

Advisory

PwC Transaction Trends in Oil and Gas presents:

FY17 U.S. Oil and Gas deal activity and trends
and look ahead at 2018

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Strictly Private
and Confidential*

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pwc

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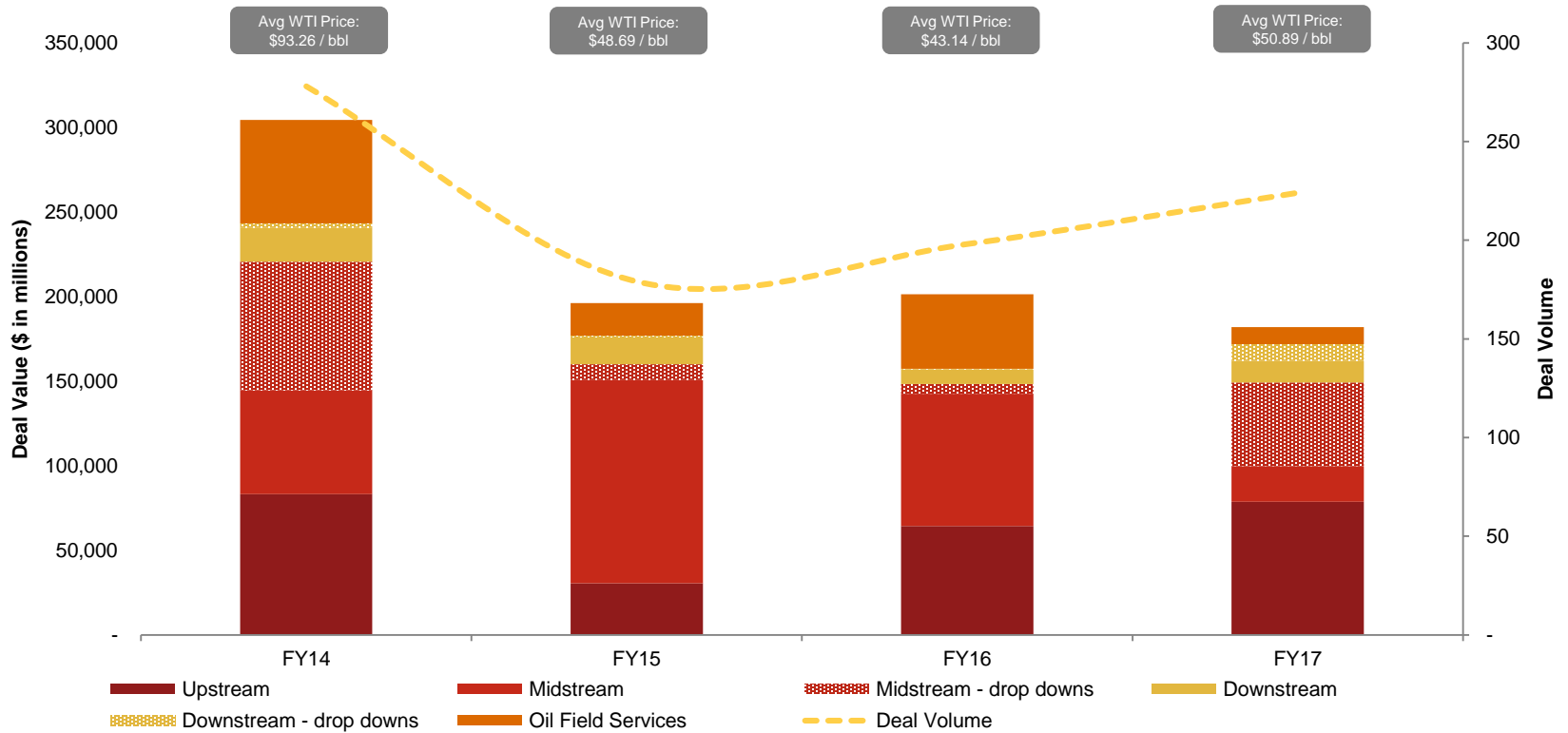
Agenda

1. Review of 2017 Oil and Gas M&A
2. Tax Reform Impact on M&A
3. Look Ahead to 2018 Activity
4. Oil and Gas Market overview

Section 1

Review of 2017 Oil and Gas M&A

Despite increasing commodity prices and deal volumes, deal value declined due to midstream and OFS activity

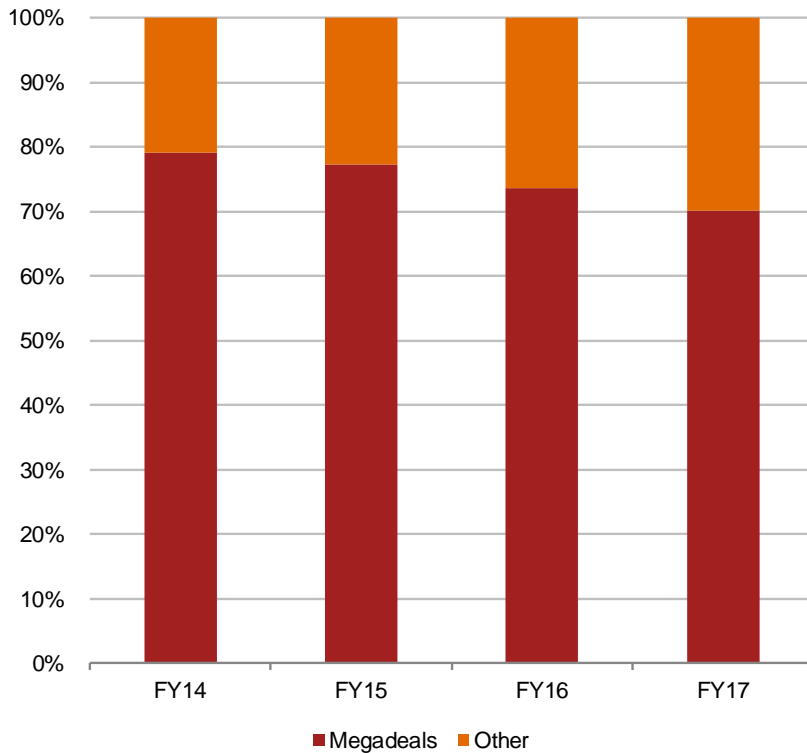


Source: IHS Markit, Global Data and PwC Analysis

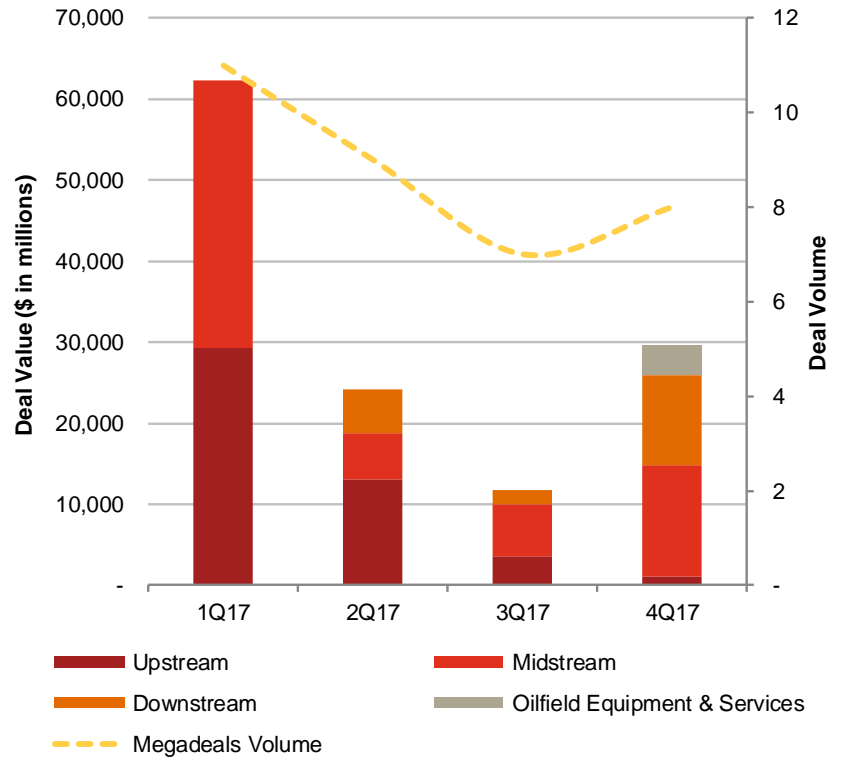
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Megadeals (>\$1B) have steadily decreased as a percentage of total deal value in recent years

Value Percentage of Megadeals



Megadeals by Sector



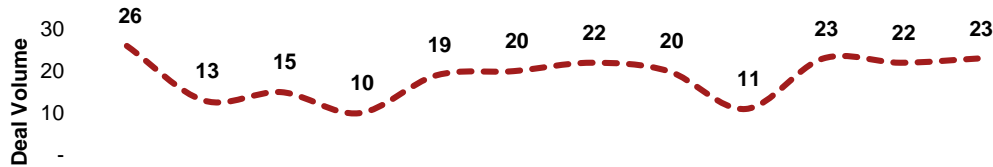
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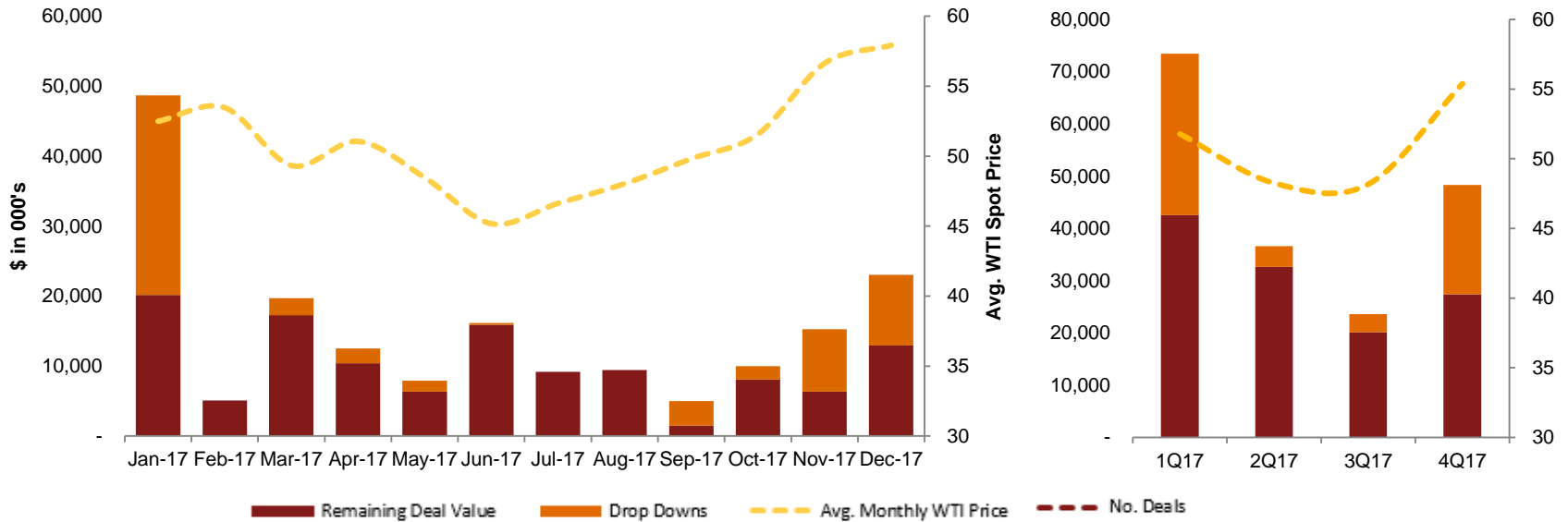
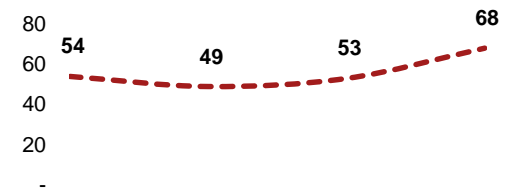
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Q4 2017 activity shows upward momentum – with deal value and volume increasing from the prior 2 quarters

Monthly Deal Value and WTI Trend



Quarterly Deal Value

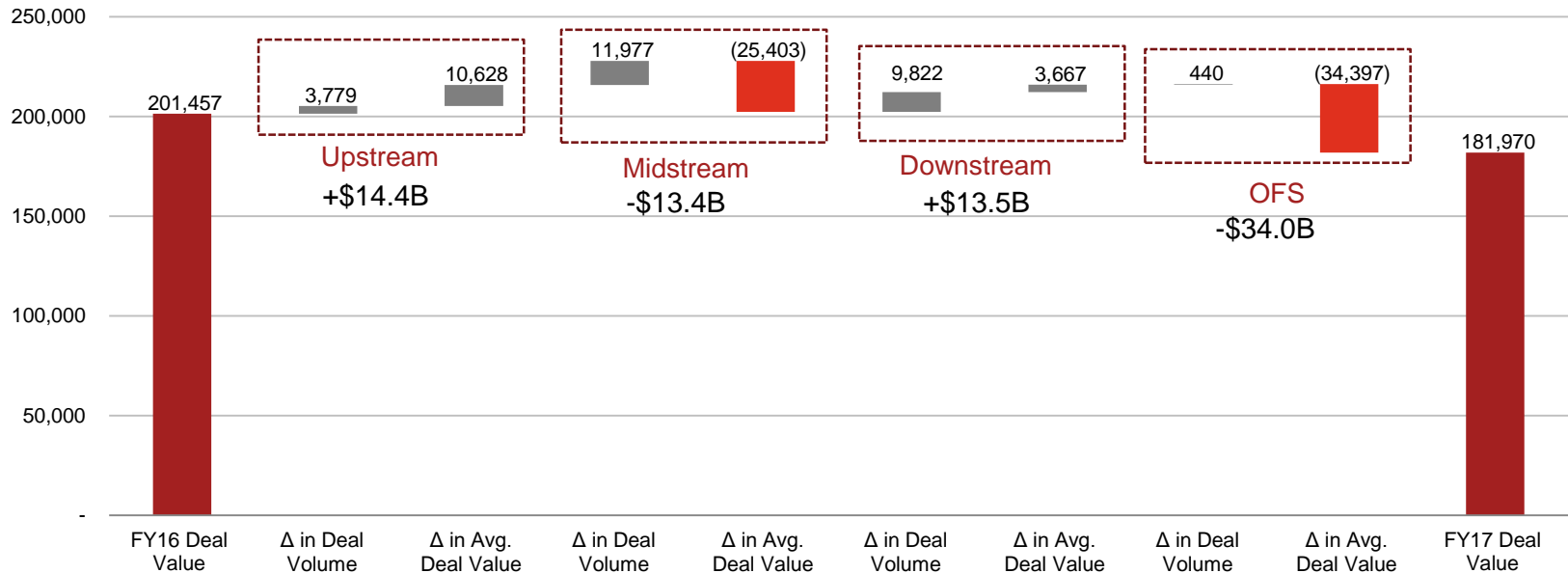


Source: IHS Markit, Global Data and PwC Analysis

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Declines in oil field service and midstream deal size drove the drop in deal value in FY17

FY16 to FY17 Deal Activity by Sector Bridge



Source: IHS Markit, Global Data and PwC Analysis

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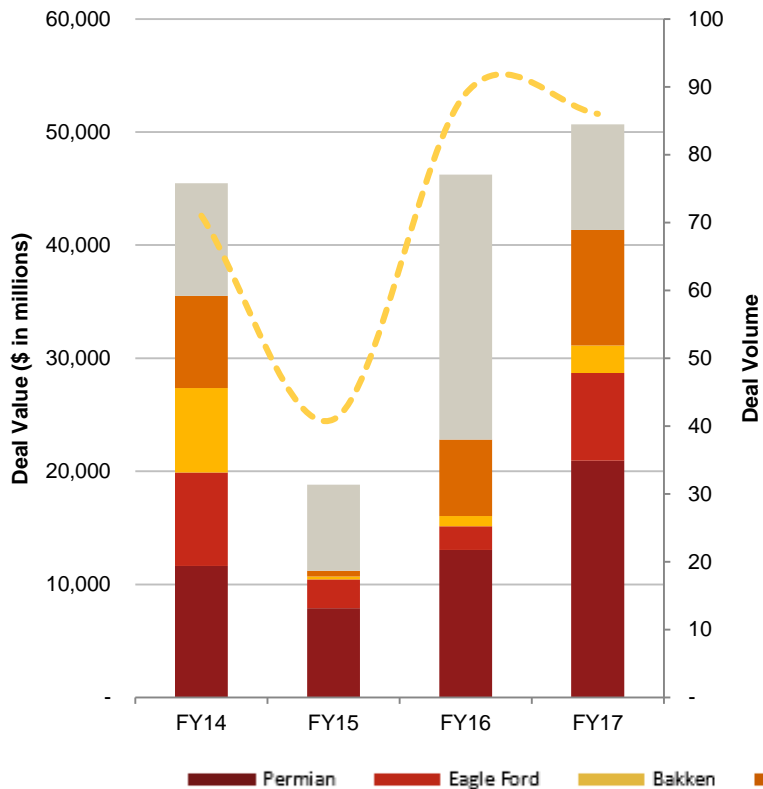
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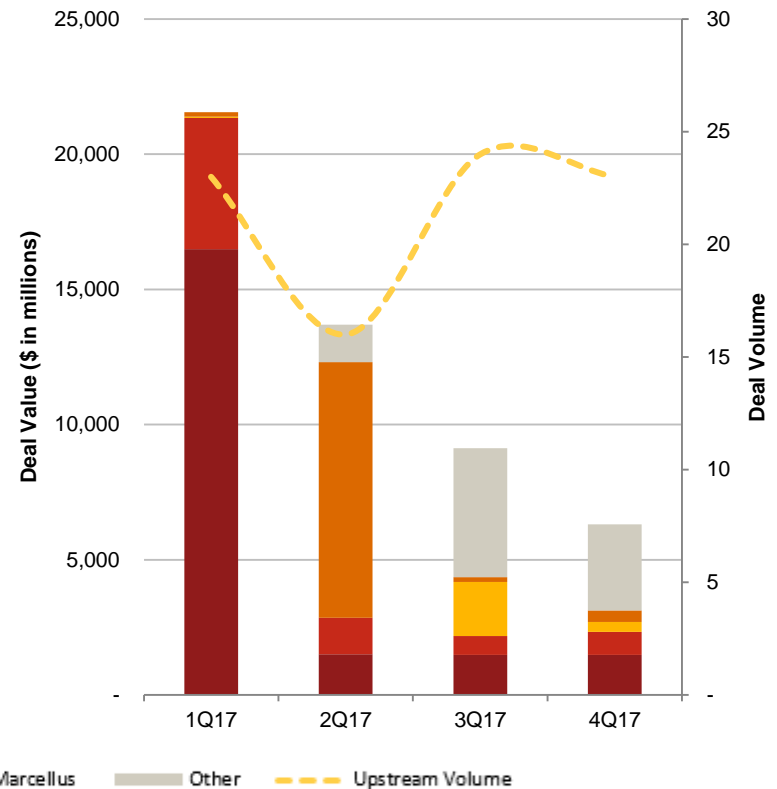
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The Permian, Eagle Ford and Marcellus basins drove upstream deal activity in FY17

Deal Value by Basin



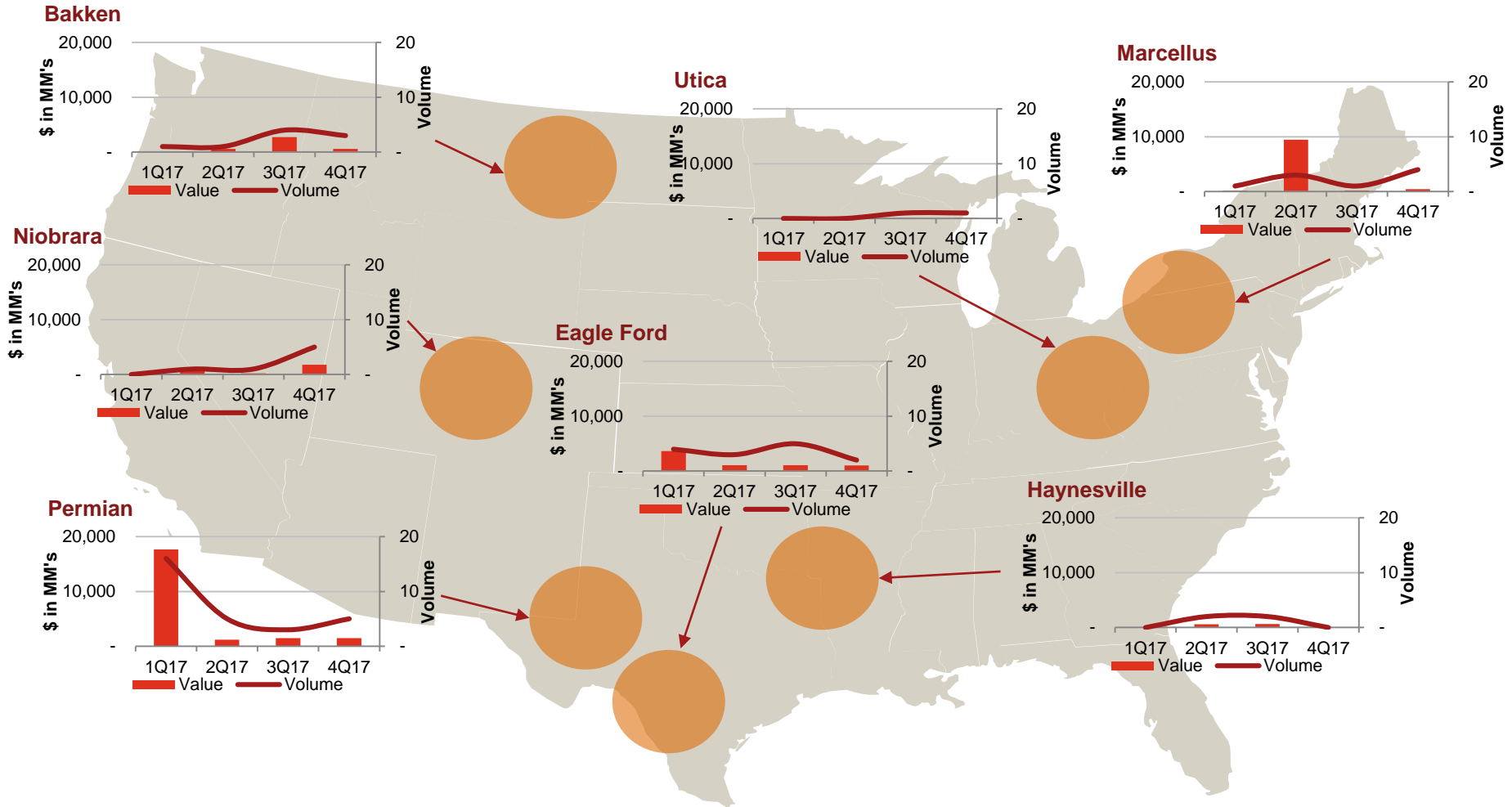
Quarterly Deal Value by Basin



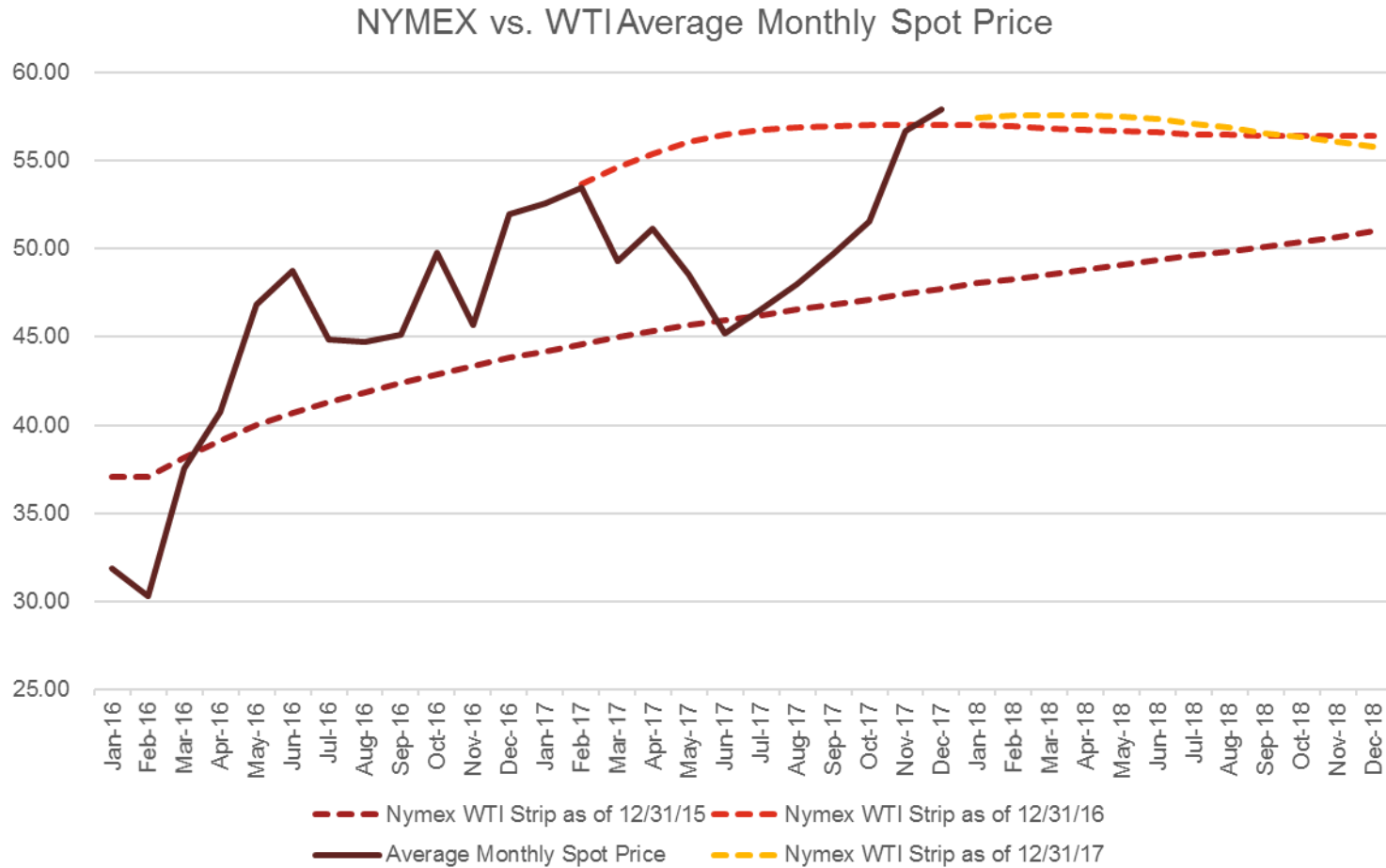
Source: IHS Markit, Global Data and PwC Analysis

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Announced shale deals in 2017

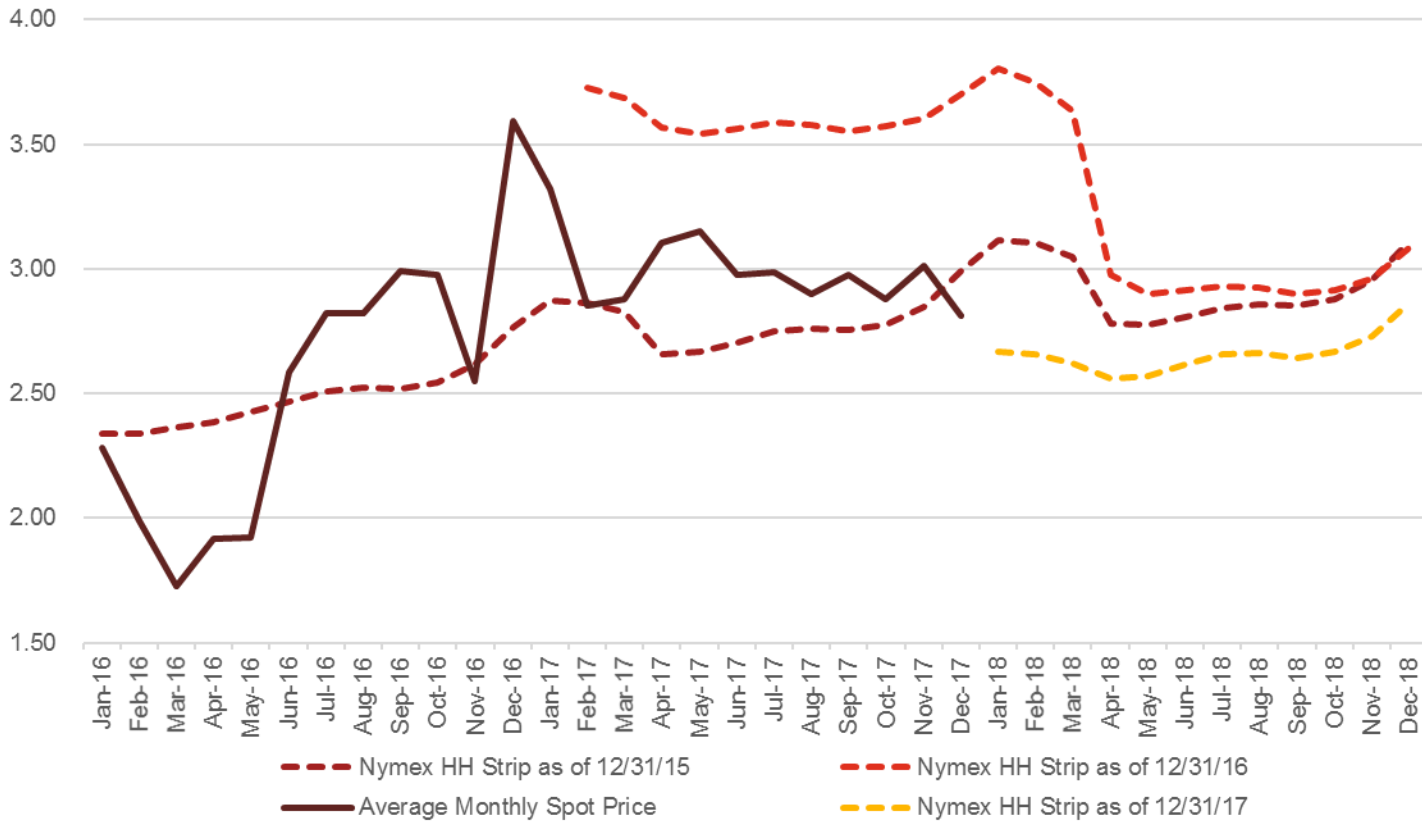


Crude oil prices rebound in second half of 2017

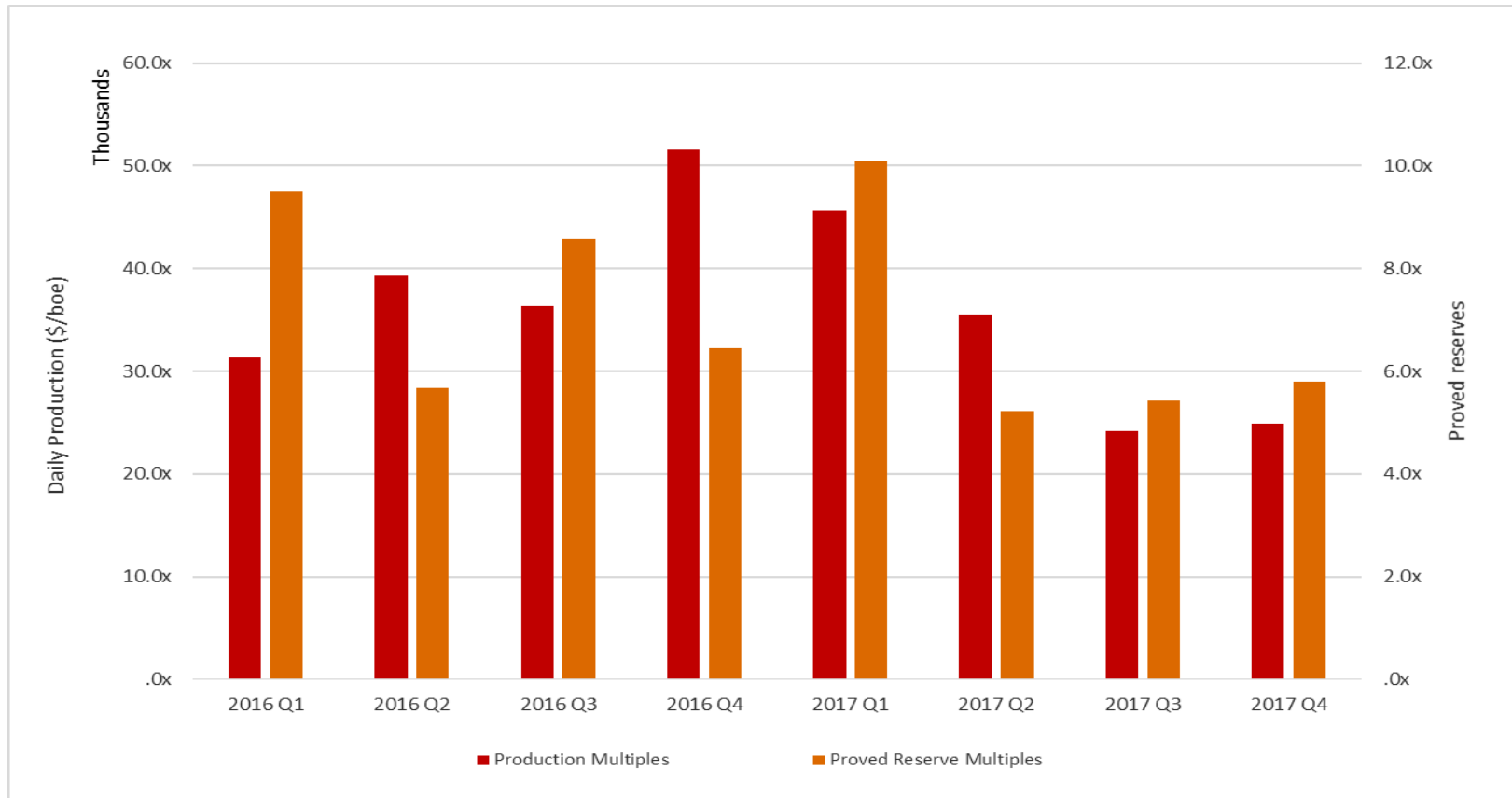


2017 natural gas prices fail to reach start of the year expectations

NYMEX vs. HH Average Monthly Spot Price



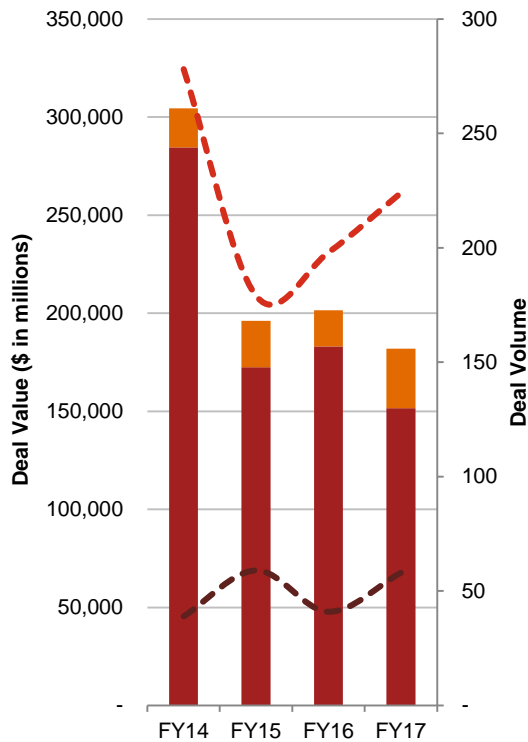
Multiples rise slightly in Q4 2017



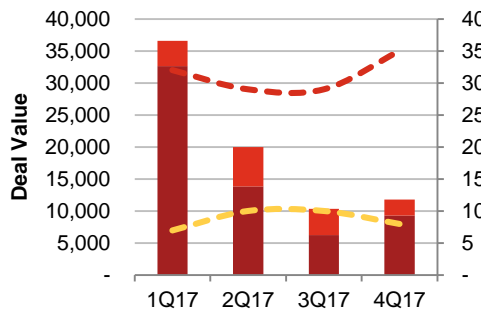
*Source: IHS Markit

Financial buyers accounted for 17% of total deal value in FY17 and primarily focused on upstream and midstream

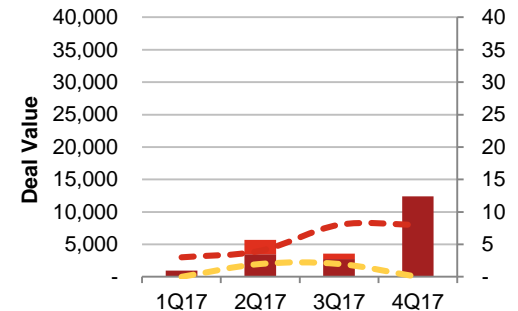
Strategic vs Financial Deals



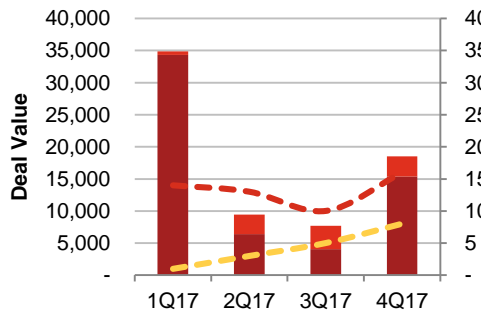
Upstream



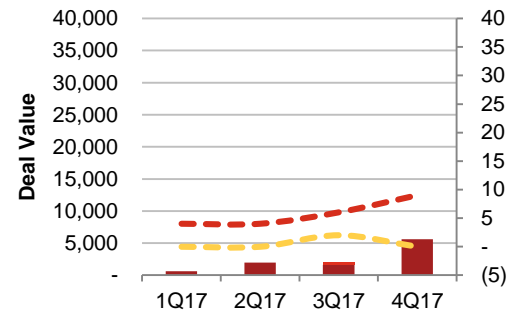
Downstream



Midstream



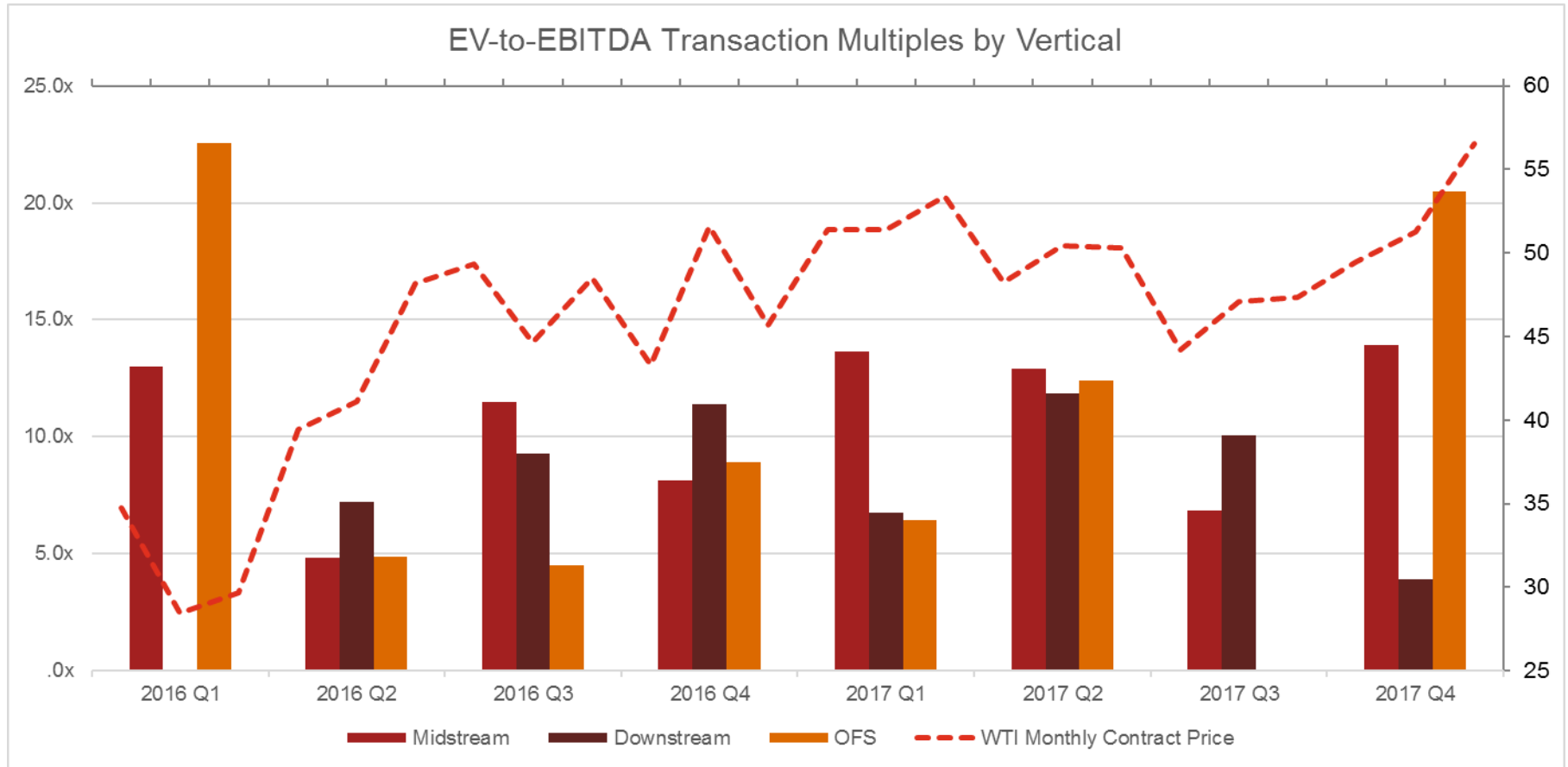
Oil Field Services



Financial Strategic Financial Deal Volume Total Deal Volume

Source: IHS Markit, Global Data and PwC Analysis
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Median transaction multiples for Midstream, Downstream, and OFS



*Source: Capital IQ

Reflections on Deal activity through the cycle

- **Upstream M&A drives deal flow:**
 - 2015: Uncertainty led to decreased activity
 - 2016: Rush to invest in low cost basins
 - 2017: Rationalization of portfolios
 - 2018: Focus on “living within your means”
- **Midstream:**
 - As capital becomes available, increased level of drop-down and arm’s length acquisition
 - Further development as production ramps up
- **OFS:**
 - Lagging indicator outside of a few large deals
 - Watch for IPO filings as indication of a thawing in investor outlook

Investors turning focus to positive cash flow and returns for operators

"We are committed to returns, living within our means and maintaining a strong balance sheet. We believe production growth should be the result of investing in high-return drilling and have never been fans of outspending cash flow to pursue growth for growth's sake. We demonstrated that focus in the third quarter 2017. We added 2 new premium oil plays, continued cost reductions and delivered strong well performance."

- William Thomas, CEO, EOG ¹

"I want to point out that our investments are delivering free cash flow growth now and not just barrels. Increased organic free cash flow outlook, more distributions to shareholders, long-term confidence in our portfolio, are the main areas of focus. We are now delivering more free cash flow than when the oil price was close to \$100 per barrel and more than any other IOC."

- Ben van Beurden, CEO, Shell ¹

"For us, it's all about returns and generating higher PV-10, high cash flows and you want to obviously be conservative, but what drives the growth of our business, what drives us going forward is generating higher and higher cash flows. Our capital expenditures for the first 3 quarters has largely been funded by our growing cash flow."

- Walter Goodrich, CEO, Goodrich Petroleum ¹

"Since the beginning of 2015, we have operated Apache with a fundamental belief that over a typical run of years, it is both possible and appropriate to live within operating cash flows. We streamlined our portfolio and strategically shifted our asset base, reset our overhead and operating cost structure, dramatically reduced our capital investment program from mid-2015 through 2016 to live within cash flow."

- John Christmann, CEO, Apache ¹

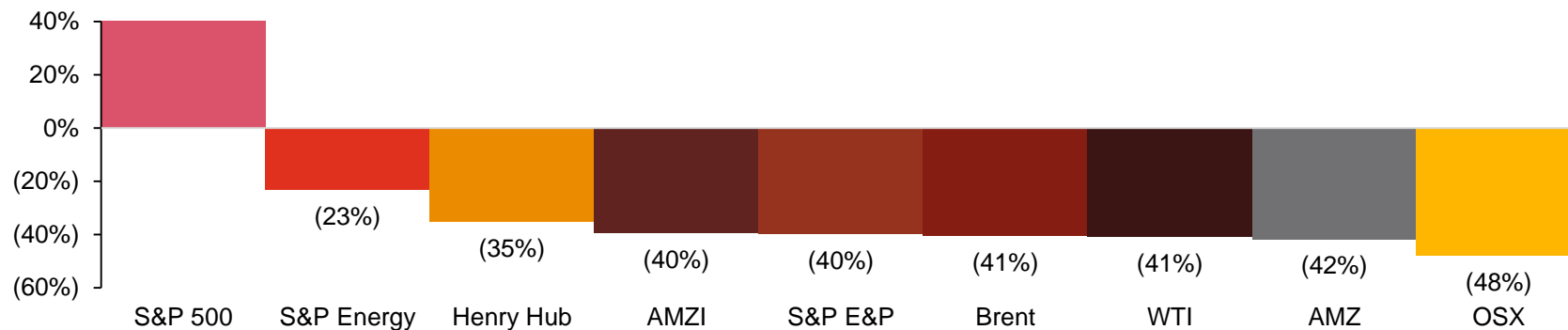
"Wall Street is telling frackers to stop counting barrels and to start making profits. Investors are telling companies that unless this becomes a more disciplined industry, they aren't going to come back. Shareholders are less dazzled by the excitement of the shale boom, and more interested in orthodox measures of success including returns on capital and cash generation."

- Investor community ²

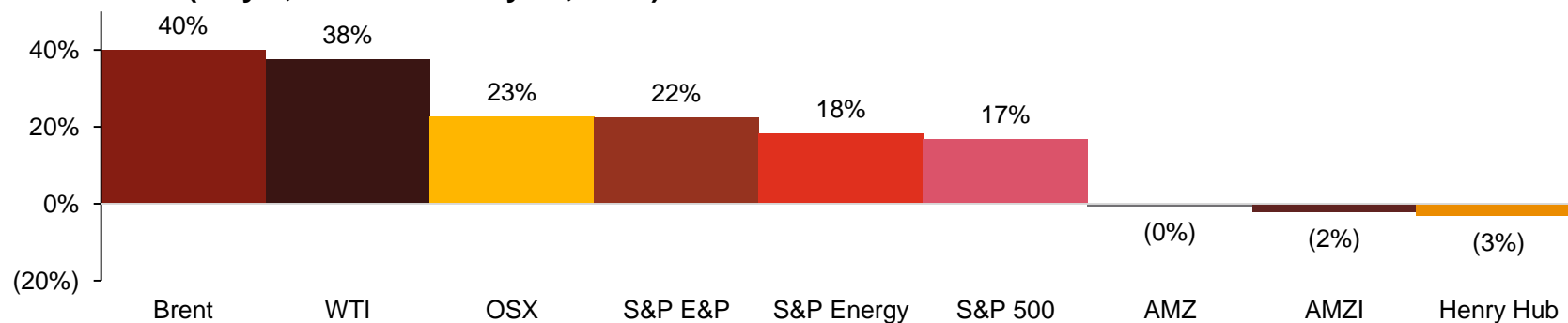
Source: (1) Q3 2017 earnings call
(2) Wall Street Journal

Energy indices are starting to show signs of recovery, although still below June 2014 levels, when WTI peaked

Performance (June 20, 2014 – January 19, 2018)¹



Performance (July 1, 2017 – January 19, 2018)

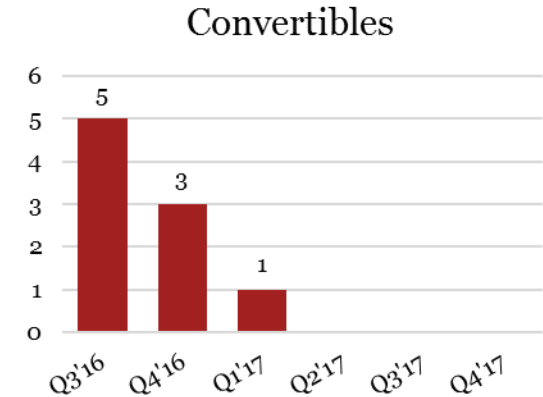
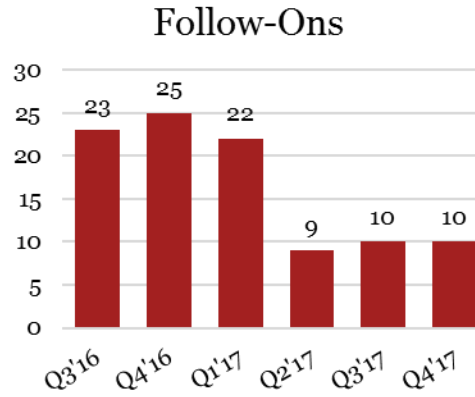
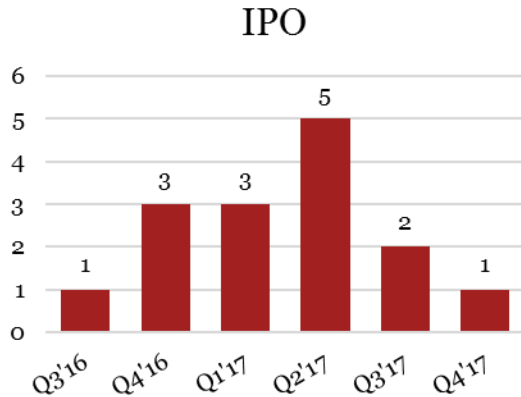


Source: S&P Capital IQ as of 1/19/2018

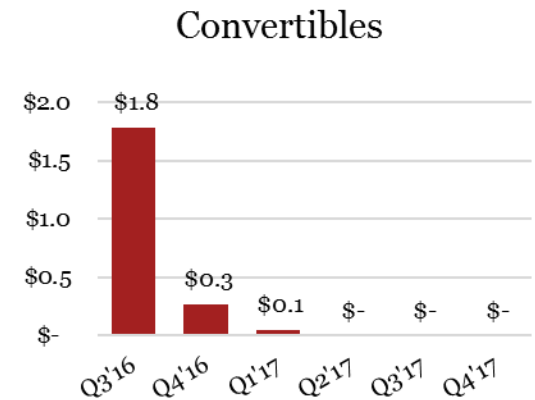
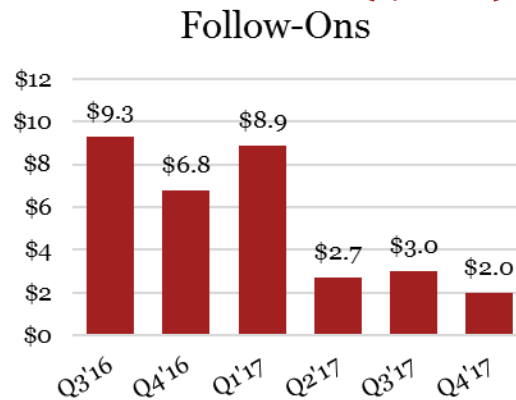
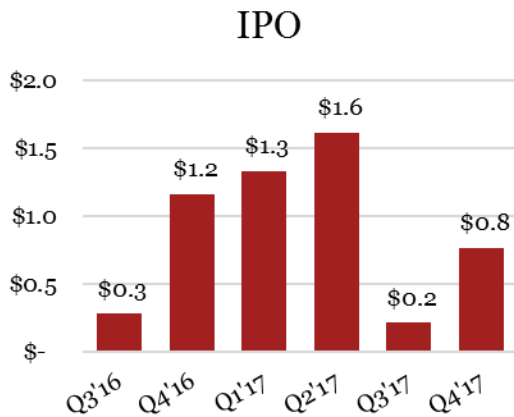
Note 1) WTI peaked on June 20, 2014

2016 Q3 – 2017 Q4 U.S. O&G Capital Markets Activity

Volume



Value (\$bn)

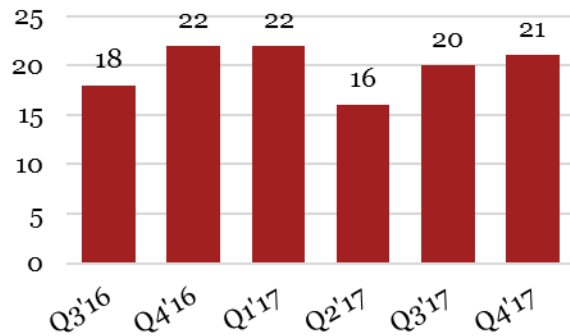


Source: PwC U.S. Capital Markets Watch, Dealogic and S&P LCD, Excludes IPOs with deal values under \$25 million. As of 12/29/2017.

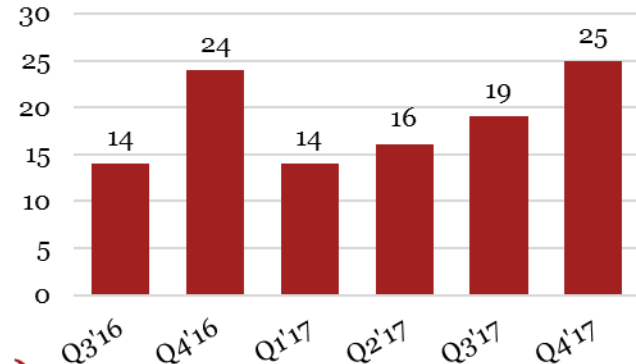
2016 Q3 – 2017 Q4 U.S. O&G Capital Markets Activity

Volume

Investment Grade Debt

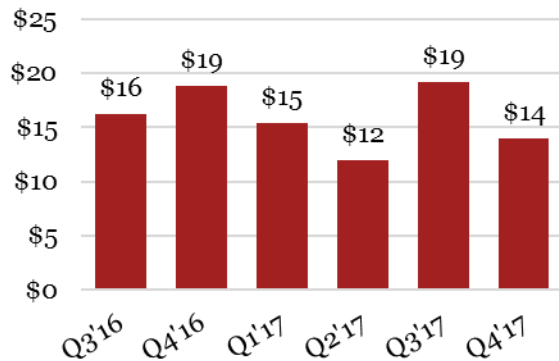


High-Yield Debt

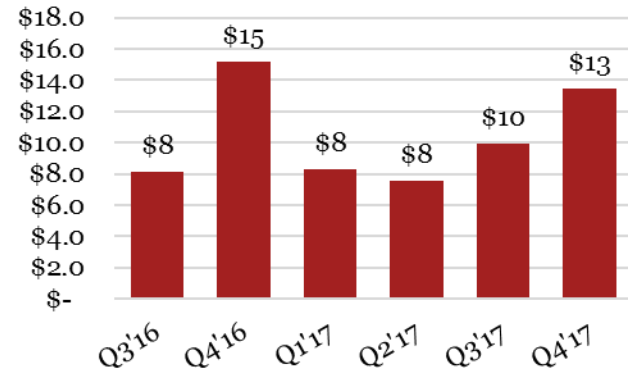


Value (\$bn)

Investment Grade Debt



High-Yield Debt



Source: PwC U.S. IPO Watch and S&P LCD. As of 12/31/2017.

Section 2

Tax Reform Impact on M&A

Key Provisions Impacting M&A

- Tax rate reduced to 21%
- Interest expense deduction capped at 30% of ATI (roughly equivalent to tax basis EBITDA), drops to 30% of EBIT in 2022
- Businesses would be able to immediately deduct the cost of certain property, other than structures, acquired and used between September 27, 2017, and January 1, 2023. (January 1, 2024, for longer production period property and aircraft).

Potential Impact

- May lead to more asset deals; however, sellers are likely going to continue to want to sell stock and buyers are going to continue to want to buy assets.

- Tax Reform Poll Results – ***Tax reform is likely to cause your company to...?***
 - Pursue an acquisition - 13%
 - Divest non-core asset / product line - 8%
 - Both – 23%
 - Neither Buy or Sell – 56%

- **Thus far in Q1 2018, the impact has been muted by the uncertainty of implementation.**

Section 3

Look Ahead to 2018 Activity

Expectations by Subsector



2018 Expectations

- **E&P**
 - Continue migration from Permian to other basins:
 - Eagle Ford, DJ, Green River, new licensing rounds in GoM
 - Continuation of coring up of positions
- **OFS**
 - Investments in bottlenecks in onshore supply chains (sands, water and human capital)
 - Investment in technology
- **Midstream**
 - Capital looking to capture growth
 - Continued dropdown activity
- **Downstream Services**
 - Buildout of LNG and chemical facilities
 - Unprecedented period of utilization

2018 Activity to Date – Through February

- **E&P**
 - Stories of the Permian demise may be *greatly* exaggerated
 - Next several largest transactions all outside Permian
- **OFS**
 - Very limited deal activity
 - Activity has been limited to strategic acquisitions
- **Midstream**
 - Four transactions over \$500 million in value
- **Downstream Services Demand**
 - Very limited deal activity, with only two in the U.S.

Questions and answers

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