CohnReznick Capital

QUARTERLY CONSIDERATIONS – Q2 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 – Tax Equity Demand from Carbon Capture Utilization and Storage (CCUS)

Trends in Mergers and Acquisitions (M&A)

Platform M&A is slowing down. Five M&A platform deals have been completed in 2022 thus far, putting the industry on pace to complete 8-12 this year. **CRC expects the platform M&A market to remain strong through 2022 and into 2023** but to have slowed from its 2021 high.

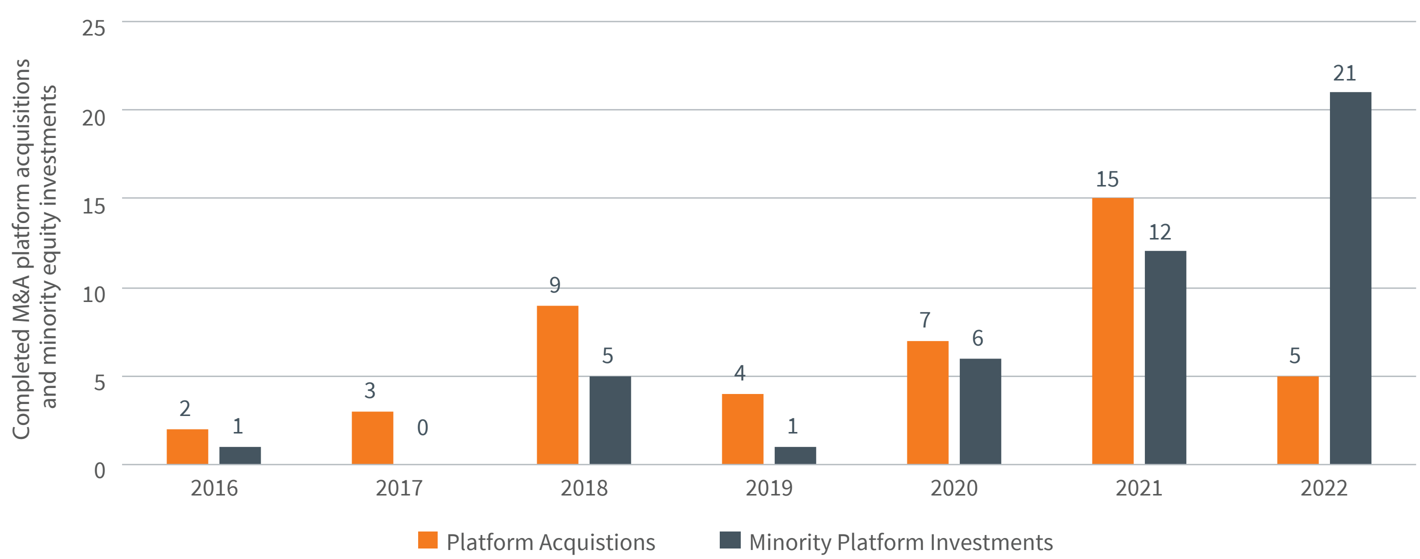
Market sentiment is that many of the seasoned companies poised for acquisition have already been acquired. Additionally, the surge in utility solar platform M&A is likely to give way to increased acquisitions of distributed generation solar platforms, particularly commercial DG. With few utility-scale solar development platforms remaining, companies will begin looking for alternative acquisitions. It is likely we will see buyers acquiring companies through a phased approach. Large investors are looking to acquire several small companies, each specialized in a different area. This allows buyers to piece together smaller firms that have synergies and create a more vertically integrated business throughout the development process.

Minority investments are picking up. While acquisitions of renewable energy platforms slow, minority investments are on the rise. Small firms are increasingly seeking minority investments to secure growth equity. Investors, in turn, increasingly view these minority investments as more optimal.

- **Market valuations have dropped.** In 2021, the market was hot, and valuations were at an all-time high. Companies were evaluating project pipelines at high levels and many investors were eager to acquire a development platform. Today's market, rife with headwinds from AD-CVD / tariffs, policy uncertainty, and a drop in projected merchant energy price curves, has resulted in lower project pipeline valuations. When the market was very competitive for platform acquisitions, many companies that were unable to write a large enough check were unable to participate in the bidding. By pivoting to minority investments, buyers can limit potential downside risk from market headwinds.
- **Alignment of risk and interests is important.** For many investors, a minority structure allows for a better alignment of interests than a majority acquisition or buyout. Investors can provide flexible growth capital and warehouse facilities that are critical for helping companies grow. In return, these companies often get equity and access to projects in the development pipeline either as right of first refusal or direct purchase of assets. Structured investments, like convertible preferred, provide investors with protection from downside risk while still allowing for participation on the upside. Most of the money invested goes towards growing the business instead of being utilized as a payout option for shareholders. If the company grows, investors can benefit from a future exit or buyout.

One upside to the increase in minority investments is that it will likely result in producing several, highly valued, more mature development platforms in the medium term. Many investors are still looking to acquire a majority equity share of a successful developer, and minority investments will lead to several new platforms being ready for acquisition in a few years' time.

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



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

Project Finance Trends

Inflation has not yet materially changed tax equity (TE) yields. TE ATIRR flip rates remain in the 5.75% - 7.50% range for yield-based flips. Perhaps the biggest news in 2022 has been inflation rising over 8.0% in the first half of the year and the Federal Reserve raising interest rates 1.5% in the first half 2022. As of end of June, TE yields have not seen material changes in response to inflation and interest rates. There have been enough TE lenders in the market to keep yields from rising in direct correlation with the borrowing rate. TE investors have increased yields where they can, especially with DG commercial and residential projects where TE yields have seen slight increases. However, after-tax yields remain relatively the same. CRC expects TE yields to rise especially when demand for TE funding increases in the coming years.

Indexing TE rates on deals is becoming standard. Solar projects today are facing substantial risk of development delays. CRC has seen many deals get pushed out and TE supply accordingly shifted from one year to the next. To mitigate this risk, TE may include a rate indexing provision in term sheet which allows for yield adjustment by indexing IRRs to an interest rate index if rates continue to rise. If a project is delayed more than a set amount of time, or the interest rate has increased more than a specified amount, the TE rate is increased correspondingly. The increase in the TE rate is typically not a directly correlated increase but a correspondingly proportional adjustment. This has become standard on almost all deals.

TE investors' comfort with solar + storage has grown. When investors first started assessing income from solar plus storage, there was inherent unease. TE investors were uneasy due to the battery having no contracted revenue stream, the inherent assumptions over the expected output of the battery storage system, and the energy arbitrage strategy. Investors are now becoming more comfortable with the merchant and market bidding assumptions, third party analysis and forecasts for uncontracted battery storage, and ancillary services revenues. Now that there is more data from existing projects with proven track records of output, investors are generally more receptive to solar + storage projects.

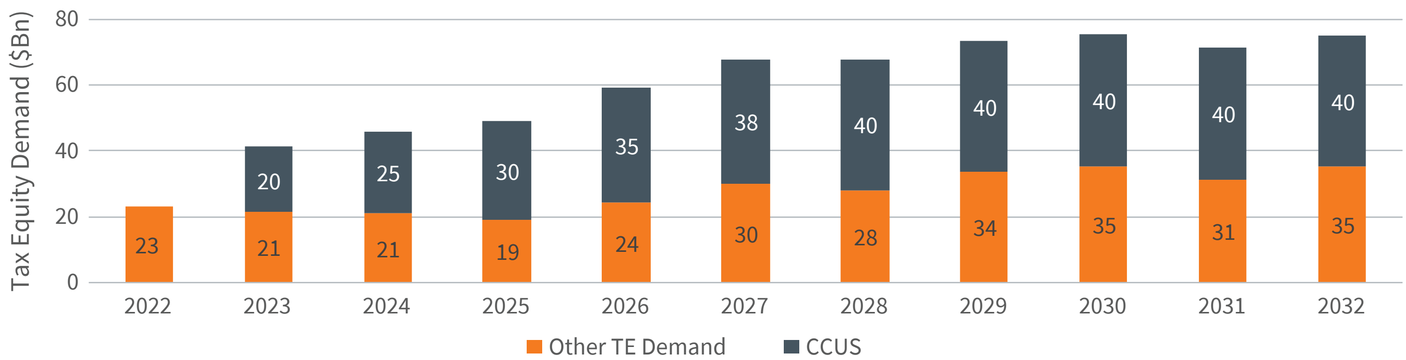
Key Quarterly Topic –Tax Equity Demand from Carbon Capture Utilization and Storage (CCUS)

CCUS will disrupt the supply and demand of tax equity funding. CRC believes the first CCUS projects will be announced soon. We expect to see five to ten deals in 2023, primarily ethanol facilities, that could require $20B of TE commitments. While it is hard to predict exactly how the market will react, it is safe to say this will disrupt supply and demand of tax equity. In 2021, TE supply hit ~$21B, double the $10B mark set in 2017. By 2023, we expect there to be $40B in demand for TE funding between renewables and CCUS.

CCUS currently offers attractive returns to investors, so it is likely to pull TE investors away from solar and wind, making it harder for renewable energy projects to get the TE funding they need. Syndication of corporate investors and other new entrants are entering the market, but this is unlikely to drive enough supply to meet the necessary TE demand in the near term.

It remains to be seen how this disruption will affect the market. Current TE investors may opt to focus on serving existing clients, making it hard for less established companies to find sufficient TE. TE yields may increase as investors become more selective in choosing projects. A funding bottleneck could also result in regulatory pressure to create a refundability or direct pay mechanism to ensure continued project development. CRC expects to see the first manifestations of disruption in the next 12 months as CCUS proliferates across the country.

Tax Equity demand from renewables and CCUS[2]



CohnReznick Capital's Recent Completed Transactions

Buyer/Financer	Seller/Sponsor	CRC Role	Type	Date	Transaction Synopsis
Bank of America	Matrix Renewables	Exclusive Financial Advisor	Tax Equity Placement	5/2022	Tax equity financing for 143MWdc solar + 80MWh energy storage system
Silicon Valley Bank / Foss & Company	Pivot Energy	Financial Advisor to Sponsor	Tax Equity and Debt Financing	4/2022	Tax equity and debt financing for 90MW solar portfolio
Hannon Armstrong	ForeFront Power	Exclusive Financial Advisor	Portfolio M&A	3/2022	Sale of equity interest in 125MW solar + storage portfolio
Confidential	Copenhagen Infrastructure Partners	Financial Advisor to Sponsor	Tax Equity Raise	3/2022	Tax equity financing for 477MWdc solar project

[2] Proprietary market intelligence and available data through June 7, 2022

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 245 project and corporate transactions for renewable energy assets, valued at over $37.1 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**.