

Future-Proofing Your Oil & Gas Business for Acquisition and Divestiture Success



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Today's oil & gas landscape is rapidly changing. From hydraulic fracturing design, to modern cube development, and the hyper-focus on returns vs. production, firms are asked to grapple with questions that the previous era hadn't needed too. One of the overarching themes affecting the business currently is consolidation. According to Forbes, the last 12 months in M&A activity reached record levels with over \$250B of transaction value¹. This trend is expected to continue in the coming years. As capital requirements rise and industry capital consolidates, economies of scale will become increasingly important. Along with continued, steady M&A markets, the A&D market is extremely liquid. Firms are looking to either capitalize on the steady increase in asset valuations with higher oil prices, or leverage these elevated oil prices to help finance a new acquisition to "bolt-on" to their existing portfolio.

This begs a question: Is your company ready for a potential transaction?

This question should trigger another important question: What does it mean to be ready for a potential transaction?

While each transaction is unique, there are many common requirements that underpin every deal, whether its small asset sale or large corporate merger, including:



Current and consolidated financial overview



Accurate and current land/owner records



Robust production/operational records and reporting

¹<https://www.forbes.com/sites/davidblackmon/2024/07/30/oil-and-gas-mergers-total-250-billion-in-just-12-months/>

Each of these parts make up the infamous “data room” – with millions, if not billions, of dollars hanging in the balance. No matter what side you fall on (buy-side or sell-side) it is critical to consider these things as you work through any potential deal. Too often, companies engage in A&D without having the necessary data ready, and it can cause huge headaches for internal staff charged with marketing these assets, and can cause potential buyers to become wary even if the underlying assets are strong. If you can't produce an asset-by-asset LOS, should a buyer have confidence that you fully comprehend your potential Plug & Abandonment liability? If you are struggling to communicate your total land exposure, why should they trust your forecasted development plan?

Future-proofing your company's ability to participate in this marketplace is not just a nice to have, it is a requirement.

Consolidated Financial Overview

The first thing any corporate development team does is inspect financial statements to begin to understand the story behind the story. Every marketing teaser in the history of marketing teasers has looked great (trust me - I have written many) - but what really matters is what's inside the historical financial statements. Here are some questions that are always asked when looking through financials:

Do the historical lease operating expenses match the forecasted go forward operating expenses?

- Does it look like we can trim any expenses based upon the most heavily spent areas?
- Are expenses falling relative to the overall decline of the asset?
- Are there economies of scale present that would allow us to grow the production base faster than our increase in overall expense would be?

What has G&A growth been like over the last 12 quarters?

- Are we comfortable with this level of G&A spend?

Has the requisite CAPEX spend translated into a significant increase in EBITDA?

Does anything major jump out when looking at different basins?

Do oil and gas production volumes match our engineering estimates?

Each of these questions is extremely significant to answer this simple question: How much should we pay for this? While each company will answer these questions differently by considering different factors: current production, undeveloped location inventory, quality of that inventory, upside relative to pricing structures, and others – the common thread is an ability to digest and modify financial performance in order to understand how these assets would look in your portfolio.

If you are on the sell-side, providing this data in an easy to digest format, with the ability to easily modify as requested by prospective buyers is critical to creating a competitive bidding process. Increasing the number of possible buyers is one of the easiest ways to increase value without any real underlying change in your current business.

Too often, firms force their counterparty to derive much of this analysis themselves, without giving them the proper set of tools to solve this.

Land Records

It seems like every new M&A press release these days starts with “enhances our acreage footprint by X% with over 99% of acreage held by production.” It brings to mind a phrase – easier said than done.

Land, title and acreage management can be overlooked as part of the overall transaction. But at the end of the day, your lease records are the physical representation of what you own and don’t own, and represent the underlying value for any transactions. Not having the ability to quickly and accurately represent what you own, the interest you own, your obligation schedule etc.. can cost you dearly in the evaluation process.

On the buy-side, these questions are critical to forecasting future value.

Can I drill the undeveloped locations being pitched?

Is the forecasted lease capital expenditure something I can afford even if I decide not to drill any of these locations?

How should I prioritize my projected drilling schedule based upon lease status?

These are among the questions any corporate development team should be asking as part of the transaction narrative. Under-forecasting the number of locations based on acreage position can cause wide divides on value between you and your counterparty, while over-forecasting locations can inadvertently help the other management team afford a fourth Almasi Coast vacation!

If you’re on the sell-side, being able to show the answers to those questions with ease shows any potential buyer that there aren’t any “skeletons in the closet.” Nothing is worse than an unknown lease payment due on acreage not part of the upcoming drill schedule and can cause massive litigation when a land owner surfaces and asks why his lease bonus renewal payment wasn’t sent.

Effective land management starts by thinking ahead to potential transactions by putting yourself in your counterparty shoes and understanding not just what, but how, they want to analyze your acreage position

Production and Operational Reporting

It goes without saying, but production volume equals revenue and revenue equals value. Making it simple and easy to slice and dice data as needed for potential buyers to fully understand how the production base has grown over time is imperative. Gone are the days of logging production on spreadsheets and forcing potential buyers to clean it up and load it into whatever software they're using to analyze production.

Engineers don't just need production numbers, they need all sorts of other operational data: pressure profiles, accurate daily water volume, flowback information, historical workover programs, and accurate well files. All this data allows engineers and corporate development teams to accurately assess the overall state of your assets.

For buy-side folks, quantifying all these data points can give you an accurate idea of not only the current status of these assets, but also help understand future capital requirements not associated with drilling and completions but workover and maintenance. Understanding downhole assemblies for new wells – whether flowing or ESP – can help refine go-forward expense modeling and give better insight in how that might change over the life of the asset.

How W Energy Makes This Process Easy

It goes without saying, but production volume equals revenue and revenue equals value. Making it simple and easy to slice and dice data as needed for potential buyers to fully understand how the production base has grown over time is imperative. Historically, each of these processes were isolated in their own systems. This creates a data silo problem and requires massive amounts of legwork in order to spin up the aforementioned data room. One way W Energy solves this problem is by consolidating these multiple systems into one unified platform. This gives companies the ability to quickly and easily create data rooms that are flexible to solve the challenges of M&A and A&D activity in today's technologically focused world. Gone are the days of having to consolidate land and financials into one hard to use spreadsheet, in are the days of having a unified database that allows for easy manipulation by buy-side and sell-side.

The deal process can and will be rough: meeting after meeting, request after request, question after question can truly make this someone's full time job. And if you work at a larger company, maybe that isn't an issue - but mid-market to smaller firms generally have team members that operate in multiple domains, meaning when they are only focused on the deal, the asset isn't getting the attention it deserves

Turnaround time during a transaction is critical to maximizing value during this process. Unifying your operations to a single, easy to use platform can accomplish this goal with ease.

Reach out to [W Energy](#) today with any questions, or [request a demo](#) to see our solution!



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