CohnReznick Capital

# QUARTERLY CONSIDERATIONS – Q2 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 - Hydrogen Markets

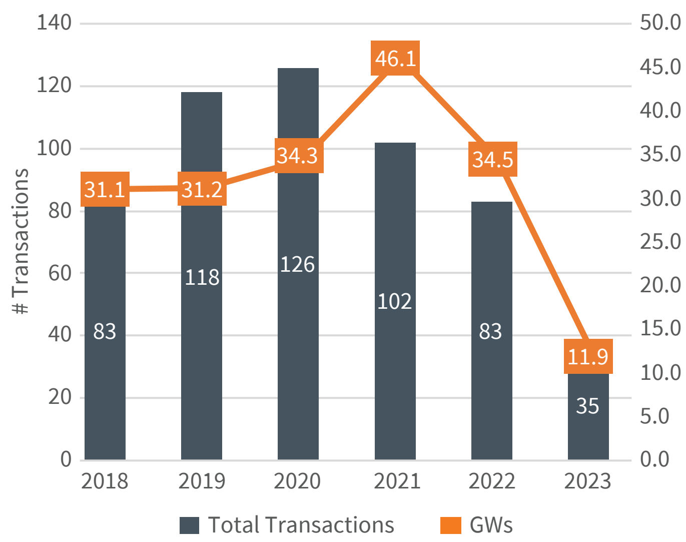
Industry participants maintained a positive outlook despite slowdowns in the past year. Current economic conditions continue to make transactions more challenging, but the market appears to be improving. The IRS recently released guidance on the Inflation Reduction Act's (IRA)[1] credit transfer mechanism. With macro factors stabilizing, companies are expected to move forward with projects previously in limbo.

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

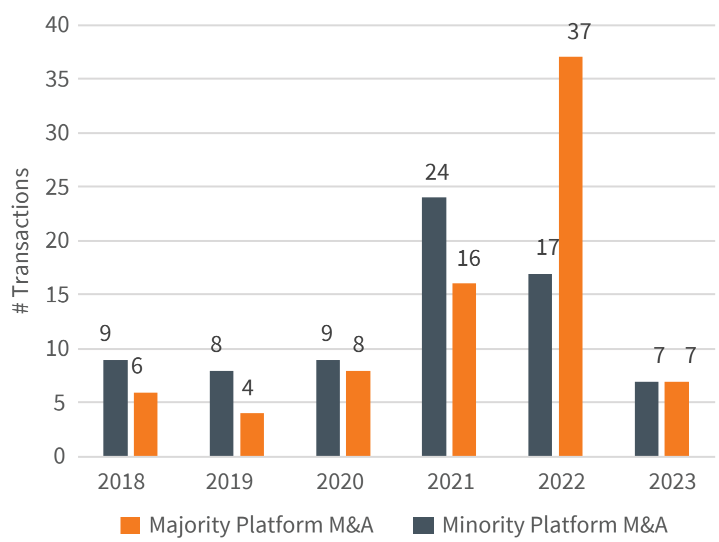
**Platform M&A remains slow. The market may pick back up in 6-12 months.** The valuation delta between buyers and sellers is driving the current slowdown in platform and asset M&A. As more time passes, sponsors will face increasing pressure to recycle capital, resulting in buyers and sellers meeting in the middle on fair project and platform valuations. CRC believes this will occur in the next 6-12 months as the variables impacting valuations settle and the market grows accustomed to the current cost of capital. Additional IRS guidance on tax credit adders will also factor into platform and project valuations.

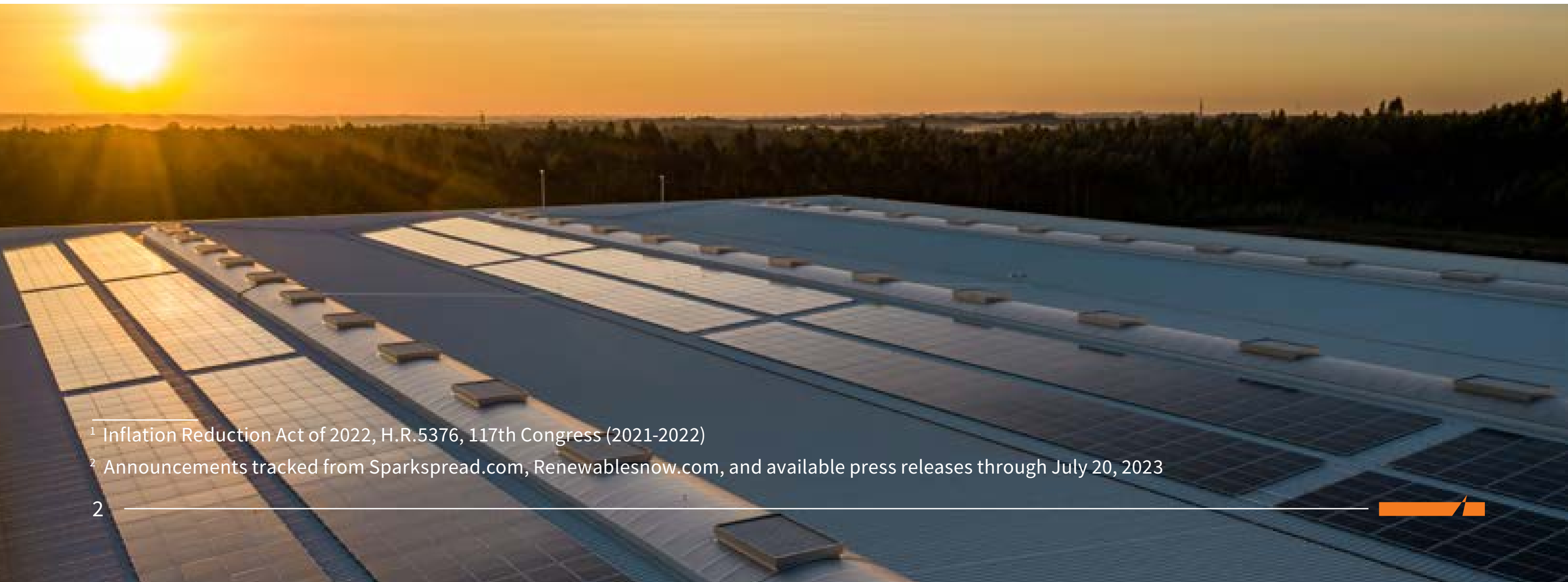
**Alternative deal structures are becoming more popular.** CRC is seeing a growing number of M&A deals explore preferred equity, credit facilities, and mezzanine financing instead of common equity sales. For many developers, this can provide a much-needed injection of capital to develop more renewable energy projects without overly diluting equity. In years past, returns on debt instruments were much lower than equity, and investors were less willing to explore these options. As the market matures and grows, investors view these mechanisms as potential alternatives. We now see many of the big renewable energy investment funds looking into these alternatives to capitalize on the growing market.

### US Renewable Energy Portfolio/ Asset M&A[2]




### US Renewable Energy Platform M&A[2]



[1] Inflation Reduction Act of 2022, H.R.5376, 117th Congress (2021-2022)

[2] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through July 20, 2023

# Project Finance Trends

**The spread between TE and debt significantly diminished.** TE ATIRR flip rates remain in the 7.5% - 8.5%[3] range for yield-based flips. We believe TE pricing will not go down but might increase in response to interest rates remaining flat or rising. TE supply vs. demand has historically been the biggest factor in setting TE pricing. With a growing supply of projects and tax credits entering the market, we don't anticipate TE return hurdle rates decreasing. The Fed has projected peak rates to reach 5.65% in 2023, up 50 bps from their current position. If interest rates rise, TE rates will likely move an indexed amount to interest rates. For instance, if interest rates rise by 50 bps, we may see TE rates rise by 15-20 bps.

**Credit transfer prices are becoming clearer in the wake of IRS guidance.** Several transfer transactions were at the term sheet stage before the release of IRS guidance. Now, a few have moved into final documentation. Some industry participants believe prices will settle as high as $0.96. Any higher than this, treasuries and other low-risk fixed income products become more attractive to investors. More likely, **CRC expects credit transfer prices to range between $0.87 - $0.95, with average pricing around $0.91.**

**Factors likely to increase / decrease the price of transfer credits.** So far, we have not seen a wide range of pricing between different industries and technology types. However, these emerging factors are driving the price of transfer credits:

**Factors increasing transfer credit prices:**

- Credits sold on the spot market will tend to fetch higher prices.
- Companies with strong balance sheets will have less risk in the event of recapture and be able to sell credit at higher prices.

**Factors decreasing transfer credit prices:**

- Projects with a commitment period of 12- 24+ months to a commercial operation date will likely see lower prices.
- Longer tax commitment periods, such as PTC credits that may last up to twelve years, will draw a lower price due to more risk spread over the length of the project.
- Credits from companies with smaller or weaker balance sheets will require insurance to cover payment in the event of a recapture. The need for insurance will tend to drive prices up.

**New TE investors are entering the market, but TE demand will continue to outpace supply.** We are beginning to see new companies entering the TE investment space and exploring the purchase of TE credits. Large banks and investment firms are also acting as syndicators and playing the part of middlemen in transactions. This will lead to a new injection of capital into the renewable energy sector.

We believe supply of tax equity investors and credit purchasers will continue to lag behind growing demand. The increased forecasts of annual capacity additions of wind, solar, and storage, plus the fast-growing hydrogen and CCUS markets, have caused total US demand for TE investment to increase faster than new investors can enter the market. This will lead to investors being more selective about the projects they invest in.

[3] Internally collected data from CohnReznick Capital and conversations with market participants in Q2 2023.

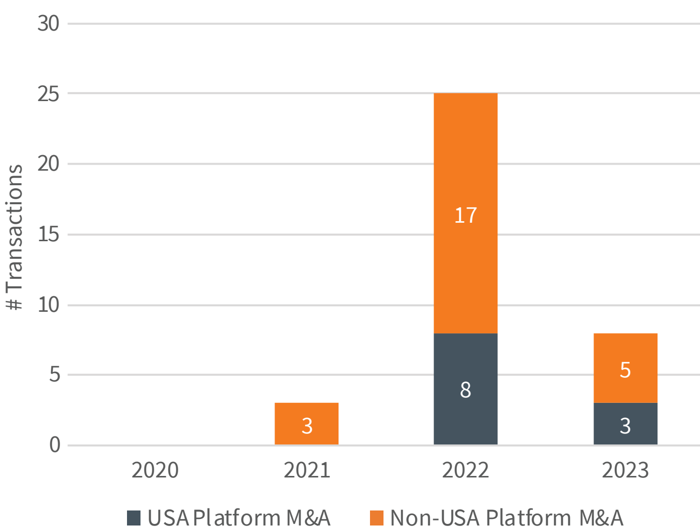
# Key Quarterly Topic - Hydrogen Markets

**The hydrogen market is poised to take off in the US.** Driven by IRA incentives, the US is poised to produce hydrogen at a lower cost than anywhere else in the world. This is partly due to the ability to build wind and solar at scale to support green hydrogen. Global players are coming to the US to create green hydrogen hubs at scale, with the business model of shipping to Europe and Asia.

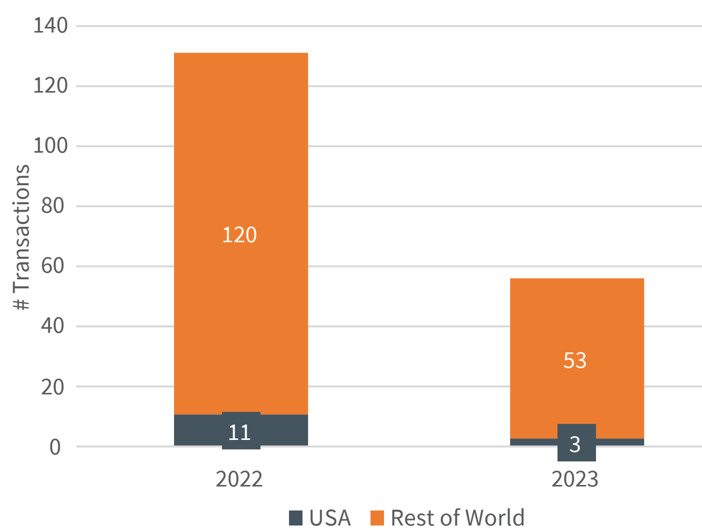
We have already seen a surge in hydrogen companies being acquired by larger energy firms. Globally, there have been 36 hydrogen platform acquisitions in the past 18 months, and 11 of those platforms are in the US. We expect more US companies to acquire or receive growth capital over the next several years.

The number of hydrogen projects funded globally was over 130 in 2022. 2023 seems to be on pace to end close to that number. However, at face value, the US is lagging, with only 11 projects funded in 2022 and 3 in 2023 year to date. Many large projects are still in the early stages of development funding. We likely won't see an uptick in project financing until the end of 2024 and more likely in 2025, with more substantive growth in 2026.

## US Hydrogen Platform M&A[4]




## Hydrogen Project Financings[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 | 7/2023 | Tax equity financing for 269MW solar + storage portfolio |
| *Confidential* | *Confidential* | Exclusive Financial Advisor | Debt Financing | 6/2023 | Construction warehouse facility expansion |
| *Confidential* | *Confidential* | Exclusive Financial Advisor | Debt Financing | 6/2023 | Private debt placement for 563MWac solar, wind & standalone storage portfolio |
| *Confidential* | *Confidential* | Exclusive Financial Advisor | Tax Equity Financing | 6/2023 | Tax equity financing for 238MW wind project |

[4] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through July 20, 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 280 project and corporate transactions for renewable energy assets, valued at over $48.9 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**.