Power and utilities transactions and trends

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> ESG has recently become a lens through which assets are viewed and it is here to stay. Public awareness and engagement of these issues, as well as scrutiny of deals in terms of how they comply with various ESG aspirations, are expected to increase even further over the coming years.

Looking back at 2021

The global power and utilities (P&U) deals deal value crossed the US$200b mark to reach US$262.3b in 2021 for the first time in the last 10 years. There were 55 multibillion-dollar deals constituting 73.5% of the total deal value. The integrated segment drove the deal value, totaling US$89.7b (34% of total deal value), while renewables drove the deal volume, with 432 deals (56% of total deal volume).

Most of the deals were driven by the need of the utilities to increase their regulated business and improve their environmental, social and governance (ESG) profiles. Many financial investors bet big on emerging technologies, like hydrogen fuel cells, artificial intelligence (AI) and storage while snapping fossil fuel assets at attractive valuations. In line with the recent EY CEO Survey 2022, M&A remained a critical strategic option for investors to boost capabilities in technology and innovation, as well as ESG/sustainability strategies.

Energy transition with a focus on the ESG profile is driving deal activity

The recent COP26 is expected to increase the pace of energy transition along with the size of investment opportunities in the energy sector. Declining costs of renewable generation sources (primarily wind and solar) are forecasted to drive investments in renewables. Further, increasing penetration of renewables will, in turn, increase the need to invest in grid reliability technologies (including grid modernization, long duration storage, carbon capture and storage, and green hydrogen).

In Q4 2021, sustainability was a key pillar among some of the largest deals. In one of the largest deals in the US in Q4, FirstEnergy sold a 19.9% stake in its three regulated transmission businesses to Brookfield Super-Core Infrastructure Partners for US$2.4b to support its smart grid and clean energy transition initiatives.

US and European utilities are opting for unconventional ways to raise capital

In 2021, European utilities sold major stakes in their renewable energy assets and raised close to support either their long-term decarbonization strategy or construction of the related assets worth US$7b.

In the US, utilities encashed their higher valuations by selling off minority stakes to financial investors, primarily to fund decarbonization initiatives. In Q1, Duke Energy raised US$2b for a 20% minority stake sale in Duke Energy Indiana. In Q4, American Electric Power (AEP) sold its Kentucky Power regulated utility and AEP Kentucky Transmission business to Algonquin's subsidiary, Liberty Utilities for US$2.8b to fund its clean energy growth.

US utilities will accelerate investments in clean energy technologies

EV charging infrastructure, energy storage, grid reliability and hydrogen are key emerging technologies that are expected to attract investments in 2022. Around 50 utilities, primarily investor-owned, signed a memorandum of cooperation to install EV fast-charging infrastructure along major US highway corridors by 2023. Various US-based startups and utilities have announced plans to develop energy storage facilities to support grid flexibility. Southern California Edison (SCE) received approval for a US$1.2b, 537MW energy storage contract from California Public Utilities Commission (CPUC) to ensure grid reliability. Lastly, hydrogen is well placed to experience growth in the US. The Build Back Better (BBB) bill, if passed could provide the largest government boost as it presents the first-ever production tax credit for hydrogen.

Conducive policy environment in the US to drive deal activity in 2022

The Infrastructure Law and the BBB bill in the US are expected to attract domestic and foreign investors in the US. The Infrastructure Law has earmarked funds for development in technologies, including grid modernization, water systems infrastructure, EV charging and smart cities. The BBB bill is directed at tax incentives for renewable energy, hydrogen, EVs and EV charging infrastructure, grid modernization, energy efficiency and other climate tech investments.

Investors are capitalizing on supportive federal policies on green infrastructure spend as 2021 witnessed US$23b cross-border deals in the US, a trend that likely to continue in 2022. There are 30 active SPACs focused on clean energy transition and sustainability which have the potential to reach closed status over the next two years.

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Global deals summary

Multibillion-dollar acquisitions drive deal value to US$262.3b in 2021

Total deal value increased 119% year over year to reach US$262.3b from US$119.7b in 2020 – driven by 55 multi-billion-dollar deals in 2021.

Corporate investors drove 60% of total deal value, driven by 55 multibillion-dollar deals in 2021. The deal values were driven by investments in the integrated segment totaling US$62b, while deal volume was drive by the renewables segment, with 296 deals, totaling US$50b.

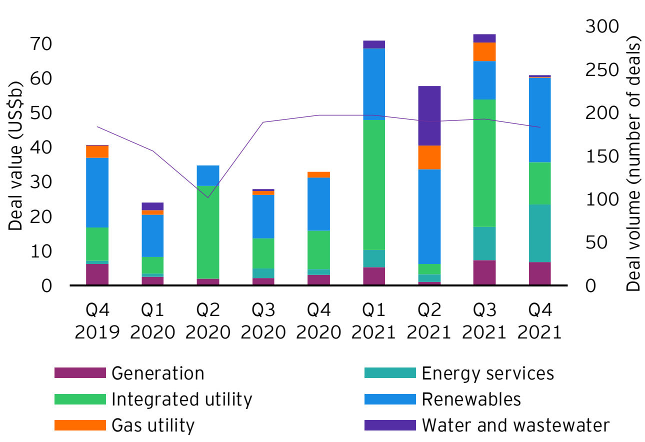
The US, China, the UK and Australia emerged as the hotspots for investment, with 319 deals (42% of total deals) totaling US$136b (52% of the total deal value). However, when looking at top investor countries, Canada and France joined the US, China and the UK, with total investments of US$152b.

The largest deal of the year was the acquisition of Western Power Distribution (WPD) by National Grid from PPL for US$19.7b. In a separate deal, PPL also announced acquisition of The Narragansett Electric Company, the largest T&D company in Rhode Island, from National Grid for US$5.17b. The deals were to strategically reposition PPL as a US-focused energy company. The acquisition of WPD was completed in June 2021 when the UK competition regulator cleared the deal without any lengthy investigation. The second deal is expected to be completed by March 2022.

	Q4 2021	2021
Global deal value	US$60.9b	US$262.3b
Largest segment	Renewables US$24.4b	Integrated US$89.7b
Largest region	Asia-Pacific US$23.4b	Europe US$97.7b
Total deals	183	763

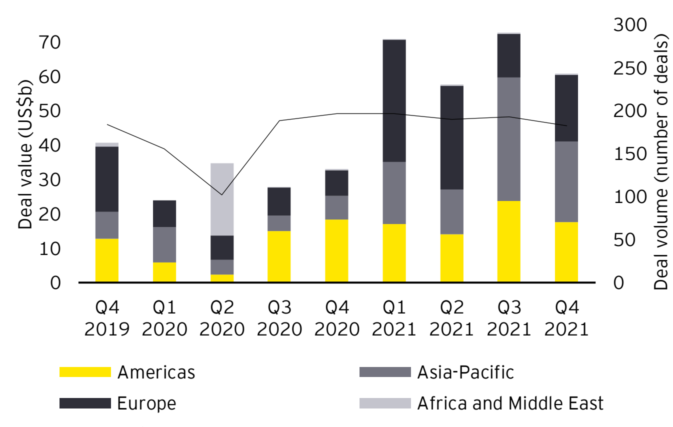
Note: All transaction information is from the EY analysis with data sourced from Mergermarket.

Chart 1: Global P&U deal value by segment
(announced asset and corporate-level deals, Q4 2019–Q4 2021)



Source: EY analysis with data sourced from Mergermarket.

Chart 2: Global P&U deal value and volume by region
(announced asset and corporate-level deals, Q4 2019–Q4 2021)



Source: EY analysis with data sourced from Mergermarket.

[1]Publicly disclosed investments.

Portfolio transformation through acquisitions and divestments drove activity in 2021

Strategic investments by corporates across integrated and renewable assets drove the deal value and volume in 2021, with 508 deals totaling US$158b.

Private equity bets on fossil fuel generation assets

In 2021, there were US$12b deals in the conventional generation sector, out of which US$4b included thermal asset acquisitions, solely driven by financial investors in the US. In Q3, ArcLight Capital Partners acquired Public Service Enterprise Group Inc.'s fossil fuel portfolio for US$1.92b, which was considered to be a conservative valuation owing to terminal value concerns. In another deal in Q4, KKR agreed to purchase US$1.9b thermal infrastructure assets from Clearway Community. These deals clearly indicate private equity investors are scouting for attractive valuations across fossil fuel assets which are being sold by utilities eager to clean their portfolios.

Global utilities adopt the "farm-down" model to fund energy transition initiatives

In 2021, there were ~US$7b deals wherein utilities sold major stakes in their renewable energy assets to institutional investors to raise funds supporting their long-term decarbonization strategy or construction of the related assets. In one of the largest deals of this kind, Orsted sold a 50% stake in its 725MW wind farm to Norges Bank Investment Management for US$1.6b; in the second largest deal, Orsted sold a 50% stake in its 900MW wind farm to Glennmont Partners for US$1.4b. In the US, NextEra Energy announced that it would divest 50% of its 2,520 MW renewables portfolio (including wind, solar and energy storage) to the Ontario Teacher's Pension Plan Board for US$849m. The capital is planned to be redeployed in the company's other renewable growth opportunities. Lastly, EDF renewables sold a 49% stake in its Blyth offshore wind farm to a Malaysian utility (TNB) for an undisclosed amount. The deal is expected to enable EDF to invest in new renewables projects (including wind and solar).

Strategic investors adopt a balanced approach to energy transition

In 2021, corporate investors including oil and gas (O&G) and power and utilities (P&U) companies have invested strategically to rebalance their portfolios to drive the energy transition agenda. The driving force behind majority of deals was to either transform into a comprehensive energy company or part of company's strategy to invest in sustainable initiatives or driven by the need to scale. In one of the largest deals of 2021, Colombian oil company, Ecopetrol acquired 51% stake in Interconexión Eléctrica (which is a regional leader in electricity transmission, with operations in Colombia, Brazil, Chile and Peru) for US$9.3b. In another largest deals in Q2, Summit Utilities acquired Arkansas and Oklahoma regulated natural gas LDC businesses of CenterPoint Energy for US$2.2b. In another recent deal in Q4, Shell along with Infrastructure Capital Group (ICG) agreed to buy Meridian Energy's Australian assets for US$500m. In October 2021 Dominion Energy announced its decision to sell its Questar pipeline business to Southwest Gas for US$1.9b to support parent company's robust regulated capital plan, as part of the largest regulated decarbonization opportunity in the US.

Utilities redraw their strategic direction toward de-risking

The US utilities demonstrated deal flexibility to strengthen their balance sheets and grow regulated earnings. Exelon continues with its plans to split its business into two publicly traded companies: first one will be called Exelon and will continue to own six of its regulated utilities, second one will be Constellation Energy constituting of the power generation and retail and wholesale supply of power and natural gas business. DTE Energy also completed its planned spin-off of its non-utility natural gas pipeline, storage and gathering business into a new stand-alone, independent, publicly traded company, named DT Midstream. Another example of a high-profile business separation was the bankruptcy of FirstEnergy Corp.'s competitive arm, FirstEnergy Solutions, which resulted in an independent firm, Energy Harbor Corp.

US and UK emerge as hotspots of deals driven by US$46b in domestic deals

Chart 3: Investment activity globally by country, YTD (US$b)

Investor country

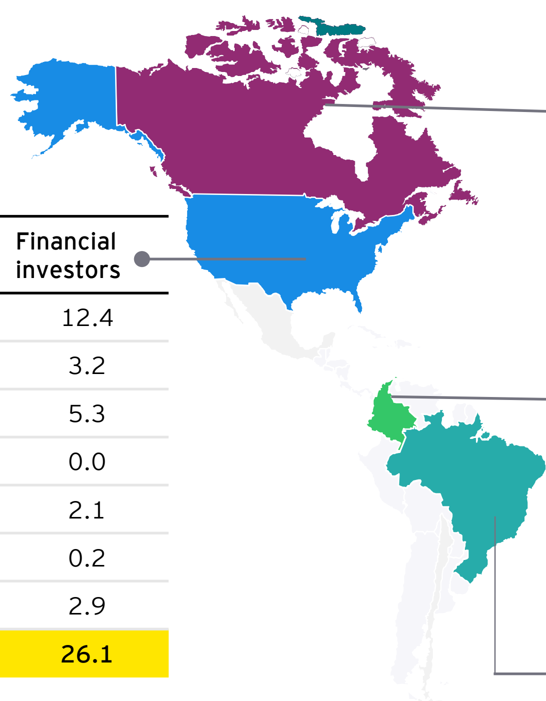
	US	France	UK	Australia	Canada	China	Colombia	Sweden	Spain	Italy	Rest of the world	Total receipts
US	23.4		1.1		6.4			5.3	4.3		6.7	47.3
China		0.84				30.6					0.5	31.9
UK	1.4		22.2		2.6					0.4	4.2	30.7
Australia				13.4	13.1						0.9	27.3
Spain	0.1	7.3		6.2	1.3	0.8		1.5	1.4	0.1	0.8	19.3
France		16.3								0.4	0.9	17.6
India	7.7	2.5	0.3		0.2						6.1	16.8
Colombia							9.4					9.4
Italy		2.0	0.3							6.9	0.1	9.2
Brazil	0.4			2.2	1.1							3.6
Rest of the world	8.2	1.4	1.8	4.2	1.5	0.6		0.2	0.2	2.4	25.7	46.1
Total receipts	41.5	30.3	26.0	23.8	25.9	32.0	9.4	7.0	5.9	10.2	51.9	262.3

0-5 | 6-10 | 11-20 | 21+

Source: EY analysis with data sourced from Mergermarket.

Note: Numbers may not add to total due to rounding.

Chart 4: Americas investment flow by country and investor, YTD (US$b)



Investor country	Corporate investors	Financial investors
Australia	0.0	2.2
Canada	1.1	0.0
US	0.0	0.4
Total	**1.1**	**2.6**

Investor country	Corporate investors	Financial investors
US	10.9	12.4
Canada	3.1	3.2
Sweden	0.0	5.3
Spain	4.3	0.0
Singapore	0.0	2.1
South Korea	1.8	0.2
Rest of the world	1.0	2.9
Total	**21.2**	**26.1**

Investor country	Corporate investors	Financial investors
Colombia	9.4	0.0
Total	**9.4**	**0.0**

Investor country	Corporate investors	Financial investors
Brazil	5.3	0.6
Canada	0.0	0.9
Rest of the world	0.1	0.6
Total	**5.4**	**2.0**

Target regions

US | Canada | Brazil | Colombia

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Americas deals summary

Deals in regulated and renewable assets drove deal value in Americas by 74%

Americas witnessed a total of 193 deals in 2021, with a cumulative deal value of US$72.9b, which is a strong 74% increase from 2020. The deal value was primarily driven by multibillion dollar deals in the integrated segment, while the renewables segment drove the deal volume, with 96 deals (which is 50% of the total deals in 2021) totaling US$14b. Additionally, there was a significant year-over-year increase of US$11b in deal value in the energy services segment.

Within Americas, the US emerged as a top investor, as well as a target for investment, with deal value totaling US$40b and US$47b, respectively, in 2021. In Latin America, Colombia drove the deal value, with one major deal in the integrated segment of US$9.3b, and Brazil witnessed the largest number of deals (40 deals) within the region.

Global and US-based utilities acquired regulated business in the US across 2021. One of the multibillion-dollar deals includes acquisition of AEP's businesses including Kentucky Power regulated utility and AEP Kentucky Transmission by Algonquin Power & Utilities (AQN) to increase AQN's regulated utility mix to 77% from 73%.

Chart 5: Americas deal value and volume by segment
(Announced asset and corporate-level deals, Q4 2019–Q4 2021)

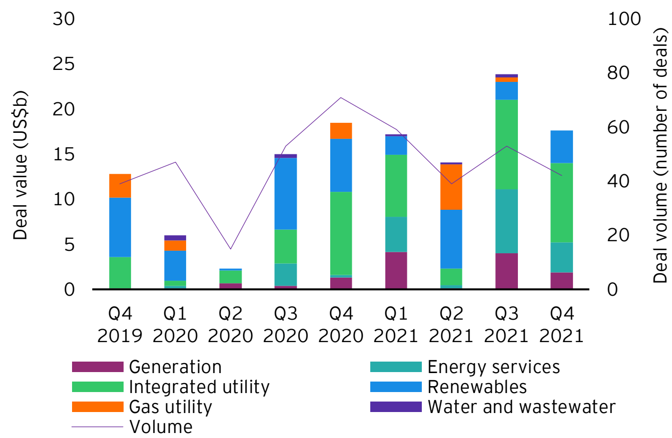
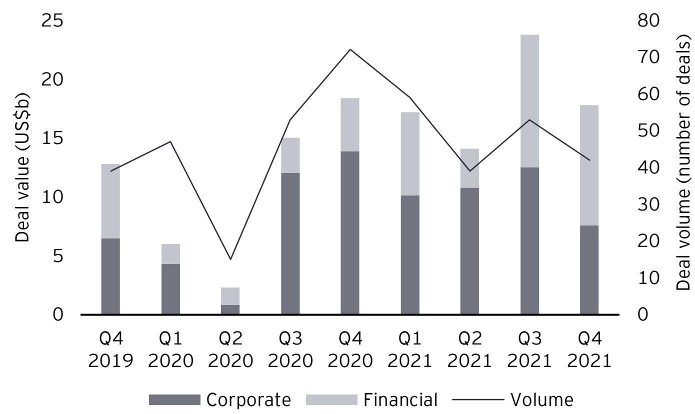


Chart 6: Americas deal value and volume by investor type
(Announced asset and corporate-level deals, Q4 2019–Q4 2021)



Source: EY analysis with data sourced from Mergermarket.

01

Utilities opt for minority stake sales to raise cash

In 2021, there were multibillion-dollar deals totaling ~US$10b where utilities raised equity capital by selling minority stakes in their regulated subsidiaries. In Q4, FirstEnergy raised US$2.4b by selling a 19.9% minority stake in FirstEnergy Transmission. In Q1, Duke Energy raised US$2b for a 20% minority stake sale in Duke Energy Indiana. Sempra Energy raised a total of ~US$5b through a 30% stake sale in Sempra's new business platform to ADIA and KKR.

02

Regulated business attracts investment from US and foreign utilities

In Q4, AEP sold its Kentucky Power regulated utility and AEP Kentucky Transmission business to Algonquin's subsidiary, Liberty Utilities for US$2.8b. Algonquin wants to explore the opportunity to build renewables generation through this acquisition. In Q1, PPL Corporation sold off its UK business to National Grid for US$19.8b and acquired The Narragansett Electric Company in exchange.

Latin America saw 84% more deal value in 2021 year over year totaling US$22b

03

Energy services attracted US$14b in investments

There were 13 deals in the energy services segment, totaling US$14.7b. In the largest deal in the Americas, Sweden-based PE firm EQT Partners acquired Covanta Holding Corporation, which is engaged in converting waste into energy, for US$5.2b. In the second largest deal, IFM Investors and Ontario Teachers Pension Plan acquired Enwave Energy Corp., a Canadian district energy service provider. Other interesting deals were focused on acquiring hydrogen fuel cells, artificial intelligence for solar energy technology, grid software, EV charging and battery storage.

04

Canada emerged to be the second largest investor in 2021 after the US

Total deal value invested by Canada totaled US$26b across 28 deals in 2021. Nineteen (68%) of these were cross-border deals, with Australia and US being the top invested countries. Financial investors led investment with US$20b. In Australia, Canada-based Brookfield Asset Management acquired Australian Ausnet Services for US$13b in Q321. In the US, two key deals were (a) Algonquin acquiring Kentucky Power and AEP Kentucky transmission, and (b) Brookfield Infrastructure Partners acquiring a 19.9% stake in FirstEnergy.

05

Consolidation in the Brazilian electricity sector drove high deal volumes in Latin America

Brazil accounted for 40 deals out of 62 deals in Latin America, totaling to US$7.4b. Twenty nine (73%) of these deals were domestic. Consolidation and privatization in the Brazilian electricity market drove these domestic deals. Equatorial Energia, a Brazil-based electricity distributor, acquired Echoenergia Participacoes for US$1.7b in the largest renewable energy M&A deal in Brazil. VTRM Energia, a Brazil-based wind farm operator, acquired Companhia Energetica de Sao Paulo as part of a corporate reorganization to create one of the main public companies in the Brazilian electricity sector (Nova VTRM), with a diversified portfolio of 100% renewable energy generation.

Chart 7: US deal value and volume by segment
(Announced asset and corporate-level deals, Q4 2019-Q4 2021)

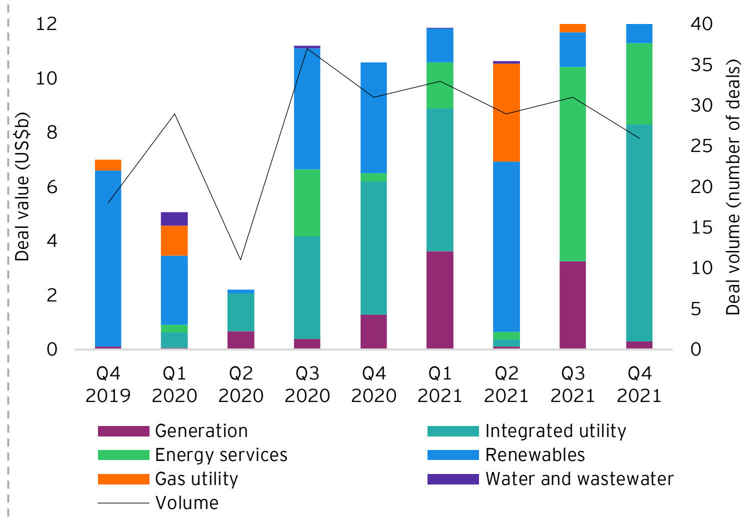


Chart 8: Canada deal value and volume by segment
(Announced asset and corporate-level deals, Q4 2019–Q4 2021)

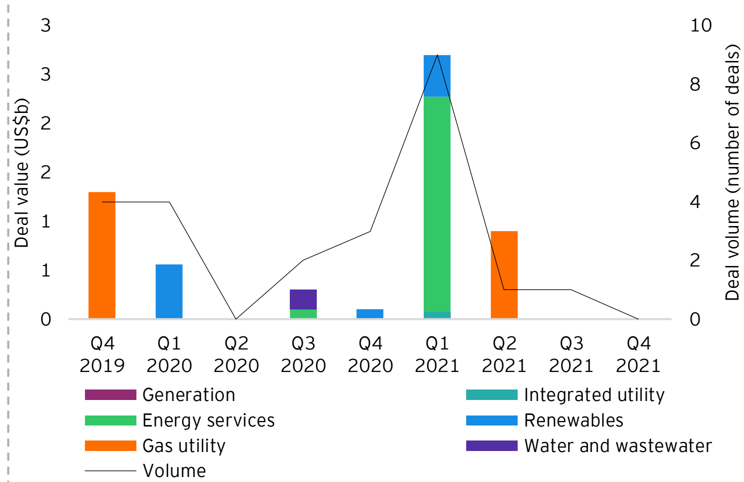
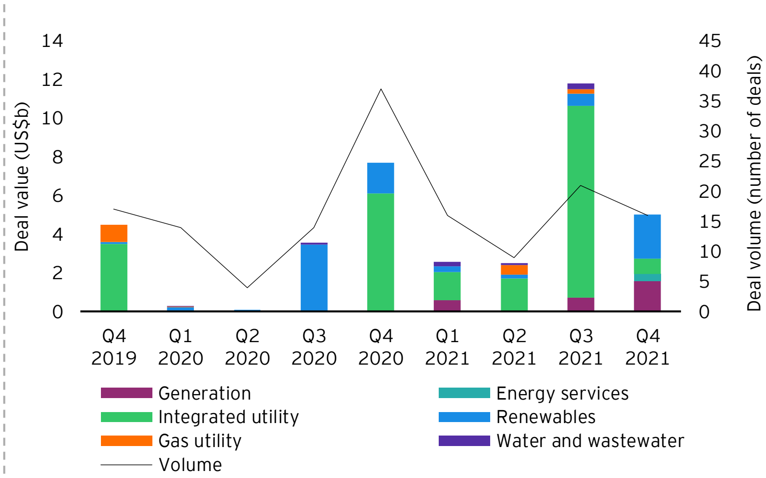


Chart 9: Latin America deal value and volume by segment
(Announced asset and corporate-level deals, Q4 2019–Q4 2021)



Source: EY analysis with data sourced from Mergermarket.

US utilities took initiatives in 2021 to improve their ESG risk profile

During 2021, there was a strong desire to buy assets that accelerate sustainability strategies, marking an uptick in renewable energy and other emerging technology deals, like EV charging, hydrogen and energy storage — a trend that will drive deal activity in 2022 as well. ESG considerations are driving investment and target selection and have become a crucial consideration when companies are looking to close a deal. As per the recent EY CEO Survey 2022, ESG and sustainability concerns are becoming critical for dealmakers. Ninety-nine percent of CEOs surveyed consider ESG issues in their buying strategies, while 6% admitted to have walked away from the deals due to ESG-related concerns.

ESG's rise has meant greater scrutiny on deals. This looks set to increase as companies, investors and regulators place even more importance on ESG considerations.

Key initiatives that US utilities are taking while considering their ESG risk profiles:

Utility	ESG initiatives
NRG Energy	‣ Obligated a 50% reduction of absolute emissions by 2030 from a 2014 base year ‣ In December 2020, became the first North American utility to issue a sustainability-linked bond ‣ NRG needs to reduce total emissions to 31.7 million metric tons of CO_2 by 2025 to meet its target
NextEra Energy	‣ Holds the highest ESG rating of AAA from MSCI ‣ Recognized as number one in the electricity and gas utility industry in *Fortune*'s list of the World's Most Admired Companies in 2020, for the 13th time in 14 years
Duke Energy	‣ Plans to double its portfolio of solar, wind and biomass generation by 2025 ‣ Aims to reduce its CO_2 emission by 50% from electricity generation by 2030 compared to 2005 levels
Dominion Energy	‣ Aims to provide net-zero generation by 2050 and has reduced carbon emissions by 57% from its electricity generating units between 2005 and 2019 ‣ Reduced its injury rate by 50% in the decade before 2019; also a top performer among its peers for employee health and safety ‣ Contributed around US$48m to community causes in 2019, including a US$2.5m gift to the International African American Museum in Charleston, South Carolina
Exelon	‣ Sponsors more than 45 workforce development programs to address economic equalities and gave over US$51m to charities in 2019 ‣ Board comprising 93% independent directors, with 50% of its executive committee either female or non-white
Xcel Energy	‣ Plans to achieve carbon neutrality by 2050 ‣ Has reduced its carbon emissions from power generation by 51% between 2005 and 2020 ‣ In February 2021, Xcel Energy announced its 2030 Clean Energy Plan, which encompasses reductions in CO_2 emission to 85% from 2005 levels by 2030
Southern Company	‣ In May 2020, committed to reducing 50% CO_2 emission from the 2007 level by 2030; aims for carbon neutrality by 2050

Drivers accelerating focus of US utilities on ESG themes:

Environmental

- The US has set a target to achieve 50%-52%reduction in emissions from 2005 levels by 2030.
- The US Government has also committed to achieve net zero by 2050.

Social

- Activist shareholders are putting pressure on utilities to focus on supporting vulnerable communities that are impacted by their businesses.

Governance

- NASDAQ introduced Board Diversity Disclosure Rules that focus on disclosing gender, racial and LGBTQ+ status.
- The U.S. Securities and Exchange Commission (SEC) is is working toward improving its climate disclosure policies.
- President Biden has introduced an executive order on climate-related financial risk.

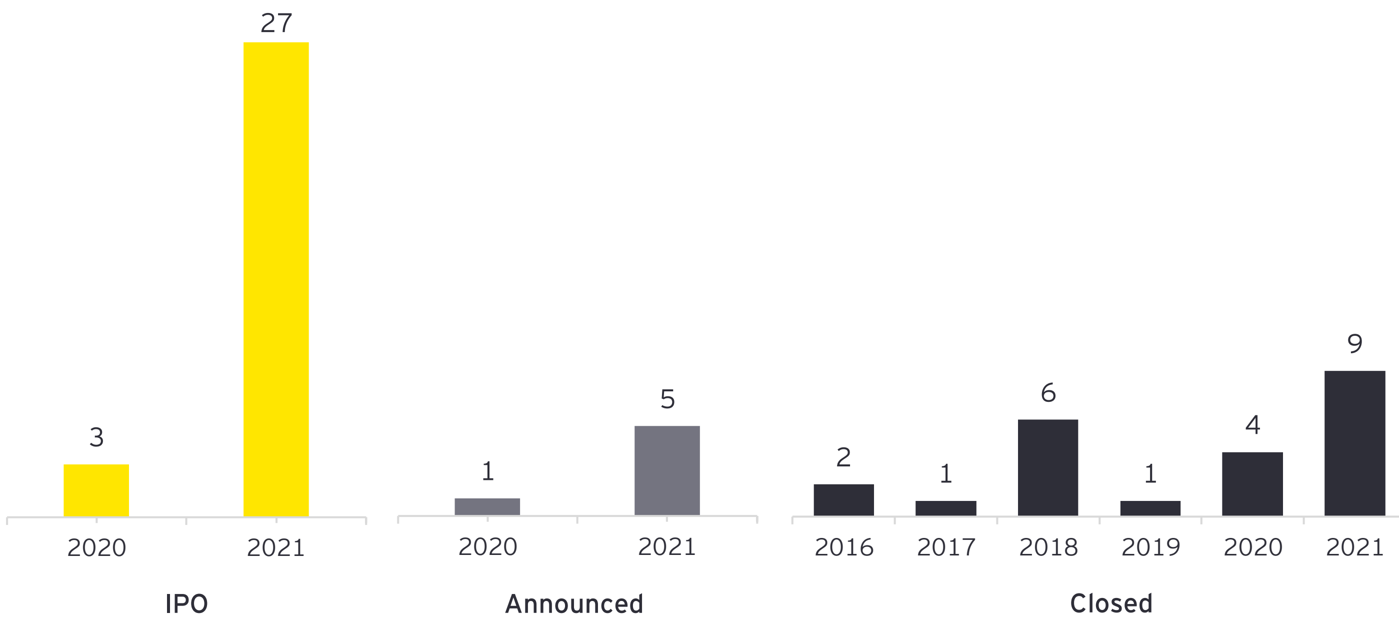
Source: EY analysis based on press releases of select US utilities and ESG data from GlobalData.

SPAC-led M&As gain traction in 2021

2021 witnessed special-purpose acquisition companies (SPACs) increasingly becoming an attractive alternative for private market investors and executives who are looking for a more certain path to public markets. In December, Voltus, a distributed energy resource software technology platform company, entered into a definitive business combination agreement with Broadscale Acquisition Corp. to become a publicly traded pure-play DER software technology company, giving the combined company an estimated equity value of US$1.3b. The SPACs also acted as a growth engine for renewable energy companies. In July, Altus Power merged with a SPAC sponsored by CBRE group, giving Altus a market capitalization of US$1.6b.

Seventy-seven SPACs were identified in the energy sector as having different statuses (including pre-IPO, IPO, announced and closed), and a total of nine deals were closed through SPACs (the highest in the past six years).

Number of SPACs by their current status (as of January 25, 2022) and the year they reached that status



Source: EY analysis on publicly available data and SPAC Research.

There are 30 active SPACs in the energy sector that have the potential to reach closed status over the next two years. This pipeline of registered SPAC IPOs are focused on clean energy transition and sustainability, with a particular concentration on renewable generation businesses.

Some of the top potential deals that are likely to close in 2022 include acquisitions by M3 Brigade Acquisition Corp. and Hunt Companies Acquisition Corp. as they pursue renewable energy businesses in North America.

The broader SPAC IPO market was plentiful, and there were more SPAC IPOs and proceeds raised in 2021 than all prior years combined. However, in the last few months of 2021, there was a cooling off of new SPAC formations and mergers.

However, there continues to be very strong appetite for ESG-related investment opportunities in renewables and emerging clean energy technologies when it comes to SPAC IPOs and traditional IPO transactions, as well as M&A activities. Public awareness and engagement of these issues, as well as investors' appetite for high-growth energy transition investment opportunities, are expected to increase even further over the coming years.

Notable deals in the Americas – 2021 (1/2)

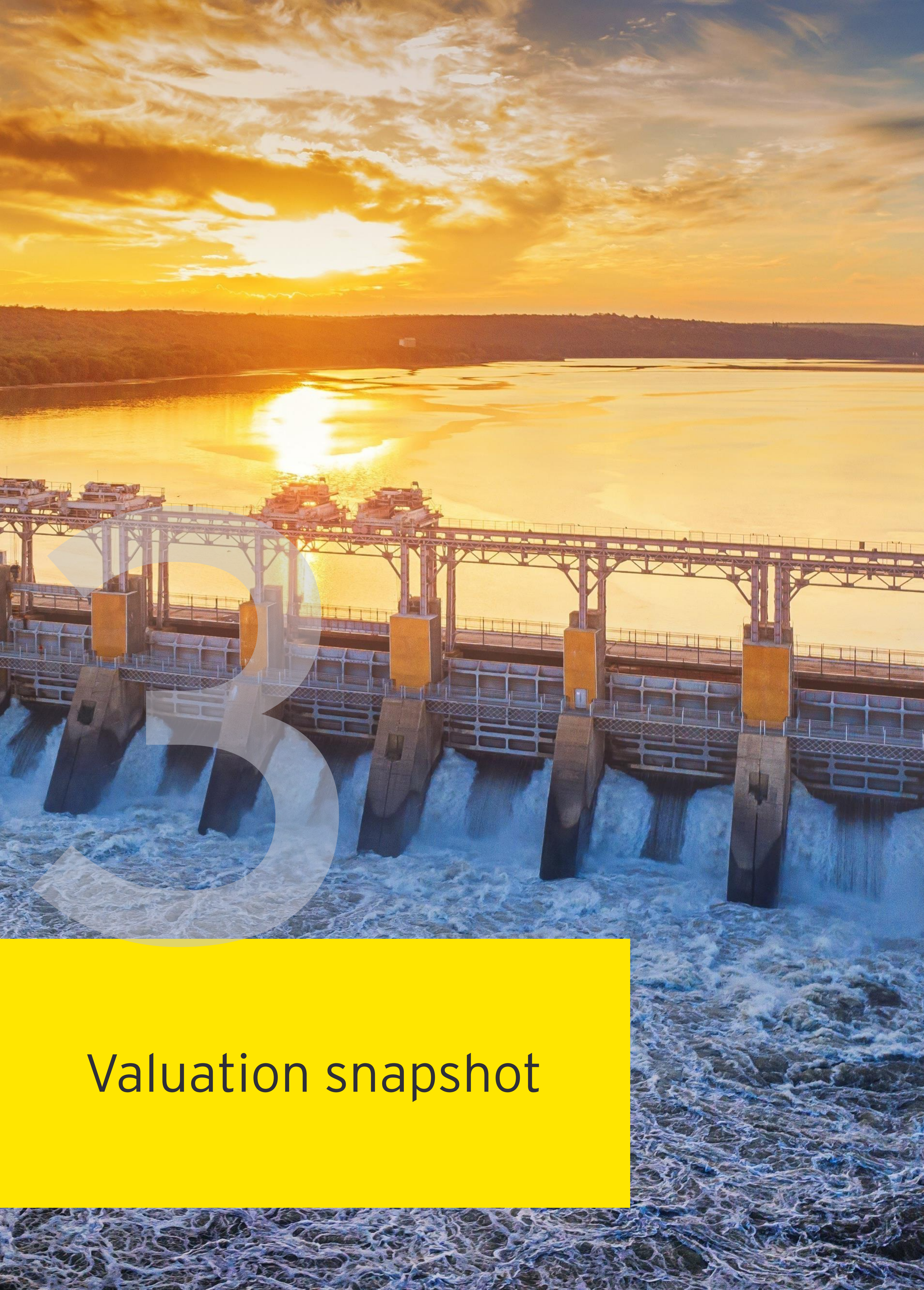
Date announced	Target	Target country/ bidder country	Bidder	Deal value (US$b)	Bidder rationale	Segment
US						
July 14	Covanta Holding Corporation	US/Sweden	EQT Partners AB	5.3	Aligns with bidder's strategy to invest in energy transition and circular economy growth	Energy services
March 18	The Narragansett Electric Company	US/US	PPL Corporation	5.2	To strategically reposition PPL as a high-growth, US-focused energy company	Integrated
December 21	Sempra Infrastructure Partners	US/US,UAE	KKR (20%) and Abu Dhabi Investment Authority (10%)	5.1	Aligns with bidder's strategy to invest in clean energy resources	Integrated
October 26	Kentucky Power Company	US/Canada	Algonquin Power & Utilities Corp.; Liberty Utilities Corp.	2.8	To increase AQN's regulated utility mix to 77% from 73% and potentially increase EPS	Integrated
November 7	FirstEnergy Transmission, LLC (19.9% stake)	US/Canada	Brookfield Super-Core infrastructure Partners L.P.	2.4	Long-term, stable returns	Integrated
April 29	CenterPoint Energy Inc.'s gas LDCs in Arkansas and Oklahoma	US/US	Summit Utilities, Inc.	2.1	To increase Summit's regional presence	Gas utility
January 28	Duke Energy Indiana, LLC (19.9% stake)	US/Singapore	GIC Private Limited	2.0	Aligns with bidder's strategy to acquire high-growth assets at attractive valuations	Generation
August 12	PSEG Fossil LLC	US/US	ArcLight Capital Partners, LLC (Parkway Generation and Generation Bridge II)	1.9	Aligns with bidder's strategy to acquire premier gas-fired plants	Generation
October 25	Clearway Community Energy LLC	US/US	KKR & Co. Inc.	1.9	To enable financial flexibility in order to fund future growth objectives	Energy services
October 6	Dominion Energy Questar Pipeline LLC	US/US	Southwest Gas Holdings Inc.	1.9	Enhances scale and diversifies business portfolio of the bidder	Gas utility
September 10	Equinor (Empire Wind and Beacon Wind – 50% stake)	US/US	bp	1.1	In line with bp's strategy to increase low carbon investment	Renewables
January 14	Atlantic Power Corporation	US/US	I Squared Capital	0.81	Enhances its portfolio with attractive assets in target company	Generation
November 23	Lancium Technologies Corporation	US/US	Hanwha Solutions Corporation; SBI Holdings, Inc.	0.15	Part of Hanwha's new business model to embrace the renewable energy sector in the US and Europe	Energy services
November 18	FirstElement Fuel Inc	US/Japan	MUFG Bank, Ltd. ; Air Water Inc.; Nikkiso Co., Ltd.; Japan Infrastructure Initiative Company Limited	0.11	To contribute to development of zero-emission vehicles infrastructure	Energy services

Source: EY analysis with data sourced from Mergermarket. Note: Numbers may not add to total due to rounding. Note: ND* = Not disclosed.

Notable deals in the Americas – 2021 (2/2)

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US$b)	Bidder rationale	Segment
US						
October 6	Apex Clean Energy Holdings, LLC	US/US	Ares Management, L.P.	0	To invest in clean energy technologies	Renewables
October 18	Origis Energy USA Inc.	US/France	Antin Infrastructure Partners S.A.S.	0	Part of Antin's strategy to invest in ESG objectives	Renewables
South America						
August 2	Interconexion Electrica SA (51.4% stake)	Colombia/Colombia	Ecopetrol SA	9.38	To speed up bidder's business model transformation under decarbonization agenda	Integrated
October 28	Echoenergia Participacoes S.A. (100% stake)	Brazil/Brazil	Equatorial Energia SA	1.72	Aligns with bidder strategy to enter renewable energy segment	Renewables
October 18	Companhia Energetica de Sao Paulo (Cesp) (60% stake)	Brazil/Brazil	VTRM Energia	1.13	Corporate reorganization to consolidate the renewable energy development and generation businesses	Generation
July 16	Chile Renovables (49% stake)	Chile/US	Global Infrastructure Partners, LLC	0.44	To decarbonise bidder's portfolio by increasing investment in wind, solar and battery assets	Renewables
July 20	Brasil PCH S.A. (51% stake)	Brazil/UAE	Mubadala Investment Company PJSC	0.39	To expand bidder's presence in Brazil	Renewables
August 20	Saavi Energia, S. DE R.L. DE C.V.	Mexico/US	Global Infrastructure Partners, LLC	0.28	To broaden the renewable and commercial footprint of the bidder in Mexico	Generation
October 14	Celg GT (100% stake)	Brazil/Brazil	Energias do Brasil SA	0.36	In line with bidder's intention to improve presence in Brazil and company's plan to invest in networks	Integration
Canada						
February 2	Enwave Energy Corp.	Canada/ Australia	IFM Investors; Ontario Teachers' Pension Plan	2.19	Aligned with investor's strategy to invest in net-zero commitments	Energy services
June 7	Noverco Inc. (38.9% stake)	Canada/ Canada	Trencap L.P.	0.94	To enhance financial strength and flexibility and demonstrate disciplined capital allocation	Gas utility

Source: EY analysis with data sourced from Mergermarket. Note: Numbers may not add to total due to rounding. Note: ND* = Not disclosed.



3

Valuation snapshot

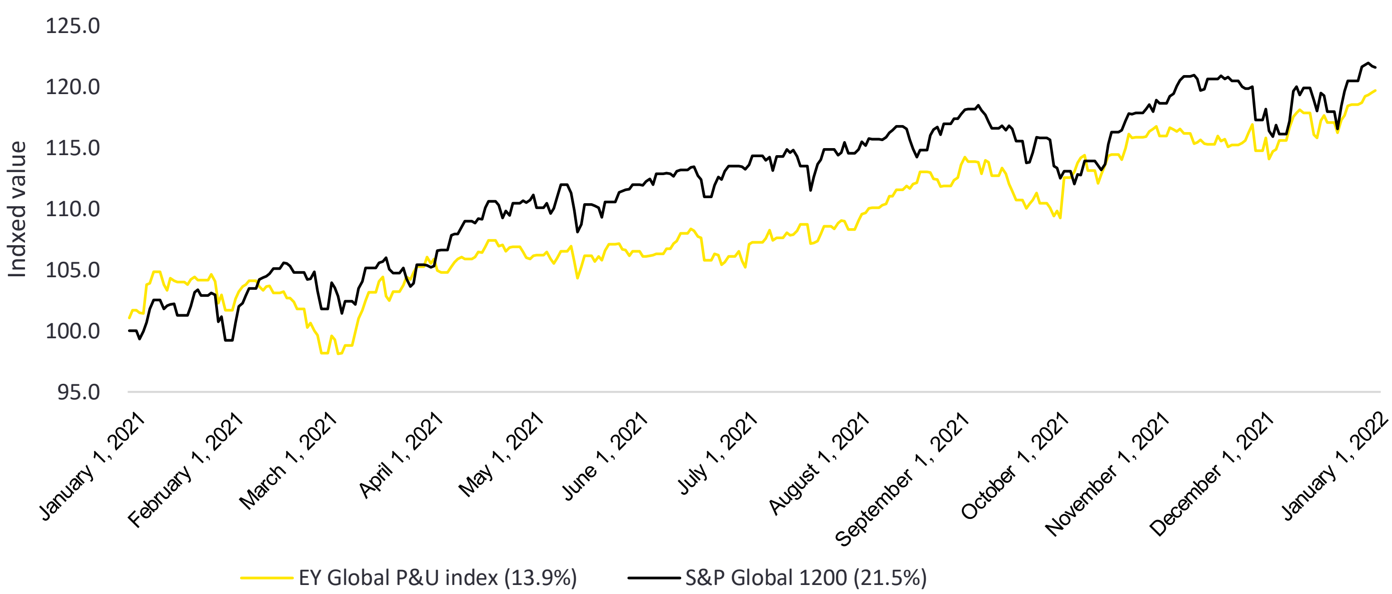
Global valuations and TSR snapshot — 2021

The global markets continued their upward trajectory, with the S&P 1200 index recording 21.5% returns in 2021. The EY Global P&U Utilities analysis recorded a total shareholder return (TSR) of 13.9% for 2021. The EY APAC and Americas P&U analysis outperformed the broader market, and Europe, with a return of 20.4% and 14.5%, respectively, in 2021. Generation and retail in Asia-Pacific and Gas utility in Americas had the highest TSRs of 40.6% and 23%, respectively, in 2021.

Water and wastewater utilities in the US were valued at a premium, with EV/FY+1 EBITDA of 14.9x, followed by renewable utilities in Europe, with EV/FY+1 EBITDA of 14.3x.

Return over time — from base date

Chart 10: Total shareholder return by region
(from January 1, 2021 to December 31, 2021)

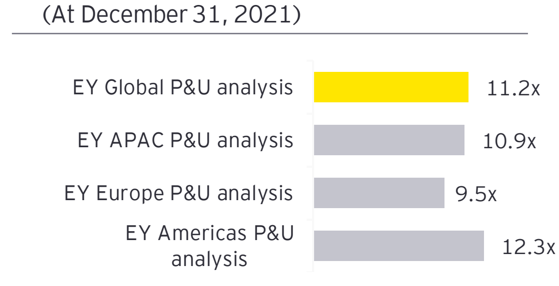


	Americas	Europe	Asia-Pacific
	2021 TSR (%)		
Large market capitalization integrated	17.2	10.7	18.4
Medium and small market capitalization integrated	8.5	19.8	19.3
Gas utility	23.0	21.3	(2.9)
Generation and retail	(19.0)	19.6	40.9
Renewables	(19.0)	(17.3)	35.7
Water and wastewater	21.8	45.7	4.3
Average regional analysis	14.5	9.3	20.4

Value of TSR more than the regional sector average

Value of TSR less than the regional sector average

EV/FY+1 EBITDA
(At December 31, 2021)



Source: EY analysis with data sourced from CapitalIQ.

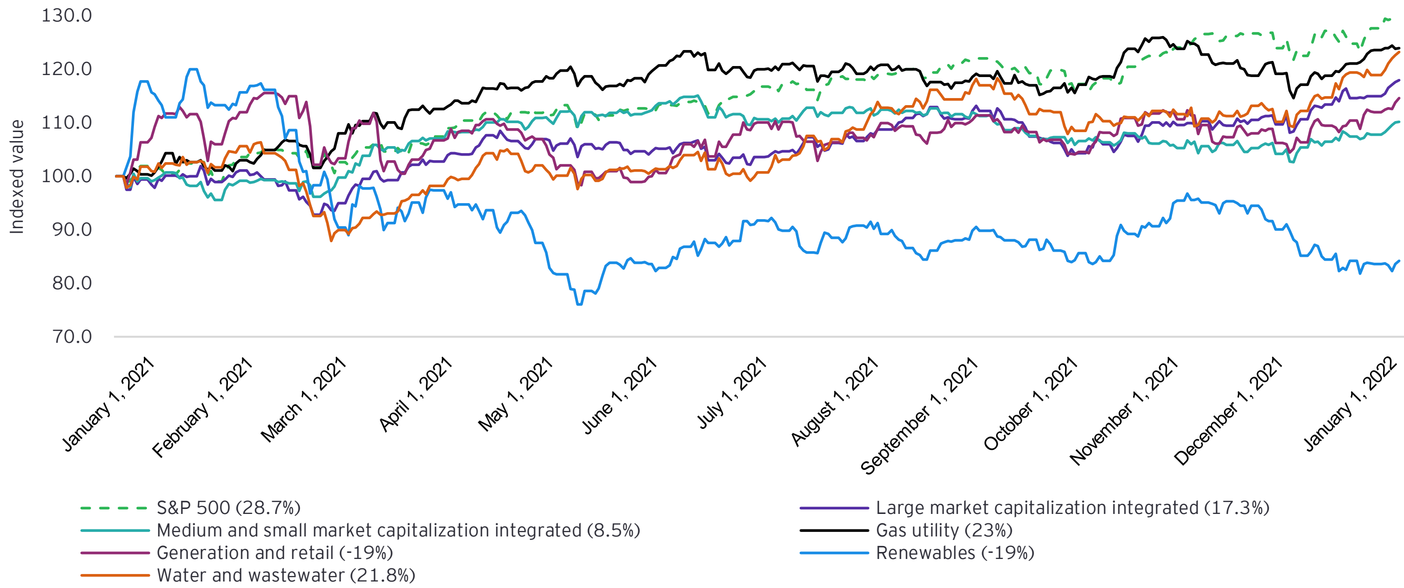
Americas valuations and TSR snapshot – 2021

The EY Americas P&U analysis underperformed the broader market, with a return of 0.3% for the quarter compared to 0.6% for the S&P 500. The gap between the YTD performance remained, with S&P 500 recording returns of 28.7% when compared to 14.5% returns for the EY Americas P&U utilities.

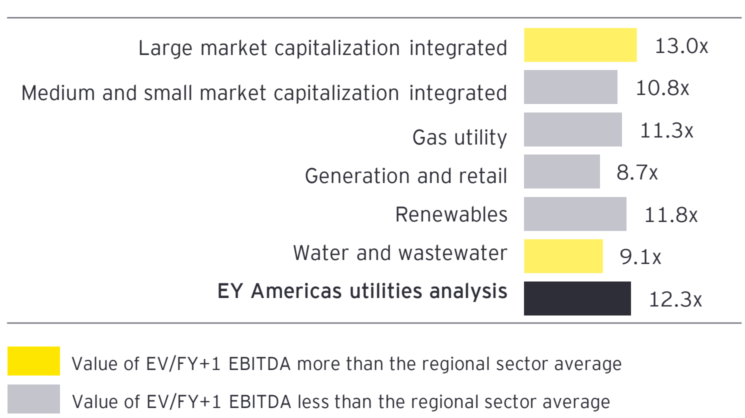
The best-performing stocks for the quarter included Vistra Corp., with a TSR of 34.1%, and Otter Tail Corp., with a TSR of 28.4%.

Return over time – from base date

Chart 11: Total shareholder return by segment
(from 1 January 2021 to 31 December 2021)



EV/FY+1 EBITDA
(At December 31, 2021)



Source: EY analysis with data sourced from CapitalIQ.

The utilities in the EY Americas P&U analysis were valued the highest across all geographies in Q4, with EV/FY+1 EBITDA of 12.3x led by NextEra Energy, Inc., with EV/FY+1 EBITDA of 19.1x and California Water Service Group, with EV/FY+1 EBITDA of 18x. Generation and retail was the lowest valued sector in the Americas, with EV/FY+1 EBITDA of 8.7x, compared to an average EV/FY+1 EBITDA of 8.3x over the past four quarters – an attractive opportunity that was encashed by financial investors through 2021.

4

M&A outlook and investment hotspots

M&A in 2022 will be driven by conducive policy environment and easier access to capital

The investors will continue to consider dealmaking a strategic opportunity to grow their clean energy business and strengthen their ESG profiles. Competition is ramping up, pushing up valuations and spurring greater deal activity.

Confidence witnessed in the global dealmaking market will continue in 2022

Global merger and acquisition activity in 2021 surpassed the pre-pandemic levels by a strong margin from US$128b in 2019 to US$262.3b in 2021. This is expected to climb higher in 2022, driven by increasing competition among corporates to accelerate the shift to energy transition, in turn driving better valuations. Financial investors played an active part in 2021, and will continue in 2022. On the basis of a large amount of dry powder and funds available, growth in acquisitions by PE firms will play a big role in 2022. According to the EY CEO Outlook Survey 2022, because of a need to actively reconfigure for resilience and optimal growth, M&A will be high on the boardroom agenda.

Complexity in dealmaking with rising scrutiny from regulators and other active stakeholders will be a significant challenge for dealmakers

Regulatory oversight on deals is evolving beyond issues of market concentration to include consumer data and privacy, national interest and security, future competition, and ESG profile. The time, complexity and the resources to get deals over the regulatory hurdle are rising, making it a lengthy and costly process. Thus, the significance of preparing for regulator consultations and broader stakeholder communications during the deal diligence and negotiation phases is increasing. Dealmakers must learn to navigate the increasingly complex regulatory environment to achieve success.

In December 2021, New Mexico utility regulators voted to reject Avangrid Inc's proposed a US$8b acquisition of PNM Resources, saying that the deal's risks outweighed its promised benefits to state ratepayers. The deal with PNM was aligned with Iberdrola's broader strategy of investing in regulated businesses and opportunities to expand renewable energy.

Carve-outs and continuous review of existing portfolios will continue to drive portfolio optimization

In 2021, utilities opted for minority stake sales in their regulated businesses and divestments in renewable assets to generate funds to invest in strategic green initiatives. And as part of the existing portfolio review, some P&U companies made changes in their regulated business portfolios to either expand their geographical presence or enhance it in a particular region. Whether similar transactions in 2022 serve to offset near-term equity needs or ultimately fund utilities' long-term capital investment plans, we expect P&U companies to remain disciplined with their financing plans .

Conducive policy environment in the US is expected to drive investments in clean energy transition

The announced infrastructure law has earmarked funds for various programs, including US$73b for grid modernization, US$55b for water systems infrastructure, US$7.5b for EV charging programs (National Electric Vehicle Formula Program and Fueling Infrastructure Program) and US$500m for smart cities. The BBB bill, a US$2t spending bill, would give clean hydrogen producers the choice of production tax credits of up to US$3 a kilogram for 10 years on the hydrogen produced or an investment tax credit of up to 30% of the cost of the electrolyze and other equipment.

This massive cash infusion in the emerging technology will create opportunities for investments and M&A across the P&U sector. We could see consolidation in sectors like water and wastewater, where smaller players could come together to benefit from the Infrastructure Plan. Private equity could also flow into these sectors, driven by a low-interest-rate environment, availability of capital as well as strong market fundamentals.

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