ENERGY SEP 13

A new breed of young North Texas wildcatters is striking it rich in the Permian Basin

Wire Services

John Sellers and Cody Campbell are holding court one hot August evening in the corner of an oil-themed dive bar in Midland.

After flying in on their private jet, they're shaking hands, cracking jokes and talking deals with aspiring oilmen, contractors and land traders, almost all in their early 30s. A life-size, stuffed grizzly bear stands by a wall wearing a baseball cap embossed with: "Make Oil & Gas Great Again."

It's not hard to see why Sellers and Campbell are in such high demand in this hardscrabble city that has become the global center of the shale revolution. Over the past decade, they've bought and sold tens of thousands of oil leases in the Permian Basin, making deals blessed with a handshake in diners, on the hoods of trucks and in bars such as this.

The co-CEOs of Fort Worth-based Double Eagle Energy III Holdings LLC may be the most prolific, and richest, Texas dealmakers you've never heard of. At just 36 years old, they've personally made at least $500 million combined, according to an analysis by the Bloomberg Billionaires Index, based on typical deals in the sector. They declined comment on their wealth.

The oil industry has produced many billion-dollar fortunes, from H.L. Hunt, who rose to fame in the 1930s, to Harold Hamm, who led innovations in shale that began in the 2000s. But while most were made from striking oil, the new game in town is land.

Sellers and Campbell began as land men, specialists in buying and quickly selling drilling rights, which, in Texas, are all privately owned.

Cody Campbell, co-chief executive officer and co-founder of Double Eagle Energy III Holdings LLC, is one of the young entrepreneurs running private-equity-backed companies in the frenzied boom in West Texas and New Mexico. (Callaghan O'Hare/Bloomberg)

"You can have the best drilling engineer, the best geologist, the best of everything, but if you don't own an oil and gas lease you can't drill a well," Campbell said, wearing a polo shirt, jeans and cowboy boots and sipping whiskey on the rocks. "The land man was always looked down upon because he wasn't a scientist. Not anymore."

They're not alone. Dozens of young entrepreneurs, mostly in their 30s, are running private-equity-backed companies in the frenzied boom in West Texas and New Mexico that may each be worth billions of dollars.

Whether they realize that kind of cash will depend, of course, on the vagaries of the shale industry, where consistent profits remain elusive. Rising costs and pipeline shortages have put the breaks on growth this year. And like any property boom, an early entry can make a career while being late can break one.

Many of the young men admire the late Aubrey McClendon, the founder of Chesapeake Energy Corp., who became a billionaire leasing land for natural gas drilling in the 2000s. But he's a cautionary tale: He was ousted after he had borrowed heavily betting on rising gas prices that never came.

The young upstarts are unperturbed by all that. With larger rivals continuing to bulk up — $30 billion in deals have been announced in just the past six months — they see themselves as prime takeover targets, and they're angling for that big payday.

Double Eagle doubles down

Sellers and Campbell have been friends since their days in junior high school just south of Amarillo. They played football together, first in high school and then at Texas Tech University. Sellers was a defensive lineman and Campbell an offensive lineman who'd go on to have a brief NFL career before a pectoral injury drove him out of the game.

They had gotten into real estate while in college, but business stalled in 2008 due to the financial crisis. So, on the advice of friends, they put whatever they had left into a lease in the Haynesville shale play in East Texas. They were able to quickly sell it to an operator who was looking to drill and made a profit.

For the next four years, they perfected the play, expanding to the Eagle Ford in South Texas and the Permian to the west. "It was all in, all in, all in, every time," Sellers said.

Their model at first was to simply flip leases quickly and then to participate as a non-operating partner in drilling. But they soon saw that the fast-growing world of fracking opened up a massive opportunity, one that fit perfectly with their backgrounds in real estate.

Historically, Permian wells were all vertical, meaning there was no incentive to find adjoining land. But since the late 1990s, when fracking began, shale production has meant drilling sideways, pumping water, sand and chemicals at high pressure to create cracks in rock deep in the ground to release oil or natural gas.

As operators became more sophisticated, they drilled wells longer, running horizontally for two, sometimes three miles. That meant they needed to line up multiple, connected land leases. The shale game became less about finding oil and more about patching together the land needed to drill long wells. That's what Sellers and Campbell do — put the jigsaw puzzle together. And, of course, several contiguous leases that enable two miles of horizontal drilling are worth exponentially more than by themselves.

John Sellers, co-chief executive officer and co-founder of Double Eagle Energy III Holdings LLC. (Callaghan O'Hare/Bloomberg)

"In certain areas we're in now, it's thousands of people who could own units you think can be drilled," Campbell said.

In 2013, private equity came knocking. With the shale revolution well underway, Apollo Global Management LLC backed Sellers and Campbell in an Oklahoma deal in which they more than quadrupled the original investment in a year, they said.

Their biggest payout to date came last year, when they sold about 70,000 acres to Parsley Energy Inc. for $2.8 billion. Since then, they've raised more money from Apollo, assembled an even larger position of 80,000 acres and started a drilling company. Based on recent sales prices, their current holdings could be worth as much as $6 billion. They declined to comment on that estimate.

The two have a reputation for being aggressive buyers, freely paying broker commissions, a practice that often held up deals in the past.

"If someone brings us a deal, they're going to be well-compensated," Sellers said, as he finished a chicken salad, washed down with Texas-made Tito's vodka, mixed with soda. "Our philosophy is we don't care what other people make as long as we're OK with the price."

Here are profiles of other young Permian executives.

The operators

Sitting by a frack pond in West Texas next to a dirt road one hot August afternoon, Will Hickey, 31, swipes through an app on his phone. It shows the results from a recently drilled well: 2,400 barrels of oil a day. "We're making a lot of oil, baby!" he says, bumping fists with his business partner James Walter, 30.

Hickey and Walter were working at Irving-based Pioneer Natural Resources Co. and Denham Capital, respectively, when, in 2015, they decided to go into the oil business together. They moved to Midland and soon spotted an opportunity around the city of Pecos in the Delaware Basin. They raised $75 million from private equity firms Pearl Energy Investment and NGP to start their company, Colgate Energy LLC.

They bought small leases in this less-developed part of the Permian and bet they could buy others nearby or swap with larger companies, Hickey said.

Three years on, they have won $450 million of investment from private equity backers, own rights to 30,000 acres of land and moved into drilling, operating two rigs.

Of their 30 employees, all but one are under 35 years old.

"It's so fast-paced out here, the land deals, the data, the technology — it's become more and more a young man's game," Walter said. "Our office feels more like Google than Exxon Mobil."

A Colgate Energy LLC oil drilling rig in Reeves County. (Callaghan O'Hare/Bloomberg)

The investment banker

Mark Hiduke (PCORE)

Mark Hiduke, 31, had always aimed to be an investment banker, but the 2008 financial crisis limited his opportunities as a new graduate of Southern Methodist University. He soon joined Pioneer as part of a seven-member team in charge of buying and selling assets. That team racked up $6 billion in deals.

He noticed that many deals crossing his desk were too small for large companies to consider. "Leases were selling for $5,000 an acre," he said. "I thought, 'This is crazy, the valuation should be five or six times this.' "

With $100 million in funding from NGP, he started PCORE and bought small, overlooked leases and sold them just 18 months later. The deal made his investors three times their money despite a 68 percent drop in oil prices, he said.

He began a second company, called PCORE II, in 2016 with $200 million in backing from NGP, leasing land in the southern part of the Delaware Basin, which was cheaper at the time than the Midland Basin.

The land man

While running land and mineral ownership searches for Devon Energy Corp. after graduating from Tarleton State University, Tyler Glover, 33, kept coming across an odd name: Texas Pacific Land Trust.

Created to pay back creditors of the bankrupt Texas Pacific railway in the 1880s, the Dallas-based trust owns large swaths of land and mineral royalties in West Texas. After more than 100 years of selling off land, the trust was left with areas in Loving, Reeves and Culberson counties that no one wanted to buy.

It just so happened that this was the core of the Delaware Basin, the western part of the Permian and one of the centers of the shale revolution.

Glover joined Texas Pacific as a land man in 2011, the youngest person at the company by at least 15 years, he said. Texas Pacific had a market value then of just over $1 billion.

As the market woke up to the size of the company's land holdings (a 1 million acre mix of surface and royalty rights), its value has surged to $6.4 billion to make it the best-performing major U.S. oil stock never to have pumped a barrel of crude. Glover is chief executive officer, historically an administrative role.

"There is no way anyone could re-create an asset base like this today," he said. "Because of the value of the land and resources we sit on now, more active management of Texas Pacific is a necessity."

The sand man

After observing his family's coal business as a child, Kentucky-born Rhett Bennett, 37, didn't want to get into mining after graduating from the University of Georgia in 2004. So he jumped into the energy industry and, after a few twists and turns, wound up right back in the mining business.

Not mining for coal, though. Mining for sand, the grit that makes fracking possible.

Bennett first moved to Texas back in 2004. He learned about oil leases from friends and started flipping them. In 2015, he bought a big position in southeast New Mexico and sold it 16 months later to Marathon Oil Corp. for $700 million, making five times the original investment for himself and his investors, he said.

Bennett then got into supplying sand for frackers after he noticed that most of the sand used for wells was being transported by train hundreds of miles, from Wisconsin. He opened Fort Worth-based Black Mountain Sand, joining scores of other entrepreneurs trying to muscle out the Wisconsin crowd. He believes his company would be worth about $2 billion on public markets.

"If you've been around the last 10 years, you're as experienced as anybody else," he said.

Kevin Crowley and Tom Metcalf, Bloomberg

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