



PLS TD Report:

CRC consolidates Elk Hills with \$511MM transformative deal with Chevron

Two decades later, **California Resources** finally secures 100% ownership of its flagship Elk Hills field in Kern County. In 1997, CRC's predecessor **Oxy** outbid 22 other companies and paid \$3.65 billion to buy a 78% interest in the Elk Hills Naval Petroleum Reserve (est. 1912) from the federal government. **Chevron** owned the other 22% at the time.

CRC's latest purchase is impressive given management's focus on reducing its debt from \$6.8 billion to \$5.0 billion. To fund the deal, CRC used \$441 million in cash and \$19 million from their revolver and issued 2.85 million shares valued at \$51.2 million.

CRC is in an envious position of now owning 100% of the minerals and surface. In addition to Elk Hills, CRC has recently struck 3 joint ventures to bring in capital to accelerate other California asset development.

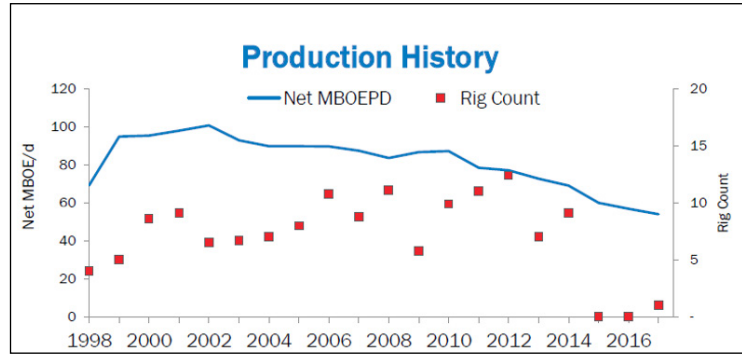
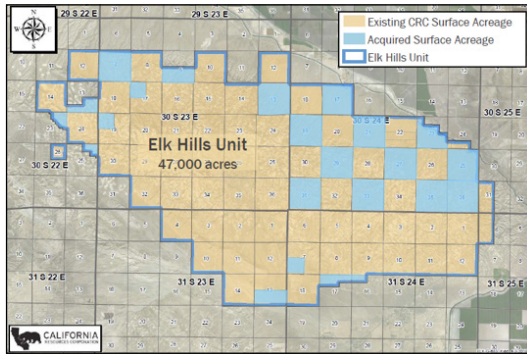
CRC's persistence, focus and transformative deals are proof the company may just succeed in getting out from underneath the debt burden left by its original parent Oxy.

Here's the deal-

- **California Resources (CRC)** consolidates 100% of its flagship Elk Hills field for \$511 MM from **Chevron**.
- CRC pays \$460 MM cash plus 2.85 million CRC commons shares (\$17.96/share pre-announcement).
- World-class Kern Co., CA elephant field in San Joaquin Basin discovered in 1911 with 11 Bboe OOIP and produced 2.7 Bboe.
- Buys Chevron's 20-22% non-op interest and consolidates fee simple interest.
- 13,300 boe/d (46% oil, 9% NGLs, 45% gas) average 2017 production acquired.
- 64 MMboe proved reserves (YE 2017 SEC basis), 75% PD.
- \$100 MM of annual cash flow based on 2017 production at \$65 Brent.
- Includes an additional ~10,000 surface fee acres.
- Entire Elk Hills field unit totals 47,000 acres.
- CRC pulls off deal with only \$19 MM increase in debt.

Short Read-

- CRC moves to consolidate all interest in its top flagship Elk Hills field.
- In rare case, CRC now owns all surface and has 100% WI and 100% NRI in elephant field.
- Elk Hills accounts for over half of California's natural gas production.
- Consolidation lowers CRC corporate LOE by \$0.55/boe (from \$19.00/boe) and SG&A by \$0.20/boe.
- Pro-forma Elk Hills now accounts for 43% of CRC 2017 production.
- Chevron remains California's #2 producer w/ 2017 average volumes of 145,000 boe/d.



Behind the Numbers–

- \$511.2 MM acquisition price.
- \$460 MM cash plus 2.85 MM shares of CRC.
- Deal gives Chevron 5.9% equity interest in CRC.
- Closed April 9, 2018 and effective April 1, 2018.

QuickThoughts–

- Market applauds transaction sending CRC up 13% on first day post-deal adding \$115 MM in market cap.
- CRC has 4 bonds in the market with 2024’s trading up ~4%.
- Outstanding bonds are \$2.25 B 8% 2022, \$100 MM 5% 2020, \$100 MM 5.5% 2021, \$100 MM 6% 2024.
- California, like the GOM shelf, not in vogue to vast majority of industry.
- While CRC has always been consolidating small WI in California, this is their first significant outright buy since Oxy spin-off on Nov. 30, 2014.
- Spin-off occurred just weeks after the Thanksgiving 2014 OPEC attack on U.S. shales
- Able to partially finance with equity in tough Wall Street mood to not buy new equity.
- Deal immediately improves CRC debt metrics.
- CRC had \$6.3 B in total debt YE14 and has shaved about 21% since then.
- Both its net debt/EBITDA and total debt/EBITDA ratios were 7.7x at YE17, both down from 9.8x at YE16.
- Total Debt/Adj. EBITDAX going from 6.3x to 5.8x.
- Creates incremental cash flow in CRC’s 1.7+ value creation index inventory.
- Biggest California deal since **Quantum**-backed **Sentinel Peak Resources** paid \$592 MM for **Freeport-McMoRan’s** onshore California portfolio in October 2016 (\$20,700 daily boe).
- Chevron (originally **Standard Oil of California**) remains second largest California producer including the giant Kern River oilfield.

Transaction Metrics & Comparables–

- \$38,435/daily boe based on 6,118 bbl/d, 1,200 bbl/d NGL, 44 MMcf/d (13,300 boe/d).
- \$7.99/boe Proved (64 MMboe, 75% PD).
- 6.4x 2017 Adjusted EBITDAX.
- 5.1x 2017 Operating Cash Flow assuming current pricing.

Buyer Objectives–

- CRC now owns 100% WI and 100% NRI in flagship Elk Hills asset in fee simple interest.
- Achieves \$5 MM of annual operational savings within six months.
- Achieves additional \$15 MM of synergies within 18 months.
- Improves credit metrics.
- CRC recently struck a \$750 MM midstream JV with **Ares**-backed **Development Capital** to sell down the Elk Hills infrastructure (550 MW gas fired power plant and 200 MMcf/d processing plant).
- Ares-led investor group also purchased \$50 MM of CRC common equity.
- CRC also recently completed two drillco’s w/ **Macquarie** (\$160 MM initial) and **Benefit Street** (\$250 MM)
- Committed to additional JV’s on a top-shelf suite of upstream opportunities.
- CRC rescinded dividends in 2016 and limited capex to \$50 MM per bank covenants that also required CRC to pay all proceeds from asset sales towards loan repayment.
- CRC current CCC+ credit rating from S&P is below investment grade and it has a negative status on Credit Watch. Rating was upgraded from CCC- in 2016.

Seller Objectives–

- Divests non-core, non-op interest in legacy field.
- Chevron accelerating shale production and focused on short-cycle investments.
- Permian (US), Marcellus (US), Duvernay (Canada), Vaca Muerta (Argentina).
- Australia’s Gorgon and Wheatstone LNGs monetizing 50 Tcf of resource.
- Active deepwater US Gulf of Mexico program.
- Super Giant Tengiz field in Kazakhstan increasing investments (50% **Chevron**, 25% **ExxonMobil**, 20% **KazMunayGas**, 5% **LukArco**).

