Special Report

Growing Consolidation in the US Oil & Gas Sector

aranca

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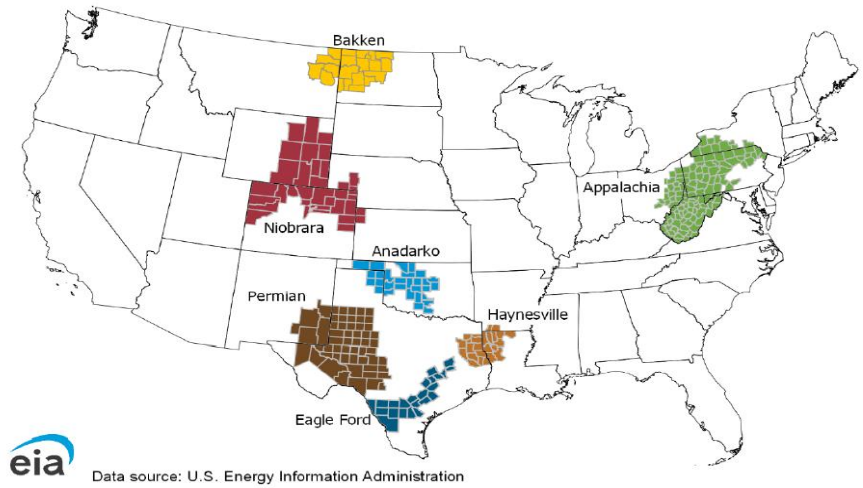
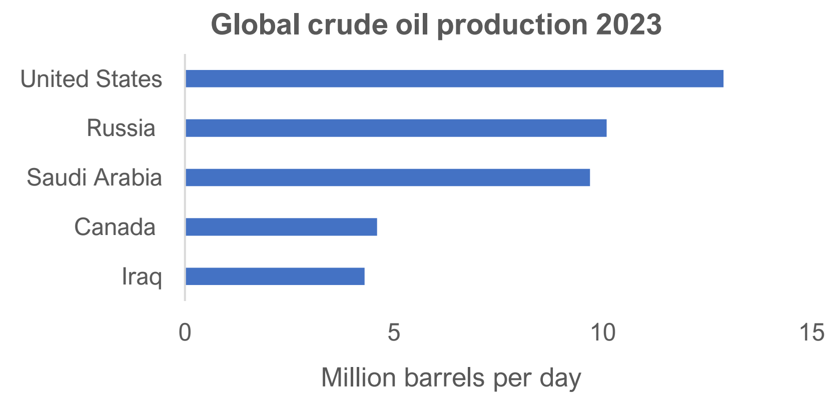
Introduction to recent trends in the US oil and gas sector

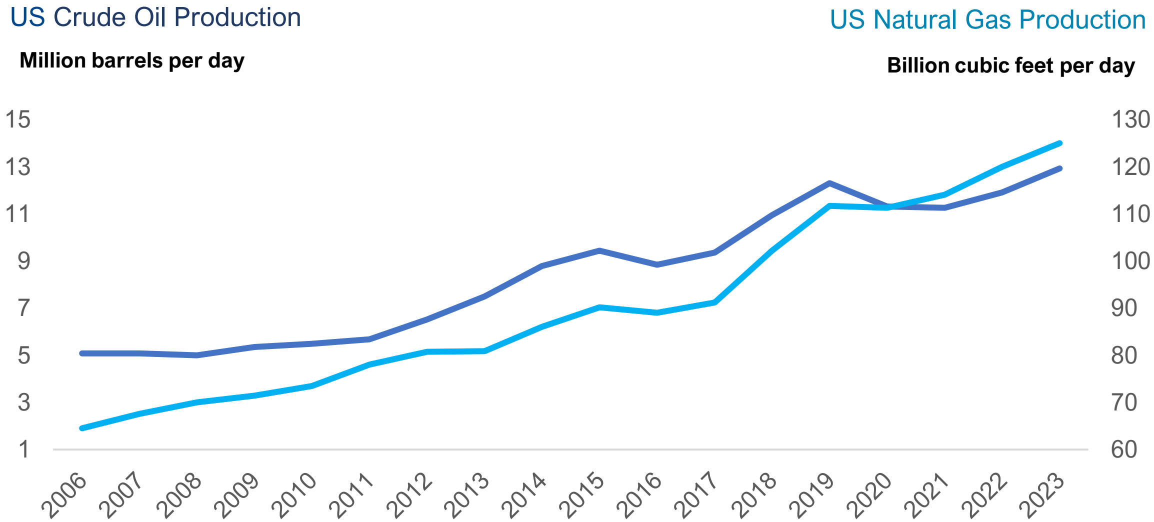
- The US is the world's top producer of oil and gas, supplying ~20% of global oil and gas. It often competes with countries, like Saudi Arabia and Russia, for the top positions in terms of oil production.
- As per the Energy Information Administration (EIA), the US currently produces ~13mn barrels of crude oil and ~100bn cubic feet of natural gas daily.
- Backed by a favorable operating environment, the US oil and gas sector recorded a significant surge in merger and acquisition (M&A or consolidation) activity in the last few years, a trend that continues in 2024.
- This consolidation is driven by large companies to gain access to vast reserves and high output of oil and gas given the current volatile macro environment and limited drilling locations.
- Additionally, the reduced valuations of small firms and strategic exits by private equity firms in the wake of the growing energy transition are creating M&A opportunities for large companies.
- In this report, we discuss the recent trend of production and growing consolidation in the US oil and gas industry.

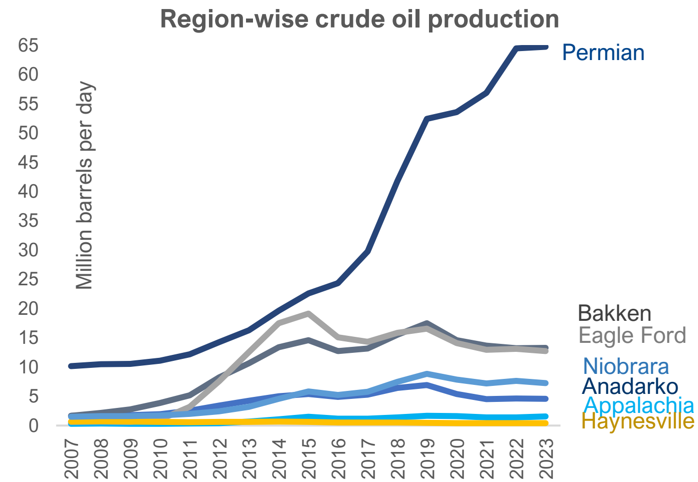




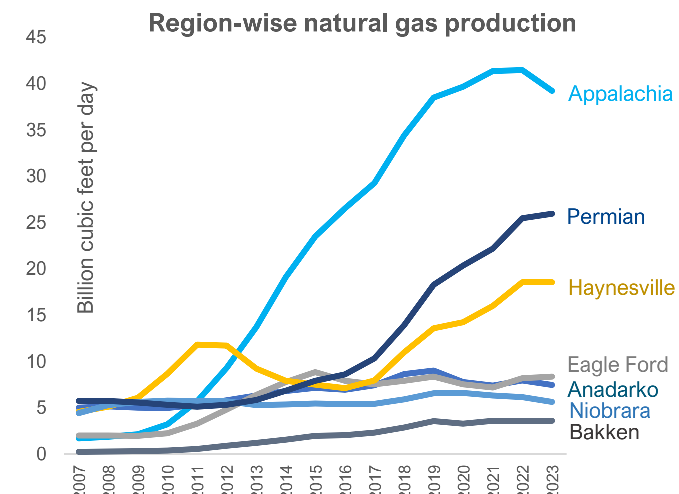
Source: *Aranca Research, EIA*

Shale revolution turned the US into net exporter and leading oil and gas producer





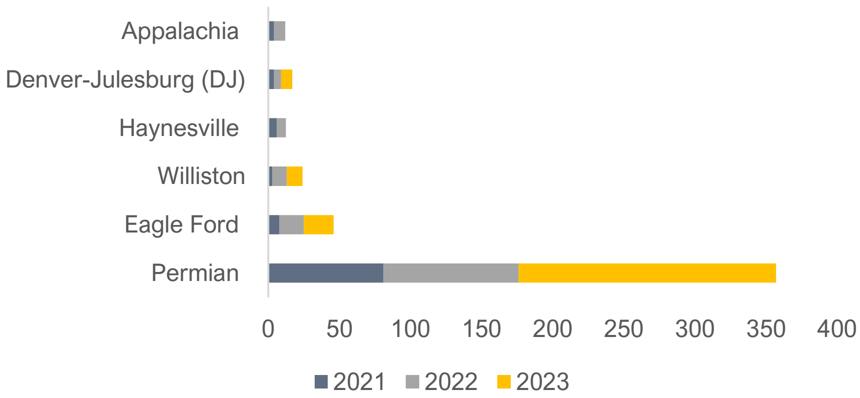
- In 2023, the US achieved a record daily production average of 12.9mn barrels, reaching a peak of over 13.3mn barrels in December, the highest ever recorded by any country.
- Since 2008, oil and gas production in the US has consistently risen due to the shale revolution caused by advancements in hydraulic fracturing and horizontal drilling, especially in the Permian Basin.
- Fracking technology unlocked previously inaccessible shale reserves, thereby boosting domestic production and exports, reducing fuel costs, and reducing reliance on foreign oil.
- Consequently, the US became a top oil and gas producer globally and a net exporter in 2014 and 2019, respectively.



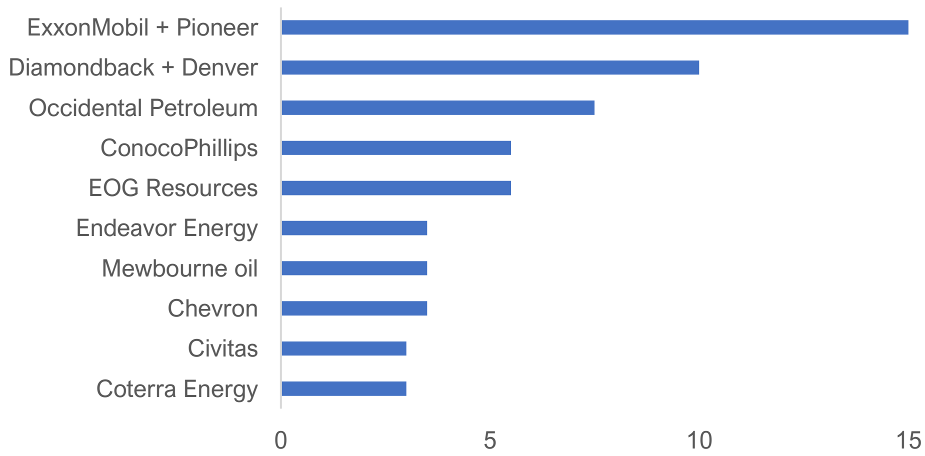
Source: *Aranca Research, EIA*

Growing consolidation in the upstream sector led by the Permian basin

M&A deal value by basin (USD bn)



Production share by operator % in Permian Basin



Reasons for rising consolidation (M&As):

- As per EIA, M&A spending by the US upstream companies rose to USD 234 billion in 2023, making it the highest level since 2012.
- The US O&G producers are pursuing measured and concentrated growth to boost earnings via M&A, rather than chasing debt-funded production expansion because of volatile market conditions and rising energy transition risks.
- Most companies are targeting shale companies with quality assets to improve operational efficiencies and expand inventories.
- Strong balance sheets, supported by record profits in recent years, have facilitated significant M&A activity. Further, most M&As involved stock deals to prevent strain on balance sheets.

M&A activities are mainly focused on the Permian basin:

- The Permian Basin remains crucial to US oil production, contributing over 6 million barrels per day, making up about half of the total oil production in the US.
- The Permian basin produced over 5 billion boe and holds at least 5 billion barrels of oil and 19 trillion cubic feet of natural gas.
- Over 2019-23, the basin has seen numerous M&A deals as E&P producers aim to secure remaining land and quality inventory for operational and cost efficiencies.
- In 2023, M&A activity in the Permian hit a five-year high exceeding USD 150 billion, a significant increase from USD 10 billion in 2019.
- Major players like Exxon Mobil, Chevron, Pioneer, and Occidental continue to invest heavily in the Permian Basin. The total capex in the Permian Basin crossed USD 100 billion in 2023.

Source: *Aranca Research, EIA, S&P Ratings, Financial Times*

Recent major M&A deals in the upstream sector in the US

Acquirer	Target	Deal Value (USD bn)	Year	Transaction value (deal value /daily boe)	Description
ExxonMobil (EM)	Pioneer Natural Resources	59.5	Oct 2023	94,105	The deal will double EM's Permian presence, making it the top shale oil producer and the largest player in the Permian basin with production reaching around ~1.3mn boe per day.
Chevron	Hess	53.0	Oct 2023	96,774	Chevron will own 30% of 11 billion boe in Guyana and control 465,000 net acres of midstream assets in Bakken after the deal.
Diamondback	Endeavor	26.0	Feb 2024	65,000	The deal will form a Permian powerhouse by uniting two major shale oil players, boasting around 838,000 net acres and 816mn boe per day production.
ConocoPhillips	Concho Resources	9.7	Oct 2020	30,407	The deal positioned ConocoPhillips as the largest independent producer in the US, with an additional 550,000 net acres in the Permian and a combined capacity of 1.5mn boe per day.
Occidental	CrownRock	12.0	Dec 2023	70,588	The deal will help Occidental grow in the Permian basin, adding 1.7mn boe per day and around 1,700 undeveloped locations. Previously, Occidental acquired Anadarko Petroleum for USD 57bn in 2019, resulting in an estimated 16bn boe in the Permian basin.
Chesapeake Energy	Southwestern Energy	7.4	Jan 2024	16,000	The merged company becomes the top natural gas producer in the US, with a production capacity of 7.9bn cubic ft per day, over 5,000 gross locations, and a 15-year inventory.
Chevron	PDC Energy	7.6	May 2023	31,484	The deal is expected to boost Chevron's reserves by 10%, with 275,000 net acres in the DJ basin adding around 1bn boe of proved reserves, plus 25,000 net acres in the Permian basin.
APA	Callon Petroleum	4.5	Jan 2024	20,388	The deal will enhance APA's position as a top diversified independent E&P company with a pro-forma production exceeding 500,000 boe per day.
Civitas Resources	NGP Energy	4.7	Jun 2023	54,878	The deal will allow Civitas to enter the Permian basin, which previously only operated in the DJ basin. It will boost the company’s production capacity by ~60%.

Source: *Aranca Research, Bloomberg*

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Connect with our Team

Ronak Vijayvargiya

Assistant Manager,
Investment Research

+91 22 3937 9999
ronak.vijayvargiya@aranca.com

Nivedita Pansari

Analyst,
Investment Research

+91 22 3937 9999
nivedita.pansari@aranca.com

For more details: *www.aranca.com* | *https://www.linkedin.com/company/aranca* | *https://www.aranca.com/knowledge-library*

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