

ONEOK - Allocating Cash After a Transformative Deal

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Decision scope: Post-close distribution and cash-allocation policy under the announced Apollo agreement

Case convention: This is an author-created decision exercise. The policy alternatives are hypothetical; the Brazos and Apollo transactions were announced and approved but had not closed by the cutoff. No private deliberations are represented.

The decision

On 30 August, ONEOK announced a \$4.425 billion cash acquisition of Brazos Midland and a \$9 billion minority investment from Apollo. The transaction documents were filed the following day, after the market closed. At this case's information cutoff, both transactions remained subject to closing conditions; ONEOK had not received Apollo's contribution, completed the acquisition or reported a result from its debt tender. The agreement requires ONEOK to retire at least \$5 billion of debt principal within 180 days after closing. [P5], [P6]

The transaction creates a contractual distribution rule that will shape later choices. During the initial period, a declared regular OpCo distribution generally allocates 15% of defined contractual cash flow (CFFO) to Apollo's Class B units. The share is 20% if the agreement's Company Leverage Ratio exceeds 4.50x. At or below 4.50x, Class A may elect a share above 15% and up to 20%. A parent-company dividend, repurchase or other capital return triggers a required OpCo distribution in the next quarter. CFFO is a contract-defined measure, not GAAP cash from operations. [P6]

Assignment: Recommend a post-close policy for quarterly OpCo distributions and related cash allocation. When the contract permits a choice, should ONEOK use the 15% Class B share, elect a higher share up to 20%, or use a conditional rule? Explain how the policy should account for Brazos integration, debt retirement, organic projects, liquidity and common-shareholder returns. State the metrics and conditions that would cause you to revisit it. Do not reopen the already announced transaction decision.

ONEOK's starting position

ONEOK combined natural gas gathering and processing, natural gas pipelines, NGL infrastructure, and refined-products and crude-oil businesses. Its second-quarter results showed growth in adjusted EBITDA, but the sources differed by segment. Natural Gas Pipelines benefited in part from higher optimization and marketing on Waha-Katy price differentials, while throughput also rose in several businesses. [P2], [P3]

At 30 June, ONEOK reported \$161 million in cash, \$899 million of commercial paper outstanding, \$600 million drawn on a short-term term loan and \$31.5 billion in debt. Its credit-agreement debt-to-adjusted-EBITDA ratio was 4.1x. These are June balances and a specific agreement-defined ratio, not the company's post-transaction position or the ratio in the Apollo distribution contract. [P2]

ONEOK's June investor presentation described a pre-deal capital framework: invest in high-return organic projects, grow the dividend, maintain a strong balance sheet and repurchase shares. It targeted debt-to-EBITDA of 3.5x and returning approximately 75-85% of forecast operating cash flow after capex over the following two years. Those targets predated the announced transactions and use a different cash-flow measure from contractual CFFO. [P4]

Exhibit 1. Operating and cash-flow snapshot

USD millions; reported periods ended 30 June. Adjusted EBITDA is a company-defined non-GAAP measure.

Measure	Q2 2025	Q2 2026	H1 2025	H1 2026
Net income	853	967	1,544	1,743
Adjusted EBITDA	1,981	2,121	3,756	4,118

H1 2026 measure	Amount
Operating cash flow	\$2,987m
Capital expenditures	\$1,477m
Operating cash flow above dividends	\$1,600m
Full-year 2026 capex guidance	\$2,700-\$3,200m

Adjusted EBITDA is not cash available for distribution. [P2], [P3]

Q2 adjusted EBITDA by segment was \$546 million in Natural Gas Gathering & Processing, \$659 million in NGL, \$297 million in Natural Gas Pipelines and \$627 million in Refined Products & Crude. The Natural Gas Pipelines increase included \$77 million of higher optimization and marketing on Waha-Katy differentials. [P2]

Competing uses of capital

ONEOK had a substantial organic project program. The amounts below are company estimates; project timing, ownership and funding differ. The stated project costs exclude capitalized interest and allowance for funds used during construction. Texas City and Eiger costs exclude partner contributions. [P2]

Exhibit 2. Selected growth projects

Project	Estimated cost	Capacity / scope	Expected timing	Ownership or funding note
Bighorn	\$365m	300 MMcf/d processing	Mid-2027	Company project estimate
Medford rebuild	\$485m	210 MBbl/d fractionation	Two phases, Q4 2026 / Q1 2027	Company project estimate
Texas City LPG export terminal	\$700m	400 MBbl/d	Early 2028	Cost excludes JV partner contributions
MBTC pipeline	\$280m	24-inch pipeline	Early 2028	ONEOK owns 80%; cost excludes partner contribution
Eiger pipeline	\$350m	450 miles; 3.7 Bcf/d	Mid-2028	ONEOK owns 25.5%; cost excludes partner contribution

These projects compete for capital and execution attention, but the public information does not rank their incremental risk-adjusted returns against debt reduction or Class B distributions. ONEOK's June presentation described further Permian opportunities, without publishing a project-by-project return comparison. [P2], [P4]

The announced transaction and its constraints

Brazos Midland was described as a gathering and processing business with approximately 600,000 dedicated acres, a weighted-average remaining contract term above 12 years and 14 active rigs. ONEOK expected the acquisition to close in Q4, subject to customary conditions. The company projected \$80 million of full-year synergies and described the deal as immediately accretive. Those are management forecasts, not realized results. [P5]

Apollo agreed to contribute \$9 billion for nonvoting Class B units in the planned new holding-company structure. The contribution is not debt or common equity. The signed agreement's Base Return is 7.010% through the ninth anniversary, then increases through contractual anniversary tiers to 7.850%. Distributions first satisfy any return component; amounts in excess of that component reduce the Class B balance. This is not a fixed coupon. [P6]

The agreement defines CFFO by adjusting company-defined adjusted EBITDA for net interest, affiliate distributions, noncontrolling-interest distributions, working capital and cash taxes, among other items. The Company Leverage Ratio has its own definition. Neither should be substituted with GAAP operating cash flow, the credit-agreement ratio or the pre-deal 3.5x management target. [P6]

Exhibit 3. Distribution rules to apply after closing

Contract condition	Class B distribution share of contractual CFFO
Regular distribution declared during initial period; Company Leverage Ratio at or below 4.50x	Generally 15%
Company Leverage Ratio above 4.50x at fiscal-quarter end	20%
Ratio at or below 4.50x	Class A may elect a share above 15% and up to 20%
Parent declares a dividend, repurchases shares or makes another capital return	Triggers a required OpCo distribution in the next quarter

The ratio is measured at fiscal-quarter end. No regular quarterly distribution is made for the quarter ending 30 September 2026; stub-period CFFO and Available Cash from the agreement execution date through 30 September are aggregated with the quarter ending 31 December, whose distribution remains subject to Board discretion. The OpCo board otherwise retains discretion over regular distributions. The agreement also specifies special distributions and the allocation of any distribution relative to the Class B return component. Refer to the executed terms for the precise definitions and conditions. [P6, JV Agreement §§1.1 and 4.1(g)]

The agreement calls for ONEOK to retire at least \$5 billion of debt **principal** within 180 days after closing. The announced tender offer had a purchase-price ceiling of \$2 billion across 20 debt series, subject to conditions; no tender result was available at the cutoff. A purchase-price amount is not the same as principal extinguished. [P6]

Exhibit 4. Announced transaction presentation: sources and uses

USD billions; announced estimates, not completed cash flows. Transaction costs excluded.

Announced sources	Amount	Announced uses	Amount
Apollo contribution	9.000	Brazos cash consideration	4.425
Existing cash	0.161	Repay term loan	1.200
Commercial paper	0.264	Debt principal retirement	3.800
Total	9.425	Total	9.425

This presentation display is not the complete contractual obligation: the agreement separately requires at least \$5 billion of debt principal retirement. The debt amount is principal, whereas any cash needed to retire it depends on tender prices, premiums and settlement. The transactions had not closed. [P6], [P7]

Management also presented an estimated ~3.25x 2027 pro forma leverage ratio, acquisition multiples of approximately 7.5x estimated 2027 EBITDA (including synergies) and 6.0x estimated 2028 EBITDA. These are forward-looking estimates and are not comparable to other leverage ratios without reconciling definitions. [P5], [P7]

Choosing a policy

The policy must fit the signed agreement and the debt-retirement commitment while leaving room for projects, integration and common returns. Three post-close postures are available for discussion:

1. **Use the minimum Class B share when permitted.** Retain cash for integration, organic investment and balance-sheet flexibility. This could slow the reduction of the Class B balance or leave less for common returns if cash is directed into projects that do not earn expected returns.
2. **Elect a higher share when permitted.** Use up to 20% of CFFO to accelerate the contractual distribution waterfall, accepting less cash retained for projects or common distributions. Above 4.50x, the 20% share applies under the agreement.
3. **Use a gated policy.** Apply the agreement's 20% rule above 4.50x; below it, select 15-20% each quarter after testing liquidity, debt service, integration milestones, project economics and downside leverage. Define the triggers and explain when the policy changes.

No public disclosure establishes these as ONEOK's actual internal alternatives, supplies a quarterly post-close CFFO forecast, or ranks incremental project returns against optional Class B distributions. Your recommendation should identify assumptions, a measurement plan and reversal conditions.

Discussion questions

1. What cash-flow and leverage definitions control the Apollo distribution? Which reported metrics are not interchangeable with them?
2. What is the strongest case for retaining cash, and what is the strongest case for distributing a larger share to Class B?
3. How should integration evidence, project milestones and the \$5 billion principal-retirement requirement affect the policy?
4. What quarterly metrics and decision gates would make your policy adaptive without making it arbitrary?

Sources and conventions

Primary sources are listed in the companion research dossier: ONEOK source register. The case uses P2-P7 from that register. Values in exhibits are company-reported or management estimates except where explicitly stated; no post-cutoff outcomes are included. The alternatives are author-created teaching scenarios, not historical management proposals.