

# Buying and Selling Companies in the Energy (Utilities & Mining, Oil & Gas) Sector

A step-by-step guide to finding the  
deal that's right for you.



**Energy Sector**  
(Utilities & Mining, Oil & Gas)



# Executive Summary

## The value of this guide

CDI Global has advised companies on mergers and acquisitions (M&A) for over 45 years. We have a deep knowledge of the Energy, Utilities, Mining, Oil and Gas (Energy) sectors and understand the prime importance of making informed choices in this complex global industry. Opportunities are plentiful, but so are potential pitfalls. Until now you may have been sufficiently concerned by the latter to miss the former. This guide aims to explain both and demonstrate that, with the right expertise, there are deals to be made that can greatly benefit your business.

## Who is it for?

Companies throughout the Energy sector and those seeking investment opportunities, such as private equity firms. In particular, senior executives and owners of smaller and middle market companies who want to know more about mergers and acquisitions in Energy, whether it has been on their 'to do' list or not. If you've never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

## Key takeaways

- The state of the Energy sector M&A current market
- The benefits of buying or selling
- M&A - the promise and pitfalls
- Auctions - is there another way to buy?



## Get an experienced perspective on your Energy sector ambitions

CDI Global works with Energy businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our experts by phone or Skype™.

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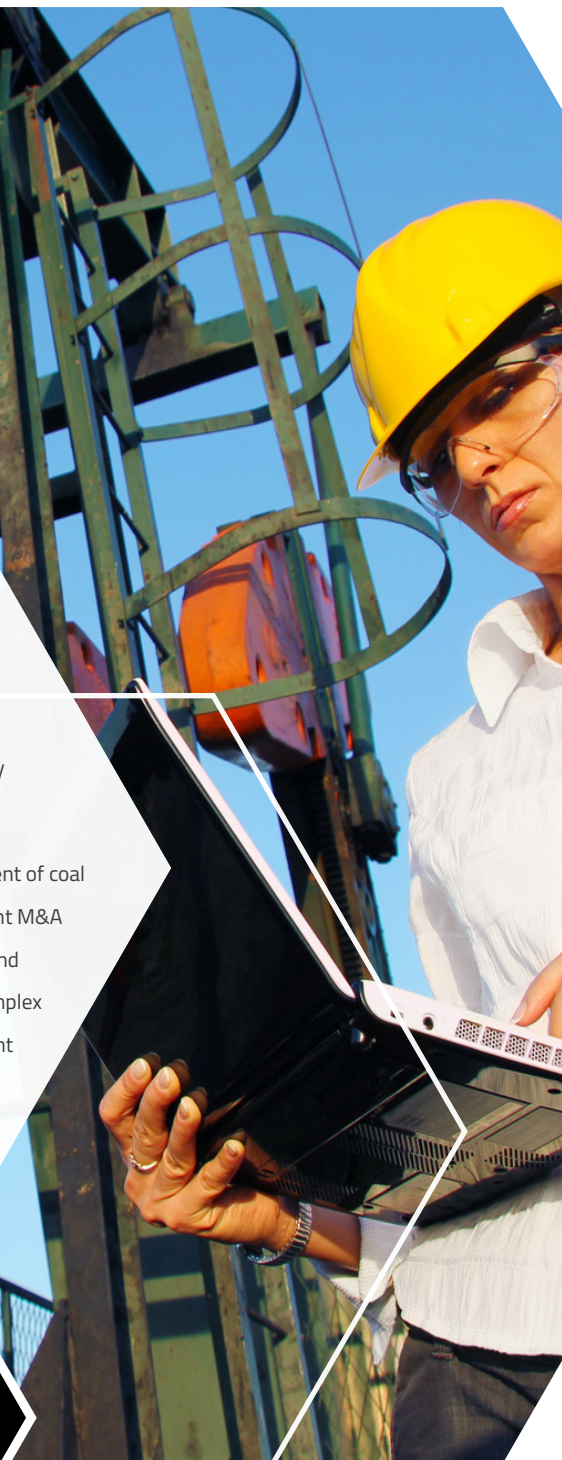




## Why buy or sell in the Energy sector?

The Energy, Utilities, Mining, Oil and Gas Sectors are huge global Industries with a significant number of large multinational players. However, there are thousands of small and medium sized players that are developing new technologies to generate energy including solar, wind, biomass and natural gas (derived from shale fracking), transport and store energy and its main product electricity (including electric vehicles), as well as to develop downstream industries fueled by energy, electricity and the minerals recovered from the mining industry.

Although energy growth is forecast by IEA at only +1.3% yearly growth through 2040, the replacement of coal and other higher carbon emitting fuels with alternative energy and natural gas is providing significant M&A opportunities in all aspects of the Energy supply chains. The right acquisition can deliver Research and Development (R&D), diversification and access to new markets in one deal. The Energy sector is complex and there is simply no single best strategy. However, one thing is certain: the right 'fit' is as important as the right price and, for this, custom-tailored deals informed by sector expertise are best.





## Where do the opportunities lie?

Everywhere! Opportunities are continually developing:

- Where there is either significant growth, whether that be by increased energy demand in certain parts of the world like Asia and Africa.
- Due to the need for energy independence, which the US achieved through the use of fracking shale rock.
- From the need to protect our environment by substituting alternative renewable energy solutions (solar, wind, biomass) for fossil fuel use to address climate change considerations.

M&A Opportunities lie in all aspects of the Energy, Utilities, Mining, Oil and Gas Production and their respective supply chains. While the largest oil fields, mines, and mega mergers in the Oil & Gas and Mining Industries may be beyond the reach of CDI Global, there are myriads of mid-sized M&A opportunities in alternative energy generation, mining materials development, energy transmission and storage, fracking, and novel technology. Since 850 million inhabitants on earth still have no electricity, this represents another huge M&A opportunity, especially in the small plant electric generation field, including solar, wind, hydro, and gas-fired generation.



# What are the challenges?



**Private equity firms in particular continue to find the most highly valued companies out of reach because the premium often comes from post-acquisition synergies that are much easier for a strategic buyer to realize.**

However, with the recent expansion and subsequent downturn in energy prices, private equity firms have made significant investments in all aspects of the energy and mining sectors. Both private equity and strategic firms continue to compete in auctions because of the availability of cheap debt. Oil prices that were over \$100/barrel during the past decade are currently half that value in this highly cyclical commodity. How long these low prices and cheap debt environment will continue is unknown but is currently fueling the M&A market.

The biggest challenge to the Energy market today is the need to control emissions and reduce the potential impact of global warming. The mining industry is facing the potential cornering of certain markets by individual countries who would potentially increase the need for country independence of supply. For electric generation, the biggest challenge is to provide electricity economically to those parts of the globe not easily developed.

## **The political environment**

It is always a challenge to manage the economics, environmental costs, and benefits while dealing with the political situation of individual countries. That's why when considering M&A, it is really important to get an independent advisor to test the logic of the deal and put forth counter strategies, including organic growth of your business. Local expertise can be invaluable for navigating laws, regulations, and potential political barriers.







"Identify the Right Opportunity"

# What to do if you're looking to buy.





**"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."**

## 1 The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target.

## 2 Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

## 3 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

## 4 Identifying the right opportunity:

As we have said, many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

- i. A steadily growing sales and profit profile
- ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
- iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

## 5 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus that arrives in the post, to be read at your leisure. But there are three immediate disadvantages:

- i. The prospectus will often go to many other potential buyers, thus inviting maximum competition.
- ii. You may receive it irrespective of the suitability of the offer, which can distract from the original goals.
- iii. The focus for the bank conducting the auction is getting the best price for the seller.

So your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

## 6 Why use a specialist?

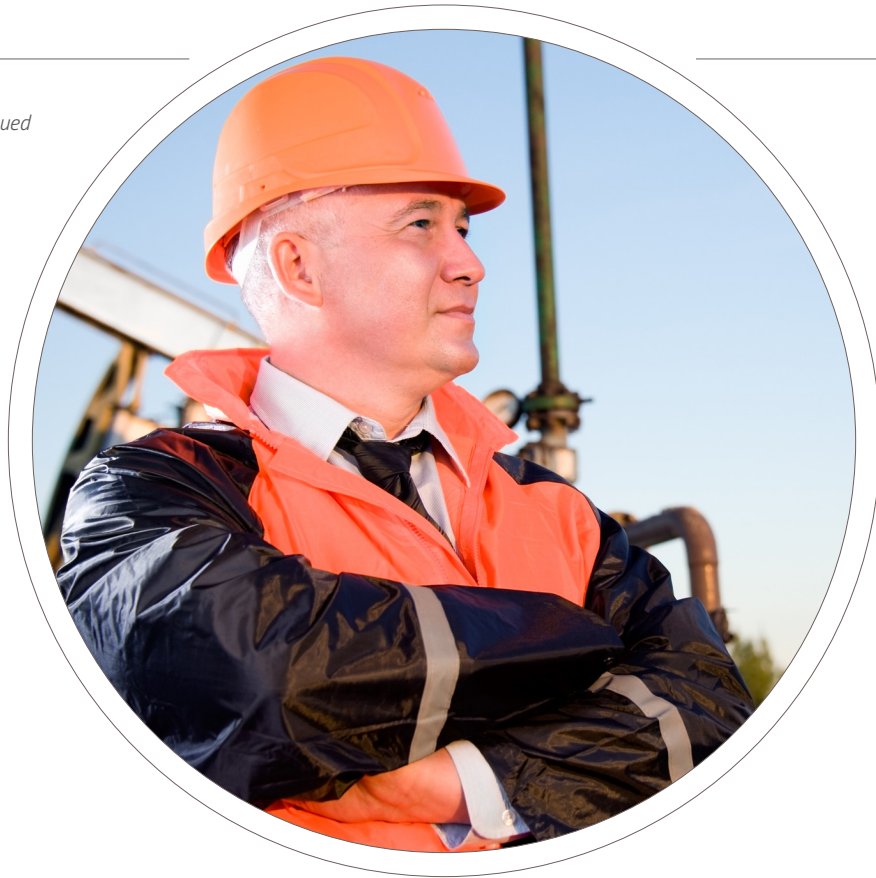
Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.





What to do if you're looking to buy...continued



**"We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction."**

## 7 Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

- i. The seller appears not to be irrevocably committed to selling.
- ii. The seller has limited or poorly prepared due diligence materials.
- iii. The seller may not have proper support from professional advisors.
- iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
- v. The business starts to under-perform or miss key financial targets.
- vi. The seller reneges on key aspects that have already been agreed.
- vii. Due diligence uncovers one or more 'skeletons in the closet'.

However, cross-border deals in the Energy sector can have specific pitfalls, especially when dealing in certain Asian countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help. We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.

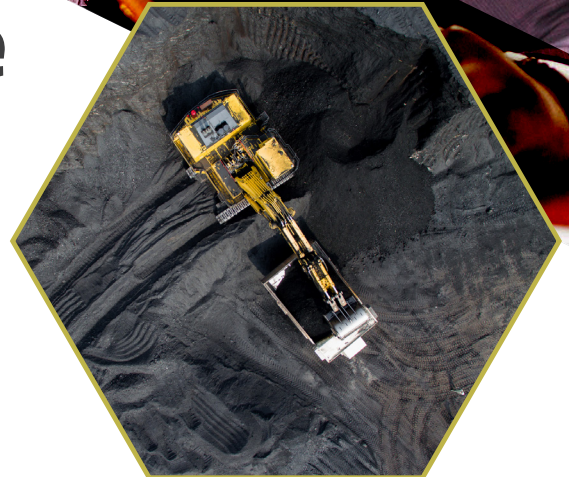
## 8 Managing the transition:

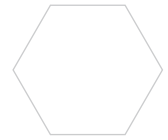
With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately once the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.





# What to do if you're looking to sell?





## 1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

## 2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

## 3 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more sale-able. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

## 4 Due Diligence:

What does a 'good' buyer look like?:

- i. They have the right attitude and commitment to do the deal.
- ii. They can provide proof of sufficient finances to complete the transaction.
- iii. They have the resources, in particular the right people, to progress the deal.
- iv. They have a track record of closing other similar deals.



## 5 Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?



# About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 45+ years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

**We have the knowledge.  
Would you like to reap the benefit?**

CDI Global offers expertise in:

- Energy sectors – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Custom-tailored, pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support.
- Extensive network of contacts, particularly among privately owned companies in the Energy sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing “not-for-sale” vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.



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