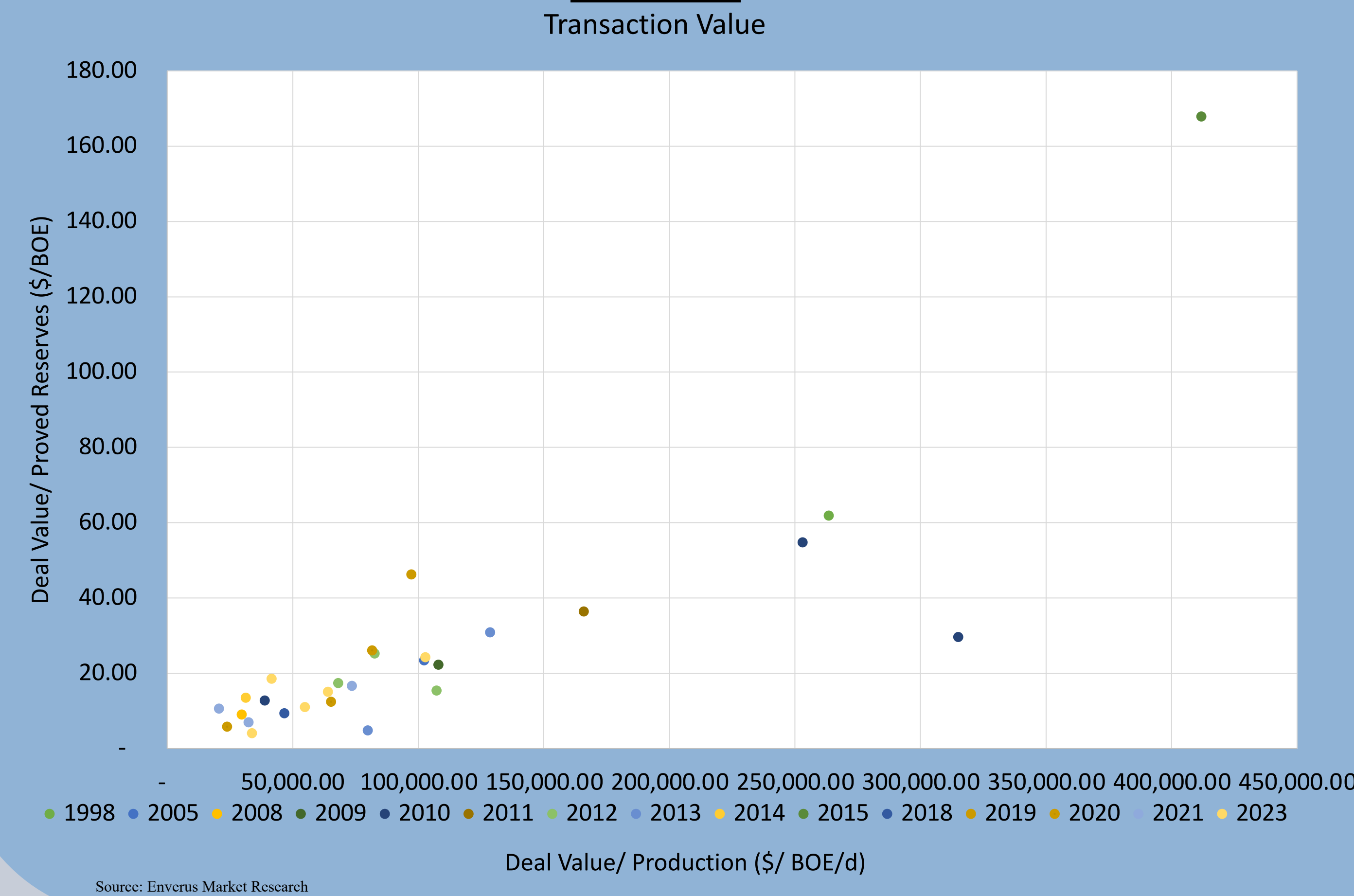


Introduction

In the United States, many experts believe that American oil and gas is a dying industry in the modern age of renewable resources and government restrictions. This, however, is not apparent when looking at the production values of crude oil. For instance, in the past 6 years, the United States has produced more oil than any other country globally. To achieve this, many exploration and production companies have chosen to purchase predeveloped assets from other countries through mergers and acquisitions. While this is typically more expensive than developing existing acreage, the time to production and time to profit is faster. Thus, the American oil and gas industry has been experiencing an asset consolidation as larger companies buy out small companies to grow their asset base. For example, in FY2023, exploration and production companies spent \$234 billion on mergers and acquisitions, the largest amount since FY2012. While this trend has been consistent since the 2008 Great Recession, except for the first years of the COVID-19 Pandemic, what are the driving factors that lead to M&A transactions in the oil and gas sector?

Results



Key Limitations

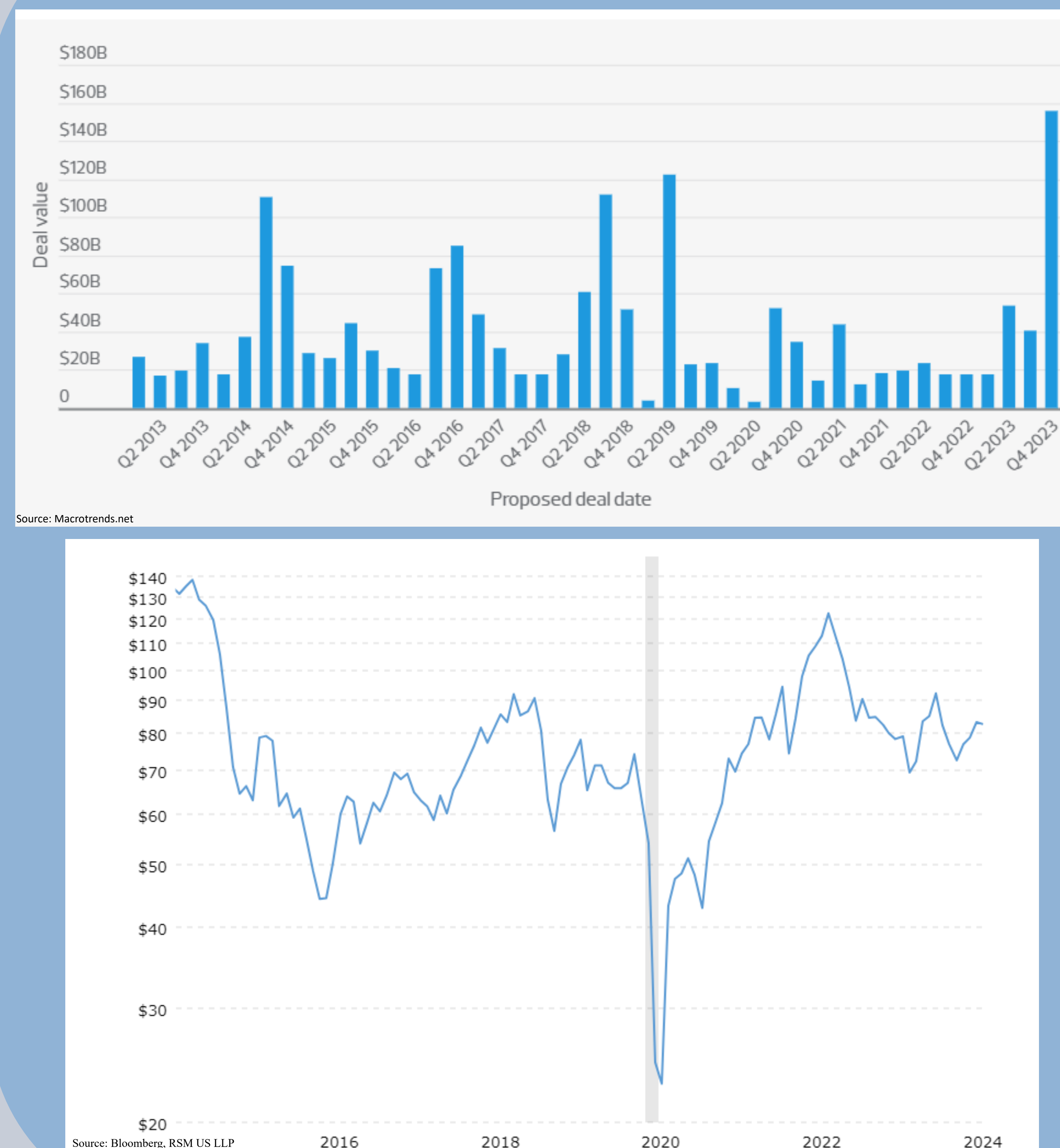
There are a few key limitations to this study. Firstly, with a limited sample size of 28 transactions and only 8 buying entities the clustering of data may not be accurate to the broader exploration and production market. Additionally, to ensure a greater magnitude of transactions, the companies selected were of larger market capitalizations with the exception of Bonanza Creek Energy. While this helped to provide larger transactions, it is possible that smaller companies will use different factors when determining the value of an acquisition. Secondly, without explicit details from companies about the chosen transactions, it is unlikely to determine the exact factors that effect a valuation. Using corporate press releases provided sufficient information to make educated assumptions about these influencing factors but these are limited by the information available.

Methodology

This research was conducted through quantitative data analysis of data compiled within the Enverus Market Research Application (EMRA). All data found within the database is publicly available through press releases, corporate presentations, and SEC filings. This research endeavor utilized the EMRA and Microsoft Excel to analyze 28 mergers and acquisitions from 8 different buying companies of varying sizes. These companies included Civitas Resources, Southwestern Energy, Matador Resources, Bonanza Creek Energy, ConocoPhillips, Chevron, Shell, and ExxonMobil. Each transaction was required to have a deal value greater than \$50 million and to have occurred between January 1st, 1998, and December 31st, 2023. There were no restrictions on what basin the assets were in, whether it was a corporate or property deal, and what the selling entity was. This was to ensure that the broad range of transactions could lead to findings that are more applicable across basins and deal types. The quantitative data analysis consisted of comparisons between two metrics within each of these transactions: the deal value divided by the proved production value (\$/barrels of oil equivalent per day) and the deal value divided by the proved reserves (\$/barrels of oil equivalent). These metrics were used to determine whether a transaction was inexpensive, reasonably priced, or excessively priced compared to others. This comparison was also used to analyze price trends over time. To create a more accurate representation of data that did not reflect changes in oil prices as heavily, each deal was adjusted to use the average price of crude oil in FY2023 (\$77.64).

Additionally, this research included a qualitative review of the aforementioned transactions to determine what common factors are used to establish value. This review was completed using press releases and corporate presentations to understand the motives behind each transaction. These publicly available documents were found on each company's investor/investor relations web pages and using the Enverus Database for companies that may no longer exist.

Trends



What Does This Mean?

The findings of this research are corroborative of previous research that explain that the value and demand for exploration and production transactions follow various trends. The two most common are crude oil prices and macroeconomic trends. These were both expected results, however this research suggests that the oil price has less effect over the value of transactions as previously thought to. For instance, the price per barrel of crude oil in 2015 was \$48.66, significantly lower than it was in 2014, yet one of the most expensive transactions occurred when Matador Resources acquired New Mexico assets from HEYCO. While this transaction was an extreme outlier compared to the others, it highlighted the importance of demonstrated production rates, flexibility in further development, and the prospect of operational synergies. Similar to research published by Energy Economics, this study showed that exploration and production buyers look for transactions that will initiate the most cost savings while increasing production and increasing profitability.

Additionally, transactions that involve pre-approved leases, existing development plans, and proved production also add value. Unfortunately, this research did not add any additional information to existing knowledge of what specific factors influence whether a deal is likely to be inexpensive, reasonable or expensive compared to others; however, it did establish a range in which many transactions on the larger market may exist within. In the future, this range should be studied to establish an understanding of why and how exploration and production companies determined the acceptable range for competitively priced transactions.