

Energy sector trends



Impacts of the Saudi Arabia and Russia oil price war¹

In early March, Saudi Arabia and Russia failed to agree on an emergency plan to address the oil supply glut. Following the disagreement, Saudi Arabia commenced a hostile price war in an attempt to keep market share from Russia. As a result, oil prices are down more than 40 percent since March, prompting strong calls for a multinational coalition in oil production cuts. This action comes amid significant oil demand decline due to the COVID-19 worldwide pandemic.



Slowdown of energy demands due to COVID-19³

According to the US Energy Information Administration, US natural gas production and demand is expected to drop in 2020 and 2021 from record highs in 2019 as the government takes steps to slow the spread of COVID-19, cutting economic activity and energy prices. Amid travel restrictions and work stoppages, oil consumption is expected to fall by as much as 30 million barrels a day in April 2020.



Wind and solar energy holding strong through COVID-19²

While certain solar and wind installations have been delayed by the outbreak, industry executives and analysts expect renewables business to continue to grow in 2020 and 2021, even as oil, gas, and coal companies struggle financially. Renewable energy sources are on track to account for nearly 21 percent of US electricity this year, up from 18 percent last year, and up from 10 percent in 2010.



Coal industry continues decline⁴

Major bankruptcies continue to plague a declining coal industry facing major headwinds due to cheap natural gas and increasingly cost-competitive renewable energies. Prior to the COVID-19 outbreak, Moody's Investor Services expected coal production to fall 15-20 percent this year. Given the intensification of the pandemic, forecasts are expected to be much more drastic, as major coal miners announce halts to their operations amid the economic shutdown.

In the news

March 6, 2020— Virginia's state senate passed the Clean Economy Act by a 22-17 vote, clearing the way for the bill to be signed by Governor Ralph Northam, who issued an executive order for the bill last year. Virginia is now the latest state to pass a law that sets it on a path to 100 percent carbon-free electricity by 2045, as well as setting targets for massive investments in energy efficiency, energy storage, and in-state solar and wind power. To bolster the economics for this expansion, the law will bring Virginia into the regional greenhouse gas initiative, opening the market for renewables to earn money through the multistate carbon cap-and-trade markets.⁵

March 8, 2020— Saudi Arabia launched an oil price war with Russia, facilitating benchmark Brent crude oil futures to dive 30 percent overnight, the steepest drop since the Gulf War in 1991. The price war was triggered by a failure to reach an agreement between Russia and the Organization of the Petroleum Exporting Countries (OPEC) over proposed oil production cuts in the midst of falling demand due to the COVID-19 epidemic and associated economic shutdowns. On March 8, Saudi Arabia announced unexpected price discounts of \$6 to \$8 per barrel to countries worldwide, triggering the freefall. Since March, oil prices are down more than 40 percent.⁶

In this update

- Energy trends
- Economic outlook
- Industry analysis
- Select M&A transactions
- Appendix

This update will focus on news and trends in the following areas:

- Coal energy production
- Renewable energy
- Power and utilities

Who we are

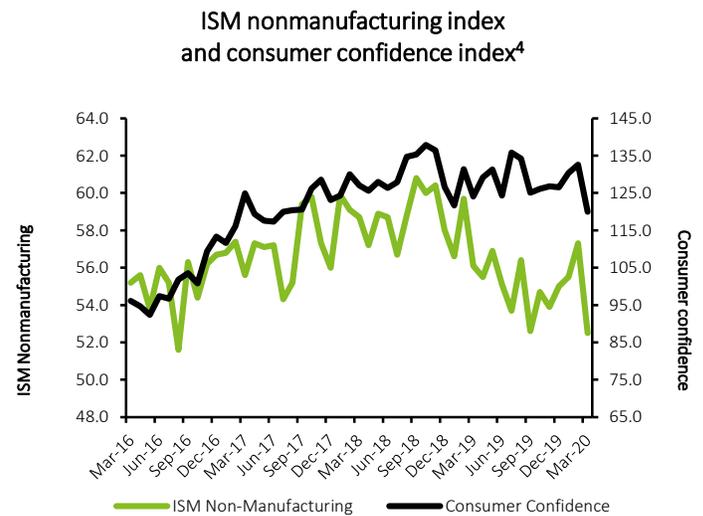
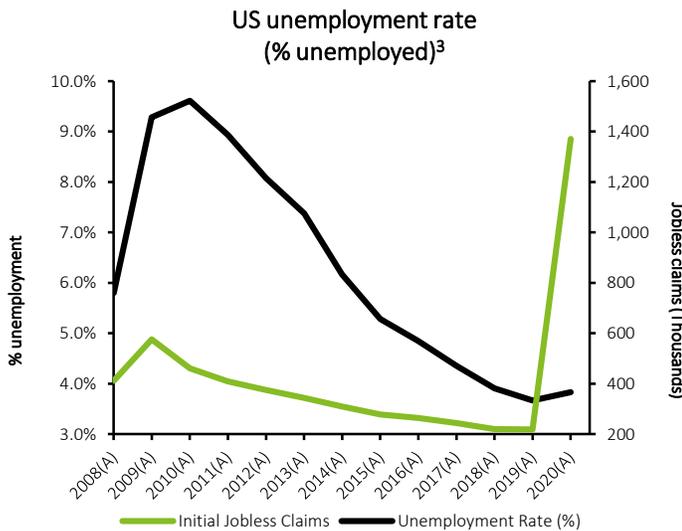
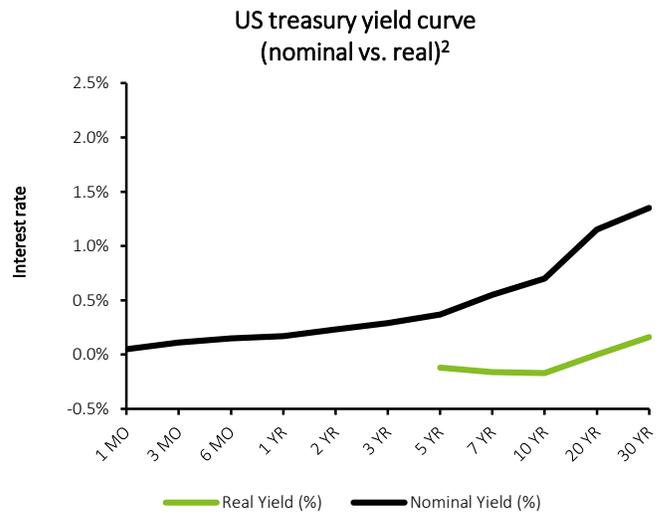
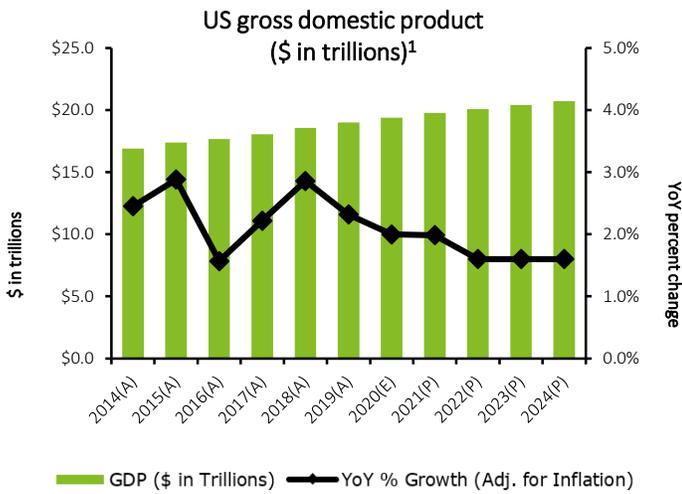
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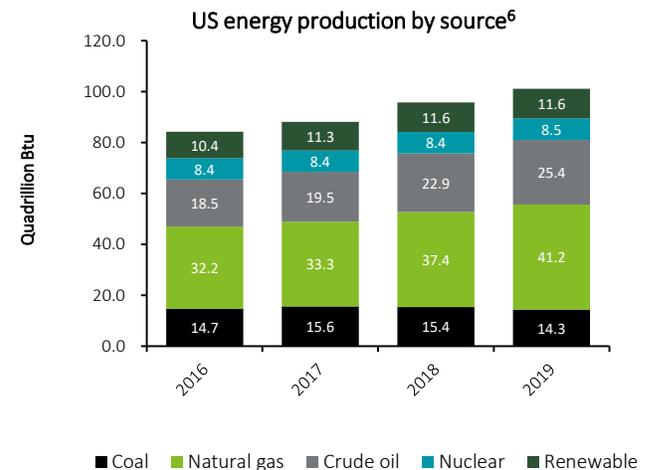
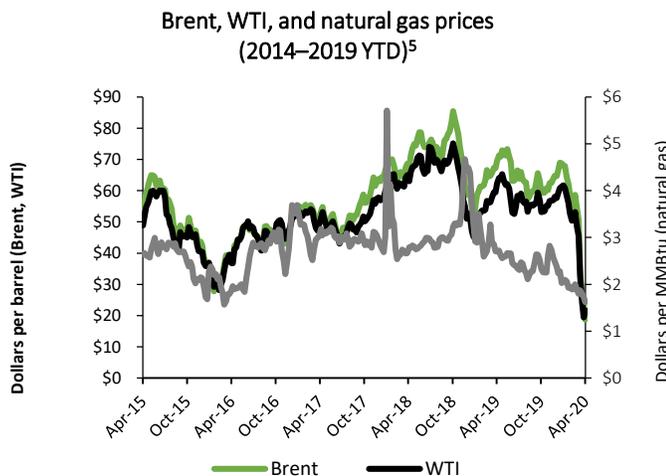
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Macroeconomic outlook



Energy sector outlook



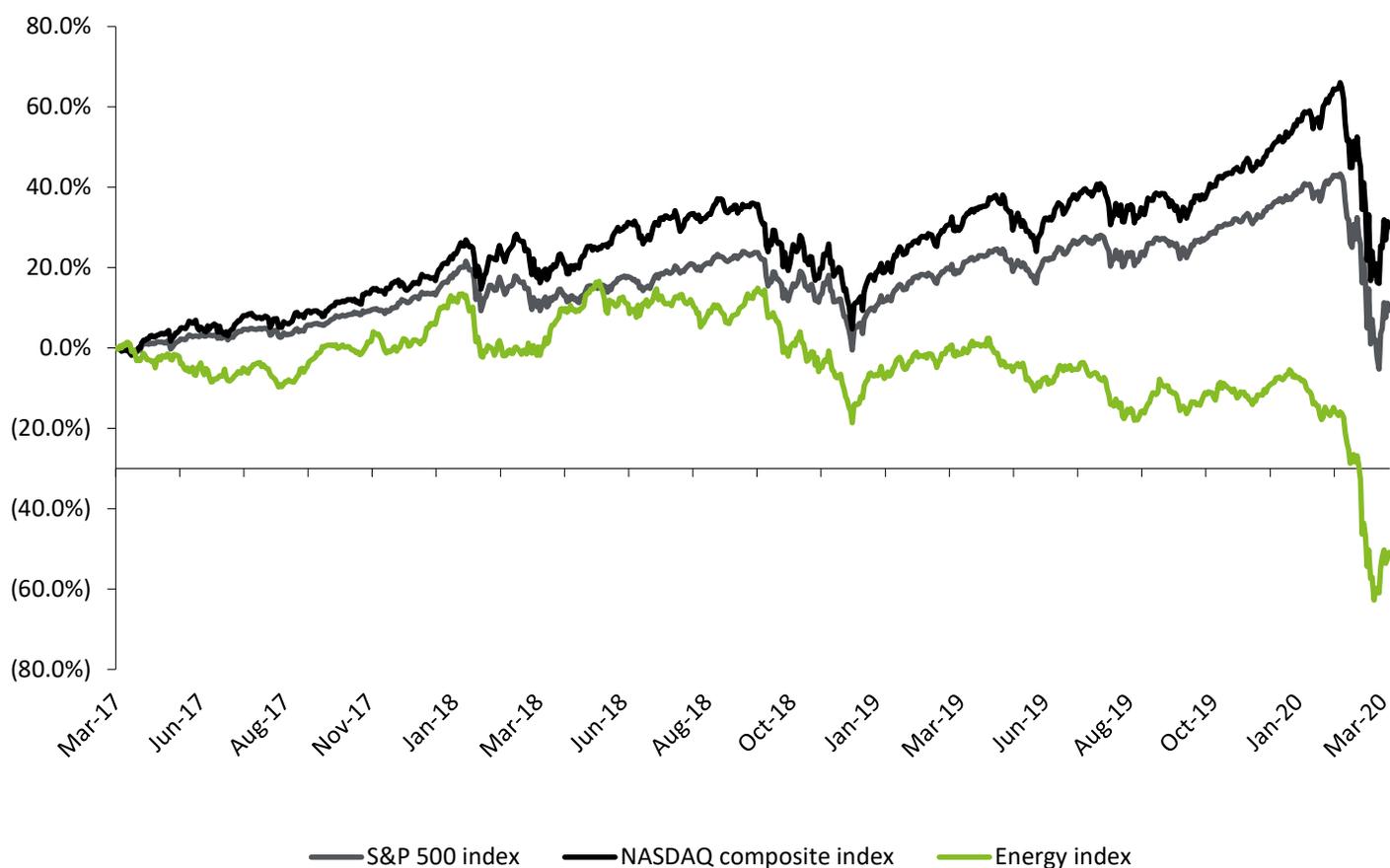
Energy sector breakdown and trading statistics¹

Sector	Number of companies	% of 52-week high	Median revenue CAGR (3-yr)	Median LTM EBITDA	Median EBITDA margin	Median enterprise value	Past 12 months		NTM
							EV/revenue	EV/EBITDA	EV/EBITDA
Oil and gas, general (13)	13	48.7%	10.6%	\$3,106.0	13.9%	\$19,542.0	1.2x	6.4x	8.0x
Power and utilities (18)	18	79.8	1.9	3,682.0	33.1	43,638.1	4.6	12.4	11.5
Renewable energy (13)	13	63.9	6.7	345.3	20.4	2,738.6	3.5	8.7	11.2
Nuclear (3)	3	69.6	6.9	527.5	19.9	5,535.1	1.9	9.5	8.8
Energy index	47	67.4%	4.1%	\$1,874.0	29.6%	\$22,154.3	2.9x	11.1x	10.7x

(\$ in millions)

Public comparable three-year stock market performance²

S&P 500 index	9.39%
NASDAQ composite index	30.25%
Energy index*	(50.90%)

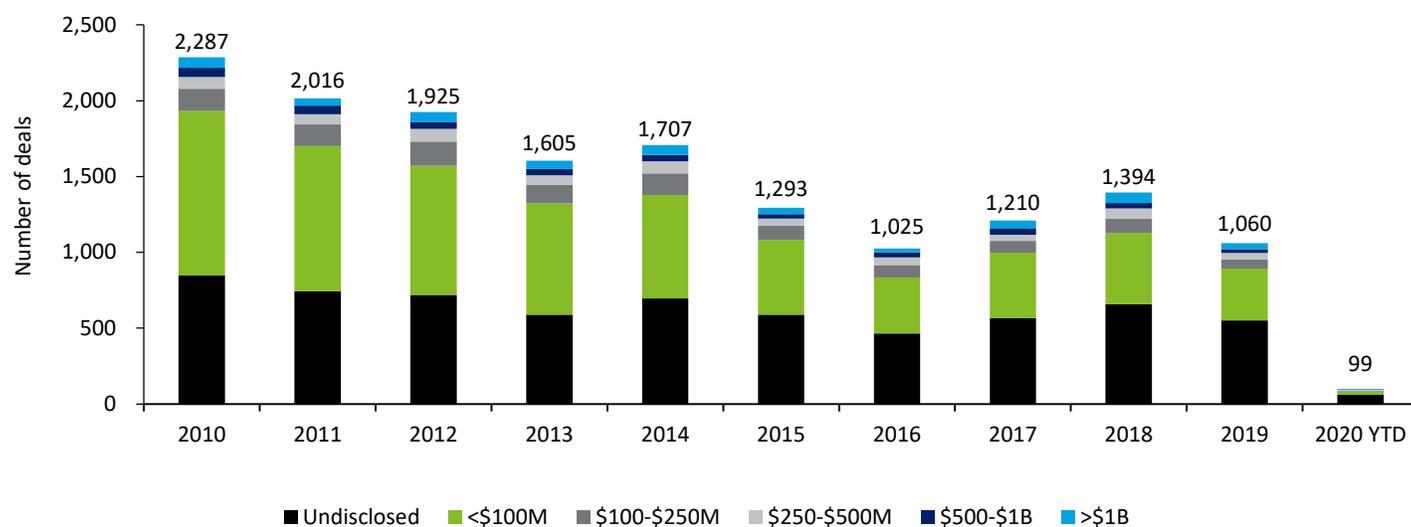


*Energy index companies listed on page 5 in the Appendix.

Recent energy M&A transactions¹

Close date	Target and acquiror	Target business description	Enterprise Value (EV)	EV/ EBITDA
Pending	Lilis Energy, Inc. Värde Partners, Inc.	Lilis Energy, Inc., an independent oil and natural gas company, engages in the acquisition, exploration, development, and production of conventional and unconventional oil and natural gas properties.	373.8	20.5X
Pending	Delek Drilling - Limited Partnership Globe Invest Limited	Engages in the exploration, development, and production of petroleum, natural gas, and condensate in Israel and Cyprus.	3,434.0	12.9
Pending	Sprague Resources LP Sprague Resources Holdings LLC	Engages in the purchase, storage, distribution, and sale of refined petroleum products and natural gas.	1,139.4	8.7
Pending	EQM Midstream Partners, LP Equitrans Midstream Corporation	Owns, operates, acquires, and develops midstream assets in the Appalachian Basin.	12,076.0	7.9
Pending	Ranger Energy Services, Inc. T. Rowe Price Associates, Inc.	Provides onshore high specification well service rigs, wireline completion services, and complementary services to exploration and production companies.	192.3	3.5
3/26/2020	Universal Coal Plc TerraCom Limited	Universal Coal Plc, a coal mining company, engages in acquisition, exploration, development, and commercialization of coal projects in the Republic of South Africa.	251.0	4.0
3/6/2020	Granite Oil Corp. International Petroleum Corporation	Engages in the exploration for, exploitation, development, and production of oil and natural gas in Canada.	78.3	4.0

Annual energy M&A transaction volume²



Appendix

Public comparable analysis¹

Company (ticker)	% of 52 week high	LTM revenue	Revenue CAGR (3-yr)	LTM EBITDA	EBITDA margin	Enterprise value (EV) ⁽¹⁾	Past 12 months	
							EV/Revenue	EV/EBITDA
<i>(\$ in millions)</i>								
Oil and gas, general (13)								
Chevron Corporation (NYSE:CVX)	66.9 %	\$139,865.0	10.6 %	\$29,024.0	20.8 %	\$184,629.2	1.3 x	6.4 x
ConocoPhillips (NYSE:COP)	50.9	33,346.0	12.0	13,746.0	41.2	42,605.3	1.3	3.1
Devon Energy Corporation (NYSE:DVN)	27.4	5,969.0	(3.3)	1,713.0	28.7	6,940.3	1.2	4.1
Diamond Offshore Drilling, Inc. (NYSE:DO)	12.7	934.9	(15.1)	74.3	8.0	2,194.1	2.3	29.5
DCP Midstream, LP (NYSE:DCP)	18.8	7,638.0	3.4	592.0	7.8	8,124.4	1.1	13.7
Exxon Mobil Corporation (NYSE:XOM)	51.2	255,583.0	8.4	30,529.0	11.9	237,934.5	0.9	7.8
Halliburton Company (NYSE:HAL)	24.3	22,408.0	12.1	3,106.0	13.9	16,103.8	0.7	5.2
Hess Corporation (NYSE:HES)	53.9	6,311.0	10.6	2,715.0	43.0	19,542.0	3.1	7.2
Marathon Petroleum Corporation (NYSE:MPC)	36.4	124,112.0	25.0	9,707.0	7.8	55,667.5	0.4	5.7
Phillips 66 (NYSE:PSX)	51.3	107,293.0	14.8	4,610.0	4.3	40,622.3	0.4	8.8
Southwestern Energy Company (NYSE:SWN)	51.8	3,038.0	7.6	1,044.0	34.4	3,701.2	1.2	3.5
Transocean Ltd. (NYSE:RIG)	14.9	3,088.0	(9.5)	921.0	29.8	8,981.2	2.9	9.8
Valero Energy Corporation (NYSE:VLO)	48.7	102,729.0	13.6	6,140.0	6.0	29,416.7	0.3	4.8
Median	48.7 %	\$22,408.0	10.6 %	\$3,106.0	13.9 %	\$19,542.0	1.2 x	6.4 x
Mean	39.2 %	\$62,485.8	6.9 %	\$7,993.9	19.8 %	\$50,497.1	1.3 x	8.4 x
Power and utilities (18)								
Ameren Corporation (NYSE:AE)E	86.5 %	\$5,646.0	(1.0) %	\$2,360.0	41.8 %	\$28,666.6	5.1 x	12.1 x
ALLETE, Inc. (NYSE:ALE)	67.6	1,240.5	(2.5)	389.1	31.4	4,776.8	3.9	12.3
American Electric Power Company, Inc. (NYSE:AEP)	79.5	15,561.4	(1.7)	5,161.5	33.2	72,055.0	4.6	14.0
Avangrid, Inc. (NYSE:AGR)	78.2	6,338.0	1.7	1,874.0	29.6	22,154.3	3.5	11.8
Black Hills Corporation (NYSE:BKH)	77.7	1,734.9	4.1	614.9	35.4	7,840.6	4.5	12.7
CenterPoint Energy, Inc. (NYSE:CNP)	54.2	12,301.0	17.8	2,733.0	22.2	24,341.2	2.0	8.9
Consolidated Edison, Inc. (NYSE:ED)	89.2	12,574.0	1.4	4,279.0	34.0	50,125.5	4.0	11.7
Dominion Energy, Inc. (NYSE:D)	99.2	16,572.0	12.2	7,393.0	44.6	109,930.9	6.6	14.9
DTE Energy Company (NYSE:DTE)	80.1	12,669.0	6.0	2,648.0	20.9	38,603.1	3.0	14.6
Duke Energy Corporation (NYSE:DUK)	84.2	24,658.0	3.3	10,881.0	44.1	129,805.7	5.3	11.9
Energy Corporation (NYSE:ETR)	72.2	10,878.7	0.1	3,553.0	32.7	39,605.7	3.6	11.1
Eversource Energy (NYSE:ES)	87.2	8,526.5	3.7	2,746.7	32.2	44,417.6	5.2	16.2
Exelon Corporation (NasdaqGS:EXC)	73.8	34,438.0	3.2	9,554.0	27.7	77,873.6	2.3	8.2
PG&E Corporation (NYSE:PCG)	46.1	17,129.0	(1.0)	4,611.0	26.9	31,723.3	1.9	6.9
Sempra Energy (NYSE:SRE)	78.4	10,829.0	2.1	4,057.0	37.5	67,819.0	6.3	16.7
The Southern Company (NYSE:SO)	81.2	21,419.0	2.5	8,933.0	41.7	112,048.3	5.2	12.5
WEC Energy Group, Inc. (NYSE:WEC)	86.8	7,523.1	0.2	2,493.9	33.1	42,858.7	5.7	17.2
Xcel Energy Inc. (NasdaqGS:XEL)	88.2	11,529.0	1.3	3,811.0	33.1	53,674.7	4.7	14.1
Median	79.8 %	\$11,915.0	1.9 %	\$3,682.0	33.1 %	\$43,638.1	4.6 x	12.4 x
Mean	78.3 %	\$12,864.8	3.0 %	\$4,338.5	33.5 %	\$53,240.0	4.3 x	12.7 x
Renewable energy (13)								
Ballard Power Systems Inc. (TSX:BLDP)	67.6 %	\$106.3	7.6 %	(\$22.6)	NM %	\$2,019.5	19.0 x	NM x
Brookfield Renewable Partners L.P. (TSX:BEP.UN)	81.7	2,980.0	6.7	1,874.0	62.9	33,524.9	11.2	17.9
Canadian Solar Inc. (NasdaqGS:CSIQ)	67.4	3,200.6	3.9	388.1	12.1	2,256.6	0.7	5.8
Enphase Energy, Inc. (NasdaqGM:ENPH)	63.9	624.3	24.6	117.3	18.8	4,545.9	7.3	38.8
First Solar, Inc. (NasdaqGS:FSLR)	58.7	3,063.1	1.8	406.7	13.3	2,738.6	0.9	6.7
Avangrid, Inc. (NYSE:AGR)	78.2	6,338.0	1.7	1,874.0	29.6	22,154.3	3.5	11.8
Macquarie Infrastructure Corporation (NYSE:MIC)	51.9	1,727.0	4.8	543.3	31.5	4,725.1	2.7	8.7
Ormat Technologies, Inc. (NYSE:ORA)	72.4	746.0	4.0	345.3	46.3	4,545.1	6.1	13.2
ReneSola Ltd (NYSE:SOL)	50.2	119.1	14.0	24.4	20.4	190.3	1.6	7.8
Renewable Energy Group, Inc. (NasdaqGS:REGI)	75.1	2,641.4	9.0	470.7	17.8	1,095.1	0.4	2.3
SunPower Corporation (NasdaqGS:SPWR)	40.0	1,864.2	(9.9)	(120.3)	NM	1,773.5	1.0	NM
Sunrun Inc. (NasdaqGS:RUN)	46.9	858.6	21.6	(30.8)	NM	4,454.6	5.2	NM
Vivint Solar, Inc. (NYSE:VSLR)	41.3	341.0	36.1	(110.5)	NM	2,286.2	6.7	NM
Median	63.9 %	\$1,727.0	6.7 %	\$345.3	20.4 %	\$2,738.6	3.5 x	8.7 x
Mean	61.2 %	\$1,893.1	9.7 %	\$443.0	28.1 %	\$6,639.2	5.1 x	12.6 x
Nuclear (3)								
BWX Technologies, Inc. (NYSE:BWXT)	71.4 %	\$1,894.9	6.9 %	\$377.1	19.9 %	\$5,535.1	2.9 x	14.7 x
Curtiss-Wright Corporation (NYSE:CW)	65.0	2,488.0	5.7	527.5	21.2	4,695.3	1.9	8.9
Huntington Ingalls Industries, Inc. (NYSE:HII)	69.6	8,899.0	8.0	982.0	11.0	9,334.5	1.0	9.5
Median	69.6 %	\$2,488.0	6.9 %	\$527.5	19.9 %	\$5,535.1	1.9 x	9.5 x
Mean	68.6 %	\$4,427.3	6.9 %	\$628.9	17.4 %	\$6,521.6	2.0 x	11.0 x

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