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Earthstone CEO looks back on deals

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Courtesy Earthstone Energy

Earthstone Energy has significantly expanded its Permian Basin presence with a number of acquisitions.

Earthstone Energy recently concluded a series of acquisitions that increased its Permian Basin acreage by 400 percent and almost tripled daily production rates.

The company's transformative acquisitions – and their aftermath – were the focus of Wednesday's Oilfield Strong webinar presented by OTA Environmental Services.

“Our acquisition spree is based on company strategy,” said Robert Anderson, Earthstone chief executive officer. “We are a public company and as a public company, to get investor relevance you have to be bigger.”

The company came out of 2020 in great shape because it had great hedges in place and was able to pay down debt, Anderson said, and that allowed the company to go on its buying spree.

Among its acquisitions was Midland Basin assets from Foreland Investments, additional Midland Basin assets from Tracker Resource Development III and affiliates of Sequel Energy Group, the acquisition of Independent Resources Management and the acquisition of Chisholm Energy's Northern Delaware assets. Just last month the company closed the acquisition of Bighorn Permian Resources' Midland Basin assets.

Almost all of the deals were marketed, and in several cases Earthstone was not the highest bidder or even second highest, but it was successful due to its ability to close quickly or utilize equity to close the transaction, Anderson said.

“The last deal was Bighorn, which we closed last month. Again, we were not the high bidder, but our track record of closing deals, our ability to show financial certainty to the seller and move quickly created the opportunity for us to jump back in and ultimately execute the deal.

That combination of our track record, doing what we say, not having a bait-and-switch attitude and not worrying about the last penny helped.”

ESG – Environmental, Social and Governance – is becoming more prevalent, but Anderson said he doesn’t let it drive the company’s acquisitions.

“If we have to fix things after the deal, we’ll fix them to our standards, which are above compliance or get them to compliance,” he said.

“When we look at assets, if we have to spend some money, we will, but we don’t make it the ultimate criteria because there’s opportunities (in the deal).

Earthstone made a small acquisition in the Eagle Ford, which Anderson called resilient, but he said the Permian Basin offers more opportunities at lower prices. The company has a Midland office staffed by about 12 people and recently established a presence in San Angelo.

In integrating its new assets, he said scale helps. “As you get to a certain size you can have little better pricing power or you can have sustainability in development programs, drilling programs, which helps get efficiency on the cost side and operating efficiency, which helps drive down costs.”

One important thing in integrating new assets – which has allowed the company to spread its people across a larger asset base – is to give the employees accountability and the authority to do their jobs without being micromanaged. Maintaining continuity by keeping the field staff and some office staff also goes a long way, he added.

“The people side is hardest” in integration, Anderson said. “If you can win over the field guys coming into new organization, show them you’re the good guys and you have a good reputation, that goes long way. Creating a culture of letting them come into our culture allows for respect for the employees and the supervisors as well as accountability, letting them do their job instead of micromanaging.”

Integrating systems is a second key component – making sure systems in place where the production or engineering systems or drilling reporting systems all the way to the accounting systems can handle the increases from the acquisitions, he said.

“We’ve been fortunate our systems have been able to expand and grow. In one situation, the selling company’s system was better in terms of production tools, so we’ll integrate our entire company into their system,” he said.

The third key component is execution, Anderson said. “If you have a rig program going, when you step into the driver's seat of that drilling program, you hope the passengers have experience.

In one acquisition we didn’t get many of the office staff; fortunately, we were able to hire a production engineer, geologist and land guy who were focused on that particular area to come into the organization and have expertise in that area. They stepped in and we didn’t miss a beat.”