A BVR Special Report

Excerpt from

What It's Worth: Valuing Oil, Gas, and Alternative Energy Assets

Second Edition

BVR What It's Worth

What It's Worth:

Valuing Oil, Gas, and Alternative Energy Assets

A BVR SPECIAL REPORT

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Introduction

Often, when valuation experts describe the challenges of a particular arena of work they will say, "Well, it's like any other appraisal except that …" and then go on to list a few peculiarities. The oil and gas field is *not* like that. The chapters in this report grapple with the limitations of traditional valuation methods when valuing an underground resource, which cannot be observed in a site visit, has no terminal value, and, in the case of a dry hole, may have no value at all. A current owner or leaser may be responsible for environmental costs, as yet unknown, that were caused a century ago. And then there is the volatility of the prices. This is not an area for the faint of heart or shallow pockets.

Oil and gas prices have always been volatile, but they have been on a rollercoaster ride since mid-2014, when highs of $110 per barrel of crude bottomed out two years later at $33 per barrel. By mid-February 2017, the price was back up to $53 a barrel. Nobody expects it to stay there more than a few months, and some forecasters are expecting a huge run-up in the price in the next couple of years. The price of natural gas has similarly dropped from $9.77 per million Btu in June 2014 to $2.93 in February 2017, according to Bloomberg. In this precarious climate, appraisers face a serious challenge in the valuation of all segments of the industry.

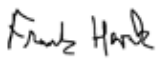
Spot price benchmarks from Henry Hub for gas and WTI for oil continue to fluctuate in response to the dynamics of global energy supply and demand. In addition, global warming concerns continue to influence government policy toward traditional fossil fuel demand and the competing interests of renewables, as these technology-driven sources become more economically viable.

There are four sectors of the oil and gas (O&G) industry: upstream, midstream, downstream, and oilfield service companies. Upstream firms deal with exploration and production (E&P). The midstream sector handles the transportation, storage, and wholesale marketing. A typical midstream transportation company is composed mainly of pipelines, rail, barges, oil tankers, and trucks. Most midstream companies are also in the downstream sector, which involves refining and distribution operations (including gas stations). The fourth sector, oilfield services, includes drilling equipment, manufacturing, production, and well services.

The chapters in this special report provide insights into the challenges, key valuation drivers, and opportunities for appraisers in all sectors of the O&G stream as well as alternative energy sources. Transaction data from *Pratt's Stats*, court case digests related to the industry, and advice on resources available are also included.

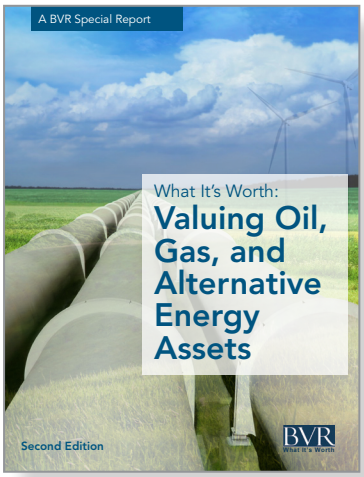
We trust you will find it a good introduction to a fascinating field of valuation.

Sincerely,



Frank Horak, MBA,CVA, MAFF

Get key insights, trends, and value drivers for the oil, gas, and alternative energy industry



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The oil, gas, and alternative energy industries are subject to volatile market swings and evolving technologies. In an ever-changing climate, appraisers face serious challenges when valuing segments in this complicated industry. The new special report, *"What It's Worth: Valuing Oil, Gas, and Alternative Energy Assets, Second Edition"* keeps business appraisers, analysts and owners current with the key trends, data, and valuation approaches in this constantly evolving space.

Highlights of the report include:

- A comprehensive case study walks readers through the research process a team of appraisers completed to determine the risks involved in evaluating the prospective economic viability of an oil and gas prospect
- Key insights on the wind and solar energy industries and how the valuation of these promising companies is different than traditional valuations
- Current case law related to the valuation of oil and gas businesses including valuable lessons from the analysis of 17 court cases where oil and gas related business valuations were front and center

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