



Aligning the strategic expectations of Private Equity (PE) investors and Power and Utility (P&U) operators - to minimise risks, accelerate growth, and create value.

Q&A with dss+ industry experts

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# Q&A



Q&A with dss+ experts, **Joaquin Blanco, Director of Private Equity and Principal Investors EMEA** and **Mathieu Leduc, Director of Power & Utilities EMEA**. Here they discuss what is driving Private Equity (PE) investments in the Power and Utilities industry (P&U), and the urgent need for both corporate and private investors to move fast in addressing the energy transition challenge and be mindful about the emerging new risk profiles that could undermine value creation opportunities.

**Private investors are significantly driving renewable energy investments, making them a prominent actor in the energy transition landscape.**

Last year, the level of investment in renewables grew to ~\$42.1bn and despite some price volatility, these investments are fundamental to bridging the financial gap at a time when governments are lagging in providing the funds to meet capacity and energy security demands. But given the risk trends resulting from massive transformations in the P&U sector, these investments and growths come with high risks.



**With your extensive experience working directly with PE and P&U companies, what are the drivers of PE interest in the P&U industry?**

**JB:** Private Equity investors have been a relevant player in the Power and Utilities field for years but, more recently, several key trends are rising appetite for this asset class. Firstly, PE firms are typically recognised for bringing substantial change into their investment, and obviously the P&U industry is undergoing a massive transformation due to the energy transition, positioning these investors as relevant actors for the future. Secondly, technological change and the acceleration of new energy sources is bringing costs down and profitability and yields for these projects remain and will continue to be attractive. Finally, there is a growing global demand for energy and renovation of large infrastructure assets, especially in Europe and USC which requires more energy and power sources to cope with future demands (electrification of the economy, rise of emerging economies), paving a growth trajectory that is typically required for this type of investor.

**ML:** We have seen over the past years how the sector's progressive maturity and technological competitiveness is bringing in new types of investors moving from traditional industrial players and public investors to institutional investors such as Private Equity and pension funds. These investors have acquired over the past years around 70% of onshore wind assets, for example and they are moving fast now on offshore, solar and hydrogen assets as well. All this is supported by the need of most European Power and Utilities companies in Europe to tilt their strategies to reach net zero goal by 2030/2050.



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**You mentioned that P&U companies are tilting their strategies, so are you also seeing a shift in investors and their strategies too?**

**JB:** Yes, with the main shift being that investors in the past saw Power and Utilities as relatively stable cash-flow generating assets industry. They were mainly making the investment and then content to leave the operator to run the business and simply looked at their long-term returns. Now, they are much more active and recognise the role they can play in leading and influencing for example operational risks as a precondition for productivity and efficiency improvement. They are getting more specialised in specific technologies/industries and hence adjusting their capabilities to further support operators. In fact, what we're seeing today is that they are positively challenging the assets owners to raise the bar in terms of performance around aspects that before were seen as more technical and in the hands of the operator (health and safety, environmental concerns, etc).

**ML:** The rapid transformation offers great opportunities for PE, and there is a drive from investors who are willing to do more with the assets. But another issue we are seeing is that there are some non-traditional players in the sector and so if they don't change their strategies to assign the correct KPIs to monitor growth and transformation, at some point they will have an issue and a problem capturing growth.



## Q.

**How can PE and P&U accelerate the transition to more sustainable energy sources? What are the opportunities?**

**JB:** Private Equity firms have a long tradition of bringing change to their portfolio companies and accelerating transformations. This is a very positive characteristic for an industry that was not considered very dynamic in the past. Time is of the essence and the investors will inevitably accelerate growth by providing the capital to transition to more sustainable energy sources if they continue to get attractive returns. Also, we see there are more opportunities for investors in the renewables sector, especially solar and wind energy. Initially having had less upfront investment compared to traditional power plants, over the recent years solar and wind sectors have soared fuelled by adopting new technological advancements. We also see a lot of opportunities for investors supporting grid and distribution developments as the need for more energy will continue to increase over the coming years. Not forgetting the huge challenge of recycling, fast changing regulations and the uncertainty it brings. Overall, being attractive as it is, investing in P&U industry needs careful consideration of all moving parts along with the pressure to transition and find innovative solutions; but getting it right will bring very favourable returns to the portfolio owners.

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**Investing in P&U industry needs consideration of all moving parts along with the pressure to transition and find innovative solutions; getting it right will bring very favourable returns to the portfolio owners.**

**ML:** This is an industry that is exposed to volatility, where the production quantity drives the return of investment. When, for example, it comes to solar and wind, it's much more complex than simply waiting for favorable weather conditions. Operational excellence here is key to making the businesses more efficient, resilient, and thus ensuring profitable returns. This is an industry that is still growing and there's a lot of consolidation that needs to be done, technology to be developed and supply chains to be built. To make sure it pays off PE needs to understand the operational risks of the company they are investing in and the full context of the energy value chain it finds itself in.

## Q.

**Whilst the pressure to rapidly transform business and operations is a necessity to capture capital investment and growth, what are the risks of this rapid transformation?**

**ML:** Not addressing and misjudging the complexity of future construction work and operations is an emerging risk that we are observing with the P&U clients. Therefore, PE needs to be aware of these risks, as the pace of change is so fast that the portfolio company may not have even identified the emerging risks on the block. The asset management of 2024 is very different to that of a classic P&U industry. Also, for some investors this is something new - they are discovering unfamiliar contexts such as fragmented operations over large territories, an autonomous workforce who must work alone in remote locations. This may be perceived as a low risk compared to chemical and gas, but this mindset is very misleading as new transformations require new supply chains, rapid recruitment, and an increase of third-party contracted work as well as the transition to new energies, different operating models, and technologies.

**JB:** There are many operational complications that we are seeing, resulting in an ever-growing risk profile that simply cannot be ignored. With regards to new technologies, it is not only the challenge of integrating and scaling the technology, but also the fact that the technology might not be fully developed yet. Reliability and maintenance can cause very serious availability issues, costing millions to manufactures and operators. We recognise this issue with most wind energy players who are struggling to deliver profits in a context of global growth demand for this technology.

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**Despite 82% of senior leaders acknowledging an increasing trend in the risk profile, only 40% of operators report a sufficient knowledge of critical risks, leading to a lack of effective risks controls and major accidents.**



**ML:** In a recent survey across 20 Power & Utility companies, dss\* found out that despite 82% of senior leaders acknowledging an increasing trend in the risk profile, only 40% of operators report a sufficient knowledge of critical risks, leading to a lack of effective risks controls and major accidents. An illustrative example is investing in a fossil fuel asset to convert it to biomass. As the concept is still quite new, the risks have not been fully identified and realised. Operational changes are often needed to safeguard against fire, explosions and so the asset needs managing differently. The value comes from the capacity to integrate change and it's important to understand the bigger picture and vulnerability before investing.



**What are the solutions and key focus areas to support the transformation journey and ultimately create value?**

**JB:** Investors need to consider risk from a more holistic perspective, understand the risk profile of the new technological solutions and be aligned on the expectations and decisions they need to make together with the operators. For example, an investor may want to see improvements on safety performance, yet the asset may think they are doing good because their incident rate is similar to other players. Ultimately, they are investing in the capabilities to improve the business as a whole leveraging people, management and governance structures to create a more resilient organisation. Twenty years ago, investors were looking at the financial performance and to judge a return on their investment. Now, whilst the financial element is important, they are expanding their view on what the company can deliver and driving the change through sustainable elements of the business in a much broader sense, being safety, environmental or social concerns related to the investment

**ML:** An integrated approach is ultimately what drives the returns and the success of the asset. Looking holistically at safety, operations, and sustainability, and how these areas influence and complement each other is a critical starting point. Unfortunately, many companies find this is the first hurdle here – a lack of critical managerial mass to drive these steps of change. Waiting months or even years for recruitment and training is not an option for the investors, so the focus then falls onto coaching the leadership and mobilising the managers to the shop floor in an efficient space of time. Over a recent dss+ sample of 12 large safety transformation programmes, reaching more than 25,000 managers, we have confirmed that a 24-week upskilling or reskilling programme enables companies to reverse the trend of declining safety performance and reach the necessary autonomy for sustainable results.



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**How has dss+ adapted it's consulting in relation to how you work with PE and P&U companies?**

**JB:** Now, comparing to few years ago, we see a lot of demand for support with the pre-ownership phase and providing a more comprehensive view on a specialist due diligence (operational risks, environmental aspects and reliability and maintenance). Bringing this insight upfront is helping investors weigh-up and balance their post-acquisition plans and focus on value creation with a much broader perspective. As dss+, our operator heritage provides investors with a very pragmatical view and perspectives on different risks across the assets. We see a lot of investors wanting to understand how to address operational risks better with their portfolio executives. For example, we work closely with the investor managing directors and partners, coaching them on safety culture and risks, who being far from the operational reality want to engage in meaningful conversations with their portfolio company executives.

**ML:** There's definitely much more anticipation and granularity in the due diligence, especially in operations. Investing in an industry that is due to experience a significant shift in the near future can be complex to communicate with clarity. We have a different eye on the investments that PEs are going to make. A company might have a good safety performance on paper, but when we look closer, we may, for example, find a lot of missing key information on KPIs. The implications of not having the right data can have detrimental consequences. Likewise, we recognise the challenges that companies in the P&U industry face as they strive to swiftly adapt to the sector's expanding demands. As transformation experts, we know how to mitigate risks, drive cultural transformation, excellence in operations and support sustainability goals. We understand both Private Equity and Power & Utilities worlds and can therefore combine expertise in these industries for the global benefit of the investor and the operator.

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## Summary

With public finances and countries' debts at an all time high, the need to accelerate the energy transition on Power and Utilities businesses will need to rely more and more on financial investors, being Private Equity an effective vehicle that has demonstrated its capacity to produce change and create value across industries. However, new emerging risks associated with less mature technologies, strengthening regulation and the need to keep delivering

The pace of transformation is fast with companies, and indeed countries, wanting to take advantage of their status in the clean energy economy. But to take advantage of opportunities and reach climate targets, investments need to be significantly scaled up and global energy transformations need to accelerate even faster.

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## 3 key tips to start a transformation journey and maximise value:

# 1.

### **Rethink and reconsider the risk profile of the investment:**

Traditional risk profile assumptions for Power and Utility assets are rapidly evolving in a context of energy transition and technological change. Understanding and addressing how this impacts value protection and creation within the investment is crucial for sustainable impact.

# 2.

### **Focus on what matters to unlock value in the wider sense:**

Traditional value creation levers mainly focused on economic impact, yield and returns are not enough today for investors in the longer term. Both investors and operators need to get strong alignment on how these new metrics will drive value for both parties, employees and all other relevant stakeholders.

# 3.

### **Invest in developing a risk mindset and capabilities across your employe base:**

Ultimately building resilience within portfolio companies to protect value relies on getting employees better at responding to an uncertain and challenging context. Traditional classroom training methods demonstrate little impact in the long term, meaning leaders and middle management need to act more like coaches, helping their team develop capabilities in the field and provide constant feedback.



### **Joaquin Blanco (JB)**

**Director dss+ Head of Private Equity and Principal Investors EMEA**

With a wealth of industry and advisory experience, Joaquin works with CEOs and shareholders to identify strategic initiatives, drive change, improve results and adapt their organisations to a new competitive landscape.



### **Mathieu Leduc (ML)**

**Director dss+ Industry & Practice Europe**

By combining management consulting with extensive hands-on industry expertise, Mathieu helps organisations to transform, improve their risk management and operational performance.

#### **About dss+**

dss+ is the operational transformation partner for complex and high-hazard industries. Driven by our purpose, we help organisations achieve breakthroughs in safety, performance, and sustainability that deliver measurable impact and build business endurance.

Forged in the high-pressure world of safety, we know that people are the true success factor for lasting change. That's why we work from the inside – engaging deeply within organisations to shift mindsets, shape cultures, and establish the capabilities needed from the frontline to the boardroom.

We combine technical expertise and operational experience with a people-centred, data-driven approach to deliver transformative outcomes for our clients. Together, we tackle the toughest challenges and deliver results that truly matter; saving lives and creating a more sustainable future.

Find out more at [www.consultdss.com](http://www.consultdss.com)



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