

Mergers and Acquisitions Institute

Nuts & Bolts of Structuring and Executing Oil and Gas Deals in Today's Market

Moderator

J. Holt Foster, III, Thompson & Knight LLP, Dallas, TX

Panelists

John Goodgame, Akin Gump Strauss Hauer & Feld LLP, Houston, TX

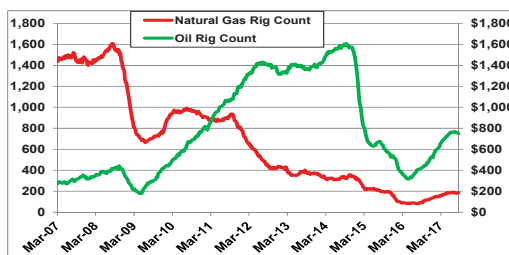
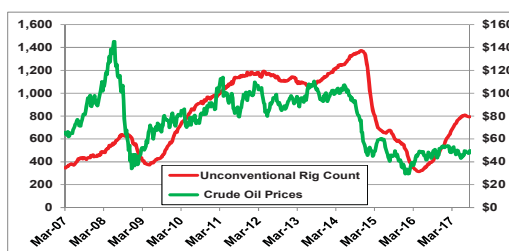
Cliff Vrielink, Sidley Austin LLP, Houston, TX

Jim Wicklund, Credit Suisse, Dallas, TX

Jeff Zlotky, NGP Energy Capital Management, LLC, Irving, TX

MARKET OVERVIEW

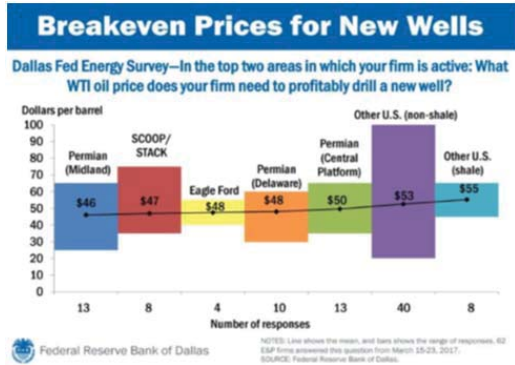
Backdrop – Continuing Cyclicalality of the Industry



- The recovery from the 2008-09 financial crisis ran for six years, to a record level of shale activity, until oil prices and activity dropped 80% in 18 months, as did the oil price.
- The oil rig count is well ahead of the relative oil price as technology continues to lower the economic threshold of production
- Natural gas drilling drove activity into the 2008 peak and in the recovery, then gave way to oil drilling's dominance, until it collapsed into 2015
- Natural gas production has grown each of the last eight years, even with ~90% drop in drilling activity

MARKET OVERVIEW

The New Paradigm of Energy Economics

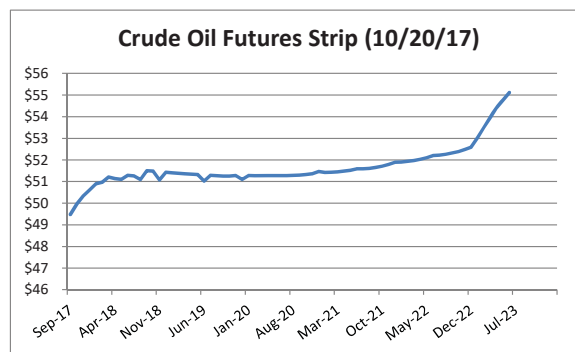


- Today, the breakeven on oil prices has dropped from \$65-\$85 to \$46-\$55 and continues to decline
- Natural gas is expected at \$3-\$3.25 for a long period of time
- The oil futures strip doesn't hit \$53 until 2023 and the natural gas futures show \$2.85 for the next several years
- E&P have outspent cash flow for seven years in a row
- The rig count rebounded 140% off the lows 15 months ago but has now stalled with oil prices
- **WTI doesn't hit \$53/bbl until 2023**

- Private equity has invested over 450 billion in E&P and private oil companies have show the greatest activity increases this year.
- Public companies have raised \$39 billion in equity since the end of 2015

MARKET OVERVIEW

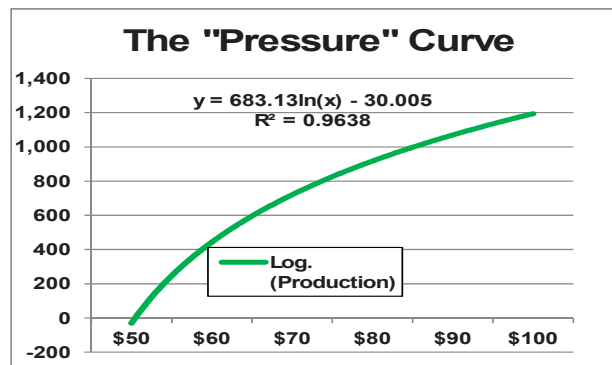
The Futures Strip Doesn't Imply Growth for Years



The futures strip is famously accused of never being right, but by what magnitude? Does \$2/barrel upside over the next five years inspire anyone?

MARKET OVERVIEW

“Tell me how much production growth is needed to balance supply/demand, and I will tell you the oil price”



Oil prices have a new role, to keep US production in check

Post Bust, New Issues to Navigate

- Former Bond Holders Are Now Major Equity Holders
 - › Different drivers from founder or PE sponsor
- Post Closing Abandonment Issues Coming Back
 - › Liability from being in chain of title
- MLPs are shrinking
 - › Market collapse caused the failure of many MLPs
 - › Less viable exit strategy

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"Nuts and Bolts of Structuring and Executing Oil & Gas Deals in Today's Market"