



PLS TD Report:

Exxon & Noble take down two storied industry independents

Barely into the first quarter of the new year, buyers and sellers have created a 2 minute drill in the Delaware Basin with a remarkable **\$8.8 billion** two-fer. First up, **Noble Energy** acquired **Clayton Williams** for \$3.2 B only to be topped the next day by **Exxon's** \$5.6 B purchase of the Bass Family companies sometimes known as **BOPCO** or **Bass Enterprises** etc. Two days, two legacy independents with deep historic roots are gone, rolled up by two corporate titans chasing shales in an industry going through an unbelievable revolution just months removed from a major bust.

Clearly these are transformative (TD) deals given the location (Permian); size, timing and heritage of the two sellers.

Here are our thoughts and observations:

Deals-

- Noble (NYSE: NBL) buys Clayton Williams (NYSE: CWEI) getting 10,000 boe/d, 71,000 net acres of core Delaware, 1,920 drilling locations, additional 100,000 other net acres (Andrews, Glasscock/Sterling), 2.2 Bboe resource potential and 300 miles of pipelines.
- Exxon (NYSE: XOM) and its XTO subsidiary acquired Bass Companies picking up 18,000 boe/d, 250,000 net acres (focused SE NMX, Delaware Basin) with estimated resource potential of 3.6 Bboe.

Top 10 Deals Since Oil Price Crash Nov. 2014

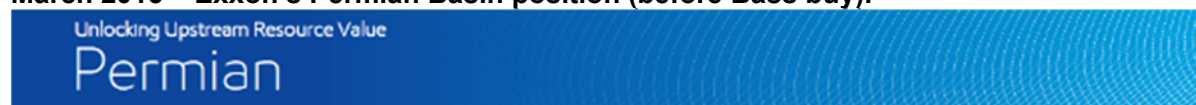
Date	Buyer	Seller	Value (\$B)	State	US Play
01/17/17	ExxonMobil	Bass Companies	\$5.6	NM	Delaware Unconventional
05/16/16	Range Resources	Memorial Resource Dev.	\$4.4	LA	Cotton Valley
05/11/15	Noble Energy	Rosetta Resources	\$3.9	TX	Delaware Unc.; Eagle Ford
01/16/17	Noble Energy	Clayton Williams Energy	\$3.2	TX	Delaware Unconventional
07/14/15	WPX Energy	RKI E&P	\$2.8	TX	Delaware Unconventional
09/26/16	Rice Energy	Vantage Energy	\$2.7	PA	Marcellus
09/06/16	EOG Resources	Yates Petroleum	\$2.5	NM	Delaware Unconventional
12/14/16	Diamondback Energy	Brigham Resources	\$2.4	TX	Delaware Unconventional
10/13/16	RSP Permian	Silver Hill Energy	\$2.4	TX	Delaware Unconventional
01/12/17	Sanchez Energy; Blackstone	Anadarko	\$2.3	TX	Eagle Ford
Bold deals are discussed in this report			Total	\$32.2	

Transaction Analysis-

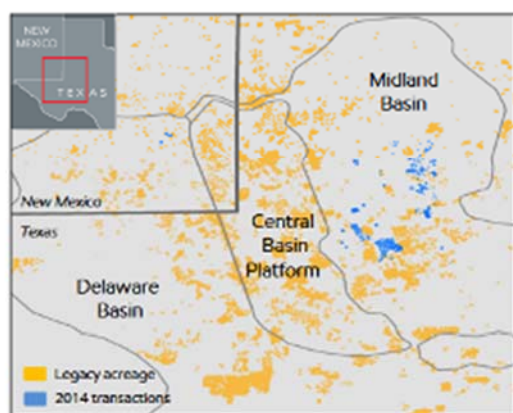
- PLS values the Clayton deal at \$33,400/daily bbl given a 70-30 oil & gas mix and \$32,268/acre for the 71,000 net acres in the core Southern Delaware Basin. These metrics include a back out of \$600 mm in value associated with midstream assets which Noble could spin into Noble Midstream Partners LP.
- Noble reported paying \$1.2 MM per net location for drilling targets in the Upper and Lower Wolfcamp A, Wolfcamp B and C with 8,000 ft. laterals.
- According to our math, Exxon paid \$602 MM for Bass' ~18,000 boe/d and ~\$20,000/acre
- **Southern Delaware (Reeves) is consistently trading at a higher metrics than NM with averages over \$30,000/acre vs \$10,000-\$20,000/acre across the border.**
- **Exxon acquisition price is more than double the \$9,031 per acre EOG paid for Yates Petroleum (\$2.45 B) in the same area last September.**

- Exxon expects acquired acreage to be economic at \$40/bbl oil with 8,000-10,000 ft laterals.
- Noble anticipates 60-90% before-tax return at base pricing.
- Neither company released (proved) reserves and Exxon did not report the number of drilling locations purchased.

March 2015 – Exxon’s Permian Basin position (before Bass buy).



Capturing unconventional upside in a legacy basin



- Well positioned in premier tight oil play
- Enhancing position through trades and farm-ins
- Optimizing conventional assets
- Pursuing Wolfcamp unconventional development
- Benefiting from Integrated value chain



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Funding–

- Exxon is paying all equity for the Bass companies (\$5.6 B value implies ~60 MM shares at prior-day close). Additional \$1.0 B in contingent cash payments starting in 2020 based on development.
- Like Yates, the Bass Family took stock showing not only a belief in Exxon (XTO) but also the ongoing assets.
- Noble is paying cash (\$665 MM) and stock (\$2.1 B) including an additional sweetener of \$34.75/share. Noble is also assuming Clayton’s net debt of \$500 MM. Based on Noble’s stock price the deals values CWEI shares at \$138.97/share, a 30% premium to the pre-announcement price.
- CWEI shareholders will own ~11-12% of Noble following closing.
- Again Wall Street showed its appreciation for Noble’s dealmaking by sending its stock up 7% today.
- **This is a remarkable story for Clayton Williams who’s CWEI stock collapsed in March 2016 to less than \$7/share only to find its way back. The industry has seen a number of independents come and go through booms and busts and it is refreshing to see Clayton (and the Basses) find the top.**
- The deal also benefits Ares Management LP who owns 35% of CWEI after a series of recent financings. (See PLS’ Capitalize).

Buyer Objectives–

- Noble has rapidly built themselves an industry leading 120,000 acre position in the Southern Delaware Basin following their \$3.9 B acquisition of Rosetta Resources (46,000 net acres) and a \$300 MM follow-on acquisition of 7,200 acres (\$30,000 per acre) in November. Now, Noble picks

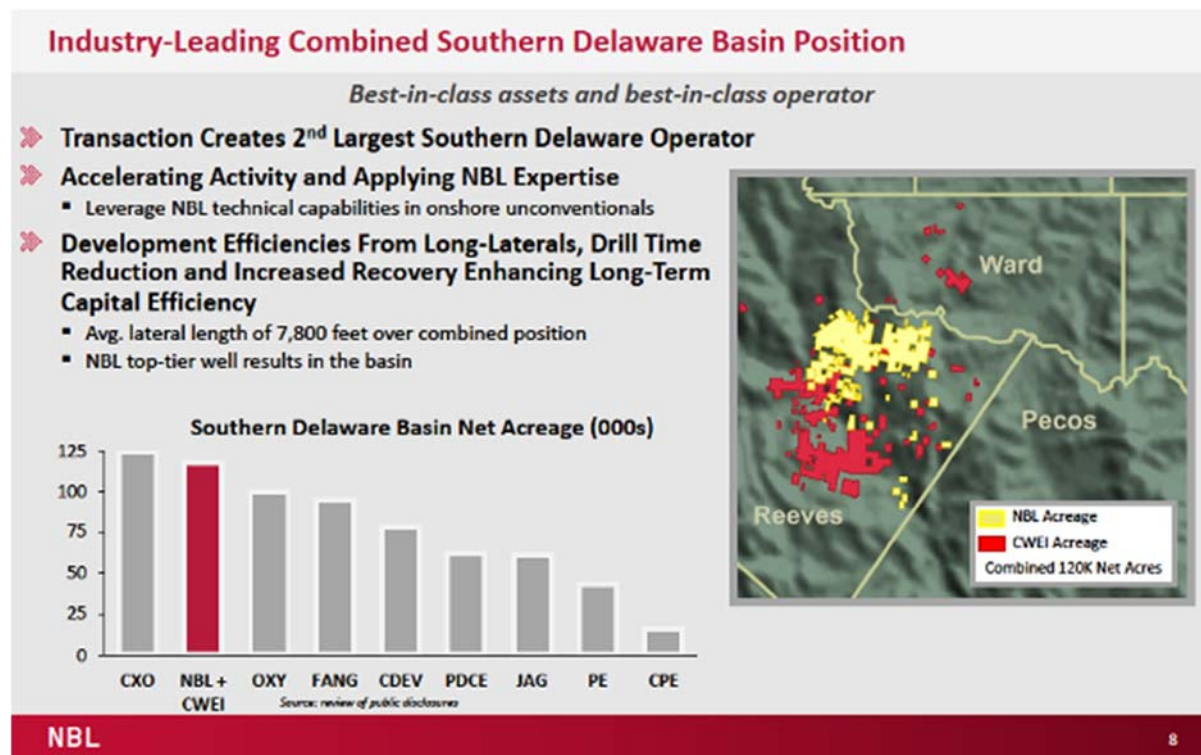
up Claytie's 71,000 net acres in S/SW Reeves County (80% oil).

- Noble's type curves for the Wolfcamp A of 1.0 MMboe translates to a \$1.20/boe based on \$/location.
- The Bass deal compliments Exxon's 3-year effort on the Permian, (See Endeavor, Linn et al) and adds 18,000 boe/d (70% liquids) to its current Permian output of 140,000 boepd and where it is currently running 10 rigs.
- **As reported above, Exxon and XTO get a solid 3.4 Bboe resource potential (75% liquids) thereby more than doubling its Permian resource base to 6.0 Bboe.**
- Exxon's XTO will leap frog to the fourth-largest oil producer in NM behind Apache once deal closes.
- Depending on execution, Noble projects total company vols of 600,000-700,000 boe/d by 2020.

Seller Objectives-

- **Is it any simpler, one year removed from the market bottom, two sellers take an exit ramp while two buyers double down.**

- With a shorter history than Bass, CWEI is still a storied company in its own right with a 35+ year history in the Permian and public since 1993.
- CWEI worked itself into Permian pure-play via recent South Louisiana and Eastern Eagle Ford sales. CWEI shareholders with patience are now rewarded by a payout worth over 20x March 2016 low.
- Equity payout and future contingent payments keep upside for sellers who are smartly partnering with two of the best operators in the world.



Market Impact & Regional Outlook-

- Plain and simple, Exxon's (the world's largest operator, who could buy anyone or anything they wanted), purchase of Bass clearly validates the Delaware Basin's opportunities.
- In total, we have now seen over \$26 billion in deals since 2016 in the Delaware Basin that here before had taken a back seat to other plays including its neighbor across the Central Basin

Platform.

- Though Reeves is getting picked over, there remain additional opportunities in not just NMX but also throughout the Permian as time and technology roll on.
- The Bass deal is the largest acquisition by Exxon since it entered the shale business with its \$41 B acquisition of XTO then thought of as a mostly natural gas bet.
- The deal is also the largest US deal overall since the oil price crash started in earnest in 2014.
- The Core Southern Delaware acreage seems to have settled into a valuation range of \$30,000-\$40,000/acre with occasional outliers.
- **Numbers that raised eyebrows only six months ago now look routine in this remarkable basin.**
- Without another crash, why won't we see continued exploitation of the "whole Permian?"

Extra Points and Takeaways-

- The Bass Family is one of the most storied in Texas oil and gas. Wildcatter Sid Richardson and his nephew Perry Richardson Bass discovered the giant Keystone Field in West Texas setting the basis for its long legacy.
- **Like the Yates sale, Bass (and Clayton Williams) mark the passing of an era in the Permian Basin and transformative from the afterthought of the 80s and 90s to the most important world oil play outside of OPEC.**
- With the Yates and Bass families selling their companies, we are reminded that Hunt Oil is one of the few remaining namesake companies tracing its roots to early 20th century wildcatters and going strong.
- More deals? Number of P/E backed newcomers and legacy family firms substantially thinned in the Delaware. A few legacy family firms remain: Harbinger Oil, Fasken, Burnett, Endeavor Energy Resources



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