

Two Examples Revealing the Power of the MLP General Partner

Tetra Technologies (TTI) is a small oil and gas services company. Small cap energy was perhaps the least pleasant place to be invested since last Summer, and TTI's stock duly fell from \$13 last Summer to \$5 recently (it closed on Friday at \$5.38). TTI owns 42% of Compressco LP (CCLP), an MLP that provides compression services all along the natural gas value chain from the wellhead to gathering and processing, storage and distribution. The value of TTI's LP interest in CCLP is \$230MM based on Friday's market prices. However, TTI also owns the General Partner (GP) for CCLP. Although the GP Incentive Distribution Rights that TTI received was less than \$1MM in 2014, CCLP's growing cashflows will soon be lifting TTI's split up towards the 50% maximum of CCLP's Distributable Cash Flow (DCF). CCLP has a conservative 1.7X coverage on its distribution. But based on the outlook for its DCF growth, we think these IDRs could soon be generating \$20MM annually for TTI. Applying a 30X multiple (a reasonable assessment for GP IDR cashflows) values just TTI's GP interest in CCLP at around \$575MM. That's without including any value for the 42% of LP units that TTI already owns, or TTI's other energy services businesses. TTI expects its LP interest in CCLP to generate \$32MM in DCF in 2015. This is worth \$400MM, or \$5 a share at TTI's multiple or at CCLP's current price, which seems undervalued with an 11% yield and 1.7x coverage, \$244M (about \$3 per share of TTI).

TTI's current Enterprise Value (EV) is \$834MM and its market cap is \$432MM. GAAP accounting requires that TTI consolidate CCLP's debt on its balance sheet although CCLP's debt is not guaranteed by TTI. On this basis TTI's EV is \$1.3BN, and likely makes TTI's balance sheet appear more leveraged than it

will soon when the GP IDRs start generating more cash.

TTI has a legacy E&P business (Maritech) that has been a significant drag, but they should be finished with its remaining liabilities this year. The rest of TTI's business should be able to generate around \$80MM in free cash flow annually. We think we could be close to an inflection point in CCLP's ability to generate increasing cashflows which will reveal the value in the IDR's TTI owns as they move up to higher splits. We think TTI has substantial upside from current levels. Although TTI is not traditionally regarded as an MLP GP, much of its potential upside comes from that element of its valuation.

Another interesting transaction that took place earlier in the week concerned the acquisition by Western Gas (WES) of Anadarko's (APC) 50% interest in the Delaware Basin JV gathering system. APC is WES's sponsor. What's unusual about this deal is WES doesn't have to pay for the assets it's acquiring until 2020. At that time, it will pay eight times average 2018-19 EBITDA less capex. WES will receive cash from its newly acquired assets immediately, and of course so will Western Gas Equity Partners (WGP), the GP of WES that is still 88% owned by APC. Paying for something in the future at a reasonable multiple based on its performance while enjoying cashflows immediately doesn't happen every day, and in this case required the benevolent control of WES by APC. WGP benefitted without having to contribute any capital to the transaction, once again illustrating the power of the GP.

We are invested in TTI and WGP.