

M&A Quarterly Market Report: Q3'21 Review

Utilities

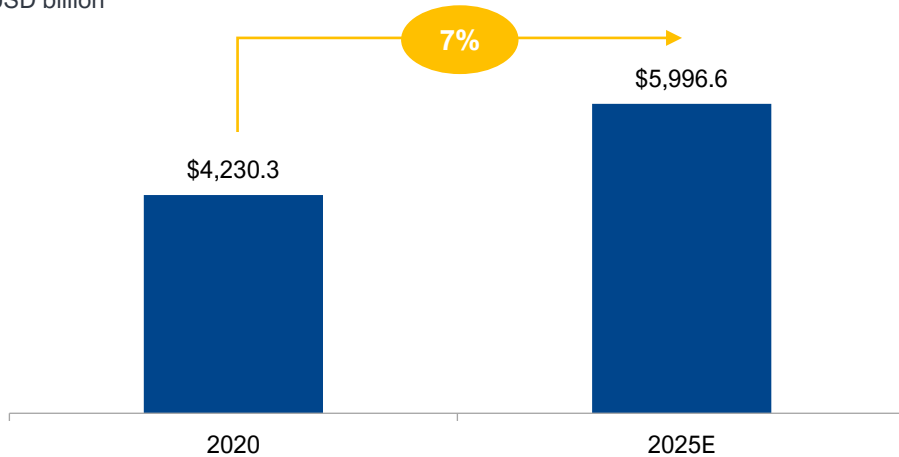


Industry Overview – Utilities (1/2)

Utilities market forecast to expand at 7% CAGR to USD5,996.6 billion by 2025

Global Energy and Utilities Market Size

USD billion



- The global utilities market is projected to advance at a CAGR of 7.2% from USD4,230.3 billion in 2020 to USD4,534.4 billion in 2021.
 - The market is anticipated to expand at a CAGR of 7% to USD5,996.6 billion between 2020 and 2025.
- COVID-19 highlighted the need for distributed energy resources (DER).
- Technological intervention in the sector is acting as a catalyst for improved processes and digitization, which is likely to boost growth.

Source: PitchBook, ResearchandMarkets, and Aranca Research

Regional Insights



North America has some of the most valued companies in the industry.

Europe is the second most dominant region, with Western Europe accounting for 25% of the industry.

Asia-Pacific accounted for more than 40% of the global utilities market in 2019, led by China and Japan.

Sub-sectors

Natural Gas Producer

Water Treatment Services

Industrial Maintenance Service

Electricity Distribution

Power Plant

Energy Management









Industry Overview (2/2)

Consolidation with multiple large players in utilities market

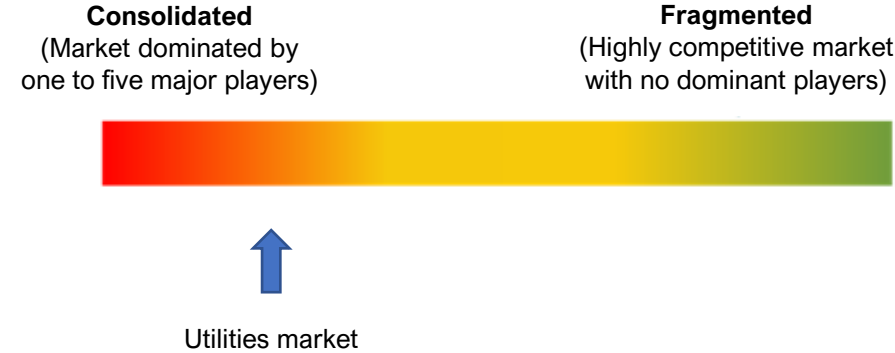
Emerging Trends

- Energy storage, supported by DERs, will change consumption patterns and provide consistent supply of energy at low prices.
- Self-generation of power will emerge as a game changer, driven by the affordability of clean energy options and easy storage.
- Technological advancements will transform industry operations across the value chain by increasing efficiencies and optimizing costs.
- Smart home products will enable customers to monitor power consumption on a real-time basis, which will help them control costs.

Emerging Technologies in Utilities Sector

| | |
|---|--|
|  Smart Meters |  Sensors |
|  Artificial Intelligence |  Machine Learning |
|  Blockchain |  Internet of Things |
|  Analytics |  Smart Appliances |

Market Concentration



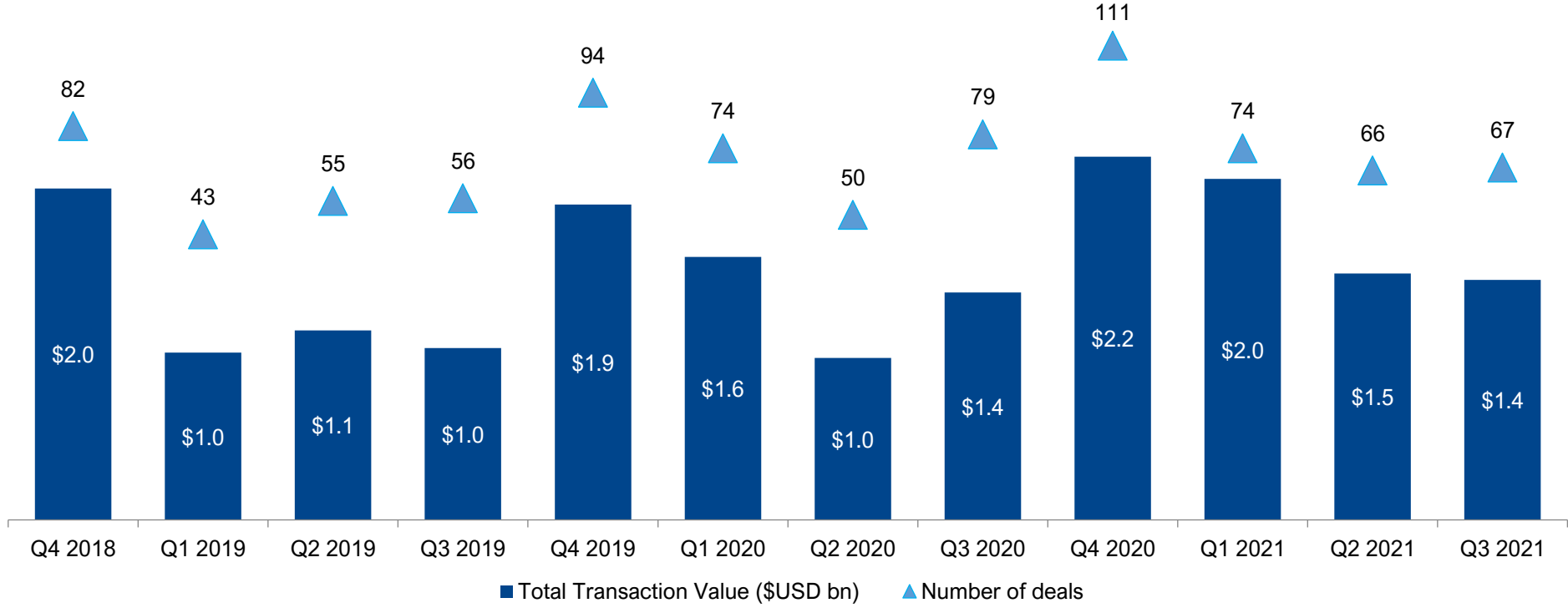
Drivers of M&A after COVID-19 ends

| | | |
|---|---|---------------------------|
| Need for transformative technology | Poor credit quality, debt, and profitability | Capex requirements |
| Geopolitical trends | Shift toward clean energy | Regulatory changes |

Source: WNS Report, Mordor Intelligence, Aranca Research

M&A Transactions Trend – Total Value and Number of Transactions (<USD100 mn)

After recording light activity over H1 2020, M&A activity jumped in H2 2020, clocking the highest number of deals and total transaction value per quarter in the last three years. While Q1 2021 registered a healthy rebound in M&A activity (at par with that in 2018), deals in Q2 and Q3 settled at a relatively low value but maintained consistency.



Deals with transaction value less than USD100 mn were considered

Median Valuation Multiples: EV/Revenue – 2.64x and EV/EBITDA – 6.96x

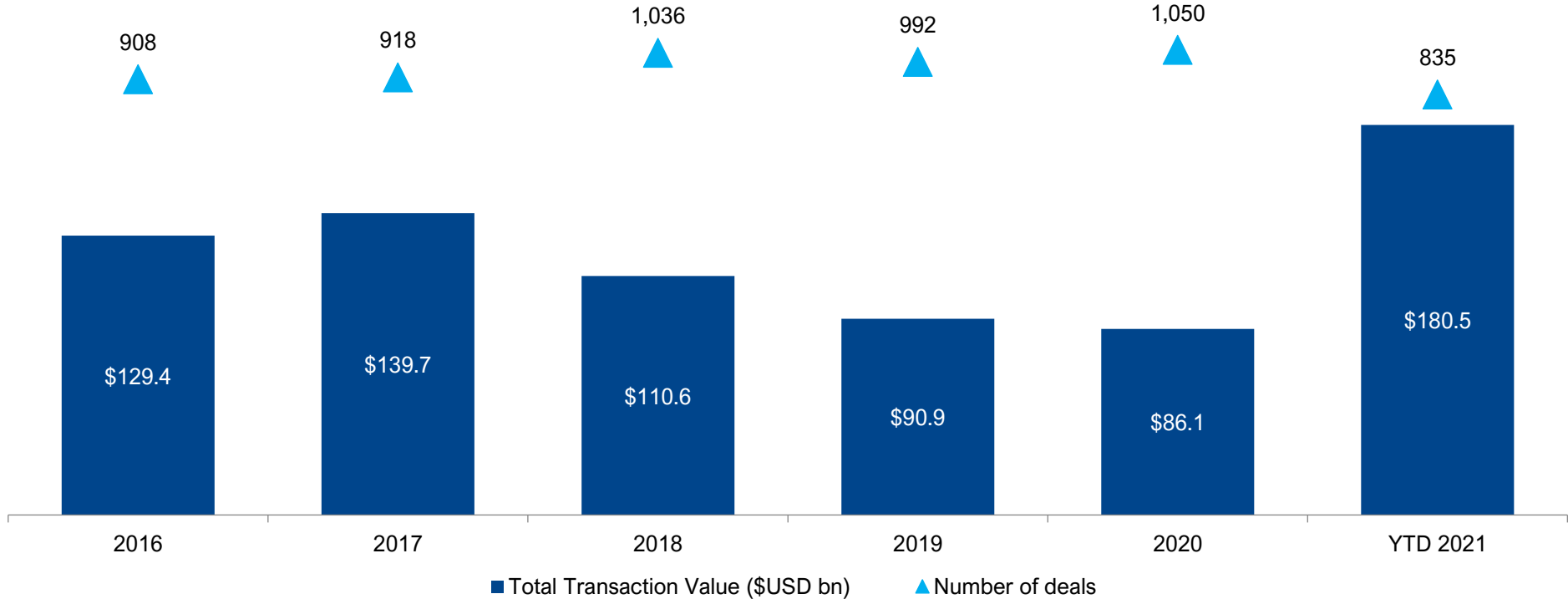
Source: S&P Capital IQ, Aranca Research



M&A Transaction Trend – Total Value and Number of Transactions

2021 slated to end as a year of M&As with acquisitions worth USD180.5 bn announced until September

The spread of pandemic impacted global demand and led the energy and utilities sectors toward M&A. The gross transaction value in 2021 (until the end of September) was the highest in the last five years.



Announced and closed transactions with target companies in the utilities sector were considered.

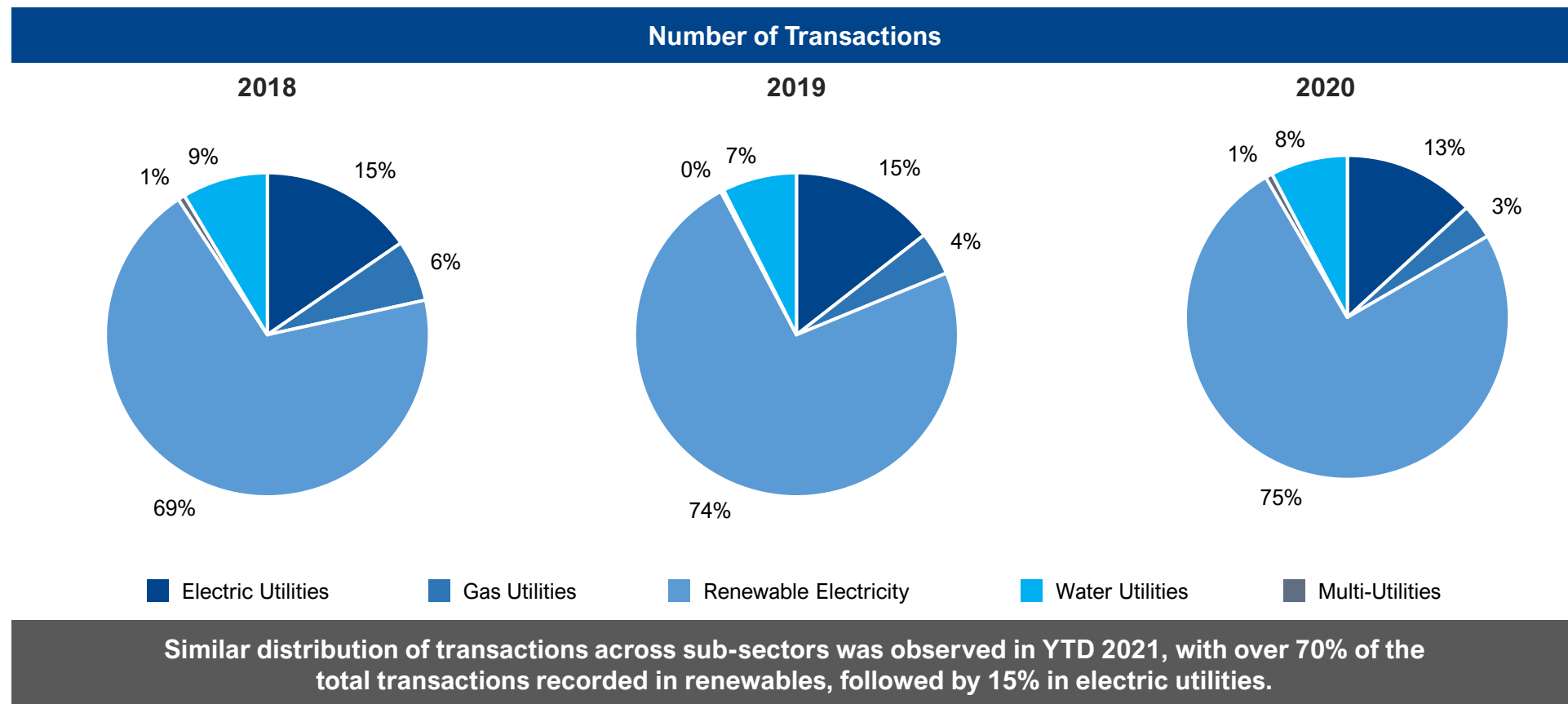
Median Valuation Multiples: EV/Revenue – 3.23x and EV/EBITDA – 10.36x

Source: S&P Capital IQ, Aranca Research

M&A Transaction Trend – By Sub-sector

Renewable electricity sub-sector accounting for majority of transactions and over 72% of total transactions in last three years

The renewables sub-sector continues to register a rise in M&A deals, while other sub-sectors record a gradual fall in deal activity.



Source: S&P Capital IQ, Aranca Research

Top 10 M&A Transactions – Last Three Years

Total transaction value of nearly USD373.8 billion










| Date | Target | Buyer | Transaction Value (USD billion) | Strategic/ Financial Buyer |
|------------|--|---|---------------------------------|----------------------------|
| Sep – 2021 | AusNet Services | APA Group, Brookfield Infrastructure Group (Australia) Pty Ltd | 30.32 | Strategic |
| Mar – 2021 | Western Power Distribution plc | National Grid plc | 20.01 | Strategic |
| Feb – 2020 | Abu Dhabi National Energy Company PJSC | Abu Dhabi Power Corporation | 13.87 | Strategic |
| Jun – 2021 | Suez | Veolia | 12.41 | Strategic |
| Oct – 2020 | PNM Resources, Inc | Avangrid, Inc. | 7.69 | Strategic |
| Nov – 2019 | Pattern Energy Group Inc. | Canada Pension Plan Investment Board | 6.41 | Financial |
| Apr – 2019 | AmeriGas Partners, L.P. | UGI Corporation | 5.31 | Strategic |
| Nov – 2020 | Compañía General de Electricidad S.A. | State Grid International Development Co., Ltd. | 5.10 | Strategic |
| Mar – 2021 | The Narragansett Electric Company | PPL Energy Holdings, LLC | 5.07 | Strategic |
| Nov – 2019 | Eneco Groep N.V. | Mitsubishi Corporation, Chubu Electric Power Company Netherlands B.V. | 4.51 | Strategic |

Source: S&P Capital IQ, Aranca Research

Select SPAC Activity in Utilities

Limited SPAC activities recorded in utilities sector in 2020; good shape in 2021

M&A activity involving merchant fleets and power generation is complicated, but 2021 has been a good year for this space. SPACs are expected to be active in technology-centric energy transition assets, particularly EV and batteries.

| | | | |
|--|---|---|--|
| <p>2020 </p> <p>FUSION-FUEL™</p> <p> HL Acquisitions</p> <p>Fusion Fuel, based in Ireland, is a hydrogen power company building Portugal's first utilities scale hydrogen power generation project.</p> | <p>2021 </p> <p> PROTERRA</p> <p> ARCLIGHT CLEAN TRANSITION</p> <p>Proterra, based in California, US, signed a deal with ArcLight Clean Transition Corp. at an enterprise value of USD1.6 billion. Proterra is an innovator in commercial vehicle electrification technology.</p> | <p>2021 </p> <p> Li-Cycle®</p> <p>PERIDOT</p> <p>Li-Cycle, based in Toronto, is a lithium-ion battery resource recovery company. The company will receive USD615 million in gross transaction proceeds.</p> | <p>2021 </p> <p> SES</p> <p>IVANHOE CAPITAL ACQUISITION CORP.</p> <p>SES, a company spun out of MIT, US, will form a merger with Ivanhoe Capital Acquisition Corp for USD476 million, which values the combined entity at USD3.6 bn.</p> |
|--|---|---|--|

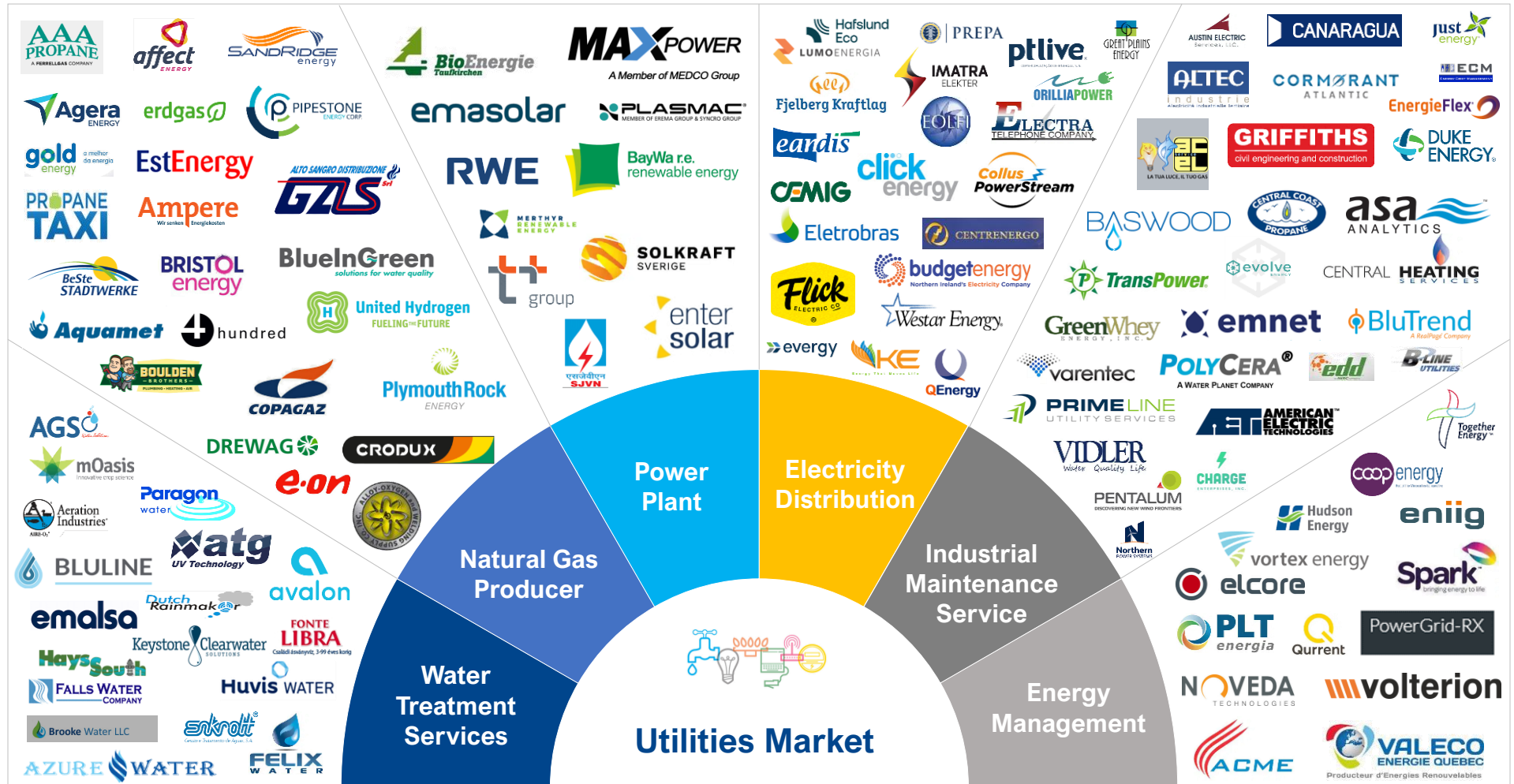
SPACs Searching for Targets in Utilities

| SPAC | Potential Focus | IPO Size (USD million) |
|--|---|------------------------|
| Power & Digital Infrastructure Acquisition Corp. | Electrical Power Grid Transition, Energy Transition, Sustainability | \$345 |
| Arclight Clean Transition Corp. II | Renewable Energy, Energy Transition, Sustainability | \$311 |

Source: S&P Global, Spactrack, Duff & Phelps, Aranca Research

Active M&A Players in Utilities Sector

Industry map comprising six sub-sectors with numerous M&A players



Source: S&P Capital IQ, Aranca Research

Outlook

Capital adequacy, improved demand, decarbonization, and ESG focus expected to lead upward momentum in M&A deal activity over remaining part of 2021 and 2022

M&A activity in the utilities sector slowed down with the onset of the pandemic in early 2020. However, the number of deals rebounded sharply in H2 2020. Global M&A recorded an upward trend in 2021 and is expected to remain strong for the remaining part of the year.

Positive GDP rates and high inflation indicate strong economic recovery and make way for more M&A deals in 2022.

Low interest rates and abundant capital would drive M&A activity in 2022 and most likely place strategic, PE, and SPAC buyers in a highly competitive situation to acquire technology and other synergies.

Global transformation to achieve net zero and focus on ESG will encourage M&A deals and other project investment decisions in utilities. Companies such as Xcel Energy and Duke Energy announced their plans to reduce carbon emissions by 100% by 2050.

Capital availability due to bright performance of stock markets and access to low interest rate will push M&A deals, and this trend is likely to continue in the remaining part of 2021 and 2022.

Biden administration's focus on clean energy and benefits from tax credits would create opportunities for M&A in the sector.

Source: PWC, FTI Consulting, Aranca Research

Outlook

Utilities market projected to undergo consolidation in 2021 and 2022, led by technology-driven and ESG opportunities



Market Trends

- Deals stood at 835 globally in YTD 2021 compared with 681 deals in YTD 2020, up 22.6%.
- SPAC activity, especially in the EV batteries sector, increased in 2021 and is likely to continue in 2022.
- NextEra Energy Partner's agreement with NextEra Energy Resources to acquire 50% interest in a contracted renewable project portfolio for USD849 million is expected to be a significant deal in the next quarter.



M&A Market

- A quarter of the Fortune 500 companies have committed for zero carbon emission by 2030, which is expected to create M&A opportunities.
- Industry players seek to diversify and rationalize portfolios, which is possible through M&A activity.
- The sector will focus on investment on battery storage, carbon capture, green hydrogen, electrification, and other green initiatives.

Source: Aranca Research

Connect With Our Team



Sri Lasya Gade

Senior Analyst – Investment
Research

+91 88268 90628
srilasya.gade@aranca.com



Kunal Doctor

Senior Manager, Investment
Research

+91.124.668 9999 (Extn: 327)
kunal.doctor@aranca.com



Avinash Singh

AVP, Investment Research

+91.124.668 9999 (Extn: 951)
avinashg.singh@aranca.com



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