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**Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.**

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise.

It was an active week of M&A for U.S. oil producers. In our prior podcast Brian Kessens discussed the rumored ConocoPhillips acquisition of Permian producer, Concho and this did indeed get announced last Monday. In addition to highly diversified existing operations for Conoco, the acquisition makes them the second largest producer in the Permian, and one of the lowest cost oil resources globally. Some highlights of the merged company include:

- 23 billion barrels of resource with a <\$30 average cost
- Production of 1.5 million bpd, of which, 65% comes from the U.S.
- Ongoing savings of \$500M annually from operating expense and capital efficiencies
- Will return 30% of cash from operations to shareholders based on a stable dividend with growth
- Less than 1.5x debt to cash from operations, \$13B in liquidity and an A credit rating
- Finally an enhanced ESG initiative targeting a 35-45% reduction in emission intensity by 2030

In my view this deal shows importance of scale, diversity and strength in balance sheet in what looks to be a challenging oil price environment for the foreseeable future. In fact Concho's CEO acknowledged it is difficult for a pure shale producer to generate meaningful free cash flow to return shareholders when fighting a 40% decline rate. I view this as positive for the midstream infrastructure providers as well leading to a stronger counterparty, although CXO was already investment grade, and more efficient operations which leads to less capital needs in turn allowing the midstream provider to return more cash to its equity owners.

Next up, on Monday, the Wall Street Journal reported Pioneer was in talks to acquire Parsley and we didn't have to wait long as the merger was announced just two days later. In a story that would've made a good episode for the 1980s prime time soap opera "Dallas", this is a deal between Scott Sheffield, founder and CEO of Pioneer, and his son, Bryan Sheffield, founder and Chairman of Parsley.

Some key points of the deal include:

- The company will be the largest Midland producer with over 600,000 bpd of production
- Combined, they have ~930,000 net acres
- The contiguous nature of this acreage should drive material water and infrastructure efficiencies
- \$325M of annual cost synergies and a lower reinvestment rate to 65-75% of CF, still quite high
- On the balance sheet, while Debt/EBITDA is 1.1x post deal it will move toward a target <0.75x

The two deals follow a flurry of upstream consolidation already this year including Chevron-Noble, Southwestern-Montage and Devon-WPX which leads to the question, who is next? Typically I'd point to Exxon but they are struggling to continue paying the current dividend which they seem committed too. Maybe if they could find the right deal that bolsters free cash flow but it seems unlikely. On the other side of the ledger, BP has continued to de-rate down 56% this year with a 9% yield after already cutting the dividend. I think that has to be tempting for suitors but fresh off a big strategy overhaul they probably aren't a willing seller. Oh, and I almost forgot the U.S.' largest gas producer, EQT is rumored to be taking a run on a fellow Marcellus gas producer CNX Resources

On the earnings front, Kinder Morgan kicked off the midstream space last week with in line numbers but some of the commentary was better than we expected. The capital plan has been reduced 30% from budget and they think capex next year could be as low as \$1B. They also expect to achieve \$120M of permanent operating cost savings per year. At the current price they are paying an 8% dividend yield which they grew 5% earlier this year and they have bought back \$50M of stock. Related to this, they are no longer guiding to an additional dividend increase to \$1.25 to preserve financial flexibility. This is a no-brainer at the current valuation and we think they would be much better served using this cash to buy back stock more aggressively. They already have a \$2B authorized plan with \$1.5B of dry powder, as we keep telling them and others,

it's time to get going. I've had it with all the excess cash flow going to debt holders. They issued 10 and 30 year bonds with a 2% and 3.25% coupon during the quarter. I totally get protecting IG credit ratings but it's time share the love. Don't worry, Kinder Morgan, we'll call you to follow up.

Operationally the key items are:

- Gas volumes down 2% vs last year with lower LNG demand the culprit which is back up in Q4
- Bakken volumes up 30% sequentially, a good read through for Oneok
- Refined product volumes were down 16% vs last year but improved each month with Oct -13%
- And Q4 volumes look to be down 10% which is worse the U.S. overall due to high jet fuel mix

Quickly on last week's Presidential debate; the comment that got my attention the most was when Biden said "Yes" to Trump's question whether he would close down the oil industry. However, later at the Nashville airport, Joe Biden told reporters: "We're not getting rid of fossil fuels we're getting rid of the subsidies for fossil fuels, but we're not getting rid of fossil fuels for a long time." Imagine my relief.

For more in depth thoughts on the evolution of energy check out our live interview with NextEra Energy's Chief Financial Officer this Wednesday October 28<sup>th</sup> at 9:30am Central. NextEra is now the largest energy company in the world by market cap, the largest global owner of renewable power generation and is even piloting using renewable energy to make hydrogen for use as an energy source so you won't want to miss this one. I leave it there, thanks for listening.

**Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at [info@tortoiseecofin.com](mailto:info@tortoiseecofin.com).**

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