



Why the Rush to Form Yieldcos?

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The public's hunger to participate in the renewable energy industry is a second reason. With the exception of some technology companies, and a very limited number of small developers, the public's ability to invest in the renewable energy industry has been very limited. The response to Yieldcos by the "green" investment community has been quite strong. For example the NRG Yieldco, which is not purely "green" was 10 times oversubscribed. As mentioned in last week's post, Terraform (Sun Edison's yieldco), Abengoa Yield and NextEra's Yieldco all jumped significantly in price during their first day of trading. They were all significantly oversubscribed.

Renewable energy development companies also like the Yieldco structure because it provides a vehicle for the ready sale of developed projects. It is much easier to commit the resources to develop projects and obtain financing for those projects when there is a ready market for the purchase of the completed project. A captive Yieldco provides a ready buyer for the projects of its related development company.

The Yieldco structure can also provide an advantage in purchasing projects from unrelated parties. This can occur because the yieldco has a lower cost of capital and can afford to pay more for completed projects. Yieldco's also have the advantage of being able to use yieldco shares as a form of payment for projects in lieu of cash.

A fifth reason for Yieldco popularity is the ability to trade shares once purchased. This liquidity adds a new feature to renewable investing which, up to now had been very project specific and not liquid at all.

Also, one has to look at the impact that value of the shares in the Yieldco can have on the overall value of the sponsoring company. For example, when Sun Edison's Terraform floated a 27.4% interest in 524 MW of projects for \$501 million, which increased the first day to be worth over \$680 million, the 66.5% percent interest that Sun Edison did not sell privately or include in the IPO was worth over \$1.65 billion on the first day of trading! It is also worth noting that Sun Edison's stock increased by over 36% in the three months prior to the IPO.

Finally, there are the fees. Yieldco's typically come with project support agreements and management agreements with their sponsors. While these contracts and the services provided under them are necessary, they do provide a potentially significant source of income to Yieldco sponsors.

Of course, the sponsors are not the only parties benefiting from Yieldcos. Some investors are also singing their praises. What investors are hoping to get from Yieldcos, as well as some of their concerns, will be the subject of our posts in the upcoming weeks.

Categories

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