



ALVAREZ & MARSAL IBERIAN ENERGY GROUP

Spanish Energy Deal Pulse

FY2023 analysis

Introduction

In this report, A&M Spain's Energy group analyses the evolution of the transactions in the energy sector of the last quarter of 2023 and the beginning of 2024.

A&M Energy Point of View (PoV) in Spain

In our YTD2023 report (August 2023), 268 closed deals were recorded in the energy sector in Spain over 2021-YTD2023. The end of the year has continued this active trend, adding 25 more transactions.

As expected, renewable sources are the most transacted technology, accounting for 92% of total energy transactions in FY2023.

Although most closed transactions involved specific asset acquisitions or majority interests that conferred control, there have recently been transactions involving the sale of minority stakes by significant players in the sector to secure financing for their strategic growth plans.

2024 has started with announcements of significant transactions and new developments that were previously stalled. In this regard, 2024 will be a good year for transactions, leaving behind 2023, which proved to be more challenging than anticipated.

FY2021-FY2023 Transactions – Quarterly distribution

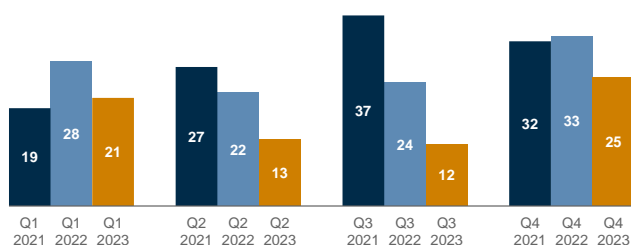


Figure 1: Prepared by A&M according to Mergermarket data

Energy deal-flow levers

As we anticipated in our YTD2023 report, the Spanish government fully supports the renewable sector. In this context, a new extension of time to obtain construction permits has been granted. This milestone has increased investor appetite,

unlocking many developments awaiting this extension due to a significant backlog in permit processing.

In this regard, we believe there will be further extensions when deadlines approach.

Green boost

In 2023, generation from renewable sources has surpassed conventional sources for the first time, reaching a 52% share, which pushes pool prices down.

Considering the backlog of projects to be built in the short term, we expect this figure to continue growing if challenges are addressed.

RES Generation (%)

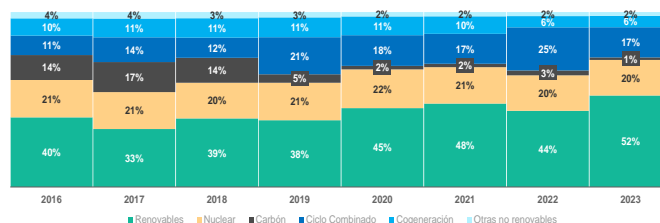


Figure 2: Prepared by A&M according to Red Eléctrica de España data

New Technologies

In our previous report, we highlighted two new technologies to follow. Despite their use being completely different, we consider that both are a must for the energy transition's success.

Battery storage remains attractive for enhancing energy management and reducing curtailments and technical constraints. However, with current pool prices, the investment in batteries is not profitable, and regulatory intervention is expected from the government to incentivise their deployment through capacity payments or complementary revenues. Until this issue is solved, this technology remains unattractive to investors, and we expect little transactional activity in standalone basis. What we expect to see are transaction where renewable assets are hybridised with batteries as part of the portfolio.

On the other hand, despite **Green Hydrogen** still being a very expensive technology with reasonable doubts about its

¹ Statistics based on the number of transactions and not on transaction value.

profitability in the medium term, some green hydrogen projects have been announced in Spain, indicating that we may soon witness M&A transactions. Although many questions about its regulation regarding permitting (renewable hydrogen) are still pending, investors bet on reducing costs while reaching critical mass and expect further governmental support compared to battery storage.

Challenges

Nevertheless, favourable figures concerning generation and transactions fail to highlight an unresolved latent issue in the Spanish energy sector. Contrary to expectations outlined in the PNIEC, electricity demand has decreased by 2.1%.

An increase in renewable generation, a corresponding decline in electric demand, and inadequate investments in transportation infrastructure contribute to the ongoing downward trajectory of pool price estimations.

In this regard, to solve this issue, the market is demanding a regulation for storage to manage energy prices. At the same time, this is why the PPA contract market is still increasing (250.471GWh closed in Spain in 2023 vs 244.665GWh in 2022).

Energy prices (€/MWh)

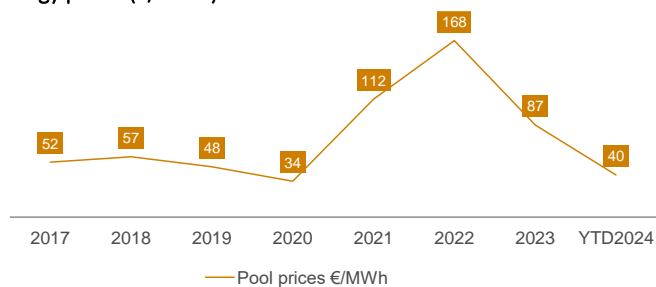


Figure 3: Prepared by A&M according to OMIE data

Valuation Multiples

Guideline Public Comparable Companies

EV/EBITDA multiple

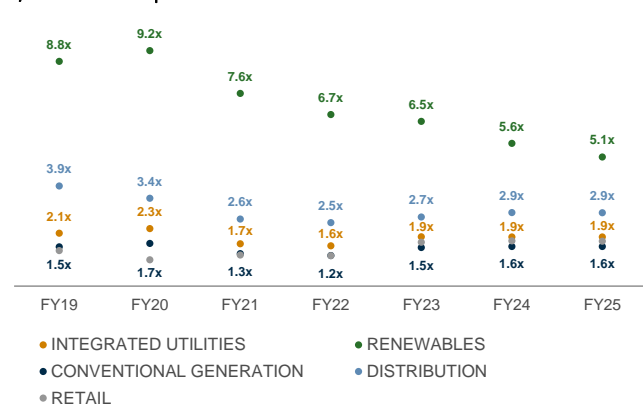


Figure 4: Prepared by A&M according to Capital IQ data and internal sources

Comparable Transactions

EV/MW multiple (FY23)

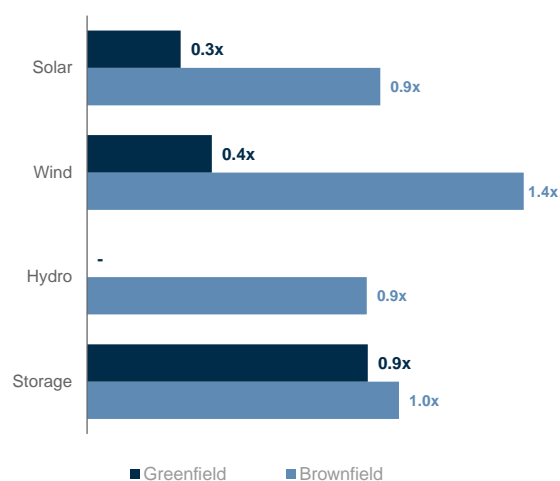


Figure 5: Prepared by A&M according to Mergermarket and internal sources

¹ Statistics based on the number of transactions and not on transaction value.

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With over 8,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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