# MPC/MPLX IDR Elimination Plan Must be Completed at A Fair and Transparent Price (12x-14x IDR distributions) To Build Value

## MPC's Current Plan of 15x-20x will Destroy Value

John M. Fox, Co-Founder, retired CEO and Chairman of MarkWest Energy Partners and Current Investor in MPLX and MPC

December 2017

# The 15x-20x Multiple is Unjustified



The valuation of the IDR transaction has material impacts on MPLX and MPC's long-term value. An inflated transaction multiple will:

- Vastly diminish growth prospects at MPLX
- Put future distributions in jeopardy
- Raise cost of capital

**<u>And Ultimately…</u>**

**<u>Destroy value for MPLX and MPC (the largest unitholder)</u>**

If the IDR elimination is done per the present MPC plan at a 15x - 20x multiple, MPLX distributions and unit price could be reduced<u>, placing both MPLX and MPC (the largest unitholder) into the penalty box</u>.

# There is a Better Path….



**IDR Elimination at a 12x – 14x multiple is the better path to creating long-term value for both MPLX and MPC, MPLX's largest unitholder**

**There is a clear precedent for a 12x-14x multiple**

- Plains All American Pipeline - 11.6x
- Andeavor Logistics - 13.1x
- HollyFrontier - 14.1x

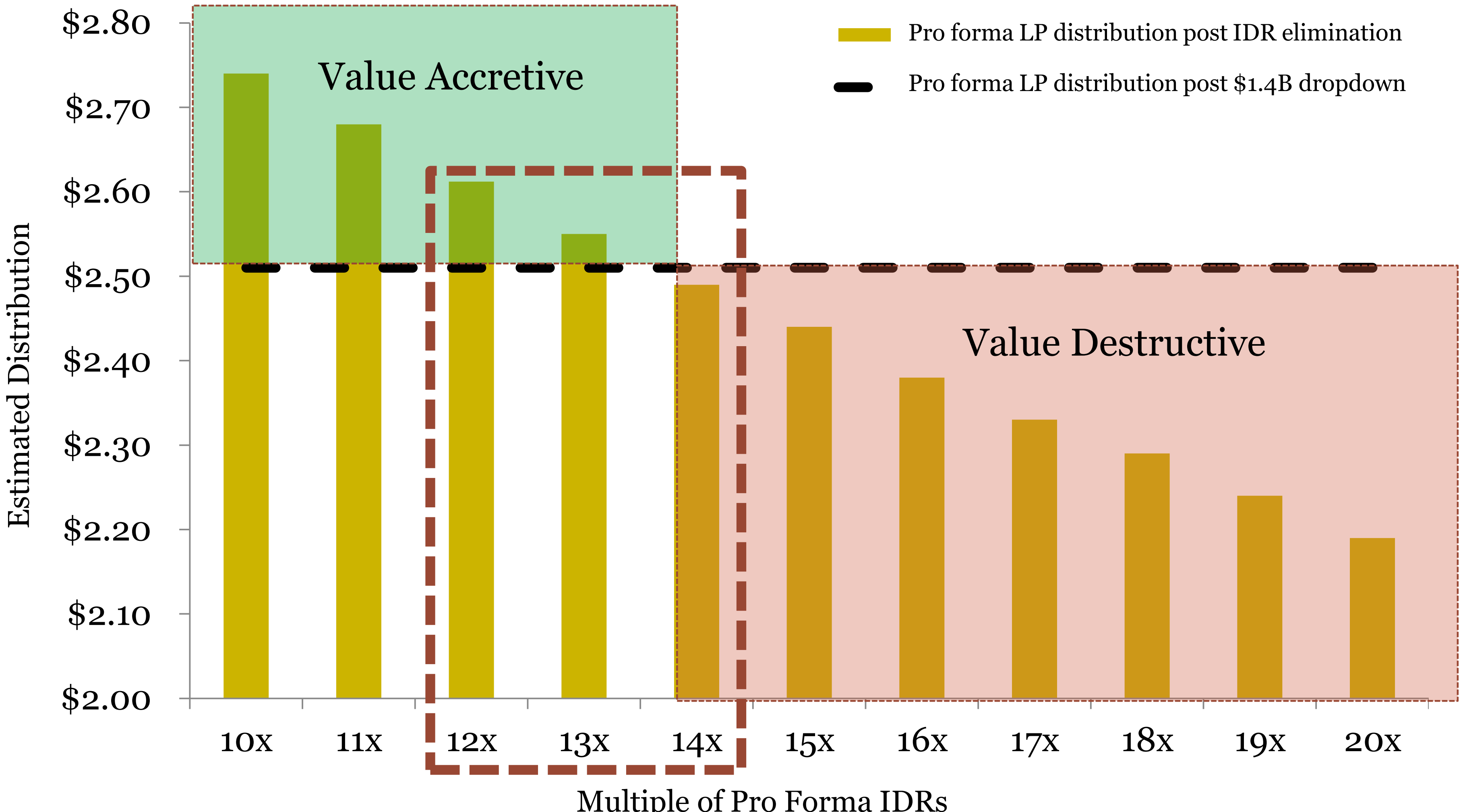
**Sell Side Analysts Seem to Agree**

- Wells Fargo's analyst estimates the IDRs are worth $8B which translates to a 13.5x multiple

Source: Seeking Alpha Oct 28th report by Trapping Value and Wells Fargo Research Note Sept 5, 2017

# The Multiple MPLX Pays for the IDRs Severely Impacts the Pro Forma Distributions to its Unitholders….






Source: MPLX public documents, UBS research note November 14, 2017, Fox estimates based on UBS methodology

# We couldn't have said it better ourselves…

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Bloomberg Transcript

Company Name: Marathon Petroleum Corp
Company Ticker: MPC US
Date: 2017-10-26
Event Description: Q3 2017 Earnings Call

Market Cap: 29,544.98
Current PX: 58.36
YTD Change($): +8.01
YTD Change(%): +15.909

Bloomberg Estimates - EPS
Current Quarter: 0.897
Current Year: 3.573
Bloomberg Estimates - Sales
Current Quarter: 18982.143
Current Year: 75112.000

Q3 2017 Earnings Call

Company Participants

- Lisa Wilson
- Gary R. Heming
- Donald C. Temp
- Timothy T. Grif
- C. Michael Palm
- Raymond L. Bro

Other Par

- Phil M. Gresh
- Chi Chow
- Paul Cheng
- Brad Heffern
- Faisel H. Khan
- Corey Goldman
- Paul Sankey
- Doug Leggate
- Spiro M. Dounis
- Justin S. Jenkins
- Ryan Todd

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Operator

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Lisa Wilson

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Vice President and
members of MPC's

We invite you to r
statements during
we expect today. F
SEC.

final

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**<A - Timothy T. Griffith>**: Well, we'll manage it in a way that we think optimizes our ability to access to market without influencing the price. Again, we'll – this is certainly going to be a big slug of proceeds all at once, so I think we'll evaluate more accelerated forms to see if those make sense. We've been very successful in open market repurchases and really delivering at or below [ph] daily view apps (45:16), so we'll take a look at what makes the more sense at the time.

**<Q - Doug Leggate>**: Okay. Thanks. My last one, guys, is I guess a little more convoluted because it relates to some of the GP drops that have been done by some of your peers. I think in the past you've talked about a kind of target range multiple perhaps something in the 15 – 20 range, the recent drops or the recent conversions have been done a little bit lower than that. I'm just wondering if you could offer a perspective on that.

And related, and Gary, I know, we've talked about this in the past, but it does give a lot of transparency to your ownership of MPLX going forward. But obviously, as you take distributions, your tax basis there would essentially ultimately go to zero over time. So how should we think about the after-tax value at the MPC level for what is a tax-free entity and as it relates to the public market quote? And I'll leave it there. Thanks.

**<A - Timothy T. Griffith>**: Sure, Doug. It's Tim. Let me try to take both of those. Your first question with regard to maybe precedent transactions or other GP transactions we see in the marketplace, for one thing, our 15 to 20 that we provided in January was really illustrative. And frankly, that's not where we started on multiples. We really looked at what would be the appropriate premium of cash flow pro forma for the transactions vis-à-vis what the GP cash flow would have looked like otherwise. We turned it into a multiple because we know everyone loves to talk about multiples, but the – I guess the thing that is worth pointing out is that the situation that both of the recent transactions that have been done, the situation of the GP and the situation that MPLX's GP finds itself are very different.

And so, it's I think very difficult to compare two transactions and say those multiples should be about the same because it's really not an apples-to-apples comparison. You really have to assess what the cash flow growth profile of those GP distributions will look like on their own sort of at the point the transaction's conducted.

So, again, we're not going to re-guide to ranges or what the value is, I mean that's a process that's in front of us. We'll have all the appropriate dialog with the conflicts committee and the MPLX board. As we've stressed on multiple occasions and maybe worth repeating again this morning, pro forma for these transactions, MPC will be a substantial holder of LP units. And really striking a balance on the GP buy-in to make sure that it both illuminates value of the GP and provides an affordable and sensible transaction for the partnership becomes very important, because any action that MPC takes that harms the partnership hurts no one more than MPC. So, I think we – again, we'll be very careful about striking an appropriate balance on the transaction. And again, we'll share our color on valuation at the appropriate time. I don't think we want to get in front of a process just now.

Your second question if I understood, it was really – relates to the tax basis and the distribution that come back. There is certainly a tax advantage of LP distributions versus GP distributions which are fully taxable from an MPC perspective. So MPC although it will not be afforded the full benefit of the return of capital that LP holders will, is going to get a tax benefit on LP distributions vis-à-vis what would have been available otherwise. So again, I think
we get closer, we're certainly happy to share some more color around it. We certainly understand the desire
in understanding exactly how much of those distributions will be taxable and we'll share some color
get through that transaction and are in a position to give you that guidance.

**<Q - Doug Leggate>**: And that would be really helpful. Thanks, Tim. I appreciate your

**<A - Timothy T. Griffith>**: You bet.

Operator

Thank you. Our next question is from Paul Sankey from Wolfe Research.

**<Q - Paul Sankey>**: Hi guys, can you hear me?

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In MPC's Q3'2017 earning call, Tim Griffith, SVP and CFO of Marathon Petroleum Corporation, Director of MPLX GP LLC responded to a question concerning the valuation multiple for the GP.

"Striking a balance on the GP buy-in to make sure that it both illuminates value of the GP and provides an affordable and sensible transaction for the partnership becomes very important, because **any action that MPC takes that harms the partnership hurts no one more than MPC**."

# You know what to do…



**<u>We urge you to revise your valuation estimates for the IDR elimination to 12x – 14x, creating a clear path to long-term value growth for MPLX and MPC</u>**

**<u>It just makes sense!</u>**

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