

Fourth-quarter 2014 US oil & gas industry mergers and acquisitions analysis

PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the oil and gas industry. *Energy deals* offers our insights on deals in the sector during the fourth quarter of 2014.

M&A in the oil and gas industry hit ten-year highs in terms of deal value and volume in 2014. The record breaking year was primarily driven by a significant level of mega deals (deals valued over \$1 billion) - a trend that began earlier this year and continued throughout the fourth quarter. Overall, there were 49 mega deals worth \$266.1 billion in 2014, compared to 24 deals worth \$71 billion in 2013.

During the final three months of 2014, there were a total of 57 oil and gas deals (with values greater than \$50 million) accounting for \$128.7 billion, compared to 56 deals worth \$43 billion in the fourth quarter of 2013, a 200 percent growth in total deal value. Mega deals also represented 91 percent of total deal value in the fourth quarter of 2014. In 2014, there were 252 deals worth \$321.5 billion, an increase from the 187 deals worth \$117.2 billion in 2013.

“While 2014 was a very strong year for oil and gas deal activity, we saw a steady decline in November and December as the drop in oil prices accelerated, contributing to a marked shift in deal sentiment from playing offense to playing defense as companies focused on maintaining liquidity,” said Doug Meier, PwC’s US energy sector deals leader. “That downward trajectory in oil prices, coupled with the impact of leverage, drove a number of deals related to corporate restructurings and portfolio right sizing activities. In today’s low price environment, the effects of debt could drive additional deal activity as leveraged companies look to strengthen their balance sheets by focusing on cash flow optimization and operational efficiencies. [PwC’s Fit for \\$50](#) program assists senior management to develop programs that can enable them to withstand the current price environment and help create a platform for profitable growth as commodity prices recover.”

For deals valued at over \$50 million, corporate transactions represented 16 deals totaling \$103.7 billion in the fourth quarter of 2014. For the full year of 2014, there were 59 corporate transactions that contributed \$227.5 billion. Asset transactions continued to dominate total M&A deal volume during the fourth quarter of 2014 with 41 deals representing 72 percent of total deal volume. Deal value for asset transactions reached \$25 billion, accounting for 19 percent of total deal value for the fourth quarter of 2014. For all of 2014, there were 193 asset deals worth \$94 billion.

During the fourth quarter of 2014, there were 15 mega deals representing \$117.5 billion, compared to eight mega deals worth \$26.4 billion during the same period in 2013. In all of 2014, there were 49 mega deals worth \$266.1 billion, accounting for 83 percent of total deal value.

Foreign investors continued to show interest in the U.S. as both deal value and volume were at ten-year highs, contributing 56 deals worth \$71.2 billion in 2014. In the fourth quarter, foreign buyers announced 15 deals, accounting for \$25.4 billion in value, a 25 percent increase in deal volume and a 426 percent increase in deal value compared to the same period last year. Overall deal volume and value for foreign investors in 2014 increased 75 percent and 468 percent, respectively compared to the previous year.

There were 19 midstream deals, contributing \$53 billion in value, a 111 percent growth in deal volume and a 276 percent growth in deal value compared to the fourth quarter of 2013. Upstream deals accounted for 25 transactions representing \$32.5 billion. The total number of downstream deals decreased to six, while total deal value increased to \$7 billion compared to nine deals worth \$4.2 billion during the same period in 2013. The number of oilfield services deals remained the same at seven, while total deal value increased 619 percent to \$36 billion – a ten year high, compared to \$5 billion in the fourth quarter of 2013.

There were 24 deals with values greater than \$50 million related to shale plays in the fourth quarter of 2014, totaling \$57 billion. This represents a 139 percent increase in total deal value compared to the fourth quarter of 2013. For all of 2014, there were 107 total shale deals that contributed \$110.3 billion, a 107 percent growth in deal value when compared to full year 2013.

In the upstream sector, shale deals represented 19 transactions and accounted for \$14.9 billion, or 76 percent of total upstream deal volume in the fourth quarter of 2014. There were five midstream shale-related deals in the fourth quarter of 2014, accounting for \$42.1 billion, or a 230 percent increase in deal value compared to the same period in 2013.

“Overall 2014 shale deal value and volume surpassed 2013 highlighting the continued interest from investors in U.S. shale plays, especially in the upstream space, which contributed 79 percent of total shale deal activity,” said John Brady, a Houston-based partner with PwC’s energy practice. “However, a sustained low oil price environment is driving an intense focus on returns and the deployment of assets to the most efficient shale plays.”

The most active shale plays for M&A with values greater than \$50 million during the fourth quarter of 2014 include the Bakken and Permian, which each had four deals worth \$3.1 billion and \$2.4 billion, respectively. The Marcellus Shale contributed three deals worth \$5.7 billion. The Eagle Ford in Texas also contributed three deals worth \$484 million, while the Niobrara and Haynesville each generated one deal.

During 2014, master limited partnerships (MLPs) were involved in 48 transactions, representing about 19 percent of total 2014 deal activity, consistent with recent historical levels.

Although financial investor deal activity dropped, they continued to show interest in the oil and gas industry with four total transactions, accounting for \$2 billion during the fourth quarter of 2014, compared to nine deals worth \$10 billion during the same period in 2013.

“In the second half of 2014, we saw financial investors remain active in assessing deal activity across the value chain,” said Rob McCeney, PwC U.S. energy & infrastructure deals partner. “If the price of oil continues to drop or remains at its current levels for a sustained period, we may see financial investors look to actively manage portfolio investments and search for new opportunities with distressed assets.”

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 IHS Herold

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