KPMG

Resilience despite uncertainties

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

Q1'24

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O&G upstream, midstream see merger wave

For the energy, natural resources, and chemicals (ENRC) sector, mergers and acquistions (M&A) activity volume in Q1’24 dipped slightly quarter-over-quarter but significantly declined in value quarter-over-quarter (QoQ) from Q4’23.

The sector saw an increase in consolidation and asset acquisition, driven mainly by the desire to enhance operations, boost production capacity, and increase market share. Most of this activity occurred in the oil and gas (O&G) industry, with strategics at the forefront, and we expect them to continue leading the deal space into the future. Specialized upstream and midstream operators such as pipeline and storage companies announced a total of $12.5 billion in mergers through mid-March. Compare this figure to $21.9 billion for all of 2023. At this pace, total M&A transaction value could reach 2019 levels.

As part of efforts to reduce carbon emissions, renewable energy saw a noticeable increase in investments, with an enhanced focus on solar assets. Renewables enjoyed a 90.5 percent increase QoQ in deal volume and a 12.4 percent increase QoQ in deal value.

Conditions in the chemicals industry remain challenging after a fifth straight quarter of sales declines. Current trends reflect a complex interplay of market forces, regulatory impacts, and demand reduction worldwide. At the same time, escalating regulatory pressures, continued funding from the Inflation Reduction Act for sustainable industries, and growing demand for greener energy have encouraged the chemicals industry to increase their investments in sustainable practices like lithium processing, battery manufacturing, and clean ammonia production.

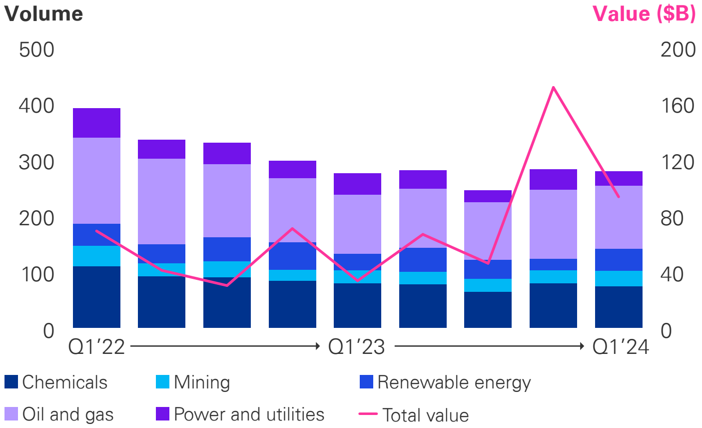
Michael Harling
Partner
Deal Advisory & Strategy
ENRC Leader

Q1’24 highlights

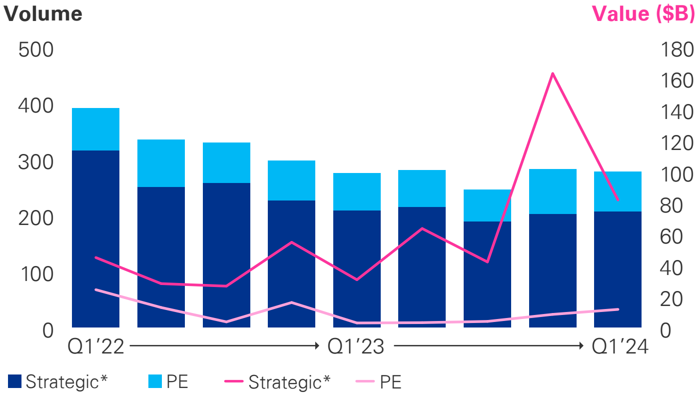
278 deals ▼ **1%** decrease QoQ

$93 billion deal value ▼ **46%** decrease QoQ

ENRC deal activity by sector



ENRC deal activity by type

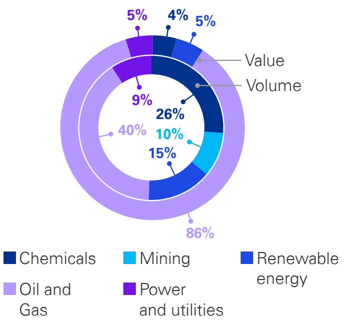


**Includes SPAC deal activity*

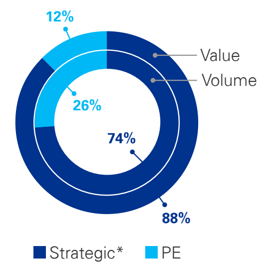
Q1’24 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix

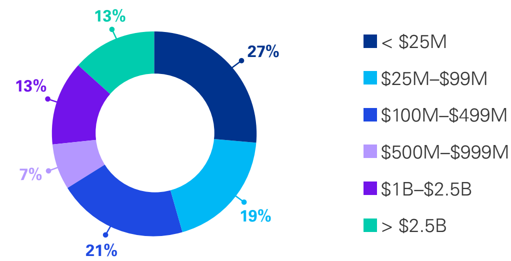


PE/Strategic mix



*Includes SPAC deal activity

Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Diamondback Energy, Inc.	Endeavor Energy Resources, LP	$26.0
EQT Corporation	Equitrans Midstream Corporation	$14.0
Chesapeake Energy Corporation	Southwestern Energy Company	$7.4
Sunoco LP	NuStar Energy L.P.	$7.3
APA Corporation	Callon Petroleum Company	$4.5

Top PE deals

Acquirer	Target	Value (billions)
Kohlberg Kravis Roberts, Viessmann Group	Encavis	$3.1
Stonepeak	Dominion Energy (2.6GW Coastal Virginia Offshore Wind Project in Virginia)	$3.0
Bernhard Capital Partners	CenterPoint Energy (Natural Gas Assets in Louisiana And Mississippi)	$1.2
BlackRock, Morgan Stanley	Portland Natural Gas Transmission System Operating Company	$1.1
Global Infrastructure Partners	Eversource Energy (Revolution Wind and South Fork Wind Projects)	$1.1
Kohlberg Kravis Roberts (Charlie Gailliot)	Avantus	$ 1.0

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and majorly excludes asset purchases/minority purchases. The values and volumes data cited are for US deals announced between January 1 and March 31, 2024. Deal values are based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

The top strategic and PE deals for the ENRC sector are also the top strategic and PE deals for the entire O&G subsector based on overall transaction value.

Oil and gas

New investments in premium quality reserves

Oil reserves in the US are showing signs of increased value and attractiveness, especially as premium quality reserves become top priorities while shale locations dwindle.

Consolidations in O&G are increasingly driven by the goal to acquire premium reserves in areas such as the Permian Basin in West Texas, North Dakota, and Guyana. Larger firms are able to prioritize acquisitions using their cash flow as well as available cash reserves.

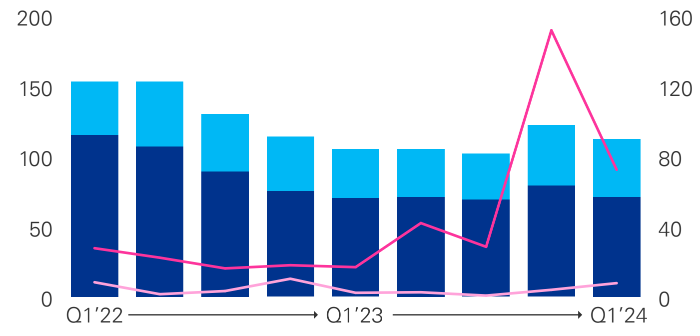
Smaller upstream and midstream companies are joining forces to leverage combined resources, expertise, and technologies to support process efficiencies, cost synergies, and improved profitability. The scale from this consolidation affords these companies a competitive advantage and potential for market growth.

Q1’24 oil and gas highlights

112 deals ▼ **8%** decrease QoQ

$80 billion deal value ▼ **49%** decrease QoQ

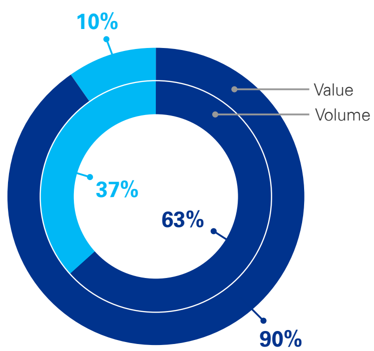
O&G deal activity by subsector



*Includes SPAC deal activity

Q1’24 O&G PE/strategic mix

Outer ring represents value, inner ring represents volume.



*Includes SPAC deal activity

Top O&G deals

Acquirer	Target	Rationale	Value (billions)
Diamondback Energy	Endeavor Energy Resources	Create an O&G operator focused on the Permian Basin.	$26.0
EQT	Equitrans Midstream	Create a large-scale, vertically integrated natural gas company.	$14.0
Chesapeake Energy	Southwestern Energy	Create an energy company with a natural gas portfolio adjacent to high-demand markets.	$7.4
Sunoco	NuStar Energy	Enhance stability by diversifying Sunoco business and capturing the benefits of vertical integration.	$7.3
APA	Callon Petroleum	Complement and enhance APA's asset base in the Permian Basin.	$4.5

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Chemicals

More carve-outs to come

The US chemical industry is projected to remain relatively flat, while global chemical companies will continue to experience increased margin pressure and high borrowing costs. Companies that expanded capacity in anticipation of growth have been affected by demand setbacks due to destocking, energy and feedstock cost issues, and a demand-supply imbalance.

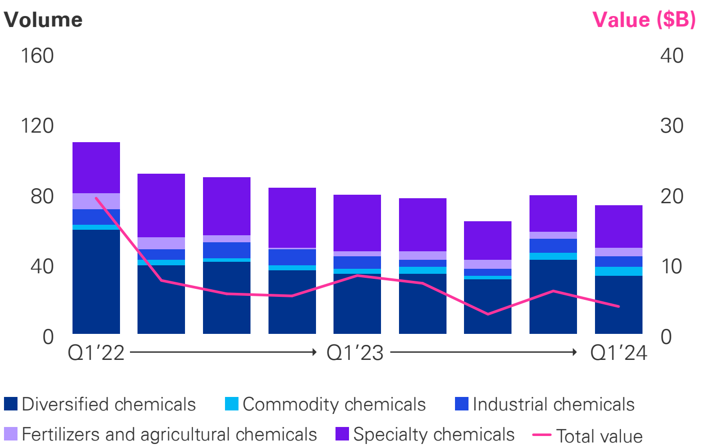
This demanding environment will encourage tightly focused deals such as carve-outs. Despite their complexity, these carve outs will enable larger chemicals companies to funnel capital to priority areas while divesting their noncore businesses to different owners where value can be unlocked more quickly.

Q1’24 chemicals highlights

73 deals ▼ **8%** decrease QoQ

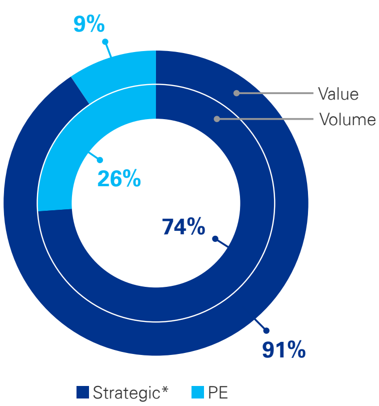
$4 billion deal value ▼ **35%** decrease QoQ

Chemicals deal activity by subsector



Q1’24 chemicals PE/strategic mix

Outer ring represents value, inner ring represents volume.



*Includes SPAC deal activity

Top chemicals deals

Acquirer	Target	Rationale	Value (billions)
Roquette Frères	Pharma Solutions Business of International Flavors & Fragrances	Reduce debt and increase focus on long-term growth.	$2.9
Orica	Cyanco	Establish a mining chemicals business vertical and create an integrated global sodium cyanide manufacturing and distribution network.	$0.6
Kingswood Capital Management	Corbion	Allow Corbion to increase its focus on fermentation-based technologies.	$0.4

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Power, utilities, and renewable energy

Investors target renewables

Dealmaking for renewables outpaced other areas of the sector, driven by a number of factors. For example, the increase in investments in solar assets is a clear indicator of the growing acknowledgment of solar power's potential in the transition toward cleaner and more sustainable energy, especially when paired with battery storage. Additionally, the trend might reflect the increasing maturity of solar technology and the continuing decrease in cost.

The integration of renewable energy sources with traditional power and utilities companies is also becoming increasingly common. These energy providers are preparing for greater electricity demand and evolving electric grids, which require new planning tools and strategies. Through this integration, the providers gain the advantage of a broader platform to make in renewable energy.

Q1'24 power and utilities highlights

65 deals ▼ **25%** decrease QoQ

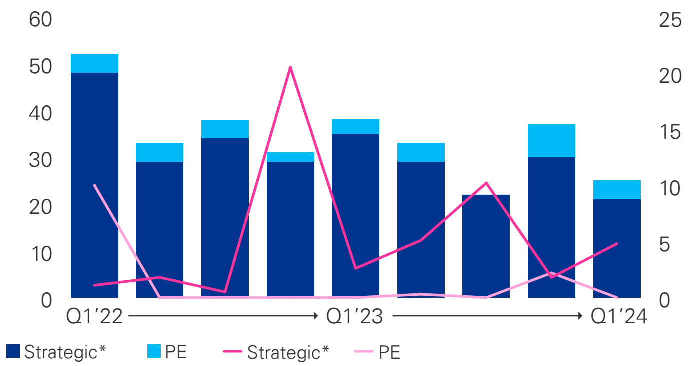
$9 billion deal value ▼ **18%** decrease QoQ

Q1'24 renewable energy highlights

40 deals ▲ **91%** increase QoQ

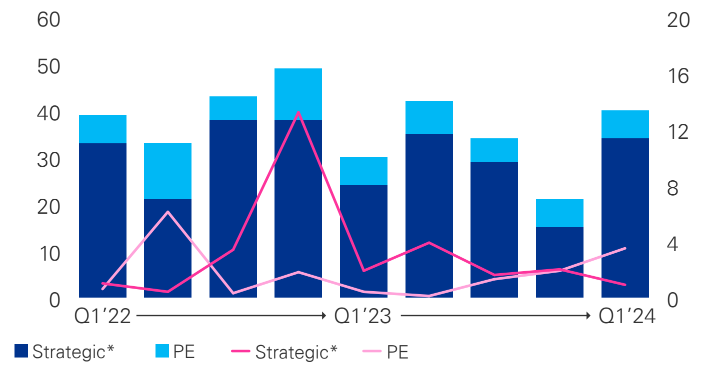
$4 billion deal value ▲ **12%** increase QoQ

Q1'24 P&U PE/strategic mix



*Includes SPAC deal activity

Q1'24 renewable energy PE/strategic mix



*Includes SPAC deal activity

Top power, utilities, and renewable energy deals

Acquirer	Target	Rationale	Value (billions)
Kohlberg Kravis Roberts	Encavis	Establish a strategic partnership with a renewable energy company.	$3.1
Iberdrola	Avangrid	Acquire Avangrid's extensive network and renewable energy assets spread across multiple states in the U.S.	$2.5
Bernhard Capital Partners	CenterPoint Energy	Sale of CenterPoint's Louisiana and Mississippi natural gas assets to Bernhard Capital Partners.	$1.2
I Squared Capital	Origo Energia	Earmark the investment for the company's expansion.	$0.4

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Strategic M&A deals

Dealmakers take the long view

Strategic partnerships and alliances emerged as a key strategy for business diversification and to reduce leverage, thereby catalyzing long-term growth opportunities. The current investment landscape benefits strategics who can reduce overall deal costs through leveraging integration synergies that are not available to PE investors.

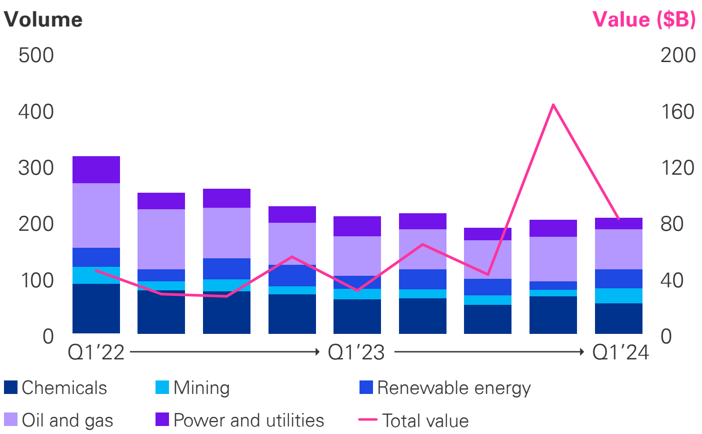
The sector saw 206 strategic deals versus 72 PE deals. Strategic deals were predominately domestic with 151 deals, versus 33 inbound and 22 outbound deals.

Q1’24 highlights

206 deals ▲ **2%** increase QoQ

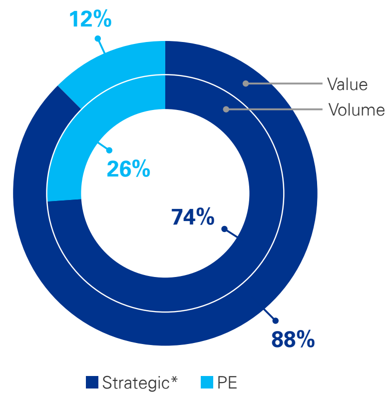
$82 billion deal value ▼ **50%** decrease QoQ

Strategic deal activity by subsector



Q1’24 PE/strategic mix

Outer ring represents value, inner ring represents volume.



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Top strategic deals

Acquirer	Target	Rationale	Value (billions)
Diamondback Energy	Endeavor Energy Resources	Create an O&G operator focused on the Permian Basin.	$26
EQT	Equitrans Midstream	Create a large-scale, vertically integrated natural gas company.	$14
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Top PE deals

Acquirer	Target	Rationale	Value (billions)
Kohlberg Kravis Roberts	Encavis	Establish a strategic partnership with a renewable energy company.	$3.1
Stonepeak	Dominion Energy	Leverage Stonepeak's expertise in constructing and managing large-scale renewable energy infrastructure projects.	$3.0
Bernhard Capital Partners	CenterPoint Energy	Sale of CenterPoint's Louisiana and Mississippi natural gas assets to Bernhard Capital Partners.	$1.2
Blackrock	Portland Natural Gas Transmission Operating System (TC Energy)	Supports TC Energy's ongoing efforts to reduce debt and fund investments.	$1.1
Global Infrastructure Partners	Eversource Energy (Revolution Wind And South Fork Wind Projects)	Streamlines Eversource's focus on its core operations in regulated transmission.	$1.1

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When failure is not an option: Acquisitions need a proven integration playbook

The ENRC sector has shown a strong appetite this quarter for consolidation and asset acquisitions. This activity is especially true for O&G, continuing a trend from last year.[1] In Q4'23 alone, Exxon Mobil acquired Pioneer Natural Resources for $60 billion.[2] Chevron acquired Hess for $53 billion.[3] And Occidental Petroleum bought CrownRock for $12 billion including debt.[4]

However, the size, scope, and complexity of these deals mean that both acquiring and target organizations need to follow a detailed, well-developed, and proven integration playbook to help ensure deal value.

Reasons for value erosion

After the deal has been signed, leaders sometimes lack sufficient focus on identifying the true sources of value of the combined organizations. Integration is viewed only as an execution challenge—integration for its own sake—rather than as a value-creation opportunity. Senior management needs to clearly understand and support the value proposition and new operating models. This includes knowing what critical decisions need to be made before, during, and after the integration process.

Organizations also need to keep in mind that almost any integration is complex, inherently messy, and often a major strain on employees who have to attend to their daily jobs during the integration process. Stakeholders need various tools and methodologies backed by a strong governance structure that includes clearly defined roles and responsibilities.

Finally, value can be lost if the people and change component is ignored. During a merger or acquisition, existing hierarchical structures, processes, and norms may be disrupted, dismantled, or "unfrozen" from their previous state, ready to be reshaped and integrated into the acquirer's methodologies and culture. Employees, customers, suppliers, and other stakeholders can find themselves in a state of flux and uncertainty—they need to be kept up to date on new developments through a program of clear, consistent, and regular communications.

Ways to optimize deal value

Managers for acquirers and targets must evaluate, confirm, prioritize, and embed the critical value drivers into integration plans. This includes creating a single point of accountability and carefully tracking progress. At every stage of integration, managers must translate the deal's intent into clearly articulated objectives that establish priorities and guiding principles, and provide a foundation for solid planning and execution.

To be clear, successful integration sometimes requires a "benevolent dictatorship" approach to support speedy decision making, even before all the relevant information has been gathered. Managers can also accelerate momentum by installing and coordinating faster decision-making structures, processes, and cycles in functional work streams, with interdependencies closely managed from the PMO.

In addition, integration can be supported by proactively addressing organizational and cultural issues. These often manifest themselves in how business is conducted and how company brands are perceived. Developing and supporting key messages that address particular concerns by stakeholders can help maintain enthusiasm for the deal.

Properly designed, tested, and implemented, an integration playbook can help organizations to enhance operational efficiency, reduce costs, generate higher market influence, and support continued growth after the deal.

Jay Teinert
Principal, Advisory
Transaction Strategy

[1] "Dealmakers consolidate and wait," M&A trends in energy, natural resources, and chemicals, KPMG, Q4'23
[2] "Exxon Mobil Strikes $60 Billion Deal for Shale Giant," New York Times, October 11, 2023
[3] "Chevron announces agreement to acquire Hess," Chevron press release, October 23, 2023
[4] "Occidental Petroleum to expand Permian ops with $12 billion deal for CrownRock," Reuters, December 11, 2023

Possible upticks on the horizon

KPMG Economics forecasts gross domestic product in the US to be relatively steady in 2024, hovering at 2.5 percent. An economic slowdown might occur, but a recession is no longer expected for this year. KPMG analysts anticipate one rate cut by the Federal Reserve in 2024, in December.

O&G players are projected to maintain their focus on traditional energy sources, targeting strategic asset acquisitions especially in regions like West Texas, North Dakota, and the coast of Guyana. As such, investment decisions in these areas will likely shape the medium-term outlook for the industry. O&G price volatility will continue to impact dealmaking. The West Texas Intermediate price for crude has increased 14 percent since the beginning of 2024, while natural gas prices have dropped 40 percent over the same period. The current global economic slowdown is expected to continue, so energy demand is forecasted to drop.

Renewable energy investments, particularly in solar and battery storage, are anticipated to thrive, driven by favorable legislation. Conversely, the chemical industry, which has been impacted by a recessionary environment, is predicted to continue its trend of careful dealmaking, although subsectors such as construction, and CASE (coatings, adhesives, sealants, elastomers) exhibit high consolidation potential.

The power, utilities, and renewable energy industries are predicted to increase their investments in green sectors, motivated by carbon reduction plans and supportive legislation. However, a continued trend of divestments and carve-outs to reduce business risk and improve balance sheets is also expected.

Impediments to deal activity growth in the private equity landscape, particularly valuation gaps and difficulties in achieving returns from existing investments, are likely to persist in 2024. This could result in a more cautious approach to PE-backed M&A deals in the ENRC sector. Geopolitical uncertainty and tight monetary policies are likely to continue and limit global economic growth, affecting dealmaking dynamics across the sector. M&A deals, while necessary for scaling, market entry, and cost reduction, may be curtailed by concerns over interest rates, potential recession risks, and leadership changes.

Despite these issues, anecdotal evidence and conversations with industry participants since the beginning of the year point to some volume stability and growth potential in deal activity. This gives us some cause for optimism about a measurable uptick in deal activity for the next quarter. We believe companies that continue to adapt to market dynamics, invest in innovation and focus on opportunistic or strategic expansion are likely to successfully navigate the challenges in the current deal market.

Key considerations as we look ahead

In pursuing M&A opportunities, dealmakers should consider the following:

1 Remain cautious

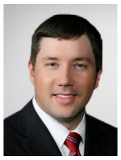
while keeping an eye on proper due diligence, possible synergies, and cultural differences between companies that might potentially merge.

2 Stay ahead of the consolidation curve

as potential targets decrease in number and increase in their attractiveness.

3 Prepare for a possible increase in deal activity

based on an improved economic landscape, ongoing technological advancements, and government incentives for sustainable energy and infrastructure development.



Brandon Beard
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Steve Binz
Managing Director, Deal Advisory

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

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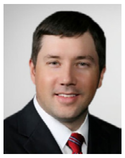

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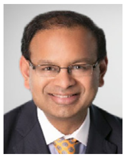

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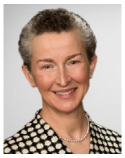

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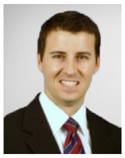

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With special thanks to:
Rohinish Chatrath, Michael Gelfand, Whitney La Bounty, Kathy Nichols, and Ryan Ronda

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DASD-2024-15098