ASA Ventures Group

M&A Update June 2021-June 2022

Energy

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Summary

Energy Sector Stabilizes Despite Uncertainty in Early 2022

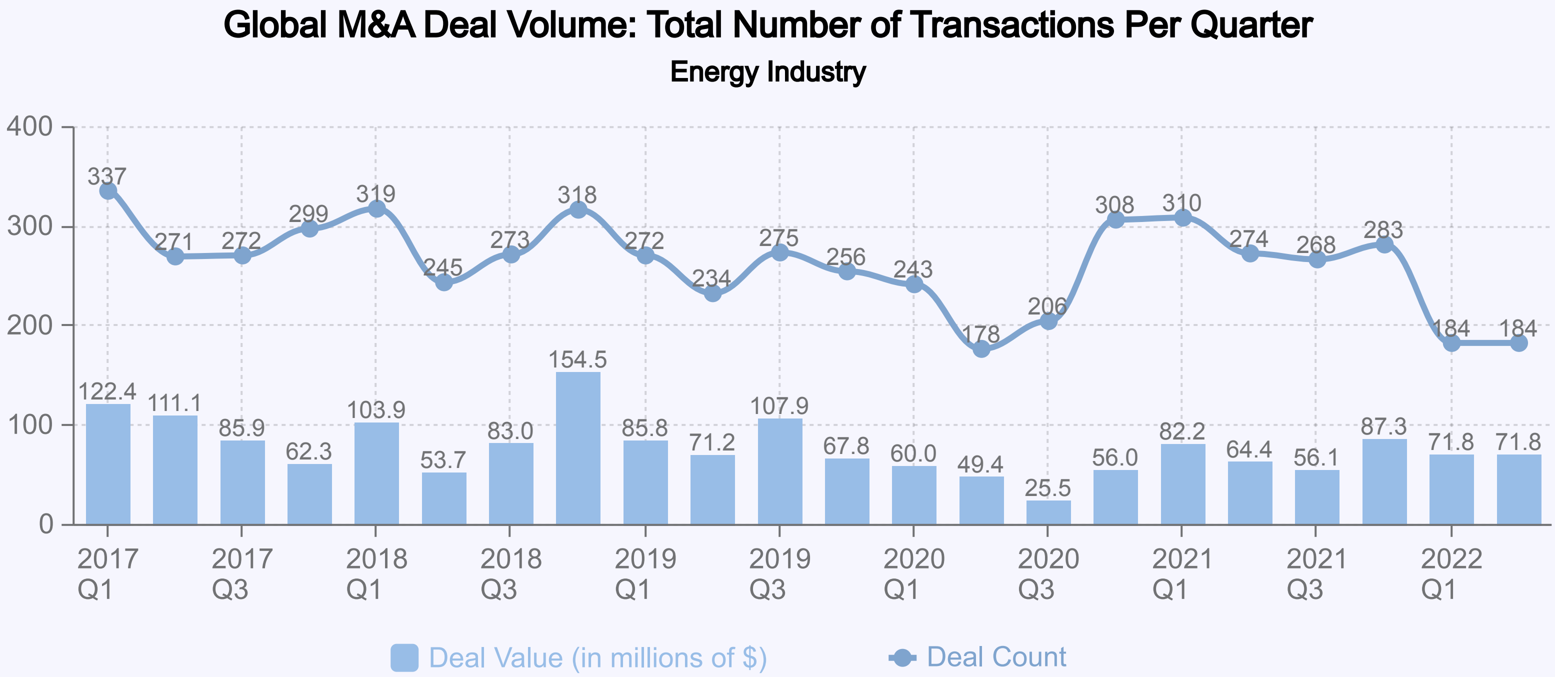
Oil and Gas Deals to Accelerate

Oil and gas has led the M&A space by a significant margin, and activity will likely only continue to accelerate in the second half of 2022. Buyers are gaining confidence in high commodity prices, and companies who turned away from the industry in previous years are now reassessing their strategies. Crude from Texas increased more than 60% this year, and prices for natural gas have more than doubled. Some investors responded to the higher prices by keeping hold of resources they might have otherwise sold. Since the increased prices are likely to continue, there is a growing interest in more traditional oil and gas production.

M&A Rebounds After Rough First Half

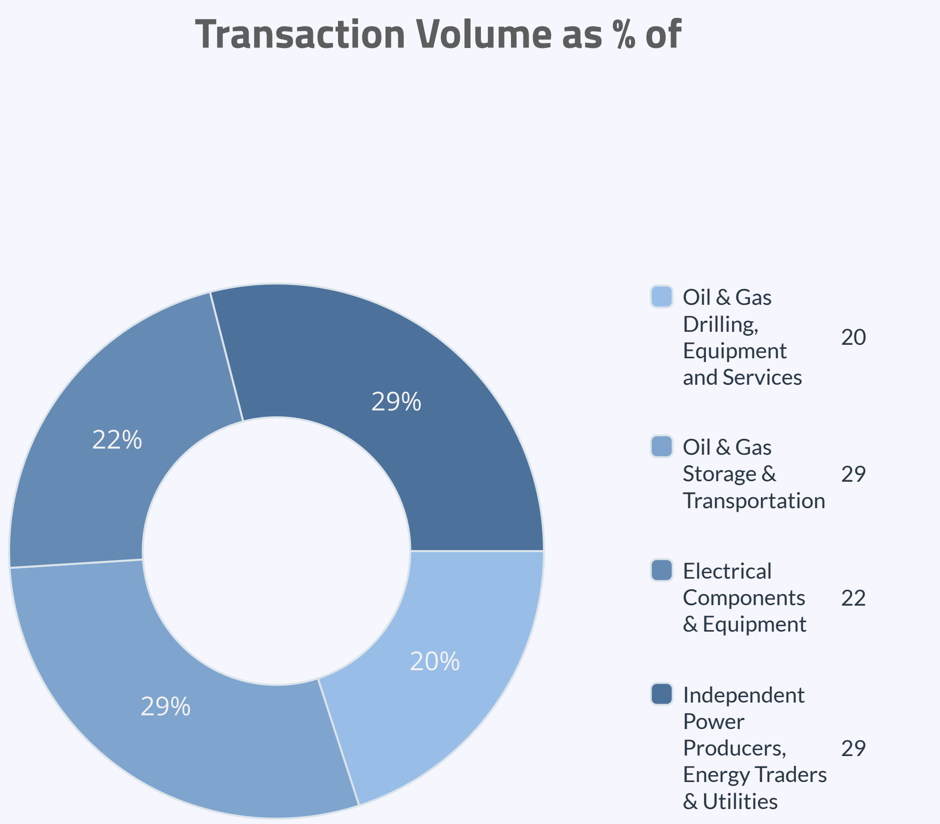
Concerns about geopolitical unrest, interest rates, and volatility in material prices slowed deal activity in the first half of 2022. However, deal activity throughout the year remained strong, with a reported 123 deals that were valued at $107 billion during the last 12 months. This is a positive increase compared to the 98 deals during the previous 12 month period. Most of the transactions from this year were upstream deals, a trend that will likely continue in the second half of the year the focus for the second half of 2022 is likely to shift to guaranteeing secure energy supplies, requiring more investment in traditional oil and gas production.

TOTAL TRANSACTIONS: 2021-2022



Public Company Valuations: Fossil Fuels

This year, oil and gas drilling accounted for 20% of transactions in the energy sector, and had the highest return with 67.9% increase. Oil and gas storage and transportation had the highest median revenue multiple with 4.5x. Oil and gas Equipment and services had the highest median EBITDA multiple with 16.3x.



TOTAL TRANSACTION VALUE BY COMPANY: 2021-2022

Upstream M&A Sector

Investors are remaining cautious about oil and gas, but as prices above $100 a barrel are likely to continue for much of 2022, a return to energy production may generate more activity. After a curb in transaction volumes this year, the market may be returning to a more traditional viewpoint in which higher material prices result in increased deal activity. Demand for liquid nitrogen gas (LNG) will likely rise, however, most U.S. LNG supplies are owned by joint ventures. As a result, acquisitions will be more difficult, so more investment deals rather than M&A transactions during the second half of the year are to be expected.

Downstream M&A Sector

High demand and soaring prices for diesel and gasoline have pushed up refining margins, and the industry continues to struggle with labor issues, a lack of storage for products, and general underinvestment. Although the downstream sector may attract some new investment in the short term, the outlook on long-term deals remains foggy. Large companies are less willing to make long-term commitments to new refinery assets given the prospect that demand will decline due to emerging electric, natural gas, and even hydrogen-powered vehicles.

Moving on From COVID-19

Strong Recovery for Some Sectors, Obstacles Continue for Others

Navigating Uncertainty

Like all sectors, the energy industry faces uncertainty from supply chain disruptions, inflationary pressures, and labor issues. Volatile and high commodity prices have caused global oil and gas deals to come to a pause, and has left the industry particularly vulnerable. If prices can stabilize at current or higher levels, we can expect a revival in M&A activity. Current value gaps, however, are widening due to inflationary pressures and rising interest rates, also causing difficulties for the power and utilities sector. Supply chain challenges impacting goals of net zero emissions have a chance of slowing the pace of M&A activity in renewables. Sustainable energy will continue to be a target for investors, and we can expect deal activity and capital investment to remain strong in traditional climate technologies.

Renewable Energy Grows

With oil and gas companies investing in renewables, and environmental, social, and corporate governance (ESG) becoming the center of attention for investors, the energy industry is becoming less linear, and businesses are beginning to rethink their long-term strategies. Many of these objectives are focused on transitioning energy from fossil fuels to renewable energy, and reducing carbon footprints, encouraged by net zero emissions goals of governments and organizations such as the International Energy Agency (IEA). The global Renewable Energy market is expected to reach $1,978 billion in 2030, and renewable energy is expected to account for 90% of the global capacity additions. M&A will serve as a valuable tool for companies to expand, adapt, and evolve to develop a sustainable future.

Valuations

Over $100 Billion of Disclosed Deal Value: June 2021-June 2022

Average Deal Value (Millions of $)	548.0
Average TEV/Revenue	1.1
Average TEV/EBITDA	6.1

Sector Trends

In the oil and gas sector, prices experienced significant growth in the first quarter of 2022, however, the US's crude oil production eased over the last quarter. As a result, large oil and gas firms proceeded with caution in Q1 2022, and companies were urged to prioritize shareholder returns. Wind-powered electricity production increased going into Q1 of 2022, while nuclear and coal production decreased. In fact, wind powered electricity because the second largest source of electricity for the U.S., causing many large corporations to come up with renewable energy-focused strategies in Q1 2022. The average retail price of electricity was 13.83 cents/kWh in Q1 of 2022, which was .48 cents/kWh higher than the average price in Q1 of 2021. Due to inflation, costly interest rates, and spiking commodity prices, utility bills all across North America saw an increase in the first quarter of 2022. As for the nuclear energy sector, the Biden administration budgeted $6 billion for the Energy Department to establish a Civil Nuclear Credit Program with a goal to preserve the existing U.S. nuclear reactor fleet. The program, which began in Q1 2022, is expected to reduce the share of nuclear power generation from 19% of total production in 2022 to 12% in 2050.

Trading Metrics

Oil and Gas

EV/LTM EBITDA

10.1

EV/LTM Revenue

1.9

Power & Utilities

EV/LTM EBITDA

14.4

EV/LTM Revenue

4.8

Renewable Energy

EV/LTM EBITDA

15.9

EV/LTM Revenue

3.6

Nuclear Energy

EV/LTM EBITDA

12.3

EV/LTM Revenue

2.6

Conclusion

M&A Investment Bounces Back

Though uncertainty about where the economy is headed slowed activity in the first half of 2022, M&A is now on the road to recovery. Strong returns from oil and gas companies have drawn new attention from investors. The second half of the year is likely to be focused on ensuring more stable energy supplies, which will call for higher investment in traditional oil and gas production.

Striving for a Sustainable Future

Renewable energy is set to accelerate in 2022, as concern for climate change and support for ESG considerations grow. As legislators push for cleaner energy sources, oil and gas companies will see a shift to cleaner and more efficient business practices.

Building Resiliency and Security

As the energy industry sees growing pressure to shift to more sustainable solutions, companies will continue to work to reduce their carbon emissions. The need to reduce carbon emissions will lead to more investment in natural gas infrastructure and carbon capture technology for many oil and gas companies. This transition is likely to drive more cross-sector deals for the rest of 2022, as companies are forces to rethink their long-term strategies.

Senior Management Team

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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 of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including home healthcare, healthcare technology, renewable energy, cloud computing, data analysis 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.

ASA Ventures Group

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

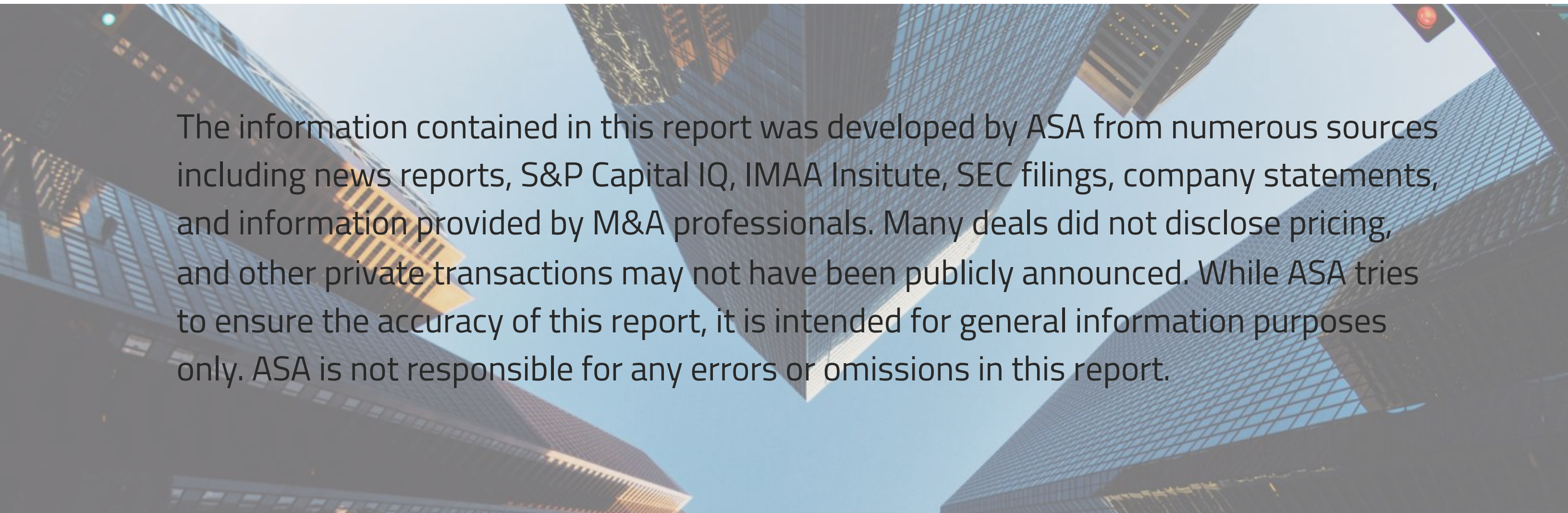
Trusted Advisors

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 home healthcare, healthcare, manufacturing, distribution, industrial, technology and service sectors. Our emphasis is on industry leaders, niche markets, efficient operations and recurring revenue.



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