QUARTERLY CONSIDERATIONS – Q3 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

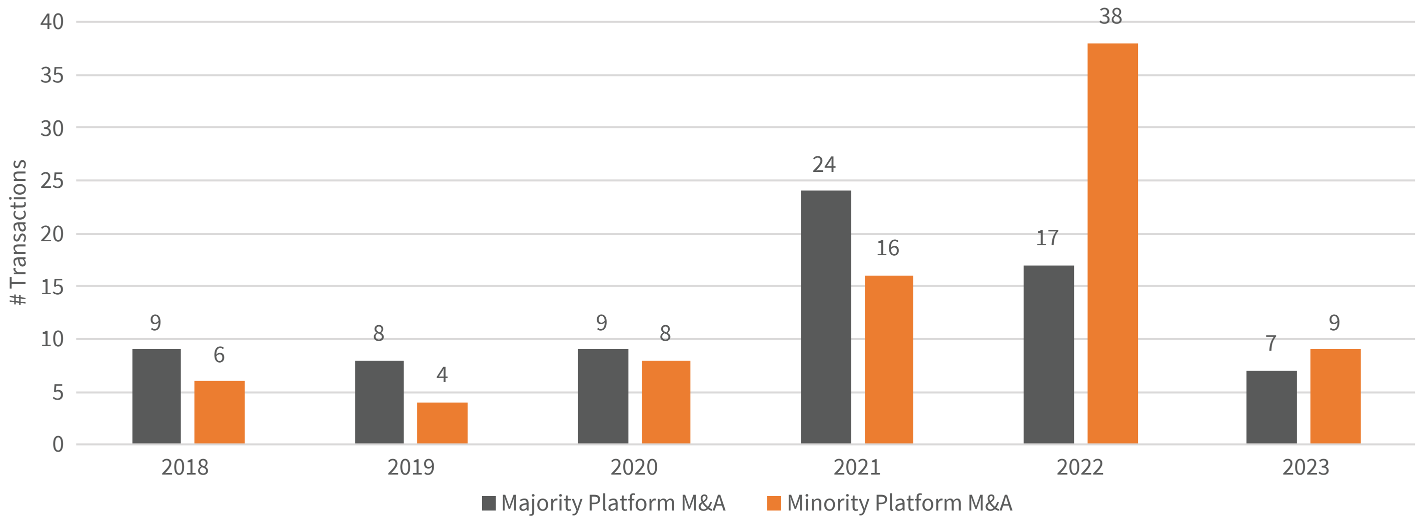
Trends in Mergers and Acquisitions (M&A)

The platform M&A market remains slow but is picking up. CRC expects total transaction volume on a deal count basis to remain strong in 2023, driven by several platform transactions having reached exclusivity or late-stage negotiations. Valuations remain below the market peaks of 2021 due to increasing costs of capital caused by high interest rates and inflation. Despite slowdowns, long-term fundamentals for platform M&A remain strong, with a focus on differentiated platforms with quality pipelines. Buyers have reverted to a "fundamentals-based" approach to valuation, with a heavy focus on late- and mid-stage pipelines. Demand remains strong with a number of private equity and domestic and foreign strategics seeking exposure to the US renewable energy sector or to scale their existing platform investments.

There are several variables that are positively impacting renewable energy M&A:

- **The demand for renewables and low-cost clean power is strong.** Widespread adoption of renewable energy generation, demand for high-quality development platforms, and a continued focus on ESG objectives have led new entrants, like financial buyers, to drive M&A activity.
- **Industry consolidation is top-of-mind.** Strategic acquirers have ambitious growth targets and a desire to build their platforms with scale. Consolidating a somewhat fragmented solar development market through M&A is helping achieve this goal.
- **There is increased industry competition.** Platforms are differentiating themselves with low costs achieved through scale, as well as market and technology diversification.

US Renewable Energy Platform M&A[1]



[1] Announcements tracked from Sparkspread.com, Renewablesnow.com, and available press releases through September 30, 2023

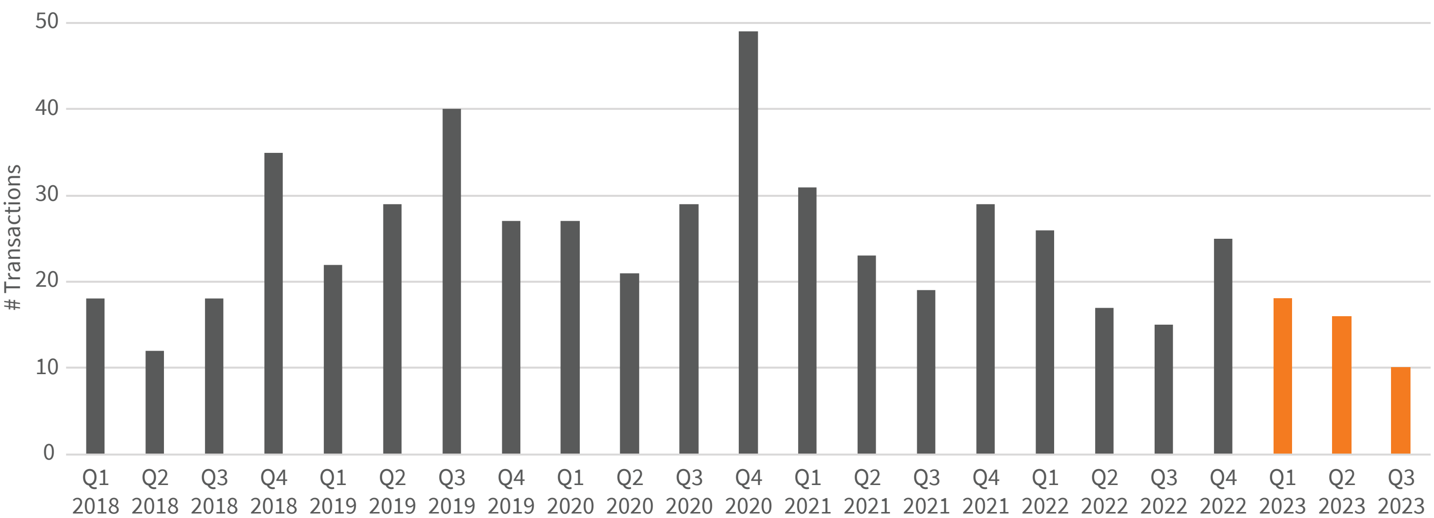
Trends in Mergers and Acquisitions (M&A)

The Inflation Reduction Act ("IRA") incentives are impacting valuation – to an extent. Tax credit adders and new structures are expected to increase renewable energy project valuations in the near term. This may result in buyers targeting projects or platforms that develop in certain locations to qualify for incentives, like the energy community or low-income adders. Over time, the value should get shared among the many project stakeholders. Given the uncertainty and fresh nuances, buyers right now are taking a more conservative approach to determining the IRA impact on M&A.

Market readjustment is occurring, but macroeconomic factors continue to pose problems. Headwinds from buyers and sellers trying to close the gap between valuation expectations have resulted in a slowdown in M&A. The Fed has raised interest rates 7 times in the last twelve months, bringing the federal funds rate to 5.25 - 5.50%. As a result, the spread between debt and equity has tightened, resulting in lower valuations. Buyers and sellers are adjusting to this new pricing environment, though it is taking time. In addition, inflation, increases in equipment and labor costs, and supply chain delays have resulted in project delays and caused buyers to reassess their risk-adjusted returns. Despite these challenges, CRC is seeing investor re-engagement across all technology sectors as macroeconomic headwinds, near-term labor costs, and supply chain disruptions stabilize. M&A continues to allow buyers to optimize costs through scale while simultaneously meeting ambitious growth targets to maximize platform value.

What's happening with portfolio and asset M&A? Although Q3 was one of the slowest quarters in the last six years with just 10 completed transactions, Q4 typically sees substantial asset M&A volume compared to the rest of the year. CRC expects this to hold true in 2023, notably because a lot of portfolios went out to market early this year and are likely nearing closing. A factor that should continue to drive M&A through 2024 is the platform consolidation that occurred in 2021. Investors acquired pipelines that were, in some cases, beyond their development capabilities. Since many of them aren't going to build their entire portfolios, we expect them to either sell off some projects or develop others and sell-down minority interests to other investors. Additionally, on the demand side, some platforms that were recently acquired lack greenfield origination capabilities, further increasing demand for projects. Generally, the number of asset M&A transactions should continue to increase over the next few months.

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



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Project Finance Trends

Tax equity is more expensive now than it has been in recent past. TE ATIRR flip rates are in the 7.0 – 8.5% range for yield-based flips. Pricing on time-based flips is around 1.15 – 1.23x MOIC. Term debt pricing for solar and wind is in the range of SOFR + 150 -200 basis points.[3] Debt spreads are in-line with or slightly lower than what they were one year ago, but the underlying rates are substantially higher. Overall, the high cost of capital for tax equity and debt is causing sponsors to increase their hurdle rates and potentially explore alternative structures, like sale-leasebacks, which are becoming more common for utility scale projects.

The transferability market is picking up steam fast. After the industry received Treasury guidance in June 2023, the transfer market began to take shape in Q3. CRC continues to view transferability as a positive tool for all renewable energy sectors that should develop as a complement, not a replacement, to traditional tax equity. We now expect transfer pricing to settle in the range of $0.89 to $0.95 per $1 tax credit. Thus far, indicative pricing is seemingly technology agnostic – each energy sector is seeing similar pricing. What's driving the difference in price quotes is the duration of investor commitment. For example, a PTC transaction that is 5-12 years out will likely see pricing at the lower end of the spectrum, meaning higher returns for the investor. On the other hand, commitments within a 2-3 year horizon are not seeing material differences in pricing and tend to be at the higher end of the price range.

There are several transfer deals that have closed, and many are in the exclusivity stage. One hurdle is that the IRS-provided electronic portal is not yet set up. Transfer eligibility is contingent upon electing the credit transfer through the portal, receiving a registration number specific to the credit-generating property, and reporting the registration number on the entity's tax return. Given the portal is not open, some tax investors are hesitant to close transactions, while others are not viewing this as a binary risk. CRC is confident that this issue will resolve, and we expect to see more announcements of credit transfer closings over the next few months, including several mandates on which CRC is advising.

Transferability is expected to open the door for more tax credit capital. The traditional tax equity market has been dominated by large banks, historically. Over the past few years, JP Morgan, Bank of America, and Wells Fargo accounted for well over 50% of the tax equity supply. CRC expects this to hold true for 2023. However, moving forward, the investment strategy of legacy big banks will likely evolve into a hybrid between tax equity and transfer structures. We believe that – aside from doing a strict traditional tax equity deal or a credit purchase – these banks will provide a tax equity commitment and then sell some of the credits. The pricing of the sale of credits will be baked into their tax equity pricing, and they will likely look to their existing client base of corporates for tax credit buyers. This hybrid structure will allow them to expand their tax credit supply.

There is a notable headwind for the traditional tax equity market, specifically related to the large banks. Proposed Basel 3 requirements would force large banks to quadruple the required risk capital for their tax equity investments, which would cause their tax equity pricing to become uncompetitive. The industry is generally optimistic that the issue will be addressed prior to the 2025 effective date so that the capital requirement increases won't apply to tax equity investments.

> *Legacy big bank investors will be able to increase tax equity supply through a hybrid offering of traditional tax equity and credit transfer structures.*
>
> – Gary Durden, Partner & Managing Director

A new wave of investors is coming. Many Fortune 1000 companies – and importantly a lot of Fortune 100 firms – are actively pursuing tax credit investments. Corporates who (i) were doing 1-2 tax equity deals per year or (ii) have an existing PPA + RECs energy strategy are shifting to in-house teams, looking at $500mm+ transfer deals in some cases, to carry out a more comprehensive decarbonization strategy that's also beneficial on their P&L statements. We expect most corporates to invest directly, though smaller companies or those who are completely new to energy tax credit investing will likely work with an advisor, aggregator, or their banking relationship. CRC believes that Corporate America can unleash the supply that will bring the market closer to meeting tax credit demand in the years to come.

CRC also believes that the financial sector – including regional banks and insurance firms – as well as aggregators and syndicators will play an important role in increasing tax credit supply. Regional banks bring a smaller yet consistent amount of capital, and insurance companies – who tend to favor long-dated commitments – are showing interest in a ten-year commitment for a PTC transaction. Aggregators and syndicators are likewise playing an important role with customers of varying sizes who participate in tax equity and/or transfer and are helping new market entrants understand the dynamics of tax credit investing. Regional banks, insurance companies, aggregators, and syndicators are increasingly likely to field a lot of the smaller and/or newer sponsors who have trouble locking up legacy big bank investors.

[3] Internally collected data from CohnReznick Capital and conversations with market participants in Q3 2023.

CohnReznick Capital's Recent Completed Transactions

Buyer/Financier	Seller/Sponsor	CRC Role	Type	Date	Transaction Synopsis
Confidential	AES	Financial Advisor to Sponsor	Tax Equity Financing	9/2023	Tax Equity Financing for 261MW_{DC} Solar Project
Confidential	AES	Financial Advisor to Sponsor	Tax Equity Financing	9/2023	Tax Equity Financing for 230MW_{DC} Solar + 108MW Storage Portfolio
U.S. Bancorp Impact Finance	Recurrent Energy	Financial Advisor to Sponsor	Tax Equity Financing	9/2023	Tax Equity Financing for 134MW_{DC} Solar Project
AB CarVal	SolaREIT	Exclusive Financial Advisor	Capital Raise	9/2023	$250M Capital Raise for Solar Real Estate Investment Fund
KeyBank & U.S. Bancorp Impact Finance	BlueWave	Financial Advisor to Sponsor	Tax Equity & Debt Financing	9/2023	Tax Equity & Debt Financing for 20MW Community Solar & Storage Portfolio

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 290 project and corporate transactions for renewable energy assets, valued at over $51.7 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**.