

Diamondback Energy: Choosing the Next Use of Cash

Internal ID: S&F-STR-190

Topic: Pricing Strategy, Mergers & Acquisitions, Operations Strategy

Industry: Oil & Gas Exploration & Production

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Case cutoff: August 3, 2026, 11:59 p.m. Central Time

On August 3, 2026, Diamondback Energy reported second-quarter production above one million barrels of oil equivalent per day, strong cash generation, and lower debt. The company also raised its full-year production guidance while leaving its cash-capital budget unchanged. Its board had recently enlarged the share-repurchase authorization. Each development sharpened a question for the next planning cycle: what should Diamondback make the next dollar of cash and operating capacity do?

This case is set after the Q2 release and stockholder letter, but before Diamondback's scheduled August 4 earnings call. The 2027 capital-allocation discussion is a **hypothetical classroom assignment**; there is no claim that management or the board met to make this recommendation. The call and all information released after the August 3 cutoff are excluded.

A larger company, a changed starting point

Diamondback is an independent producer focused on unconventional oil and natural-gas reserves in the Permian Basin of West Texas. In September 2024, it completed the acquisition of Endeavor Energy Resources. Diamondback paid about \$7.1 billion in cash to Endeavor equityholders, repaid \$238 million of Endeavor net debt, and issued approximately 117.27 million Diamondback shares. The deal added roughly 361,927 net acres, primarily in the Permian. At December 31, 2025, Endeavor equityholders still held about 35.8% of Diamondback's common stock. Management described the combined inventory and cost position favorably; those descriptions were management's assessment, not an independent ranking. [1]

The acquisition gave Diamondback a larger base of assets and development choices. It also left capital allocation to balance several uses: maintaining and developing wells, reducing debt, paying dividends, repurchasing shares and funding infrastructure. Public disclosures did not provide a comparable project-by-project return schedule for those uses.

The operating and cash picture

Diamondback reported second-quarter oil production of 525 thousand barrels per day (MBO/d) and total production of 1,018 thousand barrels of oil equivalent per day (MBOE/d). The total combines oil, natural gas and natural-gas liquids; it is not the same as oil production or revenue. The company reported \$3.589 billion of net cash provided by operating activities, \$996 million of cash capital expenditures and \$2.330 billion of company-defined free cash flow. Adjusted free cash flow was \$2.331 billion under the company's definition. These non-GAAP measures have reconciliations in the company's release; they should not be treated as a simple cash-flow subtraction or as an uncommitted cash pool. [2]

Commodity realizations varied within the first half. Diamondback's reported average oil price was \$96.82 per barrel in Q2, compared with \$73.47 in Q1. Its reported Q2 natural-gas price was negative \$2.15 per Mcf. A single quarter therefore offered an incomplete guide to cash available under different future price and basis conditions. [2]

At June 30, Diamondback reported \$12.766 billion in total debt and \$12.304 billion in company-defined net debt. Total debt had declined approximately \$1.3 billion and net debt approximately \$1.6 billion from the prior quarter. The company also reported \$385 million of standalone cash and \$3 billion of remaining availability under its credit facility. The measures have different definitions and scopes. The release did not provide the maturity, interest-rate, covenant and refinancing detail needed here to decide whether additional debt reduction was urgent or how much liquidity management should retain. [2]

The plan had moved during 2026

Diamondback's February 2026 release described its initial plan as holding activity and production flat relative to Q4 2025, adjusted for Viper's non-Permian divestiture. It gave full-year oil guidance of 500-510 MBO/d and total capital expenditures of \$3.6-\$3.9 billion. [3]

On May 4, after Q1, Diamondback raised annual guidance to 520+ MBO/d of oil and 972+ MBOE/d of total production. It increased cash-capital guidance to approximately \$3.9 billion from approximately \$3.75 billion and said the updated guidance implied about 5% organic year-over-year growth. [4]

On August 3, after year-to-date volume outperformance, Diamondback raised guidance again to 522+ MBO/d of oil and 1,000+ MBOE/d total. It kept full-year cash-capital guidance at approximately \$3.9 billion. Q2 actual production was 525 MBO/d oil and 1,018 MBOE/d total. Management did not present the August change as a new capital-budget increase. [2]

The Q2 release described the company's current allocation priorities as capital efficiency and long-term stockholder value. Its stockholder letter also argued that global inventories would eventually need to be replenished and that this could support the outlook for oil. That was management's market thesis, not an established forecast. The letter cited preliminary IEA inventory estimates that are not independently reproduced in this case. [5]

Three uses for marginal cash

Diamondback had several possible uses for future cash and capacity. Continuing development could sustain output and capture returns from the company's inventory. Holding production near current levels could preserve cash and leave room to respond if prices weakened. Additional debt repayment could reduce financing exposure and protect flexibility. Dividends and repurchases could return capital to shareholders; buybacks would also depend on the price paid for the shares.

The company declared a Q2 base dividend of \$1.10 per share. It repurchased 756,385 shares for approximately \$141 million during Q2. On July 30, the board doubled its repurchase authorization to \$16.0 billion, with approximately \$9.9 billion remaining at July 31. The release also reported 547,716 shares repurchased during Q3 to date through August 3 for approximately \$100 million. The authorization allowed future repurchases; it did not commit the company to spend the full amount or establish a pace. [2]

Diamondback's proved reserves and its economic development opportunities were not interchangeable measures. At year-end 2025, its filing reported 3,617.9 million BOE of proved reserves, including mineral interests attributable to Viper, and approximately 1,096.8 million BOE of proved undeveloped (PUD) reserves. The company estimated future PUD development costs of \$2.3 billion in 2026 and \$2.6 billion in 2027 under its then-current plan. During 2025, PUD reserves changed through drilling, revisions, extensions, purchases and divestitures. The filing attributed negative revisions in part to corporate-plan downgrades and well performance. These SEC reserve categories do not reveal the returns on all future projects or the best pace for developing them. [1]

What the public information did not settle

The public materials available at the cutoff did not show Diamondback's marginal well returns, full-cycle costs by zone, internal investment hurdles, decline curves by well cohort, drilled-but-uncompleted inventory, contracted rig and frac-crew commitments, or the cost of changing activity. They also did not establish the company's share value relative to intrinsic value or fully describe debt maturities, covenants and refinancing options. These gaps mattered: a growth plan, a debt-first plan and a repurchase plan could each look attractive under different assumptions.

Shale producers may retain choices about when to drill and complete wells, but the company-specific amount of that flexibility and its cost were not established in the materials reviewed. Academic studies support treating uncertainty, timing and financing constraints as relevant mechanisms; their broad historical estimates are not Diamondback return assumptions. [6]

Decision assignment

Assume you advise a hypothetical Diamondback planning team immediately after the August 3 Q2 release. Recommend capital-allocation guardrails for the 2027 operating plan.

1. What should Diamondback prioritize among organic development, debt reduction, dividends and repurchases?
2. Which parts of the plan should be fixed, and which should change with commodity conditions, project evidence or share valuation?
3. What indicators or triggers should cause the team to increase or reduce each use of cash?
4. What company-specific information should the team request before committing to its recommendation?

State assumptions and explain how the plan would perform across weaker, central and stronger operating conditions. Do not infer a company return from a broad industry estimate or treat authorization as a buyback commitment.

Exhibits

Exhibit 1. 2026 guidance chronology

Release date	Oil production guidance	Total production guidance	Cash-capital guidance	Company description
Feb. 23, 2026	500-510 MBO/d	926-962 MBOE/d	\$3.6-\$3.9bn	Initial plan: hold activity and production flat vs. Q4 2025, adjusted for Viper's non-Permian divestiture
May 4, 2026	520+ MBO/d	972+ MBOE/d	~\$3.9bn, up from ~\$3.75bn	Updated guidance implied ~5% organic year-over-year growth
Aug. 3, 2026	522+ MBO/d	1,000+ MBOE/d	~\$3.9bn, unchanged	Raised after year-to-date volume outperformance
Q2 actual	525 MBO/d	1,018 MBOE/d	\$996m Q2 cash capex	Three months ended June 30, 2026

Sources: Diamondback FY2025 results release, Q1 2026 results release and Q2 2026 results release. Guidance is management's forecast at each dated release; Q2 figures are reported actuals. Total BOE includes oil, natural gas and NGLs.

Exhibit 2. Q2 2026 operating and cash snapshot

Measure	Q2 2026	Definition / note
Average oil production	525 MBO/d	Reported actual
Average total production	1,018 MBOE/d	Reported actual; includes oil, gas and NGLs
Net cash provided by operating activities	\$3.589bn	GAAP cash-flow measure
Cash capital expenditures	\$996m	Company cash-capex measure
Free cash flow	\$2.330bn	Company-defined non-GAAP measure
Adjusted free cash flow	\$2.331bn	Company-defined non-GAAP measure
Total debt, June 30	\$12.766bn	Reported debt balance
Net debt, June 30	\$12.304bn	Company-defined non-GAAP measure
Standalone cash, June 30	\$385m	Reported balance
Credit-facility availability, June 30	\$3.000bn	Reported availability
Average realized oil price	\$96.82/bbl	Q2; \$73.47/bbl in Q1
Average realized natural-gas price	–\$2.15/Mcf	Q2

Source: Diamondback Q2 2026 results release, SEC Exhibit 99.1. FCF and adjusted FCF are company-defined and are not calculated here as operating cash flow minus cash capex. Debt and net debt have different definitions. The quarter is not a normalized forecast.

Exhibit 3. Q2 capital returns and repurchase authorization

Item	Amount / status	Date / scope
Base dividend declared	\$1.10/share	Q2 2026 declaration
Shares repurchased	756,385	Q2 2026
Repurchase cost	~\$141m	Q2 2026
Repurchase authorization	\$16.0bn total	Board doubled authorization on July 30
Authorization remaining	~\$9.9bn	As of July 31
Shares repurchased	547,716	Q3 to date through Aug. 3
Repurchase cost	~\$100m	Q3 to date through Aug. 3

Source: Diamondback Q2 2026 results release, SEC Exhibit 99.1, highlights / “Recent Highlights” / “Return of Capital Update” sections. The authorization is not a spending commitment.

Exhibit 4. Endeavor and reserve context

Item	Filed amount / description	Classification
Cash consideration to Endeavor equityholders	\$7.1bn	Transaction term; Sept. 10, 2024 close
Endeavor net-debt repayment	\$238m	Transaction term, including associated make-whole and termination costs as described in the 10-K
Diamondback shares issued	~117.27m	Transaction term
Net acreage acquired	361,927 acres	Primarily Permian
Endeavor holders' Diamondback ownership	~35.8%	Dec. 31, 2025
Proved reserves	3,617.9 million BOE	Dec. 31, 2025; includes 406.0 million BOE attributable to Viper mineral interests
PUD reserves	1,096.8 million BOE	Dec. 31, 2025
Estimated PUD development costs	\$2.3bn in 2026; \$2.6bn in 2027	Under filed development plan

Source: Diamondback 2025 Form 10-K. Proved reserves and PUD are SEC reserve classifications, not a complete measure of economic inventory or project value. The company's development-cost estimates depend on engineering assumptions and the disclosed plan.

Sources and cutoff

1. Diamondback Energy, 2025 Form 10-K, filed February 25, 2026, acquisition note and reserve/PUD sections: [SEC filing](#).
2. Diamondback Energy, Q2 2026 results, released August 3, 2026, including non-GAAP reconciliations and return-of-capital update: [SEC Exhibit 99.1](#).
3. Diamondback Energy, FY2025 results release, February 23, 2026: [SEC Exhibit 99.1](#).
4. Diamondback Energy, Q1 2026 results release, May 4, 2026: [SEC Exhibit 99.1](#).
5. Diamondback Energy, letter to stockholders, August 3, 2026: [SEC Exhibit 99.2](#). Its inventory analysis is management's view; IEA estimates cited by the letter were not independently checked for this case.
6. Kellogg, "The Effect of Uncertainty on Investment: Evidence from Texas Oil Drilling," AER 2014, and Aastveit, Bjørnland and Gundersen, "The Price Responsiveness of Shale Producers," Quantitative Economics 2026. Full reading scope and limits are recorded in the research source register. Neither study supplies a Diamondback-specific return estimate.

The information cutoff is **August 3, 2026, 11:59 p.m. Central Time**. The August 4 earnings call, the August 2026 investor presentation whose exact version was not retrieved, and all later events or outcomes are excluded.