

“Survive to the Other Side”

A Private Equity Portfolio Company’s Response to 2020

The oil price collapse in 2020, magnified by the impacts of covid19, created unprecedented challenges for upstream O&G companies. That certainly holds true for private equity backed portfolio companies like Tall City Exploration III LLC (“Tall City”). Tall City, in conjunction with its financial partner Warburg Pincus, immediately responded by working to maintain and extend liquidity by curtailing capital spending for drilling and completions, reducing OPEX and G&A. To mitigate the pressure these spending reductions put on lease obligations, work began to consolidate acreage and extend lease obligations into the future. These steps allowed the company to preserve and expand its acreage footprint and increase future drilling locations to be developed if, and when commodity prices allow. Technical teams used the respite from D&C work to refine technical models and streamline work processes. Now, with improved oil price and reduced D&C cost estimates, Tall City plans to begin 2021 by completing its inventory of DUC’s and re-establishing its development drilling program in the second half of the year. Industry wide consolidation and contraction, coupled with financial stress on the sector, will likely create outstanding investment opportunities for companies with access to capital. Companies that can develop large scale, multi-bench, HBP assets with positive operating cash flow and a high-quality drilling inventory will ultimately be rewarded with opportunities for profit.