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IN-DEPTH: DESPERATE HUNT FOR US RENEWABLE DEVELOPERS CREATES SMALLER PREY

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A diverse range of international names are buying up development platforms as a way into the US renewables market, but the shrinking supply left for sale is forcing some to think of alternatives, reports Onofrio Castiglia

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Author: Onofrio Castiglia and Albert Yoon

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For strategic and financial buyers looking through the storefront window of the US renewables market, buying a stake in a developer is usually top of their shopping list.

In the last year, EQT has purchased Cypress Creek, Partners Group bought Dimension and ECP acquired Pivot Energy, among other transactions.

Boston-based developer BlueWave, Miami-based Origis and Kansas City's Savion are all currently involved in sale processes and offer both European utilities and US thermal power owners a way to meet government and investor demands for increased renewable energy.

Other processes, such as Broad Reach Power, see buy-side competition from European, Israeli, Asian, and domestic sources.

Developers have welcomed the growth equity for their build-out programs, with first round bids for large developers routinely coming in north of USD 1bn. In February, Apex Clean Energy launched a USD 1bn capital raise for a minority equity stake, after relying on family offices and debt for funding between 2009 and 2015. The investor is expected to be named in the weeks ahead.

But despite the interest, potential buyers are becoming aware that the stock of credible renewable energy developers with a pipeline of projects may eventually run out. In fact, it is a fast-shrinking pools of companies.

“There are very few individual developers left that aren’t sponsored or owned by a very large money center,” says Rob Sternthal, a managing director in Piper Sandler’s energy & power investment banking group.

According to *Infralogic* data, out of 43 mature renewable energy developers, only 17 now remain independent or without a new majority investor.

US renewable developers without majority third-party investor	Headquarters	Year established
7X Energy	Austin, Texas	2016
8minutenergy	Los Angeles, California	2009
ALLETE Clean Energy	Duluth, Minnesota	2011
Apex Clean Energy	Charlottesville, Virginia	2009
Centaurus Renewable Energy	Houston, Texas	2013
ECA Solar	Waltham, Massachusetts	2014
Falvez Energy	Washington, DC	2014
Geenex Solar	Charlotte, North Carolina	2012
Holocene Clean Energy	Raleigh, North Carolina	2008
Inovateus Solar	South Bend, Indiana	2008
Kenyon Energy	Safety Harbor, Florida	2009
Pine Gate Renewables	Asheville, North Carolina	2014
Summit Ridge Energy	Arlington, Virginia	2017
SunEnergy1	Mooresville, North Carolina	2009
Sunpin Solar Development	Irvine, California	2012
Tri Global Energy	Dallas, Texas	2009
White Pine Renewables	San Francisco, California	2020
Source: Infralogic		

Meanwhile, the number and type of prospective buyers is growing.

“Tailwinds are really positive at the moment and because of that we are seeing continued consolidation of the independent developers," says Britta von Oesen, a managing director at CohnReznick Capital.

"We have closed three platform M&A deals so far this year. Bidders on those deals have run the gamut: utilities, strategic IPPs, pension funds, private equity groups and infrastructure funds. The amount of capital chasing this space is really impressive."

'Like an arms race'

At asset level, operating wind and solar projects that might have returned between 10% and 12% in the past are now returning between 6% and 9% percent on a levered basis, say sources in the market.

This has pushed private equity investors and others to consider buying and building platforms, taking the development risk themselves to improve returns.

One still independent solar developer speaking on background says his company receives more inquiries on a weekly basis than he would have thought possible two years ago.

There is much more project development to do before going to market in two or three years, he says, but leaving capital on the table could make the company's growth slower.

"It's kind of like an arms race, almost," says von Oesen, "where the investors are looking to scramble and pick up the remaining developers because they don't want to be left without a dance partner, and the developers are also looking around and saying: 'All of a sudden, my competitors have super competitive capital behind them and no limitation on how much they can deploy'."

Of those developers that remain independent, including earlier-stage companies that may only be looking for growth capital, more deals are sure to be done.

"Given the growth potential of the renewables market, most developers would be open to a capital discussion or even a sale," says Patrick Verdonck, who heads advisory and development firm Rhynland. Even companies that are still private have typically transacted in some way through capital raising or selling off part of their pipeline.

"There's so much capital flowing towards the industry, and developers by their nature are always looking for cash."

Two areas in particular are becoming increasingly of interest to investors, says Verdonck: the SERC region (in the US Southeast); and the Northwest.

Integrated resource plans put forward by utilities in the Northwest and upper Mid-West are projecting significant procurement of wind, solar and storage, which means investors want to lay the groundwork for projects there, while in the Southeast, sources claim that long-term PPAs can be easier to obtain for developers with a pipeline of projects.

Shifting valuations

Some US renewable energy developers are proving to be more attractive M&A targets than others.

Mid-market developers such as Pine Gate and 8minute Energy received huge amounts of buy-side interest because their pipelines contained between 50 to 70 projects. Their websites state they have 15 GW and 18 GW in their pipelines, respectively.

Such large project development pipelines are going to command the highest premiums, says one source, and their location, stage of completion and potential revenue are typically a key part of the valuation process.

But not all the developers out there will meet such expectations.

"What we're seeing is capital sources that are a little more adventurous, who are willing to take a little more risk, are looking not so much at that middle space of developers with operating projects, they are looking at the pipelines," says one sector attorney. "There's more money willing to take that risk just because the opportunities for the already developed portfolios is shrinking."

Fundamental valuation is usually driven by nearer term pipeline projects, but is shifting based on buyer demand for developers, von Oesen says.

"Where we are seeing investors stretch, is their confidence in the ability to do that [valuation based on being] four years, five years, six years out. Where maybe traditionally they were valuing a little bit more on the two-to-five-year range, now it's more like four to seven."

For buyers looking to invest in a shrinking number of market-ready utility-scale developers, other options may start to seem more attractive.

"I think you'll see a lot of [buyers] exploring strategic alternatives and thinking about whether or not there is a deal to be made," von Oesen says.

According to *Infralogic*,
91 renewable energy transactions have closed this year, including equity stakes in developers and asset-level acquisition
, but this is down from 176 in full-year 2020, 143 in 2019 and 119 in 2018.

Multiple sources say the boom in renewable energy investment has some investors turning curious eyes toward discounted US thermal assets, along with C&I developers and residential solar developers.

"You are starting to see that they are getting enough scale and interest to be invested in by infrastructure funds that need to put out USD 100m at a time, so that's coming," says Sternthal.

Interest is growing around ancillary businesses as well.

For example, rather than buy a wind developer, an investor may look at the same company's operations and management servicing for that industry.

"People are looking outside of the norm," Sternthal says. That includes interest in renewable natural gas and hydrogen. "There's a lot of capital in the market looking for a home," he adds.

Yet capital will continue to compete for the remaining US renewables developers, which can still be directed into those alternative sectors or sub-sector through the new platform company.

"I don't think this stops any time soon. We are certainly not at the bottom of the barrel. There are many, many groups left that are exploring this," von Oesen says.

"Two years from now, I don't know how many fully independent large-scale developers there still will be."

Investor Profile

EQT Partners GP

SWEDEN | Unlisted

Partners Group GP

SWITZERLAND | Listed

Advisor Profile

CohnReznick Capital

USA | Financial | Deal count: 84

Rhynland

USA | Financial | Deal count: 2

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