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MAGELLAN®
MIDSTREAM PARTNERS, L.P.
Moving What Moves America

Corporate Conversion Analysis

Feb. 2, 2021

Forward-looking statements

Except for statements of historical fact, this document constitutes forward-looking statements as defined by federal law. Although management believes any such statements are based on reasonable assumptions, such statements necessarily involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different. Among the key risk factors that may have a direct impact on the partnership's results of operations and financial condition are: (1) changes in price or demand for refined petroleum products, crude oil and natural gas liquids, or for transportation, storage, blending or processing of those commodities through its facilities; (2) changes in the partnership's tariff rates or other terms as required by regulatory authorities; (3) shut-downs or cutbacks at refineries, of hydrocarbon production or at other businesses that use or supply the partnership's services; (4) changes in the throughput or interruption in service on pipelines or other facilities owned and operated by third parties and connected to the partnership's terminals, pipelines or other facilities; (5) the occurrence of operational hazards or unforeseen interruptions; (6) the treatment of the partnership as a corporation for federal or state income tax purposes or the partnership becoming subject to significant forms of other taxation; (7) disruption in the debt and equity markets that negatively impacts the partnership's ability to finance its capital spending; (8) the partnership's capital needs, cash flows and availability of cash to fund unit repurchases or distributions; and (9) failure of customers to meet or continue contractual obligations to the partnership. This list is not exhaustive. Additional factors are described in the partnership's filings with the Securities and Exchange Commission, including the partnership's Annual Report on Form 10-K for 2019 and subsequent reports on forms 10-Q and 8-K. You are urged to carefully review and consider the cautionary statements and other disclosures made in our filings, especially under the headings "Risk Factors" and "Forward-Looking Statements." Forward-looking statements made in this presentation are based only on information currently known, and the partnership undertakes no obligation to update or revise its forward-looking statements.

Executive summary

- Magellan management's focus has always been and remains on long-term value creation for its unitholders.

- Management does not believe that a conversion to a corporation would materially increase Magellan's equity valuation on a sustained basis, and believes it would be even less likely to raise the valuation to a level that would overcome the burden of future cash taxes.

- A Magellan corporate conversion through a 351(a) transaction would create future corporate tax liabilities.
  - The estimated present value of future corporate taxes is approximately $2.3 billion, which is 2.2x our current annual DCF.
  - In 2030 and 2035 respectively, for example, corporate cash taxes of approximately $0.83/unit and $1.47/unit would be paid which would reduce cash that would otherwise be available to reinvest in the business or return to unitholders.

- As a result, management does not believe a corporate conversion is in the best interest of unitholders at this time. We will continue to evaluate the merits of a conversion as circumstances change, and in the meantime retain optionality.

Background

- For nearly a decade, Magellan has periodically assessed the potential impacts of converting from a publicly traded partnership to a corporation, from both entity-level and unitholder perspectives, each time concluding that remaining a partnership was the best alternative for long-term value creation for our unitholders.

- Questions and commentary in recent periods by analysts, investors and others, as well as conversions by some peers, have prompted us to share highlights of our analysis and the reasoning behind our conclusions.

- The assumptions used in this analysis are not a management forecast, but are instead intended to be illustrative of possible future results.

- None of the materials presented herein are intended or should be construed as tax advice.

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Tax consequences of a Magellan conversion

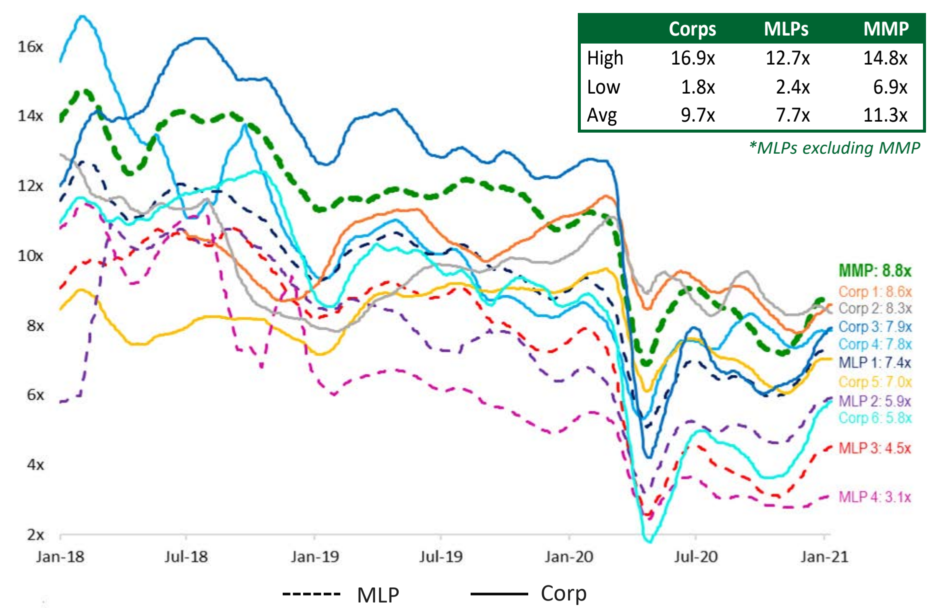
- Magellan could convert to a corporation in a 351(a) transaction that would generally be non-taxable to unitholders.
  - Only investors with a negative basis (less than 18% of units) would incur tax at the conversion, and then only to the extent of their negative basis.
    - The average amount of tax owed related to these units would be less than $0.50/unit.
- Because the transaction would be generally non-taxable, the new corporation would not receive a current basis “step-up” in the transaction (in contrast with other MLPs who converted through taxable “buy-in” transactions, an option not available to Magellan in a standalone context).
  - As a result, the depreciation available to the corporation to reduce future corporate taxes would be limited to the combined basis of current partners.
  - That basis is currently estimated to total $10.5 billion (a chart depicting future depreciation of this basis is included in the appendix).
  - Based on our expectation of a significantly lower capital investment environment in the foreseeable future, the opportunity to further defer taxes with the depreciation of new investments may be limited.
- Based on an illustrative example, Magellan would begin paying material taxes of approximately $75 million in 2027[1], increasing to approximately $360 million/year by 2040.
- The present value of all future taxes in the illustrative case is approximately $2.3 billion[1], which is approximately 25% of Magellan’s current market capitalization.

[1] Based on illustrative forecast assuming 2021 guidance, 1% growth in EBITDA/year, $100 million growth capital spending at 7x EBITDA multiple/year and flat maintenance capital. Further assumes a conversion in 2021 and current tax law. Present value of taxes calculated using 8% discount rate and -1% terminal growth rate in 2040.

Impact of conversion on equity price

- Conversion to a corporation would be expected to attract additional liquidity to Magellan's stock.
  - Magellan's equity would be eligible for inclusion in index funds that are prohibited from owning partnerships, but actual inclusion in the S&P 500 or other indices is uncertain.
  - The significant increase in passive investing in recent years underscores the potential importance of this pool of capital.
  - Magellan does not currently anticipate issuing equity in the foreseeable future, so increased liquidity for that purpose is not critical.
- It is less clear that the additional liquidity would in itself ultimately result in a materially different valuation.
  - Less liquidity may impact MLP trading volatility, but it is not clear that this results in MLP valuations that are significantly less "rational" over time than those of corporations.
    - ➢ Traditional energy companies have been significantly out of favor in recent years, irrespective of corporate form.
    - ➢ Magellan has traded at a consistent P/DCF premium to many best-in-class US corporate peers for many years.

Price/Next 12 months DCF



	Corps	MLPs	MMP
High	16.9x	12.7x	14.8x
Low	1.8x	2.4x	6.9x
Avg	9.7x	7.7x	11.3x

**MLPs excluding MMP*

Corps include: ENB, KMI, OKE, TRGP, TRP, WMB
MLPs include: EPD, ET, MPLX, PAA

Source: NASDAQ IR Insight

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Impact on price, cont'd

- We believe there is insufficient evidence to suggest that a conversion would result in a sustained "multiple expansion" for Magellan's equity.
  - Relevant data points are relatively limited in number, and none are very good parallels with the Magellan situation.
  - The data points that do exist tend to argue that business-specific circumstances outweigh corporate form as a determinant of valuation.
    - Natural gas-centric midstream companies appeared to enjoy more favorable investor sentiment than oil- or NGL-centric companies in 2020 as discussions of energy transition gained momentum.
    - Corporate utilities have significantly outperformed essentially all midstream companies in recent periods, but this appears less a function of corporate form than relative growth prospects in an energy transition environment.

- Any potential multiple expansion would have to overcome the negative impact of future taxes on Magellan's valuation.
  - Short-term valuations based on earnings multiples either ignore the impact of future taxes completely or only reflect that impact once taxes are actually being or about to be paid.
  - Magellan's valuation would eventually, if not immediately, incorporate expected cash flow reductions from cash taxes.
  - Magellan's management has always focused on long-term value creation rather than transactions that would increase short-term equity valuations at the expense of higher future value.

Corporate conversion tax impact on unitholders

- A corporate conversion would have implications for unitholders' after-tax returns that are specific to each unitholder's basis, investment horizon and tax status.
- Those implications could change significantly based on changes in tax laws.
  - The corporate rates under current law are "permanent", while current lower individual rates and the 199A individual deduction for partnership income are temporary and "sunset" in 2026.
    - It is generally expected that the current law will change, perhaps materially, with the new administration and new Congress.
- The interaction of all of these elements – the valuation impact of a conversion and timing thereof, when a unitholder intends to sell, a unitholder's beginning basis and tax status, any changes in law – make it impossible to generalize what the after-tax impact to unitholders would be after a conversion, or even what the after-tax impact to any given "trade group" or vintage of investors would be.
  - See appendix for more detail on distribution of Magellan trade groups and some general observations on different impacts of a conversion to different trade groups.
- The ultimate impact to unitholders could change significantly depending on Magellan's actual business performance, in addition to changes in law.
- A conversion today is irreversible, limiting Magellan's options to respond optimally to changes in circumstances.

Conclusion

- We do not believe a corporate conversion is warranted for Magellan at this time.
  - Not clear that there would be a long-term equity valuation increase.
  - Significant long-term value destruction through the future cash tax liabilities.
  - Other factors such as immaterial corporate governance changes and no foreseeable equity financing needs also do not support conversion.
- We will continue to monitor the relative valuations of midstream partnerships and corporations for evidence of any sustained difference in valuations that would overcome the negative implications of corporate taxation.
- We will continue to monitor developments in tax policy that could have an impact on the relative merits of partnerships versus corporations for our unitholders' after-tax returns.
- We will continue to listen to investors' thoughts and preferences regarding Magellan's corporate form.
  - Conversion to a corporation would require a vote of Magellan's unitholders.
- We will continue to manage Magellan's business with a focus on long-term value creation for our unitholders.

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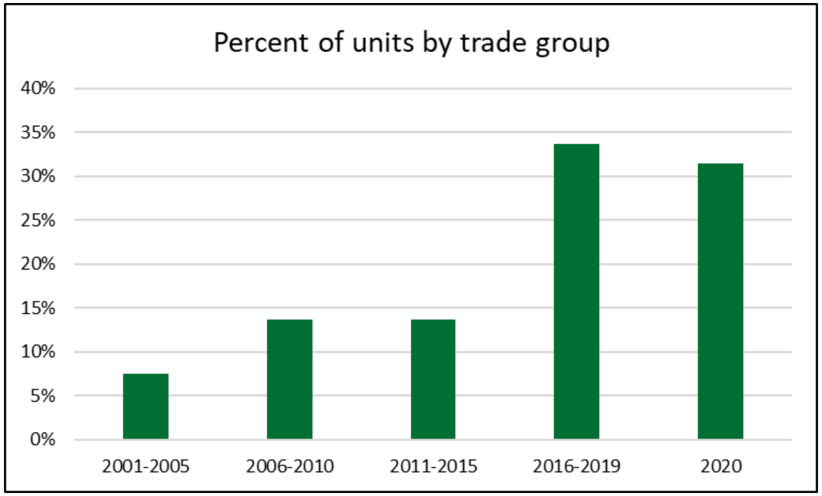
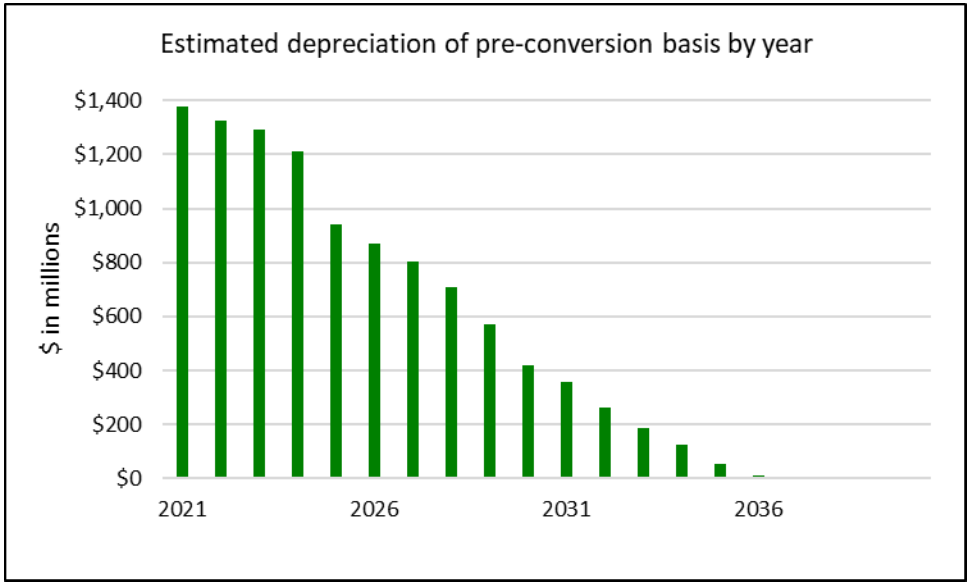
Appendix

Trade group highlights



- Assuming Magellan's valuation did not decrease to reflect the present value of future taxes immediately after a conversion and is calculated as a multiple of current-year cash flows, and further assuming current law doesn't change, unitholders who intend to sell in the near future would benefit from a conversion on an after-tax basis, as the conversion would allow them to avoid "ordinary income recapture" on sale.
  - This benefit is larger for older trade groups given their lower basis, and smaller for newer trade groups.
  - For older trade groups, this benefit would persist even over longer holding periods, based on current law, though diminishing over time once taxes impact valuation.
  - For other trade groups, this benefit would become a detriment over longer holding periods.
  - All trade groups would enjoy better long-term after-tax results in a partnership if current individual rates and 199A deduction (or some other combination of tax rates that resulted in a comparable advantage for partnerships) were made permanent, even assuming some "multiple expansion" from a conversion.
  - All unitholders who leave their Magellan equity to heirs would do significantly better in a partnership, based on current treatment of basis on inheritance (unless there was significant price appreciation following a conversion, in which case only those unitholders who bequeath their interest in the short term would benefit, while those who do so in the longer-term would suffer significant detriment).
- If the present value of future tax liabilities were immediately reflected in Magellan's valuation, most trade groups would have better after-tax results over any holding period as a partnership and no trade group would benefit significantly from a conversion, absent significant multiple expansion.

Depreciation of pre-conversion tax basis



Note: this chart does not reflect depreciation on any post-conversion capital spending.