PwC Deals

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US Oil & Gas
Deals insights first quarter 2017

Executive summary

The first quarter of 2017 continued the investor enthusiasm for Oil & Gas M&A, setting a record high deal value for a first quarter. Pleased by a pro-energy policy agenda taking shape, reassured by the relative steadiness of the price of oil, and encouraged by advances in shale technology, investors entered 2017 with renewed optimism, resulting in a record $73.04 billion in announced deals. This represented a stunning 160% increase in deal value year over year. In addition, IPO-preparation activity increased sharply during the first quarter with an anticipated increase in IPOs in the second quarter of 2017.

In our last report, we forecast a bright first quarter ahead. After this record quarter, the question now is, will the momentum continue? Although there is still plenty of dry powder, including the capital of foreign investors who are finally beginning to return to US shale plays, we see a few signs that the tide may be starting to ebb. Commodity price declines midway through the first quarter, coupled with declining Oil & Gas equity indices have given potential buyers reasons to revisit their valuation assumptions.

1Q17 value by the numbers

$73.04B

160%

Increase in deal value versus 1Q16

1Q17 volume by the numbers

53

36%

Increase in deal volume versus 1Q16

Source: Global Data

"As we forecasted, 2017 M&A activity started at a blistering pace with $49 billion of announced deals in January alone- 40% higher than the total for any of the previous first quarters since 2010. As the quarter progressed, we sensed that there was a little bit of a pullback as we exited the quarter. Did seller optimism get a little ahead of the market? Did we have a little too much enthusiasm for the recovery and for what that enthusiasm meant for valuation?"

— **Doug Meier**,
US Oil & Gas Sector Deals Leader

Key trends/Highlights

- Oil and Gas deal-making started 2017 on a high note, setting a record for high first quarter level deal value, fueled by a wave of mega-deals. Fifty-three deals worth $73.04 billion were announced in the first quarter-- a 160% increase in deal value year over year.
- The upstream segment remained red-hot. A total of 32 deals worth $36.60 billion were announced, a 304% increase in deal value, and a 68% increase in deal volume, year over year.
- Asset deals predominated this quarter. The tried and true axiom location, location, location rule pushed O&G companies not only to seek growth but to rationalize their holdings.
- The Permian was the most active shale basin with 20 deals, valued at $21.36 billion. This represented a record high for the basin.

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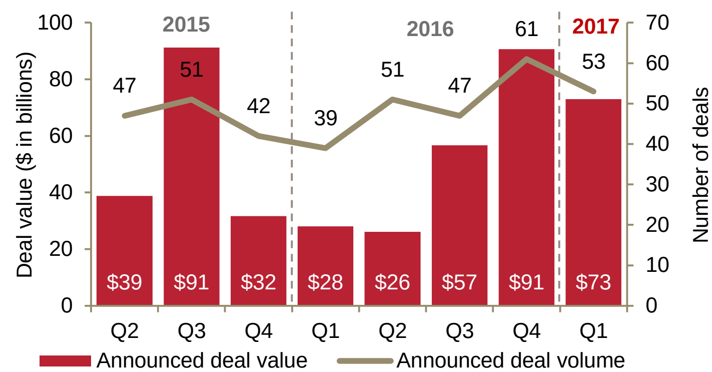
Highlights of 1Q17 deal activity

After a strong end of 2016, momentum continues

We exited 2016 with strong deal momentum and high optimism for the outlook of the industry. With fundamentals improving, we witnessed a record first quarter.

The activity was driven by the upstream segment, with the Permian basin continuing to play a key role. Companies are not only expanding their existing acreage positions within that basin, but in the first quarter announced megadeals that underscore investors' confidence in the long-term potential of US onshore production.

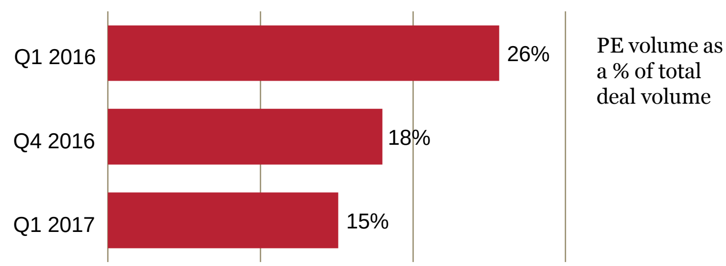
Oil & Gas deal volume and value



Source: Global Data

Private equity participation ticked down

Private equity volume as a percentage of total deal volume in the first quarter of 2017 was lower both sequentially and on a year-over-year basis.



Source: Global Data

> "The first quarter of 2017 was really active, with the Permian proving to be one of the hottest basins globally, attracting even foreign investment. With oil prices hovering around $50/bbl, and Permian economics continuing to improve with break-even prices plummeting, players in that basin are making just as much margin as they were a few years ago. Major players, such as IOCs, are changing their strategic portfolio positions, increasing their exposure to onshore acreage. This is reaffirming US shale is becoming the swing producer, at the expense of projects in deepwater and Gulf of Mexico. Activity in the midstream has also picked up both in terms of M&A, and as companies restructure their operations, including drop downs, to monetize asset portfolio mixes."

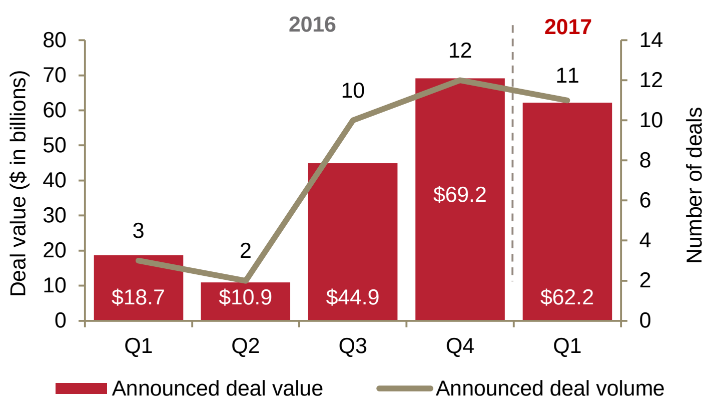
— Seenu Akunuri,
PwC US Oil and Gas Valuation Practice Leader

Highlights of 1Q17 deal activity

Megadeals

The eleven mega-deals, worth $62.23 billion, were a major contributor to the increase in deal value in the first quarter. Six of those were in the upstream space, generating $29.30 billion, while the other five were in the midstream segment.

Megadeals volume and value

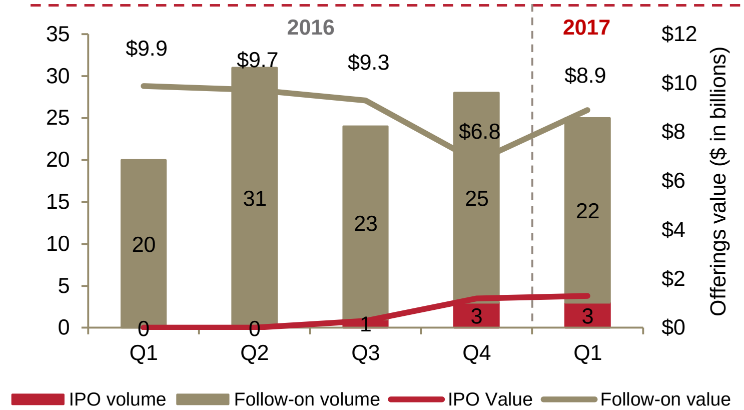


Source: Global Data

Equity transactions

The IPO market remains active as three IPOs were completed during the first quarter of 2017. Additionally, while follow-on deals remained relatively consistent, the dominance of a few higher value deals resulted in a rebound of total follow-on deal value.

IPO and follow-on offerings

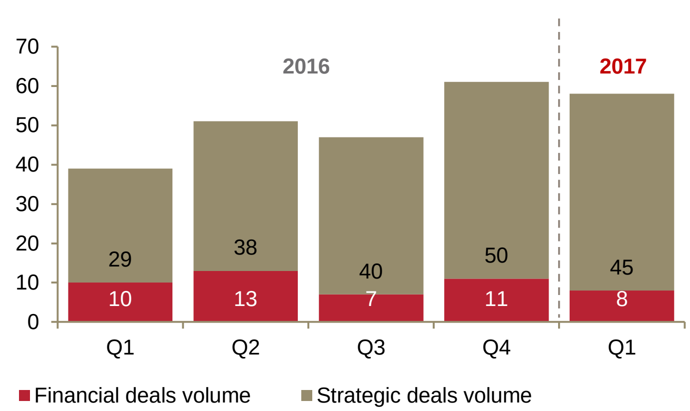


Source: PwC U.S. IPO Watch, ECM and DCM Analytics, and S&P LCD Comps

Strategic vs. financial deals

Consistent with the historic trend, strategic investors generated the majority, or 45 deals worth $68.58 billion, in the first quarter. However, financial investors remained active with 8 deals, worth $4.49 billion.

Strategic and financial deals volume



Source: Global Data

> “While IPO volume was consistent in Q1 2017 as compared to Q4 2016, continued optimism and confidence in the capital markets is not a given. Companies and investors will need be agile and able to respond quickly to changing market conditions.”
>
> **— Joe Dunleavy**
> Partner, PwC Capital Markets Advisory

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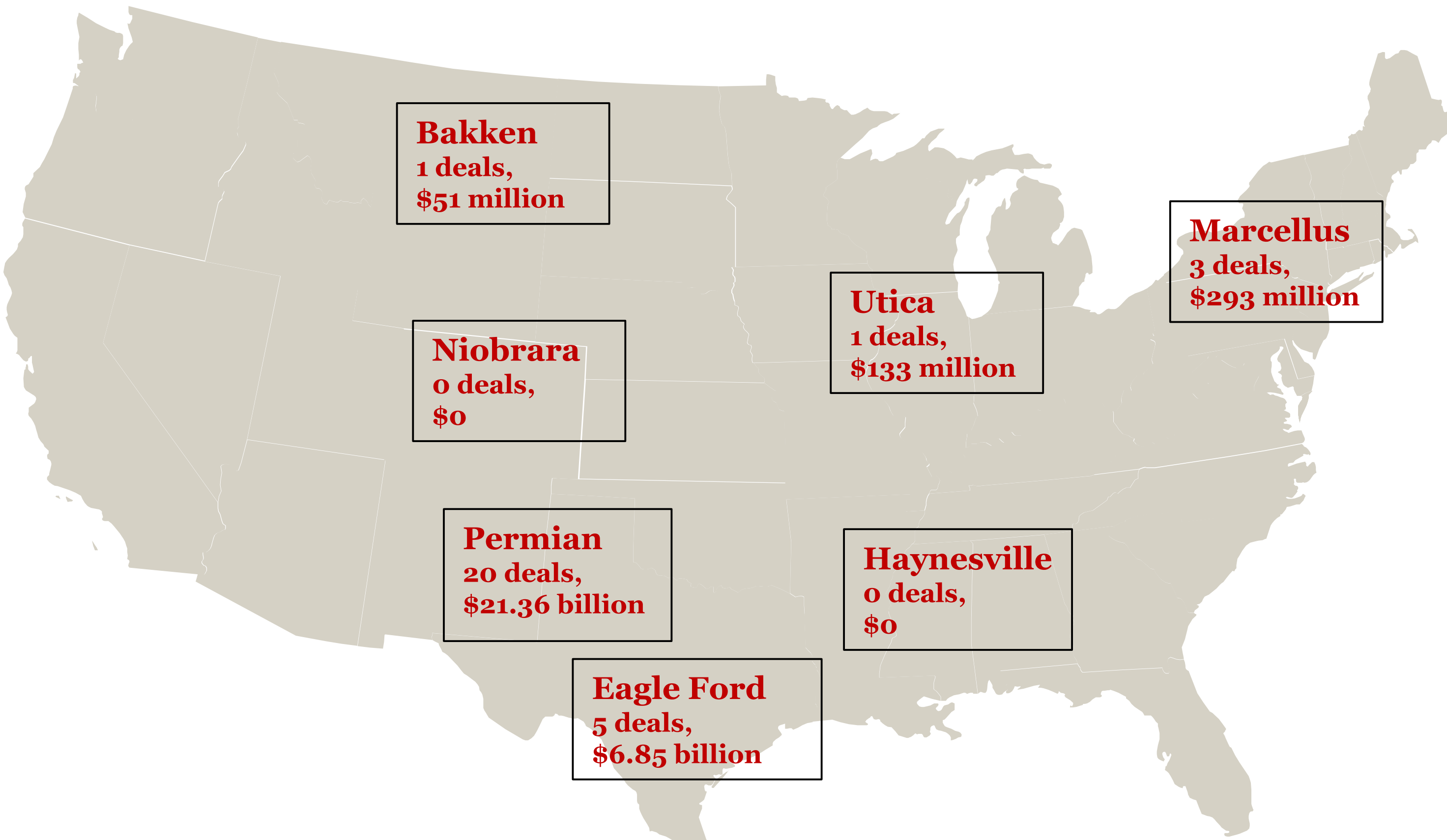
Key trends and insights

Announced shale deals for 1Q17



Source: Global Data

Shale deals

Shale deals gained further momentum in the first quarter with 28 deals worth $24.62 billion announced. Low-cost production basins with existing infrastructure, particularly the Permian, dominated the shale deals.

The Permian was the most active shale basin in the first quarter with 20 deals valued at $21.36 billion, a record high for the basin.

The Eagle Ford was the second most active basin with five deals worth $6.85 billion, followed by the Marcellus, with three deals worth $292.60 million.

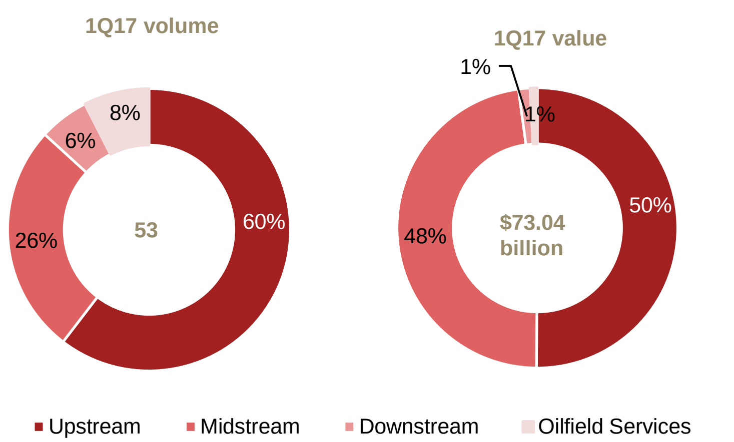
The Utica and Bakken recorded one deal each, valued at $133.00 million and $51.40 million, respectively.

Conclusion and outlook

Segment highlights

- Upstream deals led first quarter statistics, generating 32 deals, 60% of the total number of deals, $36.60 billion, and 50% of total deal value. These numbers represent a 6% sequential decrease in the number of the announced deals in the segment, but an 81% sequential increase in deal value. On a year over year basis, upstream deal value shot up 304% in the first quarter, while year over year volumes increased 68%.
- Midstream deal value was dominated by drop-downs or corporate reorganization transactions. Fourteen midstream deals were announced in the first quarter, flat sequentially; they were valued at $34.87 billion, or about 47.7% of the total deal value. The largest deal in the quarter was a midstream deal, contributing $17.20 billion in value. There were four other midstream mega-deals, as well, generating $15.70 billion.
- Announced deal activity in the oilfield services and downstream segments was relatively subdued with four oilfield services deal worth $613.80 million, while the downstream segment generated three deals worth $962.16 million.

Sub-sector deals by volume and value



Source: Global Data

Conclusion and outlook

Demand is high for assets in shale basins that have infrastructure in place, particularly the Permian, less so for other basins. On the other hand, harder-to-develop assets, such as deep water parcels in the Gulf of Mexico, are largely out of favor.

Privately held companies, including those backed by private equity, have been leveraging the market's increased appetite for oil and gas assets by preparing their companies for sale or an IPO.

Toward the end of the first quarter, we began to see rising headwinds that might slow down transaction activity, including increasing seller expectations around value. Second quarter deal activity will likely be heavily influenced by the ability of buyers and sellers to bridge this emerging valuation gap.

> "We see a lot of optimism both in the IPO and high yield markets. Companies are showing interest in entering the capital market and taking advantage of the higher valuations. However, we could run into an expectation gap that could result in tempering the activity in the quarters to come."

— **Rob McCeney**,
PwC US Energy & Infrastructure Deals Partner

About PwC's Deals Practice

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, smart makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise oil and gas companies and energy-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine deep retail and consumer industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divesture process, we can help.

For more information about PwC's Energy practice, visit: www.pwc.com/energy. Follow us on twitter @PwCEnergy for news and perspectives on the oil, gas, and utilities industries.

About the data

The information presented in this report is an analysis of deals in the oil and gas industry where the target company, the target ultimate parent company, the acquiring company, or the acquiring ultimate parent company was located in the Unites States of America. Deal information was sourced from Global Data and includes deals for the following industries: Upstream/E&P, Midstream, Downstream, Oilfield Equipment & Services, Integrated/Diversified. The deal types covered in the analysis include: acquisitions, joint ventures, mergers, and swaps.

This analysis includes all individual deals with value exceeding $50 million. Deals with undisclosed values are omitted from this analysis. The time horizon for the analysis covers April 1, 2015 through March 31, 2017.

Percentages and values are rounded to the nearest whole number which may result in minor differences when summing totals.