May 20, 2022

<u>By Email</u>

Conflicts Committee
Shell Midstream Partners
150 North Dairy Ashford Rd.
Houston, Texas 77079

Re: <u>Shell Minority Buy-Out Proposal</u>

Dear Conflicts Committee:

Wolf Capital Management LLC is a shareholder of Shell Midstream Partners ("SHLX"), and we are concerned that you will capitulate to Shell, plc ("Shell") by accepting a bid that significantly undervalues SHLX shares. As we understand it, Shell's proposal of $12.89/share is subject to the approval of the Conflicts Committee "the Committee".

As a starting point, the Committee has the power, as well as a fiduciary duty of good faith and fair dealing, to reject any bid that undervalues SHLX. Given that the Committee collectively own only a token amount of SHLX shares, it behooves the Committee to not give consent to any transaction without the approval of the affected party: the minority holders of SHLX. As we understand it, the Committee has failed to solicit the views of minority shareholders thus far, and has provided no evidence of any intention to do so. How is it that the Committee, with only a nominal economic interest in SHLX, believes it can substitute its own judgment for that of the parties affected by the buyout proposal, namely SHLX's shareholders, rather than consulting with them? Moreover, the Committee is in the process of negotiating with Shell, and providing Shell management with ample opportunity to present its views. This one-sided approach is not in keeping with the Committees obligations as a fiduciary and will only result in further conflict, and potential litigation.

In exercising its power to evaluate the Shell proposal, it is incumbent on the Committee to not merely accept whatever premium over the existing offer or the current trading price. Instead, it is the Committee's obligation is to maximize the value of the shares for minority shareholders based on an objective fundamental valuation of the business. <u>Our analysis concludes that the buyout price should be no lower than $20/share</u>.

We believe that Shell has engaged in a premediated scheme to depress the value of SHLX shares since the middle of 2021 for the sole purpose of artificially reducing a future anticipated buyout transaction. For example, Shell's offer does not include any adjusted EBITDA associated with its interest in the Colonial joint venture. Shell has refused to reassure the market about the value contributed by Colonial over the past nine months, and now it appears that SHLX has failed to include any EBITDA contribution from Colonial in its offer. Moreover, there have been a series of transactions involving Colonial where parties have valued it at ~11x trailing EBITDA. We believe that a proper valuation of Colonial – without other adjustments – should yield an additional ~$2/share.

Similarly, the Norco failed lease accounting contributes $35 million of recurring annualized cash flow that is not included in SHLX's adjusted LTM EBITDA calculations. This is because SHLX chooses to use the accounting treatment of this cash flow as interest income. Because buyers purchase companies for recurring cash flow like this, any objective valuation should include it in its EBITDA or alternatively account for by capitalizing the incremental cash flow and include the result in its valuation. Using a conservate multiple of 8.5x-9x would add at ~$300-$315 million to the valuation, an additional 6% above the current offer from that adjustment alone.

Pro Forma Adjusted EBITDA and EBIT

2022 Pro Forma Adjusted EBITDA Bridge	
2021 Reported Adj. EBITDA	$720
Colonial Pipeline Distribution Cut (1)	39
Norco Failed Sale-Leaseback Accounting	35
Hurricane Ida Impact	70
2021 Pro Forma Adjusted EBITDA	$864
Index-Based Rate Increased - Annualized Impact (2)	43
Mars Expansion - Annualized Impact (3)	28
2022 Pro Forma Adjusted EBITDA	$934
2022 Pro Forma Adjusted EBIT	$869

Additional Sources of Potential Material Upside

- Recovery of offshore volumes to pre-covid levels (15% upside) and oil in excess of $100 bbl currently.
- Recovery in Colonial and Explorer refined products pipelines to pre-covid levels.
- Acquisition related savings for public company costs and SG&A synergies

(1) Assumes any Colonial reparation payments on 16.125% interest from rate case will be offset by forgone dividends by Colonial Pipeline Company. Also assumes any Colonial rate decreases from the Rate Case will be offest by the annual tariff increases in July 2022.
(2) FERC Oil Pipeline Index per FERC public index calculation methodology and monthly PPI-FG will imply 9.7% index increase effective July 1, 2022. This rate increase will apply to Mars, Auger, Delta, Na Kika, Odyssey, Poseidon, Explorer and Bengal Pipelines. Norco estimated increase will be 4.9% based on CPI index levels and Norco's CPI indexing methodology per SHLX 10-K. Terminals increase at fixed 2.5% per year. Assumes 75% margin on incremental revenue from tarif rate increases.
(3) Based on estimated ramp of PowerNap and Vito deepwater project expansion in Mars system.

However, there a far larger fundamental flaw in the valuation used by Shell in justifying its offer price that leads to a substantial undervaluation of SHLX and ultimately short-changes SHLX shareholders by ~$1bn. EBITDA multiples oversimplify the valuation analysis by removing significant cash flow generation distinctions between SHLX and its peers. SHLX owns many of the offshore pipelines, while other operators must invest substantial amounts to link up with pipelines owned by other E&P companies. EBITDA fails to differentiate the capital intensity among the comparable companies as it contains large depreciation and amortization add backs to the comps cash flow and does not take into account the massive structural advantage SHLX enjoys as a result of significantly lower ongoing capital expenditure requirements. Thus, using an EBIT multiple is a much more accurate way to value SHLX that takes into account this economic reality, and all things being equal lower capital intensity businesses should trade at higher multiples than more capital intensive ones. By our calculations, the EBIT multiple of SHLX's comparable company set (ENB, EPD, KMI, MMP, MPLX, PBA and PAA) is 15.9x forward EBIT, which implies a price of ~$26.15 a share vs the current $12.89 offer price.

Shell plc Offer is a Substantial Discount to Comparable Valuations

	Market			2022E	EV/2022E
	Price [1]	Cap	EV	EBIT [2]	EBIT [3]
Enbridge	$44.99	$91,159	$160,245	$8,501	18.9x
Enterprise Product Partners	$25.04	54,497	82,746	6,087	13.6x
Kinder Morgan Inc.	$18.39	41,699	74,099	3,928	18.9x
MPLX	$32.62	33,097	55,172	3,927	14.0x
Pembina Pipeline Corp	$45.56	25,073	39,569	2,444	16.2x
Magellan Midstream Partners, LP	$49.02	10,412	15,671	1,106	14.2x
Plains All American Pipeline, LP	$10.88	7,671	19,619	1,271	15.4x
Comparable Company Average					15.9x
Shell plc Offer Price [4]	$12.89	5,070	8,460	869	9.7x
Shell plc Offer Discount to Comparable Companies					(6.1x)

(1) Prices as of 3/28/2022. Enbridge figures converted to USD at 1.2521 CAD/USD spot rate.
(2) EBIT = Management-defined Net Income + Interest + Taxes. JV Income included in Net Income.
Rate Case will be offest by the annual tariff increases in July 2022.
(3) Calcualuctions to do not add proportionate share of JV net debt to EV as JV income is included in NI for EBIT calcualtion.
Non-Controlling Interests are added to EV when company does not deduct earnings attribuatble to NCIs from EBITDA.
(4) SHLX calculaitons based on 2/11/22 preliminary offer price. EBIT is adusted as per the prior EBITDA Bridge table.

The timing of Shell's decision to offer to purchase SHLX is itself suspicious. Oil is currently trading at levels not seen in years, and historical cash flows does not account for this. Shell, as the operator of SHLX, has unique insight into the energy market and SHLX's prospects, but has refused to market test its valuation to achieve a highest and best offer for the asset. Now is the perfect time for Shell to buyout SHLX's minority shareholders, however, it is likely the worst time for SHLX minority shareholders to sell.

We are more than content to remain holders of SHLX based on its fundamental value and substantial dividend generation, and see no exigency requiring a sale now. We do understand why Shell would have every incentive to buy SHLX at a bargain-basement price at this inflection point in the market. We hope and expect that the Committee will be cognizant of our concerns, but we, and other SHLX investors, will hold the Committee members to account for failing to do so. The optimal approach to avoid such an outcome is to solicit the views of SHLX shareholders and demand a fair price from Shell in excess of $20/share, which is clearly supported by any objective measure of valuation.

Sincerely,

Joshua Nahas

Joshua Nahas
Managing Member
Wolf Capital Management, LLC