KPMG

Dealmakers remain cautious

M&A trends in energy, natural resources and chemicals

GenAI was utilized in the creation of this image

Q3’24

kpmg.com

Dealmakers remain cautious

The energy, natural resources, and chemicals (ENRC) sector maintained a wait-and-see position in Q3'24. Industries showed a slight uptick in deal volume (6.3 percent) quarter over quarter (QoQ) but declined in value (36.3 percent). This is possibly due to high interest rates, lower US carbon compliance credit pricing, and rigorous regulatory scrutiny. However, inflation continued to cool, and the Federal Reserve has now cut rates by 75 basis points. This was the first rate cut in four years, with more cuts expected in Q4'24 and 2025.

The energy industry led the ENRC sector in terms of deal volume and value. In line with a surge in domestic oil and gas (O&G) production, the industry shifted toward consolidation and strategic partnerships among midstream companies, helping to optimize operations, enhance efficiencies, and capitalize on economies of scale. Amber Energy's proposed acquisition of Citgo Petroleum, which is held by PDVSA, the national oil company of Venezuela, for $7.3 billion, would represent what could potentially turn out to be the quarter's largest deal in terms of value pending the conclusion of transaction details. (The proposed deal will be subject to further bidding, as well as court and governmental approvals, with further developments well into 2025. Amber Energy has indicated that they seek to improve the operational efficiency and leverage core assets such as refineries and transportation.)

In the renewable energy sector, strategic acquisitions were driving innovations and expansion in solar and geothermal. By acquiring specialized companies and projects, firms were significantly expanding their geographic and product reach within the renewable energy market. This expansion was not only about growth but also enhancing the ability to meet diverse consumer needs and adapting to evolving regulatory landscapes that encourage green energy sources.

The power and utilities (P&U) industry witnessed a significant transformation driven by mergers and acquisitions (M&A) and strategic investments, primarily fueled by the escalating need for electricity to support sectors such as electric vehicle (EV) chargers and data centers. In terms of value, investment firms were notably active, channeling substantial funds into power suppliers to bolster infrastructure capable of meeting increased energy demands.

The chemical sector saw divestitures of smaller regional assets. Chemical companies were also undertaking M&A deals targeting entities endowed with low-carbon technologies, a strategy chemical companies leveraged to decarbonize their operations and support regulatory compliance.

> "In line with a surge in domestic oil and gas production, the industry shifted toward consolidation and strategic partnerships among midstream companies, helping to optimize operations, enhance efficiencies, and capitalize on economies of scale."

Mike Harling
Partner
Deal Advisory & Strategy
ENRC Leader

The data

Strategic deals are large and in charge

Activity from oil and gas megadeals from the previous quarter has slowed down. Strategic deals continued to dominate the sector, both in terms of value (81 percent) and volume (73 percent).

> "As renewable energy continues to increase in demand, many PE investors are trying to buy the developers ahead of the curve."
>
> — Steve Binz, Managing Director
> Deal Advisory & Strategy, KPMG LLP

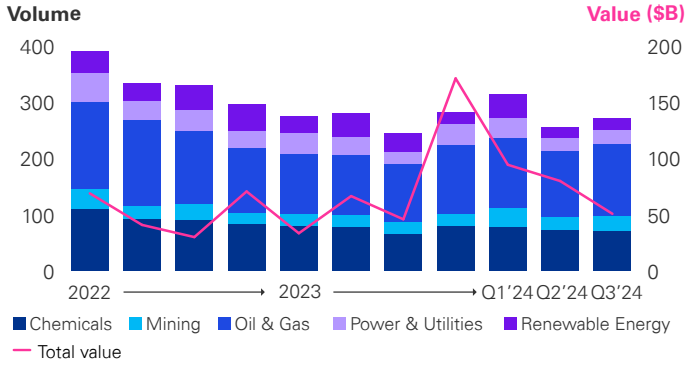
Q3'24 highlights

271 deals ▲ **6.3%** increase QoQ

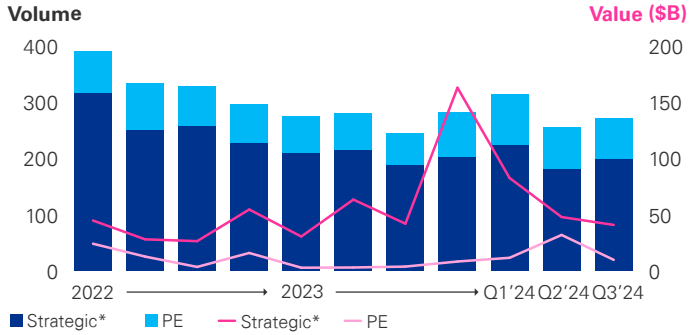
$50.8 billion deal value ▼ **36.3%** decrease QoQ

Deal value increased QoQ, however, deal value decreased precipitously over the same time period.

ENRC deal activity by sector



ENRC deal activity by type

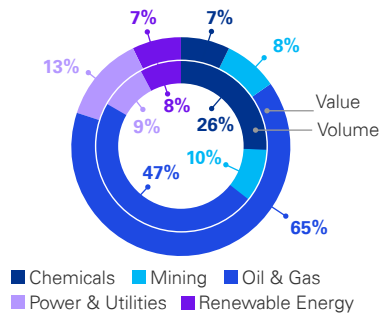


*Includes special-purpose acquisition company (SPAC) deal activity

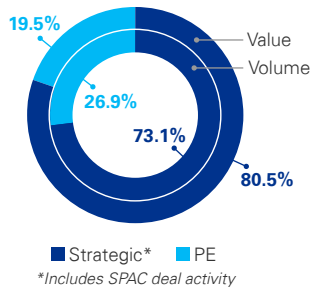
Q3'24 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix

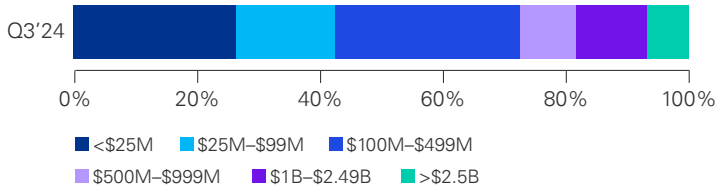


PE/strategic mix



*Includes SPAC deal activity

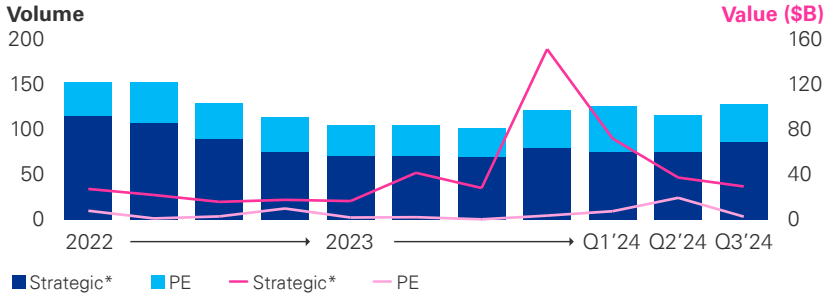
Q3'24 deal size mix



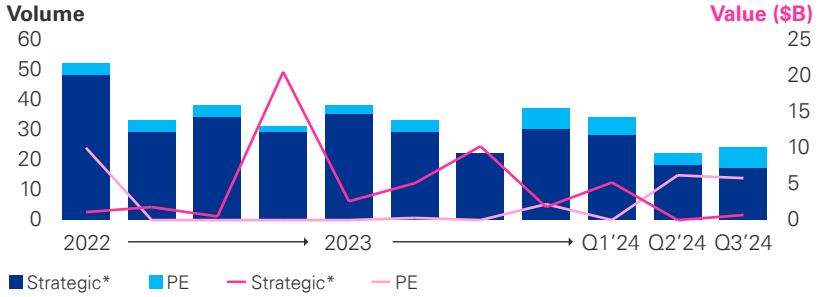
Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between 7/1/2024 and 9/30/2024. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any change.

Deal activity by subsector

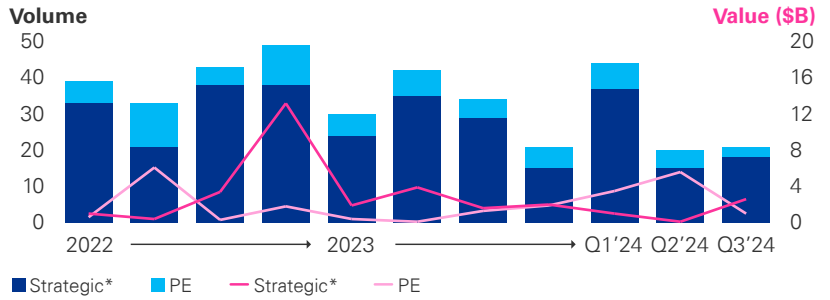
Oil & Gas



Power & Utilities



Renewables

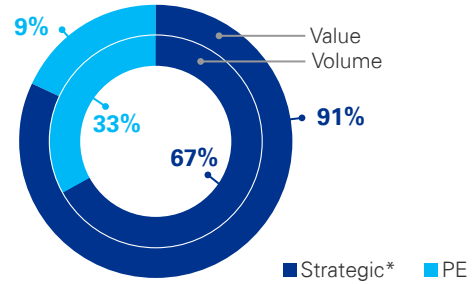


*Includes SPAC deal activity

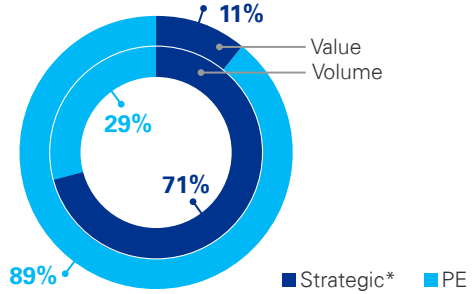
PE/strategic mix

Outer ring represents value. Inner ring represents volume.

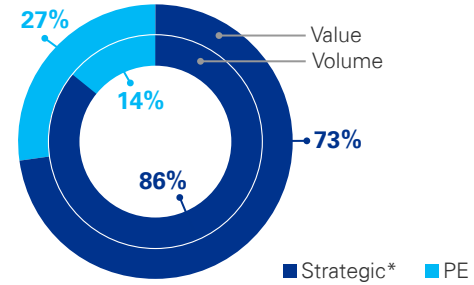
Oil & Gas



Power & Utilities



Renewables



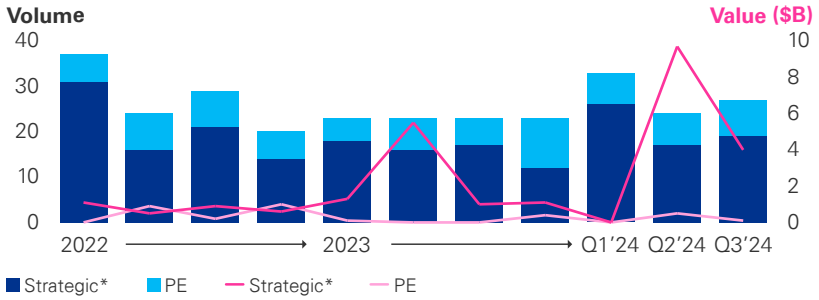
Top deals

Acquirer: **Amber Energy Inc.** Target: **PDV Holding, Inc.**	**Value (billions) $7.3**
Acquirer: **Devon Energy Corporation** Target: **Williston Basin Business of Grayson Mill Energy, LLC**	**Value (billions) $5.0**
Acquirer: **ONEOK, Inc.** Target: **EnLink Midstream, LLC**	**Value (billions) $3.3**
Acquirer: **Quantum Capital Group** Target: **Cogentrix Energy**	**Value (billions) $3.0**
Acquirer: **ONEOK, Inc.** Target: **Medallion Midstream, LLC**	**Value (billions) $2.6**

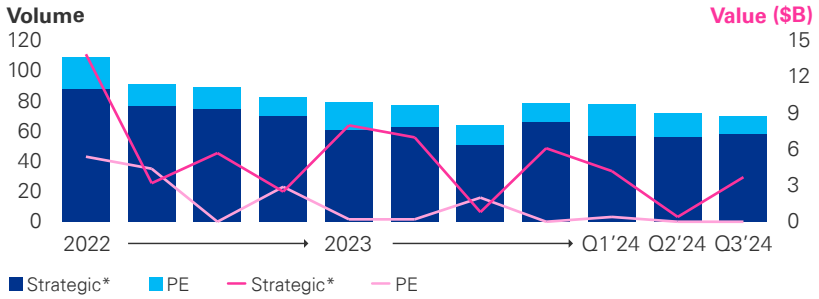
Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between 7/1/2024 and 9/30/2024. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any change.

Deal activity by subsector

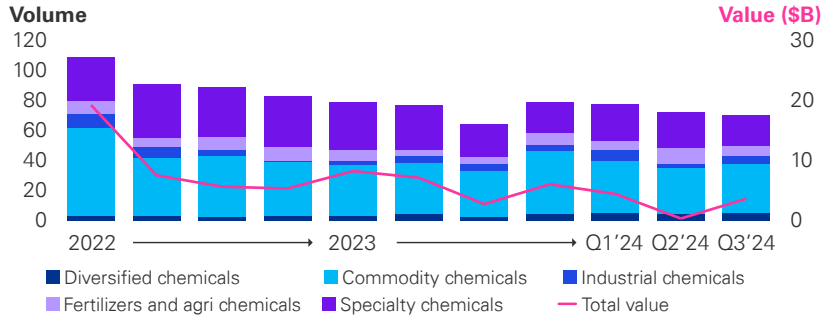
Mining



Chemicals – Strategic and PE deals



Chemicals by subsector

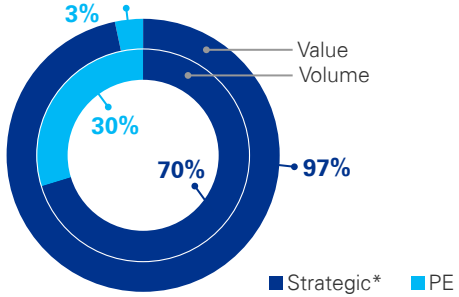


**Includes SPAC deal activity*

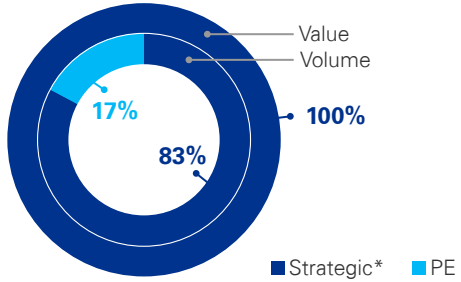
PE/strategic mix

Outer ring represents value. Inner ring represents volume.

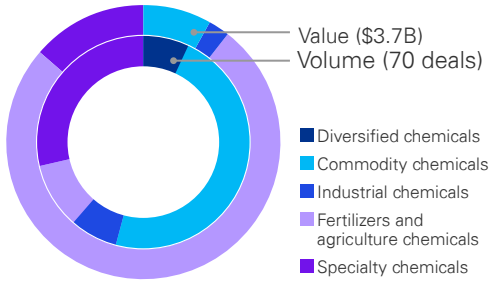
Mining



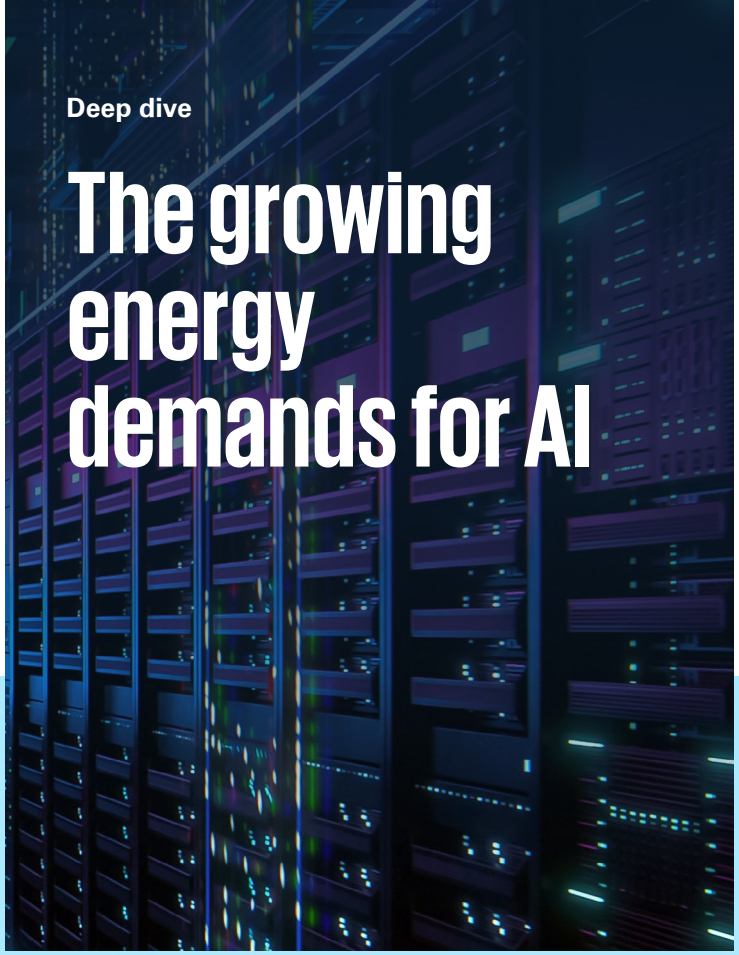
Chemicals



Chemicals by subsector



> "In the chemical sector, firms are tactically shedding misaligned assets, yet PE's stride remains cautious."
>
> — Gillian Morris, Principal
> Deal Advisory & Strategy, KPMG LLP



Deep dive

The growing energy demands for AI

The escalating computational requirements and intense processing demands of AI activities in data centers are significantly impacting both the energy costs and carbon footprint needed to sustain these operations.

According to the International Energy Agency (IEA), the initial training for a single AI model by an organization uses more electricity than 100 US homes consume in an entire year.[2] The IEA also estimates global electricity consumption by data centers could double between 2022 and 2026. Initial findings by the U.S. Energy Department suggest that at least half of the power demand growth from US data centers since 2016 has been drawn AI requests.[3]

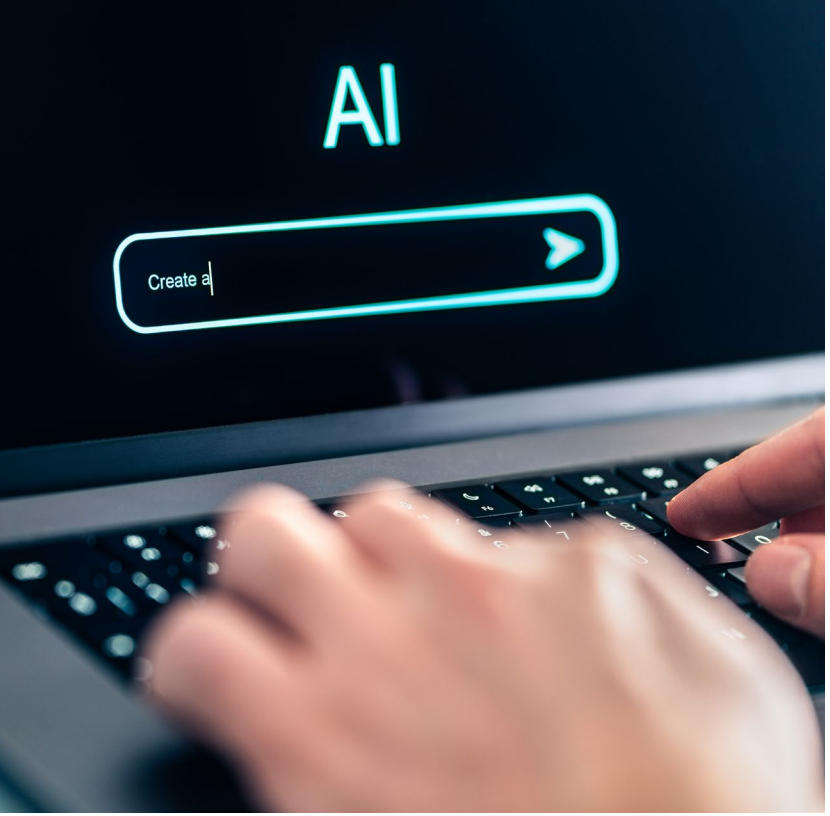
In a recent survey by KPMG of data center operators, utilities, and related construction companies, 57 percent of all respondents believe the current pace of new energy deployment in the US is insufficient to meet new energy demand from AI.[4] Over three quarters (76 percent) of utility respondents say they face challenges connecting data centers to the grid due to lack of capacity.

Why is Microsoft buying power generated by a nuclear reactor at Three-Mile Island?

The answer lies in the technology giant's growing commitment to artificial intelligence (AI) tools and services. The company is buying the plant's entire electric generating capacity for the next 20 years in a deal with Constellation Energy.[1] The acquisition will help power the company's data center infrastructure in the region to provide AI-based offerings while also supporting its corporate goals to become carbon negative by 2030.

Michael Harling
Partner
Deal Advisory & Strategy
ENRC Leader

[1] "Why Microsoft made a deal to help restart Three Mile Island," The Spark, MIT Technology Review newsletter, September 26, 2024
[2] "Why AI and energy are the new power couple," International Energy Agency, November 2, 2023
[3] "AI prompts half of surge in U.S. power demand from datacenters, DOE lab finds, S&P Global, April 19, 2024
[4] KPMG research, Q3'24



Collaboration is needed between hyperscalers and utilities

Our recent survey of data center operators, utilities, and related construction companies revealed that hyperscalers are willing to pay a premium to help build new energy infrastructure. However, hyperscalers and other AI-related service providers have a shared responsibility to manage energy demand and consumption.

Based on our experience with clients, we believe that effective energy management can best be supported by close collaboration between providers and utilities in the following areas:

- **AI query management systems:** Create AI systems that carefully manage and prioritize inference queries (requests for AI to make predictions or decisions based on its trained models), helping to ensure efficient processing and energy usage.
- **AI for load balancing:** Implement AI tools to balance the load of queries on the network, preventing overloads that could cause outages while reducing the amount of energy wasted through inefficiency.
- **Real-time monitoring and response:** Develop AI systems to monitor query traffic in real time and adjust resources accordingly to help ensure energy-efficient processing. This includes real-time diagnosis and troubleshooting.
- **Optimized data center energy use:** Optimize energy consumption in data centers by using AI to predict peak load times and adjust energy provisioning accordingly.
- **AI-driven infrastructure planning:** Use AI to accurately predict the required infrastructure for the efficient processing of AI inference queries.

Balancing innovation and sustainability to support growth

The pursuit of balancing AI's energy demands with the need for sustainable and reliable energy solutions is indeed a critical issue facing technologists, policymakers, and society at large. In fact, KPMG data shows hyperscalers and data center developers are willing to pay an even higher premium for low-carbon energy. Sixty-two percent are willing to incur an additional cost of up to 50 percent more than their current electricity expenses for low-carbon electricity, with another 14 percent willing to pay between 51–100 percent more than their current electricity expenses for low-carbon electricity.

Renewable energy technology is rapidly advancing, but the continuous capacity needed to fully support high-demand applications such as AI processing and data centers remains challenged by issues related to reliability, storage, and sheer scale. Currently, natural gas has been seen as the most reliable, affordable, and sustainable option serving as a bridge to other sources, like nuclear, which still has headwinds to overcome in the form of permitting, public perception, and longer timelines to come online.

Increased complexity needed to supply growing demand will require significantly greater collaboration among energy suppliers, government agencies, and data center developers as they chart a path forward to ensure that the AI revolution is both innovative and sustainable.

The waiting game is over

Caution about new acquisitions has receded now that there is more clarity on political and economic fronts. With the US general elections over and Republicans having gained control of the White House, Senate, and House of Representatives, a clearer picture has emerged about regulatory policies; although, the number of interest rate cuts now seems less certain. Deal activity, as a result, is anticipated to pick up.

The US is expected to experience a favorable economic climate through 2025 before growth is expected to slow due to inflationary policies from the incoming administration. This will support higher demand from key buyer sectors. US natural resources (especially shale gas) are expected to drive growth and attract investment due to stable prices in the US, providing the US chemical producers a cost-competitive benefit over their peers in Europe and Asia.

The U.S. Department of Energy predicts that the Inflation Reduction Act will cause the proportion of electricity generated from clean sources to increase twofold by 2030, primarily due to the expansion of solar and wind power. At the same time, the Permian region in Texas, accounting for nearly half of US crude oil production, will continue to stand as a pivotal force of M&A activity alongside the Eagle Ford area and the Gulf of Mexico.

Protectionism is expected to rise. The US will likely increase tariffs on China's clean-tech sector to safeguard domestic industries and diminish reliance on China's dominance in global supply chains for EVs and essential raw materials. Geopolitical uncertainties tied to the 2024 elections could result in divergent energy policies, with key considerations being shifts in sanctions policy, especially toward China from Russia, varying approaches to climate change, and energy transition efforts.

Industry overviews

Oil & Gas

The O&G sector is leveraging M&A transactions to achieve significant synergy targets, such as reducing operational costs and enhancing capital efficiency. Through mostly strategic deals, companies will be streamlining operations, integrating advanced technologies, and optimizing resource utilization to drive overall efficiency.

Power & Utilities

The rise of cloud computing and AI along with continued adoption of EVs in the US will continue to push increased investment in data centers and utility infrastructure. Accordingly, the P&U industry will continue to use M&A deals to acquire assets and technologies that bolster electricity generation and distribution.

Renewables

Renewable energy companies are expected to benefit from increased investments in green sectors, motivated by carbon reduction plans and supportive legislation. However, divestments to reduce business risk and improve balance sheets are also expected.

Chemicals

The demand for chemicals will continue to be supported by robust household consumption. Government policies, such as the CHIPS and Science Act and the Inflation Reduction Act, will accelerate the development of technology to reduce emissions and increase demand for chemicals used in related products.

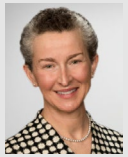
Authors

Michael 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

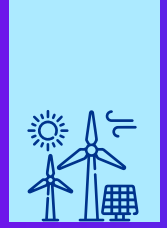
Jay Teinert
Principal, Advisory Transaction Strategy
214-840-8082
jteinert@kpmg.com



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

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

With special thanks to: Varun Angirish, Michael Gelfand, Kathleen Nichols, Manojit Panda, Sagar Dutt Phuloria, and Kathy Wheeler.



How KPMG can help

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

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

Please visit us: **kpmg.com** **Subscribe**

DASD-2024-16479