EXCERPTS OF RECENT MEDIA COVERAGE

NATURAL RESOURCES PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q4 2013

BDO's Natural Resources industry practice provides assurance, tax and advisory services to emerging and established businesses in the United States and all over the world who are involved in both the traditional and alternative energy industries. BDO's extensive industry knowledge is supported by a global network of more than 1,204 offices in 138 countries.

▶ MARKETWATCH

ENERGY CFOS LOOKING TO CUT COSTS NEXT YEAR: SURVEY

By Claudia Assis

Chief financial officers at top U.S. energy companies are more cautious for 2014, looking to cut expenses and streamline operations, according to a survey of finance executives in 100 energy firms conducted by accounting and consulting firm **BDO USA LLP**.

When asked about plans to bolster profits, a third of the CFOs cited improving internal business processes as a top tactic. Only a quarter anticipate investment in new technologies. Some 12% said they planned to reduce oil and gas exploration, and 11% cited staff cuts.

Energy firms have been under pressure from shareholders to cut down on expenses and return more cash to shareholders. Companies have resisted that approach, however, saying they can't forgo the expensive, long-term projects if they are to keep growing.

But the cost issue was on the minds of CFOs. According to BDO, 38% of the finance executives said they will pursue cost-reduction programs "in an effort to increase value for stakeholders." That is a 58% jump from last year's study, the consultant added.

The survey was conducted between September and November. A BDO spokeswoman said survey respondents were granted anonymity when they agreed to participate in the survey, but they headed finance departments in some of the largest companies in the U.S. by revenue.

The CFOs also turned slightly more bearish on mergers and acquisitions. Most expect the same deal flow as this year — which was a decline compared to 2012' s flow, and 43% expect an increase. Last year, more than half of the CFOs predicted an increase in M&A.

▶ HOUSTON BUSINESS JOURNAL

INDIVIDUAL FOREIGN INVESTORS WANT POSITION IN U.S. SHALE PLAYS

By Deon Daugherty

Foreign energy companies looking to capitalize on North America's shale revolution have spent billions investing in the industry in recent years, acquiring companies and forming joint ventures with the players who have spent decades attempting to perfect the hydraulic fracturing process.

But financial advisors tell me the face of that foreign investment is changing…

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As **Clark Sackschewsky, a partner in BDO USA LLP's natural gas practice in Houston** explained, these foreign companies that wanted to take a stake in the burgeoning industry when shale was beginning to really take off, wanted to buy a whole company — such as BHP Billiton Group's $12.1 billion foray into shale when it bought Houston's Petrohawk Energy Corp., a first Eagle Ford Shale player.

The next phase of foreign investment featured foreign companies investing in joint ventures or acquiring acreage in specific plays.

The logic was that taking such a significant interest by buying a company meant significant liabilities, he said.

"There's a lower cost of entry, less due diligence, and they can focus on resources instead of everything else that goes along with buying a company," he said.

What Sackschewsky has noticed in recent months — so recently, in fact, that it's not been reflected in year-end tabulations — is that it's foreign individuals with $5 million to $25 million to spend getting involved. And, they're not going through the usual route of buying bundles of stock. Rather, they are seeking private equity deals as a means to get to into the space, he said.

"They're taking much smaller position, but they understand they still need some presence here in the U.S. looking out for their interest," he said. "For a lot of private equity funds, ($5 million to $25 million) is right in their sweet spot. For non-U.S. investors, it gives them access to lucrative deals with more diversified risk than if they just did it themselves."

Sackschewsky said he can't name the names of the foreign individual investors, but that it's coming from countries such as Korea and Australia.

As for why they're coming to the U.S. instead of making homeland investments, he said it's because there are proven reserves in the U.S.

"It's like, if you drill a hole in Texas, you're going to hit something," he said. "They're seeing a better return-on-investment than in other parts of the world. We have a true legal system to protect interests, an established market. And, if you're looking to invest in Korea or Indonesia, the U.S. looks a lot more reasonable to invest in."

DRILLERS & DEALERS

THE NORTH AMERICAN ENERGY RENAISSANCE AND GLOBAL OPPORTUNITY

By **Charles Dewhurst** and **Lorraine Walker**

With North American exploration and production flourishing and demand exploding worldwide, the global oil and gas sector is in the midst of a reorientation. Over the past decade, the US and Canada have leveraged new technologies to more efficiently exploit their oil and gas reserves and bring new sources of supply online for countries hungry for energy resources…This evolving landscape is not only changing the global economic balance of power, it is also impacting how dollars flow internationally and how companies align themselves to adjust to the new dynamic…

Last year was a blockbuster one for global oil and gas transactions and energy industry research group and listing service PLS recorded 679 deals totalling $254bn. This exceeds the previous record set in 2010 by nearly 20%, and is 50% higher than total deal value in 2011. The US was the leader in transactions activity in this space, completing 299 deals valued at $83bn, accounting for just shy of a third of total deal value last year. Canada, thanks to the oil sands boom, had the second-largest number of deals at 194 and valued at $50bn…

This activity was rather atypical. Across multiple industries, including the natural

resources sector, many companies raced to close deals before the beginning of President Obama's second term, concerned that new regulations could create a less favourable deal environment…

Private equity remains a relatively secure way for foreign investors to make their way into the North American oil and gas industry. These investments are a low-risk…opportunity for foreign investors to capitalise on a strong return on investment without the challenges associated with acquiring a company or attempting to secure energy resources simultaneously. However, this is an avenue that decidedly favours the US over Canada…

Finally, initial public offerings (IPOs) post a mixed showing in North America. Activity in the US is robust. As of November 2013, there have been 18 power and energy IPOs in the US this year, reports Thomson Reuters. Although this is slightly down from last year's number – 21 – the overall value of these offerings has increased by more than 50%. Investors are particularly interested in companies focused solely on shale plays…

In Canada, however, uncertainty in the markets and a less favourable price differential between Canadian crude and global benchmarks is putting a crimp on IPO activity. The oil and gas sector in

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Canada has seen only one IPO so far this year…

The global oil and gas sector is clearly undergoing significant changes as supply and demand dynamics continue to shift away from the traditional power players in the Middle East to up-and-coming resource plays in North America. The US is leading the pack overall, but Canada is close behind with its own growing industry. However, this evolving landscape stands to benefit the international industry as a whole. Advances in Canadian and US oil and gas production provide opportunities with the potential to deliver a strong return on investment for investors worldwide, as well as a new avenue to satisfy demand at a reasonable cost.

▶ENERGY METRO DESK

ENERGY CFOs SEE BRIGHT FUTURE

By John Sodergreen

According to a new survey by the professional services firm **BDO**, energy company CFOs are looking ahead to 2014 with a great deal of confidence about their financial health. Like 20 percent more confident over last year's findings. No kiddin'. Access to capital? Not a prob, our dauntless CFOs say. Thank the shale boom and exploding international demand. That said, not all the data pulled from the survey is equally rosy…

We contacted **BDO's natural resources practice leader and survey chief Charles Dewhurst** for additional insights on this sixth annual CFO survey.

"The hiring situation was one of the points in the survey that was seemingly out of the blue, considering the growth and profitability the E&P industry has enjoyed over recent years," Dewhurst says. "There is, however, a wider trend among public companies, it's more of a lingering concern really, about how strong general economic growth really is. So, cost reduction has been a huge focus. Last quarter may have seen increased profitability, but most companies attributed that to cost savings rather than revenue growth. What I see is this trend, this focus on cost reduction, carrying over into the oil and gas industry."

Unlike a lot of industries, energy is very hands-on – lots of folks engineering stuff and getting dirty. Last time we checked, the sector had a manpower shortage, not a glut. "I agree, the no-job growth response is baffling. My clients tell me how difficult it really is to hire good people," he says.

For Dewhurst, the top few items of note in the survey are: "First, CFOs continue to be buoyant and optimistic about the North American oil and gas situation, specifically in the nonconventional resources such as shale. Remember that our respondents are nonmajors; they are all independent operators," he says. "Second, these companies plan to devote a significant amount of resources to environmental issues. And this was across the board, from technology to media and public affairs. Companies are very interested in getting their side of the story out there, to take ownership of the fracking story, to show what the industry itself is doing to self-regulate."

Next, access to capital. He says that 71 percent of those surveyed say their ability to access capital is better now than last year. Of this group, 45 percent said that traditional debt was the most popular route, but private equity is on an upward tick at 40 percent. These figures seemed a bit odd to us, since the uptick in private equity funding might suggest a path to more M&A or IPO in the coming year. Curiously, the majority of CFOs polled said that they thought M&A would be flat next year. "This might seem like a strange combination of responses, but keep in mind that 2012 and 2013were fairly strong years for M&A. I think respondents were just being cautious … 43 percent actually expected M&A to increase next year (it was 53 percent in last year's survey) while over 50 percent said no change (45 percent last year)."

▶BREAKING ENERGY

IN US OIL & GAS, EVERYONE'S MONEY IS WELCOME

By Conway Irwin

The US oil and gas market offers something that virtually no other market in the world does – easy entry for non-traditional investors, who are helping to bolster the capital available for much-needed infrastructure buildout….

The makeup of the investment community in the US oil and gas industry has undergone a shift over the last five to eight years, **Clark Sackschewsky, a Principal in the Natural Resources practice at accounting and consulting firm BDO**, told Breaking Energy. It is no longer solely the purview of oil and gas companies with the financial firepower and on-the-ground management capabilities to buy other companies or their choicest assets outright in multi-hundred million- or billion-dollar deals.

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"It started out with mergers and acquisitions, then progressed to joint ventures, and now it's trickled down to smaller investors looking for a way to get into the US market," Sackschewsky said. "You have a return on investment that has rule of law, a legal system, and great infrastructure," he said. "There is a court system, there is police, and investors own the land – instead of buying the right to explore, they can own the land, which is not the case everywhere."

"You still have to worry about project success, but you're not worries about nationalization of your assets. That allows people a degree of protection, reducing the risk associated with investing in these types of projects," Sackschewsky said. "This is a good place to come park your money."

And the relatively recent discovery that previously untapped resources in non-traditional oil- and gas-producing areas of the US are economic to develop has generated a slew of new projects in need of funding. "You can't ship natural gas by rail," Sackschewsky said. "Buildout of the infrastructure in different shale plays around the country presents a unique investment opportunity..."

By entering into a JV instead of buying a company and its assets outright, "you're not taking on all the liabilities and all the sins of the acquired company that may have occurred in the past", Sackschewsky said. Taking over an entire company or a chunk of its operations would come with new management and integration needs, "which require more capital, a team on-site, etc."

Investing through a private equity firm offers an even further reduction of risk. "These are the guys looking to invest $5-10mn and not take 100% of the risk, just invest in capital-intensive projects with a great return on investment," Sackschewsky said. "If you go through private equity, there will be multiple projects involved, you'll have a management team that's aligned with your interests – they make money when you make money – it's a lower cost of entry and a much safer play."

And benefits to investors are not limited to financial concerns. Japanese electricity providers that have taken stakes in gas fields, pipelines and proposed natural gas liquefaction plants appear to be seeking benefits that are geopolitical as well as financial. "If I were a Japanese electricity generator, and I knew I could get 20 years of supply at 'x' price, I have a known, set stream of fuel for 20 years at a set cost, Sackschewsky said. "The risk has gone down for everyone."

While the US oil and gas sector is by no means starved of capital, these additional sources, when viewed in aggregate, can provide a great deal of funding. Many of the joint venture deals announced in US oil and gas in the last few years have been valued in the $1bln-$5bln range. And while small investors may not individually move the needle in the oil and gas sector, their contributions to the pool of available capital add up. "$5 million is a small chunk of change, but 100 people with $5 million to invest – now we're talking," said Sackschewsky.

DRILLERS & DEALERS

WHAT SKILLSETS MUST BE IN THE TOOLKIT OF A CFO IN 2014 TO ENSURE SUCCESS?

By **Rocky Horvath**

One of the most important skills an oil and gas CFO can possess today is the ability to use the lessons of the past and present to help shape—and protect—the company's future CFOs should use today's fortunes to reinforce their organisations' finances, prepare for an uncertain future, and respond to the perennial risks associated with working in a volatile and heavily regulated industry.

First, CFOs should not lose sight of the lessons learned during the 2008-2009 financial crisis…the international banking industry remains as interconnected as ever…the wise CFO will nevertheless prepare his or her company for any financial shocks that may come their way.

Some steps a CFO can take include: closely monitoring current and expected leverage levels; diversifying exposure to and continuously assessing the creditworthiness of banks and counterparties; entering into derivative contracts with counterparties that are also lenders; and where practical, investing in longer-term derivatives to hedge against prolonged periods of low commodity prices.

CFOs should take the opportunity afforded by today's shale boom to improve their organisations' finances and find efficiencies...now is a great time to make investments in infrastructure and operations to cut costs long term. Moreover, CFOs should keep their ears to the ground for the next wave of activity and profitability in the industry, such as exploring how their organisations may benefit from the effects of growing support for exporting liquefied natural gas.

Finally, successful CFOs are forward-looking in terms of the regulatory environment their industry faces. It is not enough to be compliant with current regulations, CFOs must keep abreast of potential regulatory changes in order to timely formulate operating and compliance contingency plans. Environmental regulations...remain unpredictable, and an organisation's ability to adapt to these is essential to indicating to investors that the company has a plan for the future. A CFO should be flexible and have an open mind in order to address these regulatory shifts.

The oil and gas industry may be volatile, but CFOs equipped with the ability to look both backward and forward are well-positioned to support their organisations' continued growth and prosperity.

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KEY CONSIDERATIONS FOR U.S. ENERGY POLICY

By **Charles Dewhurst, leader of the Natural Resources practice at BDO USA, LLP**

In March 2012, when President Obama addressed Prince George's Community College in Maryland, he stated that the United States "need(s) an energy strategy for the future – an all-of-the-above strategy for the 21st century that develops every source of American-made energy…" Since 2012, the U.S. energy industry has certainly made much progress toward boosting its production and exploration of energy resources, but regulatory and political uncertainties persist and could threaten future growth. Developing comprehensive and cohesive national energy policy now will help us capitalize on the momentum of the U.S. energy sector and ensure its future growth. This policy should be forward-looking, aiming to secure U.S. energy resources and capabilities for years to come.

While renewable energy often seems to be at odds with more traditional sources like oil and gas, this dynamic is counterproductive. This United States requires regulations and policies that allow these energy sources to complement, rather than contradict, each other… While renewable energy may be more environmentally friendly, its infrastructure can be relatively costly to build and operate, and is usually located in geographically remote areas that cannot service large, urban easily….U.S. energy policy should reflect the need for a variety of energy sources to operate and flourish concurrently in order to support the country's overall needs…

The EIA notes that, despite coal serving as the largest source of power generation for the United States for more than six decades, its annual share of total net generation for the country was only 37 percent last year, down 26 percent since 2007. This decline is partially due to some power producers now favoring less expensive, more environmentally friendly natural gas. Yet as long as coal remains plentiful, exportable and relatively inexpensive to produce, its future should be considered in any comprehensive energy policy…

As the industry waits for further clarity on energy policy at the national level, it continues to keep an eye on state-level regulatory changes….this decentralized regulation allows states to individually determine how to most effectively and efficiently exploit their own resources. Each state faces unique opportunities, as well as unique policy pressures from its residents, suggesting that in some cases, policy is best determined on a local, specific basis.

Overall, a comprehensive national energy policy is essential to positioning the United States as a leader in the global energy market. As the international energy landscape continues to evolve, the United States is poised to become a net energy exporter and to fulfill burgeoning global demand. However, in order to take advantage of this opportunity, the United States requires a policy with a clear-eyed vision of what the energy industry needs now, and what it will need in the future.

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