



EGSA SPRING CONFERENCE 2022

M&A TRENDS AND TRANSACTION OPTIONS FOR BUSINESS OWNERS

March 8, 2022



Agenda



M&A Market Overview:
Distributed Energy



The M&A
Transaction Process



Alternatives to M&A:
ESOPs and Internal
Transactions



M&A MARKET OVERVIEW – DISTRIBUTED ENERGY

Distributed Energy is a Critical Component of the U.S. Energy Transition



Power Generation – Gas / Coal Generation

Critical Issues:

- Demand / Capacity Issues
- Green Transition
- Environmental and Regulatory Compliance

DER Solutions:

- Augments Capacity
- Microgrids and Energy Storage support Green Initiatives
- Energy Efficiency Simpler than Plant Expansions



Transmission & Distribution

Critical Issues:

- Aging Infrastructure
- Efficiency
- Climate Change / Natural Disaster Response

DER Solutions:

- Limits Dependence on Grid
- Improves Efficiency Driven by Transmission Loss
- Limits Network Dependence



Residential / Commercial User

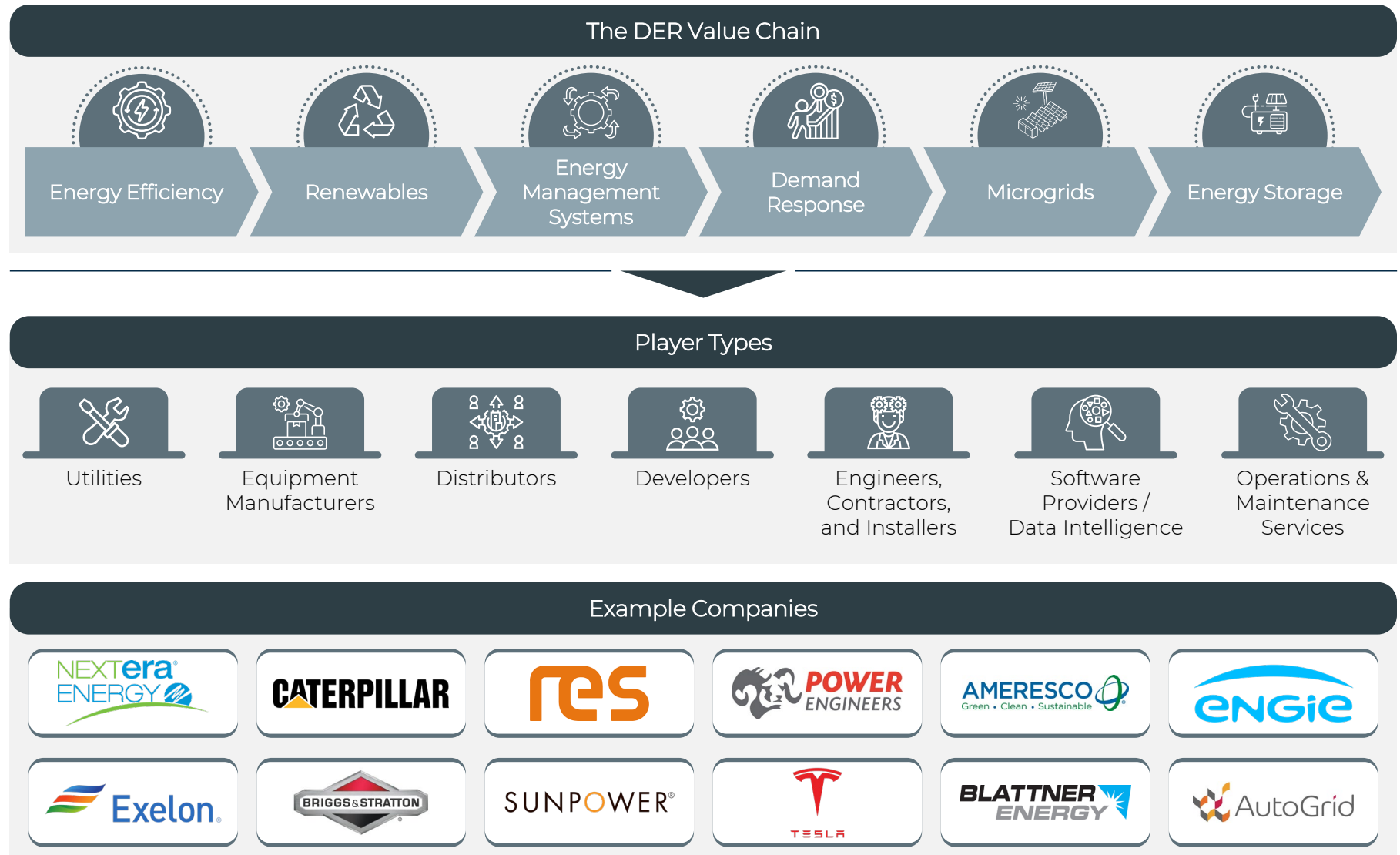
Critical Issues:

- Reliability
- Efficiency
- Cost / Inflation

DER Solutions:

- Improves Reliability & Efficiency
- Improves Wind / Solar Uptake
- Higher Commodity Prices Incentivize DER Solutions

The DER Value Chain Consists of Many Traditional Players



High Fragmentation and Strong Growth Prospects Create Fertile Ground for M&A



The DER market is highly fragmented with the top five players in ESCO, OEM's, Utilities, Integrators, and Software representing only 25% of total industry sales¹.

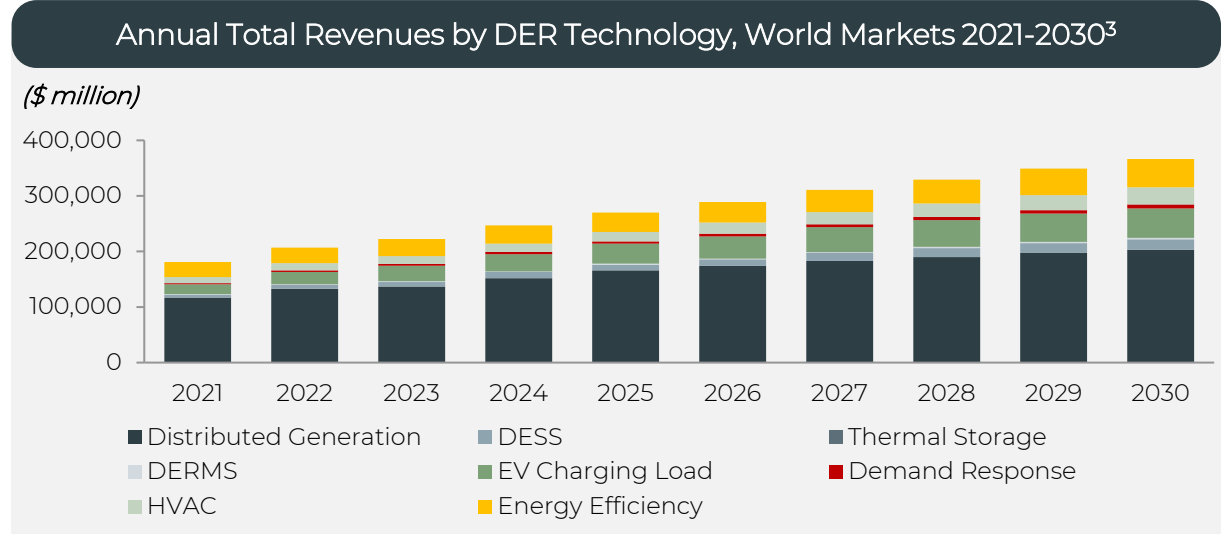
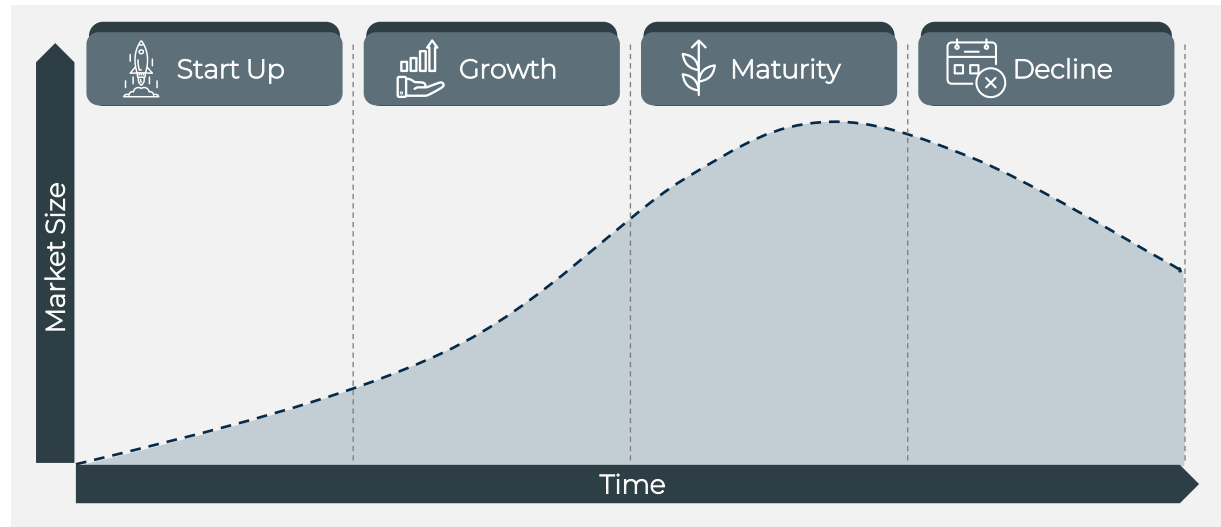


The global distributed energy generation market is expected to grow at 11.5% annually through 2027² with residential solar, energy storage, and EV infrastructure expected to exceed that growth rate.



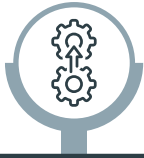
Multiple, well-capitalized buyer segments, from utilities, to manufacturers, to developers and integrators, are all driving to bolster their positions and gain market share.

The early-stage nature of the DER market, its (currently) fragmented nature, and the expected growth will drive increasing levels of M&A activity over the next decade.



1. Source: BCG; 2. Source: GrandView Research
 3. Source: Guidehouse Insights - Global DER Deployment Database 1Q21

... While Changes in Energy Distribution are Driving New Platforms and Structures



Vertical Integration

Improving competitive advantage through the acquisition of upstream suppliers or downstream vendors. This is an especially active market with regards to advancement in technological offerings, e.g., software



Horizontal Integration

Acquiring competitors to expand geographic market access and/or limit competition

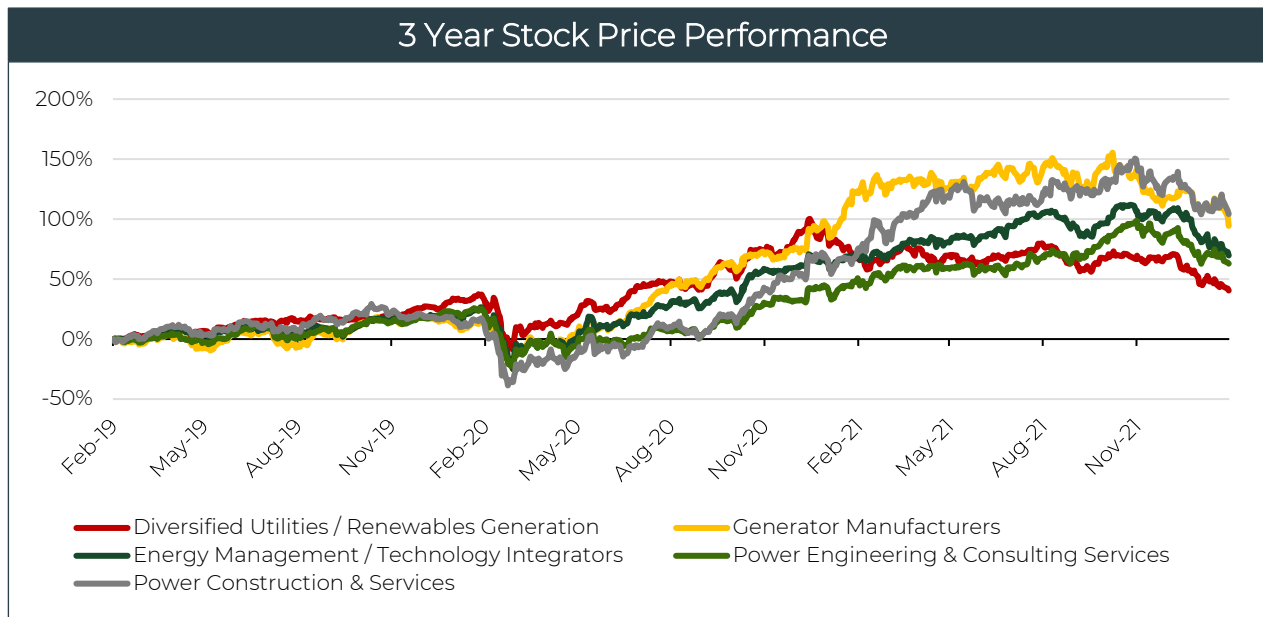
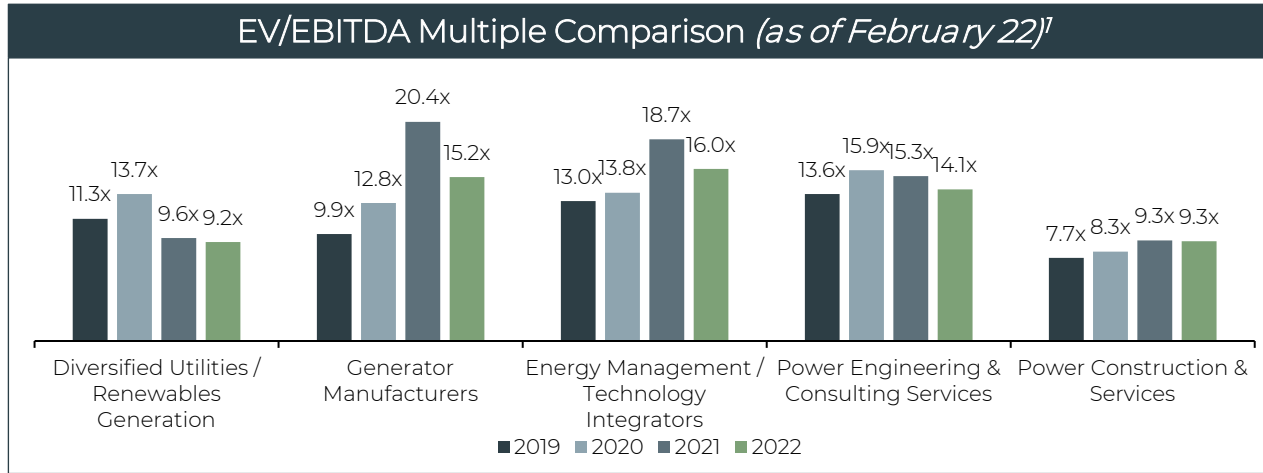


Market Entry / Access

Market entry to gain entry in the marketplace



Public Company Valuation Trends



Representative Firms

- Diversified Utilities / Renewables Generation
 - ENGIE
 - AMETEK
 - NEXTERA ENERGY
- Generator Manufacturers
 - CAT
 - GENERAC
 - JOHN DEERE
- Energy Management / Technology Integrators
 - AMERESCO
 - Honeywell
 - Johnson Controls
- Power Engineering & Consulting Services
 - AECOM
 - Jacobs
 - wsp
- Power Construction & Services
 - QUANTA SERVICES, INC.
 - MYR GROUP
 - MasTec

1. Excludes EBITDA multiples <5.0x and >25.0x



THE M&A TRANSACTION PROCESS

The M&A Process Requires Substantial Preparation and Attention to Detail

A typical sell-side processes will require six to nine months to complete and include the following key phases:

- Investment Bank (“IB”) conducts its own due diligence, assessing all aspects of the business to identify transaction risks and issues that may affect buyer interest and valuation
- Third-party service providers are contacted to perform Quality of Earnings, Appraisals, Market Studies and Rep & Warranty Insurance, if applicable
- IB prepares an online, secure data room of critical information necessary for buyers to evaluate the company
- IB prepares list of prospective buyers and obtains client approval of the buyer list
- IB works with owners and management team to create marketing documents, including a confidential information memorandum (CIM), management presentation, and other materials, as needed
- IB contacts prospective buyers, executes an NDA with interested parties and distributes marketing materials
- IB solicits Indications of Interest (“IOIs”) to gauge market interest and likely buyer groups
- Selected parties attend a management presentation with the company to ask questions and understand cultural fit. Access is also provided to the online data room
- Interested parties submit formal letters of intent (LOIs). IB works to negotiate optimal valuation and terms prior to execution with a selected party or parties
- Buyers conduct a thorough evaluation of the company’s financials, operations, human resources, taxes, environmental risks, and other factors
- IB works with your attorneys and accountants to negotiate a purchase agreement with the buyer that fits your needs and appropriately allocates transaction risks
- The agreements are signed, the transaction is funded, wires are initiated, and the transaction closes. The transaction is announced, and the buyer begins operating the new company



① Preparation



② Marketing



③ Diligence



④ Closing

Key Questions for Company's Preparing for a Sale

1



Objectives

- What are your transaction objectives?
 - Cash? Legacy? Strategic Partnership? Growth Capital? Other?
- Is your ownership group open to rolling equity into a new company?
- Will overall price / consideration drive your decision, or is total cash at closing the key factor?

2



Value
Proposition &
Key Transaction
Risks

- What aspects of your business provide competitive advantage?
- Does the company have actionable growth prospects?
- How consistent is your revenue and margin performance?
- What are the critical risks that may impede a deal?
 - Employee and Customer retention?
 - Contractual Assignment and Vendor Agreements?
 - Environmental Issues?
 - Ongoing Litigation?

Key Questions for Company's Preparing for a Sale

3



People

- Who will be involved internally?
 - Can this group provide consistent financial and operational documentation and support throughout the transaction process?
 - Can this group present the business effectively to prospective acquirers?
 - Does this group demonstrate leadership consistency beyond current ownership?
- Who will be involved externally?
 - Do you have a trusted group of advisors who understand the tax, legal, and accounting aspects of a transaction?

4



Process

- Who are the most likely acquirers?
- Which acquirers have the most to gain (synergies) from a transaction?
- How many buyers are likely to have interest?
- How critical is confidentiality to the transaction process?



ALTERNATIVES TO M&A: ESOPS AND INTERNAL TRANSACTIONS

Seller Transaction Alternatives

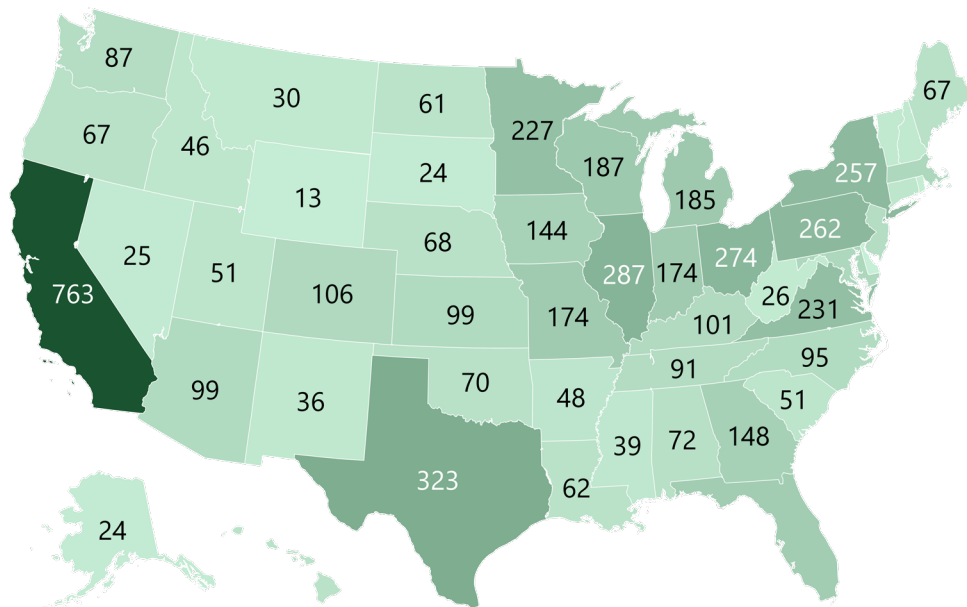


ESOP Snapshot

ESOP Facts

- 1974: legal framework for ESOP established
- Since 2014, an average of 254 ESOPs have been created annually
- Manufacturing, professional / tech. services, and constructions are the most popular industries for ESOPs
- ~7,000 ESOPs in the U.S.
- ~14 million participants
- S-Corporation ESOPs pay no federal or state taxes

ESOP Companies by State



Powered by Bing
© GeoNames, Microsoft, TomTom

3 Main Characteristics

Ownership
Transfer
Tool

Significant
Tax
Advantages

Qualified
Retirement
Plan

Most Popular ESOP Industries

Construction



Engineering



Banking



Manufacturing



What Makes a Good ESOP Candidate?



Strong and Experienced
Management Team



Desire
for Independence



Profitable and Favorable
Growth Prospects



Solid and Tested
Operating Model



Employees are Key Assets



Concerned About Legacy



Control Over
Timing of Exit



Desire for Tax
Advantaged Exit

Internal Ownership Transfer Options

Method



Overview

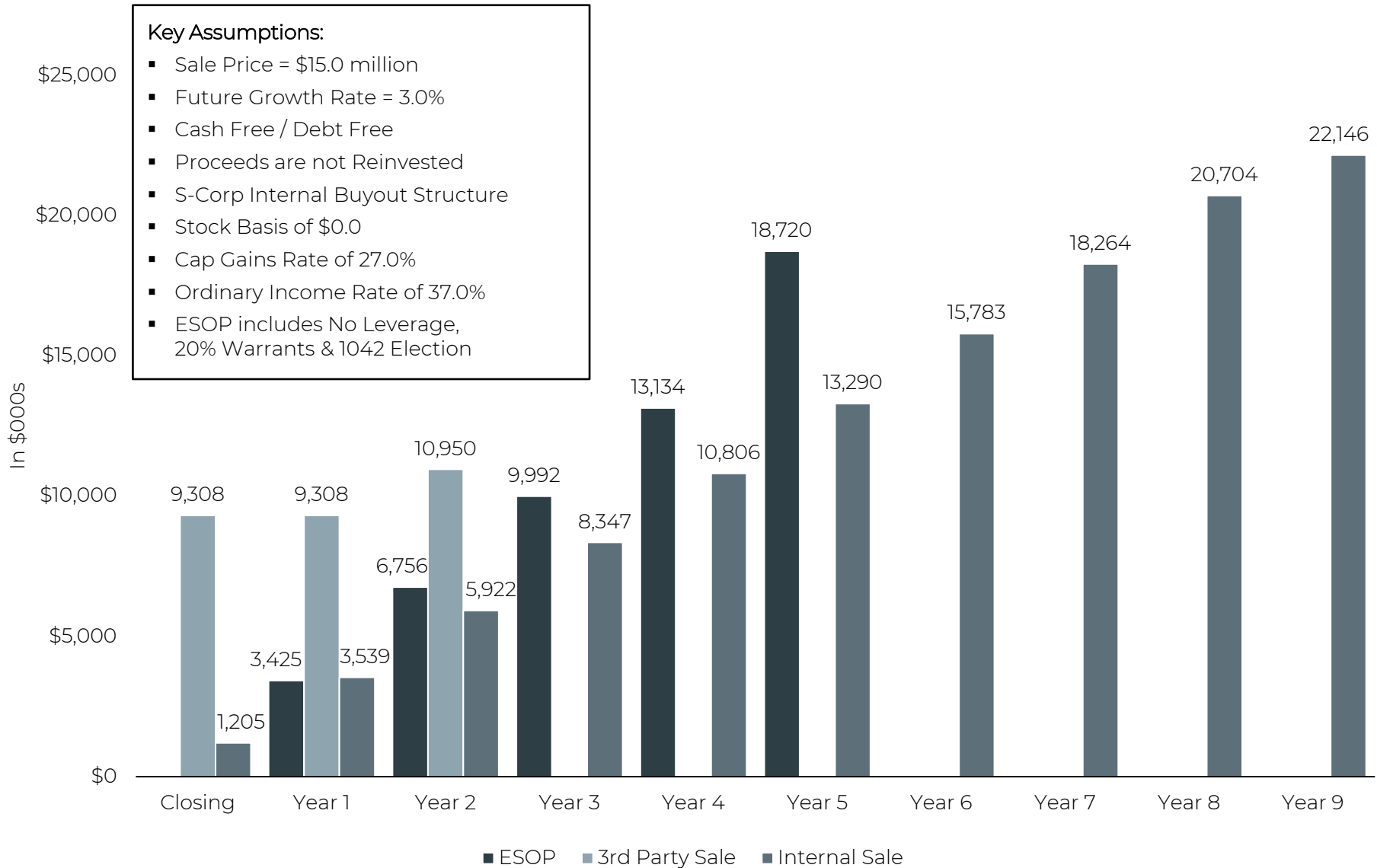


Considerations



<p>1 Leveraged Management Buyout (MBO)</p>	<ul style="list-style-type: none"> Current management acquires a large part or all the company by borrowing money to buy out the current owners In the E&C industry, an MBO is typically funded with outside debt financing as well as a seller note from the current owners 	<ul style="list-style-type: none"> New ownership group must be established up front Increased debt burden associated with the transaction increases the riskiness of the enterprise Bonding and prequalification issues must be addressed Bank financing can be difficult to procure for many E&C companies
<p>2 Sale for a Note (Seller Note)</p>	<ul style="list-style-type: none"> Seller(s) sell their shares either to individuals, usually current management, or back to the company Seller Note can be on-balance sheet or off-balance sheet Principal and interest on Seller Note is paid down by all or a portion of future dividends to new shareholders 	<ul style="list-style-type: none"> New ownership group must be established up front Current owners will not participate in future profitability of the company Amount of capital the new ownership can provide for initial purchase New ownership group is incentivized to generate profits quickly to pay down the Seller Note
<p>3 Sub-S / LLC Buyout</p>	<ul style="list-style-type: none"> Buying shareholders reinvest after-tax bonuses and/or distributions to purchase stock each year Seller(s) receive cash from sale of equity and continue to participate in distributions until their equity is sold Can easily add new buyers throughout the process 	<ul style="list-style-type: none"> Seller(s) have discretion over who buys and how much, on an annual basis Very flexible and requires minimal legal requirements Company performance will dictate longevity of the buyout Seller(s) proceeds include distributions, sales of stock, compensation and benefits
<p>4 Oldco / Newco</p>	<ul style="list-style-type: none"> Method to increase profit participation of the new ownership group (Newco) without selling any equity of the existing company and without a major investment by the Buyers Structure is effectively a Joint Venture Ideally used when Newco's relative membership interests are reasonably certain 	<ul style="list-style-type: none"> Allows separate and distinct management of capital, control, profit / loss, and participants There is no sale of stock Newco does not purchase stock, it participates in future profits Operating agreement for LLC allows considerable flexibility in economics and governance

Transaction Timing vs. Total After-Tax Proceeds by Transaction Type



Final Thoughts

- ✓ The market for DER M&A remains active, with acquirers actively employing a multitude of strategies to position themselves to capture future growth
- ✓ BaseRock expects sellers in the DER market to fetch increasingly attractive multiples with an increasing number of potential bidders
- ✓ For firms considering a transaction, preparation is critical. Assembling a strong internal and external team will drive value throughout the transaction process
- ✓ For those considering alternative transactions, begin planning early
- ✓ Bench strength is important regardless of ownership transfer path desired



THANK YOU

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