

First-quarter 2015 oil & gas industry mergers and acquisitions analysis

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PwC's Oil & Gas M&A analysis is a quarterly report of announced U.S. transactions with value greater than \$50 million analyzed by PwC using transaction data from Global Data.

Overview

U.S. Oil & Gas deal activity stalled in the first quarter of 2015, due to a low oil price environment. Meanwhile, corporate deals surpass asset transactions for the first time in five years.

Mergers and acquisitions (M&A) in the oil and gas industry saw a decrease in terms of deal value and volume in the first quarter of 2015 compared to the fourth quarter of 2014, as the drop in oil prices continued to impact companies' growth strategies, according to PwC US. While the decrease in deal activity was consistent with first quarter historical trends, corporate deals surpassed asset transactions for the first time since 2010.

During the first three months of 2015, there were a total of 39 oil and gas deals (with values greater than \$50 million) accounting for \$34.5 billion, compared to 70 deals worth \$103.5 billion on a sequential basis, and 60 deals worth \$26.4 billion in the first quarter of 2014.

For deals valued at over \$50 million, there were 26 corporate deals worth \$30.4 billion versus 13 asset deals worth \$4.1 billion in the first quarter of 2015. Corporate deals represented 67 percent of the total deal volume and 88 percent of the total deal value, which included two midstream megadeals (deals valued over \$1 billion) in the quarter. Overall, there were four megadeals worth \$23 billion, representing 67 percent of total deal value.

"The declines in deal activity that we saw in the last two months of 2014, particularly in the upstream space as a result of the drop in oil prices, continued in the first quarter of 2015," said Doug Meier, PwC's US energy sector deals leader. "The velocity and magnitude of the decline in oil prices have caused companies to focus internally on cost reduction and productivity enhancement activities, which have taken attention away from M&A as a growth vehicle. However, the current low price environment may present opportunities for potential acquirers who have the balance sheets to finance deals and the investing horizon to see through the current lows of the business cycle. We're working with companies to develop programs to help them navigate the down-cycles and be positioned for the up-cycle."

Total deal activity in the upstream segment dropped significantly in the first quarter, accounting for 12 transactions representing \$3.6 billion, or a decrease of 60 percent and 71 percent in total deal volume and value, respectively, compared to the same period in 2014. Additionally, the total number and value of oilfield services deals decreased 77 percent, to three deals, and 94 percent, to \$384 million, respectively, when compared to the same period last year. The total number of downstream deals remained the same at two while total deal value decreased 26 percent, compared to the first quarter of 2014.



There were 22 midstream deals, contributing \$29 billion in value, or a 47 percent growth in deal volume and a 398 percent growth in deal value compared to the first quarter of 2014. Additionally, master limited partnership (MLP) dropdowns and affiliate transactions generated 45 percent of the midstream transactions totaling \$5 billion in the first quarter of 2015.

According to PwC, there were nine deals with values greater than \$50 million related to shale plays in the first quarter of 2015, totaling \$5.3 billion. This represents an eight percent increase in total deal value, but a 31 percent decrease in total deal volume when compared to the first quarter of 2014.

Activity in the upstream sector related to shale plays dropped to four transactions and accounted for \$588 million, or 33 percent of total upstream deal volume and 16 percent of the total upstream deal value in the first quarter of 2015. There were four midstream shale-related deals in the first quarter of 2015, accounting for \$4.6 billion, or a 160 percent increase in deal value compared to the same period in 2014.

“The drop in shale deal activity in the first quarter was highlighted by the low oil price environment as E&P companies looked to strategically realign their business objectives and investments in order to cut overall costs,” said John Brady, a Houston-based partner with PwC’s energy practice. “As the uncertain environment has continued, E&P companies have been working to capture more value from their land organizations following previous acquisitions.”

The most active shale play for M&A with values greater than \$50 million during the first quarter of 2015 was the Permian, which led in activity with four deals worth \$1.5 billion. The Eagle Ford contributed three deals worth \$1.2 billion. The Marcellus Shale contributed two deals worth \$567 million. The Bakken and Haynesville each generated one deal, but the Bakken Shale led in overall deal value with one deal worth \$3 billion.

Financial investors continued to show interest in the oil and gas industry with 11 transactions worth \$4.5 billion, a slight decrease in total deal volume compared to 12 deals worth \$3.6 billion during the same period in 2014. “Financial investors will continue to look for distress opportunities during this period of commodity price uncertainty and will be prepared to deploy capital more extensively once we achieve a period of commodity prices stability,” added Rob McCeney, PwC U.S. energy & infrastructure deals partner.

PwC notes that foreign buyers announced four deals, accounting for \$1.3 billion in value, a 33 percent decrease in deal volume and a 67 percent decrease in deal value compared to the same period last year.

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