

# Energy M&A Market Consolidation Waves

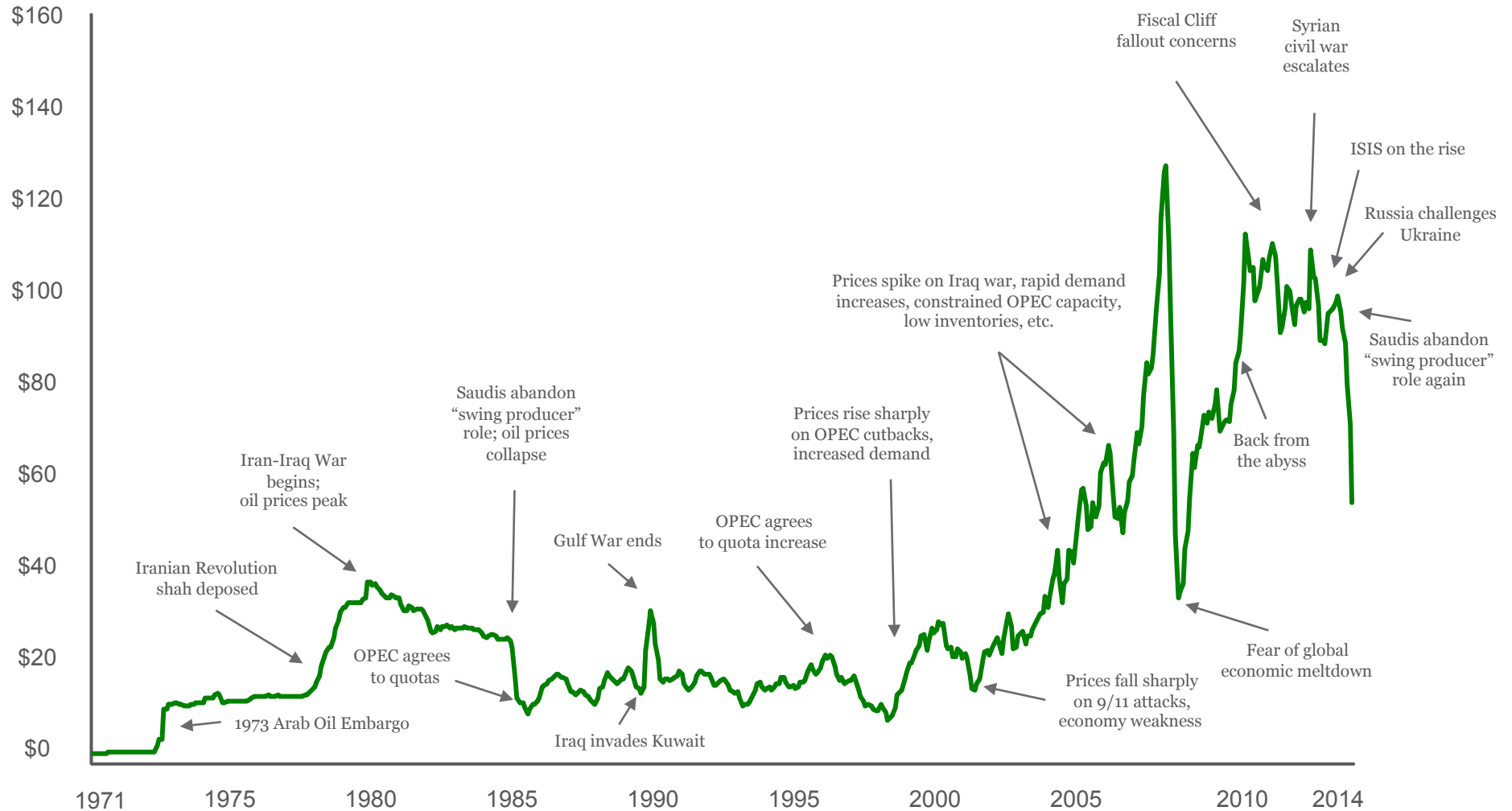
HISTORY – 1980 TO DATE

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- ❖ There have been three distinct waves of consolidation among upstream companies over the last three decades
  - Big oil – mid 1980's
  - Big oil – late 1990's
  - Super Independent – 2000's
- ❖ These waves have tended to correlate with periods of low relative prices, for several primary reasons:
  - Consolidation occurs in an effort to lower costs by capturing synergies and taking advantage of economies of scale
  - Opportunities emerge for larger players or those with stronger balance sheets to consolidate smaller, more levered players
  - Both parties to a merger can rationalize the trade based on good relative value despite reduced absolute value
- ❖ Does this portend another merger wave given today's low prices?

# The Oil Price Supercycle

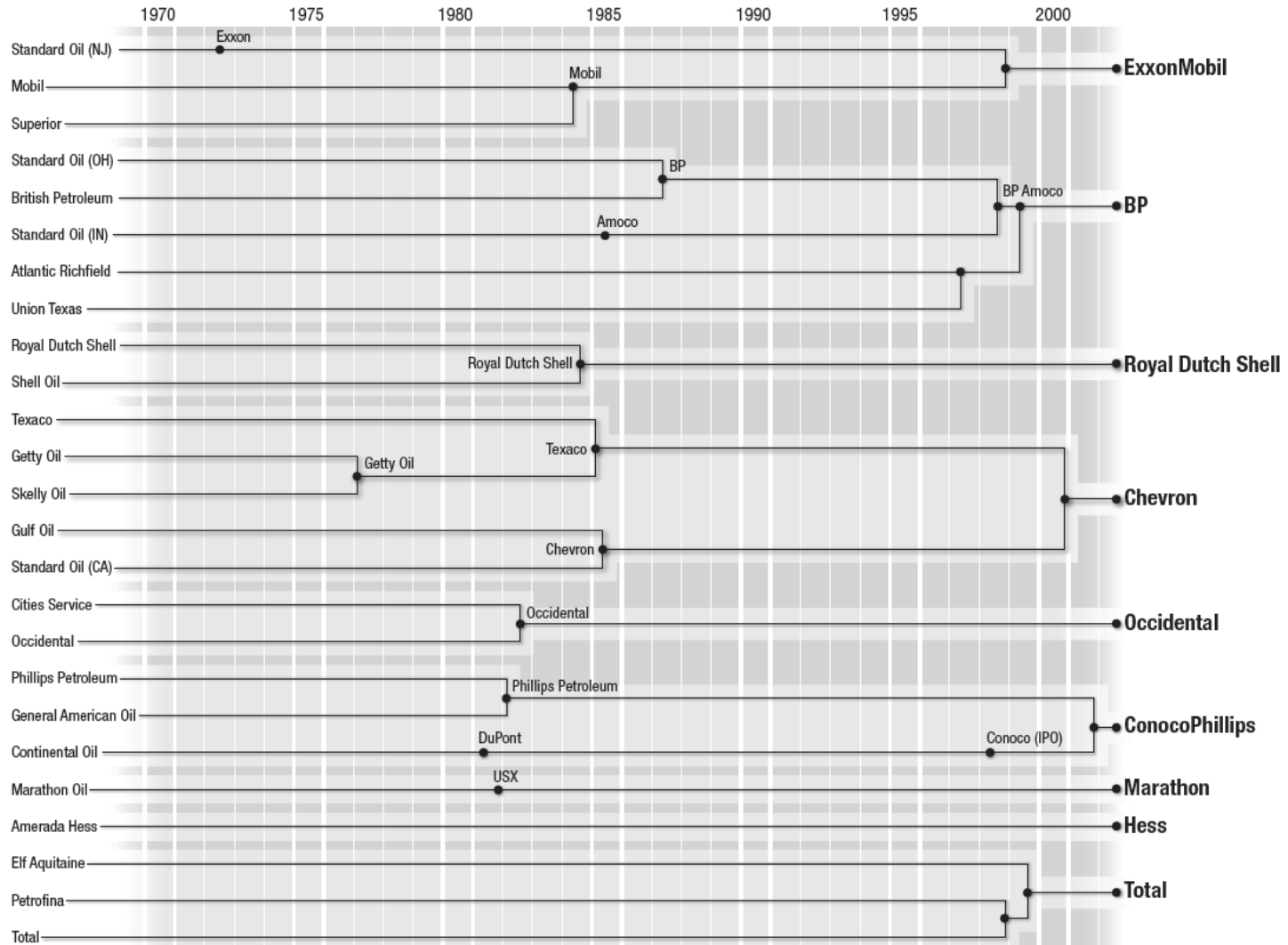
WORLD EVENTS AND OIL PRICES – NOMINAL PRICING (1971 – 2014)



Source: EIA.

# M&A Consolidation Waves

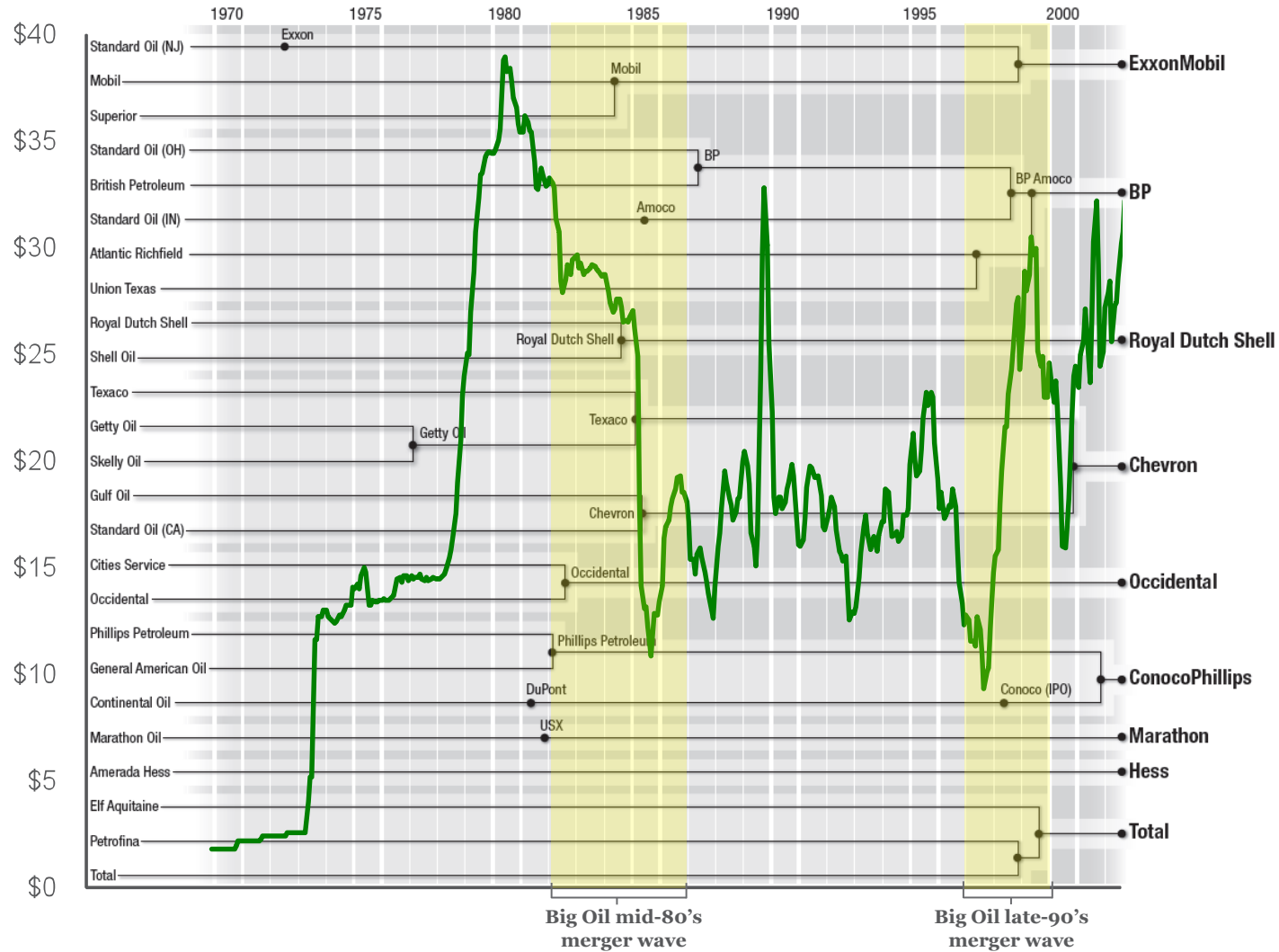
THE ACQUISITIONS OF COMPANIES THAT HAVE CREATED BIG OIL



Source: Thomas A. Petrie's *Following Oil*.

# M&A Consolidation Waves

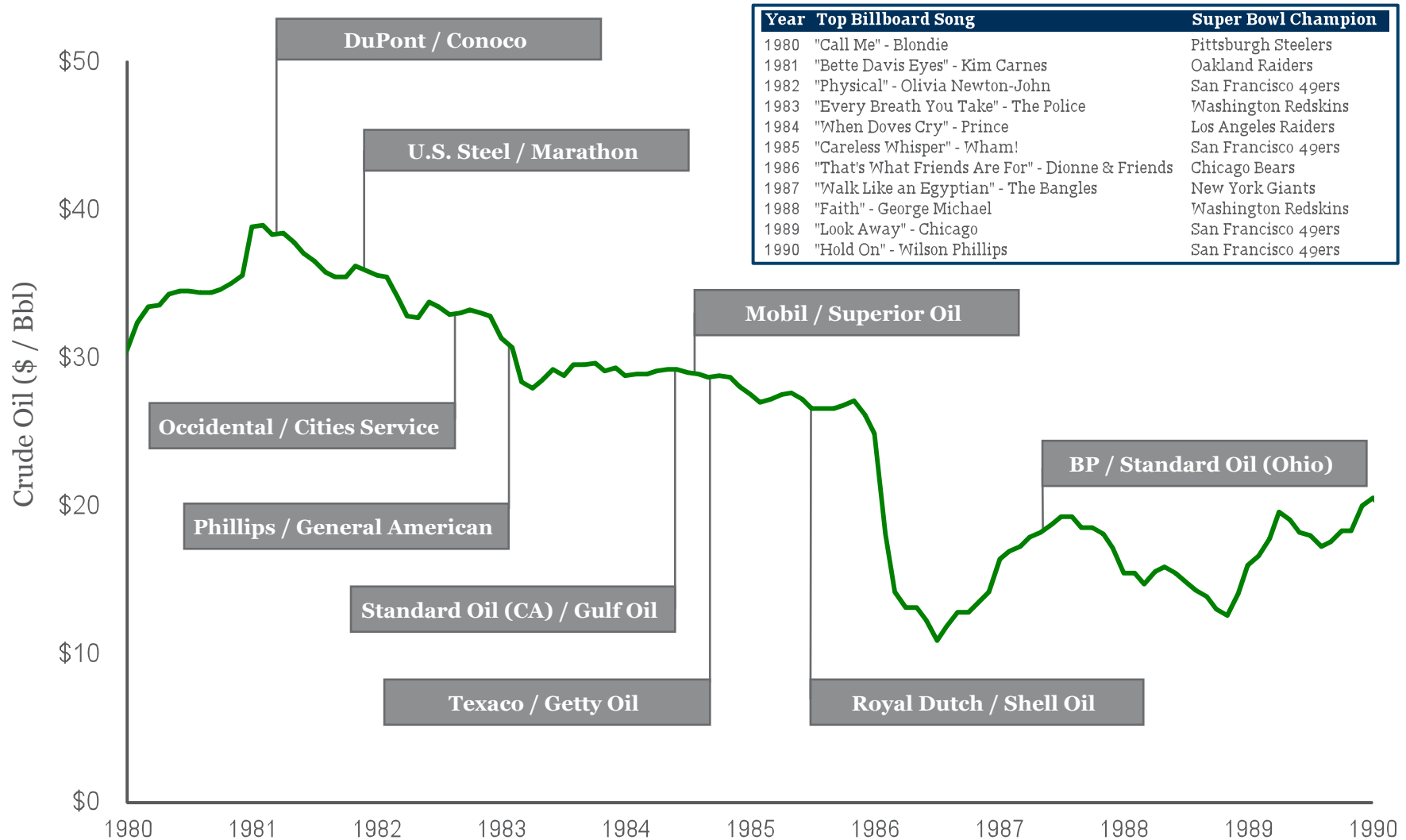
THE ACQUISITIONS OF COMPANIES THAT HAVE CREATED BIG OIL



Source: Thomas A. Petrie's *Following Oil* and EIA.

# M&A Consolidation Waves

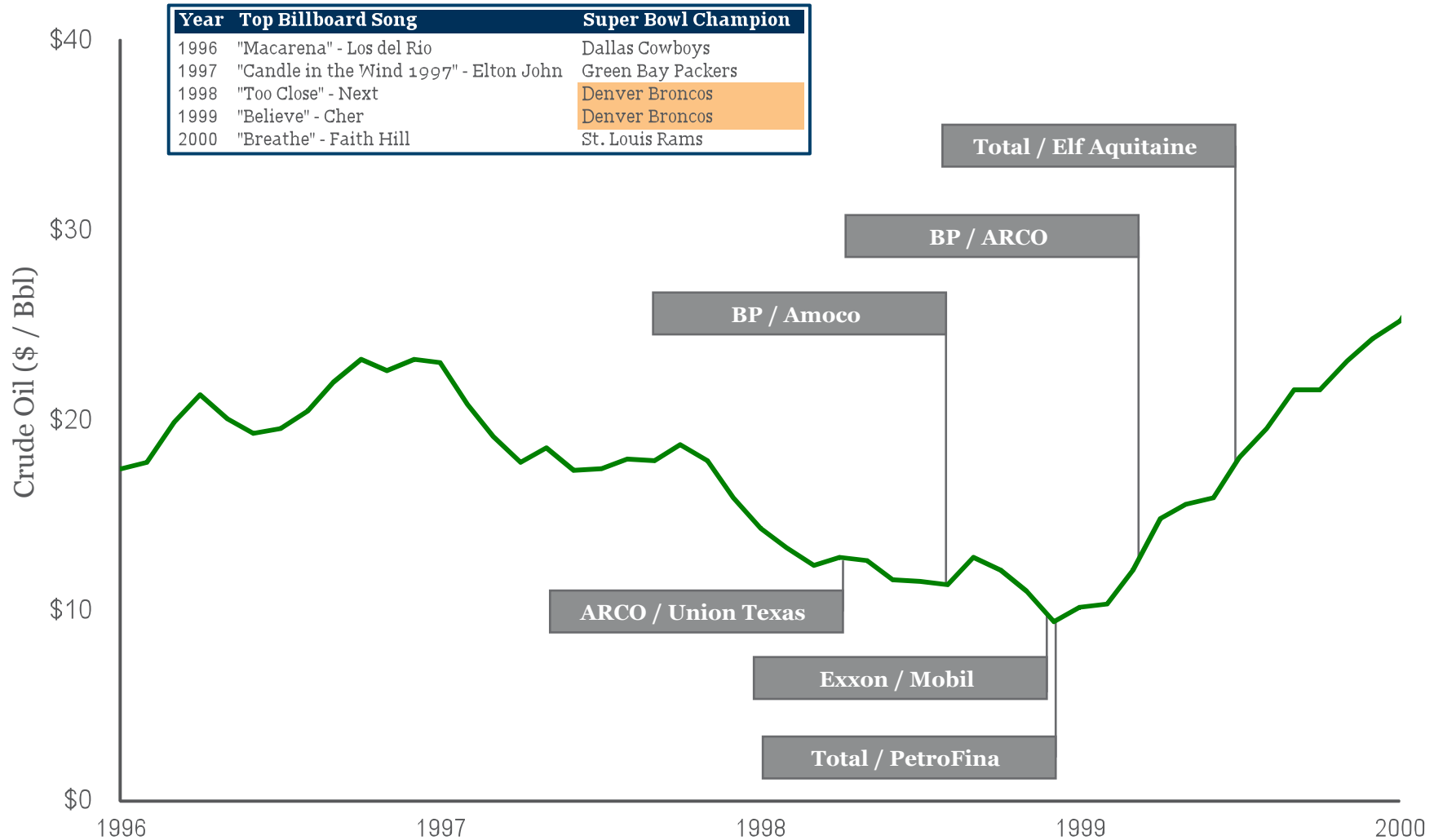
BIG OIL – MID 80's MERGER WAVE



Source: EIA.

# M&A Consolidation Waves

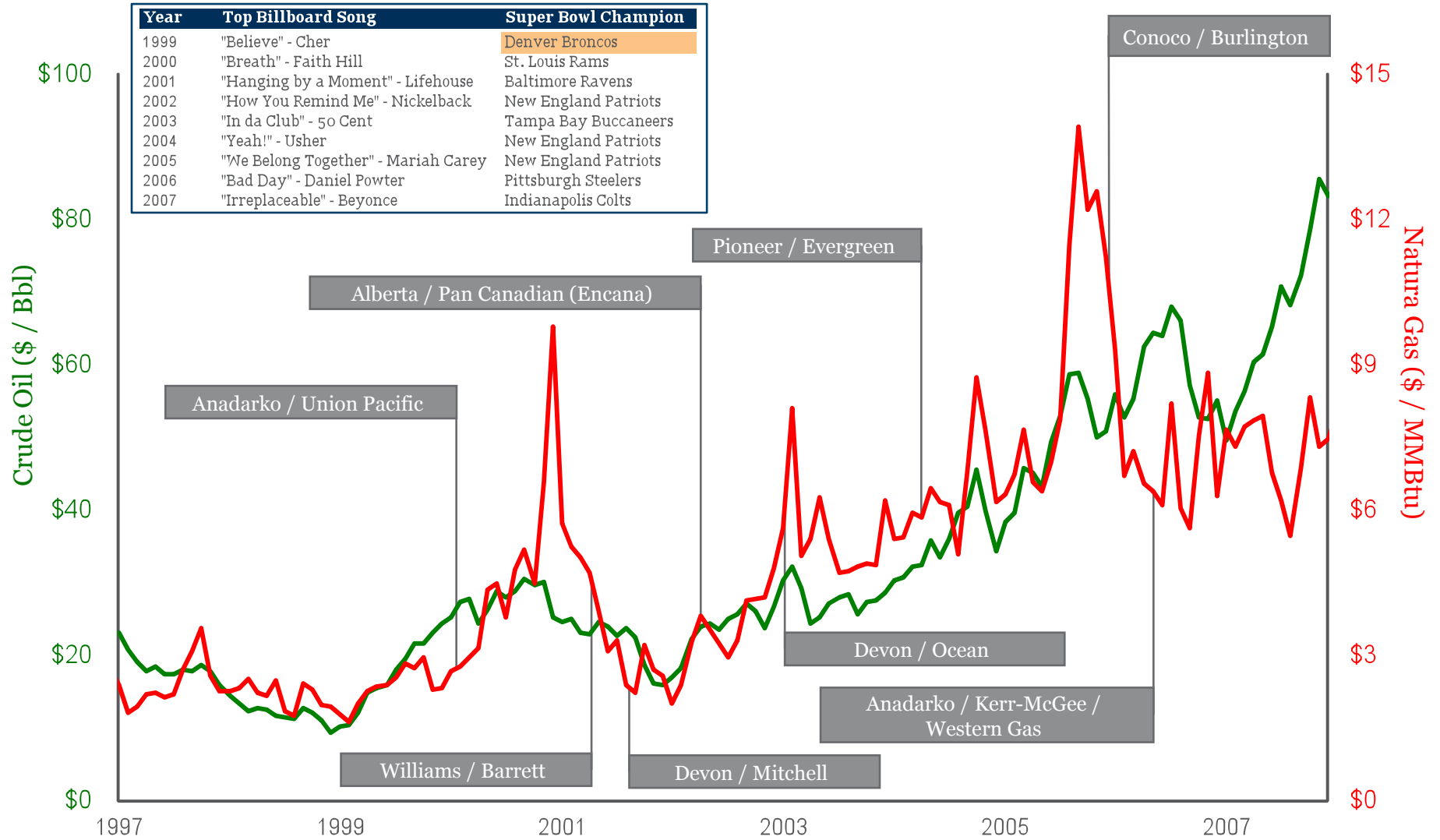
BIG OIL – LATE 90's MERGER WAVE



Source: EIA.

# M&A Consolidation Waves

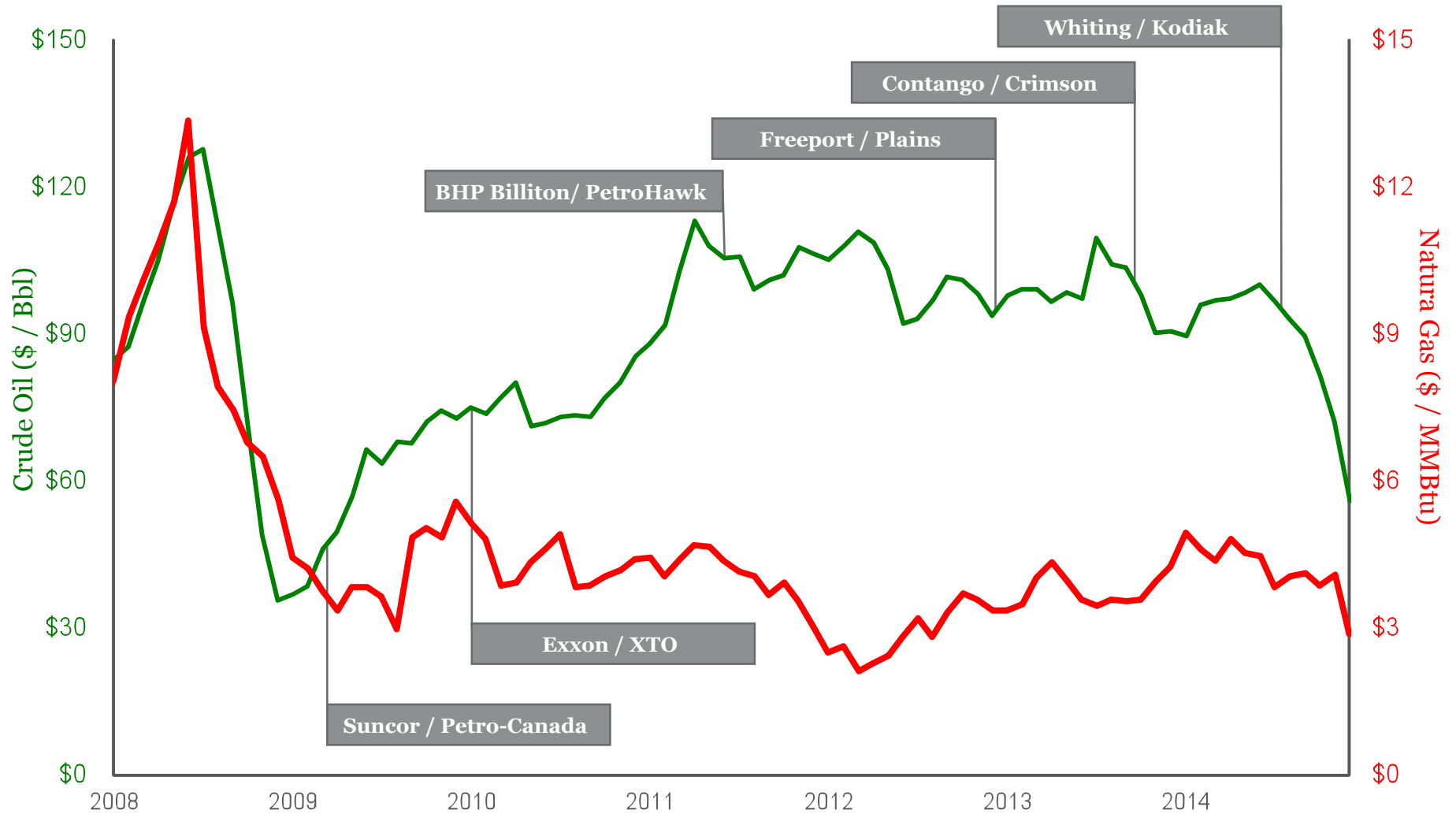
SUPER INDEPENDENT MERGER WAVE – FIRST HALF OF 2000s



Source: EIA.

# M&A Consolidation Waves

NOTABLE M&A ACTIVITY SINCE 2008



Source: EIA.



# The Next Wave of M&A

## A RELATIVE VALUE PROPOSITION

### Large Cap Companies (Greater than \$15 Billion) <sup>(1)</sup>






(\$ in millions, except per unit data)

A	B	C	D	E	F	G	H	I
Company	Price as of 1/23/15	% of 52-Week High	% of All-Time High	Equity Value	Enterprise Value	% Gas	15E-16E Prod. Growth	Net Debt / 2015 EBITDA
<i>Large Cap</i>								
1. EOG Resources	\$90.79	77%	77%	\$49,760	\$54,164	40%	5%	0.7x
2. Devon	60.16	76%	48%	24,611	36,691	52%	3%	1.4x
3. Occidental Petroleum	78.85	75%	68%	61,162	63,129	28%	6%	0.6x
4. Anadarko Petroleum	81.44	72%	72%	41,441	57,299	55%	2%	0.9x
5. Concho Resources	106.72	72%	72%	12,082	15,581	39%	15%	1.8x
6. Hess	70.83	70%	53%	21,255	23,517	23%	(1%)	0.4x
7. Pioneer Natural Resources	152.86	66%	66%	21,896	24,514	38%	10%	1.0x
8. Marathon Oil	26.52	64%	40%	17,911	24,306	30%	1%	1.6x
9. Chesapeake Energy	19.66	63%	28%	13,077	24,829	75%	3%	1.4x
10. Apache	62.88	61%	43%	23,673	36,624	46%	2%	1.6x
11. Noble Energy	46.27	58%	58%	16,850	22,310	69%	15%	1.3x
12. Encana	13.38	54%	48%	9,914	16,289	61%	1%	2.0x
13. Continental Resources	43.10	53%	53%	16,042	22,082	32%	11%	2.1x
14. Southwestern Energy	25.35	52%	49%	11,101	16,360	93%	17%	2.1x
Mean		65%	55%	\$24,341	\$31,264	49%	6%	1.3x
Median		65%	53%	19,583	24,410	43%	4%	1.4x

(1) Market data and estimates based on Wall Street consensus per FactSet as of January 23, 2015.

# The Next Wave of M&A

A DARWINIAN UNIVERSE?

Market Capitalization / Sample Companies	% of 52-Week High	% of All-Time High	Enterprise Value (\$MM)	% Gas	15E - 16E Prod. Growth	Net Debt/2015E EBITDA
<b>Majors</b> 	76%	68%	\$196,621	50%	4%	0.6x
<b>Large Caps (&gt; \$15 Bn)</b> 	65%	55%	\$31,264	49%	6%	0.6x
<b>Mid Caps (\$2 Bn - \$15 Bn)</b> 	49%	41%	\$5,808	49%	13%	2.3x
<b>Small Caps (\$500 MM - \$2 Bn)</b> 	33%	23%	\$1,291	45%	13%	2.7x
<b>Micro Caps (&lt;\$500 MM)</b> 	32%	18%	\$213	25%	13%	2.2x

Source: Market data and estimates based on Wall Street consensus per FactSet as of January 23, 2015.

# A Brief History of Oil and Gas M&A

## CONCLUSIONS

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- ❖ Historically, waves of upstream company consolidation have correlated with periods of low relative prices
- ❖ Each environment is unique, but the similarities between today and prior periods are too significant to overlook
- ❖ The relative value trade that drove some recent mergers (witness Whiting / Kodiak) is even more relevant in this environment
- ❖ Investors' flight to quality and liquidity creates an environment of predator and prey
- ❖ Circumstances that could potentially impede such an M&A wave:
  - Continued volatility
  - Rapid price recovery