Winter Deal Recap

Several factors, including high inflation, high interest rates, and overall uncertainty in the market, resulted in a decline in M&A activity in 2023. Despite the rough year, Q4 2023 and the first two months of 2024 have shown that deal activity is due for a comeback. One of the biggest trends that characterized this period is the consolidation of the oil and gas industry, which went on a $250bn buying spree in 2023. This article breaks down some of these natural resources deals and mentions other significant acquisitions announced this winter.

Industrials

Occidental Petroleum agrees to buy CrownRock

Deal Value: $12bn | **Deal Type:** Acquisition | **Date:** December 11th, 2023 | **Nationality:** US | **Premium:** N/A

Joining the natural resource consolidation frenzy, Occidental Petroleum [NYSE: OXY] announced its acquisition of shale oil producer CrownRock in a cash-and-stock deal valued at $12bn, including debt. The deal is expected to be completed in Q1 2024, making Occidental bigger in US shale production than Chevron and Hess combined. This is Occidental's first deal since its major acquisition of Anadarko Petroleum for $57bn in 2019, right before oil prices dropped to near zero due to the pandemic. The recent rise in oil prices allowed Occidental to recover and use a combination of cash and shares to fund the merger. Occidental intends to fund the transaction by taking on $9.1bn of new debt and issuing $1.7bn of common equity, and as part of the acquisition, it will assume CrownRock's $1.2bn of existing debt. Once finalized, the deal will boost Occidental's Permian production to 170,000 barrels of oil and gas per day, to 750,000 boed. The deal marks Occidental's entry into the major leagues of US shale production; however, it is costlier than competitor Exxon's all-stock purchase of Pioneer. Once the merger is completed, it is expected to generate $1bn in free cash flow in its first year, assuming a benchmark US oil price of $70 a barrel. Occidental's shares rose 0.8% upon announcement.

Nippon Steel's Acquisition of US Steel

Deal Value: $14.9bn | **Deal Type:** Acquisition | **Date:** December 18th, 2023| **Nationality:** Japan, USA | **Premium:** 40% to US Steel's closing stock price on December 15th, 2023

In mid-December 2023, Nippon Steel [TYO: 5401] announced it would acquire US Steel [NYSE: X] for approximately $14.9 bn in their biggest deal. This deal represents a significant premium of 40% over US Steel's closing stock price on December 15th. Upon completion, the acquisition will position Nippon Steel as a top player in the global steel industry, accounting for 4.5% of annual global crude steel production. The merger is expected to provide Nippon Steel with the size and resources necessary to compete against the Chinese dominance in the global steel market. The acquisition follows the emerging trend of Japanese companies pushing for overseas acquisitions in response to their shrinking domestic market and the geopolitical constraints that Chinese groups face in buying US corporations. However, the deal has faced opposition from policymakers concerned about its potential impact on union workers and national security, prompting calls for regulatory scrutiny. Democratic leaders argue that the United Steelworkers union had not been consulted nor notified before the agreement was announced, and they demand "further clarity on the proposal and its potential impacts to Pennsylvania's industrial base and workers". In the meantime, Republican leaders worry about protecting domestic production and national security. However, Nippon Steel's President Eiji Hashimoto expresses confidence in completing the planned acquisition successfully despite opposition.

Britain's Harbour Energy buys out Wintershall Dea assets in a $11.2bn deal

Deal Value: $11.2bn | **Deal Type:** Asset acquisition | **Date:** December 21st, 2023 | **Nationality:** UK, Germany | **Premium:** N/A

Britain's Harbour Energy [LON: HBR] agreed to acquire most of Wintershall Dea's upstream assets for $11.2bn. The deal, to be finalized in Q4 2024, follows other recent large oil and gas acquisitions such as Exxon Mobil's [NYSE: XOM] $60bn deal for Pioneer Natural Resources [NYSE: PXD] and Chevron's [NYSE: CVX] $50bn deal for Hess Corp [NYSE: HES]. Upon completion, BASF, Wintershall Dea's majority owner, will own 46.5% of Harbour's listed ordinary shares, and Harbour's shareholders will own 53.5%. Harbour shares closed 21% higher, while BASF's were not affected after the announcement. The terms of the deal include porting Wintershall Dea's bond obligations with a nominal value of $4.9bn. In addition, Harbour is issuing 921m new shares to Wintershall Dea's shareholders at an agreed value of $4.15bn. This represents a 60% premium over Harbour's 30-day volume weighted average share price of £2.27. The remaining $2.15bn of funding will come from cash flow generated from the acquired assets. Harbour Energy, currently the largest British North Sea oil and gas producer, aims at expanding beyond its local region as the acquisition will grant the company ownership of Wintershall Dea's producing and development assets, as well as exploration rights in Norway, Argentina, Germany, Mexico, Algeria, Libya, Egypt, and Denmark, combined with carbon capture and storage licenses in Europe. The deal, however, does not include all of Wintershall Dea's assets, as the Russian ones will not be purchased. Harbour will benefit from the acquisition mainly through scaling up as the combined group is expected to produce over 500,000 barrels of oil equivalent per day. Furthermore, Harbour will benefit from geographical diversification and licenses that align with the company's energy transition goals.

Chesapeake becomes the biggest US natural gas producer following a $7.4bn merger with Southwestern

Deal Value: $7.4bn | **Deal Type:** Merger | **Date:** January 11th, 2024 | **Nationality:** US | **Premium:** -2.9%, 4.5%

Chesapeake Energy [NASDAQ: CHK] reached an agreement with Southwestern Energy Company [NYSE: SWN] to merge in an all-stock transaction valued at $7.4bn, or $6.69 per share – a discount of about 3% to Chesapeake's last close and a premium of 4.5% to Southwestern's. Chesapeake, which was very successful during the US's shale revolution, reached an all-time-high valuation of $35bn right before the COVID-19 pandemic. On the other hand, Southwestern is a less-known firm, local to Arkansas, but now expanded to Oklahoma, Appalachia and Haynesville. The deal marks the biggest gas-focused US upstream merger in over ten years, creating the largest independent US natural gas producer. The combined entity would have an enterprise value of about $24bn, and Southwestern shareholders will receive 0.0867 shares of Chesapeake common stock for every share of the acquiree. When the deal is finalized, the combined entity will own assets in gas-rich Appalachia and the Haynesville Shale basin in Louisiana, gaining vital exposure to resources currently in high demand. The Haynesville Shale basin is particularly important given Chesapeake's proximity to the LNG market in the Gulf. The deal is the first big acquisition focused on natural gas in the US since the consolidation of natural resource companies kicked off late last year. Chesapeake's shareholders will own 60% of the merged entity, with the rest to be held by current Southwestern shareholders. Shares of Chesapeake were up 6.2% the morning after the announcement.

Gas station operator Sunoco strengthens midstream operations in $7.3bn deal with NuStar Energy

Deal Value: $7.3bn | **Deal Type:** Acquisition | **Date:** January 22nd, 2024 | **Nationality:** USA | **Premium:** 24%

Late last month, Sunoco [NYSE: SUN] agreed to acquire NuStar Energy [NYSE: NS] in an all-equity deal valued at $7.3bn including debt. The deal is a stock swap between Sunoco, a Dallas-based fuel distributor, and NuStar

Energy, liquids terminal and pipeline operator. Under agreed terms, NuStar shareholders will receive 0.40 of Sunoco common shares for each NuStar common share they own, which implies a 24% premium based on the 30-day volume weighted average price of both companies. The deal benefits Sunoco as it will achieve diversification and scale up its operations, essentially stabilizing the two already solid companies via vertical integration. Additionally, the transaction will improve Sunoco's capital allocation strategy on a larger scale and enhance growth, specifically cash flow generation. Sunoco expects to achieve $150m synergies by the third year of the deal, combined with about $50m of additional cash flow a year from refinancing high-cost floating-rate capital. Shares of Sunoco went down 5.1%, while NuStar's were up nearly 17% after the announcement.

Diamondback and Endeavor: a $26bn merger in the booming Permian basin

Deal Value: $26bn | **Deal Type:** Merger | **Date:** February 12th, 2024 | **Nationality:** US | **Premium:** N/A

Diamondback Energy [NASDAQ: FANG] is continuing the streak of consolidation in US shale production. On February 12th, it announced the acquisition of Endeavor Energy Resources for $26bn, beating competitor ConocoPhillips [NYSE: COP] in a race for the target company. This deal comes after Diamondback lost a bidding war against Occidental Petroleum [NYSE: OXY] for another big private operator based in the Permian, CrownRock [NYSE: CCK]. Upon completion of the deal, Texas-based Diamondback Energy, valued at $27bn before the announcement, will gain more ground in the Permian Basin of Texas and New Mexico, the biggest US oil field. The transition is believed to be easy, as the business is being kept local. Regarding the deal structure, the transaction consists of an $8bn cash payment and of 117.3m Diamondback shares, valued at $18bn as of February 9th. Once consolidated, Diamondback will gain scale and become one of the few pure-play Permian oil producers, trailing only ExxonMobil and Chevron in total Permian oil production. Diamondback, whose shares went up 10% after the announcement, is believed to be "a very attractive investment on Wall Street" as it is expected to produce 816,000 barrels of oil equivalent per day. The deal is expected to close in Q4 2024, and Diamondback's stockholders will own 60.5% of the combined entity, while Endeavor's will own the rest.

Financial Institutions Group

BlackRock's Acquisition of Global Infrastructure Partners (GIP)

Deal Value: $12.5bn | **Deal Type:** Acquisition | **Date:** January 12th, 2024 | **Nationality:** USA | **Premium:** Not specified

On January 12th, 2024, BlackRock, Inc. [NYSE: BLK] agreed to acquire Global Infrastructure Partners (GIP), a well-known independent infrastructure fund manager. The total consideration for the acquisition is $12.5bn in cash and approximately 12m shares of BlackRock's common stock. Under the terms, BlackRock will gain complete control, acquiring 100% of GIP's business and assets. This move allows BlackRock to play a significant role in investing in global infrastructure projects, spanning ports, power, and digital infrastructure. This will lead to BlackRock managing approximately $150bn in infrastructure assets, covering a diverse portfolio from the US liquefied natural gas export market to wastewater services in France and airports in England and Australia. The growing demand for logistics and digital infrastructure and the transition towards low-carbon energy sources have fuelled institutional investors' interest in this asset class. This acquisition represents a pivotal step towards expansion for BlackRock as its revenues declined, and its ESG business came under political attacks in the United States. Through this deal, BlackRock has shot up the scale to become a big player in the infra world where it has historically been "massively underweight", according to market perception. It is no secret that BlackRock has struggled to get its infra sector moving, and the consensus is that acquiring GIP was the best way for it to access a market-leading team and enhance corporate value. The key driver seems to be that BlackRock's own infra business had not grown to the scale they wanted to make a meaningful difference to a company of the size of BlackRock.

Technology, Media and Telecommunications

Synopsys's Acquisition of Ansys

Deal Value: \$12.5bn | **Deal Type:** Acquisition | **Date:** January 12th, 2024 | **Nationality:** USA | **Premium:** 29%

On January 16th, Synopsys [NASDAQ: SNPS] entered into an agreement to acquire Ansys [NASDAQ: ANSS] for approximately \$35bn. As per the agreement, for each of their shares, Ansys' shareholders will receive \$197 in cash and 0.345 shares of Synopsys' common stock, translating into an enterprise value of \$35bn and leading to a considerable premium of 29%. The negotiations for this deal coincided with a leadership transition at Synopsys, as co-founder Aart de Geus transitioned to an executive chairman role, allowing Sassine Ghazi to assume the CEO position. Synopsys's willingness to pay such a high premium is due in part to the significant commercial appeal of Ansys' software, widely utilized in various design applications, including sports equipment such as tennis rackets, and the potential integration of Ansys' simulation technology into the company's semiconductor design solutions. This would further solidify Synopsys' semiconductor design prowess, offering more robust and efficient chip design processes that ensure higher accuracy in testing and validation phases. Moreover, thanks to the transaction, Synopsys will significantly diversify its revenue streams beyond chip design tools by venturing into the simulation software domain. This strategic move is poised to bolster Synopsys's market position and drive synergistic growth, as the two companies are expected to report combined revenues of about \$8bn for 2023 and have already been working together as partners for seven years.

Hewlett Packard Enterprise's (HPE) Acquisition of Juniper Networks

Deal Value: \$14bn | **Deal Type:** Acquisition | **Date:** January 9th, 2024 | **Nationality:** USA| **Premium:** 16.5% to the closing price of Juniper Networks' common stock as of January 8th, 2024

Hewlett Packard Enterprise [NYSE: HPE] has announced its all-cash acquisition of networking gear maker Juniper Networks [NYSE: JNPR] for \$14bn. The \$40 per share offer represents a 16.5% premium over Juniper Networks' closing stock price as of January 8th, 2024. This strategic move aims to enhance HPE's artificial intelligence offerings and is expected to double its networking business. The integration of the two companies is projected to generate significant annual cost savings within three years of completing the deal, thereby strengthening HPE's competitive position in the market. The companies identified \$450m in cost synergies, which will likely lead to an impactful round of restructuring. However, the success of this acquisition hinges on effectively integrating Juniper's technologies and talents into HPE's existing structure. If executed well, the acquisition has the potential to significantly alter the dynamics of the networking industry, positioning HPE as a formidable competitor against the likes of Cisco and other industry giants.

Healthcare

Novo Holdings' Acquisition of Catalent

Deal Value: \$16.5bn | **Deal Type:** Acquisition | **Date:** February 5th, 2024 | **Nationality:** Denmark, USA | **Premium:** 47.5% to the 60-day volume-weighted average price as of February 2nd, 2024

Novo Holdings, the parent company of Novo Nordisk [OMX: NOVO.B], has announced it plans to acquire Catalent [NYSE: CTLT], a key manufacturing subcontractor for the obesity drug Wegovy, for $16.5bn. This deal, representing a premium of 47.5% over the 60-day volume-weighted average price as of February 2nd, 2024, aligns with Novo Holdings' strategy to support Novo Nordisk and expand fill-finish capacity to meet the rising demand for Wegovy. Following the merger, shares of Catalent will no longer be traded on the New York Stock Exchange, and Catalent will become a private company. Upon completion, Novo Holdings will divest three of Catalent's fill-finish sites to Novo Nordisk for $11bn. Novo Holdings' majority ownership in Novo Nordisk positions this acquisition as a strategic move to strengthen its capabilities in the pharmaceutical manufacturing landscape. Novo faces competition from US rival Eli Lilly's injection Zepbound in the fast-growing obesity drug race. Analysts have estimated the market could be worth as much as $100bn by the end of the decade.

AbbVie's acquisition of Cerevel Therapeutics

Deal Value: $8.7bn | **Deal Type:** Acquisition | **Date:** December 6th | **Nationality:** USA | **Premium:** 73%

Only a few days after announcing its acquisition of cancer drug developer ImmunoGen for $10.1bn, AbbVie shared its plans to buy another drug developer: Cerevel Therapeutics. The company, focused on developing therapies for mental and neurological illnesses, is valued at about $8.7bn. This race for new acquisitions highlights AbbVie's appetite to place a big bet on promising medicines by putting the cash on its balance sheet to good use. The pharma company aims to replace revenue from its arthritis drug Humira, which faces a new raft of competition because AbbVie lost patent protection. As part of the deal, the group will pay $45 per share for Cerevel, representing a 73% premium to the closing share price on December 1st. After the deal announcement, Cerevel shares were up 15.5%, while AbbVie's shares remained flat in extended trading. The deal is expected to close in mid-2024 and will complement AbbVie's existing neuroscience portfolio currently on the market. AbbVie expects the transaction to add to its adjusted per-share earnings by 2030, and, in particular, it highlighted a few of Cerevel's medications on late-stage trials, including emraclidine, which they called "a potential best-in-class, next-generation antipsychotic drug" that may be effective in treating schizophrenia and Alzheimer's-related psychosis.

