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November Election Stalls Texas Energy Deals, Latham Lawyer Says

INTERVIEW

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By Mahira Dayal, Reporter

- Latham's Nick Dhesi predicts more energy sector public offerings
- Ballooning private credit seeks more paths to deploy capital

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The November US election will pause some Texas energy deals as companies grapple with corporate tax rates possibly increasing, according to a leading M&A lawyer in the state.

"The amount of regulatory change in the last year has been so significant that what happens with the election is in the minds of directors and management teams who are thinking about doing a Q3 or Q4 deal," said Nick Dhesi, a Latham & Watkins mergers and acquisitions partner in Houston.

"We're already seeing people look at the election as a milestone they want to get beyond," Dhesi, who leads the firm's Houston office, said in an interview.

The energy deals market has soared compared with other industries, thanks in part to commodity prices and the availability of Inflation Reduction Act credits for initiatives such as electric vehicles and solar panels.

Deals are also boosted by the boom in private credit, which provides more options for financing. There have been more than 2,000 global energy transactions worth nearly $340 billion so far this year, according to Bloomberg data.

Big Law firms Wachtell, Lipton, Rosen & Katz; Paul, Weiss, Rifkind, Wharton & Garrison; and Vinson & Elkins guided Diamondback Energy Inc.'s $26 billion acquisition of Endeavor Energy Resources, announced in February. Wachtell steered ConocoPhillips in its $17 billion purchase of Marathon Oil Corp., made public in May, while Kirkland & Ellis guided Marathon.

"We'll see more deals where you can announce the transaction without the financing—knowing that it's a good enough market," Dhesi said.

"Multiple energy companies" will likely move to an initial public offering as early as this month, said Dhesi, the managing partner of the Houston office who also handles IPOs and structured investments. He didn't specify which companies would likely initiate IPOs.

Private Credit

Private credit lenders in the energy markets continue to bulk up their reserves but lack a clear path to deploy that capital at the same scale it is raised, Dhesi said.

"The challenge right now when you think about getting into the investment," he said, "is how do I get out of the investment?" A path to exiting is through sales to large businesses, and whether those companies will continue to invest in energy transition will be determined by macroeconomic market factors, Dhesi said.

Total private credit assets are on track to hit $2.2 trillion by 2027, according to London-based investment data company Preqin Ltd. Bumper energy-focused private credit funds have been some of the largest in the market, including Blackstone Inc.'s $7.1 billion energy transition fund announced last year.

Energy transition projects large enough to use those troves of cash are few and far between.

"You'll see far more on the $10 to $20 million size than the $1 to $2 billion side," Dhesi said. "The margin and opportunity with some of the bigger projects is just more limited now."

Texas Goes Big

Competition in the local Texas legal market has picked up dramatically over the last decade as national firms move into the region, eyeing the lucrative deals market.

Latham opened its Houston office in 2010, ahead of other Big Law firms. Kirkland followed in 2014.

National firms with their sizable private equity practices and deep pockets have managed to surpass several local law firms, which rely on a deep knowledge of the Lone Star State and relationships in the region built over many years.

Those local ties to clients may not be enough to sustain some local firms, Dhesi said.

"Clients in this market are so savvy to the quality of service they're getting," he said. "It's really more about who can be the best adviser to their client, more so than just having long-term relationships."