Back In Business

Mike Beveridge - Managing Director

SIMMONS ENERGY

A DIVISION OF PIPERJAFFRAY™
January 2017… Fit at 50?
January 2018... Life Begins At 70?

FINANCIAL TIMES

Brent breaks above $70 a barrel to hit highest since 2014

Falling crude stockpiles and possible US sanctions on Iran bolster market

Oil has increasingly found support as stockpiles have fallen

Anjli Raval and David Sheppard

JANUARY 11, 2018
January 2019… “Swinging 60’s”
Brent Roller Coaster

Source: Capital IQ as at 25/01/2019

LTM Max: $86
LTM Low: $50
Now: $61
A Complex Macro Picture

**Oil Price**

**Brent $61.16**
- 52 Week High = $86.74
- 52 Week Low = $50.22

**WTI $53.13**
- 52 Week High = $76.72
- 52 Week Low = $42.59

Source: Capital IQ as of 25/01/19

**Factors affecting oil price**
- OPEC / Russia “Overproduction”
- US Production Growth
- Demand Dampening / General Economic Picture
- Iraq
- US Geopolitics
- OPEC Alliance
- Venezuela
- Iran
- US Infrastructure Constraints
- Non US, Non OPEC Investment Collapse
- Global Inventories
- Continued Demand Growth (1.5%)
Global Oil Demand 2009 – 2019

- CAGR: 1.65%

Global Oil Demand:
- Was 85.4 mb/d in 2009
- Expected to grow to 100.6 mb/d by 2019

Source: IEA Report as at 25/01/2019
Demand Dynamics
Investment In New Projects Critical To Meeting Future Supply Needs

2. Assumes 1.8% compound annual growth rate.
3. Assumes 4.0% compound annual decline rate.
Relentless US Production Growth

U.S. Crude Oil Production

1 Source: EIA. As of January, 25 2019.
International Non-OPEC Supply

**International Non-OPEC Supply Quarterly Change**

![Graph showing quarterly change in International Non-OPEC Supply](image)

- **Non-OPEC Production**
- **2013-15 Average**
- **2018-20 Average**
- **2015-18 Average**
- **WTI Crude Oil Price**

**Notes:**

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Qatar pulls out of Opec oil producers' cartel

OPEC and allies agree to cut oil production by 1.2 million barrels per day

- Major oil producers have reached a deal to cut oil production and boost the market.
- The alliance will take 1.2 million barrels per day off the market.
- OPEC has agreed to exempt Iran from cutting production. Iranian Energy Minister Bijan Zangeneh said.

Donald Trump announces Iran sanctions with bizarre Game of Thrones-style image

Venezuela’s worsening economic crisis - the Guardian briefing

Saudis to Cut More Oil Than Planned as OPEC Drums Up Pact

Cartel to publicize individual reductions as markets doubt group’s commitment
Global Rig Count

Baker Hughes as of January 25, 2019
Note: Excludes Russia and China
Offshore Rig Count

Source: Simmons Industry Note January 16, 2019 – Contracted Rig Demand
Subsea Construction Backlog

Source: Company Documents as of January, 25 2019

- TechnipFMC
- Saipem
- Subsea 7
Subsea Tiebacks to Gain Market Share in the Upcoming Investment Cycle

Offshore greenfield CAPEX by commitment year
USD Billion (real)

2011-2013 Solution Market Share
Fixed 14%
Subsea tieback 14%
Floaters

2017-2021 Solution Market Share
Fixed 26%
Subsea tieback 26%
Floaters

Commitment year is the year when the larger greenfield contracts are awarded (typically EPC contracts)
Source: Rystad Energy DCube
Disconnect Between Oil Prices and Share Values

Crude Oil And OSX Performance Since 2016

(Indexed to 100 since January 1, 2016)

OSX

WTI

+113%

-28%

Source: Capital IQ as at 25/01/2019

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Public Company Trading Performance

Source: Capital IQ as at 11/02/2019
Public Trading Company Performance

**TechnipFMC**

- **EV/EBITDA**
  - FY18: 4.6x
  - FY19: 5.8x

**Subsea 7**

- **EV/EBITDA**
  - FY18: 4.8x
  - FY19: 5.0x

**Wood**

- **EV/EBITDA**
  - FY18: 8.7x
  - FY19: 7.4x

**Aker Solutions**

- **EV/EBITDA**
  - FY18: 6.7x
  - FY19: 6.0x

Note: FY18 includes impact of Amec deal

Source: Capital IQ as at 11/02/2019
Major Transactions

Key Investment Themes

- Offshore Drilling Consolidation
- New Offshore Business Models
- Use of Stock in Transaction Structures

Logos for example only, not exhaustive
Other Dynamics

Example New Entrants

- Boskalis
- TEXO Group
- Borr Drilling
- Sentinel Energy Services
- Rubicon
- DecomEnergy
- Well-Safe Solutions

Balance Sheet Restructurings

- BIBBY Offshore
- CGG
- DCF Subsea
- Proserv
- Expro
- Seadrill
- Weatherford

Logos for example only, not exhaustive
Subsea Deal Activity

Logos for example only, not exhaustive
Changing Face Of The UKCS

• Heavily subscribed licensing rounds
• Committed majors – BP, Shell, Total, Equinor
• Multiple new entrants
• “Carlsberg Regulator”
• Infrastructure investors
• Exploration success
• Multiple new project sanctions
• Tight cost control
• BUT:
  - Slow ramp in activity
  - Delayed maintenance work
  - Continued pain and pressure in supply chain

Logos for example only, not exhaustive
The NCS Is Enjoying A Drilling Upcycle

Norwegian Petroleum Directorate.
Near Term Transaction Drivers

1. Consolidations
2. General Industrial Spin Offs
3. Restructuring
4. OFS Portfolio Rationalisation
5. Private Equity “End of Life”
6. Venture Capital “Value Preservation”
7. Delayed Private Transactions
Example Investment Themes

- Data / Digitalization
- Subsea Life of Field
- Offshore Wind
- AI / Robotics / Automation
- AUV's
- Non Welded Pipelines
- Software
- Corrosion Management
- Composite Materials