

Targa Resources Corp.
Form 10-Q
August 03, 2017

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, 2017

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.)

1000 Louisiana St, Suite 4300, 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 July 31, 2017, there were 215,605,062 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, 2016 ("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, 2017 ("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

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
EP-PERMIAN	Inside FERC Gas Market Report, El Paso (Permian Basin)
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, 2017 (Unaudited) (In millions)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$98.7	\$73.5
Trade receivables, net of allowances of \$0.2 and \$0.9 million at June 30, 2017 and December 31, 2016	550.4	674.6
Inventories	197.7	137.7
Assets from risk management activities	35.7	16.8
Income tax receivable	2.0	67.8
Other current assets	30.4	36.4
Total current assets	914.9	1,006.8
Property, plant and equipment	13,313.6	12,518.7
Accumulated depreciation	(3,086.8)	(2,827.7)
Property, plant and equipment, net	10,226.8	9,691.0
Intangible assets, net	2,264.7	1,654.0
Goodwill, net	256.6	210.0
Long-term assets from risk management activities	17.3	5.1
Investments in unconsolidated affiliates	218.4	240.8
Other long-term assets	19.7	63.5
Total assets	\$13,918.4	\$12,871.2
LIABILITIES, SERIES A PREFERRED STOCK AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$886.0	\$843.5
Liabilities from risk management activities	9.5	49.1
Current debt obligations	500.1	275.0
Total current liabilities	1,395.6	1,167.6
Long-term debt	3,937.5	4,606.0
Long-term liabilities from risk management activities	5.5	26.1
Deferred income taxes, net	852.9	941.2
Other long-term liabilities	588.4	215.1
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 12)	203.3	190.8

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Owners' equity:			
Targa Resources Corp. stockholders' equity:			
Common stock (\$0.001 par value, 300,000,000 shares authorized)		0.2	0.2
	Issued	Outstanding	
June 30, 2017	216,134,254	215,575,687	
December 31, 2016	185,234,405	184,720,525	
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		6,666.4	5,506.2
Retained earnings (deficit)		(192.9)	(187.3)
Accumulated other comprehensive income (loss)		21.5	(38.3)
Treasury stock, at cost (558,567 shares as of June 30, 2017 and 513,880 as of			
	December 31, 2016)	(34.3)	(32.2)
Total Targa Resources Corp. stockholders' equity		6,460.9	5,248.6
Noncontrolling interests in subsidiaries		474.3	475.8
Total owners' equity		6,935.2	5,724.4
Total liabilities, Series A Preferred Stock and owners' equity		\$13,918.4	\$12,871.2

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues				
Sales of commodities	\$1,623.8	\$1,312.9	\$3,481.7	\$2,484.0
Fees from midstream services	243.9	270.7	498.6	542.0
Total revenues	1,867.7	1,583.6	3,980.3	3,026.0
Costs and expenses:				
Product purchases	1,420.6	1,145.2	3,074.8	2,156.2
Operating expenses	155.2	138.9	307.2	271.0
Depreciation and amortization expense	203.4	186.1	394.6	379.6
General and administrative expense	51.0	47.0	99.6	92.2
Goodwill impairment	—	—	—	24.0
Other operating (income) expense	0.3	0.1	16.5	1.1
Income from operations	37.2	66.3	87.6	101.9
Other income (expense):				
Interest expense, net	(62.1)	(71.4)	(125.1)	(124.3)
Equity earnings (loss)	(4.2)	(4.4)	(16.8)	(9.2)
Gain (loss) from financing activities	(10.7)	(3.3)	(16.5)	21.4
Other, net	4.4	(0.1)	(4.0)	(0.2)
Income (loss) before income taxes	(35.4)	(12.9)	(74.8)	(10.4)
Income tax (expense) benefit	106.0	(1.7)	34.9	(4.8)
Net income (loss)	70.6	(14.6)	(39.9)	(15.2)
Less: Net income attributable to noncontrolling interests	13.0	8.6	21.8	10.7
Net income (loss) attributable to Targa Resources Corp.	57.6	(23.2)	(61.7)	(25.9)
Dividends on Series A preferred stock	22.9	22.9	45.8	26.7
Deemed dividends on Series A preferred stock	6.3	6.5	12.5	6.5
Net income (loss) attributable to common shareholders	\$28.4	\$(52.6)	\$(120.0)	\$(59.1)
Net income (loss) per common share - basic	\$0.14	\$(0.33)	\$(0.61)	\$(0.44)
Net income (loss) per common share - diluted	\$0.14	\$(0.33)	\$(0.61)	\$(0.44)
Weighted average shares outstanding - basic	203.7	161.6	197.8	134.1
Weighted average shares outstanding - diluted	205.0	161.6	197.8	134.1
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,					
	2017			2016		
	Pre-Tax	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
	(Unaudited)					
	(In millions)					
Net income (loss) attributable to Targa Resources Corp.			\$ 57.6			\$ (23.2)
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ 29.8	\$ (11.3)	18.5	\$ (60.2)	\$ 22.9	(37.3)
Settlements reclassified to revenues	(5.7)	2.2	(3.5)	(18.3)	6.9	(11.4)
Other comprehensive income (loss) attributable to Targa Resources Corp.	24.1	(9.1)	15.0	(78.5)	29.8	(48.7)
Comprehensive income (loss) attributable to						
Targa Resources Corp.			\$ 72.6			\$ (71.9)
Net income (loss) attributable to noncontrolling interests			\$ 13.0			\$ 8.6
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	—	—	—	—	—	—
Settlements reclassified to revenues	—	—	—	—	—	—
Other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	—	—	—
Comprehensive income (loss) attributable to noncontrolling interests			\$ 13.0			\$ 8.6
Total						
Net income (loss)			\$ 70.6			\$ (14.6)
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	29.8	(11.3)	18.5	(60.2)	22.9	(37.3)
Settlements reclassified to revenues	(5.7)	2.2	(3.5)	(18.3)	6.9	(11.4)
Other comprehensive income (loss)	\$ 24.1	\$ (9.1)	15.0	\$ (78.5)	\$ 29.8	(48.7)
Total comprehensive income (loss)			\$ 85.6			\$ (63.3)

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Six Months Ended June 30,					
	2017			2016		
	Pre-Tax (Unaudited) (In millions)	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
Net income (loss) attributable to Targa Resources Corp.			\$ (61.7)			\$ (25.9)
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ 96.0	\$ (36.5)	59.5	\$ (77.1)	\$ 29.4	(47.7)
Settlements reclassified to revenues	0.4	(0.1)	0.3	(31.3)	11.9	(19.4)
Other comprehensive income (loss) attributable to Targa Resources Corp.	96.4	(36.6)	59.8	(108.4)	41.3	(67.1)
Comprehensive income (loss) attributable to						
Targa Resources Corp.			\$ (1.9)			\$ (93.0)
Net income (loss) attributable to noncontrolling interests			\$ 21.8			\$ 10.7
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	—	—	—	23.6	—	23.6
Settlements reclassified to revenues	—	—	—	(11.1)	—	(11.1)
Other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	12.5	—	12.5
Comprehensive income (loss) attributable to noncontrolling interests			\$ 21.8			\$ 23.2
Total						
Net income (loss)			\$ (39.9)			\$ (15.2)
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	96.0	(36.5)	59.5	(53.5)	29.4	(24.1)
Settlements reclassified to revenues	0.4	(0.1)	0.3	(42.4)	11.9	(30.5)
Other comprehensive income (loss)	\$ 96.4	\$ (36.6)	59.8	\$ (95.9)	\$ 41.3	(54.6)
Total comprehensive income (loss)			\$ 19.9			\$ (69.8)

See notes to consolidated financial statements

TARGA RESOURCES CORP.

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

	Common Shares (Unaudited)	Amount	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Treasury Amount	Noncontrol- ling Interests	Total Owner's Equity	Series A Preferred Stock
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 (see Note 3)	—	—	—	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	—	—	(12.5)	—	—	—	—	—	(12.5)	12.5

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beneficial conversion 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 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	Treasury Amount	Noncontrolling Interests	Total Owner's Equity	Series A Preferred Stock
	Shares (Unaudited)	Amount				Shares				
	(In millions, except shares in thousands)									
Balance, December 31, 2015	56,020	\$0.1	\$1,457.4	\$26.9	\$5.7	426	\$(28.7)	\$4,788.8	\$6,250.2	\$—
Compensation on equity grants	—	—	13.0	—	—	—	—	2.2	15.2	—
Distribution equivalent rights	—	—	(4.9)	—	—	—	—	(0.2)	(5.1)	—
Shares issued under compensation program	224	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(54)	—	—	—	—	54	(0.4)	(0.1)	(0.5)	—
Proceeds from common stock issuances	5,106	—	215.1	—	—	—	—	—	215.1	—
Receivables from common stock offerings	—	—	(36.0)	—	—	—	—	—	(36.0)	—
Issuance of Series A preferred and detachable warrants	—	—	796.8	—	—	—	—	—	796.8	179.9
Series A Preferred Stock dividends										
Dividends	—	—	—	(26.7)	—	—	—	—	(26.7)	—
Dividends in excess of	—	—	(22.9)	22.9	—	—	—	—	—	—

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retained
earnings

Deemed dividends - accretion of beneficial conversion feature	—	—	(6.5)	—	—	—	—	—	(6.5)	—
Common stock dividends										
Dividends	—	—	—	(197.3)	—	—	—	—	(197.3)	—
Dividends in excess of retained earnings	—	—	(174.2)	174.2	—	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(151.0)	(151.0)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	19.1	19.1	—
Acquisition of TRP noncontrolling common interests, net of acquisition costs and deferred income taxes	104,526	0.1	3,097.5	—	55.7	—	—	(4,119.7)	(966.4)	—
Other comprehensive income (loss)	—	—	—	—	(67.1)	—	—	12.5	(54.6)	—
Net income (loss)	—	—	—	(25.9)	—	—	—	10.7	(15.2)	—
Balance, June 30, 2016	165,822	\$0.2	\$5,335.3	\$(25.9)	\$(5.7)	480	\$(29.1)	\$562.3	\$5,837.1	\$179.9

See notes to consolidated financial statements

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income (loss)	\$(39.9)	\$(15.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization in interest expense	5.9	8.2
Compensation on equity grants	21.5	15.2
Depreciation and amortization expense	394.6	379.6
Goodwill impairment	—	24.0
Accretion of asset retirement obligations	2.2	2.3
Increase (decrease) in redemption value of mandatorily redeemable preferred interests	6.9	(14.6)
Deferred income tax expense (benefit)	(34.5)	4.8
Equity (earnings) loss of unconsolidated affiliates	16.8	9.2
Distributions of earnings received from unconsolidated affiliates	4.0	—
Risk management activities	10.0	3.2
(Gain) loss on sale or disposition of assets	16.2	0.9
(Gain) loss from financing activities	16.5	(21.4)
Change in contingent considerations included in Other expense	1.2	—
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables and other assets	299.0	19.6
Inventories	(68.6)	12.4
Accounts payable and other liabilities	(187.3)	29.3
Net cash provided by operating activities	464.5	457.5
Cash flows from investing activities		
Outlays for property, plant and equipment	(527.6)	(307.7)
Outlays for business acquisition, net of cash acquired	(570.8)	—
Investments in unconsolidated affiliates	(0.6)	—
Return of capital from unconsolidated affiliates	3.2	3.9
Other, net	(12.8)	(1.4)
Net cash used in investing activities	(1,108.6)	(305.2)
Cash flows from financing activities		
Debt obligations:		
Proceeds from borrowings under credit facilities	1,926.0	1,067.0
Repayments of credit facilities	(1,916.0)	(1,457.0)
Proceeds from borrowings under accounts receivable securitization facility	218.5	121.4
Repayments of accounts receivable securitization facility	(243.5)	(115.7)
Open market purchases of senior notes	—	(534.3)
Redemption of senior notes and term loan	(447.6)	—
Proceeds from issuance of common stock	1,573.4	181.2
Proceeds from issuance of preferred stock and warrants	—	994.1

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Costs incurred in connection with financing arrangements	(14.9)	(44.3)
Repurchase of shares and units under compensation plans	(0.6)	(0.4)
Purchase of noncontrolling interests in subsidiary	(12.5)	—
Contributions from noncontrolling interests	16.5	