MPC ENERGY SOLUTIONS

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|→ Aug 2021

Q2 2021 WEBCAST ON THE HALF YEAR 2021 REPORT

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31 August 2021, 9:00 a.m. CEST

OPERATOR:

Good day and thank you for standing by. Welcome to the HY Results 31st of August 2021 Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question over the phone, please press "star" and "1" on your telephone keypad. Alternatively, you may type in your questions on the top right of your Webex screen. Please be advised that today's conference is being recorded. If you require any further assistance, please press "star," "0."

And I would now like to hand the conference over to your first speaker today, Ms. Heike Hülle. Thank you. Please go ahead.

HEIKE HÜLLE:

Good morning, everybody, and welcome to the first webcast of MPC Energy Solutions. This morning, we would like to update you on the results of the second quarter and the first half of this business year. The report on which this webcast is based and the press release have also been published on our website this morning. The webcast will be recorded and will also be published on our website together with a transcript. After this webcast, we will have a Q&A session and going forward, we will have similar webcasts every quarter.

Before we get started, let me just remind everyone that certain statements made on this call, including financial estimates and comments about our plans, expectations, beliefs or business prospects and other statements that are not historical in nature, may constitute forward-looking statements under the securities law. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them and we do not undertake any obligation to update these statements in the future.

Forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our financial statements, filings and other releases.

Now, with this part behind us, I would like to introduce the next two speakers. We have the CEO of MPC Energy Solutions, Martin Vogt, on the line today and we also have Stefan Meichsner, the CFO of MPC Energy Solutions who joined the company in May. And with this, we will continue with the presentation.

MARTIN VOGT:

Yes. Good morning and a warm welcome also from my side. Martin Vogt, CEO, speaking here. It is with great pleasure today to present, this morning, our first half-annual report and to perform our first capital markets conference call. We will continue to hold these calls on a quarterly basis and hopefully can provide an insightful opportunity for regular information exchange and communication with our interested stakeholders.

Since our IPO in January and during the last eight months of our business, we were extremely busy growing the organization and implementing our strategy in Latin America and in the Caribbean and as was shared previously, one of our very important pillars is to secure high quality projects under exclusive partnerships with selected project developers, it's really key for us to originate.

And hence our first step after our IPO was to secure the asset development agreement with Enernet Global and we are very pleased to say that the CHP project in Puerto Rico has been successfully installed and is currently only pending the connection to the client and the finalization of the testing and commissioning, which we believe now will be finalized in the coming weeks.

On top of that, Enernet Global was awarded another PPA with a AAA rated off-taker in Puerto Rico. So our strategy to implement a series of CHP projects in Puerto Rico to serve primarily the pharmaceutical companies is going to happen, also further growing later this year with another 2 megawatt installation, which is only one of many sites that this off-taker has available for us.

Overall, these projects will help the energy transition in Puerto Rico. The carbon footprint will be reduced by approximately 30 percent compared to the original diesel generation that was used by our clients and also materially lowering the cost of energy for our clients.

Even more exciting is the development of our own portfolio. Compared to our estimations a year ago when we prepared for our IPO, some of our own projects have advanced much faster than initially expected. This is the case, for instance, for Los Girasoles and Santa Rosa where we have now reached already the ready-to-build status and financial close is expected for this month and we also believe to commence with the construction in the coming weeks. I hope that we can share some more news following this call.

Last, but not least, also very exciting to announce our ready-to-build hybrid project in the Eastern Caribbean. This was already approved and the final investment decision was given. This is a project that will provide base load to an Eastern Caribbean island, approximately 30 percent of the total island's consumption. It's a very innovative project that combines utility scale solar PV, together with a battery storage system.

So we are very pleased to have this project now being advanced to a point where we can also commence construction very likely already in September, later this month.

And last, but not least, just to mention our activities in Colombia, which I think is very noteworthy given that we won, earlier this year, the first private auction with the Los Girasoles project, that is now ready to build and we will share, hopefully in a few weeks, the commencement and EPC procurement, but also our investment along Akuo and the 27 megawatt solar project that has already commenced construction earlier this month and that has also secured a long-term PPA with a AAA rated off-taker.

So all in all, these projects are following our strategy to work hand in hand with the private sector, with corporate clients to build out the energy transition in our core region. Just a few comments about Colombia: I think it is one of the most attractive OECD countries in the region with currently only 170 megawatt of installed solar capacity.

So when we talk about 38 megawatt of projects secured with PPAs and under construction from our side, I think you can see it's a material market share and fosters our ambition in Colombia to be one of the leading IPPs in this sector and also the high quality of work of our local team that brings our projects to commercial operation in 2022.

Also exciting to share the news about Santa Rosa, our 21 megawatt solar park in El Salvador. This project enjoys the benefits of a 20-year U.S. dollar PPA with AES Corporation. Also, here, we are just about to finalize the EPC selection and we'll hopefully commence the construction later this month.

Handing over to Stefan who will share a bit about the financials.

STEFAN MEICHSNER:

Thank you, Martin. Just very briefly, the projects that you see here in the highlights section that Martin just referenced, these projects alone will go into operation this year and the next year. By the end of next year, they would add 101 megawatt installed capacity to our portfolio, which corresponds to 217 gigawatt hours of annual energy produced and that will lead to US$22 million revenue generation per year once all of these plans are fully operational with the targeted operating margin of 75 percent that we have.

This refers to the earnings before interest, taxes, depreciation and amortization on an asset level. It should be noted that these are not the only projects that we expect to be part of our installed capacity ramp-up and revenue by 2023. We will provide you with projections on that later in this presentation. These numbers just refer to the highlight projects or the highlights that we have achieved during the second quarter and the subsequent months.

And it should also be noted that, as Martin already mentioned, for all of these projects, we have long-term power purchase agreements in place. So the revenue projections that you see here for these projects, they're fairly secured and they're fairly predictable and that is something that differs from if you have just market spot price exposure. But as I said, more on the installed capacity ramp-up and the revenue projection later in this presentation.

MARTIN VOGT:

On the next slide, we will focus now a bit on the more detailed project overview. Most of you will recall this slide in a similar way from our IPO presentation. We would like to share that we have amended our project classification simply to be more in line and comparable to our peers, which would also make it easier for the audience to compare really our projects and backlog and pipeline and the definitions for that.

So as I mentioned, the projects that you see on top, those are the projects that are implemented. They are either already under construction and Neol CHP is basically in the commissioning phase. Santa Rosa and Los Girasoles will commence construction fairly shortly as they have reached ready-to-build status and financial close.

We also have to acknowledge that some of our pipeline and our industry had a quite challenging year in 2021 and maybe more challenging than it was also expected during the IPO process. The continued COVID pandemic caused really severe disruptions in the global supply chains and that is something that applies to the entire industry and of course MPC Energy Solutions, as part of that ecosystem, couldn't entirely mitigate those effects either.

I know that we have communicated previously that the execution of the pipeline will be finalized by end of June. I think we do have very good news on our own projects and the projects that I mentioned up there that have partially even advanced faster than expected. Equally, some of our projects were really impacted as well on the timeline where we had to go back to discuss, with some of the project partners, the commercial conditions of these projects.

So we see a delay of a few months which, in the overall context of a 25- to 30-year infrastructure project, is maybe nothing more than a slight hiccup, but we also understand that from the expectation of the capital markets, obviously you are eager to see that also the remaining part of the projects that are listed here under advanced projects – so the Eastern Caribbean, Puerto Rico, Honduras and Mexico –will be executed shortly.

So as mentioned in the press release, we believe we are still well on track to achieve our 2021 goals. Yes, in some projects, we do see a slight delay caused by external factors, primarily disruptions in the supply chain, but with that, again, we are getting there in the next few weeks.

You see Eastern Caribbean and Puerto Rico are basically now advancing quickly to be ready to build and will commence construction as well. Honduras and Mexico are already operating assets and we are confident to have these projects also completed latest by the end of this year.

Beyond that, you also see we have re-categorized our development pipeline according to countries and it gives you an outlook that we do have a lot of backlog projects that are currently in the development stage. Some will be ready to build in the next six to nine months, some will rather need nine to 18 months, but we do have access to very attractive projects that we can build out also beyond our initial portfolio and advanced backlog projects that we are executing at the moment.

Over to you, Stefan.

STEFAN MEICHSNER:

Yes. And I'm now addressing the chart that you see on the lower right of the slide, the installed capacity ramp-up, just to give you an idea of where we're headed. So the 3 megawatt – it's actually 3.4 megawatts – that you see for 2021, that is the Neol combined heat and power plant in Puerto Rico that will be online this year; and then next year, what we'll add to the installed capacity is the three solar PV plants, which are either already under construction or will commence construction shortly.

All of them will go into operation in 2022. They will add 60 megawatt in total in 2022 which should get us to 63 megawatts. This is also the number that we mentioned in our Q2 report that was released this morning. And then in addition, from the advanced backlog that you see on the left, there's two assets that are already operational, in Honduras and Mexico. If we manage to get the transactions through, that will be an additional 76 megawatts that we would add to our portfolio in 2022, combining for the total of 139 megawatts that you see here.

And then by the end of 2022, early 2023, the hybrid plant that Martin already mentioned in the Eastern Caribbean and the new Puerto Rico project would then combine for a total of 177 megawatt total installed capacity by early 2023.

Again, this is just referencing the projects from the portfolio and the advanced backlog that you see in the tables and this is the pipeline or the installed capacity that we can realize with the capital that we have raised during the IPO. You will see that on a slide later on. Anything beyond that, of course, is possible, but will require additional funding for us.

Directly corresponding to this installed capacity ramp-up on the next slide, this is the first time that we ourselves publish revenue projections that we can see from our portfolio and advanced backlog. As I said, this directly corresponds to the ramp-up of the installed capacity that we just showed you. The expectation here is that we believe that we will see a significant increase in revenues next year once the solar plants are operational and we have hopefully closed the transaction of the operational assets.

US$25 million in revenues next year on an asset level is certainly possible and then in 2023 once all of the projects from the portfolio and the advanced backlog should be fully operational and deliver revenues, this would combine for a total of US$40 million on an asset level with an average targeted EBITDA margin of 75 percent, so roughly US$30 million.

And given the lean setup that Martin and I are building for the company in our different offices and even if we continue to spend significantly on project development and transaction, due diligence for operational assets, et cetera, this increase that you see here for 2022 and 2023 would already put us, on a corporate level, comfortably in an operating profit position also on an EBITDA level.

So you can, there, see the scalability of this kind of business where you have a lean setup and you can, through a number of installations, increase revenue fairly quickly and become profitable as a company and this is certainly the expectation that we have for the next two years.

And then just concluding this chapter, showing you where the money that we raised in January during the initial public offering or from the initial public offering went. The total net proceeds, proceeds that we received in January, were US$87 million.

We put US$12 million aside for the ramp-up of the organization, for project development, for transaction costs, also for the funding of working capital, not only this year, but also partially next year, which left us with around US$75 million that we were targeting to deploy into projects and opportunities and as you can see here, most of this has already been committed or is about to be committed.

So starting from left to right, just to give you an overview, we have our investment in our strategic partner, Enernet Global that Martin also referred to in the beginning, we have our combined heat and power plant in Puerto Rico and the three solar projects that we talked about earlier.

If the capital for this or the investment in these projects has been made, that would leave us with roughly US$38 million and then adding the opportunity in the Eastern Caribbean, the Puerto Rico project and the two operational assets in Honduras and Mexico would actually mean that we have fully committed and deployed the US$75 million that were available to us.

We don't really want to delay the construction phase or getting into construction. So for some of these projects, we are currently committing equity only, but there's certainly the opportunity that we will revisit leveraging these projects and thereby freeing up some of cash that we can deploy for further opportunities. Los Girasoles is just one example where this might be the case.

And in other words, just to conclude this, the US$75 million that we had available at the beginning of the year, they will help us to build a portfolio of 177 megawatt of installed capacity at US$40 million of annual, highly profitable asset-level revenue. This is where the money is going and where it's supposed to be in 2022 and 2023.

MARTIN VOGT:

Yes. As a young company, it is, of course, most important also to always consider the environment that we are acting in and we want to take a few minutes to speak with you about the challenges, but also the opportunities of the market environment. So I think we all understand that the COVID pandemic causes still material disruptions in business activities and the region that we are active in Latin America and the Caribbean is, in fact, one of the most affected regions globally.

And that affects, of course, the ability to work with the local agencies, authorities, governments and other institutions when we are waiting, for instance, for permits and licenses and authorizations. Other than that, these governments, in the midst of the pandemic, are really also focusing on their most essential sectors when dedicating resources, which is usually the health sector, education as well as food security.

So it is not a real surprise that some of the public tenders and RFP processes, for instance in Jamaica, but also for the project in Bahamas that we would have expected to be completed in 2021, we now really only see happening in 2022 and this is also, when you look at our pipeline, why we have re-prioritized these projects.

I think the overall benefit of MPC Energy Solutions is that we do have a very broad regional footprint that allows us to really maneuver through these times and looking at the opportunities and, as Stefan mentioned, once they are advanced, there is no reason for us to wait, so we push the buttons where we can and have successfully, I think, prioritized now other projects.

I know from the audience there were some questions why, for instance, some projects that were shown earlier with a lower priority are now being executed. The main reason for that is very simple. Some projects, in the development phase, simply achieve milestones faster than others and then there's no reason for us to wait just out of principle, but rather seize the opportunity and build these projects and, luckily, that happened a few times with our own projects compared to where we had forecasted the progress a year ago.

COVID indirectly had also caused a disruption in the solar panel market. It's an extraordinary year for the solar panel industry since, in the last decade, it's actually only the second year where we see overall panel prices increase. Since the beginning of the year, solar panel prices have increased by roughly 20 percent. The 10 percent here primarily refers to the anticipated effect on our own projects given that we had locked in some prices already.

And the reason for that is really the high cost pressure in the upstream supply chain for the solar modules. You see prices like polysilicon have increased by 250 percent since the beginning of the year from US$8,000 to US$20,000. Copper and steel have increased by 100 percent. So this cost pressure is simply going up the upstream sector in the solar panels and at one point, the manufacturers had to turn around and give these prices further to their clients, like the IPPs, as MPC Energy Solutions.

Saying that, our team was extremely busy and I believe also successful in mitigating some of these cost effects and this is also the reason – the moment in time when this really happened was June-July when there was so much cost pressure on the logistics as well as on the panel supply that a lot of our contractors had to come to us and revisit the contracts.

Which subsequently led us to talk with all project partners, the developers, the banks, the O&M providers– but also the project schedule and implementation way - to see where we can mitigate these cost increases to retain a very attractive return profile for our projects and we were in the position to really reduce this impact overall to not more than a good percent of IRR.

And this is also one of the reasons why some of the projects, when we talked to the market in May-June, that we would have expected to be closed and commence construction in May-June are now basically commencing construction only in August and September because it took us the summer to re-discuss some of the commercial conditions with everyone.

So I think this is something that we very successfully mitigated and that is an external factor that applies to the entire industry. An even more disruptive factor is coming actually from the transportation side and the logistics. The global supply chain here is heavily disrupted. We see a very low reliability of the charters.

Basically only 50 percent of the containers that – of course as an asset-heavy sector with shipments of inverters, substructures, panels, turbines, we really rely on reliable supply chains because we, back to back, have our power purchase agreements with committed commissioning dates, so we need to be sure that our equipment arrives on site as expected and we do have, of course, some long lead items, for instance the HV equipment like transformers, et cetera.

So transportation costs and primarily shipping costs rose by roughly 250 percent this year as well and that, in the combination with the solar panel prices, is really something that has caused material pressure on the global renewable energy sector. In fact, 2021 might be even the first year since ever that there is a negative growth globally on solar installations.

So we have worked on that and we believe the situation will remain also this stressed for the next 12 to 18 months until the global supply chains are back in a good working mode and that includes really everything from onshore, rail and truck transportation to the ports, to the ships, to the customs where, everywhere, we see simply heavily disruptive factors happening through the COVID pandemic.

So all of that has also, for us, been reflected in the stock price. I think we see here currently very much a deflated price, looking at today's 28 NOKs. We are roughly 30 percent below the IPO issuance level. That is, of course, not satisfying to management nor the shareholders. We also see this in the context of the sector, IPP, renewable energy IPPs, where we're clearly one of the sectors that were benefiting last year from the share price increases.

We see that in our peers as well as in our own stock that everyone is far away from peak levels of last year, but of course we also feel that we, as a young company, being only listed since the beginning of this year, clearly require the trust of the shareholders by delivering on our business concepts and assets.

So those are our current challenges that we are seeing that kept the management and our execution teams very, very busy, but we also see a lot of opportunities and opportunities where we feel that we can come out stronger than ever out of these situations in our launch region.

The reason for that is that we see a tremendous amount of project opportunities. While in the very, very short term, and that means over months rather than years, the governments are sort of distracted on their focus away from the energy sector. However, we also see that the political commitment to an energy transition and a green recovery really is bigger than ever as well.

We see massive funding lines available to the governments, also by international organizations like the World Bank, the European Union, the IFC, et cetera, in order to support these developing markets by tackling the energy transition and overall, I think the governments have also acknowledged that the sector can provide for a material job creation.

So wherever we are in the region, ambitious goals and even more ambitious goals are being set and that is not just the new administration in the U.S. under Biden that clearly will also have its effects on the neighboring regions, including Central America and the Caribbean, but also that more enabling regulatory frameworks are currently being put in place.

We see a lot of changes, positive, in Colombia. We see a lot of changes in some other markets like the Dominican Republic, for instance, where we are really encouraged to also extend our footprint.

And one very important part is that in these kinds of situations, the financial sector participants are really shy. Those investors who have short-term orientation in these kinds of asset classes and also the partners and the ecosystem are more looking towards the industrial and strategic investors, which is a benefit to an IPP like MPC Energy Solutions that is really creating value rather than looking at a pure cost of capital play that is encouraged by the financial investors primarily.

So we see that the banks in a situation like now are really relying also on the strategic and industrial partners and financings are available to us at very attractive conditions. We also see more and more of what we call green lines. So, for instance, the project in Planeta Rica that was financed by Bancolombia benefited from a green line that was made available by the International Development Finance Institutions to Bancolombia, which means that projects that do support the energy transition get a reduction in interest rate of 1 percent to 1.5 percent.

So you can also clearly see direct benefits of this support in our cost of funding and LIBOR is still at historical lows. So from the debt financing point of view, we also see very, very attractive conditions, primarily towards strategic and industrial players like MPC Energy Solutions and, to a lesser extent, to pure financial players because also the project partners have realized that these are assets that need long-term committed sponsors and MPC Energy Solutions is clearly long-term committed to these projects throughout the life cycle.

And with that, over to the financial review, over to Stefan.

STEFAN MEICHSNER:

Yes. Thanks again, Martin. So just to conclude our prepared statements for the day, we've summarized our financial position as of June 30. As you can see, the total assets of US$85 million contain mostly cash of US$81 million, then there's the US$3 million investment in Enernet Global, our strategic partner from the U.S., and around US$600,000 in capitalized development costs to that date.

We have no long-term debt. We remain well capitalized naturally now with capital deployment accelerating already and to be continued over the next few months. This position should change a little bit, but we don't foresee any long-term debt to be added this year.

And if we can move on to the next slides just to complete the picture. We had no revenue in the first half of the year because we had no operational assets yet. The expenses that we had for the ramp-up of the organization for due diligence and advisory fees, for example, combined for an operating loss EBITDA, again, of US$1.7 million in the first six months of the year, thereof US$1.4 million in the second quarter.

We ramped up our team. As of tomorrow, we will actually have 13 full-time employees. We started the year with two and we will add to that as we see fit, but, as I said before, very dedicated to keeping a lean and very efficient setup at MPC Energy Solutions.

And then on the cash flow side, what you just saw in the income statement and the balance sheet combines to a negative operating cash flow of US$2.4 million, a negative investment cash flow of US$2.8 million in the first two quarters and then of course with the net proceeds and some short-term loan repayments, we see a significant positive impact from the financing cash flow, leading to the overall cash balance as of June 30 of US$81 million. We started the year with roughly US$412,000.

That concludes our prepared statement. I want to take the opportunity, in my name and Martin's name of course, to thank our team for the effort and dedication to-date, to thank our investors for the hopefully continued support. I think today's presentation showed that we have made very good progress and that there is an abundance of opportunities for us that we can continue to pursue and with that, we are now ready to take your questions. Back to you, Heike. Thank you.

HEIKE HÜLLE:

Thank you very much, Martin and Stefan. As we now transition to our Q&A session, we will pause for a minute to give you some time to either send any questions you may have with the text function in this conference, as some of you have done it already, or by pressing "star," "1" on your telephone and you can ask your questions over the phone.

To begin with, let me start with one question that we've received in writing in advance. The question relates to the slight delays we were mentioning for the execution pipeline and the question is basically how this delay will affect our projections and outlook going forward.

MARTIN VOGT:

Yes. Thank you, Heike. And– as I elaborated already, I think we really need to distinguish between those projects that actually meet the deadline or the execution timeline and have even been put into execution faster than expected, that is certainly true for a part of the portfolio, but as mentioned before, we are also acknowledging that some part of our projects are currently a few months behind the initial schedule.

These schedules were delayed by, as I said, primarily a combination of external factors. At the end, the main source for that is the COVID pandemic and the situation that we are all facing equally. The target region is one of the most affected ones.

However, we also have to say that – and I was just in Panama and in Colombia – also life is going back to a new normal in our regions. So we see things are opening up, no new lockdowns are expected, local vaccination programs are making very good progress overall. Somewhere between 30 percent to 50 percent of the population is now fully vaccinated already.

However, we see that it also only returns slowly and cautiously to this new normal. Municipalities and government authorities are still vastly working remotely. It is, in fact, the private sector that is pushing for the opening of global supply chains, as mentioned, from the OEM side, so the manufacturer side, and the cost pressure giving the high increase in raw material prices all the way to a disrupted transportation chain in the ports. Availability and capacity of ships have played a role in our delays.

I think the most important part or interesting for the audience here today is certainly that the delay in itself doesn't really have an economic impact because if we acquire a project at completion, at commissioning, no money has been advanced previously. That is, for instance, the case for Neol Pharma where we saw, in August, this two-month delay simply because we were waiting for gas connection equipment now since a couple of months that couldn't be transported to Puerto Rico.

But we're only paying the acquisition price at commissioning and also the power purchase agreement only starts at commissioning. So on the return or profitability point of view, there is no impact whatsoever on the Neol Pharma CHP and also from a liquidity or advancement risk perspective, also no one – nothing from the company's perspective.

Overall, our power purchase agreements usually only start at commissioning, as I mentioned also for Neol Pharma, and we have usually also material buffers in the project schedule until such committed COD and electricity delivery date is being committed to.

So when we talk about a few months delay, that is usually well within our buffer and should not cause neither penalties in the PPA nor an early start of this contract. So from that perspective, our revenue base is very much unaffected.

I mentioned previously the increase in shipping costs and wind turbine costs and solar panel costs. So these are costs that indeed we need to cope with project by project and then see with which project partner we can mitigate some of that effect so that, overall, our impact on return is minimized and so far, I believe that that went fairly well for us.

Most importantly is for us indeed, that we look here at 25 more years of project operations. So for us, it is prudent to take the time now because now is the time where you fix these conditions for the next decades, that a few weeks are, at the end, not relevant for the execution teams and we give the teams the time to arrive at the best achievable outcome for the projects, even understanding that the capital markets might prefer a faster outcome.

HEIKE HÜLLE:

Thanks a lot, Martin. Let me move over to the operator. Operator, do we have any questions that came in via the telephone line before we move over to the written questions?

OPERATOR:

Thank you. We will now begin the question-and-answer session and as a reminder, if you wish to ask a question over the phone, please press "star" and "1" on your telephone keypad. There are no questions that came through. Please continue.

HEIKE HÜLLE:

In that case, we will continue with the questions that we received via the web platform. First of all, thanks a lot for asking your questions. We will begin with a question asked by Tomas E. and it's actually two questions and I believe we've answered part of this already. The question is what will the annual sales income for MPC Energy Solutions be approximately when these nearby projects are built and commenced? For instance, from the summer 2022 or in January 2023 in terms of approximate, not the precise figures.

I believe we've addressed most of that question already and specifically a question directed to slide three, whether the US$22 million revenue we show on the bottom of the slide is all going to go to MPC Energy Solutions.

STEFAN MEICHSNER:

Yes. Thank you for that question. So the revenue number that we showed is on an asset level. So with regards to whether we have material control over a project company or not, that will determine whether we can fully consolidate the revenue or not.

And in this – for these projects, the two projects where we, at least in the short run, will not see material control is the Planeta Rica project, which we are realizing with our partner Akuo Energy – this was also covered in the press release, that it's a 50/50 joint venture – and the hybrid project in the Eastern Caribbean. We're not there yet to disclose any final terms. In the long run, we obviously seek majority control, but whether this is the case from day one will have to be determined in connection with our partner.

HEIKE HÜLLE:

The next question that came in is directed, I believe, to slide five of the presentation where we're showing our portfolio and backlog. The question is from Magnus Solheim. Why is there a one-year difference between COD and the first payment to MPC Energy Solutions? Is it a full year difference between the two?

And the next question from Magnus, and maybe we can address both at the same time because they relate to the same slide, is to get additional clarity on the 177 megawatts shown and the US$40 million revenue target in 2023, whether these two will be possible with only the initial funding round.

MARTIN VOGT:

Yes. So maybe I go with the first one. It's very simple. We do finance these projects on a project financing basis. So usually the lenders require, because they don't have any recourse to the sponsors, what they call a debt service reserve account. The debt service reserve account is usually covering the interest and principal payment of a period of three to nine months and usually, the cash flows of the first year are being used to fill up these debt service reserve accounts.

So that makes it usually impossible to make a first distribution in the first year after COD. So we have to wait for the second year, meet the covenants under the facility agreements and then subject to the approval of the banks to make a distribution.

STEFAN MEICHSNER:

All right. And then let me take the second part of the question. Thank you, Magnus. So greater clarity on the installed capacity. Perhaps we can very briefly move to slide seven where we showed the capital deployment. So as mentioned earlier, US$75 million is what we had available after setting aside part of the IPO proceeds to invest into projects, the projects that you see here, also the ones on slide six in our portfolio and the advanced backlog.

So this is where the money is going and this is the list of projects that will be fully operational in early 2023 and then combined for 177 megawatt of installed capacity and US40 million in revenue. So I believe the answer to your question is, yes, the IPO proceeds and the deployment schedule here, that will be the money that will enable us to build 177 megawatts, put them in operation and generate US$40 million of annual revenues from 2023 onwards on an asset level and I hope that answers your question.

HEIKE HÜLLE:

Moving on to the next question from Audun Narvestad. Do you have any guidance on EBIT margins in 2023, not just the EBITDA margin, and how will the assets be depreciated?

STEFAN MEICHSNER:

All right. Taking the second part first, assets will usually be depreciated over their useful lifetime, which, for these projects, is usually, for most components, 20 to 25 years. So they will actually depreciate over the entire lifetime of the plant and that means overall, if we invest, for example, a total of, let's say, US$300 million over a 20-year period, this would lead to a depreciation of US$15 million a year, which you would have to subtract from the asset level EBITDA that we gave earlier.

So for the US$40 million, I would say on an asset level – and this is just a rough indication – the EBIT should be around US$15 million to US$20 million depending and then you subtract overhead expenses that we might have, which will get you then to the corporate EBIT level.

We have not prepared any detailed projections on that, but we would be happy to share that kind of information during our next webcast, but overall, as I said, 2022, if we achieve the US$25 million in generated revenue on an asset level, that should already put us, on a corporate level, into a positive operating profit, including EBIT.

HEIKE HÜLLE:

Another question directed at our margins comes from Marius Kirkenaer and Marius is wondering we are guiding an EBITDA margin target of 75 percent in 2023 compared to 70 percent in the IPO. He's wondering, with the increased costs seen in projects, what is driving the higher margins?

MARTIN VOGT:

Maybe I can take that one because I think we're not comparing apples with apples. On the IPO presentation, if I'm not totally wrong, I think we were referred to the MPC Energy Solutions corporate level, whereas the EBITDA margin that we are referring to here is at the asset level. So the 5 percent difference might simply come from the overhead costs of the top co.

HEIKE HÜLLE:

Another question from Magnus Solheim that reached us, can you comment on the SG&A development going forward as you're scaling up operations? Is the second quarter 2021 expenses representative for the remainder of 2021?

STEFAN MEICHSNER:

Thanks again, Magnus, for the question. No, I believe we can expect overhead expenses to increase because we're adding more people to our staff. Starting tomorrow, we will have five new employees for a total number of 13. We're also renting new office space for our people in Bogota, Panama and Amsterdam.

Combining these costs and then perhaps some buffers, I would say that for next year, which will be more representative, you can expect the overhead from personnel expenses and rent expenses and some additional operational expenditure on a corporate level to be around US$1.5 million per year and that should really keep us in a comfortable zone for the foreseeable future.

Of course if we raise additional capital and we deploy additional capital into growth opportunities, and you've seen that there are quite a few, then we would also add to the organization and that picture would change, but for personnel expenses, rent and other smaller OpEx items, US$1.5 million for next year should be a good guidance.

HEIKE HÜLLE:

Next questions that reached us are now directed more at the project pipeline. There's a question from Cato Gundersen. What's the status in Honduras? The 16 megawatt pipeline should have been in operation in August.

MARTIN VOGT:

Yes. Absolutely. And the project is actually in operation, so we are talking about an operating asset. The key reason here is very simple, that we are subject to the financing of the development finance institutions. This project is financed by the Dutch and the German development banks, SMO and DEG. Yes. Their internal processes, I believe, have also been a bit disrupted by the COVID and in fact, we have waited over the summer for the credit approvals of the targeted financing structure that we wanted to have.

So this is something that we have received just very recently and we are now confident that we can close the transaction indeed until the end of the year. I think worthwhile to note is that with the current owners, the commercial agreement is an effective economic date as of January 1st. So no matter whether we would have taken over the asset in August or in December, it is a locked box without leakage. So, in fact, the cash is accruing on the SPV accounts.

And, yes, hopefully now with the delayed response of the financing institutions – and, again, I think the key part here was to check MPC Energy Solutions as a fairly new entity for the long-term commitment in this sector and this region was one of the key drivers at the end to approve the target financing that we wanted to achieve and as a new player, it certainly took, I assume, also longer for them for the KYC and AML and all other obligatory checks and internal committees as it was the first time that MPC Energy Solutions, as an entity, is passing these processes with these DFIs.

Of course the sponsor and the MPC Group itself is a very well known institution, given our other projects around the globe with these sort of institutions.

HEIKE HÜLLE:

And now we have actually a couple of questions centered around the same topic, which is capital raising, debt financing, the sufficiency of funding for the coming time. Maybe I can try to group these questions a little bit.

James Smith is asking whether we can say how much financing or debt MPC Energy Solutions will have by the end of 2023 based on an expected build-out as shown in the presentation. Sebastian Cavalli, to that extent, is also asking when we believe we will need to issue more money and how much debt is required. Stale Hellenes also wonders if external financing is needed to achieve the revenue of US$40 million in 2023.

STEFAN MEICHSNER:

All right. Perhaps starting with the last question. So US$75 million will be the equity that we will provide to investments for the ramp-up that we've shown, the 177 megawatts and the US$40 million . The total capital expenditure for these projects is, of course, higher. So on an asset level, we usually target around 60 percent debt financing.

With regards to the future capital raise, I think it's fair to say that a lot of factors come into play here. One is of course the stock price. Martin mentioned before that it's still a bit deflated. We hope that it will pick up based on the good news that we have shared today and we will continue to share in the future. This is at least the expectation or the hope that we have.

If the timing is right, the stock price is right, the market sentiment is right, then of course an initial capital raise would make sense, but whether that is by the end of this year or early next year really depends. We cannot say that at the moment.

With regards to debt financing on a corporate level, there is always an idea to make that work, but Martin and I, I think I can say that, believe that we need an operational base first to make sure that any coupon payments from these debt financings, for example for issuing a bond, can be covered by our operational cash flows and doesn't have to be serviced from existing cash reserves.

So the projection until the end of 2023 is difficult to make. I would say based on if we don't do anything, we just pursue our portfolio and advanced backlog, then no additional capital is required. We will just put them in operation, finance them together with banks on an asset level and then just wait for cash to flow back to us. If we want to grow, then of course we need to find ways of financing that growth and I guess priority one would be a capital raise if the sentiment and the price level is right and debt financing, we see a bit further out.

HEIKE HÜLLE:

There was also a question by Oscar Lorentzen whether it's an option to sell operational assets at a lower required cost of capital to redeploy capital to earlier stage projects.

MARTIN VOGT:

Yes and we always made that clear already during the IPO. Once a sufficient scale of our operations is available and cash flows are being stabilized, you enter into a phase of operations where indeed institutional investors with a lower cost of capital than ourselves are attracted to these kind of assets and at that point, we would certainly consider farming down most likely a minority stake in these assets because for us, operating in emerging markets and with our experience, it is also still key to retain a controlling position in these assets.

But in order to recycle capital and, yes, get to capital gains on this end, farming down is certainly an option once a material part of our portfolio is operational and sort of asset rotation makes sense from an interest point of view, also from these sort of investors.

HEIKE HÜLLE:

There's also one slightly more specific question from Henrik Hvaal, whether the revenue from Neol CHP is expected to minimize the need for debt financing going into 2022.

STEFAN MEICHSNER:

So the Neol CHP project, while being a very good project overall, is certainly, from its size, not enabled to fund our corporation. I would say in a normal year, this kind of project would deliver around US$1.8 million to US$2 million in revenues and then after we deduct the operational expenses for that, then of course a specific amount would flow back to us, certainly also above US$1 million a year.

At the same time, using that or building our future funding on that is certainly not the right approach, but what I can highlight is that once the asset is operational and working well – we mentioned this earlier – it could be one of the projects that we will try to re-level, bring in project finance and free up some cash for any short-term needs we might have for additional opportunities and I hope that answers your question.

HEIKE HÜLLE:

There is another question from Audun Narvestad. Following up on the overhead cost, will the US$1.5 million yearly expenses be sufficient for 2023 given the state of projects?

STEFAN MEICHSNER:

Well, I would say for the portfolio and the advanced backlog we showed, yes, we should be well equipped with enough personnel to manage these assets that we've shown. Additional growth would require additional personnel, in particular because we have such an abundance of opportunities not only in the region, but perhaps beyond. And please do not forget that in addition to these operational expenses, we do have, for example, due diligence and advisory costs that might be project-specific that would have to be added to that.

Most of the project development expenses we have we will try to capitalize. So you will not see them in the P&L, but to answer your question for 2023 as well, even if we see a slight increase in our needs, US$1.5 million to US$2 million annually should be sufficient for the next 24 months if we do not raise additional capital and significantly change the opportunities that we focus on, which would require additional resources of course.

HEIKE HÜLLE:

Thank you, Stefan. And then we received one last question, at least as far as I can see now, and that comes from Yangbo Du and the question is please elaborate on the AAA rating of PPA-backed bonds you cited earlier. Might such a rating be an indicator of ample liquidity for project finance?

MARTIN VOGT:

Yes. I think this is a very clear yes. Of course on the project financing side as well as on the sponsor side, credit quality of our offtakers is part of the due diligence and the assessment, among others. So if we are able to secure projects with a AAA offtaker, it has usually the benefit that lenders are very happy to finance these long-term assets that are benefiting from such power purchase agreement of this entity.

HEIKE HÜLLE:

I think we're done with the questions. I can't see any more incoming questions now. In case you do have any follow-on questions later, you see the contact possibilities listed here on screen. Please feel free to send us an e-mail anytime and we will try to respond to you as quickly as we can. And with this, I thank you very much for spending the time with us this morning.

OPERATOR:

Thank you. That does conclude your conference for today. Thank you all for participating. You may now disconnect. Speakers, please stand by.

END