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## E&P Companies and the OCC's Leverage Test – October 2017 Update
By Laura Martone and Jeff Nichols

In August 2016, we reviewed publicly available data for a group of 58 E&P companies and predicted how they would fare under the leverage test that had, at the time, recently been introduced by the OCC.[1] Based on that review, we predicted that, in 2016, over 91 percent of the companies reviewed would be non-passing credits under the OCC's leverage test. The average leverage ratio of the E&P companies reviewed in 2016 was 6.0x. If these companies were to recapitalize in order to comply with this test, they would need to shed over $108 billion in debt. The full set of predictions from our 2016 review are set forth below.
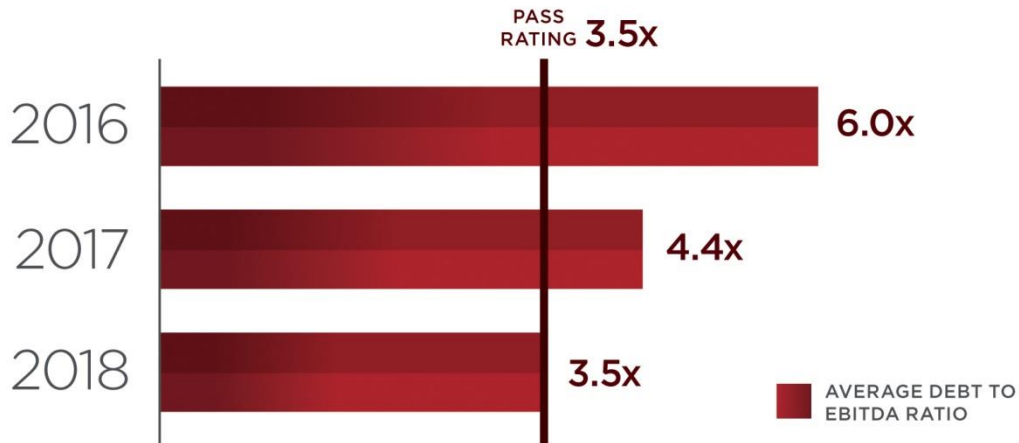
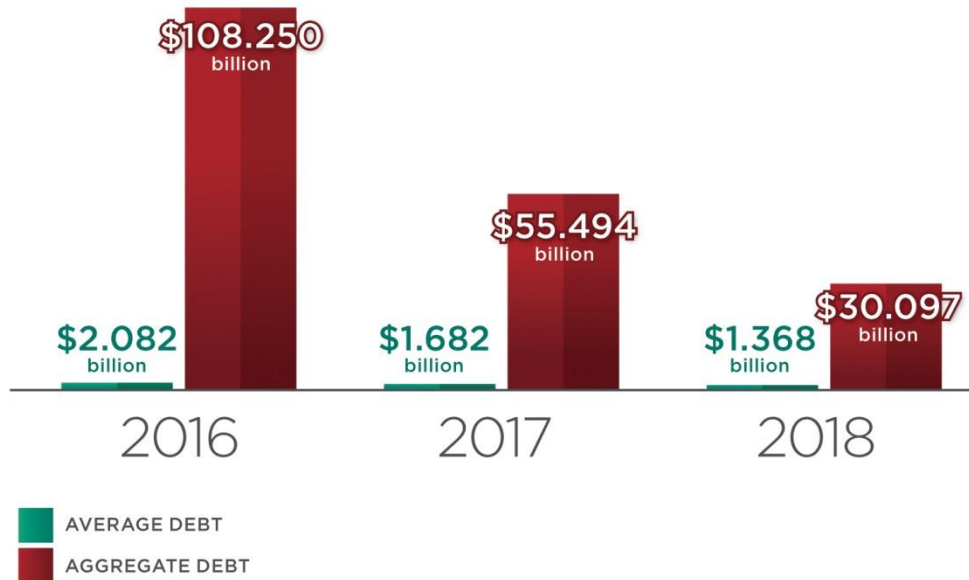**Predictions from 2016:**

BREAKDOWN OF POTENTIAL SNC RATINGS FOR RBLs

2016 — 5 / 53
2017 — 34 / 24
2018 — 23 / 35

PASS
NON-PASS

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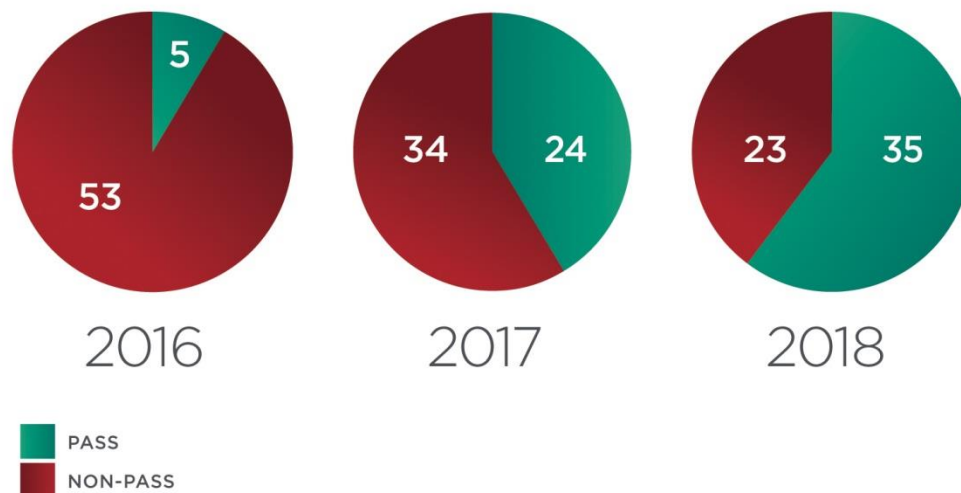
[1] E&P Companies Continuing to Stumble under the SNC Review, by Laura Martone and Jeff Nichols, (August 26, 2016).

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AVERAGE LEVERAGE RATIOS - HOW CLOSE ARE THEY TO PASSING?

PASS RATING **3.5x**

2016	**6.0x**
2017	**4.4x**
2018	**3.5x**

AVERAGE DEBT TO EBITDA RATIO

AMOUNT OF DEBT TO BE SHED FOR A PASS RATING

$108.250 billion

$55.494 billion

$30.097 billion

$2.082 billion

$1.682 billion

$1.368 billion

2016   2017   2018

AVERAGE DEBT
AGGREGATE DEBT

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In September 2017, we updated our review with publicly available data from 55 E&P companies.[2] This review showed that 2016 and 2017 fairly closely tracked our initial predictions and the outlook for 2018 remains mostly unchanged. However, the numbers for 2019 paint a brighter picture – with an average leverage ratio of 2.9x, approximately 74 percent of the companies reviewed would pass the leverage test in 2019. Additionally, the aggregate amount of debt needing to be shed by the non-passing companies in order to comply with the leverage test falls to approximately $17.5 billion in 2019 – down from the astonishing $108.25 billion we predicted for 2016. The complete details from our 2017 review are set forth below.
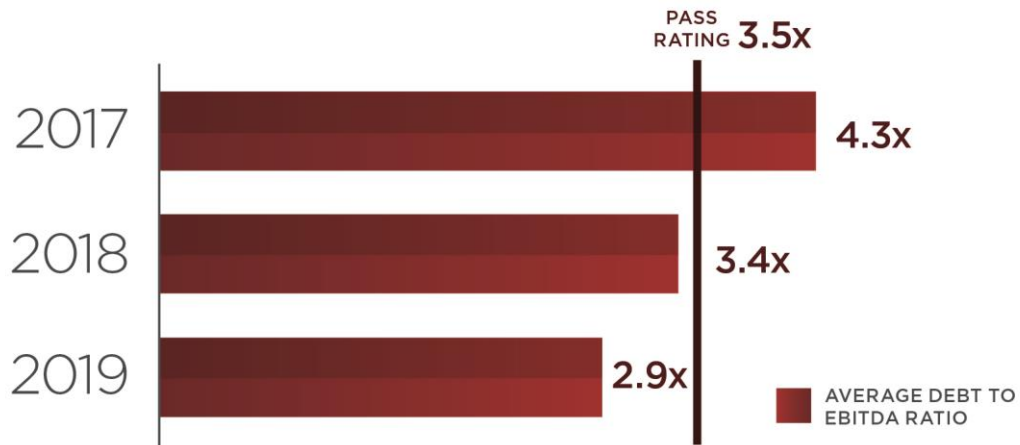
Predictions from 2017:

BREAKDOWN OF POTENTIAL SNC RATINGS FOR RBLs

34   21

23   32

14   40

2017   2018   2019

PASS
NON-PASS

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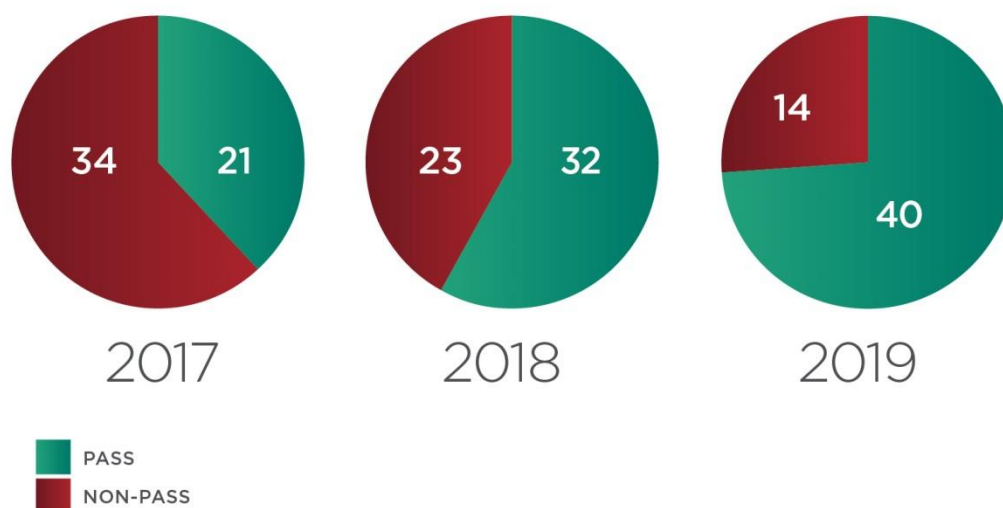
[2] The authors wish to thank Tony Montano of The Mitchell Group, who provided the data and calculations used for the analysis set forth in this article.   The predictions for 2019 are based on a review of only 54 E&P companies due to the lack of a 2019 EBITDA estimate for one of the companies.

AVERAGE LEVERAGE RATIOS - HOW CLOSE ARE THEY TO PASSING?

PASS RATING **3.5x**

2017	**4.3x**
2018	**3.4x**
2019	**2.9x**

■ AVERAGE DEBT TO EBITDA RATIO

AMOUNT OF DEBT TO BE SHED FOR A PASS RATING

$56.4 billion

$29.9 billion

$17.5 billion

$1.66 billion

$1.3 billion

$1.17 billion

2017   2018   2019

■ AVERAGE DEBT
■ AGGREGATE DEBT