

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's upgrades Blue Racer's senior notes to B2, rates new notes**

14 Jun 2018

Approximately \$300 million of new unsecured notes rated

New York, June 14, 2018 -- Moody's Investors Service ("Moody's") upgraded Blue Racer Midstream, LLC's (BRM) senior unsecured notes to B2 from B3 and simultaneously assigned a B2 rating to the company's proposed \$300 million senior unsecured notes, due 2026. The company's B1 Corporate Family Rating (CFR) and B1-PD Probability of Default Rating (PDR) were affirmed. The SGL-3 Speculative Grade Liquidity Rating was withdrawn. The rating outlook is stable.

Net proceeds from the new notes will be used to repay borrowings outstanding under the company's revolving credit facility and for general corporate purposes.

"The new notes will increase BRM's gross debt by about \$30 million, but they will also provide an equal amount of cash that should minimize the need to draw on the revolver, said Sajjad Alam, Moody's Senior Analyst. The upgrade of the notes reflects an increased proportion of unsecured debt in BRM's capital structure lifting the notes rating closer to the CFR".

Issuer: Blue Racer Midstream, LLC

Ratings Assigned:

\$300 million Gtd. Global Notes, Assigned B2 (LGD5)

Ratings Upgraded:

\$850 million 6.125% Gtd. Global Notes, Upgraded to B2 (LGD5) from B3 (LGD5)

Ratings Affirmed:

... Corporate Family Rating, Affirmed B1

... Probability of Default Rating, Affirmed B1-PD

Ratings Withdrawn:

... Speculative Grade Liquidity Rating, Withdrew SGL-3

Outlook:

...Maintain Stable

RATINGS RATIONALE

The new notes will rank pari passu with the existing \$850 million 2022 notes. The senior notes are rated B2, one notch below the B1 CFR given the significant size of BRM's priority ranking \$1 billion senior secured committed revolving credit facility. The revolver is secured by substantially all of the assets of BRM and its current and future material subsidiaries.

BRM's B1 CFR reflects the company's moderate financial leverage, significant growth capital needs to support its planned expansion, as well as its integrated midstream system in the liquids-rich southwest Marcellus and Utica Shale plays. After sluggish volume growth in 2016-2017, we expect E&P drilling and completion activities to accelerate in 2018, modestly lifting BRM's throughput volumes, earnings and cash flow. In response to the sector-wide drilling slowdown, BRM had slashed growth capital spending and opted to reinvest conservatively in 2017. The B1 rating is supported by BRM's long term fee-based cash flow streams backed by a diversified group of customers, good organic growth prospects afforded by BRM's location in the core liquids-rich parts of

the Utica and Marcellus Shales, significant initial equity funding from its two owners -- Dominion Energy and Caiman Energy, and the ongoing strong support from its parents that reinvested their distributions into BRM in 2016 and 2017 to keep leverage under control. While the company will likely spend significantly more growth capital in 2018-19, we expect leverage to increase only modestly during this period.

Blue Racer has adequate liquidity, which is principally backed by its large committed revolving credit facility. Pro forma for the proposed notes, the company will have an undrawn \$1 billion revolver and roughly \$30 million of cash.

The revolver matures in March 2022, and the existing \$850 million senior notes mature in November 2022. The revolving credit facility has several financial covenants and we expect the company to maintain adequate cushion under its covenants through 2019.

The stable outlook reflects our expectation of no material changes to BRM's leverage metrics through 2019. Ratings could be upgraded presuming the company executes on its growth program, EBITDA remains in excess of \$200 million, debt to EBITDA approaches 4x and fee-based margins are maintained at over 80%. Ratings could be downgraded should a sustained slowdown in Utica and Marcellus drilling and completion activity materially reduces throughput volume and EBITDA or should the debt to EBITDA ratio exceed 6x.

Blue Racer Midstream, LLC is a private midstream company that provides gathering, processing, fractionation and natural gas liquids (NGLs) transportation and marketing services to natural gas producers in the Utica and Marcellus Shale.

The principal methodology used in these ratings was Midstream Energy published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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