THE A&D MARKET FOR INDEPENDENTS
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by
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Tonight we’ll look at:

• A brief summary of my background in A&D
• A history of Five States Energy Company
• The current A&D market for independents
• What to look for in sales packages
Gary Stone

- Petr Engr, Texas Tech University, 1978
- Consulting, energy banking, technical software, independent producers
- 19+ years at Five States Energy
- Registered Professional Engineer, Member of the Petroleum Engineering Academy at Texas Tech, Board member for Texas Alliance of Energy Producers, past President of Texas Energy Council
Five States Energy Company

- Founded late 1984 by Jim Gibbs, past President of AAPG
- Formed small partnerships of private investment capital to buy annuity properties
- Targets were hard-rock, non-op, slow decline in Texas, Mid-Continent, and Rockies
- Due to changing market conditions, sold gas properties and low-volume oil in 2006-7
Five States Energy Capital

• Broadened our funds to allow for more risk
• Project focused, $10-$40 MM up to $100 MM
• Direct purchase or equity co-investment
• Midstream assets (pipelines, gas plant, workover rigs) – equity or debt
• Mezzanine capital for development – help producers develop early-to-mid-stage projects that don’t support bank debt
Five States Energy Capital

• Staff of three engineers for analysis, one for operations

• Prefer to partner with local companies on operated properties

• Review 200+ potential projects per year, perhaps 40% get to “light analysis”, 10% to “in depth analysis”
The Current A&D Market

• Are you buying or selling?

• If you’re buying, do you plan to flip or hold and develop for the long haul?
The Current A&D Market

• Let’s focus on the < $200 million market
• No one is selling for profit
• Sales are strategic
  › Large companies selling non-ops or large concentrations with “issues”
  › At risk companies selling to pay down debt
  › Bankruptcies or bank-directed sales
• PDP vs other reserve categories and acreage
Strategic (Non-Forced) Sales Examples

• Exit regions to concentrate elsewhere

• Sell large property groups with plugging liabilities, generally thru large brokers

• Sell smaller operated or non-op packages, generally by auction or thru smaller brokers
Forced Sales Examples

• Not (yet) in bankruptcy, but close
  › Large companies selling non-core assets to reduce debt
  › Smaller companies delay as long as possible
  › “Sellable” properties (PDP) needed for cash flow
Forced Sales Examples

• Bank-forced sales
  › “Kick the can” strategy – banks, regulators, companies, and the election
  › Transferred to work-out divisions
  › Foreclosure

• Bankruptcy
  › Advantage of clean title, bid format
  › Trustees can sometimes be difficult
What’s Being Sold

- PDP everywhere
- PDNP & PUDs
  - Value being given by buyers only for well-proven and economic reserves
  - Risked by region
- Acreage
  - Only in economic basins (Eagle Ford, Delaware, SCOOP/STACK, Utica)
What to Look for in Sales Packages

• Brian’s Laws
  › *Believe no one.*
  › *Doubt everything.*
  › *Demand proof.*

• Be careful of the consultant, and remember that brokers are working for the seller.

• Never trust published type curves or data from public companies; investment banks may or may not be better (check hedging).
Sales Packages ("They’re lying.")

• Reserves
  › *PDP exaggerated in curves, response – use Rate v Cuml Prod plus Rate v Time*
  › *PDNP, PUD non-existent or “thin”*

• Operating costs, prices, differentials
  › *Costs scrubbed of recurring items*
  › *Differentials minimized*

• Plugging and environmental concerns
First Prod: 05/2010
Cum Oil: 0 bbl   Cum Gas: 3,391,847 mcf

Utilizing 1.3 years production
Early time analysis indicates a potential of 13.5 BCF.
LA - DE SOTO (LA) - CASPIANA (HAYNESVILLE SHALE) - HAYNESVILLE SHALE - HA RA SU98; PARSONS 8 H

First Prod: 05/2010
Cum Oil: 0 bbl  Cum Gas: 5,347,925 mcf

Utilizing an additional 1.1 years production
13 months additional data indicates actual EUR of only 6.8 BCF
THANK YOU!

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