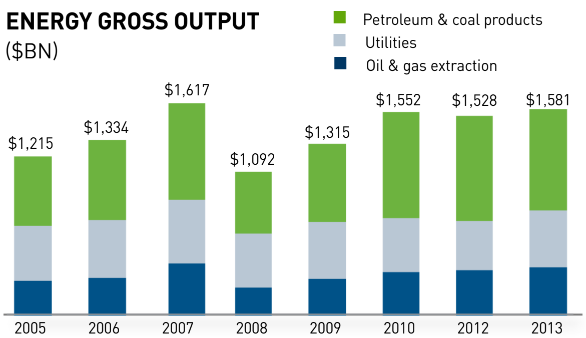
PAYMENTS SUPPORT FOR THE ENERGY INDUSTRY

In recent years, the U.S. energy industry has undergone a huge transformation due to a number of factors, including huge growth in domestic production of oil and gas, falling oil prices, and the rapid growth of renewable energy sources. U.S. daily domestic oil production has risen by 10.7%, increasing from 8.4 million barrels in 2014 to 9.3 million in 2015.[1] And natural gas production of 90.9 million cubic feet per day in August 2015 represented an increase of 28% from August 2009.[2] The impact of growing U.S. production is reflected in the rise in industry output.



Source: Bureau of Economics Analysis

The growth in oil and gas production has led to a huge decline in the U.S. dependence on imported fuel. The percentage of the U.S.'s petroleum and liquid fuel needs that are imported is expected to fall from 60% in 2005 to just 25% in 2016 and the country's trade deficit in petroleum products is at its lowest level since 1994.[3]

Recent growth in U.S. oil and gas production has led to a sustained lowering of oil and gas prices, which in turn has led to disruption in the energy sector in recent months.

LOWER PRICES DRIVING COST CUTTING

While energy executives remain optimistic about prospects for the industry over the next three years, the sector has been recently impacted by continued low oil prices, a glut in production, and global economic uncertainty. According to Pearson Partners' Oil & Gas Executive Outlook, key business challenges in the next five years for oil and gas executives include an oversupply of oil and gas, unfavorable oil prices, an increased regulatory burden, as well as talent shortages.[4]

As a result of these headwinds, the industry is expanding its focus on optimizing existing operations. KPMG's 2015 Energy Industry Outlook Survey found that the volatile price environment is effecting a strong focus on controlling costs.[5] According to the BDO USA 2015 Energy Outlook Survey, 56% of U.S. energy CFOs would use hedging programs along with cost cutting and efficiencies in order to bolster profitability in 2015.[6]

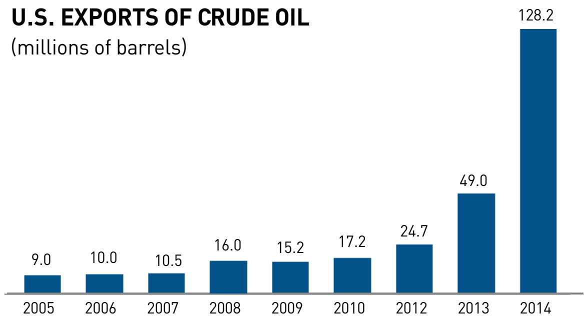
COMMERCIAL PAYMENTS NEEDS

With the increased emphasis on *controlling costs and optimizing working capital,* energy companies are seeking out financial firms with expertise and broad experience in providing treasury management services to the industry.

Energy firms typically have relationships with a wide range of suppliers, so solutions that enable effective *supply chain management* are vital. Commercial payments play a critical role in this regard.

Finally, U.S. energy firms are expanding internationally, as evidenced by huge growth in crude oil exports between 2007 and 2014. And this growth has continued in 2015, with crude oil exports rising 52% y/y for the first eight months of the year.[7]

This increases demand for treasury management and commercial payments solutions to support energy firms' *international operations*.



Source: Energy Information Administration

PNC'S DEEP DOMAIN EXPERIENCE

PNC has built significant expertise in serving the unique financial needs of firms in commodity-based industries. We have traditionally supported energy firms within our retail footprint, including energy clusters in Ohio, Pennsylvania and West Virginia. More recently, PNC has expanded beyond our retail footprint to serve energy firms throughout the country, including the energy-producing states of Texas, Louisiana, Oklahoma, Kansas, Colorado, California, Arkansas and North Dakota. Underscoring the bank's commitment to the sector, PNC opened an energy banking office in Houston in 2013.

Within the energy industry, PNC serves a range of segments, including upstream oil and gas producers, midstream companies, oilfield service and equipment companies, refiners and petrochemical firms. We provide commercial payments services that reflect the unique characteristics of the industry and offer solutions to support energy firms' current focus on optimizing efficiency and reducing costs.

PNC is committed to serving the financial needs of energy firms for the long term, even as the industry works through different economic cycles. We have a history of serving commodity-based industries and our work to support clients in the energy sector is a natural extension of that. Our team-based approach ensures that clients have access to the full complement of PNC services. Our energy industry specialists have the expertise to provide advice and insights on best practices, and help energy firms obtain the most from their relationship with PNC.

Did You Know?

PNC's treasury management support for the energy industry is just the beginning. We offer robust commodities derivatives trading capabilities and reserve based lending, and retain a geologist on-staff.

WORKING WITH ENERGY CLIENTS

One of the key areas where PNC supports our energy clients' commercial payments needs is in enabling our clients to switch a significant portion of their commercial payments volume from checks to more efficient electronic payments. This can reduce administrative costs, favorably impact Days Payables Outstanding (DPO) and cash flow, and in some cases may even drive an income stream for our clients. This involves a tried-and-trusted process, which starts with PNC working with our clients to analyze their supplier list. This analysis identifies both:

- Suppliers who have already signed up for electronic payments; and
- Other suppliers who have not yet signed up for electronic payments, but who do a lot of business with the client

Having identified and prioritized these suppliers, we deploy our team-based approach to recruit these suppliers to accept electronic payments from our client, and to work with our clients to adapt payment systems to switch from checks to electronic payments.

Similar efficiencies may be gained with receivables. PNC offers solutions that can help digitize paper receipts and then consolidate that activity into a common stream of payments of all types (wires, card, ACH, etc.). This results in increased straight-through processing, ability to identify exceptions more quickly, and ultimately increase automated application rates.

To find out more about our work with clients in the energy industry, contact your Treasury Management Officer.

[1] Weekly Petroleum Status Report, U.S. Energy Information Administration.
[2] Natural Gas Gross Withdrawals and Production, U.S. Energy Information Administration.
[3] "Survey Reveals Big Growth, Challenges for Energy Industry," Petroleum Accounting and Financial Management Journal, Fall 2014.
[4] "Pearson Partners' Oil & Gas Executive Outlook 2015 Predicts Tough Year, Strong Five-Year Outlook," BusinessWire, 2/17/2015.
[5] "Rapidly Changing Energy Marketplace Forcing Energy Execs To Focus On Business Models, Growth Strategies: KPMG Survey," PR Newswire, 5/13/2015.
[6] "BDO Survey: Declining Oil Prices Rattle Industry," BusinessWire, 12/2/2014.
[7] U.S. Exports of Crude Oil and Other Petroleum Products, U.S. Energy Information Administration.