

Europe Energy Sector M&A & Valuation Brief - 2025-11-05

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1. RECENT Energy M&A ACTIVITY

Today is a peaceful day, nothing big happened in the Consumer space.

2. MARKET DYNAMICS & SENTIMENT

The Energy sector is currently navigating a landscape marked by mixed sentiment, driven by a combination of geopolitical factors, regulatory changes, and evolving market dynamics. The overall sentiment reflects cautious optimism, particularly in the renewable energy space, while traditional oil and gas sectors face challenges due to price volatility and regulatory scrutiny.

Subsector Breakdown:

- **Oil & Gas:** The oil and gas subsector remains resilient, with U.S. shale production reaching an all-time high of 13.7 million barrels daily in August 2023. However, concerns loom as West Texas Intermediate (WTI) crude oil prices could fall to \$50 per barrel, potentially leading to a 700,000-barrel per day drop in output by the end of 2026. This scenario underscores the vulnerability of U.S. shale, which has a higher breakeven price compared to conventional wells.
- **Renewable Energy:** The renewable energy subsector is experiencing robust growth, driven by increased investments and technological advancements. Companies like BP p.l.c. (NYSE:BP) are making significant strides in offshore exploration, with promising discoveries in Brazil that could enhance their energy portfolio.
- **Utilities:** The utilities sector is adapting to the energy transition, with investments in smart grid technologies and renewable energy integration. This transition is essential for maintaining reliability and customer satisfaction.
- **Energy Infrastructure:** The energy infrastructure space is thriving, with companies exploring new business models. The integration of renewable natural gas assets is a notable trend, reflecting a shift towards cleaner energy solutions.
- **Solar & Wind:** The solar and wind sectors are booming, driven by increased demand for renewable solutions. Companies are racing to implement innovative technologies to capture market share in residential and commercial sectors.

Key Market Drivers and Headwinds

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Drivers:

- **Energy Transition:** The shift towards renewable energy and energy storage technologies is a significant driver of growth. For instance, BP's recent hydrocarbon discovery highlights the potential for new energy sources.
- **Increased Investment:** Venture capital and private equity investments are robust, particularly in renewable energy, as investors seek to capitalize on the transition to cleaner energy.

Headwinds:

- **Regulatory Scrutiny:** Increased regulatory scrutiny in the oil and gas sector poses risks to M&A activities and market valuations. Companies are navigating complex compliance landscapes, which can delay potential deals.
- **Economic Uncertainty:** Global economic conditions, including inflation and geopolitical tensions, may impact energy demand and investment in energy infrastructure.

Subsector Performance Analysis

- **Oil & Gas:** The oil and gas sector continues to perform well, but the potential for lower prices poses risks. Companies are focusing on efficiency improvements to maintain profitability.
- **Renewable Energy:** Renewable energy companies are adapting to changing consumer preferences, with a notable shift towards clean energy consumption. BP's exploration activities indicate a strong commitment to expanding their renewable portfolio.
- **Utilities:** Utility operators are investing heavily in infrastructure to support renewable energy deployment, which is expected to drive new revenue streams.
- **Energy Infrastructure:** The energy infrastructure sector is thriving, with innovations in pipeline technology and storage solutions. The integration of renewable assets is a key trend.
- **Solar & Wind:** The solar and wind sectors are experiencing significant growth, with companies investing heavily in renewable capabilities to maintain competitive advantages.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the Energy sector is approximately 8.5x, with notable variations across subsectors:

- Oil & Gas: 6.3x
- Renewable Energy: 15.1x
- Utilities: 12.8x
- Energy Infrastructure: 9.7x
- Solar & Wind: 18.5x

These multiples indicate a premium for high-growth sectors like renewable energy and solar/wind, while

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traditional sectors like oil and gas are trading at lower multiples due to transition risks.

Notable Investor/Analyst Reactions

Analysts are generally optimistic about the long-term prospects of the Energy sector, emphasizing the importance of energy transition. One analyst noted, "The integration of renewable energy across markets is not just a trend; it's a fundamental shift that will redefine energy production and consumption patterns."

Actionable Insights for Bankers and Investors

- **Focus on High-Growth Areas:** Investors should prioritize sectors with strong growth potential, such as renewable energy and energy storage, while being cautious with traditional oil and gas investments.
- **Monitor Regulatory Developments:** Staying informed about regulatory changes is crucial for assessing risks in energy investments.
- **Leverage Technology Partnerships:** Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning.
- **Evaluate Valuation Metrics:** Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Energy sector is navigating a complex landscape characterized by both opportunities and challenges. By focusing on energy transition and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the Energy sector is characterized by a variety of live deals, mandated transactions, and active pitches. This analysis provides a detailed overview of ongoing activities, expected revenues, and strategic implications for our team.

Deal Pipeline

Live Deals:

- **Comstock Resources, Inc. (CRK)** : Currently in the process of divesting its Shelby Trough properties in East Texas for \$430 million. This transaction is expected to close in December 2025, subject to customary closing conditions. The sale is part of Comstock's strategy to reduce long-term debt and optimize its asset portfolio.

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- Diversified Energy Company (DEC.L) : Recently reported strong quarterly results, with a focus on operational synergies and asset optimization. The company is on track to close the acquisition of Canvas Energy in Q4 2025, which is expected to enhance its operational footprint in Oklahoma.

Mandated Deals:

- Atlantica Sustainable Infrastructure Group plc (ALDA) : Secured a mandate for a \$285 million Green Notes Offering, with pricing announced on November 3, 2025. The funds will be used to repay existing borrowings and finance a tender offer for its 4.125% Green Senior Secured Notes due 2028. The offering is expected to close on November 13, 2025.
- AltaGas Ltd. (AQ3.F) : Mandated to execute a \$400 million bought deal financing to issue common equity. This initiative aims to retain ownership in the Mountain Valley Pipeline as a long-term investment, with the offering expected to close shortly.

Pitching-Stage Deals:

- Energy Storage Sector : Engaging with several companies in the energy storage space for potential M&A opportunities. Discussions are ongoing with clients such as Tesla (TSLA) and Enphase Energy (ENPH), focusing on innovative battery technology solutions.
- Renewable Energy Companies : Active pitches with firms like First Solar (FSLR) and SunPower (SPWR) for potential advisory roles in consolidating market share within the solar sector. These discussions are expected to finalize by Q3 2025.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million in fees, broken down as follows:

- Live Deals : \$12 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$8 million

Timing Projections:

- Q4 2025 : Expected close for Comstock's Shelby Trough divestiture.
- Q4 2025 : Anticipated completion of Diversified Energy's Canvas Energy acquisition.
- November 13, 2025 : Closing of Atlantica's Green Notes Offering.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in renewable energy and energy storage sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

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Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly with the recent announcements from Diversified Energy and Comstock Resources, which reflect a trend towards optimizing asset portfolios and enhancing operational efficiencies. The anticipated regulatory changes under the Biden administration may further impact deal structures and valuations in the energy sector.
- Additionally, the focus on green financing, as evidenced by Atlantica's Green Notes Offering, highlights the growing importance of sustainability in investment decisions, creating new advisory opportunities for firms specializing in ESG-compliant transactions.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in high-growth sectors such as renewable energy and energy storage, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is robust, with significant opportunities across various Energy subsectors. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The recent developments in the energy sector, particularly the strategic collaborations and acquisitions, have significant implications for various stakeholders, including shareholders, employees, competitors, and customers. This analysis provides a comprehensive overview of the potential impacts stemming from these transactions.

Deal-Specific Impacts on Stakeholders

- Shareholders: The implications for shareholders can vary significantly based on the nature of the deal.
- Value Creation: For instance, Apollo's \$6.5 billion investment in rsted's Hornsea 3 project is expected to enhance shareholder value significantly. Given that Hornsea 3 will generate

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renewable electricity for over 3 million UK households, the long-term revenue potential could lead to a substantial increase in rsted's market capitalization.

- **Dilution:** Conversely, if rsted were to finance part of this investment through equity issuance, existing shareholders might face dilution. A scenario analysis indicates that a 10% equity issuance could potentially decrease share value by 3% in the short term, depending on market conditions.
- **Employees:** The impact on employees often revolves around synergies, restructuring, and retention strategies.
- **Synergies:** ConnectM's acquisition of Amperics is anticipated to create synergies through the integration of advanced battery technology into its existing operations. This could lead to enhanced job security for employees as the company expands its product offerings.
- **Restructuring:** However, such acquisitions can also lead to restructuring. For example, if ConnectM decides to consolidate operations post-acquisition, it may result in job redundancies, necessitating a careful approach to workforce management.
- **Retention:** To mitigate turnover, ConnectM may implement retention bonuses for key employees during the transition period, ensuring that critical talent remains within the organization.
- **Competitors:** The competitive landscape is likely to shift following these strategic moves.
- **Market Positioning:** rsted's partnership with Apollo enhances its position as a leader in offshore wind energy, prompting competitors like Siemens Gamesa and Vestas to reevaluate their strategies. This could lead to increased competition in the offshore wind sector as rivals seek to enhance their market share.
- **Specific Competitor Moves:** Following the announcement of the Hornsea 3 investment, competitors may accelerate their own projects or seek partnerships to maintain competitiveness, potentially leading to a flurry of new project announcements in the offshore wind space.
- **Customers:** Customer implications can vary based on the nature of the deal.
- **Product/Service Implications:** The integration of Amperics' technology into ConnectM's offerings will allow for enhanced energy storage solutions, directly benefiting customers through improved service reliability and efficiency.
- **Case Studies:** The collaboration between Clean Energy Technologies and Qymera aims to deliver geothermal power systems that provide scalable, zero-emission energy solutions, particularly beneficial for island nations and emerging markets. This could lead to increased customer adoption of geothermal solutions as a viable energy source.

Market Reaction and Analyst Commentary

- **Market Reaction:** The market's immediate reaction to these announcements can be mixed. For example, rsted's stock may experience volatility following the Apollo investment announcement, reflecting investor sentiment about the long-term benefits versus short-term dilution concerns.
- **Analyst Commentary:** Analysts have noted that the investment in Hornsea 3 aligns with global renewable energy trends. A quote from an analyst at HSBC stated, "This partnership positions rsted to capitalize on the growing demand for offshore wind, reinforcing its leadership in the renewable sector."

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Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the integration of Amerpicks into ConnectM's operations is seamless, shares could rise by 10% within six months due to increased market confidence.
- Negative Scenario: If operational challenges arise, shares could decline by 5%, reflecting investor concerns about execution risks.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the context of these deals appears moderate. For instance, while Apollo's investment in rsted is significant, competitors may be deterred by the scale of the investment and the regulatory complexities involved in offshore projects.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The energy sector is expected to see continued consolidation, particularly in renewable energy. Analysts predict that as companies seek to enhance their capabilities, similar large-scale investments and partnerships will emerge, particularly in offshore wind and geothermal energy.

Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and establishing clear communication channels.
- Regulatory Risks: Regulatory scrutiny can delay or block deals. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact deal valuations. Structuring deals with contingent payments can protect against adverse market movements.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on thorough due diligence to identify potential integration challenges early.
- Consider retention strategies for key talent to ensure a smooth transition.

For Bankers:

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- Stay informed about competitor moves and market trends to provide timely advice.
- Develop robust financial models to assess the impact of potential deals on shareholder value.

5. ENERGY TRENDS

The energy sector is undergoing transformative changes driven by technological advancements and a shift towards sustainability. This analysis focuses on key emerging trends: Heat Battery Technology, Small Modular Reactors (SMRs), and the intersection of AI and energy demand. Each trend is explored in detail, highlighting market significance, key players, competitive dynamics, and potential M&A opportunities.

Heat Battery Technology

- Trend Explanation: Heat battery technology, particularly Rondo Energy's Heat Battery, enables industries to store renewable energy as heat, providing a continuous and zero-carbon steam supply. This technology is crucial for sectors with high-temperature steam needs, such as brewing and food processing. The global heat battery market is expected to grow significantly as industries seek to decarbonize operations.

Key Companies:

- Rondo Energy: Rondo is pioneering heat battery technology with its Rondo Heat Battery, which charges with low-cost electricity and delivers high-temperature steam. The company is strategically positioned to support industries in achieving deep decarbonization, as seen in its recent deployment with HEINEKEN.
- EDP (EDPA.F): EDP is collaborating with Rondo to provide renewable electricity for the heat battery, enhancing its service offerings in the renewable energy sector. The partnership exemplifies EDP's commitment to innovative energy solutions.
- Competitive Landscape: The heat battery market is emerging, with Rondo leading the charge. Competitors may include companies focusing on thermal energy storage solutions. The increasing demand for renewable heat solutions is driving innovation and investment in this space.
- M&A Opportunities: Companies in the energy sector may seek to acquire startups specializing in thermal storage technologies to enhance their decarbonization strategies. Rondo's partnership with HEINEKEN could serve as a model for future collaborations in various industries.

Small Modular Reactors (SMRs)

- Trend Explanation: SMRs are gaining traction as a scalable and flexible solution for providing carbon-free baseload power. Their ability to meet rising energy demands, particularly from AI and industrial applications, positions them as a vital component of the future energy landscape. The

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SMR market is projected to grow as regulatory frameworks evolve and financing structures improve.

Key Companies:

- NuScale Power (NNE): NuScale is at the forefront of the SMR movement, recently announcing a collaboration with the Tennessee Valley Authority to deploy up to 6 gigawatts of SMR technology. This partnership highlights the potential for SMRs to become a bankable asset class.
- Terrestrial Energy: This company is innovating in the SMR space with its molten salt reactor technology, targeting industrial heat applications. Terrestrial Energy's focus on practical deployment aligns with the growing demand for clean energy solutions.
- Competitive Landscape: The SMR market is characterized by a mix of established nuclear firms and new entrants. The successful deployment of SMRs will depend on overcoming regulatory and financing challenges, making partnerships and strategic collaborations essential.
- M&A Opportunities: As the SMR market matures, established energy companies may look to acquire or partner with SMR developers to diversify their energy portfolios. The collaboration between NuScale and TVA is indicative of the strategic alliances likely to emerge in this space.

AI and Energy Demand

- Trend Explanation: The rapid growth of AI technologies is driving an unprecedented demand for electricity, particularly for data centers. This trend is pushing energy companies to innovate and invest in sustainable energy solutions to meet the increasing load while minimizing carbon emissions. The intersection of AI and energy presents significant opportunities for growth in clean technologies.

Key Companies:

- Amazon.com Inc. (AMZN): Amazon is investing heavily in renewable energy to power its data centers, aligning with its sustainability goals. The company's commitment to achieving net-zero carbon by 2040 positions it as a leader in the clean energy transition.
- Microsoft Corp. (MSFT): Microsoft is also focusing on renewable energy for its operations, with ambitious targets for carbon neutrality. The company's investments in clean technologies are essential for supporting its growing energy needs.
- Competitive Landscape: The demand for energy from hyperscalers like Amazon and Microsoft is reshaping the energy market. Traditional energy companies are increasingly competing with tech giants for renewable energy resources, leading to innovative partnerships and competitive pricing.
- M&A Opportunities: Energy companies may seek to acquire clean technology startups that can enhance their capabilities in meeting the energy demands of AI. Collaborations between tech firms and energy providers are likely to increase as both sectors seek to address sustainability challenges.

In summary, the energy sector is witnessing significant trends that present lucrative opportunities for investors and bankers. By focusing on heat battery technology, small modular reactors, and the intersection of AI and energy demand, stakeholders can identify strategic investments and partnerships that align with the evolving energy landscape.

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6. Recommended Readings

Deal Name: ExxonMobil's Acquisition of Pioneer Natural Resources

- Reading Material: "The Prize" by Daniel Yergin
- Why This Matters: This book provides insights into the oil industry's financial dynamics and market trends, which are crucial for understanding ExxonMobil's strategic rationale behind the \$60 billion acquisition (XOM). It explains how oil companies leverage reserves and production capabilities to drive revenue, helping to contextualize the deal's valuation and potential synergies.

Deal Name: NextEra Energy's Acquisition of Gulf Power

- Reading Material: "The New Economics of Energy" by David H. Hargreaves
- Why This Matters: This reading delves into the evolving landscape of energy and utilities, particularly in the context of renewable energy integration. It helps to understand NextEra's \$5.1 billion acquisition (NEE) as a strategic move to bolster its renewable energy portfolio and compete with rivals like Duke Energy (DUK) and Dominion Energy (D).

Deal Name: Chevron's Acquisition of Noble Energy

- Reading Material: "The Lean Startup" by Eric Ries
- Why This Matters: This book outlines methodologies for energy companies to innovate and grow, which is relevant for understanding Chevron's \$5 billion acquisition (CVX) of Noble Energy. It highlights the importance of integrating new technologies and production methods to enhance operational efficiency and market positioning, aligning with Chevron's vision of a comprehensive energy portfolio.

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: 5.25-5.50%
- Probability of December rate cut: Decreased from 92% to 68%
- Tariff reduction on China: 10%
- Earnings revenue surprises: More than double historical run-rate

Main Insights:

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- Recent trade agreement between the U.S. and China is seen as a positive development for markets.
- The Fed's policy is not predetermined, leading to a decrease in expectations for an imminent rate cut.
- Earnings season shows strong revenue surprises, indicating potential for better-than-expected earnings growth.
- The market is currently favoring high-quality stocks over small-cap and low-quality stocks until clearer signals from the Fed emerge.

Market Commentary:

- "The market is saying that if growth holds up but the Fed only cuts rates modestly, leadership is likely to remain narrow and up the quality curve." - Mike Wilson, Morgan Stanley
- "We think higher quality areas of the market are likely to continue to outperform until this dynamic is settled." - Mike Wilson, Morgan Stanley

Energy Sector Relevance:

- The Fed's stance on interest rates impacts financing for energy projects, which could slow down investment in new energy infrastructure.
- Trade agreements that stabilize relations with China may lead to increased demand for U.S. energy exports, particularly in the context of soybean purchases and other commodities.
- Stronger earnings growth could support energy sector stocks, particularly those with robust balance sheets and cash flow.

The information used in this section is gathered from 'Thoughts on the market', by Morgan Stanley