



Energy Market Update

Fall 2023

M&A Advisory for the Energy Sector

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RNG: Disrupting the Natural Gas Market

Renewable Natural Gas (RNG) is one of the fastest growing sectors in the clean energy field. Its growth is propelled by regulatory incentives, appealing economic prospects, and its capacity to reduce greenhouse gas emissions across diverse industrial sectors. RNG is a high-quality gas suitable for direct substitution with traditional natural gas, making it an attractive renewable alternative for applications such as transportation, heating, electricity generation, and other industrial uses.

While RNG currently represents only about 0.4% of the total US natural gas market, its chemical makeup gives RNG the potential to ultimately pry market share from the traditional natural gas sector. In contrast to biofuels that face limitations in feedstock availability, the estimated potential of waste-gas resources is approximately 4,500 tbtu/yr, which is roughly 48 times greater than the current amount of RNG in production or under development.

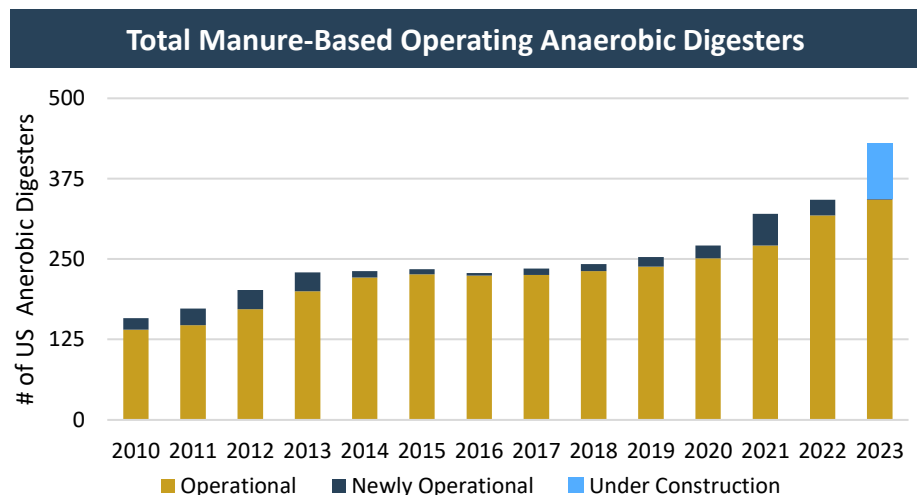
Currently, anaerobic digesters (AD) are the most used RNG production method due to its economic viability. Anaerobic digestion is a biological process in which bacteria break down organic material without the presence of oxygen (in an anaerobic environment). This process yields biogas that can be refined into RNG. There are currently four AD feedstocks: food waste, livestock waste (dairy and swine), municipal solid waste (landfills), and wastewater.

There are numerous new projects that focus on livestock waste. In the US, there are 342 active AD's utilizing pipeline quality manure to produce RNG, with an additional 86 systems under construction and 37 in planning stages as of January 2023. According to an EPA assessment, there are over 8,100 eligible farms (each with over 500 cows or 2,000 swine) that could generate up to 1.26 tbtu/day, underscoring the substantial, untapped resource potential of only one of the four AD feedstocks.

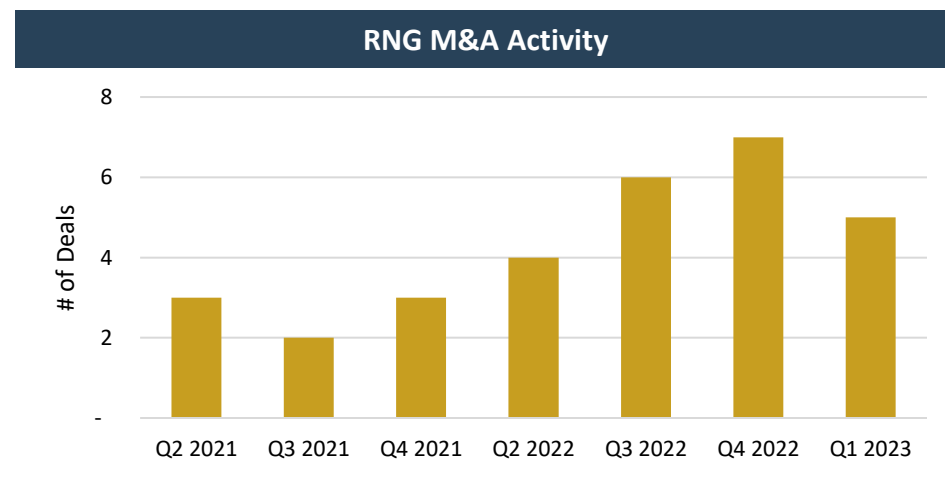
Within the clean energy field, RNG has emerged as one of the most active markets in terms of private market transactions over the past two years. Several factors contribute to this trend:

1. RNG offers appealing economics and a promising growth trajectory.
2. Fit with existing operations and decarbonization goals of industrial and energy companies.
3. Upstream development of RNG is characterized by its fragmented and small-scale nature, making it more cost-effective to acquire project backlogs and development expertise rather than building from scratch.

While the majority of these transactions have focused on upstream portfolios, a notable number of deals in the downstream sector, such as Chevron's acquisition of Beyond 6, have underscored the value and advantages of an integrated model including distribution.



Sources: EPA, AgSTAR Data and Trends, Anaerobic Digester Facts and Trends, January 2023.



Sources: IEA, Biomass Magazine.

E85: Biofuel to Combat Greenhouse Gas Emissions

There has been a notable surge in bio- and renewable fuel production in recent years, primarily driven by the implementation of higher renewable fuel standard targets and increased motor gasoline consumption. This growth trajectory is expected to continue and to accelerate, following the passage of the Inflation Reduction Act (IRA). As part of the IRA, the US bio- and renewable fuel industry receives funding of USD 500 million to further enhance infrastructure, with a primary focus on improving blending capabilities, storing, and distributing bio- and renewable fuels.

The market's expansion going forward is expected to be driven by a combination of factors, including the implementation of more favorable subsidies, blending mandates, and growing public environmental awareness regarding the advantages of bio- and renewable fuels, such as ethanol.

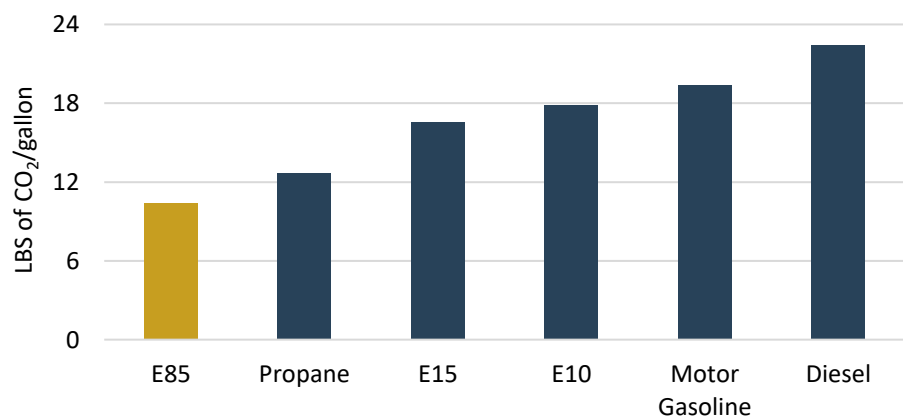
Presently, most motor gasoline is already blended with 10% ethanol by volume. Of the 263 million registered automobiles in the US, 93% can operate on E15, which is a blend between 10.5% and 15% ethanol and the rest gasoline. Around 8% of registered vehicles are flex-fuel vehicles that can run on ethanol blends up to E85, meaning 51% to 83% ethanol and 17% to 49% gasoline. Looking forward, the number of flex fuel vehicles is forecasted to grow further.

While E85 doesn't fully eradicate greenhouse gas emissions, it is a transitional fuel that significantly diminishes drivers' carbon footprints due to a cleaner manufacture and cleaner combustion. Relying more heavily on bio- and renewable fuels can also serve as insulation for the US fuel supply by safeguarding it against the unpredictable actions of the OPEC cartel and Russia in the oil market.

While the domestic E85 market is still small in comparison to regular gasoline, it is growing rapidly. Presently, there are already more than 4,200 public E85 stations in the US. Most of these outlets are in the Midwest and on the East Coast, close to ethanol feedstocks and most production capacity. However, in recent years, demand has also grown significantly on the West Coast, with California seeing a record \$104 million gallons of E85 sold in 2022 which makes it the fastest growing fuel in the state.

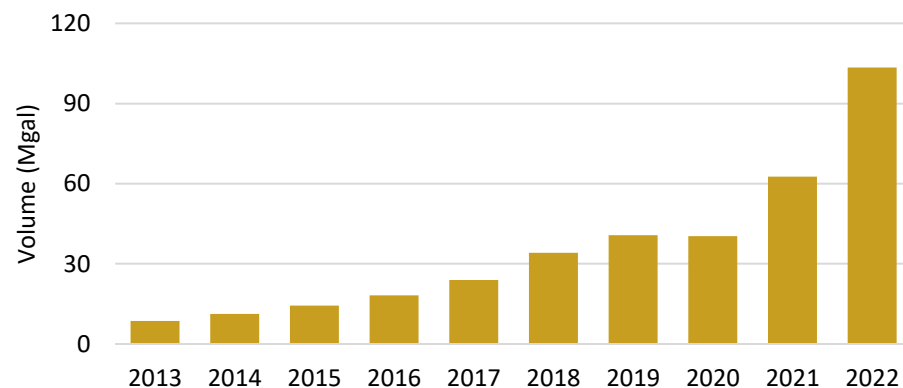
The recent growth in bio- and renewable fuels has attracted the interest of the oil majors and other large vendors in the space. Not only are these companies investing in production capacity for cleaner fuels, but they are also looking for outlets to distribute their produced gallons, be it through organic investments or through acquisitions.

CO₂ Emission Factors by Fuel Type



Sources: Inventory of US Greenhouse Gas Emissions and Sinks 1990-2020, US EPA.

E85 Sales in California p.a.



Sources: CARB, Renewable Fuels Association, US Department of Energy.

Regaining Momentum After Banner Year

After share prices throughout the energy sector soared during summer and fall of last year, they decreased significantly until the end of the second quarter in 2023. Outpacing the S&P 500 for most of 2022, energy equities have largely trailed the market benchmark index in 2023.

While Midstream stocks have been comparatively less volatile, Upstream and Downstream companies came under pressure. Their share prices suffered losses after reporting weak quarterly earnings in the first two quarters of this year but have made up ground since. Renewable shares, which were one of the champions of 2022, have declined significantly.

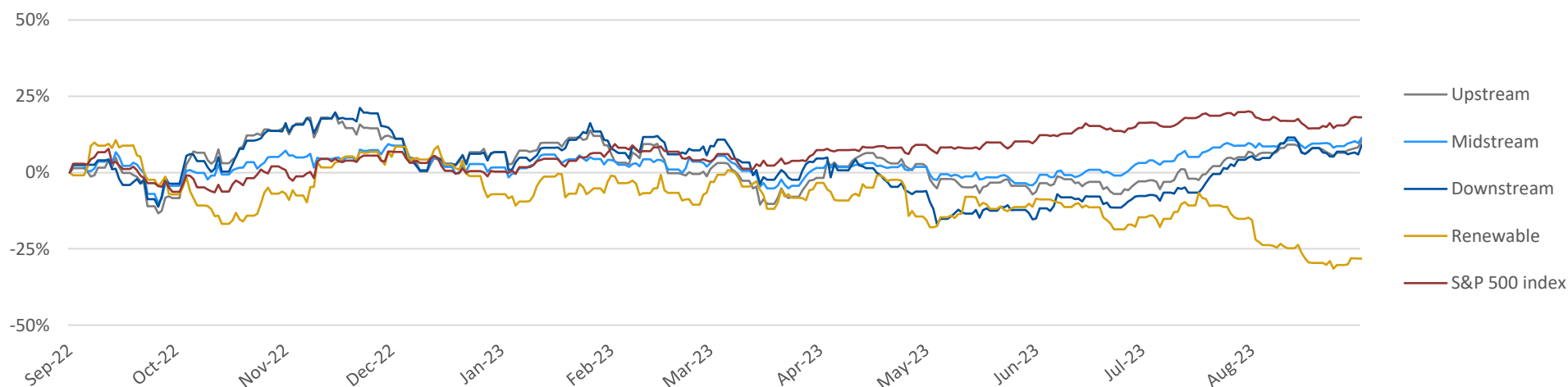
The overall energy slump in the beginning of the year can be traced back to two main factors. Firstly, fuel prices came down, demand ebbed, and margins compressed. This prompted analysts to correct projections downward with the potential danger of a recession looming large. Secondly, after hiking up interest rates aggressively last year, the Federal Reserve continued raising its benchmark rate in 2023. This consequently increased the cost of capital, leading to larger discounts on future cash flows and making capital expenditures more costly.

Pressure has since eased. Fears of a deep recession in 2023 have proven overblown and the Federal Reserve

has started to slow the pace of its rate increases. Coincidentally, prices and demand in many energy sectors have recovered over the summer, with most market participants in the sector now having a positive outlook for the remainder of this year and next year.

This positive market sentiment is underlined by a healthy mergers and acquisitions environment. Despite market pressures, Q2 of this year saw significantly more energy deals and more volume than in the same period last year. While financial acquirors might struggle to clear cost of debt hurdles, strategic acquirors have come out of 2022 flush in cash and are looking for meaningful ways to put their savings to work.

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 June 30, 2023 (USD in millions)

Company Name	Ticker	Market Cap	Enterprise Value	Last Twelve Months				
				Revenue	EBITDA	EBITDA Margin	Enterprise Value /	
							Revenue	EBITDA
Chevron	CVX	\$ 294,158	\$ 302,551	\$ 232,245	\$ 67,281	29.0%	1.3x	4.5x
ConocoPhillips	COP	125,374	133,348	75,543	33,353	44.2%	1.8x	4.0x
Diamondback Energy	FANG	23,788	31,361	9,079	7,252	79.9%	3.5x	4.3x
Devon Energy	DVN	31,020	36,937	19,180	10,403	54.2%	1.9x	3.6x
EOG Resources	EOG	66,931	66,087	28,316	15,665	55.3%	2.3x	4.2x
Exxon Mobil	XOM	433,610	450,134	394,585	106,170	26.9%	1.1x	4.2x
Hess	HES	41,744	49,452	11,422	5,798	50.8%	4.3x	8.5x
Marathon Oil	MRO	14,217	19,893	7,346	5,640	76.8%	2.7x	3.5x
Occidental Petroleum	OXY	52,435	81,066	35,510	20,926	58.9%	2.3x	3.9x
Phillips 66	PSX	43,766	59,953	168,207	18,846	11.2%	0.4x	3.2x
Pioneer Natural Resources	PXD	48,425	53,412	22,833	11,605	50.8%	2.3x	4.6x
Mean		\$ 106,861	\$ 116,745	\$ 91,297	\$ 27,540	48.9%	2.2x	4.4x
Median		\$ 48,425	\$ 59,953	\$ 28,316	\$ 15,665	50.8%	2.3x	4.2x

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

Public Company Analysis

Midstream

As of June 30, 2023 (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	\$ 22,333	\$ 37,810	\$ 16,795	\$ 5,797	34.5%	2.3x	6.5x
Cheniere Energy	LNG	37,017	64,606	33,254	14,309	43.0%	1.9x	4.5x
Energy Transfer	ET	39,894	101,726	88,380	12,673	14.3%	1.2x	8.0x
Enterprise Products Partners	EPD	57,298	86,931	57,622	9,031	15.7%	1.5x	9.6x
Hess Midstream Partners	HESM	1,744	4,942	1,268	978	77.1%	3.9x	5.1x
Kinder Morgan	KMI	38,594	71,041	18,795	7,194	38.3%	3.8x	9.9x
Magellan Midstream Partners	MMP	12,595	17,714	3,395	1,492	43.9%	5.2x	11.9x
MPLX	MPLX	33,980	55,919	10,589	6,184	58.4%	5.3x	9.0x
ONEOK	OKE	27,616	40,242	21,463	4,419	20.6%	1.9x	9.1x
Plains All American Pipeline	PAA	9,847	23,157	55,988	3,086	5.5%	0.4x	7.5x
Targa Resources	TRGP	17,200	31,056	20,491	3,870	18.9%	1.5x	8.0x
The Williams Companies	WMB	39,749	66,257	11,522	6,445	55.9%	5.8x	10.3x
Western Midstream Partners	WES	10,200	16,919	3,227	2,056	63.7%	5.2x	8.2x
Mean		\$ 26,774	\$ 47,563	\$ 26,368	\$ 5,964	37.7%	3.1x	8.3x
Median		\$ 27,616	\$ 40,242	\$ 18,795	\$ 5,797	38.3%	2.3x	8.2x

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

Public Company Analysis

Downstream

As of June 30, 2023 (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	\$ 1,106	\$ 1,103	\$ 469	\$ (18)	NM	2.4x	NM
CVR Energy	CVI	3,012	4,270	10,809	1,297	12.0%	0.4x	3.3x
Delek US Holdings	DK	1,574	3,783	19,711	960	4.9%	0.2x	3.9x
Enviva Partners	EVA	806	2,524	1,130	13	1.2%	2.2x	NM
HF Sinclair	DINO	8,579	11,576	38,311	5,038	13.1%	0.3x	2.3x
Marathon Petroleum	MPC	49,471	73,366	174,259	26,981	15.5%	0.4x	2.7x
New Fortress Energy	NFE	5,491	11,029	2,442	445	18.2%	4.5x	24.8x
PBF Energy	PBF	5,162	5,822	46,984	4,825	10.3%	0.1x	1.2x
Phillips 66	PSX	43,766	59,953	168,207	18,846	11.2%	0.4x	3.2x
Sunoco	SUN	3,662	7,494	25,689	811	3.2%	0.3x	9.2x
Valero Energy	VLO	42,406	50,406	174,280	20,971	12.0%	0.3x	2.4x
World Fuel Services	WKC	1,285	1,800	59,143	376	0.6%	0.0x	4.8x
Mean		\$ 13,860	\$ 19,427	\$ 60,120	\$ 6,712	9.3%	1.0x	5.8x
Median		\$ 4,412	\$ 6,658	\$ 32,000	\$ 1,129	11.2%	0.3x	3.2x

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

Public Company Analysis

Renewable

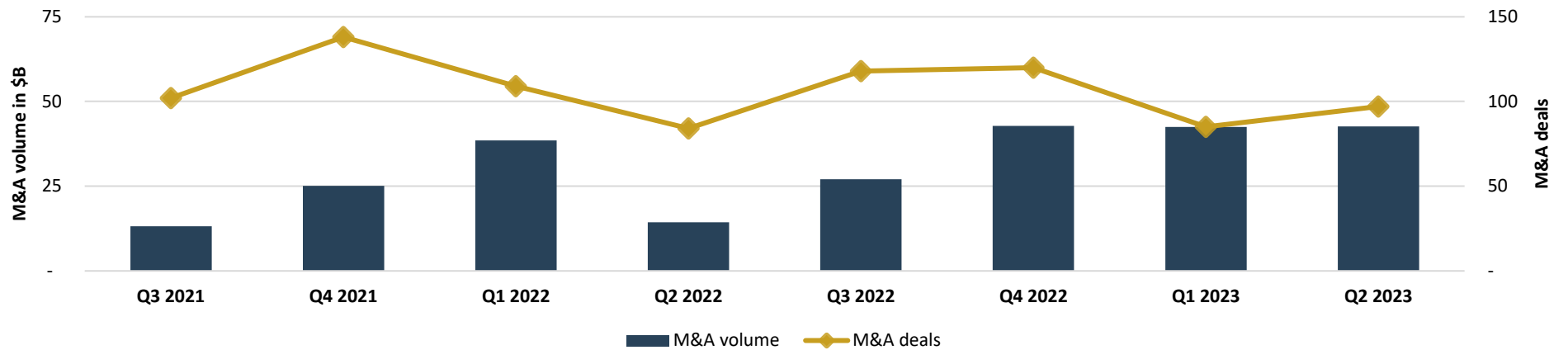
As of June 30, 2023 (USD in millions)

Company Name	Ticker	Market Cap	Enterprise Value	Last Twelve Months					
				Revenue	EBITDA	EBITDA Margin	Enterprise Value /		
							Revenue	EBITDA	
Brookfield Renewable Corp	BEPC	\$ 5,665	\$ 29,957	\$ 3,915	\$ 4,240	108.3%	7.7x	7.1x	
Enphase Energy	ENPH	22,952	22,472	2,616	617	23.6%	8.6x	36.4x	
First Solar	FSLR	20,306	18,403	2,801	334	11.9%	6.6x	NM	
NextEra Energy Partners	NEP	5,213	21,492	1,231	948	77.0%	17.5x	22.7x	
onsemi	ON	40,847	41,663	8,341	2,904	34.8%	5.0x	14.3x	
Ormat Technologies	ORA	4,804	6,655	736	395	53.6%	9.0x	16.9x	
Solaredge Technologies	SEDG	15,160	14,758	3,399	320	9.4%	4.3x	NM	
Sunnova Energy	NOVA	2,129	8,420	654	51	7.8%	12.9x	NM	
SunPower	SPWR	1,715	1,929	1,832	120	6.5%	1.1x	16.1x	
Sunrun	RUN	3,851	14,220	2,415	(119)	NM	5.9x	NM	
Mean		\$ 12,264	\$ 17,997	\$ 2,794	\$ 981	37.0%	7.8x	18.9x	
Median		\$ 5,439	\$ 16,581	\$ 2,516	\$ 364	23.6%	7.1x	16.5x	

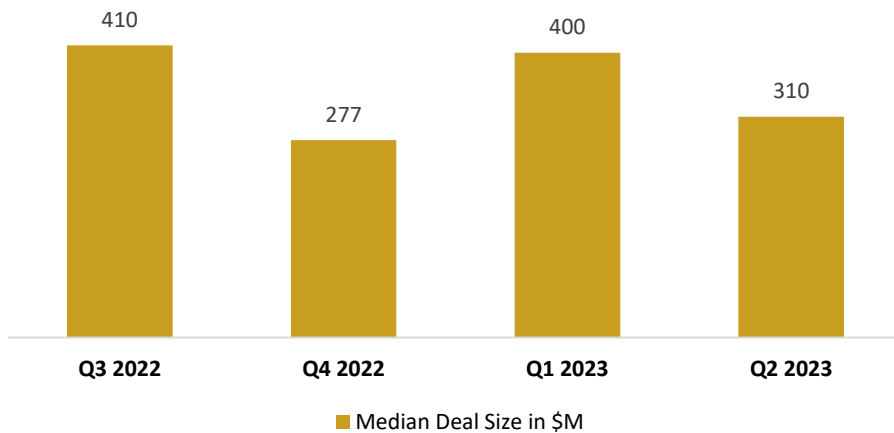
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M&A Trends in the Energy Sector

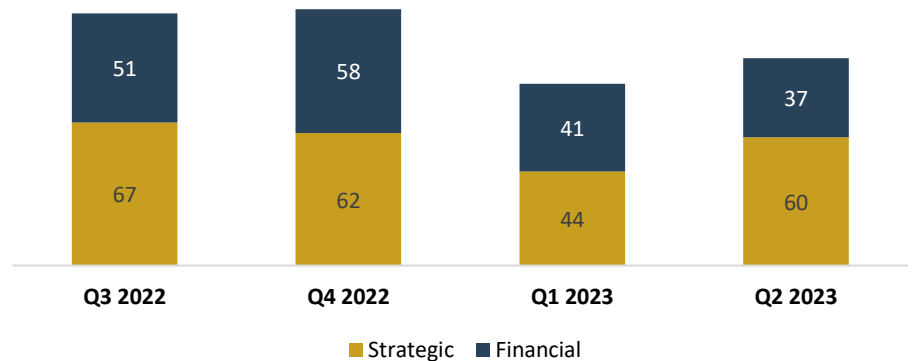
Deals and Volume



Deal Size



Activity by Buyer Type



Source: PitchBook.

Select Recent Sector M&A Activity

Date	Investor(s) / Buyer(s)	Target	Target Description	Deal Type	Value (\$M)
08-Sept-23	Energy Transition, Environment Management	Energy Harbor (carve-out)	Coal-fired power plant.	Buyout/LBO	Undisclosed
07-Sept-23	Repsol	ConnectGen	Provider of renewable energy and related services.	M&A	715
15-Aug-23	Earthstone Energy, Northern Oil & Gas	Novo Oil & Gas	Energy exploration and production company.	M&A	1,500
09-Aug-23	DCC Propane	San Isabel Services Propane	Distributor of propane gas.	M&A	Undisclosed
07-Aug-23	Chevron	PDC Energy	Energy exploration and production company.	M&A	7,590
30-Jun-23	Blackstone, CDPQ, Invenergy	American Electric Power (carve-out)	Portfolio of 1.2GW of wind capacity and 165MW of solar energy assets.	Buyout/LBO	1,500
19-Jun-23	Haffner's	Huhtala Oil & Propane	Distributor of heating fuels and propane gas.	M&A	Undisclosed
16-Jun-23	Baytex Energy	Ranger Oil	Energy exploration and production company.	M&A	2,488
12-Jun-23	Brookfield Renewable Partners	Duke Energy (carve-out)	Portfolio of 3.4GW of wind capacity and 1.7GW of solar energy assets.	Buyout/LBO	2,800
31-May-23	Superior Plus	Certarus	Provider of natural gas transportation services.	M&A	776
25-May-23	Suburban Propane	PacWest Propane	Distributor of propane gas.	M&A	Undisclosed
15-May-23	Gaubert Oil Company Incorporated	Morgan Oil Company (carve-out)	Distributor and retailer of commercial fuel.	M&A	Undisclosed
11-May-23	Boyett Petroleum	United Pacific (carve-out)	Wholesale fuels distribution business.	M&A	Undisclosed
01-Apr-23	Bakken Energy (Energy Exploration)	Dakota Gasification Company	Energy exploration and production company.	M&A	Undisclosed
28-Mar-23	Ontario Teachers' Pension Plan	Sevana Bioenergy	Operator of large-scale anaerobic digestion projects.	Buyout/LBO	250
02-Mar-23	Saudi Arabian Oil	Valvoline (carve-out)	Manufacturer of lubricants, coolants and other maintenance products.	M&A	2,650
01-Mar-23	ATRF, PSP Investment, TriSummit	Enstar Natural Gas	Distributor of natural gas.	Buyout/LBO	743
01-Mar-23	Prodos Capital, Sail Energy	Klebe Fuel Company	Provider of propane and heating oil delivery services.	Buyout/LBO	Undisclosed
08-Feb-23	Button Oil Co.	Phillips Fuel	Distributor of propane gas.	M&A	Undisclosed
26-Jan-23	Blarney Castle Oil	Alpena Oil	Operator of a chain of retail gas stations and convenience stores.	M&A	Undisclosed
26-Jan-23	Redwood Holdings, ThompsonGas	Gilbert Propane	Distributor of propane gas.	Buyout/LBO	Undisclosed

Source: PitchBook.

About DCA Partners

Strategic Advisory

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

Growth Through Acquisition

Our advisors help companies accomplish their growth objectives through a well-executed, acquisition-driven growth strategy that maximizes financial returns and mitigates risks — no matter how large, small, or specialized the transaction may be.

Sell Your Business

We bring technological sophistication, broad transaction experience, and deep industry expertise and relationships to every one of our sell-side engagements. The result is a world-class suite of services coupled with a unique and highly competitive transaction process that ultimately creates premium value for our clients.

Get In Touch

We are happy to answer your questions and provide a confidential, complimentary conversation regarding your strategic business goals.



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