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Wealth Effects of Farmout Arrangements in the Oil and Gas Industry

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Luiz Fernando Distadio (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=3670316)

Griffith University - Griffith Business School

Andrew Ferguson (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=80924)

University of Technology Sydney (UTS)

Peter Lam (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1583486)

University of Technology, Sydney - Discipline of Accounting; Financial Research Network (FIRN)

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Abstract

We examine market reactions to farmout agreements undertaken by Australian oil and gas firms. Despite their prevalence in the oil and gas sector, there is a gap in the literature regarding empirical studies of farmout arrangements. Using a sample of 589 farmor and 389 farminee announcements over 722 unique farmout agreements during the period 1990–2016, we document significant market reactions in the order of 3.6% (1.9%) over a three-day event window to the farmors (farminees). Cross-sectional regressions of event returns provide results consistent with the resource pooling and expertise hypotheses as the sources of value creation. Furthermore, we also find evidence consistent with farmout agreements as real options by showing that farmors' stock price reaction is sensitive to the underlying oil price uncertainty.

Keywords: alliances, farmout, oil and gas, resource pooling, real options**JEL Classification:** G30, G34, D22, D23, D24, L24[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID3696232_code80924.pdf?abstractid=3444028&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3696232_code80924.pdf?abstractid=3444028&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID3696232_code80924.pdf?abstractid=3444028&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3696232_code80924.pdf?abstractid=3444028&mirid=1&type=2)

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