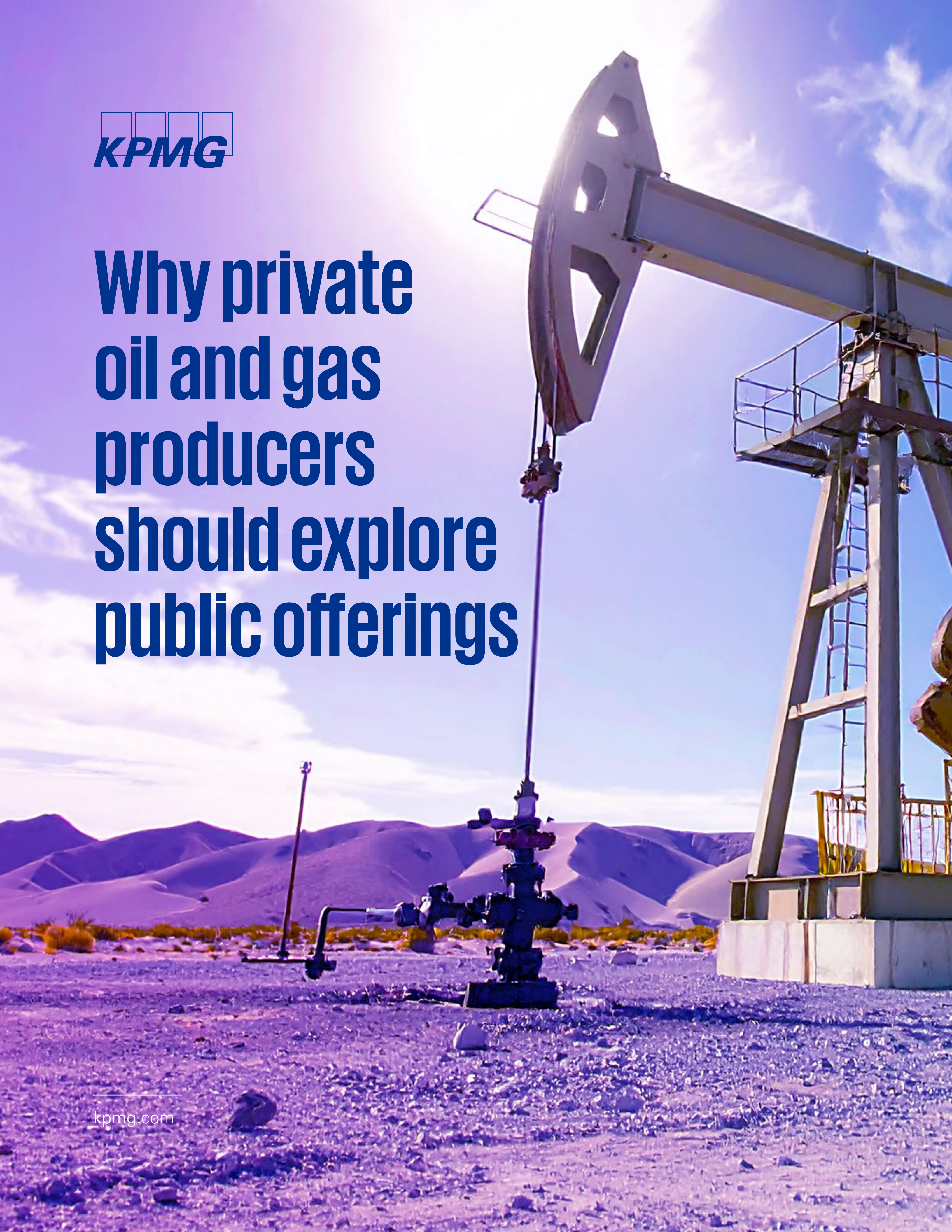
Why private oil and gas producers should explore public offerings



kpmg.com

Introduction

Private mid-size oil and gas (O&G) producers are facing a challenging environment with declining investment from private equity (PE) firms and strategic buyers who are increasingly focused on larger, single acquisitions and/or finding the perfect operational fit with adjacent acreage for development. Bulge bracket PE firms that once provided new investment have pulled back from upstream O&G, partly to mitigate perceived environmental, social, and governance (ESG) risks. This shift has left many mid-size producers—those with up to $1 billion in revenue—seeking alternative exit strategies to secure funding and enhance their market position.

One such alternative for producers is going public. Since 2022, there have been five initial public offerings (IPOs) among mid-sized producers, averaging $340 million in deal value annually. But many more mid-size producers have strong capital discipline and cash flow-positive businesses, making them potentially attractive in public markets, but they must be ready to capitalize on narrow market windows that can open and close quickly.

Success in going public requires a rigorous capital markets readiness process to not only prepare for the initial offering but also be ready with an optimized tax structure and capabilities for ongoing financial reporting, regulatory compliance, and investor relations. It also requires detailed financial statements, management discussions, and SEC-compliant reserves reporting in place to move swiftly when the opportunity arises.

Public investors are increasingly focused on companies that can generate steady cash flows for distribution rather than just continual production growth through rapid exploration and development spending. Without these preparations, mid-size producers risk missing out on critical funding and growth opportunities, which can jeopardize their market position and investor confidence.

Drought of investment for mid-size upstream producers

There was a rush of small- and mid-market PE firms investing in O&G producers 10–15 years ago. Continued technological advances in hydraulic fracturing, horizontal drilling, and enhanced oil recovery unlocked vast oil and gas reserves—particularly in lower-cost regions like the Permian Basin and Bakken Formation. In 2015, fundraising for PE funds targeting Permian assets reached $29.2 billion, and $39.9 billion for broader US O&G investments.[1] Between 2012 and 2020, O&G funds backed by the four largest PE firms raised $19.8 billion.[2]

Exhibit 1. PE fundraising in the oil and gas sector (US)

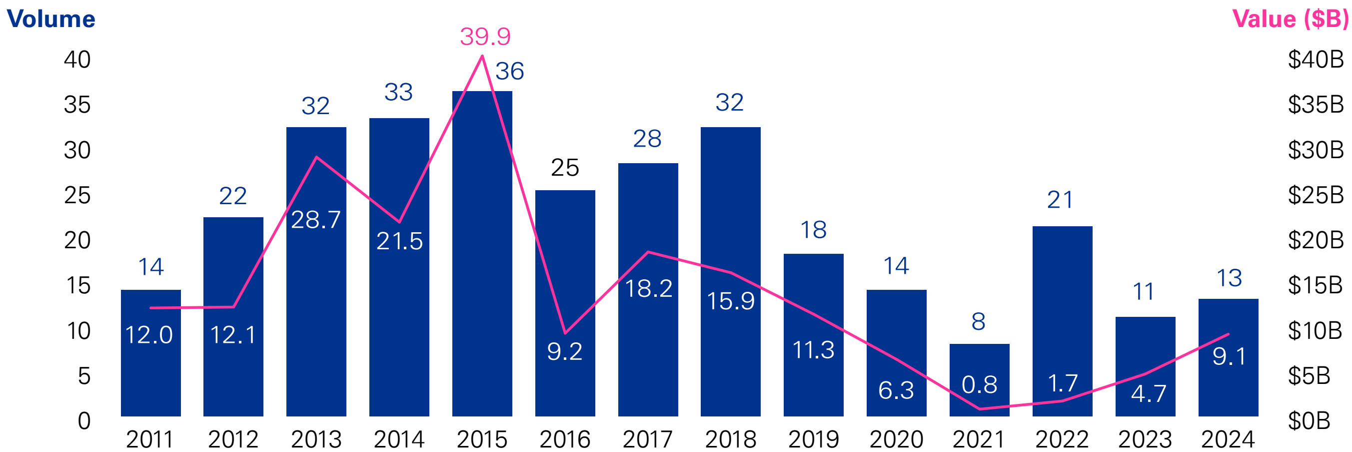
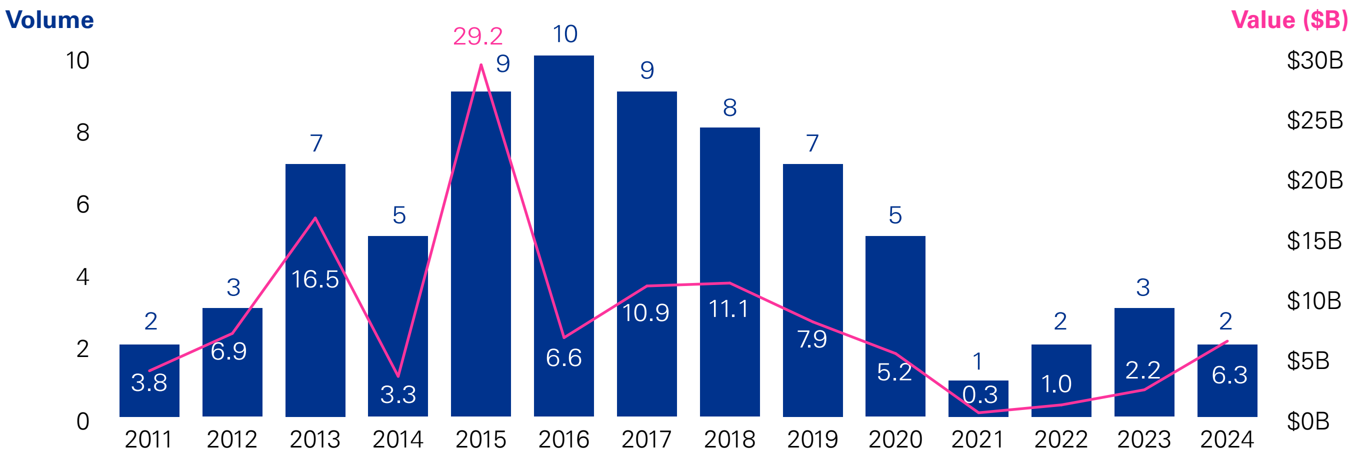


Exhibit 2. PE fundraising of investors with assets in the Permian Basin



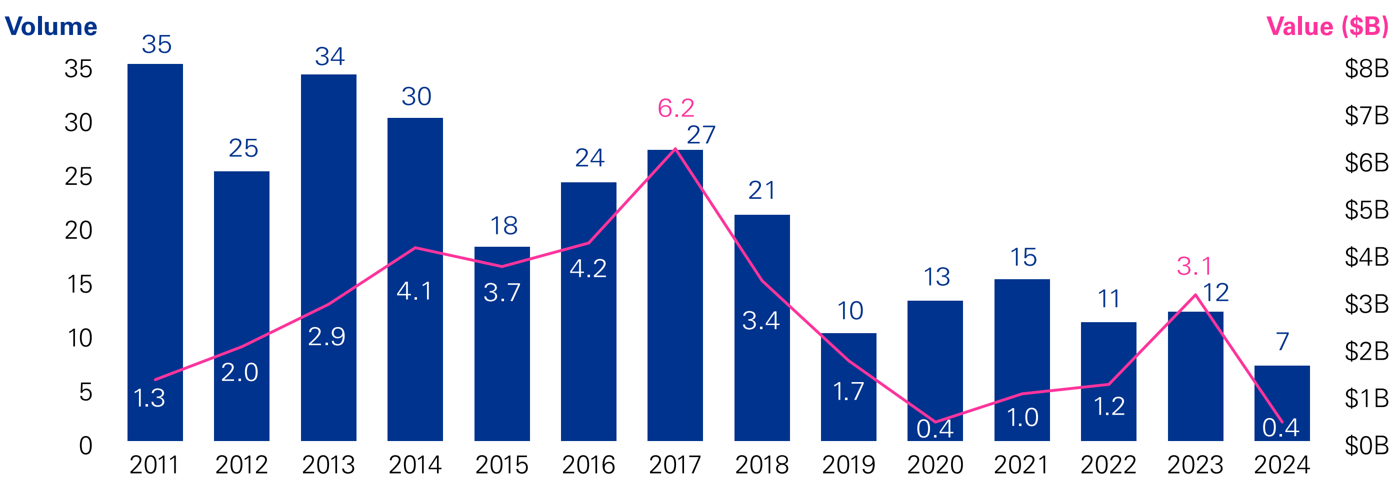
[1,2] KPMG analysis of Pitchbook data

Compared to public markets, PE was well-suited to invest in new upstream opportunities. Private firms could fund financially riskier ventures—those with high capital intensity and high break-even points—and tolerate cash flow fluctuation amid commodity price volatility without the pressure of quarterly reporting and steady dividends. The PE playbook seemed clear: Back experienced management teams who knew where to find the best acreage that was either unwanted or noncore of larger E&P players. Acquire that acreage at reasonable prices, develop it with the PE capital, and then sell businesses with steady production to larger private firms.

Today the outlook is different. Since the peak in 2015, PE fundraising for US O&G investments was down 77 percent in 2024—and down 78 percent for Permian-focused funds.[3] Among the four largest PE firms, there has been no fundraising for O&G funds since 2020.

Private equity investment in mid-size O&G producers has dropped: Between 2011 and 2024, deal volume declined by 80 percent; deal value averaged $3.47 billion from 2011 to 2017, but only $1.6 billion in the years since.[4] A bulge bracket firm has invested in only two mid-size O&G producers after 2017—investments by Apollo in Double Eagle Energy and Kimbell Royalty Partners.

Exhibit 3. PE/VC investments in midsize O&G producers



The headwinds have come from several factors. At the peak of the boom, skeptical investors argued the industry's relentless focus on increased production, at the expense of cash flow, was untenable—which led to slower investment.[5] Moreover, regulators and investors became more focused on ESG; for instance, large institutional clients have increasingly prioritized energy transition-related investments.[6]

Upstream producers in the US have also faced tougher foreign competition. In recent years, the production cost of a barrel of oil in Saudi Arabia—already a low-cost producer—declined by 61 percent from $9 in 2017 to $3.50 in 2024.[7,8] Accordingly, investment in US upstream production has shifted toward other parts of the value chain, such as natural gas distribution. In early 2025, there was some uptick in PE O&G investment, but this was mainly driven by the sell-off of various assets from O&G majors, rather than investment in smaller upstream producers.[9]

Beyond PE investors, strategic buyers are also scarce. M&A volume for deals involving the acquisition of private mid-size producers declined by 79 percent between

[3] KPMG analysis of Pitchbook data

[4] KPMG analysis of CapIQ data

[5] Saijel Kishan, Joshua Fineman, "Greenlight's Einhorn attacks frackers, says Pioneer burns cash," Bloomberg, May 4, 2015

[6] Hazel Bradford, "Energy transition projects are gaining speed and luring investors," Pensions & Investments, April 11, 2024

[7] Irina Slav, "Saudi vs Shale: The breakeven myth," OilPrice, May 22, 2017

[8] "Saudi oil production cost up 11% in 2024," Zawya, March 19, 2025

[9] Tim Siccion, Meerub Anjum, Shambahavi Gupta, "Private equity shifts focus to fossil fuels from renewables," S&P Global Market Intelligence, March 26, 2025

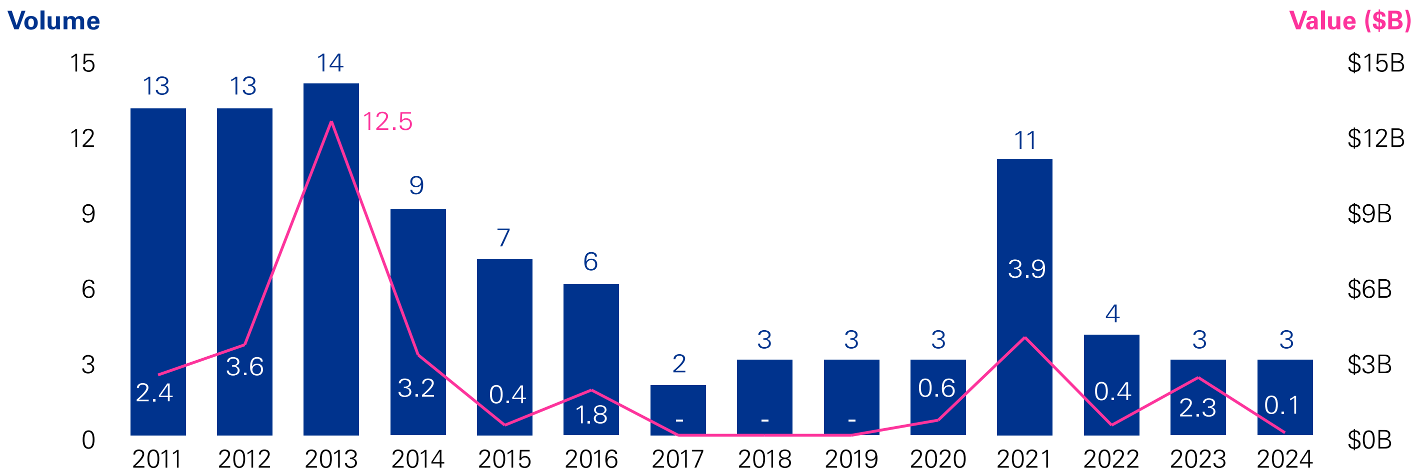
2013—a banner year for deals—to 2024; deal value was down 99 percent. Large O&G companies are making acquisitions of producers. However, these strategic investors prefer a single large acquisition—ranging from $5 billion to $60 billion in deal value since 2021—rather than a roll-up of multiple mid-size assets, which brings added complexity of due diligence, regulatory approval, and integration. As a result, the opportunities for mid-size producers (revenues of up to $1 billion) to be acquired by major O&G companies is limited. Additionally, the growing importance of ESG criteria and energy transition projects is making it even more challenging for mid-size producers to attract additional funds from their PE owners to reinvest in strategic initiatives or acquisitions. This trend underscores the potential benefits for mid-size producers to consider public offerings as a means to secure funding and maintain their market position.

M&A volume for deals involving the acquisition of private mid-size producers declined by 79 percent between 2013—a banner year for deals—to 2024; deal value was down 99 percent.

2013–2024 M&A deal volume **79%** decline

2013–2024 M&A deal value **99%** decline

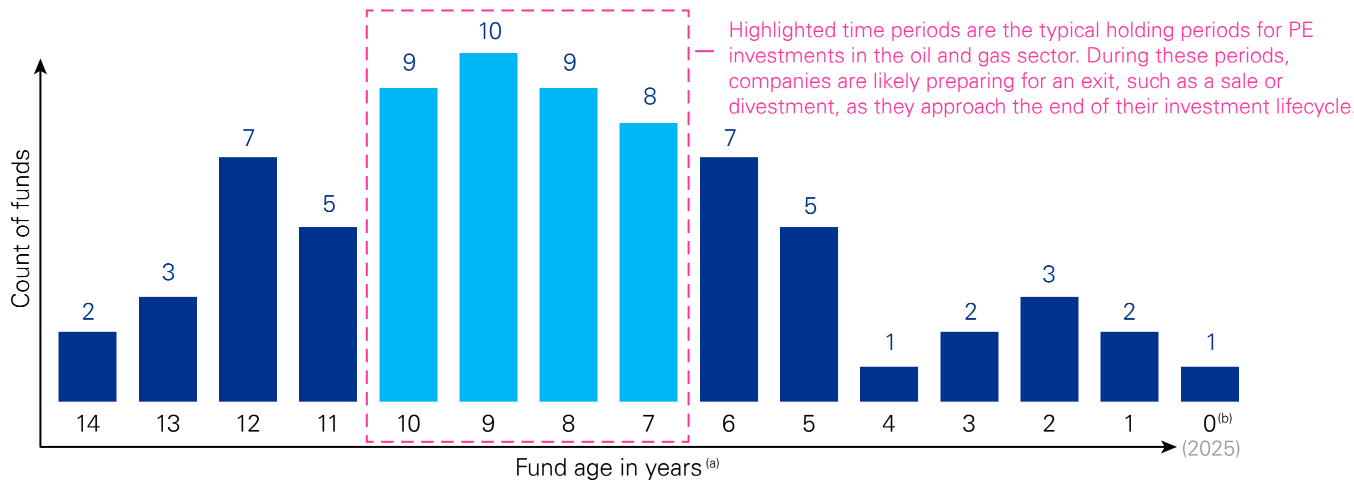
Exhibit 4. M&As of midsize O&G producers (backed by PE/VC)



Public offerings could provide an exit option

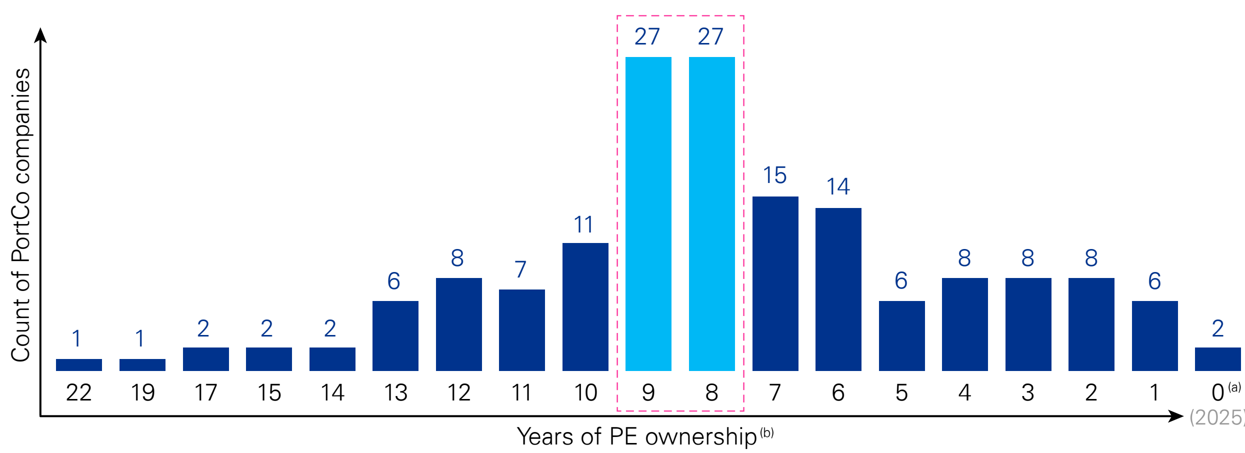
For mid-size PE firms that currently own O&G producers, options to sell assets to other private or strategic buyers have become more limited. This presents an urgent challenge, as many PE funds holding these assets are approaching their maturity walls, which creates pressure to sell assets and return capital to their limited partners. Among PE funds investing in the Permian, for instance, the average fund life is eight years—and some are 10–14 years old. Moreover, PE firms have held their investments in O&G producers longer than typical hold periods—over half of privately owned producers in the Permian have hold periods over eight years.[10] In contrast, the average holding period for US PE investments generally is less than six years.[11]

Exhibit 5. Age of PE funds invested in the Permian Basin and other O&G firms in the US [c]



Notes: (a) Fund age means 2025 (current year) minus the closing year of funds by PE firm; (b) Fund age (in years) marked as 0 indicates that the fund was closed in 2025;
(c) Highlights age of PE funds focused towards assets in the Permian basin and other O&G firms in the US, which are either 'closed' or 'fully invested.' Data accessed in April 2025

Exhibit 6. Period of PE ownership in companies located in the Permian Basin



Notes: (a) Years of ownership marked as 0 indicates the company received investment in 2025.
(b) Year of PE ownership means 2025 (current year) minus the initial funding year of PortCos, i.e., when the PortCos became privately owned. Data accessed in April 2025.

[10] Enverus Private Equity Database
[11] Holding periods continue to grow but could peak in 2025," Private Equity Info, February 19, 2025

Exhibit 7. Comparing private O&G producers to public market peers (by BOE)

Private company 2024 BOE ranges	Number of private companies in BOE range	Market cap of comparably sized public firms	Number of public companies in BOE range
>100M BOE	2	$7,149 M	8
100M–50M BOE	1	$3,555 M	12
50M–15M BOE	16	$2,049 M	13
15M–10M BOE	13	$931 M	10
10M–5M BOE	19	$489 M	10
5M–1M BOE	25	$171 M	11
<1M BOE	49	$88 M	33

Note: BOE data is from Enverus; compared to current market value of publicly traded producers in relevant range.

Public offerings can serve as a release valve for PE firms. In the past, upstream producers were criticized for burning through cash without returning capital to shareholders, which would have deterred public market investors. In recent years, the sector has become increasingly capital disciplined. The focus has shifted from production and drilling growth to generating steadier cash flow.[12] A report from the US Energy Information Administration found that 90 percent of O&G producers studied had positive upstream earnings from 2022 through 2024.[13]

> **"The industry is playing it very cautiously… Capital discipline is still very much the order of the day."**
>
> — Jesse Thompson, senior business economist at the Federal Reserve Bank of Dallas, February 6, 2025[14]

With improved capital discipline and cash flows, private O&G producers are more resilient to global competition and commodity price volatility and have the prospect for steady dividends. This makes these producers potentially more attractive to public markets than in the past. Rather than waiting for a relatively small number of bulge bracket or strategic buyers, public markets offer a diverse pool of investors, including those seeking attractive dividend yields. When comparing private producers to comparably sized public firms—based on 2024 barrel of oil equivalent (BOE)—some midsize producers could be valued at up to $7 billion.

Moreover, if private producers go through the process of issuing an S-1, then they may also spur private buyers who might have otherwise stayed on the sideline—by signaling a sale and providing visibility into their performance. For example, some family offices are exploring investment in upstream O&G as more traditional PE pulls back.[15] A series of public offerings or prospective public offerings among upstream producers could help establish a valuation baseline that helps catalyze further private investment.

[12] "U.S. drilling: Fiscal discipline and regulatory shifts are influencing moderate, controlled growth in 2025," World Oil, February 2025

[13] "3Q2024 Financial Review," U.S. Energy Information Administration, 2024

[14] "Crude summit: Discipline still reigns in US upstream," Argus, June 2, 2025

[15] Andrew Cohen, "Family offices fuel oil and gas investments as private equity retreats," Crain Currency, November 7, 2024

Capital markets readiness for upstream producers

A fair number of PE firms will need to quickly exit their O&G holdings. Private and strategic buyers are scarce—while public markets offer new opportunities. In this environment, private O&G producers may need to prepare for a public offering. However, market windows for public offerings often arise quickly and present narrow timeframes to realize optimal valuation and fundraising.

1 Be ready to meet the initial filing requirements

Form S-1 will require multiple years of Public Company Accounting Oversight Board-standard audited financial statements, detailed management discussion and analysis, and SEC-compliant reserves reporting. Given past investor skepticism of financial sustainability in upstream producers, the equity story may involve emphasizing distributable cash flows and benchmarking against relevant peer groups.

2 Ensure go-forward financial reporting

Consider the systems, processes, and personnel needed to meet the quarterly and annual reporting deadlines. Prepare for regular financial forecasts and guidance and communicating KPIs, such as detailed reporting of production volumes, reserve replacement, capital efficiency, and operating expenses per barrel.

3 Determine the optimal tax structure

Consider which tax structure best aligns with your exposure and potential investor base. A traditional C-Corporation is simpler for public markets but involves corporate-level tax. An Up-C structure allows pre-IPO owners to retain partnership interests for potential tax efficiency (avoiding entity-level tax on their share) but adds complexity and often involves a tax receivable agreement (TRA), which shares the value of tax basis step-up benefits with pre-IPO owners. Consider the tax sensitivity of likely investors, the administrative burden, and the valuation impact of a TRA.

4 Determine the right transaction structure—IPO, SPAC, or alternative

An IPO offers more control over the process but requires a longer preparation timeline and is sensitive to market windows. A SPAC merger can offer faster execution after a deal is agreed upon, and potentially more price certainty, as well, but often involves moving faster and more up-front negotiation. A reverse merger—in which a private company acquires a public company—can be faster than a traditional IPO but requires finding a suitable public shell. However, the public company readiness efforts of robust financial reporting and establishment of effective internal controls must be expedited to meet the go-public transition from a SPAC or reverse merger.

5 Ensure robust compliance capabilities

Public O&G producers face heightened compliance requirements, such as Sarbanes-Oxley internal controls over financial reporting, adhering to all SEC disclosure rules, or meeting corporate governance requirements. Both public and private O&G producers need to implement robust systems for environmental compliance, Occupational Safety and Health Administration safety reporting, and, increasingly, transparent reporting on ESG matters, including climate-related risks and mitigation strategies. Hiring new personnel may be necessary immediately to meet public company requirements.

It's time to consider a public offering

If your PE sponsor asked you to execute a public offering, would your company be ready?

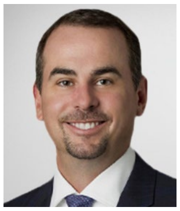
A well-executed public offering can secure liquidity; expand investor reach; and highlight disciplined, cash-flow-positive operations. By considering financial reporting, tax, and compliance requirements, producers can be ready to act within a narrow market window and potentially realize greater value in a rapidly evolving industry.

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.

Authors



Michael Harling

Partner, Energy and Natural Resources Practice

Michael has over 20 years of finance and accounting experience advising organizations with mergers, acquisitions and industry consolidations. Michael advises private equity funds and strategic clients on buy and sell-side issues including SEC equity registration, private and public debt issuances, carve-out financial statement preparation, IPO readiness, finance integration and complex accounting and reporting matters. He has assisted clients in completing transactions with deal values in excess of $10 billion and complex dispositions involving multiple divisions in several countries.

Stephen Binz

Advisory Managing Director, Financial Due Diligence

Steve is a Managing Director with over 10 years of experience in KPMG Deal Advisory practice providing international and domestic buy-side, sell-side and related transaction advisory services to financial and strategic buyers in connection with mergers and acquisitions. Steve works throughout the energy value chain with focuses in oil and gas production and transportation, energy transition and waste services. Prior to joining Deal Advisory, Steve spent five years in KPMG Audit practice, specializing in the upstream oil and gas industry and providing service to clients ranging from small private companies to large, multi-national SEC registrants.

Joesph Yusz

Partner, Deal Advisory

Joe provides expert M&A advisory services in the energy, natural resources, and chemicals sectors. Over the course of 16 years in the industry, his work focuses on accounting, reporting, and finance operations related to capital market transactions, mergers, acquisitions, and restructurings. Joe has led IPO readiness assessments for organizations like fuel cell battery manufacturers and provided financial integration for mergers and stand-ups, including international transactions. His expertise includes divestitures and restructurings, supporting companies through complex financial transformations with precision and strategic insight.

We would like to thank our contributors:

Brandon Beard, Bruce DeMyer, Michael Gelfand, Brennan Morris, Joy Sandager, and Kathy Wheeler.

For more information, contact us:

Michael Harling
Partner, Deal Advisory
Accounting Advisory Services
KPMG LLP
713-319-2318
mharling@kpmg.com

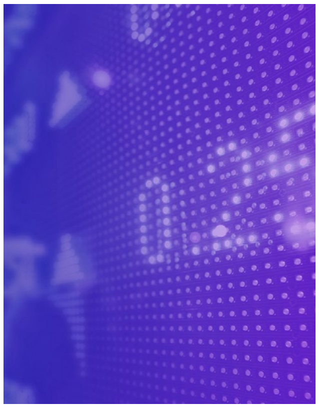
Stephen Binz
Managing Director, Deal Advisory
Financial Due Diligence
KPMG LLP
945-346-2708
sbinz@kpmg.com

Joseph Yusz
Partner, Deal Advisory
Accounting Advisory Services
KPMG LLP
713-319-2787
jyusz@kpmg.com

Related thought leadership:

Navigating the 2025 IPO market (podcast)

Top of mind banking and capital markets issues



IPO Insights

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**