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Rising Oil Prices and M&A: "It Looks Like a Very Busy Fourth Quarter"

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Merger and acquisition activity in Texas was busier during the third quarter of 2021 than it had been in seven years. How will M&A in the fourth quarter be impacted by West Texas crude once again closing above $80 a barrel? The Texas Lawbook asked five partners who do a lot of dealmaking in the oil patch to get their opinion. Here's what they said:

Robin Fredrickson, Latham & Watkins

I think rising prices will slow M&A down for a little bit as I sense that folks don't believe the prices will hold high.

For this reason, the bid/ask is off currently. Buyers are hesitant to pay based on the blip in the prices and sellers think they should get the benefit of the blip. If prices hold or keep going up, then M&A will pick back up. So short term it hurts M&A and long term it may help M&A.

Keith Fullenweider, Vinson & Elkins

We are seeing growing momentum in financing as well as M&A activity for upstream as well as midstream companies.

Our clients are experiencing improved operating results and that is enabling them to refinance opportunistically or pursue business combinations for strategic reasons. It looks like a very busy fourth quarter for energy deal makers.

Hillary Holmes, Gibson & Dunn

One thing I can say is that this is one of the busiest times for our clients in about seven years. For upstream companies, rising prices means you will continue to see consolidation, especially within basins.

For oilfield services, rising prices means rigs are being brought back online, which involves costs on the front end. For public companies, you will see continued demands for free cash and return of cash to shareholders. Rising oil prices can also provide some freedom for oil and gas companies to explore energy transition or sustainability investment efforts, which is increasing in importance by the day.

Cliff Vrielink, Sidley Austin

Rising oil prices will have a significant impact on both M&A and investment in the oil and gas industry. On the M&A side, we have already seen those with capital snapping up assets that are synergistic to existing positions.

With the recent run-up in prices, acquisitions over the past year or so look like smart moves, which encourages others to consider doing the same. Similarly on the investment side, while ESG headwinds remain and will keep many potential investors on the sidelines, the return profile for the oil and gas space has improved considerably, and investors who are not barred from investing in oil and gas are finding great opportunities.

Sean Wheeler, Kirkland & Ellis

There remains an overall negative sentiment on investment in the oil and gas industry, with funds and activists pushing for greater emphasis on renewables and other sources of green energy. With that said, the death of the oil and gas industry has been greatly exaggerated or called prematurely.

As oil and gas prices rise, or even if they maintain their current healthy state, additional investment will move into the industry, mainly by private parties like PE funds, family offices and other sources of private capital. Public companies will likely continue to be fairly cautious in pursuing additional drilling opportunities.

Overall, prices at or above current levels will likely result in additional industry consolidation as a source of growth. Most companies engaged in this space recognize that scale is important to overall profitability. While there will be basically no way for these companies to meaningfully influence the price of the commodity even if rampant consolidation were to occur, oil and gas companies will continue to consolidate in order to gain economies of scale, access to better financing terms and to generate additional large cap investor interest and to maintain profitability.