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Permian Consolidation Piques Interest in Drill-to-Earn Opportunities

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The current roster of players in the Permian Basin stands in stark contrast to what it was at the peak of the shale revolution. During the last year and a half alone, the basin has seen a consolidation trend accelerate, evidenced by the acquisition of several large E&Ps that had been pillars of the Permian landscape for years.

This leaves a handful of power players controlling larger amounts of the production and delineated inventory. With that brings the need for acquiring companies to rework drill schedules and inventory stacks, as well as raise money to pay off acquisition debt. Selling portions of newly expanded asset bases is one way to do that and, given the large number of experienced management teams seeking foundational assets for new companies, buyers are excited to acquire assets that are no longer a priority for their current owners.

Amidst this consolidation, Permian operators have increased drilling activity in formations beyond the Bone Spring, Spraberry and Wolfcamp – most notably the Woodford and Barnett formations. While it comes with some level of risk, interest in these less-developed formations has increased dramatically, in many cases creating unanticipated pockets of value within the newly expanded asset bases resulting from large-scale acquisitions.

In this environment, we have seen an increased interest in drill-to-earn transactions which offer participants a flexible and capital-efficient way to trade on these assets.

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