Mergers and acquisitions (M&A) power, utilities and renewables 2023 outlook briefing

Recap of 2022 and what to expect in 2023

Recent trends and current macro environment

M&A activity in the power and utilities sector fell in 2022 coming off of the 2021 Covid rebound, closing 2022 just slightly above 2020 levels. This is primarily due to the rising cost of capital, high valuations, high inflation, and overall risk aversion during an uncertain political environment, with midterm elections allowing for widely different outcomes on configuration and agenda of the US Congress.

The market has seen a considerable decline in both deal volume and deal value in 2022, for both strategic and financial investors. The strategic deal value for 2022 was $92.3 billion over 224 deals compared to the 2021 value of $63.4 billion over 204 deals. This represents a major 49.1% drop in deal value and a 9.8% increase in deal volume from 2021 to 2022. In other words, on the aggregate level, 2022 saw more deals, but they were much smaller in proportion to the deals seen in 2021.

The storyline is similar with financial investors. In 2022, the total financial deal value was $16.9 billion over 114 deals, representing a decrease of 17.2% in comparison to 2021’s $20.4 billion of total deal value. However, total deal volume was roughly stable in comparison to 2021, which closed at 117 deals (a mere 2.6% decrease in total transactions), also signaling a lower aggregate level of transaction size for M&A activity in 2022.

US power, utilities and renewables M&A—annual

Expected impact

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<th>Trend</th>
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<td>Decarbonized fuels</td>
<td>Anticipate continued exits of carbon-based assets / businesses as well as sales of highly valued renewables, with potentially lower valuations due to high interest rates</td>
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<td>ESG reporting</td>
<td>Increase in deals aligned to publicly stated ESG goals; ESG diligence (buy-side and sell-side) will be critical for these transactions</td>
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<td>Grid flexibility</td>
<td>Significant investment required to update transmission and distribution to accommodate electric vehicles (EVs) will continue to push utilities to strengthen their regulated rate base via rate cases or internal restructuring but not necessarily M&amp;A</td>
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<td>Transportation electrification</td>
<td>Many of the more than 115 million “smart” electricity meters deployed at US customer sites since 2000 will need to be updated in the next 3-5 years leading to potential restructuring, but not necessarily M&amp;A to accommodate new technologies</td>
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Legend: ▲ Increases M&A activity ▼ Increases restructuring activity

Want to learn more?
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