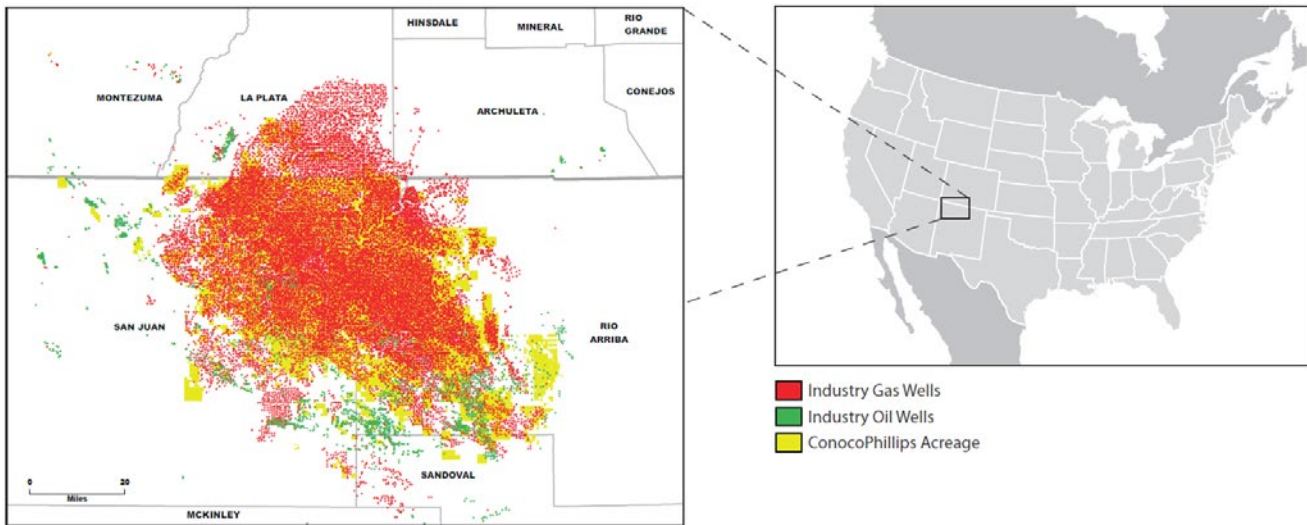


## Hilcorp & Carlyle buy Conoco's prized San Juan legacy gas assets for \$2.7B

### Here's the deal-

- **Conoco (NYSE:COP)** is selling its San Juan Basin conventional gas assets for US\$2.7 B plus a \$300 MM contingent payment to **Hilcorp Energy**.
- Assets averaged 744 MMcfe/d (78% gas, 20% NGLs, 2% oil) of which 28% was CBM, during 2016 from 12,600 producing wells primarily in the Fruitland Coal, Mesa Verde, Pictured Cliffs and Dakota formations.
- Conoco booked SEC-based proved reserves of 3.2 Tcfe implying a reserve life of 13.3 years.
- Leasehold covers 1.3 MM acres in San Juan and Rio Arriba counties, NMX along with an extension into La Plata County, CO.
- In addition to further drilling, there is unconventional oil potential on 900,000 net acres from the Mancos Shale.
- Conoco originally secured the asset via its 2006 acquisition of **Burlington Resources**.

San Juan



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**Advisors-**

- **Wells Fargo** ran the sales process for Conoco, which was launched last November.

**Transaction Analysis-**

- PLS values production at \$3,629/daily Mcfe and proved reserves at \$0.75/Mcfe.
- Comparatively higher flowing metric driven by strong netbacks and a low-decline, solid legacy asset that has produced at high volumes for decades.
- Metrics in line with **Southland Royalty's** 2015 \$395 MM acquisition in the San Juan Basin from **Energen** (\$3,637/daily Mcfe & \$0.95/proved Mcfe).

**Deal Payment-**

- Conoco is getting \$2.7 B cash up front with the potential to collect another \$300 MM in contingent payments.
- Contingent payment consists of annual payment based on \$7 MM/month for each month that HH gas averages \$3.20/MMbtu or above for a six-year term.

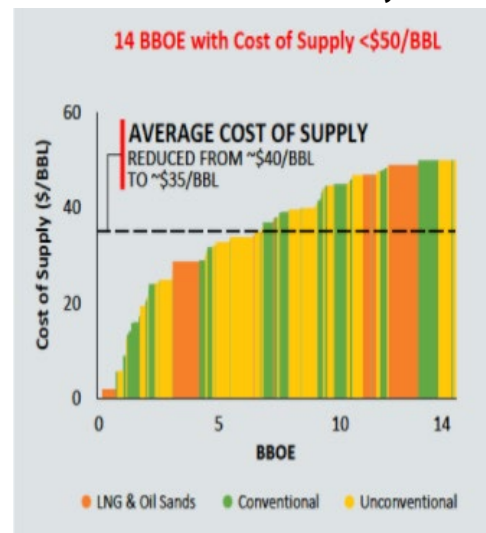
**Buyer Objectives-**

- Deal launches Hilcorp into the top position as the largest private gas producer in the U.S. according to data compiled by the Oil & Gas Financial Journal with more than 1.1 Bcf/d of gross operated production (followed by Chief Oil & Gas at 0.6 Bcf/d).
- **Hilcorp** expands its #1 private E&P leadership in daily boe terms to over 250,000 boe/d gross operated production (Chief Oil & Gas #2 at over 95,000 boe/d).
- The San Juan becomes a new core area for Hilcorp, which already has a premier asset base focused in Alaska's Cook Inlet and North Slope, on the Gulf Coast of Texas and Louisiana, Wyoming and in the U.S. Northeast.

**10 Year History of COP San Juan Production**

Year	Gas MMcf/d	Liquids Mbbl/d	Total MMcfe/d	YOY Change
2006	851	41	1,097	-
2007	971	50	1,271	16%
2008	863	48	1,151	-9%
2009	903	49	1,197	4%
2010	799	50	1,099	-8%
2011	773	49	1,067	-3%
2012	750	49	1,044	-2%
2013	692	45	960	-8%
2014	653	41	900	-6%
2015	657	29	834	-7%
2016	584	27	744	-11%

**Sales Lower COP's Cost by \$5/bbl**



- Conventional, low-decline assets fit the profile that Hilcorp likes to buy according to chief development officer Jason Rebrook.
- Hilcorp has been an active buyer of conventional gas assets recently scooping up packages in Wyoming and Texas Gulf Coast (incl Newfield's South Texas conventional assets for \$80 MM).
- Hilcorp has a recent history of working with PE partners, including a prior deal with **Carlyle** in 2015 and an Eagle Ford JV with **KKR** that resulted in highly successful \$3.5 B sale to **Marathon**.
- Hilcorp has a great reputation for principled values, employee goodwill and corporate stewardship and has a vision to be the premier energy independent in America.
- Look for Hilcorp to invest in the asset to significantly extend the current economic life of the field.

### **Seller Objectives-**

- COP's exit from San Juan follows its March 29 sale of the majority of its Canadian assets to Cenovus for \$13.3 B and now have line of sight to more than \$16 B in 2017 divestments.
- The deal accelerates the value from San Juan, while cutting exposure to dry gas.
- Sale represents 26% of Conoco's L48 production and changes L48 mix from 42% gas, 40% oil, 18% NGLs to 29% gas, 15% NGLs, 53% oil.
- Conoco is using its proceeds from the sales to cut debt and accelerate share buybacks, a strategy different from peers that have been focused on volume growth.
- Selling both the Canadian oil sands (\$13.3 B) and San Juan gas (\$2.7 B) lower COP's adjusted operating costs by \$700 MM (now \$5.3 B) or \$5.00/bbl to \$35/bbl adjusted cost of supply.
- Conoco still has more packages on the market including its Barnett Shale (JP Morgan) and Anadarko Basin (TPH process) and some internal efforts in North Dakota and Texas.

### **Market Impact-**

- Hilcorp clearly looks to take advantage of these conventional assets which seem out of favor relative to more expensive unconventional plays and record acreage metrics.
- Red Willow (owned by Ute Tribe) recently acquired Samson Resources' San Juan assets for \$115 MM via bankruptcy.
- Carlyle has been hunting opportunities around the world, including buying onshore Gabon assets



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