

# Oil Giant ExxonMobil expands Permian Basin footprint with Pioneer Natural Resources Acquisition

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“Pioneer is a clear leader in the Permian with a unique asset base and people with deep industry knowledge. The combined capabilities of our two companies will provide long-term value creation well in excess of what either company is capable of doing on a standalone basis.” - ExxonMobil Chairman and CEO Darren Woods

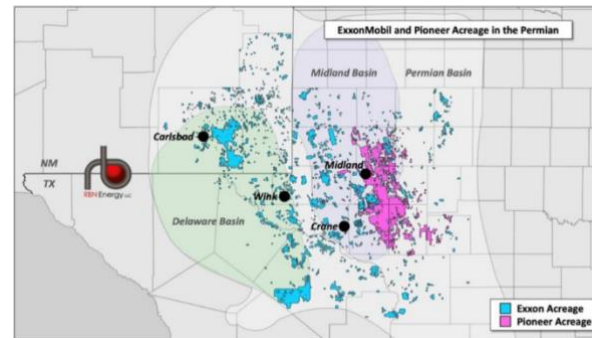
## Deal Overview

- Acquiror: Exxon Mobil Corporation (NYSE: XOM)
- Target: Pioneer Natural Resources (NYSE: PXD)
- Industry: Oil and Gas
- Transaction amount: \$59.5b
- Announcement date: 11. October 2023
- Advisors to Exxon Mobil Corp: Citi Group and Centerview Partners
- Advisors to Pioneer Natural Resources: Goldman Sachs, Morgan Stanley, Petrie Partners, and Bank of America

## Deal Summary

ExxonMobil, the largest among the supermajors, recently announced its acquisition of Pioneer Natural Resources, the leading oil and gas producer in the prolific Permian Basin. This monumental all-stock transaction, valuing Pioneer at \$59.5 billion or \$253 per share, marks Exxon’s most substantial deal in nearly 25 years. The strategic move cements Exxon’s dominance in the Permian Basin, a key oil field in western Texas and New Mexico responsible for over 40% of US oil and gas production, solidifying the company’s position as a key player in the global energy landscape.

**Figure 1: Exxon and Pioneer’s Permian Acreage**



Source: RBN Energy, Exxon and Pioneer’s acreage in the Permian Basin, 13.10.23

The acquisition was prompted by ExxonMobil’s remarkable profits in 2022, boosted by escalating oil and gas prices driven by geopolitical events, particularly the Russia-Ukraine conflict. This strategic takeover positions Exxon as the undisputed leader in the Permian Basin, a region pivotal in propelling the United States to its status as the world’s largest oil and gas producer. The deal not only underscores Exxon’s commitment to capitalizing on lucrative opportunities but also reinforces its strategic vision in navigating the dynamic and competitive energy sector.

## Company Overview – ExxonMobil Corporation

Exxon Mobil Corporation, formed in 1999 through a \$75.3 billion merger of Exxon and Mobil, stands as the largest direct descendant of John D. Rockefeller’s Standard Oil. As a global powerhouse in the oil and gas industry, ExxonMobil engages in the exploration, production, refining, and marketing of crude oil, natural gas, and petroleum products. The company is also at the forefront of lower-emission business opportunities, including carbon capture and storage, hydrogen, and lower-emission fuels.

ExxonMobil operates across diverse geographical regions, with significant holdings in the United States, Canada, Europe, Africa, Asia, and Australia. The company’s operations span from oil sands recovery ventures like Syncrude and Kearnl in Canada to offshore developments in Guyana, Angola, and Mozambique.

The company’s footprint extends into downstream activities, with a vast network of refineries worldwide, producing over 1.15 million barrels of oil per day. ExxonMobil’s downstream and retail operations, branded under Exxon, Mobil, and Esso, cater to diverse markets globally.

In response to the evolving energy landscape, ExxonMobil has undergone corporate restructuring, forming the Low Carbon Solutions division. This initiative focuses on alternative energy solutions, aiming to reduce emissions in challenging sectors through innovative approaches like hydrogen production and carbon capture and storage.

While ExxonMobil faces environmental scrutiny, exemplified by recent shareholder actions, the company remains a formidable player in the energy sector. With its vast reserves, global reach, and commitment to adapting to emerging energy trends, ExxonMobil continues to navigate the complexities of the industry under the leadership of CEO Darren Woods.

## Company Overview – Pioneer Natural Resources

Pioneer Natural Resources, headquartered in Irving, Texas, stands as a prominent player in the hydrocarbon exploration sector, specializing in operations within the Cline Shale, a crucial component of the Spraberry Trend in the Permian Basin. As the largest acreage holder in this prolific region, Pioneer has solidified its position as a key contributor to the energy industry. Ranked 164th on the Fortune 500, the company boasts substantial reserves, with 2.376 billion barrels of oil equivalent as of December 31, 2022.

Established in 1997 through the merger of Parker & Parsley Petroleum Company and MESA Inc., under the ownership of T. Boone Pickens, Pioneer has undergone strategic leadership changes, with CEO Scott D. Sheffield leading the company since its inception. Noteworthy acquisitions, such as the 2021 purchases of Parsley Energy for \$4.5 billion and DoublePoint Energy for \$6.4 billion, underscore Pioneer's commitment to expanding its asset base.

Currently undergoing a significant development, Pioneer is in the process of being acquired by ExxonMobil in the largest energy industry merger in two decades, set to be finalized in the first half of 2024. With a robust capital program and approximately 500 wells expected to come into production, Pioneer maintains a competitive edge in the market, solidifying its status as a key player in the dynamic landscape of hydrocarbon exploration.

## Industry Overview – Oil and Gas Industry

The conflict between Russia and Ukraine resulted in significant profits for oil and gas companies. Instead of investing these profits in starting new drilling projects, often, the companies opted for mergers and acquisitions (M&A) to generate inorganic growth. This strategic choice is driven by the substantial capital required for initiating new drilling projects, accentuated by the limited availability of prime

drilling sites. The pivot towards M&A is not solely a practical reaction but is also underscored by recent insights from the Centre for Economic Policy Research, revealing a 6.5% decrease in investments by oil and gas companies due to climate-related policies. These policies make companies hesitant to invest in projects with returns expected several years in the future, especially if the demand for fossil fuels declines. Consequently, companies find acquiring others with established positions in fracking areas an appealing alternative to capitalize on the current market rally.

This strategic shift towards M&A has triggered a wave of consolidation in the U.S. shale oil industry. The urgency to secure advantageous positions before further industry consolidation prompted Chevron, a significant competitor of Exxon, to engage in substantial M&A transactions, exemplified by its \$53 billion acquisition of Hess at the end of 2023, to maintain competitiveness in this evolving market landscape. The announcement of such deals has, in turn, triggered a surge in the stock prices of companies focused on the Permian region, as they emerge as potential acquisition targets in the dynamic and consolidating oil industry. In essence, oil companies are channelling their profits into M&A activities to navigate and thrive amid industry consolidation, marking a transformative period for the financial landscape in the oil sector.

## Deal Structure

In the all-stock transaction deal between ExxonMobil and Pioneer Natural Resources, valued at \$59.5 billion or \$253 per share, Pioneer shareholders will receive 2.3234 shares of ExxonMobil per Pioneer share, representing an approximate 18% premium on Pioneer's closing price. By adopting an all-stock arrangement, ExxonMobil aims to provide Pioneer shareholders with over 10% ownership in the rapidly expanding company while offering a premium that is

typically more restrained compared to the premiums associated with all-cash transactions.

Pioneer's higher valuation multiples (P/BV, EV/Sales, and EV/EBITDA) compared to the median of its peer group may be influenced by its recent strong financial performance (see figure 2 on page 3). In Q3 2023, the company reported a net income of \$1.3 billion and a non-GAAP adjusted income of \$1.4 billion, demonstrating strong profitability. Additionally, Pioneer generated \$1.2 billion in free cash flow in the same quarter, and its oil and total production were at the top end of its quarterly guidance, averaging 377 MBOPD and 721 MBOEPD, respectively. It is likely that the company's strong balance sheet, with net debt at \$4.8 billion and \$2.1 billion in liquidity as of September 30, 2023, also supports its premium valuation. This, combined with the market's perception of Pioneer as a growth-oriented and low-risk investment, can be a possible explanation for its higher multiples compared to its peer group. Additionally, Pioneer being the leading oil and gas producer in the prolific Permian Basin, has a competitive edge compared to its peers which may be reflected in its valuation.

However, it is noteworthy that Hess Corp.'s multiples are even higher than Pioneer's. Hess Corp.'s financials reveal strong operating margins and returns on equity, which could contribute to its higher valuation multiples.

## Potential Risks & Upsides

The acquisition of Pioneer Natural Resources by ExxonMobil takes place within the dynamic context of a transforming energy sector, prominently influenced by escalating concerns about climate change. ExxonMobil, along with Chevron, have committed over \$110 billion, signalling a steadfast conviction in the enduring relevance of fossil fuels, despite mounting calls for their reduction to mitigate climate impacts. While European counterparts like

**Figure 2: Comparable Company Analysis | Pioneer Natural Resources**

Company Name	Market Data - as of 09.02.2024			Financial data			Valuation		
	Price	Market Cap	EV	BV	Sales	EBITDA	P/BV	EV/Sales	EV/EBITDA
	(\$/share)	(\$mn)	(\$mn)	(FY+1)	(FY+1)	(FY+1)	(FY+1)	(FY+1)	(FY+1)
EOG Resources, Inc.	111.05	64'758.8	63'575.8	53.8x	24'130'243.9	13'231'790.0	2.1x	2.6x	4.8x
Devon Energy Corporation	41.59	26'646.6	32'614.6	21.3x	14'159'760.9	7'317'338.1	2.0x	2.3x	4.5x
Diamondback Energy, Inc.	151.74	27'159.2	33'497.2	100.8x	8'708'581.5	6'264'494.7	1.5x	3.8x	5.3x
Marathon Oil Corporation	22.45	13'138.8	18'798.8	20.7x	6'747'792.3	4'539'008.8	1.1x	2.8x	4.1x
Hess Corporation	142.07	43'638.1	51'977.7	37.4x	13'363'500.0	5'663'000.0	3.8x	3.9x	9.2x
Coterra Energy Inc.	24.30	18'278.3	19'994.3	18.4x	6'076'455.5	3'970'683.3	1.3x	3.3x	5.0x
Median of entire set							1.7x	3.0x	4.9x
Average of entire set							2.0x	3.1x	5.5x
<b>Pioneer Natural Resources</b>	<b>227.22</b>	<b>53'083.8</b>	<b>58'134.8</b>	<b>108.6x</b>	<b>20'925'275.0</b>	<b>9'781'155.7</b>	<b>2.1x</b>	<b>2.8x</b>	<b>5.9x</b>

Source: S&P CapitalIQ 09.02.2024 – own illustration

Shell and BP are divesting fossil fuel portfolios and pledging substantial reductions in oil and gas production by 2030, Exxon takes a divergent stance, opting for an acquisition strategy and asserting the persistence of fossil fuels in the global energy mix. This strategic departure contrasts with the industry's prevailing emphasis on prioritizing decarbonization and renewable energy sources.

Amidst climate change considerations, the acquisition of Pioneer also presents potential upsides for ExxonMobil, centred around operational efficiency. The merging of Exxon and Pioneer, with their adjacent assets in the Permian Basin, offers opportunities for cost savings and enhanced production capacity. Exxon aims to leverage Pioneer's acreage in the eastern part of the Permian Basin to optimize its drilling program, focusing on efficiency gains. The goal is to reduce the average cost per barrel in the Permian to below \$35, a significant decrease compared to the prevailing west Texas oil price, which currently stands around \$83 a barrel. The acquisition aligns with Exxon's strategy to secure production efficiently, mitigating risks associated with traditional

capital-intensive activities like drilling and exploration. Additionally, CEO Darren Woods highlights the environmental benefits, emphasizing a commitment to being a responsible operator with lower carbon intensity. The move, therefore, positions Exxon to navigate the challenges of the evolving energy landscape while strategically enhancing its operational capabilities.