

Expert insights: energy transition's long-term influence on M&A



In the ever-evolving world of energy transition, Italy stands at the forefront. The Italian M&A market, known for its attractive prospects in the renewable sector, is experiencing a significant shift, with investors keeping a watchful eye on regulatory changes and energy market dynamics.

In this interview adapted from a recent talk, Marino Marchi, managing director in Italy and co-head of Clairfield's energy, cleantech & resources group, explains the intricacies of Italy's energy transition and its impact on the M&A landscape.

What is the impact of the energy transition on M&A activities?

With the global shift towards cleaner and more sustainable energy sources driven by initiatives like the Paris Agreement, energy and natural resources companies are increasingly turning to acquisitions as a strategy to rebalance their carbon portfolios. This transition is reshaping the landscape of M&A.

The adoption of decarbonisation strategies will significantly influence our daily lives, industries, and economies. We will witness a gradual shift from conventional energy generation to renewable sources, including localised and community-based energy generation. Households will move from conventional cars to electric vehicles, from gas boilers to heat pumps and perhaps even biomass boilers.





Various industries are actively participating in this transformation, recognising the importance of economies of scale in driving these changes. Consequently, consolidation and M&A deals are expected to play a pivotal role in facilitating this energy transition.

What do M&A advisors need to know about the energy transition?

M&A advisors operating in the energy sector require comprehensive industry expertise and the ability to swiftly adapt to evolving trends. The dynamic nature of energy transition means that these changes impact stakeholders at all levels.

Two key drivers underpin these changes: firstly, evolving regulation and legislation at local, national, and global levels; and secondly, accelerated technological advancements driven by government policies and industry innovation. While these transitions can introduce disruptions to various industries, they also generate new trends and heightened demand for certain products. Challenges are inevitable, but opportunities abound.

Therefore, an M&A advisor must be fluent in the language of sector companies and entrepreneurs. They must read the underlying elements driving the change in energy transition to effectively position their clients in this dynamic and competitive M&A environment.

	TREND	DRIVER	M&A OPPORTUNITY
 <p>1</p>	Consolidation in the wind and photovoltaic sector	<ul style="list-style-type: none"> Legal and regulatory context in support of the 2030 targets Trend of electricity prices Trend of CO₂ costs 	<ul style="list-style-type: none"> Greenfield PV portfolio (more opportunities with respect to brownfield) Greater presence of industrial operators for sector consolidation
 <p>2</p>	Growth of the biogas/biomethane sector	<ul style="list-style-type: none"> Regulatory context 	<ul style="list-style-type: none"> Greenfield portfolio (in particular, plants with construction times in line with the obtainment of incentives)
 <p>3</p>	Consolidation of the end-of-waste sector	<ul style="list-style-type: none"> Increased consumer focus on the importance of end-of-waste. Increased industry awareness on the importance of sourcing recycled materials Treatment of residual urban waste driven by regulatory context ESG compliant 	<ul style="list-style-type: none"> Mergers and acquisitions to consolidate market share and maximise economies of scale
 <p>4</p>	Digitalisation	<ul style="list-style-type: none"> Separation of infrastructure and value consolidation (de-layering) Deployment of digital infrastructure in Italy to fill the connectivity gap 	<ul style="list-style-type: none"> Consolidation of operators Partnerships and sharing of investments

What are the major trends in energy, and what does the future hold?

We've identified key trends in the energy transformation industry, each presenting its own set of opportunities and challenges:

- Consolidation in wind and photovoltaic sectors:** The wind and photovoltaic sectors have witnessed consolidation, with utility companies and large independent power producers (IPPs) progressively expanding their market share and expanding into the integrated energy chain.
- Biogas biomethane growth:** The biogas biomethane sector is experiencing growth, driven by stringent waste treatment requirements, particularly for urban waste, which can be utilised by large-scale plants.
- ESG-driven end-of-waste sector:** The adoption of ESG policies is leading to the consolidation of the end-of-waste sector. Large corporations are embracing these policies to manage and leverage their waste, incorporating recycled materials into their products, with the aim of transforming waste into a valuable resource.
- Digitalisation of energy and infrastructure:** Digitalisation is a pervasive trend, transforming all industries. The use of technology, intelligent devices, and digital systems will optimise energy production, reduce waste, facilitate energy storage, and enhance efficiency at various scales, from large infrastructure to smaller systems.

The European Commission is preparing an action plan on digitalising the energy sector. The plan aims to foster an efficient, competitive market for digital energy infrastructure and services, ensuring they are both cyber-secure and sustainable.

How do startups and medium-sized companies position themselves for success in the energy transition sector and can you provide an example of a success story?

Energy transition is an attractive area ideal for growth and investment. It is an in-demand sector primed for start-ups, particularly innovative and intelligent technological companies, looking for venture capital to accelerate their testing phases and rapidly grow. Pioneering advancements in battery technology have the potential to be true game-changers. Companies transforming the energy storage battery sector by offering alternatives to traditional, rare-metal-dependent batteries stand to gain substantial growth opportunities. However, it's essential to note that medium-sized companies may require strategic support to navigate and thrive in an environment where economies of scale favour larger utilities and energy corporations as potential frontrunners.

To illustrate with a concrete example, consider Energy Dome, a company that has transitioned from a startup to one of the main players in the storage business. Interestingly, Energy Dome employs a unique closed thermodynamic process that uses CO₂. The company thus delivers cost-effective electricity storage devoid of both emissions and the reliance on rare metals.

What type of deals stand out in this sector, and why?

Significant transactions in existing projects (brownfield) are relatively scarce, while there's a multitude of smaller to medium-sized deals in new, undeveloped projects (greenfield). For instance, in the Italian market, Falck Renewables, a publicly traded independent power producer primarily focused on renewable energy in Italy and abroad, was recently acquired by an infrastructure fund in a substantial deal worth EUR 1.5 billion.

At Clairfield, we are advising several developers on the sale of PV-authorized projects. The projects entail large-scale photovoltaic systems designed to supply power to the national electricity grid at a utility level. Notably, the trend in the sale of projects, rather than already operational assets, emerged approximately a year ago. During this time, we have observed distinct patterns in embedded prices, often represented by the metric EV/MW authorized. These pricing trends guide our clients' decisions on whether to dispose of a project at the "ready-to-build" phase or be involved in the construction of the plant itself and sell it at a later stage. It's noteworthy that M&A prices clearly correlate to the level of availability of projects in the M&A market. This correlation demonstrates a crowded, competitive arena on the buy side.

What has been happening in M&A in the Italian market?

The Italian M&A landscape is undergoing significant changes. While it remains an appealing arena for new opportunities in renewable energy, investors are closely monitoring the evolving regulations concerning potential incentives.

Of particular concern to investors is the volatility of energy prices, which intensified following the Russian invasion of Ukraine. A clear and stable vision for the sector's development is crucial to sustain a healthy M&A environment.

The Italian government has to be particularly careful in crafting future energy policies. Incentivising investments in utility-scale energy storage could mitigate volatility in the energy market and prevent scenarios like the significant price disparities witnessed in Spain, where energy prices varied dramatically between peak and off-peak hours.

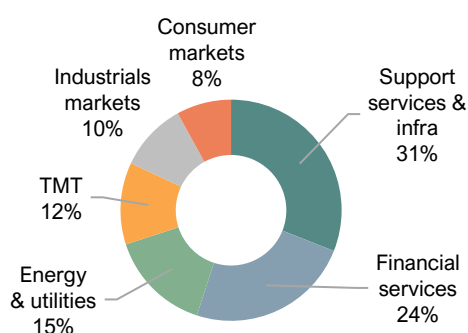
However, M&A will always be affected by exogenous events beyond the control of individual governments. The potential impact of recent Middle East crises on gas prices and their ripple effects on other nations remains uncertain.

How does the Italian market reflect what is going on globally?

The Italian energy market is closely tied to gas prices, given the substantial reliance on thermoelectric generation within the Italian energy mix. Consequently, when the Ukraine/Russian crisis escalated, Snam, the Italian gas Transmission System Operator (TSO), took measures such as acquiring Floating Storage and Regasification Units (FSRUs) to swiftly secure its gas supply. Additionally, the behaviour of public administrations shifted towards expediting the growth of renewable installed capacity within the country.

It's evident that global events exert a direct influence on all nations, especially in Europe, which is at the forefront of regulations to support the energy transition and support. ■

FOCUS ON ITALIAN M&A ACTIVITY



Infra-related activities
(support services & infra, energy & utilities, TMT)
equal to approx. **58%** of total

Source: Mergermarket

TOP 10 M&A ITALIAN TRANSACTIONS IN 2022

Sector	Target	Bidder
Support serv. & infra	Atlantia	Schema Alfa
Financial services	PartnerRe	Covea
Support serv. & infra	ASPI	Holding Reti Autostradali
Financial services	Sace	MEF
TMT	CK Hutchinson	Cellnex Telecom
Industrial markets	Wellbit	Ali Holding
Energy & utilities	Falck Renewables	Green Bidco
Energy & utilities	Enel Transm. Chile	Sociedad Trans. Metro.
TMT	Daphne 3	Ardian & other inv.
Energy & utilities	ERG Hydro	Enel Produzione

Recent energy transactions closed by Clairfield

<p>Alternative energy producers </p> <p>ROYALTON PARTNERS sold ENERGY POWER GROUP to DALU S.R.O. <small>JEDINE CESTOU BUDOVANOSTI</small></p>	<p>Alternative energy producers </p> <p>ennatuurlijk acquired ecw</p>	<p>Alternative energy producers </p> <p>INNAX <small>Energizing the Future</small> acquired Technion <small>adviseurs</small></p>	<p>Alternative energy producers </p> <p>MIJNWATER was sold to Limburgs Energie Fonds</p>	<p>Alternative energy technology & equipment </p> <p>nImab. was sold to 5ofive group backed by ENGIE J.P.Morgan <small>ASSET MANAGEMENT</small></p>
<p>Alternative energy technology & equipment </p> <p>Sirti a company backed by PILLARSTONE and KKR sold Sirti E/ERGIA to MUTARES</p>	<p>Alternative energy technology & equipment </p> <p>FASTNED acquired MisterGreen <small>FAST CHARGING NETWORK</small></p>	<p>Alternative energy technology & equipment </p> <p>FRI-ELGREENPOWER <small>THE CLEAN ENERGY COMPANY</small> acquired ALERIONCLEANPOWER <small>RENEWABLE ENERGY COMPANY</small></p>	<p>Alternative energy technology & equipment </p> <p>RENERWASTE was sold to snam</p>	<p>Energy distribution </p> <p>OK acquired elektron <small>Tættere på dig</small></p>
<p>Energy distribution </p> <p>vega sold its company branch LEVANTE to AMEGAS a company of the group EnerGas</p>	<p>Energy distribution </p> <p>BBOXX raised US\$50 million from Mitsubishi Corporation & several investors</p>	<p>Energy services </p> <p>greene[®] was sold to VENI Energia</p>	<p>Energy services </p> <p>EALYZE <small>EkWh m²</small> was sold to NPM CAPITAL</p>	<p>Recycling & waste </p> <p>NISSHA Private placement PaperFoam[®]</p>
<p>Recycling & waste </p> <p>AERIN NOVA <small>POWERED BY VHB</small> NR <small>POWERED BY VHB</small> acquired RockSolid <small>FROM WASTE TO VALUE</small></p>	<p>Recycling & waste </p> <p>General Industries 1.08 Capital raise TERTIUM</p>	<p>Recycling & waste </p> <p>GARNIER & FILS RECYCLAGE was sold to PAPREC</p>	<p>Recycling & waste </p> <p>KARGRO <small>Group</small> MBO</p>	<p>Water & water technology </p> <p>concept acquired D&R Tarpaulins</p>

Clairfield energy, cleantech & resources practice heads

Marino Marchi
mmarchi@clairfield.com
+ 39 334 699 4804

David Hassum
dhassum@clairfield.com
+617 3218 9100

© Clairfield International S.A. October 2023. All rights reserved. DISCLAIMER: The information herein has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy or completeness. While we endeavour to update on a reasonable basis the information presented in this report, there may be regulatory, compliance or other reasons that prevent us from doing so. Much of the information contained in this report is subject to variation due to changes in market conditions, legislation or regulatory matters and Clairfield International does not undertake to notify any recipient of the report of changes to the information contained herein. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. Contact: Press office, Clairfield International, Tel: +41 22 518 0242, press@clairfield.com