

ENERGY SERVICES POWER & UTILITIES MARKET OUTLOOK

**ENERGY TRANSITION, DECARBONISATION AND
SECURITY OF SUPPLY CHAINS CONTINUES TO DRIVE
M&A**

THE MARKET OUTLOOK COVERS:

- **POWER & UTILITIES MARKET TRENDS AND M&A ACTIVITY**
- **MARKET OVERVIEW AND DEALS IN THE FOLLOWING SUB-SECTORS:**
 - **BATTERY STORAGE (BESS)**
 - **POWER GENERATION**
 - **UTILITIES**

COOPER PARRY
CORPORATE FINANCE

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POWER & UTILITIES

A RAPIDLY CHANGING MARKET IS PRESENTING OPPORTUNITY AS LARGER PLAYERS IN THE MARKET STRATEGICALLY REALIGN TO KEEP PACE WITH WIDER ENERGY TRANSITION TRENDS



47%

The percentage of UK electricity production produced from zero-carbon sources in August 2023



27.3m

Total primary UK energy production in tonnes of oil equivalent, 8% lower than 1Q-22



43.6%

Net energy import dependency in 1Q-23, up 5% vs 1Q-22. Imports at the highest level since 4Q-19

The market: key trends

The changing energy mix

National Grid ESO's latest electricity report for August cites that 47% of electricity production came from zero carbon sources, with over 35% being directly from renewables. The cost of renewable technologies skyrocketed in 2022 owing to supply chain issues, however significant capacity was added globally. As the share of renewable power production increases, energy storage becomes ever more important for grid resilience

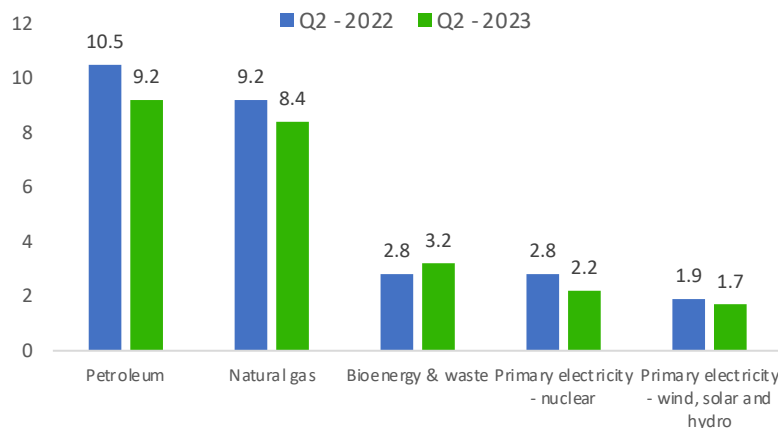
Energy security and affordability

Securing the UK's energy independence has been paramount amidst the energy crisis and the backdrop of the Russia-Ukraine war. The BESS (British Energy Security Strategy) has developed plans for investment to secure the UK energy sector through renewables and nuclear, however policies such as the Energy Profits Levy have aimed to recoup profits made by larger market players which may damage investment

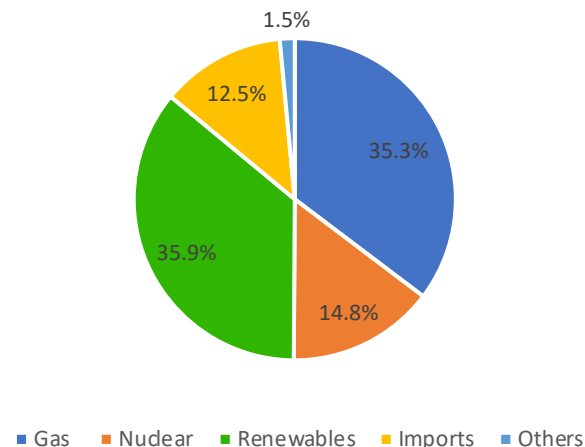
Net Zero

Net Zero as a concept continues to gather pace with investors and corporations adopting targets and frameworks. There remains an ill-defined regulatory backdrop which is impeding assessments and undermining credibility of initiatives. Guidance was published by the ISO (International Standards Organisation) in Nov '22 which should encourage standardisation and best practices across data curation

UK energy production by fuel type (m tonnes of oil equivalent)



UK electricity production by source (August '23)



INVESTMENT THEMES

PORTFOLIO OPTIMISATION AND DIVESTMENT OF LEGACY ASSETS HAS STRENGTHENED BALANCE SHEETS AND PROVIDED CAPITAL FOR CONSOLIDATION IN A FRAGMENTED MARKET

UK investment trends



Innovation and disruption

Innovation in this sector is becoming increasingly important as a driver of M&A. Digitisation of legacy services and assets is driving efficiencies, improving company performance and expanding top line opportunities. Strategic investors continue to explore inorganic growth that offers geographic expansion and streamlines operations through tech-enabled assets



Robust deal activity

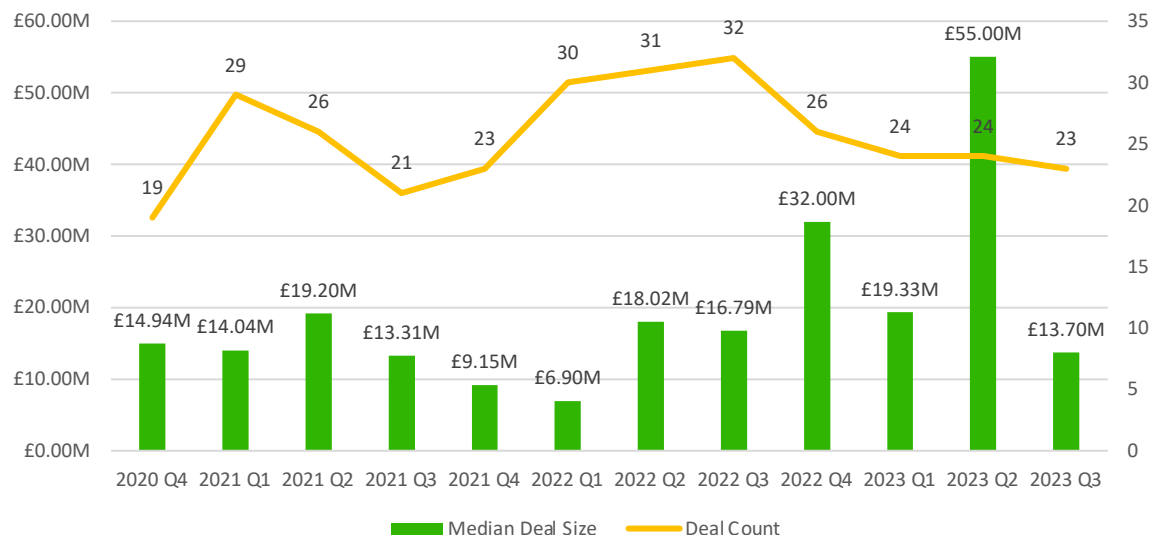
Deal flow continues to stabilise following the flurry of activity in 2022. Significant opportunities remain for businesses to reposition and pivot into green transition assets through M&A. Despite a subdued year, the wider energy sector saw £9.9bn of M&A activity in H1-23, evidence of resilient dealmaking and big-ticket assets



Balance sheet strength supporting M&A

Rising commodity prices have strengthened the balance sheets of many asset-heavy energy providers. This coupled with the growth in alternative debt providers is mitigating the scarcity of debt capital from traditional sources and underpinning capital flows for M&A transactions

UK deal count and average deal size in Energy Services (<£250m EV)



Market Concentration

Consolidated – Market dominated by 1-5 major players

Fragmented – Highly competitive market without dominant players

INVESTMENT THEMES

INCREASING RELIANCE ON RENEWABLE SOURCES IS ACCELERATING M&A WITHIN THIS SPACE, WITH OTHER DRIVERS ALSO HAVING KEY IMPACTS ON OBSERVED VALUATIONS

M&A valuation drivers

Scalable platforms

Businesses with potential for bolt-on opportunities or sites that lend themselves to regeneration have seen a growing demand from strategic investors who see opportunity to transform and diversify their business models

Reinvention and modernisation

The ability of firms to reinvent and modernise their offering in the face of new sustainability initiatives around decarbonisation and ESG drives further value uplift within M&A

Value vs regulation

The balance between shareholder value creation and the need to build a resilient and agile business that can thrive under greater ESG scrutiny, with new regulations, and technology has positive knock-on effects for valuations seen

Recurring revenue

Businesses with a heavy servicing or maintenance model with long-term customer contracts are strong investments. Recurring revenue provides investor comfort over longevity of earnings and drives a premium

Global trends and anticipated impact

	Trend	Impact
Leads to increased M&A activity	Increased decarbonisation of fuels	Rise in sales of high valued renewables and investor's exits from carbon-based businesses and related assets, with lower valuations due to high interest rates
	ESG Reporting Scrutiny	For transactions within this space, ESG diligence in both sell and buy side is critical, especially if a deal has publicly stated ESG goals
	Flexibility of existing grid	Amount of private equity activity and smaller asset deals relating to integrated distributed energy (both generation and storage) has increased
Leads to increased restructuring	Electrification of most transport	Utilities will be pushed to continue the strengthening of their regulated base rate, not necessarily with M&A but with rate cases or internal restructuring, due to the investment required for the transmission and distribution to accommodate EVs
	Modernisation of existing grid	Smart meters which have been deployed to many energy customers since 2000 will need updating in the next 3-5 years, leading to, not necessarily M&A but potential restructuring to accommodate these new technologies.

Key sector deals:



Deal date: Mar-23

Deal details: Undisclosed

Target description

- Modus Utilities is a London-based multi-utility specialist who specialise in the design and construction of complex power networks and substations, including solar farms and BESS facilities

Transaction rationale

- The transaction boosts OCU's ability to build large-scale grid connections, install networks, and explore new energy opportunities



Deal date: Dec-22

Deal details: Undisclosed

Target description

- Iberdrola is a Spanish company engaged in the generation, transmission, distribution and marketing of electricity and natural gas internationally

Transaction rationale

- The deal involves the divestment of non-core, non-regulated assets in South Wales. The sale relates to a small privately managed electricity network in Newport, which connects to two industrial clients and includes one grid supply point



Deal date: Nov-22

Deal details: £1.465b

Target description

- SSEN Transmission, operating under its licensed entity Scottish Hydro Electric Transmission plc, transports renewable energy from North Scotland to ¼ of the UK.

Transaction rationale

- Through the acquisition of a 25% minority share in SSEN Transmission, OTPP will support the growth of the network and its role in the UK's green energy transition



Deal date: Sep-22

Deal details: £341m

Target description

- Triton Power operates various small power stations across the UK as well as a decommissioned CCGT which provides carbon-free inertia to the system.

Transaction rationale

- The joint acquisition of Triton Power by SSE Thermal and Equinor from Energy Capital Partners strengthens the collaboration between SSE Thermal and Equinor and supports the decarbonisation of the UK's power system

ENERGY STORAGE

DUE TO THE INHERENT INTERMITTENCY OF RENEWABLE ENERGY GENERATION, BESS ASSETS ARE UTILISED TO PLUG THE GAPS LEFT FROM SHORTFALLS, ENABLING GRID STABILITY

Sub-sector overview

- The UK BESS (Battery Energy Storage System) market has been growing consistently since 2017, trending towards larger average project sizes
- By 2023 the UK's BESS market will grow to 24GW and account for 9% of global capacity installations, and 35% of the European energy storage market share
- By 2030, the sub-sector is expected to attract up to £16.15bn in investment, depending on future government incentives this could increase further

Key recent deals in this sub-sector



Zenobe Energy
sale to KKR & Co



Virmati Energy
sale to DIF
Management BV



Voltwise sale to
Sandbrook
Capital

Investment drivers

Oil and gas volatility: Due to macroeconomic events, the oil and gas markets have been subject to extreme volatility which in turn has driven reliance on renewable sources, hence increasing the need for BESS

Diversified returns: Due to higher interest rates impacting internal rates of return, investors are looking to new transition assets, such as BESS, to diversify returns

Private sector funding: Historically an equity funded market, there's growing appetite from the private sector for these assets, and their funding will play a large role in BESS rollout

Renewable energy pipeline: Due to the ever-growing pipeline of intermittent renewable energy sources, the UK government has set ambitious energy storage targets utilising batteries



Deal Highlights:

- Power Control is an installation and maintenance service provider of Uninterruptible Power Supply (UPS) equipment
- Bilateral process with French listed trade buyer, Legrand, aligning with their strategy to strengthen their global positions in segments buoyed by strong, structural trends
- This acquisition also boosted total annual sales of companies acquired to nearly €145m and allow Legrand to realise their growth ambitions with the synergistic power provided

Tom Nicholson Managing Director:

“Cooper Parry Corporate Finance added value throughout the deal process, giving invaluable support and technical guidance at each step. They understood the fundamentals and competitive positioning of our business, improving the original offer and maximising shareholder value. I would recommend any owner-managed business to work with Cooper Parry to deliver their transaction.”

Katie Cash, Manager:

“We were delighted to have supported the Power Control team on this deal with Legrand. The business’ success is a testament to the hard work of their team and its emphasis on high quality service and maintaining strong relationships.”

POWER GENERATION

THIS MATURE SPACE IS WITNESSING AN OVERHAUL, WITH TECHNOLOGICAL DEVELOPMENT ENCOURAGING INCREASING INVESTMENT AND M&A ACTIVITY

Sub-sector overview

- Despite maturing within this established market over recent years, there are currently new signs of growth and opportunities being presented to investors
- The market is seeing new green shoots of growth via digitisation of equipment (both existing and new) through the development of enhanced monitoring, remote access and improved analytics
- Furthermore, the longevity of service contracts for these assets provides visibility of revenue for investors

Key recent deals in this sub-sector



Recoup
Energy Solutions
sale to Kohler Co



Octopus Energy
investment
in Xlinks



Pharos Generator
Systems sale
to RSK Group

Investment drivers

Sustainable solutions drive:

The drive towards sustainable power solutions, such as hybrid solutions, bi-fuel generators and inverter generators is driving investment

Digital technologies: The increase in adoption of digital technologies in diesel gensets such as remote monitoring of performance and real time analysis to ensure maximum efficiency and reliability

Public sector demand: During critical situations, such as COVID, there was a surge in demand for a reliable service to supply critical power to essential infrastructure



Edina sale to Energy Efficiency Services Ltd



Deal Highlights:

- Edina provides the design, installation and servicing of energy efficient CHP and critical grid capacity gas engines
- High revenue quality through long term, high margin maintenance and servicing contracts
- The sale to EESL meant technology and expertise could be shared with commercial applications in India, boosting energy security there
- Cooper Parry successfully delivered a complex cross border M&A transaction

Philip Pollock, Joint Managing Director:

"Cooper Parry's dedication to our recent corporate sales transaction was exemplary. They make it 'their business' to get to know 'your business' very quickly, resulting in total control over the sales process from beginning to end."

Tom Summers, Associate Partner:

"It was great to work on the Edina transaction with Philip and Tony. Edina's strong market position and market leading solution made a highly attractive asset to an international buyer pool."

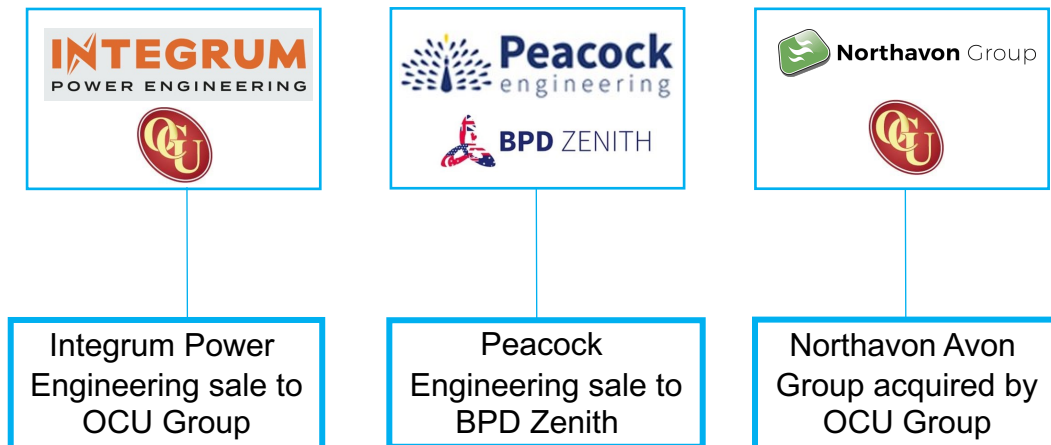
UTILITIES

UTILITY SERVICES PROVIDERS ARE BEING AFFECTED BY A MULTITUDE OF POSITIVE MACRO TRENDS, LEADING TO INCREASED CAPITAL PLACEMENT IN THE SPACE

Sub-sector overview

- The UK utilities market has seen significant deal activity over recent years, which is forecasted to continue
- The sector has also proved itself to be resilient to macro shocks within the wider market, but also has stayed robust through rising inflation and interest rates
- This space is typically dominated by a small number of large players, some of whom have private equity backing, and many smaller players, who are attractive for larger buy-and-build strategies

Key recent deals in this sub-sector



Investment drivers

Historical sector funding: Historical underspend on frontline infrastructure has led to increased demand for providers to innovate and improve these networks

Energy transition: As the transition to an environmentally-friendly utilities network continues to gain momentum, forward-looking firms are thriving

Private sector investment: the increasing involvement of the private sector is allowing for the addressing of necessary spending requirements

Upskilling workforce: due to work within this sector often requiring highly skilled workers, which are in short supply, firms have begun upskilling their workforce to meet new demand



Z-Tech sale to M Group Services



MGroupServices

Deal Highlights:

- Project Zeus was an electrical control and instrumentation specialist providing mission critical services to the UK's water, energy and rail industries
- Sold to MGS, provider of services to essential infrastructure markets in the UK and Ireland, generating revenue more than £1.3b and backed by PAI Partners
- This deal builds on the skills and knowledge Mgroup assembled over several years and will enable both parties to unlock synergies and allow the offer of services to a broader range of clients
- High revenue quality underpinned by framework agreement

CEO, Z-Tech:

"Cooper Parry added a huge amount of value to the Zeus project, always incredibly hard working, extremely easy to get along with and good fun to be around."

"They quickly grasped the complex systems and concepts associated with our business. They were very adept at manipulating spreadsheets and the presentation of information. Our operational team's experience of acquisition was limited, and they helped guide us through the process, financial concepts and reporting in a patient and helpful manner."



TOM SUMMERS
Associate Partner

Tom joined Cooper Parry Corporate Finance in 2017 and has over 8 years' experience working in corporate finance, advising on private equity transactions, management buy-outs and sales to domestic and overseas trade buyers

Tom is a Chartered Accountant originally training in audit with a BA in Physics from the University of Oxford

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LOREN DOCKSEY
Senior Analyst

Loren joined Cooper Parry Corporate Finance in 2020 as an analyst, reviewing market behaviour, trends and analysing M&A activity within our sector specialisms

Loren is a Trainee Chartered Accountant and holds a first-class honours degree in Economics from the University of Derby

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CONNOR MALONE
Analyst

Connor joined Cooper Parry Corporate Finance in July 2023 as an analyst, undertaking a year in industry as part of his BSc (Hons) Business Economics and Finance degree at Loughborough University

Connor has experience mapping markets, creating market analysis pieces, originating acquisition targets and assessing buyer pools

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