

A large yellow oil pumpjack (jackalope) is the central focus of the image. It has a long yellow walking beam with a curved yellow counterweight on the left end. The pumpjack is supported by a teal-colored metal frame. In the background, another similar pumpjack is visible. The sky is overcast with grey clouds. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing the title text. At the bottom of the image, there is a red fence with white-topped posts.

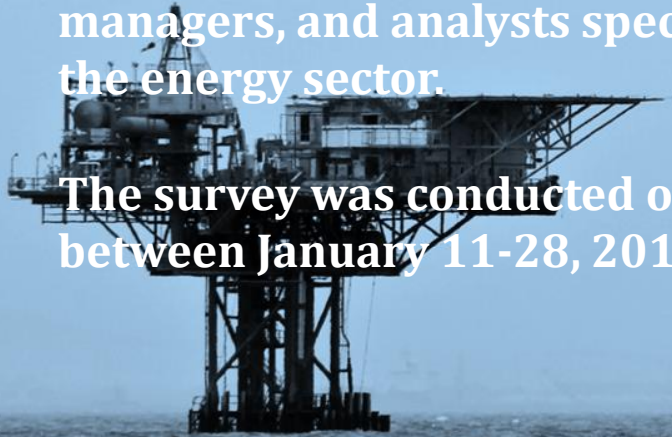
# Brunswick Group 2<sup>nd</sup> Annual U.S. Oil & Gas M&A Survey

March 2016

# Methodology

Brunswick Group surveyed 106 bankers, lawyers, industry advisors, investment managers, and analysts specializing in the energy sector.

The survey was conducted online, between January 11-28, 2016.



# Executive Summary

The level of M&A in the oil & gas sector is expected to increase – 62% of respondents are predicting this increase, a 10 percentage point jump up from last year's survey. Key drivers of these deals are expected to be falling energy prices, distressed sales, and bankruptcies.

A majority of respondents, including most of those who see M&A in the sector decreasing, say the current regulatory environment will constrain global M&A activity. This is compared to just one-third who see the regulatory environment as an enabler of more M&A.

Even with the steep drop in crude oil prices over the previous year, three-fourths of respondents say crude oil is more likely than natural gas to experience a recovery in pricing.

When it comes to the deals driving M&A in the sector, nearly eight-in-ten foresee domestic transactions among strategic buyers as the more common type of deal, with just 7% attributing most M&A deals to foreign acquirers into the U.S.

When considering foreign acquirers, however, a plurality expect Asia to do the most deals in the sector, followed closely by the Middle East and Europe.

The perceived role of activist investors remains the same year over year; nearly six-in-ten see activist investors playing a role in driving M&A activity, only a slight drop from last year.





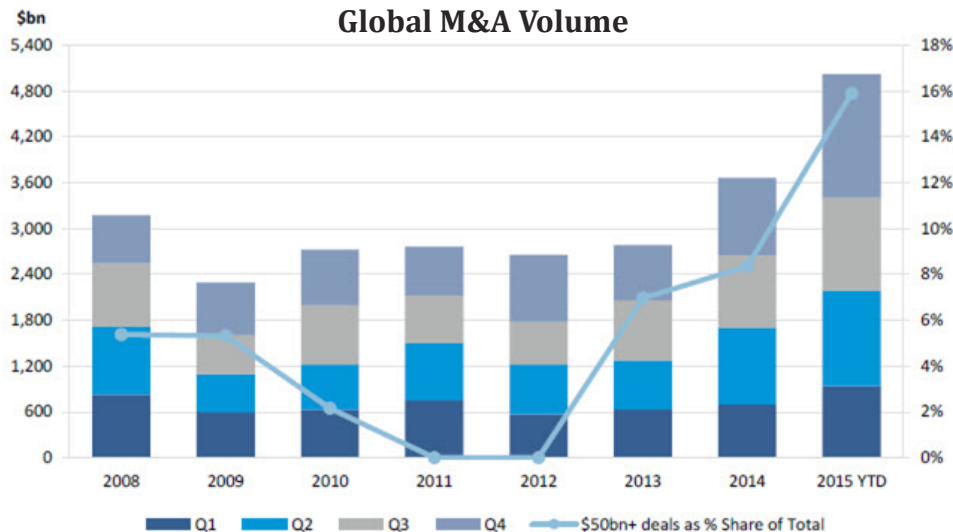
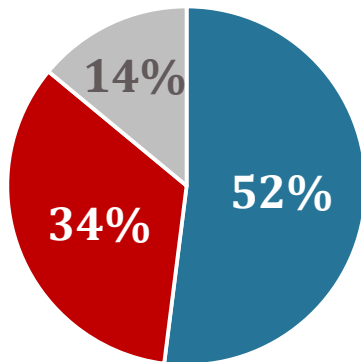
# Setting the Scene



## What Does This Mean for 2016?

**In 2015, Global M&A increased for the third year in a row, up 37% from 2014**

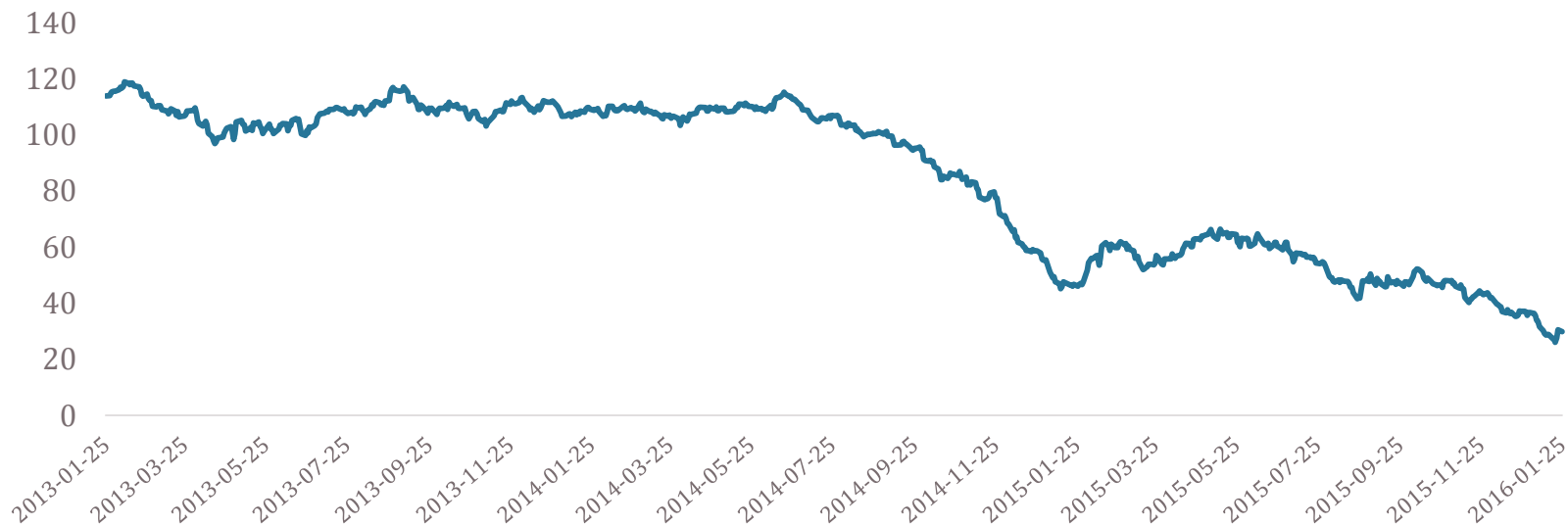
...% of respondents in 2015 who **predicted an increase in M&A** in the oil & gas sector





## Setting the Scene

**Thoughts toward future M&A in the sector may be clouded by plummeting oil prices**





## Challenging M&A Market

**According to a recent PwC report, M&A in the oil and gas industry reached the lowest levels of fourth quarter deal activity in five years**

During the last 3 months of 2015, there were **42** deals accounting for **\$31.6** billion, compared to **70** deals worth **\$103.4** billion in the last three months of 2014.

*"For M&A activity to resume at a reasonable pace, it will take buyers who are patient and have long-term perspective on the potential value of the assets while it will take some motivation from sellers who have few other liquidity options and are able to get reasonable value under the circumstances."*

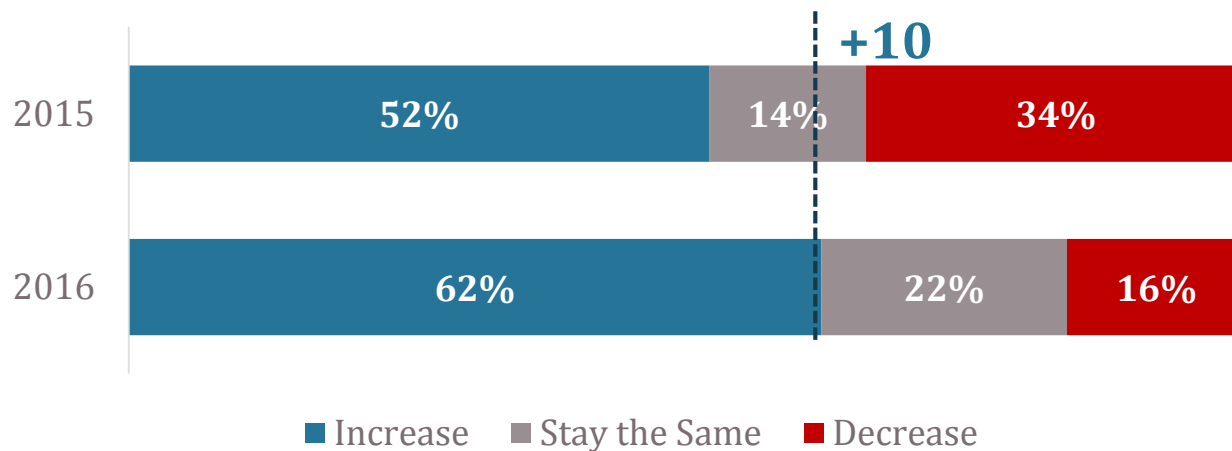


## Survey Key Findings





Despite A Troubled Market...  
....a majority of respondents expect the level of M&A in the oil & gas sector to increase

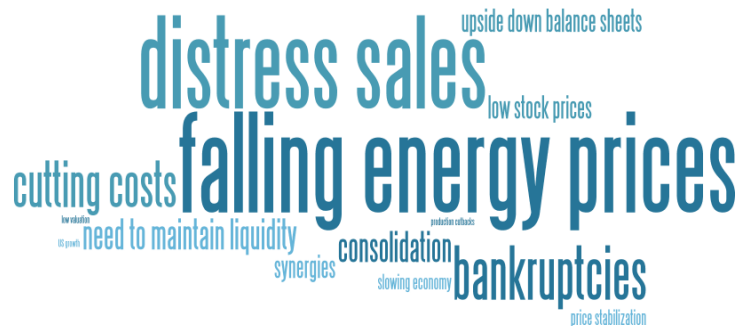




## What's Behind M&A Perceptions?

**Falling oil prices are a key driver when it comes to expected M&A activity**

### Drivers of *increased* M&A activity



### Drivers of *decreased* M&A activity



45%

...% of energy company CFO's who  
**“feel worse about their company's access to capital”**

Source: BDO USA Energy Outlook Survey

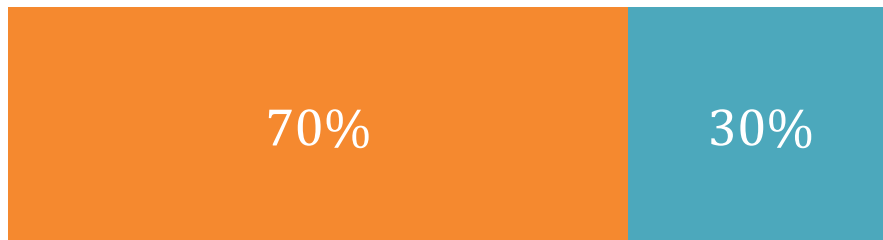
Question: What, in your opinion, will be the biggest driver of increased/decreased M&A activity in the U.S. oil & gas sector?



## Regulatory Environment

A majority see the current regulatory/anti-trust environment as reducing global activity

...% who see **the current regulatory environment** as **reducing** global M&A activity



...% who see **the current regulatory environment** as **increasing** global M&A activity

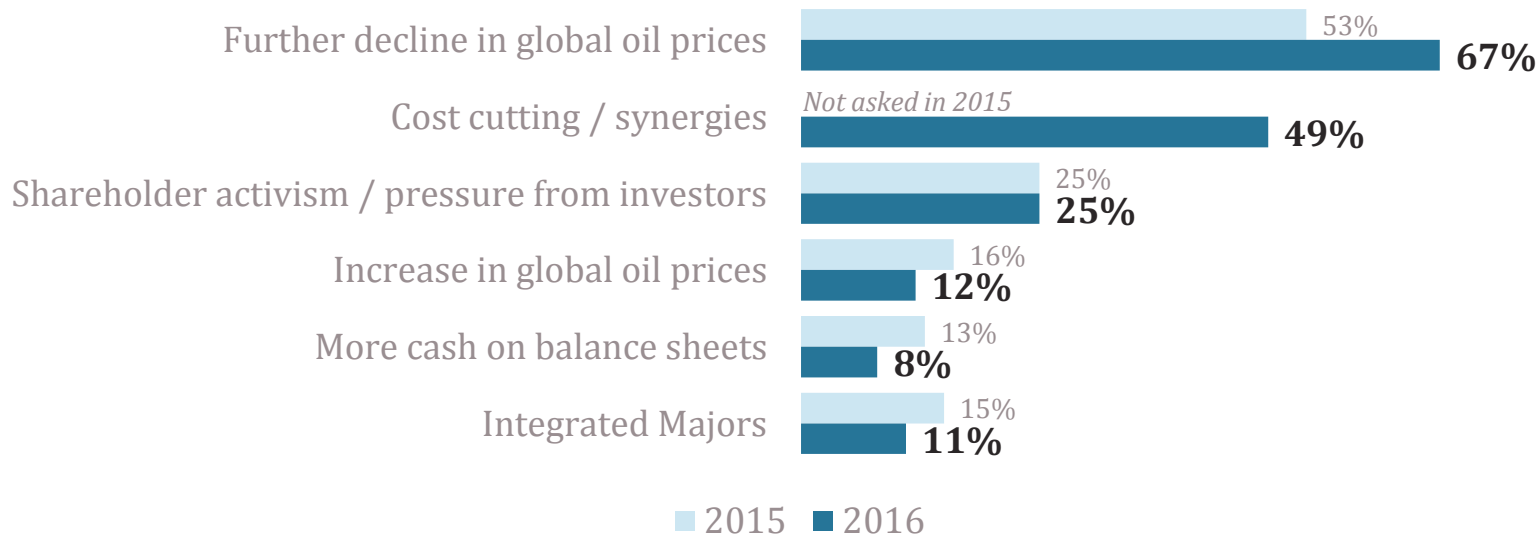
**71%** respondents who see M&A in the oil & gas sector **decreasing** say the current regulatory environment is **reducing** global M&A activity

**32%** respondents who see M&A in the oil & gas sector **increasing** say the current regulatory environment is **increasing** global M&A activity



## Falling Oil Prices

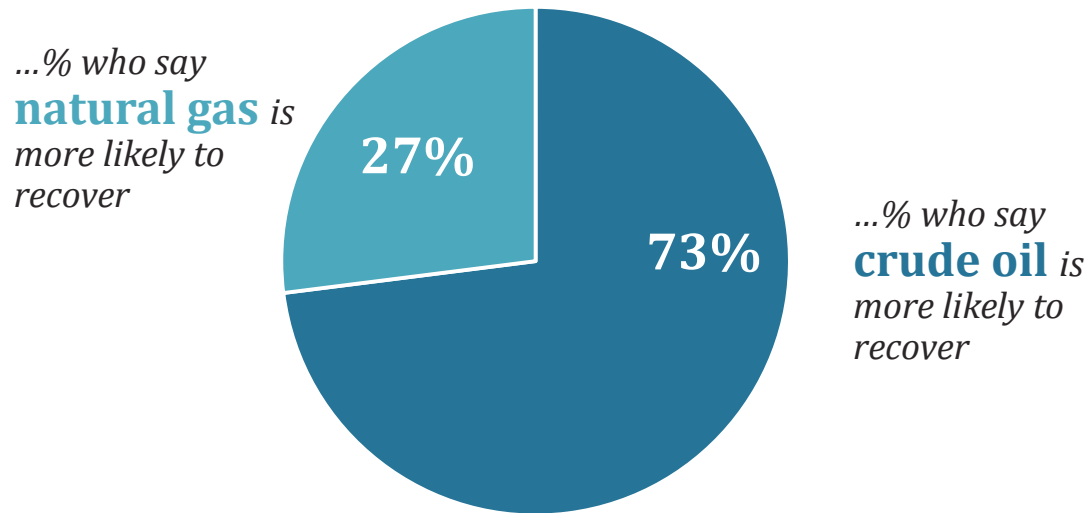
**Similar to sentiments in 2015, respondents today feel that lower oil prices will drive M&A**





## Crude Will Recover

Three-fourths say the price of crude oil is more likely to recover in the next year

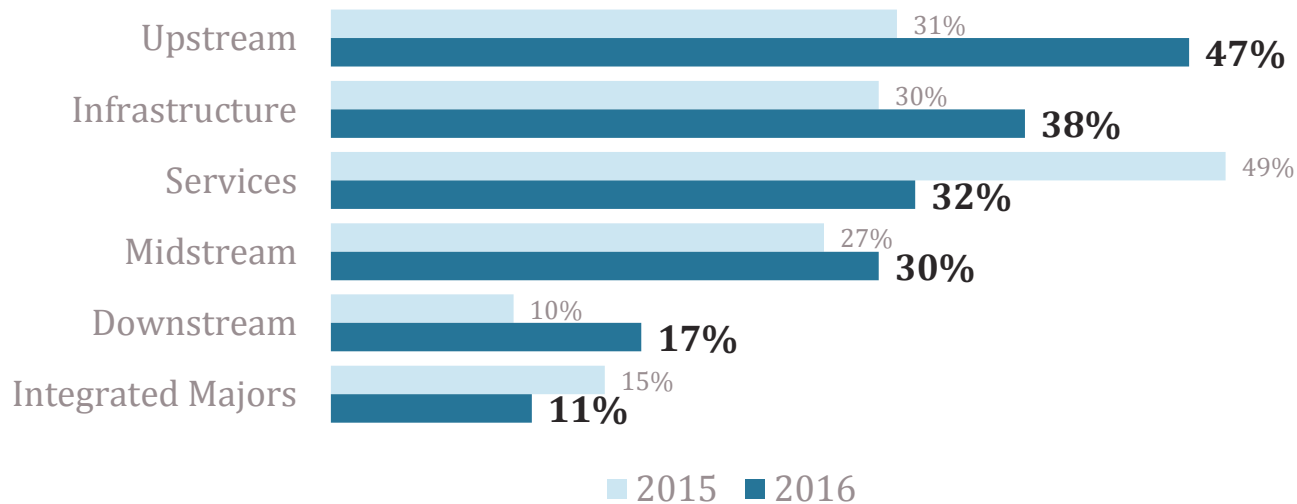


Question: One year from now, which commodity is more likely to have experienced a recovery in pricing?



## Top Targets for M&A

**Upstream takes the top spot from Services as the top target for M&A in 2016**



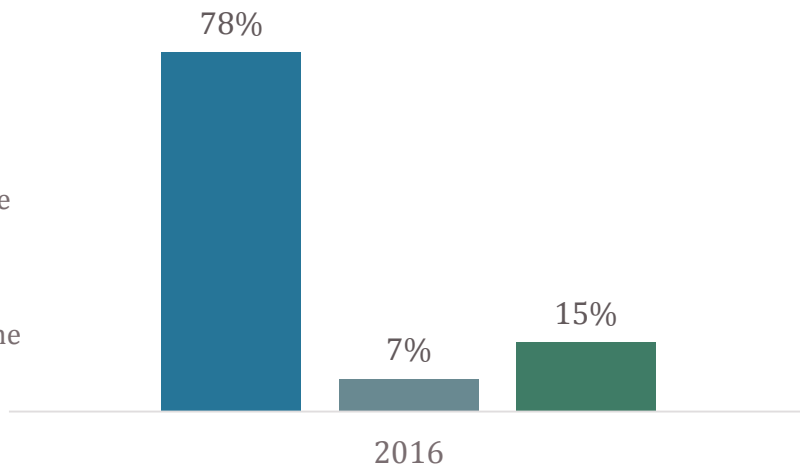
Question: Which segments of the oil & gas sector do you expect to be the main targets for M&A in 2016? Please select all that apply.



## Deals Driving M&A

**A strong majority feel that domestic transactions will drive M&A in the sector over the next year**

- Domestic transactions among strategic buyers
- Foreign acquirers into the U.S. ("inbound")
- U.S. acquirer outside of the U.S. ("outbound")

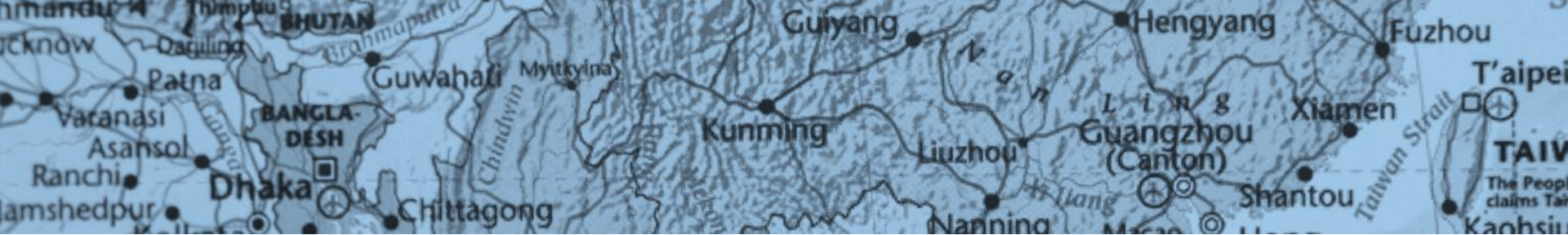


49%

*...% of business professionals who say*  
**North America**  
*will be the top M&A market for their organizations*

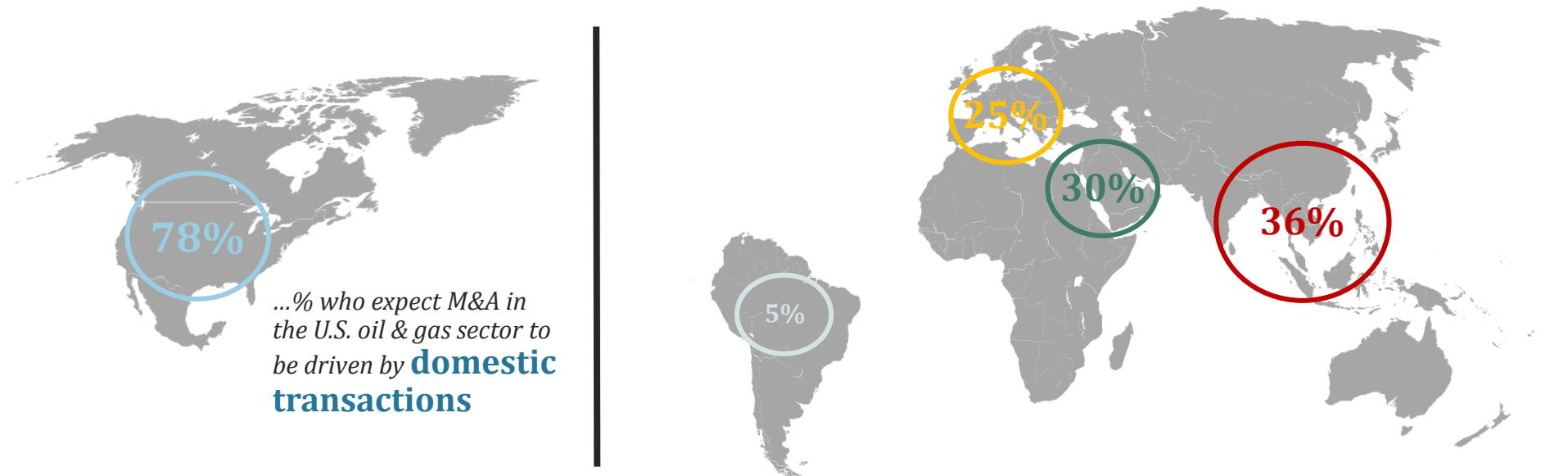
Source: Deloitte December 2015 poll

Question: What type of deal do you expect to drive M&A in the U.S. oil & gas sector in 2016?



## Foreign Acquirers

Fewer respondents expect foreign acquirers from Asia, and more from the Middle East and Europe



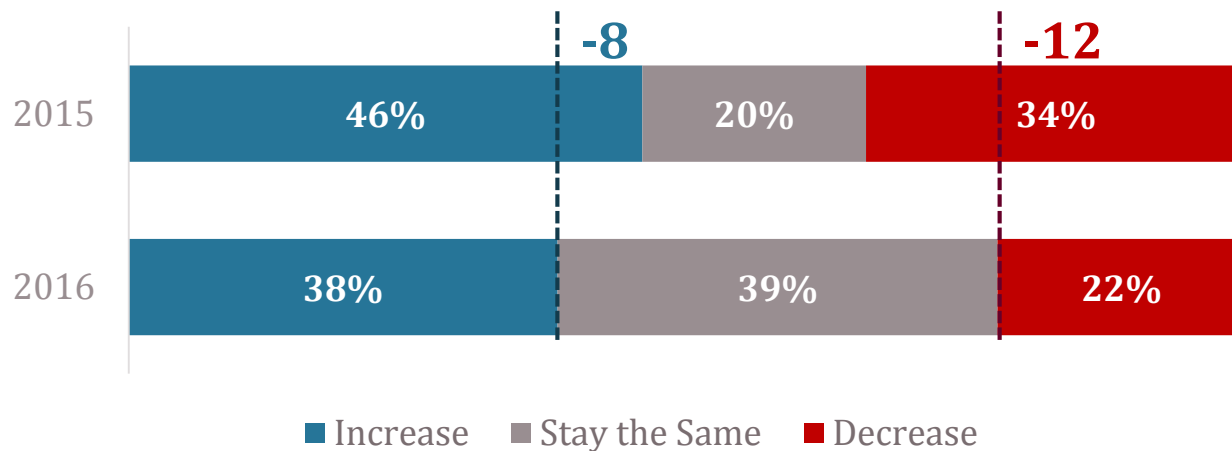
Question: From what ONE region do you anticipate the MOST foreign acquirers into the U.S. oil & gas sector to come in 2016?





## Status Quo

**More respondents today see the level of corporate spinoffs and divestitures staying the same**





## Gold and Oil

**The need for capital, or a lack of, and low oil prices are behind the level of spinoff activity**

### Drivers of *increased* spinoffs & divestitures

low oil prices  
balance sheet repair  
seeking alternative capital  
liquidity  
competition  
viability of prospects  
smaller capital budgets  
commodity price point decrease  
low profits  
cost cutting  
distressed asset sales

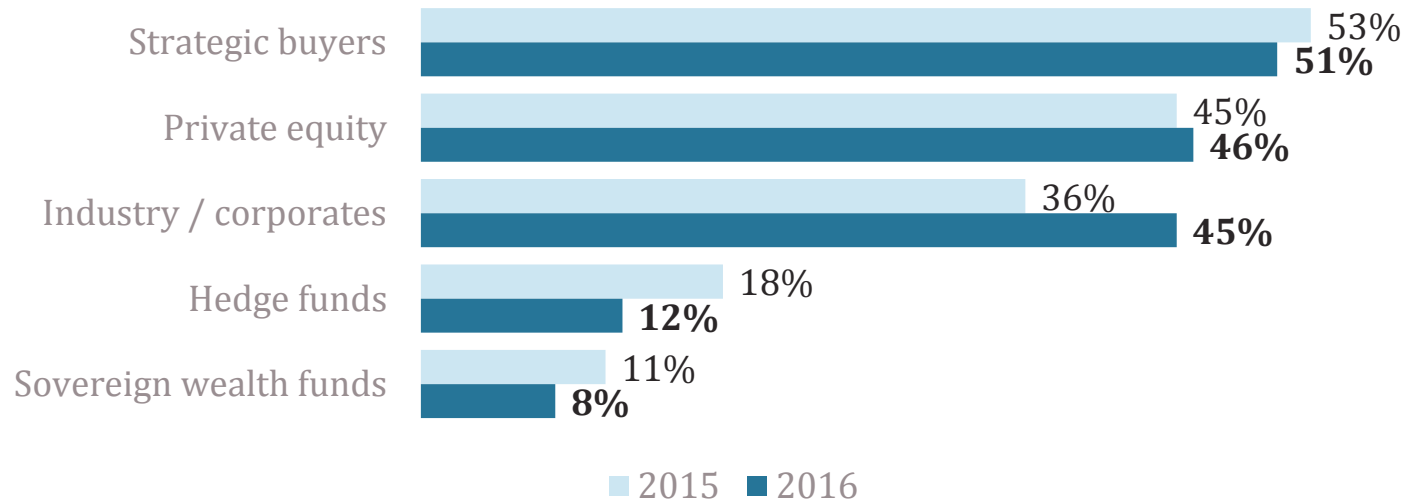
### Drivers of *decreased* spinoffs & divestitures

low profits  
low oil prices  
declining value of assets  
low valuations  
can't sell low  
no credit  
slowing economy  
balance sheet repair  
lack of investor appetite



## Active Buyers

**Strategic buyers are expected to be the most active in the U.S. oil & gas sector, similar to 2015**





## Master Limited Partnership Transactions

**A strong majority feel MLP transactions and new equity listings will decrease**

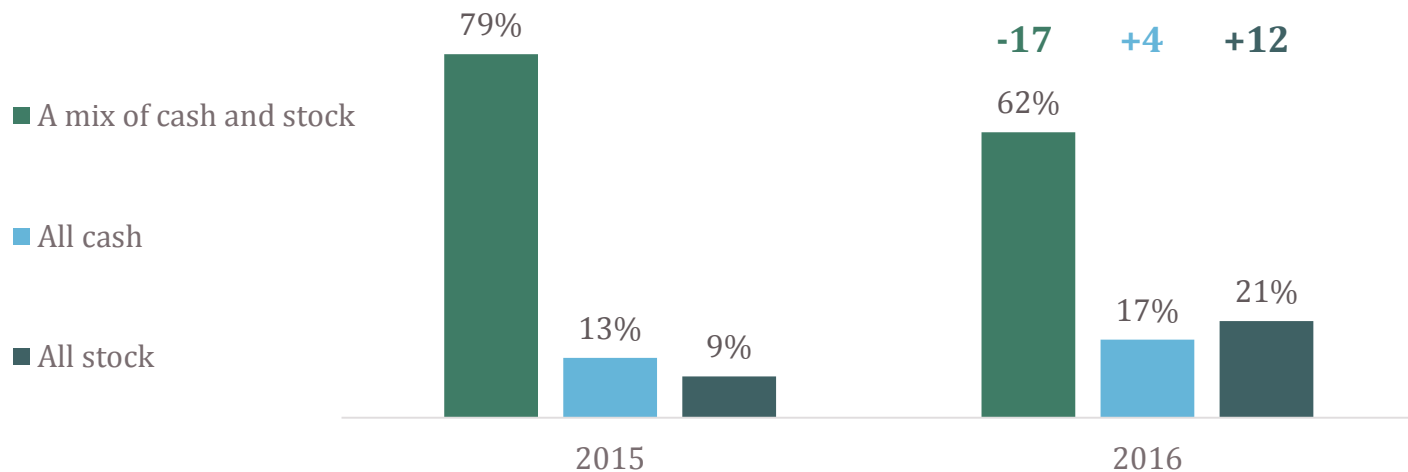




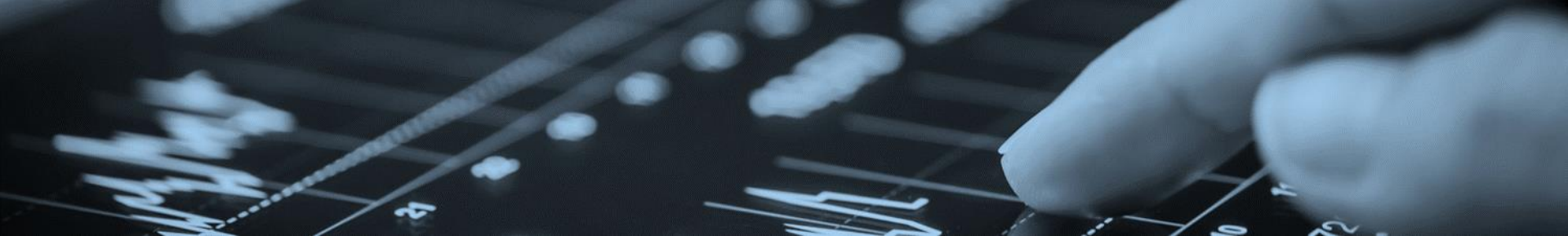


## Deal-Making

**Respondents still see a mix of cash and stock as the way most deals will get done**

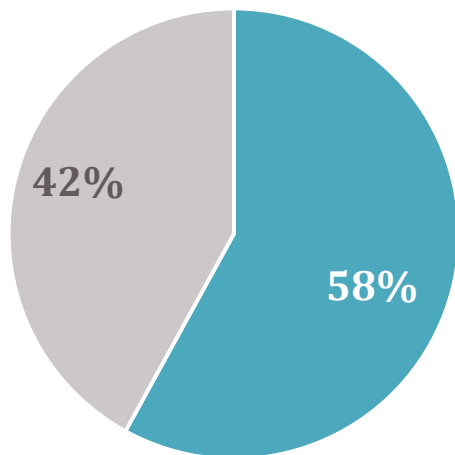


Question: In 2016, do you expect to see more deals using....

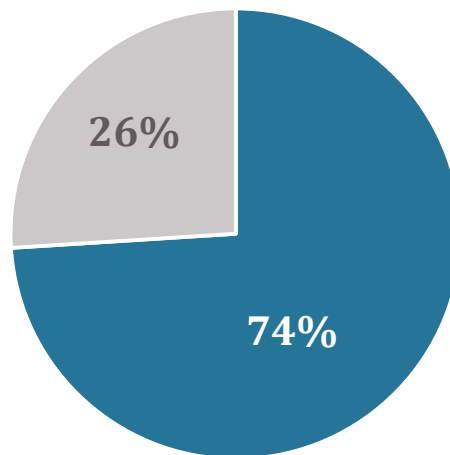


## Role of Activist Investors

**Nearly six in ten see activist investors playing a role in M&A activity**



...% who see  
**activist  
investors**  
playing a role in  
driving M&A  
activity



...% who see  
**activism** as  
adding value for  
companies by  
pushing  
management to  
make hard decisions

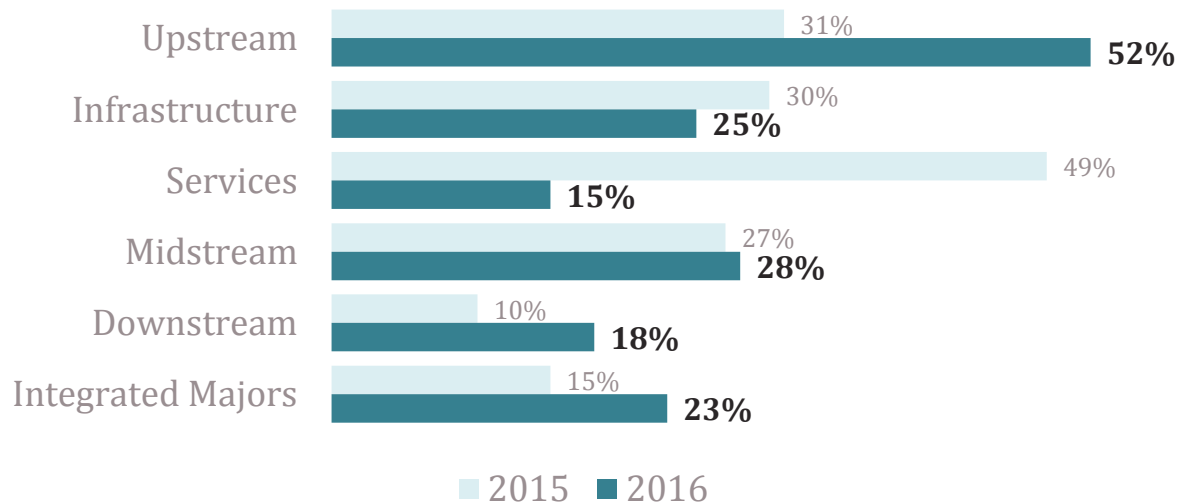
Question: In 2016, do you see activist investors playing an active role in driving M&A activity?

Source: Brunswick Insight survey of 801 U.S. retail investors, June 2015



## Role of Activist Investors

**Half of respondents see Upstream as the segment most ripe for activist involvement**



Question: In which segments of the sector do you see activists being most active?

