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# Four Trends in Master Limited Partnership M&A in 2014

***MLP merger and acquisition activity can take a number of different forms to unlock value for sponsors and unitholders.***

## Background

In the first half of 2014, master limited partnership (MLP) mergers and acquisitions (M&A) transactions represented approximately 25 percent of all US oil and gas industry M&A activity. MLP transactions in the midstream and upstream subsectors have dominated the MLP M&A market. By value, the vast majority of these deals (88 percent) consisted of public companies acquiring private targets. Following the trend from last year, entity-level (as opposed to asset-level) M&A transactions have been the primary form of MLP M&A activity so far this year. From this year's transactions, we have identified four trends worth exploring.

## 1. The Kinder Morgan Consolidation

While later-stage MLPs can present some difficulties for public unitholders — as incentive distribution rights (IDRs) can drain off significant cash flow and constrain growth — the Kinder Morgan consolidation provides an interesting solution: the C-Corp general partner combines with its MLP subsidiaries. Although Kinder Morgan's particular situation may be unique, the transaction creates one possible "blueprint" for a successful exit strategy for mature MLPs that are paying distributions well into the "high splits." This transaction also could set the stage for Kinder Morgan to begin aggressively acquiring other MLPs.

## 2. New Asset Classes and MLP Diversification

Several transactions reflect a growing interest in operational diversification and entry into asset classes that are relatively new for MLPs. While the Internal Revenue Service is currently on "pause" in issuing Private Letter Rulings that may be required in certain circumstances, there has been an uptick in M&A involving fluid and solid waste handling, frac sand operations and other oilfield services-related businesses.

## 3. Purchases of MLP General Partners

Several transactions in the first half of 2014 indicate that acquirers may find an MLP's general partner to be an attractive target. General partner-level transactions offer acquirers several possible strategic benefits, including:

- Growing general partner/IDR cash distributions as MLPs grow
- Significant tax benefits
- Ability to acquire multiple MLPs in diversified sectors
- No or limited capital contribution requirements
- Ability to control MLP and its growth strategy

## 4. Sponsor Support of MLPs Through Drop-Down Transactions

Several transactions highlight sponsors' ongoing interest in generating higher distributions by the MLP through drop-down transactions. In these transactions the sponsor sells an asset to its controlled MLP, which often accesses the capital markets to fund the transaction, using the debt and equity offering proceeds to pay the parent. These types of transactions offer several possible strategic benefits:

- Provide cash flow growth for the MLP, fueling higher distributions
- Allow for separation of non-core assets from sponsor's core business
- Retention of aligned interests between sponsor and MLP post-drop-down

## Conclusion

As the MLP structure continues to mature, MLP M&A activity has branched out into a number of highly tailored deal structures and relatively new asset classes. Consistent with the trends we have observed in the first half of 2014, we expect sponsors and management teams will increasingly seek out creative solutions for achieving growth and diversification in the MLP sector.

For additional detail on these trends as well as deal activity, please view Latham's webcast ***Master Limited Partnerships: M&A and A&D***, available on demand.

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