



# Oil & Gas Executive Outlook 2015

## Chris Reinsvold, Pearson Partners International

In his recently conducted survey of more than 200 senior executives from across the oil and gas energy spectrum, Pearson Partners International's energy practice leader Chris Reinsvold discovered the trends, issues and challenges expected in 2015 and beyond—for companies as well as industry segments. These industry leaders weighed in on such issues as headcount expectations, capital spending, merger and acquisition expectations and more.



Pearson Partners  
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## A Challenging Year Ahead

The longer, five-year outlook is optimistic (Figure 9) but most executives expect their industry segments to have a challenging year in 2015—primarily due to lower oil prices. When asked how they expect their industry segment to perform in 2015 compared with 2014 (Figure 1), 19 percent said they expect their segment to perform moderately better or significantly better, while 59 percent said they expect their segment to perform moderately worse or significantly worse.

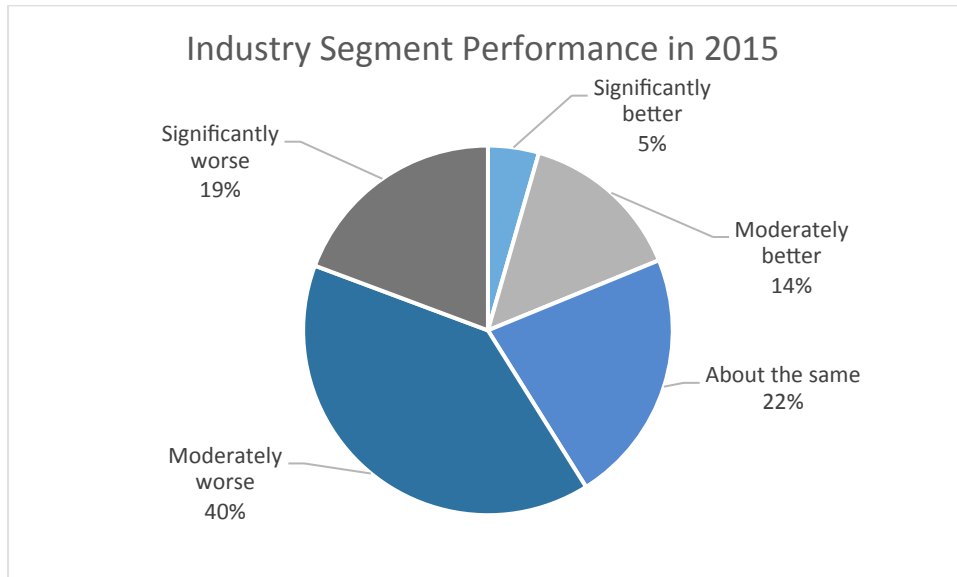


Figure 1

Similarly, we asked the executives how they expect their own companies to perform in 2015 (Figure 2), rather than their industry segment. In this case, 32 percent said better than 2014, while 39 percent said worse. However, comparing figures 1 and 2, we can see that in general, the executives feel that their industry segments will have a tough 2015, but their own companies will not suffer quite as much.

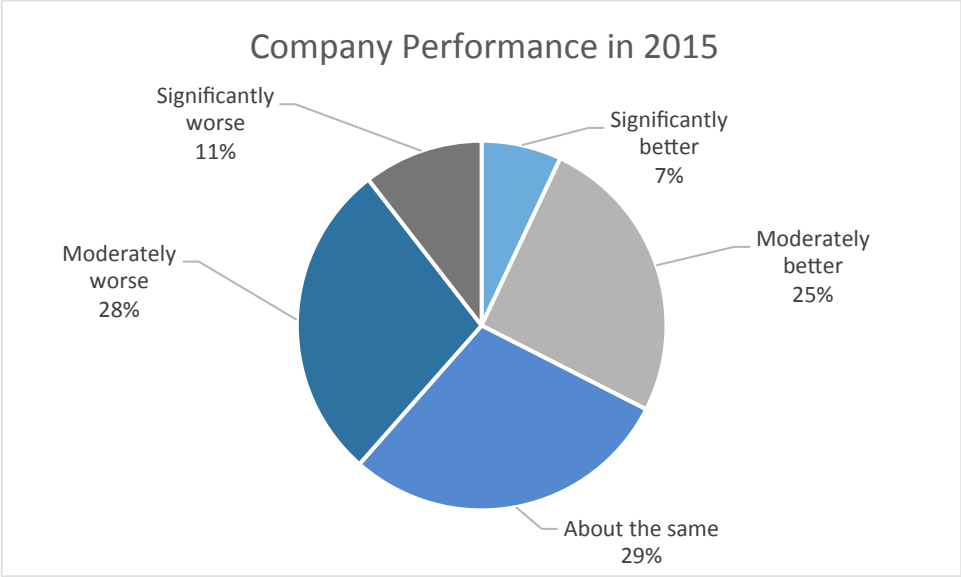


Figure 2

When asked about company growth, 22 percent expect to see increased total headcount at their companies in 2015, while 36 percent expect to see lower headcount and about 42 percent expect their company's total headcount to stay about the same (Figure 3). Digging deeper into the survey responses, we see that the oil and gas companies (majors, independents, NOCs) have a more balanced view of their headcounts in 2015, but the suppliers (oilfield equipment and services suppliers, drilling contractors, EPC companies, etc.) are expecting to see greater headcount reductions. As if to validate this expectation, since the survey was conducted, Schlumberger has announced that it will lay off 9,000 employees; Baker Hughes announced 7,000 layoffs; Weatherford announced 8,000 layoffs; and Halliburton announced 1,000 layoffs in the Eastern Hemisphere and hinted that there might be more.

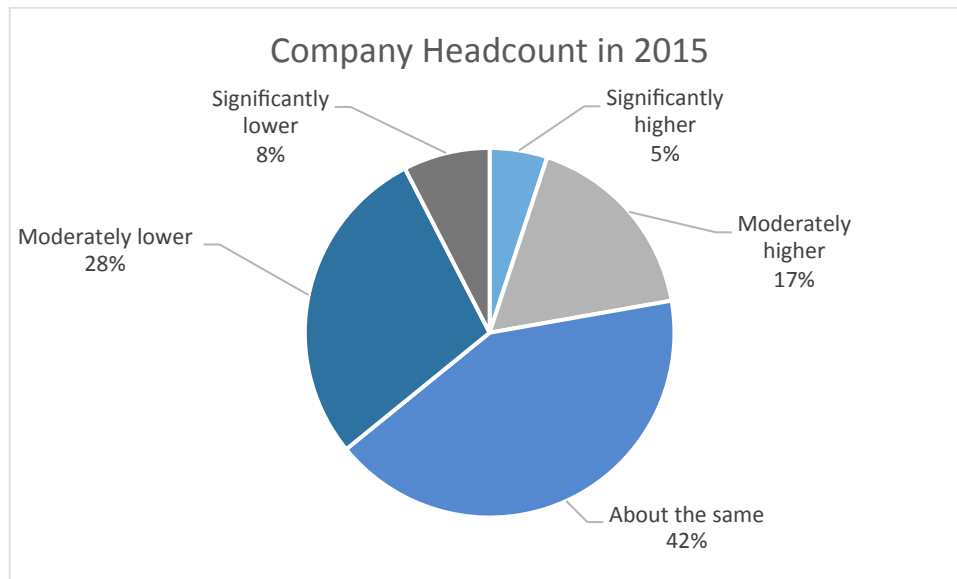


Figure 3

When it comes to capital spending, most companies expect a retreat from the record spending levels of the last few years. About 54 percent of the survey participants expect their companies to reduce their capital spending, while 17 percent expect their companies to increase their spending (Figure 4).

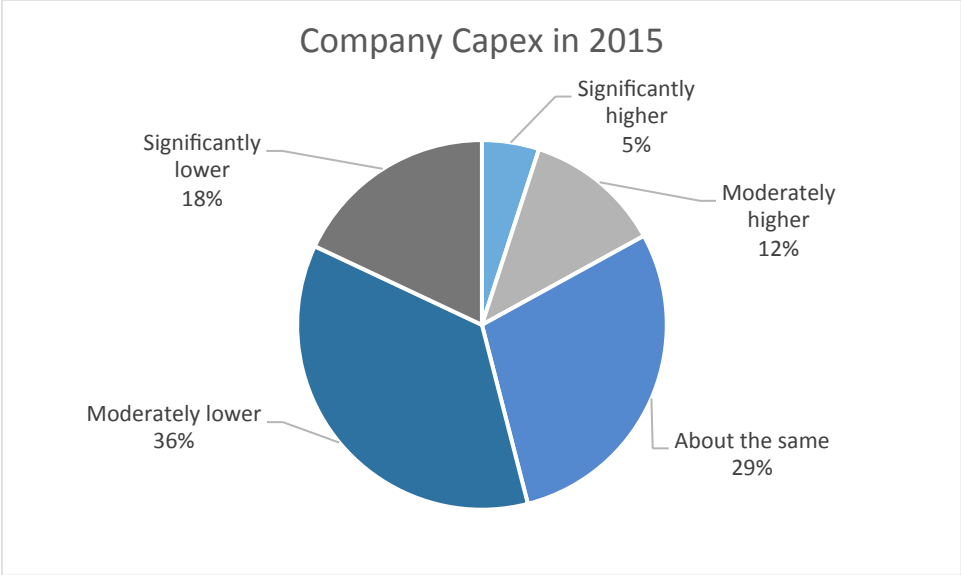


Figure 4

Taking a different approach to the 2015 segment performance question, we asked participants which industry segment will perform best in 2015 (Figure 5). Two areas stood out in the results: downstream (the refining, marketing and petrochemical segments) and the majors (integrated oil and gas companies). The downstream companies benefit from lower feedstock and energy costs, whereas the majors not only have downstream business units, they have large balance sheets and portfolios of assets that help them weather a down year.

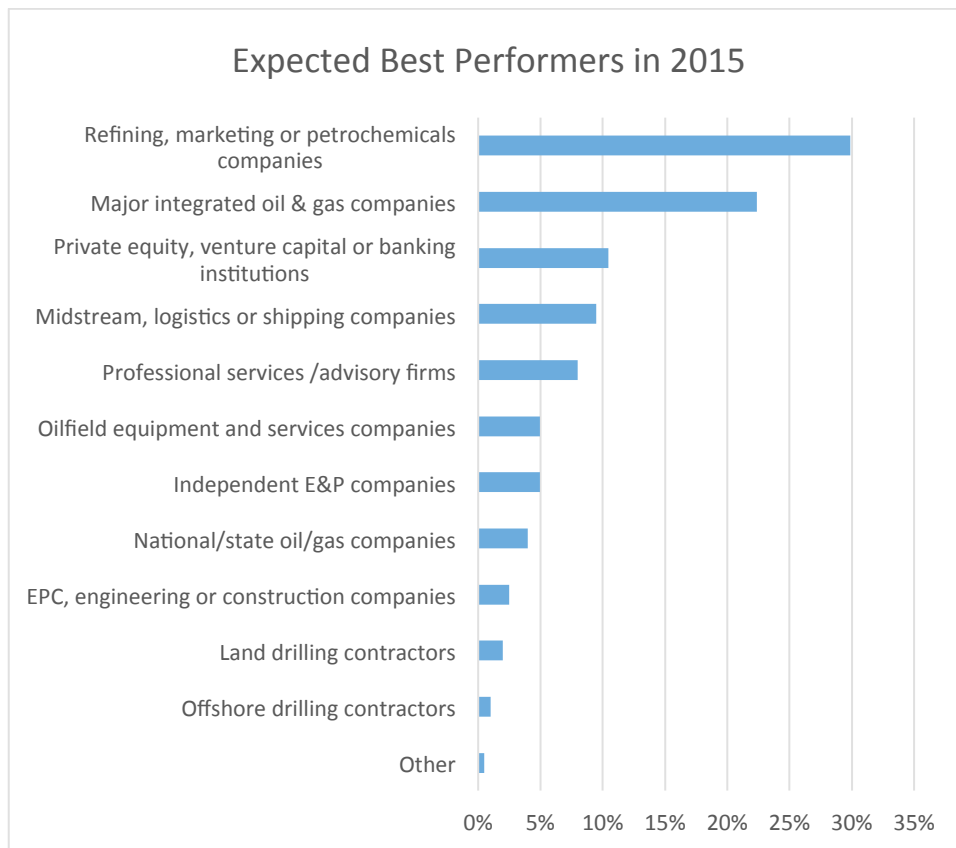


Figure 5

Mergers and acquisitions are expected to increase quite a bit in 2015. Certainly, the recent announcements of the \$34.6 billion Halliburton/Baker Hughes merger and the \$8.3 billion Talisman acquisition by Repsol support this expectation.

Of the executives surveyed, 70 percent expect 2015 to be a year of moderately or significantly more M&A activity in their industry segment, while only 16 percent expect less, and 14 percent expect M&A activity to be about the same as 2014 (Figure 6). The suppliers expect to see greater M&A activity in their segments than the oil and gas companies.

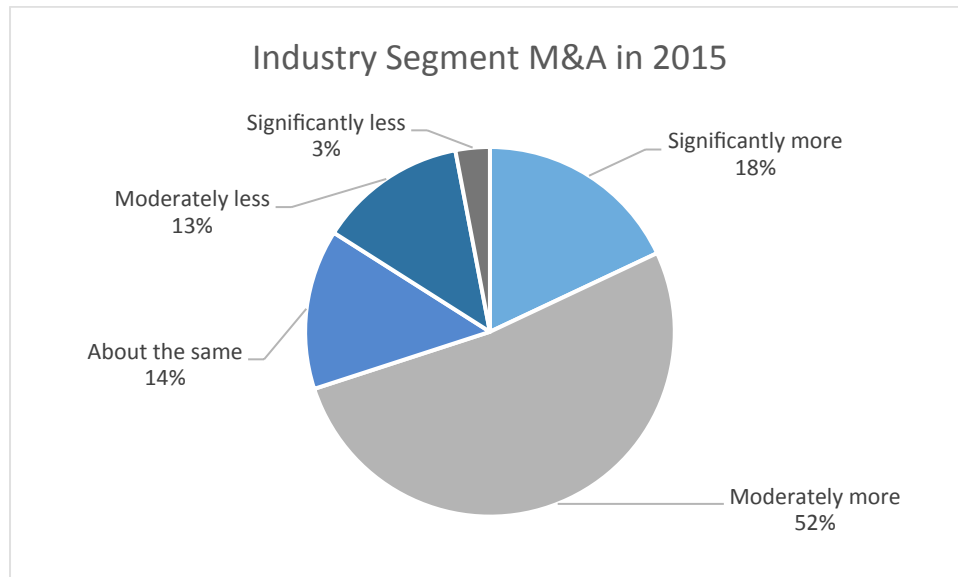


Figure 6

## Soft Oil and Gas Prices to Remain in 2015

According to the majority of survey participants (59 percent), the 2015 average price (not the floor price) for WTI crude oil will be in the range of \$65 to \$80 per barrel. About 34 percent of participants believe the price will be in the \$50 to \$65 range. Very few of the executives feel that oil will be below \$50 (2 percent) or over \$80 (5 percent). Figure 7 shows the responses from all the executives as well as the breakdown for oil and gas companies (majors, independents, NOCs) and suppliers (oilfield equipment and services suppliers, drilling contractors, EPC companies, etc.) Overall, the suppliers are a little more bullish on prices than their customers, the oil and gas companies.

As a point of reference, during the days that the survey was conducted (December 8 – 12, 2014), WTI oil traded in the \$57 to \$65 range. Oil spent most of 2014 in the \$80 to \$100 range for WTI, with a dramatic drop occurring in the weeks just before our survey. As for commodity pricing, it is probably safe to say that this question is more a gauge of sentiment and mood, rather than a numerical price forecast.

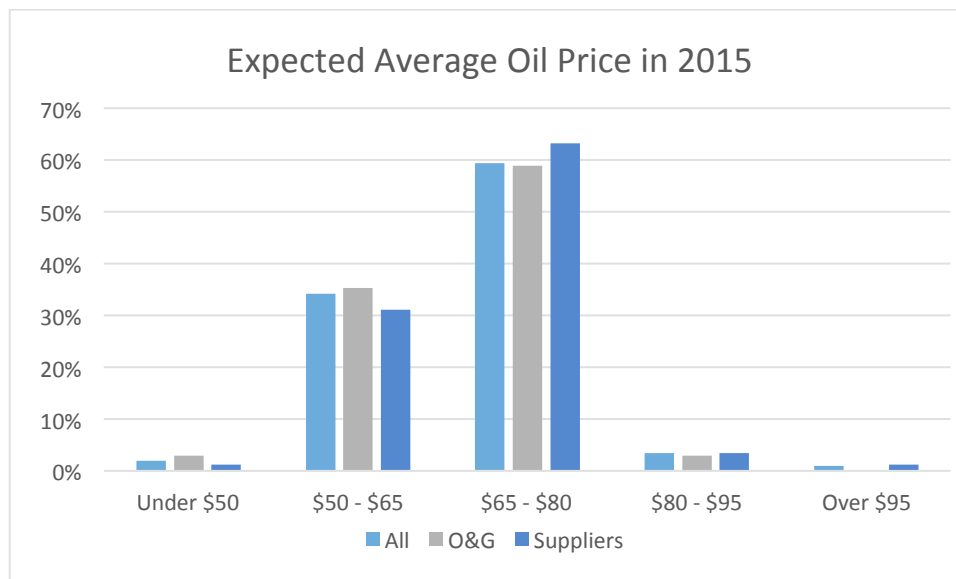


Figure 7



The majority of survey participants (67 percent) expect U.S. natural gas prices to average about \$3.00 to \$4.00, and 26 percent believe natural gas will average \$4.00 to \$5.00 in 2015 (Figure 8). A small number (7 percent) expect prices to be below \$3.00. For reference, natural gas prices were in the \$4.00 to \$5.00 range for most of 2014. As with oil price expectations, the oil and gas companies are a little more pessimistic about natural gas price expectations than their suppliers.

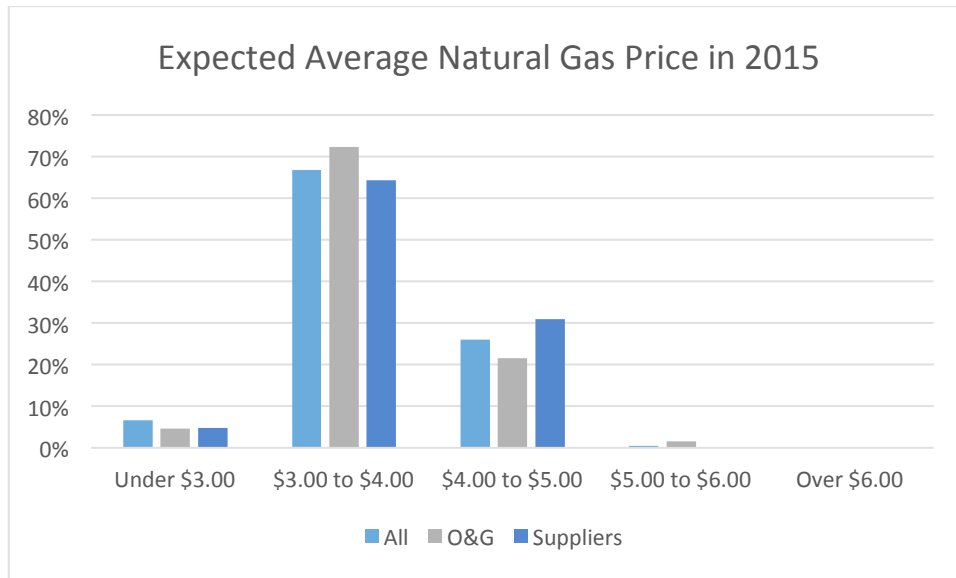


Figure 8

## Very Strong Five-Year Outlook

When asked how they expect their industry segment to perform over the next five years, a striking majority of the participants were positive, with 76 percent saying significantly or moderately better (Figure 9). Very few were negative, with only 6 percent saying moderately worse, and none said significantly worse. Few (18 percent) expected their segment to perform about the same. Overall, the suppliers have a slightly more positive five-year outlook than their customers, the oil and gas companies.

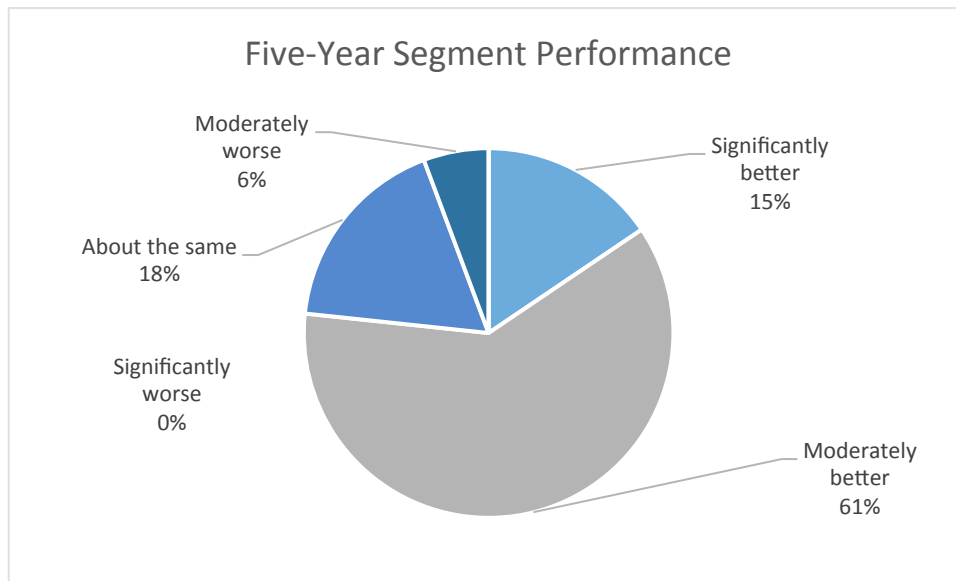


Figure 9

Similarly, when asked about their own companies, 83 percent of the executives expect their companies to perform better over the next five years, while only 5 percent said that their companies would perform worse (Figure 10). This very positive response speaks both to the optimistic nature of the oil and gas industry as a whole, as well as the understanding of the cyclical nature of the business.

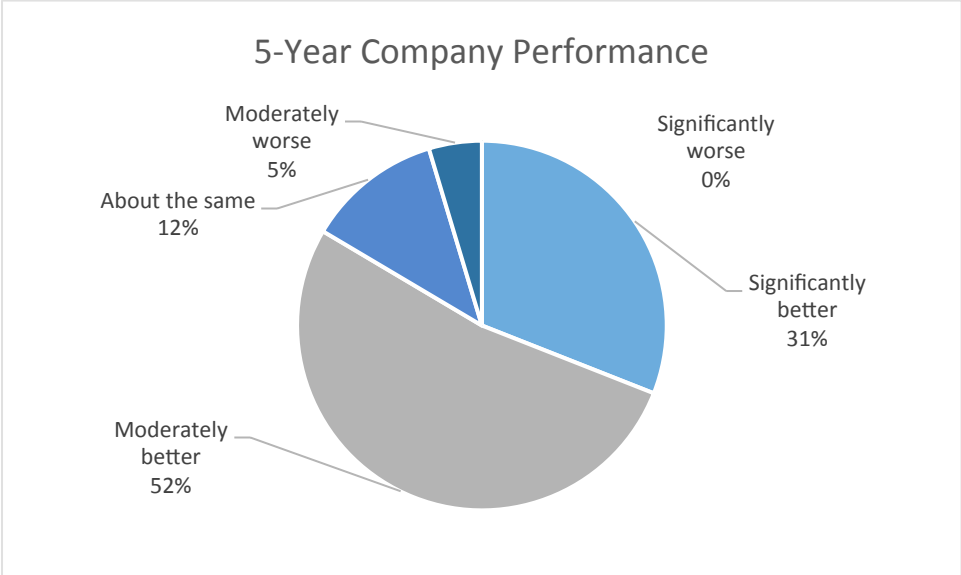


Figure 10

The two industry segments that the survey participants expect to perform best over the next five years are the majors (large integrated oil and gas companies) and independent exploration and production companies (Figure 11). This is a different viewpoint from the short-term outlook (Figure 5) for the expected best performers for 2015. This difference reflects the expected return to growth and profitability in the upstream part of the business—those segments whose profits are directly tied to the price of oil and gas.

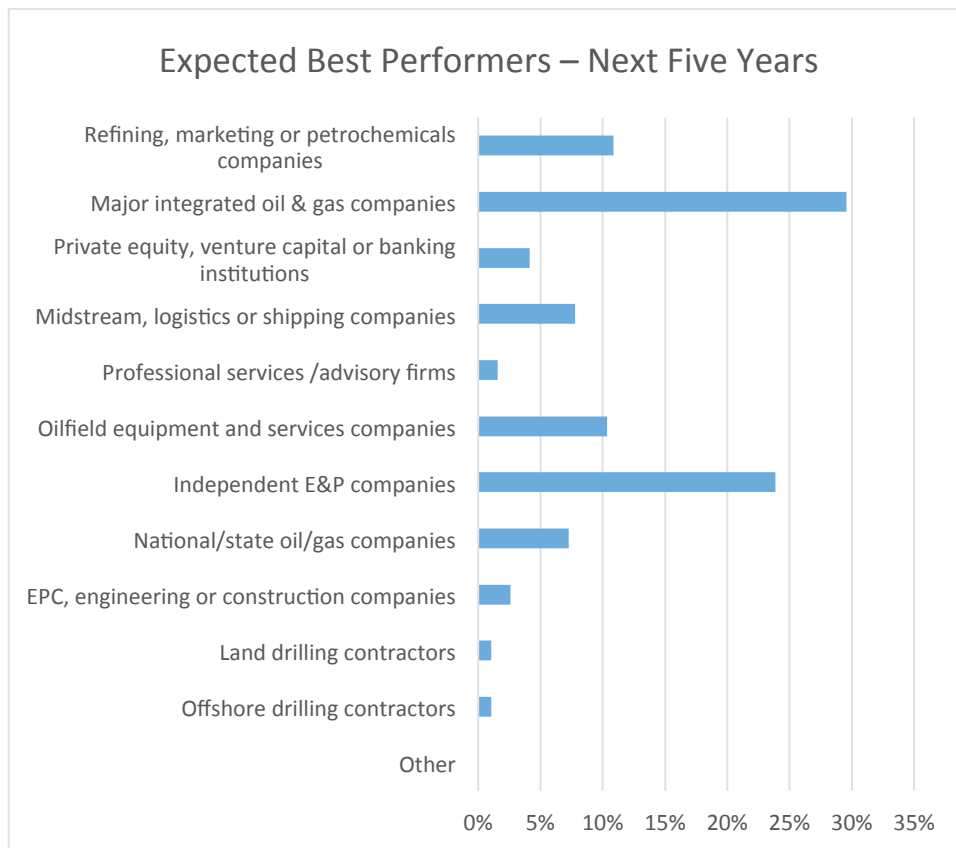


Figure 11

## Industry Tailwinds

When considering their own industry segment over the next five years, the participants weighed in on the most important drivers of opportunity—or tailwinds—selecting up to 3 choices. The top three tailwinds cited are: 1) global economic recovery, 2) new technology developments, and 3) increased use of natural gas (Figure 12).

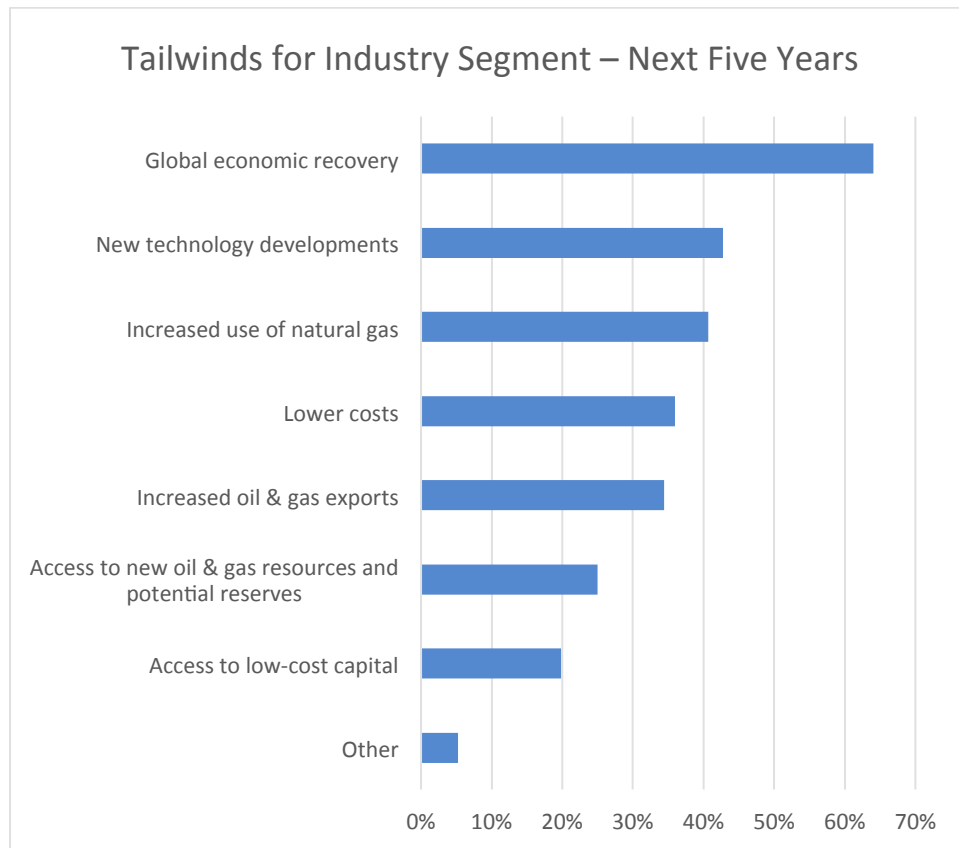


Figure 12

We asked a follow-on question about the perceived long-term opportunity driver of new technology developments. The top three technology developments cited are: 1) improvements in hydraulic fracturing, 2) improvements in drilling technologies, and 3) the increasing use of Big Data (Figure 13). Technology developments in seismic and micro-seismic were also mentioned frequently.

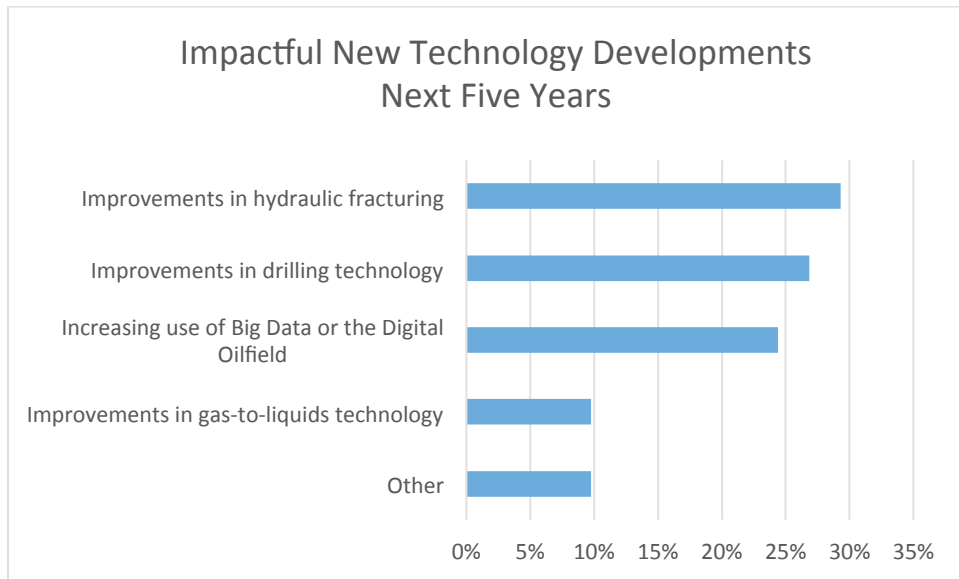


Figure 13

Another driver of long-term opportunity is the expected increase in the use of natural gas. Survey participants cited power generation as the greatest potential driver of opportunity over the next five years (Figure 14). According to the U.S. Energy Information Administration (EIA), about 39% of the electricity generated in the U.S. in 2013 (the most recent year available) came from coal-fired power plants. Switching a large portion of this power generation from coal to natural gas would be quite valuable for gas producers.

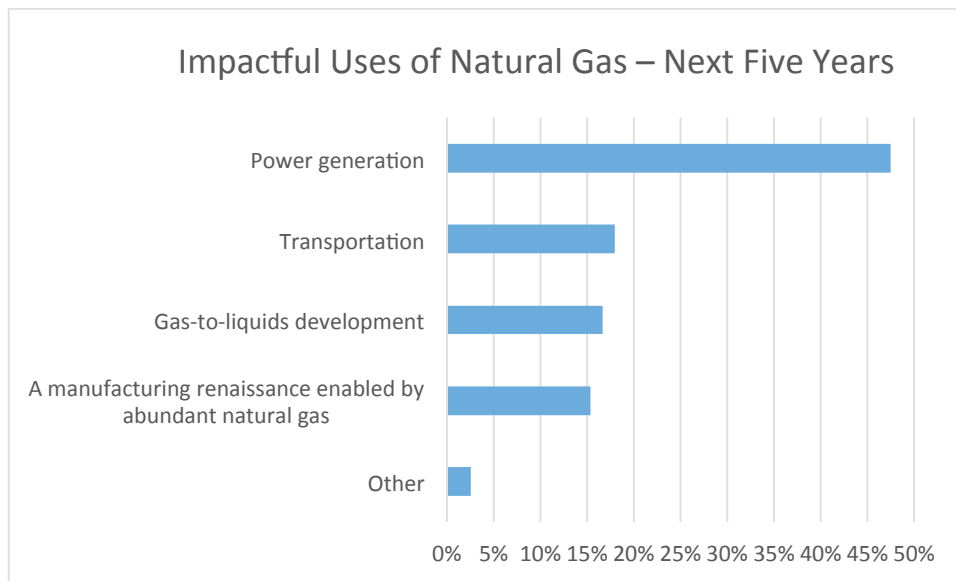


Figure 14

Another long-term opportunity driver cited was lower costs (Figure 15). However, lower equipment and services costs is seen as an opportunity for oil and gas companies, while their suppliers, of course, see it as a challenge.

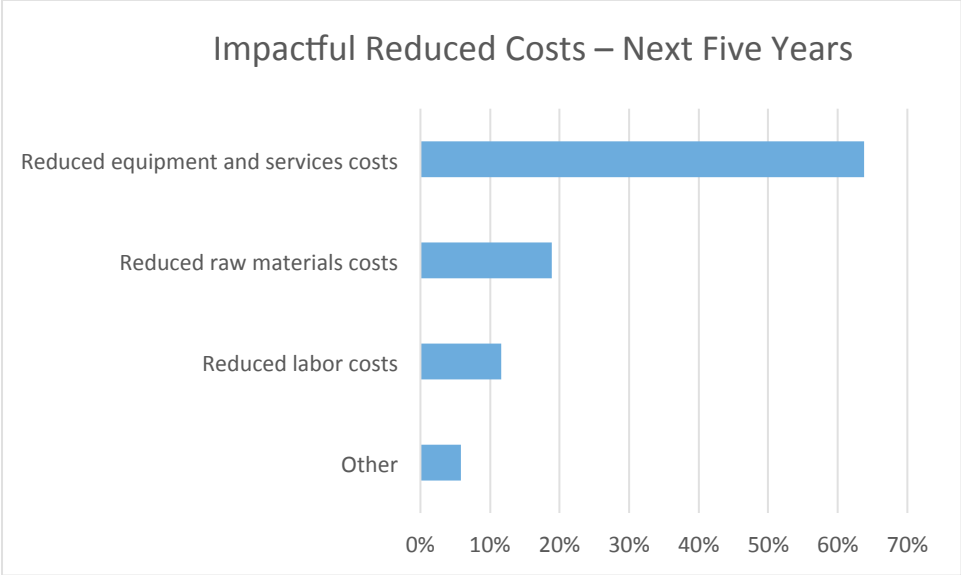


Figure 15



LNG export plants are currently being constructed and crude oil exports are being debated. Increased crude oil exports and increased LNG exports are the top two factors cited as contributing to increasing oil and gas exports over the next five years (Figure 16).

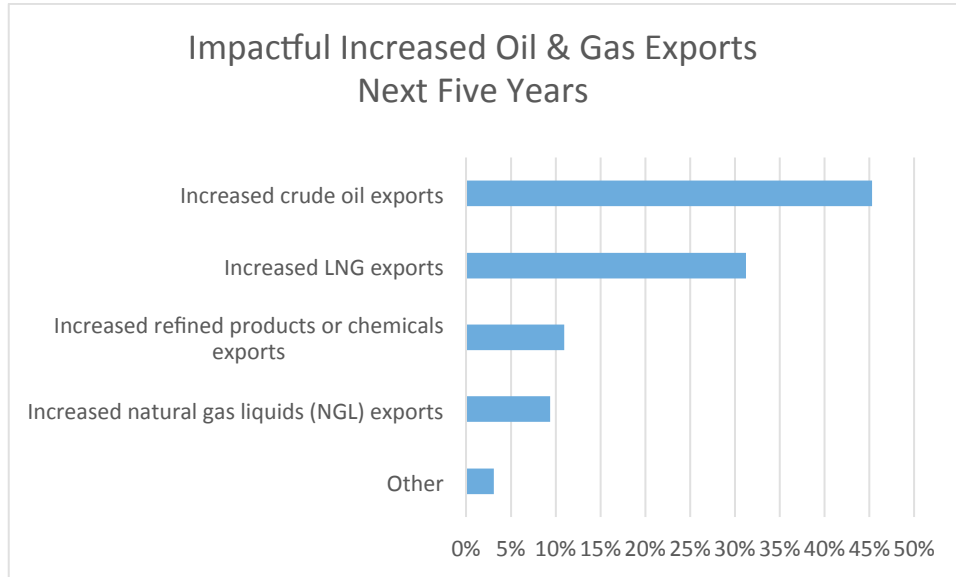


Figure 16

Access to new areas to explore and develop oil and gas resources is seen as one of the significant drivers of long-term opportunity. However, we have seen a remarkable change in the resource landscape over the last decade. In the coming years, several areas are expected to contribute to new resource developments (Figure 17). The top contributions cited are: 1) access to other new international areas, 2) new U.S. shale plays, 3) international shale plays, and 4) access to new US offshore areas.

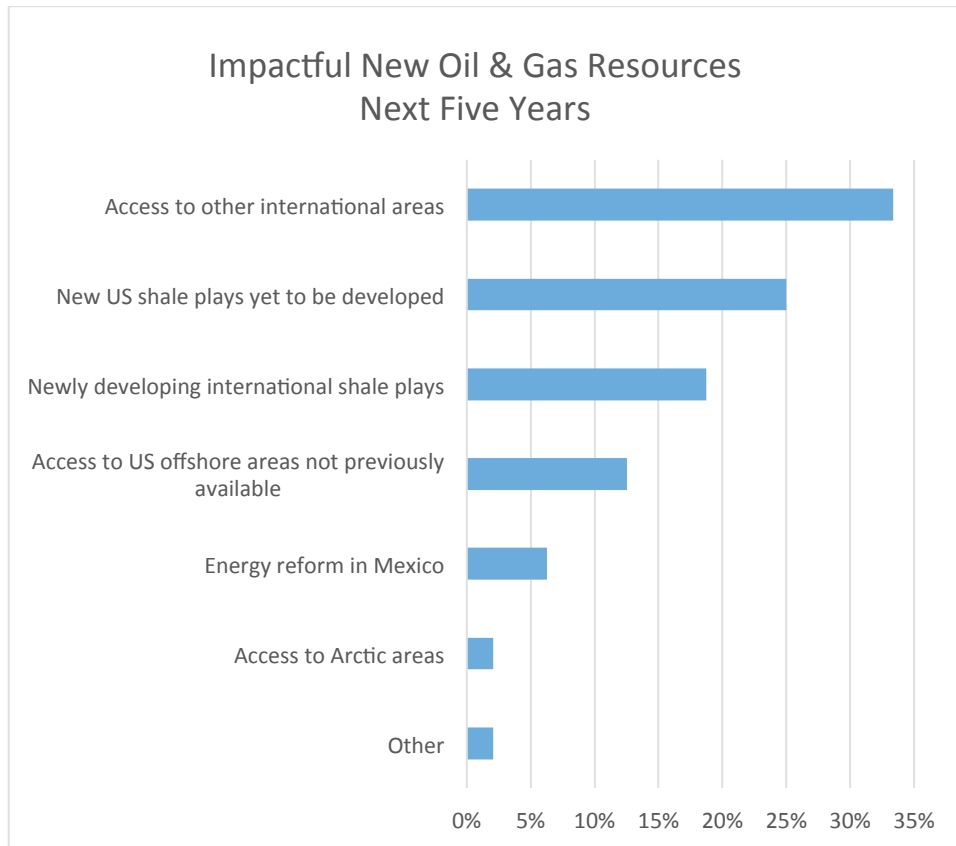


Figure 17

# Industry Headwinds

Similarly, we asked the participants to identify the most significant challenges—or headwinds—that their industry segments will face over the next five years (Figure 18), allowing up to three answers. The top four headwinds cited are: 1) global oversupply of oil and gas, 2) unfavorable prices for oil, 3) increasing regulation/restrictions/taxes, and 4) talent shortages. The first two responses are related, of course, with the global oversupply of oil contributing to unfavorable oil prices.

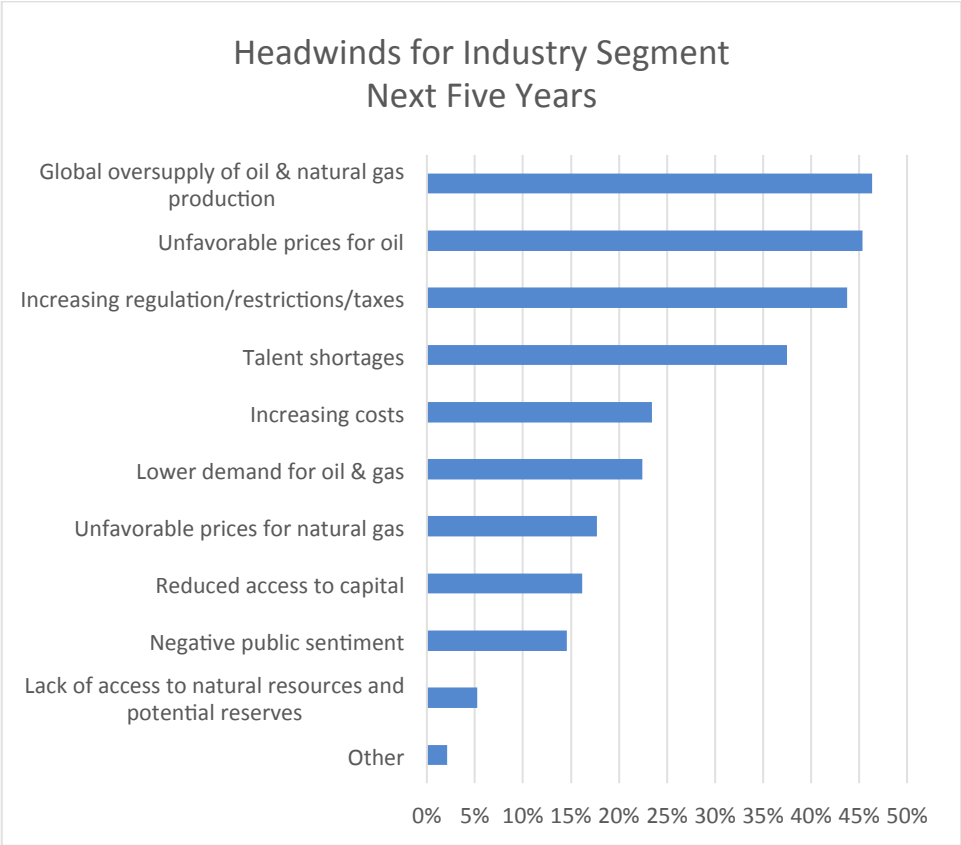


Figure 18

When asked to elaborate on the headwind of increasing regulation/restrictions/taxes, the survey participants cited increasing regulation or restrictions by the EPA as the number one reason (Figure 19). The second most significant regulation/restriction factor cited was local or regional bans on hydraulic fracturing. Currently, there are several countries (France, Germany, Bulgaria and Ireland), several US States (New York, New Jersey and Vermont) and a number of communities large and small that ban or restrict hydraulic fracturing. As the lawsuits play out in courts around the world, these restrictions will remain a challenge for the oil and gas industry.

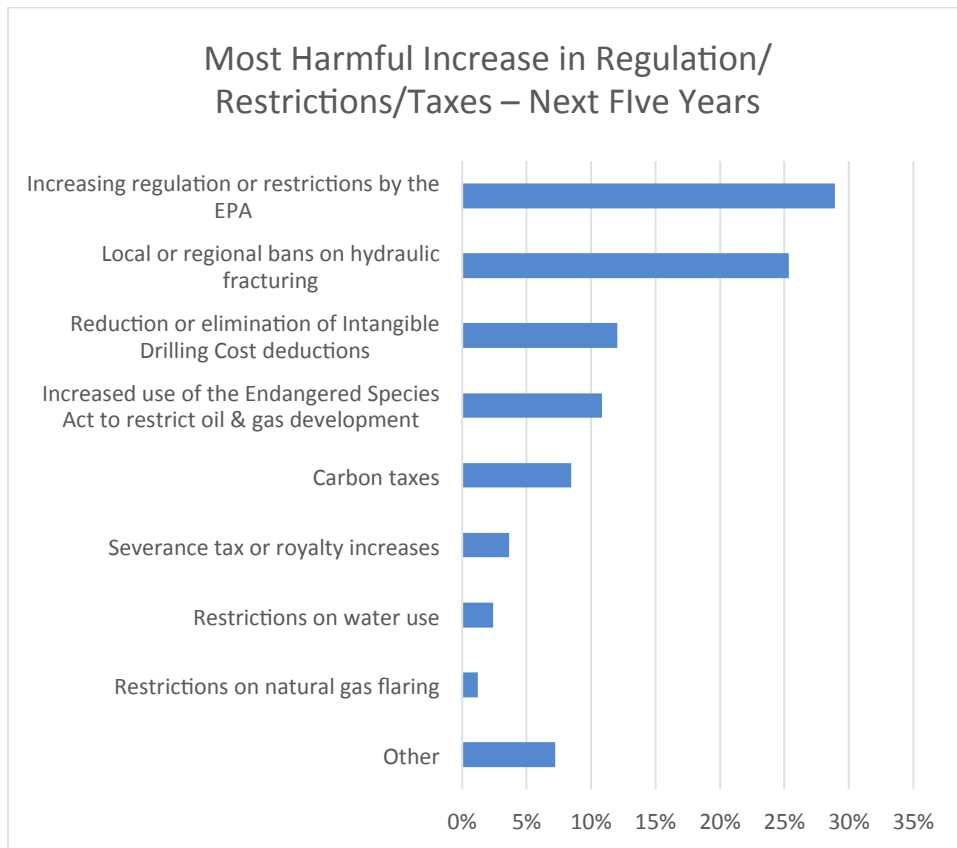


Figure 19

## Talent-Related Challenges

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 20). The most significant talent issue cited was the “Great Crew Change”—the retirement of key personnel expected in the near future. The second most significant talent-related issue is the shortage of technical talent such as engineers and geoscientists. The third most cited issue is the lack of leadership talent.

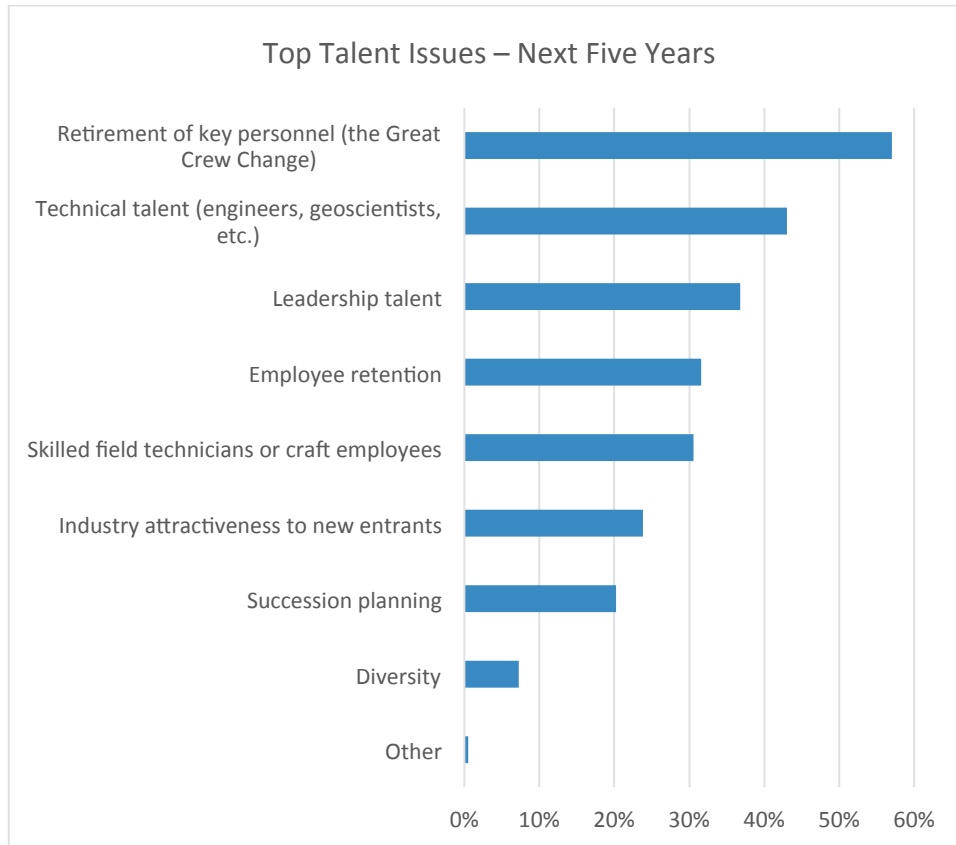


Figure 20

## Summary

The oil and gas industry expects 2015 to be a challenging and dynamic year:

- Lower oil and gas prices will continue in the short term.
- Lower capex is expected in many companies.
- Headcount reductions are expected.
- Increased mergers and acquisitions are predicted.
- Integrated majors and downstream companies are expected to perform better than other segments.

However, the longer, five-year outlook is much more optimistic:

- Most companies and industry segments are expected to perform better.
- Independent E&P companies and the integrated majors are expected to perform best.
- The “Great Crew Change”—retirement of key personnel in the near future—as well as global oversupply of oil and natural gas production are expected to be the biggest challenges.
- Global economic recovery is expected to be the most significant long-term opportunity driver.

## About the Survey

The survey was conducted from December 8 – 12, 2014. Of the 205 participants, 63 percent are at the C-level (chief executive officer, chief financial officer, etc.) or vice-president level (Figure 21). About 80 percent of the participants reside in the United States, with the other 20 percent residing in a variety of countries across the globe (Figure 22). Independent E&P companies and major integrated oil and gas companies account for 29 percent of the survey participants. Another 36 percent work for oilfield equipment and service companies, and the remaining 35 percent work in a variety of other industry segments (Figure 23).

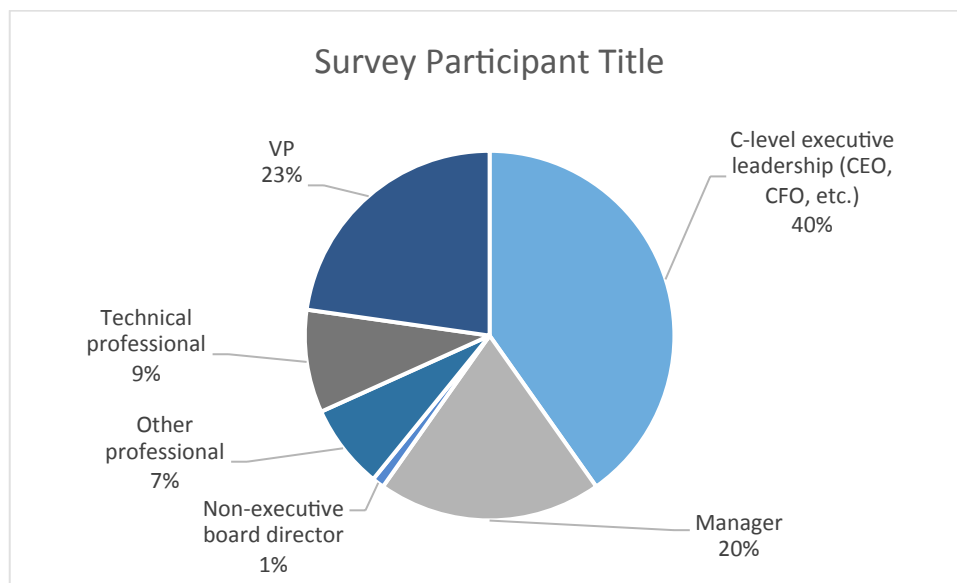


Figure 21

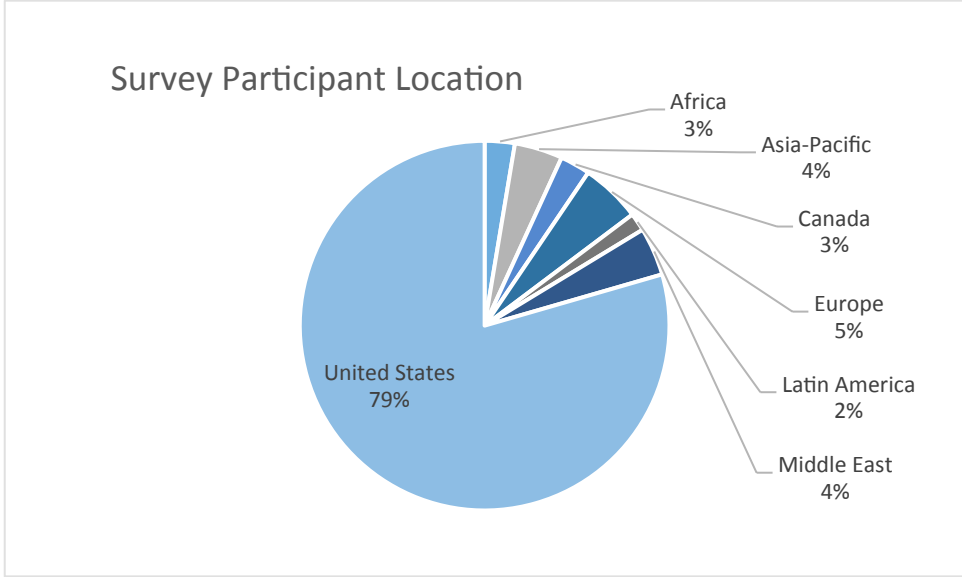


Figure 22

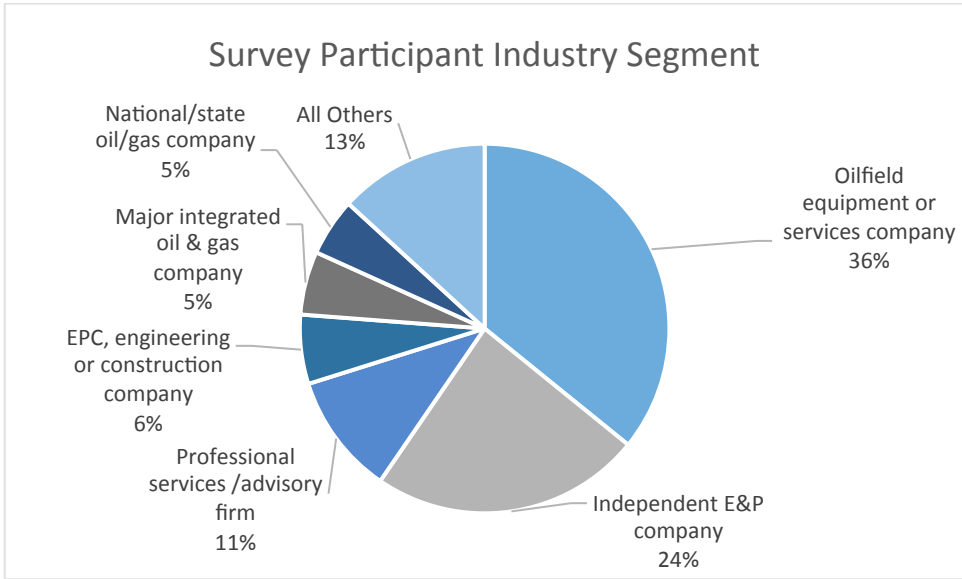


Figure 23



## About the Author

[Chris Reinsvold](#) is vice president and energy practice leader with [Pearson Partners International](#), a global retained executive search and leadership 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 Business Journals selected him for the 2014 Who's Who in Energy. For more information, please visit [www.pearsonpartnersintl.com](http://www.pearsonpartnersintl.com) or contact Chris Reinsvold at [creinsvold@pearsonpartnersintl.com](mailto:creinsvold@pearsonpartnersintl.com) or (281) 362-2701.

