
Managing Debt in Troubled Times – Surviving 2016

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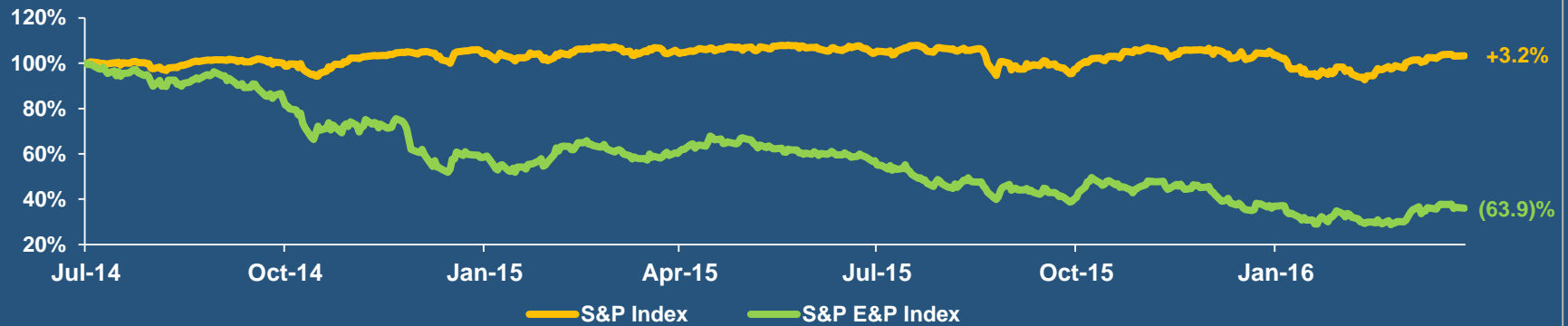
Market Overview

2016 Market Environment

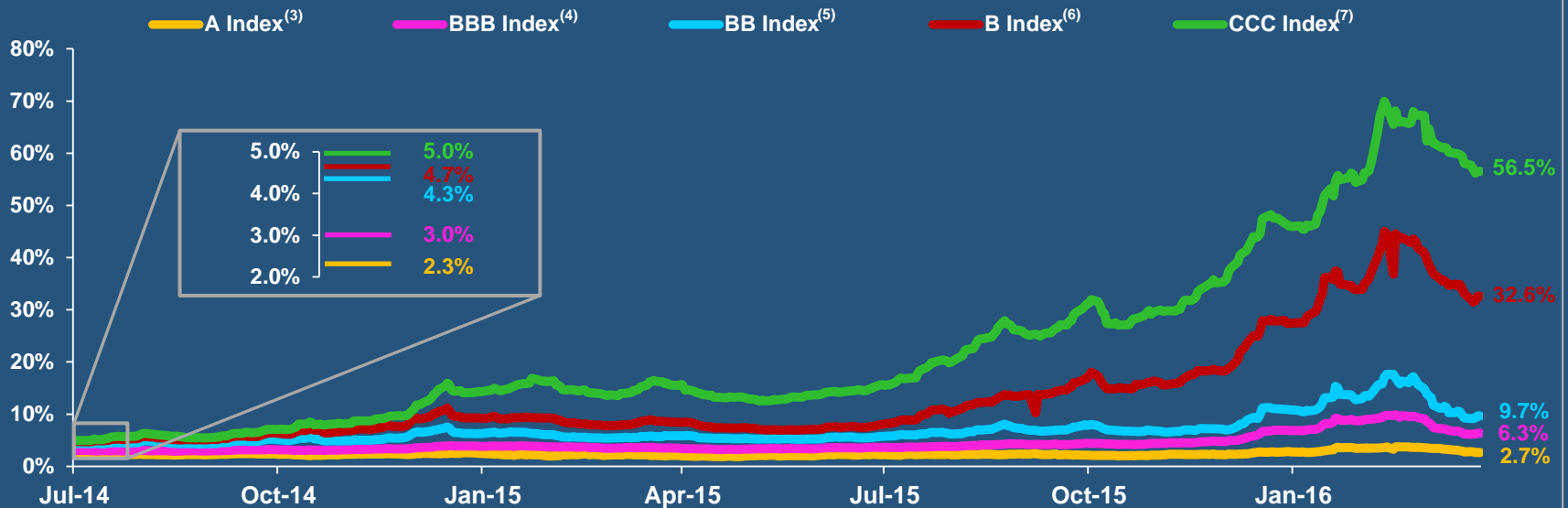
- **Market conditions forcing all E&P companies to actively evaluate strategies to manage through the downturn**
- **World oil is oversupplied, but oil price may be off its bottom**
 - US rig count at record low
 - Near term future depends on wildcards such as OPEC / Russia production agreement, Chinese demand, Iranian production
 - Prudent to plan lower for longer with record worldwide oil storage
- **US natural gas is also oversupplied**
 - Storage at 5 year maximums, new supplies being added in major plays
 - Current price below marginal cost
 - Growing demand from LNG exports, manufacturing boom, switching from coal, and exports to Mexico
- **With continuing low commodity prices, active balance sheet management and access to capital is critical**
 - Financial markets are extremely cautious - equity markets open for select issuers, debt markets very tight
 - Commercial banks hard to predict, under pressure from regulators
 - Rating agencies downgrading much of the industry
 - Companies becoming more proactive in restructuring, shifting from up-tiered exchanges to pre-emptive revolver draws and pre packaged Chapter 11
 - E&P companies increasingly focused on asset sales as a source of capital to maintain liquidity / reduce leverage
- **So far, 2016 has seen a continuation of the slow A&D market we saw in 2015; second half of 2016 should be much more active**

State of the Public Equity and Debt Markets

E&P Equity Index Performance ⁽¹⁾



E&P Debt Index – Performance by Credit Rating ⁽²⁾



Source: CapIQ as of 3/28/16.

(1) Normalized to 7/1/2014 index value.

(2) Yield indices illustrate weighted average yield based on size of issuance.

(3) A Index includes issues from COP, EOG and OXY.

(4) BBB Index includes issues from APC, APA, XEC, CLR, DVN, ECA, EQT, MRO, MUR, NFX, NBL, PXD and SWN.

(5) BB Index includes issues from AR, CXO, EGN, QEP, RRC, SM, WLL and WPX.

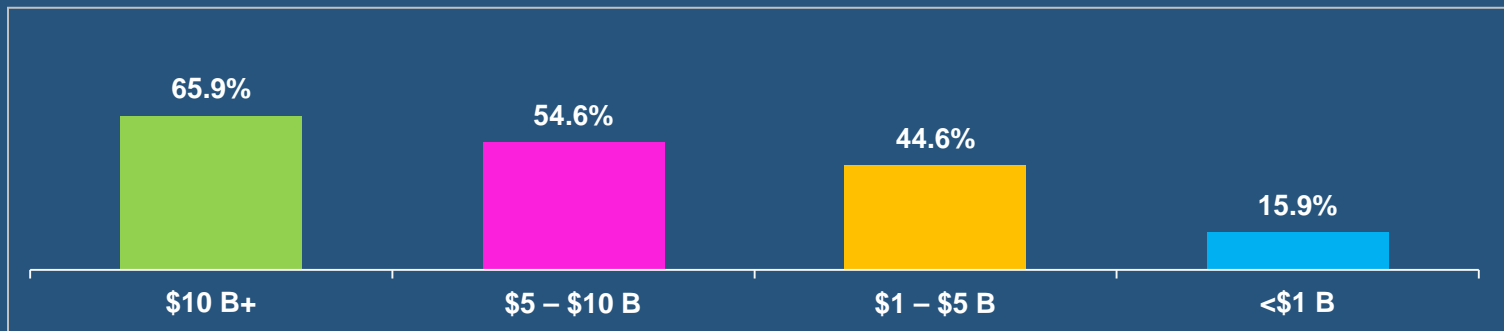
(6) B Index includes issues from AREX, CRZO, DNR, FANG, EPE, EVEP, GPOR, LPI, LGCY, LINE, MTDR, MRD, NOG, OAS, PE, PDCE, RICE, RSPP, SN, SGY and UPL.

(7) CCC Index includes issues from ALTA, AEPB, ARP, BBG, BCEI, BBEP, CRC, Chaparral, CHK, CWEI, CRK, EXXI, LNREF, MMEP, MPO, REN, TPLM, VEN and WTI.

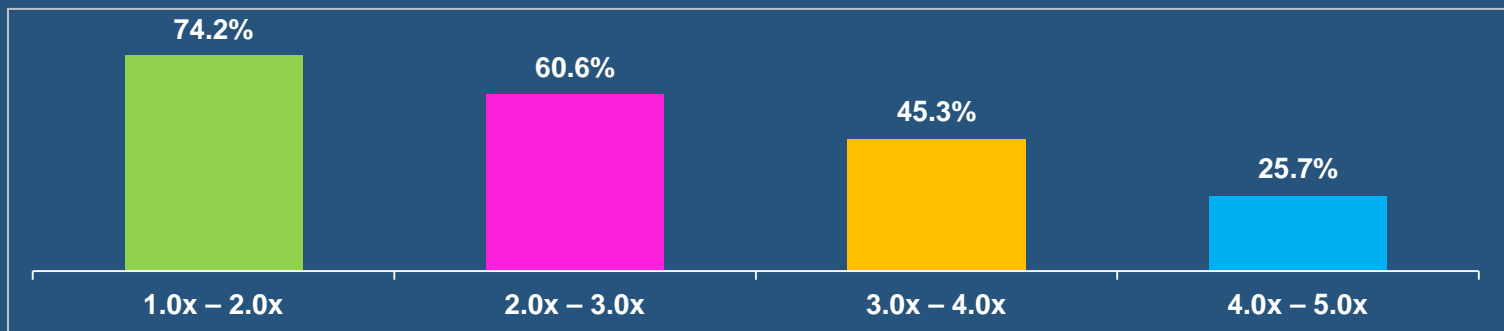
E&P Equity Performance Related to Relative Health

Stock Price as % of 52 Week High

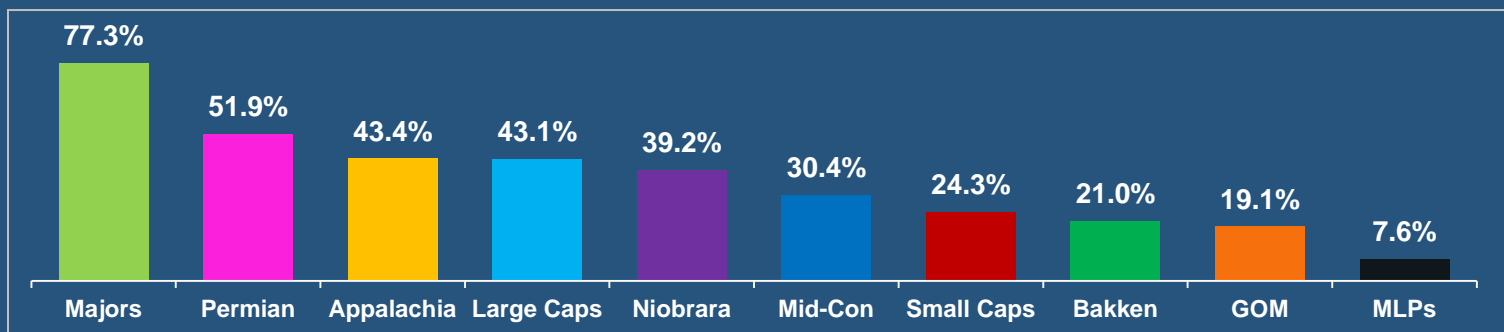
Market Capitalization



Debt / 2016E EBITDA

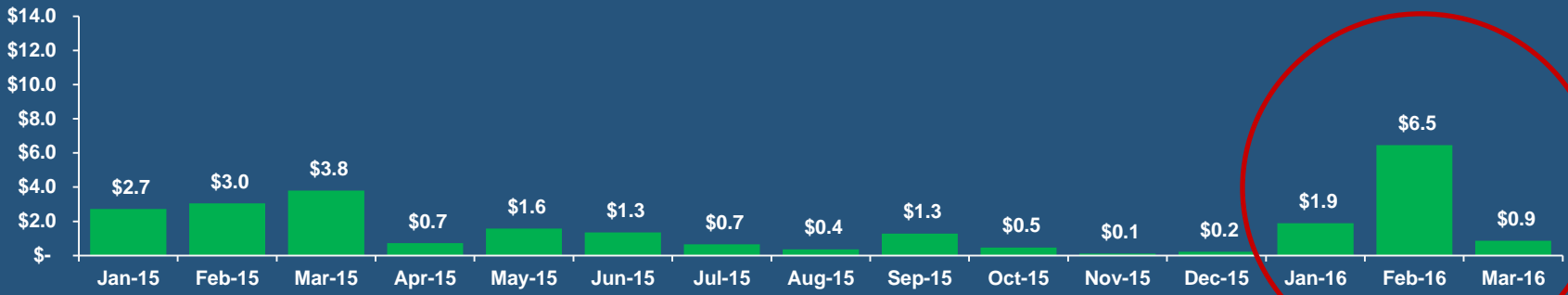


Focus Area / Peer Group

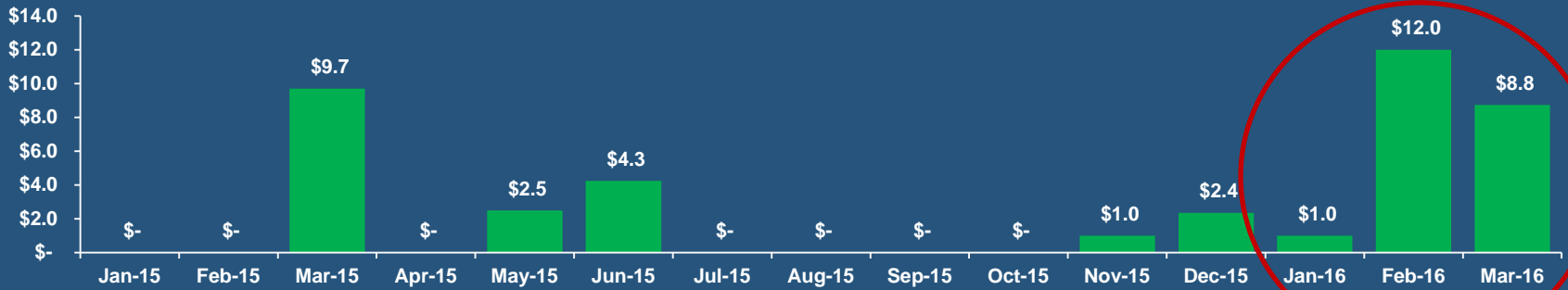


Equity Markets and Debt Markets Partially Opened

Equity Issuances (\$MM)



Investment Grade Debt Issuances (\$MM)



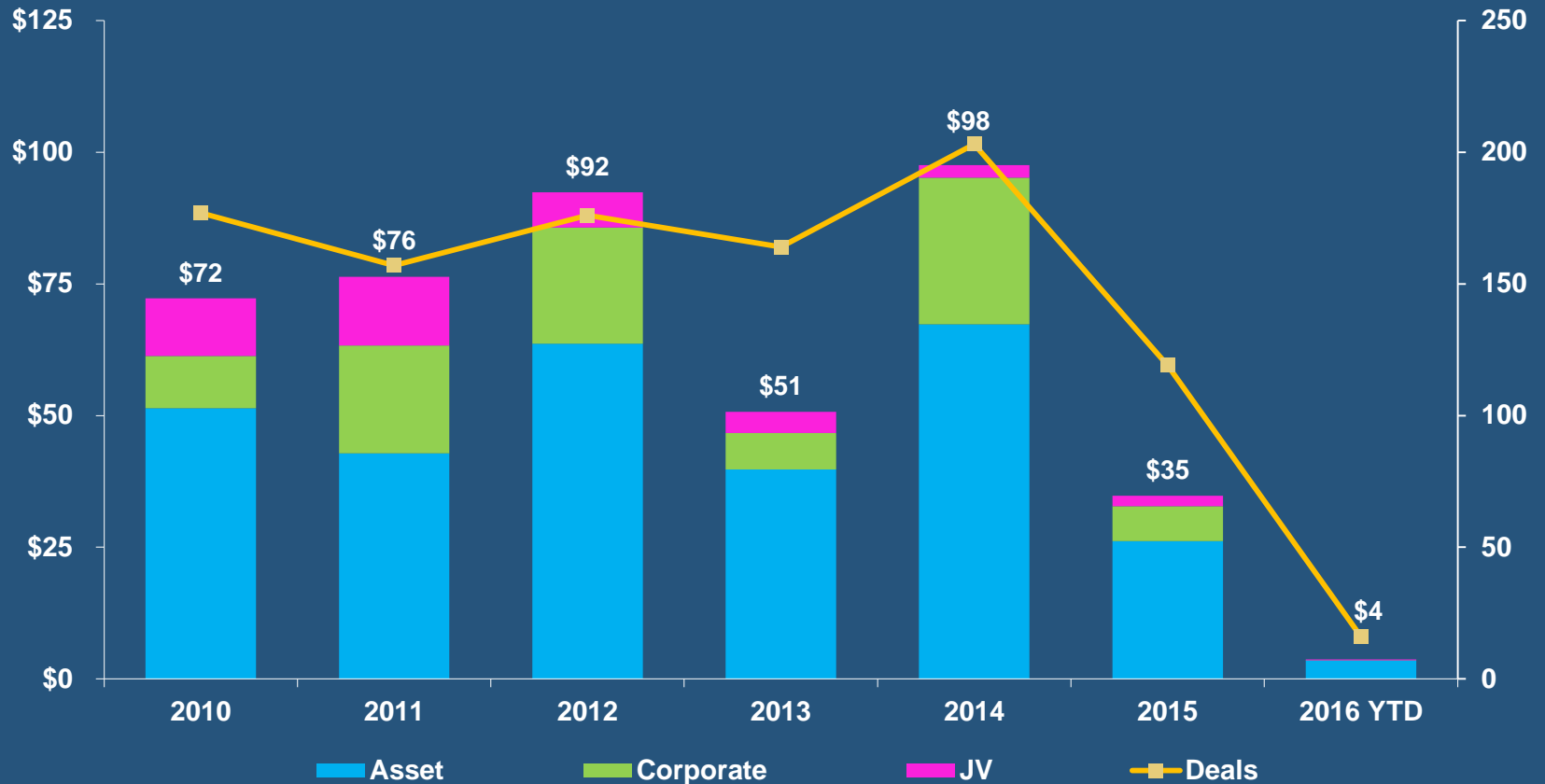
HY Debt Issuances (\$MM)



Source: Wall Street Research and Company filings.

M&A Activity Down Dramatically in 2015; Will it Pick Up in 2016?

U.S. E&P M&A Deal Volume Since 2010 (\$B)



	2010	2011	2012	2013	2014	2015	2016 YTD
Avg Asset Deal Size (\$MM)	\$327	\$306	\$400	\$274	\$370	\$232	\$264
Deal Count	178	161	176	163	203	119	16

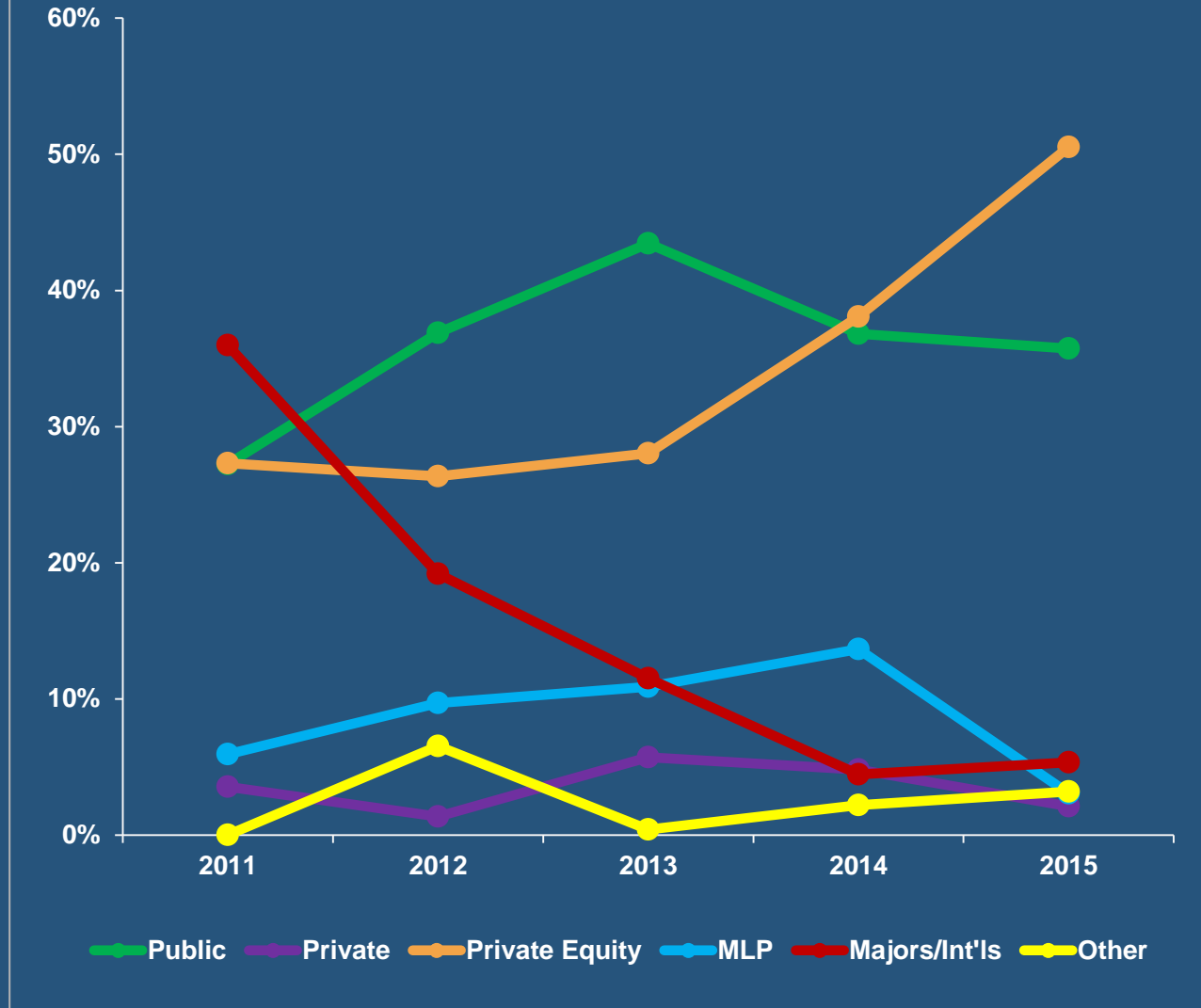
Source: Jefferies internal transactions database.

A&D Market Participation by Sector – Who’s Buying?

Key Points

- Private Equity is increasingly acquisitive and is the most active participant in the A&D market today 
- Publics are capital constrained and lack access to the public capital markets; well-capitalized Publics primarily focused on bolt-ons or strategic play entries 
- Demand from the MLPs down sharply due to sector underperformance, ballooning leverage and lack of access to public capital markets 
- Majors / Internationals struggling to execute shale plays and not as active in A&D today; primarily focused on bolt-ons in core areas 
- Privates and other “non-traditional” buyers are 

Total E&P A&D Transactions by Buyer Type



Source: Jefferies internal transactions database
 Note: Figures as of December 31, 2015.

Private Capital Markets are the Primary Source of M&A Financing

Selected Recent Transactions Greater than \$100 MM

Date	Buyer	Seller	Amount (\$MM)	Location	Commentary
03/21/16	Covey Park	EP Energy	\$420	Haynesville	■ Denham
03/01/16	Benefit Street	Rex	\$175	Marcellus	■ Drilling JV with financial partner
02/24/16	FourPoint	Chesapeake	\$385	W Anadarko	■ EIG and GSO
02/10/16	Zarvona	Anadarko	\$105	East Texas	■ Salient Partners
02/08/16	Terra Energy	WPX Energy	\$910	Piceance	■ Kayne and Warburg
01/29/16	Haymaker	Chesapeake	\$128	Multiple	■ Kayne and KKR; royalty deal
01/27/16	Carrier	AWE	\$199	Eagle Ford	■ Riverstone
01/22/16	BlueStone	Quicksilver	\$245	Barnett	■ NGP
01/21/16	Luxe	Endeavor	\$140	Delaware	■ NGP
01/19/16	Bayou City	Alta Mesa	\$192	STACK	■ Drilling JV with financial partner
01/18/16	Silver Hill	Concho	\$290	Delaware	■ Kayne
12/17/15	Laramie II	OXY	\$158	Piceance	■ EnCap
10/15/15	Lime Rock	OXY	\$600	Bakken	■ Lime Rock

Closing Comments

- Deal flow is expected to pick up dramatically in second half of 2016
 - Buyer demand is clearly there
 - Many companies have announced sale programs
 - Capitulation of sellers to the current market continues to build
- Certainty of financing is THE key aspect of being able to close deals
 - Buyers providing varying degrees of financing in hand with bids
 - Financing may consist of equity plus bank debt plus mezzanine or other financing
- Private capital will continue to play a big role in M&A and restructurings
- Liquidity is a focus for companies trying to overcome weak cash flows and limited capital budgets
 - Continuously thinking about choices of asset sales vs. public debt or equity raise vs. private capital vs. cost cutting