

Targa Resources Corp.
Form 10-Q
August 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-34991

TARGA RESOURCES CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-3701075

(I.R.S. Employer Identification No.)

1000 Louisiana St, Suite 4300, Houston, Texas

(Address of principal executive offices)

77002

(Zip Code)

(713) 584-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 29, 2016, there were 166,630,466 shares of the registrant’s common stock, \$0.001 par value, outstanding.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Targa Resources Corp.'s (together with its subsidiaries, including Targa Resources Partners LP ("the Partnership" or "TRP"), "we," "us," "Targa," "TRC," or the "Company") reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements." You can typically identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, by the use of forward-looking statements, such as "may," "could," "project," "believe," "anticipate," "expect," "estimate," "potential," "plan" and other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the following risks and uncertainties:

- the timing and extent of changes in natural gas, natural gas liquids ("NGL"), crude oil and other commodity prices, interest rates and demand for our services;
- the level and success of crude oil and natural gas drilling around our assets, our success in connecting natural gas supplies to our gathering and processing systems, oil supplies to our gathering systems and NGL supplies to our logistics and marketing facilities and our success in connecting our facilities to transportation services and markets;
- our ability to access the capital markets, which will depend on general market conditions and the credit ratings for the Partnership's and our debt obligations;
- the amount of collateral required to be posted from time to time in our transactions;
- our success in risk management activities, including the use of derivative instruments to hedge commodity price risks;
- the level of creditworthiness of counterparties to various transactions with us;
- changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment;
- weather and other natural phenomena;
- industry changes, including the impact of consolidations and changes in competition;
- our ability to obtain necessary licenses, permits and other approvals;
- our ability to grow through acquisitions or internal growth projects and the successful integration and future performance of such assets;
- general economic, market and business conditions; and
- the risks described in our Annual Report on Form 10-K for the year ended December 31, 2015 ("Annual Report"), this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the "Quarterly Report") and our reports and registration statements filed from time to time with the United States Securities and Exchange Commission ("SEC").

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Quarterly Report will prove to be accurate. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in "Part II- Other Information, Item 1A. Risk Factors." in this Quarterly Report and in our Annual Report. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise.

As generally used in the energy industry and in this Quarterly Report, the identified terms have the following meanings:

Bbl	Barrels (equal to 42 U.S. gallons)
Btu	British thermal units, a measure of heating value
Bcf	Billion cubic feet
BBtu	Billion British thermal units
/d	Per day
/hr	Per hour
gal	U.S. gallons
GPM	Liquid volume equivalent expressed as gallons per 1000 cu. ft. of natural gas
LPG	Liquefied petroleum gas
MBbl	Thousand barrels
MMgal	Million U.S. gallons
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf	Million cubic feet
NGL(s)	Natural gas liquid(s)
NYMEX	New York Mercantile Exchange
GAAP	Accounting principles generally accepted in the United States of America
LIBOR	London Interbank Offered Rate
NYSE	New York Stock Exchange
Price Index Definitions	
IF-NGPL MC	Inside FERC Gas Market Report, Natural Gas Pipeline, Mid-Continent
IF-PB	Inside FERC Gas Market Report, Permian Basin
IF-WAHA	Inside FERC Gas Market Report, West Texas WAHA
NY-WTI	NYMEX, West Texas Intermediate Crude Oil
OPIS-MB	Oil Price Information Service, Mont Belvieu, Texas
NG-NYMEX	NYMEX, Natural Gas

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

TARGA RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited) (In millions)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 170.9	\$ 140.2
Trade receivables, net of allowances of \$0.1 million as of June 30, 2016 and \$0.1 million as of December 31, 2015	490.1	515.8
Inventories	111.0	141.0
Assets from risk management activities	41.4	92.2
Other current assets	43.3	30.8
Total current assets	856.7	920.0
Property, plant and equipment	12,229.4	11,935.1
Accumulated depreciation	(2,526.9)	(2,232.4)
Property, plant and equipment, net	9,702.5	9,702.7
Intangible assets, net	1,726.0	1,810.1
Goodwill, net	393.0	417.0
Long-term assets from risk management activities	13.6	34.9
Investments in unconsolidated affiliates	250.2	258.9
Other long-term assets	58.1	67.4
Total assets	\$ 13,000.1	\$ 13,211.0
LIABILITIES, SERIES A PREFERRED STOCK AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 697.7	\$ 657.1
Liabilities from risk management activities	14.9	5.2
Accounts receivable securitization facility	225.0	219.3
Total current liabilities	937.6	881.6
Long-term debt	4,778.3	5,718.8
Long-term liabilities from risk management activities	19.7	2.4
Deferred income taxes, net	1,083.0	177.8
Other long-term liabilities	164.5	180.2
Contingencies (see Note 17)		
Series A Preferred 9.5% Stock, \$1,000 per share liquidation preference, (1,200,000 shares authorized, issued and outstanding 965,100 shares)	179.9	—

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Owners' equity:

Targa Resources Corp. stockholders' equity:

Common stock (\$0.001 par value, 300,000,000 shares authorized)	0.2	0.1
	Issued	Outstanding
June 30, 2016	166,302,062	165,822,818
December 31, 2015	56,446,573	56,020,266
Preferred stock (\$0.001 par value, after designation of Series A Preferred Stock (above) 98,800,000 shares authorized, no shares issued and outstanding)	—	—
Additional paid-in capital	5,371.3	1,457.4
Receivables from common stock issuances	(36.0)	—
Retained earnings (deficit)	(25.9)	26.9
Accumulated other comprehensive income (loss)	(5.7)	5.7
Treasury stock, at cost (479,244 shares as of June 30, 2016 and 426,307 as of December 31, 2015)	(29.1)	(28.7)
Total Targa Resources Corp. stockholders' equity	5,274.8	1,461.4
Noncontrolling interests in subsidiaries	562.3	4,788.8
Total owners' equity	5,837.1	6,250.2
Total liabilities, Series A Preferred Stock and owners' equity	\$13,000.1	\$13,211.0

See notes to consolidated financial statements

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues				
Sales of commodities	\$1,312.9	\$1,396.1	\$2,484.0	\$2,798.3
Fees from midstream services	270.7	303.3	542.0	580.8
Total revenues	1,583.6	1,699.4	3,026.0	3,379.1
Costs and expenses:				
Product purchases	1,145.2	1,228.1	2,156.2	2,486.6
Operating expenses	138.9	145.8	271.0	266.9
Depreciation and amortization expenses	186.1	163.9	379.6	282.5
General and administrative expenses	47.0	49.2	92.2	91.7
Goodwill impairment	—	—	24.0	—
Other operating (income) expense	0.1	—	1.1	0.6
Income from operations	66.3	112.4	101.9	250.8
Other income (expense):				
Interest expense, net	(71.4)	(67.6)	(124.3)	(121.7)
Equity earnings (loss)	(4.4)	(1.5)	(9.2)	0.5
Gain (loss) from financing activities	(3.3)	(3.8)	21.4	(12.9)
Other	(0.1)	(0.9)	(0.2)	(26.9)
Income (loss) before income taxes	(12.9)	38.6	(10.4)	89.8
Income tax (expense) benefit	(1.7)	(14.8)	(4.8)	(30.1)
Net income (loss)	(14.6)	23.8	(15.2)	59.7
Less: Net income attributable to noncontrolling interests	8.6	8.6	10.7	41.1
Net income (loss) attributable to Targa Resources Corp.	(23.2)	15.2	(25.9)	18.6
Dividends on Series A preferred stock	22.9	—	26.7	—
Deemed dividends on Series A preferred stock	6.5	—	6.5	—
Net income (loss) attributable to common shareholders	\$(52.6)	\$15.2	\$(59.1)	\$18.6
Net income (loss) per common share - basic	\$(0.33)	\$0.27	\$(0.44)	\$0.37
Net income (loss) per common share - diluted	\$(0.33)	\$0.27	\$(0.44)	\$0.36
Weighted average shares outstanding - basic	161.6	55.9	134.1	50.9
Weighted average shares outstanding - diluted	161.6	56.1	134.1	51.0

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30, 2016			2015		
	Related Income		After Tax	Related Income		After Tax
	Pre-Tax	Tax		Pre-Tax	Tax	
	(Unaudited)			(Unaudited)		
	(In millions)			(In millions)		
Net income (loss) attributable to Targa Resources Corp.			\$ (23.2)			\$ 15.2
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ (60.2)	\$ 22.9	(37.3)	\$ (0.5)	\$ 0.2	(0.3)
Settlements reclassified to revenues	(18.3)	6.9	(11.4)	(2.4)	0.9	(1.5)
Other comprehensive income (loss) attributable to Targa Resources Corp.	(78.5)	29.8	(48.7)	(2.9)	1.1	(1.8)
Comprehensive income attributable to						
Targa Resources Corp.			(71.9)			13.4
Net income (loss) attributable to noncontrolling interests			8.6			8.6
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	—	—	—	(3.1)	—	(3.1)
Settlements reclassified to revenues	—	—	—	(19.0)	—	(19.0)
Other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	(22.1)	—	(22.1)
Comprehensive income (loss) attributable to noncontrolling interests			8.6			(13.5)
Total						
Net income (loss)			(14.6)			23.8
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	(60.2)	22.9	(37.3)	(3.6)	0.2	(3.4)
Settlements reclassified to revenues	(18.3)	6.9	(11.4)	(21.4)	0.9	(20.5)
Other comprehensive income (loss)	\$ (78.5)	\$ 29.8	(48.7)	\$ (25.0)	\$ 1.1	(23.9)
Total comprehensive income (loss)			\$ (63.3)			\$ (0.1)

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Six Months Ended June 30, 2016			2015		
	Pre-Tax (Unaudited) (In millions)	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
Net income (loss) attributable to Targa Resources Corp.			\$ (25.9)			\$ 18.6
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ (77.1)	\$ 29.4	(47.7)	\$ 2.0	\$ (0.6)	1.4
Settlements reclassified to revenues	(31.3)	11.9	(19.4)	(4.1)	1.4	(2.7)
Other comprehensive income (loss) attributable to Targa Resources Corp.	(108.4)	41.3	(67.1)	(2.1)	0.8	(1.3)
Comprehensive income attributable to Targa Resources Corp.			(93.0)			17.3
Net income (loss) attributable to noncontrolling interests			10.7			41.1
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	23.6	—	23.6	25.0	—	25.0
Settlements reclassified to revenues	(11.1)	—	(11.1)	(30.8)	—	(30.8)
Other comprehensive income (loss) attributable to noncontrolling interests	12.5	—	12.5	(5.8)	—	(5.8)
Comprehensive income (loss) attributable to noncontrolling interests			23.2			35.3
Total						
Net income (loss)			(15.2)			59.7
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	(53.5)	29.4	(24.1)	27.0	(0.6)	26.4
Settlements reclassified to revenues	(42.4)	11.9	(30.5)	(34.9)	1.4	(33.5)
Other comprehensive income (loss)	\$ (95.9)	\$ 41.3	(54.6)	\$ (7.9)	\$ 0.8	(7.1)
Total comprehensive income (loss)			\$ (69.8)			\$ 52.6

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' EQUITY AND SERIES A PREFERRED STOCK

	Retained Earnings and Accumulated Other Comprehensive Income									
	Common Stock		Additional Paid in Capital	Earnings (Accumulated Deficit)	Other Comprehensive Income (Loss)	Treasury Shares		Noncontrolling Interests	Total Owner's Equity	Series A Preferred Stock
	Shares (Unaudited)	Amount				Shares	Amount			
	(In millions, except shares in thousands)									
Balance, December 31, 2015	56,020	\$ 0.1	\$ 1,457.4	\$ 26.9	\$ 5.7	426	\$(28.7)	\$ 4,788.8	\$ 6,250.2	\$ —
Compensation on equity grants	—	—	13.0	—	—	—	—	2.2	15.2	—
Distribution equivalent rights	—	—	(4.9)	—	—	—	—	(0.2)	(5.1)	—
Shares issued under compensation program	224	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(54)	—	—	—	—	54	(0.4)	(0.1)	(0.5)	—
Proceeds from common stock issuances	5,106	—	215.1	—	—	—	—	—	215.1	—
Receivables from common stock offerings	—	—	(36.0)	—	—	—	—	—	(36.0)	—
Issuance of Series A preferred and detachable warrants	—	—	796.8	—	—	—	—	—	796.8	179.9
Series A preferred stock dividends	—	—	—	(3.8)	—	—	—	—	(3.8)	—
Series A preferred stock dividends in excess of retained earnings	—	—	(22.9)	—	—	—	—	—	(22.9)	—
Series A preferred stock deemed dividends	—	—	(6.5)	—	—	—	—	—	(6.5)	—
	—	—	—	(23.1)	—	—	—	—	(23.1)	—

Common stock dividends										
Common stock dividends in excess of retained earnings	—	—	(174.2)	—	—	—	—	—	(174.2)	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(151.0)	(151.0)	—
Contributions from noncontrolling interests	—	—	—	—	—	—				