

## **BATTLING THE OIL ‘DEATH SPIRAL’: CONOCOPHILLIPS VS. ANTERO RESOURCES CORP.**

**Jimmy Senteza  
Inchul Suh  
Toby White  
Drake University**

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*The interplay between global geopolitics and traditional supply and demand in the oil & gas industry is the heart of this fictionalized\* case. In the context of falling global crude oil prices, two companies reliant on varying business models in their upstream undertakings are evaluated for inclusion in an investment portfolio. Learners get a deeper understanding of the pertinent value drivers in the valuation of oil & gas businesses and how they are captured. Limitations of employing traditional valuation methods become apparent and the final decision calls for deliberations beyond quantitative considerations.*

*\* All people, places and financial data are fictionalized with the exception of direct quotations from publicly available documents.*

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### **THE SITUATION**

On Wednesday, January 20, 2016, Alice Evelyn, Senior Equity Analyst for Brooks Associates, Inc., was asked to provide an overall assessment of the global oil industry and investment recommendations on oil company stocks by Rachel Adams, Managing Director for the firm’s Janus Premier Global Value Fund. Adams was intrigued by the recent collapse of oil prices and wondered if this might represent a buying opportunity. The Janus fund's objective was to invest at least 70% of its net assets in undervalued stocks for long-term capital appreciation. The Janus fund focused on a fundamental-oriented approach to investing in mid-to-large cap companies and currently had a sizeable cash position after rebalancing their portfolio at the end of 2015.

A quick survey of commodity prices indicated that the benchmark price for crude oil (the WTI spot price) had dropped from \$107 in June 2014 to around \$27 in mid-January 2016, a 75% decrease (Exhibit 1 NOTE: All Exhibits at the end of the

case). Many oil company stocks, consequently, were experiencing precipitous declines, mirroring the crude oil price movement. However, big oil players were faring better than their smaller counterparts. Meanwhile, major U.S. shale oil producers were in big trouble: Marathon Oil's stock price declined by over 80% and Chesapeake Energy was down by almost 90% from June 2014 to January 2016. Adams wanted to avoid weaker companies that may face bankruptcies in the near future and was more interested in companies with relatively robust fundamentals. Of those companies, she wanted Evelyn to focus her analysis on ConocoPhillips (down only 59%) and Antero Resources (down only 64%).

### **TURMOIL IN THE CRUDE OIL MARKET**

Oil prices fell below \$27/barrel on January 20 (closing at \$26.55), their lowest level in about 12 years, due to intensified fears about global growth. Prices had been mostly above \$100/barrel until mid-2014, when they began a prolonged 19-month 75% slide. Although the slump had been primarily driven by oversupply from an earlier production boom, weaker global demand could delay a price recovery to 2017 or beyond. Any positive effects of cheap oil on consumer spending were being outweighed by job losses, cutbacks in capital spending, and declines in government revenues.

In late 2014, most analysts had wrongly predicted a recovery in the 2<sup>nd</sup> half of 2015. Even by September 2015, the industry average forecast was an overly optimistic \$47 for 2016's 1st quarter. Analysts on Wall Street had been continually lowering their forecasts for oil prices, but remained quite varied in their exact price points, hesitant to put forth much confidence in their predictions. Going forward, analysts expected oil prices to remain low for at least the first half of 2016. With industry fundamentals looking terrible, analysts were expecting prices to remain below \$30 (Morgan Stanley and Goldman Sachs both thought that it was possible prices would dip to \$20 a barrel). Most analysts felt that shale drillers in particular would not survive if oil prices remained in the \$30s. Many money managers, including those running hedge funds, were cutting the number of oil-related bets, both on the long and short sides, in a retreat from volatility risk.

These conditions could be related to the fallout from seven years of easy-money policy, or quantitative easing, that was now coming to an end, having distorted asset prices and created unexpected volatility. Oil prices may have become difficult to forecast because of years of cheap credit that enabled U.S. shale producers to keep pumping oil longer than expected. Accurate data on both consumers and producers was also hard to come by, increasing forecasting uncertainty.

## **PRIMARY CAUSES OF THE OIL SLUMP**

### **A. Oversupply and Space Constraints**

The global oversupply of oil, roughly 1 Mbpd (thousand barrels per day), was initially driven by technology breakthroughs that unlocked more fuel reserves from the ground; however, the oversupply was being prolonged and deepened by increasingly weaker demand (Exhibit 2). Furthermore, many of the world's biggest oil-producing countries seemed to be focusing on market share rather than trying to prop up prices (Exhibit 3). Despite the falloff in demand, total U.S. output was estimated to be 9.2 million barrels/day, 1% higher than the previous year when oil prices were 40% higher (Exhibit 4). Total U.S. inventories of crude oil and gasoline hit record levels in early January 2016, sparking worries that some regions could run out of storage space (Exhibit 5). If storage space runs out, buyers would need to store oil on ships or stop buying altogether, which would lower prices further. There were some decreases in U.S. shale-oil production recently, but these had been partially offset by increases in offshore drilling in the Gulf of Mexico.

Historically, OPEC, the international cartel of petroleum producing countries had cut production in low-price environments. This time, it had not agreed to any production cuts. Moreover, increased tension between Saudi Arabia and Iran (in the Middle East) had not had the expected effect of raising oil prices thus far. Still, late in January 2016, oil prices rebounded briefly from their nadir (below \$27/barrel) on hopes that Russia and OPEC might cooperate on production cuts. In the near-term, Iran was set to increase production since The International Atomic Energy had lifted previously imposed sanctions against it. This had the potential to flood the global oil market with even more crude oil. Iran was eager to regain market share it had lost earlier and had allegedly built the world's largest fleet of supertankers. It had 30-50 million barrels of oil ready to ship.

In the meantime, Saudi Arabia and Russia were now pumping oil at a fast clip in an effort to compete with the newfound clout of U.S. producers. However, if Russia, Iraq, Iran, and Saudi Arabia were to cut production by a mere 5% each, this would shrink global output by more than one million barrels per day, roughly equal to the current oversupply in the market.

Companies in the shale oil industry had thus far been attractive to investors after exhibiting growth rates in both earnings and share prices well in excess of those of the traditional, established crude oil producers. With all the technological improvements in drilling techniques over the previous few years, there could still be untapped potential for these companies to churn out oil quite efficiently, assuming that demand would catch up to the current oversupply. Moreover, before

market equilibrium could be restored, there was potential for major consolidation within the industry, as only the firms on strongest financial ground would be able to weather the storm and ultimately survive.

### **B. Demand Reduction**

The biggest source for global concerns about oil demand was China, the world's 2nd largest consumer (12%) of oil (Exhibit 6), since the rate of growth in China's service and manufacturing sectors had slowed considerably. From 2000 to 2010, China's rapid industrialization created soaring demand for oil, helping push oil to a record \$147/barrel in 2008. Now, China was becoming more consumer-driven and less energy-intensive. Exxon Mobil, for example, had cut its forecast for annual energy-demand growth in China to 2.2% a year through 2025, and predicted that China's thirst for energy would peak in 2030. The rate of growth in Chinese oil demand between 2015 and 2030 was projected to be only half of what it was between 2000 and 2015. The recent trends in Chinese oil demand were exasperated by the devaluation of the yuan by the Chinese government in early January 2016, which would now make imported oil even more expensive for Chinese companies and consumers.

### **C. Dollar Appreciation**

The appreciation of the U.S. dollar relative to most other major world currencies had made it more difficult for the U.S. to export its oil product (Exhibit 7). In fact, Morgan Stanley placed the majority of the blame for the recent oil slump on the strong U.S. dollar, potentially pushing oil prices down 10-25% further if the dollar continued to ascend. As currencies of other oil-producing countries had weakened, corresponding government revenues shrunk, forcing these nations to cut spending and to draw on their reserves. Emerging markets were viewed as key to the recovery of oil demand, as most developed nations had already reached their peak amid efforts to transition to more fuel-efficient vehicles.

### **D. Seasonality factors**

An unusually warm winter in both the U.S. and Europe had also lessened the demand for heating oil. U.S. gas consumption plunged as well in December 2015, as holiday shoppers increasingly did their shopping online as opposed to in physical stores and malls. Also, there could have been a recurring seasonality effect, since oil inventories are typically larger in winter months as refiners buy less crude while they are making annual repairs to their facilities.

## **IMPACT OF OIL PRICE DECLINE**

### **A. Earnings Announcements And Price Declines**

The weakness in oil prices impacted the energy industry severely. Royal Dutch Shell announced that its earnings for 2015 will be down by more than 50% from their 2014 levels (from \$22 billion to \$10.5 billion). Also, French major Total reported a 20% decline in profit for 2015 and Chevron, the first of the Big 4 (which includes Exxon Mobil, Shell, and BP) to report earnings for the 4<sup>th</sup> quarter of 2015, reported a surprise loss of more than \$0.5 billion. The last time Chevron failed to turn a quarterly profit was in 2002.

Exxon Mobil was less affected by the energy rout compared to its rivals large and small. While other competitors had lost up to 90% of their value, Exxon Mobil had lost only 27% since June 1, 2014. This compared favorably to the other members of the Big 4 [Chevron (-35%), BP (-44%), Shell (-45%)] and more modest-sized rivals ConocoPhillips (-59%) and Anadarko (-70%). Some of the strongest producers in the then bearish environment had locked in oil prices at around \$50 through previous hedges and thus were able to maintain asset levels on balance sheets.

### **B. Downsizing At Company And Industry Levels**

While the broader economy was adding jobs at a healthy rate, oil companies had shed 250,000 workers globally over the past year and had cut billions of dollars in spending. Even big oil companies were making more cutbacks to staff and investment. For example, BP was expected to lay off 4,000 workers from its exploration and production business. Chevron was readying a 2<sup>nd</sup> wave of layoffs and capital spending cuts in the \$9 billion range. They eliminated 3,200 jobs in 2015, and would likely cut 4,000 more in 2016 (an additional 10%). In 2015, shale drillers and frackers fired thousands of ground workers, but after focusing on their biggest gushers and utilizing technological improvement in efficiency, they were able to keep output to within 4% of its peak level. However, with prices in the \$30s, they were running out of cards to play, since they were already pushing cost-cutting to the limits at \$50/barrel.

Besides layoffs, companies were incurring drilling cutbacks, asset sales, and contract cancellations. American producers were expected to cut 2016 budgets by 51% relative to 2014. Globally, up to \$380 billion in oil projects were delayed or canceled in 2015. On a company-specific basis, Royal Dutch Shell was forecasted to cut costs by \$3 billion in 2016. Shell had already written off billions in abandoned projects in both the Alaska Arctic and the Canadian Oil sands over the past year. Chevron planned to sell \$10 billion in oil fields in order to finance

dividend payments going forward. It also expected to cut spending on drilling. Brazilian firm Petroleo Brasileiro slashed its budget by 25% (\$30 billion). For companies that had announced production (or dividend) declines, their stocks were getting hammered due to the negative signal these strategic moves transmitted. The U.S. Energy Information Administration predicts that companies operating in U.S. shale formations would cut production by a record 570,000 barrels per day in 2016. Even then, more than 60% of U.S. oil rigs remained idle. Oil markets could be left with a surplus of \$1.5 million barrels per day in the first half of 2016.

### **C. Bankruptcies (Looming And Existing)**

With demand for goods and services quite slack in many global economies (like China), several oil-producing countries are struggling to manage heavy debt burdens. For example, two of Asia's biggest state-owned oil producers are slashing capital spending and production plans. Petroliaam Nasional from Malaysia (or Petronas) will make \$11.37 billion (U.S) in cuts over the next 4 years. CNOOC (China National Offshore Oil Corp.) will cut expenditures by 44% relative to 2014. Thailand's PTT Exploration and Production, Indonesia's Pertamina, and Vietnam's National Oil and Gas Group have also made recent cuts.

The energy industry altogether had 26 bankruptcies in 2015, more than the previous 5 years combined. About 1/3 of the 54 oil-and-gas producers could enter into bankruptcy or be restructured by mid-2017 unless oil prices go back up above \$50. More than 30 companies that collectively owe more than \$13 billion have already filed for bankruptcy. North American oil/gas producers are losing nearly \$2 billion per week at current prices.

Oil companies have assumed high debt to finance their portion of the drilling boom, and thus have no choice but to keep pumping in order to generate cash for interest payments. They may be drilling themselves into holes so deep that they will soon need to sell assets (at reduced prices) or tap revolving credit lines. Furthermore, if contemplating a joint venture for a potential rescue opportunity, traditional types of major corporate mergers are unlikely since the acquirer would need to assume the heavy debts of the acquired.

## **FUTURE INDUSTRY OUTLOOK**

### **A. Alternative Energy**

The use of renewables has grown as the markets for fossil fuels continue to struggle (Exhibit 8). However, a report by McKinsey and Company gives four reasons for why this inverse relationship between oil and renewable energy is weakening: (1) oil is used primarily in transportation while renewables are used for power generation, (2) renewables are becoming cheaper due to subsidies, competition and now savings from lower prices of fossil fuels, (3) many economies including China

are making large investments in renewables sources of energy, and (4) the science of renewables is fast improving.

### **B. Geopolitical Instability**

The geopolitical environment is currently different than it was during the oil price declines of 1986 and 1998. Iran is viewed by Saudi Arabia and others as wanting to dominate any discourse about oil in the Middle East. Iran's desire to gain access to billions of dollars of oil revenues withheld from it due to previous sanctions and its desire to boost oil production and revenue only mean that other producers may soon yield substantive market share. Iran's relations with Russia are contributing to trust issues between Saudi Arabia and Russia, two of the world's largest exporters of oil. Moreover, many emerging economies such as Ghana, Nigeria, Angola, and Venezuela, which base their future modernization on continued oil revenues have to accept that lower oil prices might be here for an extended period of time (Exhibit 9).

### **C. Shift From Oil To Natural Gas**

Some analysts believe Royal Dutch Shell, BP, Chevron and others are spurning oil-related projects in favor of natural gas, which is more environmentally friendly and both cheaper and more lucrative to use in power generation. Royal Dutch Shell, through its recent acquisition of BG Group for \$50 billion, will likely become the world's largest marketer of natural gas by 2020. This move is also seen as a bet against crude oil being the future of the energy industry. Shell will extract, liquefy, and transport natural gas that is mainly used for heat and electricity, rather than pump oil for the transportation industry. BP also expects gas to make up 60% of its production by 2020. There are also upcoming anticipated regulations (like carbon taxes) that are providing huge financial incentives for power companies to switch from coal to gas. In short, oil could get replaced by gas as the world's main source of energy around the middle of the 21<sup>st</sup> century (Exhibit 10).

## **COMPANY INFORMATION**

### **A. ConocoPhillips**

ConocoPhillips is one of the world's largest oil companies, engaging in exploration and production of oil and natural gas. ConocoPhillips was formed when the merger between Conoco Inc. and Phillips Petroleum Company was completed in 2002. The company is headquartered in Houston, Texas, and has operations in 27 countries, according to its 2014 Annual Report. ConocoPhillips' key assets include several North American shale and oil sands fields along with traditional oil assets in North America, Europe, Asia and Australia. The company's operations are managed through six geographic regions: Alaska, Lower 48-U.S., Canada, Europe, Asia

Pacific & Middle East, and Other International. It has about 18,000 employees in various locations globally.

In 2014, ConocoPhillips had 8.9 billion barrels of oil reserves and produced 1.54 million barrels of oil equivalent per day. Its product mix consisted of natural gas (43%), crude oil (39%), liquefied natural gas (10%), and bitumen (8%). The largest share of the company's production was in the Lower 48-U.S. (35% of total production), followed by Asia Pacific & Middle East (20%), Canada (18%), Europe (14%) and Alaska (12%). Despite the 4% increase in production levels from 2013 to 2014, ConocoPhillips' revenue declined from \$58.2 billion in 2013 to \$55.5 billion in 2014, while its net income also decreased from \$9.2 billion to \$6.9 billion, respectively (Exhibit 11).

ConocoPhillips' total assets in 2014 were \$116.5 billion, showing a slight decrease from \$118.1 billion in 2013. Its cash and equivalents dropped from \$6.2 billion in 2013 to \$5.1 billion in 2014 while its PPE (plant, property & equipment) increased from \$72.8 billion to \$75.4 billion, respectively. ConocoPhillips' total liabilities, on the other hand, decreased slightly from \$66.0 billion in 2013 to \$64.6 billion in 2014 while its total equity dropped from \$52.1 billion to \$48 billion. (Exhibit 12) Despite the worsening balance sheet, ConocoPhillips was able to improve its operating cash flows from \$16.1 billion in 2013 to \$16.7 billion in 2014, and invest more in capital expenditures (from \$15.5 billion in 2013 to \$17.1 billion in 2014 (Exhibit 13)).

In response to the deteriorating operating environment, ConocoPhillips made an announcement in September 2015 that it will soon cut its global workforce by 10%, or about 1,800 employees. Its North America operation saw the largest job reductions, with 500 employees being laid off from its Houston headquarters with another 400 job cuts coming from its Canadian operations. It also estimated capital expenditures of \$7.7 billion for 2016, a 25% decline from 2015. Anticipating prolonged low price levels for the crude oil market, its CEO, Ryan Lance, also announced plans to trim its 2016 operating costs, excluding certain items, by \$500 million in 2015.

To raise cash for its operation, ConocoPhillips sold many of its non-core assets, including its Russian joint venture. After operating in Russia since 1992, the company sold its 50% stake in Polar Lights Co. to Trisonnery Asset Ltd. for an undisclosed amount, completely exiting the Russian market. On the other hand, following the repeal of the four-decade-old domestic oil export ban, ConocoPhillips became the first U.S. oil producer to export oil from the Eagle Ford Shale formation in south Texas on December 30, 2015. Despite these ongoing efforts, the financial



markets pushed ConocoPhillips' stock price down from \$85.36 on June 20, 2014 to \$34.75 on January 20, 2016, a decline of about 59% (Exhibit 14).

### **B. Antero Resources**

Antero Resources Corporation (Antero) is an independent oil and natural gas company, founded in 2002 by Paul Rady and Glen Warren. The company engages in the exploration, development, and acquisition of natural gas, NGLs (Natural Gas Liquids), and oil properties in the United States. Formerly known as Antero Resources Appalachian Corporation, Antero is one of the main shale oil players, owning about 543,000 net acres of low-cost oil and gas fields in the southwestern core of the Marcellus Shale and the core of the Utica Shale, both located in the Appalachian Basin of West Virginia, Ohio and Pennsylvania. Headquartered in Denver, Colorado, it had about 444 full-time employees by the end of 2014.

Antero's production levels of NGLs and oil increased from 191 Bcfe (Billions of Cubic Feet) in 2013 to 368 Bcfe in 2014, an increase of 93%. Correspondingly, Antero's average price received for production increased from \$4.31 per Mcfe (Thousands of Cubic Feet) in 2013 to \$4.73 per Mcfe in 2014.

Thus, Antero's revenue rose from \$1.3 billion in 2013 to \$2.7 billion in 2014. Its operating income increased by more than 280% from \$341.2 million in 2013 to \$1.3 billion in 2014, while its net income improved from -\$18.9 million in 2013 to \$673.6 million in 2014 (Exhibit 11). Antero's total assets in 2014 were \$11.6 billion, almost doubling from \$6.6 billion in 2013. Thanks to its IPO, Antero's cash and equivalents increased about 13 times from \$17.5 million in 2013 to \$246.0 million in 2014, while its PPE rose from \$5.6 billion to \$9.4 billion, an increase of 68%.

Antero's total liabilities, on the other hand, increased by 138%, from \$3.0 billion in 2013 to \$7.2 billion in 2014, while its total equity increased by 22%, from \$3.6 billion to \$4.4 billion (Exhibit 12). Antero also improved its operating cash flows from \$534.7 million in 2013 to \$998.1 million in 2014, and raised its capital expenditures from \$2.1 billion in 2013 to \$3.3 billion in 2014. To support the expanding operation, Antero's net borrowings increased from \$591.9 million in 2013 to \$3.3 billion in 2014 (Exhibit 13).

Antero went through its IPO on October 16, 2013 with an offer price of \$44.0 per share and raised about \$1.6 billion after paying approximately \$200 million in underwriter fees and other offering expenses. The company used about \$1.4 billion of the net IPO proceeds to pay off its outstanding debt obligations. Also, in 2013, Antero formed Antero Midstream Partners LP to handle its system of gathering

pipelines and compressor stations in the Marcellus and Utica Shales. Subsequently, in 2015, Antero Midstream bought a fresh water delivery business from Antero for \$1.05 billion.

Facing the same tough market conditions as ConocoPhillips in 2015, Antero reduced its capital budget for 2015 to \$1.8 billion, a 41% reduction from its 2014 capital budget. The average number of drilling rigs was also down to about 14 rigs in 2015 from 21 in 2014. However, Antero's CEO, Paul Rady, was optimistic about the company's future, confidently claiming in the earnings report from the third quarter of 2015 that "despite the challenging commodity price environment during the quarter, results truly show the sustainability of Antero's business model. Antero's better than expected production, combined with the company's firm transportation portfolio and industry leading hedge position, again allowed Antero to achieve Appalachian leading EBITDAX and cash flow margins during the quarter. Despite more than a 30% decrease in natural gas prices and a 50% decrease in crude oil prices over the last year, Antero generated the same level of EBITDAX as compared to the prior year quarter."<sup>1</sup> The stock market, however, did not share his optimism as Antero's stock price dropped from \$64.51 on June 20, 2014 to \$22.99 on January 20, 2016, representing a decline of over 64% (Exhibit 14).

### **THE DECISION**

As Evelyn began her analysis, she noticed that oil and stock prices have moved very closely together so far in 2016, highlighting fears about waning global economic growth. In fact, the correlation between these two time series is currently at its highest level in 26 years, 0.95 over the last 20 trading days. Historically, this correlation has been stronger during recessions; in 2008, it peaked just above 0.8. Currently, big swings in oil prices may force investors to sell stocks due to various portfolio risk constraints. The prices of other commodities, corporate bonds, and credit indices had also been quite strongly correlated with oil in recent weeks. Credit-rating firms are now leaning toward an overall downgrade of the oil industry, which would likely have dire consequences on the entire energy sector. Furthermore, the U.S. corporate bond default rate (in general) was at its highest level in 4 years.

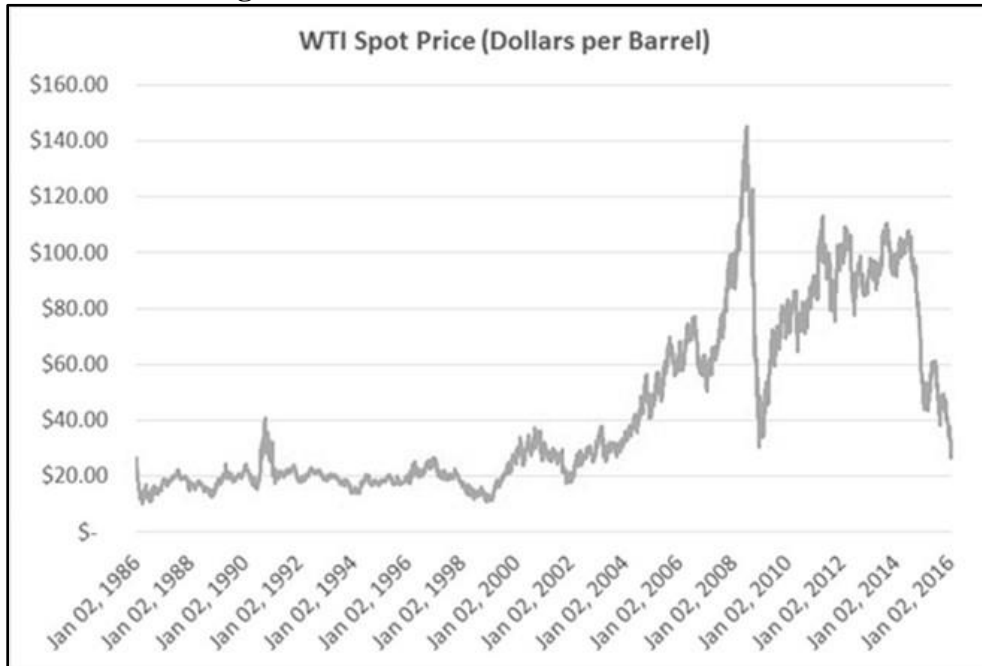
Although Evelyn understood Adams' perspective that the oil and energy markets might be approaching a bottom of their industry cycles, she wondered how long the weakness in crude oil prices would continue. Hence, she decided to do a top-down analysis. First, she would focus on analyzing the overall energy industry. Then, she would evaluate both ConocoPhillips and Antero Resource's financial

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<sup>1</sup> <https://www.prnewswire.com/news-releases/antero-resources-reports-third-quarter-2015-financial-results-300168189.html>

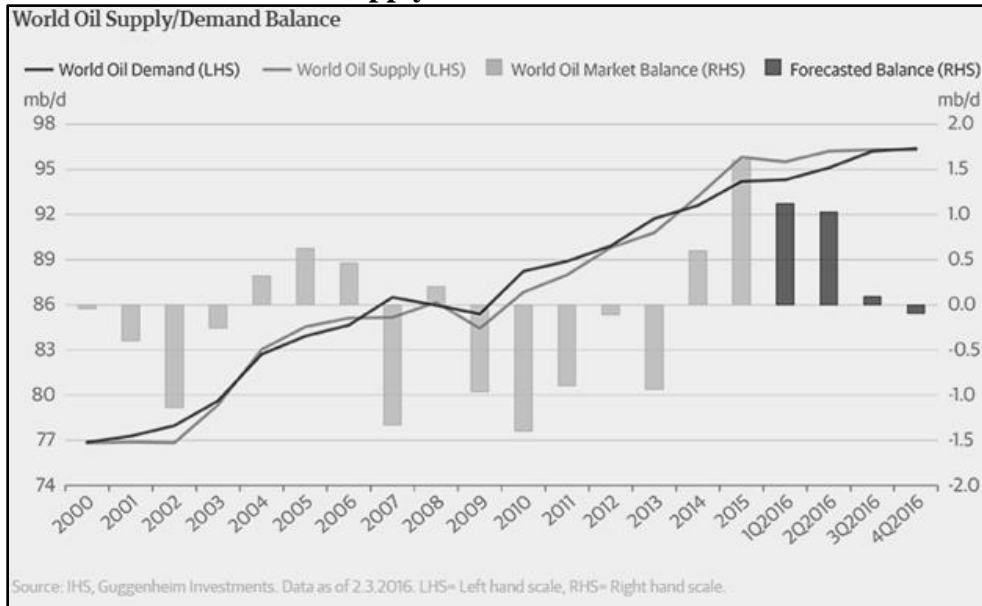
performance. In other words, once she had a reasonable estimate on future crude oil production and both the short-term and long-term demand for oil, she would move on to projecting both companies' sales revenues and cash flows. Then, she would be ready to make firm recommendations on whether or not to invest in either or both of these two companies' stocks.

**EXHIBIT 1. Long-term Oil Price Trend**



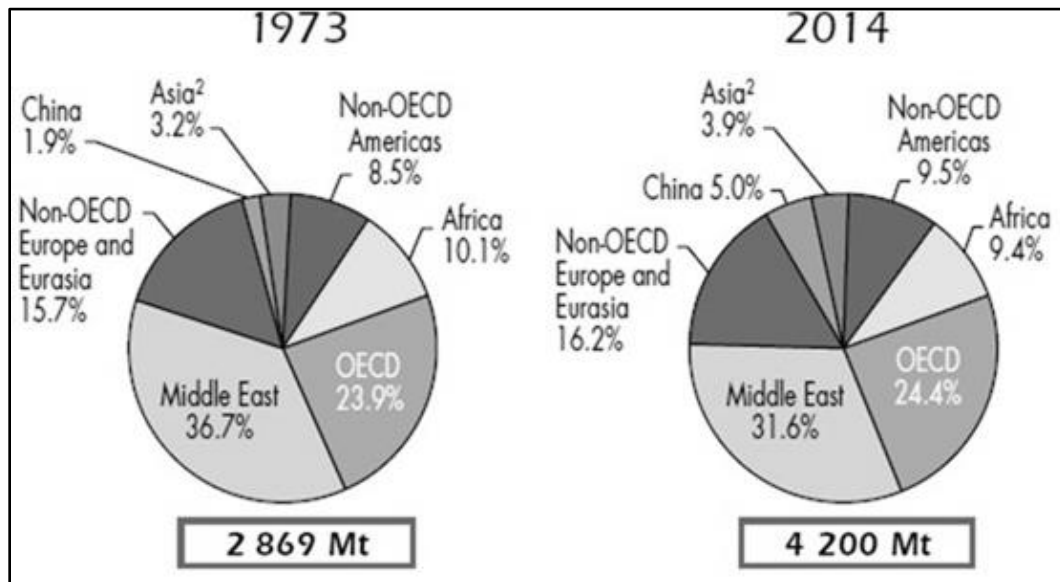
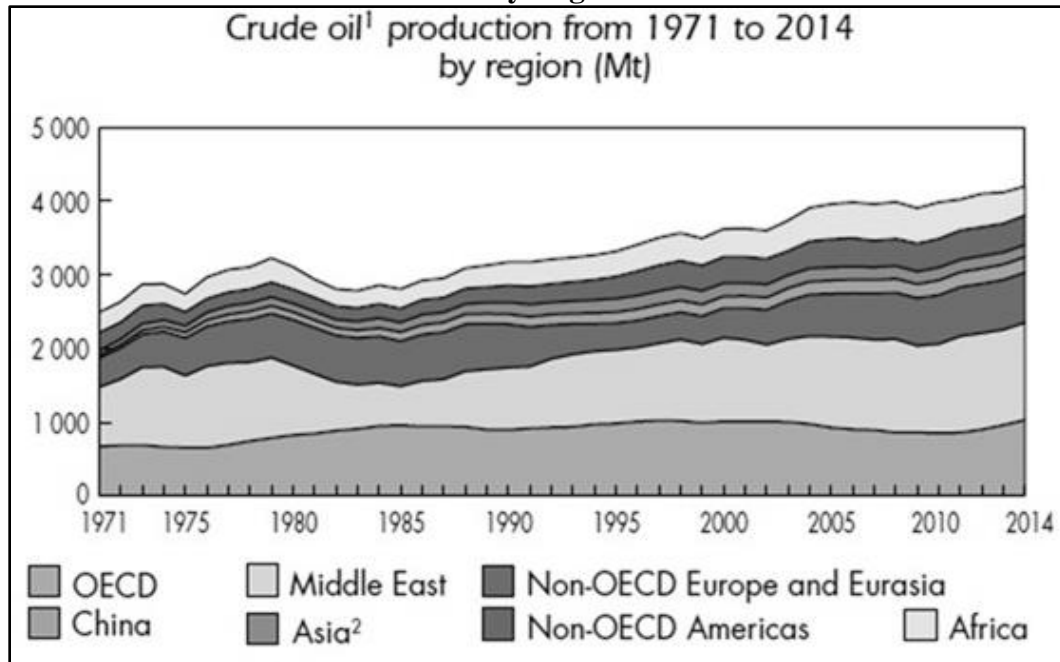
Source: IEA.org

**EXHIBIT 2. Global Oil Supply and Demand**



Source: MarketWatch.com

**EXHIBIT 3. Crude Oil Production by Region**

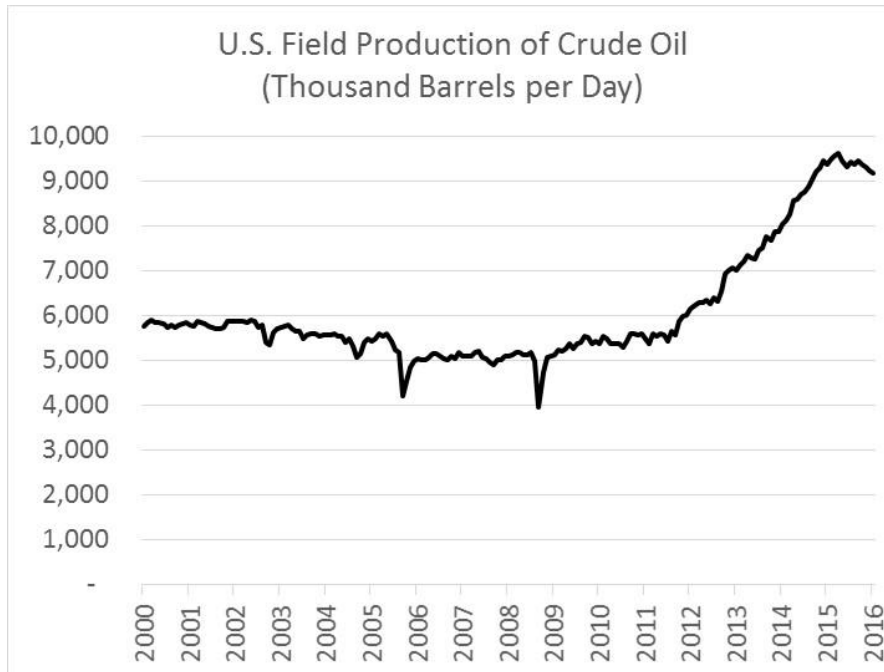


1. Includes crude oil, NGL, feedstocks, additives and other hydrocarbons.

2. Asia excludes China.

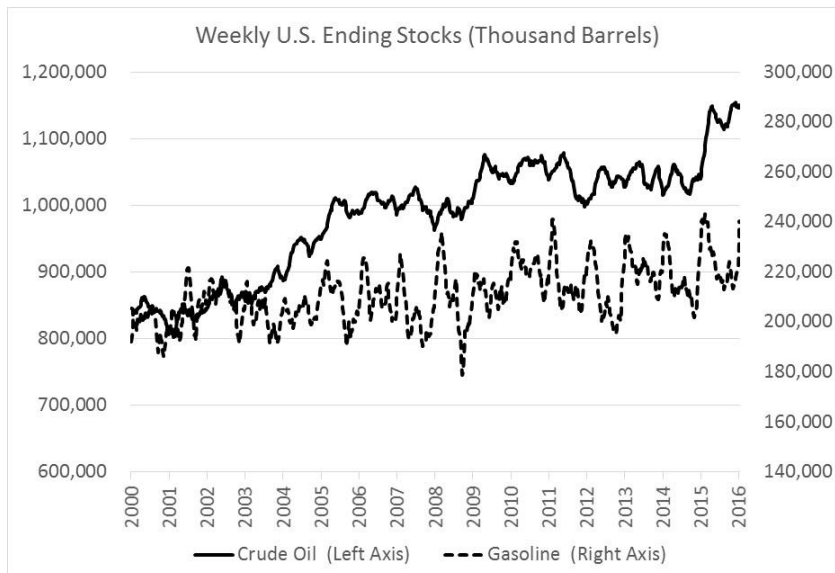
Source: IEA.org

**EXHIBIT 4. U.S. Oil Output**



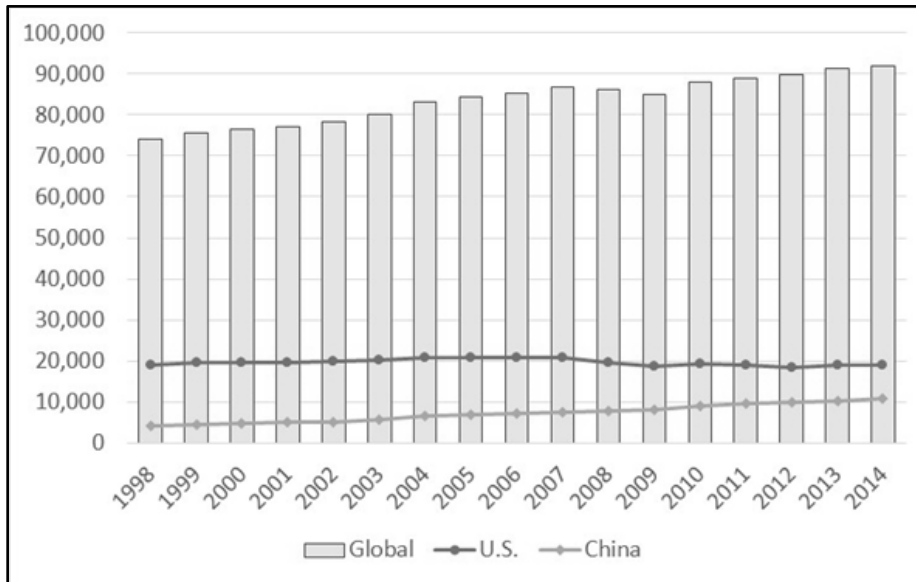
Source: EIA.gov

**EXHIBIT 5. U.S. Oil and Gasoline Inventories**



Source: EIA.gov

**EXHIBIT 6. Oil Consumption Trend (in 1,000 barrels per day)**



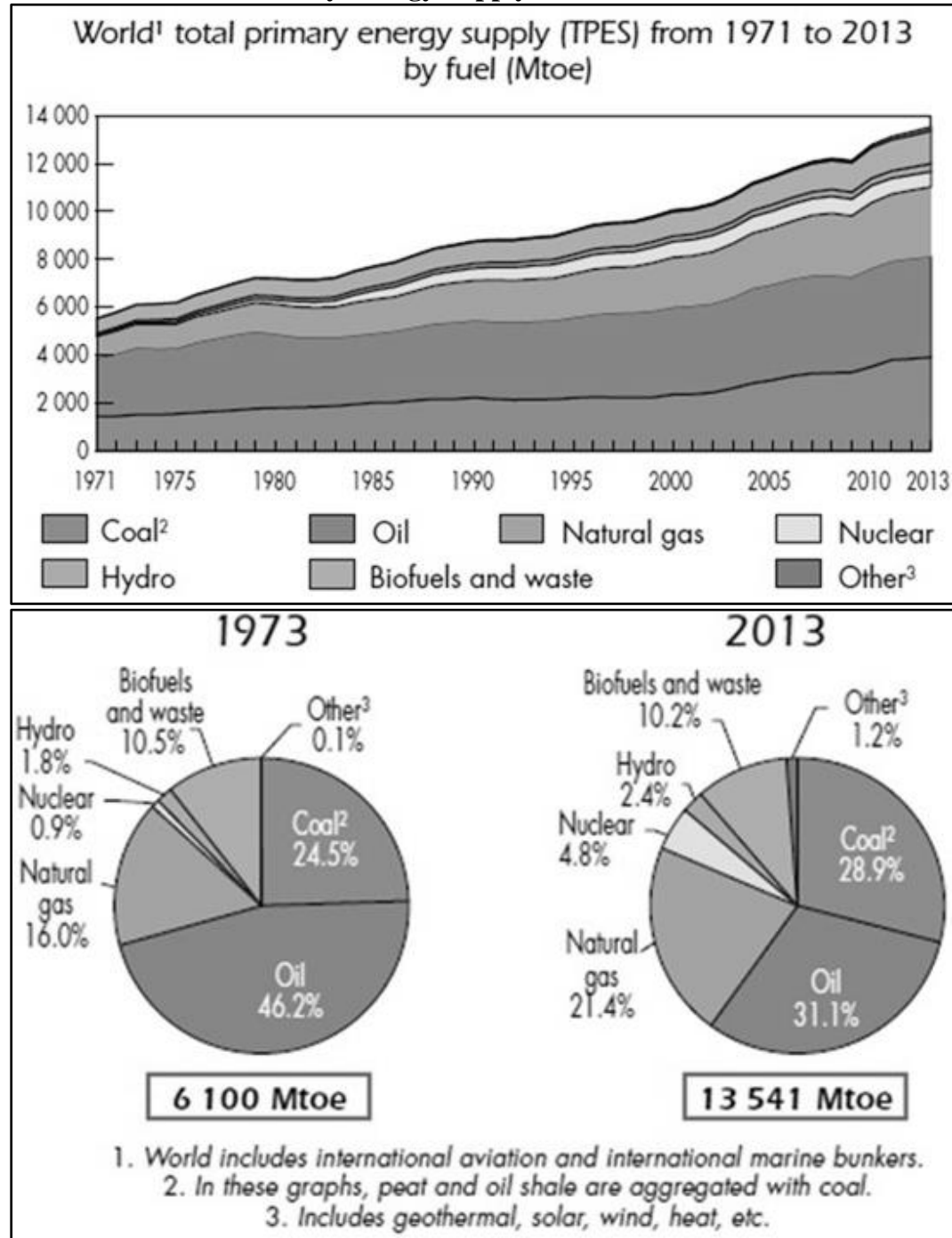
Source: Statista.com

**EXHIBIT 7. Trade Weighted U.S. Dollar Index (Mar 1973=100, Daily, Not Seasonally Adjusted)**



Source: Economic Research Division, Federal Reserve Bank of St. Louis

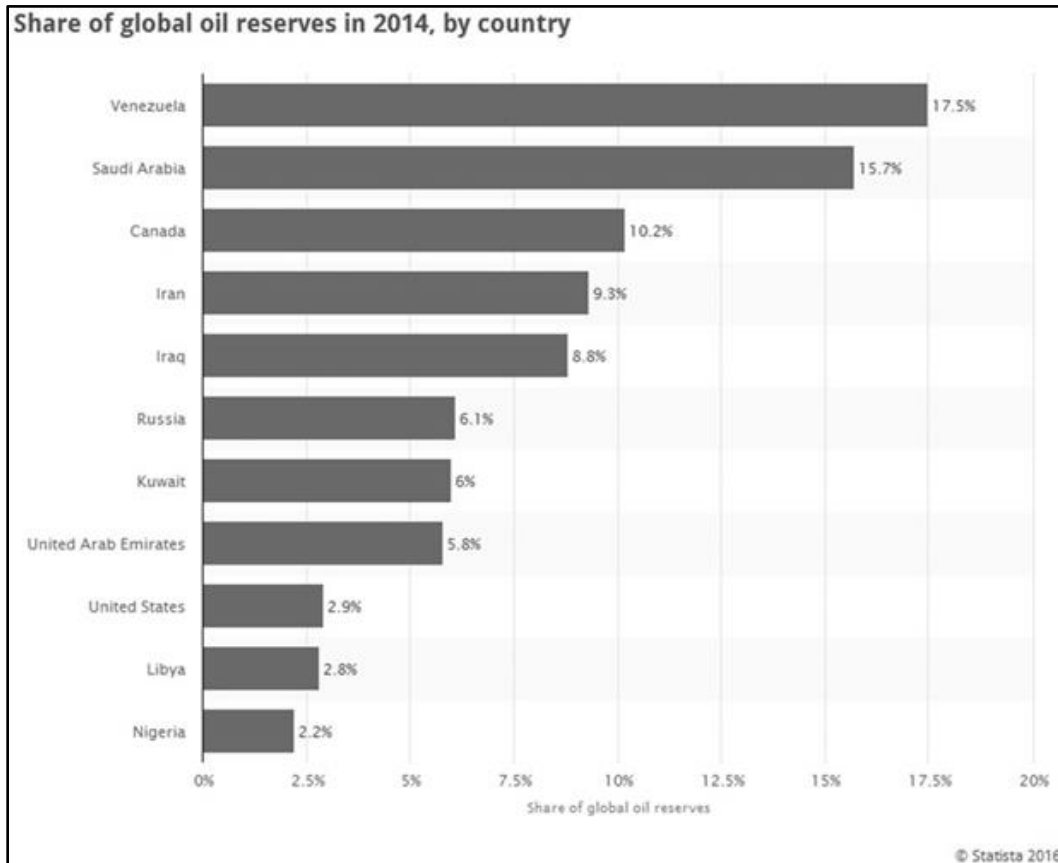
**EXHIBIT 8. Total Primary Energy Supply**



Source: IEA.org

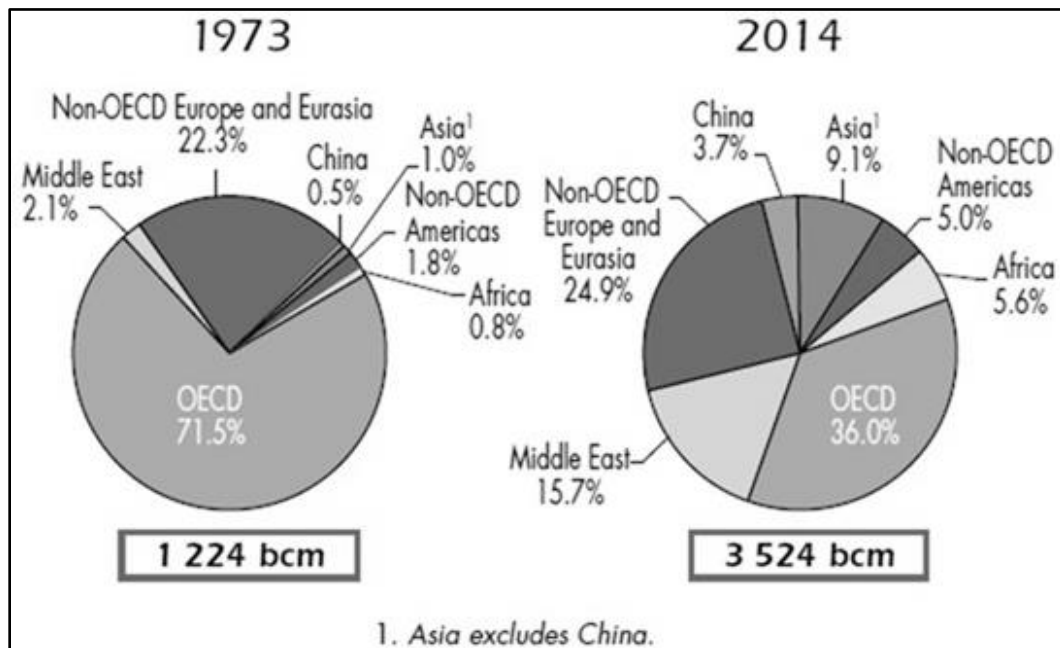
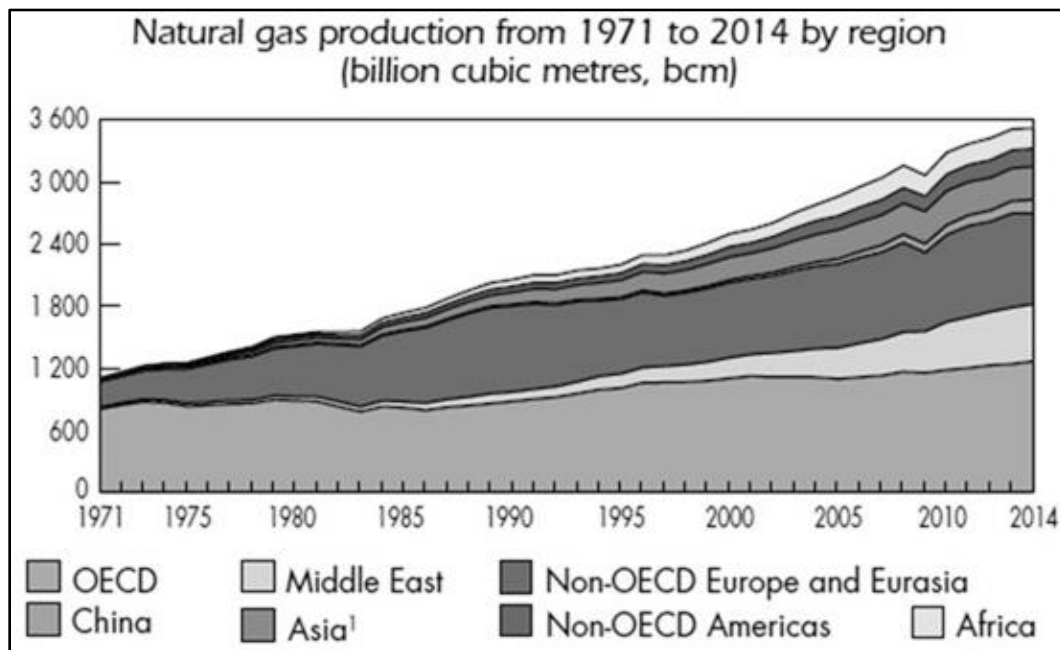


**EXHIBIT 9. Global Oil Reserves**



Source: Statista.com

**EXHIBIT 10. Natural Gas Production by Region**



Source: IEA.org

**EXHIBIT 11. Income Statements (\$ millions)**

	<b>ConocoPhillips</b>			<b>Antero Resources</b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
<b>Total Revenue</b>	<b>57,967.0</b>	<b>54,413.0</b>	<b>52,524.0</b>	<b>735.7</b>	<b>1,313.1</b>	<b>2,720.6</b>
Cost of Revenue	32,025.0	29,881.0	31,008.0	97.3	227.9	490.8
<b>Gross Profit</b>	<b>25,942.0</b>	<b>24,532.0</b>	<b>21,516.0</b>	<b>638.4</b>	<b>1,085.3</b>	<b>2,229.9</b>
SG&A	4,652.0	3,738.0	2,823.0	65.5	475.9	407.9
Non Recurring	2,180.0	1,761.0	2,901.0	26.7	33.2	43.1
Other Operating Expenses	6,974.0	7,868.0	8,813.0	102.1	234.9	479.2
<b>Operating Income</b>	<b>12,136.0</b>	<b>11,165.0</b>	<b>6,979.0</b>	<b>444.0</b>	<b>341.2</b>	<b>1,299.7</b>
Other Income/ Expenses	2,085.0	1,674.0	530.0	-	(42.6)	(20.4)
<b>EBIT</b>	<b>16,132.0</b>	<b>15,058.0</b>	<b>10,038.0</b>	<b>444.0</b>	<b>298.6</b>	<b>1,279.3</b>
Interest Expense	709.0	612.0	648.0	97.5	136.6	160.1
Income Before Tax	15,423.0	14,446.0	9,390.0	346.5	162.0	1,119.3
Income Tax Expense	7,942.0	6,409.0	3,583.0	121.2	186.2	445.7
Discontinued Operations	1,017.0	1,178.0	1,131.0	(510.3)	5.3	2.2
<b>Net Income</b>	<b>8,428.0</b>	<b>9,156.0</b>	<b>6,869.0</b>	<b>(285.1)</b>	<b>(18.9)</b>	<b>673.6</b>

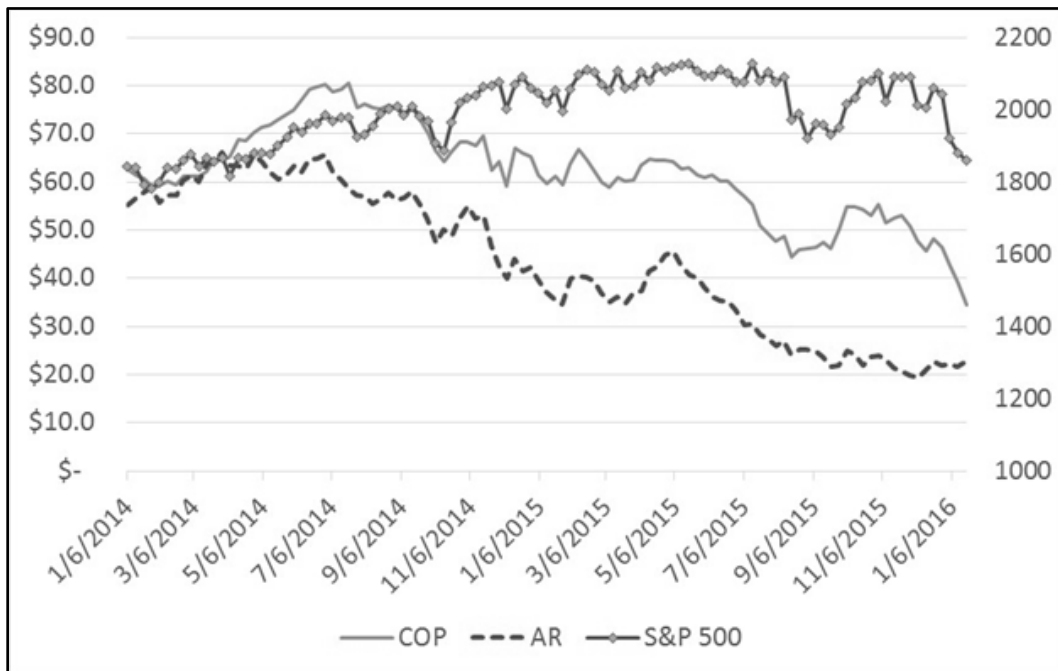
**EXHIBIT 12. Balance Sheet (\$ millions)**

	<b>ConocoPhillips</b>			<b>Antero Resources</b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Cash And Cash Equivalents	4,366.0	6,246.0	5,062.0	19.0	17.5	246.0
Short Term Investments		272.0	-	-	-	-
Net Receivables	9,182.0	8,487.0	6,807.0	72.5	127.4	307.8
Inventory	965.0	1,194.0	1,331.0	-	-	-
Other Current Assets	9,476.0	2,824.0	1,868.0	183.1	188.6	698.4
<b>Total Current Assets</b>	<b>23,989.0</b>	<b>19,023.0</b>	<b>15,068.0</b>	<b>274.6</b>	<b>333.6</b>	<b>1,252.2</b>
Long Term Investments	25,006.0	25,264.0	25,139.0	374.1	677.8	900.0
PP&E	67,263.0	72,827.0	75,444.0	2,937.5	5,559.7	9,352.5
Other Assets	886.0	943.0	888.0	32.6	42.6	68.9
<b>Total Assets</b>	<b>117,144.0</b>	<b>118,057.0</b>	<b>116,539.0</b>	<b>3,618.8</b>	<b>6,613.6</b>	<b>11,573.5</b>
Accounts Payable	16,488.0	14,540.0	11,355.0	349.0	613.5	1,142.9
Short Term Debt	955.0	589.0	182.0	25.0	0.6	-
Other Current Liabilities	-	-	-	2.3	8.0	12.2
<b>Total Current Liabilities</b>	<b>17,443.0</b>	<b>15,129.0</b>	<b>11,537.0</b>	<b>376.3</b>	<b>622.2</b>	<b>1,155.1</b>
Long Term Debt	20,770.0	21,073.0	22,383.0	1,444.1	2,079.0	4,362.6
Other Liabilities	17,319.0	14,143.0	15,276.0	33.0	35.1	47.6
Deferred Long Term Liability Charges	13,185.0	15,220.0	15,070.0	91.7	278.6	534.4
Minority Interest	440.0	402.0	362.0	-	-	1,090.0
<b>Total Liabilities</b>	<b>69,157.0</b>	<b>65,967.0</b>	<b>64,628.0</b>	<b>1,945.1</b>	<b>3,014.9</b>	<b>7,189.7</b>
Common Stock	18.0	18.0	18.0		2.6	2.6
Retained Earnings	35,338.0	41,160.0	44,504.0	212.8	193.9	867.4
Treasury Stock	(36,780.0)	(36,780.0)	(36,780.0)	-	-	-
Capital Surplus	45,324.0	45,690.0	46,071.0	-	3,402.2	3,513.7
Other Stockholder Equity	4,087.0	2,002.0	(1,902.0)	1,460.9	-	-
<b>Total Stockholder Equity</b>	<b>47,987.0</b>	<b>52,090.0</b>	<b>51,911.0</b>	<b>1,673.7</b>	<b>3,598.7</b>	<b>4,383.8</b>
<b>Total Liabilities &amp; Equity</b>	<b>117,144.0</b>	<b>118,057.0</b>	<b>116,539.0</b>	<b>3,618.8</b>	<b>6,613.6</b>	<b>11,573.5</b>

**EXHIBIT 13. Cash Flow Statements (\$ millions) (following page)**

	<b>ConocoPhillips</b>			<b>Antero Resources</b>		
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Net Income	8,428.0	9,156.0	6,869.0	(285.1)	(18.9)	673.6
Depreciation	6,974.0	7,868.0	8,813.0	192.2	234.9	479.2
Adjustments To Net Income	(311.0)	(1,044.0)	1,489.0	400.2	276.8	(174.7)
Changes In Accounts Receivables	(1,866.0)	744.0	1,227.0	5.5	(9.3)	(45.6)
Changes In Liabilities	(96.0)	(335.0)	(1,349.0)	23.9	78.4	160.0
Changes In Inventories	210.0	(278.0)	(193.0)	-	-	-
Changes In Other Operating Activities	513.0	(83.0)	(190.0)	(4.6)	(27.2)	(96.6)
<b>Total Cash Flow From Operating Activities</b>	<b>13,922.0</b>	<b>16,087.0</b>	<b>16,735.0</b>	<b>332.3</b>	<b>534.7</b>	<b>998.1</b>
Capital Expenditures	(14,172.0)	(15,537.0)	(17,085.0)	(1,537.5)	(2,078.3)	(3,331.9)
Investments	711.0	(118.0)	856.0	4.9	4.6	2.7
Other Cash flows from Investing Activities	1,834.0	9,404.0	1,098.0	1,069.1	(599.8)	(760.5)
<b>Total Cash Flows From Investing Activities</b>	<b>(11,627.0)</b>	<b>(6,251.0)</b>	<b>(15,131.0)</b>	<b>(463.5)</b>	<b>(2,673.6)</b>	<b>(4,089.7)</b>
Dividends Paid	(3,278.0)	(3,334.0)	(3,525.0)	-	-	-
Sale Purchase of Stock	(4,960.0)	20.0	35.0	-	1,578.6	1,087.2
Net Borrowings	(1,317.0)	(198.0)	980.0	146.1	591.9	2,253.0
Other Cash Flows from Financing Activities	5,074.0	(3,621.0)	(64.0)	0.8	(33.0)	(20.2)
<b>Total Cash Flows From Financing Activities</b>	<b>(4,481.0)</b>	<b>(7,133.0)</b>	<b>(2,574.0)</b>	<b>146.9</b>	<b>2,137.4</b>	<b>3,320.0</b>
Effect Of Exchange Rate Changes	24.0	(75.0)	(214.0)	-	-	-
<b>Change In Cash and Cash Equivalents</b>	<b>(2,162.0)</b>	<b>2,628.0</b>	<b>(1,184.0)</b>	<b>15.6</b>	<b>(1.5)</b>	<b>228.5</b>

**EXHIBIT 14. ConocoPhillips and Antero Resources Stock Performance  
(S&P 500 on the secondary axis for comparison)**



Source: Yahoo Finance Data