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# TIPRO SUMMER CONFERENCE

## E&P Market Update

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August 8, 2019

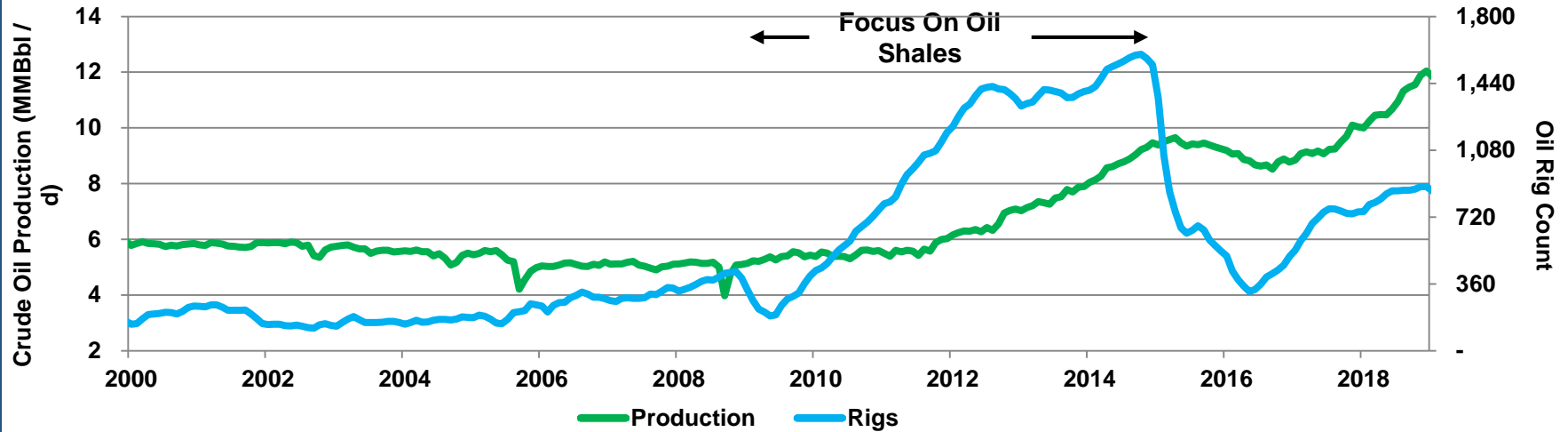
**William A. Marko**  
Managing Director – Jefferies LLC

## The Pace of the Business Has Been Reset

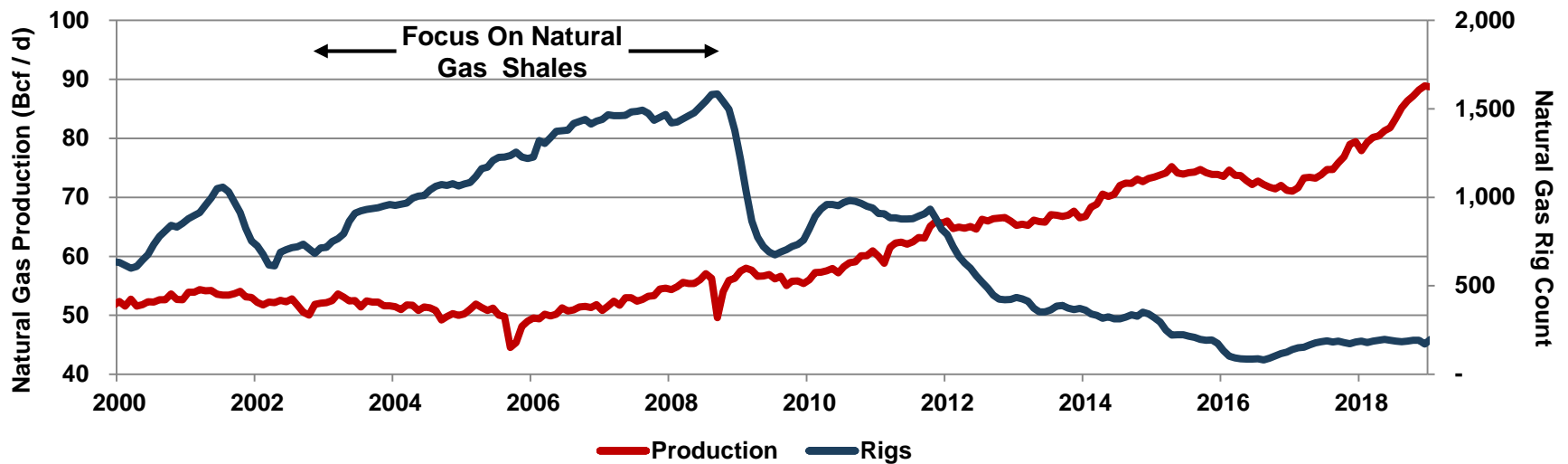
- In mid 2017, public investors began to demand companies live out of cash flow and demonstrate returns, not just growth
- This has led to a slowdown in capital spending and M&A for most companies
- Limited A&D / M&A activity has pushed many private / private equity-backed companies to becoming more conservative
- Majors are M&A focused in a depressed environment but want to do \$10+ B transactions
- Size and asset quality are even more critical for long-term durability of small and mid-cap public businesses
- Despite this, there has been limited consolidation to date – few perfect fits, social issues and most importantly, lack of strategic direction
- It's, in essence, a buyer's market if the buyers have financing and the sellers capitulate to current market conditions

# U.S. Oil & Natural Gas Production – Unprecedented Growth Since Shale Boom

## U.S. Crude Oil Production History Since 2000 (MMBbl / d)

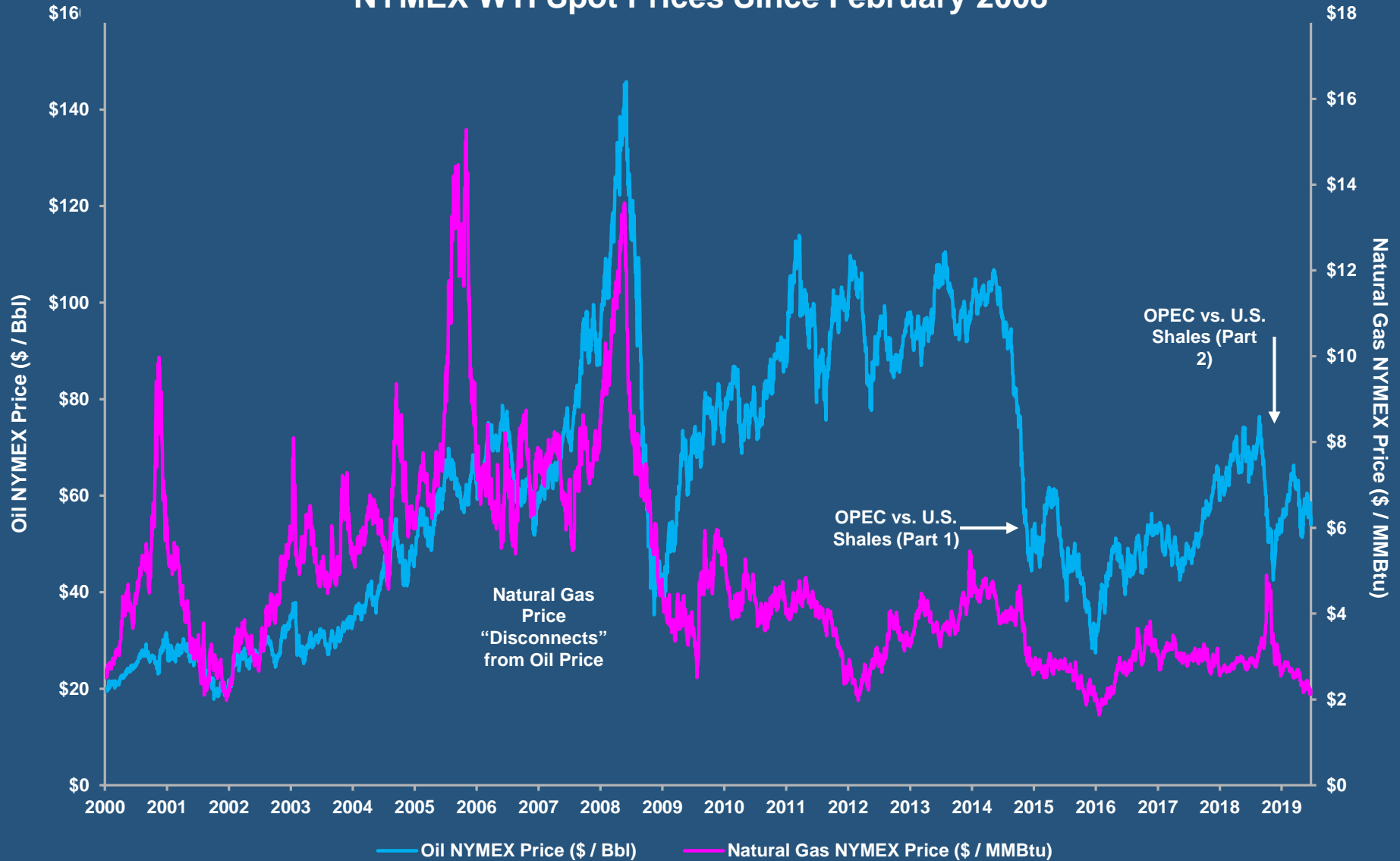


## U.S. Natural Gas Production History Since 2000 (Bcf / d)



# Last Five Year Commodity Price Volatility Has Caused Companies and Investors to be Focused

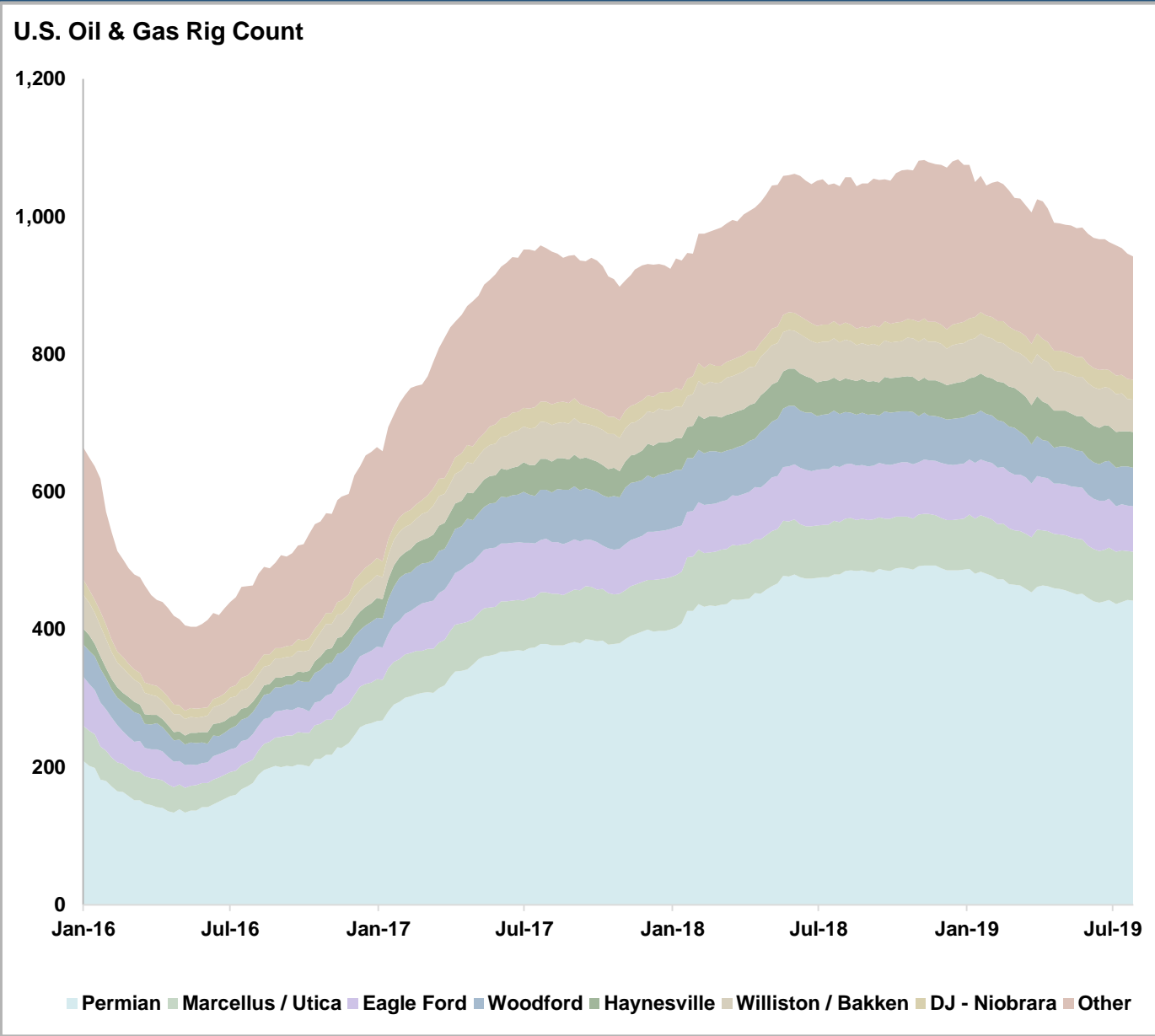
## NYMEX WTI Spot Prices Since February 2008



Source: CapitalIQ on August 1, 2019

# U.S. Oil & Gas Rig Count Overview – Rigs Go to Area of Best Returns

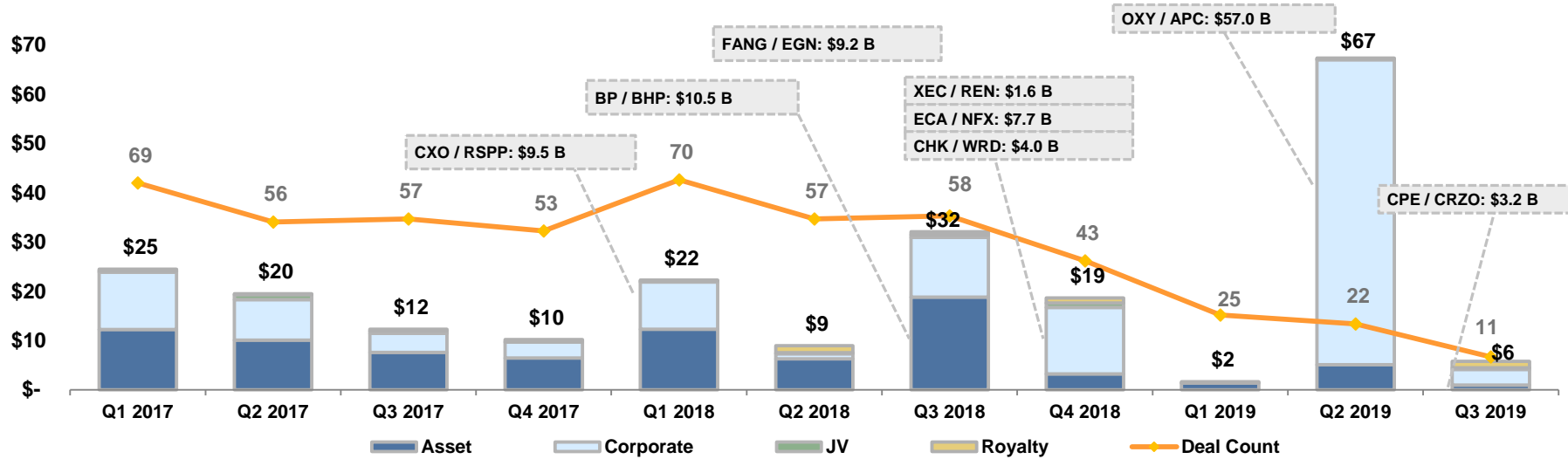
Basin	Current Rig Count	% Change Since Jan-2016
Permian	442	111%
Marcellus / Utica	71	39%
Eagle Ford	66	(7%)
Woodford	56	19%
Haynesville	52	126%
Williston / Bakken	47	(4%)
DJ - Niobrara	29	32%
Others	179	(7%)



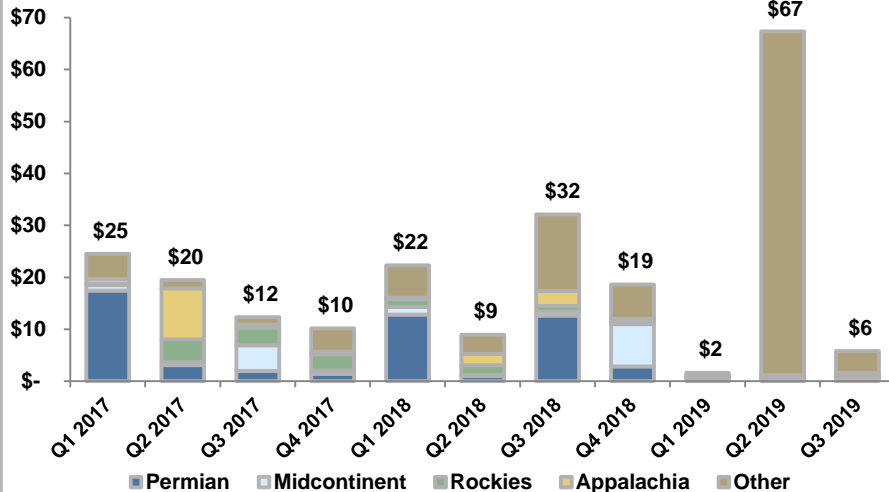
Source: Baker Hughes North America Rotary Rig Count as of August 1, 2019.

# M&A Momentum Has Slowed Materially - Public and Private Money Very Cautious

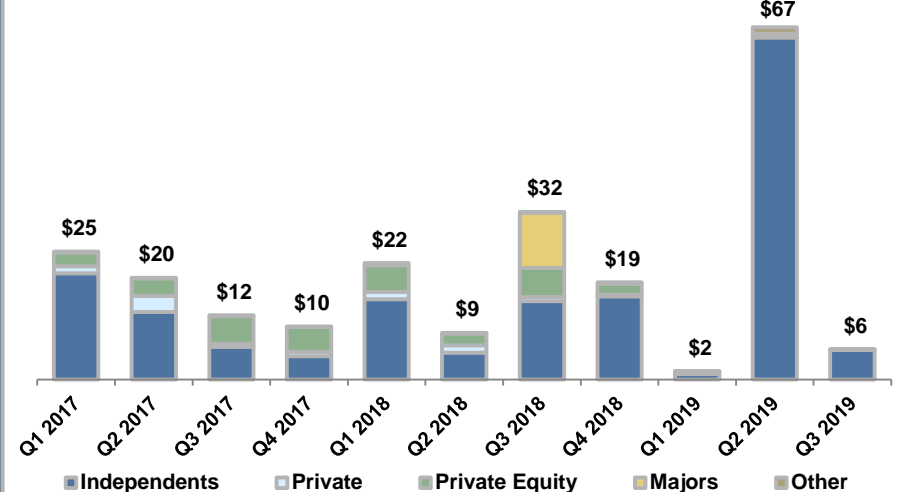
## U.S. E&P Deal Volume (\$B) <sup>(1)</sup>



## U.S. E&P Deal Volume by Basin (\$B) <sup>(1)</sup>



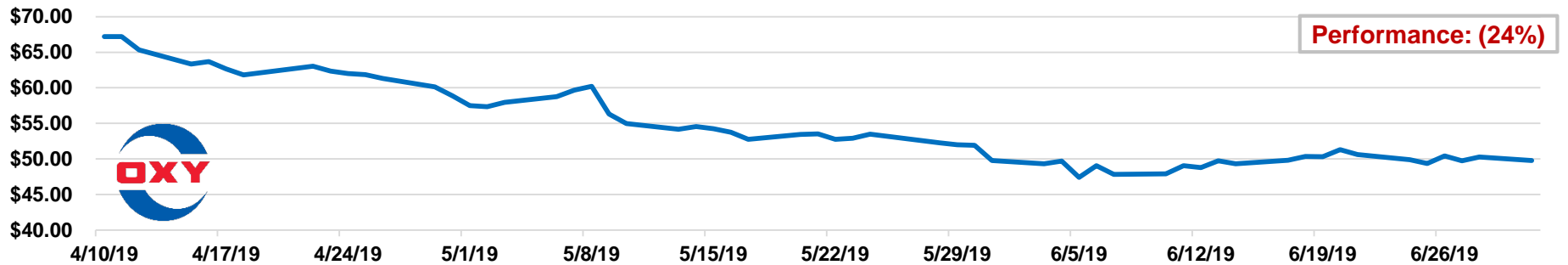
## U.S. E&P Deal Volume by Buyer Type (\$B) <sup>(1)</sup>



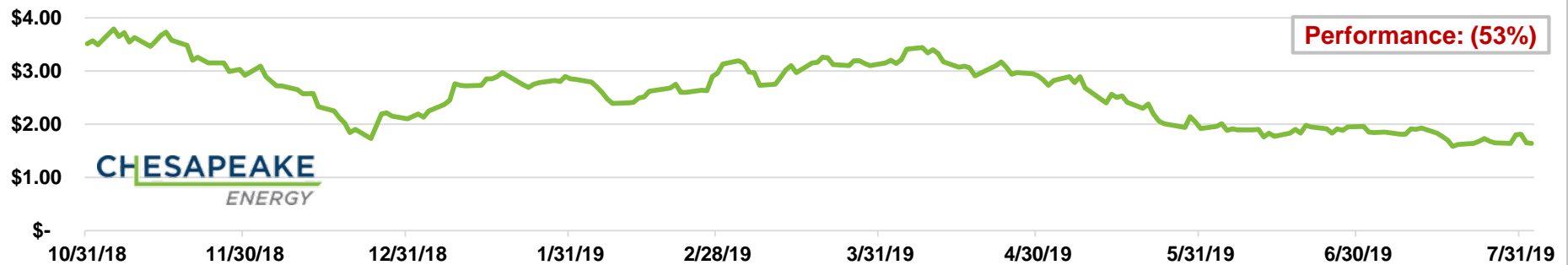
(1) Source: PLS as of July 31, 2019. Includes deals with disclosed value greater than \$5 MM.

# Recent Corporate M&A Has Been Poorly Received

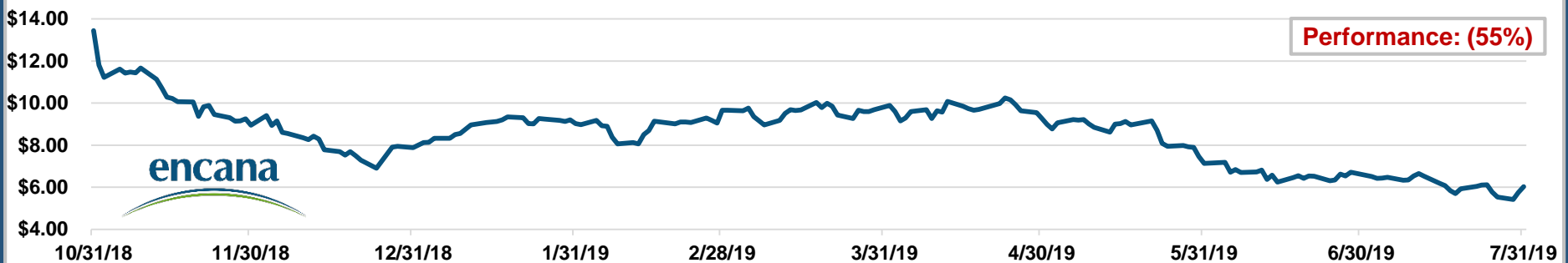
## Stock Price Performance – Oxy / Anadarko Acquisition



## Stock Price Performance – Chesapeake / Wildhorse Acquisition

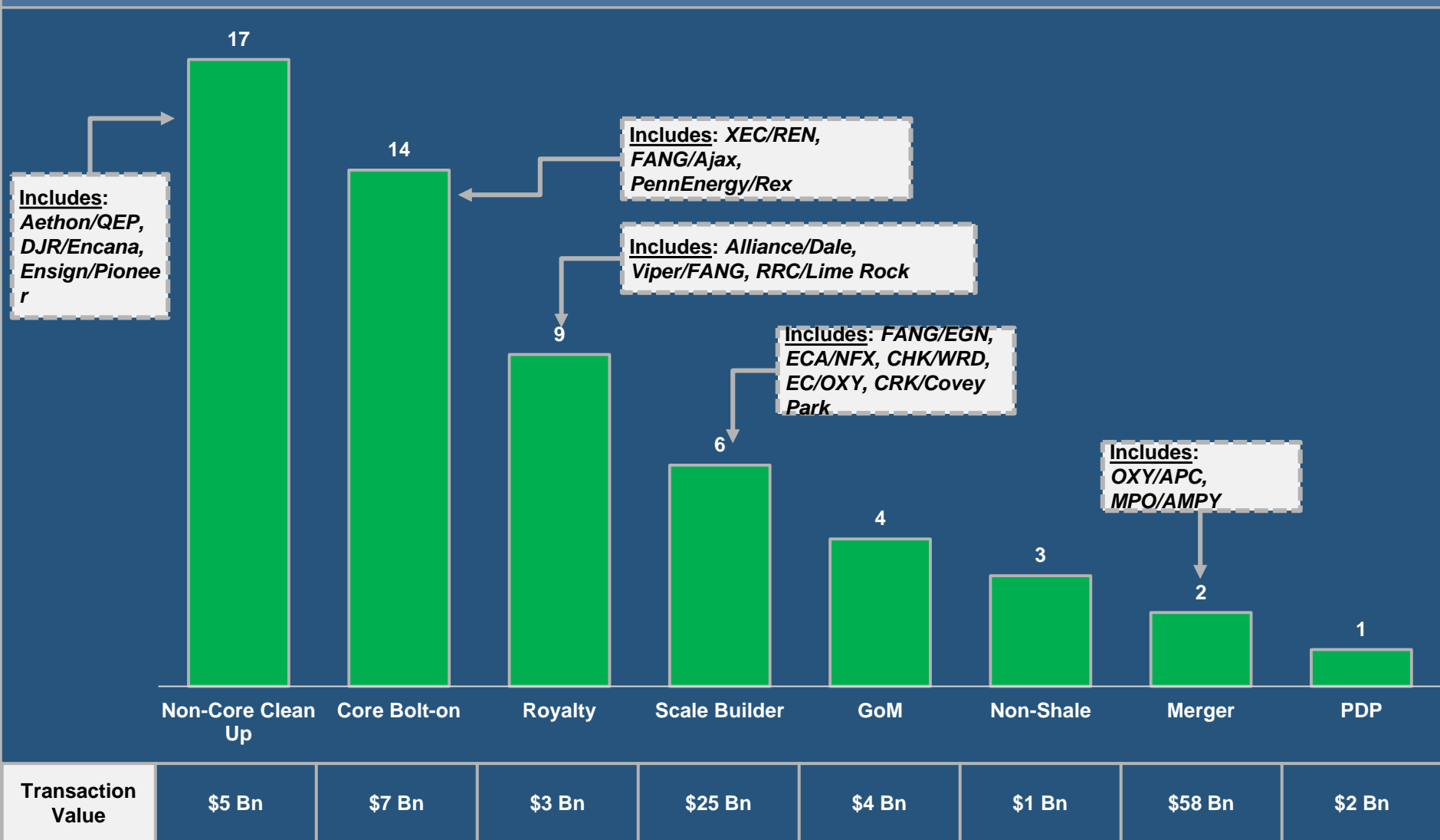


## Stock Price Performance – Encana / Newfield Acquisition



# M&A by Deal Type

## Last 12 Months U.S. E&P Deal Count <sup>(1)</sup>



(1) Source: PLS as of August 2, 2019. Includes deals with disclosed value greater than \$100 MM.

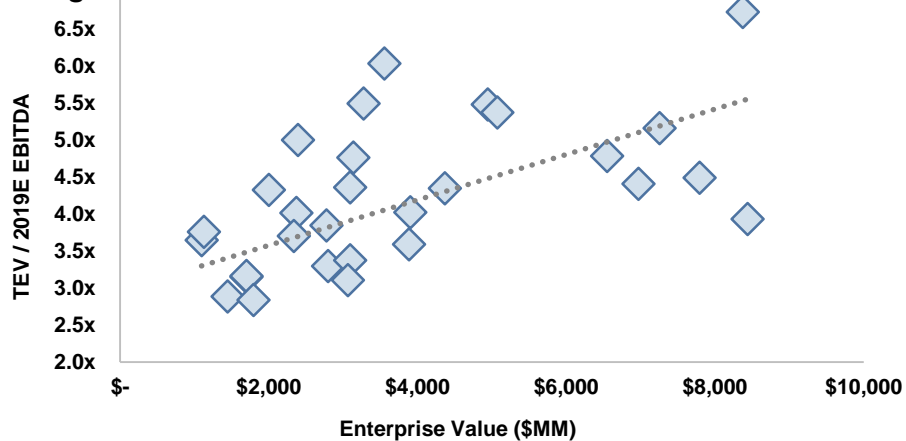


# Consolidation is Critical for Small-Mid Cap Companies

## Scale and Valuation are Correlated

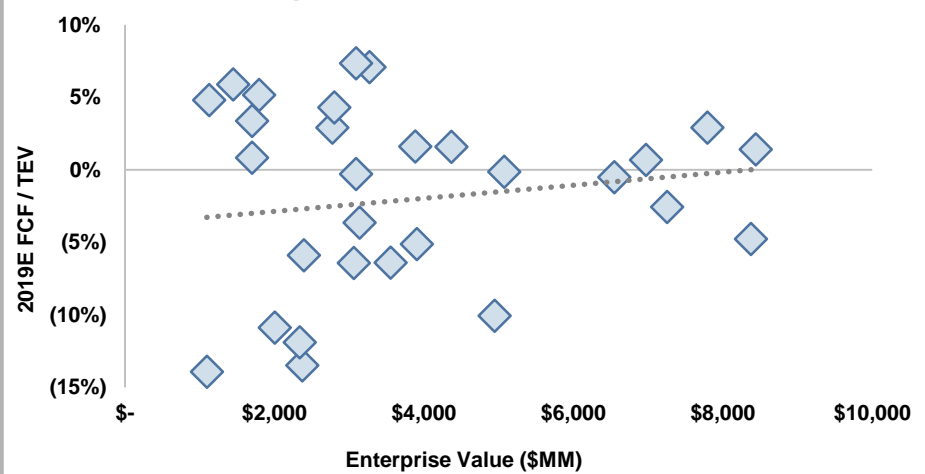
### TEV / EBITDA by Size

Range



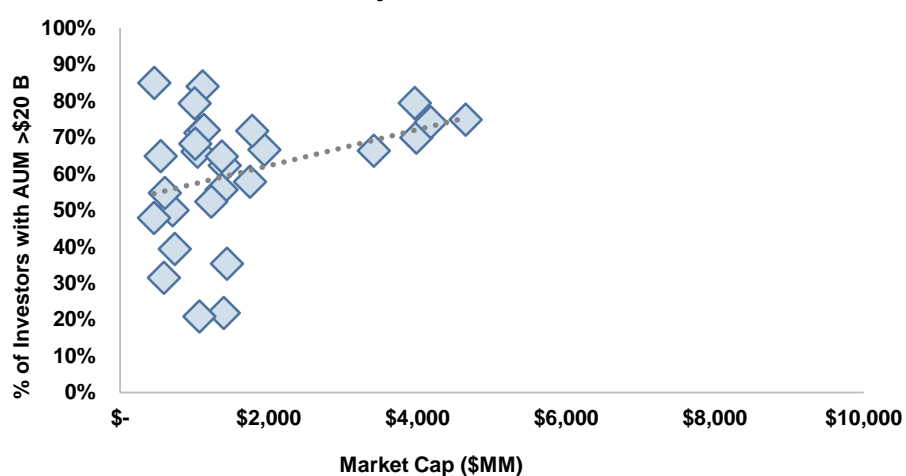
## Optimize Returns and Generate FCF

### FCF as a % of Enterprise Value



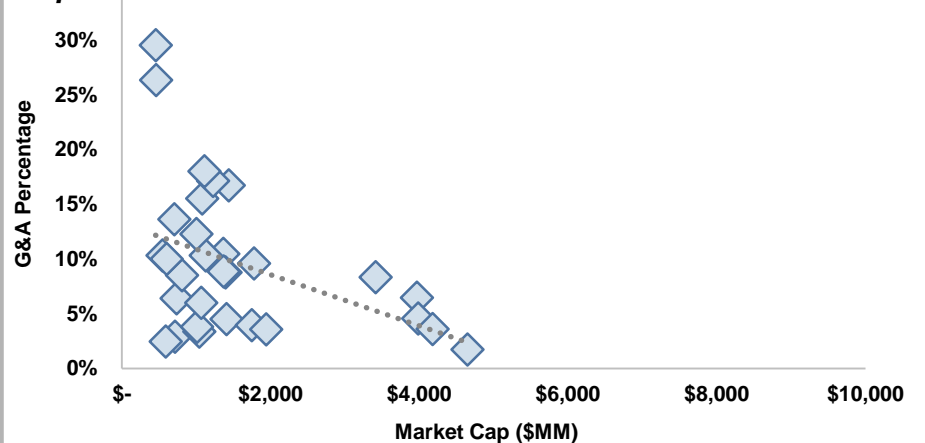
## Attract Large Institutional Investors

### Shareholder Breakdown by Institution Size



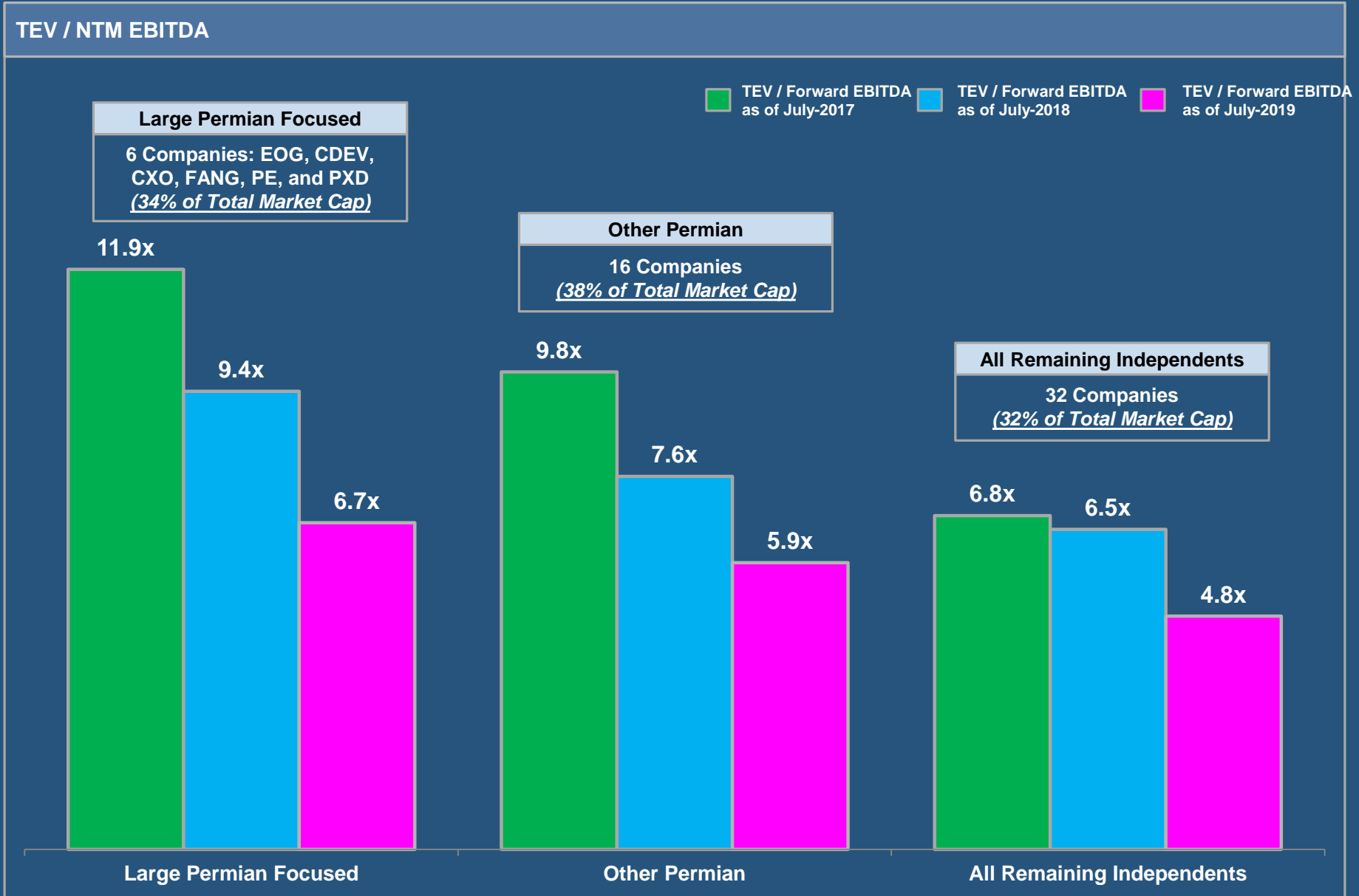
## Reduce Outsized G&A

### G&A as a % of Market Capitalization



Note: Market data as of August 2, 2019. Selected companies with market caps between \$500 MM and \$10 B include: DGOC, AR, BRY, CDEV, CNX, CPE, CRZO, DNR, GPOR, JAG, LPI, MGY, MTD, MUR, NOG, OAS, PDCE, QEP, RRC, SM, SRCI, SWN, TALO, WLL, WTI, XOG, EQT, WPX, PE, XEC.

# E&P Equity Valuations Have Also Decreased Meaningfully and Compressed

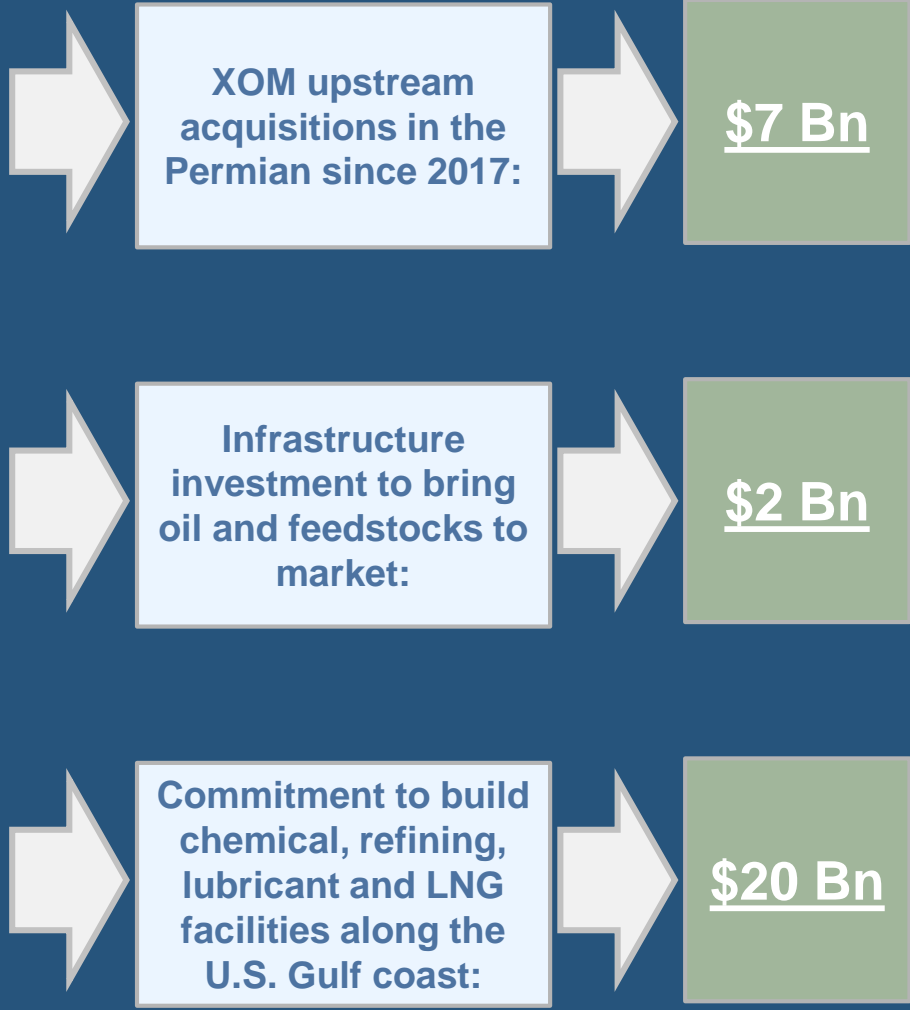
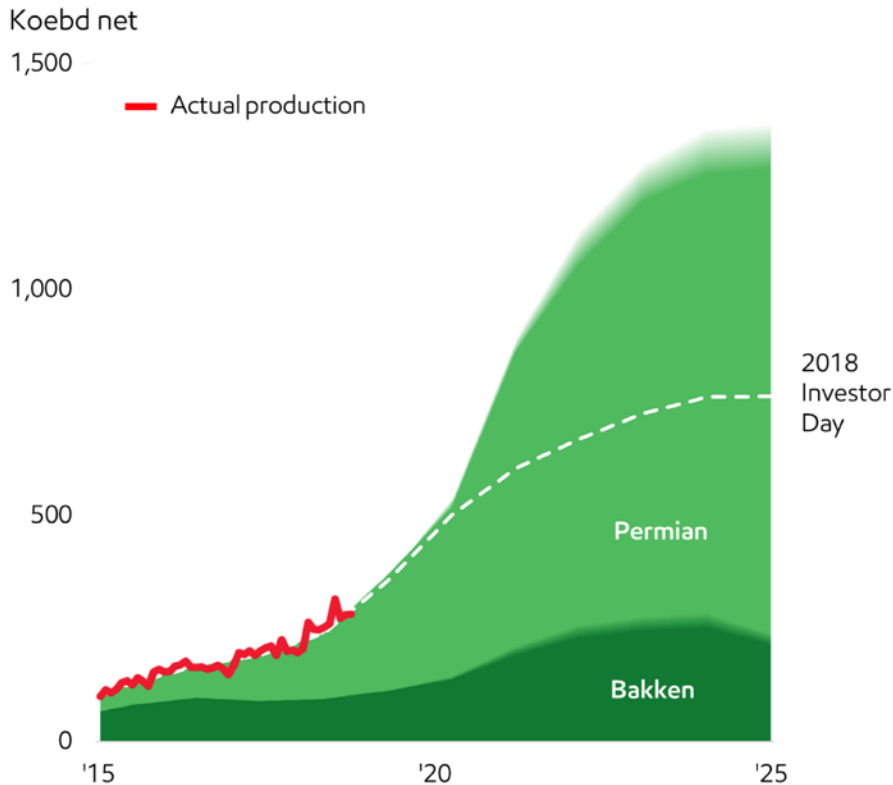


Note: Large Permian Pure Play include EOG, CDEV, CXO, FANG, PE, and PXD. Other Permian companies include APC, APA, AREX, CPE, XEC, ECA, EPE, HK, JAG, LPI, LLEX, MTDR, NBL, OXY, REI, ROSE, SM and WPX.  
 Source: Company filings and Capital IQ as of August 2, 2019. Capital IQ for historical data.

# ExxonMobil Growth Plan Connecting Upstream Permian to Downstream Gulf Coast Manufacturing

## XOM Tight Oil Production <sup>(1)</sup>

**Ramping Permian Production to >1,000 MBoe/d by 2024 <sup>(2)</sup>**



(1) XOM analyst day presentation in March 2019.  
 (2) Midland and Delaware Basin only.

## Closing Comments

- There is an interesting supply of “potential” deals out there
  - Dozens of stuck deals, need sellers to capitulate
  - Decent, not great, demand by buyers
- Permian still a bright spot, reduced transaction price may encourage more buyer demand
- Internationals once again interested in U.S., more cautious than before
  - Ecopetrol / Oxy JV
  - Osaka Gas / Sabine Acquisition
- Royalties / minerals deals continuing to grow
  - Public / private mineral buyers being created
  - Sellers see value in carving out royalties for healthy valuation
- Water businesses attracting a lot of attention
- Muted deal flow will lead to much improved deal flow – the industry just needs to burn off the excess due to the RESET