

# PwC Deals

North American Power & Utilities Deal Insights Q1 2018

*Mega deals, renewable activity, and generation asset deals drive significant Q1 results*

## Executive Summary

Fading uncertainties regarding tax reform, the unique window of opportunity for solar and wind energy assets, and a continuing drive to rationalize portfolios all served to keep results strong in the first quarter of 2018.

Deal volume declined in the first quarter compared to Q4 2017, but deal value rose to \$28.9 billion from \$18.0 billion, thanks largely to two mega deals that accounted for 77 percent of total deal value. Dominion Energy agreed to acquire SCANA Corporation in a transaction valued at \$14.5 billion. Global Infrastructure Partners announced an agreement to acquire Zephyr Renewables LLC in a deal estimated to be worth \$7.9 billion.

Partly due to the Zephyr deal, renewable deals represented 36 percent of total deal value, or \$10.3 billion for the quarter. Investors took advantage of the window of opportunity in the segment as growing efficiency continues to reduce cost while an assortment of phasing down government incentives encourage investment.

*“As clarity around tax reform impacts unfolded, we continue to expect a pickup in deal activity as compared to recent quarters with dealmakers from prior years returning to capitalize on opportunities around changing generation supply dynamics, supporting infrastructure and evolving customer demand.”*



**Jeremy Fago,**  
US Power & Utilities Deals  
Leader,  
PwC

## Trends and highlights

- Overall deal value increased significantly in Q1 2018 over the previous quarter, jumping by 60 percent in terms of deal value as compared to Q4 2017, despite a 21 percent decrease of deal volume.
- Strategic and Corporate deals drove deal value this quarter, 64 and 89 percent respectively of total deal value in Q1 2018.
- The renewable sector accounted for 36 percent of deal value in Q1 2018, a comparably high proportion of the market.
- Inbound deals were limited in the quarter in terms of deal value, however still maintained a presence in deal activity with four total deals in the quarter.

### Value by the numbers



### Volume by the numbers

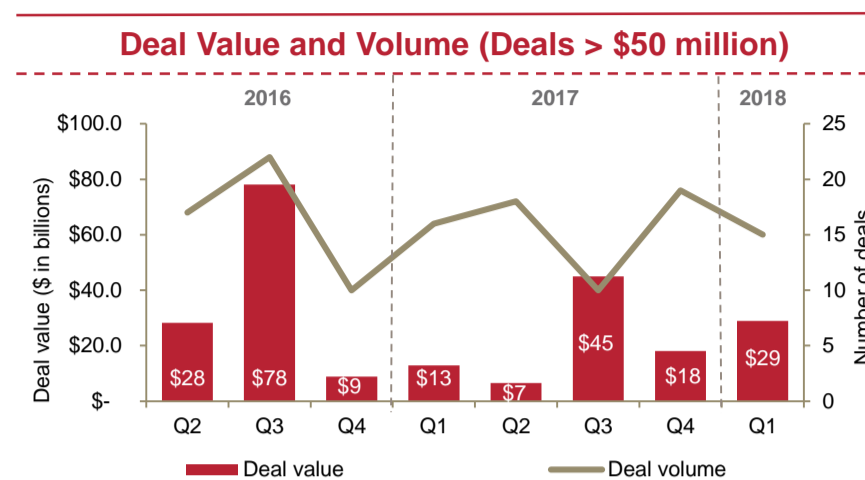


Source: Thomson Reuters, S&P Capital IQ, and PwC analysis

# Highlights of Q1 2018 deal activity

## Deal value and volume for Q1 2018

- Average deal size increased sizably to just less than \$2 billion in Q1 2018 from approximately \$1 billion in Q4 2017, or a 103 percent increase.
- Two mega deals occurred in Q1 2018, compared to one mega deal each in Q4 2017 and Q1 2017.
- Five deals greater than \$1 billion occurred in Q1 2018, one more deal than the previous quarter, and accounted for 90 percent of total value for the quarter.



Source: Thomson Reuters, S&P Capital IQ, and PwC analysis

### Largest transaction

Dominion Energy's agreement to acquire SCANA Corporation in a transaction valued at \$14.5 billion was the largest deal of the quarter. This deal accounted for 50 percent of the quarter's total deal value and is expected to position Dominion Energy as one of the largest and fastest-growing energy utility companies.

## \$14.5B



### Mega deals (\$5B and over)

Two mega deals worth an aggregate of \$22.3 billion were announced in Q1 2018, compared to single mega-deal quarters in Q4 2017 and Q1 2017.

## 2 mega deals



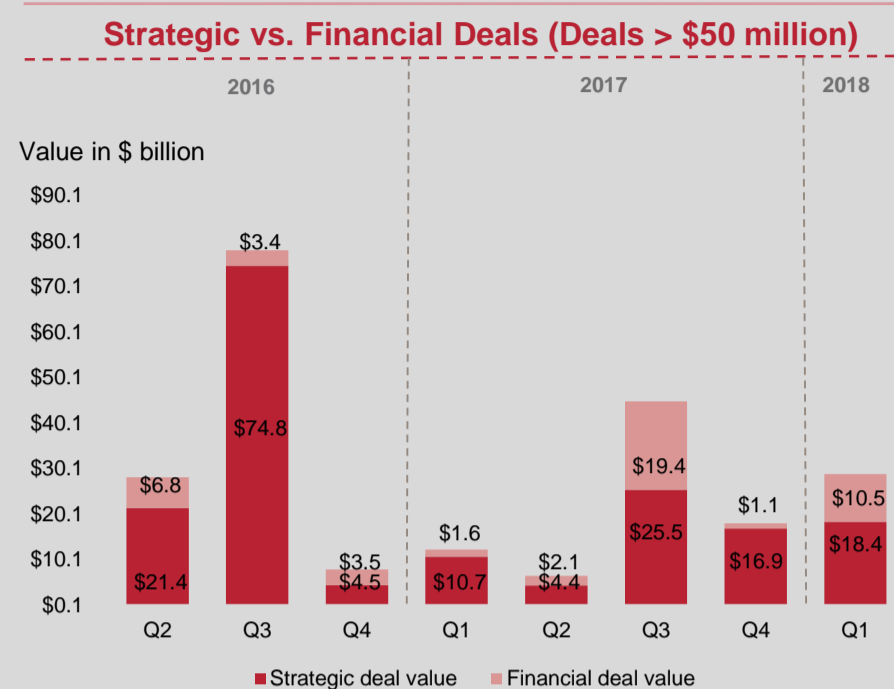
## Key announced transactions

- Dominion Energy agreed to acquire SCANA Corporation in a transaction valued at \$14.5 billion, including debt, in an all-stock deal. The combined company is expected to serve 6.5 million electric and natural gas distribution customers in eight states. It will also hold a 31,400-megawatt (MW) electric-generation portfolio, 93,600 miles of electric transmission and distribution lines, and a natural gas pipeline network totaling 106,400 miles.
- Global Infrastructure Partners announced a definitive agreement to acquire the entire share capital of Zephyr Renewables LLC for an estimated deal value of \$7.9 billion. Zephyr Renewables LLC was spun out of NRG Repowering Holdings LLC, a unit of NRG Energy Inc.
- Through its Clean Energy Infrastructure Team, Capital Dynamics, Inc., a Swiss-based asset management firm, announced a merger agreement with 8point3 Energy Partners LP in a deal valued at \$1.7 billion.
- SJW Group and Connecticut Water Service, Inc. announced a merger agreement valued at \$1.0 billion. Upon completion, the combined company will be the third-largest investor-owned water and wastewater utility in the US, serving more than 1.5 million customers in multiple states.

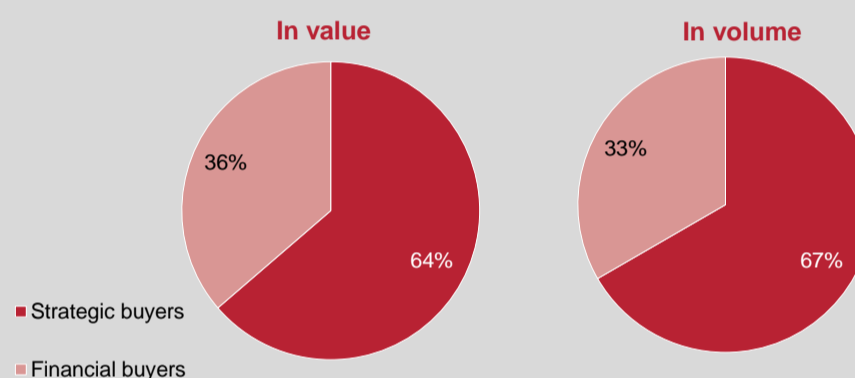
# Highlights of Q1 2018 deal activity (cont.)

## Strategic vs. financial deals

- Strategic investors drove a smaller share of deal activity in Q1 2018, 67 percent of the deal volume, a decrease from 74 percent in Q4 2017 and 69 percent in Q1 2017.
- The share of strategic deals in total deal value also fell to 64 percent in Q1 2018 from 94 percent in Q4 2017 and 84 percent in Q1 2017.
- Conversely, the share of financial deals in total deal value increased to 36 percent in Q1 2018, from 6 percent in Q4 2017 and 12 percent in Q1 2017.
- Strategic and financial investors had one mega deal each in Q1 2018. Dominion Energy's agreement to acquire SCANA Corporation is a strategic deal, while Global Infrastructure Partners' plan to acquire Zephyr Renewables LLC is a financial play.
- Of the other three deals above \$1 billion in deal value, two are strategic and one is financial. The strategic deals include SJW Group's agreement to acquire Connecticut Water Service, Inc. and Cleco Energy, LLC's agreement to acquire NRG South Central Generating LLC. Meanwhile, Capital Dynamics, Inc. expected merger with 8point3 Energy Partners LP was a financial deal.



## Q1 2018 Deals by Investor Group (Deals > \$50 million)

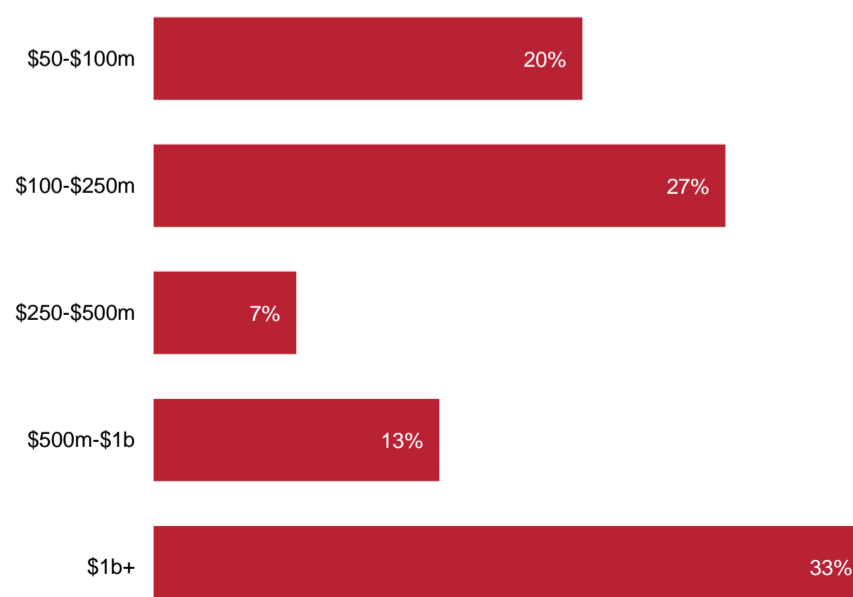


Source: Thomson Reuters, S&P Capital IQ, and PwC analysis

## Deal size for Q1 2018

- Of the deal volume in Q1 2018, 33 percent was driven by deals of more than \$1 billion, which represented 90 percent of total deal value.
- Deals of more than \$1 billion include only two mega deals above \$5 billion. This represents an increase from one mega deal in Q4 2017.
- In Q1 2018, the contribution to the total deal volume from \$50 million to \$100 million, \$500 million-\$1 billion, and \$1 billion+ categories exceeded that in the previous quarter. The latter increase was led by the \$1 billion+ category, which went up from 21 percent in Q4 2017 to 33 percent in Q1 2018.

## Deal Volume by Deal Size (Deals > \$50 million)



Source: Thomson Reuters, S&P Capital IQ, and PwC analysis

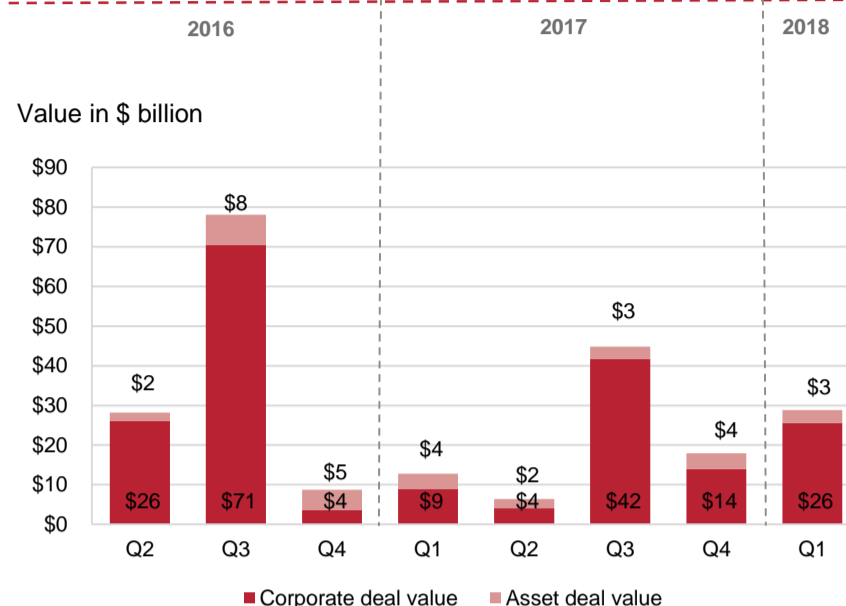


# Highlights of Q1 2018 deal activity (cont.)

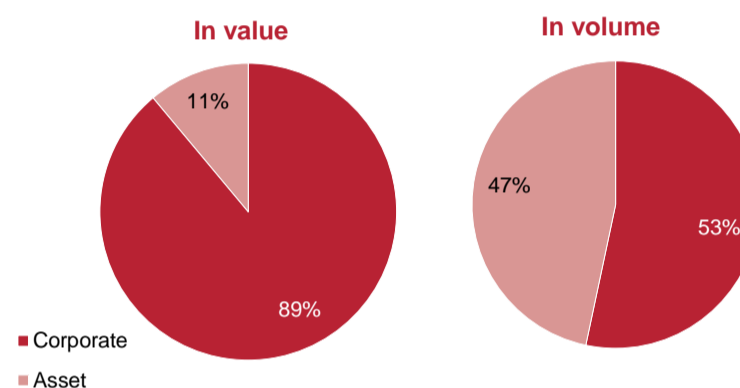
## Corporate vs. asset deals

- Corporate deals represented 53 percent of the deal volume and 89 percent of the deal value in Q1 2018. Of the five deals of over \$1 billion in the quarter, four were corporate deals, which included the two mega deals.
- Corporate deals increased in terms of volume and value as compared to prior quarters. Eight corporate deals, accounting for \$25.7 billion, were struck in Q1 2018, up from four deals valuing \$14.1 billion in Q4 2017, and five in Q1 2017 valuing \$9.1 billion.
- In terms of volume, asset deals decreased from 15 in Q4 2017 to seven in Q1 2018 and in terms of value they declined from \$4.0 billion in Q4 2017 to \$3.2 billion in Q1 2018.
- When compared to the same quarter in the prior year, asset deals decreased in terms of volume and value.
- Cleco Energy, LLC's announced acquisition of NRG South Central Generating LLC was the only asset deal of more than \$1 billion.

### Corporate vs. Asset Deals (Deals > \$50 million)



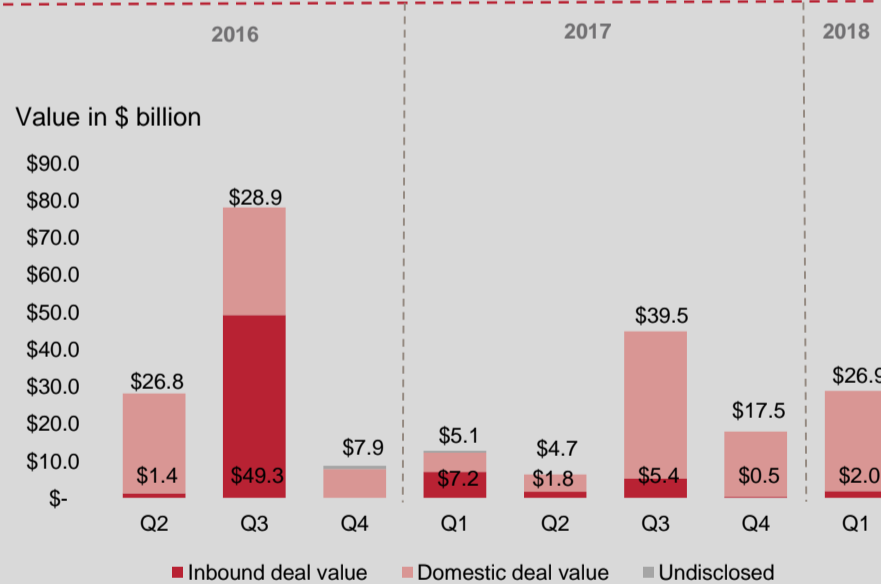
### Q1 2018 Deals by Deal Type (Deals > \$50 million)



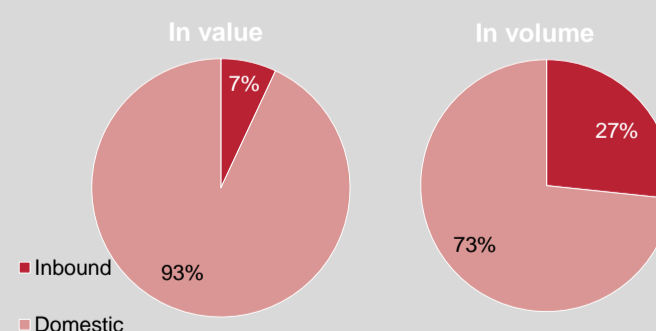
## Inbound vs. domestic deals

- Q1 2018 saw four inbound deals, which accounted for 27 percent of the deal volume and 7 percent of the deal value, compared to 16 percent of the deal volume and 3 percent of the deal value in Q4 2017.
- Conversely, domestic deals represented 73 percent of the deal volume and 93 percent of the deal value in Q1 2018, a decrease from 84 percent of the deal volume and 97 percent of the deal value in Q4 2017.
- Of the four deals above \$1 billion in Q1 2018, three were domestic deals. The inbound deal was a financial corporate deal from a Swiss investor.
- Compared to the same quarter in the prior year, inbound deals increased from two in Q1 2017 to four in Q1 2018, but the deal value dropped from \$7.2 billion in Q1 2017 to \$2.0 billion in Q1 2018.

### Inbound vs. Domestic Deals (Deals > \$50 million)



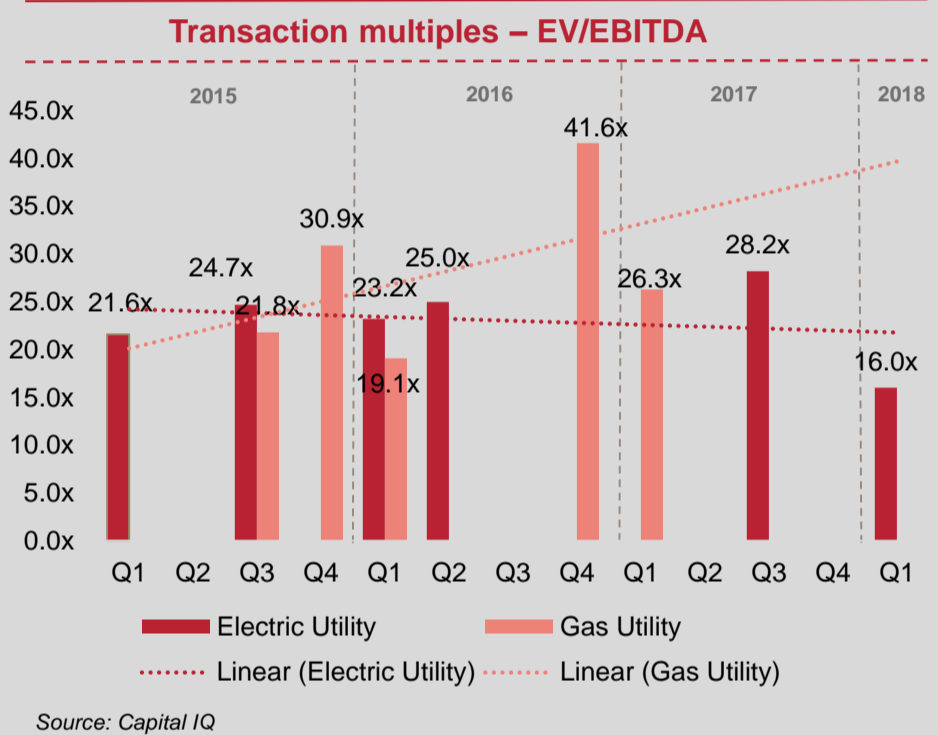
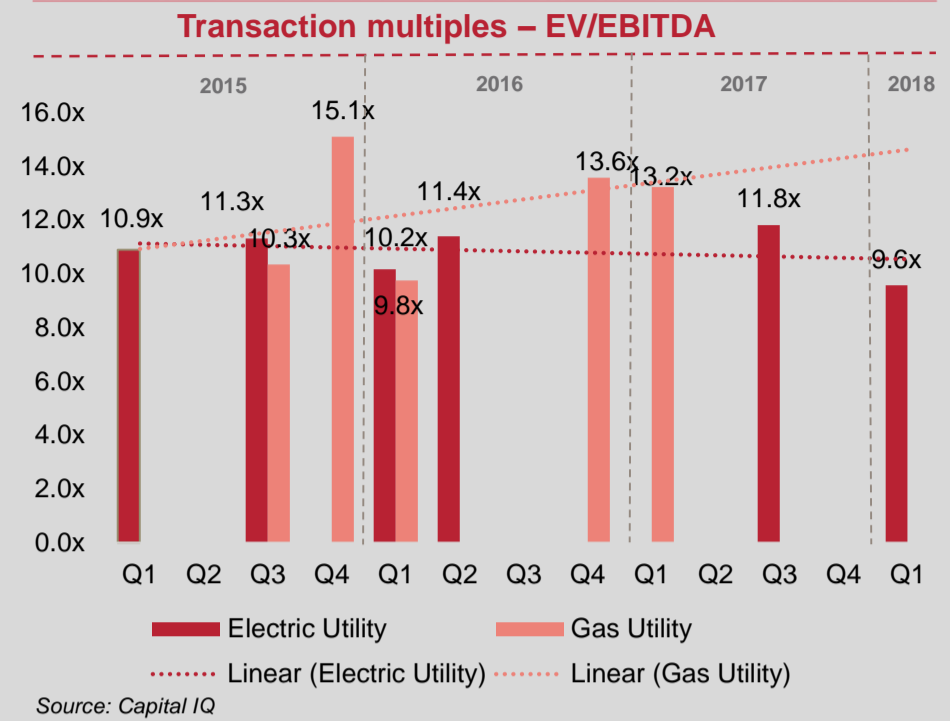
### Q1 2018 deals by Acquirer Geography (Deals > \$50 million)



# Highlights of Q1 2018 deal activity (cont.)

## Transaction multiples

- Enterprise Value (EV)/Earnings before interest, taxes, depreciation and amortization (EBITDA) and Price/Earnings (P/E) transaction multiples have trended upward over time for gas utility transactions, as buyers paid premiums for growth opportunities.
- Most small- and mid-cap utilities continue to be potential acquisition targets, as the industry continues its trend of consolidation over the last few decades.
- While the Federal Reserve has raised interest rates, still relatively low interest rates keep buyers interested in regulated yields.
- With the changing makeup of the nation's generation supply, dealmakers also remain interested in gaining more exposure to gas and electric transmission infrastructure.
- Tax reform and the likelihood of continued interest rate increases is affecting the cost of capital, but precisely how depends on the sub-sector.

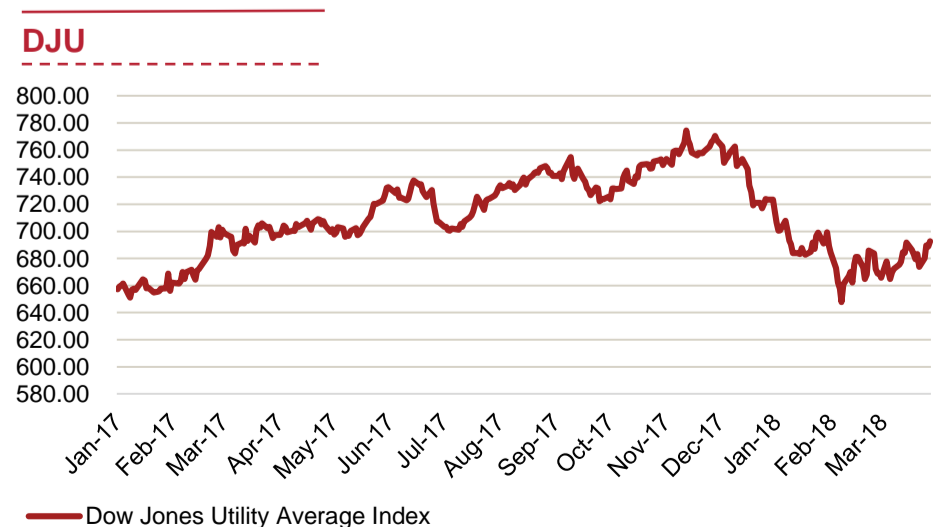
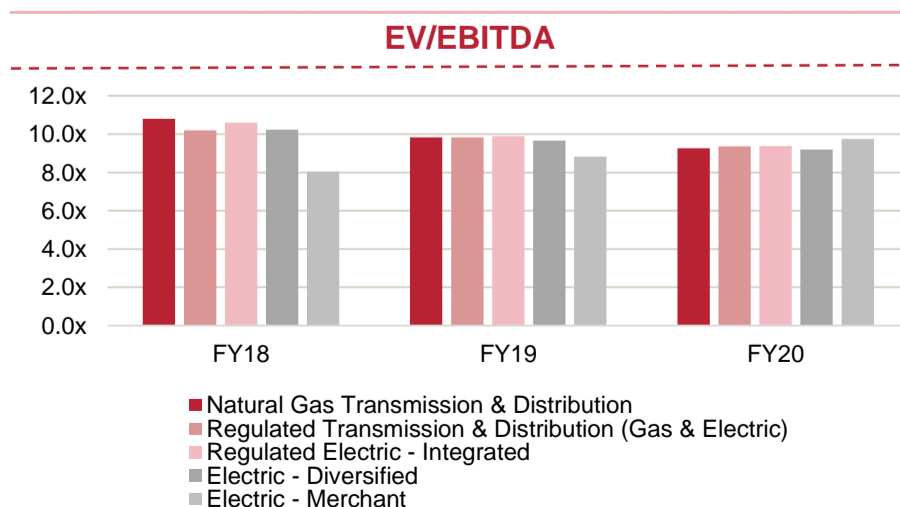


## Trading multiples and indices

Natural Gas Transmission and Distribution trading multiples continue to set the high-end of the range of multiples for sub-sectors within the power and utilities industry, due to a number of factors including continued interest in this sub-sector provided growth opportunities with the rapidly changing makeup of our nation's generation supply.

Electric – Merchants are currently setting the low end of the range of multiples for sub-sectors within the power and utilities industry, provided factors including exposure to commodity price volatility and market/regulatory impacts.

Regulated – The sector traded down in general at the end of 2017 due to concerns around regulatory impacts from tax reform on near-term cash flows and resulting balance sheets.



# Snapshot of Top 10 Deals

## Q1 2018

Rank	Value (\$ million)	Acquirer name	Target name	Transaction type	Investor group	Date announced
1	\$14,463	Dominion Energy, Inc.	SCANA Corporation	Corp	Strategic	1/3/18
<p>Dominion Energy agreed to acquire SCANA Corporation in a transaction valued at \$14.5 billion, including debt, in an all-stock deal. The combined company is expected to serve 6.5 million electric and natural gas distribution customers across eight states in the US.</p>						
2	\$7,849	Global Infrastructure Partners	Zephyr Renewables LLC	Corp	Financial	2/7/18
<p>Global Infrastructure Partners announced an agreement to acquire the entire share capital of Zephyr Renewables LLC for an estimated deal value of \$7.9 billion. Zephyr Renewables was spun out of NRG Repowering Holdings LLC, owned by NRG Energy Inc.</p>						
3	\$1,671	Capital Dynamics, Inc.	8point3 Energy Partners LP	Corp	Financial	2/5/18
<p>Capital Dynamics, Inc., a Swiss-based asset management firm, announced a merger agreement with 8point3 Energy Partners LP in a deal valued at \$1.7 billion.</p>						
4	\$1,011	SJW Group	Connecticut Water Service, Inc.	Corp	Strategic	3/15/18
<p>SJW Group and Connecticut Water Service, Inc. announced a merger agreement valued at \$1.0 billion. The combined company is expected to be the third largest investor-owned water and wastewater utility in the US and will serve more than 1.5 million customers across different states of the country.</p>						
5	\$1,000	Cleco Energy, LLC	NRG South Central Generating LLC	Asset	Strategic	2/7/18
<p>Cleco Power LLC, through its parent company, announced that it will acquire NRG South Central Generating LLC, a subsidiary of NRG Energy, Inc., for \$1.0 billion. Upon completion, Cleco will acquire eight generating assets totaling 3,555 MW, as well as transmission operations and contracts to provide wholesale power to various clients across Louisiana, Arkansas, and Texas.</p>						
6	\$966	NRG Yield Operating LLC	Carlsbad Energy Holdings LLC	Asset	Strategic	2/7/18
<p>NRG Yield Operating LLC entered into Purchase and Sale Agreements to purchase NRG Energy Inc.'s interest in Carlsbad Energy Holdings LLC.</p>						
7	\$533	Platinum Equity, LLC	GenOn Hunterstown Generation Facility	Asset	Financial	2/27/18
<p>Platinum Equity, LLC announced it had entered into a definitive agreement to acquire GenOn's Hunterstown power generation facility and related assets in a deal valued at \$533 million. GenOn, which is a unit of NRG Energy Inc., filed for bankruptcy protection in June 2017.</p>						
8	\$390	Stonepeak Infrastructure Partners	GenOn Canal Units 1 and 2 Generation Facilities	Asset	Financial	3/23/18
<p>GenOn agreed to sell units 1 and 2 of the Canal Generating Facility in Sandwich, Massachusetts, to Stonepeak Infrastructure Partners' subsidiary Stonepeak Kestrel for \$390 million.</p>						
9	\$219	Ormat Nevada, Inc.	US Geothermal Inc.	Corp	Strategic	1/24/18
<p>Ormat Technologies, Inc. announced a definite merger agreement under which its wholly owned subsidiary Ormat Nevada, Inc., will acquire US Geothermal Inc. in a deal at an estimated value of \$219 million.</p>						
10	\$217	Royal Dutch Shell Plc	43.8 percent interest in Silicon Ranch Corporation	Corp	Strategic	1/15/18
<p>Royal Dutch Shell Plc announced it would acquire a 43.8 percent stake in Silicon Ranch Corporation, a solar company, from investment manager Partners Group as part of Royal Dutch Shell's new energies power portfolio.</p>						

Sources: Thomson Reuters, S&P Capital IQ, PR Newswire, Market Exclusive, ThomsonOne, Nasdaq, Businesswire, Globe Newswire

## ***About PwC's Deals Practice***

For a deeper discussion on deal considerations, please contact one of our practice leaders or your local Deals partner:

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise power and utility companies and private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine deep power and utility industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divesture process, we can help.

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## ***About the data***

We define M&A activity as mergers and acquisitions where targets are North American-based (US or Canada) companies or assets acquired by either US or foreign acquirers. M&A activity reflects unregulated power generation and regulated (electric, gas and water) transaction activity.

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes used throughout this report are based on announcement date data for transactions with a disclosed deal value greater than \$50 million, as provided by Thomson Reuters and/or S&P Capital IQ, and supplemented by additional independent research. Information related to previous periods is updated periodically based on new data collected by Thomson Reuters and/or S&P Capital IQ for deals announced during previous periods, but not reflected in previous data sets. Unless otherwise noted, all data and charts included in this report are sourced from Thomson Reuters and/or S&P Capital IQ.

Power and utility deals used in this report were developed using NAIC codes. In certain cases, we have reclassified deals regardless of their NAIC or SIC codes to better reflect the nature of the related transaction.