EVERCORE ISI

Energy Shareholder Alignment Review: Leveling the Playing Field

Doug Terreson
Steve Richardson
James West

Thursday, August 8th, 2019
11:00 am ET

Webinar Agenda

1) Doug Terreson

Integrated Oil & Gas

+1 251 928-6440

doug.terreson@evercoreisi.com

2) Stephen Richardson

Exploration & Production

+1 212 446-5639

stephen.richardson@evercoreisi.com

3) James West

Oilfield Services, Equipment & Drilling

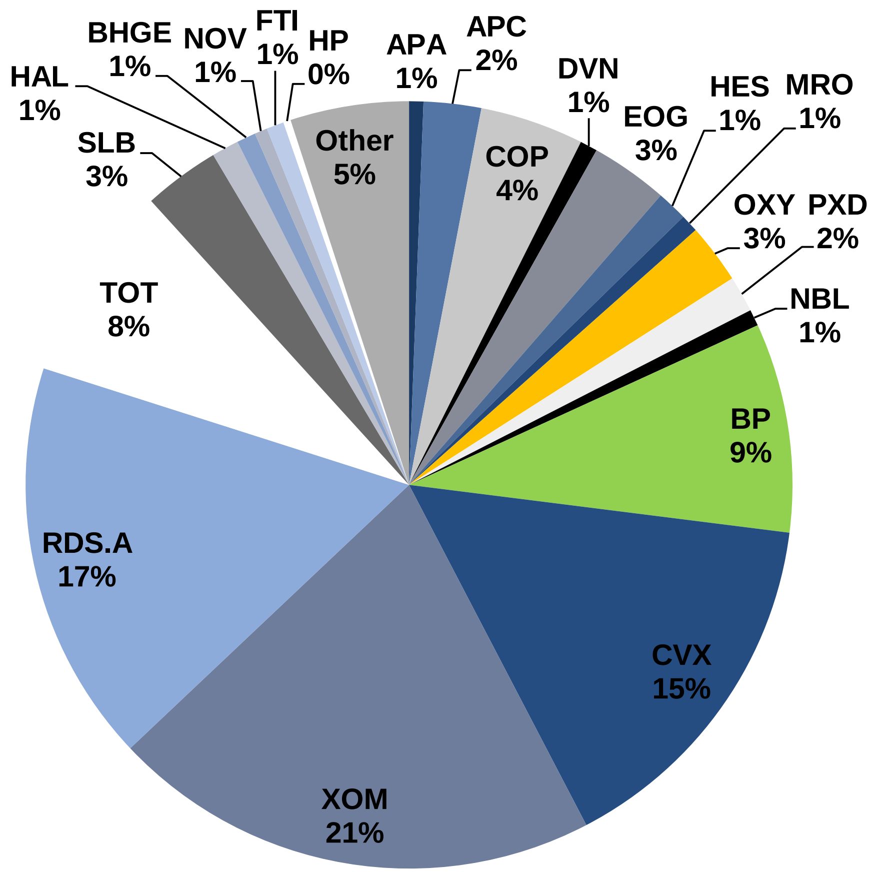
+1 212-653-9047

james.west@evercoreisi.com

Energy Corporate Governance "State of the Union 2019"

- How Did We Get Here?
- Annual Pay Factors: Do They Matter?
- Long-Term Pay: The "Low Bar" in Energy
- Caveat Emptor For Energy Investors vs. S&P 500, Cyclical Peers
- Generalists Will Continue to Avoid Energy Until Boards Make 4 Changes

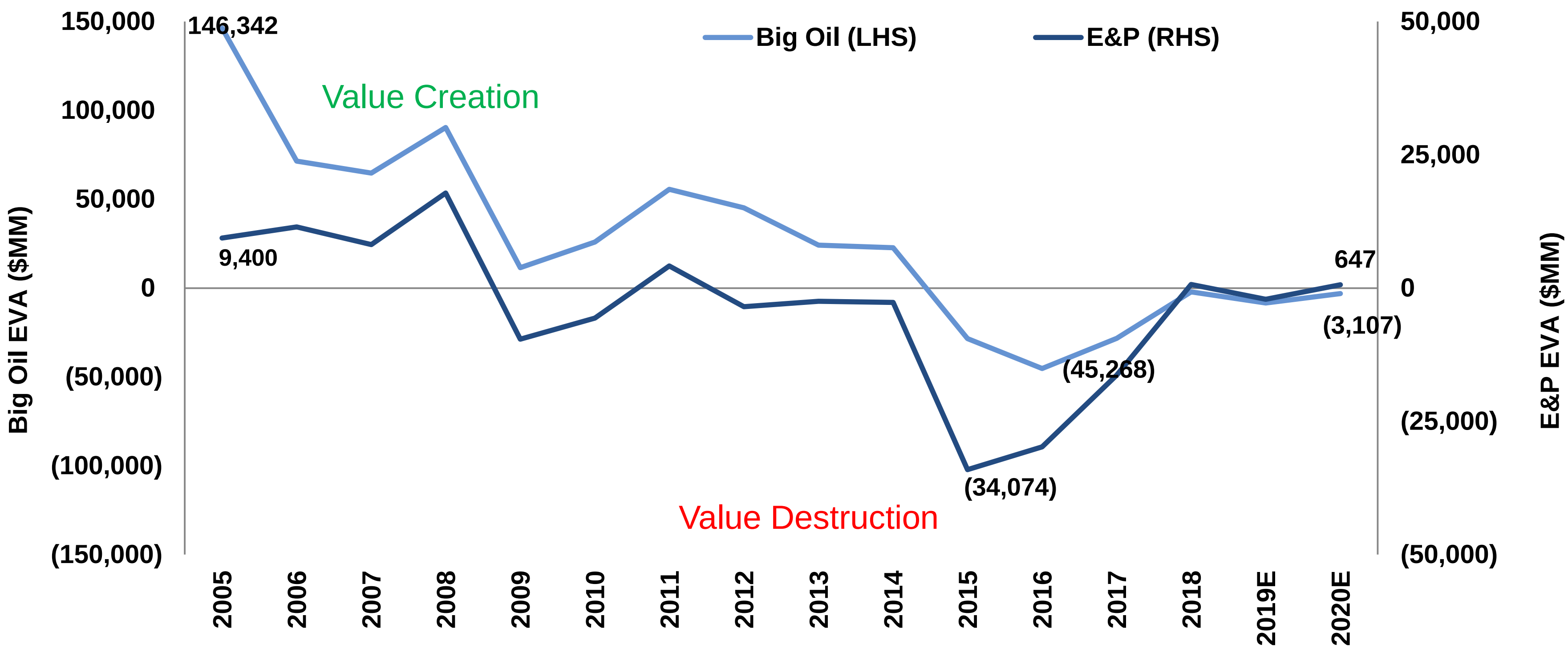
Our Presentation Comprehensively Covers The Energy Sector



Source: FactSet, Evercore ISI Energy Research

The companies in our study represent 95% of market capitalization in S&P Energy.

Understanding The Drivers of Energy CEO Behavior Is Important



Source: Company Data, Evercore ISI Energy Research; Chart includes 5 IO's and historical S&P E&P components

Understanding the drivers of CEO behavior is important to investors in any sector. In Energy, understanding incentives for compensation provides insight into the predominance of growth at the expense of value plans and the decline in value creation during the past decade. Even more important is whether behavior that has been oppositional to the interests of shareholders will change. Investors with foreknowledge of this outcome will perform in superior fashion in the equity market, in our opinion (see "The Pledgers").

The CEO Pay Setting Process in Energy

Compensation and performance peer groups are chosen by the board based on size, capitalization, revenues etc.

A pay package targeting the 50th, 75th, or 90th percentiles (PCTL) of peer group CEO pay is chosen by the board.

The amount and type of CEO pay is reported in the Summary Compensation Table (SCT) as: Salary (10%), Annual Bonus (20%) and Long-Term Pay (70%).

Annual Bonus is set by performance against pre-set goals with cash payout at the end of 1 year. Because Big Oil and E&P CEO's earned 124% of target pay and pay exceeded target 77% of the time (3 yrs.), we question whether incentives and thresholds matter. Otherwise, this is a quasi-salary element.

Long-term pay is denominated in: 1) performance-shares (PSU's), 2) phantom shares and 3) restricted shares (RSU's), and vest over 3 years. PSU's and RSU's are contingent upon performance and time respectively with payout in equity at vest. Phantom shares convert to cash at vest (COP, CVX).

PSU award size is mostly set by TSR relative to Energy peers. Because Energy TSR was -40% vs. S&P 500 at 50% (5 yrs.); the bar was obviously lower for Energy CEO target pay than for Cyclical peers, where S&P 500 is the main peer comparator.

Peer Grouping = Pay Setting

ExxonMobil's Compensation Peers

Compensation Benchmark Companies		
AT&T	Boeing	Chevron
Ford	General Electric	General Motors
IBM	Johnson & Johnson	Pfizer
Procter & Gamble	United Technologies	Verizon

Performance Peers			
Chevron	Shell	Total	BP

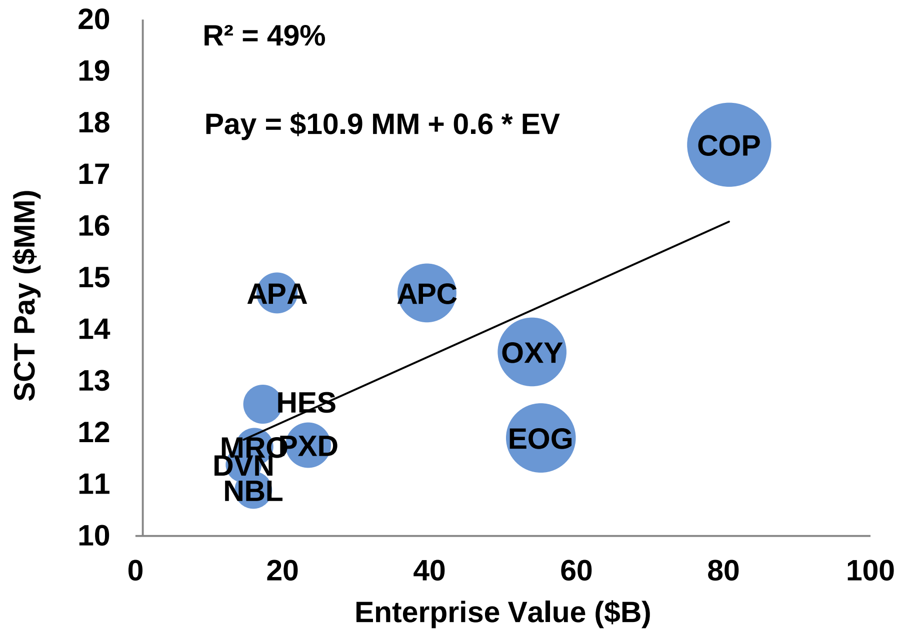
Pioneer's Compensation and Performance Peers

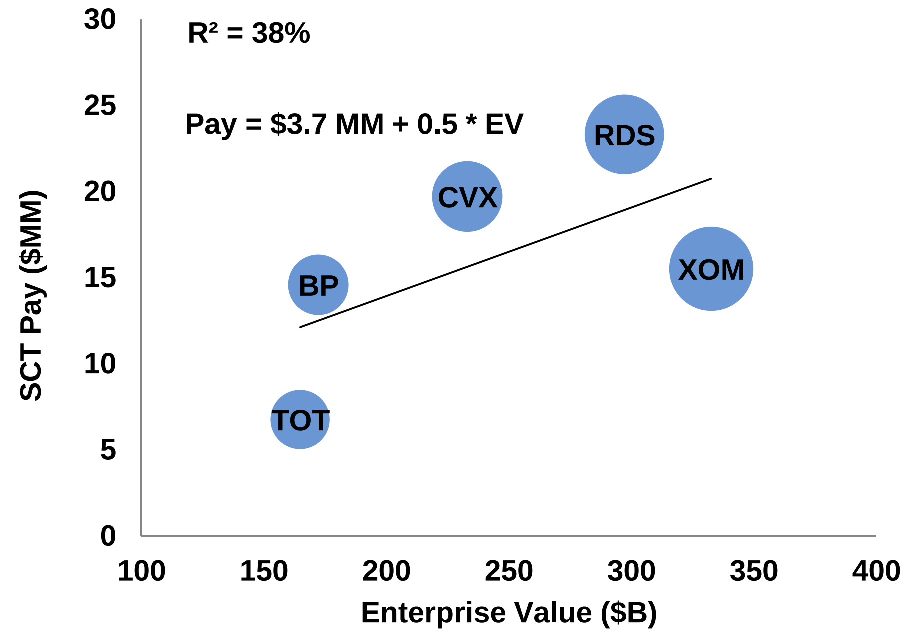
Tier 1 Companies	Enterprise Value (1) ($ million)	Market Cap. (2) ($ million)
EOG Resources, Inc.	$61,200	$55,862
Anadarko Petroleum Corporation	$41,354	$27,372
Devon Energy Corporation	$31,969	$19,292
Apache Corporation	$25,625	$17,447
Concho Resources Inc.	$21,513	$19,434
Continental Resources Inc.	$20,868	$14,329
Noble Energy, Inc.	$20,820	$13,700
Hess Corporation	$20,442	$14,903
Marathon Oil Corporation	$16,119	$11,524
Cabot Oil & Gas Corporation	$13,376	$12,372

Source: Company Data, Evercore ISI Energy Research

The CEO pay level for every Big Oil plus ConocoPhillips emanates from compensation peer group pay ranges (see ExxonMobil above). In E&P, Performance peers serve both "Peer Grouping" functions including: 1) setting the level of CEO pay and 2) measurement of CEO performance vs. peers (see Pioneer above).

Enterprise Value Vs. CEO Pay: Prominent in Energy





Source: Company Data, FactSet, Evercore ISI Energy Research

After selecting the peer group, the board creates a pay package that targets the 50th, 75th, or 90th percentiles (PCTL) of CEO pay in the group. Targeting pay levels below the 50th PCTL is rarely, if ever, done because it could send a message regarding the merit of an executive, as embodied in pay relative to peers. Of course, if all companies in all industries target above the 50th PCTL, then there will be an upward bias to pay irrespective of CEO performance and shareholder outcomes.

Key points on "peer grouping" are: 1) given the lack of subjective criteria for inclusion, the peer group is prone to manipulation, 2) above median targeting creates upward bias for pay, and 3) high performance and pay for a few top executives' raises wages for others, even if performance by the others is poor.

Pay Plan Design Seeks Alignment of Interests

	REWARD ELEMENT	FORM	PURPOSE
FIXED	Base Salary	Cash	Provides a fixed level of competitive base pay to help attract and retain strong executive talent through a full career
AT RISK	Incentive Plan	Cash	Reward NEOs for annual corporate, business unit and individual performance
AT RISK	Long Term Incentive Plan (LTIP)	- Stock options - Performance Shares - Restricted Stock Units	Reward creation of long-term stockholder value
BENEFITS	Retirement Plans / Savings Plans	Lump Sum or Annuity Savings Plans	Provide retirement benefits designed to achieve a base level of replacement pay upon retirement

Source: Company Data, Evercore ISI Energy Research

Boards seek to structure compensation to align interests of senior executives with business priorities and sustainable growth in long-term shareholder value. An appropriate mix of short and long term, variable and non-variable, retention and performance-based incentives are utilized to attain objectives.

The Cornerstone: Summary Compensation Table Data

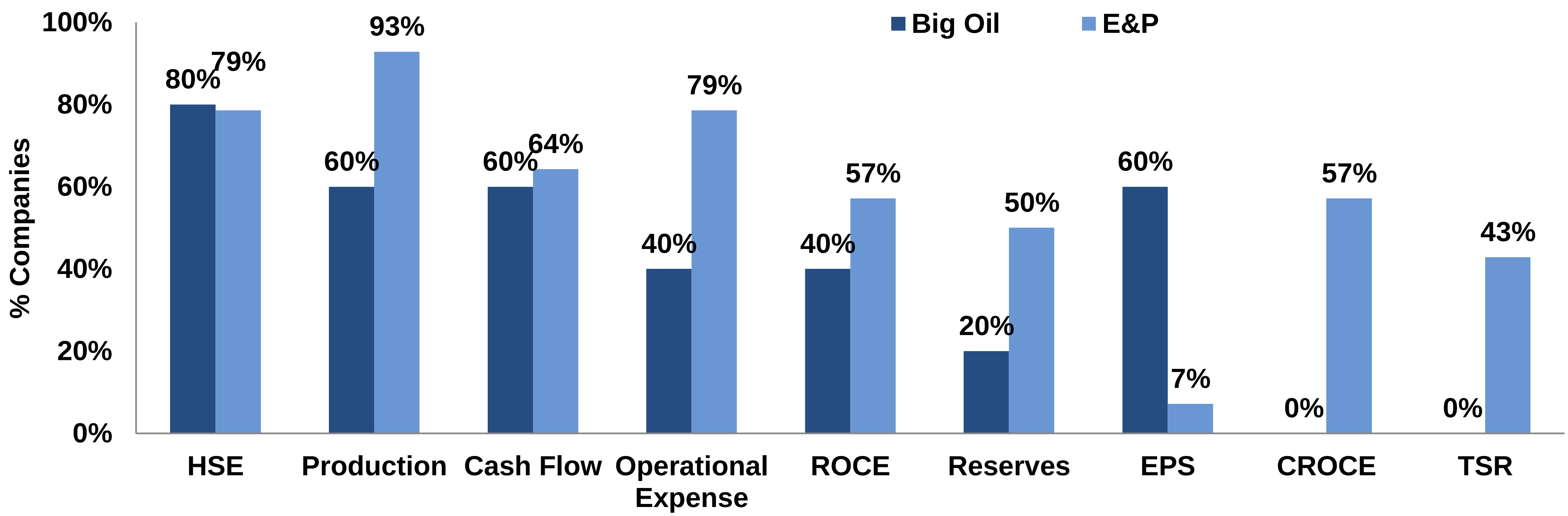
Name and Principal Position	Year	Salary (1)	Bonus	Stock Awards (2)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
		($)	($)	($)	($)	($)	($)	($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)	(j)
Timothy L. Dove Former President and Chief Executive Officer	2018	$1,111,550	$—	$8,808,345	$—	$1,838,850	$178,046	$11,936,791
	2017	$865,398	$—	$8,478,035	$—	$1,462,500	$128,311	$10,934,244
	2016	$672,808	$—	$4,813,872	$—	$1,350,000	$108,890	$6,945,570
Richard P. Dealy Executive Vice President and Chief Financial Officer	2018	$597,246	$—	$3,135,398	$—	$840,000	$92,394	$4,665,038
	2017	$579,390	$—	$3,088,581	$—	$727,500	$96,538	$4,492,009
	2016	$555,131	$—	$3,382,748	$—	$1,130,000	$89,312	$5,157,191
Mark S. Berg Executive Vice President, Corporate/Vertically Integrated Operations	2018	$472,702	$—	$2,518,745	$—	$570,000	$88,672	$3,650,119
	2017	$456,934	$—	$2,483,021	$—	$460,000	$95,175	$3,495,130
	2016	$437,846	$—	$2,730,938	$—	$704,000	$76,723	$3,949,507
Chris J. Cheatwood Executive Vice President and Chief Technology Officer	2018	$472,702	$—	$2,518,745	$—	$467,400	$94,292	$3,553,139
	2017	$456,934	$—	$2,483,021	$—	$460,000	$89,666	$3,489,621
	2016	$440,615	$—	$2,730,938	$—	$633,600	$87,564	$3,892,717
J.D. Hall Executive Vice President, Permian Operations	2018	$560,562	$—	$3,223,126	$—	$690,200	$99,952	$4,573,840
	2017	$448,438	$—	$3,027,988	$—	$453,600	$87,266	$4,017,292
	2016	$419,538	$—	$2,385,436	$—	$672,000	$84,792	$3,561,766

Source: Company Data, Evercore ISI Energy Research

The Summary Compensation Table (SCT) has been the cornerstone of the SEC's required disclosure on executive compensation since 2007. It contains the amount and type of compensation for the CEO, CFO and the next 3 most highly compensated executives. These are also known as Named Executive Officers or NEO’s.

SCT pay includes: salary (10%), annual bonus (20%) and long-term pay (70%). The pay structure for S&P 500 CEO’s is in parentheses and is similar in Energy. The SEC requires disclosure on the criteria used in reaching executive pay decisions and the relationship between executive pay practices and corporate performance.

Annual Pay: Emphasizes Safety, Resource Growth

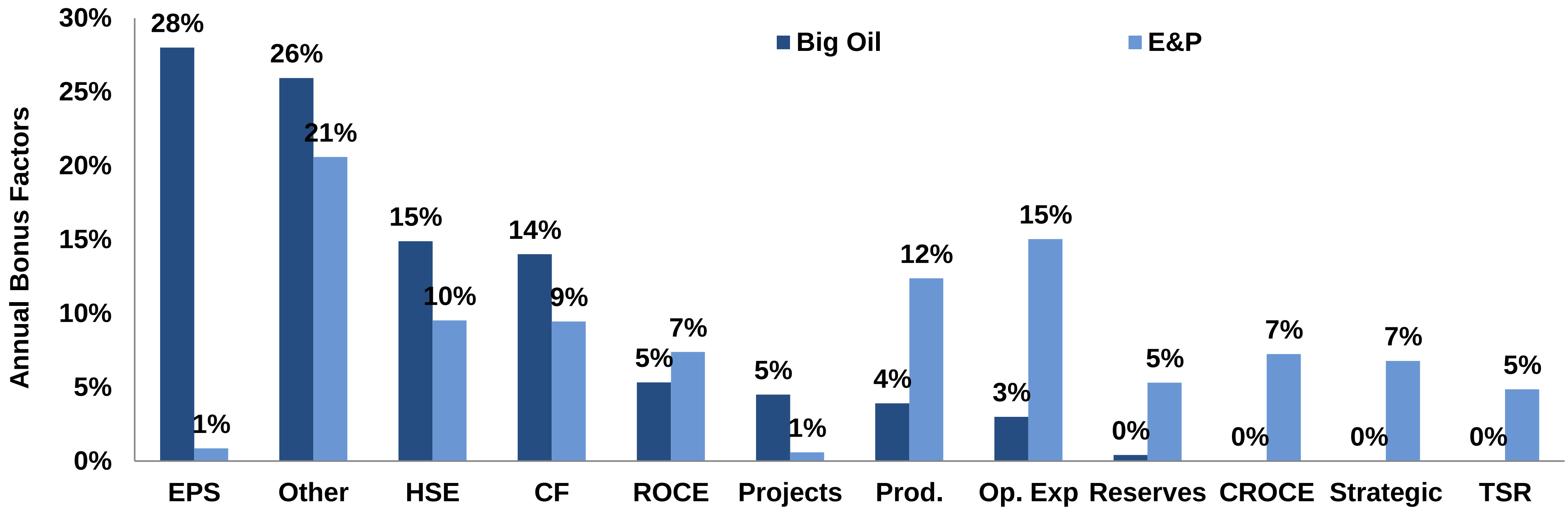


Source: Company Data, Evercore ISI Energy Research; Chart includes 5 IO's and 14 E&P components

Annual bonus pay represents 17% of target compensation for Big Oil and E&P's. Almost every company holds an incentive for safety. Incentives for production, cash flow and operating costs are utilized by most entities too.

ROCE, CROCE, and EPS were utilized by a minority of companies for annual bonuses. EVA is not used by *any* Energy company as a CEO pay incentive, which may explain the significant decline in ROCE, EVA and valuation in Energy during the past 5 and 10 years, and poor equity market performance too (page 5).

Incentives: Big Oils - Financial Factors, E&P's - Resource Growth

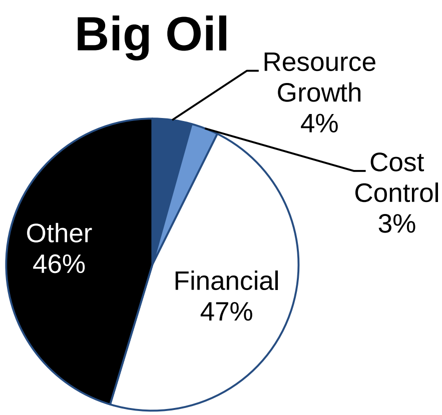


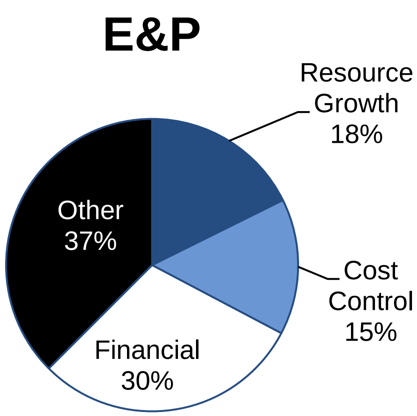
Source: Company Data, Evercore ISI Energy Research; Chart includes 5 IO's and 14 E&P components

Integrated Oils place the highest emphasis on financial factors such as EPS, CF and ROCE (47% of total incentives). In E&P, operational expense and resource growth is prominent with EPS, CF and ROCE having a weighting of only 25%.

While many incentives are used, Big Oils and E&P CEO pay incentives fall into 4 primary categories: 1) resource growth, 2) expense management, 3) "other" 4) and financial related (see next page).

Big Oils: Preserving and Creating Value.
E&P: Resource Growth





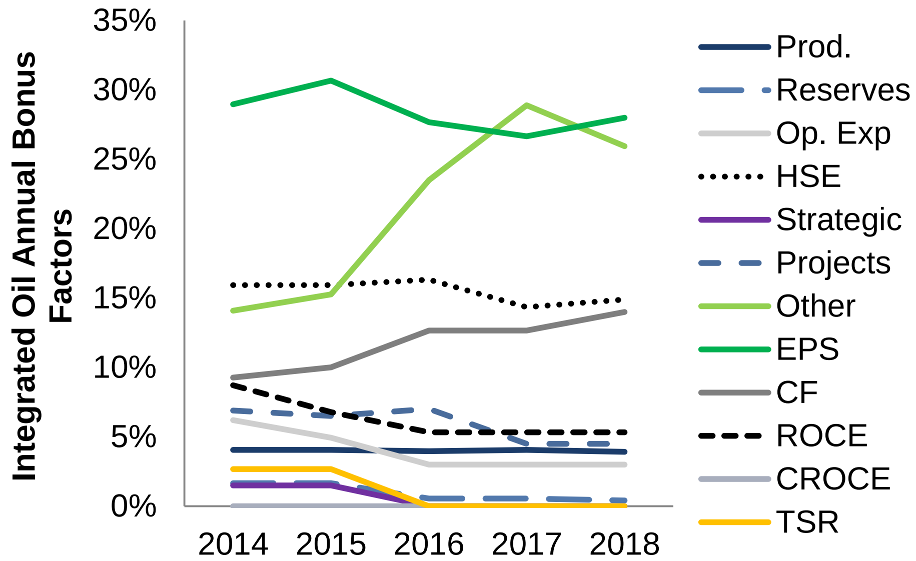
2018	Resource Growth		Control	Other				Growth		Value		
Big Oil	Prod.	Reserves	Op. Exp	HSE	Strategic	Projects	Other	EPS	CF	ROCE	CROCE	TSR
BP			10%	20%			30%	20%	20%			
CVX	5%		5%	15%		10%	15%	20%	20%	10%		
XOM								100%				
RDS	13%			20%		13%	25%		30%			
TOT	2%	2%		19%			60%			17%		
Average	4%	0%	3%	15%	0%	5%	26%	28%	14%	5%	0%	0%

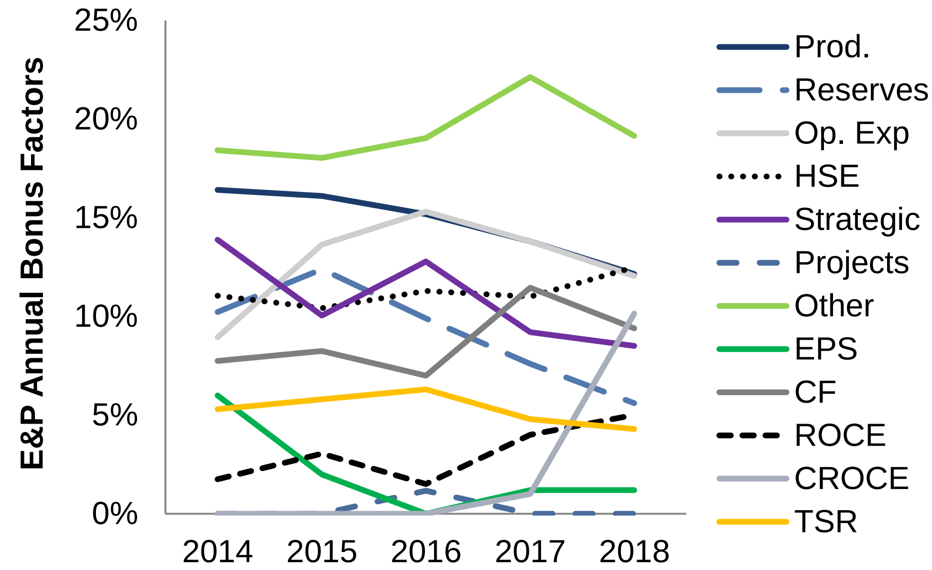
			Cost					Financial				
Diversified	Resource Growth		Control	Other				Growth		Value		
E&P	Prod.	Reserves	Op. Exp	HSE	Strategic	Projects	Other	EPS	CF	ROCE	CROCE	TSR
APA	5%	5%	10%	10%	27%		10%		5%	8%	20%	
APC	20%	20%	20%	20%							20%	
COP	5%		5%	20%			30%			10%	10%	20%
DVN	15%			10%	10%		40%				15%	10%
HES	20%	15%	15%	20%			15%		8%		8%	
MRO	18%		18%	7%			11%		33%		15%	
OXY	10%		10%	12%			32%	12%	12%		12%	
NBL	10%	6%	20%	8%	12%		15%		17%	2%	2%	8%
Average	13%	6%	12%	13%	6%	0%	19%	2%	9%	3%	13%	5%

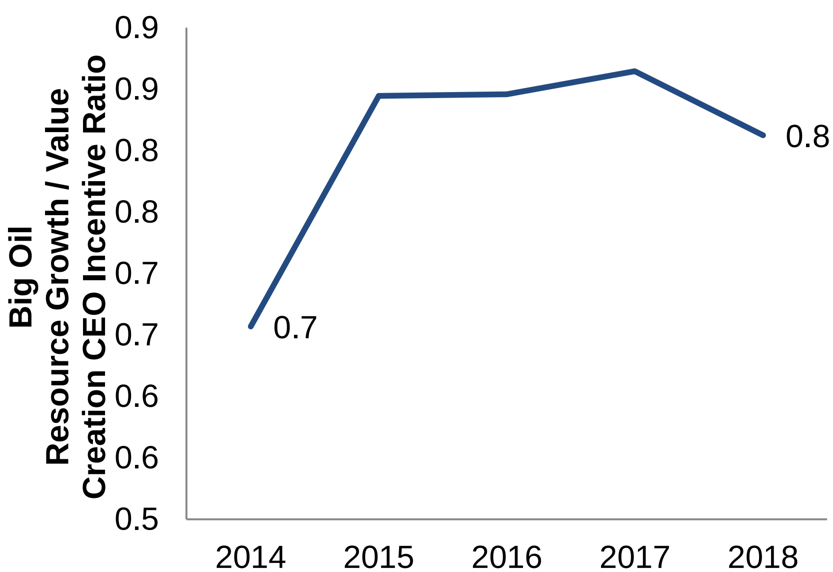
			Cost					Financial				
Onshore Growth	Resource Growth		Control	Other				Growth		Value		
E&P	Prod.	Reserves	Op. Exp	HSE	Strategic	Projects	Other	EPS	CF	ROCE	CROCE	TSR
EOG	4%		8%	8%	16%		39%		5%	15%		5%
PXD	15%	10%	15%	10%	20%				15%	15%		
XEC	17%	8%		8%		8%	42%		8%	8%		
CXO	20%		30%		10%		30%					10%
FANG			60%				20%			20%		
CLR	15%	10%					5%		30%	25%		15%
Average	12%	5%	19%	4%	8%	1%	23%	0%	10%	14%	0%	5%

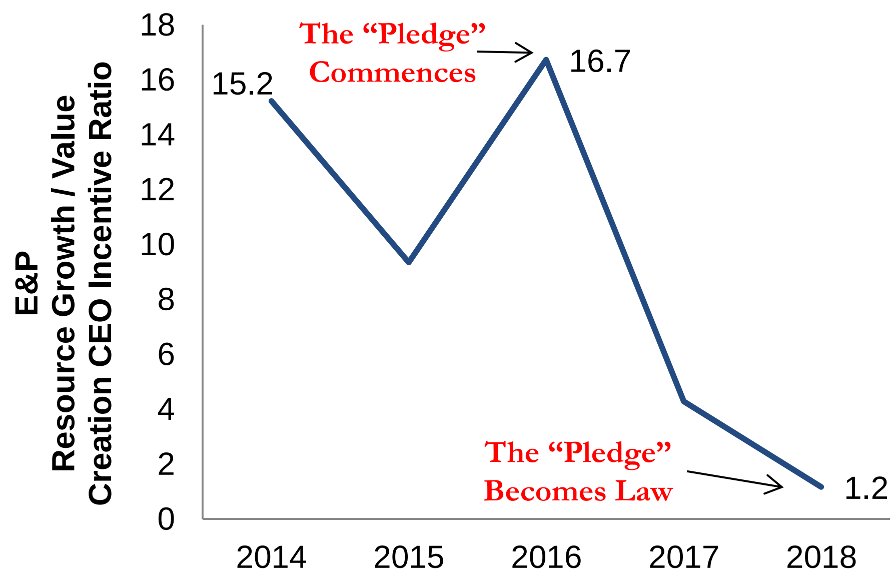
Source: Company Data, Evercore ISI Energy Research
XEC doesn't allocate specific % to performance factors. We manually allocate % to performance factors for XEC.

Big Oils: Preserving and Creating Value.
E&P: Resource Growth









Source: Company Data, Evercore ISI Energy Research

Annual Bonus Calculation

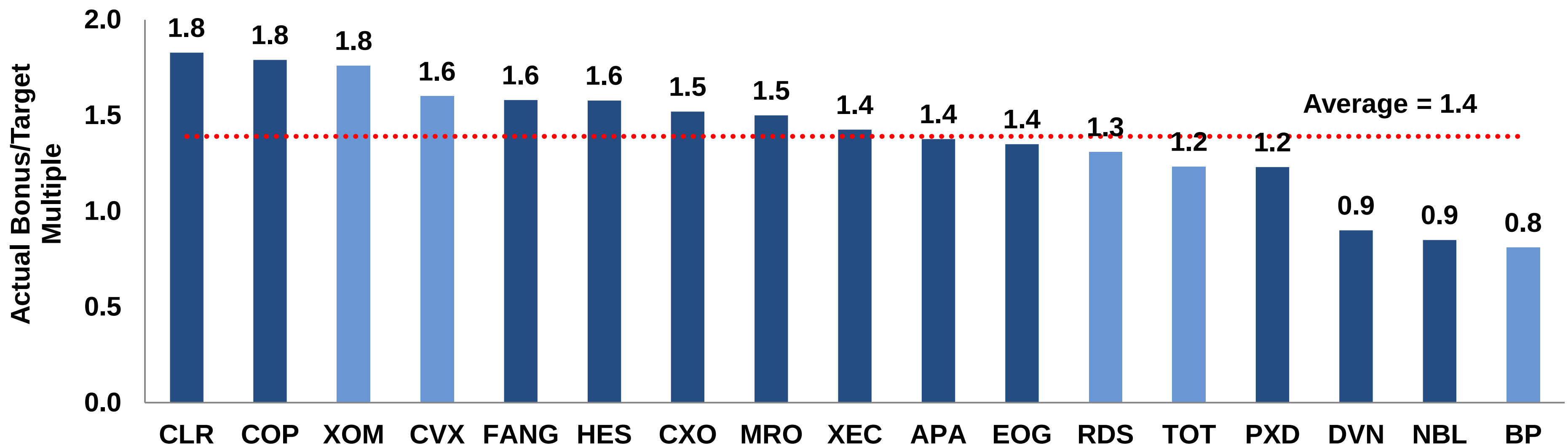
Performance Goal	Target Performance	Performance Result	Relative Weight	Payout (% of Target)	Weighted Payout
Permian Basin production per share growth	≥21.5%	26%	15%	135%	20%
Return on capital employed (1)	≥7%	9%	15%	120%	18%
Ratio of net debt to EBITDAX (2)	≤0.1x	0.3x	15%	100%	15%
Permian Basin base lease operating and corporate general and administrative costs/BOE	≤10.25	$10.08	15%	110%	17%
Permian Basin proved reserves per share growth (3)	≥19%	27%	10%	115%	11%
Health, safety and environmental (4)			10%	139%	14%
Certain strategic goals (5)			20%	140%	28%
Total performance factors			100%		123%
Discretionary factor (not to exceed +/- 33%)					–
Final performance score					123%

Source: Company Data

Annual pay is set by performance on metrics which are deemed to be important to all stakeholders. These metrics provide management with information with which to ensure measurable progress toward company-wide goals. If metrics are well selected and pay thresholds are challenging, strategic planning transforms positive actions into higher shareholder value. Because these factors are disclosed to investors, shareholders can evaluate the rigor of company goals and their goal-setting processes.

Pioneer's board required the CEO to deliver ROCE over 7% in 2018, which exceeded consensus expectations at the time. However, because ROCE was only 15% of annual bonus, which was only 15% of total pay; ROCE was only 2% of total CEO pay. The Board and management were not overly committed to ROCE, which may be why financial results disappointed and the CEO was replaced. Pioneer management's score of 123% is multiplied by its pre-set target bonus of $1.5 MM to attain its 2018 CEO bonus award of $1.8 MM (page 11).

Do Incentives Matter if Bonuses Exceed 100% of Target Most Years?

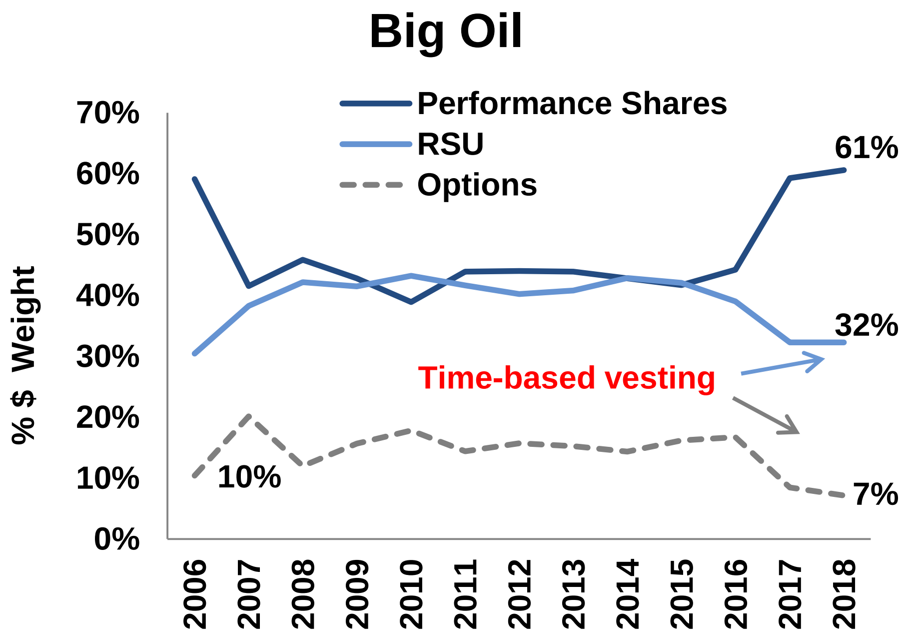


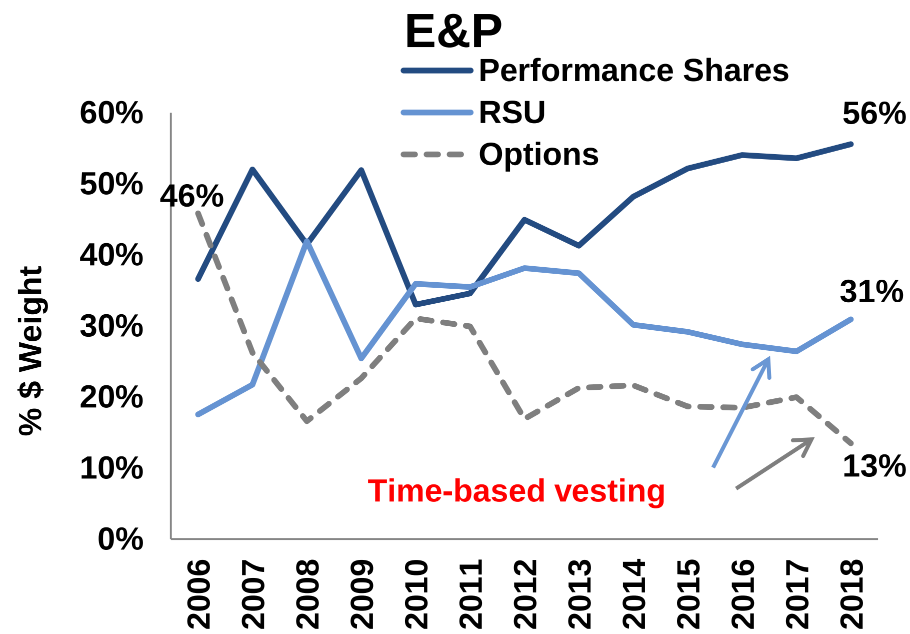
Source: Company Data, Evercore ISI Energy Research

Big Oil and E&P CEO's earned 123% and 116% of target bonus pay on annual TSR of 1.2% and -11.0% (5 years). Energy CEO's earned target pay 72% of the time. Brent was $65/bbl during the period. By contrast, S&P 500 CEO's earned target pay 76% of the time but posted annual TSR of 8.4% during the same period. The Energy Pay For Performance (P4P) outcome was obviously inferior to that for S&P 500 i.e. alternative areas of investment.

If annual CEO pay exceeds target almost every year we question whether: 1) pay incentives and performance thresholds even matter and 2) annual pay is truly "at-risk" or variable, at least to the downside? If not, annual pay is a quasi-salary element and the Boards annual pay process lacks credibility.

Long-Term Pay: Performance/Time Vesting Awards (60/40)





Source: Company Data, Evercore ISI Energy Research; Charts include 5 IO's and historical S&P E&P components

Long-term pay awards are granted annually and usually vest over a 3 year period. Award types include: 1) performance vesting units (PSU's – equity received at vest), 2) phantom stock (shares convert to cash at vest) and 3) time vesting restricted stock units (RSU's).

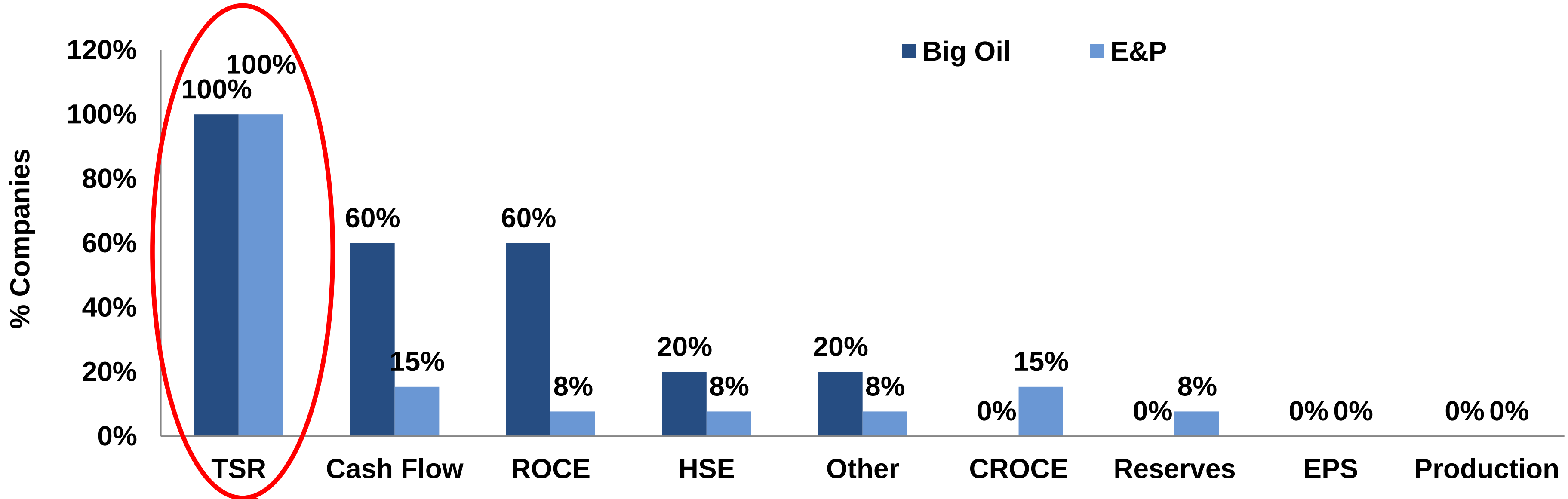
Performance-based awards foster alignment between executives' interests and company-specific performance and are usually denominated in company shares at vest. Time-based awards are contingent upon continued employment and contain a retention incentive. Glass Lewis excludes time-vesting stock options from performance based compensation calculations.

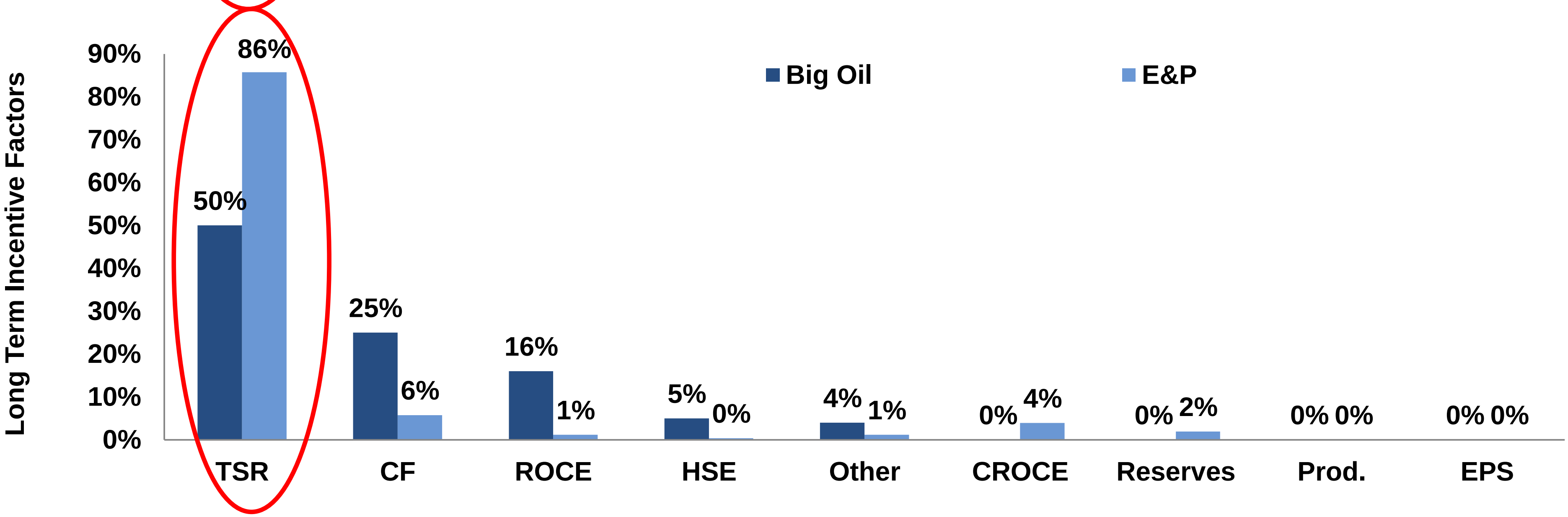
Long-Term Pay: CEO Award Structure

	CEO Name	SCT Pay ($M)	Performance Shares (PSU) Payouts in Shares	Performance Shares (PSU) Payouts in Cash	Restricted Stock (RSU) (Time Based)	Stock Options	Total	Post 3-Yr. Vest Holding Period
BP	Bob Dudley	14,587	100%				100%	3
CVX	Michael Wirth	19,713		50%	25%	25%	100%	0
XOM	Darren Woods	15,512	100%				100%	7
RDS	Ben van Beurden	23,316	100%				100%	3
TOT	Patrick Pouyanné	6,771	100%				100%	2
APA	John Christmann IV	14,705	50%		35%	15%	100%	0
APC	Al Walker	14,703	50%		25%	25%	100%	0
COP	Ryan Lance	17,575		65%	35%		100%	0
DVN	Dave Hager	11,377	50%		50%		100%	0
EOG	Bill Thomas	11,898	50%		25%	25%	100%	0
HES	John Hess	12,550	60%			40%	100%	0
MRO	Lee Tillman	11,725	50%		30%	20%	100%	0
OXY	Vicki Hollub	13,563	70%		30%		100%	0
PXD	Scott Sheffield	11,759	50%		50%		100%	0
NBL	Dave Stover	10,887	50%		35%	15%	100%	0
XEC	Tom Jorden	9,617	50%		50%		100%	0
CXO	Tim Leach	13,022	67%		33%		100%	0
FANG	Travis Stice	10,504	100%				100%	0
CLR	Harold Hamm LLM	13,256			100%		100%	0

Source: Company Data, Evercore ISI Energy Research

Long-Term Pay: Dominated By TSR vs. Energy Peers

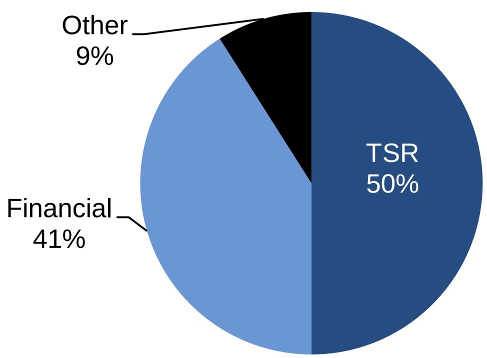




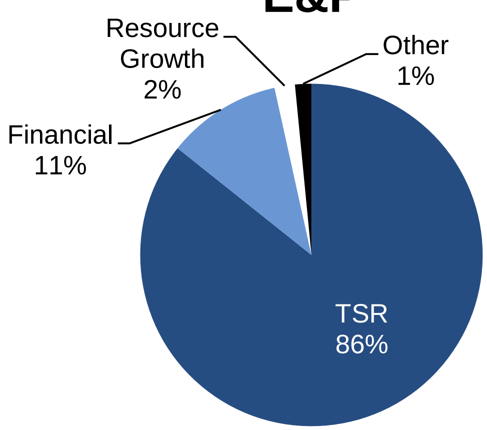
Source: Company Data, Evercore ISI Energy Research; Charts include 5 IO's and 14 E&P components

Long-Term Pay: Dominated by TSR vs Energy Peers

Big Oil



E&P



2018	Resource Growth		Other		Growth		Value		
Big Oil	**Prod.**	**Reserves**	**HSE**	**Other**	**EPS**	**CF**	**ROCE**	**CROCE**	**TSR**
BP				20%			30%		50%
CVX									100%
XOM			25%			25%	25%		25%
RDS						50%	25%		25%
TOT						50%			50%
Average	0%	0%	5%	4%	0%	25%	16%	0%	50%

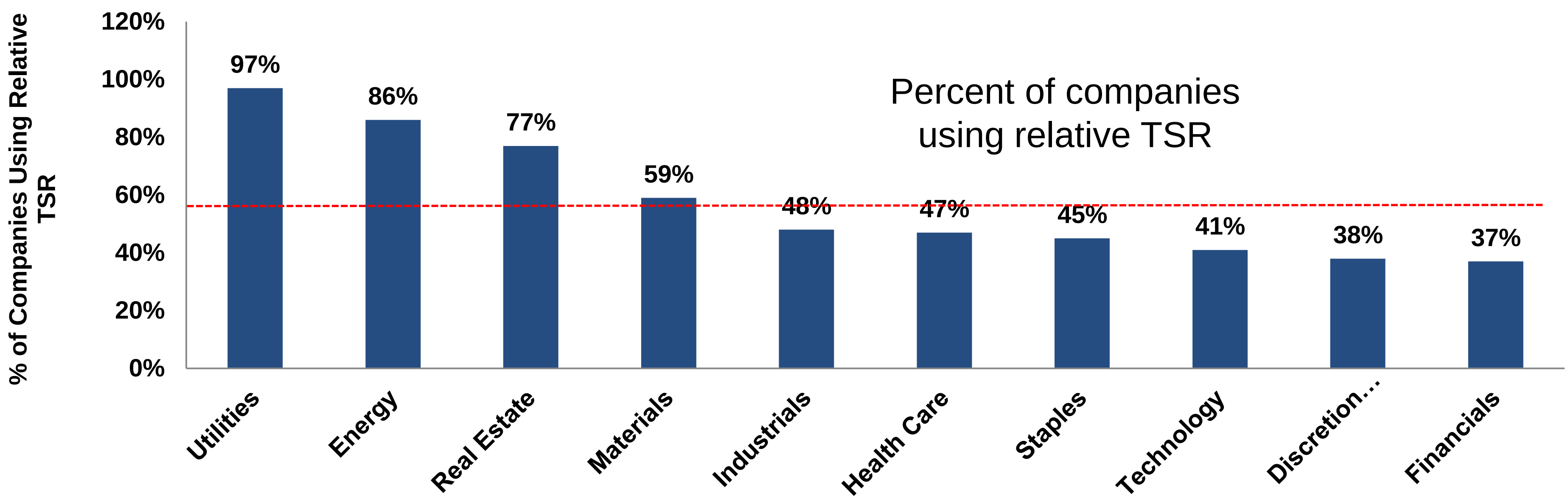
* S&P 500 is 25% of Chevron's comparator peer group

Diversified	Resource Growth		Other		Growth		Financial Value		
E&P	**Prod.**	**Reserves**	**HSE**	**Other**	**EPS**	**CF**	**ROCE**	**CROCE**	**TSR**
APA		25%				25%			50%
APC									100%
COP			5%	15%			15%	15%	50%
DVN						50%			50%
HES									100%
MRO									100%
OXY								36%	64%
NBL									100%
Average	0%	3%	1%	2%	0%	9%	2%	6%	77%

Onshore Growth	Resource Growth		Other		Growth		Financial Value		
E&P	**Prod.**	**Reserves**	**HSE**	**Other**	**EPS**	**CF**	**ROCE**	**CROCE**	**TSR**
EOG									100%
PXD									100%
XEC									100%
CXO									100%
FANG									100%
CLR									
Average	0%	0%	0%	0%	0%	0%	0%	0%	100%

Source: Company Data, Evercore ISI Energy Research
CLR doesn't have performance shares program.

Beware Relative TSR in Energy



Source: Company Data, Evercore ISI Energy Research

For PSU's, Energy and Utility companies utilize relative TSR more than the other 8 groups of S&P 500. An important distinction is that Energy TSR is relative to Big Oil and E&P peers. The problem is that when the industry is in value-destruction mode as Big Oil and E&P were during the past decade (page 5), CEO compensation can remain high as long as management teams destroy less value than peers.

This is obviously not the path to prosperity for shareholders in any industry and undermines shareholder alignment. Investors have divested the sector with S&P Energy declining from 14% to 5% of S&P 500 during the past decade. While all companies surely seek higher absolute returns (ROCE, EVA) because they connect to intrinsic value in equity market; CEO incentives in this area (ROCE, EVA etc) remain scarce in Energy CEO pay plans (see next page).

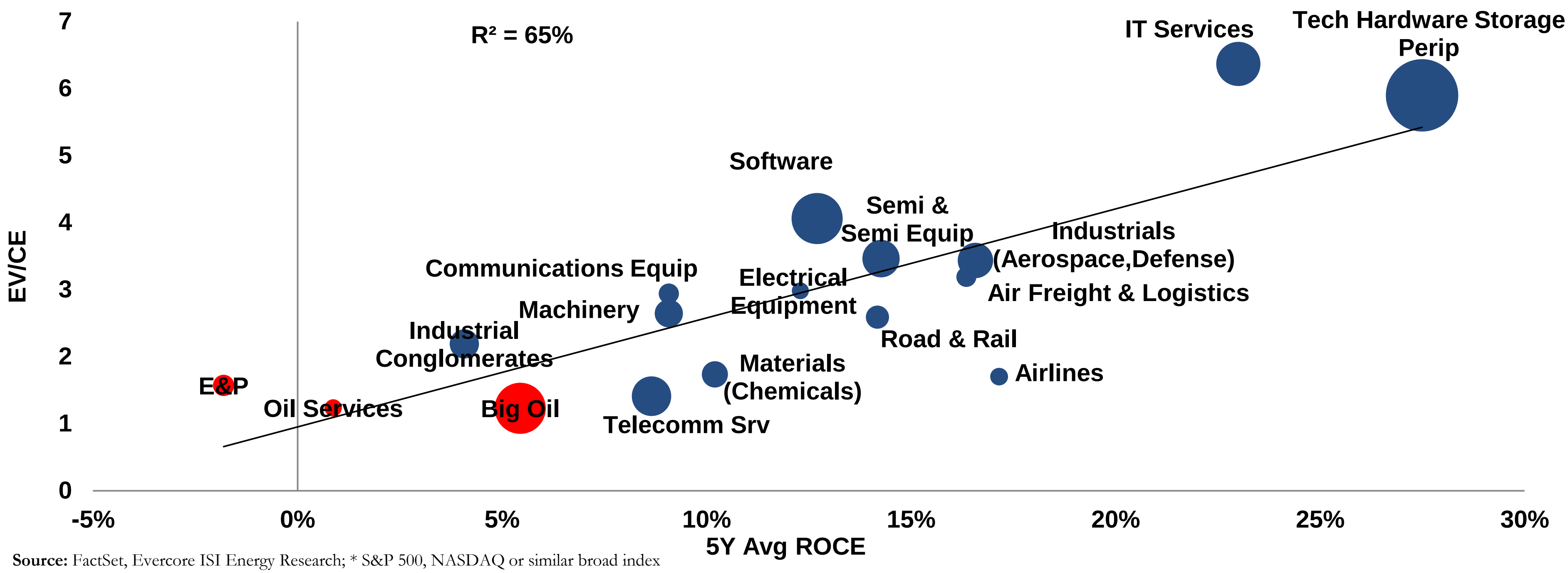
Caveat Emptor For Energy Investors

While almost every Materials, Tech and Industrial company utilizes absolute value-based measures for CEO pay and S&P 500 as a peer comparator for relative TSR, these features are conspicuously absent from Big Oil and E&P CEO pay plans.

This is probably why returns, valuation and shareholder outcomes remain superior in other Cyclical sectors.

Use of Big Oil and E&P's as peer comparators represent a "low bar" for CEO pay. Until this practice changes, it's Caveat Emptor for Energy investors (see next page).

Caveat Emptor For Energy Investors



Source: FactSet, Evercore ISI Energy Research; * S&P 500, NASDAQ or similar broad index

The majority of Energy CEO pay is set by TSR relative to Big Oil and E&P peers. When considering Big Oil and E&P ROCE of only 4.3% and TSR of -6.9%/yr. vs S&P 500 of 10.5% and 8.4%/yr. (5 years); the bar is obviously lower for Energy CEO pay than for CEOs in other Cyclical industries (which use S&P 500 as a peer comparator).

Companies in S&P Industrials, Materials and Technology rewarded shareholders with superior returns, valuation (see chart) and shareholder outcomes. If Energy ROCE declines during 2019-2020 as consensus envisions, this shareholder alignment defect will compound further.

Investors prefer CEO pay incentives to be benchmarked against S&P 500 similar to that of their investment management performance fees.

Long-Term Pay Calculation

TSR Rank Against Peers	Percentage of Performance Units Earned (1)
1	250%
2	200%
3	175%
4	150%
5	125%
6	110%
7	75%
8	50%
9	25%
10	0%
11	0%
12	0%

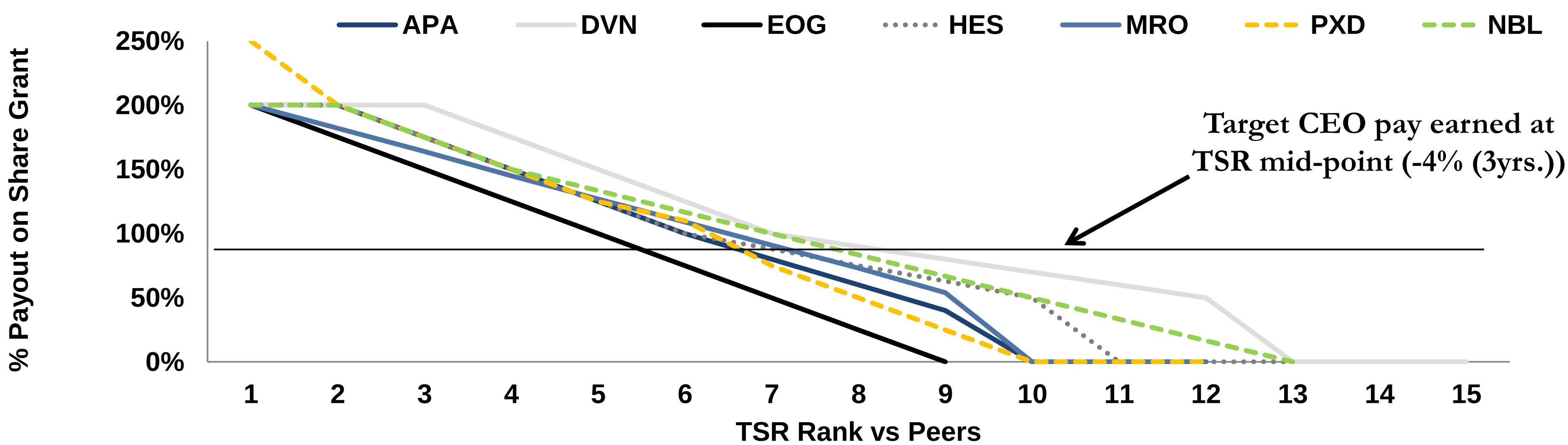
Ranking	Company	TSR (%)
1	Continental Resources Inc.	49
2	ConocoPhillips	34
3	Cabot Oil & Gas Corporation	33
4	EOG Resources, Inc.	29
5	Concho Resources Inc.	19
6	**Pioneer**	**5**
7	Marathon Oil Corporation	4
8	Hess Corporation	(2)
9	Anadarko Petroleum Corporation	(7)
10	Apache Corporation	(26)
11	Devon Energy Corporation	(29)
12	Noble Energy, Inc.	(31)

Accordingly, the performance shares earned by the NEOs for the 2016 to 2018 performance period were as follows:

NEO	Target Payout of Shares (#)	Payout % of Target	Actual Payout of Shares (#)
Timothy L. Dove	14,847	110%	16,332
Richard P. Dealy	10,433	110%	11,477
Mark S. Berg	8,423	110%	9,266
Chris J. Cheatwood	8,423	110%	9,266
J. D. Hall	7,357	110%	8,093

Pioneer's TSR of 5% was 6th out of 12 E&P companies and led to 110% payout on the PSU award. The CEO's share award increased from 14,847 to 16,332 shares for this reason. However, if S&P 500, which posted 22% TSR, were a peer comparator (see other Cyclicals), then realized pay would have been lower. The "lower bar" for Pioneer's CEO led to higher pay but questionable alignment.

Long-Term Pay: Performance Share Payout Ranges

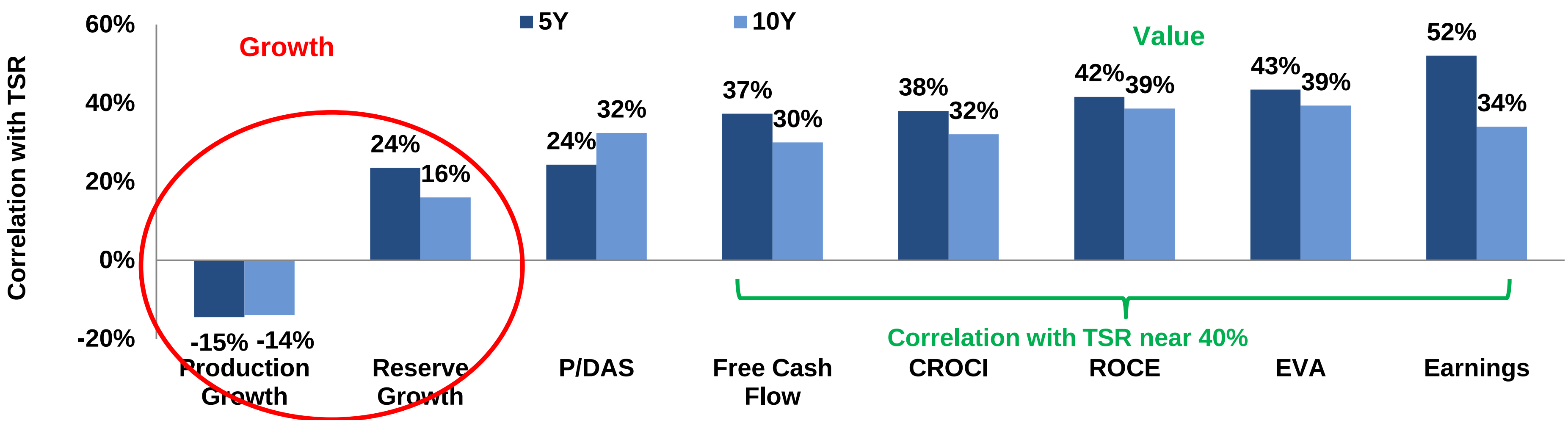


Source: Company Data, Evercore ISI Energy Research

E&P CEO's receive 0-200% of performance share payouts in long-term plans depending on TSR vs. Energy peers. Target pay of 100% is attained when equity market performance is near the mid-point of peers. Because payout ranges are much wider than performance ranges, small incremental performance changes are levered into larger payout ranges for most CEO's. Half of Big Oil and E&P CEO's do not have modifiers for relative TSR, which limit payouts when TSR is negative. Executives can therefore earn above-target payouts as long as TSR is less negative than peers.

Until relative TSR vs. Energy peers no longer dominates Energy CEO pay plans, Energy CEOs will be more incented to "follow the herd" or "closet index" than to grow value on an absolute basis, in our view. Indeed, returns and economic value declined steadily at every Big Oil and E&P during the past decade during a period in which relative TSR was prominent in Energy CEO pay plans. Whether intentional or not, relative TSR vs. Energy appears to have fostered this unfavorable outcome.

Evercore ISI's Shareholder Alignment Calculation



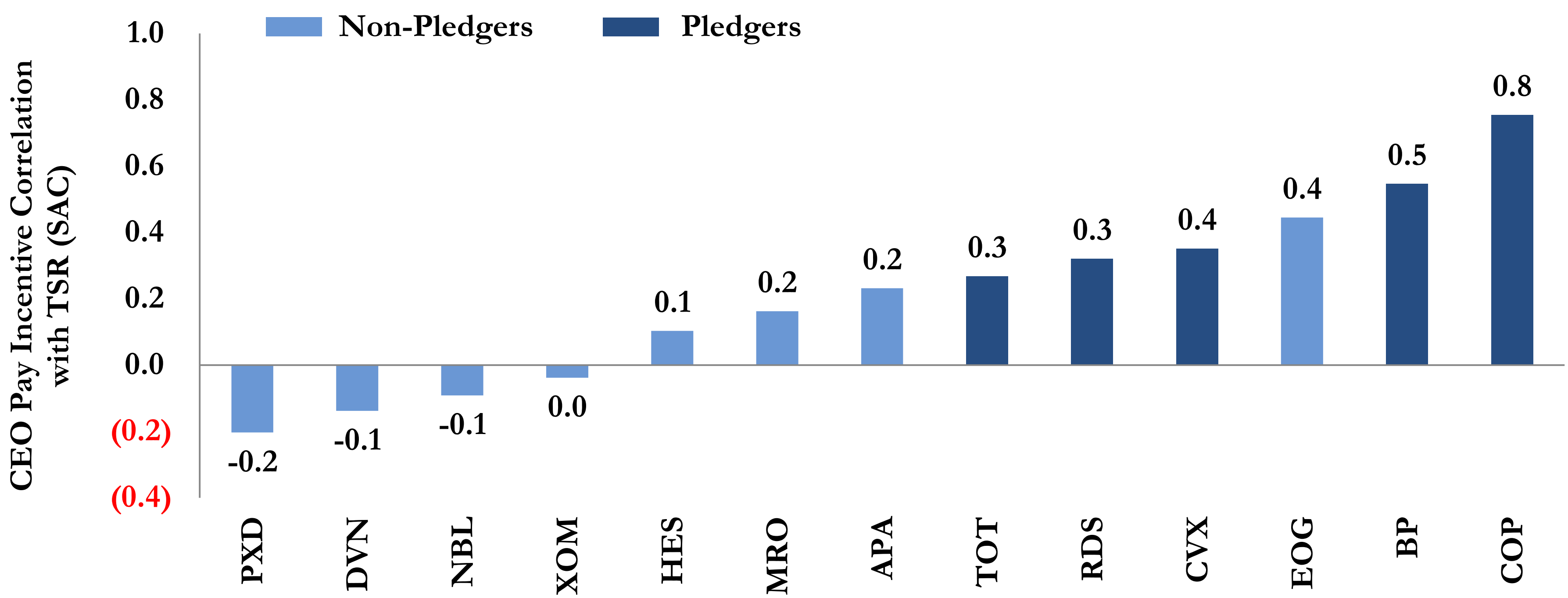
Ann. Bonus	Weight	Correlation
Prod/sh Growth	15%	-0.30
Reserve/sh Growth	10%	0.10
Net Debt/EBITDA	15%	-0.18
Costs/BOE	15%	0.08
ROCE	15%	-0.62
Total Measurable	70%	-0.20
% of Total Pay		13%
SAC		-0.20

LTIP	Weight	Correlation
TSRr	100%	*
Total Measurable	100%	*
% of Total Pay		39%

Source: Company Data, FactSet, Bloomberg, Evercore ISI Energy Research

Evercore ISI's Shareholder Alignment Coefficients or SACs, measure correlation between measurable CEO pay incentives and TSR. This is the best way to measure shareholder alignment, in our view. Reserve and production growth hold correlation near zero with TSR because they are not bound by credible, value-creation frameworks at Big Oil and E&P companies. Value-based measures: ROCE, EVA, FCF etc. are more likely to serve shareholders as they hold higher correlation with TSR. They are prominent CEO pay incentives in the other 10 sectors of S&P 500 for this reason, which is the alternative area of investment to Energy.

Beware Companies with Low Shareholder Alignment Coefficients (SAC's)

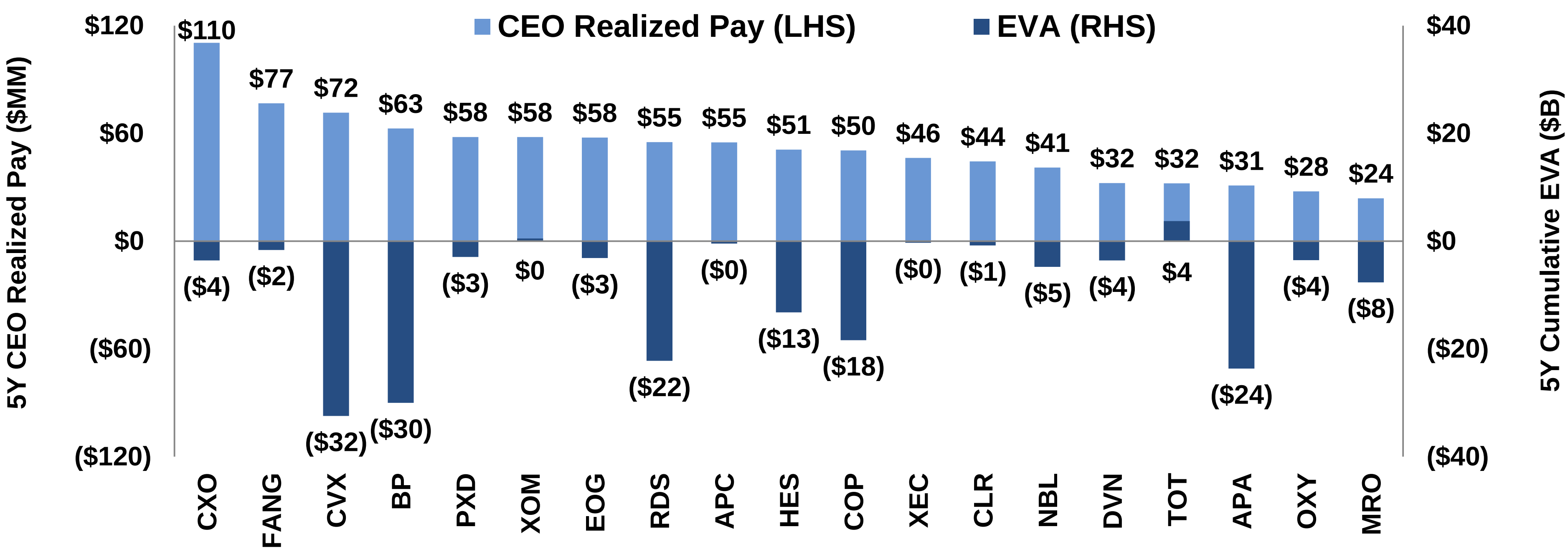


Source: Company Data, Bloomberg, FactSet, Evercore ISI Energy Research

"The Pledger's" offer the highest correlation between corporate strategies & CEO pay incentives (SACs) and the best TSR over 5 and 10 years ("Pledgers" are dark blue bars). The companies with the highest SACs are ConocoPhillips (0.8), BP (0.6) and EOG (0.4). These are all Buy rated equities. APC, COP and OXY had the greatest change in their SAC this year.

PXD (-0.2) and DVN (-0.1) posted the lowest shareholder alignment with their boards enabling management to employ strategies and CEO pay incentives that hold negative correlation with TSR. Both companies indicate plans for value based measures in the future.

Shareholder Alignment Matters to Investors

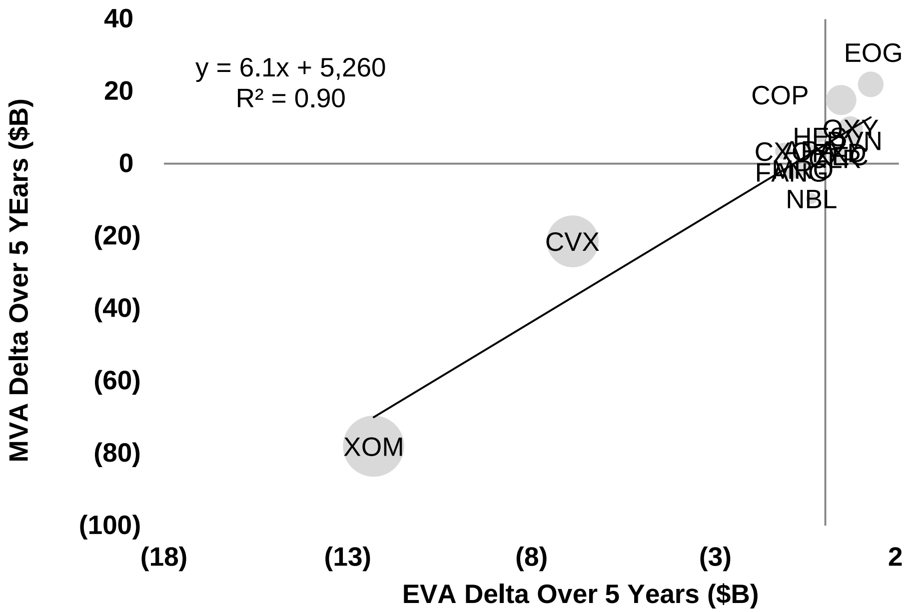


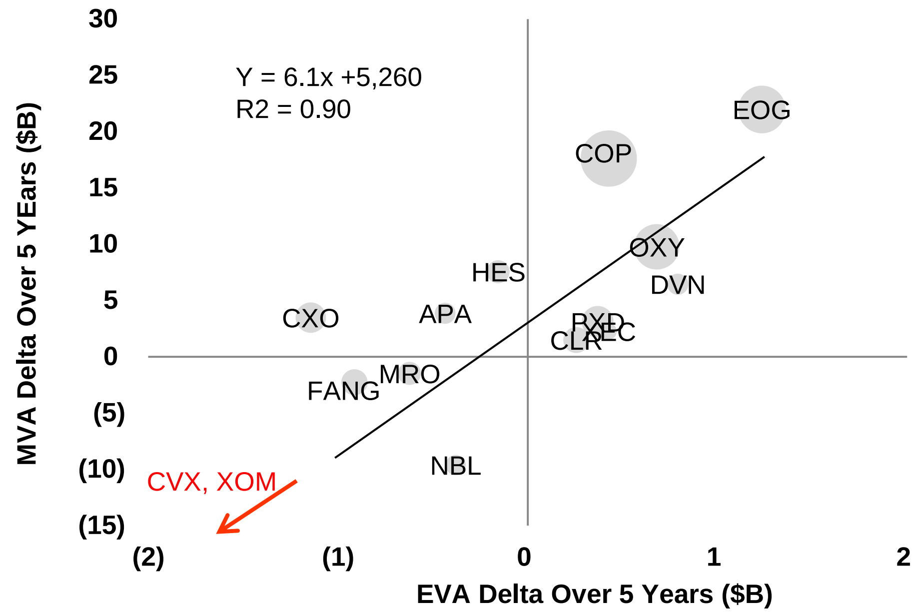
Source: FactSet, Bloomberg, Company Data, Evercore ISI Energy Research

Incentives for value creation are warranted in Energy CEO pay, in our opinion. Otherwise, Energy companies are unlikely to receive serious consideration from broad groups of investors, as was the case during 1999-2008, in our view.

Our Red Queen call has envisioned declining production growth and ROCE and lower valuations in US E&P. While our call has unfolded as expected with E&P valuations falling from 21 to 12x (LTM), further declines are likely if Energy ROCE declines as we expect during 2019-2020. Corporate consolidation appears to be the best outcome either in 2019 or at lower equity values in the future. While Generalist investors have abandoned the Energy sector, they will continue to avoid it until shareholder alignment becomes competitive with other Cyclical sectors and S&P 500, in our view.

Shareholder Alignment Matters to Investors





Source: FactSet, Bloomberg, Company Data, Evercore ISI Energy Research

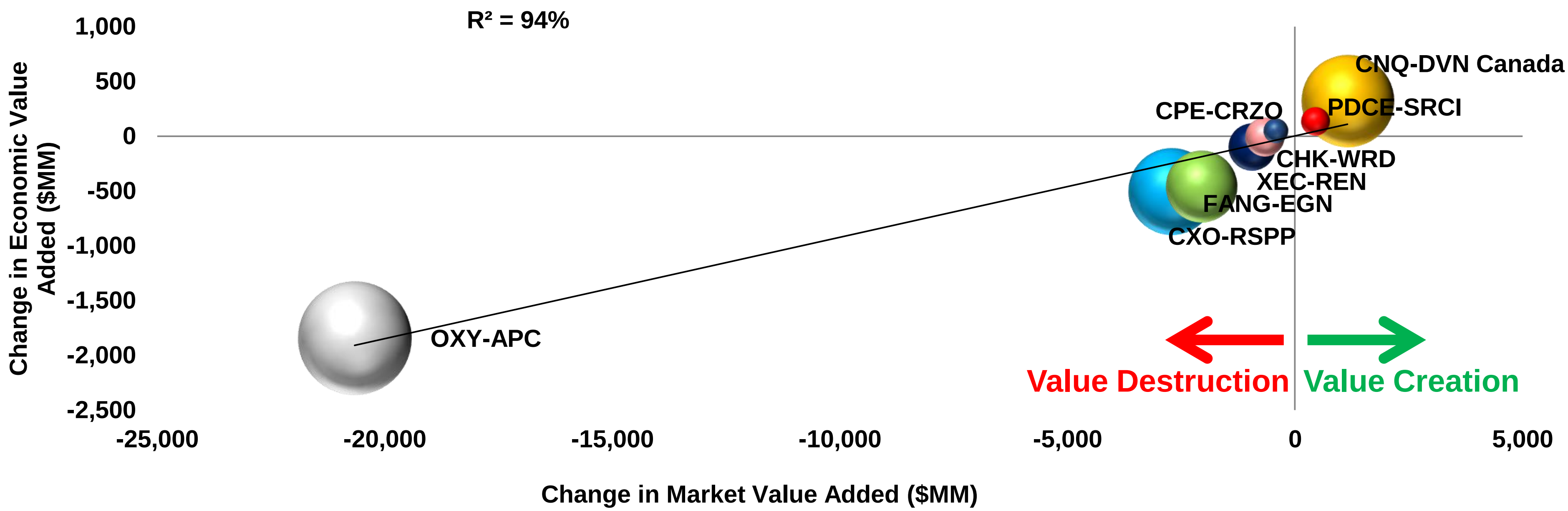
Economic Value Added (EVA) = (ROCE – WACC) X Capital Employed

Market Value Added (MVA) = (Share Price – Book Value) X Shares Outstanding

EVA accounts for the market value that management adds to, or subtracts from, the shareholder capital that it has employed. EVA is also regarded as the economic earnings that are capitalized by the market in arriving at a company's MVA. MVA reflects how well management has invested capital in the past and how successful investors expect it to invest capital in the future. MVA is equal to the discounted present value of all the EVA that is expected to be generated in the future.

The charts indicate that value creation matters to investors. That no Big Oil or E&P CEO has EVA as a pay incentive represents a deterrent to investment, in our view

Value Creation Rewards Investors & Vice Versa



Source: Company Data, FactSet, Evercore ISI Energy Research, MVA uses pre and post merger market capitalization minus book values, EVA uses pre and post merger (ROCE-WACC) X Capital Employed, announced G&A synergies and 20 year depreciation for difference between transaction value and acquiree book value

All roads lead to consolidation in Energy, in our view. What matters in an acquisition is how much cash and cash equivalents are paid to consummate transactions, in relation to how much cash is likely to flow in afterwards (see chart).

Investors penetrate accounting fictions and are not fooled by use of partial-cycle E&P measures to justify transactions. While economic value creation (EVA etc) almost always leads to positive market outcomes (MVA); frameworks of this type were not prominent in the most value-destructive transactions contained above.

The value-based model informs companies as to whether prices being considered for acquisitions will be rewarded by the equity market and vice versa.

IS E&P CEO Pay an Obstacle to M&A

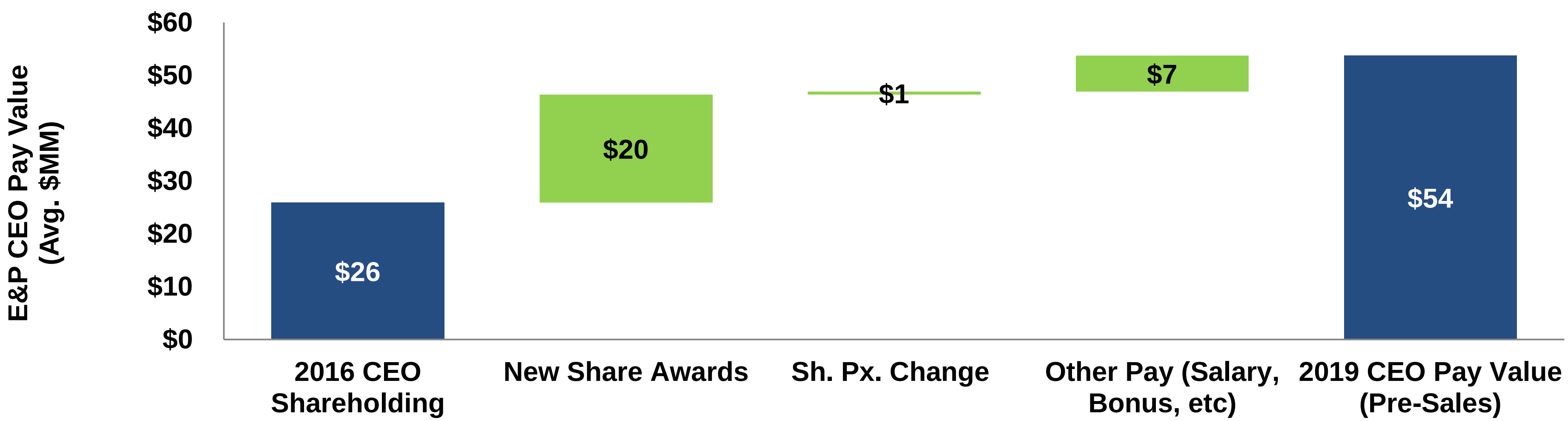


Chart contains: APA, COP, DVN, EOG, MRO, FANG, NBL, OXY, PXD, Source: Company Data, Evercore ISI Energy Research

Credible models for value creation and sustained distributions to shareholders will remain elusive for E&P companies, especially if returns and output growth have peaked in US shale per our Red Queen call. That S&P E&P declined and underperformed S&P 500 by a whopping 35 and 65 PP over 3 and 5 years suggests that the Buy-Side concurs; and that investors will avoid many Energy stocks until financial profiles and the incentives and behaviors which created them, change in a way that is aligned with shareholders.

While positive shareholder outcomes are available thru large-scale M&A; strategic activity was conspicuously low in recent years. One reason may be that Energy CEO financial outcomes were much more positive than that of shareholders in their companies. That is, the increase in value from annual CEO share awards significantly surpassed unfavorable effects from poor E&P share price performance; leading to positive financial outcomes for CEO's. This Energy corporate governance and shareholder alignment defect is not lost on the investment community. Generalist investors have abandoned the sector and will continue to avoid it until Boards make the 4 changes we highlight on page 32.

Generalist Investors Will Continue to Avoid Energy Until…

- Boards require: 1) annual pay factors that correlate with TSR and 2) more challenging performance thresholds for CEOs to make target pay.

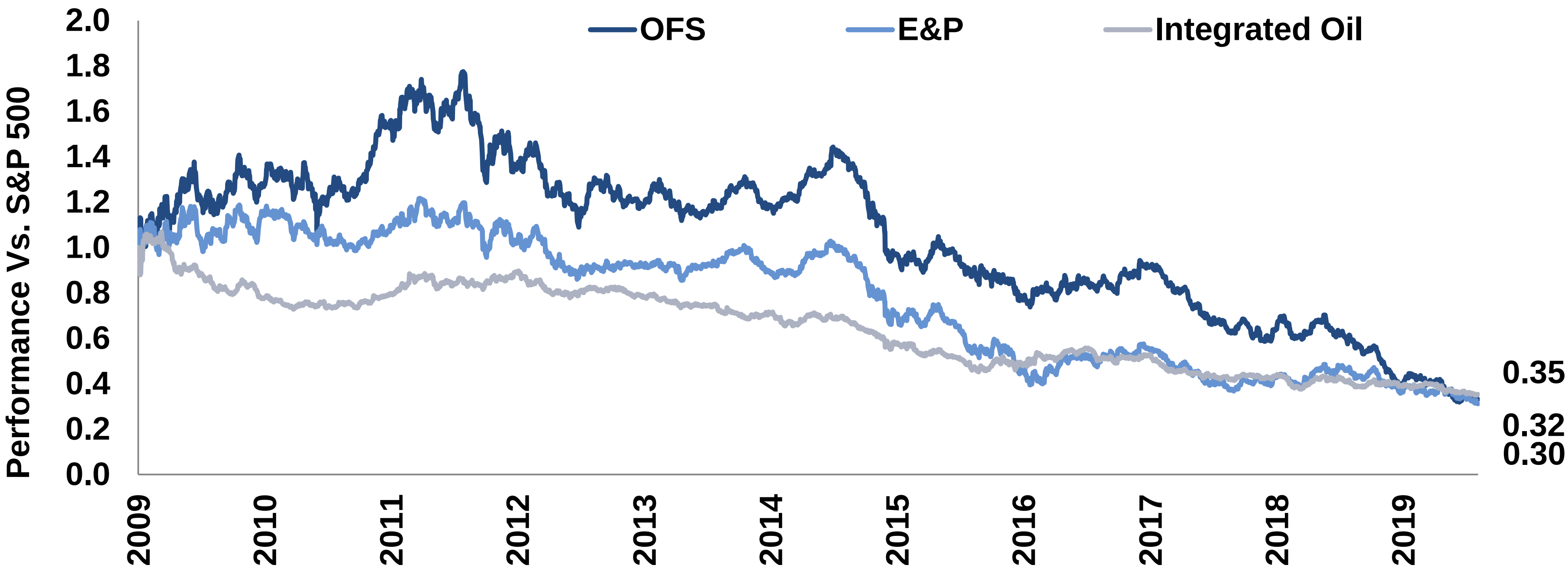
- Boards no longer allow Energy CEOs to make or exceed annual target pay levels almost every year. Otherwise, annual pay is a quasi-salary element, and the Boards' annual compensation process lacks credibility.

- Boards require CEO performance on absolute, value-based performance metrics such as ROCE, EVA etc which connect to intrinsic value in the equity market (see all other Cyclical sectors). Entities can control for oil prices in value-based CEO pay metrics with the same "normalized" oil price they use in the annual capital budgeting and planning process.

- Boards raise the performance bar for Energy CEOs to the same level as CEOs in other Cyclical industries (Materials, Industrials, Technology) by requiring S&P 500 as a peer comparator for relative TSR. Otherwise, Energy shareholder outcomes will surely remain inferior to alternative areas of investment.

- Shareholder alignment becomes competitive with the rest of S&P 500. Realized pay for Big Oil and E&P CEOs of $2 B rendered TSR of 0%, vs. S&P 500 at 290% during the past decade.

Is Change Ahead in the Fall CEO Pay Cycle?

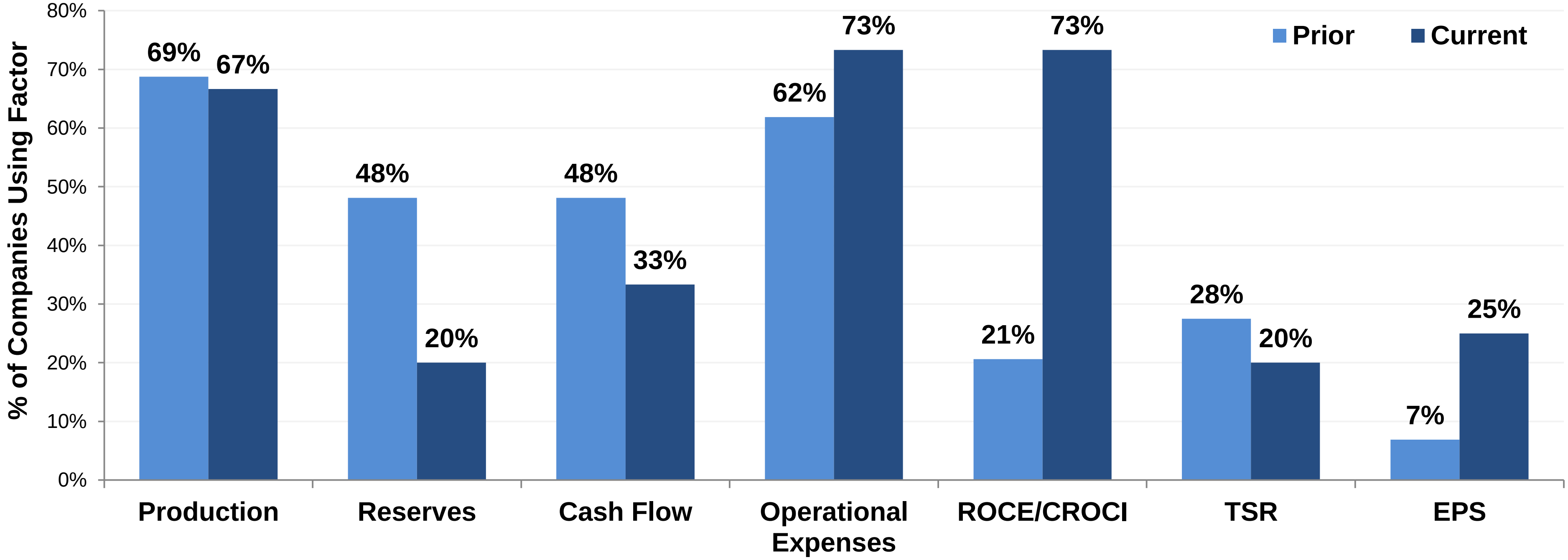


Energy underperformed all 10 S&P sectors with 10-year performance, its worst on record.

Investors doubt that Energy relative performance will improve until Energy Boards require change in the CEO pay incentives and behaviors that drove poor performance in the first place.

The opportunity to realign with shareholders is available during the Fall Strategy and CEO Pay Cycle, and thus the timing of todays call. Investors will be watching closely for change and will invest accordingly in the aftermath, in our view.

Factors Determining Annual Bonus – More Value, Less Volume

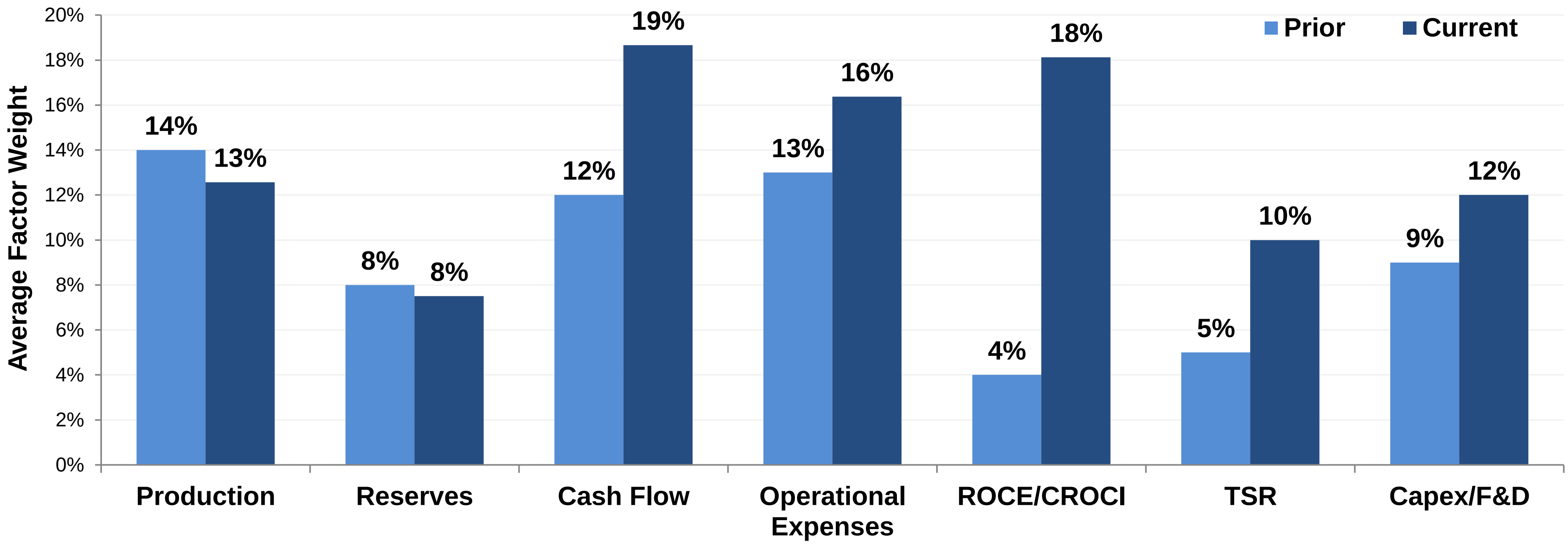


Note: Group includes APA, DVN, EOG, MRO, NBL, CXO, FANG, PXD, and HES
Source: Company Data, Evercore ISI Energy Research

Returns-based metrics increased in the last compensation cycle for annual bonuses as the % of companies incorporating ROCE and/or CROCI into annual bonus calculations more than tripled (from 21% to 73%) while use of production and reserve metrics ticked lower.

Nevertheless, production growth hurdles (which are largely achievable) remain more common

Weighting of return metrics grew last year, while still modest

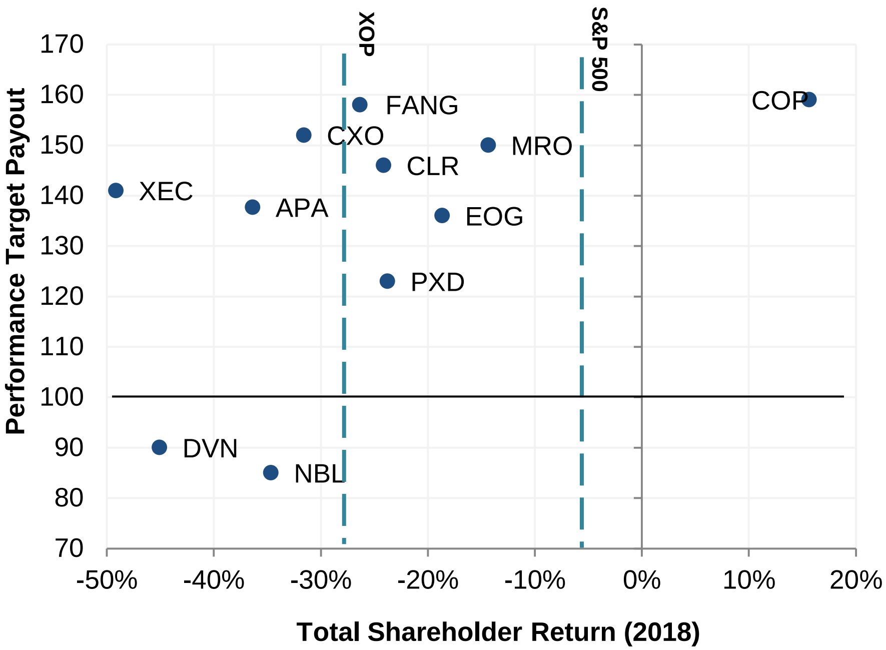


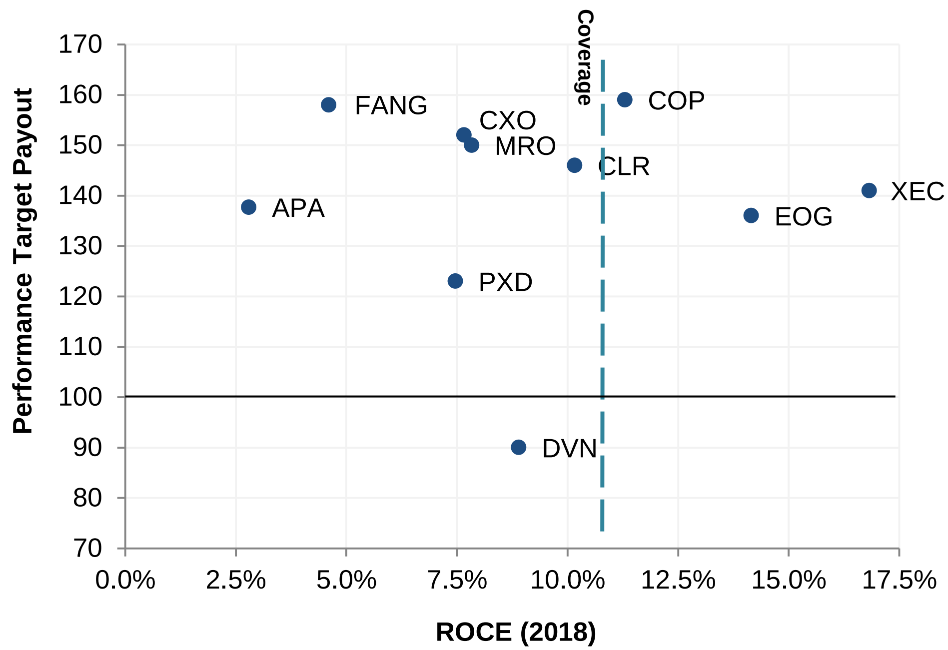
Note: Group includes APA, DVN, EOG, MRO, NBL, CXO, FANG, PXD, and HES
Source: Company Data, Evercore ISI Energy Research

Returns based metrics weighting in the bonus determination cycle increased last year to ~18% of our sample, but still trails growth in production / reserves and other discretionary factors which typically average 30-40% of total weight.

Value and Return-based metrics better capture whether investment and specifically upstream development is being achieved in a value accretive way and should play a more prominent role in chosen performance metrics. We are not saying that E&P performance metrics should disregard some of the key deliverables of management, particularly in a depletion industry.

Exceeding Payout Targets Despite Negative TSR & ROCE





Source: Company Data, Evercore ISI Energy Research

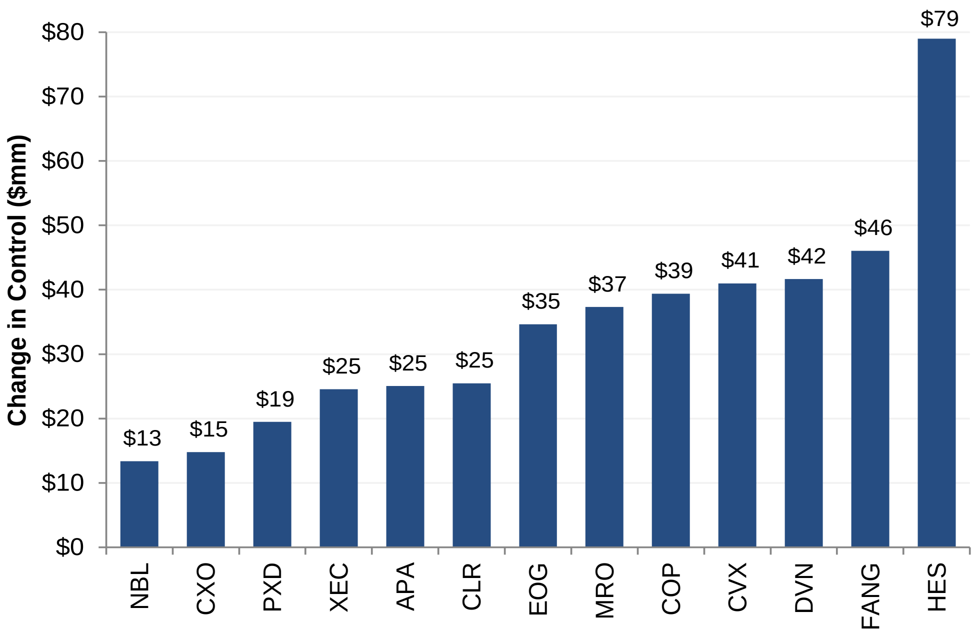
Performance-based compensation does not vary to the extent one might expect. A majority of E&P CEOs within our study group received payouts at 120-160% of target despite many posting total shareholder returns which lagged the sector, broader energy, and the market.

<u>Two reasons payouts remain elevated:</u>

- Highly achievable performance targets
- Payout skew that allow beats to more than offset misses

Change of Control: Removes the CEO Pay Obstacle to M&A?

Change of Control CEO Payments



Source: Company Data, FactSet, Evercore ISI Research

Higher 'Chg of Control / Annual Pay' ratios encourage value unlock vs. entrenching management

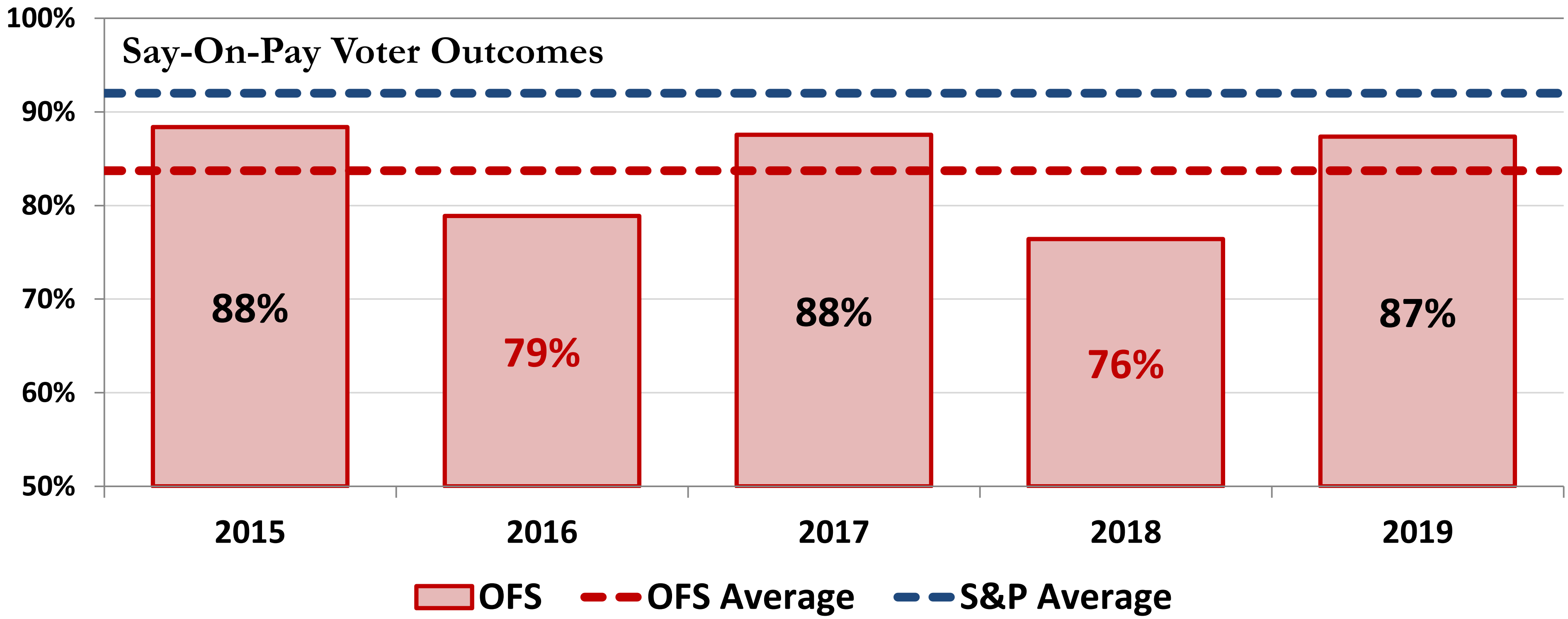
($mm)	Chg of Control Provision	CEO Awarded Pay (2018)	Chg of Control / Annual Pay
FANG	$46.1	$10.5	4.4x
DVN	$41.7	$11.4	3.7x
MRO	$37.3	$11.7	3.2x
EOG	$34.6	$11.9	2.9x
NBL	$13.4	$4.9	2.8x
XEC	$24.6	$9.6	2.5x
PXD	$19.5	$10.3	1.9x
CLR	$25.5	$13.3	1.9x
APA	$25.0	$14.7	1.7x
CXO	$14.8	$10.8	1.4x
Avg	$28.2	$10.9	2.6x

Source: Company Data, FactSet, Evercore ISI Research

Change of control or CIC provisions incentivize management to explore the potential for value creation via M&A vs entrenching management and dis-incentivizing change of control.

Change of control payouts for our study group average ~$30 mm equating to ~2.6x annual pay (2018 awarded). CEO equity ownership not only encourages the exploration of value unlock opportunities but also incentivizes management to negotiate the best transaction terms for shareholders in a change of control and these two elements work in concert.

Oilfield Services: Much Work Needs to Be Done

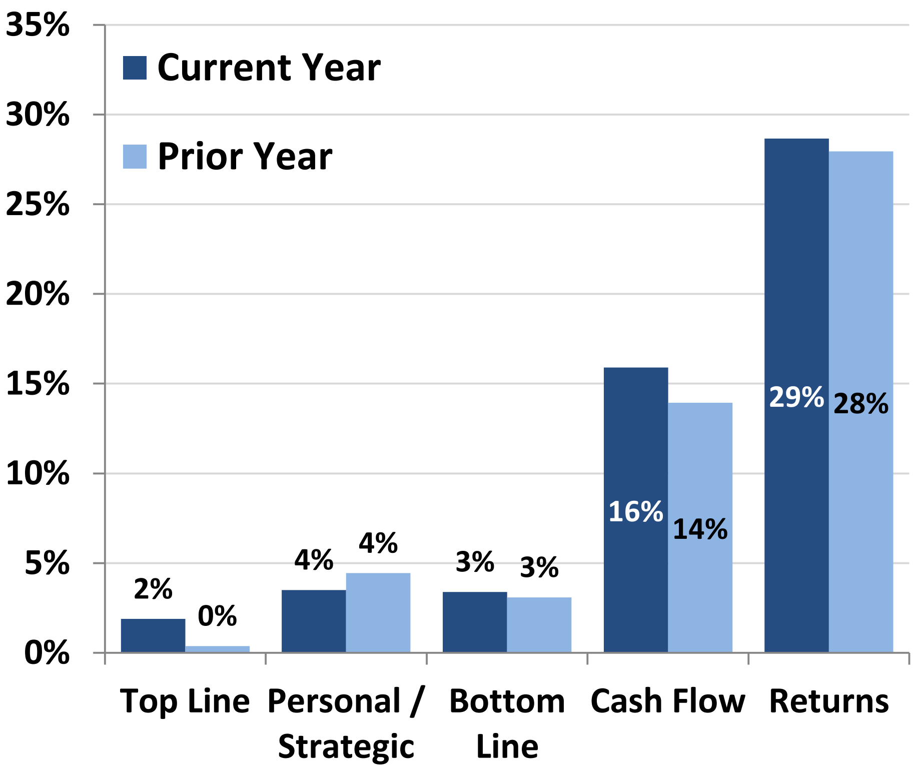


- We went and evaluated the Say-on-Pay (SOP) proxy voting outcomes for our entire coverage universe going back five years and found that the **OFS sector fares unfavorably**
- Using the S&P 500's average SOP vote of 92%, our coverage universe has underperformed that benchmark every year for the past five years and has an average shareholder vote of 84%
- There were eight separate instances of companies failing their SOP votes which is a 3% failure rate, below the S&P's average of 7%. **However, an average score of 84% is unacceptable considering that as it further adds to the list of reasons why the sector lacks broader institutional support**

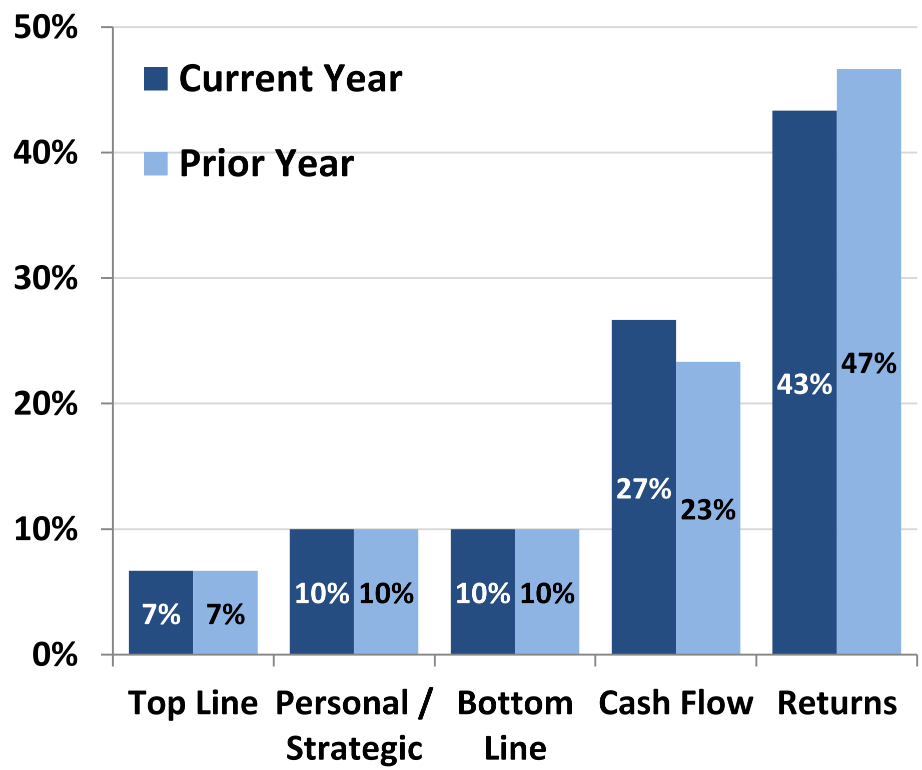
Oilfield Services: How Are Management Teams Incentivized?

- Using the six largest companies in our coverage as a proxy, we found that the achievement of returns (EVA, ROIC, TSR, EPS) and Cash Flows had the highest annual bonus factor weights
- We prefer that companies eschew performance goals related to personal / strategic targets and top-line growth. **Comprehensible metrics targeting value creation is what's needed**
- Our critique on performance goals is muted based on our initial analysis however we believe that the group can do a better job of putting pay at risk as payout levels remain elevated

OFS Average Annual Bonus Factor Weights

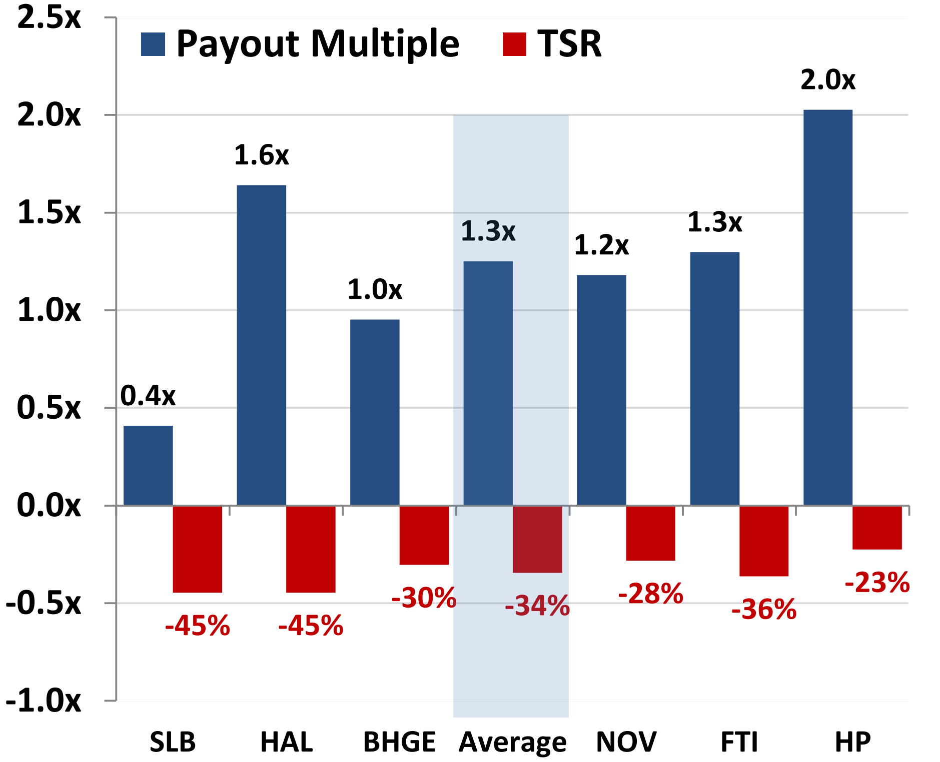


Frequency of Companies Using Bonus Factor Weights

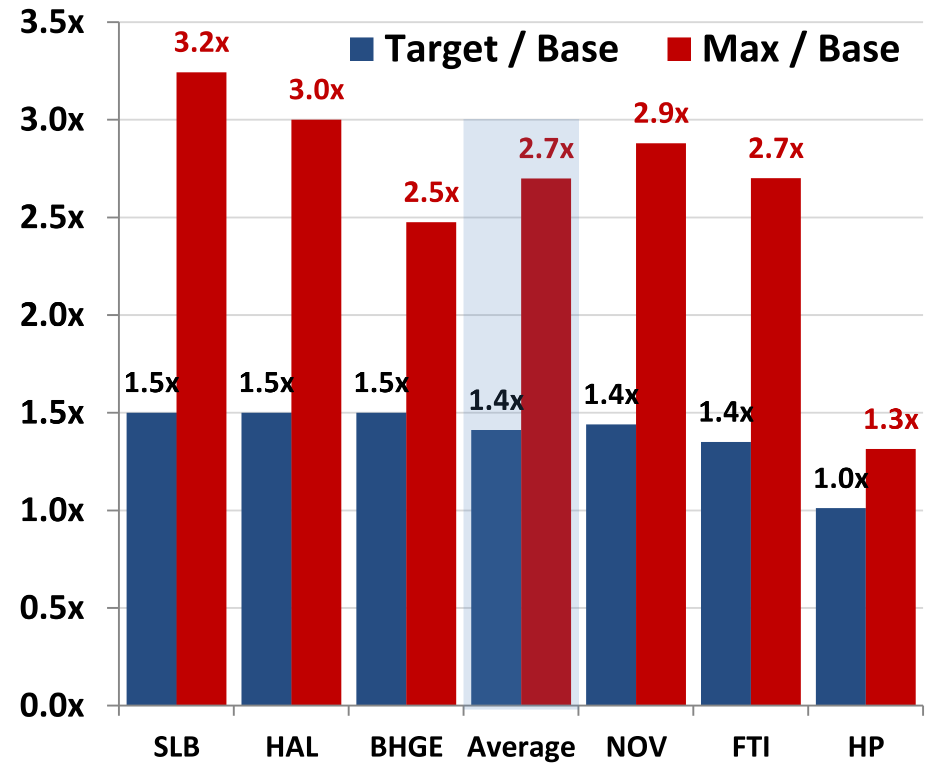


Oilfield Services: Are They Goals or Just "Goals"?

Current Year Payout Multiples and TSRs (2018)



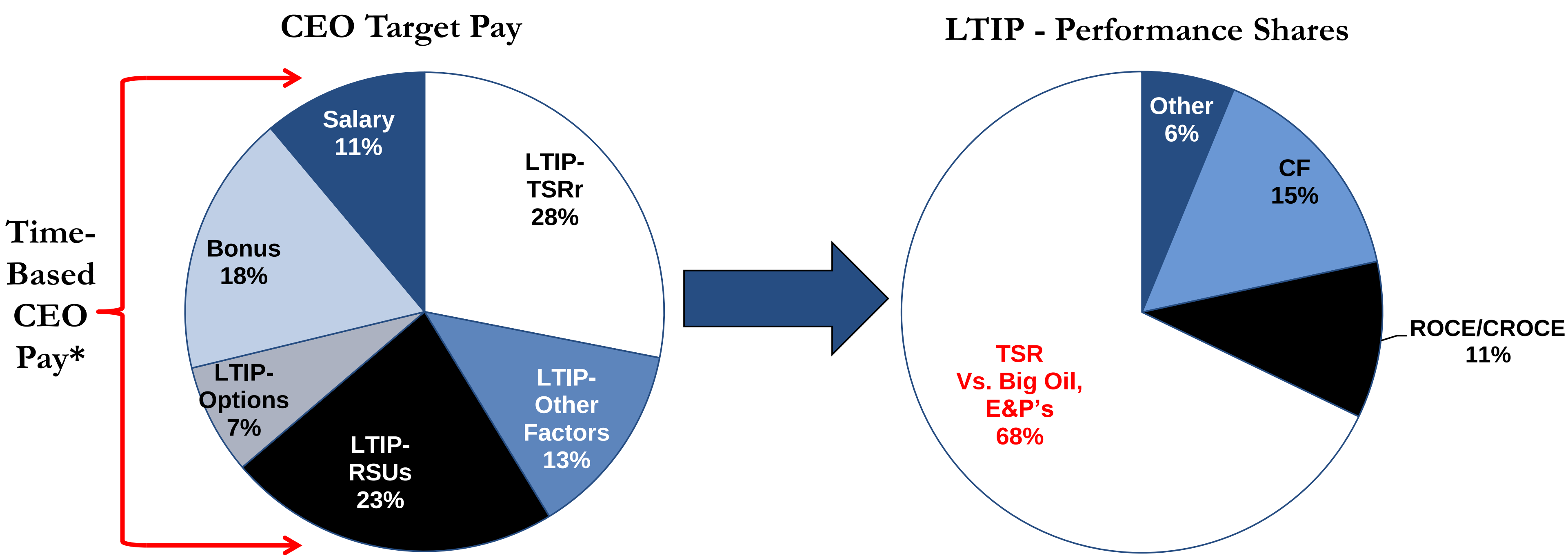
Current Year Short-Term Bonus / Base Salary Multiple



- **Largely speaking, we do not believe that a substantial amount of pay is truly at risk given the elevated payouts over the past two years.**
- For 2018 we found that executives on average were paid 1.25x their target Short-Term Incentive bonus despite the average TSR being -34% (vs. -5% for the S&P)
- While payouts decreased YoY (in sync with TSR), the average multiple for the target and maximum bonus (versus base salary) increased in 2018 vs. 2017 **despite negative TSRs**

APPENDIX

Beware Relative TSR in Energy

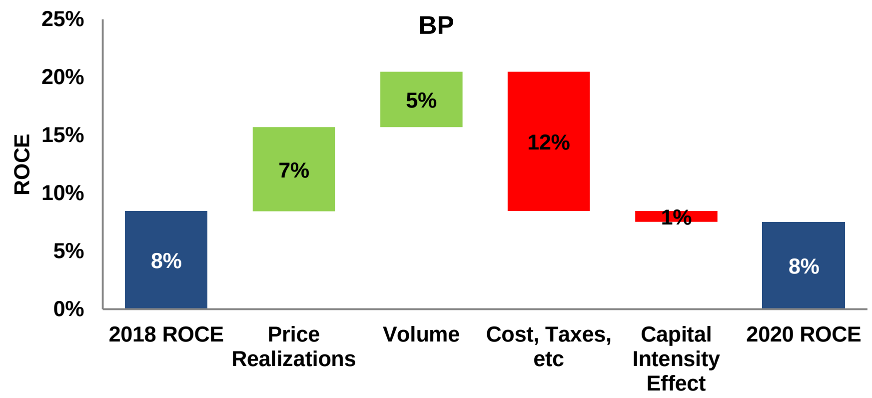


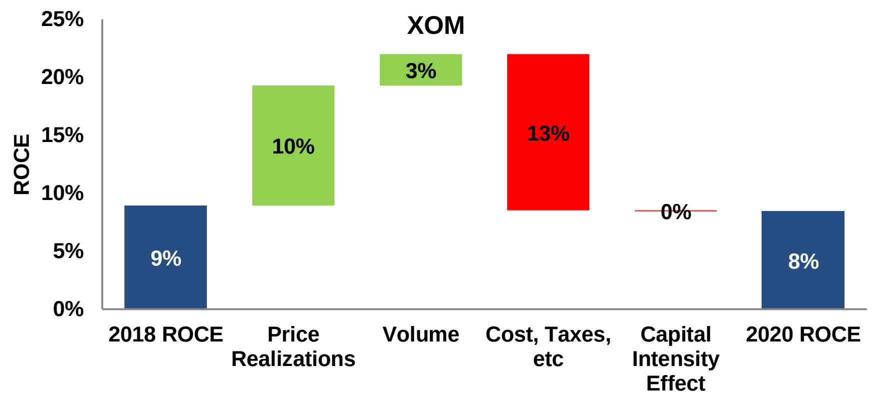
* Assumes annual bonus is quasi-salary (CEO's received 119% of target over 5 years)

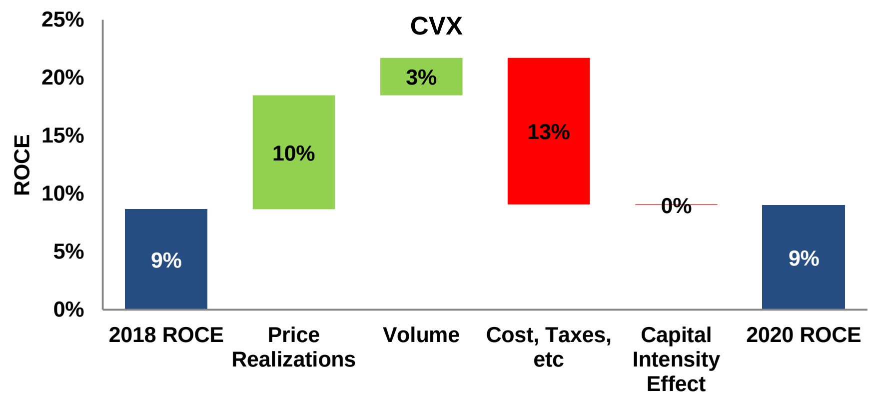
Energy CEO pay is set by salary (11%), annual bonus (18%), and long-term pay or LTIP (71%). Because Big Oil and E&P CEO's earned 119% of target annual bonuses (5 years), many consider bonuses to be a quasi-salary element. Restricted stock is contingent upon continued employment and along with options are not considered performance based pay by proxy advisors.

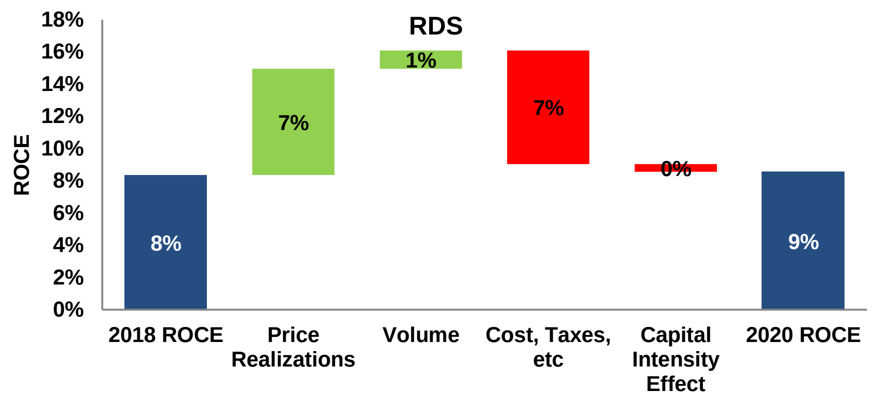
Accordingly, the majority of performance-based pay for Energy CEO's is set by TSR relative to Energy peers. When considering Big Oil and E&P CEO pay exceeded $2 billion with TSR of 0% (10 years); its caveat emptor for Energy investors. Generalists will continue to avoid Energy until shareholder alignment becomes competitive with the other 10 sectors of S&P 500, in our view.

Integrated Oils: ROCE Progression 2020E

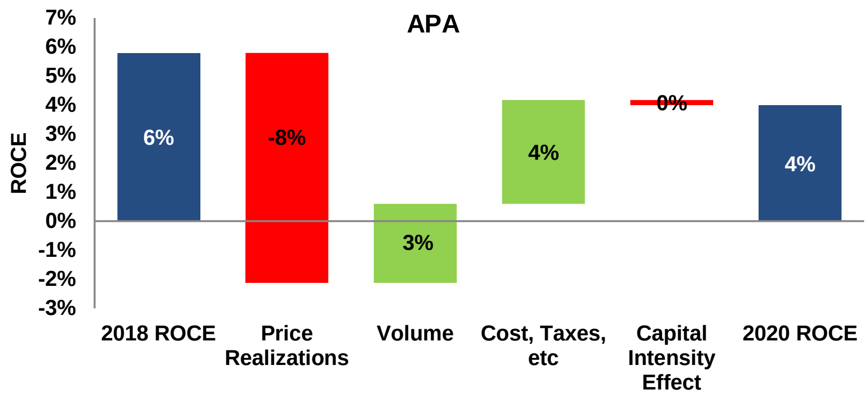


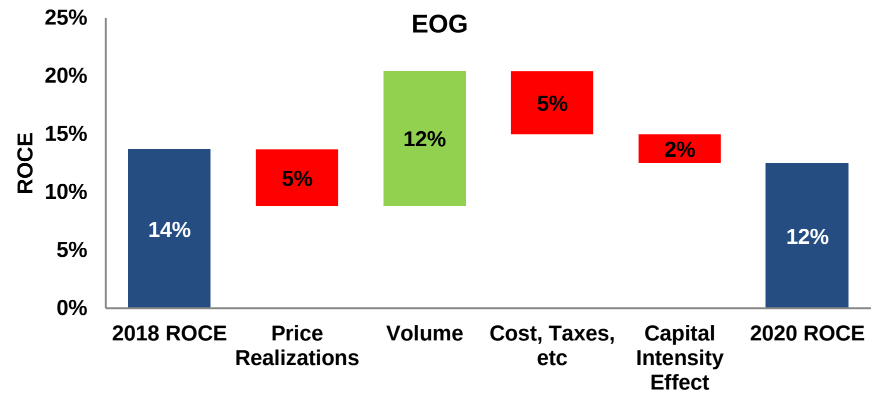


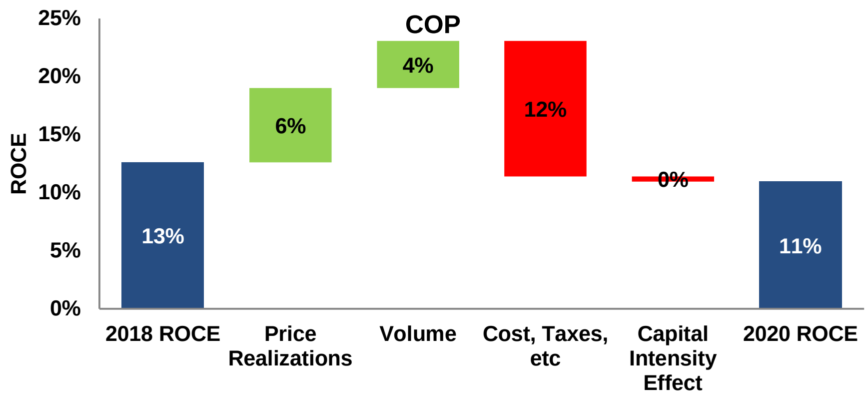


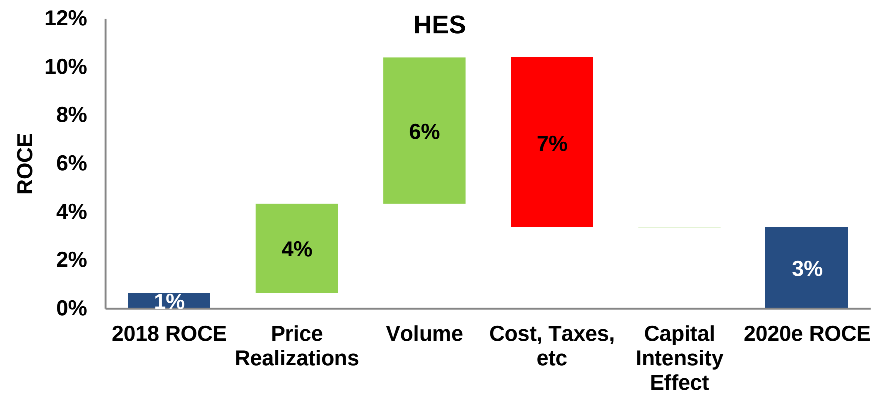


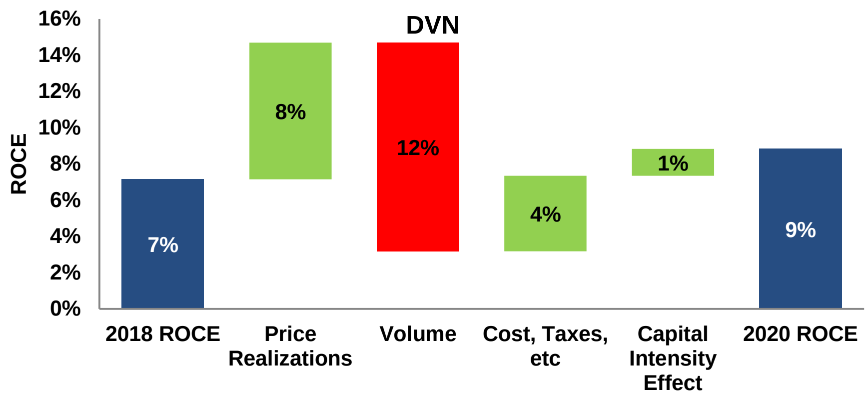
E&P


APA
ROCE
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
6%
-8%
3%
4%
0%
4%
2018 ROCE
Price Realizations
Volume
Cost, Taxes, etc
Capital Intensity Effect
2020 ROCE

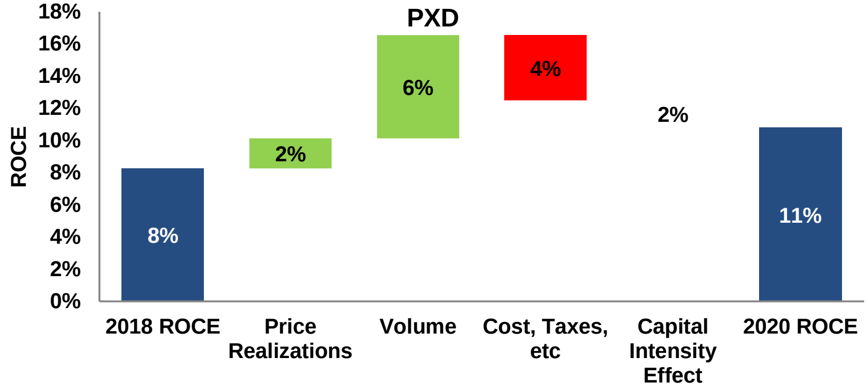

EOG
ROCE
25%
20%
15%
10%
5%
0%
14%
5%
12%
5%
2%
12%
2018 ROCE
Price Realizations
Volume
Cost, Taxes, etc
Capital Intensity Effect
2020 ROCE

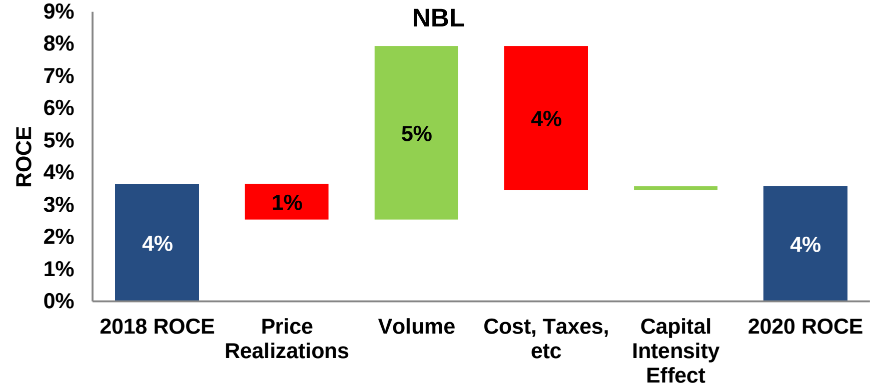

COP
ROCE
25%
20%
15%
10%
5%
0%
13%
6%
4%
12%
0%
11%
2018 ROCE
Price Realizations
Volume
Cost, Taxes, etc
Capital Intensity Effect
2020 ROCE

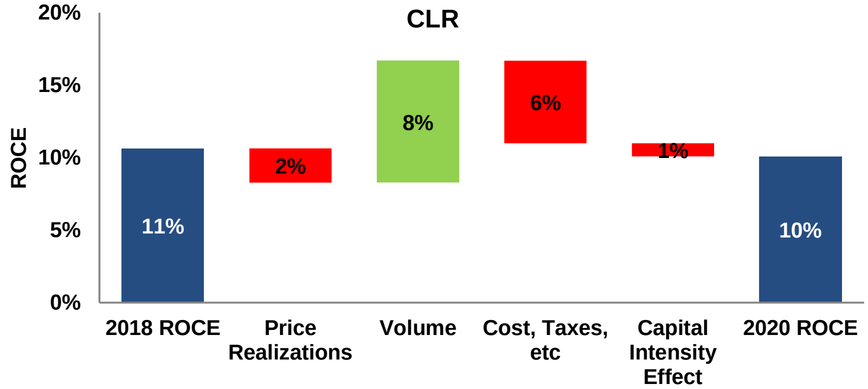

HES
ROCE
12%
10%
8%
6%
4%
2%
0%
1%
4%
6%
7%
3%
2018 ROCE
Price Realizations
Volume
Cost, Taxes, etc
Capital Intensity Effect
2020e ROCE

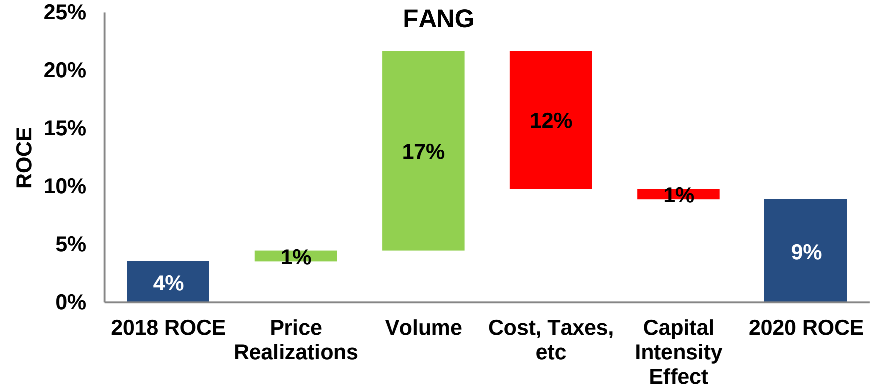

DVN
ROCE
16%
14%
12%
10%
8%
6%
4%
2%
0%
7%
8%
12%
4%
1%
9%
2018 ROCE
Price Realizations
Volume
Cost, Taxes, etc
Capital Intensity Effect
2020 ROCE

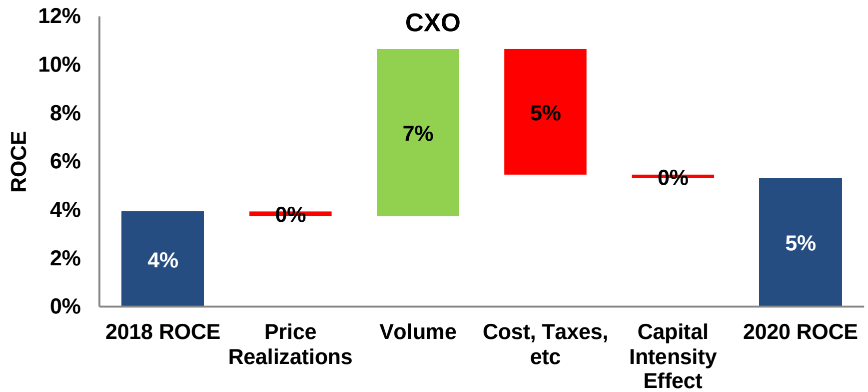
E&P : ROCE Progression 2020E

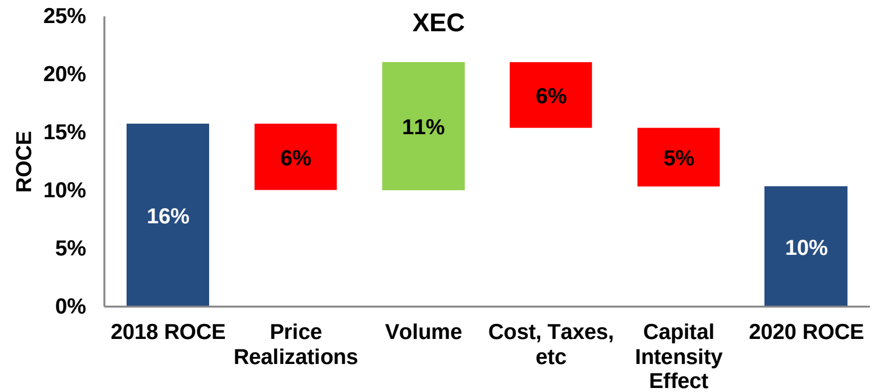












P4P Scorecard

Shell	Outperform	$88	32%
		Price Target	CEO Pay Incentive TSR Correlation

Composite Score	79%
CEO P4P Score	83%
Financial Performance Score (ROCE, FCF, CF, Earnings)	74%
Note: 0-Worst, 100-Best	

CEO Ben van Beurden

TSR (Annualized)	3 Yr:	14.7%	5 Yr:	1.3%
Realized Pay ($M)	$23,316			
Shareholding/Ann. Pay	0.9x			
Termination Pay ($M)	Involuntary: NA			

Stated Strategy	Limit Spending Thru 2021	CF, FCF Targets Thru 2021	ROCE Target Thru 2021	Maintain & Grow Dividend	Debt & Equity Reduction

			Annual Bonus Pay Factors					Long Term Pay Factors			
CEO Ben van Beurden	$M Vested Pay	Total	Cash Flow	Production	LNG Liquefaction	R&M, Chems Utilization	Other	FCF	Rel ROCE Growth	Rel CFO Growth	Rel TSR
Salary	$1,804	8%									
ST Pay Incentive	$3,544	15%	30%	13%	13%	13%	33%				
LT Pay Incentive	$17,968	77%						25%	25%	25%	25%
	$23,316	100%									
Correlation with TSR	2019	2018									
CEO Pay Incentives	0.32	0.30	0.49	0.11	0.35	0.26		0.01	0.43	0.49	*
Brent	0.80										
Peers	0.81		*Shell has 81% correlation with "Super-Majors", which have 80% correlation with Brent								

Strategy & CEO Pay Incentives: Shell employs one of the strongest financial frameworks and pathways to value creation in the Big Oil and E&P. Targets are present for capital spending, FCF and ROCE in both its Upstream and Downstream businesses thru 2021. Transparency to value is high with Shell's value proposition and its path, targets and timeframes for value creation forming its "World Class Investment Case". Changes to Shell's CEO incentives evolved in recent years consistent with changes in strategic and financial priorities. Emphasis is now placed on LNG, FCF and ROCE. Shell's CEO pay incentives hold correlation to TSR of 0.32 (Shareholder Alignment Coefficient or SAC) which compares to 0.26 for the peer group. All CEO pay incentives hold positive correlation to TSR. Shell is a "Pledger" for greater capital discipline and enhanced corporate governance and shareholders have been rewarded.

Pay For Performance: Proxy advisors and investors approved Shell's executive pay packages in recent years. Granted CEO pay of $9.6 M was $3.0 M below median, peer CEO pay. Shell's CEO pay and financial performance were in the 75th and 69th PCTL vs. peers. The company places in the 83rd PCTL vs. peer CEO's on relative degree of alignment, play multiple of median and relative degree of alignment (100th PCTL is best), placing 1st of 5 peer CEO's on P4P. Pay for performance concerns at Shell are low.

<u>Doug Terreson</u>
Head of Energy Research
Evercore ISI

- Doug Terreson provides research coverage on the Integrated Oil and Refining and Marketing sectors. He is responsible for the firm's global forecast for crude oil and refined products and Energy Portfolio Strategy. He has been the #1 or 2 Integrated Oil analyst in the Institutional Investor poll 18 times and a member of the All-America Research (II) team 22 times. He is currently the #1 ranked Integrated Oil analyst on Wall Street.

- Doug came to ISI after managing the Global Energy Group at Morgan Stanley in New York and Houston. He previously managed Putnam's energy mutual fund in Boston. Prior to entering the investment industry, he was an engineer with Schlumberger Limited on the Gulf Coast of the United States. He has a BS in Petroleum Engineering from Mississippi State University and an MBA from Rollins College.

<u>Steve Richardson</u>
Head of Oil and Gas, Exploration and Production Research
Evercore ISI

- Stephen Richardson is a Senior Managing Director and Head of Oil and Gas, Exploration and Production Research. Coverage includes 30+ stocks in the broader North American upstream sector including Canada. Mr. Richardson was ranked #1 on the Institutional Investor's All America Research Team for Oil and Gas Exploration and Production in 2018, and has been ranked since 2012.

- Prior to joining Evercore ISI, he was at Deutsche Bank covering the same sector in equity research. In addition, Mr. Richardson has held positions at Morgan Stanley and Bombardier. Mr. Richardson is a graduate of McGill University and holds an MBA from École des Hautes Études Commerciales.

James West
Head of Oil Services, Equipment and Drilling Research
Evercore ISI

- James West is a Senior Managing Director responsible for the research coverage of the Oil Services, Equipment and Drilling industry consisting of detailed fundamental research on over 60 companies. Prior to joining Evercore ISI, Mr. West was a Managing Director and Senior Research Analyst at Barclays and Lehman Brothers for a combined 15 years.

- Since assuming lead coverage in 2011, Mr. West has been top ranked in Institutional Investor, including number three in 2011, number two in 2012, and number one every year since 2013. Prior to joining Lehman Brothers, Mr. West worked at Donaldson, Lufkin & Jenrette. Mr. West received his B.A. in Economics and a minor in History from the University of North Carolina at Chapel Hill.

TIMESTAMP
(Article 3(1)e and Article 7 of MAR)
Time of dissemination:
ANALYST CERTIFICATION
The analysts, Doug Terreson, James West, Stephen Richardson, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

DISCLOSURES
This report is approved and/or distributed by Evercore Group L.L.C. ("Evercore Group"), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority ("FINRA"), and Evercore ISI International Limited ("lSI UK"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and lSI UK collectively operate under the global marketing brand name Evercore lSI ("Evercore lSI"). Both Evercore Group and lSI UK are subsidiaries of Evercore Inc. ("Evercore"). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore.
The analysts and associates responsible for preparing this report receive compensation based on various factors, including Evercore's Partners' total revenues, a portion of which is generated by affiliated investment banking transactions. Evercore lSI seeks to update its research as appropriate, but various regulations may prevent this from happening in certain instances. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.
Evercore lSI generally prohibits analysts, associates and members of their households from maintaining a financial interest in the securities of any company in the analyst's area of coverage. Any exception to this policy requires specific approval by a member of our Compliance Department. Such ownership is subject to compliance with applicable regulations and disclosure. Evercore lSI also prohibits analysts, associates and members of their households from serving as an officer, director, advisory board member or employee of any company that the analyst covers.
This report may include a Tactical Call, which describes a near-term event or catalyst affecting the subject company or the market overall and which is expected to have a short-term price impact on the equity shares of the subject company. This Tactical Call is separate from the analyst's long-term recommendation (Outperform, In Line or Underperform) that reflects a stock's forward 12-month expected return, is not a formal rating and may differ from the target prices and recommendations reflected in the analyst's long-term view.
Applicable current disclosures regarding the subject companies covered in this report are available at the offices of Evercore lSI, and can be obtained by writing to Evercore Group L.L.C., Attn. Compliance, 666 Fifth Avenue, 11th Floor, New York, NY 10103.
Evercore and its affiliates, and I or their respective directors, officers, members and employees, may have, or have had, interests or qualified holdings on issuers mentioned in this report. Evercore and its affiliates may have, or have had, business relationships with the companies mentioned in this report.
Additional information on securities or financial instruments mentioned in this report is available upon request.

Ratings Definitions
Current Ratings Definition
Evercore lSI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three primary ratings categories, with the following return guidelines:
Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore lSI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended- Evercore lSI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*
*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."
FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore lSI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%

Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%

Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%

Buy- Return 10% to 20%

Neutral - Return 0% to 10%

Cautious- Return -10% to 0%

Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.

Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months. Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months. Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Ratings Definitions for Portfolio-Based Coverage

Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.

Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.

No Position- the stock is not included in the model portfolio.

Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.

Rating Suspended - Evercore ISI has suspended the rating and/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.

Historical Ratings Definitions
Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:
Buy- the total forecasted return is expected to be greater than 10%
Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell -the total forecasted return is expected to be less than 0%
On October 31, 2014, Evercore acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.
ISI Group and ISI UK:
Prior to October 10, 2014, the ratings system of ISI Group and ISI UK which was based on a 12-month risk adjusted total return:
Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%
For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.
Evercore Group:
Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:
Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months. Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months. Suspended- the company rating, target price and earnings estimates have been temporarily suspended.
For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.
Ratings Definitions for Portfolio-Based Coverage
Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:
Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
Rating Suspended - Evercore ISI has suspended the rating and/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.
Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.
Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.
FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.

Evercore ISI ratings distribution (as of 08/07/2019)

Coverage Universe Investment Banking Services / Past 12 Months

Ratings	Count	Pct.	Rating	Count	Pct.
Buy	394	51%	Buy	268	68%
Hold	317	41%	Hold	170	54%
Sell	39	5%	Sell	16	41%
Coverage Suspended	18	2%	Coverage Suspended	14	78%
Rating Suspended	11	1%	Rating Suspended	4	36%

Issuer-Specific Disclosures (as of August 07, 2019)

Evercore ISI or an affiliate has acted as a manager or co-manager of a public offering of securities by these subject companies Baker Hughes A GE Company LLC in the last 12 months.

Evercore ISI or an affiliate expects to receive or intends to seek compensation for investment banking services from these subject companies Anadarko Petroleum, Apache, Chevron Corp, Concho Resources, Continental Resources, Devon Energy, Exxon Mobil Corp, Hess Corp, Marathon Oil Corporation, Noble Energy, Occidental Petroleum Corp, Pioneer Natural Resources and Schlumberger Ltd. within the next three months.

Evercore ISI has a client relationship with, or has received compensation for non-investment banking, securities-related services from these subject companies Baker Hughes A GE Company LLC and ConocoPhillips in the last 12 months.

The analyst(s) or a member of his or her household has a financial interest in the securities of these subject companies Schlumberger Ltd. (this may include, without limitation, whether it consists of any option, right, warrant, future, long or short position).

An employee, employee's immediate family member, director or consultant of Evercore ISI or one of its affiliates (but not a research analyst or a member of a research analyst's household) is a director of the subject companies BP and Schlumberger Ltd..

Evercore ISI or an affiliate has received compensation from these subject companies Anadarko Petroleum, Apache, Cimarex Energy, Hess Corp, Marathon Oil Corporation and Noble Energy for investment banking services in the last 12 months.

Price Charts

GENERAL DISCLOSURES

This report is approved and/or distributed by Evercore Group L.L.C. ("Evercore Group"), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority ("FINRA") and by Evercore ISI International Limited ("ISI UK"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and ISI UK collectively operate under the global marketing brand name Evercore ISI ("Evercore ISI"). Both Evercore Group and ISI UK are subsidiaries of Evercore Inc. ("Evercore"). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore Inc.

This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by registered employees of Evercore ISI. The information herein is believed by Evercore ISI to be reliable and has been obtained from public sources believed to be reliable, but Evercore ISI makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Evercore and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or groups of Evercore and its affiliates. Evercore ISI has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in Evercore ISI research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other Evercore affiliates or business areas, including investment banking personnel.