Deal makers watch and wait

M&A trends in energy, natural resources, and chemicals

Q1'23

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Introduction

Another quarter of cautious deal making

Deal volume and value for the energy, natural resources, and chemicals (ENRC) sector in Q1'23 continued to decline quarter-over-quarter. This trend applied to both strategic and private equity (PE) deals, as well as all subsectors with the exception of deal value for chemicals.

Decarbonization was a key consideration for the sector (see page 6). Oil and gas (O&G) companies and PE firms continued to divest their carbon-intensive assets and look for acquisitions that could improve their environmental profile. P&U remained focused on developing their zero-carbon electricity generation portfolios. Renewable energy players sought new opportunities through the Inflation Reduction Act (IRA) to accelerate the deployment of solar, wind, electrified transportation, energy storage, and carbon-capture projects.

In the chemicals industry, companies divested noncore assets and remained wary of undergoing big-ticket deals due to macroeconomic uncertainty and growing scrutiny involving antitrust regulations. Higher valuations and increases in the cost of debt also created barriers for investment.

Overall, Q1'23 performance showed that deal makers can still put together impressive, multibillion-dollar transactions but prefer to remain cautious until monetary and market conditions improve.

Michael Harling
Partner
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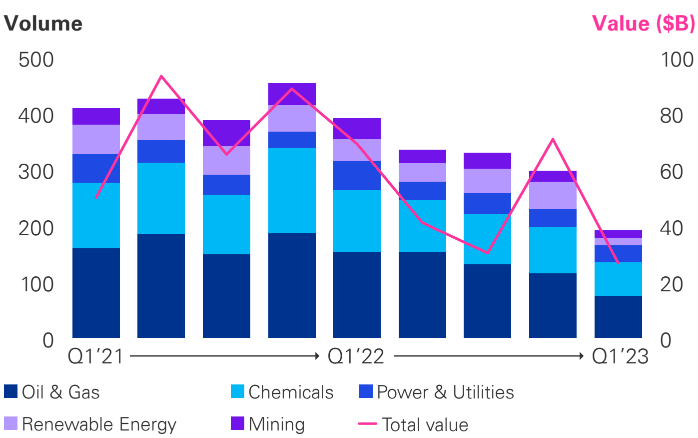
ENRC Leader

Q1'23 highlights

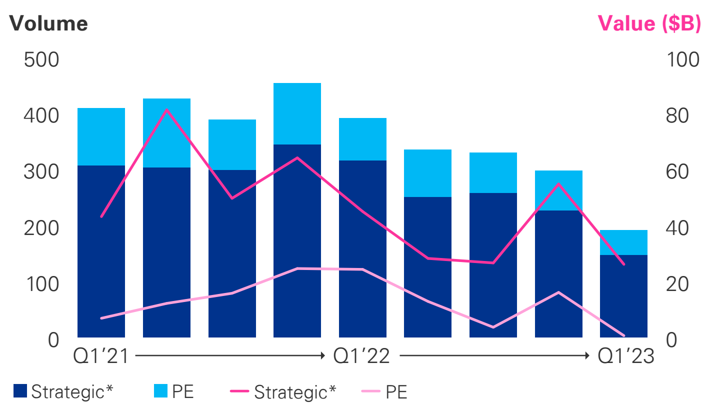
191 Deals ▼ **36%** Decrease from Q4'22

$26.6 Billion deal value ▼ **62%** Decrease from Q4'22

ENRC deal activity by sector



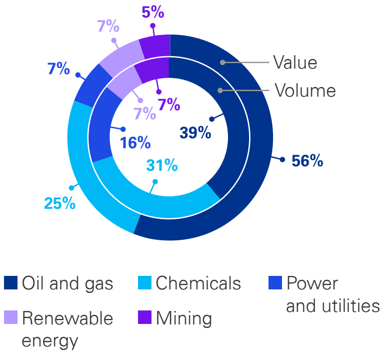
ENRC deal activity by type



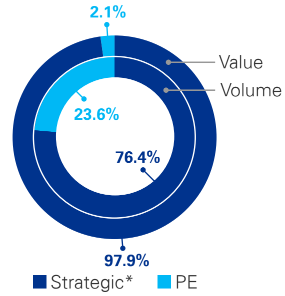
*Includes SPAC deal activity

Q1'23 deal mix

Sector mix



PE/Strategic mix



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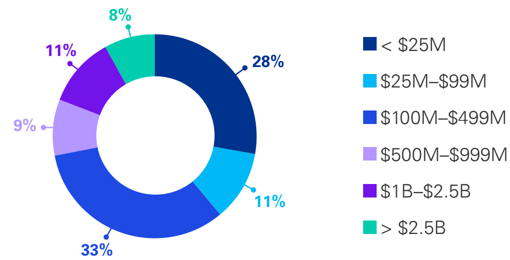
Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Solenis	Diversey Holdings, Ltd.	$4.6
Baytex Energy Corp.	Ranger Oil Corp.	$2.5
Matador Resources Co.	Advance Energy Partners Holdings	$1.7
CF Industries Holdings	Waggaman Ammonia Production Facility	$1.7
IRG Acquisition Holdings	American Electric Power	$1.5

Top PE deals

Acquirer	Target	Value (billions)
Exponent Private Equity	Flavour Specialty Ingredients (IFF division)	$0.2
Denham Capital Management	Solops	$0.2

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal volumes.

At a glance

Oil, gas, and chemicals
Deal levels continue to slide

Deal volumes and values for O&G and chemicals continued a year-long decline since the beginning of 2022. Demand for both O&G and chemicals remained resilient, and deal activity may increase later this year, but for now, deal makers maintain a wait-and-see attitude.

The top O&G deal was the acquisition by Baytex Energy Corp. of Ranger Oil, an oil producer in the Eagle Ford shale region of south Texas. Baytex said it plans to start dividend distributions once it closes the Ranger Oil deal and will increase share buybacks.

Demand for both O&G and chemicals remains resilient, and deal activity may increase later this year (supported by recent rumors of public company consolidation within the O&G space). For now, deal makers maintain a wait-and-see attitude.

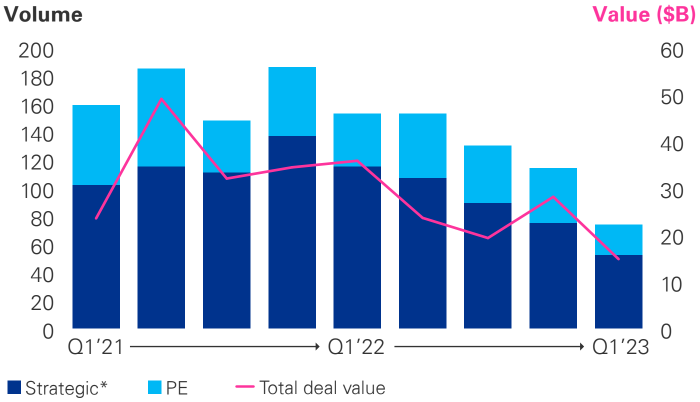
Q1’23 oil and gas highlights

74 Deals ▼ **35%** Decrease QoQ | **$14.8** Billion deal value ▼ **47%** Decrease QoQ

Q1’23 chemicals highlights

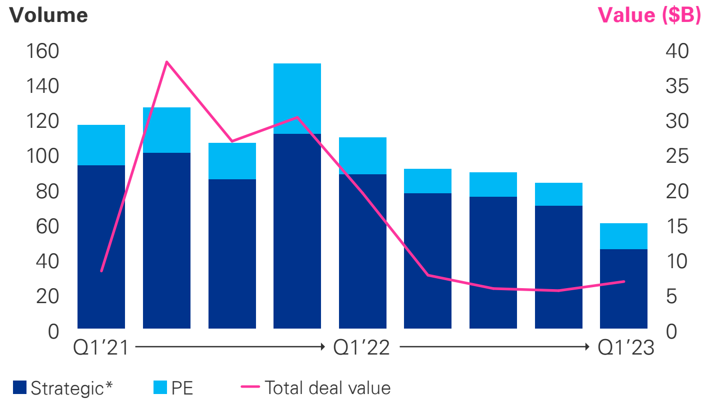
60 Deals ▼ **28%** Decrease QoQ | **$6.7** Billion deal value ▲ **22%** Increase QoQ

Oil and gas deal volume and value



*Includes SPAC deal activity

Chemicals deal volume and value



*Includes SPAC deal activity

Top oil and gas deals

Acquirer	Target	Value (billions)
Baytex Energy Corp.	Ranger Oil Corp.	$2.5
Matador Resources Co.	Advance Energy Partner Holdings	$1.7
WildFire Energy	Brazos Valley Eagle Ford assets (Chesapeake Energy)	$1.6
Energy Transfer	Lotus Midstream	$1.4
INEOS Energy	Northern Eagle Ford assets (Chesapeake Energy)	$1.4

Top chemicals deals

Acquirer	Target	Value (billions)
Solenis	Diversey Holdings, Ltd.	$4.6
CF Industries Holdings	Waggaman Ammonia Production Facility	$1.7
Exponent Private Equity	Flavour Specialty Ingredients (IFF division)	$0.2
Stahl Holdings	ICP Industrial	$0.2

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At a glance

Power, utilities, and renewable energy

Power and utilities hold steady, but renewables plummet

P&U companies maintained their deal volumes QoQ, but deal activity for renewables took a hit after increases over the past three quarters in 2022. Both subsectors reflected a strategic focus on issues that involve climate change, such as water treatment and decarbonization.

The largest P&U and renewables transaction was the acquisition of American Electric Power's portfolio of renewable assets by IRG Acquisition Holdings, a real estate development and investment firm, for $1.5 billion.

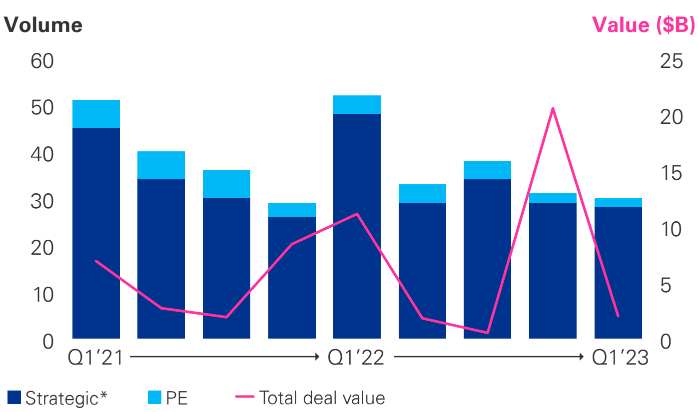
Q1'23 power and utilities highlights

30 Deals ▼ **3%** Decrease QoQ | **$2.0** Billion deal value ▼ **90%** Decrease QoQ

Q1'23 renewable energy highlights

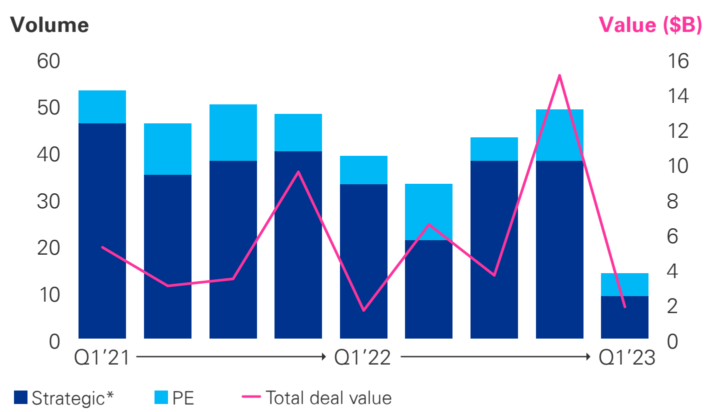
14 Deals ▼ **71%** Decrease QoQ | **$1.8** Billion deal value ▼ **88%** Decrease QoQ

Power and utilities deal volume and value



*Includes SPAC deal activity

Renewable energy deal volume and value



*Includes SPAC deal activity

Top power and utilities deals

Acquirer	Target	Value (billions)
IRG Acquisition Holdings	American Electric Power	$1.5
WEC Energy Group	Samson I Solar Energy Center	$0.3
CPV Group	Wind Energy Power Plants	$0.2

Top renewable energy deals

Acquirer	Target	Value (billions)
Aquaron Acquisition Corp	Bestpath IoT Technology	$1.2
BurTech Acquisition Corp	CleanBay Renewables Inc.	$0.3

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal volumes. All deals classified as power and utilities within the data sources have been classified as such regardless of whether the underlying assets are renewables.

Capitalizing on IRA incentives for decarbonization

The Inflation Reduction Act (IRA) has created a wealth of tax and financing incentives for clean energy and equity-centered environmental investments to support decarbonization goals and the energy transition. Altogether, the IRA offers $369 billion of tax credits, grants, and loans to support the development of wind, solar, EV, hydrogen, and other clean energy projects.[1] These programs have wide implications on large areas of economic activity, both for energy generation/transmission as well as energy consumption.

The interest in these incentives is substantial, but the process required to take advantage of them is not without its complexities. As many companies and investors consider clean energy investments, the process of evaluating what is available under the IRA (and other federal programs) for their portfolios of projects can be difficult to manage. However, understanding how credits, grants, or loans can be accessed to practically enable the funding of investments—and also quantifying their impact on the value of such projects—are critical questions that must be answered to properly define deal strategy and planning implementation.

Advising organizations on how to take advantage of the federal opportunities available to enable the energy transition is part of KPMG's wider offering to help companies develop and implement strategies that can serve core business needs, achieve decarbonization and climate goals, and address financial considerations. As part of our service offerings, we help organizations:

- Measure their carbon footprint and set targets
- Analyze future decarbonization scenarios across Scope 1, 2, and 3 emissions
- Assess climate risks
- Develop portfolio investment & funding strategy
- Structure and finance investments.

[1] Source: "The Inflation Reduction Act's Implications for Biden's Climate and Environmental Justice Priorities," Harvard Law School, August 12, 2022

Key IRA considerations for deal makers

Deal makers should take into account several considerations regarding IRA incentives for decarbonization:

1 Environmental justice

The IRA includes a number of environmental justice provisions,[2] and deal makers must understand the application criteria for each provision.

2 Prevailing wage levels

The IRA includes provisions for supporting prevailing wage levels for the implementing workforce[3]. Companies must be prepared to plan for and track these metrics. These provisions could impact entire supply chains, so companies might need to track and maintain records of prevailing wages for their suppliers as well.

3 Domestic content

To be eligible for certain tax incentives, products such as iron and steel must be manufactured in the U.S. If manufacturers do not satisfy domestic content requirements, they might consider M&A transactions that would help satisfy these requirements.

4 Grant management

Companies should be prepared to manage grants if received.[4] Some organizations aren't ready for the tracking and management of grants.

5 Alternative Minimum Tax (AMT)

Even companies that qualify for and receive credits should make sure that they are able to monetize them.

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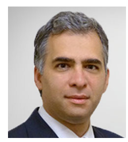

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[2] Source: "Breaking Down the Environmental Justice Provisions in the 2022 Inflation Reduction Act," Harvard Law School, August 12, 2022

[3] Source: "Prevailing Wage and the Inflation Reduction Act," U.S. Department of Labor

[4] Source: "Infrastructure funding success," KPMG LLP

Outlook

Modest growth in deal making

Dealmaking will most likely grow—but only at a modest rate—in the second half of 2023 as compared to the first half thanks to ongoing threats of recession, high inflation, Federal Reserve interest rate hikes and commodity price volatility. Companies may want to add to their headcounts through M&A due to the tight labor market.

KPMG Economics expects global economic growth to slip to 2.1 percent in 2023. A mild recession later in the year is expected to temper deal making in the U.S. Developing economies, which have long been the drivers of global economic growth, may face a longer, more severe recession due to structural changes involving supply chain restructurings, immigration flows, the legacy effects of COVID-19, a deeper credit crunch in the U.S., and other factors.

However, strategic buyers and PE groups will continue to make new offers based on a number of industry-specific factors. For O&G, commodity price volatility will remain a significant issue for deal makers. On the P&U side, energy efficiency will continue to be a key theme. We see more clients investing in behind-the-meter resiliency solutions such as backup generation, and utilities are getting creative about how to rate base some of their investments. In addition, utilities that operate in a supportive regulatory environment are likely to be attractive targets, especially if their capital spending remains strong in the face of inflation and Federal Reserve rate hikes.

The IRA has not yet made a major impact on the ENRC M&A landscape, although it has certainly influenced capital raising and capital needs. For example, new financing is being made available by new rules around carbon capture and how 45Q credits in the U.S. Internal Revenue Code can now be monetized. In addition, the IRA will likely accelerate the adoption of technologies such as hydrogen and small modular reactors in certain markets.

The IRA has also incentivized the use of domestic content in the manufacture of key renewable energy components. We expect this to lead to investment in domestic manufacturing capacity, especially for inverters. Political and economic tensions between China and the U.S. could have a major influence on deals involving renewables deployment, given the massive supply of solar and battery components made in China.

In the chemicals industry, deal making is expected to gather momentum in the second half of 2023, based on projections of declining energy prices and improved sector fundamentals supported by continued demand. Furthermore, a sharper focus on sustainability trends is expected to drive additional M&A activities.

Key considerations as we look ahead

With uncertainty over the M&A market unlikely to lift anytime soon, ENRC deal makers will want to focus on being ready to seize opportunities when brighter days return:

1. Keep a close eye on a possible recession, continued inflation, and more Federal Reserve rate hikes.
2. Develop creative financing for deals that accommodate rising capital costs and cash flow contractions.
3. For proper due diligence, carefully analyze supply chain costs and possible exposure to China-based manufacturing.

How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, leveraging its depth in the ENRC industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle.

With an ENRC specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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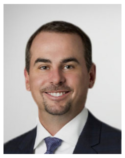

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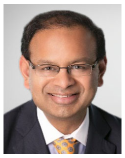

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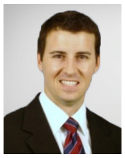

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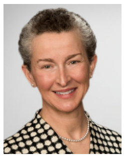

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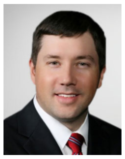

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