

13TH ANNUAL

Mergers and Acquisitions Institute

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

Moderator

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Panelists

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

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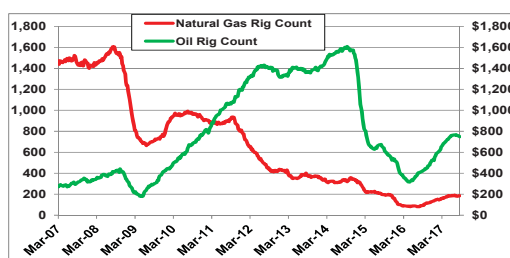
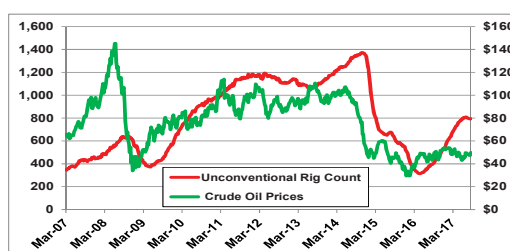
Jim Wicklund, Credit Suisse, Dallas, TX

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

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MARKET OVERVIEW

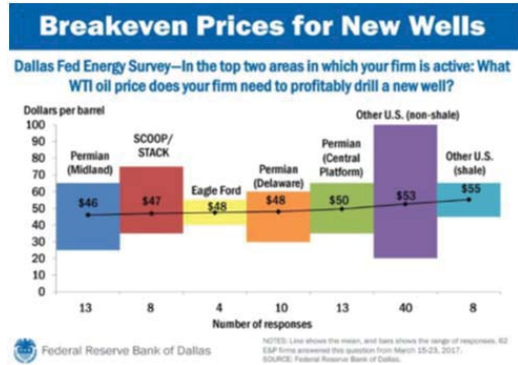
Backdrop – Continuing Cyclicalality of the Industry



- 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

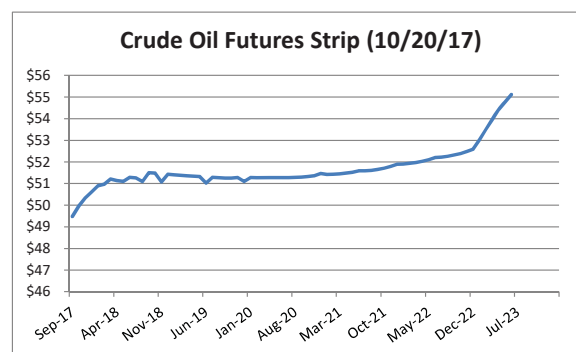


- Private equity has invested over 450 billion in E&P and private oil companies have shown the greatest activity increases this year.
- Public companies have raised \$39 billion in equity since the end of 2015

- 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

MARKET OVERVIEW

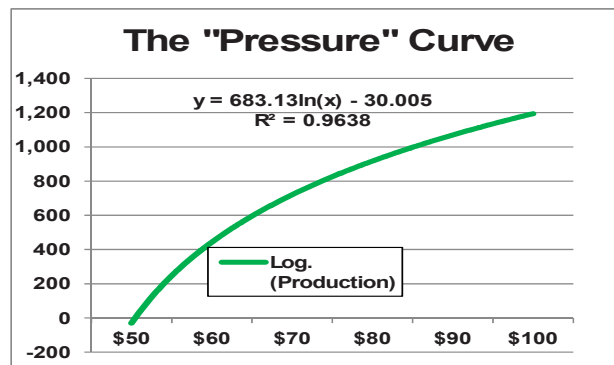
The Futures Strip Doesn't Imply Growth for Years



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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