Turning Headlines to Strategies: Lessons from the World's Largest Energy Stakeholders

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Other than breaking news stories of the day, it seems most editorial news stories in January 2020 either look back at the accomplishments and milestones that occurred in the 2010s or look forward with previews and expectations of the 2020s. At the beginning of 2010, energy independence was an ideal, a buzzword, a "yeah, maybe one day" type of goal. And, now one day is here, and our domestic producers accomplished that goal. They explored and developed shale plays in previously inaccessible (or uneconomic) regions, thanks in large part to the technical advancements of their engineers and the oilfield service industry as well as the overwhelming financial support of both institutional and private investors.

Turning toward the more forward-looking pieces, the blind optimism of energy stakeholders in 2010 has been replaced with caution and intentionality. The goal of energy independence itself supported a "growth for growth's sake" mentality; and, without that goal, energy stakeholders are pulling back, re-evaluating and focusing on much more than just production and development. New buzzwords are emerging like "sustainability" and "capital discipline," and some of the largest stakeholders in the industry are making bold, public announcements along the same lines:

- in BlackRock's annual letter from its CEO, Larry Fink wrote that sustainability should be the new standard for investing and, if companies want money (or to continue getting money) from BlackRock, that they too will invest in sustainability;

- after large impairment write-downs in 2019, Shell shared an ambitious plan to work towards carbon-neutrality;

- Halliburton, Schlumberger and Baker Hughes reported decreased domestic revenues in 2019 and have indicated an intention to pull back from domestic shale services and to focus instead on offshore projects; and

- JPMorgan has indicated an intention to roll back its reserve-backed lending programs – perhaps, as a result of a 50% increase in shale bankruptcies from 2018 to 2019 – and, instead, to focus on cash-flow based lending programs.

The uncertainty facing the industry is nothing new to long-term industry players; however, these announcements are based on more than just commodity pricing and may leave some business leaders feeling unsure of how to proactively respond to these news stories. BlackRock controls over $7 trillion in global investments; JPMorgan is a behemoth financial institution; and the same word "behemoth" could be used to describe Shell, Halliburton, Schlumberger and Baker Hughes. It can be difficult to imagine how a small- or mid-cap producer or service provider should take these announcements and implement them into proactive business strategies in 2020; however, set forth below are some high-level take-aways from the recent actions of some of the world's largest energy stakeholders.

- First, companies should focus on improving their balance sheets by showing positive cash flow and revenue generating assets, rather than pursuing growth strategies based on acreage and asset acquisitions. The increase in bankruptcies in 2019 indicates that the reserves used to collateralize debt are not producing the necessary cash flow to avoid default; and lenders are foreclosing on these loans. Moving into the 2020s, the best growth strategy is to maximize cash flow and, then, after building a strong balance sheet, a company will be in a favorable position to access debt or private investment when opportunities for growth by acquisition arise.

- Second, with so many global energy stakeholders publicly committing to pursue sustainability initiatives, and even labeling such as a fundamental corporate strategy, effective sustainability policies and practices are key to showing that a company is modern, informed and in it for the long-haul. To start, this can be done at the micro-level with low-cost efforts, such as reducing electricity or fuel consumption, that do not sacrifice the bottom-line. However, BlackRock's commitment to sustainability is ultimately a reflection of its belief that ignoring sustainability will diminish its bottom-line. By investing in sustainability now, a company is proactively securing its future in the industry.

- Third, energy companies, particularly service companies, should consider ways to diversify their revenue base. Few companies have the luxury of shifting revenue strategies from onshore to offshore like the above-mentioned global service companies; however, their efforts to widen their revenue-base certainly can be implemented at any level. A few generally applicable suggestions include: develop relationships with other energy service providers to explore opportunities for synergistic growth and joint ventures; take appraisal of the companies in your operating area pursuing sustainability efforts through alternative energy or technological advancements and see how your company can get involved; or, perhaps, pursue customers in different industries (like construction or manufacturing) that may have a need for the services or equipment you provide. Further, if revenue-diversification is a serious concern that your company wants to proactively tackle, you may consider hiring a third-party consultant with experience in organizational management for energy companies.

If the energy sector in the 2010s was like going full throttle in a speed boat, then the 2020s may be more like cruising comfortably in a pontoon. Although this picture doesn't necessarily evoke emotions of excitement and pure optimism, there is certainly security in focusing on capital discipline and financial health and pursuing new opportunities, like sustainability, that are certain to grow over the next ten years. As we enter into the 2020 earnings season, please consider dedicating a little bit of time to reviewing announcements by energy leaders and industry participants active in your market – the strategies they adopt to optimize their financial performance in 2020 just may guide you to your company's most exciting and productive year, and decade, yet.