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Oil & Gas
Global Capital Confidence Barometer

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A note from Andy Brogan, EY Global Oil & Gas Transaction Leader

Portfolio transformation is driving the M&A market as oil and gas companies adapt to a changing business landscape.

An improving macro environment evidenced by indicators, such as oil price stabilization and continued growth in demand, along with economic discipline by OPEC and non-OPEC members, has raised confidence in oil and gas executives over the past six months, according to the latest edition of the *Capital Confidence Barometer*. Oil and gas executives see little or no downside in their economic outlook, with 97% perceiving global economic growth to be improving or stable, and 60% feeling the same way about the state of the economy within their sector.

However, there are headwinds. Oil and gas respondents cite rising inflation (49%) and market volatility (40%) as the biggest risks to their investment plans, as oil prices rise and oilfield services company look to renegotiate contracts at higher rates. At the same time, executives view political uncertainty and geopolitical tensions as their biggest risks to growth. Policy is becoming harder to predict, and any increases in protectionism could have an impact on the efficient flow of goods and services among companies.

Portfolio transformation becomes a top priority.

Anticipating disruption from these uncertainties, 60% of oil and gas companies are putting portfolio transformation at the top of their boardroom agenda. As they look to optimize their fitness for the future, almost half of executives say that they are reviewing their portfolios every six months or more; 42% say they have increased the frequency of their reviews from three years ago.

Oil and gas companies' proactive approach to portfolio transformation appears to be in sync with activist shareholder expectations, as 35% of executives expect them to focus their influence on divestments over the next 12 months. Meanwhile, 56% of oil and gas companies are looking to divest underperforming assets or assets that are prone to disruption within the next year, as they seek to streamline their operations and increase their agility in responding to a fast-changing business environment.

Movement of assets creates a robust oil and gas M&A market.

On the heels of record-level dealmaking across industries in the first quarter of 2018, 9 out of 10 executives expect the global M&A market to continue improving in the next 12 months; two-thirds expect similar improvements in their sector. Not surprisingly, oil and gas executives report healthy pipelines — something nearly three-quarters of respondents expect will increase in the months ahead — and renewed confidence in deal completions.

Oil and gas companies expect private equity to be key competitors for M&A assets.

Inevitably, increased activity brings with it increases in competition. Ninety percent of oil and gas companies expect increases in competition; 68% expect to continue going head-to-head with private equity, particularly for pre-development upstream assets, or later life mature assets. However, private equity players are also exploring more innovative transaction structures, which should drive upstream M&A in 2018.

Macroeconomic environment and M&A outlook

Broad-based synchronized growth underpins buoyant economic outlook, with dealmaking intentions remaining at near-record levels.

71%
see the global and sector economy as **improving**.

64%
see the M&A market as **improving**.

62%
intend to pursue **acquisitions**.

Growth and portfolio strategy

Executives are looking to transform their portfolios. They will be using divestments to fund existing operations and M&As.

60%
say that portfolio transformation is top of the **boardroom agenda**.

56%
identified an asset **at risk of disruption** or an underperforming asset during their most recent portfolio review.

28%
expect increased **cross-border dealmaking** as companies look across borders for growth and innovation.

External environment

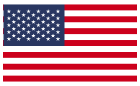
Executives are navigating a wide range of external issues that could affect the growth of their companies.

58%
say **increased infrastructure spending** will have a positive impact on growth.

54%
see **political uncertainty** as the biggest risk to their business.

49%
see **rising inflation** as the dominant risk to their current investment plans.

Top three investment destinations

1 
United States

2 
Brazil

3 
Canada

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