

# Goldman Sachs, Scotia Waterous were top M&A advisors in 2008

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Advising on merger and acquisition transactions is a lucrative business. For each transaction there is a financial advisor to the seller, a financial advisor to the bidder, a legal advisor to the seller, and a legal advisor to the bidder. In some cases, there are additional co-advisors to each deal. Over the course of a year, banks and law firms that advise on these deals collectively earn billions of dollars in advisory fees, usually a percentage of the transaction value.

Deal volume in global oil and gas M&A transactions has increased the past two years. According to Bloomberg, completed deal value for the top 15 financial advisors in the global upstream market in 2008 amounted to more than \$162 billion. This averages to nearly \$11 billion per transaction. Goldman Sachs was the top advisor, advising on 18 transactions with a completed deal value of nearly \$24.6 billion.

The total number of global energy deals for the top 15 financial advisors was 190, which averages to 12.7 per advisor, although this ranged from 29 deals for top-ranked Scotia Waterous to just seven deals each for TD Securities and Credit Suisse, the No. 14 and 15 ranked companies.

Scotia Waterous, with offices in Houston, Calgary, Denver, Singapore, and Beijing, advised on 29 completed deals in 2008 with a total value of \$20.1 billion. New York-based Goldman Sachs had fewer total deals (just 18) but the transactions totaled \$24.6 billion, about \$4.5 billion more than Scotia Waterous.

JP Morgan came in second in number of transactions (19) but ranked third in deal value (\$18.6 billion). Tristone Capital ranked fourth in number of deals (17) but deal value was just \$6.8 billion, putting them back in the No. 13 position by dollar amount. By contrast, Deutsche Bank AG advised on just eight deals (No. 12 position) but was fourth in dollar amount (\$11.8 billion).

Merrill Lynch & Co. came in fifth in number of deals (14) but was way back in the No. 15 position in deal value (\$6.6 billion).

Rounding out the top 15 in completed deals: Jefferies &

Co. (14); Macquarie Group Ltd. (11); Citi (10); FirstEnergy Capital Corp. (10); RBC Capital Markets (9); GMP Securities LP (9); CIBC (8); TD Securities (7); and Credit Suisse (7).

Rounding out the top 15 in completed deal value: TD Securities (\$11.3 billion); Credit Suisse (\$10.1 billion); Morgan Stanley (\$8.6 billion); Peters & Co. Ltd. (\$8.1 billion); BMO Capital Markets (\$7.9 billion); Macquarie Group Ltd. (\$7.3 billion); Lehman Brothers (\$7.2 billion); RBS (\$7.0 billion); and UBS (\$6.7 billion).

Goldman Sachs has been the No. 1 merger advisor globally every year since 1997 (as ranked by Thompson Financial), but the Wall Street firm doesn't specialize in oil

and gas mergers, as do some of the other firms on the Top 15 list. Although Goldman has been hit hard by the financial crisis (its stock price dropped from a high of \$203 a share to a low of \$47, but has since bounced back to around \$128 in early May), the firm still did

well in 2009 and first-quarter results this year look bright as well.

"Our results for the fourth quarter reflect extraordinarily difficult operating conditions, including a sharp decline in values across virtually every asset class," said Lloyd C. Blankfein, chairman and CEO of Goldman Sachs. "While our quarterly performance obviously didn't meet our expectations, Goldman Sachs remained profitable during one of the most challenging years in our industry's history. Our deep and global client franchise, experienced and talented people, and strong balance sheet position our firm well for the year ahead."

Goldman's clients are located across the globe and include private and public companies. Goldman provides advice on a range of strategic transactions, including mergers, sell-side and buy-side advisories, leveraged buy-outs, joint ventures, strategic alliances, anti-raid and raid defenses, fairness options and spin-offs, split-offs, divestitures, and other restructurings. Where appropriate, Goldman says it also has the ability to provide clients with financing solutions to assist them in their M&A transactions.

## M&A TRENDS

- More deals involving companies under pressure to sell
- Well-capitalized companies acquiring assets made affordable by declining oil and gas prices
- Re-deployment of investment capital to developed regions like US and Canada, from developing world, where investors face difficult conditions

## Top 15 M&A advisory firms

Global upstream M&A transactions  
Completed deal value (2008)

Rank	Firm	Deal value (\$ billion)
1	Goldman Sachs & Co.	\$24.6
2	Scotia Waterous	\$20.1
3	JP Morgan	\$18.6
4	Deutsche Bank AG	\$11.8
5	TD Securities	\$11.3
6	Credit Suisse	\$10.1
7	Morgan Stanley	\$8.6
8	Peters & Co. Ltd.	\$8.1
9	BMO Capital Markets	\$7.9
10	Macquarie Group Ltd.	\$7.3
11	Lehman Brothers	\$7.2
12	RBS	\$7.0
13	Tristone Capital Inc.	\$6.8
14	UBS	\$6.7
15	Merrill Lynch & Co.	\$6.6

Many M&A advisors see a surge in upstream oil and gas transactions this year due to some producers struggling to finance development projects and larger companies in a better cash position targeting them for acquisition – either the company or its reserves.

“The transaction pace is going to be very strong, very soon,” Scotia Waterous’ Adam Waterous told Oil & Gas Financial Journal in a recent interview. “Companies are struggling to grow organically due to lack of capital availability. If they don’t want to sell equity, one of their few remaining options for growth is to sell non-core assets.”

“It’s the old saw,” an analyst told OGFJ at a recent conference, “it’s cheaper to buy a barrel of oil on Wall Street than to drill for it.”

E&P companies that run out of capital to be able to develop their assets may themselves be acquisition targets by those with the means to acquire, said Waterous, who expects industry consolidation to be “quite active” this year. “The opportunity to be able to make acquisitions is much more compelling than it’s been in some time,” he said. “A down market such as we’re in is the ideal time to acquire.”

Last year, Scotia Waterous, a member of the Scotiabank Group, the eighth-largest bank in North America, advised on several noteworthy M&A deals, including Canada’s Husky Energy on its oil sands partnership with BP PLC; Penn West Energy Trust on its acquisition of Canetic Resources Trust; Tanganyika Oil Co.’s sale to China Petrochemical Corp. (Sinopec); and Bois d’Arc Energy Inc.’s sale to Stone Energy Corp.

Scotia’s record as a top M&A firm is evidence that it’s not necessary to be a Wall Street financial house to develop a large oil and gas business and build a dominant franchise, said Waterous.

## Top 15 M&A advisory firms

Global upstream M&A transactions  
Completed deal count (2008)

Rank	Firm	Total transactions
1	Scotia Waterous	29
2	JP Morgan	19
3	Goldman Sachs & Co.	18
4	Tristone Capital Inc.	17
5	Merrill Lynch & Co.	14
6	Jefferies & Co.	14
7	Macquarie Group Ltd.	11
8	Citi	10
9	FirstEnergy Capital Corp.	10
10	RBC Capital Markets	9
11	GMP Securities LP	9
12	Deutsche Bank AG	8
13	CIBC	8
14	TD Securities	7
15	Credit Suisse	7

Here are a few of the trends expected in the M&A marketplace in 2009:

- More deals involving E&P companies under pressure to sell;
- More well-capitalized companies acquiring assets made affordable by the decline in oil and gas prices; and
- More redeployment of investment to developed regions from the developing world, where foreign investors face difficult conditions.

Deloitte recently released a report on M&A activity in 2007 and 2008 in which it counted a total of 1,285 M&A deals for the two-year period with a cumulative value of all the deals at about \$578 billion, as reported by Merger Market. Oil and gas M&A activity in 2008 declined sharply from the previous year in both value terms and in number of deals. Most of this decline has been in North American M&A deals, which fell by about 45% from the prior year, according to Deloitte.

Jeff Martin of Peters & Co. Ltd, the eighth-ranked M&A firm by deal value in 2008, recently said that the number of M&A transactions year-to-date remains small, but he believes that M&A activity will increase substantially for the remainder of the year. Although North America has been a hotbed of oil and gas deals in recent years, much of this activity is expected to shift to other areas, say several industry experts who spoke to us about this topic.

However, new oil and gas reporting rules in the United States may encourage M&A activity there says Michael Lynch-Bell of Ernst & Young’s London office. “The transparency created by the new SEC rules is likely to embolden aggressive companies, which can be more confident that a merger or acquisition will provide sufficient return on capital in the coming years.” **OGFJ**