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Bigger – E&P Consolidation Continues Unabated, With Most M&A Focused on the Permian

Publicly Owned Oil & Gas Producers Seek Scale; Private Equity Cashes In

- **The frenzy of upstream M&A activity that started in mid-2020 is still underway.**
- **Consolidation is occurring not only in the Permian, but in other shale plays too.**
- **Producers want to gain scale, become more efficient, build inventories of proved reserves.**
- **Many E&Ps backed by private equity see an opportunity to monetize their investments.**
- **With all the recent M&A, there are now far fewer potential targets for acquisition.**

1. Introduction

The past 45 months — from the start of 2020 to the start of Q4 2023 — has been a period of almost unprecedented consolidation within the oil and gas industry. Not since the turn of the 21st century has U.S. merger-and-acquisition activity been so frenetic. Back then, almost a quarter-century ago, a plunge in crude oil prices spurred mega-deals that helped to form many of today's supermajors and large E&P independents. To name just a few, Exxon joined with Mobil, BP with Amoco and ARCO, Chevron with Texaco, Anadarko with Union Pacific and Kerr McGee, ConocoPhillips with Burlington Resources, and Devon with Mitchell Energy and Ocean Energy.

The oil price crash in 2014-15 might have spurred another wave of consolidation. After all, many producers had been massively outspending cash flow in the early years of the Shale Era to build acreage inventories in multiple unconventional plays. But the wave didn't happen. Instead, most E&Ps turned inward, shedding non-core assets to concentrate on core plays.

Who in the oil and gas industry will ever forget early 2020, when the collapse of OPEC+, the initiation of COVID lockdowns, and other factors pushed the U.S. E&P sector to the brink of insolvency. Crude oil prices had crashed to $20/bbl — one-third their level at the start of that fateful year — and producers had shifted

to survival mode, slashing capex, cancelling infrastructure projects, and eyeing new, more dire worst-case scenarios.

Somehow, out of that hell emerged a new — and apparently long-lasting — frenzy of M&A. That heightened level of dealmaking, which started in mid-2020 and continues to this day, has been focused primarily on the Permian, the 70,000-square-mile swath of West Texas and southeastern New Mexico that has accounted for the vast majority of U.S. crude oil, natural gas and NGL production growth the past few years. There have been deals in other shale plays too, including the Eagle Ford, the Denver-Julesburg (DJ), the Bakken, the Haynesville, and the Marcellus/Utica. But it seems that almost every large E&P wants to either expand its stake in the Permian's Midland and Delaware basins or — if it's late to the party — get a foothold there to build on later.

Among the giant, Permian-focused deals that have closed so far this decade are ConocoPhillips's $13.3 billion acquisition of Concho Resources, Chevron's $13 billion purchase of Noble Energy, Cabot Oil & Gas's $9.3 billion buy of Cimarex Energy (the combined company is now known as Coterra Energy), and Pioneer Natural Resources' $7.6 billion acquisition of Parsley Energy and $6.4 billion purchase of DoublePoint Energy. Also, in the largest asset sale of 2021, ConocoPhillips snapped up Shell's Permian assets for $9.8 billion.

As we discuss in this Drill Down report, announcements of new mergers and acquisitions keep coming. Over the past 12 months, the focus period for the report, literally dozens of deals have been made in the upstream space, including the nearly 20 larger ones we will detail here.

M&A activity among E&Ps continues to be driven by a number of key factors, including (1) a desire to gain scale and the economies of scale that come with it, especially in the all-important Permian; (2) renewed confidence that, despite the possibility of a near-term recession, hydrocarbon demand — and prices — will stay strong for years to come; (3) a preference among many larger E&Ps to grow production and free cash flow through acquisition, not aggressive capital spending; and (4) a desire by many smaller, privately held producers to cash in now and reap big gains as they do.

These days, the mantra among larger, publicly held E&Ps focused on the Permian is this: "Top-tier rock, massive scale, and ever-improving efficiency." Their thinking is that the most successful oil and gas producers through the rest of the 2020s and into the 2030s will be the companies that have built up strong inventories of proved reserves in the best, most productive parts of the Midland and Delaware and also developed well-oiled machines — no pun intended — for drilling and completing wells and optimizing production from them.

That mantra and that thinking align closely with the current aim of publicly held E&Ps to maintain the financial discipline that finally made them Wall Street darlings starting in the second half of 2020 — investors welcomed producers' newfound laser-focus on high-grading their acreage, improving productivity, accelerating free cash flow generation, holding down capex, and boosting returns to shareholders via dividends and buybacks.

Convinced that the pace of the global transition to renewables, electric vehicles and the like will be slower and more challenging than many had thought just a few years ago, E&Ps generally see a positive future ahead of them, and have decided that it's either/or time in the oil patch — that is, either their company gets bigger, high-grades the acreage under its control and supercharges its free cash flow (and stock buybacks and dividends) or they accept their fate as an also-ran or, if they're lucky, an acquisition target.

There's the private-equity angle too. While big-money deals involving one publicly held E&P buying another tend to dominate the headlines — Chevron's May 2023 acquisition of PDC Energy for $7.6 billion being a recent example — there also have been several cases of publicly held E&Ps acquiring acreage and production from private-equity-backed producers.

Through the last third of the 2010s, private equity firms faced severe challenges in monetizing their investments as M&A activity plunged and the climate for initial public offerings (IPOs) turned frigid. While the IPO market has mostly remained closed, several major private equity firms merged their portfolio companies into a single entity — or "smash-co" — to make them more attractive takeover targets, and the strategy worked. Take Blackstone. It merged Primexx Energy Partners and Jetta Permian in 2020 into the Primexx entity acquired by Callon Petroleum for $788 million in October 2021. Also, Blackstone merged

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Haynesville producers Vine Oil & Gas, Brix Oil & Gas, and Harvest Royalties into Vine Energy, which was acquired by Chesapeake Energy for $2.1 billion in November.

This Drill Down Report provides a summary of the vast majority of the large M&A deals that have been announced and/or closed in the U.S. in the past 12 months, starting with the most recent agreements and deal closings. Of course, each of the acquisitions is unique, but when they are discussed as a group they confirm many of the generalizations noted just above. Most important, perhaps, the acquiring producers were looking for scale, the opportunity for improved productivity, and the expanded inventory that they expect they will need in the years ahead.

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