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Consolidation in the US oil and gas industry

FW discusses consolidation in the US oil and gas industry with Rahul D. Vashi at Gibson, Dunn & Crutcher LLP and Mingda Zhao at Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates.



Q&A: Consolidation in the US oil and gas industry

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Rahul D. Vashi is a partner in the Houston office of Gibson, Dunn & Crutcher. He is co-chair of the firm's oil & gas practice group and a member of the firm's energy and infrastructure and mergers and acquisitions practice groups. His practice focuses on acquisitions, divestitures and strategic joint ventures involving a broad range of energy assets, with an emphasis on the upstream and midstream sectors. His practice includes advising clients about the formation of drilling partnerships, joint development arrangements, farmout and participation agreements, and other joint venture arrangements.



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Mingda Zhao has a deep understanding of the unique issues that arise within the energy sector, including how subsurface titles are handled across various jurisdictions and the structuring of complex joint venture agreements, and clients frequently turn to him to tackle some of their most complex matters in these areas. Additionally, he counsels US and international companies across a variety of industries, as well as private equity funds and their portfolio companies, on a variety of corporate matters.

FW: How has consolidation been shaping the US oil and gas industry in recent months? What are the key drivers behind the current wave of mergers in the industry?

Vashi: The consolidation trend that has persisted through the last few years continued throughout 2025, even amid tariff-related inflationary concerns and middling commodity prices. The last quarter of the year saw mergers of Vital Energy and Crescent Energy and SM Energy and Civitas Resources. In an era of capital discipline, with limited untapped exploratory options in US shale, and with oil prices remaining relatively low, access to quality assets and the ability to drill wells efficiently and turn a profit are paramount, and companies of sufficient scale are best equipped to deal with those macro challenges.

Zhao: The latest consolidation wave is a result of several converging forces, including relatively flat commodity prices, the industry's push for scale and cost efficiencies, maturing of shale plays and a generally favourable regulatory and economic environment. In particular, shale exploration and production (E&P) has reached a stage where a 'bigger is better' philosophy prevails, especially with far fewer private equity (PE) buyers in the market compared to a decade ago.

Companies also recognise that if they intend to scale through acquisitions, it is advantageous to do so under the current regulatory and business environment. This wave of consolidation has resulted in fewer companies and buyer deal volume, but larger deal sizes.

FW: What influence is private equity exerting on the current wave of consolidation? How does its approach differ from that of traditional operators?

Zhao: Although there are fewer PE players active in the oil and gas E&P area than there were 10 years ago, those that remain have a distinctive edge, be it through their ability to cut large cheques or with evergreen fund structures. The expiring life of existing PE funds is driving certain acquisition and divestiture (A&D) activity as sponsors seek exits. In some instances, continuation fund structures, or quasi-continuation fund transactions, are being deployed. Many PE funds have more or less moved to an 'acquire and produce' structure from the traditional 'buy and flip' asset model. As a result, PE operators increasingly resemble conventional E&P companies with a stronger emphasis on expanding reserves and long-term production.

Vashi: Certain PE-backed portfolio companies that built

sizeable acreage positions in core shale basins over the last few years have benefitted from the consolidation wave, taking advantage of public company appetite for top-tier assets and selling at attractive valuations. However, several quality private oil and gas companies are still out there, whether because they operate in basins with less deal activity or have grown so large that their pool of potential acquirers is limited. With a soft initial public offering market, we are seeing several PE funds utilise continuation vehicles for valuable oil and gas portfolio companies, allowing them to return capital to limited partners and extend the shelf lives of valuable businesses. On the acquisition side, the approach for PE is necessarily different from traditional operators. Healthy balance sheets and lower cost of capital give large public companies an advantage when competing for large asset packages in core basins, so PE companies need to turn to trusted management teams, larger individual investments, and less competitive and riskier assets to find opportunities.

FW: How significant is inventory depletion in driving recent consolidation? How are companies assessing the long-term value of unproved reserves in their acquisition strategies?

Vashi: Inventory depletion is a very significant, key factor in the consolidation wave. If, as many believe, we are in the late stages of the shale revolution, runway for future drilling is more precious than ever. For most acquirers, future development potential is a primary objective. However, for mature assets with high production and limited upside opportunities, a different class of acquirers has developed, focused on yield, stable returns and securitisation of production streams. From public companies, master limited partnerships, production-based PE strategies, to family offices, there is a market for producing assets and harvesting the revenue streams. Both trends – the appetite from large public companies and new PE

teams for undeveloped reserves, and the increased investor base for yield strategies – are likely to continue.

Zhao: Inventory depletion is a significant driver of recent M&A activity in the oil and gas sector. As companies exhaust their core drilling locations, acquisitions offer a strategic way to replenish high-quality drilling inventory. This, coupled with open acreage becoming increasingly scarce and the industry's overall healthier balance sheet, has driven this consolidation trend. Buyers are also scrutinising the regulatory environment, commodity price outlook and potential development constraints to ensure that unproved

reserves can be profitably developed over time.

FW: How are companies balancing the pursuit of operational synergies with the risk of acquiring stranded or declining assets, particularly in mature basins?

Zhao: This challenge often manifests as a classic distinction between corporate M&A and traditional A&D transactions. In typical corporate M&A transactions, the acquiring company will often conduct a divestiture programme post-closing to shed non-core assets. This practice has not significantly changed. Ultimately, acreage that is core to one operator may be non-core to another.

Vashi: Operators are drilling larger, more technically advanced wells that produce more oil and gas. They are drilling multiple wells at once off massive well pads, with large shared central production facilities. They continue to refine completion methods. They conduct rework operations on older wells that were drilled when the geology in some shale basins was less understood. In other words, technology continues to advance, and companies continue to find ways to extend the productive lives of assets. As shale matures, the ability to optimise 'declining' assets will be a key component in companies' capital plans.



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MINGDA ZHAO

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP AND AFFILIATES



FW: In what ways are regulatory changes – such as new methane emissions rules and the Inflation Reduction Act – reshaping M&A activity across the sector?

Vashi: Regulatory factors certainly influence deal activity. For example, increased antitrust scrutiny for oil and gas M&A in 2022-24 was a departure from previous regulatory approaches to the sector and negatively impacted deal activity, but the macroeconomic factors – commodity price outlook, consumer demand and capital availability – have much bigger impacts than any recent regulatory changes.

Zhao: Regulatory developments continue to be a critical consideration in oil and gas M&A. The Environmental Protection Agency's new methane emissions standards and incentive programmes under the Inflation Reduction Act (IRA) have created both compliance obligations and strategic openings. The IRA's tax credits and funding programmes have spurred investment in lower-carbon and infrastructure-related assets. As policy frameworks continue to evolve, aligning with those requirements will remain a key differentiator in deal execution, influencing how capital is deployed and how acquirers evaluate the long-term resilience and value of assets. Many of the traditional oil and gas companies are evolving into broader 'energy' companies, now with activities spanning many

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parts of the value chain, including carbon capture and storage, power generation and even data centre development.

FW: Are we seeing a shift from scale-driven mergers to acquisitions focused on capabilities such as digital innovation, low-carbon solutions or liquefied natural gas expertise?

Zhao: While scale remains a primary driver of consolidation with oil and gas companies seeking operational efficiencies and cost synergies, there is a clear rise in capability-focused acquisitions, particularly in areas such as digital innovation, emissions management and liquefied natural gas (LNG) expertise. These transactions

are typically smaller in scale but strategically meaningful as they enable companies to acquire intellectual property, technical know-how and operational assets that align with their long-term business objectives. These deals are increasingly viewed as essential for 'futureproofing' traditional business models, meeting investor expectations around energy transition readiness and adapting to evolving regulatory requirements. As a result, M&A activity in the sector is evolving beyond the consolidation of reserves, with companies seeking to build enduring competitive advantages through targeted investments in technology and specialised expertise.

Vashi: I would not call it a shift from scale to capability focus, but an extension. For natural gas businesses, access to international markets through investments in or supply agreements with LNG projects makes for an attractive opportunity. Additionally, several oil and gas companies are investing in technologies that are ancillary to skillsets and technologies utilised in traditional oil and gas drilling, from geothermal to lithium extraction. M&A is still largely driven by the core oil and gas business, but research and development focus is often broader.

FW: What consolidation opportunities do you foresee in the near and longer term? Which trends or developments are likely to shape the next phase of the US oil and gas industry?

Vashi: The trend toward fewer but larger, scaled, efficient public companies will continue. There

are still small to mid-cap public operators that are attractive targets. The LNG export wave is also already impacting the deal market, with Asian utilities making large acquisitions of US Gulf Coast assets and investing in LNG export projects to provide feedstock for gas and power markets abroad. Finally, as exploration opportunities in US shale decline, US operators are once again looking further for untapped reserves, from the North Slope of Alaska to Guyana, to EOG's investment in Bahrain. The strategic value of Hess's Guyana asset to its merger with Chevron is a good signal that we will likely see a resurgence in transactions focused on large, untapped international projects over the next several years.

Zhao: Portfolio optimisation will continue to dominate corporate strategy, with the largest integrated oil and gas companies and larger independents expected to divest non-core upstream and midstream

assets, creating opportunities for mid-sized operators and private capital. Midstream and LNG infrastructure assets are likely to remain highly attractive to strategic buyers given their stable cash flows and critical role in the energy value chain. In the near term, large acquisitions and consolidations are expected through the end of 2028, aligned with the expectations of a supportive regulatory environment. Over the longer term, producers will maintain disciplined capital allocation, including increased investments to meet the rapidly growing power demands of data centres. ■

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