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WSLCA 2016 Summer Conference

# Present Market Trends

## Who is Buying and What is Selling

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# Subject Matter Areas

**I. Industry Condition**

**II. M&A**

**III. Valuation Metrics**

**IV. Change in Property Values**

**V. Bankruptcy and Debt**

# U.S. Industry Condition

Efficiency gets better and better

Costs come down

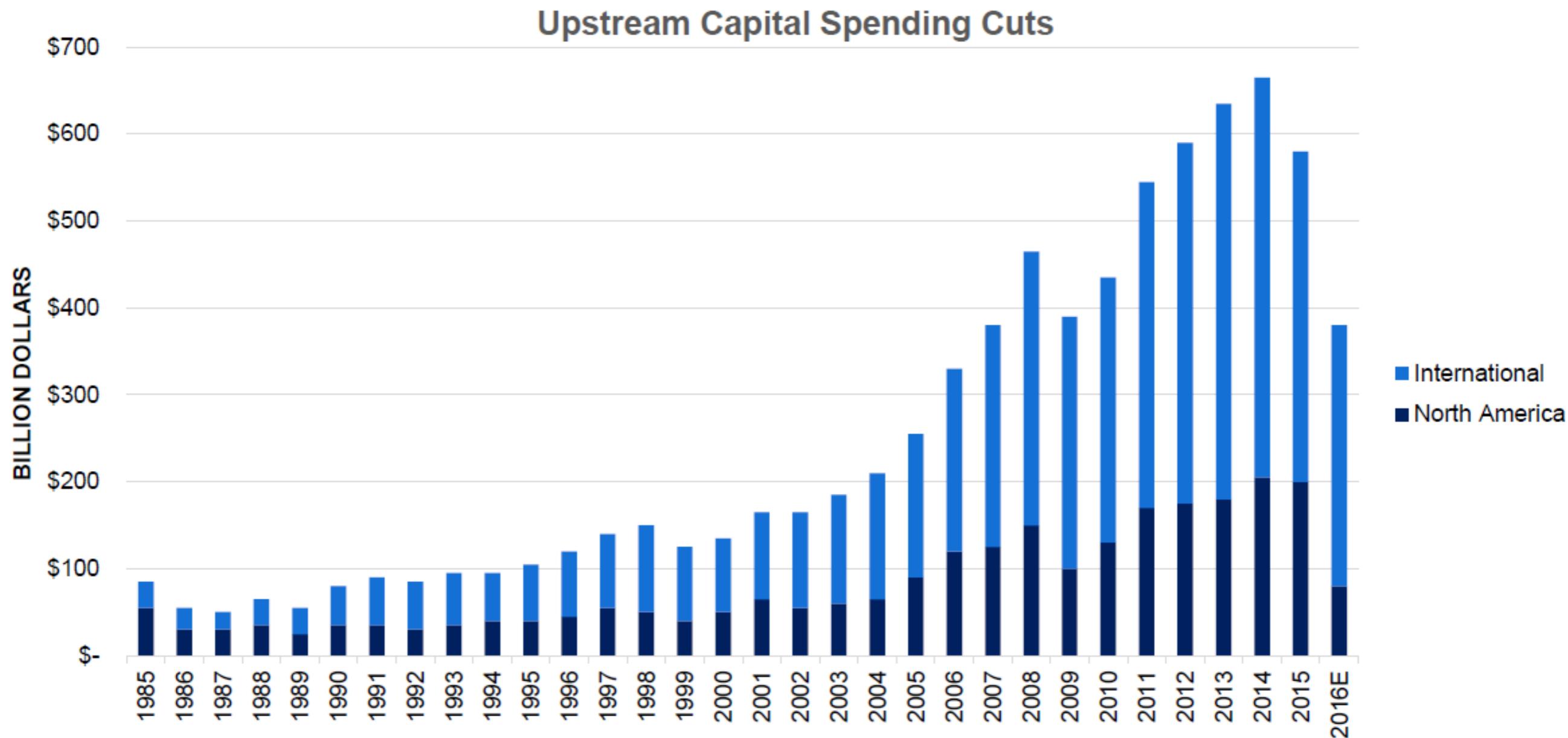
# Industry Stress

- Zombie firms barely manage to pay their bills and service debt.
- Don't earn enough to ensure sustained growth production
- Rig count at sub 438 from 1609 peak in October 2014.

Lowest since 1948 - maybe the 1860's

- 2016-Some E&P's are having to choose among reorganization, liquidation (Chapter 11 or 7) or asset sales

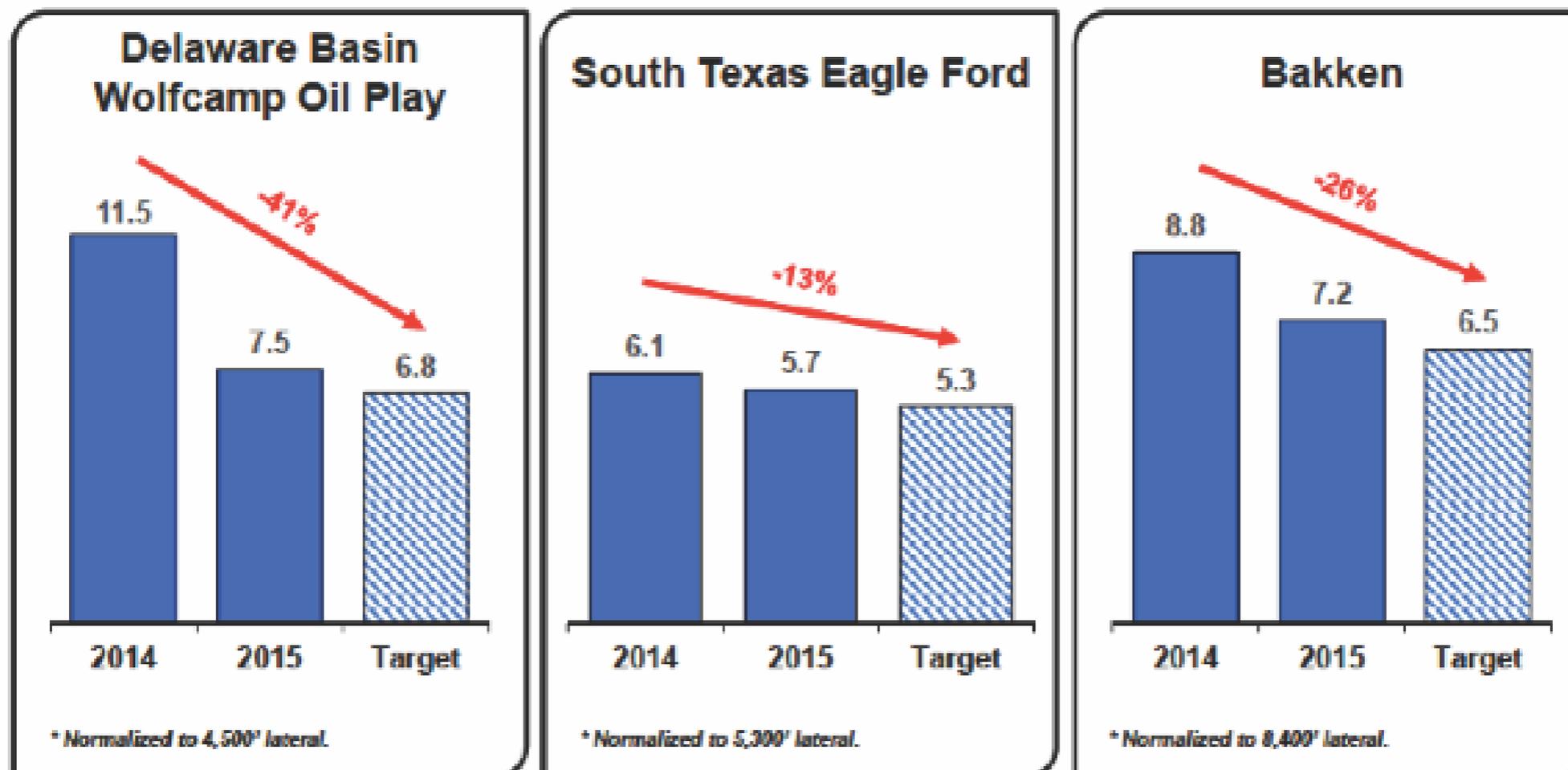
# Upstream CapEx Lowest in 10 Years



150 projects delayed or placed on hold  
 Represent 125 billion BOE of resources and 13 MMBOE/D of liquids production

# Shale Plays – U.S. Ability to Drive Costs Down, Performance Up

Completed well costs (\$MM)

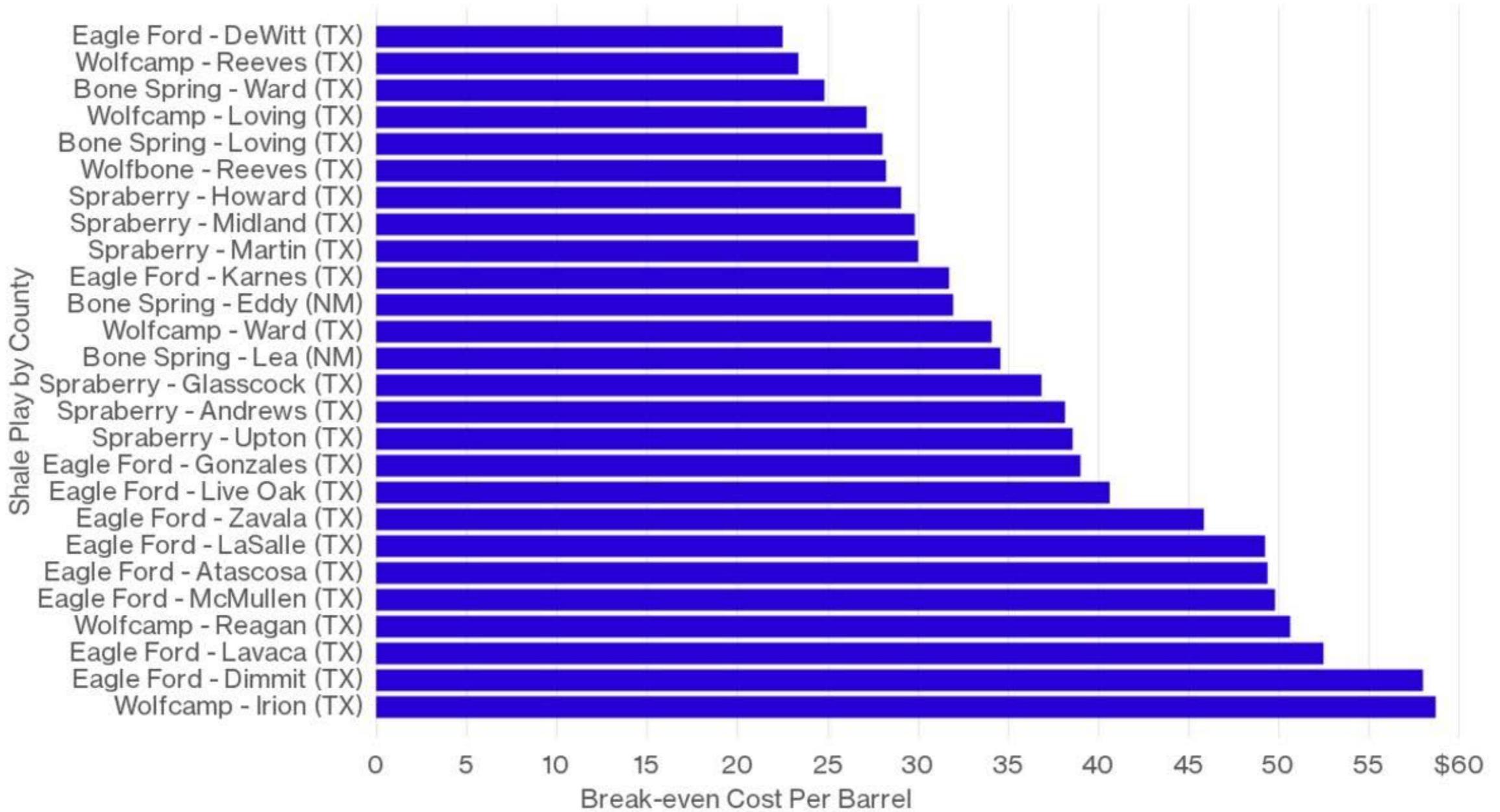


\* CWC = Drilling, completion, well-site facilities and flowback

SOURCE: EOG Resources

# Breaking Bad

Some parts of the Eagle Ford and Permian Basin are profitable to drill with oil at \$30 a barrel



Source: Bloomberg Intelligence

Note: Wolfcamp, Bone Spring, Wolfbone and Spraberry are shale formations in the Permian Basin

# U.S. M&A

# M&A Evolution

- **2015-Slowest year for upstream oil and gas transactions in more than a decade**
- **Asset transaction values fell from \$102 Billion in 2014 to \$30 Billion in 2015**
- **\$30 Billion in offers to purchase assets in 2015 were rejected**
- **Banks encouraging asset sales by borrowers with hedges expiring and negative cash flow**
- **Private equity holding off buying because no one knows where the bottom is, however most well funded**

# Likely Asset Acquirers - 2016

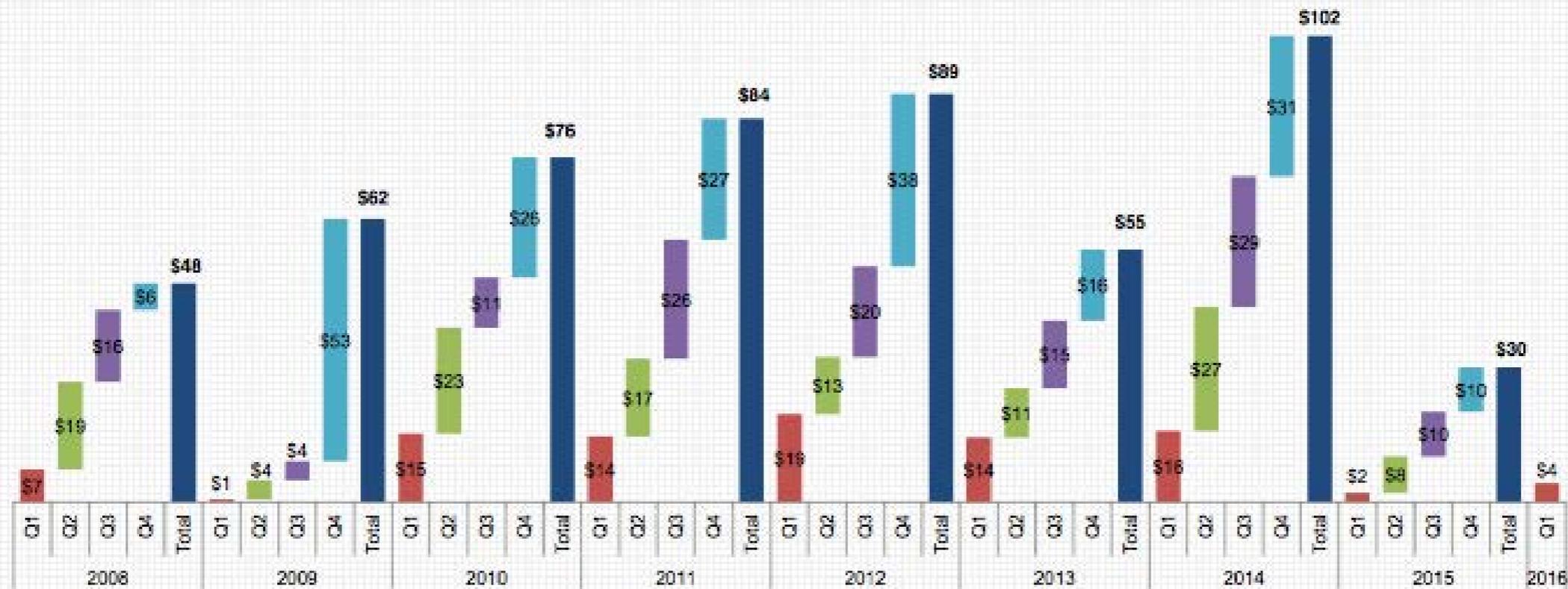
## Private Equity:

- **Entities will compete with public companies and other buyers to drive up A&D values and activity**
- **Companies looking for low cost entry point**
- **Large well capitalized companies building portfolios**
- **\$100 Billion earmarked for O&G investments for low price environment**

**Large well capitalized companies building portfolios**

2015 was the slowest year in US Upstream M&A since 2008  
Deal flow tepid in Q1-2016

\$ bn



- Q1-2016 US Upstream M&A value at \$4 billion, is by far one of the slowest quarters
- This is comparable with the slowdown in 2008-09 when the US saw a single digit (\$ billion) deal value from Q4-2008 to Q3-2009

Source: 1Derrick Global M&A Database

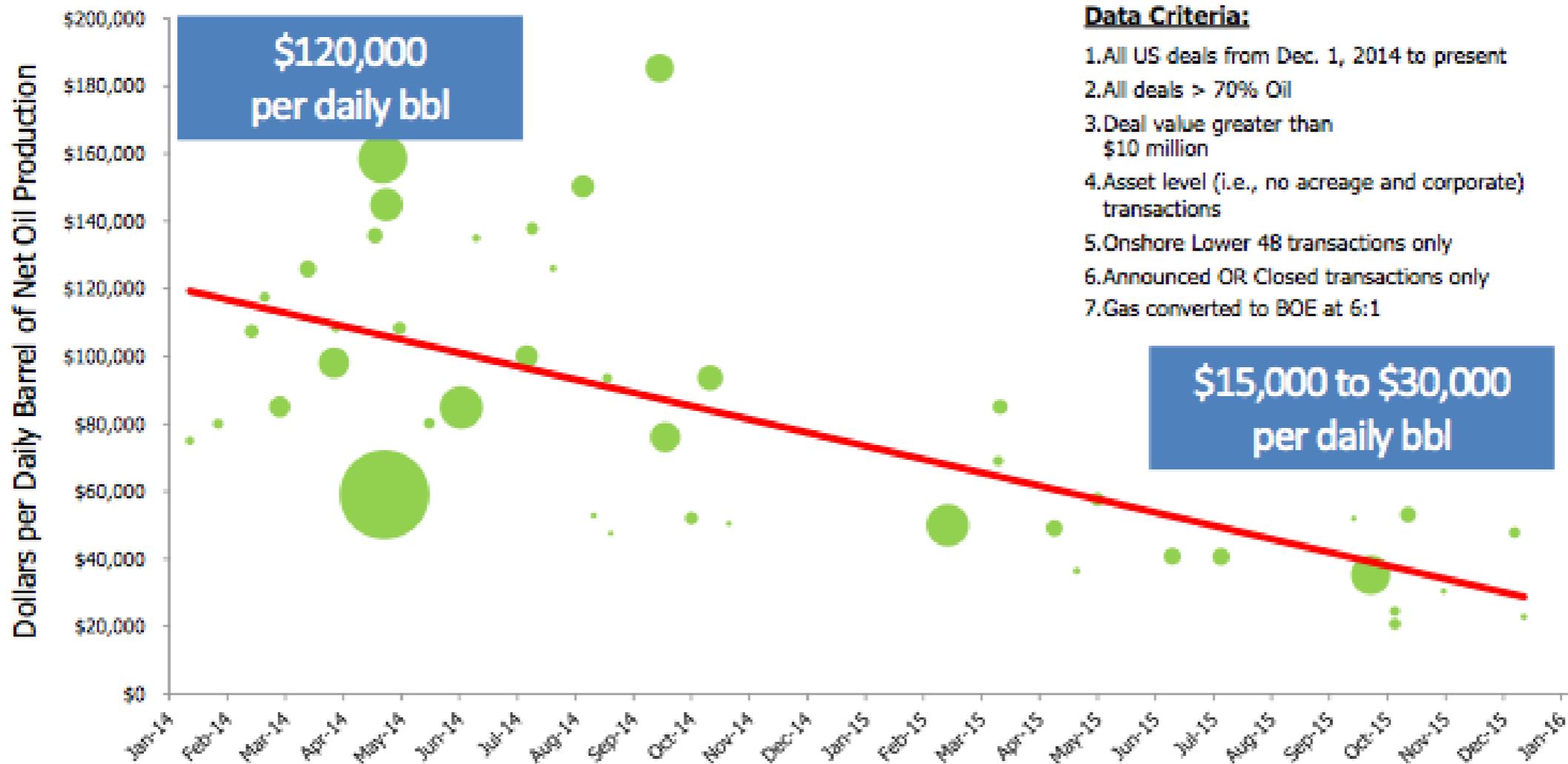
## EnergyNet Quarterly Transaction Values 2008 - 2016



# Drastic Change in Valuation Metrics

# Oil Valuation Metric: \$/Daily bbl of Net Production

In last two years, transaction multiples down from \$120,000

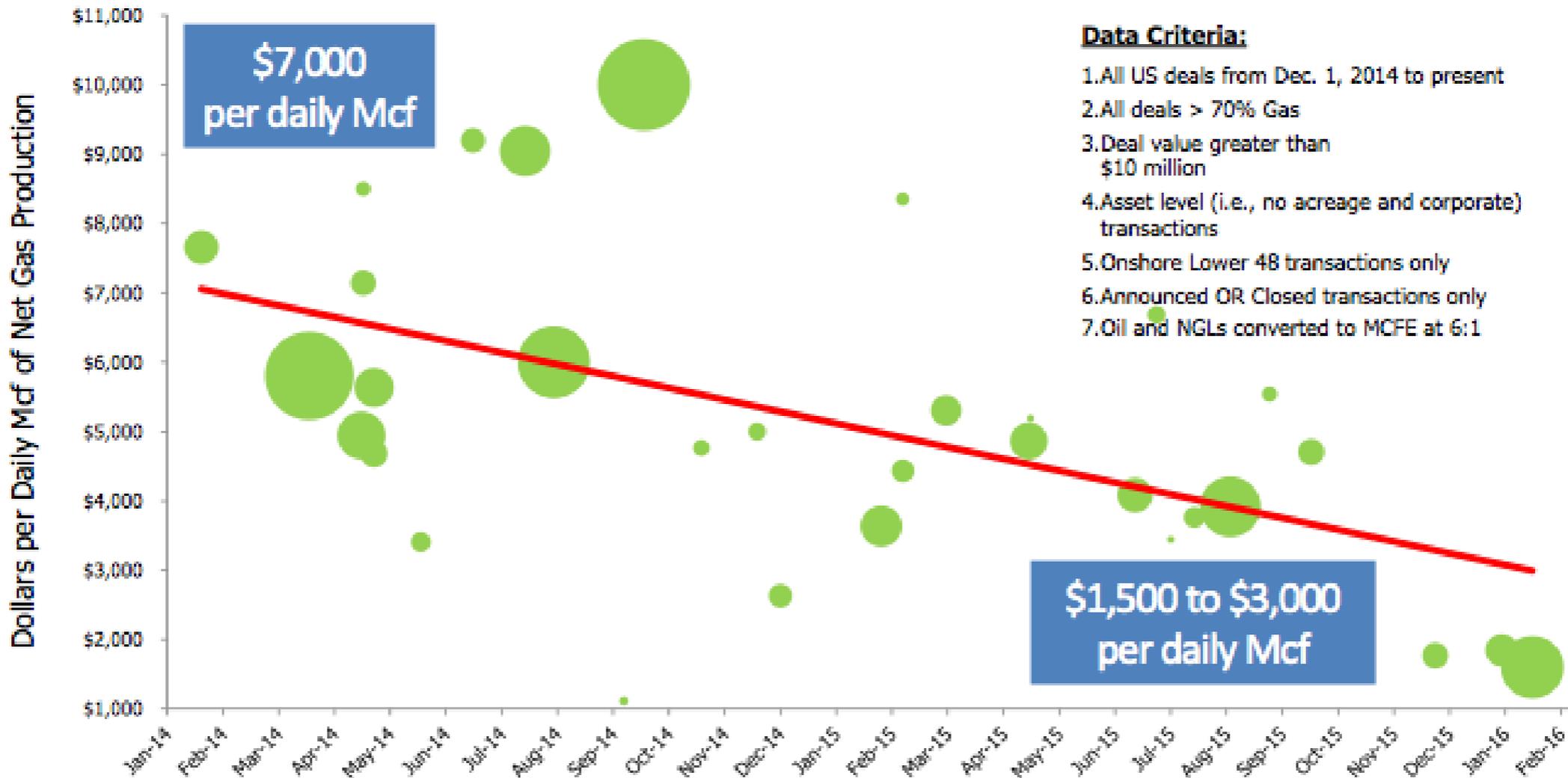


NOTE: Shape size indicates size of deal

SOURCE: PLS M&A

# Gas Valuation Metric - \$/Daily Mcf of Net Production

In last two years, transaction multiples down from \$7,000



NOTE: Shape size indicates size of deal

SOURCE: PLS M&A

# Always an Exception

## *Great Rock!*

- **QEP Purchases Assets in Northern Midland Basin**
- **Deal Value \$600 Million**
- **Effective date April 2016 - Close September 2016**
- **9,400 Net Acres in Martin County**
- **430 Horizontal drilling locations**
- **Current production 1.4 MBOE/D (96 vertical wells)**
- **Proved reserve valuation \$7.89/BOE**
- **\$/Acre \$58,000**

# Change in Property Values

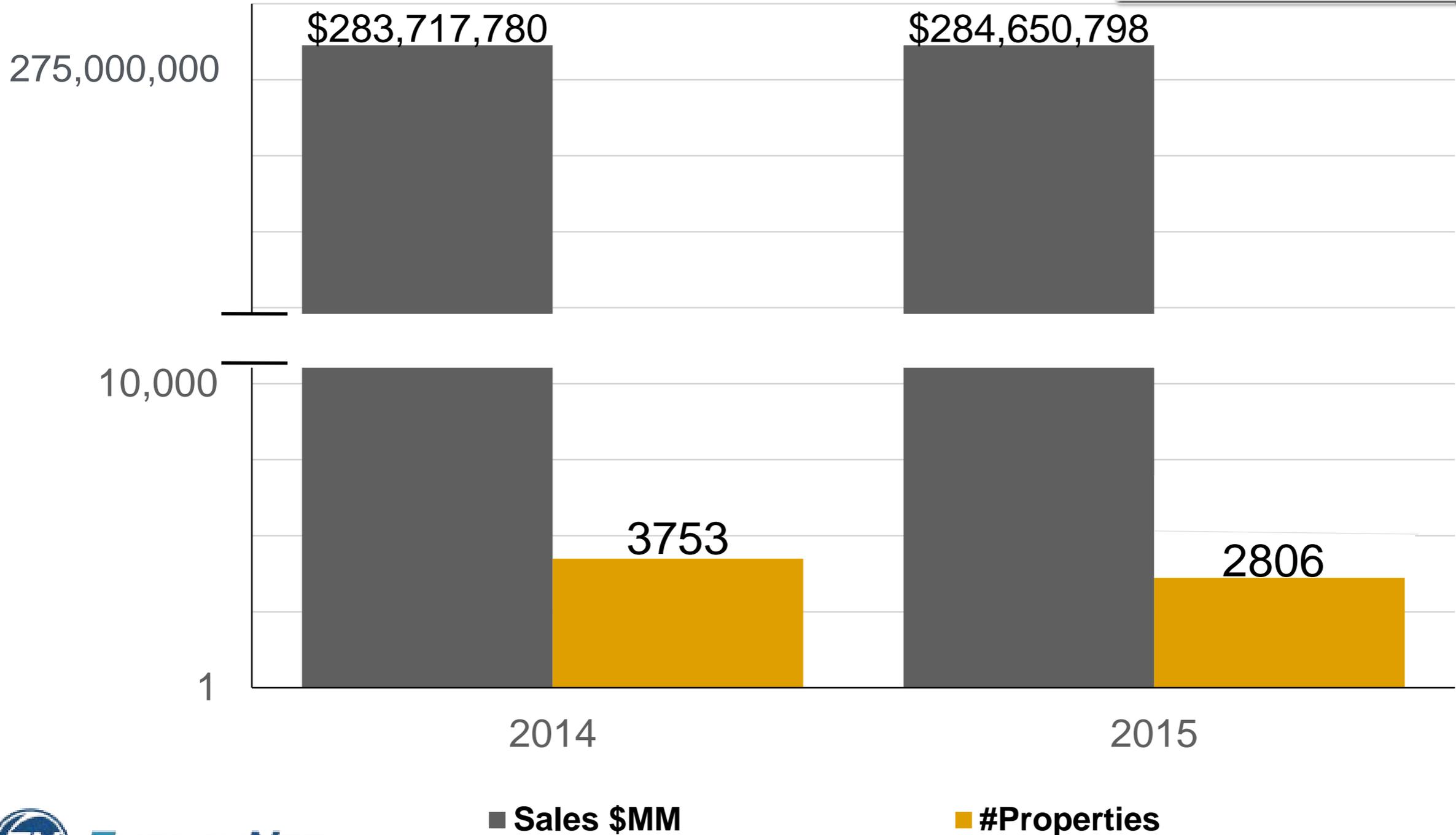
2014-2015

# Market Impact on Sales

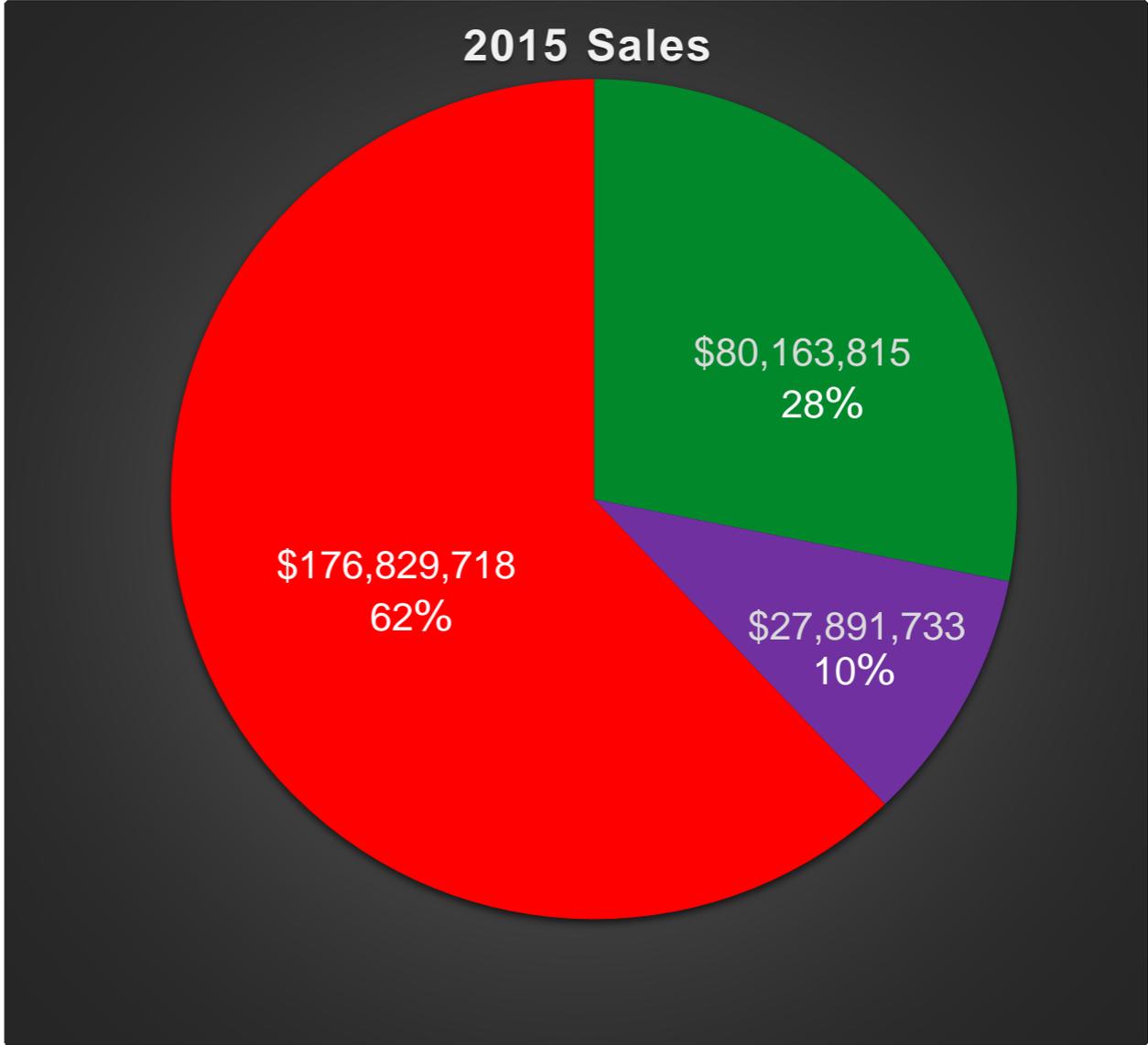
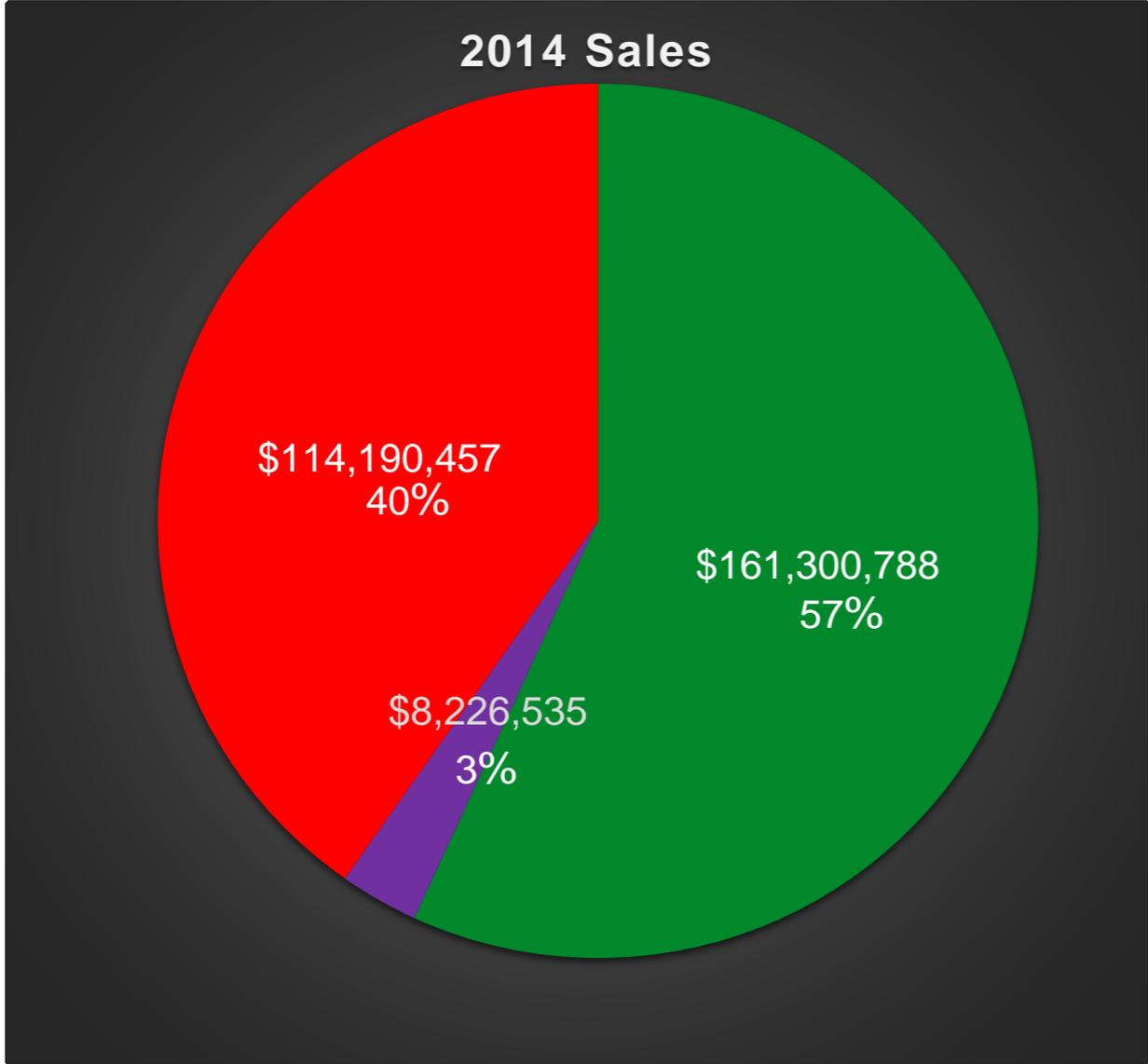
**2014 vs. 2015**

Increase in Total Actual Sales  
\$933,018

Decrease in Number of Properties Sold  
947



# EnergyNet Property Mix - 2014 vs 2015



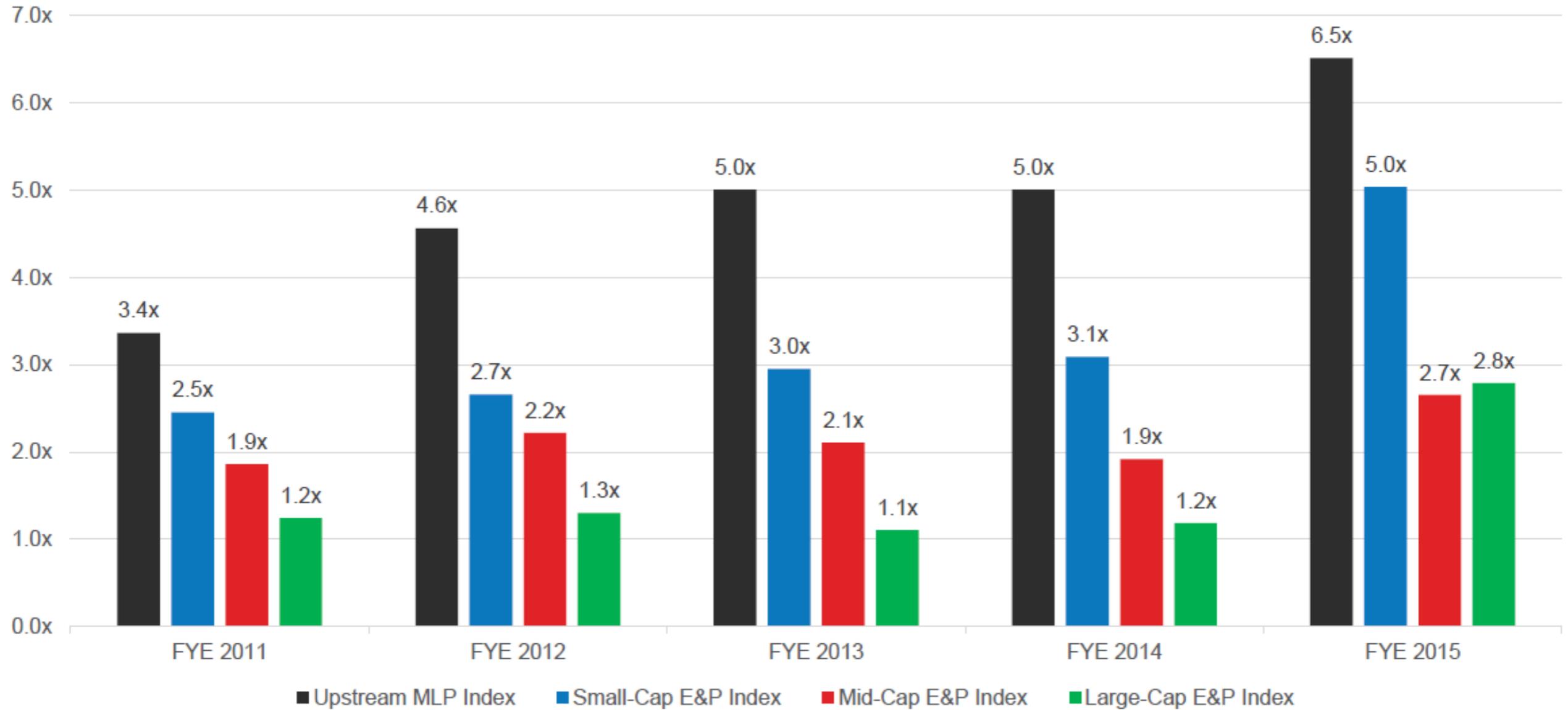
**Auction**      **State**      **Sealed Bid**

# Oil & Gas Bankruptcy Filings March on

## Debt Grows

# Industry Leverage Continues To Increase

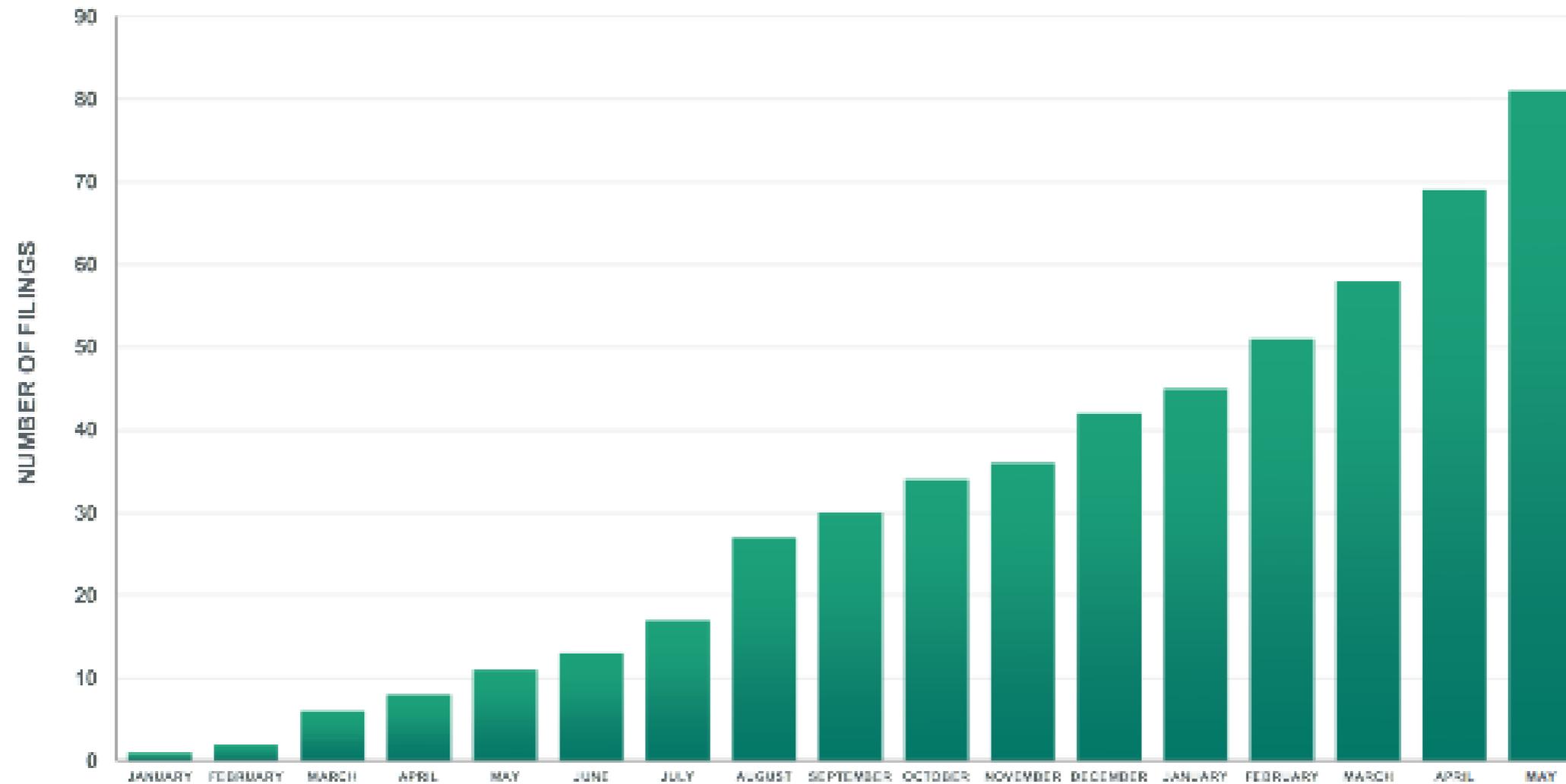
## Historical Total Leverage (Debt/EBITDA)



**Trend is unsustainable – Upstream industry expected to burn \$11 billion in liquidity in 2016 while experiencing 6% production decline**

## 2015-2016 CUMULATIVE NORTH AMERICAN E&P BANKRUPTCY FILINGS

### HAYNES AND BOONE OIL PATCH BANKRUPTCY MONITOR



HAYNES AND BOONE, LLP  
OIL PATCH BANKRUPTCY MONITOR

# Summary

# Summary:

- **The market has been through periods of volatility in the past and there will likely be others in the future.**
- **No one has a clear crystal ball so no accurate forecast as to when or how the market will rebound, but it always does!**
- **There is still a demand for properties and leases, as visionaries pursue good values for properties, planning on a positive future return.**
- **The “formation” and ability to apply technology at reduced capex will be factors that determine which areas bidders will seek highly.**
- **Expect some former “major players” to drop out due to bankruptcy.**
- **In the meantime, expect bidders to be selective, offers to be less than previous years, but competition will create greater value.**

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