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Upstream Deals, Financing & M&A

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SPE Introduction to Upstream Oil and Gas for the Net Zero World
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Disclaimer

This presentation contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business.

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An E&P biography

S&P Global

centrica

British Gas

centrica storage

SPIRIT ENERGY

centrica

SW//M Stadtwerke München

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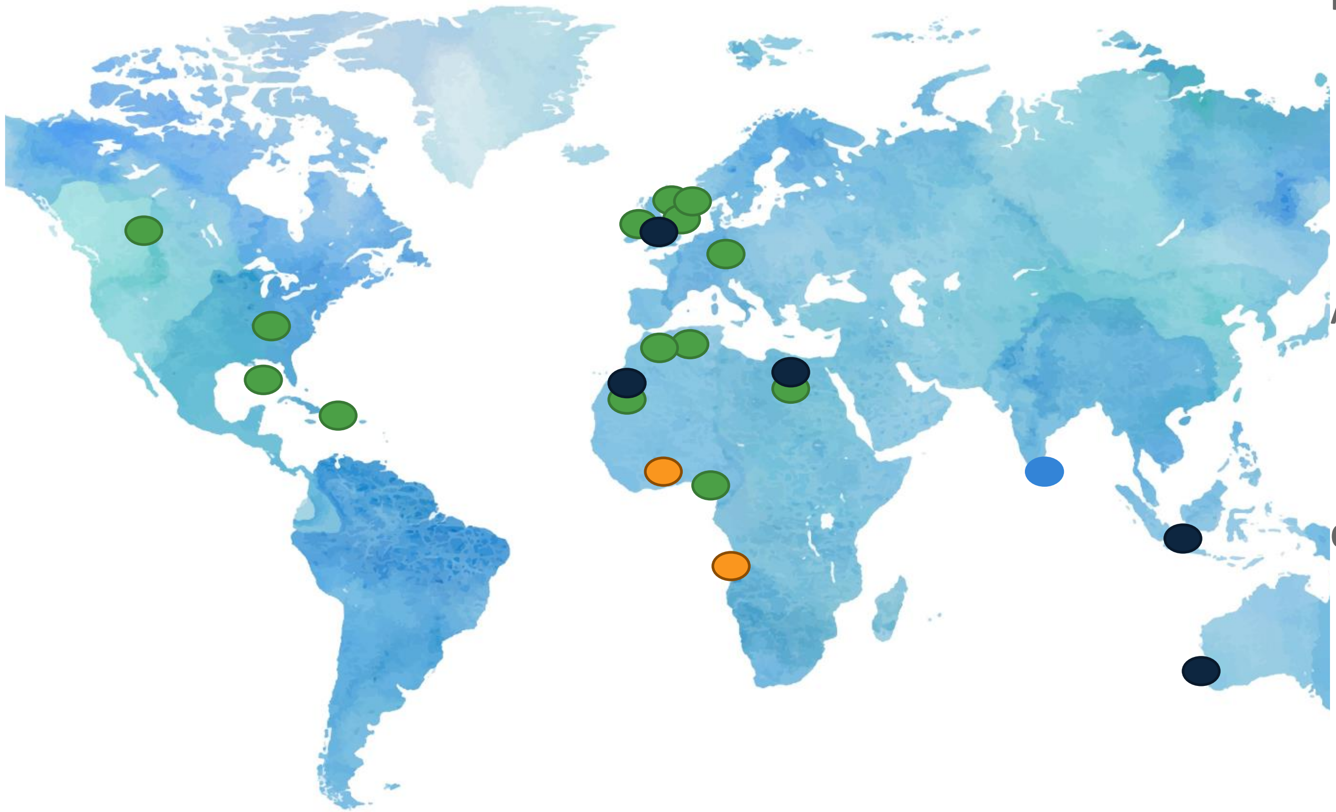

M&A

- Assets acquisitions / divestments
- Corporate M&A and Joint Ventures
- Exploration / appraisal
- Development
- Production

Asset management

- Appraisal / Development
- Production Operations
- Commercial

Corporate

- Strategy
- Economics / planning
- Portfolio management
- Business planning
- M&A

Oil, Gas, Power, CCS, Hydrogen, Wind, Solar

Agenda

Why companies do M&A

Deal Flow process

Valuation methods for transactions

Sources of finance and their demands for upstream projects

Evaluation of energy transition projects

“M&A is like breathing: it's part of normal business life. It's how companies grow, innovate, and stay competitive” ***Warren Buffet***

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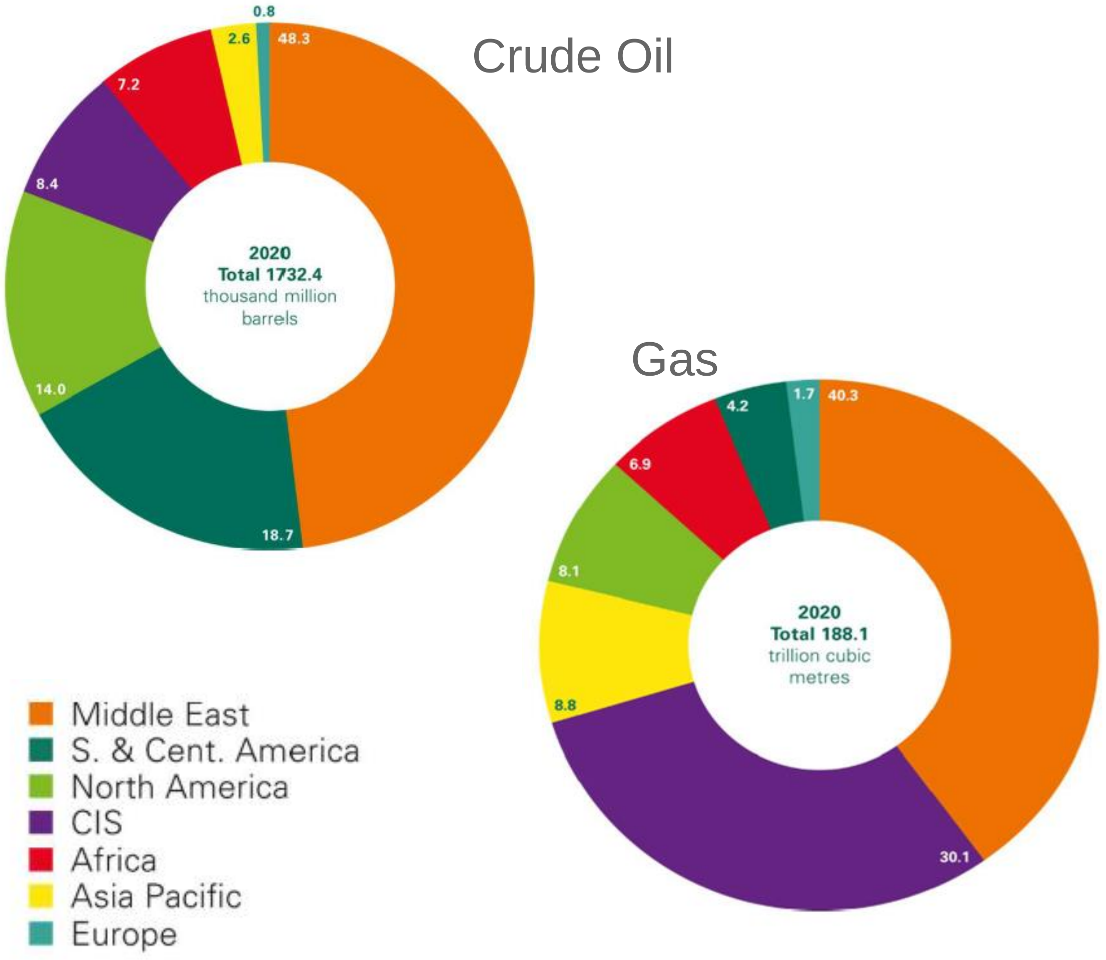
Q&A

Why do E&P companies do M&A

Range of companies competing for access to resources

Proven Resources



E&P company types

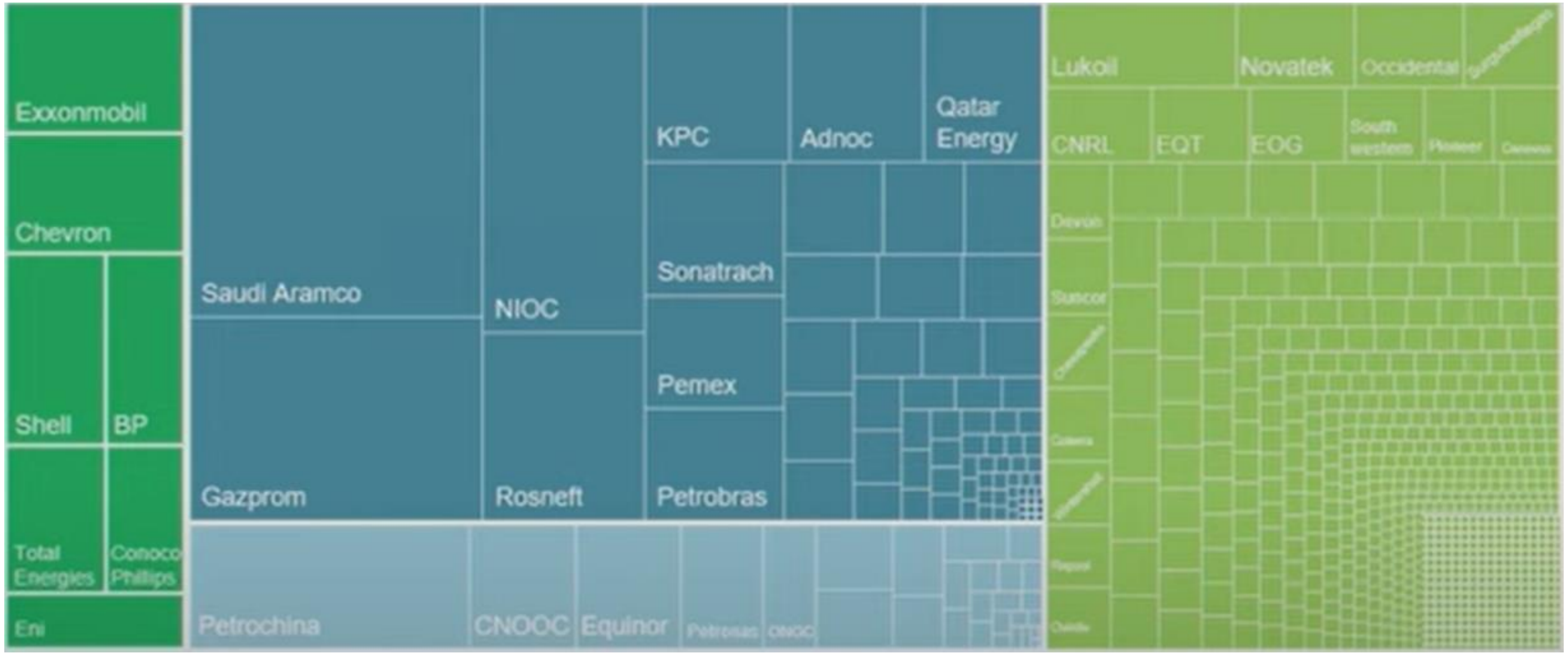
Some examples

State controlled Oil Companies	aramco, QatarEnergy قطر للطاقة, GAZPROM, ADNOC أدنوك, PETROBRAS, PETRONAS, ROSNEFT
Integrated Energy Companies	ExxonMobil, Chevron, REPSOL, equinor, TotalEnergies, Shell, bp
Listed Independents	ConocoPhillips, AkerBP, TULLOW, EnQuest, ITHACA ENERGY, vår energi, Harbour Energy, SERICAENERGY
Private	INEOS, PRAX, NEO ENERGY, WALDORF PRODUCTION, PERENCO, Sval

- Active trading market for **companies** (M&A, Joint Ventures) and **assets** (Acquisitions and Divestments).
- Market liquidity driven by companies strategies, industry trends, policy, and economic fundamentals.
- E&P companies generally looking for scale, cash flow and balance sheet strength.

Source: BP Statistical Review of World Energy, 2021

E&P landscape



- National Oil Companies account for half of global production and about 60% of Global reserves
- Majors represent “only” 13% of production, with the remaining 27% controlled by independent companies

Source: IEA, November 2023

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Q&A

3 years ago ?	2 months ago ?	Today's Oil Price ?	Future Oil Price ?
$40/bbl	$100/bbl	$83/bbl	???

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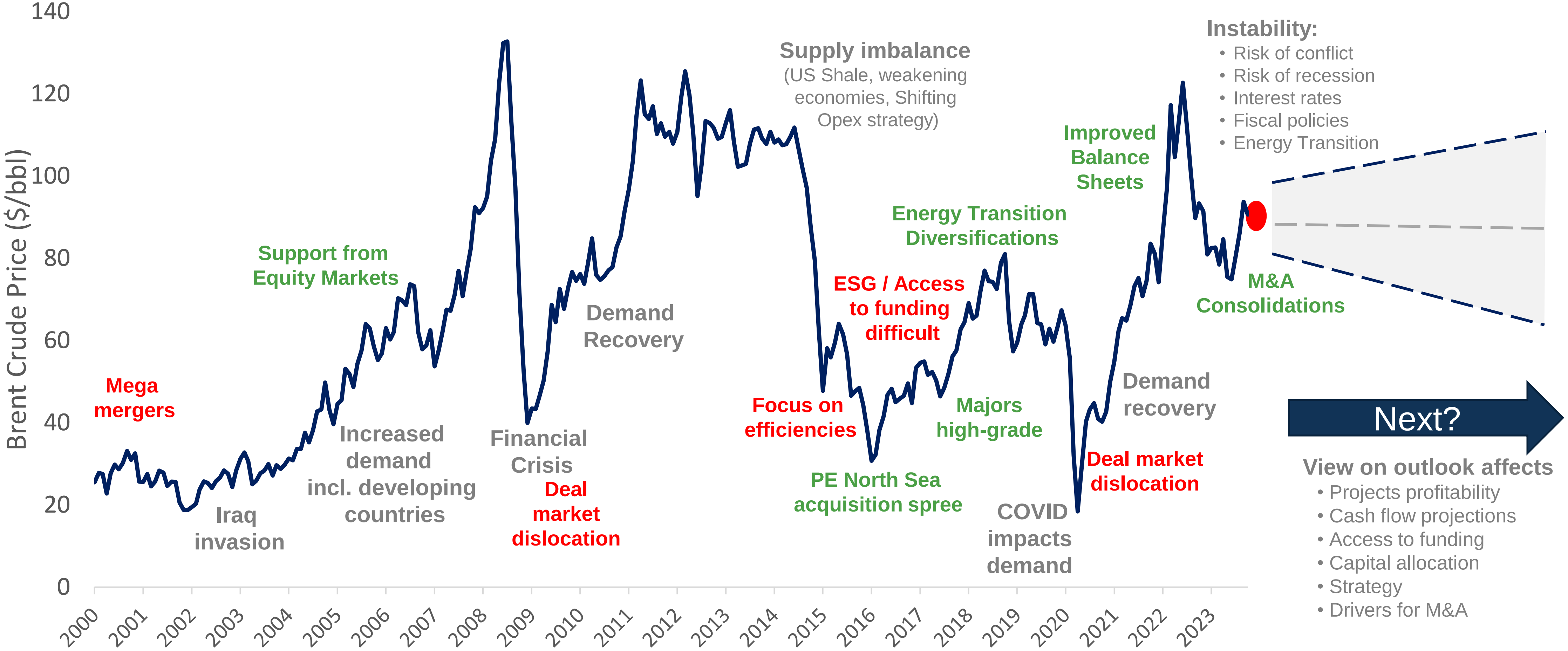
Fuller context

Long-term oil price as indicator of market liquidity



- Companies are having to make decisions on decade-long investments, underpinned by highly variable, often unpredictable commodity price changes.
- Primary company driver is to replenish resources and produce at cheapest cost.
- Alignment between buyer and seller on price expectations and requirements is key to enable deals.

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Summary- Why companies do M&A

E&P Focus

Sell-side

- Portfolio Balance — Total, BP, Chevron, Equinor
- Portfolio Management — OMV, MOL, EOG
- US Conventionals — ConocoPhillips Apache, EOG
- Cash-in — PE-backed Neptune, Siccar Point
- Exiting Fossil Fuel Sector — DONG, E.ON, Engie, Maersk

Buy-side

- Portfolio Replenishment — Exxon, Chevron
- Field Life Extension & Expansion — Ithaca, NEO, Viaro
- Field Life Extension & Tie-backs — Serica, NEO
- Infrastructure Position — INEOS, Prax

Energy Transition Focus

- Balance portfolio towards Energy Transition — Major divesting E.g. Shell / Permian
- Reduce impact of existing operations — Occidental – Solar
- Build green energy hubs — BP / Equinor NEP CCS clean energy hub
- Invest in start-ups & disruptive technologies — ENI Carbon capture Occidental Direct Air Capture

Organic — Inorganic

Self ⟷ Outsource ⟷ Alliances ⟷ Joint Ventures ⟷ M&A

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Data credits: WELLIGENCE ENERGY ANALYTICS

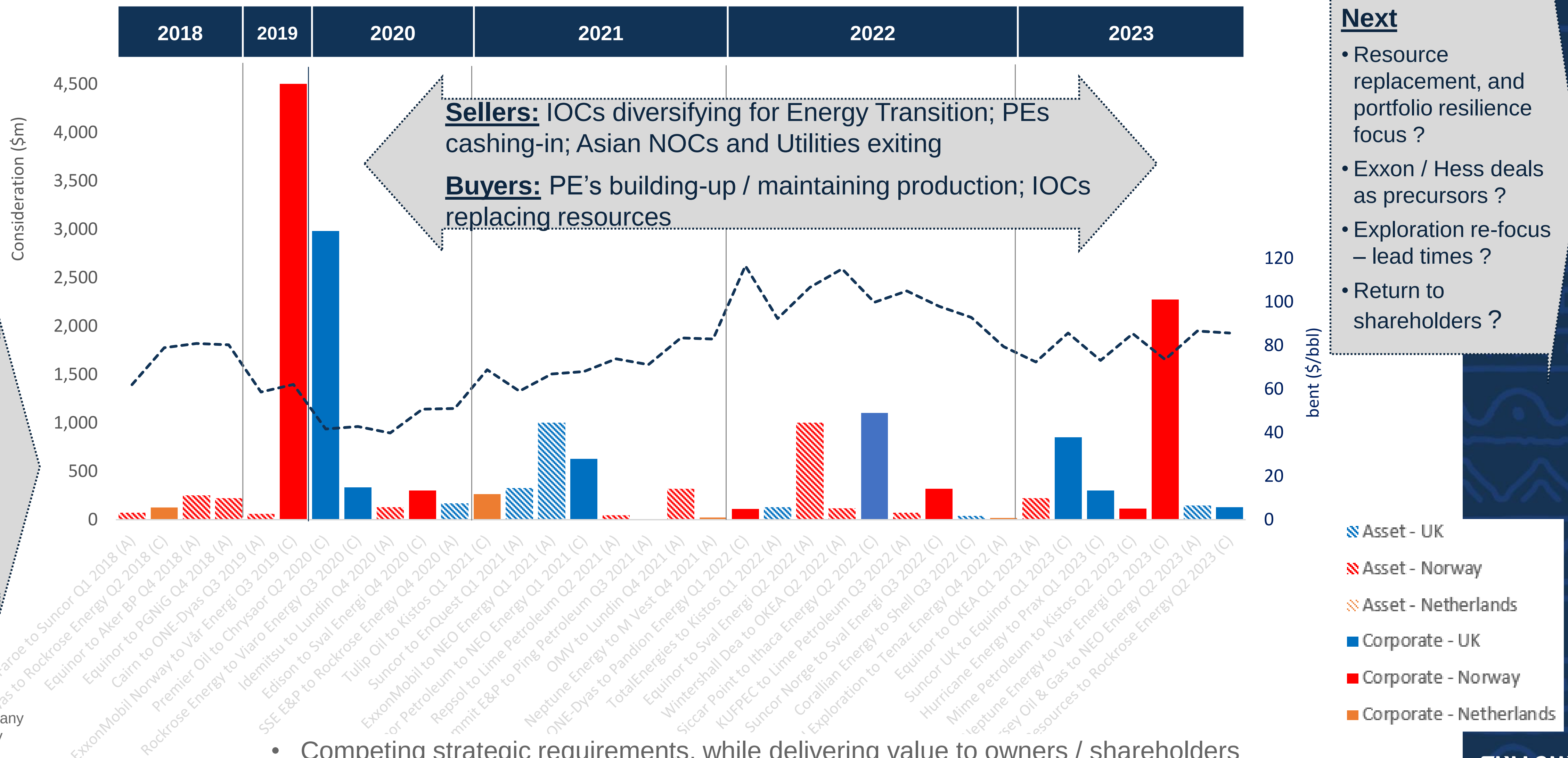
Example – North Sea deal flow

Shifting priorities toward rewarding shareholders supported by high oil price and operating efficiencies

2016/2017
PE acquisition spree (Siccar, Chrysaor, Neptune, Ineos)

Sellers: IOCs diversifying for Energy Transition; PEs cashing-in; Asian NOCs and Utilities exiting

Buyers: PE's building-up / maintaining production; IOCs replacing resources



Next

- Resource replacement, and portfolio resilience focus ?
- Exxon / Hess deals as precursors ?
- Exploration re-focus – lead times ?
- Return to shareholders ?

- Competing strategic requirements, while delivering value to owners / shareholders
- Energy Production ↔ Energy Transition ↔ Net Zero ↔ Energy Security

IOC: International Oil Company
NOC: National Oil Company
PE: Private Equity investors

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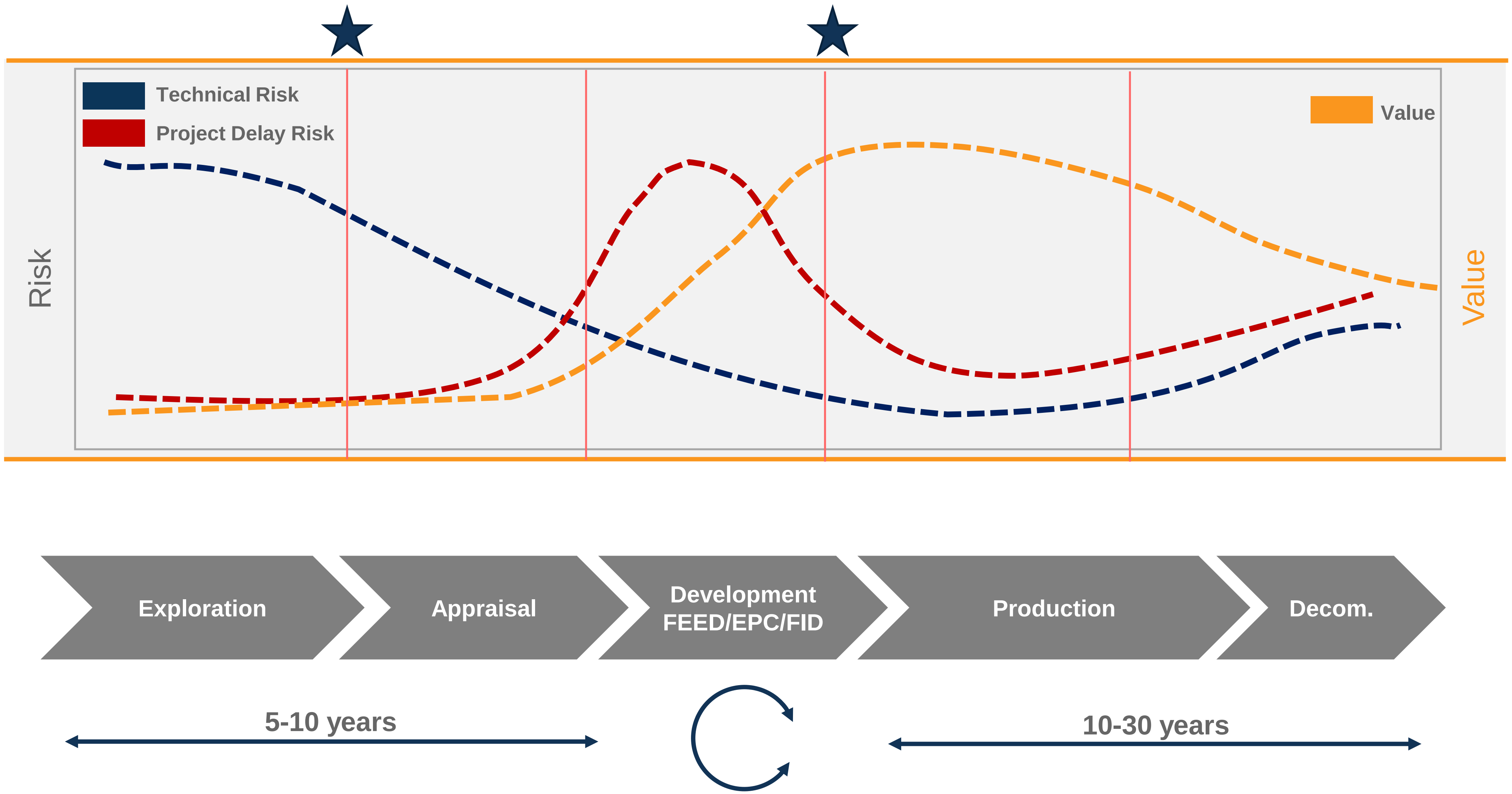
Upstream Value and Risk



Deal flow process: Tenacity and Patience

Seller	Management Presentations	Physical and Virtual Datarooms	Financial Negotiations	Legal and Tax	Sale and Purchase	
Strategic drivers	Information Memorandum Heads of Terms	Viability Modelling: Subsurface and Commercial Risk	IFRS Financing Risks Revenue Risk	Legal and regulatory framework negotiations	Closing conditions of the deal. Summary, Considerations and Deferrals	
Buyer	Scoping Economics	Techno Commercial Due Diligence	Financial Due Diligence	Legal and Tax Due Diligence	Sale and Purchase	Post-Deal Integration / deliver synergies
	1-2 months	3-4 months	2 months	2 months	3-9 months	

- Transactions are time intensive.
- The mix of in-house and third party experts is complex: Subsurface, Engineering, Legal, Finance, Executives, Brokers, Commercial and external consultants and advisors.
- The longest phase often being the Sale and Purchase agreement prior to deal close out.

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Valuation methods in Oil and Gas

A **Market Approach** or and **Income Approach** should be considered

Market Approach	Income Approach
Precedent Transaction Analysis A asset or a company can be valued based on statistics of similar transactions in sector or companies **comparable** to the target company. Key metrics are identified, eg cost/bbl, operational efficiency, 2P reserves. A multiple applied to the metric in question gives an estimate of value Risks : Finding the peer group is critical Focus : Cashflows, growth potential and risks	**Net Asset Value** A very detailed DCF Analysis with shortcomings around decline / production assumptions and cash flow estimates on an asset or well basis for up to 30 years. Risks: Susceptible to optimistic modelling, future commodity prices, impairments and obfuscated project risks Cash flows are adjusted for Risk Adjustment Factors for reserve / resource categories

Health warning

NAV has limitations. An NAV is only as accurate as the underlying Reserves data, cose assumptions and strip price. Incomplete data or incorrectly applied RAFs can produce unreliable valuation estimates and this can be devastating for investors

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Closing Oil and Gas deals

Range of options to bridge the buyer / seller value gap and enable the deal

Contingent consideration

Retain liabilities (e.g. decommissioning)

Drag/Tag along

Deferred equity earn-in

Profit Sharing

Phased payments

Asset carve-outs

Bonus Payments

Carry

Escrow account

Earn-outs / Deferred payments

Price adjustments

Deferred Payment

Revenue sharing

Change of control

Price-related payments

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Financing Oil and Gas Deals : Complex and Tedious

- Number of financial instruments and mechanisms of lending and sourcing capital
- Upstream capital accounts for 75% of Oil and Gas Financing: $15 Trillions to 2040*
- Duration, Use and Risk : Two broad categories : O&G Specific and General Instruments

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Discovery	**Appraisal**	**Field Development**	**Production**	**Decommissioning**
Duration 5-10 years		**Duration 10-40 years**		
Main Financing Instruments				
Equities Sponsor Loan Farm-ins		Equities Bonds Reserve Based Lending (RBL) Mezzanine and Project Finance Farm-ins	Cash flow from production Bank Loans RBL Volumetric Production Payments Mezzanine Debt Equity	
Negative cash flow		**Positive cash flow**		

* $15 / $20 Trillion equating to $640 billion per annum : International Energy Agency (IEA)

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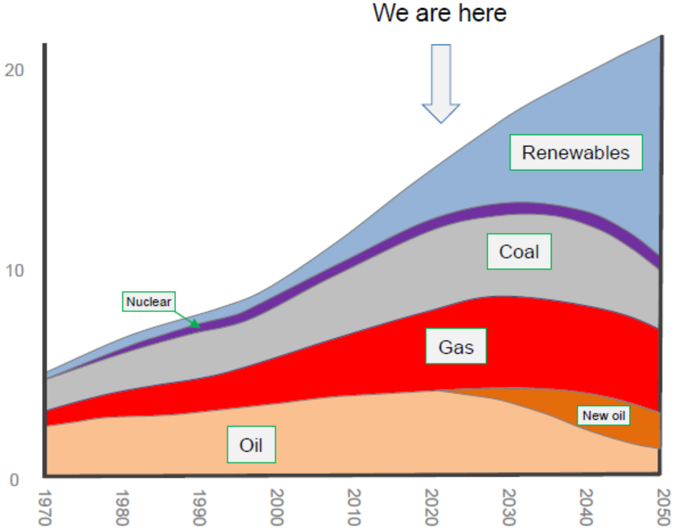
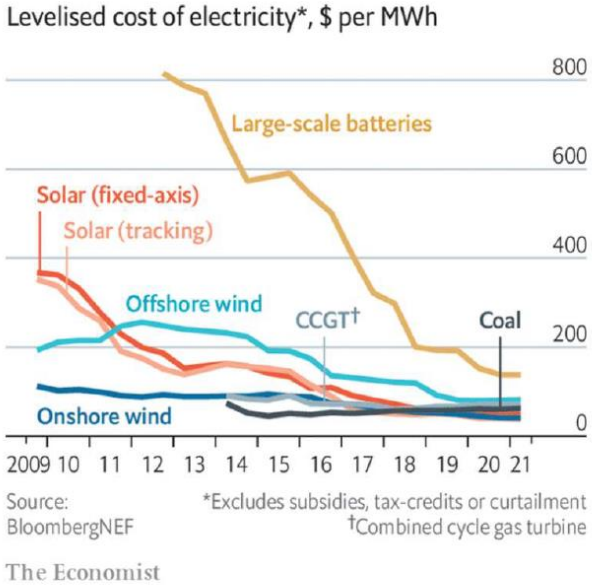
Evaluation of Energy transition opportunities





Driving the Energy Transition

- Minimise impact from operations
- Leverage skills and assets
- Diversify energy sources

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Evaluation of new energy projects from E&P perspective

	CCS / Geothermal / Storage / Hydrogen / Biomass	Wind / Solar / Energy Storage / Demand Response
Business case	• Abatement potential • Electrification enabler	• Abatement potential • Energy generation diversification
E&P transferrable competency	• Subsurface • Project management • Molecules	• Energy • Project • Offshore
New considerations for E&Ps	• Customer focus • Technology roll-out	• Electrons • Intermittency • Management of broader supply chain (critical minerals, manufacturing)
Financing risks *(compared to traditional E&P)*	**High(er)** (Less mature; more ad-hoc; limited history of reliable and predictable projects delivered)	**Medium** (Tried and tested, clarity on business models, Predictable despite intermittency)

- Establish and derisk value chains
- Establish economic viability and understand residual risk profile
  - Unregulated vs Regulated
  - Market vs Subsidised model

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