CohnReznick Capital

QUARTERLY CONSIDERATIONS – Q4 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 - Storage Market Growth

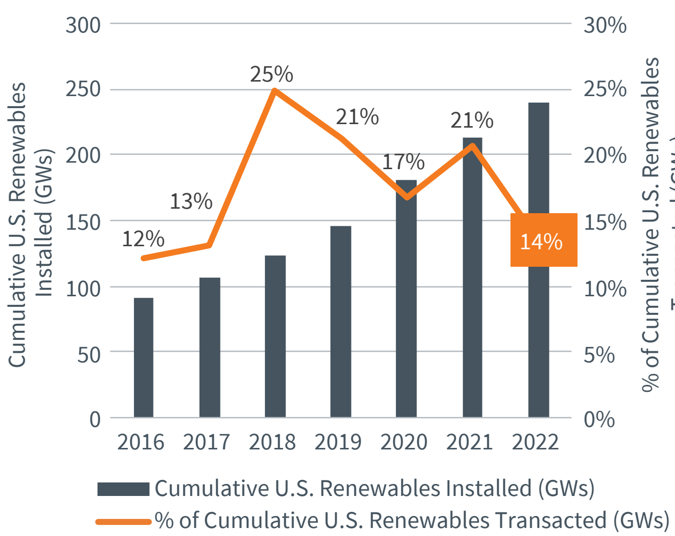
2023 is set to be a year of many firsts in sustainable finance. We will likely see the first tax credit transfer deals and gain an understanding of initial pricing. The first tax equity or credit transfer transaction for a carbon capture, utilization, and storage (CCUS) project will likely close in Q1 or early Q2 2023, setting deal structure precedent for the emerging technology. The first standalone storage deals should also close since the creation of the ITC for standalone storage projects under the IRA. CohnReznick Capital remains committed to covering and expounding upon these firsts to help our clients successfully navigate the shifting renewable energy market.

Trends in Mergers and Acquisitions (M&A)

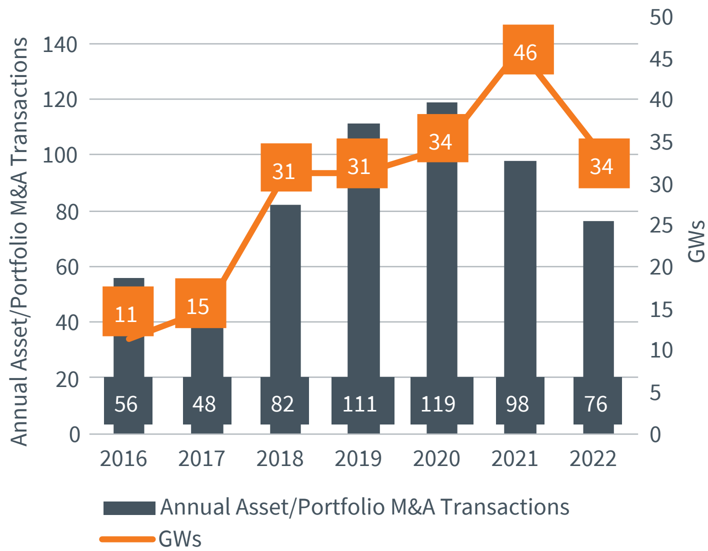
Asset M&A may increase in response to the IRA. Renewable energy project acquisition and sell-downs have slowed dramatically in the last two years. The annual number of asset M&A transactions has decreased by almost half from 2020 to 2022, while the total gigawatts sold each year has remained relatively steady at ~30 GW per year[1]. However, when compared to the cumulative capacity of renewables currently on the grid, the share of projects sold each year has decreased to the lowest level since 2017[1]. We believe this trend may reverse in 2023, and we could see an increase in asset M&A.

The impact of the IRA on renewable energy project development could be immense. While initial projections have shown increased solar, wind, and storage forecasts, we may see additional forecast increases once utilities update their integrated resource plans and states or cities set new, stricter renewable portfolio standard (RPS) targets. The growth in new projects may lead to more companies looking to acquire portfolios with projects in development or close to COD. In particular, we could see more international firms enter the US market through portfolio acquisitions, hoping to take advantage of the ten-year runway for the ITC and PTC tax credits.

% of Renewable Energy Assets Sold[1]



Completed Portfolio/Asset M&A Transactions[1]



[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through Jan 5, 2023

Trends in Mergers and Acquisitions (M&A)

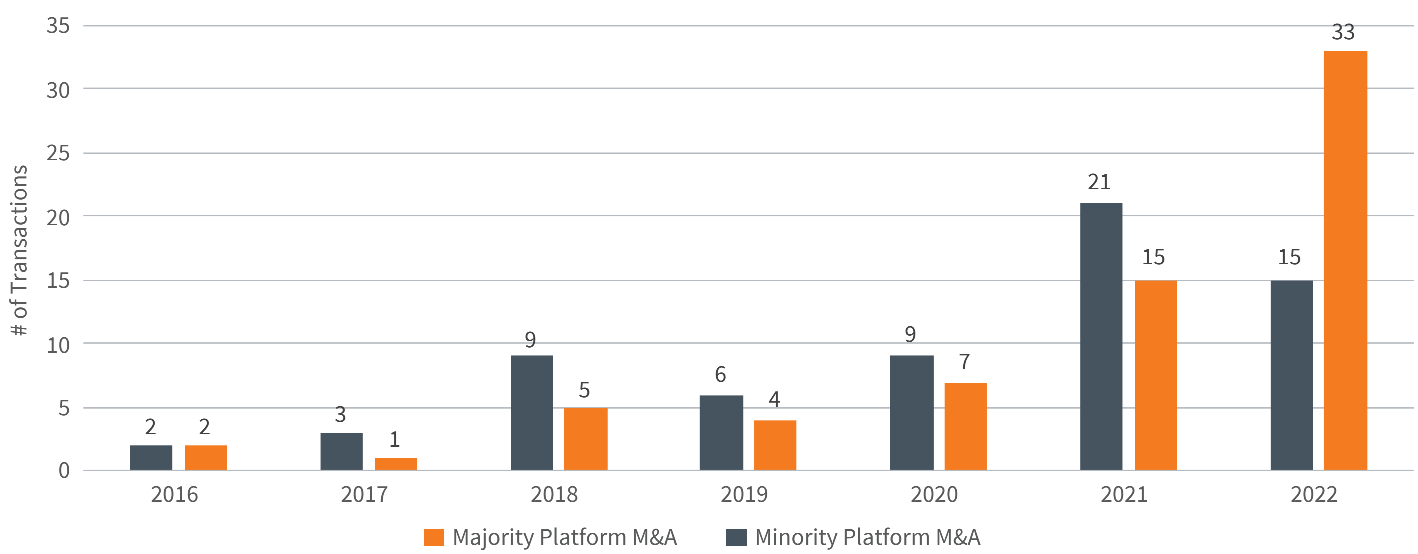
Asset M&A may be driven by developers recycling capital. If projects do not get sold to long-term owners, developers may be stuck holding onto assets and unable to recycle capital back into new project development. With both inflation and high interest rates, the cost of capital remains high, and buyers are often hesitant to acquire projects when returns are on par with corporate bonds. The most likely outcome is sellers may have to get creative on how they optimize their assets to avoid cutting into their margins. Those that wait in hopes of market conditions improving may be hindered from further project development. With supply chain disruptions still impeding development, many can't take the risk of not recycling capital to keep operations moving forward. We expect to see developers both sell down equity positions in projects as well as sell off entire portfolios.

Majority platform M&A remains steady, but the market is leery. The 2023 platform M&A market will be filled with uncertainty. There were 15 majority platform acquisitions in 2022, 21 in 2021, and 9 in 2020. A variety of factors led to these fluctuations. The 2021 surge in platform sales was fueled by a strong uptick in companies looking to expand their renewable capabilities, developers looking to capitalize on high valuations, and a low cost of capital catalyzing the process. Early 2022 saw an influx of large institutional buyers acquiring development platforms. Valuations of development platforms rose to high levels, dissuading some investors. The subsequent rise in interest rates drove up the cost of capital, making it more difficult for investors to commit and resulting in a reduction of platform acquisitions through the end of 2022.

At the macro level, platform acquisition has led to consolidation among the top developers, which has left a smaller number of platforms to be acquired. Going into 2023, demand among energy companies and institutional investors to acquire development platforms remains high. There remains a strong pool of potential bidders for development platforms, but there is still hesitancy among strategics and corporates. Global market uncertainty around supply chains, tariffs, and interest rates could impact many international corporations and deter some investors. Platform M&A could remain steady through 2023, but it may be several years before the volume of acquisitions matches what we saw in 2021. Many have expressed a shift in interest away from platform acquisition to focus more on asset and portfolio acquisition.

Minority investments remain strong. In the short term, many companies are looking to acquire minority investments to supply growth capital. With access to capital, developers can expand their pipelines and increase their valuation. Many investors looking to invest further into renewables can achieve the benefit of acquiring a share of a company that, in several years, can potentially provide a pipeline of long-term assets, an exit via sale, or an IPO.

Completed M&A Platform Transactions and Minority Equity Investments[1]



[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through Jan 5, 2023

Project Finance Trends

TE ATIRR flip rates remain in the 6.50% - 8.00% range for yield-based flips.[2] We initially saw a lag in the expected increase of hurdle rates, but they have begun to increase. Sponsor equity hurdle rates remain roughly the same due to the relatively large amount of dry powder sitting idle. Term debt pricing has risen to SOFR + 125 – 200 bps. We continue to believe it will be some time until equity hurdle rates rise. TE yields have seen some increases in response to inflation and interest rates. There continues to be enough lenders in the market to keep yields in direct correlation to the borrowing rate. Demand for TE is going to rise substantially in the next several years, particularly from CCUS, storage, and new technologies enabled by the IRA.

Tax credit transfer is around the corner. CRC is seeing strong interest, led by corporate investors as well as some interest from several banks, for the transfer of tax credits. For pricing to settle, proof of concept in pricing will be required for banks to become active. Pricing will also be contingent on guarantor credit quality since the buyer carries recapture risk. An insurance or creditworthy backstop is expected, like traditional TE deals. Participants are not likely to issue commitments until IRS guidance is released, and CRC expects to see the first term sheets for credit transfer by Q2 2023.

New investors are entering, and old investors are returning. High demand for TE, driven by tax credit extensions and transferability optionality, appears to be driving the return of TE investors who had previously exited the market as well as new investors entering the market. CRC has spoken with several large corporations that have shown reinvigorated interest in TE because of the ability to buy credits through transfer and due to tax credits covering a larger number of technologies. CRC also expects banks to facilitate the transfer of credits and act as syndicators for corporate investors looking to buy credits.

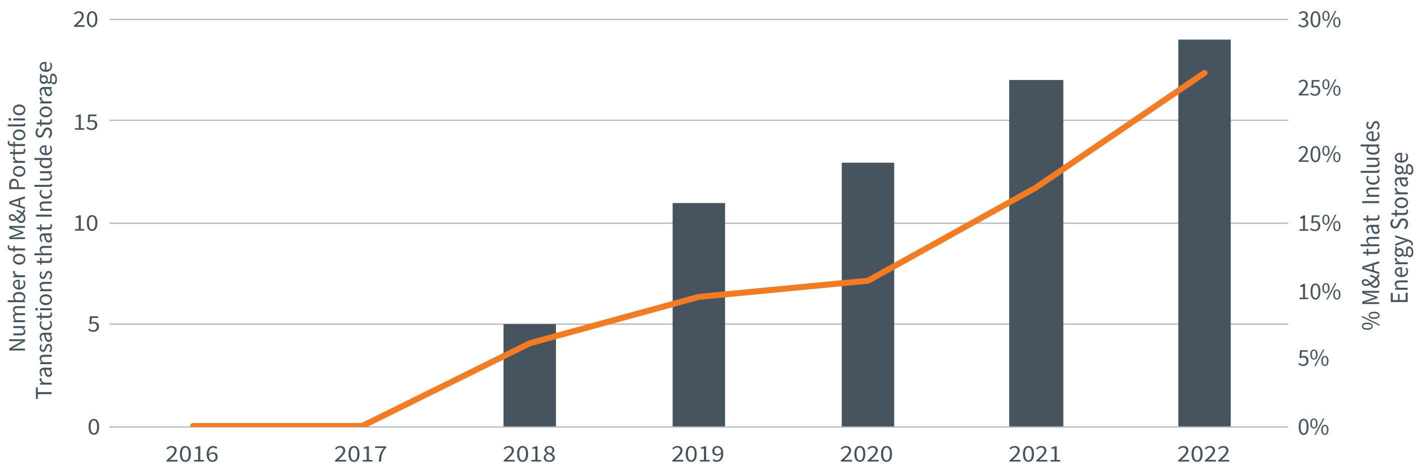
[2] After tax internal rate of return (ATIRR) determined from bids, indicative pricing, and conversations with industry leaders.

Key Quarterly Topic - Storage Market Growth

Energy storage M&A is on the rise. Despite the asset M&A market slowing down in the past two years, we saw a rise in the number of energy storage systems sold. With energy storage deployment being so prolific, it's no surprise that rates of storage asset M&A are increasing. Solar-plus-storage in particular is becoming very attractive to buyers as a means of hedging merchant market assumptions and ensuring long-term revenue. As the average portfolio size increases, we expect energy storage to be part of one in every three transactions by the end of 2023.

Winners and losers of energy storage M&A will be determined by understanding merchant risk. In the coming years, we will likely see some companies make out like bandits with merchant revenue from battery storage while others lose their shirt. For example, if there is another freeze in Texas and the right conditions present themselves, it is possible for owners of merchant energy storage to make in a week what might otherwise take several years. As more renewables are deployed to the grid, there will be greater intermittency and volatility, creating opportunities for sustained merchant revenue. The companies that do well will be those that understand how to accurately forecast the market, how to optimize the dispatching of energy, and how system degradation over time will affect a storage project's useful life and revenue stream.

Portfolio M&A Featuring Storage Assets[1]



CohnReznick Capital's Recent Completed Transactions

Buyer/Financer	Seller/Sponsor	CRC Role	Type	Date	Transaction Synopsis
Confidential	*Confidential*	Financial Advisor to Sponsor	Tax Equity Financing	12/2022	Tax Equity Financings for 135MW Solar and Solar-Plus-Storage Projects
Confidential	*Confidential*	Exclusive Financial Advisor	Tax Equity Financing	11/2022	Tax Equity Financing for 125MWdc Solar Project
Confidential	*Confidential*	Financial Advisor to Sponsor	Tax Equity Financing	10/2022	Tax Equity Financing for 93MWdc Solar Portfolio
US Bank	DSD	Exclusive Financial Advisor	Tax Equity Financing	10/2022	Tax Equity Financing for 45MWdc Solar Portfolio
Blackstone, ClearGen, Goldman Sachs	MUFG	Financial Advisor	Portfolio Acquisition	10/2022	Acquisition of Tax Equity Interests in 1.4GW (net) Wind Portfolio

[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through Jan 5, 2023

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 265 project and corporate transactions for renewable energy assets, valued at over $41.1 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**.