AP CAPITAL RESEARCH

M&A Deal of The Week

Constellation Energy & Calpine Corp

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Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- On January 10, 2025, Constellation Energy Corporation (Nasdaq: CEG) announced its acquisition of Calpine Corporation in a $16.4 billion cash and stock transaction. This strategic move reinforces Constellation's leadership in the U.S. clean energy market by combining its zero emission nuclear fleet with Calpine's low emission natural gas and geothermal assets to deliver enhanced value to customers and communities nationwide.
- The acquisition adds significant scale to Constellation's generation portfolio, increasing its capacity to nearly 60 gigawatts across nuclear, natural gas, geothermal, wind, solar, and battery storage, establishing a coast to coast presence and serving 2.5 million customers with reliable and sustainable energy solutions.
- This transaction is expected to deliver over $2 billion in annual free cash flow and more than 20% adjusted EPS accretion from the first full year post-completion, providing Constellation with capital for further investments in clean energy technology and infrastructure.
- Structured through a combination of cash, 50 million Constellation shares, and the assumption of $12.7 billion in Calpine's net debt, the deal reflects a 7.9x 2026 EV/EBITDA multiple. Leadership continuity is ensured, with Calpine CEO Andrew Novotny joining Constellation's senior management team to oversee integration and operations.
- This acquisition aligns with Constellation's strategy to extend the life of existing nuclear plants, invest in renewables, enhance grid reliability, and explore advanced nuclear technologies, positioning the company as a leader in the transition to clean energy.
- The combined company will offer a broader array of tailored energy products and sustainability solutions, leveraging complementary generation assets, fuel diversity, and geographic reach to meet growing energy demands efficiently and competitively.
- Constellation's commitment to innovation, sustainability, and operational excellence is reinforced by this transaction, driving long term growth, value creation, and enhanced service for customers while supporting a cleaner energy future.
- With a strong balance sheet and substantial cash flow generation, Constellation is well-positioned to continue investing in advanced clean energy technologies, ensuring reliable and sustainable power supply across key U.S. markets and delivering lasting value to shareholders.

Key Figures

- **Deal Value:** $26.6 B
- **Constellation EV/EBITDA:** 17.5x
- **Constellation EV:** $106.2 B
- **Constellation P/E:** 34.1x
- **Constellation D/E:** 70%
- **Constellation EV/Sales:** 0.1.x
- **Constellation Market Cap:** $99.6 B

- **Deal premium:** N/A
- **Calpine Gen Capacity:** 27,000 MW
- **Calpine Fleet:** 79 Power Stations (NA)
- **Calpine Founding Date:** 1984
- **Calpine CEO:** Andrew Novotny
- **Calpine Employees:** 2,300+ globally
- **Calpine HQ:** Houston, Texas

WRITTEN BY

Samuel Thompson

Company Information

M&A DEAL OF THE WEEK

Constellation Energy

- Constellation Energy Corporation, a Fortune 200 company headquartered in Baltimore, is the largest producer of clean carbon-free energy in the U.S., generating over 32,400 MW of power, nearly 90% of which is carbon-free. The company operates through five key segments: Mid-Atlantic, Midwest, New York, ERCOT (Electric Reliability Council of Texas, which manages the flow of electric power to most of Texas), and Other Power Regions, delivering sustainable energy solutions to millions of homes, businesses, and 75% of Fortune 100 companies.
- Constellation provides a diverse portfolio of energy products, including natural gas, electricity, and tailored sustainability solutions, serving a broad range of customers such as distribution utilities, municipalities, cooperatives, and commercial, industrial, governmental, and residential sectors. The company plays a critical role in the U.S. energy market, contributing over 10% of the nation's clean energy supply.
- In 2023, Constellation reported $24.92 billion in revenue with an anticipated $23.65 billion in 2024 (6% decrease year over year), while improving operational efficiency through an increased gross margin from 35.79% to 41.74%. Driven by more than 10 strategic acquisitions, Constellation continues to expand its market presence, foster innovation, and lead the transition toward a sustainable energy future.

Calpine

- Calpine Corporation is the largest producer of electricity from natural gas and geothermal resources in the United States, with operations spanning the U.S., Canada, and Mexico. As a leader in clean energy generation, Calpine is committed to providing reliable, low-carbon power while supporting the transition to a more sustainable energy future.
- Privately owned by a consortium of investors led by Energy Capital Partners, Calpine operates a diverse portfolio of 76 power plants, including facilities under development, with a total generation capacity exceeding 25,000 MW. The company serves a wide range of customers through its wholesale and retail energy operations, delivering efficient and flexible power solutions.
- Calpine also leverages its carbon-neutral technologies to generate revenue through the sale of carbon credits, reinforcing its commitment to environmental sustainability and innovation in the energy sector. Its East region, comprising roughly 30 operating power plants with more than 9,300 MW of capacity, covers over 10 U.S. states and Canada, with key concentrations in the Mid-Atlantic and New England markets.

WRITTEN BY
Harsh Jain

Deal Rationale and Risk

M&A DEAL OF THE WEEK

Rationale - Strengthening Market Reach and Enhancing Product Offerings

Diversification of Energy Portfolio and Enhanced Product Offerings

The deal significantly enhances Constellation's energy portfolio by integrating Calpine's low-carbon natural gas and geothermal assets with their existing nuclear and renewable energy capabilities. This combination positions the combined entity as one of the largest clean energy providers in the US. The diversified portfolio not only reduces reliance on any single energy source but also aligns with global decarbonisation goals and regulatory pressures to transition toward cleaner energy solutions. Additionally, the blend of nuclear and natural gas assets provides a balanced mix of baseload and flexible generation, ensuring reliability and resilience in the face of fluctuating energy demand. The expanded portfolio also enables the combined company to offer a broader range of energy solutions, catering to utilities, commercial and industrial clients, and retail consumers, thereby enhancing its competitive edge in the market.

Geographic Expansion

Calpine's strong presence in Texas and California provides Constellation with access to high-growth regions with significant energy demand. Texas, with its rapidly growing population and industrial base, offers substantial opportunities for expansion. California, known for its aggressive renewable energy mandates and decarbonization initiatives, aligns perfectly with the combined entity's clean energy goals. This geographic expansion not only diversifies Constellation's revenue streams but also mitigates regional market risks, creating a more robust and resilient business model.

Financial Benefits

The acquisition is expected to deliver significant financial benefits, with projections indicating more than a 20% increase in adjusted operating earnings per share by 2026. Cost synergies, operational efficiencies, and revenue growth opportunities will drive these gains. The combined entity's enhanced scale and market presence will also improve its bargaining power with suppliers and customers, further boosting profitability. Additionally, the transaction is expected to provide near-term value to shareholders while positioning the company for sustained long-term growth.

Risks - Regulatory Approvals and Debt

Regulatory Approvals

The acquisition requires approvals from several regulatory bodies, including the Department of Justice and the Federal Energy Regulatory Commission. These agencies may scrutinise the deal for potential antitrust issues, market concentration, and competitive impacts in key regions. Delays or challenges in obtaining these approvals could disrupt the acquisition timeline and delay the realisation of synergies. Additionally, regulatory conditions imposed during the approval process may necessitate divestitures or operational restrictions, potentially limiting the strategic benefits of the merger.

Debt Load

The acquisition includes the assumption of Calpine's $12.7 billion net debt, increasing the combined company's leverage and potentially impacting its financial flexibility. Higher debt levels could lead to increased interest expenses, reduced cash flow for investments and potential downgrades in credit ratings. Managing this debt load will require disciplined financial management including potential deleveraging strategies like asset sales or cost-cutting measures. While the projected financial benefits of the merger are significant, the increased leverage introduces additional financial risk that must be monitored.

Market Volatility

The energy sector is inherently volatile, influenced by fluctuating commodity prices, changes in energy demand, and technological advancements. Emerging technologies, such as artificial intelligence and energy storage, could disrupt traditional energy markets and alter demand patterns. Macroeconomic factors, including inflation, interest rate changes, and geopolitical tensions, may also impact energy prices and the financial performance of the combined entity. These uncertainties could affect the projected synergies and financial outcomes of the merger, necessitating proactive risk management strategies.

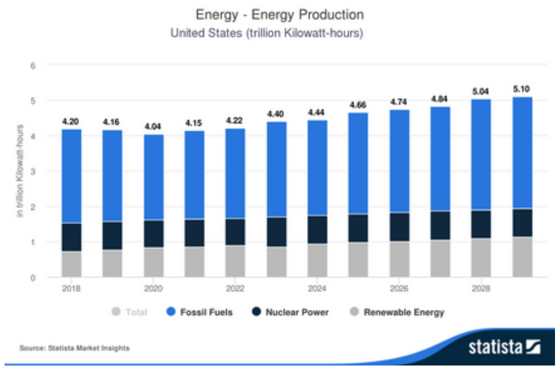
WRITTEN BY

Riccardo di Silvio

Industry Analysis

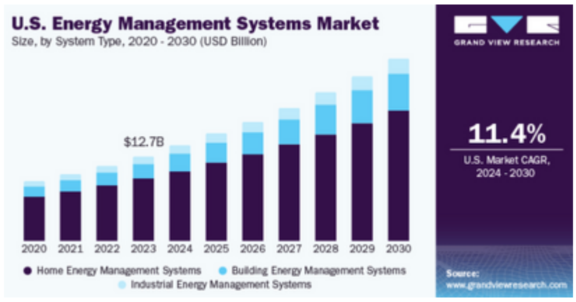
M&A DEAL OF THE WEEK

The US Energy Industry



The US energy market is diverse and dynamic, consisting of various energy sources including fossil fuels (oil, natural gas, and coal), nuclear power, and renewable energy (solar, wind, hydro, and biomass). The energy sector plays a crucial role in the US economy, not only providing a significant revenue stream but also powering industries, transportation, and homes across the country. Between 2012 and 2025, the oil and gas industry is projected to provide $1.6 trillion in federal and state tax revenue, supporting the maintenance of schools, hospitals, and public infrastructure nationwide.

Energy Production
In 2024, US energy production reached a total of 4.44 trillion kilowatt-hours, with fossil fuels continuing to dominate the energy mix. Fossil fuels contributed 2.69 trillion kilowatt-hours, accounting for the largest share of production. Nuclear power produced 0.81 trillion kilowatt-hours, while renewable energy sources contributed 0.94 trillion kilowatt-hours. The data also suggest an increasing trend in the contribution of renewable energy, which may continue to rise in the coming years as efforts to transition to cleaner sources of energy intensify.

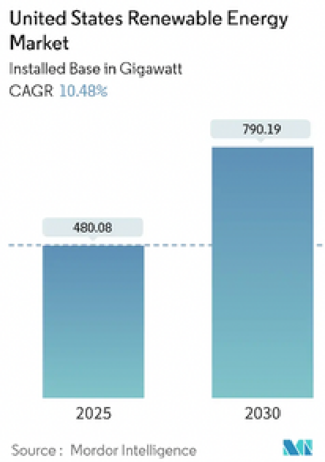


Management Systems Market
The US energy management systems market was valued at $12.70 billion in 2023 and is projected to grow at a CAGR of 11.4% from 2024 to 2030. This growth is fuelled by the growing demand for effective energy management, monitoring, and optimisation across industrial, commercial, and public sectors. The rising focus on decarbonisation has led to greater investments in advanced energy management systems technologies, as businesses look to reduce energy consumption and emissions.

Additionally, the growing adoption of smart meters is fuelling market expansion, allowing for real-time data collection and improved energy efficiency.

Market Structure
The US energy market is complex, with numerous competitors whose operations span across various states. Major players in the sector include Texas Gulf Energy, Exxon Mobil Corporation, Chevron Corporation and ConocoPhillips, which are largely focused on fossil fuels. In contrast, the recent acquisition of Calpine Corp by Constellation Energy is set to create one of the cleanest and most reliable generation portfolios in the US. This merger significantly expands Constellation's footprint, especially in key states like Texas, California, and New York, positioning the combined company as the leading U.S. retail electricity supplier. The transaction reinforces Constellation's role as the largest clean energy producer, helping to meet the growing demand for sustainable and reliable energy while offering more predictable prices to customers. This expansion will also boost its efforts in community investment and workforce development, further solidifying its leadership in the industry.

Emerging Trends and Insights



1-Renewable energy
The US renewable market is set for significant growth, expected to expand from 480.08 gigawatts in 2025 to 790.19 gigawatts by 2030, driven by increasing solar and wind installations, government support, and falling costs for renewable technologies. Solar power is leading the way, with the US targeting 60 gigawatts of annual solar installations from 2025 to 2030, supported by policies like the Solar Investment Tax Credit and $555 billion in government investments. Projects like Virginia's solar and energy storage initiatives further support this growth.

However, challenges like competition from natural gas and the intermittency of renewables remain, though advancements in energy storage are helping to address these issues. Overall, strong investments and favourable policies position the US to significantly boost its renewable energy capacity, helping to create a more sustainable energy future.

2-Energy Security
Due to both geopolitical unrest and economic difficulties, US energy security is growing more complicated. The administration of President Donald Trump has already implemented a number of unforeseen tariffs that have created volatility and may increase the price of energy imports and essential raw materials utilised in the renewable energy sector.

At the same time, geopolitical conflicts are adding significant pressure on global energy security. The ongoing war between Ukraine and Russia has created instability in global energy markets, especially affecting Europe's access to Russian natural gas. Although the US is not as directly affected, these worldwide disruptions nonetheless cause increased energy prices and market instability. Meanwhile, the persistent conflicts in the Middle East, particularly in oil-producing regions, add further uncertainty to the global oil supply. The situation in the Middle East could lead to spikes in oil prices, intensifying the need for a more diversified and resilient energy strategy.

WRITTEN BY
Piotr Ambrozewski

Final Thoughts

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Samuel Thompson

This deal strikes me as a well-calculated step forward in the clean energy scene. Bringing together Constellation's robust nuclear capabilities with Calpine's low-emission natural gas and geothermal assets creates a diverse energy portfolio that feels both forward-thinking and practical. Beyond the financial upsides, like increased cash flow and earnings, what really stands out is the potential for long-term sustainability. This merger positions Constellation not just as a leader in clean energy production but also as a company capable of navigating the complexities of the evolving energy market while maintaining reliability for its customers. It feels like a smart, future-proof move.

Ricardo di Silvio

In my view, Constellations' acquisition of Calpine is a bold strategic move that redefines its clean energy future. By merging Calpine's nimble, low-emission natural gas and geothermal assets with its established nuclear operations, Constellation is taking a calculated risk on sustainable growth. While integration and regulatory hurdles remain, this deal signals a strong commitment to long-term value creation and positions the company to lead in the evolving energy landscape.

Piotr Ambrozewski

Constellation Energy's acquisition of Calpine Corp significantly enhances its position in the US clean energy sector, merging Constellation's nuclear assets with Calpine's low-emission natural gas and geothermal power. This deal not only expands Constellation's portfolio but also strengthens its presence in key regions like Texas and California. Financially, the transaction is expected to generate $2 billion in annual free cash flow and drive a 20% increase in EPS. The acquisition positions Constellation for long-term growth, offering a resilient, diversified energy portfolio to meet evolving market demands and sustain its leadership in the clean energy sector.

Harsh Jain

Constellation Energy's acquisition of Calpine Corp. is a game-changing move that fundamentally reshapes the future of the clean energy landscape. This strategic synergy creates a comprehensive energy portfolio that can better weather market fluctuations and environmental challenges, ensuring Constellation remains at the forefront of sustainable energy solutions. Additionally, Calpine's substantial carbon credit holdings are anticipated to provide Constellation with valuable assets, potentially enhancing its sustainability initiatives and offering financial advantages in carbon credit markets. This strategic acquisition not only strengthens Constellation's financial outlook but also positions the company as a leader in the transition to a low-carbon future.

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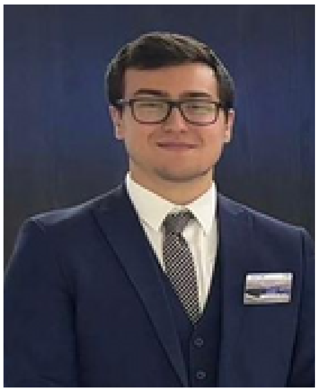

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