

# How Operators and Service Companies are Weathering a Challenging North American market

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# What do we mean by “challenging”?

Let's start by looking at two of the more bullish global oil demand forecasts...

# OPEC's view of global oil demand

Table 3.2

Long-term oil demand in the Reference Case

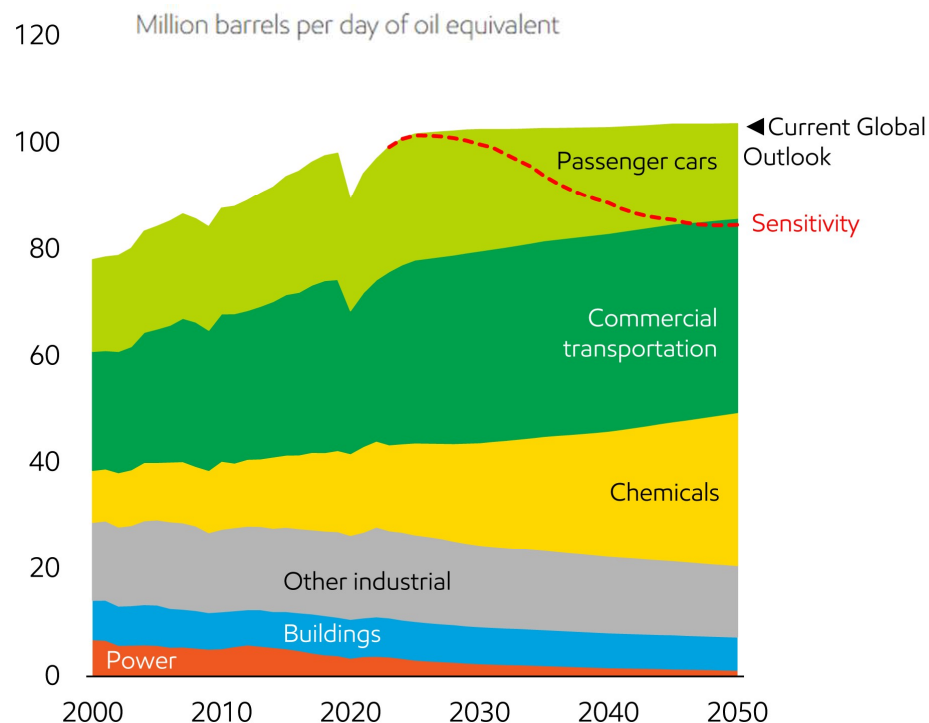
mb/d

	2023	2030	2035	2040	2045	2050	Growth 2023-2050
OECD Americas	25.0	25.6	24.9	23.5	22.2	21.1	-3.8
OECD Europe	13.4	13.1	12.1	11.0	10.0	9.2	-4.2
OECD Asia-Pacific	7.2	7.2	6.7	6.1	5.7	5.2	-2.0
<b>OECD</b>	<b>45.7</b>	<b>45.9</b>	<b>43.7</b>	<b>40.6</b>	<b>37.9</b>	<b>35.6</b>	<b>-10.1</b>
China	16.4	18.6	19.0	19.2	19.1	18.9	2.5
India	5.3	7.1	8.6	10.2	11.8	13.3	8.0
Other Asia	9.3	11.2	12.3	13.1	13.8	14.5	5.2
Latin America	6.7	8.0	8.8	9.2	9.5	9.7	3.0
Middle East	8.6	10.7	11.5	12.1	12.6	13.0	4.4
Africa	4.5	5.4	6.2	7.0	7.9	8.9	4.4
Russia	3.8	4.1	4.1	4.1	4.1	4.0	0.2
Other Eurasia	1.2	1.4	1.5	1.5	1.6	1.6	0.4
Other Europe	0.8	0.8	0.8	0.8	0.8	0.7	-0.1
<b>Non-OECD</b>	<b>56.6</b>	<b>67.4</b>	<b>72.7</b>	<b>77.2</b>	<b>81.1</b>	<b>84.6</b>	<b>28.0</b>
<b>World</b>	<b>102.2</b>	<b>113.3</b>	<b>116.4</b>	<b>117.8</b>	<b>118.9</b>	<b>120.1</b>	<b>17.9</b>

Source: OPEC.

- From *World Oil Outlook 2024*
- Demand goes from 102. million bpd in 2023 to 120.1 in 2050
- That equals a +0.6% CAGR
- Global economic growth expected ~+3% CAGR
- Economy becomes meaningfully less oil-intensive with time

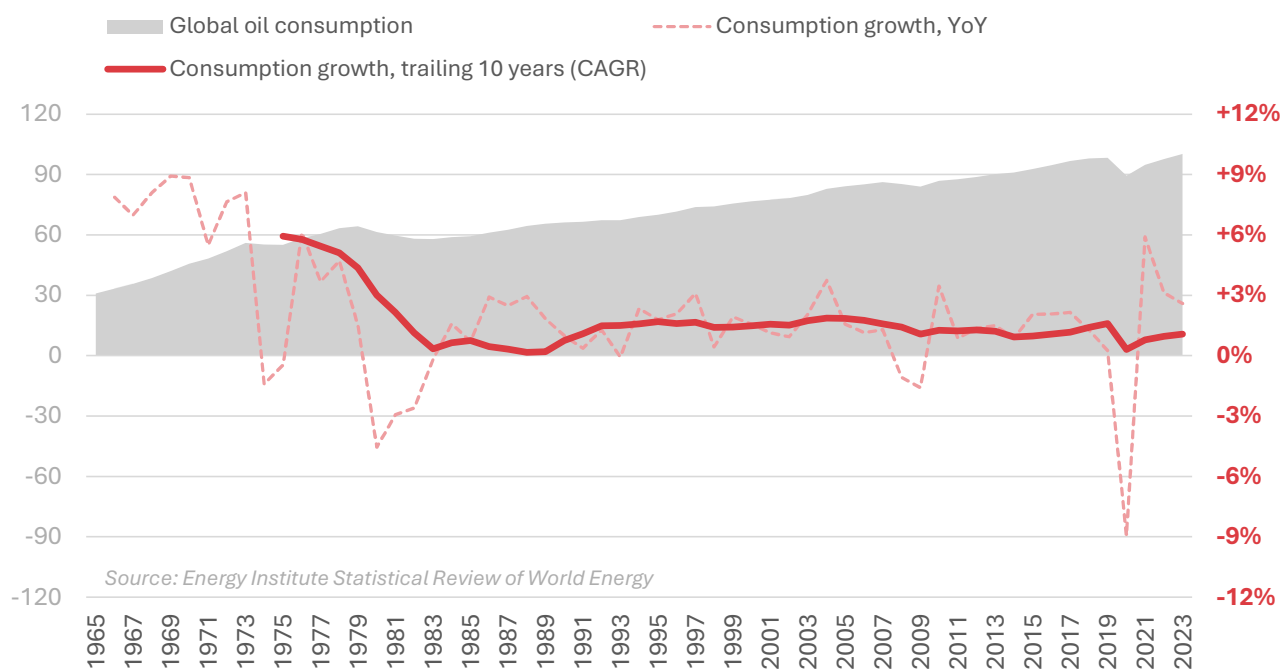
# ExxonMobil's view of global oil demand



- From *ExxonMobil Global Outlook: Our view to 2050*
- Demand grows at a +0.1% CAGR from 2023 through 2050
- Global economic growth expected ~+3% CAGR
- Economy becomes meaningfully less oil-intensive with time

# In last 25 years, demand growth was 1.2%

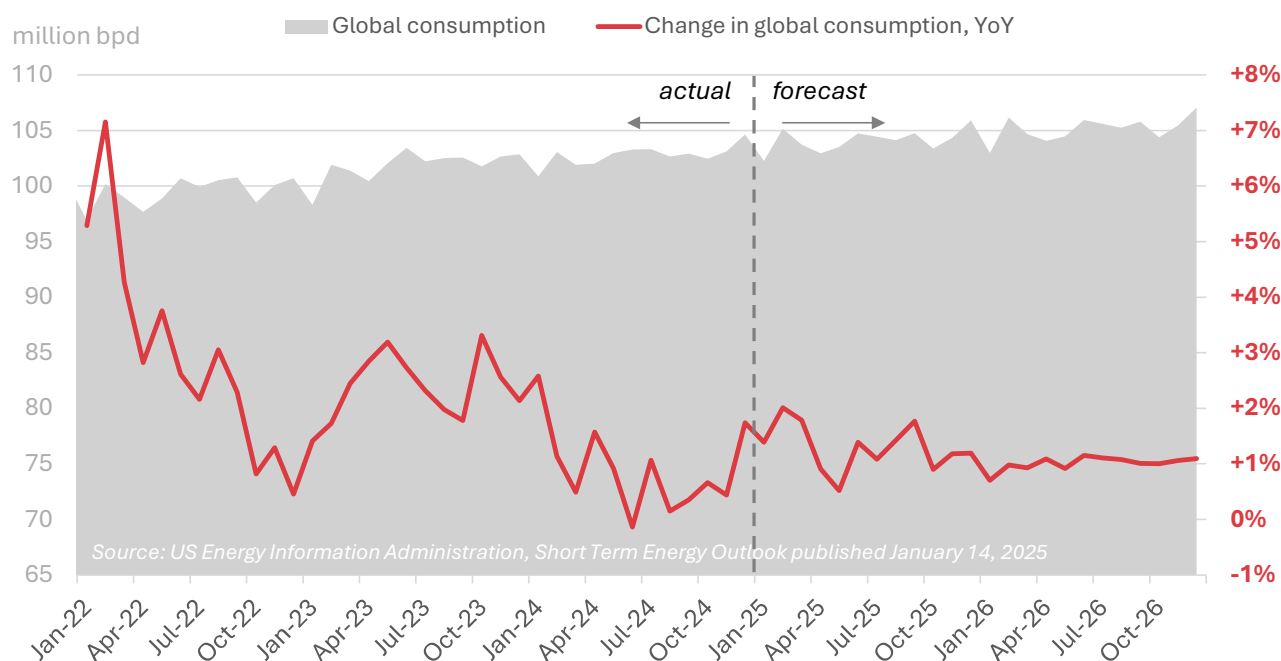
Global oil consumption since 1965



- From *Energy Institute Statistical Review of World Energy*
- Since 1981, trailing 10-year oil demand growth has always been below a +2% CAGR
- From the earlier forecast, OPEC expects next 25-year demand growth at half of prior 25-year levels

# US EIA shows oil demand moderating

Global consumption of petroleum and other liquid fuels



- From *US EIA Short-Term Energy Outlook*
- Global oil demand in 2024 grew +0.9% from 2023, according to the US EIA
- In 2022, growth was +3.0%, and in 2023, growth was +2.4%
- US EIA expects growth of +1.3% in 2025 and +1.0% in 2026

Knowing future demand growth  
won't match what we've seen  
historically...

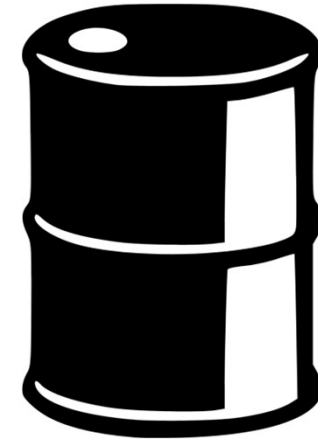
# Let's study how US E&Ps are responding

# Our collection of 17 E&Ps



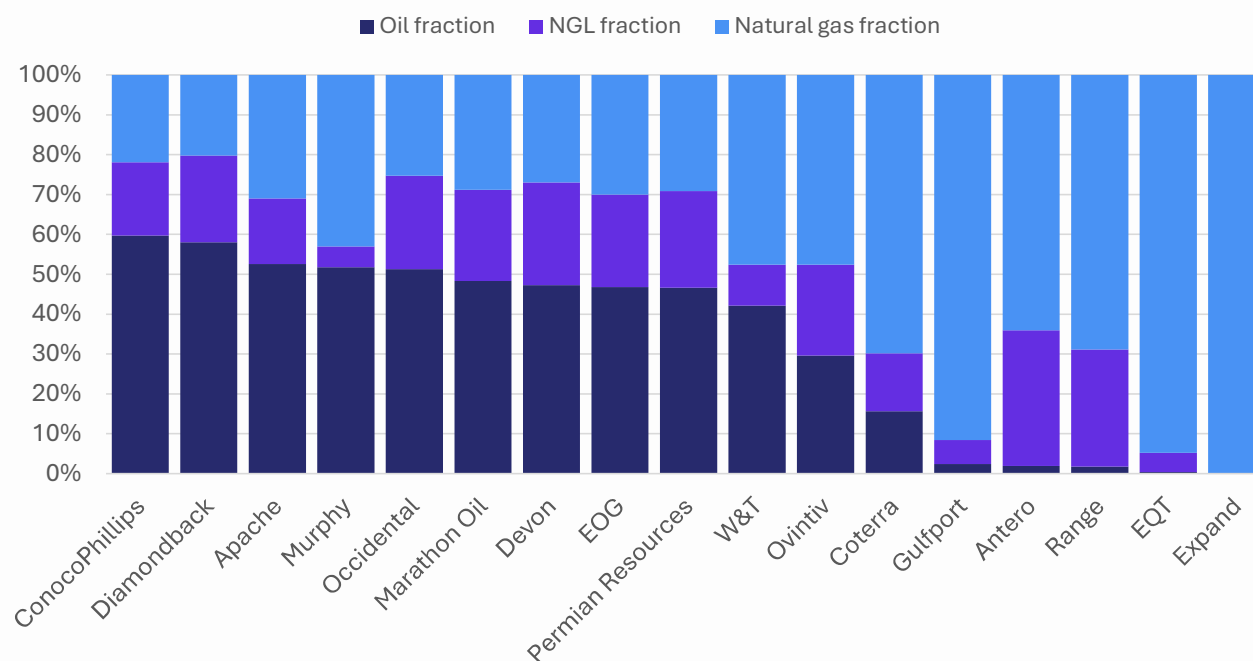
# A bit about our cohort

- Total market cap of nearly \$500 billion
- Produce ~4 million barrels of oil and ~29 billion cubic feet of gas per day
- For context: US production is 13.5 million barrels of oil and 110 billion cubic feet of gas per day



# Production mix varies across our cohort

Reported production mix, '23-4Q through '24-3Q

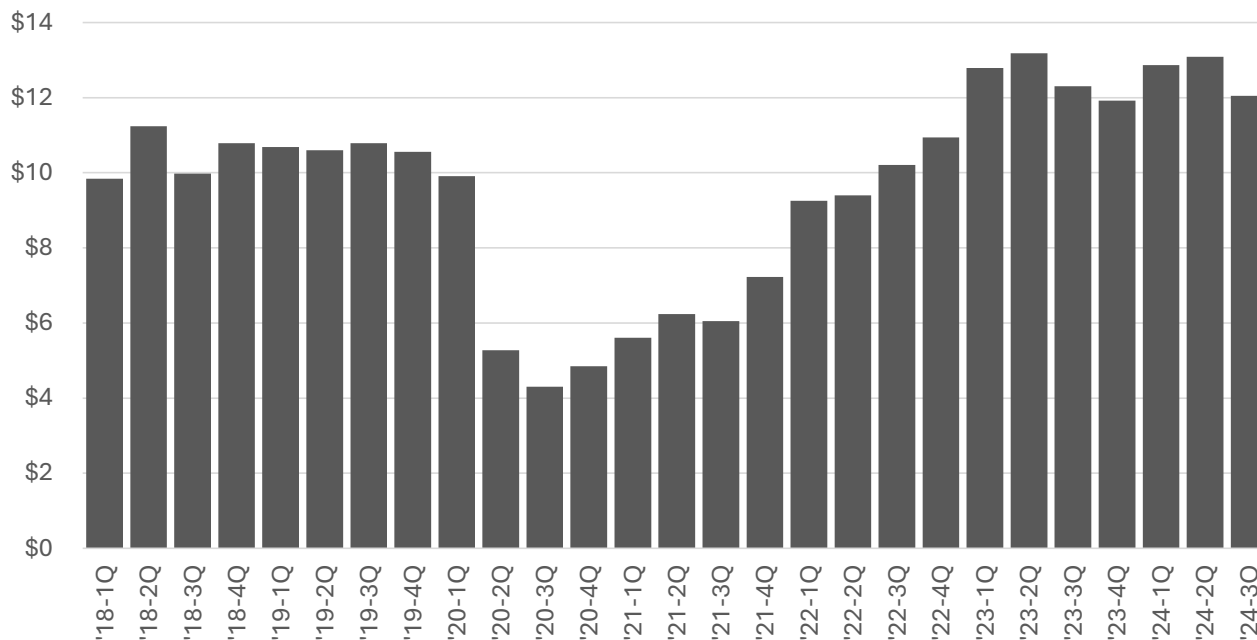


- ConocoPhillips is most oil-focused, with oil representing 60% of production
- Diamondback is most liquids-focused, with 80% of production from oil and NGLs
- Six are gas-focused, with gas > 50% of total production: Coterra, Gulfport, Antero, Range, EQT, and Expand

# How have these E&Ps responded to new market dynamics?

# Capex has not kept up with inflation

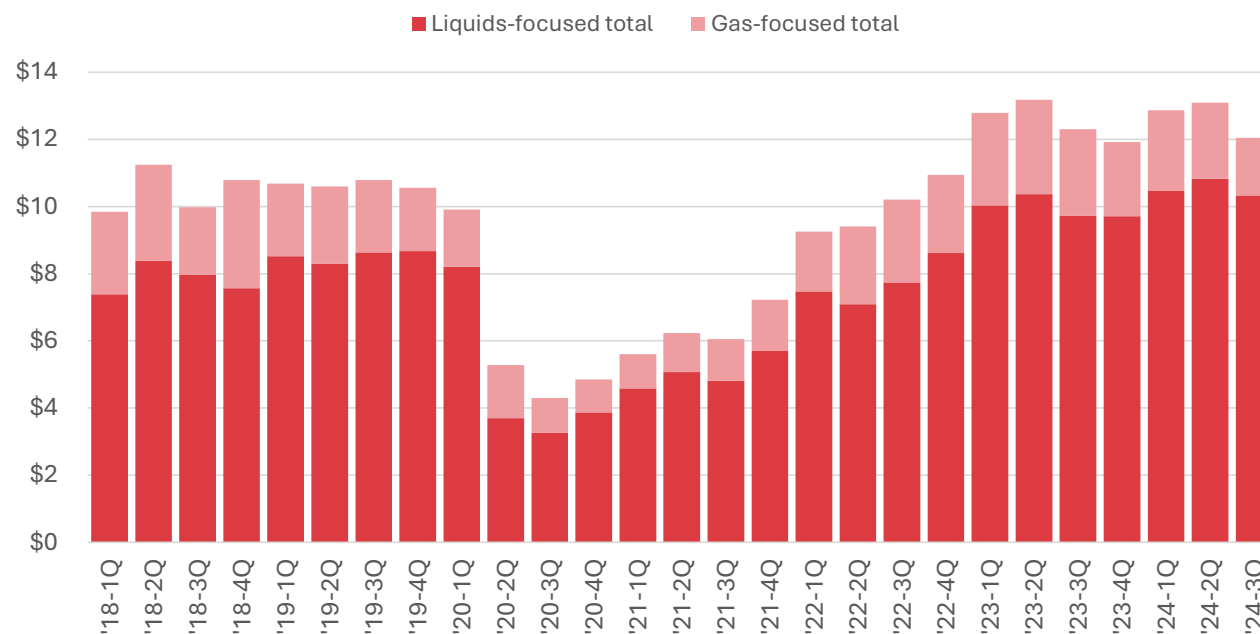
Capex across our cohort of 17 E&Ps  
Quarterly capex in billions



- Capex fell dramatically during the pandemic, then recovered aggressively
- Capex has grown at a +3.1% CAGR over the past 5 years
- CPI (inflation) has grown at a +4.2% CAGR over the past 5 years
- “Real” capex has thus fallen, even as oil demand has grown

# There's a notable liquids vs. gas effect

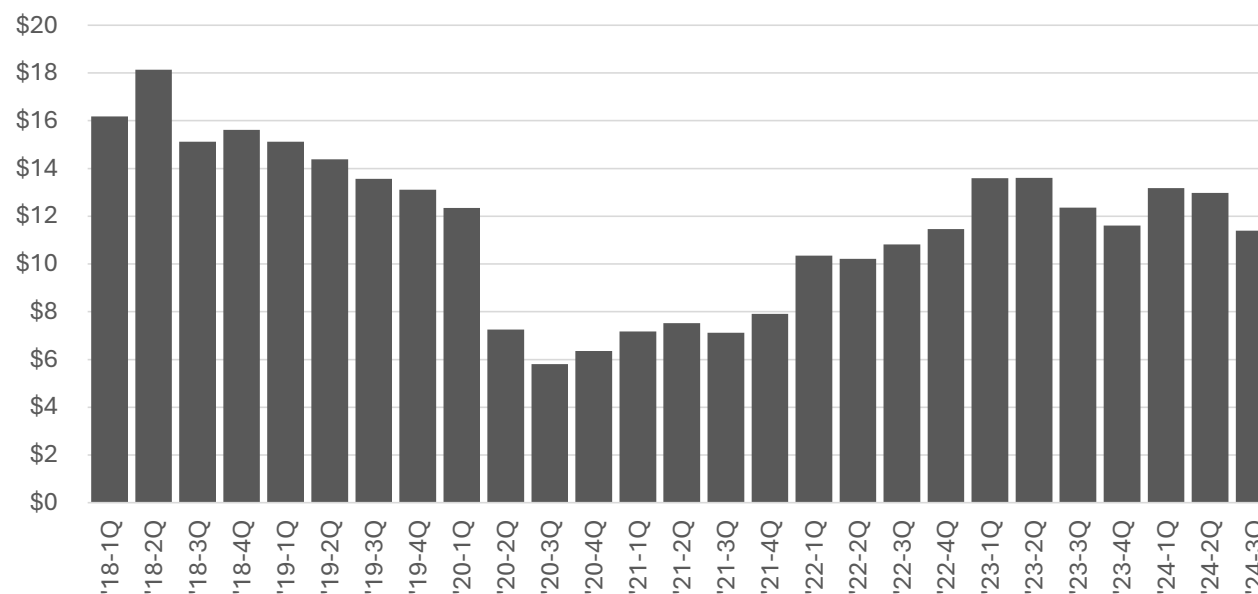
Capex across our cohort of 17 E&Ps  
Quarterly capex in billions



- Total capex grew at +3.1% CAGR over the past 5 years, compared with CPI at +4.2%
- **But liquids-focused capex grew at +4.6% CAGR, while gas-focused CAPEX fell at -2.7% CAGR**
- Future dynamics: increased takeaway from Permian in 2026-2028 on one hand, increased electricity demand on the other

# Capex per boe is way down

Capex per barrel of oil equivalent across our cohort of 17 E&Ps  
Quarterly capex per barrel of oil equivalent



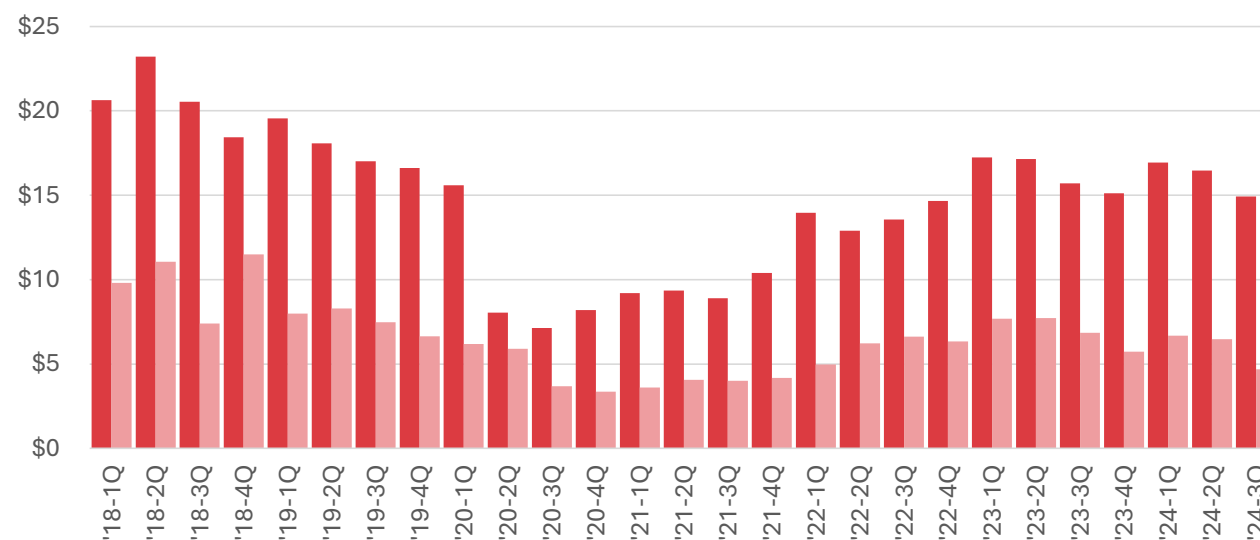
- Earlier view was total capex
- But we know production has grown over the past several years
- Relative to current production levels, today's capex is 19% below pre-pandemic levels

# Another liquids vs. gas effect

Capex per barrel of oil equivalent across our cohort of 17 E&Ps

Quarterly capex per barrel of oil equivalent

■ Liquids-focused total    ■ Gas-focused total



- Liquids-focused capex is 18% below pre-pandemic levels
- Gas-focused capex is 30% below pre-pandemic levels

Fine, US E&PS are spending less,  
but maybe we're getting more for  
today's dollar

# Going from resources to production

- 1 Identify an oil & gas subsurface resource
- 2 Drill exploratory wells to convert some fraction of the resource to proved undeveloped reserves
- 3 Drill production wells to convert some fraction of the proved undeveloped reserves to proved developed reserves
- 4 Produce the subsurface hydrocarbons

*Capex*



# Two ways of measuring capital efficiency

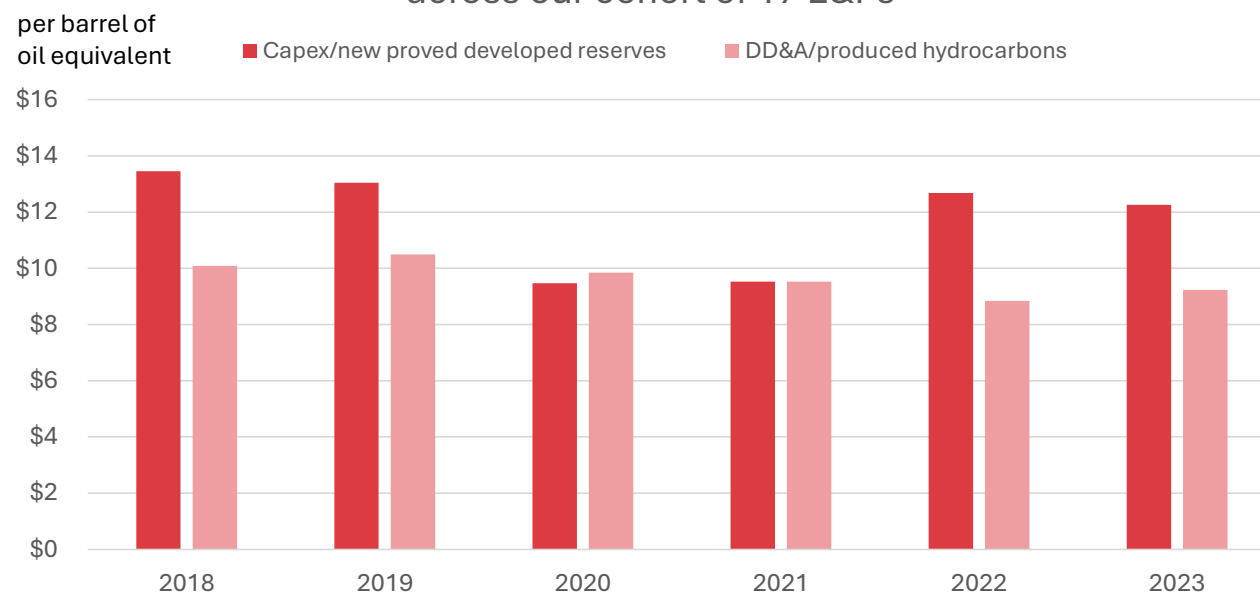
For a given quarter or year, we can perform one or both of the following calculations

This period's capex  $\div$  How many proved developed reserves we created *A "real time" measure*

Depletion, depreciation and amortization charge  $\div$  How many hydrocarbons we produced *A historical measure*

# We're getting less for today's capex dollar

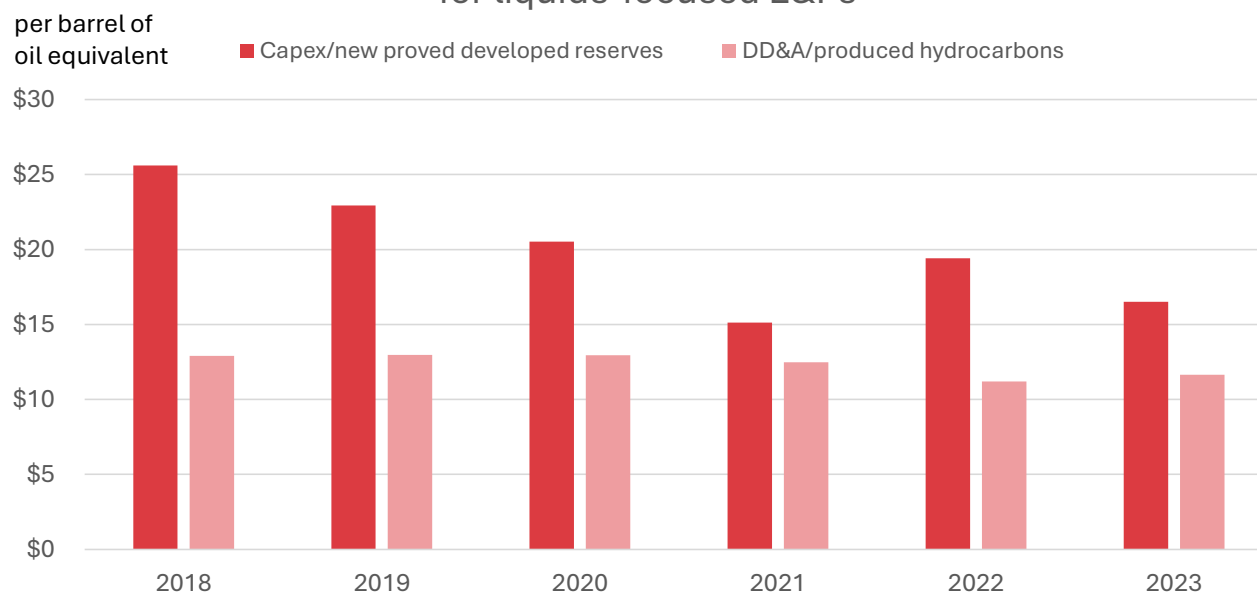
Capex per boe of new proved developed reserves vs.  
DD&A per boe of produced hydrocarbons  
across our cohort of 17 E&Ps



- In four of the past six years, new capex costs were meaningfully higher than current DD&A charges
- Across this six-year window, new capex was 21% more expensive than current DD&A charges, which should push future DD&A charges higher

# It's pronounced for liquids-focused E&Ps

Capex per boe of new proved developed reserves vs.  
DD&A per boe of produced hydrocarbons  
for liquids-focused E&Ps

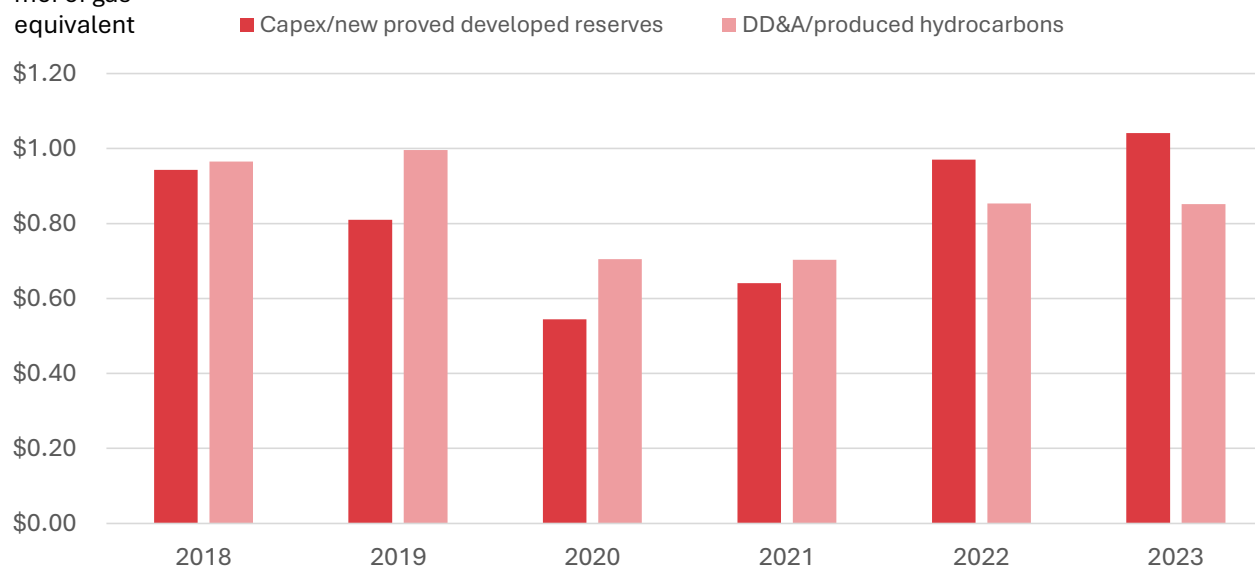


- In this six-year window, new capex charges were 61% higher than current DD&A charges
- For liquids-focused operators, as new wells roll through the production portfolio, we can expect DD&A charges to increase by \$5 or more per barrel
- Real reason to believe future oil breakeven prices are going to increase

# Less so for gas-focused E&Ps

Capex per boe of new proved developed reserves vs.  
DD&A per boe of produced hydrocarbons  
for gas-focused E&Ps

per barrel of  
mcf of gas  
equivalent

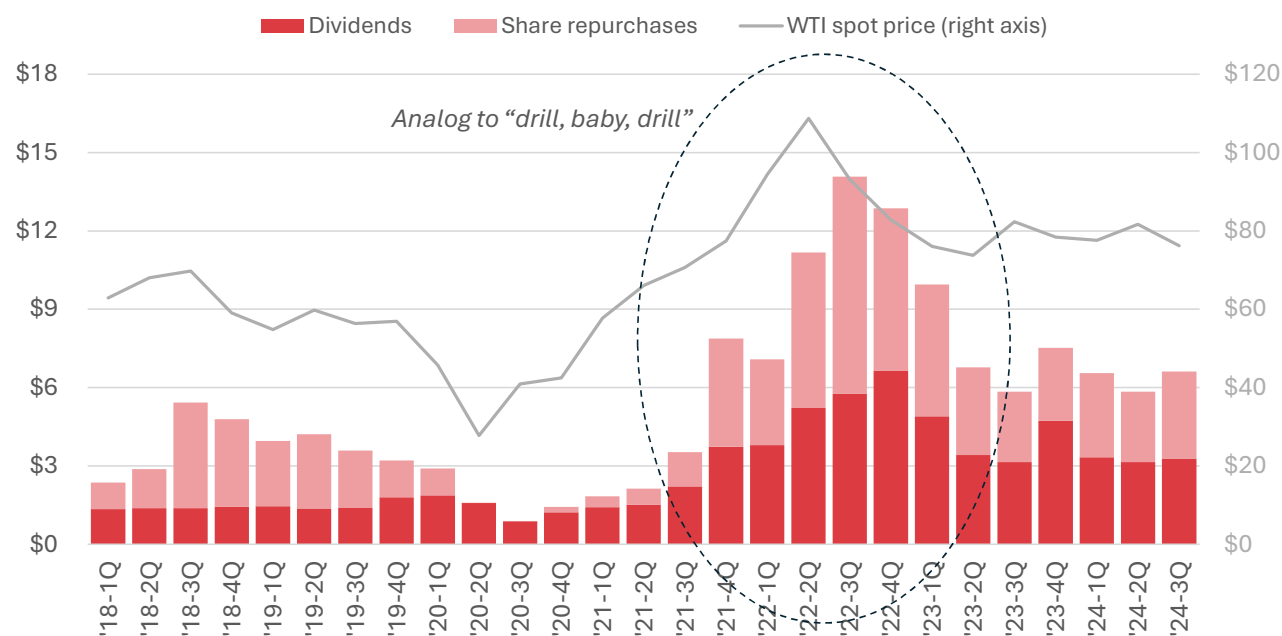


- Only in the last two years was new capex expense higher than current DD&A charges
- Across this six-year window, capex charges were 2% lower than current DD&A charges
- Are 2022 and 2023 more indicative of the future? Or will we return to greater capex efficiency?

# If capex is going down, then what's going up?

# E&Ps are embracing dividends and buybacks

Cash transfers to shareholders across our cohort of 17 E&Ps  
Quarterly cash transfers in billions



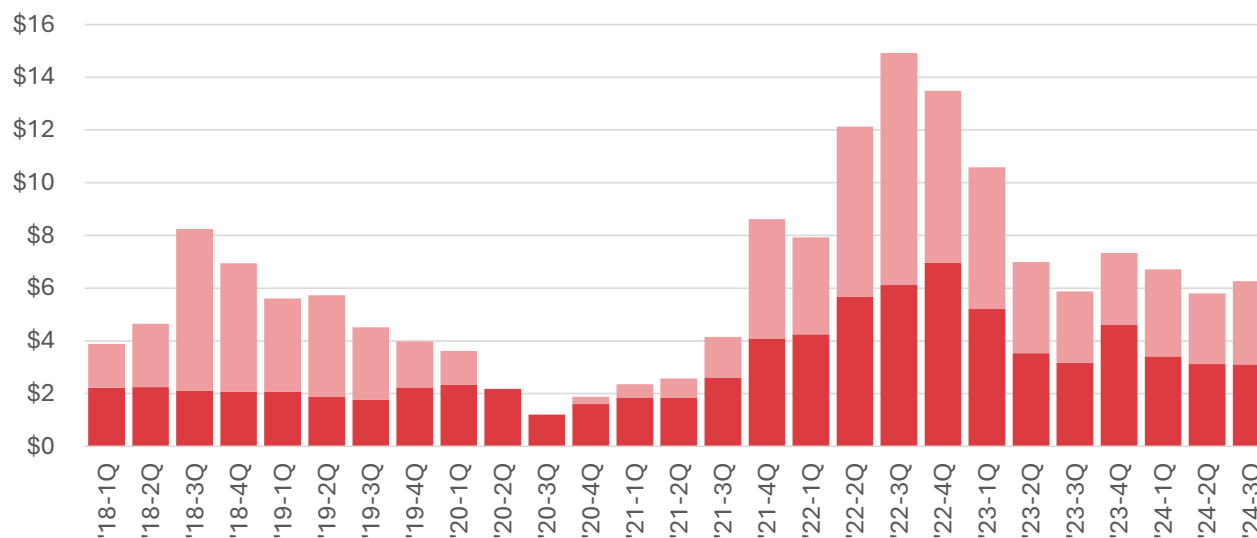
- Dividend payments are up +155% since before the pandemic, with our cohort returning \$15B annually, compared with \$6B before the pandemic
- Share repurchases expanded in 2022 with widening oil prices, but now are only 11% above pre-pandemic levels

# Per boe, dividends are up, buybacks are down

Cash transfers per barrel of oil equivalent across our cohort of 17 E&Ps

Quarterly cash transfers per barrel of oil equivalent

■ Dividends ■ Share repurchases



- When we account for growing production, dividend payments have still grown +84% since before the pandemic
- Buybacks, on the other hand, have fallen nearly 20% below their earlier levels

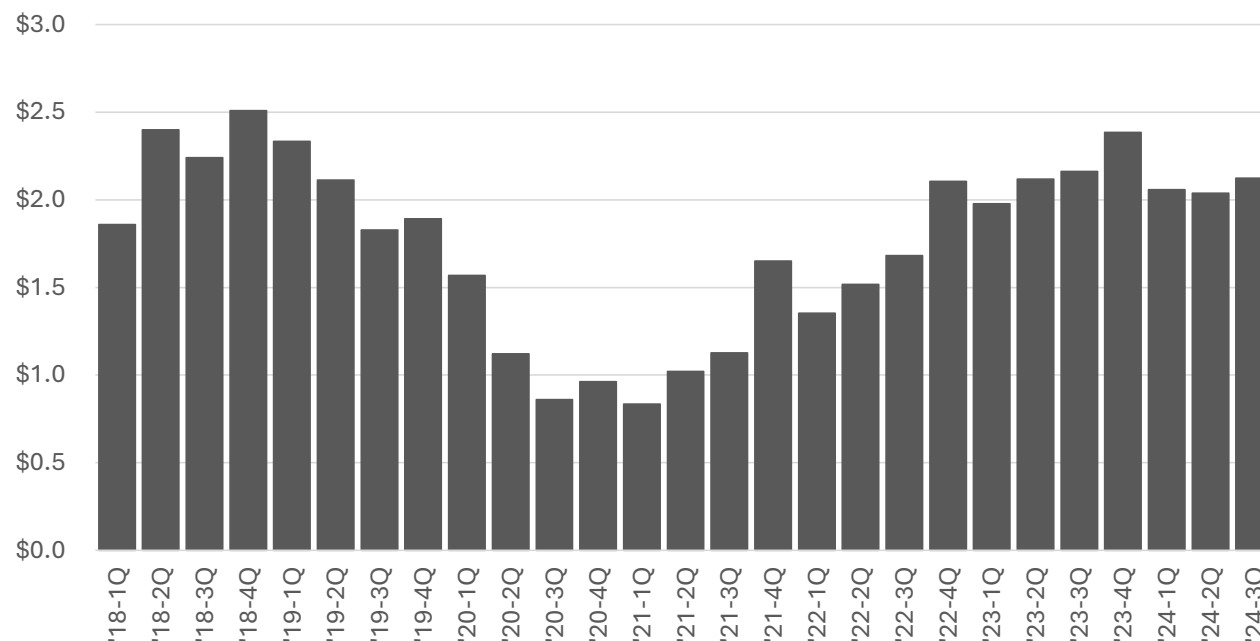
# What about OFS?

# Our collection of 19 OFS companies



# OFS capex is below pre-pandemic levels

Quarterly capex for 19 publicly traded OFS companies  
billions



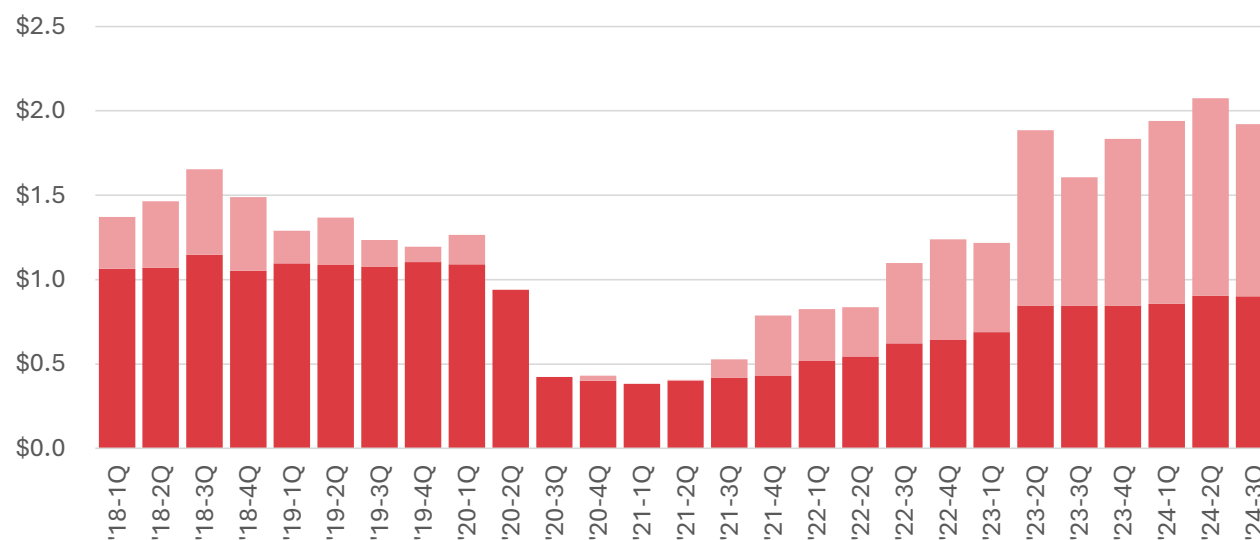
- With E&Ps, we saw that while “nominal” capex had increased from before the pandemic, it had not kept up with inflation, so “real” capex was down
- With OFS, even nominal capex is down from pre-pandemic levels
- OFS investment is not keeping pace with the E&P side

# Buybacks are particularly attractive

Cash transfers to shareholders across our cohort of 19 OFS companies

Quarterly cash transfers in billions

■ Dividends ■ Buybacks



- With E&Ps, dividends were up +155% from before the pandemic, while buybacks were up only +11%
- For OFS, the situation is reversed: dividends are down -19%, while buybacks are up +299%
- Dividends are “stickier”, and thus OFS management teams are hesitant to ramp them up

# What's the story here, then?

# Uncertain market = suppressed investment

- Global oil demand growth weakens going forward
- E&Ps and OFS companies are investing less in their businesses
- Instead, dividend and buyback activity ramps up to promote the sector's investability



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# The end