Accounting Considerations for Alternative Energy Transactions

Integrations, Carve-outs and YieldCos

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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, YieldCoses, 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

Source: SNL Energy, “M&A League Tables.”

Approximately 12.7 gigawatts of wind assets currently under construction\(^1\)
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.

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.

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
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 years

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

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Description</th>
<th>Key Activities</th>
<th>Benefit</th>
</tr>
</thead>
</table>
| **Close the Books**           | Define a sustainable close the books process to enable consolidated GAAP and regulatory reporting | • 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 | • 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               | • 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 | • 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 | • 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 | • 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 |

## Considerations

- **Close the Books**: Map current state close processes and identify significant gaps to enable consolidated GAAP and regulatory reporting. Define sustainable integration approach and business requirements. Generate close activities and calendar.

- **Close the Books – Stub Close**: Analyze and document stub close options and cost/benefit. Develop business requirements and stub close approach. Thoughtful approach to an assumed stub close date that contemplates the level of effort required.

- **Purchase Accounting**: Develop purchase accounting approach and requirements. Configure tool to enable purchase accounting entries and reconciliation.

- **Accounting and Valuation Policy Harmonization**: 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 transactions in the internal and external reporting (BS, IS, and disclosures).

- **External Reporting and Disclosure Management**: Identify reporting and disclosure requirements. Identify retrospective adjustments. Work to develop disclosures.

- **Taxes**: Identify tax scope of the merged / combined entity. Design and document key tax policies and procedures.
YieldCos
YieldCo Background

New type of financing vehicle with a story very similar to a master limited partnership but without possessing assets that would qualify for pass-through tax treatment

YieldCos are positioning themselves as an option for investors seeking stable, growing dividend income from a diversified portfolio of higher quality assets at lower risks

A majority of the voting interests and economics are held by the sponsor

<table>
<thead>
<tr>
<th>YieldCo Sponsor</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Monetize group of assets &lt;br&gt; • Higher value from analysts in separate company &lt;br&gt; • Potential value from IDRs &lt;br&gt; • Control of strategic assets &lt;br&gt; • Significant cash from IPO</td>
<td>• Distribute all available quarterly cash flow &lt;br&gt; • Financial reporting for additional public company &lt;br&gt; • Taxable gains on drops &lt;br&gt; • Complexities in management</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>YieldCo Investor</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td></td>
<td>• Attractive yield &lt;br&gt; • Reliable distributions paid quarterly &lt;br&gt; • Trading price may appreciate</td>
<td>• Lack of control &lt;br&gt; • New vehicle with unknown risk related to interest rate fluctuations</td>
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</table>
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.

<table>
<thead>
<tr>
<th>Weeks</th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
<th>Month 4</th>
<th>Month 5</th>
<th>Month 6</th>
<th>Month 7</th>
<th>Month 8</th>
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<tbody>
<tr>
<td>#1 Design and plan</td>
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<td></td>
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<td>Holidays</td>
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<tr>
<td>#2A Asset Component statements a. BU1 b. BU2</td>
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<td>#2B Prepare S-1 (including historical F/S of Pred.)</td>
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<td>#3 External auditor procedures for YCO</td>
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<td>#4 Update S-1</td>
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<td>#5 Prepare for asset drops</td>
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If key dates are missed, the timeline may extend.

- Slowness 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.

Evaluation of YieldCo Structure
- Identification of assets
- Carve-out of assets

Tax Considerations
- Modeling
- Predecessor and pro forma adjustments
  - HLBV accounting

Accounting for YieldCo
- Consolidation analyses
- Variable interest entities (VIEs)
- Joint ventures

Determination of predecessor and preparation of financial statements
- Historical and Pro forma
- Forecast and back-cast

Reorganization of legal entities
- System implications
- Detailed tracking of assets

Tax advisors
- Modeling for viability
- Project management costs
- Complex calculations

Dedicated resources and policies
- Peer analyses
- Technical memos
- Additional research

New public company
- Draft F/S, MD&A and disclosures
- Accounting advisors
- SEC pre-clearance procedures

Successful formation and offering of YieldCo
Questions?
End notes
3. Bloomberg Terminal, Equities