

Deloitte.

Accounting Considerations for Alternative Energy Transactions

Integrations, Carve-outs and YieldCos

Heath Poindexter
hpoinde~~x~~ter@deloitte.com

Allison Taylor
alltaylor@deloitte.com

Deloitte & Touche LLP



Table of Contents



Overview

Industry Trends

Mergers and Acquisitions

YieldCos

Overview

Accounting Considerations for Alternative Energy Transactions—Integrations, Carve-outs, and YieldCos

- Key trends and activity in the marketplace
- M&A in transactional accounting, focused on integration considerations including accounting and finance requirements, both operational and technical
- Integration – consideration of accounting policies and how to close the books
- Discussion of both technical and operational accounting as it relates to: IPO readiness, YieldCos, and carve-outs and divestitures

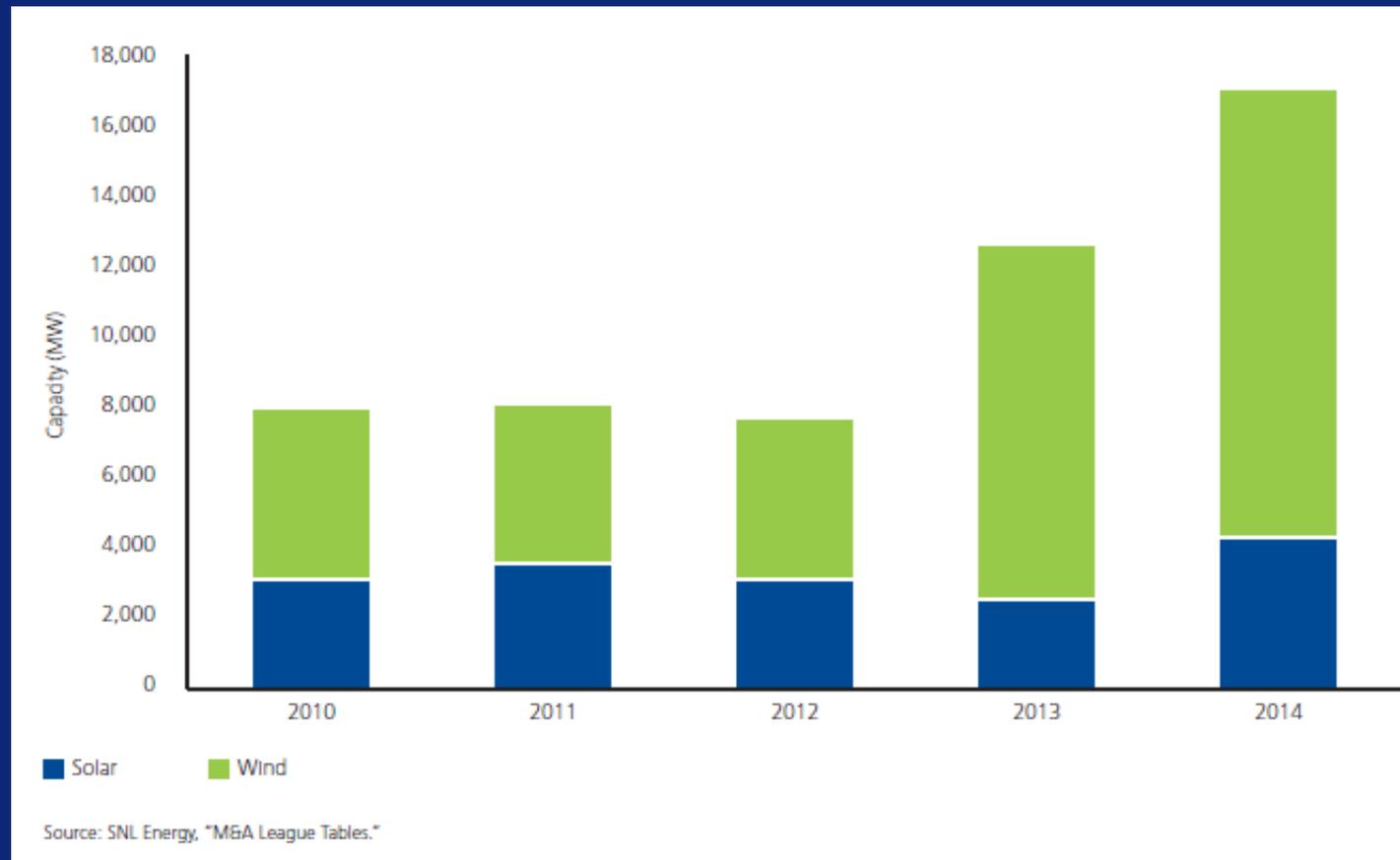


Industry Trends



Renewable M&A Activity Revs Up in 2014

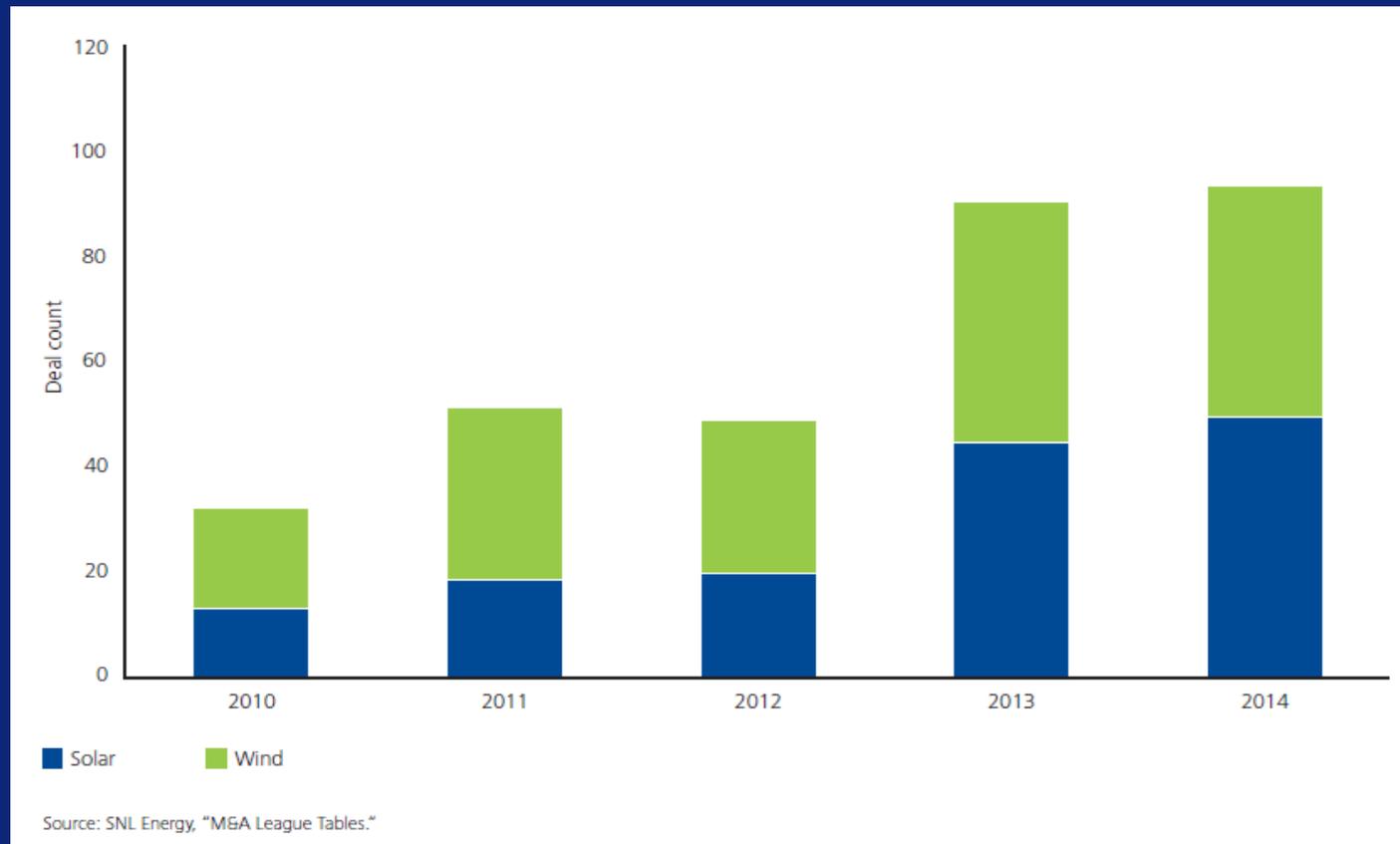
Total solar and wind capacity acquired jumped 37% to 16.9 GW



Approximately 12.7 gigawatts of wind assets currently under construction¹

Renewable Transaction Market Remains Robust

Independent Power Producers (IPPs) take reins from utilities as lead buyers



US clean energy investment rose about 12 percent in 2014, with wind and solar edging up 5 percent, to almost \$19 billion²

New Financing Tools Propel Sector Growth

Financial innovations like YieldCos and green bonds expand wind and solar developers' access to lower cost capital

| | 2013 | 2014 |
|---|----------------|---------------|
| # of YieldCos | 3 | 6 |
| Amount raised by YieldCos | \$1.07 billion | \$3.2 billion |
| Amount raised by US state and municipal green bonds (securitization) | \$350 million | \$1 billion |

Source: Bloomberg New Energy Finance, "Q4 2014 Green Bonds Market Outlook."

Recent Headlines

SunEdison's TerraForm Global Raises \$675 Million in IPO

First Solar and SunPower's 8point3 Energy IPO Nets \$420 Million

SunPower Beats Estimates After Forming Solar Joint Venture

Source: Bloomberg Business, July 2015

YieldCos gained significant traction in 2014

Collectively, these six YieldCos returned an average yield of approximately 4.15% in 2014, which far exceeded the 1.97% standard yield on government bonds.³

Fifteen U.S. and European companies raised \$12 billion in IPOs over the past 30 months, and their market values have climbed 84 percent to almost \$28 billion⁴

Mergers and Acquisitions



Buyers Find Home in Renewable Markets

Driven by the success of financing innovations, such as the YieldCo and green bonds, floodgates open to a sea of lower-cost capital



Despite uncertainty around the PTC, the wind development pipeline remained robust in 2014, due to continued volatility in commodity prices and competitiveness with other generation sources

Many older assets now eligible to be flipped, deal activity expected to remain strong over the next two years¹



Solar growth primarily came from the proliferation of rooftop solar in both residential and commercial & industrial segments, and a boom in smaller utility-scale projects that could be completed before the investment tax credit for solar steps down at the end of 2016

Favorable state policies, utility involvement, and by growing consumer acceptance of rooftop solar as a financially and environmentally appealing alternative

Accounting Integration Activities

Key considerations in an M&A transaction

| Consideration | Description | Key Activities | Benefit |
|---|---|---|--|
| Close the Books | Define a sustainable close the books process to enable consolidated GAAP and regulatory reporting | <ul style="list-style-type: none"> Map current state close processes and identify significant gaps Define sustainable integration approach and business requirements Generate close activities and calendar | In absence of full system integration for an extended period, the development of sustainable processes is required to achieve efficiencies |
| Close the Books – Stub Close | Develop an approach for establishing the opening balance sheet for purposes of consolidated GAAP reporting and disclosure | <ul style="list-style-type: none"> Analyze and document stub close options and cost/benefit (e.g. soft vs. hard close) Develop business requirements and stub close approach | Thoughtful approach to an assumed stub close date that contemplates the level of effort required and creates a “playbook” for execution |
| Purchase Accounting | Enable process and build tool to generate purchase accounting | <ul style="list-style-type: none"> Develop purchase accounting approach and requirements Configure tool to enable purchase accounting entries and reconciliation | Documented and controlled approach to fulfill business combination requirements for journal entries, disclosure and analysis |
| Accounting and Valuation Policy Harmonization | Analyze accounting and valuation policies between entities and identify material gaps | <ul style="list-style-type: none"> Document accounting and valuation policies Perform gap analysis Develop requirements and design process to harmonize accounting and valuation policies Design and implement tools to include the transactions in the internal and external reporting (BS, IS, and disclosures) | Identification of accounting and valuation policy gaps and development to close the gap and record the appropriate GAAP adjustments |
| External Reporting and Disclosure Management | Identify external reporting and disclosures required | <ul style="list-style-type: none"> Identify reporting and disclosure requirements Identify retrospective adjustments Work to develop disclosures | Identification of SEC reporting requirements and development of disclosures in conjunction with purchase accounting and accounting policy work |
| Taxes | Analyze tax policies and practices between entities and identify material gaps | <ul style="list-style-type: none"> Identify tax scope of the merged / combined entity Design and document key tax policies and procedures | Identification of the key policy and process gaps and an integrated go forward approach |

YieldCos



New Innovations, New Challenges

Key considerations for the formation and IPO of a YieldCo



Distribution of majority of available cash flow



Financial Reporting and internal controls for an additional public company



Complex Tax issues and HLBV accounting

Modeling potential tax implications on future asset drop downs

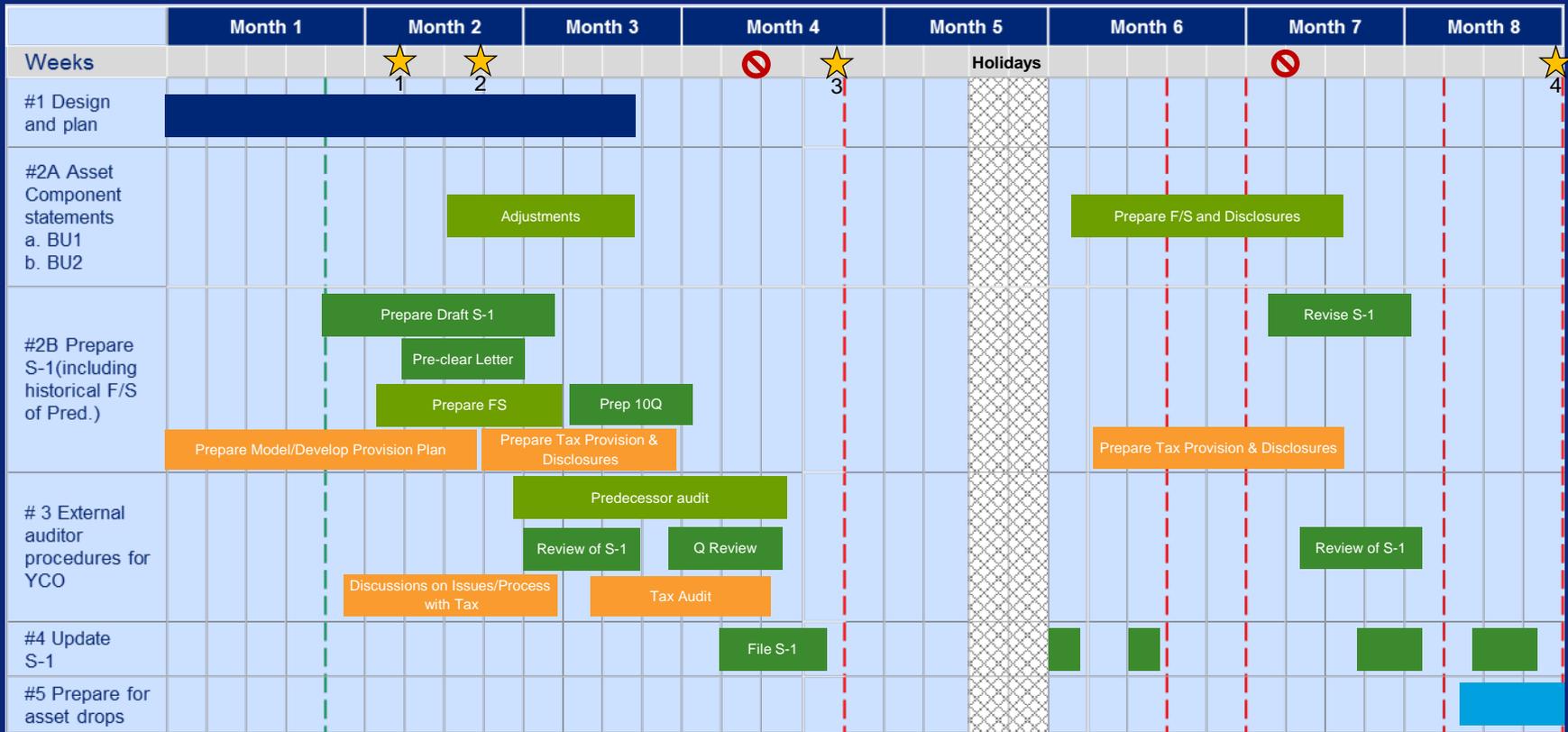


Additional complexities in management.



Example YieldCo IPO Timeline

The first step to being ready is to assemble an effective IPO working group



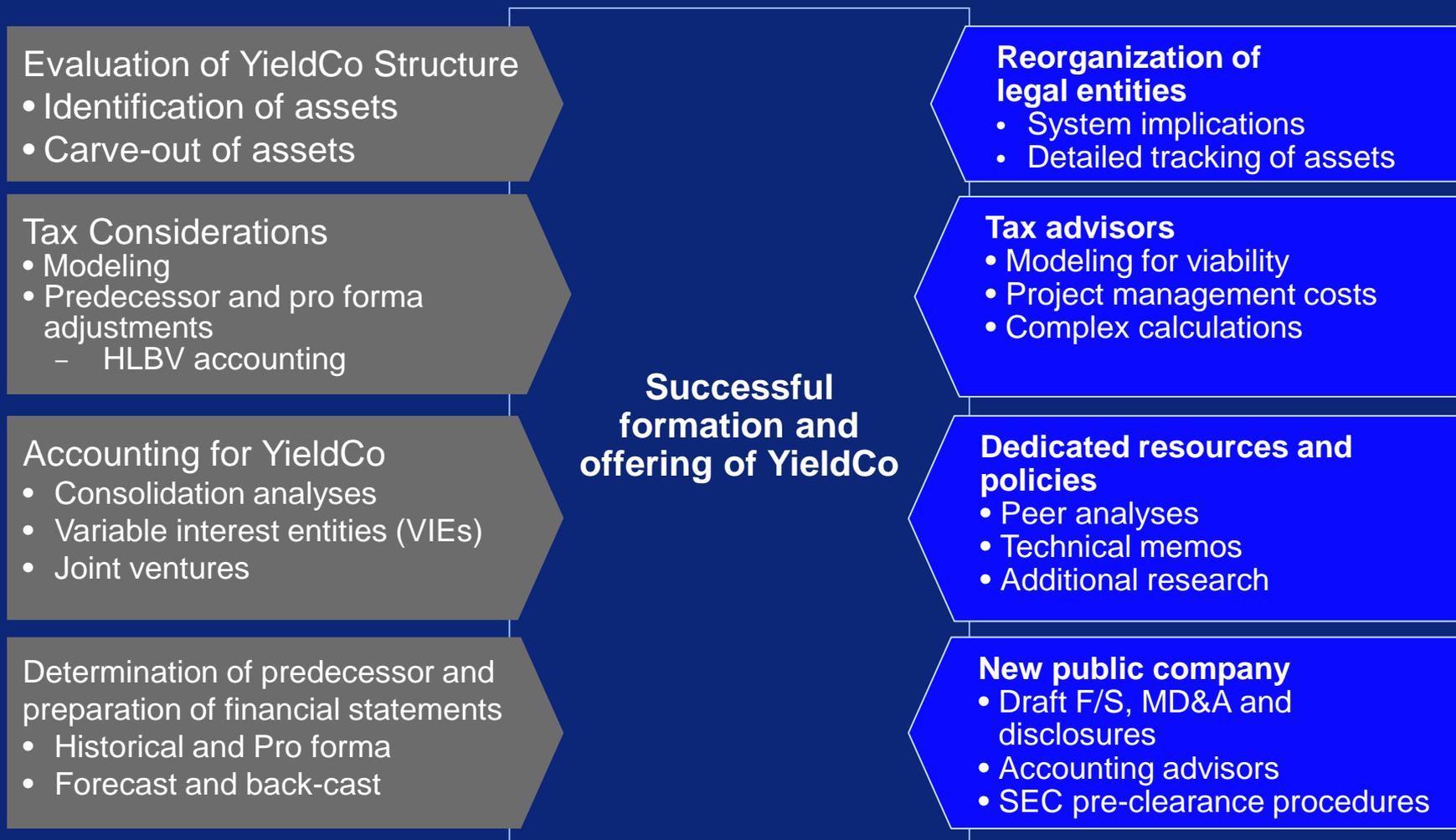
★ If key dates are missed, the timeline may extend

⊘ Staleness Dates

- - Anticipated filing dates

Technical and Operational Considerations

The formation of a YieldCo and its IPO requires a significant amount of work across many different departments





Questions?

End notes

1. American Wind Energy Association (AWEA), "U.S. Wind Industry Fourth Quarter 2014 Market Report," Released January 28, 2015.
2. Luke Mills, "Global Trends in Clean Energy Investment," Bloomberg New Energy Finance, January 9, 2015, <http://about.bnef.com/presentations/clean-energy-investment-q4-2014-fact-pack/content/uploads/sites/4/2015/01/Q4-investment-fact-pack.pdf>.
3. Bloomberg Terminal, Equities
4. Bloomberg Business, "Higher Interest Rates Pose Threat to \$28 Billion YieldCo Market," July 28, 2015.



Disclaimer

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.