

U.S. Frackers Slash Capital Investment to Lowest Level in Over a Decade

Falling Investment Signals a Shift To Declining Output

A cross-section of 33 publicly traded, shale-focused oil and gas producers slashed capital expenditures (capex) last quarter to the lowest level in more than a decade. All told, these companies spent \$5.8 billion on capital investments in the third quarter of 2020, down from \$13.9 billion during the third quarter of 2019—a 58% year-over-year decline (See Table 1).

Of the 33 companies, 32 cut capital spending from the prior year. Only National Fuel Gas boosted its capex, after paying more than \$500 million to buy Appalachian gas assets from Shell—a transaction described as a “fire sale” because Shell originally purchased the properties as part of a 2010 deal valued at \$4.7 billion.¹

Steep cuts in capital spending allowed these fracking-focused firms to generate \$2.6 billion in free cash flow for the quarter—paradoxically, the strongest cash flow results for the sector since the dawn of the fracking boom. Free cash flow—defined as the amount of cash a company generates from its core business operations, minus its capital spending—is a key metric of a company’s ability to pay down debt and reward stockholders.

Yet investors will likely see little reason to cheer in last quarter’s results. Shale wells quickly decline after an initial gush, so shale-focused companies must continually drill new wells to maintain production. The steep capex cuts over the last two

Key Findings

- 33 fracking-focused gas companies slashed capital spending to \$5.8 billion last quarter, a 58% year-on-year drop.
- Capital investment hit the lowest level in a decade, signaling production cuts in upcoming quarters.
- Low capex allowed these companies to generate significant free cash flow for the first time since the dawn of the fracking boom.
- Low capex reinforces a pessimistic outlook for an oil and gas sector that has stopped investing in growth.

¹ Marcellus Drilling News. [Fire Sale: Shell Sells All Remaining PA M-U Assets for \\$541M](#). May 5, 2020.

quarters foretell dwindling oil and gas output in the future—suggesting that the U.S. shale sector has stopped investing in its own growth.

Frackers' quarterly results were buoyed by an uptick in oil and gas prices from their second-quarter lows. West Texas Intermediate prices rose to almost \$41 per barrel during the third quarter, up from just an average of less than \$28 per barrel in the prior quarter.² The 33 companies reported aggregate operating cash flows of \$8.4 billion for the third quarter—far less than the average of the past several years, although a significant increase from the \$5 billion the industry generated in the disastrous second quarter of 2020.

Continued weak prices, uncertain global demand, and a history of financial underperformance have left U.S. shale companies struggling to attract new capital. For most of the past decade, fracking-focused companies regularly spent more on drilling and other capital investments than they generated by selling oil and gas. These cash flow challenges forced many oil and gas producers to borrow heavily to finance new drilling, which left them vulnerable to insolvency. More than 250 North American exploration and production companies have filed for bankruptcy since 2015, restructuring more than \$175 billion in debt.³

In light of the sector's deep financial challenges, a growing number of banks has pulled back from lending to the oil and gas sector. Hancock Whitney, for example, sold its energy portfolio in July for \$497 million.⁴ These financing challenges may accelerate. Banks are soon expected to slash the valuation of oil and gas reserves against which many oil and gas companies borrow for working capital.⁵

Moving forward, U.S. shale companies may continue to restrain capital spending to conserve cash and stave off bankruptcy. Yet a decline in capital investment would further buttress a pessimistic outlook for the sector, reinforcing the idea that the oil and gas industry has pulled back from investing in its future, and instead has settled for managing its own decline.

² IEA. [WTI Spot Prices](#). December 2020.

³ Haynes & Boone. [Oil Patch Bankruptcy Monitor](#). October 31, 2020.

⁴ S&P Global. [Hancock Whitney to sell \\$497M in energy loans](#). July 17, 2020.

⁵ Haynes & Boone, LLP. [Borrowing Base Redeterminations Survey: Fall 2020](#). October 12, 2020.

Table 1: Capital Expenditures, Selected U.S. Oil and Gas Exploration and Production, in Millions

Company Name	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	
CAPITAL EXPENDITURES: US CURRENCY																				
Antero Resources Corporation	(510)	(435)	(982)	(568)	(516)	(680)	(522)	(499)	(546)	(563)	(567)	(534)	(472)	(342)	(292)	(316)	(312)	(264)	(151)	
Apache Corporation	(565)	(478)	(440)	(466)	(513)	(711)	(773)	(763)	(877)	(1,017)	(942)	(1,068)	(863)	(803)	(682)	(613)	(531)	(335)	(239)	
Cabot Oil & Gas Corporation	(92)	(67)	(86)	(130)	(208)	(185)	(193)	(178)	(156)	(231)	(260)	(247)	(196)	(226)	(199)	(168)	(149)	(182)	(147)	
Callon Petroleum Company	(51)	(25)	(47)	(67)	(66)	(80)	(121)	(153)	(111)	(187)	(157)	(159)	(193)	(166)	(144)	(137)	(224)	(206)	(137)	
Chesapeake Energy	(342)	(718)	(503)	(557)	(531)	(669)	(635)	(387)	(440)	(595)	(501)	(461)	(530)	(575)	(593)	(565)	(518)	(349)	(106)	
Cimarex Energy Co.	(186)	(157)	(166)	(213)	(320)	(280)	(333)	(345)	(343)	(364)	(520)	(444)	(351)	(401)	(306)	(265)	(292)	(164)	(73)	
CNX Resources	(78)	(38)	(64)	7	(104)	(146)	(150)	(233)	(232)	(264)	(297)	(322)	(299)	(329)	(336)	(228)	(152)	(135)	(108)	
Concho Resources Inc.	(389)	(278)	(280)	(1,511)	(459)	(434)	(1,099)	(541)	(493)	(478)	(856)	(895)	(938)	(816)	(706)	(780)	(595)	(346)	(305)	
Continental Resources	(361)	(269)	(255)	(280)	(395)	(492)	(572)	(494)	(628)	(743)	(763)	(780)	(754)	(805)	(782)	(520)	(707)	(314)	(163)	
Devon Energy	(2,376)	(500)	(424)	(388)	(417)	(447)	(473)	(321)	(568)	(553)	(567)	(483)	(500)	(499)	(541)	(401)	(429)	(308)	(204)	
Diamondback Energy Inc.	(106)	(73)	(803)	(208)	(1,898)	(396)	(546)	(413)	(486)	(617)	(561)	(1,819)	(788)	(813)	(1,203)	(898)	(900)	(581)	(306)	
EOG Resources Inc.	(573)	(615)	(654)	(741)	(947)	(1,027)	(1,094)	(1,057)	(1,441)	(1,684)	(1,649)	(1,302)	(2,000)	(1,563)	(1,491)	(1,368)	(1,689)	(449)	(486)	
EQT Corporation	(398)	(424)	(784)	(985)	(981)	(511)	(480)	21	(729)	(964)	(1,157)	(882)	(371)	(395)	(492)	(345)	(256)	(276)	(276)	
Gulfport Energy Corporation	(156)	(114)	(191)	(297)	(1,526)	(284)	(335)	(287)	(306)	(280)	(198)	(123)	(245)	(267)	(139)	(74)	(114)	(161)	(63)	
Hess Corporation	(620)	(615)	(529)	(487)	(390)	(480)	(513)	(554)	(400)	(493)	(540)	(664)	(671)	(624)	(709)	(825)	(818)	(579)	(426)	
HighPoint Resources	(63)	(26)	(6)	(13)	(58)	(46)	(57)	(80)	(89)	(132)	(102)	(131)	(132)	(130)	(118)	(51)	(40)	(72)	(8)	
Laredo Petroleum Inc.	(108)	(94)	(196)	(101)	(113)	(128)	(155)	(167)	(202)	(166)	(182)	(155)	(155)	(138)	(86)	(224)	(160)	(109)	(38)	
Marathon Oil Corporation	(441)	(287)	(221)	(255)	(283)	(492)	(530)	(669)	(662)	(638)	(769)	(684)	(615)	(647)	(672)	(616)	(620)	(326)	(144)	
Matador Resources Company	(102)	(108)	(135)	(109)	(225)	(145)	(227)	(222)	(220)	(280)	(727)	(296)	(216)	(200)	(244)	(265)	(248)	(212)	(206)	
National Fuel Gas	(173)	(123)	(100)	(106)	(102)	(107)	(136)	(143)	(119)	(142)	(180)	(178)	(209)	(201)	(201)	(198)	(197)	(183)	(644)	
Northern Oil and Gas	(20)	(18)	(29)	(26)	(20)	(22)	(33)	(44)	(58)	(102)	(150)	(164)	(78)	(113)	(226)	(151)	(104)	(85)	(60)	
Oasis Petroleum Inc.	(103)	(128)	(109)	(867)	(96)	(156)	(191)	(266)	(776)	(286)	(360)	(310)	(237)	(294)	(191)	(168)	(148)	(123)	(21)	
Ovintiv	(360)	(216)	(272)	(494)	(445)	(417)	(475)	(513)	(510)	(595)	(538)	(349)	(758)	(769)	(591)	(573)	(807)	(253)	(352)	
Parsley Energy Inc. Class A	(334)	(474)	(463)	(615)	(761)	(1,709)	(427)	(440)	(467)	(492)	(566)	(494)	(378)	(412)	(353)	(305)	(291)	(289)	(77)	
PDC Energy Inc.	(123)	(113)	(218)	(1,060)	(124)	(207)	(216)	(211)	(379)	(237)	(255)	(267)	(247)	(286)	(251)	(106)	(331)	(199)	(58)	
Penn Virginia Corporation	(14)	(1)	(1)	(5)	(18)	(26)	(24)	(48)	(78)	(124)	(122)	(107)	(86)	(89)	(116)	(71)	(62)	(51)	(26)	
Pioneer Natural Resources Company	(550)	(547)	(446)	(521)	(519)	(731)	(705)	(752)	(869)	(835)	(978)	(1,101)	(813)	(832)	(919)	(656)	(682)	(430)	(287)	
QEP Resources Inc.	(201)	(130)	(151)	(727)	(246)	(309)	(356)	(1,064)	(407)	(403)	(271)	(219)	(165)	(153)	(150)	(97)	(168)	(82)	(39)	
Range Resources Corporation	(127)	(139)	(104)	(143)	(217)	(294)	(312)	(390)	(334)	(290)	(209)	(190)	(214)	(199)	(178)	(157)	(142)	(129)	(72)	
SM Energy Company	(191)	(172)	(151)	(2,299)	(230)	(225)	(257)	(266)	(302)	(446)	(309)	(279)	(249)	(327)	(215)	(235)	(139)	(171)	(117)	
Southwestern Energy Company	(196)	(45)	(150)	(202)	(340)	(279)	(324)	(325)	(302)	(382)	(324)	(282)	(258)	(328)	(291)	(222)	(228)	(244)	(228)	
Whiting Petroleum Corporation	(263)	(102)	(80)	(108)	(135)	(204)	(300)	(218)	(178)	(223)	(320)	(237)	(196)	(242)	(200)	(168)	(148)	(77)	(25)	
WPX Energy Inc.	(185)	(106)	(149)	(138)	(237)	(305)	(313)	(306)	(321)	(339)	(353)	(463)	(451)	(323)	(316)	(272)	(314)	(305)	(215)	
Total	(10,358)	(7,632)	(9,188)	(14,680)	(13,440)	(12,624)	(12,877)	(12,327)	(14,030)	(15,144)	(16,251)	(16,089)	(14,630)	(14,308)	(13,936)	(12,039)	(12,515)	(7,967)	(5,807)	

Table 2: Free Cash Flow, Selected U.S. Oil and Gas Exploration and Production, in Millions

Company Name	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
FREE CASH FLOW: US CURRENCY																			
Antero Resources Corporation	(170)	(197)	(655)	(232)	(122)	(426)	524	(186)	(4)	(266)	(146)	287	67	(124)	(94)	(168)	(111)	(148)	25
Apache Corporation	(326)	266	211	330	(58)	40	(219)	(95)	(262)	96	64	(25)	(265)	53	(47)	165	(29)	(251)	65
Cabot Oil & Gas Corporation	(25)	18	20	10	61	76	(4)	1	117	43	(18)	69	390	101	72	95	56	(46)	(18)
Callon Petroleum Company	(35)	(1)	(2)	(31)	(13)	(37)	(67)	(72)	(19)	(79)	(41)	(7)	(119)	(16)	(30)	0	(33)	(108)	(1)
Chesapeake Energy	(763)	(623)	(127)	(811)	(432)	(826)	(304)	(185)	148	(232)	(57)	(126)	(74)	(178)	(264)	(124)	(121)	27	276
Cimarex Energy Co.	(100)	(25)	57	(28)	(70)	(25)	(82)	(4)	41	(43)	(66)	(50)	(100)	13	14	95	16	(19)	186
CNX Resources	52	58	99	83	108	(57)	32	(67)	27	(73)	(58)	(127)	10	(77)	(31)	(114)	115	9	115
Concho Resources Inc.	(19)	28	63	(1,146)	(52)	(36)	(719)	(31)	(5)	124	(85)	(198)	(315)	(37)	(41)	(11)	241	343	303
Continental Resources	(82)	(50)	112	(18)	75	(46)	(140)	237	258	11	98	175	(32)	(21)	25	284	(44)	(334)	128
Devon Energy	(2,211)	(155)	303	(125)	329	290	228	404	236	(48)	286	59	(122)	124	(40)	168	(31)	(201)	161
Diamondback Energy Inc.	(34)	(24)	(699)	(103)	(1,722)	(178)	(302)	(162)	(147)	(192)	(172)	(1,407)	(411)	(147)	(394)	(16)	(51)	(257)	236
EOG Resources Inc.	(282)	(112)	106	64	(49)	51	(133)	271	111	258	540	783	(393)	1,124	571	439	896	(360)	727
EQT Corporation	(113)	(215)	(510)	(688)	(466)	(217)	(78)	448	175	(327)	(252)	(351)	500	49	(173)	(127)	244	191	(92)
Gulfport Energy Corporation	(73)	(55)	(88)	(204)	(1,384)	(140)	(130)	(99)	(80)	(95)	22	33	(5)	(107)	79	33	17	(45)	(110)
Hess Corporation	(680)	(418)	(197)	(161)	(41)	(315)	(425)	(211)	(190)	(68)	(117)	217	(433)	51	(266)	(539)	(373)	(313)	(290)
HighPoint Resources	(23)	(17)	61	(8)	(20)	(46)	1	(53)	(35)	(118)	(11)	(60)	(54)	(109)	(21)	32	37	(88)	59
Laredo Petroleum Inc.	(51)	(11)	(89)	10	(50)	(34)	(40)	(55)	(56)	(50)	(37)	(25)	(78)	45	20	(116)	(50)	(48)	64
Marathon Oil Corporation	(372)	(89)	38	358	218	(70)	34	(38)	(13)	129	194	171	(100)	150	65	84	81	(317)	201
Matador Resources Company	(83)	(77)	(89)	(71)	(164)	(85)	(126)	(146)	(84)	(162)	(562)	(107)	(157)	(65)	(86)	(66)	(139)	(111)	(96)
National Fuel Gas	26	24	29	39	105	93	(2)	(45)	72	87	(83)	(73)	27	29	(78)	(31)	26	50	(527)
Northern Oil and Gas	35	(15)	11	(22)	9	(22)	3	(36)	(12)	(84)	(88)	(47)	21	(13)	(155)	(81)	(4)	16	(3)
Oasis Petroleum Inc.	(149)	10	(77)	(763)	12	(54)	(102)	(56)	(547)	18	(130)	(75)	(63)	(80)	60	85	(40)	(171)	74
Ovintiv	(203)	(133)	(86)	(295)	(339)	(199)	(118)	(144)	(129)	(120)	347	210	(229)	137	165	157	(241)	(136)	141
Parsley Energy Inc. Class A	(315)	(442)	(339)	(559)	(719)	(1,423)	(262)	(241)	(240)	(227)	(157)	(175)	(165)	(9)	(28)	40	95	(141)	150
PDC Energy Inc.	(22)	(16)	(55)	(935)	15	(74)	(68)	(34)	(174)	(62)	(58)	45	(90)	(25)	(18)	101	(65)	(96)	222
Penn Virginia Corporation	15	17	(13)	22	(9)	1	(10)	(16)	(39)	(42)	(49)	(28)	(17)	(4)	(26)	5	10	6	35
Pioneer Natural Resources Company	(440)	(138)	(6)	20	(155)	(248)	(251)	46	(314)	64	(104)	(187)	(209)	(43)	(25)	172	143	(101)	105
QEP Resources Inc.	(119)	8	162	(593)	(96)	(163)	(169)	(947)	(247)	(186)	27	(78)	(87)	(36)	(4)	128	(16)	(10)	291
Range Resources Corporation	(36)	(56)	(72)	39	9	(108)	(123)	(174)	36	(115)	20	26	46	(14)	(74)	(25)	(17)	(50)	(97)
SM Energy Company	(73)	(33)	7	(2,161)	(95)	(118)	(129)	(121)	(161)	(275)	(80)	(100)	(131)	(67)	(12)	7	79	(57)	85
Southwestern Energy Company	(104)	28	22	(41)	(28)	(13)	(113)	(17)	62	(82)	(17)	(30)	184	(227)	(95)	3	(68)	(150)	(75)
Whiting Petroleum Corporation	(217)	59	71	129	(54)	(93)	(201)	69	55	88	(56)	48	(47)	(9)	(61)	67	(110)	(47)	32
WPX Energy Inc.	(166)	(36)	(124)	16	(215)	(185)	(227)	(27)	(176)	(56)	(129)	(232)	(179)	39	(44)	79	(58)	(29)	175
Total	(7,158)	(2,424)	(1,856)	(7,877)	(5,410)	(4,689)	(3,723)	(1,787)	(1,597)	(2,083)	(974)	(1,386)	(2,630)	505	(1,037)	822	457	(2,991)	2,546

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