

2020 Survey - Energy Board and Leadership Teams

Preng & Associates, the only international search firm specializing solely in the energy industry, recently conducted a survey of the financial community to better understand their perspective of the energy industry and future leadership. The survey includes responses from both the public and private equity investors, as well as bankers and consulting advisory firms. To those who participated, we want to express our deepest gratitude! Below is a summary and the key opinions expressed. Attached is the full results.

There is a consensus that the oil and gas industry needs to focus on exceeding its cost of capital, generating free cash flow, and cutting costs, while reserves and production growth are consistently ranked as least important. Additionally, investors want their investments to pay off; public equity wants to see dividends and private equity wants profitability. Capital discipline is the key factor effecting the industry over the next five years. Oil and gas prices and ESG are also seen as very impactful. However, just as companies cannot control oil and gas prices, ESG risks are also inherent to fossil fuels and therefore ESG ranks low on what oil and gas companies should focus on today. Once oil and gas companies can survive and thrive, then the focus turns to ESG and building public trust once again.

The financial community agrees that leadership, capital discipline, and financial acumen are the most important qualifications of an executive. Executives who are focused on cash flow and corporate returns are also preferred amongst the financial community. While compensation structure did not rank highly, a handful investors ranked it as paramount; executives need to have their compensation more closely tied to shareholder returns. The investors felt that most current executives do not understand how to make money and many expressed a desire for youth as the old way of doing things is not working and new faces need to rise within the industry.

While diversity consistently ranked as the least important qualification for executive leadership, many believed it was important for boards. Public equity investors ranked diversity as most important and also felt that experience from other industries was the least sought-after trait for board members but not necessarily undesirable. Only 20% of survey participants would only consider board members with energy experience. The industrial, financial, and technology sectors led in desirability for non-Energy industry board members. Survey participants want to see board members who understand the investor and share a similar background in the financial industry. They also want to see board members who are innovative, which the technology industry is best known for. While no bankers or consultants recommended tobacco industry experience, investors saw the benefit of hiring from an industry that already had to adapt to adverse ESG pressures.

In conclusion, our industry needs to focus on free cash flow and return of capital with a long-term outlook towards ESG and companies need board members who understand the investor and can bring new ideas from outside the energy sector.

Thank you again to those who participated and made this a success!



David E. Preng
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Detailed Survey Results

1) What are the primary objectives oil and gas companies should focus upon? Ranked 1 to 8.

Top 3 most important objectives.

Investors	Public Equity	1. Earning / Exceeding Cost of Capital (tie) 1. Free Cash Flow (tie) 3. Dividends / Return of Capital
	Private Equity	1. Earning / Exceeding Cost of Capital 2. Free Cash Flow 3. Net Profits
Non-Investors	Banking	1. Earning / Exceeding Cost of Capital 2. Free Cash Flow 3. Cost Control
	Consulting	1. Free Cash Flow 2. Cost Control 3. Earning / Exceeding Cost of Capital

Bottom 3 objectives. The 8th one designates the least important objective.

Investors	Public Equity	6. Net Profits 7. Reserve Growth 8. Production Growth
	Private Equity	6. ESG 7. Production Growth 8. Reserve Growth
Non-Investors	Banking	6. Net Profits 7. Reserve Growth 8. Production Growth
	Consulting	6. Dividends / Return of Capital 7. Production Growth 8. Reserve Growth

Overall Top 3:

1. Earning / Exceeding Cost of Capital
2. Free Cash Flow
3. Cost Control

Overall Bottom 3:

6. ESG
7. Reserve Growth
8. Production Growth

Additional objectives written in the open-ended response:

Investors	Public Equity	<ul style="list-style-type: none"> • Honesty and Believability • Aligning compensation with shareholder returns • Carbon neutrality
	Private Equity	<ul style="list-style-type: none"> • Reducing G&A costs • Find capital • Shareholder aligned compensation • Return of capital strategy, financing strategy • ESG includes Job growth, Environmental, Safety, Compliance, Diversity & Inclusion, Cybersecurity and Community involvement.
Non-Investors	Banking	<ul style="list-style-type: none"> • Debt reduction • Leverage / Liquidity! • Mid Term Planning (recognizing non-debt liabilities) • Good Investor Relations • Dividends/Return of Capital moves up the list if the company is not generating a return over the cost of capital and would rank 4 and not 8 above.
	Consulting	<ul style="list-style-type: none"> • A demonstrable, sustainable long-term strategic plan • Debt load management • Risk management (hedging, bank relationship, debt reduction, etc.)

1) What do you see as the key factors effecting oil companies over the next 5 years? Ranked 1 to 10.

Top 3 most important factors.

Investors	Public Equity	<ol style="list-style-type: none"> 1. Capital Discipline 2. ESG 3. Oil & Gas Prices
	Private Equity	<ol style="list-style-type: none"> 1. Capital Discipline 2. Oil & Gas Prices 3. Capital Formation
Non-Investors	Banking	<ol style="list-style-type: none"> 1. Oil & Gas Prices 2. Capital Discipline 3. Consolidations
	Consulting	<ol style="list-style-type: none"> 1. Capital Discipline (tie) 2. Oil & Gas Prices (tie) 3. Management Team

Bottom 3 factors. The 10th one designates the least important factor.

Investors	Public Equity	8. Governance 9. Capital Formation 10. Reserve Growth
	Private Equity	8. Access to Resources 9. Board Composition 10. Reserve Growth
Non-Investors	Banking	8. Board Composition 9. Access to Resources 10. Reserve Growth
	Consulting	8. Board Composition 9. Reserve Growth 10. Access to Resources

Overall Top 3:

1. Capital Discipline
2. Oil & Gas Prices
3. ESG

Overall Bottom 3:

8. Board Composition
9. Access to Resources
10. Reserve Growth

Additional factors written in the open-ended response.

Investors	Public Equity	
	Private Equity	<ul style="list-style-type: none"> • Plugging and abandonment liability • Investors moving away from "fossil fuels". Political risk.
Non-Investors	Banking	<ul style="list-style-type: none"> • Investor perceptions • Management Compensation needs to be watched
	Consulting	<ul style="list-style-type: none"> • Disclosure of material scenarios per TCFD. • ESG in the form of regulatory change and restrictions

2) What are the most important qualifications you are looking for in an energy company Executive during this period of dramatic industry change and energy transition? Ranked 1 to 8.

Top 3 most important qualifications.

Investors	Public Equity	<ol style="list-style-type: none"> 1. Leadership / Management Acumen 2. Capital Discipline 3. ESG Appreciation
	Private Equity	<ol style="list-style-type: none"> 1. Leadership / Management Acumen 2. Capital Discipline 3. Financial Acumen
Non-Investors	Banking	<ol style="list-style-type: none"> 1. Leadership / Management Acumen 2. Capital Discipline 3. Financial Acumen
	Consulting	<ol style="list-style-type: none"> 1. Financial Acumen 2. Leadership / Management Acumen 3. Capital Discipline

Bottom 3 qualifications. The 8th one designates the least important qualification.

Investors	Public Equity	<ol style="list-style-type: none"> 6. New Compensation Structures 7. Diversity 8. Understanding of the Value Investor
	Private Equity	<ol style="list-style-type: none"> 6. Understanding of the Value Investor 7. New Compensation Structures 8. Diversity
Non-Investors	Banking	<ol style="list-style-type: none"> 6. Understanding of the Value Investor 7. Diversity 8. New Compensation Structures
	Consulting	<ol style="list-style-type: none"> 6. ESG Appreciation 7. Diversity 8. New Compensation Structures

Overall Top 3:

1. Leadership / Management Acumen
2. Capital Discipline
3. Financial Acumen

Overall Bottom 3:

6. Understanding of the Value Investor
7. Diversity
8. New Compensation Structures

Additional qualifications written in the open-ended response.

Investors	Public Equity	<ul style="list-style-type: none"> • We don't have many smart management teams. There is a true lack of understanding how to create value by investing capital in oil and gas. There is either ignorance or untruth in the gap in corporate returns • Understanding of and discipline around corporate level returns
	Private Equity	<ul style="list-style-type: none"> • Transparency • Operating skills for low cost production, G&A disciplines • An effective executive leadership team should comprise a balanced diversity of competencies and experience in alignment with a company's strategy. As such, the priorities above may vary according to specific positions and the need to balance / complement / strengthen existing competencies within the team.
Non-Investors	Banking	<ul style="list-style-type: none"> • M&A Expertise! • Cash flow focused! Honest and rational approach to engineering • Willingness to try new ideas and approaches
	Consulting	<ul style="list-style-type: none"> • Cash flow focused!

3) What are the most important qualifications you are looking for in a new Board Member during this period of dramatic industry change and energy transition? Ranked 1 to 9.

Top 3 most important qualifications.

Investors	Public Equity	<ol style="list-style-type: none"> 1. Diversity 2. ESG Appreciation 3. Financial Acumen
	Private Equity	<ol style="list-style-type: none"> 1. Leadership / Management Acumen 2. Capital Discipline 3. ESG Appreciation
Non-Investors	Banking	<ol style="list-style-type: none"> 1. Capital Discipline 2. Leadership / Management Acumen 3. Financial Acumen
	Consulting	<ol style="list-style-type: none"> 1. Financial Acumen 2. Capital Discipline 3. Leadership / Management Acumen

Bottom 3 qualifications. The 9th one designates the least important qualification.

Investors	Public Equity	<ol style="list-style-type: none"> 7. Understanding of the Value Investor 8. Experience from outside of the industry 9. Technical Skills
	Private Equity	<ol style="list-style-type: none"> 7. New Compensation Structures 8. Technical Skills 9. Experience from outside of the industry
Non-Investors	Banking	<ol style="list-style-type: none"> 7. New Compensation Structures 8. Experience from outside of the industry 9. Diversity
	Consulting	<ol style="list-style-type: none"> 7. Technical Skills 8. New Compensation Structures 9. Experience from outside of the industry

Overall Top 3:

1. Leadership / Management Acumen
2. Capital Discipline
3. Financial Acumen

Overall Bottom 3:

7. New Compensation Structures
8. Technical Skills
9. Experience from outside of the industry

Additional qualifications written in the open-ended response:

Investors	Public Equity	<ul style="list-style-type: none"> • Board's need to be meaningful investors in the companies. • Ability to represent shareholders' interests above management
	Private Equity	<ul style="list-style-type: none"> • Sounding board for management outside of capital sponsor • Long term view, M&A experience, industry connections • An effective board needs to comprise a balanced diversity of relevant qualifications and experience in order to effectively contribute to company strategy and oversight. It is especially true of E&P companies that Board members need to have a fundamental understanding of the sector and the unique opportunities / risks involved. It also helps for communicating with management if they can speak and understand the industry's terminology. It is easier for individuals with outside generalist industry experience to productively serve on the boards of equipment and service companies than on the boards of E&P companies. ESG expertise ranked very high as a selection criteria in our most recent independent director E&P board appointment.

Non-Investors	Banking	<ul style="list-style-type: none"> • Independence; ability to hold management accountable • Willingness to engage with stakeholders directly • Objectivity, Time Commitment • M&A Expertise! • Solid investment banking skills
	Consulting	<ul style="list-style-type: none"> • Humility bolstered by confidence and an ability to listen and communicate well. An ability to think outside the box. • Boards of the future need to be able to see through the old ways and norms of our industry. We keep repeating the sins of our past. Boards need to be stacked against failure and not towards easy returns.

4) Would you welcome companies bringing in Board Members from outside the energy industry? If yes, do you have a preference of which industry experience is most useful during these times? Select all that apply.

Note: parenthesis show the percent of respondents who selected each answer choice.

Investors	Public Equity	<ul style="list-style-type: none"> • Technology (60%) • Financial (40%) • Industrial (40%) • Transportation (40%) • Non-Energy Extractive (i.e., Mining) (40%) • Tobacco (20%) • Energy Only (20%)
	Private Equity	<ul style="list-style-type: none"> • Financial (63%) • Industrial (47%) • Technology (32%) • Tobacco (26%) • Energy Only (26%) • Non-Energy Extractive (i.e., Mining) (21%) • Transportation (16%)
Non-Investors	Banking	<ul style="list-style-type: none"> • Industrial (92%) • Financial (85%) • Technology (46%) • Transportation (38%) • Non-Energy Extractive (i.e., Mining) (31%) • Energy Only (8%) • Tobacco (0%)
	Consulting	<ul style="list-style-type: none"> • Technology (75%) • Financial (50%) • Industrial (50%) • Transportation (50%) • Non-Energy Extractive (i.e., Mining) (50%) • Energy Only (25%) • Tobacco (0%)

Additional industries written in the open-ended response.

Investors	Public Equity	<ul style="list-style-type: none"> • Energy Innovation
	Private Equity	<ul style="list-style-type: none"> • Financial, Legal, Audit and other professionals with exposure to the oil and gas sector are considered to have energy industry backgrounds.
Non-Investors	Banking	<ul style="list-style-type: none"> • Investment Banking • Marketing / public relations • Any capital intensive business; commodity driven business
	Consulting	<ul style="list-style-type: none"> • Renewable Energy • Industries that deal with cyclical distress. Auto, airline, etc. need capital discipline.

5) Please include any additional thoughts you may have on how the current energy management and board can change to best adapt to the new reality of energy transition.

Investors	Public Equity	<ul style="list-style-type: none"> • We need younger C-Suites and Boards. The 55+ year old generations need to hand off their businesses. • Board members should routinely review management and benchmark performance against a wider index (non-energy) to determine performance and compensation • Need to better explain why fossil fuels are essential, plus is we reduce use it just provides cheaper energy to those nations that continue to use them.
	Private Equity	<ul style="list-style-type: none"> • Lowest cost, lowest overhead, return of capital environment. Financing knowledge and consolidation knowledge • Returns and ESG are what matters. Period. Our industry is in a funk because it's generated almost no excess Economic Value and it's ruined the climate in the process. We have to fix returns and ESG. Period. Management and Boards who do this well will be rewarded. Those who do not are wasting everyone's time and will go out of business.
Non-Investors	Banking	<ul style="list-style-type: none"> • ESG sentiment is starting to develop "teeth" via ESG risk frameworks held by banks and investors; encompasses environment (emissions and water for E&Ps), employee safety, impact to communities, etc. • Margin maximization, capital allocation, and opportunistic M&A is going to be critically important to the sector over the next few years. Companies need to show attractive returns of and on capital. Managements and Boards of Directors need to be margin driven and exceptional capital allocators to survive and thrive in the "new reality". Most oil and gas companies can't easily pivot to energy transition and show attractive returns on capital (even the international majors!). I believe oil and gas will have a place in the future, but if managements and Boards question that fundamental fact then

Non- Investors (continued)	Banking (continued)	<p>they should be looking to sell their business today and move on to jobs in other sectors.</p> <ul style="list-style-type: none"> We are in a period that resembles the late 90s - dot coms were booming, energy was at a low both in terms of pricing and weighting in the S&P, little capital was available prompting consolidation. The companies with better assets and strong balance sheets will survive but marginal companies may need to restructure or consolidate. Boards and Management need to embrace this knowing that the next 1-2 years could be challenging from an access to capital standpoint unless you are one of the larger companies
	Consulting	<ul style="list-style-type: none"> The oil and gas industry has lost the favor of the investment community. It must work diligently and ways it has not done before to gain back the confidence so it can renew its social license to operate and renew access to outside capital. Oil and gas is a JIT delivery model now. Commodity prices are low to stay. It doesn't allow for the pump and dump of the past. So, everything we do must be with an eye to MOiC and cash flow. But we have to stop relying on engineering science and start looking at the reality of actual performance. If we don't, we will keep burning capital.

ABOUT PRENG & ASSOCIATES

Preng & Associates is the only retainer-based international executive search firm specializing solely in the energy industry. We help organizations around the world identify and attract exceptional leaders and critical talent who can make a significant, durable and truly positive impact on corporate performance and shareholder value. Over our 40 years, we have assisted more than 750 clients in 90 countries and conducted over 3,700 engagements. We focus on senior/executive level positions in the energy sector. These include Board Members, C-Suite, and senior management. Our clients include publicly traded companies, private equity backed companies, privately owned energy companies, and hedge funds. Working from offices in Houston, London, and Chicago, our consultants possess global search expertise, comprehensive industry knowledge, and a dedication to deliver consistently exceptional executive recruiting results across all facets of the energy industry.

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