



## M&A DEAL ANALYSIS

“Shaping the future of the oil industry:  
Chevron-Hess Merger”

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## M&A DEAL ANALYSIS

**Acquirer:** Chevron Corp.

**Target:** Hess Corp.

**Deal value:** \$53bn

**Sector:** Energy

**Type of M&A:** Stock Swap

**Announced date:** 23/10/2023

**Completed date:** 18/07/2025



### *Acquirer details*

**Name:** Chevron Corp.

**Founding year:** 1879

**Headquarters:** Houston, Texas

**CEO:** Michael Girth (2018 - Present)

**Market Cap:** \$309.01bn

**EV:** \$356.9bn

- Revenues: \$195.6bn
- EBITDA: \$40.1bn
- EBITDA margin: 20.5%
- EV/EBITDA: 8.9x
- Return on Equity: 11,3%

*(All financial data as of December 2024)*

**Company industry:** Oil and Gas Producer and Supplier

### *Target details*

**Name:** Hess Corp.

**Founding year:** 1919

**Headquarters:** New York City, New York

**CEO:** John Hess (1995 - 2025)

**Headcount:** 2,928

- Revenues: \$12.6bn
- EBITDA: \$6.7bn
- EBITDA margin: 57.7%
- EBIT margin: 36.9%
- Return on Equity: 21.55%

*(All financial data as of December 2024)*

**Company industry:** Oil and Gas Producer and Supplier

Financial data source: S&P Capital IQ PRO

### *Deal Overview*

Chevron Corporation announced its acquisition of Hess Corporation, an oil and gas producer based in New York, on October 23, 2023. The transaction value was roughly \$60 billion (enterprise value), equivalent to a \$53 billion equity value. The all-stock deal was expected to close in early 2024, however, due to an extended regulatory examination, it was only completed in July 2025.

Chevron completed the acquisition via a full stock swap. Therefore, Hess shareholders received 1.025 shares of Chevron for each share of Hess they owned. As a result, following the acquisition, all Hess shareholders became Chevron shareholders. The transaction was approved by the Boards of both companies.

Founded in 1919, Hess Corporation has grown into a leading global energy company with a heavy emphasis on upstream oil and gas. The firm has significant operations across varying regions, with major involvements in offshore Guyana, the Bakken shale (North Dakota), and the Gulf of Mexico. Hess has roughly 1,800 personnel under employment and places a strong importance on ESG combined with global sustainability.

As previously highlighted, Hess is most commonly regarded for its stake in a vast oil discovery offshore in Guyana, where it owns a 30% interest in Guyana's Stabroek Block. Since 2015, 11 billion barrels of oil have been discovered, thus making the Stabroek Block one of the largest petroleum finds in the recent past. Hess's Guyana venture has generated large profit margins while also keeping a relatively low carbon intensity, which is in line with their commitment to ESG.

The acquisition of Hess is in line with Chevron's aim to upscale its oil output and reserves, specifically in the U.S.. Chevron has been pursuing inorganic growth, most notably through acquisitions of Noble Energy and PDC Energy, to strengthen its holdings. Chevron CEO, Michael Wirth, exclaimed that the merger "brings together two great American companies" while enhancing U.S. energy security. Moreover, the unified organization is targeting approximately \$1 billion in cost synergies within a year and expects improved revenues and shareholder returns. Therefore, the Hess acquisition solidifies Chevron as one of the world's top oil producers, bolstering its traditional energy portfolio even if the industry is gradually transitioning towards "greener solutions".

### *Industry Overview*

This acquisition combines two major players in the U.S. oil and gas sector, further solidifying Chevron's position as a leading integrated energy company. The unified Chevron-Hess entity owns a diversified portfolio of assets located in key regions such as the Permian Basin, the Gulf of Mexico, the Bakken shale, and the offshore Stabroek Block in Guyana. The latter has a particular significance as it was the largest discovery of oil reserves in recent times. The combined portfolio is still majorly invested in hydrocarbons (crude oil and natural gas). However, Chevron's new holdings portfolio is far more diverse, better positioning Chevron to meet rising energy demand and changes in the industry. The integration aims to ensure energy supply reliability and improve operational efficiencies.

## **Industry Drivers and Headwinds**

Currently, the global energy sector is at a key moment due to the culmination of economic, political, environmental, and technological factors. Therefore, the acquisition of Hess can be seen as an effort to mitigate the effects of these dynamics. Chevron is aiming to maximize its strengths and optimize resource development in a time of uncertainty. Below are key industry trends influencing this merger:

**Oil & Gas Demand:** Increases in global population and rapid economic development have led to increasingly higher energy demand. Global oil demand reached a record high of over 102 million barrels per day in 2023 and is projected to rise to roughly 106 million barrels per day by 2030. This growth is fueled by economic growth, especially in Asia's emerging economies, and hard-to-electrify sectors such as aviation and petrochemicals. Natural gas demand has also remained high due to its use in power generation and heating. On the other hand, the transport industry is slowly decreasing its reliance on traditional fossil fuels due to the rapid adoption of electric vehicles, which could displace 5 million barrels per day of oil usage by 2030. However, oil and gas are still necessary to meet short-term mobility and industrial needs. Therefore, their demand will remain high in the medium term even as cleaner technologies begin to temper long-term perspectives.

**Consolidation for Scale:** Recently, major energy firms have been merging in efforts to reduce price volatility and carbon footprints by increasing operational efficiencies. The Chevron-Hess deal is part of a broader industry trend where larger firms are opting to merge with and acquire companies. For example, in 2023, ExxonMobil launched a \$59.5 billion acquisition of Pioneer Natural Resources to ensure a significant decrease in the cost of production in the largest U.S. oilfield. Acquisitions of this magnitude enable companies to reduce the average barrel cost through synergies and economies of scale. The Chevron-Hess deal follows this broader industry trend. Through mergers and acquisitions, firms aim to strengthen their competitive position and better navigate investment headwinds as the industry gradually pivots toward cleaner energy.

## **Decarbonization**

Policy changes and increasing investor and societal expectations are heavily influencing the long-term outlook for energy and oil companies. The United States has set a goal of net-zero greenhouse gas emissions by 2050, with submilestones targeting significant emissions cuts by 2030. Governments have provided major support for clean energy projects and the development of electric vehicles. This favorable policy environment has accelerated the deployment of low-carbon solutions. For instance, clean energy sources, which include renewables and nuclear, made up about 40% of the U.S. electricity mix in 2022, and the country's wind and solar capacity is growing at record rates.

Oil and gas companies are adapting to these trends by integrating climate considerations into their operations and diversifying into cleaner technologies. Chevron has stated its commitment to lowering the carbon intensity of its oil and gas production and expanding into new energy areas, including renewable fuels, carbon capture and storage (CCS), hydrogen, and even powering data centers, as part of its future business strategy. The merger's strengthened natural gas portfolio is strategically important in this transition as natural gas, which emits roughly 50% less CO<sub>2</sub> than coal when burned for power, is seen as a critical

“bridge fuel” to support grid reliability as more intermittent renewables come online. Additionally, the merger will allow Chevron to experience rising cash flows while also increasing its footprint in low-carbon ventures. Specifically, Guyana's Stabroek Block, now under Chevron's umbrella, is commonly regarded as one of the lowest carbon intensity oil projects in the world, despite being such a large endowment. Therefore, Chevron is expanding its holdings in addition to adhering to its target of “greener operations”.

### **Reliability, Resilience, and Geopolitics**

Recently, energy security and reliability became a hot topic once again. This stems from rising exposure to geopolitical shocks, such as Russia's war in Ukraine, which sent oil and gas prices to extreme heights and triggered a global energy crisis, exposing vulnerabilities in the current system. These supply-chain disruptions clearly highlighted the strategic importance of domestically sourced energy. As a result, governments and companies have been quick to strengthen their energy supply chains. This has led to altered trade flows (for example, European countries reduced their reliance on Russian reserves) and a renewed emphasis on securing reliable oil-producing allied nations. Therefore, Chevron's acquisition of Hess keeps the resources under U.S. ownership, including significant domestic output through Hess's domestic resources and large offshore reserves in Guyana. These reserves allow both Chevron and the U.S. to hedge against future global shocks.

Operational efficiency is also of great importance as oil and gas infrastructure must deliver continuous output even as renewable penetration grows. Natural gas remains vital for grid stability and heating needs as it can rapidly ramp up generation when solar or wind output falls. This is especially true in the winter months, when solar output is lower. Chevron-Hess's balanced oil and gas mix provides flexibility to maintain a strong supply during various market conditions, thus mitigating the risk of output shortfalls during periods of low renewable generation. Additionally, both companies have been heavily investing in advanced technologies to improve reliability and efficiency. Digital oilfield management, including AI-driven predictive maintenance, real-time sensor monitoring, and data analytics, is being used to anticipate equipment failures and automate production schedules, enhancing operational resilience and ensuring consistent output.

### ***Production Portfolio and Industry Comparison***

The merger results in a significantly expanded production footprint for Chevron. Together, Chevron and Hess are expected to produce around 3.8 to 4 million barrels of oil equivalent per day by 2025, which is a significant output by industry standards. For context, total U.S. crude oil production averaged approximately 12.9 million barrels per day in 2023. This places Chevron as the second-largest American oil producer, behind ExxonMobil, and among the top producers worldwide. Most of the new holdings focus on crude oil and liquids, which are usually more profitable goods. Hess reported that 79% of its 2024 production was liquids, while Chevron's output is also predominantly oil, causing over 75% of total output to be oil.

This reflects the company's role as an upstream supplier, in contrast to the broader U.S. energy mix, which is gradually diversifying. Whereas roughly 40% of U.S. electricity is now generated by non-fossil fuel sources, Chevron-Hess's portfolio remains solely 100% hydrocarbons. Despite this, the merger provides

Chevron with a more balanced and resilient set of resources. It adds significant light, sweet crude production (from Guyana and the Bakken), which complements Chevron's existing Permian output, and increases the company's proven reserves by over 1.4 billion barrels of oil equivalent (Hess's 2023 proved reserves). Geographical diversification can help the company navigate localized disruptions and regulatory changes, and right now, Chevron's production spans North America, South America, and Asia. Additionally, the increased natural gas reserves provide Chevron with greater exposure to gas markets at a time when natural gas is playing a crucial role in global energy supply. The Chevron-Hess merger creates a production profile that is larger and more varied than that of either company alone. Combined, Chevron has a strong base to adapt its output in the future, whether that means prioritizing low-cost, lower-carbon oil or expanding into gas and new energy as opportunities arise.

### *Deal Rationale*

#### **Guyana growth engine**

Hess Corp, through its subsidiary Hess Guyana Exploration Ltd., holds 30% interest in the Stabroek Block, a 6.6-million-acre offshore oil reservoir off Guyana's coast containing at least 11 billion barrels of oil with a low breakeven price of \$30 per barrel. As a benchmark, the breakeven point is around \$65 per barrel in Texas and \$50 to \$55 in Canada. It is expected that 1.2 million barrels will be pumped out of this field per day by 2027. This asset is viewed as having high cash margins per barrel, strong production outlook, and potential exploration upside.

#### **Oil reserves replacement**

Chevron had been struggling to replace its oil and gas reserves, recording a 10-year period replacement ratio of only 88%. To maintain the same reserve levels, a 100% replacement ratio is required. By the end of 2024, Chevron's reserves were 9.8 billion barrels of oil equivalent, down from 11.1 billion barrels of oil equivalent at the end of 2023. In addition to the Stabroek reserves, Hess's portfolio also included Bakken, a 465,000-acre long-duration inventory, and assets in the Gulf of Mexico and Southeast Asia.

#### **Synergies and capital returns**

Chevron expected the transaction to achieve run-rate cost synergies of around \$1 billion before tax within a year of closing. With the improved portfolio, sales were projected to increase and generate between \$10 billion and \$15 billion in before-tax proceeds through 2028. The company also raised the forecasted free cash flow growth rates for the following five years and planned to increase share buybacks from \$20 billion to \$22.5 billion a year, along with higher dividends per share once the transaction closed.

## *Legal Disputes and Compliance*

### **ICC arbitration**

In February 2024, ExxonMobil announced talks with Chevron over Hess's Guyana assets. The American company and CNOOC claimed to have a right of first refusal (ROFR) on any sale of the Stabroek block, with Exxon adding that they were working closely with the Guyanese government to ensure their rights. Chevron and Hess stated that the ROFR was not applicable in the case of a merger, and that they believe this matter would not delay or prevent the closing of the deal.

The following month, Exxon filed an arbitration claim with the International Chamber of Commerce (ICC) over Hess's Stabroek oil properties, seeking to preserve its right to evaluate a potential bid. Hess commented that the arbitration could extend into 2025, blocking the closing of the acquisition. At that time, the spread between the share prices of Chevron and Hess and the agreed exchange ratio for the acquisition implied a roughly 79% chance of the deal being successful.

On July 18, 2025, the arbitration was settled, with the ICC arbitrators dismissing Exxon's claim and allowing the completion of the Chevron-Hess deal. Exxon commented that while it disagreed with the ruling, it would respect the decision.

### **FTC ruling**

In September 2024, the U.S. Federal Trade Commission (FTC) approved the Chevron-Hess deal but barred Hess CEO John Hess from joining Chevron's board, which was part of the merger agreement terms. The FTC stated that John Hess had communicated both publicly and privately with members of OPEC, supporting their goal of stabilizing global oil markets. The agency argued that allowing John Hess to join Chevron's board would increase the likelihood of the company aligning its production with OPEC's output decisions to maintain higher prices. In July 2025, the three newly appointed FTC commissioners unanimously reversed their predecessors' decision, allowing John Hess to join Chevron's board.

## *Deal Structure*

Chevron agreed to acquire all outstanding shares of Hess in an all-stock transaction. In the press release, issued on October 23, 2023, the company announced a fixed exchange ratio of 1.025 Chevron shares for each Hess share. This implied an equity value of \$53 billion and an enterprise value of \$60 billion based on Chevron's closing price of \$171 per share on the same day. This price represented a 7x EV/EBITDA multiple and a 10.3% premium over a 20-day average based on the closing stock prices on October 20, 2023.

Due to legal disputes, the acquisition was delayed. Between January and March of 2025, while awaiting the court's decision, Chevron bought 15,380,000 of Hess Corporation's shares, roughly 5% of the total common shares. This move was seen as both a show of confidence in the closing of the deal and as an opportunity to buy the shares at a lower price than initially agreed by the companies.

When the deal finally closed on July 18, 2025, the share price of Chevron had fallen to \$150, meaning that the final implied value of the deal was lower than the initially announced.

### *Risks and Implications*

#### **Guyana Political and Fiscal Risk**

The Stabroek Block Production Sharing Agreement (PSA), signed in 2016 and valid as of today, set a 2% royalty and a 75% cost-recovery ceiling. Although the current ruling party, the People's Progressive Party Civic, has stated that the PSA is not subject to renegotiation, it acknowledged that the terms should be more favorable to the country. The government has updated the terms for all future contracts and existing contracts for blocks outside of Stabroek to 10% royalty, 65% cost-recovery ceiling and 10% corporate tax rate. While these new terms do not apply to the Stabroek Block, future political changes could change the status quo, especially as public discourse on the subject has recently become more intense, with critics arguing in favor of PSA renegotiation.

#### **Joint venture dynamics**

Chevron will be a minority stakeholder in the Stabroek Block, owning a 30% interest. The company will operate as a junior partner under ExxonMobil, which owns 45%, and alongside CNOOC, which owns 25%. This can lead to governance problems in the long term.

#### **Commodity price volatility**

The return on investment of this acquisition and the ability of Chevron to increase its free cash flow, dividend payout, and share buybacks are highly dependent on the evolution of the oil and natural gas prices. Between the announcement and closing of the deal, the WTI Crude Oil futures price fell from \$84.42 per barrel to \$67.34, and has since fallen further to around \$60 per barrel. Although the low breakeven price of the Stabroek oil mitigates this risk, price volatility still poses a significant threat to the long-term success of the acquisition.

#### **Uncertain oil demand**

The International Energy Agency (IEA) expects global demand for oil and natural gas to peak around 2030. Although IEA forecasts strong electricity demand growth, the agency expects renewable energy production to increase even faster, driving the share of fossil fuels in electricity generation down. A shrinking demand could further intensify competition and limit the long-term cash-generating potential of the assets acquired in this deal.

## *Market Reaction*

### **Stock Market Response**

The market's initial reaction to the deal announcement was slightly negative, with Chevron and Hess shares dipping 3.7% and 1.1%, respectively. On January 8, 2024, Chevron and Hess shares fell another 4% and 7.35%, respectively, after news that the deal's closing was delayed into the second half of 2025, more than a year later than originally expected. When the ICC dismissed ExxonMobil's right of first refusal claim, Chevron's and Hess's shares climbed 3% and 8%, respectively.

### **Analyst Commentary**

Reuters columnist Robert Cyran called the deal a "risky copycat" of ExxonMobil's acquisition of Pioneer Natural Resources, as he considered it a more aggressive bet that could backfire if oil demand starts decreasing due to the adoption of electric vehicles and renewable energy.

Third Bridge and Morningstar highlighted that Guyana is the real prize and probably the real driver of the acquisition in the first place. The Royal Bank of Canada added that the transaction addresses the concerns over Chevron's portfolio, making it stronger and more diversified.

## *Deal Advisors*

### **Chevron Corporation**

Lead Financial Advisor: Morgan Stanley & Co.

Non-Lead Financial Advisor: Evercore Inc.

Legal Advisor: Paul, Weiss, Rifkind, Wharton & Garrison LLP

### **Hess Corporation**

Lead Financial Advisor: Goldman Sachs & Co.

Non-Lead Financial Advisor: J.P. Morgan Securities

Legal Advisor: Watchell, Lipton, Rosen & Katz

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