

IDENTIFY AND VALUE ACQUISITION TARGETS



Assessing Potential Acquisition Activity with DI Analytics

How Drillinginfo Can Help You Identify and Value Acquisition Targets



OVERVIEW

Anticipating acquisitions and valuing assets is critical to monitoring activity and making successful investment decisions. However, identifying prime targets and predicting M&A activity around these assets can be time-consuming and labor-intensive.

There are various strategies to evaluate and analyze the right acquisition targets, and in this example, we focus on identifying targets operating in high-quality acreage but performing below average and under financial duress. They may be motivated to sell, and their assets could have greater value in the hands of another operator.

How can investors quickly and easily identify assets located in high-quality acreage with the potential for improved production?

CHALLENGE

Which operators are likely to be acquired? Who are the potential acquirers? Can completion techniques be changed to boost future production of the most promising targets?

SOLUTION

Using Drillinginfo, financial analysts can identify operators performing below average in high-quality acreage and evaluate which companies may be acquired and which are likely acquirers.

PRODUCTS USED

DI Analytics

CUSTOMER CHALLENGE

Before DI Analytics and Graded Acreage, analysts would need to create their own maps of subsurface quality and plot operators on it by well to understand which companies were over- or under-producing relative to their acreage qualities. To do this, they had to either purchase or build a subsurface map using well logs and acquire production data. By cross-referencing operator production data with the maps, an investment analyst could estimate approximate performance. This method was so tedious and time-consuming that results could only be applied on a small scale.

CUSTOMER SOLUTION WITH DRILLINGINFO

Using the Acquisition Target Identification workflow, investment analysts can quickly and easily visualize subsurface quality and the companies operating in each acreage grade. In this example, we focus on an investment analyst looking at companies operating in the Eagle Ford. He needs to make buy/sell recommendations for his companies' stocks and he would like to know which companies might be acquired or which companies might be making acquisitions.

The first step is to identify which companies are operating in high-quality versus low-quality reservoir areas and benchmark their performance against their peers. This analysis relies on Drillinginfo's proprietary Graded Acreage model, which incorporates advanced statistical modeling and analyses of geological and production data to isolate the impact of reservoir quality on production, regardless of how a well is drilled or completed. The result is a grid map of predicted production, down to the square mile, indicating which areas are in the sweet spots of a play and which are in fringe areas.

Using the Operator Differential tool in the Graded Acreage module, the analyst can quickly generate a chart that maps out each operator by Grades A–J on the y-axis and whether they are producing above or below the median on the x-axis. The operators in the upper left-hand portion represent targets with high-quality acreage that are underperforming. Could these

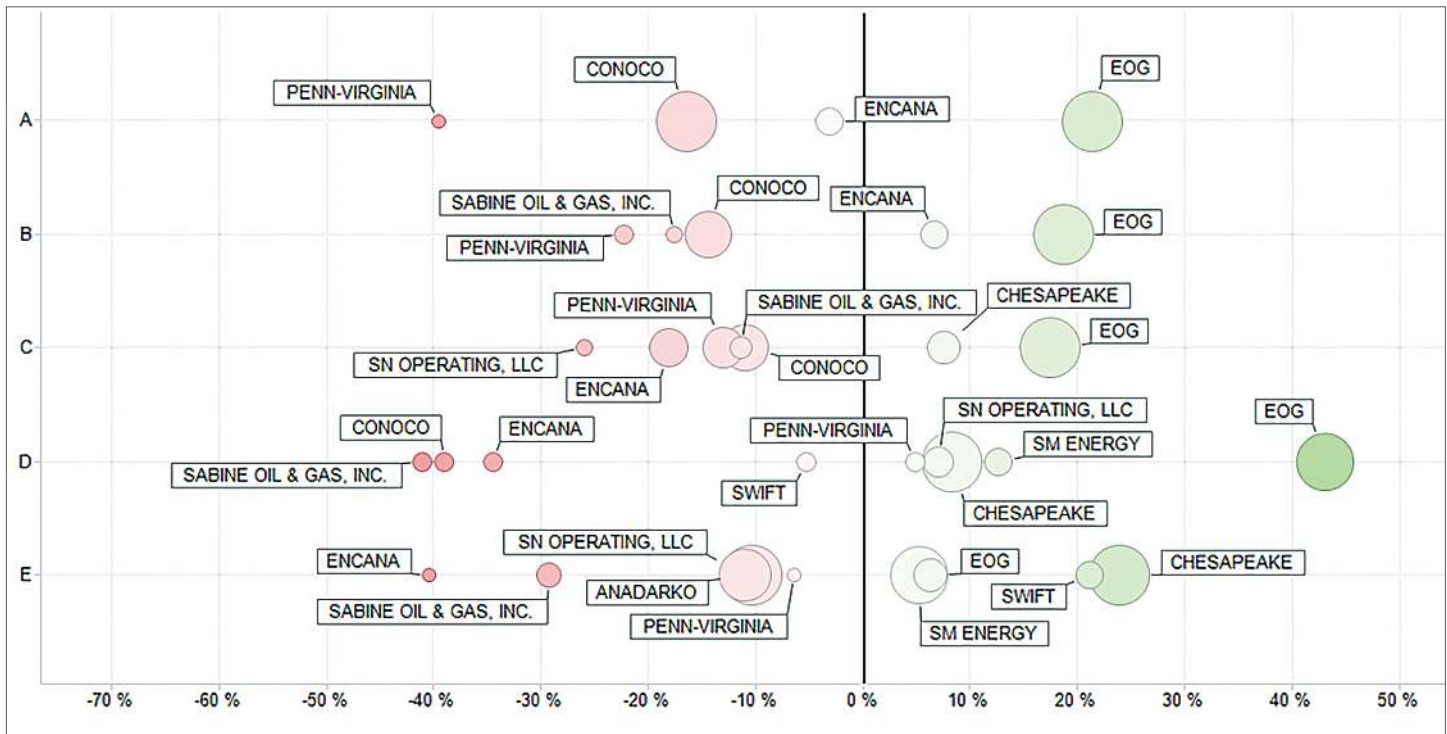


Figure 1 Graded Acreage charts operators by both the grade of acreage in which they operate and their relative production.

assets be worth more to an operator in the upper right-hand side of the chart?

The analyst can take the list of companies in each grade of acreage and use financial metrics to rank their financial positions. This analysis enables the analyst to classify operators into four categories:

- i. high-quality reservoir, strong financial position [possible acquirer]
- ii. high-quality reservoir, poor financial position [likely targets]
- iii. low-quality reservoir, strong financial position [possible acquirer]
- iv. low-quality reservoir, poor financial position

The analyst can further delineate these categories to include a rank for the relative performance of each operator within their respective grades.

After identifying companies in category (ii) above, the analyst can build valuation models for

the companies' assets. The analyst can use Drillinginfo Analytics to assist with the following calculations to further predict the companies' attractiveness to potential acquirers:

1. Compute total acres by operator in each grade
2. Assess production for the wells already drilled on those leases and project their remaining production
3. Find expiration dates for any undrilled leases
4. Analyze well spacing by operators in the area
5. Estimate remaining well inventory
6. Evaluate type curves for the area by oil, gas, and barrel of oil equivalent (BOE)

Because the type curve estimation is critical to a valuation, the analyst can further refine the type curve analysis to assess how different completion techniques used by offset operators might improve production.

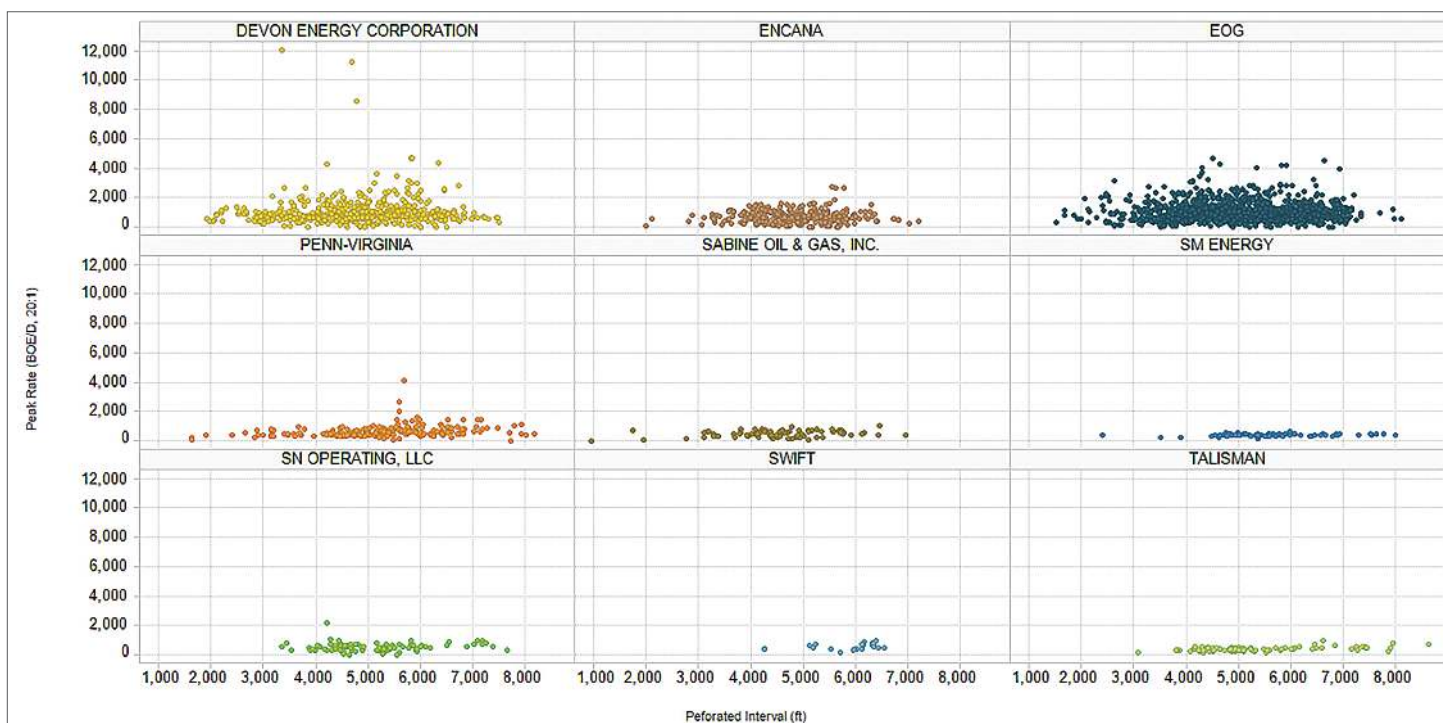


Figure 2 Comparing completion parameters with production helps identify best practices.

CONCLUSION

Drillinginfo allows users to quickly and easily predict M&A activity in a given area. Analysts no longer have to spend time and money building a small-scale acreage map just to begin the search for potential acquirers and acquisitions. With DI Analytics Graded Acreage and the Acquisition Target Identification workflow, analysts can gain insights into well performance, acreage quality, and reserve estimations that are essential to understanding the long-term viability of a company beyond that indicated by its current financial position. Assessing these fundamentals and understanding how companies rank in relation to other companies in the same area assists with predicting market consolidation, especially in times of low oil prices.



PROACTIVE



EFFICIENT



COMPETITIVE

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By monitoring the market, Drillinginfo continuously delivers innovative oil & gas solutions that enable our customers to sustain a competitive advantage in any environment.

Drillinginfo customers constantly perform above their competitors because they are more efficient and more proactive than the competition.