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ENERGY INSIGHTS

U.S. Renewables M&A: A Review of 2020 and Outlook for 2021

2020 was another strong year for U.S. renewable energy M&A, notwithstanding the dislocations caused by the global COVID-19 pandemic and a tumultuous U.S. election cycle. The industry demonstrated resilience throughout the year, and acquirers were empowered by sustained technology cost declines, comparatively stable rates of return and a heightened focus on Environmental, Social, and Governance (ESG) considerations.

As we transition into 2021, we expect renewable deal flow to accelerate, underpinned by the new Biden administration and a Democratic majority in the Senate. Activity should be further bolstered by the recent extension of federal tax credits, ever increasing renewables targets and mandates, and the sheer magnitude of public and private capital earmarked for deployment into renewables. The universe of capital providers continues to expand as the shift toward decarbonization intensifies, with new technology alternatives providing opportunities for traditionally higher cost of capital providers. While we expect sustained emphasis on incumbent renewables, such as PV solar and onshore wind, we also anticipate meaningful growth opportunities for emerging renewable technologies including standalone battery storage, hybrid storage, offshore wind and hydrogen.

2020 Review

The shock of COVID-19 and subsequent monetary policy responses were prominent in 2020, with reverberations that will be felt for years. Though not as pronounced as other industries, tightening capital market access in the earlier stages of the pandemic forced certain developers to offload capital constrained projects.¹ At the same time, a

perpetual low interest rate environment provided capital-rich acquirers access to low cost financing. Throughout the year, we saw numerous deals inked by institutional investors with an active history in the space, as well as increased activity among strategic buyers driving pockets of sub-sector consolidation.

Fiscal policy and its uncertain future were also significant facets of 2020. The one-year extension and increase of the

¹ Source: Mergermarket Energy M&A Forum (December 2020)

PTC passed in late 2019 provided an opportunity for acquirers seeking PTC qualified projects in 2020. The PTC and ITC were further extended as part of the Consolidated Appropriations Act (CAA) passed by Congress in December 2020, providing additional runway for M&A of eligible projects.

Not surprisingly, solar and onshore wind continued to dominate the renewables sector in 2020, driven by cost declines and efficiency improvements in both technologies. Notable deals include GIP's December announcement that it would be acquiring MAP Energy's renewable energy business, which includes 16+ GW of operating wind and solar projects in the U.S. plus a nationwide development pipeline², and EDF's acquisition from Geenex Solar of a 4.2 GW solar development portfolio in PJM.³

Solar continued to widen its installation gap over wind from 4 GW in 2019 to an estimated 7 GW in 2020⁴, with the gap expected to widen further in 2021 to 12-13 GW (estimates are pre-tax credit extension).⁵ Solar continued to experience elevated levels of M&A activity, accounting for a substantial share of deal flow, with other renewable technologies including hydro, offshore wind and solar + storage adding to the mix. Large wind players such as Avangrid, EDF and NextEra have continued to supplement their massive onshore wind portfolios with other sources of renewable generation, perhaps foreshadowing a wind of change.

International Investment

In last year's renewable energy M&A Spark Note, we highlighted notable U.S. inflows from Canada and Europe in 2019. While that trend has continued in 2020 with sizable deals from BayWa, CIP, Cubico, EDF and others, we also saw robust activity originated from Asia.^{6,7,8} Several major transactions from Asia-based entities were announced in 2020, including Tokyo Gas' acquisition of the 631 MW development stage Aktina solar project in Texas from Hecate Energy⁹, as well as Hanwha Asset Management's acquisition of a 330 MW portfolio of utility-scale solar projects in

Texas from Belltown Power.¹⁰ We view these transactions as indicative of the broader push of international energy companies' long-term strategy of diversifying portfolios in the high-growth U.S. renewable energy industry, as well as for U.S. developers to recycle capital to fund expanding project pipelines.

Oil & Gas Majors

European-based global oil & gas (O&G) companies' ambitious long-term decarbonization goals and renewable energy capacity targets led to an increased focus on M&A in 2020. Efforts to develop renewable opportunities in the U.S. have typically been executed through consortiums and joint ventures, but transactions like BP's \$1.1 billion purchase of a 50% interest in the 2.4 GW Beacon Wind and 2 GW Empire Wind projects from Equinor indicate increased willingness to acquire capacity through direct acquisition. To hit publicly-stated ESG targets, we expect O&G majors to become increasingly active in U.S. renewables via M&A. This is especially true for offshore wind, which provides opportunities for larger check sizes than typical onshore wind and solar projects and – in the case of European-based entities – leverages existing broader offshore and offshore wind expertise. Additionally, offshore wind recently got a boost from Congress' approval of a new spending bill that provides a 30% ITC for offshore wind projects that start construction by the end of 2025 with construction completed within four years, providing for additional policy certainty around a key driver of returns.

U.S. Utilities

Driven by a myriad of factors including expanding renewable portfolio standards, socioeconomic considerations, and a shift towards decarbonization, ESG factors are increasingly a focal point for U.S. utilities. This is evidenced by recent utility developments including: i) Xcel Energy's plans¹¹ to reduce carbon emissions 80% by 2030 and to deliver 100%

² <https://www.prnewswire.com/in/news-releases/global-infrastructure-partners-announces-acquisition-of-map-r-energy-s-renewable-energy-business-846333379.html>

³ <https://www.edf-re.com/press-release/edf-renewables-north-america-and-geenex-solar-transact-on-a-4-5-gigawatt-gwac-solar-development-portfolio/>

⁴ <https://www.seia.org/research-resources/solar-market-insight-report-2020-q4>

⁵ <https://www.iea.org/reports/renewables-2020/wind>

⁶ <https://www.baywa-re.com/en/news/details/baywa-re-acquires-enable-energy-inc/>

⁷ <https://www.power-technology.com/news/copenhagen-infrastructure-partners-acquires-two-hydro-power-projects-in-us/>

⁸ <https://www.cubicoinvest.com/news/cubico-sustainable-investments-acquires-270-mw-of-solar-projects-in-the-us/>

⁹ <https://www.edf-re.com/press-release/edf-renewables-north-america-and-geenex-solar-transact-on-a-4-5-gigawatt-gwac-solar-development-portfolio/>

¹⁰ <https://www.pv-tech.org/tokyo-gas-to-enter-us-solar-market-with-500mwac-texas-acquisition/>

¹¹ https://s25.q4cdn.com/680186029/files/doc_presentations/2020/11/1/EEI-Financial-Conference.pdf

carbon-free electricity by 2050, driven primarily by coal facility retirements in conjunction with adding significant wind and solar and ii) Duke Energy's announcement¹² that it is targeting net-zero carbon emissions from electricity generation by 2050, as well as doubling its renewable portfolio to 16 GW by 2025 and to 40 GW for its regulated utilities by 2050. For utilities, a significant driver in renewable M&A activity is the efficiency of acquiring established projects, portfolios, and platforms relative to building in-house.

Another example of the growing importance of renewables in utility M&A activity is the \$8.3 billion merger of Avangrid and PNM Resources. Avangrid CEO Dennis Arriola underscored renewables as a key factor in the transaction, with the combined company owning 10 regulated utilities in six states with renewable energy operations in 24 states.¹³ There will be a continued push in M&A among incumbent utilities as they continue to establish and seek to meet more aggressive renewables and decarbonization targets.

SPACs

2020 saw an unprecedented resurgence in the use of SPACs – Special Purpose Acquisition Companies¹⁴ – to facilitate the IPO process for early-stage companies, with record setting levels in the clean energy and ESG space. While a number of notable announced and closed 2020 SPACs featured electric vehicle and e-mobility companies – including Nikola, Fisker, Chargepoint and Hylion – renewable energy investors have also used SPACs as a liquidity tool:

- 1) Eos Energy Storage, a zinc-based battery technology challenging lithium-ion in stationary storage, went public in November by merging with SPAC B. Riley Principal Merger Corp. II with an implied enterprise value of \$550 million¹⁵ and
- 2) SolarMax Technology, an integrated solar company that manufactures solar PV panels and is a residential and commercial solar system installer, announced plans in October to merge with SPAC Alberton Acquisition Corp.¹⁶

We also note there are a number of SPAC sponsors with a listed target industry of renewable energy and there were rumors in late 2020 of SPACs targeting solar financing companies, which was validated in January 2021 with Sunlight Financial announcing it was going public via SPAC. Given that clean energy continues to outperform the overall market, we anticipate continued activity in clean energy and an uptick in early stage renewable energy companies accessing the public markets using SPACs in the near-term.

Distributed Solar

While 2019 was a record year for distributed solar installations, the sector was impacted by COVID-19 significantly more than utility-scale projects in 2020. Throughout the year (and particularly in 2Q20), installations were suppressed given the high touch nature of resi solar sales, state mandated lockdowns and general delays with permitting. However, a pronounced rebound followed during 3Q and 4Q as incumbents adapted and the economy partially re-opened. End of year installation forecasts are now back to pre-COVID expectations for distributed solar.

Despite pandemic complications, leading players consolidated their position in 2020 with the most notable transaction being Sunrun's \$3.2 billion acquisition of competitor Vivint Solar. In addition, several other significant transactions occurred in the distributed solar sector such as Spruce Financial's portfolio acquisition from Clearway and Brookfield's C&I platform acquisition from Exelon. As the cost of distributed solar continues to decline, and as resi provides an increasingly attractive consumer price alternative versus direct utility service, we expect continued transaction activity at the project and portfolio level.

Standalone Storage and Hybrid Projects

476 MW of storage were deployed in Q3 2020, shattering prior records and resulting in 1,275 MW of estimated

¹² https://www.duke-energy.com/_media/pdfs/our-company/investors/news-and-events/2020/esg/esg-investor-day-presentation.pdf

¹³ <https://www.utilitydive.com/news/avangrid-pnm-resources-announce-83b-merger-to-create-one-of-biggest-cle/587450/>

¹⁴ A SPAC is a shell corporation formed with the sole purpose of raising public capital to purchase a yet unidentified asset. The SPAC IPO process follows a similar path as a traditional IPO; however, since the SPAC inherently does not have historical financials and does not own assets/hold any liabilities, the timeline to the initial IPO is compressed as compared to a traditional IPO and typically represents a fast track for those companies to become public. <https://fti-intelligence.com/spac-to-the-future/>

¹⁵ <https://www.greentechmedia.com/articles/read/eos-lists-on-nasdaq-in-rare-battery-startup-move-to-public-markets>

¹⁶ <https://www.globenewswire.com/news-release/2020/10/28/2115840>

storage installations in 2020. Front-of-the-meter storage quadrupled from 2019 levels, and total forecasted 2025 deployments (7,473 MW) represent ~6x 2020 levels.¹⁷ Growth in standalone storage, solar + storage and other hybrid projects is further supported by jam-packed interconnection queues. As of year-end 2020, CAISO and ERCOT reported 65 GW and 17 GW of standalone storage and solar + storage in their respective queues.

Notable 2020 deals include Capital Dynamics' acquisition from 8minute of the Eland project (400 MW solar/300 MW storage), Goldman Sachs Renewable Power's purchase of a controlling interest from Recurrent in the Slate project (300 MW solar/140 MW storage) and NIPSCO's announcement that it is acquiring three projects totaling 900 MW of solar paired with 135 MW of storage. While the COVID-19 relief package passed in December 2020 did not include a standalone ITC for storage, significant tailwinds for storage include elevated demand, from both utilities and corporates, to sign renewables + storage PPAs. Further supporting market acceptance is an improving risk management environment, as additional operating history becomes available and battery units experience further cost declines (BloombergNEF recently announced sub-\$100/kWh battery unit prices in certain regions). As these trends continue to manifest, we believe traditional low cost of capital providers (e.g. utilities, pension funds and other institutional sources) will continue to target hybrid projects. Additionally, we anticipate private equity and other capital providers will increasingly seek to target outsized returns in the standalone storage subsector over the next 12-24 months.

Outlook for 2021

While COVID-19 continues as an overhang to broader economic growth, the U.S. renewable energy industry remains well-positioned to weather the storm. While force majeure notices/claims and potential supply chain and EPC labor disruptions were topics of note earlier in 2020, the majority of in-construction U.S. renewable energy projects were not significantly impacted by procurement or other COVID-19 related issues. As further evidenced by U.S. clean energy equity prices, IPOs and M&A activity, industry-wide valuations remain strong and robust and deal flow is anticipated to continue into 2021.

As we transition into 2021, the U.S. renewables industry is riding strong tailwinds – notably, an incoming Biden administration, a Democratic majority in both the House and Senate, an extension of federal tax credits included in the CAA, a continued low interest rate environment and a focus on ESG that appears to be less trend and more permanent fixture. Limited headwinds to renewables M&A appear to center around tax equity availability, in particular to participants other than outside top tier developers/IPPs. Additionally, a broader global recessionary environment could create a counterbalance of distressed buying opportunities for well-capitalized players; however we anticipate such opportunities will be limited. On balance, we see a significantly favorable backdrop for U.S. renewables M&A over the next 12 months.

We expect 2021 M&A activity to be largely influenced by both the Biden Plan and the resulting certainty from the tax credit extension. The Biden Plan provides for \$2 trillion in investment across nine segments, including \$400 billion in clean energy and innovation aimed at decarbonizing U.S. power generation by 2035. On the tax credit front, the CAA included a two-year extension of the 26% ITC for projects that begin construction prior to 2023, a one-year extension of the 60% PTC for projects that begin construction prior to 2022 and a new 30% ITC for offshore wind projects that start construction prior to 2026. The industry was also looking for (but did not receive) a separate ITC for standalone storage. That said, IRS guidance does include an ITC for storage paired with eligible projects, as well as a direct pay provision to allow federal tax credits to be converted into direct payments.

We also look to 2020 deals such as Avangrid's acquisition of PNM – which included strategic considerations focused on PNM achieving its renewable energy ambitions and providing the opportunity for Avangrid to rate base renewables assets – as indicative of deals to come in 2021 and beyond. As traditional solar and onshore wind continue to dominate installations and deal activity, we see a continued trend of further solar expansion into new U.S. geographies, with tax credit extensions driving out additional installations. Lastly, we look for additional activity in energy storage as technology advances and cost declines continue, as well as offshore wind given the 30% ITC and an anticipated streamlined project approval process under the Biden administration.

¹⁷ Source: Wood Mackenzie (December 2020)

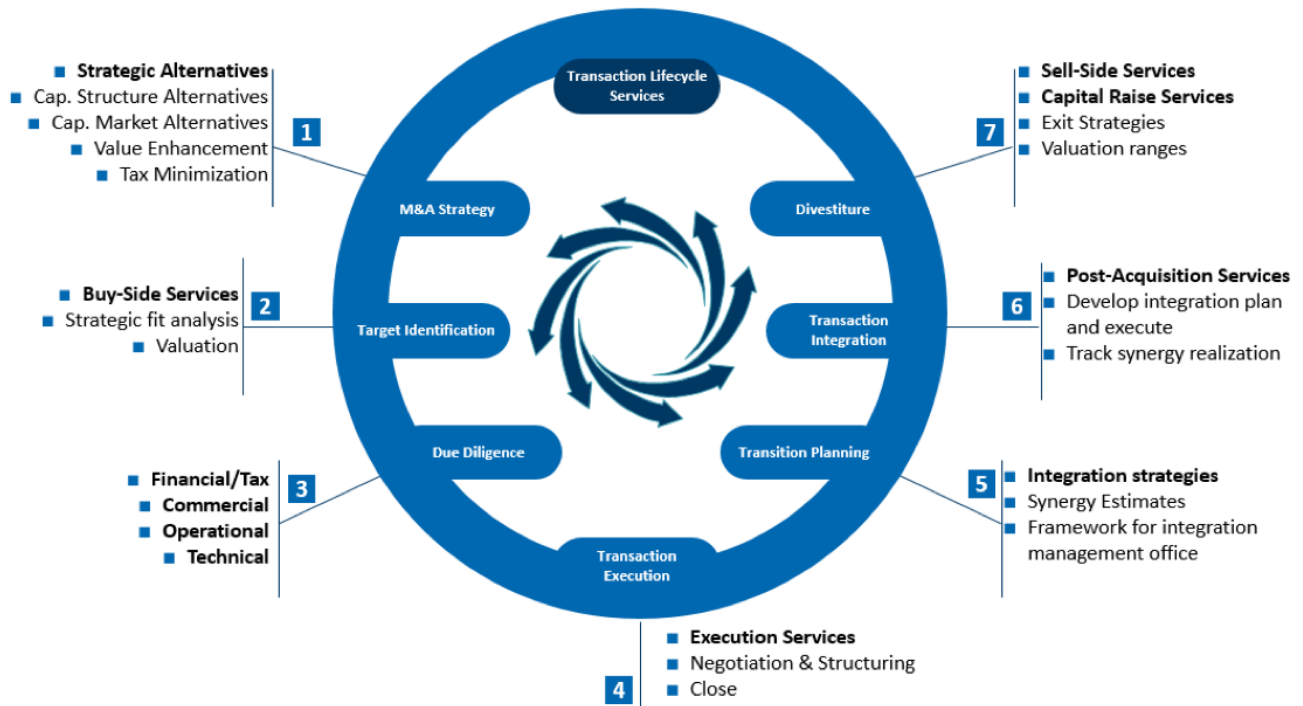
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FTI Consulting’s Power & Renewables Practice is comprised of professionals who have functional expertise across the lifecycle of renewable energy transactions, with tailored services to support buy- and sell-side mandates for corporate entities and renewable energy projects, portfolios and platforms.

Through our wholly owned investment banking subsidiary, FTI Capital Advisors, we provide tactical strategic advice, buy- and sell-side advisory, and capital raise solutions with a significant transactional presence in the clean energy sector.

As an independent investment bank, we are free of conflicts, enabling us to provide clients with unbiased and uncompromising advice and execution capabilities.

In addition, our team of senior advisors have deep experience in transaction advisory, financial due diligence, and strategy and operations. We understand the value drivers and complexities of the renewable energy sector, and we assist leading strategic and financial investors across all stages of the transaction lifecycle – including evaluation of strategic alternatives, transaction due diligence, deal execution and transaction integration.



CHRIS LEWAND

Senior Managing Director
Power & Renewables Global Leader
+1 303.689.8839
chris.lewand@fticonsulting.com

CHRIS POST

Senior Managing Director
+1 303.689.8888
chris.post@fticonsulting.com

JUSTIN PUGH

Managing Director
+1 303.689.8855
justin.pugh@fticonsulting.com

KRIS BRETTINGEN

Senior Director
+1 303.689.8873
kris.brettingen@fticonsulting.com

CARTER ATLAMAZOGLU

Senior Director
+1 303.689.8811
carter.atlamazoglou@FTIConsulting.com

LOGAN KELLEY

Senior Consultant
+1 303.689.8895
logan.kelley@fticonsulting.com



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