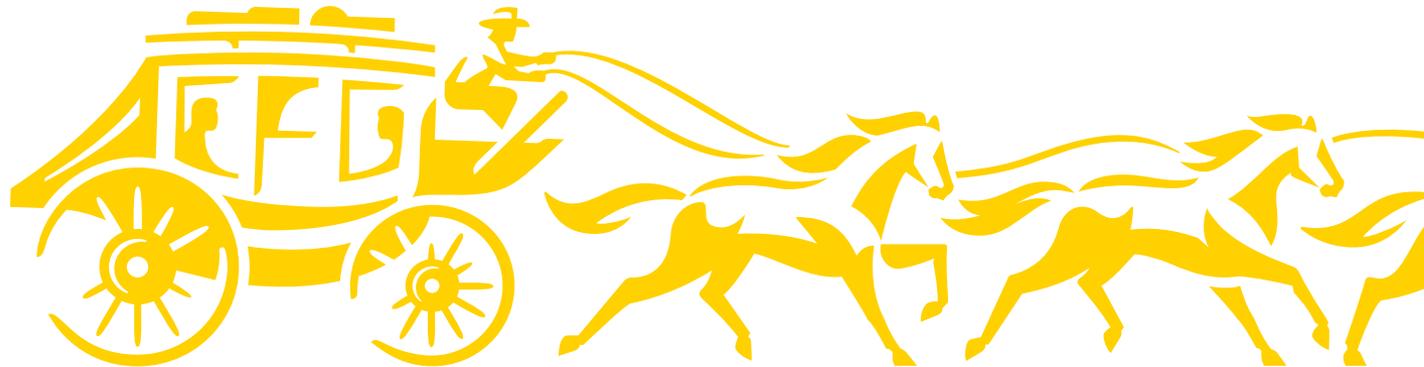




AOGA Fundamental Financial Concepts

January 6, 2020

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Agenda

- Net Profit vs. Free Cash Flow vs. EBITDA
- Capital Expenditures
- Investment Decision Factors
- Alaska's Oil Recession and Spending
- Commercial Lending Considerations

Net Profit vs. Free Cash Flow vs. EBITDA

Net Profit

Revenue (+)

Cost of Goods Sold (-)

Operating Expenses (-)

Taxes (-)

Net Profit

Free Cash Flow

Net Profit

Depreciation, Depletion and Amortization (+)

Changes in working capital (e.g. AR, Inventory, AP)(+/-)

Taxes (-)

Cash Flow from Operating Activities

Capital Expenditures (-)

Free Cash Flow

EBITDA

Net Profit

Interest Expense (+)

Taxes (+)

Depreciation, Depletion and Amortization (+)

EBITDA

Capital Expenditures (aka CapEx)

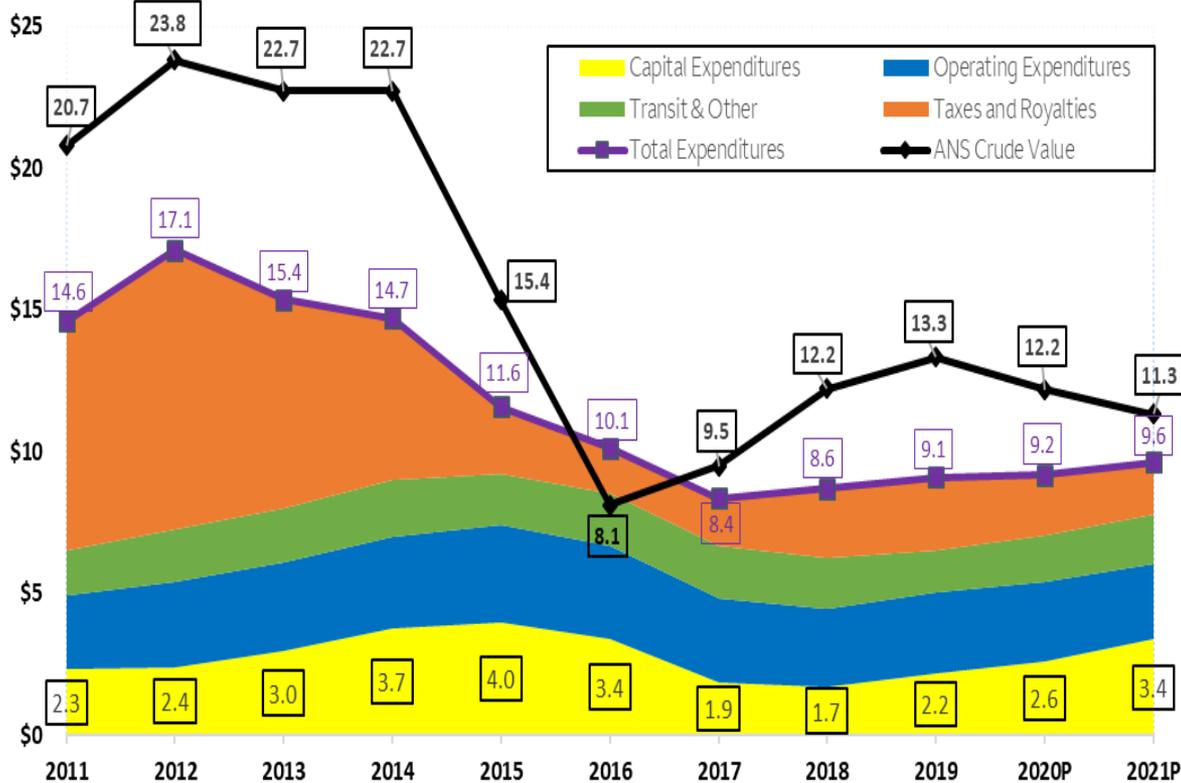
- In layman's terms, an operating expense is an expense required for a business to function today. A capital expense is an expense required for a business to function into the future.
- Capital expenditures are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.
 - E&P's have some of the highest levels of CapEx of any industry
 - E&P CapEx includes the costs of finding and producing additional oil & gas necessary to replace or increase declining reserves and production
 - CapEx includes acquiring leases, conducting seismic surveys, engineering and design, building roads and pads, contracting drilling rigs, fabricating production modules, building pipelines, etc.

Investment Decision Factors

- Internal Rate of Return
 - Metric used to estimate the profitability of potential projects
 - Sometimes referred to as “economic rate of return” or “discounted cash flow rate of return”
 - Compares initial cash outlay with after-tax cash flow over time
- Political Risks
 - Changes in tax policy
 - War
 - Environmental/Permitting
- Geological Risk
- Supply and Demand Risk
- Price Risk
- Cost Risk

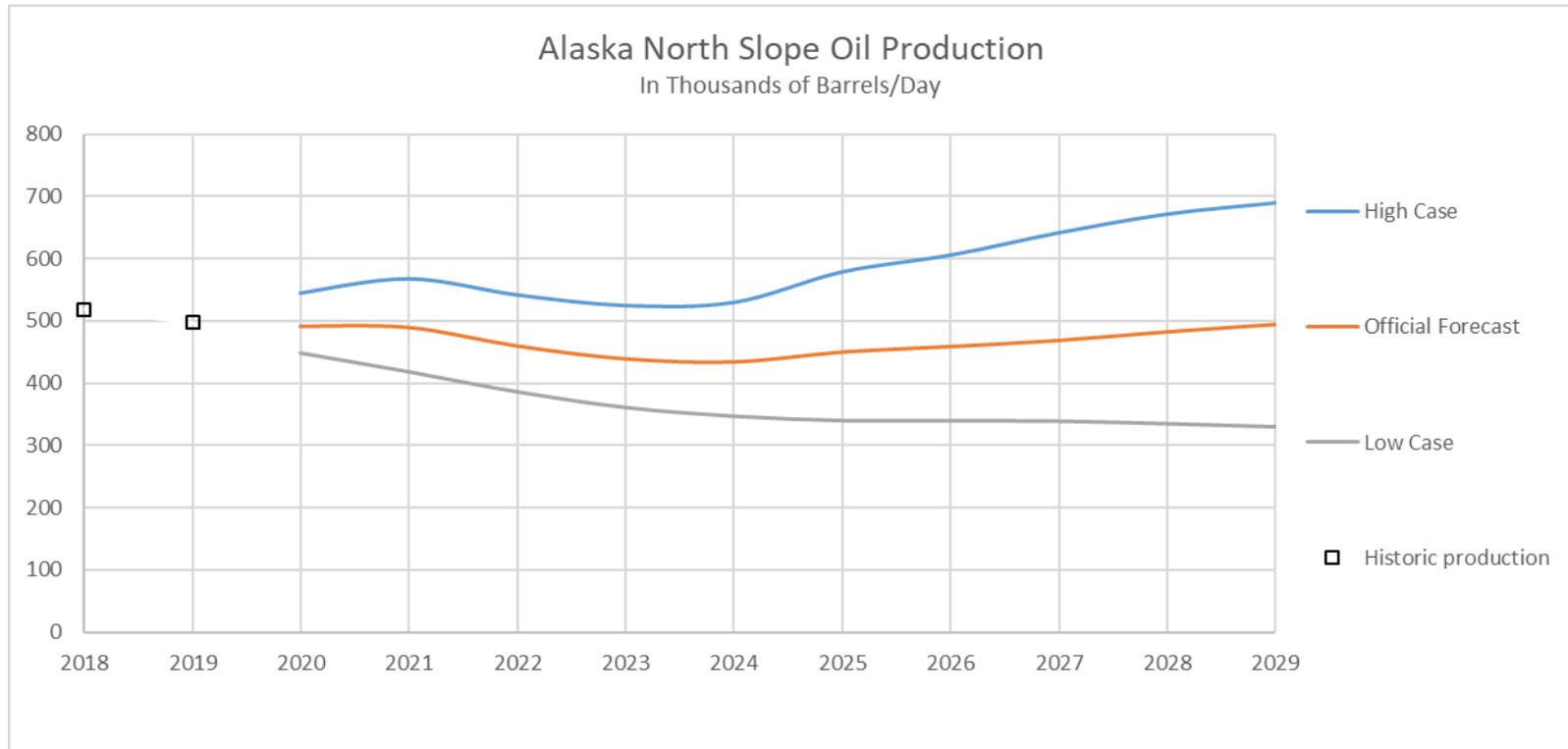
Alaska's Oil Recession and Spending

ANS Spending and Cash Flow
In Billions of Dollars



- Lower oil prices caused a recession 4 years ago in Alaska. Oil prices declined from \$110 to \$26 from mid 2014 to early 2016. Oil & Gas industry expenditures declined \$9B & >50% from 2012 – 2017 peak to trough.
- ANS CapEx declined from \$4B to \$1.9B from 2015-2017. \$2.1B decline equals a 53% decline.
- Alaska still needs to work to promote higher ANS CapEx budgets. E&P spending multiplies 9X in the economy and CapEx is the key to growth.

Projected North Slope Production



- For Alaska's economy to grow we need steady oil revenues
- To achieve steady oil revenues we need sustained and growing CapEx
- To grow CapEx, we need a stable and predictable tax policy



Thank you

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