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Energy Infrastructure Day



Yieldcos as investment vehicles for energy infrastructure

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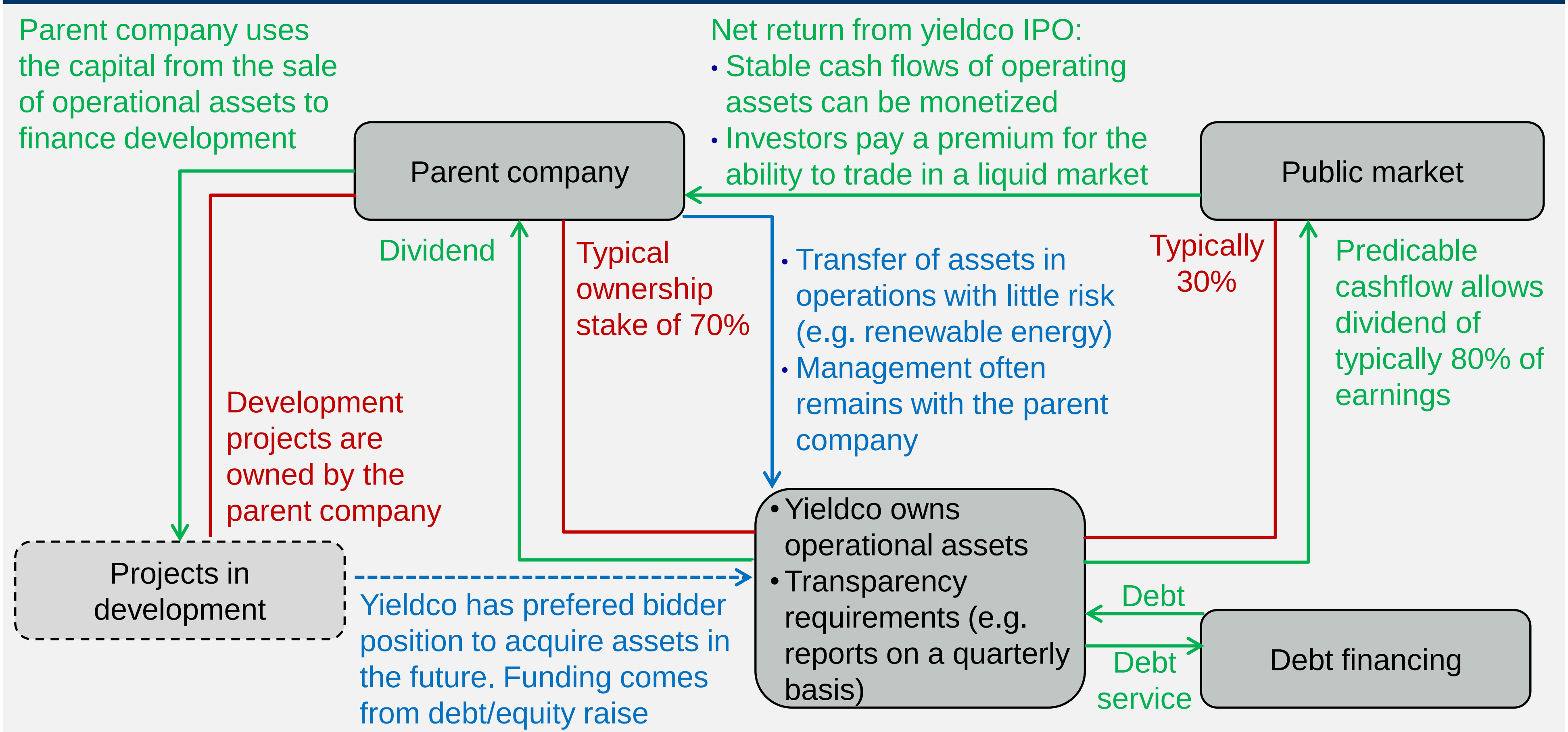
A parent company spins off a portfolio of operational assets into a newco and sells part of this company as a yieldco to the general public

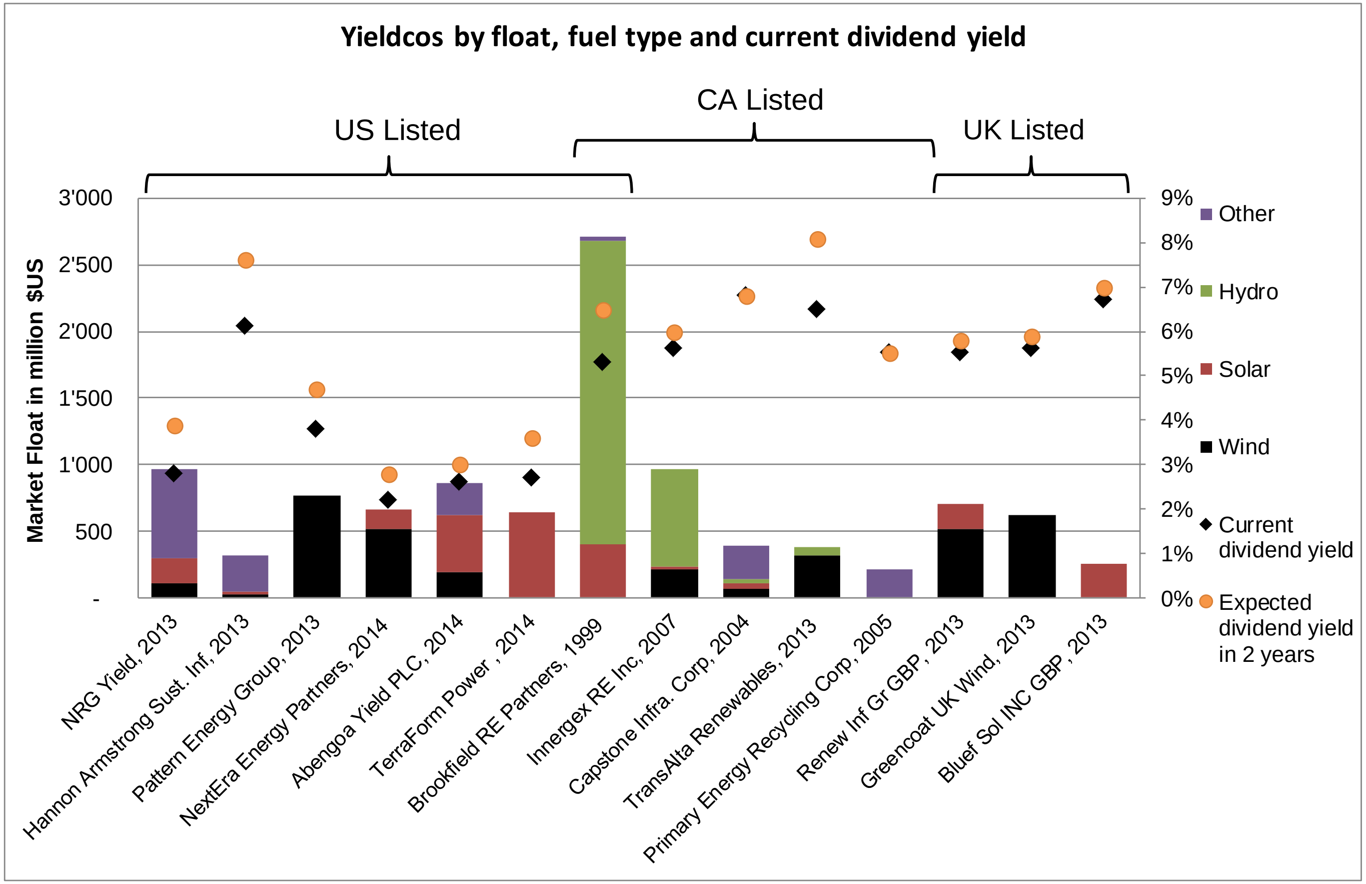
Concept of a yieldco



Yieldcos typically yield dividends of 3 to 4% in the US and 5 to 7% in Canada and the UK

Overview of yieldcos in energy and infrastructure as per July 2014

- Yieldcos tend to have a market capitalization between 300 and 1'000 M$
- Dividend yields are typically 3 to 4% in the US and 5 to 7% in Canada and the UK
- Due to the increase in the share prices, US yieldcos show a lower yield than in CA or the UK
- Differences in yields can be caused by tax treatments
- Companies listed before 2013 were not founded as yieldcos but with hindsight they show similar characteristics



Sources: www.forbes.com, www.renewableenergyworld.com, http://www.altenergystocks.com/

Win-win situation for developer and investors

Perspective of the parent company/developer

Advantages

- Free up capital to develop new projects by monetizing the value of operating assets
- Through the cooperation with a yieldco the developer continuously has the opportunity to sell operating assets
- Provide management services to the yieldco

Disadvantages

- A yieldco in the USA typically requires an asset base with a minimum of 500 million $US and 150-200 million $US in IPO value. In Europe however they can be considerably smaller
- Need to have enough projects in development to feed “the beast”
- Selling operating assets reduces the creditworthiness of the developer

Perspective of the investor

Advantages

- Stable dividends due to low market risk
- Attractive alternative for current low yields of bonds
- Long term investment
- Geographical and technological diversification compared to a single project
- A yieldco can be a pure clean energy company
- Access to a steady inflow of additional assets

Disadvantages

- Risk exposure to legislative and tax policies
- Exposure to lifetime of the asset technologies
- The cashflows generated might not be compensated for inflation. The differential between the yield of the yieldco and other investment classes may therefore diminish
- Conflict of interest between yieldco and parent needs to be avoided or controlled

Swiss example: KKB is listed on a Swiss stock exchange Acquires and operates renewable energy plants in Europe

Company description

- Owner and operator of hydro, solar and wind energy generating assets
- 20% of the shares are floating freely on the Berne stock exchange. The rest is owned by Swiss utilities
- Assets in France, Switzerland and Italy

Figures 2013

- Installed capacity of 57 MW
- Revenues of over CHF 11m (24m budgeted in 2015) and EBIT of CHF 3.8m

Objective until 2020

- Installed capacity of 300 MW, through acquisition or development of assets
- Total investment of approx. CHF 600m

KKB share per November 2014

- Market capitalization of CHF 128m
- Stock price of ca. CHF 8
- Approximately 2.5% dividend yield after corporate tax
- Min 2/3 of invested capital in assets after commissioning (no construction risk)
- Max 1/3 of invested capital in assets at construction start
- Max 2.5% of invested capital in project development

In 2014 KKB raised new capital of ca. CHF 18 m to continue its expansion strategy. Finadvice was mandated to support KKB in the search for new investors

Sources: http://www.kkbenergy.com/, www.www.berne-x.com

In 2013 and 2014 yieldcos have been gaining in popularity

Yieldco's in the media

*"There have been over 15 IPOs of YieldCos on either the London or New York stock exchanges since the first YieldCo, **Greencoat Wind**, went public on the London Stock Exchange in March 2013. The UK YieldCos have, however been small in comparison to the US listed companies. Greencoat for instance, has only **275MW of assets** […]"*

Alexa Capital, Gerard Reid, September 2014

*"**NRG** raised **$471 million net** […] by selling a **34.5% interest** in **1'324 MW of conventional and solar power** projects, plus the equivalent of **1'098 MW of thermal facilities** that produce steam or chilled water and another **123 MW of small cogeneration facilities**. NRG retained control over the subsidiary with a 65% voting interest. […] **93% of the output from the conventional power plants is contracted under long-term contracts with a weighted average life of 16 years**."*

News Wire, Chadbourne and Parke LLP, December 2013

*"In late July 2014, SunEdison's new subsidiary **TerraForm Power** went public on the NASDAQ stock exchange. Priced at $25 per share with 23 million shares including underwriters' options, this brought the company **$533 million in net proceeds**. […] While SunEdison has many different kinds of assets, TerraForm Power's assets are all solar PV plants, albeit hundreds of them spread across three continents, totaling **808 MW of capacity**."*

PV Magazine, Christian Roselund, August 2014

*"The three yield cos [NRG, TransAlta, Pattern Energy] plan to **distribute between 80% and 83% of cash after debt service**. All three expect to grow by acquiring additional projects, but **they are not typical growth companies retaining earning to fund expansion**. For NRG Yield, only 31% of projected EBITDA in 2014 is expected to be cash available for distribution and 37% in 2015, suggesting a **large amount of senior debt** […]. The 2014 figure for Pattern is 25.4%. It appears to be closer to 62% for TransAlta."*

News Wire, Chadbourne and Parke LLP, December 2013

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Hans has over 20 years of consulting experience, mainly advising on infrastructure investment decisions in the utilities industry. This includes acquisitions and disposals of assets or operating companies as well as project development, construction and dismantlement.

Hans mainly works on projects in Switzerland, Germany and France. He is specialised on energy markets and assets in the whole utility value chain – generation, trading, transmission, distribution, storage and sales.

Before Finadvice he was Vice President of the European Utilities Team of UBS in Zurich and Project Leader in the Energy and Utilities Team of the Boston Consulting Group in Germany. He holds an ME from Technische Universität Berlin, a BE from Technische Universität Darmstadt and a DESCAF (similar to an MBA) from Toulouse Business School.

He is a member of the advisory board of Yielco Investments.