gas Pipelines disposal group and other, net of tax			
Loss on sale and the remeasurement of the FTC Natural Gas Pipelines disposal group to fair value, net of tax			
Loss from Discontinued Operations, Net of Tax			
Net Income			
Net Income Attributable to Noncontrolling Interests			
Net Income Attributable to Kinder Morgan, Inc.			



Source: KMI



	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Revenues				
Natural gas sales	$ 744	$ 1,043	$ 2,206	$ 3,154
Services	2,015	2,050	5,948	5,655
Product sales and other	948	1,198	2,613	3,466
Total Revenues	3,707	4,291	10,767	12,275
Operating Costs, Expenses and Other				
Costs of sales	1,106	1,642	3,281	4,895
Operations and maintenance	612	557	1,707	1,580
Depreciation, depletion and amortization	617	520	1,725	1,518
General and administrative	160	135	540	461
Taxes, other than income taxes	108	105	339	326
Loss on impairments and disposals of long-lived assets, net	385	—	489	3
Other income, net	(2)	—	(5)	—
Total Operating Costs, Expenses and Other	2,986	2,959	8,076	8,783
Operating Income	721	1,332	2,691	3,492

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions, Except Share and Per Share Amounts)

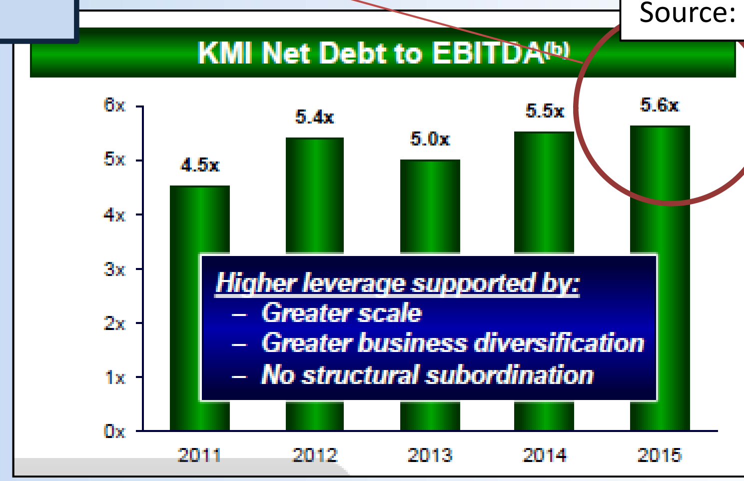
	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 315	$ 598
Accounts receivable, net	1,641	1,721
Fair value of derivative contracts	535	116
Inventories	459	430
Deferred income taxes	56	567
Other current assets	746	436
Total current assets	3,752	3,868
Property, plant and equipment, net	38,564	35,847
Investments	6,036	[illegible]
Goodwill	24,654	[illegible]
Other intangibles, net	2,302	[illegible]
Deferred income taxes	5,651	[illegible]
Deferred charges and other assets	2,239	[illegible]
Total Assets	$ 83,198	$ [illegible]
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of debt	$ 2,717	$ 2,306
Accounts payable	1,588	1,676
Accrued interest	637	565
Accrued contingencies	383	584
Other current liabilities	1,037	944
Total current liabilities	6,362	6,075
Long-term liabilities and deferred credits		
Long-term debt		
Outstanding	38,212	31,810
Preferred interest in general partner of KMP	100	100
Debt fair value adjustments	1,934	1,977
Total long-term debt	40,246	33,887
Deferred income taxes	—	4,651
Other long-term liabilities and deferred credits	2,164	2,287
Total long-term liabilities and deferred credits	42,410	40,825
Total Liabilities	$ 48,772	$ 46,900

2015 Annualized Reported EBITDA = $5.9b

2014 Total Short and Long-term Debt = $43b
Q3'15 Total Short and Long-term Debt = $44.6b

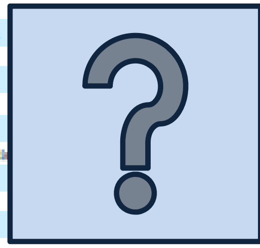
2014 Total Debt/EBITDA = 7.3x
Q3'15 Total Debt/EBITDA = 7.6x

Source: KMI



KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	Year Ended December 31, 2014	2013	2012
Cash Flows From Operating Activities			
Net income	$ 2,443	$ 2,692	$ 427
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization	2,040	1,806	1,426
Deferred income taxes	615	640	47
Amortization of excess cost of equity investments	45	39	23
Loss on impairments of long-lived assets	272	—	—
(Gain) loss from the remeasurement of net assets to fair value and the sale of discontinued operations (net of cash selling expenses), net of tax (Note 3)	—	(556)	[illegible]
Gain from sale of investments in Express pipeline system (Note 3)	—	(224)	[illegible]
Loss on early extinguishment of debt	—	—	[illegible]
Noncash compensation expense on settlement of EP stock awards	—	—	[illegible]
Earnings from equity investments	(406)	(327)	[illegible]
Distributions from equity investment earnings	381	398	[illegible]
Proceeds from termination of interest rate swap agreements	—	96	[illegible]
Pension contributions and noncash pension benefit credits	(88)	(120)	[illegible]
Changes in components of working capital, net of the effects of acqui[illegible]			
Accounts receivable	(84)	(131)	[illegible]
Income tax receivable	(195)	—	[illegible]
Inventories	(30)	(53)	[illegible]
Other current assets	(31)	(24)	[illegible]
Accounts payable	(1)	(36)	[illegible]
Accrued interest	75	42	[illegible]
Accrued contingencies and other current liabilities	108	(100)	[illegible]
Rate reparations, refunds and other litigation reserve adjustments	(280)	174	[illegible]
Other, net	(397)	(194)	31
Net Cash Provided by Operating Activities	4,467	4,122	2,808
Cash Flows From Investing Activities			
Acquisition of EP, net of $6,581 cash acquired (Note 3)	—	—	(4,970)
Acquisitions of other assets and investments, net of cash acquired	(1,388)	(292)	(83)
Proceeds from sales of assets and investments	—	490	—
Proceeds from disposal of discontinued operations (Note 3)	—	—	1,791
Capital expenditures	[illegible]	[illegible]	[illegible]
Sale or casualty of property, plant and equipment, investments and other net assets, net of remo[illegible]	[illegible]	[illegible]	[illegible]
Contributions to investments	[illegible]	[illegible]	[illegible]
Distributions from equity investments in excess of cumulative earnings	[illegible]	[illegible]	[illegible]
Other, net	[illegible]	[illegible]	[illegible]
Net Cash Used in Investing Activities	[illegible]	[illegible]	[illegible]



Free Cash Flow
2012: $786m
2013: $753m
2014: $850m

Cash Dividends Paid
2012: $2.4b
2013: $3.3b
2014: $3.8b

Free Cash Flow Less Dividends Paid < $0

Growth capital	2015 Forecast	2015 Budget
Natural Gas Pipelines	$ 1,390	$ 2,002
CO_2 - S&T	175	713
CO_2 - EOR	459	524
Products Pipelines	454	327
Terminals	880	731
KM Canada	117	84
Subtotal - growth capital excl. large acq. [a]	3,474	4,381
Hiland acquisition	3,058	-
Total growth capital	$ 6,533	$ 4,381

Source: KMI

2015 Budget

- **KMI 2015 budgeted dividend of $2.00 per share**
  - 15% growth over 2014
  - Excess dividend coverage of ~$654 million

Current Outlook

- **KMI 2015 dividend of $2.00 per share**
  - Excess dividend coverage of ~$300 million
- **Preliminary 2016 dividend per share growth projection of 6-10% over 2015**

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Your Rich Uncle and Your Poor Cousin

The Dividend Cushion Ratio Helps Income Investors

$$\frac{\sum_{t=1}^{5}[A(t) - B(t)] + C(0) - D(0)}{\sum_{t=1}^{5} E(t)}$$

A = cash flow from operations (from the operating section of the cash flow statement),
B = capital expenditures or additions to property plant and equipment (from the investing section of the cash flow statement),
C = cash and cash equivalents (from the balance sheet),
D = long-term debt (from the balance sheet), and
E = cash dividends paid (from the financing section of the cash flow statement).

"All else equal, a firm with billions of net cash on the balance sheet is better positioned to keep paying a dividend than a firm with billions of net debt on the balance sheet. More cash on the books relative to debt reveals significantly more financial flexibility. The dividend payout ratio ignores this important concept, while the Dividend Cushion ratio embraces it." – Valuentum's Brian Nelson, CFA

Considering Key Sensitivities

1) Meaningful Commodity Price Exposure…
   → Changes in operating income are more severe
2) Hedges Are Rolling Off…
   → Exposure getting worse
3) Material Interest Rate Risk!
   → Contractionary monetary policy?!?!

$1/Bbl change in oil price = $10 million DCF impact; 10¢/MMBtu change in natural gas price = $3 million DCF impact

Source: KMI

CO_2

- 33% CO_2 transport and sales
- 67% oil production-related
  - Production hedged:

	Hedged[b]	Avg. Px.
2015	88%	$78
2016	79%	$72
2017	58%	$73
2018	45%	$75
2019	24%	$66

Our large amount of variable rate debt makes us vulnerable to increases in interest rates.

As of December 31, 2014, approximately $11 billion of our approximately $41 billion of consolidated debt (excluding debt fair value adjustments) was subject to variable interest rates, either as short-term or long-term debt of variable rate debt obligations, or as long-term fixed-rate debt effectively converted to variable rates through the use of interest rate swaps.

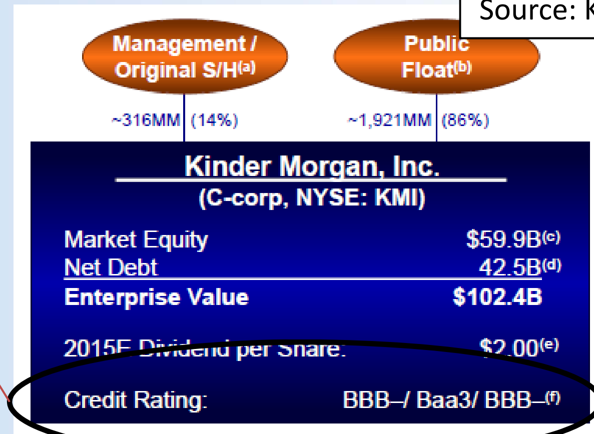
31

Assessing Credit Quality in Reported Fashion

Long-term Debt Maturities(c,e)

2015(f)	$	715
2016	$	1,667
2017	$	3,041
2018	$	2,310
2019	$	2,800

Source: KMI



	EBITA / Average Assets	Operating Margin	EBITA Margin	EBITA / Interest Expense	(FFO+Int Expense) / Interest Expense	Reported Debt/EBITDA	Debt/Book Cap	FFO/Debt	RCF / Net Debt	Capex / Depreciation	Rev Volatility
Aaa	25.8%	16.9%	20.2%	24.5	20.0	0.5	20.1%	126.6%	271.9%	1.1	9.3
Aa	19.7%	12.4%	15.2%	17.5	16.9	0.7	25.9%	82.8%	97.3%	1.7	7.8
A	19.5%	19.2%	24.3%	14.2	13.3	1.4	47.7%	56.6%	69.4%	1.8	6.4
Baa	13.0%	20.4%	21.4%	8.4	9.0	1.7	39.9%	43.0%	37.6%	2.1	13.2
Ba	11.1%	27.3%	29.0%	4.3	6.2	2.3	45.0%	30.4%	26.8%	1.8	17.2
B	8.1%	13.8%	14.9%	2.2	4.1	3.8	55.4%	18.6%	16.5%	1.5	19.7
Caa-C	7.3%	14.0%	15.8%	1.8	4.5	3.0	51.4%	27.3%	28.8%	2.7	25.1
KMI (2014)	8.2%	27.4%	40.0%	3.6	3.5	6.6	55.5%	10.4%	1.6%	1.8	15.5
	Junk	Junk	IG	Junk	Junk	Junk	Junk	Junk	Junk	IG/Junk	IG/Junk

Source: Moody's Financial Metrics™ Key Ratios by Rating and Industry for Global Non-Financial Corporations, December 2007, Kinder Morgan regulatory filings

Determining Valuation in the Correct Context

Valuation Assumptions		
In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	2.6%	
Avg. EBIT Margin %	30.2%	
Avg. Cash Tax Rate %	21.0%	
Earnings Before Interest CAGR %	19.6%	
Earnings Per Share CAGR %	5.9%	
Free Cash Flow to the Firm CAGR %	68.6%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	1.8% (II)	3% (III)
Cost of Equity %	8.5%	
After-tax Cost of Debt %	6.6%	
Discount Rate (WACC) %	7.5%	
Synthetic credit spread = 4%	Results	
Phase I Present Value	12,638	
Phase II Present Value	32,431	
Phase III Present Value	32,913	
Total Firm Value	77,982	
Net Balance Sheet Impact*	-34,225	
Total Equity Value	43,757	
Diluted Shares Outstanding	2,158.0	
Fair Value per Share	$20.00	

* The net balance sheet impact includes a present-value ~$3 billion boost related to cash taxes, which we do not expect KMI to pay for the next 5 years.

KMI Rating History	Price	Fair Value	VBI
7-Dec-15	$15.72	$20.00	5
29-Oct-15	$27.20	$26.00	5
14-Aug-15	$33.96	$29.00	3
19-Jun-15	$39.54	$29.00	1
5-Jun-15	$40.40	$36.00	3
30-Jan-15	$41.05	$42.00	3
3-Oct-14	$38.86	$41.00	6
12-Sep-14	$37.76	$42.00	6
23-May-14	$33.68	$34.00	7
10-Jan-14	$35.90	$36.00	6
		$41.00	3
		$41.00	6
		$39.00	6
		$39.00	3

VBI Score	Potential Action
10	Top Pick
9	We'd Consider Buying
6 to 8	Constructive (tactical add / trim)
3 to 6	Less Exciting (tactical add / trim)
1 to 2	We'd Consider Selling

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The Cost of Capital

- **New long-term hurdle rate for accretion = ~4% after-tax**
  - Analyst Day Hurdle Rate: 50% equity[a] x 4.1% yield[b]
    + 50% debt[a] x 2.4%[c] cost of debt
    = 3.3% hurdle rate

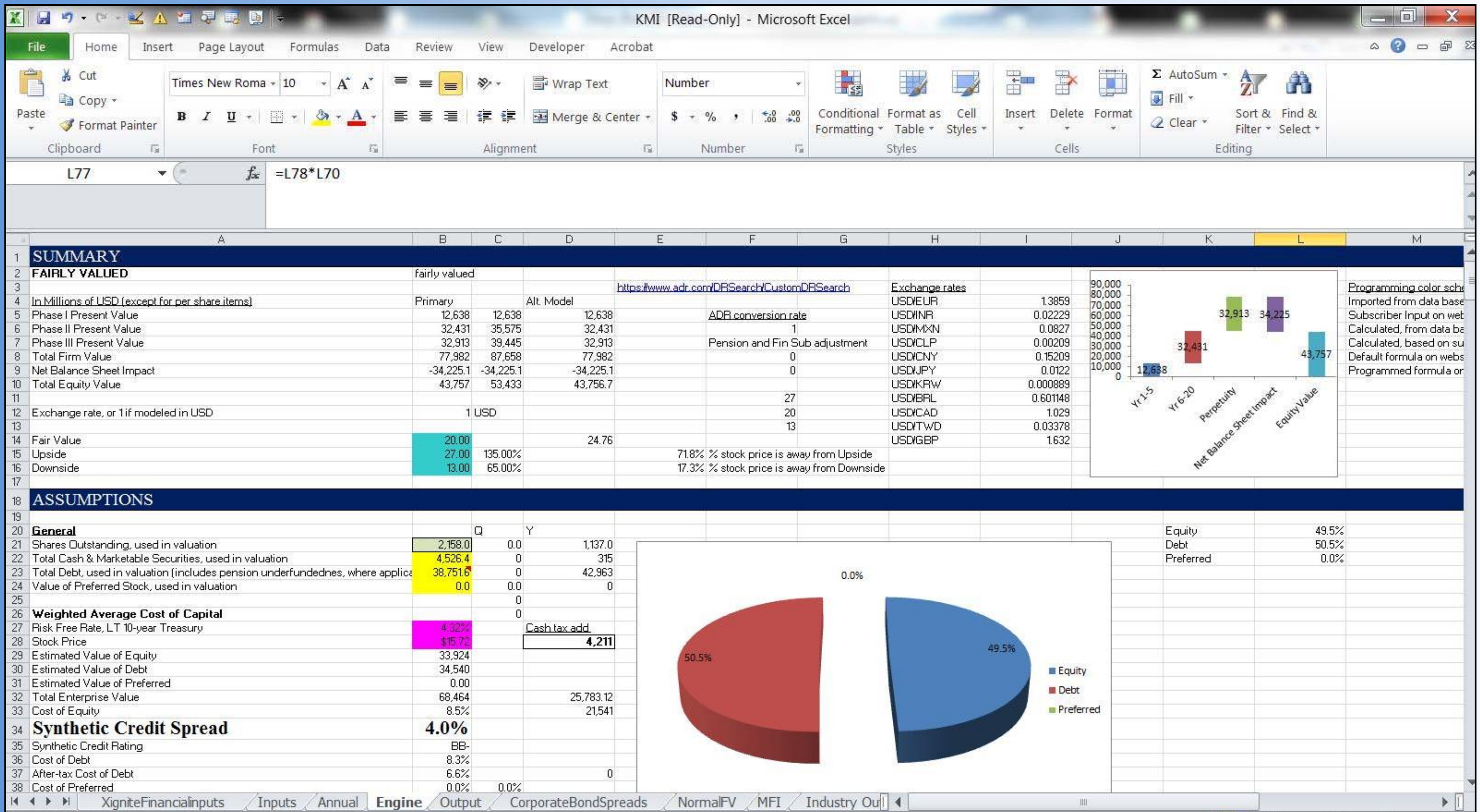
Source: KMI

Management Guidance

"In our discounted cash-flow models that we use to value every non-financial operating company in our coverage universe, we match the duration of future free cash flows (from year 1 to perpetuity) with expectations of the average discount rate over this forecast horizon (from year 1 to perpetuity). We think the best way to achieve expectations of the long-term future average rate of the 10-year Treasury (risk free rate) is to use the weighted average of the historical 10-year Treasury and the current spot rate. The goal of using a weighted average risk free rate in our DCF process is to achieve balance with respect to the duration of future cash flows. For example, discounting a cash flow in Year 20 at the current spot rate doesn't make much sense to us. Other methods consider the yield curve in discounting future free cash flows, or use a long-term average of the risk free rate without considering near-term changes in the 10-year Treasury rate. We think the use of the spot rate on the 10-year Treasury as the risk free rate in any valuation model would not only cause significant fair-value volatility but also result in a systematic overvaluation of companies relative to their true long-term intrinsic worth. "

LT Avg. Risk free rate + Spread Over 10-year = ~8%-10% weighted average cost of capital

Rigors of the Valuentum Process



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The Midstream MLP "Fallout" Continues

"Most, if not all, MLPs report distributable cash flow (DCF), which does not in the calculation consider growth capex, an important driver behind the generation of increased cash flow from operations in the future. When MLPs report distribution coverage ratios, this particular calculation also backs out growth capex from the equation, instead using only 'sustaining capital expenditures.'

There are a number of contractual reasons why the data is presented in such a way, but from a valuation standpoint, we've always taken an issue with the MLP universe being implicitly valued on a future distributable cash flow stream that "covers" the distribution than on future free operating cash flow, which is a better measure of the free operating cash flow that a business generates.

The reason why free operating cash flow is more informative is quite straightforward. Distributable cash flow does not deduct the investment associated with driving future growth in an MLP's cash flow from operations. Said differently, it's like getting a free pass on all of the future growth spending that is required to drive incremental cash flow from operations, a severe imbalance in the valuation equation.

In valuing MLPs, we've circumvented the valuation imbalance by making the universal assumption that MLPs will continue to have access to the capital markets and that they will be able to issue equity and/or debt in such a way that is not value-destructive. Said differently, in our valuation models, we give MLPs credit for the future growth in cash flow from operations without deducting the growth capex that is required to drive it. We disclose this dynamic in every one of our 16-page reports within the MLP space."

– "5 Reasons Why We Expect Kinder Morgan's Shares to Collapse"

The Great Pipeline Cash Shortfall

Updated August 11, 2015 - Through the First Half of Calendar 2015 - $ mil							
	Adjusted Reported EBITDA	Cash from Operating Activities (CFO)	Total Capital Expenditures	Dividends Distributions	Free Cash Flow after Dividends, Distributions	Net Debt	Net Debt/ Annualized Adj EBITDA
Linn Energy (LINE)	517.0	673.5	-416.3	-212.6	44.6	10,320.6	10.0
Legacy Partners (LGCY)	46.4	0.21	-23.7	-76.1	-99.6	962.4	10.4
Energy Transfer Equity (ETE)	2,520.0	1,113.0	-4,181.0	-1,642.0	-4,710.0	33,187.0	6.6
Kinder Morgan (KMI)	3,182.0	2,538.0	-1,909.0	-2,006.0	-1,377.0	44,390.0	**7.0**
Spectra Energy (SE)	1,333.0	1,456.0	-989.0	-499.0	-32.0	13,413.0	5.0
Williams Co (WMB)	1,474.0	1,483.0	-1,654.0	-1,338.0	-1,509.0	21,459.0	**7.3**
Boardwalk Pipeline (BWP)	371.3	285.5	-136.3	-50.4	98.8	3,474.3	4.7
Buckeye Partners (BPL)	392.2	291.6	-298.4	-293.9	-300.7	3,775.3	4.8
CONE Midstream (CNNX) (1)	52.9	60.5	-138.2	-25.4	-103.1	22.8	0.2
DCP Midstream (DPM)	148.0	350.0	-194.0	-241.0	-85.0	2,388.0	**8.1**
Energy Transfer (ETP)	2,476.0	1,133.0	-4,143.0	-1,751.0	-4,761.0	27,458.0	5.5
EnLink Midstream (ENLK)	313.0	292.3	-349.2	-278.1	-335.0	2,819.1	4.5
Enterprise Products (EPD)	2,471.2	1,901.6	-1,638.0	-1,462.1	-1,198.5	21,695.8	4.4
EQT Midstream Partners (EQM)	238.3	239.1	-208.9	-117.3	-87.1	804.0	1.7
Genesis Energy (GEL)	109.5	71.1	-240.6	-117.3	-286.9	1,676.3	**7.7**
Magellan Midstream (MMP)	509.7	414.8	-275.8	-321.2	-182.3	3,297.9	3.2
Plains All American (PAA)	795.0	660.0	-1,031.0	-810.0	-1,181.0	10,024.0	**6.3**
Spectra Energy Partners (SEP)	779.0	731.0	-604.0	-459.0	-332.0	5,997.0	3.8
Tallgrass Energy Partners (TEP)	123.0	112.2	-49.5	-67.1	-4.4	704.2	2.9
Western Gas Partners (WES)	381.0	301.5	-338.2	-259.2	-296.0	2,589.3	3.4

(1) Unaudited; pending 10-Q.

VALUENTUM

Systematically Mispriced

"In the illustrative example that follows which includes both growth capital spending and a marginal cost of capital of 10%, holders of MLPs will have to wait years before the intrinsic value of the security catches up to the present market price (comparison shown in orange). Said differently, units in this example are significantly overpriced in today's market.

– Brian Nelson, CFA

How MLPs Want to Be "Priced"

	2012A	2013A	2014A	2015E	2016E	2017E	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P
DCF + Maintenance Capital Exp.	604	746	958	965	1,023	1,084	1,138	1,195	1,255	1,280	1,306	1,332	1,359	1,386	1,414	1,442
- Maintenance Capital Exp.	64	76	78	85	88	90	93	96	99	101	103	105	107	109	111	113
Distributable Cash Flow (DCF)	540	670	880	880	935	994	1,046	1,100	1,157	1,180	1,203	1,227	1,252	1,277	1,303	1,329
YoY %		24.1%	31.5%	-0.1%	6.3%	6.3%	5.2%	5.2%	5.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Distributions	403	475	569	675	783	869	956	1,004	1,054	1,075	1,097	1,119	1,141	1,164	1,187	1,211
DCF/Distributions	1.3	1.4	1.5	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Market Capitalization @ 6% DCF yield				**14,667**	17,048	18,071	18,975	19,924	20,920	21,338	21,765	22,200	22,644	23,097	23,559	**22,144**
Market Capitalization @ 8% DCF yield				11,000	11,692	12,426	13,070	13,747	14,458	14,747	15,042	15,343	15,650	15,963	16,282	16,608
Market Capitalization @ 10% DCF yield				8,800	9,354	9,941	10,456	10,997	11,566	11,798	12,034	12,274	12,520	12,770	13,026	13,286

How MLPs Should Be Valued

	2012A	2013A	2014A	2015E	2016E	2017E	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P
DCF + Maintenance Capital Exp.	604	746	958	965	1,023	1,084	1,138	1,195	1,255	1,280	1,306	1,332	1,359	1,386	1,414	1,442
Reconciliation to EBI	-52	-41	16	-65	-69	-73	-77	-81	-85	-86	-88	-90	-92	-93	-95	-97
Earnings before Interest (EBI), @ 0% tax	552	705	974	900	954	1,011	1,062	1,115	1,171	1,194	1,218	1,242	1,267	1,292	1,318	1,345
- Maintenance Capital Exp.	64	76	78	85	88	90	93	96	99	101	103	105	107	109	111	113
- Growth Capital Exp.	290	308	289	465	462	460	457	454	0	0	0	0	0	0	0	0
Return on New Invested Capital (RONIC)					12%	12%	11%	12%	12%							
+ Depreciation	128	142	162	165	170	175	180	185	189	192	196	200	204	208	213	217
Free Cash Flow to the Firm (FCFF)	326	464	770	515	574	636	692	750	1,261	1,286	1,312	1,338	1,365	1,392	1,420	1,448
YoY %		42.2%	66.0%	-33.1%	11.5%	10.8%	8.7%	8.4%	68.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
PV of FCFF, @ 10% WACC (long-term)				468	474	478	473	466	712	660	612	567	526	488	452	420
PV of Terminal Value @ 2% growth																5,349
PV of FCFF, incl Terminal Value + reinvested cash @ 10% CAGR				12,144	13,359	14,695	16,164	17,781	19,559	21,515	23,666	26,033	28,636	31,499	34,649	38,114
- (Net Debt + accumulated distributions)				3,298	4,081	4,950	5,906	6,910	7,964	9,039	10,136	11,254	12,395	13,559	14,746	15,957
Intrinsic Value of Security				**8,847**	**9,278**	**9,745**	**10,258**	**10,871**	**11,595**	**12,476**	**13,530**	**14,778**	**16,241**	**17,941**	**19,904**	**22,158**
Current Market Price of Security				15,500	Takeaway: MLPs are significantly overpriced today.											

Notes

1) The intrinsic value calculation uses a conservative 10% hurdle rate for new projects. In the context of the long-term average yield on the 10-year Treasury note, 1962-2014 of ~6.5% and the implied equity risk premium on Oct. 1, 2015 = 6.63%, source: Damodaron, this can be considered a conservative measure over the long haul.

2) The present value of future free cash flows to the firm (FCFF) is increased annually by the discount rate, which assumes cash accumulated is invested at a 10% compound annual return, a very generous assumption.

3) Since the publishing of the latest edition of this slide, the long-term growth rate of this illustration was lowered to 2% from 3% to better account for a growth rate, in the absent of expansion capex, utility commissions may allow. The framework assumes annual pricing increases of 2% into perpetuity.

4) The analysis assumes no pipelines will ever have to be completely replace/overhauled, but only maintained into perpetuity, arguably the most generous assumption. If an MLP has to completely replace a pipeline with new 'growth' capex, the economics of the business model breaks down.

Which Major Midstream MLP Is Most At Risk for a Distribution Cut?

1) Plains All American (PAA)
   a) Leverage and Free Cash Flow Trends
   b) Two well-publicized ruptures

2) Energy Transfer Equity (ETE)/Energy Transfer Partners (ETP)
   a) Market may demand more debt-friendly activities
   b) Overleveraged, acquisitive, and massive dividend obligations

Valuentum Proprietary Data for MLPs

1) Fair Value Estimates

   Note: For MLPs, we do not deduct growth capital in the valuation equation. We believe our fair value estimates would be substantially lower in the event that we did. The low end of the fair value range is a better approximate for most MLPs, in our view.

2) Dividend Cushion Ratios

   Note: For MLPs, we provide a raw, unadjusted Dividend Cushion ratio and an adjusted Dividend Cushion ratio. The unadjusted ratio should be relied upon in periods of capital-market uncertainty.

Thoughts on the Next “Big Fall”

“The market can remain irrational longer than you can remain solvent.”
– John Maynard Keynes

1) We’re not advocates of naked “short selling.”
2) The Kinder Morgan call was rather unique – focused on extensive equity and credit analysis, not on “finding fire.”
3) For ideas that we think are poised to decline materially in coming years, the Valuentum Buying Index can be used as an idea generator.
4) For example, Kinder Morgan registered a 1, the lowest rating on the VBI, just before shares collapsed.

Stocks Registering a Rating of 1 on the Valuentum Buying Index

Amazon.com	AMZN	Internet & Catalog Retail	1	$439.00
Bright Horizons Family	BFAM	Personal Services	1	$49.00
Brown-Forman	BF.B	Beverages - alcoholic	1	$65.00
Hyatt	H	Hotels	1	$39.00
J&J Snack	JJSF	Food Products	1	$76.00
Manhattan Associates Inc	MANH	Software	1	$34.00
Mettler-Toledo	MTD	Medical Instruments	1	$231.00
National Beverage	FIZZ	Beverages - nonalcoholic	1	$22.00
Neogen	NEOG	Diagnostic Substances	1	$40.00
Netflix	NFLX	Specialty Retailers	1	$59.00
NewMarket	NEU	Chemicals - mid/small	1	$311.00
Rollins	ROL	Chemicals - mid/small	1	$19.00
Starbucks	SBUX	Restaurants - Fast Food & Coffee	1	$47.00
Stonemor	STON	Personal Services	1	$17.00
Under Armour	UA	Luxury - Established Brands	1	$56.00

Ratings as of April 26, 2016.

Competitive Advantages of Valuentum's Approach

- Independent - NO conflicts of interest
- Integrity and systematic application of analytical process
- Comprehensive equity research provider – from value through momentum investing
- Breadth and depth of coverage
- Commitment to expanding coverage
- Strong performance track record
- Fair value estimates for all firms under coverage
- Unique cash-flow based dividend growth process
- Valuation expertise

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