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

Robust appetites for dealmaking in the oil and gas industry

Oil prices had an uptick in Q3 and so did executive confidence, according to the findings of our latest M&A report. In fact, from a macroeconomic perspective, oil and gas leaders see virtually no downside in their economic outlook, with 99% of respondents believing that global economic growth is stable or improving. Notwithstanding the recent pause in the oil price recovery we see continued confidence in market fundamentals, companies' earnings outlooks, availability of credit and equity values.

As confident as they are about their macroeconomic outlook, oil and gas executives are keeping a close eye on geopolitical and trade-related issues that could have a negative impact. Although not as headline-grabbing as global trade tensions, other disruptive forces, such as energy transition and technology, appear to be of equal concern in the near term.

Oil and gas executives step up portfolio reviews to improve resilience and responsiveness

These disruptive forces and the resulting uncertainty are propelling oil and gas executives to increase the frequency of their portfolio reviews; 59% indicate that they review their portfolios at least every six months. Companies are looking to position themselves for a new medium-term supply-demand dynamic and improve their responsiveness to evolving energy technologies. As part of their reviews, 58% of oil and gas companies are stress testing their strategies and financial resilience, helping them to plan for multiple future scenarios.

For more than three-quarters of oil and gas executives, optimizing resilience and responsiveness often includes identifying assets to sell that are either underperforming or at risk of disruption. However, oil and gas companies are also considering divestments of mature assets to strengthen their balance sheets and pay down debt.

Portfolio optimization and increasing interest from private equity keep M&A activity at healthy levels

What constitutes divestments for some, presents acquisition opportunities for others. This may explain why more than 80% of oil and gas executives expect the global M&A market to continue to improve over the next 12 months, up from 64% six months ago. Even more positively, 55% of survey respondents expect to actively pursue deals in the coming year, down slightly from our last survey, but almost 10 percentage points above the global average. In addition to portfolio optimization, we expect growing interest from private equity and the use of creative deal structures to fuel M&A activity.

While there remains a robust appetite for dealmaking, deal completions have been increasingly impacted by the valuation gap, government intervention and policy concerns; 95% of oil and gas executives indicate that they have either failed to complete or canceled a planned acquisition in the last 12 months.

Private equity and cross-sector investment will drive M&A over the next 12 months

As we look ahead, we expect increasing activity from private equity and rising cross-sector M&A driven by technology and digital to be the main themes. At the same time, companies are finding cross-sector companies attractive as they boost their investments in renewables, battery technology and mobility. However, changing regulations and trade uncertainty mean oil and gas companies will mainly be looking closer to home for their deals.

Top five investment destinations



Macroeconomic and external environment

Strong corporate earnings and open-credit markets point to a continued upswing in equity markets.

89%

see the global economy as improving.

82%

see corporate earnings improving.

94%

expect the M&A market to improve.

Buy and integrate

Executives see the M&A cycle continuing at elevated levels, with identification and realization of synergies at the center of M&A value creation.

55%

expect to actively pursue acquisitions in the next year – the lowest in three years.

56%

are starting integration planning earlier.

43%

say they achieved lower synergies than anticipated in their most recent deal.

Major M&A themes

Trade and tariff issues are compelling some executives to pause their M&A plans. A balance is being struck between subdued expectations and increased private equity interest.

44%

cite regulation and policy uncertainty as the biggest potential risks to dealmaking.

20%

say they are refocusing on cross-border M&A.

76%

expect more competition for assets from private equity buyers.

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