

Vol 1 Issue 17 | November 15 2024

# THE DEAL DESK

GFMC Newsletter

## Making of a Monopoly? ExxonMobil's Pioneering \$59.5 Billion Deal

Yash Patel

In a monumental move, **ExxonMobil** has acquired **Pioneer Natural Resources** in an all-stock transaction valued at approximately \$59.5 billion or \$253 per share. The implied total enterprise value of the transaction, including net debt, is approximately \$64.5 billion. This deal marks ExxonMobil's largest acquisition in over two decades. It is poised to expand its footprint in the Permian Basin significantly, one of the productive oil fields in the world. The merger marks the end of Pioneer's 26 year history as an independent company, with CEO Scott Sheffield retiring at end of 2023.

### Why Buy when you can Build?

The **Permian Basin**, located in West Texas and Southeastern New Mexico, has become a focal point for US Shale production. Pioneer's vast acreage in the region has made it an attractive target. The acquisition include over 850,000 net acres of land leading to combined resource potential of 16 billion barrels of oil equivalent. Before the acquisition, ExxonMobil was already producing 1.3 million barrels of oil equivalent per day (BOE/D) in the Permian; with this merger, production is projected to increase to 2 million BOE/D by 2027. Darren Woods, ExxonMobil's CEO, has highlighted the synergy between Pioneer's strong Permian inventory and ExxonMobil's advanced technologies, which will allow the combined company to recover resources more efficiently while reducing environmental impacts. Pioneer's 2050 net-zero emissions goal will be accelerated to 2035 due to the merger.

## Powering Forward

Pioneer Natural Resources, a leader in U.S. shale production, has pioneered the shale revolution over the past two decades. It is an independent oil and gas exploration and production company, primarily focused on the development of oil and natural gas reserves in the United States. Headquartered in Irving, Texas, Pioneer is known for its expertise in unconventional drilling, particularly in the Permian Basin, one of the world's most prolific oil-producing regions. The company specializes in horizontal drilling and hydraulic fracturing techniques to extract oil and gas from shale formations.

Like other oil giants, ExxonMobil is preparing for a future in which oil and gas will continue to play a significant role, despite the push for renewable energy. While ExxonMobil has made strides in reducing methane leaks and investing in carbon capture technology, this deal underscores the company's belief that fossil fuel will remain an essential part of the global energy mix for years.

## What's in it for ExxonMobil?

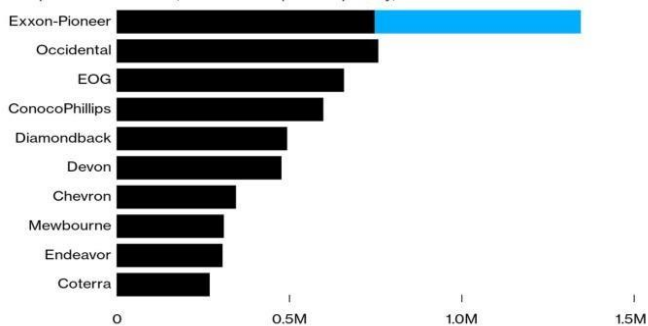
By acquiring Pioneer's vast 850,000 acres in the Permian Basin, ExxonMobil secures one of the world's most prolific and cost-efficient oil fields, with Pioneer boasting a low production cost of around \$9 per barrel. This acquisition not only increases ExxonMobil's immediate oil output, expected to reach one million barrels per day by 2027, but also provides a steady cash flow to fund its long-term renewable energy ambitions. As the global demand for energy evolves, ExxonMobil can leverage the profits from its expanded shale operations to invest in renewable technologies like carbon capture, hydrogen, and biofuels. This approach allows ExxonMobil to maintain energy security today while making strides toward a lower-carbon future, aligning with its sustainability goals.

Financially, the acquisition had a significant impact on ExxonMobil's balance sheet. Pre-merger ExxonMobil had a strong balance sheet with over \$439 billion in assets, but the all-stock nature of the \$59.5 billion deal allowed the company to avoid substantial debt while expanding its asset base. Post-merger, ExxonMobil's assets increased with the addition of Pioneer's Permian reserves, positioning company to generate higher cash flows from its new low-cost, high-output assets. While there may be short-term liquidity adjustments, the long-term financial outlook is highly positive. The acquisition enhances ExxonMobil's ability to support both its traditional oil business and its growing investment in renewable energy, ensuring that the company remains profitable and competitive as the global energy landscape shifts toward sustainability.

### Shale Dominance

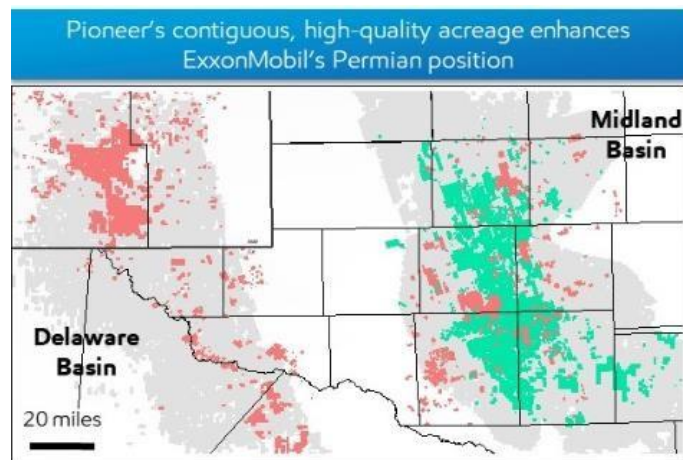
Exxon-Pioneer deal would create the biggest producer in the Permian Basin

■ Operated Production (barrels of oil equivalent per day)



Source: S&P Global

Bloomberg



## Why is Pioneer selling despite being a behemoth?

There are several reasons behind Pioneer Natural Resources selling despite its status as a behemoth in the oil and gas industry. First, the consolidation of resources with ExxonMobil provides Pioneer with enhanced capital, technological capabilities, and global reach that it could not achieve on its own. By merging with ExxonMobil, Pioneer can benefit from Exxon's vast infrastructure, greater operational efficiencies, and access to global markets. Allowing it to optimize production and remain competitive as energy companies face growing pressure to cut costs and increase sustainability efforts. Additionally, the timing of the sale coincides with favorable market conditions. Energy prices have been volatile, but the demand for shale oil remains strong. By selling to ExxonMobil, Pioneer provides its shareholders with a premium of about 18%. Pioneer's leadership also recognizes the increasing pressure of transitioning toward lower-carbon energy. Despite being a leader in shale, the company may face challenges in meeting future emissions targets and adapting regulatory environment.

## Important Terms

- Permian Basin: A larger oil-rich region in West Texas and southeastern New Mexico is key for U.S. oil production.
- Shale: A type of sedimentary rock from which oil and natural gas can be extracted
- Upstream: The exploration and production of oil and gas focuses on extracting resources from the ground,
- Midstream: The transportation, storage, and processing of oil and gas between the extraction site and refineries and markets.
- Downstream: The refining of crude oil, distribution and sale of petroleum products.
- Fracturing(Fracking): A method of extracting oil has by injecting liquid at high pressure into subterranean rocks to release resources.
- Flaring: The burning of excess natural gas during oil extraction, which releases CO2 and other pollutants.
- Net Acres: A measure of ownership in land for oil and gas exploration, representing a portion of the total land area.
- Scope 1 and 2 Emissions: Scope 1 refers to direct emissions from owned or controlled sources, while Scope 2 covers indirect emissions from purchased electricity.

## Conclusion

By harnessing Pioneer's assets and advanced extraction technologies, ExxonMobil is poised to elevate its operational efficiency while fueling its sustainable initiatives, ensuring it can meet global energy demands in the midst of an energy transition. This move sends a clear message: ExxonMobil views oil and gas not as relics of the past, but as essential components of the future energy mix, even as renewable technologies rise.

As one of the most transformative deals in the energy sector, this merger could redefine what it means to be a leader in both energy production and environmental responsibility. But as ExxonMobil walks the line between sustaining its core business and investing in a cleaner future, the questions remains:

"Can a company deeply rooted in fossil fuels truly lead the charge toward a greener world, or is this just a temporary solution to bridge the gap between today's reliance on oil and gas and tomorrow's renewable energy dominance?"

## References

- [https://corporate.exxonmobil.com/news/news-releases/2023/1011\\_exxonmobil-announces-merger-with-pioneer-natural-resources-in-an-all-stock-transaction](https://corporate.exxonmobil.com/news/news-releases/2023/1011_exxonmobil-announces-merger-with-pioneer-natural-resources-in-an-all-stock-transaction)
- <https://www.nytimes.com/2023/10/11/business/energy/exxon-mobil-pioneer-natural-resources.html>
- <https://www.cnbc.com/2023/10/11/exxon-mobil-agrees-to-buy-pioneer-natural-resources-for-nearly-60-billion-in-all-stock-merger.html>
- <https://apnews.com/article/exxon-pioneer-acquisition-crude-oil-natural-gas-00e0e0eea67b7fb8bf3685221e5423d1>

## About the Author



**Yash Patel**  
**Graduate Student**

Yash is currently pursuing a Master of Science in Finance at The University of Texas at Dallas. Previously, he completed his Bachelor of Commerce in Accounting and Finance from Maharaja Sayajirao University. He has gained hands-on experience as an Equity Research Analyst at a Wealth Management Firm, where he delivered in-depth financial analysis and investment strategies that boosted portfolio performance and profits, He also interned as a Financial Analyst at a Agri product processing plant where he implemented forecasting systems and optimized financial operations.

Yash is particularly passionate about the energy sector and investments and aspires to work at the intersection of energy and finance. Upon graduation, Yash is eager to apply his financial acumen to help drive sustainable energy solutions and contribute to the evolving energy landscape and leverage his skills in roles that combines Energy finance, investment management and data-driven financial analysis.

**The Deal Desk provides a platform to JSOM students to share their views on important events affecting the finance industry**

**Contact:**

**GFMC email id: [gfm2019@gmail.com](mailto:gfm2019@gmail.com)**

**Samiha Siddique, Deal Desk Officer: [samiha.siddique@utdallas.edu](mailto:samiha.siddique@utdallas.edu)**

**Varsha B R, President: [varsha.br@utdallas.edu](mailto:varsha.br@utdallas.edu)**

**Follow Us:**

**GFMC website**

**<https://fn.utdallas.edu/ms-finance-flex/gfmc/>**

**Graduate Finance Management Council**