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Goldman's \$8 Billion Debt Assist Powers a Utility Merger: Gadfly

Cheap financing is still greasing the wheels for large deals.

By Tara Lachapelle

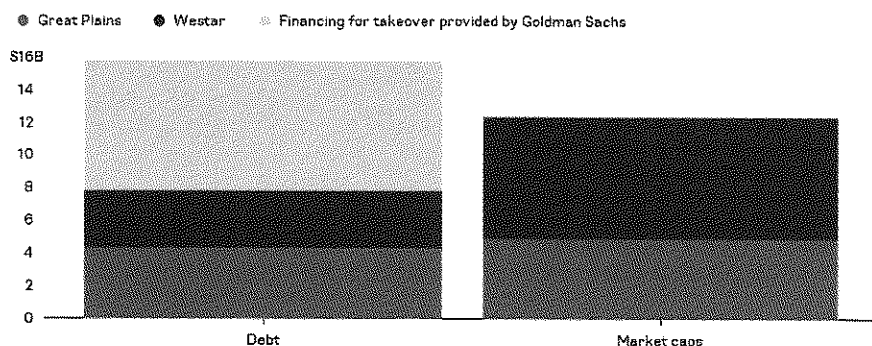
(Bloomberg) -- Great Plains Energy to Goldman Sachs: We want to buy our neighbor Westar Energy and to do it, we'd like to borrow \$8 billion -- almost twice as much as our own market value. Can you make that work?

Goldman: Yup.

OK, that's not a precise transcript. But on Tuesday morning Great Plains and Westar, two U.S. Midwestern power providers, announced that they're combining in a cash-and-stock deal worth \$12.2 billion. ¹ Funded with a good chunk of borrowed cash (Great Plains got an \$8 billion financing commitment from, yes, Goldman Sachs)², this transaction is emblematic of how cheap money continues to enable large, accretive acquisitions for investment-grade issuers that might not otherwise have been feasible.

Debt? No Sweat

Great Plains is buying its larger rival Westar Energy for \$12.2 billion, much of which is being borrowed from Goldman Sachs. It just goes to show how cheap money still is.



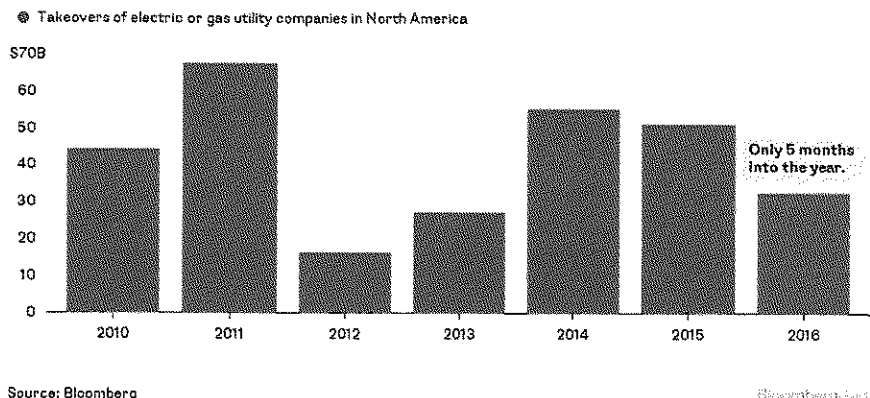
Source: Bloomberg, company filing

Bloomberg Gadfly

After the deal closes, 1.5 million Kansans and Missourians will be paying their electric bills to Great Plains Energy, which expects this addition to be "significantly accretive" to earnings after the first full year.

Megawatt Mergers

Power providers joined the M&A boom of the last two years as increased energy efficiency weakened electricity demand. If the industry's deal activity maintains this pace, this year may top 2015 and 2014.

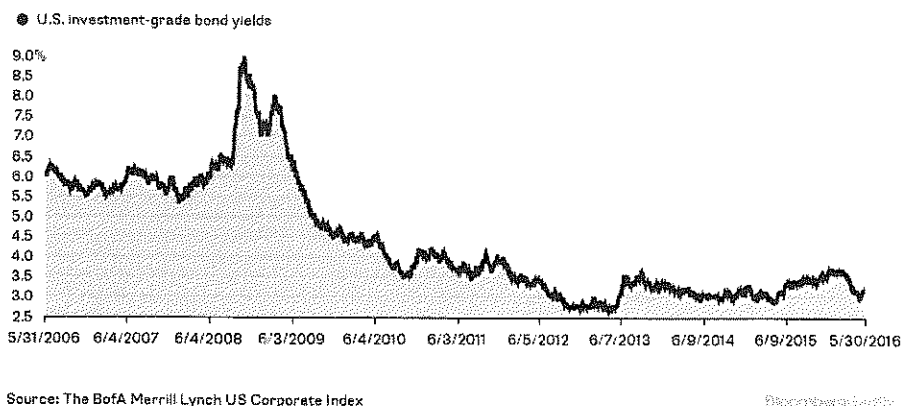


Westar, known as the "Enron of Kansas" in the early 2000s, was said to be gauging takeover interest in March, though there was some doubt that it'd find a buyer. The stock traded at record levels, leaving Westar with a relatively rich multiple of earnings.

Great Plains' offer works out to a little more than 12 times Westar's trailing 12-month Ebitda, which leans toward the higher end of recent utility deal valuations. But with demand for investment-grade corporate debt strong, it's also the least expensive \$8 billion Great Plains may ever borrow to increase its profit.

Cheap Money

The least-risky companies are still enjoying historically low borrowing costs



That may help explain why Great Plains said it's "comfortable" with the debt involved in the deal. And why Goldman Sachs is happy to lend.

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Tara Lachapelle is a Bloomberg Gadfly columnist covering deals. She previously wrote an M&A column for Bloomberg News.

Related tickers:

GS US (Goldman Sachs Group Inc/The)

GXP US (Great Plains Energy Inc)

WR US (Westar Energy Inc)

1 It's the biggest North American utility merger since Exelon agreed to buy Pepco two years ago. That transaction only just closed in March after overcoming regulatory obstacles.

2 Great Plains plans to issue long-term financing in the form of equity, equity-linked securities and debt as part of the deal.

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