

M&A
EUROPE

Europe energy and infrastructure M&A: risks and opportunities in 2025

Despite macroeconomic headwinds, the outlook for M&A in the European energy and infrastructure sectors remains positive as large players continue to invest while the global energy transition gains pace



Although 2024 marked another challenging year for M&A globally, the European energy and infrastructure market showed signs of resilience in the face of persistent economic and geopolitical pressures. If the uncertainties driving buyer-seller value misalignments continue to subside over the coming year, we anticipate there will be a rapid deployment of capital, and commensurate acquisition opportunities, across the sector. In this article, we consider what factors, on both a macroeconomic and market-specific level, are likely to drive or subdue dealmaking over the next 12 months.

Macroeconomic issues and headwinds

Inflationary pressures

2024 began with expectations of a M&A revival spurred by interest rate cuts, an easing of inflationary pressures and pent-up demand fuelled by record amounts of dry powder. While there was a noticeable uptick in European energy and infrastructure M&A activity (particularly high value M&A in the European renewables sector and public-to-private transactions) in the second half of 2024, interest rates remain elevated and inflationary pressures persist. The US Federal Reserve's signalling of a slow pace of interest rate cuts in 2025 has heightened

concerns among dealmakers that sustained inflation and the ongoing rate environment will continue to affect valuations and cash flow forecasting, making the exit market challenging for sellers. We expect that acquirers will continue to focus on targets that present opportunities for operational synergies and improved efficiency (including mature and overcapitalised projects). The higher cost of debt will also drive investment towards core infrastructure assets (for example, electrical distribution infrastructure and gas pipelines) with stable, inflation-protected cash flows and low demand volatility.

Tariffs

While governments across the G7 are focusing on pro-growth agendas, any significant increases in tariffs by the incoming Republican administration are likely to have a significant impact on cross-border deals. Tariffs imposed under the first Trump administration led to supply chain disruptions, valuation uncertainty and longer deal timelines as acquirers assessed tariff impacts on market access and profitability. In a higher tariff environment, we expect to see more re-shoring (the practice of relocating production or supply chain operations to home markets) and defensive M&A as European companies seek to make acquisitions that enable better control over their supply chain operations. The imposition of retaliatory tariffs is likely to intensify scrutiny from merger control and foreign direct investment authorities (both in Europe and the US) and increase the need for more comprehensive due diligence to assess the financial and operational implications of tariffs on targets.

Geopolitical uncertainty

Energy and infrastructure M&A will remain impacted by geopolitical uncertainty in the Middle East and Ukraine in 2025. We continue to see strategic M&A driven by energy security concerns in Europe as many European companies use M&A to reposition and diversify supply chains in response to trade tensions and supply chain disruptions caused by Russia's invasion of Ukraine. Critical infrastructure assets will also continue to hold significant appeal for investors for their perceived stability in the face of market fluctuations caused by

geopolitical events. European cross-border M&A will see more rigorous regulatory reviews as authorities take a more cautious stance on foreign ownership of strategic assets, and we anticipate greater political influence outside formal merger control and foreign direct investment review mechanisms on deals where governments may intervene in transactions perceived as undermining national interest. We also expect greater scrutiny by the European Commission of critical infrastructure transactions through the use of in-depth investigation powers under the Foreign Subsidies Regulation, a new regulation enforced by the European Commission aimed to address distortions in the EU internal market caused by foreign subsidies. This closes a regulatory gap where previously EU member states were subject to scrutiny under EU state aid rules, which did not adequately address subsidies granted by non-EU governments.

Markets and industry

Public-to-private transactions and the mega deal energy sector

In an otherwise calm market, public-to-private transactions dominated the M&A headlines throughout 2024, and we expect to see that trend continue through the next 12 months. The confluence of factors that triggered heightened deal activity of this kind, including record investible capital under private management and an apparent view that European listed entities are undervalued, remain in place. As Europe continues to grapple with the energy transition and an ageing infrastructure asset base, we expect acquirers, both strategic and sponsor, will see further potential for growth for listed entities in these sectors.

Somewhat connected to public markets activity over the past 12 to 24 months, following a flurry of consolidation, a number of mergers amongst international energy majors are now closed or close to closing. As operators continue to contemplate transactions of this scale and the newly combined entities assess their synergies and disconnects, we expect there will be a period of rationalisation and corresponding divestment, presenting M&A opportunity. These deals may take a variety of forms, but we anticipate the focus will be non-core aged assets, particularly in

challenging jurisdictions (from a political and/or geographical perspective), which nonetheless represent a value accretive proposition for many mid-market operators and investors.

Transition supply chain

There has been and will continue to be an appetite for transactions in the renewable energy sector, primarily in respect of generation, storage and transmission assets, despite some notable project cancellations over the past 12 months. However, as project development in those areas continues to grow, there will have to be an equivalent scale-up in the supply chain and support services that underpin those activities. In a retelling of the old adage regarding the sellers of shovels in a gold rush, we predict, and are beginning to see, significant growth and investment in the transition supply chain, particularly in respect of ports, vessels, equipment manufacturers and specialist installation and maintenance service providers. As such businesses continue to grow, it is likely a broader range of well-capitalised acquirers will begin to participate in the sector, likely to lead to an increase in principal acquisitions, bolt-ons, divestments and potentially even listings. There is still a lot to be finalised as to the implementation of the UK government's clean energy policies and the financial commitments that come with it, but regardless of how that shapes up, we expect the UK will be a primary target for this M&A activity, as a result of the UK government's ambition to make the UK a "clean" energy hub.

UK North Sea fiscal regime

Following the UK general election in July 2024, a new Labour government was elected. As pledged in their manifesto, the new UK government has announced changes to the UK North Sea fiscal regime, including an increase of the Energy Profits Levy (the so-called "windfall tax") to a headline rate of tax of 78 percent for oil and gas producers, with the levy set to be extended to 2030, in addition to plans to end the granting of new licences for new oil and gas exploration. These changes have impacted investment confidence in the UK North Sea, exacerbated by a backdrop of declining production, a reduction in new wells drilled and a relatively strong

investment environment in neighbouring Norway. Despite these challenges, M&A activity is expected to remain steady in 2025, with opportunities for smaller more nimble players and those with sufficient risk appetite, particularly as existing players look to divest non-core and declining assets.

Overall market outlook

Despite the macroeconomic headwinds that persist as we enter 2025, we continue to be sanguine about the prospects for M&A in the European energy and infrastructure sectors, as large players diversify and invest

while the global energy transition gains pace. Although new governments across many of the world's major economies will be setting out their agendas for the coming years, which industry participants should look to monitor closely for new opportunities and exposures, we hope to see market conditions generally stabilising and value-gaps between buyers and sellers continue to narrow.

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