



I. GLOBAL SMART METER SECTOR CONTINUES STRONG GROWTH

Regulatory requirements mandating the installation of smart meters continue to drive strong growth in smart metering. Global revenues are approaching \$10bn, forecasted to grow in excess of 4% annually. Smart meters offer cost savings benefits for both the consumer and the utility provider and allow for effective monitoring, utilization and measurement of energy.

The largest industry transaction over the past three years was water technologies Xylem Inc.'s (NYSE:XYL) 2016 acquisition of Sensus Worldwide Limited for \$1.7bn. Sensus, based in Raleigh, North Carolina, is a supplier of smart metering and related communication systems to the water, gas, heat and electric utility sectors. At the time of the acquisition, more than 80 million metering devices were installed globally.

Table I: *Notable Announced Smart Meter Sector Transactions 2016-2018*

Announcement	M&A Closed Date	Target	Buyers	Total Transaction Value (\$m)	Country
8/15/2016	10/31/2016	Sensus Worldwide Limited	Xylem Inc. (NYSE:XYL)	1,700	United States
12/26/2017	2/2/2018	Meter Readings Holding, LLC	Hubbell Power Systems, Inc.	1,100	United States
12/6/2016	1/31/2017	Calvin Capital Limited	KKR & Co. Inc.	1,000	United Kingdom
9/17/2018	1/5/2018	Silver Spring Networks, Inc.	Itron, Inc. (NasdaqGS:ITRI)	957	United States
4/26/2017	5/31/2017	QUNDIS GmbH	KALORIMETA AG & Co. KG	435	Germany
4/9/2017	3/21/2018	Yantai Dongfang Wisdom Electric Co., Ltd (SZSE:000682)	Dongfang Electronics Co., Ltd.	276	China
5/24/2018	Pending	Acumen Metering Business of Origin Energy Limited	Landis+Gyr Group AG; (SWX:LAND) Pacific Equity Partners	2	Australia
8/6/2018	Pending	Shenzhen Clou Electronics Co., Ltd. (SZSE:002121)	SZ Capital	151	China
2/26/2016	10/31/2015	Beijing tellhow Intelligent Engineering Co., LTD.	Beijing Watertek Information Technology Co., Ltd. (SZSE:300324)	125	China
5/8/2017	6/1/2017	Comverge, Inc.	Itron, Inc. (NasdaqGS:ITRI)	118	United States
				Total \$6,064	



As the Smart Meter market continues to grow, smart metering manufacturers and service providers have increasingly become targets for private equity firms. In September 2016, First Reserve acquired Morrison Utility Services, the leading provider of utility infrastructure services in the UK. This was followed by the December 2016 add-on acquisition of G4S Utility Services (UK), the leading supplier of smart energy metering and outsourcing services. After a holding period of 23 months, the enlarged company, M Group Services, was sold to PAI Partners (France) in August 2018, for an undisclosed amount.

In January 2017, KKR & Co Inc. (USA) entered the smart meter sector with the purchase of Calvin Capital (UK) from infrastructure investor Infracapital for \$1.1bn. Calvin Capital finances the procurement and installation of metering assets on behalf of energy suppliers.

An additional noteworthy private equity transaction includes the announced May 2018 joint venture acquisition of Acumen by Landis+GYR (SWX:LAND) (Switzerland) and Pacific Equity Partners (Australia). The Acumen business includes the existing management and servicing of an already deployed 170,000 meters and a material, long-term contract with Origin Energy for the rollout of additional smart meters across Australia.

II. REGULATORY LANDSCAPE

Countries around the globe have recently passed regulations mandating the installation of AMI meters as part of their energy conservation initiatives. In Europe, 16 countries have committed to achieving 80% market penetration by 2020, including the UK, France, Italy, Spain, Austria, Greece, Sweden, and Poland. Several other countries, such as Germany and Slovakia, have committed to a more selective roll-out by that date. The Joint Research Centre of the European Commission estimates that by 2020, 200 million consumers will have a smart meter for electricity (72% of European Consumers) and 45 million customers will have a smart meter for gas (40% of European Consumers). About 45 million smart meters have already been installed in Finland, Italy and Sweden alone, which represents about a quarter of predicted installations in the EU by 2020.

Regulators in 23 of the 28 EU member states have adopted smart metering legislation. Actual functionality requirements, by contrast, have for the most part been left to the discretion of distribution system operators (DSOs). Most EU member states have not passed legislation to establish minimum functionality requirements or to incentivize the inclusion of key features.

Network upgrades in European countries are estimated to cost €40bn, inclusive of the costs of actual smart meter installations. Meanwhile, cost/benefit analyses continue to be conducted in order to determine how individual countries can maximize energy savings and minimize cost for the consumer, state, and DSOs.

In the USA, electric utilities witnessed over 70 million AMI installations by 2016. The vast majority of these (88%) were for residential customer installations, with the next highest proportion (11%) coming from commercial installations. The rate of smart meter installation more than doubled between 2010 and 2017; nearly half (47%) of the 150 million electricity customers in the US now have some version of electricity smart metering, though penetration rates vary widely by state. In Canada, smart meter deployment has also been on the rise, especially as renewable energy laws like Ontario's 2009 Green Energy Act have provided substantial funding for the installations through tariffs.



III. CONCLUSIONS

We expect the momentum to continue in the Smart Meter market through 2018-2019:

Global M&A Activity

M&A will increase as private equity firms enter the high growth market and utilities seek a competitive advantage and the ability to reduce costs. The underlying market growth will continue to drive valuation and potentially higher than market private equity returns.

Technology Investments

Utility companies will continue to invest in new smart meter technologies and software due to government mandates and incentive programs. Consumers will increasingly look to new technology as a way to reduce energy costs through real-time management.

European and North American Growth

We expect continued growth in the European markets as favorable regulatory frameworks adopted in Europe are expected to drive further smart meter installations for electricity, gas and water.

ABOUT WINCHESTER CAPITAL

Since 1986, Winchester Capital has offered advisory services and asset management with a record of transactions in 40 countries. In 2017, we received the Distinguished Award for *International Private Equity Deal of the Year* and we also have received the award for *Energy Deal of the Year*. We excel in direct transaction research, initiation and execution. Winchester Capital has advised two distinguished transactions in smart metering; the acquisition of Morrison Utility Services (now known as M Group Services) by First Reserve and the subsequent follow-on acquisition of G4S Utility Services. **For potential acquisitions, divestitures or joint ventures in smart metering technologies and energy management, please contact our Managing Director, Dr. David Bowen at David.Bowen@WinchesterCapital.com. Please visit our website at www.WinchesterCapital.com.**



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