Power and utilities transactions and trends

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Building a better working world

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2020 ends with robust P&U deal-making

After the rollercoaster year, the deal activity in Q4 2020 rebounded with 197 deals – a 93% increase in deal volume from Q2 2020, when the impact of COVID-19 was the most evident on the M&A activity. The global deal value reached US$119.7b in 2020 – inching closer to the total deal value in 2019 (US$129.2b). Most of the deals were done in home markets, with US, UAE and Spain being the leaders in the 2020 investment flow. The venture capital funding also increased to reach US$11.5b, most of which was invested in electric transport, storage and digital platforms.

Continued tailwind to M&A in 2021

Many factors will influence deal-making in the P&U sector in the coming quarters. Negative investor sentiment towards conventional generation is weighing on the gas LDC and midstream segment and is creating the valuation disparity between regulated and non-regulated assets. Thus, diversified utilities would prioritize investment in rate base given the regulated utilities' strong core operating fundamentals while divesting from non-core and unregulated businesses. Major players have already announced planned or potential strategic actions in this direction, including CenterPoint, DTE, Exelon and PSEG.

Impact Investing also represents an interesting opportunity for utilities, as these funds intend to generate positive, measurable social and environmental impact alongside a financial return. Renewable assets fit this description and have demonstrated their resilience through the economic turmoil during 2020 with soaring valuations. Coal-heavy companies possess a larger opportunity to replace fossil fuels and achieve more significant emission reductions on both an aggregate and percentage basis. Thus, a coal-heavy company that can successfully lay out a strategy that exhibits a greater rate of change may attract Impact Investment funds, creating a tailwind driving multiple expansion.

> "ESG is becoming an important consideration for M&A driven by the fact that many stakeholders are moving away from fossil fuels. Investors are seriously asking themselves — if they are willing to buy a company with heavy fossil fuel exposure? How will a carbon heavy investment be perceived by our investors and stakeholders? What's our pro forma ESG profile?

Sector consolidation will be another theme around which transactions would take shape. Some utilities have already merged their businesses to increase their customer base, geographical footprint and enhance regulated earnings. Two IPPs, Novatus Energy and Southwest Generation, recently completed a merger to create Onward Energy with 4 GW of combined renewable assets. Merchant generators faced with challenges are especially looking to do M&A to increase their vertical integration and customer base.

Corporates led deal activity during the year with 74% of deal value and 64% of the deal volume – a trend expected to continue in 2021. Large valued transactions would gather steam as highly-valued companies like NextEra search market for a good strategic fit. Moreover, there is a limited population of digestible utilities available, such as El Paso, which with a US$2.7b market cap. is one of the smallest publicly traded utilities in the US. There are only a handful in this size before the acquisitions get to ~US$8b plus size in market capitalization.

However, an important aspect to note is how utilities navigate increasingly challenging regulatory scrutiny. Regulators across geographies are increasingly paying attention to competition, anti-trust, overall customer benefit and the impact on the country's internal security.

Positive outlook for clean energy

With the victory of President Joe Biden and a Democratic Party majority in the US House and Senate, there will be a renewed focus on clean technology, electrification and stringent emission targets. The US has already re-joined the Paris climate change agreement, a signal to both domestic and foreign investors of attractive growth opportunities in renewables and electrification in the region.

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Global deals summary

Global deal activity sees robust recovery with a total value of US$33b in Q4

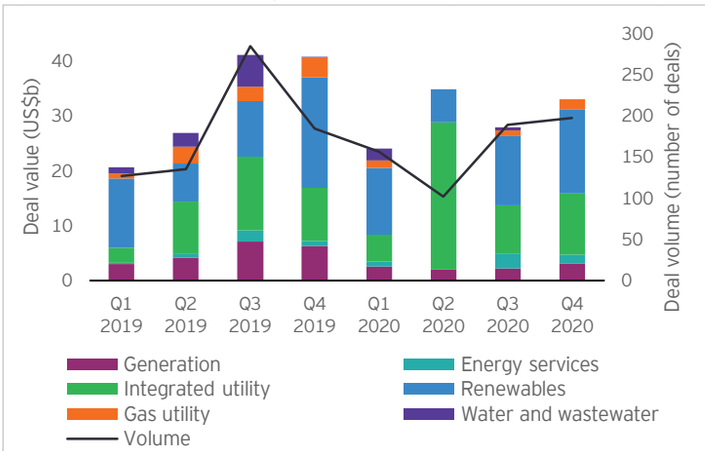
Total deal value in Q4 increased to US$33b from US$27.9b in Q3, driving the global deal value for 2020 to US$119.7b, only 7% less than the global deal value in 2019. Renewable assets attracted the most investments in Q4 with a total of US$15.4b deal value.

Investor's search for minimum risk assets with reliable returns defined the underlying rationale for deals with US$97.7b investments in integrated and renewable assets during 2020. In the largest deal of Q4, Avangrid and PNM Resources announced their plans to merge for US$4b[1]. The combined entity would own 10 regulated utilities in six US states, and would have renewable operations in 24 US states. During the year, consolidation has continued to be the key driver of mega deals in the sector – for example, the US$3.6b acquisition of Direct Energy by NRG Energy[1] was conducted to expand customer footprint and retail gas capabilities.

	Q4 2020	YTD 2020
Global deal value	US$33b	US$119.7b
Largest segment	Renewables US$15.4b	Integrated utilities US$51.8b
Largest region	Americas US$18.4b	Americas US$41.7b
Total deals	197	643

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

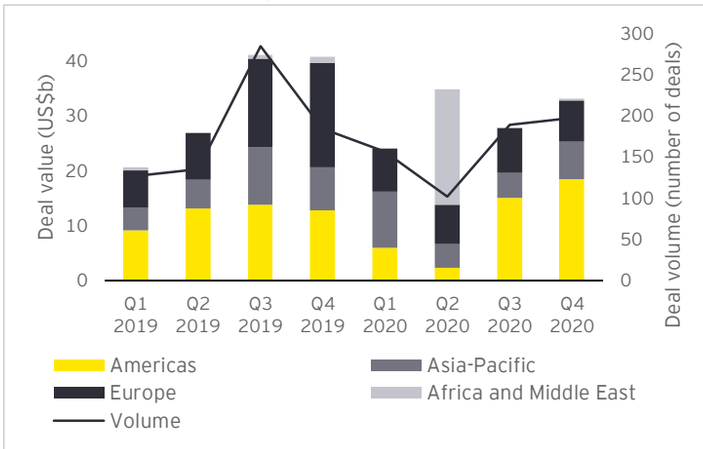
Chart 1: Global P&U deal value by segment
(announced asset and corporate-level deals, Q1 2019–Q4 2020)



Source: EY analysis with data sourced from Mergermarket

[1]Publicly disclosed investments

Chart 2: Global P&U deal value and volume by region
(announced asset and corporate-level deals, Q1 2019–Q4 2020)



Source: EY analysis with data sourced from Mergermarket

M&A was driven by strategic decision to delink earnings from carbon heavy assets and focus on core businesses

Investors conducted opportunistic M&A to rebalance and rationalize their portfolios and deploy capital into attractive growth and yielding assets.

Consolidation of assets was the key driver of megadeals in 2020

Some of the largest deals of the year – the US$4b merger between Avangrid and PNM resources, US$3.6b merger between NRG and Direct Energy and the US$2.8b acquisition of Vivint Solar by Sunrun were driven by the need to strengthen earnings by increasing scale and diversify customer mix and geographical footprint. This trend is expected to be the continued theme in the sector, triggering market anticipation of increasing regulatory complexities to get deals over the hurdle.

Diverse set of investors cashed-in capital chasing opportunities in renewables

A total US$46b (38% of total deal value) was invested in renewables during 2020. Large institutional investors, PE firms and large diversified utilities conducted 11 multibillion-dollar deals in a bid to capitalize on these assets' earning potential with reliable returns. Pressed by increasing investor focus on ESG, many O&G companies announced long-term climate change targets in 2020. BP announced plans to invest US$5b a year in low-carbon by 2030. Equinor announced plans to invest US$11.6b in renewables by 2030. Shell announced plans to codevelop US$1.7b Hollandse Kust (noord) offshore wind farm.

Corporate investors rejig portfolio to focus on core assets

This was the year when many management teams proactively analyzed their businesses to sell off noncore assets. It was a strategic decision which was not necessarily driven by distress, but a need to increase earnings and cash flow from regulated and core businesses and investing in clean energy assets. Corporate investors conducted deals worth more than US$88.9b during the year, out of which a majority of deals were announced in integrated (50%) followed by renewables segment (34%). There were five multibillion-dollar deals announced by corporate investors in Q4 2020.

Utilities took this opportunity to commit to emission reduction – in its 2020 integrated resource plan, Dominion Energy quadrupled its renewable energy targets from 2019 plan. Similarly, Southern company joined Duke Energy and Xcel Energy by announcing net-zero carbon targets by 2050.

Investment in green hydrogen scaled up driven by policy support

In July, the EU introduced new hydrogen strategy, with a target to install 6 GW of electrolysers by 2024 and 40 GW by 2030, increasing from current capacity of 250 MW. Plug Power, a US-based hydrogen cell developer raised US$1.5b from South Korea's SK Group, to boost hydrogen fuel cells and green hydrogen electrolysers as a cleaner source of energy for transport and industry throughout Asian markets. Copenhagen Infrastructure Partners and Hydrogen Renewables Australia agreed to develop 5 GW Murchison Renewable Hydrogen Project in Western Australia. It will use solar PV and wind to produce hydrogen fuel for export to Japan and South Korea.

Amid economic downturn, the investments remain confined to home markets

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

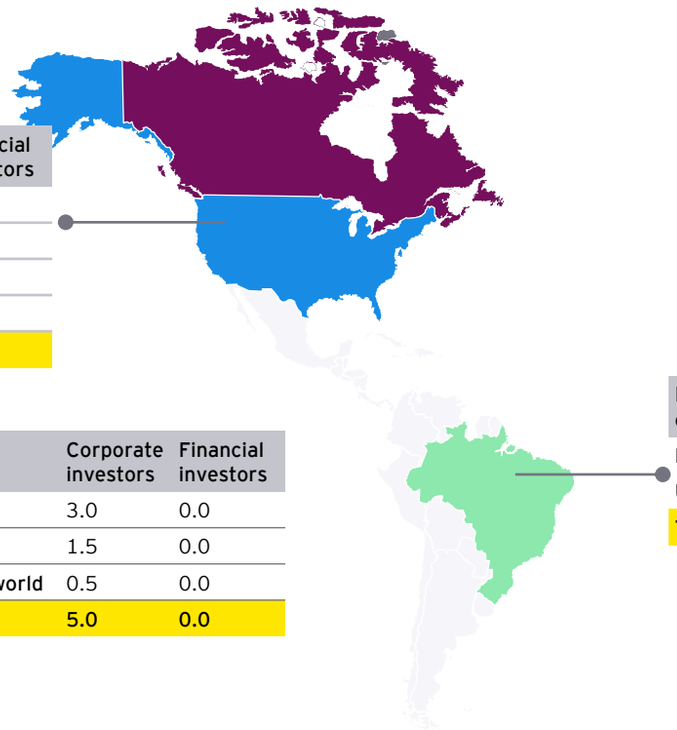
Investor country

	UAE	US	UK	India	Portugal	China	Canada	Germany	Brazil	Spain	Rest of the world	Total receipts
UAE	20.9											20.9
US		15.0	2.1	4.3							7.7	29.1
Spain			1.8		4.7	0.6		1.2		1.6	0.6	10.5
China						6.4					1.3	7.7
Germany			3.5					2.7			1.4	7.5
India		0.4					5.9				0.8	7.1
UK			3.1							0.6	2.1	5.8
Chile				0.1		3.0				0.2	1.6	5.0
Brazil		0.2							4.3			4.6
Australia				0.7						1.0	2.4	4.1
Rest of the World		0.1	0.5	0.9	0.1					0.2	15.4	17.3
Total receipts	20.9	15.8	11.0	6.1	4.8	10.1	5.9	3.9	4.3	3.7	33.2	119.7

0-5 | 5-10 | 10-20 | 20+

Source: EY analysis with data sourced from Mergermarket

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



Investor country	Corporate investors	Financial investors
US	13.6	7.8
Canada	2.2	2.1
UK	1.9	0.2
Rest of the world	0.9	0.4
Total	18.6	10.5

Investor country	Corporate investors	Financial investors
China	3.0	0.0
Italy	1.5	0.0
Rest of the world	0.5	0.0
Total	5.0	0.0

Investor country	Corporate investors	Financial investors
Brazil	4.3	0.0
US	0.2	0.0
Total	4.6	0.0

Target regions

USA Canada Brazil

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

Transportation and battery storage attracted 70% of the total venture capital (VC) funding in 2020

Chart 3: Global deal value in new technology*
(announced deals, 2020)

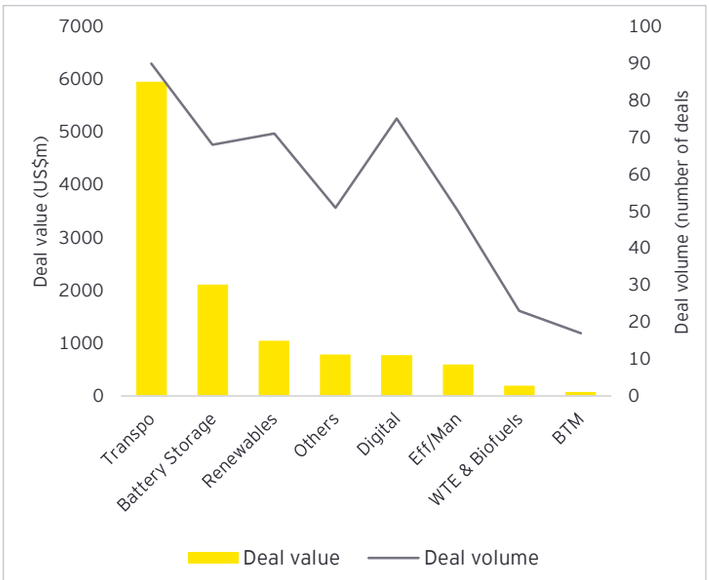
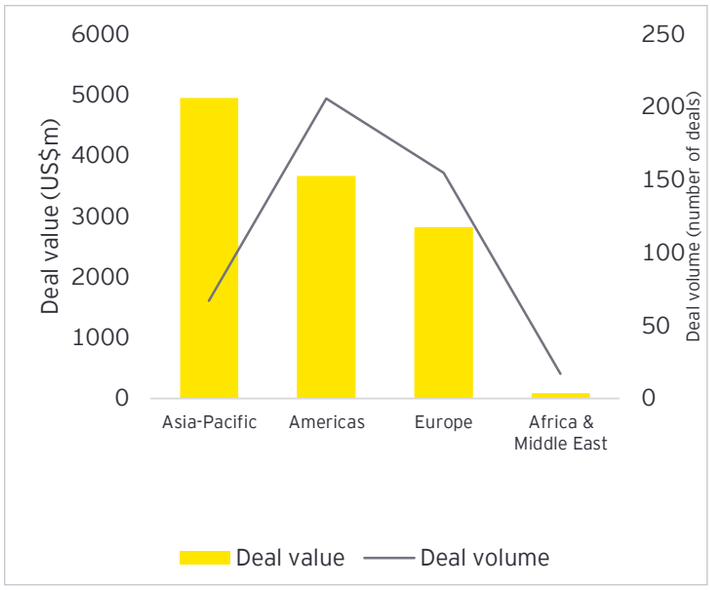


Chart 4: Global deal value in new technology, by region
(announced deals, 2020)



Source: EY analysis with data sourced from Pitchbook

* Transpo = Transportation, Digital = digital and analytics, Eff/Man = Efficiency and manufacturing, BTM = Behind the meter, WTE = Waste to energy and biofuels

01

Electric transport attracted the majority portion of venture capital (VC) investments

The total deal value in the transportation sector reached US$6b in 2020. The largest deal was the US$1.47b series D investment in Weltmeister, a Chinese new energy EV developer in Q3. Most of the investments were made through series C and D funding, indicating maturity of the companies in this segment.

02

Asia-Pacific remains the most invested region

In 2020, the total values of investment in Asia-Pacific touched US$5b, led by China, which contributed more than 98% of the total VC funding in the region.

03

Investment in hydrogen start-ups picks up

In Q4 there were six deals – mostly early-stage VC where investors pumped in US$208m in companies that are working in hydrogen technology for fuel cells with applications in Electric Vehicles industry.

Americas deals summary

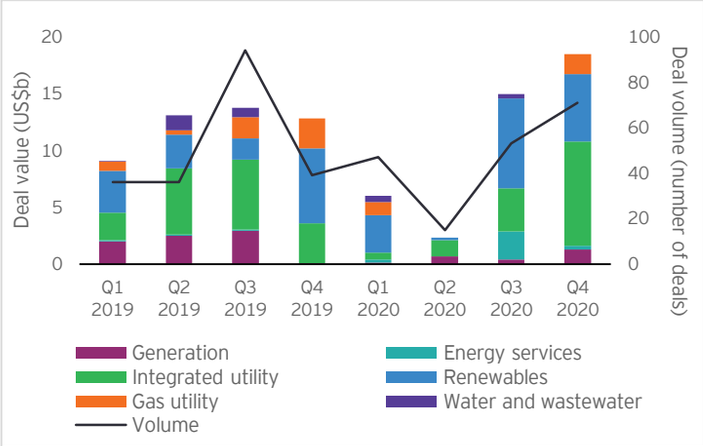
Increased investment in integrated assets drives highest quarterly deal activity

Deal value in Q4 was the highest across all quarters with a total US$18.5b – a 45% increase from Q4 2019 – driven by megadeals. There were six multibillion-dollars deals with a combined value of around US$13b. The total deal volume increased by 34% in Q4 2020 (71) when compared to Q3 (53), with average deal size increasing to US$593m.

The deal value in the region during 2020 was driven by integrated assets (US$15b) and renewables (US$17.3b) deals. With a total US$2.4b deals, investors made fundamental bets on fossil fuels – some chose to get out while others doubled down to increase value.

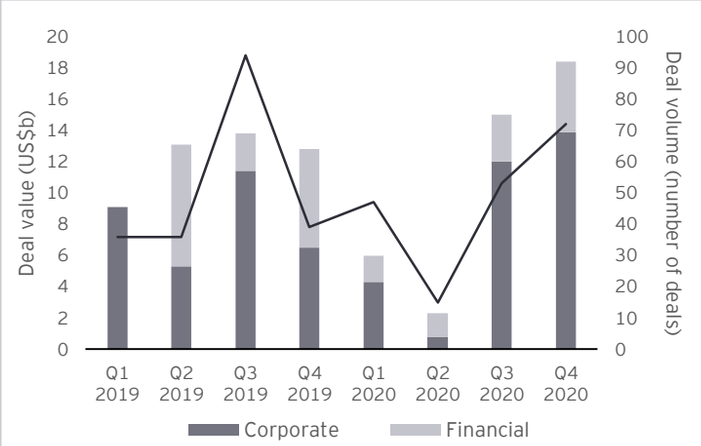
Corporate investors remain the top investor in the region with around US$31b in deal value, driven by companies like Avangrid, NRG, Sunrun, Sempra Energy, Enel and State Grid of China, which acquired assets with long-term reliable returns in integrated and renewable segments.

Chart 5: Americas deal value and volume by segment
(announced asset and corporate-level deals, Q1 2019–Q4 2020)



Source: EY analysis with data sourced from Mergermarket

Chart 6: Americas deal value and volume by investor type
(announced asset and corporate-level deals, Q1 2019–Q4 2020)



01

Utilities acquire regulated assets to boost earnings

Utilities are looking at retail segment to increase their regulated business footprint in a bid to minimize risks. In the largest deal of the quarter, Avangrid acquired PNM resources – a deal expected to increase earnings contribution of Avangrid's regulated business by 80%.

02

Integrated assets attract multibillion-dollar investments

There were a total US$9.2b deals in integrated assets with two multibillion-dollar deals in Q4. In the largest deal of South America, State Grid Corp of China, a Chinese state-owned company acquired 96.05% stake in Cia General de Electricidad SA, the largest electrical supplier in Chile for US$3.03b.

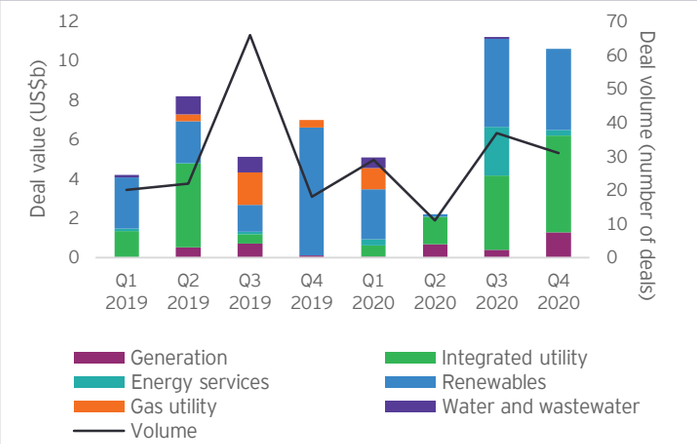
03

Corporates investors take lead in deal-making

Corporate investors, led by utilities like Avangrid, State Grid of China, Sempra Energy and Enel, acquired US$13.9b assets in Q4 with four multibillion-dollar deals mainly in integrated and renewable segment.

US leads deal activity with 57% of total deal value in the Americas region

Chart 7: US deal value and volume by segment
(announced asset and corporate-level deals, Q1 2019–Q4 2020)



Note: There were no disclosed deals in Q2 20 for Canada

Chart 8: Canada deal value and volume by segment
(announced asset and corporate-level deals, Q1 2019–Q4 2020)

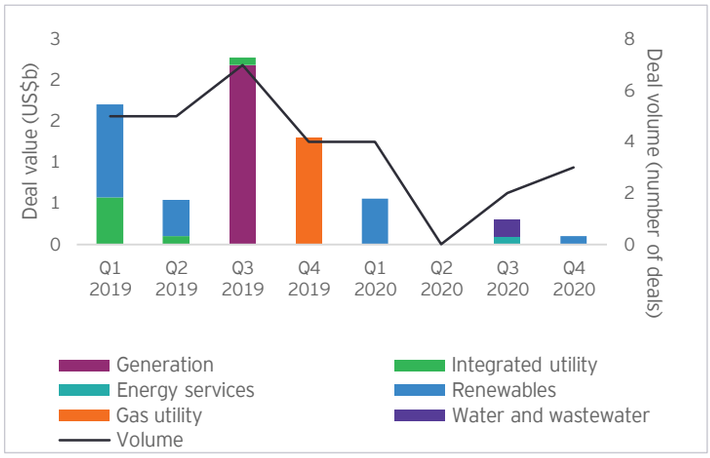
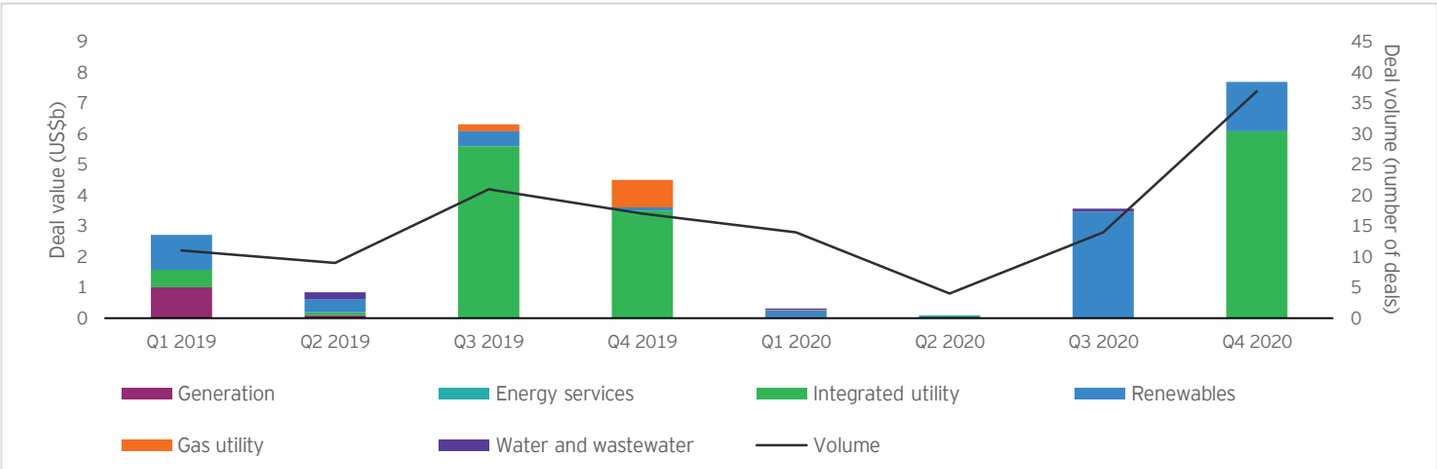


Chart 9: South America deal value and volume by segment
(announced asset and corporate-level deals, Q1 2019–Q4 2020)



Source: EY analysis with data sourced from Mergermarket

04 Long term contracted generation assets attract US$1.3b deals

There were a total 20 deals in generation assets in Q4. Financial investors acquired US$0.4b generation assets – most of which were contracted gas-fired plants. The largest deal was conducted by ContourGlobal PLC, a British utility by acquiring 1.5 GW of contracted operating natural gas-fired and combined heat and power assets in US and Trinidad and Tobago.

05 Deal activity doubles in South America

Total deal value in South America reached US$7.7b in Q4 2020, 2x the combined deal value in the first three quarters of 2020. Chile led the investments with US$4.6b, driven by two multibillion-dollar deals by Chinese and European investors. Latin America has emerged as a preferred investment destination for Chinese companies as they face increased scrutiny by US and European governments based on national security.

Notable deals in Americas – 2020

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US$b)	Bidder rationale	Segment
US						
21 October	PNM Resources Inc	US/US	Avangrid Inc	4.02	To strengthen its clean energy portfolio	Integrated
24 July	Direct Energy, LP (US-based subsidiary of Centrica Plc)	US/US	NRG Energy, Inc.	3.6	Diversifies customer mix by adding more than 3m retail energy customers across PJM market	Integrated
06 July	Vivint Solar, Inc.	US/US	Sunrun Inc.	2.8	Increases bidders footprint to 3GW installed capacity and 500,000 customers	Renewables
02 November	NextEra Energy Partners LP	US/Canada	KR & Co Inc; Healthcare of Ontario Pension; Plan, CAAT Pension Plan and Keskinainen Tyoelakevakuutusyhtio Varma	2.0	Aligns with strategy to invest in clean energy assets	Renewables
10 September	Equinor (Empire and Beacon Wind assets 50% stakes)	US/UK	BP Plc	1.1	To grow and strengthen the offshore wind business in the US	Renewables
16 March	TerraForm Power	US/Canada	Brookfield Renewable Energy Partners L.P.	1.4	Combined entity will be one of the largest, integrated pure-play renewable power companies in the world	Renewables
26 February	Columbia Gas of Massachusetts	US/US	Eversource Energy	1.1	Expand the gas distribution customer base in the region	Gas Distribution
18 December	Invenergy Renewables LLC	US/Canada	CDPQ	1.0	Aligns with strategy to invest in clean energy assets	Renewables
07 December	Western Generation-Assets	US/UK	ContourGlobal PLC	0.84	To derive earnings from long-term contracted generation assets	Generation
09 December	Exelon Generation Co-Solar Bus	US/Bermuda	Brookfield Renewable Partners	0.81	Adds to distributed solar generation portfolio	Renewables
06 April	Mankato Energy Center, LLC	US/US	Southwest Generation, LLC	0.68	Aligns with bidder's strategy to transition to a lower carbon grid	Generation

Source: EY analysis with data sourced from Mergermarket

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

Notable deals in Americas – 2020

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US$b)	Bidder rationale	Segment
South America						
13 November	CGE	Chile/China	State Grid Corp of China,	3.03	Strengthen its position in Chile's T&D sector	Integrated
02 December	Infraestructura Energetica	Mexico/US	Sempra Energy	1.83	Part of simplify Sempra's energy infrastructure business	Gas distribution
Canada						
06 February	Innergex Renewable Energy Inc.	Canada/ Canada	Hydro Quebec	0.5	Strategic alliance will support in executing renewables growth strategy	Renewables
20 November	Quebec Wind Farm Portfolio	Canada/ Canada	Boralex Inc	0.1	Enhance Boralex's clean energy portfolio	Renewables
21 December	Next Hydrogen Corp	Canada/ Canada	Biohep Technologies	ND	The combined entity will have access to greater capital pool to invest in green hydrogen technologies	Renewables

Source: EY analysis with data sourced from Mergermarket

Note: ND*: Not disclosed

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

3

Valuation snapshot

Global valuations and TSR snapshot – 2020

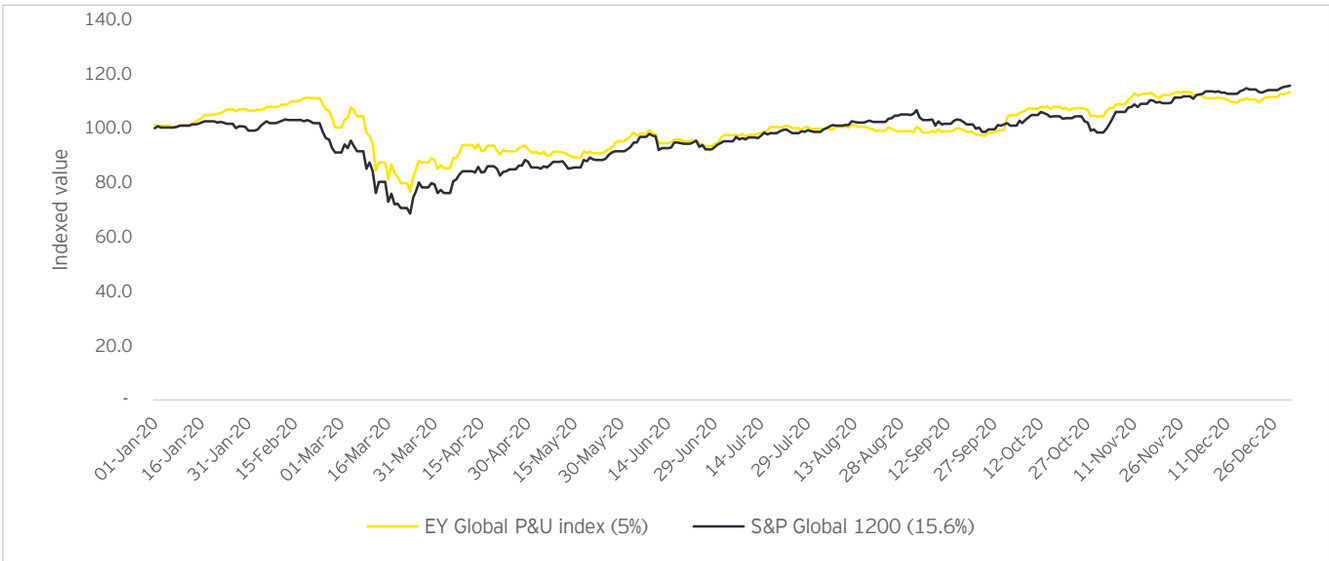
With the close of the year, the global markets improved their performance as S&P 1200 increased to 15.6% after falling more than 32% during March 2020 . The EY Global P&U analysis underperformed the broader markets owing to lower return in the Asia-Pacific markets with 5% YTD returns.

The EY Europe P&U analysis outperformed the broader market with a return of 16.5% for the year compared to 11.4% for the STOXX Europe 600. The EY Americas analysis underperformed the broader markets with 0.62% returns.

Globally, the continuous push for renewables is driving a significant investment and is leading to market outperformance of these assets throughout developed and emerging markets – as recorded in Q4 with premium valuations and blockbuster returns.

Return over time – from base date

Chart 10: Total shareholder return by region
(from 1 January 2020 to 31 December 2020)

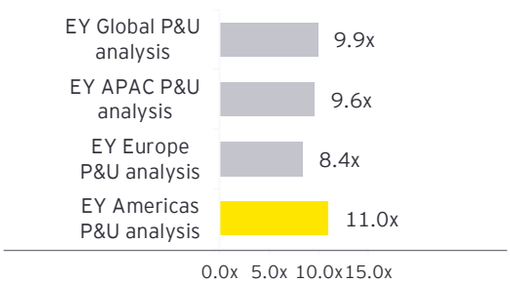


	Americas	Europe	Asia-Pacific
	2020 TSR (%)		
Large market capitalization integrated	0.6	12.5	(10.3)
Medium and small market capitalization integrated	(8.7)	6.0	(10.7)
Gas utility	(17.4)	(1.5)	(1.6)
Generation and retail	(21.1)	11.2	(4.4)
Renewables	83.4	80.6	135.1
Water and wastewater	9.1	(0.1)	(10.1)
Average regional analysis	0.6	16.5	(0.8)

Value of TSR more than the regional sector average

Value of TSR less than the regional sector average

EV/FY+1 EBITDA
(At 31 December 20)



Source: EY analysis with data sourced from CapitalIQ

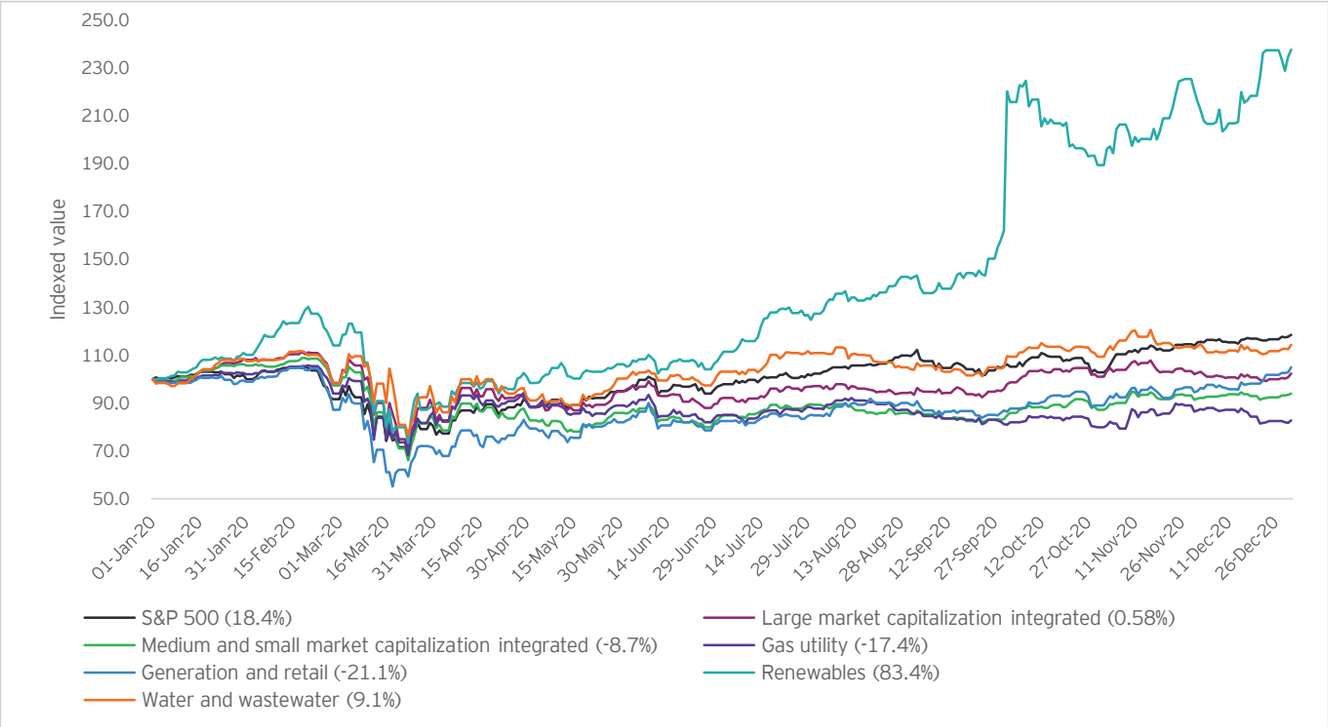
Americas valuations and TSR snapshot – 2020

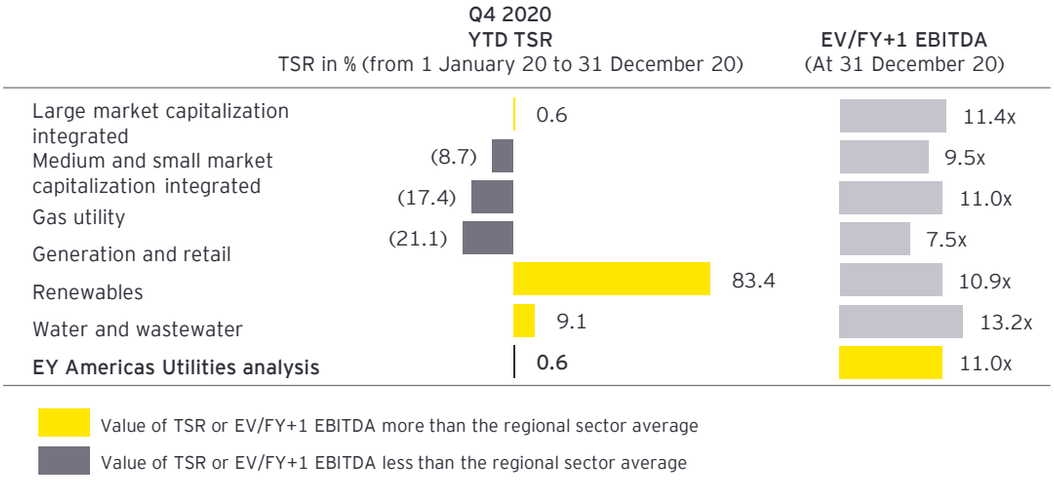
The EY Americas P&U Utilities analysis recorded a total shareholder return (TSR) of 0.62% for the year 2020. While there was a positive QTD return of 7.4%, the EY Americas P&U Utilities analysis indicated a underperformance compared to the broader market results of 12.1% QTD returns.

Renewables was the best performing subsector in the Americas with a TSR of 83.4% YTD. Water and wastewater was the highest valued subsector in the Americas with a EV/FY+1 EBITDA of 13.2x, led by American States Water Company with EV/FY+1 EBITDA of 19.7x and American Water Works Company, Inc. with EV/FY+1 EBITDA of 18.2x. These assets had the highest TSR after renewables, indicating an increasing optimism towards meaningful privatization opportunities in US municipal water sector.

Return over time – from base date

Chart 11: Total shareholder return by segment
(from 1 January 2020 to 31 December 2020)





Source: EY analysis with data sourced from CapitalIQ

4

M&A outlook and investment hotspots

P&U sector has navigated the headwinds of 2020 and there are many green shoots for a robust M&A year ahead

P&U will remain an attractive sector for investors as they navigate through increasing ESG-driven investing. Focus on decarbonization, robust growth opportunities, a defensive business model, and a solid yield underpinning growth outlook provide tailwind to P&U sector.

Global outlook of new US administration to increase inbound investments

With the win of the President Joe Biden and Democratic majority in US House and Senate, it is expected that scope of climate and emissions reductions disclosure would be strengthened. The new president has pledged to require utilities to decarbonize the grid by 2035 and achieve economy-wide net-zero emissions by 2050. The new administration has rejoined the Paris Climate Agreement, giving boost to investments in sustainable businesses. The increased global focus of the new administration could drive inbound transactions in the US. Moreover, domestically, an accelerated transition to cleaner energy resources could provide utilities a greater capital deployment opportunity, in turn growing rate base and regulated earnings power.

Consolidation and ESG investing to be the deal catalysts in 2021

Consolidation in the P&U sector is a continued theme and is expected to drive megadeals especially due to the uncertainties around grid of the future and the energy transition. Facing flat load growth and a rapidly changing environment we would expect M&A trend to continue particularly in small- to mid-cap utilities which have been underperforming and hence present opportunities for acquisition at value.

A recent EY Climate Change and Sustainability Services (CCaSS) survey conducted in July 2020, highlighted the growing importance of long-term value creation for corporates. Overall, 98% of investors surveyed evaluated nonfinancial performance based on corporate disclosures, with 72% saying they conduct a structured, methodical evaluation. As pressure on corporates increase to create a holistic ESG strategy, we expect investments in renewables and electrification for a lower carbon future to shape deal activity in the coming quarters.

Discounted valuations could trigger M&A activity in Gas LDCs and midstream O&G assets

Given the depressed oil prices and decline in demand with increasing electrification, many utilities would be willing to delink their earnings from non-utility businesses. In October, DTE announced plans to spin off DTE Midstream, the company's non-utility natural gas pipeline, storage and gathering business to become pure-play regulated electricity business. Dominion sold off its selling its gas transmission and storage assets to an affiliate of Berkshire Hathaway for US$9.7b. PSEG too announced its intent to transform into regulated business utility.

Merchant generators to conduct M&A to increase vertical integration

Merchant generators have long been hard-pressed by increasing competition from low gas prices, cheaper renewables and depressed demand due to energy efficiency measures. We expect that merchant generators would continue to acquire competitive retail assets to overcome these challenges. These acquisitions provide an ability to bolt-on target to existing operations, capture economies of scale and realize synergies, and diversify customer mix.

New technology firms to take innovative path to go public

There was an increasing trend of innovative companies going public through a special purpose acquisition company (SPAC) during 2020 – a trend that will drive capital raising in 2021 as well. EVgo Services LLC, an electric vehicle public fast charging network, announced plans to go public by merging with Climate Change Crisis Real Impact I Acquisition Corporation. Similarly, Chargepoint, a US EV charging network, is entering into reverse merger with Switchback Energy to get listed publicly.

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