

Tesoro Logistics Investing \$1.1 Billion to Strengthen Position as a Leading Integrated Midstream Services Company

Prepared Remarks
November 21, 2016

Evan Barbosa:

- Welcome to today's prepared remarks to discuss TLLP's acquisitions of Gathering and Processing Assets in North Dakota and Terminalling and Storage assets in Northern California.
- Joining me is Greg Goff, Chairman and CEO.
- The press release and accompanying slide presentation, which can be found on our website at tesorologistics.com, includes financial disclosures and reconciliations for non-GAAP financial measures that should help you analyze these transactions.
- Please refer to the forward looking statement in the release and presentation which says statements made during this call that refer to management's expectations and/or future predictions are forward-looking statements intended to be covered by the Safe Harbor Provisions of the Securities Act, as there are many factors which could cause results to differ from our expectations.
- Now, I will turn the discussion over to Greg.

Greg Goff:

- Thank you Evan.
- On behalf of Tesoro Logistics, thank you for joining us for a recap of today's announcements.
- As you may know, we announced two acquisitions, an IDR waiver by our General Partner and our growth outlook for 2017.
- Let me begin by discussing the acquisitions.

- First, TLLP has agreed to purchase the integrated crude oil, produced water, and natural gas gathering and processing assets in North Dakota from Whiting Oil and Gas Corporation, GBK Investments LLC and WBI Energy Midstream LLC for \$700 million.
- The acquisition includes 650 miles of gathering pipelines and two processing facilities with 170 million cubic feet per day of capacity.
- The assets are located in core Bakken producing zones that are supported by long term acreage dedications from 10 different producers and are economic at current commodity price levels.
- With that said, substantially all of the volume forecasted in 2017 is based on current well production. There are presently two rigs working in the dedicated acreage and a significant inventory of drilled, uncompleted wells.
- We looked very carefully at the Pronghorn and Sanish fields in terms of production potential, drilling economics, capitalization and drilling plans for each of the producers, and our view of the long term supply needs for Bakken Crude oil. We believe our projections should be durable given reasonably conservative assumptions.
- We expect the assets to generate \$79 to \$89 million of annual net earnings and \$100 to \$110 million of annual EBITDA in 2017.
- Strategically, this acquisition reflects a very attractive mid-single-digit purchase price multiple for assets with significant upside potential from organic expansion based on infill drilling in the committed acreage and puts us in a position to capture new business from existing customers.
- Secondly, TLLP today acquired Terminalling and Storage assets in Northern California from Tesoro for \$400 million.
- This includes 5.8 million barrels of storage capacity and a marine terminal with 35,000 barrels per day of expected throughput.
- The Martinez transaction was financed with \$40 million of equity to Tesoro and the balance borrowed from our drop down revolver.

- The assets are expected to generate \$28 to \$33 million of annual net earnings and \$45 to \$50 million of EBITDA in 2017.
- We expect to grow revenues associated with these assets by 10 to 15% through improvements in capacity availability over the first three years of operation.
- Additionally, though not reflected in our current expectations, we expect to pursue organic expansion opportunities that Tesoro has already expressed an interest in.
- Strategically, this transaction reflects our strategy to continue to acquire assets from Tesoro.
- We believe that the current drop down inventory, based on Tesoro's existing business and planned growth initiatives should provide at least \$500 million of potential MLP earnings.
- Both of these acquisitions enhance our portfolio with geographic, business segment and customer diverse assets while contributing to future organic growth potential.
- Additionally, both are expected to be immediately accretive to unitholders on a stand-alone basis.
- Financially, with these transactions, TLLP is well within reach of our 2017 target of an annual run rate of \$635 million net earnings, or \$1 billion of EBITDA while maintaining strong leverage and coverage metrics.
- We remain committed to achieving investment grade credit ratings. We have strong momentum with the recent upgrade by S&P to BB+ and Moody's announcement on Friday putting TLLP on Positive Outlook.
- We entered the quarter with nearly \$500 million of cash retained on our balance sheet primarily from our June equity offering and after funding the Martinez transaction today, we have over \$840 million of current revolver capacity.
- Pro-forma for both transactions, our business remains balanced with a little over half of our revenues coming from the terminalling and transportation segment and the remainder from our Gathering and Processing segments.

- Also today, Tesoro announced it has agreed to waive \$100 million of general partner incentive distributions over the next two years.
- The waiver positions us to have balanced distribution growth, improves our cost of capital and the overall attractiveness of our LP units.
- We believe that there are significant opportunities to drive growth of the Logistics Business and this waiver enhances the Partnership's competitive position.
- We continue to evaluate our IDR structure relative to our long term strategy and believe there are potential options that will continue to position TLLP to be very competitive and provide strong growth potential for all of the unitholders.
- For 2017, we expect to grow LP distributions by 12 to 15 percent while maintaining the financial flexibility required to capture future opportunities.
- Now, taking a step back, these are very exciting times for Tesoro Logistics.
- Along with our demonstrated capabilities in crude oil and natural gas gathering, natural gas processing and downstream pipelines and terminals, we expect TLLP will be better positioned to serve its customers enabling TLLP to capture growth opportunities that drive future distribution growth.
- Also, we are very pleased about last week's announcement by Tesoro of its proposed acquisition of Western Refining. We believe that creating a premier, highly integrated and geographically diversified parent company will provide additional strategic and organic growth opportunities for Tesoro Logistics.
- Evan, I'll turn it back over to you.

Evan Barbosa

- If you have additional questions, please reach out directly to me at (210) 626-7202. Thank you.