



M&A Update: Opportunities and Optimism Heading into 2022

Laura Freeman

Denver Section January 2022 Meeting



Society of Petroleum Engineers

Born and raised in Colorado!



Laura Freeman is a Managing Director at Highpoint Global Capital. She has been an integral part of over \$2 billion in acquisitions and divestitures including the high-profile acquisition of all of Hunt Oil Company's Permian Basin Assets in 2021. Laura specializes in technical valuation, financing, and navigating the complexities of dealmaking.

Laura has a Master's in Petroleum Engineering, an MBA, and a bachelor's degree in Physics. She has been featured as an expert on M&A, finance, and Reservoir Engineering for various magazines, industry events, and online publications including Oil and Gas Financial Journal, SPE, American Association of Petroleum Geologists, and JPT.

Disclaimers



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- Contains an informal compilation of various public sources – have attempted to correctly cite each; however, errors may exist. Further information available on request.
- Personal opinion and observations on the current oil and gas M&A market
- For informational and discussion purposes only
- May not be relied on in any manners legal, business, financial, tax or investment advice
- Is not an offer to sell or a solicitation of an offer to buy an interest or to participate in any trading strategy
- Significant effort to validate and cross-check data; however, errors may exist

Presenter note for emailed slides post-event

For 2022 - I talked about various things and go forward expectations throughout the presentation, some examples:

- *Continental Pioneer Delaware deal*
- *High oil prices today*
- *Carnelian Blue Ox*
- *Without saying who it was - some insights on actual company current search efforts*
- *Etc.*



2019:

- Private divestiture Permian Basin asset, distressed seller needing cash – negotiated sale
- Private capital backing from non-traditional high net worth group
- LOI on private deal – seller with senior debt coming due and board pressure
- Large deal – non-Texas, non-core, motivated public seller buyer’s equity backer considering lower “risk-adjusted return” hurdles
- Private deal – distressed, immediate cash flow need and inability to keep up with drilling program
- Many “on-hold” given buyer-seller gap

2020:

- Large change and rollover of clients – financing companies largely on hold
- Opportunistic buyers – example large hedge fund who can write their own checks and operate
- Unique opportunities – example Helium company vertically integrating to midstream and upstream
- Working on direct deals with lenders to exit distressed situations – equity wiped out, lenders have control, buyer/seller gap easier to bridge
- Working on stalking horse opportunities for bankruptcy liquidations

2021:

- Hedge fund A&D
- Large billion plus buy-side work
- Hunt deal
- Company spin-up and takeover Hunt deal

Important Considerations



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Prior to looking at various drivers and metrics there are important data considerations

Variable based on data sources – all vary some, some vary a lot!

We're going to look at:

- Deal counts per year
- Deal values per year
- PE investment
- Deals on the market
- And others

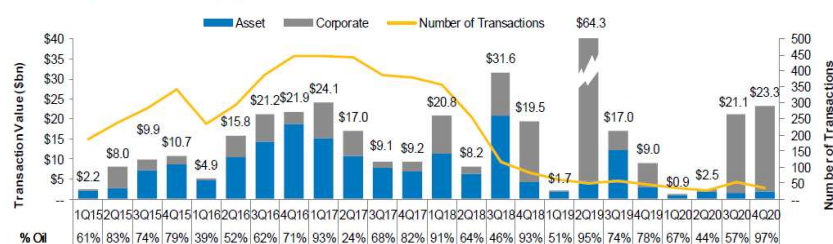
Read the footnotes:

- Announced deals only
- Deals with announced \$ amount
- Deals with confidential \$ amount
- Value threshold?
- Deal types – ex mineral, WI, corporate, JV, farm-in/out
- \$/boepd – adjusted or non-adjusted?
- Value attributed to PDP

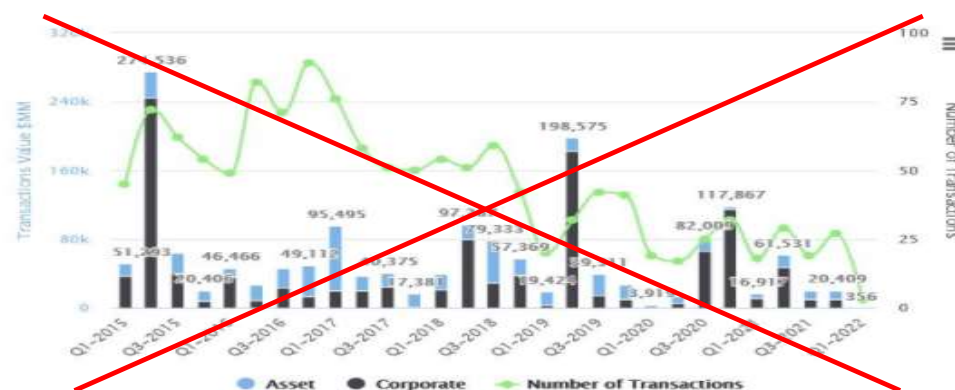
Overall trends are generally similar

BMO

Quarterly Deal Activity



Enverus – in this presentation



Deal Counts

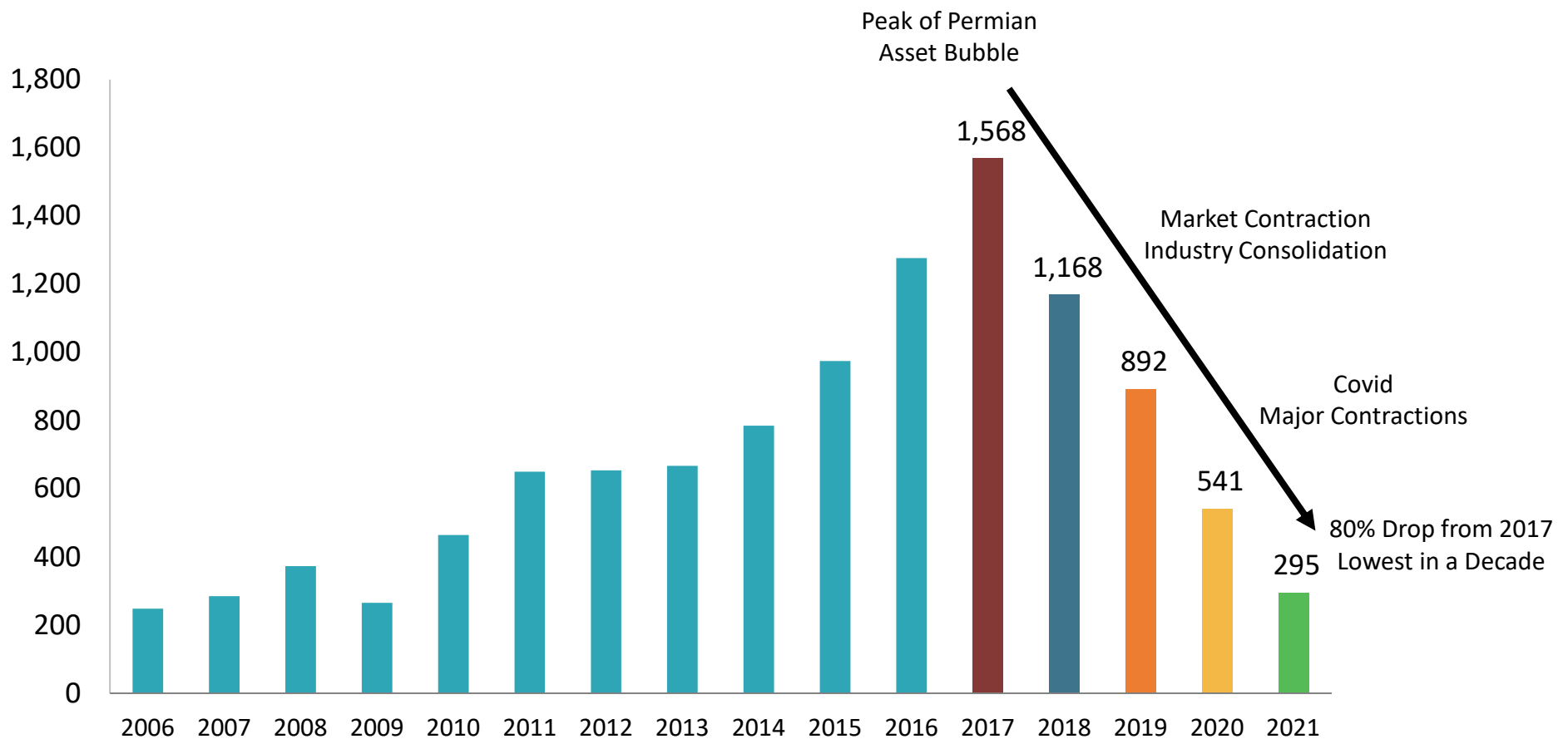


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To understand where the M&A market stands going into 2022, you have to look to the evolution through the last several years.

Deal Counts per Year
(deals with announced and unannounced values)



Enverus data: all deals counted with or without announced value, US, closed (no terminated, proposed), Property, Corporate or Acreage (no Royalty, VPP, JV, or Farm-in/outs)

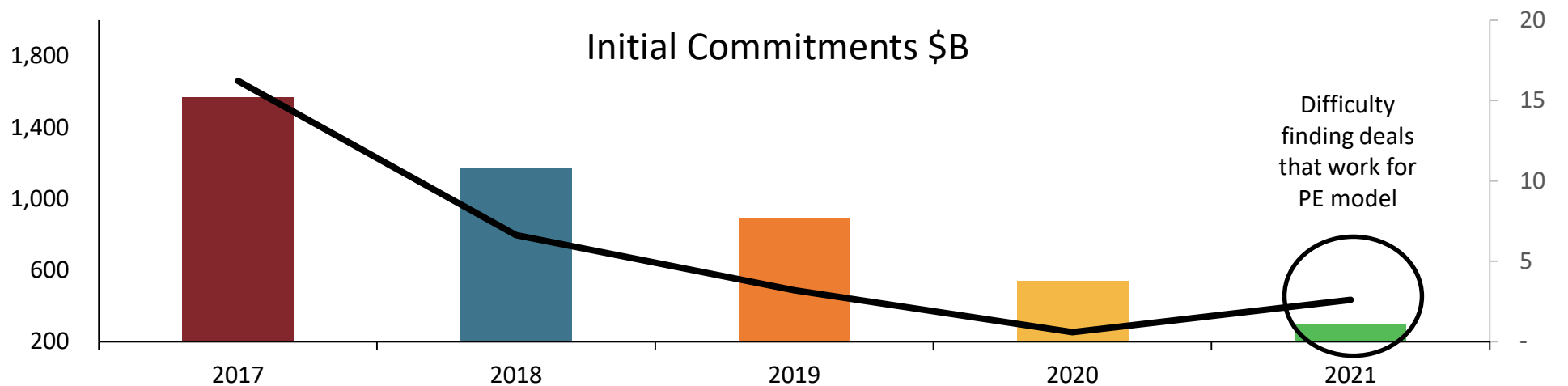
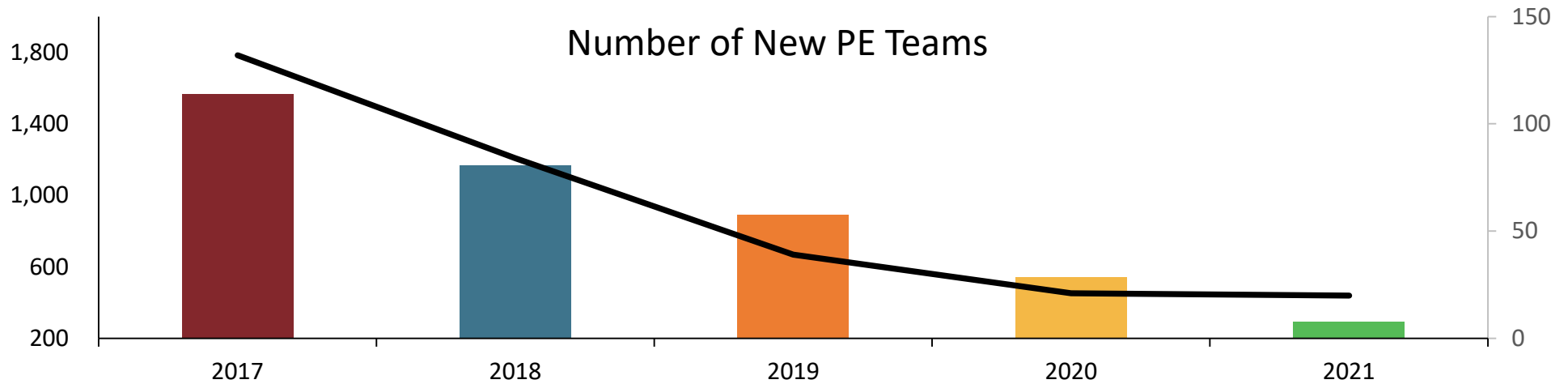
New PE



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Deal counts strongly correlated to private equity investments further supporting industry consolidation between public companies

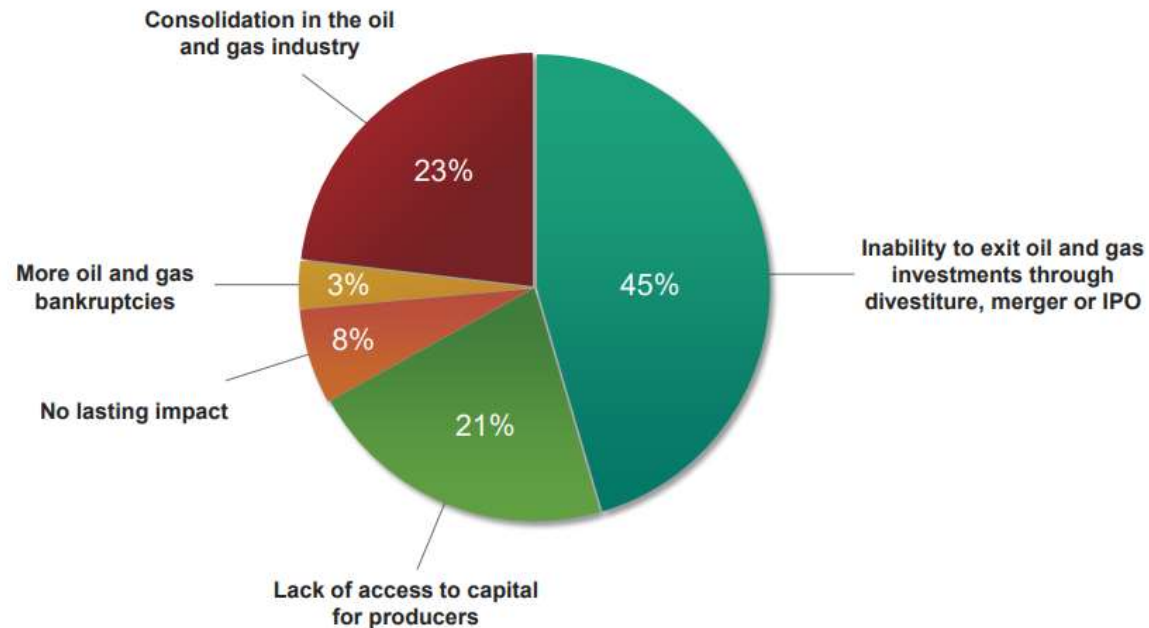


2019: Many PE backers are stuck without exits and now looking to consolidate portfolio companies and even change mandates

Question 5:

What will be the biggest impact of commodity price volatility at the end of 2018?

haynesboone



The survey indicates that oil and gas companies looking to “cash out” in 2019 will struggle to do so.

Haynes and Boone
Borrowing Base Redeterminations
Survey: Spring 2019



Total Deal Values

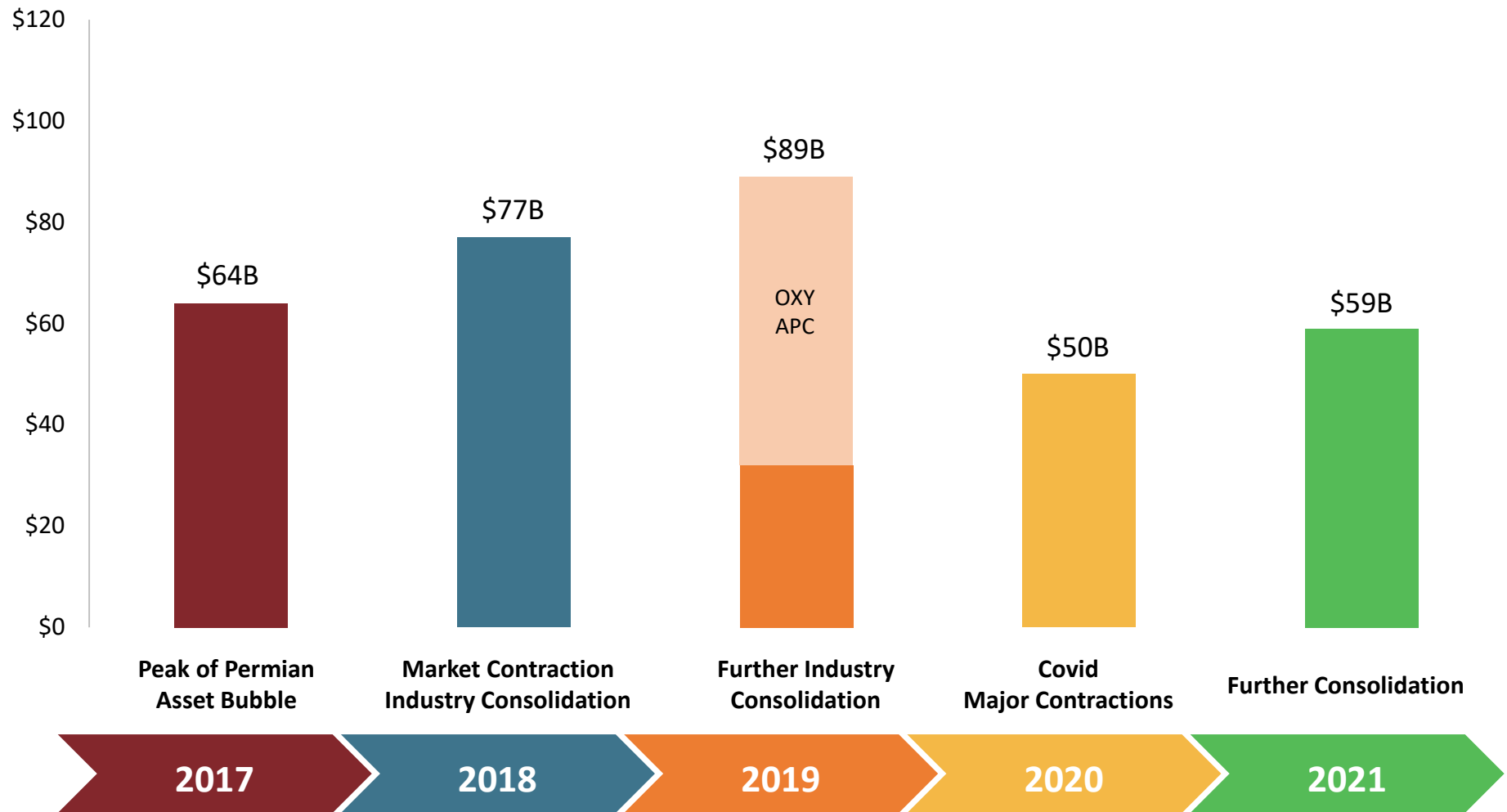


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Total value shows a much different profile than deal counts:

Total Deal Value per Year Billion \$
(deals with announced values)



Industry Consolidation

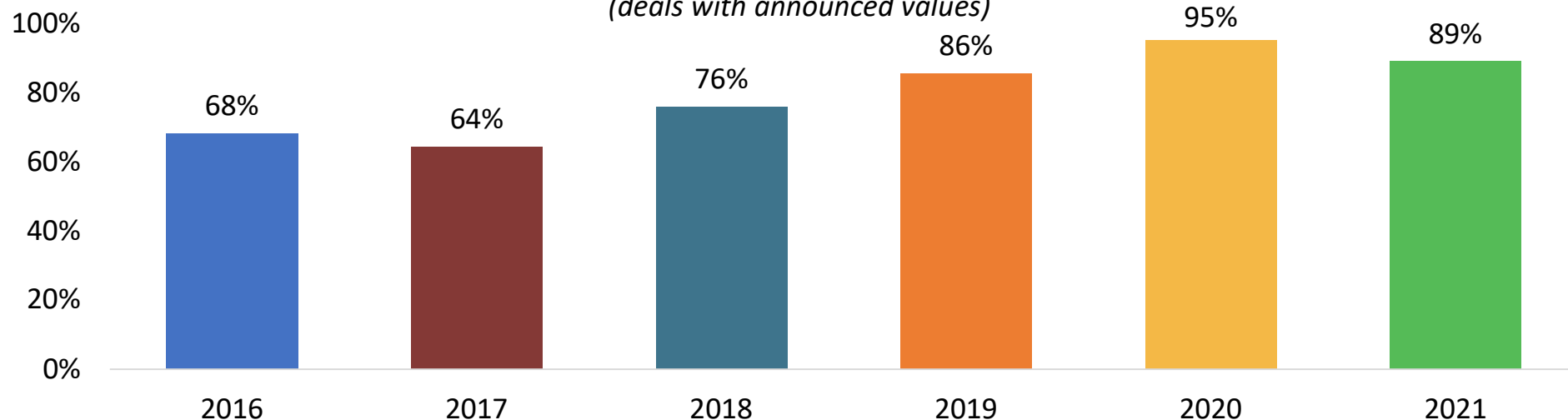


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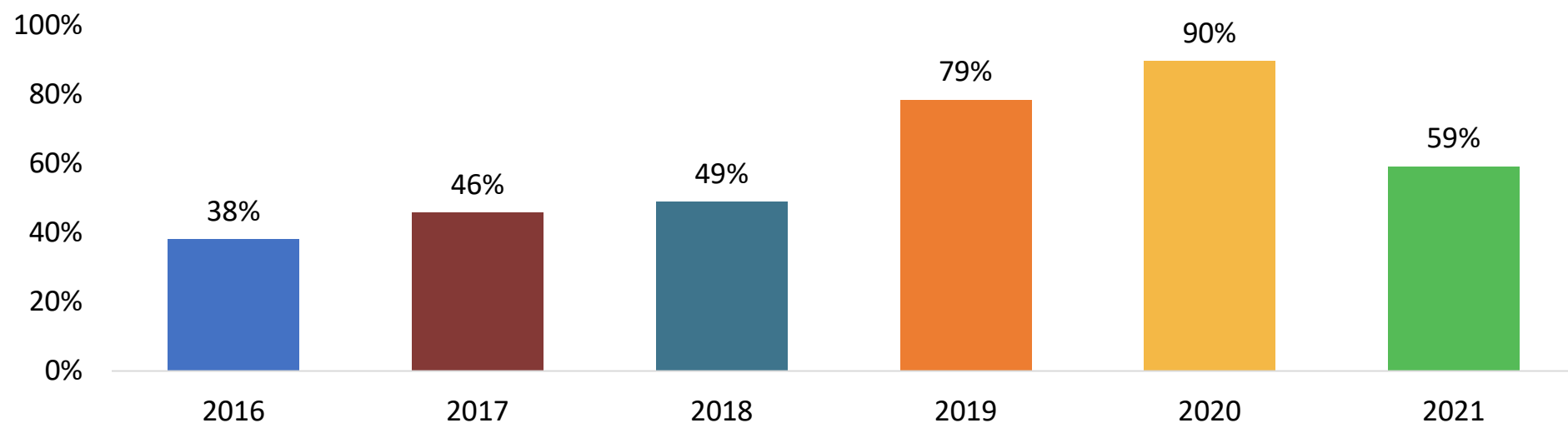
% of Deals with Public Buyers - Total Deal Value Basis

(deals with announced values)



% of Deals Classified as Corporate - Total Deal Value Basis

(deals with announced values)



Permian Asset Bubble

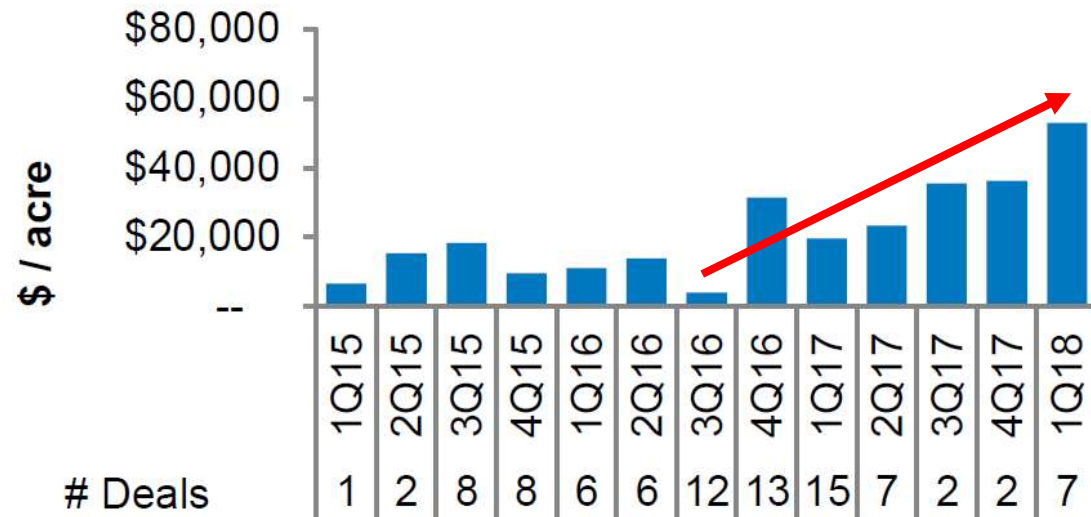
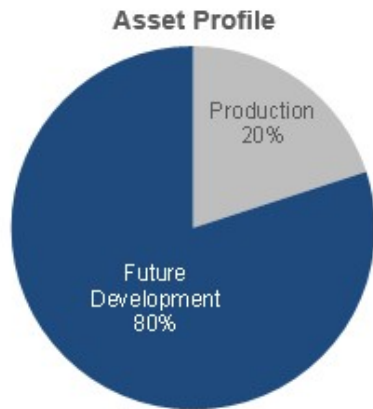


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**

TRANSACTION ADJUSTED NET ACRE MULTIPLES^(3,4)



Winning bidders are confident in the following:

- Subsurface quality for HZ development – strong EURs across multiple benches
- High number of locations:
 - Full credit for currently producing/actively being developed zones with spacing between 4 and 8 wells/section
 - Partial credit to additional, more exploratory zones
- Ability to replicate best in class drilling, completion and operations and to continue improving well results
- D&C and OpEx costs remaining low
- Often bullish on long-term oil prices with decks above strip post 2020

Upside Value Crashes

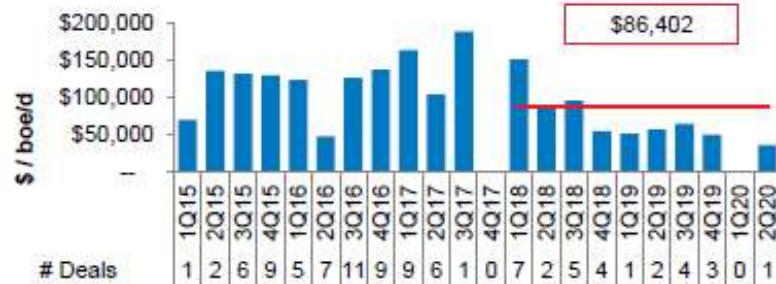


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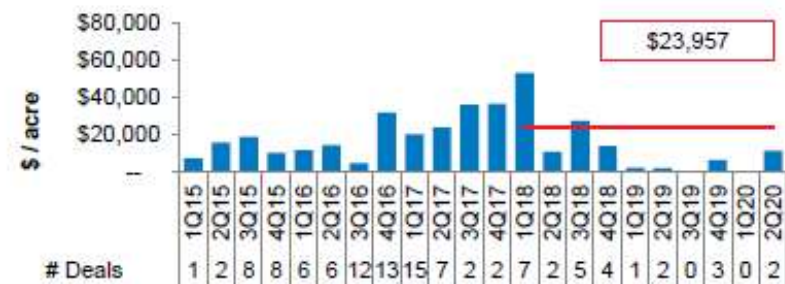


Permian Snapshot

TRANSACTION PRODUCTION MULTIPLES⁽³⁾



TRANSACTION ADJUSTED NET ACRE MULTIPLES^(3,4)

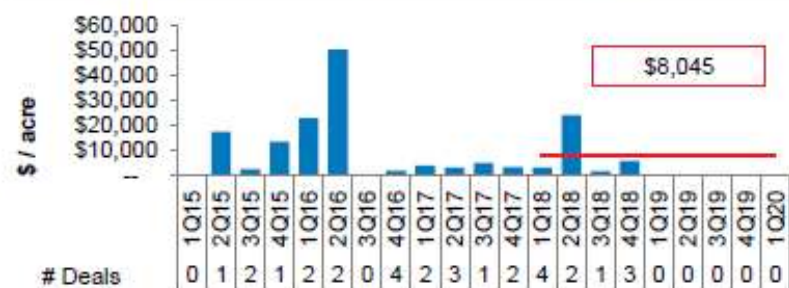


Eagle Ford Snapshot

TRANSACTION PRODUCTION MULTIPLES⁽³⁾



TRANSACTION ADJUSTED NET ACRE MULTIPLES^(3,4)



Source: BMO Transaction Database, Baker Hughes, BMO Commodity Products Group, Bloomberg, Drilling Info, PLS

Note: Current quarter's data is through the week covered by this issue.

1. Represents total enterprise value. Excludes transactions with deal value <\$20 million.
2. \$/acre multiple not adjusted for value associated with production.
3. Red line denotes average since 01-Jan-18. Calculated as the weighted average of each quarter's transactions.
4. Production valued at \$45,000/boepd in 2014, \$30,000/boepd in 2015, \$35,000/boepd in 2016 & 2017, \$40,000/boepd in 2018 & 2019, and \$30,000/boepd in 2020.

Buyer-Seller Gap

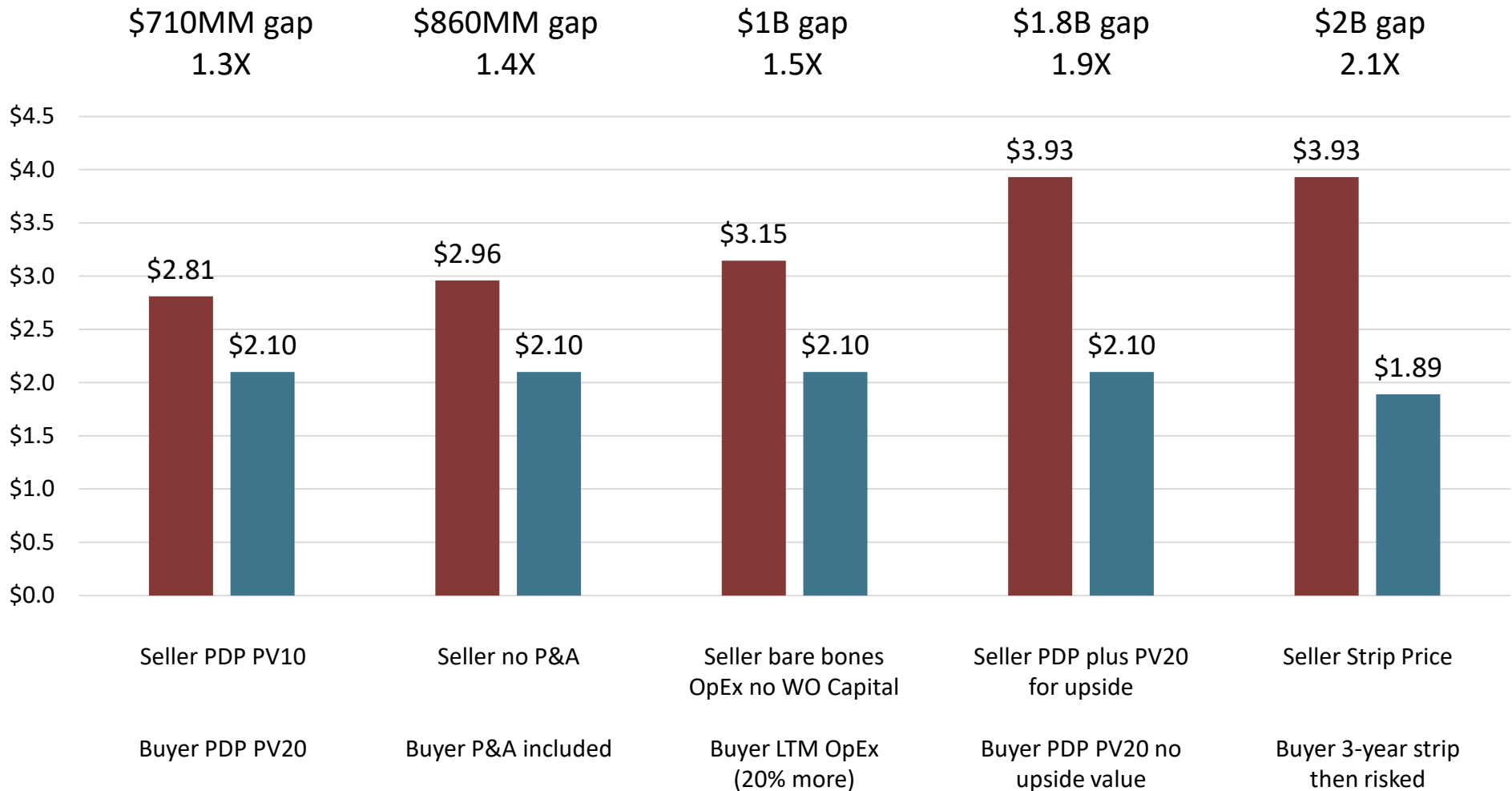


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Real Deal Example

■ Seller Deal Expectations \$B ■ Buyer Willing to Pay \$B



Buyer-seller Gap

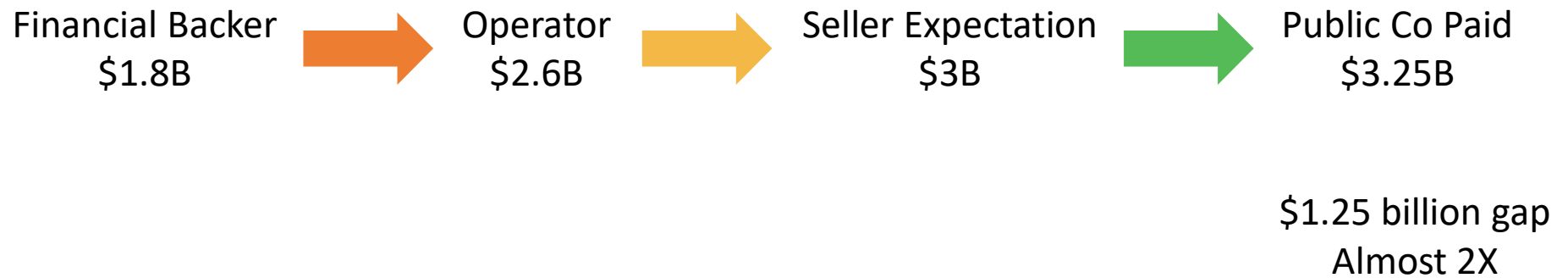


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Was that example overstated? Crazy?

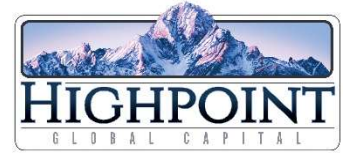
Different Real Deal that Closed in 2021



End of 2019



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By 2019:

- Valuation metrics had change
- Valuation drivers for buyers went back to the asset and reserves and the ability to cash flow in a reasonable time period
- Buyers stopped paying for upside and acreage
- Sellers “can’t afford” to sell at PDP
- Buyer-seller gap widened to the point of gridlock
- Sentiment was there was building backpressure behind the log jam
- Question was – how long does it last?

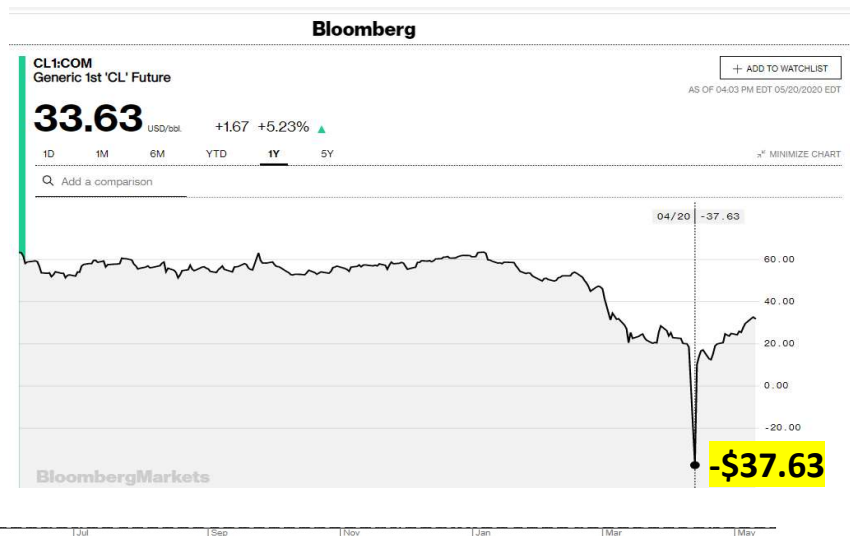
2020 The Sky is Falling!



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Negative oil price!



Massive write downs and impairments

NGI Natural Gas Intelligence

Chesapeake's \$8.3B Loss Pointing Toward Possible Bankruptcy | 2020-05-11

Chesapeake Energy Corp., the trailblazing Lower 48 unconventional oil ... **\$8.5 billion impairment** on assets primarily related to low oil and gas prices. ... "We expect to see continued volatility in oil and natural gas prices for" ... 1 week ago

Companies out compliance (NYSE or Nasdaq)

May 2020 Source Shale Experts

Crescent Point Out of NYSE Compliance

May 19,2020

Callon Plans Reverse Stock Split; Cuts More Rigs, Frac Crews for 2020

April 16,2020

Sanchez Midstream Receives Deficiency Notice from NYSE American

April 07,2020

Obsidian Energy Delisted from NYSE

April 02,2020

Baytex Out of NYSE Compliance

March 26,2020

Sundance Energy Inc. Out of Nasdaq Compliance; Late 10-K Filing

April 21,2020

QEP Mulling Reverse Stock Split as Stock Dips Below \$1.00

April 16,2020

Abraxas Out of NASDAQ Compliance Due to Delayed 10-K Filing

April 06,2020

Laredo Petroleum Out of NYSE Compliance

March 30,2020

Denbury Receives Low Stock Price Warning from NYSE

March 09,2020

Assets (finally) marked down to market and unbelievable write-offs announced:

Chesapeake 10-Q (quarterly SEC filing):


“An \$8.446 billion impairment because the carrying value exceeded estimated fair market value”

 Natural Gas Intelligence

Chesapeake's \$8.3B Loss Pointing Toward Possible Bankruptcy | 2020-05-11


Chesapeake Energy Corp., the trailblazing Lower 48 unconventional oil ...
\$8.5 billion impairment on assets primarily related to low oil and gas prices.
... “We expect to see continued volatility in oil and natural gas prices for ...
1 week ago



 Natural Gas Intelligence


Baker Hughes Confident Natural Gas Markets Improving, but ...

“Internationally, we expect that the combination of lower oil prices and ...
The company also recorded a one-time impairment of **\$14.7 billion** for ...
1 month ago

 Business Wire (press release)

Magnolia Oil & Gas Corporation Announces First Quarter ...

...
During the first quarter of 2020, Magnolia recorded **impairments of \$1.9 billion** related to proved and unproved properties as a result of the ...
1 week ago



 WorldOil

Oxy cuts capex, takes **\$1.4 billion writedown** on oil price ...

Occidental's first-quarter loss included impairment charges related to its equity investment in Western Midstream Partners LP, the ...
2 weeks ago



 Rigzone

Petrobras Books Hefty 1Q Impairment on Oil, Gas Assets

Brazil's Petrobras reported a whopping **\$13.4 billion impairment** on its exploration and production assets on May 14, according to written ...
2 days ago




 Wall Street Journal

Texas Shale Driller Concho Takes **\$12.6 Billion Charge**, Citing Coronavirus Impacts


Concho, a Midland, Texas-based producer with a market capitalization of about \$11 billion, attributed the impairment to a steep decline in oil and ...
3 weeks ago



 EnerCom Inc. (press release) (blog)


Oasis Petroleum Inc. Announces First Quarter 2020 Results ...

In 1Q20, the Company recorded impairment charges of **\$4.4 billion** on its proved oil and gas properties in the Williston Basin and the Delaware ...
2 days ago

 Journal Record

WPX Energy 1Q loss includes **\$1B impairment charge**

WPX Energy on Wednesday reported a net loss from continuing operations attributable to common shareholders for the first quarter of \$208 ...
2 weeks ago



Staggering ~\$60 BILLION in just these examples

Wells Fargo Sets Up Team To Handle Flood Of Oil Bankruptcies

By [Irina Slav](#) - May 01, 2020, 1:30 PM CDT



"It's a bloodbath" one Reuters source from banking circles said, commenting on Wells Fargo's preparation for a flood of bankruptcies. A survey amount oil companies conducted by the Federal Reserve Bank of Kansas City suggested as much as **40 percent could go under within 12 months, at WTI prices of \$30.** Currently the U.S. benchmark is trading at \$19.90 a barrel.

Toxic loans long before Covid!

Post-2014 crash many lenders changed covenants and postponed loan reviews to avoid foreclosure on assets. By 2016 it was so bad the banking regulator issued a new handbook

haynesboone

Energy Alert

New OCC Oil and Gas Loan Review Guidelines

By [Buddy Clark](#), [Jeff Nichols](#) and [Kim Mai](#)

"Last November, following their 2015 annual review... the Agencies reported a high level of credit risk and increased weakness in oil and gas loans following the decline in energy prices since mid-2014"



New OCC Oil and Gas Loan Review Guidelines

By [Buddy Clark](#), [Jeff Nichols](#) and [Kim Mai](#)

March 28, 2016

Key points:

High level of credit risk and increased weakness in oil and gas loans following the decline in energy prices since mid-2014

Significant growth in leveraged lending

Substandard, doubtful or loss rated credit was 15% compared to 3.6% in 2014 (4X)

Shared National Credit (SNC) program assesses risk in \$100MM or more loans shared by multiple regulated financial institutions

Examiners reported that a high number of SNC loans were incorrectly rated by the energy banks

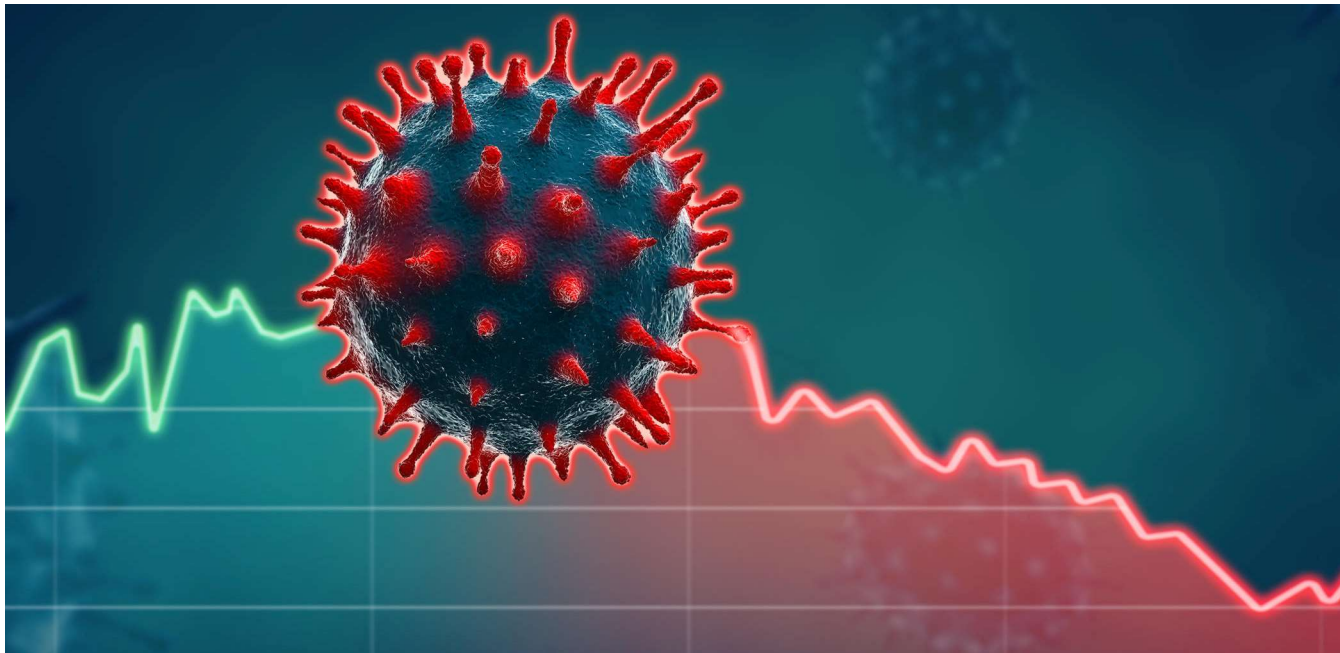
Saved by Covid



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- The sky didn't fall
- Many companies bought time and an excuse with the Covid pandemic
- Bankruptcies didn't necessarily mean asset sales
- Prices started a steady upward march
- “Everything” went **on-hold** as did most of the world during the 2020 Covid days
- Companies got a lifeline heading into 2021 and then prices exploded



From \$30 to \$85 Oil!



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SM Energy Co
NYSE: SM

Overview

News

Compare

Financials

Market Summary > SM Energy Co

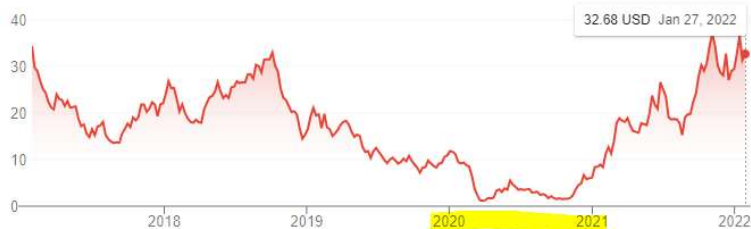
32.68 USD

-1.72 (-5.00%) ↓ past 5 years

Jan 27, 2:39 PM EST • Disclaimer

+ Follow

1D 5D 1M 6M YTD 1Y 5Y Max



SM Energy: Moving From Buy To Hold After A 40% 1-Month Gain

Oct. 07, 2021 7:48 AM ET | SM Energy Company (SM) | 6 Comments | 1 Like

Summary

- SM Energy has had an incredible run in the past month rallying 40%.
- The bullish environment for oil and natural gas has boosted the appeal of this exploration & production company.
- We were expecting the current price levels to materialize only early next year.
- We move the name to "Hold" with a new target entry point for new investors.

SM Energy: Potential To Generate Over \$900 Million In Positive Cash Flow In 2022 At Current Strip

Nov. 02, 2021 10:16 PM ET | SM Energy Company (SM) | 1 Comment | 2 Likes

Summary

- SM's hedges may limit its 2021 positive cash flow to around \$335 million.
- It looks capable of generating over \$900 million in positive cash flow in 2022 at current strip prices though.
- This would allow it to repurchase its 2024 and 2025 notes with cash on hand and reduce interest costs by around \$70 million per year.
- SM's value is estimated at \$43 in a longer-term (beyond 2022) \$65 oil and \$3.25 gas scenario.

SM Energy (SM) would benefit greatly from another year of strong oil and gas prices, as it could generate over \$900 million in positive cash flow in 2022 at current strip prices. This would put it in a position to repurchase its 2024 and 2025 debt maturities with cash on hand and reduce its annual interest costs by nearly 50%.

If it can accomplish that, SM's value would improve to around \$43 per share even if longer-term (beyond 2022) prices end up lower at \$65 oil and \$3.25 gas.

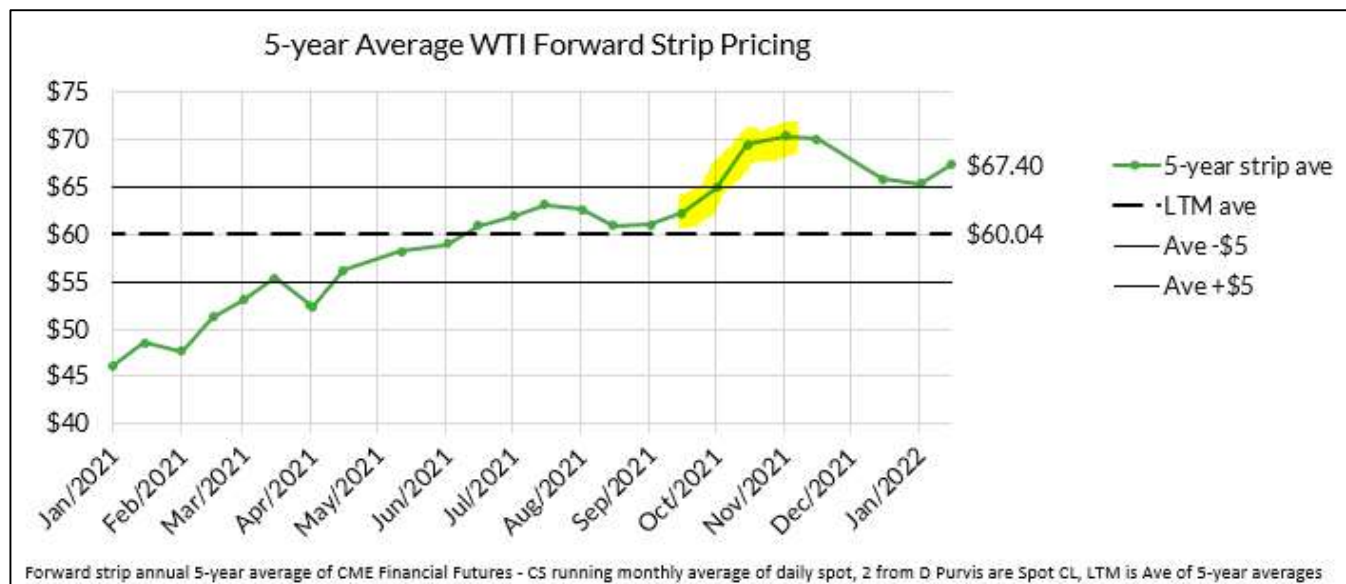
2021 Deal Flow



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The start of 2021 saw a “step change” in new deals on the market exciting buyers
Q1 saw a ramp up in deal counts further suggesting an exciting year ahead!



Between Sep 15 and Oct 15th there was a major break-out for 5-year oil strip price

- Buyer uncertainty and anxiety grew
- Seller expectations went up
- Stronger pricing gave many would-be sellers a lifeline on cash flow
- The buyer-seller gap widened and many transactions stopped

2021 ended up mediocre at best

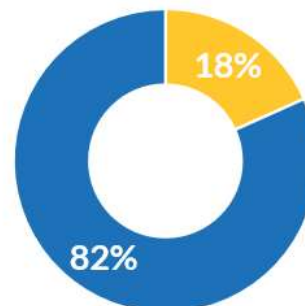
- Total transacted value improved from 2020 but was not much better than historical averages and was dominated by a small number of large consolidation moves (ex. Conoco buying Shell's Delaware Basin assets and the Cabot/Cimarex merger).
- Deal counts were in line with 2020 which are still arguably at a decade low
- Consolidation continued but we didn't see much "new-life" in the market

July 2021 Board Meeting Slide:

Market Update – Consolidation with Limited Deals and Limited Cash

- The majority of 2021 M&A, on a value basis, has been industry consolidation with most large deals heavily weighted towards stock considerations
- The pool of sizable merger candidates is shrinking especially given new ESG moves by the majors
- Private companies are seeing a buying opportunity taking shape on the heels of industry consolidation

2021 Announced Deals over \$500MM



■ Cash Consideration ■ Stock

“The dynamics of 2021 caused the deal pipeline to swell with many sellers going through the process of preparing assets for market (several month process). At this time, the potential deal pipeline is actually quite full despite the softness following the Fall price volatility.

It’s unclear if the current pipeline will transact or not, but we are entering 2022 with a large potential opportunity set!”

Top US Investment Bank



2022: What's Next?



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Large opportunity set

Where's the money going to come from?

Can buyers and sellers agree on value?

Where do prices go?

Energy crisis in America?

ESG – friend or foe?

Show regional map

Show Enverus 2021 announced deals

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