

*Growing Chicago's Clean Energy Economy*  
*May 18, 2011*  
*Ted Brandt*

## Agenda:

1. Quick Overview of Marathon Capital
2. Who are the Equity Investors
3. What are the Dynamics of the current market?
4. Where's the Money?

# Background on Marathon Capital, LLC

- **Leading advisor and investment banker to investors, developers and operators in the energy & infrastructure markets**
- **Headquartered in Chicago, IL with representative offices in New York, NY and San Francisco, CA**
- **Experienced professional staff; 17 employees (14MBAs)**
- **Marathon has closed more than 30 transactions over the last 6 years, exceeding \$3.0 Billion in aggregate value including recent transactions such as:**
  - Represented US Solar as it sold itself to NRG Energy
  - Represented SkyPower Corp (a wind & solar development company) as it monetized various solar, wind and development company assets in a series of transactions
  - Represented DKRW (a wind development company) on the sale of the 150 MW Cedro Hill project to Edison Mission Group
  - Represented Babcock and Brown on the sale of three operating wind projects to NextEra Energy
  - Represented Babcock and Brown on the sale of its NA Energy Development Group to Riverstone Holding LLC as well as a Riverstone's commitment to invest \$460 million into Pattern
  - Represented SkyPower Corp on the sale of its 180 GE 1.5 SLE turbines to EDF/enXco
  - Represented Ridgeline Energy (a wind development company) on its recapitalization by Veolia Environnement
  - Represented Allco Finance Group (a multinational financial services business) on the sale of its Tehachapi Wind Project to Terra-Gen Power, LLC, an affiliate of ArcLight Capital Partners, LLC
  - Represented SkyPower Corp on its capital raise which resulted in a substantial (\$500 million) commitment from Lehman Brothers
  - Represented CPV Wind (a wind development company) on its sale to Iberdrola Renewable Energies USA
  - Represented Greenlight Energy (a wind development company) on its sale to BP Alternative Energy
  - Represented SunEdison (a solar development company) in raising debt & tax equity financing of ± 10MW of Solar Photovoltaic Installations
  - Represented National Energy Research Corp. (a landfill gas and electric generation company) in the turnaround, refinancing and sale of its 21 MW Middlesex Landfill Gas & Generating Company to GE



# Marathon Provides a Broad Range of Banking Services to Clients in the Renewable Power and Infrastructure Markets

## Services Offered

- Capital raising and placement
  - Lease / tax equity
  - Project debt
  - Mezzanine capital
- Asset / company sales and mergers
- Asset restructuring and work-out situations
- Structured financing with expertise in tax, accounting and re-capitalization situations
- Purchaser / investor representation
- Re-capitalization situations
- Dispute resolution
- Fairness letters

## Industries Served

- Renewable energy power generation
  - Wind
  - Solar
  - Geothermal
  - Biomass / Biogas/Bio-methane
  - Hydro
- Conventional power generation
  - Natural gas
  - Coal
- Infrastructure:
  - Transmission



# NA Renewable Market – Equity Investor Profiles

Four types of investors dominate the US wind market; each have varying degrees of risk appetite, return requirements, tax position and interest in projects at various development stages

**A** Utilities (and Utility Affiliates)

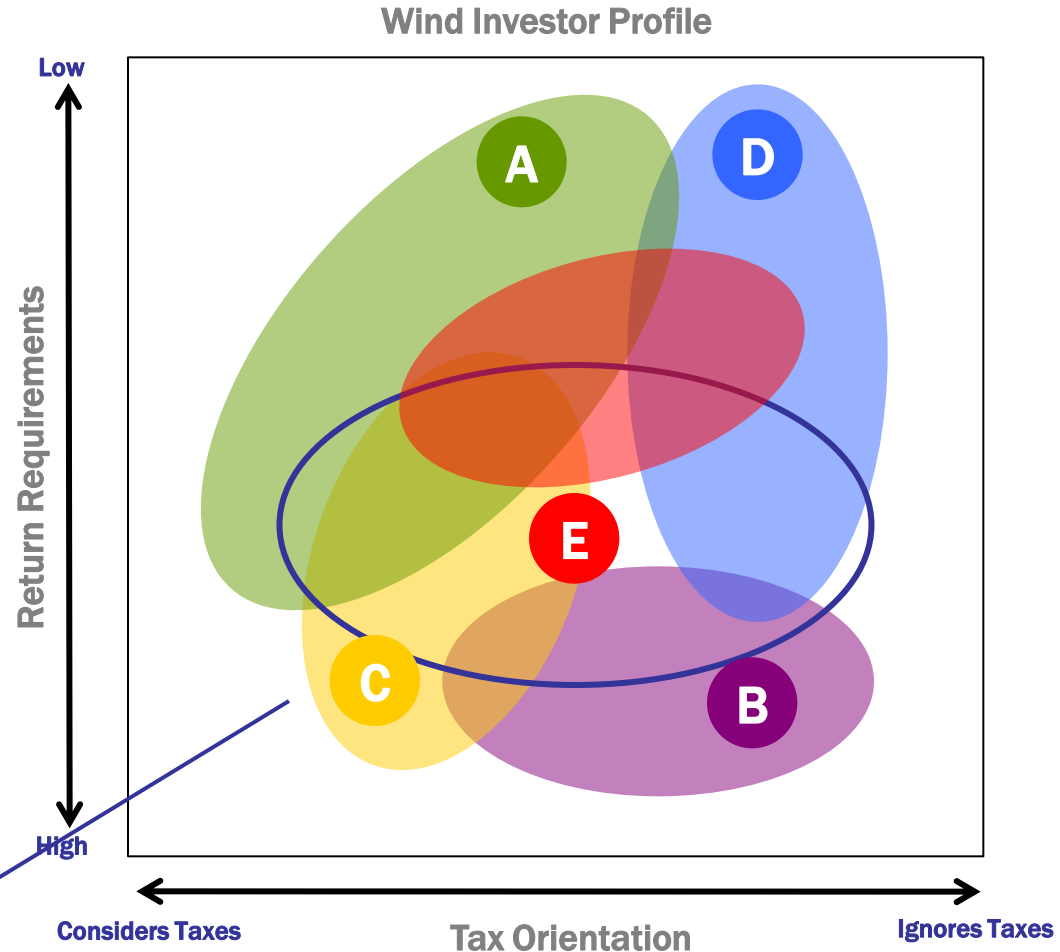
**B** Pension Funds / SWFs / Infrastructure Funds

**C** Public IPPs

**D** Private Equity

**E** Hedge Funds

**○** Renewable Developer



Source: Marathon Capital

- Risk Capital is primarily spent in development activities and is used to pay for people, land, equipment and to move a project or group of projects towards a position where it receives a long term, bankable off-take contract.
- The balance of the renewable markets capital takes on many elements of infrastructure investing:
  - Banks/Investors seek safe, highly predictable loans and notes which promise little principal risk and little interest rate risk.
  - Tax Equity investors seek an after-tax rate of return reflective less of the low inherent project risks and more based upon the shortage of supply of tax equity relative to demand.
  - Leveraged Equity Investors seek “low teens” leveraged returns which are very high relative to real estate, MLP’s, REIT’s, etc.

- Continued low interest rate policies by Fed through most of this year. Unemployment will remain high. Electricity demand growth will remain low.
- No new renewable legislation at most State and the Federal level. Most of the energy debate will be about off-shore drilling and rolling back EPA enforcement efforts on CO<sub>2</sub>.
- Continued low Natural Gas prices for 2011 will keep power prices at low levels.
- Continued pressure on equipment suppliers to drop costs across wind and solar markets.
- PPA's will be difficult and highly competitive to obtain. Transmission systems will be expanded in some places but remain large barriers to entry. Environmental and NIMBY issues will remain a factor across the market.
- Tax Equity will be allocated to larger stronger players and maintain or increase spreads over risk free rates.
- High demand for P50/P90 contracted cash flow streams from banks and investors.



- ⑩ **Developers will face a very challenging environment and many will want to Exit, merge and/or sell:**
- ⑩ **Manufacturers will become increasingly motivated by the much smaller market and will seek to partner with larger and better funded developers**
- ⑩ **Large subsidiaries of European Utilities, PE/Hedge Fund Players and others will need to make a decision between becoming a consolidator or a “consolidatee”.**
- ⑩ **Wind for sure and solar over the next few years will ultimately give way to larger scaled players.**
- ⑩ **While there is lots of capital for scaled players, with some segments having more access than others, the NA renewable markets are moving towards consolidation, especially wind and solar PV, which are the largest markets by a huge margin.**
- ⑩ **There are several emerging segments including; bio-methane and bio-mass which are attracting long term “financeable” contracts**

- **Development Equity:** Toughest Capital. Little institutional appetite but developers with strong track records and advanced projects can obtain. Many times this capital is supplied by family, friends, family offices, etc. Increasingly manufacturers are willing to participate in development equity to place equipment. Scarce supply with probably returns of 25% plus.
- **Project Debt:** For contracted projects, both construction debt and permanent debt is currently in abundance across the NA renewables markets from both the capital markets and especially the bank markets. DOE guarantees have helped transactions in cellulosic ethanol, bio-mass and geothermal as well as solar thermal but the credit markets are healthy for low risk projects with long term contracts. Huge supply with returns of T's plus 200-275 basis points.
- **Tax Equity:** For larger contracted projects and larger sponsors across the wind and solar PV segments there is available tax equity. For the more nascent bio-mass, solar thermal, landfill gas and geothermal segments, tax equity remains scarce and problematic. Much of the tax equity market resists leverage transactions and many participants focus on only a single segment or type of product. AT returns are 7-9% unleveraged and 12-15% leveraged.
- **Project Equity:** For contracted projects there is abundant leveraged equity, especially if the developer can build the project fully and then syndicate out the cash flow. Investor returns are 10-15% leveraged.

- **Federal Level:** The US needs a comprehensive energy policy and has needed a policy for fifty years. Renewable Energy would benefit from a shift away from tax subsidies and a move towards a long term national renewable energy standard (“RES”). This would shift the price of green energy to a different level than brown energy but would allow competition to drive down “supernormal” profits through RFP processes. A recent book by a prominent oil executive suggests that the US establish a “Federal Reserve” of energy policy to unhinge our long term energy policy from short term politics.
- **State Level:** Illinois is growing as a renewable market because of the RPS put into place over the last year or so. California has just moved to a 33% target. We should consider moving our State targets to higher levels. The RPS has shown results.
- **Local Level:** Local governments can help clear “log jams” including; building codes which never anticipated solar roof panels, NIMBY issues surrounding local opposition, transmission issues, reluctant utility issues, etc.