Winchester Capital
Global Strategic Advisory and Asset Management

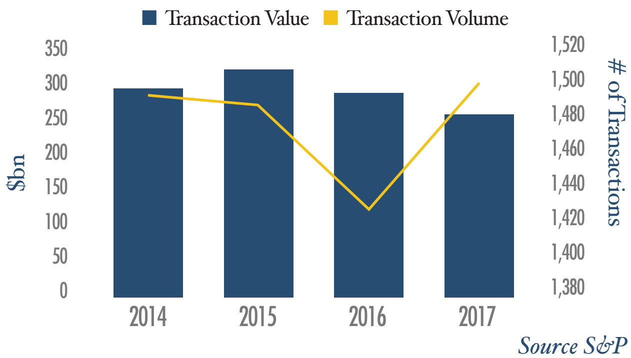
Global Insight
Energy Sector
Summer 2018

I. INCREASED M&A TRANSACTION VOLUME IN ENERGY SECTOR

Due to economic growth internationally, global energy consumption grew by 2.2% to rise to an all-time high of 13.5bn metric tons of oil equivalent in 2017. Global energy sector activity as measured by transaction volume increased by 5% in 2017 while transaction deal value declined by 11%. The decline in global transaction deal value was the result of fewer large scale deals in 2017. Of the 1504 sector deals in 2017, 84% of the deal value originated from North America (65%) and Europe (19%).

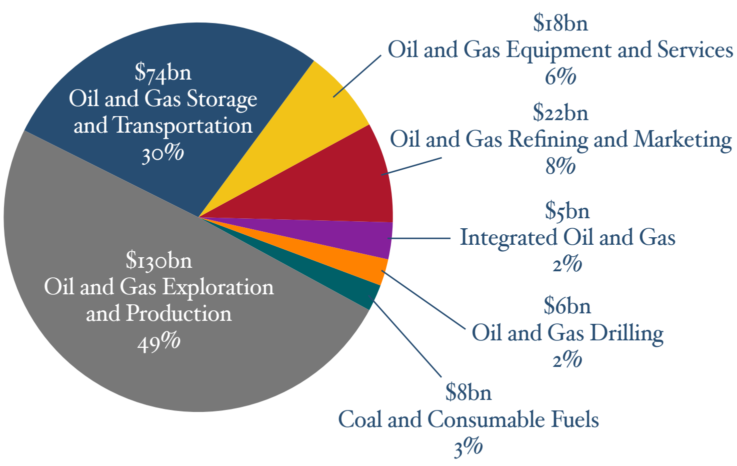
Upstream M&A transaction value increased 14%, driven primarily by activity in North America, where deal value increased 19%. Midstream and downstream deal volume contracted 5% and 9%, respectively, in 2017. This was likely the result of increased risk sensitivity and continued focus in internal performance improvements and cost reductions. E&P companies have recovered at a faster rate due to the recent rise in the oil price, however the oilfield services supply chain is still affected as suppliers are locked into contracts negotiated over the past 3 to 4 years. Going forward, we expect continued growth in the upstream M&A market driven by: (i) increasing activity from private equity players, (ii) the adoption of creative transaction structures (i.e. joint ventures), (iii) vertical integration of independents with midstream and downstream strategics.

Chart I: *Energy Sector Global M&A Announced Transactions 2014-2017*



Source S&P

Chart II: *Percentage of Global Oil and Gas M&A Deal Value 2017*



We anticipate future growth in midstream, especially in North America, amid strong investment in North American shale basins and easing political tensions in the Middle East. We also expect growth in the downstream sector as well as companies look to further balance portfolios across the value chain and seek growth opportunities. Oilfield services deal value increased 12% in 2017. Despite strong price competition amongst OFS companies, we expect this trend to continue as a result of increased upstream capital expenditure and rising oil prices.

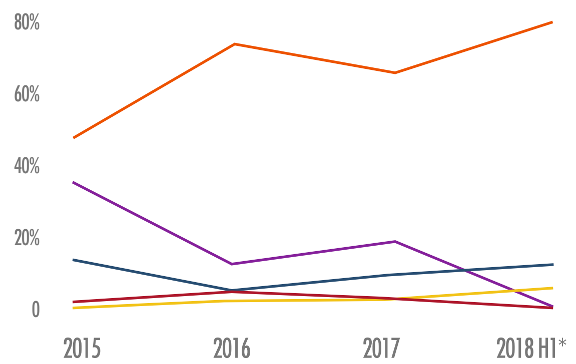
Following the reduction in corporate tax rates from 35% to 21%, acquisitions by US oil and gas companies, especially major corporations such as ExxonMobil and Chevron, should rise in 2018.

II: GLOBAL TRANSACTIONS IN OIL AND GAS SECTOR

The global M&A market has been quite active with a number of high profile oil and gas industry mergers and acquisitions over the past 18 months. Consolidation within the North American market continues to be a major theme in the Energy Sector. The majority of the ten largest transactions (90%) were acquisitions by North American companies of North American companies or assets.

Notable deals included the announced acquisition of *Andeavor* by *Marathon Petroleum* which will create the largest U.S. Refinery by capacity, with the ability to process 3.1m barrels per day. The cash-and-stock deal values *Andeavor* at about $152 per share, a premium of about 24 percent to closing prices the day prior to announcement.

Chart III: *Deal Value by Region 2014 -2018*



The only non-North American acquisition over the past 18 months in excess of $8bn was the acquisition of *Hindustan Petroleum Corporation Limited* (India) by *Oil and Natural Gas Corporation Limited* (India). *Oil and Natural Gas Corporation Limited* entered into share purchase agreement to acquire 51.11% stake in *Hindustan Petroleum Corporation Limited* from the Government of India on January 20, 2018. Through the acquisition of HPCL, ONGC is divisersfying its cash flows to the midstream and downstream sectors.

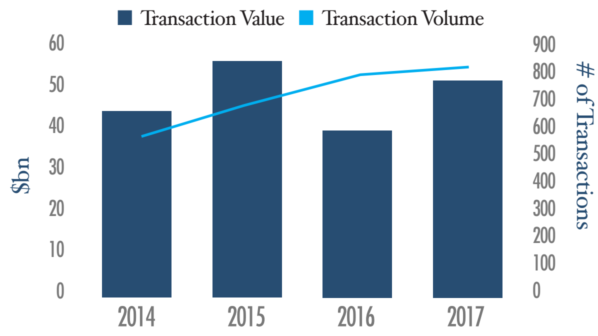
Table I: *Largest Announced Oil and Gas Transactions - 2017 through 1st Half 2018*

Annoucement	M&A Closed Date	Target	Buyers	Total Transaction Value ($m)	Sector
04/30/2018	Pending Completion	Andeavor (NYSE:ANDV)	Marathon Petroleum Corporation	35,536	Oil and Gas Refining and Marketing
02/01/2017	06/30/2017	ONEOK Partners, L.P.	ONEOK, Inc. (NYSE:OKE)	17,515	Oil and Gas Storage and Transportation
05/17/2018	Pending Completion	Enbridge Energy Partners, L.P. (NYSE:EEP)	Enbridge (U.S.) Inc.	14,832	Oil and Gas Storage and Transportation
03/29/2017	05/17/2017	Remaining 50% Interest in FCCL Oil Sands Partner and Majority of Western Canada Deep Basin Gas Asset	Cenovus Energy Inc. (TSX:CVE)	13,238	Oil and Gas Exploration and Production
06/19/2017	11/13/2017	Rice Energy Inc.	EQT Corporation (NYSE:EQT)	10,670	Oil and Gas Exploration and Production
05/17/2018	Pending Completion	Williams Partners L.P. (NYSE:WPZ)	The Williams Companies, Inc. (NYSE:WMB)	10,470	Oil and Gas Storage and Transportation
03/28/2018	Pending Completion	RSP Permian, Inc. (NYSE:RSPP)	Concho Resources Inc. (NYSE:CXO)	9,627	Oil and Gas Exploration and Production
01/20/2018	01/31/2018	Hindustan Petroleum Corporation Limited (BSE:500104)	Oil and Natural Gas Corporation Limited (NSEI:ONGC)	9,248	Oil and Gas Refining and Marketing
01/04/2017	01/01/2017	DCP Midstream LLC, Substantially All Assets	DCP Midstream Operating, LP	8,865	Oil and Gas Storage and Transportation
03/09/2017	05/31/2017	Shell Canada Limited, AOSP, Peace River Complex in-Situ Assets and Undeveloped Oil Sands Leases	Canadian Natural Resources Limited (TSX:CNQ)	8,246	Oil and Gas Exploration and Production
				Total: $ 138,248	

III. RENEWABLE ENERGY

Consumer demand for renewable energy continues to rise globally. Global solar consumption increased by 35% in 2017 while wind power consumption rose by 17%. Coupled with a decrease in energy prices and technology advances, the renewable energy M&A sector has been quite active. In 2017, the total volume of renewable M&A increased by 30% to a value of $52bn. The Asia/Pacific region reported the highest number of deals (327), while the North American Region reported $22bn in transaction value (41% total deal volume). Following the recent decision by the IRS to extend US tax breaks on solar investment and the Trump administration's decision to impose a 25% tariffs on Chinese products, North American solar companies should continue to be attractive targets for acquisitions.

Chart IV: *Renewable Energy Sector Global M&A Announced Transactions 2014-2017*



Over the past 18 months there have been a number of large transactions in the renewable energy sector, the largest transaction being the acquisition of the United States solar and wind operator TerraForm Power Inc. by Brookfield Renewable Partners L.P., valued at over $6bn. The second largest renewable transaction was the acquisition of Equis Energy Pte. Ltd. by Global Infrastructure Partners and co-investors for $5.0bn. Equis Energy is the largest renewable energy independent power producer in Asia with 180 assets throughout Asia.

IV. CONCLUSIONS

We expect the momentum to continue in the energy M&A market through 2018-2019:

Integration: We expect continued integration, especially through the acquisition of independent midstream and downstream providers as upstream companies look to take advantage of economies of scale and potential efficiency gains through vertical integration.

Technology Investments: Oil and gas companies have been slow to adopt technological innovations that drive efficiency gains, in large part due to their wealth. Dr. David Bowen, Managing Director at Winchester Capital noted, "High market prices and a steady influx of capital allowed oil and gas companies to ignore inefficiencies in the boom years and focus instead on growth and reserves exploration. Companies now are constantly seeking technological advances that improve the yields and operational efficiency from their wells, onshore and offshore." Investing in technology in oil production and pipeline flow will result in cost efficiencies and potentially increase margins. For example companies which offer new technologies for flow monitoring, pipeline integrity and 4D seismic technology have the ability to impact profits.

North American Growth: We expect continued growth in upstream M&A driven primarily by investment in North American shale basins, the fastest growing sector of the oil and gas sector.

ABOUT WINCHESTER CAPITAL

Since 1986, Winchester Capital has offered advisory services and asset management with a record of transactions in 40 countries. In 2017, we received the Distinguished Award for International Private Equity Deal of the Year and we also have received the award for Energy Deal of the Year. We excel in direct transaction research, initiation and execution. If you are considering an Energy Sector acquisition or sale, or you desire further research, please contact our Global Communications Director, Pippa Smith at **Pippa.Smith@WinchesterCapital.com**. Please visit our website at **www.WinchesterCapital.com.**

Winchester Capital
Global Strategic Advisory and Asset Management

North America
Winchester House
445 Orange Street • New Haven, CT
+001 (203) 787-5029

United Kingdom
33 St. James's Square
London
+44 20 7661 9928