Energy deals

Third-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 third quarter of 2014.

M&A in the oil and gas industry reached the highest levels in the past decade during the third quarter of 2014. Midstream activity, along with continued interest from foreign buyers – specifically in upstream shale plays – and the overall impact of mega deals (deals with a value of more than $1 billion), contributed to record-breaking deal activity in the third quarter of the year.

For the three month period ending September 30, 2014, there were a total of 78 oil and gas deals (with values greater than $50 million), accounting for $123 billion in total value, compared to 43 deals worth $16.4 billion in the third quarter of 2013, or an 81 percent growth in total deal volume and a 649 percent growth in total deal value. On a sequential basis, deal volume in the third quarter of 2014 increased by 20 percent from the 65 deals in the second quarter of 2014, with total deal value increasing 152 percent from $48.9 billion in the second quarter of 2014.

There were 14 mega deals during the third quarter of 2014, representing $103.5 billion, or 84 percent of total deal value, eight of which were corporate deals.

"This was a break-out quarter for deal activity, as third quarter deal value reached a 10 year high value due to a number of drivers coming together to bolster M&A flow, including the significant impact of $1 billion-plus deals, foreign and private equity interest and the attractiveness of shale plays," said Doug Meier, PwC's US energy sector Deals leader. "This extraordinary deal activity occurred while commodity prices declined sharply during the quarter – a trend that accelerated in the first half of October. If we continue to see a sustained lower crude pricing environment, we will likely witness an acceleration of the portfolio restructuring efforts we've been seeing in the past couple of quarters as companies focus on the importance of financial discipline."

There were 15 midstream deals, including three valued at more than $8 billion each that contributed $74.1 billion in value, a 50 percent growth in deal volume and 517 percent growth in deal value compared to the second quarter of 2014. Upstream deals accounted for 54 percent of total deal activity in the third quarter of 2014 with 42 transactions representing $29.4 billion. The total number of downstream deals remained the same at nine, while total deal value decreased 10 percent to $8.4 billion, compared to $9.3 billion in the second quarter of 2014.The number of oilfield services deals increased to 12 deals or 100 percent with total value rising 313 percent to $11.1 billion compared to the second quarter of 2014.

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Foreign buyers announced 17 deals in the third quarter of 2014, accounting for $22.1 billion in value, an increase over nine deals worth $2.8 billion during the same period last year and the most deal activity in the last five years. On a sequential basis, the volume and value of foreign deals increased by 70 percent and 103 percent from the second quarter of 2014, respectively.

Corporate transactions led total deal value during the quarter, representing $99.1 billion, or 81 percent of total deal value for the third quarter of 2014. The 20 corporate transactions in the quarter represented the highest quarterly level since the fourth quarter of 2012. Asset transaction volume during the third quarter of 2014 totaled 58 deals accounting for 74 percent of total deal volume, while total deal value reached $24 billion or 20 percent of total deal value for the third quarter of 2014.

There were 36 deals with values greater than $50 million related to shale plays in the third quarter of 2014, totaling $26.6 billion, or 46 percent and 22 percent of total deal volume and value, respectively. In the upstream sector, shale deals represented 28 transactions and accounted for $23.1 billion, or 79 percent of total upstream deal value in the third quarter of 2014. There were five midstream shale-related deals in the third quarter of 2014, accounting for $2.5 billion, an increase in value and volume from zero deals in the third quarter of 2013.

“The third quarter saw the highest number and value of shale deals in any third quarter over the last three years,” said John Brady, a Houston-based partner with the PwC energy practice. “This increased interest was driven primarily by the continued activity in the upstream space. However, a challenge E&P companies are facing is bridging the resource and organizational gaps in land administration and operations following acquisitions. We’re working with many companies to help capture more value from land organizations.”

The most active shale plays for M&A with values greater than $50 million during the third quarter of 2014 include the Eagle Ford in Texas, which had seven deals with a total value of $1.8 billion, followed by the Bakken with six deals representing $8.6 billion. The Permian play had five deals worth $7.8 billion, the Marcellus Shale had four deals valued at $1.1 billion and the Niobrara had three deals worth $2.4 billion. The Utica Shale generated two deals, while the Haynesville and Fayetteville each generated one deal.

During the third quarter of 2014, master limited partnerships (MLPs) were involved in 14 transactions, representing about 18 percent of total deal activity in the quarter, consistent with historical levels.

Financial investors continued to show interest in the oil and gas industry with six total transactions, accounting for $4 billion during the third quarter of 2014, which was consistent with the number of deals but a slight drop in total deal value compared to the same time period in 2013.

“While financial investor M&A activity remains modest compared to corporate transactions, they remain very active backing management teams with equity lines of credit in E&P and midstream,” said Rob McCeney, PwC U.S. energy & infrastructure deals partner. “Once these management teams execute greenfield or brownfield transactions, their businesses become fully operational and they can execute on deals, which contributes to the ongoing corporate deal activity.”

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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