

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:	)	Chapter 11
	)	
SOUTHCROSS ENERGY PARTNERS, L.P.,	)	Case No. 19-10702 (MFW)
<i>et al.</i> ,	)	
	)	Jointly Administered
Debtors. <sup>1</sup>	)	
	)	Hearing Date: January 27, 2020 at 10:30 a.m.
	)	(prevailing Eastern Time)
	)	

**DECLARATION OF ROBERT A. PACHA IN SUPPORT OF FIRST AMENDED  
CHAPTER 11 PLAN FOR SOUTHCROSS ENERGY PARTNERS, L.P.  
AND ITS AFFILIATED DEBTORS**

Robert A. Pacha, in support of confirmation of the *First Amended Chapter 11 Plan for Southcross Energy Partners, L.P. and its Affiliated Debtors* [D.I. 816] (as may be amended or modified from time to time in accordance with its terms, and including all exhibits and supplements thereto, the “**Plan**”),<sup>2</sup> declares as follows:

1. I am a Senior Managing Director at Evercore Group L.L.C. (“**Evercore**”).

Evercore is a leading independent investment banking advisory and investment management

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<sup>1</sup> The debtors and debtors in possession in these chapter 11 cases, along with the last four digits of their respective Employer Identification Numbers, are as follows: Southcross Energy Partners, L.P. (5230); Southcross Energy Partners GP, LLC (5141); Southcross Energy Finance Corp. (2225); Southcross Energy Operating, LLC (9605); Southcross Energy GP LLC (4246); Southcross Energy LP LLC (4304); Southcross Gathering Ltd. (7233); Southcross CCNG Gathering Ltd. (9553); Southcross CCNG Transmission Ltd. (4531); Southcross Marketing Company Ltd. (3313); Southcross NGL Pipeline Ltd. (3214); Southcross Midstream Services, L.P. (5932); Southcross Mississippi Industrial Gas Sales, L.P. (7519); Southcross Mississippi Pipeline, L.P. (7499); Southcross Gulf Coast Transmission Ltd. (0546); Southcross Mississippi Gathering, L.P. (2994); Southcross Delta Pipeline LLC (6804); Southcross Alabama Pipeline LLC (7180); Southcross Nueces Pipelines LLC (7034); Southcross Processing LLC (0672); FL Rich Gas Services GP, LLC (5172); FL Rich Gas Services, LP (0219); FL Rich Gas Utility GP, LLC (3280); FL Rich Gas Utility, LP (3644); Southcross Transmission, LP (6432); T2 EF Cogeneration Holdings, LLC (0613); and T2 EF Cogeneration LLC (4976). The debtors’ mailing address is 1717 Main Street, Suite 5300, Dallas, TX 75201.

<sup>2</sup> Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Plan or the Valuation Analysis (as defined herein), as applicable.



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firm that has its principal office located at 55 East 52nd Street, New York, New York 10055, and has been retained by Southcross Energy Partners, L.P. (“**Southcross**”), Southcross Energy Partners GP, LLC, and Southcross’s wholly-owned direct and indirect subsidiaries (collectively, the “**Debtors**”) in the above-captioned chapter 11 cases (the “**Chapter 11 Cases**”). I am generally familiar with the Debtors’ overall day-to-day operations, business and financial affairs, and books and records, as well as the Debtors’ restructuring efforts. I have played an active role in the development of the Plan, and I am familiar with the Plan’s terms, as well as the negotiations that led to its development.

2. I am authorized to submit this declaration (this “**Declaration**”) on behalf of the Debtors in support of the Plan.

3. Except as otherwise indicated, all facts set forth in this Declaration are based on my personal knowledge of the Debtors’ operations and finances, information gathered from my review of relevant documents, my opinion, my experience as an investment banker, or information supplied to me or my colleagues at Evercore by other members of the Debtors’ management and the Debtors’ advisors. If called upon to testify, I could and would testify to the facts set forth herein on that basis.

4. Neither Evercore nor I are being specifically compensated for this testimony, other than compensation to Evercore as a professional services firm retained by the Debtors pursuant to the Evercore Retention Order (as defined herein).

#### **Qualifications**

5. Evercore is a leading independent investment banking advisory and investment management firm established in 1996. Evercore’s investment banking business includes its advisory business, which provides a range of investment banking services to multinational corporations on mergers and acquisitions, divestitures, special committee assignments,

recapitalizations, restructurings, and other strategic transactions. Through its investment banking business, Evercore provides capital markets advice, underwrites securities, raises funds for financial sponsors, and offers equity research and agency-only equity securities trading for institutional investors. Evercore's investment management business includes private equity investment, institutional asset management, and wealth management. Evercore and its affiliates serve a diverse set of clients around the world from offices in New York, Boston, Chicago, Los Angeles, Washington D.C., San Francisco, Houston, Minneapolis, Palo Alto, Menlo Park, Hong Kong, Singapore, London, Aberdeen, Mexico City, and Monterrey. Since the beginning of 2000, Evercore's corporate advisory and restructuring advisory groups have advised on over \$2.0 trillion of transactions.

6. I have been with Evercore since 2009 and have 28 years of investment banking experience, having previously served as Managing Director at Bank of America Merrill Lynch, where I led the firm's midstream energy and MLP practice. I received a B.S. in Economics from the University of Pennsylvania's Wharton School and an M.B.A from the Harvard Business School. I am the Senior Managing Director principally responsible for the day-to-day activities of the Evercore deal team.

7. On May 6, 2019, the Bankruptcy Court entered the *Order Approving Application of Debtors for Authority To (I) Employ and Retain Evercore Group L.L.C. as Investment Banker for the Debtors Nunc Pro Tunc to the Petition Date and (II) Waive Certain Information Disclosure Requirements* [D.I. 192] (the "**Evercore Retention Order**"). At the direction of the Debtors, Evercore prepared the valuation analysis (the "**Valuation Analysis**") included as **Exhibit D** to the *Disclosure Statement Supplement for First Amended Chapter 11 Plan for Southcross Energy Partners, L.P. and its Affiliated Debtors*, filed on January 7, 2020 [D.I. 818]

(as may be amended or modified from time to time in accordance with its terms, and including all exhibits and supplements thereto, the “**Disclosure Statement Supplement**”).

### **The Valuation is Reasonable**

8. In my expert opinion, and as described more fully in the Valuation Analysis, the estimated total enterprise value (the “**Total Enterprise Value**”) of the Reorganized Debtors, as of an assumed emergence date of January 31, 2020 (the “**Assumed Emergence Date**”), would be in a range between \$150.0 million and \$210.0 million, with a midpoint of \$180.0 million. Based on the estimated Total Enterprise Value and the assumed *pro forma* net debt of -\$25.4 million as of the Assumed Emergence Date, the implied equity value (the “**Equity Value**”) for the Reorganized Debtors, as of the Assumed Emergence Date, is between approximately \$175.4 million and \$235.4 million, with a midpoint estimate of \$205.4 million. As more fully described below, this implies a total distributable value (“**Total Distributable Value**”) of approximately \$282.9 million to \$342.9 million, with a midpoint of \$312.9 million.<sup>3</sup>

9. The foregoing estimated range of the Total Enterprise Value represents a valuation of the Reorganized Debtors based on the application of standard valuation techniques, including the following: (a) a discounted cash flow (“**DCF**”) analysis; (b) a peer group trading analysis; and (c) a precedent M&A transactions analysis.<sup>4</sup>

### **DCF Analysis**

10. The DCF analysis estimates the value of the Reorganized Debtors by calculating the present value of expected future cash flows to be generated by the assets of such entities.

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<sup>3</sup> These estimated values do not account for certain payments related to applicable taxes, severance, and other items.

<sup>4</sup> In preparing the Valuation Analysis, Evercore reviewed a variety of potential analytical techniques and analyses, including those described herein. The summary of Evercore’s analysis herein is not a complete description of the analyses underlying Evercore’s views. Each analytic technique has inherent strengths and weaknesses, and the nature of the available information may further impact the output of particular techniques.

Under this methodology, projected future cash flows are discounted by a range of discount rates above and below the Reorganized Debtors' estimated weighted average cost of capital (the "**Discount Rate**"). The Total Enterprise Value is determined by calculating the present value of the Reorganized Debtors' unlevered after-tax free cash flows over the course of the Projection Period plus an estimate for the value of the Reorganized Debtors beyond the projection period (known as the terminal value) plus the value of any other cash flow streams (such as certain amortization fees associated with the Debtors' Lancaster System) (the "**Lancaster Facility Amortization Fees**"). The terminal values are calculated using (a) a range of multiples of earnings before interest, taxes, depreciation, and amortization ("**EBITDA**") and (b) a range of perpetuity growth rates. The value of the Lancaster Facility Amortization Fees are calculated based on discounting such projected fees by a range of discount rates based on the long term borrowing rates of the customers that owe such fees (the "**Lancaster Facility Amortization Fees Value**").

#### Peer Group Trading Analysis

11. The peer group trading analysis estimates the value of the Reorganized Debtors by comparing them with other publicly traded companies with similar operating and financial characteristics. Under this methodology, the enterprise value for each selected public company is determined by examining the trading prices for the equity securities of such company in the public markets and adding the aggregate amount of (a) outstanding net debt for such company, (b) preferred equity, and (c) unconsolidated interests. Such enterprise values are commonly expressed as multiples of various measures of financial and operating statistics, such as EBITDA. The Total Enterprise Value is then calculated by applying these multiples to the Reorganized Debtors' actual and projected financial metrics and adding the Lancaster Facility Amortization Fees Value. The selection of public comparable companies for this purpose was

based upon the asset base and business risk profile as well as other characteristics that were deemed relevant.

Precedent M&A Transactions Analysis

12. The precedent M&A transaction analysis estimates the value of the Reorganized Debtors by examining public and private transactions on an asset-level basis. Under this methodology, transaction values are commonly expressed as multiples of EBITDA. The selection of asset-level transactions for this purpose was based upon the asset type, asset growth profile, and other characteristics that were deemed relevant. The Total Enterprise Value is calculated by applying multiples of EBITDA to the Reorganized Debtors' projected financial results, adjusting for projected growth capital expenditures, discounting such value to the assumed Effective Date, and adding the Lancaster Facility Amortization Fees Value.

13. As noted above, as a result of the foregoing analyses, Evercore estimated the Total Enterprise Value of the Reorganized Debtors to be approximately \$150.0 million to \$210.0 million, with a midpoint of \$180.0 million as of the Assumed Emergence Date. Based on the assumed *pro forma* net debt of -\$25.4 million as of the Assumed Emergence Date, the Total Enterprise Value implies an Equity Value range of \$175.4 million to \$235.4 million, with a midpoint of \$205.4 million. With the Plan contemplating the sale of the MS/AL Assets for \$31.5 million and the CCPN Assets for \$76.0 million, this implies a Total Distributable Value of approximately \$282.9 million to \$342.9 million, with a midpoint of \$312.9 million.

14. In estimating the Total Enterprise Value of the Debtors, I met with the Debtors' senior management team to discuss the Debtors' assets, operations, and future prospects, reviewed the Debtors' historical financial information, reviewed certain of the Debtors' internal financial and operating data, reviewed the Debtors' financial projections for the Reorganized Debtors provided in Exhibit C to the Disclosure Statement Supplement, and reviewed publicly

available third party information. In preparing the Valuation Analysis, I relied upon the accuracy, completeness, and fairness of financial and other information furnished by the Debtors. I did not attempt to independently audit or verify such information, nor did I perform an independent appraisal of the assets or liabilities of the Reorganized Debtors. In connection with my work providing investment banking and valuation services to companies, I frequently rely on projections and financial data provided by and prepared by other entities, and it is common for experts in my field to rely on such projections and data. The assumed range of the reorganization value, as of the Assumed Emergence Date, reflects work performed by Evercore on the basis of information with respect to the business and assets of the Debtors available to Evercore as of the date hereof.

*[Remainder of Page Intentionally Left Blank]*

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing  
is true and correct to the best of my knowledge and belief.

Dated: January 23, 2020  
Houston, Texas

By: /s/ Robert A. Pacha  
Name: Robert A. Pacha  
Title: Senior Managing Director  
Evercore Group L.L.C.  
*Investment Banker to the Debtors and  
Debtors in Possession*