TRINITY SMF
STUDENT MANAGED FUND

M&A Report

Devon Energy Corporation Merges with WPX Energy

May 29th, 2022

Devon Energy Corporation and WPX Energy Complete Merger of Equals Transaction

On the 7th of January 2021, Devon Energy and WPX Energy completed an all-stock merger for $5.95 billion. Under the terms of the agreement, WPX investors received a fixed exchange ratio of 0.5165 Devon shares for each WPX share they owned. The exchange ratio, along with the closing prices for Devon and WPX at the time of the merger announcement, resulted in an enterprise value for the combined entity of approximately $12 billion. This acquisition has been the largest purchase in the shale industry following the collapse of crude prices earlier in 2020.

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Executive Summary

Devon Energy acquired WPX Energy in January of 2021, creating a leading energy producer in the country. The merger, which was financed entirely through stock, combines both companies' operations in the Permian, Anadarko, Eagle Ford Shale, Powder River, and Williston Basins. Much of the strategic motivation behind the deal was to improve efficiency through cost synergies and expand through greater access to the Permian Basin, whilst consolidating the dominance in the Delaware Basin. As a result, the post-merger performance has been impressive, most notably with the stock price almost quadrupling.

✓ Accretive on all relevant financial metrics	**190.81%** 12-month total return
✓ Accelerates cash return business, enhancing FCF	**50% of FCF** Distributed to shareholders through variable dividend
✓ Maintains strong balance sheet	**~$5 Billion** Liquidity in minimal near-term
✓ Creates value through cost synergies	**$575 million** Annual cost savings by 2021
✓ Builds a dominant Delaware Basin	**400,000 net acres** In the economic core of play

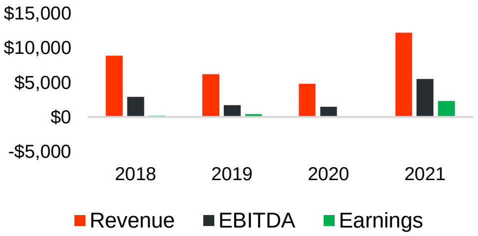
Devon Energy Corporation

Devon Energy Corporation was founded in 1971 and operates as an independent energy company that is involved primarily in oil and gas exploration, development and production, the transportation of oil, gas, and natural gas liquids (NGL), and the processing of natural gas. They have marketing and midstream operations primarily in North America that include gas, crude oil, and NGLs.

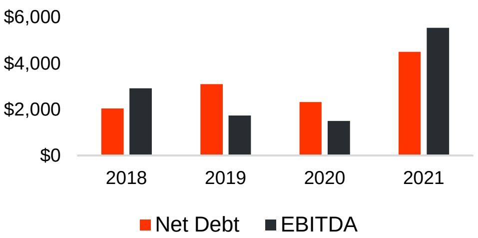
Devon Energy's primary productive assets are in the Eagle Ford, Powder River, Anadarko, and Delaware Basins. Devon has a production capacity of approximately 140,000 barrels of oil per day, 575m cubic feet of natural gas per day, and 80,000 barrels per day of natural gas liquids. Its four key areas of operations are: the Delaware Basin (~65% of production), Anadarko Basin (~15% of production), Eagle Ford Shale Basin (~10% of production), and the Powder River Basin (~5% of production).

Oil, gas, and NGL sales represent roughly 70% of revenue while marketing and midstream revenues account for about 30%. Devon sells its products under both long-term (one year or more) and short-term (less than one year) agreements at prices negotiated with third parties. Most of its products are sold at variable, market-sensitive prices. Devon also enters financial hedging arrangements, or fixed-price contracts associated with a portion of its oil, gas, and NGL production.

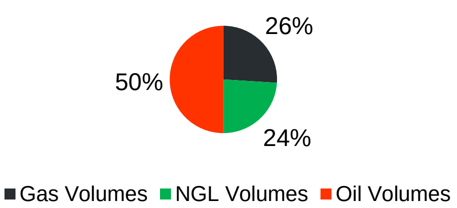
Margin Profile



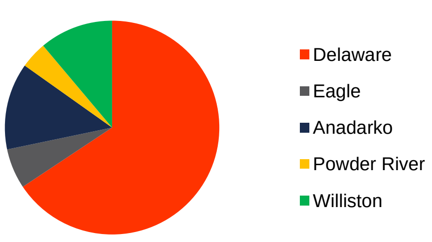
Net Debt Compared to EBITDA



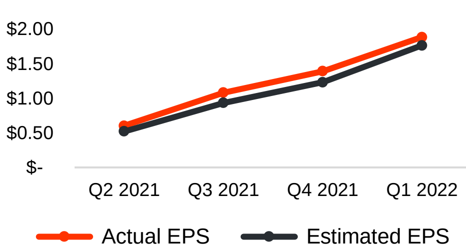
Diversified Commodity Exposure (% of Total Production)



Revenue by Basin



Actual vs Estimated EPS



Figures in $USD Millions

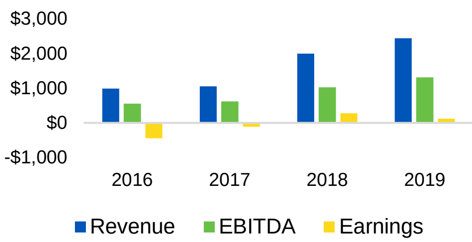
WPX Energy

Founded in 2011 and headquartered in Tulsa, Oklahoma, WPX Energy Inc. is an independent energy producer with core acreage positions in the fertile Permian and Williston Basins. They specialize in lucrative hydrocarbon assets across the United States which includes producing oil, natural gas, and NGL. Roughly 85% of their total revenues come from the sale of oil.

WPX's exposure to the Permian Basin and Williston Basin lies in North Dakota, Texas, and New Mexico. Due to its scale and geographic positioning, WPX boasts total reserves of nearly 530 million barrels of oil equivalent. In total, WPX has over 220 gross (nearly 120 net) gas productive wells and around 1,760 gross (nearly 955 net) oil productive wells. Its leased acreage includes roughly 360,000 gross acres (nearly 214,000 net). Moreover, WPX produces approximately 105,000 barrels per day, 27,000 barrels per day of natural gas, and 35,000 barrels per day of natural gas liquids.

WPX sells and markets its natural gas, oil, and NGL to a variety of purchasers under various contract lengths ranging from one day to multi-year under several different pricing structures. Its third-party customers include other producers, utility companies, power generators, banks, marketing and trading companies, and midstream service providers. The company has four customers that each account for more than 10% of its sales.

Margin Profile



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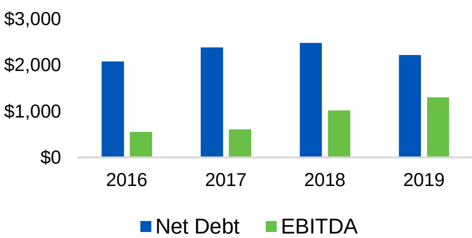
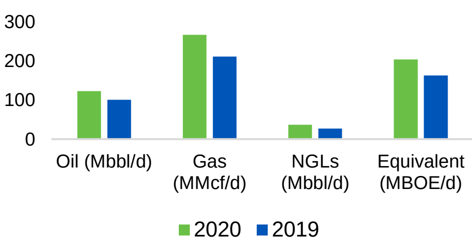
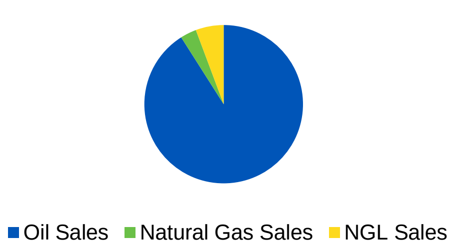


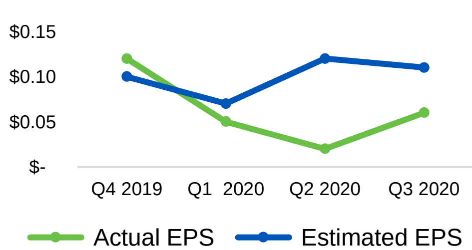
Average Daily Production



Revenue Breakdown



Actual vs Estimated EPS

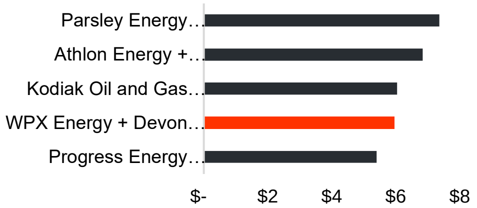


Figures in $USD Millions

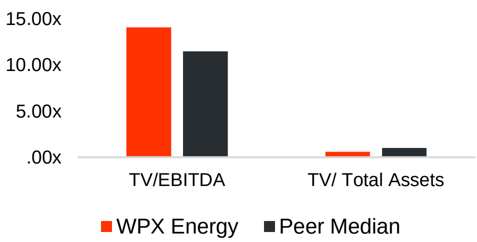
Deal Value	Announced	Final
Transaction Value(M)	5,951.70	8.480.24
Equity Value	2,779.70	5,308.24
Premium	+2.88%	+0.34%
Net Debt	3,172.00	3,172.00

TTM Deal Multiples	Target	Comparable Multiples
TV/REVENUE	3.65x	4.41x
TV/EBIT	--	31.26x
TV/EBITDA	14.07x	9.65x

Comparable Transactions ($Billions)



Precedent Comparison



Cost Synergies

Figures in $USD Millions

Strategic Rationale

Devon Energy's acquisition of WPX Energy provides excellent opportunities for expansion, given the scale and geographic positioning of WPX's energy reserves.

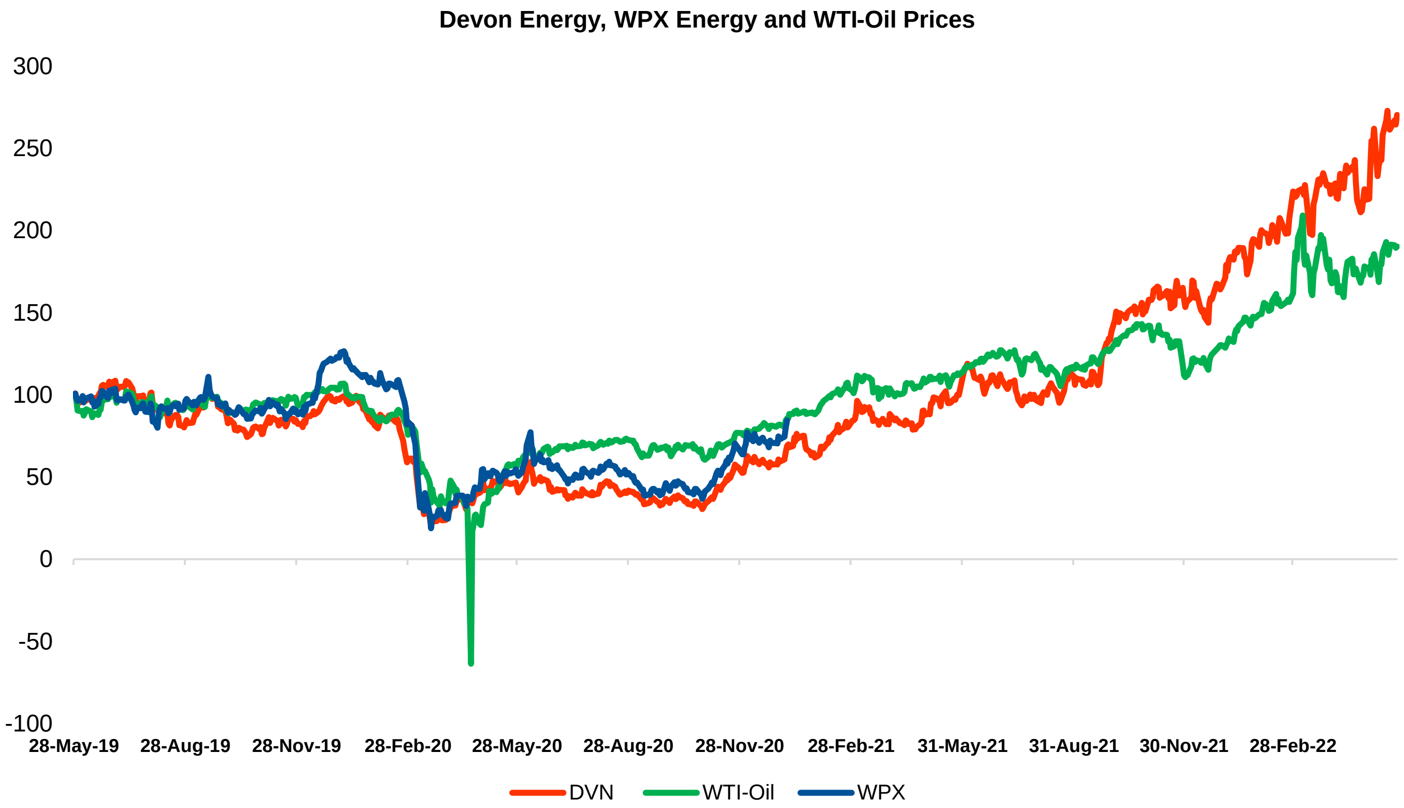
The Permian Basin in North Texas is one of the largest natural deposits of gas in the US. It is one of the most profitable basins in the United States due to its low break-even rate of around $30 per barrel. Despite recent concerns surrounding harsh drilling restrictions on federal persisting (affecting the Delaware Basin), there is an attractive feature to this asset. Companies no longer need to drill to extreme depths to extract oil. The large area that the basin encompasses offers a range of stout resources, implying long-term viability. Oil and gas production in the Permian Basin region may grow 14% in January vs. 2021.

Access to the Permian Basin allows Devon to strengthen its balance sheet, capitalize on economies of scale, and improve their capital structure. They aim to increase annual free cash flow by $575 million by the end 2021 which will enhance shareholder returns with a fixed plus variable dividend initiative. 50% of excess FCF will be distributed, which, after dividends, should rise to 70% in 2022.

The merger immediately produced $575 million in cost synergies and was cash accretive. Operational efficiencies, general and administrative savings, and financial expenses are said to be reduced. The NPV of the cost synergies over the next 5 years equate to more than $2 billion in value.

Deal Details

The deal was financed entirely through stock with a premium of 2.6% which is significantly lower compared to similar transactions. This may be due to the exposure WPX has to other basins which exhibit lower profit margins. Devon Energy shareholders received a fixed exchange of 0.5165 shares for each share of WPX common stock owned. Devon shareholders will own around a 57% stake in the combined company, while WPX shareholders will hold the remaining 43% interest. Although the deal was valued at $12 billion, Devon only paid $2.56 billion for WPX.



Share Price Analysis

The graph above shows the stock prices of Devon and WPX Energy shares. The deal was first announced on September 28th, 2020 and was closed before trading on January 7th, 2021. Nearly a month after the initial proposal and subsequent proposals by the respective boards of the companies, the merger was approved by Hart-Scott-Rodino. Immediately following, shares began rising consistently prior to the completion of the deal on the 7th of January. Shares of WPX Energy finished trading at $9.43 on January 7th, 2021, compared to a price per share of $5.17 on the merger announcement. Similarly, Devon Energy shares closed trading at $18.57 representing an 89.49% increase from $9.80 per share on the date of the merger announcement.

Key Dates

Proposal - 26/09/2020

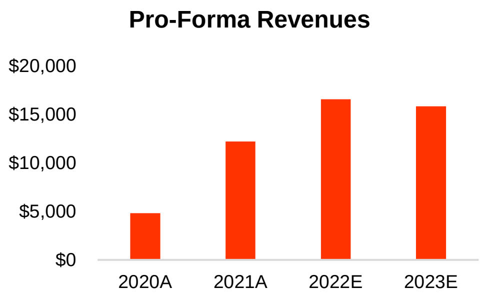
Announced - 28/09/2020

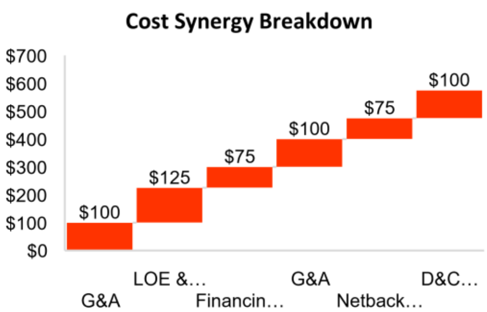
Approval by HSR - 22/10/2020

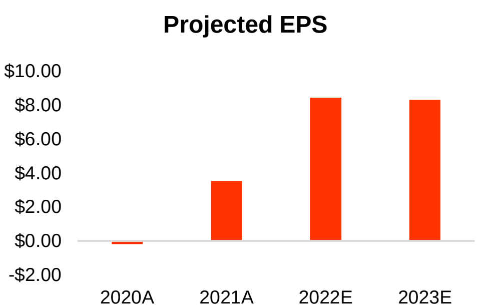
Joint Proxy Statement and Prospectus - 24/11/2020

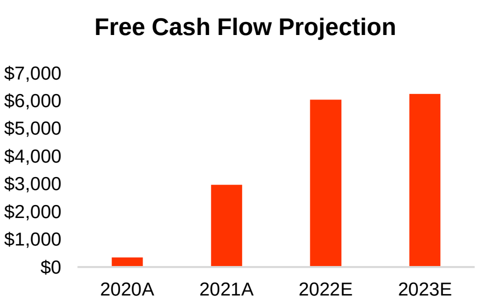
Approval by All Shareholders - 30/12/2020

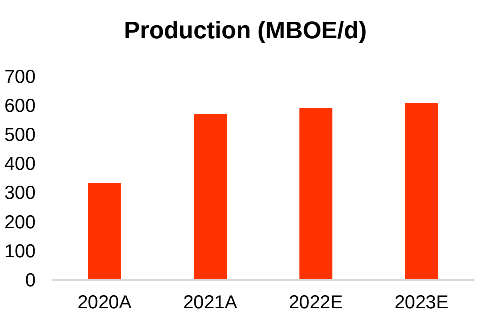
Completion - 07/01/2021











Figures in $USD Millions

Post-Merger Performance

Since the merger, Devon Energy has seen a boom in its stock price and underlying performance. The price per share has nearly quadrupled from a price of $18.19 to $71.37. Further, their operating cash flow grew considerably following the transaction and greater macroeconomic environment. They ended their fourth quarter of 2021 with a quarterly operating cash flow of $1.6 billion which represents a 173% increase from the closing of the merger with WPX Energy. The reasons for this growth are two-fold. Firstly, Devon Energy experienced a dramatic increase in the operational capability due to their increased exposure to the Permian Basin's top line revenue. Secondly, commodity prices in the energy sector outperformed other commodities as the price of Crude Oil WTI grew 52% from the start of 2021 to the close of the year. Further growth can be expected this year on the back of strained supply and consistent demand dynamics due to the military conflict between Russia and Ukraine. This has been reflected in further growth in Crude Oil WTI prices growing already 44.74% since the start of 2022 (138 days).

Moving forward, Devon plans to stay disciplined in their approach to their business model by continuing to reduce debt with their cash on hand and through their increased revenues. Furthermore, they have increased their share buyback program to $2 billion amidst rising interest rates, thus proving their commitment and confidence in their long-term performance. Lastly, they have implemented a plan to reduce greenhouse gas emissions by 50% in the next eight years. This is coupled with a strategy to reach net zero emissions by 2050.

Key Risks

1) Uncertainty with federal regulation and permit approval due to potential bans on federal land
2) Uncertainties with the merger could cause a loss of key personnel
3) Increased costs from new regulations on federally-leased land due to a review of the leasing process in accordance with ESG initiatives
4) Long-term risk of falling oil & gas prices after easing of geopolitical tensions and increase in renewables