

# Strategic Thinking of Anadarko Acquisition by Chevron

Qian Zou\*

Research Institute of Petroleum  
Exploration & Development  
PetroChina  
Beijing, China  
qjhfs@petrochina.com.cn

Keming Wang

Research Institute of Petroleum  
Exploration & Development  
PetroChina  
Beijing, China

Min Peng

department of technology  
Northeast Petroleum University  
Heilongjiang, China

**Abstract**—Chevron announced its acquisition of Anadarko Petroleum Corporation at \$50 billion on April 12, 2019. These two corporations have quite similar asset type and asset location; thus, the cost of integration was low. The value of assets would be greatly promoted for both corporations after integration, and Anadarko could improve its finances with the aid of Chevron's unstinted cash flow to defend itself against the slump in oil price. Chevron's payment would mostly be given in shares and debt. It leveraged a lot of assets by using a small amount of cash and thus was under small financial pressure. The acquisition was a win-win deal and could achieve a 1+1>2 result by maximizing the potential of both corporations. There is something to be learned from this transaction.

**Keywords**—strategic thinking; potential value; asset integration; low oil price

## I. TRANSACTION PROFILE

Chevron announced on April 12, 2019 that it would acquire Anadarko Petroleum Corporation, one of the largest independent oil companies around the world, at \$33 billion, which would be paid in Chevron's 75% stock and 25% cash. According to Chevron's closing price on April 11, 2019, Anadarko shareholders would receive 0.3869 shares of Chevron and \$16.25 in cash for each share they own, or \$65 per share. Chevron would also assume \$15 billion of Anadarko's debt. The total value of the transaction is \$50 billion [1].

The acquisition is the largest integration of unconventional oil and gas resources in the United States in recent years, and the strategic significance is worth pondering. Starting from the whole oil and gas industry chain, this paper will analyze and summarize the company's macro-long-term strategy from the perspective of economics, finance and strategy, so as to provide decision-making basis for other company operators.

## II. ASSETS OF THE TRANSACTION

This transaction had been planning for a long period of time. Chevron is focusing its business on unconventional and deep-water oil and gas, which are the business strength of Anadarko. Their assets are overlapping and complementary, thus these two corporations could learn each other's good points for

common progress in economic benefit and cost reduction. It is anticipated that pretax cost and capital expenditure reduction will reach \$1 billion [1].

The assets acquired are detailed as follows.

### A. Unconventional Oil and Gas in the Permian Basin.

Chevron possesses huge assets in the Permian Basin. The total area of licenses is 116,104 acres, and total reserves are 16.2 billion barrels. Chevron is the biggest owner of the Permian Basin [2].

But unconventional oil and gas in the Permian Basin are not Chevron's business strength. All its assets lie in basin margin with poor geologic conditions, low per-well production, and high gas content. Oil yield only accounts for 60% of total production. The economic benefit is low in view of low gas price in the US. The quality of resources and profit rate of Chevron in three major plays (Bone Spring, WolfCamp-Midland, and WolfCamp-Delaware) are below the average, and Chevron had to maintain its production to make profit.

To address the issue of low profit rate, international oil companies, e.g. Chevron, applied factory drilling to the Permian Basin. More rigs, factory drilling, and digital analysis were used to raise production efficiency and reduce production cost. These measures did work in the first couple of years, but the room of cost reduction and efficiency raise was limited just through technical progress. Now the cost has been reduced to the lower limit. Further cost reduction may only be realized through improving the quality of petroleum assets [1].

Anadarko possesses the best petroleum asset in WolfCamp-Delaware, which lies in the center of the basin with high per-well production, high oil yield, and low gas content. Oil yield accounts for 75% of total production. Thanks to the lowest breakeven point, Anadarko has achieved more economic benefit than other owners of this play [2]. In addition, Anadarko holds the mining rights of 24,104 acres in WolfCamp-Delaware, and total reserves reach 4 billion barrels of oil-gas equivalent. Anadarko's possession is the most valuable asset in this play(Fig. 1) .

Chevron's asset in WolfCamp-Delaware and Anadarko's asset in the same play, which is close to Chevron's asset, could

merge [1]. The combined company will also control a 75-mile-wide corridor for future cooperation and pipeline laying.

After acquisition, Chevron's advantages in pad drilling, factory drilling, and digital analysis could be integrated with Anadarko's high-graded petroleum asset. Anadarko has 10000 drilling sites to be drilled in the Permian Basin, which are actually driving force of more production [3]. This transaction will make Chevron's petroleum gas reserves in the Permian Basin reach 20 billion barrels and production reach 1 million barrels per day. In view of its low breakeven point, the combined company will be the strongest petroleum company in this province.

*B. Gulf of Mexico.*

Chevron's assets in GoM include 6 offshore platforms, and the production is 22 104 bbl/d. But this achievement cannot make Chevron the top operator in this province. Chevron will have the right of operation in 231 plays in GoM [2], stock right in 34 oil and gas fields, and 10 floating platforms(Fig. 2) .

After acquisition, Chevron will have 16 platforms in GoM, tripling its original platform assets. Existing infrastructure in neighboring plays allowed the combined company to connect their offshore fields. The massive scale of business will bring in huge synergistic effect. It is anticipated that Chevron will produce 41 104 bbl/d of oil and gas in deep-water zones in GoM. Chevron will surpass BP and become the second largest producer, behind Shell, in GoM [2].

*C. Overseas assets.*

Anadarko has massive high-graded petroleum assets, mainly gas assets, outside the US. Such assets are mostly LNG projects in Mozambique, Angola, Canada, and Indonesia. The Area 1 Mozambican LNG project is the most valuable one, where Anadarko holds 26.5% equities. The Phase-I LNG deliverability reached 1290 104 tons per year, which will increase Chevron's LNG deliverability by 20%. The production may be doubled later in view of its great potential [2].

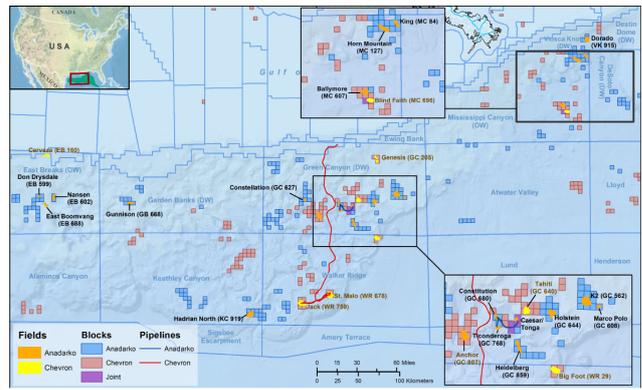


Fig. 2. Chevron and Anadarko assets in GOM.

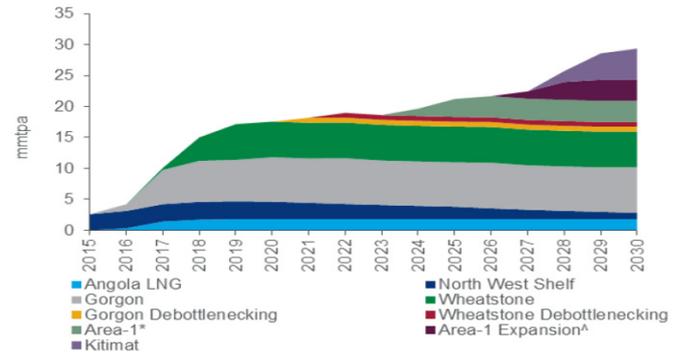


Fig. 3. Combined Chevron-Anadarko Operated LNG Capacity.

There assets are of utmost importance to Chevron's gas business. Production decline happened in all the gas projects of Chevron except the Australian project, and there are no successors. This issue has been addressed by this acquisition. Chevron's strength in deep-water operation will also maximize

the value of the Mozambican deep-water asset(Fig. 3) . Due to substantial production cost reduction for deep-water petroleum assets, the value of the Mozambican asset will increase.

III. STRATEGIC SIGNIFICANCE

After acquisition, the competitive landscape of transnational petroleum magnates will be changed from three super corporations and two big corporations to four big corporations. Chevron's petroleum production will increase from 3000000 bbl/d to 3600000 bbl/d, next to ExxonMobil (3830000 bbl/d), BP (3680000 bbl/d), and Shell (3670000 bbl/d). The gap between Chevron and Total (2770000 bbl/d) will be widened (Fig. 4) .

Chevron had been well prepared for this acquisition. It got through all the production links and mitigated all the negative factors working against production increase to ensure a rapid cash flow from acquired assets. Petroleum production in the Permian Basin has been restricted by the lack of ground processing equipment and pipeline facilities, which could be settled by Western Midstream Partners, an Anadarko's company [4], which is operating petroleum pipeline and processing equipment in Texas. Its business will help Chevron

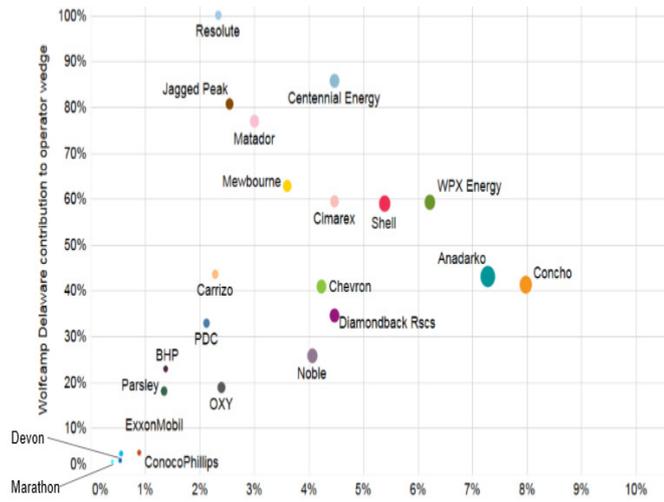


Fig. 1. Wolfcamp Delaware wedge contribution.

quickly increase its production in the Permian Basin. Chevron acquired Petrobras's Pasadena Refining System Inc. (PRSI) ten days before the formal agreement of Anadarko acquisition was made. PRSI situated in southeastern Texas has the capacity of processing 11.2 104 bbl of crude oil per day; thus, increased production after acquisition could be handled(Fig. 4) .

Another benefit of acquisition is to have more customers. Chevron's marketing is mainly oriented toward the Daily Public Utility Company, and they have signed a 20-year contract. After the integration of Anadarko's selling operation, the combined company will cooperate with CNOOC, Indonesia NOC, Europe, and India and find more customers. In view of associated gas production in the Permian Basin, Chevron has become the biggest producer of natural gas around the world.

Chevron's acquisition of Anadarko broke the current pattern of competition among international oil majors and spurred other majors to purchase unconventional oil and gas in the United States, especially putting greater emphasis on shale assets. The trading market will be transformed from small and medium-sized transactions to strong alliances. With the intervention of large companies, small companies will gradually withdraw from the market.

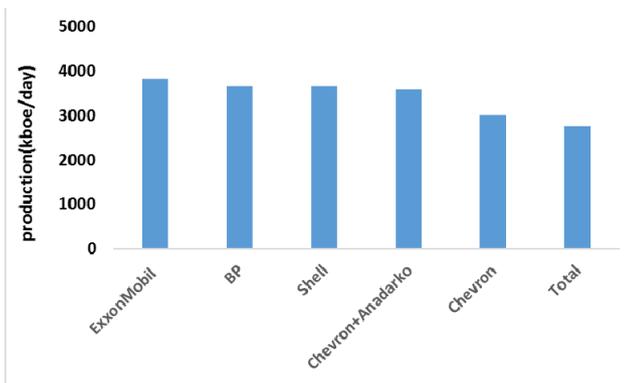


Fig. 4. Oil and Gas Production of Transnational Oil Majors in 2018.

#### IV. STRATEGIC THINKING

Focusing on high-graded assets. Anadarko possesses high-graded assets with the lowest breakeven point in the Permian Basin. It has the most powerful strength to defend against the slump in oil price and reduce the transaction risk to the lowest point.

Purchasing the best assets. Anadarko coincides with Chevron in asset type and asset location. What to be acquired is what Chevron originally operated. Chevron's advanced technologies could directly apply to newly acquired projects to shorten the cycle of assets integration [4]. Highly overlapped asset locations make it possible to reduce integration cost and maximize the advantage of synergistic massive production [3].

Strictly controlling debt. Chevron will pay only \$8.5 billion in cash, and additional payment will be given in shares and debt. Chevron's debt ratio was only 13% before acquisition and will be 20–25% after acquisition, which is very low in petroleum industry [3]. Chevron planned to sell petroleum assets of \$15–20 billion in 10 countries including Algeria and

Ghana from 2020 to 2023. Thus, increased debt ratio, together with political and economic risks, could be rapidly reduced. The combined company could thus take ownership of international market.

Realizing cash flow as fast as possible. Most assets to be acquired are the projects in production and in production increase. Chevron had also been well prepared to integrate its upstream, midstream, and downstream production chain and avoid bottle necks going against production increase. The cash flow produced by the projects could be used to pay financing cost of acquisition. It leveraged a lot of assets by using a small amount of cash.

Through strategic arrangement for so many years, Chevron has mitigated seemingly huge risks and uncertainties as much as possible before acquisition.

Acquisition does not merely mean purchasing cheap assets; it is also an activity to explore the value of its own assets. There is something to be learned from the strategic significance of promoting the value of its own assets through purchasing external assets and realizing the 1+1>2 effect.

#### REFERENCES

- [1] WoodMakenzie,chevron joins the ultramajors with us\$50 billion anadarko deal.2019, vol. 5.
- [2] Wood Makenzie,Acquisition of anadarko implications for us gom deepwater.2019, vol. 5.
- [3] Wood Makenzie,chevron - what next.2019, vol. 5.
- [4] Wood Makenzie, chevron acquires anadarko for us\$50 billion.2019, vol. 5.