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Financing the Growth of the Energy Industry

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Financing the Growth of the Energy Industry

*Howard, Weil, Labouisse, Friedrichs
Incorporated*

*William H. Walker
President*



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March 26, 1998

- **The Asian Flu**
- **Greenspan and the Global Liquidity Bubble**
- **The Stock Market**
- **Middle East Turmoil**
- **Commodity Prices**
- **Impact on Energy Companies/Stocks**

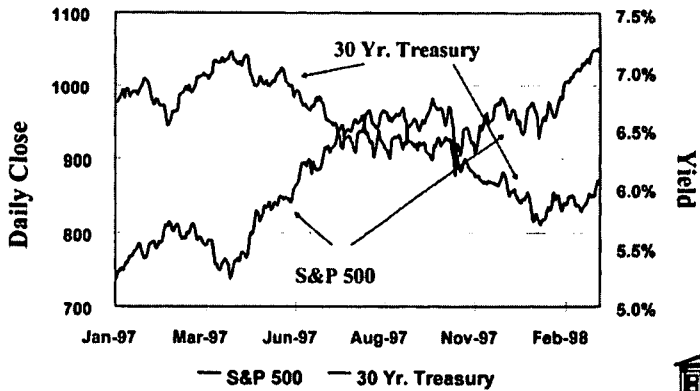


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S&P 500 vs. 30-Yr. Treasury
Jan. '97 to Mar. '98

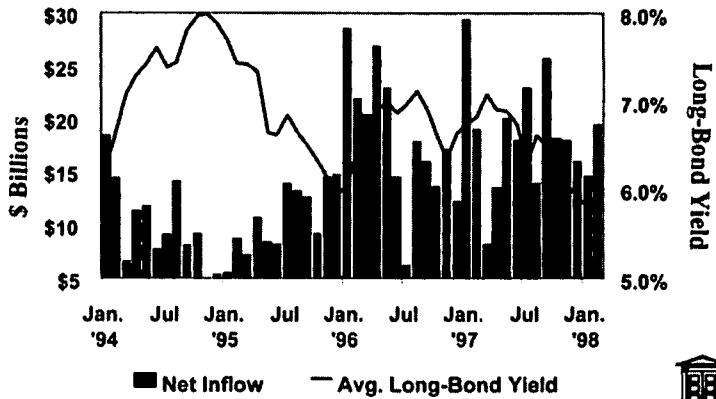


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Net Inflows into US Equity Mutual Funds
Jan. '94 to Feb. '98



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The Stock Market

- Recent Performance
- Interest Rates
- Politics
- Inflation
- Deflation

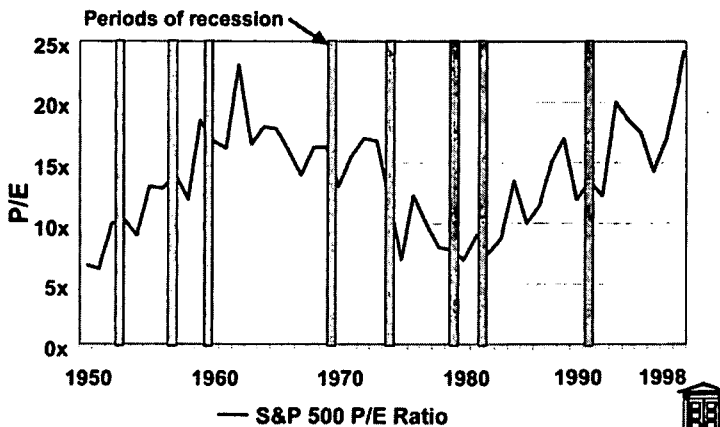


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The Bear's Case



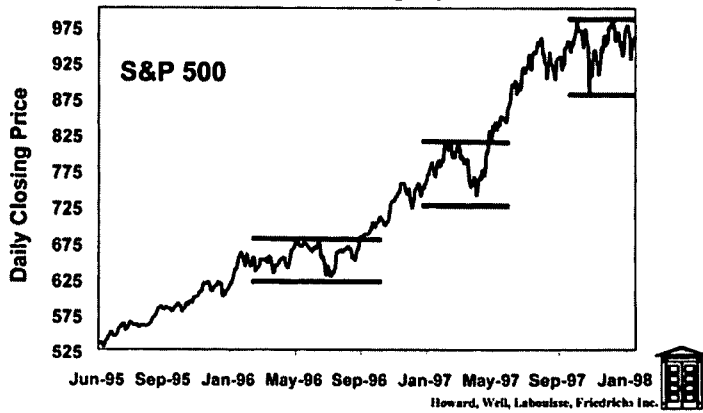
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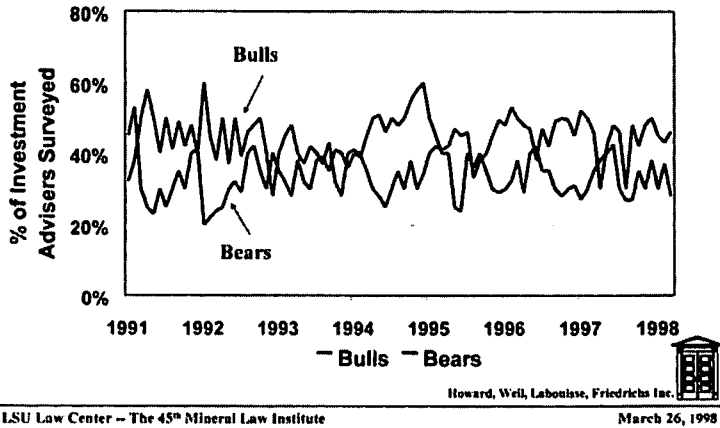
The Bull's Case

The Step-Function Equity Market



Bulls vs. Bears

Measuring Investor Sentiment



Commodity Prices

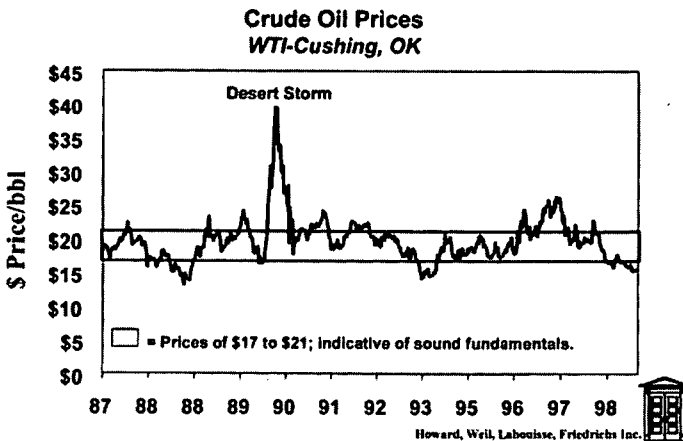


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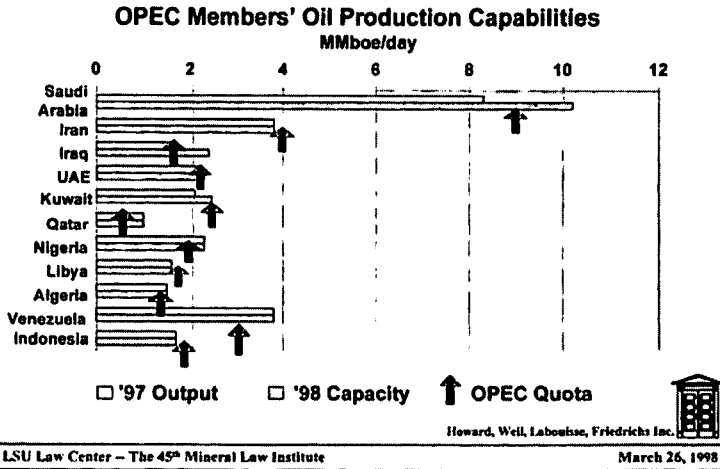
- Oil prices have broken below their historical norm trading range of \$17 to \$21 per barrel.



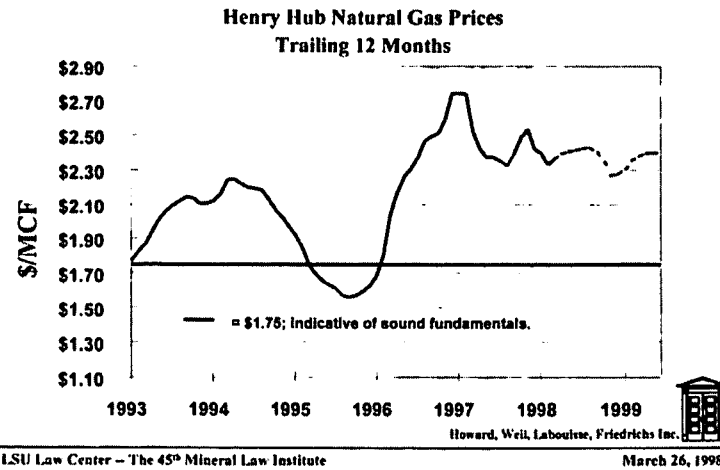
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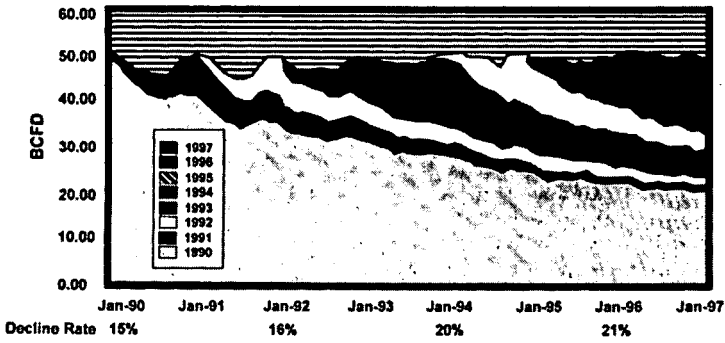
• At new quotas, OPEC members are producing at full capacity.



• Gas commodity price fundamentals continue to be strong.



US Production History *



* Representing 88% of US Production

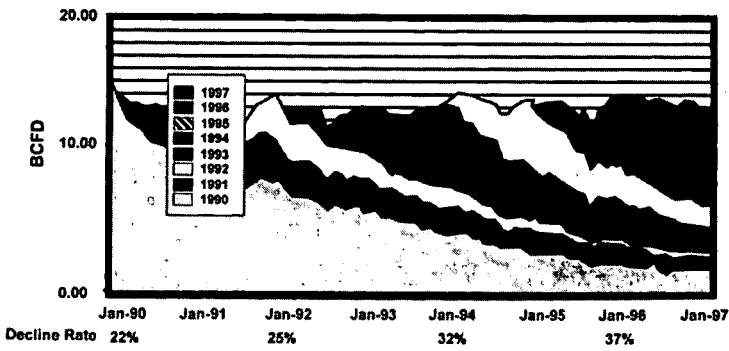


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US Production History - Offshore



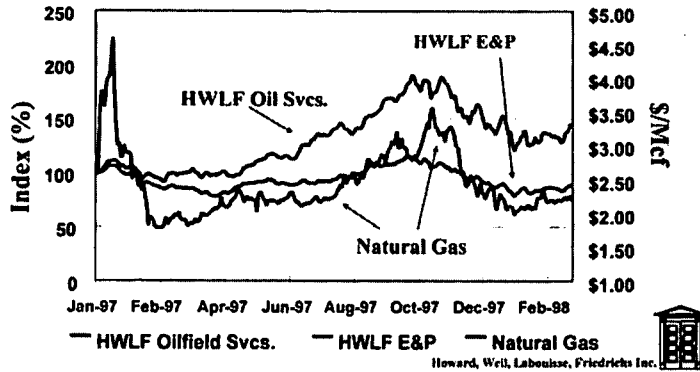
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- Oil service and E&P stock prices closely track natural gas prices.

HWLF Oil Service Index vs. HWLF E&P Index vs. Gas Prices
1/1/97 to 3/4/98

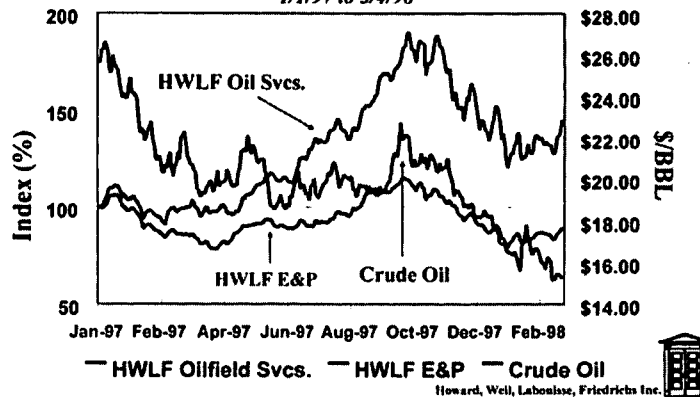


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- Likewise, oil service and E&P stock prices also closely track crude prices.

HWLF Oil Service Index vs. HWLF E&P Index vs. Oil Prices
1/1/97 to 3/4/98



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The Impact on Energy Companies/Stocks



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What contributed to the widespread “sell-off” in energy stocks?

- Curtailed demand: slowing economies in SE Asia, El Niño
- Day rates peaking
- Easing of tensions in Iraq
- OPEC quota increases
- \$15 oil prices
- Oilfield service labor shortages
- Oil service price hikes causing many exploration prospects smaller than 15 to 20 Bcfe to become marginal
- The visibility of future earnings growth
- After an 18-month rally, oil service stocks became “over-owned” leading to large scale profit-taking



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Recent Oil Patch Mergers

Date	Acquirer	Target	Transaction Value (\$ mil)
03/06/98	Kinder Morgan	Santa Fe Pipeline	\$1,400
03/04/98	EVI	Weatherford Enterra	\$2,600
02/26/98	Halliburton	Dresser	\$7,700
02/24/98	Hvide Marine	Care Group	\$290
01/30/98	KN Energy	MidCon (Occidental Pet.)	\$3,490
01/30/98	Sonac Inc.	Zilkha Energy	\$1,300
01/09/98	Shell Oil	Tejas Gas	\$2,166
12/23/97	Ocean Energy	UMC	\$3,100
12/23/97	Falcon Drilling	Reading & Bates	\$2,587
11/04/97	Texaco	Monterey Resources	\$1,435
10/22/97	Burlington Res.	Louisiana Land & Exploration	\$2,954
10/14/97	Louis Dreyfus	American Exploration	\$276
09/25/97	National Oilwell	Dreco	\$366
08/07/97	Parker & Parsley	Mesa	\$939
07/02/97	Baker Hughes	Petrolite	\$805
06/13/97	Camco Intl.	Production Operators	\$610
05/16/97	Tidewater	OIL Ltd.	\$535
05/09/97	Pride Petroleum	Noble (Land Drilling Rigs)	\$269
02/14/97	Lomak Petroleum	American Cometra	\$382

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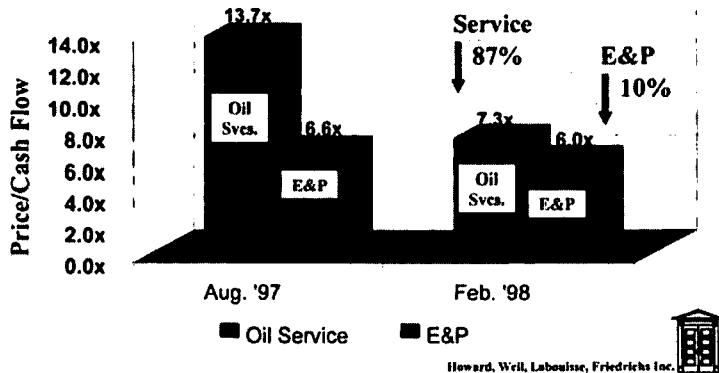


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- Oil service valuations, once at large premiums to E&P stocks, have contracted significantly.

Mean 1998E Price/Cash Flow Multiples



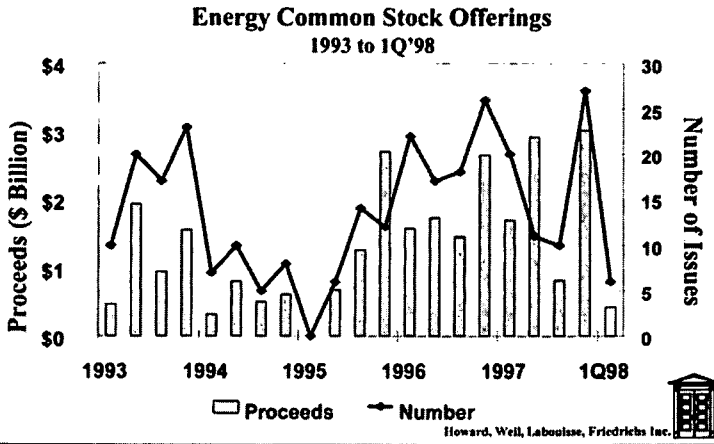
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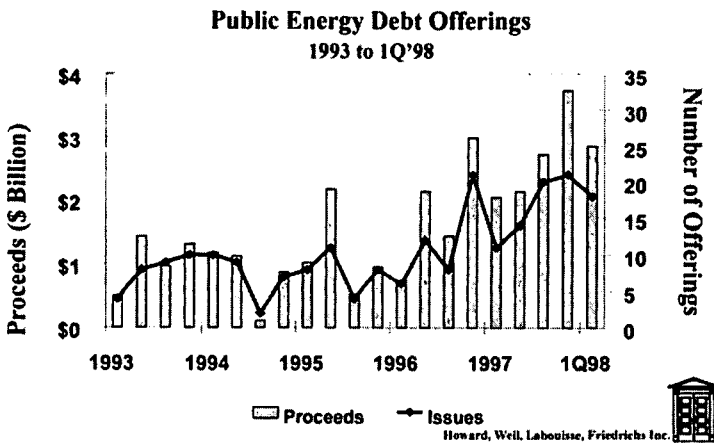
- Record dollars of energy equity are being raised.



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- Record levels of energy debt also are being raised.



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Pros and Cons of Going Public



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Cons

- **High expense of offering - - possibly 8% of gross proceeds.**
- **Information disclosure:**
 - **salaries and transactions with management**
- **Loss of some management flexibility:**
 - **practical limits on fringe benefits, relatives on payroll, etc.**
- **Ongoing administrative expense and issues.**
- **Potential loss of company control.**



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Pros

- **Immediate funds from offering and future source of capital.**
- **New non-cash "currency":**
 - **acquisition payments**
 - **employee compensation**
- **Current owners gain liquidity.**
- **Greater name recognition of company and products.**
- **Often improves debt borrowing terms.**



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Quality Energy Company

- ◆ **Focused Management**
- ◆ **Strategic Business Plan**
- ◆ **Balance Sheet**
- ◆ **Technology/Market Niche**
- ◆ **Acreage**



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