WARWICK M&A GROUP

Energy

Sector Report



Oct 2022
Issue #7

Chevron's acquisition of REG

BP's acquisition of Archaea Energy

Accelerating energy transition boosts M&A

Ample capital coupled with the accelerating energy transition set to boost M&A activity...

November in numbers

$11.9bn	34	$400mm
Total deal value (Nov 2022)	No of deals closed	Average deal value
-51.2% (YoY)	*-64.9% (YoY)*	*33.3% (YoY)*

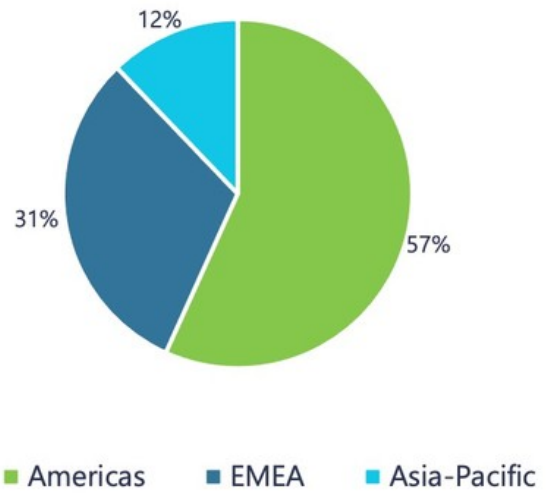
Average TEV/Revenue:	16.57x	**Average Day Prior Premium:**	54.03%
Average TEV/EBITDA:	39.51x	**Average Week Prior Premium:**	47.14%
Average TEV/EBITDA:	39.51x	**Average Month Prior Premium:**	32.32%



Sectoral insight

- Deal activity in the sector has been **lower in terms of deals and value** this year and so far this month; this is unsurprising given the **uncertainty** caused by inflation, interest rates, variable commodity prices and geopolitical unrest.
- However, activity is expected to **increase in the near to medium term** given the ample **supply of capital** and an increasing desire for **supply chain security**.
- The **acceleration of the energy transition** is also anticipated to boost M&A activity. Oil and gas majors have been using their rising profits to invest in renewable, clean energy sources. Private equity firms are also increasing investment in renewable companies – investment has grown by **144% to $11.92bn** in the first half of the year alone.

Deal count by region



Chevron's acquisition of REG...

Acquirer: Chevron Corporation

Chevron Corporation (NYSE: CVX) is an American multinational energy corporation and the second largest oil company based in the US.

The company operates throughout the value chain, from upstream exploration through to downstream manufacturing and retail.

There has been an increasing focus on new, less carbon-intensive energies, with $10bn allocated to investment in this area through 2028.

Market Cap:	$360.5bn
Net Debt:	$8.2bn
LTM Revenue:	$227.1bn
EV/ LTM EBITDA	6.04x

Target: Renewable Energy Group

Renewable Energy Group (NASDAQ: REGI) is a global producer and supplier of bio-based diesel.

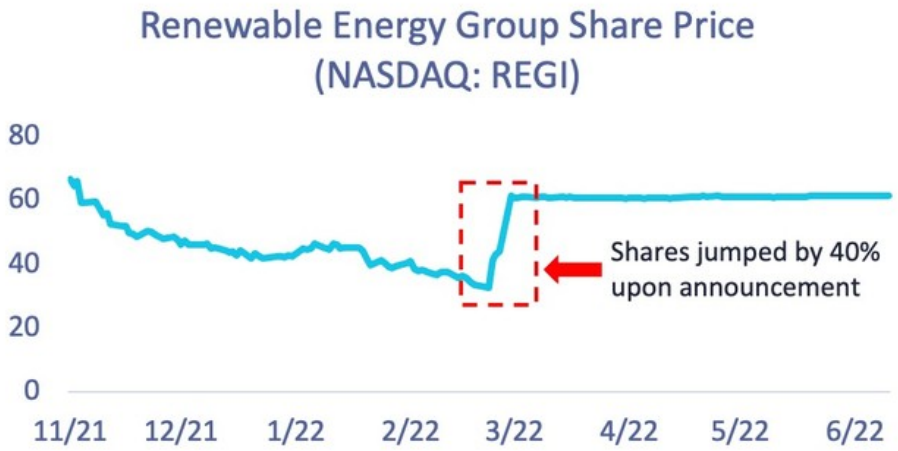
Its comparative advantage lies in helping companies meet their greenhouse gas and carbon reduction objectives.

Key partnerships include Manchester United, Iowa State University and GoodFuels.

Market Cap:	$3.1bn
Net Debt:	($0.1)bn
LTM Revenue:	$2.2bn
EV/ LTM EBITDA	8.94x

Transaction Summary

- On February 28th 2022, Chevron announced it would acquire REG for $3.15bn in an all-cash transaction. This represents $61.50 per share.
- The transaction price represents a 57% premium on the 30-day average based on the closing stock price on February 25th.
- Upon announcement, REG's share price increased by 40%.



Announcement date:	28th February 2022
Offer per share:	$61.50
Transaction value:	$3.15bn
Implied Premium:	57%
Acquirer adviser(s):	Goldman Sachs
Target adviser(s):	Guggenheim Securities

Chevron to benefit from increased production...

Rationale

- The deal will benefit Chevron's energy transition and help them reach the target of growing their renewable fuel capacity to 100,000 barrels per day

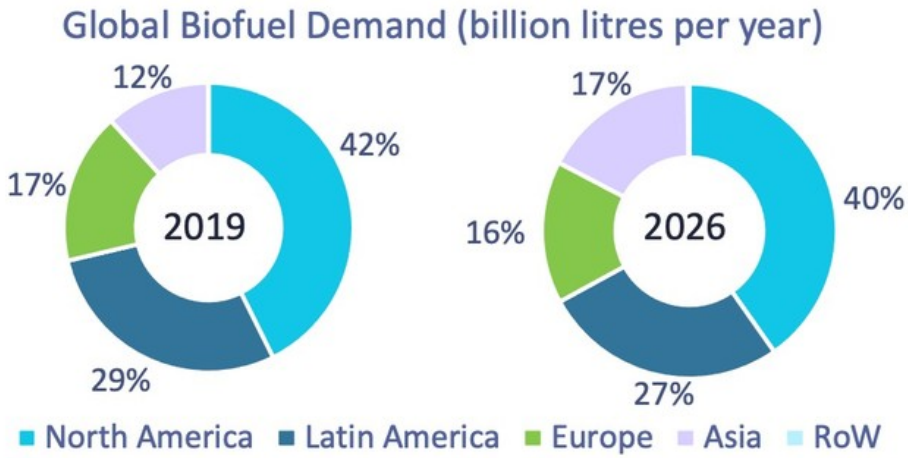
Adding Scale		
	Feedstock	>50 MBD
	Pretreatment	c. 45 MBD
	Biodiesel	c. 30 MBD
	Renewable diesel	>20 MBD

- The transaction is also set to strengthen Chevron's value chain
- REG will enable Chevron to source reliable, cost competitive feedstock, as well as providing a portfolio of biodiesel plants and a renewable diesel facility
- Chevron completes the value chain with its strong brand and infrastructure

Outlook

✗ REG is an American company, however Asia is the fastest growing area for biofuel demand in the upcoming years.

✗ Asia's share of global demand is expected to increase by 5 percentage points from 2019 – 2026, with the US decreasing by 2 percentage points.



✓ However, the US is promoting the use of biofuels through mandates and incentives.

✓ Current law sets a target of producing and using 36 billion gallons in 2022, with the Inflation Reduction Act including $500m for the development of biofuel infrastructure.

BP's acquisition of Archaea Energy...

Acquirer: bp plc.

bp plc. (LSE: BP) is a British multinational oil and gas company. It is one of the oil supermajors and operates across the value chain, from upstream to downstream activities.

bp set a goal to be net zero by 2050 and has recently raised its ambitions, aiming to reduce operational emissions by 50% by 2030 as opposed to the previous 30-35%.

Bioenergy is set to be key in this transition, with the goal to generate total earnings of $9-10bn by 2030.

Market Cap:	$84.9bn
Net Debt:	$21.1bn
LTM Revenue:	$220.9bn
EV/ LTM EBITDA	3.34x

Target: Archaea Energy Inc.

Archaea Energy Inc. (NYSE: LFG) is a leading renewable natural gas (RNG) producer in the US.

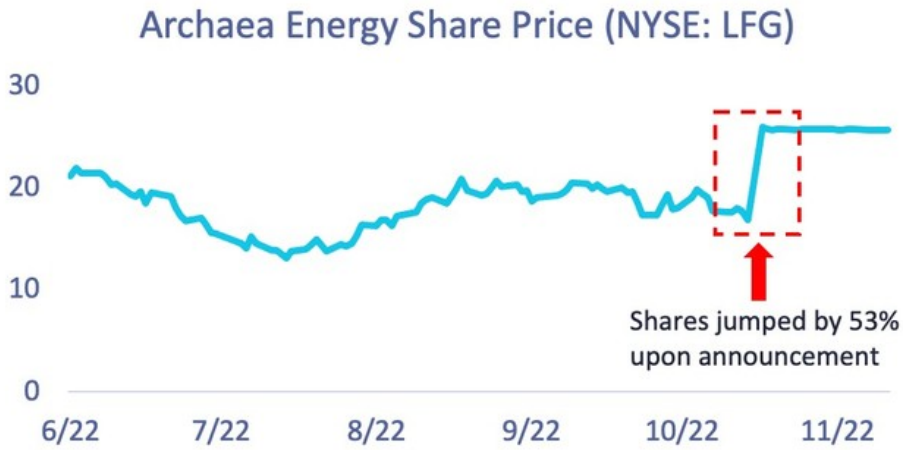
The company operates 50 RNG and landfill gas-to-energy facilities, producing c. 6000 boe/d of RNG.

It currently has a pipeline of >80 projects, providing the potential for a five-fold increase in RNG production by 2030.

Market Cap:	$2.1bn
Net Debt:	$0.6bn
LTM Revenue:	$0.3bn
EV/ LTM EBITDA	180.3x

Transaction Summary

- On 14th October 2022, bp announced that it agreed to acquire Archaea Energy Inc. for $4.1bn in cash.
- bp will pay $26 per share, a 38% premium to the average share price in the last 30 days to 14th October.
- Archaea's share price jumped more than 50% after the acquisition announcement.



Announcement date:	14th October 2022
Offer per share:	$26.00
Transaction value:	$4.1bn
Implied Premium:	38%
Acquirer adviser(s):	Bank of America
Target adviser(s):	Kirkland & Ellis

The acquisition will expand bp's bioenergy business...

Rationale

The acquisition will enable bp to continue its bioenergy growth strategy in the US, UK and Germany.

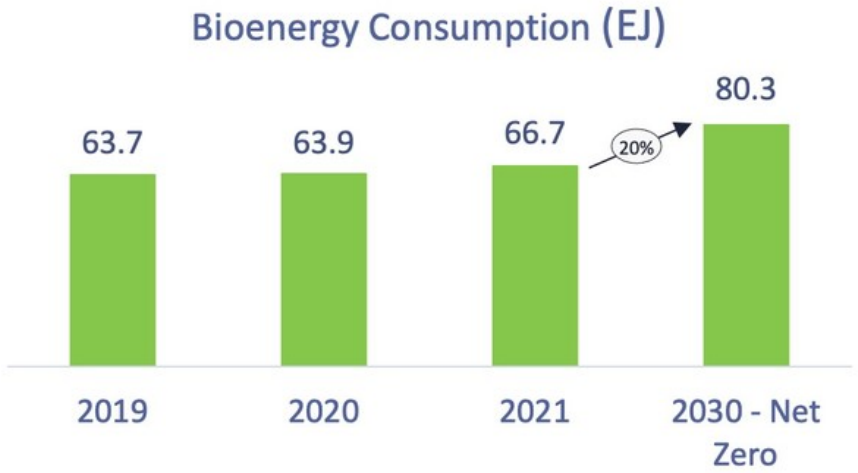
EBITDA is expected to double to c. $2bn by 2030. This helps bp's aim for the EBITDA from energy transition businesses to be >$10bn in 2030.

Biogas growth will enable bp's goal to reduce the carbon intensity of its products.

bp will acquire 50 RGN and landfill gas-to-energy facilities and a pipeline of >80 projects. This enables bp to increase its production to 70,000 boe/d by 2030.

Outlook

- ✓ Global bioenergy consumption is set to increase by 20% from 2021-2030 in the Net Zero scenario.
- ✓ This provides many opportunities for long-term growth and profits, especially given the rising concern surrounding energy independence.



- ✓ The deal is expected to be accretive in both earnings and cashflow per share and to deliver double digit returns
- ✗ The deal is still subject to shareholder and regulatory approval.

This month's deals still in the pipeline

November 9th, 2022 **$11.8bn**

Brookfield **EIG**

Have made a non-binding privatisation proposal to acquire:

origin

Stage of the deal: ○○○○○ **Chances of success:** Medium

Comment: Origin Energy is an Australian LNG developer and energy company, with 4.2m residential customers.

The company would be broken into two; EIG's MidOcean would take over the gas operations, while Brookfield would acquire the retail and energy supply businesses.

Brookfield and EIG see this as a way to gain access to the opportunities that Australia's energy transition presents.

November 4th, 2022 **$0.5bn**

KKR

Made a friendly tender offer to acquire 100% of:

ALBIOMA

Stage of the deal: ○●○○○ **Chances of success:** High

Comment: Albioma is a French renewable energy producer, with over 1GW of installed capacity worldwide.

The company aims to end its coal use by 2025 by converting coal fired power plants into residual biomass power plants and generate 100% of its energy from renewables by 2030.

This will help KKR achieve its commitment to accelerating the energy transition.

September 29th, 2022 **$6.6bn**

Capricorn

Proposes plans to merge with:

NEWMEDENERGY

Stage of the deal: ○○●○○ **Chances of success:** Low

Comment: The deal values Capricorn shares at 271p, a 13% premium to their last closing price before announcement, with a $620m special dividend for shareholders.

It would create an Egypt-Israel focused gas producer at a time when Europe is looking for non-Russian energy.

However, Capricorn shareholders argue the deal undervalues the company and believe this is not the way to maximise shareholder value and minimise environmental risks.

September 22nd, 2022 **$1.1bn**

TALOS ENERGY

To acquire Gulf of Mexico oil producer:

enven ENERGY CORPORATION

Stage of the deal: ○○●○○ **Chances of success:** High

Comment: The deal will add 24,000 boe/d of production for Talos, 80% of which is oil. This boosts their existing output by 40%.

It also adds circa $170m of free cashflow, providing more optionality to allocate capital according to CEO, Tim Duncan.

The transaction is expected to generate $30m in annual synergies, primarily consisting of general and administrative cost reductions.

Glossary

LNG: Liquified natural gas

boe/d: Barrels of oil equivalent per day

GHG: Greenhouse gas

Synergies: The concept that the combined value and performance of two companies is greater than the sum of the separate companies

The Team



Hannah Rayner



Michelle Chew



Jordan Kwek



Alice Palumbo