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Energy companies expect increased M&A activity in 2008: survey

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Most energy companies anticipate that merger-and-acquisition activity will increase in 2008 despite credit concerns besetting other industries, according to a new CFO Research Services survey.

"The energy sector seems to have entered a more volatile stage than many other industries," CFO Research said Tuesday. The survey, done with CIT Group, was conducted in November 2007, with a total of 529 responses from senior finance executives in North America covering a wide range of industries.

Executives connected to energy and natural resources businesses made up about 6% of the total survey respondents.

Some 69% of energy executives expect M&A activity to increase this year; in fact, about 48% of energy executives--compared with 24% of executives in other industries--said they anticipate that acquisitions will make up a major component of their strategy this year, the survey said.

Energy executives "also were significantly more likely than their peers in most other industries to say that they expect their companies to divest some portion of operations within the coming year."

Some of the energy sector's enthusiasm for M&A activity "may be traceable to growing public attention to alternative energy sources and a desire among energy companies to answer threats to their core lines of business at an early stage," particularly since finding and development costs in the gas and oil segment is increasingly becoming more difficult and expensive, the survey said.

Energy executives also pointed to the need to access suppliers and overseas markets as motivators for their most recent acquisitions "much more often than did executives from other industry segments."

While several energy executives have in previous years, however, cited having large amounts of cash on hand as a prime trigger of M&A activity, in this survey that number "was cut in half" despite oil prices and profits reaching record levels. Moreover, "this segment was one of the few that did not anticipate a decline in the importance of either availability of credit or low interest rates."

Overall, "changes in the credit market and a weakening of the overall economy are already extending deal timelines," probably because, in part, of difficulties in gaining financing in a tight credit market as well as to the deals undergoing "greater scrutiny from all parties involved," the survey said.

"While the long-term effects of the credit crisis have yet to unfold, 2008 may still turn out to be a very good year for thoughtful, well-executed strategic transactions," the survey said. --Melanie Tatum, melanie_tatum@platts.com