Targa Acquiring Lucid Energy for $3.55 Billion

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Questions?
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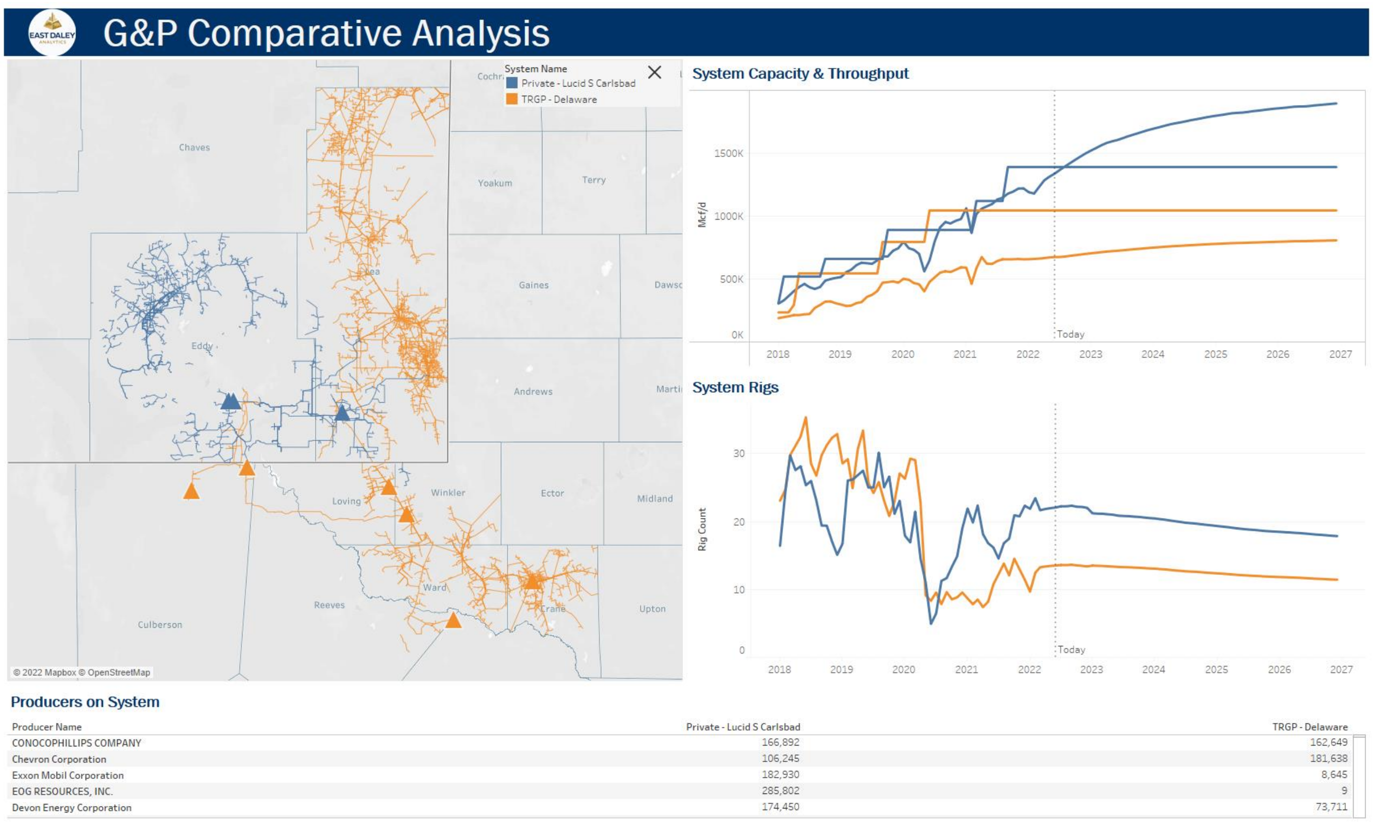
Targa Acquiring Lucid Energy for $3.55 Billion

- Targa Resources (TRGP) is acquiring Lucid Energy Delaware, the largest private G&P system in the Delaware Basin, from Riverstone Holdings and Goldman Sachs for $3.55 billion in cash.
- The price represents a 7.5x multiple on estimated 2023 Adj. EBITDA, TRGP said. We see advantages for both parties that would create additional implied value from the combination.
- East Daley is tracking over 20 rigs drilling on the Lucid S. Carlsbad system today through our *Energy Data Studio*. Gas production is growing rapidly, and we model supply will fill the system's gas processing plants in 3Q22.
- TRGP has spare processing capacity on its nearby Delaware G&P system and could take in overflow gas volumes from Lucid if the systems were integrated.
- We estimate Riverstone and Goldman Sachs received an effective 9-10x EBITDA multiple for Lucid, factoring in the ~$225-$250 million expense the owners avoid for building more gas processing.
- With Lucid, Targa can better leverage its Permian midstream footprint while steering more Y-grade to its Grand Prix NGL pipeline. TRGP can see waterfall profits from its assets along the NGL value chain, including its fractionators and export dock on the Texas Gulf Coast.
- We forecast Lucid to add ~$460 million in 2023 EBITDA from G&P and NGL services, according to our TRGP *Blueprint* model, excluding other G&A savings TRGP sees from merging the operations.



Producer Name	Private - Lucid S Carlsbad	TRGP - Delaware
CONOCOPHILLIPS COMPANY	166,892	162,649
Chevron Corporation	106,245	181,638
Exxon Mobil Corporation	182,930	8,645
EOG RESOURCES, INC.	285,802	9
Devon Energy Corporation	174,450	73,711

Figure 1: Comparative Analysis of Lucid S. Carlsbad and Targa–Delaware G&P Systems (East Daley Energy Studio)

Targa Buying Lucid Energy for $3.55 Billion

Targa Resources (TRGP) is acquiring Lucid Energy Delaware, LLC from Riverstone Holdings and Goldman Sachs for $3.55 billion in cash. The companies have signed a definitive agreement and expect to close the deal in 3Q22, TRGP said in a June 16 release. Lucid operates the largest private natural gas gathering and processing (G&P) system in the Delaware Basin. East Daley sees the Lucid acquisition as a great strategic fit for Targa that creates near- and long-term opportunities for the company's other Permian and downstream NGL assets.

Lucid S. Carlsbad ranks among the leading Permian G&P systems by measures tracked through *East Daley's Energy Data Studio*, including volumes, rigs, and the breadth of its upstream customer base. The Lucid system, located in Eddy and Lea counties, NM, includes ~1,050 miles of gathering lines and 1.4 Bcf/d of gas processing. The system processes the sour gas produced along with crude oil in the northern Delaware. Lucid's customers are a who's who list of the largest and most active Permian producers including Chevron (CVX), ConocoPhillips (COP), ExxonMobil (XOM), Devon Energy (DVN) and EOG Resource (EOG). Lucid S.Carlsbad is also proximate to TRGP's own Delaware G&P system in southeastern New Mexico and West Texas (see Figure 1).

Figure 2: G&P System Analysis of Lucid S. Carlsbad Rigs, Volumes, and Top Producers (East Daley Energy Studio)

East Daley is tracking over 20 rigs drilling on the Lucid S. Carlsbad system today through our *Energy Data Studio*. Gas production is growing rapidly, and we model supply filling the system's gas processing plants by 3Q22 (see Figure 2). We forecast average gas plant inlets in June to be just over 1.3 Bcf/d, with a 2022 exit rate of over 1.5 Bcf/d. Our forecast suggests that as a stand-alone, Lucid would soon need to offload gas volumes to neighboring systems with spare processing while planning to build additional gas plants.

TRGP Sees Opportunities from Overflow

The deal price represents a 7.5x multiple based on estimated 2023 EBITDA, TRGP said. We see advantages for both parties that would create additional implied value from the combination of complementary assets.

Figure 1 compares rigs and gas volumes for the TRGP-Delaware and Lucid S. Carlsbad systems in *East Daley's Energy Studio*. These dashboards are available for *Energy Studio* subscribers for every G&P system in our data set. As shown in Figure 1, rig activity on the TRGP-Delaware system has not rebounded as strongly as on Lucid S. Carlsbad since the 2020 downturn. Gas plants on the TRGP system are underutilized, and we forecast spare processing capacity to remain through 2027. Meanwhile, gas volumes grow rapidly on Lucid and blow through the processing limits of its current infrastructure.

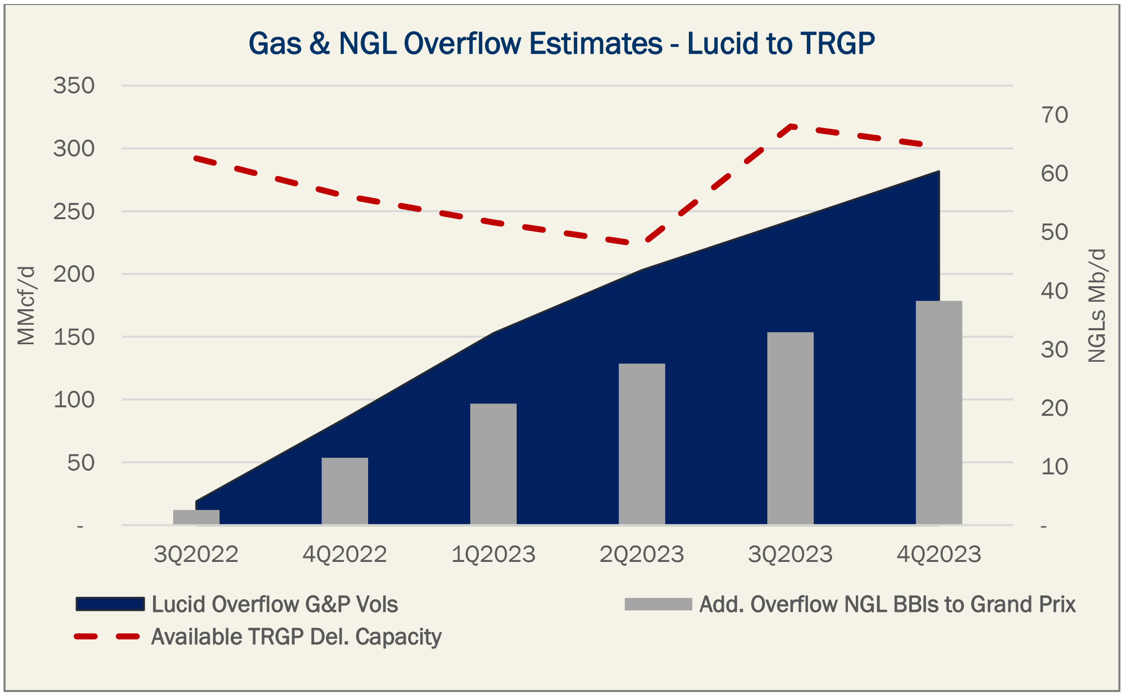


Figure 3: Gas & NGL Overflow Estimates from Lucid System to TRGP-Delaware
(East Daley Energy Studio, TRGP Blueprint Model)

Once the transaction closes, we expect Targa to begin integrating the Lucid asset with its own Delaware system to capture some of this supply growth. While most of Lucid's volumes are already tied up via plant dedications, these contracts would not apply to overflow supply. TRGP could take in additional raw gas volumes from Lucid, increasing utilization for its processing units and extracting additional Y-grade to handle through its NGL infrastructure. By 4Q23, we model overflow from Lucid reaching ~280 MMcf/d of natural gas and 38 Mb/d of NGLs (see Figure 3).

With the Lucid purchase, Targa eventually could poach business from its Permian NGL competitors. TRGP's Grand Prix NGL pipeline does not currently connect to the Lucid system, but we expect TRGP to eventually shift volumes as contracts roll off. Lucid's Red Hills I-V plants currently feed Y-grade to NGL pipelines owned by ONEOK (OKE; West Texas NGL Pipeline), Enterprise Products and Kinetik Holdings (EPD/KNTK; Shin Oak), Energy Transfer (ET; Lone Star Pipeline), and EPIC Midstream (Epic Y-Grade). Lucid's Roadrunner I plant connects to Shin Oak and EPIC; the Dagger Draw plant connects to West Texas NGL.

Targa eventually could move more Y-grade supply through its Grand Prix NGL pipeline, which has latent capacity. This would create a waterfall effect to expand activity on other NGL assets operated by TRGP. In the downstream, Targa has

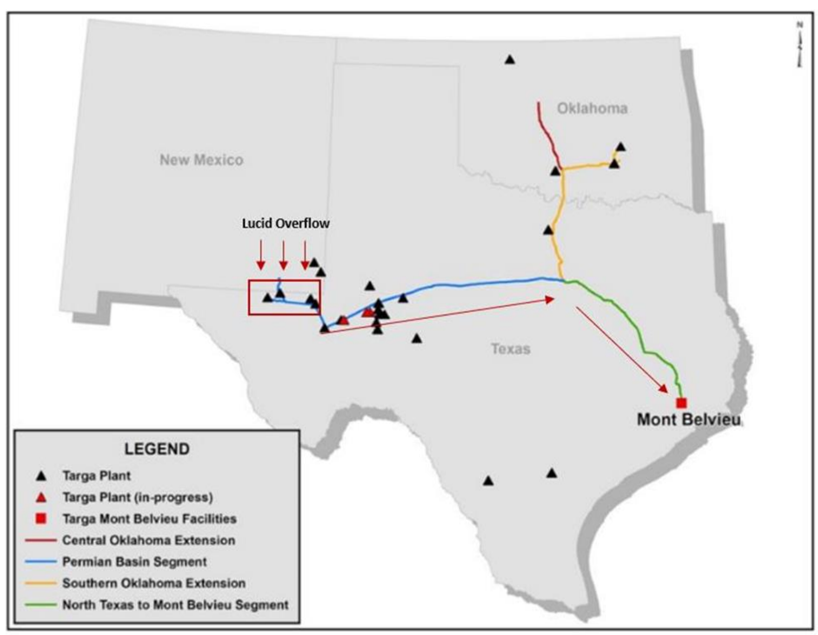


Figure 4: Map of Targa's NGL Assets
(Targa Resources Investor Relations, East Daley)

spare capacity at its fractionation complex and export docks on the Texas Gulf Coast. Targa noted it has a permit to build a new fractionator at Mont Belvieu, and discussed the potential to expand LPG export capacity at its Galena Park LPG terminal. Once the Lucid acquisition closes, we would not be surprised if TRGP announces a Grand Prix expansion and takes a final investment decision (FID) on the Train 9 frac at Mont Belvieu.

We forecast the Lucid acquisition to add ~$460 million in 2023 Adj. EBITDA for Targa as a result of additional G&P and NGL services, according to our TRGP *Blueprin*t model. Our forecast includes EBITDA of ~$55 million in overflow NGL volumes that are fed through TRGP's NGL pipelines, fractionators and export docks. Our forecast is likely conservative, as we exclude overhead and operational savings that TRGP is likely to achieve from merging the two systems. We also do not account for long-term opportunities to gain market share for handling additional NGLs as Lucid's processing contracts roll off. We assume an average basin rate for G&P services, so there would be upside to our model if Lucid's rates are above market. We also do not account for a Delaware water gathering system owned by Lucid, another source of potential earnings upside for TRGP.

Targa Prepares Balance Sheet for Deal

Targa will pay for the Lucid acquisition through a combination of cash and debt. TRGP has prepared its balance sheet by using free cash flow to pay down debt. Targa also recently sold its interest in Gulf Coast Express Pipeline for $857 million. Based on our TRGP *Blueprint* financial model, leverage is below 2.75x by YE2023 before this latest acquisition.

A Win-Win Deal for Targa and Lucid

Targa Resources (TRGP) is acquiring Lucid Energy Delaware, LLC from Riverstone Holdings and Goldman Sachs for $3.55 billion in cash. East Daley sees the deal as a win-win arrangement for all parties. We estimate that Riverstone and Goldman Sachs receive an effective 9-10x EBITDA multiple for Lucid, factoring in the ~$225-$250 million expense they avoid for building more gas processing. Targa gains a complementary asset that creates short- and long-term opportunities for other G&P and downstream NGL assets. TRGP should be able to better utilize its existing Permian G&P footprint, lower its SG&A expense through synergies, and shift overflow NGL volumes to Grand Prix and its fractionators and export facilities. In the long term, TRGP could take market share from competitors in the NGL sector as contracts roll off for Lucid processing.

Highest Regards,

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