

ENERGY

THIRD QUARTER

2014

Energy M&A

M&A activity in the Energy sector for North American based target companies in Q2 2014 included 143 closed deals according to data provided by *S&P Capital IQ*. According to a report from *Mergermarket*, an industry research group, the average deal value was up more than 60% compared to Q1 driven primarily by energy producing targets. Other strong sectors for energy M&A included oil and gas field services companies and exploration companies. Strategic buyers were particularly active in the space looking to gain market share and new technology by purchasing high growth companies.

Private equity buyers were also active, particularly in the upstream segment:

- Morgan Stanley acquired the final 11.86% stake in YPF SA, a vertically integrated Argentine energy company, engaged in the exploration and production of oil and gas, and the transportation, refining and marketing of gas and petroleum products, for \$1.4 billion including debt.
- Various investment firms were involved in the combined \$3 billion acquisition of a 9.5% stake in Australia's Woodside Petroleum, an Australian petroleum exploration and production company, from Royal Dutch Shell.

The willingness of private investment firms to buy interests in global E&P assets exhibits confidence in the sector's outlook. According to a report from international consulting firm *KPMG*, deal activity in the energy sector is expected to continue to be active into 2015 as energy companies look to take advantage of rising valuations.

Renewable energy - wind, solar and hydro power - is expected to be a major driver of deal activity in the months to come as governments look to legislate a greener future. Mercom Capital Group, a global clean energy communications and consulting firm, reported that global renewable energy venture capital funding, including private equity and corporate venture capital, in Q2 2014 totaled \$432 million in 21 deals, up from \$251 million in 26 deals in Q1 2014. US solar-generated electricity consumption is forecast to grow at an annual compounded rate of 9 percent between 2014 and 2018, which should drive continued M&A activity in the space.

Factors that could adversely affect deal activity in 2014 include the regulatory environment, valuation disparities between buyers and sellers as well as volatile energy prices. Additionally, regional logistics bottlenecks resulting from surging domestic oil and gas production and insufficient infrastructure to move product to market are causing significant price spreads. Recently, Midland crude was selling at \$74 a barrel, a \$21 discount to the Cushing, OK benchmark price. Shortages of water and sand are also impacting various regions and could impact activity on a regional basis. While regional issues could depress activity for some companies they present opportunities for companies that can provide solutions to these issues and will buoy valuations of these companies.



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Selected Q2 Transactions

Target/Issuer	Buyers/Investors
SemCrude Pipeline, L.L.C.	Rose Rock Midstream Operating, LLC
Fluid Delivery Solutions, LLC	Trilantic Capital Management LLC
TexStar Midstream Services, LP	Southcross Energy LLC
ProActive Services, LLC	Turning Basin Capital Partners
Peak Pressure Control	Nine Energy Service, Inc.
Lubrication Technologies, Inc.	Mansfield Energy Corp.
Pressure Pumping Operations	Patterson-UTI Energy Inc. (Nasdaq:SPEN)
Maverick Drilling, LLC	Balius Energy Inc.

Transactional Overview

Notable announced or closed transactions in the energy space include:

- **June 2014** - Platinum Partners Value Arbitrage Fund, L.P., fund of Platinum Management (NY) LLC acquisition of Gridway Energy Holdings, Inc. from Glacial Energy Holdings for \$32.8 million in cash. Gridway supplies natural gas to commercial, industrial, and residential customers. The company is based in Sandwich, Massachusetts.
- **June 2014** - New Source Energy Partners L.P. (NYSE:NSLP) agreed to acquire Erick Flowback Services, LLC and Rod's Production Services, LLC from Brian N. Austin and J. Mark Snodgrass for \$81.2 million. Erick Flowback Services, LLC provides equipment and services to oil and gas industry. Rod's Production Services, LLC provides well-test services for the oil and gas industry.
- **May 2014** - Enable Midstream Partners, LP (NYSE:ENBL) acquired a 24.95% stake in Southeast Header Supply, LLC from CenterPoint Energy Gas Transmission Company, LLC for approximately \$160 million. Southeast Supply Header LLC operates as a gas transmission and distribution company.

Industry Happenings

While current government estimates call for U.S. crude oil production to peak at around 9.5 million BOPD, Pioneer Natural Resources CEO, Scott Sheffield, recently stated that the peak may actually be closer to 14 million BOPD as developing technologies increase recoveries from existing fields while making new formations now economically viable. As domestic production grows, all eyes are now closely watching the U.S. Commerce Department's processing of export permits for condensate. Following the first export of condensate since the 1970's in late July, the list of companies that are applying for these export permits is growing.

Industry Indicators

	July 2014	Dec 2013	Dec 2012	Dec 2011	Dec 2010
World Rig Count	3,608	3,478	3,390	3,612	3,227
U.S. Rig Count	1,876	1,771	1,784	2,003	1,711
Cushing WTI Oil Spot Price	98.23	98.17	91.83	98.83	91.38
Henry Hub Gas Spot Price	3.78	4.31	3.43	2.98	4.22
Utility Scale Solar Cost c/kWh*		11.2	14.0	19.8	21.4

* Data courtesy of National Renewable Energy Lab

Collectively, the Energy Practice Group provides M&A advice to independent and integrated energy companies in all sectors of the energy industry, including power generation, oil & gas, utilities, mining and natural resources, renewable energy and businesses that serve the energy industry, in all aspects of oil and gas land-based transactions, mergers, acquisitions, joint ventures and financial resources.

