

Delta Energy & Environment Ltd  
Registered in Scotland: No SC259964  
Registered Office: 15 Great Stuart Street, Edinburgh, EH3 7TS, UK



# Strategies for Success in the Retail Energy Services Market

Michael Brown - Director

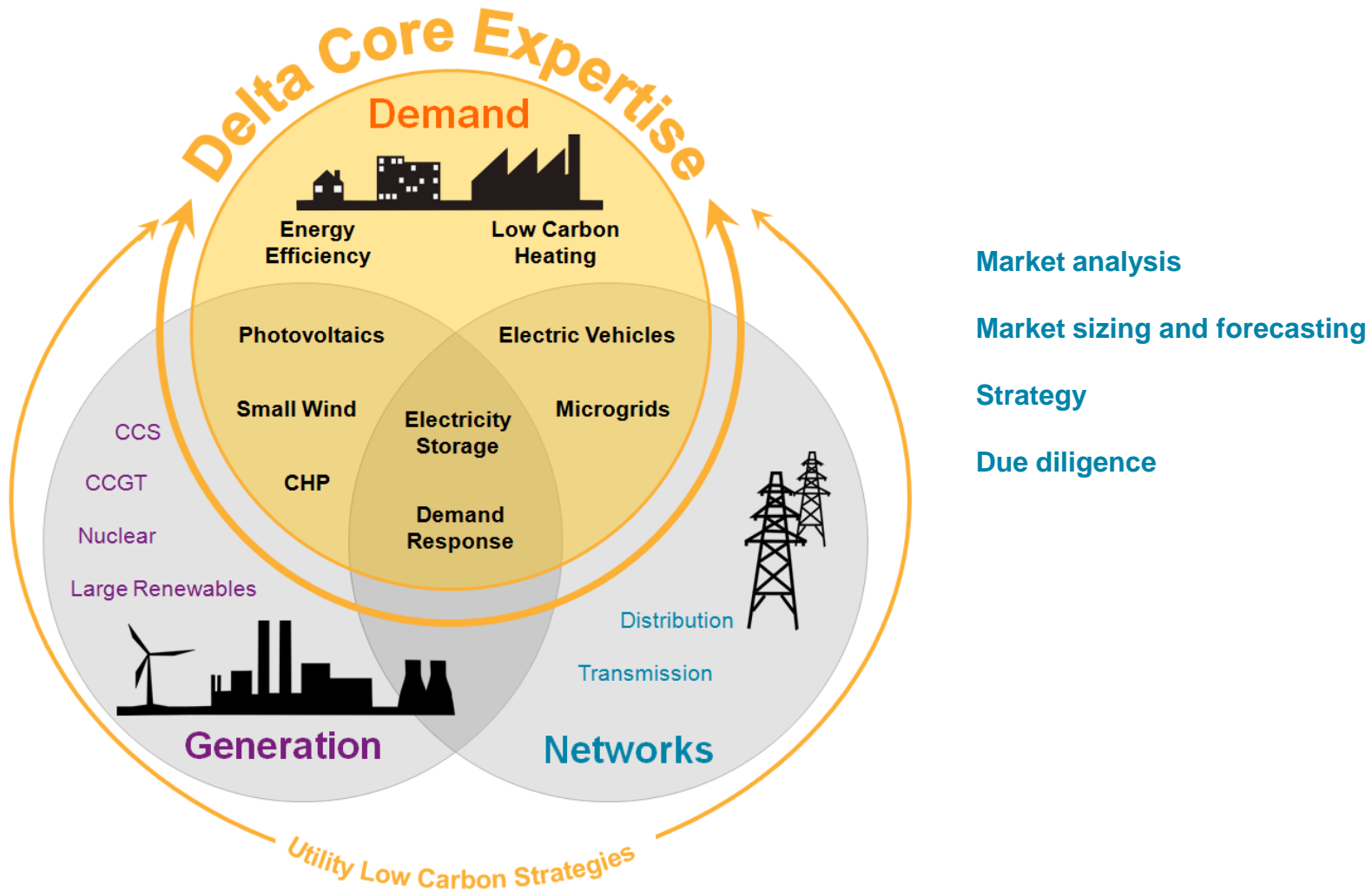
[www.delta-ee.com](http://www.delta-ee.com)

+44 131 625 1011

15 February 2011



# What Delta does



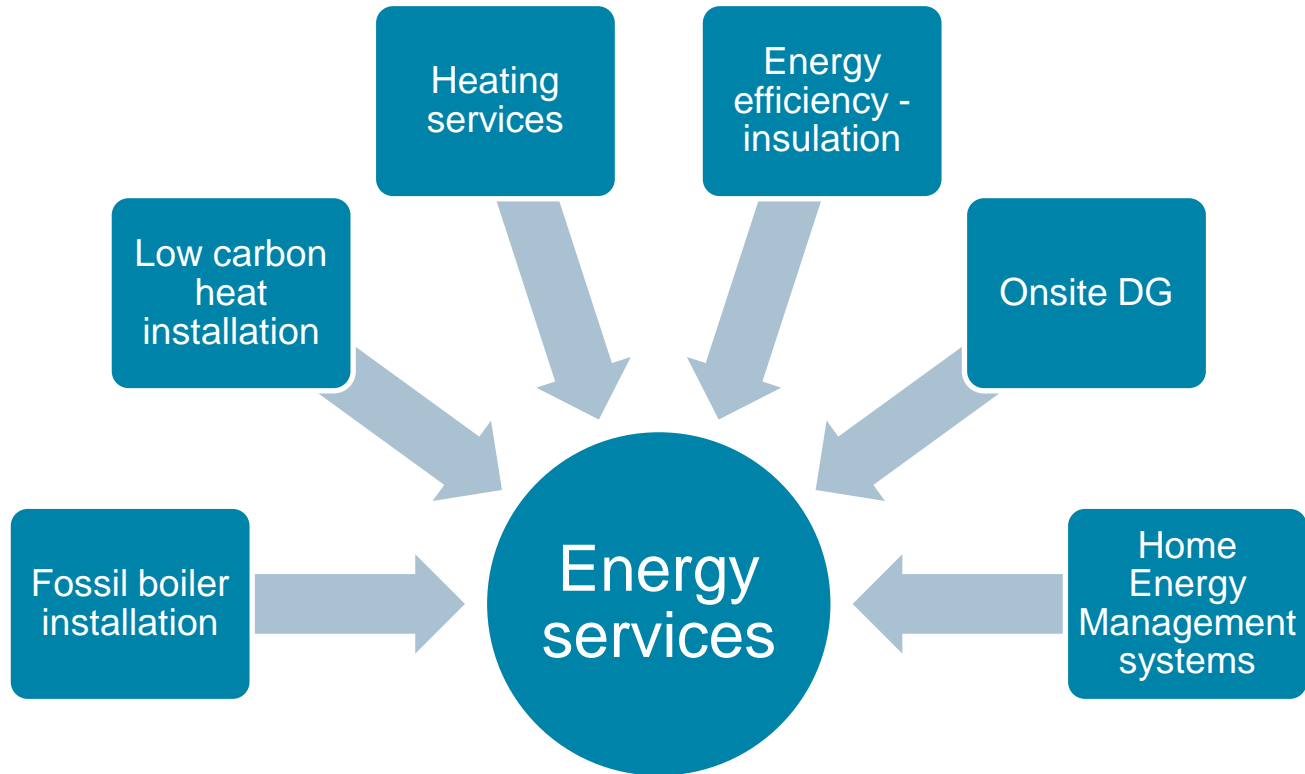
Market analysis

Market sizing and forecasting

Strategy

Due diligence

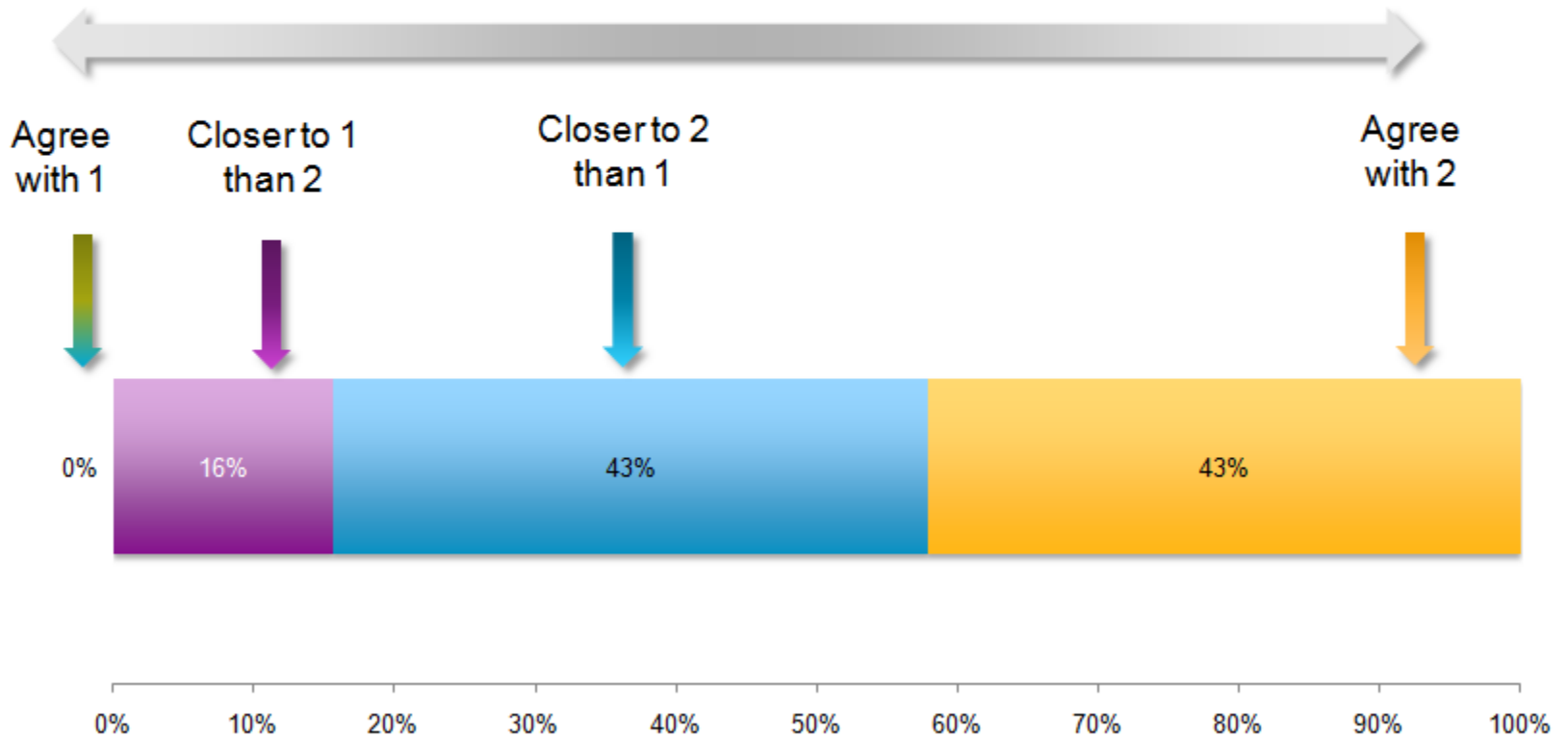
# What are Energy Services?



# Early views from the industry

**Viewpoint (1): Energy Services will largely be an irrelevance for utilities**

**Viewpoint (2): Utilities will gain significant value & profit from engaging in Energy Services**



# “the old utility business model is dead”

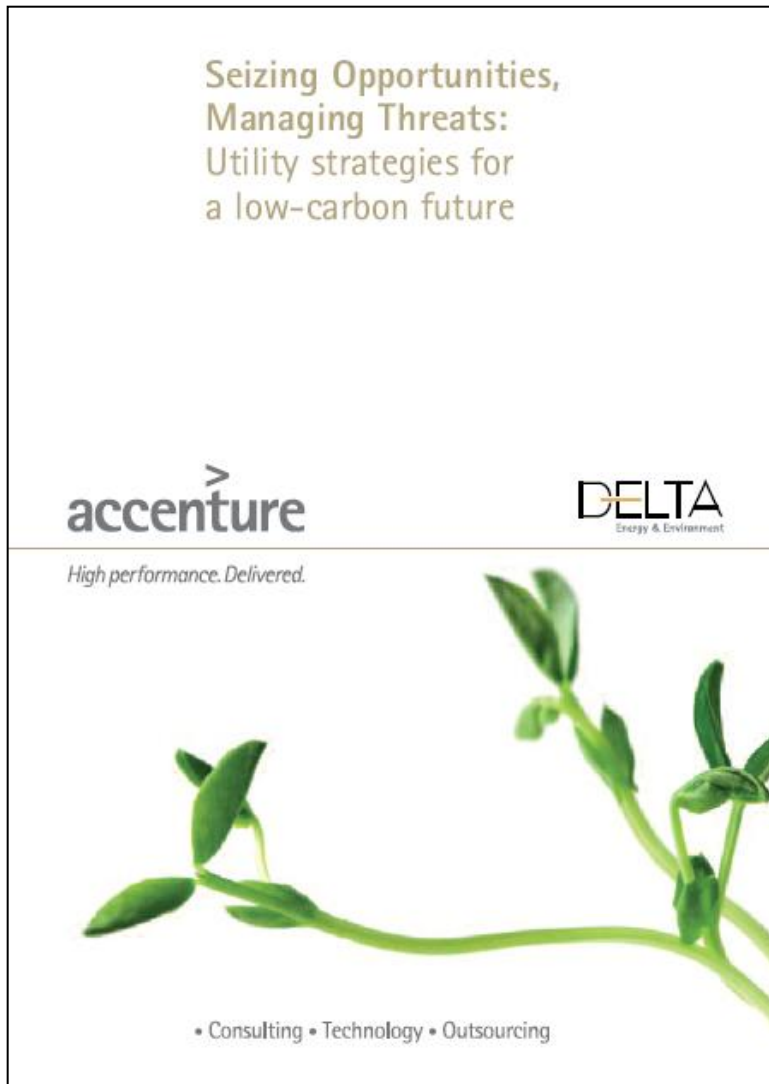
**Sam Laidlaw, Centrica, September 2010**

**Declaring that "the old utility business model is dead", Mr Laidlaw said that the shape of British Gas is changing and within just a few years its energy services business will become at least as big as its energy supply business.**

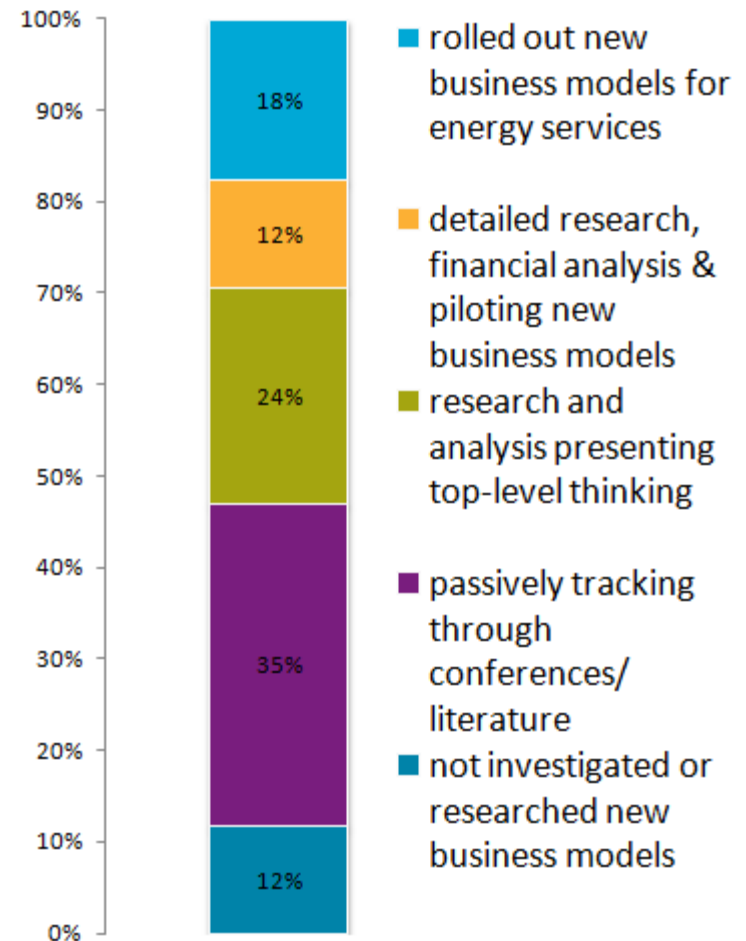
**“Cutting carbon emissions from power supply alone is not enough and a greater focus must fall on energy efficiency. The focus is switching from delivering units of energy, to ensuring a well lit, warm and energy efficient home.”**



# Some distinct activity – but spotty



## New business models for energy services



# An emerging valuation for energy services

**Centrica** CNALL CNA LN  
European Utilities

A top pick – target price upped to 410p  
**CNA well positioned for changing face of UK supply market**

**The UK supply market is changing**  
The provision of therms and kWhs to UK households should no longer be viewed in isolation from other energy-related services, and the UK home services market is a rapidly developing and growing market. In our view, CNA is well positioned to capitalise on the rapidly developing energy services market through its scale in energy supply and its brand, its expertise and its broad and innovative home services offerings.

**CNA well placed to win the Home Services race**  
In conjunction with Delta Energy and Environment we have carried out an in-depth review of the Home Services market in the UK. We conclude that CNA's Home Services division is well placed to at least meet internal targets of nearly doubling EBIT by end-2012.

**Home Services is undervalued by the market**  
As a result of our research, we increase our valuation of CNA's Home Services division to a market-topping EV of GBP 5.4bn, from GBP 3.3bn previously (consensus is GBP 3.1bn). This new value implies a 2011 EV/EBITDA multiple of over 16x, but with a 22% 3-year EBIT CAGR, this falls to 10.7x in 2012.

**The rest of the business also has attractions**  
We also believe CNA has a sustainable advantage in supply that will sustain market-leading margins. We see growth in the US, Business Supply and Upstream EBIT as well as a strong balance sheet and limited political/macro risk.

**NOMURA**  
EQUITY RESEARCH

September 8, 2010

Relative rating **Buy**

Remains

Target price **410p**  
Increased from 370.0

Closing price **332.2p**  
September 3, 2010

Potential upside **+23.4%**

Research analysts

**European Utilities**

John Musk  
j.musk@nomura.com  
+44 20 7102 4138

Martin Young  
m.young@nomura.com  
+44 20 7102 1536

Raimundo Fernandez-Cuevas  
r.fernandez@nomura.com  
+34 91 211 3900

Jonathan Conetable  
j.conetable@nomura.com  
+44 20 7002 2000

Karan Armanandika  
k.armanandika@nomura.com  
+91 20 2553 3750

**Industry specialist**

Roger Reynolds  
r.reynolds@nomura.com  
+44 20 7102 2369

Year end 12-2009	2009a		2010e		2011e		2012e	
	Actual	Old	New	Old	New	Old	New	
Currency GBP								
EBITDA	2709	3213	3370	3517	3701	3819	4073	
EV/EBITDA	7.4	N/A	6.2	N/A	5.6	N/A	5.1	
EPS (p)	21.70	24.75	25.45	27.97	28.81	30.63	32.35	
P/E	15.3	13.4	13.0	11.9	11.5	10.8	10.3	
DPS (p)	12.8	14.1	14.1	15.5	15.5	17.0	17.0	
Dividend Yield	3.9	4.2	4.2	4.7	4.7	5.1	5.1	
FCF/Share (p)	37.18	18.11	20.43	14.30	15.84	18.71	18.35	
FCF Yield (%)	11.2	5.5	6.2	4.3	4.8	5.0	5.5	

Source: Company data, Nomura estimates

Company data: See page 2 for full company data and two-year price/index chart

Relative rating: For details of Nomura's relative rating system see text at the end of this publication

Nomura International plc

## The UK supply market is changing

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# Delta's new research into the ES market to 2020

4 scenarios  
for future  
supplier  
involvement  
in ES

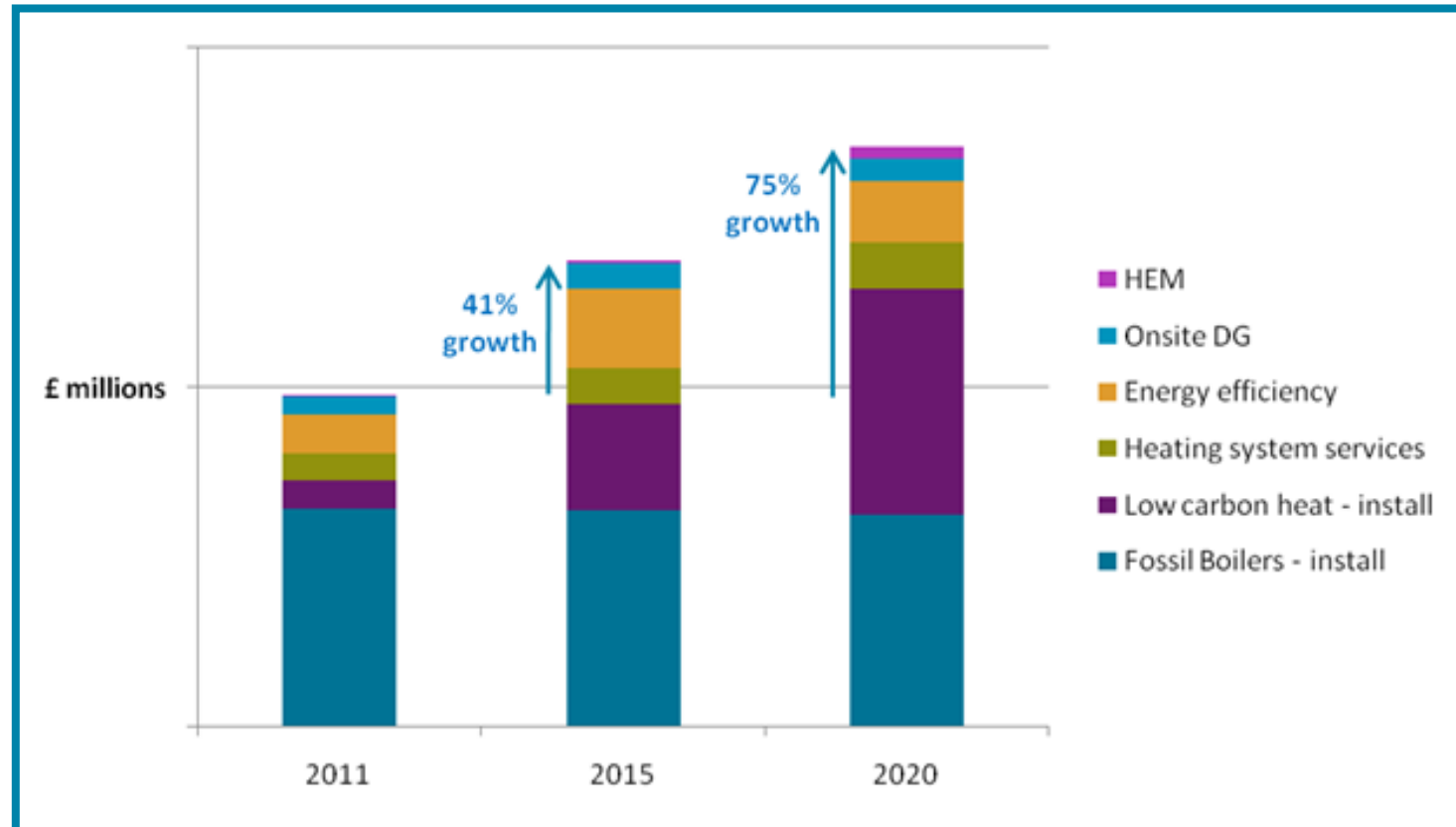
Revenue,  
margin and  
supplier  
market  
shares in  
2010

Revenue,  
margin and  
supplier  
market  
shares –  
2020  
forecasts

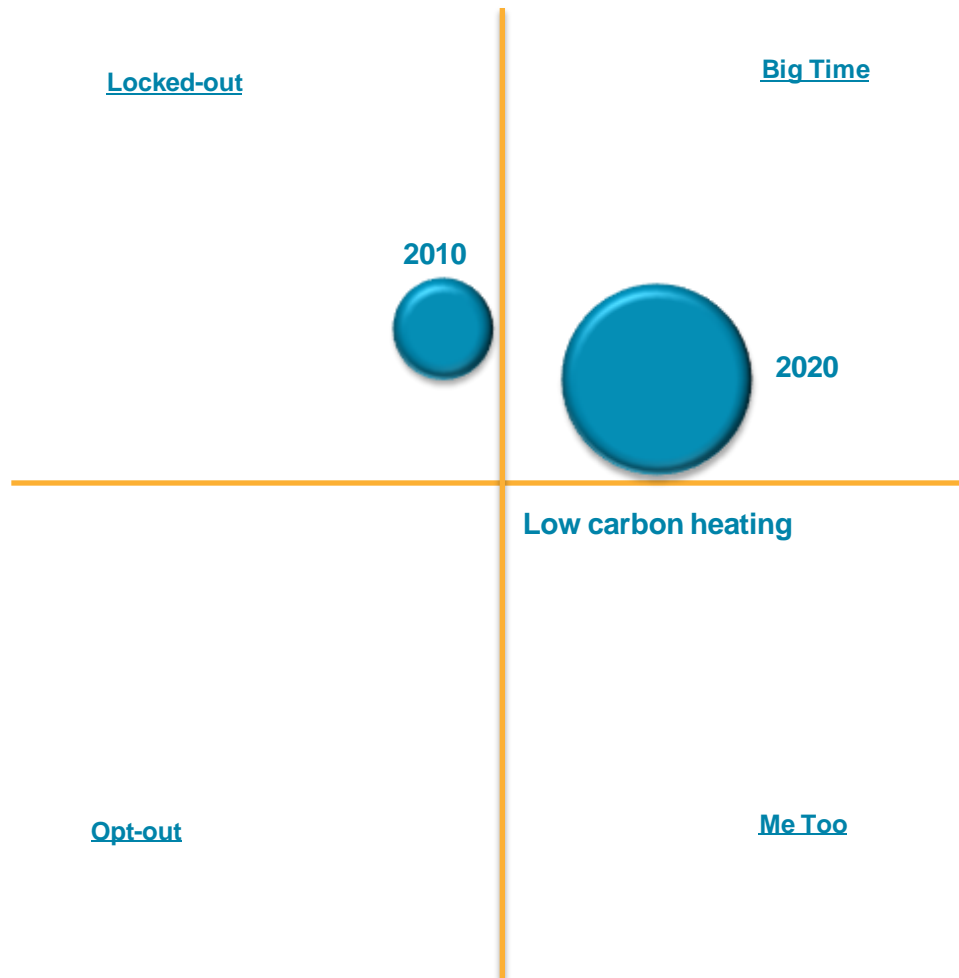
Who is doing  
what?: case-  
study tool-  
kits

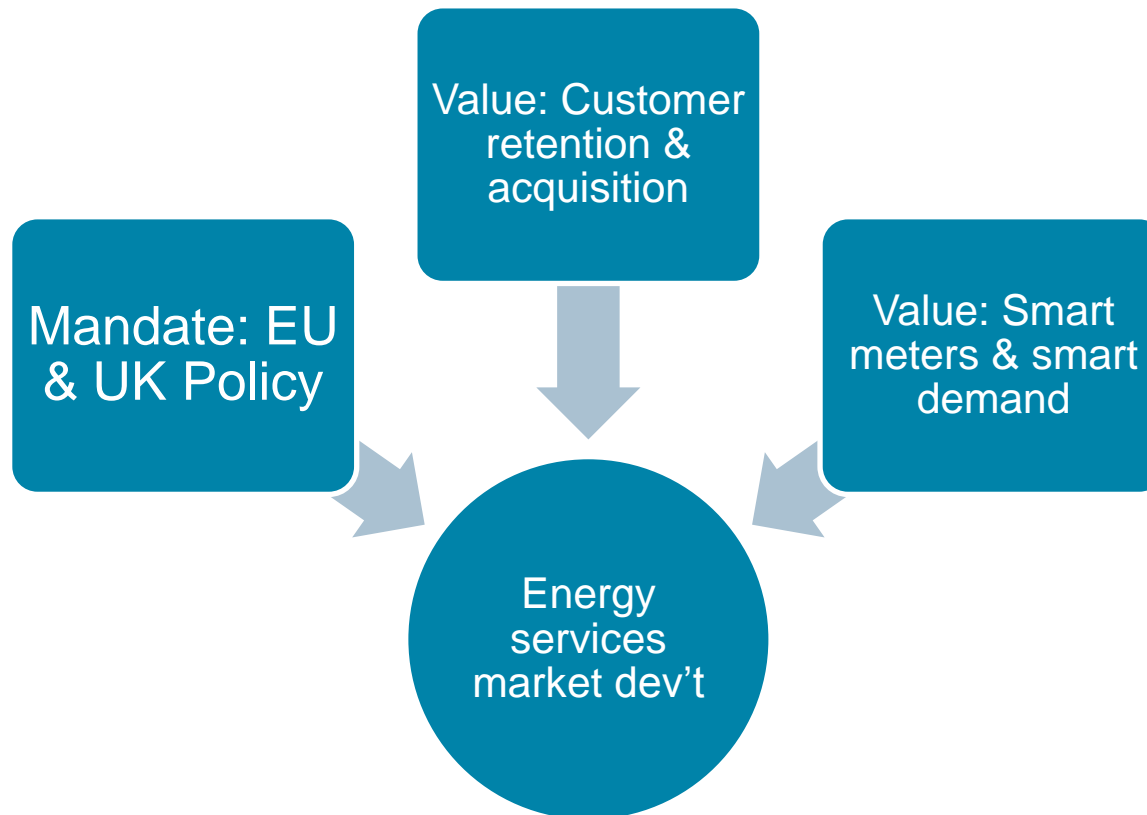
Reco's for  
strategies  
and tactics  
for success

## Some UK findings – gross margin potential



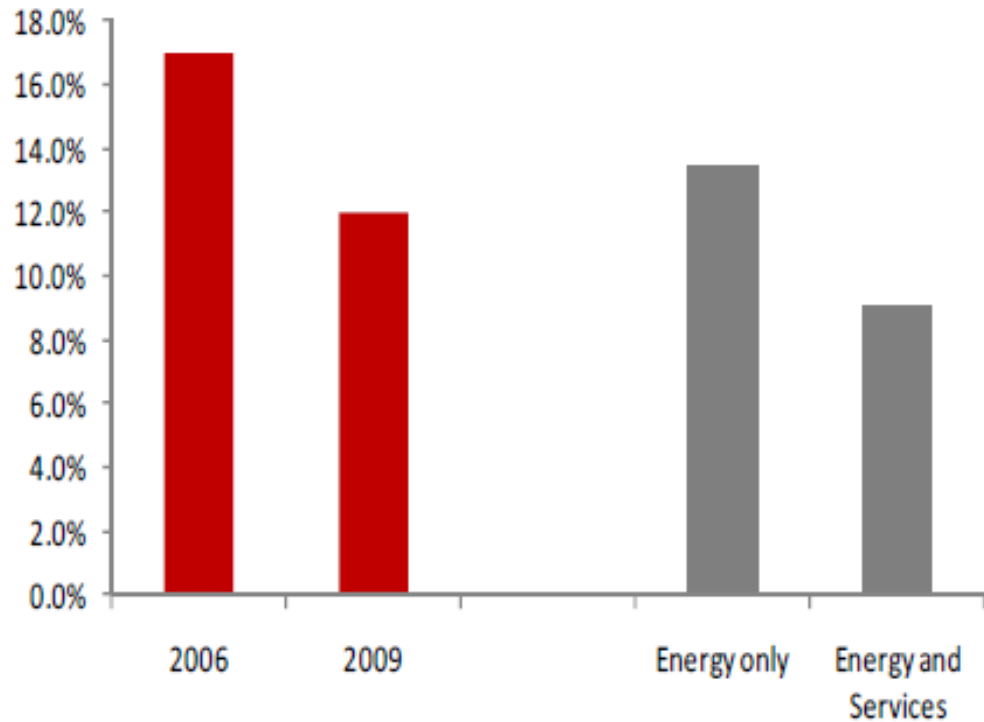
# 4 energy services scenarios – example of LCH





## Services offering can mean stickier customers: Customer churn at Centrica

Data taken from 1H10 results



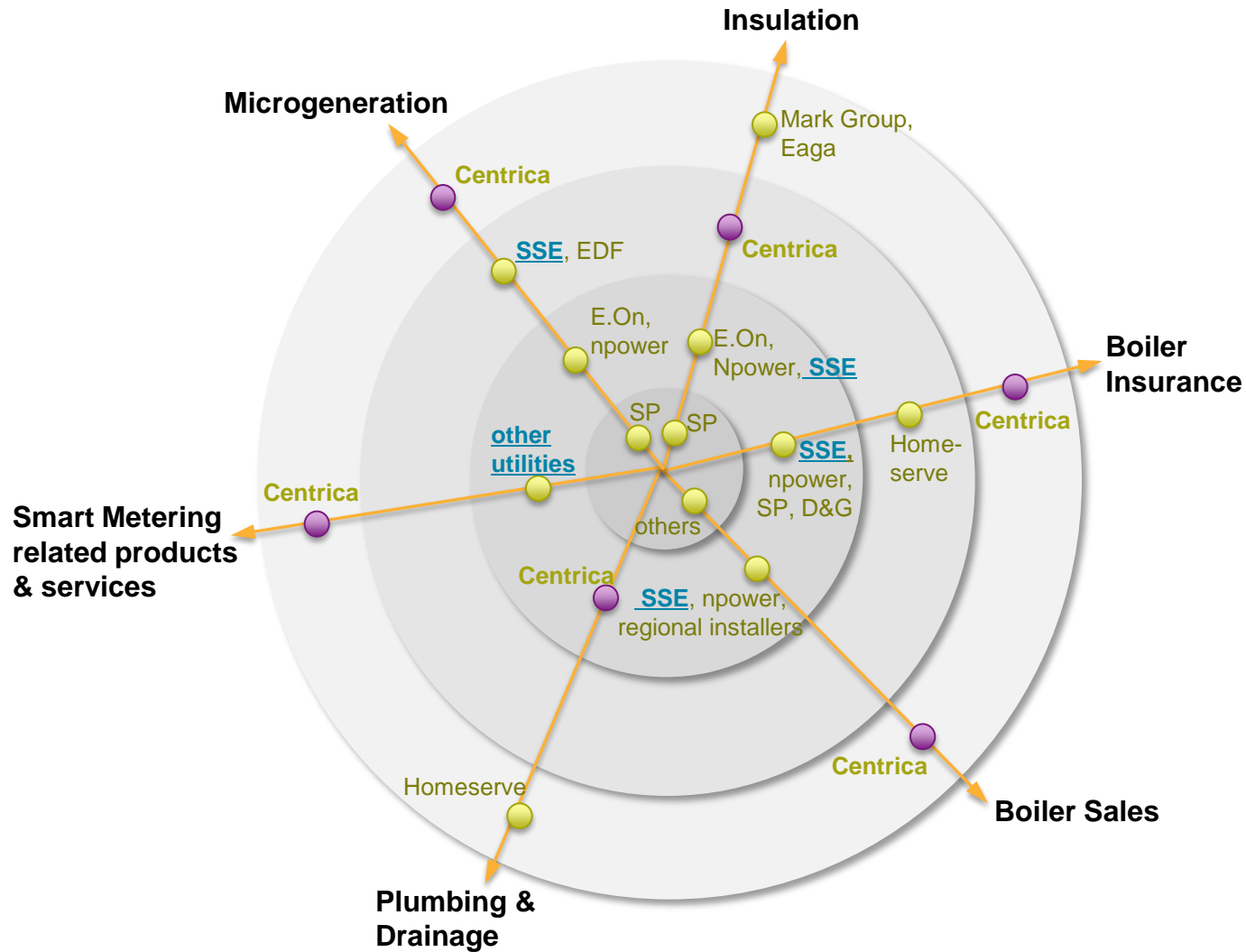
# Value chain impacts of DSM and efficiency



**EBIT  
impacts of  
demand  
side  
measures**



# Energy company engagement – how do they rate so far?



# It's competitive out there - PV example

## Utilities



- ▶ Developing 'me too' offerings
- ▶ One stop shop
- ▶ Expensive & mixed customer service

## Installers



- ▶ Majority local / regional
- ▶ Good expertise, and track record
- ▶ Introducing PV for free

## Retail companies



- ▶ Scale - buying power - low cost offerings
- ▶ National coverage
- ▶ 'Jumping in' too quickly?

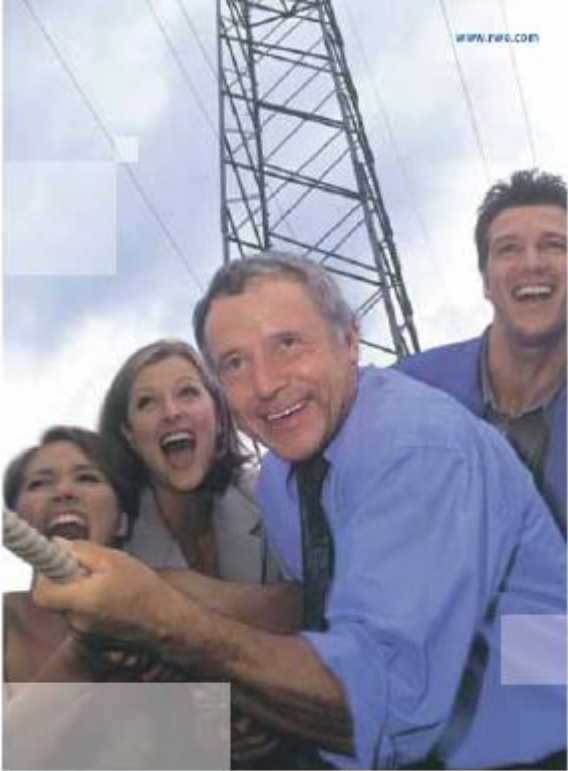
## Home improvement companies



- ▶ National coverage
- ▶ Extending portfolio of offerings
- ▶ Building on established brand

## Non UK Innovation: Germany – the RWE Heat Pump Tariff

- Supply interruption for up to 2 hours during peaks
- 30 to 40% of overall electricity price
- RWE's distribution business benefits from reduced costs
- **Customers on HP tariff rarely switch**




www.rwe.com

Kräfte bündeln, Vorteile nutzen

**RWE Forum  
Wärmepumpe**

Dienstleistungen  
STROM  
GAS  
WASSER

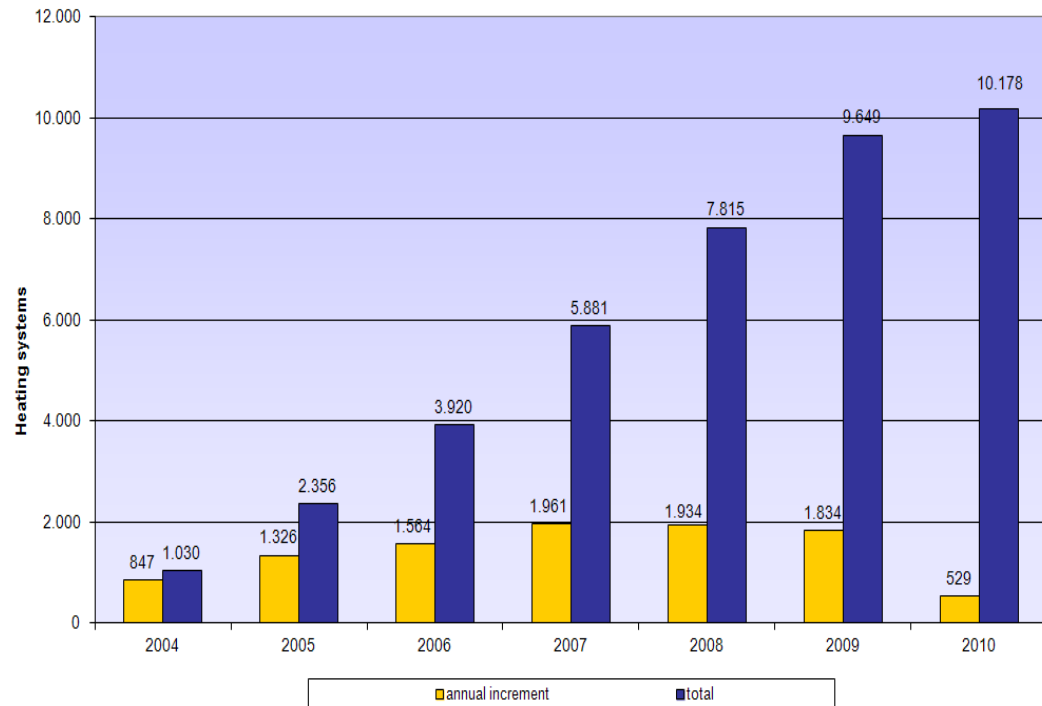
RWE Rhein-Ruhr  
Energie für unsere Region



# EWE – heat contracting



**Wärme Plus – Installing & owning residential boilers (& CHP) and selling heat**



- ▶ **Financing / servicing boilers / m-CHP could be a new differentiator for energy companies – and stickier customers.**

Strong  
brand

Trusted  
energy  
advisor



Advice & consultancy



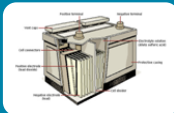
Energy Management



Building efficiency



Energy Efficient Appliances & DG



Small scale Energy Storage

*Nuon (and Essent) –  
'one stop shops'*

- ▶ **Building a strong brand position is critical**

# Do energy suppliers have a strong home services brand?

Who is most likely to give you a good and reasonably priced service?



- **The current utility model will be different in 2020**
  - ▶ Evolution or revolution?
- **Energy services: suppliers well placed to capture value**
  - ▶ Current market – mainly installers.
- **How to meet customer needs and deliver profits?**
- **Great diversity of potential offerings**
  - ▶ Need to decide where to focus – discretionary investment
  - ▶ Low carbon heating install & services market look attractive
  - ▶ HEMs – catalysts for value

• **Michael Brown**

• **[michael.brown@delta-ee.com](mailto:michael.brown@delta-ee.com)**