

# Generating Alpha through sector specialization and mid-market positioning

The *Brief* by the Energy Transition Infrastructure Team



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Energy Transition Infrastructure (ETI) is a growing, diverse, and ever-evolving universe. Beyond traditional renewable energy, there are increasingly attractive investment opportunities in energy storage, low carbon mobility, energy efficiency, hydrogen, and its derivatives. These infrastructures will serve as the backbone of our future energy production and consumption and are supported by strong tailwinds including the energy transition mega-trend, the pressing need for energy independence, competitive economics, and supportive regulatory environment.

However, this universe is also becoming increasingly complex, making specialized expertise even more critical to seize opportunities while carefully navigating risks.

Mirova's mid-market positioning, combined with a sector focus at GP<sup>1</sup> level is a powerful combination to capitalize on the energy transition theme in private markets in Europe and generate alpha.

## The largest opportunity set lies in the mid-market...

The European market is widely atomized, with hundreds of local project developers acting below the radar of large players. Most new renewable energy capacity and climate solutions are being developed by these mid-sized players.

On the large-cap side, a significant amount of capital is chasing a limited number of opportunities, which drives up valuations. Comparing entry multiples, large-caps are priced higher than mid-caps, and the valuation gap has been widening over the last 3 years.



1. General Partners. The mentioned perspectives reflect the opinion of MIROVA at the date of this document and are likely to change without notice.

Nevertheless, from an asset-owner perspective, mid-market exits attract a wider range of potential buyers and offer multiple exit options, ultimately providing greater resilience against macroeconomic cycles.

## ...and the energy transition market is becoming more complex...

The times when energy transition infrastructure could be summarized to “Renewable Energy 1.0” (a fully-regulated, subsidized, ‘silent’ infrastructure) are long gone and it has now turned into a multi-faceted, broad and complex ecosystem: dynamic revenue models, a more challenging project development environment, grid constraints, supply chain pressures, the growing integration of technology & digital solutions, just to name a few.

Regarding revenue models, for instance, renewable energy projects have shifted away from regulated feed-in tariffs to market-based remuneration schemes in many jurisdictions, which increases the exposure to the fluctuation of energy market prices. To properly manage that, we hired a Market Director in 2022, who has been working closely with our asset managers and partners to implement various power offtake structures and dynamic hedging strategies, limiting market risk while benefiting from opportunities.

Mentioning grid constraints, the grid has become a major bottleneck in most European countries and has spurred the growth of battery energy storage system (BESS) projects, whose revenue model relies on several remuneration streams: sale of capacity and provision of ancillary services, such as frequency regulation, to the grid operator but also arbitrage on the wholesale market.

The development environment is becoming increasingly challenging, jeopardizing the value of project pipelines. This situation necessitates a high level of scrutiny and a deep understanding of local market dynamics when making purchases.

## ...which calls for increasing specialization

In this context, Mirova’s infrastructure investment strategies focus on mid-market opportunities, aiming at leveraging on 2 key drivers of alpha generation thanks to its deep sector expertise:

- (1) Differentiation, on the back of a distinctive investment strategy, to acquire premium assets in an increasingly competitive and intermediated market
- (2) Operational value creation, to optimize the asset in all aspects during the holding period, and better mitigate the risk

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## Key drivers of alpha generation: Differentiation

Our sector focus and our multi-decade presence in the market provide us with key advantages when it comes to sourcing opportunities, including early entry into the markets and long-lasting relationships with project developers which provide proprietary transactions and a strong edge in acquisition processes.

### ► Early market entries

Exploring nascent markets has always been a way for us to enhance our industry knowledge and build our exposure as these markets mature, before they become overcrowded. For example, we entered the energy storage market as early as 2014, electrical vehicles charging infrastructure in 2020,



green hydrogen in 2021, and invested in Croatia (2017), Spain (2018), Poland (2019) and Greece (2023) when these markets were not as attractive as they are today.

► An edge in transactions

The ability to identify under-the-radar assets and craft bilateral opportunities is a significant advantage. Our sector-focus gives us the ability to scout extensively for projects across Europe and build strong relationships with local players. Several stories demonstrate the tangibility of these partnerships and the opportunities they yield.

For instance, we developed an exclusive relationship over 10 years with Corsica Sole during which we invested 300M€ in bilateral transactions with them, before we became a majority shareholder in the company in 2020. It started in 2014, when we provided mezzanine financing to Corsica Sole's first solar & storage project at a time when storage was not widely recognized. We subsequently financed all their additional projects with three vintages of funds. In 2020, we became a large minority shareholder in their EV<sup>2</sup> charging business, Driveco, in a bilateral spin-off transaction. In 2021, Corsica Sole launched an equity raise, and we proactively engaged in the process ahead of the competition. Since then, we have consistently supported the company in its external and organic growth.

Another compelling example is our investment into RP Global after a decade-long partnership and over €500M invested in bilateral deals since 2015. Most recently, the founder, M. Gehrard Matzinger, decided to raise equity for the first time, and we quickly negotiated a deal with him.

These two stories illustrate that off-market and exclusive relationships are more than just marketing words. The small and mid-cap market is heavily relationship-based. Very often, we are the first institutional shareholder in founder-owned businesses. It takes a lot of engagement to build trust with these entrepreneurs, demonstrate our expertise, and show that we can be long-term partners, bringing more than money to the table.

In this large market (we screen more than 300 opportunities every year exceeding €18 Bn equity potential), our focus allows us not only to remain highly selective, but also to put an informed pricing on the assets, through granular analysis at every level.



## Key drivers of alpha generation: Operational Value Creation

Our sector focus and expertise also enable value creation across the asset's lifecycle. Mid-market companies boast several interesting growth narratives:

- ▶ Aggregation of small assets into large portfolios.
- ▶ Hybridization of renewable assets & grid point optimization.

As grids become a key constraint in several countries, the ability to create hybrid plants, combining different technologies provides price cannibalization protection and access to more competitive power purchase agreements. This implies a level of development risk that we are able to assess and take, if we believe the opportunity is right. We are also exploring evolving business models to access frequency regulation markets with Solar PV<sup>3</sup> plants, for instance.

- ▶ Geographical expansion, transforming local companies into national champions, and national champions into pan-European companies.
- ▶ Horizontal growth, such as supporting the evolution of an onshore wind developer into a multi-energy player.

For example, we invested in French renewable developer, Vol-V in 2012, when it was a mere 70MW onshore wind platform in France.

When we exited the company in 2020, Vol-V had grown its asset base and pipeline to several gigawatts, launched a solar development activity as well as a pioneer biogas business units, and completed opportunistic asset rotations. The investment overall delivered a satisfying 4x return.

- ▶ Pivots that require diligent execution but can yield significant value, like transitioning a project developer into an asset-owner IPP<sup>4</sup>.
- ▶ Operational efficiencies.

It is essential to not overlook the value of proactively identifying potential risks before they manifest and effectively managing them once they do occur.

Through our experience financing over 1,000 projects, we have amassed extensive knowledge regarding the technical challenges that affect both the construction and operation of assets, as well as their energy production. These challenges include issues such as quality defects, design flaws, inaccuracies in power curves, optimization of curtailment, miscalculations of availability, and calibration losses (such as wake effects and yaw alignment in onshore wind farms). Additionally, we must consider the less predictable challenges, including inverter fires, bird-related curtailment, and lightning strikes.

This expertise has been made possible by the internalization of core competencies and our capacity to maintain a grounded approach, as we have local operational teams in key markets where we operate, including Spain, Greece, and Poland.

**With two decades of experience in the market, Mirova's Energy Transition Infrastructure team offers investment strategies distinguished by a unique and advantageous positioning. Our focus on mid-market opportunities enables us to navigate the complexities of a rapidly evolving energy landscape, where dynamic revenue models and local market dynamics play critical roles. As we leverage our extensive sector expertise and cultivate strong relationships with local developers, the mid-market is increasingly establishing its presence within the broader energy transition universe, positioning us to drive impactful change for a sustainable future.**

3. Photovoltaic. 4. Independent Power Producer. The mentioned perspectives reflect the opinion of MIROVA at the date of this document and are likely to change without notice.



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