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# How Operators and Service Companies are Weathering a Challenging North American Market

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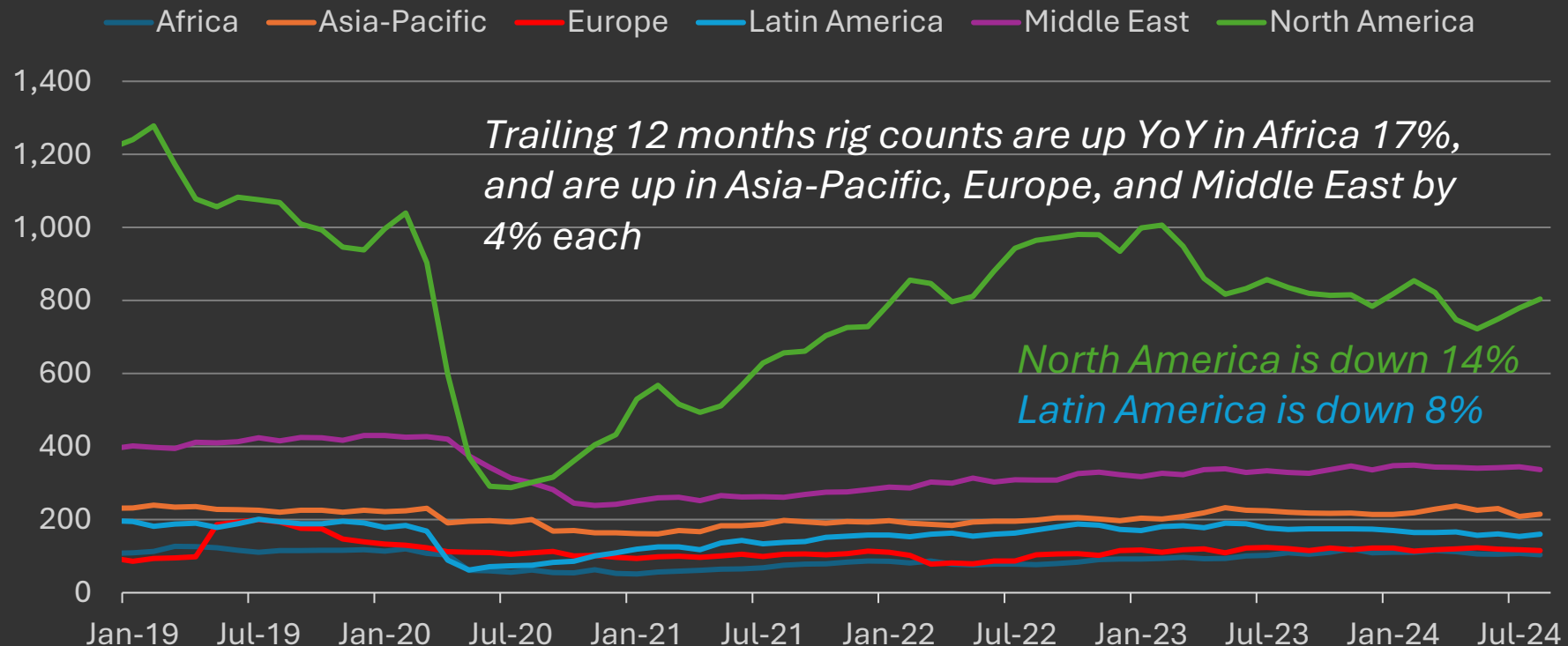
# The state of the market

# Rigs are coming out of the Americas



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The Americas have been hit hard with rig count declines

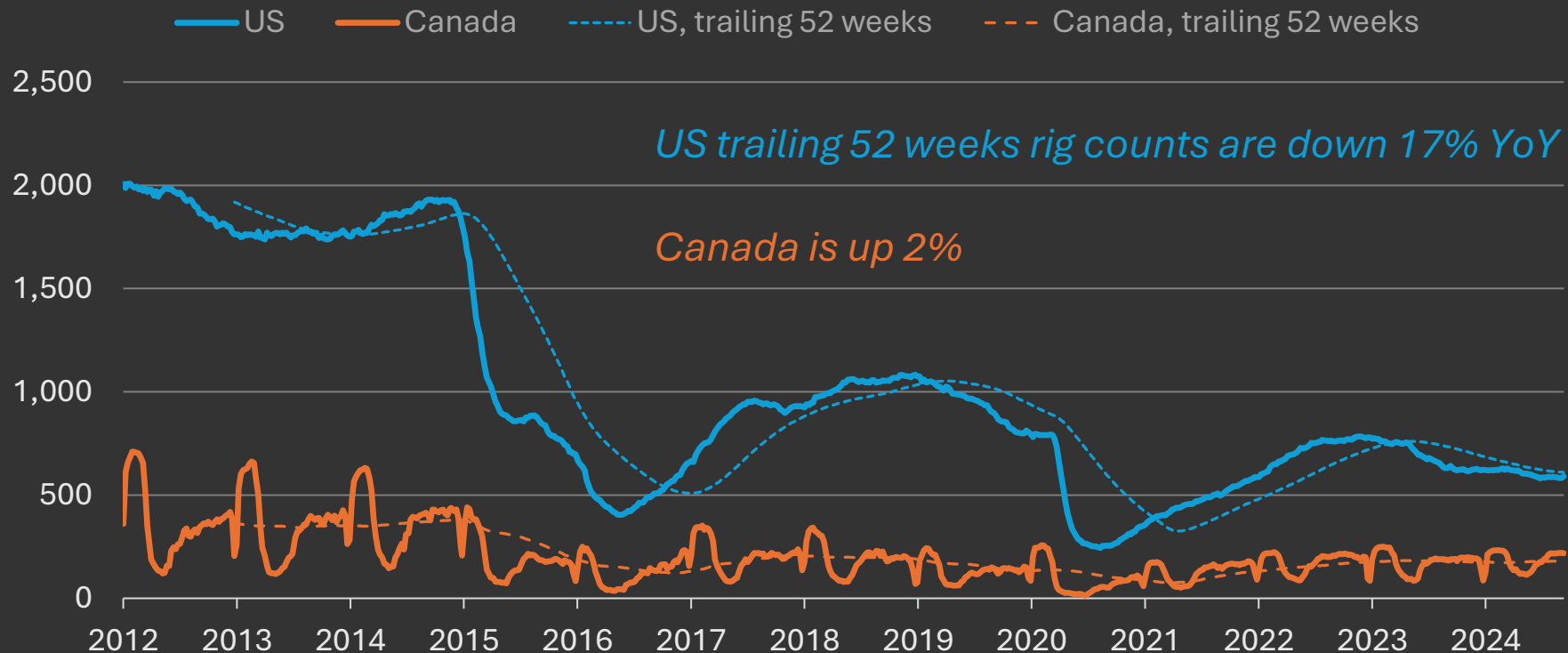


# The US has been hit hard



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US rig counts have been declining since late 2022,  
while Canadian rig counts have been flat



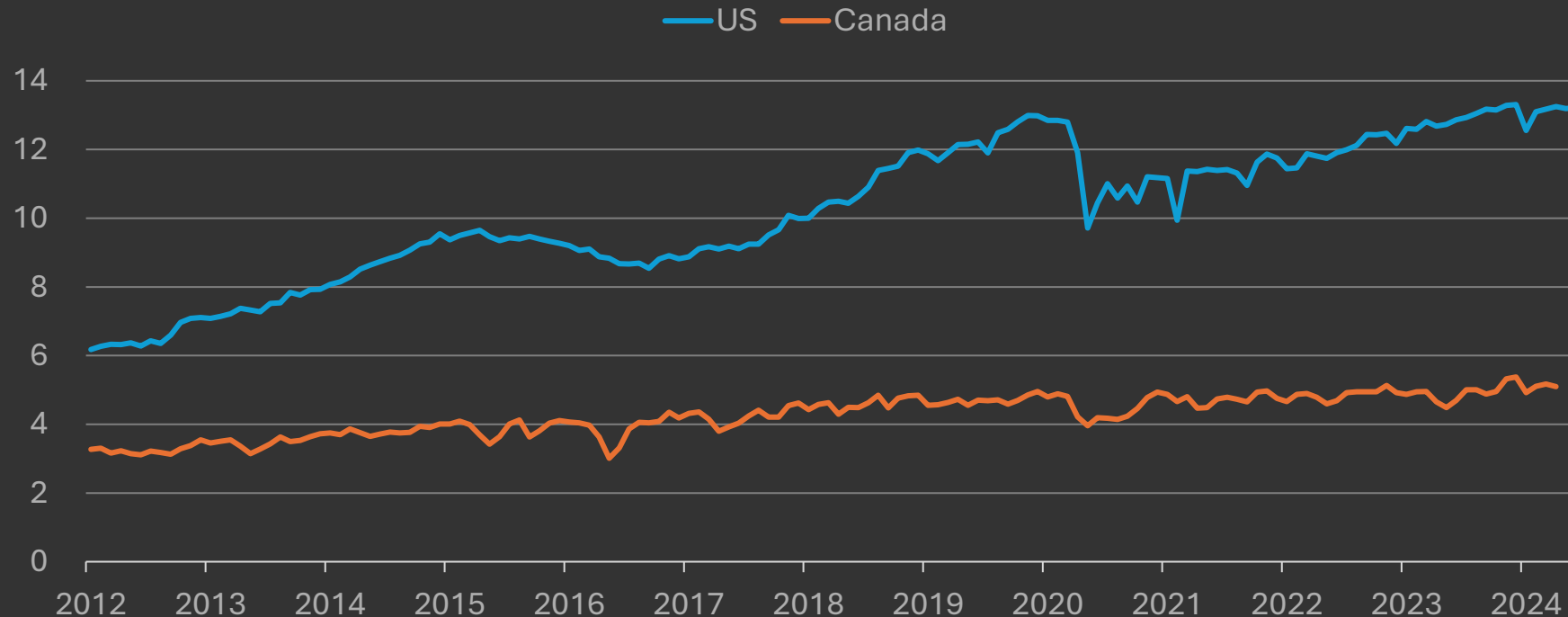
# But it's not an industry washout



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US and Canada crude oil production is up 3-5%  
over the past 12 months

Crude oil production, million barrels per day



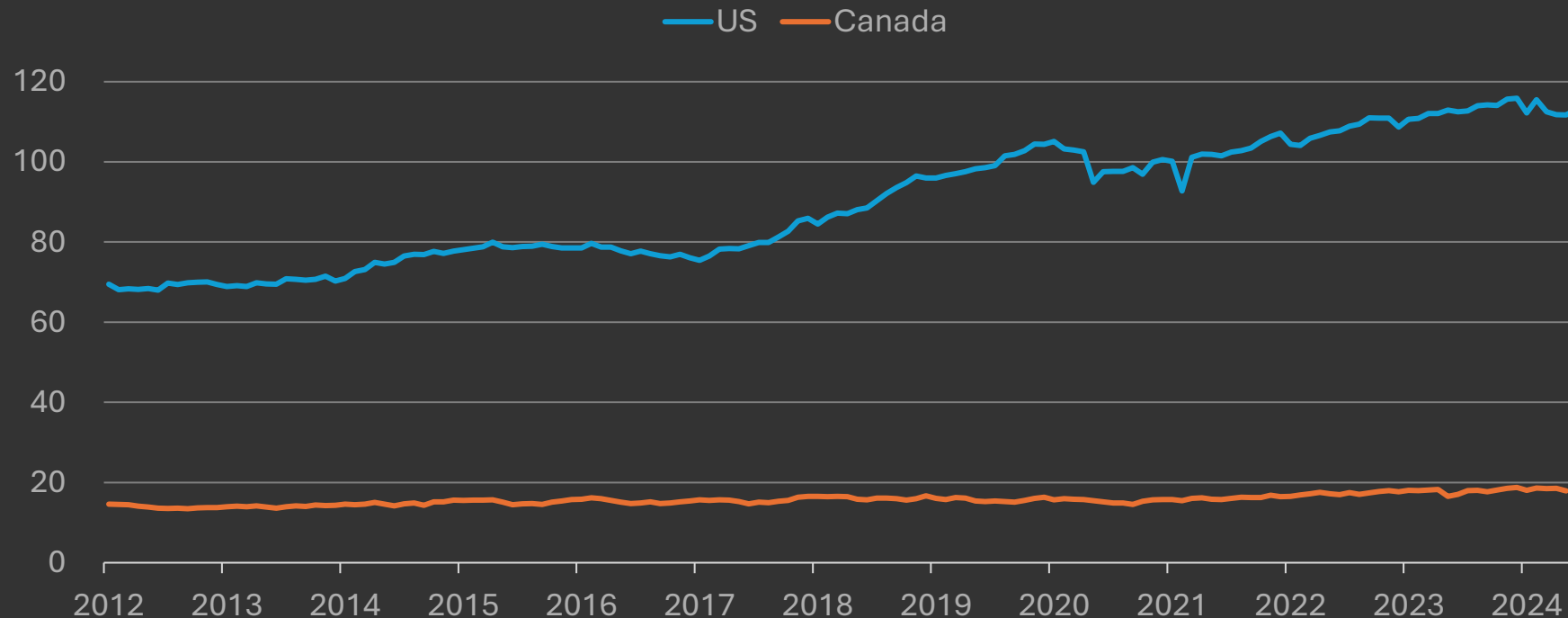


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# Gas production is also flat-to-up

Even amidst historically low prices, US gas production is flat YoY, while Canada's is up 4%

Marketed natural gas production, billion cubic feet per day





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# How is the industry responding? Consolidation

# The word of the “day” – consolidation

- Consolidation = combination of two or more businesses at scale
- While we are seeing a ton of it since 2023, it’s not brand new





# Deals announced since 2023











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				Announced	Closed	
	+		=	<b>\$59.5B</b>	October 11, 2023	May 3, 2024
	+		=	<b>\$53B</b>	October 23, 2023	
	+		=	<b>\$26B</b>	February 12, 2024	September 10, 2024
	+		=	<b>\$22.5B</b>	May 29, 2024	

# Deals announced since 2023



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				Announced	Closed	
	+		=	<b>\$12B</b>	December 11, 2023	August 1, 2024
	+		=	<b>\$7.4B</b>	January 11, 2024	
	+		=	<b>\$6.3B</b>	May 22, 2023	August 7, 2023
	+		=	<b>\$4.9B</b>	July 13, 2023	November 2, 2023

# Deals announced since 2023











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				Announced	Closed	
	+		=	<b>\$4.5B</b>	January 4, 2024	April 1, 2024
	+	Hibernia and Tap Rock	=	<b>\$4.7B</b>	June 20, 2023	August 2, 2023
	+		=	<b>\$4.5B</b>	August 21, 2023	November 1, 2023
	+	3 Permian PE-backed co.s	=	<b>\$4.3B</b>	April 3, 2023	June 12, 2023

# Even in midstream and oilfield services...



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				Announced	Closed	
	+		=	<b>\$18.8B</b>	May 14, 2023	September 25, 2023
	+		=	<b>\$5.4B</b>	March 11, 2024	July 22, 2024
	+		=	<b>\$7.8B</b>	April 2, 2024	
	+		=	<b>\$2.4B</b>	June 5, 2023	September 1, 2023



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# Keys to consolidation

- Increased distributions to shareholders
- Quick capture of synergies – *shareholders get their cash quickly*
- Maintains or improves balance sheet strength – *limit cash that is going to creditors*



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# E&P cash flow cycle

## Step 1

### **Generate cash from operations**

*Revenue from hydrocarbon sales minus cash costs like direct operating costs, production taxes, general and administrative expenses, etc.*

## Step 2

### **Invest cash in the business for future growth**

*e.g. capital expenditures or acquisitions*

## Step 3

### **Give cash to shareholders and creditors**

*e.g. dividends, share repurchases, debt repayment*

# Press releases give us clues

- Press releases are management's case to investors about why the deal makes sense
- Word choice, structure, omissions...all give us clues to how management thinks about the deal
- Let's highlight some important takeaways from these releases



# Increased distributions to shareholders



## ExxonMobil – Pioneer

*ExxonMobil's strong balance sheet combined with Pioneer's added surplus free cash flow provides upside opportunity to **enhance shareholder capital returns post-closing.***

## Chesapeake – Southwestern

*The combined company, which will assume a new name at closing, will be uniquely positioned to deliver affordable, lower carbon energy to meet growing domestic and international demand with significant, **sustainable cash returns to shareholders through cycles.***

## Chevron – Hess

*With greater confidence in projected long-term cash generation, Chevron intends to **return more cash to shareholders** with higher dividend per share growth and higher share repurchases.*

## Permian Resources – Earthstone

*The transaction strengthens Permian Resources' position as a leading Delaware Basin independent E&P with over 400,000 Permian net acres, pro forma production of approximately 300,000 Boe/d<sup>1</sup> and an **enhanced free cash flow profile to increase returns to shareholders.***



# Increased distributions to shareholders



Why it matters

- Increasing uncertainty over long-term oil & gas supply and demand
- To take on this risk, equity investors require a premium to justify being in the space
- Management will harvest “synergies” and hand the cash over to shareholders

# Quick capture of synergies – “accretive”



## ExxonMobil – Pioneer

*The merger is anticipated to be **accretive immediately** and highly accretive mid- to long-term to ExxonMobil earnings per share and free cash flow, with a **long cash flow runway**.*

## Oxy – CrownRock

*We found CrownRock to be a strategic fit, giving us the opportunity to build scale in the Midland Basin and positioning us to drive value creation for our shareholders with **immediate free cash flow accretion***

## Chevron – Hess

*Expected to be **accretive to cash flow per share in 2025** after achieving synergies and start-up of the fourth floating production storage and offloading (FPSO) vessel in Guyana.*

## APA – Callon

*The transaction is expected to be **accretive to all key financial metrics** and add to APA’s inventory of high quality, short-cycle opportunities.*

# Quick capture of synergies – “accretive”



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## Diamondback – Endeavor

*Substantial near and long-term financial accretion with ~10% free cash flow per share accretion expected in 2025*

## Chesapeake – Southwestern

*The combination is expected to be **immediately accretive to all key per share financial metrics** including operating cash flow, free cash flow, cash dividends, and net asset value, as well as ROCE.*

## Chevron – PDC Energy

*Chevron anticipates the transaction to be **accretive to all key financial measures within the first year after closing***

## Permian Resources – Earthstone

*Expected to be **accretive to free cash flow per share** by an average of >30% per year during the next two years and >25% per year during the next five and ten years*

# Quick capture of synergies – “accretive”



Why it matters

- Oil & gas is an increasingly risky investment opportunity
- Shareholders want to harvest cash from consolidated entities as quickly as possible
- *Timing matters* – the more value that gets pushed into the future, the riskier it becomes, and the more it gets discounted



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# Promotes balance sheet strength

## APA – Callon

*Additional scale anticipated to **improve credit profile**; pro forma balance sheet will remain strong with leverage at 1.1x net debt / adjusted EBITDAX*

## Chesapeake – Southwestern

*The strategic combination will create a premier energy company underpinned by a leading natural gas portfolio adjacent to the highest demand markets, premium inventory, resilient free cash flow, and **an Investment Grade quality balance sheet.***

## Diamondback – Endeavor

*Stock-weighted transaction **solidifies investment grade balance sheet***

## Permian Resources – Earthstone

***Maintains strong balance sheet** with expected leverage of less than 1.0x at closing*

## Ovintiv – 3 Permian PE-backed companies

*Ovintiv remains committed to **an investment grade balance sheet** and expects the ratings agencies to affirm its investment grade rating*



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# Promotes balance sheet strength

Why it matters

- Oil & gas companies are beholden to two types of investors – creditors and shareholders
- Shareholders want as much excess as cash as possible
- Balance sheet strength helps reduce cost of capital, allowing even more returns to shareholders instead of creditors



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# The role of uncertainty

# Uncertainty is core to consolidation

- Questions around size and scale of global oil market in the years and decades ahead
- Even small imbalances in oil supply and demand can create wild price swings
- We need to discount years of future cash flows to properly value oil & gas companies





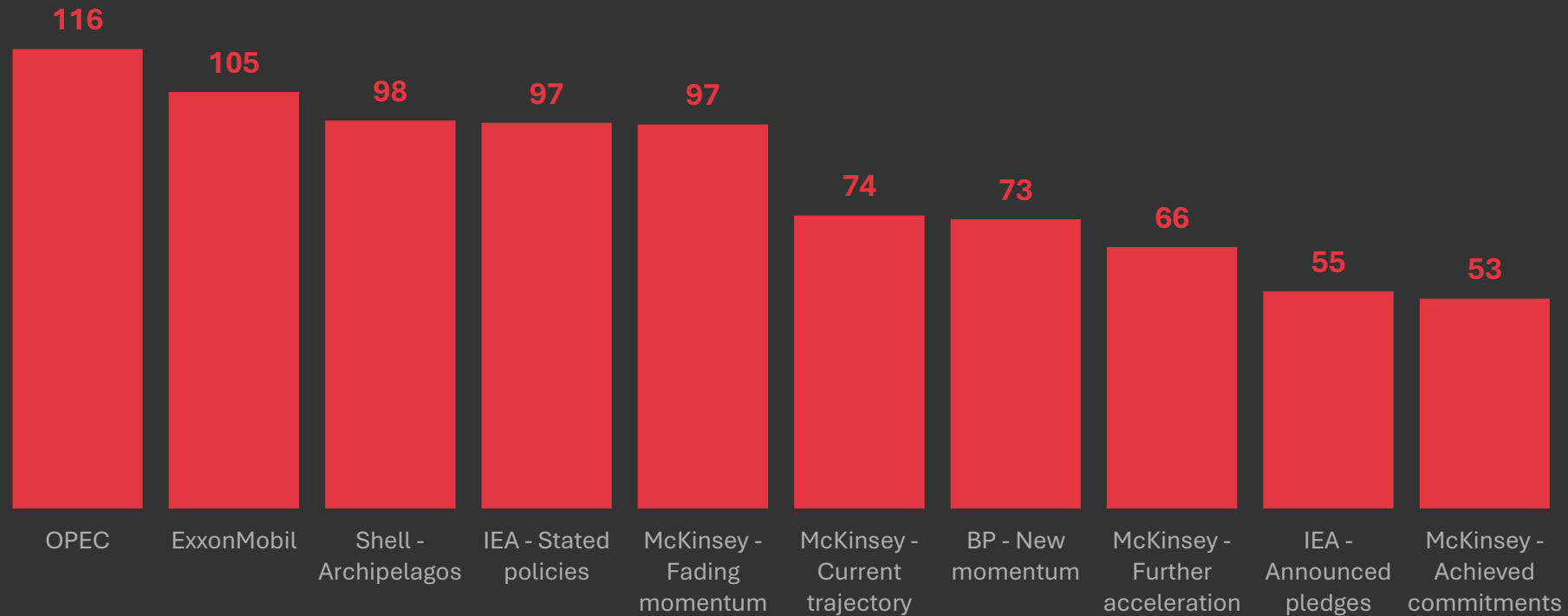
# Little consensus on future oil demand



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## Global oil demand scenarios in 2050

Million bbl per day



*Does not include most extreme renewable adoption and emission reduction scenarios*

*Unresolved questions*

- (a) How much government support do low carbon technologies receive?*
- (b) Does CCUS become viable at scale?*
- (c) What does future energy mix look like for developing countries?*

# Why consolidation helps

- As we learned in price crash of 2014 – 2016, more scale helps you ride out a storm
- Today's consolidation is not about ramping up production
  - Stronger balance sheets
  - Healthier cash flows
  - Longer runway of future cash flows
- With this kind of scale, you gain optionality





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# Importance of breakeven prices



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# Breakeven price figures prominently

## Oxy – CrownRock

*CrownRock's development-ready inventory high-grades Occidental's premier Permian Basin portfolio and **increases low-breakeven inventory***

## Chevron – PDC

*PDC brings strong free cash flow, **low breakeven production** and development opportunities adjacent to Chevron's position in the Denver-Julesburg (DJ) Basin, as well as additional acreage to Chevron's leading position in the Permian Basin.*

## Diamondback – Endeavor

*Best in-class inventory depth and quality with approximately 6,100 pro forma locations with **break evens at <\$40 WTI***

## Civitas – Hibernia and Tap Rock

*Adds premium, **low breakeven oil inventory**, enhances oil-weighting and margin*

# Analyzing E&P performance

- Let's estimate breakeven prices for some E&Ps
- Analyze financial and operational data for each
- Estimate prices necessary for each company to break even on operating profit
  - Excludes hedges
  - Excludes impairments
  - Excludes all marketing purchases and sales



# Our collection of 15 E&Ps



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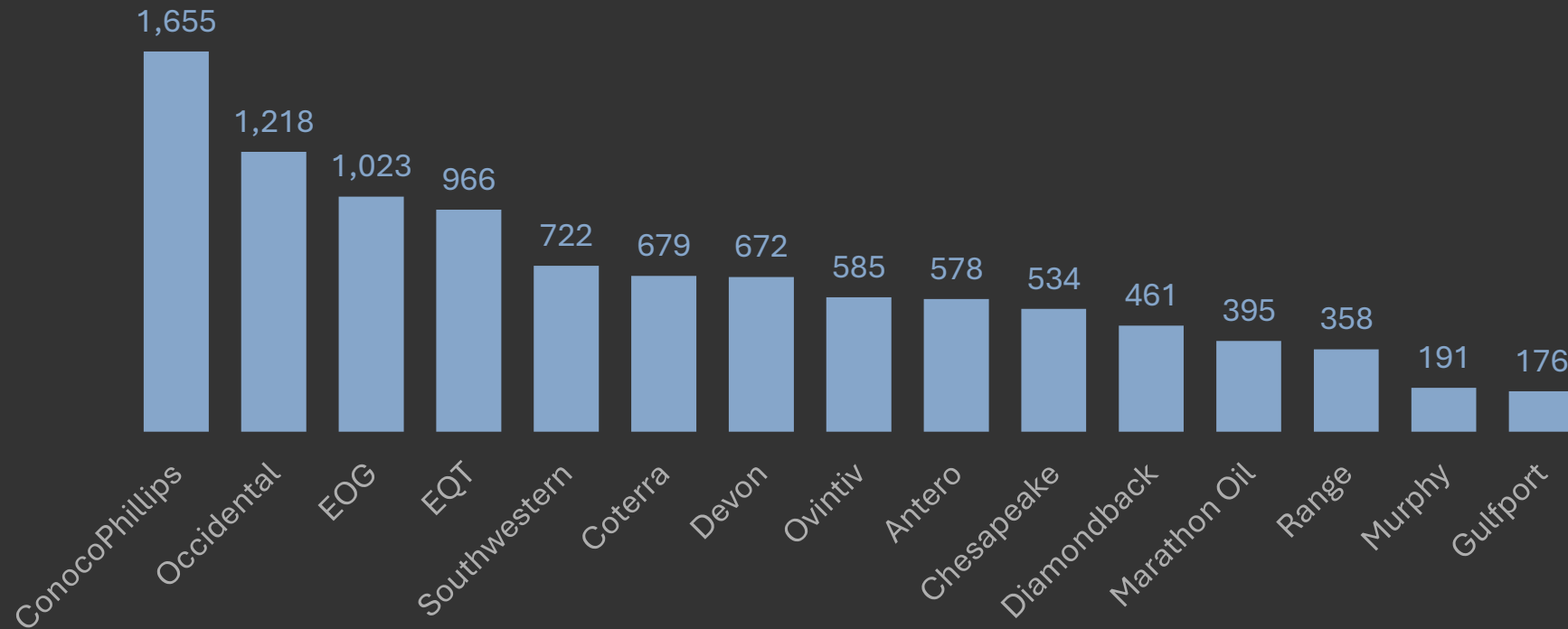
# Covering a wide production range



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## Total production for the 15 publicly traded E&Ps in our chosen cohort

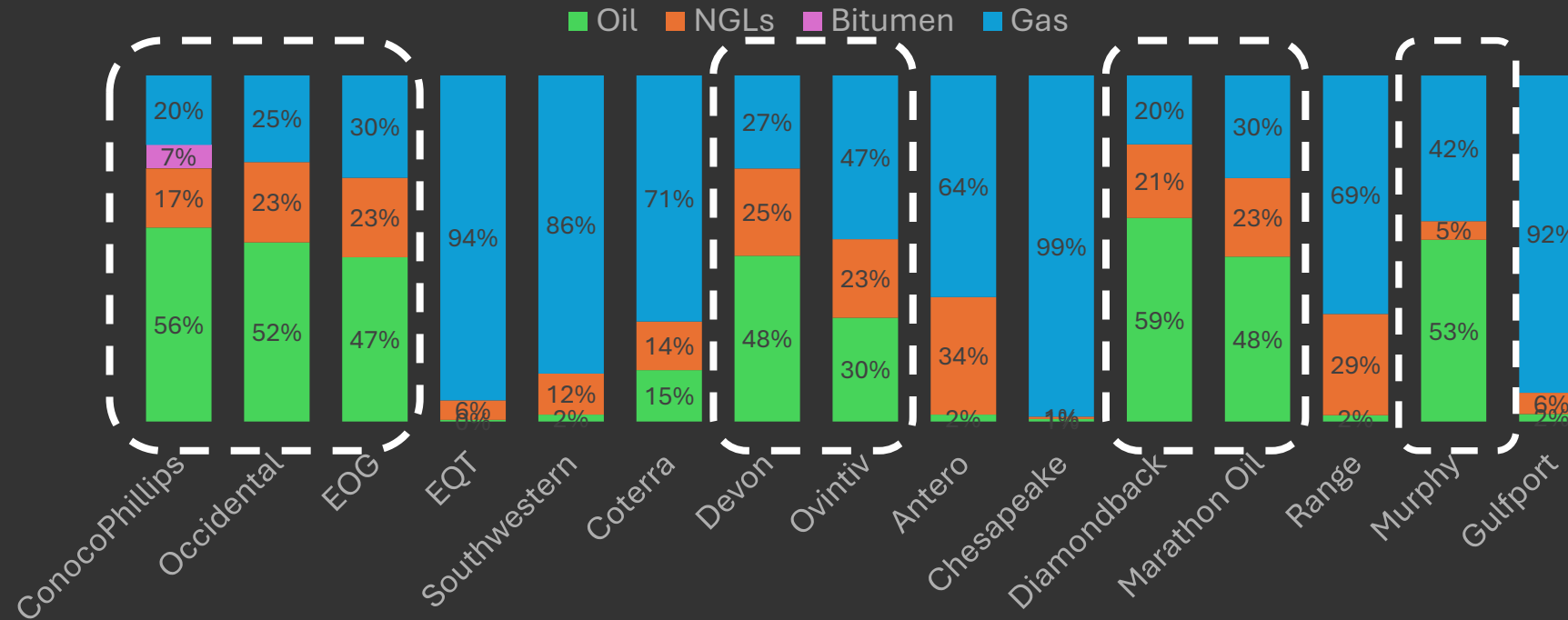
Trailing four quarters as of '24-2Q, thousand barrels of oil equivalent per day



# And a varied production mix

Our cohort includes liquids-focused operators and gas-focused operators

Production mix, '23-3Q through '24-2Q



*Operators with liquids > 50% of production*



# Breakeven oil prices \$30-60



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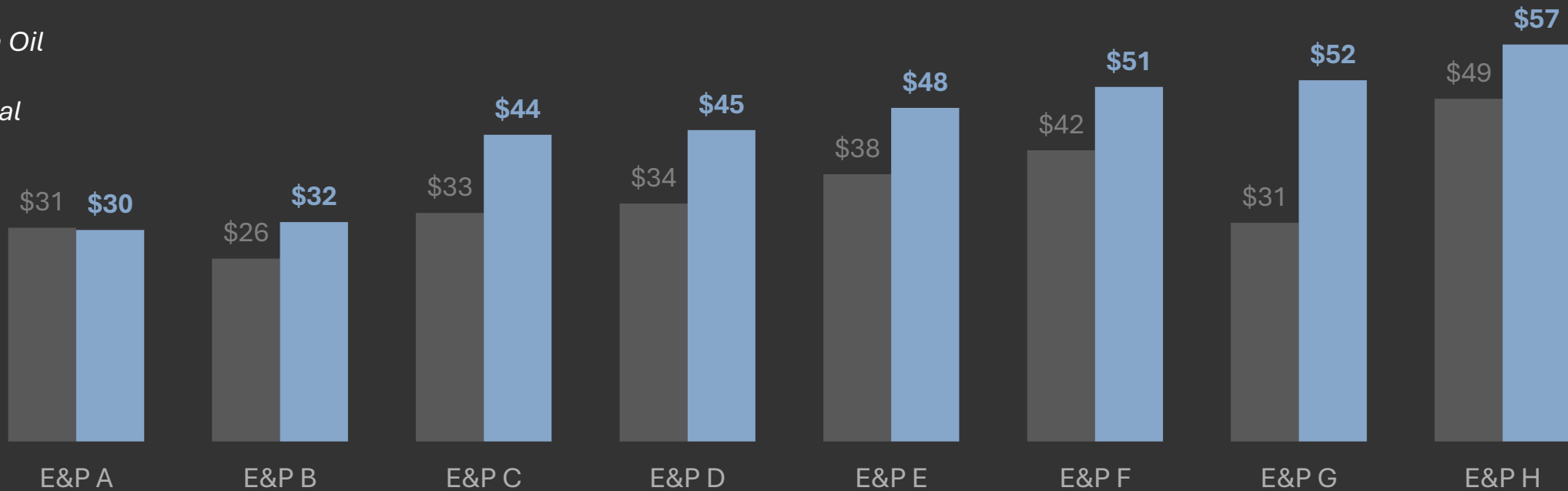
## Breakeven WTI prices have increased notably over the past year as gas prices have collapsed

Operator cohort includes

- ConocoPhillips
- Devon
- EOG
- Marathon Oil
- Murphy
- Occidental
- Ovintiv

Breakeven WTI price (per bbl), trailing 4 quarters

■ '23-2Q ■ '24-2Q



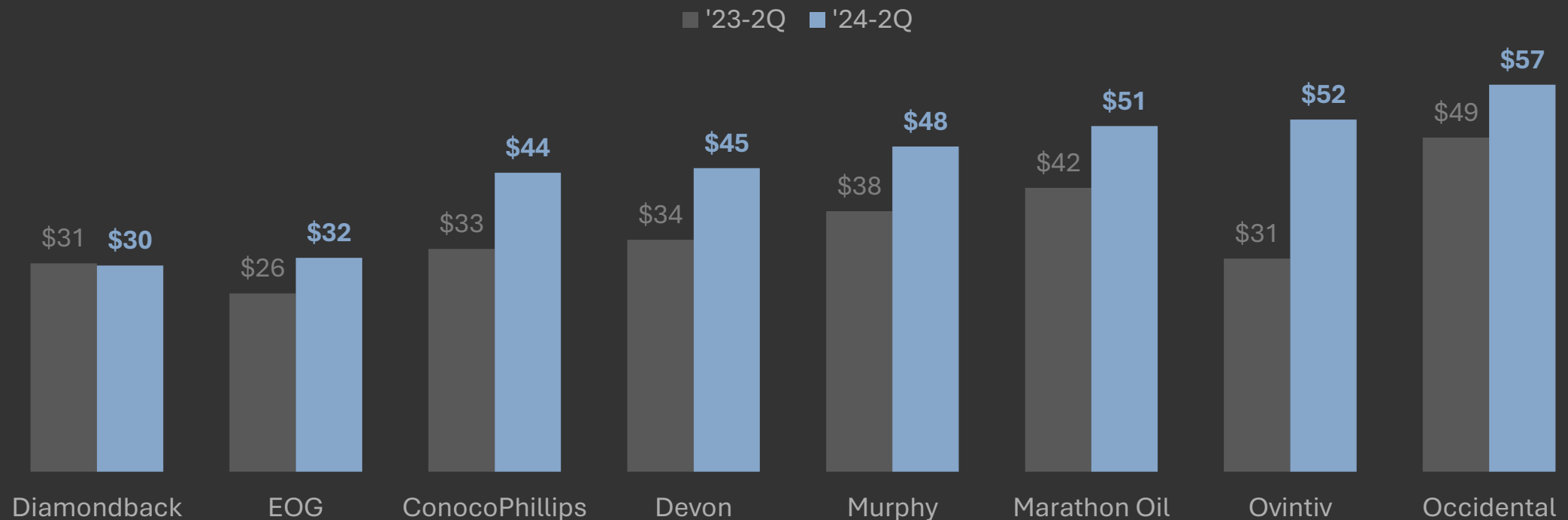
# Breakeven oil prices \$30-60



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**Breakeven WTI prices have increased notably over the past year as gas prices have collapsed**

Breakeven WTI price (per bbl), trailing 4 quarters



# Breakeven gas prices \$1-3



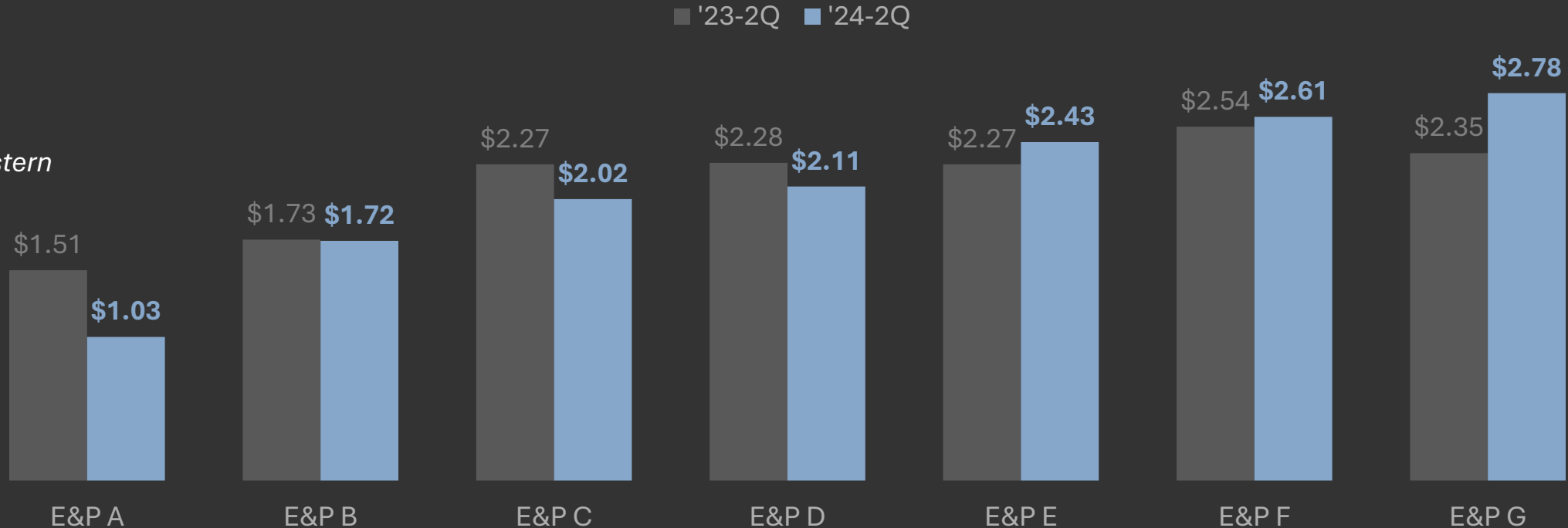
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## Breakeven Henry Hub natural gas price movements have varied from operator to operator

Operator cohort includes

- Antero
- Chesapeake
- Coterra
- EQT
- Gulfport
- Range
- Southwestern

Breakeven natural gas price (per mcf), trailing 4 quarters



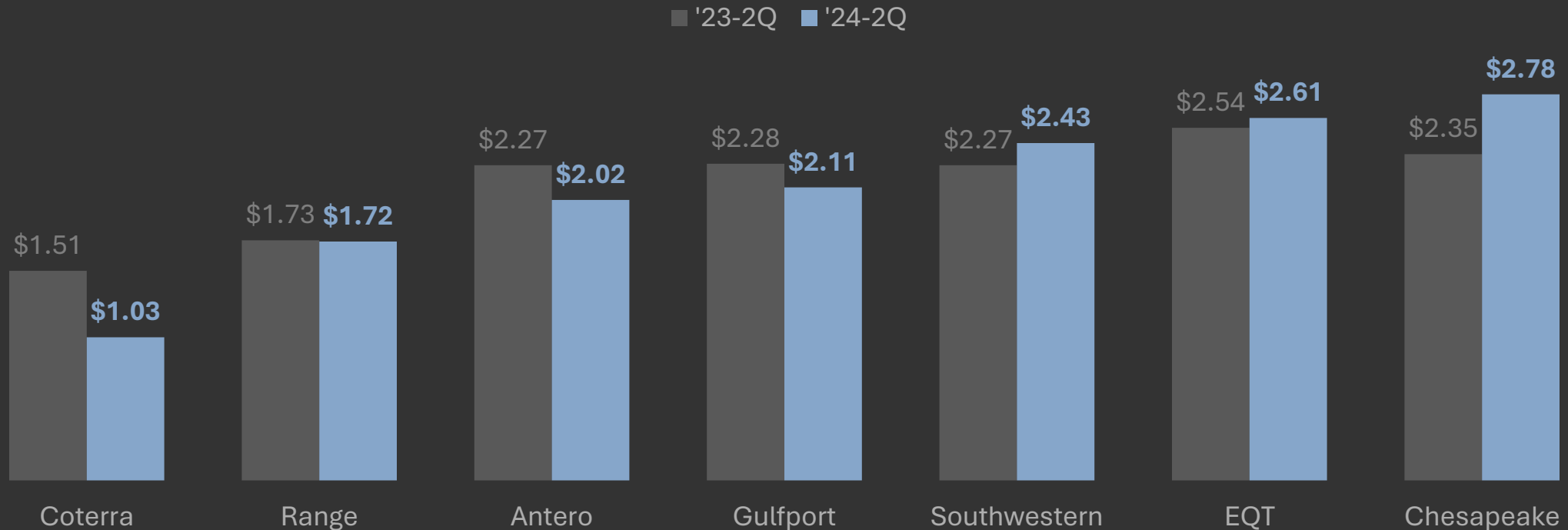
# Breakeven gas prices \$1-3



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## Breakeven Henry Hub natural gas price movements have varied from operator to operator

Breakeven natural gas price (per mcf), trailing 4 quarters





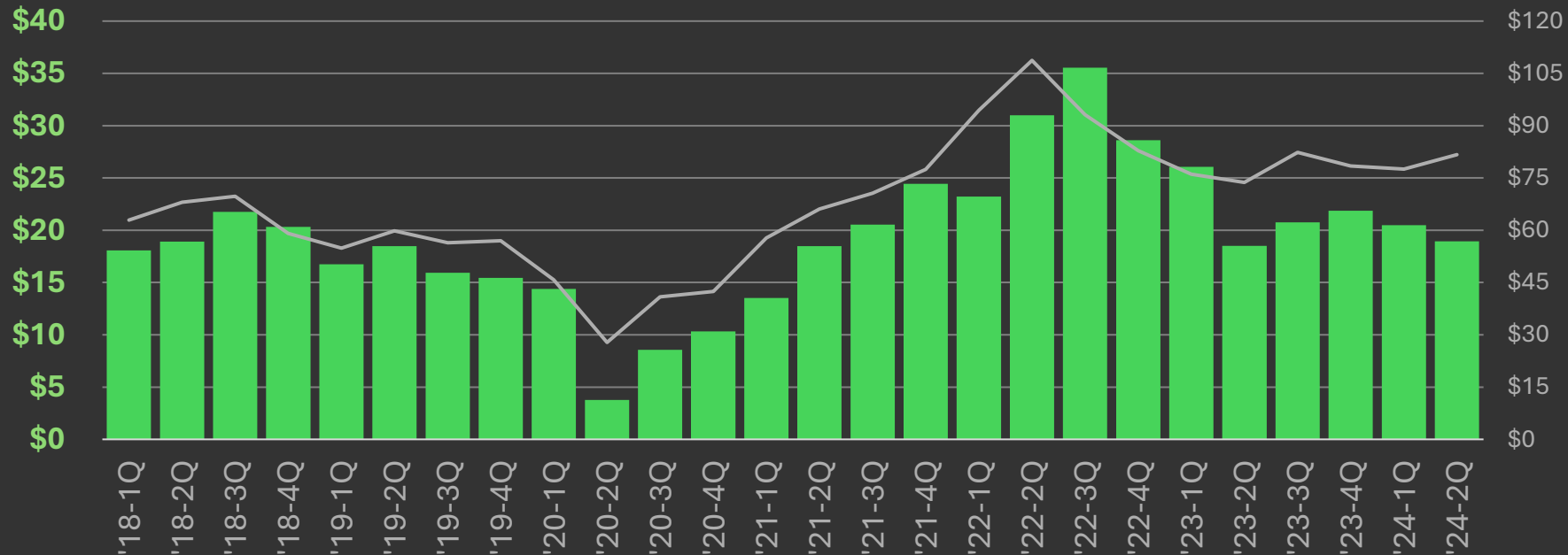
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# E&Ps are generating lots of cash

E&Ps are still generating more cash than they were before the pandemic

Aggregate cash from operations for our cohort, billions

Cash from operations per boe — WTI spot price



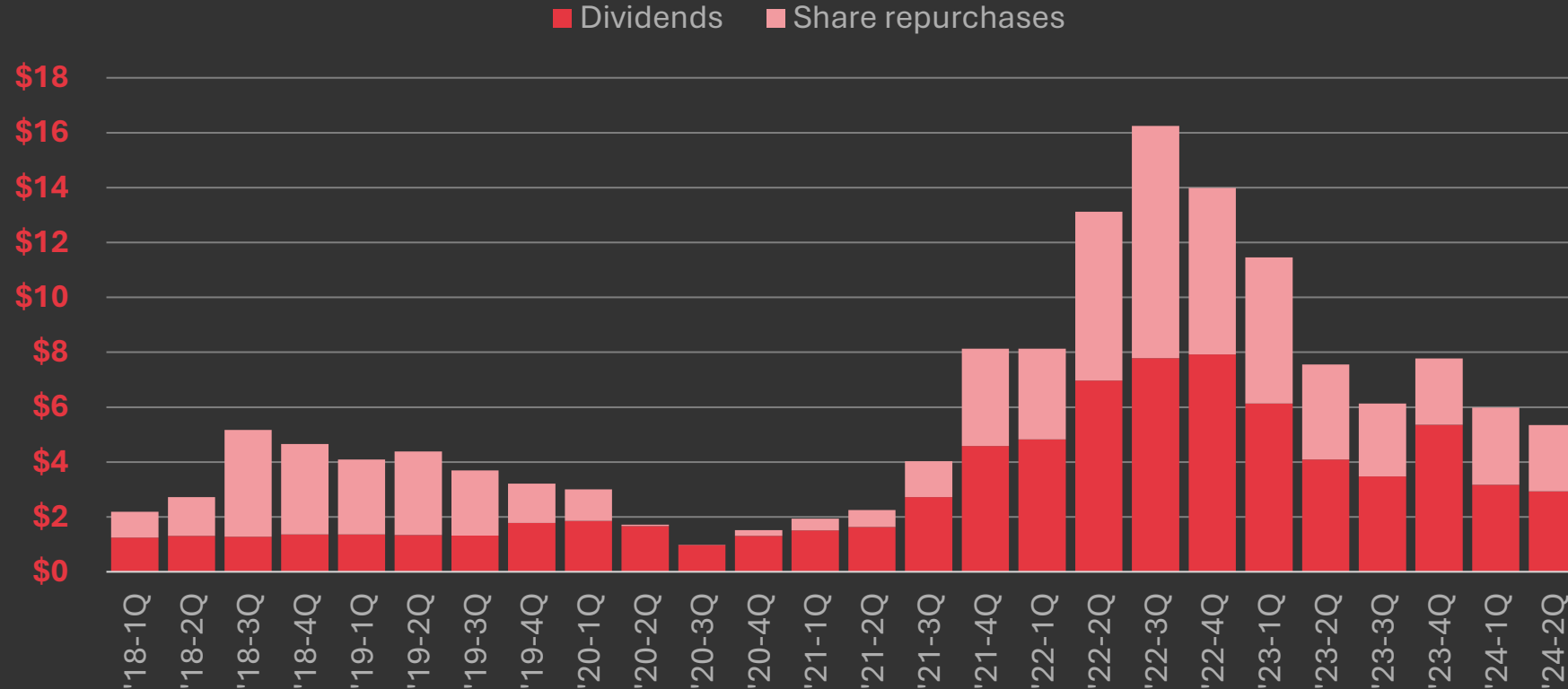
# Shareholder distributions are dropping



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## E&Ps shareholder distributions have fallen rapidly

Aggregate cash transfers to shareholders for our cohort, billions



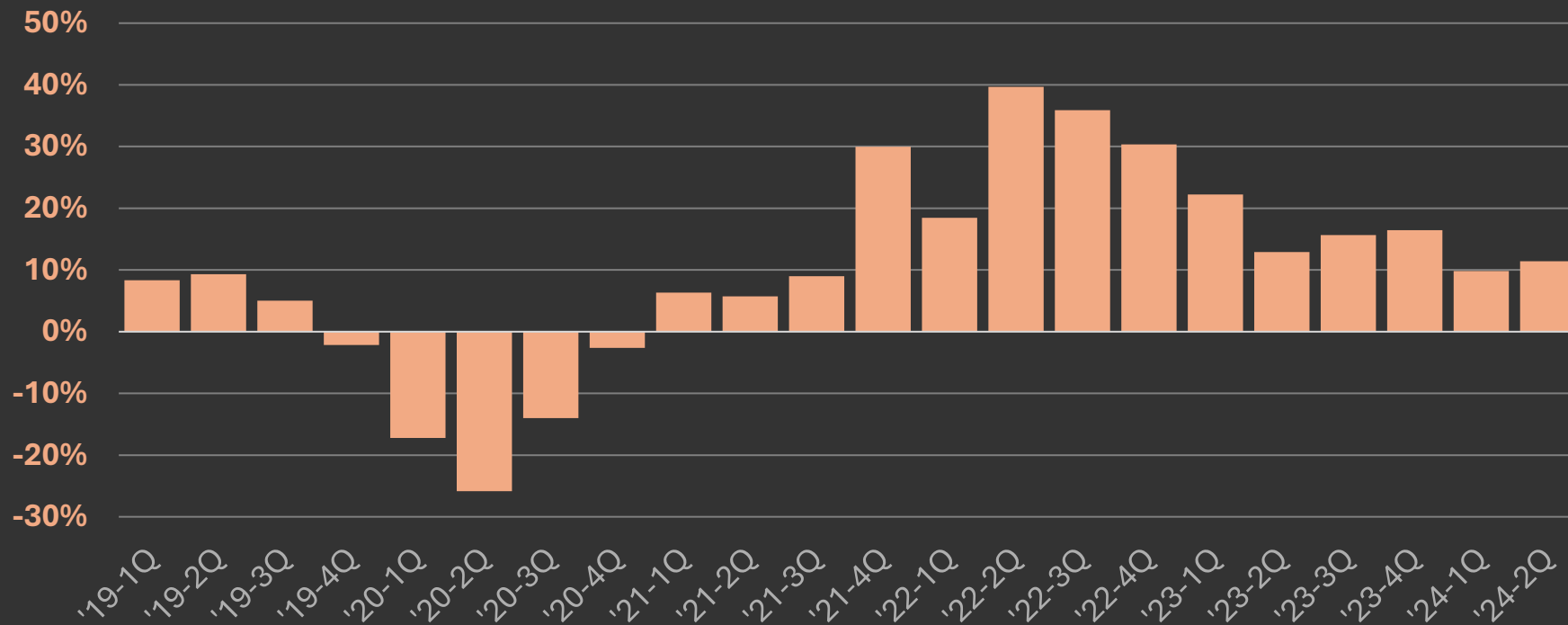


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# E&P returns on capital are stable

Return on capital employed (ROCE) is off its peak  
but is now stable

Annualized ROCE by quarter





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# What about oilfield services?



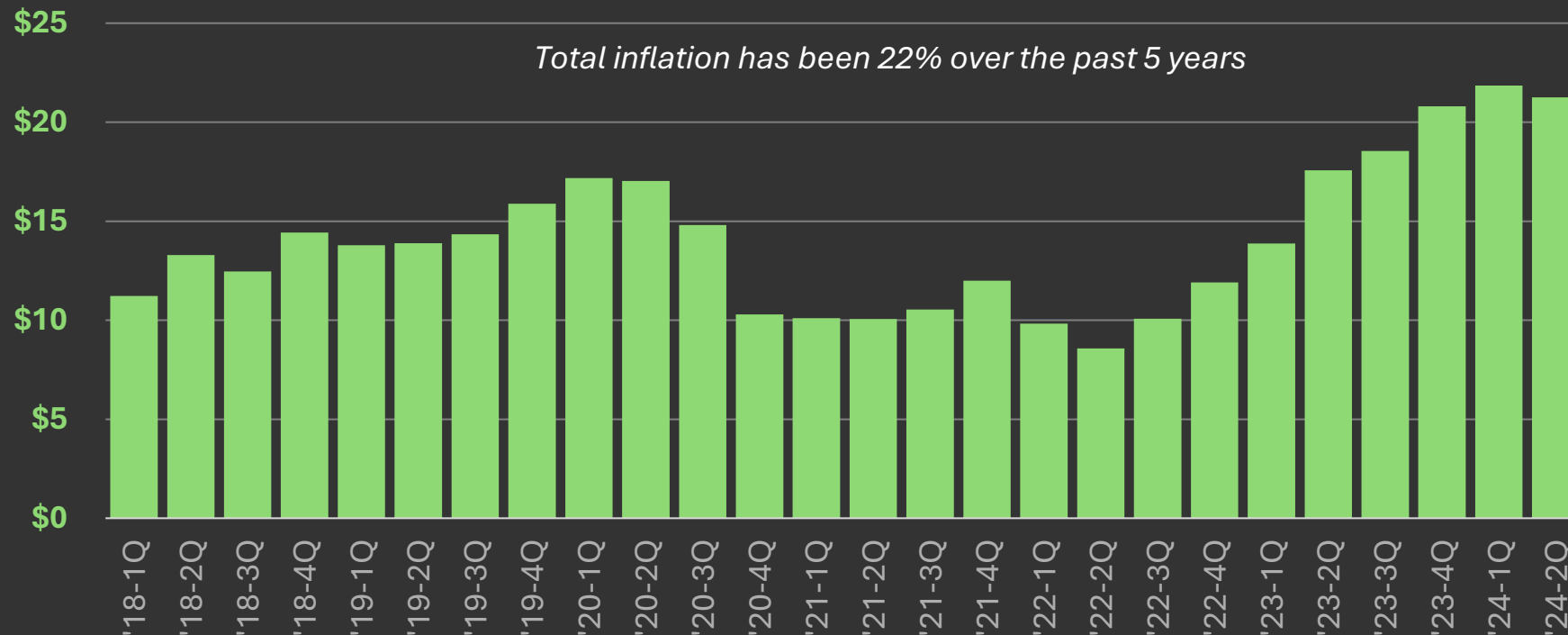
# OFS is also generating cash



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Cash from operations for our OFS cohort has grown  
50% over the past 5 years

Aggregate cash from operations for our cohort, trailing 4 quarters, billions



OFS cohort includes

- Baker Hughes
- Cactus
- ChampionX
- Core Labs
- Dril-Quip
- Expro
- Halliburton
- H&P
- Liberty
- Nabors
- NOV
- Oceaneering
- Oil States
- Patterson-UTI
- ProPetro
- RPC
- SLB
- TechnipFMC
- Weatherford

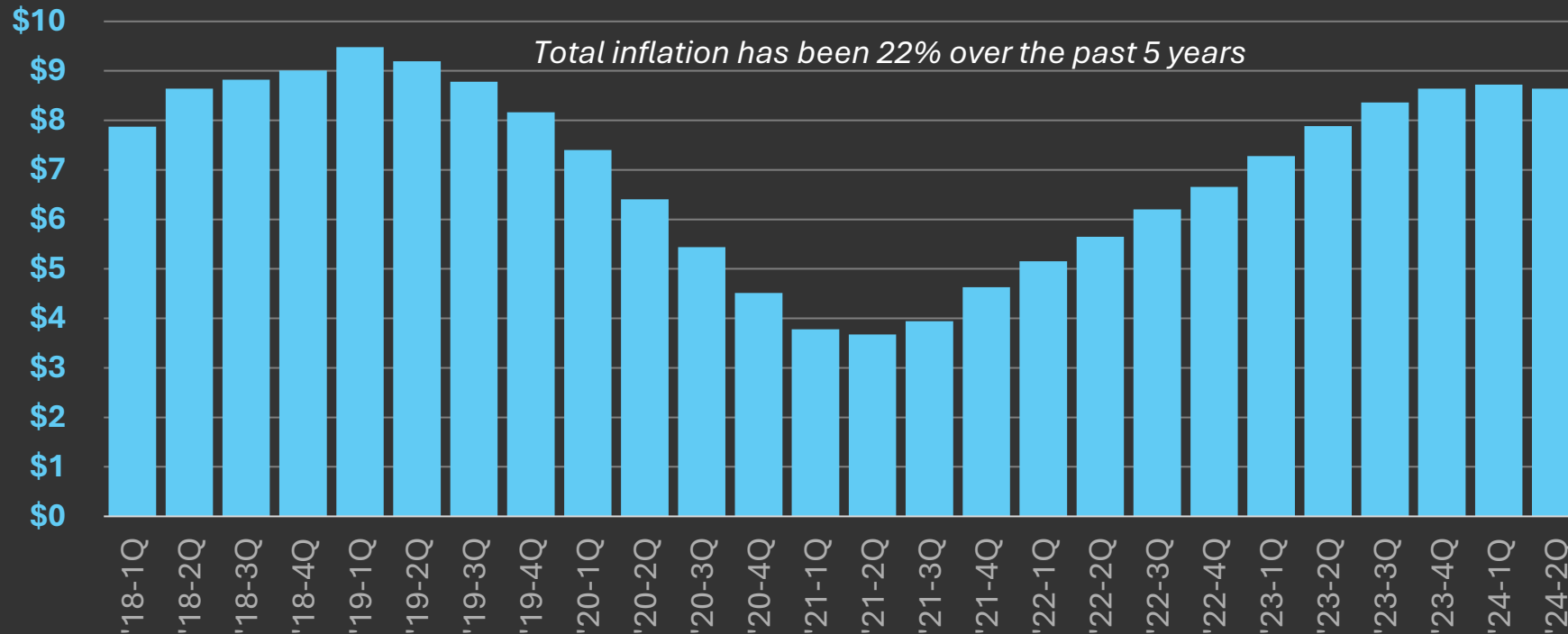
# Capex discipline is important



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Capex for our OFS cohort is down 6%  
over the past 5 years

Aggregate cash from operations for our cohort, trailing 4 quarters, billions



OFS cohort includes

- Baker Hughes
- Cactus
- ChampionX
- Core Labs
- Dril-Quip
- Expro
- Halliburton
- H&P
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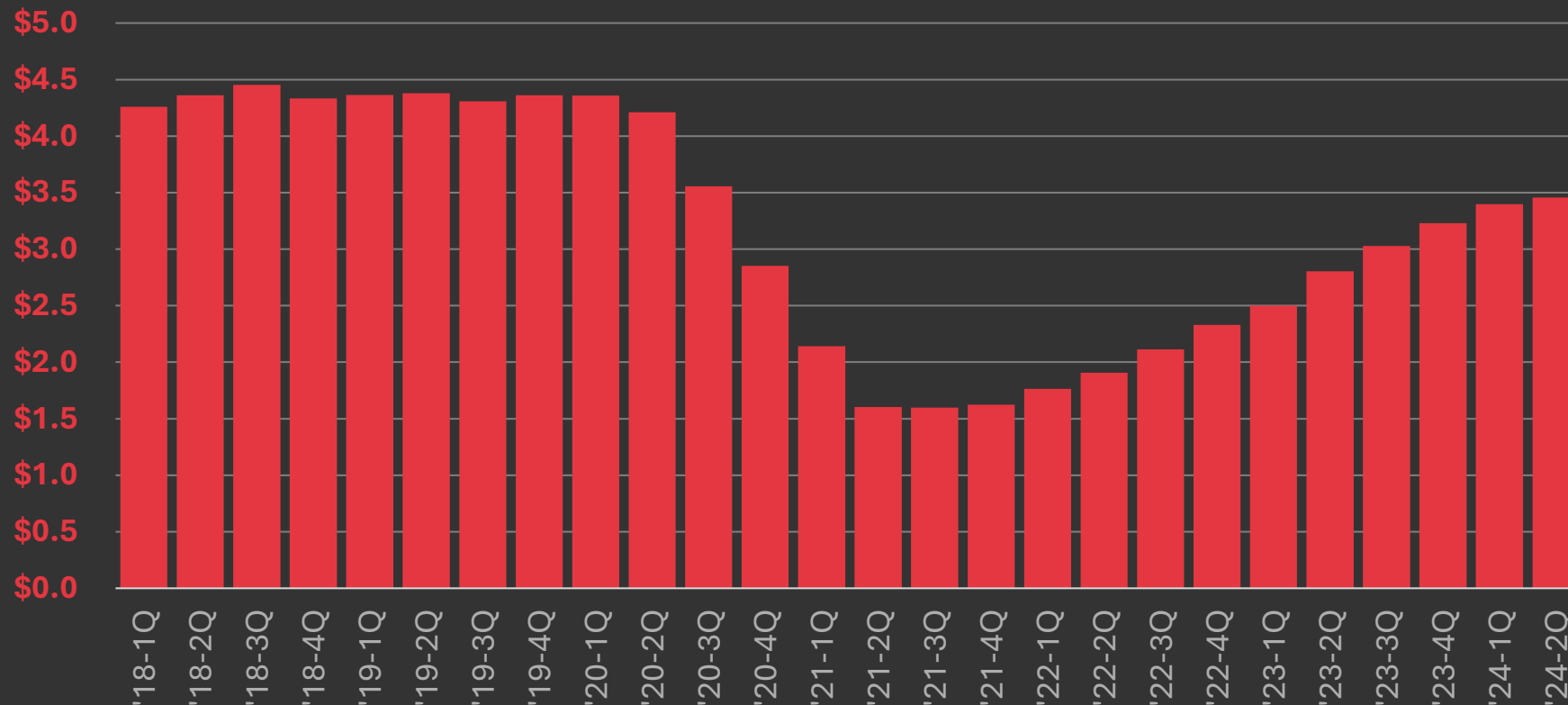


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# Also discipline with dividends

## OFS companies have been cautious with dividends

Aggregate cash used for dividend payments for our cohort, trailing 4 quarters, billions



OFS cohort includes

- Baker Hughes
- Cactus
- ChampionX
- Core Labs
- Dril-Quip
- Expro
- Halliburton
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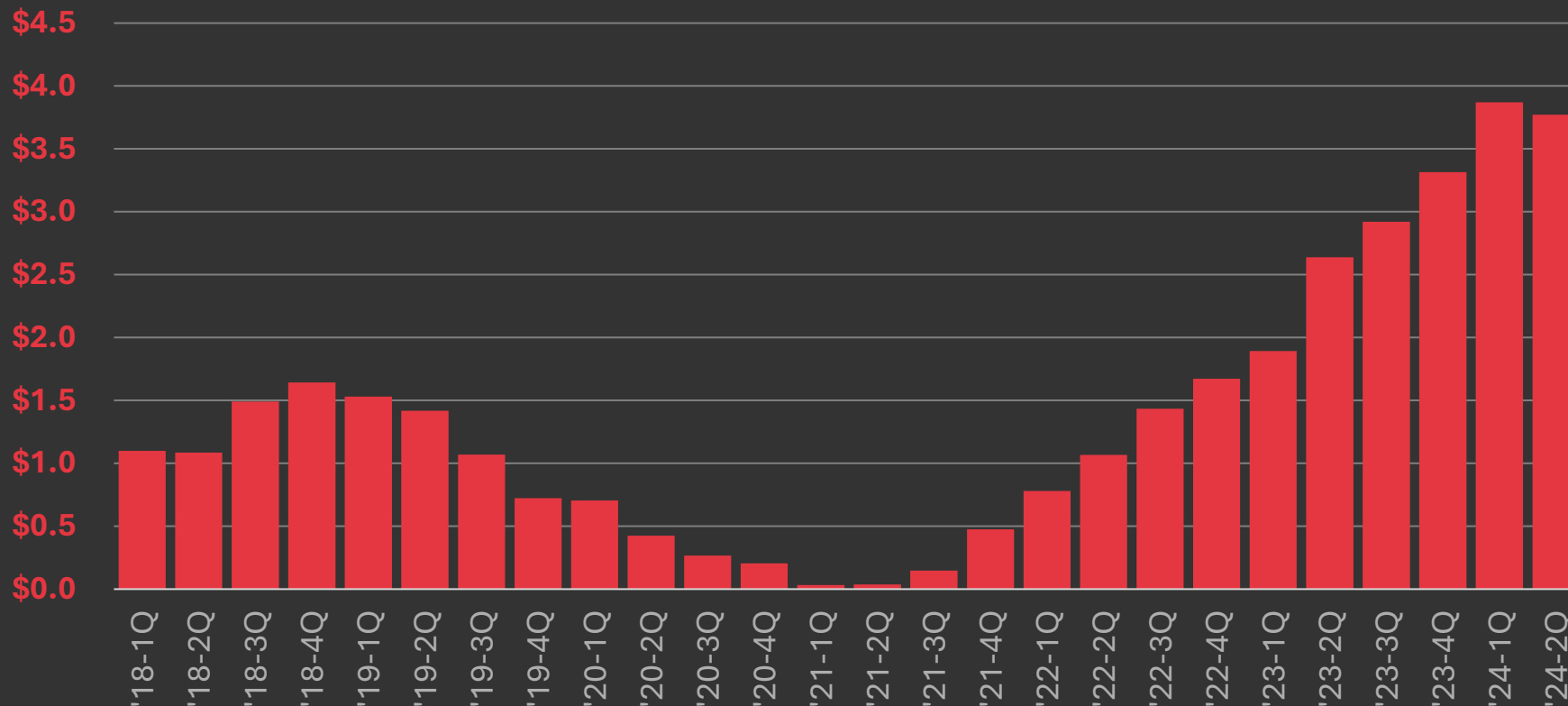


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# More aggressive with buybacks

## OFS share repurchase activity has boomed

Aggregate cash used for share repurchases for our cohort, trailing 4 quarters, billions



OFS cohort includes

- Baker Hughes
- Cactus
- ChampionX
- Core Labs
- Dril-Quip
- Expro
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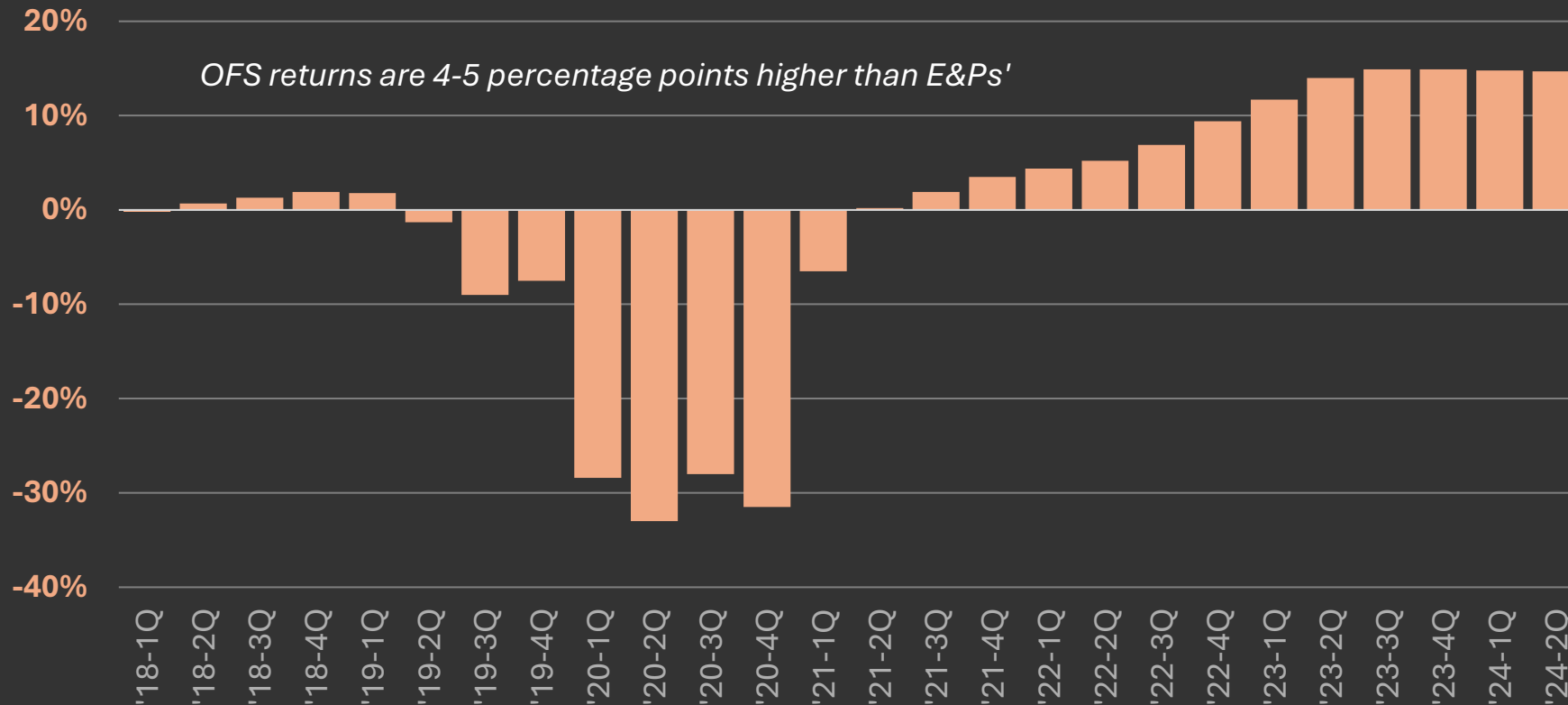
# Still in an OFS golden era



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## OFS returns today are historically high

Aggregate return on capital employed (ROCE) for our cohort, trailing 4 quarters



OFS cohort includes

- Baker Hughes
- Cactus
- ChampionX
- Core Labs
- Dril-Quip
- Expro
- Halliburton
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# What do we learn from OFS deals?

## Scale

Like with E&Ps, we need bigger boats to navigate more turbulent waters

## Innovation

With geology working against us, we need better technology to drive down breakevens

## Returns

To embrace this much uncertainty, shareholders require a premium

# SLB – ChampionX



- Squarely aimed at long-tail production phase of US oil & gas life cycle
- “[G]rowing demand to **scale** emerging technologies such as AI and autonomous operations across global operations”
- “Our customers are seeking to **maximize their assets...**”



# Patterson-UTI – NexTier



- From the first paragraph – “strong free cash flow to **accelerate the return of capital to shareholders**”
- “[W]e will have a significantly **expanded, comprehensive portfolio** of oilfield services offerings”
- “[W]e will be well positioned to continue to **invest in technology, innovation and people**”





# Dril-Quip – Innovex



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- “[T]he combined company will provide customers with **innovative solutions** for both onshore and offshore applications, driving a **more stable and diverse revenue mix.**”
- “[T]he complementary **global scale and product breadth** of the combined company will provide a strong platform for organic revenue growth, strong EBITDA margins and the potential for **significant free cash flow generation** to drive value for our stockholders”





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# Forward outlook

# If you want oil prices to go up...



Supply



Demand



# Supply headwinds

- Uncertainty around when OPEC lifts its output cuts
- US production has been resilient, consistently overcoming calls for its retreat
- But is now the time US production rolls over?



# Demand headwinds

- China's '24 growth cut this week to below 5%
- US manufacturing is contracting, freight activity is slowing
- One counteracting force – expected Fed interest rate cuts, first time in four years (Today! Announcement ~1pm Central)

# Structural demand challenges

- While EV sales growth has slowed, it's still multiples higher than the growth of light duty vehicle sales on the whole
- Fuel economy continues to improve, so even new ICE vehicles have reduced demand
- Biofuel incentives are driving investment



# Expect continued near-term weakness

- Some signs global economic growth is slowing – phases can take several quarters, if not years, to navigate through
- E&P and OFS management teams are in no rush to ramp up investments from here
- Refiners are feeling pressure, reducing the call on upstream liquids production





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# My closing request



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# The end