PLS

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U.S. Oil and Gas A&D Markets Poised for Consolidation in 2018

2017 holds steady with $67 billion

HOUSTON January 4, 2018 – PLS INC.

2017 Review:

- 2017 tally of $67.1 billion in 487 deals compares to $69.1 billion in 417 deals in 2016 and $32.3 billion in 293 deals in 2015.
- Permian Basin is most active region with $24.3 billion comprising $16.8 billion and $6.8 billion spent on Delaware and Midland unconventional assets respectively with remainder on Central Basin or Permian waterflood assets.
- Since 2015, Permian has transacted $61.1 billion in deals with 64% driven by the emergence of the Delaware Basin as a premier unconventional play.
- EQT's acquisition of Rice Energy in the Marcellus is the largest deal of the year.
- Some returning interest in conventional assets, accounting for 20% of deal value.
- On last trading day of 2017 (Dec.29, 2017), front month oil prices continued to ramp higher closing above $60/bbl ($60.42, up $0.58) for the first time since June 24, 2015.

Top 10 U.S. Oil & Gas Deals in 2017

Date	Buyers	Sellers	Value ($MM)	US Play
06/19/17	EQT	Rice Energy	$8,200	Marcellus
01/17/17	ExxonMobil	Bass Companies	$5,600	Delaware Unconv.
08/16/17	Silver Run II	Alta Mesa Holdings, et al.	$3,836	STACK
01/16/17	Noble Energy	Clayton Williams Energy	$3,225	Delaware Unconv.
02/07/17	Parsley Energy	Double Eagle Energy	$2,800	Midland Unconv.
04/13/17	Hilcorp Energy; Carlyle Group	ConocoPhillips	$2,700	Onshore Conventional
11/21/17	Talos Energy	Stone Energy	$2,535	Gulf of Mexico
01/12/17	Sanchez Energy; Gavilan	Anadarko Petroleum	$2,300	Eagle Ford
07/11/17	Bruin E&P Partners	Halcon Resources	$1,400	Bakken
05/02/17	HG Energy II	Noble Energy	$1,125	Marcellus

Source: PLS Inc. Global M&A Database

Looking Forward:

- Capital investors selectively backing deals based on low risk expectations.
- Look for larger companies to consolidate shale play positions for scale, control and efficiencies
- Small to mid-sized companies outside of core-of-core shale plays struggle to find growth capital
- Stable to rising oil and gas prices bode well for increasing drilling programs over time
- Oil service companies strive to increase margins after years of hardship
- 2018 may be year of reckoning of US shales vs. OPEC in market balance

PLS Inc. ("PLS"), a leading Houston-based oil and gas research firm, announced that merger and acquisition activity for the upstream energy sector in the United States fell slightly in 2017 to $67.1 billion across 487 deals.

Since the Permian peak in Q1 at $18.4 billion, deals have been dominated by the Marcellus (majority of value from a couple very large deals) and the Rockies (mix of legacy conventional and DJ Basin assets), with each accounting for 25% of activity ($11 billion each), followed by the Midcontinent (16%, $6.5 billion) and the Permian (14%, $5.9 billion).

Value ($billion) by Top Plays

	2014	2015	2016	2017	% 2017 Total
Delaware Unconv.	$0.4	$3.3	$18.7	$16.8	25%
Conventional	$25.1	$6.2	$11.3	$13.0	19%
Marcellus	$7.7	$0.7	$6.3	$11.1	17%
Midland Unconv.	$14.8	$4.2	$9.2	$6.8	10%
Eagle Ford	$8.4	$0.6	$2.7	$5.9	9%
SCOOP/STACK	$0.3	$1.9	$5.1	$5.1	8%
Other/Multiple	$30.1	$11.8	$8.7	$3.1	5%
Bakken	$8.5	$1.3	$1.9	$2.6	4%
Niobrara	$1.6	$1.3	$2.1	$2.0	3%
Haynesville	$1.2	$0.9	$3.2	$0.7	1%
Total	$98.2	$32.3	$69.1	$67.1	100%

Source: PLS Inc. Global M&A Database

2017 in Review

Looking back at 2017, Q1 witnessed stable oil prices in the $50 to $55 range that coincided with the peak in Permian activity. The top three Q1 deals were Exxon's $5.6 billion buy of Permian-focused Bass Companies, Noble Energy's $3.2 billion buy of Permian-focused Clayton Williams Energy and Parsley Energy's $2.8 billion buy of fellow Permian producer Double Eagle Energy. Stable oil prices allowed buyers to undertake deals by issuing equity to share in the rewards of increased scale and future higher oil prices.

During Q2 and Q3, oil prices became volatile as markets followed the weekly US oil storage numbers and wrestled with an over-supplied world oil market. The dominant theme shifted away from the Permian towards an array of asset classes, including gas. The top deals were EQT's $8.2 billion Marcellus consolidation with Rice Energy, Silver Run Acquisition's ($3.8 billion buy of STACK- focused Alta Mesa Holdings and Hilcorp's $2.7 billion buy of ConocoPhillips' (prized San Juan Basin gas assets. During this period, public investors continued to support acquisitions, as buyers were often able to tap the public markets for overnight equity raises.

As oil prices began to march steadily north from $45/bbl in Q4, deal activity slowed significantly as buyers and sellers found it difficult to agree on price in an improving price environment. Only a single billion dollar-plus deal went forward. Privately-held Talos Energy was able to acquire Stone Energy in a reverse IPO that valued the combined enterprise at $2.5 billion. It was also unique that Stone is focused on the Gulf of Mexico which has in recent history been a dealmaker's "no man's land." During the quarter, public investors grew weary of equity raises to fund growth stories based on buying undeveloped acreage.

The mix of buyers shifted substantially during 2017. In Q1, publicly held buyers accounted for over 80% of acquisitions as companies rushed to stake their claims in the Permian. Conversely, private equity firms, which were largely the sellers in these Permian deals, only accounted for 10% of acquisitions by value. As the Permian cooled and deal activity moved elsewhere, PE firms steadily increased their share of buying reaching 46% of value in Q4 (higher than the public buyer total of 44%).

In terms of assets, PE companies have largely stayed out of bidding wars for core Permian acreage where they could not compete with public firms with access to cheap capital. Some firms that made exceptional returns selling in the Permian have returned and are looking to replicate their success by pushing the productive margins further out. Other PE buyers have taken a different track and are targeting out-of-favor mature shale plays like the Bakken (ArcLight-backed Bruin) or Eagle Ford (KKR-backed Venado). Some have even made a shift to legacy conventional assets, with Rocky Mountain gas emerging as a desired target.

Deal Value ($ billion) and Counts by Commodity

	2014		2015		2016		2017	
	Value	Count	Value	Count	Value	Count	Value	Count
Oil	$33.6	188	$10.4	133	$29.2	154	$35.0	202
Gas	$43.1	86	$7.6	54	$18.3	81	$19.3	101
Oil+Gas	$21.5	177	$14.3	106	$21.6	182	$12.9	184
Total	$98.2	451	$32.3	293	$69.1	417	$67.1	487

Source: PLS Inc. Global M&A Database. Deal Counts include deals with undisclosed values.

As measured by deal value, the trends in deal types (corporate, asset or JVs) have remained relatively consistent over the past three years. For the four-year period of 2014-2017, property deals have averaged 57% of the market while corporate deals have averaged 35%. The remainder deal types each account for less than 5%.

Deal Value ($ billion) by Type

	2014	2015	2016	2017	% of 2017 total
Property	$56.1	$19.1	$41.9	$34.3	51%
Corporate	$36.6	$8.5	$22.2	$27.4	41%
JV/Farm-out	$1.4	$3.1	$0.8	$2.3	3%
Acreage	$3.9	$1.6	$2.3	$2.0	3%
Royalty	$0.3	$0.1	$2.0	$1.2	2%
Total	$98.2	$32.3	$69.1	$67.1	100%

Source: PLS Inc. Global M&A Database

Looking Forward

According to PLS' A&D Senior Analyst Andrew Dittmar, "PLS expects consolidation within the largest shale plays with the buyers likely being public companies who have track records of profitable drilling. In some legacy shale plays like the oil window of the Eagle Ford and the Marcellus, productivity from new production per drilling rig shows a peak about a year ago, according to EIA data. Despite continuous improvements in technology, this peak suggests that the industry may well have substantially drilled the best rocks in these plays. Any remaining Tier 1 acreage will command a premium in the marketplace. The concept that U.S. shales are a limitless supply of new oil and gas growth is flawed. Rock quality and oil prices matter."

In the wake of the oil price bust of Thanksgiving 2014, companies were forced to drill their best prospects and in the case of the oil window of the Eagle Ford and the Tier 1 Marcellus, there appears to be a more finite set of top drilling locations remaining.

On the oil side, a nearly 20% drawdown in inventories since peak storage of 535 MMbbls in March 2017 and OPEC's November 2017 agreement to extend production cuts until year-end 2018 have buoyed the market. Expected global demand growth in 2018 now stands at 1.6 MMbo/d in 2018 (EIA). Severe cutbacks to global exploration spending and a relative lack of new discoveries will lend support to higher prices in the future. With all these factors in play, PLS is optimistic about stronger oil pricing in 2018. WTI front month broke

$60/bbl on the last day of 2017 for the first time in two and a half years and continues its upward trajectory in the first days of 2018.

Regarding capital, the markets are well supplied with private equity dry powder in search of opportunities. Deployment of this disciplined capital has been in a variety of plays stretching from conventional legacy exploitation to first movers in the next resource play story, most recently the Louisiana Austin Chalk – another old play with a technology-driven revival. Public shareholders will continue to expect capital discipline from management. Those companies fortunate enough to have strong balance sheets and track records will look to A&D markets to strike for impactful strategic acquisitions. According to PLS' Managing Director Brian Lidsky, "It is certainly not unreasonable to look to the Super Independents and Super Majors to make a substantial consolidation play or entry play. For the supermajors, the US shales may be just the portfolio medicine needed to repair short-, mid- or long-term portfolio damage as a result of the last several years of severe exploration cutbacks."

PLS will publish additional research in the coming days and weeks on the M&A and capital markets outlooks for 2018.

PLS Inc. is a leading Houston-based oil and gas information and advisory firm that specializes in insightful real-time research for a global client base of both industry and investment professionals. Flagship products include the Global M&A Database, docFinder, Capitalize, PetroWire, and PetroScout along with specialty industry reports. PLS Inc., through its PLS Energy Advisory Group, is also a leading transaction firm. For more information, contact Ali Rizvi at ali@plsx.com or call 713-600-0115.

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