PErspective in NATURAL RESOURCES

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE NATURAL RESOURCE SECTOR.

Deal activity in the oil and gas sector continues to be sluggish as commodity prices remain depressed. However, private equity investors may see some opportunity in the alternative energy market.

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Continuing a trend from Q1, oil and gas deal activity was down in terms of volume during the second quarter of this year, but was the highest by dollar value since the fourth quarter of 2012, according to the Energy Information Administration (EIA). This is thanks to Royal Dutch Shell's acquisition of British rival BG Group for $83 billion, which accounted for a whopping 73 percent of second quarter M&A, *Oil and Gas 360* reports. Without that megadeal, the value of Q2 deals would have totaled just $31 billion. The transaction is not likely to spur a megadeal M&A boom, however, because companies in the sector have been unable to agree on prices for buying and selling assets, *Oil and Gas 360* reports.

Oil and gas deal volumes were below normal levels, with 137 deals announced in Q2. This was the lowest number of deals since Q4 2008 and was 42 percent below the previous two years' median quarterly number of deals of 235. The bid/ask spread remains too wide for many deals to take place, as sellers bide their time hoping for a recovery in the price of oil, which would increase the value of their assets. One noteworthy transaction was PE company Global Infrastructure Partner's purchase of a 50 percent stake in Hess Corporation's Bakken midstream assets for $2.675 billion. The goal of the joint venture is to pursue an IPO in the third quarter of this year, *Oil and Gas 360* reports.

The alternative energy space, by contrast, has seen fairly robust deal activity, especially in the middle market. The solar energy sector has seen an uptick in mid-market M&A, stemming at least in part from anxiety over imminent reductions in the federal solar investment tax credit from 30 percent to 10 percent by the end of 2016, according to *The Middle Market*. Larger solar firms are rushing to grow their businesses by acquiring smaller shops and to get rooftop solar projects installed completely in order to qualify before the higher tax credit is eliminated.

Noteworthy deals in the solar space include Gibraltar Industries' recent acquisitions of both RBI Solar and Rough Brothers Manufacturing for $130 million. SunEdison recently acquired seven renewable energy projects including wind, hydro and solar projects in Brazil, China, India, Peru, South Africa and Uruguay. *The Middle Market* indicates that Blackstone Group, Everstream Opportunities Fund II and Altai Capital Management made a $175 million investment in a SunEdison subsidiary in connection with the deal.

While solar M&A is hot, recent IPOs have demonstrated a lack of confidence among investors, according to *Penn Energy*. Solar financing pioneer SunRun raised $250 million in an IPO only to see shares fall 13 percent, and SunEdison shares fell 28 percent following its recent acquisition of rooftop installer Vivint Solar for $2.2 billion. The tax credit reduction coupled with a potential interest rate hike could further spook investors. However, if approved, new regulations targeting carbon dioxide emissions could raise the costs of traditional power, thereby giving the alternative energy sector a boost, writes *Penn Energy*.

In general, 2015 has been a difficult year for deal-making in the natural resources sector, with uncertainties driving mismatched buyer and seller expectations and depressed valuations. However, as the U.S. continues to diversify its energy base, PE firms may find lucrative opportunities in areas less prone to the whims of commodities markets.

PErspective in Natural Resources is a feature examining the role of private equity in the natural resources sector.

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Natural Resources Industry Contacts:

CHARLES DEWHURST
Houston
713-986-3127 / cdewhurst@bdo.com

KEVIN HUBBARD
Houston
713-986-3149 / khubbard@bdo.com

RICHARD BOGATTO
Houston
713-407-3723 / rbogatto@bdo.com

TOM ELDER
Houston
713-407-3959 / telder@bdo.com

LANCE FROELICH
Houston
713-986-3186 / lfroelich@bdo.com

VICKY GREGORCYK
Houston
713-407-3955 / vgregorcyk@bdo.com

ROCKY HORVATH
Houston
713-986-3150 / rhorvath@bdo.com

JIM JOHNSON
Dallas
214-665-0614 / jwjohnson@bdo.com

RAFAEL ORTIZ
Houston
713-986-3176 / rortiz@bdo.com

CLARK SACKSCHEWSKY
Houston
713-986-3101 / csackschewsky@bdo.com

CHRIS SMITH
Los Angeles
310-557-8549 / chsmith@bdo.com

ALAN STEVENS
Dallas
214-665-0786 / astevens@bdo.com

JIM WILLIS
Houston
713-986-3115 / jwillis@bdo.com

Private Equity Industry Contacts:

LEE DURAN
San Diego
858-431-3410 / lduran@bdo.com

SCOTT HENDON
Dallas
214-665-0750 / shendon@bdo.com

KAREN BAUM
Dallas
214-969-7007 / kbaum@bdo.com

RYAN GUTHRIE
Costa Mesa
714-668-7385 / rguthrie@bdo.com

KEVIN KADEN
New York
212-885-8000 / kkaden@bdo.com

DAN SHEA
Los Angeles
310-557-8205 / dshea@bdocap.com

JOE BURKE
McLean, VA
703-770-6323 / jburke@bdo.com

FRED CAMPOS
Miami
305-420-8044 / fcampos@bdo.com

LENNY DACANAY
Chicago
312-730-1305 / ldacanay@bdo.com

JERRY DENTINGER
Chicago
312-239-9191 / jdentinger@bdo.com

JOE GORDIAN
Dallas
214-969-7007 / jgordian@bdo.com

TUAN HOANG
Los Angeles
310-557-8233 / tmhoang@bdo.com

TODD KINNEY
New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL
Chicago
312-616-4630 / msegal@bdo.com