Acquisitions & Divestitures, When Will the Dam Break?

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January 22, 2016

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Overview of EnCap Investments L.P.

- Founded in 1988, EnCap is a leading provider of growth equity to the upstream and midstream sectors of the U.S. oil and gas industry
- Raised and managed aggregate capital commitments of over $27B across 19 funds from an investor base that consists of 300+ institutional investors from 15 countries
- Investment strategy revolves around partnering with management teams comprised of seasoned oil and gas executives with demonstrable track records of success
- Capital provider to 227 oil and gas companies over the last 27 years
- Investment philosophy calls for equal emphasis on capital preservation and value creation; does not rely heavily on leverage
- 66 current portfolio companies (45 upstream and 21 midstream) in the most economically advantaged basins across the U.S.

EnCap Energy Capital Fund X

$6,500,000,000

Private Equity

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April 2015

EnCap Flatrock Midstream Fund III

$3,000,000,000

Private Equity

EnCap Flatrock Midstream

May 2014

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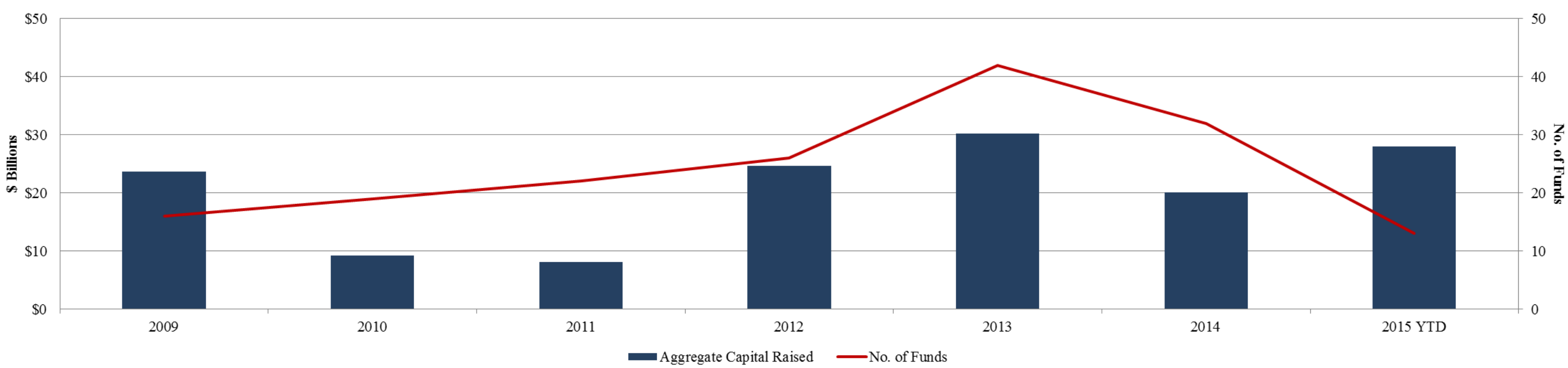
EnCap Has a Track Record of Investing Across Multiple Hydrocarbon Price Cycles

- Partnering with the best management teams, focusing on the most economically advantaged plays, and being adaptable to changing market conditions is key to success
- 168 realized investments since inception have generated consistent returns through the cycles

Increased Focus From Private Equity

- Significant amount of private equity has been raised over the past several years looking for opportunities to invest in energy
- Large private equity generalist groups beginning to invest in the energy sector but not embracing the "start-up" model

Natural Resource Private Equity Fundraising

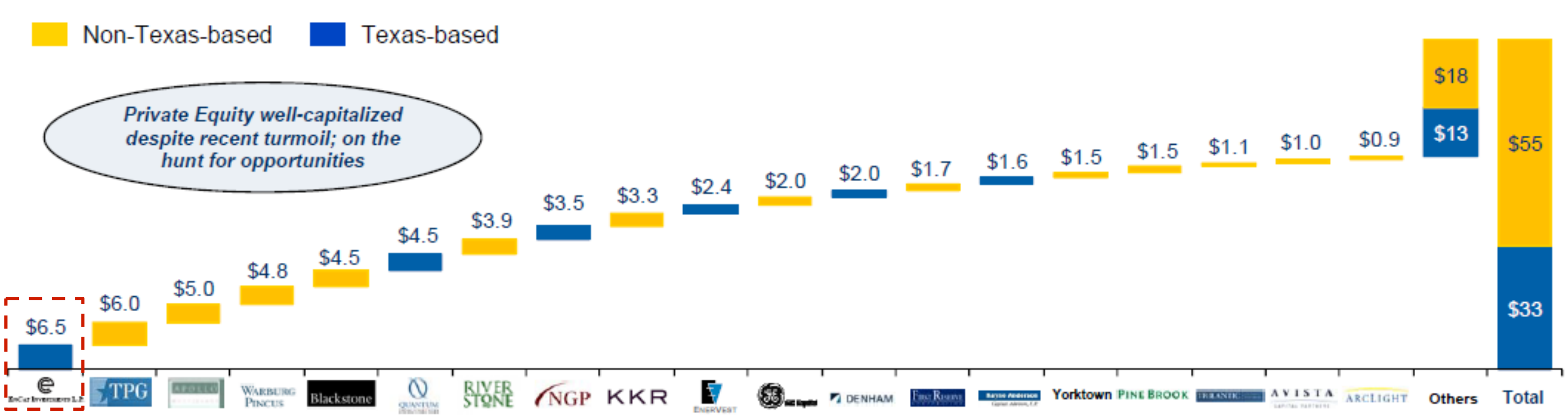


Source: Preqin Private Equity Spotlight

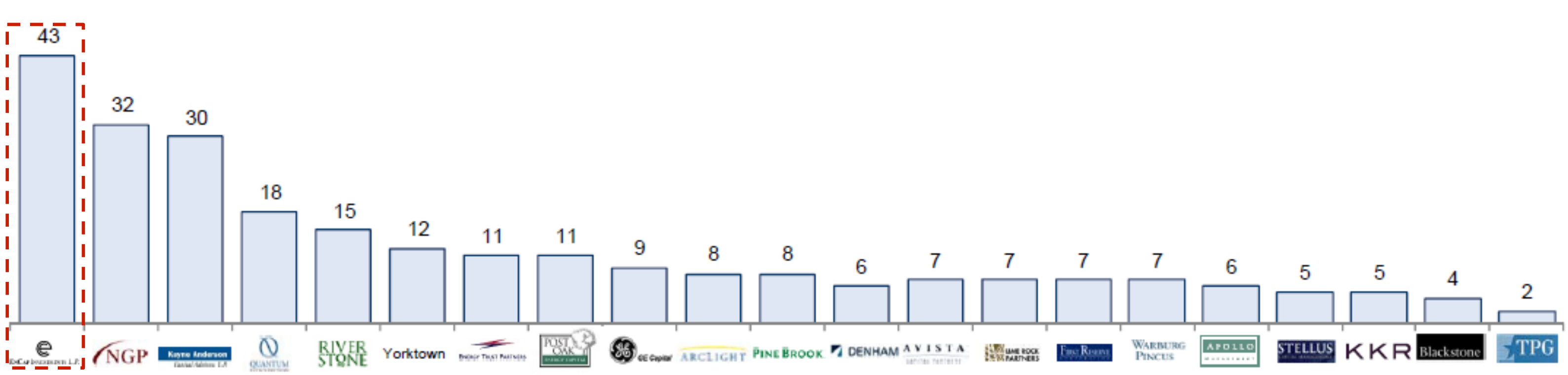
Currently an Unprecedented Amount of Private Equity Capital Focused on U.S. E&P

- Significant amount of private equity capital available to take advantage of opportunity when the "dam breaks"

Financial Sponsors Increasingly Active In The E&P Space – ~$85+ B In E&P Focused Capital



Financial Sponsor Universe – 250+ Total U.S.-Focused E&P Management Teams

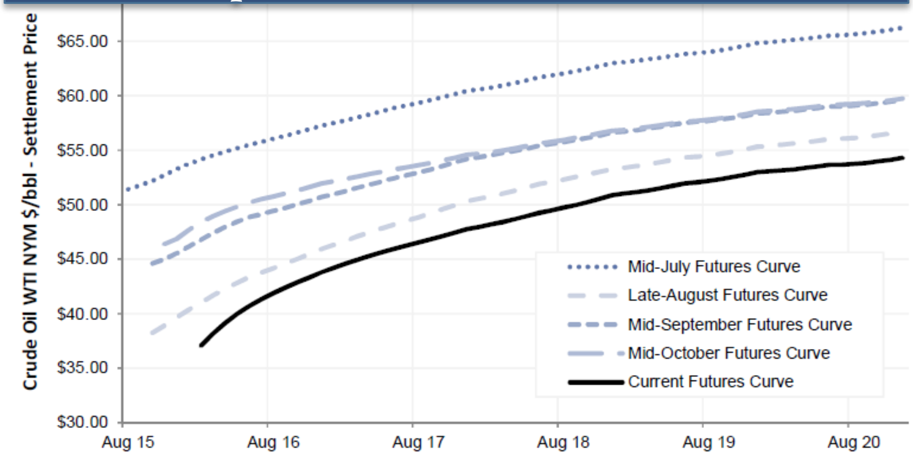


Source: RBC Richardson Barr proprietary database. Note: Certain figures above may represent RBC estimates.

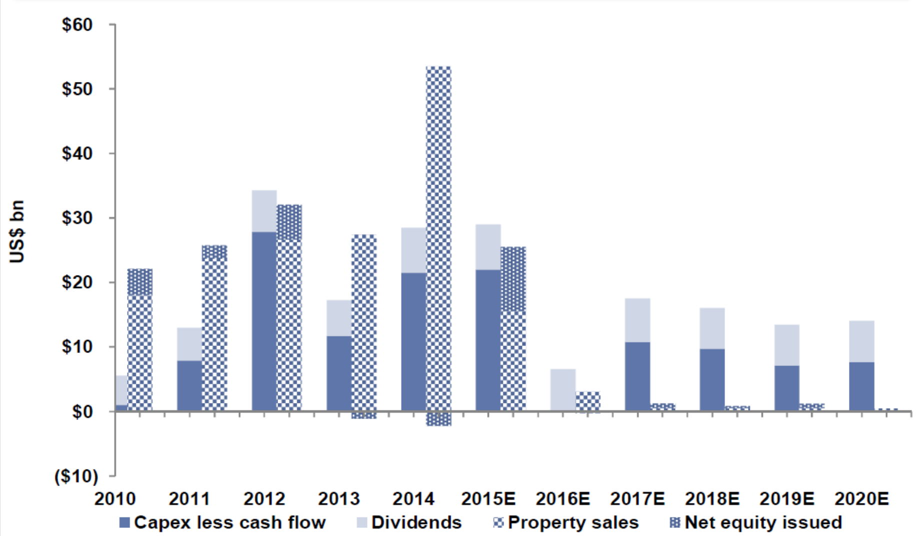
Financial Stress Will Eventually Break the Dam

- WTI futures rallied during September and October, lessening the Fall 2015 borrowing base redetermination headwinds
- Prices have since resumed their decline, creating the potential for significant reductions in borrowing bases this spring if prices remain at current levels
- E&Ps will continue to outspend cash flow, which requires a combination of liquidity drawdown, asset sales, and equity issuance to fund the gap
- Many E&Ps are living on borrowed time in the current price environment; as liquidity dries up and equity markets remain closed to all but the highest quality issuers, E&Ps will eventually be forced to sell assets
- Increased asset supply should narrow the bid-ask spread and allow transactions to clear at prices that better reflect current conditions
- In short, **mounting financial stress will eventually break the dam**

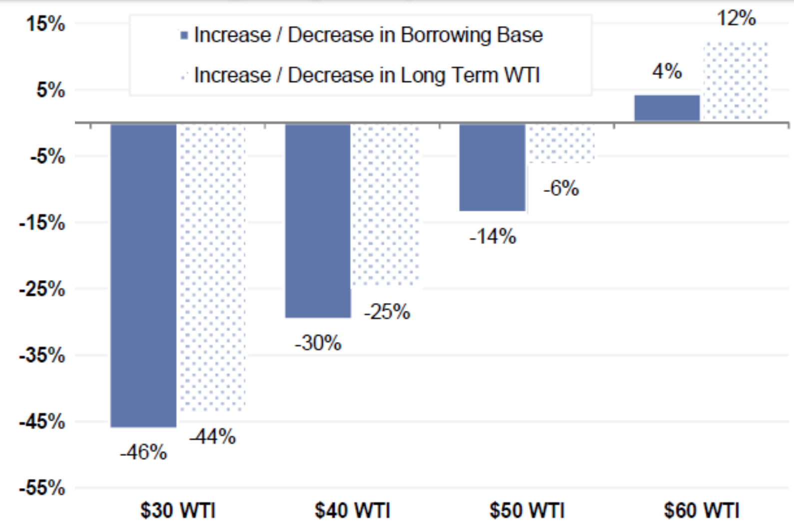
Strip Prices Continue to Decline



Outspending Will Force Divestitures



Shrinking Liquidity at Current Prices



Source: Goldman Sachs

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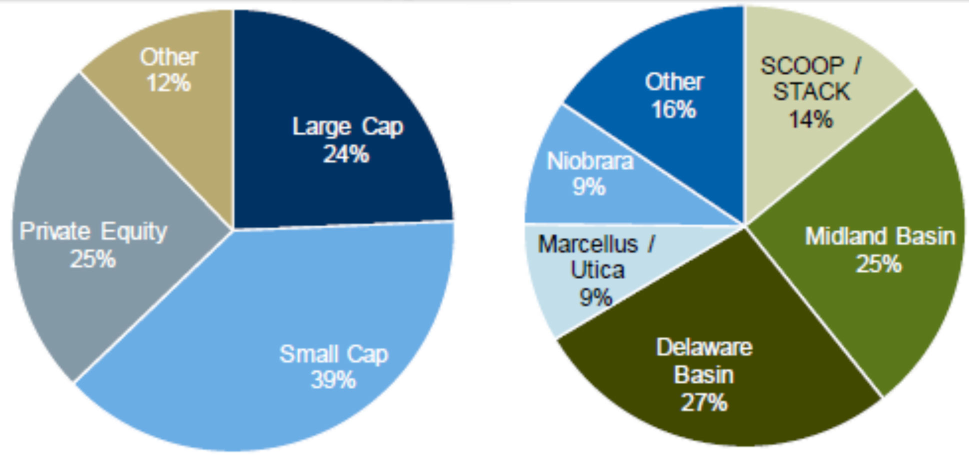
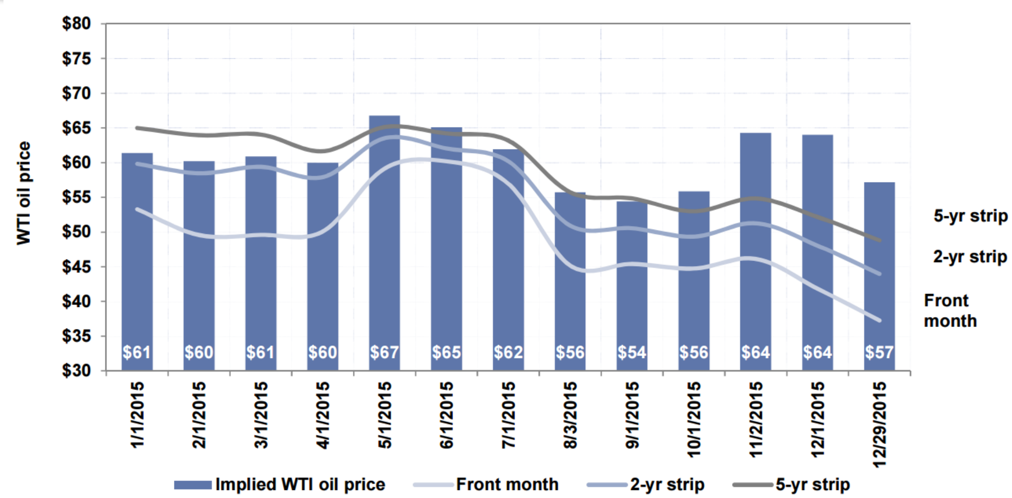
Current Market Dynamics for Property Transactions

- Large bid-ask spread between buyers and sellers continues to preclude asset transactions from occurring in high volumes
  - Current strip prices result in low PDP values and zero PUD value except in the very best plays
  - As a result, it is difficult to place value on acreage based on NAV without betting on higher prices
- Implied oil price in public E&Ps is significantly higher than current prices
  - Public E&Ps can underwrite asset acquisitions to higher values and issue equity at accretive valuations to fund the acquisition
  - Results in acreage values remaining elevated in basins where pure play E&Ps can equity fund transactions
- Scarcity premium being placed on the most economic basins
  - Buyers of assets have sought shelter in the highest quality basins that offer the most compelling drilling economics
  - Increased demand for assets in the Permian and Mid-Continent (66% of all resource play transactions in 2015)
  - Permian acreage valuations have not declined despite the collapse in commodity prices

2015 Asset Buyer Type and Basin Concentration[1]



Historical Implied Long Term WTI Prices in E&Ps[2]



[1] Source: RBC Richardson Barr
[2] Source: Goldman Sachs

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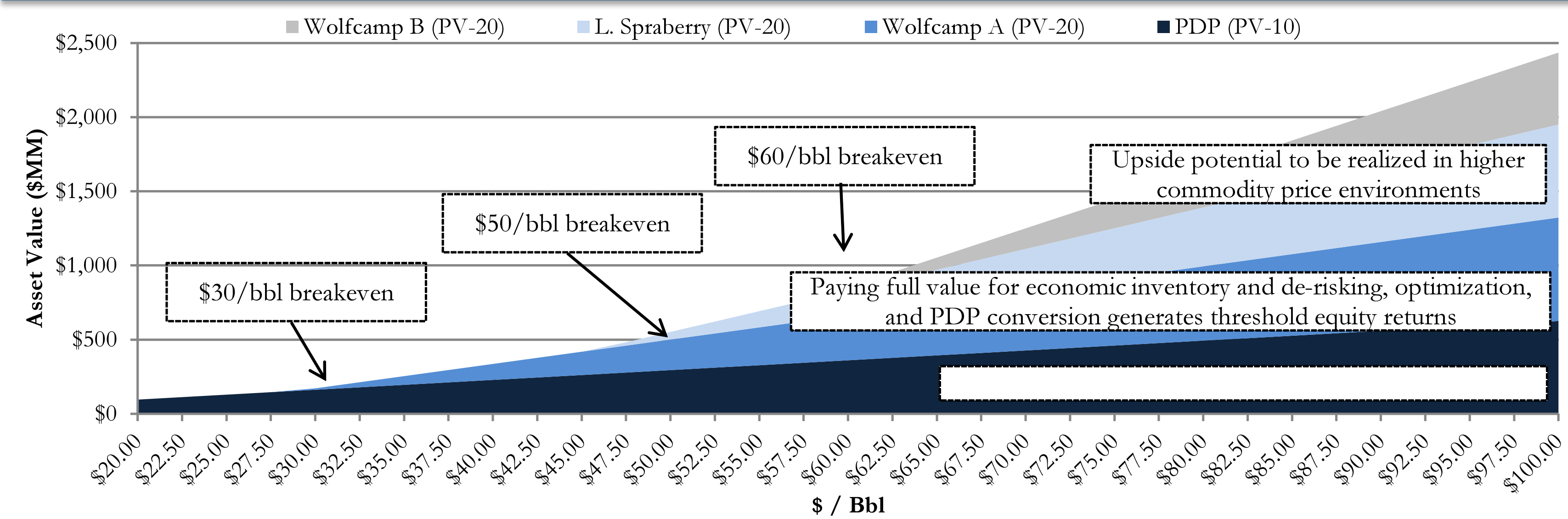
Private Equity Perspective on Investing in Today's Market

- Acquisitions will be largely underpinned by PDP value as there is limited PUD, Probable, or Possible value at today's prices
  - Utilizing leverage and hedges locks in a return from PDP that, though below equity returns, provides a base level, low risk return
- Economic drilling inventory is limited in today's low price environment, but private equity buyers are willing to pay full value (PV-20 to PV-25) for de-risked drilling locations
  - Look for upside to de-risked economics through cost reductions, improved completions, and change in landing zone
  - Executing on development and converting PUDs to PDP can result in achieving threshold equity returns; realizing efficiencies and/ or improved well results lead to returns in excess of equity targets
- Private equity buyers seek assets with "option value" through stacked pay that becomes economic at higher prices or that has the potential to become economic at current prices through efficiency realizations
- Need line-of-sight to earn equity returns at current prices, but willing to be aggressive on other assumptions (type curve uplift, efficiency improvements, etc.) in order to gain exposure to a commodity price recovery

Illustrative Midland Basin Asset Valuation

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