Note: M&A activity explored in this report is based on data from 1Derrick’s M&A Database as of July 10, 2017. The data represents acquisitions, mergers, and swaps with deal values greater than $10 million, including transactions with no disclosure on reserves and/or production. Our analysis has excluded transactions with no announced value as well as transactions between affiliated companies to provide a more accurate picture of M&A activity in the industry.
Executive summary

The global oil and gas (O&G) industry witnessed mergers and acquisitions (M&A) to the tune of approximately $137 billion in the first half of 2017, a significant upturn compared to $87 billion for the first half of 2016. This coincided with a period in which oil prices seemed to be settling at a higher level than the previous two years, and some confidence was returning to the industry that a market recovery had begun, although oil prices have settled back into the mid-$40 per barrel range since early June 2017. The price improvement for most of the first half of 2017 translated into higher cash flows in the industry, particularly for upstream companies, some of which could be deployed either into increased drilling and completion activity or transactions.

As in past periods, oil and gas M&A transactions have been occurring across all sectors of the industry—upstream, oilfield services (OFS), midstream, and downstream—and in all major geographical regions of the world. For this midyear update, however, we focus on what we consider to be the three most significant trends of this activity:

• Asset-based deals aimed to refocus and reinforce portfolio positions to form a stronger platform from which to prosper in the expected O&G market recovery. Asset-based M&A totaled around $89 billion in the first half of 2017. This trend was particularly prevalent in North America, with the Permian Basin standing out by attracting deals totaling around $20 billion. The Permian has experienced a shift of focus from securing entry positions to focusing on add-ons that enhance development opportunities. Private equity funding has played a role here, backing both upstream and midstream deals.

• Realignment of holdings in the Canadian oil sands, with the exit of some international majors, concentrating more of this play in the hands of focused Canadian operators.

• Transactions aimed to secure improved access to downstream refined products markets for major producing national oil companies (NOCs) at a time when crude oil production cut agreements temporarily limit crude oil trade for some countries.

There were also a small number of prominent deals in the OFS and midstream sectors that we will note in this report.

Looking to the second half of 2017 and into 2018, much will depend on the extent to which the industry retains an outlook of confidence in firmer oil prices, keeps costs under control, and seeks continuing opportunity for resource development and profitable market access. The fundamentals appear somewhat stronger than one year ago, but risk and uncertainty may dampen a further upturn in M&A transactions if oil market stabilization and recovery look like they are taking longer than previously anticipated.
Oil & Gas Mergers and Acquisitions Report—Midyear 2017 Overcoming the headwinds

Business environment and overall M&A activity

This year may be more positive after a tough three-year period for the O&G industry. Oil prices moved up from the low $40 per barrel level to the mid-$50 level following the production cuts implemented by Organization of the Petroleum Exporting Countries (OPEC) members and non-OPEC countries in January 2017. This agreement was extended for a further nine months as announced in the May 2017 OPEC meeting. Although oil prices settled back into the $40 range in June 2017, the impact of production cuts is expected to result in progressive drawdowns of global inventories and support prices in the second half of 2017 into early 2018.2 But there are still risks and uncertainties, notably the extent to which production increases in the United States, Canada, and those OPEC countries exempt from the agreement add output to offset production cuts.

In the somewhat higher price environment of the first few months of 2017, compared to the second half of 2016, overall we have seen the predominance of upstream deals, these being most directly influenced by crude oil price levels.

In fact, the value of deals within the upstream sector has already reached approximately 69 percent of the total value of deals in all of 2016 (figure 1), although the momentum of deals slowed in the second quarter.

The downstream sector has also maintained a sustained pace of deal activity, with deal values in the first half of 2017 reaching 47 percent of those for all of 2016. Due to the OPEC production cut extension, oil prices may recover during the second half of 2017 and early 2018,3 improving US shale asset economics and driving ongoing asset rationalization. Attractive break-even costs in the Permian Basin could continue to favor deals, with this trend potentially spilling over into other regions as competition for Permian assets gets more intense.4,5,6

Figure 1. Global oil and gas M&A deals by value and count

<table>
<thead>
<tr>
<th></th>
<th>Upstream</th>
<th>OFS</th>
<th>Midstream</th>
<th>Downstream</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2014</td>
<td>100</td>
<td>14</td>
<td>68</td>
<td>32</td>
<td>14</td>
</tr>
<tr>
<td>H2 2014</td>
<td>89</td>
<td>13</td>
<td>45</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>H1 2015</td>
<td>110</td>
<td>14</td>
<td>45</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>H2 2015</td>
<td>39</td>
<td>15</td>
<td>21</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>H1 2016</td>
<td>86</td>
<td>21</td>
<td>36</td>
<td>31</td>
<td>36</td>
</tr>
<tr>
<td>H2 2016</td>
<td>120</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>H1 2017</td>
<td>92</td>
<td>17</td>
<td>10</td>
<td>17</td>
<td>10</td>
</tr>
</tbody>
</table>

Sources: 1Derrick’s M&A Database and Deloitte analysis
Portfolio reinforcement ahead of a market recovery is driving asset-based deals

The first half of 2017 has already seen around $92 billion in M&A deals in the overall global upstream sector, significantly higher than in the first half of 2016. The North American region led the rally with around 76 percent of the share globally in terms of deal value and deal count. The United States alone attracted the largest deal value, amounting to around $42 billion, followed by Canada.

Buyers and sellers have largely focused on asset-based deals, adjusting their upstream portfolios to achieve scale in existing core areas or to reduce positions in noncore assets. Asset-based transactions accounted for around $67 billion, or 72 percent, of total upstream M&A in the first half of 2017.

Figure 2. Global upstream asset deals by asset type

<table>
<thead>
<tr>
<th>Segment</th>
<th>H1 2014</th>
<th>H2 2014</th>
<th>H1 2015</th>
<th>H2 2015</th>
<th>H1 2016</th>
<th>H2 2016</th>
<th>H1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing fields</td>
<td>42,078</td>
<td>29,046</td>
<td>14,840</td>
<td>17,447</td>
<td>20,603</td>
<td>17,693</td>
<td>46,849</td>
</tr>
<tr>
<td>Fields under development</td>
<td>20,462</td>
<td>17,047</td>
<td>12,313</td>
<td>7,394</td>
<td>29,836</td>
<td>19,483</td>
<td></td>
</tr>
<tr>
<td>Exploration blocks/discoveries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Bubble size represents the total deal value in a particular half.
Sources: 1Derrick’s M&A Database and Deloitte analysis
Producing fields dominated the asset-oriented transactions with a deal value share of 70 percent in the first half of 2017. Unlike the second half of 2016 where buyers appeared confident to acquire more fields under development, this most recent half-year witnessed a return to the lower-risk strategy of acquiring producing fields to provide immediate cash flow. This trend has been prominent throughout the three-year downturn as the sector refocuses on generating near-term cash returns, and it contrasts with previous years when the prioritization of leveraged growth left the sector as a whole exposed to the steep drop in commodity prices. Also, the trend of buying more unconventional assets further strengthened in the first half of 2017—nearly 92 percent of the total asset-based transactions were focused on unconventional O&G assets.

The Permian Basin has been the most active play for asset transactions in the first half of 2017 with 44 deals valued at around $20 billion (figure 3)—a record high for the basin. In early 2017, ExxonMobil paid $5.6 billion for acreage positions of BOPCO (the Permian holdings of the Bass family) totaling 275,000 leased acres, 250,000 of which are in the Permian’s Delaware Basin in West Texas and New Mexico. This acquisition is significant for ExxonMobil to expand its presence in this US growth area for onshore oil production, with a projected resource of 3.4 billion barrels of oil equivalent.
Figure 3. Upstream deal value by major US shale play (USD billion)

Sources: 1Derrick’s M&A Database and Deloitte analysis
Another notable transaction in the Permian was by Parsley Energy, which paid $2.8 billion to expand its holdings in the Permian's Midland Basin by acquiring the Permian assets of Double Eagle Energy. The transaction includes undeveloped acreage and producing O&G assets, which will add about 71,000 net acres to Parsley's existing assets in the Permian, expanding its total acreage to nearly 227,000 acres.

The Marcellus Basin followed as the next most active basin with seven deals worth $10 billion. The highest valued deal in the Marcellus was the recently announced acquisition of Rice Energy by EQT Corporation for $8.2 billion. This deal is one of the most prominent corporate-level deals in the Marcellus, with a focus on natural gas assets. Under the terms of the deal, EQT will obtain 187,000 acres in the Marcellus and 65,000 acres in the Utica Basin. This makes EQT the largest producer of natural gas in the United States and the leading player in the Marcellus/Utica, enabling it to take a disciplined approach to asset development more in line with market and infrastructure developments.

After Marcellus, Eagle Ford Basin had eight M&A deals worth around $4.7 billion, indicating the beginning of a trend to identify value for liquids-rich assets outside the Permian.

Of all the deals, investments in producing and nonproducing assets were primarily led by existing operators. Out of the information available in the public domain in context to private equity (PE) investors, PE players were involved in deals worth around $13 billion in the first half of 2017 compared to a total of $16 billion over all of 2016. Within the United States, PE investors primarily focused on the Permian, with a total of 59 M&A deals backed by PE participation. There is some consequential consolidation in the midstream sector as asset rationalization may provide opportunities to offset the slowdown in organic growth in pipeline expansions.

**Canadian producers are expanding positions in the oil sands as international majors exit**

Transactions involving assets in Canada came to the fore in the first half of 2017, amounting to around $26.6 billion. M&A in Canada was primarily driven by international oil companies' strategic retreat from the Canadian oil sands to refocus their portfolios toward more short-cycle investments and reduce exposure in high-capital, high break-even plays. Canadian energy producers were the main buyers, consolidating and expanding their positions to build long-term scale and efficiency.

M&A transactions in oil sands accounted for 26 percent of the approximately $92 billion in overall upstream M&A in the first half of 2017, with two mammoth deals in the Canadian oil sands. The biggest deal was Cenovus' acquisition of oil sands and deep basin gas assets from ConocoPhillips for $13.3 billion. The deal provided strategic advantage to Cenovus as the acquisition would not only double its reserves but also give it the potential to raise production to 588,000 barrels of oil equivalent per day. It would also allow full development control of its Foster Creek Christina Lake oil sand asset, previously a 50/50 joint venture between Cenovus and ConocoPhillips.

The second major deal was struck when Shell sold a majority share of its upstream Athabasca oil sands asset to Canadian Natural Resources (CNRL) for $8.5 billion. For CNRL the deal would increase its overall production of asphalt and conventional O&G to more than 1 million barrels per day, while for Shell it reduces exposure to a high-cost play in the company's global portfolio.

It is interesting to note that these divestitures also had strategic rationales beyond portfolio rebalancing. For Shell this was a part of its asset sales program to reduce leverage following the BG acquisition, while ConocoPhillips looked to cut debt exposure and fund an ongoing share buyback program.
National oil companies (NOCs) are expanding downstream positions in consuming countries to enhance market access

The recent and ongoing trend for NOCs to build their presence in the downstream value chain to better secure markets for crude oil came to the fore with a $12.9 billion deal announced in 2016. In the deal, Rosneft acquired a 49 percent stake in Essar’s refinery at Vadinar in India to pursue its global expansion.21

Another example was a deal, announced in 2016 and concluded in May 2017, between Shell and Saudi Aramco to split the assets of US joint-venture refining and marketing company, Motiva. As reported by various analysts, Saudi Aramco is making efforts to grow its refining operations in the United States, which is also the world’s largest oil consuming country. This provides Saudi Arabia with greater security of market access for crude exports to the United States, particularly if it is successful in using the Motiva assets as a basis for further expansion in downstream assets in the United States as the company announced.22,23

In the first half of 2017, Aramco concluded another downstream transaction to enhance its position in Asian markets. The $7 billion deal between Saudi Aramco and Petronas was the largest in the downstream sector in the first half of 2017. With this deal Aramco is set to acquire a 50 percent equity stake in Petronas’ selected ventures and assets in the Refinery and Petrochemical Integrated Development (RAPID) project. Petronas’ RAPID project is in the southern Malaysian state of Johor and has capacity to refine 300,000 barrels of crude per day. In this transaction, Aramco gained rights to supply up to 70 percent of the crude feedstock for the refinery, yet another strategic move for consolidating its position in the value chain and securing markets for its crude oil exports.24

Apart from the intrinsic strategic advantages to Aramco, these deals are also expected to be a factor that could impact Aramco’s enterprise valuation ahead of its planned initial public offering assigned for 2018.25
Other notable deals

In addition to the overarching M&A trends highlighted in the previous section, we also draw attention to some other significant deals over the first half of this year.

A notable large corporate transaction in the Permian Basin was Noble Energy’s (NBL) acquisition of Clayton Williams Energy in a $3.2 billion deal.26, 27 With a price tag equivalent to $33,000 per acre, the deal will add 71,000 net acres to NBL’s existing acreage in the core of the Southern Delaware Basin, specifically in the Reeves and Ward counties of Texas.28 With the help of this acquisition, NBL expands its scale in the core of the Delaware Basin with a combined 118,000 net acres. The deal would potentially make NBL the second largest acreage holder in the Southern Delaware region. NBL plans to increase production from the acquired assets and enhance near-term cash flows with this acquisition.29

The biggest deal in the OFS sector was in the engineering, procurement, and construction (EPC) segment where the Wood Group acquired AMEC Foster for about $3.9 billion with a goal to realize the benefits of increased scale of operations as well as diversity of end customers.30, 31 The ongoing pressure on upstream projects spending helps make it attractive to seek more access to customers in other industry segments such as chemicals, refining, power, environment, and infrastructure. We should also note that a milestone in OFS sector consolidation was reached with the closing of General Electric’s (GE) combination with Baker Hughes, which was announced in 2016 and included in the transaction statistics for the second half of 2016.32 GE is merging Baker Hughes with its own oil and gas equipment and services operations to create the world’s second-largest oilfield services provider by revenue.33

The biggest midstream deal to date in 2017 took place in Canada where Pembina Pipeline Corporation acquired Veresen for approximately $7.1 billion to build a larger position in natural gas pipelines and processing infrastructure. The deal is strategically relevant for the Canadian operators as the portfolios of both companies complement each other in terms of products, basins, customers, and even currency due to moderate exposure to the US market. The deal may provide a strong position to Pembina in the Western Canadian Sedimentary Basin while also enabling greater financial access to the combined entity for funding multibillion dollar growth projects such as the proposed Jordan Cove LNG export terminal in the United States.36, 37

In the downstream sector, Sunoco announced the divestment of its 1,108 convenience stores, located in Texas and the eastern United States, to Japan’s Seven & i Holdings for $3.3 billion, as Sunoco has decided to focus on its core business of supplying fuel. With this deal, Sunoco is expected to supply about 2.2 billion gallons of fuel annually, for 15 years, to a unit of the operator of the 7-Eleven chain of convenience stores.38, 39

On similar lines in downstream, two other major deals occurred in the first half of 2017. The first deal concluded when OMV sold its Turkish fuel supply and distribution unit Petrol Ofisi to Vitol for $1.45 billion. The Turkish petrol station chain was one of the noncore assets for OMV, which it shed to generate cash.40, 41 In the second quarter of 2017, Chevron divested Chevron Canada R&M ULC to Parkland Fuel for $1.1 billion.42 The deal was a part of Chevron’s noncore asset divestment strategy to generate cash flow to fund its operating upstream projects.

In the United States, Ensco announced the acquisition of Atwood Oceanics for $1.5 billion to strengthen its position in technologically advanced offshore drilling services in deep- and shallow-water markets.34 As reported by industry specialists, the deal is seen as a sign of long overdue consolidation in the drilling services industry.35
Looking ahead

The first half of 2017 saw a continuation of the M&A deal momentum, which began to recover in the second half of 2016. Oil price stabilization and the subsequent recovery began to help restore confidence to the O&G industry, although significant risk and uncertainty factors remain, for example, the oil price retreat in June. The upstream sector was again the primary focus of transactions with portfolio-strengthening, asset-based deals leading the way. Cash-generating producing assets are back in favor to bolster near-term financial metrics of the acquiring companies. The majors’ retreat from the Canadian oil sands represented the other side of this trend, downplaying high-cost, long-cycle assets in favor of a more short-cycle presence. In the downstream sector, heightened competition in the global crude oil market reinforced NOCs’ strategic push to secure downstream markets by buying into refining and marketing assets in both the United States and Asia.

What should industry participants and analysts watch for in the second half of 2017?

• O&G commodity pricing: Stability in O&G pricing is an important enabler for an active M&A market since it allows for readier value convergence between buyers and sellers, while price volatility tends to keep players sidelined. There was an oil price recovery following the initial OPEC/non-OPEC production cuts agreement that created a broadly shared expectation of oil market rebalancing. However, the price retreat of June 2017 that followed the renewal of the OPEC/non-OPEC production cuts for a further nine months led to more uncertainty, which may give pause to deal flows in the months to come. Much will depend on the pace and extent to which global crude oil inventories begin to fall to historic levels over the balance of 2017 and into 2018.

• Macroeconomic outlook: Macroeconomic trends also are critical elements for investor sentiment. If the slow pace of recovery in the global economy translates into lower oil demand growth than expected, it will contribute to heightened uncertainty and risk for the O&G industry. On a seasonal basis, oil demand is usually stronger in the second half of the year, but it is unclear whether demand growth can make enough of an impact on market rebalancing. This additional uncertainty could weigh on the prospects for transactions across the O&G value chain.

• Financing conditions: While interest rates are still very low compared to historic levels, they are beginning to edge up, perhaps constraining deal finance at the margin. Private equity investors still retain an active stance toward the O&G industry, and we expect them to continue to seek opportunities in core plays with robust economics in a market recovery. The upstream companies that still need to de-leverage, however, will likely still find it challenging to bring second- or third-tier assets to market, particularly if market uncertainty remains prevalent.

After considering all these factors, the O&G markets seem to be in a cautious recovery mode, possibly leading to a slight pause in M&A activity in the second half of 2017 following a revival of transaction activity in the industry in late 2016 and early 2017.
The first half of 2017 saw increased M&A activity for the upstream sector, with around $92 billion in deals, one of the top three periods in the past five years.
The OFS deal count in the first half of 2017 showed solid growth of 55 percent while total deal value was around $10 billion, lower than previous periods where there were very large corporate-scale transactions.

Sources: 1Derrick’s M&A Database and Deloitte analysis
The midstream sector witnessed moderate M&A activity. It had 26 deals in the first half of 2017 with a combined value of about $18 billion, a fall of 85 percent in deal value compared to the previous half and 17 percent on a year-over-year basis.
In the first half of 2017, the downstream sector has seen transactions worth $17 billion, almost 55 percent ($36 billion) of the total deals in the sector for 2016.
Endnotes

10 1Derrick's M&A Database.
12 1Derrick's M&A Database.
13 1Derrick's M&A Database.


Tom DiChristopher, “Exxon Mobil doubles its oil and gas holdings in the Permian basin for $5.6 billion.”


Let’s talk

**Vice Chairman, US Energy & Resources Leader**

**John England**  
Deloitte LLP  
Houston  
[Contact Information]

**Andrew Slaughter**  
Deloitte Services LP  
Houston  
[Contact Information]

**US Oil & Gas M&A Leadership Team**

**Raymond Ballotta**  
Deloitte & Touche LLP  
Dallas  
[Contact Information]

**Trevar Thomas**  
Deloitte Consulting LLP  
Houston  
[Contact Information]

**Jeff Kennedy**  
Deloitte Transactions and Business Analytics LLP  
Houston  
[Contact Information]

**Melinda Yee**  
Deloitte & Touche LLP  
Houston  
[Contact Information]

**Jason Spann**  
Deloitte Tax LLP  
Houston  
[Contact Information]

**Key contributors**

**Anshu Mittal**, Executive Manager, Market Development, Deloitte Support Services Private Limited  
**Rahul Tripathi**, Assistant Manager, Market Development, Deloitte Support Services Private Limited  
**Kartikay Sharma**, Senior Analyst, Market Development, Deloitte Support Services Private Limited  
**Vivek Bansal**, Senior Analyst, Market Development, Deloitte Support Services Private Limited
Deloitte Center for Energy Solutions

The Deloitte Center for Energy Solutions (the “Center”) provides a forum for innovation, thought leadership, groundbreaking research, and industry collaboration to help companies solve the most complex energy challenges.

Through the Center, Deloitte’s Energy & Resources group leads the debate on critical topics on the minds of executives—from the impact of legislative and regulatory policy, to operational efficiency, to sustainable and profitable growth. We provide comprehensive solutions through a global network of specialists and thought leaders.

With locations in Houston and Washington, DC, the Center offers interaction through seminars, roundtables, and other forms of engagement, where established and growing companies can come together to learn, discuss, and debate.

Deloitte.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

www.deloitte.com/us/energysolutions

@Deloitte4Energy

Copyright © 2017 Deloitte Development LLC. All rights reserved.