

Global upstream M&A review

APPEX, London, March 2019



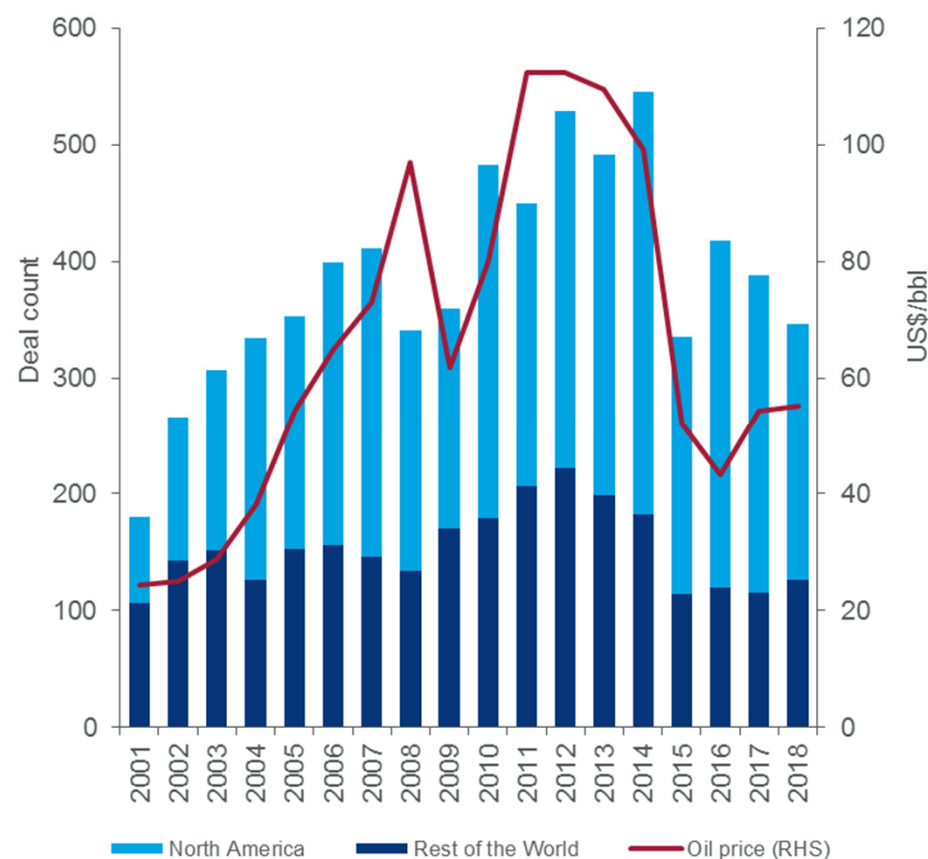
Global upstream M&A review

1. Key trends: deal flow, regions, participants, valuations
2. Outlook for 2019

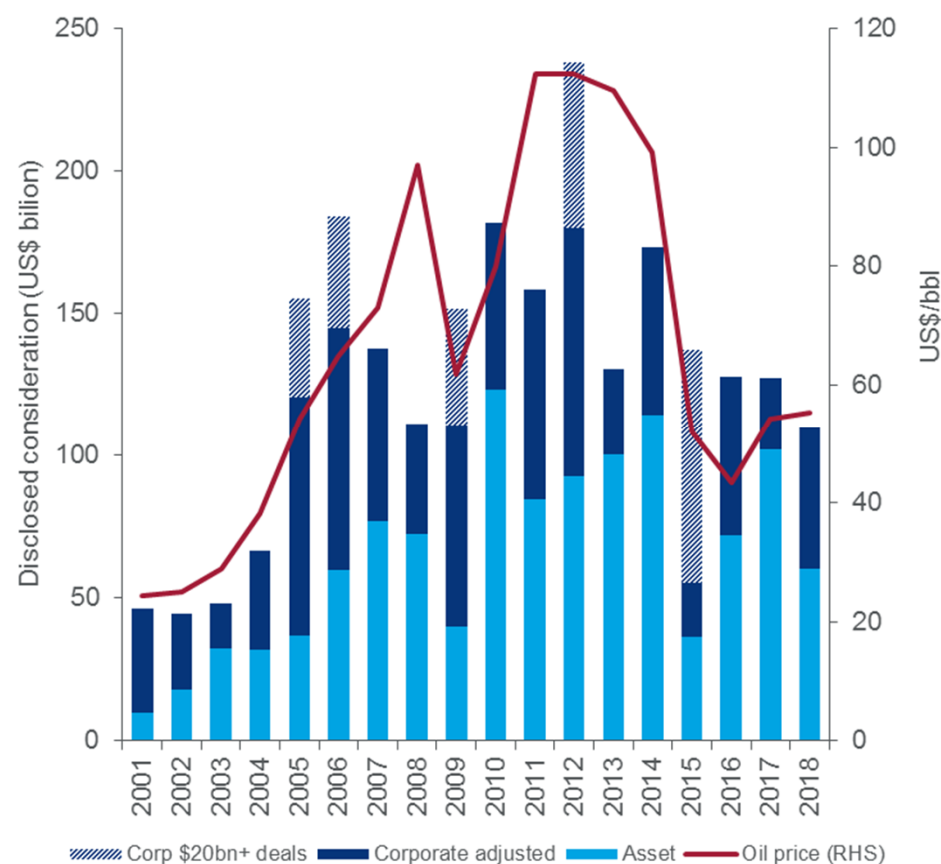
Global deal activity was booming prior to the oil price collapse in late 2014

North American deal flow recovered quickly but has slowed again since mid-2017. Rest of the World activity trending 40% below peak.

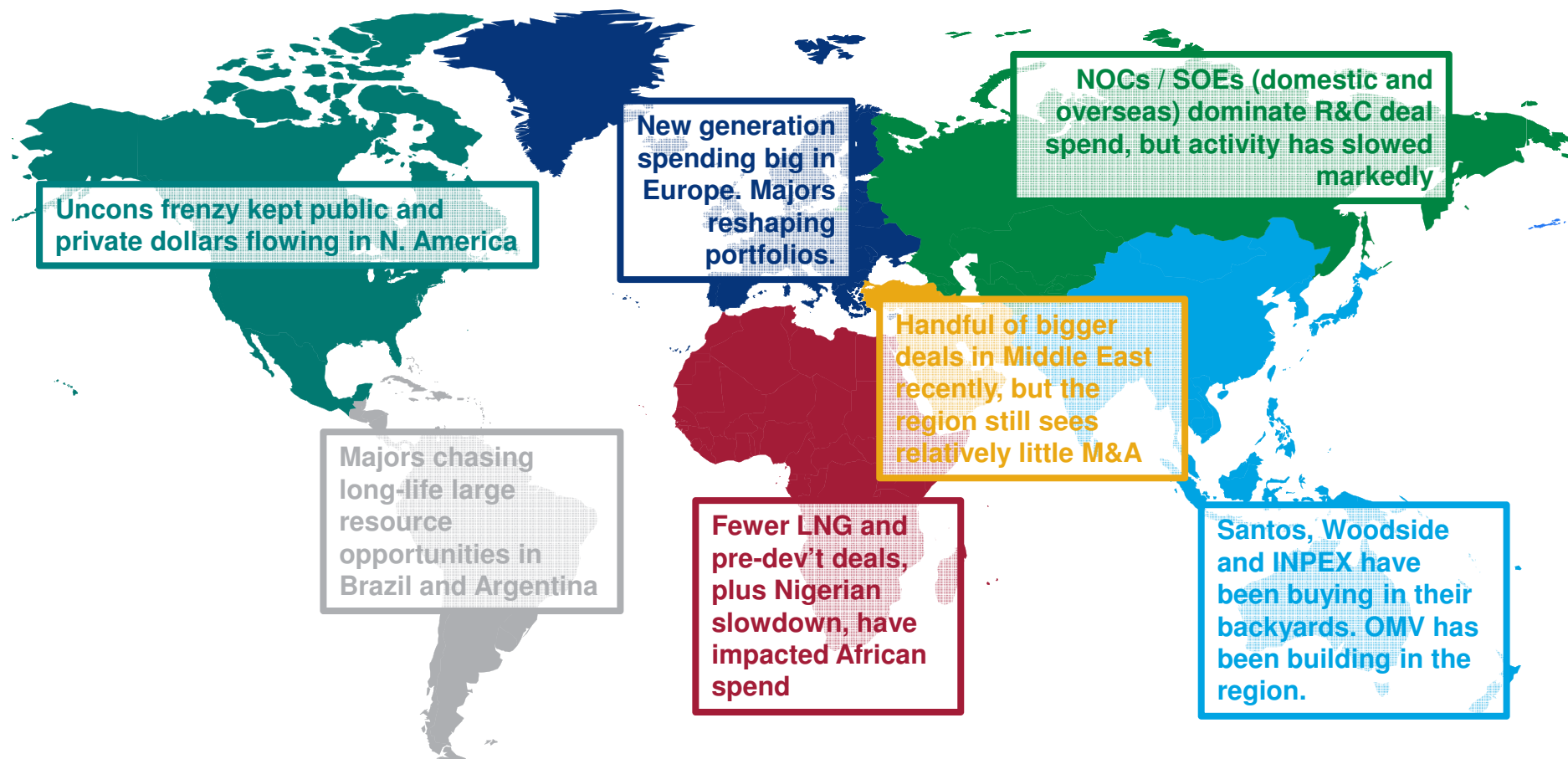
Global deal count, split by primary super-region



Global disclosed deal spend, split by corp. vs asset deals



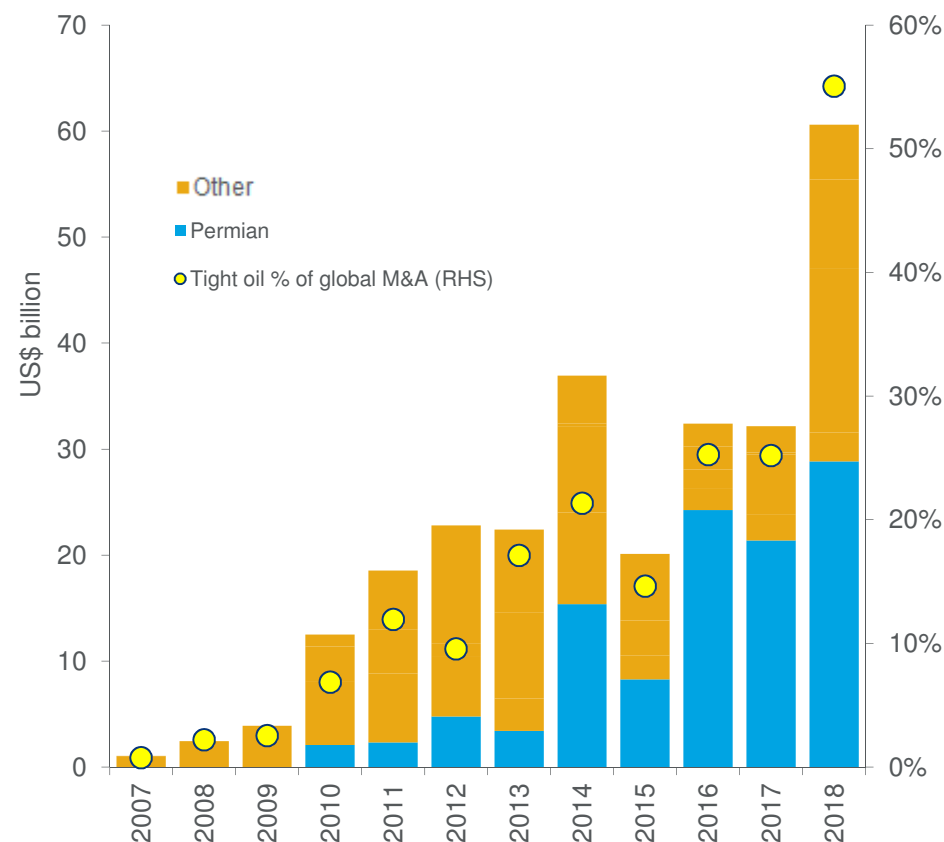
Regional markets moving at different speeds, with different participants



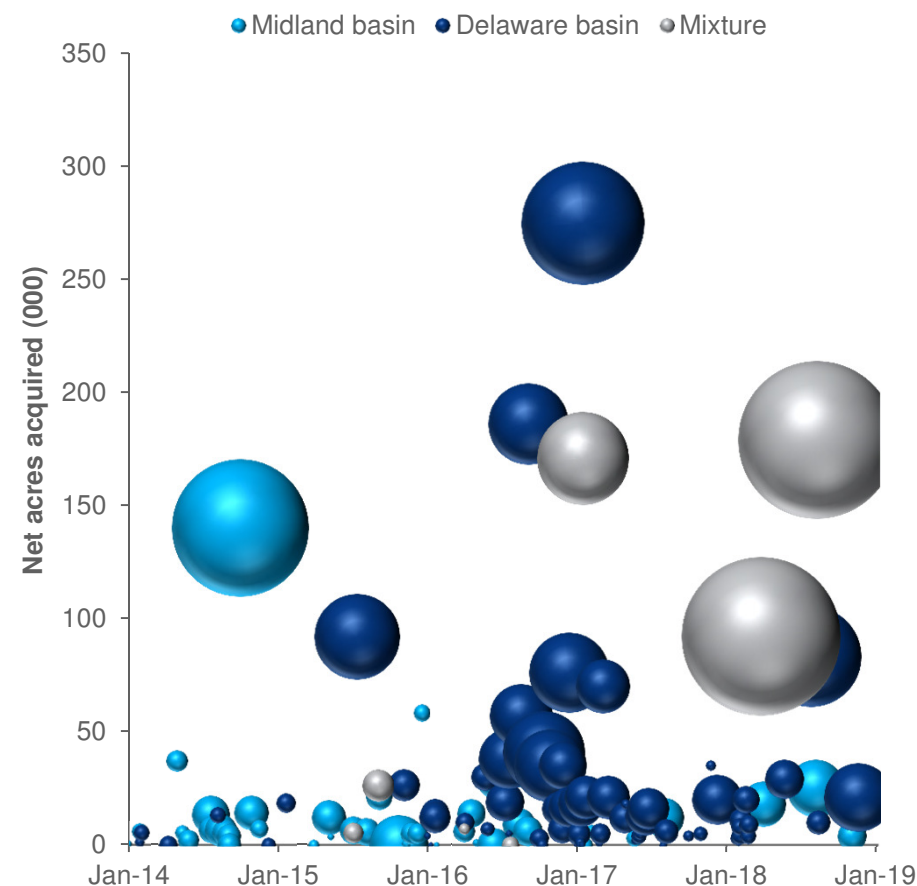
The hot spot: North American tight oil has attracted an increasing share of global M&A dollars

“Permania” of 2016 / 2017 subsided as capital discipline rose to prominence, but corporate consolidation kicked-off in 2018 – across the Permian and other plays

North American tight oil deals: aggregate consideration, by primary play



Permian deals



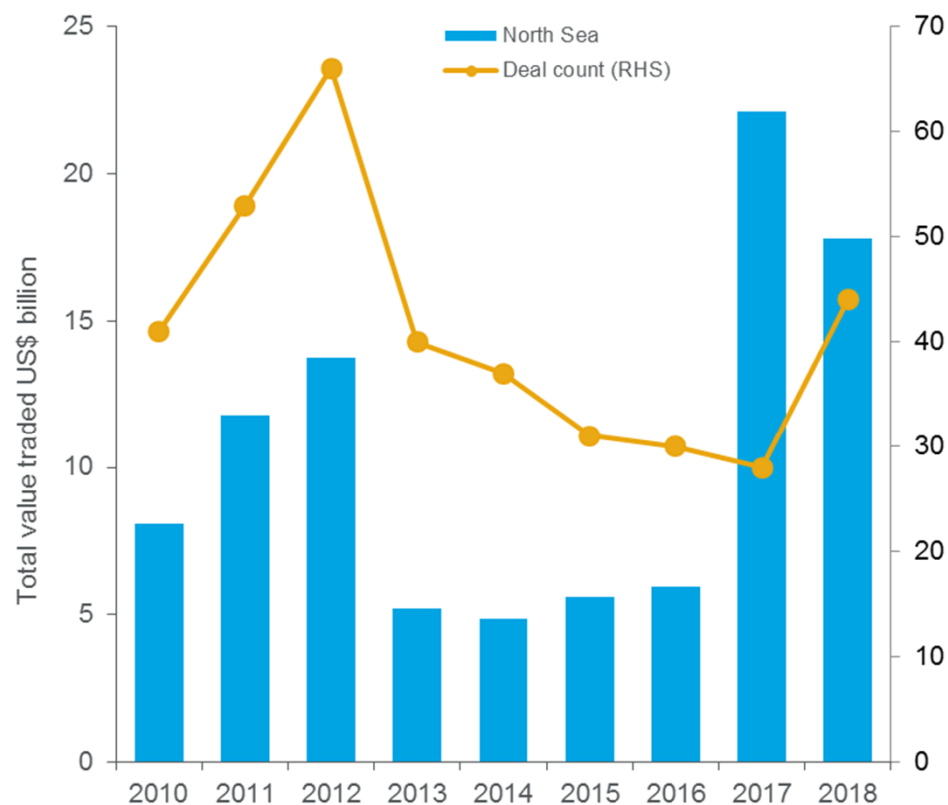
Source: Wood Mackenzie M&A Service

Source: Wood Mackenzie M&A Service. Bubbles are sized by disclosed consideration

North Sea: US\$35 billion of value* traded in last two years

New generation of mid-sized producers mixing it with the Majors, as utilities exit

North Sea M&A spend* vs. deal count



Source: Wood Mackenzie

North Sea 10 biggest deals 2017 - 2018

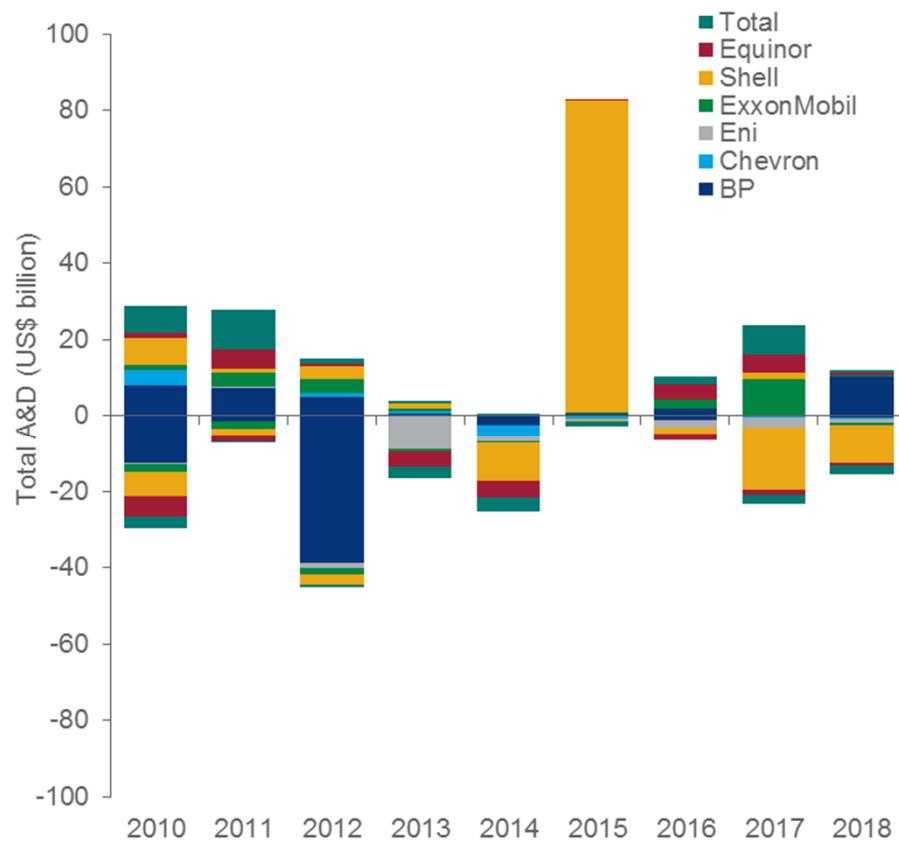
Date	Buyer	Seller	Primary Country	Consideration (US\$M)
Aug-17	Total	Maersk Oil	Norway	4,182 ^{ab}
Jan-17	Chrysaor	Shell	UK	3,000
Jul-18	BP	ConocoPhillips	UK	n/a
Sep-18	Wintershall	DEA	Norway	n/a
Oct-17	Aker BP	Hess	Norway	2,000
Oct-18	Noreco	Shell	Denmark	1,910
Jul-18	Eni	Point	Norway	n/a
Nov-17	Statoil	Total	Norway	1,450
May-17	Neptune	Engie	Norway	1,394 ^{abc}
May-17	Ineos	DONG Energy	Denmark	1,129

Source: Wood Mackenzie. *WM valuation used when no consideration announced. Full deal consideration / value is attributed to Primary country. Merger value is allocated to the company which holds the smaller ownership percentage post-deal. "North Sea" includes all deals with a Primary Country of UK, Norway, Denmark and Netherlands. ^aNorth Sea portion only. ^bWM estimate. ^c70% interest.

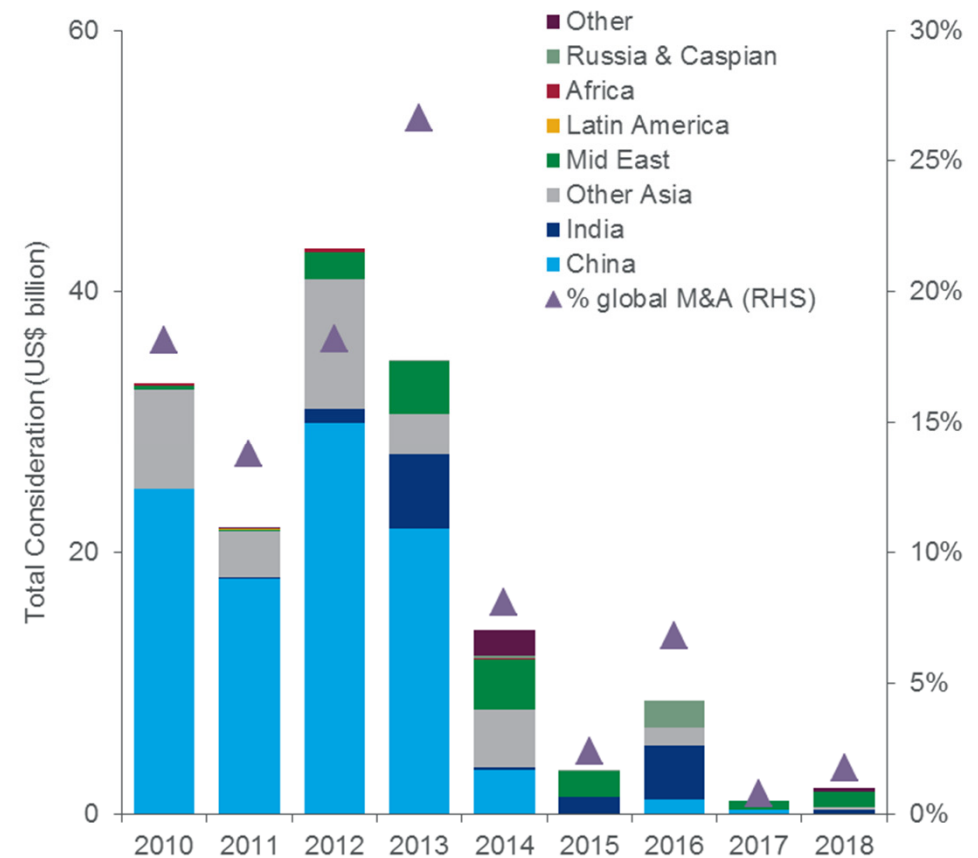
Majors have returned to M&A over the last 3 years; NOCs have not

Chinese NOCs were huge international buyers at start of the decade

Majors' disclosed A&D spend, by company

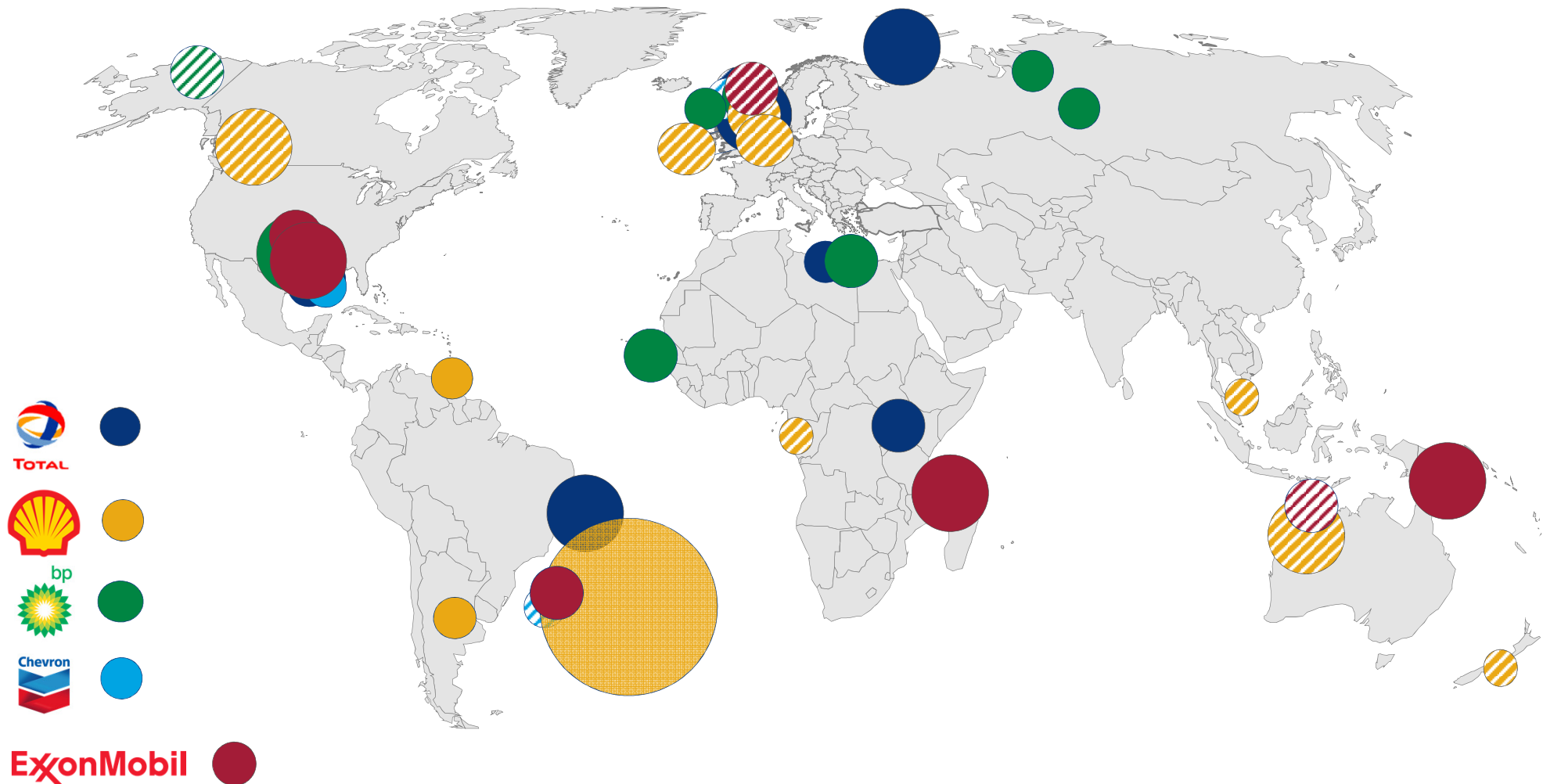


State-Owned Entity (SOE) overseas acquisitions, by SOE home country



Post-downturn, the Majors have mostly focused on managing portfolios towards long-life, low cost growth assets

Majors' A&D 2015 -

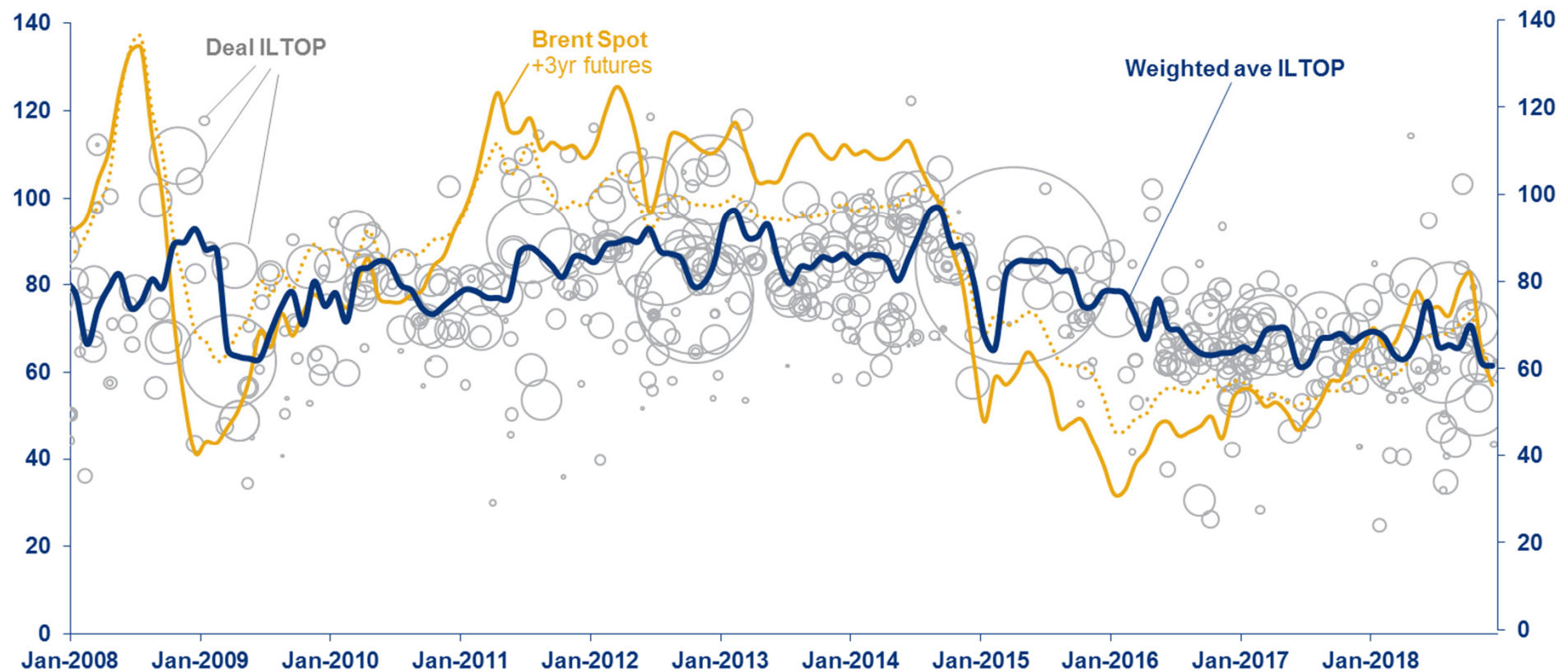


Source: Wood Mackenzie M&A Service. Material A&D moves from start 2015 to end 2018 (not exhaustive: material and/or strategically significant moves only). Hatched lines denote divestments

Valuations: our deal-by-deal modelling suggests long-term Brent price assumptions have settled around US\$60 to US\$65/bbl

Long-term oil price assumptions are more stable than spot prices

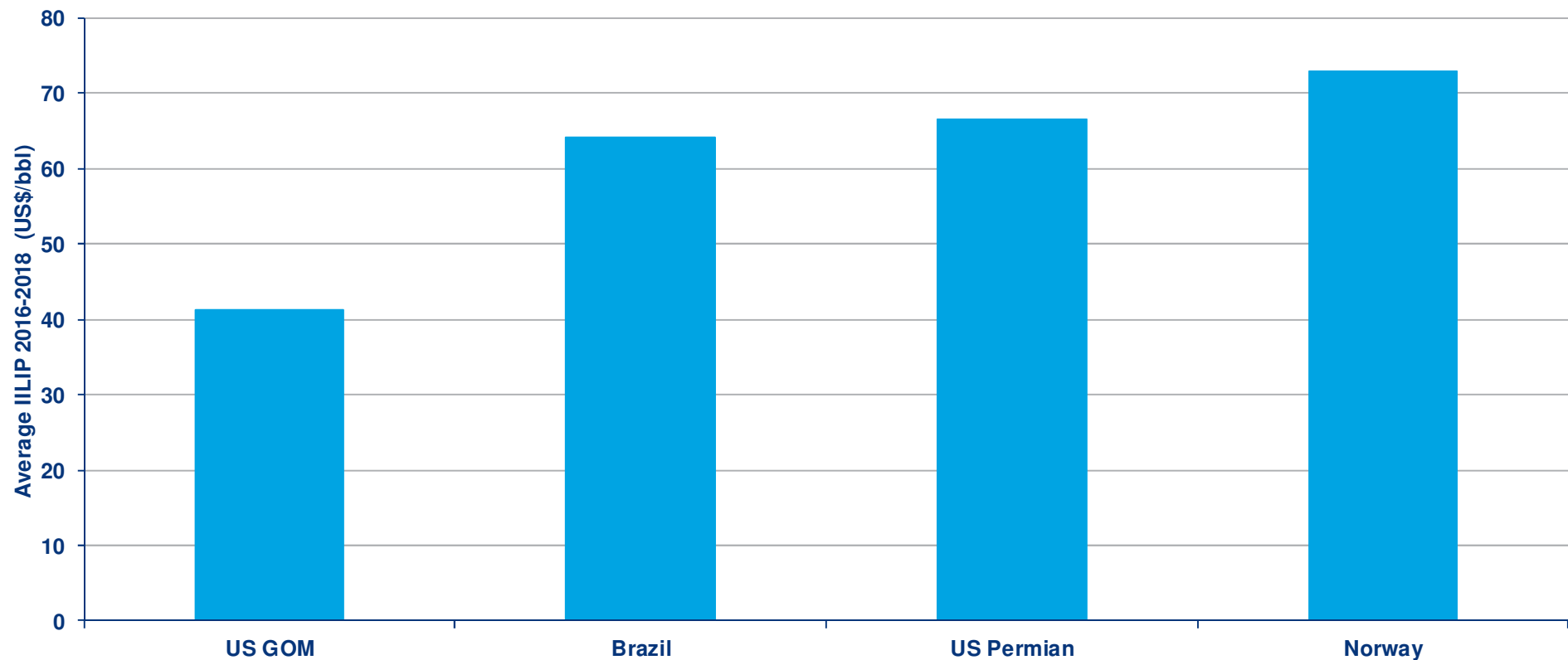
Implied Long-term Oil Price (NPV10): weighted average and deal-by-deal (US\$/bbl)



Valuations: big regional differences in full-cycle M&A economics

Extremes of US GoM and Norway reflect supply-demand factors

Weighted average regional Implied Long-term Oil Price in transactions between 2016 and 2018



Source: Wood Mackenzie. The ILTOP is the long-term real Brent price needed to make a 10% return on the consideration at the time of the deal.

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Outlook: 2019 unlikely to be a bumper year for global M&A

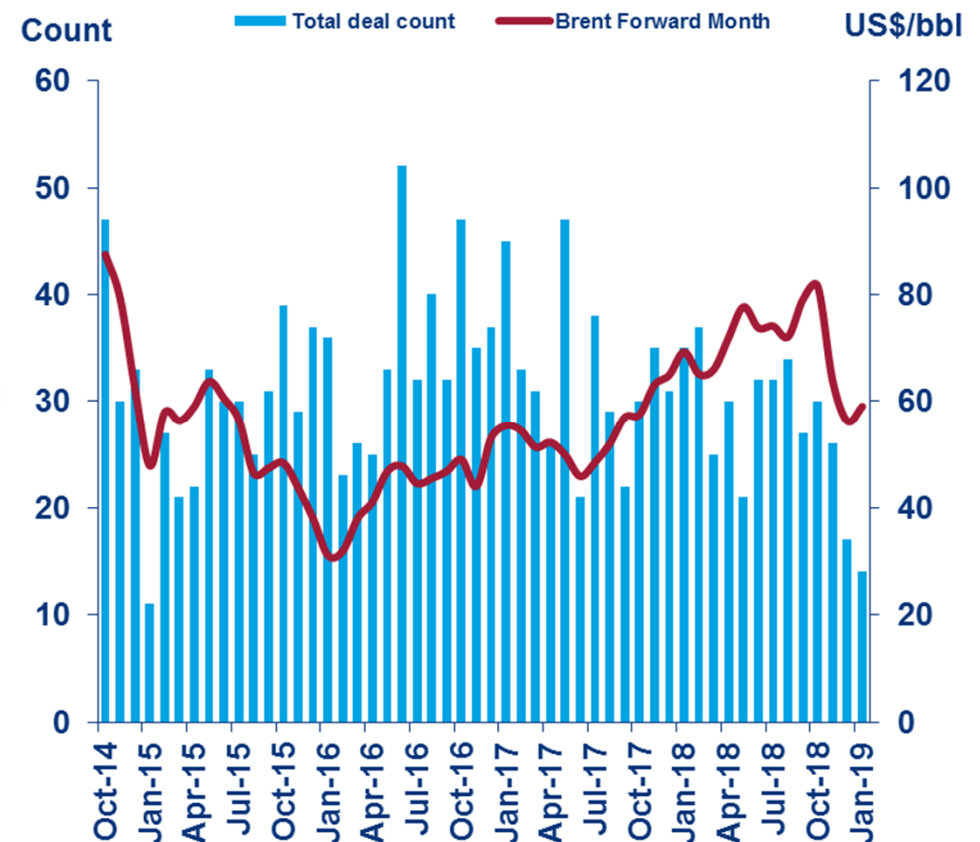
Tough start, as uncertainty from late 2018 oil price and macro volatility re-set negotiations and widened bid-ask spread. And capital discipline was already in vogue.

QEP Resources Inc said on Wednesday it was **not going forward with the \$1.65 billion deal** to sell its Williston Basin assets to Vantage Energy Acquisition Corp, **following a fall in crude prices.**

Earthstone Energy, Inc. is **terminating its \$950 million acquisition** of Sabalo Energy, LLC due to market conditions. **Citing a decline in commodity prices and market conditions,** the companies have entered into an agreement to terminate the pending acquisition.

ConocoPhillips has ended exclusive talks with Ineos over a package of North Sea assets and will open up the sale to other bidders. Conoco entered exclusive talks with Ineos in the middle of November. **Brent crude dropped from about \$67 a barrel to near \$50 in December.** Ineos was earlier said to be **seeking to renegotiate terms** of its bid.

Monthly deal count versus Brent price



But there are always deals. We currently track 235 potential disposals worth at least US\$177 billion in our Deal Pipeline.

Majors and IOCs will continue using A&D to tighten portfolios. Rationalisation has a lot further to run.

Selected potential disposal plans



Targeting US\$10 billion of disposals over next 2 years



Up to US\$27 billion monetizations by 2023



~US\$2 billion left on US\$7.9 billion 2019 target

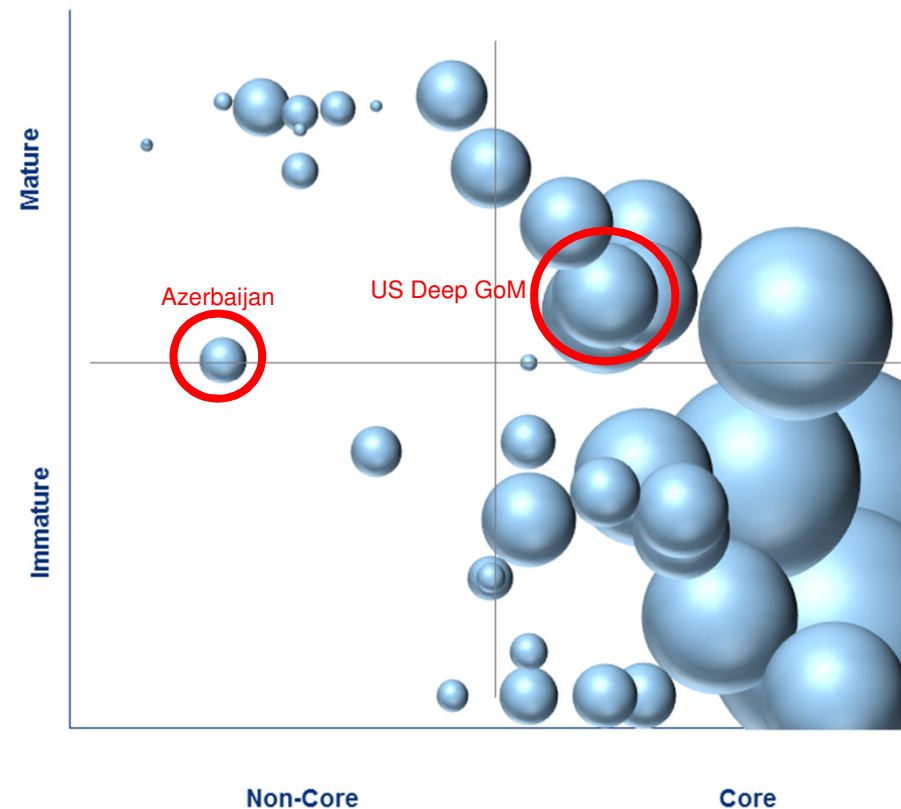


Up to US\$8 billion outstanding on 2019 target



US\$5 billion per year in 2019 and 2020

ExxonMobil Strategic Fit



Full retrenchment to the US Lower 48 on the cards for some IOCs

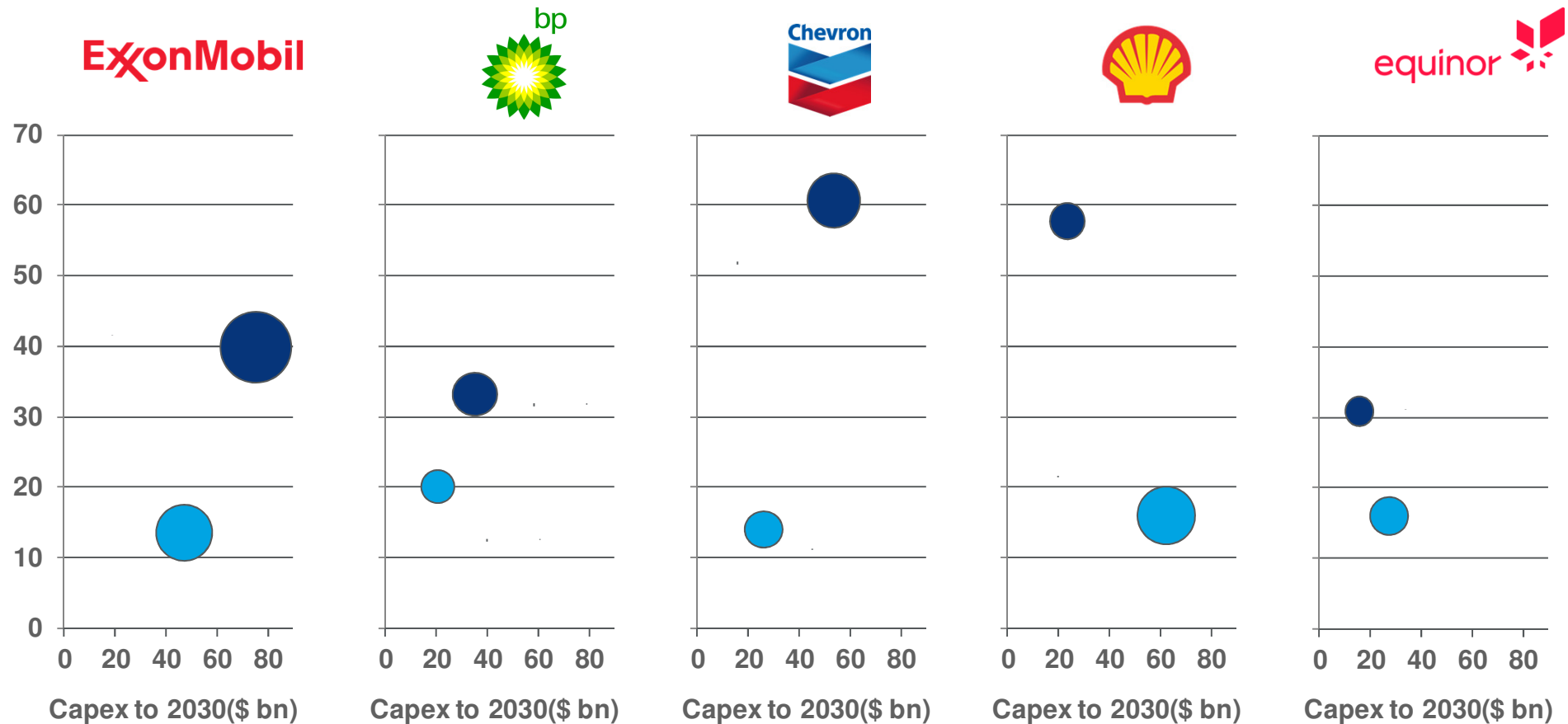
We see diverging strategies, but some are almost there already



Why re-focus on tight oil?

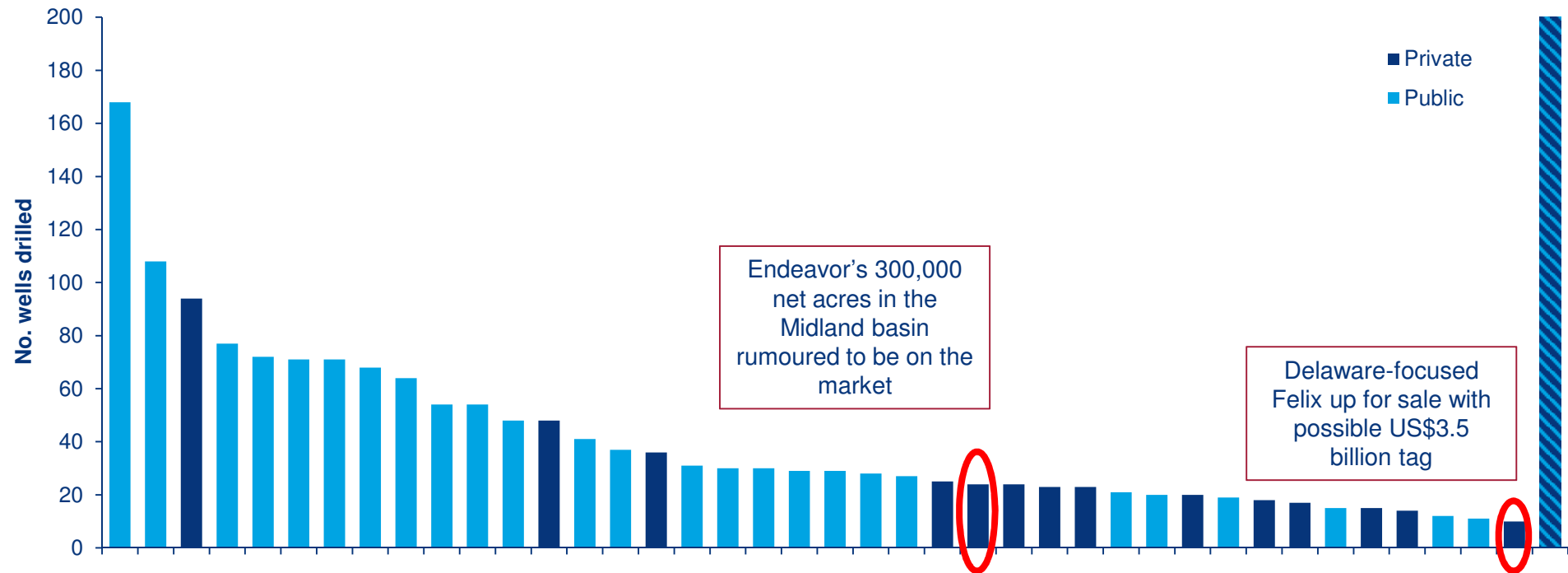
Majors' portfolio returns illustrate why Devon, Marathon and others continue to retrench

Pre-FID pipeline; investment vs. IRR (%); yet-to-drill US uncons ● vs. other pre-FID projects ●



Big private companies still exist in the Permian and there is a long tail of active players, both public and private, which could be consolidated

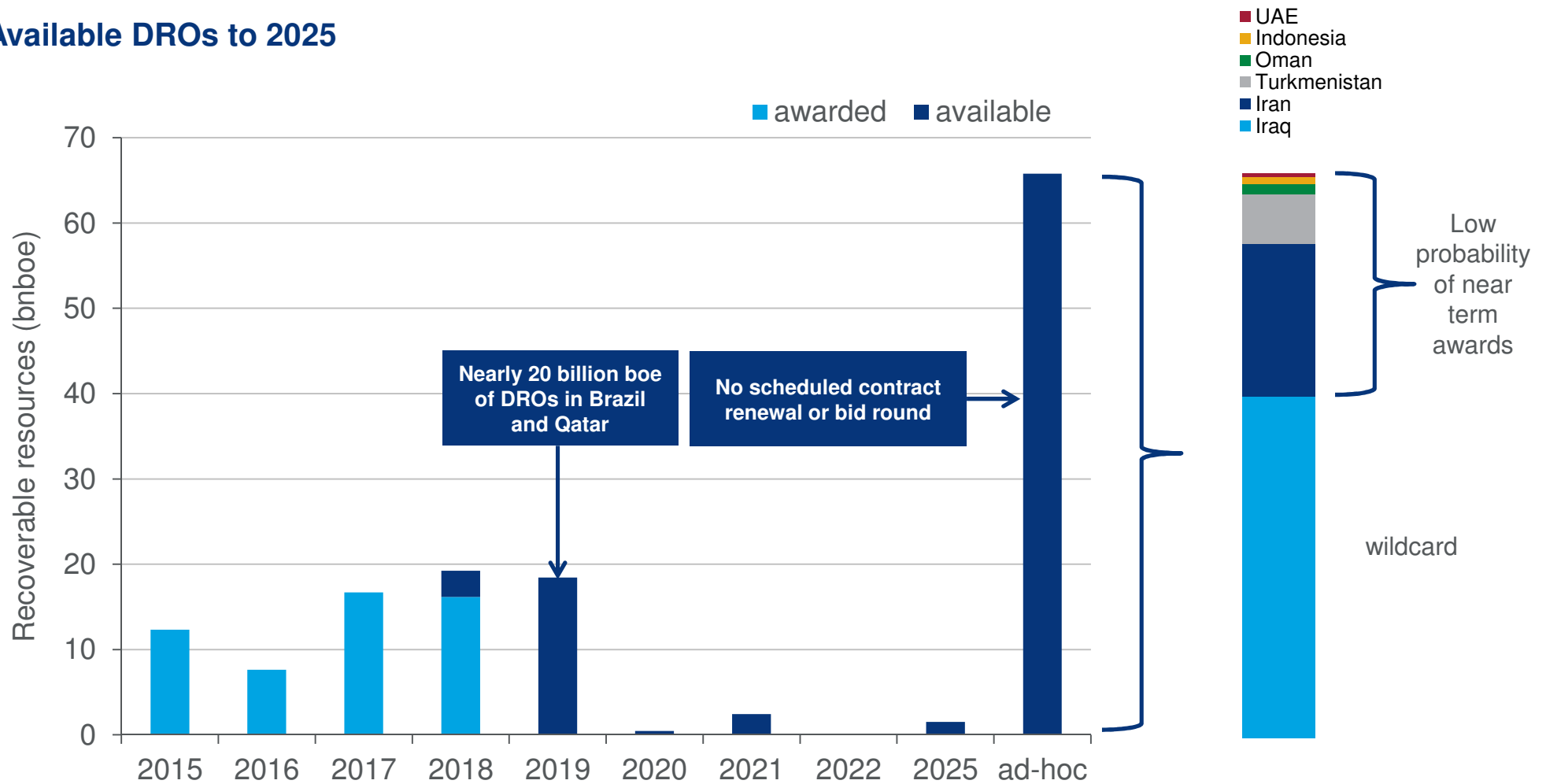
Permian wells drilled 2018, by company



Big Oil will also continue acquiring internationally, but Discovered Resource Opportunities may crowd out large-scale M&A this year

Unique opportunities in Brazil and Qatar up for grabs in 2019

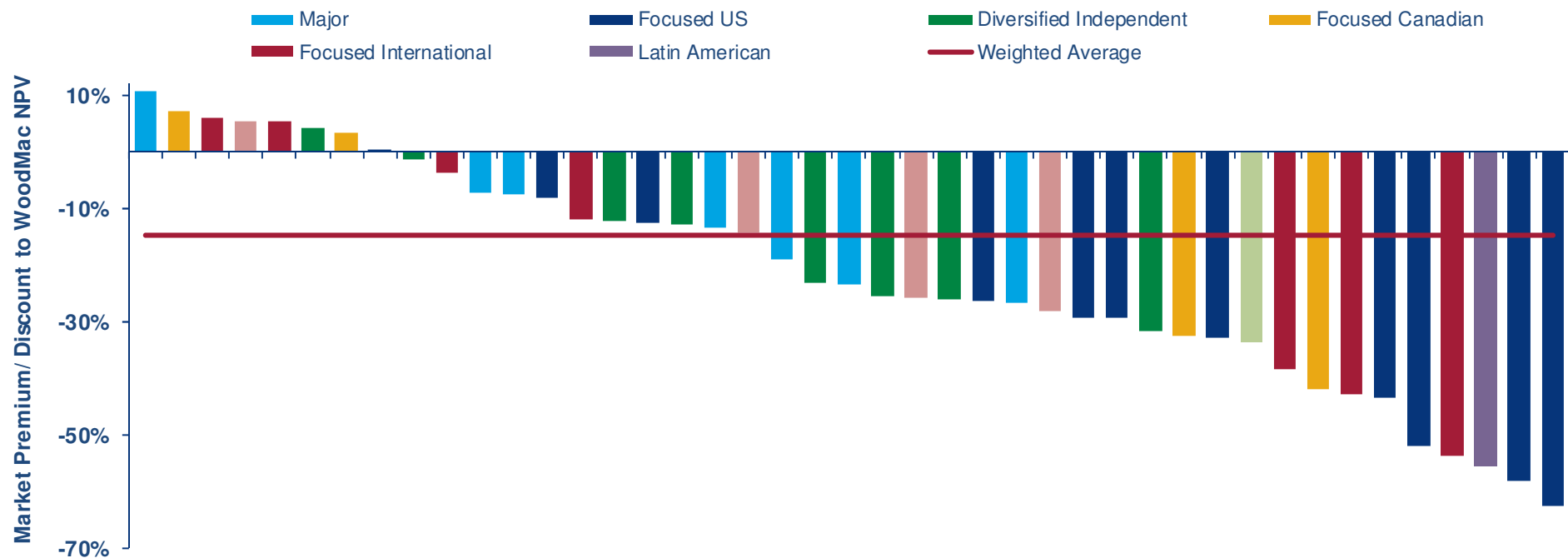
Available DROs to 2025



Will corporate consolidation gather steam?

Corporate acquisition targets may now be cheap; shareholders are struggling; debt and equity markets are closed

Market premium / discount to WM base case NPV10 (%)



Key M&A themes for 2019

Not a blockbuster year, but deals will continue

1. Majors keep tightening portfolios to focus on long-term, low-breakeven growth
2. US-homed IOCs continue retrenching towards unconventional
3. Capital discipline keeps a lid on US asset deals
4. Corporate consolidation could increase
5. ILTOP valuations stay in low US\$60s per barrel



Greig Aitken

Director, M&A Research

Biography

- Greig leads Wood Mackenzie's global research into upstream mergers and acquisitions. This includes assessment of corporate strategies, analysis of value creation and deal evaluation. He regularly engages with industry and financial clients, and presents at conferences around the world. His views on upstream mergers and acquisitions are regularly sought by the media.
- Prior to joining Wood Mackenzie in 2012, Greig was a sell-side equities analyst in Brewin Dolphin's award-winning institutional broking business. He was Extel-rated in both the Technology and Oil & Gas sectors, and was the #1 ranked stock picker in the energy sector (FT / Starmine Analyst Awards, UK & Ireland).
- Greig graduated from Heriot-Watt University in 1999 with an MA in Business Organisation. He spent the early part of his career as a software developer in the pensions and life assurance industry.

Connect with Greig



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