RESEARCH REPORT

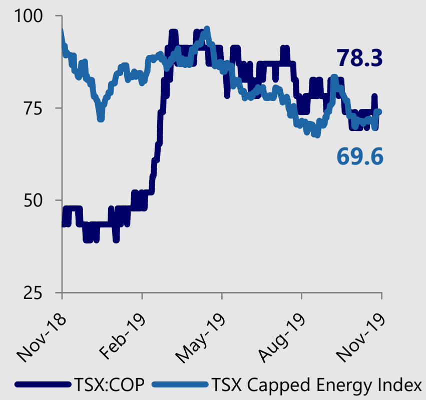
November 9, 2019

Stock Rating	BUY
Price Target	$72.00 – $89.00

Bear Case	Price Target	Bull Case
$72.00	$80.50	$89.00

Ticker	COP
Market Cap (MM)	$63,642
LTM EV/EBITDA	4.5x
LTM Price/Earnings	8.7x

52 Week Performance



ConocoPhillips

Investment Rationale

At the start of FY19-20 the E&U team decided to disband its long-held synthetic U.S. ETF. To do so, the team liquidated all of its holdings and identified two U.S.-based names to take active positions in: ConocoPhillips (NYSE: COP) and Kinder Morgan, Inc. (NYSE: KMI). This report focuses on ConocoPhillips, and seeks to analyze the company's business model and explain the E&U team's investment rationale.

The QUIC E&U team believes that COP has a best in-class management team which exhibits strong capital prudence, a shareholder-friendly business model underpinned by quality assets, and an all-weather balance sheet capable of generating free-cash-flow throughout the entire cycle.

Despite ConocoPhillips' strengths, investors continue to discount the company's value, largely because of COP's infamous leverage profile during the mid 2000s energy boom and uncommon listing position as a mega-cap pureplay E&P name.

Given COP's stark deleveraging, refined capital allocation strategy, and attractive operational characteristics, the E&U team concludes that these concerns are trivial and estimate the company's equity value is approximately $72 - $89, a 21% - 50% premium to current market prices.

Energy & Utilities

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Industry Overview

Global Petroleum History:

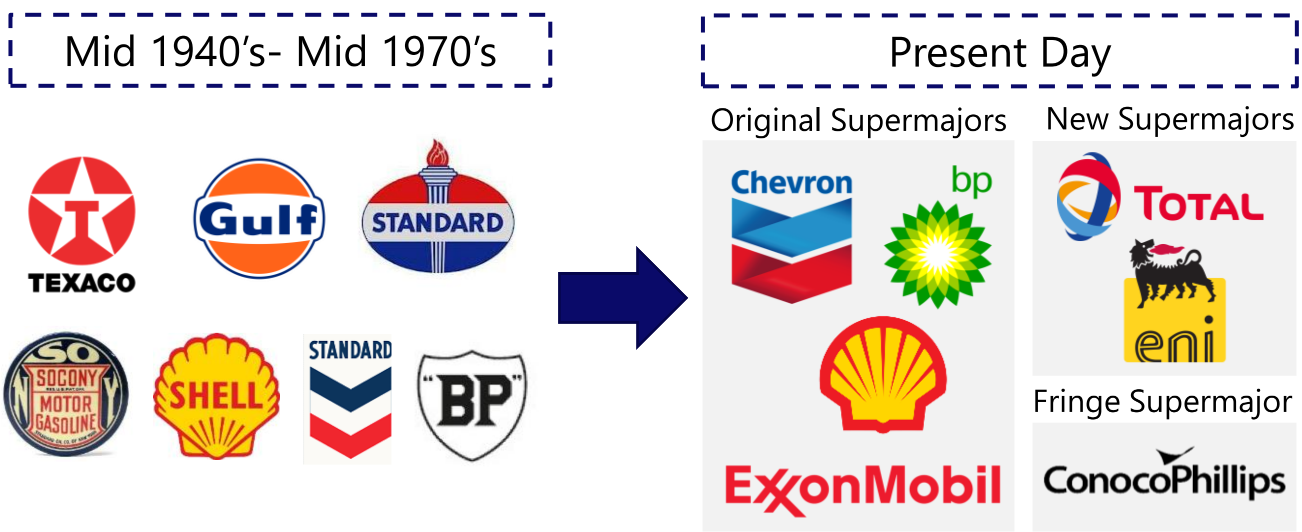
The global petroleum industry of today is a far cry from the mid 20th century. Up until the 1950s, coal was still the world's fuel of choice, but this changed after the Consortium Agreement of 1954, which provided Western oil companies with 40% ownership of Iranian oil production. From this, arose the "Seven Sisters Oil Companies" which ended up dominating the petroleum industry until the early 1970s. These companies were *Texaco (Chevron), Gulf Oil (Chevron), Anglo-Persian Oil Company (BP), Royal Dutch Shell, Standard Oil Company of California (Chevron), Standard Oil Company of New Jersey (ExxonMobil), and Standard Oil Company of New York (ExxonMobil)*. The "Seven Sisters" controlled 85% of global petroleum reserves at its height. In 1973, an oil embargo by The Organization of Arab Petroleum Exporting Countries (OAPEC), coupled with the rise of independent oil producers paved the way for a shift in the industry.

Today, the "Seven Sisters" exist as four Supermajors: Chevron, BP, ExxonMobil, and Royal Dutch Shell. Total and Eni comprise the other recognized supermajors, with ConocoPhillips considered by some to also be in the group. Through significant M&A activity and growth in the 1980s and 1990s, we saw the merging of Exxon and Mobil to create ExxonMobil, SOCAL Gulf and Texaco to create Chevron, and Conoco and Phillips to create ConocoPhillips. Alongside this, we also saw BP acquire Amoco, ARCO and Total merge with Petrofina and Elf Aquitaine, and Eni and Royal Dutch Shell grow from acquisitions.

Aside from a shifting competitive landscape among large private oil companies, the increasing power of the OPEC cartel, declining oil and gas reserves held by OECD countries, and the growth of state-owned oil companies have characterized a seismic change in the industry's market share breakdown. OPEC was essentially created to shift the bargaining power of the seven sisters, and it has allowed resource-rich

EXHIBIT I

Supermajor Transformation Over Time



Industry Overview

countries to push them to offer price concessions. Through this, the state-owned oil companies have been able to create profitable contracts with corporate companies and further develop their own means for extracting and refining oil, reducing their reliance on them.

Global Petroleum Landscape Today

Today, the oil industry separates into three categories: national oil companies (NOCs), supermajors, and smaller corporate-held oil companies.

With respect to the market share breakdown between the three sectors, we see the NOCs now holding an aggressive 88% control over the worldwide oil market. These national state-owned oil companies have similar structures to corporate oil companies but are fully controlled by state agencies. They are typically found in countries and regions with large oil reserves where the government has a lot of power or the economy is more nationalized. These political nuances have allowed the state agencies to block away private oil corporations from controlling oil in their regions. In areas such as the Middle East, where there is significant political unrest and immense oil reserves, these national oil companies have begun to dominate the landscape, as we see companies such as Saudi Aramco, the National Iranian Oil Company, Qatar Petroleum, and the Iraq National Oil company account for just under 1000 BBL of reserves.

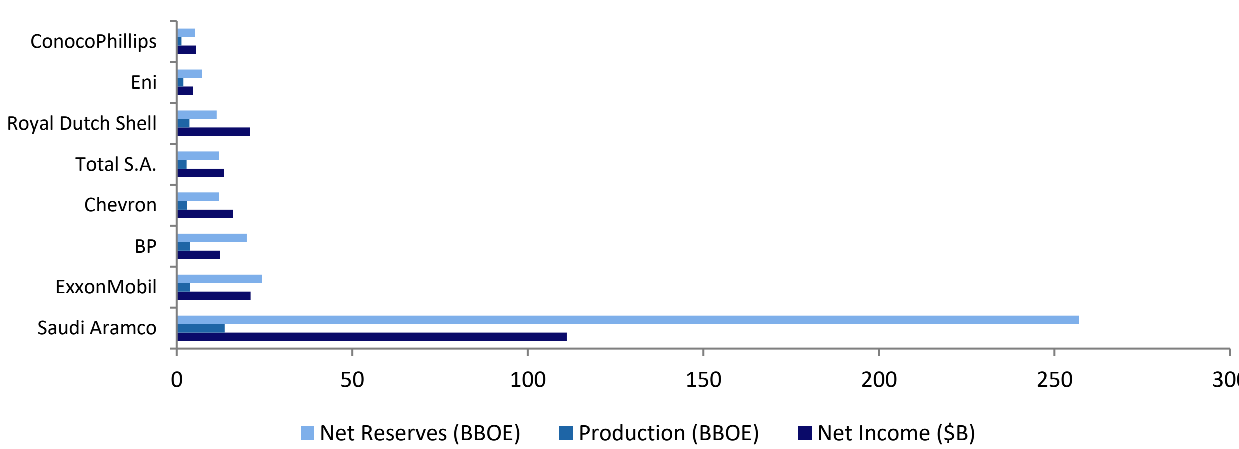
Apart from these NOCs, the other 12% of the market is comprised of public and private corporations, with roughly half (~6%) of this share consisting of 7 large international global companies called "Supermajors". Supermajors represent the seven largest publicly traded oil companies in the world.

Current Supermajors Overview:

As noted, Supermajors comprise of *Chevron, BP, Eni,*

EXHIBIT II

Saudi Aramco Performance Measured Against 7 Supermajors (2018)



Source(s): Enercom, Petroleum UK, Bloomberg

Industry Overview

ConocoPhillips, ExxonMobil, Royal Dutch Shell, and Total SA. These companies are based in different areas of the world such as the USA and Europe, however all have international operations, with all seven companies holding operations in six continents. Apart from scale and size, what differentiates most Supermajors, with the exception of ConocoPhillips, is their vertical integration. A vertically integrated oil business has exposure to the entire energy value chain subsectors including upstream, midstream, and downstream which are defined below:

Upstream: involves the exploration and production of crude oil and natural gas.

Midstream: involves the processing, storing, marketing, and transportation of crude oil and natural gas.

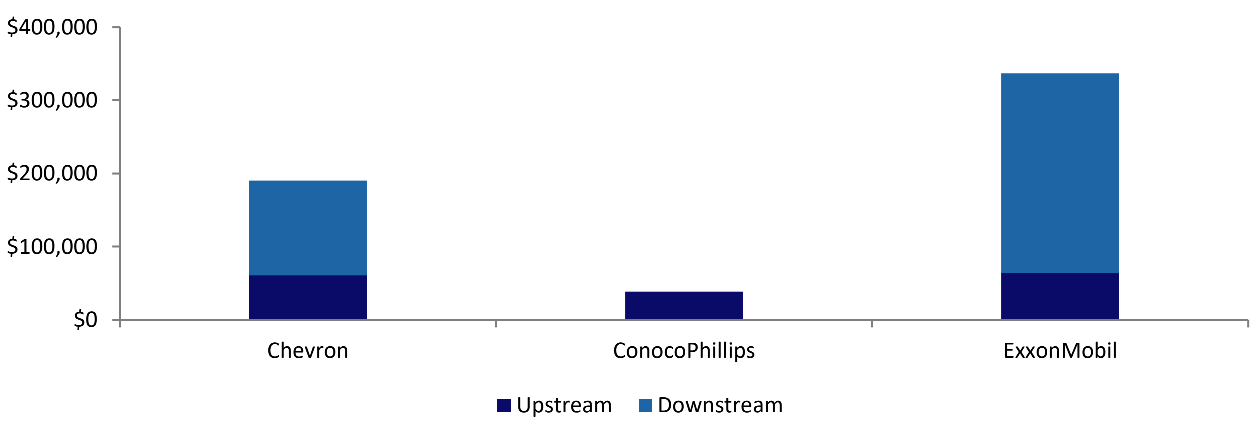
Downstream: includes oil refineries, petrochemical plants, petroleum products, retail, and natural gas distribution.

This vertical integration allows for significant price efficiencies as it often eliminates the need for intermediaries. This creates a large divide towards the smaller corporate petroleum companies who often specialize in one area such as Pembina Pipeline (midstream) or ARC Resources (upstream), and smaller companies who do have degrees of vertical integration but cannot reap similar benefits due to the sheer size of the supermajors.

Although most supermajors are vertically integrated, many are weighted in certain areas. For example, as represented in the graph below, although ExxonMobil and Chevron both have extensive representation in the upstream sector, they are also focused on the downstream sector with notable business streams allocated to refining. In contrast, ConocoPhillips is almost entirely upstream-focused, with nearly 100% of its net asset value being attributed to the vertical. This is due to the spin-off of its downstream and midstream business, Phillips 66, in 2012.

EXHIBIT III

US Supermajor 2018 Upstream/Downstream Revenue Split ($M)



Source(s): Scotiabank, Canadian Government

Industry Overview

Upstream Overview

As this report covers the team's interest in ConocoPhillips, developing an understanding of the upstream space is important. To expand on the brief definition earlier on, the upstream oil and gas sector consists of two core components: *Exploration and Production (E&P) and Oil-Field Services and Equipment*.

Exploration and Production (E&P): Includes companies that explore for new oil and gas opportunities and then drill and extract these resources. These companies largely vary in size from supermajors such as ConocoPhillips to small private businesses that could operate only a few wells. These companies can have sole focus on operating one type of oil field, such as in the oil sands, or have a broader focus with operations across multiple fields such as conventionally drilled vertical wells, offshore, and unconventional shale wells. E&P companies lease land from private entities or the government, and then drill exploration wells as a test to determine whether the land contains commercially acceptable hydrocarbons, which are the chief component of petroleum and natural gas. If a positive discovery is made, they will be willing to invest more money to both drill wells and develop infrastructure to produce the resources. Because of this, the E&P business model is very capital-intensive due to the continuous investment needed to explore new sites in order to replace "legacy wells".

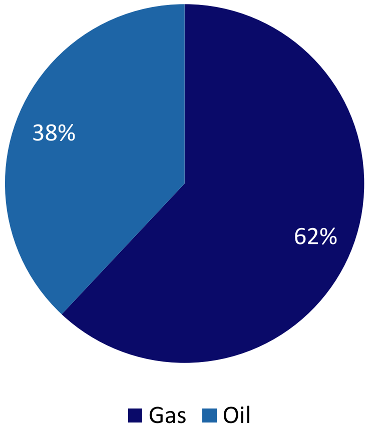
Oil-Field Services and Equipment: Includes companies that support E&P by providing a wide range of services, equipment, and products.

Long-Term Industry Supply Challenges:

Despite capital expenditure growth which is highlighted in the next paragraph, an ongoing decline in new discoveries has surfaced as a major supply problem in the upstream world. New oil and gas discoveries at the end of 2017 were the lowest since the middle of the 20th century, and only 3.5 billion barrels of liquids were discovered, which is only enough to meet 10% of global demand. These low points are simply due to the progressive difficulties of finding large discoveries in an over-discovered world, this has been preeminent in the US in terms of conventional oil, and we are now slowly seeing the same story begin to play out for unconventional oil. Although we have seen a recent global uptick in discoveries due to offshore discoveries in 2019, this 35% increase questions sustainability, and regardless is well below historical averages. This is further proven as the majority of 2019 discovery gains were posted in February, where 2.2 billion barrels of resources were discovered, displaying the best monthly record since 2015. Alongside this, research has shown that in July 2019 oil output has fallen by 276,000 barrels per day, which is also not a one-off as the United States has plateaued this year, only being up 44,000 bpd in June. This is reflective of the Permian where year-to-date as of July, Texas has only added 125,000 bpd compared to 474,000 in 2018. Alongside this global exploration spending has continued to decrease, with global

EXHIBIT IV

2019 New Discovery Mix



Source(s): OilPrice.com

spending decreasing from $153B in 2014 to $58B in 2017, and although this has been recovering since then, this slump will undoubtedly halter production in the coming years.

Capital Expenditure Growth

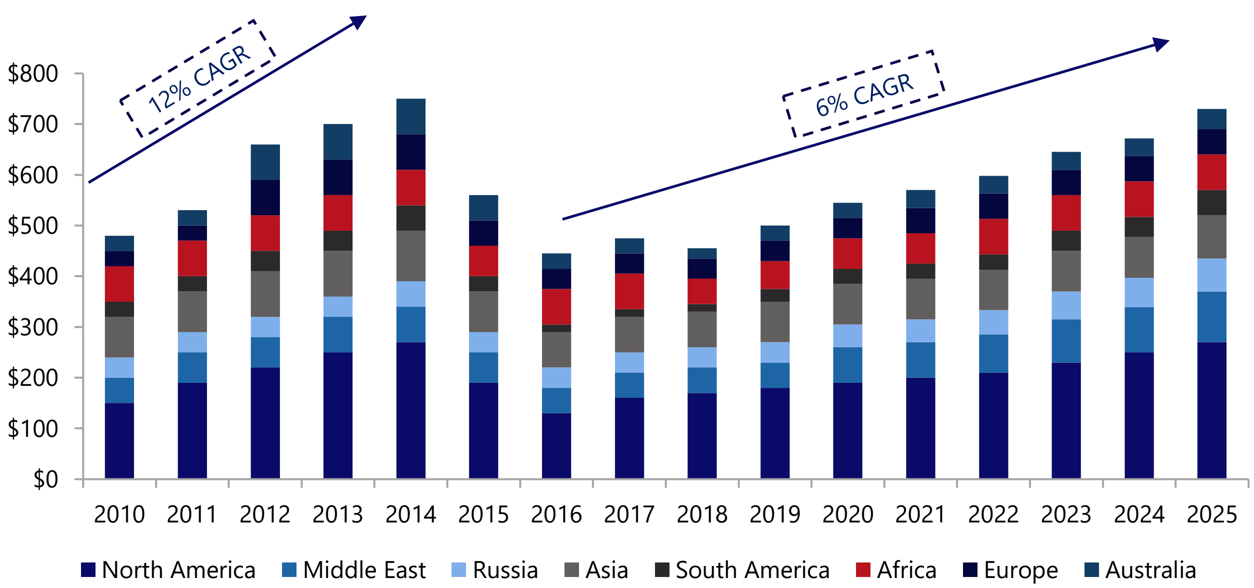
Although supply constraints are expected for the near future, capital expenditure speaks a different story globally. After a drop between 2014 and 2016, capital expenditure is now forecasted to rise 6 percent year-over-year. Oil and gas rig activity has seen rising levels and major projects are beginning to be invested in and improved. Over the past few years we have seen BP move forward with the second phase of Mad Dog in the Gulf of Mexico and Shell invest in the penguins field redevelopment in the North Sea. Alongside this, we have also seen a flurry of Supermajors entering new countries and offshore areas.

Upstream Oil Decline Rates:

When an oilfield is sanctioned for development, it will often take years of heavy capital expenditure to yield the first oil production. This production will then slowly build up to a "plateau rate", and from this point subsurface conditions are unable to support this production rate, and production therefore begins to decline. After extracting all possible oil from the declining field, the economic limit is then reached and the field is abandoned by the producer. Currently BP is estimating a global decline rate of 4.5%, while ExxonMobil has taken a much more bullish approach, estimating that we must grow oil supply by 8% to meet a 1% growth in demand, which implies a 7% decline rate.

EXHIBIT V

Global Oil and Gas Capital Expenditures (US$ millions)



Source(s): PwC

Company Overview

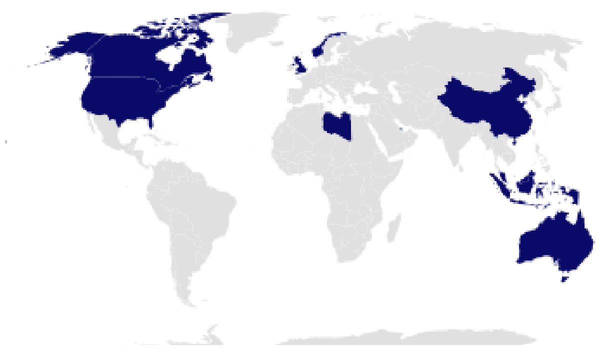
General Overview

ConocoPhillips is the largest independent exploration and production (E&P) company in the world. Headquartered in Houston, Texas, it has operations in 16 countries across all 6 continents. Its diverse portfolio includes resource-rich unconventional plays in North America, lower-risk conventional assets in North America, Europe, Asia and Australia; liquefied natural gas developments, Canadian oil sands assets, and many global conventional and unconventional exploration prospects. As of 2018 they employed almost 11,000 individuals and had $70B of total assets.

Originally formed in 2001 from the merger between Conoco Inc. and Phillips Petroleum Company, ConocoPhillips originally operated as a fully integrated company across the upstream, midstream, and downstream sectors, however in 2012 fully spun off their midstream and downstream operations as Phillips66.

EXHIBIT VI

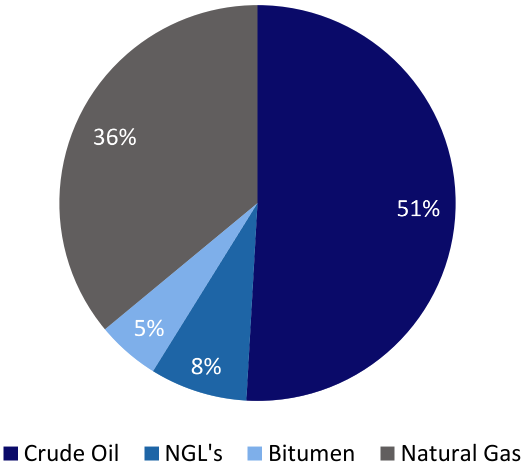
ConocoPhillips Global Production Reach as of 2018



Source(s): Company Filings

EXHIBIT VII

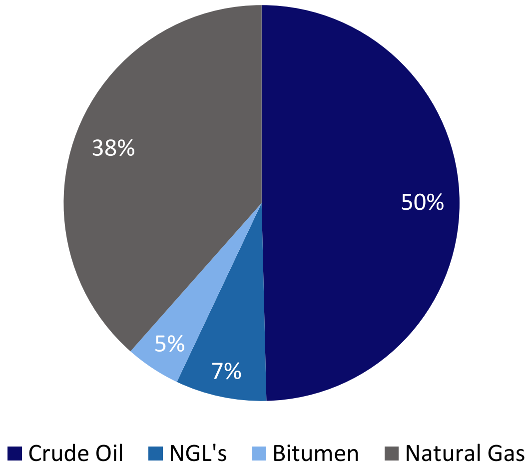
2018 Production Mix



Source(s): Company Filings

EXHIBIT VIII

2018 Reserve Mix



Source(s): Company Filings

Company Overview

Current Operations:

ConocoPhillips's current operations revolve around exploring for, producing, transporting, and marketing crude oil, bitumen, natural gas, LNG, and NGL's in the United States, United Kingdom, Canada, Australia, Timor-Leste, Indonesia, Malaysia, Libya, China, and Qatar, Argentina, Colombia, and Chile. Their production mix is roughly 50% crude oil, 35% natural gas, 10% NGL's and 5% bitumen, and their current most notable business segments are: *Alaska, Lower 48, Canada, Europe and North Africa, and Asia Pacific and Middle East.*

Alaska: explores for, produces, transports and markets crude oil, natural gas and natural gas liquids. ConocoPhillips is currently the largest crude oil producer in Alaska and has significant ownership interests in Alaska's North Slope and more specifically Prudhoe Bay and Kuparuk, which are two of the largest oil fields in the USA. Alongside this they also own the Alpine Field, and are one of Alaska's largest owners or state, federal and fee exploration leases.

Lower 48: revolves around operations in the United states and Gulf of Mexico, specifically organized across the Gulf Coast and Great Plains. These operations include 10.3 million net onshore and offshore acres, which contribute to 36% of their overall liquids production and 21% of their overall natural gas production.

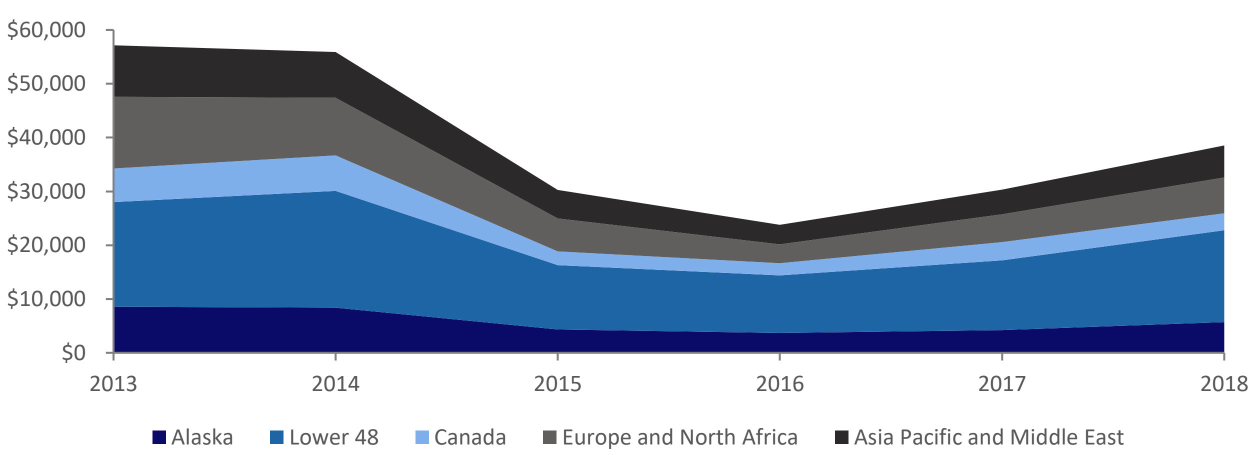
Canada: includes oil sands development in the Athabasca Region of Alberta, as well as a liquids-rich unconventional play in western Canada.

Europe and North Africa: consists of operations and exploration activities in Norway, the United Kingdom, and Libya. These assets represent 19% of their overall liquids production and 18% of their overall natural gas production.

Asia Pacific and Middle East: includes exploration and production operations in China, Indonesia, Malaysia, and Australia, as well as producing operations in Qatar and Timor-Leste. These assets represent 14% on their overall worldwide liquids production and 60% of natural gas production.

EXHIBIT IX

ConocoPhillips Historic Revenue by Major Business Segment ($M)



Source(s): CapitalIQ

Company Overview

Management :

ConocoPhillips is currently led by a seasoned management team consisting of: *Ryan Lance (CEO), Matt Fox (COO), Don Wallette, Jr. (CFO), Bill Bullock, Jr. (President, Asia Pacific & Middle East), Michael D. Hatfield (President, Alaska, Canada and Europe), and Dominic E. Macklon (President, Lower 48).*

Ryan Lance (CEO): Mr. Lance is the Chairman and chief executive officer of ConocoPhillips. Petroleum engineer with 33 years of oil and gas experience at ConocoPhillips, its predecessors, and ARCO. Holds a Bachelor of Science in Petroleum Engineering.

Matt Fox (COO): Executive Vice President and Chief Operating Officer. A reservoir engineer with more than 35 years' experience in oil and gas all in the ConocoPhillips ecosystem. Holds a Bachelor of Science in Civil Engineering and a Master's in Petroleum Engineering.

Don Wallette, Jr. (CFO): Executive Vice President and Chief Financial Officer. With more than 30 years in technical, commercial, and international leadership, Wallette, Jr. has been with ConocoPhillips since 1981. Holds a Bachelor of Chemical Engineering from the University of Southern California.

Bill Bullock, Jr. (President, Asia Pacific & Middle East): Holds more than 30 years of oil and gas experience, having joined ConocoPhillips in 1986. Holds a Bachelor of Chemical Engineering from Texas A&M and an MBA.

Michael D. Hatfield (President, Alaska, Canada and Europe): Holds almost 30 years of oil and gas experience, having joined ConocoPhillips in 1989. Holds a Bachelor of Mechanical Engineering from Texas A&M and an MBA from MIT.

Dominic E. Macklon (President, Lower 48): Holds over 25 years of oil and gas experience, joining ConocoPhillips in 1991. Holds a Bachelor of Mechanical Engineering.

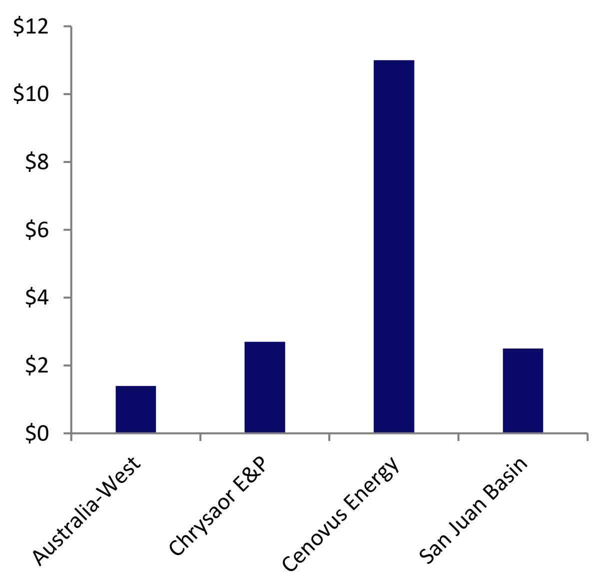
Recent Notable Investments and Dispositions:

2019: In October ConocoPhillips agreed to sell the subsidiaries that hold their Australia-West assets and operations for $1.4B. In April they also sold two U.K. subsidiaries to Chrysaor E&P Ltd. for $2.7B. In March they also were ordered to receive $8.7B from an international arbitration tribunal for unlawful expropriation of Conoco Assets in 2007.

2017: ConocoPhillips completed the sale of 50% of the FCCL Partnership, alongside of the majority of their western Canadian assets to Cenovus Energy for $11B. They also completed the sale of their interests in the San Juan Basin to Hilcorp Energy for $2.5B.

EXHIBIT X

Recent Divestments ($B)



Source(s): Company Filings

QUIC

Thesis I: Best-in-Class Management Team That Emphasizes Capital Prudence

Led by Chairman & CEO Ryan M. Lance, ConocoPhillips boasts a best-in-class management team with a track-record of capital prudence.

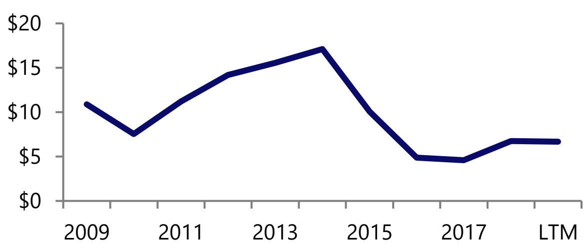
Strong Capital Allocation

To begin, one must look at the position in which COP was placed into during the industry downturn of 2015/2016. The company was hit particularly hard, and saw its EBITDA decline to $594MM in 1Q16 – the lowest quarterly reading since 1999. Further, the company was forced to raise additional debt to cover its general corporate expenses. In 2Q16 alone, COP issued $1.25B of 4.2% 2021 notes, $1.25B of 4.95% 2046 notes and $500MM of 5.95% 2046 notes, and entered into a $1.6B floating-rate unsecured loan facility. Thus, net debt to EBITDA spiked to 6.64x.

However, management has appeared to turn a corner. Since then, they have pledged to divest non-core assets, cut costs and reduce capex spending, and have stayed true to this approach even as crude prices have recovered and many peers have continued to attempt to grow production at all costs. Most of such divestures have been onshore U.S. gas assets and offshore assets with high operating costs; asset sale proceeds of ~$3B are expected to be received next year. Further, corporate headcount has been slashed

EXHIBIT XI

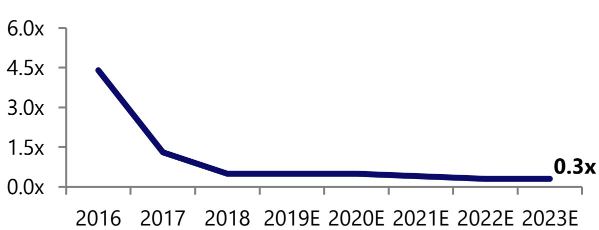
Historic Capex Profile ($B)



Source(s): Capital IQ

EXHIBIT XII

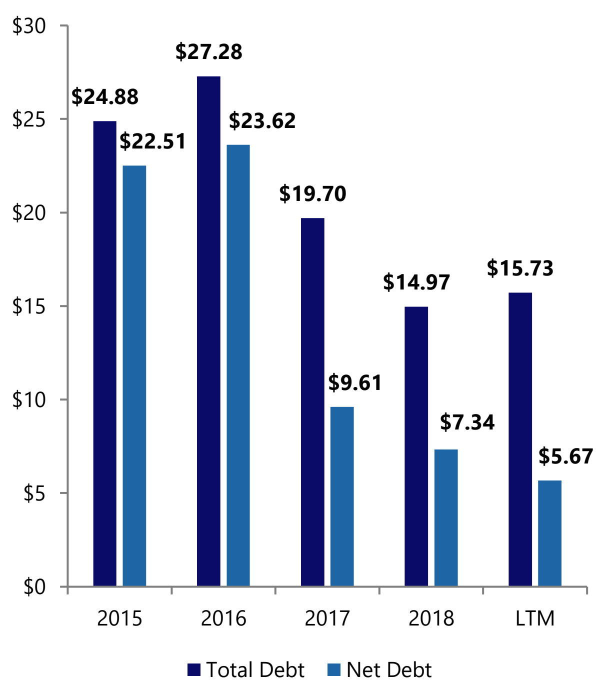
Historic Net Debt to EBITDA Figures



Source(s): Scotiabank

EXHIBIT XIII

Historic Debt Profile ($B)



Source(s): Capital IQ

Thesis I: Best-in-Class Management Team That Emphasizes Capital Prudence

from 19,100 in 2014, to 13,300 in 2016, and to 10,800 in 2018. This disciplined strategy has had a three-fold benefit in terms of margins, returns and leverage all ameliorating.

For example, since 2014, operating profits have declined by 18%, yet capital employed has declined by 40%. The company's ROCE has improved drastically from the level seen in 2016, and is projected to be 9.90% in 2019 – the highest amongst industry peers. ROE has also improved greatly, and was 17% in 2018.

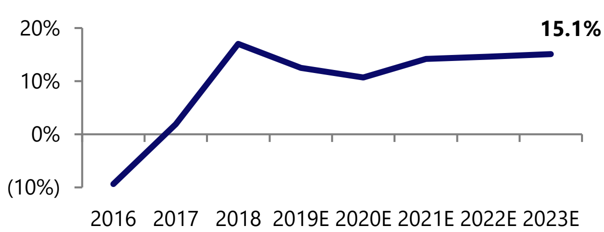
In terms of debt load, the company paid down $4.7B of leverage in 2018, which allowed it to achieve its target debt profile of $15B ahead of schedule. The company has $7.2B of cash and equivalents on-hand, and possesses a credit rating of 'A' – quite remarkable for a company operating in the highly-volatile E&P space. Net debt to EBITDA, net debt, and total debt have all improved dramatically over the last three years due to management's disciplined cost plan.

Highly-Aligned With Shareholder Interests

The management team of COP is highly-aligned with the company's shareholders; this is evidenced by the fact that COP's management team scored 0.75 on Evercore's Shareholder Alignment Coefficient, which is the highest score amongst the company's peer group.

EXHIBIT XIV

Dramatic ROE Improvement



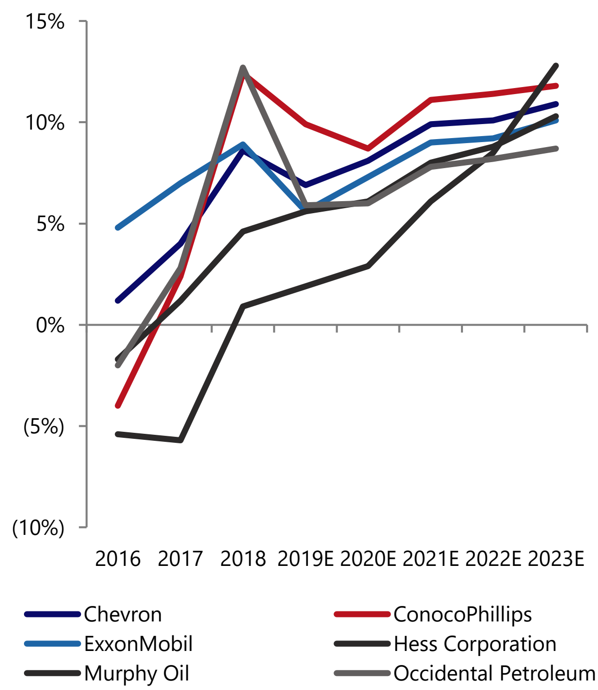
Source(s): Scotiabank

Long-term compensation comprises 72% of the CEO's salary, and the company's largest performance incentive is shareholder returns. Such is defined as ROCE and CROCE improvements.

Overall, COP's management team's focus on disciplined capital allocation as opposed to growth – displayed through the company's corporate strategy, as well as through its c-suite compensation structure – is incredibly important within the ever-volatile E&P space. The company's upstream-weighted portfolio will continue to drive torque to oil price upside; however, management's capital prudence is equally key with regard to providing downside protection.

EXHIBIT XV

Historic ROCE Performance Figures



Source(s): Scotiabank

Thesis II: Playing it Safe and Returning Cash Flows Back to Shareholders

Overview

ConocoPhillips's current value proposition revolves around focusing on returns, maintaining financial strength, growing their dividend, and pursuing disciplined growth. Over the last three years, ConocoPhillips has not only been able to follow through with these guiding principles, however through increased operational efficiency, they have also been able to make significant improvements in these areas.

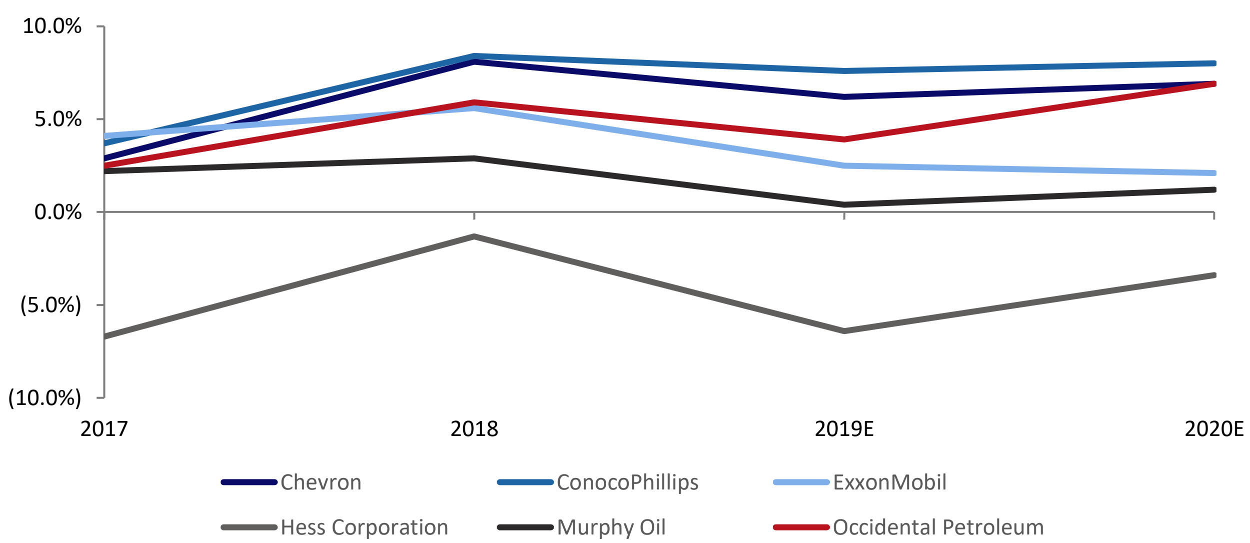
Cautious Reinvesting Despite Growth

Between 2015 and 2018 the energy world saw a large increase in sales prices of crude oil, NGL's, bitumen, and natural gas, and therefore a roughly $13B increase in both revenue and earnings for ConocoPhillips just between 2016 and 2018. However, despite this huge increase in cash flow, management has been aware of the volatile energy markets and the possibility of both crude oversupply and slowdown of economic growth. Alongside this, trade disputes and additional political tensions have added as underlying risk factors despite the price increases seen over the three-year span.

Careful not to overlook this, ConocoPhillips management elected to not use this influx of capital to ramp up production at all costs. Rather, they put their core principle of delivering value to shareholders first. Between 2015 and 2018, their investing and divesting activities included the divesting of non-core assets such as Chryasor UK, the FCCL Partnership and Australia-West, from which they received significant further cash flows, allowing them to focus on their core and efficient assets, where they continue to diligently allocate capital investment. This has been shown through a $0.7B decrease of their capital

EXHIBIT XVI

COP FCF Yield vs. Peer-Group



Source(s); Scotiabank

Thesis II: Playing it Safe and Returning Cash Flows Back to Shareholders

budget between 2018 and 2019.

Examples of these core assets are many of their Lower 48 and Alaska assets, and additional acquisitions in Alaska which enhances their legacy position as well as the liquids-rich Montney region in Canada. In a time where many global corporations are looking to move out of Canada, ConocoPhillips's decision to move into Canada through their Montney investment truly shows the quality of assets they are investing in. Alongside this, they have also been extremely strategic with their investments. This is exemplified by their transaction with BP at the end of 2018, where they acquired interest in the Kuparuk Assets in Alaska, and sold a ConocoPhillips subsidiary which held interest in the Clair Field in the United Kingdom. Through this move, they not only enhanced a legacy position in Alaska, however they also divested from non-core U.K. assets and received a roughly $775M after tax gain from the transaction.

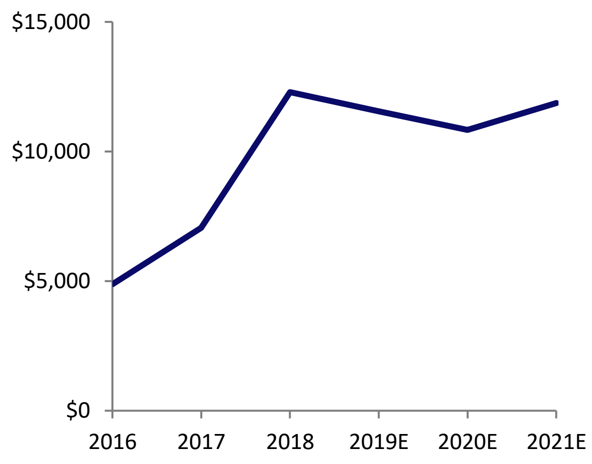
Overall, their smart and measured investing and divesting in assets has allowed them to create a low cost of supply asset portfolio that still supports their strategy and production needs, however also allows them to continuously optimize operating and overhead costs of their assets, without compromising ESG or safety of workers.

Focusing on Shareholder Value

This cautious capital allocation has allowed them to grow production from their asset base by 83 MBOED over the last year in volatile environments. This has resulted in continuously increasing margins across the board over the last three years, further increasing cash flows. Alongside this diligent investing, the main usage of these cash flows has continued to be their core principles of delivering value back to shareholders. Between 2015 and 2018 ConocoPhillips has continuously raised its dividend and dividend yield. Through a quarterly dividend increase from $0.27 to $0.42 in this time, ConocoPhillips has continuously displayed that they truly do look to return cash to the shareholder.

EXHIBIT XVII

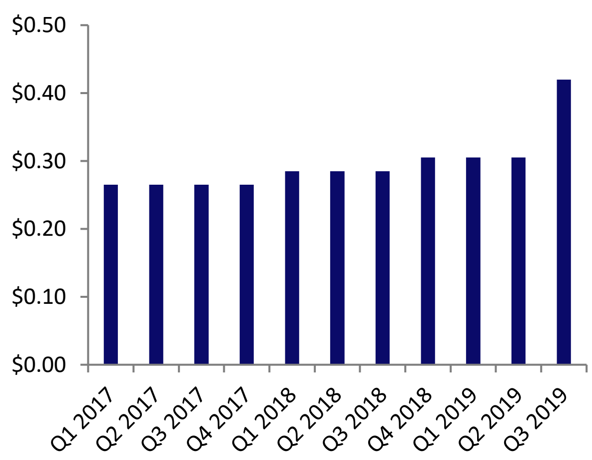
COP Cash Flow from Operations ($M)



Source(s): Scotiabank

EXHIBIT XVIII

Historic Quarterly Dividends Per Share



Source(s): Company Filings

Thesis II: Playing it Safe and Returning Cash Flows Back to Shareholders

Alongside this, since 2016, ConocoPhillips has also looked to deliver value to shareholders through share buyback programs.

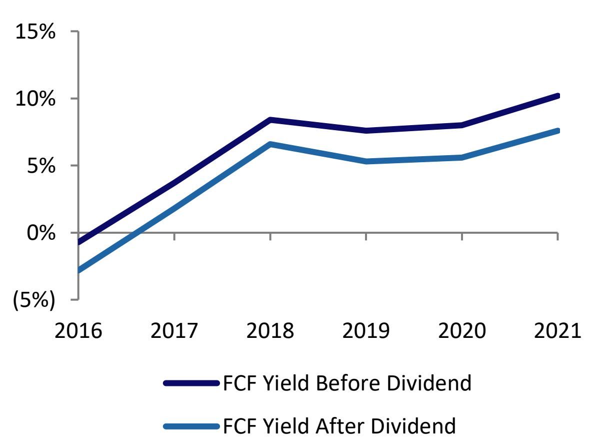
Over the last three years, ConocoPhillips has not only initiated but grown a share repurchasing program which has involved them buying back $3B worth of shares in 2017 and 2018, as well as $3.5B in 2019 and $3B in 2020. This is another example of them being able to use their cash flow effectively to meet their guiding principles and ultimately return capital to their shareholders, being able to fully fund both the buyback, dividend repayments, and capital expenditure with their cash flows.

Well-Positioned to Continue Forward

Despite the energy markets seeing increased aforementioned volatility, which has been represented with decreasing prices in 2019, ConocoPhillips's cautious reinvesting and quality assets have allowed them to expand margins to a place where despite earnings fluctuations, they can still return value to shareholders. Despite earnings decreases expected over the coming years, ConocoPhillips's operating cash flows are projected to be able to stay similar to past years, allowing them to continue their shareholder-friendly business model. This is exemplified as although they have suffered a decrease in revenue in 2019 compared to 2018, they have been able to increase their share repurchasing to $3.5B, increase their dividend, and fully fund such with cash flows from their high-quality assets. Furthermore, ConocoPhillips's management plan was so measured that they were able to fund their 2019 plan with operating activities assuming prices of $40 per WTI barrel, which truly speaks to their ability to return capital to shareholders through extreme economic uncertainty. This ability for shareholders to trust in ConocoPhillips to continuously deliver positive cash flows and returns through price cycles truly sets them apart among peers as a best-in-class organization.

EXHIBIT XIX

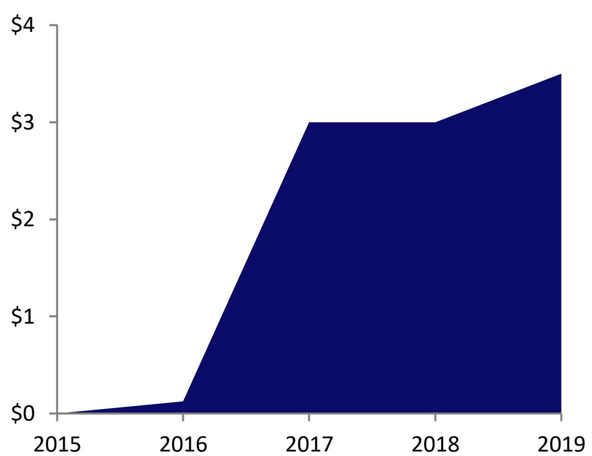
FCF Yield Before and After Dividend



Source(s): Scotiabank

EXHIBIT XX

Share Buyback Increases ($B)



Source(s): Company Filings

Thesis III: De-Risked Business Model, Yet Unfair Market Punishment

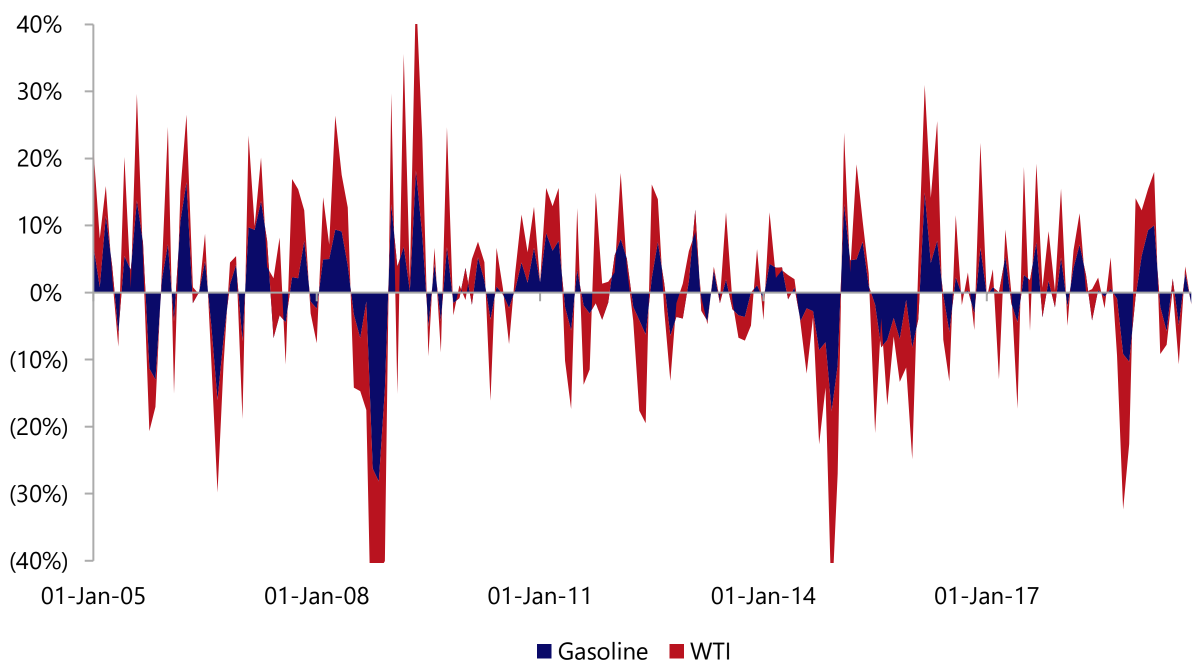
Given its best-in-class management, strong asset-base, and ability to return cash to shareholders, the E&U team has conviction in COP's quality as a business. What makes COP an attractive investment opportunity is its discount relative to peers, given its superior quality.

Integrated Energy Producers

Comparing COP against S&P Integrated Energy Producers, it stands to reason that the company is trading at a discount. ExxonMobil, Chevron, and Royal Dutch Shell are all global Supermajors that have less risky profiles than ConocoPhillips. The companies all have robust downstream operations which protect their margins when oil and natural gas prices are depressed, compared to ConocoPhillips's upstream weighted business. As demonstrated in the following exhibit, refined products, such as gasoline, are less volatile than upstream products, such as crude oil. These companies also have very reasonable debt profiles, with none of them trading at higher than 1.5x Net Debt/EBITDA 2019E, in line with ConocoPhillips 1.0x Net Debt/EBITDA multiple. COP is discounted against these companies in terms of EV/EBITDA (4.8x vs. 9.5x), EV/(BOE/D) ($57.1 vs. $86.5), and Price/Cash Flow (9.6x vs. 15.2x).

EXHIBIT XXI

Monthly % Change in Retail Gasoline Prices and WTI Crude



Thesis III: De-Risked Business Model, Yet Unfair Market Punishment

Given that COP's business model is heavily upstream, the company is comparatively risky, and is justifiably discounted against these peers. However this leads the E&U team to identify that these other businesses may not be the strongest comparable companies or tell the true story.

S&P Oil and Gas Exploration and Production

It is a fairer comparison to measure COP against peers in the S&P Oil and Gas Exploration Production space. With ConocoPhillips being almost entirely upstream weighted, upstream peers such as EOG Resources, Inc., Pioneer Natural Resources Company, Devon Energy, and Apache Corporation stand as far better comparable companies. However, even compared against these upstream businesses which possess much more business risk in terms of both leverage profile and managerial strength, ConocoPhillips trades at a discount. Its LTM EV/EBITDA is 4.8x versus 5.6x and its Price/Cash Flow is 9.6x versus 28.6x.

This suggests that there is a severe dislocation between the risk that investors are attributing to COP compared against other companies. Taking a look at Devon Energy Corporation and Apache Corporation, for example, we can see that 1.8x and 2.3x respective Net Debt/EBITDA 2019E multiples are being rewarded with higher EV/EBITDA and Price/Cash Flow multiples than ConocoPhillips. When combining this with even taking a glance at the strong management team, recent divestures of non-core assets, high-quality current asset base, conservative capital expenditure plan, and stable cash flows of ConocoPhillips compared to these peers, this dislocation is ever-prominent.

EXHIBIT XXII

Comparable Company Analysis – Integrateds (Bottom) and E&P (Top) and

S&P Integrated Energy Producers													
Company Name		Market Cap	Enterprise	EV/EBITDA				EV/	EV/(BOE/D)		Price/Cash Flow		Net Debt/
	Price	(Millions)	Value (Millions)	LTM	2019E	2020E	P / NAV	BOE P+P	2019E	2020E	2019E	2020E	EBITDA 2019E
Exxon Mobil Corporation	$71.49	$302,482	$356,025	10.8x	9.0x	8.2x	0.9x	$25.6	$89.8	$89.2	38.6x	29.1x	1.3x
Chevron Corporation	$119.90	$227,620	$254,802	8.2x	6.8x	6.5x	nmf	$49.9	$83.2	$80.7	15.0x	13.5x	0.9x
Royal Dutch Shell plc	$27.24	$214,919	$285,967	5.3x	4.9x	4.7x	0.9x	$42.1	$79.3	$77.2	10.4x	8.6x	1.5x
Occidental Petroleum Corporation	$39.61	$35,384	$95,902	11.4x	10.2x	7.5x	0.7x	$60.6	$118.6	$84.8	15.5x	7.2x	5.4x
Mean		$195,101	$248,174	8.9x	7.7x	6.7x	0.8x	$44.5	$92.7	$83.0	19.9x	14.6x	2.3x
Median		$221,270	$270,385	9.5x	7.9x	7.0x	0.9x	$46.0	$86.5	$82.7	15.2x	11.1x	1.4x
ConocoPhillips	$57.63	$63,236	$69,002	4.8x	4.6x	5.5x	0.8x	$24.2	$57.1	$59.3	9.6x	12.7x	1.0x

S&P Oil and Gas Exploration and Production													
Company Name		Market Cap	Enterprise	EV/EBITDA				EV/	EV/(BOE/D)		Price/Cash Flow		Net Debt/
	Price	(Millions)	Value (Millions)	LTM	2019E	2020E	P / NAV	BOE P+P	2019E	2020E	2019E	2020E	EBITDA 2019E
EOG Resources, Inc.	$71.42	$41,449	$45,428	5.6x	5.8x	5.4x	0.7x	$29.6	$66.6	$59.3	28.6x	31.6x	0.8x
Pioneer Natural Resources Company	$133.57	$22,325	$24,347	6.2x	6.7x	6.0x	nmf	nmf	nmf	nmf	56.3x	27.2x	0.7x
Apache Corporation	$23.62	$8,882	$19,632	5.2x	5.1x	5.1x	0.9x	$27.8	$56.2	$48.2	nmf	11.9x	2.3x
Devon Energy Corporation	$22.08	$8,538	$11,702	nmf	4.5x	4.7x	0.7x	$20.1	$29.1	$39.5	26.6x	24.1x	1.8x
Mean		$20,299	$25,277	5.7x	5.5x	5.3x	0.8x	$25.9	$50.6	$49.0	37.1x	23.7x	1.4x
Median		$15,604	$21,990	5.6x	5.4x	5.3x	0.7x	$27.8	$56.2	$48.2	28.6x	25.7x	1.3x
ConocoPhillips	$57.63	$63,236	$69,002	4.8x	4.6x	5.5x	0.8x	$24.2	$57.1	$59.3	9.6x	12.7x	1.0x

Source(s): Capital IQ

Valuation & Conclusion

Given the complexity and scale of ConocoPhillips's business, the E&U team believes it is best to value the company using comparable companies analysis. In Thesis I,II, and III, the E&U team concluded that ConocoPhillips has an excellent management team with discipled capital allocation, a shareholder friendly business model with quality assets, and a significantly deleveraged capital structure. These characteristics are reflected in COP's FCF yield of 8.9% and Net Debt/2019E EBITDA of 1.0x, which are respectively favorable when compared to E&P peers at 5.3% and 1.5x. The team believes supermajors are poor comparables as after COP's 2012 divestiture of Phillips 66 the company became a pure-play E&P business.

As such, E&U concludes that COP's discount to its E&P peer set (see Exhibit XXI: EV/EBITDA and P/FCF) is unwarranted and estimates that the company should trade in the range of 5.4-6.4x 2019E EV/EBITDA and 15.5-17.5x 2019E P/FCF. These multiple ranges respectively imply equity value upside of 21-41% and 61-76%.

The team believes P/FCF's implied equity value is exaggerated as comparables' yields are compressed by FCF-delaying investment projects, while COP's payout-orientated strategy curtails CapEx. Thus, E&U estimates that COP trades at an equity value floor discount of approximately 21% and may possibly be worth 50%+ more if investors attribute the same multiple to payout-oriented E&Ps as they do to growth-orientated E&Ps.

In all, the E&U team concludes that COP is a high quality business with a fantastic management team and capital allocation strategy. The company's equity trades at a significant discount to its intrinsic value, and as such, E&U will maintain its active position.

EXHIBIT XXIII

Comparable Companies Analysis

E&P Companies												
	Market Cap	EV/EBITDA		Price/Cash Flow		EV/(BOE/D)		EV/		Net Debt/	FCF	Dividend
Company Name	($MM)	2019E	2020E	2019E	2020E	2019E	2020E	BOE P+P	P / NAV	EBITDA 2019E	Yield	Yield
EOG Resources, Inc.	$41,449	5.8x	5.4x	28.6x	31.6x	$66.6	$59.3	$29.6	0.7x	0.8x	1.2%	1.6%
Pioneer Natural Resources Company	$22,325	6.7x	6.0x	nmf	27.2x	nmf	nmf	nmf	nmf	0.7x	(3.7%)	1.3%
Devon Energy Corporation	$8,538	4.5x	4.7x	26.6x	24.1x	$29.1	$39.5	$20.1	0.7x	1.8x	nmf	1.6%
Apache Corporation	$8,882	5.1x	5.1x	nmf	11.9x	$56.2	$48.2	$27.8	0.9x	2.3x	1.7%	4.2%
Vermilion Energy Inc.	$4,897	6.4x	6.7x	12.8x	11.7x	$66.9	$66.8	nmf	0.8x	2.4x	10.4%	8.6%
ARC Resources Ltd.	$3,425	7.0x	5.0x	nmf	16.4x	$40.3	$38.4	$9.4	0.5x	1.2x	1.0%	6.2%
Enerplus Corporation	$2,800	4.4x	4.1x	31.8x	34.7x	$19.2	$21.7	$19.6	0.6x	0.6x	(0.4%)	1.0%
Crescent Point Energy Corp.	$2,175	nmf	nmf	2.6x	3.9x	$45.0	$40.7	$56.1	0.5x	2.2x	nmf	1.0%
Whitecap Resources Inc.	$1,859	4.2x	4.5x	14.2x	13.0x	$43.5	$43.1	$12.6	0.5x	1.7x	15.3%	7.2%
Baytex Energy Corp.	$1,230	nmf	nmf	4.0x	6.4x	nmf	nmf	$55.3	0.5x	2.2x	13.4%	-
Freehold Royalties Ltd.	$1,077	9.5x	9.9x	10.4x	7.7x	$12.0	$12.2	nmf	0.7x	1.0x	4.6%	6.9%
TORC Oil & Gas Ltd.	$1,028	4.3x	4.5x	8.4x	15.1x	nmf	nmf	$21.5	0.7x	1.0x	9.2%	5.5%
Integrated Energy Companies												
	Market Cap	EV/EBITDA		Price/Cash Flow		EV/(BOE/D)		EV/		Net Debt/	FCF	Dividend
Company Name	($MM)	2019E	2020E	2019E	2020E	2019E	2020E	BOE P+P	P / NAV	EBITDA 2019E	Yield	Yield
Exxon Mobil Corporation	$302,482	9.0x	8.2x	38.6x	29.1x	$89.8	$89.2	$25.6	0.9x	1.3x	1.2%	4.9%
Chevron Corporation	$227,620	6.8x	6.5x	15.0x	13.5x	$83.2	$80.7	$49.9	nmf	0.9x	-	4.0%
Royal Dutch Shell plc	$214,919	4.9x	4.7x	10.4x	8.6x	$79.3	$77.2	$42.1	0.9x	1.5x	10.1%	6.2%
Occidental Petroleum Corporation	$35,384	10.2x	7.5x	15.5x	7.2x	$118.6	$84.8	$60.6	0.7x	5.4x	(4.3%)	8.0%
E&P Companies Mean	$20,299	5.4x	5.6x	15.5x	17.0x	$42.1	$41.1	$28.0	0.7x	1.5x	5.3%	3.8%
Integrated Companies Mean	$195,101	7.7x	6.7x	19.9x	14.6x	$92.7	$83.0	$44.5	0.8x	2.3x	1.7%	5.8%
ConocoPhillips	**$63,236**	**4.6x**	**5.5x**	**9.6x**	**12.7x**	**$57.1**	**$59.3**	**$24.2**	**0.8x**	**1.0x**	**8.9%**	**2.9%**

Source(s): Capital IQ

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