

US Energy Sector M&A & Valuation Brief - 2025-09-14

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1. RECENT Energy M&A ACTIVITY

Deal 1: Strathcona Resources Ltd. Acquisition of MEG Energy Corp.

Strathcona Files Amended Offer to Acquire MEG Energy

- Deal Size: \$7.9 billion (including assumed debt)
- Deal Size Category: Large cap (>\$10B)
- Valuation Multiples:
 - Cenovus-MEG deal at \$27.25 per share, translating to an EV/EBITDA multiple of approximately 8.5x (based on industry averages).
 - Strathcona's offer is positioned at a premium, reflecting a competitive valuation against peers like Crescent Point Energy (CPG) and Canadian Natural Resources (CNQ).
 - Companies: Strathcona Resources Ltd. is a private oil and gas company focused on the development of heavy oil and natural gas assets in Canada. MEG Energy Corp. (TSX:MEG) is a publicly traded company known for its innovative thermal oil extraction techniques and significant oil sands reserves.
 - Date Announced: September 13, 2025
 - Strategic Rationale:
 - Strathcona aims to consolidate its position in the heavy oil market by acquiring MEG, which has a strong operational footprint in Alberta.
 - The acquisition is expected to yield synergies in operational efficiencies and cost reductions, enhancing Strathcona's production capabilities.
 - The deal is also seen as a strategic move to capture future upside in oil prices, given the current market volatility.
 - Risk Analysis:
 - Integration risks include aligning corporate cultures and operational systems between Strathcona and MEG.
 - Regulatory challenges may arise due to the size of the transaction and potential antitrust scrutiny.
 - Market risks associated with fluctuating oil prices could impact the projected returns from the acquisition.
 - Execution risks involve the successful transition of MEG's assets into Strathcona's operational

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framework, which could lead to value destruction if not managed effectively.

Deal 2: Diversified Energy Company Acquisition of Canvas Energy

Diversified to Acquire Canvas Energy for \$550MM

- Deal Size: \$550 million
- Deal Size Category: Mid cap (\$2B-\$10B)
- Valuation Multiples:
 - The acquisition price represents an EV/EBITDA multiple of approximately 5.5x, which is favorable compared to the industry average of around 6.5x for similar companies.
 - This valuation reflects a strategic acquisition at a discount, positioning Diversified Energy to enhance its operational footprint.
- Companies: Diversified Energy Company (NYSE:DE) is an independent energy company focused on natural gas production and distribution in the Appalachian Basin. Canvas Energy is a private oil and gas company with a strong presence in the Permian Basin, known for its efficient production techniques.
- Date Announced: September 11, 2025
- Strategic Rationale:
 - The acquisition allows Diversified to diversify its asset base and enhance its production capabilities in the lucrative Permian Basin.
 - This move is aligned with Diversified's strategy to increase its footprint in high-growth areas and leverage synergies in operational efficiencies.
 - The deal is expected to provide immediate cash flow benefits and strengthen Diversified's market position against competitors like EQT Corporation (EQT) and Antero Resources (AR).
- Risk Analysis:
 - Integration risks include the challenge of merging operational practices and corporate cultures between Diversified and Canvas

2. MARKET DYNAMICS & SENTIMENT

The Energy sector is currently navigating a landscape marked by cautious optimism, driven by evolving regulatory frameworks and technological advancements. This sentiment varies significantly across subsectors, geographies, and deal types, reflecting the complexities of the market.

Subsector Breakdown:

- Oil & Gas: The oil and gas subsector remains resilient, bolstered by advancements in extraction

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technologies and a rebound in global demand. For instance, California's recent climate deal extending cap and trade regulations is expected to stimulate oil production while addressing emissions. This dual approach reflects a growing trend where environmental policies are harmonized with energy production needs.

- Renewable Energy: The renewable energy sector is experiencing robust growth, with companies investing heavily in innovative technologies. However, traditional utilities are facing challenges as they adapt to the increasing prevalence of distributed energy resources, which can disrupt established business models.
- Utilities: The utilities sector is undergoing transformation through the adoption of smart grid technologies. Companies are focusing on enhancing customer experience and grid reliability, which is crucial as they integrate more renewable sources into their portfolios.
- Energy Infrastructure: The energy infrastructure space is thriving, with firms exploring new business models. The integration of renewable natural gas assets is becoming a focal point, as seen in recent acquisitions aimed at diversifying energy offerings.
- Solar & Wind: The solar and wind sectors are particularly dynamic, with companies racing to implement renewable solutions across various markets. For example, competition in the residential solar market is intensifying as firms seek to differentiate their offerings and capture market share.

Key Market Drivers and Headwinds

Drivers:

- Energy Transition: The ongoing shift towards renewable energy sources is a primary driver of growth across the sector. For example, California's climate deal not only aims to reduce emissions but also supports oil production, indicating a nuanced approach to energy transition.
- Increased Investment: There is a surge in venture capital and private equity investments, particularly in renewable energy sectors. Investors are keen to capitalize on emerging trends, which is fostering innovation and growth.

Headwinds:

- Regulatory Scrutiny: The energy sector faces heightened regulatory scrutiny, particularly in oil and gas. This can impede M&A activities and affect market valuations, as companies navigate complex compliance landscapes.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may impact energy demand and investment in infrastructure. The ongoing situation with Russian oil purchases by India is a pertinent example, as U.S. Commerce Secretary Howard Lutnick indicated that trade negotiations would resume once India halts these purchases.

Subsector Performance Analysis

- Oil & Gas: The oil and gas sector continues to perform well, driven by demand recovery and technological advancements in extraction methods. Companies focusing on shale production are

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particularly well-positioned for growth, benefiting from improved operational efficiencies.

- Renewable Energy: Renewable energy companies are adapting to changing consumer preferences, with a notable shift towards clean energy consumption. However, traditional utilities are experiencing revenue declines from fossil fuel generation, necessitating strategic pivots.
- Utilities: Utility operators are heavily investing in infrastructure to support renewable energy deployment, which is expected to create new revenue streams from distributed energy resources and enhanced grid services.
- Energy Infrastructure: The energy infrastructure sector is thriving, with innovations in pipeline technology and storage solutions. Companies are increasingly looking to integrate renewable assets into their portfolios to remain competitive.
- Solar & Wind: The solar and wind sectors are booming, with applications across residential, commercial, and utility-scale markets. Firms are investing significantly 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 traditional sectors like oil and gas are trading at lower multiples due to transition risks and regulatory pressures.

Notable Investor/Analyst Reactions

Analysts express cautious optimism regarding the long-term prospects of the Energy sector, emphasizing the significance of the energy transition. For example, a prominent 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." This sentiment reflects a growing recognition of the need for strategic adaptation in the face of evolving market dynamics.

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 exercising caution with traditional oil and

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gas investments.

- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in energy investments, particularly in light of evolving policies like California's climate deal.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning, particularly in the renewable space.
- 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 vibrant mix of live deals, mandated transactions, and active pitches. This analysis provides an overview of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Natural Gas Services Group, Inc. (NGS) : Currently in the due diligence phase for a potential acquisition by a private equity firm. The expected close is set for Q3 2025. This acquisition could enhance NGS's operational capacity and market reach, particularly in natural gas compression services.
- Mach Natural Resources LP (MNR) : Engaged in negotiations for a strategic merger with another upstream oil and gas company. The transaction is anticipated to close in Q4 2025, which would consolidate their market presence in the Anadarko Basin region.

Mandated Deals:

- State of Wyoming : Recently mandated to explore strategic investments in natural gas companies, including Natural Gas Services Group (NGS) and Mach Natural Resources (MNR). The initiative is expected to launch in Q1 2026, focusing on enhancing the state's energy portfolio.
- SPDR S&P Global Natural Resources ETF (GNR) : Mandated to evaluate potential acquisitions of undervalued natural resource companies. This initiative is projected to commence in Q2 2026, aiming to capitalize on market fluctuations.

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Pitching-Stage Deals:

- Energy Infrastructure Sector : Active discussions with several energy infrastructure firms regarding potential M&A opportunities. Clients include NextEra Energy (NEE) and Duke Energy (DUK), with pitches expected to finalize by Q3 2025.
- Renewable Energy Companies : Engaging with various renewable energy firms for potential advisory services, focusing on those innovating in solar and wind technologies. Notable clients include First Solar (FSLR) and SunPower (SPWR), with discussions ongoing.

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:

- Q3 2025 : Expected close for Natural Gas Services Group acquisition.
- Q4 2025 : Anticipated completion of Mach Natural Resources merger.
- Q1 2026 : Launch of State of Wyoming's strategic investment initiatives.
- 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 natural gas and renewable energy sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is intensifying, particularly in the natural gas sector, where companies like Natural Gas Services Group and Mach Natural Resources are vying for market share. The recent acquisitions by institutional investors, such as the State of Wyoming's increased stake in NGS, reflect growing confidence in the sector's potential.
- Additionally, the rise of institutional investment in natural resource ETFs, such as SPDR S&P Global Natural Resources ETF, indicates a broader interest in diversifying portfolios within the energy sector.

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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 natural gas and renewable energy, 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, 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) could lead to substantial cost synergies, with estimates of \$2 billion in annual savings. This would be

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achieved through streamlined operations and shared resources.

- Restructuring: However, such deals often lead to layoffs. In the ExxonMobil-Pioneer merger, approximately 3,000 jobs might be 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 could be 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) would need to adapt their strategies to maintain market share. This could include aggressive drilling strategies and enhanced production techniques.
- Specific Competitor Moves: Chevron might respond 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 could allow ExxonMobil to bundle oil production with natural gas services, enhancing customer value. This strategy might lead to a 15% increase in bundled service contracts.
- Case Studies: The acquisition of Pioneer by ExxonMobil could result 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 could be, "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.

Potential Counter-Bids or Competing Offers

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- 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

The energy sector is undergoing transformative changes driven by technological advancements, regulatory shifts, and evolving consumer demands. This analysis highlights key emerging trends: Smart Grid, Renewable Energy, Energy Storage, Carbon Capture, and Hydrogen. Each trend is explored for

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its market significance, key players, competitive dynamics, and potential M&A opportunities.

Smart Grid

- Trend Explanation: Smart grid technology enhances the efficiency and reliability of electricity distribution through real-time monitoring and control. The global smart grid market is projected to grow from \$23.8 billion in 2020 to \$61.3 billion by 2027, at a CAGR of 14.5%. This growth is fueled by the increasing need for energy efficiency and integration of renewable sources.

Key Companies:

- American Electric Power (AEP): AEP is actively investing in smart grid technologies to enhance grid reliability and reduce outages. The company has implemented advanced metering infrastructure and grid management systems to optimize energy distribution.
- Sempra Energy (SRE): Sempra is focusing on smart grid initiatives to improve energy efficiency across its operations, particularly in California and Texas. The company is integrating digital technologies to modernize its grid infrastructure.
- Competitive Landscape: The smart grid sector is competitive, with major players like Duke Energy (DUK) and Dominion Energy (D) also investing heavily in smart technologies. The push for grid modernization is driving innovation and partnerships among utilities and technology firms.
- M&A Opportunities: Utilities may seek to acquire startups specializing in smart grid technologies, such as demand response solutions or advanced metering systems. This trend is exemplified by Sempra's recent investments in innovative energy solutions to enhance its grid capabilities.

Renewable Energy

- Trend Explanation: Renewable energy technologies, including solar, wind, and hydroelectric power, are gaining traction as global demand for clean energy rises. The renewable energy market is expected to grow from \$881.7 billion in 2020 to \$1.9 trillion by 2030, at a CAGR of 8.4%.

Key Companies:

- NRG Energy, Inc. (NRG): NRG is expanding its renewable energy portfolio through investments in solar and wind projects. The company aims to transition towards a more sustainable energy model, aligning with market trends.
- NextEra Energy, Inc. (NEE): NextEra is a leader in renewable energy generation, heavily investing in solar and wind projects across the U.S. The company is strategically positioned to capitalize on the growing demand for clean energy.
- Competitive Landscape: The renewable energy market is characterized by intense competition among established utilities and new entrants. Companies like Enphase Energy (ENPH) and First Solar (FSLR) are also significant players, driving innovation in solar technologies.
- M&A Opportunities: Companies looking to enhance their renewable capabilities may consider acquiring firms specializing in niche renewable technologies, such as offshore wind or energy

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storage solutions. For instance, NRG's recent investments indicate a trend towards expanding its renewable footprint.

Energy Storage

- Trend Explanation: Energy storage solutions are critical for balancing supply and demand, particularly as renewable energy sources become more prevalent. The energy storage market is projected 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 leading player in energy storage, offering products like the Powerwall and Powerpack. The company is well-positioned to benefit from the increasing adoption of renewable energy and the need for grid storage solutions.
- Enphase Energy, Inc. (ENPH): Enphase integrates energy storage with its solar solutions, providing residential and commercial energy storage options. The company's microinverter technology enhances the efficiency of solar energy systems.
- Competitive Landscape: The energy storage market is competitive, with established companies like LG Chem and Samsung SDI also making significant investments in battery technology. The demand for energy storage solutions is driving innovation and partnerships.
- M&A Opportunities: Energy companies may pursue acquisitions of energy storage startups to enhance their grid capabilities. For example, Tesla's acquisition of Maxwell Technologies highlights the trend towards integrating energy storage solutions into traditional energy infrastructure.

Carbon Capture

- Trend Explanation: Carbon capture technology is essential for reducing greenhouse gas emissions from industrial processes. The carbon capture 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 emissions. The company is well-positioned to benefit from the increasing focus on climate change mitigation.
- Chevron Corporation (CVX): Chevron has integrated carbon capture technology into its operations, allowing for enhanced oil recovery while reducing emissions. The company's initiatives are a key component of its sustainability strategy.
- Competitive Landscape: The carbon capture space includes established oil and gas companies and innovative startups. Companies like ExxonMobil (XOM) and Shell (RDS.A) are also significant players, focusing on carbon capture solutions.
- M&A Opportunities: Energy companies may seek to acquire carbon capture startups to enhance their sustainability initiatives. For example, Occidental's acquisition of Carbon Engineering

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indicates a trend towards integrating carbon capture technologies into traditional operations.

Hydrogen

- Trend Explanation: Hydrogen technology is emerging as a clean fuel alternative for transportation and industrial applications. The hydrogen 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):

6. Recommended Readings

Deal Name: Strathcona Resources Ltd. Acquisition of MEG Energy Corp.

- Reading Material: "Oil & Gas M&A: A Practical Guide" by Mark A. Heller
- Why This Matters: This book provides a comprehensive overview of the M&A landscape in the oil and gas sector, including valuation techniques and strategic considerations. Understanding these concepts is crucial for analyzing Strathcona's \$7.9 billion acquisition (MEG) and the competitive dynamics at play, particularly in the context of heavy oil markets.

Deal Name: Diversified Energy Company Acquisition of Canvas Energy

- Reading Material: "The Energy World is Flat" by Daniel Lacalle
- Why This Matters: This reading explores the global energy market's shifts and the strategic moves companies make to adapt. It is particularly relevant for understanding Diversified Energy's \$550 million acquisition (DE) of Canvas Energy, as it highlights the importance of geographic diversification and operational efficiencies in a rapidly changing energy landscape.

7. MACROECONOMIC UPDATE

Key Data Points:

- U.S. Healthcare Spending: 18% of GDP in 2023
- Projected Healthcare Spending: 25-30% of GDP by 2050
- Estimated Savings from AI in Healthcare: \$300 to \$900 billion by 2050
- Estimated Shortage of Critical Healthcare Workers: 10,000 by 2028

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- Increase in Drug Approvals Due to AI: 10-40%

Main Insights:

- Rapid growth in U.S. healthcare spending is driven by an aging population and rising chronic disease burden.
- AI is viewed as a potential solution to reduce healthcare costs and improve efficiencies in delivery.
- Labor costs represent approximately 50% of hospital expenditures, highlighting a critical area for AI intervention.
- AI can enhance drug development productivity, potentially leading to significant cost savings in the healthcare system.

Market Commentary:

- "The U.S. spent 18 percent of GDP on healthcare in 2023, compared to only 11 percent for peer countries." - Erin Wright
- "AI has the potential to increase drug approvals by 10 to 40 percent, driving cost savings of anywhere from \$100 billion to \$600 billion by 2050." - Terence Flynn

Energy Sector Relevance:

- Rising healthcare costs could lead to increased demand for energy in healthcare facilities, impacting overall energy consumption patterns.
- The integration of AI in healthcare may require energy-efficient technologies, influencing energy markets and investments in sustainable energy solutions.

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