CohnReznick Capital

QUARTERLY CONSIDERATIONS – Q3 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

This is CRC's first Insights Report since the passage of the Inflation Reduction Act (IRA). The IRA is the most comprehensive energy policy in recent years, and it's already having a profound impact on the U.S. renewable energy market, causing increases to long-term forecasts and changes to long-term power prices. Several technologies and newer markets received boosters and incentives from the IRA, which will enable growth in the near future. CohnReznick Capital remains committed to covering the expected impacts to the market and delivering innovative solutions to our clients and companies in the sector.

Trends in Mergers and Acquisitions (M&A)

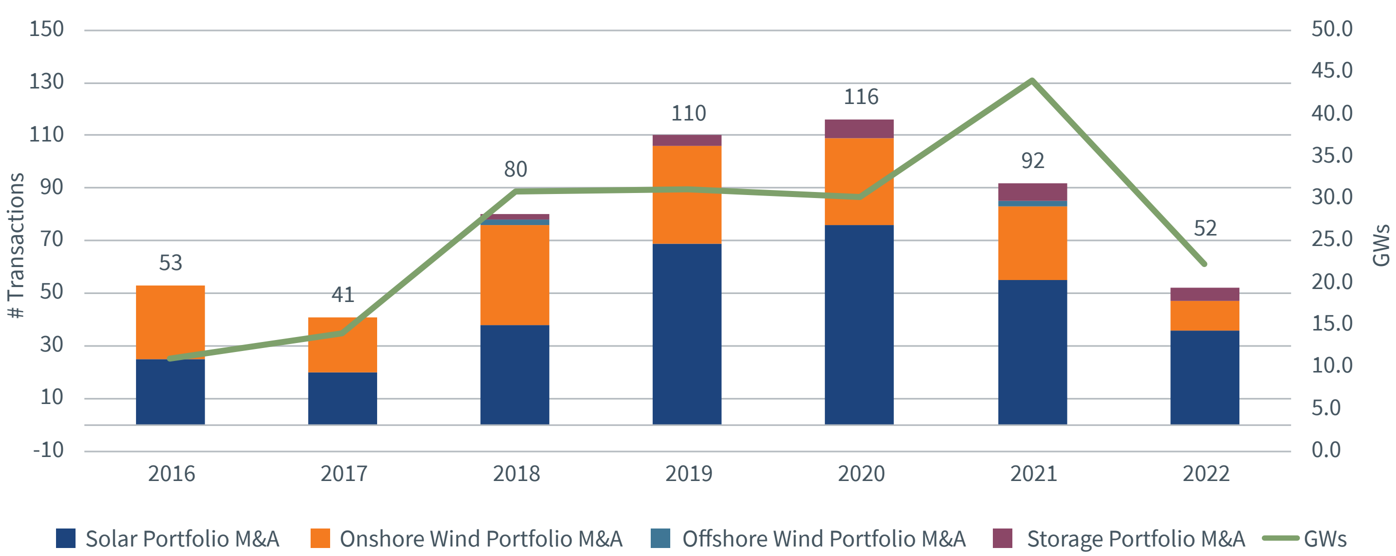
IRA boosts M&A long term; short term may be choppy. Activity for asset and platform M&A remains healthy, with nine platform acquisitions and 56 asset or portfolio acquisition deals announced in 2022 thus far[(1)]. The overall industry sentiment is that the IRA is very positive for the sector in the long term. However, uncertainty about the near-term implications persists as investors and companies await additional guidance from the IRS on specific issues, triggering delays as companies conduct due diligence. While the IRA has new incentives that provide more options, evaluating and analyzing these incentives takes time. Additional IRS guidance is still 4-6 months away, and some projects will have to wait before properly assessing which incentives to pursue. Overall, the increase in the cost of capital will make M&A more difficult, but with the market poised for growth, we believe M&A will continue forward.

Asset M&A has slowed temporarily. While asset M&A in 2022 has been strong, the six-month moving average of asset and portfolio transactions has reached the lowest level since 2018[(1)]. Since the announcement of the IRA's passage, many investors and companies have been reassessing prices and valuations of projects. Generally, both investors and borrowers are comfortable with the changes, but it has taken some time to determine the fair value for specific assets. For instance, some projects are now expected to qualify for 40-50% ITC. Such large increases necessitate more due diligence to validate underlying assumptions (e.g., energy community eligibility, domestic content, etc.).

Continued supply chain constraints. Supply chain issues and labor shortages pestered the M&A market through the pandemic by causing project delays and increased costs. In some cases, these constraints have made projects potentially uneconomic. This has forced developers to renegotiate PPAs with offtakers or find alternative paths toward economic feasibility. These renegotiations take time and cause developers to further push out target COD dates for projects. We expect many of these issues to stabilize in six months. Combined with the backlog of projects that have resolved legacy supply chain issues, it should result in a strong M&A story in the back half of 2023.

IRA will delay some projects and portfolios. The extension of tax credits and the addition of new incentives have made most developers pause and reassess their strategies for tax credit monetization. For instance, because storage projects will not qualify for the stand-alone ITC until 2023, some storage developers have decided to wait before coming online. Other companies are taking time to reassess how to best maximize their returns by utilizing newly passed incentives like transferability. This may result in some developers pushing out project target COD dates in the near term to give themselves enough time to optimize available benefits.

Completed Portfolio/Asset M&A Transactions[1]



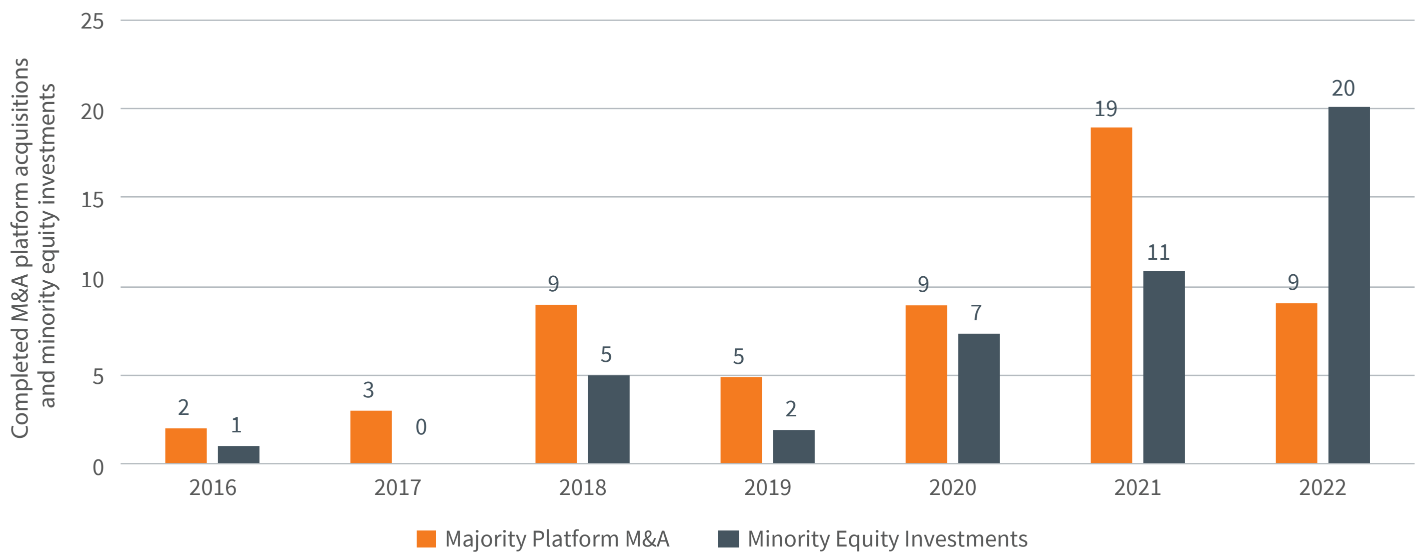
[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through October 7, 2022

Trends in Mergers and Acquisitions (M&A)

Majority platform acquisitions should slow; minority acquisitions ought to remain strong. Although 2021 was a record year for platform acquisitions, it is important to note that 2022 platform M&A has also been strong, despite taking a downturn from last year's historic level. 2022 YTD renewable energy platform acquisitions have already reached 2020 levels. That said, the IRA has made the platform M&A landscape more volatile, disrupting majority platform acquisitions. With the market poised for rapid growth, companies looking to be sold may opt to wait a year or more for valuations that properly reflect the impact of the IRA and expected market growth potential. Alternatively, some companies may seek or agree to minority investments in the short term. For sellers, this would provide interim growth capital with the long-term view that they can expand into an ever-growing market. Buyers may benefit from the strategic acquisition of a company that aims to be acquired or IPO in several years.

IPOs are several years away. There has been speculation for many years that the growth of the U.S. renewable energy sector would spur a new wave of IPOs. Both market conditions and valuations will be the most significant determinants of IPO activity. If the private market remains robust for valuations, it will be easier and more lucrative for companies to be acquired versus entering the public market. IPO fees create an additional barrier. If firms can receive an IPO valuation higher than a private sale and fees, we expect to see a surge of offerings in a few years. It is more likely, though, that there will be more M&A than IPOs in the coming years as companies look to grow and solidify their market positions in a new, fast-growing landscape.

Completed M&A Platform Transactions and Minority Equity Investments[2]



[2] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through October 7, 2022

Project Finance Trends

Inflation is beginning to impact tax equity (TE) yields. TE ATIRR flip rates have remained in the 6.00% - 7.50% range for yield-based flips over the last couple of years but may begin creeping up. A particularly hot topic has been inflation rising over 8.3% in the last twelve months. Federal Reserve officials have signaled they would continue to raise the federal funds rate to 4.4% in 2022 and aim to hit a 4.6% terminal rate in 2023.

As of the end of September 2022, we are seeing a lag in the expected increase of hurdle rates in the market. Sponsor equity hurdle rates remain roughly the same due to the relatively large amount of dry powder sitting idle, waiting to be deployed. Combined with material increases to debt pricing, which sits at 125 – 225 bps + SOFR, we believe it will be some time until equity hurdle rates rise. Otherwise, we expect an unsustainable, upside-down capital stack with sponsor equity potentially being the lowest cost of capital.

TE yields are beginning to increase in response to inflation and interest rates. TE flip rates have recently increased by 50bps – 75bps, and CRC expects TE yields to rise further as demand for TE capital increases. This continued rise in rates may be tempered as new investors, spurred by the incentives provided in the IRA, rise to meet the growing market demand.

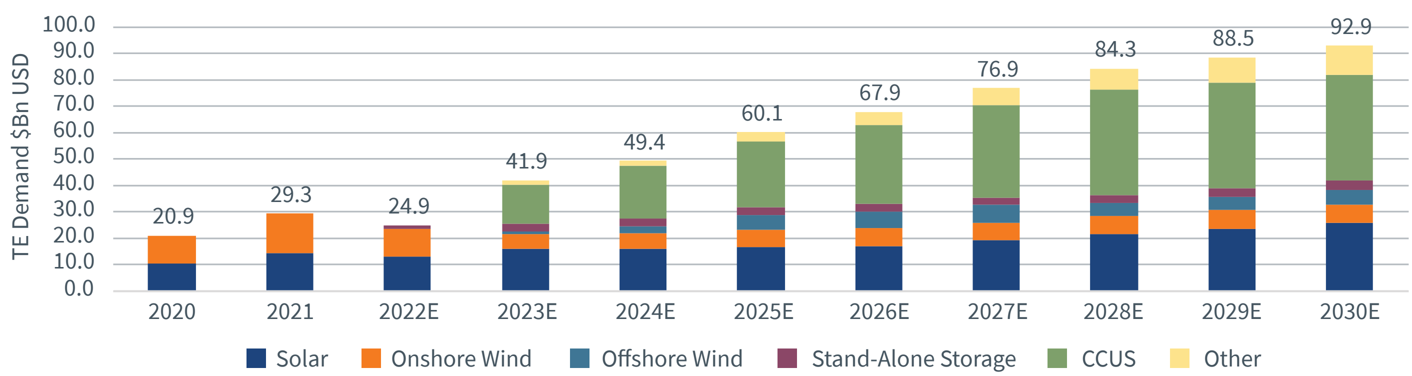
Commercial and Industrial (C&I) distributed generation (DG) deals require multiple TE investors. With the passage of the IRA, several C&I projects now qualify for over 40% of tax credits, necessitating an additional investor to satisfy the capital needs of the deal. While this does not pose a significant problem to the industry, it has made financing more complex and increased the time needed to find sufficient TE investment. The industry will likely see a handful of deals requiring multiple investors in the coming years to complete transactions for larger DG C&I portfolios.

Surge in ITC insurance. New tax credit adders are creating very large step-ups. For some portfolios, CRC has seen 2x – 3x discounted cash flows. Since historically there have been no deals with step-ups this large, investors are asking for insurance from sponsors, incorporating a make-whole provision that would ensure sponsor coverage for anything over 30% step-up. This will likely be a trend for the next 6-12 months.

The IRA has given new confidence to investors. With the extension of credits, investors appear to have more confidence than they did before August. Projects also have more value than they did prior to the IRA's passing, with some projects qualifying for 40%+ ITC with adders. Additionally, the IRA has created more confidence through greater optionality via the transferability of credits, for example. While transferring credits might not be the most efficient option for some companies, knowing that credits can be transferred for cash gives greater confidence to investors and is likely to allow for the completion of more projects. The IRA also gives investors the option of electing an ITC or a PTC. With more options, developers now have more ability to secure a positive return on their projects. However, with greater flexibility comes greater analysis and scrutiny. For most projects, capacity factors and overall build cost will be the biggest determinants in deciding to elect the PTC or ITC, but the option will require investors to spend more time determining the most efficient path forward.

The IRA has created tremendous potential upside for the greater renewables build-out in the U.S. while simultaneously reducing downside risks. This surge in projected growth should create greater demand for TE investors than previously predicted. While it is likely this demand will drive new TE investors to the market, the rate at which the demand is rising may create additional shortfall in the already constrained TE supply in the near-term.

Tax Equity Demand Forecast from Renewables, CCUS, and Other Technologies[3]



[3] Proprietary market intelligence and available data through Oct 7, 2022

CohnReznick Capital's Recent Completed Transactions

Buyer/Financer	Seller/Sponsor	CRC Role	Type	Date	Transaction Synopsis
Confidential	Sunnova	Financial Advisor to Sponsor	Tax Equity Financing	9/2022	Tax Equity Financing for 38MW Solar & Storage Portfolio
Bank of America	Matrix Renewables	Exclusive Financial Advisor	Tax Equity and Debt Financing	9/2022	Tax Equity & Debt Financing for 142MW Solar + 80MWh Energy Storage System
Confidential	*Confidential*	Financial Advisor to Sponsor	Tax Equity and Debt Financing	8/2022	Tax Equity & Debt Financing for $380MW_{dc}$ Solar + 150MW / 600MWh Energy Storage System
Fifth Third Bank/ *Undisclosed Investor*	*Confidential*	Financial Advisor to Tax Equity	Tax Equity Financing	8/2022	Tax Equity Financing for 138MW Solar Project
Wells Fargo	AES	Financial Advisor to Sponsor	Tax Equity Financing	7/2022	Tax Equity Financing for 451.5MW Solar + $100MW_{ac}$ Storage Portfolio
Foss & Company	KEPCO	Exclusive Financial Advisor	Tax Equity Financing	7/2022	Tax Equity Financing for $89MW_{dc}$ Solar + 32MWh Energy Storage System

About CohnReznick Capital

CohnReznick Capital is a renewable energy investment bank providing industry-leading financial services to the sustainability sector. Since 2008, the firm has executed over 255 project and corporate transactions for renewable energy assets, valued at over $38.1 billion in aggregate. CohnReznick Capital is wholly committed to the clean energy transition and delivers innovative solutions to financial institutions, infrastructure funds, strategic participants (IPPs and utilities), and global clean energy developers. CohnReznick Capital 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**.