



Bankruptcy Filings in the Oil & Gas Industry

September 2020

Corporate and Investment Banking Practice



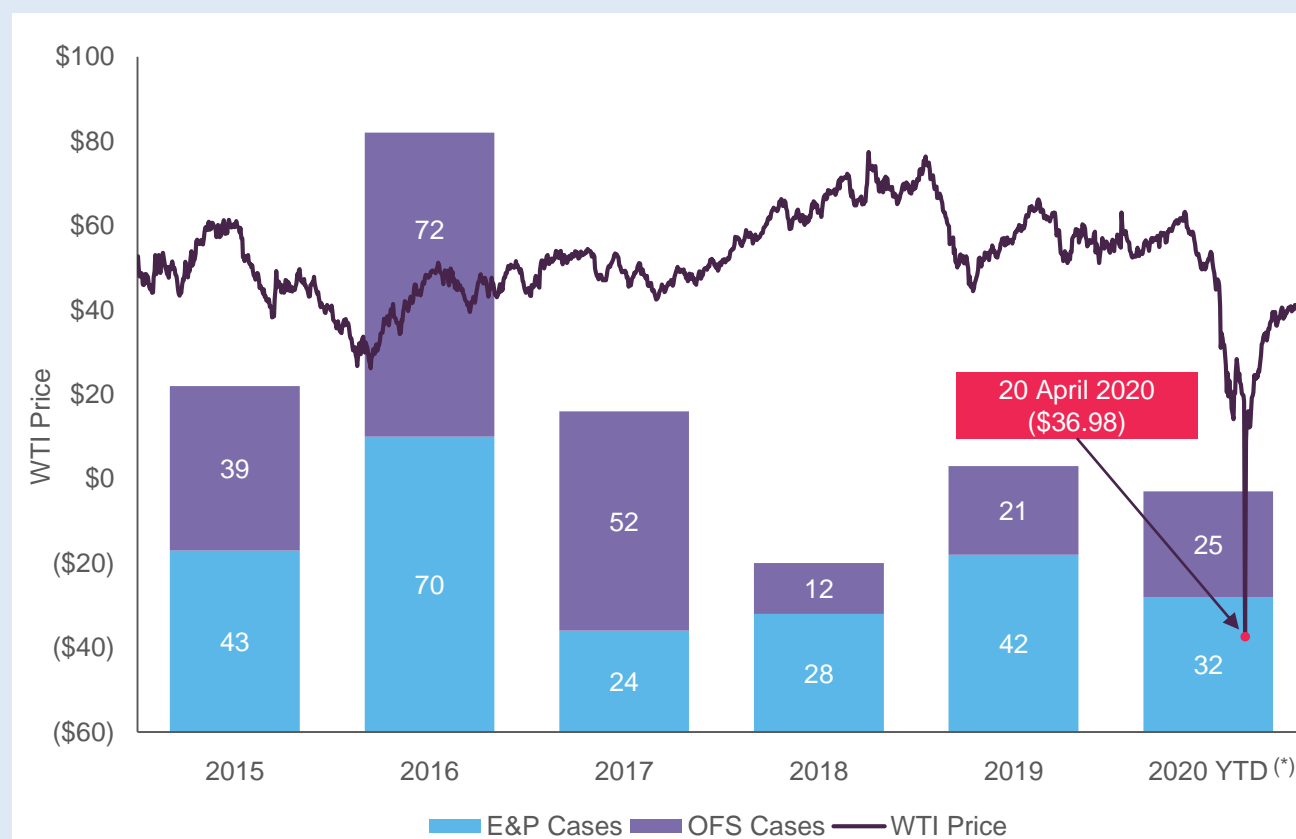
Impact of COVID-19 on Oil & Gas Sector

The disruption caused by the COVID-19 pandemic has severely affected the already debt-laden oil & gas companies. Many companies are finding it difficult to sustain amid the current crude price levels. This is leading to a growing wave of bankruptcies in the sector.

- About 60 North American oil & gas companies have filed for bankruptcy this year so far. These include 32 exploration and production (E&P), 25 oilfield services (OFS), and 3 midstream services firms.
- The U.S. oil drilling activity dropped to a 15-year low in August 2020, with active crude oil drilling rigs in the U.S. falling to 172 on August 14, a 75% drop over the past 22 weeks and the lowest total since July 2005.
- Amid the pandemic, oil majors have been using dividends as an active financial management tool. Shell reacted to the sharp drop in oil prices by announcing a 67% dividend cut in its 1Q20 results (Shell's first dividend cut in more than 70 years). BP and Eni followed by curtailing their minimum dividends by 50% and 60%, respectively, in their 2Q20 results. Total offered a scrip dividend option for the final 2019 dividend paid in 3Q20; this should lower its 2020 cash dividends by roughly 15%.
- The drop in crude oil prices also led to write-downs of assets for oil producers across the globe. Seven of the largest oil companies in the world have written down ~USD87 billion over the past nine months, and this figure is expected to increase further.
- Due to the ongoing downsizing, the oilfield services industry is likely to experience the lowest headcount in over a decade at about 610,000 employees. Since 2016, the headcount had been maintained at just over 760,000 employees.

North American E&P and OFS chapter 11 bankruptcy cases and historical WTI oil prices

The fall in WTI price below USD40 has triggered bankruptcies in E&P and OFS, similar to the trend witnessed in 2016



Major Oil & Gas Bankruptcy Filings Since April 2020

Company Name	Filing Date	Pre-petition Debt (USD million)	Advisor	Plan of Emergence / Reorganization
Chesapeake Energy Corp <i>(United States)</i>	28 June 2020	9,169	Rothschild, Intrepid Financial Partners	<ul style="list-style-type: none"> Executed a restructuring support agreement (RSA) where debtholders agreed to eliminate USD7 billion of debt: <ol style="list-style-type: none"> First lien last out (FLLO) holders (USD1.5 billion) to receive 76% of new equity Second lien notes (USD2.3 billion) to receive 12% of new equity Unsecured notes (USD 3.3 billion) to receive 12% of new equity RCF holders to receive exit facility loans on a dollar-for-dollar basis Received commitments from the majority of the first lien, FLLO, and second lien creditors for over USD4 billion of new capital: <ol style="list-style-type: none"> DIP financing of USD925 million supported by RCF lenders Support of FLLO holders to backstop a USD600 million rights offering Agreement on a USD2.5 billion exit financing, consisting of a new USD1.75 billion RCF and a new USD750 million term loan
Valaris Plc <i>(United Kingdom)</i>	19 August 2020	7,100	Lazard	<ul style="list-style-type: none"> Prearranged restructuring plan to fully equitize USD7.1 billion of debt: <ol style="list-style-type: none"> RCF holders (USD581 million) to receive 32.5% of new equity Senior notes (USD6.5 billion) to receive 34.8% of new equity Received DIP financing of USD500 million to be repaid by fully backstopping the rights offering of USD500 million new first lien notes <ol style="list-style-type: none"> New first lien notes to receive 30% of new equity Backstop parties to receive 2.7% of new equity

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California Resources Corp <i>(United States)</i>	15 July 2020	5,235	Perella Weinberg Partners	<ul style="list-style-type: none"> Pre-arranged restructuring support agreement with debtholders to equitize over USD5 billion of debt Secured loan holders to receive 83.6% of the new equity and unsecured debt claims to receive the remaining 16.4% Received DIP financing of USD1.1 billion, which fully refinances the company's current revolving loan facility Received exit financing of USD200 million, along with USD450 million rights offering commitment from term lenders
Noble Corp <i>(United Kingdom)</i>	31 July 2020	3,946	Evercore	<ul style="list-style-type: none"> Executed a restructuring support agreement (RSA), where noteholders agreed to exchange USD3.4 billion of debt for new equity in the reorganized company (Noble expects its debt to reach ~USD450 million) Current RCF lenders to provide USD675 million first lien exit financing facility Major bondholders to invest USD200 million of new capital in the form of new second lien notes
Whiting Petroleum Corp <i>(United States)</i>	1 April 2020	3,445	Moelis & Company	<ul style="list-style-type: none"> Successfully completed financial restructuring and emerged from Chapter 11 bankruptcy protection on September 1 The new capital structure reduced its debt by USD3 billion and includes a new USD750 million revolving credit facility maturing in April 2024 Current shareholders to receive one share of the reorganized company's new common stock for every ~75 shares previously owned Lynn Peterson became new CEO and James Henderson the new CFO, effective immediately

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Diamond Offshore Drilling <i>(United States)</i>	26 April 2020	2,442	Lazard	<ul style="list-style-type: none"> Filed for Chapter 11 reorganization without a plan or timeline in place and is still negotiating with key stakeholders regarding a restructuring plan Claimed to have sufficient capital to fund its global operations during the reorganization proceedings and did not require post-petition financing
Denbury Resources Inc <i>(United States)</i>	30 July 2020	2,406	Evercore	<ul style="list-style-type: none"> Entered into a pre-packaged restructuring support agreement where bond debt of USD2.1 billion would be exchanged with new equity Existing lenders to provide a DIP revolving loan that will roll into an exit facility with up to USD615 million in availability Expects to successfully complete its financial restructuring and is set to emerge from Chapter 11 by mid-September
Ultra Petroleum Corp <i>(United States)</i>	14 May 2020	1,982	Centerview Partners	<ul style="list-style-type: none"> Prepackaged restructuring support agreement to eliminate USD2 billion debt: <ol style="list-style-type: none"> Holders of term loan and second lien notes (approx. \$1,550 million) to get new common stock Holders of RBL credit facility (approx. \$46 million) to get new common stock or 85% cash recovery Unsecured creditors (\$375 million) may not get any distribution Secured a commitment for DIP financing of up to USD25 million from first lien term loan lenders Received exit financing commitment of USD60 million with a USD100 million borrowing base from RBL lenders Rights offering of USD85 million in combination of common stock and debt to eligible term loan lenders

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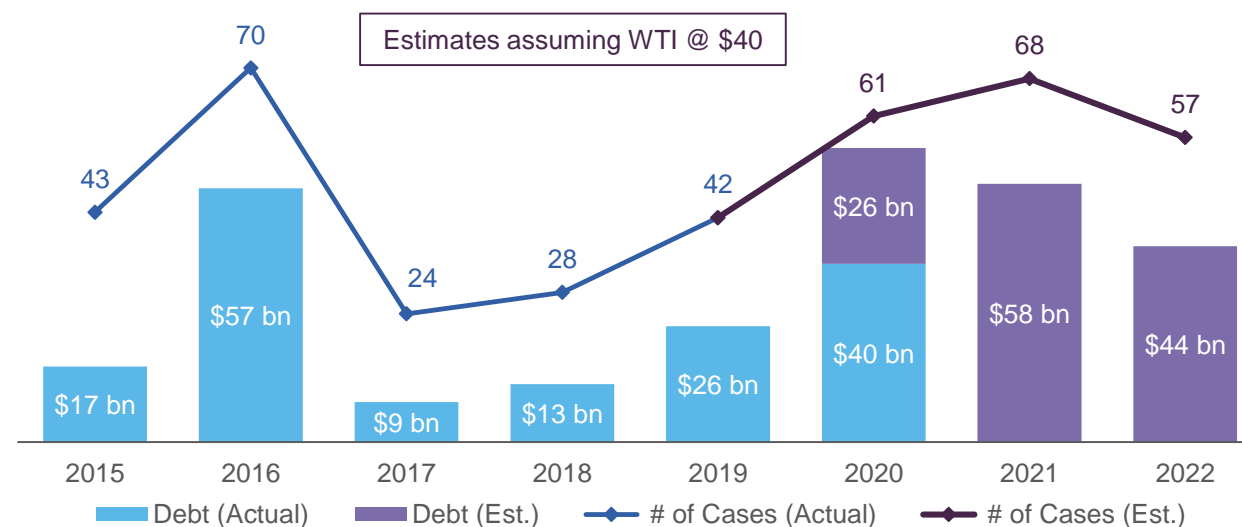
Company Name	Filing Date	Pre-petition Debt (USD million)	Advisor	Plan of Emergence / Reorganization
Extraction Oil & Gas <i>(United States)</i>	14 June 2020	1,750	Moelis & Company, Petrie Partners	<ul style="list-style-type: none"> Company to go for a standalone restructuring or a combination transaction (combination with a third party involving its restructured assets) <ol style="list-style-type: none"> Unsecured notes holders (USD1.1 billion) to exchange debt for equity RCF holders (USD650 million) to get either full payment in cash or become an exit facility lender on a dollar-for-dollar basis Received DIP financing of USD125 million, underwritten by Wells Fargo Bank, National Association and certain existing lenders
Sable Permian Resources <i>(United States)</i>	25 June 2020	1,319	Evercore, Alvarez & Marsal	<ul style="list-style-type: none"> Pursue negotiations with key stakeholders regarding a comprehensive restructuring plan RBL lenders to provide a USD150 million DIP facility, consisting of a USD75 million new money loan and a roll-up of USD75 million existing RBL loans The DIP facility is designed to support a dual-track process consisting of either a sale or an agreed plan for reorganization
Hornbeck Offshore Services <i>(United States)</i>	19 May 2020	1,196	Guggenheim Securities	<ul style="list-style-type: none"> Restructuring support agreement to help significantly de-lever company's debt: <ol style="list-style-type: none"> USD675 million unsecured notes to get 0.3% of new equity USD121 million second lien facility holders to get 5.1% of new equity 21.5% of first lien claims of \$350 million to get 24.5% of new equity while 78.5% to be rolled into new debt ABL credit facility of USD50 million to be paid in full Received DIP financing of USD75 million from existing creditors Access to USD100 million through rights offering for 70% of new equity

Emerging Trends and Outlook of Oil & Gas Sector

Outlook – The EIA’s short-term energy outlook states that WTI spot average prices will reach USD 38.50 and USD 45.46 for FY’20 and FY’21, respectively. At these levels, many companies operating with low revenues, high operational costs, and heavy leverage on their books may not be in a position to remain afloat, resulting in more bankruptcies.

As per Rystad Energy analysis, if WTI remains at around USD40, it is estimated that about 150 more E&P companies will seek Chapter 11 protection through 2022, adding another USD128 billion of debt at risk

North American E&P chapter 11 cases and related debt



Oil and gas demand – The aviation and transport sectors, which are the major oil consumers, have struggled during the pandemic. The International Energy Agency has lowered its global oil demand forecasts for 2020 at 91.1 million barrels per day (mb/d), down 8.1 mb/d y-o-y. The agency also lowered its 2021 global oil demand estimate by 240,000 b/d to 97.1 mb/d. It identified jet fuel demand as the major source of weakness. Global natural gas demand is expected to fall 4% in 2020 – the steepest decline in history.

Investment – Global spending in the upstream O&G industry is forecast to reach USD383 billion this year, the lowest in 15 years. Compared with 2019, the spending will fall 29% or USD156 billion, leading to an adverse impact on jobs, economic opportunities, and future energy supplies.

Consolidation – Many independent U.S. O&G companies were financially stressed prior to the crash in oil and gas prices and were heading towards consolidation to avoid bankruptcies. Big players with varied asset bases may also look to sell their non-core assets to strengthen their liquidity and reduce debt. Simultaneously, these players may look to acquire quality assets as per their new strategic needs.

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