CohnReznick Capital

QUARTERLY CONSIDERATIONS – Q1 2022

The CohnReznick Capital Insights Report provides a snapshot of the evolving sustainable finance and M&A landscape.

- Trends in Mergers and Acquisitions (M&A)
- Project Finance Trends
- Key Quarterly Topic – Offshore Wind Tax Equity (TE) Demand

Trends in Mergers and Acquisitions (M&A)

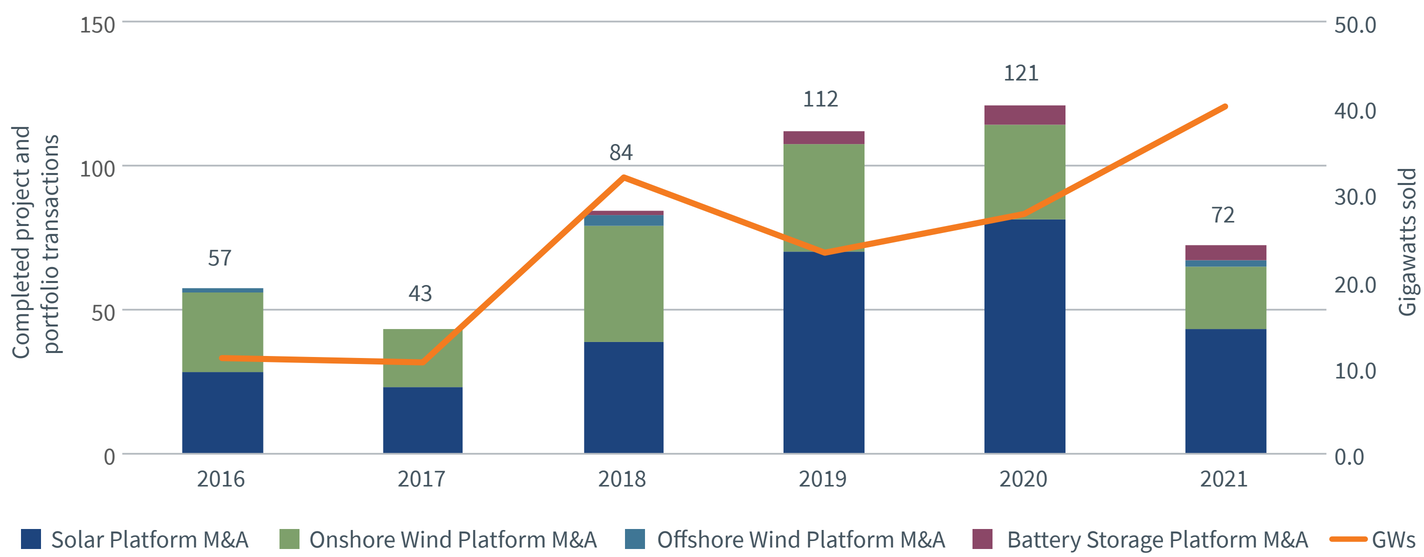
Fewer asset M&A transactions but more megawatts sold. After 2020 became the largest year on record for renewable energy asset M&A, deal flow slowed substantially in 2021, with a 40% drop in the number of transactions. When the pandemic first began, people feared both asset and platform M&A would decline rapidly. However, the industry quickly acclimated to new market conditions, and deal flow resumed. Strategy shifted again in 2021, and the number of renewable energy asset transactions dropped sharply. This was due to several factors:

- **More companies are holding on to assets to boost corporate valuation.** An increasing number of developers are looking to be acquired. Even those not actively seeking acquisition have entertained solicitations from companies looking to acquire their own development platform. Traditional "develop and flip" developers are opting to hold on to projects to ensure they get the largest valuation possible.
- **Acquired platforms have now pivoted to "develop and hold".** With more development platforms now acquired by larger companies, we are seeing fewer projects available for sale at NTP ("Notice to Proceed") or COD ("Commercial Operation Date"). More companies are holding on to operating assets rather than selling, resulting in an overall decrease in asset M&A in the market. A few independent developers remain. The growing number of companies looking to buy operating assets at NTP or COD has created fierce competition among buyers.

The equity sell-down market remains strong. While the number of M&A transactions decreased in 2021, the number of megawatts sold increased. More often, projects are being grouped into large portfolios instead of sold individually. Developers can sell down equity and recycle capital in order to reinvest in new projects while also retaining partial ownership of their existing portfolios. These transactions are appealing to non-traditional asset owners like insurance companies and pension funds. While newer, less experienced corporations outside of the energy and power sectors don't consistently win bids, the growing number of new entrants has made the bidding process more competitive. Winners are often companies with low cost of capital and favorable views on long-term merchant energy prices.

Some companies will fail the transition to "develop and hold". Over the next few years, we are likely to see a handful of developers revert to the "develop and flip" model. Among the many companies that purchased development platforms, some will realize it is more profitable to sell the assets than to hold them. For some, this won't necessarily indicate an unsuccessful outcome, simply a different path forward. However, for companies looking to hold assets to help valuation before going public, it could be more difficult. While there is currently a decline in the number of projects or portfolios available for acquisition, this reversion to "develop and flip" is likely to lead to asset transactions increasing again in several years.

Completed M&A Project and Portfolio Transactions[1]



[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases

Project Finance Trends

The tax equity (TE) market continues to grow. In 2021, TE volume surpassed $19B , exceeding 2020's $16.5B highwater mark. 2022 TE volume is currently on track to exceed $21B[2]. The number of TE investors also continues to grow. Not only have several investors who previously exited the TE space returned, but new investors are entering the market each quarter. Non-traditional corporate investors like Nestlé have begun offering tax equity. While only a few other corporations have announced TE commitments, many others have moved beyond showing interest and could deploy TE within the next year. Many of these corporations are participating in syndications. Leading TE investors have successfully established syndication desks where they are able to underwrite and syndicate investments to their base of TE relationships. Syndication is an easy avenue for new entrants, particularly corporations.

Emerging sector technologies are spurring increased tax equity demand. The onshore wind and solar markets are growing year over year, but demand is also emerging from offshore wind and carbon capture utilization and sequestration (CCUS). Strong interest in these new technologies will pull TE supply away from solar and onshore wind. With TE demand growing, it is likely that we will continue to see strong competition between sector technologies.

2022 projects being pushed out to 2023 will squeeze tax equity capacity. 2021 saw an increase in construction delays largely due to supply chain disruptions. Without timely delivery of equipment, many projects slated for completion in Q4 2021 had to extend target COD to Q1 2022. In parallel, companies providing TE had to shift TE allocation from 2021 to 2022. Due to the relatively small portion of 2021 projects affected, anticipated 2022 TE supply is not dramatically impacted.

We have already begun to see a much larger number of projects being delayed from 2022 to 2023, which we expect to create further constraint of TE supply. Project developers are already seeking 2023 TE commitments. Typically, projects would begin seeking 2023 tax capacity during the second half of 2022 and aim to secure a twelve-month commitment. Instead, we are seeing companies ask for an eighteen-month commitment period more regularly, putting greater strain on the available TE supply. While the influx of new TE investors will help alleviate this squeeze, it is likely that project sponsors will have more trouble finding TE in 2023 compared to previous years. Often, TE investors will reserve some capacity for their largest customers. This means that smaller companies may have a much harder time securing TE for their 2023 projects.

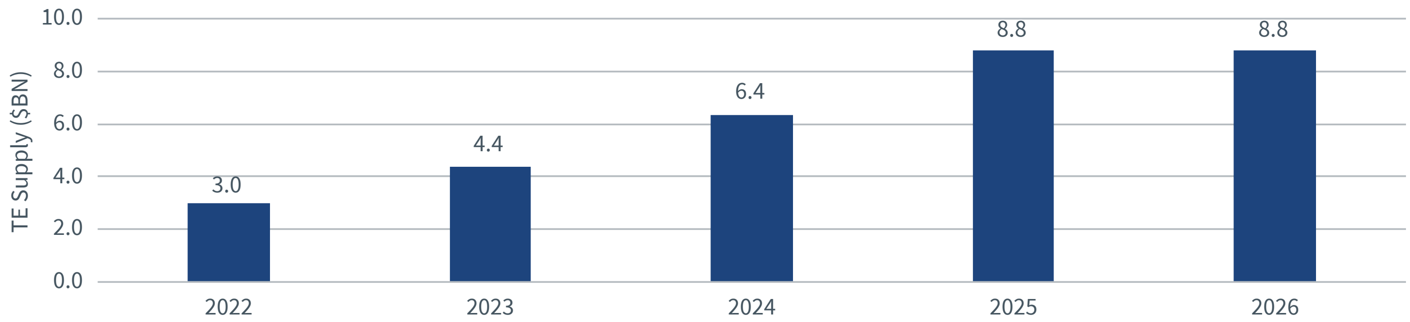
TE ATIRR flip rates remain in the 5.75% - 7.50% range for yield-based flips. Our belief is new entrants in tax equity continue to drive the competitive landscape, and for that reason, we haven't yet seen TE required returns increase in proportion to increases in rates. While this supply dynamic may shift over time, we believe TE returns will hold in this range for the next 25-75bps rise in rates.

[2] Proprietary market intelligence and available data

Key Quarterly Topic – Offshore Wind Tax Equity Demand

Offshore wind's demand for tax equity is about to accelerate over the next several years. The US offshore wind industry is still in its infancy despite being well-established in other global markets. Currently, only 41 megawatts of offshore wind are operating in the US, and there are over 36 gigawatts of offshore wind projects in development, with more than 55% having received permitting approval.[3] Over the next five years, TE commitments for offshore wind could exceed $30bn. The first large-scale offshore wind projects to be completed will come online in 2024. To stay on schedule, projects will require TE commitments approximately 24 months prior, sometime this year. This means we will likely see the first wave of TE investments in offshore wind in the next few months. Two large banks have provided TE terms for the Vineyard Wind 1 project, but no firm commitments have been made. Soon offshore wind will likely make up a sizeable portion of TE demand. By 2026, over 20% of annual TE supply could be allocated to offshore wind. In 2026, utility solar, onshore and offshore wind will likely each receive $5bn - $9bn dollars in TE funding.[3]

Offshore Wind Tax Equity Commitments[4]



CohnReznick Capital's Recent Completed Transactions

Buyer/Financer	Seller/Sponsor	CRC Role	Type	Date	Transaction Synopsis
Confidential	Copenhagen Infrastructure Partners	Financial Advisor to Sponsor	Tax Equity Raise	3/2022	Tax equity financing for a 447MWdc solar project
ACCIONA Energía	AP Solar	Sell-Side Advisor	Asset Sale	1/2022	Sale of 350MWac solar project
Birch Creek Development	Azimuth Renewables	Sell-Side Advisor	Portfolio M&A	1/2022	Sale of a 300MWac solar portfolio
AES	Community Energy	Sell-Side Advisor	Platform M&A	1/2022	Sale of 10GWac solar development platform
OMERS Infrastructure	Navisun	Buy-Side Advisor	Platform M&A	1/2022	Acquisition of a DG solar development platform
Fifth Third Bank	Brookfield Renewables	Financial Advisor to Tax Equity	Tax Equity Raise	12/2021	Tax equity financing for a 39MWdc solar portfolio

[3&4] Proprietary market intelligence and available data

About CohnReznick Capital

CohnReznick Capital is a renewable energy investment bank providing superior advisory services to the sustainability sector. Since 2008, the firm has executed more than 235 project and corporate transactions for renewable energy assets, valued at over $35 billion in aggregate. CohnReznick Capital is wholly committed to the clean energy transition and delivers exceptional services for financial institutions, infrastructure funds, strategic participants (IPPs and utilities), and global clean energy developers. CohnReznick Capital's team of experts helps clients break through the dynamic and evolving sustainability sector by simplifying project finance, M&A, capital raising, and special situations. To learn more, please visit **www.cohnreznickcapital.com**, follow **@CR_Capital** on Twitter, and connect with us on **LinkedIn**.