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Exelon Wins Big Advantage in Its Pursuit of NRG

By MATTHEW KARNITSCHNIG

Exelon Corp. said its $6 billion tender offer for NRG Energy Inc. garnered more than 51% of the outstanding shares, a result that gives it powerful leverage in its hostile pursuit of NRG.

"The will of the shareholders is to enter into discussions with us that will end in the consummation of a transaction," said William Von Hoene Jr., Exelon's general counsel, in an interview.

NRG has already rejected the offer twice, saying the price "manifestly undervalues" NRG while also expressing doubts about whether Exelon could finance the transaction. But the result of the tender offer could force it to the negotiating table.

A spokeswoman for NRG said the company hadn't seen the results and declined to comment further.

Winning the tender gives Exelon the right to acquire NRG, but its offer is contingent on regulatory approval as well as the agreement of its own shareholders and other conditions. Exelon would prefer a friendly transaction because in a negotiated deal it would have access to NRG's books and the regulatory approval process would be less arduous.

If NRG continues to refuse talks, Mr. Von Hoene said Exelon would pursue a proxy contest to replace NRG's board with its own nominees at the next annual meeting. NRG has yet to set a date for the meeting but it has to be held by June. Exelon said it would extend its tender offer until June 26. "We are fully prepared in the event that they do not [negotiate], to solicit the proxies and attempt to change the composition of the board," he said.

The result of the tender suggests Exelon would win that fight, allowing it to push through the deal.

Exelon began the tender in November after NRG's first rejection. By the first deadline in early January, Exelon garnered commitments for about 45.6% of NRG's outstanding shares. Exelon then extended the offer until Feb. 25. The two companies' chief executives met in Washington in mid-January to discuss the offer but failed to agree on a framework for negotiations.
Exelon first made the unsolicited bid in mid-October, offering to pay a fixed exchange ratio of 0.485 Exelon share for each share of NRG, which is based in Princeton, N.J. At the time, the bid represented a 37% premium. The value of the deal, which was originally $6.2 billion, has fallen to $5.8 billion as Exelon's stock has dropped, but the offer still represents a 22% premium to where NRG was trading before the bid.
The apparent willingness of many NRG shareholders to still accept the offer instead of holding out for a higher premium is likely a reflection of the broader market malaise. With market indices falling sharply, many investors are desperate to book a profit, even if means forgoing the possibility of a better deal. In the case of NRG, investors may also be eyeing the stocks of other independent power producers, many of which have fallen substantially since October. NRG's shares have held firm since then because of the Exelon offer.
Hostile offers are unusual in the power sector, where deals normally are amicable because they typically also require approval from state regulators. But Exelon's move shows that sagging stock values for companies may entice companies to go after each other.
Exelon has already applied for regulatory approval in most jurisdictions and believes it can complete the process by the end of the third quarter. It foresees few obstacles because there isn't much overlap between the two companies and neither is a public utility.
Exelon, which owns utilities in Chicago and Philadelphia in addition to a large fleet of nuclear generating plants, sees great value in NRG's portfolio of fossil-fuel and nuclear power plants and its proposal to build an additional nuclear station in Texas.

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