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Today's featured company is:

Enterprise Products Partners L.P.

The Power of Diversity and Distribution

Enterprise Products Partners L.P. (NYSE: EPD) provides midstream energy services to producers and end users throughout the U.S. Enterprise's assets include 49,000 miles of natural gas, natural gas liquids (NGLs), crude oil, refined products, and petrochemical pipelines, storage for 250 million barrels of NGLs, refined products, and crude oil, 25 natural gas processing plants, and eight import/export terminals with over 20 docks. One of the largest MLPs in the U.S., Enterprise has maintained excess distributable cash flow throughout the most current downturn in the energy cycle. For more information, visit www.enterpriseproducts.com.

- Consistent distribution growth: 48 consecutive quarters
- Market Cap: ~$60 billion
- ~$35 billion of organic growth projects and $26 billion of major acquisitions since IPO in 1998
- Dividend Yield: ~6%

Click here to view the EPD Fact Sheet (PDF).
Click here to view the EPD Investor Overview.

Adviser Access spoke to Enterprise's **President Randy Fowler** about how the company has negotiated tough times in the energy market and plans for future growth.

Advisor Access: ***The question "Is the Master Limited Partnership (MLP) model broken?" keeps coming up. Enterprise Products Partners seems to be a case of how the model can and is working. Can you explain the steps the company has taken to make that happen?***

Randy Fowler: We hear that quite a bit also. We believe the idea is a simplistic, broad-brush overstatement. The energy industry is a cyclical industry. Sometimes the oil and natural gas producers are most impacted, other times it may be the refining sector or the petrochemical sector. This time producers and oilfield services have been most impacted from an earnings standpoint. Some midstream companies have been impacted more than others. The earnings and cash flow of many midstream MLPs have held up quite well, which is expected from a primarily fee-based business model. However, the correlation of equity prices for the MLP sector with crude oil prices, as measured by the Alerian MLP Index, has been almost as high as that of the oil and gas producers.

There are over 100 companies structured as MLPs, so the capital markets have confidence that the structure is successful. That being said, several variations of MLPs, frankly, do not work very well for typical MLP investors seeking long-term, stable streams of cash distribution income. Those include MLPs with variable rate distributions and those MLPs in the exploration and production and oilfield service industries that have high variability of operating cash flows.

The current energy cycle did not have many warning signs. It came about abruptly in Q4/14 and has been a long and deep cycle, with crude oil hitting as low as $28 per barrel in Q1/16. Several midstream MLPs were not financially prepared to cope with this cycle for a number of reasons, such as having too much debt leverage, weak distribution coverage, a high cost of equity capital due to a general partner in the 50% incentive distribution rights (IDRs) bracket, a publicly traded general partner, or a combination thereof. This lack of financial flexibility contributed to volatility and lower valuations for their equity, which had its own feedback loop.

With respect to the larger MLPs, the equity and debt valuations for MLPs such as Enterprise, Magellan Midstream Partners and Spectra Energy Partners held up better due to the stability of fee-based businesses, lower use of debt leverage, no general partner IDRs (Enterprise and Magellan), lower cost of equity capital, and strong coverage of cash distributions. It also helps to have a great commercial and operating team like Enterprise's, which can find and execute on incremental business opportunities during the periods of volatility.

"It helps to have a great commercial and operating team like Enterprise's, which can find and execute on incremental business opportunities during the periods of volatility."

Our founder, Dan Duncan, was a visionary in his early recognition that MLPs with IDRs would ultimately have a prohibitively high cost of equity, less financial flexibility, and an unsustainable business model. He often said MLPs with 50% IDRs would "hit the wall someday." Some have hit that "wall." Enterprise was one of the first MLPs to cap its IDRs at 25% in 2002, when most partnerships had a 50% IDR cap, and then we eliminated our IDRs altogether in 2010.

So, we believe the MLP model works just fine. The combination of earnings volatility, aggressive use of debt leverage, a burdensome 50% IDR, and not covering cash distributions heading into one of the worst oil price cycles in history does not work. Some of the MLPs with 50% IDRs would probably have been fine if they had been better capitalized and had better distribution coverage. It pays to maintain a financial margin of safety, irrespective of whether a business is organized as a corporation, MLP, LLC, yieldco, or REIT. Always has.

AA: ***That leads into the next question: How does Enterprise balance growth in new infrastructure and financing requirements while still protecting investors through this downturn in the energy cycle?***

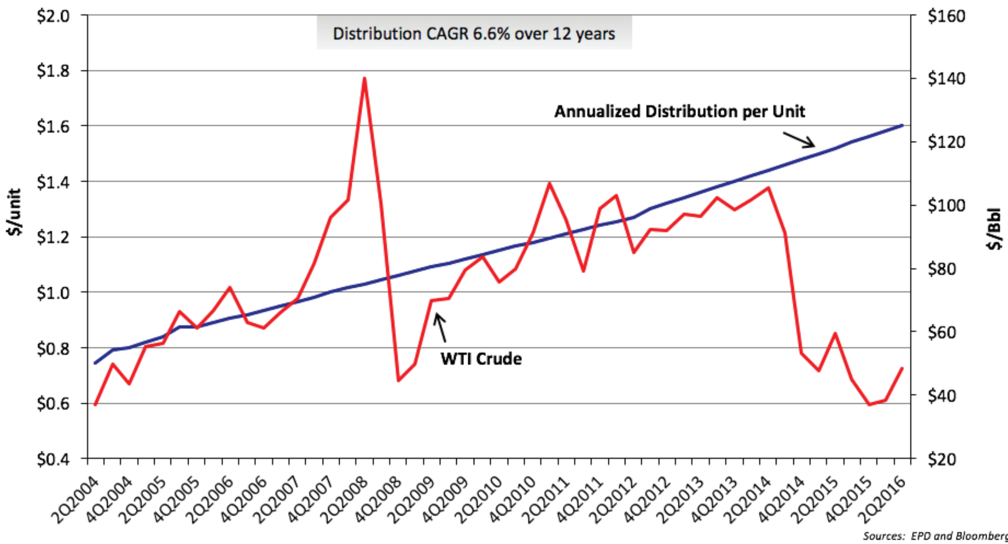
RF: The primary objective of Enterprise's business model is sustainability over the long term. One of our financial goals is to balance providing partners with moderate distribution increases with retaining excess distributable cash flow for financial flexibility—and to reinvest in the growth of the partnership. Retained distributable cash flow reduces our reliance on the equity capital markets to fund growth capital projects, and thereby reduces the amount of dilution associated with issuing new equity. We have raised our distribution for 48 consecutive quarters (or 12 years), which, to our knowledge, is the longest track record of any MLP. Our margin of safety has been demonstrated with average distribution coverage of 1.4 times and the retention of over $5 billion ($5B), excluding nonrecurring items, of cash flow in the partnership to fund growth projects since Q1/11.

AA: ***What differentiates Enterprise from other midstream energy operators?***

RF: Reliability, integration, diversification. We look at our asset base as a value chain. It's not uncommon for us to touch a molecule five to seven times in our system. For example, rich natural gas is gathered in the Rockies, then the NGLs are separated from the gas at a processing facility, then the NGLs are transported via one of our long-haul pipelines. The NGLs are further separated at a fractionation facility into purity components, then put into storage, and then moved through a distribution pipeline to an end-customer or an export facility. That type of integration is what attracts our great customer base. It provides flow assurance, market access, and supply diversification. Additionally, our businesses are diversified. Approximately 56% of our $5.3B of total gross operating margin (a non-GAAP measure) for the trailing 12 months ended June 30, 2016, was generated from our NGL business, while 17% came from our crude oil businesses, 14% from our natural gas segment, and 13% from our petrochemical and refined products services segment.

AA: ***When it comes to acquisitions, does that same methodology apply? You wouldn't be interested in something that could have great value if it doesn't have upside for the rest of your assets, correct?***

RF: We are not looking to buy assets just for the sake of getting bigger. An acquisition needs to be accretive to distributable cash flow per unit and complement our existing system. Our most recent acquisitions, Oiltanking Partners and the EFS Midstream assets, had immediate upside for other assets in our system. The Oiltanking transaction



enabled us to better stage vessels for loading and unloading hydrocarbons, and we began realizing those efficiencies very quickly. The EFS assets expanded and extended our Eagle Ford position by adding gathering, stabilization, and processing. These assets, integrated with our system, are providing additional upside. Conversely, the Mississippi natural gas storage business we sold in 2011 was an example of an asset that was not integrated with our midstream system and had better value for another operator.

AA: ***Looking across your system, where do investors get the most excited about potential upside for future value?***

RF: First, we have almost $11B in growth projects constructed during the past three years, many of which are still ramping up in terms of contracted volumes and cash flow. These include the ATEX (Appalachia-to-Texas Express), Aegis, Front Range, and Texas Express pipelines, and also Permian processing plants.

Second, we have almost $7B of major projects under construction that are scheduled to begin operations and generate new sources of cash flow between now and the end of 2018. Most of these investments are projects supported by long-term, fee-based contracts with companies in the petrochemical and crude oil refining industries. This provides investors with visibility to continued growth in distributable cash flow for the next several years.

"...We have almost $7B of projects under construction that are scheduled to begin operations and generate new sources of cash flow between now and the end of 2018."

Most recently, we announced plans to build a new natural gas processing plant in the Delaware Basin, which continues to be one of the most active drilling areas in the U.S., despite low crude oil prices. This is our third natural gas processing plant in the basin to be announced in the last 15 months. We are optimistic that we will be expanding one or more of these plants over the next few years.

Two additional projects that we are evaluating also have the attention of investors. We are developing an isobutane dehydrogenation (ibDH) plant that would allow us to fully utilize two existing facilities to increase our production of motor gasoline additives and petrochemical feedstocks. The other project we are evaluating is an ethylene export facility along the U.S. Gulf Coast, and that is being driven by interest from petrochemical companies. U.S. ethylene production capacity is expected to increase by approximately 40% by 2020. This project would provide ethylene producers with access to global markets.

Finally, our integrated midstream system has a large footprint that inherently provides attractive growth opportunities. This, in combination with our attractive cost of capital, supports our ability to increase distributable cash flow.

AA: ***Thank you, Randy.***

Analyst Commentary

"EPD remains a top large-cap midstream pick in part due to its steady financial profile, which includes (1) solid 5-6% annual distribution growth with 1.2-1.3x coverage, (2) diversified, largely fee-based profile with manageable counterparty risk, and (3) financial flexibility, including a strong balance sheet (low 4x Debt/EBITDA), no IDR burden, and access to cost-effective debt and equity financing."

—Theodore Durbin, Goldman Sachs
July 29, 2016

"We continue to view Enterprise's ability to capture margin throughout its integrated footprint and grow cash flows despite macro headwinds as an asset to investors. Coupled with an investment-grade balance sheet and line of sight to continued distribution growth, we view EPD as a core holding."

—Selman Akyol, Stifel
July 28, 2016

"EPD's business model remains resilient, proving that size does matter as customers value an integrated midstream system w/flow assurance at the wellhead and downstream market optionality. . .EPD remains a top COS pick."

—Charles Marshall, CapitalOne Securities Inc.
July 29, 2016

"EPD's ability to leverage its value chain during tough times to maintain customer volumes is key to our bullish thesis. . .We see EPD's sizable, contracted project backlog, attractive cost of equity and balance sheet flexibility continuing to bolster cash flow and growth, while scale advantages allow EPD to take business from competitors in still challenging conditions."

—Jeff Birnbaum, Wunderlich Securities Inc.
July 28, 2016

"We view Enterprise as a core holding with visible distribution growth, a robust coverage ratio, and a strong balance sheet underpinned by a diverse set of midstream assets and favorable long-term fundamentals for crude and NGL markets."

—Michael Blum, Wells Fargo Securities
July 29, 2016

"EPD is viewed as a core position in the [MLP] sector given volume declines, financial duress, and margin pressures elsewhere in the sector."

—Tom Abrams, Morgan Stanley
July 28, 2016

DISCLOSURE

ABOUT ADVISOR ACCESS

Advisor-Access LLC was designed to bring compelling investment ideas to investors in the form of in-depth interviews with company management and the latest fact sheets and corporate presentations, in a concise format: the critical pieces of information an investor needs to make an informed investment decision.