

Warmest welcome!

18th Baltic Utilities Seminar



**18th Baltic
Utilities Seminar
supports
development of
future engineering**

**The BUS gift fund diverted to
the purchase of study
technology at
Engineering High School of
Riga Technical University**

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11th Global Capital Confidence Barometer

Power and utilities (P&U)

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About the Barometer

EY's Capital Confidence Barometer is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU).

The respondent community is comprised of an independent EIU panel of senior executives and select EY clients and contacts.

Our 11th Barometer provides a snapshot of our findings, gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agenda.

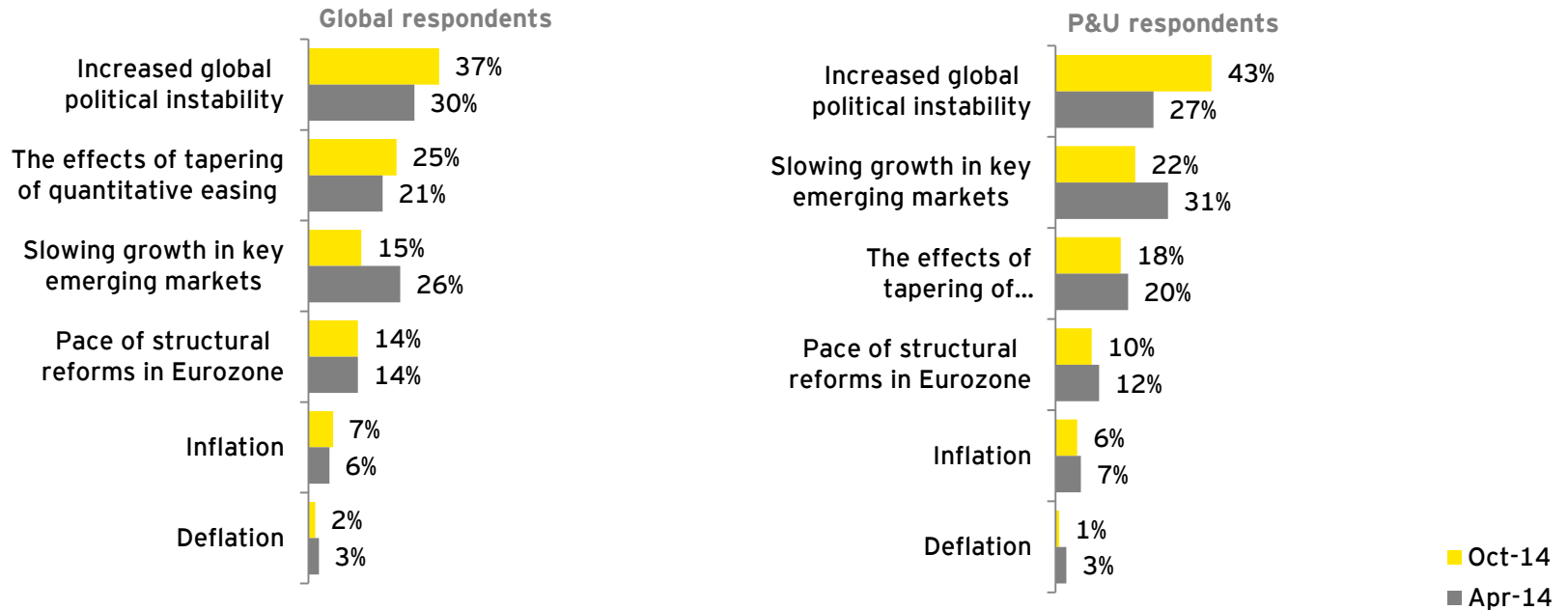
Respondent profile

- ▶ EIU panel of more than 1600 executives surveyed in August and September 2014
- ▶ 91 executives from P&U
- ▶ Companies from 62 countries
- ▶ Executives from 18 industry sectors
- ▶ 949 CEO, CFO and other C-level executives
- ▶ More than 800 companies would qualify for the Fortune 1000 based on revenues



Geopolitical instability is seen as the greatest risk factor in the next 12 months

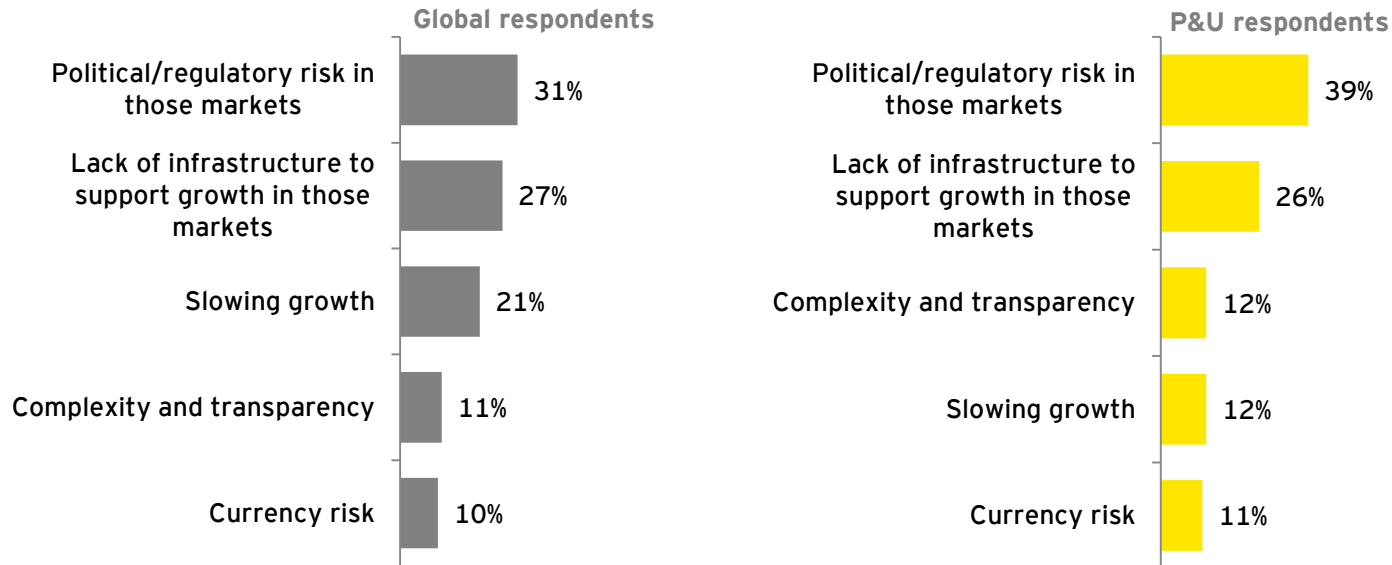
What do you believe to be the greatest economic risk to your business over the next 6-12 months?



- ▶ Geopolitical concerns have increased, especially in the EU, driven mainly by tensions between Ukraine and Russia. The Middle East crisis has also escalated since our last survey.
- ▶ P&U companies, whose operations are highly dependent on the geopolitical and regulatory environments, consider increased geopolitical instability as the greatest risk for their businesses.

Rising geopolitical concerns are influencing outbound investment decisions

If you are slowing or stopping your investments into certain markets, to what do you attribute this changing sentiment?

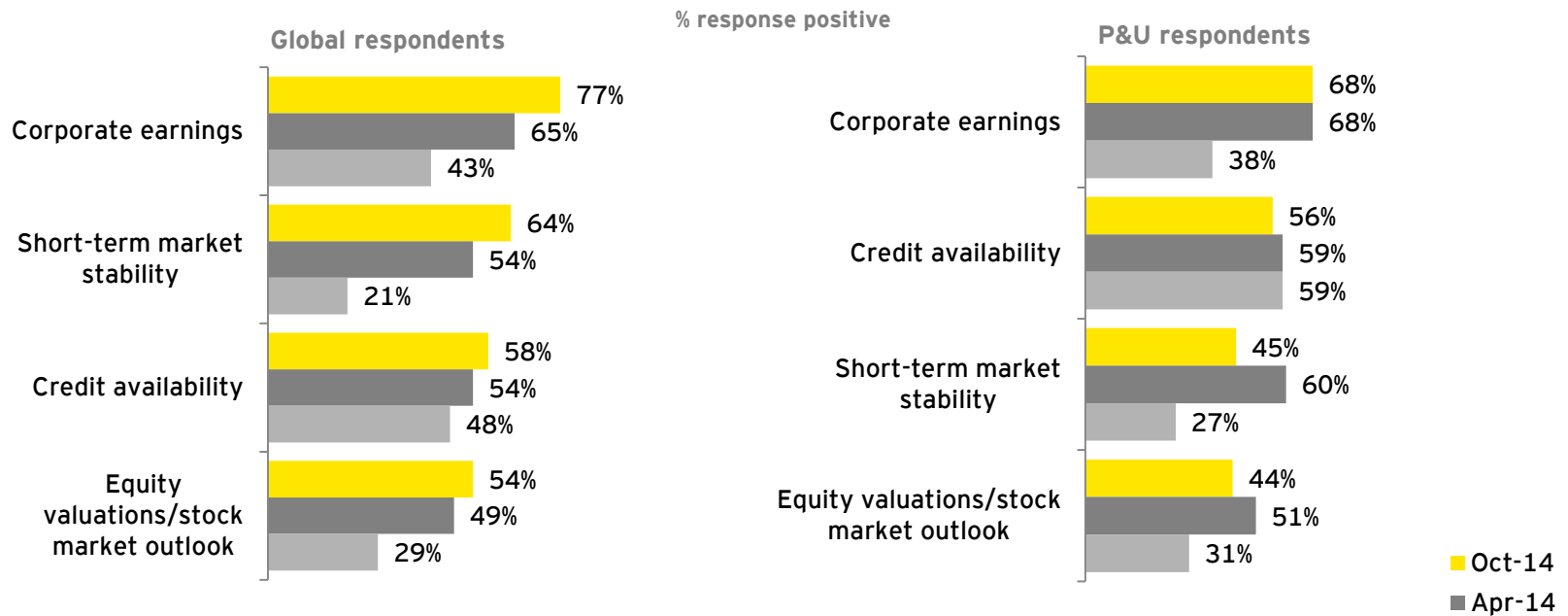


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- ▶ The prevailing political instability and disturbances primarily in parts of Middle-East and Eastern Europe are forcing utilities to rethink their investment strategies in these markets.
- ▶ The presence of supporting infrastructure for growth is also a key attribute that the utilities are considering while making investment decisions.

Confidence in corporate earnings remains strong

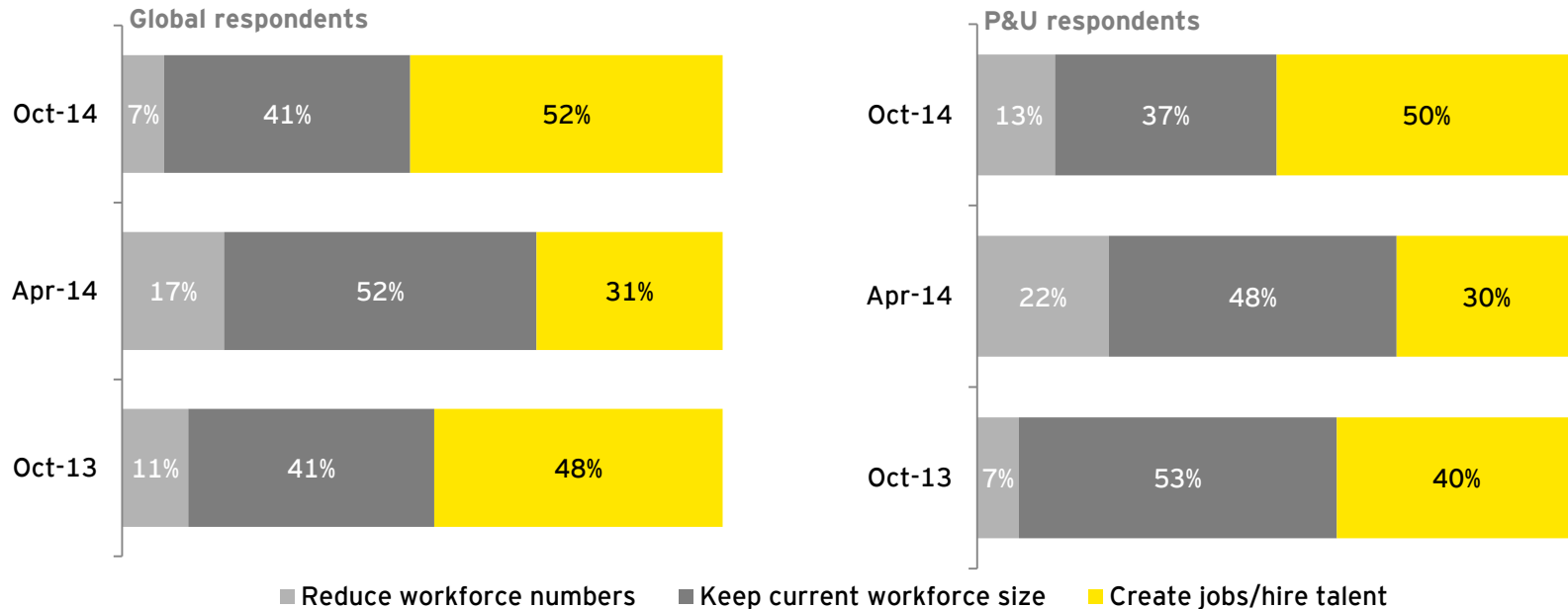
Please indicate your level of confidence in the following at the *global* level:



- ▶ Confidence in corporate earnings continues to be strong among P&U executives.
- ▶ However, the confidence in short-term market stability has fallen over the last six months. The fall in confidence in market stability also translates into lower confidence in equity valuations.

P&U executives express positive hiring intentions

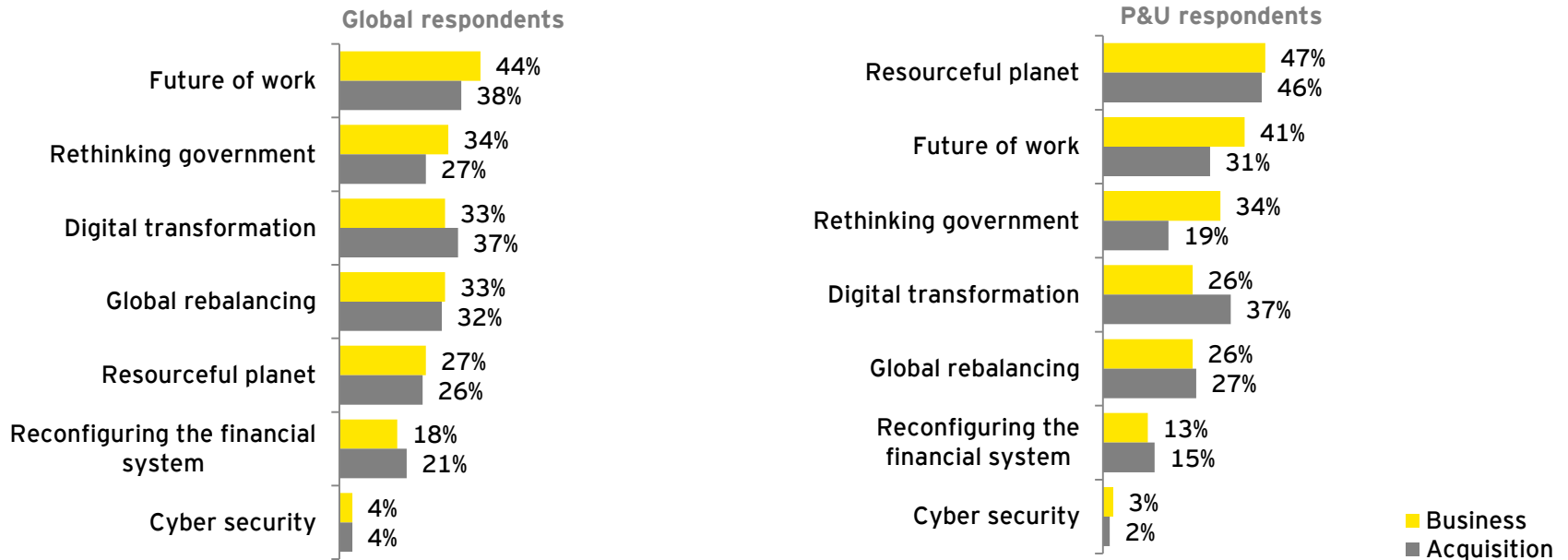
With regards to employment, which of the following does your organization expect to do in the next 12 months?



- ▶ A significantly higher number of P&U executives expect to create jobs in the next 12 months as compared to six months ago.
- ▶ The changing P&U business landscape and the aging workforce will require companies to hire talent with newer skills such as energy management, smart technologies and advanced renewable technologies.

Transformation in the business landscape is driving utilities to innovate

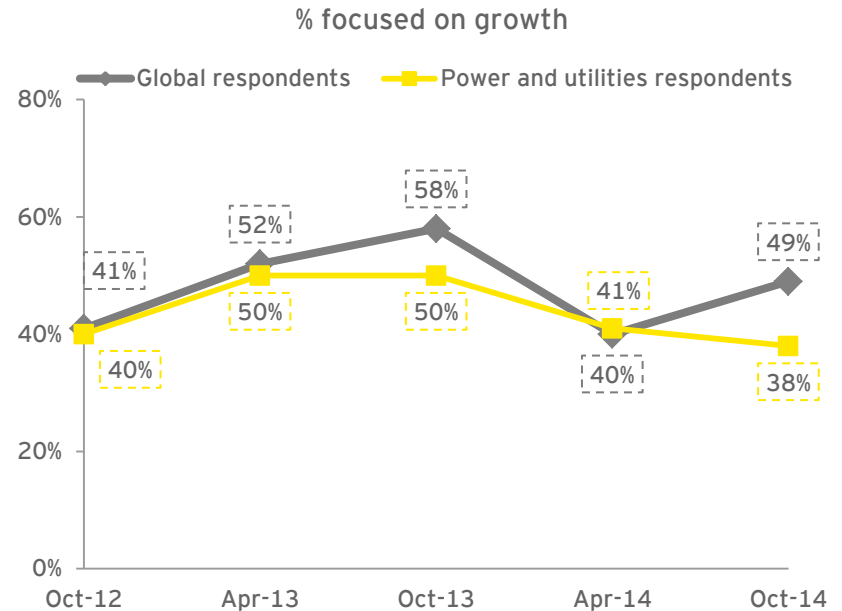
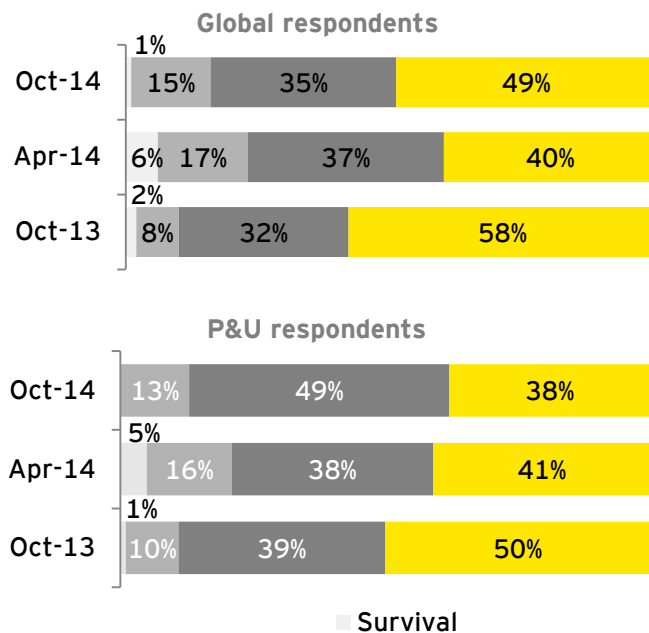
Which of the following will impact a) your core business and b) your acquisition strategy most in the next 12 months? Select up to two.



- ▶ 47% of the P&U respondents surveyed believe that 'Resourceful planet' - the idea of optimizing the use of the limited resources and use of renewable and less emitting resources - will most significantly impact their core business.
- ▶ The P&U M&A market reinforces this sentiment with more than \$20b worth of deals already completed in the renewable power segment in the first nine months of 2014, outpacing the renewable power deal value in the completed year 2013.

Focus is on reducing costs and increasing efficiency

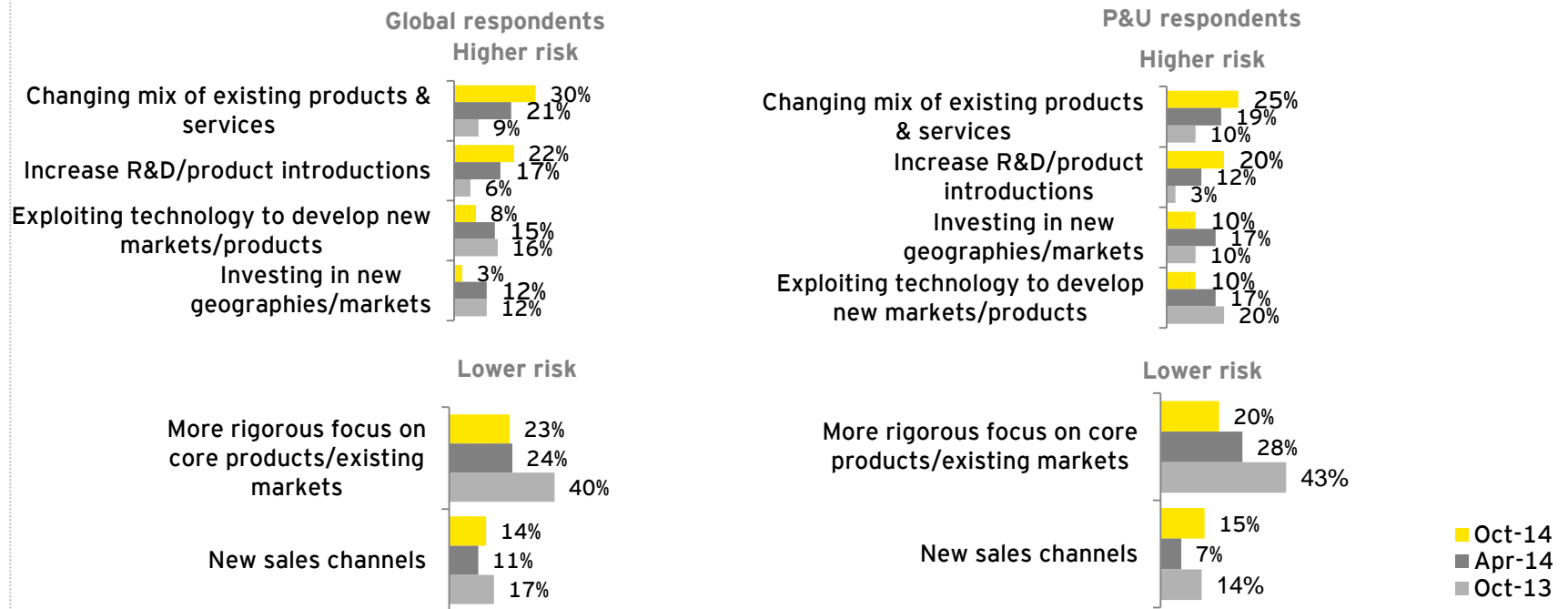
Which statement best describes your organization's focus over the next 12 months?



- ▶ Falling electricity demand, increased pressure on tariffs and the prevailing depressed wholesale prices have forced utilities to focus on cost reduction and efficiency improvement in order to protect their bottom lines.
- ▶ As growth opportunities dry up in mature economies, utilities are looking at emerging markets such as Latin America and Africa for growth.

Optimizing business portfolio and investment in R&D are the primary focus areas

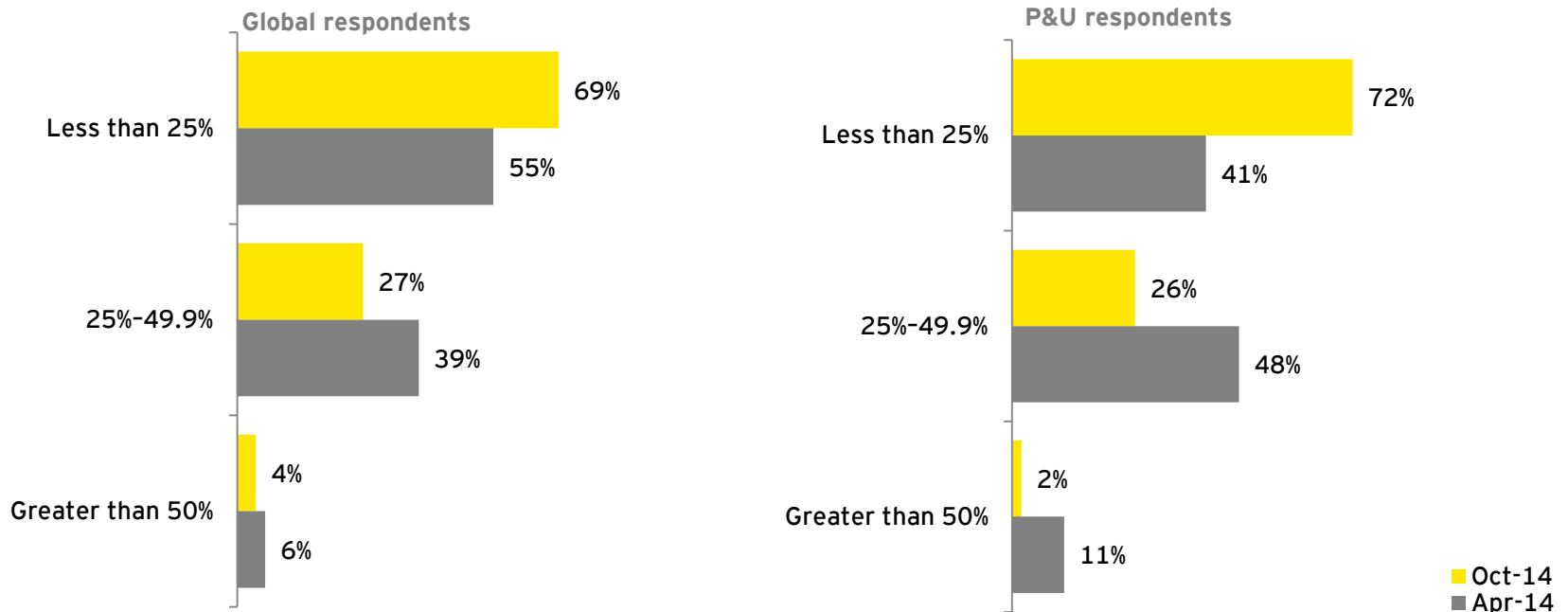
What is the primary focus of your company's organic growth over the next 12 months?



- ▶ P&U companies are focusing more and more on optimizing their business portfolios to operate in the changing business landscape.
- ▶ As research continues on clean generation and emission reduction, higher numbers of utilities are investing in research on smart and storage technologies. 20% of the respondents from the P&U sector say increasing R&D is the primary focus in the next 12 months, significantly up from 3% 12 months ago.

Capital allocation to M&A remains measured and disciplined

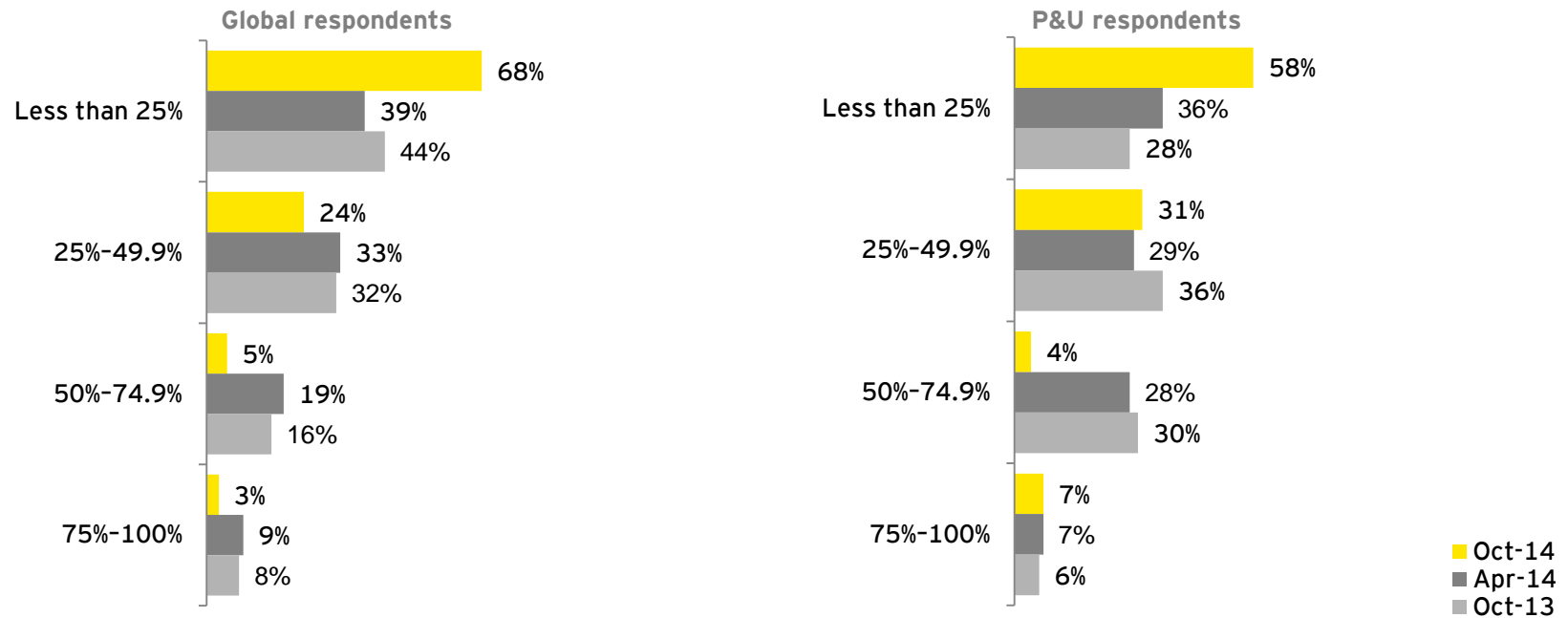
What percentage of your planned growth for the current fiscal year is explicitly assigned to acquisitions?



► Companies are not planning acquisitions at the expense of organic growth - but they expect to do deals that are aligned to their strategy.

Divestments and cost reduction measures help in lowering debt levels

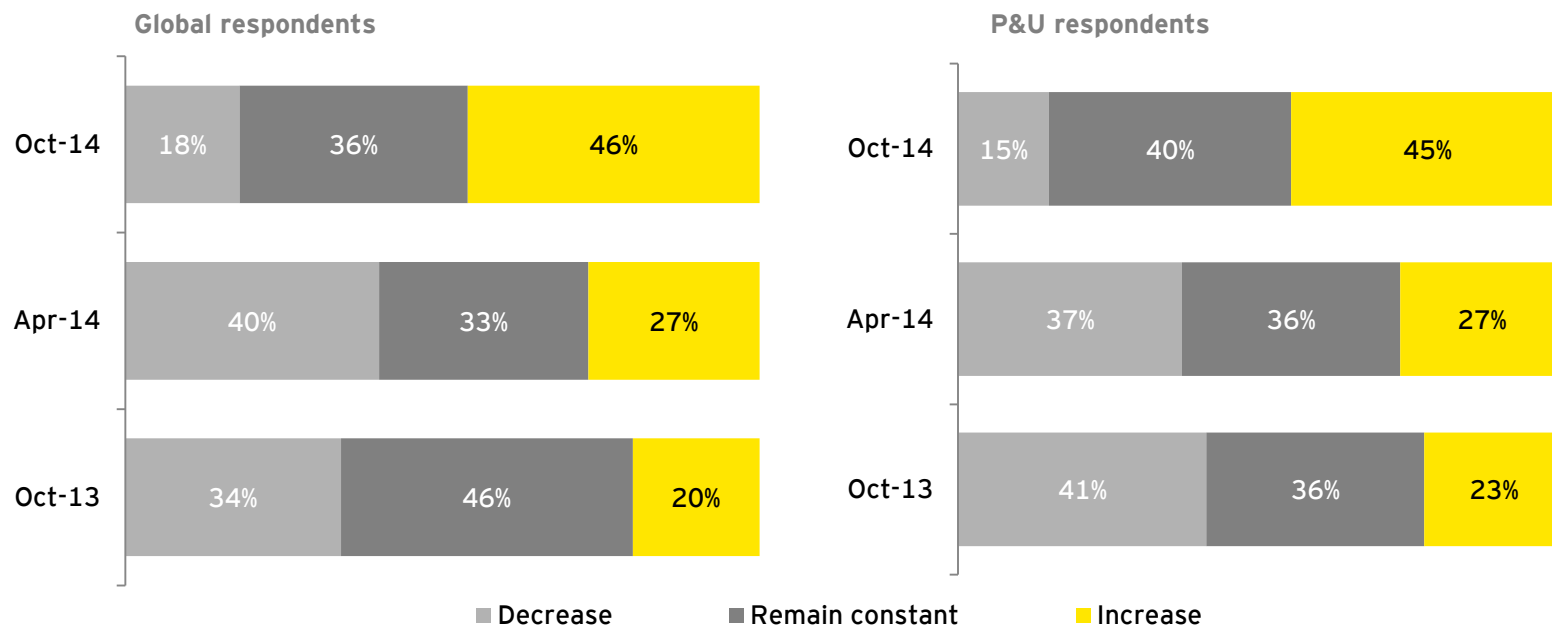
What is your company's current debt-to-capital ratio?



- ▶ Divestment of non-core businesses and proactive cost reduction and efficiency measures appear to have been successful.
- ▶ Our survey results show a decrease in leverage among utilities. 58% of the P&U companies surveyed have a debt-capital ratio of 25% or less. While only 11% have a debt-capital ratio of over 50%.

Stronger balance sheets will fuel debt funding for growth strategies

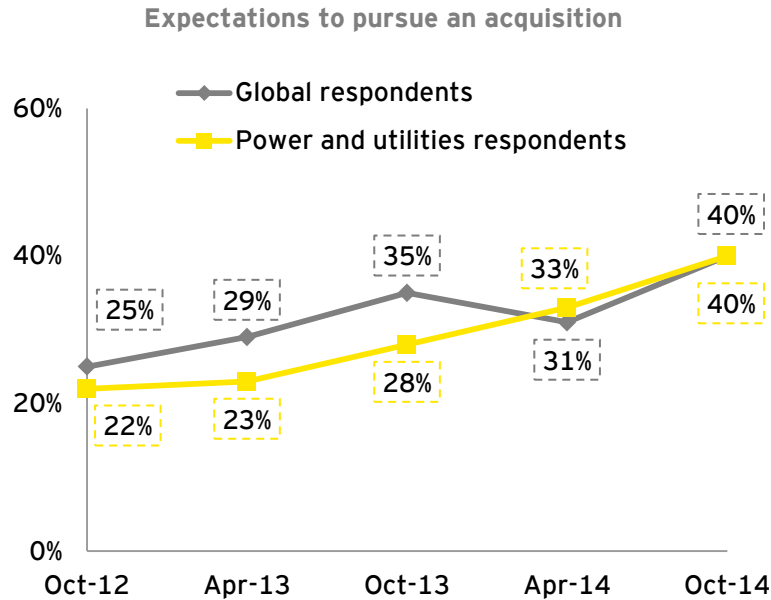
How do you expect your company's debt-to-capital ratio to change over the next 12 months?



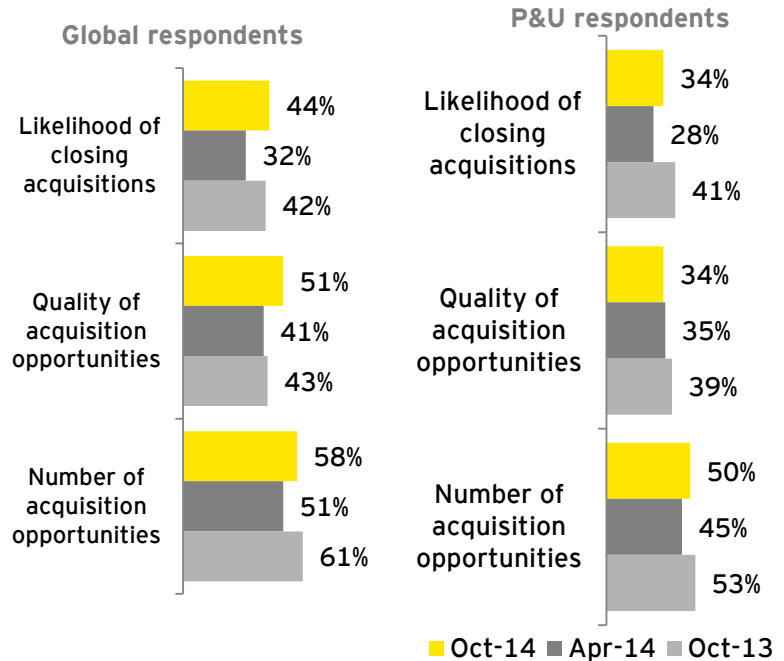
- ▶ 45% of the companies expect their debt-capital ratio to increase in the next one year, showing a willingness to take on more debt to fund growth.
- ▶ The proportion of executives expecting the debt-capital ratio to decrease has reduced from 37% in April to 15% in October 2014.

Companies desire to acquire, but face dealmaking challenges

Do you expect your company to pursue acquisitions in the next 12 months?



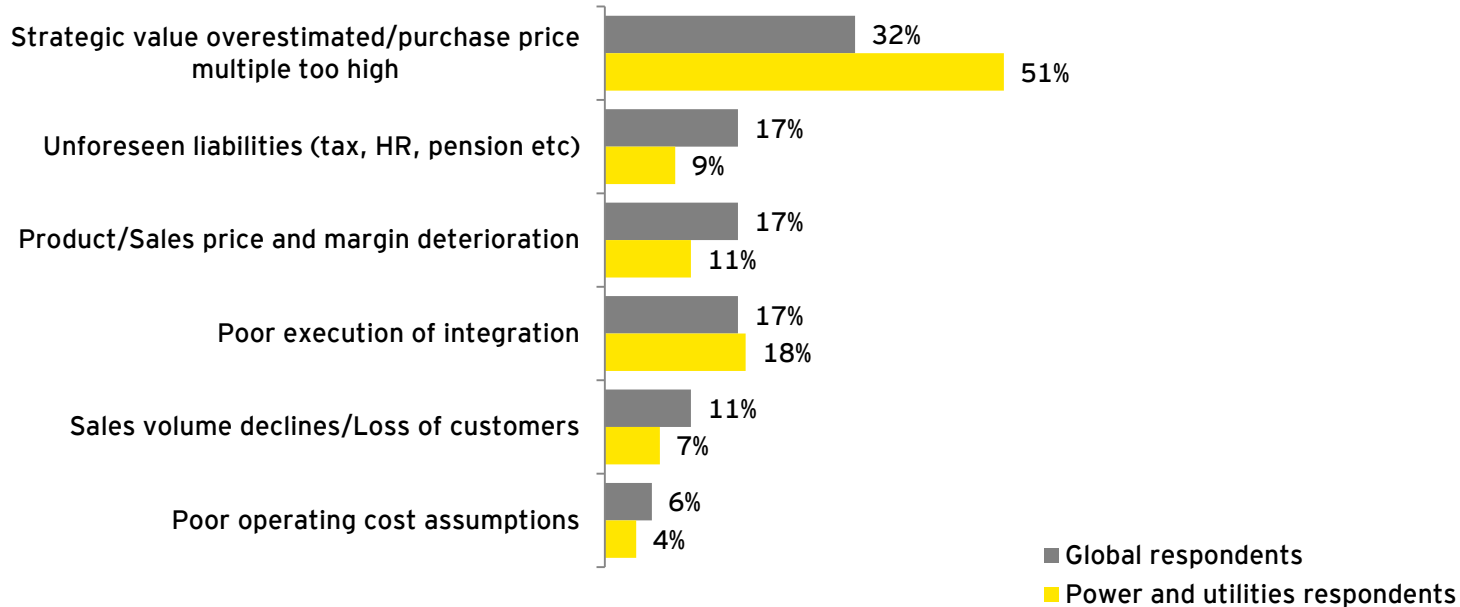
Level of confidence at the *global* level:



- ▶ P&U companies' appetite to pursue acquisitions hits a two year high, with 40% of the P&U executives surveyed expecting to pursue acquisitions in the next 12 months.
- ▶ The total deal value in the first nine months of 2014 has already reached \$125b, compared to a full year deal value of \$125.4b in 2013.
- ▶ Some deal making challenges persist. Whilst improving from 28% six months ago, only 34% of the P&U executives are confident of closing acquisitions.

Estimation of right strategic value remains a key challenge among the P&U companies

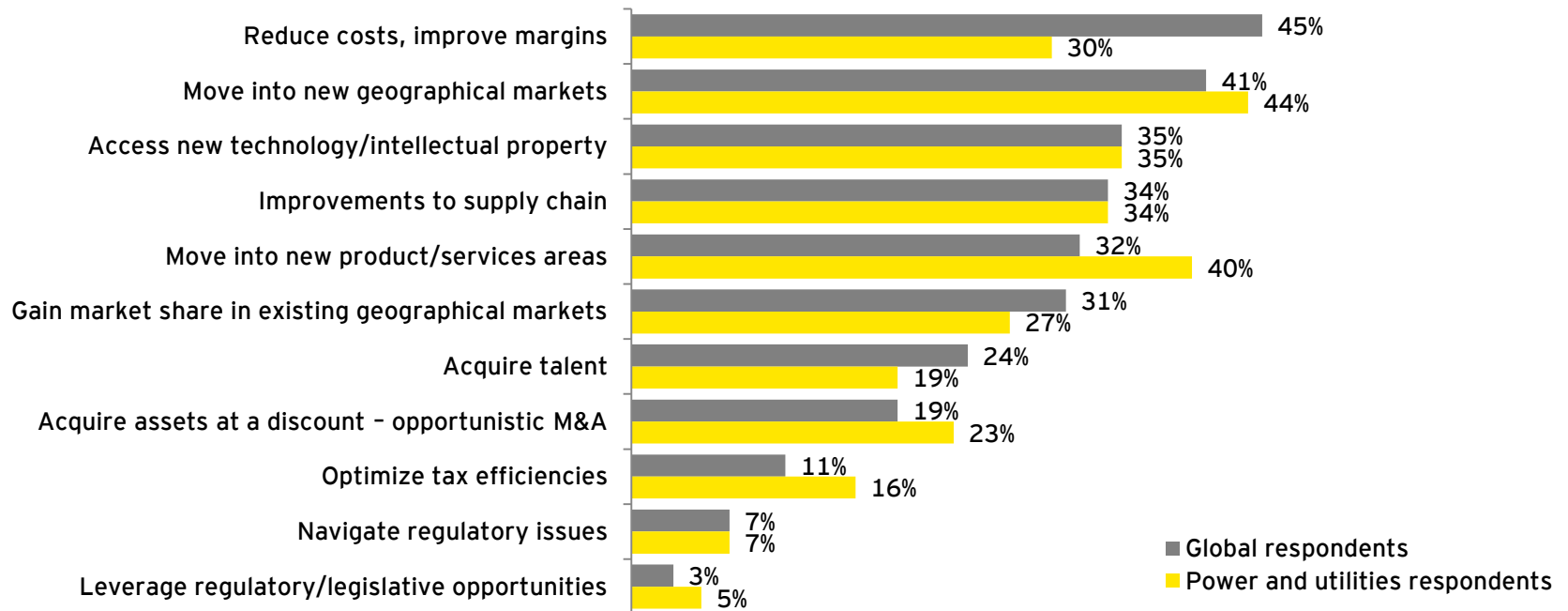
For acquisitions completed recently, what was the most significant issue that contributed to deals not meeting expectations?



- ▶ 32% of the respondents in the previous Capital Confidence Barometer survey in April 2014 believed that overestimation of strategic value was the most significant reason for deals not meeting expectations.
- ▶ The latest survey reveals that the P&U companies continue to face valuation challenges with 51% of the respondents stating that deals are not meeting expectations primarily due to overestimation of the strategic value of the asset.

Companies are looking to achieve growth within core businesses

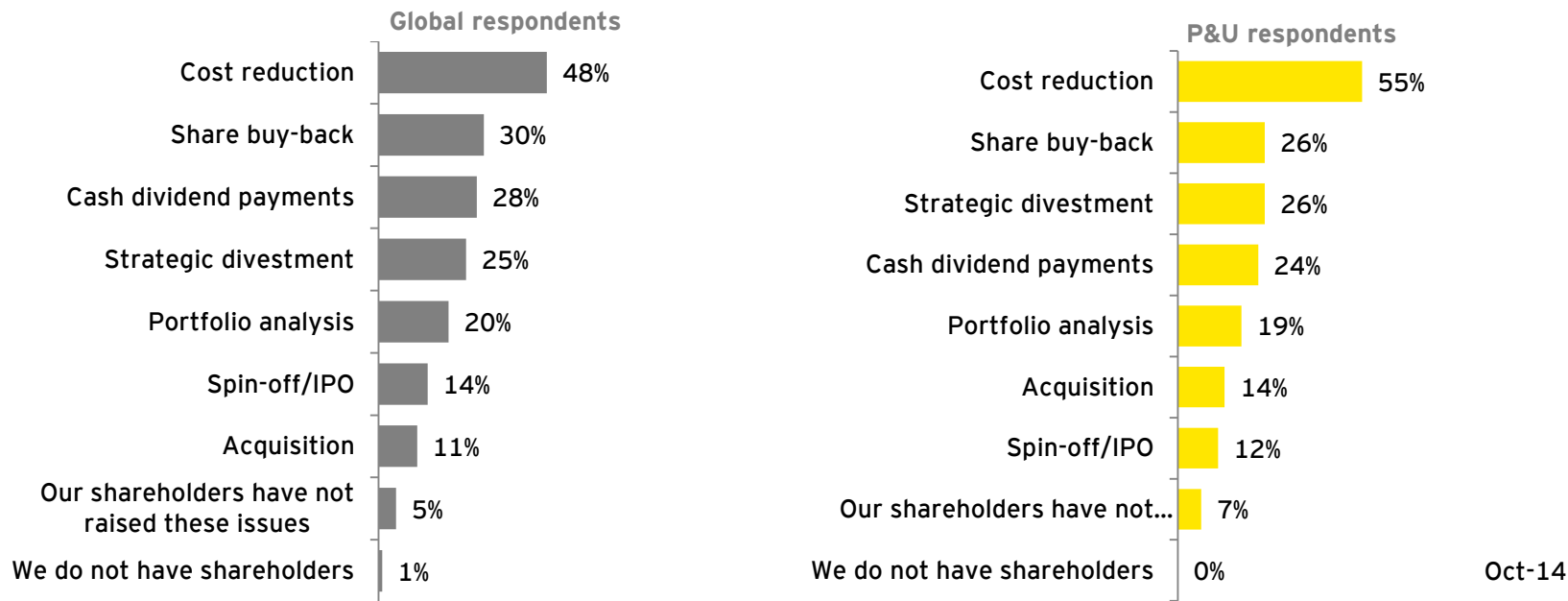
What are the main drivers impacting your M&A strategy over the next 12 months?
Select up to three.



- ▶ 44% of P&U executives say that their M&A strategy is primarily driven by the need to move into new geographical markets, while 40% say that moving into new products/services will drive their strategy.
- ▶ As growth in traditional utility businesses dries up in mature markets, a greater number of utilities are looking to expand their geographical footprint in search of growth.
- ▶ Utilities are also taking steps to expand their business scope to include allied services such as energy management and other energy services.

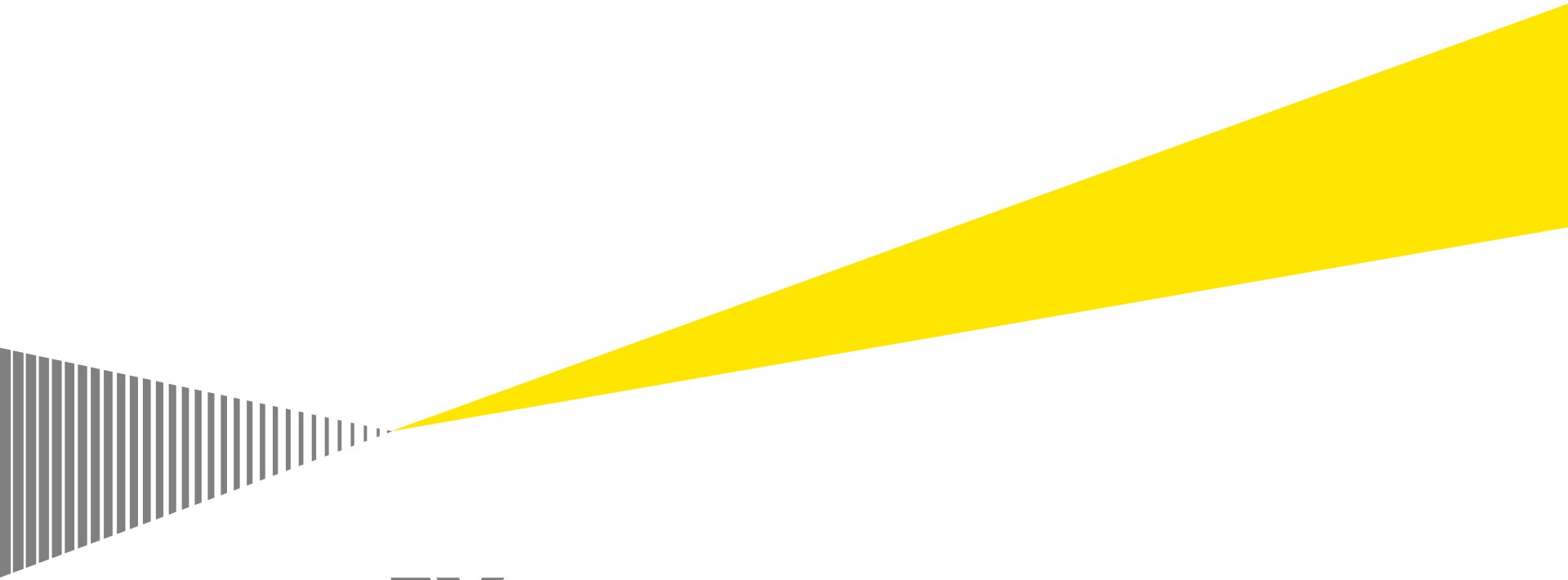
P&U companies' strategic agendas are increasingly influenced by growing shareholder activism

Which of the following has been elevated on your boardroom agenda as a result of shareholder activism? Select up to two.



- ▶ As the utilities business environment continues to be difficult with lower demand and lower profits, investors are increasingly focusing on the need for higher cost control and efficiency improvement measures.
- ▶ Divestment of non-strategic assets has also risen in the boardroom agenda as a result of increased shareholder activism.

Thank you!



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