

[Major M&A deals in Oil and Gas 2020 so far]

The international market for oil and gas has undergone one of the more unique and challenging periods for decades, as the combination of the Russia-Saudi price war and the Covid crisis plunged the sector into uncharted seas. For a few long months, oil and gas supply had essentially stuttered to a halt as global demand was suppressed through national lockdowns and international travel restrictions.

The resultant price crash and cessation of cash flow created an environment which favoured large mergers and acquisitions – companies with a portfolio of quality assets but low cash-flow were primed to be picked up by larger producers, while the brownfield assets of the international players would be moved on to the independent outfits with strong cash reserves.

Among the more notable M&A in the sector were four sets of acquisitions; ConocoPhillips purchase of Concho Resources for \$9.7 billion; Chevron's smaller \$5 billion acquisition of Noble Energy; Chrysaor's reverse takeover of Premier created the largest independent producer on the London Stock Exchange; and most recently, Pioneer Natural Resource Co.'s \$4.5 billion stock purchase of Parsley Energy incorporated one of the largest producers in the Permian Basin.

### **ConocoPhillips Buys Out Concho Resources**

Conoco's all-stock purchase of Concho<sup>1</sup> will see the companies combine to create one of the strongest production outfits in the Lower 48 with high quality assets in the Midland and Delaware Basin in the Permian, along with assets in Eagle Ford and Bakken elsewhere in the Lower 48. The merger provides Concho shareholders with 1.46 Conoco shares for every share of Concho's sold, at a premium of 15% above market price<sup>2</sup>.

The \$9.7 billion deal represents that largest merger of 2020 thus far<sup>3</sup>, as the IOCs seek to utilise their extensive cash reserves to take advantage of the WTI price sitting at \$40, where they have calculated their 23 million barrels of reserves at an average cost of supply at below a \$30 WTI price. Their production capacity of over 1.5 million barrels of oil equivalent per day makes the new company the one of the largest independent producers in the Permian.

Together ConocoPhillips and Concho Resources will become a company with over \$60 billion in enterprise value, which intends to provide a financial framework that 'delivers 30% of cash from operations via compelling dividends and additional distributions'<sup>4</sup>. The new company expects they will be able to create efficiencies and annual cost savings of over \$500 million by 2022, delivering the necessary CapEx and OpEx cuts that will be welcomed by shareholders seeking the missed dividends of 2020.

Tim Leach, Chairman and CEO of Concho Resources, will join the board of directors and executive management team and take on the dual roles of Executive Vice President and President, Lower 48. By maintaining Leach's guidance in the region, the company believes it will only 'enhance the company's competitive position in the Lower 48.'

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<sup>1</sup> <https://www.conocophillips.com/news-media/story/conocophillips-to-acquire-concho-resources-in-all-stock-transaction/>

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<sup>4</sup> <https://www.fitchratings.com/research/corporate-finance/fitch-affirms-conocophillips-at-a-following-announced-acquisition-of-concho-resources-20-10-2020>

## **Chevron Takes on Noble Energy**

Chevron has flexed their capital muscles by purchasing Noble Energy in a transaction valued at \$5 billion (\$10.58 a share) or \$13 billion including Noble's debt. It adds 90,000 of de-risked acreage of adjacent land in the Permian and DJ Basin, ripe for the expansion of Chevron's onshore unconventional portfolio.

The acquisition will add 18% (2.09 million barrels, year-end 2019) to Chevron's proved reserves at a cost of less than \$5/boe, while an additional 7 billion of risked-resource reserves for \$1.50/boe – including the notable Leviathan gas discovery off the coast of Israel. Chevron, like the other majors, has acted swiftly in developing a diverse portfolio of high-grade assets by acquiring the leading mid-cap operators during the sector downturn.

Chevron CEO, Michael Wirth, believes that over \$300 million in pre-tax annual run-rate synergies will be released once the deal has finalised:

“This is a cost-effective opportunity for Chevron to acquire additional proved reserves and resources. Noble Energy's multi-asset, high-quality portfolio will enhance geographic diversity, increase capital flexibility, and improve our ability to generate strong cash flow. These assets play to Chevron's operational strengths, and the transaction underscores our commitment to capital discipline.”

## **Chrysaor goes all in on the North Sea with reverse-takeover of Premier Oil**

Creditors have approved the proposed all-share merger between Premier Oil and Chrysaor<sup>5</sup>, set to create the largest independent oil and gas company on the London Stock Exchange through a reverse takeover. With a revised, combined production of 250 kboepd and an impressive portfolio of international assets – the new “Combined Group” has positioned itself exceptionally well with this merger. Which in turn, ceased the once anticipated sale of BP assets to Premier.

The merger will see Premier Oil creditors owning up to 18% of the new vehicle, while their shareholders will expect to own around 5.45% of the Combined Group. Chrysaor shareholders will enjoy 77% of the new vehicle, with the majority (39.02%) owned by Harbour Energy (an investment vehicle of EIG Energy Partners).

Leading this new venture as CEO will be Linda Cook (currently Harbour Energy CEO), with Phil Kirk (current CEO of Chrysaor) taking the role of Group President and CEO Europe and with Premier CEO, Tony Durrant, stepping aside. Together they will lead a company with combined H1 2020 EBITDA of £980 million, with competitive operating costs at \$10.5/boe over the same period.

The move further consolidates the “Combined Group's” position as the premier O&G operator in the North Sea, with global assets in Indonesia, Vietnam, Mexico and the Falklands. Moreover, the complementary businesses have a scale and level of diversification that places the company in a favourable position to develop their impressive portfolio of both material and non-operated assets. Together the company will control over 250 kboepd and around 717 mboe in reserves.

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<sup>5</sup> <https://www.premier-oil.com/premieroil/media/press/proposed-merger-of-premier-and-chrysaor-holdings-limited-chrysaor-and-the-reorganisation-of-premiers-existing-finance-arrangements>

Roy Franklin, Chairman of Premier, commented, “The Board intends to recommend unanimously this transaction to shareholders as being in the best interests of shareholders and the company. This will mark a new and exciting chapter in Premier’s history.”

In doing so, Premier’s financial position will be transformed with ‘approximately £2 billion of total gross debt and certain hedging liabilities repaid and cancelled’ on completion of the transaction. In addition, the new group will provide £950 million cash payment to Premier’s financial creditors and their subsidiaries.

The new structure allows for increased resilience in the face of a more competitive, lower commodity price environment and creates ‘substantial cost and tax synergies’ by utilising the £3.15 billion of Premier’s UK tax losses to ‘unlock significant value for shareholders’.

### **Pioneer Natural Resources takes control of Parsley Energy**

A deal between two companies led by father on one side and son on the other, will initiate one of the largest M&A deals in the industry this year. Scott Sheffield, Chief Executive Officer of Pioneer Natural Resources, engaged his company to prepare a \$4.5 billion all-stock deal<sup>6</sup> that to merge with Parsley Energy, the company his son Bryan Sheffield is Founder and Chairman of. The deal will include a further \$3.1 billion of Parsley’s debt.

The deal provides Parsley shareholders with a 7.9% premium on their shares and once complete will form a company with almost \$10 billion in combined revenue and producing around 550,000 barrels of oil equivalent per day.

According to Scott, the core driver of the deal is to increase the ability to build “a high quality, peer-leading portfolio of assets with tangible and durable value for shareholders”, rather than expand drilling operations or to achieve economies of scale – albeit these are welcome consequences of the merger.

“This combination is expected to drive annual synergies of \$325 million and to be accretive to cash flow per share, free cash flow per share, earnings per share and corporate returns beginning in the first year, creating an even more compelling investment proposition.”

The unusual family circumstances will be sure to generate increased scrutiny from regulators and creditors, however the family’s generational experience in the Texan oil industry is well-known and there are no accusations of impropriety. Both Scott and Bryan Sheffield removed themselves from negotiations. Pioneer Natural Resources was born from the merger between Parker & Parsley and MESA Inc. in 1997, where Scott’s father-in-law, Joe Parsley was co-founder. Parsley Energy is named after Bryan’s maternal grandfather who passed away in 2015.

The deal arose as the need for consolidation grew out of the dual crises of the Russia-Saudi oil price war followed by the Covid collapse in demand. As the sector witnesses 40 companies file for bankruptcy, the most since the oil-price crash of 2015/16, Pioneer has sought to maximise their position creating a combined area 930,000 acres in the Permian Basin that includes 820,000 acres in the unconventional Midland Basin.

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<sup>6</sup> <https://investors.pxd.com/news-releases/news-release-details/pioneer-natural-resources-announces-agreement-acquire-parsley>

With a size and capacity unmatched by any other, the new and improved Pioneer Natural Resources will become one of the largest independent producer in the Permian Basin, and entrench their position as an industry leader in E&P operations.