ALLEN & OVERY

Private equity's upstream journey

Will investment in the world's ageing oil and gas basins ultimately pay off?

In association with

PETROLEUM ECONOMIST

Foreword

Private equity interest in the E&P industry soared in the wake of the 2014 oil price crash. However, renewed appetite for upstream assets was not only predicated on exploiting commodity cycles.

Private equity spotted an opportunity when patchy performance and escalating ESG concerns meant publicly listed investors turned their back on mature basins. While it was hype around the shale revolution that first attracted attention, an alternative strategy quickly emerged.

The North Sea opportunity

Mirroring an investment model first employed in the Gulf of Mexico, private equity involvement in the North Sea's ageing basin has increased dramatically in recent years. Private equity now accounts for almost ten percent of production in the region, from a base of virtually zero when the oil price first came tumbling in 2014.

The investment rationale is simple. The majors and utilities are pulling out, to focus their capital, and attention, on more prolific hydrocarbon provinces, as well as other opportunities such as renewable energy plays that are more appealing to public market investors. Private equity firms, meanwhile, are snapping up these unloved assets and investing strategically to harness value from every last drop of inventory, extending their useful lives and delaying decommissioning for as long as is possible.

Furthermore, as the asset class gets increasingly comfortable with the E&P sector, private equity firms are proving increasingly willing to embrace some geopolitical risk by looking to replicate the North Sea model elsewhere in the world. Brazil's Santos basin is among the regions to have garnered private equity interest. But select markets in North and West Africa, as well as Asia Pacific, are also attracting interest.

Managing risk

Of course, the highly cyclical oil and gas sector is not without its challenges. Decommissioning and commodity price risk must be managed carefully. However, vendors, keen to exit marginal fields in search of bigger opportunities, are increasingly willing to retain some of these risks and innovative deal structuring around decommissioning risks is helping to get transactions over the line.

Perhaps the biggest challenge that private equity firms face though, is a scarcity of exit options for these substantial and mature E&P platforms. Without a clear growth story, appetite from the public markets would seem limited. Moreover, some of the obvious potential owners, being the major strategic players in the industry, are all selling – not buying.

Some secondary buy-out activity amongst the private equity-backed platforms themselves is probable and indeed, we are already seeing deals of this nature coming to market. Meanwhile, managers are quietly beginning to discuss the possibility of abandoning the prospect of an exit altogether and instead restructuring their funds and holding assets for their cash generation qualities.

In this report, we follow private equity's upstream journey and consider whether this latest round of E&P investment will ultimately deliver on its promise.

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In the beginning…

Private equity investment in upstream oil and gas is not a new phenomenon. Energy-focused firms such as Riverstone and EnCap have been active in the US upstream market for decades, while 3i forged a less well-travelled path in the North Sea and Asia-Pacific through the 2000s.

A new wave of dedicated oil and gas fundraising was however kick-started by the oil price crash of 2014. Whilst only a small portion of that capital was deployed quickly enough to take full advantage of the recovering commodity cycle, private equity had, by then, spotted a bigger opportunity. The public markets were starting to fall out of love with the sector. A gap in the market had emerged and private equity was determined to fill it.

It was the US onshore industry, and the booming Permian basin in particular, that first captured private equity's imagination and investment in the Permian basin region continues at pace. According to PitchBook, a total of $36.5bn was invested by private equity firms in Texas-based oil and gas companies alone in 2018, the highest mark of any year this decade. 2019 looks likely to have broken new records.

The attraction of US onshore for private equity is clear. Spurred on by the shale revolution, a well drilled in one quarter will typically be tied back and contributing to earnings the next year, providing the high level of cash flow generation that private equity favours.

The investor can quickly demonstrate a growth story based on limited capital expenditure, then theoretically flip the inventory. And, indeed, there were some spectacular private equity success stories for those that timed the market right and exited onto the public markets in late 2016 and 2017. There were also some less impressive results for those that fell foul of commodity price cycles and the vagaries of public market sentiment.

The North Sea story

While it was the US onshore market that first lured private equity into the sector, a new E&P model has since emerged. Investors are acquiring mature assets from legacy incumbents and utilities as they rationalise their portfolios and rebalance their exposure to oil and gas production, in favour of power sector opportunities, cleaner energy sources, or else focusing their capital on deep water or tight oil assets instead.

This new focus is predominantly an offshore play and has seen private equity turn its attention to the North Sea. It is a far more capex intensive strategy, that involves firms investing heavily in life-extending technology solutions to wring out every last drop of inventory, pushing back decommissioning dates.

While the majors have been aware of these marginal fields for years, the size of the opportunity has been dwarfed by higher production and lower cost jurisdictions. These giants of the E&P world are at their best when deploying capital and technical expertise at scale and, accordingly, have focused on such opportunities. The North Sea simply no longer fits that profile.

For private equity, however, there is still a chance to extract value out of the ageing basin. Whilst low oil prices and the thorny issue of decommissioning liabilities initially proved an M&A stumbling block, private equity firms have managed to invest as much as $13bn in the region over the past four years, kickstarted by Blackstone and Blue Water Energy-backed Siccar Point's 2016 acquisition of OMV's assets for $1bn and later Chrysaor's acquisition of $3.8bn of assets from Shell.

Why the North Sea?

- Stable regulatory regime
- Significant deal flow involving unloved, non-core assets
- Mature projects with cash flow visibility
- Highly experienced management teams
- Falling production costs
- Opportunity to invest in technology to extend life of assets
- Growing flexibility among vendors around commodity price contingency structures and decommissioning liabilities

KEY NORTH SEA DEALS 2019 (USD)

2.7bn

Chrysaor
ConocoPhillips' UK oil and gas assets
Ownership: Private equity

2bn

Ithaca Energy
Chevron North Sea
Ownership: Listed

635m

Petrogas and HitecVision
Total UK oilfield package
Ownership: Oil company and private equity/JV equity

280m

Neptune Energy
Energean's North Sea assets
Ownership: Private equity

Private equity now accounts for almost ten percent of total North Sea production, from a base of virtually zero five years ago. Indeed, with a further 15 billion barrels of undeveloped resources across the UK and Norway, 2019 has proved one of the most active years for M&A activity in the region to date.

High profile deals involving private equity include the acquisition of ConocoPhillips' UK oil and gas assets by Chrysaor for $2.7bn and Total's sale of a package of UK oilfields to Oman's Petrogas and specialist private equity firm HitecVision.

M&A activity looked set to remain strong in 2020 however recent crude price gyrations and the impact of the coronavirus may provide strong headwinds. ExxonMobil, in particular, is understood to have appointed advisers in anticipation of a North Sea exit. Exxon has interests in nearly 40 producing oil and gas fields in UK waters and the deal could be valued at up to $2bn.

Centrica, meanwhile, is believed to be looking for a buyer for its 69 percent stake in North Sea explorer Spirit Energy, with the company's other stakeholders now also committed to the sale. Elsewhere in the region, majors including Total and BP, which still have a significant presence in the basin may provide additional deal flow as they redeploy capital to more prolific hydrocarbon regions and diversify into renewables.

While private equity-backed E&P platforms are likely to lead the charge as buyers in these M&A processes, it is possible some may also find themselves up for sale. Siccar Point, one of the first major private equity-backed platforms to emerge in the region, is believed to have attracted offers of between $1.2bn and $2bn from bidders including, amongst others, Chrysaor and listed entity Rockrose Energy.

The deal is seen as a bellwether for M&A as a private equity exit route, as the IPO market for E&P companies remains challenging. (See **The North Sea exit conundrum on page 10**)

ANTICIPATED DEALS FOR 2020

Circa 2.1bn

Centrica-backed Spirit Energy

Up to 2bn

ExxonMobil's North Sea assets
Ineos, Repsol

1.2bn-2bn

Siccar Point
Chrysaor; Rockrose Energy

What makes the North Sea attractive for private equity?

For private equity firms venturing into the E&P space for the first time, the North Sea has proved an ideal starter product.

It boasts a relatively stable fiscal regime and offers mature assets, with the cash flow visibility that accompanies these mid and later life projects.

Critically, the mature assets also come with highly experienced management teams that have operated in the basin for years. Together, private equity and management have been able to prolong the life of these assets through investment in near-field drilling and other life-extending projects.

Furthermore, vendors, keen to exit the market and concentrate their efforts elsewhere, have proved increasingly flexible around commodity price based earn-outs and the retention of certain decommissioning liabilities, which had represented a major impediment to deal making in the past. The growing maturity of the decommissioning industry in the North Sea, falling costs and a fiscal agreement with government, have all offered additional comfort to investors and helped break an earlier M&A deadlock. (See **Overcoming transactional hurdles on page 9**)

Furthermore, production costs in the North Sea have come down significantly since 2014, while the oil price had stabilised at between $65 and $80 a barrel. Private equity frontrunners in the region predicted a bottoming out of the market. They appear to have been proved correct.

Key private equity-backed platforms in the North Sea

Neptune Energy

Neptune Energy is led by the former head of Centrica Sam Laidlaw and was originally backed by Carlyle and CVC Capital Partners in 2015. Its flagship deal was the $3.9bn acquisition of France's Engie E&P International, which has given it a strong foothold in the North Sea, across the UK, Netherlands, Norway and Germany, as well as North Africa and South East Asia. China Investment Corporation became the largest shareholder in the business as part of the Engie deal. It has also recently acquired Energean's North Sea assets in a deal valued at up to $280m.

Ineos

Ineos is not strictly private equity-backed, as it is funded by ultra-high-net-worth individual Jim Ratcliffe, rather than an institutional sponsor, but the model remains very similar. Ineos's acquisitions include the North Sea assets of Germany's DEA Group in 2015 and those of Danish company Ørsted, previously Dong Energy, in 2017. Ineos was apparently a close contender for ConocoPhillips' North Sea assets this year, losing out to Chrysaor after an exclusivity contract expired. It has also been linked with the gas fields owned by ExxonMobil.

Chrysaor

Chrysaor is one of the biggest private equity-owned E&P companies in the North Sea, backed by Harbour Energy, run by former top Shell executive Linda Cook, which is in turn backed by EIG Global Energy Partners. It acquired a cluster of assets from Shell in 2017, in a deal valued at more than $3bn. Chrysaor also acquired certain North Sea assets from ConocoPhillips in a $2.675bn deal in April 2019. However it missed out on the Chevron asset sale to Ithaca. It has also been linked to a potential acquisition of Siccar Point. It operates 14 fields with 285 wells and its portfolio of interests covers seven of the ten largest production hubs in the UK North Sea.

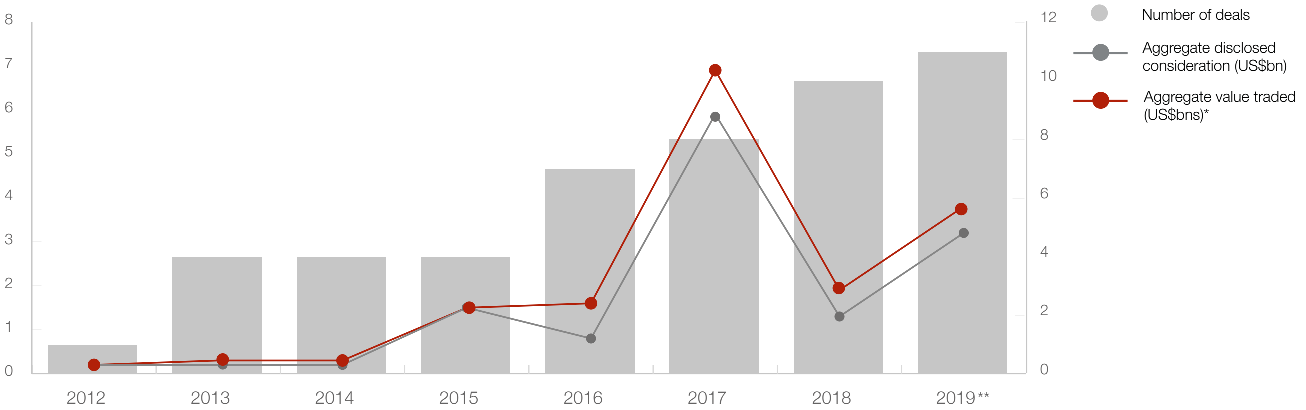
Siccar Point

Siccar Point was created by the former head of Centrica's upstream oil and gas business at the end of 2014 and its focus is buying assets in the North Sea. Siccar is backed by Blackstone and Blue Water Energy – largely staffed by 3i's former oil and gas team. The platform acquired the North Sea assets of Austria's OMV for $1bn in 2016. The deal was the largest M&A transaction in the region since the oil price collapse in 2014 and kick-started a wave of private equity investment in the five decades-old basin. Other assets invested in by Siccar Point include a stake in the BP-operated Schiehallion field and a majority stake in the Cambo oilfield. Siccar's portfolio has over 500 million barrels of oil equivalent discovered reserves to produce through to the 2050s. Siccar Point has been testing the market for a buyer.

Var Energi

European oil and gas specialist private equity investor HitecVision initially merged three oil companies: Pure E&P,Spike Exploration and Core Energy to form Point Resources in 2016. Point then merged with Eni Norge to create Vår Energi, an E&P company focused on the Norwegian continental shelf, with coverage from the Barents Sea to the North Sea, producing 180,000 barrels of oil equivalent per day from a portfolio of 17 oil and gas fields, in 2018. Vår Energi is currently redeveloping Balder, the first oil discovery in offshore Norway. The plan is to extend the lifetime of the Balder and Ringhorne fields (also Norway) towards 2045.

NORTH SEA UPSTREAM ACQUISITION SPEND BY PRIVATE EQUITY OR PRIVATE EQUITY-BACKED VEHICLES



*Uses consideration, where disclosed. Uses WM NPV10 where consideration is undisclosed.
**To end November 2019.
Represents upstream deals where primary country was UK, Denmark, Norway or Netherlands and primarly location was Offshore.
Consideration/value represents the full deal consideration/value (i.e. may include secondary non-North Sea elements).

Oil price play or value-added?

There are undoubtedly those that claim that private equity's interest in North Sea E&P has primarily been an oil-price play – certainly the 2014 crash precipitated a slew of activity and in early 2017, some of the early movers in the basin saw an immediate windfall when the oil price soared by 50 percent in the first year of ownership.

But while pricing arbitrage and financial engineering will always play a part in private equity strategy, the asset class is fundamentally about driving operational value. The North Sea provides a classic private equity investment model: targeting unloved and underinvested assets at attractive valuations and then capitalising on the asset class's traditional value creation levers, portfolio restructuring, working capital discipline and, critically, a laser focus on cash generation.

Certainly, the industry has not shied away from investment, and has accelerated infill drilling and the recovery of reserves. The principle investment rationale has centred on a capex programme designed to support investment in technology and production efficiency, in order to prolong the life of the assets and improve their cash flow profile.

M&A, another perennial source of private equity value creation, has also been central to many upstream oil and gas investments, and in particular, has been the genesis of many private equity-backed platforms in the North Sea. These platforms are manifestly investing more than their predecessor companies and positively impacting the health of the UK and Norwegian continental shelves.

Equally, some of the fundamental characteristics of the private equity ownership model including the alignment of interest between management and investor; a lack of bureaucracy and the discipline imposed by both a defined exit horizon and use of leverage, have enabled the asset class to push projects through more quickly than the more cumbersome E&P giants that were once their owners.

Clearly part of private equity's upstream narrative has been to invest near the bottom of the oil price cycle, but firms have undoubtedly shown themselves willing to create additional value through exploration, appraisal and development activities, even while prices have climbed substantially higher.

Overcoming the transactional hurdles in the North Sea

The wave of North Sea M&A that followed the oil price crash of 2014 has brought with it an increased incidence of earn-out arrangements and complex consideration structures. Chrysaor's acquisition of $3.8bn of assets from Shell, in particular, showcased just how far vendor sentiment had come in terms of a willingness to bridge the valuation gap and get transactions over the line. The deal included contingency payments relating not only to oil price, but also to operational and exploration success. Shell provided a vendor loan and a long back-dated effective date was included, so that the cash generated by the assets from agreement to completion date was taken off the total consideration.

Decommissioning liabilities

In the Chrysaor acquisition, Shell also agreed to retain the first $1bn of decommissioning risk, which had previously represented one of the biggest obstacles to M&A in the North Sea, due to the stringent requirements of the 1998 Petroleum Act in respect of decommissioning risks and the maturity of the basin. According to Oil & Gas UK's 2019 Decommissioning Insights, 42 percent of global decommissioning expenditure currently resides in the North Sea.

Under the terms of the Petroleum Act, potential decommissioning liabilities are visited, not just on the licensee, but on any affiliated company, right the way up and down the corporate chain. Furthermore, if the current licensee were to go bankrupt, the liability would revert to the former owner. Upstream oil and gas vendors have, historically, therefore, been reluctant to retain any decommissioning liability exposure on producing assets. Instead, they have required the buyer to put up security – tying up capital in a way that is contrary to the private equity model.

Significant progress was made with the introduction of Decommissioning Relief Deeds – a contract between the government and those operating in the UK Continental Shelf, providing certainty around tax relief when decommissioning. Both buyers and vendors are now more comfortable in reaching mutually beneficial terms.

It is increasingly common for vendors to retain a tranche of exposure to the liability or simply remain on the licence for one percent or with a bare licence interest. The commercial rationale is that the buyer will be able to extend the field's life through investment in upgraded production facilities, while there is benefit to the vendor in redirecting resources elsewhere. It is also hoped that by deferring decommissioning, the decommissioning industry may have matured further and costs, which will have already been reduced significantly, may come down still further.

Innovative financing

As was the case in Chrysaor's acquisition of Shell's assets, vendors are also frequently participating in the buyers' financing package. Private equity deals in the sector are typically supported by a combination of term debt and RBL, however vendors are increasingly providing a tranche of the financing in exchange for the barrels coming off the assets for a fixed period.

Overcoming transactional hurdles

All of these innovations around contingent consideration structures, decommissioning liabilities and vendor financing are designed to facilitate M&A activity and have allowed funds to get comfortable with investment in the upstream. As well as negotiating a deal between buyer and seller, working with regulators to obtain government buy-in is another critical part of the transaction process. As CPPIB-backed Nephin Energy experienced on its 2018 purchase of the Corrib gas field from Shell, a degree of education was needed to get key stakeholders comfortable with the prospect of upstream assets being owned by a fund.

The North Sea exit conundrum

Private equity portfolios are well stocked with upstream assets ready to exit and there are a lot of processes being run, some openly and others behind the scenes. Exit options today are limited, however. Even in the prolific Permian basin, several mooted private equity processes have failed to materialise. Realising assets that were acquired as already mature is, inevitably, even more challenging

The IPO option

Many of these private equity-backed E&P consolidation plays have been built with an IPO in mind. Equity markets are weak and commodity prices aren't suited to a successful IPO either. More generally, public market investors are increasingly turning their backs on upstream oil and gas. A lack of consistent track record, coupled with growing sensitivity to hydrocarbon exposure, means appetite for new oil stocks is limited.

Certainly, it seems unlikely that there will be sufficient demand to meet all the North Sea private equity exits currently in the pipeline. A lack of a long-term growth story for these ageing assets is another clear impediment. Players will need to get creative to present a narrative around future value and, crucially, a clear commitment to ESG will be required to command investors' attention.

It remains to be seen which private equity platform will be first to brave an IPO in London. The situation in Norway, meanwhile, is somewhat different, with independents Aker BP and Lundin already listed with substantial market capitalisations.

Nonetheless, OKEA, backed by Seacrest Capital and Thai oil refiner Bangchak, experienced the full force of public market volatility and commodity price risk when it became one of the first private equity-backed platforms to list in Oslo in 2019. OKEA raised less than half of what it had initially planned due to a 15 percent fall in oil price the week preceding the IPO. The company also had to extend its book-building period and issued fewer new shares with Bangchak and Seacrest deciding to retain all of their stakes.

M&A

With public markets unreceptive to E&P listings, many private equity-backed platforms are turning their attentions to M&A exits instead. As these companies grow larger, their options to sell as an exit route become increasingly limited. The majors are typically vendors, not buyers, in the North Sea. Meanwhile other public E&P operators are being held to account over capital discipline and acquisition strategies, especially with a North Sea focus, are out of favour with investors.

Instead, we may see further consolidation of the private equity-backed platforms themselves. The chief executive of Zennor Petroleum, owned by specialist private equity firm Kerogen Capital, has gone on record as saying his firm could be both a potential buyer or acquisition target. And Siccar Point is currently testing the M&A market. Valued at between $1.2bn and $2bn, the success of that deal will be an important indication of the viability of the M&A exit route.

Or perhaps no exit at all…

There is a third alternative that private equity firms are beginning to broach with investors: the option of no exit at all. While there may be no clear IPO or M&A route to realisation, these assets are generating large amounts of free cash.

It may make sense to retain them as a cash flow platform, with some innovative restructuring of funds. These discussions are in the early stages but several private equity-backed E&P platforms are actively considering a shift in narrative and strategy.

Where next?

The US, Canada and the UK are the top three markets by E&P deal flow and it makes sense, therefore, that this is where private equity activity has dominated. Australia is fourth on the list, and a number of private equity deals have also been executed in that region. Nonetheless, as private equity firms get comfortable with E&P industry risk, they are also managing to get comfortable with above the ground risk and are increasingly extending their portfolios into emerging markets.

Political and regulatory instability can, of course, be a concern, but as an investor in the oil and gas industry, a private equity platform can easily be one of the largest three or four investors in a country. Building a positive relationship with the government can therefore be significant in mitigating and managing some of this risk.

Here are some of the markets outside of North America and Europe where private equity firms are becoming increasingly active.

Mexico

The Gulf of Mexico was one of the first E&P markets outside of the US to attract private equity attention, following the deregulation of the Mexican energy industry in 2013. And while the majors continue to represent the bulk of projected capital spend, they are primarily focusing on deepwater projects.

In a similar strategy to that which has since emerged in the North Sea, private equity firms have targeted shallow-water and ageing fields, squeezing incremental value and enhancing cash flow profiles. Companies involved in the region include LLOG Exploration, backed by Blackstone, which is also involved in the Gulf of Mexico deepwater space.

As a forerunner to the investment that is now taking place in the North Sea, it is important to note the challenges that some private equity firms have found and will find in exiting these assets.

North Africa

Egypt has proved amongst the most attractive of North Africa's prolific E&P markets. Carlyle and CVC Capital-backed Neptune Energy, for example, owns an offshore oil field in the Gulf of Suez and an oil and gas field in the Egyptian desert, as well as gas export production assets in Algeria.

Despite profound political unrest since the Arab Spring, the administrations have all been notably supportive of the oil and gas industry, given its importance to the local economies. This is providing comfort to private equity investors that have moved into the region.

West Africa

West Africa, too, is starting to deliver pockets of opportunity from IOC divestments. While lacking in fiscal clarity, and representing clear political and economic instability, the private equity industry has begun to take interest in the region.

Carlyle-backed Assala is among those to have completed deals in recent years, including the acquisition of Shell's onshore assets in Gabon. Warburg Pincus-backed Trident Energy, meanwhile, acquired Hess's interests in offshore Equatorial Guinea and a consortium led by Vitol and including Delonex and Africa Oil Corporation, acquired $1.41bn of Petrobras' Nigerian production assets.

Brazil

It is also likely that we will see increased activity in Brazil. As global oil firms continue to make big bets on Brazil's massive deepwater fields in its subsalt area, the opportunity for private equity in the country's shallow-water Santos basin, in particular, is growing.

Santos is currently the top producing basin in Brazil, accounting for 50 percent of the country's oil and gas production. As the Santos basin has matured, investment by Brazil's NOC Petrobras has decreased, drilling activity has dropped and production declined. Mirroring the dynamics in the North Sea, this is creating space for private equity to enter and re-energise the sector.

Indeed, without further investment, most fields in the basin will be decommissioned by 2025 at a cost of $8bn. However, investing the $8bn into development, could add 230,000 boe/d by 2025 and postpone 60 percent of decommissioning costs to post-2030, according to consultancy firm Wood Mackenzie.

Petrobras has a huge divestment programme ongoing with assets covering all sizes, levels of maturity and complexity. The market has already attracted interest from Warburg Pincus-backed Trident Energy and a number of other local private equity buyers.

Asia Pacific

Private equity activity in Asia Pacific has been slow to get started despite a significant number of assets up for sale. It is possible that there are regional issues at play, in particular the strength of local NOCs in some countries and a lack of clarity over decommissioning.

Blackstone notably scrapped a Southeast Asian energy venture in 2016, after failing to find attractive opportunities. The firm had committed $800m to back Tamarind Energy in seeking deals in the region, but the money was never deployed. More recently, Indonesia, in particular, has attracted the attention of KKR-backed Mandala and Carlyle and CVC-backed Neptune Energy.

The pockets of opportunity

Fundraising forecasts

Fundraising in the oil and gas sector exploded as the crude oil price began its descent in 2014. The US multi-platform giants were quick to get in on the act, with firms including Blackstone, Apollo, KKR, Carlyle and Warburg Pincus all raising dedicated energy-focused vehicles, alongside long-standing specialists such as First Reserve. But aggregate fundraising for the sector has notably cooled since those initial highs.

Just $3.2bn has been raised by five upstream oil and gas funds in 2019, according to data from Preqin. More than three times as many upstream funds closed in 2018 but with an aggregate total of only $5.7bn. This compares starkly to the more than $25bn raised by 30 funds in 2015 alone.

Energy-related funds, more broadly, meanwhile, raised $15.72bn in 2019, less than half the $34.85bn of the previous 12 months. This, too, represents a significant drop on the more than $54bn raised in 2015. Furthermore, Preqin notes that energy funds, and oil and gas-related funds, in particular, are taking longer to close.

Nonetheless – and despite the $189bn of dry powder sitting in energy-related funds as of March 2019 – the rallying oil price has brought private equity managers back out on the fundraising trail.

Blackstone's credit arm GSO Capital Partners – which has historically invested around 70 percent of its capital in the exploration and production sector – successfully closed a $4.5bn fund in June 2019, one of the largest energy-focused credit funds ever raised.

Warburg Pincus, meanwhile, is currently chasing $2.5bn for its second foray in the sector, four years after its $4bn debut; Apollo is seeking $4bn for its third natural resources fund having invested more than 80 per cent of its predecessor, Apollo Natural Resources Partners II and First Reserve is targeting $3bn on its latest outing.

Performance has undoubtedly proved an issue for some managers, with IRRs falling short of target. Energy funds raised between 2011 and 2014, for example, have, on average, returned just half of money raised to investors, according to placement agents active in the sector. And with the exit market currently proving challenging, distributions are likely to be low for the foreseeable future.

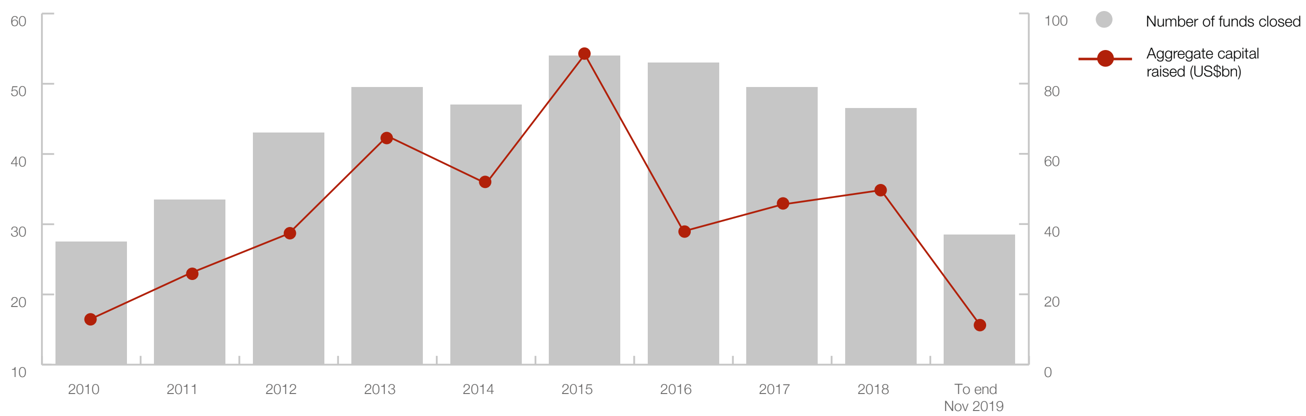
Furthermore, environmental considerations are starting to have an impact. ESG concerns are one of the key reasons, alongside a lack of consistent performance and failure to deliver dividends, that public market investors have stepped back from upstream oil and gas. Some major institutional investors in alternative assets, and in particular large scale pension and sovereign wealth funds, are beginning to take a similar stance.

While the climate change debate has certainly gone up several gears in the last few years, it is reasonable to believe that hydrocarbons must form part of a stable and secure energy mix for the foreseeable future and so investment opportunities remain.

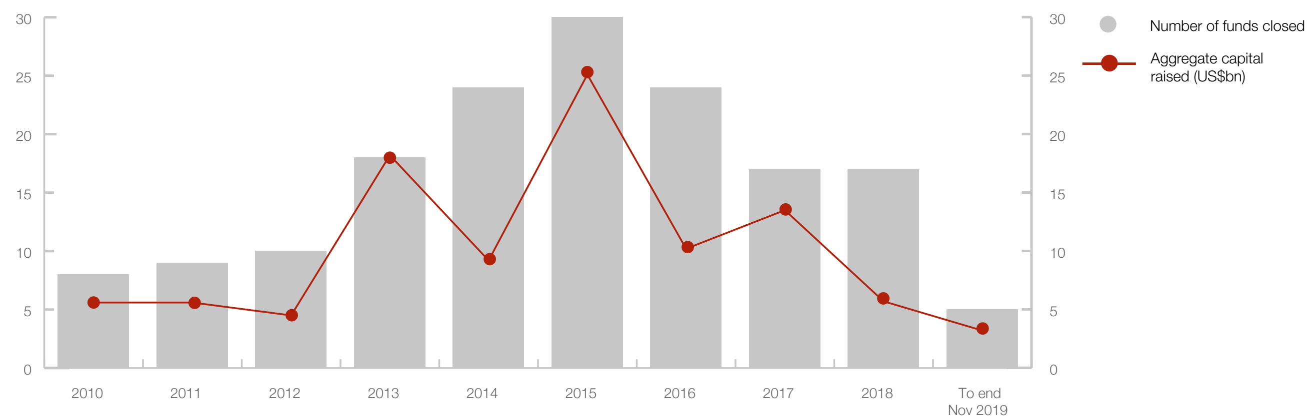
Investors with less reputational sensitivity to fossil fuel exposure such as family offices and sovereign wealth funds, particularly those stemming from resource-rich regions, are likely to continue to support the asset class in its E&P endeavours.

Meanwhile, private equity managers will continue to reposition their oil and gas vehicles as broader energy funds with continued exposure to cash-generative midstream and downstream assets combined with an increasing focus on renewables opportunities.

ENERGY-FOCUSED FUNDRAISING 2010-2019



UPSTREAM OIL & GAS FUNDRAISING 2010-2019



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The combination of our multi-jurisdictional M&A, leveraged finance, high yield, securitisation and investment funds expertise is supported by a full range of complimentary practices including tax, employment, pensions, regulatory and real estate. This expertise, when combined with our strong sector focus, makes us stand out in the market. We are one of few firms able to provide a fully integrated offering across products and sectors and to advise on all aspects of the capital structure.

Our offering is truly global. Our extensive network of offices covers each of the key financial markets across the world, enabling us to work on energy and private equity transactions and give specialist advice to clients wherever and whenever it is required.

"The advice provided by our Energy and Private Equity teams is delivered with a truly global perspective, drawing on our broad experience to deliver sophisticated solutions to client."

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