Oil & Gas
Executive Outlook 2016

We surveyed over 250 senior executives from across the oil and gas industry to determine the trends, issues and challenges for 2016 and beyond. We investigated their expectations for company performance, industry segment performance and the macro-economic environment. These industry leaders weighed in on such topics as oil & gas price expectations, company headcount trends, capital spending, merger and acquisition activity, talent-related challenges and more.

Contents:

Reinsvold & Associates

A Mixed Outlook for the Year Ahead

While many of the surveyed executives are concerned about the short-term, the overall sentiment has improved from a similar survey conducted 12 months ago. The participants were asked to rate the performance of their respective industry segments (e.g.: E&P company executives commented on the expected performance of all E&P companies). The results are presented in Figure 1.

About 25 percent of the executives expect their segment to perform better in 2016 and 41 percent expect to see their segments to perform worse. Clearly, there is a mixed opinion about the short-term outlook with expectations of both winners and losers. For comparison, the survey results from last year are also included in the chart below. Last year, 19 percent of the executives believed that their segments would perform better in the coming year and 59 percent thought that their segments would perform worse.

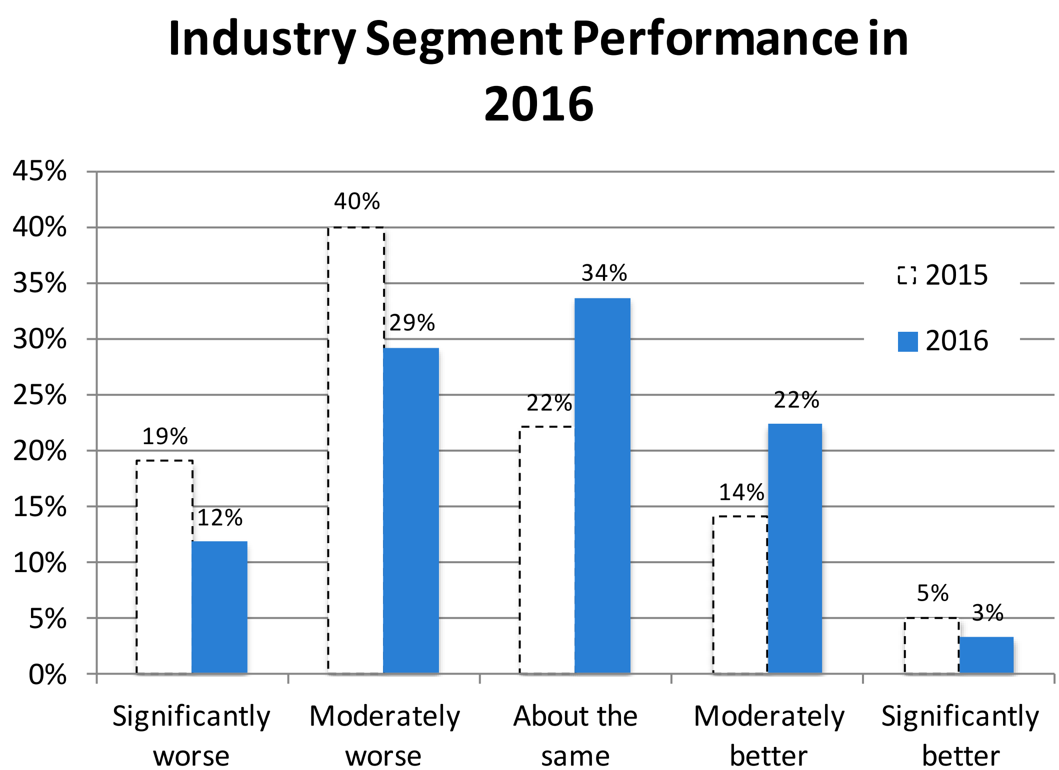

Figure 1

In a similar fashion, we asked the executives to predict how their companies would perform in 2016 (Figure 2), rather than their industry segment. In this case, the outlook is more positively skewed. About 40 percent of the executives expect to have a better year in 2016 and 27 percent expect it to be worse.

Since most of the survey participants are senior executives at their respective companies, it is not surprising that they have a more positive outlook for their companies than they have for their industry segments (made up of them and all their competitors). After all, it is their job as leaders to help their companies perform well and out-perform their competitors. Considering that this bias is normal and expected, it is more interesting to compare the results of Figures 1 and 2 to those of Figures 9 and 10 (the respective long-term expectations) as well as the results of this survey with those of last year.

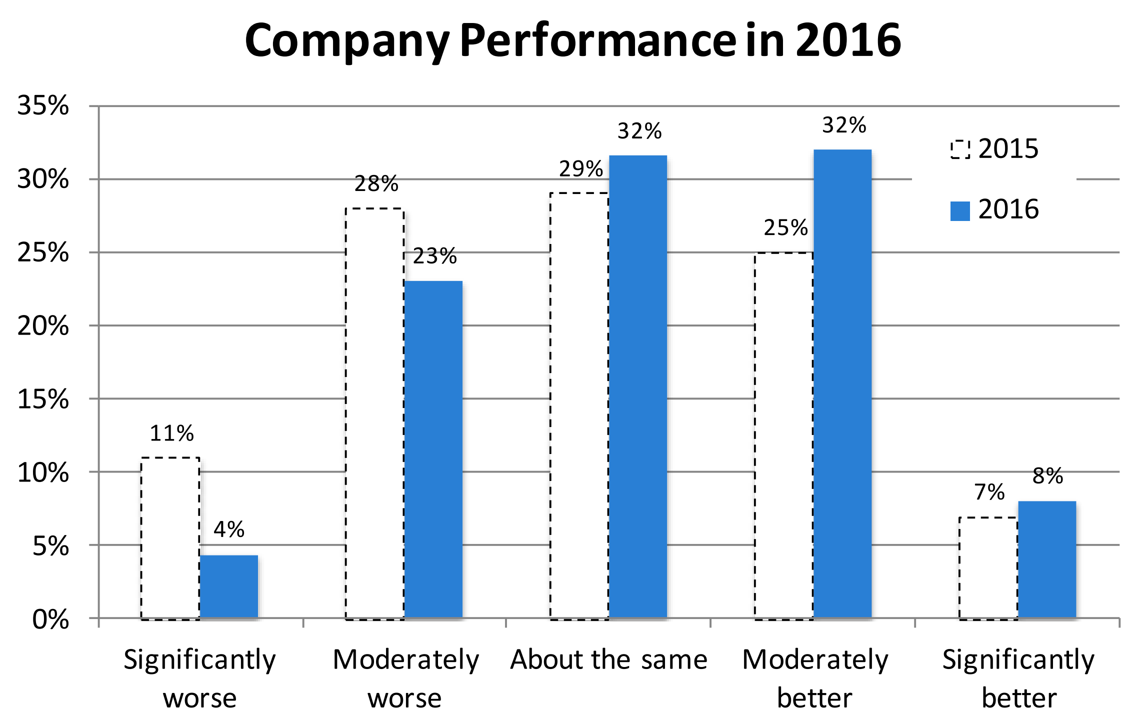

Figure 2

Figure 3 shows the executives' expectations for employee headcount at their respective companies. Based on this survey and recent headlines, we will probably see further staff reductions in 2016. Only 17 percent of the executives expect their companies to increase their headcount while 42 percent expect to see headcount reductions. This is similar to the outlook from last year.

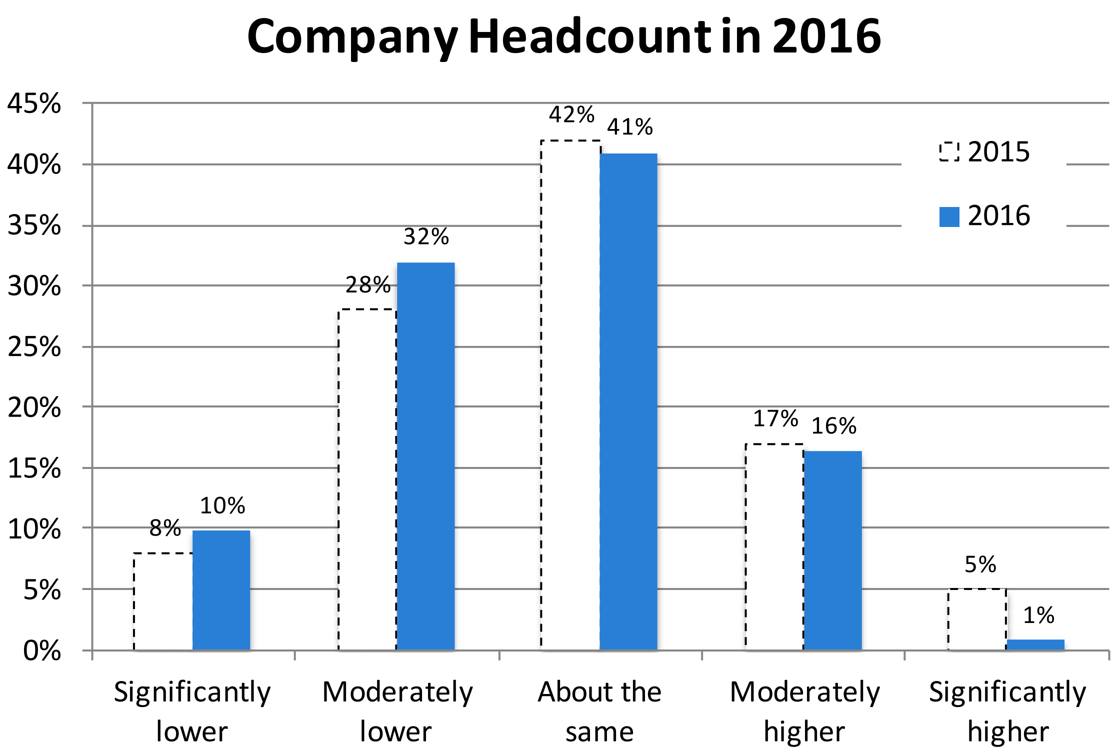

Figure 3

The short-term capital spending outlook is still generally lower, but it is less negative than last year's survey (Figure 4). About 22 percent of the executives expect capital spending at their companies to increase and 47 percent expect it to decrease. This will be the second year in a row for net capital spending reductions.

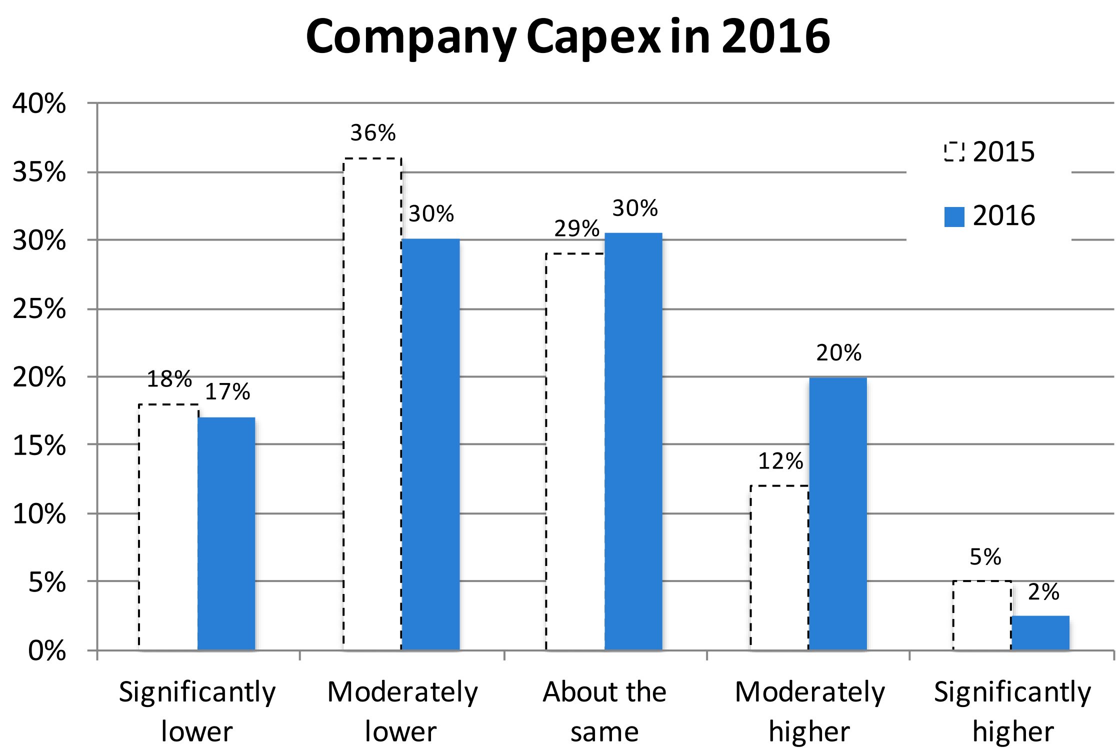

Figure 4

Of the executives surveyed, 78 percent expect 2016 to be a year of moderately or significantly more M&A activity in their industry segment, while only 9 percent expect less. There were similarly high expectations for M&A at the beginning of 2015.

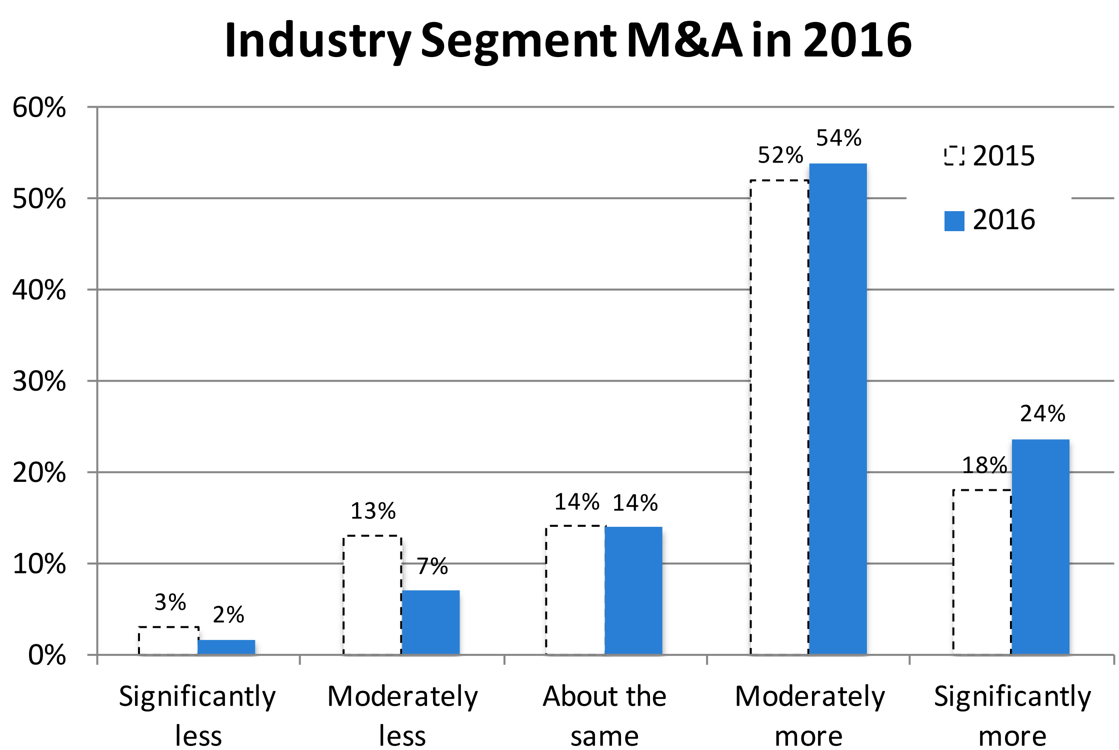

Figure 5

In addition to asking the executives how their industry segments and companies will perform in 2016, we asked them to identify which segment they believe will outperform all the other industry segments in 2016 (Figure 6). Based on the executives surveyed, the refining/marketing/petrochemical segment is expected to be the best performing segment in 2016. Majors (integrated oil & gas companies) came in second on this list. Strong balance sheets at the majors and the lower feedstock costs for both downstream companies and integrated majors probably account for the high ranking of these two segments.

Oilfield service companies, EPC companies and drilling contractors are at the bottom of the list of expected best performers. The oilfield service companies and drilling contractors are currently suffering from reduced demand, excess capacity and lower prices. Many EPC companies have seen major projects delayed or cancelled.

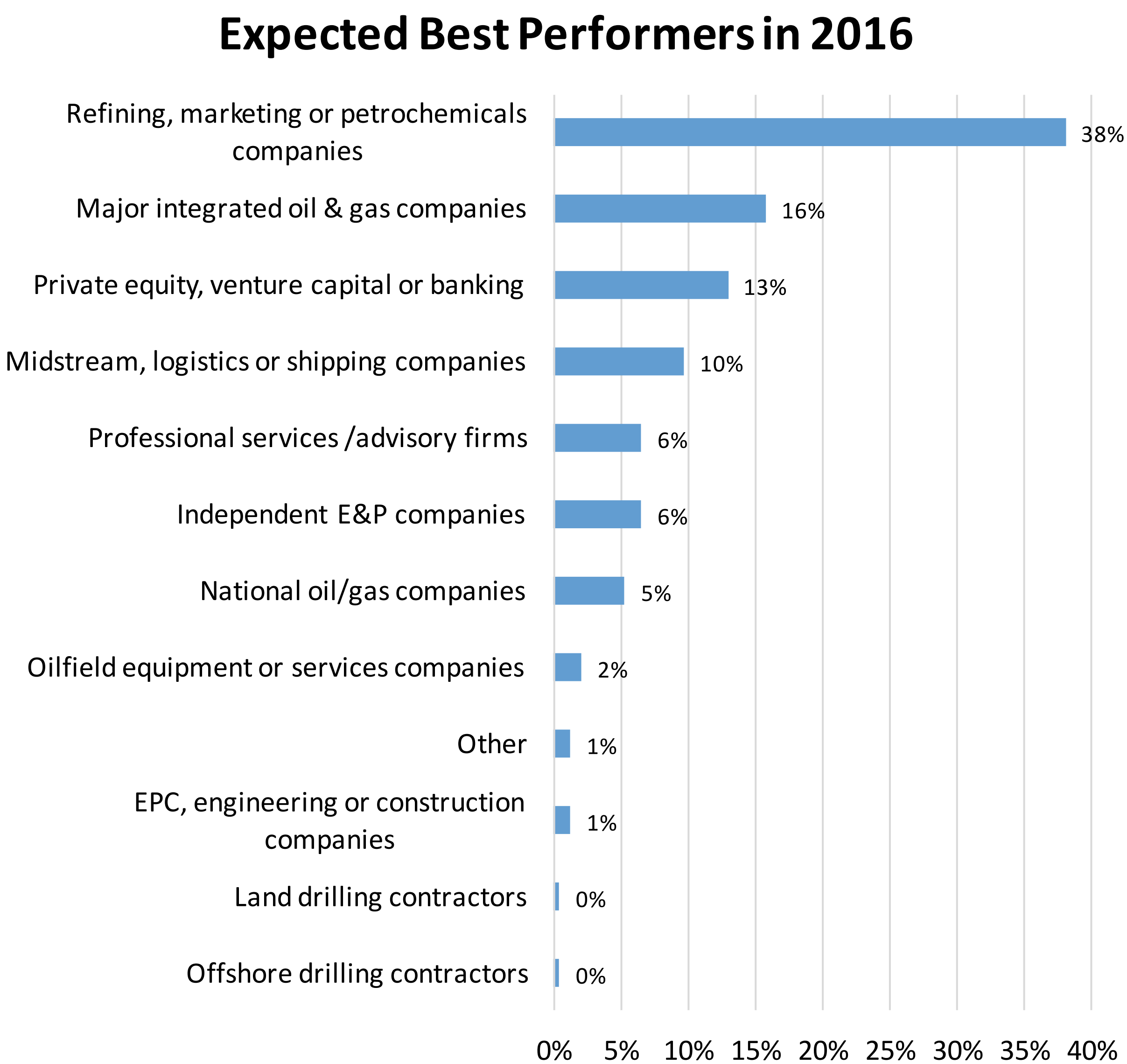

Figure 6

Another Year of Low Prices

Just over half of the survey participants (51 percent) expect the average price of WTI oil to be in the range of $50 to $65 per barrel in 2016. However, almost as many (42 percent) believe the price of oil will be lower, in the range of $35 to $50 per barrel (see Figure 7). This is a significant drop from the expectations of last year when 59 percent expected oil to be in the range of $65 to $80 for the following 12 months.

As a matter of reference, according to the EIA, the 2015 average price for WTI was $49.08 per barrel for the first 11 months of the year. Obviously, last year most of the executives underestimated how far the price would drop in 2015. Also, during the week in November 2015 that the survey was conducted, the price of oil averaged $41.03 per barrel.

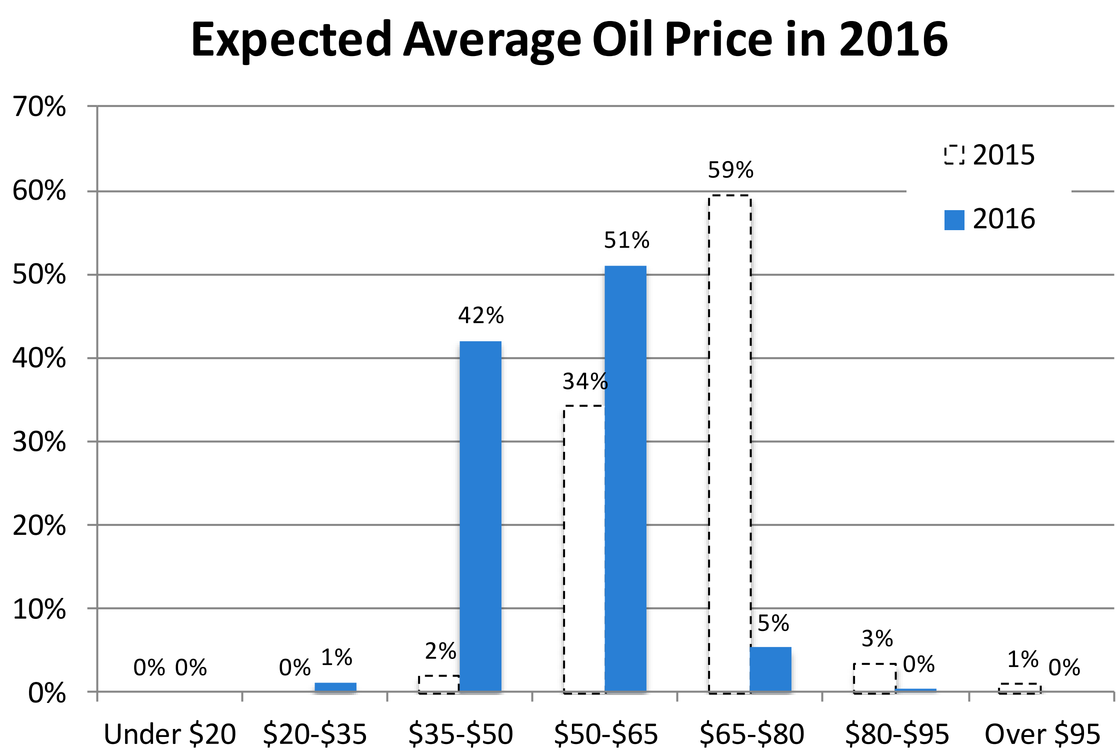

Figure 7

The vast majority of survey participants (77 percent) expect the average spot price of Henry Hub natural gas to be in the range of $2.00 to $3.00 per thousand cubic feet in 2016. Very few (3 percent) expect gas prices to be greater than $4.00 (see Figure 8). This is a significant drop from the expectations of last year when 67 percent expected gas to be in the range of $3.00 to $4.00 for the following 12 months.

As a matter of reference, according to the EIA, the 2015 average Henry Hub spot price for natural gas was $2.75 per thousand cubic feet for the first 11 months of the year. In 2014 the average price was $4.52. Also, during the week in November 2015 that the survey was conducted, the natural gas spot price averaged $2.06 per standard cubic feet.

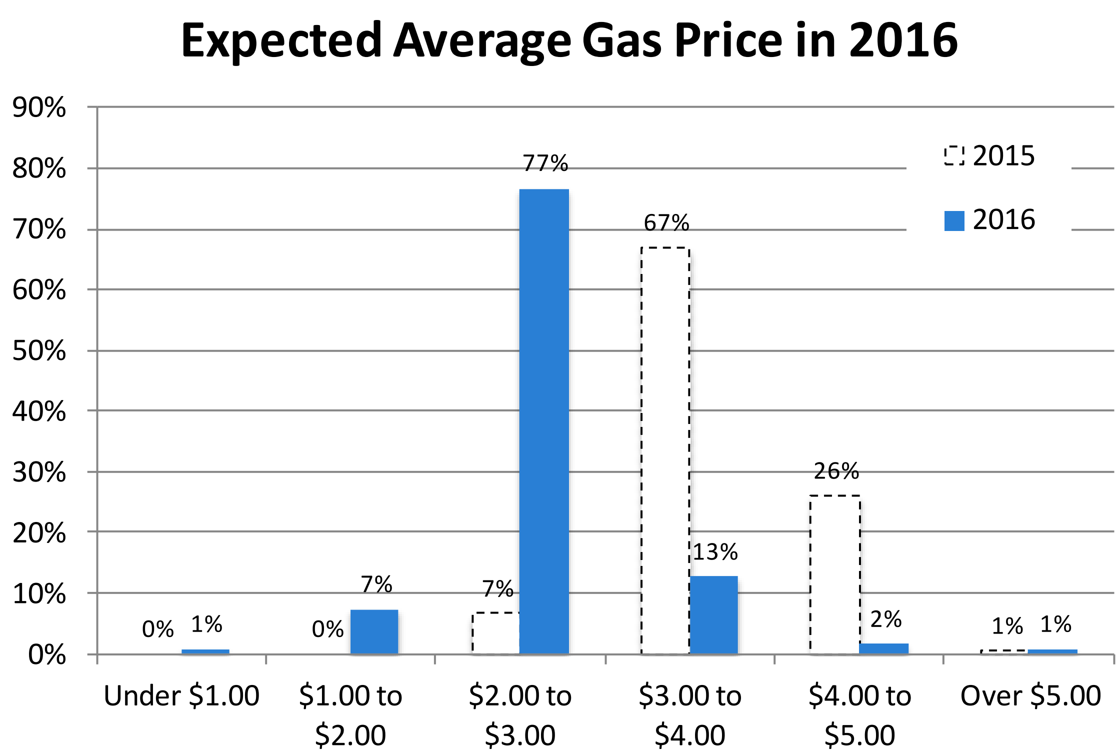

Figure 8

A Stronger Long-Term Outlook

Switching to a long-term view, we asked the survey participants to rate their industry segment performance over the next five years (Figure 9). A large majority of the executives (83 percent) believe their industry segment will perform moderately or significantly better. This is much better than the short-term view (Figure 1) in which only 25 percent believe their segment will perform moderately or significantly better. Also, the industry segment long-term outlook in this year's survey is stronger than the long-term outlook in last year's survey.

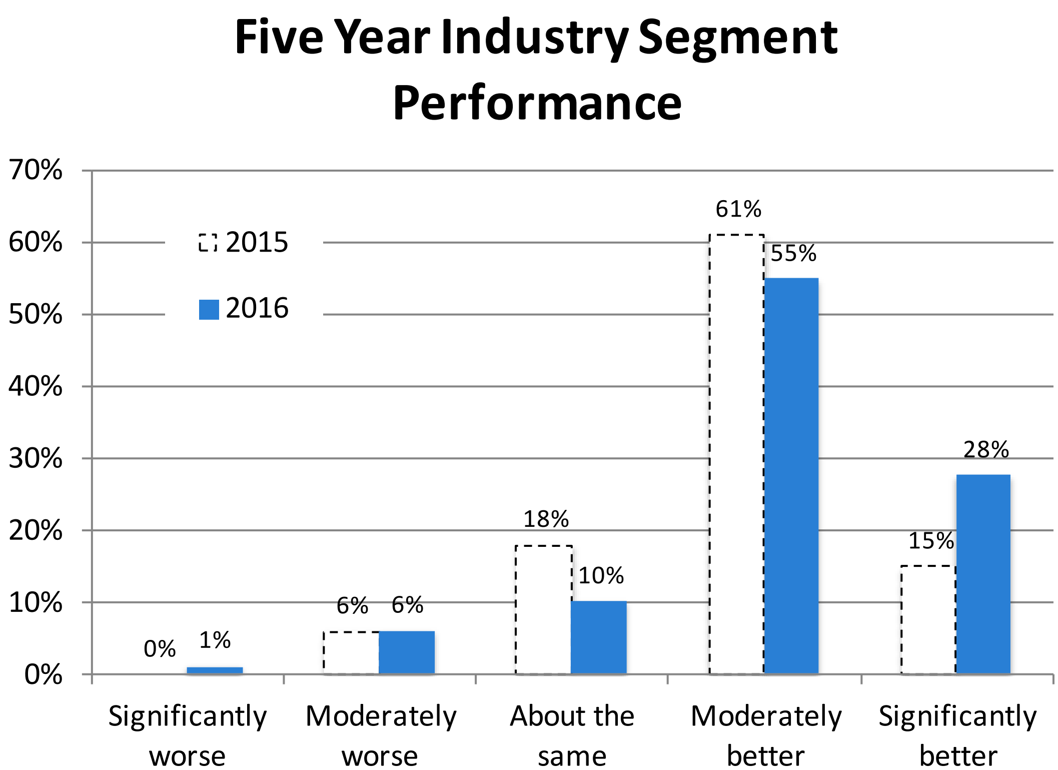

Figure 9

An overwhelming number of the executives (85 percent) believe that their companies will perform better over the next five years (Figure 10). Not only that, but 39 percent believe that their companies will perform significantly better. Only 6 percent believe their companies will perform worse over the next five years.

Comparing this chart to figure 2, we can see that the executives are very optimistic in the long-term but only mildly so in the short-term. This probably reflects the fact that many companies are doing what it takes to survive in the coming year (headcount and capital spending cuts, managing cash flows) in order to thrive in the long-term. Most of the executives in this survey have been through at least three or four boom-bust cycles and have seen both the good times and the bad.

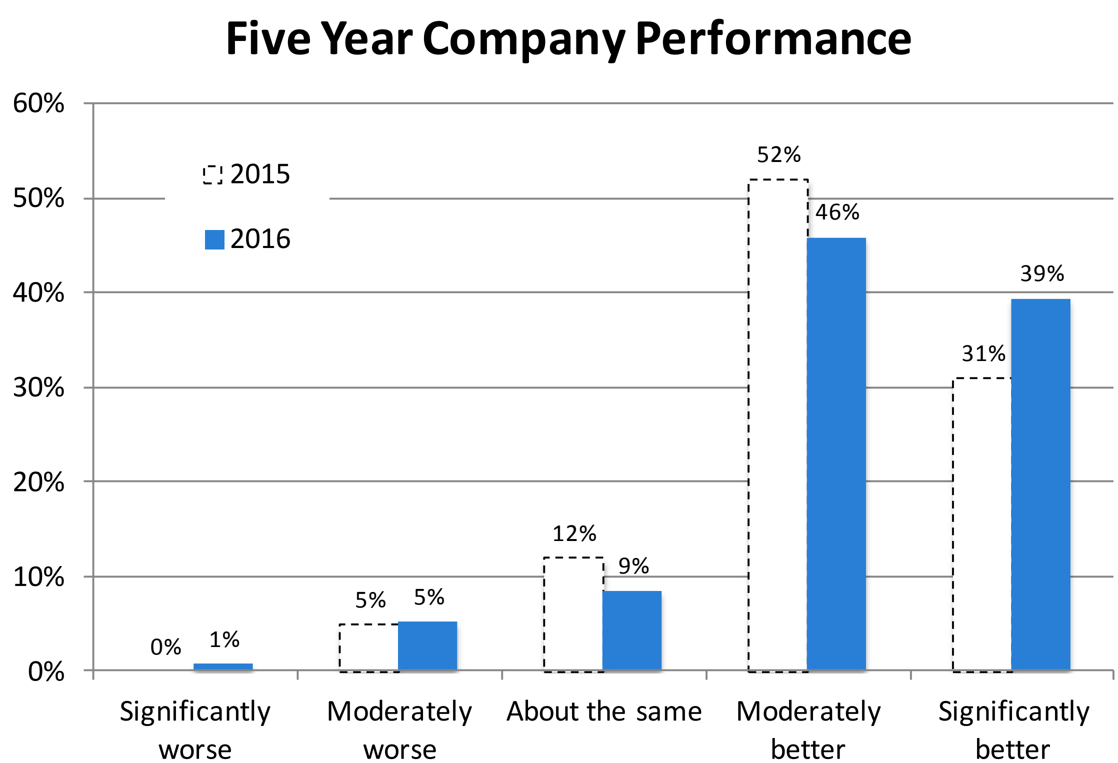

Figure 10

Figure 11 shows the expected best performing industry segments over the next five years. Comparing this to Figure 6 (the short-term industry performance) we can see that not all the best short-term performers are expected to be the best long-term performers. The independent E&P segment and the oilfield service segment are expected to improve their rankings in the longer term, rising to #2 and #4 on the list, respectively. The top four long-term performers in this survey are the same four from last year's survey (in the same rank order, as well).

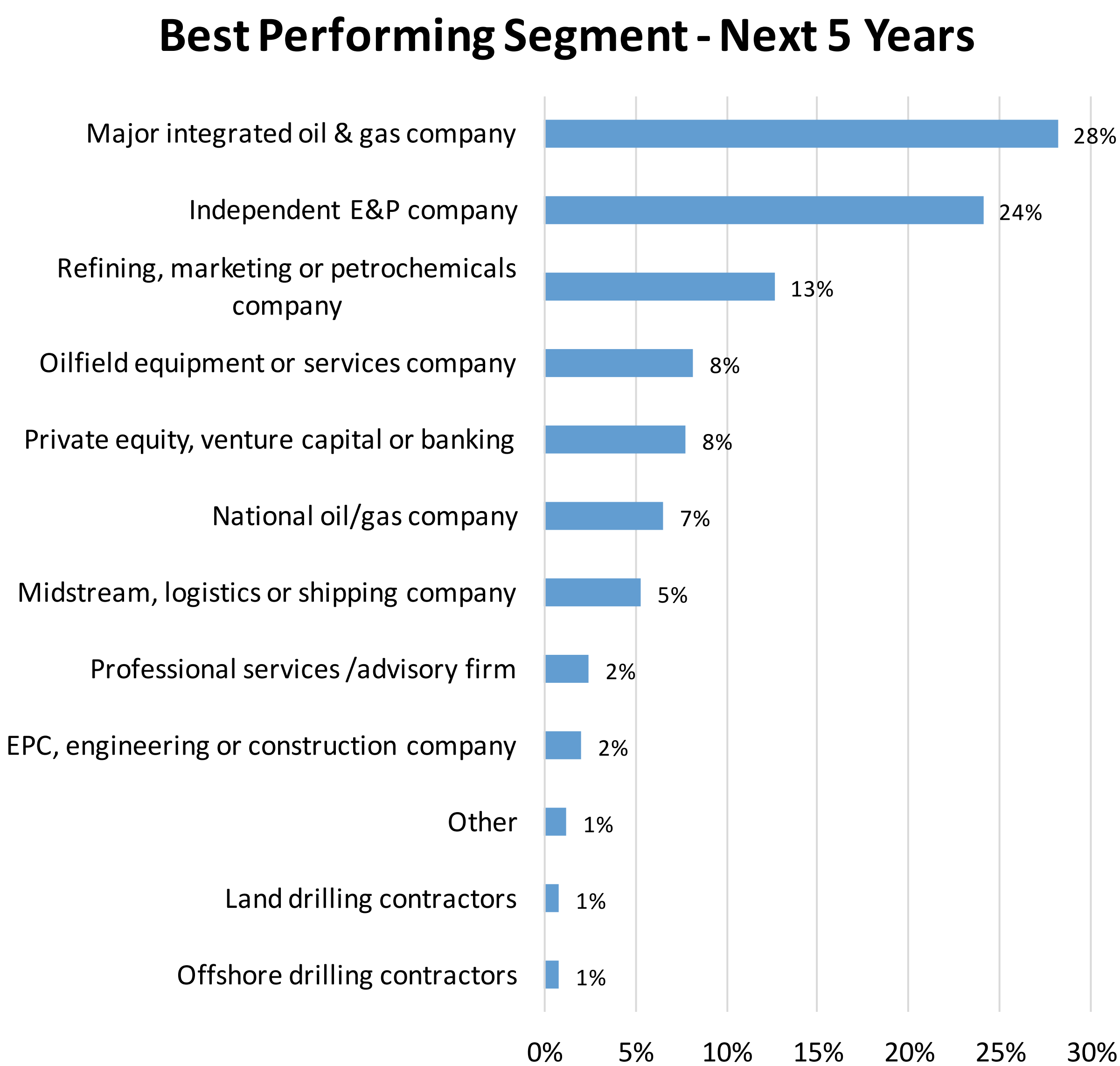

Figure 11

Industry Tailwinds over the Next Five Years

In addition to asking the survey participants about company and segment performance, we asked them to weigh in on the most important drivers of opportunity (Figure 12) and the challenges (Figure 19) for their segments over the next five years. For this question the participants were able to select their top three choices. The survey results show that the top two drivers of opportunity are macro-economic in nature: improving oil/gas prices and global economic recovery. The third most important opportunity driver is new technology developments expected over the next five years. Survey participants that selected this choice, and several of the other drivers, were given follow-on questions to learn more about their thoughts on these drivers. For example, the follow-on details for the technology drivers can be found in Figure 13.

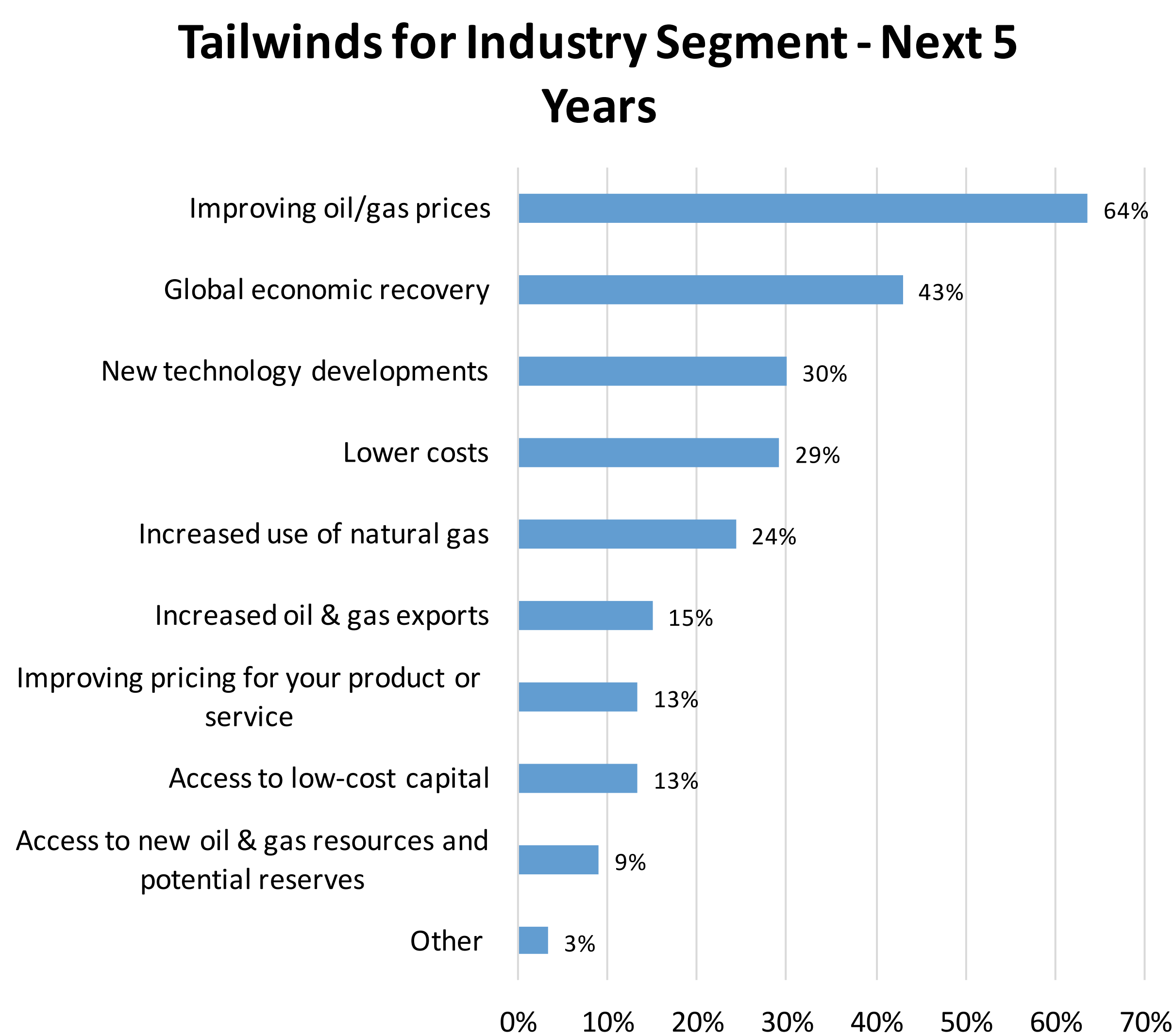

Figure 12

The top three technology developments cited were: 1) improvements in hydraulic fracturing and completions, 2) increasing use of Big Data, the Digital Oilfield or the Internet of Things and 3) improvements in drilling tools and systems (Figure 13). For this survey question, the participants were asked to give a single answer for the most impactful technology. Because of this, one should not assume that items that scored lower on this list are not important. They just happen to be the most important technology cited by fewer survey participants. Most companies, and the industry as a whole, invest in a portfolio of technologies.

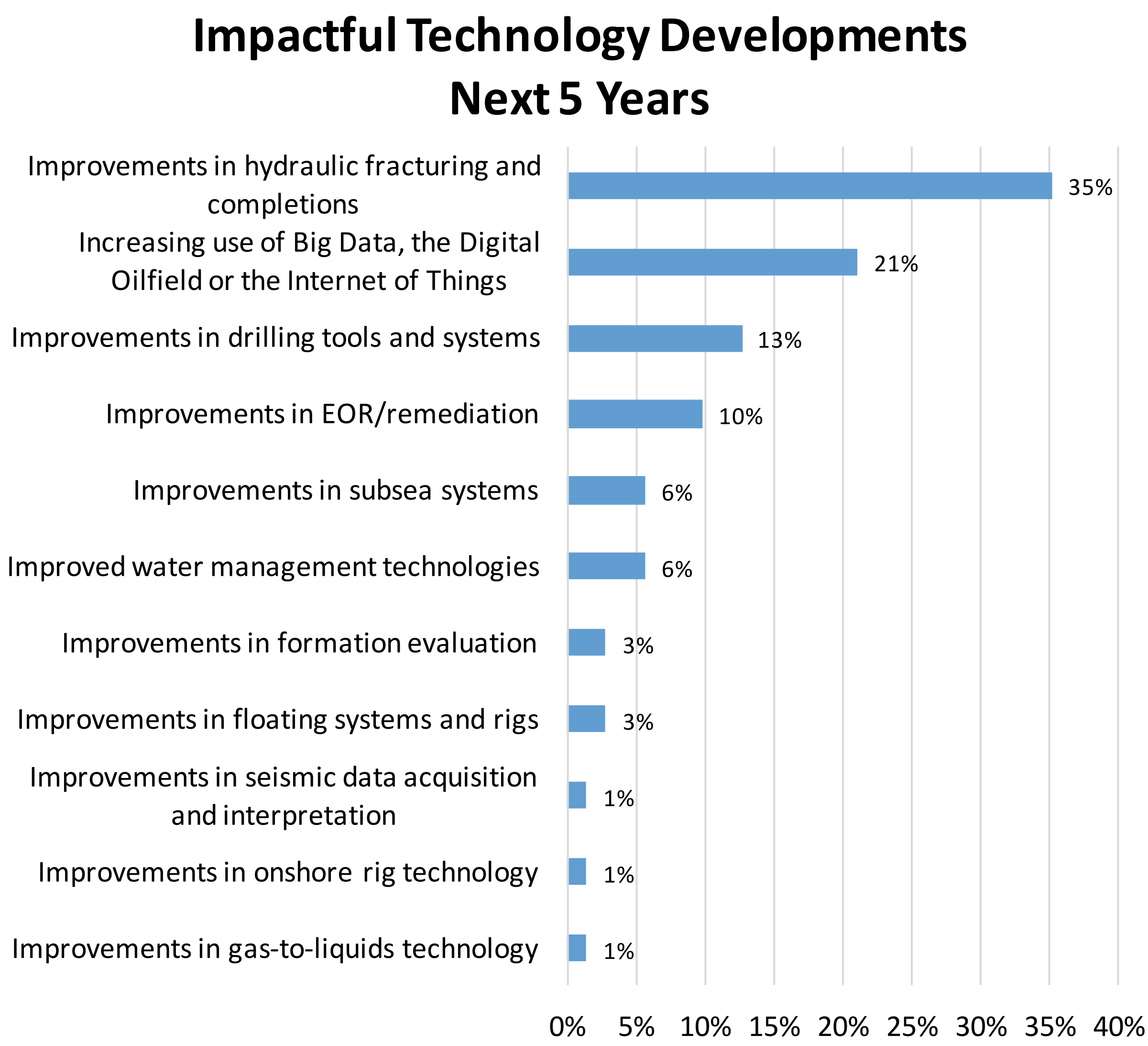

Figure 13

The fourth ranked long-term opportunity driver cited in Figure 12 was lower costs. Figure 14 gives additional detail on the factors that the survey participants believe will lead to lower costs over the next five years. The top two factors for reducing costs are: 1) improved operating efficiency, and 2) reduced costs for purchased equipment and/or services.

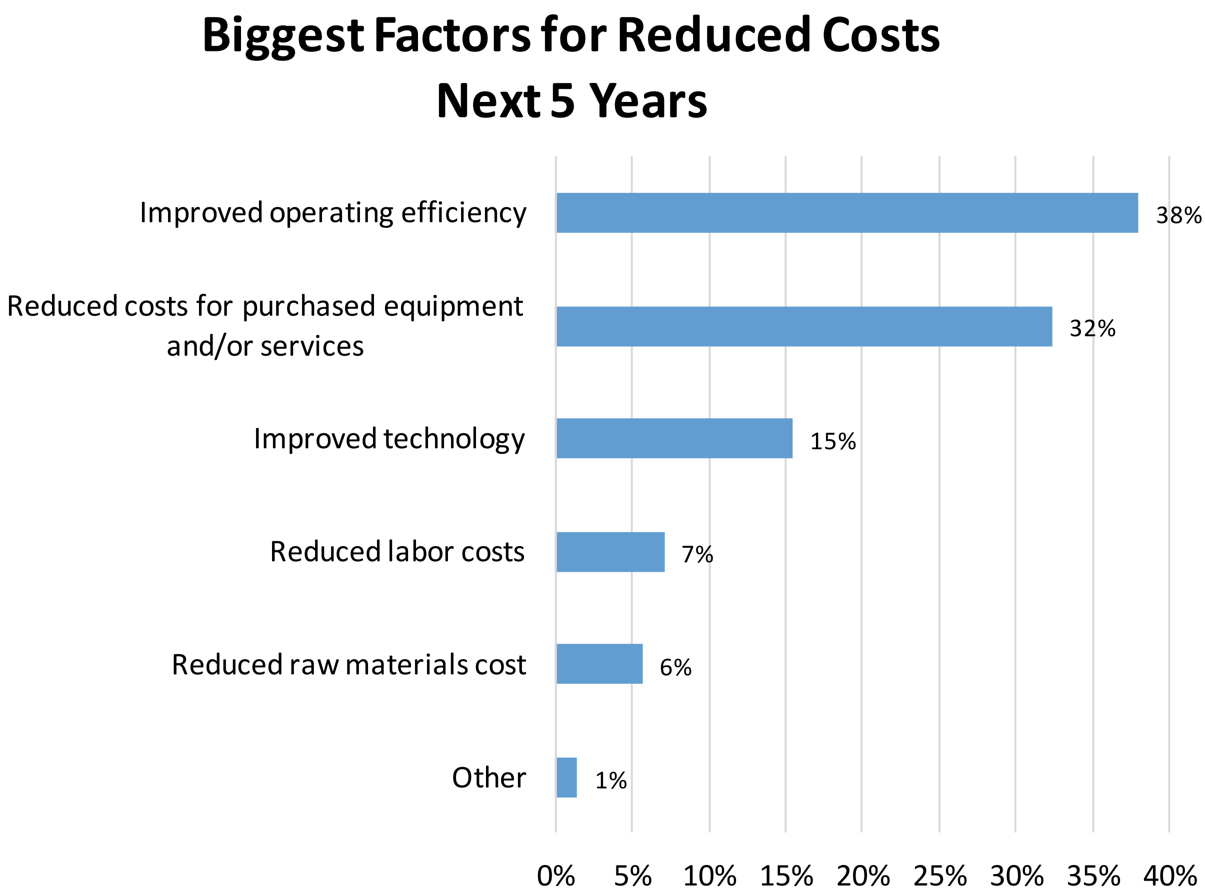

Figure 14

One of the factors cited in the opportunity drivers (Figure 12) was the increased use of natural gas. The chart below (Figure 15) show how the survey participants answered the follow-on question as to what is the biggest factor driving a long-term increase in the use of natural gas.

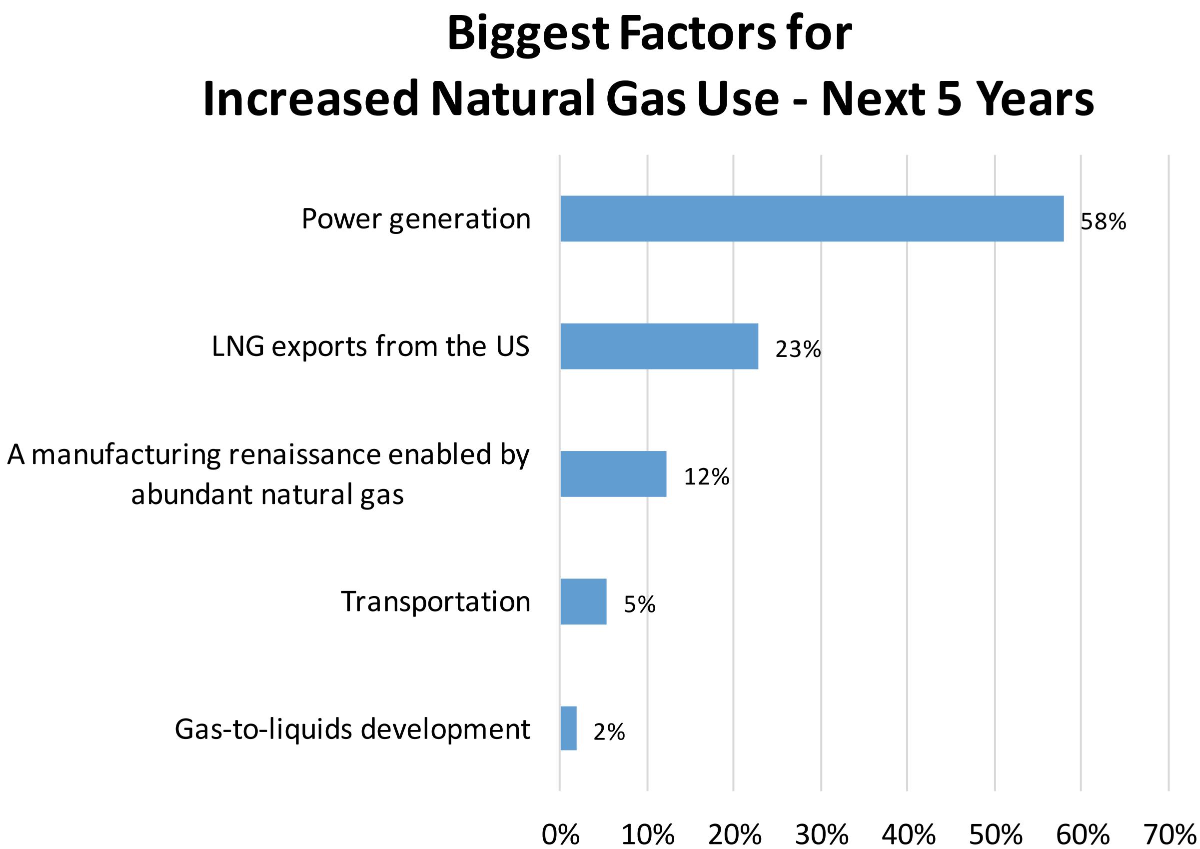

Figure 15

Another factor cited as a long-term opportunity driver in Figure 12 was increased oil & gas exports. The chart below (Figure 16) shows how the survey participants answered the follow-on question as to what is the biggest factor driving the increase in oil & gas exports. U.S. crude oil exports (generally banned under U.S. law, but being debated at the time of this survey) and LNG exports were cited as the top two factors.

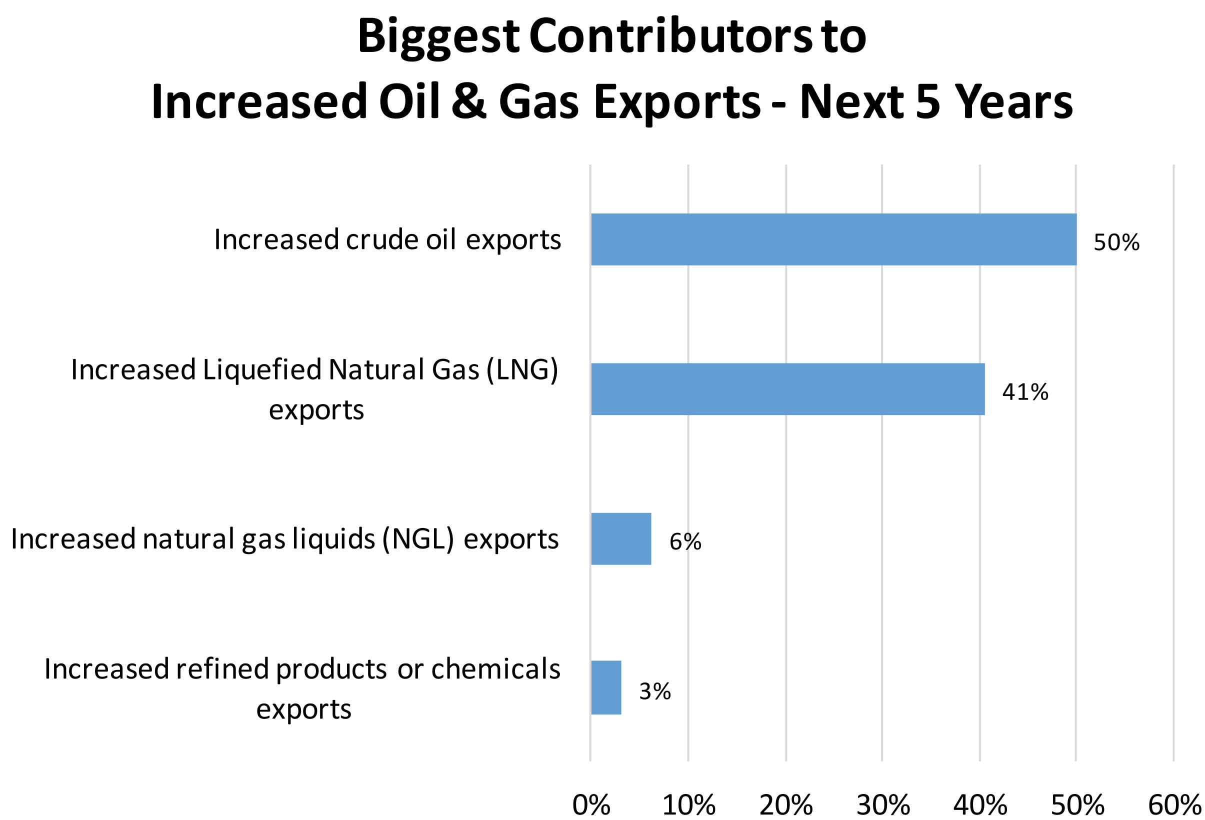

Figure 16

The eighth most cited long-term opportunity driver in Figure 12 was access to low cost capital. Certainly this was a key driver for the U.S. oil and gas business over the last five years. For those survey participants that included this as key factor going forward, Figure 17 shows their thoughts on what form this might take. While not on the chart below, another source of capital mentioned by the participants was the selling of assets to raise cash.

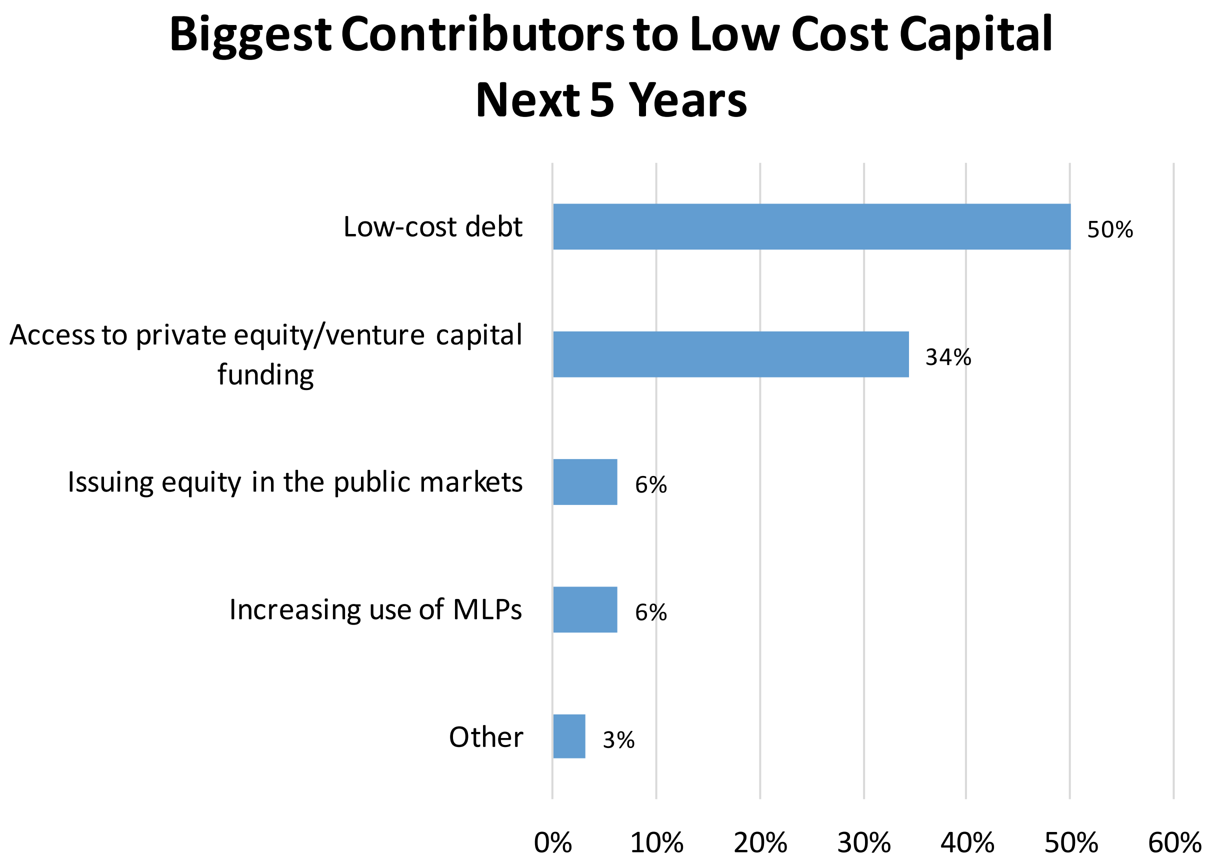

Figure 17

Low on the list of potential long-term opportunity drivers (see Figure 12) was: access to new oil & gas resources and potential reserves. Figure 18 provides additional insights into which areas the survey participants believe will be the most impactful for the long-term development of new oil & gas resources.

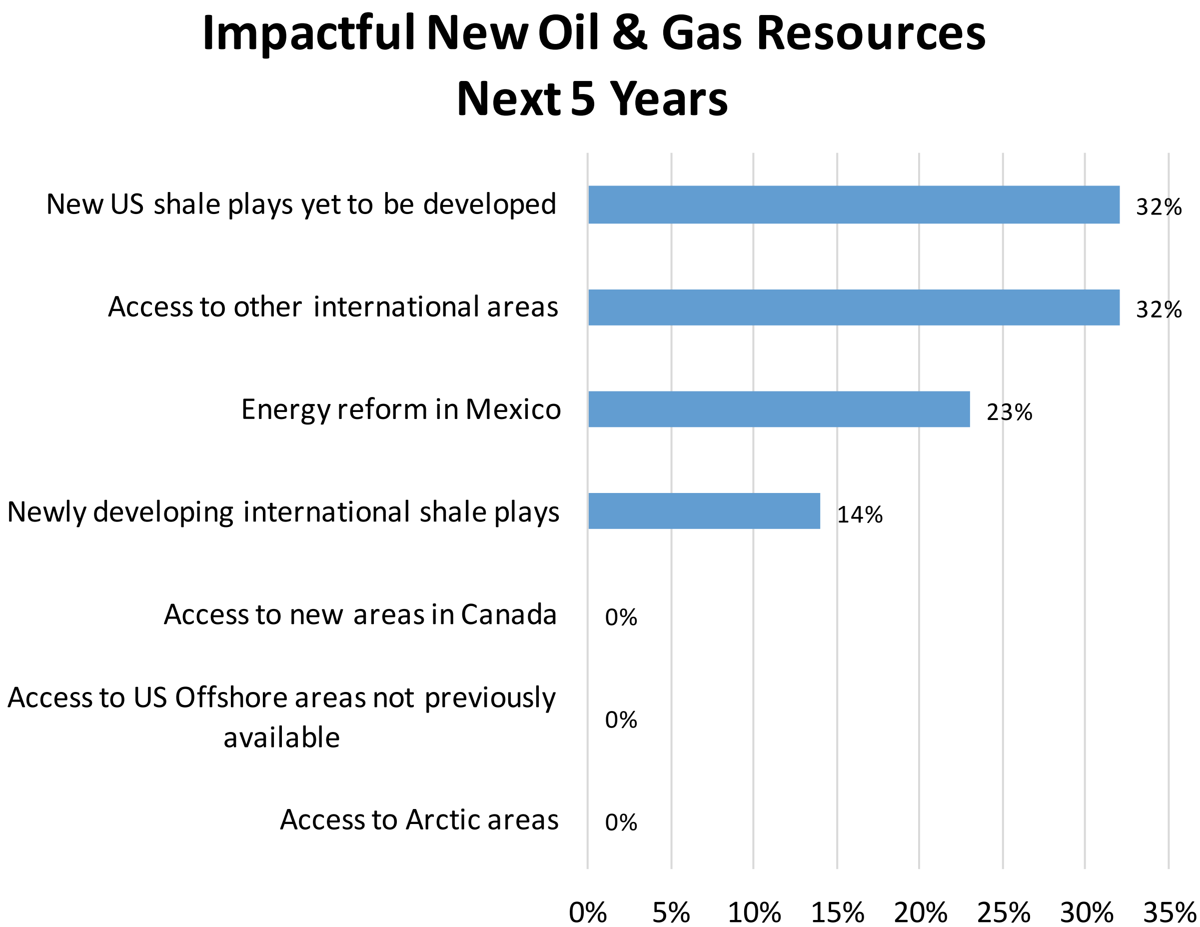

Figure 18

Industry Headwinds

In addition to asking about the most important drivers of opportunity (Figure 12) over the next five years, we asked the survey participants their view on the industry headwinds or challenges (Figure 19) their segments would face. In the chart below, the participants were able to select their top three choices. For several of the answers, Survey participants were given a follow-on question to gain additional detail.

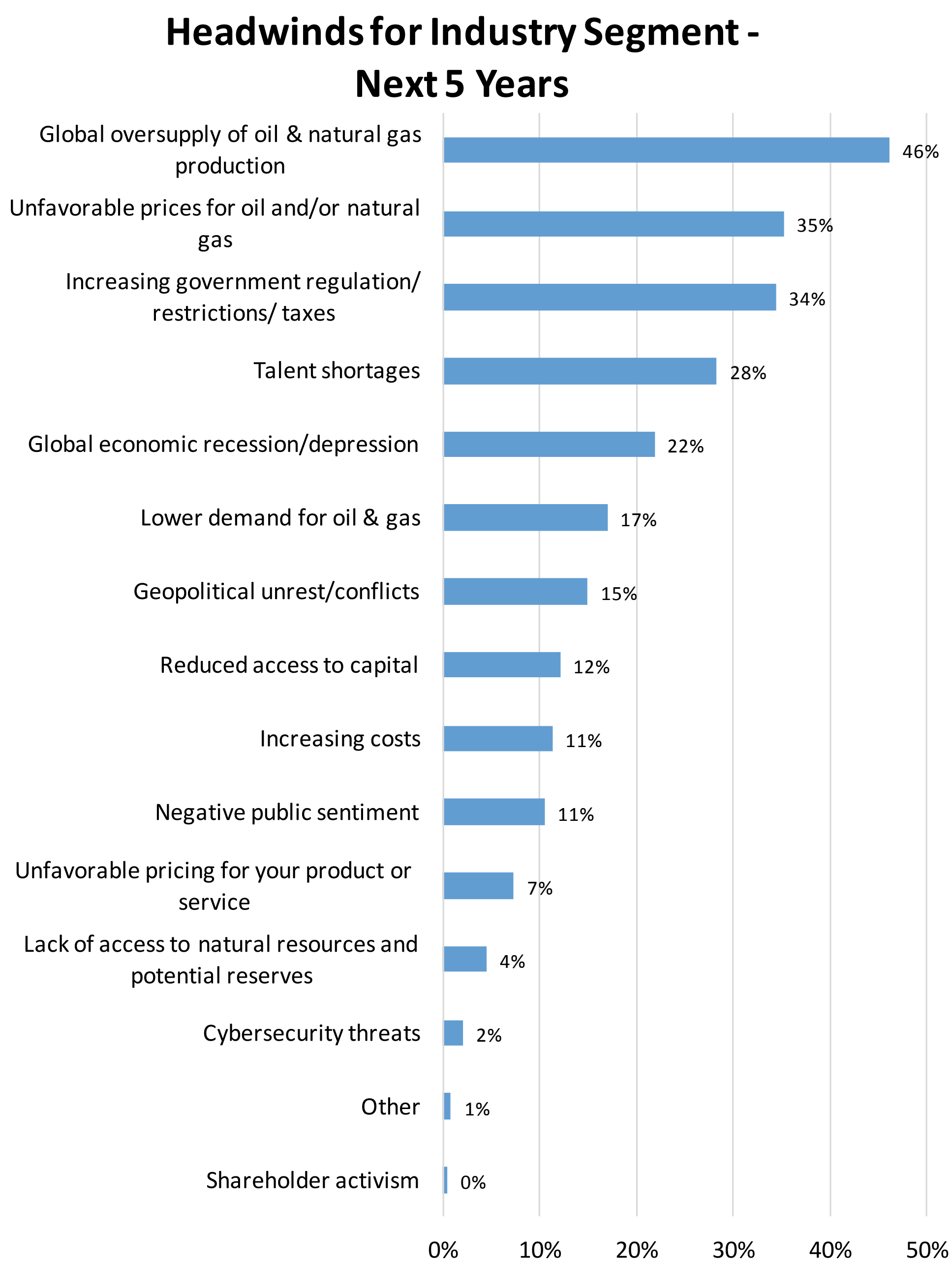

Figure 19

When asked to elaborate on the challenge of increasing government regulation/restriction/taxes, the top response was: increasing regulation or restrictions by the EPA (Figure 20) with 36 percent of the responses. Regulation uncertainty was listed as the second most harmful at 28 percent. The third most often cited harmful government restriction this year (with 13 percent) was: local or regional bans on hydraulic fracturing. Last year, hydraulic fracturing restrictions was ranked at number 2 and cited by 25 percent of the survey participants.

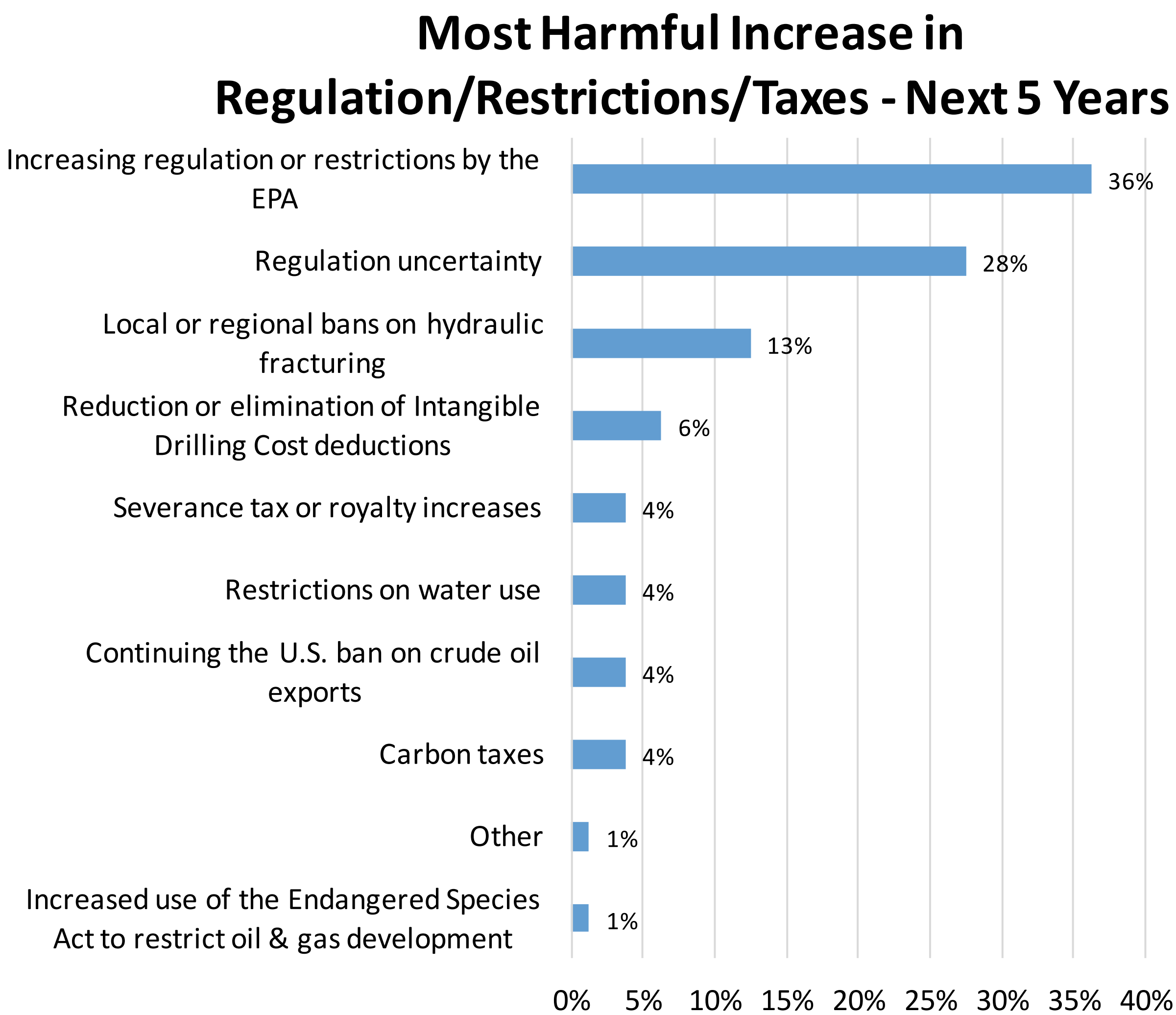

Figure 20

Talent-Related Issues

The survey participants were asked to identify the top talent-related challenges that they expect their industry segment to experience over the next five years (Figure 21). Like last year's survey, the most significant talent issue cited was the "Great Crew Change" – the retirement of key personnel expected in the near future. However, the second most significant talent-related issue this year is the industry's attractiveness to new entrants. Obviously, this reflects the current down cycle and its affect on career choices by new graduates and younger employees. Last year industry attractiveness to new entrants was listed as the sixth highest issue. Technical talent (engineers, geoscientists, etc.) dropped from number two on last year's list to number four on this year's list.

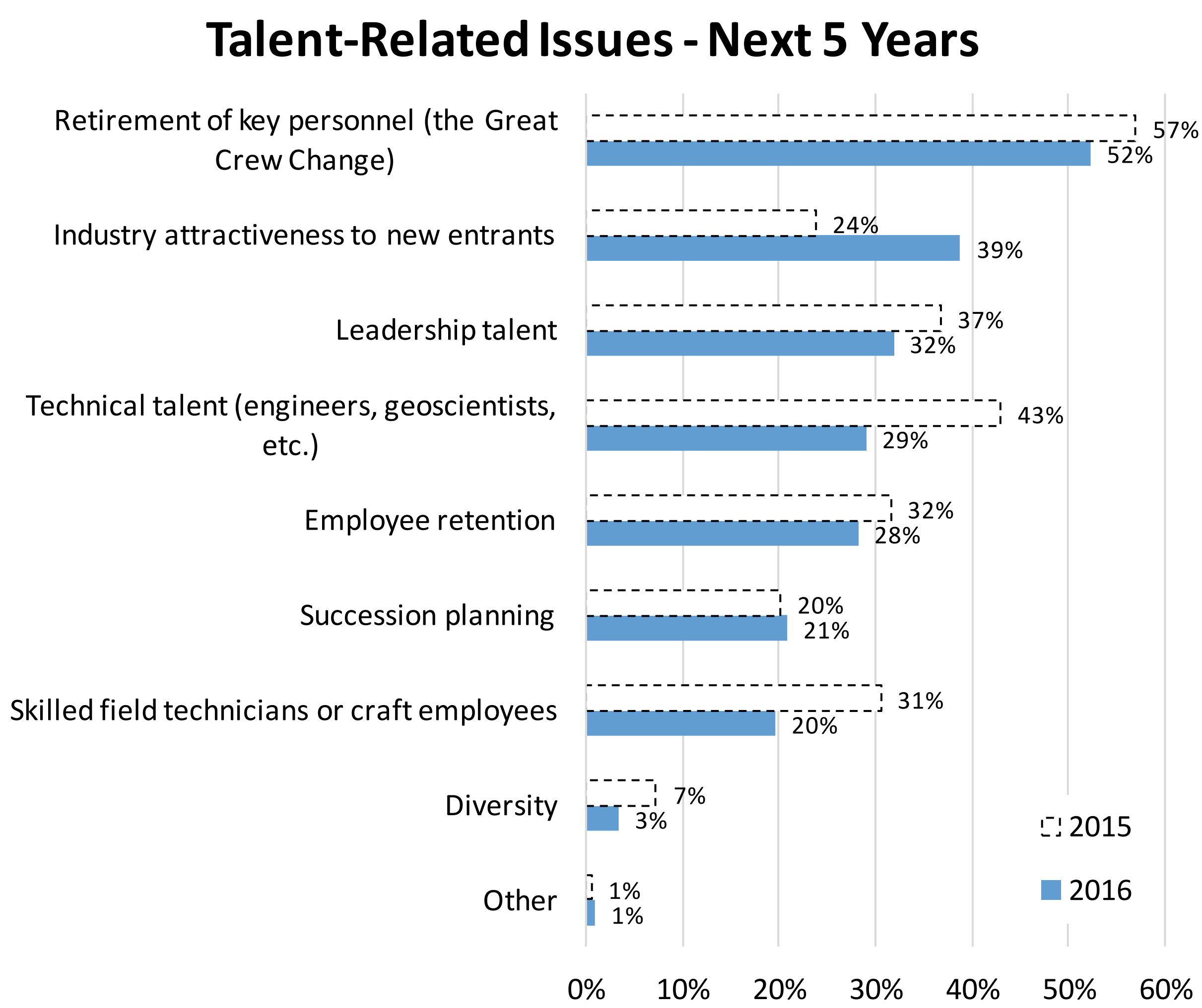

Figure 21

About the Survey

This survey was conducted from November 12 - 20, 2015. Of the 250 participants, 63 percent are at the C-level (Chief executive officer, chief financial officer, etc.) or vice president level (Figure 22). Independent E&P companies and integrated major oil & gas companies account for 30 percent of the survey participants while oilfield service companies account for another 30 percent (Figure 23). About 28 percent of the survey participants work for companies with greater than 5,000 employees (Figure 24). About 74 percent of the companies are headquartered in the U.S. (Figure 25) and 80 percent of the survey participants reside in the U.S. (Figure 26).

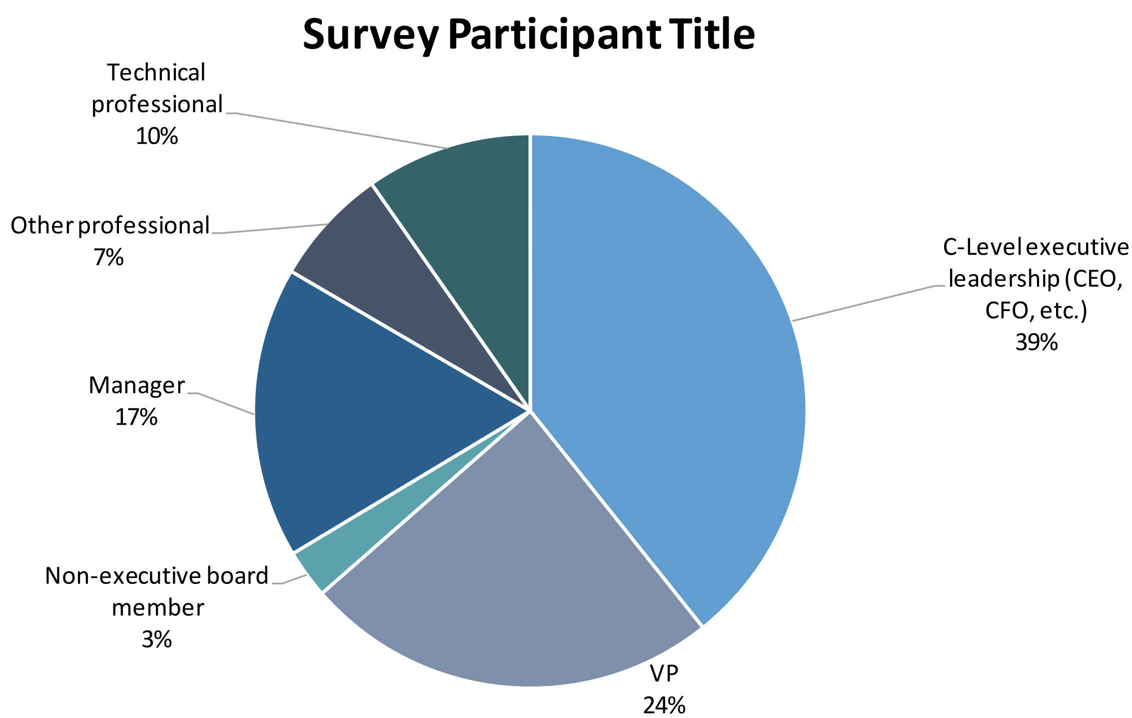

Figure 22

Survey Participant Industry Segment

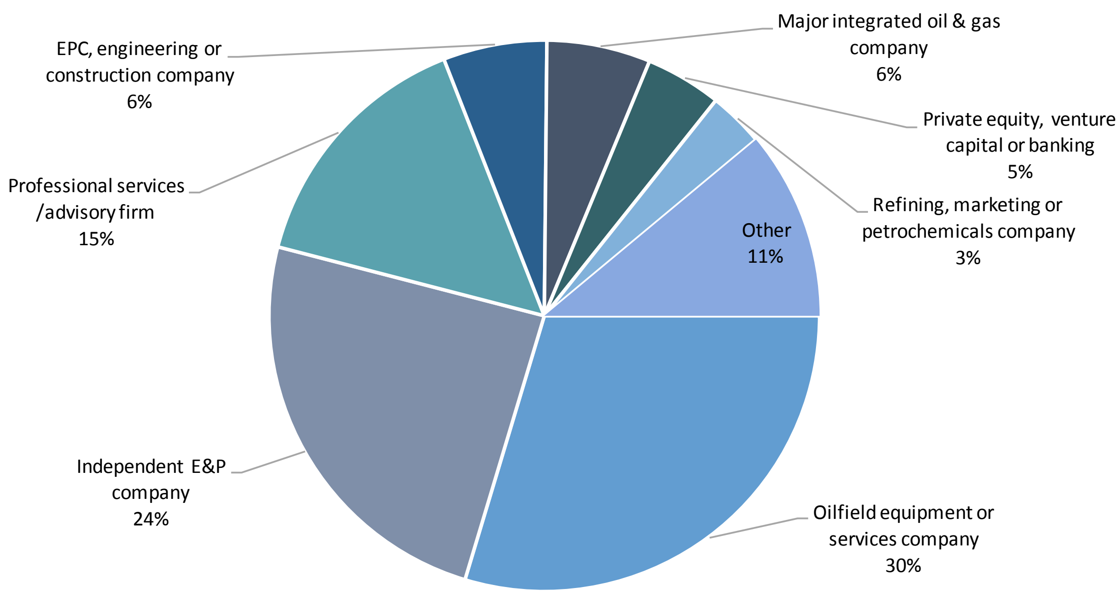

Figure 23

Company Size

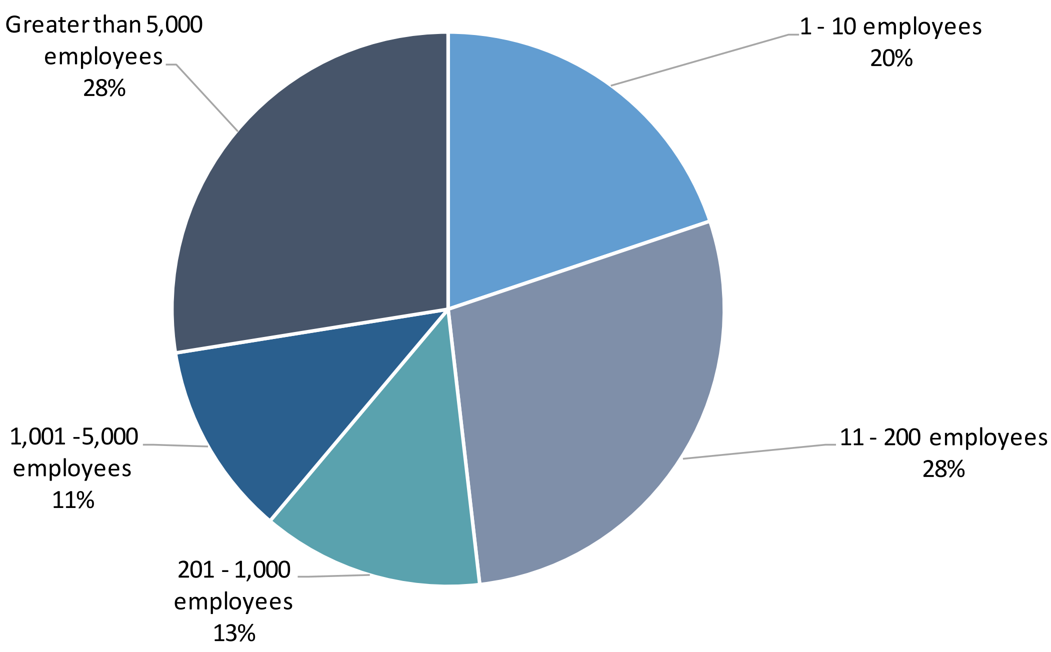

Figure 24

Company HQ Location

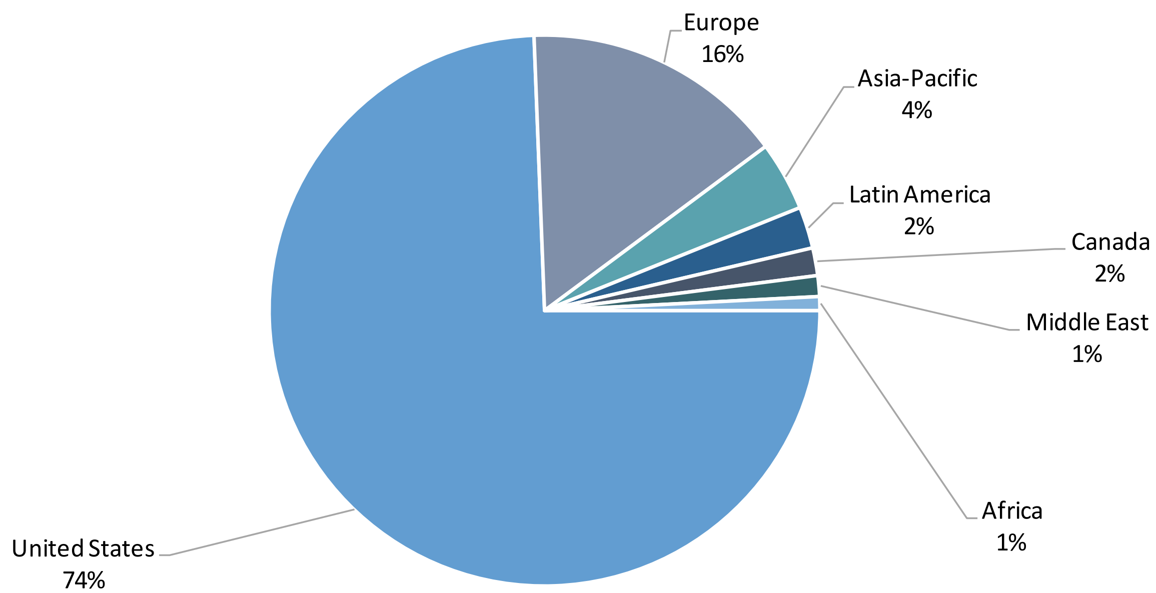

Figure 25

Survey Participant Location

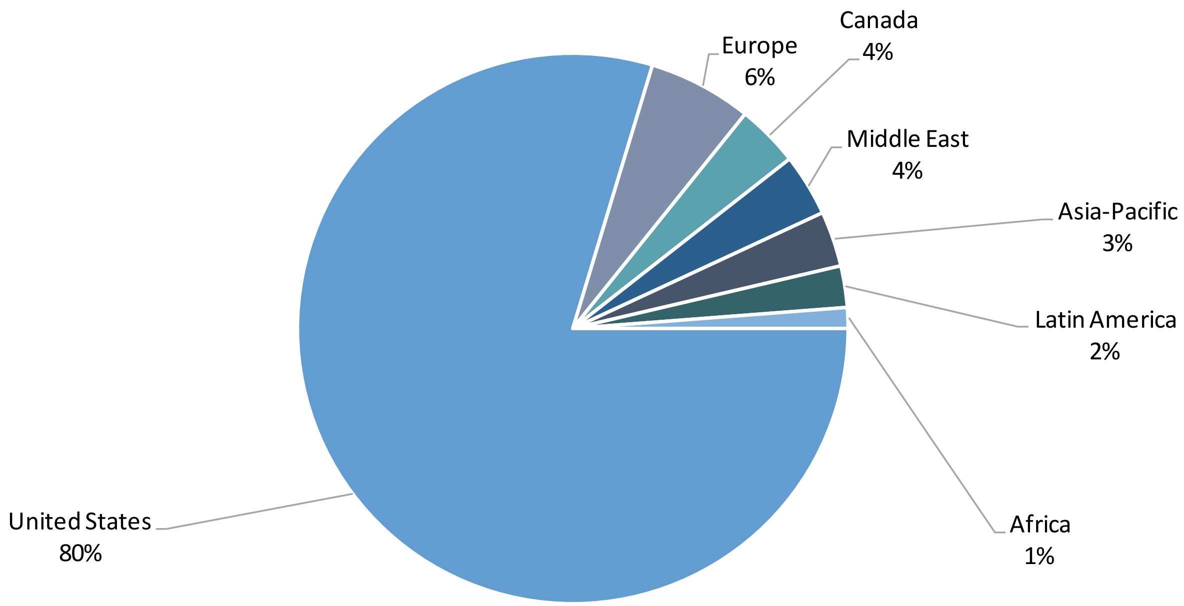

Figure 26

About the Author

Chris Reinsvold is the Founder and CEO of Reinsvold & Associates, a retained executive search and management consulting firm. Based in Houston, Chris has over 25 years of management experience in the energy Industry. Chris helps his oil, gas and energy sector clients develop strategies and build leadership teams in the Board room, C-suite and senior executive management. The American Business Journals selected him for their 2014 Who's Who in Energy list.

Chris is active in the Independent Petroleum Association of America (IPAA), the Society of Petroleum Engineers (SPE), the National Association of Corporate Directors (NACD) and Mensa. He graduated from California State Polytechnic University, Pomona with a mechanical engineering degree and earned an MBA from The University of Texas at Austin.

For more information, contact:
Chris Reinsvold
Reinsvold & Associates, LLC
21 Waterway Ave., Suite 300
The Woodlands, TX 77380
email: chris.reinsvold@reinsvold.com
office: +1 (281) 362-2830
fax: +1 (866) 482-1176

Reinsvold & Associates