Energy, Resources & Industrials

Energy, Resources & Industrials deal value and volume
(in trillions of US dollars)

Note: ER&I sector does not include Automotive (this has been included in Consumer).

Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Observations

Energy, Resources & Industrials (ER&I) improved in 2023 with stable deal volumes and an 8% YoY increase in deal value to $868B, driven by megadeals (≥$10B) in Oil & Gas.

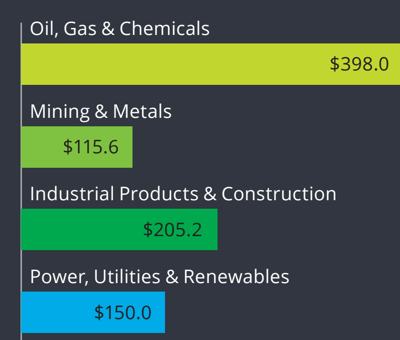
North America, with $508B worth of deals, was the most active region with respect to deal value. Asia-Pacific with 4,152 deals ($180B) led in terms of deal volume.

Oil & Gas earned record profits in 2022, providing ample cash flow to fund 2023 strategies. In addition, M&A has become a preferred way to add reserves rather than spending on exploration. This led to megadeal activity in the second half of 2023.

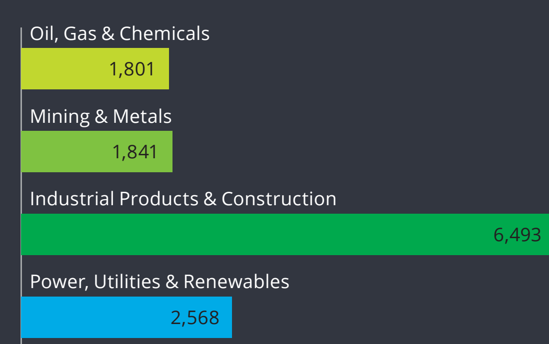
ESG growth areas such as carbon capture, hydrogen, renewables, and other clean technologies are expected to be key focus areas.

Aerospace and Defense M&A activity is anticipated to increase amid ongoing geopolitical tensions. To remain competitive, manufacturing companies might add digital capabilities.

Deal value by sector (2023)
(in billions of US dollars)



Deal volume by sector (2023)



Energy & Resources

Forces shaping 'new normal' conditions

Increased demand and constrained supply are driving changes

- A combination of supply constraints and geopolitical tension has resulted in energy price increases and is putting pressure on operating models that had become lean in recent years offset with low prices.

Decarbonization across industries is enabling new energy era

- Decarbonization mandates are gaining pace in all industries and present the opportunity for E&R companies to deliver scale projects and contribute to a low-carbon future.

Green jobs will require new skills in the workforce

- Decarbonization commitments, flexible workforces, and requirements to reskill for digital and renewable capabilities will require companies to design new talent models.

Active portfolio monitoring

- Companies will need to monitor their portfolios to avoid carrying stranded assets as well as to avoid unnecessary divestment of assets that may prove profitable in other supply/demand environments.

Importance of customer-centricity will increase

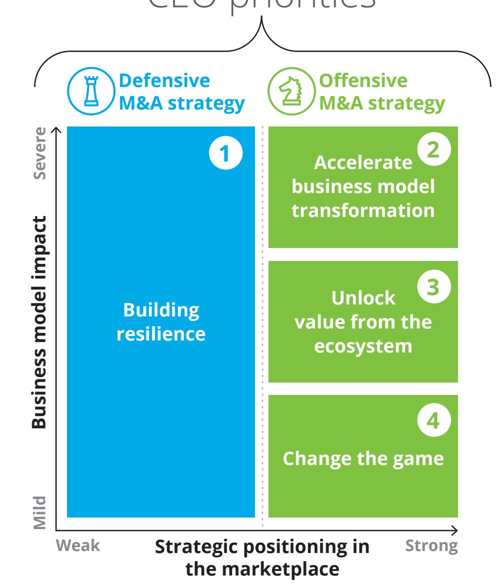
- To thrive throughout the energy transition, fuel companies will need to offer a full suite of products and services.
- Companies will look to draw closer to end customers and incorporate convenience as key to the customer experience.

Short-term responses

1 Portfolio restructuring to drive energy transition
Companies are fundamentally rethinking their portfolio, seeking to divest higher carbon-intense assets, pursuing acreage consolidation, and acquiring assets aligned to the energy transition.

2 Investments to build future capabilities
Companies could use the current high energy prices to make significant investments and acquisitions related to digitization and integrated value chain driving new revenue streams.

CEO priorities



Medium-term responses

3 Energy transition alliances
The energy transition is attracting investments from nontraditional competitors in other sectors, as well as private capital. Companies should consider cross-sector alliances with companies in automotive, technology, and other sectors to gain direct access to customers and explore new revenue models.

4 Sustainability-aligned growth segments
Companies should actively seek opportunities in adjacent markets, such as chemicals, advanced plastics recycling, and others, in which they can leverage existing expertise such as research and development and customer networks.

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Industrials

Forces shaping 'new normal' conditions

Technology is driving industrial connectivity

- Advancements in the Industrial Internet of Things (IIoT) and digital twin technology are driving significant innovation in solutions and business models.

Supply chain disruption is affecting production times

- Long lead times for critical components are creating uncertainty in production planning and forecasting.
- Delays in manufacturing and port congestion will drive companies to identify resilient solutions for supply networks.

Rising raw material costs are affecting margins

- Shortage of supply along with increases in raw material costs and shipping rates have created pricing pressures.
- Unless contained, these cost rises threaten to outstrip the productivity gains and could significantly affect profit margins.

Digital solutions will lead to workforce evolution

- Digital-first solutions will affect the skill sets required from the workforce.
- Industrial companies will compete with tech firms for talent, while simultaneously upskilling their current workforce.

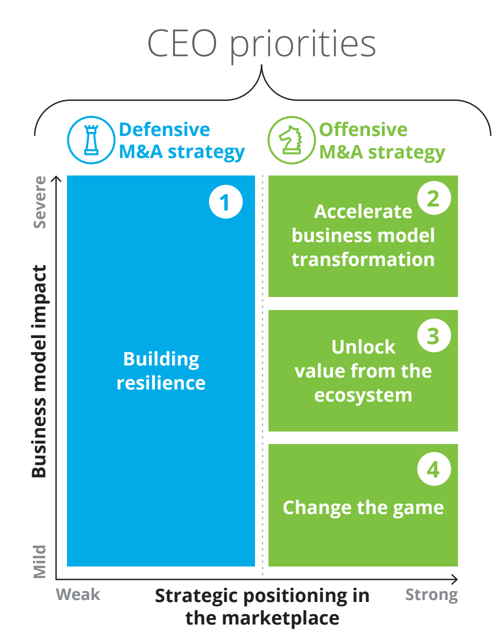
ESG pressures will continue to grow

- Stakeholders will increasingly call for ESG commitments.
- Creating the factory of the future through smart technology and green energy will remain in focus.

Short-term responses

1 Strengthening of value chain
Acquisitions and investments related to vertical integration could help companies secure long-term suppliers and mitigate supply chain disruptions.

2 Shifts in core competencies
The inevitable shift toward sustainable processes and products is likely to affect the core competencies of many companies, and they should drive this change through targeted acquisitions.



Medium-term responses

3 Technology alliances
Industrial companies should consider alliances with the technology sector to boost innovation and leverage specialist digital skills expertise.

4 Investing in disruptive technologies
Industrial companies should consider growth acquisitions in focused areas such as IIoT, robotics, automation, digital twin, and AI to drive long-term transformation.