GIBSON DUNN

The Current (and Future) State of Oil and Gas M&A

January 10, 2018

Agenda

- Part 1: State of the Industry
- Part 2: Recent History – How Did We Get Here?
- Part 3: Outlook – Where Are We Going in 2018?

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Part 1: State of the Industry

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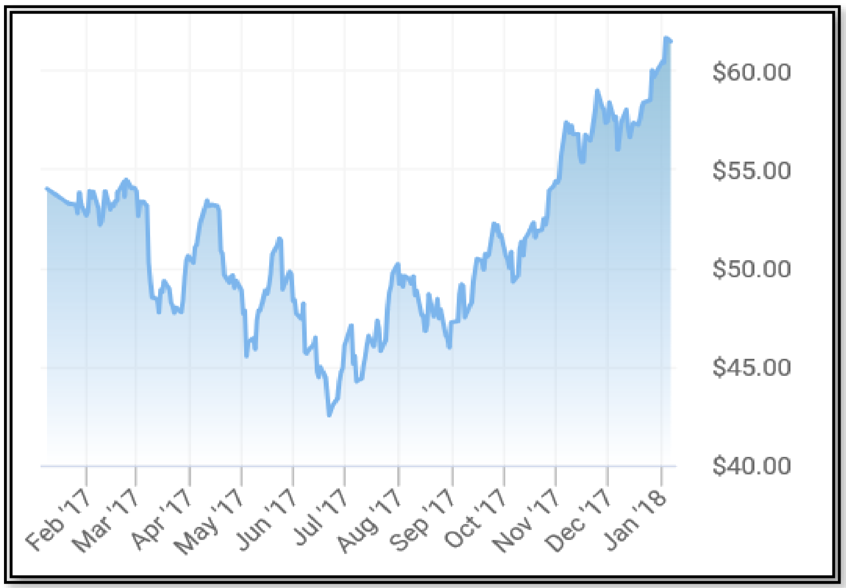
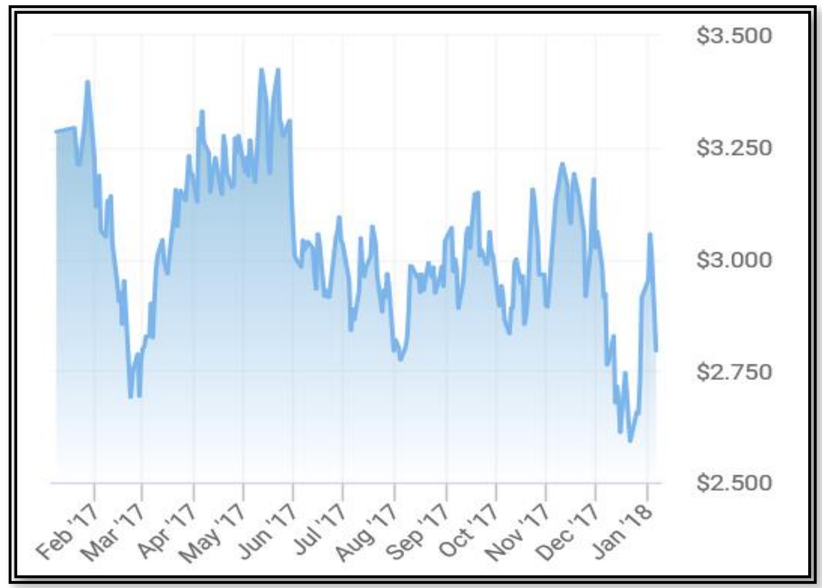
I. Stabilized commodity prices
II. U.S., OPEC & global energy landscape
III. Investor sentiment
IV. Scarcity of traditional financing sources
V. Good, not great, deal flow

I. Commodity Prices

Stable/sustained prices – finally?

- Oil pricing forecasted to be range-bound between $45 and $65/bbl
- Natural gas pricing forecasted to remain flat





II. Global Energy Landscape

- IEA: "United States is turning into the undisputed global leader for oil and gas"
  - U.S. record daily oil production of 10.0+ million barrels in 2018
  - U.S. now a net exporter of natural gas
  - U.S. forecasted to be global LNG leader in 2020s
  - U.S. to be net exporter of hydrocarbons in 2026
- OPEC curtailments
  - OPEC's curtailments appear to have worked (20% drawdown in inventories), but could be undermined by 2018 increases in U.S. production (see above)
  - Differing views regarding global shortages vs. global oversupply in 2018
- Prices remain susceptible to geopolitical events – e.g., recent Iranian protests

III. Investor Sentiment

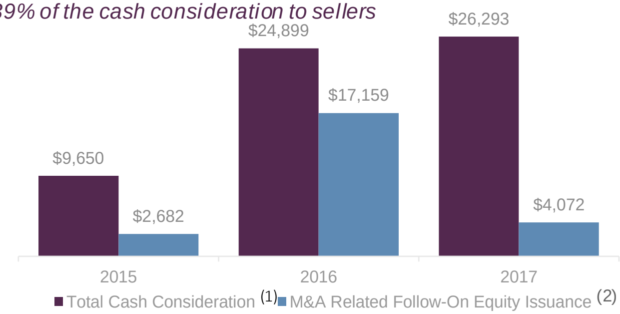
- Positive sentiment beginning to reemerge, but public company investors increasingly focused on profits rather than production
    - 2012-2016 focus: production, acreage, years of drilling inventory, etc.
    - 2017+ focus: ROCE, cash flow neutrality, balance sheet strength, etc.
- Public energy equities underperformed in 2017
    - S&P 500 Index at +20%
    - S&P Energy Index at -3%
    - E&P sub-index at -7%
- Private equity has raised $100 billion since 2014 for oil and gas investments…and the amount continues to grow – e.g., EnCap's $7.0 billion Fund XI (Dec. 2017)
    - Ability to act quickly; assemble talented management teams; not live and die by quarter-by-quarter performance metrics, etc. has, in most cases, allowed PE to be tremendously successful

IV. Financing Sources

- Significant decrease (~-60%) in public equity financings year-over-year
  - 2016: $31.7 billion over 82 transactions
  - 2017: $10.9 billion over 36 transactions
- Decrease (~-18%) in bond markets YoY, but not as significant
  - 2016: $31.4 billion over 59 transactions
  - 2017: $26.1 billion over 48 transactions
- Non-traditional sources and structures have (partially) filled the gap
  - PE remains a key source of capital
  - SPACs
  - Numerous "drillco" joint ventures announced in 2017 – over $2.0 billion in prior 24 months
  - "Cash flow neutrality" requires continued asset monetizations

M&A Related Follow-On Equity Issuance ($MM)

Access to equity capital has been a driver of M&A activity. When follow-on equity issuance has been used for M&A, it has covered 39% of the cash consideration to sellers



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(1) Source: 1Derrick, excludes deals <$500MM and GOM deals.
(2) Source: DealLogic, excludes issuances <$100MM.

V. Deal Activity

- Steady deal activity
  - 2016: $70.9 billion over 428 transactions
  - 2017: $68.2 billion over 485 transactions
- Several drivers for deal activity
  - Adding core acreage for independents and majors – e.g., Exxon's purchase of Clayton Williams
  - Monetizing non-core assets – e.g., ConocoPhillip's exit of San Juan Basin to Hilcorp/Carlyle
  - Play consolidation – e.g., EQT-Rice merger
- "Lease, drill, and flip" model is much less pervasive
  - Many unconventional plays are entering into development phase
  - Number of unleased unconventional plays is limited (and "tier 1" acreage has been drilled)
  - PE moving back into PDP conventional opportunities
- Permian remains leader for deal flow
  - Permian continued to be a hot area for deal-making in 2017, but activity slowed from H1 to H2
  - Eagle Ford, Marcellus, and Rockies accounted for a significant number of transactions in 2017

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Part 2: Recent History – How Did We Get Here?

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I. Up to July 2014 (Peak Oil Price)
II. Thanksgiving Day 2014
III. What did 2015 have in store for us?
IV. What were the expectations for 2016 (and what really happened)?
V. 2017 tended to be a continuation of 2016

I. Up to July 2014 (Peak Oil Price)

- Very active energy M&A market
- Length of run
  - Several years, beginning in 2010 (maybe earlier)
    - Tied to success of unconventional resource plays
  - Slight stall in 2013 (first half)
  - Peak years in 2012 and 2014 (first ten months)
  - Very active capital markets
- Type of transactions
  - Straight-forward asset-level purchase and sale
  - Cash-and-carry (asset level)
  - Private M&A
  - Public M&A
- Upstream versus midstream

II. Thanksgiving Day 2014

- Gradual price decline beginning in July, leading up to Thanksgiving
- OPEC (Saudi Arabia) announced that they would protect market share, as opposed to supporting price
- The following Friday
    - Huge oil price drop
- The following Monday
    - Deals cratered
- The remainder of 2014 was quiet

III. What Did 2015 Have in Store for Us?

- Significant slow-down in M&A activity in all three areas (upstream, midstream and services)
- Deal mix trending toward midstream transactions
- Upstream transactions weighted toward asset deals; midstream transactions weighted toward equity deals
- Trend toward valuation of PDP only; less value attributed to PUDs
- General consensus
    - Upstream M&A activity would pick-up
        - Producers forced to sell to raise cash
        - Price stability leading to closure of “bid-ask spread”

III. What Did 2015 Have in Store for Us? (cont'd)

- Producers' financial conditions did not deteriorate as quickly as expected
- "False start" in mid-year
- Toward the end of the year, midstream M&A slowed down as well
- Advent of the "DrillCo"
- Some public M&A, both in upstream and midstream
- A number of producers filed for bankruptcy, and many more were heading in that direction

IV. What Were the Expectations for 2016 (and What Really Happened)?

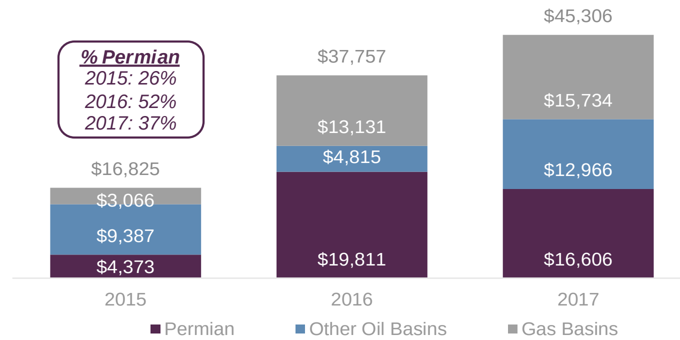
- More asset-level A&D on the horizon
  - Sales to improve liquidity
  - Sales to comply with borrowing base redeterminations
  - Larger companies divesting non-core assets
- Possibility of public M&A
  - Consolidation, generally
  - Majors acquiring smaller E&Ps
- What did 2016 actually bring?
- Restructuring and bankruptcy-related sales
- Asset-level A&D activity
  - Not as many deals as expected
  - Numbers tended to be smaller
- Public M&A activity
  - Some transactions
  - Not as many as expected
- Permian, Permian, Permian
- SPACs

V. 2017 Tended to Be a Continuation of 2016

- Similar number of transactions, but numbers tended to be smaller
- Permian remained the leader
- Significant activity in other basins
    - SCOOP, STACK, Eagleford, Marcellus
- Continuing trends of “coring up”, consolidating and monetizing non-core assets
- Oilfield services M&A picked up in the first half but slowed again going into year end

U.S. E&P M&A Activity by Basin ($MM)(1)

M&A activity is basin skewed with the Permian accounting for 41% of deals since 2015



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Part 3: Outlook – Where Are We Going in 2018?

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I. What are expectations for commodity prices? Lower for longer/forever?
II. What will drive deal activity in 2018? Will tax reform have a significant impact?
III. Do we expect consolidation in oilfield services?
IV. Will M&A activity in midstream continue?
V. Will the Permian finally be knocked out of the top spot for upstream M&A?

Contact Information

[Jeffrey Chapman](mailto:jchapman@gibsondunn.com)
Partner

Global Co-Chair, M&A
Tel: +1 214.698.3120
jchapman@gibsondunn.com

Michael P. Darden
Partner

Oil & Gas Transactions/Projects
Tel: +1 346.718.6789
mpdarden@gibsondunn.com

Tull Florey
Partner

M&A / Corporate Counseling
Tel: +1 346.718.6767
tflorey@gibsondunn.com

Justin T. Stolte
Partner

Oil & Gas Transactions/Projects
Tel: +1 346.718.6800
jstolte@gibsondunn.com