

If merger with ETE falls through, what's next for Williams Cos.?

By CASEY SMITH World Business Writer | Posted: Sunday, June 5, 2016 12:00 am

Williams Cos. was doing just fine prior to the Energy Transfer Equity merger, according to Albert Alfonso, a Florida-based contributor to the financial markets news site Seeking Alpha.

There's no reason to think the company would be in trouble if the deal doesn't close, the energy writer said.

Last week the calendar turned to June, marking nearly a year since the public first heard about a potential acquisition of Williams by Dallas-based Energy Transfer Equity. Aside from that upcoming milestone, June 2016 is an important month in its own right: Williams shareholders are scheduled to vote on the transaction June 27, just a day before what disclosure filings refer to as the "outside date."

If the deal doesn't close by June 28, either side could terminate the merger agreement.

The week before, on June 20 and 21, Williams and ETE are scheduled to go before a judge in Delaware court who will presumably make a decision on whether the merger can close without a required tax opinion and on various misconduct allegations that the companies have hurled at each other.

Nothing has been a sure thing with this deal, but with a possible end to the saga approaching, analysts based in Tulsa and around the country gave their prediction of whether Williams Cos. could survive without the merger and what that company could look like.

We also asked them for their takes on what, if any, damage has been done to the company during the past year.

‘Proven that it can survive’

Like Alfonso, who referred to the performance of “cash cow” Williams Partners as “OK” for 2015 — understandable given oil prices — and off to a better start this year, the majority of those we posed the question to said that Williams would definitely be able to survive if the merger doesn’t happen.

Williams as a company and its shareholders would both be better off without the deal, local investment adviser Keith Goddard said. The experience of being a standalone Williams shareholder versus being a junior shareholder in the newly created entity Energy Transfer Corp. isn’t even comparable, the CEO of Capital Advisors said.

“It’s hard to argue that Williams would be worse off on a standalone basis,” Goddard said. “Frankly I don’t know how anyone can support that argument.”

Goddard said the biggest risk to Williams stock as a standalone company in the recent past has been the possibility of Oklahoma-City based Chesapeake Energy filing for bankruptcy because of the percentage of Williams’ revenue that is tied to Chesapeake contracts. Fear of that happening back in the depths of the oil and gas slump in January and February was justified, Goddard said, but since that time Chesapeake has taken measures to solidify its financial standing, and oil and gas prices have recovered.

Tulsa-based money manager Fred Russell said Williams has a track record of surviving the highs and lows of the energy industry and pressures from debts related to expensive capital expansions. Russell said the company would easily be able to survive without the ETE combination.

“Williams has proven that it can survive in the most difficult times,” Russell said, pointing to the events of 2002, when the company survived serious financial distress as a result of market changes and large debts from Williams Communications Group, a subsidiary that went bankrupt. The company had to take out a one-year loan at 34 percent interest.

“That was an extremely difficult time, and they survived,” Russell said. “They learned a lot of lessons.”

However, California-based investor and journalist Vlae Kershner posed concerns about possible problems that divided leadership could cause for Williams moving forward as a standalone.

The Williams board of directors was divided on the merger agreement with ultimately five voting against the transaction and eight in favor of the deal, including board Chairman Frank MacInnis as well as Keith Meister and Eric Mandelblatt. Meister and Mandelblatt are, respectively, managing partners at Corvex Management LP and Soroban Capital Partners.

Together, those hedge funds control the vote for roughly 8.38 percent of the Williams common stock, according to disclosure documents. Because Meister and Mandelblatt voted for the merger, votes for those 8.38 percent of shares will be cast in favor of the merger as well.

“I think Williams will have a hard time surviving with a divided board of directors,” said Kershner, who, like Alfonso and Goddard, is a Williams investor.

“The split votes on the ETE merger last year illustrate the problem. When some activist investors want to cash out, and they can muster a board majority, it’s difficult for management to remain focused on a long-term plan.”

Possible damage done

As far as what, if any, damage that a pending merger has done to Williams over the past year, Russell cited management distraction and apparent culture clashes. Yet it’s nothing that can’t be overcome.

“That takes a lot of time and energy, but there is no damage to the inherent business of Williams,” he said. “That is why it can continue on its own and will be much better on its own because it won’t have those leadership, personnel and investor conflicts.”

Alfonso brought up the wrench that the merger put into Williams’ now-canceled plan to roll up Williams Partners as a combined entity, but said preventing that strategy “may have been a blessing in disguise” because investors have not welcomed a

pipeline company in the C-corp structure. Kinder Morgan, which absorbed its MLP in 2014, now trades at a much lower multiple compared to its peers, he said.

Goddard cited the damage that has been done to Williams' investors' portfolios — collectively \$15 billion worth of losses since the merger was announced.

The question of where Williams stock prices would be had the deal not existed is speculative, Goddard said, but during the time since the merger was announced the price for an index of peer group companies is down 5 percent. Share prices for Williams, Goddard said, have almost been cut in half.

'Suitors are waiting'

Though the consensus is that Williams would survive and possibly thrive, failing to combine with ETE doesn't mean another acquisition would come along if this one isn't somehow scuttled. It is possible another merger could soon follow now that the Williams board has already voted for one.

Some sort of merger and acquisition would be possible given Williams' discounted value, Alfonso said. That doesn't mean it will happen, but the low price does make the company a target.

"My thinking is that if Williams stays cheap, then some other party will eventually take advantage of the low valuation," Alfonso said. "This is a natural gas play, and the demand is there."

Russell said he could see that scenario as well.

"Williams has a lot of debt, but it also has some very attractive assets," he said of the 10,500-mile Transco pipeline that brings natural gas from the Gulf Coast to New York. The pipeline is owned by Williams Partners, the master limited partnership of which Williams owns 60 percent.

"That pipeline is long, it's strategically situated and it's one of the assets that a suitor would look at in terms of acquisition," Russell said, noting a deal would be especially attractive for a company without much debt that could acquire Williams and still protect its credit rating.

“I believe some of these suitors are waiting for the dust to settle,” he said.



Williams Companies Tulsa

The Bank of Oklahoma Tower, home of Williams Cos. in downtown Tulsa, is seen earlier this year.

JOHN CLANTON/Tulsa World

VIDEO: Williams merger bad for Investors and Tulsa