CohnReznick Capital

# QUARTERLY CONSIDERATIONS – Q1 2023

**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 - Credit Transfer

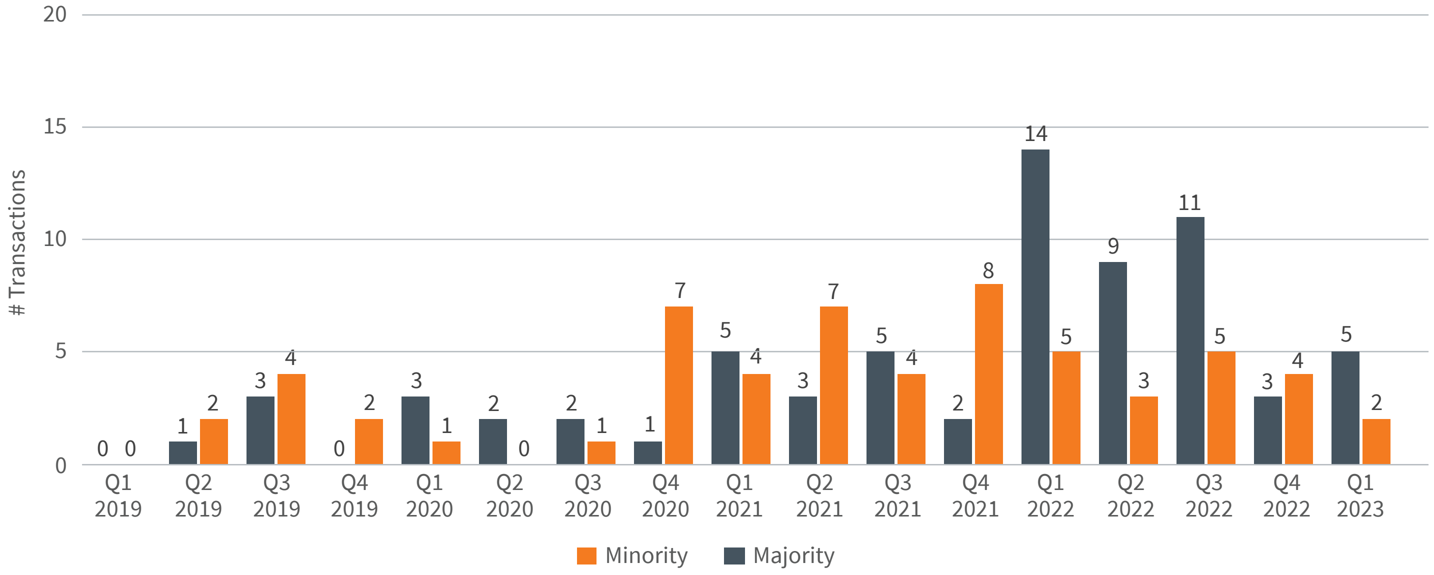
The Inflation Reduction Act (IRA) continues to create a flurry of activity and stir growth within the sector. However, current economic conditions and volatility are creating market strain. As market participants assess risks and navigate the turbulence, business is still moving forward but less efficiently than in the past. CohnReznick Capital remains committed to covering the IRA's expected impacts to the market and delivering innovative solutions to our clients and companies in the sector.

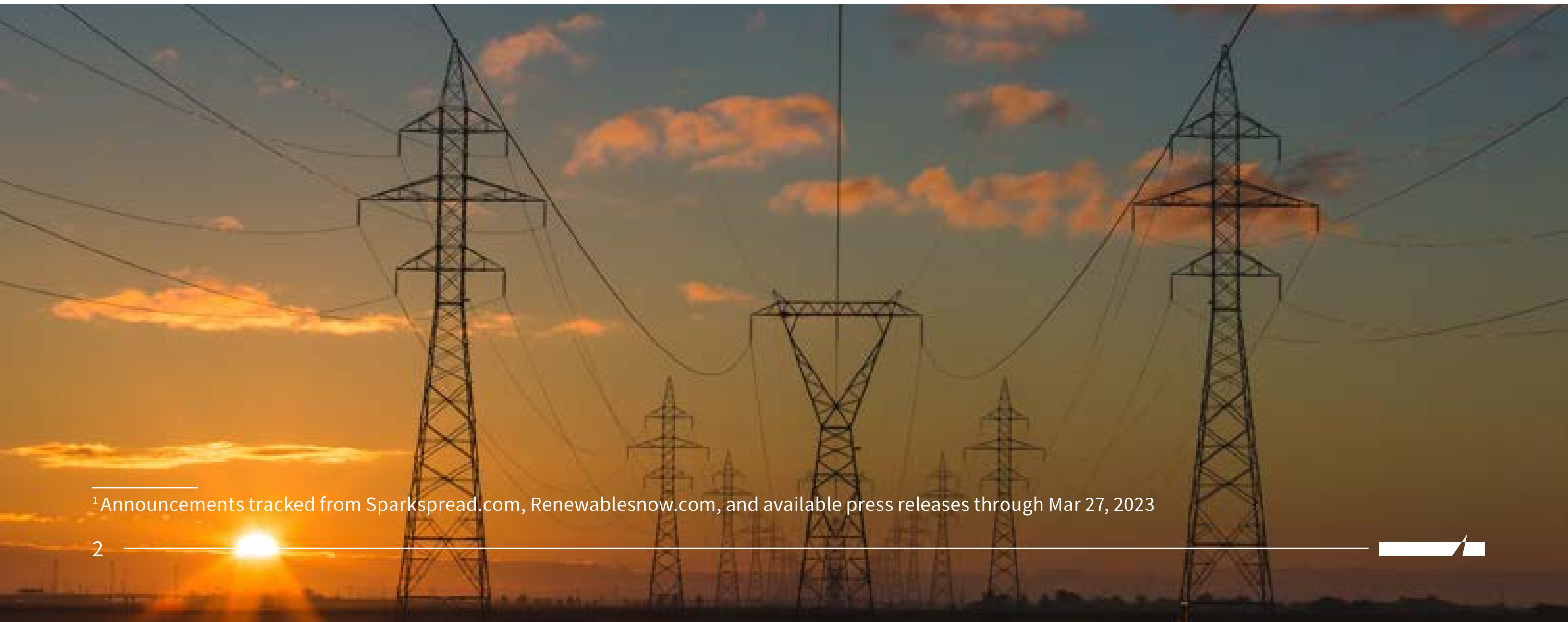
## Trends in Mergers and Acquisitions (M&A)

**Continued slowed pace of majority stake acquisitions in development platforms despite high demand.** While energy companies and institutional investors remain keenly interested in acquiring development platforms with expertise in multiple technologies (e.g. utility solar, wind, C&I solar, battery storage), the reduction in transaction volume persists, driven by valuation declines and scarcity of platforms with long track records. Buyers who were once willing to pay top-dollar for development platforms have taken a more bearish view of the market, particularly with current market conditions creating a higher cost of capital. Potential buyers feel pressure to lower bids, and sellers are reluctant to sell at lower prices.

**Minority interest transactions have also slowed.** Over the past two quarters, the volume of minority interest transactions has dropped to less than half of what it was in Q1-Q3 2022. The reasons for this decline are the same as those driving the reduction in majority platform acquisitions. Investors remain skeptical of developers with less-proven pipelines, and rising interest rates make it difficult for investors to pay the large sums sponsors seek. Despite this, we are seeing scattered instances of investors submitting minority bids for companies seeking majority acquisitions.

### US Renewable Energy Majority and Minority Platform Acquisitions[1]



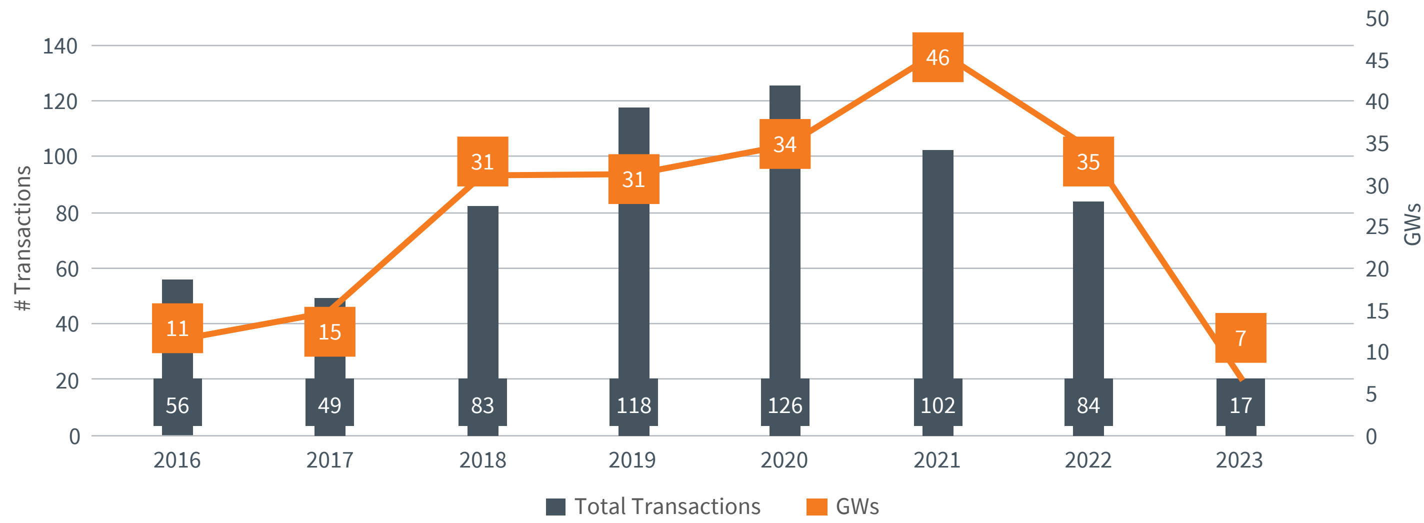
[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through Mar 27, 2023

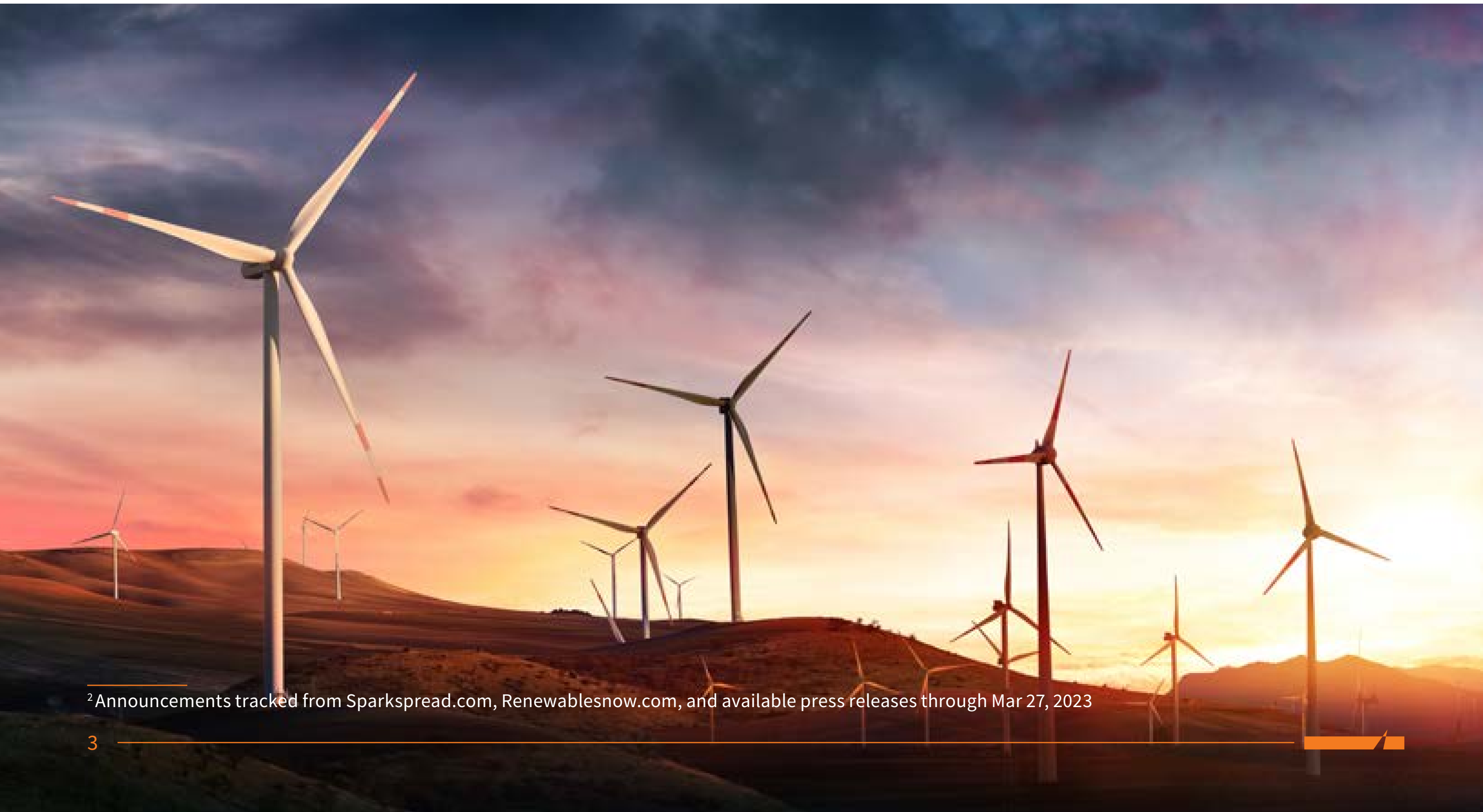
# Trends in Mergers and Acquisitions (M&A)

**Asset M&A has slowed from market high in 2020.** Only 17 asset or portfolio transactions occurred in Q1 2023. While asset transactions may pick up later in the year, we are likely to see closer to 60 to 80 transactions total this year, a decline from the historic highs of 100+ transactions occurring annually from 2019 - 2021. Market sentiment seems to be that high interest rates have made portfolio acquisitions less enticing.

Although transaction volume has dropped, CRC believes the pace of asset M&A will remain stable in 2023. Several sponsors who initially paused, withdrew, or held off from the market are now returning and looking to either sell assets entirely or sell down a minority interest in a portfolio. Most sponsors need to recycle capital back into new project development, and sellers may have to get creative in how they optimize assets to avoid cutting into their margins. While some sponsors may sell assets at a slight loss to recycle capital, we believe most sellers will wait until they can break even or make a profit before entering a transaction.

## Completed Portfolio/Asset M&A Transactions[2]



[2] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through Mar 27, 2023

# Project Finance Trends

**TE ATIRR flip rates increased slightly to the 7.50% - 9.00% range for yield-based flips.** Project finance is feeling the effects of rising inflation and interest rates. TE yields have increased, sponsor equity hurdle rates have risen slightly, and term debt pricing has remained in the range of SOFR + 175 – 225 basis points.

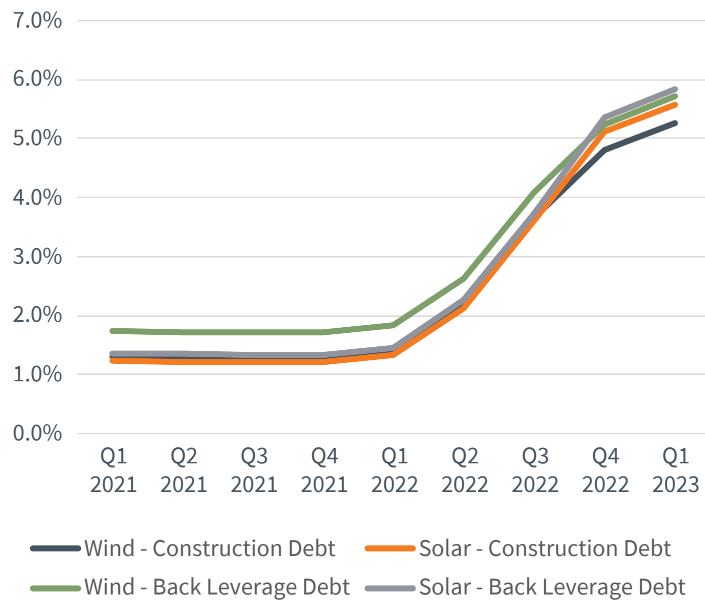
Credit transfer has driven many companies to begin considering tax credit investments. While most will likely start with credit transfers only, we have already seen some corporations inquire about the tax equity process. Traditional tax equity will see a more efficient monetization of tax losses than transferring credits, which may drive companies to seek out traditional ITC and PTC investments. After becoming comfortable with the market, new tax credit participants should allow for the supply of tax credit purchasers to increase.

**The tax equity market is strong, but as recession fears grow, the market may become more challenging.** Currently, tax equity supply is meeting demand. New markets like CCUS haven't picked up enough to disrupt the balance of supply and demand. However, that may change in the near future.

Economic volatility and the looming possibility of a recession may make the tax equity market more challenging. Generally, P&L statements for companies remain strong. However, some investors have projected lower tax capacity, an early indicator they may have less tax appetite than they previously expected. As a result, TE investors may turn to developers with whom they have established relationships. This leaves smaller developers struggling to find adequate tax equity and turning to smaller banks for support. Additionally, credit transfer can help ease the strain of seeking tax equity investment. Some sponsors have already indicated that they would aim to secure traditional TE finance first but would quickly turn to credit transfer if that proves too challenging. We expect to see more developers adopt this approach of first seeking tax equity investment and then turning to credit transfer if it becomes the path of least resistance to financing their projects.

**Timelines for TE commitments are shifting in response to the market.** Investors are already allocating their TE investments for 2024. By and large, most investors are shifting out commitment dates for TE investment. While a year or two ago, TE capital was committed 12 months out, now we are seeing more investors willing to commit capital 18 months in advance. Equipment delays across the industry have caused investors and sponsors to plan on a longer time horizon. While some supply chain delays and logistical problems have eased, overall market conditions are keeping the TE investment timeline long.

## Average Solar & Wind Debt Terms (Q1 2021-Q1 2023)[3]




**A new accounting method passed but is likely to have little to no impact until further refined/amended.** In January 2023, the Financial Accounting Standards Board (FASB) finalized a plan to expand the use of a special accounting method called proportional amortization for renewable energy tax credits. This method allows investment costs to be spread out in proportion to the tax credits and other tax benefits received. Historically, only investments in low-income housing tax credits qualified for this accounting method. The plan has the potential to ease accounting and attract a new cohort of investors. However, to qualify for the accounting method, projects must receive "substantially all" of the investment returns from the income tax credits, which means that very few projects would qualify, and adoption is likely to be minimal. Several banks pushed back against the FASB and advocated for less stringent criteria, but no changes have been made thus far. We expect, after some time, the FASB will realize the passed measure was ineffective and make modifications to proportional amortization to achieve more widespread adoption.

[3] Based on CohnReznick Capital internal data market discussions.

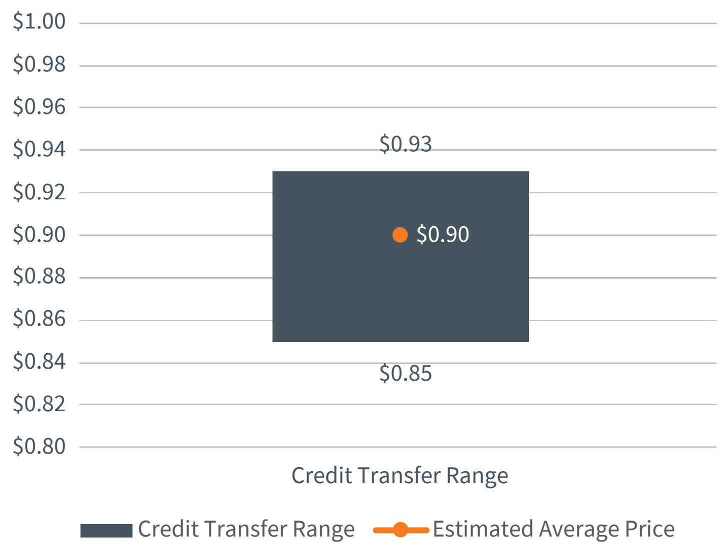
## Key Quarterly Topic - Credit Transfer

**The market for transfer of credits is beginning to form.** CRC is very bullish on transferability as a mechanism to increase the number of market participants and make it easier for corporations to participate. Credit transfer will likely bring more tax equity investors into the market and increase competition. Large corporations and global banks are showing interest in the transfer of credits, with a few initial offers coming in. Many companies may need additional guidance from the Treasury Department to finalize deals. However, the initial interest indicates participation from a diverse and substantial number of players. Many corporates continue to follow the renewable energy credits (RECs) plus focused investment thesis and appear comfortable pivoting to transfer deals. They are also mirroring the strategy with carbon capture and sequestration (CCS), where they buy tax credits at a discount and use the return proceeds to purchase carbon removal credits (vs RECs).

**The industry is awaiting IRS guidance before moving forward.** Most participants will refrain from issuing binding commitments until further IRS guidance is released. Transfer pricing varies across investors for the same technology. However, preliminary proposals from banks and corporates indicate that $0.85-$0.93 is a reasonable proxy price range for both PTC and ITC transfer. Guidance from the Treasury was initially expected in late December of 2022. While it is still unclear when guidance will be issued, CRC expects it will be in the coming months. Once corporate investors start engaging at scale, banks may begin leading credit transfers and become syndicators to capitalize on the market.

**Transfer credits are likely to converge between $0.85 and $0.93.** CRC believes that as the market develops, the price of transfer credits will converge around $0.90 depending on the quality of project and sponsor. For pricing to settle, proof of concept in liquidity/pricing will be required for banks to become active. Concern of erosion to their tax equity business appears to be preventing a proactive approach. Pricing is partly contingent on guarantor credit quality, with a focus on recapture risk. Insurance products are expected to be an active component in the credit transfer market. Investors should conduct their own due diligence on individual projects, but insurance on projects will be common to de-risk deals. Large entities could also provide balance sheet guarantees, but already, insurance is quickly becoming the standard.

### Credit Transfer Payment Rate Ranges[4]




## CohnReznick Capital's Recent Completed Transactions

| Buyer/Financier | Seller/Sponsor | CRC Role | Type | Date | Transaction Synopsis |
|---|---|---|---|---|---|
| *Confidential* | *Confidential* | Exclusive Financial Advisor | Tax Equity Financing | 4/2023 | Tax equity financing for 26MW solar portfolio |
| *Confidential* | *Confidential* | Financial Advisor | Asset M&A | 3/2023 | Sale of equity interest in 48.5MWdc solar + storage portfolio |
| *Confidential* | *Confidential* | Financial Advisor to Sponsor | Tax Equity and Debt Financing | 2/2023 | Tax equity and debt financing for 95MW DG solar portfolio |
| Bank of America | SK Ecoplant | Exclusive Financial Advisor | Tax Equity Financing | 12/2022 | Tax equity financing for 25MW fuel cell portfolio |

[4] Based on preliminary proposals seen by CRC and conversations with both investors and sponsors

## 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 270 project and corporate transactions for renewable energy assets, valued at over $42.8 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**.