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Comprehensively Valuing an Asset; How a Holistic Value Approach Aligns With Specific Corporate Goals

Caitlan Capps, 3esi-Enersight; David Jones, Chesapeake Energy Corporation

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Abstract

Valuing an asset is not simply taking total potential revenue and deducting from it the estimated cost to produce that revenue. Likewise, an asset with the highest net present value (NPV) is not necessarily the best investment for a company to make. More important than its potential to generate revenue, defining the value of an asset depends on the context of the company portfolio to which the asset belongs as well as the current and future environment and infrastructure surrounding that asset. Too simple an approach in evaluating an asset can cause a distortion of results; for instance, a simple NPV calculation of one particular asset may not factor in a company's overall cash flow, any present long-term investments or existing rig contracts. Similarly, a company must take into account market risk, current interdependencies of the complex network of getting product to market, and future infrastructural and environmental challenges before moving forward with a decision. By approaching the broad term "asset value" and demarcating it to fit a specific company based on the aforementioned items, the company can holistically value an asset. Valuing an asset requires having the ability to isolate specific variables, run several iterations of calculations, and analyze the results from multiple angles, all while using data that is a true reflection of the current state of the market and asset in question. There are multiple ways of measuring value that can have drastically differing implications, and by utilizing a comprehensive approach, an asset's true value can be measured for the company performing the evaluation. In this way, any one asset's value can differ from company to company. By building a comprehensive model which takes into consideration all present and future constraints and characteristics of an opportunity, a company can evaluate numerous variables and analyze them against strategic goals.

The full paper is available for purchase at <https://www.onepetro.org/> or by contacting:
3esi-Enersight
info@3esi-Enersight.com