WARWICK M&A GROUP

Energy
Sector Report

Consolidation in the US driving M&A activity

APA Corporation's acquisition of Callon Petroleum

Kodiak's acquisition of Compressco



Dec 2023
Issue #11

Global oil supply changes and sustainability concerns impact M&A activity...

December in Numbers

$34.3bn	67	$953m
Total Deal Value (Dec 2023)	No. of closed deals	Average Deal Value
+236.2% *(YoY)*	-35 *(YoY)*	+353.8% *(YoY)*

Average TEV/Revenue:	7.2x	**Average Day Prior Premium:**	55.60%
Average TEV/EBITDA:	5.2x	**Average Week Prior Premium:**	55.60%
Average TEV/EBIT:	10.9x	**Average Month Prior Premium:**	48.80%

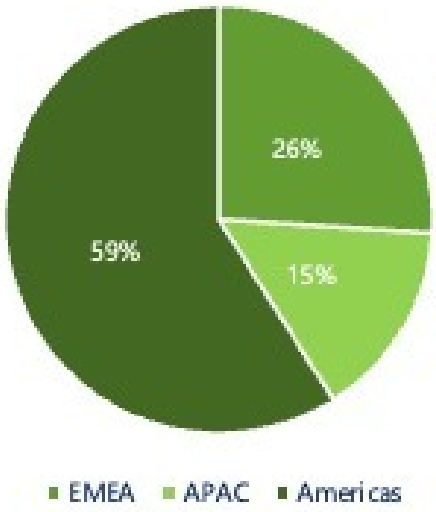
Brent Crude Oil Price ($)



Sectoral Insight

- In response to the landmark M&A deals by Chevron and ExxonMobil, other US producers are actively pursuing consolidation strategies. This move is primarily to secure critical oil reserves and maintain competitiveness with the market leaders.
- The Permian Basin, a significant oil and natural gas producing area located in West Texas and southeastern New Mexico, has become a focal point for M&A activity. This is driven by the reduction in drilling costs and surge in US LNG exports.
- The commitment by top fossil fuel producers at COP28 to eliminate methane leaks signals a potential surge in M&A activity focused on carbon-storage technology, as companies seek advanced solutions to meet the new environmental standards
- With the upcoming US elections in Nov 24, there could be significant shifts in US policy relating to energy investments. The possible election of Trump could lead to uncertainty about the future of existing policies (such as the IRA providing $270bn of subsidies) given Trump's historical stance towards clean energy.

Deal Count by Region



APA Corporation's acquisition of Callon Petroleum...

Acquirer: APA Corporation (NasdaqGS: APA)

APA Corporation explores, develops, and produces natural gas, crude oil, and natural gas liquids. It was founded in 1954 and is based in Houston, Texas.

APA Corp handles the gathering, compression, processing, and transmission assets in West Texas, while holding ownership in 4 Permian Basin long-haul pipelines. This firm operates in the US, Egypt, and UK. It also has exploration activities offshore Suriname.

Market Cap:	$10.4bn
EBITDA	$5.3bn
Net Debt:	$5.6bn
LTM Revenue:	$8.4bn
TEV/ LTM EBITDA	3.2x

Target: Callon Petroleum Company (NYSE: CPE)

Callon Petroleum Company specialises in the acquisition, exploration, and development of oil and natural gas properties in West Texas. It was founded in 1950 and has its headquarters in Houston, Texas.

In 2009, Callon acquired 8,800 net acres in the Permian Basin and, in 2019, completed its merger with Carrizo Oil & Gas which expanded its footprint across the Permian Basin. Callon Petroleum now has 26,000 acres in the Midland Basin and 199,000 acres in the Delaware Basin.

Market Cap:	$2.3bn
EBITDA	$1.4bn
Net Debt:	$1.9bn
LTM Revenue:	$2.4bn
TEV/ LTM EBITDA	3.0x

Transaction Summary

- On January 4th 2024, APA Corporation and Callon Petroleum Company have entered into a definitive agreement where APA will acquire Callon in an all-stock transaction valued at $4.5 billion including net debt.
- Each share of Callon's common stock will be exchanged for a fixed ratio of 1.0425 shares of APA common stock.
- As output slows and the number of top-tier production sites decreases, companies are racing to purchase rivals to secure more output.
- APA plans to retire Callon's existing debt and replace it with term loan facilities totalling $2 billion.

NYSE: CPE Share Price



Announcement date:	4th January 2023
Offer per share:	$38.31 (as of 3rd January)
Transaction value:	$4.5bn
Implied Premium:	13.7%
Acquirer adviser(s):	Citi and Wells Fargo Securities
Target adviser(s):	Morgan Stanley

The acquisition will expand APA's business...

Rationale



This acquisition adds **145,000 drilling acres** to APA, boosting its total Permian acreage by 50% due to Callon's complementary Delaware-focused assets. Their high-quality short-cycle inventory helps address current energy supply concerns.

The acquisition is accretive with $150m in annual **synergies**, 1.5% increase in EBITDAX and **$40mn in cost savings expected**. Acquisition **synergies** are more operational than geological in nature.

Pro-forma production expected to exceed 500,000 **boe/d** and EV to increase to >$21 billion. APA's oil production as a % of Permian production expected **to increase from 37% to 43%.**

Outlook

- APA's pro-forma production mix is expected to be 64% US / 36% International.
- APA is expected to continue developing large legacy assets in the US and Egypt, while advancing a FEED (engineering) process for its extremely valuable Suriname asset, and continually maintaining a diversified exploration portfolio in Uruguay and Alaska.
- This deal further represents strong consolidation pressures within Energy, following 3 recent huge acquisitions by ExxonMobil, Chevron and Occidental Petroleum.
- APA announced plans to fully utilise Callon's drilling rigs, instead of cutting down drilling activity, which is part of the consolidate-and-cut strategy most shale drillers follow. This shows APA's priority to increase output while acquiring more assets to meet energy demand.
- Other than energy supply concerns, consolidation pressures are further compounded by investors expecting continual generous share buybacks and dividends despite slowing shale output growth due to recent high energy prices.
- The energy transition is placing significant pressure on realising **synergies**, given the pressures to reduce carbon impact, which adds to costs.

Kodiak's Acquisition of Compressco...

Acquirer: Kodiak Gas Services, Inc. (NYSE: KGS)

Kodiak Gas Services, Inc. operates contract compression infrastructure for customers in the oil and gas industry in the United States.

It operates in two segments, Compression Operations and Other Services. The Compression Operations segment operates compression infrastructure to enable the production, gathering, and transportation of natural gas and oil. The Other Services segment provides a range of contract services.

Market Cap:	$1.7bn
EBITDA	$421.3m
Net Debt:	$1.8bn
LTM Revenue:	$804.2m
TEV/ LTM EBITDA	8.1x

Target: CSI Compressco LP (NASDAQ: CCLP)

CSI Compressco LP provides contract natural gas compression services which are used for oil and natural gas production, gathering, artificial life, transmission, processing and storage.

CSI Compressco LP was set up in 2008, and is based in The Woodlands, Texas. CCLP services mainly the US, South America, Canada, and Egypt.

Market Cap:	$251.3m
EBITDA	$123.4m
Net Debt:	$635.2m
LTM Revenue:	$381.8m
TEV / EBITDA	7.1x

Transaction Summary

- On December 19th, Kodiak announced the execution of a definitive agreement to acquire CSI Compressco in an all-stock deal at $854mn, while assuming $619mn in net debt. This is in line with recent headline energy deals mostly being all-stock deals due to energy price volatility.
- CSI Compressco shareholders will receive 0.086 of Kodiak's common stock for each unit they own. Kodiak is expected to launch a senior notes offering in 1Q24 to refinance CSI Compressco's debt at closing.
- Transaction is expected to close 2Q24 subject to regulatory approvals and the Hart Scott Rodino Act clearance.

NASDAQ: CCLP Share Price



Announcement date:	19th December 2023
Offer per share:	$1.65 (as of 18th Dec)
Implied premium:	0% (all stock no premium deal)
Transaction value:	$854m
Acquirer adviser(s):	Barclays
Target adviser(s):	Jefferies

Consolidating into the largest contract compression fleet ...

Rationale

Consolidates into the **industry's largest contract compression fleet** of 4.3mn revenue-generating horsepower, adding >2.8mn horsepower in the Permian Basin for Kodiak.

Immediate accretion to discretionary CF and FCF per share for both CCLP and Kodiak's stockholders.

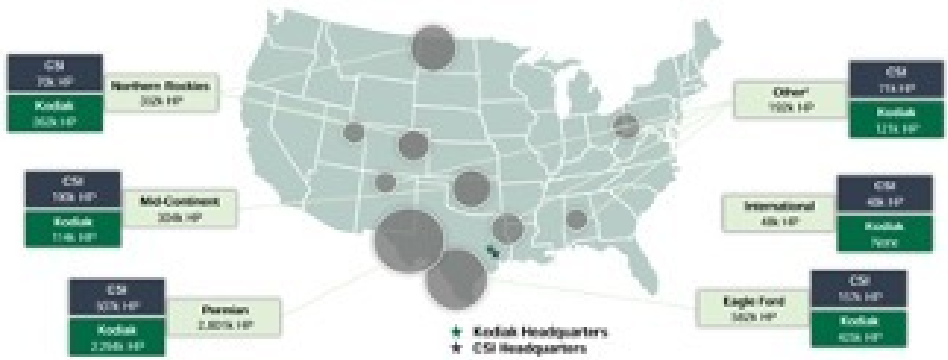
Significant scale and diversified customer base through **synergies** from extending service offerings through CCLP's complementary expertise across the natural gas value chain such as treating, gas cooling and aftermarket services.

Proforma company expected to generate $630 in 2024 EBITDA after the expected annual run-rate cost **synergies** of at least $20m.

This allows Kodiak to command the largest share of contract compression services, especially within key operating areas in the Permian Basin and Eagle Ford Shale.

Outlook

- This solidifies Kodiak's market position especially with increased demand for gas compression services as more companies compete to secure strong output due to energy supply concerns.
- Kodiak is expected to achieve its long-term leverage target of 3.0-3.5x by 2025E.
- This deal encouraged the potential for further dividend increases and more share buyback programs with an enhanced balance sheet.
- CCLP stockholders can expect increased dividends and stock liquidity. A leverage-neutral Kodiak is expected after realising expected **synergies**.
- Upon closing, CCLP will be expected to own 14% of the proforma company on a fully diluted basis.



We selected 4 deals with potentially biggest impact on the industry…

December 13th, 2023 **$677m**

Launched a mandatory offer to acquire:

BW ENERGY

Stage of the deal: ● ○ ○ ○ ○ **Chances of success:** Low

Comment: Privately owned parent company BW Group with 49.9% holdings in BW Energy has launched a takeover bid on BW Energy. BW Group is primarily involved in shipping, floating gas infrastructure and deep-water oil & gas production. BW Energy is a growth E&P company targeting proven offshore oil and gas reservoirs.

BW Energy's board are opposed to the takeover bid believing that the offer is much below the company's fair value as it underestimates its long-term expected earnings, with further concerns over reduced liquidity of its shares from the takeover bid.

November 14th, 2023 **$176m**

DCC

Agreed to acquire:

PROGAS

Stage of the deal: ● ● ● ○ ○ **Chances of success:** Moderate

Comment: DCC plc is an FTSE 100 international sales, marketing, and support services group, operating across energy, healthcare and technology industries. Progas, founded in 1949, is a leading distributor of LPG in Germany annually delivering 330 LPG million litres to over 70,000 domestic and commercial customers.

The acquisition of Progas will advance DCC Energy's strategy to grow its liquified petroleum gas (LPG) offering by 50% to 2030. DCC Energy will continue to extend its footprint through synergistic acquisitions.

January 11th, 2023 **$7.4bn**

CHESAPEAKE ENERGY

Agreed to merge in an all-stock transaction with Southwestern Energy:

swn

Stage of the deal: ● ● ● ○ ○ **Chances of success:** High

Comment: Chesapeake Energy and Southwestern Energy are 2 of the US's largest natural gas exploration and production companies and plans to merge to become one of the largest producers in the US. The merger will help lower overall costs along with being placed in a prime market position with their combined production sites.

Chesapeake operates mainly in Texas, Louisiana and Oklahoma and Southwestern produces mainly in Appalachia and Haynesville Shale (between Texas and Louisiana). Their assets are highly complementary towards greatly benefitting from synergies.

December 18th, 2023 **$450m**

FR FURY RESOURCES

Agreed to acquire:

BATTALION OIL CORPORATION

Stage of the deal: ● ● ○ ○ ○ **Chances of success:** Moderate

Comment: Battalion Oil Corporation is a public energy exploration and production company with its main operations in the Delaware Basin.

Fury Resources is a private energy exploration and production company, with this deal representing Fury's desire to add to its presence in the strategic basin.

Battalion Oil Corporation has previously experienced recent liquidity crunches and have been seeking strategic alternatives to support its activities. The transaction is expected to close in 1Q2024.

Glossary

LNG: Liquified natural gas

boe/d: Barrels of oil equivalent per day

GHG: Greenhouse gas

Synergies: The concept that the combined value and performance of two companies is greater than the sum of the separate companies

E&P: Exploration & Production - early stages of energy production consisting of looking for oil and gas and then extracting it

The Team



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