



# A&D Transactions

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## Chesapeake raising money the old fashioned way Stops string of structured deals, VPPs & JVs with simple divestment

Recent headlines about **Chesapeake** have celebrated its ever increasing presence in the Big Four Shale Plays – the Marcellus, Haynesville, Fayetteville and Barnett – and its propensity for structured finance including creative and profitable joint ventures and the use of Enron's infamous old high-profile VPPs.



But they have at the same time failed to highlight an implicit corollary to this presence – that unconventional plays cost money, Chesapeake appears willing (or forced) to monetize or divest any asset necessary to raise drilling capital.



Earlier this year the company said it was in the process of completing as much as \$3.5 billion in divestitures or monetizations over the next two years. The company has already signed five VPP (Volumetric Production Payment) transactions

since the start of 2008, beginning with assets in West Virginia and Kentucky (\$1.1 billion), followed by the Woodford Shale (\$623 million) and the Arkoma (\$605 million) last year. Since the beginning of 2009, the company has sold another VPP in the Arkoma (\$412 million) followed by one in South Texas (\$475 million).

In fact, other than Chesapeake's \$1.9-billion sale of its Woodford Shale play to BP last year, it has not actually divested any major assets- the VPPs have allowed it to keep the properties long-term while cashing in on their production near-term.

Last week, however, Chesapeake decided to go traditional and divest its non-Haynesville Ark-La-Tex assets to Houston-based **Indigo Minerals**, which is acquiring producing properties, undeveloped acreage and other midstream assets for \$218 million.

Indigo gains 519 producing wells in 60 fields in Louisiana, Texas and Arkansas producing 26 MMCFD, with 40,000 undeveloped acres, bringing total acreage involved to over 122,000 net acres. Chesapeake will keep the Haynesville Shale rights.

Indigo will be taking over operations on 219 of these wells and will gain a WI in the other 300 non-operated wells. The operated properties represent 85% of the transaction value and Indigo plans to drill hundreds of development wells in the future within existing well units and on the largely contiguous 40,000 net undeveloped acres also being acquired.

Analysts at Tudor Pickering Holt valued the transaction at ~\$50,000/boepd, in line with year-to-date deals (\$48,000/flowing BOE for seven recent Midcontinent/Gulf Coast deals).

For privately-owned Indigo, the acquisition follows a divestment phase in 2008/ early 2009. Previous divestments involving various Haynesville Shale mineral and leasehold positions have netted Indigo ~\$611 million in the past year.

Indigo was formed in 2006 as a venture between Yorktown Partners, the Martin Companies, Bank of America Capital Investors and Indigo Management, and has established itself as one of the largest private companies operating onshore the U.S. Gulf Coast.

Through its relationship with the Martin Companies, Indigo began with 425,000 fee mineral acres. In December 2007, Indigo paid \$61.5 million for another ~300,000 net mineral and royalty acres and volumes of 420 BOEPD from Callon Petroleum.

In August 2007, Indigo acquired producing assets in the Ark-La-Tex region from an undisclosed seller for \$27.9 million. The assets included seven fields with 60 producing wells.

But Indigo's Founder and Chairman Bill Pritchard, who began his career as a petroleum geologist with Marathon, has a history of building a lucrative position then cashing out. In 2003, he co-founded Peak Energy Resources, building up the company's portfolio in the Buffalo Wallow Field, where it averaged 25 to 30 MMCFeD and had 120 BCFe in proved reserves. He then sold the field, along with 33,000 acres, to Forest Oil in 2005 for \$230 million. Then in 2006, Pritchard sold the company's remaining assets in the Barnett, to XTO for \$105 million.

After taking over Indigo, Pritchard began cashing in on the company's Haynesville Shale rights. Last June, Indigo sold a portion of the rights in North Louisiana to EnCana for \$457 million. Assets included 89,500 acres of fee minerals, unleased minerals and interests in 242 wellbores.

Unlike Chesapeake, Indigo has been selling Haynesville rights to drill shallower objectives. Despite the recent divestitures, the company still owns some 635,000 net fee mineral and royalty acres located primarily in the Upper Gulf Coast.

In addition to its minerals, pro forma the Chesapeake acquisition, Indigo will own over 150,000 net leasehold acres in North Louisiana, East Texas, Alabama and Arkansas. The combination of its existing WI assets, large mineral position and producing properties and leasehold to be acquired from Chesapeake, Indigo will be one of the largest private E&P companies in the onshore Gulf Coast Region. Pro forma net production will approach 40 MMCFeD and total proved reserves will exceed 220 BCFe.

### QuickLook

1. Chesapeake books traditional sale in lieu of VPP or JV
2. Indigo makes "large acquisition" over drill, exploit and sell model
3. Chesapeake's conventional sale will service debt and fund unconventional drilling appetite
4. Ah, but Chesapeake keeps Ark-La-Tex deep rights
5. Buyer pays \$218 MM for 26 MMCFD and 40,000 undeveloped acres
6. What's next for both? More of the same?

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