The Shale 2.0 Press Release

Dear Public E&P Companies,

If you haven't noticed yet, the public equity markets are broken. The price discovery mechanism is not functioning properly due in large part to the growing influence of quantitative and passive strategies, which now represent as much as 85% of daily trading volume in many securities.

As a result, many publicly-traded E&P companies are now trading well below net asset value using the futures strip, which we believe underestimates where oil and gas prices will actually be in the future. Some companies are even trading below the value of their proved developed producing (PDP) reserves. This implies that undeveloped acreage and future drilling locations are worthless.

Here is an idea: do something about it. Allocate capital to the highest-returning use. For many companies, share buybacks now generate a comparable, if not better, full-cycle return than drilling new wells. Move into maintenance mode. Use the free cash flow to buy back stock – a lot of it. Then, allocate more capital to drilling wells when the relative returns justify it.

Core inventory is very scarce. Why not achieve the same debt-adjusted, per-share growth through a share repurchase program and preserve the remaining drilling locations? Where else can you get core acreage for free? This seems like a no-brainer both strategically and mathematically.

In addition, corporate decline rates are quite high today, particularly for shale oil companies. Reducing drilling activity, in lieu of a share buyback program, will help to reduce corporate decline rates. This will make future drilling programs more capital efficient (i.e. – more growth for the same amount of capital). So, when more capital is eventually allocated to drilling wells, the debt-adjusted, per-share metrics will be even more favorable.

Your mandate is to create value – not to drill wells. The public equity markets are providing you with an unbelievably attractive opportunity to create value by buying back stock. Take it. Save the core inventory and drill the wells when the returns are more attractive on both an absolute and relative basis.

This is what Shale 2.0 is all about - maximizing returns and debt-adjusted, per-share growth (as opposed to absolute production) through a dynamic capital allocation process and creating value for shareholders. To help with the transition, we have come up with a sample press release below.

Good luck.

Sample Press Release

<Your City Here>, October 25, 2018 – **<Your Company Here>** today announced that the Company’s board of directors has approved a $___MM share repurchase program.

Commenting on the today’s announcement, <Your CEO’s name here>, CEO said, “We believe that the Company’s shares are significantly undervalued and that the share repurchase program represents a very attractive way to create value for our shareholders. The share repurchase program will be funded entirely through internally-generated cash flow. Our new capital spending program will aim to keep production roughly flat with last year’s level, while reducing the Company’s overall decline rate. By reallocating capital from our drilling program to our share repurchase program, we can still generate strong debt-adjusted, per-share growth without depleting our core drilling inventory. We will reevaluate the uses of our cash flow as the returns dictate.”