MPC ENERGY SOLUTIONS

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Q3 2021 WEBCAST ON THE THIRD QUARTER 2021 REPORT

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OPERATOR:

Thank you for standing by and welcome to the Q3 2021 webcast of MPC Energy Solutions. At this time all participants are in a listen-only mode. After the speakers' presentation there will be a question and answer session. If you would like to ask a question during the session you can either use the text function in the webcast or press "*1" on your telephone.

I would now like to hand the conference over to your host, Ms. Heike Hülle. Please go ahead.

HEIKE HÜLLE:

Good morning everybody also from my side and welcome to the second webcast of MPC Energy Solutions. We are pleased to have you here this early in the morning.

Our Q3 report and the press release regarding the Q3 report have been published this morning at 7 o'clock. As the operator just mentioned, we will hold a presentation for you now followed by a Q&A session. Please be advised that the webcast today is being recorded and will be published later together with a written transcript. And just to cover the necessities, here is a statement regarding forward-looking statements:

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 security laws.

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.

OK, with this part covered I would now like to introduce our speakers for this morning. I have with me Martin Vogt, the CEO of MPC Energy Solutions, and Stefan Meichsner, the CFO of our Company.

Martin and Stefan, please go ahead.

MARTIN VOGT:

Thank you, Heike and good morning also from my side, Martin Vogt speaking now.

The agenda for this morning will include an update on the projects and an outlook on projects as well as the financial review of the last quarter.

This morning I will start by primarily focusing on the project side where we have also prepared two small deep-dives into the latest project announcements, which is the project in Mexico, Los Santos, and the project in Colombia, Planeta Rica with Akuo Energy. I will then hand over to Stefan Meichsner, who will do a deep-dive also on the outlook of our project pipeline and then provide a review of our Q3 financials.

So first of all, given that we are heading towards year-end, we would like to reconfirm to you that we still believe to be on track to achieve our operational asset base of 177 MW in 2023 with around USD 40 million of annual asset level revenues.

We also feel well-positioned to cope with the current challenges in the overall markets with regards to global supply chain disruptions as well as the continued COVID-19 pandemic.

COP26 in Glasgow further demonstrated our industry is still benefiting from material support of the private sector as well as the political side. We see that there are great opportunities ahead of us supported by the industry for a global energy transition and we also see that many of our markets where we are active in are increasing their renewable energy markets and mostly moving over to 100% renewable energy supply.

Having said that we'll go into the presentation that we have prepared for you and that will be uploaded. We go now into the post balance sheet date events. And I would like to start with the Neolpharma CHP project. We have received very good news here from LUMA Energy, the grid operator that took over the responsibility for the transmission lines and the grid operations in Puerto Rico from PREPA in June this year.

LUMA Energy completed their site assessment as the construction part was completed and they have now indicated to us that we will shortly receive our endorsement for the grid connection and that will enable us, together with the EPC 2G, to finalize the testing and connect the CHP plans to our client, Neolpharma. So we believe we can now supply our client with the first kilowatt hours by the end of 2021 or early 2022.

There was a six month delay now compared to the initial forecast of this project. Of these six months, four months were caused by the delay in equipment deliveries caused by the global supply chain disruptions and the last two months by a delay by LUMA Energy for their review of the technical site conditions.

I think it's important to understand that there was a change in grid operator in Puerto Rico and LUMA Energy had only since June to familiarize themselves with the ongoing assets. So we feel that LUMA Energy actually made a fast response to our request to connect our assets. Given that we are purchasing this asset from Enernet Global on a fixed price basis, there's also no economic impact caused by this six month delay, as the PPA also only starts with the commissioning and start of operation.

Moving over to our latest project acquisition and the advanced backlog, the Los Santos Solar Park in Mexico. We will do a deep-dive into that project later on but would like to share that we have signed the share purchase agreement to acquire 100% of the share capital and we expect that the transaction will be completed in early 2022. It is currently only subject to the approval of the senior lenders, which is the North American Development Bank as well as OPIC, which is now named DFC.

Moving over to the development backlog, here we are making good progress in our new joint venture with Soventix Caribbean in the Dominican Republic. As announced previously, we are targeting to develop a 50 to 100 megawatt solar project in the Dominican Republic.

Soventix Caribbean is a very experienced local developer with whom we are working already on other projects in the country. And at the moment we are at the stage where we're assessing various land options presented to us that have first of all good solar radiation, but also favorable grid connection points which is very critical in these island markets.

In our partnership with Enernet Global we are also very pleased to share that Enernet Global was successful in being awarded additional energy service agreements in Puerto Rico. We expect to be delivered another 2 megawatts in the first quarter and another 8 megawatts in the second quarter of 2022, which are ready-to-build projects, CHP in Puerto Rico with very reputable off-takers and clients primarily from the pharmaceutical industry, similar to Neolpharma.

And I would also like to give a general update on the construction. As you know we have with Planeta Rica, Santa Rosa and Los Girasoles, three construction projects. Here we are referring to the statement that was made by the five largest Chinese panel manufacturers around two months ago that describes the current supply situation caused by the local energy restrictions in China, limiting the production of panels.

And with that the average supply delay of up to six months we are affected equally by these supply delays. So we are expecting to have an up to six months delay in start of operation in these projects as of now.

So with that we can go over to the next slide please, where we just want to illustrate our updated growing presence in the key markets. Here you will see now that also Dominican Republic is part of our pipeline and we have future assets in the backlog like in Honduras and the Eastern Caribbean.

Moving over to the latest announcements, here Los Santos. I think this project fits very well into our strategy. We do have a private corporate off-taker with Leoni, a medium-sized German industrial company that is producing locally in an emerging market environment, as well as the La Salle educational network, which is about 22 universities in Mexico.

The split in the PPA is roughly 80/20 between Leoni and the universities. We do have a PPA that is in U.S. dollars, so we also don't have the FX risk of the Mexican pesos. It is an operational project, so it gives us access to immediate cash flows, and it also during the due diligence enabled us to review the operational performance of this asset, mitigating also further risks and overestimating for instance the production or underestimating local curtailments, et cetera. The power plant has 16 megawatts of installed capacity and is producing 34 gigawatt hours of annual energy. The project is operational since 2017 and also the O&M was performed by a globally leading company in the team.

For us it is very compelling to have a project that is operational but also provides the opportunity to extend the project, so here we are very pleased that we do have the optionality to increase the planned capacity to up to 90 megawatts in total by about 2023, so with the seller we have agreed on a right of first refusal on the extension phase once it is fully permitted, which will take about another 18 months.

We are the sole owner of this project, and with the DFC and the North American Development Bank, we have two leading development finance institutions as the senior lenders in this project that also provide further comfort with us and long-term financing at very attractive rates.

The ESG performance in the markets like Mexico that are still heavily relying on fossil fuels is also very favorable. You see here 16,000 tons of CO_2 equivalent emissions avoided per year; that is a relatively high value, given the local energy metrics of Mexico. Yes, as mentioned before, the SPA is signed and we're expecting shortly a closing, and with that the share transfer from the sellers to MPC Energy Solutions.

Going over to Colombia, where we have shared with you in August to build Planeta Rica, the 26.6 megawatt project that was initially developed by Akuo Energy and has a signed PPA with Celsia, Celsia being one of the major local distribution companies that has a AAA rating by Fitch, so again we do have a private off-taker with a very strong credit quality, which gives us a lot of comfort in Colombia.

The project is currently under construction, with an EPC provided by Mota-Engil and Socolco, Socolco being a local Colombian construction company with decades of experience, and Mota-Engil, a Portuguese EPC company that provides the experience in Solar PV. We believe that the commissioning will take place no later than the fourth quarter of 2022, with a slight delay caused here by the panel supply from the Chinese manufacturer SunTech.

The O&M will be performed long-term by Akuo Energy, so also here a strong alignment of interest with our co-shareholder, and on the ESG performance I would just like to point out that the big difference between the Mexican project and the Colombian project here, so you see despite the projects being roughly 50% larger only, the 4,000 tons of CO_2 equivalent emissions avoided is materially lower because the Colombian energy metrics are already driven primarily by hydropower.

So I think this is also good for everyone to understand it's not necessarily depending on the technology that we are implementing by the CO_2 avoidance, it is also materially depending on what is the energy metrics in the country that we are building these projects in.

And a very interesting part on both projects, which also shows our risk position here, is that both projects provide power materially below the industrial tariffs, so going back to Mexico you see that Leoni's alternative would be to receive energy from CFE under the industrial tariff regime, which is 21% higher than our PPA price, and in Colombia we are currently selling in the PPA for about 29% on average local energy prices, so it's a win-win situation for the clients as well as us as the IPP. We receive long-term certainty and reduce our volatility and the clients receive an immediate benefit compared to current market prices.

And with that, I would like to hand over to my colleague, Stefan, who will continue. Thank you.

STEFAN MEICHSNER:

Thank you, Martin, and good morning everybody. From our last webcast, if you tuned in, you know that we started classifying our entire set of opportunities into three categories, our portfolio, our advanced backlog, and our development backlog.

That has not changed. Of course, the way that we have assigned the projects has, as you will see on the next slide, but overall we still have 750 megawatts in these three categories that we see with a high probability of being realized. Some of these are under construction already, some of them are ready-to-build, others are operational and we are attempting to acquire them.

And in the development backlog, where we currently have 573 megawatts of opportunities, we own most of that already, we have exclusive access and in many cases the right of first refusal to all the others, and we see these becoming ready-to-build over the next 12 to 24 months as we previously indicated, and for the 750 megawatts for which we still see our double digit IRRs that we expect and need, as well as 75% EBITDA margin on project level, that all holds firm.

On top of the 750 megawatts we, of course, continuously source additional opportunities, both greenfield development as well as ready-to-build or operational assets, and we currently see close to 1.9 gigawatts in Latin America and the Caribbean that we have as additional opportunities for the future.

This table was first shared during our last webcast. You will see that there are some notable changes. The first change is that the Santa Rosa and Villa Sol project in El Salvador is no longer classified as ready-to-build but now under construction as the engineering is ongoing, as we have received the final pending permits to move ahead with construction, most notably of course the environmental permit. That is change number one, everything else is well underway.

Change number two is that after the signing of the share purchase agreement for the project in Mexico that Martin was speaking about a few moments ago, we have moved the Mexico project, Los Santos, into our portfolio from the advanced backlog. And the third change to the portfolio is that we have carefully moved the COD date for Neol CHP from Q4 of this year to early next year, given that we still await final approval from the new grid operator, LUMA, but that is not impacting us as a company as the capital will only be deployed once the plant is going into commercial operation. And the economics of the project are also not affected by that move into the next quarter.

If we move to our advanced backlog, these projects should be known. We have our project in the Eastern Caribbean which is ready-to-build. We're currently looking for key contracts to be transferred from the developer to the project company. And the transaction documents are final. The partners agreed that we want to move ahead with this and we hope that before Christmas we can share that information with you officially and also provide some more details.

From the advanced backlog also very critical of course to everyone the 60 megawatt solar PV plant in Honduras which has been operational for many years and performed well technically. We are still working on the transaction documents and we'll get all the parties involved that need to agree to this transaction. It's the same situation here, we are in agreement with the current owner of the project to buy into it. We will take a majority share in Honduras and we're working hard on closing that transaction as soon as we can and we'll share that information once that has happened.

On top of that the 573 megawatt development backlog is also in terms of its content not changed. What we have done now to provide some more guidance on where we stand is to include whether we have already secured the land lease or not. You can see that this is the case for almost all of these projects.

The only exception is our partnership with Soventix which we announced previously where we are looking for the appropriate land spots and once identified we will secure that land and then move on to the next development stages. Soventix is taking the lead on the development and we are in on the project as a 51% partner.

In addition to whether the land lease is secured or not as the key information for the progress in every development project, we've also given an indication here about when we expect this project to be ready-to-build and subsequently to go into commercial operation.

There is one typo here which we will correct in the uploaded webcast presentation for the project in Panama. Ready-to-build is not expected for Q1 next year but Q1 2023 and the COD date will also not be Q1 2023 but then Q1 2024. We apologize for the mistake, but we will correct it.

The rest of the projects, as we had previously announced, should be ready-to-build over the next 12 to 24 months. You can see here that for Colombia it already says Q4 2021 which is correct because that includes our initial projection for Los Girasoles which was part of this range given here.

So well on-track. It should also be noted that as we previously stated development for this project is fully funded by the capital we received during the IPO. On average we expect development costs for a megawatt in the region to range anywhere from USD 5,000 to USD 15,000 per megawatt. It depends of course on the project, on the country, and what still needs to be done. But overall even if we take USD 10,000 as an average for this entire development backlog, the money is available and will be made available to the development team as we progress. So we should see significant value creation from the development backlog over the next one or two years. And once we achieved ready-to-build of course it is our intention to also build and then operate these assets long-term.

The projection about our installed capacity ramp-up has not changed. Martin has also reiterated this at the beginning of the call today that we still see 177 megawatts to be installed in 2023 and fully operational which will correspond to

USD 40 million asset level revenues. And just as an additional information what that means on a consolidated basis in 2023 would be USD 28 million revenues for our company as we projected a 75-80% EBITDA margin on a project level.

And given the lean overhead by 2023 we will also have a 70%+ EBITDA margin on a corporate level. We know that some of our peers report proportionate financials and we will address that later on. We've looked into this and we believe it will be an interesting and valuable addition to the information we provide to the investment community. So with our next webcast, we will likely go away from asset level revenues and rather provide the proportionate revenues. And we will also address this later during the Q&A session just to provide that additional information.

The only change that we have really made here is the outlook for 2022. It was previously USD 25 million revenues, but as Martin previously mentioned, since we are seeing some likely delays in our construction projects, we thought it would be prudent to eliminate at least one quarter of revenues for these projects next year so that we don't over-promise and then underdeliver. So the new projection for next year is USD 23 million asset level revenue corresponding to USD 23 million consolidated revenue. The rest is unchanged to our previous communication.

Which concludes our review of the projects themselves. We will now give a brief overview about the financial situation as of September 30th, which we also published as part of our financial report this morning.

If we look at our balance sheet, you will see that the most material change in line with our previous communication is that we made the investment for our Colombian partnership project Planeta Rica. Overall we invested USD 7.6 million into the project, that is USD 2.3 million equity and USD 5.3 million shareholder loan. The shareholder loan bears an interest of 10% per year and is denominated in Colombian Pesos.

What you see on the balance sheet is that we have actually USD 7.8 million reported here for Planeta Rica. The difference to the USD 7.6 million we invested is two-fold. One is that interest on the loan is already accruing. For the first two months that was roughly USD 90,000. And the remaining impact comes from exchange rate differences between the time when we extended the loan to the project company and the valuation date, September 30th.

We will see this value, of course, fluctuating at the moment. The exchange rate between U.S. dollars and Colombian Pesos is more or less in line with the date that we extended the loan, but as that exchange rate moves up and down we will see the face value of the loan fluctuate as well.

Otherwise we still have predominantly cash on our balance sheet, USD 72.1 million. We are still well capitalized. We have no long term debt. And that money is ready to be deployed into the projects that we have shown previously from the portfolio, from the advance backlog. Some of that money is already with the project companies for the respective projects, of course, but on a consolidated basis, that is not shown in detail.

If we move to a brief overview summary of our income statement and cash flow, the income statement continues to reflect our ramp-up. We don't have any operational assets yet so we have no revenue to report. At the same time we are ramping up our team as can be seen by the slightly increasing personnel expenses quarter-to-quarter. And of course a substantial part of our operational expenses relates to advisory fees from due diligence and other transaction-related services. There is still a substantial amount of money that was spent on the IPO.

So overall this is completely in line with our expectations. It's also reflecting the progress we're making with transactions in Honduras and Mexico and the Eastern Caribbean. Which of course correspond to operational expenses increasing as we progress in these projects.

On the cash flow side, also no surprises. The difference between the EBITDA that we see in the first three quarters and the operating cash flow year-to-date is basically the capitalized project development expenses. So that is reflected in the operational cash flow but they have been capitalized and thereby do not impact the P&L, which shows the difference of roughly USD 800,000.

In the investing cash flow you can see in the first quarter our increased investment in Enernet Global, our strategic partner and in the third quarter now the equity investment in Planeta Rica. And the financing cash flow Q1 shows the impact from the IPO and Q3 shows the shareholder loan that we extended to Planeta Rica of USD 5.3 million.

So overall these numbers are still very easy to understand and once again concluding that we have USD 72.1 million cash reserves of which only a small amount is currently restricted as a secured deposit for bank guarantees.

As a final remark before we move to the Q&A session, Martin and I always like to thank our investors for their trust and continued support. And most notably our team for the great work that they put in day to day. And for the progress that we have once again made. We are very optimistic about this company and what is going to come over the next few years and decades.

Martin has elaborated on the many opportunities and the potential that the sector, in particular, this region has. And we are well-positioned to capitalize on that. And with that, I hand the call back to Heike, and we can start the Q&A session, thank you.

HEIKE HÜLLE:

Thanks a lot, Martin and Stefan. We will now continue with a Q&A session. We will pause for one minute to give you some time to either send your questions through the chat function in this conference if you have not done so yet. Or by pressing *1 on your phone.

Let me start with a phone question, operator do we have any questions via the phone line?

OPERATOR:

There are no questions coming through on the phone line but if you do wish to ask a question it's * and 1.

HEIKE HÜLLE:

Thanks a lot. Then let me move on to the questions we received via the webchat.

The first question is from Daniel Stenslet and his question is: Regarding the backlog of development assets where you don't have ownership yet, 221 megawatts, is there a point in time where the right of first refusal agreements will expire? Any milestones that have to be met to maintain these rights?

STEFAN MEICHSNER:

Thank you for the question, Daniel, no we don't see these rights and exclusive access expire and there's also no milestone that we need to achieve to keep these agreements in place.

And given that our timeline is 12 to maximum 24 months to get these projects ready-to-build, we see continuous progress being made by the development team. For us, there's also no risk of losing these projects.

The only thing that could affect, of course, our development backlog is that we see certain projects become unfeasible or hitting certain obstacles that we cannot surpass. But as of today, that is not the case.

HEIKE HÜLLE:

The next question is from Christer Bjorndal: Do you see increased competition in the region?

MARTIN VOGT:

We don't see increased competition. Actually, with the continued COVID-19 pandemic, the situation remains similar throughout the entire 2021 year. Which means that many of the investors and IPPs in this space focus on their core markets. And those are very often either Europe or North America.

So, indeed we believe that this year is a year of great opportunities for us because we are the preferred partner for local developers and other stakeholders giving that this region is our core market that we are focusing on. So, no at the moment there is no increased competition in the region. We will expect that certainly to change once we go back to a new normal post-COVID-19.

HEIKE HÜLLE:

OK, thanks, Martin. The next question is from Magnus Solheim and he's asking: Is capital expenditure in line with what's been previously communicated or should we expect higher figures compared to what you previously guided as a result of the ongoing supply chain environment?

STEFAN MEICHSNER:

Thank you for that question, Magnus, the impact of the disruptions in the supply chain and the likely increased CAPEX figures have previously been adjusted. So, what we report today is still in line with what we previously communicated.

So, there is no further negative impact compared to what we previously stated. And that being said, our return rates, as we previously, reported have been impacted between 50 and 100 base points. But that has been contained at that level so we don't see any changes.

HEIKE HÜLLE:

The next question is also from Magnus Solheim. Can you give an update on the PPA market in your target region? Any regions worth highlighting?

MARTIN VOGT:

Yes, we see an increase in demand for PPAs, in particular from the private sector. But also in Colombia from the distribution companies given that Colombia is increasing their quotas for distribution companies that need to come from renewable energy and with that non-hydro renewable energy.

So, we do see a strong demand also in Colombia. You may know that the Ituango hydropower plant is still questionable whether it will come online and with more than 2,000 megawatt of capacity that has quite a significant impact, and a lot of distribution companies have plans to receive power from that project.

These distribution companies are now in the market to look for alternative supply. So, we do see increase in demand for clean energy supply. And we also see that people and stakeholders realize that it may be worth to skip gas as a transitional technology and bet immediately on full renewable energy deployment.

The experience now with the increase in gas prices and in the region where we are they are importing natural gas from the U.S. where we also saw the uptick in prices this year which makes renewable energy, again, comparatively more attractive.

Also there we see especially on the islands that have previously focused a lot on LNG markets like Dominican Republic, markets like Jamaica, but also El Salvador that this generation mix is again reconsidered and certainly with the advantage for renewable energy to be a provider of affordable clean energy.

So, I think we are in a very positive momentum and price increases are also there. In El Salvador, we see already that our index PPA prices are growing faster than expected. We see the price uptick in Colombia and other markets cost, again, by natural gas being the price setter.

And, again, that makes renewable energy an attractive supply for the PPAs of these distribution companies, traders, and private corporates. And also worth to mention that most of the PPAs are U.S. CPI-adjusted so the current high inflation environment will also increase the PPA price levels throughout most of our projects, increasing the revenue base of the company.

HEIKE HÜLLE:

Another question from Magnus is: Do you have a target for your net owned capacity in 2023 and net revenues as well?

STEFAN MEICHSNER:

Yes, we do. I believe this nicely relates to the subject of proportionate financials from where we consider our economic interest rather than consolidation rules.

In terms of megawatts installed in 2023 we would look at 121, key differences, of course, coming from the project in Honduras, the Eastern Caribbean, and our 50% partnership with Akuo in Planeta Rica.

On a revenue basis, it's a little bit lower than the consolidated revenue outlook of USD 28 million. I would say it's around 26.4/26.5. The reason here being that neither the Planeta Rica project nor the project in the Eastern Caribbean for the first few years would be consolidated.

So, that's why you don't see such a large difference between the consolidation revenues and the proportionate financials. So, to summarize 121 megawatts installed capacity and USD 26.5 million revenues should be the proportionate figure, Magnus, that you are looking for.

HEIKE HÜLLE:

This concludes the Q&A session and the webcast. If there are any further questions we have not covered today please feel free to send them to us via email at ir@mpc-energysolutions.com. We'd like to thank everybody for joining us, have a great rest of the day.

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