News release

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*Institutional M&A investment share doubles in power and renewable sector*

The M&A investment share from institutions, such as insurance, pension and sovereign wealth funds, has more than doubled year on year, according to PwC’s annual *Power and Renewables Deals* report released today. Together with infrastructure funds, institutions accounted for a third of all power and renewables deal value in 2012.

The report finds that the sector is attracting a greater diversity of buyers and, after a 2012 low, conditions are right for a revival of power and renewables deal activity in 2013.

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

“This is a significant shift in the buy-side balance. In the space of just one year, corporate buyers’ share has gone from 80% of total deal value to just 63%. In their place, outside investors are coming into the sector attracted by its long-term growth and steady-return potential.”

Differences in corporate appetite have the potential to add to deal flow. While state-owned enterprises in China and trading houses in Japan are very much in an expansionist mode, many European power utility companies remain more tilted towards the divestment rather than the acquisition side of the deal table.

Andrew McCrosson, partner, UK power and utilities, PwC, said:

“In Europe, network deals have been a particular focus for institutional investors. They have continued to attract high premiums and will likely tempt existing asset owners to look closely at their options. The high premiums are in part due to the relatively stable regulatory frameworks, but also the significant capital expenditure requirements needed to replace much of the ageing infrastructure in Europe. Investors with a low cost of capital are able to finance these at levels below those allowed by regulators.”

The era of cheap gas in the US has transformed valuations and M&A strategies. But the report warns that low prices cannot be taken for granted and the big M&A prizes in the US in 2013 could go to those with the foresight to correctly time the eventual upturn in gas prices.

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

“Increased exports to higher priced markets, a shift to gas-fired base load generation, growing industrial consumption and expanded uses of gas for transportation fuels and derivative products will all start add to upward gas price pressure over the next few years. It’s very possible that we will see moves, particularly from private equity buyers, for currently cheap assets that could gain from a longer term upward gas price trend.”

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:

**Brazil** – a government move to reduce energy prices to industry and consumers has hit the market capitalisations of power companies hard. But this is unlikely to deter investor focus on the long-term growth fundamentals. Indeed, it may provide a spur to M&A by reducing target prices and also encouraging long-overdue domestic sector consolidation.

**Turkey –** inbound interest in Turkey will remain strong. This year has begun with news of major Middle Eastern investment in the Turkish power sector from the Abu Dhabi National Energy Company (Taqa). This follows hard on E.ON’s announcement of a €1.5bn joint venture with Turkish company Enerjisa, highlighting the country’s power sector growth attractiveness.

**Significant renewables deal flow** – there is potential for an unprecedented flow of deals for onshore wind generation assets in Europe with an estimated potential total sales value of US$4–5bn coming onto the deal table in the last few months. In the Asia Pacific region, the report highlights strong wind project deal flow in Australia in 2013, with interest high from Chinese and Japanese investors as well as Australian pension funds.

**Major realignment among power equipment companies** - the changing landscape in both fossil fuel generation and nuclear power is leading to major realignments among power equipment companies. Already, Hitachi and Mitsubishi Heavy Industries have announced the combination of their thermal businesses. Toshiba has announced its intention to sell part of its Westinghouse nuclear business.

**A coming privatisation wave** – power sector privatisations are scheduled in Australia, New Zealand, Mexico, Nigeria, Turkey and across parts of Central and Eastern Europe. While there is political uncertainty surrounding some of these, privatisations are set to contribute significantly to deal value in 2013.

**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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