Ready for change

M&A trends in energy, natural resources, and chemicals

Q2'23

kpmg.com

Volume down, value up

Although total deal volume for energy, natural resources, and chemicals (ENRC) companies continued to decline quarter over quarter (QoQ), the sector saw an impressive increase QoQ in total deal value. This rise in value was driven primarily by oil and gas (O&G) deals (up 104.2 percent).

Elevated inflation, high interest rates, and the continued possibility of a recession later in the year have encouraged dealmakers to remain cautious. Energy companies are still ramping up projects related to the Inflation Reduction Act (see page 7), and a continuing effect of the Russia-Ukraine war is economic uncertainty.

Meanwhile, corporations are shedding noncore assets as they focus on cash flow, and are developing their long-term plans for growth and synergies in strategic markets. Private equity (PE) investors that have assets supporting a favorable environment, social, and governance (ESG) posture are on the lookout for buyers, and many PE firms are seeking ways to lock in sales so they can secure returns on their current funds.

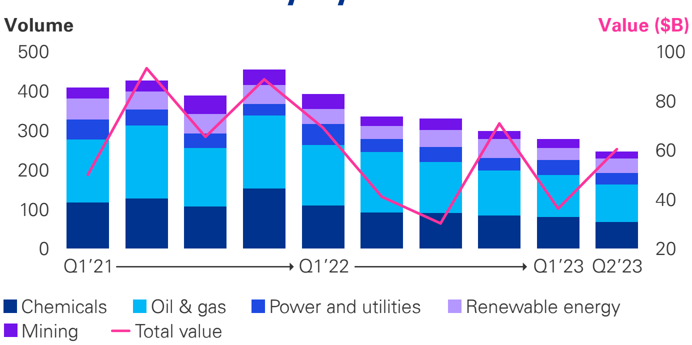
In many ways, Q2'23 resembles the past quarter with widespread caution among deal makers. But pent-up demand continues to increase the potential of a pivot toward significant growth in H2'23.

Mike Harling
Partner
Deal Advisory & Strategy
ENRC Leader

Q2'23 highlights

245 deals ▼ **12%** decrease QoQ | **$60.2** billion deal value ▲ **67%** increase QoQ

ENRC deal activity by sector



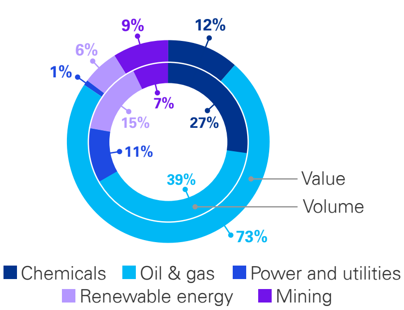
ENRC deal activity by type

*Includes SPAC deal activity

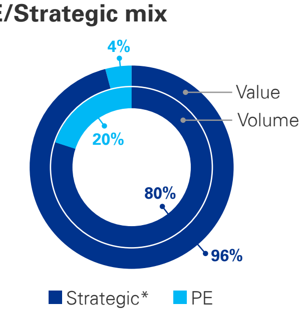
Q2'23 deal mix

Outer ring represents value, inner ring represents volume.

Sector mix

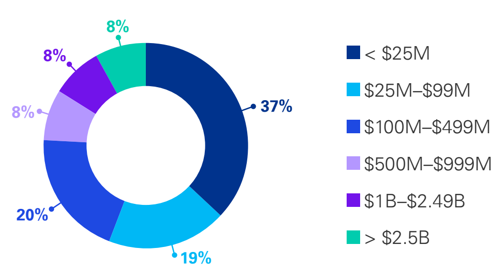


PE/Strategic mix



*Includes SPAC deal activity

Value size mix



Top strategic deals

Acquirer	Target	Rationale	Value (billions)
ONEOK, Inc.	Magellan Midstream Partners	Produce commercial and cost synergies, given the complementary and diversified nature of the asset positions	$18.8
Chevron	PDC Energy	Chevron to benefit in the Denver-Julesburg (DJ) Basin, such as robust free cash flow, economical production capabilities, and promising development opportunities	$7.6
Patterson-UTI	NexTier Oilfield Solutions	For better operational and technology portfolio of combined company, along with data analytics to maximize performance	$5.4

Top PE deals

Acquirer	Target	Rationale	Value (billions)
PW Consortium	PureWest Energy	Increase high-margin production through better capital structure	$1.8
Oaktree Capital Management	Energy Systems Group	Expand ESG's capabilities and geographic footprint	$0.2

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

On the ONEOK – Magellan deal

"The combination of ONEOK and Magellan will create a diversified North American midstream infrastructure company with predominately fee-based earnings, a strong balance sheet, and significant financial flexibility focused on delivering essential energy products and services to our customers and continued strong returns to investors."

—Pierce H. Norton II, President and CEO, ONEOK

At a glance

Oil, gas, and chemicals

Ready for deals

The O&G sector remains attractive for deal makers, with many O&G companies holding substantial cash reserves due to higher oil prices over the past year and a strong commitment to capital discipline. Investment in oil and gas companies listed on the S&P 500 increased by more than 26 percent from March 2022 to March 2023.[1]

O&G companies are reshaping their portfolios to address changes in energy policies, improve their resilience to price volatility, and reduce carbon emissions. Consolidation will allow companies to spread fixed costs, focus on efficiency, and meet the world's ever-increasing energy demand. Chevron's buyout of PDC Energy has become a kickoff point for another round of consolidation as other buyers work to keep up. A case in point is ExxonMobil's acquisition of Denbury for $4.9 billion, announced July 13, 2023.[2]

Deal making for chemicals companies saw a decline in volume (down 15 percent) and value (down 16 percent). However, deal makers continued to pursue billion-dollar transactions based on high valuations, capital availability, and attractive targets in high-growth markets.

Q2'23 oil and gas highlights

95 deals ▼ **10%** decrease QoQ

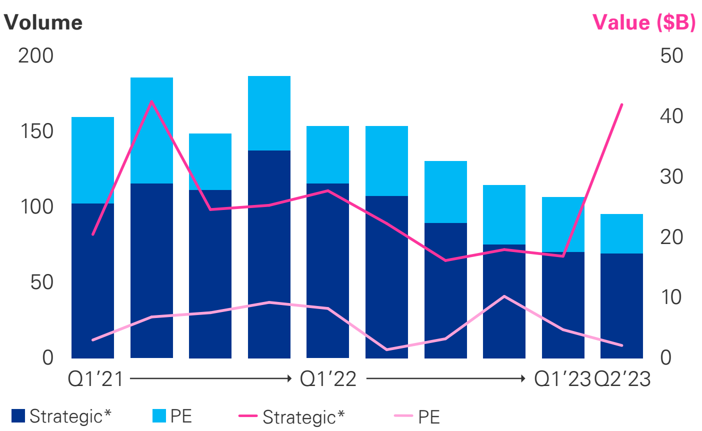
$43.9 billion deal value ▲ **104%** increase QoQ

Q2'23 chemicals highlights

67 deals ▼ **15%** decrease QoQ

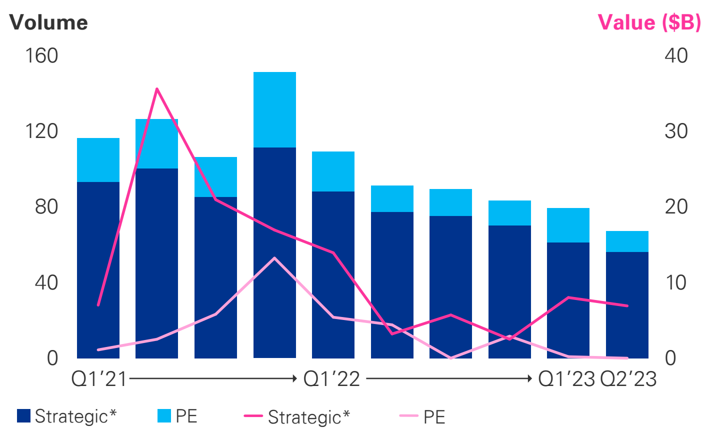
$6.9 billion deal value ▼ **16%** decrease QoQ

Oil and gas deal volume and value



**Includes SPAC deal activity*

Chemicals deal volume and value



[1] "Return Of Mergers And Acquisitions: Oil Sector Dealmaking Heats Up," Forbes, March 9, 2023

[2] "ExxonMobil announces acquisition of Denbury," ExxonMobil, July 13, 2023.

Top oil and gas deals

Acquirer	Target	Rationale	Value (billions)
ONEOK, Inc.	Magellan Midstream Partners	Produce commercial and cost synergies, given the complementary and diversified nature of the asset positions	$18.8
Chevron	PDC Energy	Chevron to benefit in the Denver-Julesburg (DJ) Basin, with robust free cash flow, economical production capabilities, and promising development opportunities	$7.6
Ovintiv	Black Swan Oil & Gas, PetroLegacy Energy, Piedra Resources	To expand free cash flow per share and enhance the ability to deliver durable returns to the shareholders	$4.3

Top chemicals deals

Acquirer	Target	Rationale	Value (billions)
Allkem Limited	Livent Corporation	To create a vertically integrated business model that can cater to the surging demand for lithium chemical products	$3.8
DuPont de Nemours	Spectrum Plastics Group, Inc.	To offer customers additional innovation and manufacturing capabilities with a broader and more integrated solution set	$1.8
Fujifilm Holdings America Corp.	KMG Chemicals, Inc.	Fujifilm to increase its range of electronic chemicals, especially KMG's HPPCs, a growing segment in semiconductor production	$0.7

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

On the Ovintiv – Black Swan Oil deal

"We are confident that—given our operational efficiency, culture of innovation, and expertise and scale in the Permian Basin—Ovintiv is best positioned to convert this high-quality resource into tremendous value for our shareholders."

—Brendan McCracken, President and CEO, Ovintiv

On the Fujifilm – KMG Chemicals deal

"By integrating KMG's resources, Fujifilm will provide customers with a broader product lineup and accelerate innovation in the semiconductor industry."

—Teiichi Goto, President and CEO, Fujifilm

At a glance

Power, utilities, and renewable energy

Fewer but larger deals

With the growing emphasis on ESG initiatives, the wastewater management sector shows strong activity in mergers and acquisitions. The market for wastewater treatment is expected to rise significantly as the need increases for water conservation and sustainable solutions for wastewater treatment.

Renewable energy continues to grow in importance as a strategic part of the global energy mix, driven by regulatory pressure and increased government support for green technology development, such as the Inflation Reduction Act (see page 7).

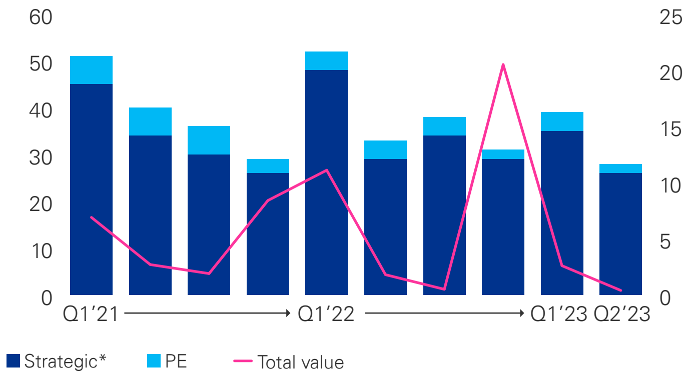
Q2’23 power and utilities highlights

28 deals ▼ **28%** decrease QoQ | **$0.4** billion deal value ▼ **97%** decrease QoQ

Q2’23 renewable energy highlights

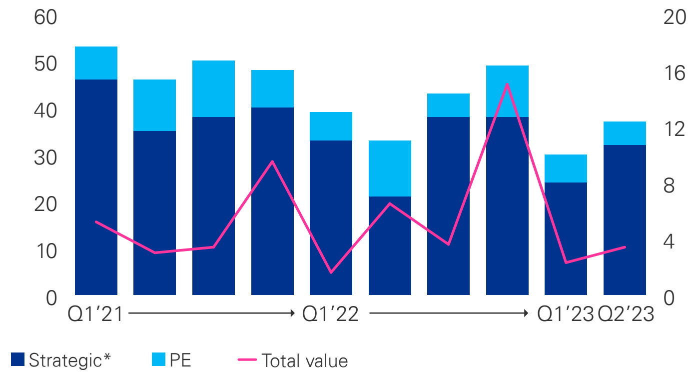
37 deals ▲ **23%** increase QoQ | **$3.4** billion deal value ▲ **46%** increase QoQ

Power and utilities deal volume and value



*Includes SPAC deal activity

Renewable energy deal volume and value



Top power and utilities deals

Acquirer	Target	Rationale	Value (billions)
Athena Technology Acquisition Corp. II	Air Water Ventures	Accelerate growth, expand reach, and continue disruptive innovation	$0.3
Liberty Energy	Siren Energy	To accelerate the expansion of Liberty Power Innovations, an integrated alternative fuel and power solutions provider for remote applications	$0.1

Top renewable energy deals

Acquirer	Target	Rationale	Value (billions)
Brookfield Renewable	Duke Energy Renewables	Add a scale operating renewable platform and contribute meaningful cash flows with significant upside from potential asset repowering and synergies	$2.8
ESGEN Acquisition Corp.	Sunergy Renewables	To help Sunergy scale more rapidly to meet the current demand demonstrated by customers	$0.5

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all U.S. deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

Deep dive

Inflation Reduction Act: What investors, developers, and taxpayers need to know

$500 billion Estimated tax equity and tax credit needs for IRA projects, 2022 – 2031[3]

The Inflation Reduction Act of 2022 (IRA) is one of the most important pieces of climate legislation in US history. It offers funding, programs, and incentives to accelerate the transition to a clean energy economy, and it will likely drive significant deployments of green energy resources for years to come.[4]

The IRA creates a unique environment for tax credit and tax equity investments. Key incentives include Investment Tax Credits (ITC) and Production Tax Credits (PTC) that are available to taxable business entities and certain tax-exempt entities eligible for direct payment of tax credits. There are also tax credit adders involving factors such as meeting prevailing wage and apprenticeship requirements for construction projects, and using domestically sourced steel and iron.

Especially important with the IRA is the monetization or transferability of these credits, further opening investment opportunities for energy projects. The KPMG Corporate Finance team is providing placement services for the buyers and sellers of new transferable tax credits created by the IRA.

Key valuation drivers for tax credit investments. Along with supporting progress in global sustainability and decarbonization, the IRA offers specific tax benefits and advantages for developers, investors, and taxpayers. Here is a sample of key valuation drivers that investors need to consider when evaluating IRA tax credits investment opportunities.

- **Documentation/due diligence:** Projects should reflect thoroughness in documentation supporting qualifications.
- **Project location:** Certain project locations can reduce risk and provide diversification.
- **Project size:** Varying project sizes can provide diversification and increase options for investors.
- **Tax credit horizon:** Multiyear credit opportunities can create efficient transactions for buyers and sellers. Purchased tax credits can be carried backward three years and carried forward for 20 years.
- **Types of credit:** Different types of credit can support a wider range of investment opportunities.
- **Project agreements:** Projects are more attractive when they offer quality offtake counterparties and attractive pricing.
- **Financial strength of developer:** Sophisticated investors prefer issuers with strong credit and reputations for financial performance.
- **ESG considerations:** Projects should support credit purchases in marketing and public relations. Select projects can bundle green and decarbonization credits.

KPMG has designated tax and ESG teams that can help to identify and quantify these drivers.

Opportunities for M&A transactions. The IRA is expected to create demand-side incentives for M&A transactions in industries such as solar, wind, and geothermal power generation, as well as electric transmission, lithium processing, and battery manufacturing.[5] The IRA also enhances the existing 45Q tax credit, which benefits direct air capture facilities. This will expand the number of qualifying facilities and make carbon capture and sequestration companies more attractive as acquisition targets.

With further guidance from the IRS on tax credit transferability, the emerging market for renewable tax credits is expected to develop into a mature and robust marketplace in the years ahead. Investors are advised to clearly understand the full ramifications of the IRA to help them identify and profit from significant business opportunities enabled by the IRA.

George Ward
Principal
ESG

Chris Rockers
Managing Director
Corporate Finance

[3] WallStreet Research, cited in KPMG research, "Tax Equity & Tax Credit Opportunities, May 2023"

[4] "Summary of Inflation Reduction Act provisions related to renewable energy," Environmental Protection Agency, June 2023

[5] "IRA: A Driver of Increased M&A Activity?," ESG Investor, September 30, 2022

Outlook

Quiet optimism continues

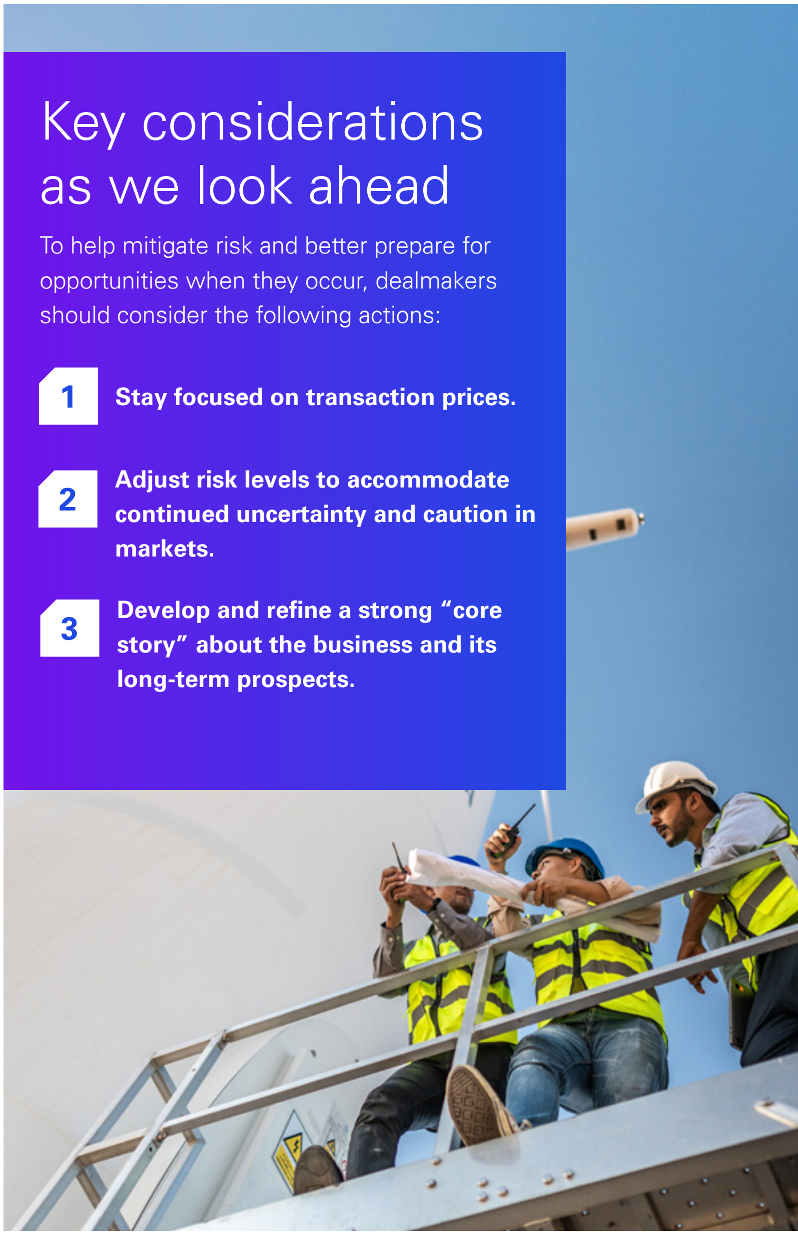
KPMG Economics expects an economic slowdown within the latter half of 2023. We see consumer consumption slowing before recovering in late 2024. The US Federal Reserve will most likely not start lowering rates until the Core Personal Consumption Expenditures Price Index reaches a 3 percent threshold. We forecast two additional rate hikes from the Fed in the second half of 2023. A pause in rate hikes may have little impact on corporate transactions, but it will create some loosening of the debt markets, which will help PE investors.

The IRA continues to drive massive infrastructure development in sustainable energy projects (see page 7). Public disclosure of guidance rules for the IRA will continue to be released and finalized over the summer, which will trigger closings on project financings that are currently on hold. At the same time, deal volume in the energy transition and renewables space will likely remain modest throughout 2023 and into 2024, due to uncertainty about the 2024 election results. During this waiting period, we might see a tilt toward value-creation projects rather than deals.

In general, ENRC companies are still regarded as a safe haven for value in the face of potential recession, inflation, and a regional banking crisis. O&G companies are sitting on large cash balances and enjoying higher share prices when compared to the last decade. This gives them ample dry powder. We expect deal volume to increase QoQ, with the majority of deals involving either very large or fairly small entities. We expect large public companies to potentially use high share prices to fund transactions with other public companies, while smaller entities look to merge with other entities of equal size to leverage synergies. However, deal activity level will likely remain modest as PE investors continue to find it difficult to exit older positions in developed entities due to the lack of new capital and tepid markets for initial public offerings.

Power and utilities growth and deal activity will continue as utilities strive to become more resilient in the face of rising volatility in temperatures and major weather events. Deal activity in chemicals is expected to maintain its current pace due to portfolio rationalizations that support cross-border collaborations and sustainability.

Overall, the outlook for H2’23 is one of measured optimism. M&A transactions will see a moderate uptick in quantity and value, with much of the upswing happening later in the calendar year and continuing into H1’24. The 2024 election cycle may cause some deal making to slow as we approach November. However, we expect a number of large mergers based on current conditions. In short, the next 12–18 months will most likely be better for dealmakers than the previous 12–18 months.



Key considerations as we look ahead

To help mitigate risk and better prepare for opportunities when they occur, dealmakers should consider the following actions:

1. **Stay focused on transaction prices.**
2. **Adjust risk levels to accommodate continued uncertainty and caution in markets.**
3. **Develop and refine a strong “core story” about the business and its long-term prospects.**

How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, leveraging its depth in the ENRC industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle.

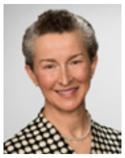
With an ENRC specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

Authors

Mike Harling
Partner, Deal Advisory & Strategy
713-319-2318
mharling@kpmg.com

Brandon Beard
Partner, Deal Advisory & Strategy
214-840-6402
bbeard@kpmg.com

Arun Mani
Principal, Deal Advisory & Strategy
713-319-3516
arunmani@kpmg.com



Gillian Morris
Principal, Deal Advisory & Strategy
612-305-5070
gillianmorris@kpmg.com

George Ward
Principal, ESG
713-319-2000
georgeward@kpmg.com

Steve Binz
Managing Director, Deal Advisory & Strategy
214-840-6441
sbinz@kpmg.com

Chris Rockers
Managing Director, Corporate Finance
303-382-7504
crockers@kpmg.com

With special thanks to:
Garvita Garg, Michael Gelfand, Diya Gupta, Mary Leonard, Ralph Park, Sandeep Sharma, Pratham Singh, Heather Vo, and Lara Volpe

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia