

# **Merger, Acquisition & Divestment Trends in the International & U.S. Arena**

**Presented to**

**IPAA & TIPRO**

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**January 12, 2011**

# Topics

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## 1. Global M&A&D Update

- Cross Border Transactions

## 2. U.S. M&A Trends

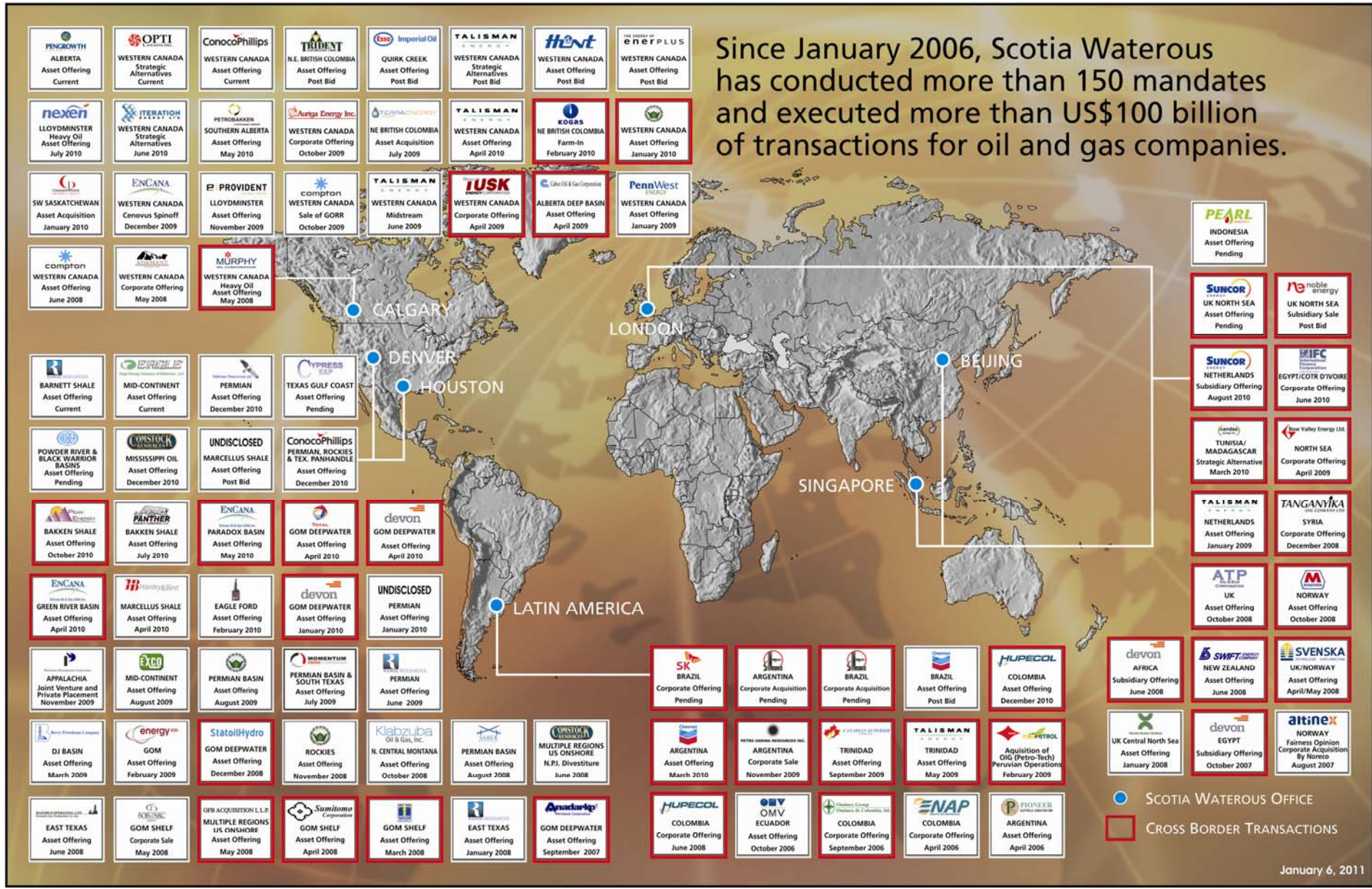
## 3. Case Studies

## Scotia Waterous Introduction

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- **A leading ‘technically focused’ upstream investment banking and M&A advisory firm**
  - Offices: Houston, Denver, Calgary, London, Buenos Aires, Singapore, Beijing
- **Conducting 50+ mandates per year globally**
- **Averaging roughly \$2 billion/month in oil and gas transactions**
- **Scotia Bank (Bank of Nova Scotia) quick facts:**
  - Founded in 1832, now has 69,000 employees in 50 countries with a balance sheet exceeding \$525 billion
  - Energy lending office (Scotia Capital) in Houston since 1962 with global energy commitments over \$10 billion

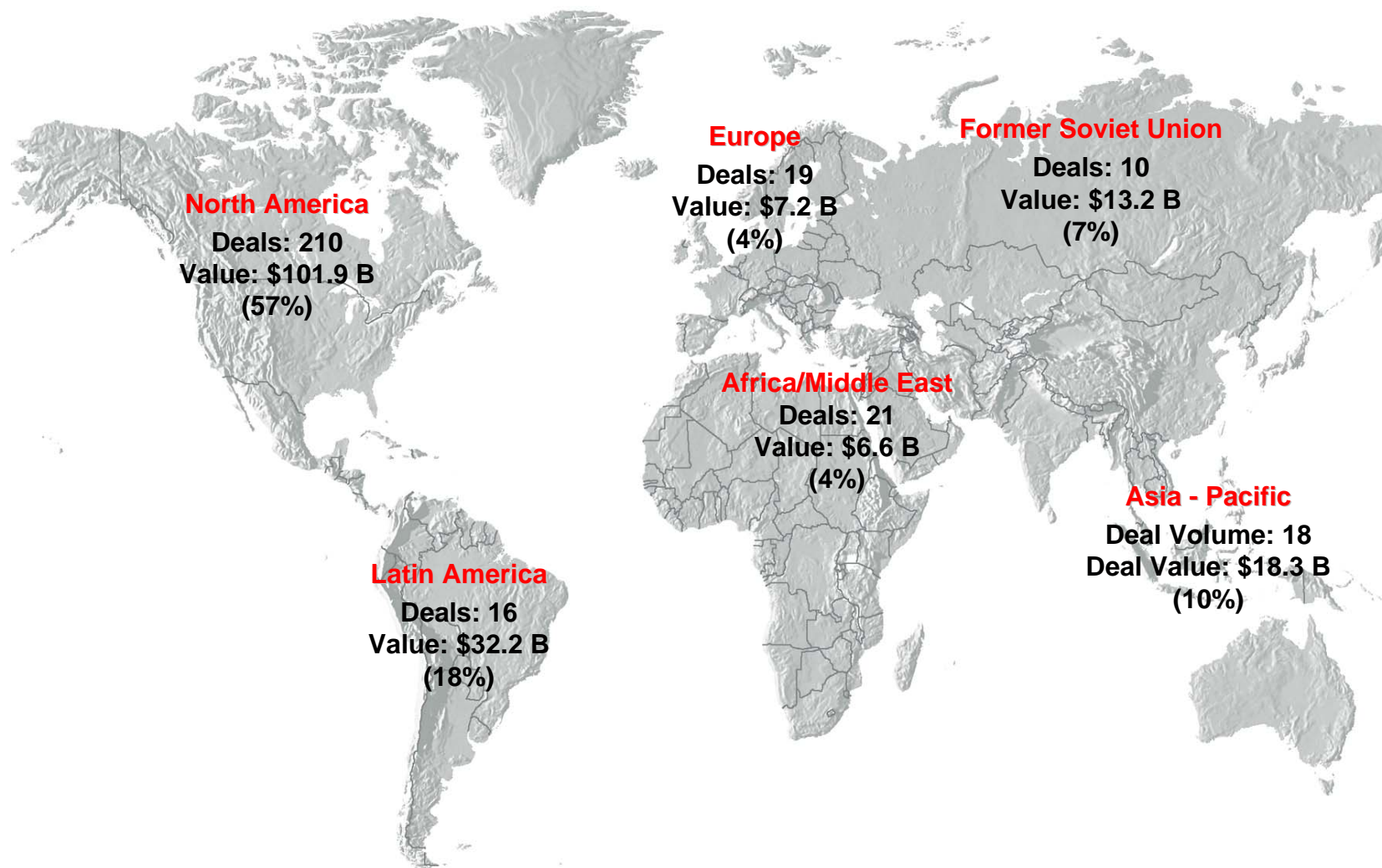
# Scotia Waterous Global Platform



January 6, 2011

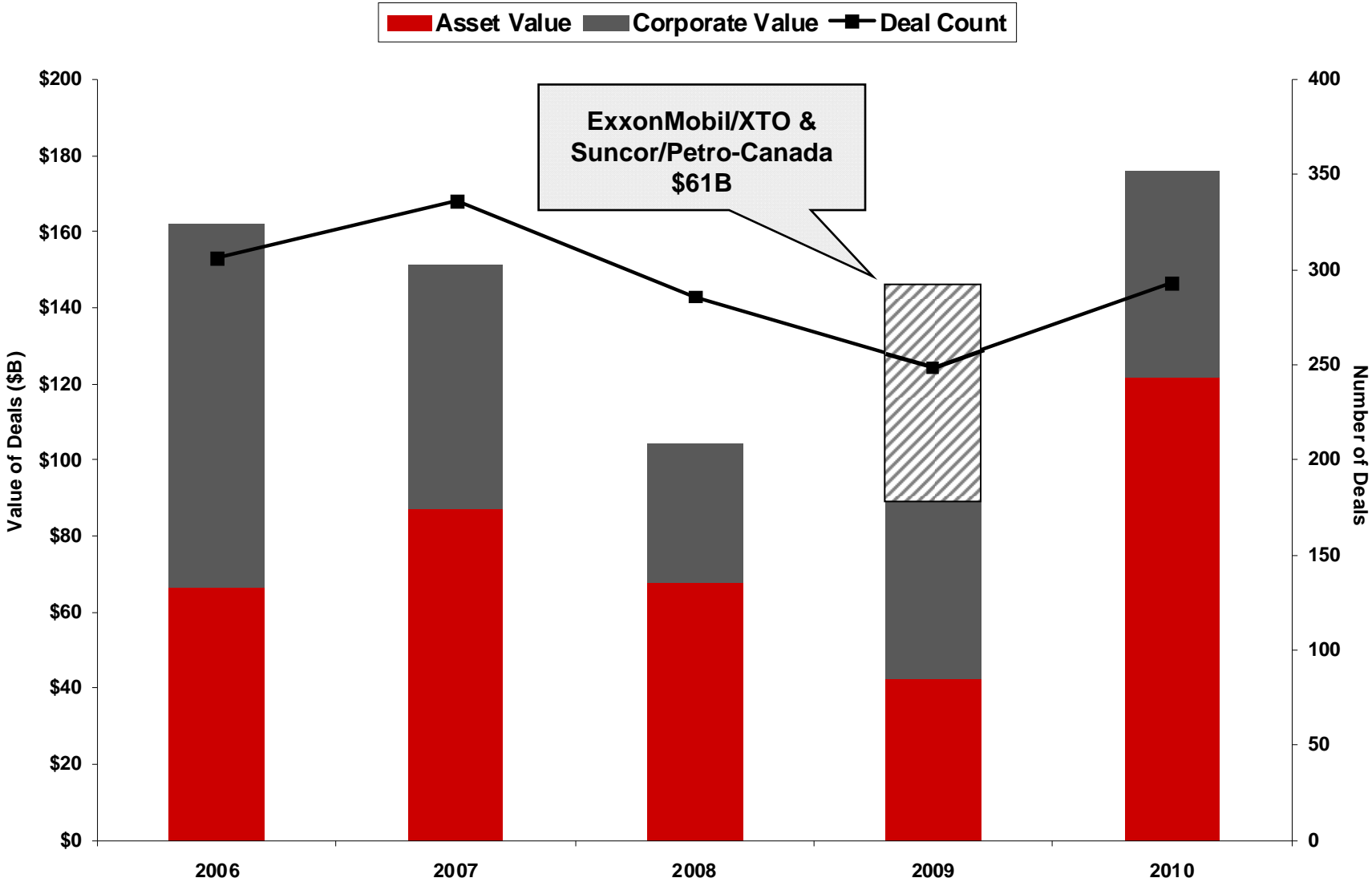
# Global Oil and Gas M&A Activity – 2010 by Region

... US\$179 billion of Asset & Corporate deals



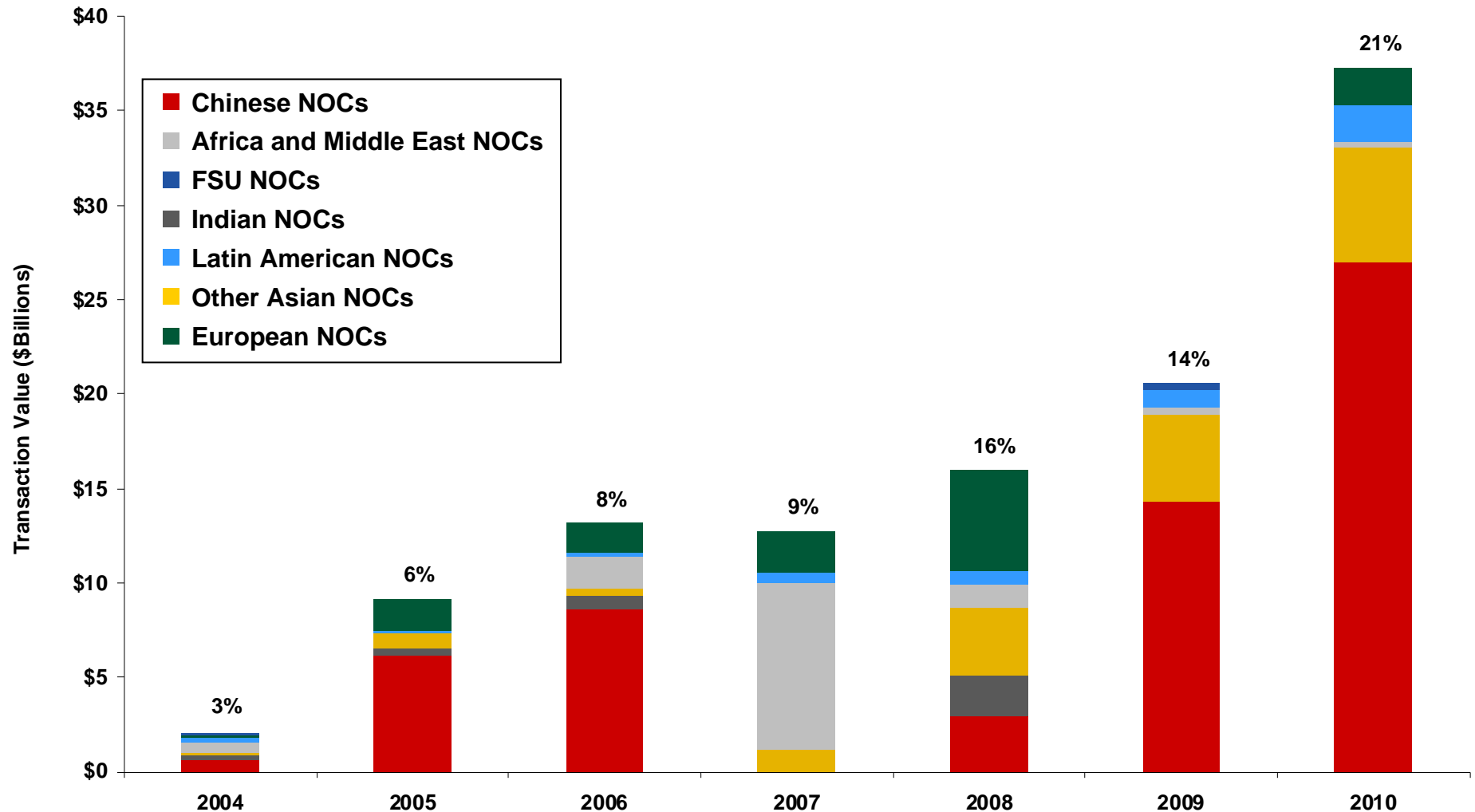
Note: Excludes transactions less than \$20 MM in value  
Source: IHS Herold, Bloomberg, Scotia Waterous.

# Global Oil & Gas M&A Trends – by Value & Number of Deals



## NOC Transactions Outside Home Country

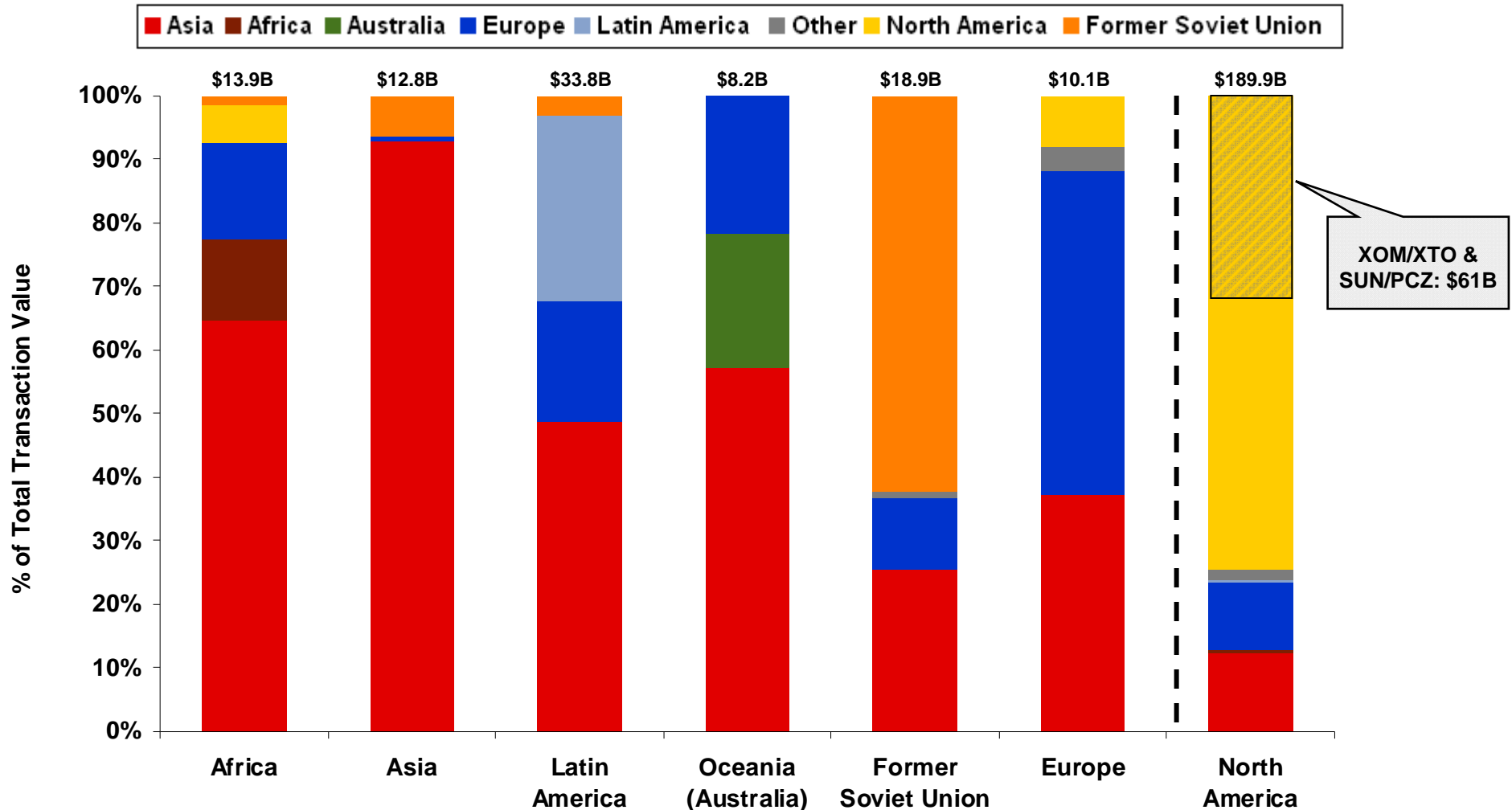
NOC's have been actively securing resources outside their home country accounting for 21% of worldwide oil & gas M&A in 2010.



Note: Figure on top of each bar indicates the percent of world wide deal value in that year.  
Source: IHS Herold, Bloomberg, Scotia Waterous.

## Global Transactions by Buyer locations 2009 – 2010

Asians are the most active acquirer outside North America accounting for 52% of total transaction value.



Source: Scotia Waterous, IHS Herold

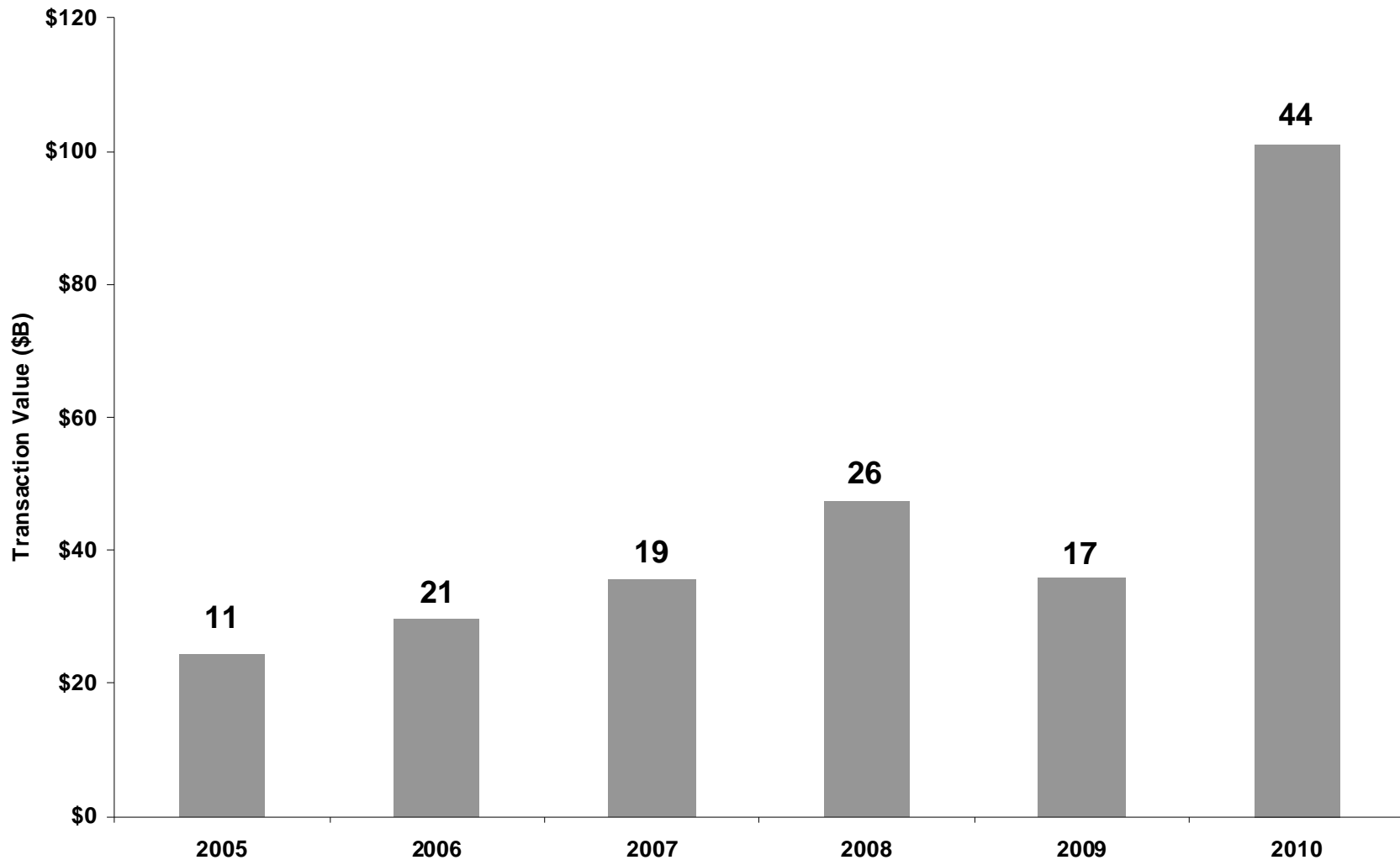
Note: Includes all transactions with disclosed deal value greater than \$100 MM; "Other" category includes undisclosed buyers



## Cross Border Transactions – \$500MM+

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Over the past few years, a marked increase in total cross border transactions has been occurring, with 2010 experiencing a record \$101B in 44 completed deals



Source: IHS Herold, Bloomberg, Scotia Waterous.

## Top 2010 Cross Border Transactions – OECD

Unlike prior years, many OECD deals geared toward shale transactions in the U.S..

Buyer	Seller	Value (\$MM)	Transaction	Country
Shell	East Resources	\$4,700	Private Company Acquisition - Marcellus Shale	USA
Sinopec	ConocoPhillips	\$4,650	Syncrude Asset Acquisition	Canada
PetroChina / Shell	Arrow Energy	\$3,901	Corporate Acquisition	Australia
KNOC	Dana Petroleum	\$3,740	Hostile Takeover	United Kingdom
Apache	BP	\$3,250	Asset Acquisition	Canada
Apache	BP	\$3,100	Permian Basin Asset Acquisition	USA
Total	Suncor	\$2,428	Oilsands JV / Asset Swap	Canada
PTT Exploration	Statoil	\$2,280	Oilsands Asset Acquisition	Canada
CNOOC	Chesapeake	\$2,160	Eagle Ford Shale JV	USA
BP	Devon	\$1,800	Deepwater GOM Acquisition	USA
Occidental	Shell	\$1,800	Asset Acquisition	USA
Reliance	Atlas Energy	\$1,700	Marcellus Shale JV	USA
Mitsui	Anadarko	\$1,400	Marcellus Shale JV	USA
Statoil / Talisman	Enduring	\$1,325	Eagle Ford Shale JV	USA

Total

\$38,234

Note: Transactions highlighted in blue represent shale acquisitions or joint ventures

## Top 2010 Cross Border Transactions – Non-OECD

Many non-OECD deals primarily geared toward conventional oil and gas

Buyer	Seller	Value (\$MM)	Transaction	Country
Vedanta	Cairn	\$9,888	Acquisition of 51%-60% Stake in Cairn	India
Sinopec	Repsol	\$7,109	Acquisition of 40% Stake in Repsol Brasil	Brazil
Bridas	BP	\$7,060	Acquisition of 60% Stake in Pan American	Argentina
BP	Devon	\$3,200	Offshore Asset Acquisition	Brazil
CNOOC	Pan American	\$3,100	CNOOC acquired a 50% stake in Bridas / Pan American	Argentina
Sinochem	Statoil	\$3,070	Offshore Asset Acquisition	Brazil
Sinopec	Occidental	\$2,450	Corporate Acquisition of Occidental Argentina E&P	Argentina
Maersk	SK Energy	\$2,400	Corporate Acquisition of SK do Brasil	Brazil
CNOOC	Devon	\$2,000	Offshore Asset Acquisition	Azerbaijan
Ecopetrol / Talisman	BP	\$1,895	Asset Acquisition	Colombia
Tullow	Heritage	\$1,450	Pre-Empt of Ugandan Blocks	Uganda
United Energy	BP	\$775	Asset Acquisition	Pakistan
Apache	BP	\$650	Asset acquisition in Western Desert	Egypt
CNOOC	Devon	\$515	Deepwater Assets	Vietnam / China

Total

\$45,562

**Select International Companies Interested in U.S. Investments (Note:company logos removed for distribution version)**

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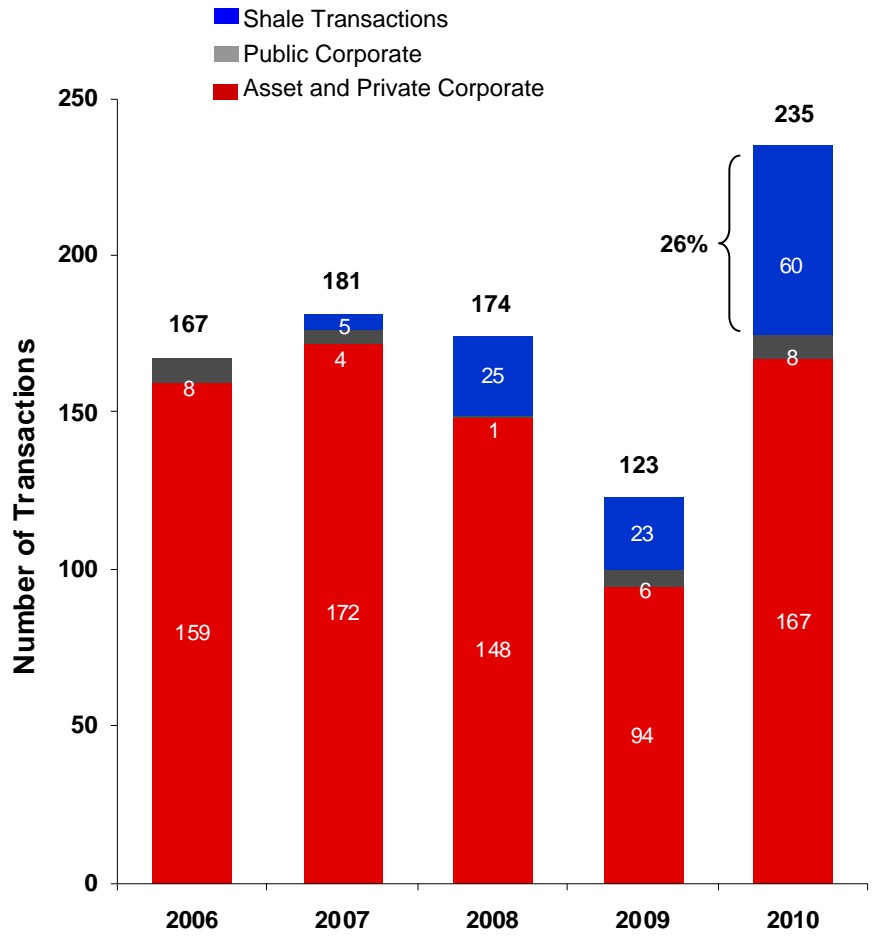


- There are currently over 25 non-U.S. headquartered companies with operations in the U.S., and over 35 who are looking to do transactions here
  - Asian, European, Canadian, Australian, Latin American, Middle Eastern, Russian
- Why are they interested in the U.S?
  - Access to large reserves; Rule of law exists; Very good fiscal regime; Technology transfer

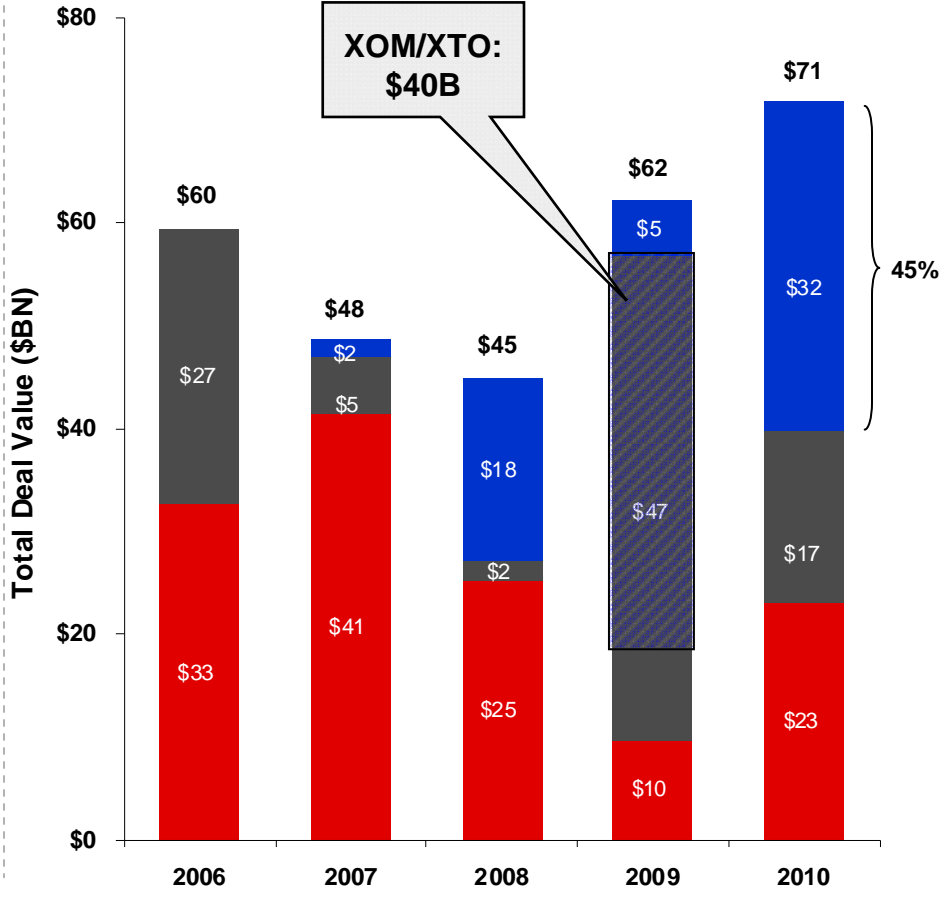
# U.S. M&A Trends

# U.S. Transactions Overview – 2006 to 2010

## Number of Transactions (#)

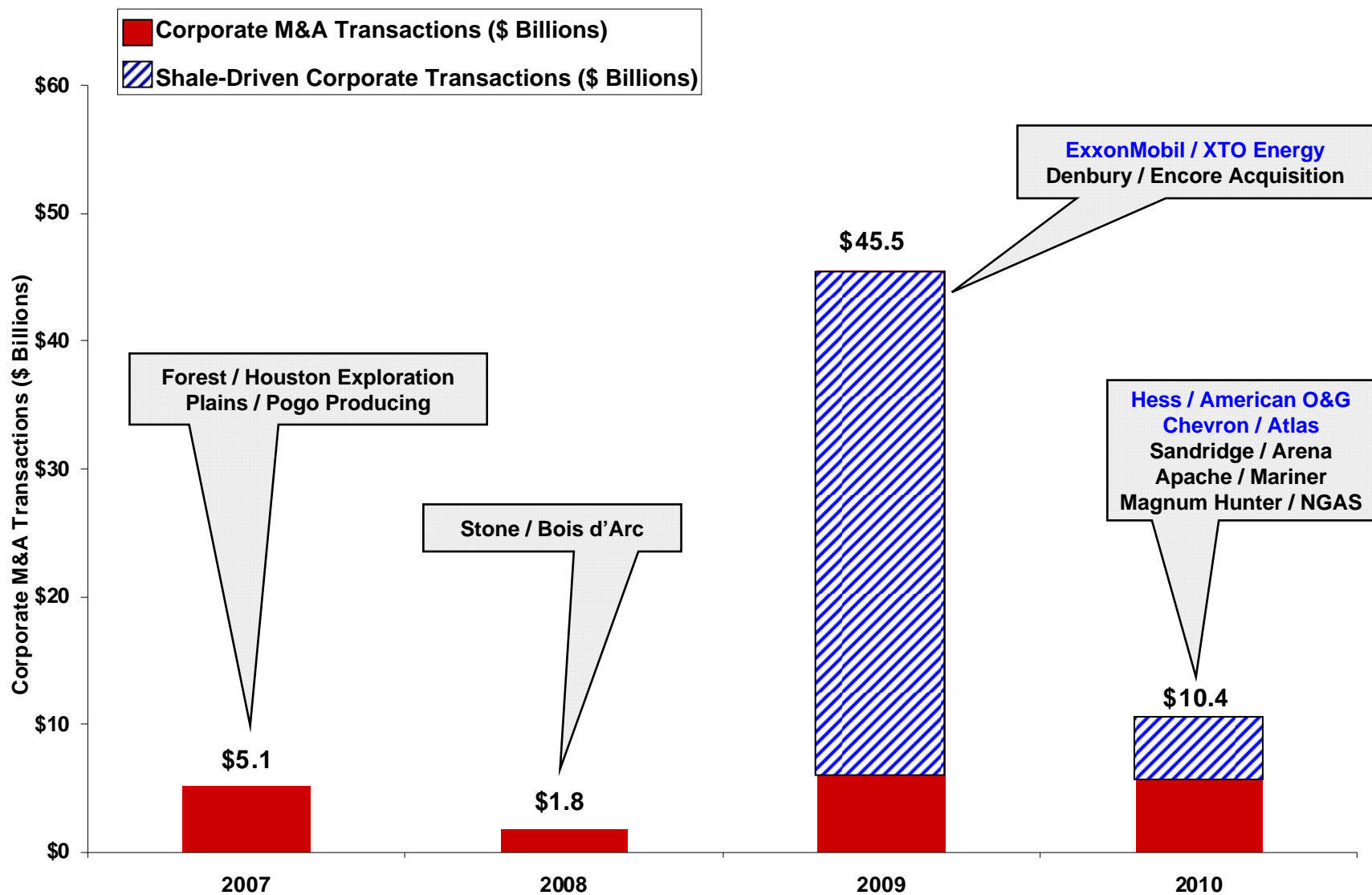


## Total Transaction Value (U.S.\$ Billion)



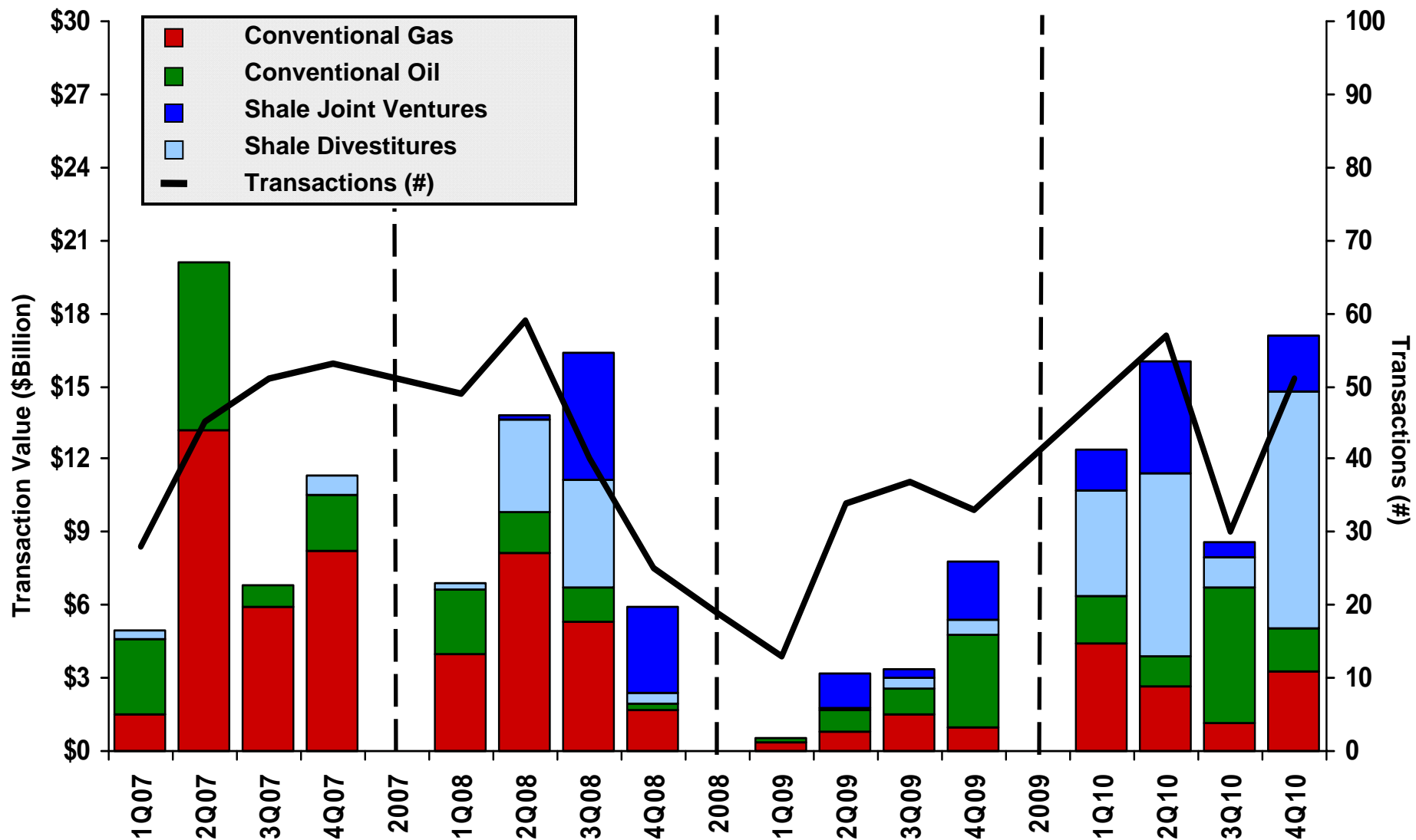
Note: Includes all transactions with disclosed transaction values. Does not capture transaction < \$5 MM

# U.S. Corporate M&A Transactions - 2007 to 2010



Note: Acquisitions highlighted in blue represent Shale transactions

# Quarterly Asset & Private Company Transactions – 2007 to 2010



Source: Scotia Waterous, IHS Herold

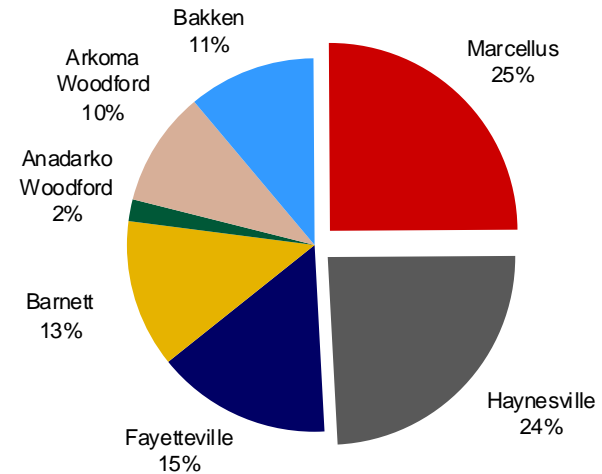
Note: Includes all transactions with disclosed deal value



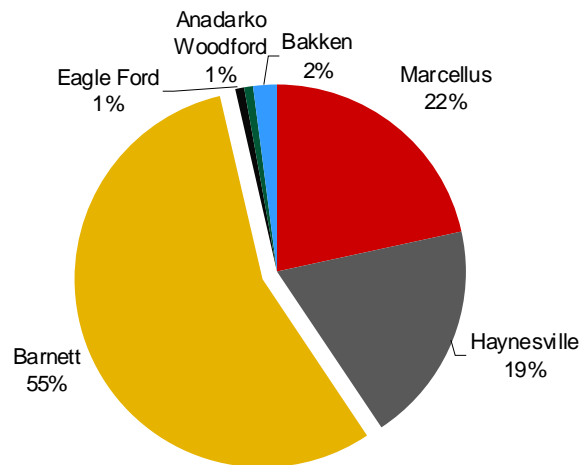
# U.S. Shale Transaction Value

- After falling in 2009 on general M&A market weakness, Shale transaction value has exploded in 2010
  - 2008 shale transaction value: \$17.9 billion
  - 2009 shale transaction value: \$5.6 billion
  - 2010 shale transaction value: \$36.7 billion
- 1H 2010 was dominated by the Marcellus, but the Eagle Ford and Bakken have been the focus of many recent transactions

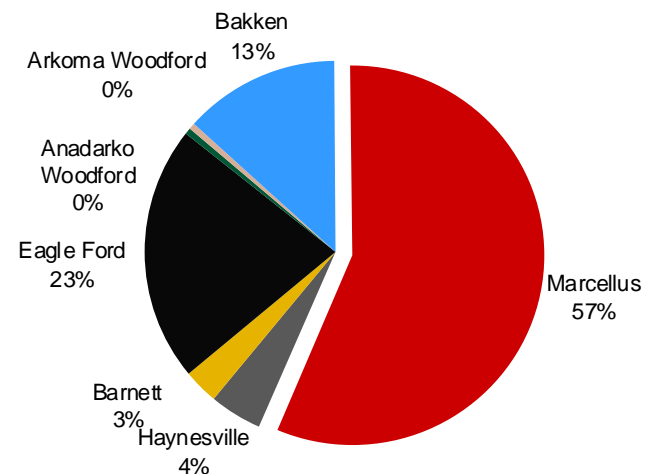
## 2008 Shale Transactions



## 2009 Shale Transactions



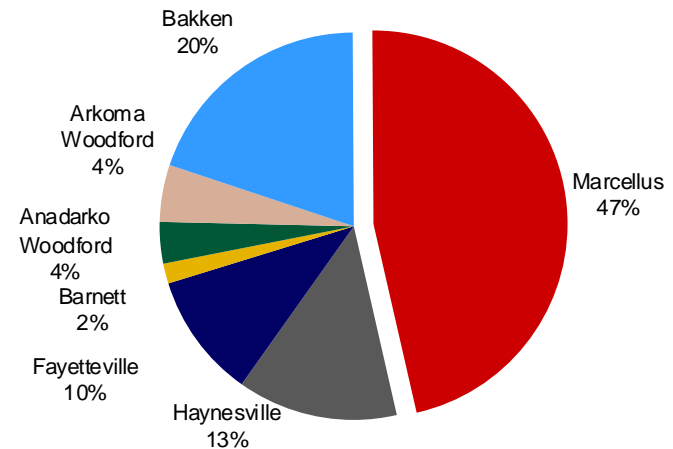
## 2010 YTD Shale Transactions



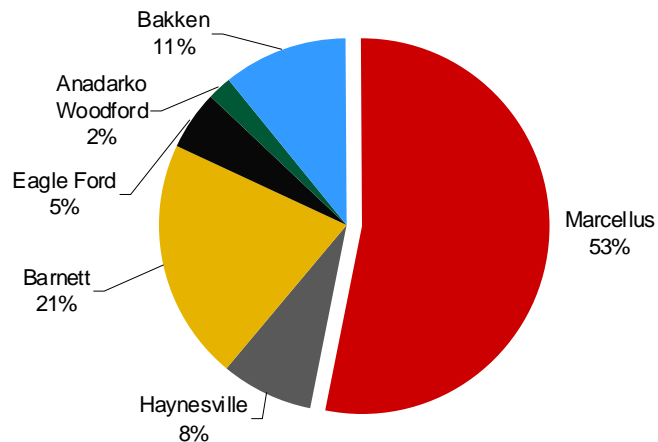
## U.S. Shale Acres Sold

- Spanning the better part of 3 states, the majority of shale acreage sold since 2008 has been in the Marcellus
  - 2008 Shale acreage sold: 2.0 million acres
  - 2009 Shale acreage sold: 0.6 million acres
  - 2010 Shale acreage sold: 4.9 million acres
- In addition to the Marcellus, Eagleford & Bakken sales were prominent in 2010

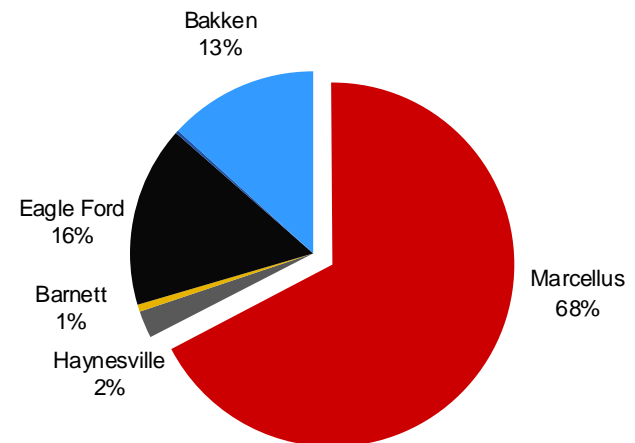
### 2008 Shale Transactions



### 2009 Shale Transactions



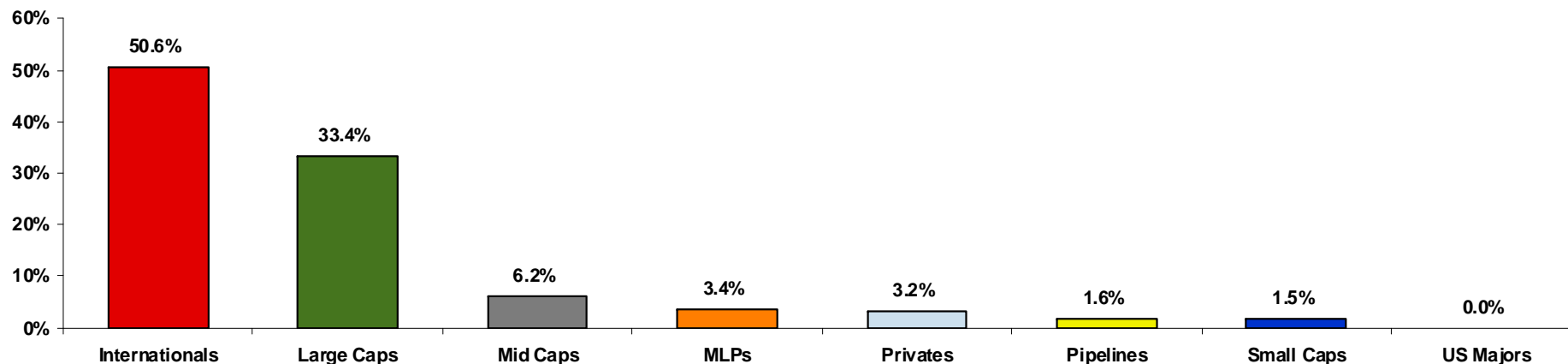
### 2010 YTD Shale Transactions



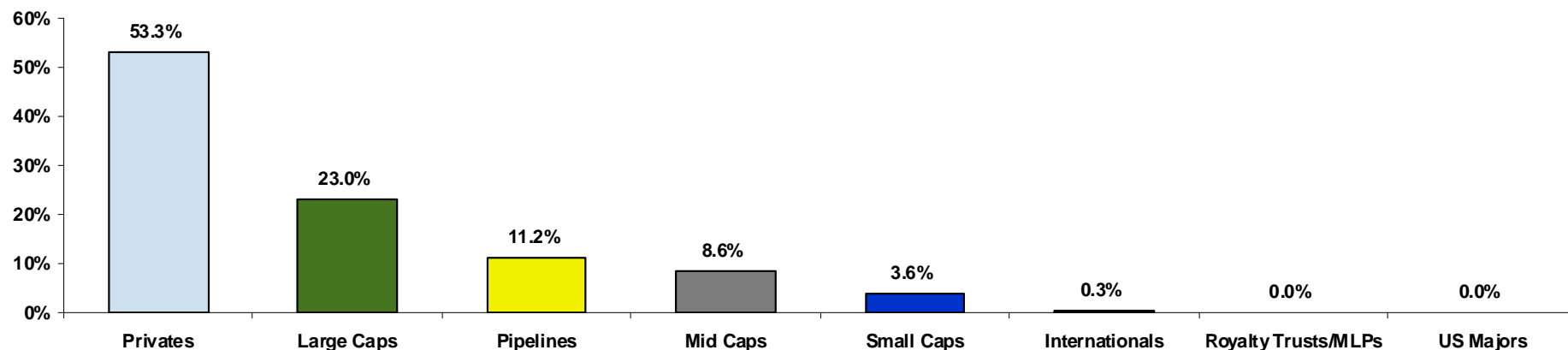
## Shale Asset Buyer / Seller Trends - 2010

The majority of large shale transactions involved international buyers. Private companies largely sold to take advantage of premium acreage multiples and to avoid expected capital gain tax increases.

### Buyer Profile



### Seller Profile

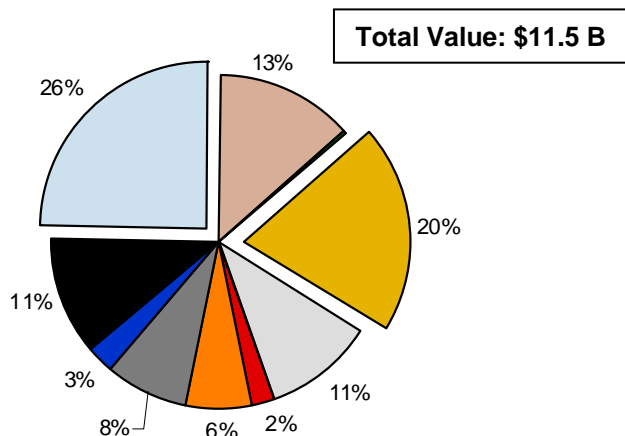


Source: Scotia Waterous, IHS Herold.

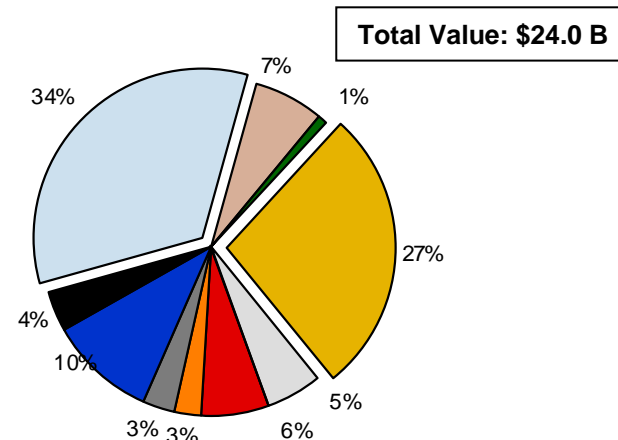
Note: Market capitalization categories: Small Cap (\$0-\$1,000 MM); Mid Cap (\$1,000-\$5,000 MM); Large Cap (>\$5,000 MM).

# Transaction Activity by Basin – Conventional Opportunities

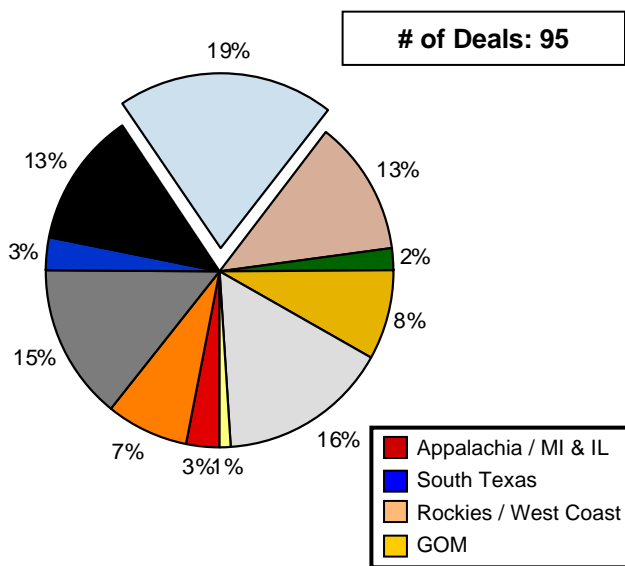
2009 Region as % of Total Value



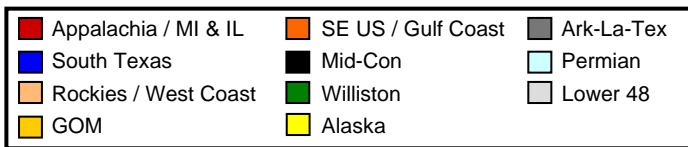
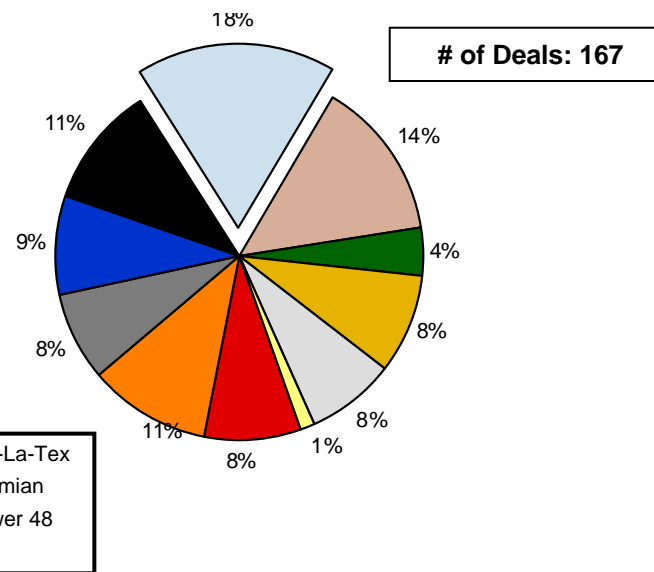
YTD 2010 Region as % of Total Value



2009 Region as % of Number of Deals



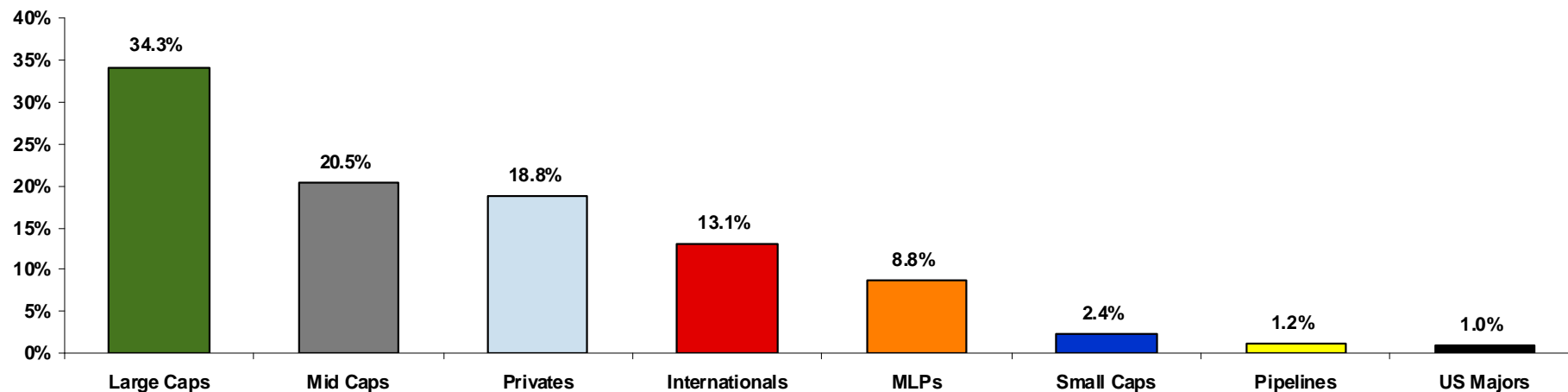
YTD 2010 Region as % of Number of Deals



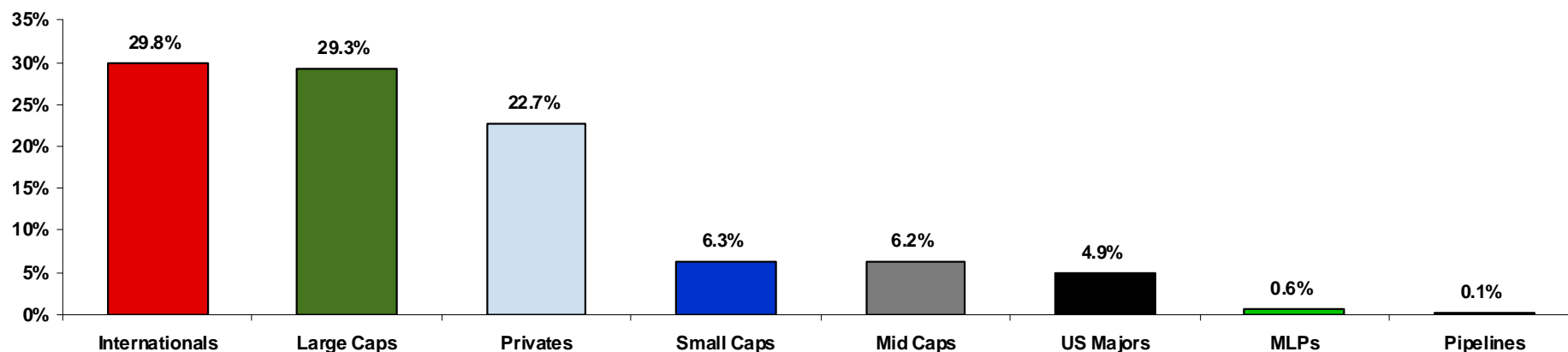
## Conventional Asset Buyer / Seller Trends - 2010

The buyer and seller profiles are heavily influenced by a small number of large non-shale transactions in 2010, including Apache's acquisition of assets from BP and Devon, Concho's acquisition of Marbob Energy and Quantum's acquisition of assets from Denbury.

### Buyer Profile



### Seller Profile



Source: Scotia Waterous, IHS Herold.

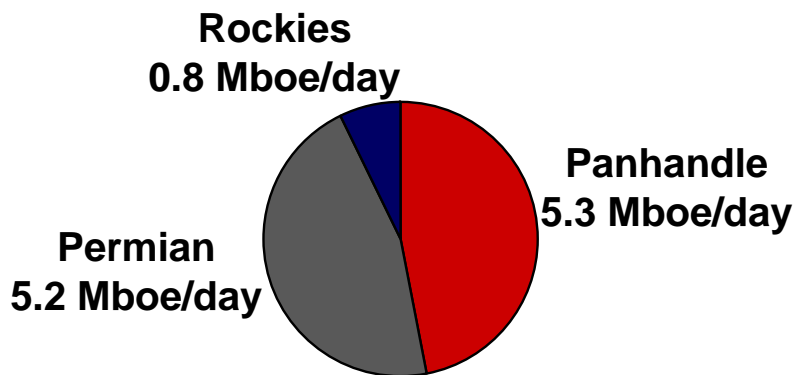
Note: Market capitalization categories: Small Cap (\$0-\$1,000 MM); Mid Cap (\$1,000-\$5,000 MM); Large Cap (>\$5,000 MM).

# Case Studies

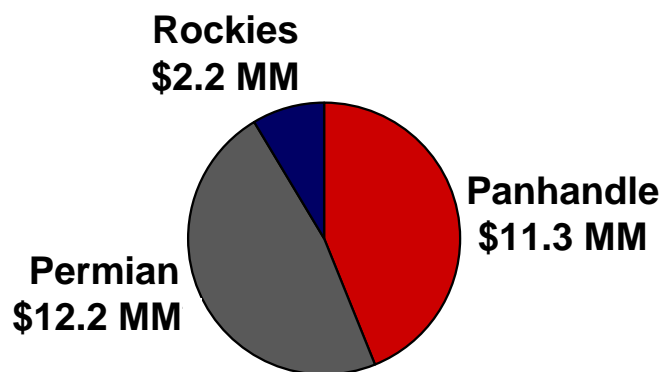
# ConocoPhillips Case Study

In April 2010, Scotia Waterous advised ConocoPhillips on the sale of assets in the Permian, Texas Panhandle and Rockies regions, with a total net production of 11.3 Mboepd.

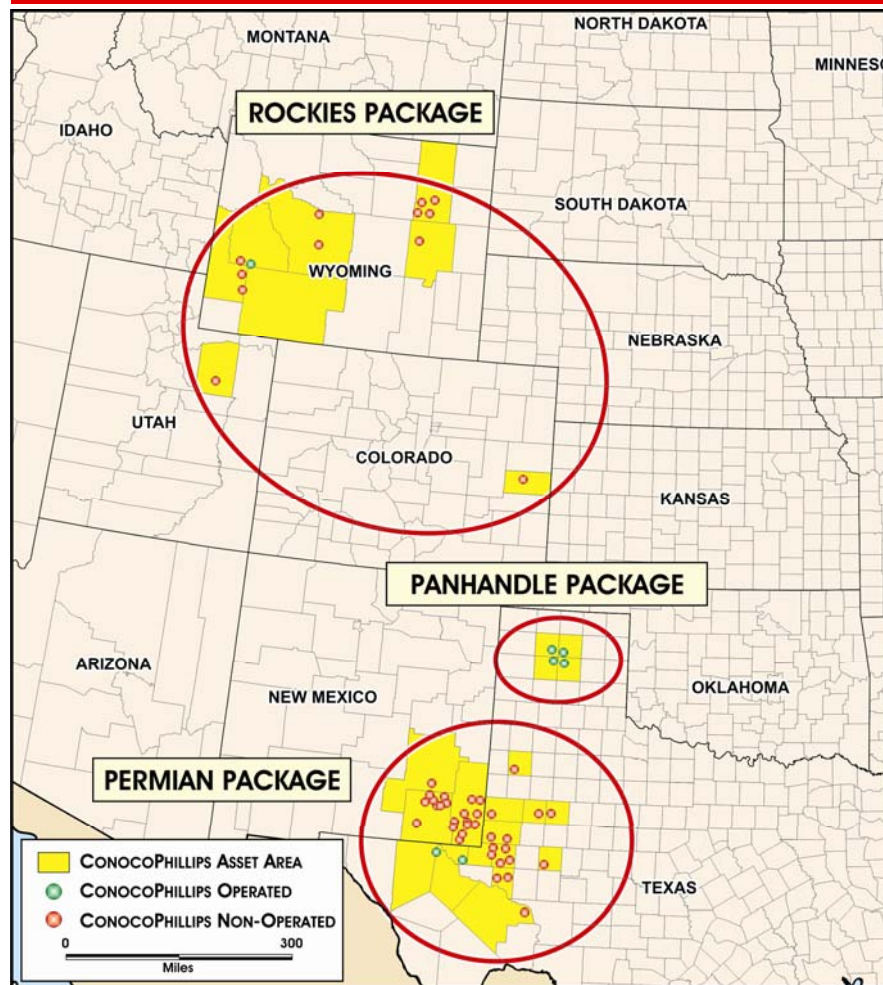
## Current Net Production by Package



## Q1 2010 Cash Flow by Package



## Packaging Overview

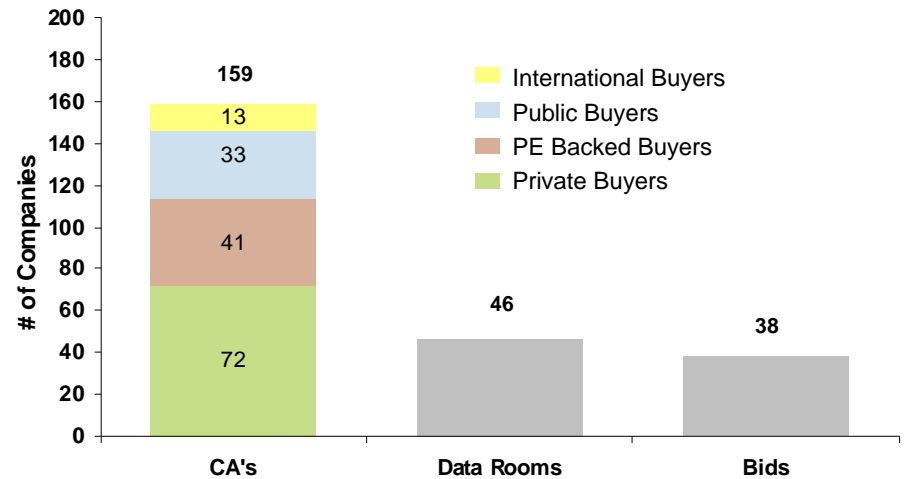


# Process and Results

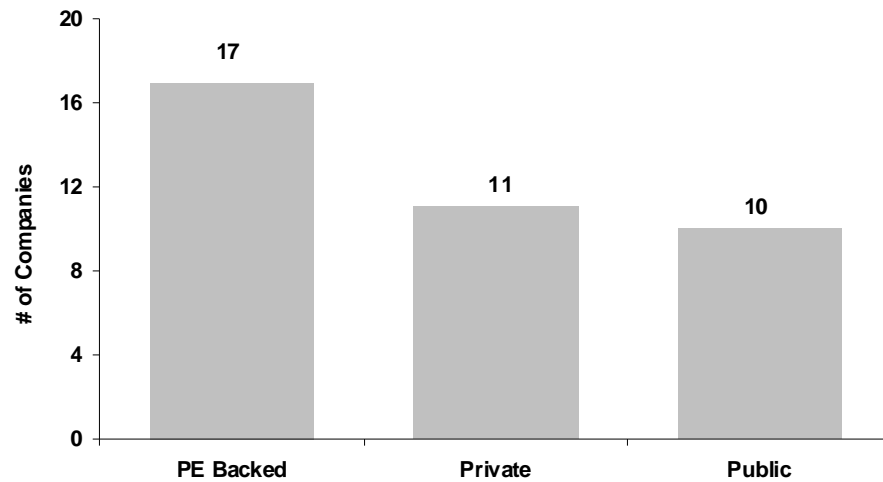
## Summary

- **Scotia Waterous ran a broad, flexible process to maximize participation in the offering**
- **Scotia Waterous and COP kicked off the process on April 1**
  - **Ryder Scott Report Delivered – June 30**
  - **Data Room Open in July/August**
  - **Bid Date – August 26**
- **Bids were requested on – Whole Package, Panhandle, Rockies, Permian (Op and/or Non Op and Cimarex JV)**

## Marketing Summary



## Bids by Company Type



## Results and Comments

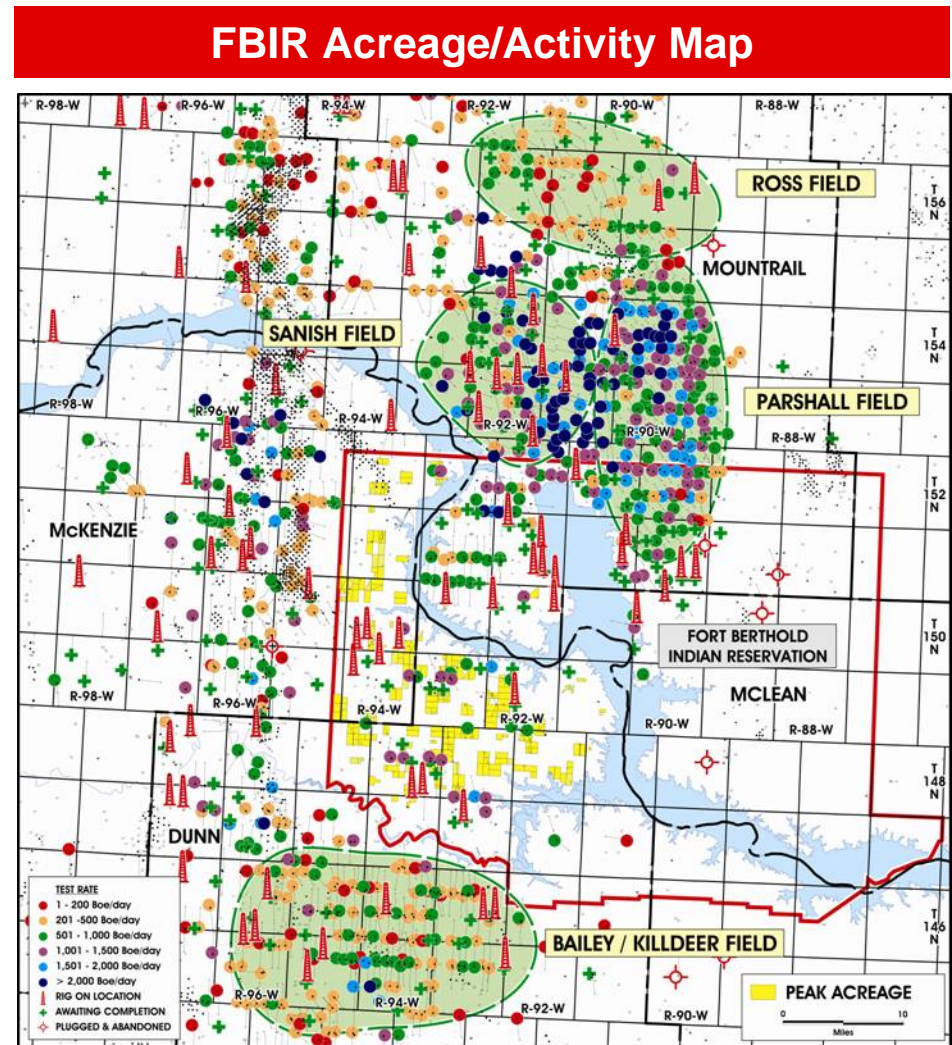
- **Private equity-backed companies purchased the Panhandle and Rockies packages**
- **A public company purchased part of the Permian package**
- **Most CA's and bids ever received on a Scotia Waterous divestment package**
- **Several companies bid on the whole package and were significantly off the sum of the individual regions**
- **In the Permian operated package, on average those companies that identified the Avalon Shale bid twice as much as those that did not recognize it**



# Peak Energy Case Study

During 2010, Scotia Waterous advised Peak Energy Resources (Yorktown backed) on its \$566MM sale of Bakken assets

- Fort Berthold Indian Reservation (FBIR) Project includes 46,469 net acres with 800 bopd
  - Over 40,000 acres (91% undeveloped) are on 10-year trust leases or HBP
  - Reserve potential of 200+ MMboe in the Middle Bakken and Three Forks
  - Peak identified 216 Bakken and 230 Three Forks development locations on 320-acre spacing
- Grasslands Project is 14,519 net acres with 600 bopd
  - 74% of net acres are undeveloped on Fee lands
  - Peak identified 75 Bakken and 77 Three Forks development locations identified on 320-acre spacing



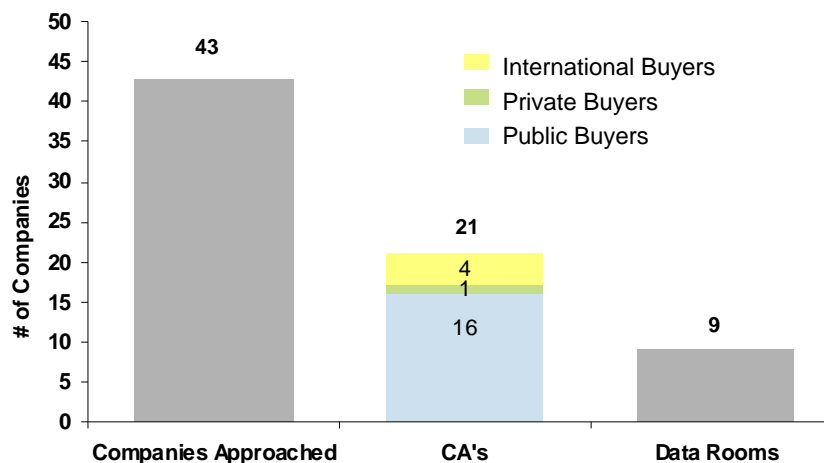
Source: Activity on map per equity research

# Process and Results

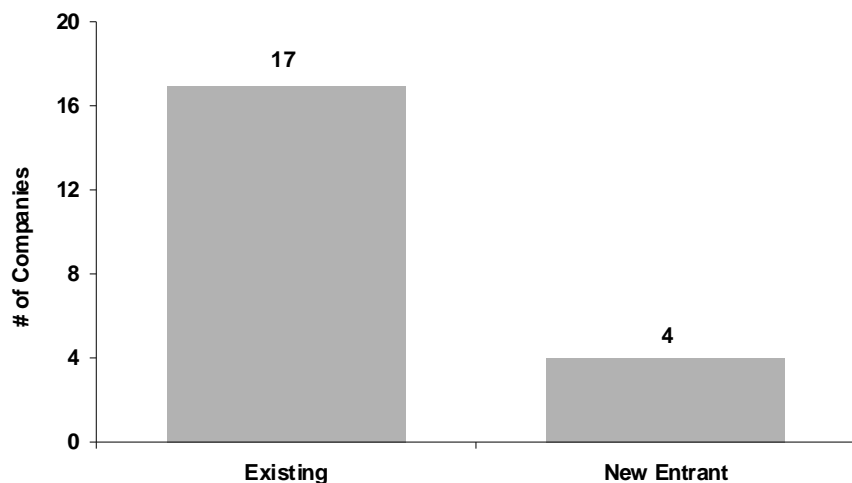
## Summary

- Scotia Waterous ran a targeted, flexible process with the goal of maximizing value
- Scotia Waterous and Peak began the sales process on July 15, 2010
  - Data Rooms Open – August
- Enerplus pre-empted the FBIR assets September 21, while Kodiak pre-empted the Grassland assets October 19

## Marketing Summary



## CA's by Company Type



## Results and Comments

- Enerplus bought the FBIR assets for \$456MM, while Kodiak Oil and Gas purchased the Grassland assets for \$110MM
- Generally, existing Bakken Basin players bid much more aggressively than the new entrants
  - Already up the learning curve on the viability of the play
  - New entrant players were largely hang-up on the \$/acre metric versus full cycle development plan economics
- Advanced drilling and completion techniques continue to improve well IP's and EUR's in the Bakken
  - Data Sharing arrangement on the reservation

## Bakken Acreage Metrics Analysis

Recent significant transactions in the Bakken have largely been by existing players and not new entrants.

	Occidental / Anschutz	Hess / Tracker	Williams / Zenergy
Date Announced	12/10/2010	11/22/2010	11/15/2010
Purchase Price	\$1,400 million	\$1,050 million	\$925 million
Net Total Acreage	180,000 acres	167,000 acres	85,800 acres
<b>Simple Acreage Multiple</b>	<b>\$7,778/acre</b>	<b>\$6,287/acre</b>	<b>\$10,781/acre</b>
Net Production	5,500 boe/d	4,400 boe/d	3,300 boe/d (Est.)
Value Attributed to Production	\$468 MM - \$550 MM	\$374 MM - \$440 MM	\$281 MM - \$330 MM
Value Attributable to Undeveloped Acreages	\$850 MM - \$933 MM	\$610 MM - \$676 MM	\$595 MM - \$645 MM
Adjusted Acreage Multiple	\$5,090/acre - \$5,584/acre	\$3,653/acre - \$4,048/acre	\$6,935/acre - \$7,512/acre
Net Undeveloped Acreage	151,840 acres (Est.)	146,520 acres (Est.)	70,440 acres (Est.)
<b>Net Undeveloped Acreage Multiple</b>	<b>\$5,598/acre - \$6,141/acre</b>	<b>\$4,163/acre - \$4,614/acre</b>	<b>\$8,447/acre - \$9,150/acre</b>

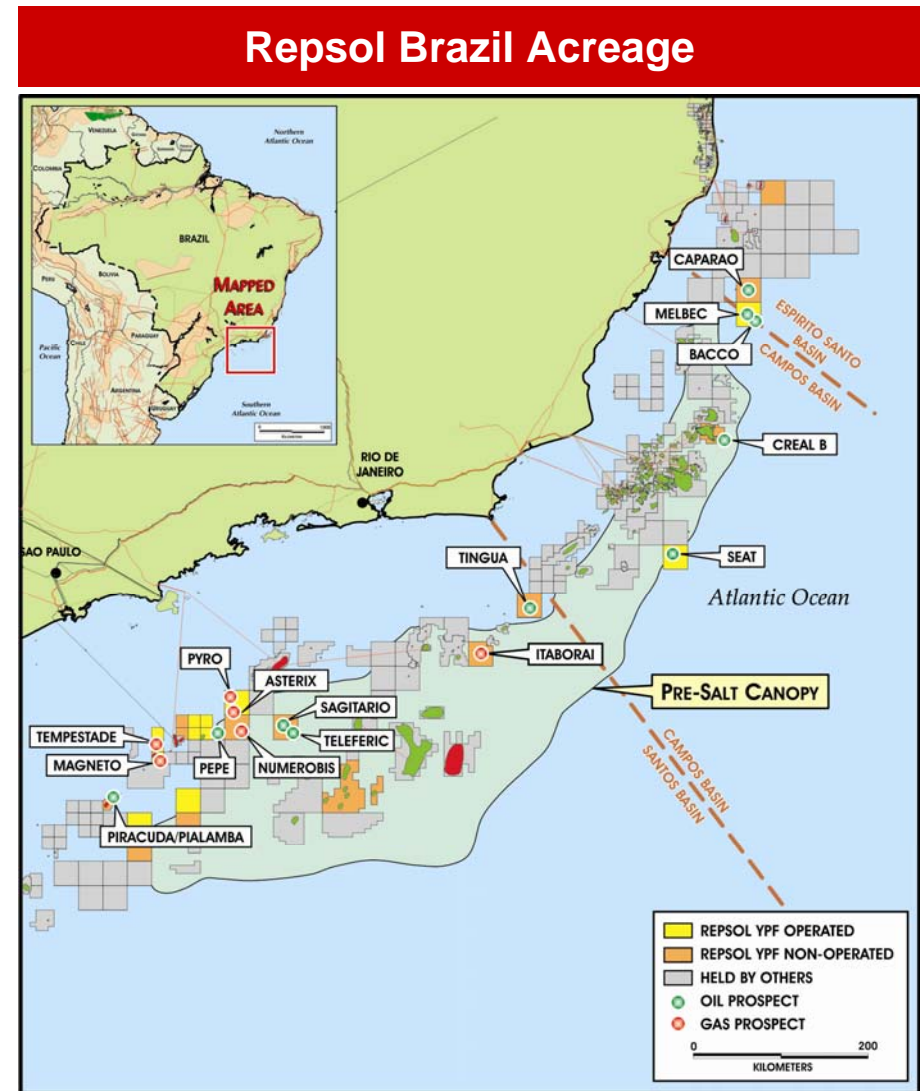
	Kodiak / Peak (Grasslands)	Enerplus / Peak (FBIR)	Hess / AEZ
Date Announced	10/19/2010	9/22/2010	7/27/2010
Purchase Price	\$110 million	\$456 million	\$459 million
Net Total Acreage	14,519 acres	46,470 acres	85,000 acres
<b>Simple Acreage Multiple</b>	<b>\$7,576/acre</b>	<b>\$9,813/acre</b>	<b>\$5,399/acre</b>
Net Production	400 boe/d	533 boe/d	620 boe/d
Value Attributed to Production	\$34 MM - \$40 MM	\$45 MM - \$53 MM	\$53 MM - \$62 MM
Value Attributable to Undeveloped Acreages	\$70 MM - \$76 MM	\$403 MM - \$411 MM	\$397 MM - \$406 MM
Adjusted Acreage Multiple	\$4,821/acre - \$5,235/acre	\$8,665/acre - \$8,837/acre	\$4,669/acre - \$4,779/acre
Net Undeveloped Acreage	11,460 acres	42,288 acres	81,160 acres (Est.)
<b>Net Undeveloped Acreage Multiple</b>	<b>\$6,108/acre - \$6,632/acre</b>	<b>\$9,522/acre - \$9,711/acre</b>	<b>\$4,890/acre - \$5,005/acre</b>

Source: Press releases, investor presentations and public filings

## Sinopec Case Study

On October 1, 2010, Sinopec entered into a definitive agreement to purchase a 40% stake in Repsol Brazil for US\$7.1 billion. Scotia Waterous was exclusive financial and technical advisor to Sinopec.

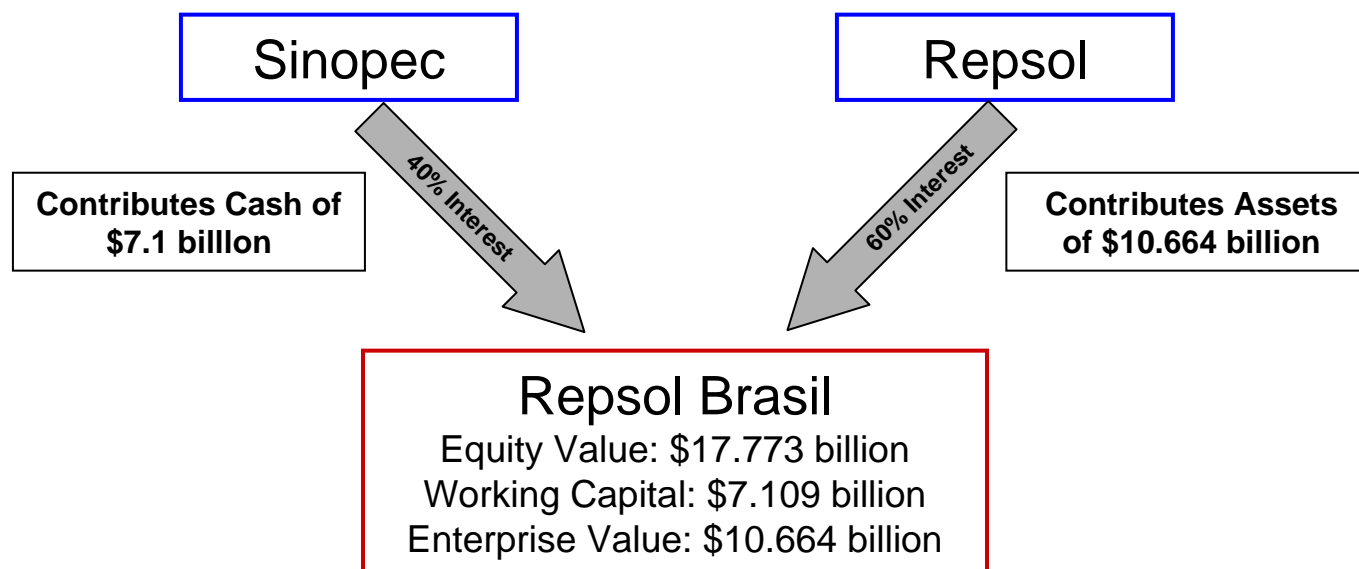
- The transaction represents the worlds largest JV, and the second largest oil and gas deal in Latin American history
- Repsol Brazil has interest in 16 offshore blocks, including 14 within the Pre-Salt play, spanning the Santos, Campos, and Espiritu Santo basins
  - 1.8 billion boe of resource potential per DeGolyer & MacNaughton estimate
- This transaction creates one of Latin America's largest energy companies, with an equity value of US\$17.8 billion
  - The injection of funds generated by this transaction will allow Repsol Brazil to fully develop all of its current projects



## Repsol Brasil Structure Overview

The transaction was structured as a private placement, whereby Sinopec fully subscribes to newly issued shares of Repsol Brasil representing 40% of the outstanding equity of the company

### Repsol Brasil Capitalization



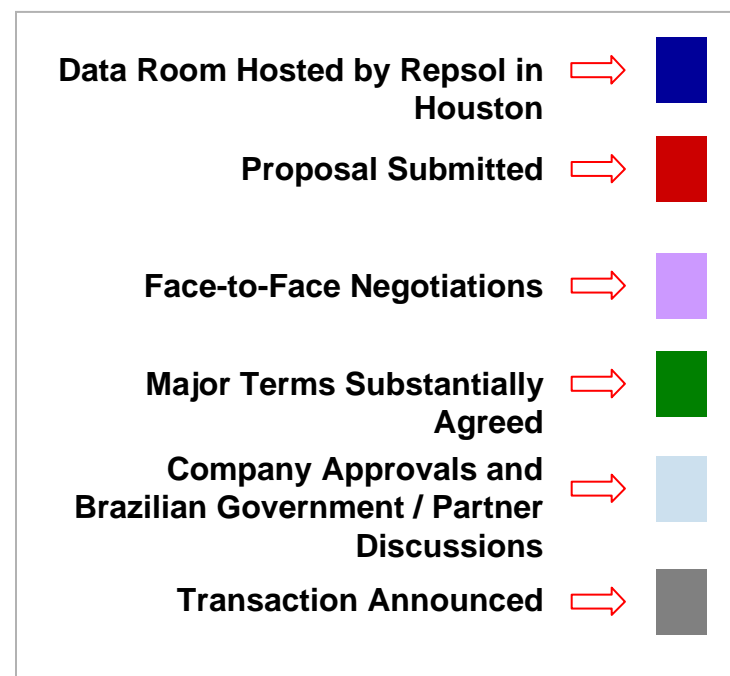
- Upon closing of the transaction, Sinopec will own a 40% interest in the assets and working capital of Repsol Brazil
  - Repsol will own the remaining 60%
- Of the \$7.1 billion of cash contributed by Sinopec, \$4.3 billion represents the value of a 40% W.I. in the assets of Repsol Brasil, and \$2.8 billion represents 40% of the working capital of Repsol Brasil

Note: Assumes a net zero working cap balance prior to closing.

# Repsol Brasil Process Timeline

August 2010							September 2010							October 2010						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7				1	2	3	4						1	2
8	9	10	11	12	13	14	5	6	7	8	9	10	11	3	4	5	6	7	8	9
15	16	17	18	19	20	21	11	12	13	14	15	16	18	10	11	12	13	14	15	16
22	23	24	25	26	27	28	19	20	21	22	23	24	25	17	18	19	20	21	22	23
29	30	31					26	27	28	29	30			24	25	26	27	28	29	30
														31						

- Sinopec submitted an expression of interest to pre-empt Repsol Brasil's IPO process in late July
- The technical and commercial evaluation period lasted only four weeks
- Negotiations were substantially completed in a week, less than two weeks from the proposal submission date
- Less than two months transpired from the beginning of evaluation of confidential information to the signing and announcement of the agreement



## Asian Observations and Comments

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- Asian Companies have rapidly moved-up the learning curve in international deal making:
  - Corporate takeovers of Harvest Energy Trust (Canada), Addax Petroleum (Nigeria and Gabon) and Arrow Energy (Australia)
  - Hostile acquisition of Dana Petroleum by KNOC
  - Creative JV's – Sinopec/Repsol, CNOOC/Chesapeake, Mitsui/Anadarko, KOGAS/EnCana, Reliance/Atlas
- In the U.S. the following companies have completed two or more U.S. deals
  - Japanese – Itochu, Mitsui, Mitsubishi, Nippon, Sojitz, Sumitomo
  - Korean – Antinum, KNOC, Samsung
  - Chinese – CNOOC
  - Indian – Reliance
- Asian shopping list includes:
  - GOM, Shales, Conventionals
  - Technology Transfer
- U.S. Outlook
  - Asian companies are going to be the new XTO's and Chesapeake

## What to Expect in 2011

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- The NOC's, largely driven by Asians will continue to be the dominant buyers of hydrocarbons around the world
- Asian company's will continue to become more significant players in the U.S. market
- Outside North America, expect to see more transactions in Latin America, Africa and Europe
- Continued demand for U.S. oil assets
  - Strong sale metrics being achieved in long-life oil basins (e.g. Permian and Bakken) will likely prompt continued selling in those regions
- Continued migration to liquids-rich shales
  - Further Eagle Ford consolidation in 2011 with a number of smaller players looking to cash out
  - We expect to see considerable activity in 2011 in the Niobrara, the Avalon / Bone Spring, the Mississippian and other emerging plays involving horizontal recompletions of historically vertically developed oil-rich plays
- Limited market for conventional gas assets
  - Demand from private equity portfolio companies kept multiples relatively stable in 2010, and this trend will continue into 2011
- Gulf of Mexico activity level will pick-up



**Thank you for your time and attendance**

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