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

Recap of 2022 and what to expect in 2023

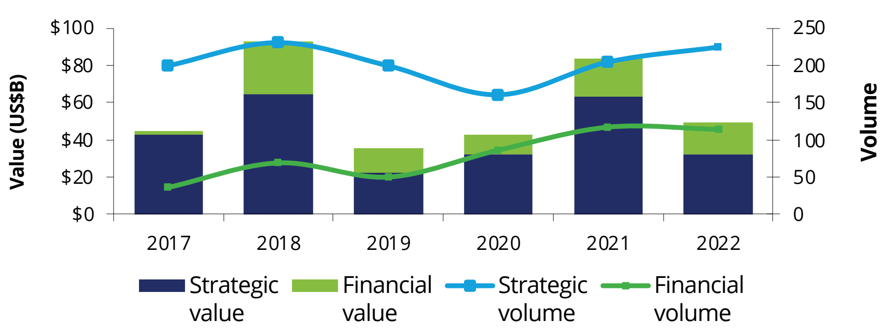
Recent trends and current macro environment

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 $32.3 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



Source: Data from Refinitiv with analysis from Deloitte | US Deals only

2023 outlook

Despite macroeconomic headwinds with a high interest rate environment and the potential for a recession in the coming months, we expect deal activity in the power and utilities sector to accelerate in 2023 due to the ongoing favorable regulatory environment and protection of US energy interests in the face of ongoing geopolitical instability in Eastern Europe and Russia.

We expect that much of the undeployed capital from 2022 associated with uncertain political perspective will now be invested, as the sector encounters a legislative agenda favoring the energy transition. Of the five key trends highlighted in our 2023 power and utilities industry outlook (refer to "Expected impact" table), three are expected to be drivers of M&A activity and two are expected to drive restructuring activity.

Decarbonization and grid modernization will be significantly supported by the two federal funding packages (the $1.2 trillion Infrastructure Investment and Jobs Act and the Inflation Reduction Act).

With troubled waters turned into favorable tides, companies entertaining M&A activity in 2023 should be careful and strategic with their investments. Executives should start preparing early, especially considering lenders are currently treading cautiously. Deals with clear accretive and strategic value should be sought, with proactive commercial, financial and environmental, social, and governance (ESG) diligence, to maximize financial returns.

Expected impact

Trend	Impact
Decarbonized fuels	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
ESG reporting	Increase in deals aligned to publicly stated ESG goals; ESG diligence (buy side and sell side) will be critical for these transactions
Grid flexibility	Increased volume of smaller asset deals and / or private equity activity related to integrating distributed energy (both generation and storage)
Transportation electrification	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&A
Grid modernization	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&A, to accommodate new technologies

Legend: Increases M&A activity Increases restructuring activity

Want to learn more?

Reach out to our contacts below

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