THOMSON REUTERS

EDITED TRANSCRIPT

Q4 2019 TerraForm Power Inc Earnings Call

EVENT DATE/TIME: MARCH 17, 2020 / 1:00PM GMT

CORPORATE PARTICIPANTS

John Marcus Stinebaugh *TerraForm Power, Inc. - CEO*
Michael Tebbutt *TerraForm Power, Inc. - CFO & CAO*
Sherif El-Azzazi *TerraForm Power, Inc. - Head of IR*

CONFERENCE CALL PARTICIPANTS

Antoine Pierre Jean Aurimond *BofA Merrill Lynch, Research Division - Associate*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the TerraForm Power 2019 Fourth Quarter and Full Year Results Webcast and Conference Call for investors and analysts. Operator Instructions) As a reminder this conference is being recorded. I will now like to turn the conference over to Sherif El-Azzazi, Head of Investor Relations. You may begin.

Sherif El-Azzazi ***TerraForm Power, Inc. - Head of IR***

Thank you, Sidney. Good morning, everyone, and thank you for joining us for our 2019 fourth quarter and full year results conference call and webcast. I'm joined today by John Stinebaugh, our Chief Executive Officer; and Michael Tebbutt, our Chief Financial Officer. Please note that a copy of our earnings release, supplemental and letter to shareholders can be found on our website, terraformpower.com. During this call, management will be providing remarks on merger agreement with Brookfield Renewable, which was announced last evening via a separate press release.

Note also that we may make forward-looking statements on this call. These forward-looking statements are subject to known and unknown risks, and our actual results may differ materially. For more information, you're encouraged to review the Risk Factors section in our SEC filings, which can be found on our website.

In addition, we will refer to non-GAAP financial measures. For more information on a reconciliation of these non-GAAP measures to comparable GAAP measures, please refer to our earnings release and supplemental information.

With that, I'll now turn the call over to John.

John Marcus Stinebaugh ***TerraForm Power, Inc. - CEO***

Thanks, Sherif. In 2019, TerraForm Power made substantial progress executing its business plan of acquiring high quality assets for value, enhancing the cash flow from its existing asset base and strengthening its balance sheet. As a number of the key initiatives were completed during the course of the year, our financials do not fully reflect these benefits. Nonetheless, TerraForm Power increased CAFD per share by 17% year-over-year, primarily driven by the full year contribution from the acquisition of Saeta.

I'll briefly go through a few select highlights from 2019 and subsequent to year-end.

First, we executed value-adding acquisitions totaling 400 megawatt -- 480 megawatts, including the acquisition of 320 megawatts of DG solar assets in the United States in the fourth quarter and the recent acquisitions of 145 megawatts of solar plants in Spain, deploying equity of approximately $440 million.

With regards to repowerings, we received all permits and a non-materiality determination from the New York Independent System Operator required for our 2 New York projects that total 160 megawatts and we continue to target commercial operation date in 2021.

Upon signing Long Term Service Agreements, we transitioned 15 out of 16 wind farms in North America to GE, who are providing O&M services, an initiative that is expected to reduce O&M costs expense by $20 million.

We also replaced the legacy operator of our wind farms in Europe with the original equipment manufacturers and executed LTSAs that are expected to lock in annualized cost reductions of $4 million.

And finally, we signed a Framework Agreement with SMA Solar Technology to provide O&M services for our North American solar fleet, an initiative that is expected to reduce annualized cost by approximately $5 million and convey robust performance guarantees to our fleet.

Now I'll turn the call over to Mike, who will discuss our financial results and provide an update on our liquidity.

Michael Tebbutt ***TerraForm Power, Inc. - CFO & CAO***

Thanks, John, and good morning, everyone. I'd like to start by recapping our financial results.

In 2019, we generated CAFD of $173 million, which was $47 million greater than 2018. On a per share basis, CAFD was $0.81, which was a 17% increase over the prior year. The increase was largely attributable to a full year contribution from the Saeta acquisition, which closed in June 2018, a partial year contribution from our recent DG acquisition and cost savings from the implementation of LTSAs in North America and Europe. This was offset by lower availability from our North American wind fleet, as we accelerated deferred maintenance in order to implement the LTSAs, as well as lower realized prices in North American wind due to contract roll-off and greater negative basis in Texas. And finally lower Spanish wholesale market prices.

Factoring in depreciation, amortization and other noncash charges, 2019 net loss attributable to Class A shareholders was $149 million compared to net income of $12 million in 2018. The year-on-year change was primarily due to a higher allocation of losses to non-controlling interest in the prior year related to the reduction in U.S. corporate tax rates.

Moving on to our liquidity. In 2019, we continued to capitalize on attractive market conditions to bolster our liquidity and position ourselves for growth. In October, we issued $300 million of equity priced at $16.77 per share representing a 50% premium to our price at the beginning of 2019.

During the year, we were very active on the liability management front at both the corporate and project levels, locking in historically low interest rates. We issued $700 million of 10-year senior notes at a coupon of 4.75% and used the proceeds to repay our $300 million notes due 2025 and our $344 million in Term Loan B due 2022. With that refinancing, we expect to realize debt service savings of $6 million per year and extend our maturity profile, such that we have no corporate maturities until 2023.

Over the course of 2019, we also completed 7 non-recourse debt refinancings, totaling $1.6 billion, raising net proceeds of $460 million and lowering our weighted average interest rate by 50 basis points.

As a result of these initiatives, our corporate liquidity stood at $1.3 billion at the end of 2019, including our $500 million sponsor line with Brookfield.

I'll now turn the call back to John to discuss outlook and provide an update on the merger agreement with Brookfield Renewable.

John Marcus Stinebaugh ***TerraForm Power, Inc. - CEO***

Thanks, Michael. As I mentioned, despite the substantial progress in executing its business plan, 2019 was a transitional year for TerraForm Power from a financial perspective. We executed a number of key initiatives that significantly increased the value of our asset base, yet these initiatives were not fully reflected in our financial results. In 2020, TerraForm Power will benefit from nearly a full year of results from the 480 megawatts of acquisitions of DG assets in North America and regulated solar assets in Spain. Furthermore, we should realize the vast majority of the benefits from the cost savings and performance guarantees in the O&M agreements for our wind fleets in North America and Europe as well as our solar fleet in North America.

As a result of the rapid global spread of COVID-19 pandemic, there has been tremendous uncertainty as to the economic impact of the virus on supply chains and consumer demand as well as unprecedented volatility in the financial markets over the past few weeks. Fortunately, we believe TerraForm Power is well positioned to ride out the crisis as 95% of our revenue is generated under long-term contracts that have a weighted-average contract duration of 13 years, which insulates our business from declines in commodity prices.

In addition, we have a geographically diversified portfolio of projects, of which over 90% of our PPA offtakers are either investment grade credits or municipalities with investment grade characteristics, mitigating our exposure to any single region or counter-party.

Also, our business is less labor intensive than most other industries, which enables us to allow many of our staff and contractors to work remotely for an extended period of time without impacting operations.

And finally, our wind and solar assets are predominantly operational, mitigating our exposure to supply chain disruptions.

We will continue to monitor this situation very closely, in particular, focusing on the impact these events are having on our O&M providers and any adverse impact to our customers, but we remain confident in the resilience of our business.

Now I'll spend a few minutes discussing the merger with Brookfield renewable. I'm very pleased to report that last evening, Brookfield Renewable and TerraForm Power entered into a definitive merger agreement by which Brookfield Renewable will acquire each share of Class A common stock of TerraForm Power for consideration equivalent to 0.381 of Brookfield Renewable Power -- Renewable Partners unit. TerraForm Power shareholders can elect to receive their consideration in units of Brookfield Renewable Partners or BEP, a limited partnership, which currently trades on the New York Stock Exchange and the Toronto Stock Exchange or shares of Brookfield Renewable Corporation, or BEPC a new security that will be launched in conjunction with the close of the merger that is designed to be equivalent and valued to a unit of BEP.

For reference, BEPC will be a Canadian corporation listed on the TSX and the NYSE and will be structured with the intention of being economically equivalent to BEP units, including identical distributions and it will be fully exchangeable at any time at the shareholders' option for a BEP unit on a one-for-one basis.

The special committee of TERP's Board of Directors has unanimously recommended the transaction, which features an improved exchange ratio relative to Brookfield renewables initial proposed offer in January of 0.36 units of BEP for each TERP share and provides a 17% premium to TERP's unaffected share price. The transaction is subject to the approval of TERP shareholders representing a majority of the outstanding TERP Class A common shares not owned by Brookfield Renewable and its affiliates and is also subject to other customary closing conditions. It is expected that the transaction will close in the third quarter of 2020.

Now I want to take a moment and highlight the benefits of this merger to TERP shareholders. TERP shareholders will be owners of a combined company that will be one of the largest integrated pure-play renewable power companies in the world, with total assets of approximately $50 billion and with a 20-year track record of delivering strong total returns across a number of economic cycles as well as consistent distribution growth.

In addition, TERP's shareholders will benefit from the premium of 17% to TERP's unaffected stock price. A broader growth mandate that includes acquisitions of all technologies of renewable power assets as well as development opportunities globally, enhanced diversification through exposure to long life hydro assets in addition to wind and solar assets as well as geographic exposure to the high-growth Asian and Latin American markets in addition to North America and Europe. Reduced risk as a result of Brookfield Renewables strong investment grade balance sheet and increased liquidity as well as finally, continued sponsorship by Brookfield Asset Management, which will own 54% of the combined company.

In closing, we believe this merger provides significant value for TERP's shareholders giving them the ability to continue participating in the upside of TERP's operating assets in developed markets while benefiting from Brookfield Renewables enhanced diversification, development capabilities and strong investment-grade balance sheet. We encourage shareholders to vote for the transaction at the shareholder meeting, details of which will be announced in due course.

This concludes our formal remarks. We'd be pleased to take questions at this time. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Antoine Aurimond with Bank of America Merrill Lynch.

Antoine Pierre Jean Aurimond ***BofA Merrill Lynch, Research Division - Associate***

Congrats on the great results. Just a quick question with regards to the acquisition of -- from Brookfield. Is there any plans to sort of refinance the TERP capital structure in the near future?

John Marcus Stinebaugh ***TerraForm Power, Inc. - CEO***

At closing, TerraForm Power will be a subsidiary of Brookfield Renewable. So its corporate debt will remain in place as well as the project debt underneath the corporate debt. At this point, I'm not aware of any plans to refinance that corporate debt.

Antoine Pierre Jean Aurimond ***BofA Merrill Lynch, Research Division - Associate***

I'm sorry, I didn't catch that at this point?

John Marcus Stinebaugh ***TerraForm Power, Inc. - CEO***

I'm not aware of any plans -- any plans to refinance the corporate debt.

Operator

(Operator Instructions) And I'm not showing any further questions at this time. I'll now turn the call over to Sherif El-Azzazi for any further remarks.

Sherif El-Azzazi ***TerraForm Power, Inc. - Head of IR***

Thank you, operator. Thank you, everyone, for joining us today. This concludes our call.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.