KPMG

Dealmakers consolidate and wait

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

2023

kpmg.com

A quiet year despite O&G megadeals in Q4

Acquisitions by oil and gas (O&G) majors dominated the news this quarter in the energy, natural resources, and chemicals (ENRC) sector. Exxon Mobil acquired Pioneer Natural Resources for $60 billion[1] and Chevron acquired Hess for $53 billion.[2] Along with other transactions such as Occidental Petroleum's $12 billion acquisition of CrownRock, the O&G subsector contributed to a whopping 93 percent of total ENRC deal value for the quarter.

Other developments spurring transactions include the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA). Both pieces of legislature have played a pivotal role in promoting the use of battery storage and solar technologies. This has led to a steady increase in investments in renewable energy.

The chemicals industry is currently in a recession driven by significant price and volume declines from Q3'23 followed by neutral sentiment for Q4'23. Dealmakers in the industry remain cautious. Power and utility companies are divesting non-regulated and non-core assets, and selling shares to reduce business risk, improve balance sheets, and avoid additional debt issuance or equity issues.

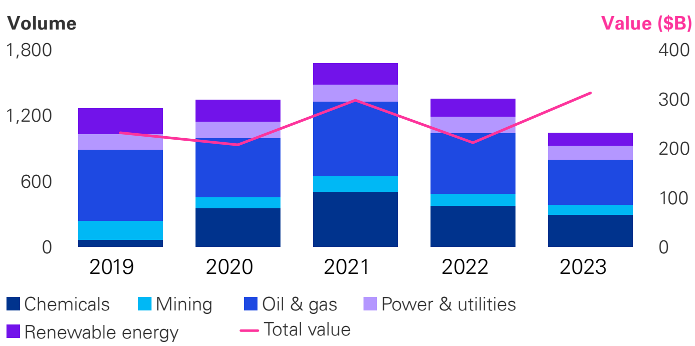
Overall, the quarter ended on a quiet note, helping to make 2023 the third straight year of declining M&A deal volume and—absent the O&G megadeals—deal value as well.

Mike Harling
Partner
Deal Advisory & Strategy
ENRC Leader

2023 highlights

239 deals ▼ **-2%** decrease YoY | **$165** billion deal value ▲ **261%** increase YoY

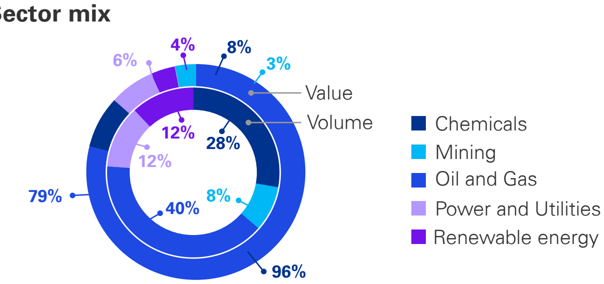
ENRC deal activity by sector



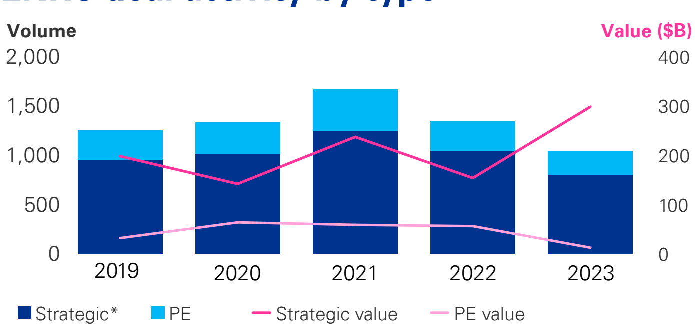
2023 deal mix

Outer ring represents value, inner ring represents volume

Sector mix



ENRC deal activity by type



[1] Clifford Krauss, "Exxon Mobil Strikes $60 Billion Deal for Shale Giant," New York Times, October 11, 2023

[2] "Chevron announces agreement to acquire Hess," Chevron press release, October 23, 2023

Top strategic deals

Acquirer	Target	Value (billions)
Exxon Mobil Corporation	Pioneer Natural Resources Company	$59.5
Chevron Corporation	Hess Corporation	$53.0
ONEOK, Inc.	Magellan Midstream Partners, L.P.	$18.8
Occidental Petroleum	CrownRock, L.P.	$12.0
Chevron Corporation	PDC Energy, Inc.	$7.6

Top PE deals

Acquirer	Target	Value (billions)
PW Consortium (includes A.G. Hill Partners LLC, Cain Capital L.L.C., Eaglebine Capital Partners, LP, Fortress Investment Group, HF Capital, LLC, Petro-Hunt LLC and Wincoram Asset Management)	PureWest Energy	$1.8
Kohlberg Kravis Roberts	Smart Metering Systems	$1.8
Kayne Anderson Capital Advisors, Warburg Pincus, WildFire Energy	Chesapeake Energy (operations in southern TX)	$1.4
Kohlberg Kravis Roberts	Chase Corporation	$1.3
Investment Management Corporation of Ontario, Public Sector Pension Investment Board, Sandbrook Capital	NeXtWind	$0.8

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 U.S. deals announced between 1/1/2023 and 12/31/2023. 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 changes

By the numbers

Oil and gas

Majors lead the drive toward consolidation

As discussed in our Deep Dive (see page 9), the realization that hydrocarbons will continue to play a significant role in the future of global economies has led O&G majors to double down on traditional energy sources and acquiring petroleum producers with proven reserves in areas such as West Texas, North Dakota, and sites off the coast of Guyana.

Most of these transactions have been stock-based, which means majors can maintain their strong balance sheets and capital discipline while working to integrate these acquisitions and realize operating synergies.

2023 highlights

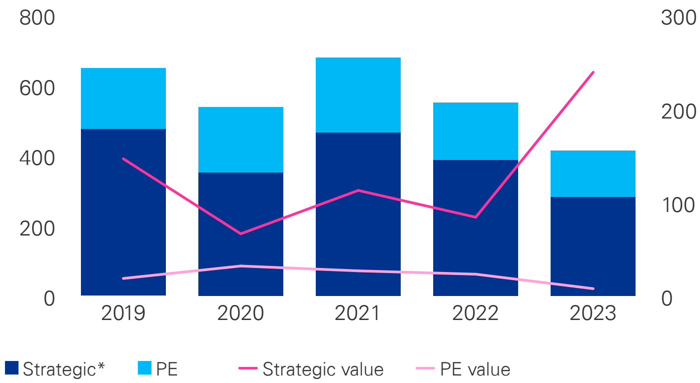
413 deals

▼ **-24.9%** decrease YoY

$246.2 billion deal value

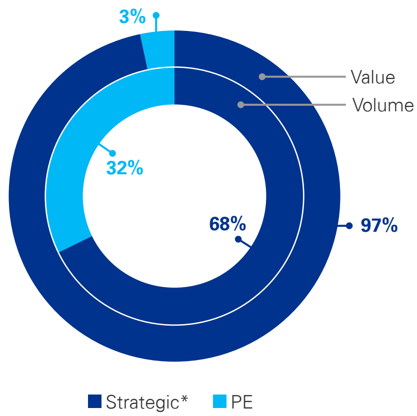
▲ **130.6%** increase YoY

Oil and gas deal activity by type



2023 oil and gas PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top oil and gas deals in 2023

Acquirer	Target	Rationale	Value (billions)
Exxon Mobil	Pioneer Natural Resources	Enhance Exxon's upstream portfolio by expanding its Permian presence	$59.5
Chevron	Hess	Significantly improve and diversify Chevron's portfolio	$53.0
ONEOK	Magellan Midstream Partner, L.P.	Broaden ONEOK's scope of midstream infrastructure across North America	$18.8
Occidental Petroleum	CrownRock	Strengthen Occidental's financial position by providing better diluted share-based free cash flow	$12.0
Chevron	PDC Energy, Inc.	Expansion in prolific oil and gas regions such as Denver-Julesburg (DJ) Basin and the Permian Basin	$7.6

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By the numbers

Chemicals

Chemicals faces multiple challenges

Paints, coatings, and adhesives have seen the most robust growth for chemicals companies this quarter, encouraging a number of companies to expand into new markets and increase production capabilities.

However, the chemicals industry has had a tough year in the face of high interest rates, global conflicts, reduced demand, and increased feedstock costs, so the deal environment remains uneven. Many deals have been focused on carefully measured carve outs and limited PE activity, with deal makers looking at both distressed and quality assets as candidates for divestment. Cost optimization remains a priority for many companies rather than rapid expansion or consolidation.

2023 highlights

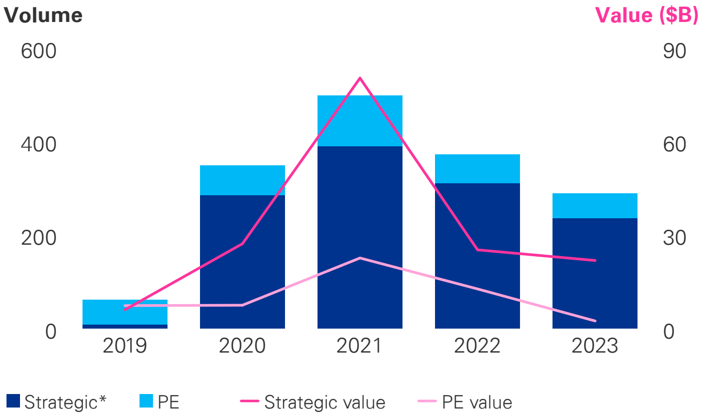
289 deals

▼ **-22.3%** decrease YoY

$24.3 billion deal value

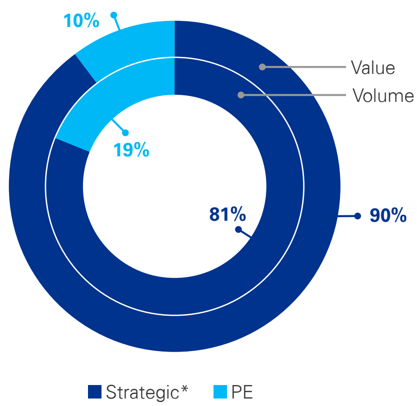
▼ **-36%** decrease YoY

Chemicals deal activity by type



2023 chemicals PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top chemicals deals in 2023

Acquirer	Target	Rationale	Value (billions)
Solenis LLC	Diversey Holdings, Ltd.	Create diversified business with increased scale and capabilities	$4.7
Allkem Limited	Livent Corporation	Create a vertically integrated lithium business	$3.8
Koch Fertilizer	Iowa Fertilizer	Increase capabilities for Koch to produce and distribute nitrogen-based fertilizers	$3.6
DuPont de Nemours, Inc.	Spectrum Plastics Group, Inc.	Acquisition of Spectrum to complement and expand healthcare portfolio.	$1.8
CF Industries Holdings, Inc.	Ammonia Production Facility and Business in Waggaman, Louisiana of Incitec Pivot Limited	Adds one of the newest ammonia production units in North America into CF's existing network	$1.7

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By the numbers

Power, utilities, and renewable energy

Divestments and investments

Power and utility companies are divesting non-regulated and non-core assets, and selling shares to reduce business risk, improve balance sheets, and avoid additional debt issuance or equity issues. These divestments are helping them to gear up for substantial investments in energy infrastructure.

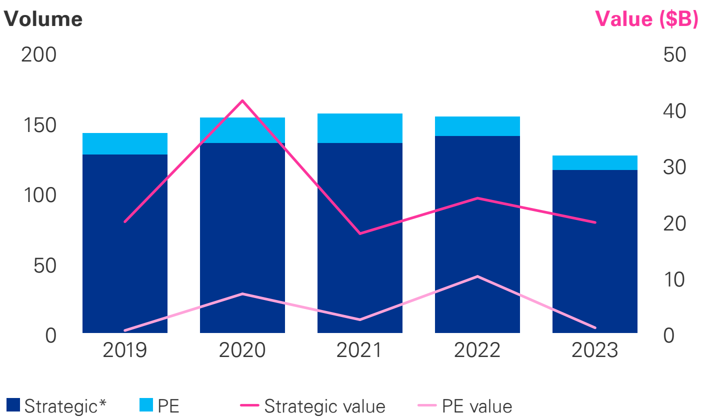
Voluntary carbon reduction plans and the IRA continue to drive significant investment in renewables and related green sectors, with substantial amounts of private capital flowing into the renewables industry.

2023 highlights

126 deals ▲ **18.2%** increase YoY

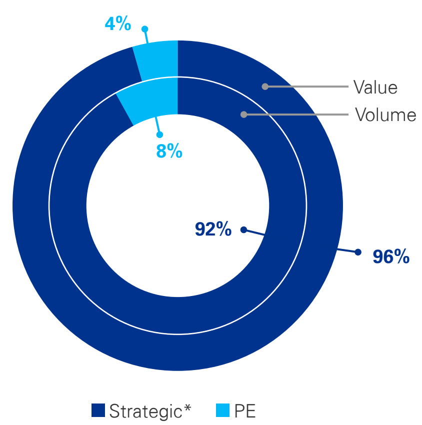
$20.5 billion deal value ▼ **-39.6%** decrease YoY

Top power and utilities deal activity by type



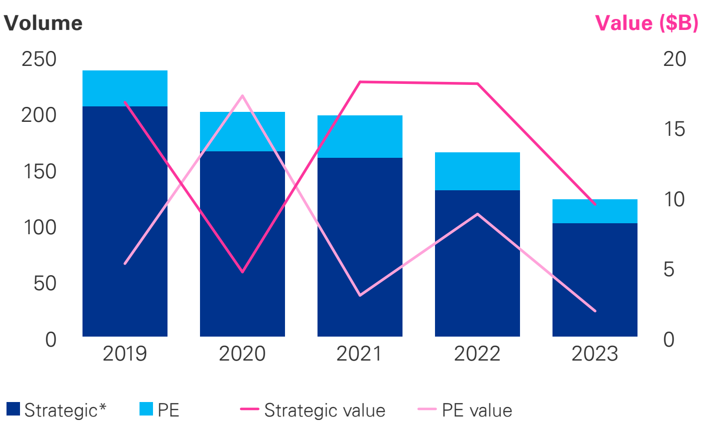
2023 power and utilities PE/strategic mix

Outer ring represents value, inner ring represents volume



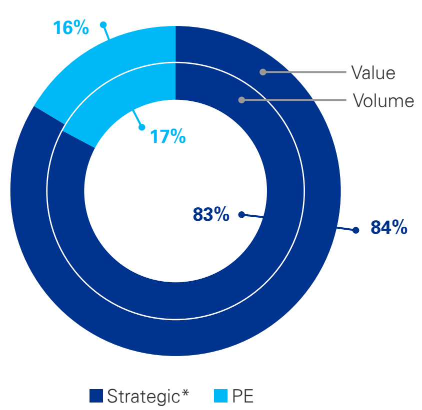
*Includes SPAC deal activity

Top renewable energy deal activity by type



2023 renewable energy PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top power, utilities, and renewable energy deals in 2023

Acquirer	Target	Rationale	Value (billions)
Brookfield Infrastructure Corp.	Triton International Limited	Owner of renewable energy projects expanding its logistics business	$13.3
Enbridge Inc.	Dominion Energy Questar Corporation	Establish the largest natural gas utility platform in North America	$4.3
Enbridge Inc.	Public Service Company of North Carolina, Inc.	Add gas utility operations in North Carolina	$3.1
Brookfield Renewable Partners L.P. Brookfield Renewable Corporation	Duke Energy Renewables	Acquisition of scale renewable platform for cash flows and development	$2.8
IRG Acquisition Holdings LLC	American Electric Power Co Inc.	Expand presence in the U.S. electrification and renewable energy sector	$1.5

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By the numbers

Private equity

PE firms ready and waiting

PE funds are sitting on significant cash raised during the recent boom years, and dealmakers are feeling the pressure to return capital from existing investments despite the current valuation gap between buyers and sellers.

Nevertheless, the environment has not been favorable for transactions. For example, many older vintage O&G companies still need to be sold by PE dealmakers, but they lack sufficient size to entice public buyers and remain focused on cash-flow generation for their owners.

From Q3'23 to Q4'23, total PE deals decreased 26 percent in value (from $3.9 billion to $2.9 billion) and 8.5 percent in volume (57 deals to 54 deals).

2023 highlights

244 deals

▼ **-19.2%** decrease YoY

$12.8 billion deal value

▼ **-77.3%** decrease YoY

Top PE deals in 2023

Acquirer	Target	Rationale	Value (billions)
PW Consortium (includes A.G. Hill Partners LLC, Cain Capital L.L.C., Eaglebine Capital Partners, LP, Fortress Investment Group, HF Capital, LLC, Petro-Hunt LLC and Wincoram Asset Management)	PureWest Energy	Increase high-margin production through development and a differentiated gas strategy	$1.8
Kohlberg Kravis Roberts	Smart Metering Systems	Evolve SMS into an end-to-end energy infrastructure company	$1.8
Kayne Anderson Capital Advisors, Warburg Pincus, WildFire Energy	Chesapeake Energy (Operations in South Texas)	Aid Chesapeake's transition to natural gas production and enable Wildfire to intensify its focus on its Marcellus and Haynesville positions	$1.4

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 U.S. deals announced between 1/1/2023 and 12/31/2023. 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 changes

Deep dive

Assessing the current state of energy transition

Despite the increasing public support for renewable energy, it is becoming clear that hydrocarbons will remain an indispensable part of the global energy mix for decades to come. While many industry leaders, policymakers, consumers, and stakeholders are embracing alternative energy sources, they also recognize the need to balance a broader set of energy solutions with meeting short- and long-term energy demands in developed and emerging markets.

While there is a growing desire to transition to clean energy, the reality is that hydrocarbon-based fuels will dominate the world's energy mix for at least the next several decades, necessitating a balanced approach that considers both traditional and emerging sources of energy. More directly, the future of energy transition is therefore not a question of renewables or hydrocarbons. It's a matter of renewables and hydrocarbons.

Mergers and acquisitions activity in the O&G sector

So how far down the energy transition road have we traveled? An effective way to measure progress is to look at M&A activity in the O&G sector. Major players have been doubling down on their hydrocarbon acquisitions for the past quarter and most of 2023.

In the biggest transaction of the year for the sector, Exxon Mobil acquired Pioneer Natural Resources, a top shale oil producer, for $60 billion.[3] The Pioneer acquisition will be Exxon's largest acquisition since it bought Mobil in 1999—it more than doubles Exxon's footprint in the Permian Basin oil fields.

Chevron has acquired Hess for $53 billion.[4] Hess has a stake in the Stabroek area off the coast of Guyana, home to the largest oil discovery on a global scale of the past decade, and the company also has major fracking assets in the U.S. shale region of North Dakota.

Occidental Petroleum is buying Permian basin-focused energy producer CrownRock in a cash-and-stock deal valued at $12 billion including debt, expanding its presence in the largest U.S. oilfield. The CrownRock deal is expected to boost the firm's Permian production by 170,000 barrels of oil equivalent per day (boepd) in 2024.[5]

When you come to a fork in the road, take it

Companies in the O&G sector are focused on expanding their hydrocarbon portfolios to meet expected future demand. A slowdown in large scale hydrocarbon discoveries in recent years has major O&G operators turning to acquisitions of proven reserves from other producers rather than to replenish supply. However, to achieve the net-zero emissions targets, O&G companies must transition toward a more balanced approach that accounts for the short-term energy demands while simultaneously using their capital resources to invest in and support renewable energy sources such as solar, wind, RNG, carbon capture, and other emerging technologies.

Due to mounting public pressure and rising concerns regarding climate change, O&G companies must remain vigilant in seeking opportunities to invest in emerging technologies to diversify their energy portfolios. And it's essential for them to do so in ways that not only respond to market conditions, but also address the need for decarbonization.

However, the trail of money associated with recent M&A activity reveals an awkward truth that stands out in juxtaposition against the outcomes of COP28—the world's energy demands can not currently be met with renewable sources. Decarbonization will require additional investment and technological advancements. The current balance between traditional and emerging sources of energy won't last forever, but for now hydrocarbons remain an essential part of the energy mix.

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[3] "Exxon Mobil Strikes $60 Billion Deal for Shale Giant," New York Times, October 11, 2023

[4] "Chevron announces agreement to acquire Hess," Chevron press release, October 2023

[5] "Occidental Petroleum to expand Permian ops with $12 billion deal for CrownRock," Reuters, December 11, 2023

Outlook

Demand for M&A is building, but headwinds remain

Looking ahead to 2024, KPMG Economics indicates limited global growth due to ongoing geopolitical uncertainty and the persistence of tight monetary policies. We see potential output losses from geo-economic fragmentation. We also expect a global GDP growth of 2.2 percent in 2024 (down from 2.6 percent in 2023), with a rebound to 2.6 percent in 2025.

Market activity in 2024 will likely be higher than in 2023, with M&A deals driven by the need to scale and optimize assets, reduce back-office costs, and gain better access to growing population centers and export markets. At the same time, the possibility of a recession and interest rate concerns will weigh on the market throughout 2024. The upcoming presidential 2024 elections in November will pose a complication since companies often halt deal-making in anticipation of potential leadership changes that could lead to a more M&A-friendly regulatory environment.

O&G consolidation will continue, with second-tier companies looking for new growth opportunities. This includes midstream companies looking to expand based on steady increases of natural gas production and LNG exports.

The chemicals industry is facing the possibility of weak demand and ample supply that will squeeze producers' volumes and margins. Energy and utility companies are likely to take a cautious and rigorous approach to 2024 project development efforts, seeking to avoid the challenges many developers faced in 2022–23.

Renewables values have faced a significant decrease due to interest rates, since projects generally have longer payback periods focused on future cash generation. The energy transition momentum has also slowed down, which could impact valuations for companies focused in that area. However, renewables assets will remain a pivotal step in the energy transition and will continue to generate interest especially as interest rates begin to decline. Tax incentives for renewable energy and nuclear power now enjoy widespread bipartisan backing, even though support for certain aspects, such as electric vehicles, is not as widespread.

Key considerations for investors

Investors must stay nimble, leverage M&A advances like generative AI, and keep a watchful eye on the trend of large corporate carve-outs in a slow IPO environment.

1 Embrace synergies

Corporations will need to be agile and consider synergies in their growth and operational models if they want to come out as winners in the bidding against PE firms.

2 Focus on carve-outs

Large corporate carve-outs may become more popular, especially for PE firms since the IPO market remains slow.

3 Tap into new tech

Deal makers should keep pace with new opportunities to use generative AI tools in M&A dealmaking.

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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.

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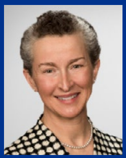
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