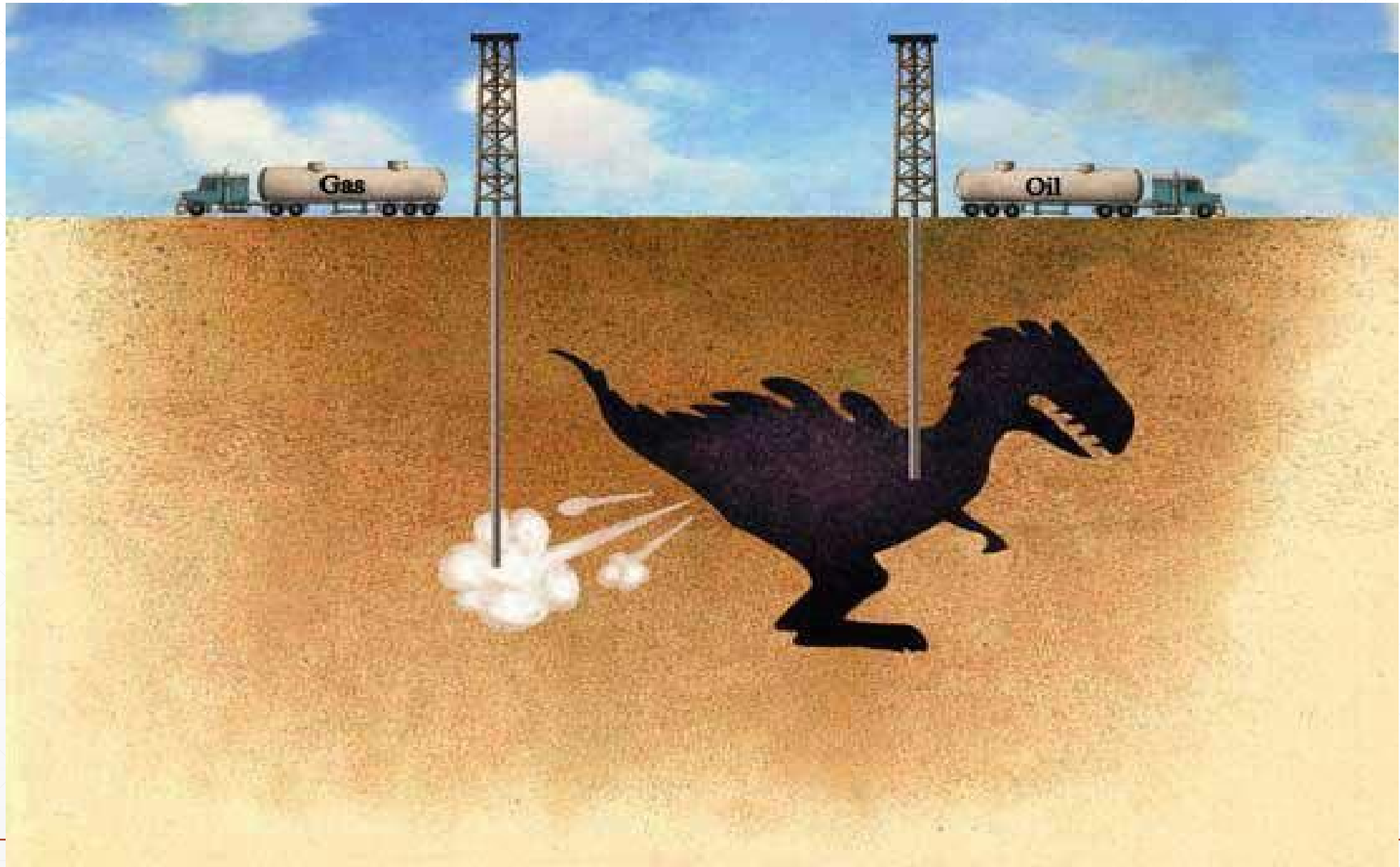


Oil and Gas Private Equity

OCAPL – 10.02.2017

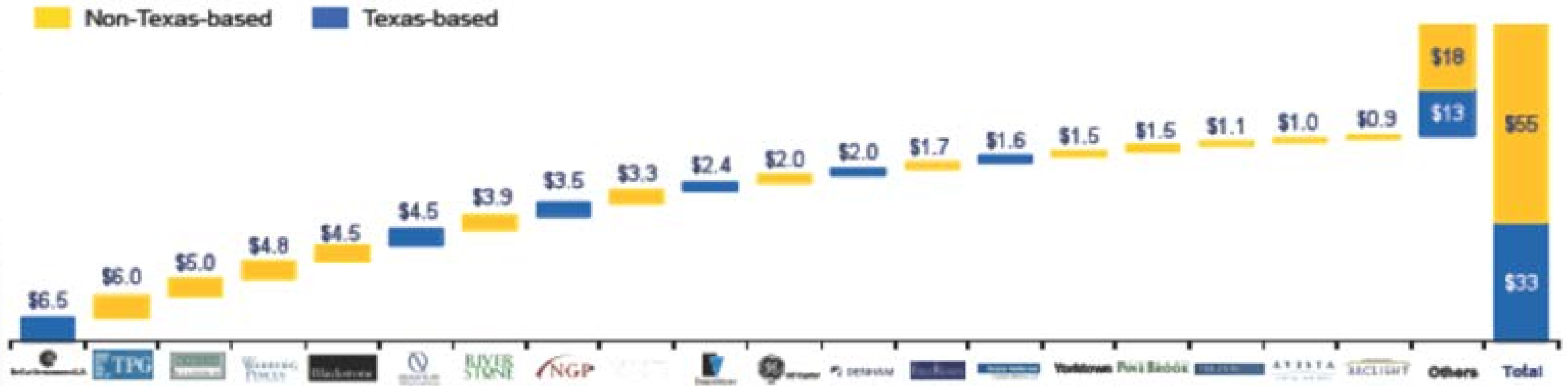


What is it?

- Capital outside of the public exchange
 - Direct investments in:
 - Private companies
 - New teams with a plan or opportunity
 - Buyouts of public companies
 - Existing opportunities, private or public
 - Distressed assets or debt
 - Mostly consists of institutional and accredited investors
-

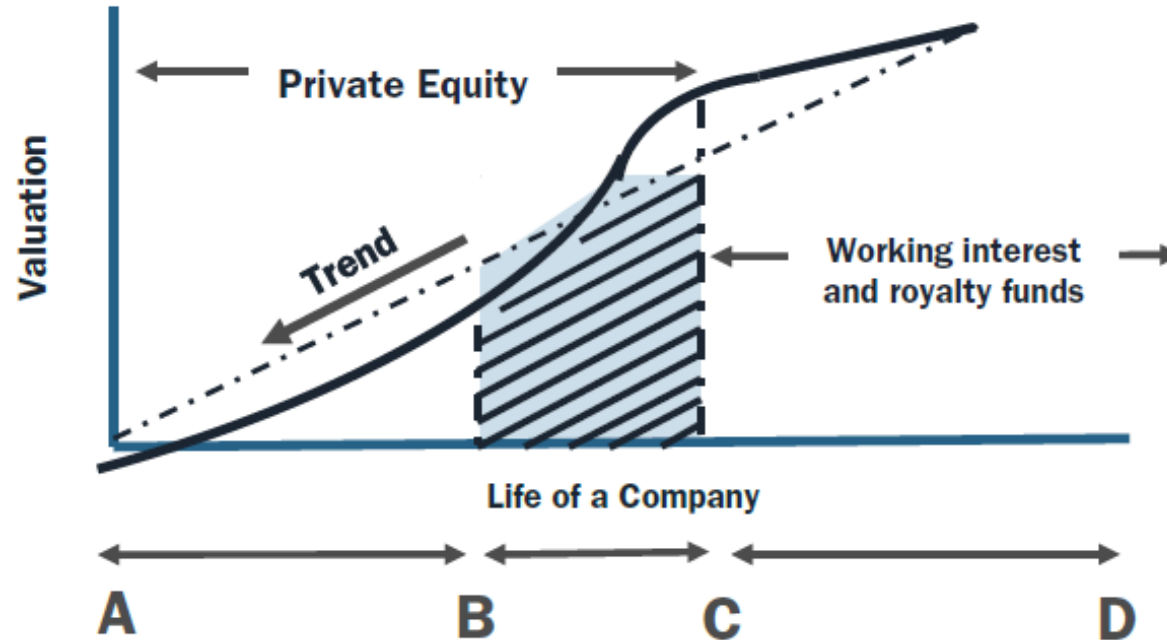
How much money is out there? Most say over \$100B

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



Source: RBC Richardson Barr

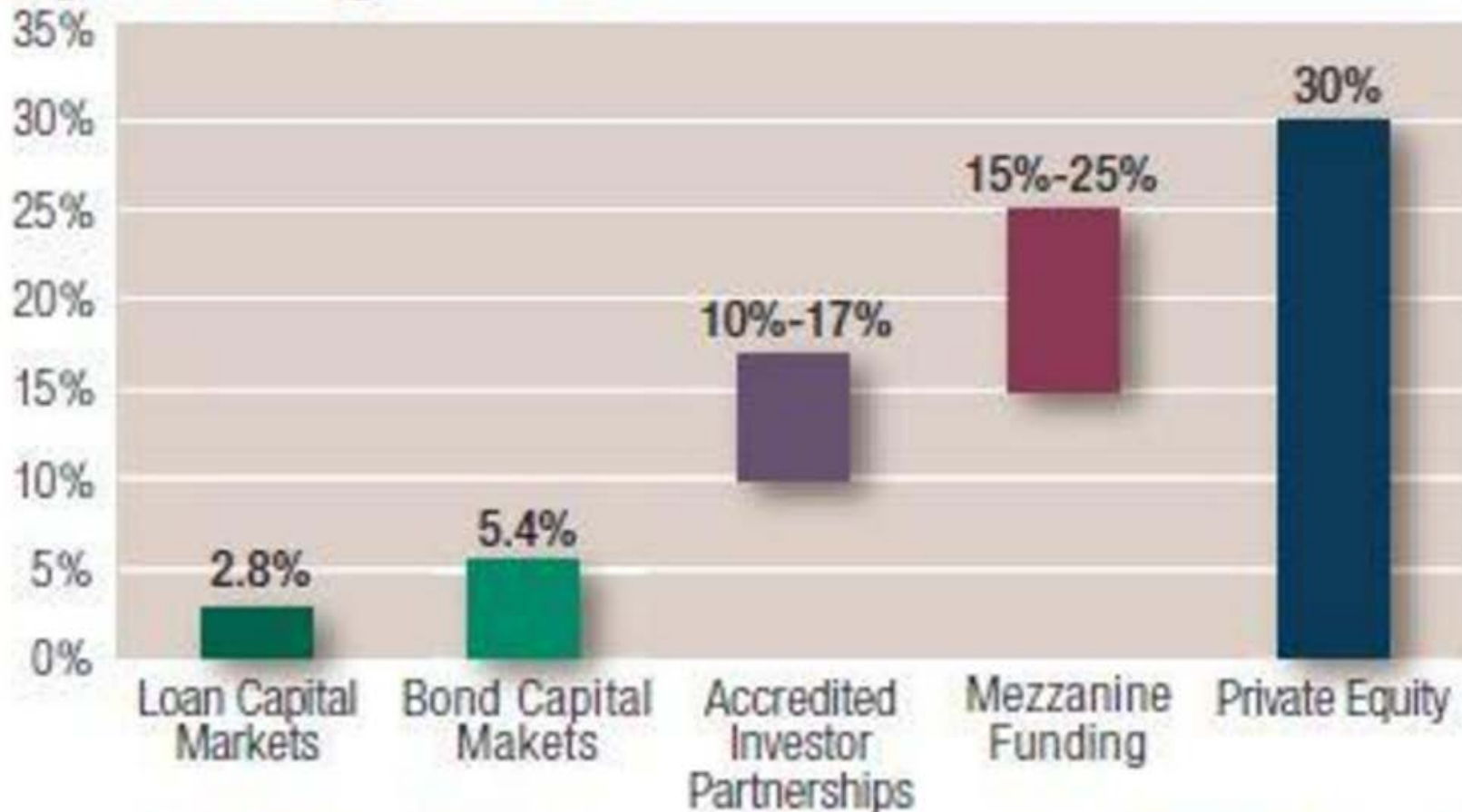
Upstream Private Equity Model



Risk Level:	High	Medium	Low
Primary Risk:	Engineering/ Geology	Operational	Operational/ Pricing
Fund Type:	Private	Private	Mezzanine (e.g. drillco)
Investment Period:	2-6 years	2-4 years	6+ years
Required Return:	30+%	15-30%	10-20%

Upstream Private Equity Model

**Representative Costs Of Capital
By Funding Source¹**



Source: Bloomberg

Upstream Private Equity Strategies

▪ Lease and Drill:

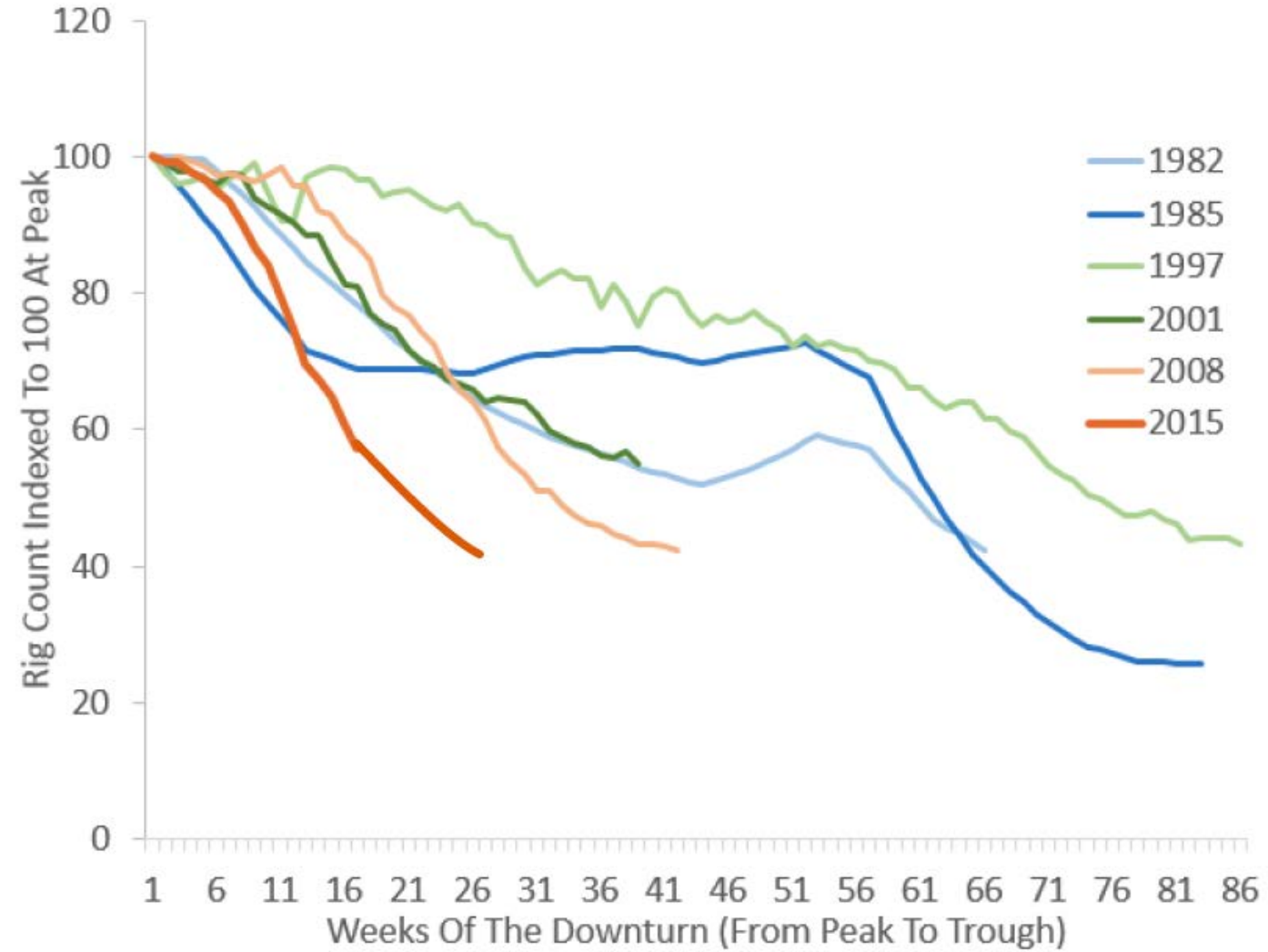
- Acquire prospective acreage
- Prove your investment thesis
- Value Drivers:
 - Commercially available acreage
 - Thesis → Compelling economics
 - Knowing when to stop
- Key Risks/Challenges:
 - Steep learning curve in de-risking
 - Time to derisk
 - Higher downside exposure
 - Emotions (Euphoria thru despondency)

▪ Acquire and Exploit:

- Acquire proven, cash-producing assets with known upside
 - Enhance your base and capital programs, build your scale, and continue to optimize
 - Value Drivers:
 - Scale
 - Upside inventory
 - Cost structure and use of leverage
 - Key Risks/Challenges:
 - Competitive marketplace (overpaying for upside)
-

Uh Oh.....

U.S. Land Drilling Downcycles



Source: Baker Hughes Rig Count

Technology Transfer Opportunity?

- Asymmetric risk and return?
 - Capital constraints → asset availability
 - PEs fill the void with asset purchases → test proven technology
 - IP/EUR uplift → Repeat → Lower costs → \$\$\$\$\$\$ Exit \$\$\$\$\$\$
 - Powder River Basin
 - Prior to 2017:
 - Only 12 of 212 HZ Niobrara wells >5,000 ft. with >1,500 lbs/ft proppant loading
 - Only 5 of 261 HZ Turner wells >5,000 ft. with >1,500 lbs/ft proppant loading
 - Already seeing dramatic uplift and Turner economics **rivaling any play in North America**
-

Themes... Some Emerging

- Still a high-demand for private energy investment – lots of capital on the sidelines
 - Low-cost oil is generally favored, gas is generally not favored
 - Many see opportunities coming, but competition among PEs is sky high
 - Capital markets have bent to help the publics, which narrows the opportunity set
 - Some firms are now considering alternative means to create value
 - But → still a **STRONG** preference for North American energy investments
-

So What?

- I think I mentioned it, but lots of capital on the sidelines
 - More teams/dollars = more participants = more opportunities and/or competition
 - This will impact you in some way
 - OKC is seeing an emergence of new teams and high interest from PE firms:
 - Kayne Anderson, NGP, Encap, TPH
 - And most of the others are actively seeking new teams
-

Thank you

