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Oil and Gas M&A Outlook 2023: Pivoting for change

A report by Deloitte Research Center for Energy & Industrials

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Executive summary

Geopolitical events and economic uncertainty contributed to volatile energy prices across the globe in 2022. Despite record energy prices and low valuations, M&A activity in the oil and gas (O&G) sector fell to its lowest level since 2008.¹

This contradiction is explained in part by the end of the long-standing correlation between M&A activity and oil prices as O&G companies remain committed to capital discipline. Instead, free cash flows have been directed toward paying dividends and buybacks. The old drivers of M&A activity, such as investing and acquiring for growth and increasing market share, seem to have been replaced by new drivers.

New strategic drivers of M&A:

- **Energy security** emerged this year as a major driver for M&A activity, with companies increasing their focus on securing supply chains from production to shipping and transport.²
- **Operational excellence** has become imperative in an environment where capital discipline determines success. As a result, M&A is often driven by increased consolidation to promote operational efficiencies and improvements in automation, digitalization, and productivity.
- **The energy transition** continues to be one of the driving factors (as mentioned in previous O&G M&A Outlooks), with 15% of total O&G M&A deal value taking place in the clean energy* space in 2022.³
- Companies continue to develop **new partnerships** with lower-carbon entities. While joint ventures are not directly related to M&A activity, partnerships can lead to deals down the line.
- Finally, **ESG considerations** also continue to influence a company's corporate strategy, with 70% of M&A activity involving companies buying companies with higher ESG ratings in 2022.⁴

Over the last two years, the O&G industry has moved from engaging in M&A to build resilience amid COVID-related uncertainty to building a new core—whether that be low-carbon O&G development or expansion into cleaner energy solutions. In the coming year, these drivers are expected to continue impacting M&A decisions—although the total volume of activity will continue to depend in part on external factors such as the economy, interest rates, geopolitics, and new policies and regulations. But strong and efficient O&G companies have an opportunity to develop strategies to change the game in 2023 and beyond.

Amy Chronis

Vice Chair - US Energy & Chemicals Leader
Deloitte LLP

*Clean energy includes low-carbon energy sources such as wind, solar, biofuels, hydrogen, battery, advanced mobility, carbon capture, ammonia, etc.

Note: Refer to the appendix for detailed sources.

Key Highlights

3%

of market cap

From a peak of 10% in 2014, yearly O&G M&A now constitutes only 3% of the industry's market capitalization.⁵

7%

debt-funded

Only 7% of O&G deals are funded by debt, suggesting a reluctance to undertake debt thereby minimizing the impact of interest rate hikes.⁶

Oil price & M&A decoupled

O&G M&A is decoupling from oil prices, implying that the M&A playbook is changing.⁷

35%

drop

Hydrocarbon M&A fell by 35% in 2022, across all major sectors and regions.⁸

15%

clean energy

Clean energy M&A by O&G reached a record high of \$32B in 2022, constituting 15% of the total deal value by O&G firms.⁹

82%

natural gas

82% of upstream and midstream deals were for natural-gas-based assets in 2022.¹⁰

28%

Permian-focused

With a 28% M&A share, the Permian continues to dominate shale plays. Marcellus is emerging as the new hot spot.¹¹

\$50B

supply chain

Since 2021, more than \$50B worth of supply chain assets, primarily LNG, exchanged hands.¹²

1/3

low-carbon JV

Around 1/3 of JVs by O&G companies are now in the clean energy space, with the highest number in hydrogen.¹³

70%

improved ESG

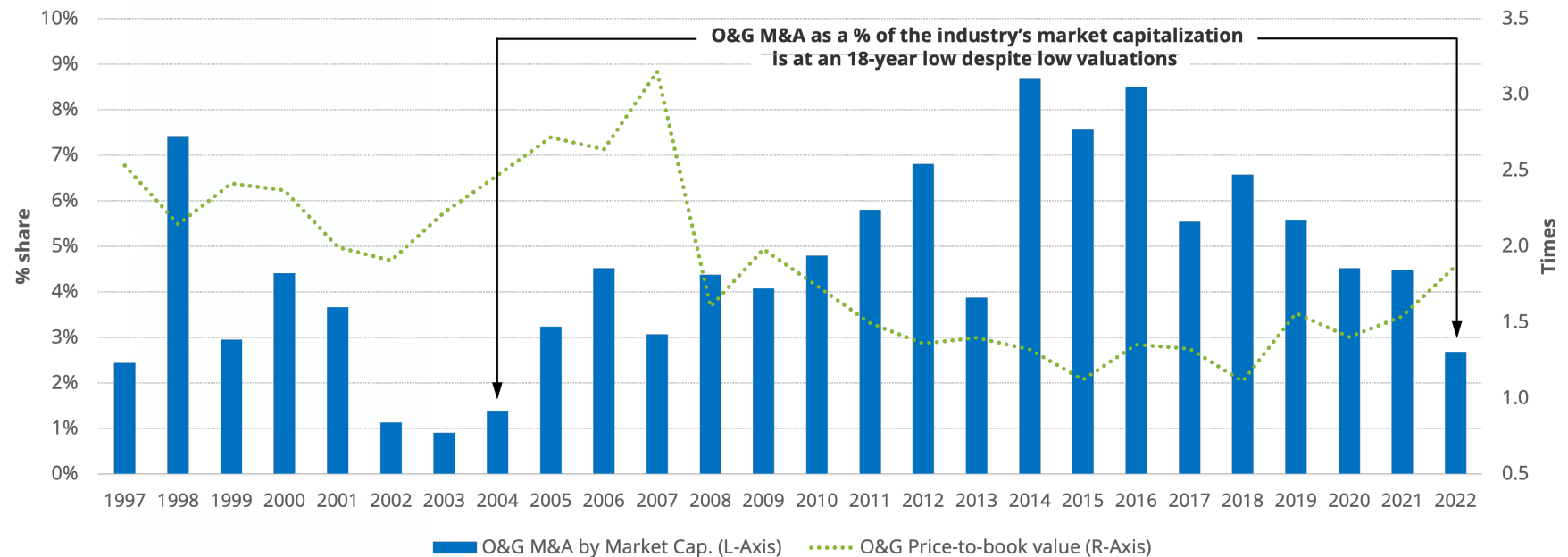
70% of hydrocarbon deals had a buyer buying an asset/seller that had a relatively better ESG score.¹⁴

1 Pivoting out of traditional M&A

From a peak of 10%, now less than 3% of the industry's market capitalization gets exchanged...

O&G M&A as a proportion of the industry's size is at an 18-year low, harking back to the pre-shale era

O&G M&A (value), O&G market capitalization, and P/B value (1997–2022)



Sources: Deloitte analysis based on data accessed from S&P Capital IQ and Enverus.

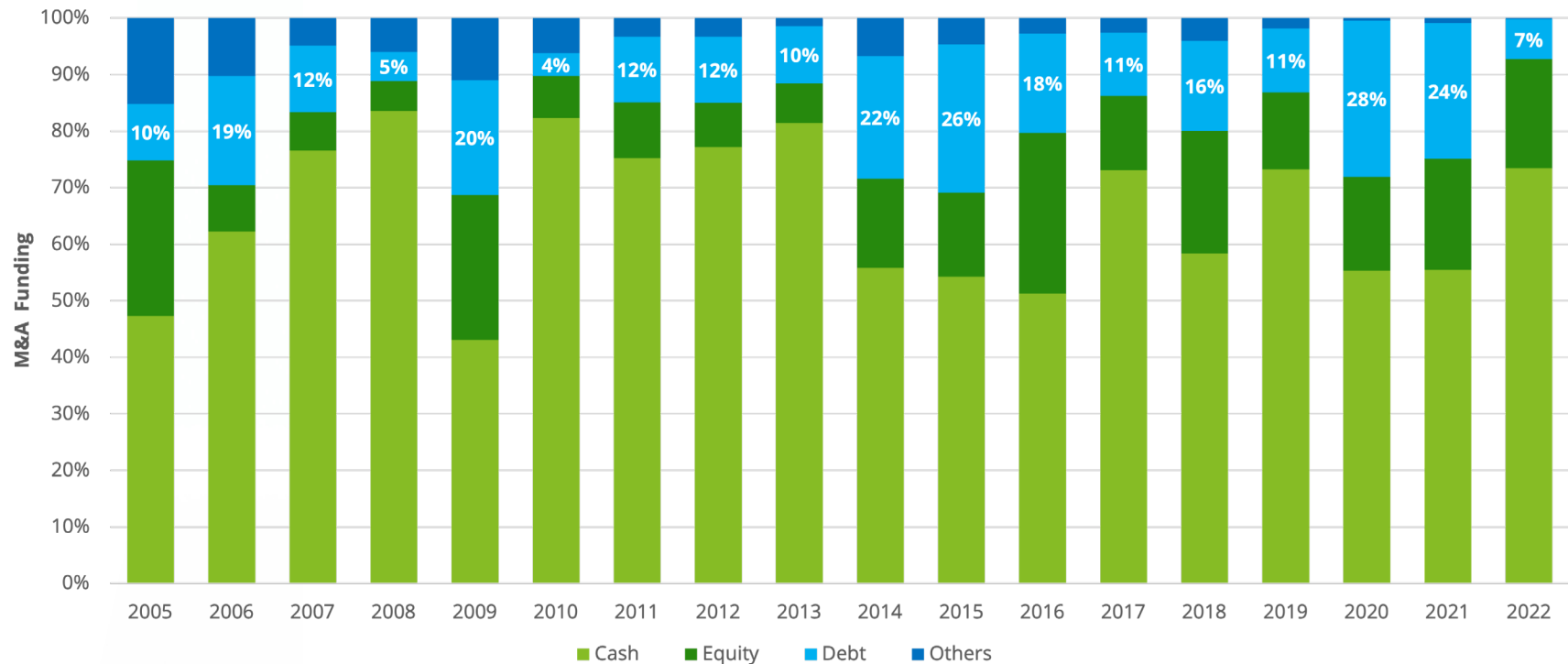
- **Global O&G is a \$6.5 trillion industry** by market capitalization, reflecting growth by about 50% since 2014.¹⁵
- At its peak, 10% of the industry's market capitalization used to get exchanged (M&A).¹⁶
- But today, yearly **O&G M&A constitutes only 2.7% of the industry's market capitalization**, despite low valuations (P/B of 1.8 times).¹⁷
- Today's O&G M&A activity as a percentage of the industry's size is comparable to the pre-shale era, or when the bull run in capital markets started.
- Energy transition, macroeconomic and regulatory uncertainty, geopolitical tensions, and increased volatility in energy prices have **slowed down O&G M&A** over the past few years.

Note: Refer to the appendix for detailed sources.

...even though the industry's reliance on debt to fund its deals was less than 10% in 2022

Availability of capital at an affordable cost is not likely the reason behind the lull in O&G M&A activity

How are O&G M&A deals funded?



Source: Deloitte analysis based on data accessed from Enverus.

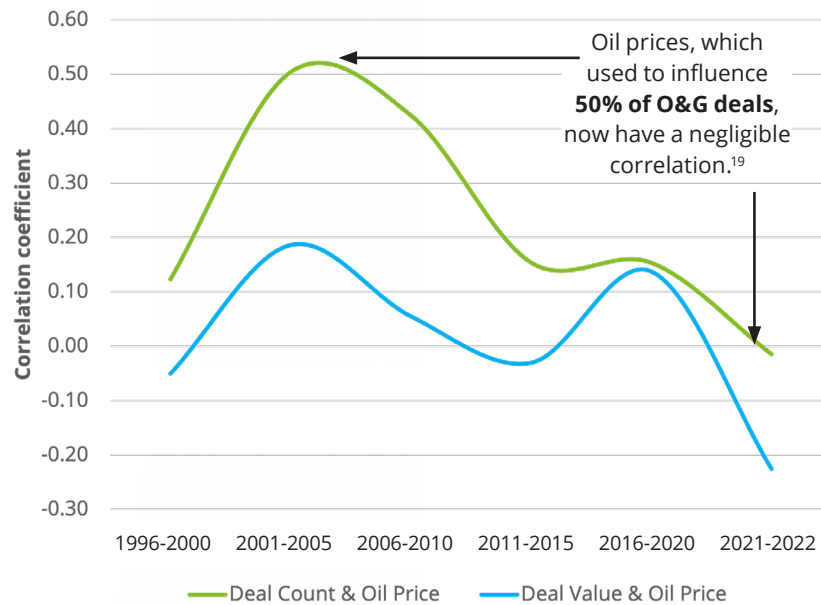
- Buyers of O&G assets typically pay about **75%–85% of deal value in cash** and/or through equity exchange.¹⁸
- Thus, their reliance on external debt for funding M&A is low. Only about **7% of O&G deals by value were funded through debt** in 2022.¹⁸
- Healthy balance sheets coupled with low levels of debt-heavy deals are expected to **reduce the impact** of the ongoing interest rate hikes on deal-making in 2023.

Note: Refer to the appendix for detailed sources.

The reason: Falling influence of oil prices and growing focus on shareholder returns

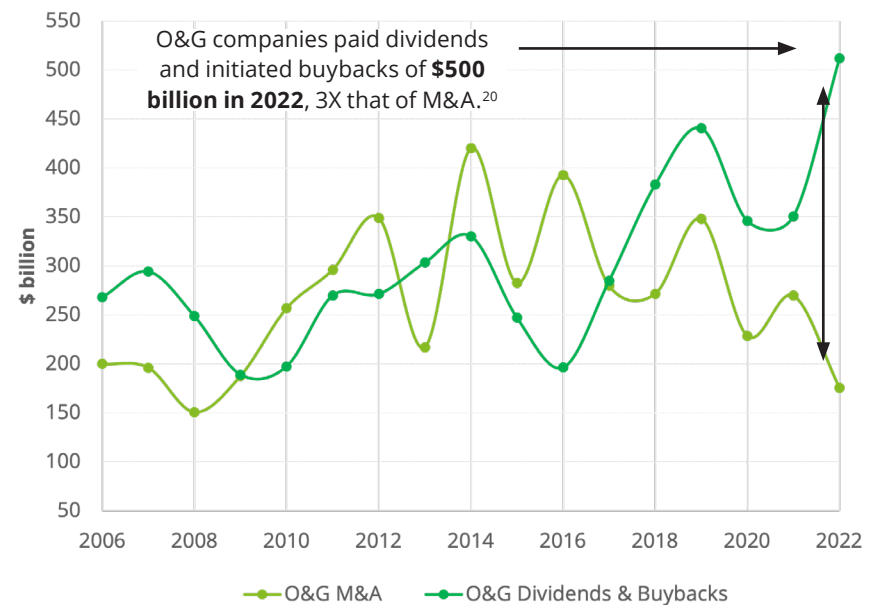
Oil price is no longer a deal enabler amid ongoing capital discipline and shareholder-focused strategy of O&G companies

Oil prices now have an insignificant correlation with O&G M&A activity



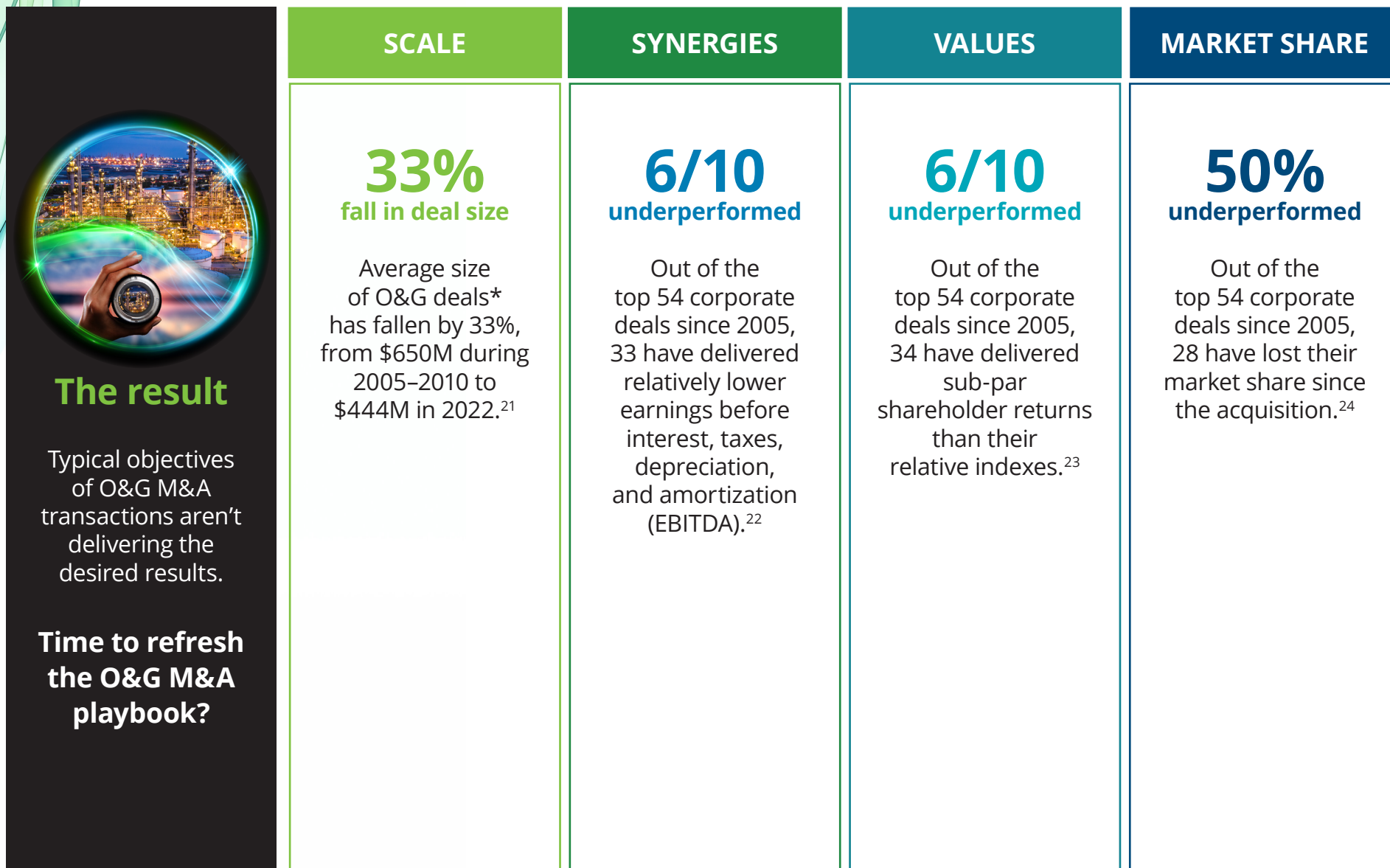
Sources: Deloitte analysis based on data accessed from Enverus and US Energy Information Administration.

The industry's cash priority has changed from investing for growth to returning excess cash to shareholders



Sources: Deloitte analysis based on data accessed from S&P Capital IQ and Enverus.

Note: Refer to the appendix for detailed sources.



*Adjusted for CPI inflation

Note: Top 54 deals during 2005–2020.

Sources: Deloitte analysis based on data from Enverus and S&P Capital IQ.

Note: Refer to the appendix for detailed sources.

SPOTLIGHT
1

Investment trend of PE/VC firms in the O&G industry

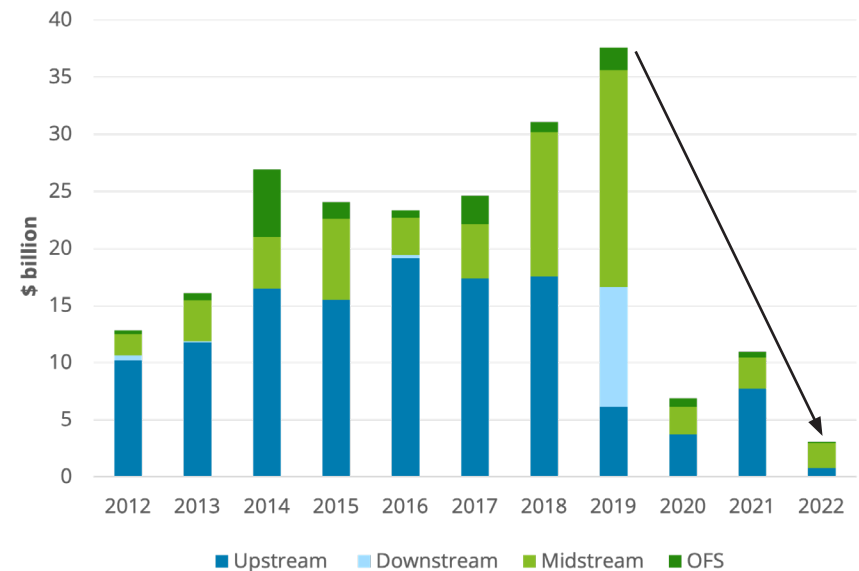
Starting in 2021, PE/VC firms have divested (net) \$44 billion worth of O&G assets, with a steep fall in new equity issuance and debt placement²⁵

Acquisitions and divestments by PE/VC firms



Source: Deloitte analysis based on data accessed from Enverus.

Equity raising and private debt placement by PE/VC firms



Source: Deloitte analysis based on data accessed from Enverus.

Many PE/VC firms have **significantly reduced their positions in the O&G industry** in part due to rising costs of capital and investor preference for low-carbon assets, coupled with competition for returns from other industries.

Note: Refer to the appendix for detailed sources.



2 Five new strategic pivots

Five new drivers of strategic M&A for the O&G industry

Energy security*

Secure value chains and trade

About **50%** of global oil and **30%** of natural gas production gets traded, with trade relationships between countries changing fast.²⁶

Energy transition*

Scale and commercialize low-carbon businesses

Low-carbon capex share of global upstream could reach up to **30% by 2030**, from the current 5%.²⁸

Governance and compliance*

Secure a license to survive and thrive

According to OECD analysis, around **27%–51%** of climate-related information disclosed by major O&G companies is incomplete or in an improper format, making M&A screening difficult.³⁰

Operational excellence*

Drive productivity and cost efficiency

With **IT spend of \$93B** in 2021, O&G firms are increasingly automating, decarbonizing, and integrating acquired operations.²⁷

Partnerships and strategic alliances*

Build new capabilities and skill sets

Since 2020, O&G companies have formed more than **750 JVs** with a growing number in the clean energy space, laying a strong foundation for M&A in the future.²⁹

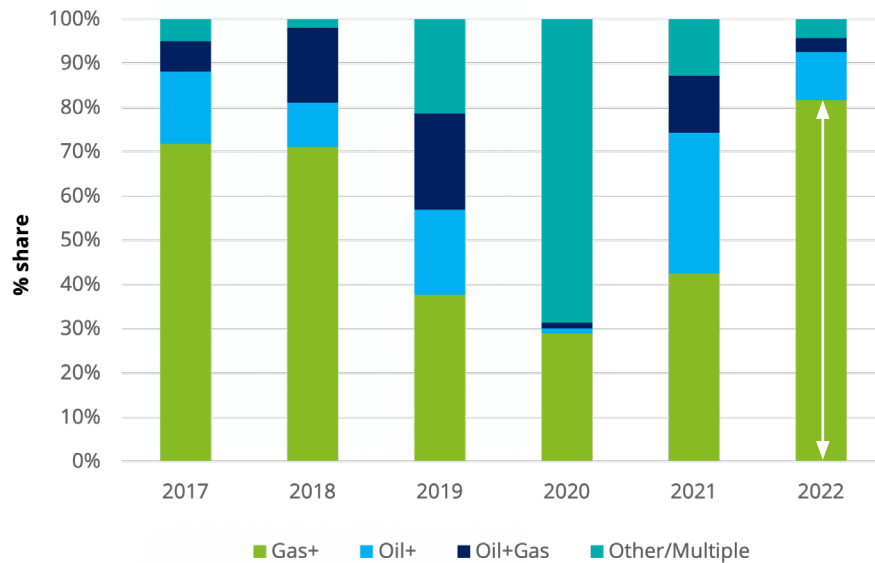
*Powered by an enabling policy and regulatory environment

Note: Refer to the appendix for detailed sources.

Driver 1: 82% of deals are for natural gas infrastructure, with growing intent to secure the supply chain

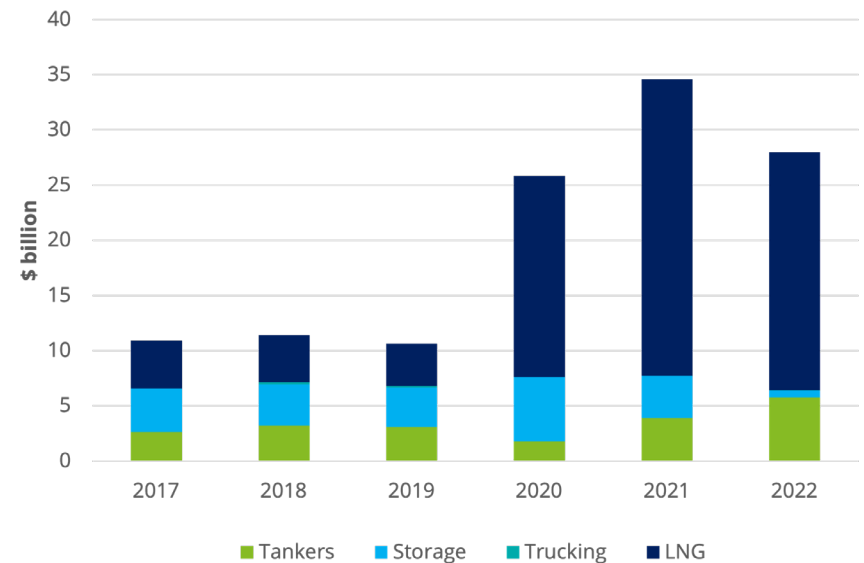
Rising energy security concerns are leading to acquisitions of natural gas and LNG assets

M&A activity by fuels (global midstream)



Source: Deloitte analysis based on data accessed from Enverus.

M&A activity by supply chain (excluding pipelines)



Source: Deloitte analysis based on data accessed from Enverus.

82% of global midstream deals were for **natural gas-based assets** in 2022, in sync with the growing energy security concerns related to fuel. Additionally, the buying for integrated assets and/or multiple fuels has narrowed and shifted toward specific assets/fuels.³¹

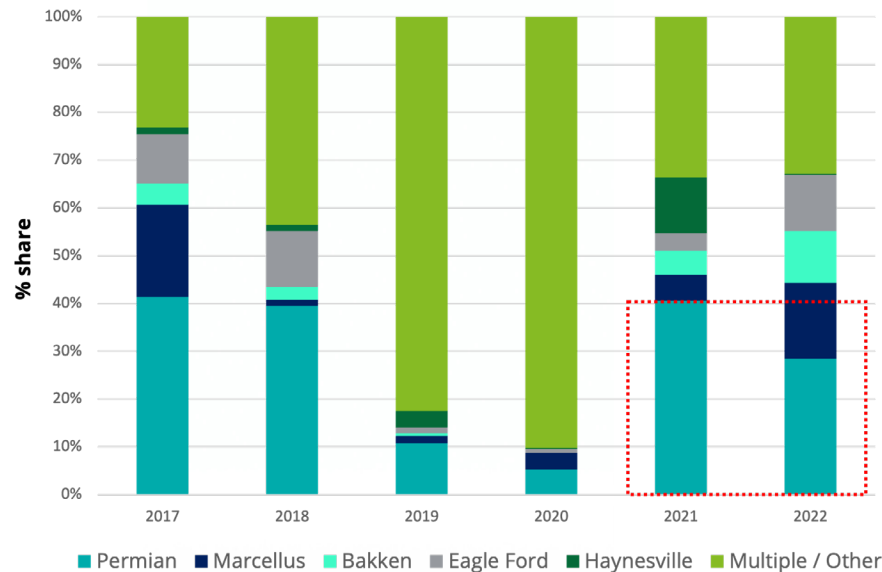
Over the past two to three years, buyers have been showing a higher interest for LNG assets (liquefaction, regasification, and tankers) to monetize rising exports from the US, higher prices in Europe and Asia, and control the supply chain. Additionally, buyers are acquiring natural gas processing and takeaway capacity out of the Permian and Haynesville in order to export volumes from the Gulf of Mexico.³²

Note: Refer to the appendix for detailed sources.

Driver 2: The Permian accounted for 28% of shale M&A activity as players aimed to improve operational efficiencies

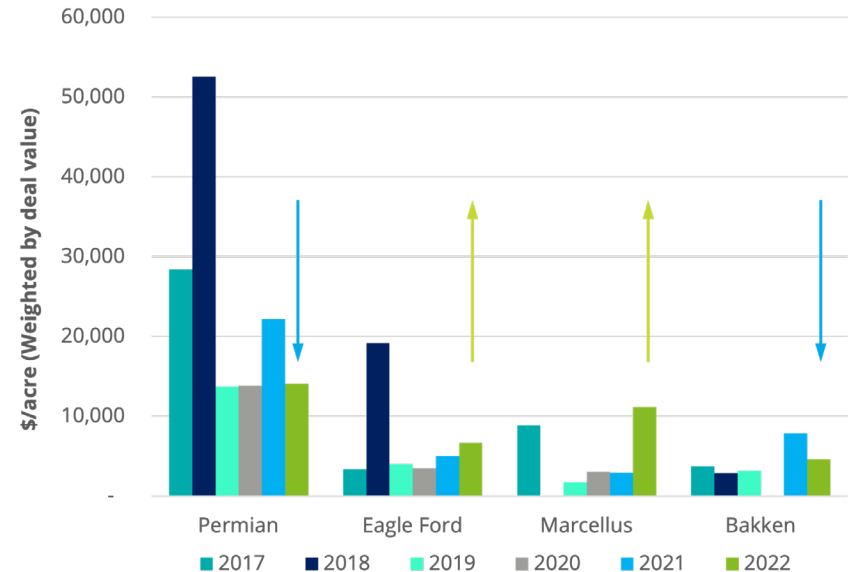
Companies continued to exhibit capital discipline by consolidating acreage and strategically expanding

Upstream M&A deal value by US shale basins (%)



Source: Deloitte analysis based on data accessed from Enverus.

M&A \$/acre cost by shale basin (weighted by deal value)



Source: Deloitte analysis based on data accessed from Enverus.

US shale dominates upstream M&A, with the Permian still accounting for the largest share, but **M&A activity increased** in the Marcellus, Eagle Ford, and Bakken basins.³³

Despite the price per BOE rising to its highest level since 2014 owing to high oil prices (averaging over \$90/bbl³⁴), **Permian shale valuations fell in 2022** on a \$/acre basis, as premium acreage was consolidated in prior years. In contrast, several large deals occurred in premium acreage in the Marcellus and Eagle Ford, which pushed \$/acre prices up in those basins.³⁵

Capital discipline likely applies to both capex (with investor focus on free cash flow and low-to-moderate capex programs) and M&A activity. As a result, many 2022 deals concentrated on improving operational efficiencies. Chesapeake's CEO noted that its acquisition of Chief Oil & Gas in the Marcellus lengthened its premium inventory, provided operational efficiencies, and improved its GHG emission metrics (among other benefits).³⁶ The merger of Centennial and Colgate also noted the intention of increasing shareholder return while improving rig productivity.³⁷

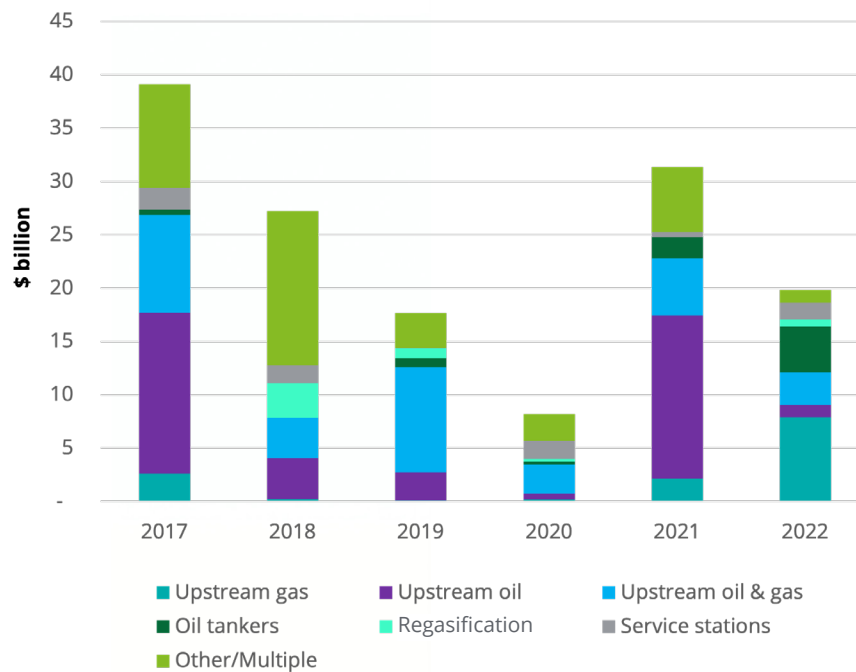
Note: Refer to the appendix for detailed sources.

SPOTLIGHT 2

European O&G M&A activity

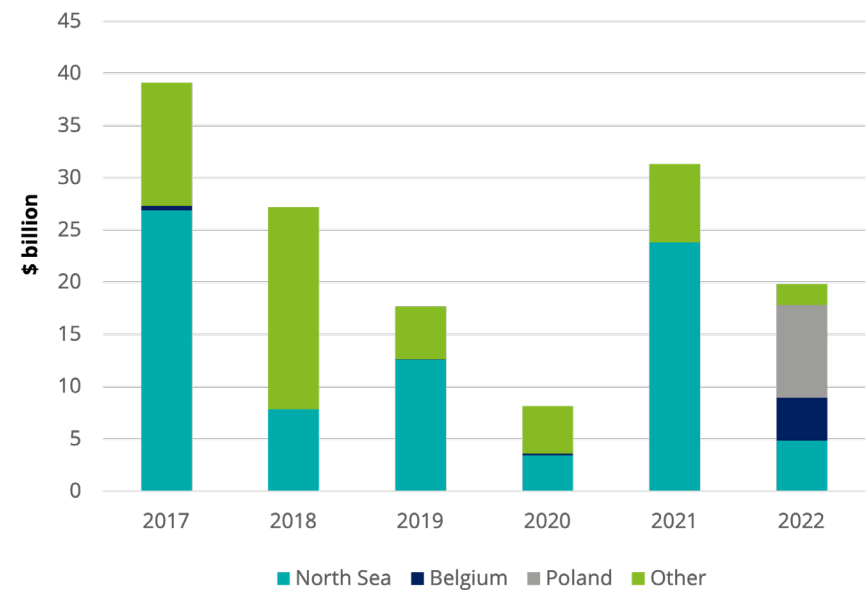
Upstream oil deals only accounted for 6% of all M&A in Europe, the lowest percentage since 2015, as companies prioritized securing existing positions and buying into cleaner energy³⁸

European M&A deals by type of asset



Source: Deloitte analysis based on data accessed from Enverus.

North Sea M&A falls in 2022



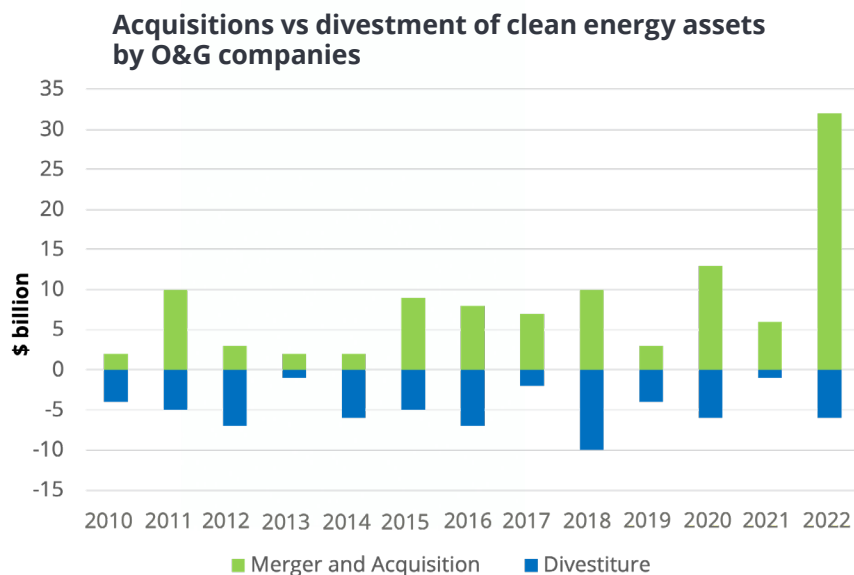
Source: Deloitte analysis based on data accessed from Enverus.

European deals move toward **cleaner fuels** with divestments in the North Sea, a refiner acquiring significant natural gas assets, and supply chains being secured through regasification and oil tanker acquisitions.

Note: Refer to the appendix for detailed sources.

Driver 3: Accelerating energy transition drove \$32 billion of clean energy M&A by O&G companies in 2022

Biofuels along with combined solar and wind assets account for nearly 80% of clean energy deals by O&G companies in 2022³⁹



Source: Deloitte analysis based on data accessed from S&P Capital IQ.



Note: Solar+ includes solar energy alongside other clean energy sources (except wind); Wind+ includes wind energy alongside other clean energy sources (except solar); Hydrogen+ includes hydrogen alongside other clean energy sources (except solar, wind, and ammonia); Others include hydropower, geothermal, and battery storage.

Source: Deloitte analysis based on data accessed from S&P Capital IQ.

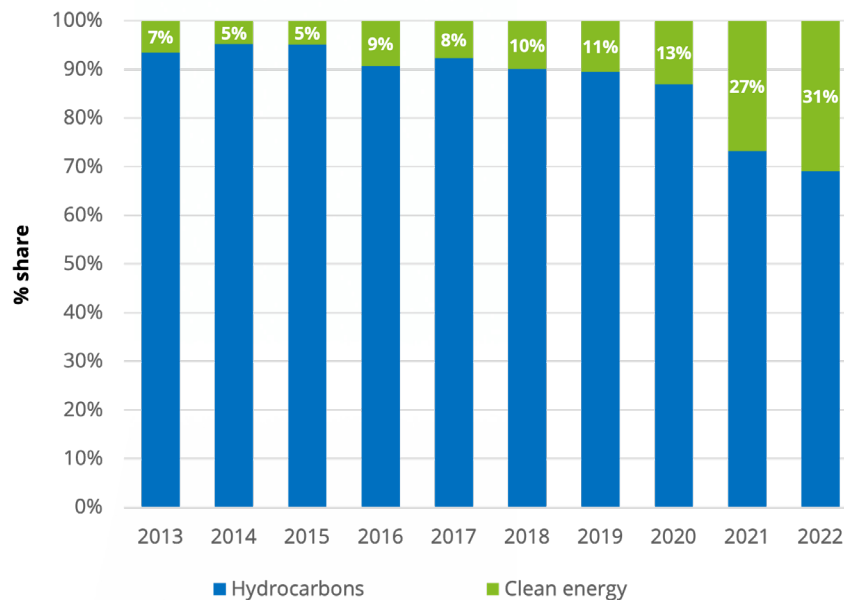
- Five hundred deals, worth nearly **\$171 billion**, were made by the O&G industry for clean energy assets between 2010 and 2022, with acquisitions outpacing divestitures by \$43 billion as the industry increased its clean energy presence.⁴⁰
- The rising focus on an accelerated energy transition helped spur the M&A activity for clean energy assets, with an average deal count of **26 deals** between 2020 and 2022, which exceeded the average deal count of 23 recorded between 2010 and 2019.⁴¹
- The combination of solar and wind assets remained favored, accounting for 44% of all clean energy M&A since 2010, but more recently **biofuel-related assets are gaining investor interest**, with \$26 billion worth of deals since 2020.⁴²

Note: Refer to the appendix for detailed sources.

Driver 4: About one-third of JVs by O&G companies are now in the clean energy space

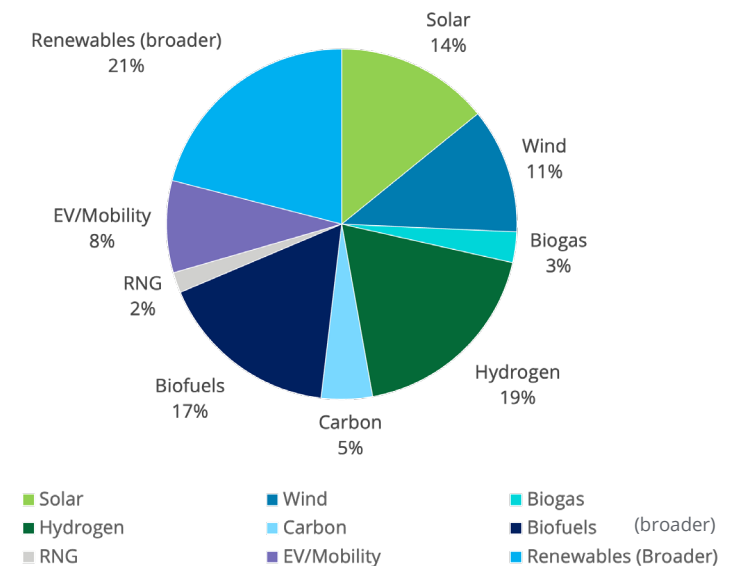
From R&D to retailing, O&G companies are increasingly building their capabilities in low-carbon businesses

JVs by O&G companies: Hydrocarbons and clean energy



Sources: Deloitte analysis based on data accessed from Enverus and Refinitiv Eikon.

Clean energy JVs by O&G companies (2021-2022)



Source: Deloitte analysis based on data accessed from Refinitiv Eikon.

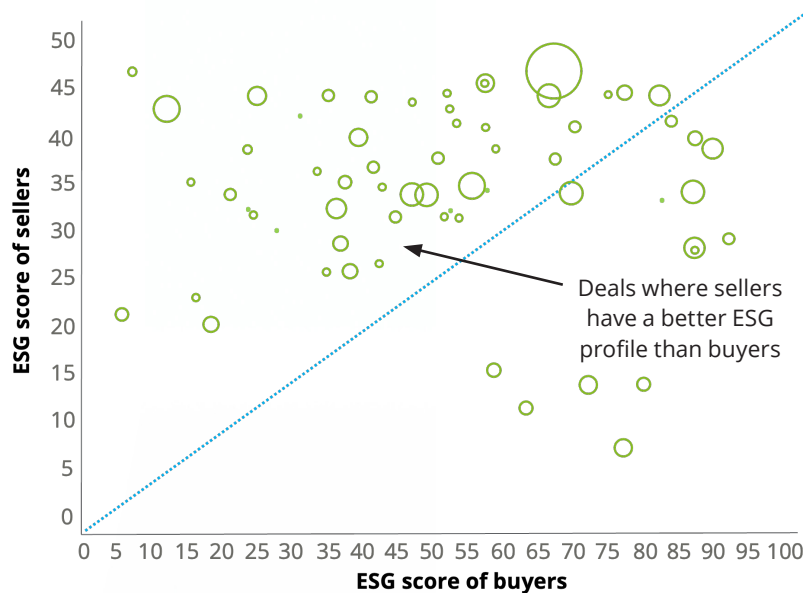
• About **one-third of JVs** and strategic alliances by O&G companies are now in the clean energy space, with the highest number of clean energy JVs in hydrogen and related fuels (ammonia, nitrogen, sustainable aviation fuel).⁴³ Additionally, the spread of clean energy JVs by O&G companies has broadened from a few energy sources (wind or solar) to a growing mix of sources, fuels, and carbon-capture programs.

• Phillips 66 and H2 Energy Europe have decided to operate a network of **hydrogen refueling** retail sites in Germany, Austria, and Denmark.⁴⁴ Similarly, Technip Energies has joined Shell's Energy Transition Campus Amsterdam (ETCA) to form a joint, co-located delivery team. This follows Shell's move to transform the site into an **open innovation campus** to solve energy challenges.⁴⁵

Driver 5: More than 70% of deals involve buyers buying sellers with a relatively better ESG profile

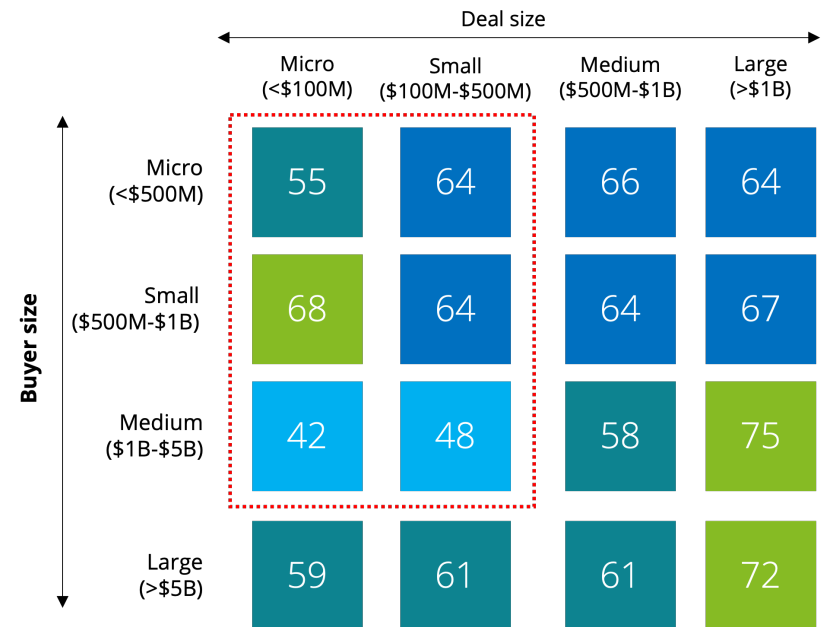
Increasingly, assets and companies with better ESG profiles are gaining the interest of large O&G buyers

ESG score of buyers and sellers (2017–2022)



Sources: Deloitte analysis based on data accessed from Enverus and Refinitiv Eikon.

ESG score of exchanged asset, split by buyer size and deal value (2017–2022)



Note: ESG score ranges from 0 to 100 (100 being top ESG performance and/or highest disclosures).

Sources: Deloitte analysis based on data accessed from Enverus, Refinitiv Eikon, and S&P Capital IQ.
















- Buyers of O&G assets and companies are increasingly looking for sellers with a relatively **higher ESG profile**. Over the past five years, in more than 70% of deals, the ESG score of the seller was higher than that of the buyer.⁴⁶

- Mapping ESG scores by buyer and deal size reveals that micro to medium-sized companies are buying relatively lower-ESG-profiled assets, while large-sized companies (especially large independents and supermajors) seem to be buying **ESG-friendly assets**. Would tighter and more ESG disclosures revive the O&G M&A activity?

Recent policy changes are giving a boost to strategic M&A deal-making

The focus is now on promoting investments, providing tax incentives, and encouraging partnerships

Net Impact of Key US and European Policies on the Five Drivers of Strategic Deal-Making in the O&G Industry (Qualitative Assessment)

Policy	Country/Region	Operational excellence	Energy security	Energy transition	Governance & compliance	Partnerships & alliances
Infrastructure Investment and Jobs Act⁴⁷	US	 Investment in technology that could improve operations	 Investment in infrastructure such as ports	 Investment in electric vehicles, electric grid, and clean energy tech	 No direct impact on governance or compliance	 Promotes partnerships being forged through new investment
Inflation Reduction Act⁴⁸	US	 Methane emissions reduction technology funding	 Higher taxes on book profits and stock buybacks amid incentives for domestic manufacturing (US)	 Tax incentives and funding for clean vehicles and other clean energy	 No direct impact on governance or compliance	 Promotes partnerships being expanded through new investment
REPowerEU⁴⁹	Europe	 No direct impact on O&G operations	 New sources of piped natural gas and LNG	 Accelerated renewable generation deployment; increased goals for hydrogen and RNG deployment	 No direct impact on governance or compliance	 Emphasizes working with international partners

Source: Deloitte's qualitative analysis of Bipartisan Infrastructure Law, Inflation Reduction Act, and REPowerEU.

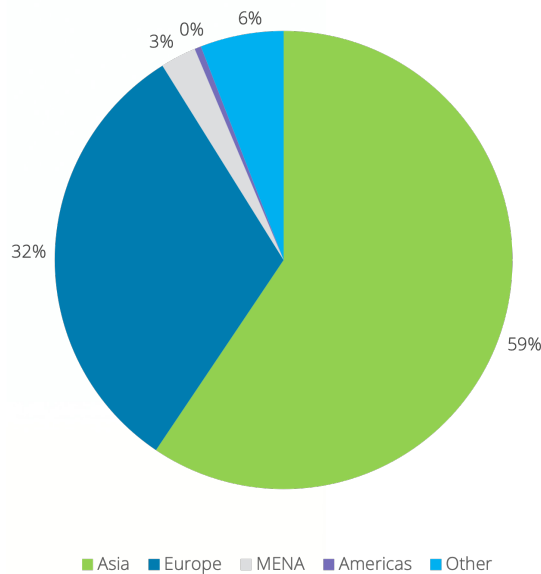
Note: Refer to the appendix for detailed sources.

SPOTLIGHT
3

Foreign ownership of O&G assets in Russia

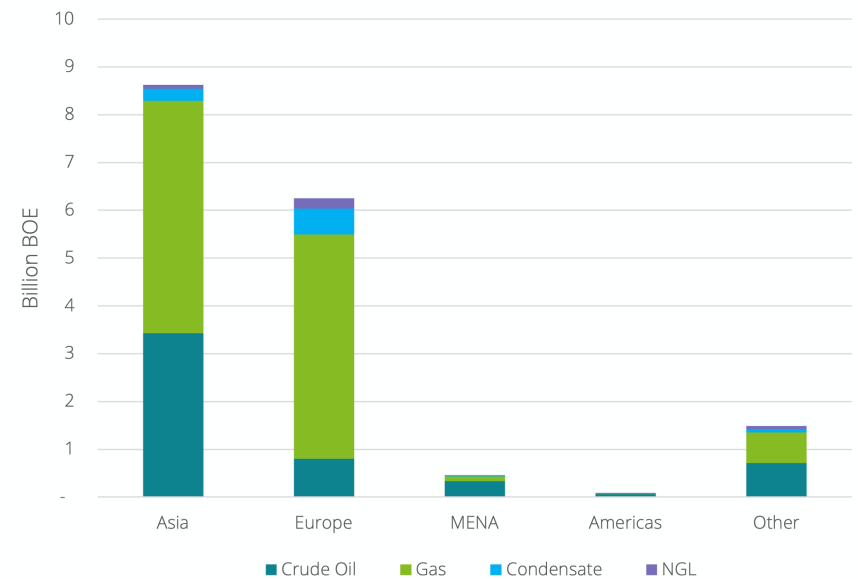
More than 16 billion BOE is under foreign ownership in Russia, which may exchange hands in 2023 and beyond

Europe accounts for 32%, or \$75B, of the current value of foreign-owned Russian assets (2021)⁵⁰



Source: Deloitte analysis based on data accessed from Rystad Energy Ucube.

Europe accounts for 15% of the oil and 45% of the gas resources in Russia currently held by foreign companies (2021)⁵¹



Source: Deloitte analysis based on data accessed from Rystad Energy Ucube.

In August 2022, the Russian government announced a decree that prohibited some energy companies from exiting their businesses in Russia. Moving into 2023, significant **asset exchange** may be triggered as Western owners trim or exit their position.⁵²

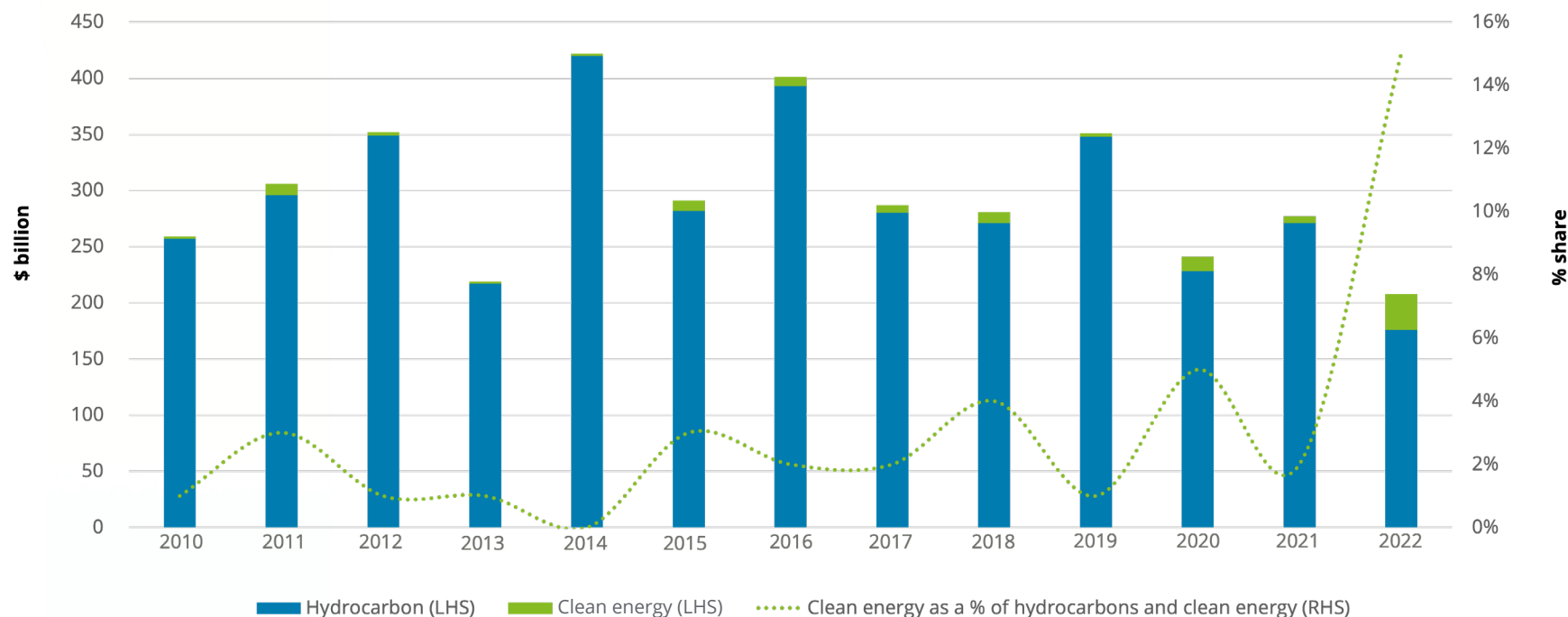
Note: Refer to the appendix for detailed sources.

3 Sectors consolidating cautiously

Overall M&A by O&G Companies: Hydrocarbon M&A fell by 35%, while clean energy M&A reached record highs in 2022

Clean energy M&A now constitutes 15% of total deal value (hydrocarbons and clean energy) by O&G companies

Hydrocarbons and clean energy M&A by O&G companies



Sources: Deloitte analysis based on data accessed from Enverus and S&P Capital IQ.

- Hydrocarbon M&A fell sharply by **35%** in 2022 compared to 2021.⁵³
- While the hydrocarbon **M&A slumped**, the clean energy M&A by O&G companies rose by five times during the same period.⁵⁴
- As a result, the share of clean energy-related M&A transactions within the overall hydrocarbon and clean energy M&A transactions reached an **all-time high** of 15%.⁵⁵
- O&G companies acquired **\$32 billion** worth of clean-energy M&A deals, the highest ever recorded.⁵⁶

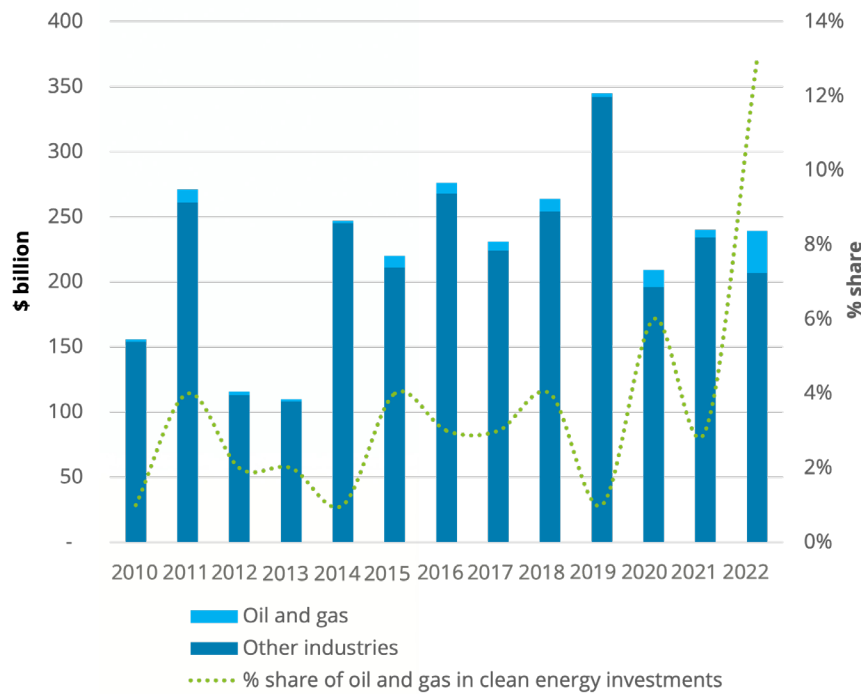
Note: Refer to the appendix for detailed sources.

SPOTLIGHT
4

Global M&A in clean energy assets across all industries

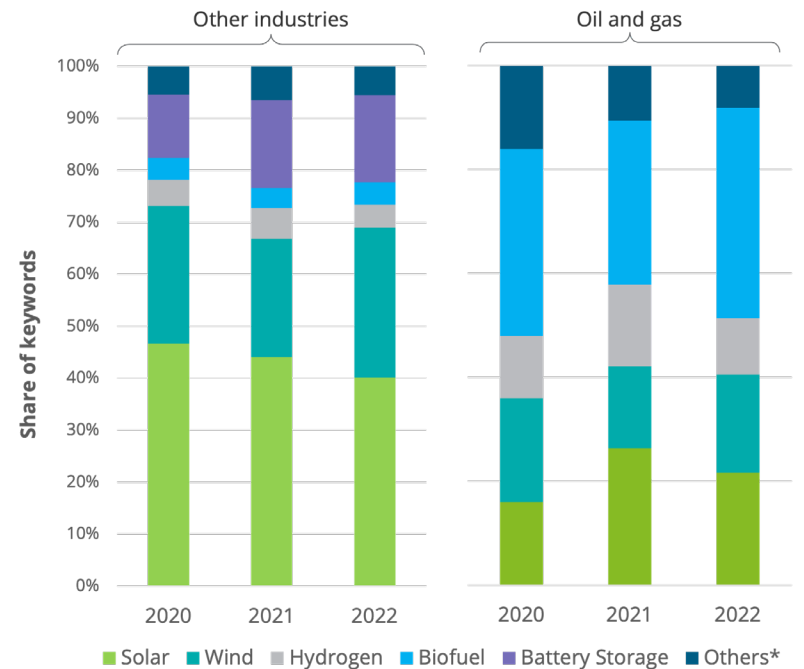
About 13% of global clean energy M&A was driven by O&G companies in 2022⁵⁷

M&A for clean energy by O&G reaches record levels



Source: Deloitte analysis based on data accessed from S&P Capital IQ.

Hydrogen and biofuels gaining importance for clean energy M&A in the O&G industry, compared to other industries



Note: *Others include ammonia, carbon capture, hydropower, and geothermal.

Source: Deloitte analysis based on data accessed from S&P Capital IQ.

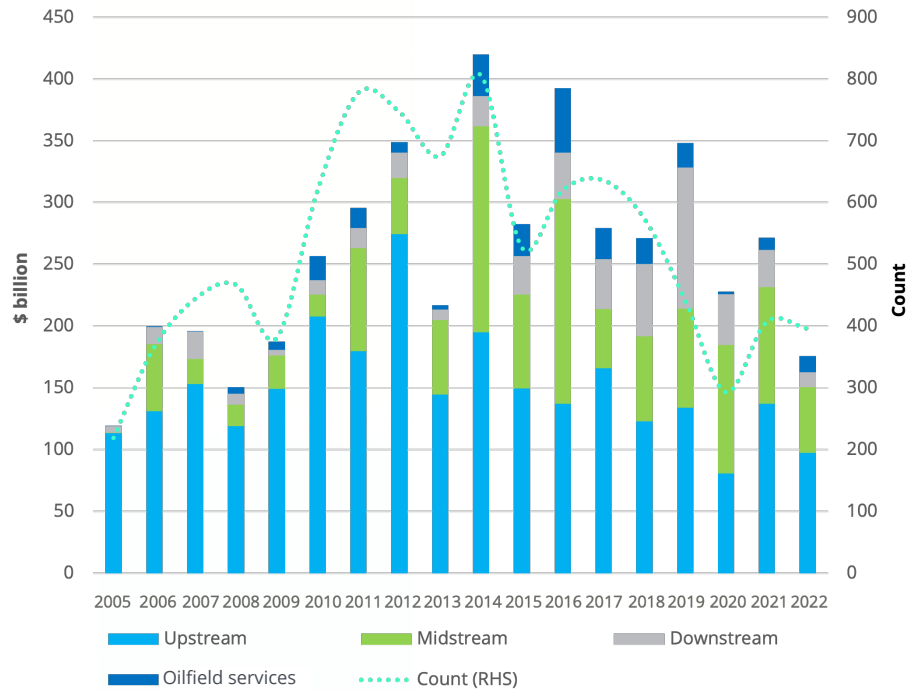
O&G companies are increasing their **clean energy investments** with a growing focus on biofuels and hydrogen assets.

Note: Refer to the appendix for detailed sources.

Hydrocarbon M&A fell by 35% in deal value to \$176 billion in 2022

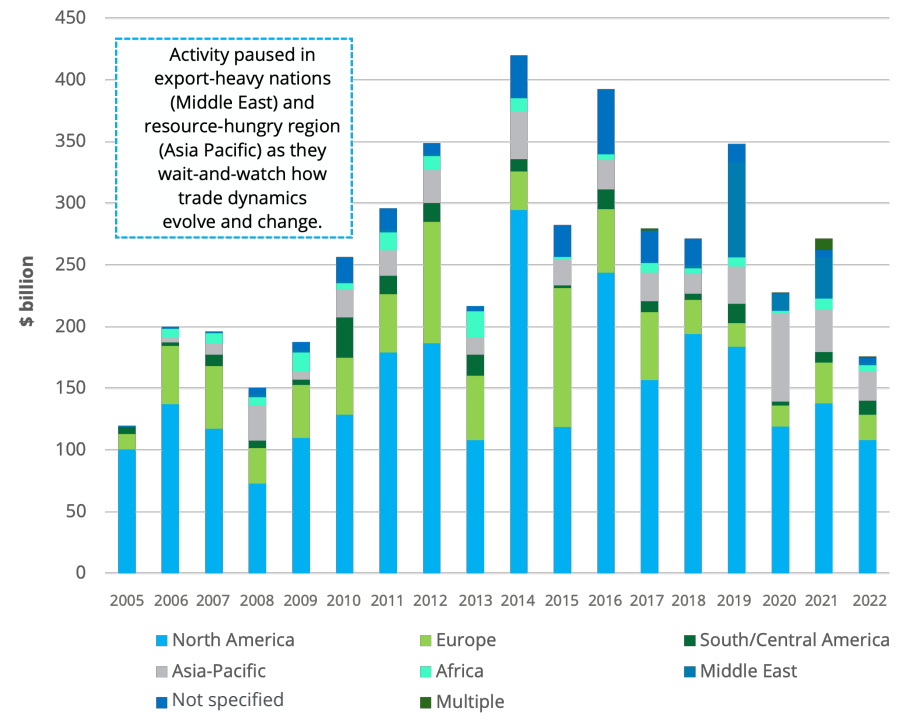
Except for OFS, all O&G sectors witnessed a fall in activity due to uncertainty and volatility in energy prices.

O&G hydrocarbon M&A across sectors



Source: Deloitte analysis based on data accessed from Enverus.

O&G hydrocarbon M&A across regions



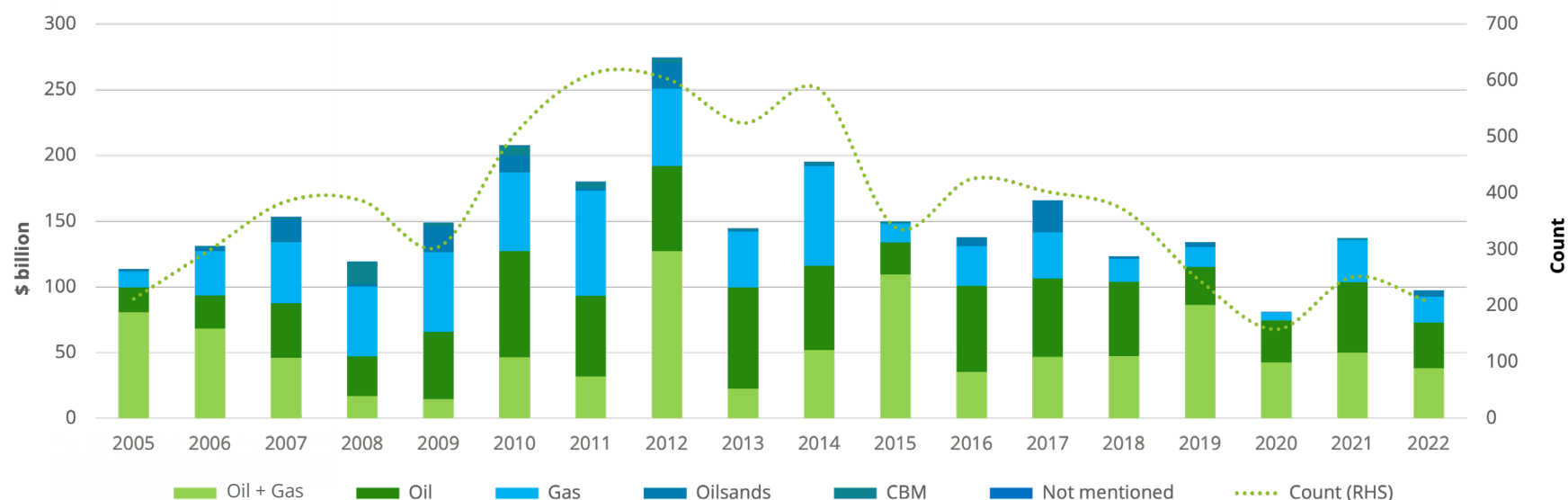
Source: Deloitte analysis based on data accessed from Enverus.

Note: Refer to the appendix for detailed sources.

Upstream: Deal value fell by 29% to a 17-year low despite high oil prices

Shifting priorities toward rewarding shareholders and investing in clean energy reflected in reduced deal volumes

Upstream M&A asset-wise breakdown



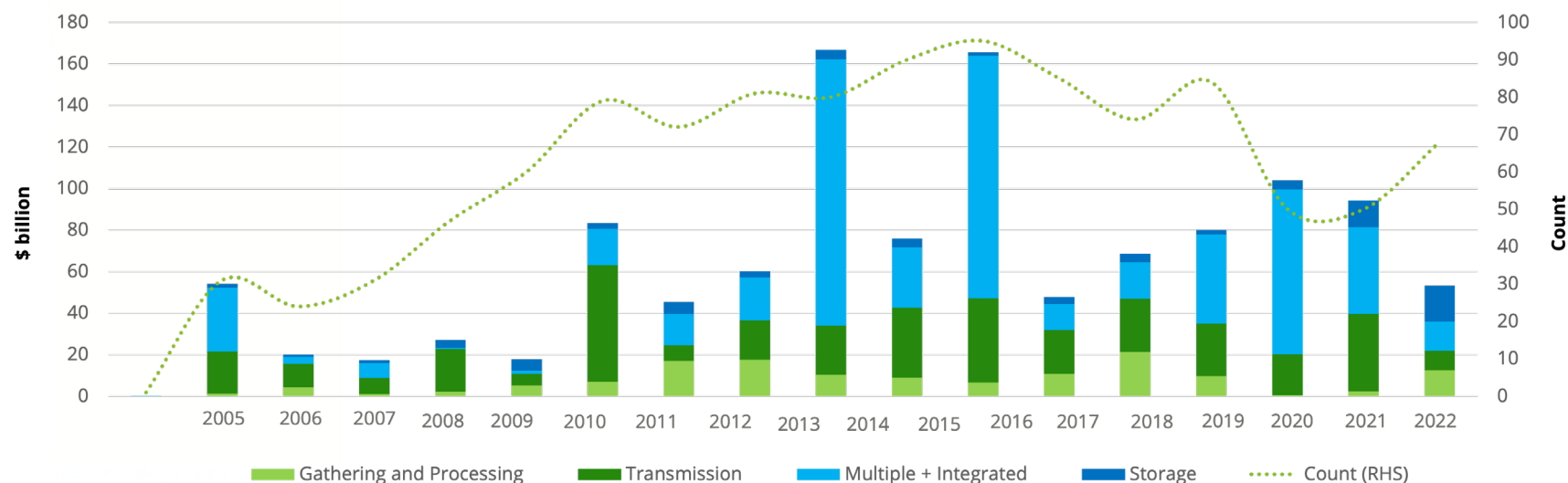
Sources: Deloitte analysis based on data accessed from Enverus and US Energy Information Administration.

- Upstream M&A in 2022 stood at \$97 billion and 207 deals, the **lowest since 2005**, excluding the pandemic year.⁵⁸
- In fact, **upstream deals declined** by 29% and 18% in terms of value and count, respectively, between 2021 and 2022 despite average oil prices rising by 43% during the same period.⁵⁹
- This fall in deal-making reflects the **shifting priorities** toward rewarding shareholders and investing in clean energy M&A, particularly when oil and natural gas prices have become highly volatile and uncertain.
- Russia's invasion of Ukraine has cut into Russian natural gas supplies to Europe, leading to a rush for natural gas assets. Unsurprisingly, the **largest upstream deal** in 2022—PKN Orlen's acquisition of PGNiG for \$7.6 billion—also featured gas-based assets.⁶⁰
- Meanwhile, O&G assets producing both oil and natural gas continue to garner major investor interest, accounting for nearly **40% of deal value** in 2022, but were near decade-low levels.⁶¹

Midstream: Deal value fell sharply by 44%, although deal momentum remained strong

Investor interest rose for storage and gathering and processing assets, accounting for 56% of overall deal value in 2022

Midstream M&A asset-wise breakdown



Note: Transmission includes pipeline and tanker assets; Storage includes storage, liquefaction, and regasification assets.

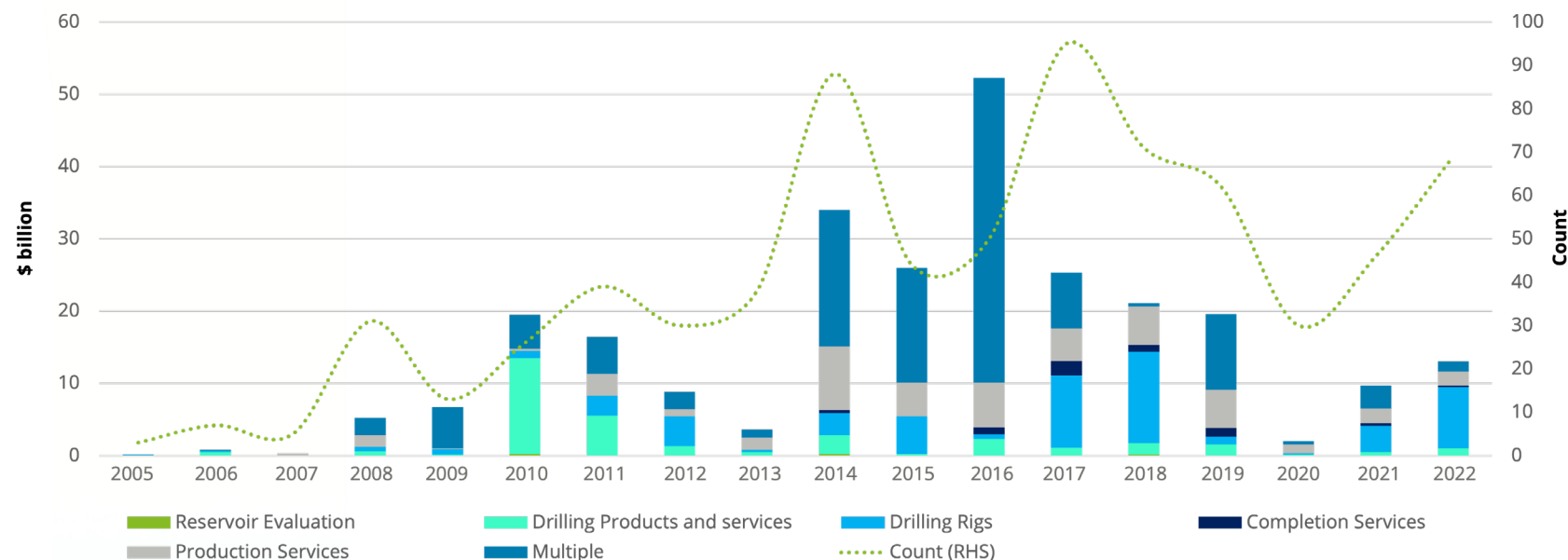
Source: Deloitte analysis based on data accessed from Enverus.

- Midstream M&A currently stands at \$53 billion, its **second-lowest point** since 2012, but the deal count increased by 36% compared to last year.⁶²
- PE/VC firms are **increasingly divesting** midstream assets, with \$10.7 billion worth of asset divestitures in 2022. Moreover, equity raising and private debt placement fell by 88% between 2019 and 2022.⁶³
- Rising concerns around **energy security** and the growing role of natural gas are driving activity in gathering and processing assets along with storage assets.
- Consequently, the deals for gathering and processing assets exceeded transmission (pipelines and tankers) assets for the **first time in a decade**, accounting for nearly one-fourth of the overall midstream deal value.⁶⁴
- Meanwhile, the proposed \$12 billion acquisition offer for Origin Energy by Brookfield Renewable Partners and EIG was the **largest midstream deal**, which helped storage assets account for one-third of the overall deal value.⁶⁵
- The deal activity for multiple and integrated assets **slowed down** in 2022, with the deal value declining by nearly 66% compared to 2021.⁶⁶

Oilfield services: Surprisingly, OFS bucked the downward trend but on a low base

OFS companies seem to be gearing up for a rebound in upstream capex and drilling-and-completion activity

Oilfield services M&A asset-wise breakdown



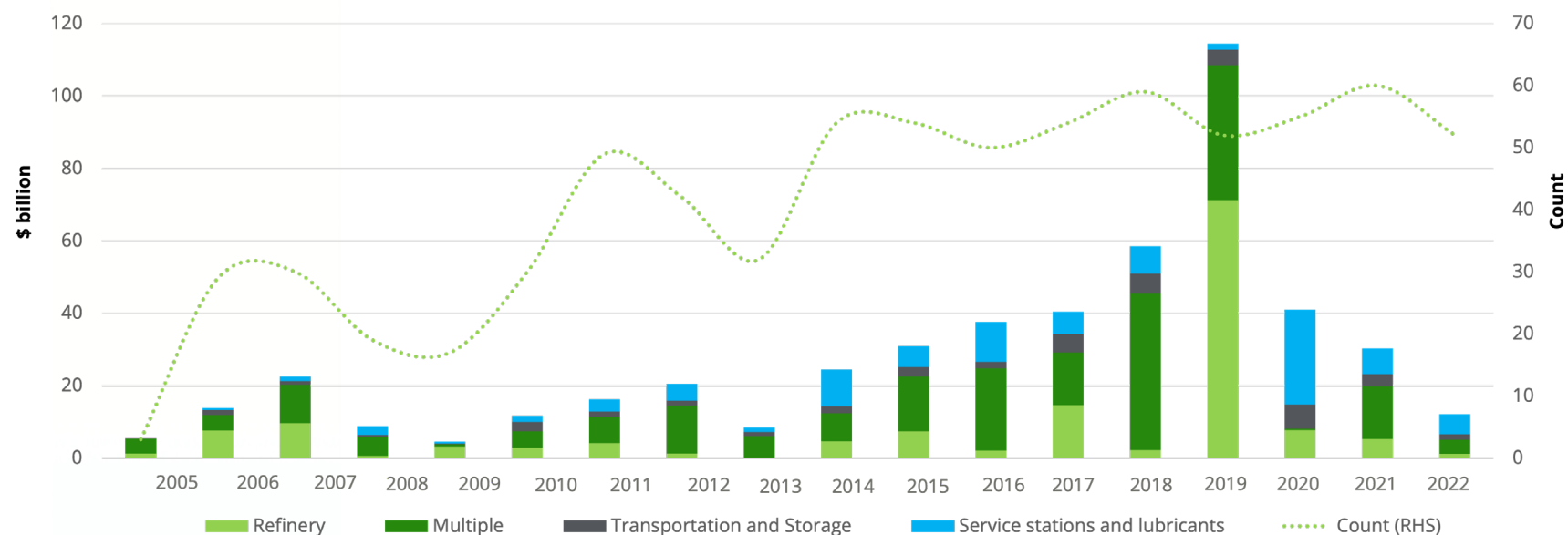
Source: Deloitte analysis based on data accessed from Enverus.

- M&A in the oilfield services sector saw 69 deals worth \$13 billion in 2022, registering a growth of 35% although on a low base of 2021. However, the deal count **increased by 50%** year on year in 2022.⁶⁷
- Companies are preferring to acquire **specific assets** and build a niche capability rather than acquire multiple assets, resulting in a 55% year-on-year decline in deal value for multiple assets in 2022.⁶⁸
- A rising focus on **energy security** and the subsequent anticipation of exploration activities continue to drive deals for exploration-specific assets.
- Drilling rigs accounted for **65% of the deal value** in the oilfield services sector in 2022, which is the highest share since 2005.⁶⁹
- On the other hand, production services saw a 3% year-on-year decline in deal value in 2022, suggesting that the industry is **buying assets** to prepare for the next set of wells.⁷⁰
- Semcorp Marine Limited's \$3 billion offer for Keppel Corp's Operations and Maintenance business was the largest sector deal, and is expected to unlock synergies while **increasing ESG offerings** for both hydrocarbon and renewable sectors.⁷¹

Downstream: Risk of demand destruction leads to a steep 60% decline in deal value

Investor interest appears to have shifted from plant-level assets to consumer-facing infrastructure with the latter accounting for 46% of deal value

Downstream M&A asset-wise breakdown



Note: Refinery includes ADU/VUD/Cracking, LPG bottling plants, and petrochemical assets; Transportation and storage include product tankers, storage terminals, and trucking assets; Service stations and lubricants include service station and lubricant assets.

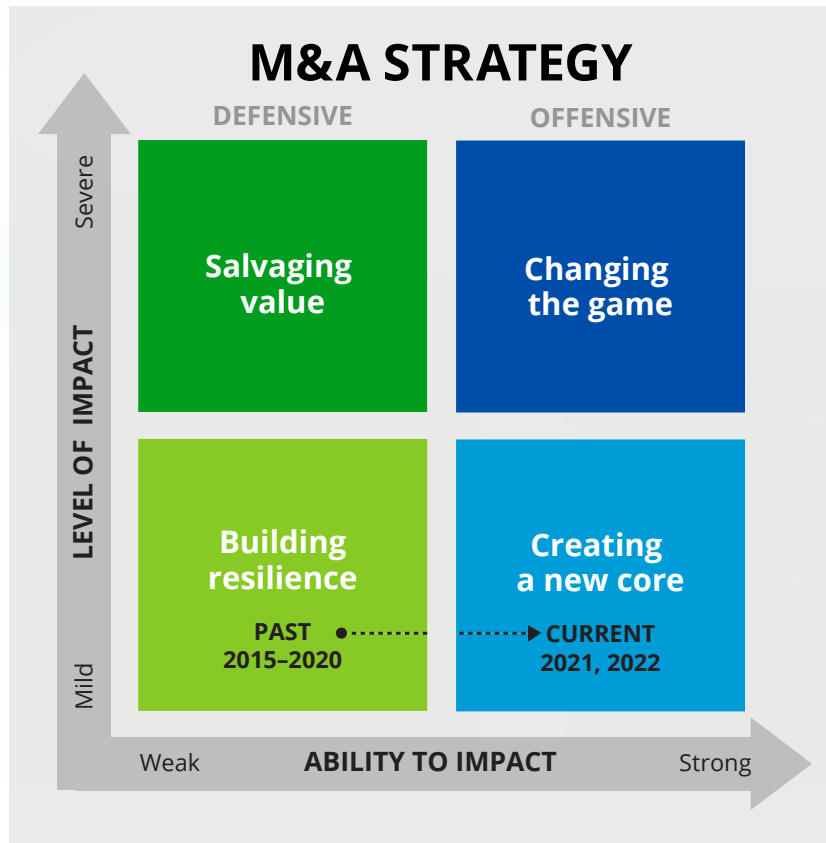
Source: Deloitte analysis based on data accessed from Enverus.

- Continued weakness across the O&G value chain saw the downstream M&A value in 2022 decline by 60% year on year to reach **\$12 billion**, its lowest level since 2013.⁷²
- Although energy security concerns prevail in the upstream and midstream sectors, they are **less pronounced** in the downstream sector.
- In fact, **transportation and storage assets** only accounted for 13% and 31% of the overall downstream deal value and deal count, respectively, in 2022.⁷³
- Meanwhile, investor interest in 2022 shifted from the traditional refinery assets (cracking units, LPG plants, and petrochemical units) toward **customer-facing assets** (service stations and lubricants), which accounted for 46% of the overall deal value.⁷⁴
- Valvoline's divestiture of its North American lubricants and automotive chemicals business to Saudi Aramco for \$2.65 billion was the **largest deal of 2022**, accounting for 22% of the overall sector value.⁷⁵

4 Charting the future

O&G M&A strategy summary

From building resilience to creating a new core



Investment discipline and a defensive M&A strategy have helped O&G companies to build resilience in a few ways: preserving value, delivering cash flows, optimizing portfolios, and strengthening positioning.

O&G companies, lately, are seen to be embracing change by finding and creating their new core: reflected in their growing acquisitions and partnerships in the clean energy space.

What's next?

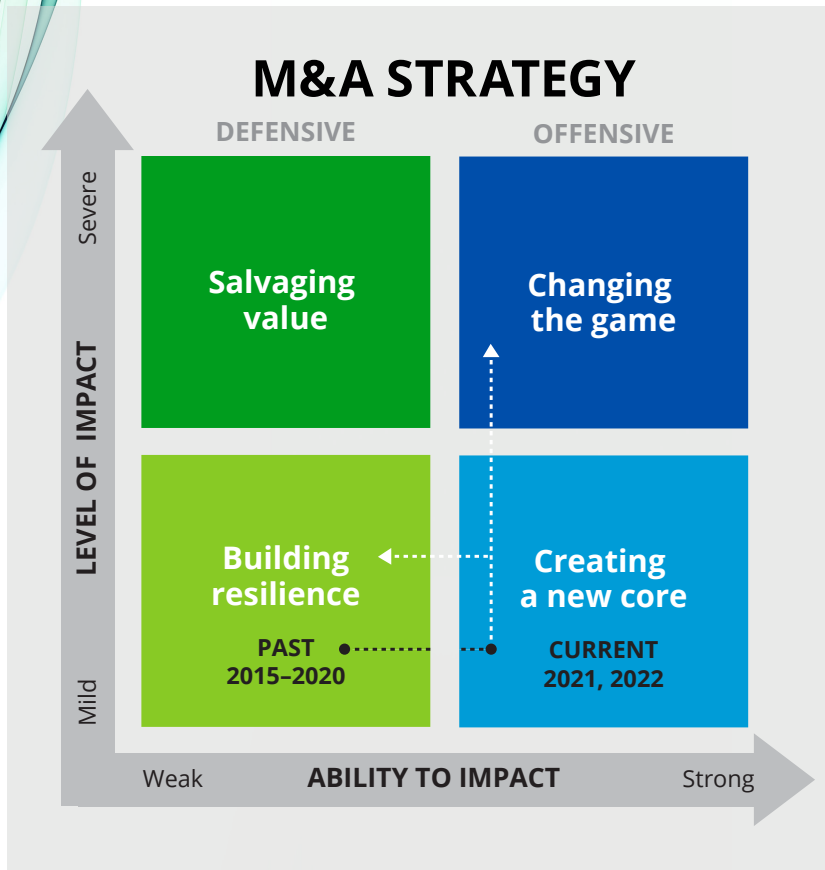
Legend:

- **Salvaging value:** Divesting core and non-core to stay afloat
- **Building resilience:** Divesting non-core, pursuing acreage consolidation, and accelerating synergy realization from recent deals
- **Creating new core:** Building a portfolio of investments at the edge of existing markets and establishing strategic positions in transformational growth segments
- **Changing the game:** Making bold moves involving transformative acquisitions, ecosystem alliances, and disruptive investments to capture market leadership

Note: The above M&A strategy graph is a modified version of the graph in the "[Charting New Horizons: M&A and path to thrive](#)," a publication by Deloitte.

Expectations for the year ahead (external factors)

Cautious consolidation and accelerated pivot toward clean energy



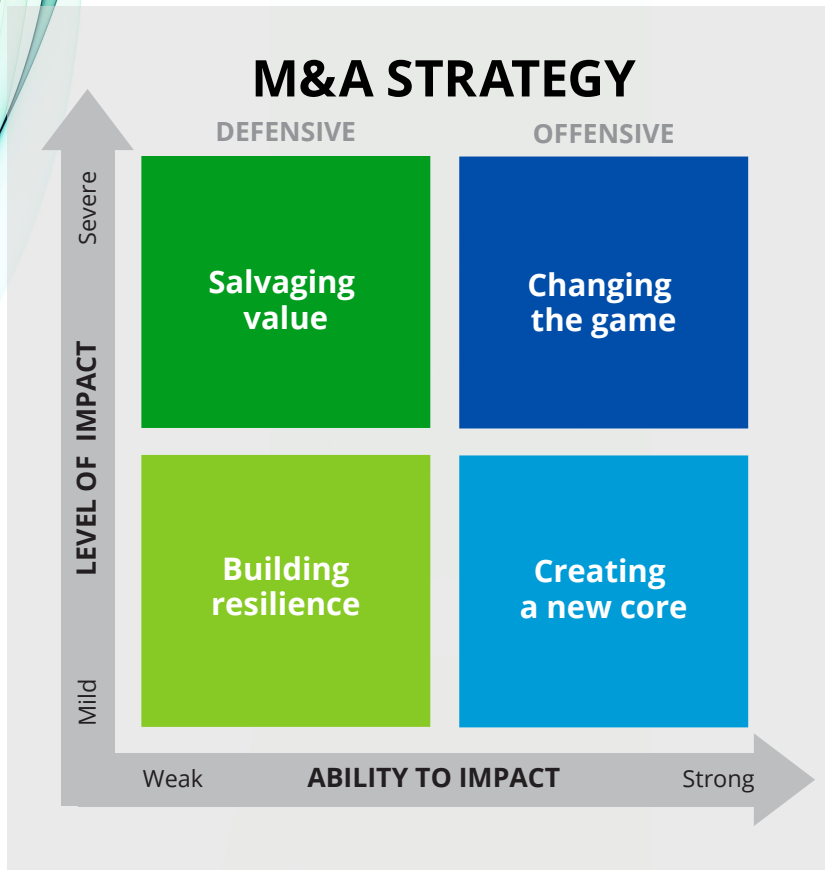
	External factors: Overall industry	Impact on M&A activity	M&A strategy
1	Macroeconomic and capital market environment Recession or slowdown risk (US and EU GDP growth projected at 0.5% and 0% in 2023, respectively) ⁷⁶	↓	Building resilience
2	Geopolitics and international developments EU embargo on Russian oil presents risk; Russia's invasion of Ukraine eases but sanctions on Russia remain	↓	Building resilience
3	Policies and regulations Ensuring energy security while enabling the energy transition	↑	Creating a new core
4	Price volatility and OPEC's action OPEC balances supply-demand amid moderate price volatility	↔	Creating a new core
5	Demand outlook for hydrocarbons Faster energy transition (EU natural gas demand to decline by 4%) ⁷⁷	↓	Creating a new core

Note: The above M&A strategy graph is a modified version of the graph in the "Charting New Horizons: M&A and path to thrive," a publication by Deloitte.

Note: Refer to the appendix for detailed sources.

Charting your organization's M&A strategy

The construct of your organization's business strategies will likely determine whether it plays defensively or aggressively in leading the change



Business factors	Salvaging value	Building resilience	Creating a new core	Changing the game
Financial Strategy	Highly conservative	Highly disciplined	Investment oriented	Investment and risk oriented
Business model	Monetizes legacy hydrocarbon position	Strengthens core business	Builds position in ancillary core	Converts low carbon services into core
Network & partnership	Creates risk-sharing JVs	Constitutes outcome-focused JVs	Establishes capability-driven JVs	Leads purpose-aligned JVs
Technology architecture	Maintains operations	Converges IT-OT	Scales innovation	Builds multi-technology clean networks
Workforce strategy	Realigns workflow	Builds digital-savvy workforce	Trains workforce in low-carbon technology	Fractionalizes work and workforce

Note: The above M&A strategy graph is a modified version of the graph in the "[Charting New Horizons: M&A and path to thrive](#)," a publication by Deloitte.

Note: Refer to the appendix for detailed sources.

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