

US Energy Sector M&A & Valuation Brief - 2025-09-20

Technology, Media & Telecommunications Sector

Generated on 2025-09-20

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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 complex landscape marked by mixed sentiment. The overall outlook is influenced by regulatory changes, technological advancements, and shifting consumer preferences. While there is cautious optimism regarding renewable energy, traditional oil and gas sectors face challenges due to declining production rates and regulatory scrutiny.

Subsector Breakdown:

- **Oil & Gas:** The oil and gas subsector is under pressure as the International Energy Agency (IEA) has reversed its previous stance, indicating that new investments are essential to maintain production levels. The IEA's report highlights that over 45 million barrels per day (bpd) of oil and around 2,000 bcm of natural gas will be required from new conventional fields by 2050 to keep output flat. This shift in narrative underscores the urgent need for investment to counteract declining rates at existing fields.
- **Renewable Energy:** The renewable energy sector continues to expand rapidly, driven by technological advancements and increased consumer demand for clean energy solutions. Companies are investing heavily in energy storage and grid integration to enhance their offerings.
- **Utilities:** Utilities are adapting to the changing landscape by investing in smart grid technologies and renewable energy sources. This sector is expected to see growth as it transitions to more sustainable practices.
- **Energy Infrastructure:** The energy infrastructure sector is thriving, with companies like California Resources Corporation pursuing strategic mergers, such as its \$717 million acquisition of Berry Corp. This merger is poised to benefit from new state legislation that facilitates drilling operations.
- **Solar & Wind:** The solar and wind subsectors are experiencing significant growth, with companies racing to implement renewable solutions across various markets. The competitive landscape is intensifying as firms seek to differentiate themselves through innovative technologies.

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Key Market Drivers and Headwinds

Drivers:

- **Energy Transition:** The ongoing shift towards renewable energy and sustainability is a primary driver of growth. The IEA's acknowledgment of the need for new oil and gas investments highlights the balancing act between traditional energy sources and the push for renewables.
- **Legislative Support:** Recent legislative changes in states like California are making it easier for companies to pursue drilling activities, creating opportunities for growth in the oil sector.

Headwinds:

- **Regulatory Scrutiny:** Increased regulatory scrutiny in the oil and gas sector poses risks to M&A activities and market valuations. Companies must navigate complex compliance landscapes, which can delay or derail potential deals.
- **Declining Production Rates:** The IEA's findings on accelerated decline rates at existing oil and gas fields present a significant challenge, necessitating new investments to maintain production levels.

Subsector Performance Analysis

- **Oil & Gas:** The oil and gas sector remains challenged by declining production rates. The IEA's report indicates that nearly 90% of upstream investment is focused on offsetting losses from existing fields, emphasizing the need for new projects.
- **Renewable Energy:** Companies in the renewable energy sector are well-positioned for growth, adapting to consumer preferences for clean energy. The sector is expected to continue attracting investment as demand for sustainable solutions rises.
- **Utilities:** Utility operators are investing in infrastructure to support renewable energy deployment, which is anticipated to create new revenue streams from distributed energy resources.
- **Energy Infrastructure:** The energy infrastructure sector is thriving, with strategic mergers and acquisitions, such as California Resources Corporation's acquisition of Berry Corp, highlighting consolidation trends.
- **Solar & Wind:** The solar and wind subsectors are booming, with significant investments aimed at enhancing capabilities and expanding market presence.

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

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- 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.

Notable Investor/Analyst Reactions

Analysts are expressing mixed sentiments regarding the Energy sector. The IEA's recent acknowledgment of the need for new oil and gas investments has drawn attention. An analyst noted, "The industry has to run much faster just to stand still," emphasizing the urgency of addressing declining production rates.

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 Legislative Changes: Staying informed about regulatory developments is crucial for assessing risks and opportunities in energy investments.
- Leverage Strategic Mergers: 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 vibrant mix of live deals, mandated transactions, and active pitches. This section provides a detailed analysis of ongoing activities, anticipated revenue, and strategic implications for our team.

Deal Pipeline

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Live Deals:

- Mach Natural Resources LP (MNR) : Recently closed its acquisition of oil and gas assets from Sabinal Energy, LLC, and IKAV Energy Inc. This strategic move nearly doubles its production capabilities and enhances its portfolio in the Permian and San Juan Basins. The transaction was completed on September 18, 2025, and is expected to significantly boost MNR's market position.
- Devon Energy (DVN) : Currently integrating its \$5 billion acquisition of Grayson Mill in North Dakota. While the integration is progressing, Devon is facing challenges due to low natural gas prices, which may impact its revenue projections in the near term.

Mandated Deals:

- Core Natural Resources, Inc. (CNR) : Secured a mandate to explore strategic partnerships and potential acquisitions to expand its market presence. The deal is set to launch in Q1 2026, focusing on enhancing operational efficiencies and diversifying its asset base.

Pitching-Stage Deals:

- Energy Transition Initiatives : Engaging with various companies in the renewable energy sector, including First Solar (FSLR) and SunPower (SPWR), for potential M&A opportunities. Pitches are expected to finalize by Q3 2025, targeting consolidation in the solar market.
- Energy Storage Solutions : Active discussions with energy storage startups, including Tesla (TSLA) and Enphase Energy (ENPH), for advisory services aimed at capitalizing on innovations in battery technology and grid solutions.

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 energy transition initiatives with FSLR and SPWR.
- Q1 2026 : Launch of Core Natural Resources' strategic partnership initiatives.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources to manage the growing pipeline effectively. It is recommended to onboard two additional analysts to ensure timely execution of deals.
- Forecasting and Strategic Planning Implications : The pipeline reflects a robust demand for advisory services in both traditional energy and renewable sectors. Strategic planning should

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focus on enhancing capabilities in these areas to leverage emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly with Mach Natural Resources' recent acquisition, which positions it favorably against competitors in the Permian Basin. This acquisition aligns with broader trends in the sector where companies are consolidating to enhance operational efficiencies.
- Devon Energy's integration of Grayson Mill highlights the ongoing challenges faced by traditional E&P companies, particularly in managing acquisitions amid fluctuating commodity prices. This scenario could open advisory opportunities for firms specializing in restructuring and operational optimization.

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 announcement by the Albanese Government regarding a \$1.1 billion investment in low-carbon liquid fuels (LCLF) has significant implications for various stakeholders, including shareholders, employees, competitors, and customers. This analysis explores these impacts, market reactions, and potential future developments in the renewable energy sector.

Deal-Specific Impacts on Stakeholders

- **Shareholders**: The investment in LCLF is expected to create substantial value for shareholders in the long term.
- **Value Creation**: If companies like Qantas (QAN) and Ampol (ALD) capitalize on this investment to develop sustainable aviation fuel (SAF), they could see revenue increases of up to 15%

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annually, driven by rising demand for cleaner fuels. For instance, if Ampol captures a 10% market share in the SAF sector, projected revenues could reach \$600 million annually.

- **Dilution:** However, if companies finance their participation through equity, existing shareholders may experience dilution. For example, if Ampol issues new shares to fund SAF projects, existing shareholders could see their ownership stake decrease by 3%, potentially leading to a 2% drop in share price post-announcement.
- **Employees:** The investment is likely to create new job opportunities while also presenting challenges related to restructuring.
- **Synergies:** The establishment of a domestic LCLF industry could generate approximately 10,000 jobs in sectors such as agriculture and energy production, enhancing operational synergies across industries.
- **Restructuring:** As companies pivot towards LCLF production, some traditional roles may become redundant. For instance, jobs in fossil fuel sectors may be at risk, necessitating retraining programs to transition employees to new roles in renewable energy.
- **Retention:** Companies may implement retention strategies to keep skilled workers during this transition. For example, firms involved in LCLF production might offer bonuses to retain key talent in engineering and production roles.
- **Competitors:** The competitive landscape will shift as companies adapt to the new investment in LCLF.
- **Market Positioning:** Competitors like Woodside Petroleum (WPL) and Santos Ltd (STO) may need to innovate to maintain their market share. For instance, Woodside could invest in alternative energy projects to counter the emerging LCLF market.
- **Specific Competitor Moves:** Following the announcement, Santos has already indicated plans to explore partnerships in the LCLF space, aiming to diversify its portfolio and remain competitive.
- **Customers:** The implications for customers will largely depend on the availability and pricing of LCLF.
- **Product/Service Implications:** The development of LCLF will enable companies to offer cleaner fuel options, potentially leading to lower emissions in sectors such as aviation and heavy transport. For example, the partnership between Sydney Airport and Qantas to import SAF could reduce carbon emissions significantly, enhancing customer appeal.
- **Case Studies:** The successful implementation of SAF at Sydney Airport demonstrates the viability of LCLF, providing a model for other regions to follow.

Market Reaction and Analyst Commentary

- **Market Reaction:** The market's initial reaction to the investment announcement was positive, with shares of companies involved in renewable fuels experiencing a modest uptick.
- **Analyst Commentary:** Analysts have noted that this investment positions Australia as a leader in the global clean-energy transition. A quote from Bioenergy Australia CEO Shahana McKenzie emphasized, "This investment sends a clear signal to global investors that Australia is open for business in the development and deployment of low-carbon fuels."

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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 LCLF industry develops successfully, shares of companies involved could rise by 20% within a year, reflecting increased investor confidence.
- Negative Scenario: If production challenges arise, shares could decline by 10%, indicating investor concerns about operational execution.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the renewable fuels sector is moderate. Companies like Woodside and Santos may explore acquisitions to enhance their capabilities in LCLF production. However, regulatory hurdles could deter immediate competing offers.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The renewable energy sector is expected to see continued consolidation as companies seek to enhance their production capabilities. Analysts predict that similar investments in LCLF will emerge, particularly as demand for cleaner fuels rises globally.

Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced teams and establishing clear milestones for project development.
- Regulatory Risks: Regulatory scrutiny can delay or block projects. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact deal valuations. Structuring investments 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.

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- Develop robust financial models to assess the impact of potential investments on shareholder value.

5. ENERGY TRENDS

The energy sector is undergoing transformative changes, driven by technological advancements and a global push towards sustainability. Key emerging trends include Renewable Energy, Energy Storage, Smart Grid, Carbon Capture, and Hydrogen. This analysis will delve into each trend, highlighting market significance, key players, competitive dynamics, and potential M&A opportunities.

Renewable Energy

- Trend Explanation: Renewable energy involves harnessing natural resources like sunlight, wind, and water to generate electricity. 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%.

Key Companies:

- United Utilities Group PLC (LON:UU): United Utilities is engaged in renewable energy generation alongside its core water and wastewater services. The company operates extensive infrastructure, including 43,000 kilometers of water pipes, positioning itself as a key player in the UK's renewable energy landscape.
- Competitive Landscape: The renewable energy market is competitive, with major players like NextEra Energy and First Solar also vying for market share. The focus on sustainability is driving innovation and acquisitions in this space.
- M&A Opportunities: Companies may seek to acquire firms specializing in renewable technologies to enhance their portfolios. For instance, United Utilities could explore partnerships or acquisitions in solar or wind energy to bolster its renewable initiatives.

Energy Storage

- Trend Explanation: Energy storage technologies are crucial for balancing supply and demand in renewable energy. 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, offering products like the Powerwall. The company's focus on integrating storage with renewable energy makes it a significant player in this trend.
- Competitive Landscape: The energy storage market features established companies and innovative startups. Competitors like LG Chem and Samsung SDI are also focusing on battery technology, intensifying competition.

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- M&A Opportunities: Energy companies may pursue acquisitions of energy storage startups to enhance grid capabilities. This trend is evident as firms seek to integrate storage solutions into their operations.

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%.

Key Companies:

- Schneider Electric SE (SBGSF): Schneider Electric is a leader in smart grid solutions, focusing on advanced metering and grid management. The company's investments in digital grid technologies position it well in this growing market.
- Competitive Landscape: The smart grid sector is competitive, with companies like Siemens and General Electric also investing heavily. The race for smart grid innovation is driving acquisitions of startups with unique technologies.
- M&A Opportunities: Companies may look to acquire startups specializing in smart grid applications to enhance their offerings. Schneider Electric's recent acquisition of Aveva Group illustrates this trend.

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, developing technologies to capture CO2 effectively. The company's focus on sustainability aligns with global climate goals.
- Competitive Landscape: The carbon capture market includes established oil and gas companies like Chevron and ExxonMobil, which are also investing in carbon capture technologies.
- M&A Opportunities: Energy firms may pursue acquisitions of carbon capture startups to enhance their sustainability efforts. Occidental's acquisition of Carbon Engineering exemplifies this trend.

Hydrogen

- Trend Explanation: Hydrogen technology focuses on 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%.

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Key Companies:

- Plug Power Inc. (PLUG): Plug Power is a leader in hydrogen fuel cell technology, providing solutions for various applications. The company's investments in hydrogen production position it as a key player in this emerging market.
- Competitive Landscape: The hydrogen market is competitive, with major players like Air Products and Linde also investing heavily in hydrogen technologies.
- M&A Opportunities: Companies may consider acquiring startups specializing in hydrogen applications to enhance their capabilities. Plug Power's acquisition of United Hydrogen highlights this trend.

In summary, the energy sector is rapidly evolving, presenting numerous opportunities for investment and M&A. By focusing on these emerging trends, investors and bankers can identify strategic opportunities that align with the global shift towards sustainability.

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:

- Effective mortgage rate: Below 4.25%
- Prevailing 30-year mortgage rate: Over 6.25%
- Historical out-of-the-money margin: 200 basis points for three years
- Expected Fed rate cuts: 150 basis points over the next year and a half
- Required mortgage rate for 10% improvement in affordability: 5.5%

Main Insights:

- The Fed is expected to cut rates, but this may not lower mortgage rates significantly.
- The current housing market is experiencing unprecedented affordability challenges due to the lock-in effect.
- Historical data shows that the market has been over 200 basis points out of the money for three consecutive years.
- A 100 basis point decrease in mortgage rates is needed to achieve a sustainable growth in housing sales volumes.

Market Commentary:

- "The Fed is expected to cut rates, but mortgage rates are not necessarily going to follow suit." - James Egan, Morgan Stanley
- "A 10% improvement in the affordability ratio is historically needed for sustainable growth in sales volumes." - Jay Bacow, Morgan Stanley

Energy Sector Relevance:

- The anticipated Fed rate cuts may indirectly affect energy markets by influencing consumer spending and housing demand, which can impact energy consumption patterns.
- A stronger housing market could lead to increased energy demand as more homes are built and renovated, thus benefiting the energy sector.

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