

# ENERGY SECTOR M&A ON THE RISE AS PRIVATE EQUITY FUNDS EYE ASSETS

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**Government reforms to energy tariffs mean assets in the renewables sector now represent considerably more viable investments, with wind farms and photovoltaic plants proving particularly attractive**

M&A activity in the Spanish energy sector is on the increase with investors – including private equity funds – showing renewed interest in assets as a result of government reforms to energy tariffs, according to lawyers. Major transactions in recent months included Bridgepoint Advisers sale of Bora Wind Energy Management to Exus Management Partners for €500m and Cerberus Capital Management's €1 billion purchase of Renovalia Energy. Firms advising on these deals included Allen & Overy, Linklaters, DLA Piper and Watson Farley & Williams (WFW).

Consequently, lawyers are optimistic about the outlook for energy-related M&A in the coming year. "The assets particularly in demand are renewables assets," says Linklaters partner Alejandro Ortiz. "Within the renewables, those assets that appear to be most attractive are wind and photovoltaic assets, although we are also seeing interest in concentrated solar power plants."

María Pilar García Guijarro, partner at Watson Farley & Williams and head of the firm's Madrid office,

says the incentives for investors to acquire energy-related assets have increased. "The energy sector, especially renewable energy, has become very attractive after reforms to the regime," she says. "The market had a heavy electricity deficit because of the old feed-in-tariffs, which effectively saw the system pay out more money than it received."

Indeed, following the Spanish government's decision to slash its feed-in-tariff rates – on a retrospective basis – back in 2010, a host of providers launched legal action for damages and this led to the energy deficit. Since then, the government has taken steps to remove the deficit, and has introduced payments based on installed capacity and costs.

"The reform has changed the way the tariffs are set so the prices have also stabilised, making energy assets a viable investment, especially as there is a limited number of alternative assets in Europe," García Guijarro says. She points out that many projects are being restructured and refinanced because they could not service the debt payments in the agreed timescales, which resulted in some investors selling off their holdings in projects because they had lost part of their equity so there would be little in the way of dividends. García Guijarro adds that this has had the effect of "opening the door to M&A investors, mainly private equity funds, to buy assets at good prices".



## €1bn

Amount Cerberus Capital Management paid for Renovalia Energy earlier this year, representing one of the largest deals ever in the Spanish renewable sector. Cerberus was advised by Watson Farley & Williams on the deal – the firm's Madrid office head María Pilar García Guijarro says the deal confirms the "attractiveness of the Spanish renewable industry as a prime investment opportunity". Renovalid was advised by Bird & Bird

## 'Buy and build' opportunities

Cuatrecasas, Gonçalves Pereira partner Luis Pérez de Ayala says the most active players in the market are medium and long-term financial investors seeking attractive, but stable, returns as well as large investment

funds looking for "sizeable platforms to develop a buy and build strategy". However, he adds that, while he expects the M&A trend to continue in the coming months, it should end once the bigger platforms are acquired, leading to a period of consolidation where new investors will be trying to make their investments more efficient in order to improve the potential returns when the platform is sold on in the future.

Ortiz claims that a potential threat to the pipeline of energy-related M&A deals is the political situation in Spain, specifically the uncertainty that comes from not knowing who will form the next government. However, he adds: "On the other hand, due to the great appeal that these types of assets have and because, increasingly, more investors are interested in them, competition in the sector is much greater."