

Targa Resources Corp.
Form 10-Q
August 09, 2018

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, 2018

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.)

811 Louisiana St, Suite 2100, 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

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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 (§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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 6, 2018, there were 225,558,580 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," "our," "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," "forecast" 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, 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 natural gas liquid 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, 2017 ("Annual 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 on Form 10-Q for the quarter ended June 30, 2018 ("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 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)
BBtu	Billion British thermal units
Bcf	Billion cubic feet
Btu	British thermal units, a measure of heating value
/d	Per day
GAAP	Accounting principles generally accepted in the United States of America
gal	U.S. gallons
GPM	Liquid volume equivalent expressed as gallons per 1000 cu. ft. of natural gas
LACT	Lease Automatic Custody Transfer
LIBOR	London Interbank Offered Rate
LPG	Liquefied petroleum gas
MBbl	Thousand barrels
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf	Million cubic feet
MMgal	Million U.S. gallons
NGL(s)	Natural gas liquid(s)
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
SCOOP	South Central Oklahoma Oil Province
STACK	Sooner Trend, Anadarko, Canadian and Kingfisher

Price Index Definitions

C2-OPIS-MB	Ethane, Oil Price Information Service, Mont Belvieu, Texas
C3-OPIS-MB	Propane, Oil Price Information Service, Mont Belvieu, Texas
C5-OPIS-MB	Natural Gasoline, Oil Price Information Service, Mont Belvieu, Texas
IC4-OPIS-MB	Iso-Butane, Oil Price Information Service, Mont Belvieu, Texas
IF-PB	Inside FERC Gas Market Report, Permian Basin
IF-PEPL	Inside FERC Gas Market Report, Oklahoma Panhandle, Texas-Oklahoma Midpoint
IF-Waha	Inside FERC Gas Market Report, West Texas WAHA
NC4-OPIS-MB	Normal Butane, Oil Price Information Service, Mont Belvieu, Texas
NG-NYMEX	NYMEX, Natural Gas
WTI-NYMEX	NYMEX, West Texas Intermediate Crude Oil

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

TARGA RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited) (In millions)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$281.6	\$ 137.2
Trade receivables, net of allowances of \$0.0 and \$0.1 million at June 30, 2018 and December 31, 2017	867.2	827.6
Inventories	181.4	204.5
Assets from risk management activities	54.2	37.9
Other current assets	47.1	62.7
Total current assets	1,431.5	1,269.9
Property, plant and equipment	15,451.0	14,205.4
Accumulated depreciation	(4,029.7)	(3,775.4)
Property, plant and equipment, net	11,421.3	10,430.0
Intangible assets, net	2,074.3	2,165.8
Goodwill, net	256.6	256.6
Long-term assets from risk management activities	21.7	23.2
Investments in unconsolidated affiliates	363.9	221.6
Other long-term assets	26.8	21.5
Total assets	\$15,596.1	\$ 14,388.6
LIABILITIES, SERIES A PREFERRED STOCK AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,670.1	\$ 1,186.9
Liabilities from risk management activities	103.2	79.7
Current debt obligations	180.0	350.0
Total current liabilities	1,953.3	1,616.6
Long-term debt	5,392.5	4,703.0
Long-term liabilities from risk management activities	35.5	19.6
Deferred income taxes, net	519.2	479.0
Other long-term liabilities	214.8	597.9
Contingencies (see Note 18)		
Series A Preferred 9.5% Stock, \$1,000 per share liquidation preference, (1,200,000 shares authorized, issued and outstanding 965,100 shares), net of discount (see Note 11)	230.6	216.5
Owners' equity:		
Targa Resources Corp. stockholders' equity:		

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Common stock (\$0.001 par value, 300,000,000 shares authorized)	0.2	0.2
	Issued	Outstanding
June 30, 2018	226,127,081	225,487,048
December 31, 2017	218,152,620	217,566,980
Preferred stock (\$0.001 par value, after designation of Series A Preferred Stock: 98,800,000 shares authorized, no shares issued and outstanding)	—	—
Additional paid-in capital	6,233.7	6,302.8
Retained earnings (deficit)	60.0	(77.2)
Accumulated other comprehensive income (loss)	(37.9)	(29.9)
Treasury stock, at cost (640,033 shares as of June 30, 2018 and 585,640 shares as of December 31, 2017)	(38.2)	(35.6)
Total Targa Resources Corp. stockholders' equity	6,217.8	6,160.3
Noncontrolling interests in subsidiaries	1,032.4	595.7
Total owners' equity	7,250.2	6,756.0
Total liabilities, Series A Preferred Stock and owners' equity	\$15,596.1	\$ 14,388.6

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues:				
Sales of commodities (see Note 3)	\$2,154.1	\$1,623.8	\$4,327.4	\$3,481.7
Fees from midstream services (see Note 3)	290.3	243.9	572.6	498.6
Total revenues	2,444.4	1,867.7	4,900.0	3,980.3
Costs and expenses:				
Product purchases (see Note 3)	1,905.3	1,420.6	3,846.2	3,074.8
Operating expenses	170.5	155.2	343.7	307.2
Depreciation and amortization expense	202.6	203.4	400.7	394.6
General and administrative expense	57.0	51.0	113.8	99.6
Other operating (income) expense	(46.4)	0.3	(46.1)	16.5
Income (loss) from operations	155.4	37.2	241.7	87.6
Other income (expense):				
Interest income (expense), net	(62.0)	(62.1)	(46.0)	(125.1)
Equity earnings (loss)	1.9	(4.2)	3.4	(16.8)
Gain (loss) from financing activities	(2.0)	(10.7)	(2.0)	(16.5)
Change in contingent considerations	60.6	2.1	4.5	(1.2)
Other, net	—	2.3	—	(2.8)
Income (loss) before income taxes	153.9	(35.4)	201.6	(74.8)
Income tax (expense) benefit	(32.8)	106.0	(41.6)	34.9
Net income (loss)	121.1	70.6	160.0	(39.9)
Less: Net income (loss) attributable to noncontrolling interests	12.0	13.0	28.0	21.8
Net income (loss) attributable to Targa Resources Corp.	109.1	57.6	132.0	(61.7)
Dividends on Series A Preferred Stock	22.9	22.9	45.8	45.8
Deemed dividends on Series A Preferred Stock	7.2	6.3	14.1	12.5
Net income (loss) attributable to common shareholders	\$79.0	\$28.4	\$72.1	\$(120.0)
Net income (loss) per common share - basic	\$0.36	\$0.14	\$0.33	\$(0.61)
Net income (loss) per common share - diluted	\$0.35	\$0.14	\$0.33	\$(0.61)
Weighted average shares outstanding - basic	221.1	203.7	219.9	197.8
Weighted average shares outstanding - diluted	222.8	205.0	221.5	197.8
Dividends per common share declared for the period	\$0.91	\$0.91	\$1.82	\$1.82

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30, 2018		2017			
	Pre-Tax (Unaudited) (In millions)	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
Net income (loss)			\$ 121.1			\$ 70.6
Other comprehensive income (loss):						
Commodity hedging contracts:						
Change in fair value	\$ (103.0)	\$ 26.0	(77.0)	\$ 29.8	\$ (11.3)	18.5
Settlements reclassified to revenues	7.8	(3.2)	4.6	(5.7)	2.2	(3.5)
Other comprehensive income (loss)	(95.2)	22.8	(72.4)	24.1	(9.1)	15.0
Comprehensive income (loss)			48.7			85.6
Less: Comprehensive income (loss) attributable to noncontrolling interests			12.0			13.0
Comprehensive income (loss) attributable to Targa Resources Corp.			\$ 36.7			\$ 72.6

	Six Months Ended June 30, 2018		2017			
	Pre-Tax (Unaudited) (In millions)	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
Net income (loss)			\$ 160.0			\$ (39.9)
Other comprehensive income (loss):						
Commodity hedging contracts:						
Change in fair value	\$ (38.3)	\$ 10.6	(27.7)	\$ 96.0	\$ (36.5)	59.5
Settlements reclassified to revenues	34.4	(9.5)	24.9	0.4	(0.1)	0.3
Other comprehensive income (loss)	(3.9)	1.1	(2.8)	96.4	(36.6)	59.8
Comprehensive income (loss)			157.2			19.9
Less: Comprehensive income (loss) attributable to noncontrolling interests			28.0			21.8
Comprehensive income (loss) attributable to Targa Resources Corp.			\$ 129.2			\$ (1.9)

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

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

	Common Shares (Unaudited) (In millions, except shares in thousands)	Stock Amount	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Treasury Amount	Noncontrolling Interests	Total Owner's Equity	Series A Preferred Stock
Balance, December 31, 2017	217,567	\$0.2	\$6,302.8	\$(77.2)	\$(29.9)	586	\$(35.6)	\$595.7	\$6,756.0	\$216.5
Impact of accounting standard adoption (see Note 3)	—	—	—	5.2	(5.2)	—	—	—	—	—
Compensation on equity grants	—	—	26.9	—	—	—	—	—	26.9	—
Distribution equivalent rights	—	—	(6.5)	—	—	—	—	—	(6.5)	—
Shares issued under compensation program	235	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(54)	—	—	—	—	54	(2.6)	—	(2.6)	—
Issuance of common stock	7,680	—	369.5	—	—	—	—	—	369.5	—
Exercise of warrants - share settled	59	—	—	—	—	—	—	—	—	—
Series A Preferred Stock dividends										
Dividends	—	—	—	(45.8)	—	—	—	—	(45.8)	—
Dividends in excess of retained	—	—	(45.8)	45.8	—	—	—	—	—	—

earnings										
Deemed dividends - accretion of beneficial conversion feature	—	—	(14.1)	—	—	—	—	—	(14.1)	14.1
Common stock dividends										
Dividends	—	—	—	(399.1)	—	—	—	—	(399.1)	—
Dividends in excess of retained earnings	—	—	(399.1)	399.1	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(39.4)	(39.4)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	447.1	447.1	—
Acquisition of related party (see Note 17)	—	—	—	—	—	—	—	1.1	1.1	—
Purchase of noncontrolling interests in subsidiary	—	—	—	—	—	—	—	(0.1)	(0.1)	—
Other comprehensive income (loss)	—	—	—	—	(2.8)	—	—	—	(2.8)	—
Net income (loss)	—	—	—	132.0	—	—	—	28.0	160.0	—
Balance, June 30, 2018	225,487	\$0.2	\$6,233.7	\$60.0	\$(37.9)	640	\$(38.2)	\$1,032.4	\$7,250.2	\$230.6

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

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

	Common Stock		Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares		Noncontrol Interests	Total Owner's Equity	Series A Preferred Stock
	Shares (Unaudited)	Amount				Shares	Amount			
(In millions, except shares in thousands)										
Balance, December 31, 2016	184,721	\$0.2	\$5,506.2	\$(187.3)	\$(38.3)	514	\$(32.2)	\$475.8	\$5,724.4	\$190.8
Impact of accounting standard adoption	—	—	—	56.1	—	—	—	—	56.1	—
Compensation on equity grants	—	—	21.5	—	—	—	—	—	21.5	—
Distribution equivalent rights	—	—	(4.6)	—	—	—	—	—	(4.6)	—
Shares issued under compensation program	179	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(45)	—	—	—	—	45	(2.1)	—	(2.1)	—
Issuance of common stock	30,721	—	1,558.5	—	—	—	—	—	1,558.5	—
Series A Preferred Stock dividends										
Dividends	—	—	—	(45.8)	—	—	—	—	(45.8)	—
Dividends in excess of retained earnings	—	—	(45.8)	45.8	—	—	—	—	—	—
Deemed dividends - accretion of beneficial conversion	—	—	(12.5)	—	—	—	—	—	(12.5)	12.5

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feature										
Common stock dividends										
Dividends	—	—	—	(356.9)	—	—	—	—	(356.9)	—
Dividends in excess of retained earnings	—	—	(356.9)	356.9	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(27.3)	(27.3)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	16.5	16.5	—
Purchase of noncontrolling interests in subsidiary, net of tax impact	—	—	—	—	—	—	—	(12.5)	(12.5)	—
Other comprehensive income (loss)	—	—	—	—	59.8	—	—	—	59.8	—
Net income (loss)	—	—	—	(61.7)	—	—	—	21.8	(39.9)	—
Balance, June 30, 2017	215,576	\$0.2	\$6,666.4	\$(192.9)	\$21.5	559	\$(34.3)	\$474.3	\$6,935.2	\$203.3
See notes to consolidated financial statements										

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income (loss)	\$ 160.0	\$(39.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization in interest expense	5.6	5.9
Compensation on equity grants	26.9	21.5
Depreciation and amortization expense	400.7	394.6
Accretion of asset retirement obligations	1.9	2.2
Increase (decrease) in redemption value of mandatorily redeemable preferred interests	(75.4)	6.9
Deferred income tax expense (benefit)	41.6	(34.5)
Equity (earnings) loss of unconsolidated affiliates	(3.4)	16.8
Distributions of earnings received from unconsolidated affiliates	9.7	4.0
Risk management activities	10.4	5.2
(Gain) loss on sale or disposition of assets	(46.8)	16.2
(Gain) loss from financing activities	2.0	16.5
Change in contingent considerations included in Other expense (income)	(4.5)	1.2
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables and other assets	(8.8)	303.8
Inventories	9.3	(68.6)
Accounts payable and other liabilities	14.5	(187.3)
Net cash provided by operating activities	543.7	464.5
Cash flows from investing activities		
Outlays for property, plant and equipment	(1,162.5)	(527.6)
Outlays for business acquisition, net of cash acquired	—	(570.8)
Proceeds from sale of assets	71.5	1.0
Investments in unconsolidated affiliates	(142.6)	(0.6)
Return of capital from unconsolidated affiliates	2.0	3.2
Other, net	(5.3)	(13.8)
Net cash used in investing activities	(1,236.9)	(1,108.6)
Cash flows from financing activities		
Debt obligations:		
Proceeds from borrowings under credit facilities	640.0	1,926.0
Repayments of credit facilities	(945.0)	(1,916.0)
Proceeds from borrowings under accounts receivable securitization facility	270.0	218.5
Repayments of accounts receivable securitization facility	(440.0)	(243.5)
Proceeds from issuance of senior notes and term loan	1,000.0	—
Redemption of senior notes and term loan	—	(447.6)
Proceeds from issuance of common stock	372.4	1,573.4
Costs incurred in connection with financing arrangements	(21.7)	(14.9)

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Repurchase of shares and units under compensation plans	(0.4)	(0.6)
Purchase of noncontrolling interests in subsidiary	(0.1)	(12.5)
Contributions from noncontrolling interests	447.1	16.5
Distributions to noncontrolling interests	(33.8)	(21.4)
Distributions to Partnership unitholders	(5.6)	(5.6)
Dividends paid to common and Series A preferred shareholders	(445.3)	(403.0)
Net cash provided by (used in) financing activities	837.6	669.3
Net change in cash and cash equivalents	144.4	25.2
Cash and cash equivalents, beginning of period	137.2	73.5
Cash and cash equivalents, end of period	\$281.6	\$98.7

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Except as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in millions of dollars.

Note 1 — Organization and Operations

Our Organization

Targa Resources Corp. (“TRC”) is a publicly traded Delaware corporation formed in October 2005. Our common stock is listed on the New York Stock Exchange under the symbol “TRGP.” In this Quarterly Report, unless the context requires otherwise, references to “we,” “us,” “our,” “the Company” or “Targa” are intended to mean our consolidated business and operations.

Our Operations

The Company is engaged in the business of:

- gathering, compressing, treating, processing and selling natural gas;
- storing, fractionating, treating, transporting and selling NGLs and NGL products, including services to LPG exporters;
- gathering, storing, terminaling and selling crude oil; and
- storing, terminaling and selling refined petroleum products.

See Note 22 – Segment Information for certain financial information regarding our business segments.

Note 2 — Basis of Presentation

We have prepared these unaudited consolidated financial statements in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not

include all of the information and footnotes required by GAAP for complete financial statements. While we derived the year-end balance sheet data from audited financial statements, this interim report does not include all disclosures required by GAAP for annual periods. These unaudited consolidated financial statements and other information included in this Quarterly Report should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report.

The unaudited consolidated financial statements for the three and six months ended June 30, 2018 include all adjustments that we believe are necessary for a fair statement of the results for interim periods. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in prior periods may have been reclassified to conform to the current year presentation.

Our financial results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full year.

Note 3 — Significant Accounting Policies

Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). The amendments in this update require, among other items, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. We are currently monitoring recent exposure drafts and clarifications issued by the FASB.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. The amendments in this update permit an entity to elect an optional transition practical expedient to not evaluate land easements that existed or expired before the entity’s adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases. The amendments in this update affect narrow aspects of the guidance issued in ASU 2016-02 and is intended to alleviate unintended consequences from applying the new standard. The amendments do not make substantive changes to the core provisions or principles of the new standard and will be considered during our implementation process.

In July 2018, the FASB also issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The amendments in this update provide entities with an optional transition method, which permits an entity to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, the amendments in this update also provide lessors with a practical expedient (provided certain conditions are met), by class of underlying asset, to not separate the nonlease component(s) from the associated lease component for purposes of income statement presentation.

We expect to adopt Topic 842 on January 1, 2019, and intend to elect the land easement practical expedient as well as the optional additional transition method. We are currently in the process of gathering a complete population of our lease arrangements, securing a software solution, and evaluating the impact of the new standard on our consolidated financial statements. Based on our evaluation to-date and from the perspective as the lessee, our leasing activity primarily consists of railcars, office space, tractors, vehicles and terminals. Though the evaluation process is still in progress, we currently anticipate that this new lease guidance will result in changes to the way we recognize, present and disclose our operating leases in our consolidated financial statements, including the recognition of a lease liability and an offsetting right-of-use asset in our consolidated balance sheet for our operating leases (with the exception of short-term leases).

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update change the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The amendments affect investments in loans, investments in debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments also replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. We expect to early adopt the amendments on January 1, 2019 and do not expect a material impact on our consolidated financial statements.

Recently adopted accounting pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in this update supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The amendments also create a new Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers, which provides guidance for the incremental costs of obtaining a contract with a customer and those costs incurred in fulfilling a contract with a customer that are not in the scope of another topic. The core principal of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. We adopted Topic 606 on January 1, 2018 by applying the modified retrospective transition approach to contracts which were not completed as of the date of adoption. The adoption of Topic 606 did not result in a material cumulative effect adjustment to retained earnings on January 1, 2018. However, the adoption did have an impact on the classification between “Fees from midstream services” and “Product purchases,” as well as the reporting of gross vs. net revenues, as discussed below:

- Embedded fees within commodity supply contracts where the counterparty is not deemed to be a customer are now reported as a reduction of “Product purchases.” Historically, such fees were reported as “Fees from midstream services.”
- Noncash consideration in the form of commodities received in-kind from a customer is now recognized as service revenue within “Fees from midstream services” when the service is performed. Historically, the noncash consideration was only recognized as revenue upon sale to a third party without corresponding “Product purchases.”
- For certain contracts structured as a purchase where we do not control the commodities, but rather are acting as an agent for the supplier, revenue is now recognized for the net amount of consideration we expect to retain in exchange for our service. Historically, the purchase from the supplier and subsequent sale were reported gross.

The following tables summarize the effects of adoption on our consolidated financial statements:

	Three Months Ended June 30, 2018		
	Pre-Adoption	Effect of Adoption	Post-Adoption
Revenues:			
Sales of commodities	\$2,234.0	\$ (79.9)	\$ 2,154.1
Fees from midstream services	296.5	(6.2)	290.3
Total revenues	2,530.5	(86.1)	2,444.4
Costs and expenses:			
Product purchases	1,991.4	(86.1)	1,905.3
Income from operations	155.4	—	155.4
Income (loss) before income taxes	153.9	—	153.9
Net income (loss)	\$ 121.1	\$ —	\$ 121.1

	Six Months Ended June 30, 2018		
	Pre-Adoption	Effect of Adoption	Post-Adoption
Revenues:			

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Sales of commodities	\$4,493.4	\$ (166.0)	\$ 4,327.4
Fees from midstream services	585.4	(12.8)	572.6
Total revenues	5,078.8	(178.8)	4,900.0
Costs and expenses:			
Product purchases	4,025.0	(178.8)	3,846.2
Income from operations	241.7	—	241.7
Income (loss) before income taxes	201.6	—	201.6
Net income (loss)	\$160.0	\$ —	\$ 160.0

See Note 19 – Revenue for information regarding our performance obligations and Note 22 – Segment Information for further disaggregation of our revenues.

Targeted Improvements to Accounting for Hedge Activities

In August 2017, FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedge Activities. The amendments in this update are intended to better align risk management activities and financial reporting for hedging relationships. The amendments cover multiple aspects of hedge accounting including: (1) change the way in which ineffectiveness is accounted; (2) allow for new hedge strategies; and (3) change hedge disclosures. Under the new guidance, companies will have the option to perform a qualitative quarterly effectiveness assessment once the initial quantitative test has been performed. In addition, any ineffectiveness that exists is required to be recorded in other comprehensive income instead of in earnings as was required under prior guidance. Several new hedging strategies qualify for hedge accounting treatment, most of these strategies involving the hedging of contractually specified components. Lastly, disclosure requirements have been updated to: (1) require that hedge income be presented on the same line item as the related hedged item; (2) require hedge program objectives to be disclosed; and (3) eliminate the requirement to separately disclose ineffectiveness. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We early adopted the amendments on January 1, 2018, with the changes to ineffectiveness resulting in no effect on retained earnings, as we had no accumulated ineffectiveness at December 31, 2017. See updated disclosures as a result of these amendments in Note 15 – Derivative Instruments and Hedging Activities and Note 22 – Segment Information.

Cash Flow Classification

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in this update clarify how entities should classify certain cash receipts and cash payments in the statement of cash flows related to the following transactions: (1) debt prepayment or extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance; (6) distributions received from equity method investees; and (7) beneficial interests in securitization transactions. Additionally, the update clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The amendments were effective for us on January 1, 2018 and were adopted on a retrospective basis, with no material effect on our consolidated financial statements. In addition, we elected to continue to apply our historical cumulative earnings approach to classify distributions received from equity method investees.

Other Income

In February 2017, FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The amendments in this update clarify the scope of Subtopic 610-20 and add guidance for partial sales of nonfinancial assets. Subtopic 610-20 was issued in May 2014 as part of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. Specifically, the amendments clarify that the guidance applies to all nonfinancial assets and in substance nonfinancial assets unless other specific guidance applies and defines "in substance nonfinancial asset" as an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. These amendments also impact the accounting for partial sales of nonfinancial assets, whereby an entity that transfers its controlling interest in a nonfinancial asset but retains a noncontrolling ownership interest, will measure the retained interest at fair value resulting in the full gain/loss recognition upon sale. These amendments were effective for us on January 1, 2018 and were adopted by applying the modified retrospective transition approach to contracts which were not completed as of

the date of adoption. The adoption did not result in a cumulative effect adjustment to retained earnings on January 1, 2018.

Accounting Policy Updates

The accounting policies that we follow are set forth in Note 3 – Significant Accounting Policies of the Notes to Consolidated Financial Statements in our Annual Report. Besides those noted below, there were no other significant updates or revisions to our policies during the six months ended June 30, 2018.

Revenue Recognition

Our operating revenues are primarily derived from the following activities:

- sales of natural gas, NGLs, condensate, crude oil and petroleum products;
- services related to compressing, gathering, treating and processing of natural gas; and
- services related to NGL fractionation, terminaling and storage, transportation and treating.

We have multiple types of contracts with commercial counterparties and many of these may result in cash inflows to Targa due to the structure of settlement provisions with embedded fees. The commercial relationship of the counterparty in such contracts is inherently one of a supplier, rather than a customer, and therefore, such contracts are excluded from the provisions of the revenue recognition guidance in Topic 606. Any cash inflows or fees that are realized on these supply type contracts are reported as a reduction of Product purchases.

Our revenues, therefore, are measured based on consideration specified in a contract with parties designated as customers. We recognize revenue when we satisfy a performance obligation by transferring control over a commodity or service to a customer. Sales and other taxes we collect, that are both imposed on and concurrent with revenue-producing activities, are excluded from revenues.

We generally report sales revenues on a gross basis in our Consolidated Statements of Operations, as we typically act as the principal in the transactions where we receive and control commodities. However, buy-sell transactions that involve purchases and sales of inventory with the same counterparty, which are legally contingent or in contemplation of one another, as well as other instances where we do not control the commodities, but rather are acting as an agent to the supplier, are reported as a single revenue transaction on a combined net basis.

Our commodity sales contracts typically contain multiple performance obligations, whereby each distinct unit of commodity to be transferred to the customer is a separate performance obligation. Under such contracts, revenue is recognized at the point in time each unit is transferred to the customer because the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the commodity at that time. In certain instances, it may be determinable that the customer receives and consumes the benefits of each unit as it is transferred. Under such contracts, we have a single performance obligation comprised of a series of distinct units of commodity; and in such instance, revenue is recognized over time using the units delivered output method, as each distinct unit is transferred to the customer. Our commodity sales contracts are typically priced at a market index, but may also be set at a fixed price. When our sales are priced at a market index, we apply the allocation exception for variable consideration and allocate the market price to each distinct unit when it is transferred to the customer. The fixed price in our commodity sales contracts generally represents the standalone selling price, and therefore, when each distinct unit is transferred to the customer, we recognize revenue at the fixed price.

Our service contracts typically contain a single performance obligation. The underlying activities performed by us are considered inputs to an integrated service and not separable because such activities in combination are required to successfully transfer the single overall service that the customer has contracted for and expects to receive. Therefore, the underlying activities in such contracts are not considered to be distinct services. However, in certain instances, the customer may contract for additional distinct services and therefore additional performance obligations may exist. In such instances, the transaction price is allocated to the multiple performance obligations based on their relative standalone selling prices. The performance obligation(s) in our service contracts is a series of distinct days of the applicable service over the life of the contract (fundamentally a stand-ready service), whereby we recognize revenue over time using an output method of progress based on the passage of time (i.e., each day of service). This output method is appropriate because it directly relates to the value of service transferred to the customer to date, relative to the remaining days of service promised under the contract.

The transaction price for our service contracts is typically comprised of variable consideration, which is primarily dependent on the volume and composition of the commodities delivered and serviced. The variable consideration is generally commensurate with our efforts to perform the service and the terms of the variable payments relate specifically to our efforts to satisfy each day of distinct service. Therefore, the variable consideration is typically not estimated at contract inception, but rather the allocation exception for variable consideration is applied, whereby the variable consideration is allocated to each day of service and recognized as revenue when each day of service is provided. When we are entitled to noncash consideration in the form of commodities, the variability related to the form of consideration (market price) and reasons other than form (volume and composition) are interrelated to the service, and therefore, we measure the noncash consideration at the point in time when the volume, mix and market price related to the commodities retained in-kind are known. This results in the recognition of revenue based on the market price of the commodity when the service is performed. In addition, if the transaction price includes a fixed component (i.e., a fixed capacity reservation fee), the fixed component is recognized ratably on a straight line basis over the contract term, as each day of service has elapsed, which is consistent with the output method of progress selected for the performance obligation.

Our customers are typically billed on a monthly basis, or earlier, if final delivery and sale of commodities is made prior to month-end, and payment is typically due within 10 to 30 days. As a practical matter, we define the unit of account for revenue recognition purposes based on the passage of time ranging from one month to one quarter, rather than each day. This is because the financial reporting outcome is the same regardless of whether each day or month/quarter is treated as the distinct service in the series. That is, at the end of each month or quarter, the variability associated with the amount of consideration for which we are entitled to, is resolved, and can be included in that month or quarter's revenue.

Significant Judgments

Certain provisions of our service contracts (i.e., tiered price structures) require further assessment to determine if the allocation exception for variable consideration is met. If the allocation exception is not met, we estimate the total consideration that we expect to be entitled to for the applicable term of the contract, based on projections of future activity. In such instance, revenue is recognized using an output method of progress based on the volume of commodities serviced during the reporting period. Our estimate of total consideration is reassessed each reporting period until contract completion.

For contracts with minimum volume commitments, we generally expect the customer to meet the commitment. However, such contracts are reassessed throughout the term of the commitment, and if we no longer expect the customer to meet the commitment, the allocation exception for variable consideration would not be met. That is, from that point onwards, an allocation based on the applicable fee applied to the volumes serviced does not depict the amount of consideration which we expect to be entitled to, in exchange for the service. In such instance, revenue will be recognized up to the minimum volume commitment in proportion to the days of service elapsed and the remaining duration of the commitment.

Contract Assets

Contract assets are presented separately from amounts presented as a receivable when or as a performance obligation(s) is satisfied and prior to having a right to payment that is unconditional at the end of the reporting period. We classify our contract assets as receivables because we generally have an unconditional right to payment for the commodities sold or services performed at the end of reporting period.

Note 4 – Newly-Formed Joint Ventures and Acquisitions

Joint Ventures

Grand Prix Joint Venture

In May 2017, we announced plans to construct Grand Prix, a new common carrier NGL pipeline. Grand Prix will transport volumes from the Permian Basin and our North Texas system to our fractionation and storage complex in the NGL market hub at Mont Belvieu, Texas. Grand Prix will be supported by our volumes and other third party customer commitments, and is expected to be fully in service in the second quarter of 2019.

In September 2017, we sold a 25% interest in our consolidated subsidiary, Grand Prix Pipeline LLC (the “Grand Prix Joint Venture”), which owns the portion of Grand Prix extending from the Permian Basin to Mont Belvieu, Texas, to

funds managed by Blackstone Energy Partners ("Blackstone"). We are the operator and construction manager of Grand Prix. We account for Grand Prix on a consolidated basis in our consolidated financial statements.

Concurrent with the sale of the 25% interest in the Grand Prix Joint Venture to Blackstone, we and EagleClaw Midstream Ventures, LLC ("EagleClaw"), a Blackstone portfolio company, executed a long-term Raw Product Purchase Agreement whereby EagleClaw has dedicated and committed significant NGLs associated with EagleClaw's natural gas volumes produced or processed in the Delaware Basin.

In March 2018, we announced an extension of Grand Prix into southern Oklahoma. The pipeline expansion is supported by long-term commitments for both transportation and fractionation services from our existing and future processing plants in the Arkoma area in our SouthOK system and from third-party commitments, including a long-term commitment for transportation and fractionation with Valiant Midstream, LLC. The extension of Grand Prix into southern Oklahoma is not part of the Grand Prix Joint Venture and its expected cost of approximately \$350 million will be funded exclusively by Targa.

The capacity of the 24-inch pipeline segment from the Permian Basin will be approximately 300 MBbl/d, expandable to 550 MBbl/d. The pipeline segment from the Permian Basin will be connected to a 30-inch diameter pipeline segment in North Texas, where Permian, North Texas and Oklahoma volumes will be connected to Mont Belvieu, and will have capacity of approximately 450 MBbl/d, expandable to 950 MBbl/d. The capacity from southern Oklahoma to North Texas will vary based on telescoping pipe size.

Grand Prix economics related to volumes flowing on the pipeline from the Permian Basin to Mont Belvieu are included in the Blackstone and Grand Prix Development LLC ("Grand Prix DevCo JV") joint venture arrangements, while the economics related to volumes flowing from North Texas and southern Oklahoma to Mont Belvieu accrue solely to Targa's benefit.

The total cost for Grand Prix, including the extension into southern Oklahoma, is expected to be approximately \$1.7 billion.

Cayenne Joint Venture

In July 2017, we entered into the Cayenne Pipeline, LLC joint venture (“Cayenne Joint Venture”) with American Midstream LLC to convert an existing 62-mile gas pipeline to an NGL pipeline connecting the VESCO plant in Venice, Louisiana to the Enterprise Products Operating LLC (“Enterprise”) pipeline at Toca, Louisiana, for delivery to Enterprise’s Norco Fractionator. We acquired a 50% interest in the Cayenne Joint Venture for \$5.0 million. The project commenced operations in December 2017. See Note 7 – Investments in Unconsolidated Affiliates for activity related to the Cayenne Joint Venture.

Gulf Coast Express Joint Venture

In December 2017, we entered into definitive joint venture agreements with Kinder Morgan Texas Pipeline LLC (“KMTP”) and DCP Midstream Partners, LP (“DCP”) with respect to the joint development of Gulf Coast Express Pipeline (“GCX”), a natural gas pipeline from the Waha hub to Agua Dulce, Texas. The pipeline will provide an outlet for increased natural gas production from the Permian Basin to growing markets along the Texas Gulf Coast. We and DCP each own a 25% interest, and KMTP owns a 50% interest in GCX. In addition, Apache Corporation (which will also be a shipper on GCX) has an option to purchase up to a 15% equity stake from KMTP. KMTP will serve as the operator and constructor of GCX, and we will commit significant volumes to the pipeline. In addition, Pioneer Natural Resources Company, a joint owner in our WestTX Permian Basin system has committed volumes to the project. GCX is designed to transport up to 1.98 Bcf/d of natural gas and the total cost of the project is expected to be approximately \$1.75 billion. GCX is expected to be in service in the fourth quarter of 2019, pending the receipt of necessary regulatory approvals. See Note 7 – Investments in Unconsolidated Affiliates for activity related to the GCX Joint Venture.

Little Missouri 4 Joint Venture

In January 2018, we formed a 50/50 joint venture with Hess Midstream Partners LP to construct a new 200 MMcf/d natural gas processing plant (“LM4 Plant”) at Targa’s existing Little Missouri facility (“Little Missouri 4”). The LM4 Plant is anticipated to be completed at the end of the fourth quarter of 2018. Targa will manage construction of, and operate, the LM4 Plant. See Note 7 – Investments in Unconsolidated Affiliates for activity related to the Little Missouri 4 Joint Venture.

DevCo Joint Ventures

In February 2018, we formed three development joint ventures (“DevCo JVs”) with investment vehicles affiliated with Stonepeak Infrastructure Partners (“Stonepeak”) to fund portions of Grand Prix, GCX and an approximately 100 MBbl/d fractionator in Mont Belvieu, Texas (“Train 6”). Stonepeak owns a 95% interest in the Grand Prix DevCo JV, which owns a 20% interest in the Grand Prix Joint Venture (which does not include the extension into southern Oklahoma).

Stonepeak owns an 80% interest in both Targa GCX Pipeline LLC (“GCX DevCo JV”), which owns our 25% interest in GCX, and Targa Train 6 LLC (“Train 6 DevCo JV”), which owns a 100% interest in certain assets associated with Train 6. The Train 6 DevCo JV does not include certain fractionation-related infrastructure such as brine and storage, which will be funded and owned 100% by us. We hold the remaining interests in the DevCo JVs as well as control the management, construction and operation of Grand Prix and Train 6.

The following diagram displays the ownership structure of the DevCo JVs:

For a four-year period beginning on the earlier of the date that all three projects have commenced commercial operations or January 1, 2020, we have the option to acquire all or part of Stonepeak's interests in the DevCo JVs. Targa may acquire up to 50% of Stonepeak's invested capital in multiple increments with a minimum of \$100 million, and Stonepeak's remaining 50% interest in a single final purchase. The purchase price payable for such partial or full interests is based on a predetermined fixed return or multiple on invested capital, including distributions received by Stonepeak from the DevCo JVs. Targa will control the management of the DevCo JVs unless and until Targa declines to exercise its option to acquire Stonepeak's interests. Train 6 is expected to begin operations in the first quarter of 2019. Grand Prix is expected to be in service in the second quarter of 2019. GCX is expected to be in service in the fourth quarter of 2019, pending the receipt of necessary regulatory approvals.

We hold a controlling interest in each of the DevCo JVs, as we have the majority voting interest and the supermajority voting provisions of the joint venture agreements do not represent substantive participating rights and are protective in nature to Stonepeak. As a result, we have consolidated each of the DevCo JVs in our financial statements. We continue to account for Grand Prix and Train 6 on a consolidated basis in our consolidated financial statements, and continue to account for GCX as an equity method investment as disclosed in Note 7 – Investments in Unconsolidated Affiliates.

Agua Blanca Joint Venture

In April 2018, we joined WhiteWater Midstream, LLC (“WhiteWater Midstream”), WPX Energy, Inc., and Markwest Energy Partners, L.P., as joint venture partners in WhiteWater Midstream's Delaware Basin Agua Blanca pipeline (“Agua Blanca Joint Venture”). The Agua Blanca pipeline is an approximately 160 mile natural gas residue pipeline with an initial capacity of 1.4 Bcf/d. The pipeline, which commenced operations in April 2018, runs from Orla, Texas to the Waha hub, servicing portions of Culberson, Loving, Pecos, Reeves and Ward counties with multiple direct downstream connections including to the Trans-Pecos Header. We acquired a 10% interest in the Agua Blanca Joint Venture for \$3.5 million. See Note 7 – Investments in Unconsolidated Affiliates for activity related to the Agua Blanca Joint Venture.

Carnero Joint Venture

In May 2018, Sanchez Midstream Partners LP and we merged our respective 50% interests in the Carnero Gathering and Carnero Processing Joint Ventures, which own the high-pressure Carnero gathering line and Raptor natural gas processing plant, to form an expanded 50/50 joint venture in South Texas (the “Carnero Joint Venture”). In connection with the joint venture merger transactions, the Carnero Joint Venture acquired our 200 MMcf/d Silver Oak II natural gas processing plant located in Bee County Texas, which increased the processing capacity of the joint venture from 260 MMcf/d to 460 MMcf/d. Additional enhancements to the prior joint ventures include dedication of over 315,000

additional gross acres in the Western Eagle Ford, operated by Sanchez Energy Corporation, under a new long-term firm gas gathering and processing agreement. Including the approximately 105,000 Catarina acreage, the joint venture now has over 420,000 gross acres dedicated long term. We operate the gas gathering and processing facilities in the joint venture. The Carnero Joint Venture is a consolidated subsidiary and its financial results are presented on a gross basis in our reported financials.

Subsequent Event

In August 2018, we announced, along with NextEra Energy Pipeline Holdings, LLC (“NextEra”), WhiteWater Midstream, LLC, and MPLX, LP (collectively, the “Whistler participants”), the execution of a letter of intent for the joint development of the Whistler Pipeline (“Whistler”) which would provide an outlet for increased natural gas production from the Permian Basin to growing markets along the Texas Gulf Coast. Whistler is designed to transport approximately 2.0 Bcf/d of natural gas from the Waha hub to Agua Dulce, TX, with an additional segment continuing from Agua Dulce to Wharton County, TX. Supply for Whistler would be sourced from multiple upstream connections in both the Midland and Delaware basins, including direct connections to Targa plants and the Agua Blanca pipeline. Whistler would be supported by collective commitments in excess of 1.5 Bcf/d from the Whistler participants and their respective producer customers, and would be constructed by NextEra. Targa would operate the pipeline, which is scheduled to begin operation in the fourth quarter of 2020, pending the completion of definitive agreements, final investment decisions by the Whistler participants, and regulatory approvals.

Acquisitions

Permian Acquisition

On March 1, 2017, we completed the purchase of 100% of the membership interests of Outrigger Delaware Operating, LLC, Outrigger Southern Delaware Operating, LLC (together “New Delaware”) and Outrigger Midland Operating, LLC (“New Midland” and together with New Delaware, the “Permian Acquisition”).

We paid \$484.1 million in cash at closing on March 1, 2017, and paid an additional \$90.0 million in cash on May 30, 2017 (collectively, the “initial purchase price”). Subject to certain performance-linked measures and other conditions, additional cash of up to \$935.0 million may be payable to the sellers of New Delaware and New Midland in potential earn-out payments. The first earn-out payment due in May 2018 expired with no required payment. The second potential earn-out payment would occur in May 2019 and will be based upon a multiple of realized gross margin from contracts that existed on March 1, 2017.

Pro Forma Impact of Permian Acquisition on Consolidated Statements of Operations

The following summarized unaudited pro forma Consolidated Statements of Operations information for the three and six months ended June 30, 2017 assumes that the Permian Acquisition occurred as of January 1, 2016. We prepared

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the following summarized unaudited pro forma financial results for comparative purposes only. The summarized unaudited pro forma information may not be indicative of the results that would have occurred had we completed this acquisition as of January 1, 2016, or that would be attained in the future.

	Three Months Ended June 30, 2017 Pro Forma	Six Months Ended June 30, 2017 Pro Forma
Revenues	\$1,867.7	\$3,994.4
Net income (loss)	70.7	(41.2)

The pro forma consolidated results of operations amounts have been calculated after applying our accounting policies, and making the following adjustments to the unaudited results of the acquired businesses for the periods indicated:

Reflect the amortization expense resulting from the fair value of intangible assets recognized as part of the Permian Acquisition.

Reflect the change in depreciation expense resulting from the difference between the historical balances of the Permian Acquisition's property, plant and equipment, net, and the fair value of property, plant and equipment acquired.

Exclude \$5.2 million of acquisition-related costs incurred as of June 30, 2017 from pro forma net income for the three and six months ended June 30, 2017.

Reflect the income tax effects of the above pro forma adjustments.

Contingent Consideration

A contingent consideration liability arising from potential earn-out payments in connection with the Permian Acquisition has been recognized at its fair value. We agreed to pay up to an additional \$935.0 million in aggregate potential earn-out payments in May 2018 and May 2019. The acquisition date fair value of the potential earn-out payments of \$416.3 million was recorded within Other long-term liabilities on our Consolidated Balance Sheets. Changes in the fair value of the liability (that were not accounted for as revisions of the acquisition date fair value) have been included in Other income (expense).

During the three months ended June 30, 2018 and 2017, we recognized \$60.6 million income and \$2.1 million income in Other income (expense) related to the change in fair value of the contingent consideration. The decrease in fair value of the contingent consideration during the three months ended June 30, 2018 was primarily attributable to lower forecasted volumes for the remainder of the earn-out period, partially offset by a shorter discount period. The underlying forecasted volumes reflect the most recently observed production trends. During the six months ended June 30, 2018 and 2017, we recognized \$4.6 million income and \$1.1 million expense in Other income (expense) related to the change in fair value of the contingent consideration.

The portion of the earn-out due in 2018 expired with no required payment. As of June 30, 2018, the fair value of the second potential earn-out payment of \$312.4 million has been recorded as a component of Accounts payable and accrued liabilities, which are current liabilities on our Consolidated Balance Sheets. See Note 16 – Fair Value Measurements for additional discussion of the fair value methodology.

Note 5 — Inventories

	June 30, 2018	December 31, 2017
Commodities	\$ 155.6	\$ 191.6
Materials and supplies	25.8	12.9
	\$ 181.4	\$ 204.5

Note 6 — Property, Plant and Equipment and Intangible Assets

	June 30, 2018	December 31, 2017	Estimated Useful Lives (In Years)
Gathering systems	\$7,193.0	\$ 7,037.2	5 to 20
Processing and fractionation facilities	3,687.2	3,569.6	5 to 25

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Terminaling and storage facilities	1,313.4	1,244.1	5 to 25
Transportation assets	392.1	343.6	10 to 25
Other property, plant and equipment	312.0	303.7	3 to 25
Land	144.3	125.7	—
Construction in progress	2,409.0	1,581.5	—
Property, plant and equipment	15,451.0	14,205.4	
Accumulated depreciation	(4,029.7)	(3,775.4)	
Property, plant and equipment, net	\$11,421.3	\$ 10,430.0	
Intangible assets	\$2,736.6	\$ 2,736.6	10 to 20
Accumulated amortization	(662.3)	(570.8)	
Intangible assets, net	\$2,074.3	\$ 2,165.8	

Intangible Assets

Intangible assets consist of customer contracts and customer relationships acquired in the Permian Acquisition and the acquisition of the Flag City Plant assets in SouthTX in 2017, the mergers with Atlas Energy L.P. and Atlas Pipeline Partners L.P. in 2015 (collectively, the “Atlas mergers”) and our Badlands acquisition in 2012. The fair values of these acquired intangible assets were determined at the date of acquisition based on the present values of estimated future cash flows. Key valuation assumptions include probability of contracts under negotiation, renewals of existing contracts, economic incentives to retain customers, past and future volumes, current and future capacity of the gathering system, pricing volatility and the discount rate.

Amortization expense attributable to these assets is recorded over the periods in which we benefit from services provided to customers. We are amortizing these assets over lives ranging from 10 to 20 years using a method that closely reflects the cash flow pattern underlying their intangible asset valuation, or the straight-line method, if a reliably determinable pattern of amortization could not be identified.

The estimated annual amortization expense for intangible assets is approximately \$182.6 million, \$171.6 million, \$159.4 million, \$149.5 million and \$141.2 million for each of the years 2018 through 2022.

The changes in our intangible assets are as follows:

Balance at December 31, 2017	\$2,165.8
Amortization	(91.5)
Balance at June 30, 2018	\$2,074.3

Asset Sale

During the second quarter of 2018, we sold our inland marine barge business to a third party for approximately \$69.3 million. As a result of the sale, we recognized a gain of \$48.1 million in our Consolidated Statements of Operations for the three months ended June 30, 2018 as part of Other operating (income) expense. We continue to own and operate two ocean-going barges.

Note 7 – Investments in Unconsolidated Affiliates

Our investments in unconsolidated affiliates consist of the following:

- a 38.8% non-operated ownership interest in Gulf Coast Fractionators LP (“GCF”);
- three non-operated joint ventures in South Texas acquired in the Atlas mergers in 2015: a 75% interest in T2 LaSalle Gathering Company L.L.C. (“T2 LaSalle”), a gas gathering company; a 50% interest in T2 Eagle Ford Gathering Company L.L.C. (“T2 Eagle Ford”), a gas gathering company; and a 50% interest in T2 Cogeneration Holdings L.L.C. (T2 EF Cogen”), which owns a cogeneration facility, (together the “T2 Joint Ventures”);
- a 50% operated ownership interest in the Cayenne Joint Venture;
- a 25% non-operated ownership interest in GCX;
- a 50% operated ownership interest in Little Missouri 4; and
- a 10% non-operated ownership interest in the Agua Blanca Joint Venture.

The terms of these joint venture agreements do not afford us the degree of control required for consolidating them in our consolidated financial statements, but do afford us the significant influence required to employ the equity method

of accounting.

GCX, Little Missouri 4, Cayenne, and Agua Blanca Joint Ventures

See Note 4 – Newly-Formed Joint Ventures and Acquisitions for discussion of the formation of our GCX Joint Venture and Little Missouri 4 Joint Venture, and our acquisition of interests in the Cayenne Joint Venture and the Agua Blanca Joint Venture.

The following table shows the activity related to our investments in unconsolidated affiliates:

	Balance at December 31, 2017	Equity Earnings (Loss)	Cash Distributions (1)	Acquisition	Contributions (2)	Balance at June 30, 2018
GCF	\$ 45.8	\$ 9.1	\$ (11.1)	\$ —	\$ —	\$43.8
T2 LaSalle (3)	54.1	(2.6)	—	—	0.1	51.6
T2 Eagle Ford (3)	109.2	(5.0)	—	—	—	104.2
T2 EF Cogen	3.9	(0.9)	—	—	—	3.0
Cayenne	8.6	2.8	(0.6)	—	3.8	14.6
GCX	—	—	—	—	101.4	101.4
Little Missouri 4	—	—	(8.0)	—	49.3	41.3
Agua Blanca	—	—	—	3.5	0.5	4.0
Total	\$ 221.6	\$ 3.4	\$ (19.7)	\$ 3.5	\$ 155.1	\$363.9

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- (1) Includes \$2.0 million in distributions received from GCF in excess of our share of cumulative earnings for the six months ended June 30, 2018. Such excess distributions are considered a return of capital and disclosed in cash flows from investing activities in the Consolidated Statements of Cash Flows in the period in which they occur. Also includes an \$8.0 million distribution from Little Missouri 4 as a reimbursement of pre-formation expenditures.
- (2) Includes a \$16.0 million initial contribution of property, plant and equipment to Little Missouri 4. See Note 21 – Supplemental Cash Flow Information. Also includes \$0.9 million of capitalized interest attributable to our investment in GCX.
- (3) The carrying values of the T2 Joint Ventures include the effects of the Atlas mergers purchase accounting, which determined fair values for the joint ventures as of the date of acquisition. As of June 30, 2018, \$25.4 million of unamortized excess