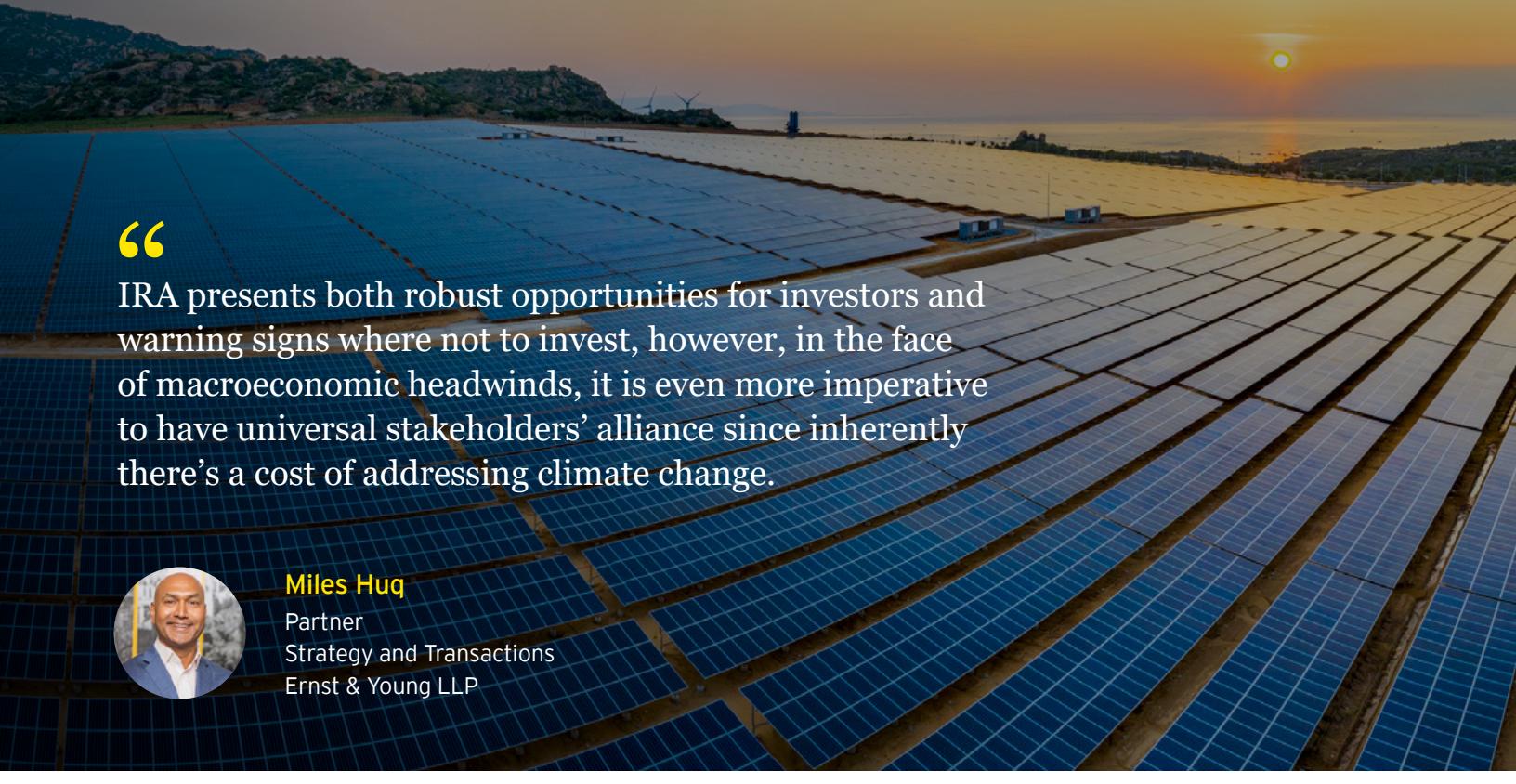


# Power and Utilities Transactions and Trends

November 2022

A wide-angle aerial photograph of a massive solar panel farm. The panels are arranged in long, parallel rows that stretch across the landscape. In the background, a body of water meets a bright, orange-hued sky at sunset. The perspective is from a high vantage point, looking down the rows of panels.

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IRA presents both robust opportunities for investors and warning signs where not to invest, however, in the face of macroeconomic headwinds, it is even more imperative to have universal stakeholders' alliance since inherently there's a cost of addressing climate change.



**Miles Huq**

Partner  
Strategy and Transactions  
Ernst & Young LLP

### Looking back at deal activity in Q3

The EY Global P&U index outperformed the S&P Global 1200 with a return of -4.9% and -6.8% for Q3 2022, respectively

High inflation rates, supply constraints, labor shortages and cybersecurity issues continue to be the major concerns for the Power & Utilities (P&U) sector while technology advancements, government incentives and energy transition are emerging as major stimulators.

Total deal value in Q3 2022 amounted to US\$66.5b, 8% less than the US\$72.8b in Q3 2021. The renewables and generation segments experienced high deal activity – constituting 65% of the total deal value.

### Regional trends

In Europe, nationalization of energy companies to secure energy supplies in the backdrop of intensifying energy crises has been one of the key drivers – Germany signed a deal to acquire 99% stake in Uniper and France announced the purchase of the remaining stake in EDF to take full ownership.

In the Americas, investors (corporate and financial) are aggressively evaluating mergers, acquisitions and divestments in the renewable energy market. Brookfield Renewable along with its institutional partners agreed to acquire Scout Clean Energy as part of its strategy to expand its presence in the US renewable business. RWE AG announced the acquisition of the renewables business of ConEdison Inc., declaring the US as the fastest-growing renewables market. Moreover, several major US P&U companies (e.g., Duke Energy, AEP, Avangrid) with sizable renewable energy platforms have announced strategic evaluation finding the recent lofty valuations very compelling.

Furthermore, SK ecoplant (a South Korean EPC company) announced a partnership with Bloom energy to co-create two hydrogen innovation centers in US and South Korea to advance commercialization of green hydrogen. In another interesting deal, TAE technologies, a nuclear fusion start-up, raised capital from a group of investors including Chevron, Sumitomo Corporation and Google.

In the Asia-Pacific region, there is continued investments in renewables with multibillion dollar deals announced in India, Singapore and South Korea.

## Outlook

Global M&A deals have seen a slow down in Q3 and a cooldown period is anticipated for the near term albeit there's continued robust investment activity in the areas of energy transition.

The market capitalization distribution across the P&U sector illustrates a "barbell" in distribution as the middle of the market keeps shrinking in composition presenting further consolidation opportunities in the middle to small size companies.

Additionally, there are compelling benefits to the monetization of non-controlling interest stakes to both

the sellers and buyers (mainly PE funds) in the utilities sector. The Sellers raise capital at more attractive valuations and tailor the deal size and timing to meet their capex needs while reducing debt burden and heighten credit positive sentiments; whereas the buyers could make additional capex investments and earn approved return on their ownership share.

Finally, after record levels of transaction activity, PE funds deal activity has already shown signs of a slow down, but empirical data demonstrates that the PE sector is resilient by nature and a downturn can represent their best buying opportunities.



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A wide-angle photograph of a massive solar panel array installed on a flat roof. The panels are arranged in a grid pattern, stretching across the frame. In the background, a dense urban skyline of numerous skyscrapers and buildings is visible under a clear blue sky.

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## Global deals summary

# Europe drove the deal value constituting 58% of the global deal value

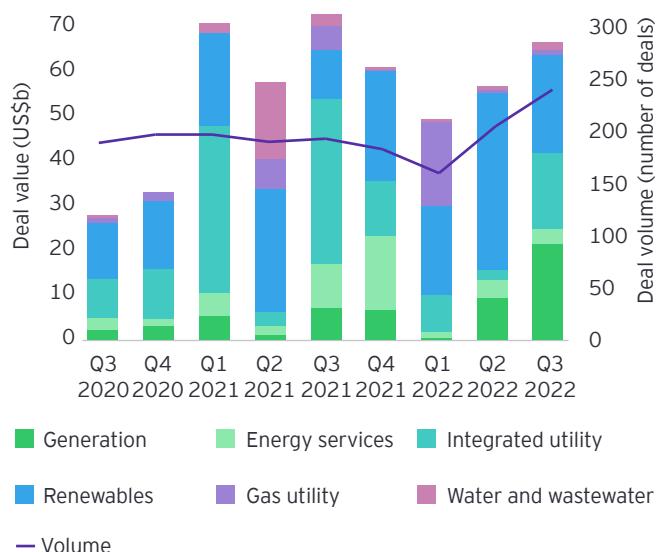
Total deal value in Q3 2022 amounted to US\$66.5b, 8% less than the US\$72.8b in Q3 2021. The number of deals announced in the quarter stood at 240, the highest in the past eight quarters. Approximately 60% of the deal value was driven by 13 multibillion-dollar deals. The renewables and generation segments experienced high deal activity with deal value amounting to US\$22b and US\$21.5b respectively – constituting 65% of the total deal value. Deals in renewables drove the deal volume as well with 140 deals (~60% of total deal volume).

Across regions, Europe continued to be the hotspot of dealmaking activity both as an investment destination and as an investor. Europe attracted US\$38.6b in investments and invested US\$37.6b in the quarter. Nationalization of energy companies to secure energy supplies in the backdrop of intensifying energy crises has been one of the key drivers across two multibillion-dollar deals in Europe. In the largest deal of the quarter, Government of Germany has signed a deal to acquire 99% stake in Uniper for US\$15.24b. In the second highest deal, Government of France has announced to purchase remaining 16% stake in Electricite de France (EDF) and take full ownership of the power utility at US\$9.8b.

	Q3 2022	Q3 2021
<b>Global deal value</b>	<b>US\$66.5b</b>	<b>US\$72.8b</b>
<b>Largest segment</b>	Renewables <b>US\$22.0b</b>	Integrated <b>US\$36.9b</b>
<b>Largest region</b>	Europe <b>US\$38.6b</b>	Asia-Pacific <b>US\$36.0b</b>
<b>Total deals</b>	<b>240</b>	<b>193</b>

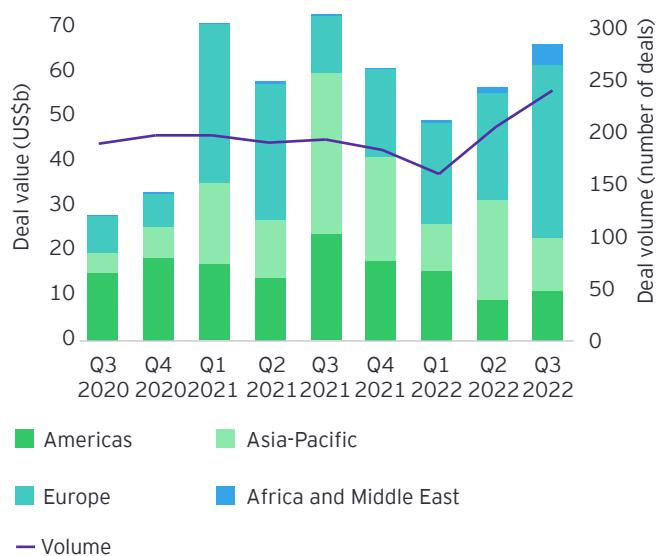
Note: All transaction information is from EY analysis with data sourced from Mergermarket.

**Chart 1: Global P&U deal value and volume by segment**  
(Announced asset and corporate-level deals, Q3 2020-Q3 2022)



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, Q3 2020-Q3 2022)



Source: EY analysis with data sourced from Mergermarket.

# Top trends driving the power and utilities industry: Q3 2022

High inflation rates, supply constraints, worker/skills shortages and cybersecurity issues continue to be the major issues for the P&U sector while technology advancements, government incentives and energy transition are emerging as the major stimulators.

Political

## Government incentives and tax credits to accelerate energy transition

Major economies around the globe are accelerating the transition to renewables amidst the growing energy crises by providing incentives and tax credits to utilities and other stakeholders. In August 2022, the US Government passed the Inflation Reduction Act (IRA), which allocated more than US\$369 billion in federal spending to decarbonization efforts over the next decade. While the law presents incentives in the form of production and investment tax credits, the continuing Federal interest rate hikes, in an attempt to control inflation, is expected to rise the cost of capital for the clean energy projects. Again, there has been speculations around IRA to further trigger the inflation in the country, but the utility regulators and industry professionals are hopeful it will act to counterweigh the inflation policies in the US.

Economic

## While resilient by nature, utilities aren't immune to macroeconomic challenges

Supply chain threats due to geopolitical tensions and fears of recession have impacted operational costs for utilities and other stakeholders like liquified natural gas (LNG) suppliers and battery storage developers, with increasing costs being passed on to the consumers. The trend is expected to continue in the sector in the short to medium term due to sanctions coming into effect from the US and European countries.

Technology

## Global shortage of skilled labor to act as barrier for clean energy adoption

Owing to favorable government incentives and potential investments from the private equity (PE)/venture capital (VC) firms, energy transitions in Europe are expected to create nearly 1.3 million clean energy jobs by 2030, with the US forecasting an additional 1 million clean energy jobs each year in the coming decade. The availability of skilled labor in the sector, however, has been observed as a critical bottleneck for the growth. The gap is expected to widen as the demand grows and could act as detriment for the net-zero emissions goals.

## Funding opportunities for carbon management and hydrogen hub development

The U.S. Department of Energy has announced US\$4.9 billion of funding opportunities for the validation, testing and development of large scale carbon capture, storage and transportation demonstration projects. An additional US\$7 billion federal funds are available for the creation of regional hydrogen hub projects. These fundings are being approved in line with the goals of the bipartisan infrastructure bill to decarbonize the US power sector by 2035. Though there has been rapid growth with respect to carbon capture in recent years due to the policy changes such as direct payments for tax credits, increased credit value and eliminating eligibility threshold, the technology is still in nascent stage with high costs acting as a roadblock for mass adoption.

## US and FERC increases focus on cybersecurity of electric utilities infrastructure

The US Government has been continuously working to create funds for cyber protection in its 2023 defense bill to help ensure protection of the critical infrastructure from external cyber attacks. Nevertheless, there still remains a high level of vulnerability, with even the health care and energy sectors implementing security measures as per mandates. The Federal Energy Regulatory Commission (FERC) has proposed to offer financial incentives including a return on equity adder of 200 basis points to electric utilities that invest in cybersecurity beyond existing requirements. However, several commissioners raised arguments to make these enhancements mandatory instead of incentive-based to limit the financial impact on consumers and reduce weak links in the system.

# US continues to be the largest investor; Europe and Asia-Pacific emerge as the most attractive destinations

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

	Investor country										Rest of the world	Total receipts
	US	Germany	UK	France	Canada	UAE	China	Brazil	Australia	India		
UK	17.5		5.3	4.0	0.6						0.2	27.5
US	18.3	1.0		1.7	3.5						1.0	25.3
Australia			12.2		7.0				1.7		0.1	21.0
France	2.7			12.6	0.1				2.7		0.7	18.7
Germany		16.1		0.1							1.7	17.9
India	0.5		1.8		0.4	2.6				4.8	1.5	11.6
Spain		4.3	0.8	0.3			0.2				3.0	8.5
Brazil	0.1				0.3			6.1			0.9	7.3
China							5.4				0.2	5.6
UAE			0.4			4.0						4.4
Rest of the world	1.5	0.4	0.7	0.2	0.9	0.5	0.7		1.2	0.1	18.5	24.7
Total receipts	40.6	21.7	21.2	18.9	12.7	7.0	6.3	6.1	5.6	4.9	27.7	172.7

0-5      5.1-10      10.1-20      20.1+

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
US	4.7	13.6
France	1.7	0.0
Canada	1.8	1.7
Germany	0.5	0.5
Thailand	0.4	0.0
<b>Total</b>	<b>9.0</b>	<b>15.8</b>
Chile	1.6	0.0
Canada	0.7	0.0
<b>Total</b>	<b>2.3</b>	<b>0.0</b>



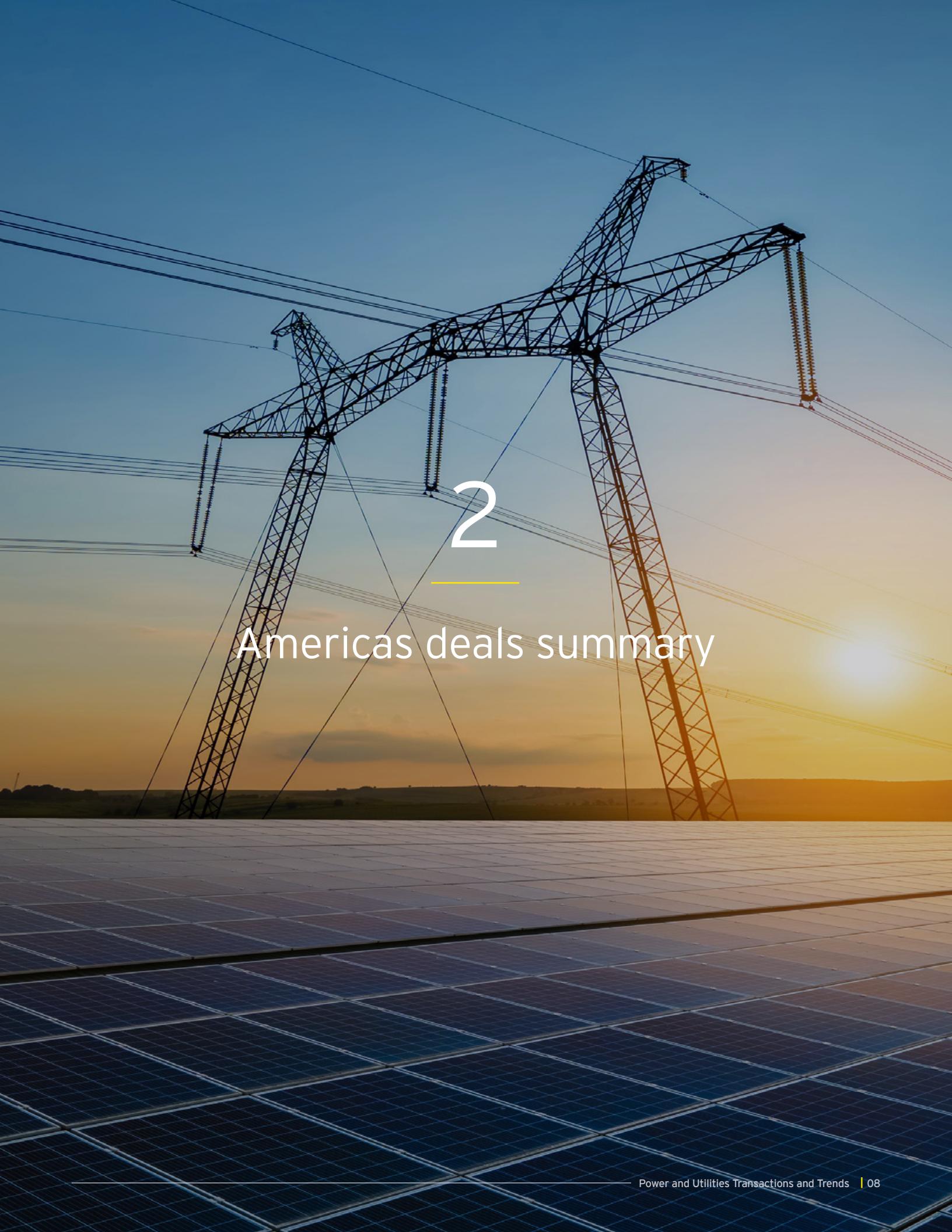
Investor country	Corporate investors	Financial investors
US	0.1	0.5
Spain	0.1	0.0
Austria	0.1	0.0
<b>Total</b>	<b>0.3</b>	<b>0.5</b>
Brazil	5.3	0.8
Spain	0.8	0.0
Canada	0.0	0.3
<b>Total</b>	<b>3.2</b>	<b>1.1</b>

Target regions

■ US   ■ Canada   ■ Brazil   ■ Chile

Source: EY analysis with data sourced from Mergermarket.

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

A photograph of a power transmission system at sunset. In the foreground, there are rows of solar panels. Behind them, several tall, lattice-structured power pylons support multiple sets of overhead power lines. The sky is a gradient from blue at the top to orange and yellow near the horizon, indicating the sun is low on the horizon.

# 2

## Americas deals summary

# Total Americas deal volume was 63, highest in the past six quarters

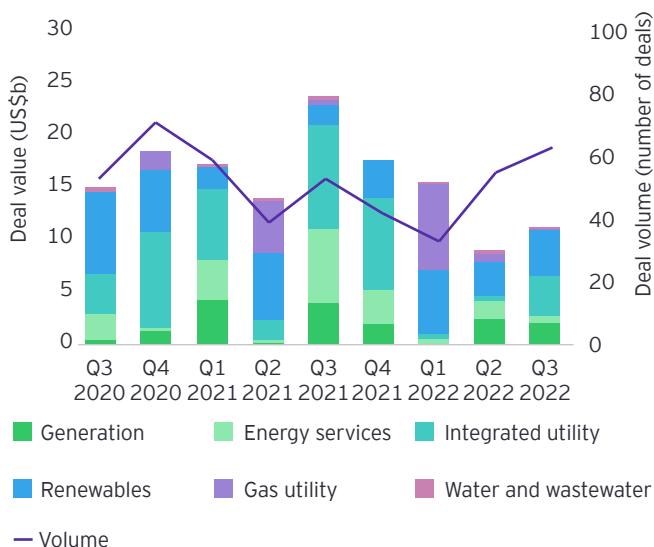
There were 63 deals in the Americas region with cumulative deal value of US\$11.21, a 26% increase from Q2. The dealmaking activity was the highest in terms of deal volume in the past six quarters. Among different sub-regions in the Americas, US and South America drove 99% of the deal value. Across segments, renewables (US\$4.4b) and integrated (US\$3.8b) constituted 74% of total deal value. Majority of deals (64%) in the Americas were driven by corporate investors and within domestic regions (68%) in terms of deal value.

In two of the largest deals in the Americas, Enel Group has announced to sell its electricity transmission business in Chile and its electricity distribution business in Brazil

for US\$1.5b and US\$1.4b, respectively. The transactions are in line with the Enel's current strategic objective of constantly improving and optimizing the risk-return profile of the company and of its asset base, focusing on their core businesses.

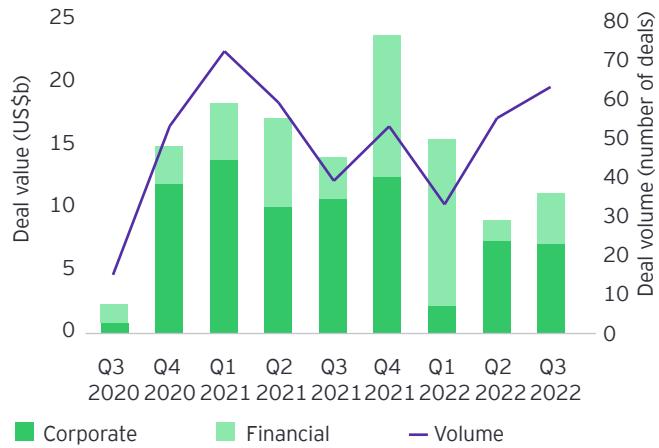
In another interesting deal, Brookfield Renewable has formed a strategic partnership with Cameco, Canada-based global suppliers of uranium fuel for nuclear energy, to acquire Westinghouse Electric Company, one of the largest nuclear services businesses. This transaction highlights the strengths of Inflation Reduction Act (IRA) and nuclear generation growth opportunities.

**Chart 5: Americas deal value and volume by segment**  
(Announced asset and corporate-level deals, Q3 2020-Q3 2022)



Source: EY analysis with data sourced from Mergermarket.

**Chart 6: Americas deal value and volume by investor type**  
(Announced asset and corporate-level deals, Q3 2020-Q3 2022)



Source: EY analysis with data sourced from Mergermarket.

## 1

### **Investors (corporate and financial) aggressively look at establishing and expanding their presence in the US renewables market**

The US experienced a total of 21 deals amounting to US\$3.72b in the renewables segment, out of which 68% were driven by financial investors. Across these deals, investments in solar and wind portfolios is common; however, renewable natural gas (RNG) is emerging as a new investment area. In one of the large value deals in the US (US\$0.65b), CIM Group has acquired a RNG development platform and renamed it Terreva Renewables . CIM plans to grow the Terreva platform in the US and establish it as a leading player in RNG. In another similar deal, H.I.G Capital acquired Northern Biogas, a waste-to-renewable natural gas for an undisclosed amount.

## 2

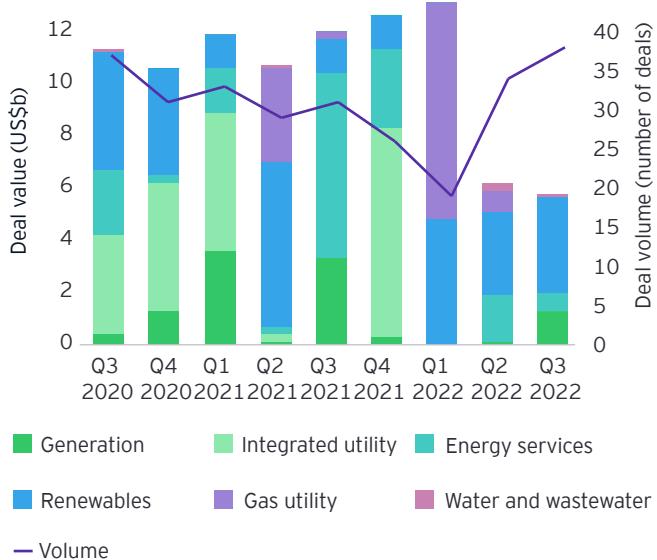
### **Energy services deal value was dominated by deals in the US in new clean energy areas including green hydrogen and nuclear fission**

Americas' energy services deal value, which totaled US\$750m, was dominated by the US. In the largest deal, SK ecoplant (a South Korean engineering, procurement and construction (EPC) company) announced a partnership with Bloom Energy, which included an equity investment of ~US\$500m to co-create two hydrogen innovation centers in US and South Korea to advance commercialization of green hydrogen. In another interesting deal, TAE Technologies, a nuclear fusion startup, raised US\$250m from a group of investors including Chevron, Sumitomo Corporation and Google.

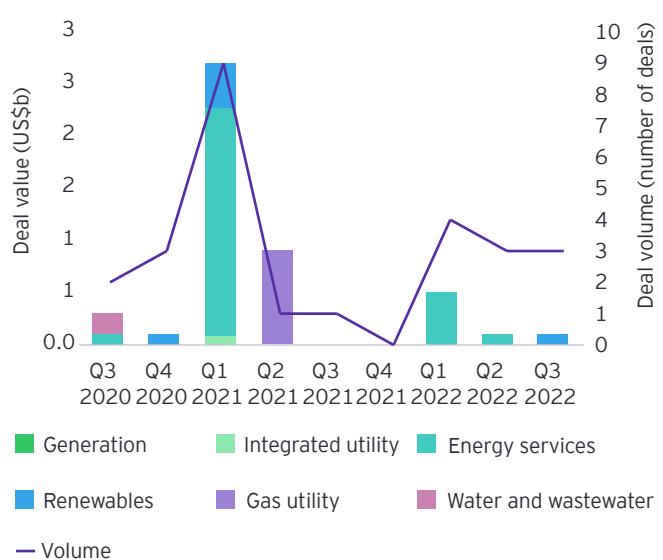


# Deals in renewables in the US and transmission and distribution in Brazil constituted 68% of deal value in the Americas

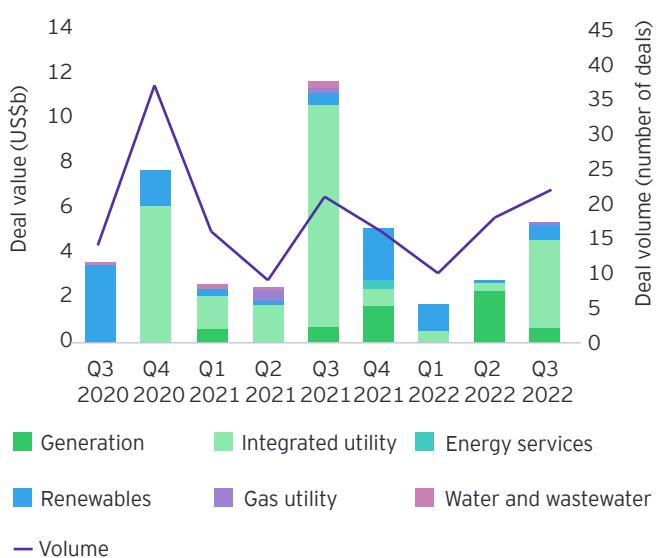
**Chart 7: US deal value and volume by segment**  
(Announced asset and corporate-level deals, Q3 2020-Q3 2022)



**Chart 8: Canada deal value and volume by segment**  
(Announced asset and corporate-level deals, Q3 2020-Q3 2022)



**Chart 9: Latin America deal value and volume by segment**  
(Announced asset and corporate-level deals, Q3 2020-Q3 2022)



Source: EY analysis with data sourced from Mergermarket.

## 1

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### **Corporate investors take lead in dealmaking**

Corporate investors were involved in 42 deals with total value of US\$7.1b (approximately 64% of total deal value across Americas). These investments were majorly led by power and utilities companies. Among segments, integrated and renewables were the top two preferred segments of investment, by deal value and volume, respectively.

## 2

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### **Consolidation among water utilities in Canada is one of the notable M&A themes in Q3**

Corix Infrastructure and SouthWest Water Company entered into a definitive agreement to combine their water and wastewater businesses in a merger of equals to create a larger regulated water and wastewater utility.

## 3

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### **Deal activity in transmission and distribution (T&D) sector in Chile and Brazil drove deal value in Latin America**

Latin America's deal value totaled US\$5.3b, out of which US\$3.02b were driven by two multibillion-dollar deals in T&D sector in Chile and Brazil. In the largest deal in the region, Enel Group has signed an agreement to sell its electricity transmission business in Chile for US\$1.5b. In the second largest deal, Enel Group has announced to sell its electricity distribution business in Brazil for US\$1.4b. The transactions are in line with the Enel's objective to improve and optimize its risk-return profile and focus on its core businesses. Specifically in Brazil, Enel plans to focus the distribution business on grids located in urban areas and fully seize the opportunities arising from its integrated footprint in the context of the energy transition.

## Notable deals in the Americas – Q3 2022 (1/5)

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US\$b)	Bidder rationale	Segment
<b>US</b>						
29 September	Scout Clean Energy	US/US	Brookfield Renewable Corporation	1.0	To expand presence in the US renewable business	Renewables
12 July	Midland Cogeneration Venture LP	US/Canada	Manulife Financial Corporation; Capital Power Corporation	0.89	To invest in a critical asset which will support grid reliability during the transition to renewables	Generation
12 September	Terreva Renewables	US/US	CIM Group, LLC	0.65	To diversify renewables portfolio and promote energy transition	Renewables
01 August	Longroad Energy Holdings, LLC (22.32% stake)	US/Germany	Muenchener Rueckversicherung Gesellschaft Aktiengesellschaft; Infratil Limited; MEAG MUNICH ERGO Asset Management GmbH; New Zealand Superannuation Fund	0.50	To increase the US renewable portfolio	Renewables
29 September	Tri Global Energy, LLC (100% stake)	US/US	Enbridge, Inc.	0.32	To accelerate renewable platforms and support growth strategy in North America	Renewables
16 August	Bloom Energy Corporation (7.53% stake)	US/South Korea	SK ecoplant Co., Ltd.	0.31	To become a leader in clean energy and infrastructure solutions	Energy services
19 July	TAE Technologies, Inc.	US/US	Chevron Corporation; Sumitomo Corporation of Americas; Sumitomo Corporation; Alphabet, Inc. (parent of Google, Inc. among others); The Investment Fund for Foundations; Reimagined Ventures	0.25	To move toward energy transition and achieve all the environmental, social and governance (ESG) pillars	Energy services
22 August	New Energy Solar Ltd. (14 solar assets)	US/US	MN8 Energy, Inc.	0.24	To enhance its renewables portfolio	Renewables

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 – Q3 2022 (2/5)

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US\$b)	Bidder rationale	Segment
<b>US</b>						
27 September	97 megawatts (MW) of operating solar assets (100% stake)	US/US	Altus Power America, Inc.	0.22	To boost solar and storage assets portfolio, while bringing new customer relationships	Renewables
03 August	Rhombus Energy Solutions, Inc.	US/US	BorgWarner Inc.	0.19	Complements existing charging footprint and accelerate organic growth and expansion in North American region; supports expansion in vehicle-to-grid (V2G) DC Fast Charging and enabling software market	Energy services
13 July	Summit Ridge Energy	US/US	Apollo Global Management, LLC	0.18	To access a high-growth segment of the renewables market, the community solar segment	Renewables
12 September	Solar Service Experts LLC	US/US	Pivotal Investment Corporation II	0.06	To support new corporate strategy of become leading provider of subscription-based solutions for rooftop solar, battery storage and EV charging	Renewables
20 September	Northern Biogas	US/US	H.I.G. Capital, LLC	ND	To support transition to a clean energy economy and expand existing portfolio	Renewables
05 September	Texas Nevada Transmission LLC (45.75% stake)	US/UK	HICL Infrastructure PLC	ND	To increase investment in regulated assets and support sustainable modern economies	Integrated
02 September	Advance Electrical Supply Co	US/France	Sonepar S.A.; Sonepar USA, Inc.	ND	Diversify operations for new growth opportunities, omnichannel experience	Integrated
22 August	Arevia Power	US/US	KKR & Co. Inc.; GCM Grosvenor Inc	ND	In line with bidder's strategy to accelerate growth and development of new solar and wind projects	Renewables

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 – Q3 2022 (3/5)

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US\$b)	Bidder rationale	Segment
<b>US</b>						
18 August	Current Energy and Renewables Corp (100% stake)	US/US	ARMM, Inc.	ND	Part of bidder's strategy to expand its presence into sustainability and renewable energy	Energy services
16 August	SGC Power (100% stake)	US/US	Pivot Energy	ND	To expand into the community solar segment	Renewables
26 July	Level Solar (16.5MW power plant)	US/US	Solar Service Experts LLC	ND	Expand its solar generation portfolio	Renewables
20 July	Vanguard Renewables	US/US	BlackRock, Inc.; BlackRock Real Assets	ND	To promote growth in energy transition	Renewables
18 July	SunZia Transmission project	US/US	Pattern Energy Group LP	ND	Empower clean energy future and create economic impact across Arizona and New Mexico	Integrated
11 July	Centrica (US demand response unit)	US/US	Enerwise Global Technologies, Inc.; LS Power Equity Advisors LLC	ND	To expand the customer offerings of automated solutions	Energy services
11 July	Budderfly, Inc.	US/ Switzerland	Partners Group AG	ND	To lead Energy-as-a-Service market	Energy services
30 July	Electric Reliability Council of Texas	US/ Switzerland	UBS Assets Management	ND	To support business expansion and innovative energy storage investment strategy	Integrated

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 – Q3 2022 (4/5)

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US\$b)	Bidder rationale	Segment
<b>South America</b>						
28 July	Enel Transmision Chile S.A.	Chile/ Chile	Sociedad Austral de Electricidad SA	1.56	To repay intercompany loans	Energy services
23 September	CELG Distribuicao S.A.	Brazil/ Brazil	Equatorial Energia SA	1.46	To expand the business operating areas	Integrated
29 July	Odoya Transmissora de Energia S.A.; Esperanza Transmissora de Energia S.A.; Transmissora Jose Maria de Macedo de Electricidad S.A.; Giovanni Sanguinetti Transmissora de Energia S.A.; Veredas Transmissora de Eletricidade SA	Brazil/ Spain	Grupo Energia Bogota SA ESP; Red Electrica de Espana SA; Argo Energia Empreendimentos e Participacoes S.A.; Gebbras Participacoes Ltda	0.83	To double the size of operations, strengthen leadership and become one of the main transmission operators in Brazil	Integrated
15 September	Engie Brasil (Pampa Sul Thermoelectric Power Plant)	Brazil/ Brazil	Grafito Fundo de Investimento em Participacoes Multiestratégia; Perfin Space X Fundo de Investimento em Participacoes em Infraestrutura	0.43	To expand its energy transition and support the long-term ESG strategy	Generation
29 September	CEEE-G (66.23% Stake)	Brazil/ Brazil	Companhia Siderurgica Nacional (CSN); Companhia Florestal do Brasil SA	0.18	To seek energy self-sufficiency and develop an electric generation platform	Generation
22 September	San Pedro Wind Farm	Chile/ Chile	Engie Energia Chile S.A.	0.08	To expand energy transition and strengthen geographical balance	Renewables

Source: EY analysis with data sourced from Mergermarket.

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

Note: ND = Not disclosed.

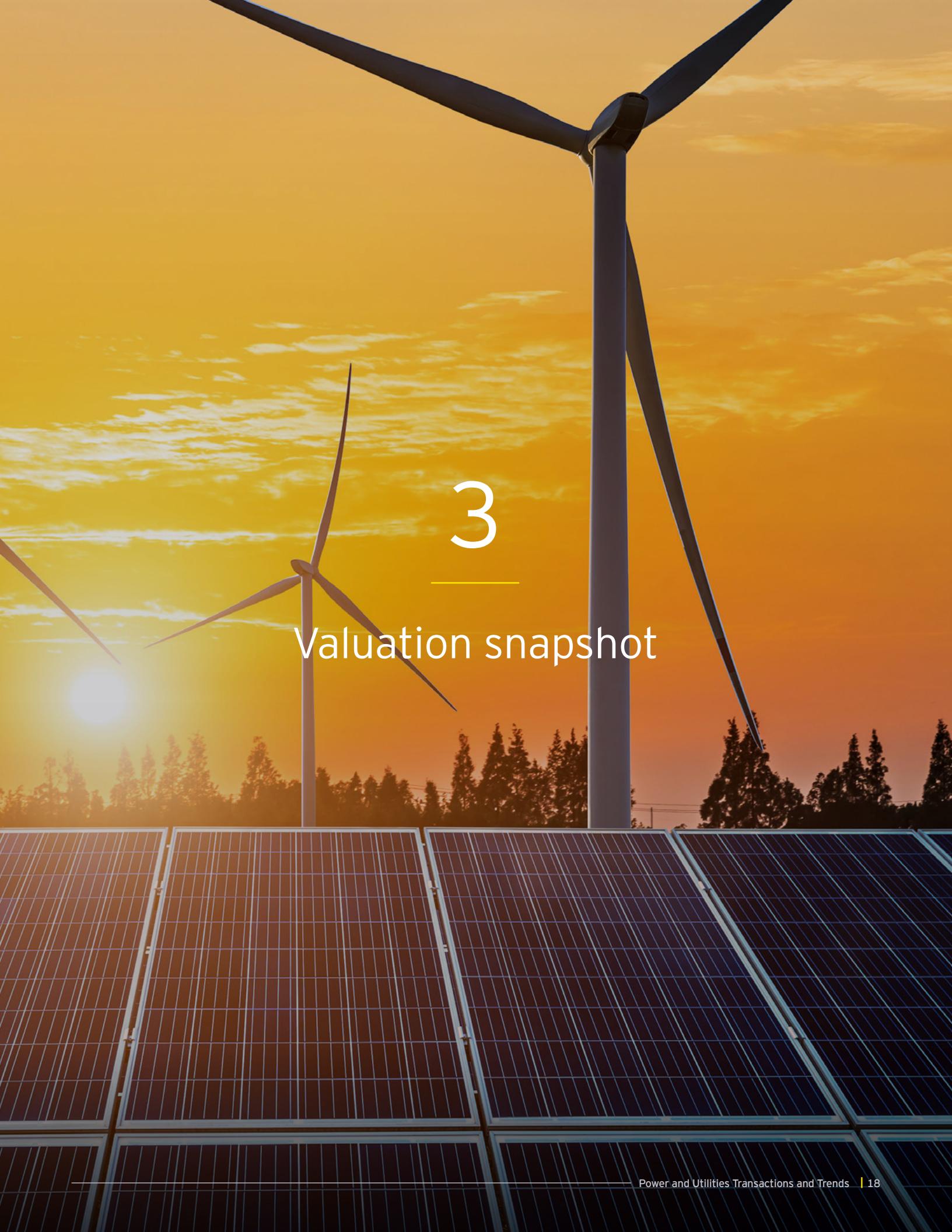
## Notable deals in the Americas – Q3 2022 (5/5)

Date announced	Target	Target country/ bidder country	Bidder	Deal value (US\$b)	Bidder rationale	Segment
<b>South America</b>						
01 July	Bahia Gas Co. SA (41.5% Stake)	Brazil/ Brazil	State of Bahia	0.06	Expand its shareholding in the gas distributor	Gas utility
04 July	ZEG Biogas e Energia (50% Stake)	Brazil/ Brazil	Vibra Energia	0.03	To expand the renewables portfolio	Renewables
<b>Canada</b>						
02 September	Jade Power Trust	Canada/ Austria	Enery Power BG Holding GmbH	0.07	Initiation of green energy production	Renewables
29 August	Corix Group of Companies	Canada/ US	SouthWest Water Company, Inc.	ND	To facilitate long-term investments and continuous business growth	Water & Wastewater Treatment
02 August	Ridgeline	Canada/ Brazil	Ambipar Participacoes e Empreendimentos S.A.	ND	Promote geographical expansion, enhance environmental services portfolio and generate more opportunities	Energy Services

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 – Q3 2022

The S&P Global 1200 increased in value in Q3 compared with prior quarter, with returns of -6.8% compared to -15.3%. The EY Global P&U index outperformed the S&P Global 1200 with a return of -4.9% for the quarter.

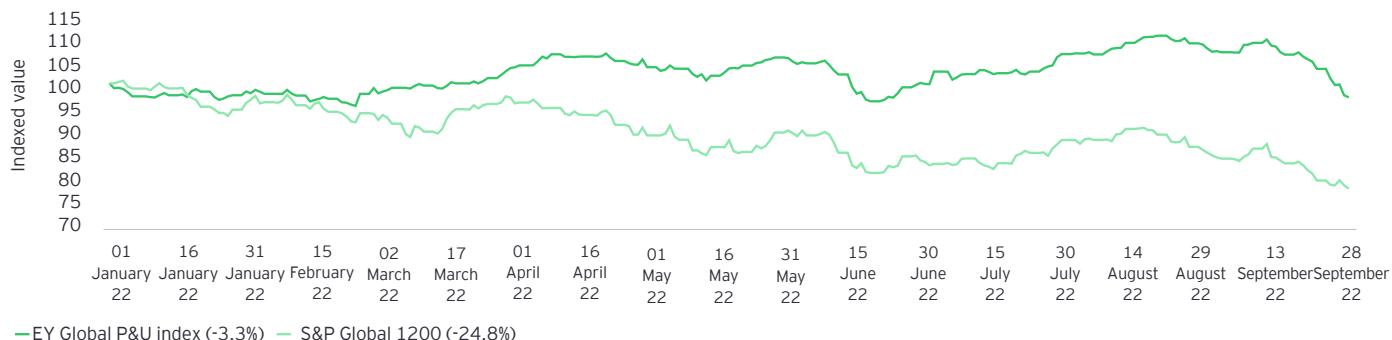
The EY Asia-Pacific P&U index was the best performing geography in Q3 with a total shareholder return (TSR) of -2.1% led by JSW Energy Limited with TSR of 43.7% and Reliance Power Limited with TSR of 42.4%.

The EY Americas P&U index underperformed the broader market with a return of -5.4% for the quarter compared

to -4.9% for the S&P 500. Within EY Americas P&U index generation and retail was the best performing sector with a TSR of 7.6% led by Constellation Energy Corporation with TSR of 45.5% and The AES Corporation with TSR of 8.3%. While the gas utility was the worst performing sector in the Americas with a TSR of -12.7%, compared with a TSR of -2.7% in the prior quarter.

The EY Europe P&U index outperformed the broader market with a return of -6.7% for the quarter compared to -6.9% for the STOXX Europe 600.

**Return over time – from base date**  
**Chart 10: Total shareholder return by region**  
(From 1 January 2022 to 30 September 2022)



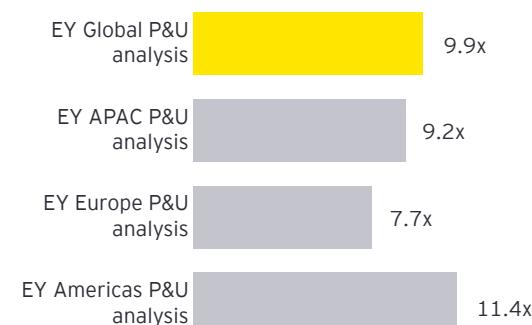
	Americas	Europe	Asia-Pacific
	Q3 2022 TSR (%)		
Large market capitalization integrated	(6.1)	(4.0)	5.0
Medium and small market capitalization integrated	(7.1)	(14.1)	(7.2)
Gas utility	(12.7)	(17.7)	(14.0)
Generation and retail	7.6	(5.1)	(1.6)
Renewables	3.7	(10.0)	(0.2)
Water and wastewater	(7.3)	(12.6)	(12.4)
Average regional analysis	(5.4)	(6.7)	(2.1)

■ Value of TSR more than the regional sector average

■ Value of TSR less than the regional sector average

Source: EY analysis with data sourced from Capital IQ.

**EV/FY+1 EBITDA**  
(At 30 September 2022)



# Americas valuations and TSR snapshot – Q3 2022

The EY Americas P&U index underperformed the broader market with a return of -5.4% for the quarter compared with -4.9% for the S&P 500.

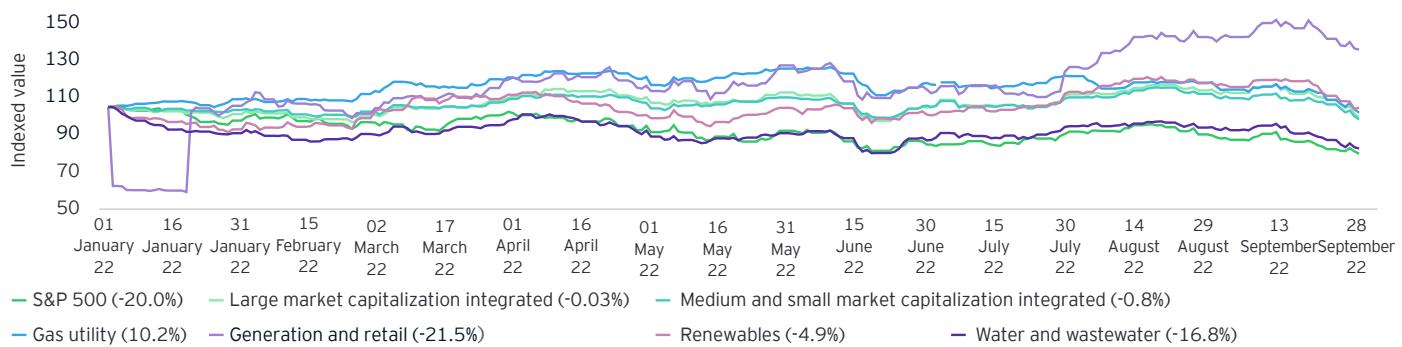
The best performing stocks for the quarter included Altus Power, Inc. with a TSR of 74.5% and SunPower Corporation with a TSR of 45.7%. Altus Power develops, owns, constructs and operates photovoltaic solar energy generation and storage facilities, and SunPower sells and installs solar panels. Both companies operate in

the alternative energy space, specifically solar energy, and have experienced and improved sequential rise in quarterly revenues primarily driven by their strategic decisions (including partnerships and expansion into new markets) in line with their financial guidance. Going forward, the recent passage of IRA is expected to further benefit the renewable energy sector.

## Return over time – from base date

Chart 11: Total shareholder return by segment

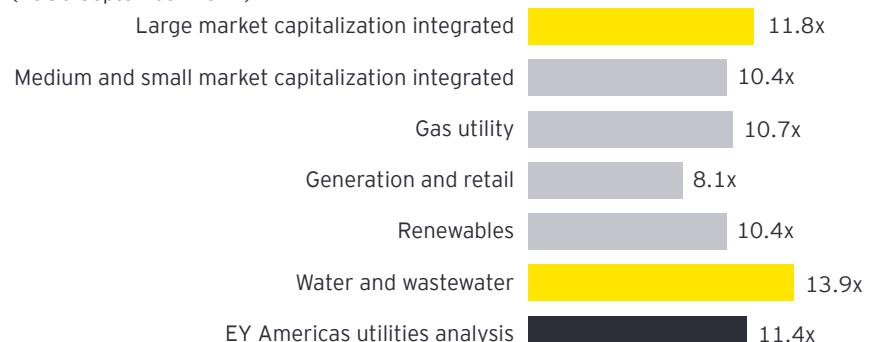
(From 1 January 2022 to 30 September 2022)



The EY Americas P&U index was the highest valued geography in Q3 with a EV/FY+1 EBITDA of 11.4x led by American States Water Company with EV/FY+1 EBITDA of 17.6x and Altus Power, Inc. with EV/FY+1 EBITDA of 17.2x. Water and wastewater was the highest valued sector in the Americas with a EV/FY+1 EBITDA of 13.9x led by American States Water Company with EV/FY+1 EBITDA of 17.6x and American Water Works Company, Inc. with EV/FY+1 EBITDA of 15.8x.

## EV/FY+1 EBITDA

(At 30 September 2022)



█ Value of EV/FY+1 earnings before interest, taxes, depreciation and amortization (EBITDA) more than the regional sector average

█ Value of EV/FY+1 EBITDA less than the regional sector average

Source: EY analysis with data sourced from Capital IQ.

A photograph of a modern, multi-story building with a dark facade and numerous solar panels integrated into its design. In the foreground, a white electric car is parked at a charging station, with a charging cable connected to its front. The scene is set against a backdrop of a sunset or sunrise sky.

# 4

## M&A outlook and investment hotspots

# Energy transition will continue to dominate the deal activity near term

After record levels of transaction activity over the past two years, a cooldown period is expected; deal activity has slowed although investors continue to seek out opportunities in infrastructure, renewable energy and distressed assets.

## Global M&A deals have seen a slow down in Q3

The deal market slow down can be attributed to the rising cost of capital, growing geopolitical tensions, supply chain constraints, rising inflations and recession fears. However, in the medium to long term the deal activity is expected to revive, and robust growth is expected in the areas of energy transition. Global M&A involving renewables and emerging energy transition technologies will continue their upward trajectory; however, macroeconomic risk factors will likely sway bid-ask spreads, making it more difficult for dealmaking.

## A shift toward the middle- and small-market capitalization companies may present attractive dealmaking opportunities

The market capitalization distribution across the P&U sector at the end of Q3 2022 illustrates a "barbell" in distribution as the middle of the market keeps shrinking in composition presenting further consolidation opportunities. The medium- and small-market capitalization companies with strong growth profile and undervalued on a relative basis may present attractive value creation opportunities for buyers.

## Private equity firms remained extremely active in the first half of 2022, but have shown signs of cooling in Q3 2022

After record levels of transaction activity, a cooldown period is anticipated for the near term and deal activity has already shown signs of a slow down from PE funds. Leveraged finance including M&A debt raise, leveraged buyout (LBO) and refinancing have seen the slowest period in more than a decade, but empirical data demonstrates that the PE sector is resilient by nature and a downturn can represent their best buying opportunities. However, financial sponsors are cautious in the short term and deals will be mainly focus on the middle-tier and opportunistic transactions.

## Utilities continue to seek out opportunities to sell minority stakes in subsidiaries to raise capital for future growth

Given that most utilities have significantly higher capex requirements than ability to generate cash from operations to fund capex, companies have historical relied on debt financing. However, companies may find it difficult to rely on debt financing to the same extent as they have in the past due to the rising interest rate environment. Duke Energy, Sempra, FirstEnergy, Entergy, PG&E and Avangrid are some examples of announced minority stake sale opportunities. There are compelling benefits to both the sellers and buyers (mainly PE funds) of such transactions. The Sellers raise capital at more attractive valuations and tailor the deal size and timing to meet their capex needs while reducing debt burden and heighten credit positive sentiments; while the buyers could make additional capex investments and earn approved return on their ownership share.

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**Renewables and emerging technologies present compelling investment opportunities with strong policy support and ambitious climate targets at federal and state levels**

There continues to be elevated investments in renewables and clean technologies since the IRA was passed in August 2022. The law has extended tax credits with incentives for wind, solar, carbon sequestration, clean hydrogen, nuclear and other technologies. IRA targets US\$369 billion investment in energy and climate over the next decade and is expected to drive a cumulative capital investment of more than US\$4.1 trillion in the US energy supply infrastructure. The energy transition investment demand outlook continues to be strong as strategics and financial sponsors are getting into or expanding presence in cleantech investments. Major European and Asian companies will aggressively pursue market entry into the US by presenting partnership opportunities with particular focus on emerging technologies.



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