

Evaluating an investment opportunity in a small shale gas company for an international Private Equity Fund

Situation



A Private Equity firm targeted an early stage E&P company with relatively small position in Appalachian Basin. The target was looking for capital to support growth, including future acreage acquisition in a well proven play.

The operations of the target were centered primarily on exploitation. The Private Equity firm was only going to be a passive investor looking for rate of return on invested capital, and did not plan to be involved in management and operations.

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Action



Upstream Oil & Gas Consultants:

- Evaluated and benchmarked quality of the assets involved
- Evaluated key assumptions used in the target's valuation model (costs, well performance, project management, economics)
- Discovered current assumptions were either optimistic, hid substantial risks, or ignored important features of market
- Reviewed and evaluated target's business model, strategy and plan
- Evaluated managerial and technical capabilities of the target firm
- Provided an assessment of capabilities, including an investment roadmap with clear performance milestones using proprietary databases

Result



IHS Markit identified risks to post acquisition expansion plans including access to rigs and service companies, implementation of manufacturing processes, continued funding, and much more. IHS Markit defined initial and contingent work plans and quarterly milestones for the post acquisition business plan.