UNDERSTAND PROFITABILITY

What should I look for?

How do E&P Companies obtain investment capital to grow cash flow?

• Cash Flow from operations
• Issuing shares of stock
• Issuing debt

TRUTH NO. 6: Share price appreciation is DIRECTLY attributable to Cash Flow / DAS growth

TRUTH NO. 7: Lowest cost operator will win the game
• Understand Lease Operating Expenses (LOE) and Transportation Costs
Debt Adjust Metrics – Proxy for Cash Flow / DAS

Production (Debt Adjust Share) = \[
\frac{\text{No. Outstanding Shares + Net Debt}}{\text{Average Share Price}} \]

This term is the GREAT EQUALIZER of metrics.
What should I look for?

LEADERSHIP
- Changes with new outside CEO/CFO may be a sign post for trouble ahead
- Does leadership – listen, learn and are humble...level 5?

VALUES
- Just words (Trouble) or...real principles the corporation lives by?

STRATEGY & EXECUTION
- What is the company strategy? Area they doing it?
- What are the company’s competitive advantages?
- Clearly aligned goals and pay for performance culture?
- Extremely high maintenance capital and asset intensity?
- % discretionary CF to keep production flat?

TRUTH NO. 8: “Everything rises and falls on leadership.” - John Maxwell
TRUTH NO. 9: CEO leadership change outs can make or break a company.
TRUTH NO. 10: Consecutive missed guidance
- Clear sign post of trouble

From Featherston on another operator you may go work for... “We believe the Street and Company XXX continue to underestimate the company’s asset intensity and the underlying depletion rate of its base properties when forecasting its production growth outlook, especially considering its track record of reducing production growth guidance for 9 out of the past 13 quarters.”
What should I look for?

DIVERSITY vs. “ONE WAY JOE”
- Murphy
  - Shale gas
  - Global Deepwater
  - Global Exploration
  - Global Operations

CAN YOU MAKE A DIFFERENCE?
- Process or people?
- Do young engineers get good projects?
- Is there a youth movement?
- Are younger engineers moving up into management?
- Are experienced staff motivated to help the younger engineer?

COMMITMENT TO CONTINUOUS IMPROVEMENT

WHAT DO YOUR FRIENDS WHO HAVE WORKED FOR THAT COMPANY THINK?

TRAINING PROGRAMS