



Adjusting Investment Strategies to Capitalize on Commodity and Capital Cycles

P.O.&G. RESOURCES, LP

Steve Pfeifer – CEO, CIO

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Over 30 years of combined energy and investing experience

Steve Pfeifer

- Co-founder, CEO, and CIO of P.O.&G. Resources, LP (“PO&G”)
- Leads PO&G’s strategic, financial, and operational planning; oversees production and exploitation operations, and directs property acquisitions and divestments
- Prior to PO&G, Global Head of Energy Research at Merrill Lynch, responsible for establishing the firm’s oil price forecast and investment research of integrated oil companies
 - Received several research awards, including All-Star Analyst, *Wall Street Journal* Stock Picker, and Paine Webber Analyst of the Year
- At ARCO, responsible for identifying waterflood enhancement and natural gas development opportunities
- At Amoco, assessed CO2 and waterflood projects, evaluated property acquisition and divestment packages, and prepared upstream division’s strategic plan
- B.S. in Petroleum Engineering from the University of Texas and an MBA from the Wharton School of the University of Pennsylvania

Seventeen-year investment history

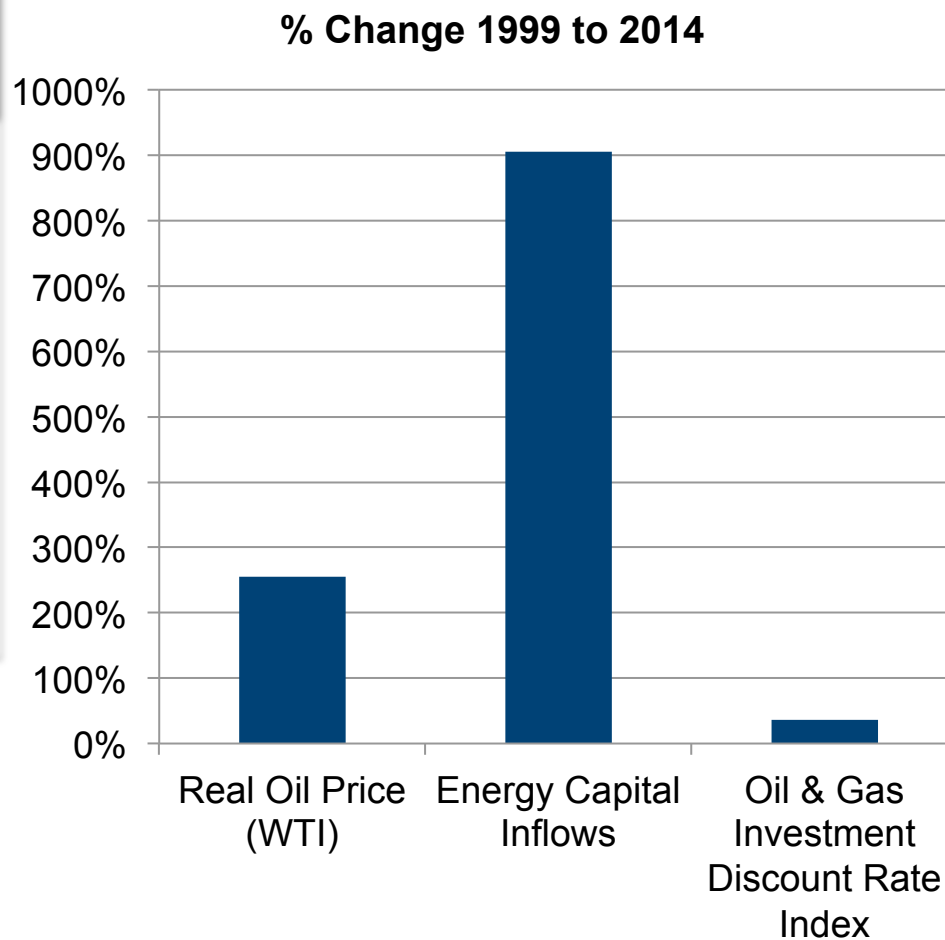
Firm Overview

- Founded in 1999, Houston-based direct manager and operator of oil & gas properties
 - Operate proved developed producing (“PDP”) and drill proved undeveloped (“PUD”) reserves
- Executed 60 transactions across various basins/regions and market cycles
 - Private negotiations, JVs, farm-ins, public auctions, lease acquisitions, brokered transactions, and court actions
- Five core management team members average 24 years of industry experience
 - Experience in the Permian, Gulf Coast, East Texas, Williston, Rockies, and Mid-Continent regions/basins
- Technical and operational experience with investment analysis and capital markets expertise
 - *Industry Experience:* Amoco, ARCO, ConocoPhillips, Denbury Resources, ExxonMobil, Quantum Resources, Statoil, and Vanguard Natural Resources
 - *Capital Markets Experience:* Merrill Lynch, J.P. Morgan, Paine Webber, Prudential

From 1999 trough to 2014 peak, three positive cycles

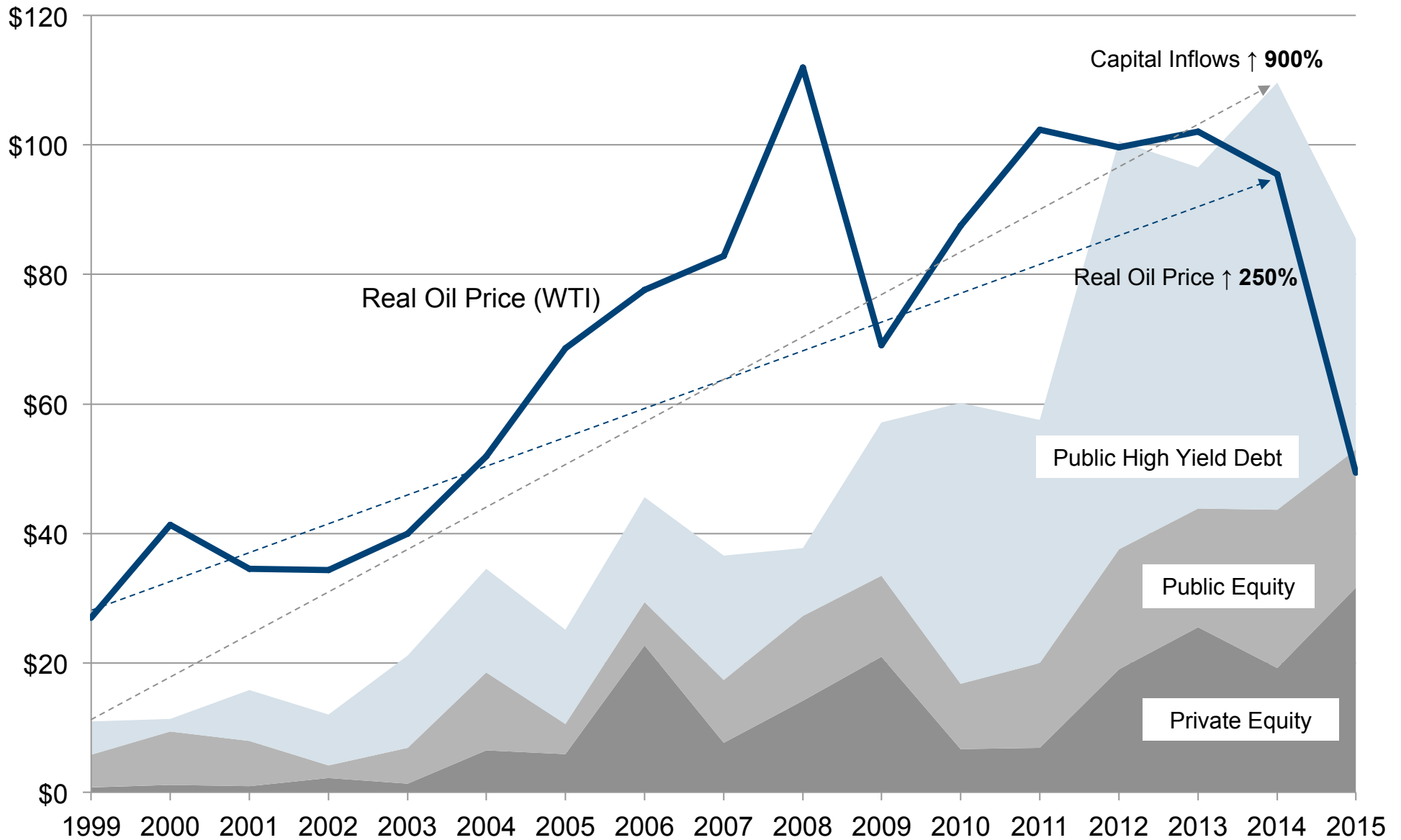
Three Cycles Drive Oil & Gas Property Valuations

- Commodity price cycle
- Energy capital inflows
- Interest rate cycle



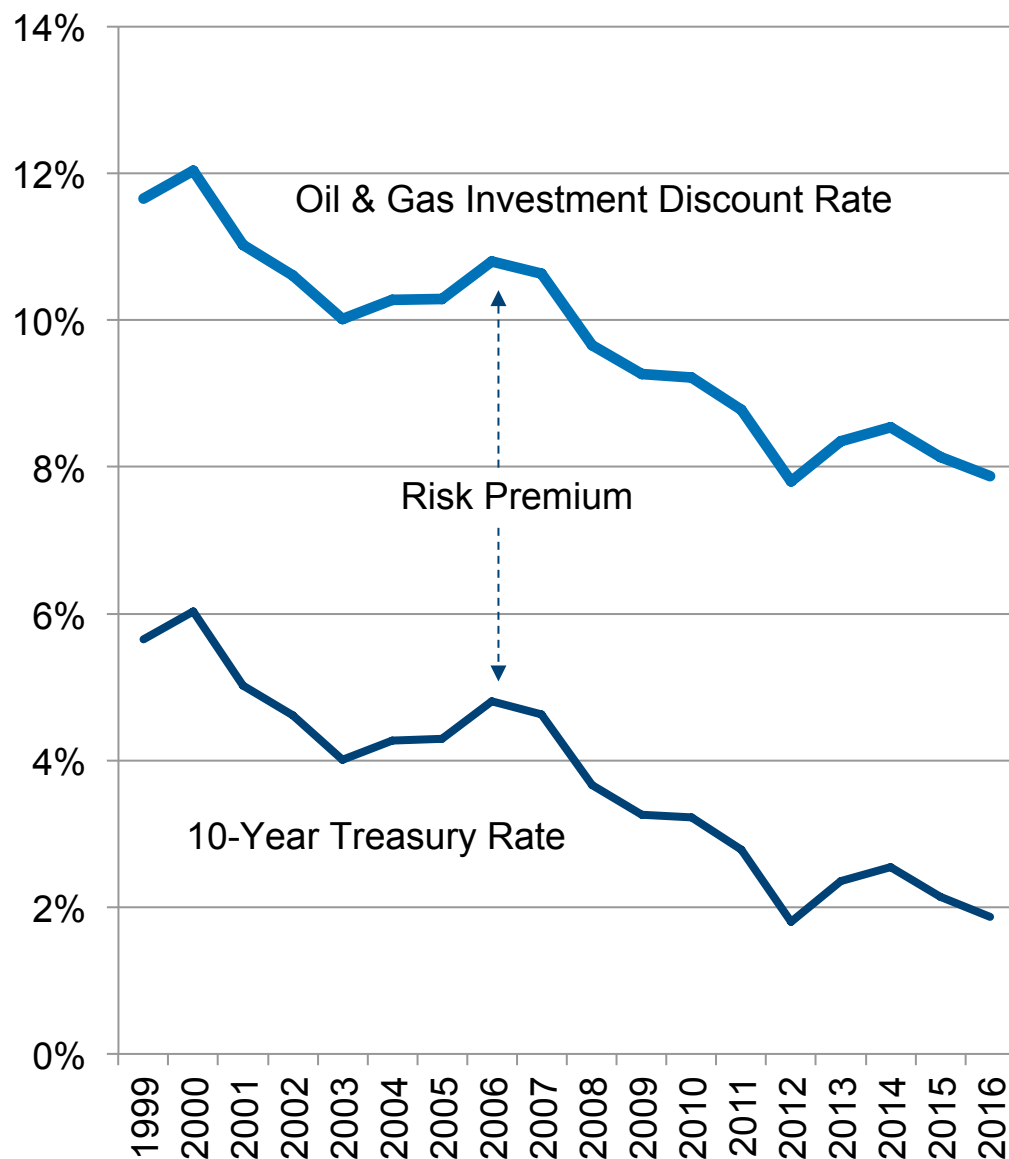
Increasing capital inflows driven by high yield debt and private equity

US\$B (2016 \$)

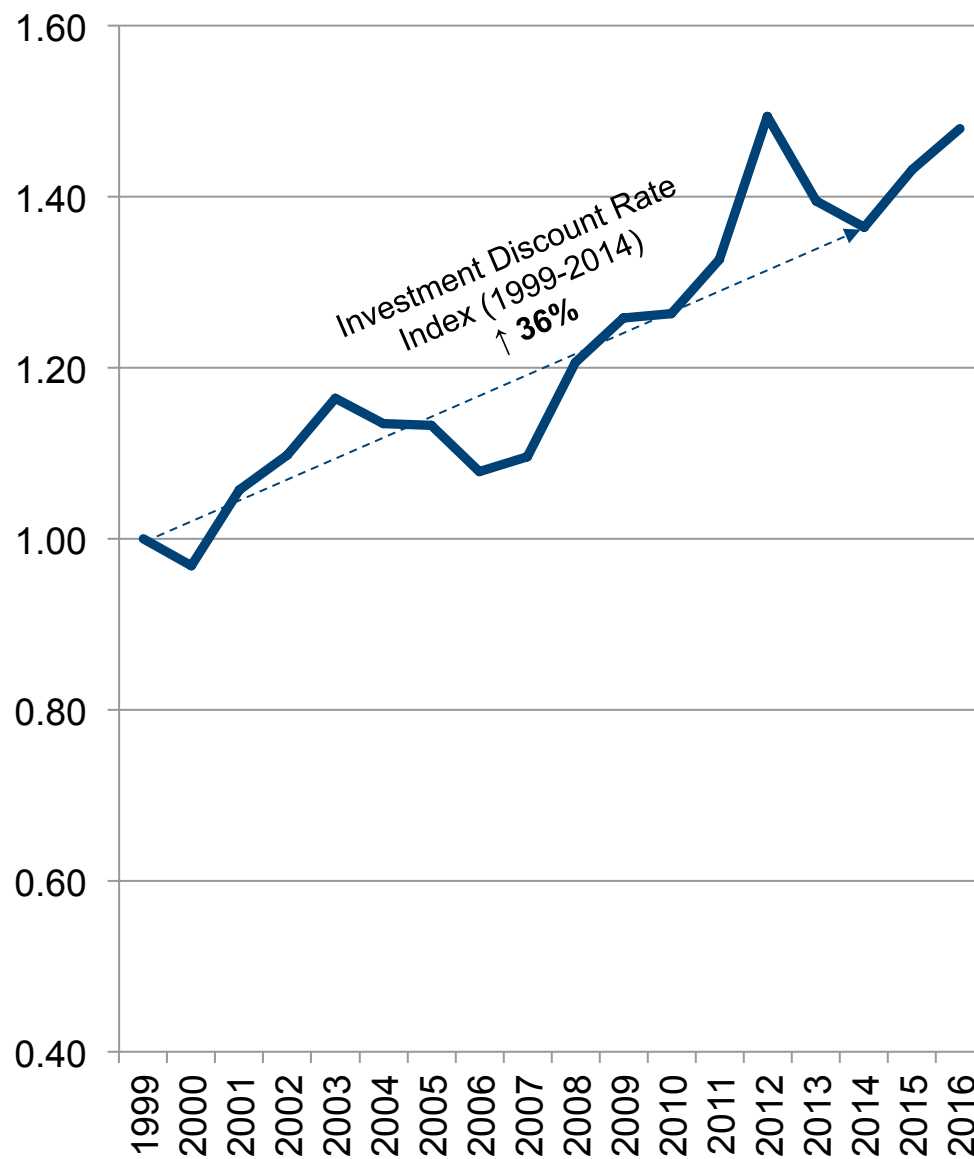


Falling interest rates compress investment discount rates, supporting asset valuation levels

Discount Rate Used in Oil & Gas Valuations



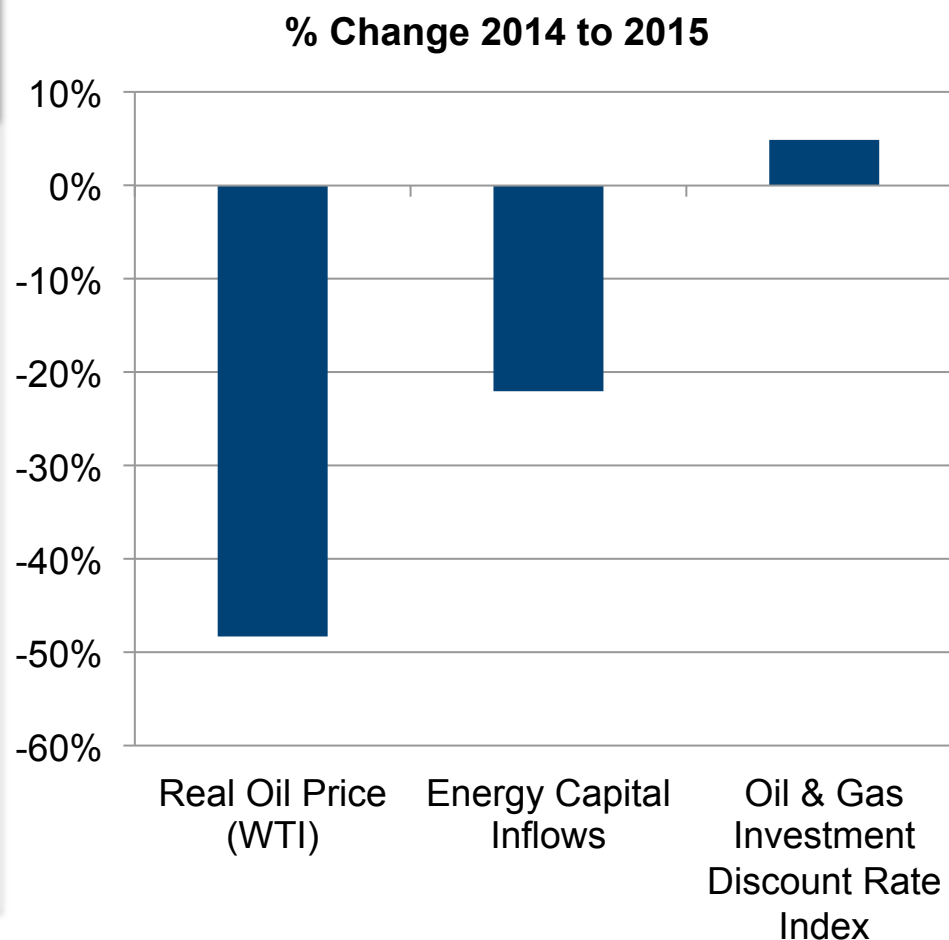
Oil & Gas Investment Discount Rate Index ⁽¹⁾



Factors driving record valuations in 2014 are beginning to reverse

Current Cycles Mixed for Oil & Gas Acquisition Environment

- **Positive** – Depressed commodity price cycle
- **Improving** – Public equity and debt inflows largely closed, but large private equity pools trying to deploy capital
- **Negative** – Global Central Banks' low interest rate policies promote rapid formation and deployment of capital seeking yield



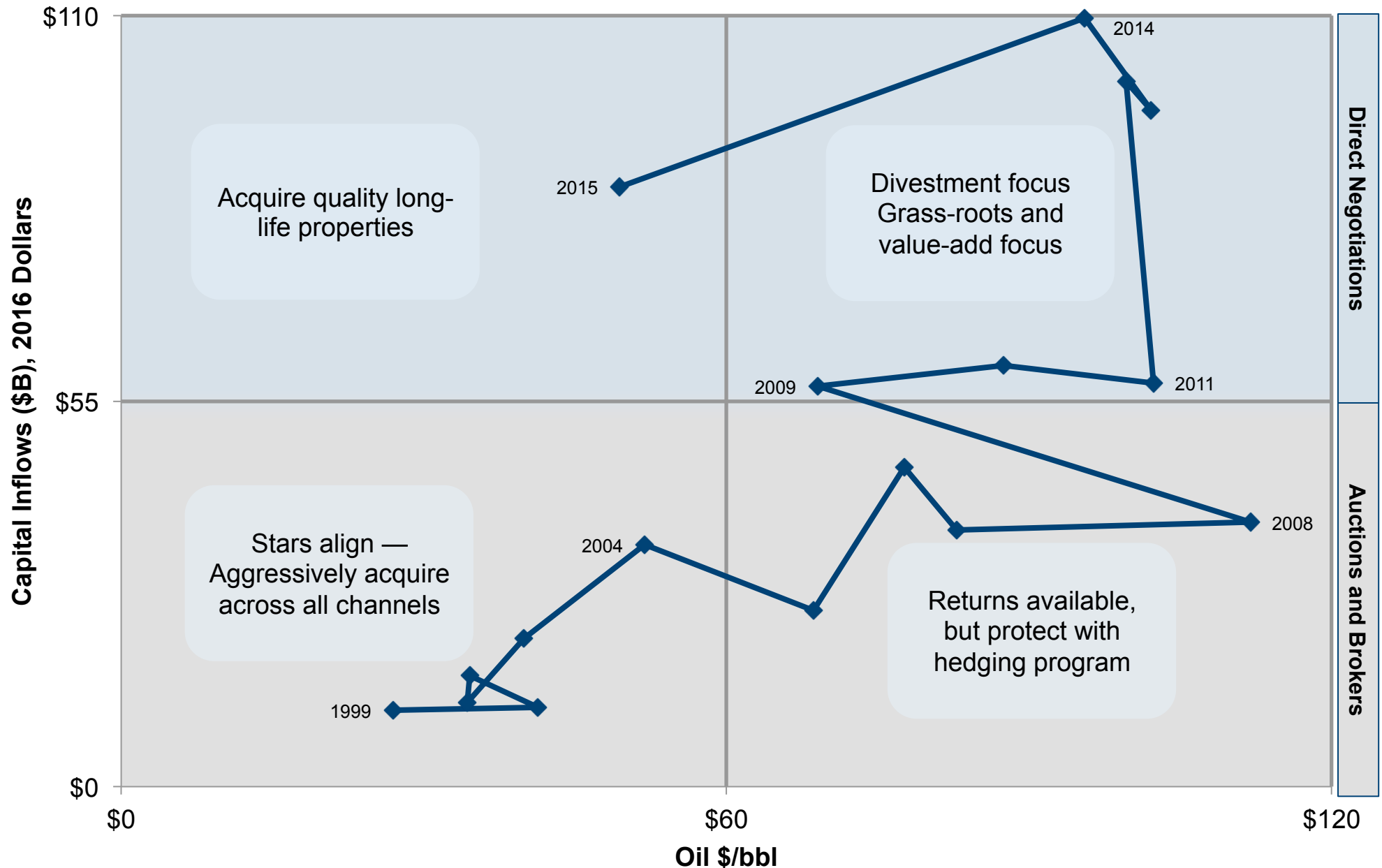
Is there a point where adequate returns are bid away by robust capital inflows?

Adjusting Strategy to Capitalize on Shifting Cycles

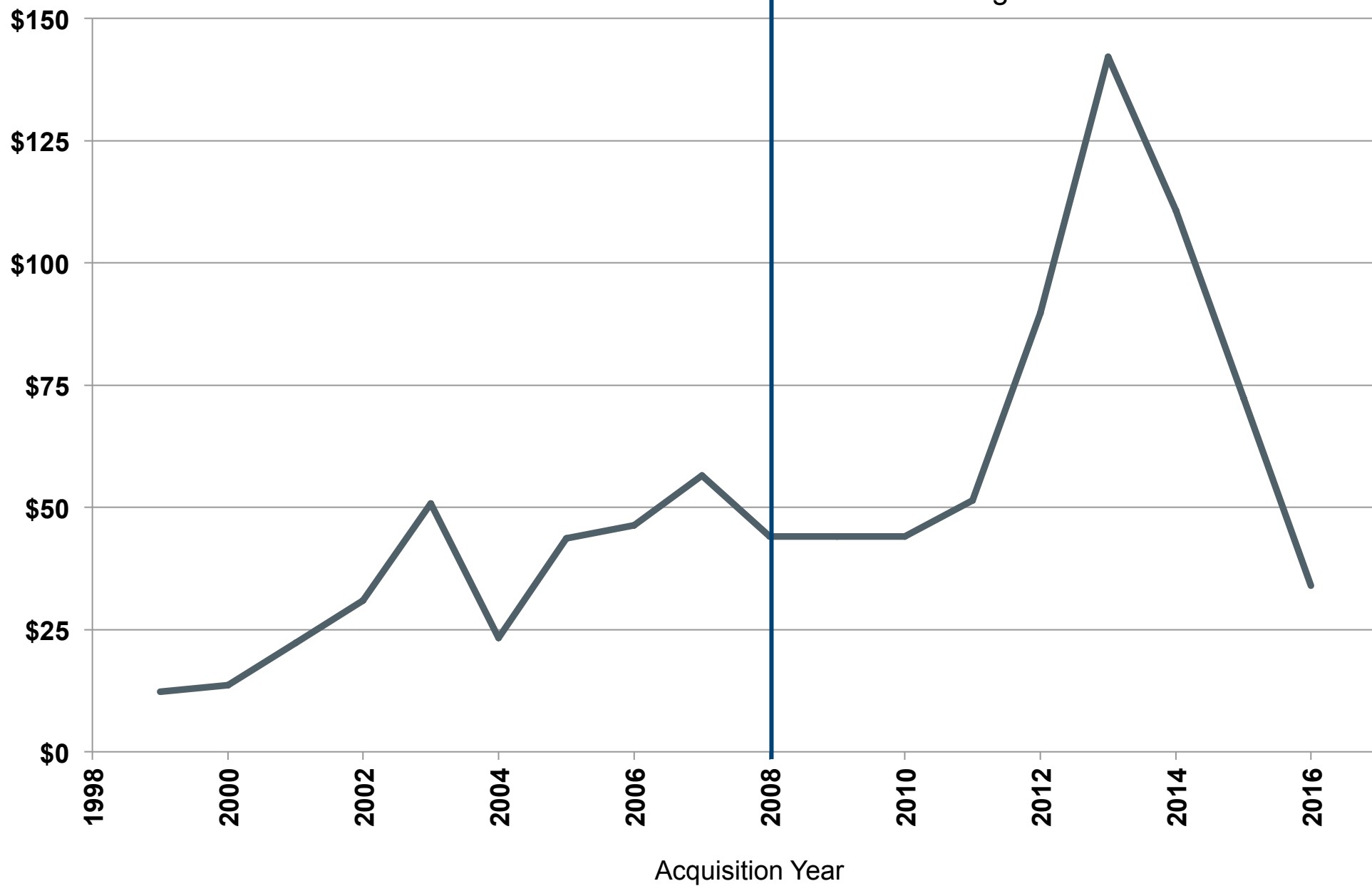
- High capital inflows make it more challenging to generate alpha through competitively bid packages and processes
- Disciplined acquisition valuation metrics critical to ultimate investment return – “Returns Driven by Key Buy Decisions”
- Micro-targeting of acquisition capital allows for investment strategy adjustments in response to changing capital and commodity cycles

US Energy Capital Inflows vs Oil Price 1999 to 2015

Acquirers must alternate between auctions/brokers and direct negotiations in response to shifting cycles



Acquisition Price (\$M)/BOEPD



Focus on less competitive, smaller, non-core asset packages

Strategy

- Contrarian investor focusing on out-of-favor basins and assets, often conventional
- Avoid competitive processes through direct negotiations targeting specific assets
 - Property evaluations through real-time, proprietary well-level cost data
 - Targeted, proactive origination – research and identify specific properties and send unsolicited offers
- Typical acquisition ranges from \$20 to \$75 million
 - Less competition – assets too small for brokers and larger pools of capital
 - Allows for “immaterial” divestments of non-core assets
- Focus on assets that may have non-marketed value-add opportunities through cost reductions, production enhancements, and limited drilling

- While depressed commodity prices suggest an attractive acquisition environment, suppressed interest rates and large pools of available private equity capital require continued discipline in buying assets
- Non-brokered, non-competitive transactions with motivated sellers more likely to generate attractive returns
- As oil prices recover, how long will the public equity and debt markets remain closed?





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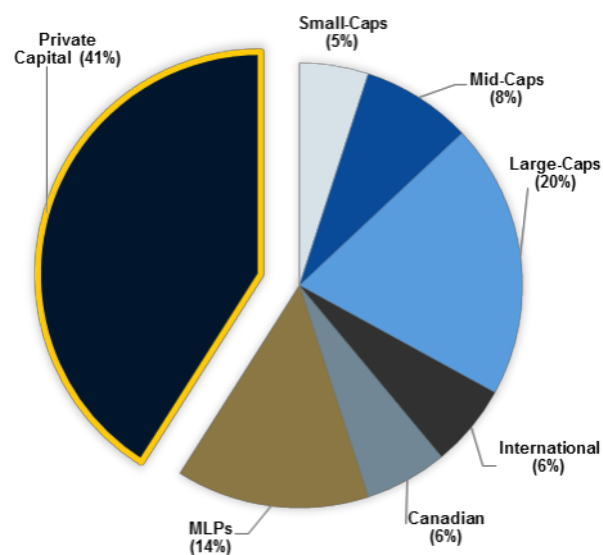
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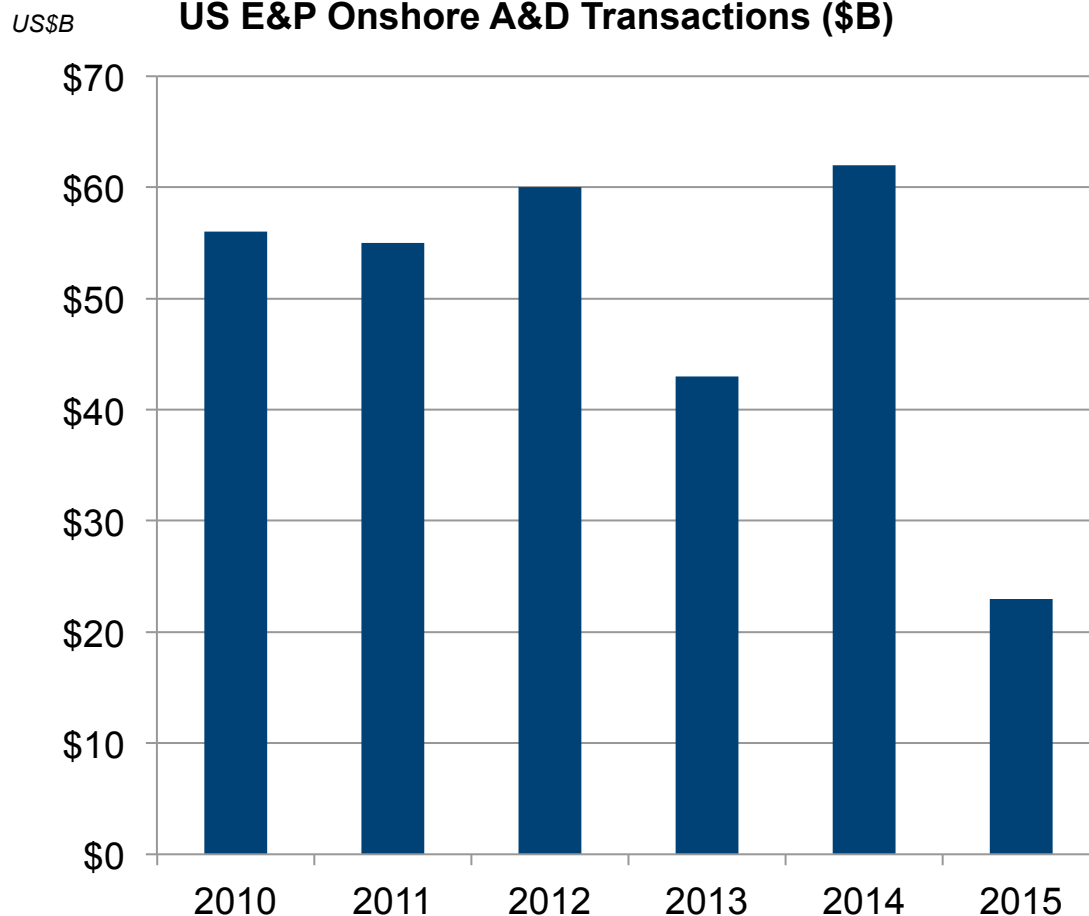


With public capital markets largely closed, private capital driving current A&D activity

2014 E&P buyers by investor type



US E&P Onshore A&D Transactions (\$B)



Broad asset portfolio provides proprietary well-level information

Eight states in which PO&G holds investments represent 80% of US Lower 48 onshore oil production¹

