Green Giraffe
The renewable energy financial advisors

Mezzanine loans in offshore wind

Hogan Lovells offshore breakfast – 11 December 2015

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Hogan Lovells offshore breakfast

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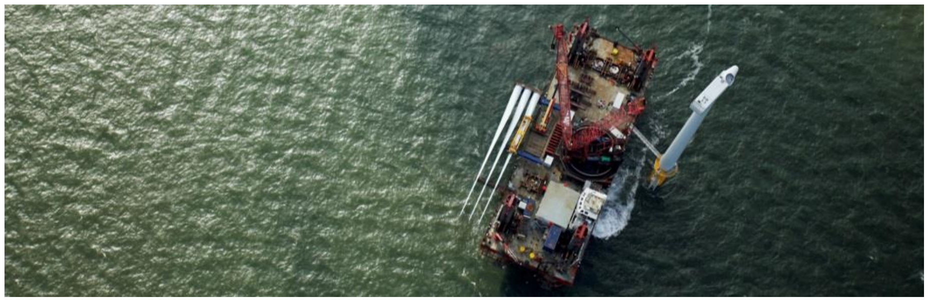


1. Green Giraffe

A specialist advisory boutique focused on renewable energy

Deep roots in renewable energy finance

- Launched in 2010 by experienced finance specialists with a **strong and proven track record** in renewable energy
- 40+ professionals with offices in Utrecht (the Netherlands), Paris (France), London (UK) and Hamburg (Germany)
- Multi-disciplinary skill set including **project & structured finance, contract management, M&A, legal & tax expertise**

High quality, specialised advisory services

- Focus on projects where we can actually add value
- We can provide a holistic approach and are able to include sector-specific tasks in addition to traditional debt or equity advisory (such as contracting, strategic advisory and development services)
- Priority given to **getting the deal done!**

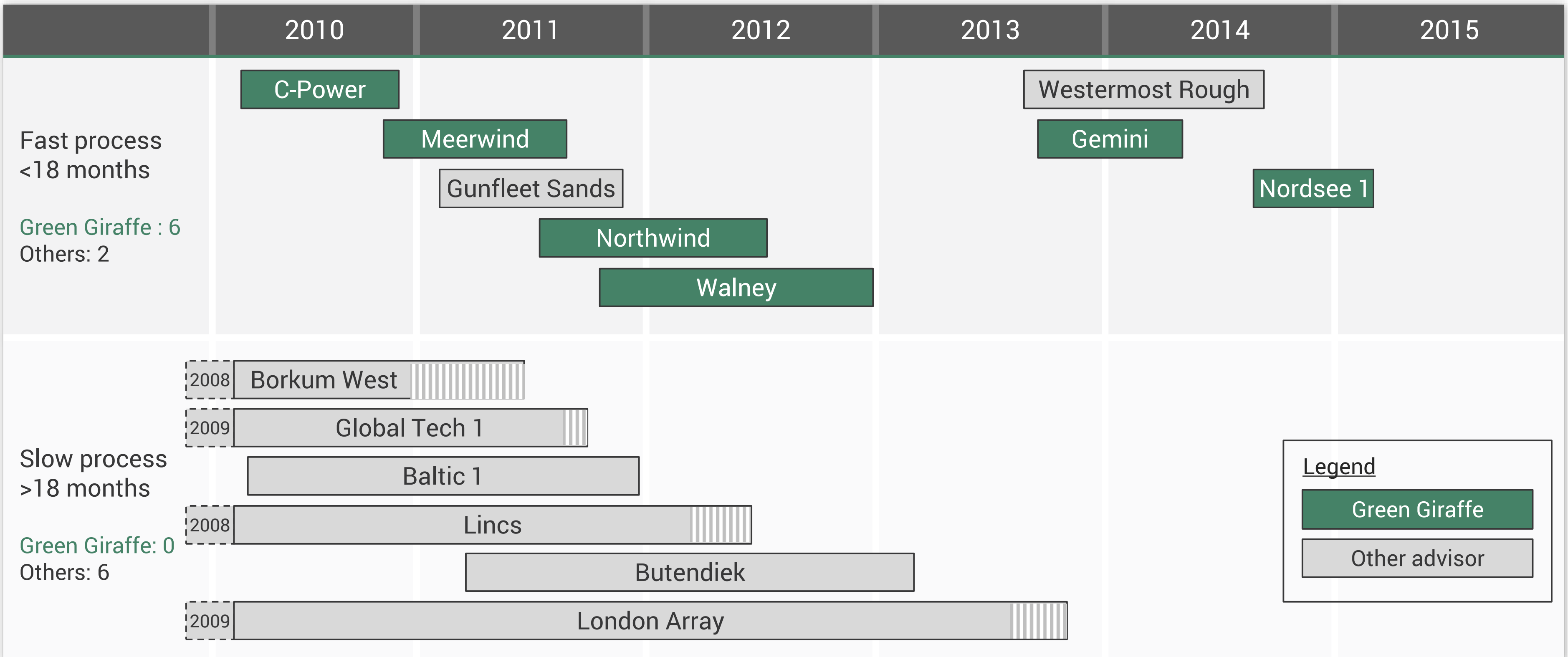
Close to **EUR 10 billion** raised for renewable energy projects in just **5 years**

40+ professionals in **4 countries**

A unique **track record** in **offshore wind**

1. Green Giraffe – the offshore wind finance specialists

We get the deal done!



This table shows the length of the financial structuring period for each project, from the start of the financing phase of the project (preparation of materials for bank market) until full financial close is reached (signing can be earlier, in which case the post-signing period is hatched)

Projects structured by Green Giraffe always close after a fast financial structuring process; Others have taken more time or have not closed (MEG 1, Cape Wind…)

2. Traditional debt and equity finance

Equity

An active market – and a wider range of investors beyond utilities than people assume

- Infrastructure funds and pensions funds (PensionDanmark, PKA, Industries Pension, Marguerite, TCW, PGGM)
- Private equity groups (Blackstone)
- Corporations with specific strategies (LEGO, Colruyt)
- IPPs, sometimes part of a larger industrial group (Marubeni, Sumitomo, NPI, MHI)
- …. and many more sniffing around the sector

Valuations are actually relatively consistent

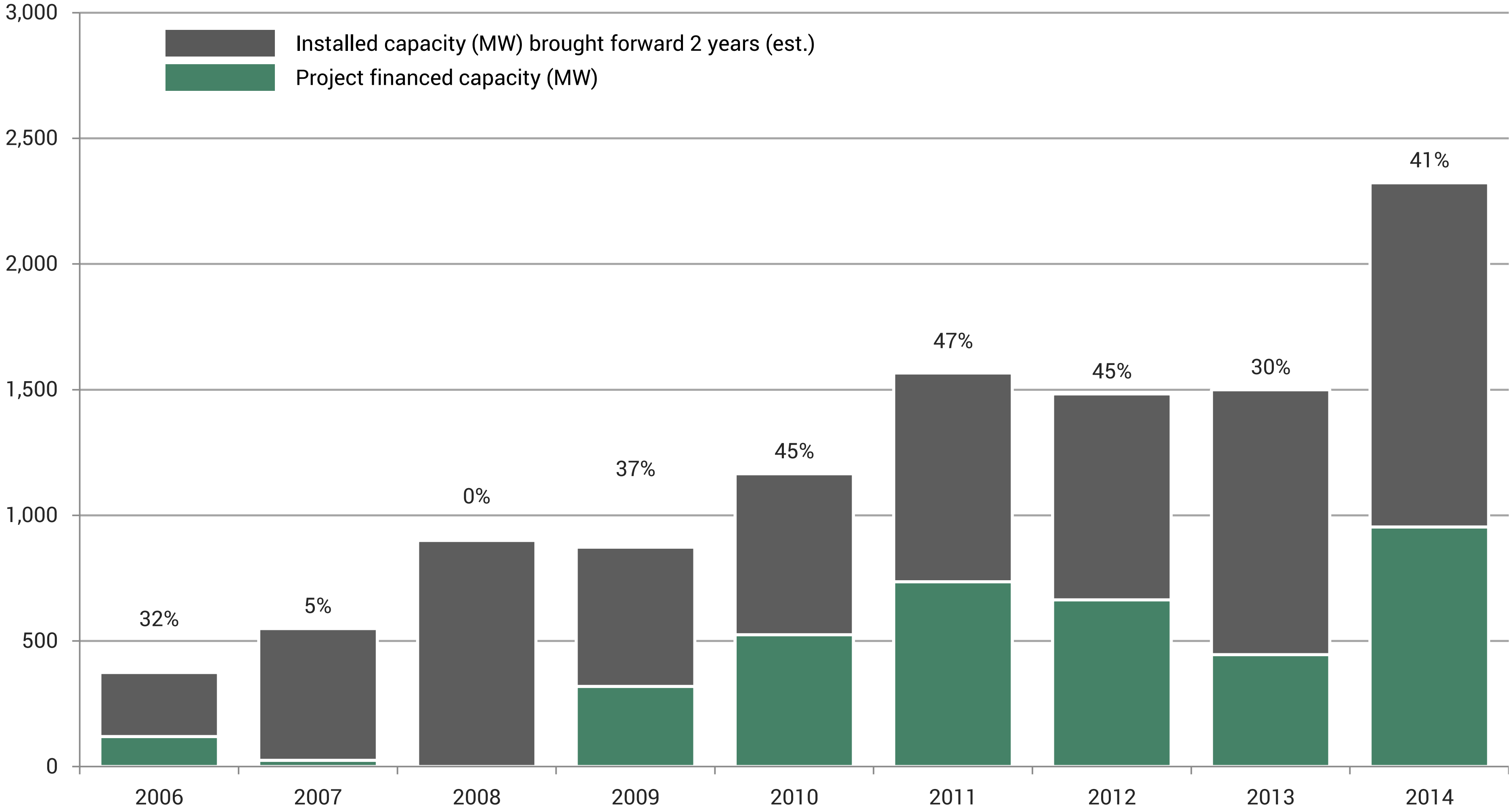
- Permitted projects – development cost + premium @ 200kEUR/MW
- Contracted projects – construction cost @ 3.5MEUR/MW unlevered (or 1.1 MEUR/MW levered)
- Operational projects – linked to regulatory framework and IRR target of investors (8-10%)

Trade off between construction risk and returns now closely examined

- As more assets are operational, the universe of investors grows and IRR targets are going down
- A number of investors are now looking to take construction risk to improve returns (to double digits)
- A "bankable" deal is also one which many investors can find attractive

2. Traditional debt and equity finance

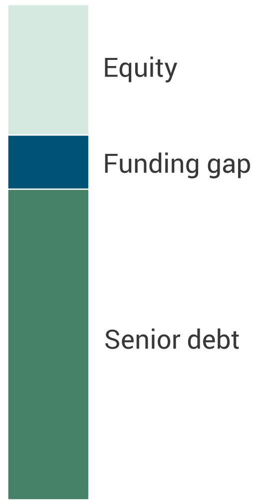
Debt



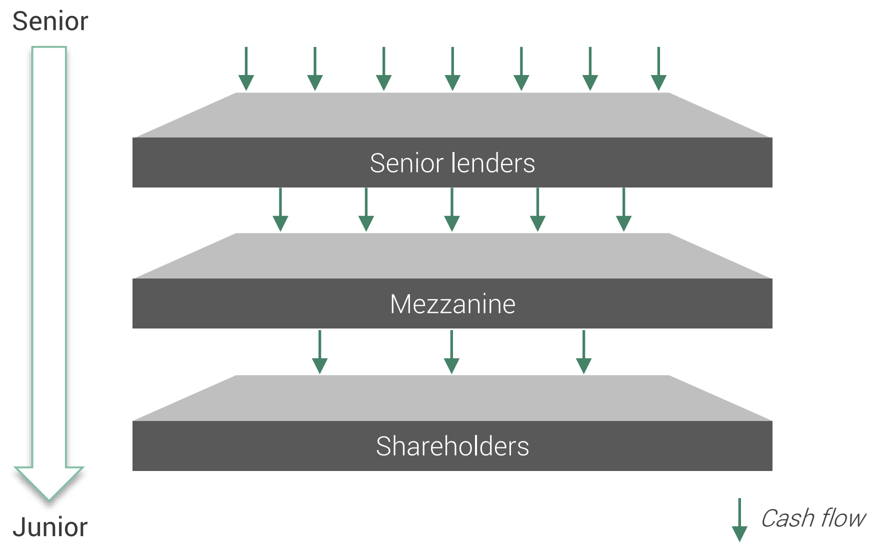
3. The mezzanine concept

Bridging a financing gap

Total capital expenditures	
Construction	Turbines/solar panels
	Foundations/structures
	Electricals
	Installation
	Insurance
	Construction engineering
	Development costs
Finance	MLA and DD costs
	Debt fees (arranging & commitment)
	Interest during construction
	DSRA



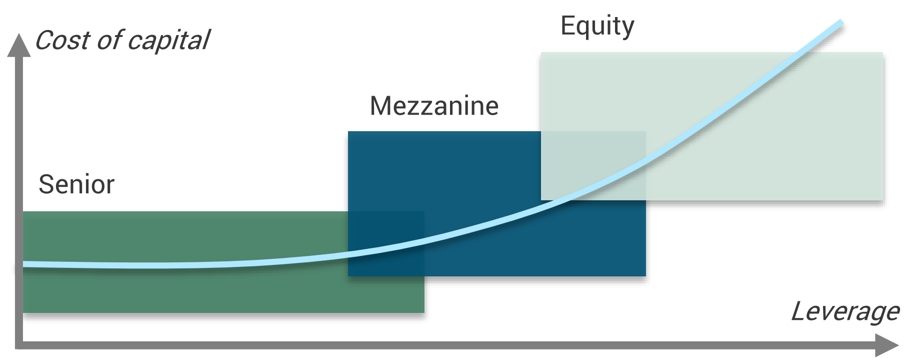
Mezzanine debt lies between debt and equity



Traditional sources of funding can be constrained because

- Senior lenders are reluctant to lend above a certain debt-to-equity gearing
- Sponsors could be cash constrained
- Adding new investors in equity increases the complexity of the shareholding structure, dilutes initial shareholders and comes at a high cost of capital

Optimizing the financial structure with mezzanine debt



3. The mezzanine concept

Optimizing the financial structure

Bridging the funding gap

- When the gearing constraint is reached, mezzanine debt is a way to provide additional funding
- Mezzanine funding helps to lower the pure equity amount

Lowering the average cost of capital

- Mezzanine debt is cheaper than pure equity
- It adds a second layer of leverage and therefore amplifies the gearing effect

Keeping the ownership

- It is non-dilutive for existing shareholders
- The shareholders keep the control on the project

C-Power

2010
OFFSHORE WIND
325 MW

BELGIUM
DEBT ADVISORY
TRANSACTION CLOSED

C-Power

Gemini (equity)

2014
OFFSHORE WIND
600 MW

NETHERLANDS
EQUITY ADVISORY
TRANSACTION CLOSED

Gemini

Veja Mate (equity)

ONGOING
OFFSHORE WIND
400 MW

GERMANY
EQUITY ADVISORY

4. The structure and key features

Main features of mezzanine instruments

Mezzanine loans are tailor-made instruments

- There are many ways to structure an intermediate tranche between senior debt and equity
- It must adapt to project specifics (drawdown/repayment profiles, security package, overall economics)
- It is visible in the variety of labels used: mezzanine loan, junior loan, preferred equity

Fit with existing structure is key

- Mezzanine providers have to comply with senior debt requirements in terms of security and covenants
- Critical items are whether the mezzanine repayments are subject to a distribution test and when the mezzanine lenders are allowed to call a default
- Separate agreements with equity are also required

No single market for mezzanine products

- There are no prevailing market standards
- Given their ad-hoc nature, mezzanine instruments are hard to standardize
- The syndication and secondary markets for mezzanine debt are therefore also illiquid

Complex projects require simple mezzanine structures

- The additional layer of complexity creates multiple additional work streams to be managed
- More parties around the table increase the risk of failure

4. The structure and key features

Three major types of mezzanine loans can be found in the market

A. Shadow senior debt

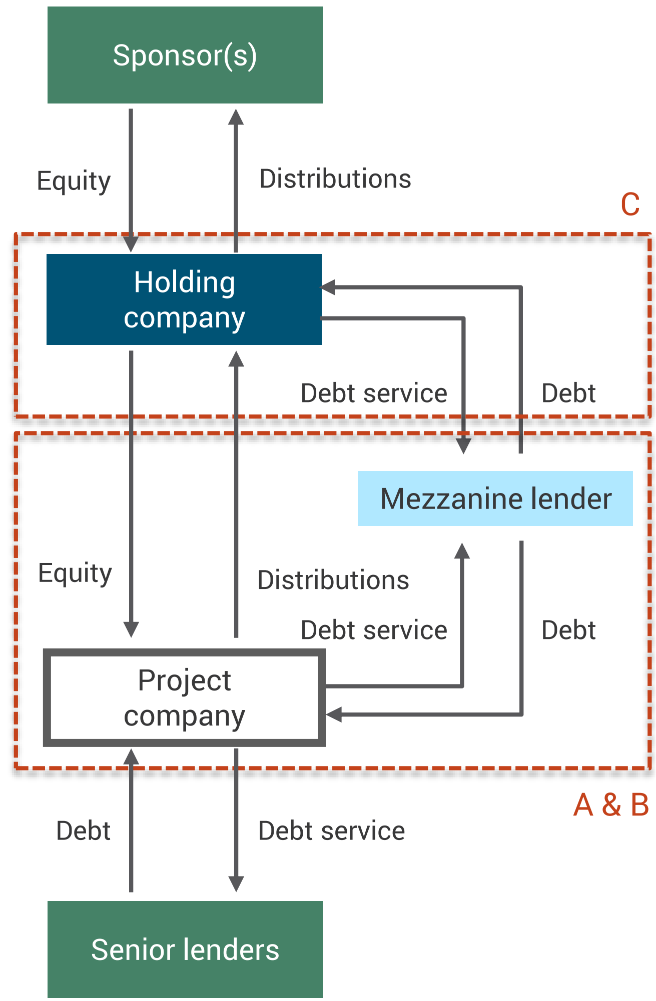
- Located at project company level
- Paid from the proceeds account
- Subordinated to project and senior debt cash flows
- Second ranking security rights

B. Unsecured junior debt

- Located at project company level
- Paid from distribution cash flows
- Limited security on project assets (distribution account)

C. Preferred equity

- Located at holding company level
- Structurally subordinated to project cash flows
- Full security package at the holdco level only



4. The structure and key features

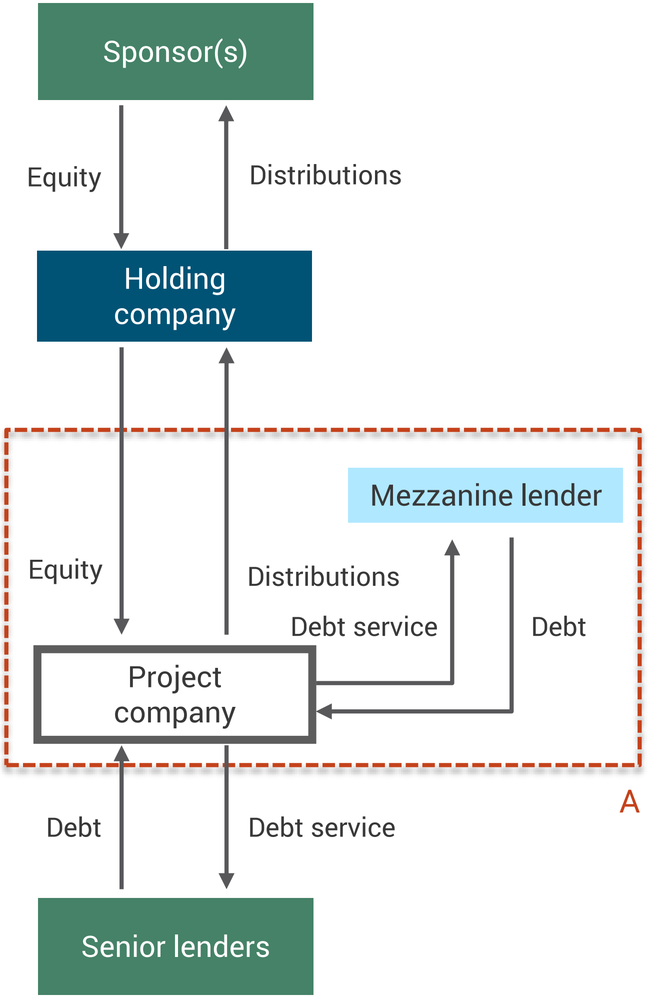
A. Mezzanine at project level, secured

A "shadow senior debt", to typically include the following features

- Paid from the proceeds account
- Interest can be paid during construction
- Ability to cross default with the senior lenders
- Intercreditor voting rights and certain enforcement rights
- Second ranking security on project assets, accounts and shares

… all of which lead to difficult negotiations with senior lenders

Cash flow waterfall (simplified)	
1	Regular project costs
2	Interest + principal repayment on the senior loans
3	**Interest on the mezzanine facility**
4	Certain mandatory prepayments (e.g. illegality)
5	**Repayment of the mezzanine facility**
6	Other mandatory prepayments
7	Transfers to the distribution account



4. The structure and key features

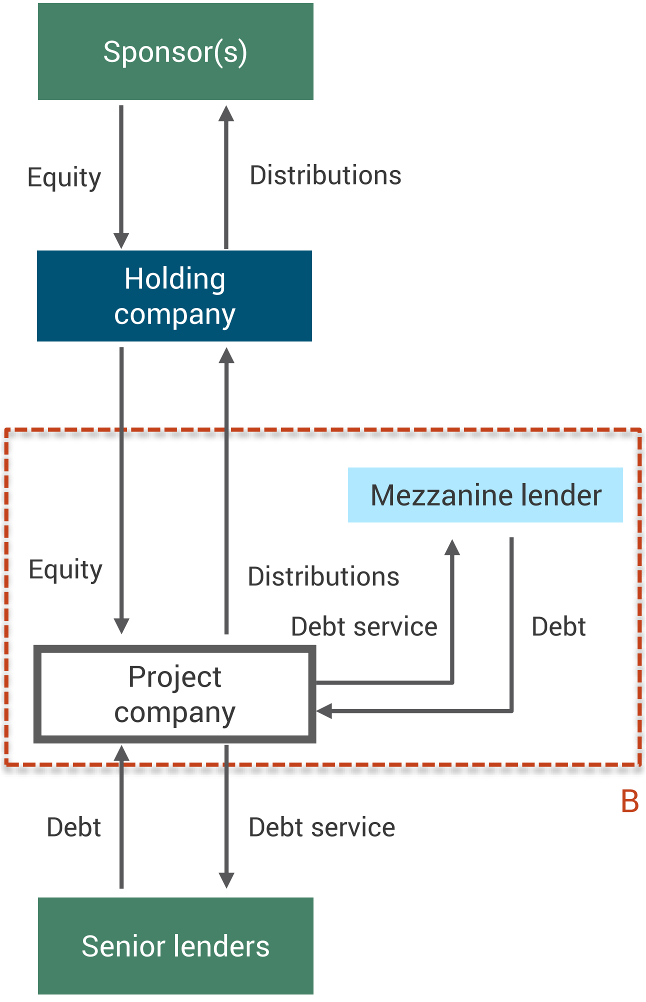
B. Mezzanine at project level, unsecured

An unsecured junior debt, to typically include the following features

- Paid from the distribution account
- Usually unsecured, pledge only on distribution account
- No enforcement rights or right to call a default before senior debt is repaid
- Right to prepay the debt
- No management/take over rights

… easy to implement and is closer to assets

Cash flow waterfall (simplified)	
1	Regular project costs
2	Interest + principal repayment on the senior loans
3	Mandatory prepayments
4	Lockup + transfers to the distribution account
5	**Interest on the mezzanine facility**
6	**Repayment of the mezzanine facility**



4. The structure and key features

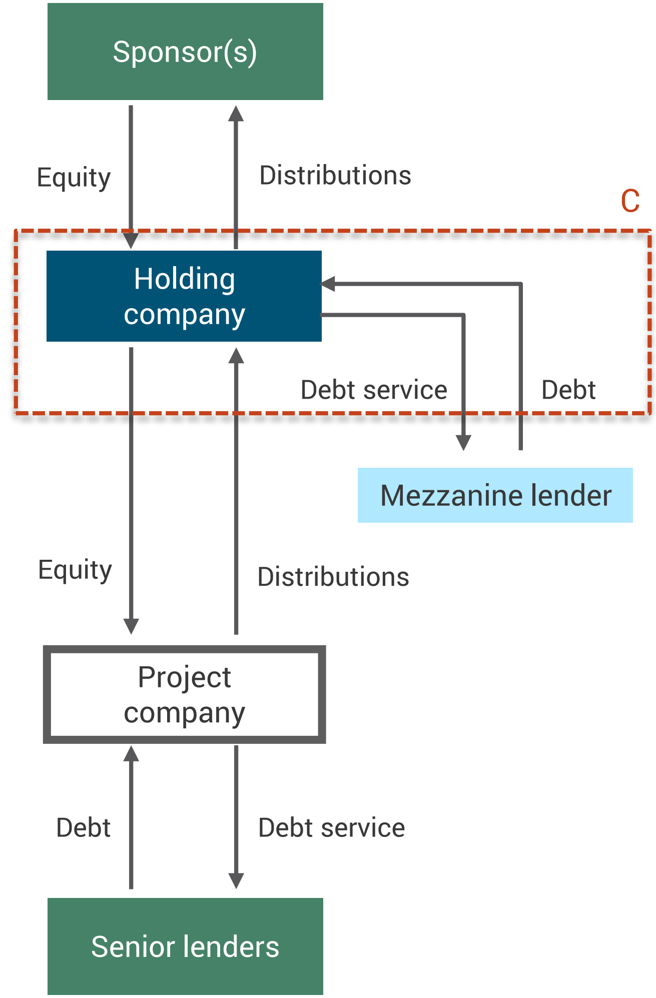
C. Mezzanine at holdco level

Preferred equity, to typically include the following features

- Structural corporate subordination to senior loans
- More flexibility in the structuring as less visible to senior lenders
- No security on project or voting rights
- Holdco share pledge is sought but subject to pre-emption rights and restrictions on equity transfers imposed by senior lenders

… remote from assets but more flexible

Cash flow waterfall (simplified)	
1	Regular project costs
2	Interest + principal repayment on the senior loans
3	Mandatory prepayments
4	Lockup + transfers to the distribution account
5	Distribution from project company to holding company
6	Holdco cost and taxes
7	**Interest on the mezzanine facility**
8	**Repayment of the mezzanine facility**



5. The investor universe

History in the market

Projects	Closing	Providers	Term	Pricing	% of sources	Security
Princess Amalia	2006	Rabobank	Same as senior	EURIBOR + 6-8%	<5%	Paid from distribution account Secondary pledge
C-Power I	2007	Rabobank	Same as senior		10%-15%	Paid from distribution account Secondary pledge
Belwind	2009	Shareholders + PMV	Same as senior		10%	Paid from proceeds account following cash waterfall
C-Power II-III	2010	Shareholders	Shorter than senior	9-13% All-in	5%-10%	Paid from distribution account
Northwind	2012	Shareholders + DG Infra + PMV (PMF)	Same as senior		10%	Paid from distribution account
Gemini	2014	Shareholder + PKA	Same as senior		5%-10%	Paid from distribution account
Veja Mate	2015	CIP	Same as senior		10%-15%	Paid from distribution account

5. The investor universe

Mezzanine providers are more diverse than senior lenders

The banks

- Historically, the first offshore wind projects found mezzanine debt from the banks providing the senior debt
- The appetite still exists today from certain banks
- Chinese walls and misalignments/conflicts of interest sometimes more difficult to handle in this case
- *Examples: Rabobank, BTMU*

The mezzanine debt funds

- More recently, several funds have been raised to focus on mezzanine investments
- They would typically value the simplicity of a process where all detailed due diligence has been carried out by the senior lenders and the operational control of the project remains with the investors
- *Examples: Westbourne, Gravis, AMP*

Institutional investors

- Pension funds and insurance companies can invest directly in projects through various instruments including senior debt, mezzanine debt and equity
- They are seeking the downside protection of the cash flows provided by a mezzanine structure
- As they are used to equity investments, they can live more easily with limited security and other requirements from the senior lenders
- Most of them would however need some level of control on the structure and the negotiations with equity investors would have to focus on voting rights, veto rights and operational involvement
- *Examples: PensionDanmark, PKA, Talanx*

6. Terms and conditions

Appetite of the mezzanine market

Target investment by project phase

Not much enthusiasm for development risk

- Few mezzanine investors are eager to invest during the development period given the risky nature of this kind of investment compared to their return and securities

Construction and operation risk are better understood

- The large majority of investors we know are willing to invest during construction or in operational assets
- During construction, an EPC wrap can be required

Target investment by ticket size

Ticket sizes can accommodate every type of transaction

- There is a huge appetite from the institutional investors for large tickets, in amounts exceeding EUR 200 M
- Some other investors however are targeting smaller amounts, with tickets under EUR 50 M, which can be useful for smaller projects or smaller gaps

Target investment by support mechanism

All major regulatory support mechanisms are acceptable

- Investors indicate eagerness to invest in projects contracted through FiTs or CfDs, as government support is a key mitigation factor
- Given the solidity and the track-record of the industry, some investors are willing to consider including merchant prices in their debt sizing

Pricing of the mezzanine loan

Attractive terms

- Pricing under 8% is achievable
- However, depending on the risk attached to the transaction and on the contemplated financial structure, rates can reach 10%

6. Terms and conditions

Overview of what can be obtained in today's market

Players and targets

- Pension and infrastructure funds rather than traditional banks are now leading the market
- The appetite for offshore wind before construction is unarguably high
- All countries around the North Sea are seen as attractive (stable country, long term tariff, CfD)
- Most players are comfortable with non-utility projects

Structures and features

- Ticket size of EUR 100 M+ can be offered by several players
- Real subordinated debt / preferred equity (with no security requirements that can clash with senior lender expectations) is available, whether provided at the project level or at a holdco level
- The market is clearly split between fixed term funds, which would not go beyond 10y max after completion and open-ended funds that would have a more long-term approach; so both are available
- Mezzanine debt should not be larger than the pure equity amount, so a de facto 50/50 gearing limitation
- Precedents in the market show that [9-11]% all-in price is rather standard. The 1% decrease seen for equity and senior debt has an impact on mezzanine as well and [8-10]% seems to reflect the market well

Offshore projects can add a mezzanine compatible with senior debt on attractive terms

Conclusion – a good project can find a mezzanine funding

.. if it is structured well!

The obvious – a stable and appropriate regulatory framework

- Stable, consistent, reliable legal framework
- No volume risk (certainty about grid connection)
- Incentive & support mechanism that makes the economics acceptable

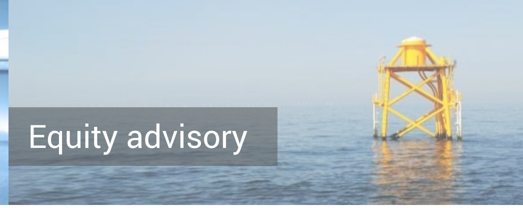
Very similar project requirements than those of the senior lenders

- Extensive risk analysis and detailed due diligence are needed
- Lessons learnt from the past (sometimes the hard way!) can be used by hiring experienced advisors

The mezzanine must be included in the financing structure early on

- The financing structure does impact the contractual structure
- The mezzanine market is predictable enough to be prepared in advance
- Last minute change of the structure to include a mezzanine tranche can delay the whole process

Increased liquidity does not translate into lower standards for mezzanine either!



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