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September 10, 2023

Oil Equity Investing Primer: Upstream

Everything you need to know before investing in upstream energy companies …

It's early September, and we're up ~15% YTD in the MO portfolio. We've done that by picking and holding winners in the energy/energy service space like Tidewater (up 100%+) and Vista Energy (up 200% from our original entry).

We've been oil bulls for the past three years and think it'll be one of the best-performing sectors over the next three due to secular CAPEX cycle dynamics and a fracturing global trade system

Because of this view, we want to share with you the Paretto's 80/20 of what's essential in understanding and analyzing this industry along its value chain, so here's what this report will cover...

The report is broken into three parts, each coordinating with a different part of the Energy Value Chain (Upstream, Midstream, and Downstream).

In each piece, we'll dive deep into the nuances of each value chain subcomponent and explore the most essential topics like:

- ➢ How to read financial statements
- ➢ How to value each business
- ➢ What matters most at each part of the value chain
- ➢ Common generalist analysis mistakes when analyzing each value chain component

By the end of the reports, you'll possess all the tools needed to analyze and value *any* energy-related investment *without any* of the noise. Tools that will help you capture the market-beating alpha that will come from investing in energy over the next decade

Let's get after it, starting with the Upstream Energy Value Chain.

Where It Begins: Upstream Energy Value Chain

Upstream companies extract oil from the ground. The most common upstream company is an Explorer and Producer ("E&Ps"), which finds/buys land and drills wells in hopes of striking Black Gold.

Journey Energy (JOY) and Vista Energy (VIST) are examples of E&Ps.

How To Analyze an Upstream E&P

There are only a few variables that drive profits (and returns) for E&Ps:

- Average oil price at the time of sale
- Average operating cost per barrel
- Total barrels sold during the period

E&Ps can't control the oil price, but that doesn't mean you shouldn't pay attention. Shubham Garg, one of the most intelligent junior E&P investors in the game, believes anyone investing in E&Ps *must* have a wildly optimistic bullish view of oil prices.

I'm paraphrasing our podcast conversation, but he said (emphasis added):

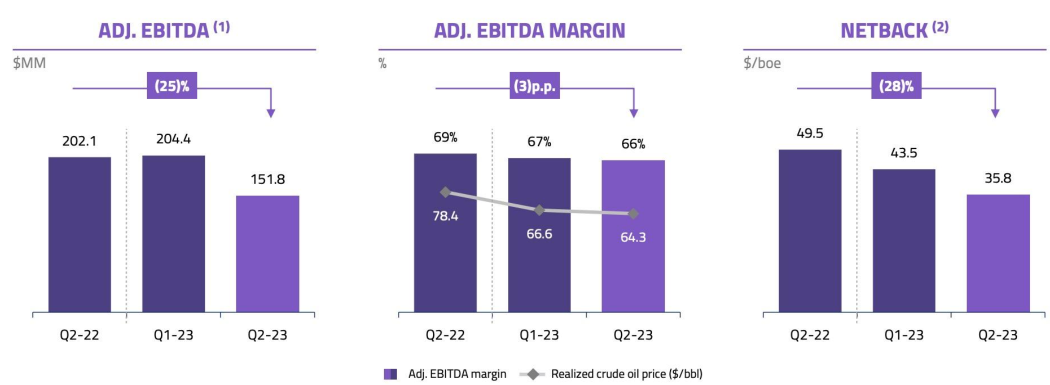
> *"If you're going through the trouble of investing in these small, highly leveraged, highly cyclical companies, why would you not have anything but an extremely optimistic view on the future price of oil (12-18 months out).*
>
> ***There's too much embedded risk already in the industry to buy stocks hoping for $75-$80 oil.*** *You can make a good return with substantially less risk elsewhere.*
>
> *You should believe that oil will trade over $100 in the next year if you want to invest in E&Ps."*

That doesn't mean you should believe oil will hit $300. However, it does express the importance of having a bullish view that justifies the risk of investing in E&Ps.

The next step is analyzing how efficiently the company produces oil from its wells (operating costs) and how quickly those wells run out of oil (decline rates).

E&P "Netbacks"

Take Vista Energy (VIST) as an example with a slide from their most recent investor presentation below.



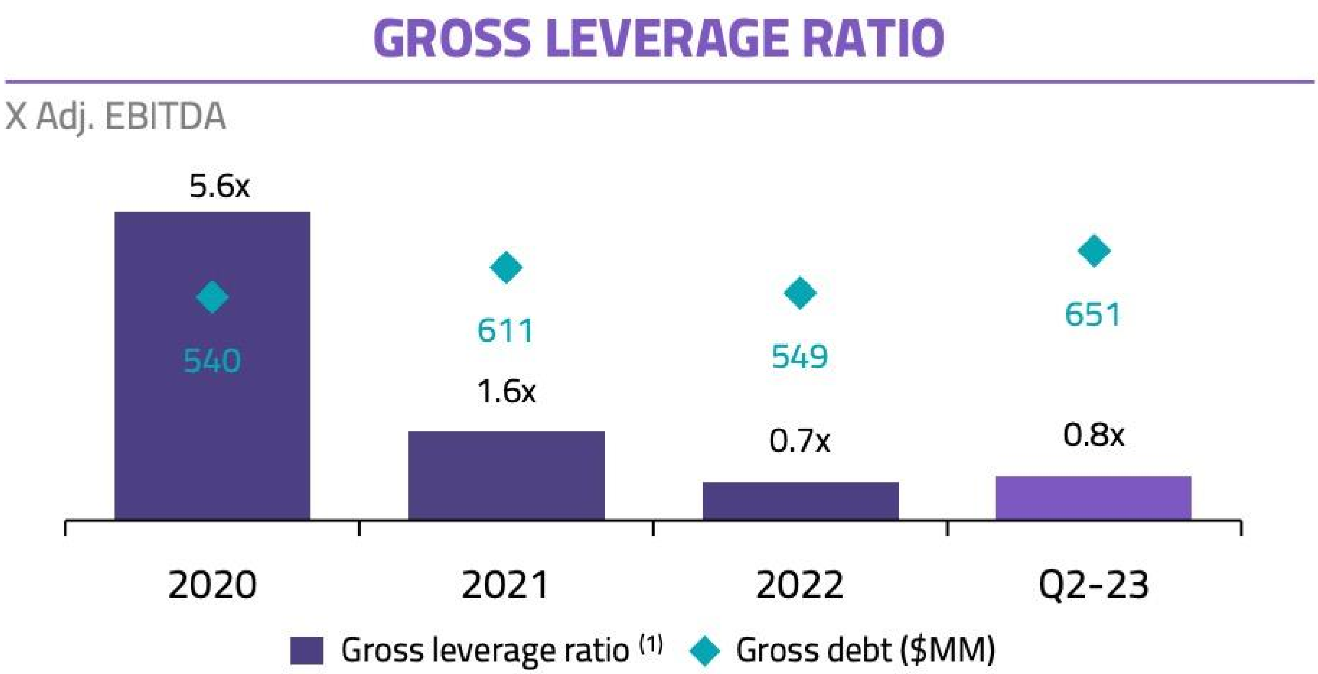
Notice the term **“Netback.”**

Netback is the difference between operating costs per barrel and the average sale price per barrel. VIST’s average sales price per barrel of oil (boe) during the quarter was $64. So a netback of $36 implies a ~$28/boe in operating costs.

- ➢ **Average Oil Price:** $64
- ➢ *Less* Average Operating Expense: $28
- ➢ **Netback:** $36/boe

Generally, investing in companies with low operating costs (i.e., high Netbacks) is a smart idea. High Netbacks allow a company to generate outsized profits in a low oil price environment while the higher-cost competitors break even or lose money.

This was evident in VIST’s case as they generated enough free cash flow to reduce their gross leverage from 5.6x EBITDA in 2020 to 0.8x as of Q2 2023.



There are drawbacks to investing in low-opex producers. For starters, the market also knows these are great businesses and usually gives them above-industry average multiple ratings.

Two, as oil prices climb, the relative advantage as a low-cost producer shrinks as high-cost producers print money above a specific oil price ($85-$100).

What about high-cost producers? High-cost producers provide the highest torque on returns.

The reason is that in a high oil price environment, these companies quickly flip from losing gobs of money to making money hand over fist. This results in a substantial multiple re-rating as the market recognizes the high-cost producer's earnings power and cash flow generation.

The beauty of high-cost producers is that you don't need a long time horizon to make your nut. For instance, it's common for high-cost producers to trade at one or two times "normalized" quarterly cash flows in an oil bull cycle.

The caveat is that you must correctly time the oil price cycle, or you'll lose your shirt.

In contrast, you can ride out most oil price environments by investing in a low-cost producer.

Let's dive deeper into an E&P's operating costs.

Geology & Geography: The Most Important Operating Cost Factors

Operating costs are a function of two things:

- **Geology**
- **Geography**

Most of this information will sound familiar regarding mining stocks (read: copper).

We all know Buffett's "you can put a good manager in a bad business and its the bad business that wins" quote. The same applies to geology and geography.

You can have the best operating team, the sharpest CEO, and the most shareholder-friendly investment base. None of that matters if you strike Bad Rock.

Bad Rock makes the entire E&P process more expensive.

Good geology: The Permian Basin is highly porous, almost sponge-like rock. Sometimes, these rock formations "stack" so that one well can produce from several different rock layers.

Bad geology: The Canadian Oil Sands where E&Ps must squeeze oil out of what looks like desert sand.

If you want to nerd out on geology, listen to my podcast with Victor Swishchuk. He's one of the sharpest oil analysts I know.

But for our purposes, remember **Good Geology = lower costs** and **Bad Geology = higher costs.**

Finally, country rules and regulations play a role in operating costs.

Two of our portfolio companies, VIST and Journey Energy (JOY), are great examples. JOY operates in Alberta, an oil-friendly province of Canada. Despite the favorable relationship, energy costs in Canada are out of control, which increases operating costs.

VIST is in the opposite situation. They operate in Argentina, which offers benefits like tax incentives and low export taxes. Both of which reduce operating costs.

It's okay if you're not a petroleum engineer! You don't need an advanced degree to separate the SIGNAL from the NOISE. Use common sense. Ask yourself:

- ➢ **What type of rock/substrate are they drilling into? (Easy or hard?)**
- ➢ **How remote is the drilling location? (More remote = more expensive)**
- ➢ **What is the history of the town/city/country's relationship to E&Ps? (good jurisdictions reduce opex)**
- ➢ **Is the host country friendly or adversarial to E&Ps/oil companies? (Oil-friendly countries provide tax incentives)**

    ***Note:* *Twitter is a fantastic resource to ask questions about different locations. For example, I frequently discuss ideas with Bison Interest's Josh Young or White Tundra Petroleum's Shubham Garg. Take advantage of the power of networks!*

RECAP – REMEMBER THE SIGNAL:

- ➢ **Low-cost operators generate cash through the cycle but lose cost advantage in higher oil price environments**
- ➢ **High-cost operators provide the highest torque on investment returns with higher risk**
- ➢ **Geology and geography play a critical role in operating costs**

At this point we know what E&Ps do, what drives operating costs, and the difference between low-and-high cost operators.

Next, we'll discuss another often-forgotten lever to E&P cash flow: decline rates.

Decline Rates: What They Are & Why They Matter

As the name suggests, decline rates quantify the rate at which a well runs out of oil. A good way to think about it is like a gumball machine.

Suppose we have two different machines. Machine A releases one gumball at a time. The other, Machine B, releases two. Now, let's assume that we start with 100 gumballs.

By the end of the week, Machine A had 93 gumballs, while Machine B had 86. We can calculate each machine's Decline Rates as follows:

- Machine A
  - Starting Amount: 100
  - Weekly Releases: 7
  - **Weekly Decline Rate: 7%**
- Machine B
  - Starting Amount: 100
  - Weekly Releases: 14
  - **Weekly Decline Rate: 14%**

Machine B reduces its gumball count twice as fast as Machine A, which means Machine B must spend *twice as much money* to get its gumball count back to 100.

The same principles apply to oil wells.

The faster an oil well depletes, the more money E&Ps must spend to replenish lost production and generate equivalent barrels.

This is why some of the most successful energy investors, like Josh Young of Bison Interests, favor **low-decline** production assets, which generate higher cash flows because they require less replacement capex.

How do you define "low decline"? I asked a few of my energy HF buddies, and they all said **~20% or less.**

Sometimes, E&Ps make your life easy and tell you, "this is our decline rate."

But in most cases, you have to fish for it. Here's how.

E&Ps report something called **"Depletion & Depreciation."** This tells you how many barrels the company depleted from its reserves during the period. Check out Pipestone

Energy's (PIPE's) **Depletion & Depreciation** footnote in their Q2 2023 report (see below).

	E&E assets	Liquids and natural gas interests	Corporate	Total P&E assets	ROU assets
Cost	$	$	$	$	$
Balance, January 1, 2022	29,752	845,759	972	846,731	97,659
Additions	134	245,197[1]	396	245,593	26,046
Property acquisitions	-	96	-	96	-
Transfers	(10,225)	10,225	-	10,225	-
Decommissioning provisions (note 8)	-	(1,679)	-	(1,679)	-
Expiries	(2,383)	-	-	-	-
Balance, December 31, 2022	17,278	1,099,598	1,368	1,100,966	123,705
Additions	1,090	171,207[1]	44	171,251	288
Property acquisition	-	101	-	101	-
Decommissioning provisions (note 8)	-	1,478	-	1,478	-
Expiries	(829)	-	-	-	-
Balance, June 30, 2023	17,539	1,272,384	1,412	1,273,796	123,993
Accumulated depletion and depreciation					
Balance, January 1, 2022	-	122,521	258	122,779	14,967
Depletion and depreciation	-	83,260	76	83,336	10,350
Balance, December 31, 2022	-	205,781	334	206,115	25,317
Depletion and depreciation	-	63,661	36	63,697	6,275
Balance, June 30, 2023	-	269,442	370	269,812	31,592
Carrying amount					
Balance, December 31, 2022	17,278	893,817	1,034	894,851	98,388
Balance, June 30, 2023	17,539	1,002,942	1,042	1,003,984	92,401

(1) Pipestone Energy capitalized direct general and administrative expenses of $1.0 million and $1.9 million during the respective three and six months ended June 30, 2023 (year ended December 31, 2022 - $3.3 million).

The above shows that PIPE depleted $83.26M in reserves in 2022 and $63.661M in 2023. That's cash that the company *must* spend to replenish its reserves instead of paying down debt or buying back stock.

You can also see it on the company's Cash Flow Statement as a cash outflow (see below).

	Note	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
		$	$	**$**	$
Cash flows related to:					
Operating Activities					
Income		**15,240**	82,095	**46,122**	109,147
Add (deduct) items not involving cash:					
Unrealized (gain) loss on interest rate risk management contracts	4(c)	**-**	(591)	**634**	(1,477)
Unrealized (gain) loss on commodity risk management contracts	4(c)	**(2,296)**	(23,031)	**2,108**	8,582
Non-cash share-based compensation	10(e)	**1,318**	346	**2,731**	1,782
Exploration and evaluation	5	**-**	829	**829**	829
Depletion and depreciation	5	**34,217**	19,807	**69,972**	37,750
Deferred income tax expense		**4,549**	25,085	**15,161**	32,663
Non-cash financing expense	12	**331**	1,603	**683**	3,184
Decommissioning provision costs incurred	8	**(14)**	-	**(75)**	-
Change in non-cash working capital	13	**(12,388)**	23,456	**(19,208)**	1,151
Cash from operating activities		**40,957**	129,599	**118,957**	193,611

In the case of PIPE, their high decline rate adds another $10.30/boe in expense. That's nearly 13% of PIPE's available netback margin at $80 oil from depletion alone.

Depletion and Depreciation Expenses

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
Depletion *($ thousands)*	**31,068**	17,424	**63,661**	32,872
Per boe *($)*	**10.30**	6.22	**10.30**	6.22
Depreciation – ROU lease assets *($ thousands)*	**3,131**	2,365	**6,275**	4,842
Per boe *($)*	**1.04**	0.84	**1.02**	0.92
Depreciation – Corporate assets *($ thousands)*	**18**	18	**36**	36
Per boe *($)*	**0.01**	0.01	**0.01**	0.01
Total D&D expense *($ thousands)*	**34,217**	19,807	**69,972**	37,750
Per boe *($)*	**11.35**	7.07	**11.32**	7.15

In some instances, buying high-decline assets makes sense, like if an E&P has massive inventories and generates high IRRs on those reserves.

We prefer the low-decline producers at MO and can leverage IRRs through position sizing.

RECAP – REMEMBER THE SIGNAL:

- **Decline rates quantify the rate at which a company depletes its oil reserves.**
- **Low decline rates are attractive because they require less sustaining capex to replace**
- **High decline rate production can be valuable if the company has ample reserves and generates high IRRs on those high-decline wells.**

Next up is valuation.

How To Value An E&P

There are three ways to value an E&P:

- **Asset-based**
- **Cash flow-based**
- **Comparable transactions (or Market-based)**

Let's start with Asset-Based.

Asset-Based Valuation: PV-10

E&Ps have one primary asset: oil and gas reserves. From an accounting standpoint, E&Ps split their reserves into two broad categories: **proved** and **unproved.**

Proved reserves are further divided into three categories:

- Proved Developed Producing (PDP)
- Proved Developed Nonproducing (PDNP)
- Proved Undeveloped (PUD)

PDP reserves are the oil and gas assets that the company is **currently producing.**

PDNP reserves are assets that the company **has developed** (read: drilled wells to confirm the existence of oil/gas) **but isn't currently extracting.**

Finally, PUD reserves are assets the company has **earmarked for eventual development and potential production.**

Unproved reserves are split into two categories:

- Probable
- Possible

Probable reserves are anything with a 10% chance of recovery. Possible is anything above 10%.

E&Ps value these assets on a PV-10 basis. A PV-10 is like a DCF for oil reserves. The company picks an average oil price and then estimates the private value of all its barrels in PDP, PDNP, and PUD using a 10% discount rate.

> ****Note:** Oil investors debate the discount rate appropriate for valuing oil assets. On one side, investors like Shubham Garg believe you shouldn't apply a discount rate to oil assets because they will always be valuable. Conversely, people like WTIBull on Twitter believe most discount rates should be higher than 10% to account for the individual company risk.*
>
> ***My take:** Use PV-10 as a starting point, then adjust your oil price to reflect where oil will trade in 12-18 months.****

I like Geoff Gannon's (from Focused Compounding) take on PV-10 valuations from his Vitesse Energy (VTS) write-up (emphasis added):

> *"The PV-10 estimate may be unrealistic in two (possibly somewhat offsetting ways). On the one hand, the discount rate used for the PV-10 is currently very high versus risk-free rates in the economy.*
>
> *Risk-free rates for assets of a similar lifespan as Vitesse's reserves are probably less than 4%. They are also not protected in any way from inflation.*
>
> *Inflation is meaningful right now. And the PV-10 calculation does not inflate both revenues and expenses in the calculation.*
>
> *This results in a calculation that uses lower and lower real dollars in each year's cash flows despite the fact that both unit costs and unit revenue (oil prices) are more likely to maintain a similar real dollar value than a similar nominal dollar value.*
>
> *So, the discount rate being used here is very high relative to any sort of inflation-indexed risk free rates."*

Here's an example of VTS valuing its PDP, PDNP, and PUD assets using the PV-10 method (see below).

RESERVE CATEGORY	SEC PRICING PROVED RESERVES [1]					
	RESERVES VOLUMES				PV-10 [3]	
	OIL (MBbls)	NATURAL GAS (MMcf)	TOTAL (MBoe) [2]	%	AMOUNT (in thousands)	%
PDP Properties	17,149	58,778	26,945	62 %	$ 786,959	67 %
PDNP Properties	141	119	161	— %	6,577	— %
PUD Properties	13,155	21,217	16,691	38 %	386,448	33 %
Total	30,445	80,114	43,797	100 %	$1,179,984	100 %

(1) Oil and natural gas reserve quantities and related discounted future net cash flows are valued as of December 31, 2022 based on average prices of $94.14 per barrel of oil and $6.36 per MMBtu of natural gas. Under SEC guidelines, these prices represent the average prices per barrel of oil and per MMBtu of natural gas at the beginning of each month in the twelve-month period prior to the end of the reporting period.

(2) MBoe are computed based on a conversion ratio of one Boe for each barrel of oil and one Boe for every 6 Mcf of natural gas.

(3) PV-10 is a non-GAAP financial measure that does not include the effects of income taxes on future net revenues, and are not intended to represent fair market value of our oil and natural gas properties. For a definition of and reconciliation of PV-10 to its nearest GAAP financial measure, see the reconciliation schedules at the end of this release.

Vitesse's PV-10 and proved reserves at year-end 2022 do not include the recently closed VO acquisition, which had a year-end PV-10 value of $65.6 million at SEC Pricing and proved reserves of 2.1 million Boe. Vitesse's year-end 2022 pro forma PV-10 and proved reserves, giving effect to the acquisition of VO, were $1.25 billion and 45.9 million Boe, respectively. The reserves are calculated under SEC guidelines relating to both commodity price assumptions and a maximum five-year drill schedule. The SEC Pricing used as of December 31, 2022 was $94.14 per barrel of oil and $6.36 per MMBtu of natural gas. See "Non-GAAP Financial Measures" below regarding PV-10 value.

One last thing on PV-10 valuations … It's essential to note the implied oil price in a company's PV-10 calculation. VTS used an implied oil price of $94 per barrel to calculate the PV-10 value (see footnote above).

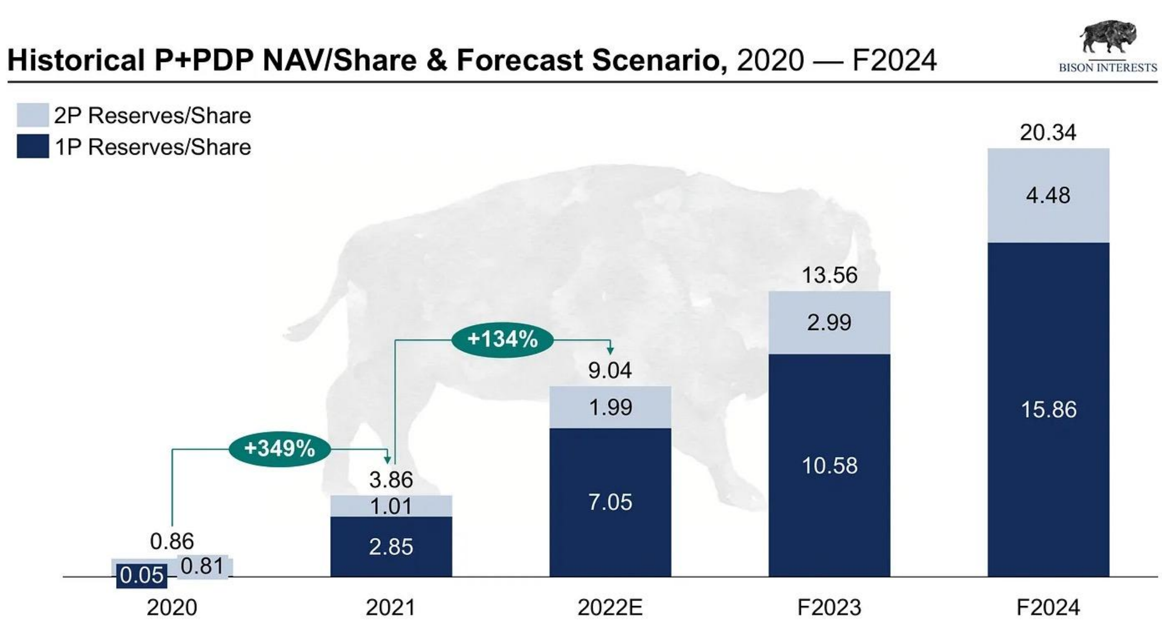
The number itself isn't good or bad. It's all about your view on where oil will trade over the next 12-18 months. If you're bearish, $94 probably sounds too high. But if you're someone like Kuppy who thinks oil will hit $300, $94 is cheap.

What Is Cheap On An Asset-Basis?

The most undervalued E&Ps will trade at a **large discount to *their PDP* reserves.**

In other words, you can buy the E&P at a fraction of the value of their proved and producing assets **while getting PDNP and PUD for free.**

JOY is a good example of this discount (chart via Bison Interests):



Sources: Bison Interests analysis, Company January 2023 Corporate Presentation, GLJ Ltd. Independent Estimates

Our Sweet Spot at MO is a **profitable**, **low-decline producer** in a **favorable jurisdiction** with **low operating costs per barrel** trading at a **30%+ discount to its PDP reserves**.

Then there's Cash Flow Based Valuation.

Cash-Flow-Based Valuation

This is your standard DCF model for valuing any business, where the company's intrinsic value is the sum of all future expected cash flows, discounted at an appropriate rate (opportunity cost or hurdle rate).

The major difference is that E&Ps incur **depletion expenses** (see Decline Rates above), which we must add to our DCF to arrive at "true" free cash flow.

You can use online tools like FinBox.io or GuruFocus to easily value any E&P using the DCF method.

What's cheap versus expensive on a DCF basis?

Historically, E&Ps trade between 4-7x cash flow. Most junior E&Ps hang around 3-6x, whereas larger players like Meg Energy (MEG) or Tourmaline (TOU) trade around 10-15x.

Market-Based Valuation

The final method for valuing E&Ps is through a comparable transaction or market-based approach, also called "multiple valuation."

Multiple valuation is simply, *"this company trades at 5x earnings. It's industry peers trade at 10x earnings. Therefore I think over time this company should trade at 10x earnings."*

That's a crude definition.

Still, it gets the point across that Market-Based Valuation relies on industry peers and comparing business characteristics to determine an appropriate "private" transaction value.

E&Ps come with their own unique multiples:

- **Enterprise Value-to-Proved Reserves (EV/P2P)**
- **Enterprise Value-to-Daily Production (EV/DP)**
- **Enterprise Value-to-EBITDA+Exploration Expense (EV/EBITDAX)**

The most common example of Market-Based Valuation is EV/Reserves. Another way to frame that multiple is a market price per barrel of oil in reserves.

Let's use a recent transaction between Permian Resources and Earthstone Energy as an example.

Permian Resources bought Earthstone Energy for ~$4.47B in late August. For $4.47B, Permain bought 133K barrels of oil per day (boed) in production for a valuation of **$33.6K/boed.**

So many investors favor multiple/market-based valuations because it's evidence that buyers are willing to pay *at least* $X per barrel of oil in daily production.

From there, you can scour the market to see if there are similar E&Ps that trade at a significant discount to the quoted boed acquisition price.

Ensure that the comparable E&P closely resembles the acquired company in decline rates, jurisdiction, operating costs, and oil-to-natural gas production percentages.

What's cheap versus expensive on a market-based valuation?

The short answer is it depends on all the factors we mentioned above. But more importantly, Market-Based valuation is a function of where we are in the energy/oil cycle.

During a raging bull market, E&Ps can trade around $70K, $80K, and even $100K/boed. During a bear market, you'll get ~$15-30K/boed and a slight discount to P2P.

RECAP – REMEMBER THE SIGNAL:

- **Asset-Based Valuation uses a PV-10 method on PDP, PNDP, and PUD reserves**
- **Cash Flow Based Valuation uses a DCF model to value E&Ps**
- **Market-Based Valuation uses EV/P2P, EV/DP, and EV/EBITDAX to value comparable companies**

If you've read this far, congrats. Take a break from the firehose and relax. You now have all the information you need to properly analyze and value an Upstream E&P company.

This is good news because we're entering a massive energy bull market. One that will create generational wealth for those willing to do the work, study the businesses, and invest in the most asymmetric opportunities.

But there are other players in the Upstream space besides E&Ps. Companies that make extracting oil possible.

Let's dive into the Ancillary Upstream Value Chain Players.

Ancillary Upstream Value Chain Players

Upstream companies also include all the ancillary products and services needed to extract the oil:

- ➢ Sand proppants
- ➢ Drilling rigs
- ➢ Well lubricants
- ➢ Seismography software
- ➢ Machine rental equipment
- ➢ Temporary workforce housing
- ➢ Land survey technology

We can simplify the long list above into three broad categories:

- ➢ **Energy Services:** help analyze and/or deliver materials needed to extract oil
- ➢ **Consumables:** materials needed to extract oil
- ➢ **Equipment:** machines that extract the oil

There are a few important things to remember when investing in ancillary upstream companies.

First, these are not "good" businesses by any Compounder-Bro definition.

Most of these companies possess little-to-no competitive advantage or pricing power. Almost all of these assets are replaceable/substitutable to some degree. And management teams in these industries are notorious for destroying shareholder capital.

The good news is that **<u>none of these things matter.</u>** We don't care about "good" or "bad" businesses. We care about mispricings.

So if we can't develop conviction around qualitative factors, what can we use?

The answer is **Replacement Cost Valuation.**

Why Replacement Cost Matters

Replacement cost measures how much it would cost someone (a competitor or new entrant) to replace (i.e., build new) the company's existing assets.

Here's why replacement cost is so important in the energy industry. We've spent the past decade (or more) underinvesting in this space. There are several reasons why:

- **ESG mandates**
- **Lack of financing (due to ESG)**
- **Total investor apathy**
- **Recent oil boom/bust cycle**
- **Recent industry bankruptcies**

The good thing about underinvestment is that it makes existing equipment and services more valuable (there aren't dozens of MBAs fighting to build a new US refinery).

Add to that an extended period of lower oil prices, and you have a perfect storm of zero capital investment that meets structurally higher replacement costs.

Judd Arnold's thesis on Tidewater (TDW) is an excellent example of the power of replacement costs. TDW provides offshore support vessels (or OSVs) to the offshore energy industry.

The industry emerged from a massive boom-bust cycle that bankrupted OSVs and the shipyards that built them.

Supply shrank because nobody wanted to (nor could they) build new boats. Meanwhile, large energy companies like Petrobras and Shell still needed OSVs.

As a result, TDW traded post-bankruptcy at a fraction of what it would've cost to replace (rebuild) its ship fleet.

Another example is NORAM Drilling (NORAM). The company operates 14 Super Spec rigs in the Permian Basin.

Like TDW, nobody's building new super spec rigs with oil around $60-$80, as day rates needed to exceed $30K+/day to justify new builds.

The result? You could've bought NORAM for a 30% discount to the replacement cost of its super spec rigs and gotten the rest of the business for free.

I like how my friend Kuppy puts it … *“It’s never a bad thing when you’re buying critical assets at fractions of their replacement costs.”*

How To Find Replacement Cost Values

The next logical question is, *“how do I find the replacement value of these assets?”*

It’s a good question and one that doesn’t have a clear answer.

The best solution that I’ve found is to **ask around and develop an expert network**. Get on the phone and talk to smaller cap energy service companies. Read their annual reports. Often, you’ll find replacement cost values buried in the footnotes.

If the replacement cost-to-market cap discount is large enough, management will put it in an investor presentation.

Also, seek out hedge fund managers with significant exposure to the energy space. My podcast is a great place to start. I’ve had energy experts like Kuppy, Josh Young, Shubham Garg, and Judd Arnold on the podcast and can make a warm introduction (or ask your questions for you).

The more reps you get in the industry, the more reliable your estimates of replacement costs will become.

Conclusion

Like anything in investing, it’s easy to get lost in the complexity of a new industry, especially energy.

The good news is that a few variables move energy stocks:

- Oil prices
- Netbacks
- Reserve assets
- Replacement costs
- Good geology/geography

These six factors drive 90% of energy investment success.

Just by reading this report, you’ve done more than most generalist investors ever will at understanding the energy space.