CANDOUR
ENERGY

COVID-19 Impact Survey Results

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Candour View

COVID-19, oil price collapse and the energy transition have all come together to impact the market, creating uncertainty and nervousness in asset owners, the supply chain, lenders & equity investors. It would be easy to think that the only likely winners so far are restructuring advisors. The big questions to emerge from this are how long will recovery take, will the traditional energy markets bounce back and what does this mean for the renewables sector?

Oil & Gas

COVID-19 in tandem with the ongoing Saudi-Russia oil price dispute has seen a collapse in oil prices and it is no surprise that market confidence has suffered as a result.

Our survey results present an outlook that is uncertain with demand collapsing and a surplus of supply for now. This leads Candour to ask the question: in a world of $30 oil barrels, will things ever be the same for the oil and gas industry?

Midstream

A reduction in demand has had an impact further down the supply chain which is why our midstream respondents were understandably pessimistic about their current situation.

With the challenges that a reduction in activity brings, Candour will explore some of these in greater depth and looks back at previous downturns to see what lessons, if any, can be learned.

Energy Transition

From our renewables respondents there was a clear sentiment that the current crisis will speed up the transition towards cleaner energy sources.

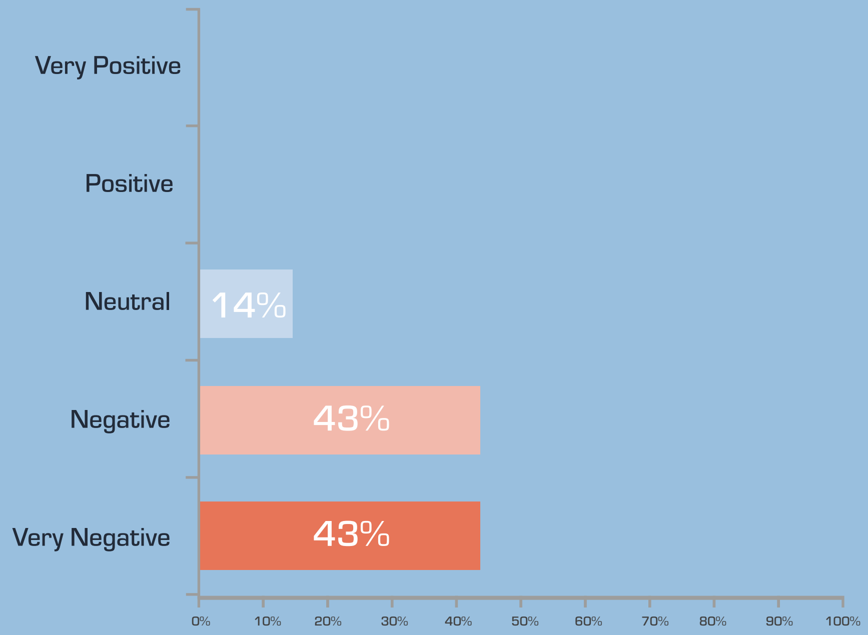
However, will this be the case? As governments fight lower GDP, will traditional energy sources be utilised to help economies return to normal and delay the energy transition?

Over the coming few days, Candour www.candour.com, an expert network, Voice of the Customer and primary research advisor to the industrial markets, in conjunction with our sister company Calash www.calash.com, a strategic and transactional consultancy, will be releasing thought leadership pieces around each of the themes outlined above to try and answer the questions posed by our results. Each opinion piece will also offer our expert view on where we see opportunities arising.

Respondent Breakdown by Sector

Electric Power (renewable)	11%
Metals & Minerals	6%
Chemicals	4%
Oilfield Service Company	26%
Industrial Manufacturing	4%
Refining	11%
Pharmaceuticals & Biotech	2%
Operators	6%
Midstream	15%
Pipelines	11%
Upstream Oil & Gas	40%

Q2. Has COVID-19 had a positive or negative impact on your industry sector and why?



Comments

"The complications of remote working (from home) for office based staff has made internal delivery and therefore external delivery very complicated. Workers required to attend work, whether onshore or offshore, have been concerned about the ability to social distance both during travel and at the worksite."

Upstream O&G respondent

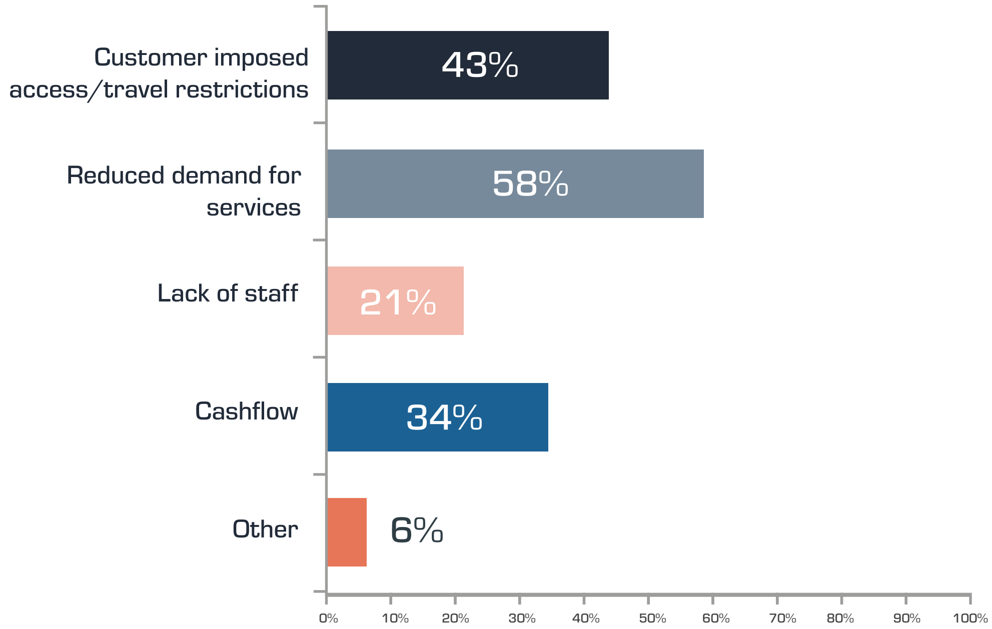
"Demand is down and many refineries are cutting back production. Some of them would like to take Turnarounds but specialist companies won't, or can't travel."

Refinery respondent

"Compounded by the drop in demand for oil and subsequent drop in value of oil, all our customers are reducing their capex and opex spending."

Oilfield Service Company respondent

Q3. What has been the biggest impact on the day-to-day operations of your business?



*Respondents could choose multiple answers.

Other responses

"Consulting and advisory engineering work will be significantly reduced."

Midstream respondent

"Collapsed oil price and placing staff on home working."

Upstream O&G respondent

"Less product demand meaning less production outlook and then stopping current projects."

Refining respondent

Candour View

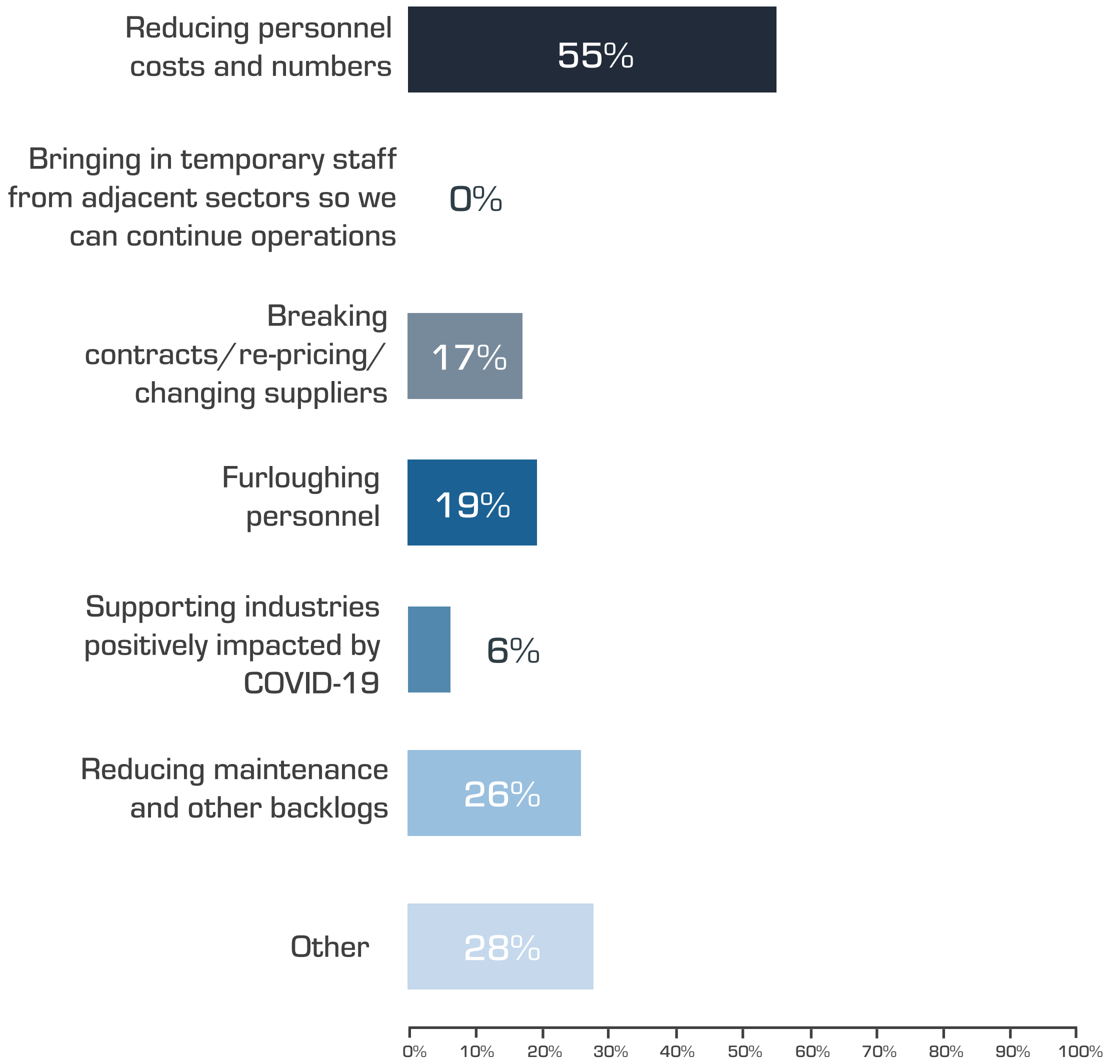
Reduced demand for services has been driven by lack of staff access, social distancing and an inability to move people. The impact of this is a lack of revenue and reduced cash flows with everyone trying to preserve liquidity.

Is this the end of crews flying from Aberdeen to Lagos or Houston to Dubai? Will local staff requirements drive future recruitment and training markets? Is this an opportunity for staffing and training businesses to reposition themselves? Could there be an opportunity for remote learning and associated maintenance training? Some offshore operations have been ahead of the curve in bringing roles onshore. With modern data connections, what is to stop more work being done onshore?

Another factor to consider is the role oil price has had in reducing service demand, however it is hard to determine to what extent this is to do with COVID-19 or OPEC.

*This survey was conducted before the recent OPEC+ agreement

Q4. How is your company responding to the crisis?



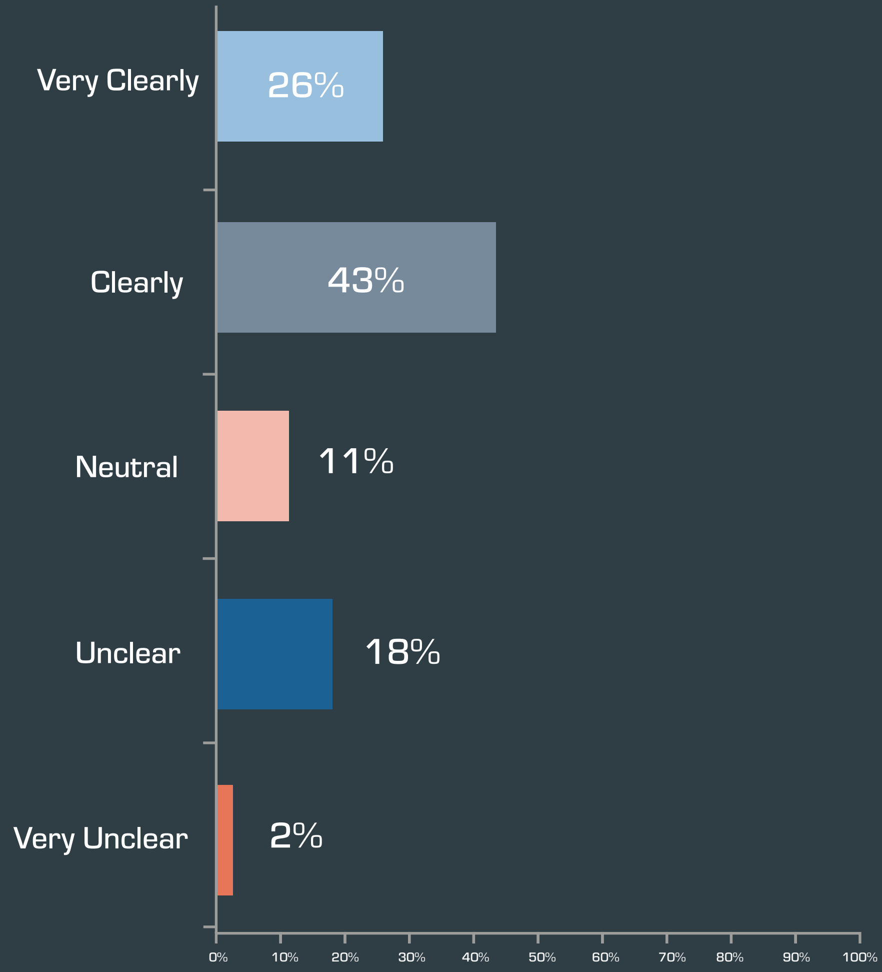
*Respondents could choose multiple answers.

Other responses

“Shutting production pending ability to mobilise staff to undertake essential work. Further impacted by low oil price through OPEC agreement failure.”

Upstream O&G respondent

Q5. How clearly do you understand how your customers are responding to the crisis, and the potential impact on your business?



Candour View

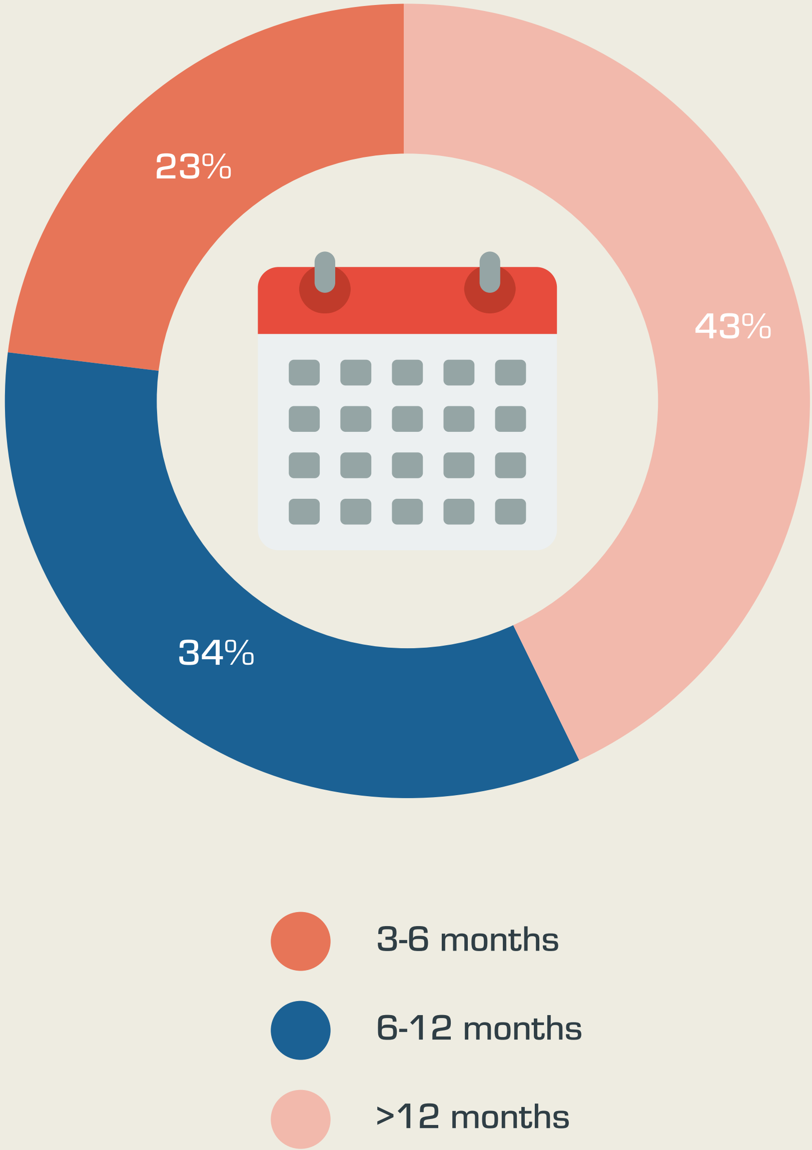
Over 30% of respondents were not sure how their clients were responding to the crisis, and were not clear how they can help them.

The majority of companies are actively reducing costs – whether it's personnel, maintenance, deferment of capex or renegotiating contracts.

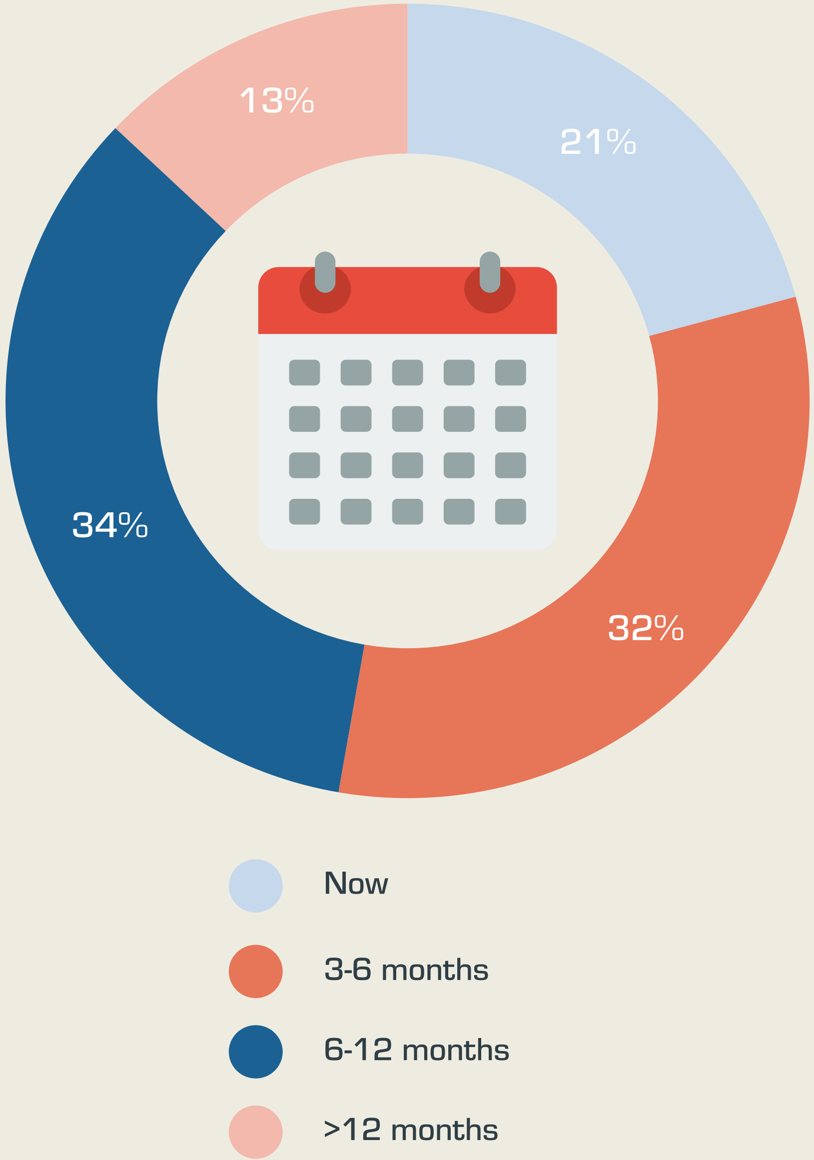
The impact and the responses from this event will be unpredictable and constantly evolving, so businesses need to think carefully about what questions to ask clients. It is important to be tactful, choose the right time, the right individual and frame this as an opportunity to help the client, as opposed to an opportunistic sale.

By being proactive and undertaking simple, low cost actions like Voice of the Customer surveys, companies can better understand market issues and help position themselves for a post-COVID world.

Q6. How long do you believe your industry sector will take to recover post COVID-19?



Q7. How long do you think companies will take to implement strategic changes?

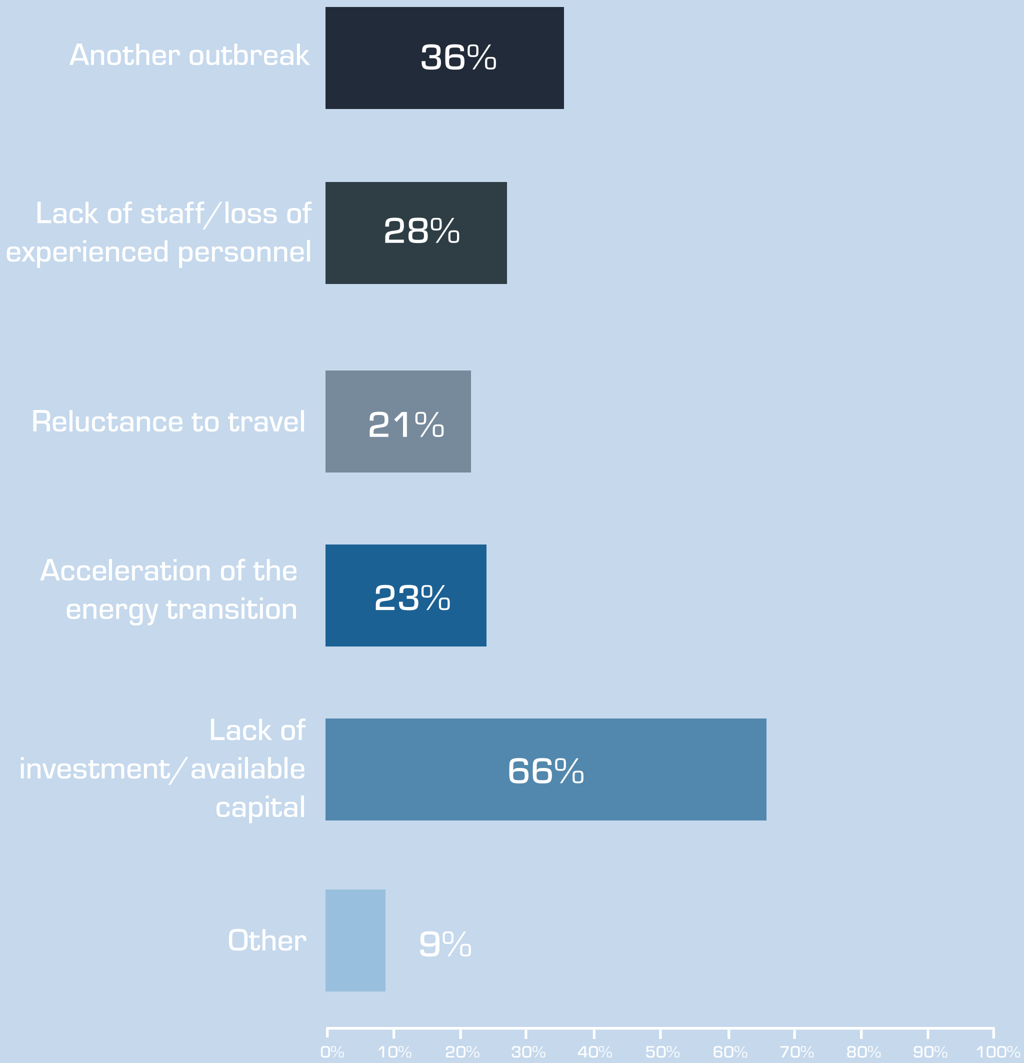


Candour View

Nearly half of respondents believe that it will take over a year before normality (whatever that is?) returns, and only 20% of companies are currently strategically reacting to the changes in the market.

We were surprised such a small portion of respondents were actively responding strategically at present. With events and markets moving so dynamically, there are risks to implementing major strategic changes but businesses should be thinking about packet-sized, modular and flexible approaches to strategy responses and be constantly reviewing these.

Q8. What do you see as the biggest challenges post COVID-19?



*Respondents could choose multiple answers.

Other comments

Depending upon how Chinese & G8 economies perform post COVID-19, it could dictate the pace of energy acceleration transition and renewables energy farms development.

Operator respondent

Oil price collapse is becoming the greatest threat to the upstream oil and gas industry. Soon to be exacerbated by the lack of storage on the back of the supply glut instigated by Saudi.

Upstream O&G respondent

Disruption due to force majeure on major contracts.

Electric Power (renewable) respondent

Depending on how long the COVID-19 effects last, how quickly will work become available. If it takes too long more people will leave our industry and we will lose competence and capacity.

Upstream O&G respondent

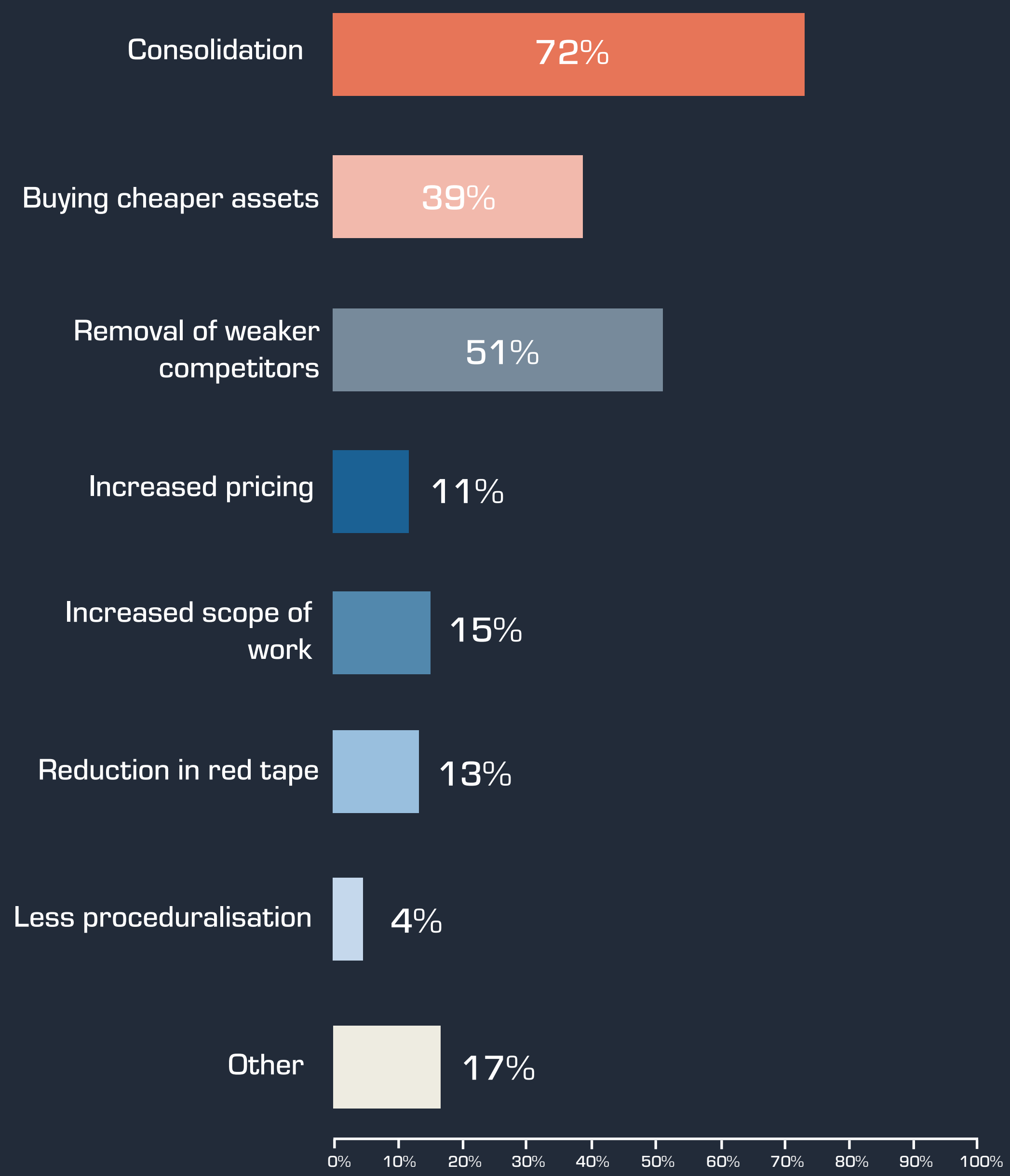
Candour View

The key concern here is a lack of capital. Many businesses can batten down the hatches and use existing cash to survive 3-4 months, but will struggle to cash flow their operations once they start up again.

The banks are trying to help, with some support from governments, but are massively distracted by a systemic collapse of the broader economy. It is important to remember that this is not just an energy and industrial sector shock. This means the bounce back from the virus will likely be slow as companies are constrained in how they move forward.

However, lack of capability in the supply chain may lead to increased prices from limited resources.

Q9. What opportunities, if any, are likely to evolve post COVID-19?



*Respondents could choose multiple answers.

Other comments

The energy transition may be accelerated by government investment in order to protect the economy. It's unlikely that such investment would be made in traditional oil and gas. Such a move within energy transition would provide necessary revenues.

Upstream O&G respondent

Companies that could operate with a tighter margin stand at an advantage.

Oilfield Services Company respondent

General acceptance in remote working for select parts of the business. Multi-skilling of personnel.

Upstream O&G respondent

Demand for fuel will rise again and virtual communication will become common practice.

Refining respondent

Consolidation within services sectors but not within operators. Buying cheaper and low producing assets shouldn't be on the cards for private equity funded investment companies. For the like of what we have seen in the last 5 years.

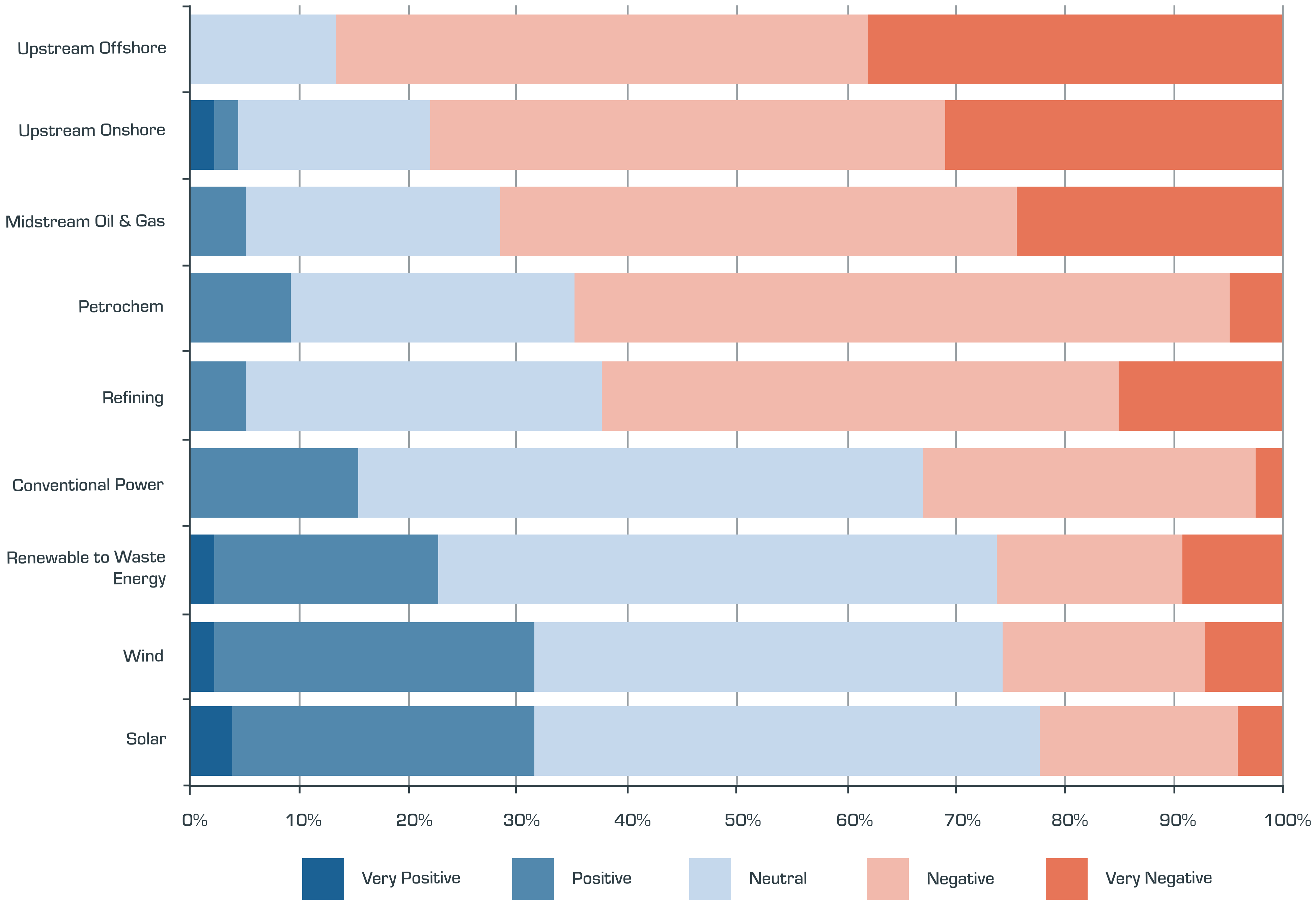
Upstream O&G respondent

Candour View

Consolidation, non-cash deals and fewer competitors may lead to increased pricing, but this will not happen immediately and we may be in for a long, slow recovery, hindered by a lack of working capital and constraints on personnel movement.

Of course, this crisis throws up some other opportunities for those willing to take the risk. 39% of respondents indicated this could be a chance to buy cheaper assets, including those that otherwise would not be up for sale.

Q10. To what extent will COVID-19 impact the following markets?



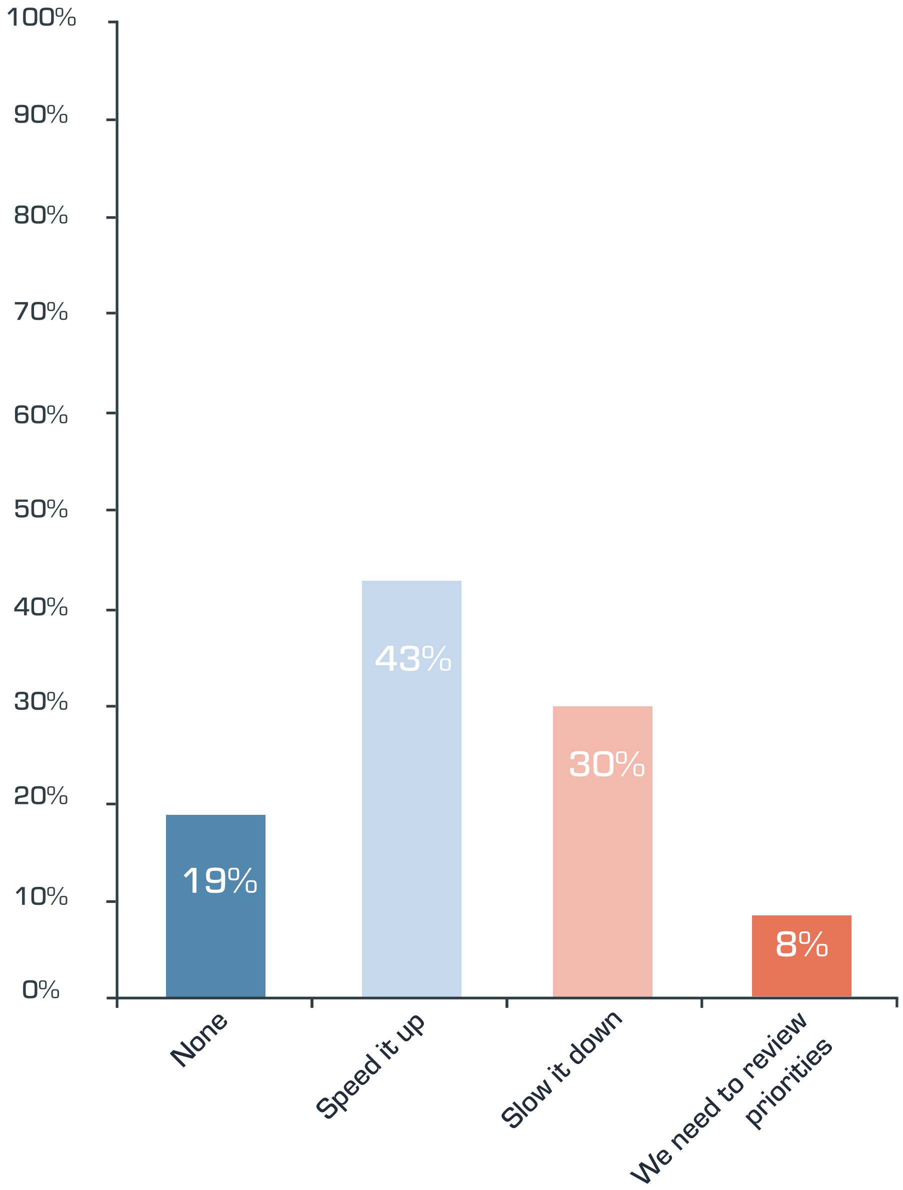
Candour View

There may be a positive impact on renewables and waste to energy projects, however, low oil & gas prices and the requirement of economies to grow quickly may favour conventional energy over a yet to be installed renewable base.

But the biggest victim of low oil prices will be coal, not wind or solar. And the biggest impact will be the economic slowdown that will lead to slower demand growth or even a decline. Domestic demand has remained relatively unaffected, but industrial demand has stopped which is a negative outcome for both renewables and conventional sources.

While many will see this as a future opportunity for renewables due to distress in the conventional sector, we urge caution as growth may be delayed as funding is re-directed to other projects and industries.

Q11. What impact do you think this COVID event will have on the pace of the energy transition?



Other comments

We work in minerals and metals and expect demand to slow down.

Metals & Minerals respondent

Many believe that the control measures will be reduced soon and that normality will start to return to business and personal lives. I believe this crisis will continue into 2021 and perhaps beyond and we will continue to see shocks and further disruption, business models won't just be reset once but will evolve through these and have many iterations. The answer today will not be the one that gets our business through this and indeed many businesses will not be here for the upturn.

Oilfield Services Company respondent

The governments and businesses will need to develop new methods for survival.

Midstream O&G respondent

These are unprecedented times we are seeing. COVID-19 coupled with the oil price crash has created the perfect storm which both governments and industry are struggling to deal with. The question is whether we will see a full blown and sustained recession.

Upstream O&G respondent

Candour View

The respondents were split on the impact that COVID-19 will have on the energy transition.

The majority thought it would speed the energy transition up, perhaps due to more capital being diverted from a volatile oil & gas market to renewables that has not seen the same level of disruption. However, over a quarter thought that the impact would need to be reviewed or there would be no impact.

The relative mixture of answers suggests that a consensus has yet to be reached. Will this uncertainty cost companies time to gather additional information and formulate action plans, thus delaying strategic decision making?