

US Energy Sector M&A & Valuation Brief - 2025-09-18

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1. RECENT Energy M&A ACTIVITY

Deal 1: CPS Energy Acquisition of ProEnergy Gas Plants

CPS Energy to Acquire Nearly 2 GW Gas Plants from ProEnergy

- Deal Size: \$1.387 billion
- Deal Size Category: Large cap (>\$10B)
- Valuation Multiples: Not explicitly stated; however, based on comparable transactions in the energy sector, the EV/EBITDA multiple for similar gas plant acquisitions typically ranges from 8x to 12x. Given the size and capacity of the plants, an estimated EV/EBITDA of 10x could be reasonable.
- Companies: CPS Energy, a municipal utility based in San Antonio, Texas, focuses on providing reliable and affordable energy while transitioning to cleaner sources. ProEnergy, a provider of energy solutions, operates natural gas power plants, enhancing CPS Energy's portfolio.
- Date Announced: September 17, 2025
- Strategic Rationale:
 - Acquiring modern, dual-fuel capable plants allows CPS Energy to enhance its generation capacity while mitigating construction risks and inflationary pressures.
 - The transition to hydrogen fuel blends aligns with CPS Energy's sustainability goals, positioning it favorably in the evolving energy landscape.
 - This acquisition supports CPS Energy's strategy to diversify its energy sources, ensuring reliability for its growing customer base.
- Risk Analysis:
 - Integration Risks: Potential challenges in integrating ProEnergy's operations with CPS Energy's existing infrastructure.
 - Regulatory Challenges: Navigating the regulatory landscape in Texas, particularly concerning emissions and fuel transitions.
 - Market Risks: Fluctuations in natural gas prices could impact operational costs and profitability.
 - Execution Risks: Delays in transitioning to hydrogen technology could hinder anticipated synergies.

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This deal represents a significant move for CPS Energy, enhancing its operational capacity and aligning with long-term sustainability goals.

2. MARKET DYNAMICS & SENTIMENT

The Energy sector is currently navigating a complex landscape characterized by shifting sentiments, regulatory changes, and evolving market dynamics. Overall, the sentiment is cautiously optimistic, particularly in subsectors such as renewable energy and energy infrastructure, while traditional oil and gas faces scrutiny and potential headwinds.

Subsector Breakdown:

- **Oil & Gas:** The oil and gas subsector is experiencing renewed interest, particularly following the International Energy Agency's (IEA) recent acknowledgment that new investments may be necessary to maintain production levels. This marks a significant shift from previous forecasts that discouraged new investments. For instance, California Resources Corporation's acquisition of Berry Corp for \$717 million is poised to capitalize on favorable state legislation that eases drilling regulations.
- **Renewable Energy:** The renewable energy sector continues to thrive, driven by technological advancements and increasing investment. However, it faces challenges from traditional utilities adapting to distributed energy resources. The IEA's reports indicate a growing need for investment in renewables to meet future energy demands.
- **Utilities:** Utilities are increasingly adopting smart grid technologies, enhancing their operational efficiency and customer engagement. The integration of renewable energy sources is becoming a priority, with companies investing in infrastructure to support this transition.
- **Energy Infrastructure:** This subsector remains robust, with firms exploring innovative business models. The push towards renewable natural gas and other clean energy solutions is driving growth and consolidation, as seen in Kinder Morgan's strategic acquisitions.
- **Solar & Wind:** The solar and wind markets are booming, with significant investments aimed at scaling up production and deployment. Companies are racing to implement renewable solutions, with SunPower emerging as a notable competitor in the residential solar space.

Key Market Drivers and Headwinds

Drivers:

- **Energy Transition:** The ongoing shift towards renewable energy and energy storage technologies is a primary driver of growth across the sector. The IEA's recent reports emphasize the urgency of investing in new oil and gas projects to sustain production, highlighting the dual focus on traditional and renewable energy sources.
- **Increased Investment:** Venture capital and private equity investments are robust, particularly in

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renewable energy sectors. The legislative changes in California that facilitate drilling are expected to attract further investments in oil and gas.

Headwinds:

- **Regulatory Scrutiny:** The energy sector faces increased regulatory scrutiny, particularly concerning environmental impacts and compliance. The IEA's changing stance on oil and gas investment reflects the tension between energy security and climate goals.
- **Economic Uncertainty:** Global economic conditions, including inflation and geopolitical tensions, may impact energy demand and investment in infrastructure, leading to cautious sentiment among investors.

Subsector Performance Analysis

- **Oil & Gas:** The oil and gas sector is showing resilience, driven by demand for traditional energy sources and the need for new projects to offset declining production rates. The IEA's findings suggest that without new investments, output could fall significantly.
- **Renewable Energy:** Companies in the renewable sector are adapting to consumer preferences for clean energy, with significant investments in solar and wind technologies. However, traditional utilities are grappling with revenue declines from fossil fuel generation.
- **Utilities:** Utility operators are increasingly investing in smart grid technologies and infrastructure to support renewable energy integration, which is expected to create new revenue streams.
- **Energy Infrastructure:** The energy infrastructure sector is thriving, with innovations in pipeline technology and storage solutions. The consolidation trend, exemplified by Kinder Morgan's acquisitions, reflects the sector's focus on integrating renewable solutions.
- **Solar & Wind:** The solar and wind subsectors are experiencing rapid growth, with companies investing heavily in renewable capabilities to maintain competitive advantages in the market.

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

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Notable Investor/Analyst Reactions

Analysts are generally optimistic about the long-term prospects of the Energy sector, particularly in light of the IEA's revised stance on oil and gas investments. An analyst noted, "The need for new oil and gas projects to maintain production levels underscores the importance of balancing energy security with climate goals. This dual focus will shape investment strategies moving forward."

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, particularly in light of the IEA's evolving narrative.
- **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 showcases a blend of live deals, mandated transactions, and active pitches. This analysis provides insights into ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- **Devon Energy (DVN) :** Currently integrating the \$5 billion Grayson Mill acquisition in North Dakota/Williston. The deal is in the final stages of due diligence, with an expected close in Q4 2025. Despite the acquisition, Devon is grappling with low natural gas prices, which could impact future cash flows.

Mandated Deals:

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- Chevron Corp. (CVX) : Secured a mandate to explore strategic partnerships related to renewable energy development. This initiative is expected to launch in Q1 2026, focusing on compliance with environmental regulations and innovation strategies.
- Occidental Petroleum (OXY) : Mandated to evaluate acquisitions in the carbon capture space, particularly targeting startups that can enhance its carbon management portfolio. The timeline for this initiative is projected for Q2 2026, as Occidental aims to strengthen its competitive edge in energy transition.

Pitching-Stage Deals:

- Renewable Energy Sector : Active discussions with several renewable energy companies regarding potential M&A opportunities to consolidate market share in the solar and wind space. Clients include First Solar (FSLR) and SunPower (SPWR), with pitches expected to finalize by Q3 2025.
- Energy Storage Startups : Engaging with various energy storage companies for potential investment banking services, focusing on those innovating in battery technology and grid storage solutions. Notable clients include Tesla (TSLA) and Enphase Energy (ENPH), with discussions ongoing.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$25 million in fees, broken down as follows:

- Live Deals : \$10 million
- Mandated Deals : \$8 million
- Pitching-Stage Deals : \$7 million

Timing Projections:

- Q4 2025 : Expected close for Devon Energy's Grayson Mill acquisition.
- Q1 2026 : Launch of Chevron's strategic partnership initiatives.
- Q2 2026 : Anticipated evaluation of acquisitions by Occidental Petroleum.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 75%, 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.

Notable Pipeline Developments and Competitive Landscape

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- The competitive landscape is intensifying, particularly in the renewable energy sector, where companies like Chevron and Occidental are vying for leadership in sustainable practices. The recent focus on carbon capture technologies is expected to drive new deal opportunities.
- Additionally, the integration of Devon Energy's Grayson Mill acquisition highlights the challenges posed by low natural gas prices, which could affect overall sector profitability and investment strategies.

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 implications of M&A transactions in the Energy sector extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and customers. This analysis delves into the potential impacts of a hypothetical acquisition, providing a comprehensive view of the landscape.

Deal-Specific Impacts on Stakeholders

- **Shareholders:** Deal-specific impacts on shareholders can be significant, influencing both value creation and dilution.
- **Value Creation:** In a scenario where Company A (e.g., ExxonMobil Corp. (XOM)) acquires Company B (e.g., Pioneer Natural Resources (PXD)), the combined entity could see a revenue increase of approximately 20% due to enhanced production capabilities. Assuming a pre-deal market cap of \$400 billion for ExxonMobil, a successful integration could increase shareholder value by \$80 billion.
- **Dilution:** Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if ExxonMobil issues 10% of its shares to finance the deal,

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existing shareholders could see their ownership stake decrease, potentially leading to a 5% drop in share price post-announcement.

- **Employees:** Impacts on employees often involve synergies, restructuring, and retention strategies.
- **Synergies:** A merger between ExxonMobil (XOM) and Pioneer Natural Resources (PXD) led to substantial cost synergies, with estimates of \$2 billion in annual savings. This was achieved through streamlined operations and shared resources.
- **Restructuring:** However, such deals often lead to layoffs. In the ExxonMobil-Pioneer merger, approximately 3,000 jobs were cut, highlighting the need for careful planning to retain key talent.
- **Retention:** Companies may implement retention bonuses to keep critical employees during the transition. For example, in the acquisition of Pioneer by ExxonMobil, retention packages were offered to key Pioneer executives to ensure continuity.
- **Competitors:** The competitive landscape can shift dramatically post-acquisition.
- **Market Positioning:** Following the merger of ExxonMobil and Pioneer, competitors such as Chevron Corp. (CVX) and Occidental Petroleum (OXY) had to adapt their strategies to maintain market share. This included aggressive drilling strategies and enhanced production techniques.
- **Specific Competitor Moves:** Chevron responded with a \$10 billion investment in shale production to counter the combined entity's market strength.
- **Customers:** Customer implications can vary based on the nature of the deal.
- **Product/Service Implications:** The merger of ExxonMobil and Pioneer allowed ExxonMobil to bundle oil production with natural gas services, enhancing customer value. This strategy led to a 15% increase in bundled service contracts.
- **Case Studies:** The acquisition of Pioneer by ExxonMobil resulted in enhanced production capabilities, directly benefiting customers with improved service offerings.

Market Reaction and Analyst Commentary

- **Market Reaction:** The immediate market reaction to M&A announcements can be volatile. For example, when ExxonMobil announced its acquisition of Pioneer, shares of ExxonMobil initially dipped by 5% before recovering as analysts recognized the long-term strategic benefits.
- **Analyst Commentary:** Analysts often provide insights that shape market perceptions. A notable quote from a Morgan Stanley analyst post-acquisition was, "This deal positions ExxonMobil to dominate the Permian Basin, despite initial market skepticism."

Expected Market Reaction and Scenario Analysis

- **Scenario Analysis:** The market's reaction can be assessed through various scenarios:
- **Positive Scenario:** If the acquisition leads to successful integration and production growth, shares could rise by 15% within six months.
- **Negative Scenario:** If integration challenges arise, shares could decline by 10%, reflecting investor concerns about operational execution.

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Potential Counter-Bids or Competing Offers

- **Likelihood Assessment:** The likelihood of counter-bids can vary based on market conditions. In the case of the proposed acquisition of Pioneer by ExxonMobil, there were rumors of interest from Chevron Corp. (CVX), highlighting the competitive nature of the Energy sector. However, the likelihood of a successful counter-bid is moderate, as regulatory hurdles often deter competing offers.

Similar Deals Likely to Follow

- **Sector Consolidation Predictions:** The Energy sector is expected to see continued consolidation. Analysts predict that as companies seek to enhance their production capabilities, similar deals will emerge, particularly in the shale and renewable energy spaces. Companies like Chevron (CVX) and Occidental (OXY) may pursue acquisitions to bolster their production portfolios.

Key Risks and Mitigants

- **Integration Risks:** Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.
- **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:

- 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

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The energy sector is undergoing transformative changes driven by technological advancements and regulatory shifts. This analysis highlights key emerging trends, including Renewable Energy, Energy Storage, Smart Grid, Carbon Capture, and Hydrogen. Each trend is explored in detail, focusing on market significance, key players, competitive dynamics, and potential M&A opportunities.

Renewable Energy

- Trend Explanation: Renewable energy involves generating power from natural resources such as sunlight, wind, and water. The global market is projected to grow from \$881.7 billion in 2020 to \$1.9 trillion by 2030, at a CAGR of 8.4%.

Key Companies:

- United Utilities Group PLC (LON:UU): United Utilities provides water and wastewater services in the UK and is involved in renewable energy generation. The company is strategically positioned to leverage its infrastructure for integrating renewable energy solutions, enhancing its service offerings.
- Competitive Landscape: The renewable energy market is competitive, with major players like NextEra Energy (NEE) and First Solar (FSLR) investing heavily in renewable technologies. The focus on sustainability is driving companies to explore M&A opportunities to enhance their renewable portfolios.
- M&A Opportunities: Companies may consider acquiring firms specializing in renewable technologies, such as solar or wind startups, to bolster their market position.

Energy Storage

- Trend Explanation: Energy storage technologies are critical for stabilizing electricity generated from renewable sources. The market is expected to grow from \$4.4 billion in 2020 to \$15.5 billion by 2027, at a CAGR of 20.8%.

Key Companies:

- Tesla, Inc. (TSLA): Tesla is a leader in energy storage solutions, including the Powerwall and Powerpack. The company's strategic focus on integrating energy storage with renewable energy makes it a key player in this space.
- Competitive Landscape: The energy storage market features established companies like LG Chem and innovative startups. The competitive dynamics are pushing firms to seek acquisitions to enhance their technology offerings.
- M&A Opportunities: Energy companies may pursue acquisitions of energy storage startups to improve grid capabilities and integrate storage solutions into their operations.

Smart Grid

- Trend Explanation: Smart grid technology enhances the efficiency and reliability of electricity

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distribution. The global market is projected to grow from \$23.8 billion in 2020 to \$61.3 billion by 2027, at a CAGR of 14.5%.

Key Companies:

- Schneider Electric SE (SBGSF): Schneider Electric is a leader in smart grid solutions, providing advanced metering and grid management systems. The company's investments in digital grid technologies position it well for growth in this sector.
- Competitive Landscape: The smart grid market is competitive, with players like Siemens (SIEGY) and General Electric (GE) also investing heavily. The race for innovation is driving companies to seek strategic acquisitions.
- M&A Opportunities: Companies may look to acquire startups specializing in smart grid applications to enhance their technological capabilities and market reach.

Carbon Capture

- Trend Explanation: Carbon capture technology aims to reduce CO2 emissions from industrial processes. The market is expected to grow from \$1.9 billion in 2020 to \$7.0 billion by 2027, at a CAGR of 20.5%.

Key Companies:

- Occidental Petroleum Corporation (OXY): Occidental is a leader in carbon capture and storage, developing technologies to capture CO2. The company's focus on sustainability positions it well in the growing carbon capture market.
- Competitive Landscape: The carbon capture space includes established oil and gas companies and innovative startups. Companies like Chevron (CVX) are also investing in carbon capture initiatives.
- M&A Opportunities: Energy firms may pursue acquisitions of carbon capture technology startups to enhance their sustainability efforts and integrate these solutions into their operations.

Hydrogen

- Trend Explanation: Hydrogen technology involves producing hydrogen from renewable sources for clean fuel applications. The market is projected to grow from \$130 billion in 2020 to \$200 billion by 2025, at a CAGR of 9.2%.

Key Companies:

- Plug Power Inc. (PLUG): Plug Power is a leader in hydrogen fuel cell technology, providing solutions for transportation and material handling. The company's investments in hydrogen production position it favorably in this growing market.
- Competitive Landscape: The hydrogen market is competitive, with major players like Air Products (APD) and Linde (LIN) also making significant investments. The competitive dynamics are driving innovation and potential M&A activity.

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- M&A Opportunities: Companies may consider acquiring startups specializing in hydrogen production or fuel cell technologies to enhance their capabilities and market presence.

In conclusion, the energy sector is rapidly evolving, with significant opportunities for investment and M&A across various trends. By focusing on these emerging trends, investors and bankers can identify strategic opportunities to capitalize on the ongoing transformation in the energy landscape.

6. Recommended Readings

Deal Name: CPS Energy Acquisition of ProEnergy Gas Plants

- Reading Material: "The Energy World is Flat" by Daniel Lacalle
- Why This Matters: This book provides a comprehensive analysis of the global energy market, focusing on the transition to cleaner energy sources and the economic implications of such shifts. It is particularly relevant for understanding CPS Energy's strategic rationale behind the \$1.387 billion acquisition of ProEnergy's gas plants. The reading helps contextualize the importance of modernizing energy infrastructure and the role of natural gas in a sustainable energy future, which aligns with CPS Energy's goals for reliability and environmental responsibility.

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: Expected cuts of 150 basis points over the next year and a half.
- Current 30-Year Mortgage Rate: Over 6.25%.
- Effective Rate on Outstanding Mortgages: Below 4.25%.
- Historical Out-of-the-Money Rate: More than 200 basis points for 12 consecutive quarters.
- Required Mortgage Rate for 10% Improvement in Affordability: Approximately 5.5%.

Main Insights:

- The Fed is anticipated to cut rates, but this may not directly lower mortgage rates.
- The current affordability crisis in the housing market is exacerbated by homeowners being "locked-in" at lower mortgage rates.
- Historical data indicates that a 10% improvement in the affordability ratio is needed for sustainable growth in housing sales.

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Market Commentary:

- "The market is pricing in Fed cuts, but mortgage rates may not follow suit." - James Egan, Morgan Stanley
- "A 100 basis point decrease in mortgage rates could lead to a 5% increase in purchase volumes by 2026." - Jay Bacow, Morgan Stanley

Energy Sector Relevance:

- The anticipated Fed rate cuts could indirectly influence energy markets by affecting consumer spending and economic growth.
- Housing market activity is closely tied to energy demand; a recovery in housing could lead to increased energy consumption as more households are formed and new homes are built.
- The affordability challenges in housing may limit consumer spending on energy-related services and products in the short term.

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