



MARKET UPDATE

SEPTEMBER 2019

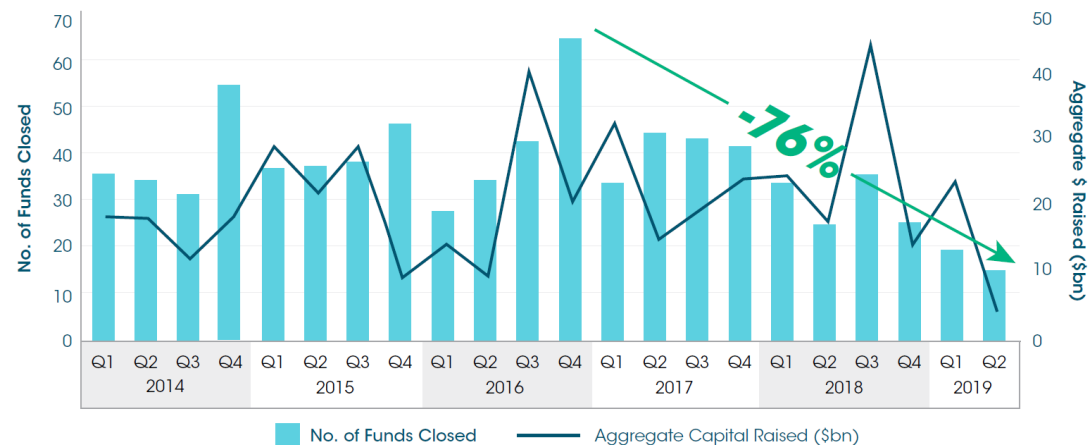
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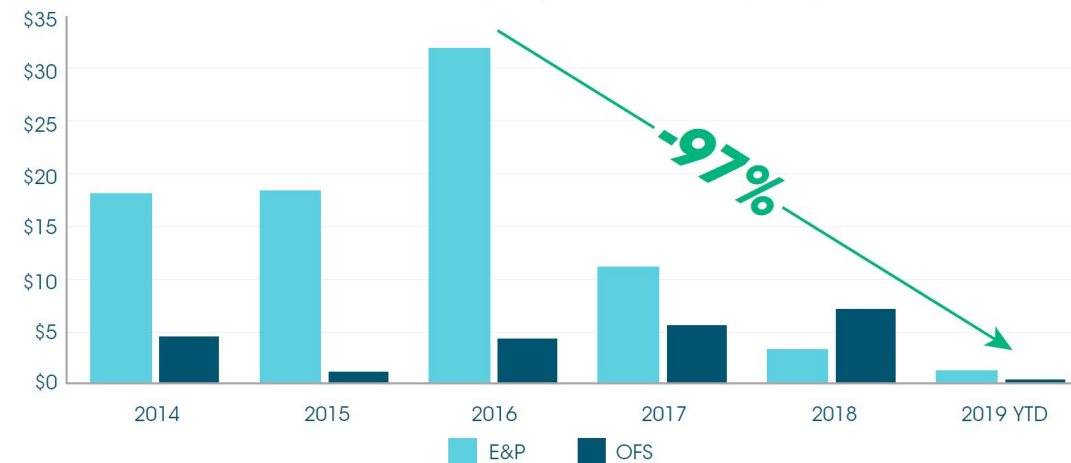
A Changing Energy Landscape

THE E&P INDUSTRY IS FACING AN UNPRECEDENTED SHORTAGE OF AVAILABLE CAPITAL

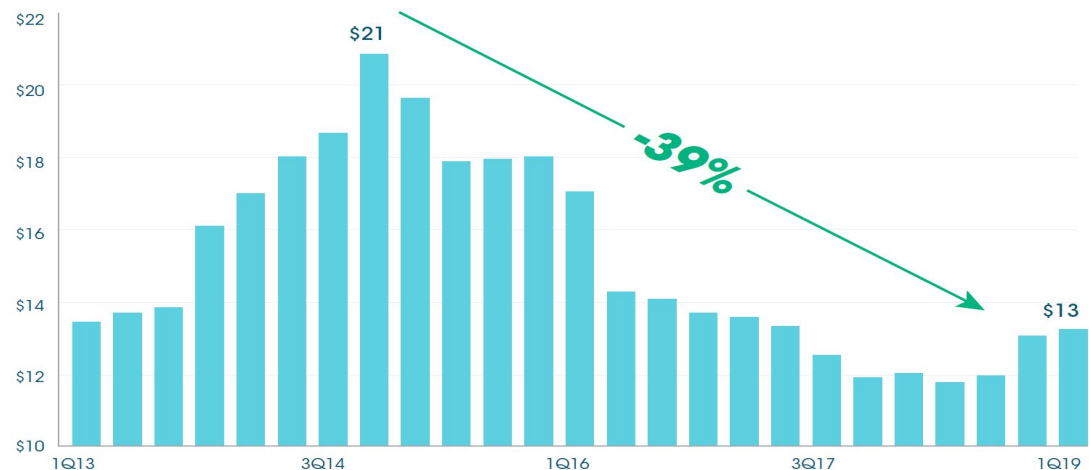
Natural Resources Private Equity Fundraising



Public Equity Issuance (\$Bn)



Bank Borrowing Base Availability (\$Bn)



High Yield Issuance (\$Bn)



Source: Bloomberg, Preqin, PLS Capitalize, Company Filings

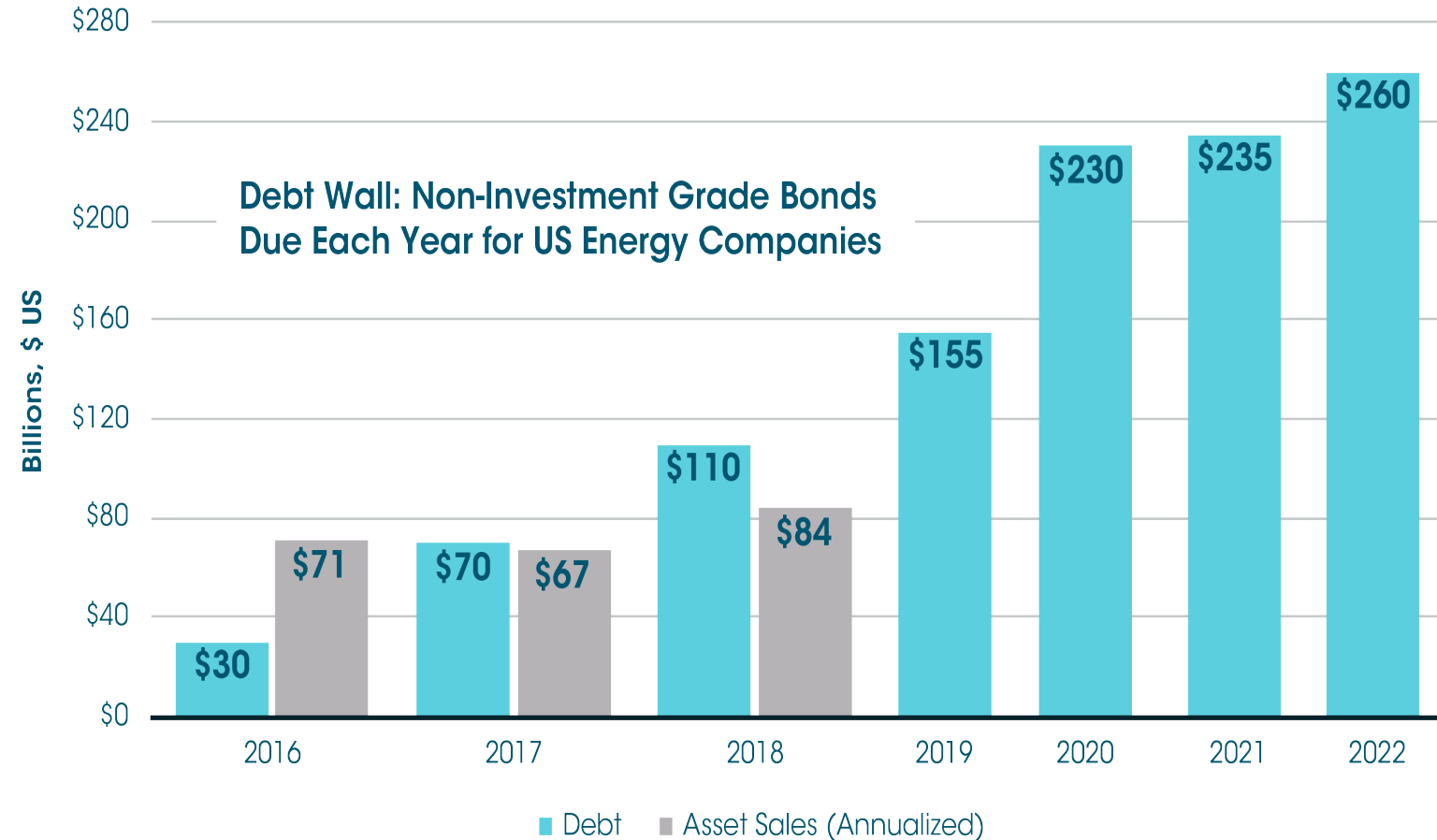
Capital Markets Closed To The Energy Sector

TRADITIONAL SOURCES OF CAPITAL ARE NO LONGER AVAILABLE

SUSTAINED, INCREASED VOLATILITY	=	<ul style="list-style-type: none"> Withdrawal of equity mutual funds Demands for (largely unattainable) capital discipline Withdrawal of high yield mutual funds
WITHDRAWAL OF EQUITY MUTUAL FUNDS	=	<ul style="list-style-type: none"> No IPO's and no secondaries (except minerals) 10 year trough valuations
WITHDRAWAL OF HIGH YIELD MUTUAL FUNDS	=	<ul style="list-style-type: none"> Very few new high yield issues, limited to BB and midstream Inactive secondary market and substantially higher yields / spreads
NO IPO'S / ASSET SALES	=	<ul style="list-style-type: none"> Death of the modern energy private equity model (the flip version) Scarce new energy private equity fund raises
DEMANDS FOR (LARGELY UNATTAINABLE) CAPITAL DISCIPLINE	=	<ul style="list-style-type: none"> Precipitous fall in asset sale activity
NO ENERGY PRIVATE EQUITY	=	<ul style="list-style-type: none"> No take private floor for plummeting public market valuations Stranded PDP / over-equitized balance sheets seeking non-bank loans
OCC REGULATION / NO ASSET SALES / TROUGH VALUATIONS	=	<ul style="list-style-type: none"> Withdrawal of the banks
NO BANKS	=	<ul style="list-style-type: none"> Senior secured slot wide open Discounted reserve based bank loan acquisition opportunities

Upcoming Debt Is Creating Pressure on Companies

WITHOUT OTHER SOURCES OF CAPITAL, COMPANIES ARE USING M&A TO MAKE UP THE DIFFERENCE



US energy companies are selling assets to address their debt maturities.

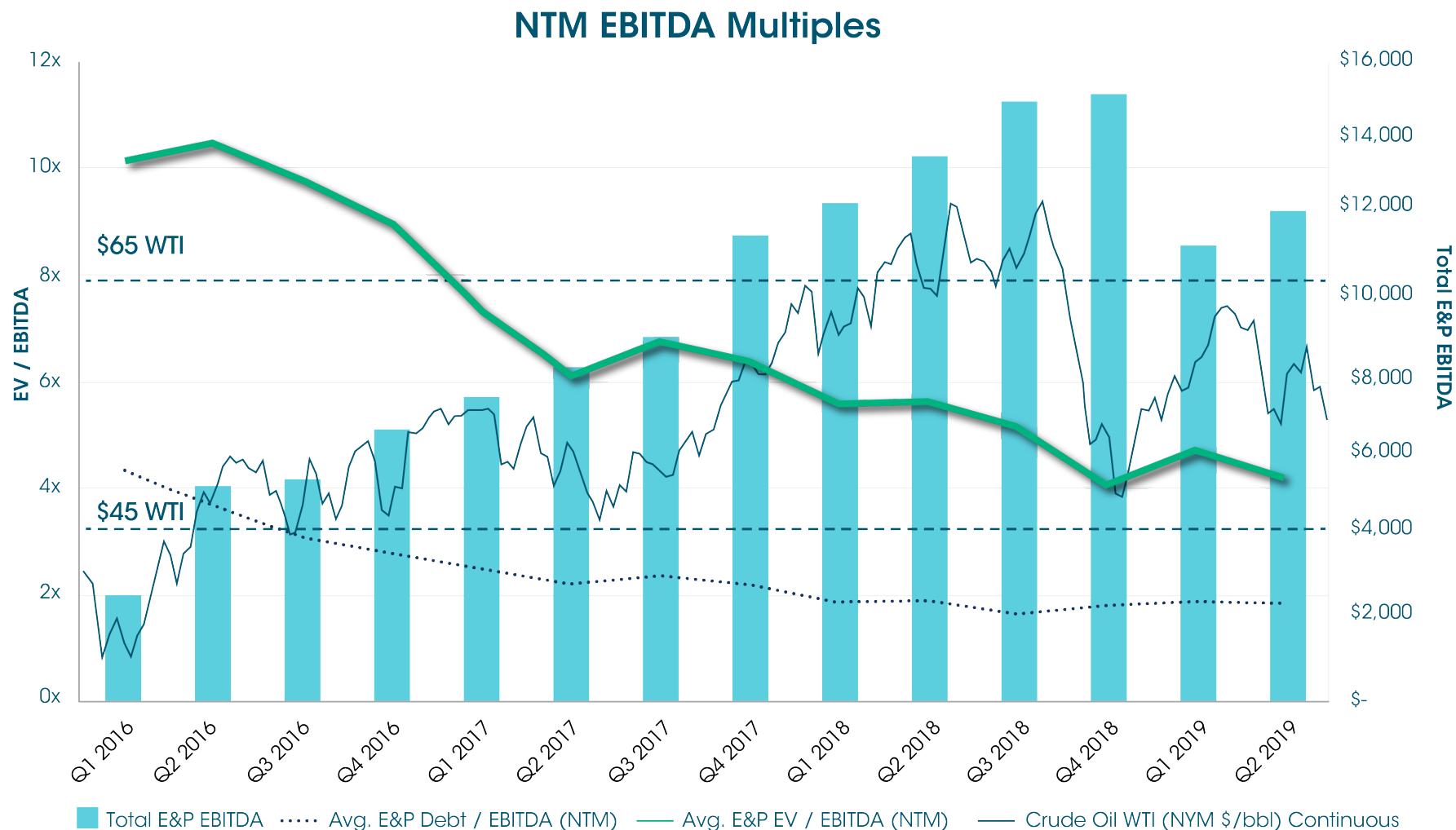
- Lack of capital from traditional funding sources such as capital markets has left companies looking for other ways to meet their obligations.
- A large portion of debt to come due over the last three years has been covered by the sale of assets.
- As the amount of debt coming due grows, oil and gas companies are under more pressure to sell quality acreage.

Source: Bloomberg, Raymond James, Enverus

Valuations for Energy Companies Are at Historic Lows

MARKETS ARE GIVING COMPANIES LESS VALUE FOR THEIR PERFORMANCE

- The retrenchment of capital and abundance of sellers has pushed EV/EBITDA multiples to historical lows, and well below levels during the lowest point of oil prices in the recent downturn in 1Q16
- Fulcrum continues to see opportunities in the private space trading even lower in the less efficient lower middle market
- The combination of a lack of available capital and forced sellers at low valuations creates significant opportunity for Fulcrum



The New Reality of the Energy Landscape

OIL & GAS COMPANIES CONTINUE TO NEED CAPITAL, BUT TRADITIONAL SOURCES ARE NO LONGER AVAILABLE



TRADITIONAL SOURCES OF CAPITAL ARE NO LONGER AVAILABLE	<ul style="list-style-type: none">▪ Markets have no appetite for equity offerings▪ Without a public market, traditional private equity is unable to make exits▪ High volatility continues to keep other sources of capital sidelined
ENERGY COMPANIES CONTINUE TO NEED CAPITAL TO SERVICE THEIR DEBT	<ul style="list-style-type: none">▪ The amount of outstanding debt coming due each year continues to grow in the energy sector▪ As each new tranche comes due, companies are under greater pressure to find ways to pay down debt
ASSET SALES HAVE HELPED SERVICE DEBT THUS FAR	<ul style="list-style-type: none">▪ Over the last three years, outstanding energy company debt has been covered in large part by the sale of assets
VALUATIONS ARE AT HISTORIC LOWS	<ul style="list-style-type: none">▪ Companies are selling assets into a market giving them 50% less for their production or their acreage than they were eight years ago
MORE ASSETS ARE COMING TO MARKET AT LOW VALUATIONS	<ul style="list-style-type: none">▪ With traditional sources of capital no longer available and impending debt obligations, companies will need to bring more assets to market at a time when buyers are giving less than before

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Disclosures



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