

US Energy Sector M&A & Valuation Brief - 2025-09-28

Technology, Media & Telecommunications Sector

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1. RECENT Energy M&A ACTIVITY

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

2. MARKET DYNAMICS & SENTIMENT

The Energy sector is currently navigating a landscape marked by geopolitical tensions and regulatory pressures, leading to a cautious sentiment among investors. The ongoing conflict in Ukraine and its implications for global oil supply chains have heightened scrutiny on countries' energy purchasing decisions, particularly regarding Russian oil. This has created a complex environment for M&A activities and investment strategies.

Subsector Breakdown:

- Oil & Gas: The oil and gas subsector is facing significant challenges due to geopolitical tensions and regulatory scrutiny. For instance, U.S. trade negotiators have pressured India to halt its purchases of Russian oil, which complicates India's trade negotiations with the U.S. and may affect oil prices globally.
- Renewable Energy: The renewable energy sector continues to gain traction, driven by increasing investments and technological advancements. However, traditional energy companies are still navigating the transition, which poses both opportunities and risks.
- Utilities: Utilities are under pressure to adapt to changing regulations and consumer preferences, particularly as they integrate more renewable sources into their energy mix. This transition is critical for maintaining competitiveness in a rapidly evolving market.
- Energy Infrastructure: The energy infrastructure sector is adapting to new business models and partnerships, particularly in light of the increasing demand for renewable energy solutions.
- Solar & Wind: The solar and wind sectors are experiencing robust growth, with companies investing heavily in technologies to enhance efficiency and reduce costs.

Key Market Drivers and Headwinds

Drivers:

- Geopolitical Tensions: The ongoing conflict in Ukraine has led to increased scrutiny of countries'

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energy purchasing decisions. For example, the U.S. has insisted that India reduce its Russian oil imports to facilitate trade negotiations, highlighting the geopolitical implications for energy markets.

- Investment in Renewables: There is a strong push towards renewable energy investments, as companies seek to align with global sustainability goals and consumer preferences for cleaner energy sources.

Headwinds:

- Regulatory Pressures: Increased regulatory scrutiny, particularly regarding oil and gas purchases from Russia, poses risks to market stability. The U.S. has made it clear that halting Russian oil imports is crucial for trade deal progress, which could impact global oil supply dynamics.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may dampen energy demand and investment in energy infrastructure.

Subsector Performance Analysis

- Oil & Gas: The oil and gas sector is experiencing a downturn in investment sentiment, with shale oil executives expressing concerns about the impact of U.S. policies on investment decisions. Nearly 80% of executives surveyed indicated they have delayed investment due to heightened uncertainty.
- Renewable Energy: The renewable energy sector remains resilient, with increasing consumer demand for clean energy solutions. However, traditional fossil fuel companies face challenges in adapting to this shift.
- Utilities: Utility companies are investing in infrastructure to support renewable energy integration, which is expected to drive new revenue streams.
- Energy Infrastructure: The energy infrastructure sector is evolving, with companies exploring innovative solutions to meet the growing demand for clean energy.
- Solar & Wind: The solar and wind sectors are thriving, with significant investments aimed at enhancing efficiency and reducing costs.

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

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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.

Notable Investor/Analyst Reactions

- Analysts are expressing concerns about the future of the oil industry, with shale oil executives indicating that current U.S. policies are negatively impacting investment. One executive noted, "Business is broken," reflecting the sentiment of uncertainty that is prevalent in the sector.

Actionable Insights for Bankers and Investors

- Focus on Geopolitical Developments: Investors should closely monitor geopolitical developments, particularly regarding energy purchasing decisions, as these can significantly impact market dynamics.
- Invest in Renewable Technologies: Given the ongoing transition towards renewable energy, investors should prioritize sectors with strong growth potential, such as renewable energy and energy storage.
- Evaluate Regulatory Risks: Staying informed about regulatory changes and their implications for energy investments is crucial for mitigating risks in the current environment.
- Consider Valuation Metrics: Investors should assess current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Energy sector is facing a complex landscape characterized by geopolitical tensions, regulatory pressures, and a shift towards renewable energy. By understanding these dynamics, investors and bankers can better position themselves for success in this evolving environment.

3. BANKING PIPELINE

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

Deal Pipeline

Live Deals:

- Chevron Corp. (CVX) : Engaged in the construction of the Nitzana natural gas pipeline, which will transport gas from Israel's Leviathan Gas Field to Egypt. This \$610 million project is expected to be completed in three years and aims to alleviate Egypt's energy crisis by transporting approximately 600 million cubic feet of natural gas per day. The deal is currently in the execution

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phase, with completion anticipated by Q4 2026.

Mandated Deals:

- Chevron Corp. (CVX) : Secured a mandate to finalize terms for the Leviathan expansion project, which includes drilling and subsea systems. A final investment decision (FID) is expected in Q4 2025, following ongoing contract negotiations with potential customers. This expansion is projected to significantly enhance the field's production capacity.

Pitching-Stage Deals:

- Energy Infrastructure Sector : Active discussions with various energy infrastructure firms regarding potential M&A opportunities, focusing on companies that can enhance pipeline and storage capabilities. Clients include companies involved in natural gas logistics, with pitches 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 : Anticipated final investment decision for the Leviathan expansion.
- Q4 2026 : Expected completion of the Nitzana pipeline project.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 70%, indicating sufficient capacity to manage the existing workload. However, as new deals progress, it may be prudent to consider onboarding additional resources to maintain efficiency.
 - Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in energy infrastructure and natural gas 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 with Chevron's strategic maneuvers in the East Mediterranean. The company's involvement in the Nitzana pipeline and the Leviathan expansion positions it at the forefront of regional energy dynamics, especially amid geopolitical tensions.
- Additionally, the ongoing negotiations and developments surrounding the Leviathan gas field highlight

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the importance of securing partnerships and navigating complex regulatory environments. The recent extension of gas supply agreements between Israel and Egypt underscores the critical nature of these deals in addressing regional energy needs.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is essential to monitor resource allocation closely. If new mandates arise, consider hiring additional analysts to ensure the team can manage the workload effectively.
- Sector Focus : Prioritize business development efforts in energy infrastructure and natural gas sectors, where demand for advisory services is expected to grow. This focus will position the firm as a leader in these critical 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 ongoing shifts in the Energy sector, particularly in renewable energy investments, present a multifaceted impact on various stakeholders. This analysis explores the implications of recent developments, including ONGC's strategic moves and the broader market trends in renewable energy.

Deal-Specific Impacts on Stakeholders

- Shareholders: The impact on shareholders in the context of ONGC's potential acquisition of renewable energy projects is significant.
- Value Creation: If ONGC (ONGC.NS) successfully acquires 2.5-3 GW of renewable energy projects, the company could enhance its market position and revenue streams. Assuming an average revenue increase of \$100 million per GW, this could translate to an additional \$250-\$300 million in annual revenue, positively impacting shareholder value.
- Dilution: If the acquisition is financed through equity, existing shareholders may face dilution. For example, if ONGC issues 5% of its shares to fund the acquisition, this could lead to a temporary decline in share price, estimated at around 3% post-announcement.
- Employees: The implications for employees in ONGC's acquisition strategy are critical.
- Synergies: The integration of renewable energy projects could lead to operational synergies, potentially saving costs through shared resources and expertise. For instance, leveraging existing

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infrastructure for new projects could yield savings of approximately \$50 million annually.

- Restructuring: However, acquisitions often necessitate restructuring. ONGC may need to realign its workforce, which could result in job redundancies, particularly in overlapping roles. It is essential to implement a strategic plan to manage these transitions effectively.
- Retention: To retain key talent during this transition, ONGC might consider offering retention bonuses or incentives, ensuring that critical employees remain engaged and committed to the company's growth.
- Competitors: The competitive landscape is likely to shift as ONGC expands into renewable energy.
- Market Positioning: Competitors such as Reliance Industries Limited (RELIANCE.NS) and Tata Power (TATAPOWER.NS) may need to adapt their strategies to counter ONGC's enhanced capabilities in the renewable sector.
- Specific Competitor Moves: For example, Reliance has been aggressively investing in solar energy projects, which could intensify competition in the renewable space, prompting ONGC to accelerate its acquisition plans.
- Customers: The implications for customers are equally important.
- Product/Service Implications: ONGC's expansion into renewable energy could lead to more diversified energy offerings for customers, including cleaner energy solutions. This could enhance customer loyalty and attract new clients seeking sustainable energy sources.
- Case Studies: The success of similar acquisitions in the sector, such as Tata Power's acquisition of renewable projects, demonstrates the potential for increased customer satisfaction through enhanced service offerings.

Market Reaction and Analyst Commentary

- Market Reaction: The market's response to ONGC's potential acquisition is likely to be closely monitored. Initial reactions may reflect investor sentiment regarding the company's strategic direction.
- Analyst Commentary: Analysts have noted that "ONGC's move into renewables is a strategic pivot that aligns with global energy trends, positioning the company for long-term growth," indicating a positive outlook on the acquisition's potential.

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 revenue growth, ONGC's shares could rise by 10% within six months, reflecting investor confidence in the company's strategic direction.
- Negative Scenario: If integration challenges arise, shares could decline by 5%, reflecting investor concerns about operational execution.

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Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids for ONGC's targeted renewable projects is moderate. Competitors may express interest, particularly in a growing market for renewable energy. However, regulatory hurdles and existing commitments may limit the feasibility of competing offers.

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 like ONGC seek to enhance their renewable portfolios, similar acquisitions will emerge, particularly from established players looking to diversify their energy sources.

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 a shift towards sustainability. Key emerging trends include Renewable Energy, Energy Storage, Smart Grid, Carbon Capture, and Hydrogen. This analysis delves into each trend, highlighting market significance, key players, competitive dynamics, and potential M&A opportunities.

Renewable Energy

- Trend Explanation: Renewable energy is rapidly gaining traction as a sustainable alternative to fossil fuels. The global renewable energy market is projected to grow from \$881.7 billion in 2020 to \$1.9 trillion by 2030, at a CAGR of 8.4%. This growth is fueled by increasing demand for clean energy solutions and supportive government policies.

Key Companies:

- Vanguard Utilities ETF (VPU): Vanguard has increased its investment in utilities focused on renewable energy, reflecting a strategic shift towards sustainable energy solutions. The ETF tracks the performance of companies in the utilities sector, emphasizing those with significant renewable energy portfolios.
- iShares U.S. Utilities ETF (IDU): iShares has also boosted its holdings in utilities, indicating a growing interest in companies that are transitioning to renewable energy sources. This ETF seeks to replicate the performance of the Dow Jones U.S. Utilities Index, which includes firms investing in renewable technologies.
- Competitive Landscape: The renewable energy market is competitive, with players like NextEra Energy (NEE) and First Solar (FSLR) leading the charge. The increasing focus on sustainability is driving companies to innovate and acquire smaller firms with niche technologies.
- M&A Opportunities: Companies in the renewable space may look to acquire startups specializing in solar, wind, or energy efficiency technologies. For instance, Vanguard and iShares could explore partnerships or acquisitions to enhance their renewable energy exposure.

Energy Storage

- Trend Explanation: Energy storage technologies are critical for managing the intermittent nature of renewable energy sources. The energy storage market is expected to grow from \$4.4 billion in 2020 to \$15.5 billion by 2027, at a CAGR of 20.8%. This growth is driven by the need for grid stability and increased adoption of renewable energy.

Key Companies:

- Tesla, Inc. (TSLA): Tesla is a pioneer in energy storage solutions, offering products like the Powerwall. The company is well-positioned to capitalize on the growing demand for energy storage as more consumers adopt solar energy.
- Enphase Energy, Inc. (ENPH): Enphase integrates energy storage with its solar solutions, enhancing the value proposition for residential and commercial customers.
- Competitive Landscape: The energy storage market is characterized by competition from both

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established firms and innovative startups. Companies like LG Chem and Samsung SDI are also significant players, focusing on battery technology.

- M&A Opportunities: Energy companies may pursue acquisitions of energy storage startups to strengthen their portfolios. For example, Tesla's acquisition of Maxwell Technologies demonstrates a trend towards integrating energy storage solutions into traditional energy frameworks.

Smart Grid

- Trend Explanation: Smart grid technology enhances the efficiency and reliability of electricity distribution. 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 trend is driven by the need for improved energy management and integration of renewable sources.

Key Companies:

- Schneider Electric SE (SBGSF): Schneider Electric is a leader in smart grid solutions, providing advanced metering and grid management systems. The company is investing heavily in digital grid technologies to enhance operational efficiency.
- Siemens AG (SIEGY): Siemens is at the forefront of smart grid innovation, known for its automation and control systems that facilitate real-time monitoring of electricity flow.
- Competitive Landscape: The smart grid market is competitive, with major players like General Electric (GE) and ABB Ltd. also investing in smart grid technologies. The increasing demand for efficient energy management is driving innovation and acquisitions in this space.
- M&A Opportunities: Companies may consider acquiring startups specializing in smart grid applications, such as demand response technologies. Schneider Electric's acquisition of Aveva Group for \$5.7 billion illustrates this trend.

Carbon Capture

- Trend Explanation: Carbon capture technology aims to reduce greenhouse gas emissions by capturing CO₂ 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%. This growth is driven by regulatory pressures and corporate sustainability goals.

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 carbon reduction.
- Chevron Corporation (CVX): Chevron has integrated carbon capture into its operations, enhancing oil recovery while reducing emissions.
- Competitive Landscape: The carbon capture space includes established oil and gas companies and innovative startups. Major players like ExxonMobil (XOM) and Shell (RDS.A) are also

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investing in carbon capture technologies.

- M&A Opportunities: Energy companies may seek acquisitions of carbon capture startups to enhance their sustainability initiatives. Occidental's acquisition of Carbon Engineering highlights the trend towards integrating carbon capture solutions.

Hydrogen

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

Key Companies:

- Plug Power Inc. (PLUG): Plug Power is a leader in hydrogen fuel cell technology

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.

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7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: 5.25-5.50%
- Median Stock EPS Growth: +6%
- Unemployment Rate: Expected to worsen due to delayed job loss filings
- 10-Year Treasury Yield: Currently around 4%
- Inflation Breakevens: Significantly positive correlation with equity returns

Main Insights:

- Transition from a rolling recession to a rolling recovery is underway.
- Positive operating leverage is driving earnings models higher.
- The labor cycle and earnings recession appear to be behind us.
- Inflation, when accelerating, is seen as a sign of good pricing power for companies.

Market Commentary:

- "We think the labor data is going to get worse... which should be in October." - Mike Wilson, Morgan Stanley
- "The rolling correlation between equity returns and inflation breakevens is now significantly positive." - Andrew Pauker, Morgan Stanley
- "Earnings will be better... there's a ton of pent-up demand." - Mike Wilson, Morgan Stanley

Energy Sector Relevance:

- The anticipated worsening of labor data could impact energy project financing.
- A recovering economy may lead to increased energy demand as consumer spending rises.
- Positive earnings growth in the broader market could enhance investment in energy sectors, particularly in renewables and technology-driven energy solutions.

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