Energy XXI Gulf Coast Announces Proposed Strategic Disposition of Non-Core Assets and Related Asset Retirement Obligations to Orinoco Natural Resources

10.05.2018 | GlobeNewswire

HOUSTON, May 10, 2018 (GLOBE NEWSWIRE) -- Energy XXI Gulf Coast Inc. (“EGC” or the “Company”) (NASDAQ:EGC) in conjunction with Orinoco Natural Resources, LLC (“ONR”) and its affiliates, today announced the entry into a term sheet for the disposition of EGC’s current non-core asset portfolio. This disposition is expected to significantly reduce EGC’s asset retirement liability, improve profitability and financial stability, lower its cost structure, and facilitate future growth. EGC is also reporting financial and operational results for the first quarter 2018 today in a separate release.

An updated investor presentation in conjunction with this release and its first quarter 2018 earnings release is available on the Company’s website at www.energyxxi.com under the Investor Relations section.

Highlights of the proposed transaction include:

- Transfers non-core EGC asset portfolio with significant plugging and abandonment and decommissioning (P&A) burden to the Offshore Environmental Fund, LLC (“OEF”), an affiliate of ONR
- Increases EGC’s estimated present value of proved reserves discounted at 10% (PV-10) by approximately $150 million to $461 million, which represents a nearly 50% increase, based on year-end 2017 SEC reserves and forward strip pricing as of April 24, 2018
- Eliminates approximately $320 million of undiscounted P&A liability, which represents 33% of EGC’s total undiscounted P&A liability
- Minimally impacts EGC’s projected future cash flow and production from very low or negative margin properties being divested, which totals approximately 3,000 barrels of oil per day and 9.5 million cubic feet of natural gas per day, and includes about 6.7 million BOE of proved reserves of which 30% is natural gas
- Reduces annual cash P&A expense $30 million to $40 million for the foreseeable future, and G&A costs by approximately $11 million per year; additional operating expense savings are anticipated
- Provides potential for release of significant cash collateral due to the reduction in overall P&A obligations and associated bonding and cash collateral requirements, further enhancing EGC’s liquidity
- Enhances potential for future strategic transactions, including acquisition and consolidation opportunities in the U.S. Gulf Coast region, both offshore and onshore
- Facilitates a potential financing to fund EGC’s enhanced development program in 2019, which the term sheet contemplates would be led by an anchor $25 million commitment from ONR or its affiliates

The non-core asset portfolio to be transferred to OEF consists of properties that have significant near-term P&A burden and limited cash flow and development upside. By comparison, the oil and gas properties that EGC would retain after the proposed divestiture are EGC’s most valuable and profitable core central GOM fields, with strong current production, cash flow and multiple ongoing and future drilling opportunities.

Under the terms of the proposed transaction, ONR would receive a 35% equity ownership position in EGC, pro forma for the transaction, and would have the right to designate for nomination members to serve on EGC’s Board of Directors proportionate to ONR’s equity ownership. EGC would also issue to OEF a $100 million, ten-year, second lien note amortized ratably beginning 2019, with 9% annual interest. Interest and amortization payments on this note are expected to be more than offset by the expected savings in cash P&A and G&A costs. Further, EGC would pay OEF upfront cash totaling $12.5 million at closing and an additional $12.5 million six months following the closing (funded by a portion of the cash collateral expected to be released as part of the transaction). The term sheet provides that OEF would be a self-sustaining entity with sufficient financial capability to assume all the P&A obligations and associated bonding obligations of the EGC non-core assets and associated liabilities that are to be transferred through the proposed transaction.

In addition, EGC would sign a 10-year P&A services agreement for its core assets with EPIC Companies LLC, a major P&A service provider in the U.S. Gulf of Mexico and an affiliate of ONR, on commercially reasonable terms and at market-supported rates.

Douglas E. Brooks, EGC’s Chief Executive Officer and President, commented, “Through extensive evaluation of our portfolio over the last year, we identified several critical factors that could materially enhance the sustainability and valuation of EGC’s portfolio. We believe that this proposed transaction addresses many of these factors, including a significant reduction of EGC’s asset retirement obligations, meaningful reductions to operating costs, and a renewed operational focus on our most productive assets, which generate the majority of our cash flow and value. The successful execution of this transaction will leave EGC much better positioned to implement its strategy. The near-term components of EGC’s strategy include future drilling and development programs and pursuing potential acquisitions or future consolidations. We are committed to the long-term sustainability of EGC and remain focused on enhancing stockholder value.”

Tom Clarke, principal of ONR, stated, “Earlier this year, EGC and my companies began a dialogue to craft a structure to fit both our strategic desires. We have considerable experience helping natural resource companies shed and decommission non-core assets and believe that we have found a compelling, complementary partner in EGC. We believe there is significant value in EGC’s future and are very pleased with this mutually beneficial relationship. With this transaction, EGC can focus on its core business, and we can ensure that the assets are retired in a safe and environmentally sound manner. We are committed to EGC for the long term as evidenced by the terms of this proposed transaction.”

Under the term sheet, ONR or its affiliates would commit at closing to anchor a potential future financing with at least a $25 million participation on terms to be agreed. That financing, which is expected to provide proceeds ranging from $100 million to $150 million, would further bolster EGC’s liquidity and provide capital to fund an enhanced drilling and development program beginning in 2019 to facilitate future growth. There can be no assurances that any future financing will be consummated in the amounts specified above, or at all.

EGC and ONR expect to continue their strategic alliance via ongoing financing and other strategic opportunities.

The parties are working to complete definitive documentation—as well as the related SEC and other regulatory filings in connection with obtaining necessary approvals from EGC’s stockholders, EGC’s lenders and regulatory authorities—in order to close the proposed transaction in the third quarter of this year. EGC’s term sheet with ONR is non-binding and there can be no assurance that the proposed transaction will be consummated. Also, if the proposed transaction is consummated, it could be completed on terms that are materially different than those described in this release.

Conference Call

As previously announced, the Company will host a conference call to discuss this transaction and its first quarter financial and operating results this morning, Thursday, May 10, 2018, at 8:00 a.m. Central Time (9:00 a.m. Eastern Time). Interested parties may participate by dialing (877) 794-3620. International parties may dial (631) 813-4724. The confirmation code is 1249348. This call will also be webcast on EGC’s website at www.energyxxi.com. A replay of the call will be archived and available on the website shortly after the live call.

Advisors

Intrepid Partners is serving as exclusive financial advisor to EGC, and Sidley Austin LLP is serving as legal advisor to EGC in connection with the contemplated transactions. Latham & Watkins LLP is serving as legal advisor to ONR and its affiliates in connection with the contemplated transactions.

About Energy XXI Gulf Coast, Inc.

Energy XXI Gulf Coast Inc. (EGC) is an exploration and production company headquartered in Houston, Texas that is engaged in the development, exploitation and acquisition of oil and natural gas properties in conventional assets in the U.S. Gulf Coast region, both offshore in the Gulf of Mexico and onshore in Louisiana and Texas. To learn more, visit EGC’s website at www.energyxxi.com.

About Orinoco Natural Resources, LLC

ONR is a Houston, Texas based natural resources firm owned by Tom and Ana Clarke. The Clarkes, through their multi-billion dollar portfolio of companies, have been very active acquiring energy assets including coal, iron ore, coke, and oil and gas in recent years. These entities include active mines and platforms as well as sites in need of responsible reclamation and decommissioning. The Clarkes also control the Virginia Conservation Legacy Fund, Inc. (“VCLF”), a non-profit seeking sustainable approaches and public awareness about natural resource use and protection. VCLF and its affiliates have conserved over 35,000 acres of land, including Virginia's Natural Bridge.

Important Information For Investors And Stockholders

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities, either in the possible financing described above or otherwise. Furthermore, this communication does not constitute a solicitation of any vote or approval. If EGC enters into definitive documentation for the proposed transaction. EGC will file a proxy statement with the Securities and Exchange Commission (the “SEC”) and submit the transaction to its stock holders for consideration.

Cautionary Note Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, including those relating to the intent, beliefs, plans, or expectations of EGC are based upon current expectations and are subject to a number of risks, uncertainties, and assumptions that could cause actual results to differ materially from the projections, anticipated results or other expectations expressed. It is not possible to predict or identify all such factors and the following list of factors should not be considered a complete statement of all potential risks and uncertainties, including, but not limited to: (i) our ability to maintain sufficient liquidity and/or obtain adequate additional financing necessary to fund our operations, capital expenditures and to execute our business plan, develop our proved undeveloped reserves within five years and to meet our other obligations, including plugging and abandonment and decommissioning obligations; (ii) our future financial condition, results of operations, revenues, expenses and cash flow; (iii) our current or future levels of indebtedness, liquidity, compliance with financial covenants and our ability to continue as a going concern; (iv) our ability to post collateral for current or future bonds or comply with any new regulations or Notices to Lessees and Operator; (v) our ability to comply with covenants under the three-year secured credit facility; (vi) changes in our business strategy; (vii) sustained or further declines in the prices we receive for our oil and natural gas production; (viii) the possibility that the proposed transaction will not be completed at all or, if completed, prior to the third quarter of this year, (ix) the possibility the proposed transaction could be completed on terms that are materially different than those described in this press release; (x) the possibility that we will not be able to obtain required approvals by regulators and EGC’s lenders and stockholders; (xi) the possibility that the anticipated benefits from the proposed transaction cannot be fully realized; (xii) the possibility that costs or difficulties related to the proposed transaction will be greater than expected and other risk factors included in the reports filed with the SEC by EGC; and (xiii) other risks and uncertainties. These risks and uncertainties could cause actual results, including project plans and related expenditures and resource recoveries, to differ materially from those described in the forward-looking statements. For a more detailed discussion of risk factors, please see the risk factors discussed in EGC’s periodic reports filed with the SEC. While EGC makes these statements and projections in good faith, EGC assumes no obligation and expressly disclaims any duty to update the information contained herein except as required by law.

Non-GAAP Measures

The Company refers to “PV-10” as the present value of estimated future net revenues of estimated proved reserves using a discount rate of 10%. This amount includes projected revenues less estimated production costs, abandonment costs and development costs but does not include effects, if any, of income taxes, as described below. PV-10 is not a financial measure prescribed under accounting principles generally accepted in the U.S. (“U.S. GAAP”). The standardized measure of discounted future net cash flows is the most directly comparable U.S. GAAP financial measure. Management believes that the non-U.S. GAAP financial measure of PV-10 is relevant and useful for evaluating the relative monetary significance of oil and natural gas properties. PV-10 is used internally when assessing the potential return on investment related to oil and natural gas properties and in evaluating acquisition opportunities. EGC believes the use of this pre-tax measure is valuable because there are unique factors that can impact an individual company when estimating the amount of future income taxes to be paid. Management believes that the presentation of PV-10 provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and natural gas companies. PV-10 is not a measure of financial or operating performance under U.S. GAAP, nor is it intended to represent the current market value of our estimated oil and natural gas reserves. PV-10 should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under U.S. GAAP. However, because EGC does not anticipate paying income taxes in the foreseeable future, the standardized measure of discounted future net cash flows is effectively equal to PV-10.

Investor Relations Contacts for EGC
Al Petrie
Investor Relations Coordinator
713-351-3171
apetrie@energyxxi.com

Argelia Hernandez
Investor Relations Specialist
713-351-3175
ahernandez@energyxxi.com