

14TH ANNUAL

Mergers and Acquisitions Institute

Peak, Trough or Somewhere in Between: Navigating the Uncertainties of an Ever Changing Energy Market

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What are the key oil and gas market themes for 2018 equity market?

E&P

- Investors are focused on corporate returns versus growth
- Equity markets remain very discerning
- Sector performance has lagged higher crude prices
- Permian pure-plays under infrastructure pressure

Midstream

- Regulatory environment
- Collapse of GP/LP and IDR structures
- MLP Version 2.0
- C-Corp conversion
- Gas takeaway

Oilfield Services

- Prudent capital allocation
- Free cash flow is king
- Capital return continues to be a key theme
- Slow and steady wins the race
- Lead the witness
- Stick to the knitting

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Downturn had material (but not long term) impact on bank lending community

- Reserve based lending has been relatively consistent for last 40+ years, with a primary focus on collateral valuation and repayment first and foremost
- Declines in oil and gas prices materially impacted underlying credit and ultimately underwriting parameters
- As part of process, updated OCC ratings were provided as guidance points with each deal being reviewed on its own merits, but initially was viewed as "bright lines" by many banks
- Material reduction in active bank universe in 2016: ~ 50 active banks to ~ 20 for a period of time in terms of extending new credit
- Despite the pull back, the bank universe continued to support energy companies so long as structured and capitalized within the fairway
- Additional scrutiny was very focused on:
 - Cash flow leverage
 - Hedge profile
 - Drilling economics
 - Free cash flow profile
 - Known management and equity partners
 - Incremental payout tests
 - Further tightening of particular negative covenants

RBL Loan Rating Short Form

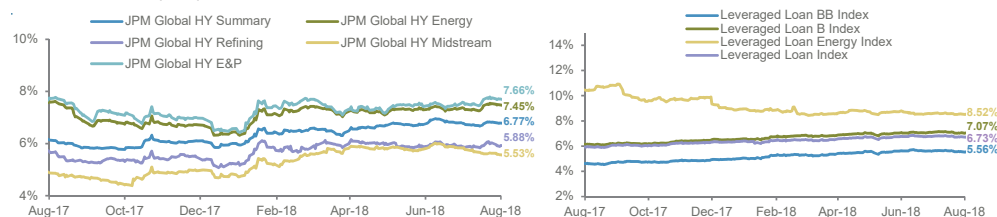
Test	Pass	Criticized	Classified
Repayment of fully drawn RBL	< 60% Reserve Life	60% - 75% Reserve Life	> 75% Reserve Life
Repayment of Total Secured debt	< 75% Reserve Life	75% - 90% Reserve Life	> 90% Reserve Life
Funded Debt/EBITDAX	< 3.5X	3.5 – 4.0X	> 4.0X
Funded Debt/Capital	< 50%	50% - 60%	> 60%
Committed Debt/Total Reserves	< 65%	65 – 75%	> 75%

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Institutional debt markets

- The high yield market funded a material amount of the shale growth as independents accessed this capital to outspend cash flow via inventory-oriented acquisitions and incremental organic development
- The high yield secondary market has remained relatively stable however supply remains sluggish as muted activity in July and August follows the lightest May and June since the financial crisis

Selected HY Indices (YTW)



- High yield investors have become increasingly savvy on the E&P industry resulting in more variance from one issuer to another
 - Recent outperformance of oil and liquids weighted producers over gas weighted producers
 - Investors also very focused on specific basin dynamics and economics, level of inventory, and credit metrics
 - Broader ratings are not primary driver for yields
- Investment grade midstream energy companies have continued to have solid access to the debt markets
 - Conditions remain strong for issuers across the midstream spectrum
 - A number of issuers have turned to the hybrid and preferred equity due to treatment from ratings agencies

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