



Energy Market Update

Winter 2023

M&A Advisory for the Energy Sector

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Energy Boost through Inflation Reduction Act

2022 was a turbulent year in the energy sector. After two years marred by COVID-19, companies and their employees were ready to return to normality. However, attention quickly shifted from the pandemic to a high inflation environment as well as the war in Ukraine which sent ripple effects throughout the global energy sector.

While many energy companies achieved record margins in 2022, energy costs became one of the main contributing factors to high inflation levels. This led to public scrutiny and prompted central banks and governments worldwide to enact countermeasures against inflation. In the US, on the monetary policy level, the Fed raised interest rates at a high pace. On the fiscal policy level, the Inflation Reduction Act (IRA) was signed into law by President Joe Biden on August 16, 2022.

The IRA aims to combat inflation utilizing a variety of fiscal measures, including lowering prescription drug prices and introducing a corporate minimum tax. The main focus of the IRA, however, is the energy sector, which has been allocated \$295B (60% of the total act) through a number of tax credits and rebates (see graph below). Combined with \$98B for climate-related measures, this constitutes the largest ever investment by the US government into the clean energy transition.

The reason for including these energy investments in a law drafted to curb inflation is that, according to advocates, cleaner and more advanced energy sources

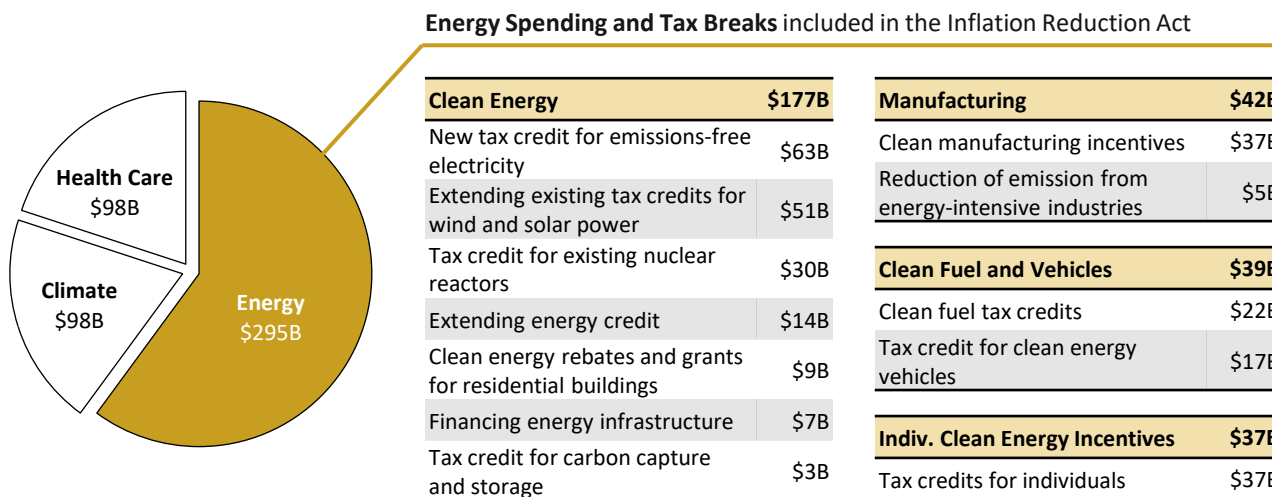
are inherently deflationary in today's economy. At the same time, these investments will help to triple current US clean energy production by 2030, adding what experts estimate to be more than 500 gigawatts.

The IRA is defined broadly enough to benefit a variety of energy sectors. For example, one sector that will benefit from the IRA's energy provisions is propane. The National Propane Gas Association (NPGA) collaborated with Congress to highlight propane as a clean fuel. Most importantly, the NPGA managed to extend the alternative fuel tax credit for propane. The credit, which comprises a 37 cents per gallon excise tax credit on the sale of propane used in motor vehicles or forklifts, will

apply retroactively for 2022 and will continue for the next two years. Furthermore, the IRA will provide a 30% investment tax credit to incentivize the installation of combined heat and power (CHP) propane projects for the next two years.

Besides encouraging regular propane investments and uses, the IRA also includes specific tax credits to encourage the production and use of renewable propane. The next page will give an overview of what renewable propane is, what the technology's benefits are, and what role it plays in the ongoing clean energy transition.

IRA Spending and Tax Breaks



Sources: American Clean Power, Butane-Propane News, NPGA, PR Newswire, Resources for the Future, Roosevelt Institute, The Council of State Governments

Renewable Propane is a Hidden Champion

With the climate changing and extreme weather events such as wildfires and severe winter storms becoming more prevalent, electric grid disturbances have increased in recent years, especially in rural areas. This has led to a significant uptick in the sale of private generators and in the installation of CHPs.

These systems often run on diesel which has a comparably high carbon intensity (see graph below) and contributes significantly to local air pollution. Clean energy experts instead advocate for the use of propane-powered systems to reduce carbon dioxide emissions, nitrogen oxides and particulate matter. With technological advances, such as blending propane with renewable dimethyl ether (rDME) or the production of renewable propane, propane is becoming even more environmentally favorable.

The chemical compound of renewable propane is virtually identical to that of regular, fossil propane. It is produced from renewable feedstocks, such as animal fats or vegetable oils. One commercially viable production process is hydrotreating, which adds hydrogen to the feedstock in a chemical reaction. From an ecological standpoint, being able to process otherwise unusable feedstock helps with landfill diversion.

In addition to fueling generators and CHPs, renewable propane provides benefits for vehicular use. A higher octane rating and cleaner combustion lead to lower maintenance costs compared to gasoline engines.

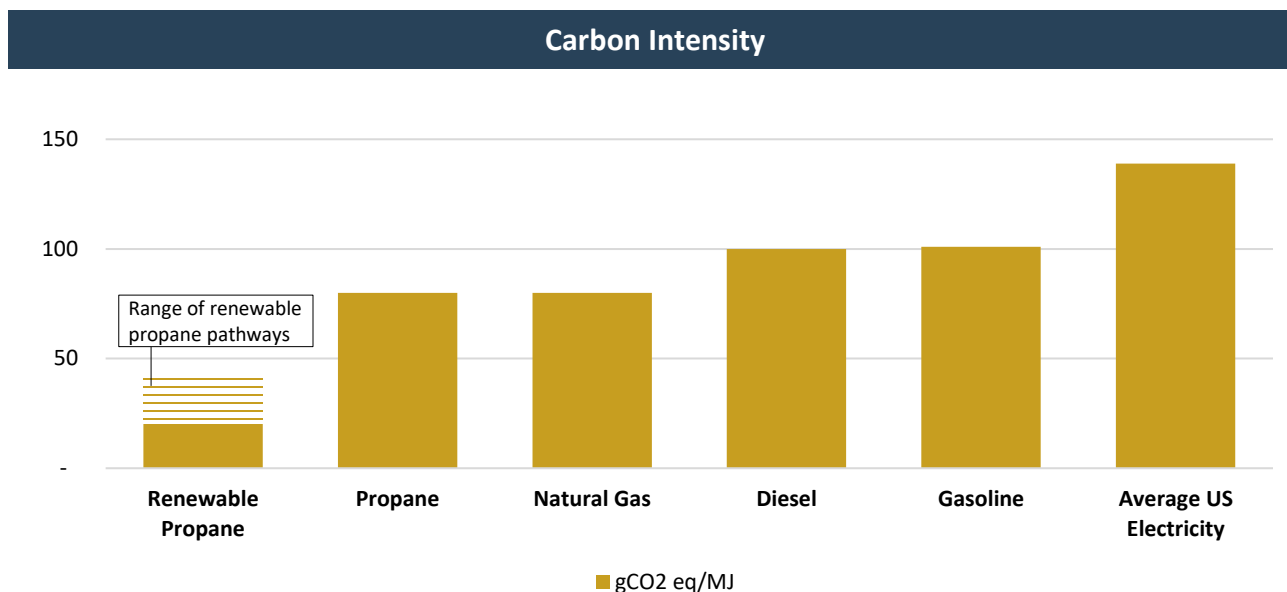
Additionally, having a low carbon intensity of between 21 and 45 gCO₂ eq/MJ, renewable propane creates fewer emissions than conventional vehicle fuels.

Because of its environmental benefits, researchers and policymakers have identified renewable propane as a transitional technology and complementary solution to decarbonize a variety of end markets, including agriculture, commercial, residential and transportation.

While the market for renewable propane is still small, a study by the National Renewable Energy Laboratory found that existing biorefineries have dormant financial potential by selling renewable propane

instead of processing it further. In response, producers and distributors have started to ramp up competence and capacity via organic growth and acquisitions. As an example, Renewable Energy Group (REG), which was acquired by Chevron in 2022, is committed to increasing its production of renewable propane. One of REG's new facilities could produce up to 34 million gallons of renewable propane as a bi-product of its renewable diesel production.

These efforts, together with other sustainability measures, should come as a boon to a renewable energy sector whose valuations have lagged its fossil counterpart in the last 12 months (see next page).



Sources: LPGas Magazine, National Renewable Energy Laboratory, PR Newswire, Renewable Energy Group

High Valuation Momentum for Energy Companies

2022 was a banner year for energy valuations. The share prices of our sample portfolios of upstream, midstream and downstream public companies largely outperformed the overall market, as approximated by the S&P 500 index (see graph below). Extraordinarily high margins were one reason for the strong performance, brought about by strong demand coming out of the pandemic and constricted supply due to geopolitical events.

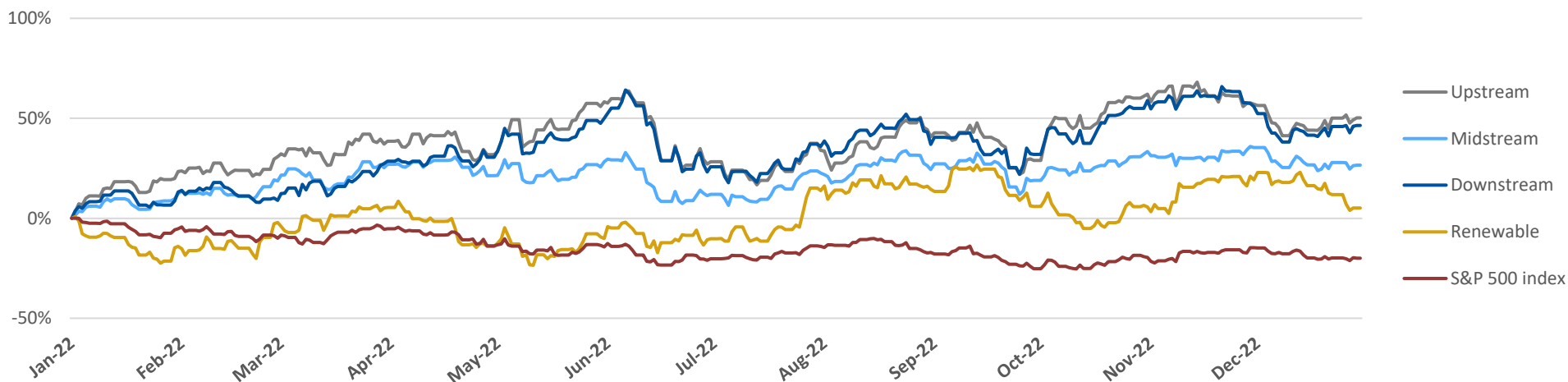
The renewable sector trailed the market for the first half of the year, until it got a boost over the summer. This coincided with the signing of the IRA, which is set to benefit clean energy companies specifically (see p.3).

Looking forward, the energy sector faces some challenges but is also presented with strategic opportunities. On the one hand, the ongoing war in Ukraine continues to shake up global energy markets, leading to public uncertainty and governments mulling additional interventions such as nationalizations and price caps. Additionally, many energy companies have started to experience difficulties in financing their working capital, as inventory prices and interest rates have risen in unison.

On the other hand, the Fed has started to ease the pace of raising interest rates to prevent a deep recession. Capitalizing on the success of 2022, energy companies

can take advantage of currently high valuations by using shares as currency for acquisitions. As margins inevitably come down and volumes stay flat in some subsectors, growth will need to be supplemented inorganically. While financing these transactions will be more challenging in the current rate environment, companies will still be able to complete smaller, strategic deals with existing liquidity and the aforementioned equity. This comes at a time when families and other private owners consider their exits due to demographic and consolidation trends. As the energy sector continues to undergo its transformation, M&A will be an excellent opportunity to optimize capital allocation and increase efficiencies.

Public Valuations: Share Price (growth over trailing 12 months)



Source: Yahoo Finance. Note: Underlying companies within the data sets above are detailed on the following pages.

Public Company Analysis

Upstream

As of December 31, 2022 (USD in millions)

Company Name	Ticker	Market Cap	Enterprise Value	Last Twelve Months				
				Revenue	EBITDA	EBITDA Margin	Enterprise Value /	
							Revenue	EBITDA
Chevron	CVX	\$ 347,069	\$ 356,226	\$ 227,055	\$ 64,085	28.2%	1.6x	5.6x
ConocoPhillips	COP	147,036	153,575	75,056	35,668	47.5%	2.0x	4.3x
Diamondback Energy	FANG	24,883	30,928	9,635	7,204	74.8%	3.2x	4.3x
Devon Energy	DVN	40,209	45,868	19,143	10,406	54.4%	2.4x	4.4x
EOG Resources	EOG	76,079	76,126	28,906	13,290	46.0%	2.6x	5.7x
ExxonMobil	XOM	454,248	476,212	386,816	96,089	24.8%	1.2x	5.0x
Hess	HES	43,724	51,045	10,627	5,327	50.1%	4.8x	9.6x
Marathon Oil	MRO	17,191	20,063	7,669	5,862	76.4%	2.6x	3.4x
Occidental Petroleum	OXY	57,253	87,670	36,328	21,706	59.8%	2.4x	4.0x
Phillips 66	PSX	49,192	68,181	162,315	15,949	9.8%	0.4x	4.3x
Pioneer Natural Resources	PXD	54,265	58,031	24,786	11,725	47.3%	2.3x	4.9x
Mean		\$ 119,195	\$ 129,448	\$ 89,849	\$ 26,119	47.2%	2.3x	5.0x
Median		\$ 54,265	\$ 68,181	\$ 28,906	\$ 13,290	47.5%	2.4x	4.4x

Source: PitchBook. "NM" = Not Meaningful. Data current as of most recently reported quarter.

Public Company Analysis

Midstream

As of December 31, 2022 (USD in millions)

Company Name	Ticker	Market Cap	Enterprise Value	Last Twelve Months				
				Revenue	EBITDA	EBITDA Margin	Enterprise Value /	
							Revenue	EBITDA
Cheniere Energy Partners LP	CQP	\$ 27,527	\$ 43,845	\$ 15,743	\$ 1,939	12.3%	2.8x	22.6x
Cheniere Energy	LNG	37,289	66,502	30,900	(717)	NM	2.2x	NM
Energy Transfer	ET	36,660	98,893	88,032	12,123	13.8%	1.1x	8.2x
Enterprise Products Partners	EPD	52,475	82,651	55,906	8,538	15.3%	1.5x	9.7x
Hess Midstream Partners	HESM	1,317	4,489	1,277	988	77.4%	3.5x	4.5x
Kinder Morgan	KMI	40,639	73,276	19,046	6,848	36.0%	3.8x	10.7x
Magellan Midstream Partners	MMP	10,290	15,445	3,149	1,369	43.5%	4.9x	11.3x
MPLX	MPLX	32,946	55,214	10,634	6,070	57.1%	5.2x	9.1x
ONEOK	OKE	29,365	43,202	22,775	3,442	15.1%	1.9x	12.6x
Plains All American Pipeline	PAA	8,212	21,425	57,379	3,025	5.3%	0.4x	7.1x
Targa Resources	TRGP	16,639	30,050	21,817	2,390	11.0%	1.4x	12.6x
The Williams Companies	WMB	40,083	65,257	11,292	5,530	49.0%	5.8x	11.8x
Western Midstream Partners	WES	10,339	17,348	3,191	2,048	64.2%	5.4x	8.5x
Mean		\$ 26,445	\$ 47,508	\$ 26,242	\$ 4,123	33.3%	3.1x	10.7x
Median		\$ 29,365	\$ 43,845	\$ 19,046	\$ 3,025	25.6%	2.8x	10.2x

Source: PitchBook. "NM" = Not Meaningful. Data current as of most recently reported quarter.

Public Company Analysis

Downstream

As of December 31, 2022 (USD in millions)

Company Name	Ticker	Market Cap	Enterprise Value	Last Twelve Months					
				Revenue	EBITDA	EBITDA Margin	Enterprise Value /		
							Revenue	EBITDA	
Clean Energy Fuels	CLNE	\$ 1,157	\$ 1,108	\$ 398	\$ 7	1.9%	2.8x	NM	
CVR Energy	CVI	3,151	4,351	10,329	977	9.5%	0.4x	4.5x	
Delek US Holdings	DK	1,882	3,760	18,875	852	4.5%	0.2x	4.4x	
Enviva Partners	EVA	3,547	5,143	1,131	(1)	NM	4.5x	NM	
HF Sinclair	DINO	10,416	13,440	34,843	3,831	11.0%	0.4x	3.5x	
Marathon Petroleum	MPC	54,547	78,779	172,976	21,598	12.5%	0.5x	3.6x	
New Fortress Energy	NFE	8,856	13,470	2,471	482	19.5%	5.5x	27.9x	
PBF Energy	PBF	5,688	7,098	44,228	3,620	8.2%	0.2x	2.0x	
Phillips 66	PSX	49,192	68,181	162,315	15,949	9.8%	0.4x	4.3x	
Sunoco	SUN	3,610	7,326	24,765	919	3.7%	0.3x	8.0x	
Valero Energy	VLO	48,907	58,317	170,540	15,351	9.0%	0.3x	3.8x	
World Fuel Services	INT	1,692	2,127	55,108	325	0.6%	0.0x	6.5x	
Mean		\$ 16,054	\$ 21,925	\$ 58,165	\$ 5,326	8.2%	1.3x	6.9x	
Median		\$ 4,649	\$ 7,212	\$ 29,804	\$ 948	9.0%	0.4x	4.3x	

Source: PitchBook. "NM" = Not Meaningful. Data current as of most recently reported quarter.

Public Company Analysis

Renewable

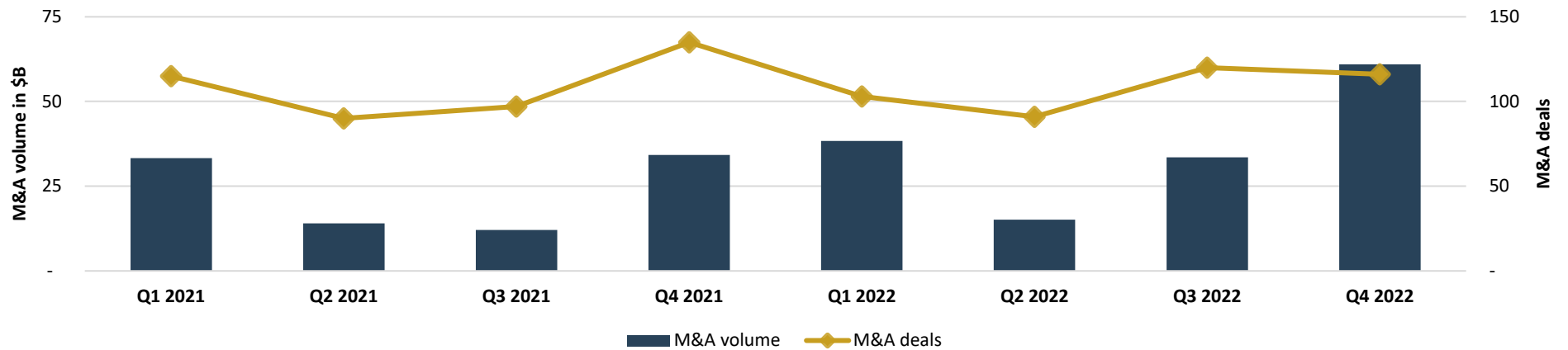
As of December 31, 2022 (USD in millions)

Company Name	Ticker	Market Cap	Enterprise Value	Last Twelve Months				
				Revenue	EBITDA	EBITDA Margin	Enterprise Value /	
							Revenue	EBITDA
Brookfield Renewable Corp	BEPC	\$ 4,735	\$ 27,333	\$ 3,727	\$ 3,112	83.5%	7.3x	8.8x
Cree	CREE	8,576	8,689	831	(99)	NM	10.5x	NM
Enphase Energy	ENPH	36,014	35,889	2,019	403	19.9%	17.8x	NM
First Solar	FSLR	15,968	14,354	2,524	441	17.5%	5.7x	32.5x
NextEra Energy Partners	NEP	6,065	19,828	1,176	1,021	86.8%	16.9x	19.4x
onsemi	ON	26,970	27,752	8,069	2,717	33.7%	3.4x	10.2x
Ormat Technologies	ORA	4,850	6,887	720	405	56.3%	9.6x	17.0x
Plug Power	PLUG	7,211	5,409	643	(645)	NM	8.4x	NM
Solaredge Technologies	SEDG	15,833	15,683	2,771	254	9.2%	5.7x	NM
Sunnova Energy	NOVA	2,070	7,165	427	56	13.2%	16.8x	NM
SunPower	SPWR	3,141	3,164	1,783	149	8.4%	1.8x	21.2x
Sunrun	RUN	5,119	14,234	2,147	21	1.0%	6.6x	NM
Mean		\$ 11,379	\$ 15,532	\$ 2,236	\$ 653	32.9%	9.2x	18.2x
Median		\$ 6,638	\$ 14,294	\$ 1,901	\$ 328	18.7%	7.9x	18.2x

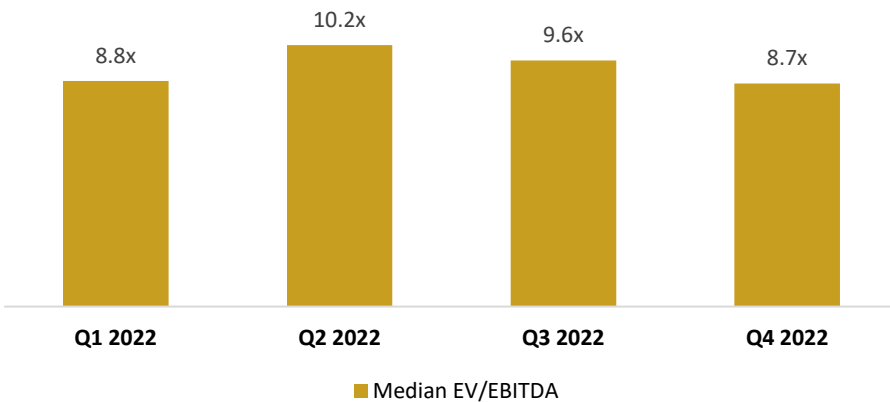
Source: PitchBook. "NM" = Not Meaningful. Data current as of most recently reported quarter.

M&A Trends in the Energy Sector

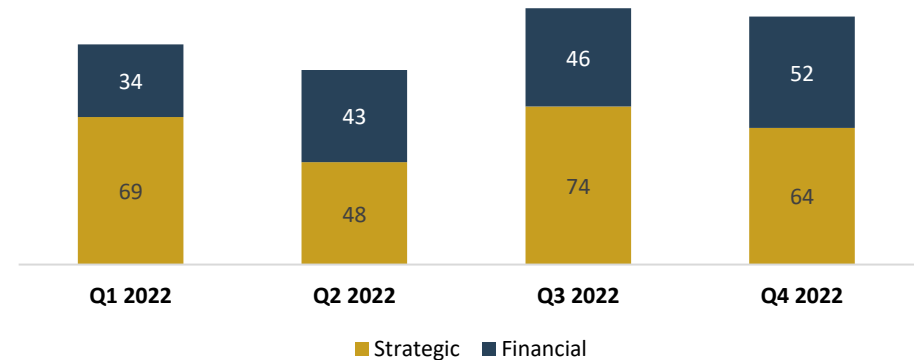
Deals and Volume



Transaction Multiples



Activity by Buyer Type



Source: PitchBook.

Select Recent Sector M&A Activity

Date	Investor(s) / Buyer(s)	Target	Target Description	Deal Type	Value (\$M)
27-Dec-22	HNR Acquisition	Pogo Oil & Gas	Developer of oil and gas assets in the Permian Basin.	M&A	100
23-Dec-22	Superior Plus	Certarus	Provider of low carbon energy solutions.	M&A	774
15-Dec-22	The Williams Companies	MountainWest Pipeline	2,000-miles of interstate natural gas pipeline systems.	M&A	1,500
06-Dec-22	Ares Acquisition	X-Energy	Developer of commercial nuclear energy reactors.	M&A	Undisclosed
21-Nov-22	Industrial Tech Acquisitions II	NEXT Renewable Fuels	Producer of advanced biofuel.	M&A	Undisclosed
01-Nov-22	Lakes Gas Co.	Hohl's Propane	Distributor of propane.	M&A	Undisclosed
17-Oct-22	BP	Archaea Energy	Renewable natural gas producer in the US.	M&A	3,801
13-Oct-22	Brookfield Renewable, Cameco	Westinghouse Electric Company	Provider of nuclear technology and infrastructure development services.	Buyout/LBO	7,875
01-Oct-22	RWE Renewables Americas	Con Edison Clean Energy Businesses	Owner and operator of solar energy generation.	M&A	6,800
14-Sep-22	Lakes Gas Co.	Blackhawk Propane Company	Distributor of propane.	M&A	Undisclosed
06-Sep-22	EQT Production Company	Tug Hill Operating	Operator of an oil and gas exploration company.	M&A	5,200
30-Aug-22	CID Capital, Lettermen's Energy	Victory Propane	Distributor of propane.	Buyout/LBO	Undisclosed
23-Aug-22	Court Square, Offen Petroleum	G & S Oil Products (Wholesale)	Distributor of motor fuels.	Buyout/LBO	Undisclosed
11-Aug-22	Blossman Gas	Wigley Propane	Distributor of propane.	M&A	Undisclosed
31-Jul-22	Saudi Aramco	Valvoline (Global Products Business)	Producer and distributor of lubricants and automotive chemicals.	M&A	2,650
13-Jun-22	Chevron	Renewable Energy Group	Producer and refiner of biofuels.	M&A	2,467
01-Jun-22	Superior Plus	Quarles Petroleum (Delivered Fuels)	Distributor of propane.	M&A	145
26-May-22	Daybreak Oil and Gas	Reabold California	Oil wells in the Sacramento Basin.	M&A	Undisclosed
25-May-22	PPL	Rhode Island Energy	Distributor of electricity.	M&A	5,300
02-May-22	Renewable Energy Group	Dawson Oil Company	Supplier of diesel, gasoline, DEF and lubricants.	M&A	Undisclosed
23-Mar-22	Superior Plus	Kamps Propane	Distributor of propane.	M&A	240
24-Feb-22	JP Morgan Asset Management	South Jersey	Operator of two gas utilities.	Buyout/LBO	8,071
11-Feb-22	DCC Propane	JC Propane	Distributor of propane.	M&A	Undisclosed
07-Feb-22	Cole Oil & Propane	Strobel Propane Gas	Provider of fuel transportation service.	M&A	Undisclosed
03-Jan-22	World Fuel Services	Flyers Energy	Provider of cardlock services, wholesale fuel distribution, lubricants and other services.	M&A	773
01-Jan-22	Propane 1 One Inc of Kentucky	Propane Central	Distributor of propane.	M&A	Undisclosed
01-Jan-22	Victory Propane	Whitmer Propane Company	Distributor of propane.	M&A	Undisclosed

Transaction led by DCA Partners

Source: PitchBook.

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Strategic Advisory

DCA serves some of the most respected companies in the region, providing guidance, strategic advice, and operational oversight to businesses across a wide range of industry sectors.

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