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Master Limited Partnership Year in Review: 10 MLP Observations from 2013

Last year's surge in MLP activity likely will continue as investors grow increasingly familiar with the structure and its benefits.

2013 was a year of unprecedented growth in the number of publicly traded MLPs, as well as the level of both MLP capital markets and M&A activity. Some of this activity may be indicative of trends among MLPs that can be expected to continue in 2014. The following 10 observations may be of particular significance for principals, investors and others involved in the MLP sector:

1. *The IPO market is strong.* A record 21 MLPs completed initial public offerings (IPOs) in 2013 (with over 110 MLPs currently trading), and at least 30 other entities are contemplating an MLP IPO as of January 2014.
 2. *IPOs are getting bigger.* The average proceeds raised in MLP IPOs in 2013 was \$392 million, up 15 percent from \$340 million in 2012. This increase perhaps reflects the growing appetite for MLPs among institutional investors as well as appetite for the larger asset sizes that sponsors are willing to contribute to their MLP vehicles.
 3. *IPO yields are coming down.* Five of the six lowest-ever MLP IPO yields occurred during 2013, including two MLPs pricing their IPOs at a 3.70 percent initial yield, as investors are increasingly attracted to the combination of yield and return MLPs have recently offered.
 4. *Follow-on equity activity continues to grow.* Because most MLPs distribute all of their "available cash" on a quarterly basis, they often return to the capital markets to raise additional funds for growth projects and other uses. The nearly \$20 billion of MLP follow-on equity capital markets activity in 2013, represents a record amount — up nearly 50 percent from just three years earlier.
 5. *Variable MLPs are increasingly common.* The number of "variable" MLPs — those that do not target a predetermined quarterly distribution level — has risen from two to 10 in the last three years as investors have come to accept the possibility of fluctuating distributions from certain asset classes.
 6. *Interest in offshore MLPs is growing.* A rising number of MLPs own assets in non-US jurisdictions, particularly shipping vessels and offshore drilling rigs. As the sponsors of these assets around the world become more familiar with the MLP structure, interest in offshore MLPs may continue to grow.
 7. *General Partner IPOs are making a comeback.* After several years in which there were no "GP IPOs" and many publicly traded general partner vehicles were taken private, within the last four years the GP IPO has returned. The structural flexibility of this vehicle has increased, with some sponsors choosing to treat their publicly traded GP as a tax pass-through issuer and others treating the GP as a corporation in order to attract a potentially broader investor base.
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8. *MLPs remain active in M&A.* Consolidation continues to occur among publicly traded MLPs, particularly gathering and processing MLPs, with several multi-billion dollar merger transactions announced in the second half of 2013.
9. *MLPs are buying corporations too.* A number of MLPs have developed creative transaction structures that allow them to acquire c-corporations and then engage in the internal reorganizations necessary to enhance the tax efficiency of the income generated from the corporations' assets.
10. *Joint ventures may be an alternative to acquisitions.* Rather than selling or buying, some sponsors have sought to combine their assets with another sponsor's assets in a joint venture structure. The joint venture may be a way to achieve critical mass and operational efficiencies without either surrendering control over the assets or having to raise the funds necessary to complete an acquisition.

This article is one of a series that examines the unique characteristics of MLPs. For further information on MLPs, visit the MLP Portal at www.lathammlp.com.

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