



# Infratil Update September 2023

US Renewables Market and Illustrative Valuation Guidance





# Industry Dynamics

Our outlook on the US renewable industry remains highly positive, with significant tailwinds present despite a challenging macroeconomic environment and prolonged period of uncertainty

- Significant and growing total addressable market with global investment in renewables reaching ~US\$500 billion in 2022, with the U.S. forecasted to be the second-largest market in the world for renewables investment. Solar and wind are the leading technologies with global investment levels of ~US\$300 billion and ~US\$175 billion in 2022, respectively<sup>1</sup>
- Due to the strong uptick in global supply and demand, as well as the modernisation of grid infrastructure for increased capacity and reliability, global new grid investment is projected to grow from ~US\$275 billion in 2022 to over ~US\$300 billion in 2023<sup>1</sup>
- Like most other industries, the renewables industry has been impacted by adverse macroeconomic conditions including higher inflation, higher interest rates, and supply chain constraints – which have led to increased financing costs, increased capex, as well as increased lead times on certain high-demand components (e.g., modules and battery cells)
- Despite this, renewables as an asset class have been highly resilient (e.g., national blended PPA prices (solar and wind) have seen increases in 2022 in line with higher financing and capex costs), and renewables are still estimated to provide the lowest levelized cost of energy<sup>1</sup>
- Regulatory tailwinds have also mitigated against an uncertain and challenging macroeconomic environment, with the Inflation Reduction Act (IRA) providing unprecedented, long-term policy support for the U.S. energy transition
- In addition to tariffs and trade restrictions that have been imposed on international supply chains, the U.S. has strongly reinforced the need to increase onshore manufacturing capabilities – which has been bolstered further by the IRA
- Following two record years in the renewables M&A and capital markets environment, utility-scale renewable platform M&A has since slowed down in this uncertain environment

<sup>1</sup>Source: Bloomberg New Energy Finance (BNEF)



# Comparable Companies





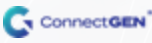



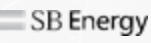


# Competitive Landscape

Similar large-scale private competitors have also raised capital over the last two years to increase scale, pursue M&A, and execute on their near-term business plans

## Comparison of Longroad Against its Private Peers of Similar Scale

- Similarly large growth-oriented private renewables companies include Apex Clean Energy, ConnectGen, Cypress Creek Renewables, and D. E. Shaw Renewable Investments (DESRI)
- Many of these competitors have also raised capital over the last two years to increase scale, pursue M&A, and execute on their near-term business plans, with some rumoured to currently be in the market








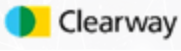


<i>Includes solar, wind, and storage<sup>1</sup></i>							
<b>Operating &amp; under construction assets</b>	2,400	400	400	>2,000	4,400	>2,000	3,000
<b>Development assets<sup>1</sup></b>	28,500	39,100	24,300	8,300	21,500	12,400	25,800
<b>Total portfolio assets (MW)</b>	30,900	>39,500	>24,000	>10,000	>25,000	>15,000	>27,500
<b>Footprint (States)</b>	>20	22	12	14	11	23	9
<b>Team Size (#)</b>	~170	~260	~45	~320	~200	~260	~100
<b>Recent Transaction(s)</b>	<ul style="list-style-type: none"> <li>• \$300m minority investment from MEAG and \$100m each from IFT and NZ Super in Aug-22</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition of majority stake in Oct-21 by Ares Management</li> <li>• Rumoured ongoing portfolio sell-down</li> </ul>	<ul style="list-style-type: none"> <li>• Rumoured ongoing sale of operating assets (pivoting away from ongoing full sales process)</li> </ul>	<ul style="list-style-type: none"> <li>• Acquired by EQT in Jul-21</li> </ul>	<ul style="list-style-type: none"> <li>• Rumoured ongoing potential capital raise/sale</li> </ul>	<ul style="list-style-type: none"> <li>• \$500m equity investment announced in Jun-22 from Generate Capital</li> </ul>	<ul style="list-style-type: none"> <li>• \$600m equity investment in Mar-22 led by funds managed by Ares Management</li> </ul>

# Broad Public Comparables

An available set of publicly comparable companies for Longroad is limited. Factors to consider are scale, operating asset base, size of development platform, and technology mix, amongst others

## Comparing Longroad Directly to Publicly-Listed Renewables Companies is Challenging

- While public IPPs and YieldCo's serve as valuable operating benchmarks, Longroad is not directly comparable due to reasons such as scale or portfolio & technology composition, amongst others
- Longroad's relative stage of maturity and emphasis towards growth is evidenced in the metrics below; currently having a much lower proportion of operating assets as a % of total MW, and demonstrating a strong track record of development growth relative to its peers (noting that peers also include M&A)

		NTM EV / EBITDA <sup>1</sup>	Operating + development pipeline MW <sup>2</sup>	Operating Capacity as a % of Total <sup>3</sup>	Avg. Annual Installation (MW) <sup>4</sup>	Annual Development Target (MW) <sup>5</sup>
IPP	 <sup>6</sup>	11.0x	75,700	19.4%	3,900	6,500
		22.4x	160,300	16.2%	1,750	2,300
		11.2x	93,200	16.3%	900	5,700
		11.4x	13,600	31.1%	300	900
		12.1x	23,300	30.1%	1,000	1,500
		9.5x	134,400	15.2%	1,600	3,700
YieldCo	 <sup>7</sup>	9.0x	5,600	38.9%	200	N/A
		9.8x	40,500	25.3%	1,000	1,750
		10.0x	9,300	N/A	1,000	4,750
			30,900	7.7%	1,275 (2022 Actual)	1,500

Source: Based on public information, FactSet, and Wall Street research as at August 2023, compiled by a third-party. <sup>1</sup> Reflects median of broker research estimates; <sup>2</sup> Includes operating, under construction, and pipeline; <sup>3</sup> Reflects operating and under construction MW divided by total platform MW; <sup>4</sup> Reflects 2019A - 2023E average annual capacity added to the operating or late-stage (FNTF) pipeline, includes M&A; <sup>5</sup> Reflects company's guidance annual development targets / additions to capacity; <sup>6</sup> Represents renewables capacity only; <sup>7</sup> Represents renewables capacity only



# US Renewables Illustrative Valuation Guidance





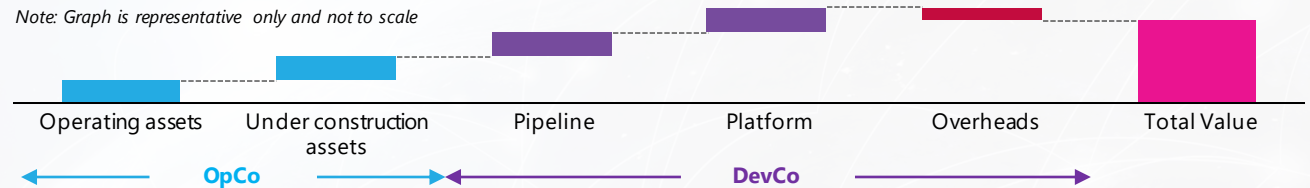
# Valuation Methodology

The primary valuation approach for private and public renewable developers is a Sum-of-the-Parts, risk-adjusted Discounted Cash Flow analysis

## Illustrative Sum-of-the-Parts ("SOTP") Valuation Approach

- The primary valuation approach for private and public renewable developers is a SOTP risk-adjusted Discounted Cash Flow ("DCF") analysis, including the operating & under construction assets, pipeline, and platform (incl. platform and development overheads)

*Note: Graph is representative only and not to scale*



	Operating and under construction assets	Pipeline	Platform and Overheads
Illustrative Assumptions	<ul style="list-style-type: none"> <li>Illustrative post-tax cost of equity of 5.5 - 7.5% for contracted cash flows, and 8 - 12% for merchant cash flows for solar assets, with discount rate premium of 50bps for wind assets</li> <li>Useful life of 30 - 40 years (depending on technology)</li> <li>Key operating assumptions generally based on third-party reports / inputs (e.g., generation, merchant curves)</li> </ul>	<ul style="list-style-type: none"> <li>Discount rate premium of 100 - 500bps</li> <li>Similar operating assumptions as operating &amp; under construction assets</li> <li>Day 1 project gearing of ~85% - 90% via tax equity and debt financing, average lifetime gearing of ~40 - 60%</li> <li>Probability weighting often applied to pipeline based on year, progress, and other market dynamics (e.g., supply chain, political support, connection)</li> </ul>	<ul style="list-style-type: none"> <li>Platform value of long-term pipeline, including incremental platform &amp; development overheads and dry holes</li> <li>DCF of 5 - 10 years, plus illustrative terminal multiple of 10.0x - 15.0x</li> <li>Illustrative post-tax cost of equity of 14 - 20% for cash flows / value created</li> <li>Illustrative development margin assumption of US\$100 - US\$300/kW, and cadence of 1,000 - 2,000MW p.a.</li> </ul>
Key Diligence Areas	<ul style="list-style-type: none"> <li>Merchant power pricing / curves</li> <li>Construction budgets &amp; contingency, EPC wrap, permits outstanding</li> <li>Weighted average contract life remaining, gearing &amp; refinancing assumptions, hedging ratios</li> <li>Key operating assumptions (e.g., generation, basis / curtailment, useful lives vs. maintenance / O&amp;M spend, taxes)</li> </ul>	<ul style="list-style-type: none"> <li>Annual development target vs. historical track record, market share, quality &amp; size of team</li> <li>Development economics vs. historical track record, quality &amp; diversification of pipeline</li> <li>Key pipeline assumptions (e.g., offtake, construction, interconnection, and financing arrangements, and political / market forces)</li> </ul>	<ul style="list-style-type: none"> <li>Annual development target vs. historical track record, quality &amp; size of team</li> <li>Development economics vs. historical track record, quality &amp; diversification of pipeline</li> <li>Ability of the business to build scale and continue to refresh pipeline over time, ensuring a reasonable share of the market and considering longer-term sector tailwinds / headwinds</li> </ul>

# Simple Desktop Valuation

If only limited information is available, an illustrative desktop valuation can be performed with reference to public comps, in combination with a widely-adopted private market approach

## Illustrative Desktop Valuation Approach using Broad Public Comparables

- If only limited information is available, an illustrative desktop valuation approach can be performed to calculate a SOTP valuation by valuing the OpCo (by using broad public comparables), and the DevCo (by using a widely-adopted private market approach)

	OpCo (operating & under construction assets)	DevCo (pipeline, platform value & overheads)
<b>Methodology</b>	$\begin{array}{c} \text{Operating \& under construction run-rate EBITDA} \\ \times \\ \text{Indicative EV / EBITDA Multiple} \\ \text{Less} \\ \text{Operating \& under construction asset-level gearing} \end{array}$	$\begin{array}{c} \text{Discounted Cash Flow of future development pipeline growth} \\ \text{(annual development target} \times \text{avg. dev margin)} \\ \text{Less} \\ \text{Discounted Cash Flow of platform and development overheads} \\ \text{Plus} \\ \text{Terminal value} \end{array}$
<b>Key inputs</b>	<ul style="list-style-type: none"> <li>Operating &amp; under construction MW owned</li> <li>Operating &amp; under construction run-rate EBITDA, or avg. run-rate EBITDA/MW for contracted assets</li> <li>Indicative EV / EBITDA Multiple for operating assets</li> <li>Day 1 and average lifetime gearing</li> </ul>	<ul style="list-style-type: none"> <li>Annual development target (MW p.a.)</li> <li>Average net development margin (\$/kW, i.e., \$/kW of net sale proceeds or net value created based on NPV)</li> <li>Platform and development overheads, incl. dry holes (\$ p.a.)</li> <li>Risk-adjusted discount rate (%) and/or terminal value multiple (x)</li> </ul>
<b>Key considerations / Limitations</b>	<ul style="list-style-type: none"> <li>Scarcity of directly comparable public companies</li> <li>Public comparables &amp; multiples value 100% of business, not just the OpCo, albeit development is difficult to value in a public market context (given the challenge of assessing pipeline quality, and the information gap between public valuations and private transactions)</li> <li>Volatility of public comps &amp; multiples, particularly in rising interest rate / uncertain macro environments</li> <li>Proportion of operating vs. development MWs in the portfolio, development track record vs. annual development target (incl. M&amp;A), quality &amp; size of team</li> <li>Company- and asset-specific nuances, e.g., tax credits or project-level debt in cash flows and / or multiples; contract / offtake structure, useful lives, locations, technologies and hedging levels for operating assets</li> </ul>	<ul style="list-style-type: none"> <li>Achievability of annual development target and future profitability (avg. development margin), quality &amp; diversification of pipeline</li> <li>Demonstrable track record, including the continued ability to deploy, successfully and profitably execute on M&amp;A, secure financing, and retain &amp; attract high-quality staff to deliver platform value and pipeline</li> <li>Key industry relationships, incl. access and ability to procure scarce equipment or land on favourable terms</li> <li>Management of the EPC process and ability to manage project costs and schedules to budgets</li> <li>Consideration of the broader M&amp;A environment, continuation of sentiment towards renewables and platform value</li> </ul>



# DevCo/Platform Valuations

A widely-adopted private market approach to valuing the DevCo / Platform is a Discounted Cash Flow analysis of the future development pipeline growth (incl. overheads)

## Illustrative DevCo / Platform Valuation Approach

- A widely-adopted private market approach to valuing the DevCo / Platform is a Discounted Cash Flow analysis of the future development pipeline growth, less the platform and development overheads required to execute on that long-term plan, plus a terminal value
- Each input into the calculation should be viewed in the context of the business' track record (e.g., annual development target and profitability), position within the market (e.g., market share and key relationships), and conviction around the team's ability to execute & continue to retain and attract talent
- An alternative approach to valuing the DevCo / Platform is to apply a development margin and probability-weighted assumptions to the development pipeline

(\$m unless otherwise stated)	Year 1	Year 2	Year 3	Year 4	Year 5
Annual development target (MW p.a.)	1,500	1,500	1,500	1,500	1,500
Average development margin (\$/kW)	\$200	\$200	\$200	\$200	\$200
DevCo cash flows / Value created at FNTF	\$300	\$300	\$300	\$300	\$300
Less: Platform and development overheads <sup>1</sup>	(\$30)	(\$33)	(\$35)	(\$38)	(\$40)
<b>Net DevCo cash flows / Value created</b>	<b>\$270</b>	<b>\$267</b>	<b>\$265</b>	<b>\$262</b>	<b>\$260</b>
Plus: Terminal value	-	-	-	-	\$2,600
<b>Total Net DevCo cash flows / Value created</b>	<b>\$270</b>	<b>\$267</b>	<b>\$265</b>	<b>\$262</b>	<b>\$2,860</b>

Average development margins in the US range between \$100 - \$300/kW

Platform and development overheads assumed to grow at \$2.5m p.a.

Terminal value determined using either a multiple or a cost of equity / discount rate (10.0x multiple shown indicatively)

Discounted back to Year 0 at appropriate discount rate

<sup>1</sup>Includes dry holes / project write-offs