

ENERCOMDALLAS™

The Energy Investment & ESG Conference



EnerCom Dallas

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April 2022





EnerCom, Inc. is an internationally recognized management consulting firm advising companies on investor relations, analysis and valuation, corporate strategy/board advisory, Environmental, Social & Governance (ESG), marketing, media, branding, and visual communications design.

Founded in 1994, EnerCom, Inc. was built with a vision of being a trusted advisor to the global energy industry and energy capital markets. Our industry knowledge supports the delivery of our high-quality, value-added services. Our clients trust our experience delivering integrated marketing and corporate branding programs.

Targeting. Media. Analytics. Graphics.



Answers To A Few Common Questions

1. Does ESG disclosure even matter for an independent oil and gas company? **Short Answer: YES! It is an access to capital issue today**
2. Is ESG disclosure just for the public companies? **Short Answer: No! As the universe of stakeholders expand, so do the expectations on all companies.**
3. Does the market have the same expectations for all size companies? **Short Answer: No!**
4. What ESG metrics really matter? **Short Answer: Take a holistic approach with the “E” the “S” and the “G” factors all carrying weight**
5. What are the quantifiable returns on investment associated to ESG? **Short Answer: Unique to each situation**
6. Where do I even start with building a plan? **Short Answer:**
 1. Take an inventory of what you are already doing inside of your organization.
 2. Understand market expectations today and where are they going.
 3. Take comfort that ESG disclosure will be an evolutionary process. Work to a plan to communicate ESG initiatives and progress that is genuine and honest; intentional; consistent; and broadly messaged through traditional and digital channels.

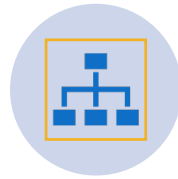


ESG Enhances, But Does Not Replace, Fundamentals

5 Corporate Tenets That Never Go Out of Style



Seek out companies with strong functional excellence – from drill bit to check book.



Management with the right business motivations.



Aligned and integrated operating, financial, and hedging strategies.



Cash efficient companies are rewarded. Liquidity, cost containment and cycle-driven returns always win.



Timing – catalysts, general health of story.

*“Rise early, work late and strike oil”
-J. Paul Getty*



Thinking About ESG Impact On The Corporation

Examples of Strong ESG

Examples of Weak ESG

Top-Line Growth

Attract more B2B & B2C customers with more sustainable products.

Lose customers through poor sustainability practices or a perception of unsustainable or unsafe products.

Achieve better access to resources through stronger community & government relations

Lose access to resources as a result of poor community & labor relations.

Cost Reductions

Lower energy consumption & reduced water intake.

Create unnecessary waste & pay correspondingly higher waste-disposal & packaging costs.

Regulatory & Legal Interventions

Achieve greater strategic freedom through deregulation.

Suffer increased government interventions through regulations.

Earn subsidies & government support.

Productivity Uplift

Boost employee morale.

Deal with “social stigma” which restricts talent pool and lose out on future talent.

Attract & retain talented employees.

Investment & Asset Optimization

Enhance investment returns.

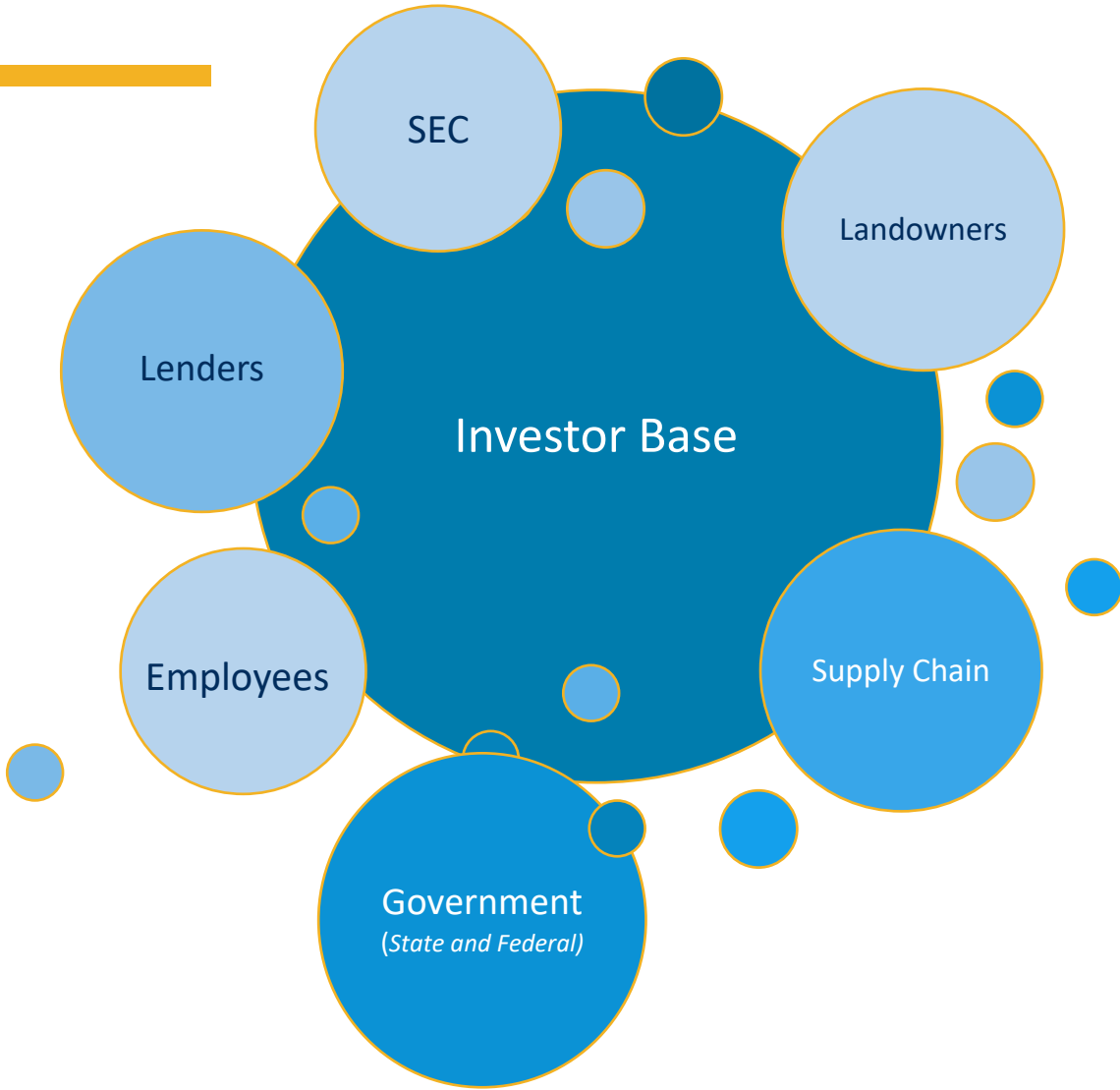
Suffer losses as result of premature write-downs.

Investment avoidance because the target fails to meet internal ESG guidelines.

KPIs fall behind competitors & WACC suffers as does corporate valuation.



Universe of Stakeholders is Expanding...

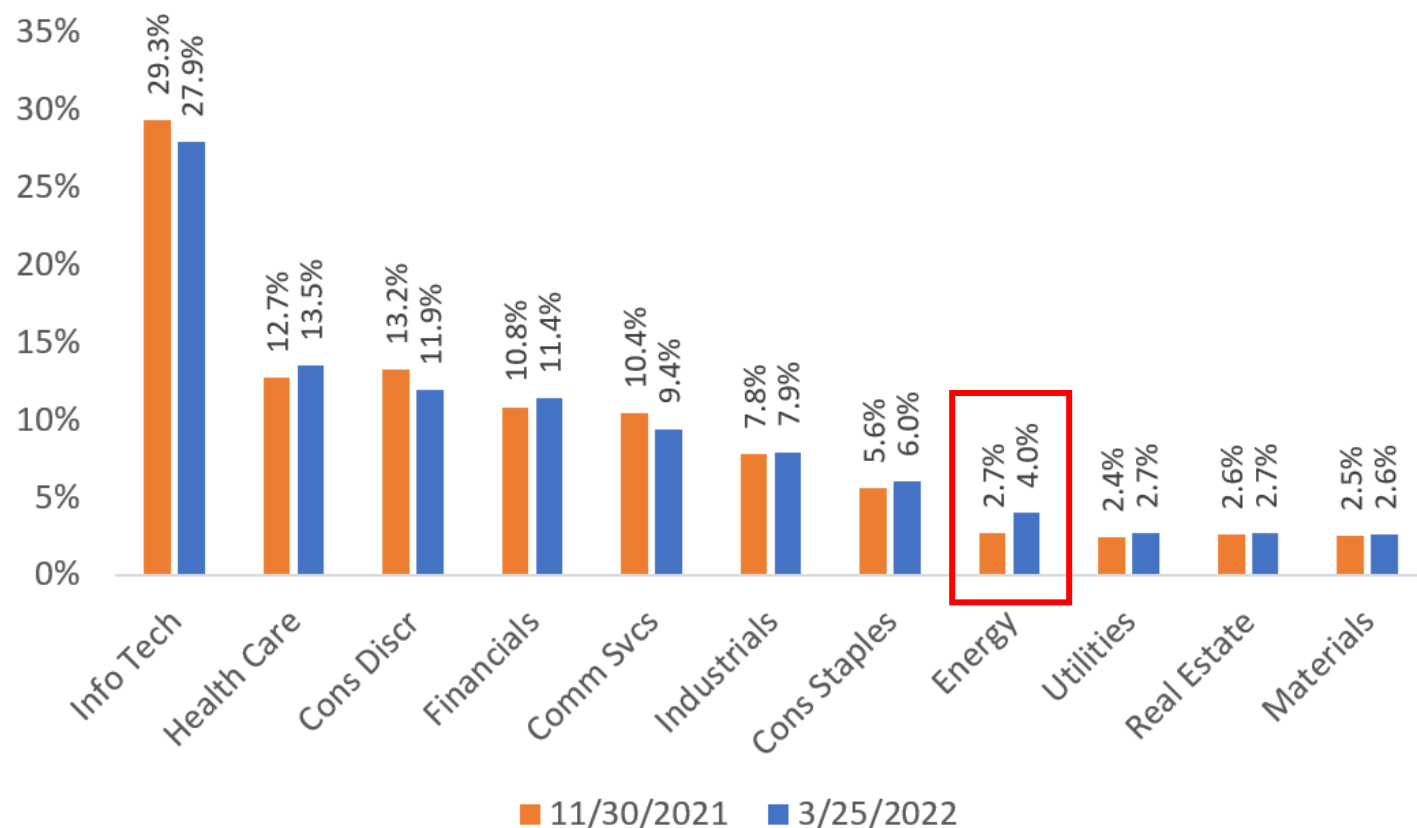


...And so are the asks on ESG related disclosure



Snapshot: S&P 500 Sector Breakdown

Energy At the Tipping Point of Relevance

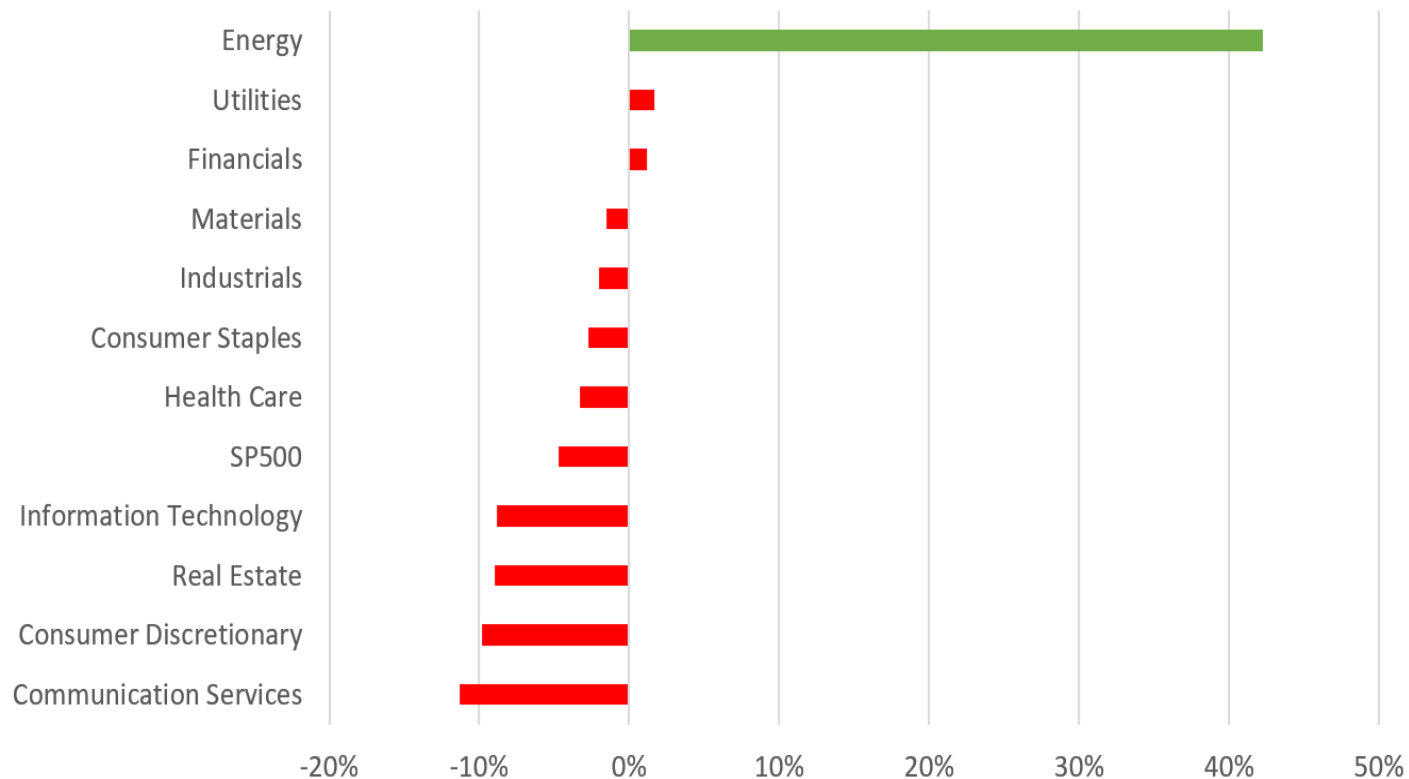


- Energy's weighting in the S&P 500 increased 50% to 4.0% over the last four months
- Dramatic absolute and relative outperformance forces investors to re-engage with the sector
- Stigma of owning fossil fuel-focused equities waning as geopolitical tensions increase



Snapshot: S&P 500 Sector Performance

YTD Performance as of 3/25/2022: From the Outhouse to the Penthouse



- Active managers need to weigh ESG concerns versus the hunt for alpha
- Energy has outperformed the S&P 500 by 4700 bps YTD
- Energy has outperformed the second-best performing sector (Utilities) by 4060 bps YTD
- Energy has outperformed Technology by 5100 bps YTD



Money Talks, Companies Must Listen

Amid Strong Returns, Top Institutions Are Piling Back Into Oil & Gas Equities

These holders own \$71 billion of the equity of the group, more than 2x what they owned six months ago

Top Holders of a 30-Company E&P Group

1. VANGUARD GROUP – Owns 29/30 peers, representing \$19.2B
2. BLACKROCK – Owns 29/30 peers, representing \$18.4B
3. STATE STREET – Owns 26/30 peers, representing \$9.6B
4. FIDELITY MGMT & RESEARCH – Owns 24/30 peers representing \$7.5B
5. GEODE CAPITAL MANAGEMENT – Owns 28/30 peers, representing \$3.1B
6. CAPITAL GROUP COMPANY – Owns 6/30 peers, representing \$3.0B
7. DIMENSIONAL FUND ADVISORS – Owns 22/30 peers representing \$2.9B
8. BANK OF NEW YORK MELLON – Owns 19/30 peers, representing \$2.7B
9. BLACKSTONE GROUP – Owns 4/30 peers, representing \$2.5B
10. JPMORGAN CHASE – Owns 8/30 peers, representing \$2.4B

Source: Bloomberg, Company filings, Haynes and Boone, EnerCom Oil & Gas ESG Tracker; Data as of 3/25/22



ESG In a ~~\$100~~ ~~\$130~~ \$105/b World

Political speak has been muddled at best;
market realities will drive near-term decisions



Has oil and gas company DNA evolved for good?

- Industry making capital allocation promises
- Shareholder bases and capital providers still focused on disciplined return of capital
- What to do with increased cash flows:
 - Increase dividends?
 - M&A?
 - Diversify into energy transition?
 - Strengthen ESG profile and environmental stewardship?



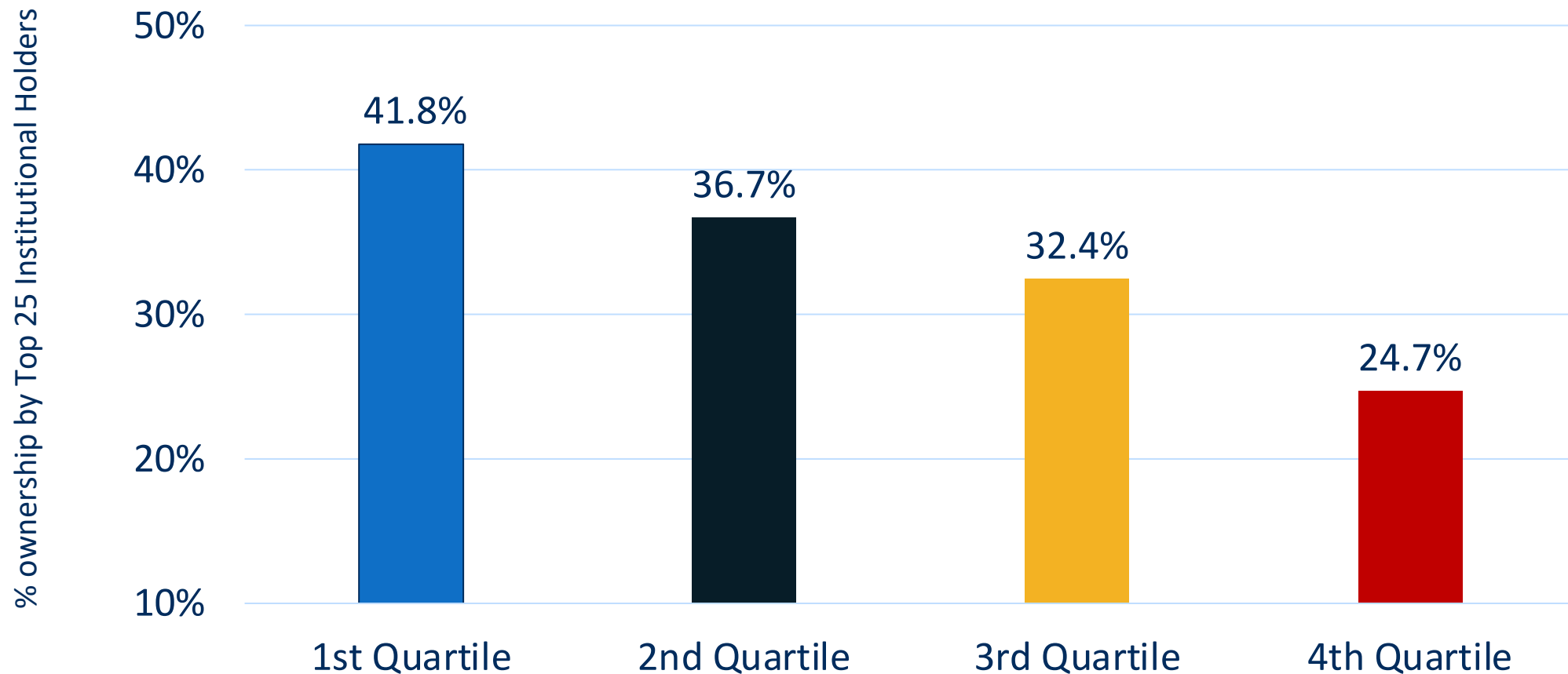
Time to Ask the Big Questions

- Are investors' moral compasses inversely correlated to sector outperformance?
- Or are E&Ps sufficiently increasing their disclosures and being better environmental stewards, justifying institutional re-investment?
- We believe the answer is YES to both questions
 - 79% of active managers underperformed benchmarks in 2021*
 - The “sin” of fossil fuel development is easier to tolerate when the equities outperform and companies focus on cash returns to shareholders
 - E&Ps are more prudently allocating capital and increasing ESG disclosures to make themselves more palatable to investors



Top Holders of a 30-Company E&P Group

Top 25 Institutional Ownership By Company Disclosure Quartile Group

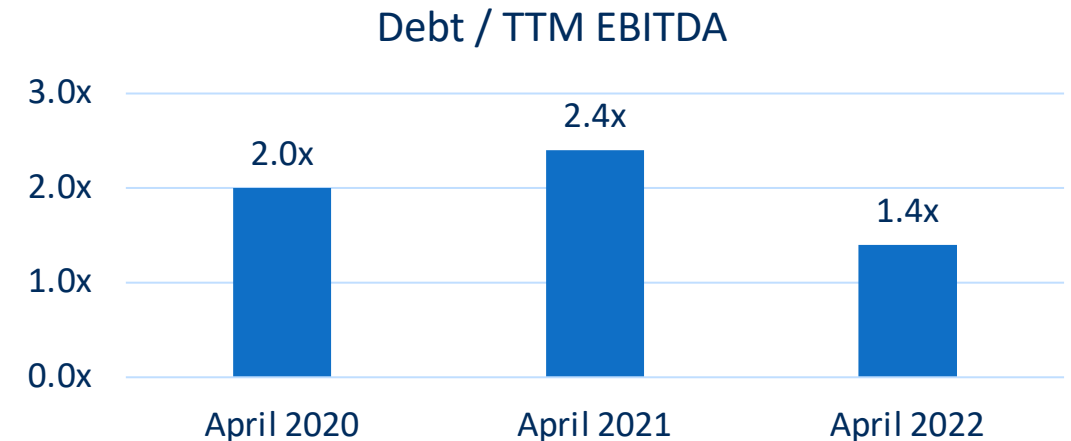
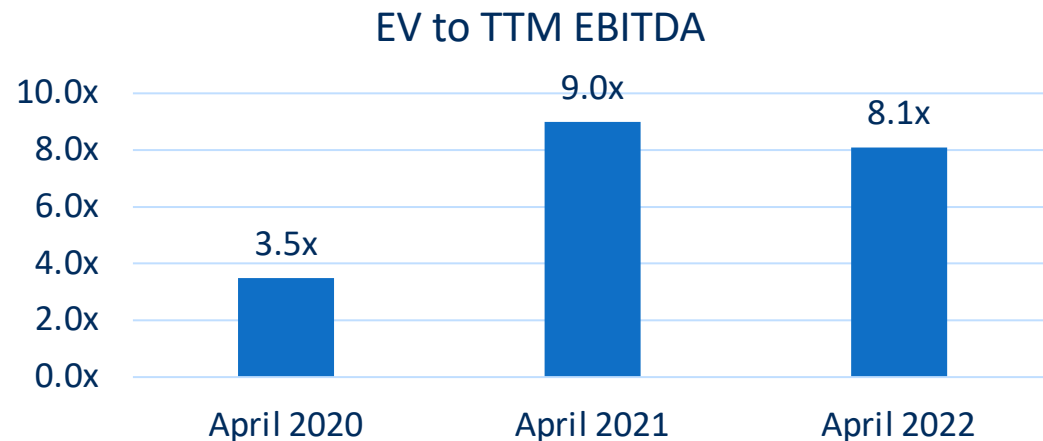
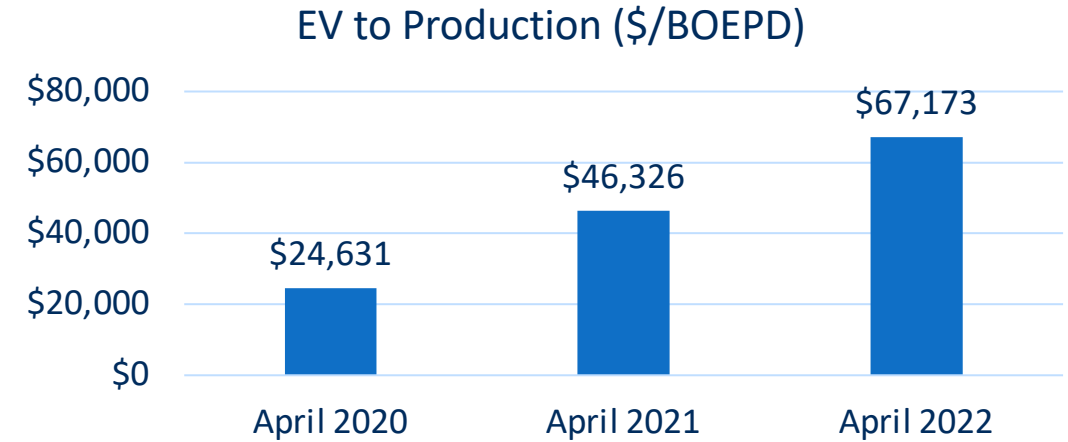
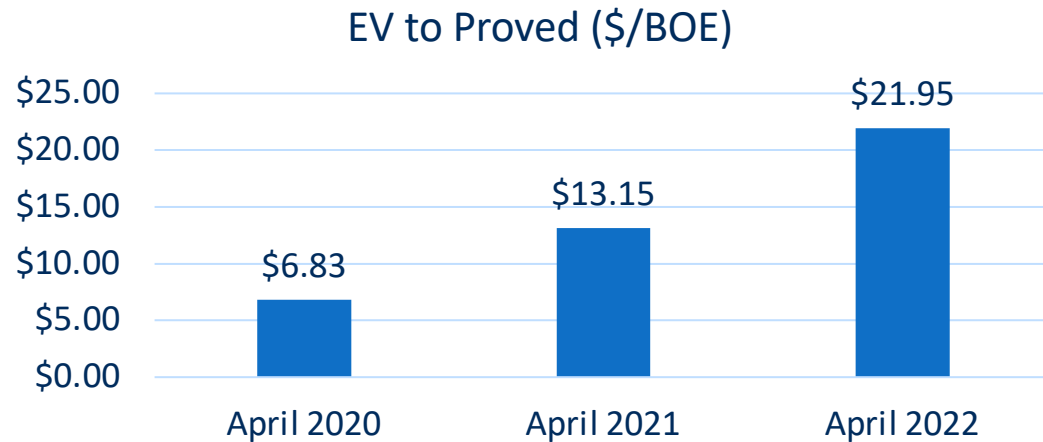


A Home in a World of Heightened ESG Awareness

- ESG assets of \$53 trillion by 2025* means cash needs to be invested with companies providing robust disclosures; Most energy equities already providing those disclosures
- LNG remains a pivotal and secure global energy source that the U.S. can produce safely - *“We have the capacity to increase LNG exports by over 50 Bcf/d and hold it there”* – EQT CEO Toby Rice, 3/28/22
- The alpha dogs of institutional investing are walking back anti-fossil fuel rhetoric; our analysis of their ownership positions confirms their statements – *“We will continue to invest in and support fossil fuel companies...We have not and will not boycott energy companies.”* – BlackRock, 1/3/22

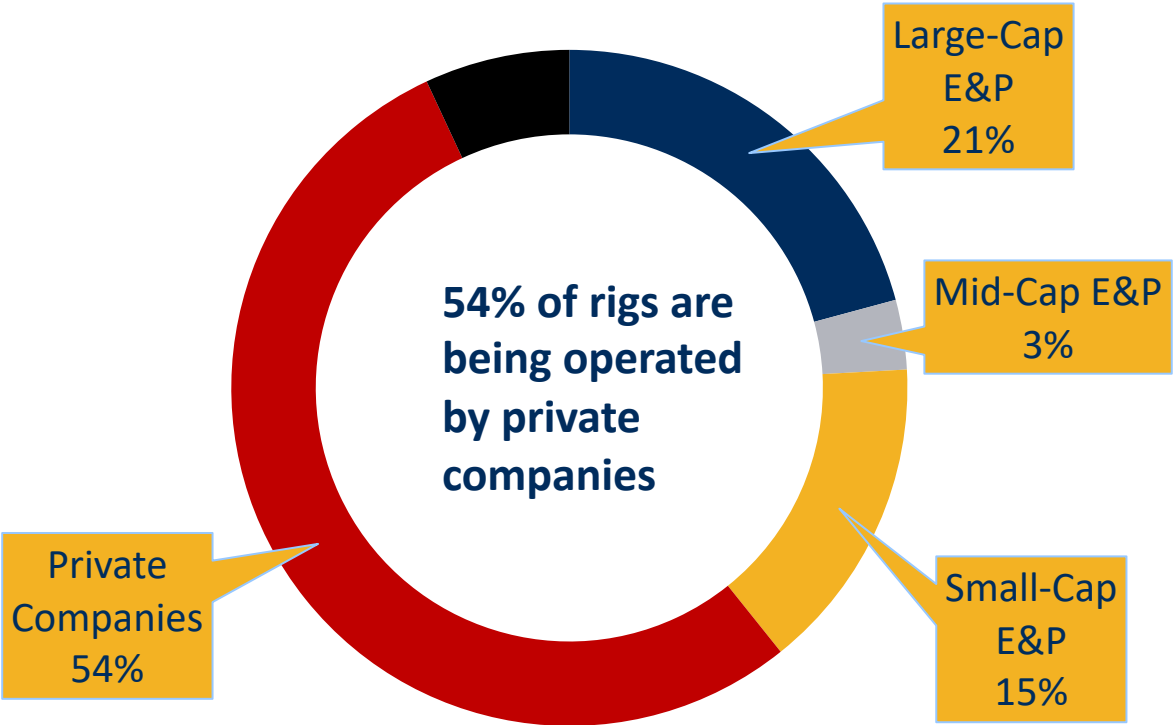


The Money Slide – Where Do We Go From Here?



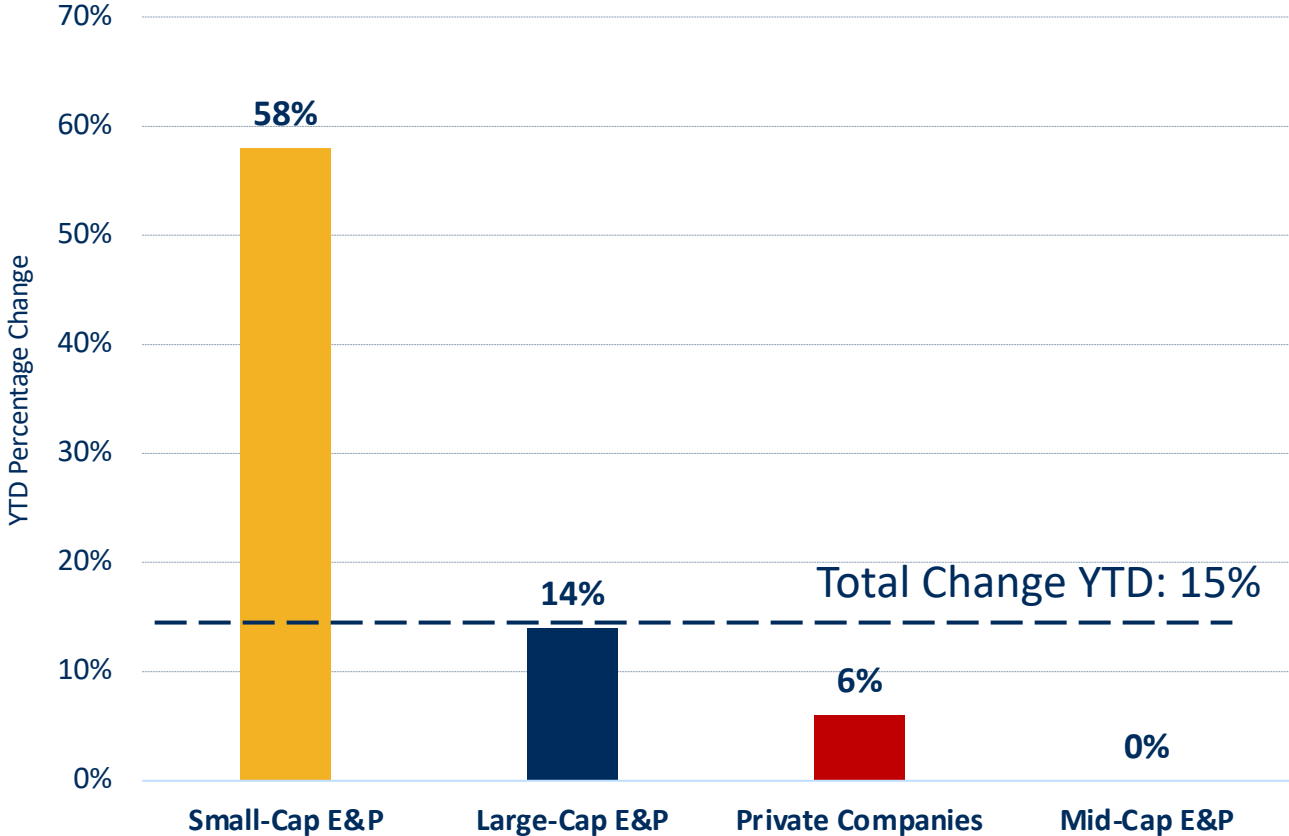
Who Are Running The Rigs?

Rigs Working (U.S.) – 3/4/22



- Large-Cap E&P
- Mid-Cap E&P
- Small-Cap E&P
- Private Companies
- Other

Year to Date Change In Rig Activity



Private Company ESG Standing Is A Factor in M&A



PDC Energy after announcing Great Western acquisition:

"In 2022, PDC plans to invest approximately \$80 million and undertake several initiatives aimed at further improving its ESG best-practices and meeting certain regulatory requirements....Due to the average age of Great Western's existing wellbores and facilities compared to those of PDC, the Company projects its pro forma GHG and methane emission intensities to improve compared to its existing metrics. PDC expects the Acquisition to further support or accelerate its existing GHG and methane emission intensity reduction targets of more than 50 percent and 60 percent, respectively, by 2025 compared to 2020."

Deal Value: \$1.3 Billion
Type: Cash and Stock



Civitas Q4 2021 earnings presentation, after announcing Bison acquisition:

- *"First carbon neutral E&P operator in Colorado"*
- *"Zero routine flaring"*
- *"Electric rigs, Tier IV and eFrac completion fleets"*

Deal Value: \$300 Million
Type: Cash



Chesapeake Energy presentation announcing Chief acquisition and PRB asset sale:

- *Pro forma 2020 methane intensity of 0.09% (vs 0.13% before); pro forma 2020 GHG intensity decreases 18%*
- *"Strengthens ESG performance and pursuit of RSG"*

Deal Value: \$2.6 Billion
Type: Cash and Stock



Environmental, Social and Governance

ESG Remains a Cost (Access) of Capital Issue for Public and Private Operators

- A growing number of investors are employing varying degrees of ESG valuation metrics
- Investors are frustrated by the quality of third-party analytics and leaning on corporate disclosures
- Energy equities are increasing disclosures and removing ambiguity about operations
- Money flows into ESG strategies likely to persist over medium-term
- Executive compensation becoming more linked to ESG principles, which is why you know ESG metrics will improve
- Geopolitics is a tailwind for the group



What Is On the Docket For the Next 2 Days



Presenting Companies



Audience and presenters taking part in an important and timely conversation on the future of the energy industry



Thank You!



HAYNES BOONE



PROJECT
CANARY

