INSIGHTS FROM BDO'S NATURAL RESOURCES PRACTICE

DRILLING DOWN ON LESSONS LEARNED FOR AVOIDING BANKRUPTCY & ACHIEVING GROWTH

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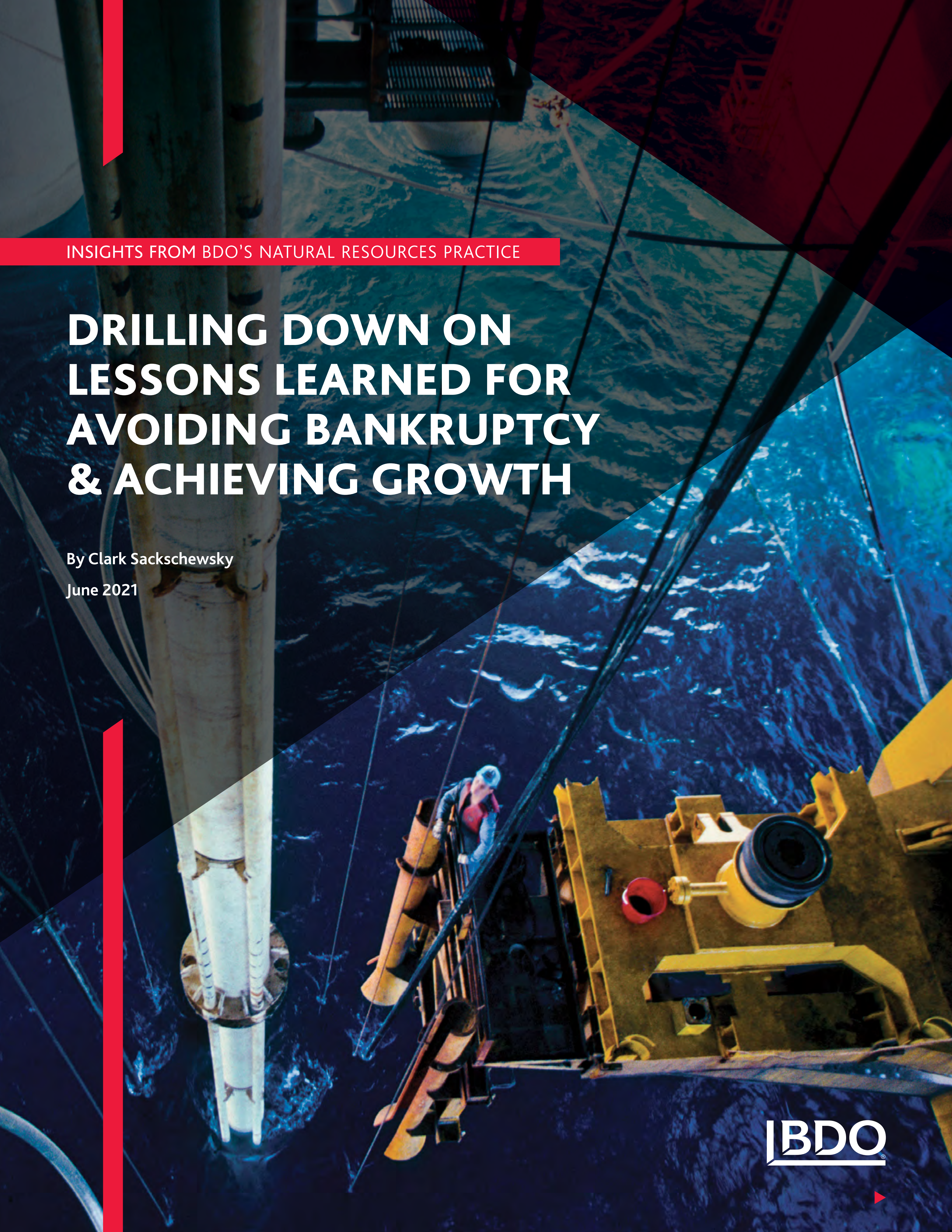

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The oil demand decline of 2020—triggered by travel restrictions and a rapid increase in remote work across industries—compounded existing financial pressures facing the oil and gas industry and led to financial hardship for many companies. As a result, oil and gas companies are now reassessing their operations and implementing strategies to achieve financial stability, avoid bankruptcy and ultimately achieve new growth.

Well into 2021, oil and gas companies are cautiously optimistic that the industry is entering a point of recovery, but some challenges could impede their projections if they are not prepared. The current top threats to oil and gas companies include concerns around oil prices, specifically pertaining to Saudi Arabia's ability to drive prices down with an influx of supply, failing to operate within their financial means and potential new tax regulations that could increase total tax liability.

Assessing your company's vulnerability to these potential threats and implementing risk preparedness strategies can ultimately reduce the risk of financial disruption and bankruptcy in the months ahead.

CAUTIOUS OPTIMISM FOR 2021

Despite a halt in travel during 2020, gasoline consumption has resumed to nearly **pre-pandemic levels**, thanks to businesses re-opening, travel restrictions lifting and workers returning to the office, offering a glimpse of hope for stabilized demand throughout the rest of 2021. **The U.S. Energy Information Administration (EIA)** estimated that the world consumed 96.2 million b/d (barrels per day) in April, an increase of 15.8 million b/d from April 2020, but still 4.0 million b/d less than April 2019 levels.

An uptick in travel will likely contribute to a decrease in bankruptcy filings over the next few months, as crude oil prices have **stabilized in the 60s**, improving profitability for many companies. The trend in bankruptcy filings thus far has considerably slowed in comparison to the peaks of 2020, and oil and gas companies are likely to see **a growth in demand** in the latter half of this year.

Despite the upturn in oil consumption, a short-term burst or increase in demand will not protect companies from bankruptcy alone. Oil and gas companies need to keep focus on maintaining a strong balance sheet by developing cost management strategies and strengthening operational efficiencies.

PURSUING THE RIGHT STRATEGIES IS KEY

The oil and gas companies that have survived the last decade are well-versed in living within their means and practicing sound financial discipline. And although conditions have improved since Spring 2020, companies should look internally to make changes that improve their financial standing and mitigate the potential impact of external financial pressures, such as demand declines or price volatility. For example, companies can pursue cost-cutting measures and leverage operational assessment tools to identify and prioritize their most profitable assets.

Reassessing current revenue models to reflect current supply and demand and market shifts is imperative for any company looking to be financially mindful. To successfully prepare for future disruption, scenario planning can enable oil and gas companies to be better equipped for a crisis and allow them to respond more effectively. Lastly, having visibility into supply chain operations can help oil and gas companies better account for unexpected shifts in demand.

DIGITAL & ESG INVESTMENTS UNLOCK NEW GROWTH POTENTIAL

Another avenue to improve financial standing is through investing in emerging technologies and harnessing the power of data to increase efficiencies, unlock new cost savings and improve decision-making.

For example, advanced data analytics and predictive forecasting capabilities can enable companies to detect operational changes in real-time and react quickly. Another use case for these technologies is the automation of optimizing faults while drilling, allowing companies to make real time adjustments in the midst of a current drilling operation.

Sensors placed on machinery can enable companies to perform predictive maintenance, which alerts companies to minimize potential equipment failures in advance, thus reducing machine downtime and preventing more costly repairs that would be needed if a catastrophic break down were to occur. Digital tools and solutions can also allow companies to automate back-office processes and help keep their people safer by automating challenging processes while improving profitability.

By using technology to improve operational efficiencies, achieve new cost savings and create value, companies may also be able to attract stronger investor interest, which is critical to funding new capital investments and sustaining long-term success.

ESG (Environmental, social and governance) programs are rising in importance for oil and gas companies due to evolving investor demands. Capital investors are looking at more than just profitability and are requiring oil and gas companies remain committed to ESG investments.

THE PATH TO SUCCESS IN AN EVOLVING INDUSTRY

On the road ahead, oil and gas companies must balance mitigating the residual challenges of the pandemic while making investments that will bring long-term value for their businesses.

With the right strategies in place, oil and gas companies can gain the momentum needed to spur growth and keep pace with an evolving industry.

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