



Deal Logic

Innogy SE/E.ON SE

WHU Finance Society

Introducing The Team



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Abstract

E.ON SE intends to acquire Innogy SE from its competitor RWE AG based on a comprehensive exchange of business activities. The acquisition was announced in the first quarter of 2018 and is expected to be finalized late 2019. Next key milestones are the closing of a public takeover offer to minority shareholders and the approval of relevant antitrust and regulatory authorities.

On the one hand, the merger will directly affect existing structures in the German energy market, helping both companies, E.ON and RWE, to significantly strengthen their respective core businesses. On the other hand, however, potential disadvantaged parties include Innogy itself, employees, municipalities and end customers.

On 12.03.2018, the German DAX-listed utility company E.ON SE announced its intention to acquire Innogy SE, a Germany-based provider of electricity and natural gas. 76.8 percent of Innogy's shares are currently owned by RWE AG, a direct competitor to the acquirer. The deal comprises two steps: the direct acquisition of RWE's percentage share and a voluntary public takeover offer to minority shareholders. While the public takeover offer includes a cash consideration of EUR 36.76 per share (plus EUR 1.64 dividend per share for the fiscal year 2018), the agreement between E.ON and RWE is based on an exchange of business activities. Compensating for the sale of Innogy to E.ON, RWE receives all major renewable energy activities from E.ON and the renewable energy business from Innogy, a minority stake of 16.67 percent in the enlarged E.ON, and other assets. In this context, RWE further agreed to a payment of EURbn 1.5 to E.ON. The final closing of the deal is still subject to the approval of the relevant antitrust and regulatory authorities and is not anticipated before late 2019.

The merger of Innogy SE and E.ON SE is a very interesting one, not only because of its substantial deal volume, but also because of its disruptive impact on the German energy market. With the acquisition of Innogy, E.ON is able to directly strengthen its Networks business, known to achieve relatively stable and predictable returns, as well as drive its end-customer focused energy solutions. Furthermore, by taking over the renewable energy business from E.ON and integrating the renewable energy activities from Innogy, RWE AG strategically positions itself as the major energy producer in Germany (on top of its existing coal- and gas-fired power plants). In addition, by receiving a minority stake of 16.67 percent in E.ON, RWE will become E.ON's single largest shareholder, implying a certain amount of profit

protection for the company. In order to enable RWE to acquire such stake, E.ON plans to issue 20 percent of new shares within the scope of its authorized capital, with the proportion of existing shareholders diluting accordingly.

Opposing the beneficial impact on the strategic positioning of E.ON and RWE are considerations with regard to Innogy itself, related stakeholders, and the competitive environment in the German energy market. Even though Innogy recently signed two legally binding agreements with E.ON and RWE on a transparent implementation process and fair treatment of affected employees, the merger is subject to a wide range of ambiguities. In this context, uncertainties with regard to possible job reductions due to duplicated functions, location issues and connected tax revenues at municipal level are only some issues of central interest to ultimately evaluate the merger. Furthermore, the decrease in direct competition among utility companies in the German market following the deal is alarming to consumer advisor as it is possible that such increase in market power will negatively affect electricity costs in the long-run.

Concluding, from a strategic point of view the merger of Innogy SE and E.ON SE seems to be beneficial to both, the selling and acquiring party. A stronger positioning of the companies within their respective core businesses paves the way for further growth potential. However, since the closing of the deal is still pending and the respective implementation and integration process is subject to several open questions, it is too early to fully assess the overall value-added.

All values in EURm, except Price, Initial (EUR) & Price, Pending (EUR)

Summary

Target	Innogy SE
Acquirer	E.ON SE
Date, Announ.	12.03.2018
Date, Effective	Pending
Deal Attitude	Friendly
Consideration	23.4% Stock / 76.6% Other
%Held/%Acq.	0.00 / 76.80
Deal Value	15,663.8
Price, Initial	36.76
Price, Pending	36.76
Total Fees	58.3
Premium*, 1d	n/a
Premium*, 1w	n/a
Premium*, 4w	n/a

* Pre-bid (%)

Sources: Thomson Reuters Eikon, Innogy SE Investor Relations, E.ON SE Investor Relations

Synopsis

- In March 2018, E.ON SE announced its intention to fully acquire Innogy SE, an exchange-listed subsidiary of RWE AG
- E.ON acquires a 76.8 percentage stake directly from RWE (numbers on this page focus on this part of the merger)
- As part of an exchange of business activities, RWE receives all major renewable energy activities from E.ON and the disentangled renewable energy business from Innogy, a minority stake of 16.67 percent in the enlarged E.ON, and other assets; RWE to pay EURbn 1.5 to E.ON
- E.ON launched a voluntary public takeover offer to minority shareholders of Innogy SE to acquire remaining stake against payment of a cash consideration of EUR 36.76 per share

LTM Transaction Multiples

	Target	Acquirer	Industry†
EV/Sales	1.0x	0.8x	4.8x
EV/EBITDA	10.3x	21.4x	17.1x
EV/EBIT	21.3x	n/a	n/a
P/B	2.4x	3.3x	0.7x
P/E	26.9x	7.1x	n/a

† Of Target, Electric Utilities & IPPs, T12M

Rationale

- Exchange of business activities between E.ON SE and RWE AG to benefit both companies by consolidating market positioning
- Significant value creation for stakeholders by expansion of respective core businesses envisaged
- Enlarged E.ON to strengthen its operations by clearly focusing on intelligent networks and customer solutions; customer centricity as key component
- RWE to complement its conventional generation business with large portfolio of renewable energies and linkage to existing trading platform
- E.ON to expect significant synergies as a result of the transaction, amounting to EURm 600-800 annually by 2022 (econ. of scale)

Financial Advisors

Target	Fees	Acquirer	Fees
BAML	6.6	BNP Paribas SA	12.4
Citi	6.6	PWP	12.4
Deutsche Bank	6.6		
Goldman Sachs	6.6		
Lazard	6.6		

All values in EURbn, except EPS

Recent News*

- **2018/10** British competition authorities officially approve Joint Venture of Innogy-subsiary npower and sales business of UK-based energy company SSE
- **2018/08** Financial closing for offshore wind farm project Triton Knoll with envisaged investment volume of around GBPbn 2.0
- **2018/07** Signing of two legally binding agreements with E.ON SE and RWE AG on the planned integration of Innogy into E.ON and on the planned integration of Innogy's renewable energy business into RWE
- **2018/07** Innogy SE acquires US e-mobility provider BTCPower Inc.
- **2018/04** Supervisory Board of Innogy SE officially appoints Uwe Tigges as new Chief Executive Officer

*Prior to Deal

Sources: Thomson Reuters Eikon, Innogy SE Investor Relations and Company Filings

Company Description

- Innogy SE is a German provider of electricity and natural gas with a strong focus on green energies
- The company is a stock-listed subsidiary of the German energy supplier RWE AG, a direct competitor to the acquirer E.ON SE
- At the end of 2017, Innogy SE employed approximately 42.400 people and had a market capitalization of around EURbn 18.2
- The company operates in 15 European countries with a strong focus on Germany and the UK market
- Operations are divided into three main segments: Renewables, Grid & Infrastructure and Retail

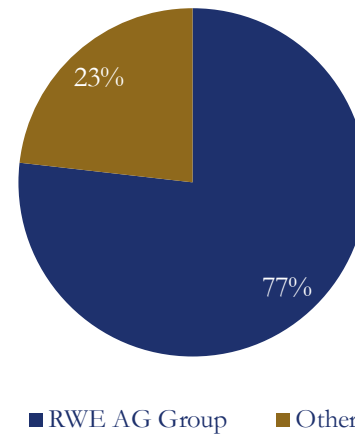
Key Management & Ownership Structure



Uwe Tigges
CEO
Since 2017



Dr. Bernhard Günther
CFO
Since 2016

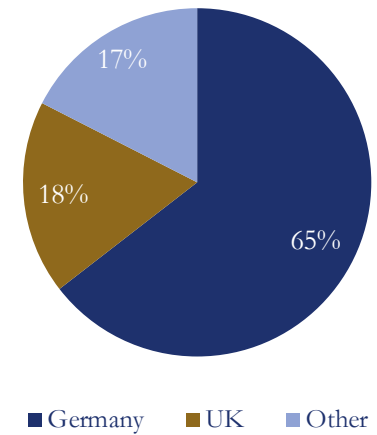
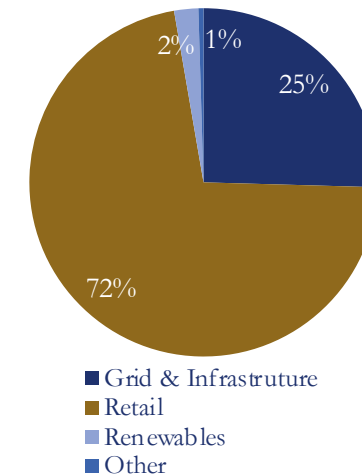


Key Financials

	2016A	2017A	2018E	2019F	2020F
Sales	41.6	41.1	40.0	39.9	40.3
% growth	(4.4)	(1.0)	(2.7)	(0.2)	0.9
EBITDA	4.1	4.2	4.2	4,2	4,3
% margin	10.0	10.2	10.4	10.5	10.7
Net Inc.	1.5	0.8	1.1	1.2	1.2
% margin	3.6	1.9	2.8	2.9	3.0
EPS	4.15	1.40	2.03	2.08	2.18

Sales Split

FY2017



All values in EURbn, except EPS

Recent News*

- **2018/06** E.ON SE completes the sale of its remaining 46.65 percent stake in Uniper SE to Finnish Fortum Corporation for around EURbn 3.8
- **2018/02** Start of construction of Italian onshore wind farm project Morcone with an envisaged completion at the beginning of 2019
- **2018/02** Initial Public offering of Turkish Joint-Venture Enerjisa Enerji A.S. at valuation of roughly EUR 1.58mn
- **2017/11** E.ON to cooperate with Danish e-mobility provider CLEVER to set up charging network of 180 quick-charging stations across seven European countries

Company Description

- E.ON SE (holding company) is a Germany stock-listed energy provider
- The company operates in the three main segments with a primary focus on the German market: Energy Networks, Customer Solutions, and Renewables
- In the context of the spin-off of E.ON SE's conventional energy generation (water, coal, and gas generation divisions) in 2016, respective businesses were transferred to the now stock-listed Uniper SE
- As of the end of 2017, E.ON SE had around 42.700 employees and a market capitalization of roughly EURbn 20

Key Financials

	2016A	2017A	2018E	2019F	2020F
Sales	38.2	38.0	38.0	38.1	38.3
% growth	(10.5)	(0.5)	0.1	0.3	0.5
EBITDA	1.6	4.7	4.9	5.0	5.3
% margin	4.2	12.5	12.8	13.1	14.0
Net Inc.	(8.5)	3.9	1.4	1.5	1.6
% margin	14.1	10.3	3.7	3.9	4.2
EPS	2.76	1.84	0.65	0.69	0.74

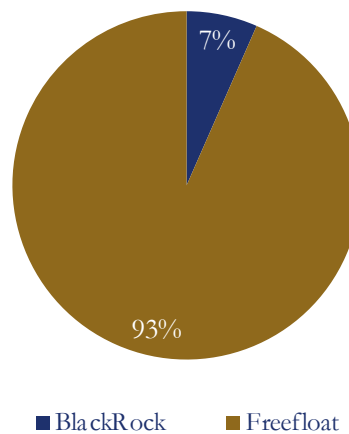
Key Management & Ownership Structure



Dr. Johannes Teysen
CEO
Since 2010

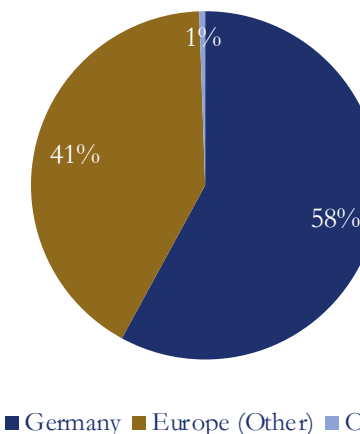
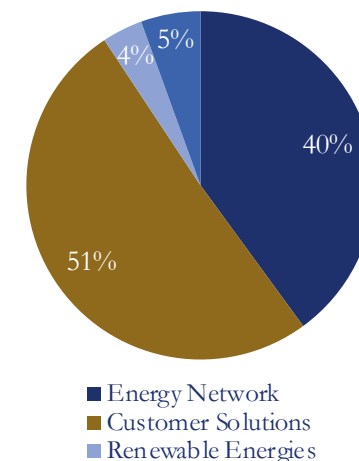


Dr. Marc Spieker
CFO
Since 2017



Sales Split

FY2017



*Prior to Deal

Sources: Thomson Reuters Eikon, E.ON SE Investor Relations and Company Filings

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