ASA Ventures Group

M&A Update June 2020

Energy

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Summary

Energy Prices Projected to Recover in Second Half of 2020, Followed by a Major Recovery in Demand in 2021

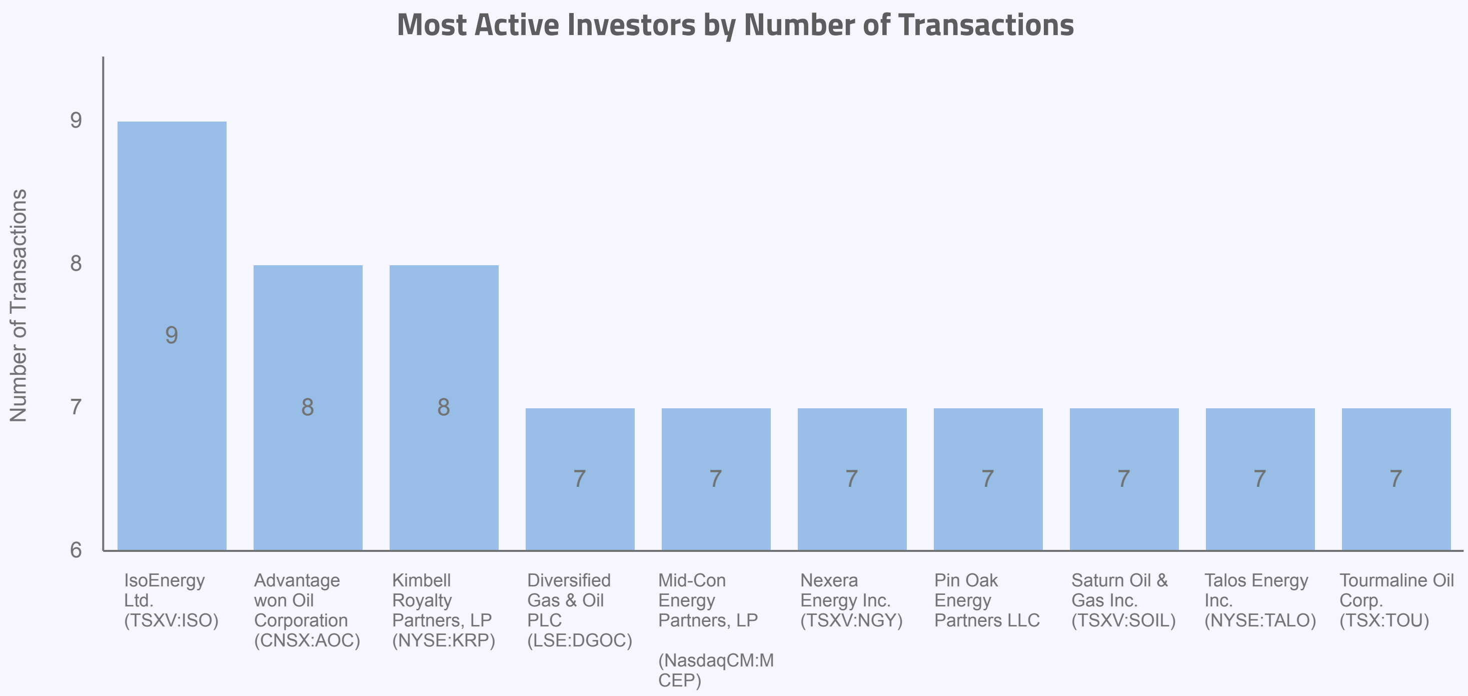
Renewable Energy Continues to Prosper, But Not Fast Enough to Offset Population and Economic Growth

According to the International Energy Agency, global oil output is expected to increase for the next ten years, however by 2030, that demand is expected to flatten. This is in part because of the transition to electric vehicles and rising fuel efficiency. Renewable energy is primed to enter a new phase of growth in the coming years, driven by declining costs, increased demand, and new levels of innovation.

Energy Prices Expected to Rebound After Dismal Start to 2020

With strict social distancing guidelines and businesses closing their doors, demand for all types of energy fell sharply with the emergence of COVID-19. Finished products and petroleum had to be held in inventory, and many energy producers had to cease or slow production. With the easing of government regulations in the coming months, prices of liquid fuels, natural gas, coal, and renewable sources, are all expected to rebound moderately by the end of 2020.

TOTAL TRANSACTIONS BY COMPANY: 2017-2020



Uranium on Top

IsoEnergy, a uranium drilling company based in Canada, has been the most active investor in the energy M&A market in the last three years. Most of their activity comes from acquiring property in the Eastern Athabasca Basin, where they conduct the majority of their uranium exploitation.

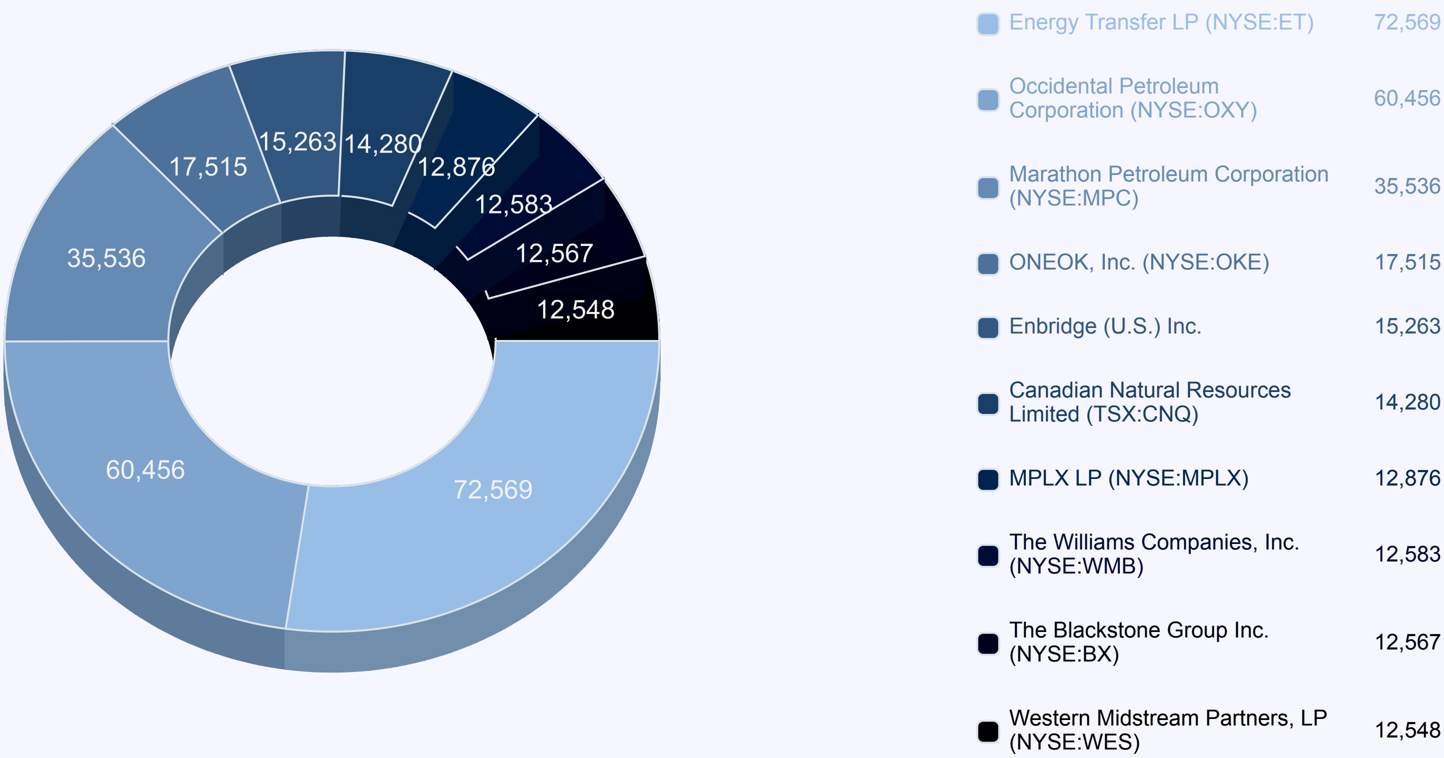
Property Rights Driving M&A Volume

The highest volume of M&A activity in the energy sector comes from the acquisition of key assets. Oil and natural gas companies are acquiring hundreds of acres of property, mineral rights, and mining wells to support their operations. There is a large volume of these transactions because these companies must acquire the land from individual sellers.

TOTAL TRANSACTION VALUE BY COMPANY: 2017-2020

Most Active Investors by Transaction Size

Values in Millions ($)



More Reason To Consolidate

With a new ruling from the U.S. Federal Energy Regulatory Commission that eliminated income tax allowances for master limited partnerships, many pipeline operators looked toward consolidation of their pipeline assets. Energy Transfer LP and Enbridge Inc. are two of the major energy companies that have turned to consolidation following this ruling.

Oil and Gas Still Lead Energy Market

In the past three years, nine of the ten largest transactions in the energy sector have been from from oil and natural gas companies. This indicates that there is still an enormous demand for oil and natural gas in the global market, even though renewable energy has developed as a rapidly growing industry.

Impacts of COVID-19

All Sectors Have Been Set Back, However Most Will Recover

Renewable Energy Sources are Overtaking Coal in The U.S. Power Sector

Disruption to U.S. businesses cut into the demand for commercial electricity when the pandemic hit. For nearly 150 years, the United States predominately relied on coal fired power plants to generate electricity. However, with the growing investments in renewable energy sources and storage, many businesses are moving towards renewable energy. These sources are often cheaper than coal, and have a positive impact on the environment. This trend has been seen for years that coal would be overtaken by renewables, but COVID-19 has accelerated that timeline.

What The Coming Years Will Look Like

The Energy Information Administration (EIA) expects that declining oil inventories will put upward pressure on oil prices, pushing them from $32/barrel in the second quarter of 2020 all the way to $48/barrel in 2021. They also predict that natural gas prices will average $2.14/MMBtu in 2020 and then increase in 2021, reaching an annual average of $2.89/MMBtu. These prices are nearing their previous marks before COVID-19 hit, and will generally trend upwards until the prices stabilize.

Environmental Impact

The declining demand for fossil fuels is also causing a record decline in carbon dioxide emissions. Cities around the world are seeing cleared skies and cleaner waterways, serving as a reminder of our daily environmental impact. This could influence future policy, as more employers may give people the option to work from home some days and attend conferences remotely, cutting into emissions caused by travel.

Valuations

Nearly $600 Billion of M&A Deals Closed: 2017-2020

Valuation Multiples Growing

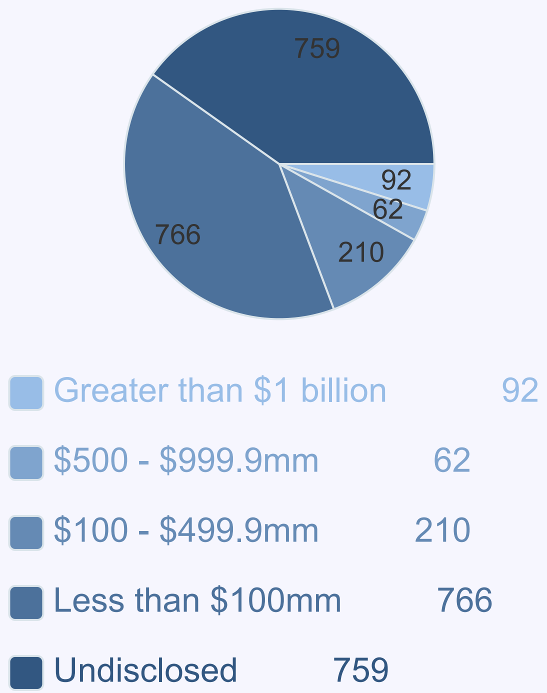
Valuations of private lower middle market companies have been rising in the energy sector. The average Total Enterprise Value (TEV)/EBITDA reached over 6x and the average TEV/Revenue nearly reached 3x. These appealing valuation levels have contributed to an increasing number of transaction over the past three years. These multiples may shrink with the uncertainty of the pandemic, however, with time they are expected to rebound as demand normalizes in 2021.

Average Deal Value (Millions of $)	210.33
Average TEV/Revenue	2.97
Average TEV/EBITDA	6.09

Nonrenewable Energy Has The Largest Value

Most of the transactions over one billion dollars have been from oil and gas companies, while a relatively higher volume of renewable energy companies have been under one hundred million dollars. This reveals how much capital is still invested into oil and gas companies, meaning that they will still be a predominant player in the market over the next decade.

Number of Deals by Transaction Range



Private Lower Middle Market Transactions

On June 19, 2018, a leading private equity firm, Genstar Capital, acquired Drilling Info Holdings for a reported $20 million. Drilling Info is a platform designed to provide energy companies with information and analytics that will help improve their energy value chain. They service over 3500 companies across the globe and help provide decision support insights for their exploration and production of oil and natural gas. This deal provides Drilling Info with the resources they need to expand and better serve their customers.

Conclusion

Oil Prices Will Stabilize

Although COVID-19 disproportionately impacted the energy sector, both the prices and the demand for all types of energy are trending upwards. By the end of 2021, the EIA expects these prices to return to more normal ranges.

Renewable Energy is On The Rise

Renewable energy has overtaken coal in electricity production in the United States. This trend has been seen for years, but the pandemic has accelerated this timeline. This is the first of many renewable energy sources that will surpass nonrenewable sources in the next decade.

Companies With Enough Financial Reserves Will Endure

Firms that are sitting on enough capital to weather the storm of COVID-19 will likely survive this economic downturn. Through reducing discretionary and capital spending, and restructuring weak links in supply chains, energy companies can ride out this pandemic without having to file for bankruptcy.

Senior Management Team

Jim Audette is a founding partner and President of ASA Ventures. He has broad experience in building high performance companies as a C-level executive and strategist. In addition, his experience includes M&A, debt and equity financings, and corporate restructurings, in a wide range of industries including technology, consumer products, promotional products, healthcare, manufacturing, energy and industrials.

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John Allen is a Managing Director, founding partner of ASA Ventures and is a CPA. He brings over 30 years of direct P&L and general management experience. His diverse background includes a unique combination of operations, financial and sales management, which has enabled him to lead companies to dramatic increases in revenue and profitability. He has served as President, General Manager, and Chief Financial Officer. He has an extensive sales background, has closed numerous transactions in the technology sector, as well as, integrating acquisitions.

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Bill Schloth is a Managing Director and founding partner of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including renewable energy, cloud computing, data analysis, construction and manufacturing. These transactions have ranged in enterprise value from $5 million to $200 million. His focus has always been on exceeding client expectations through detail-oriented due diligence, transparency and thorough marketing efforts.

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ASA Ventures Group

Investment Banking for Private Companies: We Make a Market to Sell Your Company

Trusted Advisors

Trust is one of the most important assets your business has — the trust of your customers, your stakeholders and your partners. As the financial advisor to leading middle market companies worldwide, we know exactly how valuable that trust can be when it comes to navigating strategic and financial alternatives both at home and abroad. We've been providing clients with straightforward, insightful and candid advice for over 25 years. As a leading, mid-market, investment bank, we draw on our deep industry expertise, comprehensive financial advisory and capital markets capabilities, and extensive transaction experience to generate the highest exit value for our clients.

Why Us?

For 25 years our team has been dedicated to providing merger and acquisition representation for business owners who wish to sell their companies.

ASA clients are typically companies with EBITDA up to $25 million and enterprise values of $3 million to $250 million. ASA is focused on clients in the manufacturing, distribution, industrial, construction, technology and service sectors. Our emphasis is on industry leaders, niche markets, efficient operations and recurring revenue.