Kirk Lovegrove & Co Ltd

The Energy Advisers

An Introduction

May 2021

KLC

Kirk Lovegrove & Company

- KLC was established in late 2018 as an independent upstream oil & gas advisory firm. It is based in London
- At the time the Founders, Martin Lovegrove & Niels Kirk, noted ”the oil & gas industry is entering its most interesting decade since the 1970s/early 1980s”. They went on to say, “the World is an uncertain place and as such presents challenges”. They concluded that to achieve success companies would have to be “disciplined, smart and flexible” in devising strategies for their corporate development and balance sheet
- **Martin Lovegrove** brings 50 years of industry experience, of which 40 years has been advising companies around the World develop their strategy and to buy and sell companies and assets. From 2013 he spent five years as Special Adviser to Chevron’s top management in the areas of corporate business development and strategy
- **Niels Kirk** brings over 30 years experience in Banking, over 25 years in Citibank serving Oil & Gas clients, from all types of companies on Balance Sheet matters, Capital raising, debt restructuring, Treasury and risk management
- **Martin Copeland** joined KLC in early 2021 bringing 30 years of Investment Banking experience. Previously, he had been MD of EMEA Energy for RBC Capital Markets where he developed a highly successful international team covering M&A&D advisory and financing origination
- **Michael Bridden** joined KLC at the start and brings 40 years industry experience, initially in companies, then in an advisory firm and bank with a strong technical, banking and M&A&D background. He has worked with Martin off and on since 2000
- KLC has two non-exec Directors of significant note in the UK financial sector, who are investors in KLC and who help ensure good governance (Sir Angus Grossart of Noble Grossart and Liz Airey, Chairman of both the Rolls Royce Pension Fund and Standard Life UK Small Companies Fund)
- Since becoming established KLC has built up a largely senior team, which has long experience in Corporate Strategy, Acquisitions & Sales and Banking, Finance and Treasury and Legal. The team is 11 strong, but will increase to 13 by May
- **KLC’s role is to provide clients with trusted, independent advice to the highest standards of integrity, where conflicts of interest are avoided. KLC sees itself as being “the thinking adviser"**

The features and strengths of KLC

- KLC is **independent**
  - It has a long-term view, understanding that trust develops with time
  - It will offer its clients what it thinks is the best possible advice and not try and drive clients to do deals
    - When advising buyers, KLC is wedded to the mantra that it is easy to make an acquisition, it is just difficult to make a profit
  - Its team is not distracted by cross-selling products within the organisation
- With 10 professionals in the team, KLC is **one of the largest pure upstream oil & gas advisory firms** in London
- KLC is **loaded with experience** – four team members with 30+ years and two with 20+ years experience
  - The firm is purposely top heavy
  - If you wish to advise, you have to have the experience to advise
- The **senior team are hands on**, working with all levels of the client's team
- Using its experience KLC places emphasis on **thought and creativity**, understanding every project requires a unique approach
- KLC prides itself in its **global reach** and the breadth and depth of its corporate relationships
  - Deals are done between people not companies
- KLC avoids conflicts of interest and is focused on good governance when running client projects and in its own operations

Business activities and clients

- KLC is now into its third year of business. In spite of its youth it has already been active advising a number of clients
- The firm has built a sound financial position and will expand its team slowly over the coming years so it can be in even more touch with companies around the World for perspective and to focus on supporting a small number of quality clients
- The company's activities to date have covered the complete range of its skillsets:
  - Corporate and Business Development Strategy
  - Asset acquisition and divestitures
  - Corporate merger, acquisition, sale and investment
  - Negotiations (using the strength of its global contacts)
  - Bank finance of all types, restructuring and Treasury management
- KLC's clients have included:
  - Apex Energy — proposed acquisition of a business unit in Egypt
  - Carlyle International — acquisition of Occidental's Colombian business unit, including financial advisory
  - ConocoPhillips — sale of its UK business unit to Chrysaor
  - Kosmos Energy — strategic and corporate advisory, ongoing proposed farm down of Tortue offshore West Africa
  - Oil Search — strategic advisory
  - Petrogas — advisory on extraction from a UK North Sea transaction
  - Premier Oil & Rockhopper — sell down of interests in the Sea Lion asset offshore the Falklands to Navitas
  - Privately owned company — ongoing strategy advisory on a business unit
  - Stratum — ongoing proposed sale of business in Romania, including financial advisory
  - Suncor — ongoing proposed sale of assets in Libya and Syria (through the sale of two Netherlands companies)
  - Tailwind — strategic and acquisition advisory
  - Woodside — corporate advisory

Industry trends

- The large companies of the East Atlantic are looking to expand into alternative energy businesses over time:
  - While the trend towards a greener World continues to develop, the path for the oil companies to move this way too will be challenging
  - The value of the large companies has commonly been tied to the payment of a dividend
  - The broader energy sector carries consistently low margins, which will likely impact the availability of cash for dividends
  - The management and execution of this new business is alien to oil companies and so new people and skills will have to be acquired
  - The purchase of broader energy businesses comes at a high price, which the more lowly priced oil companies will find difficult to digest
- The big companies in North America, notably the USA, are focusing largely on improving their traditional business
- The NOCs have differing strategies with one or two increasingly thinking of going into alternative energy
- The PE backed companies are looking for ways to find liquidity for their investments, but are unlikely to succeed through IPO
- The small IOCs are commonly too small as of today and often stretched financially
- Investors and banks, notably in Europe but also elsewhere, have been reluctant to support oil & gas

- An increasing number of upstream assets are coming to the market, from the Majors, the PE firms and the IOCs
- The argument for aggregation is compelling to allow companies to achieve scale and improve efficiencies
- Companies of large scale ($15-50 bn) have more options open to them, but will likely require geographical diversity
- Larger sellers should consider selling assets in return in part for equity so as to enjoy expected continued stock price rises

Oil & Gas price outlook

- Today, Brent at over $60 is running ahead of where KLC thought last year it might be ($55-60)
- KLC expects pre-Covid demand for oil to be reached sometime early in 2022
- Thereafter KLC expects demand to grow reaching a plateau of around 103 mm bopd in 2025-30 (a long-held prediction of KLC)
- For the next two to three years KLC sees Brent trending upwards to get to $70-80 in 2023-24
- Sometime within three to five years it is possible oil prices could rise above $80 reflecting:
  - Continued decline of conventional supply (currently running at around 5-6% pa)
  - Slow, but steady increasing demand, mostly from Asia and maybe Africa
  - The failure of the Permian to perform as some have predicted
  - The need of some of the oil producing states to refurbish their balance sheet (e.g. Saudi Arabia, UAE, Iraq, Kuwait, Russia)
- Supply uncertainties are focused on the timing and scale of resumption of production from Libya, Iran and Venezuela
- Demand uncertainties are focused on longer term impact of Covid and how China's green energy evolves
- Geopolitical uncertainties are focused on how the US, China, Russia and Turkey play their role in the World

- Regarding gas, there is simply too much around
- Many, although not all LNG development projects are challenged
- Local markets will often have their own traits

Market conditions

- The M&A&D market is facing many challenges, some of which have been touched on already
- Many assets are coming to the market, but:
  - Buyers as well as sellers are still concerned about pricing, particularly after rapid rise of prices in recent times; and
  - Investors and Banks are still cautious about supplying finance and this caution could continue through this year with COP26 in November
- There are few cash rich buyers in the market, which present an opportunity for those who are
- Buyers are typically geographically focused
- Most buyers are interested in cash generating assets, not assets that are under development, which consume cash
- For now, and probably the next two to four years there will be a preference for oil over gas
- There is no discernible preference towards operated vs non-operated assets. Some companies prefer to operate, others not
- KLC envisages the current "buyer's market" conditions to stay through most of 2021
- As always, high quality assets, which are the minority of assets coming to the market, will attract the most interest
- Unless there are strong companies on both sides of a deal it is likely neither side will get all that it is looking for in a deal

Appendix

Some Strategy questions for a typical company to consider

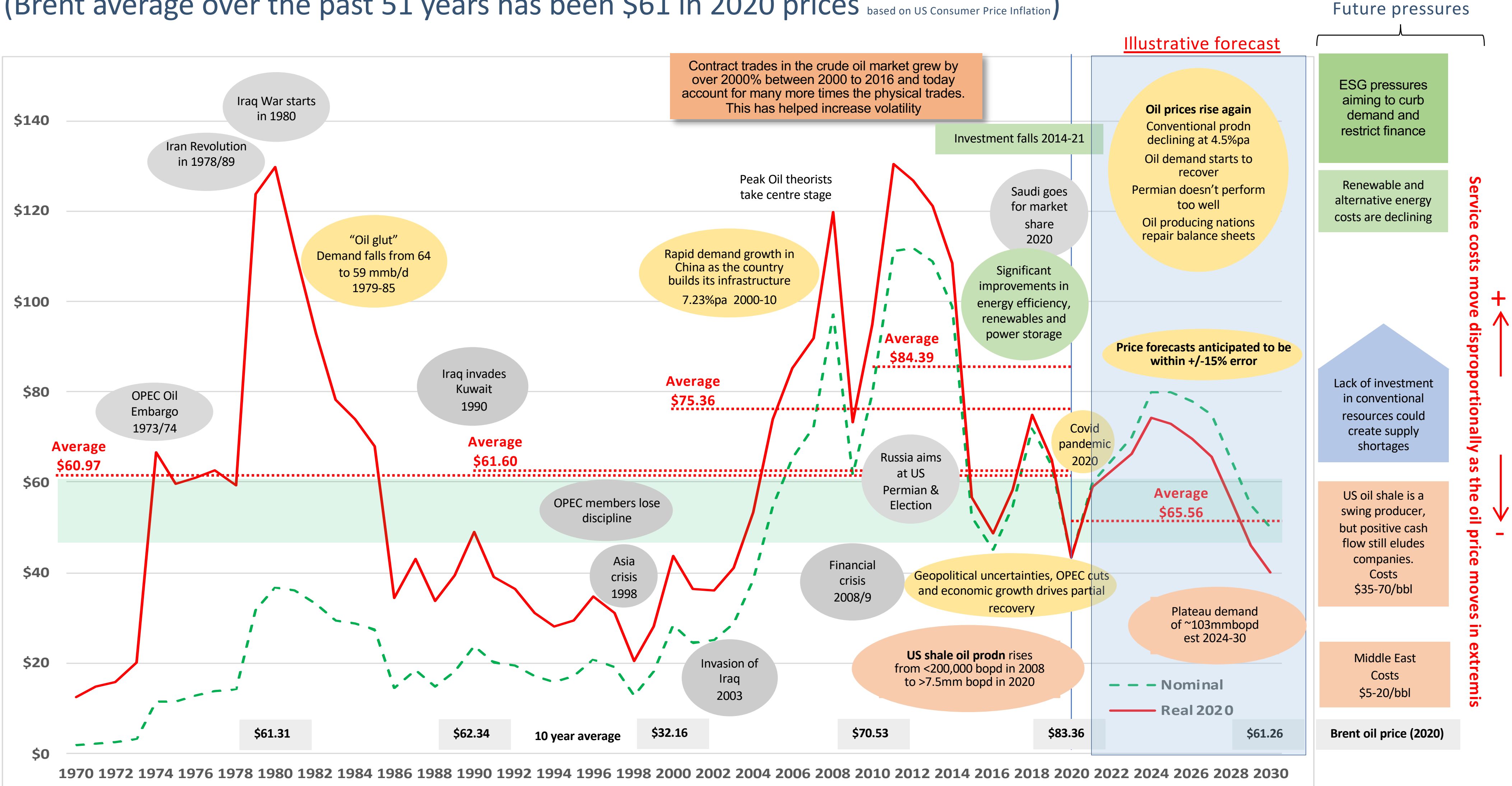
- Is your company's aim to provide top quartile returns to shareholders through capital growth, dividends or both?
- Is there an exit strategy at some time in the medium to long term future?
- What do the shareholders of your company expect and what are they afraid of:
  - Geographical focus/spread?
  - Spread of asset risk?
  - Spread of geopolitical risk (do they have a preference for an OECD bias at all)?
  - An increase in scale – modest/really quite large?
  - Exposure to developments and the capital spend that comes with them?
  - A strategic shareholder likely coming as part of a large acquisition (e.g. 10-30%)?
  - Exposure to non-oil & gas activities (develop/increase or avoid)?
- What are your company's operating strengths and weaknesses:
  - Oil, gas and/or LNG?
  - Operatorship (does your company have to operate or is it comfortable being a non-operator)?
  - Onshore vs offshore (near-shore or deepwater)?
  - Development, production (green or brown) and/or exploration?
  - Conventional or unconventional resource work?
- What are the strengths that your company would like to add to its portfolio?
- What are your company's non-operational strengths and weaknesses:
  - Capable of managing well multi-jurisdictional teams?
  - Integration, which will be required post a business/company acquisition?
  - Business Development. How good are your company's skills in:
    - Industry contacts worldwide (are there companies your company is particularly close to)?
    - Target evaluation (corporate through to simple asset)?
    - Negotiations in deals (are there "closers" in the team)?
- What are the strengths that your company needs to add in its non-operational area(s)?
- Is your company's P&L account and balance sheet robust to handle, say, US$35 Brent?
- If your company wishes to spread its wings are there geographical areas that it would not go into?
  - USA Lower 48 (conventional or unconventional)?
  - US GOM?
  - Canada?
  - Latin America (from Mexico south)?
  - Europe (including or not the Continental Shelf)?
  - Eurasia (Russia and the 'Stans)?
  - Middle East?
  - North Africa?

Sale process options and issues

- When considering sales one has to be thoughtful and potentially creative
- One has to know one's market and have good intelligence as to who the likely buyers might be and what drives them
- In devising sale programmes it is important to create a process fit for the circumstance
- Sale process options are:
  - Conventional, open auction — ten plus companies
  - Limited auction — three to ten companies are typically targeted
  - Pre-emptive sale — one to three known to be very keen companies are targeted ahead of an open auction being started
  - Bilateral — one to one deal where buyer is known to be very keen. One has to convince management best price won
  - Rolling auction — for a challenging sale – invite three to five companies and replace them as they drop out
- One phase vs two phase process?
  - Two phases typically most favoured. This allows the seller to slim down number of potential buyers, but it can give misleading results
  - One phase can be time consuming, but often shorter than the two phase process and can produce the cleaner result
- Packaging can be important, too – single asset vs multiple assets in country or maybe assets from more than one country
- For mature assets a key matter for consideration revolves around decommissioning liabilities
- Given challenges in the banking market, is their scope on the seller's behalf to provide a pre-pay or to take on trading?
- When working in typically non OECD countries it almost always pays to pay attention to Government issues that may arise

What will shape the long term "norm' oil price?

(Brent average over the past 51 years has been $61 in 2020 prices based on US Consumer Price Inflation)

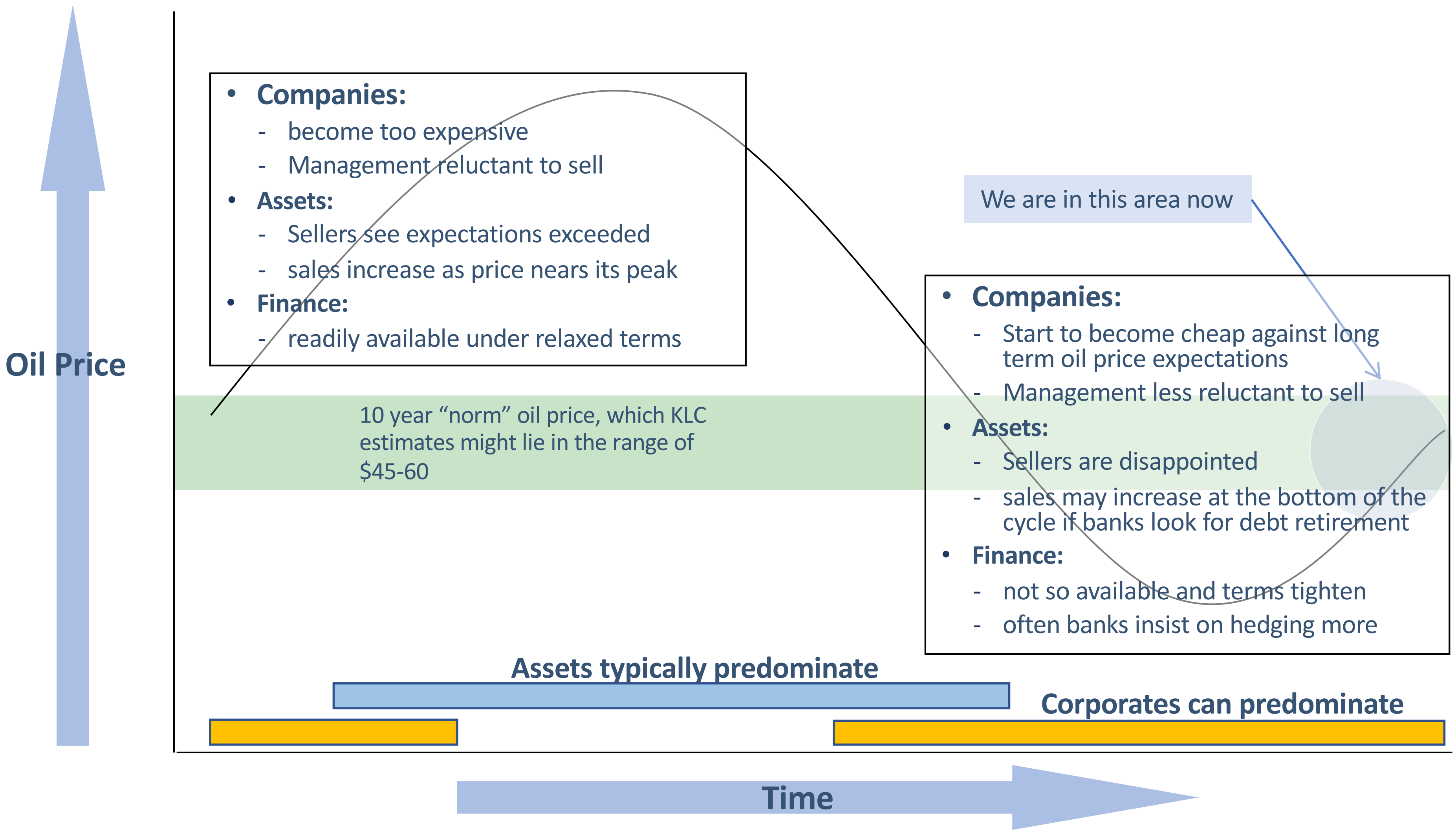


10 year avge						
Oil demand change	2.49%	1.13%	1.42%	1.12%	0.35%	1.27%
Oil prod'n change	2.17%	0.32%	1.45%	1.05%	0.31%	1.38%

- **Cycles, volatility and spikes will continue, but expect the norm to lie between $45 - $60 (2020)**

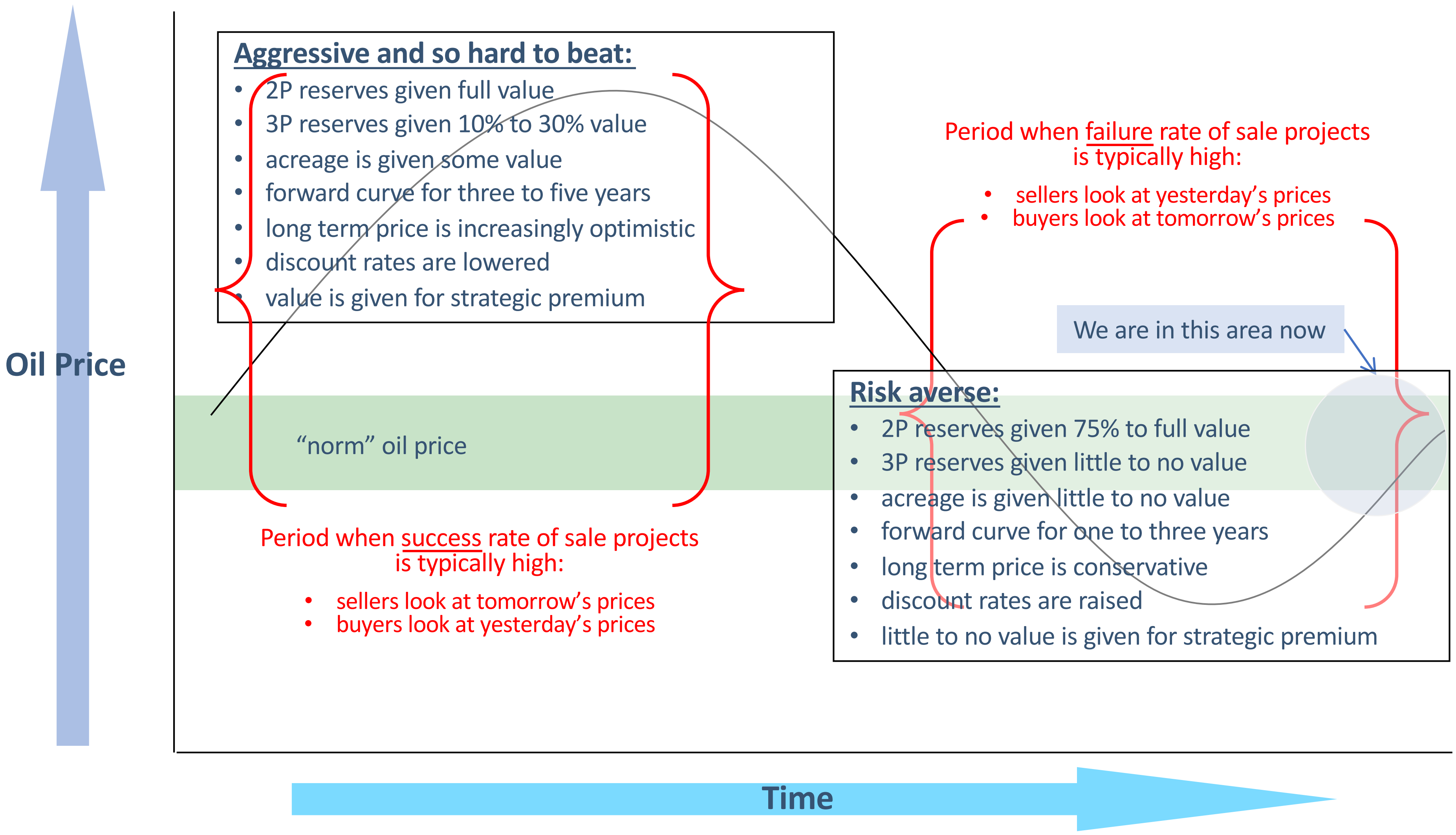
KLC

Illustrative assumptions through the cycle



Typically, the length of a "super cycle" is around 15 to 20 years, could get shorter through to 2030

Illustrative assumptions through the cycle



Through the cycle companies/assets of quality will always attract a premium to market at the time

KLC