AP CAPITAL RESEARCH

M&A Deal of The Week

ConocoPhillips & Marathon Oil

WRITTEN BY

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DATE

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Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- On the 29th of May 2024, ConocoPhillips announced that they had entered an agreement in which ConocoPhillips would acquire Marathon Oil in an all-stock transaction for $22.5 billion. The deal is expected to close in the fourth quarter of 2024 and is subject to closing conditions.
- Under the terms of the agreement, Marathon Oil will receive 0.2550 shares of ConocoPhillips common stock per share of Marathon Oil common stock. This represents a 14.7% premium to the closing share price of Marathon Oil on the 28th of May.
- This deal will add to ConocoPhillip's portfolio and financial framework. It is also immediately accretive on earnings, cash from operations, free cash flow, and return of capital per share to shareholders for ConocoPhillips
- This deal brings cost and capital synergies. ConocoPhillips expects to achieve at least $500 million in run-rate cost and capital savings within the first full year following the deal closing.
- Shares of Marathon Oil rose 9%, while ConocoPhillips shares fell by 3.8% on the 29th of May in morning trading.
- Evercore is serving as ConocoPhillips' financial advisor and Wachtell, Lipton, Rosen & Katz is serving as ConocoPhillips' legal advisor for the transaction.
- Morgan Stanley & Co. LLC is serving as Marathon Oil's financial advisor and Kirkland & Ellis LLP is serving as Marathon Oil's legal advisor for the transaction.

Key Figures

- **Deal premium:** 14.7%
- **Conoco Phillips P/E:** 12.7x
- **Conoco Phillips EV:** $145.53bn
- **Conoco Phillips EV/EBITDA:** 5.6x
- **Conoco Phillips D/E:** 37.3%
- **Conoco Phillips Price/Sales:** 2.48x
- **Conoco Phillips Market Cap:** $133.29bn

- **Closing date:** 2024 Q4
- **Marathon Oil P/E:** 11.2x
- **Marathon Oil EV:** $21.42bn
- **Marathon Oil EV/EBITDA:** 5.0x
- **Marathon Oil D/E:** 48.7%
- **Marathon Oil Price/Sales:** 2.67x
- **Marathon Oil Market Cap:** $16.04bn

WRITTEN BY
Max Hanson

Company Information

M&A DEAL OF THE WEEK

ConocoPhillips (NYSE: COP)

- ConocoPhillips is one of the world's leading exploration and production companies based on both production and reserves, with a globally diversified asset portfolio. Headquartered in Houston, Texas, ConocoPhillips has operations and activities in 13 countries, $95 billion of total assets, and approximately 10,000 employees.
- As of 2024, they delivered a total company production of 1,902,000 Barrels Of Oil Equivalent per day (BOE/D). They produced 1,046,000 BOE/D in the Lower 48 basin area, including 736,000 BOE/D from the Permian Basin, the remainder from the Bakken and other oilfields.
- They also executed a successful first major winter construction season at Willow in Alaska and advanced the development of Liquified Natural Gas projects in the U.S. and Qatar.
- Regarding financials, 2024 Q1 yielded a quarterly revenue of $13.84 billion down 6.8% from 2023 Q1's $14.8 billion with this fall in quarterly revenue being due to a lower quarterly average price per BOE. This led to quarterly earnings of $2.5 billion ($2.15 per share), down from $2.9 billion ($2.38 per share) in the first quarter of 2023. Excluding special items, adjusted earnings for Q1 2024 were $2.4 billion ($2.03 per share), compared to $2.9 billion ($2.38 per share) in Q1 2023.

Marathon Oil (NYSE: MRO)

- ·Marathon Oil is an independent oil and gas exploration and production company that focuses on four of the most competitive resource plays in the U.S. - Eagle Ford in Texas, Bakken in North Dakota, Permian Basin in New Mexico and Texas, and oil fields in Oklahoma. They delivered first a quarter of oil production of 181,000 BO/D and a first quarter of oil-equivalent production of 371,000 net BOED, inclusive of winter weather downtime, primarily in the Bakken.
- Marathon Oil reported a first-quarter 2024 net income of $297 million or $0.52 per diluted share. Adjusted net income was $317 million or $0.55 per diluted share. Net operating cash flow was $757 million or $861 million before changes in working capital (adjusted CFO). Free cash flow (FCF) was $271 million or $239 million.

WRITTEN BY
Genendra Gurung

Deal Rationale and Risk

Geographic and Global Presence

Geography

Conoco Phillips (COP) has major operations within Texas and leads regarding revenue as they reported $58.6 billion while Marathon Oil reported $6.7 Billion in 2023 respectively. Acquiring a company that competes with you in such proximity to their main operations gives Conoco an increased supply of produce as a combined entity. Moreover, adding 940,000 acres to its portfolio inevitably reduces the cost of supply of inventory and gaining market share.

International Presence

What differentiates Marathon from its other competitors in the Lower 48 market space is that they have an international presence. Marathon is currently operating a Liquified Natural Gas facility in Equatorial Guinea located in West Africa. They have utilised their assets in that location to gain exposure to Europe through a deal with Glencore Energy UK as well as the LNG arbitrage in Europe due to the absence of Russia. This allows them to expand and diversify their stream of revenues, mitigating macroeconomic risk.

Risk

Environmental Risks

The transition to a global low-carbon economy brings challenges, but long-term growth at COP may not be sustainable if you invest in a company that will face strong headwinds. Due to its operation, Marathon is a part of the cause of the current Co2 levels. In the long term, this may not be a sustainable way to grow. The increasing demand from investors regarding environmental, social, and governance (ESG) factors may have an immediate effect on the firm's operations and its ability to obtain capital.

WRITTEN BY
Laolu Gbadamosi

Precedent Transactions Analysis

M&A DEAL OF THE WEEK

Chevron's acquisition of PDC Energy - Aug 2023.

- Paying a 10.60% premium on PDC's closing price, this deal EPS accretive, complimentary to Chevron's US basins as well as increasing Oil-equivalent reserves by 10%.
- Transaction value - $6.3 billion.

Chevron's acquisition of Hess Oil - Oct 2023.

- This acquisition allowed increased diversification in Chevron's global portfolio as well as increased holdings in Guyana's Starbroek block, one of South America's most significant oil fields. This deal increased Chevron's presence in the Bakken Fields in North Dakota.
- Transaction value - $53 billion

ExxonMobil's acquisition of Pioneer Natural Resources - Oct 2023.

- ExxonMobil transformed its upstream portfolio by more than doubling its presence in the Permian Basin in West Texas. This deal added 16 billion BO/E of oil assets to its portfolio.
- Transaction value - $59.5 billion

Sunoco's acquisition of Nustar- May 2024.

- This acquisition allowed for immediate EPS accretion through significant revenue and run-rate synergies, as well as an increasingly diversified portfolio of products and revenues.
- Transaction value - $7.3 billion

Devon Energy's acquisition of WPX Energy - Jan 2022.

- WPX Energy was acquired by Devon Energy at a time when smaller Oil and Gas companies were trading at a discount due to extremely low oil prices, caused by Covid-19.
- Transaction value - $12.0 billion

Date	Acquirer	Target	Target Ticker	Target EV	Premium	EV/Sales	EV/EBIT	EV/EBITDA	P/E
Jun-24	**Conoco Philips**	**Marathon Oil**	**MRO**	**$22.5 Bn**	**14.70%**	**3.27**	**10.01**	**4.99**	**11.61**
May-23	Chevron	PDC Energy	PDCE	$6.3 Bn	10.60%	2.14	3.06	2.25	3.51
Oct-23	Chevron	Hess Oil	HES	$53.0 Bn	10.80%	5.28	17.40	10.60	31.17
Oct-23	ExxonMobil	Pioneer	PXD	$59.5 Bn	9.00%	2.89	7.91	5.82	9.77
May-24	Sunoco	Nustar	NS	$7.3 Bn	24.00%	4.43	15.75	10.10	78.96
Sep-20	Devon Energy	WPX Energy	WPX	$12.0 Bn	2.60%	2.88	75.09	5.12	-2.75

	EV/Sales	EV/EBIT	EV/EBITDA	P/E
High	5.28x	75.09x	10.60x	78.96x
75th Percentile	4.14x	16.99x	9.03x	26.28x
Average	**3.48x**	**21.54x**	**6.48x**	**22.05x**
Median	**3.08x**	**12.88x**	**5.47x**	**10.69x**
25th Pecentile	2.88x	8.44x	5.02x	5.08x
Low	2.14x	3.06x	2.25x	-2.75x

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AP Capital Research

Surrey Economics and Finance Society

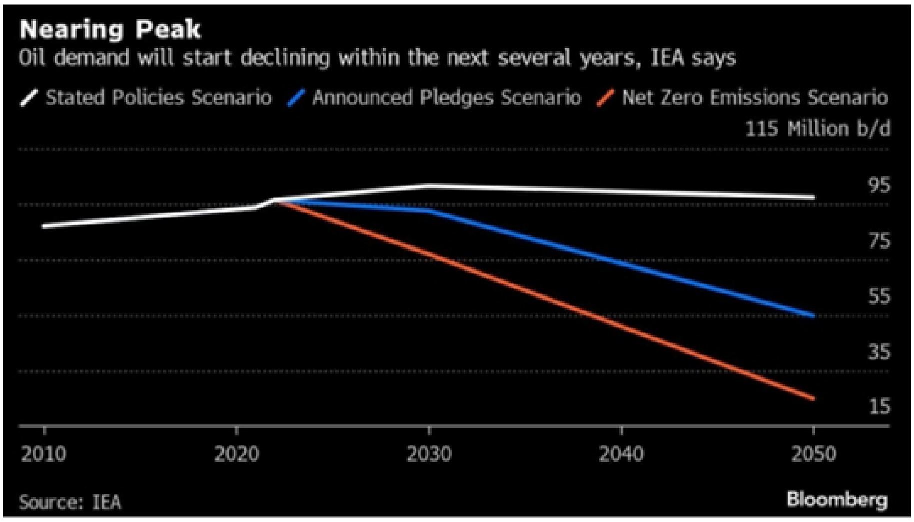
Industry Analysis

M&A DEAL OF THE WEEK

The U.S. Oil and Gas Industry

Extensive M&A stimulus within the energy industry, underpinned by slower exploration and production (E&P) and newly introduced efficiency standards, increase both capital inflow and market share for major industry leaders. The gradual shift to more sustainable sources of energy, especially in North America and Europe, incentivises further consolidation of existing production lines. More specifically, new demand in LNG requires not merely Conoco, but the rest of the industry to modify their infrastructure to meet the energy needs of both households and businesses. Slower production growth on the horizon shines light on the importance of deploying alternative technology that maximises capital invested and provides free cash flow to shareholders. This narrows the operations of US oil and gas (O&G) giants, to focus more on improving economies of scale and lowering existing cost structures. On the contrary, the Middle East remains a strong player within the E&P space, backed by abundant capital resources. The major buying spree and decent ROI estimates of around 10%, create a robust prognosis within the energy industry. ConocoPhillips retains a stable "A-" rating, according to S&P Global Rating.

Forecasted Decline in Future Oil and Gas Demand in Millions of Barrels of Oil/Day



Threats

Environmental

- Naturally, geography limits companies to extract oil and gas from shale, predominantly found in the Permian Basin, Eagle Ford and across the Balkan regions. Moreover, the transition from fossil fuels to renewable sources of energy, encourages both extensive R&D and consolidation, effectively stifling returns for small, private enterprises within the O&G sector.

Regulatory

- Precedent transactions by market leaders, such as Exxon and Chevron, and now ConocoPhillips, aim to generate attractive synergies. Despite the mergers being approx. 2% of the entire market, the FTC has escalated its regulatory reviews, making sure that the absolute concentration of production is mitigated. Additional regulations by the EPA, concerning LNG permits, introduce further supply-side restrictions, and ultimately commercial uncertainty.

WRITTEN BY

Thomas Kinnell

Final Thoughts

M&A DEAL OF THE WEEK

Max Hanson.

With this deal following other major acquisitions by competitors over the past few years, the acquisition will help ConocoPhillips stay competitive through cost and capital synergies, along with an international presence gained from this deal. However, with future oil and gas demand expected to fall in the coming years, this deal could be of little importance in the long run.

Laolu Gbadamosi.

In essence, COP has bought market share in the lower 48 space, added exposure to emerging markets and Europe and almost a million acres. The short-term outlook looks promising due to the absence of Russian oil and gas, we have already seen Marathon's excellent utilization of their assets in West Africa in gaining deals in Europe and their LNG arbitrage. Although, in the long term the shift to a low-carbon company may be difficult due to their recent purchase.

Adithya Praveen.

With natural resource mergers and acquisitions increasing over the last few years and the recent election in the U.S. favouring Trump, whose policies on gas are favourable, I believe this acquisition will be beneficial for ConocoPhillips. This strategic move could potentially strengthen ConocoPhillips' market position and allow them to capitalize on the anticipated growth in the natural gas sector under the new administration.

Thomas Kinnell.

Ultimately, ConocoPhillips has a stable performance outlook, reinforced by analyst consensus rating of a 'Strong Buy'. The dynamic energy landscape and ConocoPhillips' adaptability positions the company among the upper echelons of the Fortune 500. The recent uptick in M&A activity may indicate further ambitions of consolidation and strategic alignment across the energy sector.

Genendra Gurung.

The combination of these 2 entities will position for sustained, both long-term and short-term growth. The ConocoPhillips acquisition of Marathon Oil enhances its resource base by 2 billion barrels, achieving $500 million in annual cost savings, this acquisition not only expands ConocoPhillips' resource footprint but also strengthens its competitive position in the global energy market, and operational efficiency and solidifies its already diversified portfolio.

Samuel Thompson.

This acquisition is significantly beneficial for ConocoPhillips as it allows them to compete more efficiently with ExxonMobil and Chevron, the 2 biggest U.S. Oil and Gas producers. ConocoPhillips is also slightly underpaying for Marathon Oil based upon the Precedent Transactions Analysis meaning that even if the integration of Marathon doesn't yield the predicted synergies; this will mitigate that case.

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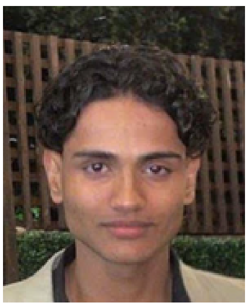

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