

LS is more: Algonquin renewables acquired by LS Power's latest fund

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Algonquin Power & Utilities was one of the last to put its renewables platform up for sale and hunker down on its regulated utility business. After putting the platform on the block in May 2023 it took 15 months to find a buyer as the gold rush for renewables acquisitions – and record valuations – slowed.

LS Power revealed itself as the winning bidder this month for a total consideration of up to \$2.5 billion, excluding debt.

Algonquin's renewables business mainly consists of wind and solar assets located throughout the US and Canada. This includes 44 operating assets with more than 3,000MW of generating capacity and an 8,000MW pipeline of wind, solar, battery energy storage, and renewable natural gas projects in various stages of development.

While dealmakers generally remain cautious amid economic uncertainty, concerns about inflation and monetary policy, and regulatory and geopolitical headwinds, other factors could have been at play as well.

Founder at a power-focused advisory firm explained other M&A giants had been reluctant to touch a platform that included such a large development-stage pipeline "due to the capital market impact of increased rates as well as the obstacles in moving pipeline projects to construction."

Algonquin Renewables' time sitting in the market may have also been in part due, in part, to its cross-border nature. Around 2,700MW of the portfolio's assets are in the US, sitting in the NYISO, MISO, PJM, ERCOT and CAISO markets – with a remaining 300MW in Canada.

"I'm sure the diversification and overall size made diligence tougher," he added.

Excluded from the deal was Algonquin's 54 hydroelectric generators, which commentators said also made the deal easier for LS and made sense for the utility.

Like other utilities Algonquin's renewables sale was primarily to use the proceeds to reduce debt and fund share repurchases, reduce the cost of capital, improve its credit rating, and simplify its structure as a regulated utility.

Algonquin will receive estimated cash proceeds of \$1.6 billion after repaying construction financing and net of taxes, transaction fees and other closing adjustments. The deal is expected to close in Q4 2024 or Q1 2025.

Fund firepower

LS Power also had ready capital for the acquisition having reached final close on its fifth power and energy fund at \$2.7 billion, above a \$2.5 billion target. LS Power Equity Partners V launched in March 2023 and had a \$3 billion hard cap.

Funds have been able to maintain M&A momentum and continue to write the largest checks to snap up platforms and

development pipeline. The North American power and renewables sectors has seen financial sponsors as active as ever – both as buyers and sellers.

Quantum Capital put significant capital to work and agreed to acquire Cogentrix Energy, a US independent power producer from Carlyle for around \$3 billion this month (August). The Cogentrix platform is comprised of 5.3GW of natural gas-fired power plants located throughout PJM, ERCOT, and ISO-NE markets.

LS segmented its gas-fired assets into Lightning Power this month (August 2024) having strategically assembled the assets over several years to create a large-scale, diversified, pure-play natural gas IPP. Lightning has 11GW of grid enhancing, flexible, quick start natural gas-fired generation located in PJM, ISO-NE and NYISO across 18 projects.

The energy giant has since its 1990 inception developed or acquired 47,000MW of power generation. Adding 44 operating assets with more than 3,000MW of generating capacity and an 8,000MW pipeline ensures it keeps pace as sponsors look to take advantage of the demand for electricity in the US, driven by electrification, data center proliferation, and an American manufacturing renaissance.

Financing:

LS Power will pay \$2.28 billion in cash at closing and up to \$220 million in cash pursuant to an earn-out agreement relating to certain wind assets.

The sale is subject to customary closing conditions, including approval by the US Federal Energy Regulatory Commission and approval under applicable competition laws.

The deal is expected to close in Q4 2024 or Q1 2025.

Assets:

44 operating assets with more than 3,000MW of generating capacity and an 8,000MW pipeline of wind, solar, battery energy storage, and renewable natural gas projects in various stages of development.

Advisers:

- Milbank – legal, LS Power
- Scotiabank – financial, LS Power
- BMO Capital Markets – financial, LS Power
- JP Morgan - exclusive financial adviser, Algonquin

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