News release

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| *Date* | **Embargoed until 28 January 2014**  **00:01 CET** |
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# *Deal momentum in power and renewables sector shifts to the upside*

**London, 28 Jan 2014**‑‑After a year in which M&A activity in the power sector moved down a gear, deal activity is set for a return to an upward trend during 2014, according to PwC’s annual *Power and Renewables Deals* report released today.

Norbert Schwieters, global power and utilities leader, PwC, said:

“Some encouraging trends lead us, on balance, to anticipate upward deal momentum in the year ahead. After a year in which considerable sector uncertainty has affected deals, we anticipate greater confidence during 2014. Participation in the sector continues to widen with the attractions of contracted or regulated returns pulling in a wide range of buyers.”

Technology, finance and politics are all sources of disruptive change hitting the sector and this has been among the factors weighing on deals in 2013. Total worldwide power and renewables 2013 deal value was down 10% year on year. But the Asia Pacific region and the renewables sector bucked the trend. Renewables deal value rose 25% the value of Asia Pacific deals was up 6%.

The search by investors for yield is a major deal driver in the sector. Andrew McCrosson, partner, UK power and utilities, PwC, said:

“The thirst of investors for yield continues unabated. We see no letup in 2014. But it is a crowded market with a shortage of the right kind of power utility assets becoming available with long-term regulated or contracted returns. The focus has been mainly on network assets and renewables but we are seeing signs that a few investors are willing to take on more risk by looking at thermal generation.”

In the year ahead, the report expects a potential return of mega-mergers in the US power sector to be a key factor driving worldwide power and renewables M&A value upward.

Rob McCeney, partner, US power and utilities, PwC, said:

“With companies under rate pressure and having spent a considerable amount of time bedding down previous deals and taking cost out of their businesses, acquisitions are a timely route to finding synergy cost savings and maintaining earnings and dividend growth.”

This is likely to make for a strong US power and renewables deal market in 2014 when combined with a continued shedding of non-regulated assets by hybrid utilities, a continued need for regulated utilities to find cost savings, and a desire for yield driving renewable transactions including YieldCo IPOs and strong inbound interest.

The report maps a number of deal hot spots and investment opportunities around the world in the power and renewables sector for the year ahead. In particular, it highlights:

**A widening out of growth target markets** – the balance shift to faster growing markets and away from developed markets, particularly Europe, will continue to be an important contributor to M&A activity. This trend is widening out to encompass a wider range of countries. The report points to activity in sub-Saharan Africa, Vietnam, Mongolia and says reforms in the Mexican power market may attract investor interest in 2014.

**Changing gas economics creating opportunities –** uncertain economics in the gas-fired power market are bringing deal opportunities. In the US, we expect to see growing interest in any available gas generation assets. In Europe, where recent gas generation retirements have increased, we have seen some isolated deals. Investors have bought power plant assets, although most owners have sat tight during the distress period, some with the help of refinancing. Longer term, gas could provide a sweet spot in the market place.

**Renewables deal flow trending upward** - the PwC report sees the underlying upward trend in renewables deals that characterised the last twelve months continuing into 2014. In Europe, for example, the volatility that characterised government policy support in the last few years is subsiding with some of the key issues being resolved, although country by country variances remain.

**Capital market conditions encouraging sellers** - capital markets are providing a much better environment for both private placements and public offerings than even just a year ago. Market volatility can’t be ruled out but increased confidence is continuing into 2014 and is likely to encourage sellers, both private and state. Already, on the state divestment list, there is significant deal activity for power assets lined up in a number of countries including the UK, Australia, New Zealand and Poland.

**ENDS**

**Note to Editors**

***Methodology***

Global Power & Renewables Deals includes analysis of all global power utilities, renewable energy and clean technology deal activity. We include deals involving power generation, transmission and distribution; natural gas transmission, distribution, storage and pipelines; energy retail; and nuclear power assets. Deals involving operations upstream of these activities, including upstream gas exploration and production, are also excluded. Renewable energy deals are defined as those relating to the following sectors: biofuels, biomass, geothermal, hydro, marine, solar and wind. Renewable energy deals relate to the acquisition of (i) operating and construction stage projects involved in the production of renewable energy and (ii) companies manufacturing equipment for the renewables sector. We define clean technology deals as those relating to the acquisition of companies developing energy efficient products for renewable energy infrastructure.

The analysis is based on published transactions from the Dealogic ‘M&A Global database’ for all electricity, gas utility and renewables deals. Deals are included at their announcement date when they are partially completed (pending financial and legal closure) or completed. Deal values are the consideration value announced or reported including any assumption of debt and liabilities. Comparative data for prior years and quarters differ to that appearing in previous editions of our analysis or other current year deals publications. This can arise in the case of updated information or methodological refinements and consequent restatement of the input database.

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