SIMMONS ENERGY

A DIVISION OF PIPER SANDLER

21st Annual Energy Conference Recap




Participants

PANELS

Domestic OFS Perspectives

Robert Drummond, President & CEO
NexTier Oilfield Solutions Inc. (NEX)

Phillip Gobe, Chairman & CEO
ProPetro Holding Corp. (PUMP)

Kevin Neveu, President & CEO
Precision Drilling Corporation (PDS)

John Schmitz, Chairman, President & CEO
Select Energy Services, Inc. (WTTR)

Private Equity Renewables Panel

Matt DeNichilo, Partner
Energy Capital Partners Management, LP

Phil Deutch, Managing Partner
NGP Energy Technology Partners

Distributed Solar Panel

John Berger, Chairman, President & CEO
Sunnova Energy International, Inc. (NOVA)

Tom vonReichbauer, CFO
SunRun, Inc. (RUN)

Tom Werner, Chairman & CEO
SunPower Corporation (SPWR)

Energy Lender Panel

Steve Kennedy, EVP & Head of Energy Banking
Zions Bancorporation, N.A. (ZION)

Randy Petersen, EVP, Group Head
Midstream Energy & Specialty Services
Cadence Bancorporation (CADE)

Electric Drivetrains for Commercial Vehicles

Mike Roeth, Executive Director
NACFE | North American Council for Freight Efficiency

FIRESIDE DISCUSSIONS

Devon Energy Corporation (DVN)
Rick Muncrief, President & CEO

Baker Hughes Company (BKR)
Brian Worrell, CFO

Pioneer Natural Resources Company (PXD)
Scott Sheffield, CEO

Halliburton Company (HAL)
Jeff Miller, Chairman, President & CEO

HollyFrontier Corporation (HFC)
Richard Voliva, CFO

NOV Inc. (NOV)
Clay Williams, Chairman, President & CEO

ExxonMobil Corp. (XOM)
Stephen Littleton, Vice President, Investor Relations

Phillips 66 (PSX)
Greg Garland, Chairman & CEO
Mark Lashier, Chairman & CEO at CPChem
Kevin Mitchell, EVP, Finance & CFO

Hess Corporation (HES) Greg Hill, President & COO

Renewable Energy Group, Inc. (REGI)
Cynthia (CJ) Warner, President & CEO
Todd Robinson, Interim Treasurer & CFO

Marathon Oil Corporation (MRO)
Dane Whitehead, EVP & CFO

Valero Energy Corporation (VLO)
Joe Gorder, Chairman & CEO

SolarEdge Technologies, Inc. (SEDG)
Ronen Faier, CFO

Array Technologies, Inc. (ARRY)
Jim Fusaro, CEO and Nipul Patel, CFO

Chart Industries, Inc. (GTLS)
Jill Evanko, President & CEO

Plug Power Inc. (PLUG)
Sanjay Shrestha, Chief Strategy Officer

NextEra Energy Partners LP (NEP)
Mark Hickson, EVP, Strategy & Corporate Development

Cimarex Energy Co. (XEC)
Tom Jorden, Chairman, President & CEO

ConocoPhillips (COP)
Matt Fox, EVP & COO

Conclusion

This past week we hosted our 21st annual energy conference and ***the dominant theme of the week was energy reinvention and transition - welcome to present-at-thecreation for the new age of energy***. To the industry's credit, everyone now "gets" the new energy realities - ***leading conventional energy protagonists are adapting and reinventing, new age energy participants are trying to balance convulsive growth with profitability and returns, and private equity is trying to position their platforms and investment strategies for the energy transition by identifying themes, companies and business models which will yield the best returns over the next 5-10 years.***

- The major takeaways from the event (detailed below) are also consistent with our views (and in-line with our published research over the past 12-18 months) pertaining to the confluence of cyclical and secular forces driving the near and longer-term outlooks for energy. The ***cyclical*** is characterized by the convergence between a broader macroeconomic cyclical reflation and PUD (pent up demand) recovery in oil demand converging with non-OPEC (ex-Russia) redefined capital allocation, which should lead to tightening market balances, normalizing OPEC+ spare production capacity and the growing need for a non-OPEC reinvestment cycle commencing next year. ***Redefined capital allocation was the dominant refrain for resource holders at this year's gathering.*** Admittedly, however, Covid remains a nettlesome, prominent wildcard given the challenged European vaccination campaign and the reimposition of rolling lockdowns – the energy tape during this year's conference reflected as much. Thus, near-term term global demand estimates continue to have downside, continuing a trend of negative revisions since November. But the consensus belief, which we share, is that our Covid purgatory is transient and coming to an end and that a pent-up-demand normalization will unfold over the next ~two years.

- The key questions relating to the cyclical dimensions of oil are ceiling and duration, with the latter being the most challenged given the accelerating energy transition and secular headwinds. Accelerating secular headwinds for conventional energy are leading to accelerating terminal value risk for hydrocarbons, particularly oil. What is a growing ***secular*** headwind for old energy, however, is a blossoming, durable and exceedingly consequential opportunity for new energy. While the projected demand CAGR for oil is expected to markedly decelerate beyond the initial pent-up-demand recovery of the next two years, the growth rates, and capital investment required, for intermittent renewables, grid/transmission expansion and upgrade, EV penetration, biofuels, carbon capture and hydrogen are durably cathartic.

- Overall, it was a great event and we want to thank all of the investors and companies who made the conference a tremendous success. See you next year in Las Vegas—in person!

Note continues on the next page.

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Related Companies:	**Share Price:**
BKR	22.07
CNX	13.82
CVX	104.70
DVN	22.34
EPD	22.37
ET	7.63
FLMN	4.51
GTLS	131.58
HFC	35.73
MNRL	14.68
NEP	69.51
VLO	71.78
XEC	57.93
PXD	161.30
ENPH	147.98
RDS/A	40.35
MRO	10.44
COP	53.21
HAL	21.30
NOV	13.58
PSX	82.03

INDUSTRY RISKS

The primary risks for the energy business are: weak global economic activity resulting in depressed demand for oil and natural gas, increased supply of oil and natural gas and weak capital markets (especially given the capital intensive nature of the energy business).

Drivers of Conventional Energy Equity Performance and Favorite Names: Our stock favorites are a mix of conventional energy, energy transition and renewable energy enterprises. With respect to conventional energy stocks, stable/improving commodity prices (driven by demand recovery and redefined capital allocation) and restrained reinvestment relative to historical precedent, are expected to translate into growing FCF generation, deleveraging and return of cash to shareholders. Assuming $55-$60/bbl oil prices, for example, FCF yields for our favorite stocks are exceedingly generous (FCF yields on '22E: IOC favs: 9-14%, oily E&P favs: 10-16%). While leading conventional energy companies are making investments in the energy transition, these investments are longer-term in nature and will not be the primary driver of the stock price performance in the medium term (i.e., XOM shares will likely respond more assertively to deleveraging and return of cash than their market leading efforts in CCUS).

- IOC: CVX, RDS
- E&P (Oil): DVN, PXD, XEC
- E&P (Gas): CNX
- OFS: BKR
- Refining: HFC, VLO
- Midstream: EPD, ET
- Minerals: FLMN, MNRL
- Renewables/Energy Transition: ENPH, GTLS, NEP

Key Takeaways from the Conference:

- **Conventional Energy—Improved Outlook, but defensively postured with respect to old energy capital allocation and, in an increasing number of cases, repositioning/reinventing for energy transition:** The outlook for conventional energy has improved following the unprecedented depths reached in Apr '20 when oil prices briefly went negative. However, despite WTI prices of ~$60/bbl, the industry remains defensively postured ***and capital allocation has been redefined to*** focus on FCF generation, debt reduction and ultimately return cash to shareholders via dividends vs. the prior preference for buybacks, as industry protagonists are keenly aware of the 7+ Mb/d of OPEC+ oil that is currently curtailed and expected to come back to the market over the next 12-18 months. In addition, while the cyclical reflation is in its incipient phase, conventional energy faces accelerating secular headwinds due to the global decarbonization megatrend. Conventional energy is not dead, but the market opportunity and the risk/reward from an investment standpoint has been redefined. ***Concurrently, conventional energy enterprises are adapting, reinventing and repositioning*** – some of these efforts will ultimately succeed, many will not.

- **Public E&P's—Capital Discipline Holding and Capital Efficiency Gains Continue:** Capital Discipline: ***Public E&P's that presented at our conference professed their continued adherence to capital discipline which should have positive ramifications for the oil macro outlook.*** However, the capital discipline has a dampening effect on the outlook for L48 OFS (see below for more detail). Specific company commentary: PXD outlined that industry capital allocation has morphed from unbridled growth to modest growth of 5%, meaningful FCF generation, deleveraging and return of cash. PXD reinforced the 5% growth cap. DVN, MRO, XEC and COP also highlighted continued capital discipline. Note: this commentary is from public E&P's and not privates, which have been boosting activity levels. Capital Efficiency: PXD believes that they are only in the middle innings on the capital efficiency front and anticipates simulfracs and longer laterals will be able to offset any cost inflation. As an example, PXD has been moving to 15K'+ laterals in the Midland Basin and even talked about going to 17K'. XEC stated that they have enjoyed tremendous operational efficiency gains, specifically from simulfrac as well as multi-well zipper fracking. Of note, HAL highlighted their new technology that can direct the frac (and provide reams of data) similar to the way in which a HZ drillbit can be directed.

- **Capital Allocation—Major Discussion Topic:** Capital allocation was a major discussion topic at the conference, repeatedly coming up in fireside chats and panels. For the conventional energy industry, the first priority for capital is debt reduction (as an example PXD stated that they could be debt free in 5 years at the current pace of FCF generation and debt paydowns) with the second priority dividends (base + variable + special). The last priority is share buybacks as management teams have been chastened by the poor results of prior buyback programs. For the renewable energy/energy transition companies, the focus remains on growth. This sector currently has an abundance of low cost capital.

Source: Energy - Highlights from 21st Annual Energy Conf-Accelerating Reinvention & Transition - March 24, 2021

- **Energy Transition—Happening Faster and on a Bigger Scale Than Many Imagine:** The conference underscored our belief that the secular outlook for renewable energy and the energy transition continues to look extremely favorable. Private equity participants at the conference were illustrative about where energy is going and the step-change increase in the market opportunity for renewables and how PE is viewing the opportunity. Of note: 1. ***Renewable energy will increasingly become the equivalent of the tech sector over the next 15 years***—it's similarly transformational and the TAM (total addressable market) is massive and likely so much bigger than most of us can tangibly understand, 2. LPs 15 years ago were indifferent about the PE energy mix—today, the push-back against fossil fuels is increasingly intense (in fact, one of the panelists stated that they are likely to drop the word "Energy" from their firm's name, because the word is so stigmatized with LPs—despite the fact that this firm is the largest private investor in power plants and one of the largest in renewables), 3. The breadth of different forms of capital, not just the magnitude, is expanding markedly and all will be needed to fund the energy transition, 4. SPACs have been useful for monetizing portfolio renewable/energy transition investments and are here to stay, 5. While valuations for renewables are seemingly swollen by most conventional metrics, they really are not irrational when one thinks in terms of TAM and the amount of capital which will be invested over the next thirty years (although to be fair, ultimately a company has to be differentiated, have a competitive advantage and generate a return above its cost of capital). 6. Ultimately given the massive size of energy demand we will need "all of the above", but incremental investment and focus will be on energy transition/renewables, rather than fossil fuels. That said, saying you are going to 100% clean energy vs. 85-90% is a huge difference as that last 10-15% is VERY expensive. Final notable comment regarding the energy transition: One of our fireside chats was with a trucking industry expert with decades of experience, and several years ago, he never would have expected fleets to show so much interest in electric trucks. But the fleets are ready. ***This transition is occurring much more quickly than he originally thought possible.***

- **Power Grid/Transmission/Distribution—Massive Investment Opportunity—Bigger than Most Appreciate:** One topic that was mentioned across various fireside chats/industry panels was the tremendous investment opportunity in the power grid (upgrading, building in better redundancy and interconnectivity, AI, machine learning, high-voltage transmission lines and upgraded distribution). Markedly increased electrification of everything will increase power consumption and require a collective expansion and upgrade to electricity distribution networks. According to Bill Gates, transmission and distribution are responsible for more than one-third of the cost of electricity. The "electrify everything" imperative driven by decarbonization will require massive investments in the grid. According to the Adlinger Center for Energy and the Environment at Princeton University, required investment over the 2020-2050 period for the electricity distribution system is ~$1.5-$2.0 T. Of note, one leading renewable industry protagonist stated that of primary importance to his company was not an extension of tax credits (PTC/ITC) from the Biden Administration, but rather a focus on getting transmission built. Essentially, subsidies are not useful if there is an inability to get the power to the end user. Another key area of focus regarding the grid: battery storage and the massive opportunity there.

- **Distributed Solar—Continued Massive Growth:** As a result of an accommodative regulatory environment coupled with widespread public support, there is a significant amount of growth on the horizon for rooftop solar over the coming years. At the federal policy level, investors should anticipate a 5-year solar ITC extension and new storage ITC which should provide a meaningful tailwind for the equities. Given the recent frequency of challenging weather events and grid outages, decentralized generation (backup generators, storage) will play a bigger role in infrastructure than we might currently appreciate. Finally, demand for storage is currently greater than supply, which bodes well for growth over the medium-term. However, in order to drive widespread solar storage adoption across the country, storage costs need to decline meaningfully in the coming years.

- **Batteries and Generators—Major Shortage:** It was clear from distributed solar panelist discussions that there is a major shortage of batteries and generators to marry up with rooftop solar systems. According to some leading solar executives, consumers want battery storage. They are seeing wildfire season, hurricane season and they want back up power. One exec stated he was not sure why one would buy rooftop solar without a battery system—it makes too much sense. The panelists expect battery prices to come down over time. However, today battery demand is greater than supply. But there is incredible upside to getting costs out of battery storage as we are in the very early innings on cost reduction efforts. The generator market has a backlog for months—they cannot build enough generators.

- **Conventional Energy—Lots of Discussion About Energy Transition Plans:** Whether it was NOV discussing offshore wind opportunities or other companies highlighting hydrogen and CCUS, there was much discussion from the conventional energy sector at the conference about opportunities being pursued in the energy transition. We heard several companies extolling increased R&D (i.e., HAL) for next generation technology. However, it is important to keep in mind that the typical energy company spends <1% of revenues on R&D. ***The typical pharma company spends 13% while the typical electronics company spends 10%***. If the energy sector wants to play a meaningful role in the energy transition, then it seems to follow that the industry needs to really ramp its R&D spend. PSX thinks renewables could be a very meaningful part of their 5-10 year outlook; sees a $1 B renewables business by mid this decade and maybe $2 B by decade end. BKR did a nice job outlining their opportunity set in the energy transition, specifically regarding hydrogen and reduced emissions for LNG plants. Overall, BKR is the most plausible energy transition story in OFS/OFE with the best balance sheet as well as full-cycle FCF prospects.

- **L48 OFS—Still A Challenging Outlook:** While the forward outlook has undoubtedly improved from one year ago, L48 OFS still faces challenges. Yes, activity levels for both drilling and completions are still building higher into Q2, but a glass ceiling for 2021 seems to be approaching. Frac and completions pricing narrative still quite hazy—improving, but still limited. Of note, one of the E&P management participants summed it up well when he said his company would enjoy the lion's share of efficiency gains, rather than paying service companies for it. Overall, drilling rates and margins possibly more poised to surprise higher vs. the Street, although this may take a few more quarters to validate/invalidate as backlog repricing runs full course. HAL provided a realistic and measured outlook, viewing ~500 rigs and 200 frac crews needed to generate flat production growth. This compares to current activity at 400-470 L48 rigs (BKR/Enervus) and ~190 crews, thus approaching maintenance ceiling. HAL is excited about e-frac (successful grid powered frac with XEC ongoing) but needs better pricing to scaleup, though higher pricing will take time given the huge amount of excess equipment which is gradually being reduced via attrition.

- **Conventional Energy M&A—Very Discriminating Buyers—Seems a Wave is Less Likely:** It appears that the long hoped for M&A wave in conventional energy is unlikely. Yes, consolidation will continue, but it will be more focused rather than a wave. Why? Buyers are very discriminating and there are fewer desirable targets (given the consolidation that has already occurred). Examples include: HAL stated that they would not be a consolidator of the domestic frac market. PXD has zero interest in acquiring privates who are growing—need to have FCF generation to be attractive.

- **Energy Lenders—Stabilized Outlook:** The lending environment has stabilized for banks focused on the energy space due to the rise in commodity prices. The impact of energy bankruptcies was far less than originally thought, while lenders stated that most of the assistance it offered its most challenged borrowers is no longer required. However, the hurdle rate for banks making new energy loans in terms of equity requirements and covenants is high making it challenging for existing energy companies to expand operations through new drilling projects, which may ultimately lead to depletion issues. Competition for new loans is much less with both ZION and CADE (both covered by PSC Analyst Brad Milsaps) noting that the number of lenders has been cut roughly in half, while pricing, terms, and structure remain favorably skewed toward the lenders. The renewables space is easily the hottest area for capital deployment. Although both banks are interested in participating in this growth, government subsidies supporting the sector make underwriting the renewables space more challenging than a traditional energy loan. However, both companies are mindful of the impact of ESG investing and realize the importance of the impact of greener and cleaner energy not only for the environment, but also in how investors may view the bank stocks.

- **Refining Outlook Improved:** PSX highlighted a much improved outlook for the refining sector. Overall, they were fairly constructive as product inventories are now below the 5 year average following disruptions from the recent TX winter storm, and see the last-leg of pent-up demand recovery driving margins higher particularly as we approach the summer driving season. Positive view on global refinery rationalization with 3 Mb/d of announced finalized shutdowns, 1 Mb/d of temporary shutdowns (that could become permanent) and 1 Mb/d of refining capacity considering conversion. Overall, PSX sees this 5 Mb/d of refining capacity as more than offsetting recent global refining capacity increases over the last few years. VLO supported the positive outlook by stating that they are experiencing the strongest crack spreads since the pandemic started. Gasoline demand does remain stubbornly ~10% below the 5 year average while diesel is above.

- **Renewable Diesel/Bio-Fuels—Continued Growth:** Refiners highlighted their continued spending to grow their renewable diesel/bio-fuels businesses. The companies stated that if you can situate a plant next to a traditional refinery, this is a tremendous advantage. In addition, having access to water and rail transportation is critical. VLO highlighted the advantages from capturing CO_2 at ethanol plants. Specifically, they can lower the carbon intensity (CI) from the 70's to the 40's. This is valuable in premium markets like CA. The economics of carbon capture are supported by 1. LCFS, 2. Federal tax credits (45Q).

A shout out to our colleagues, Brad Milsaps and Alex Potter, who moderated panels on energy lending and electric drivetrains for commercial vehicles.

Important Research Disclosures

Notes: The boxes on the Rating and Price Target History chart above indicate the date of the fundamental Equity Research Note, the rating and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.
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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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HOLD [N]	**335**	**35.83**	**57**	**17.01**
SELL [UW]	**8**	**0.86**	**0**	**0.00**

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