Bear Strategies: Acquisitions

A comprehensive look at bear market strategies to use when purchasing operated or non-operated assets during a downtrend.

By Joshua Robbins

It's important to note that implementing the core strategies outlined in this article in your acquisition process is essential, whether the market is bearish or bullish. In addition, each company needs to define the tactical goals within its business to maximize the effectiveness of these strategies.

Recently, during a meeting with an operator interested in acquiring additional assets, I presented a core market overview that allowed the company to see which assets would make the greatest impact on their tactical strategy. Many of the companies I work with don't have their core market defined, and that information is a crucial piece of an acquisition puzzle.

To define your core market, map your current production out and encompass each centralized area with a larger circle. Highlight each asset that has additional acreage – we call this potential growth area. Document both the type of asset and its economic validity – specificity is encouraged with this step.

By using these four pillars – current area of operation, potential growth areas, types of assets and economic validity – you will be able to define your company's core market. Within that market, identify all other companies that exist within the parameters defined above to create a competitive listing.

Depending on the pillar deemed more important – area, growth potential, type or validity – the competitive listing can be broken into market share. Successful companies then capture market share at the expense of short-term returns.

Diversification in a bear market encourages the addition of another pillar to the centralized mix of an asset acquisition. Depending on your company's tactical goals, that may mean diversifying to an entirely different area, or creating growth through downhole potential of a currently under-performing asset. Diversification is not a single item, nor should it be a single occurrence. The process of diversification is the rebalancing that allows your company to remain seamless when crossing between its strategies, goals and objectives.

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As the market share pieces become defined target acquisitions, focus first on the operating cash flow. With a continued downward trend, look for companies or assets that show signs of consistent or improved operating costs. It is very rare to find an organization or an asset that does not fluctuate during lower oil and gas pricing, and consistency or improvement is a sign of managerial discipline.

By contrast, technology – or any fixed asset – shown on the net investment cash flow should be a red flag in a bear market. Capital expenditures are primarily made in favorable market conditions, and usually these investments are forced – either through landowners, government or otherwise – and will show up later during the due diligence process.

Many companies expect bear markets to bring producing properties down to a lower total value. As a company, the main focus should not be on the short-term value. By adding to your core market share, you will see maximum ROI over the long term. However, you have to define that market prior to looking at any deals currently available to acquire. The process takes patience, a committed corporate direction and the discipline to say "no" to assets that don't fit.

"Don't be afraid to give up the good to go for the great." ~John D. Rockefeller

A separate article on tactical goals is available to followers of Beachwood Marketing Group on Twitter @BeachwoodMG.