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## Value Creation: through Mergers & Acquisitions



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# Why Do We Use M&A in Oil and Gas?

- Positive Justifications:
  - Enhance skills mix for the asset, e.g. Gas Explorer links with LNG developer
  - Help (co-)finance a development, typically close to F.I.D.
  - Leverage existing skills into similar under developed assets
  - Re-deploy capital from mature non-core assets to core growth targets
  - Rationalize portfolio post corporate merger
- “Other” justifications:
  - “Fill a gap in my production forecast”
  - Reserves Replacement, “DD&A” impact on balance sheet
  - Seek better returns on cash pile than on offer from banks
  - Step change to my portfolio, & every one else is doing it too!

# Sell Side

- Good Practice:
  - Clearly defined legal entity, with long(-ish) contract life
  - Obvious source of revenues to repay investment
  - Focussed asset mix, ideally in single or similar tax regime
  - Stick to your deadlines, (including Ministry of Energy!)
  - Flexible negotiations, especially if market conditions are uncertain
  
- Potential Pitfalls:
  - Incomplete data sets, contradictory information in Info-Memo/Mgmt. Briefings/PDR/VDR
  - Mixing very mature assets with new field start-up:
    - Upstream with Downstream
    - Infrastructure with trading
  - Muddled decision making process/approvals
  - Unclear definition of the final deal

# Buy Side

- Good Practice:
  - 80-20 rules. What makes lots of \$\$ difference?
  - Key skills, small integrated technical teams
    - Used to delivering 3-6 week answers
  - Alignment with financial/legal/environmental
  - Defined approval process, including funds release
- Pitfalls:
  - Trying to look at 100+ deals in detail...
  - Focus on Reserves rather than Value
  - Fascination with technical detail, especially on lowest quintile value
  - Inability to “walk away” after investing time, passion on Due Diligence

# Relative Importance to Buy-Side Success

(adapted from BCG material circa 1995 – still valid)

## Sequence of activity

## Relative importance



- Achievable Strategic Plan
- Lowest cost of capital
- Superior Due Diligence
- Brilliant Negotiations Team
- Execution Team, capture value



Giant  
new  
find



Commodity  
price swing

# Some Case Histories & Opportunities

Public Domain only, constrained by Non-Disclosure Agreements

# Mature Field Optimisation – North Sea entry

- New entrant into N. Sea in 2003
- “Reconditioner” skill set
  - Focus on fixed platforms/pipeline
    - No rental OPEX for FPSO
  - Target mature giant field @10% peak oil
    - Scope for major increase in remaining recoverable oil
  - D.D. effort on subsurface, commercial risks
  - Key challenge, platform integrity issues
    - Delayed upside capture 12+ months
  - Solution = platform upgrades, tie-in of new low water cut, higher GOR (fuel) fields
    - 90%+ production uptime on one of the oldest fields
    - ~43,000 BOPD Forties/Bacchus/Tonto in 2016
- Repeat the strategy; this time with more subsea tie-backs on another giant complex - Beryl
  - Callater higher GOR field
  - Storr discovery in Oct/Nov. 2016

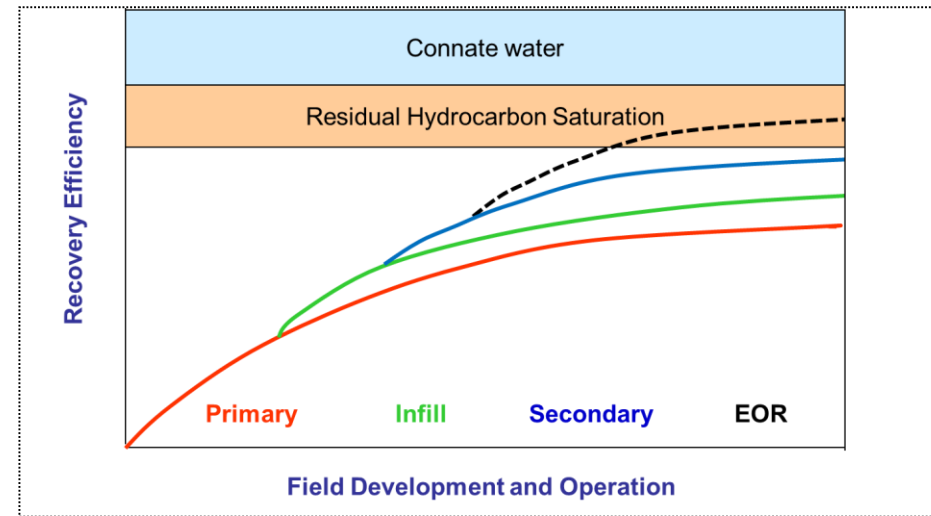
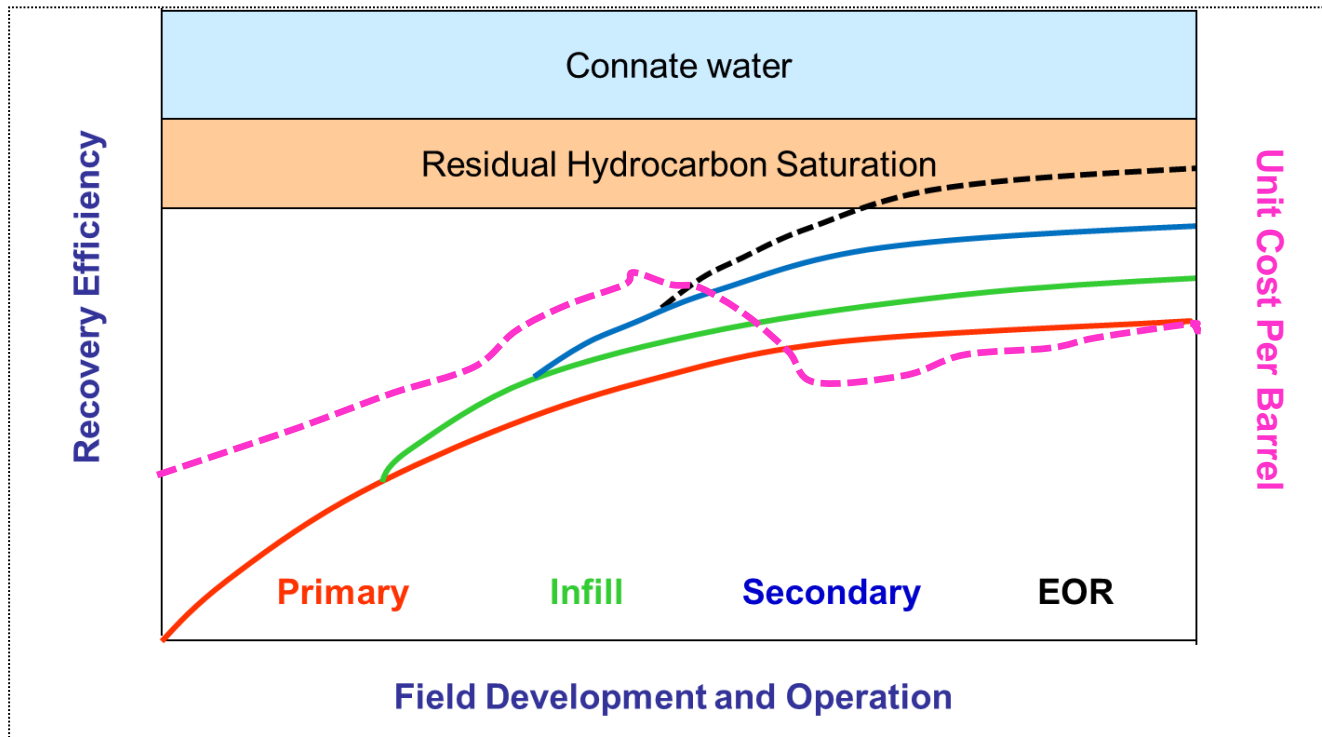


Image Source, Apache Corporation

# Mature Field Optimisation Objective

To Achieve Reservoir Technical + Economic Limit with sustained long term cost optimisation:

- Short term contractor Opex discounts will not achieve sustained 20 + year unit cost reductions if we do more of the same





# Corporate Mergers

Outright acquisition is not always the best solution

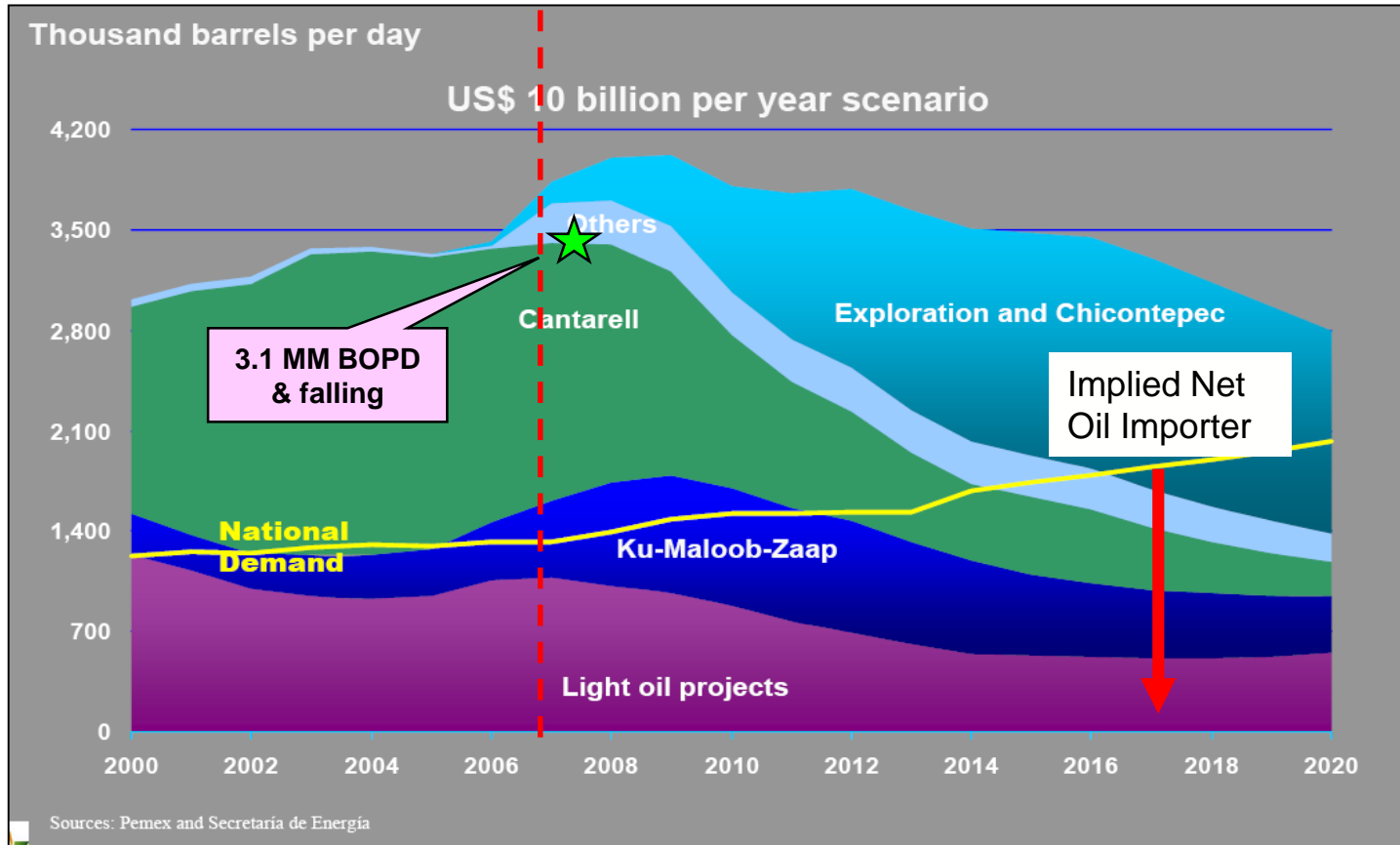
Alternative:

- Combine portfolios,
- along with revenues, investment requirements
- and staff,
- into a new merged entity



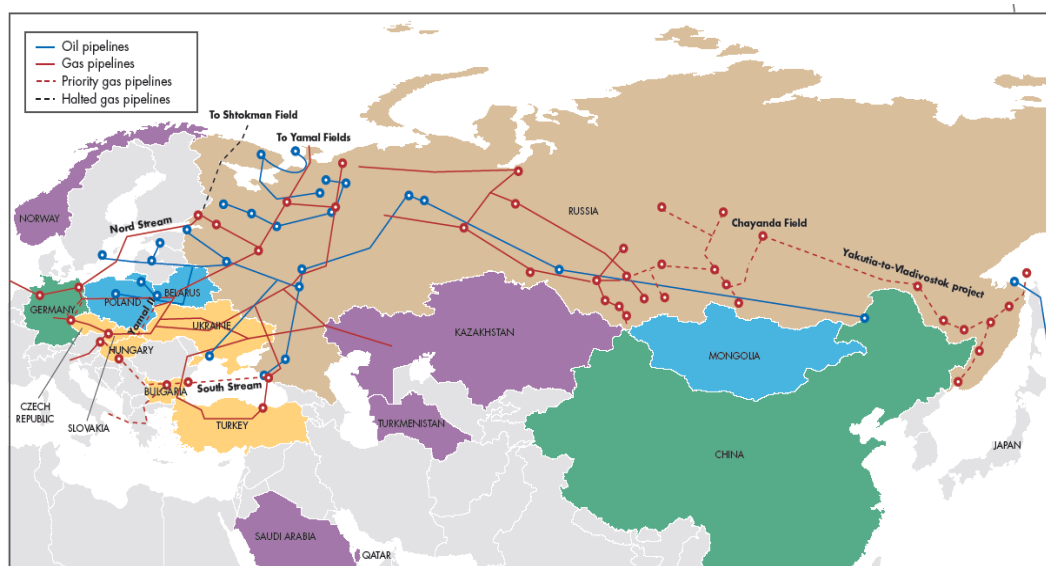
# NOC offerings - spectre of Mexico becoming a Net Importer was apparent in 2007!

"Apertura" is now underway, many other NOC's will follow



# Russian M&A – Active Multi-Billion \$ Market

## Buyers Largely from Asia, as Oil/Gas Flows East



SOURCES: RIA NOVOSTI, AEI

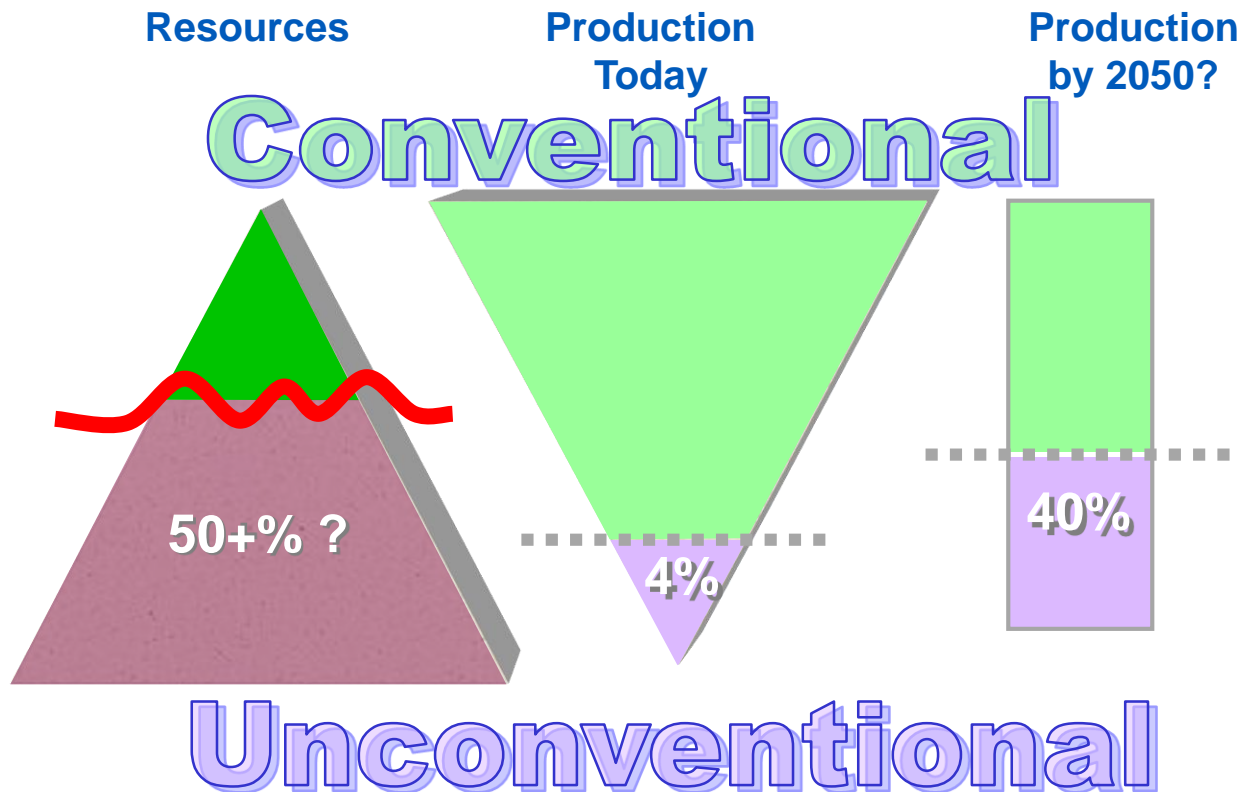
AEI

Source: Leon Aron 2013 American Enterprise Institute

- Long term switch in oil/gas demand from Europe to Asia
- ESPO expanding and Power of Siberia gas pipeline under construction
- Asset trades for Achimov, Yuzhno-Russkoye in exchange for N. Sea assets, & pipelines
- Yamal LNG market likely to be Asia, global warming opening up Arctic seaway for longer periods
- Radical changes in costs due to Rouble Devaluation

# Future M&A Business will be different

## Maturity of Conventional >> Unconventional



# Unconventional Plays – M&A Options

- USA, Canada
  - Oil Sands bought by Canadians at XX cents on the dollar
  - Carbon Dioxide & Steam Floods not actively trading @\$50 oil
  - Texas, Oklahoma, tight oil trading \$100's Billions/year
  - Marcellus, Utica shale gas active, but \$ value declined
  - Smart money on Canada tight gas & oil?
- Argentina
  - Vaca Muerta etc. very active market
  - YPF has 10+ more tight gas/oil options available as JVs
- Russia
  - Despite sanctions, 2 deals for Domanik tight oil, more to come
- Rest of the World
  - Colombia, Australia, Gulf States, Pakistan, Indonesia, Algeria, South Africa?