



21st CEO Survey

CEOs sound a note of optimism

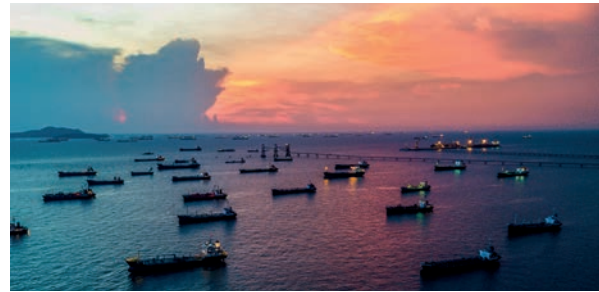
Key findings from the oil and gas industry

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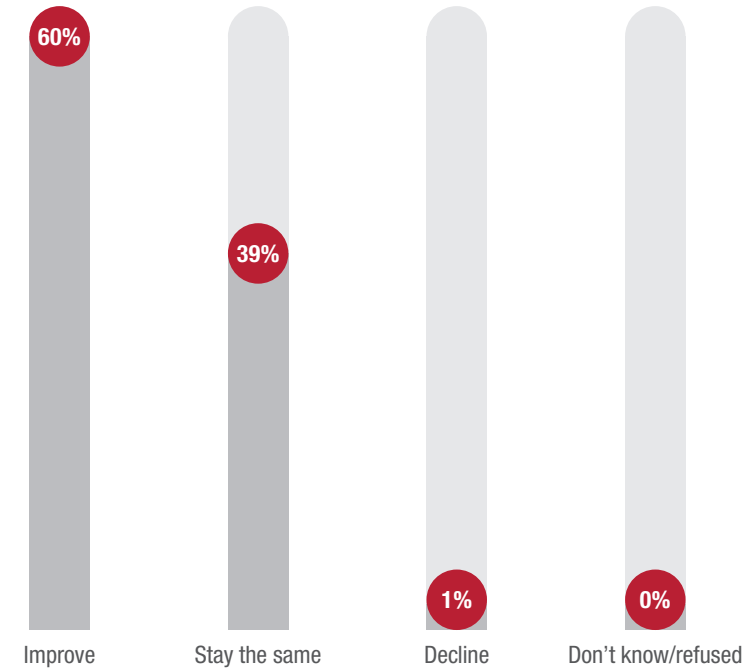
Introduction

There's an unfamiliar atmosphere in the executive offices of many oil and gas companies these days – an atmosphere of optimism. For the first time since crude prices nosedived in 2014, a majority of oil and gas industry CEOs surveyed for PwC's 21st CEO report say they believe global economic growth will improve in the next 12 months. Moreover, 83% of industry CEOs report they're very or somewhat confident in their own companies' prospects for growth in the next 12 months, and 91% say they're very or somewhat confident of revenue growth over the next three years (see exhibit 1).

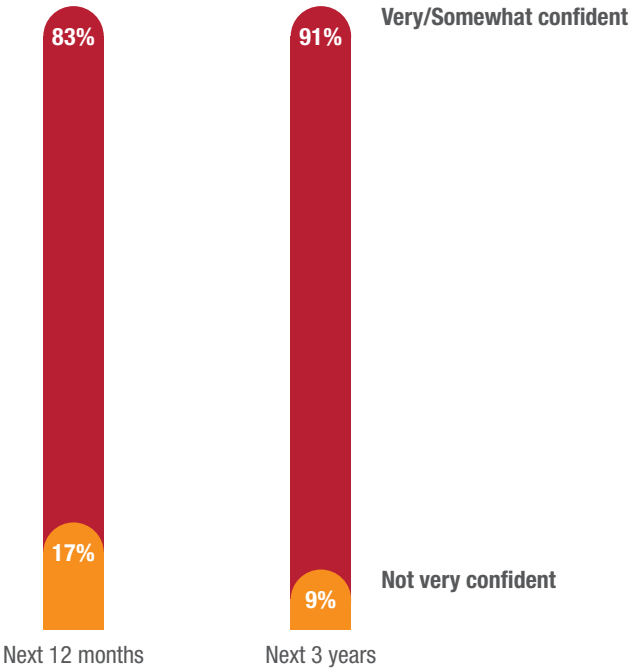
Exhibit 1

There is an atmosphere of optimism among O&G CEOs

Q Do you believe global economic growth will improve, stay the same or decline over the next 12 months?



Q How confident are you about your company's prospects for revenue growth over the 12 months and next 3 years?



Source: PwC, 21st Annual Global CEO Survey. Base: Oil and gas respondents.

That sense of growing confidence about the future – a highlight of last year's survey results – appears to have taken root across the oil and gas industry and, judging from CEOs' responses to questions about the global economy and their own companies' growth prospects, it's not just about rising commodity prices. Nearly half of CEOs – 48% – say they expect the headcount at their organisation to increase, compared with only 12% who expect headcounts to shrink. The survey findings also reveal that oil and gas companies, which have long been technology-intensive at the wellhead, are beginning to extend their technological capabilities, especially digital capabilities, to the rest of their operations.

But some things haven't changed. CEOs continue to cite what they see as over-regulation as a leading threat to their businesses, along with changes in tax regimes, the geopolitical environment, and cyber threats.




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01

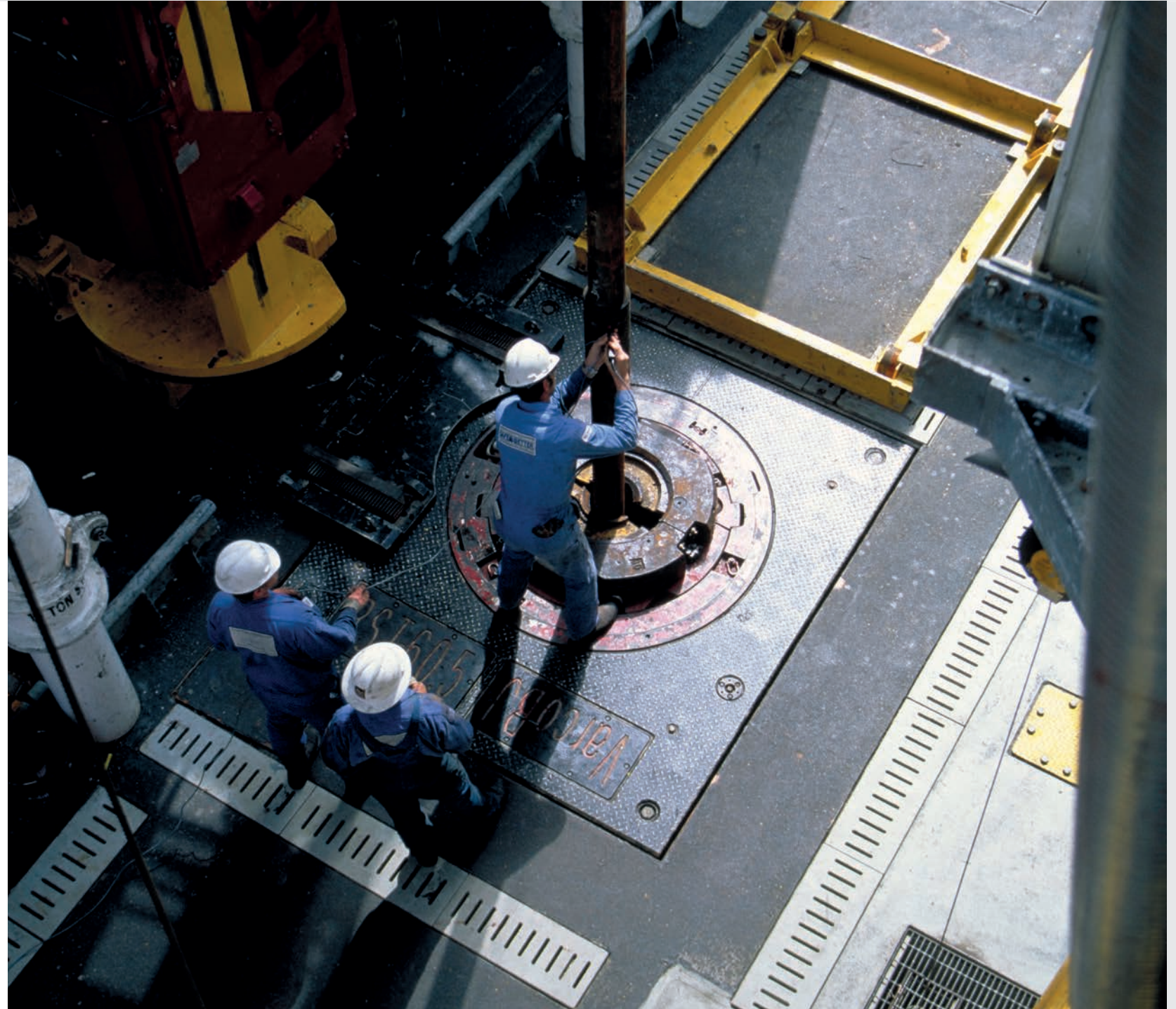
Positioned for profitability

CEOs signal an end to retrenchment as world economies grow



Most companies have substantially reduced their cost bases, enabling them to increase profitability even absent rising commodity prices. And the return of growth to the largest global economies has bolstered CEOs' confidence that demand for their energy products will remain strong for the foreseeable future.

Most CEOs believe that their companies will grow in tandem with the world's economies, signaling an end to the industry's long period of retrenchment and the start of a new phase in which increases in available capital will enable companies to grow from within. A large majority of CEOs – 83% – say that organic growth will drive their companies' growth or profitability.



02

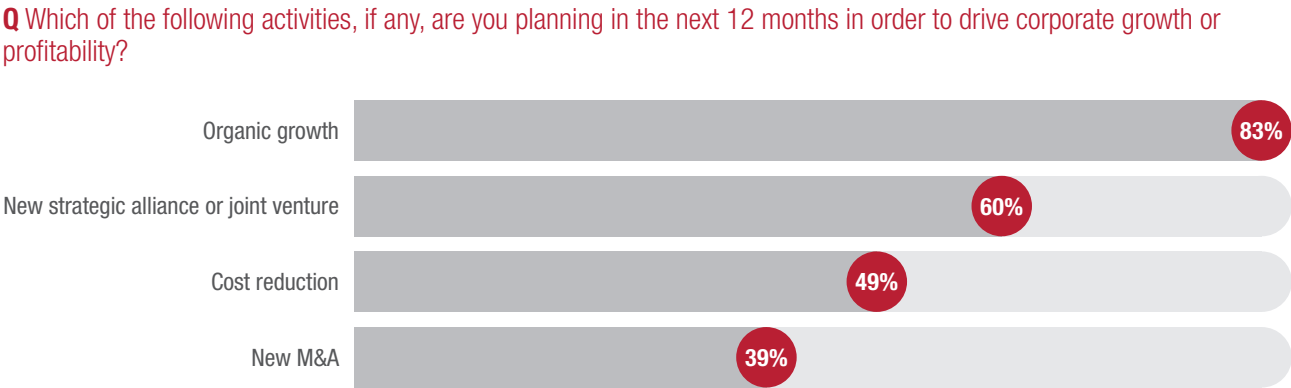
Strategic alliances emerge

Organic growth is still the main tool, but partnerships are becoming important

Although most CEOs say that they are employing organic growth as the main driver of their companies' growth, they don't dismiss the value of inorganic growth. Strategic alliances have emerged as an important lever, with 60% of CEOs saying that strategic alliances will be critical in delivering growth, compared with 39% who say mergers and acquisitions (M&A) will (see exhibit 2).

Exhibit 2

Organic growth remains central to revenue growth but strategic alliances are becoming important



Source: PwC, 21st Annual Global CEO Survey. Base: Oil and gas respondents.

Companies in every subsector of the industry have forged alliances, including tie-ups between exploration and production (E&P) companies aimed at creating value through risk- and knowledge-sharing, increased investment capacity across the oil and gas value chain, and stronger corporate governance. In other cases, oil and gas companies are teaming up with technology companies to speed the application of emerging digital technologies, such as the Internet of Things (IoT), to their operations. For example, an oil driller has allied with a technology provider to outfit drilling rigs with sensors that monitor equipment performance and signal when maintenance is required. By maintaining and repairing rigs on an as-needed basis, rather than a fixed schedule, drillers can cut costs while gaining greater operating flexibility.

In yet another instance, an E&P company has formed a strategic collaboration with a technology provider to develop a state-of-the-art industrial IoT data platform. The platform enables the E&P company to use the reams of data generated during exploration and production as a strategic resource to accelerate performance, innovation, and decision-making.

As for acquisitions, 64% of CEOs whose companies have acquired another company in the past 12 months said they did so to introduce new capabilities, such as new processes, tools, or skills, rather than to drive growth.

03

Digital strategy spreads

Technological advances move beyond the wellhead and drive business transformations

Like their counterparts in other industries, many oil and gas CEOs are deploying digital transformation to deliver sustainable cost reductions, enhance revenue growth, and support better decision-making. While oil and gas companies have long since invested in technological improvements at the wellhead, digital transformation promises to reshape all elements of the operating model including the back office, supply chain, strategy, processes, and culture.



But there's more to transformation than significant investment in digital solutions – new skills and capabilities are also critical. Digitalization changes how work is done, reshaping work practices (such as decision making on exploration) and work streams (such as the delivery process that spans several departments). For transformations to truly take hold, companies need cultures that promote cross-functional collaboration, information sharing, and speedy decision making. Many companies will need to reassess their cultures as well as hiring strategies to ensure they are well-positioned to reap the full benefit of technological advances.

Further, the survey shows that CEOs are unsure if they'll be able to find the new skills they need. Two-thirds (67%) of oil and gas

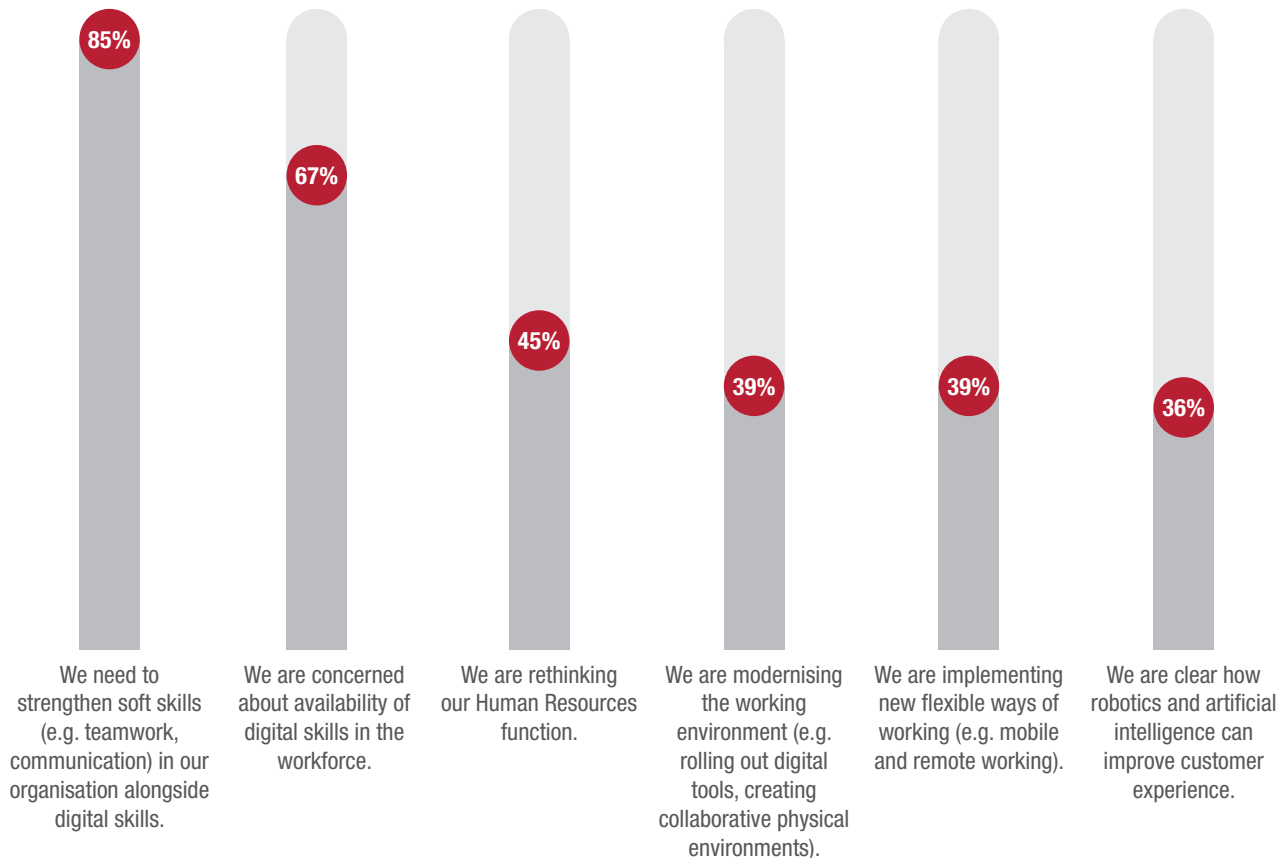
CEOs say they are concerned about the availability of digital skills in their workforce, and even more (71%) say they're concerned about the availability of digital skills in the industry as a whole (see exhibit 3). And only 40% of CEOs say that it is somewhat or very easy to attract digital talent to their organisations. Yet relatively few say that they are working intensively to attract digital talent: Only 41% of companies say that they are implementing continuous learning and development programs, and only 39% say that they are modernizing their work environments by rolling out digital tools, creating collaborative physical spaces, and the like. And a mere 19% say that they are improving compensation and benefit packages to lure digital talent.

Exhibit 3

O&G CEOs recognise the need to spread tech beyond the wellhead

Q To what extent is your organisation using the following strategies and tactics to attract or develop digital talent?

i Chart shows percentage of oil and gas CEOs who stated 'strongly agree' or 'agree'.



Source: PwC, 21st Annual Global CEO Survey. Base: Oil and gas respondents.

Conclusion

Even in the face of such challenges it's clear that oil and gas CEOs believe the clouds over their industry are starting to lift. Prices for their goods are up, demand is rising, and companies are boosting their capital spending to increase profitability, while continuing to press for cost efficiencies.

As executives in a highly cyclical industry, CEOs know the upswing can't last forever, but they appear confident that with a few good years ahead of them, they can upgrade their workforces, incorporate new technologies into their operations, and, at last, get growing again.

21st CEO Survey Methodology

PwC conducted 1,293 interviews with CEOs in 85 countries. There were 75 respondents from the oil and gas industry.

The CEO survey oil and gas respondent profile:

- 59% had 1-5 years tenure
- 89% were male and 11% were female
- 48% were between 55 and 64 years of age
- 40% recorded revenue of > \$1billion
- 31% of organisations were publicly listed
- 36% had > 1000 employees.

All quantitative interviews were conducted on a confidential basis.

Notes

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 75 (all oil and gas respondents) unless otherwise stated.
- We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

- The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services www.pwc.co.uk/pwcresearch

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