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WORLD ENERGY MARKETS OBSERVATORY

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23rd Edition 2021

Mergers and Acquisitions (M&A)

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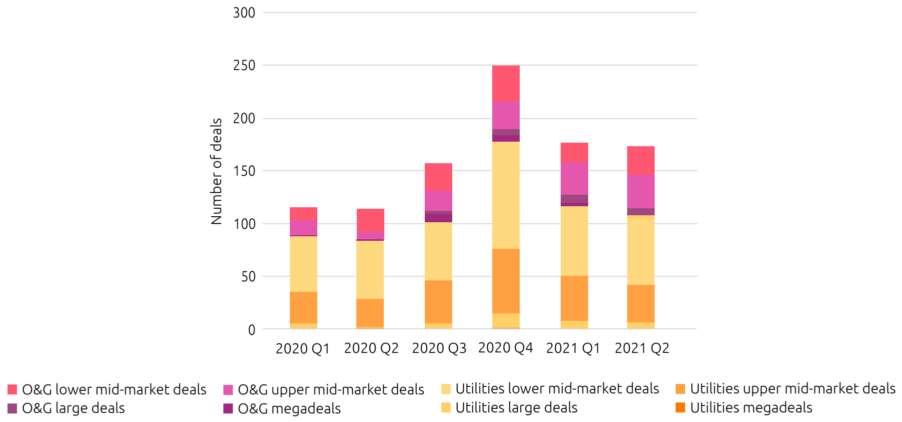
Mergers and Acquisitions (M&A)

After a drop in M&A activity during the first several months of the pandemic, recovery has been strong, as driven by sustainability concerns

- COVID-19 slowed M&A deals in the first quarters of 2020.
- However, as economies restarted, M&A activities resumed, as driven by a reshuffling of market positions and an increased concern over sustainability issues.
- The collapse of oil prices in April 2020 has resulted in consolidation of the U.S. shale market later in the year. As crude prices have reverted to normal levels, M&A in the sector should continue to slow, as was the case since Q3 2020.
- Massive investments were made in the European utilities sector after the first waves of COVID-19.
- Energy transition is a key driver for M&A deals as companies in the sector are selling off large numbers of carbon-intensive assets (rather than decommissioning).
- European IOCs, in their effort to become more diverse energy companies, are investing directly in large wind and solar farms.
- However, oil majors have not abandoned upstream acquisitions as shown by the activity in and around the Permian basin, as well as TotalEnergies's acquisition of Tullow's assets in Uganda.

FIGURE 1

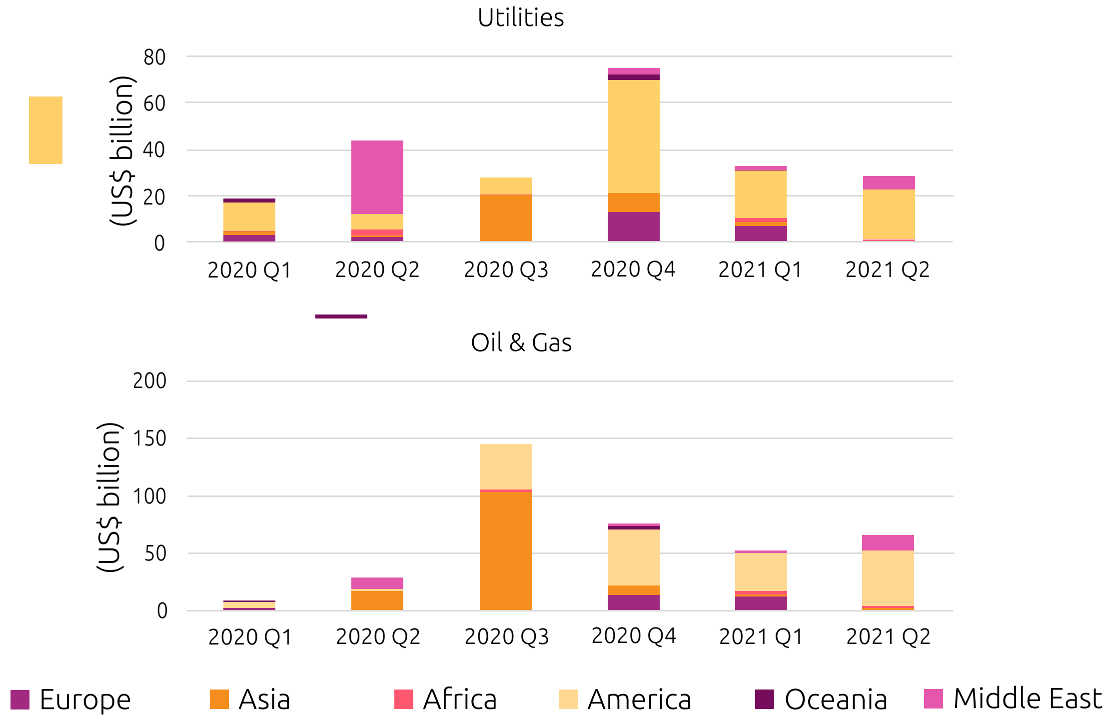
Volume of M&A deals between 2020Q1 and 2021Q2



Source: White & Case (2021)

FIGURE 2

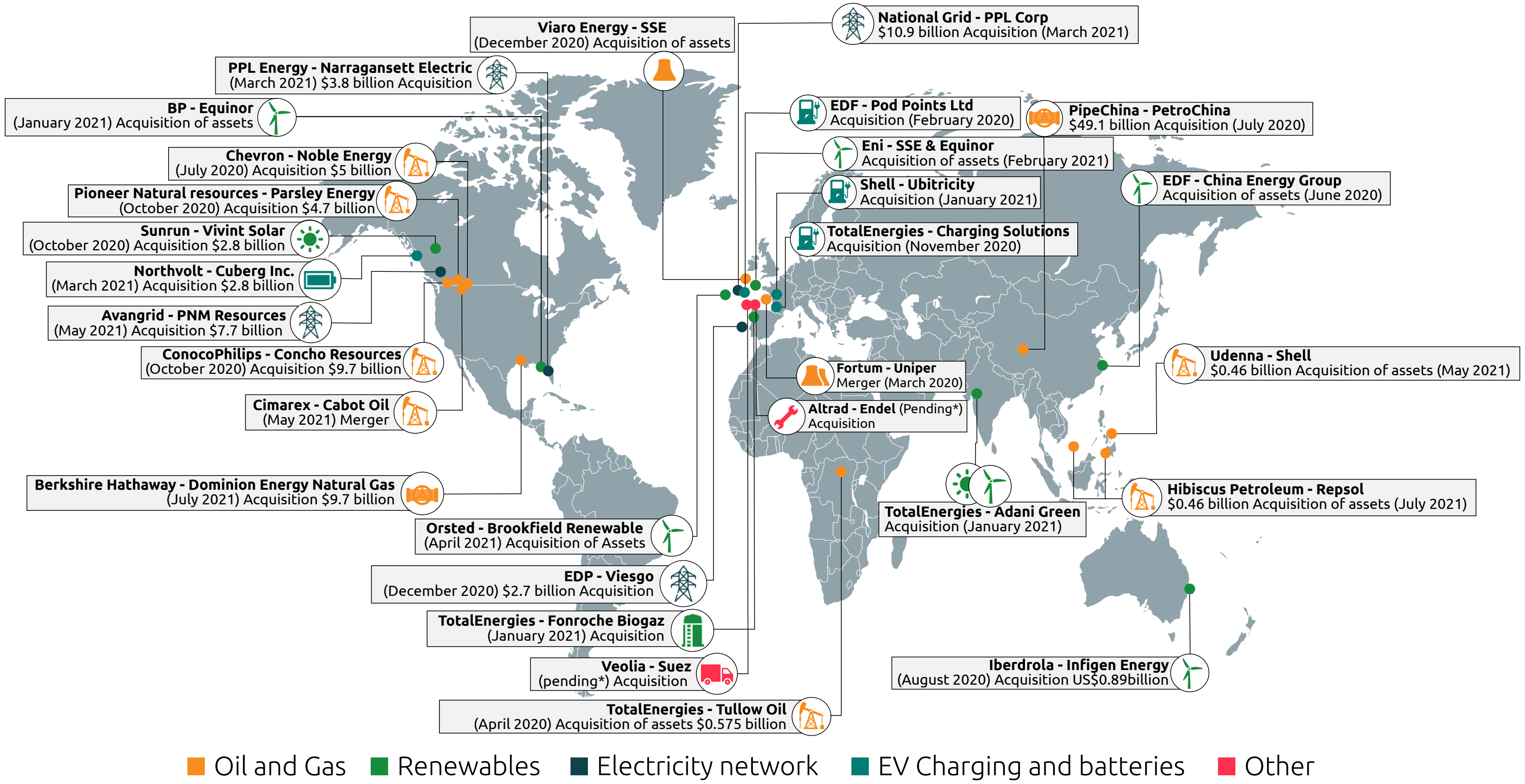
Value M&A deal by region and by sector



Source: White & Case (2021)

FIGURE 3

Map of major M&A deals in 2020 and 2021 (January to August)



Source: Reuters, S&P Global, Capgemini Analysis

2020 and 2021 have been characterized by large deals in renewables, assets divestments, and the rise of SPACS

The acquisition of renewable assets through M&A is at the heart of IOCs sustainability strategies:

- The sustainability push in the Energy and Utilities sectors has increased the number of M&As in renewables in the last few years, a trend continued through 2020 and the first half of 2021.
- Front and center are wind and solar assets.
- In particular, European IOCs are investing heavily in wind farm (both onshore and offshore). Examples include BP's $1.1 billion deal at Empire Wind or Eni at Dogger Bank A and B.
- Other acquisitions in additional renewables, such as TotalEnergie's investment in biogas in France, have occurred.

Utilities are making major investments in networks:

- Investment in networks are also being driven by the sustainability push, as evidenced by National Grid's move into the electric grid through their $11 billion acquisition of PPL Corp. Activities in the U.K. are linked to decarbonation objectives.
- In its $1.03 billion acquisition of Viesgo, EDP gained 52,000 km of network and 500MW of renewable generation, as well as thermal generation capacity.

Large utilities and O&G players are investing in new technologies to benefit from electrification of transports:

- European IOCs are moving fast to buy EV charging companies.
- Shell and TotalEnergies have both acquired German companies with expertise in this field.
- EV charging remains a very fragmented market. OEMs have a similar appetite to invest in this area.
- Other large M&A movements in new technologies are also centered around energy storage and batteries.

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SPACs are rising in the energy and utilities sector:

- Special purpose acquisition companies, known as SPACs, through which companies go public after an M&A deal have become a largely used mechanism in the U.S. technology sector.
- This is extending into the clean tech space as well. For example, the fuel cell manufacturer Advent Technologies announced a SPAC merger in late 2020 and Li-Cycle Corp., which specializes in li-ion batteries recycling, announced a SPAC merger deal in February 2021.
- ArcLight Capital Partners has set up SPACs with specific interest in renewable energy.
- Although regulations differ from the U.S., SPACs are making an appearance on the European market. The first, named ”Transition” has launched in June of 2021.

From upstream asset to non-core businesses, energy companies and utilities are divesting to reduce debt:

- Large IOCs are divesting from upstream assets. These assets are being bought by smaller local players.
- This is a key trend in the Southeast Asia market where Hibiscus Petroleum as bought Repsol’s Vietnamese and Malaysian assets, as well as Udenna Shell’s Philippine assets.
- Despite significant M&A activity upstream, majors should hold onto their refining assets as demand for petrochemicals is not set to decrease.
- There is a similar trend for utilities to sell off thermal assets, as evidenced by British utility SSE selling thermal power plants to Viaro Energy.
- Engie is now considering divesting from some its subsidiaries in the service industry such as Endel.

2020 has seen an exceptional level of M&A activity in the shale industry. America saw $90 billion of O&G deals in the second half of 2020:

- Low oil prices in the first months of the COVID-19 crisis have resulted in adverse conditions for smaller actors in the US.
- This shift in the shale industry has led to consolidation with large actors such as Chevron and ConocoPhillips acquiring upstream assets and companies for $5 billion and $9.7 billion, respectively.

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