MARATHON CAPITAL

NA Renewable Markets – Approaching Maturity?

Ted Brandt, CEO, Marathon Capital

AWEA WINDPOWER
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Agenda

1. **Quick overview of Marathon Capital**

2. **Who are the current Equity Investors for the renewable markets?**

3. **What are the dynamics for the current market?**

4. **Where's the money?**

Company Background

- **Marathon Capital is a 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 17 employee professional staff;**
- **Currently engaged on transactions across a range of sectors within power and energy**
- **Marathon has closed more than 40 transactions & exceeded $5.0 Billion in aggregate value over the last 6 years. Recent transactions include:**
  - Represented Banco Santander on the sale leaseback financing of the 102.5 MW Shiloh III Wind Project, sponsored by enXco
  - Represented Edison Mission Energy in $460 mm preferred equity raise around operating and to-be constructed wind projects
  - Represented Coram Energy in the sale of its 124 MW Portfolio of operating and under-construction Wind Assets in Tehachapi, CA to Brookfield Renewable Power
  - Represented CG Global in the sale of its 45 MW Power County Wind Project to D.E. Shaw
  - Represented CPV Wind in the sale of its 131 MW KS Cimarron II project to Duke Energy
  - Represented Axio Power Holdings in the sale of existing contracted solar assets, development portfolio and management team
  - Represented Juhl Wind and Suzlon Energy in the sale of the 20 MW Grant County Wind Project to Olympus Power
  - Represented CH Energy Group in the sale of the 20 MW Shirley Wind Project to Duke Energy
  - Represented Pattern Energy on the leveraged lease financing of the 101 MW Hatchet Ridge Wind Project
  - Represented Omniwatt AG regarding its capital raise to support the development of its Solar PV portfolio throughout Europe and North America
  - Represented US Solar Holdings (an ArcLight Capital Partners portfolio company) on the sale of 433.5 MW of solar development projects to NRG Solar
  - Represented Babcock and Brown on the sale of the 283 MW Texas Gulf Wind Farm I to Pattern Energy
  - Represented SkyPower Corp (a wind & solar development company) as it monetized various solar, wind and development company assets in series of transactions
  - Represented DKRW (a wind development company) on the sale of 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 North American Energy Development Group to Riverstone Holding LLC
  - 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 sale to Veolia Environment
  - 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 sale to 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




Broad Range of Services Offered in the Global Energy and Infrastructure Markets

Services Offered	Industries Served

Services Offered

- Asset/company acquisitions and sales
- Leasing advisory services
- Capital raising and placement
  - Lease / tax equity
  - Debt and equity
  - Mezzanine capital
- Asset restructuring and work-out situations
- Structured financing with expertise in tax and accounting
- Investor representation
- Re-capitalization situations
- Dispute resolution
- Fairness letters

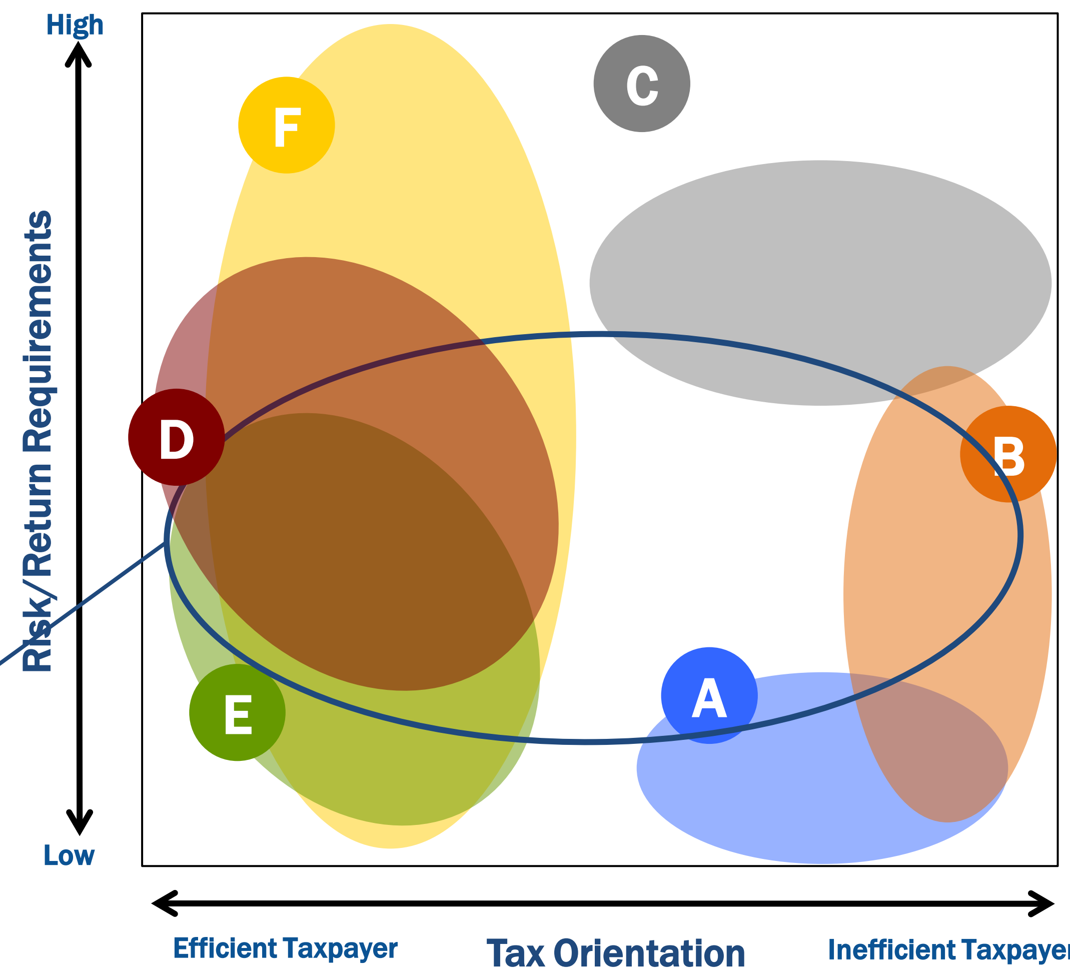
Industries Served

- Renewable energy power generation
  - Wind
  - Solar
  - Geothermal
  - Biomass / Biogas
  - Hydro
- Conventional power generation
  - Natural gas
  - Coal
- Oil & Gas
  - Unconventional Plays
  - Oil Field Services
  - Upstream, Mid-stream and downstream expertise

Renewables Investors – Risk/Return & Tax Preferences

Investor Category	
A	Pension Funds / SWFs
B	Infrastructure Funds
C	Private Equity Funds
D	Corporations
E	Utilities (and Utility Affiliates)
F	IPPs
	Target Portfolio Investor Pool

Renewables Investor Profile



Source: Marathon Capital

What are Investors Seeking?

- 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 returns associated with good development practices and good teams can be 25-100%!**
- 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 retail products like MLP's, REIT's, etc.**
- **We are seeing more and more developers using internal capital to develop and lower cost external capital to provide all or most of the long term project equity.**

2012 Dynamics

- Little clarity on policy beyond 2012
- 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, fracking and rolling back EPA enforcement efforts on CO2.
- Continued low Natural Gas prices for 2012-13 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 wide spreads over risk free rates.
- High demand for P50/P90 contracted cash flow streams from banks and investors.

North American Wind Market Dynamics

Federal Dynamics

- Hazy Support beyond 2012
- Grant Program likely dead
- PTC extension difficult
- Some hope on RES but little traction
- Carbon Legislation Dead
- Harper new government in Canada lukewarm on renewables

Negative Factors:

- Low Gas Prices
- Low growth in demand
- Coal retirement plans not clear
- Constrained Transmission
- NIMBY Issues Very Real
- Birds, Bats and Eagles large issues. FAA/Radar issues.
- Most of the Obvious Investors have already entered the wind business
- Tax Equity still priced based on scarcity
- No public exit seems possible
- PPA acquisition difficult

NA Industry Dynamics:

- Still growing but at ½ the rate of 2007
- Moving from fragmentation to consolidation and scale.
- Demand in market is less for teams and pipelines and much more for contracted assets.
- NPV/MW has been increasing dramatically
- Adding Tax Structuring to a project to monetize PTC's or MACRS depreciation is viewed as a net negative by the M&A markets.
- There is an increasing sense placed on experience, stability and the ability to get things done by lenders, equity holders, off-takers, etc.

State and Provincial Policies:

- California 33% RPS. Helps the Western markets
- RPS's across numerous Mid-west markets.
- Ontario FIT has been large success and Quebec and BC seem ready to follow
- NE Pool and Eastern PJM REC markets strong
- Some support for off-shore wind in MA, RI, NJ, DE, VA and NC. Great Lakes support in OH and IL
- Private Transmission transactions have the potential to alleviate congestion and enable more projects to get finished.

Positive Factors:

- Equipment Cost and EPC cost dropping dramatically
- Equipment efficiency is increasing dramatically, especially in light wind
- Debt is abundant and cheap
- Contracted Power Projects performed well during the recession.
- Wind P50 estimates have been much more accurate since 2007
- New capital from SWF's and Pension Funds are increasingly interested in the sector.
- The Chinese strategics, manufacturers and financials have entered NA although we have not yet seen the impact.

Implications for Renewable Market

- 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.
- Wind for sure and solar over the next few years will ultimately give way to larger scaled players. We expect continued consolidation in LFG, bio-mass and geothermal.
- Developers will face a very challenging environment and all market participants will need to make a decision between becoming a consolidator or a “consolidatee”.
- Manufacturers will increasingly use their capital and will seek to partner with larger and better funded developers
- There are several emerging renewable segments including; bio-methane and bio-mass which are attracting long term “financeable” contracts

Where's the Money?

- **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.

M&A Environment

- Assets in High Demand:
  - Producing and fully built contracted assets
  - Companies with well regarded teams, operating assets and multiple PPA's
  - Late stage contracted development projects with preference for grant eligible projects but also including PTC transactions which can be finalized by EOY 2013
  - Transmission Projects with "anchor tenants"

- What's Not in High Demand:
  - Development Pipelines
  - Teams without contracted assets
  - Un-contracted assets

Marathon Capital, LLC

2801 Lakeside Drive, Suite 210
Bannockburn, IL 60015
(847) 574-2670
www.marathon-cap.com

Ted Brandt
Principal & Chief Executive Officer
847-574-2677
tbrandt@marathon-cap.com

Gregg Elesh
Principal & Chief Investment Officer
847-574-2676
gelesh@marathon-cap.com

Robert Braasch
Principal & Chief Financial Officer
847-574-2675
rbraasch@marathon-cap.com

Buz Barclay
Managing Director
516-375-2524
bbarclay@marathon-cap.com

Wendy Carlson
Managing Director
847-574-2684
wcarlson@marathon-cap.com

Terry Grant
Managing Director
415-806-7700
tgrant@marathon-cap.com

Gary Greenblatt
Managing Director
914-833-2854
ggreenblatt@marathon-cap.com

Matthew Shanahan
Managing Director
847-574-2689
mshanahan@marathon-cap.com

Ari Pribadi
Director
847-574-2681
apribadi@marathon-cap.com

Thiago Alfaia
Vice President
847-574-2690
talfaia@marathon-cap.com

Sid Sinha
Vice President
847-574-2671
ssinha@marathon-cap.com

Philippe Lavertu
Associate
847-574-2674
plavertu@marathon-cap.com

David Martin
Associate
847-574-2683
dmartin@marathon-cap.com

Edmond Young
Associate
847-574-2682
eyoung@marathon-cap.com

Andrea White
Marketing Coordinator
847-574-2685
awhite@marathon-cap.com