2021 BDO ENERGY CFO OUTLOOK SURVEY

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Refueling for the Future

Prior to 2020, middle market energy companies had ambitious plans for investing in the transition to renewables and diversifying their portfolios. But the pandemic put many of these efforts on pause as businesses focused on reacting to a year no one could have predicted.

For the oil and gas sector, the challenges of COVID-19 and the resulting economic fallout magnified preexisting issues like low prices, loss of capital access and growing debt obligations. And while the power sector was arguably in a better position at the start of the year, both groups had to contend with demand fluctuations and supply chain disruptions over the course of 2020.

As a result of these converging disruptions, middle market energy companies are reimagining their business models to adapt to evolving global demands of customers and governments and shifting investor interests. The headwinds facing the industry go beyond those caused by the pandemic, and the solutions will need to account for this as well.

Looking onward to 2021, it's clear the energy industry must refuel for the future. Oil and gas and power CFOs are faced with a two-fold mandate: adapt to broadening risks threatening current operations while continuing to invest in long-term energy transition.

> *A tumultuous market coupled with the impacts of COVID-19 disrupted operations and altered many companies' plans for the energy transition. While ongoing challenges require CFOs to reimagine operational processes and increase resilience, they must do so while not losing sight of their long-term transition goals.*

CLARK SACKSCHEWSKY
National Leader of BDO's Energy Practice,
Global Leader of Oil and Gas

Financial Outlook

Energy CFOs' self-assessment of their business performance dropped significantly in the last year. However, both subsectors are anticipating traces of improvement in the year to come.

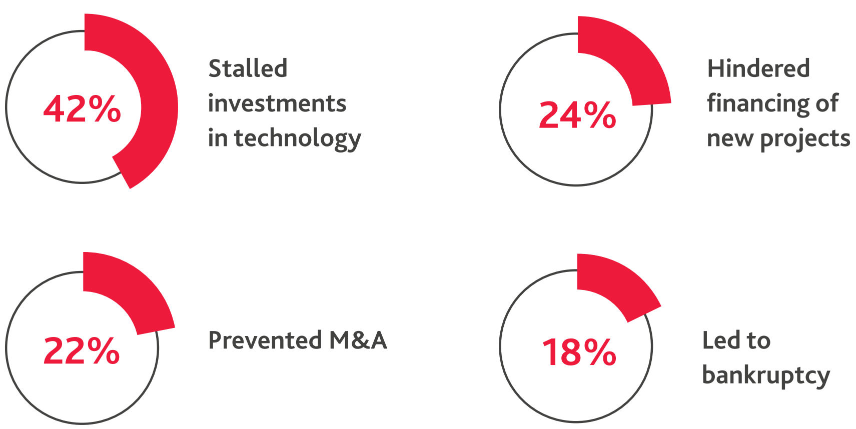
OIL AND GAS AND THE ROAD TO RECOVERY

	2019	2020	Predicting in 2021
Thriving	70%	38%	60%
Surviving/Struggling	30%	62%	40%

For years, oil and gas companies have had to manage in a low-price environment. The pandemic exacerbated the issue, reducing global demand in an oversupplied market, leading to a dramatic drop from $60+/bbl in December 2019 to less than $20/bbl by April 2020. Oil prices continued to fluctuate throughout the year, resulting in decreased profits for nearly a third (30%) of oil and gas CFOs.

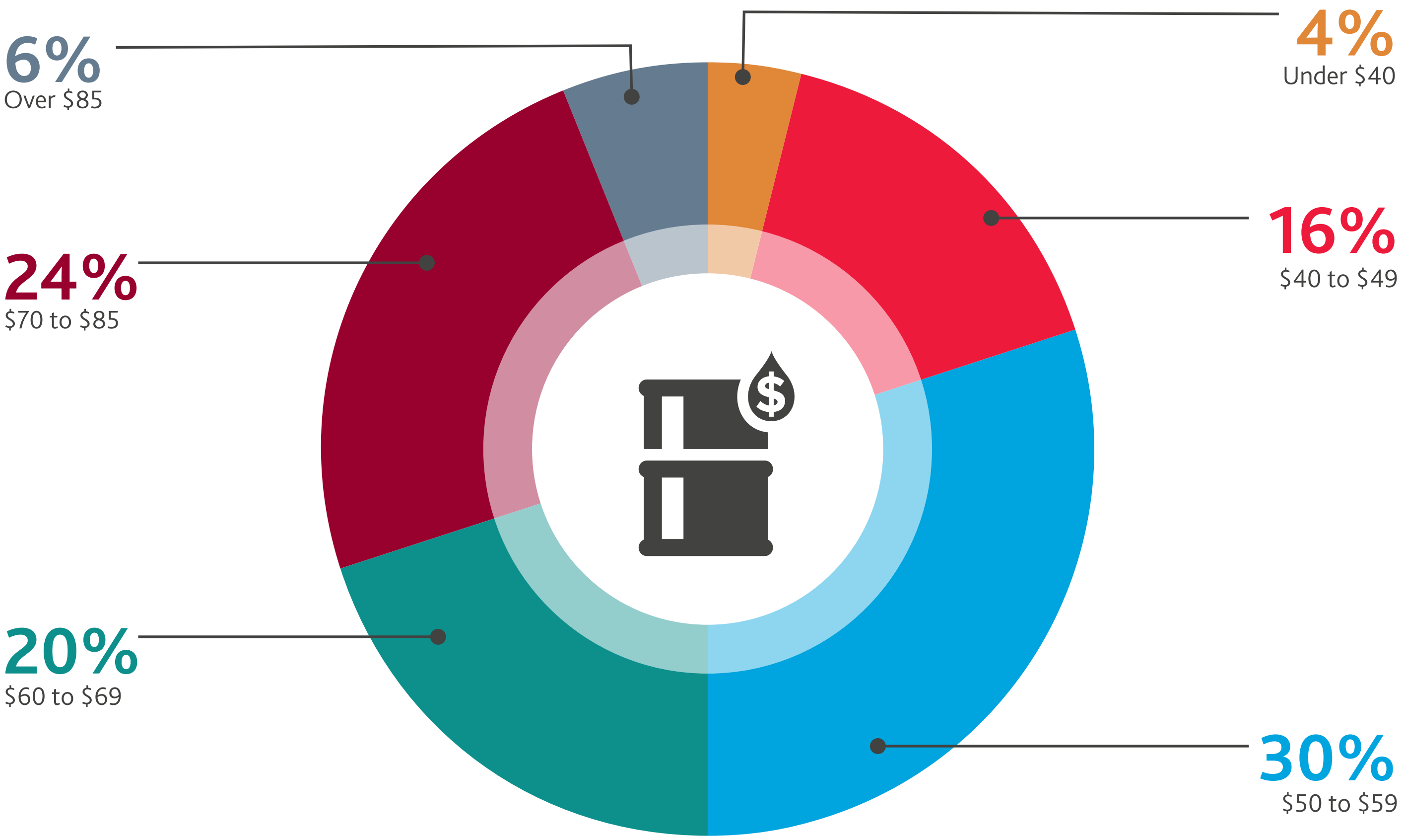
COVID-19 also introduced new challenges like worker safety and supply chain disruptions, and the impact was swift. By the end of Q3 2020, **40 oil and gas companies** had filed for bankruptcy, a 21% increase versus the same time period in the previous year. In order to avoid becoming one of those 40, oil and gas CFOs were forced to take quick action to shore up liquidity and cut costs, which often meant pushing pause on investments, expansions and deals.

BUSINESS IMPACTS OF LOW OIL PRICES



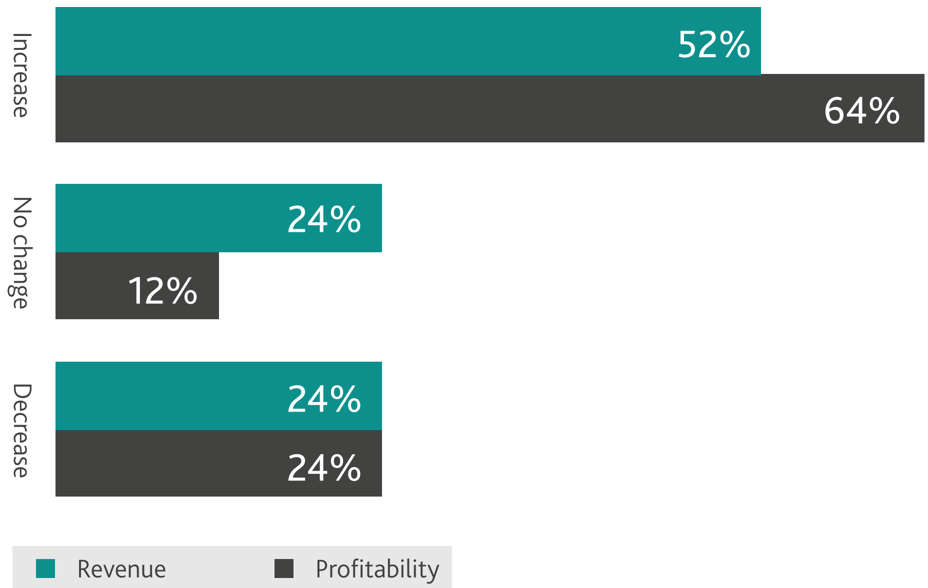
Fortunately, there is some hope on the horizon. More than half (56%) of oil and gas CFOs believe the economy will recover in 2021, and 50% believe oil prices will average $60/bbl or above over the next five years—bringing prices closer to 2018 levels. While these are modest expectations, they do represent progress that the sector desperately needs.

OIL PRICE PREDICTIONS OVER THE NEXT 5 YEARS



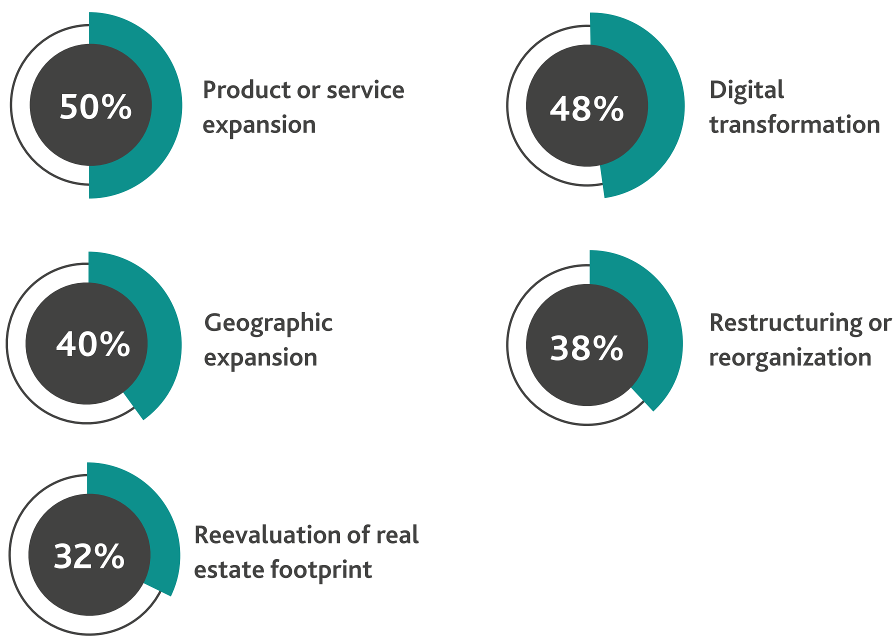
Most oil and gas CFOs **anticipate** their own financial performance will **improve** this year.

OIL AND GAS BUSINESS PREDICTIONS FOR 2021



To realize these predictions, middle market oil and gas companies can't rely on a wait-and-see approach or they'll risk being forced into an acquisition or even bankruptcy. It's a positive sign that CFOs plan to prioritize cutting costs, increasing efficiencies and diversifying revenue sources in the year ahead.

OIL AND GAS STRATEGIES FOR 2021



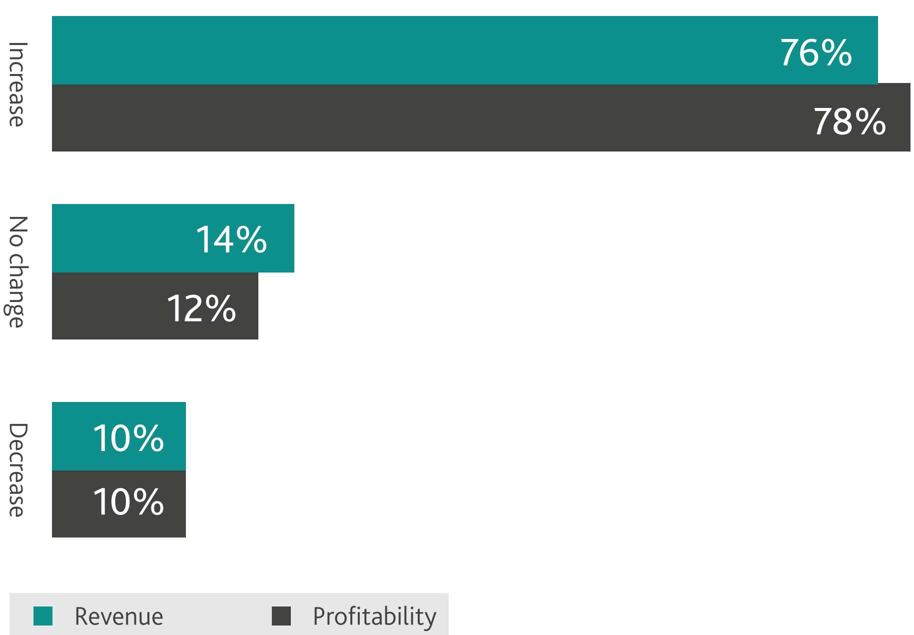
POWER REAPS THE BENEFITS OF RESILIENCY

	2019	2020	Predicting in 2021
Thriving	72%	54%	74%
Surviving/Struggling	28%	46%	26%

While COVID-19 stay-at-home orders increased residential power needs, the reduction of commercial and industrial power use led to a significant drop in overall demand—one that is projected to be the biggest drop on record for natural gas, according to the International Energy Agency's (IEA) **Gas 2020 report**.

Power companies have historically been relatively resilient, reacting more quickly than other subsectors to shifts in demand, and are thus better poised to recover this time around. They also benefit from typically having take-or-pay provisions included in long term contracts, which guarantee a minimum payment if the buyer does not follow through with purchasing the full agreed upon amount of goods. As many regions transition back to their offices and facilities, the sector should see a resurgence in commercial and industrial power demand and, ultimately, a resurgence in cashflow. While there will likely be areas where workforces are still remote, power CFOs' outlook for 2021 is largely positive.

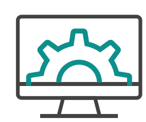
POWER BUSINESS PREDICTIONS FOR 2021



Even with relative optimism, the power sector isn't sitting idle. Middle market power CFOs are pursuing opportunities to bolster their revenues by expanding operations into new markets, diversifying direct-to-consumer service offerings and transforming internal processes to leverage their competitive costs. However, companies should continue to monitor the course of COVID-19-related regulatory changes—like stay-at-home or other lockdown orders—and update their financial projections accordingly in order to optimize any investments.

POWER BUSINESS STRATEGIES FOR 2021

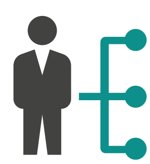
48%
Product or service expansion



46%
Digital transformation

46%
Geographic expansion

36%
PE investment



30%
Restructuring or reorganization

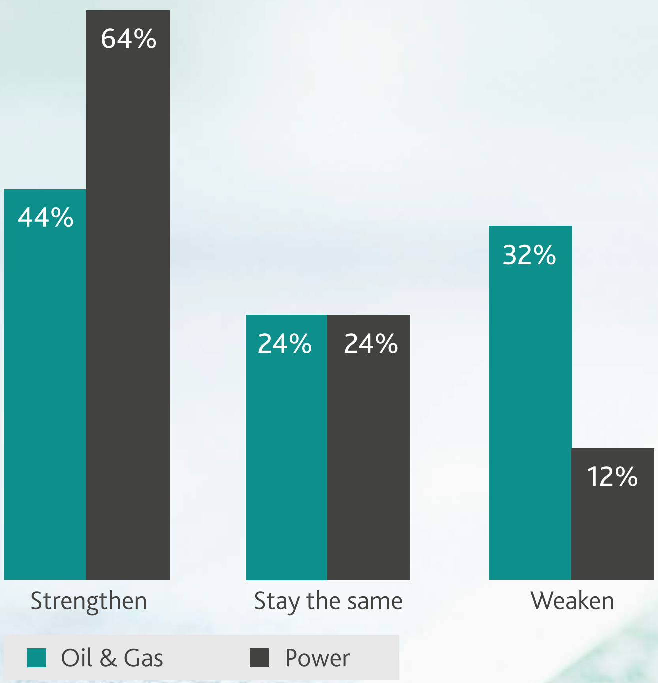
SPOTLIGHT: CAPITAL ACCESS

The notion that "cash is king" never rings truer than during a crisis. For power companies, capital is essential to manage unforeseen fluctuations in demand and unplanned costs. For oil and gas companies, capital is necessary to continue drilling operations and to find new resources, a necessity even in a low oil price environment. In response to the events of 2020, many oil and gas producers slashed capital expenditures to protect their balance sheets. While the majority of middle market energy CFOs (74%) report receiving some form of federal assistance as of September 2020, this was largely used to retain employees. Overall, energy CFOs experienced stagnant or reduced access to capital last year, meaning liquidity issues are top of mind.

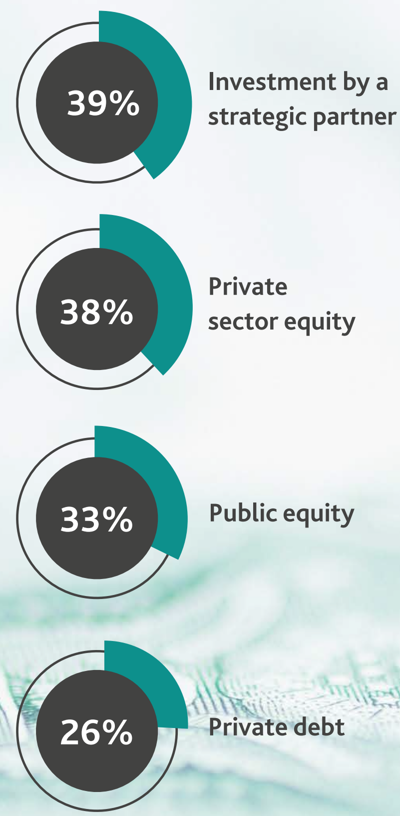
This year, capital access will continue to be vital in determining which companies are able to forge ahead. Power CFOs seem optimistic, while oil and gas CFOs anticipate more challenges.

67% of energy CFOs say their access to capital **weakened** or **stayed the same** in 2020

CAPITAL ACCESS PREDICTIONS FOR 2021



AREAS OF FOCUS FOR RAISING CAPITAL



While additional relief measures have passed and more could be on the horizon, energy CFOs will need to do more to ensure they have the liquidity needed to navigate the road ahead, including courting investor attention. To do so, they are pursuing diverse sources of capital this year.

Regardless of type, all investors will continue to prioritize profitability, and power companies have a leg up given the sector's recent performance. But to keep interests high, all energy companies must explore new markets, optimize their operations and prepare their workforce for the changes brought on by the energy transition.

> *For oil and gas, the challenge of access to capital will be more pronounced. Middle market CFOs need to combat investor caution around the sector's performance by showcasing their potential, whether by cutting costs or boosting operational efficiencies.*

SCOTT HENDON
International Liaison Partner, National Leader of Private Equity and Co-Leader of Global Private Equity

Evolving Threats

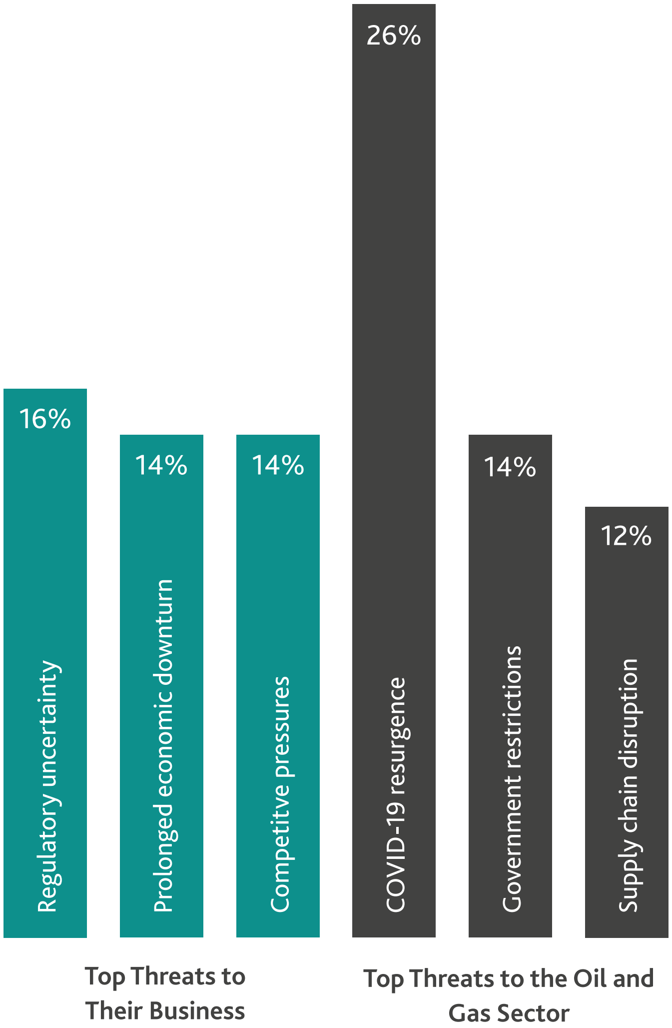
While the major headwinds of the past several years persist, the threat landscape in the energy industry is broadening. Last year, the highest portion of respondents (21%) cited regulatory uncertainty as their biggest threat. Now that's dropped to just 11% as new risks have come to the forefront.

20%	**Prolonged economic downturn**
17%	**Supply chain disruption**
17%	**Competitive pressures**
11%	**Regulatory uncertainty**
10%	**Falling behind on technology innovation**

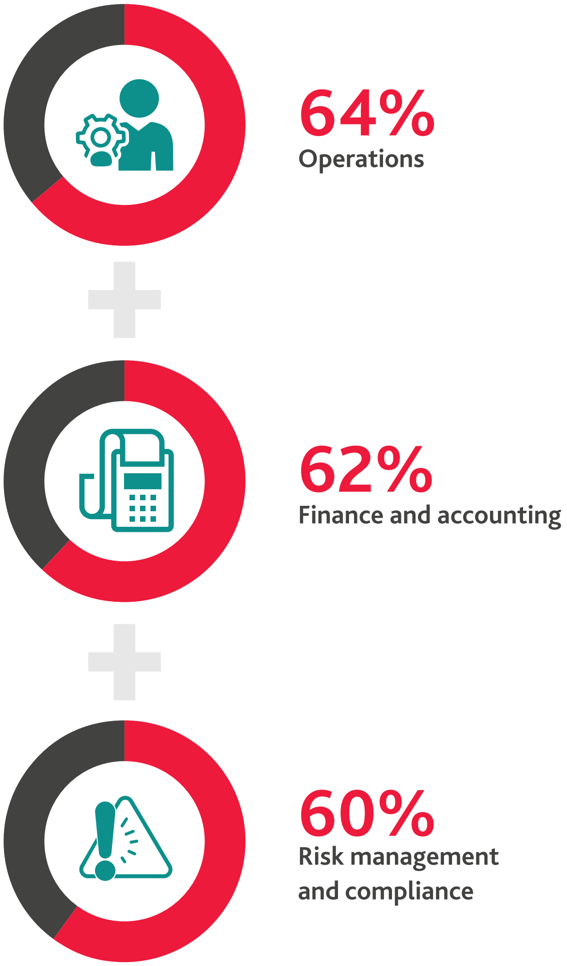
OIL AND GAS

Oil and gas companies most frequently cite regulatory uncertainty as their top business threat with good reason. New Mexico, the nation's third-largest oil-producing state, and Colorado both released new rules on oil and gas emissions, limiting the types of operational equipment used and allowing assessments of environmental controls by local enforcement groups. If a federal mandate on greenhouse gas emissions is passed, or if other states decide to follow suit, it could mean prolonged operational disruption.

CFO RISK ASSESSMENT: OIL AND GAS



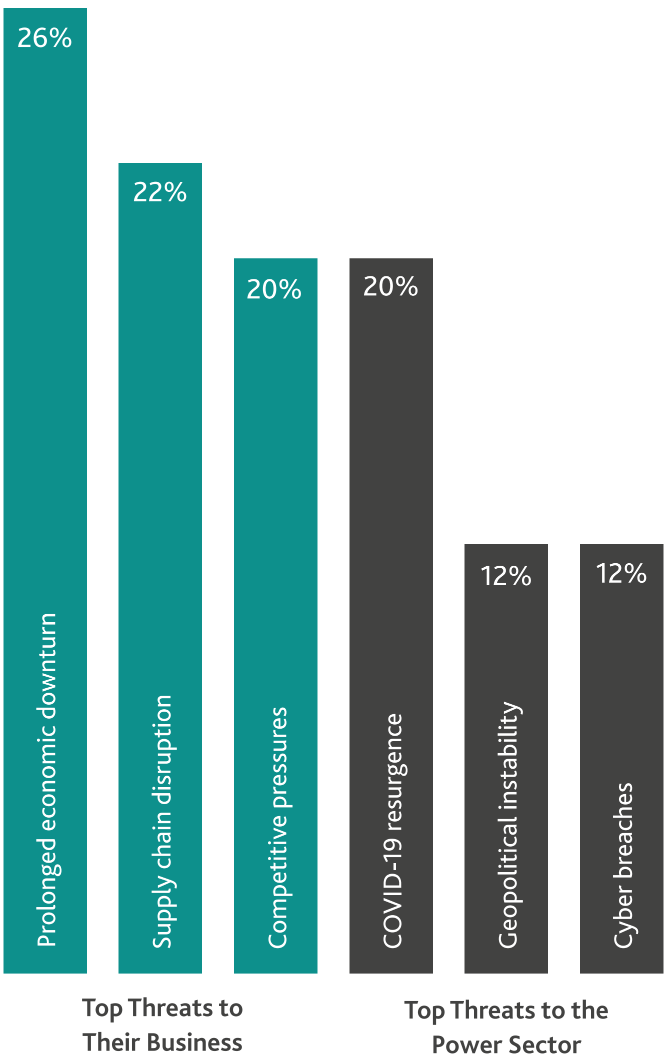
To get ahead of these risks, oil and gas companies are increasing spending in key areas.



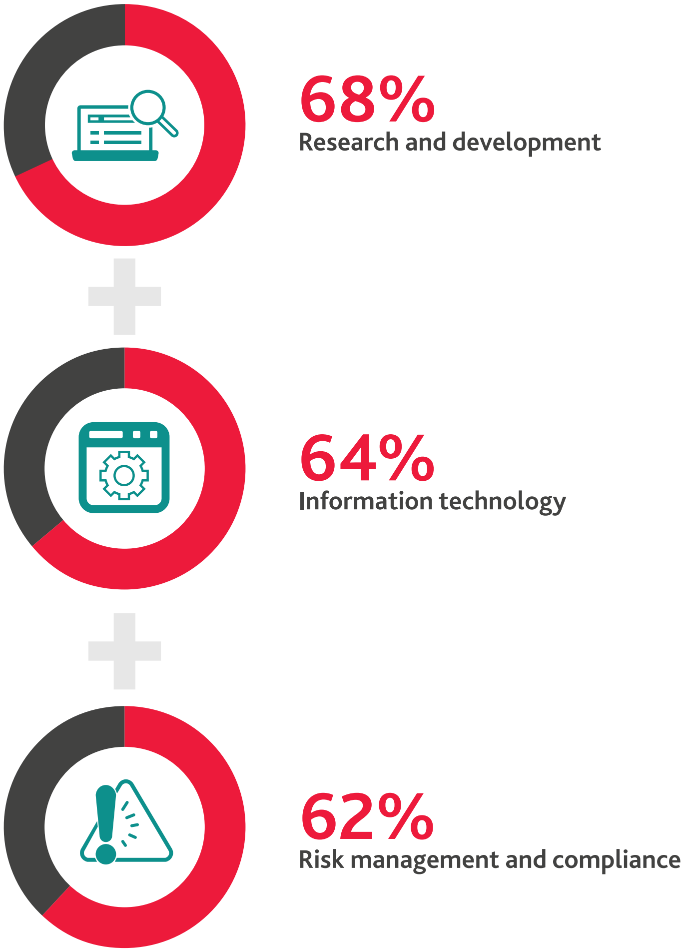
POWER

Since the pandemic began, 40% of power companies have prioritized new product or service innovations and 36% have seen new investment or expansion opportunities. However, a prolonged economic downturn—the top-cited business threat for over a quarter of middle market power CFOs—could impede the sector's growth.

CFO RISK ASSESSMENT: POWER



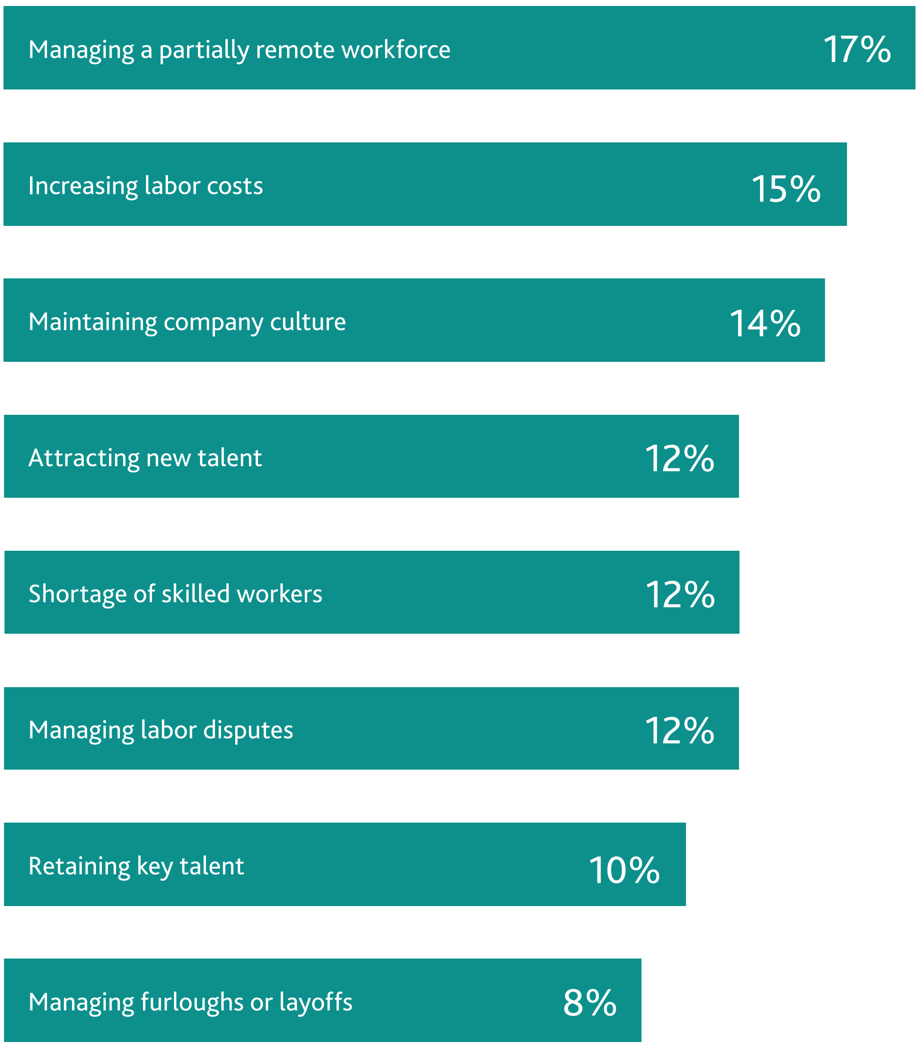
Power CFOs are significantly increasing their spending in a variety of departments to enable business growth. These investments support their desire to prioritize innovation, risk management and the efficiency and security of their internal systems. At the same time, they will arm the sector to navigate immediate disruptions from the pandemic-driven recession while preparing for the ongoing shift to renewable adoption.



WORKFORCE WORRIES

Workforce concerns are widespread and stem from challenges around adapting to the pandemic, including enabling partially remote work systems and protecting workforce health and safety.

PRIMARY WORKFORCE CHALLENGE



WORKFORCE STRATEGIES

40% Redesigning office or floor space for social distancing

36% Prioritizing diversity and inclusion

29% Eliminating or consolidating office or floor space

28% Increasing remote work operations for all professionals

21% Automating manual labor

To combat these concerns head-on, energy companies should leverage digital tools including remote data analytics, communication networks and sensors across the supply chain, as well as infrastructure that supports back-office employees working from home, if needed.

In the year ahead, energy CFOs are pulling from an array of strategies to evolve their work environment and adapt to the changes the pandemic introduced, with the aim of keeping workers' health and safety top of mind.

TRADE POLICY CONCERNS

The highest portion of middle market energy CFOs (22%) cite trade and tariffs as their top policy concern for 2021. For oil and gas, the U.S.-China trade war has placed immense pressure on oil prices. China remains the world's largest oil importer, particularly of U.S. liquified natural gas, and some estimate the trade war may have caused a $2+ billion loss of oil revenues for the U.S. While an early 2020 agreement included a commitment from China to purchase $52.4 billion worth of oil and liquefied natural gas from the U.S. by the end of 2021, any further trade turbulence could have severe consequences for oil and gas producers.

At the same time, the trade war with China encouraged market expansion for energy companies, pushing U.S. product to regions that previously had not been as prioritized, such as the Netherlands and South Korea. Although the success of these efforts will largely depend on a return of global demand, there are opportunities for the industry to diversify revenue sources and service offerings.

Nearly a quarter (24%) of power CFOs report trade and tariffs as the chief policy issue. The COVID-19 pandemic caused severe supply chain disruptions, particularly to the accessibility of power's energy equipment, as well as materials needed for expansion into renewable energy service offerings. In 2019, President Trump moved to eliminate some tariff exemptions on solar panel imports. With the potential of more changes ahead, energy CFOs may be faced with added costs they hadn't previously planned for.

ELECTION IMPACT

With a new administration in place, energy CFOs should prioritize contingency planning for changes to existing tariff and trade policies. Regardless of what's to come, creating an agile supply chain and ensuring operational efficiency will provide the safety net CFOs need to maintain their priorities in the years ahead.

Pandemic Slows—But Doesn't Stop—Energy Transition

Last year, 83% of all energy CFOs expected renewables to comprise at least 5% of their business in 2020. COVID-19 and the recession impacted those plans, as 60% have the same projection for 2021. Though middle market CFOs turned their immediate priorities towards ensuring business continuity and protecting cashflow, their long-term plans for the energy transition haven't diminished.

CFOs WHO ANTICIPATE RENEWABLES WILL COMPRISE MORE THAN 10% OF THEIR BUSINESS BY 2030

	2019	2020
Oil and Gas	78%	68%
Power	86%	62%

Though renewables projections are behind where the industry once hoped for them to be, it's clear that energy CFOs know the shift to greener energy sources remains a business imperative.

But these efforts aren't without their own challenges. Across the board, energy CFOs rank regulatory issues or uncertainty (26%), lack of expertise (21%) and infrastructure issues (20%) as their top barriers to adopting alternative energy.

89%

of energy CFOs **plan to finance** new renewables projects this year

> *Transforming traditional business models to adopt renewable energy won't be an easy task. Conducting contingency planning for future disruption, upskilling a workforce to prepare for industry shifts and reimagining operations to encompass automated processes will enable companies to execute their plans.*

CLARK SACKSCHEWSKY
National Leader of BDO's Energy Practice,
Global Leader of Oil and Gas

FINANCING NEW PROJECTS

When considering where to finance new renewables projects, energy CFOs are prioritizing a few key locales within the U.S.

LOCATION OF NEW RENEWABLES PROJECTS

34% Texas

30% California

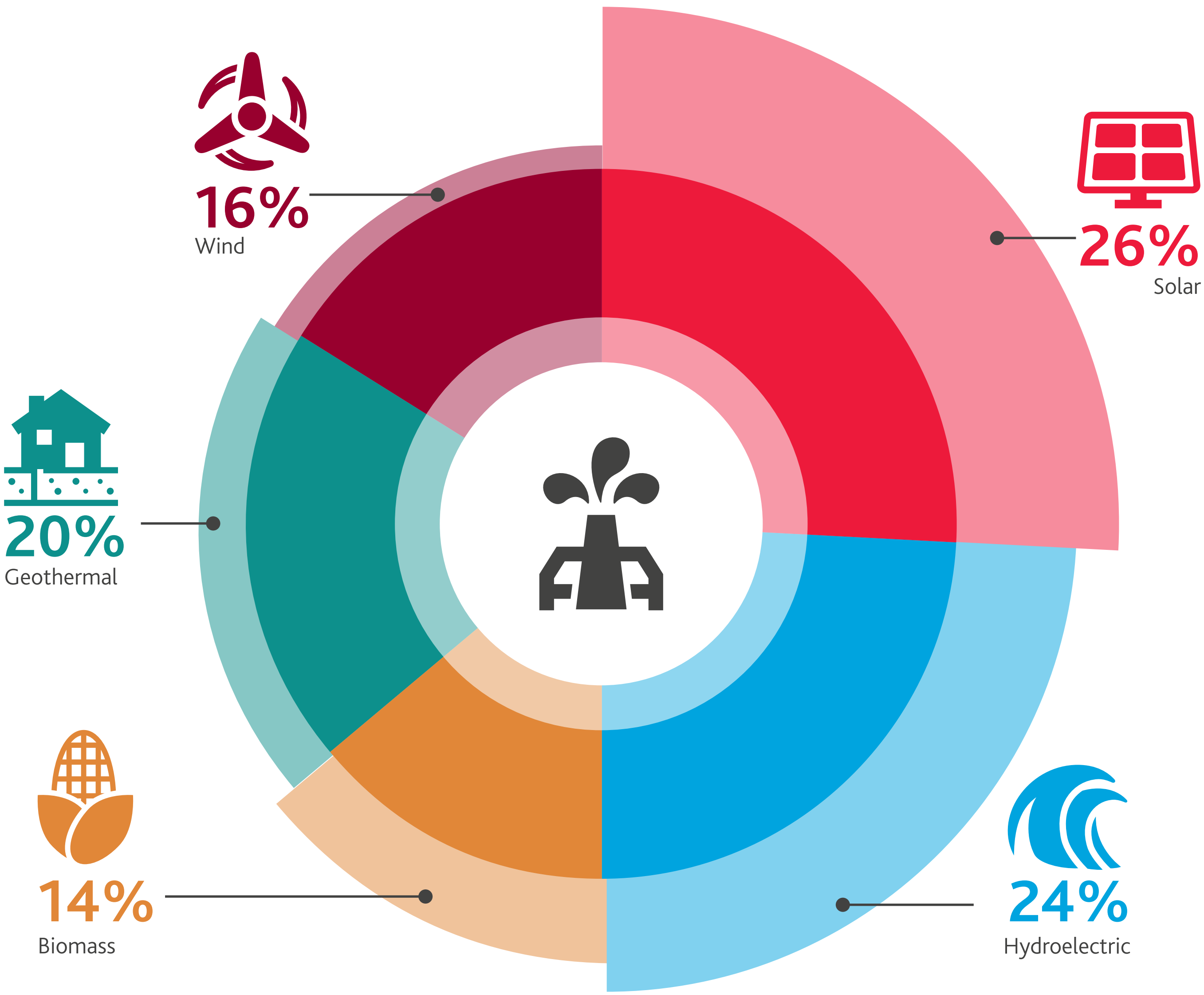
27% Northeast Region, including New England and the Mid-Atlantic

Texas is currently leading the nation in wind energy, and solar power is just behind in gaining regional market share. The state is diversifying its revenue mix with renewable energy deployment while oil navigates the road to recovery. Renewable energy fuels the largest portion ([nearly 50%]) of California's electrical power generation, and the state has passed a number of energy-related laws, including mandates on electrical retail sales and standards around the energy efficiency in new buildings. The California Renewable Portfolio Standard, for example, requires 50% of electrical retail sales to come from renewable sources by 2030. The state is also mandating that all residential homes built during and after 2020 be equipped with solar photovoltaic (PV) systems.

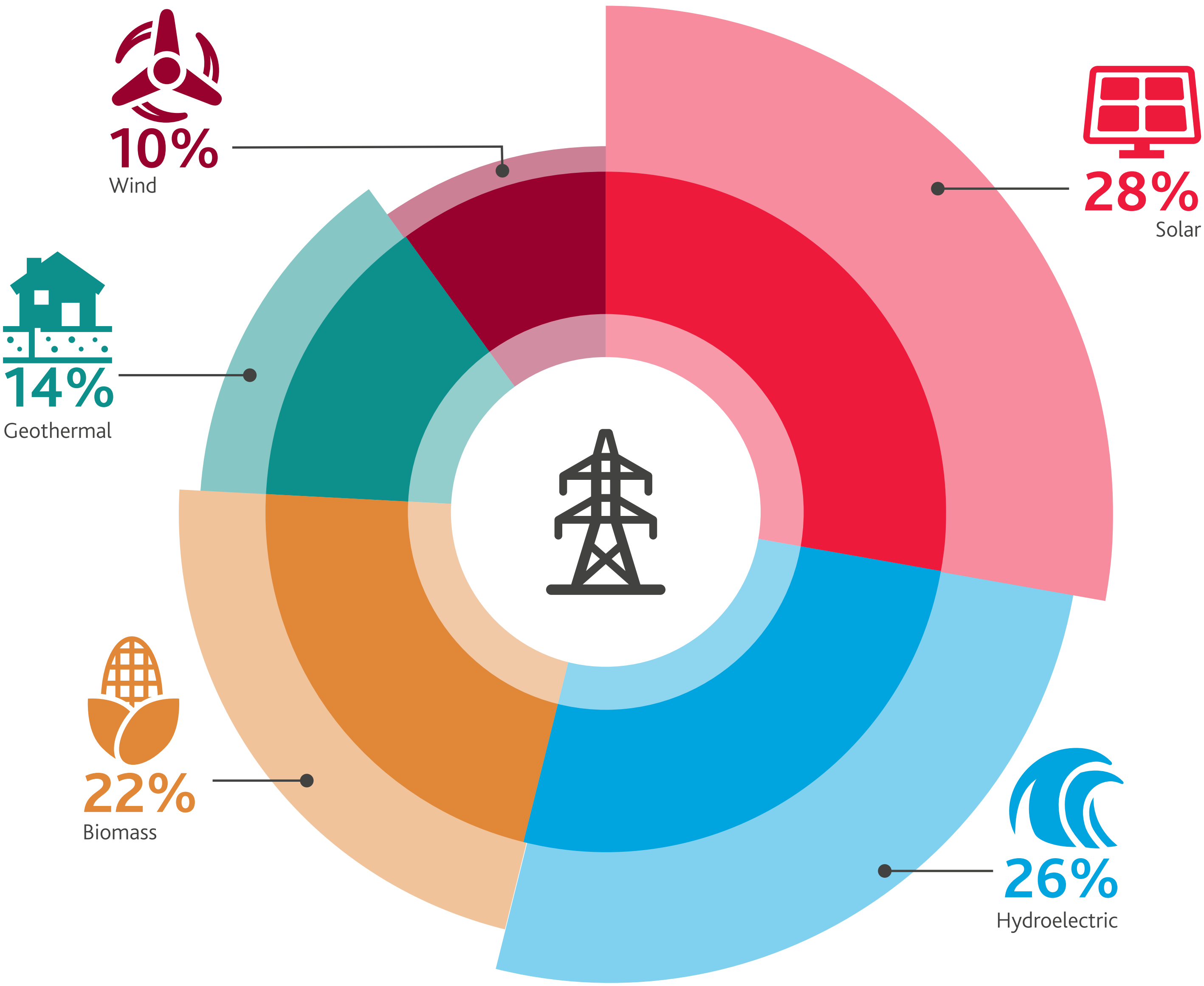
BREAKING DOWN THE ENERGY TRANSITION

Solar remains CFOs' top prediction as the dominant source of alternative energy by 2023. Still, other sources are gaining interest.

OIL & GAS



POWER



If their predictions align with their plans for investments, we may see diverse types of renewable energy projects in the coming years, but the success of these project will depend on capital access and liquidity, optimized production costs and supporting infrastructure and regulatory incentives.

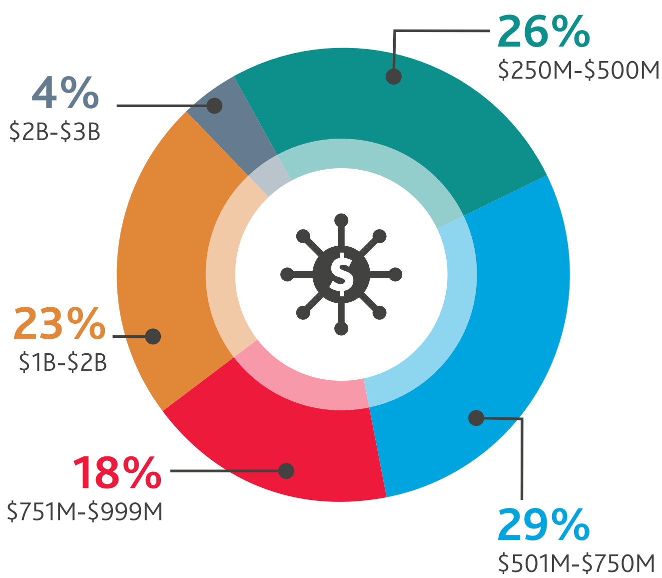
2020 brought unprecedented challenges to the energy sector, and many of them won't abate anytime soon. But while the year placed further burden on an already volatile industry, it also solidified the path forward. The blueprint for middle market energy companies is a clear one: Balance the challenges of today—be it low prices, increased costs, evolving regulations or others—but don't neglect the future.

Respondent Profile

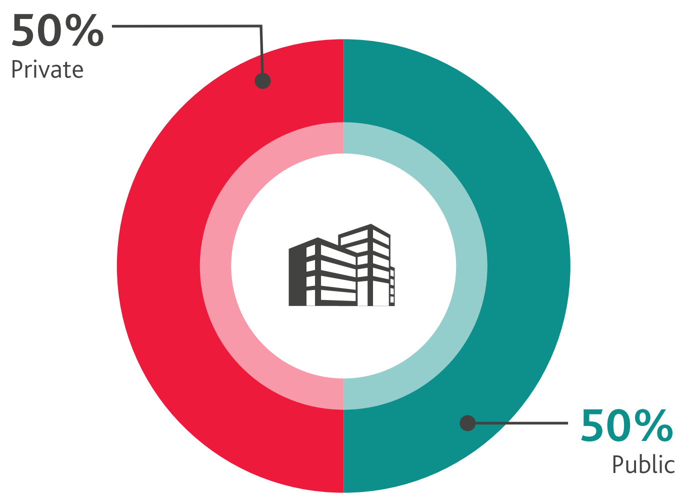
2021 BDO Energy CFO Outlook Survey polled 100 middle market energy CFOs with revenues ranging from $250 million to $3 billion. The survey was conducted by Rabin Research Company, an independent marketing research firm, in September 2020 using Op4G's panel of executives.

Average tenure in current CFO role: 5 years

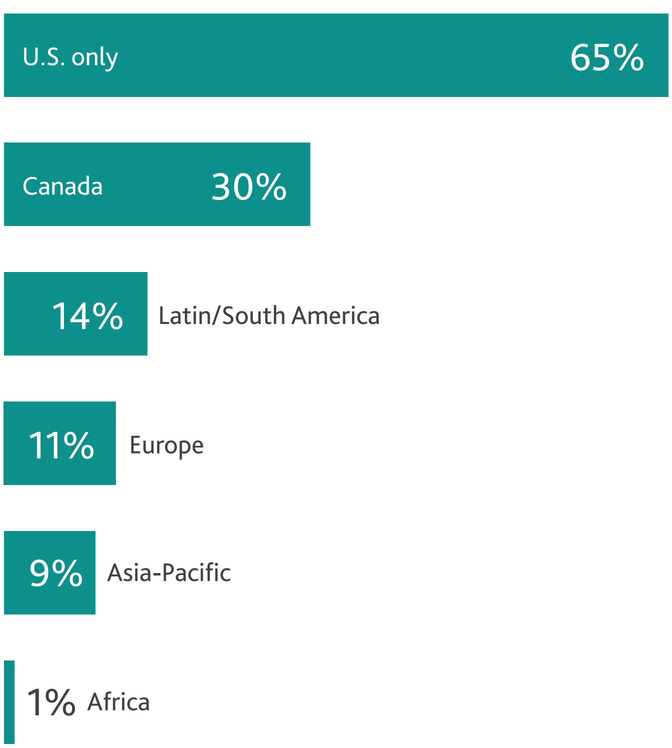
ANNUAL REVENUE



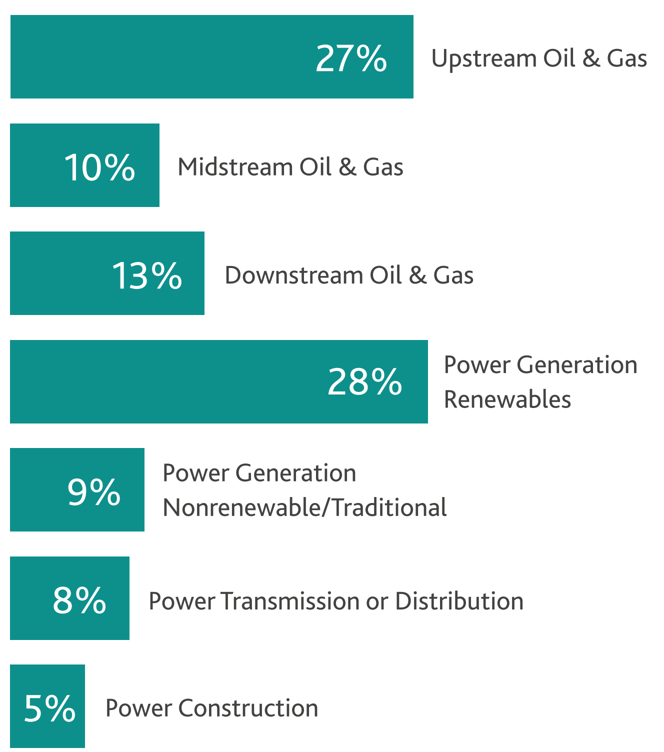
COMPANY TYPE



REGION OF OPERATIONS



SUBSECTOR



Our research goes beyond Energy.

View the survey results from 600 CFOs across industries in our **2021 BDO Middle Market CFO Outlook Survey**.

ACCELERATE YOUR RECOVERY

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