Private Equity: Bringing Energy Risk Management into M&A Due Diligence

Transparent Energy recently appeared on a panel and hosted a roundtable at the Private Equity New York Forum, focusing on the impact of energy costs on OPEX and the role of energy in M&A due diligence. Jeremy Lo, Executive Vice President, Corporate Development, shared his thoughts on the conversations he and the team had there:

The intersection of energy costs and M&A due diligence is an interesting one. What should PE firms understand about the impact of energy costs on their dealmaking?

Transparent Energy is very active in the private equity space and already has many PE clients. We often engage with them *after* they have made deals as part of their overall operational efficiency and cost-cutting efforts—after all, energy spend is often in the top three costs. However, the idea we discussed on our panel is that the type of advisory services we provide, which include energy risk management, have an important place earlier in the conversation—during the M&A due-diligence process.

Due diligence is all about identifying risk exposures and future opportunities like value levers that improve OpEx and increase process efficiency. PE firms are not generally well equipped to examine and understand a potential portfolio company's (PortCo's) energy spend, evaluate their current mitigation strategy—if any—and exposure across every regulated and deregulated market in the U.S.

Our team is.

And this very real problem can't be solved by just assigning an energy supply contract and assuming the cost of electricity and natural gas is static or adjusting for inflation. At Transparent Energy, we already have the team in place and expert understanding of all the energy markets and products in play across a PortCo's holdings to act quickly and precisely. So, if the company being targeted for acquisition has 500 locations (commercial buildings or industrial facilities) in 25 states across dozens of different utility regions, we can look at those natural gas, electricity, and renewable energy contracts and help the PE firm understand where the vulnerabilities are that could negatively impact OPEX.

Energy-cost risk is real. At Transparent Energy we can identify those upstream risks for the acquirer, and then execute the needed downstream, cost-saving procurements, including the appropriate hedging strategy, to de-risk the portfolio post-acquisition.

In short, we're an intelligence partner during due diligence and then can strategically execute upon that intelligence as needed. We offer a powerful, risk-free set of services.

Risk free?

Yes, our business model is risk free and fast. We're not the typical consultant, deploying a large, expensive team to gather data over the course of months and then mull over our conclusions. Instead, we are adept at working with clients, energy companies (for supply), and local utilities (for delivery) to streamline the needed data inputs for our analysis and render our verdict quickly. In fact, we only get paid if our clients make a buying decision—and our clients will never receive a bill from us.

At Transparent Energy, we are in energy markets daily, executing on behalf of our clients. With this comes a rare transactional knowledge of energy that gives us a leg up in both the planning and execution phases of energy management and procurement.

Any parting thoughts?

PE firms are expert at driving efficiencies across their PortCos to increase their value. Transparent Energy has a similar expertise, one laser-focused on energy. By specializing in this volatile element in the OPEX stack, we are singularly capable of helping PE firms remove cost from their PortCos.

What we helped establish at the Private Equity New York Forum is that we can help PE firms at every point in their M&A journey.