Three Strategies to Avoid Under Valuation

By Josh Robbins

Photo by Andrey Bayda

Speaking with a mentor about this article, he was concerned about the relevance. "Josh," he said to me, "everything in the market right now is overpriced! Why do you want to write an article about under valuation?"

"Because," I responded, "over pricing is what the current market is giving as feedback. But in truth, the absence of value is the core issue."

So how can we avoid under valuation? I have identified three strategy-enhancing options that can be used, once your organization chooses to divest an asset.

The "Black & Gold Rule"

The first strategy follows the Golden Rule. Hands down, following this one rule is the easiest way to increase the value of your asset. Technically, it's not the Golden Rule, it's more like the Black & Gold Rule – the oilfield version of "treat others the way you would want to be treated."

Build your divestiture package exactly the way you would want to acquire a package.

Data. Data. And More Data.

Data is essential. Include complete logs, geology, maps; anything that you would want to see. The more complete the data, the more value that is allocated to the package. But, beware, data can be a monstrous beast! Email transfers from computer to computer, then to phone, followed by a buzzing or beeping in our front pockets.

Logs are not designed to be viewed on a six-inch iPhone screen while in the field. Let's be honest, those logs aren't meant to be viewed on any screen. It's always better to explain the data than to hope the data is understood without your input.

Communication

Avoiding under valuation requires communication. If your historical costs are elevated because the price per barrel was elevated, communicate that. Identify cost savings in operational expenses that can transfer when the asset does. When you market your asset, being easy to work with provides a significant time- saving advantage and increases the total value of the purchase to a buyer.

Explanations, accounting clarification, leasehold answers; each of these data pieces increases the value of the asset.

The idea behind a divestment strategy is expedited capital acquisition. What better way to gain capital than by providing information about other good wells or large companies in the area? While providing a comparable company or well analysis is good, it rarely generates the "expedited" response you hope for.

A specific "Gangbuster" well is great to show potential for an area. However, explaining why this hidden gem is available provides clear value to your buyer. Companies are clawing for great, available properties. The current market is not only filled with these companies, but many have excellent acquisition budgets. It truly is a seller's market that you can be a part of by avoiding these under valuation pitfalls.

As Dr. Deming once said, "In God we trust, all others bring data." O

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Attracting Buyers with Resiliency and Market Share

By Duane Donner

Sustained momentum from the U.S. shale play pushed oil and gas mergers and acquisitions (M&A) activity to a ten year high in both deal volume and aggregate deal value in 2014, according to PwC U.S. Specifically, oilfield service-related deals were closing at historically high valuation ranges fueled by a wave of institutional capital investment into the industry. Since the start of 2015, deal-making activity has slowed to a crawl and valuations have trended down significantly as the impact of falling oil prices has weighed heavily on the market. While it is likely that we will not experience the activity and valuations we've seen in the last few years, a new trend of strategic consolidation is emerging and could gain momentum as well-capitalized companies seek out acquisition targets.

Right now buyers are waiting for the dust to settle and for distressed assets to hit the market. The mindset for investors is that a dollar invested six months from now will go further than a dollar invested today. But this will flip as the wheat is separated from the chaff, giving buyers the visibility they need to become more active. We believe this could drive a resurgence in oil and gas M&A activity toward the end of the year.

While the M&A landscape will remain a buyers' market for the foreseeable future, companies that show resiliency and have the ability to hold the top line (revenue) and gain market share will make attractive acquisition targets. Good deals and fair valuations are out there, and will become more prevalent, if the seller is willing to accept a more creative deal structure and share in some of the risk with the buyer. For a seller, that may mean taking less cash and more stock. However, the opportunity to join forces with a well-capitalized strategic partner can offer a safety net for sellers during the downturn, while adding upside on the backend of the cycle as the united groups leverage synergies. Of course, personal life cycles for business owners will also play a factor in their decision to sell or entertain a potential strategic merger.

Many still see the U.S. shale plays as long-term growth opportunities.

We have already seen some of this consolidation first hand. Founder's principals recently advised Timco Services, a Lafayette, La.-based provider of tubular running services and rental tools, on its strategic sale to Frank's International (NYSE:FI). Both Timco and Frank's are two of the leading service providers in their space, and the combination presents the opportunity to unify Frank's offshore strength with Timco's onshore strength, creating a better-positioned company that can more effectively navigate the down cycle.

Our team also recently advised Eagle Automation Ltd., a Corpus Christi, Texas-based provider of automation and measurement services to drilling and production companies, in its merger with Panhandle Oilfield Services. Panhandle was looking to acquire a partner with complementary services in order to provide a more comprehensive production-based service offering. Eagle saw the opportunity to join forces as a way to expand its presence and create a more competitive company in the current market.

We're seeing continued interest from large, diversified companies with excess cash they would like to put to work. Many still see the U.S. shale plays as a long-term growth opportunity and feel that it is a good time to retrench through strategic acquisitions or gain a foothold in new markets/geographies. The Timco – Frank's deal, as well as the Eagle Automation – Panhandle deal, illustrate this trend toward strategic consolidation.

In conclusion, we expect deal profiles in the coming year to include more merger scenarios, heavier stock and lighter cash, and more structured earn-outs for service companies. Look for institutional capital to begin seeking out distressed asset opportunities and overall strategic consolidation in the market to gain momentum in the back half of the year.

Timco Photo

About The Author

Duane Donner is founder and Managing Partner of Founders Investment Banking. Duane, a native of Lafayette, LA, began his career as a project engineer for Global Industries, an industry-leading oil and gas offshore construction company. He also served in the Army Reserves and ended his military service as a 1st Lt. Infantry officer serving his last year on active duty during Desert Storm. Upon graduation from the University of Alabama's Manderson Graduate School of Business with an M.B.A. he successfully built and sold a company of his own. Duane started Founders Investment Banking in 2003, the company offers M&A advisory and merchant banking services with a specialized practice in Oil & Gas Services. Duane is a registered representative M&A Securities Group, Inc., an unaffiliated broker dealer and member FINRA/SIPC. O

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