Overview

- Energy Sources
- Energy History
- OPEC
- US Shale
- Market Assessment
- Outlook
World Energy Sources

World primary energy supply by source

Units: EJ/yr

- Wind
- Solar PV
- Solar thermal
- Hydropower
- Biomass
- Geothermal
- Nuclear fuels
- Natural gas
- Oil
- Coal

This information is for illustrative purposes only
Source: Ocean News & Technology

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Wellhead To Burner Tip

Many Subsectors Within The Oilpatch
Sizing The Oilpatch

Oil

100mmbbls/day
×
$60/bbl

≈$2.2 Trillion

Gas

3.8tcm/year
×
$3/mcf

≈$400 Billion

3-4% of Global GDP

Source: Pickering Energy Partners

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Where Do (Oil and Gas) Babies Come From?

A. Water
B. Sedimentary rock
C. Impermeable Rock

Dead and decaying organic matter
Trapped fossils
Oil
Natural Gas

This information is for illustrative purposes only
Source: Energy Education
OPEC share of world crude oil reserves, 2017

OPEC proven crude oil reserves, at end 2017 (billion barrels, OPEC share)

<table>
<thead>
<tr>
<th>Country</th>
<th>Reserves (bbl)</th>
<th>OPEC Share</th>
<th>Non-OPEC Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>302,81</td>
<td>24.9%</td>
<td>75.1%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>266,26</td>
<td>21.9%</td>
<td>78.1%</td>
</tr>
<tr>
<td>IR Iran</td>
<td>155,60</td>
<td>12.8%</td>
<td>87.2%</td>
</tr>
<tr>
<td>Iraq</td>
<td>147,22</td>
<td>12.1%</td>
<td>87.9%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>101,50</td>
<td>8.4%</td>
<td>91.6%</td>
</tr>
<tr>
<td>Angola</td>
<td>83,80</td>
<td>6.8%</td>
<td>93.2%</td>
</tr>
<tr>
<td>Qatar</td>
<td>25,24</td>
<td>2.1%</td>
<td>97.9%</td>
</tr>
<tr>
<td>Gabon</td>
<td>2,00</td>
<td>0.2%</td>
<td>99.8%</td>
</tr>
<tr>
<td>Equat. Guinea</td>
<td>1,10</td>
<td>0.1%</td>
<td>99.9%</td>
</tr>
<tr>
<td>Libya</td>
<td>48,36</td>
<td>4.0%</td>
<td>96.0%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>37,45</td>
<td>3.1%</td>
<td>96.9%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8,27</td>
<td>0.7%</td>
<td>99.3%</td>
</tr>
</tbody>
</table>

How Much Can We Count On OPEC Discipline?

- Supply Risk More Obvious Now
- Escalating Tensions
- Is Game of Drones Good or Bad for OPEC Cohesion?
- Will Iran Come to the Table?
Spindletop - 1902

Source: Lamar University
A Volatile Business

Source: Department of Energy

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US Production History

*Monthly U.S. field production of crude oil (Jan 1920-Aug 2018)*

million barrels per day (b/d)

- U.S. crude oil production first crossed 10 million b/d in Oct 1970
- Production fell below 4 million b/d in Sep 2008 because of hurricane-related outages
- U.S. crude oil production again crossed 10 million b/d in Nov 2017

Shale Is The Big Story

Shale Accounts for More Than Half of U.S. Crude Oil

Source: The Fuse
Multi-Stage Fracking

Source: Texas A&M University
Where Are We?

- 5th Year Of A Downturn
- Underperforming Stocks
- Apathetic Investors
- Production Boom
- US Energy Superpower
- Green New Deal!
- Peak Demand Fears
- Industry Focus Shifting
- Stymied Capital Markets

Crude Oil (WTI) 2012 - Current

This information is for illustrative purposes only
Source: Bloomberg as of 9/30/2019
Cyclical Business

1980’s

- Oil bottoms at $10/Bbl in 1986
- Rallies to $25/Bbl in 1987

1985

1998-2001

- Oil $15/Bbl in March 1999
- Rallies to $35/Bbl by June 2020

March 1999

2003-2018

- Oil bottoms at $40/Bbl in December 2008
- Rallies to $80/Bbl by September 2009 and to $100/Bbl by March 2011

October 2003

2008-2009

- Oil $15/Bbl in March 1999
- Rallies to $35/Bbl by June 2020

September 2008

Source: EIA

U.S. Production
5.5 MMbopd October 2003
11.7 MMbopd November 2018

Global Consumption
2003 = ~80MMbopd
2018 = ~100MMbopd

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Investor Perspective

Investor Psychology Overriding Fundamentals

- Optimism
- Thrill
- Euphoria
- Anxiety
- Denial
- Fear
- Desperation
- Panic
- Capitulation
- Despondency
- Depression
- Hope
- Relief
- Optimism

Fundamentals will win out in the long-term

Commodity / Fundamentals Point Here

Source: Raymond James Research, Bloomberg. This information is for illustrative purposes only.

PEP View - Classic Cyclical Trough Ongoing

- “This Is A Bad Business”
- Not Competitive With Other Sectors
- US Growth Has Killed The Macro
- Returns Are Not Good Enough
- 4 Of Past 5 Years Are Bad
  - Absolute
  - Relative

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Competitive Threats
OPEC Isn’t Necessarily The Lowest Cost Producer

OPEC Breakeven With Social Cost

Brent $/bbl

- Iran: $126
- Saudi: $85
- U.A.E: $65
- Iraq: $64
- Kuwait: $49

This information is for illustrative purposes only
Source: IMF, Bloomberg

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Energy Stock Performance

Market Reaction From 2014 Peaks

-12% Current 21% Trough Inv. Grade Energy Credit
-13% Current 42% Trough Broad Market (S&P 500)
-17% Current 32% Trough Utilities (XLU)
-46% Current -5% Trough High Yield Energy Credit
-48% Current -30% Trough Majors (XOI)
-62% Current -57% Trough MLPs (AMZ)
-69% Current -49% Trough 12-Mo. Crude Strip (NYMEX)
-73% Current -62% Trough Natural Gas (Henry Hub)
-75% Current -73% Trough SPDR Oil & Gas (XOP)
-76% Current -49% Trough WTI Crude (NYMEX)
-81% Current -80% Trough Oil Service (OIH)
-84% Current -83% Trough Small Cap Energy (RGUSES)

Source: Bloomberg as of 9/30/2019

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## Storm Clouds Are Brewing (Supply)

### 2020E Global Oil Supply Growth (mmbbls/d)

<table>
<thead>
<tr>
<th>Source</th>
<th>Supply Growth (mmbbls/d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPH Securities</td>
<td>2.3</td>
</tr>
<tr>
<td>IEA</td>
<td>2.2</td>
</tr>
<tr>
<td>J.P. Morgan</td>
<td>1.9</td>
</tr>
<tr>
<td>Bloomberg</td>
<td>1.6</td>
</tr>
<tr>
<td>OPEC</td>
<td>1.6</td>
</tr>
<tr>
<td>EIA</td>
<td>1.6</td>
</tr>
<tr>
<td>Evercore</td>
<td>1.4</td>
</tr>
</tbody>
</table>

*+1.7 mmbbls/d on average*

### 2020E Supply Growth per IEA

- **US**: 57% (+2.2 mmbbls/d)
- **Brazil**: 16% (+2.2 mmbbls/d)
- **Europe**: 15% (Others 12%)

*US Remains The Biggest Supply Driver (+1.3 mmbbls/d)*

Source: Bloomberg, TPH Securities, IEA, J.P. Morgan, OPEC, EIA, Evercore
Storm Clouds Are Brewing (Demand)

2020E Global Oil Demand Growth (mmbbls/d)

- TPH Securities: 1.5
- Bloomberg: 1.4
- IEA: 1.4
- EIA: 1.4
- Evercore: 1.3
- OPEC: 1.1
- J.P. Morgan: 1.0

Oil Demand Risks Are Increasing
Wouldn’t Expect Negative Demand, But Potentially Less Than Current Consensus

"OECD Cuts Forecast And Sees Weakest Growth In A Decade" - Bloomberg

+1.3 mmbbls/d on average

Source: Bloomberg, TPH Securities, IEA, J.P. Morgan, OPEC, EIA, Evercore
2019 Outlook

- $50/bbl Doesn’t Work
- Risk Level Higher
- OPEC Doing Its Job
- US Shale Juggernaut
- Industry Better Behaved
- Industry Better Prepared
- Investors Exhausted
- We’re a Long Way Away From Irrelevancy
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- Trading may take place on foreign exchanges that may not offer the same regulatory protection as United States exchanges.

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