# Wells Fargo Energy Group

October 2018



Together we'll go far

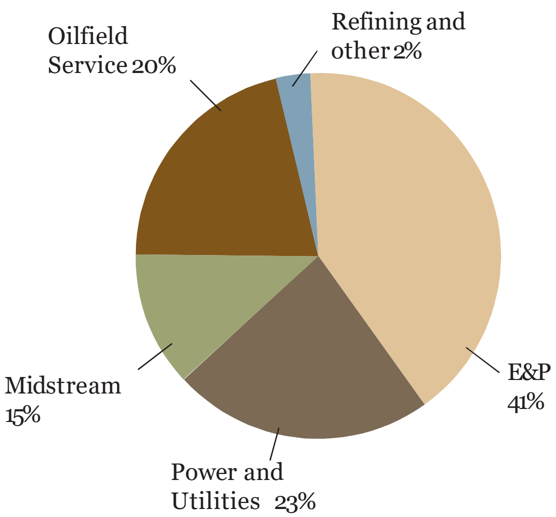
# Wells Fargo Energy Group – A Leader in the Energy Sector

## Our vision

Wells Fargo aims to satisfy all our customers' financial needs, help them succeed financially, be the premier provider of financial services in every one of our markets, and be known as one of the world's greatest companies.

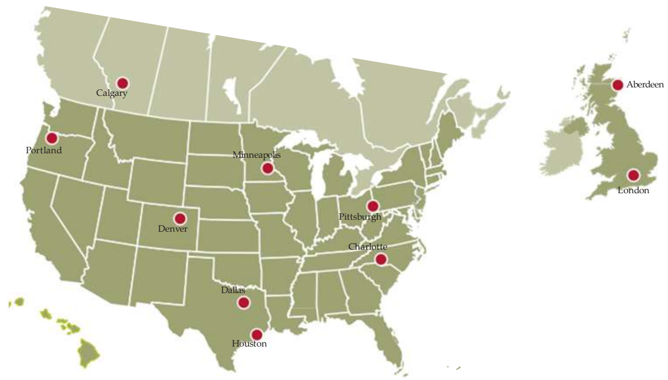
## Commitment to the industry

Wells Fargo's Energy Group is one of the largest capital providers to the energy space, with approximately $42 billion committed to public and private companies across the upstream, midstream, downstream, services, and power and utilities sectors.




## Energy-focused approach

We have a dedicated client coverage team with 250+ team members located nationwide and 21 in-house engineering professionals.




Our approach is unique among our peer group. Wells Fargo is a leading energy financial services provider with the capabilities to provide comprehensive debt, advisory, capital markets,*and traditional banking solutions to companies of all sizes and in all stages of development.

## Complementary capabilities

Mezzanine and equity products provided by Wells Fargo Strategic Capital:

- Sixteen total staff, headquartered in Houston, with offices in Denver, Dallas, and Pittsburgh
- Strong technical expertise
- Relationship-driven lender/arranger with the ability to structure and negotiate per client needs
- Approximate $2 billion portfolio split between common equity co-invests and preferred equity (two-thirds of portfolio) and debt (one-third of portfolio)
- Strong balance sheet
- Seeking new debt and equity opportunities
- Ability to structure around current regulatory constraints

## Additional capabilities

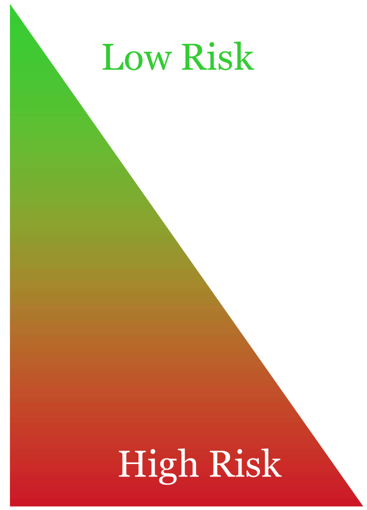
In 2014, the Energy Group established the Independent Power & Infrastructure team to focus on non-regulated power and project-oriented opportunities for our core clients, including transmission, pipeline, and LNG financing.

*Our commitment to the energy sector and relationship focus allow us to build long-term strategic relationships with our clients.*

# Borrowing Base Structure & Methodology

# Borrowing Base Weighting and Applicable Considerations

| Category | | Risk | Weighting |
|---|---|---|---|
| Proved Reserves | PDP | Low Risk | All PDP Reserves are included in Borrowing Base value |
| | PDNP | | PDNP and PUD Reserves cannot constitute greater than 25-30% of Borrowing Base value |
| | PUD | | |
| | Probable | | No Borrowing Base value is assigned to probable or possible reserves |
| | Possible | High Risk | |




**Asset Concentrations**

- Single well representing 10% - 15% of Borrowing Base value

**G&A Considerations**

- Liquidating G&A vs standard historical G&A

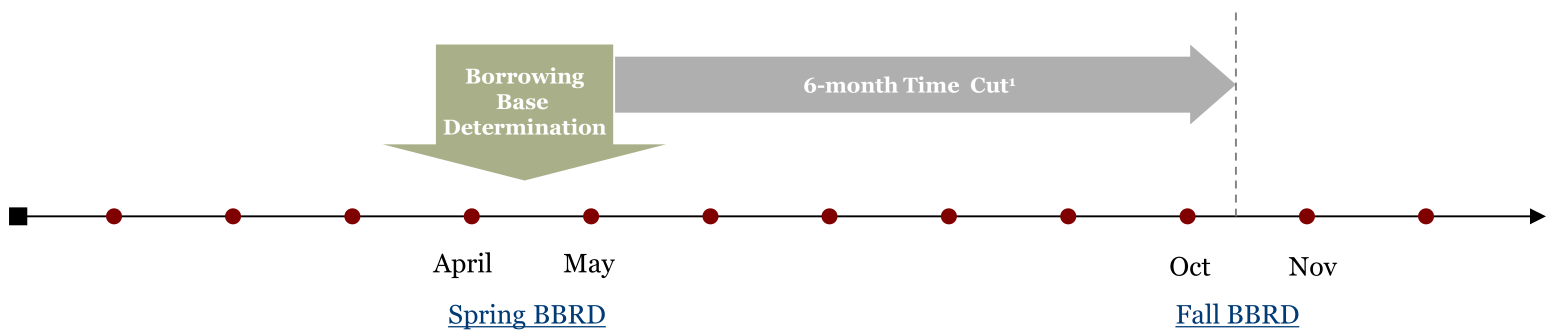
**"Green" Production**

- Wells with less than six months of production history

# Key Borrowing Base Drivers

| Key Loan Parameters | Methodology & Details | |
|---|---|---|
| **Base Case PV9** | ▪ Calculated on Base Case price deck<br>▪ PDP reserves are a key building block<br>▪ Value of hedges (relative to Base Case price deck) | ▪ Limited contribution from PUD and PDNP is allowed<br>▪ An advance rate is applied (65% is a good proxy)<br>▪ 6-month time-cut is applied[1] |
| **Sensitivity Case PV9** | ▪ Calculated based on Sensitivity price deck (70-80% of Base case pricing)<br>▪ Typically governs in high-LOE cases | |
| **Payout** | ▪ Borrowing Base is assumed to be fully outstanding at closing<br>▪ Excess cash flows after interest are applied to reduce principal | ▪ Triggered when nature of type curve is hyperbolic and properties are short-lived<br>▪ This metric is affected by assumed G&A and interest |
| **FNR Remaining** | ▪ Based on a cash flow analysis which is similar to the Payout analysis<br>▪ Measures Future Net Revenue ("FNR") remaining after the loan is paid out | |

## Borrowing Base Cycle




[1] The six-month time cut effectively cuts off six months of expected production and cash flows.

# Acquisition Financing

# Acquisition Financing

## Large Deals < $750MM

| | Mature (Largely PDP) | Developmental (Shale) |
|---|---|---|
| **Buyer** | ▪ Non traditional private equity; Income funds | ▪ Energy private equity / public companies |
| **RBL** | ▪ Draws limited to ≤ 3.25x leverage – results in ~60/40 Debt/Equity<br>▪ BB calculation employs 9% discount rate vs Acquisition metrics of 9% -15%<br>▪ BB is maximized by hedges (3-5 years)<br>▪ BB funded at close up to 85%<br>▪ Distributions subject to RP provision of 3.0x leverage and/or 15% liquidity | ▪ Due to steep initial declines, six month roll-off, hedging (< 3 yrs) results in BB with Debt/Equity of less than 40/60<br>▪ Generally limited funding as liquidity necessary for development capex<br>▪ Initial leverage not an issue due to flush production and backwardated forward curve for oil<br>▪ Distributions not as important to buyers |
| **Sub Capital** | ▪ 2nd liens / High Yield not common as leverage is maximized through RBL<br>▪ Preferred equity (not treated as debt pursuant to GAAP) is frequently employed | ▪ 2nd / High Yield issuance often employed<br>▪ Depending on the proportion of Proved vs Un-proven reserves can exceed the size of the RBL |
| **Other** | ▪ MVCs generally not an issue<br>▪ Increased volatility of differentials have become a growing concern | ▪ MVCs issues very common, can materially impact EBITDA<br>▪ Increased volatility of differentials have become a growing concern |

# Upstream Acquisition Financing Market Overview

***The bank and institutional financing market has been strongly supportive of acquisition financings for 2018***

## Acquisition Financing Market Highlights

- Reserve-based loan ("RBL") facilities have been primary source of debt financing for majority of private equity backed transactions
  - RBL market capacity estimated at between $1.5-2.5B
  - Bank capacity generally limited by conforming borrowing base amount; reluctance on part of lenders to stretch on borrowing base values
  - 30+ lenders active in the upstream RBL market
- 2nd lien and junior capital readily available to support additional leverage on PUD values outside of RBL advance rates
  - Upstream 2$^{nd}$ Lien capacity of ~$750MM
  - OOC Energy & Power lending guidelines of at least 40% to not be considered “sub-standard”

## Expected Bank Structure and Pricing

- Borrowing base: 60% - 70% advance rate on bank deck PV-9 with non-producing PV representing no more than 25% - 30% of value
- Opening liquidity of at least 10% - 15%; higher for PUD heavy assets with significant development capex requirements
- Covenants: 4.0x total leverage; 1:1 current ratio
- Generally looking for run-rate leverage in low 3.0x area
- Multi-year hedging (50% - 80% of PDP) likely required to maximize debt capacity
- New deal grid-based pricing ranging from L+150 - 250 bps to L+250 - 350 bps depending on size of deal, leverage, asset quality and other factors

## Debt Markets Overview

### Reserve Based Loan

- Market very healthy as most banks have worked through their problem loans and are attempting to book new assets
- Slower A&D market combined with recovery of bank portfolios driving pricing down and weakening structure
- Syndication hit rates can reach 100%
- OCC guidelines have been adopted but frequently using “Path to Pass” to circumvent initial leverage issue
- If there is any market depth issues would result with gas weighted deals

### 2$^{nd}$ Lien

- Very aggressive due to limited opportunities, resulting in fierce competition among market participants
- Market up to $750MM.

### High Yield

- Market has been open throughout the year despite higher rate environment (margins over treasuries have compressed)
- The week prior saw significant outflow from HY funds (~$5Bn)

# Upstream -  Wells Fargo Capabilities

# Wells Fargo is a Leading Provider of Underwritten Acquisition Financing to Sponsor Backed Portfolio Companies

## Recent Underwritten Acquisition Financing Transactions

| Acquisition of Sabalo Energy | Acquisition of Southwestern Energy Company's Fayetteville Shale Business | Acquisition of Rex Energy | Acquisition of Chevron's Central Basin Platform and Northern Shelf West Texas Assets |
|---|---|---|---|
| Earthstone Energy, Inc.<br>Portfolio company of<br>EnCap Investments L.P.<br>$550 Million<br>Senior Credit Facility<br>$500 Million<br>Senior Unsecured Bridge Facility<br>October 2018<br>*Left Lead Arranger and Bookrunner*<br>Wells Fargo Securities | Flywheel Energy<br>Portfolio company of<br>Kayne Anderson Capital Advisors, L.P.<br>$1.425 Billion<br>Senior Credit Facility<br>September 2018<br>*Left Lead Arranger and Bookrunner & Exclusive Buyside Financial Advisor*<br>Wells Fargo Securities | PennEnergy Resources<br>Portfolio company of<br>EnCap Investments L.P.<br>$925 Million<br>Senior Credit Facility<br>August 2018<br>*Left Lead Arranger and Bookrunner*<br>Wells Fargo Securities | Sabinal Energy, LLC<br>Portfolio company of<br>Kayne Anderson Capital Advisors, L.P.<br>$225 Million<br>Senior Credit Facility<br>September 2017<br>*Sole Lead Arranger and Bookrunner*<br>Wells Fargo Securities |

| Acquisition of Whiting Petroleum's Fort Berthold Indian Reservation Assets | Acquisition of QEP Resources' Pinedale Assets | Acquisition of Linn Energy's 84% W.I. in the South Belridge Hill Asset in California | Acquisition of Halcon Resources' East Texas Assets |
|---|---|---|---|
| Rimrock Oil & Gas<br>Portfolio company of<br>Warburg Pincus<br>$150 Million<br>Senior Credit Facility<br>September 2017<br>*Left Lead Arranger and Bookrunner*<br>Wells Fargo Securities | Oak Ridge Natural Resources<br>Portfolio company of<br>Kayne Anderson Capital Advisors, L.P.<br>$475 Million<br>Senior Credit Facility<br>July 2017<br>*Left Lead Arranger and Bookrunner & Exclusive Financial Advisor*<br>Wells Fargo Securities | Berry Petroleum Company, LLC<br>Portfolio company of<br>Benefit Street Partners / Oaktree<br>$500 Million<br>Senior Credit Facility<br>July 2017<br>*Left Lead Arranger and Bookrunner*<br>Wells Fargo Securities | Hawkwood Energy<br>Portfolio company of<br>Warburg Pincus<br>$350 Million<br>Senior Credit Facility<br>March 2017<br>*Left Lead Arranger and Bookrunner*<br>Wells Fargo Securities |

**Wells Fargo left led 100% fully underwritten commitments to each of these sponsor backed portfolio companies**

# Leading Arranger of Upstream Non-Investment Grade Syndicated Loans <$500 Million

**2013 – 3Q 2018 Leveraged Loan Syndications**
**Left Lead Arranger/Administrative Agent**
**Upstream League Table (by Deals)**

($ in Millions)

| Rank | Institution | No. of Deals | Volume |
|---|---|---|---|
| 1 | Wells Fargo | 90 | $84,071 |
| 2 | JP Morgan | 56 | 62,858 |
| 3 | Bank of America | 19 | 16,370 |
| 4 | Citi | 14 | 11,137 |
| 5 | BMO | 10 | 5,463 |
| 6 | KeyBank | 6 | 3,215 |
| 7 | Mitsubishi UFJ | 5 | 12,384 |
| 8 | RBC | 5 | 4,825 |
| 9 | Goldman Sachs | 5 | 4,381 |
| 10 | Barclays | 5 | 4,123 |

Source: Thomson Reuters (LPC Loan Connector)

**2013 – 3Q 2018 Leveraged Loan Syndications**
**Lead Arranger/Bookrunner**
**Upstream League Table (by Deals)**

($ in Millions)

| Rank | Institution | No. of Deals | Volume |
|---|---|---|---|
| 1 | Wells Fargo | 124 | $68,063 |
| 2 | JP Morgan | 78 | 34,576 |
| 3 | Citi | 59 | 17,728 |
| 4 | BMO | 43 | 12,975 |
| 5 | Bank of America | 42 | 22,299 |
| 6 | RBC | 19 | 9,492 |
| 7 | Capital One | 18 | 4,592 |
| 8 | Deutsche Bank | 17 | 6,042 |
| 9 | Mitsubishi UFJ | 15 | 5,760 |
| 10 | Barclays | 15 | 5,261 |

Source: Thomson Reuters (LPC Loan Connector)

Triple Crown Resources
$250,000,000
Senior Credit Facility
•
Left Lead Arranger

Alta Mesa Resources
$400,000,000
Senior Credit Facility
•
Left Lead Arranger

Percussion Petroleum LLC
$110,000,000
Senior Credit Facility
•
Left Lead Arranger

Sage Natural Resources
$100,000,000
Senior Credit Facility
•
Left Lead Arranger

pinedale energy partners operating, llc
$440,000,000
Senior Credit Facility
•
Left Lead Arranger

Sabinal Energy
$225,000,000
Senior Credit Facility
•
Left Lead Arranger

Rimrock Oil & Gas
$200,000,000
Senior Credit Facility
•
Left Lead Arranger

EagleRidge Energy
$125,000,000
Senior Credit Facility
•
Left Lead Arranger

Hawkwood energy
$450,000,000
Senior Credit Facility
•
Left Lead Arranger

Casillas
$230,000,000
Senior Credit Facility
•
Left Lead Arranger

Escondido Resources
$150,000,000
Senior Credit Facility
•
Left Lead Arranger

Protégé Energy III LLC
$200,000,000
Senior Credit Facility
•
Left Lead Arranger

Sequitur Energy Resources LLC
$375,000,000
Senior Credit Facility
•
Left Lead Arranger

Tecolote Energy, LLC
$250,000,000
Senior Credit Facility
•
Left Lead Arranger

Hilcorp
$300,000,000
Senior Credit Facility
•
Left Lead Arranger

Tanos
$380,000,000
Senior Credit Facility
•
Left Lead Arranger

Colgate Energy
$100,000,000
Senior Credit Facility
•
Left Lead Arranger

Independence Resources Management
$180,000,000
Senior Credit Facility
•
Left Lead Arranger

Lario Oil & Gas Company
$185,000,000
Senior Credit Facility
•
Left Lead Arranger

Rockcliff Energy LLC
$300,000,000
Senior Credit Facility
•
Left Lead Arranger

# Leading Arranger of Upstream Non-Investment Grade Syndicated Loans ≥ $500 Million

## 2013 – 3Q 2018 Leveraged Loan Syndications Left Lead Arranger/Administrative Agent Upstream League Table (by Deals)

($ in Millions)

| Rank | Institution | No. of Deals | Volume |
|---|---|---|---|
| 1 | Wells Fargo | 90 | $84,071 |
| 2 | JP Morgan | 56 | 62,858 |
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Source: Thomson Reuters (LPC Loan Connector)

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| 9 | Mitsubishi UFJ | 15 | 5,760 |
| 10 | Barclays | 15 | 5,261 |

Source: Thomson Reuters (LPC Loan Connector)

**Oasis Petroleum**
$1,350,000,000
Senior Credit Facility
•
Left Lead Arranger

**PennEnergy Resources**
$925,000,000
Senior Credit Facility
•
Left Lead Arranger

**SM Energy**
$1,000,000,000
Senior Credit Facility
•
Left Lead Arranger

**Citation Oil & Gas Corp.**
$750,000,000
Senior Credit Facility
•
Left Lead Arranger

**Indigo**
$800,000,000
Senior Credit Facility
•
Left Lead Arranger

**QEP Resources**
$1,250,000,000
Senior Credit Facility
•
Left Lead Arranger

**Black Stone Minerals**
$600,000,000
Senior Credit Facility
•
Left Lead Arranger

**Berry Petroleum Company LLC**
$575,000,000
Senior Credit Facility
•
Left Lead Arranger

**HG Energy**
$875,000,000
Senior Credit Facility
•
Left Lead Arranger

**Laredo Petroleum**
$1,200,000,000
Senior Credit Facility
•
Left Lead Arranger

**Covey Park Energy**
$650,000,000
Senior Credit Facility
•
Left Lead Arranger

**WPX Energy**
$1,500,000,000
Senior Credit Facility
•
Left Lead Arranger

**Parsley**
$1,000,000,000
Senior Credit Facility
•
Left Lead Arranger

**Jagged Peak Energy**
$540,000,000
Senior Credit Facility
•
Left Lead Arranger

**Diamondback Energy**
$1,000,000,000
Senior Credit Facility
•
Left Lead Arranger

**WildHorse Resource Development**
$1,300,000,000
Senior Credit Facility
•
Left Lead Arranger

**Carrizo**
$900,000,000
Senior Credit Facility
•
Left Lead Arranger

**Flywheel Energy**
$1,450,000,000
Senior Credit Facility
•
Left Lead Arranger

**Lewis Energy Group**
$600,000,000
Senior Credit Facility
•
Left Lead Arranger

**Extraction Oil & Gas**
$575,000,000
Senior Credit Facility
•
Left Lead Arranger

# Wells Fargo is the #1 Bookrunner in the Upstream High Yield Market

## 2013 – YTD 2018 High Yield Bookrunning Manager Upstream League Table (by Deals)

($ in Millions)

| Rank | Underwriter | No. of Deals | Volume |
|---|---|---|---|
| 1 | Wells Fargo | 143 | $16,540 |
| 2 | JP Morgan | 124 | 14,837 |
| 3 | Citi | 90 | 10,798 |
| 4 | Bank of America | 88 | 10,158 |
| 5 | RBC | 88 | 8,854 |
| 6 | Credit Suisse | 76 | 10,972 |
| 7 | Barclays | 65 | 7,489 |
| 8 | BMO | 62 | 6,210 |
| 9 | Goldman Sachs | 54 | 8,368 |
| 10 | Deutsche Bank | 31 | 3,336 |

Source: Wells Fargo Securities and Dealogic

## 2013 – YTD 2018 High Yield Left Bookrunning Manager Upstream League Table (by Deals)

($ in Millions)

| Rank | Underwriter | No. of Deals | Volume |
|---|---|---|---|
| 1 | JP Morgan | 53 | $6,154 |
| 2 | Credit Suisse | 39 | 6,066 |
| 3 | Wells Fargo | 32 | 3,449 |
| 4 | Bank of America | 26 | 3,918 |
| 5 | Barclays | 19 | 2,854 |
| 6 | Citi | 15 | 1,678 |
| 7 | Goldman Sachs | 12 | 2,785 |
| 8 | RBC | 11 | 1,675 |
| 9 | Morgan Stanley | 5 | 1,531 |
| 10 | BMO | 4 | 438 |

Source: Wells Fargo Securities and Dealogic

| | | | |
|---|---|---|---|
| Oasis Petroleum<br>$400,000,000<br>Senior Notes<br>•<br>Left Bookrunner | WildHorse Resource Development<br>$200,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner | Diamondback Energy<br>$300,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner | CoveyPark Energy<br>$175,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner |
| QEP Resources<br>$500,000,000<br>Senior Notes<br>•<br>Left Bookrunner | WildHorse Resource Development<br>$150,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner | WPX Energy<br>$150,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner | WildHorse Resource Development<br>$350,000,000<br>Senior Notes<br>•<br>Left Bookrunner |
| Alta Mesa Resources<br>$500,000,000<br>Senior Notes<br>•<br>Left Bookrunner | SM Energy<br>$500,000,000<br>Senior Notes<br>•<br>Left Bookrunner | Rice Energy<br>$400,000,000<br>Senior Notes<br>•<br>Left Bookrunner | Carrizo<br>$300,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner |
| Atlas Resource Partners, L.P.<br>$75,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner | WPX Energy<br>$500,000,000<br>Senior Notes<br>•<br>Left Bookrunner | Cimarex<br>$750,000,000<br>Senior Notes<br>•<br>Left Bookrunner | Legacy Reserves<br>$300,000,000<br>Add-On Senior Notes<br>•<br>Left Bookrunner |