Interview with Neoen

NEOEN

How do you foresee the development of renewable energy in your markets, and how can Neoen support this evolution?

Growth in renewable energies is fundamentally driven by an underlying increase in energy needs from all sources, coupled with an increasing willingness from governments and corporations to provide production facilities and populations with local green energy at competitive prices. Indeed, renewable energies perfectly address these sustainable and economic aspects, but also the critical question of sovereign energy independence.

In its latest World Energy Outlook (2021), the International Energy Agency (IEA) estimates that energy generation capacity from all sources is likely to nearly double between 2021 and 2050 with solar increasing the fastest with an average annual growth rate of 8% over the period, followed by wind at nearly 5%. Within this generation capacity, the share of solar and wind power is expected to increase from about 21% in 2021 to 56% in 2050, highlighting the magnitude of the development potential for renewable energy.

Neoen, as a multi-local leader and one of the leading IPPs of renewable energy, will contribute to this major change by delivering on its ambitious investment plan focused on three technologies: solar, wind and storage. At the end of 2021, after exceeding the 5 GW capacity in operation or under construction target set at the time of our IPO in 2018, we plan to reach 10 GW in operation or under construction by the end of 2025, which implies doubling our capacity over 4 years.

How does debt financing accommodate for these types of projects?

The development and construction of photovoltaic plants, wind farms and energy storage facilities are capital-intensive and require significant financing, mainly through the use of external debt and, to a lesser extent, equity. The predictable nature of the cash flow generated by wind and solar projects enables us to put in place external financing, in the form of predominantly long-term non-recourse project finance debt. It generally covers 50% to 90% of wind and solar project costs for projects in OECD countries or between 50% and 70% for projects outside the OECD. But it can fall to 40% for projects highly exposed to market prices. Storage projects financing is generally more complex to structure through dedicated project finance debt due to the less predictable nature of their revenue streams.

To complement this non-recourse external financing at project level and diversify our source of funding, we found that green convertible bonds issued at the corporate level represented an interesting option for Neoen.

As investors benefit from an upside associated with the potential increase in the underlying share price, through the conversion premium, they generally require lower coupon than standard corporate debt financing. In addition, the issuance process can be quite quick and efficient.

Neoen listed two convertible green bonds on Euronext Access: why did you choose this format?

As our shares are listed on Euronext and included in the SBF 120 index, we found the listing on Euronext Access ideal.

Regarding the green format, as we consider sustainable financing as a key tool to anchor our leadership in sustainability matters, in particular climate change mitigation, it was considered, as early as in 2020,a must have and was encouraged by our syndicate banks. We were actually the first company in Europe to issue a green convertible bond published our green bond framework in May 2020 accordingly, which was drafted in alignment with the Green Bond Principles 2018 administered by the International Capital Market Association (ICMA), as confirmed by Vigeo Eiris (now Moody's ESG Solutions) in their Second Party Opinion.

While we currently have two green convertible bonds listed, the first one for an amount of 170 M€, with a maturity in 2024 and the second one for an amount of around 300 M€ with a maturity in 2027, we initially issued our first convertible bond in 2019 for a nominal amount of 200 M€. In September 2022,as authorized by the documentation with the underlying conditions being met, we decided to proceed with the early redemption of this first convertible bond and to launch the offering of a new one, the second in a green format.

How did investors welcome these two green issuances? Was it a positive experience for Neoen?

Investors warmly welcomed these two green issuances, as made evident by the significant oversubscription that we received for both and the final financial terms of the bonds. In 2020, we managed to reach the best possible terms within the range offered to investors for both the conversion premium and the coupon. In September 2022, in a more complex environment regarding inflation and interest rates as we literally reopened the European convertible bond market after a few months of very limited convertible activity, we managed to get the highest conversion premium ending up with an interesting coupon compared to the offer range. On top of that , we received strong demand from long only investors, which lead to a very balanced book and our bonds also enjoyed very good after market and secondary trading. Neoen is now recognized as a serious and trustful repeat issuer on the green convertible bond market.

So, both green issuances were very positive experiences for Neoen. The convertible bond format, as it is flexible and as the documentation requirements are overall not overly difficult to implement, is very positive for our company.

Can you share your views and expectations on the development of the sustainable finance market?

At Neoen, we consider the growth in sustainable finance, which has strongly accelerated in recent years, a long-term structural trend.

On the one hand, institutional, but also retail investors are more and more warry of the ESG profile of their financial holdings, as they want to invest in companies that offer a sustainable business profile that can deliver decent returns. As awareness around the consequences of global warming is rapidly progressing, the sustainability of some business models is increasingly called into question. On the other hand, regulators are more and more demanding in terms of reporting, particularly in Europe, as made evident by the European Union's Corporate Sustainability Reporting Directive which will significantly broaden the scope and depth of the sustainability reporting requirements. Unsurprisingly, even though we are somehow "green by nature" by accelerating the energy transition, we receive more and more questions and requests from investors around our ESG commitments. There is now a general expectation among our investor base that any of our future corporate financing (in the form of loan, bond or convertible bond) shall be green or sustainability linked.