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Firms Lay Transformation Blueprints for Post-Downturn E&P World

Matt Zborowski, Technology Writer | **09 February 2018**

The US onshore operator that eventually thrives in the 2020s may now look something like Chesapeake Energy or Samson Resources II. It also might be backed by Quantum Energy Partners.

The chief executive officers of those firms—two of which helped usher in the unconventional revolution—outlined their roles in an industrywide transformation at the NAPE Global Business Conference in Houston this week. Recent news of wheeling and dealing by operators added color to an event populated by leaders determined to prepare their companies for a new era in the upstream space.

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Fueling the Transformation

Rockcliff Energy is just one of 20 companies Quantum currently backs in the E&P space. “If you were to aggregate all the companies we have investments in today, we’d look really similar to a superindependent,” with 2.3 million net acres, 350,000 BOE/D, and 32 rigs working across the US and Canada, said Wil VanLoh, Quantum founder and CEO.

The 20-year-old, energy-only firm directs 75% of its capital to upstream and has backed 90 companies. It currently manages $15 billion in capital and just finished raising $5.25 billion as part of its Fund VII—for which VanLoh was seeking investments at NAPE.

Noting Quantum’s in-house technical capabilities, he recounted a 2012 deal in which the firm bought an asset from Chesapeake for $500 million that turned out to be in the SCOOP play. The firm spent more than $1 billion to develop the properties and then sold them a few years later for multiple times the purchase price despite strip prices falling 30% since the deal. VanLoh credited his team for driving down drilling and completion costs per lateral foot by 50% while boosting recoveries.

“Some of the largest success stories that we hear about in the public realm today started as private companies,” noted VanLoh. Outside the Permian and Appalachia, more than 25% of rigs working in every basin are run by private equity companies, he said. “Probably 60-70% of the rigs running in the US

today are running with assets that are currently in private equity hands or at one time were in private equity hands."

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He emphasized that unconventional oil and gas changed the scale and capital intensity of the industry. A decade ago, it took around $16 million to develop a section of eight wells, and now the same section of land requires north of $250 million, he said. "We used to get maybe a million barrels out of a section of land. Today, that number can be 20, 25, 30-plus million BBL depending on the number of zones."

Public markets responded in full force to the increasing need for capital, but private equity funds also multiplied. "Since 2010, we've had over $200 billion of fresh, private capital raised by private equity funds active in the space. And that's also grown the number of companies that are receiving that capital. By our count today, we've got 366 privately-backed companies that we track" active across North America, though more than half are active in just the Permian and Midcontinent, he said. "So, if you're going to start a new company today, it might make sense to look somewhere other than those two regions."

Based on current opportunities in resource plays that are economic to develop at current commodity prices, there is more than $6 trillion of drilling and completion capital that can be spent today, VanLoh said. Canada and infrastructure add another $3 trillion. "What's not in short supply is opportunity. What is in short supply is great managing teams to go and exploit that opportunity," which is where private equity can swoop in and provide support.

"There's a huge focus today on living within cash flow," VanLoh said. Public markets feel like they were too generous for a long time. Those living within cash flow and growing production are being rewarded with better multiples. Those who can't are being hurt. Meanwhile, private equity continues to expand its offerings to keep pace in a changing industry, including providing growth capital, re-caps, partnerships with public companies, and even selling to other private equity sponsors, something previously seen as taboo. Going forward, it will have to focus on scaling up its companies, which "will require more people, more capital, and more time."

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