2025 Midstream M&A Outlook

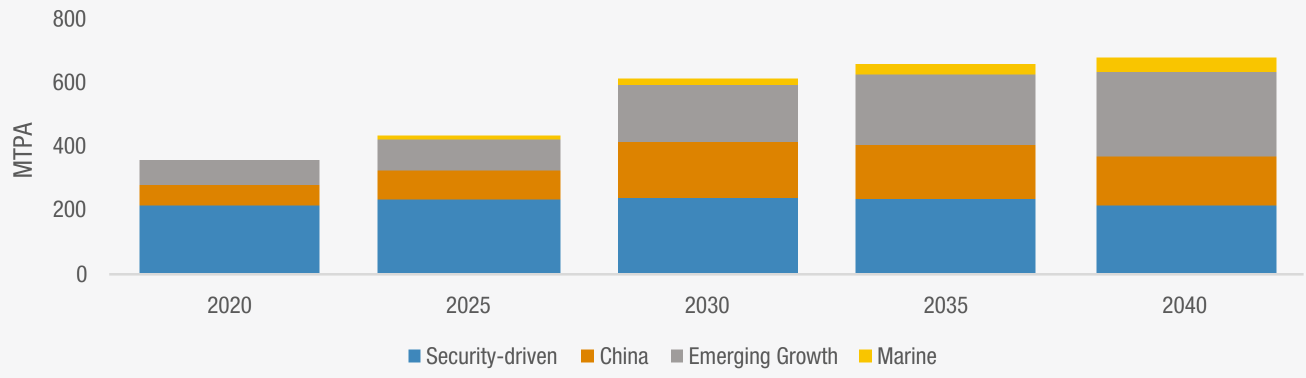
Midstream Merger and Acquisition Activity Will Continue in 2025

The midstream oil and gas sector is experiencing a robust wave of mergers and acquisitions (M&A) as companies aim to strengthen their market positions, enhance operational efficiencies and meet escalating global energy demand. Alvarez & Marsal expects this trend to continue throughout 2025, driven by a combination of economic and strategic factors. As market dynamics evolve, effective M&A strategies will be pivotal in shaping the competitive landscape of the industry. In this article, we break down the value of vertical integration and the importance of focused synergy efforts, highlighting how these strategies enhance financial performance and drive long-term shareholder value.

Energy Demand: A Key Driver in Midstream M&A Outlook

The global demand for natural gas and liquefied petroleum gas (LPG) continues to rise, spurred by economic growth, industrial expansion and an increasing shift toward cleaner energy sources. In 2024, global natural gas demand reached a record high, with a 2.8 percent year-on-year increase, and is projected to grow further in 2025, according to the International Energy Agency's (IEA) Gas Market Report Q1-2025. This surge is largely attributed to robust economic growth in Asia, particularly in China and India, where industrial coal-to-gas switching is accelerating. China's liquified natural gas (LNG) imports are expected to hit a record high of over 80 million metric tons this year, with future growth driven by the power sector. The effort to support this demand and deliver natural gas to the global market is driving significant investment in U.S. midstream infrastructure, including pipelines, storage facilities and export terminals. Figure A below provides a global LNG demand outlook into 2040.

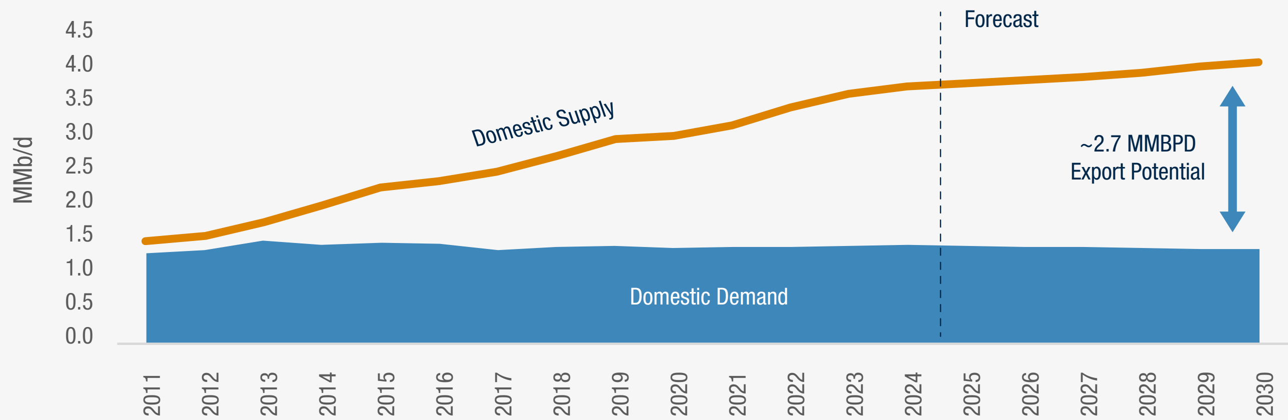
Figure A: Global LNG Demand



Source: Shell 2024 LNG Outlook

The U.S. has also become a leading exporter of LPG, supplying international markets with competitively priced propane and butane. The expansion of LPG export terminals on the Gulf Coast and new shipping routes to Asia are facilitating increased global trade flows. From 2014 and 2024, U.S. LPG supply has doubled from approximately 2 MMb/d to 4 MMb/d. This supply growth relative to domestic demand has incentivized companies to expand export capacity and access, growing international markets as shown in Figure B.

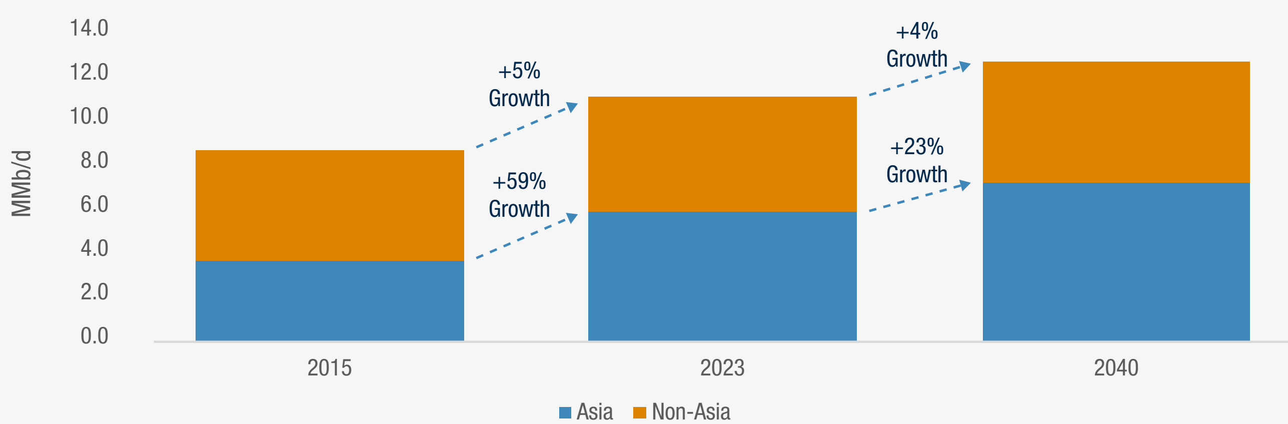
Figure B: US LPG Supply and Demand



Source: EIA and EPD Fundamentals as of May 2024

Global LPG demand is also experiencing sustained growth, particularly in emerging markets. Governments in countries such as India, Indonesia and Brazil are actively promoting LPG adoption through subsidies and infrastructure investment, leading to increased LPG use for household and industrial needs and transportation. Additionally, the growing petrochemical industry, especially in China and Southeast Asia, is a major driver of LPG demand. LPG serves as a crucial feedstock for the production of plastics, synthetic rubber and other industrial chemicals.

Figure C: Global LPG Demand



Source: S&P Global as of September 2024

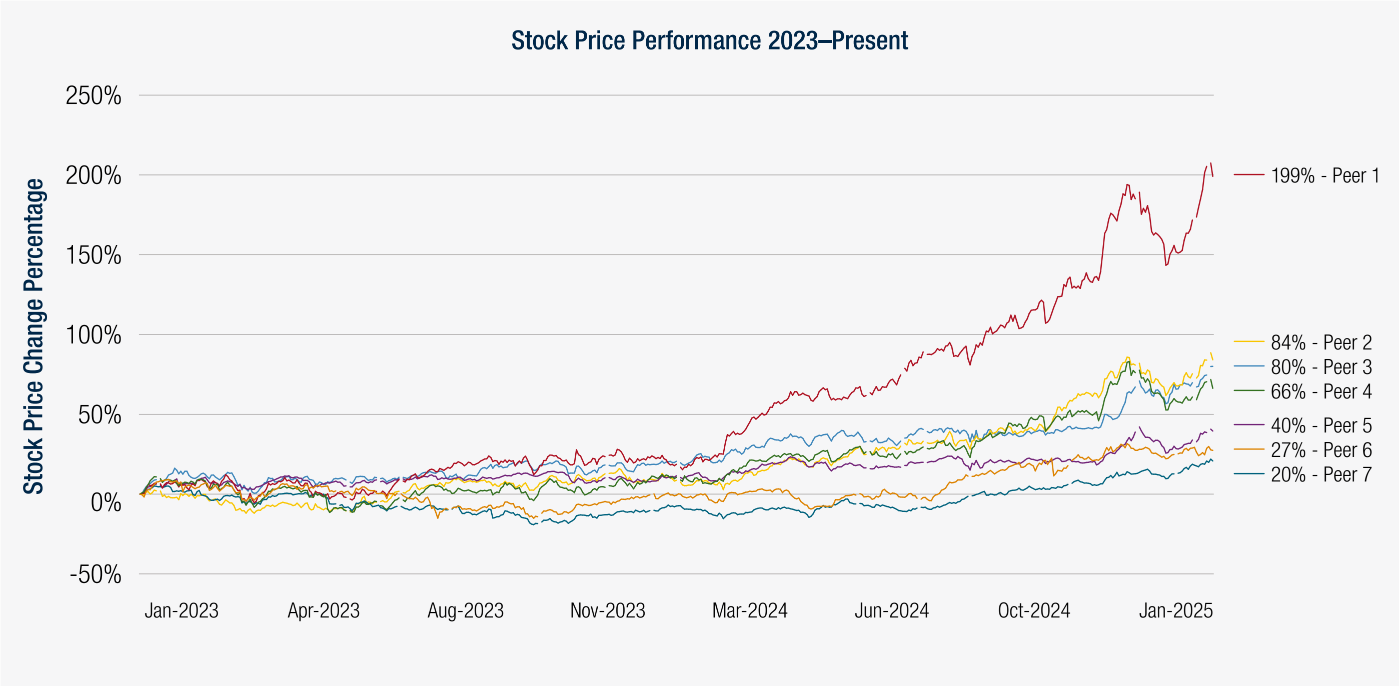
Strategic Acquisitions: Strengthening Market Position Through Asset Synergies

Midstream operators are actively acquiring assets that readily connect to their existing infrastructure in an effort to vertically integrate their operations, expand market positions, optimize commercial and operational synergies, and capture additional value from wellhead to burner tip. Many operators are capitalizing on bolt-on acquisitions, particularly as private equity investors seek to monetize midstream investments. For example, Plains All American Pipeline's 2024 acquisition of Medallion Midstream's crude gathering system in the Delaware Basin strengthened its position in a high-growth region and provided an exit for private investors.

Leading midstream operators are also pursuing vertical integration to control the full value chain from production sites to export terminals or petrochemical facilities. Having the ability to control the molecule from production to end-market, i.e., from "wellhead to water," improves efficiency, reduces exposure to third-party disruptions and enhances profit margins. A notable example is Phillips 66's acquisition of EPIC Y-Grade in January 2025. This $2.2 billion deal expanded Phillips 66's natural gas liquids (NGL) infrastructure, adding two fractionators near Corpus Christi and an 885-mile NGL pipeline connecting Permian Basin production to Gulf Coast facilities. By integrating these assets with its existing operations, Phillips 66 can further optimize its Permian NGL value chain. These strategic acquisitions reflect a broader industry shift toward vertically integrated infrastructure networks, cost reduction, capital efficiency, and capitalization of high-growth regions to sustain long-term value creation.

Higher Performing Midstream Operators Are Vertically Integrated

Alvarez & Marsal examined seven major midstream operators to assess the impact of vertical integration on stock price performance. The analysis suggests that midstream operators with a higher degree of vertical integration tend to outperform their less-integrated peers.



Value Chain Presence

● ◕ ◑ ◔ ○

Strong ⟷ None

Value Chain	Peer 1 (199%)	Peer 2 (84%)	Peer 3 (80%)	Peer 4 (66%)	Peer 5 (40%)	Peer 6 (27%)	Peer 7 (20%)
G&P	●	◕	◕	◔	◔	○	○
Transport	●	●	◕	◑	◑	◑	◕
Storage	◑	◕	◕	◑	◕	◑	◑
Fractionation	◕	◕	◕	◕	◕	○	○
Export	◕	◔	◕	◕	◕	◔	◕

Vertical integration offers a powerful strategic advantage for companies seeking to expand through M&A. By consolidating assets and operations across the value chain, companies can enhance market positioning, boost margins and optimize operational efficiencies.

Beyond financial and operational advantages, vertical integration strengthens a company's ability to offer a broader range of services to its customers. This expanded service offering enhances customer retention, fosters long-term partnerships and improves overall market resilience. A fully integrated midstream business gains greater control over supply chain reliability, minimizing disruptions and optimizing asset utilization. By streamlining processes and eliminating redundancies, companies can significantly reduce overhead costs while improving overall efficiency.

Vertical Integration Must Be Supported by Strong Synergy Commitment

Successful M&A activity in the midstream sector is increasingly centered on capturing synergies that drive tangible value. Companies targeting acquisitions that enable cost savings, operational efficiencies and revenue enhancements are realizing greater shareholder returns. A&M compiled a list of relevant midstream transactions demonstrating the correlation between synergy value, acquisition price EBITDA multiples, and stock performance relative to the Alerian Midstream index.

Acquirer / Target	Acquisition Price	Expected Synergies at Announcement	Acquisition EBITDA Multiple W/O Synergies	Acquisition EBITDA Multiple W/ Synergies	60-day Index Price Change From AMNA
EQT / Equitrans	$5,450	$250–$425	4.9x	3.5x – 4.0x	11.79%
ONEOK / Medallion & Enlink	5,900	250–450	10.1	6.3	7.57
Energy Transfer / Crestwood	7,100	80	4.6	4.4	5.05
Phillips 66 / DCP	3,800	350	13.1	5.5	(0.16)
Phillips 66 / Epic	2,200	83	12.0	8.0–8.5	N/A
Kinetik Holdings / Durango	765	-	10.2	-	5.12
Energy Transfer / WTG	3,250	-	7.7	-	(2.93)
Western / Meritage	885	-	5.6	-	5.15
Summit / Tall Oak	450	-	5.6	-	(5.81)

($s in Millions)

On average, transactions supported by meaningful synergy targets have provided greater value uplift. Companies proactively committing to synergy targets at the time of transaction announcement often experience stronger total returns to shareholders. Moreover, providing regular updates on the realization of synergies has been shown to maintain investor confidence, further supporting long-term value creation. As a result, midstream operators that prioritize well-structured, synergy-driven acquisitions tend to outperform their peers in both financial performance and stock market valuation.

Identifying and Attaining Effective Synergies Distinguishes A&M's Approach to Vertical Integration

Alvarez & Marsal's experience shows that achieving maximum synergy requires early planning and continued focus throughout execution. Our approach is built on a deep understanding of the investment proposition and an integrative approach focused on achieving synergy at each stage in the transaction lifecycle.

High-Level Targeting

Rapid top-down synergy analysis to determine range of targeted savings for each business/functional area

Top-Down Target Setting

- Key synergy opportunity areas
- Range of potential savings
- Integration costs

Baseline Alignment

- Baseline cost and headcount information

Detailed Planning

Detailed bottom-up analysis and validation of specific value drivers; management approval of prioritized initiatives

Bottoms-Up Synergy Planning

- Validate headcount and cost baselines
- Quantified financial improvements
- Rapid results/100-day improvement plan
- Organizational redesign
- Downsizing business units, operations, and support functions
- Prioritization of synergy initiatives
- Align synergy initiatives with integration plans

Robust Tracking Process

Clear and repeatable process to track synergies; linkages to fiscal year operating budgets

Tracking Tools and Processes

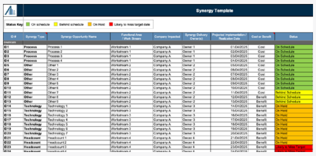
- Proven methods, processes, and tools

Linkages to business processes that drive accountability

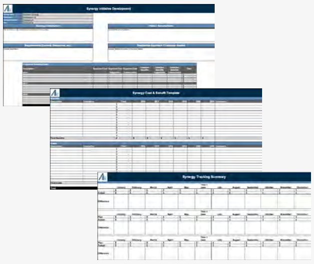
- Tracking/management of synergy initiatives
- Incorporate into opex/capex budgets
- Align with performance management and bonus/incentive plans

Sample Synergy Tools

Synergy summary



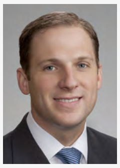
Synergy targets by functional area



Conclusion

The midstream oil and gas sector is poised for continued M&A activity in 2025 as companies seek to capitalize on growing energy demand, economies of scale and strategic acquisitions. With private equity monetizing assets, vertical integration becoming a key success factor, and synergies driving transaction value, the midstream sector is likely to experience further consolidation and strategic realignment. Companies that successfully execute these strategies will be well-positioned to thrive in an evolving energy landscape.

AUTHORS



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