



# Houston trend talks

## M&A trends and outlook

In this episode of KPMG Houston Trend Talks, Joshua Galvan, Advisory Principal, Bruce DeMyer, Tax Partner and Michael Harling, Advisory Partner discuss the trends, opportunities and expectations of M&A and Tax within the energy sector going forward.

### Joshua Galvan:

Hello, everyone! Hope you're doing great today. We're again coming to you from a Microsoft team studio. I'm glad to be hosting a KPMG Discussion to share insights around current trends in M. and A. and tax. My name is Josh Galvan and I'm a KPMG partner based in Houston

### Joshua Galvan:

For today's podcast. We thought we'd get the conversation started by listing a few key items at play in the world today.

### Joshua Galvan:

Of course, there's the war in Ukraine. There's the COVID pandemic, or the extended pandemic. The threat of flu season, of course, is upon us, and any variance of the climate in the related tax legislation, interesting financial markets, and an interest rate rises, and of course, company activity around M. and A. divestitures and other transformation investments that might be happening, and many, many other forces. Of course, all of these representing opportunity for companies and industries, and with these opportunities comes a demand for strategy, positioning, and a combination of talents that drive effective delivery and outcomes

### Joshua Galvan:

Our KPMG teams is this client in many ways, With these opportunities, whether it's market

scanning and analysis or business case, development due diligence, business function, integration, or strategic and technical support and accounting in tax, and in that we aim to share information today that supports the efforts at our listeners companies.

### Joshua Galvan:

I'm lucky to have two KPMG. Partners with me today. Mike Carling and Bruce de Meyer, who both bring a wealth of experience and represent our advisory and tax practices. Glad to have you both with me today, guys. So, let's get the conversation started

### Joshua Galvan:

Mike, you mentioned the huge year two thousand and twenty-one was for M. and A. and certainly two thousand and twenty-two has been one for the books as well. So far.

### Joshua Galvan:

What trends did we observe in the energy sector? And what are we seeing? That might be noteworthy, or for discussion today. Let me start over guys.

### Joshua Galvan:

I didn't I didn't get that out for Well,

### Joshua Galvan:

Three second pause

**Joshua Galvan:**

Mike you've mentioned the huge year two thousand and twenty-one was for M. And A. And of course, two thousand and twenty-two has been one for discussion as well. What trends have we observed in the energy sector in the last couple of years.

**Mike:**

Hey, hey, Josh, Thanks for having me uh two thousand and twenty- one was a indeed a busy year for our team, and we saw deals across multiple sub sectors um renewables, including renewable natural gas deals from both um livestock and landfill sources. We saw deals in the midstream sector and refined products.

**Mike:**

Um, you know, there's a lot of interest in renewables and low carbon technologies around that are driving deals, or you know not just deals with clothes, but you know a lot of looks. The other deals we saw were primarily, I think, really just portfolio balancing.

**Joshua Galvan:**

Got it, and as you think about what's specifically going on, or could go on in the All and gas sub sector, which, as we know, is under significant pressure regarding climate impact and energy transition, uh, but still experiencing some strong demand right now, or some regrowth right now.

**Joshua Galvan:**

Uh what could we expect in oil and gas, anything new or unique that you could predict in the next year or two

**Mike:**

Well, certainly like you, said Josh. The world and gas sector is seeing probably the most favorable economic environment they've seen in quite a while a low commodity prices, you know, from two thousand and fifteen essentially forwarded in a pretty type, environment and oil and gas. And now some of our traditional oil and gas companies are starting to

**Mike:**

And you know renewable energy, carbon capture and the like. But these same companies play a big role in our energy security as well. And so, as we know when a gas is depleting asset and somewhat necessary for our energy security. So I expect you to see also investments in uh, in traditional oil and gas reserves, as you know, as companies move forward, replace reserves and continue to ensure our energy security.

**Joshua Galvan:**

Thanks, Mike. Bruce, Good afternoon. Welcome again to the podcast.

**Bruce DeMyer:**

Thanks, Josh. For having me.

**Joshua Galvan:**

Yeah, yeah, really Glad to have you with us today. I heard a bit about tax credits from you lately, and of course your colleagues and my KPMG uh partners going to market and serving clients in a variety of ways with the recent related tax legislation. What is changing, and how will it impact the market?

**Bruce DeMyer:**

I I think the biggest thing to refresh on is here in the Us. We like to be a little bit unique in the way that we incentivize green energy and decarbonization, and we do almost all of it through the Income Tax code.

**Bruce DeMyer:**

And so most of that is done through tax credits, dollar for dollar offset against your tax liability. Um given most, uh, you know, renewable energy developers, and, like aren't sitting on a whole lot of tax appetite given There's a lot of makers depreciation and the like, uh, preventing them from being taxable.

**Bruce DeMyer:**

This is historically required to some very highly structured financial instruments done through tax equity structures. Uh, with the Ira, the Inflation Reduction Act of two thousand and twenty-two.

**Bruce DeMyer:**

We had probably the most uh significant change in expansion of these tax incentives that we've ever seen and given the fact that that's how the U.S. Likes to incentivize such activities. It might be the most significant climate package altogether, we've seen, and this includes a lot of new technology being eligible for tax credits, including those biofuels that mike previously mentioned. But an expansion of the existing credits around um green energy production through solar and wind sources, not to mention clean fuel production, such as clean hydrogen or a general tax credit for clean fuel. Um on top of all of that, they're trying to make it easier for these developers to access the cash that these credits are created by and for the first time ever, even though it's been talked about, probably for decades.

**Bruce DeMyer:**

We have a small bit of these credits being able to be refunded as people refer to that as direct pay. Sometimes the Government will cut the check directly, or uh what we call transferability, where you could sell your credit directly to someone rather than going through these uh highly structured arrangements uh in tax equity. So quite a massive change to the landscape here. Uh specifically the tax landscape. But we're already seeing that transition to a massive change in the M. And a landscape, and there's been a significant uptick in M and A in this space ever since the Ira came out.

**Joshua Galvan:**

Well, I mean Bruce, just to be honest for the lay person, the guy like me, who doesn't actually practice tax. Um, it sounds very complicated, and yet I've heard that it actually, you know, depends upon a highly functioning, highly integrated tax department and consultants, perhaps, uh, to help companies execute the actual business strategies around, um the opportunities, the business opportunities that the tax legislation presents. So just kind of riffing on that a little bit. Could you talk a little bit about how a tax department of tax function can play a role in how actually helping execute those strategies around things like energy transition or diversifying the company through M. And A. Or other types of activities, any insights you could offer there.

**Bruce DeMyer:**

Absolutely, I mean, I think obviously the most important thing is for the tax department to be, you know, educated and caught up on all these new rules. Um! And to be at the forefront of all the guidance coming out, you know, with the massive expansion the significant bill that came out.

**Bruce DeMyer:**

Um, there's always going to be holes. There's always going to be required guidance, because, unfortunately, Congress can't think of everything when they put in a rule. And so, we're going to see a landscape for the next twelve to twenty-four months, maybe longer um of guidance coming out generally in the form of regulations. But it might be other guys, and the tax department is going to be on the front edge of that. And so there's probably a little bit of here of the tax department just catching up their existing M. And a department to the existing rules, and how people historically played in the space. But you can imagine, with all the New Market entrance, you know how many more people are showing up to this space. Um, you know. How do you not only get caught up on what people have always done but learn how the new way things are going to happen. Uh, as a result of this new uh tax bill.

**Joshua Galvan:**

Great thanks for that, Bruce guys. It's clear to me. There's a lot of opportunity out there

**Joshua Galvan:**

Hearing what you just shared today. It'll be interesting to witness and be a part of how things continue to unfold in in our city, and in in the industry that we spend most of our time in, and um other entrance to that industry or to energy as a sector in general.

**Joshua Galvan:**

Uh, in spite of the global and other market forces I mentioned earlier, it'd be good to hear your thoughts on what trends are occurring and or anticipated to occur in the next year. Two, three years, plus I'm thinking kind of mid-range into the future, and how companies will continue to evolve. You know, strategies, products, services,

partnerships, and other things that they're doing in their market activity. Uh, despite the challenges we've talked about. It seems like Still, there's a whole lot of opportunity.

**Joshua Galvan:**

Um, would you mind reflecting on that? I'm again asking a question a bit more about the mid ranks than the next one to two years, Mike, do you mind going first?

**Mike:**

Sure, Josh I mean, I think you can. You're going to see a continued investment in new energy technologies, whether that be when solar, hydrogen or otherwise, the capital, I think, will flow into that effort for the faceable future. Um. At the same time, I think you're going to see natural gas play a big role, and I think you're going to see quite a bit of capital flowing into natural gas infrastructure, whether it be you know, LNG or similar. So those are the kind of things I see happening of the medium term.

**Joshua Galvan:**

And what about you these tax legislations here to stay and stay as it is? Or can we anticipate in the mid-range even for further evolution of that tax legislation, whether domestic and us, or elsewhere.

**Bruce DeMyer:**

I mean, I think the Us. Is always going to be a little bit different than everywhere else on this space. But if we look at the Us specifically, and what what's going to happen in the mid-term and long term? Um, I mean the first and foremost, maybe the shorter midterm is, we're just going to see a lot more investment into these unique new spaces that are now tax incentivized there weren't before

**Bruce DeMyer:**

Some of that is the biogas we mentioned, you know, clean hydrogen. And then the interesting thing about the legislation is that there are some new credits that start coming online in two thousand and twenty-five forward that are focused on clean energy and clean fuel production regardless of the source. That is a big change in this rule that rather than the

government prescribing what is clean technology, they're going to prescribe and say, if your technology achieves the zero-carbon result. You're going to get incentivized. And so, I think we'll see a lot more investment in new technologies that maybe we don't even know what they are yet.

**Bruce DeMyer:**

Um! And that's the goal of this legislation is to drive investment into new technology and allow the taxpayer in the market to come up with that next new technology that's going to, you know, decarbonize and achieve the green energy future. I think a lot of people are looking for one hundred.

**Joshua Galvan:**

Yeah. Well, as an engineer by education and engineering at heart. Uh to me, that's really exciting to see how the engine energy transition and the energy technologies will evolve under regimes like this that actually incentivize around it. So I, for one, I'm excited for that. and I'm looking forward to uh the industry companies and us as consultants helping those companies. Uh, in those undertakings. Hey? Guys, Thanks again for your input today, I'm sure that I share with all the listeners. Your perspectives are really valuable and right on time around this topic. So, thanks everybody for listening in.

**Joshua Galvan:**

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