Crestwood Midstream Partners LP
Form 425
May 06, 2015

Filing pursuant to Rule 425 under the

Securities Act of 1933, as amended

Deemed filed under Rule 14a-12 under the

Securities Exchange Act of 1934, as amended

Filer: Crestwood Equity Partners LP

Subject Company: Crestwood Midstream Partners LP

Commission File No.: 001-35377

This filing relates to a proposed business combination (the Merger) involving Crestwood Equity Partners LP (Crestwood Equity) and Crestwood Midstream Partners LP (Crestwood Midstream and, together with Crestwood Equity, Crestwood).

Additional Information and Where to Find It

This communication contains information about the proposed merger involving Crestwood Equity and Crestwood Midstream. In connection with the proposed merger, Crestwood Equity will file with the SEC a registration statement on Form S-4 that will include a proxy statement/prospectus for the unitholders of Crestwood Midstream. Crestwood Midstream will mail the final proxy statement/prospectus to its unitholders. INVESTORS AND UNITHOLDERS ARE URGED TO READ THE PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC CAREFULLY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT CRESTWOOD EQUITY, CRESTWOOD MIDSTREAM, THE PROPOSED MERGER AND RELATED MATTERS. Investors and unitholders will be able to obtain free copies of the proxy statement/prospectus (when available) and other documents filed with the SEC by Crestwood through the website maintained by the SEC at www.sec.gov. In addition, investors and unitholders will be able to obtain free copies of documents filed by Crestwood with the SEC from Crestwood s website, www.crestwoodlp.com.

Participants in the Solicitation

Crestwood Equity, Crestwood Midstream, and their respective general partner s directors and executive officers may be deemed to be participants in the solicitation of proxies from the unitholders of Crestwood Midstream in respect of the proposed merger transaction. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the unitholders of Crestwood Midstream in connection with the proposed transaction, including a description of their direct or indirect interests, by security holdings or otherwise, will be set forth in the proxy statement/prospectus when it is filed with the SEC. Information regarding Crestwood Midstream s directors and executive officers is contained in Crestwood Midstream s Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 2, 2015, and any subsequent statements of changes in beneficial ownership filed with the SEC. Information regarding Crestwood Equity s directors and executive officers is contained in Crestwood Equity s Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 2, 2015, and any subsequent statements of changes in beneficial ownership filed with the SEC. Free copies of these documents may be obtained from the sources described above.

Forward-Looking Statements

The statements in this communication regarding future events, occurrences, circumstances, activities, performance, outcomes and results are forward-looking statements. Although these statements reflect the current views, assumptions and expectations of Crestwood s management, the matters addressed herein are subject to numerous risks and uncertainties which could cause actual activities, performance, outcomes and results to differ materially from those indicated. Such forward-looking statements include, but are not limited to, statements about the benefits that may results from the merger and statements about the future financial and operating results, objectives, expectations and intentions and other statements that are not historical facts. Factors that could result in such differences or otherwise materially affect Crestwood s financial condition, results of operations and cash flows include, without limitation, the possibility that expected cost reductions will not be realized, or will not be realized within the expected timeframe; fluctuations in crude oil, natural gas and NGL prices (including, without limitation, lower commodity prices for sustained periods of time); the extent and success of drilling efforts, as well as the extent and quality of natural gas and crude oil volumes produced within proximity of Crestwood assets; failure or delays by customers in achieving expected production in their oil and gas projects; competitive conditions in the industry and their impact on our ability to connect supplies to Crestwood gathering, processing and transportation assets or systems; actions or inactions taken or non-performance by third parties, including suppliers, contractors, operators, processors, transporters and customers; the ability of Crestwood to consummate acquisitions, successfully integrate the acquired businesses, realize any cost savings and other synergies from any acquisition; changes in the availability and cost of capital; operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond Crestwood s control; timely receipt of necessary government approvals and permits, the ability of Crestwood to control the costs of construction, including costs of materials, labor and right-of-way and other factors that may impact Crestwood s ability to complete projects within budget and on schedule; the effects of existing and future laws and governmental regulations, including environmental and climate change requirements; the effects of existing and future litigation; and risks related to the substantial indebtedness, of either company, as well as other factors disclosed in Crestwood s filings with the U.S. Securities and Exchange Commission. You should read filings made by Crestwood with the U.S. Securities and Exchange Commission, including Annual Reports on Form 10-K and the most recent Quarterly Reports and Current Reports for a more extensive list of factors that could affect results. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management s view only as of the date made. Crestwood does not assume any obligation to update these forward-looking statements.

Simplification Overview and
Q1 2015 Financial & Operating Results
May 6, 2015
Crestwood Midstream Partners LP
Crestwood Equity Partners LP
Connections for America s Energy

Connections for America s Energy
Forward-Looking Statements
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PARTICIPANTS IN THE SOLICITATION

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NGL prices (including, without limitation, lower commodity prices for sustained periods of time); the extent and success of dri
extent and quality of natural gas and crude oil volumes produced within proximity of Crestwood assets; failure or delays by cu
production in their oil and gas projects; competitive conditions in the industry and their impact on our ability to connect suppli
processing and transportation assets or systems; actions or inactions taken or non-performance by third parties, including suppl
processors, transporters and customers; the ability of Crestwood to consummate acquisitions, successfully integrate the acquire
savings and other synergies from any acquisition; changes in the availability and cost of capital; operating hazards, natural disa
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Transaction Overview
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Crestwood Equity Partners LP (NYSE: CEQP) and Crestwood Midstream Partners LP (NYSE: CMLP) have executed definitive agreements to merge the two partnerships

Terms of the simplification transaction have been approved by both conflicts committees and boards of directors

The merger must be approved by a majority of CMLP unitholders

First Reserve retains 100% non-economic GP interest (control)

CMLP unitholders will receive 2.75 CEQP units for each CMLP unit owned in a tax-free exchange

Implies 17% premium to CMLP closing price as of 5/5/2015

~498 MM units issued to CMLP unitholders or 73% of pro forma CEQP

CMLP becomes wholly-owned subsidiary and all existing and new debt remains at CMLP entity

CMLP s incentive distribution rights eliminated

CEQP remaining operating assets contributed to CMLP immediately following the merger

CEQP and CMLP revolvers refinanced into a new $1.5 billion facility

Class A Preferred units at CMLP exchanged into a substantially equivalent security at CEQP

Transaction is expected to close in Q3 2015, subject to CMLP unitholder approval and customary closing conditions

Connections for America s Energy

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Transaction Highlights
4

Elimination of ~$30 million of IDRs drives immediate cost of capital improvement

Competitive cost of capital improves positioning for >$3.0 billion of identified expansion opportunities

Improved Cost of
Capital

Simplified entity that should attract a broader universe of investors

Improved credit profile due to the elimination of structural subordination

Simplification of Crestwood s governance structure better positions the partnership to participate in the continuing trend of industry consolidation
Simplify
Corporate
Structure

Eliminates $5 million of estimated public company costs

Additive to $25 million to $30 million run-rate savings identified as a part of Crestwood s 2015 cost reduction initiatives
Further Reduce
Cost Structure /
Fixed Charges

Pro forma 2015 CEQP coverage ratio improved to ~1.05x at $0.55 per unit distribution
(~$15
million
excess
cash
flow
coverage)
(1)

2% dilutive to CMLP in 2016, 3% accretive in 2017, substantial accretion thereafter

Expected pro forma DCF growth of ~11% through 2017
(2)
; accelerated with greater
M&A and organic investment
Growth and
Stability in
Distributions

Focus on core strategy of servicing the full midstream value chain in the premier shale plays in North America

Eliminates
existing
conflicts
of
interest
arising

from
financial
complexity
Unified Corporate
Strategy
1)
Estimated coverage ratio and cash coverage assumes January 1, 2015 effective date for the transaction for illustrative purposes
2)
Represents growth rate from 2015E pro forma DCF (assuming January 1, 2015 effective date) to 2017E pro forma DCF.
Connections for America s Energy

Simplified Organizational Structure
5
Crestwood Equity
Partners LP
(NYSE: CEQP)
187.2 MM units
First Reserve/
Crestwood

Holdings
~11% LP
Interest
Crestwood
Midstream
Partners LP
(NYSE: CMLP)
188.3 MM common units
18.3 MM Class A
preferred units
Operating Subsidiaries
~4% LP
Interest
GP / IDR
Ownership
CEQP Public
Unitholders
~71% LP
Interest
CMLP Public
Common and
Preferred
Unitholders
~85% LP
Interest
~29% LP Interest
100% Non-economic GP
Interest (Control)
Operating
Subsidiaries
(NGL Assets)
Current Structure
Pro Forma Structure
Crestwood Equity
Partners LP
(NYSE: CEQP)
685 MM common units
52 MM preferred units
First Reserve/
Crestwood
Holdings
Crestwood
Midstream
Partners LP
(private wholly-owned
subsidiary)
100% Operating
Subsidiaries
CEQP Public
and Preferred

Unitholders
~84% LP
Interest
~16% LP Interest
100% Non-economic GP
Interest (Control)
Connections for America s Energy

Realignment of Strategy Centered on Value
Creation
One Stock,
Simplified
Strategy
6

Provide first-in-class customer service

Focus on maintaining stable, fee-based cash flow profile

>90% total consolidated cash flow from fee based contracts

Leverage asset footprint to seek attractive investment opportunities

8 core assets in the most prolific shale plays in North America

>$3.0 billion identified expansion opportunities around our asset footprint

Manage costs to match commercial and operational opportunity sets

>$30 million of identified run-rate cost savings through 2015 cost reduction initiative

Prudently manage the balance sheet

Leverage targets <4.0x

Transparency to investors
Simplification of structure realigns strategic focus towards unlocking full value potential of our midstream portfolio
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Cost of Capital Analysis
Impact of IDR Elimination
7
Key Assumptions:

$500 MM Investment, 50% Equity / 50% Debt Consideration

Cost of Debt: 6.25%, CMLP Unit Price = $16.00, CEQP Unit Price = $6.82 (as of 5/5/2015)
Illustrative Cost of Capital Uplift
CMLP
Pro Forma CEQP
1)
Current LP distribution on newly issued units.
2)
Assumes 1.05x distribution coverage on incremental DCF.
($ millions except per unit data)
$500 MM Investment
$500 MM Investment
Investment Multiple
6.0x
9.0x
12.0x
6.0x
9.0x
12.0x
Acquired EBITDA
$83
$56
$42
$83
$56
$42
(-) Maintenance Capex
(4)
(3)
(2)
(4)
(3)
(2)
(-) Incremental Interest Expense
(16)
(16)
(16)
(16)
(16)
(16)
(-) Cost of New Equity
(1)
(26)
(26)
(26)
(20)
(20)
(20)
Incremental DCF Available to Distribute
$38

$12
($2)
$43
$17
$4
(-) Incremental GP Distribution / IDRs
(19)
(6)
0

Incremental DCF Available to LPs
$19
$5
($2)
$43
$17
$4
Existing Units
188
188
188
685
685
685
New Units
16
16
16
37
37
37
Pro Forma Total Units
204
204
204
722
722
722
Distribution Summary
Current Distribution per Unit
$1.64
$1.64
$1.64
$0.55
$0.55
$0.55
(+) Incremental Distribution per Unit
(2)

0.08
0.02
(0.01)
0.06
0.02
0.01
Pro Forma Distribution per Unit
$1.72
$1.66
$1.63
$0.61
$0.57
$0.56
Distribution Growth %
4.8%
1.1%
(0.8%)
10.4%
4.1%
0.9%

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Positioning Crestwood for Growth
Expansion Opportunities
A.
Marcellus Shale:
~$500 to $600 million

B.
South Texas:
~$1.1 to $1.3 billion
C.
Permian Basin:
~$600 to $700 million
D.
Niobrara Shale:
~$300 to $350 million
E.
Bakken Shale:
~$500 to $750 million
F.
West Coast:
~$75 to $100 million
8
Improving cost of capital to capture >$3.0 billion of identified potential expansion opportunities around asset footprint

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Proposed Transaction Timeline
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Announce Transaction
Complete new
$1.5 BB Revolver
syndication

May 6
May
Jun
Jul
Aug
Sep
May
CEQP /CMLP
Files S-4 and
Proxy Statement
with SEC
SEC Completes
Review of CMLP
Proxy Statement
July / August
Merger
Completed
(CMLP Delisted)
September
CMLP Unitholder
Vote
Aug / Sep

Transactions recommended by CEQP and CMLP conflicts committees and approved by CEQP and CMLP Boards of Directors

No major regulatory approvals required

CMLP majority unitholder approval required

CEQP, Crestwood Holdings, Crestwood management, the board of directors, and the Class A Preferred Holders own approximately 26% of the CMLP units entitled to vote and have indicated their support for the transaction
May / June
Conservative estimate of ~4+ months from Announcement to Merger Closing

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First Quarter Highlights
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First Quarter Highlights

Adjusted EBITDA of $124.7MM, 26% over 1Q 2014

Distributable cash flow of $93.1MM, 34% over 1Q 2014

Quarterly cash distribution of $0.41/common unit to be paid May 15, 2015 to unit holders of record on May 8, 2015

Consolidated Adjusted EBITDA of $141.9MM, 22% over 1Q
2014

Distributable cash flow of $21.4MM, 9% over 1Q 2014

Quarterly cash distribution of $0.1375/common unit to be
paid May 15, 2015 to unit holders of record on May 8, 2015
Note: See reconciliations of Adjusted EBITDA and distributable cash flow in the Appendix of this presentation.
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Connections for America s Energy
Consolidated Operating Statistics
Q1 2015
Q1 2014
Gathering and Processing
Gathering (Bcf/d)
1.2
1.1

Processing (MMcf/d)
203
189
Compression (MMcf/d)
692
448
Storage and Transportation
Firm (Bcf/d)
1.7
1.5
Interruptible (MMcf/d)
370
477
NGL and Crude Services
COLT Hub
Rail Loading (MBbls/d)
123
98
Arrow
(Crude MBbls/d / Gas MMcf/d
Water MBbls/d)
44/20/12
Total Bakken Crude Handled (MBbls/d)
223
154
CEQP NGL Volumes (MBbls/d)
232
244
12
66/45/25

Connections for America s Energy
First Quarter Financial Results -
CMLP
Q1 2015
Q1 2014
Total Revenues
$455
$537

Gross Margin
169
139
Operations and Maintenance
35
28
General and Administrative
24
24
Net Income
22
6
Adjusted EBITDA
125
99
(-) Cash Interest Expense
(28)
(26)
(-) Maintenance Capital
(3)
(3)
Distributable
Cash
Flow
(1)
93
70
($US Millions)
(1)
Other adjustments include income tax expense and deficiency payments.
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Connections for America s Energy
First Quarter Financial Results -
CEQP
Q1 2015
Q1 2014
Total Revenues
$732
$972

Gross Margin
202
186
Operations and Maintenance
51
44
General and Administrative
28
28
Net Income
18
13
Adjusted EBITDA
142
117
(-) Cash Interest Expense
(32)
(30)
(-) Maintenance Capital
(5)
(7)
(-) CMLP DCF Attributable to Public LPs
(82)
(60)
CEQP
Distributable
Cash
Flow
(1)
21
20
($US Millions)
(1)
Other adjustments include income tax expense and deficiency payments.
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Connections for America s Energy
Non GAAP Reconciliations
15
15

Connections for America s Energy
CMLP Non-GAAP Reconciliations
16
2015
2014
EBITDA
Net income
21.7

$
5.5
$
Interest and debt expense, net
29.9
28.1
Provision for income taxes
0.3
0.7
Depreciation, amortization and accretion
59.9
50.8
EBITDA
(a)
111.8
$
85.1
$
Significant items impacting EBITDA:
Unit-based compensation charges
5.2
4.6
(Gain) loss on long-lived assets, net
0.8
(0.5)
Loss on contingent consideration

2.1
(Earnings) loss from unconsolidated affiliates, net
(3.4)
0.1
Adjusted EBITDA from unconsolidated affiliates, net
6.5
1.7
Significant transaction and environmental related costs and other items
3.8
5.8
Adjusted EBITDA
(a)
124.7
$
98.9
$
Distributable Cash Flow
Adjusted EBITDA
(a)
124.7
$
98.9
$

Cash interest expense
(b)
(28.0)
(26.3)
Maintenance capital expenditures
(c)
(2.7)
(3.3)
Provision for income taxes
(0.3)
(0.7)
Deficiency payments
(0.6)
1.1
Distributable cash flow attributable to CMLP
(d)
93.1
$
69.7
$
(a)
(b)
Cash interest expense is book interest expense less amortization
of deferred financing costs plus bond premium amortization.
(c)
(d)
EBITDA is defined as income before income taxes, plus net interest and debt expense, and depreciation, amortization and accr
unconsolidated
affiliates
by
adjusting
our
equity
earnings
or
losses
from
our
unconsolidated
affiliates
for
our
proportionate
share
of
their
depreciation
and
interest
and

the impact of certain significant items, such as unit-based compensation expenses, gains and impairments of long-lived assets and goodwill, gains and losses on acquisition-relatec
certain environmental remediation costs, change in fair value of
certain commodity derivative contracts, certain costs related to our 2015 cost savings initiatives, and other transactions identifi
period. EBITDA and Adjusted EBITDA are not measures calculated in accordance with GAAP, as they do not include deduct
are necessary to maintain our business. EBITDA and Adjusted EBITDA should not be considered an alternative to net income,
with GAAP. EBITDA and Adjusted EBITDA calculations may vary among entities, so our computation may not be comparab
Maintenance capital expenditures are defined as those capital expenditures which do not increase operating capacity or revenu
Distributable cash flow is defined as Adjusted EBITDA, less cash
interest expense, maintenance capital expenditures, income taxes, deficiency payments (primarily related to deferred revenue),
Distributable cash flow should not be considered an alternative to cash flows from operating activities or any other measure of
as those items are used to measure operating performance, liquidity, or the ability to service debt obligations. We believe that distributable cash flow provides additional information for evaluating our ability to

declare
and
pay
distributions to unitholders. Distributable cash flow, as we define it, may not be comparable to distributable cash flow or simil
Three Months Ended
March 31,
(in millions, unaudited)

Connections for America s Energy
CEQP Non-GAAP Reconciliations
17
2015
2014
EBITDA
Net income
18.1

$
13.2
$
Interest and debt expense, net
33.6
31.7
Provision for income taxes
0.4
0.8
Depreciation, amortization and accretion
74.2
66.3
EBITDA
(a)
126.3
$
112.0
$
Significant items impacting EBITDA:
Unit-based compensation charges
5.8
5.4
(Gain) loss on long-lived assets, net
1.0
(0.5)
Loss on contingent consideration

2.1
Earnings (loss) from unconsolidated affiliates, net
(3.4)
0.1
Adjusted EBITDA from unconsolidated affiliates, net
6.5
1.7
Change in fair value of commodity inventory-related derivative contracts
1.1
(10.7)
Significant transaction and environmental related costs and other items
4.6
6.5
Adjusted EBITDA
(a)
141.9
$
116.6
$
Distributable Cash Flow
Adjusted EBITDA
(a)
141.9

$
116.6
$
Cash interest expense
(b)
(31.8)
(30.4)
Maintenance capital expenditures
(c)
(5.4)
(7.0)
Provision for income taxes
(0.4)
(0.8)
Deficiency payments
(0.6)
1.1
Public Crestwood Midstream LP unitholders interest in CMLP distributable
cash flow
(d)
(82.3)
(59.8)
Distributable cash flow attributable to CEQP
(e)
21.4
$
19.7
$
Three Months Ended
March 31,
(in millions, unaudited)
(a)
(b)
Cash interest expense less amortization of deferred financing costs plus bond premium amortization plus or minus fair value ac
(c)
(d)
(e)
Crestwood Midstream distributable cash flow less incentive distributions paid to the general partner and the public LP ownersh
Distributable cash flow is defined as Adjusted EBITDA, less cash interest expense, maintenance capital expenditures, income t
Midstream LP unitholders interest in CMLP distributable cash flow. Distributable cash flow should not be considered an alter
calculated in accordance with generally accepted accounting principles as those items are used to measure operating performan
provides additional information for evaluating our ability to declare and pay distributions to unitholders. Distributable cash flo
used by other corporations and partnerships.
EBITDA is defined as income before income taxes, plus net interest and debt expense, and depreciation, amortization and accr
unconsolidated affiliates by adjusting our equity earnings or losses from our unconsolidated affiliates for our proportionate sha
based compensation expenses, gains and impairments of long-lived assets and goodwill, gains and losses on acquisition-relate
certain environmental remediation costs, change in fair value of certain commodity derivative contracts, certain costs related to
period. EBITDA and Adjusted EBITDA are not measures calculated in accordance with GAAP, as they do not include deduct
which are necessary to maintain our business. EBITDA and Adjusted EBITDA should not be considered an alternative to net i
accordance with GAAP. EBITDA and Adjusted EBITDA calculations may vary among entities, so our computation may not b

Maintenance capital expenditures are defined as those capital expenditures which do not increase operating capacity or revenu