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## **DYNAMICS OF INDUSTRIAL CONSOLIDATION IN THE EU27 ELECTRICITY AND GAS INDUSTRY (2009-2014)**

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### **Overview**

This paper contributes empiric evidence about the ongoing consolidation process in the European electricity and gas industry. The research focuses on the period between 2009 and 2014, on one hand, analyzing the impact of the global financial crisis representing an exogenous, negative shock on the electricity and gas industry's dynamics resulting in the decreased industrial demand with setbacks on the firm's organic growth perspectives, and on the other hand, regulatory and policy pressures limiting the options of external growth strategies.

### **Methods**

The analysis of the empiric transaction data bases on the SDC Platinum Mergers & Acquisitions database [1]<sup>1</sup> for this period between 1<sup>st</sup> January, 2009 and 31<sup>st</sup> December, 2013. The dataset consists of round 2,300 transactions with a deal volume of round bn220US\$ referring to the EU27 member states<sup>2</sup>. This enables the analysis of the intra-industrial consolidation within the EU27 target market, as well as, evaluating the dynamics of EU27 entities outside the EU27. The industry focus is set on companies in the electricity sector (up-, mid-, and downstream)<sup>3</sup>, and in the gas sector (mid-, and downstream).

### **Results**

There have been realized several large-scale transactions at the current stage of the consolidation process in the EU27 electricity and gas industry, facing a difficult market and encountering regulatory pressures. There have been realized several, large divestments and takeovers focussing on business and debt restructuring during the observation period. Table 1 illustrates the top-10 deals within the observation period and are ranked per deal volume. The Pan-European consolidation is now entering into the last merger endgame phase [3], where the complexity among the incumbent increases in deal structure and geographic scopes as the transactions are becoming increasingly larger, more international and regulatory bodies increasingly restrictive. Building strategic alliances, and/or expanding in markets outside the EU27, and/or developing new markets/technologies are increasingly becoming the only alternatives to achieve growth strategies under the current situation.

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<sup>1</sup> Data query selected SIC 4-digit code: 499A (Electric, Gas, and Water Distribution), 4911 (Electric Services), 4922 (Natural Gas Transmission), 4923 (Natural Gas Transmission and Distribution), 4924 (Natural Gas Distribution), 4925 (Mixed, Manufactured, or Liquefied Petroleum Gas Production), 4931 (Electric and other services combined), 4932 (Gas and other services combined), 4939 (Combination Utilities, not elsewhere classified).

<sup>2</sup> EU27 member states: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Malta, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden.

<sup>3</sup> See [2] for definition of up-, mid- and downstream

The deal volumes of this merger wave (2009-2014) have decelerated in size peaking in 2008 after the biggest merger wave (2003-2008), meanwhile the transaction quantity remained relatively constant in the EU27 – but on a comparable low level, for example, like the years 2001, or 2003.

Table 1. League Table: Top 10 closed deals between 2009 and 2014 (ranking per deal volume)

Rank	Acquirer	Target	Deal type	Rank date	Volume [mil. US\$]
1	International Power plc (UK)	GDF Suez Energy Europe (BE)	Reverse merger	10/08/2010	25,056
2	Electrabel SA (BE) from GDF Suez SA (FR)	International Power plc (UK) from GDF Suez SA (FR)	Portfolio transfer	29/03/2011	12,855
3	RWE AG (DE)	Essent NV (NL)	Takeover	12/01/2009	10,410
4	Investor Group	EDF Energy plc (UK) from EDF SA (FR)	Divestment	30/07/2010	9,056
5	PPL Corp (US)	Central Networks plc (UK) from E.on AG (DE)	Takeover/Divestment	01/03/2011	6,505
6	Neckarpri GmbH	EnBW AG (DE) from GDF SA (FR)	Takeover/Divestment	06/12/2010	6,214
7	Vattenfall AB (DK)	Nuon NV (NL)	Acquisition (49%)	23/02/2009	6,138
8	Alstom SA & Schneider Electric SA (FR)	Areva T&D SAS (FR)	Takeover/Divestment	20/01/2010	5,768
9	Cassa Depositi & Prestiti SpA (IT)	Snam SpA (IT)	Acquisition (30%+ 1 Share)	30/05/2012	4,349
10	Investor Group	Thuega AG (DE) from E.on Ruhrgas AG (DE)	Takeover/Divestment	12/08/2009	4,119

(Source: based on SDC Platinum, 2014)

## Conclusions

The European electricity and gas industry's M&A activities were decreasing during the years 2009-2014, indicating a pro-cyclical merger-wave analogically to the general economic development (e.g. Gross Domestic Product, electricity consumption). The transactions remained relatively constant in annually quantity, but, the total deal volume decreased to a comparatively low level during the considered period in comparison to the previous years (e.g. [4]). It remains thrilling how the industry, its markets and the regulation policy will shape and develop in future.

## References

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