FINAL TRANSCRIPT

Innergex Renewable Energy, Inc.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Innergex Renewable Energy's 2023 Fourth Quarter and Year-End Results Conference Call and Webcast. Bienvenue à la conférence téléphonique et la webdiffusion des résultats du quatrième trimestre de l'exercice 2023 d'Innergex Énergie Renouvelable.

(Operator Instructions)

I would like to remind everyone that this conference call is being recorded.

I will now turn the conference over to Naji Baydoun, Director, Investor Relations. Please go ahead.

Naji Baydoun — Director, Communications, Innergex Renewable Energy Inc.

Hello, everyone, and thank you for joining us today.

I'd like to specify that this conference will be held in English. Members of the media are invited to ask their questions by phone after this call. A presentation supporting today's discussion is available as we speak on the home page of our website at www.innergex.com.

This call contains forward-looking statements within the meaning of applicable Securities laws. Although the Corporation believes that the expectations and assumptions on which forward-looking statements are based on reasonable assumptions, under the current circumstances, listeners are cautioned not to rely unduly on these forward-looking statements as no assurance can be given that it will prove to be correct. Forward-looking information contained herein is made as at the date of this call, and the Corporation does not undertake any obligation to update or revise any forward-looking information, whether as a result of events or circumstances occurring after the date hereof, unless so required by law.

During this call, we will refer to financial measures that are not recognized according to International Financial Reporting Standards. Please refer to the Non-IFRS Measures section of the MD&A for more information.

On today’s call, we will discuss our updated capital allocation strategy, which we announced via a separate press release yesterday evening, our Q4 and Fiscal Year 2023 results, and our 2024 guidance. Our speakers will be Michel Letellier, President and Chief Executive Officer, and Jean Trudel, Chief Financial Officer.

I will now turn the conference over to Mr. Letellier.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Thank you, Naji, and good morning. Thank you for joining us.

As Naji mentioned, yesterday evening, in addition to our earning release, we announced an updated capital allocation strategy. After much consideration and comprehensive analysis, we have made the decision to focus our capital allocation strategy to support our growth. Specifically, we are establishing a target dividend payout ratio between 30 percent and 50 percent. Jean will provide detail in his section.

Two key messages I would like you to take away are: we are shifting our focus to execute on significant greenfield development opportunities that we see ahead, which I'll detail in a moment. We will be in a strong position to primarily sell funds or organic growth going forward. Next slide?

We are providing our strategy toward accelerated growth by updating our capital allocation policy. We are positioning ourselves to seize the unprecedented growth opportunity in our industry. We have never seen this level of growth for renewable energy development in the past. The strong market growth we are experiencing in our core markets is creating a window of opportunity to capture new capacity, driven by both government and corporate decarbonisation goals. This is due to the deficit in energy needs and increasing demand for clean power. We see a substantial runway for significant and durable growth ahead.

We are excited about the future of Innergex, as we have multiple ways we can win in our markets, by pursuing profitable projects and delivering consistent free cash flow per share growth. We believe we can create value and deliver strong returns for our shareholders. Next slide?

We believe we are well-positioned as a leading, diversified, global renewable IPP with scale. Our diversification and unique portfolio characteristics provide us with a solid foundation to execute on strong growth that we see ahead in our four core markets, which is Canada, U.S., Chile, and France. Given our expertise, we are uniquely positioned to develop projects across all our existing technology, of hydro, wind, solar, and battery energy storage. Overall, our exposure to low-risk, high-growth markets position us well to capture new opportunities while remaining a North American business. Next slide?

We want to take a moment to clearly state our key strength at Innergex, which will continue to support our success going forward. We have a well-seasoned Leadership team with deep industry and market knowledge who possess the expertise of a full lifecycle project developer that allow us to originate, develop, finance, and commission projects across various technology and geography, and efficiently execute projects of all type and size in our varied geographies.

Our experience in forging enduring partnership with First Nation and local community is a unique advantage that make us a leader in our space. We have repeatedly been chosen as partner of choice for developing and operating clean energy projects. We have developed a strong track record in this domain, which will remain critical to our success going forward. We are leveraging our experience working alongside partners to develop projects while respecting their right in advancing economic reconciliation. We are leveraging our long-standing approach of balancing people, the planet, and prosperity to propose projects that are beneficial to all.

We also have extensive experience as assets operator. We self-operate most of our projects. We have the knowhow to efficiently operate our asset, and the ability to quickly correct proportional issues when they arise. Core to our expertise is also our top tier portfolio of hydro assets. This perpetual asset class provides long-term cash flow, support our balance sheet, and distinguish Innergex as a leading power producer. Next slide?

Our balanced growth strategy is focused on organic opportunities and is based on three key areas. First, we want to continue to develop accretive projects at a sustainable pace. We will ramp up our development activities, primarily focusing on wind and solar assets in our core market, as well as complementary storage capacity. Hydro development also remains attractive, as we are one of the few players who have the expertise to capitalize on future opportunities in this sector over time.

Second, we are going to remain focused on our key markets. We are prioritizing our development effort in Canada and in the U.S., where we have established operating assets, development portfolio, and significant operating experience. We see strong development potential, a favourable environment for construction and development, and strong government policy support. We also continue to capture opportunities in France and in Chile where we have established great development teams.

Third, we will focus on optimizing value for our existing portfolio. This active portfolio management approach allow us to renew expiring PPAs and potentially repowering certain assets. This will extend the cash flow profile of our existing portfolio and will also allow us to refinance certain assets, hence giving us more flexibility. Our team will find and secure profitable investments opportunities that will enhance our current portfolio and contribute to delivering additional value to our shareholders. Next slide?

Now, we'll detail our approach to each of our key markets. Canada, our home base, represents a large, rapidly-growing and highly attractive market for renewable energy. We have all the ingredients to be successful in Canada, like we did in the past. We see tremendous growth opportunity in the country over the next 10+ years, which will make this region the primary growth engine for Innergex. Our teams are actively developing projects to be submitted in upcoming RFPs to secure profitable, greenfield opportunity and capture this wave of growth. We have significant experience developing projects and are a market leader. We will leverage our expertise to capture growth, supported by our strong relationship with First Nation communities and utility customer. These elements will allow us to execute on significant opportunity in Canada, backed by long-term, high-quality off-take agreements.

Several provinces have taken meaningful steps to plan new RFP and increase overall procurement of renewable energy. Hydro-Québec is leading the way with its ambitious 2035 action plan. British Columbia, Saskatchewan and Ontario have also established impressive targets to further deploy renewable energy solutions. Innergex owns and operate assets in most of these regions, positioning us for continued growth. Next slide?

In the U.S., we have construction project in Wyoming and NY, while also looking at compelling renewable energy opportunities in selected markets. The passage of IRA is driving increasing investment into renewable sectors. Our focus is optimizing our footprint to concentrate on high potential areas where we can leverage our greenfield capabilities. Our development approach and learned experience will allow us to selectively pursue accretive projects, including in the large corporate PPA market.

The market in France and in Chile also feature very attractive opportunities for Innergex. We intend to continue bringing greenfield projects to life in both markets. In France, our growth is supported by our new strategic long-term partner, Crédit Agricole, and the strong growth outlook in the market for wind, solar and battery storage.

In Chile, our main strategy since we entered the market was to have a diversified portfolio that can respond to capacity and energy call for both utility and corporate customer. We are in a strong position to offer 100 percent renewable energy production on a 24/7 basis from a diversified fleet of assets with a strategic market footprint. Our recently commissioned storage project, coupled with the upcoming COD of our second-best (phon) facility, will have us manage duration requirement and curtailment while also capturing a healthy capacity payment and arbitrage on the market price. We also recently renewed our corporate PPA at the Pampa Elvira thermal solar facility with Codelco, and we expect to be able to sign new off-take agreement with the strong Chilean mining industry. Our market densification allow us to capture complementary and accretive growth opportunities while remaining disciplined in our project selection. Next slide?

We are very active in securing development options. We have a large and diversified prospective portfolio, over 10,000 gigawatts globally, which provide us with opportunity to be selective in capturing accretive growth. We will continue to expand this portfolio, supported by our highly experienced team. I am extremely confident in our ability to execute on this plan, supported by our new capital allocation strategy.

I will now ask Jean to elaborate on financial aspects of our outlook. Jean?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thank you, Michel, and good morning, everyone.

At Innergex, our approach is based on a multistep framework, with vigorous controls to manage all aspects of the development cycle. Our guiding principles on risk management help us to understand and mitigate risks, from project origination and assessment all the way through commissioning and ongoing operations. Being a long-term asset owner and operator is a key part of our success in greenfield development, and this approach to organic growth is core to our core strategy.

As for our overall investment proposal, it is based on three key pillars.

Firstly, double-digit target returns. We target achieving double-digit after-tax levered IRRs on our invested capital.

Secondly, sustainable free cash flow per share growth. We can best create shareholder value by focusing on self-funded organic growth at high returns. Although it takes time for upfront greenfield investments to translate into growth because of the funding lag in infrastructure projects, we are increasing our development activities to have a steady pace of project development and deployment over time. This should support a sustained pace of long-term growth on a per-share basis.

Thirdly, a 30 percent to 50 percent dividend payout range. We are providing an explicit target payout range, within which we expect to continue rewarding our shareholders with a healthy dividend. Furthermore, we believe that this range is aligned with our organic growth strategy and should allow us to have enough retained free cash flow to reinvest in the significant growth we see ahead of us.

Our goal is not only to build megawatts, but to execute on projects where we see the best risk-adjusted return potential and where we feel confident in successfully delivering projects with a margin of safety. We will focus on quality over quantity, in the disciplined pursuit of projects that meet our strict, risk-adjusted return criteria. Next slide, please?

We also want to take some time to discuss our balance sheet management principles, which are based on three factors. Firstly, prioritizing nonrecourse project debt; this important funding tool not only allows us to manage project risks, but also optimizes cost of capital and is backed by the quality of our long-term contracts. Secondly, a conservative debt service coverage and amortization. We maintain high levels of debt service coverage. Most of our project debt is amortized over the remaining life of our PPA contracts. This conservative approach allows us to manage our debt in a prudent manner and aligns our debt repayments with our cash flow profile. This should allow us to capitalize on refinancing opportunities in our fleet as the amortization schedules of our hydro debt is well below the useful life of the asset. We have demonstrated our ability to do so in 2023, and we will do so again in 2024 with additional hydro refinancing. Thirdly, maintaining our investment-grade rating. We remain committed to managing our corporate leverage to do so.

Furthermore, we think it's important to discuss our leverage profile. Although it's easy to compare us to industry metrics at a high level, we believe that leverage should be based on the specific portfolio mix. In Innergex's case, given our elevated exposure to high-quality perpetual hydro assets, we can optimize our cost of capital and put incremental fixed rate, low-risk project-level debt on our balance sheet. This key advantage represents an attractive funding tool for us and supports our portfolio leverage. Overall, our approach allows us to prudently manage our debt. We have a balance sheet that is appropriate for our unique, long-life asset mix, and that supports further growth. Next slide, please?

Going forward, our funding strategy will prioritize internal sources of capital to increase our capacity to self-fund organic growth. By revising our capital allocation priorities, we are choosing to emphasize greenfield development activities. It is important for us to be clear about this. The decision to realign our capital allocation strategy was not based on affordability. As you will see when we cover our 2024 guidance, we have the capacity to fully cover our actual dividend using cash flow from existing operations, and the long-term outlook is positive.

In the context of the significant growth we see ahead, as highlighted earlier by Michel, we have taken bold and decisive action to increase our financial flexibility and accelerate our greenfield investments while also reducing our reliance on externalities, both external issuances and/or acquisitions of operating assets. Based on these updates, we expect to largely self-fund our growth investments from retained cash flows.

While we strategically leverage capital recycling and refinancing tools, our guiding principles on portfolio management activities are as follows. First, value creation; in 2023, we crystallized value from our portfolio in France and brought in a strategic partner. This process allowed us to increase our investment economics. We see value in selective capital recycling and will look to reinforce our track record to value creation by pursuing further sell-down opportunities.

Secondly, the risk management and portfolio high-grading; we also see cash flow recycling as a tool to manage exposure and risk, allowing us to recycle capital for certain regions or assets into new, accretive growth. We could look to utilize capital recycling to exit noncore markets or divest low-performing assets, thus high-grading our overall portfolio quality.

Thirdly, funding; we see this type of initiative as supporting our self-funding ambitions, allowing us to continue to reinvest in new projects over time.

In conclusion, we will continue to expand on our capital recycling successes. By realigning our policy in support of our strategic priorities, we are increasing our financial flexibility, freeing up around $75 million per year to support sustainable and self-funded growth. As an example, over a 10-year period, this additional and growing excess capital could enable 1,500+ megawatts of incremental development on a 100 percent self-funded basis. Next slide, please?

If we think about our stated goal of securing 400 megawatts per year of new capacity, and we look out to 2030, we see a potential path to deliver on this goal. Here, we illustrate how, by just taking our under construction and under development projects, coupled with the recent awarded Québec wind projects, we are approximately at 46 percent of the way towards adding 400 megawatts per year through 2030. If we think about this goal in the context of our existing 10.9 gigawatts and growing portfolio of identified projects, we believe that we have a highly visible organic growth outlook. Next slide, please?

In conclusion, our revised capital allocation strategy will enable us to provide balanced returns to our shareholders. The dividend of $0.36 per share within a 30 percent to 50 percent target payout range, growing free cash flow per share from accretive greenfield opportunities, and opportunistic buy back of share and strategic capital recycling to create additional value. We will be focused on selectively developing high-quality projects in our core markets. Our disciplined approach and large pipeline of prospective projects mean we can be patient and monitor market conditions to maximize value creation. We will not invest in projects until we have a high visibility of being able to achieve our target returns.

By focusing on self-funded growth and quality over quantity, and given the time it takes to develop and construct projects, our organic growth strategy will require some time before it can translate into free cash flow per share growth. Having said that, we are confident that this is the right path for Innergex going forward. Our recent successes in Québec gives us confidence that we can continue to create sustainable value for shareholders over the long-term. Next slide, please?

With that announcement, let's turn to our fourth quarter 2023 results. For the quarter, we posted good results, with Adjusted EBITDA proportionate of $186 million, representing a 30 percent increase year-over-year. This growth was primarily driven by improving generation trends, particularly in our hydro portfolio, where we saw generation improve to 104 percent of LTA versus the anomaly of 70 percent of LTA experienced in the fourth quarter 2022.

Despite coming in 6 percent below LTA, our Adjusted EBITDA was in line with our expectations. This is because we had a favourable generation mix with higher production at facilities with higher pricing, which mitigated the impact of lower than LTA production. It's important to reinforce that our diversification strategy is working well, and that generation is not the only driving force of our results. We also experienced a healthy growth of 12 percent year-over-year for Adjusted EBITDA proportionate, which reached $735 million on a full-year basis in 2023. This increase was mainly driven by recent acquisitions, improving production trends in our hydro segment, as well as contributions from newly commissioned assets.

As for our cash flow, on a normalized basis, we would have generated between $197 million to $212 million cash flows for the year. The major drivers of this increase compared to 2022 are similar to the previously noted elements, partially offset by higher principle debt repayment, maintenance CapEx, and free cash flow attributed to non-controlling interests. On a normalized basis, our payout ratio would have been between 69 percent and 75 percent.

So far in Q1 2024, we are seeing good generation from our assets, which are performing in line with our expectations. Separately and of note, yesterday, we also announced an NCIB program. This will allow us to opportunistically buy back up to 5 percent of our outstanding shares. Next slide, please?

Based on recent macroeconomic trends and previously communicated elements impacting our path forward, we believe it is prudent to withdraw our 2025 target at this time. Looking ahead, we want to provide an update on our financial targets, but in the meantime, we are introducing guidance for 2024.

For this fiscal year, we expect Adjusted EBITDA proportionate to be in the range of $725 million to $775 million, and free cash flow per share before prospective expenses to be in the range of $0.70 to $0.85 per share. The key assumptions behind our 2024 guidance include production expectations in line with LTA and asset availability of approximately 95 percent. Overall, we expect to deliver moderate growth in 2024, with more pronounced growth in 2025 following the commissioning our projects under construction.

I will now give back the floor to Michel for our 2024 corporate priorities and closing remarks. Michel?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Thank you, Jean.

Before we conclude the presentation, I would like to reinforce our focus area for the months ahead. We will advance our under construction projects, the largest among them being the 330-megawatt Boswell Spring wind project, which we expect to be commissioned by the end of 2024. We are also focused on building Hale Kuawehi in Hawaii.

Meanwhile, in development, we will participate in RFP across the various markets in which we operate. We expect to bid well over 500 megawatts of projects into several RFPs in 2024. We are targeting capturing 400 megawatt of new capacity award from our bid this year, just like we did in 2023. Finally, we will continue to strengthen our financial flexibility. Next slide?

I would like to highlight why we believe Innergex is a unique investment opportunity and why we are confident in our ability to continue to win in the renewable energy market and deliver shareholder value. First of all, Innergex is a 100 percent renewable energy project developer and operator. We have a high-quality, complementary portfolio of assets that are diversified across hydro, wind, solar and battery storage. Our base of premium hydro assets provides a unique advantage.

Our assets are also well-balanced across geographies, with operations in Canada, the U.S., France, and Chile. This diversifies our exposure to the resources, customers and contracting opportunities. Our assets are predominantly supported by highly quality PPAs that are indexed to inflation and generate long-term cash flow. Finally, our disciplined execution on our growth strategy will enable us to deliver good, long-term shareholder return. Next slide?

I will close with our key takeaway from today's strategic update. As we announced last night, we are taking strong action to pursue disciplined, sustainable growth. We have made the decision to recalibrate our dividend payout ratio to allow for additional greenfield organic growth. Our updated capital allocation strategy includes prioritizing our self-funded model and increasing financial flexibility. Finally, we will also look to optimize our existing portfolio of assets to create value.

As we begin to capture unprecedented growth opportunities in front of us, we will remain disciplined on executing on profitable projects that will generate sustainable cash flow per share growth. I am confident in our ability to create value for our shareholders, supported by our solid track record of success that we'll continue to build on in the coming years.

With over three decades of industry experience and strong commitments to sustainable development through 100 percent renewable energy, Innergex is primed to pursue greenfield development opportunities and deliver compelling risk-adjusted return on investment capital.

With that, we'll now move to the Q&A session. Thank you.

Q & A

Operator

Thank you. (Operator Instructions)

Your first question comes from David Quezada with Raymond James. Please go ahead.

David Quezada — Analyst, Raymond James

Thanks. Good morning, everyone.

Maybe a question just on your refinancing initiatives; I know that you have the treaty you've already delivered, and then another three that you've got for 2024, but I think that leaves you with about 11. I'm just curious, is there a level where you want to keep a certain number of unlevered assets, or how many more tranches of that could you do, if any?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes, good question. At the present time, we have one initiative ongoing, and it's the refinancing of three additional hydro projects that are based in Québec. We're working on this initiative in 2024, so we expect to have something to announce on this later on. That's, at the moment, the only initiative we have. But of course, as you pointed out, we have other unlevered assets, and so as we may see fit, we may actually enact other initiatives in the future to fund our activities.

David Quezada — Analyst, Raymond James

Okay, excellent. Thanks for that.

Then, maybe just one more for me, just with your comments around asset recycling; I'm just curious if there's any colour you can provide in terms of what your priorities might be there? I know that you've got a lot of development-stage projects in the U.S. I'm wondering if any of those, in certain regions in the U.S., might be considered noncore, or what kind of will be the most likely assets that you could look to monetize, and what are the markets looking like today for those kind of assets?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes. I guess there are several assets that we have, as you point out. Our guiding principles, I guess, when we think about capital recycling, is first, the value creation. It needs to bring value—as we've done in France in 2023. Then, as I mentioned earlier, we’re trying to look at risk management, so high-grading the value of our portfolio, as we've done when we sold Iceland, for example, or Kokomo and Spartan last year, and some development assets in Hawaii that we sold as well. There are opportunities in our asset mix to do this again in 2024, or future years.

The third guiding principle is really funding. It needs to be substantial, and it needs to bring us funding, as we did in Iceland and France, for example. You're right, there are other assets, and we're looking at this with this angle.

David Quezada — Analyst, Raymond James

Thanks, Jean, appreciate that. I’ll turn it over.

Operator

Your next question comes from Sean Steuart with TD. Please go ahead.

Sean Steuart — Analyst, TD Securities

Thank you, good morning.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Good morning, Sean.

Sean Steuart — Analyst, TD Securities

I just want to—good morning, follow-up on David's question with respect to liquidity position. You ended the year with available liquidity of around $630 million, and you've articulated the under construction pipeline, the advanced development pipeline, and I guess the target of 400 to 500 megawatts of per year development.

What do you think the right liquidity needs to be, quarter-to-quarter, to have comfort that you can advance those opportunities? I guess I'm just trying to gauge that with—you seemingly have a reasonable liquidity cushion now, especially with the little dividend. Is there potential that you can delay some of these refinancing opportunities or asset recycling opportunities to wait for better market conditions, and how does that play into sort of an optimal liquidity target, quarter-to-quarter, for the Company?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes, it's a very good question. This is exactly, fundamentally, the reasons for our new capital allocation. We want to have flexibility, and this brings us additional flexibility to actually allow us to time refinancings or asset sell-down so that we're not actually stuck in a space where we have to do something. We can be more patient, we can be more flexible. Right now, we try to self-fund all our operations and we don't foresee the need for additional capital. As you point out, we have a good amount of liquidity right now. With this additional portfolio of hydro refinancing, we'll be in a good spot.

Sean Steuart — Analyst, TD Securities

I think the last update was $80 million in incremental proceeds from hydro refinancing. Is that still the right number?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes, that's still a good proxy.

Sean Steuart — Analyst, TD Securities

Okay. Next question, the NCIB; I presume that's not just there as a placeholder, and your shares are reacting positively out of the gate this morning. Can you give thoughts on your assessment of intrinsic value versus where the shares are trading now, and commitment to the NCIB at these levels?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

It will be also a decision of the Board. We have established the NCIB to be opportunistic in taking the investment, our share. Obviously, as you can understand, we see a lot of growth opportunity, but obviously, if we can have the opportunity to buy back some of our shares, this is going to be accretive right away on the cash flow per share basis. We will monetize the evolution on the market and be in contact with our Board of Directors to see how aggressive we can be with that program.

Sean Steuart — Analyst, TD Securities

Understood. Okay, that's all I have for now. Thank you very much.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thank you, Sean.

Operator

Your next question comes from Nick Boychuk with Cormark. Please go ahead.

Nicholas Boychuk — Analyst, Cormark Securities

Thanks, good morning.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Good morning.

Nicholas Boychuk — Analyst, Cormark Securities

Can you guys please provide a bit of extra clarity on your overall growth objectives? Is the self-funding mechanism of, say, 400 megawatts of gross capacity per year the ultimate goal, or are you guys also going to be looking at other opportunities and considering those? If so, I guess, a little bit more colour on the funding of that further out?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes. I'll take the first half, and perhaps Jean will contribute to the funding part. We have put this 400 megawatt opportunity or goal. I think that there's more opportunity in all the market. You heard me talking about Canada, U.S., Chile, and France. What we have also said is that we want to be disciplined. We want to win projects that are profitable. That’s why we're limiting our goal today at 400. That doesn't mean that we will not pursue more, but we'll be selective. We want to make sure that the project that we will be winning will be profitable.

Now, in terms of financing these opportunity if we have success, you heard Jean; we will be looking toward recycling. We have more flexibility with the dividend. But having good project with good return has never been an issue to get funding, by partner or sell down piece of that. What we are focusing is making sure that the project we will be winning will be profitable.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Well said.

Nicholas Boychuk — Analyst, Cormark Securities

Okay. That’s great, thanks.

On that profitability, my follow-up was going to be about how you’re prioritizing those. Are you seeing a different return profile by region or asset type? If you can explain how you’re thinking about ranking those priorities, I think that’d be good colour.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes. I think that we have a very special position in Canada. I think that we have proven in the past that Innergex has been very successful developing in Canada. You know that most of the project in Canada will require to have some form of a partnership with First Nation and communities; that's something that we have done in the past and we are very good at doing. This is giving us, I think, a leadership position and a unique ability to create value in Canada.

That doesn't mean that we would not be active in the other market. I think that we have a better, I guess, hedge now to create value for our shareholders. The U.S. has great opportunity. France, as you have seen, we have created quite a bit of value in our portfolio, has been shown with the sell down to Crédit Agricole. Chile is on a good path. If we stick to our strategy of having a portfolio, I'm confident that we will be winning RFPs in Chile in the next few months, there's some great opportunity going down there as well.

But to your point, I think that where we can create more value, perhaps, is in Canada, and the quality also of the PPA are great. They are 25, 30, 35 years index PPA, take-or-pay. That's the type of PPA we like as well.

Nicholas Boychuk — Analyst, Cormark Securities

Okay, so to clarify, I guess, a wind opportunity in Québec, like-for-like, would have a higher potential return profile, or more favourable characteristics to you guys than, say, a Boswell wind expansion or some new form of asset in the U.S., generally speaking. Is that a fair assumption to make?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

It's a fair assumption. I think the quality of the PPA with the Canadian utility are more flexible, although, in the U.S., I think that the inflation-linked PPA will have to be the norm. It has been in the past. Long-term PPA with utility have very little inflation embedded in them, and this is something that we don't like. I think that this way of signing PPA in the states will have to change, because it's not fair for IPP to take the full risk of future inflation for the next 30 years.

Nicholas Boychuk — Analyst, Cormark Securities

Got it, that's perfect. Thanks so much, Michel.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Thank you.

Operator

Your next question comes from Rupert Merer with NBF. Please go ahead.

Rupert Merer — Analyst, National Bank Financial

Hi, good morning.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Good morning.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Good morning, Rupert.

Rupert Merer — Analyst, National Bank Financial

I'd like to start by asking you a little about your bridge to 2024 EBITDA. It looks like it's up only 3 percent at the midpoint, actually down at the low end, but your guidance says you're basing it on LTA production. Given we had such big weather headwinds in 2023, can you walk us through that bridge on how we could see this basically flat EBITDA in 2024? I mean, you've got some growth too, I imagine, that's factored in there.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes. We took a prudent approach. There are a few things in 2023 that will not be true to 2024. For example, we've adjusted the LTA of some of our assets, downward, to reflect the historical production of certain assets that needed to be adjusted. That represents about $20 million of revenue, down year-over-year, just that aspect. I think it's important to be prudent right now, so we've put some contingency in our numbers to reflect that prudence.

We're comfortable with that guidance now. Rupert, as you know, we'll have calls every quarter, we'll update, potentially, this guidance if we see fit in the coming year. We really believe that the LTA that we have today are real. We believe in that number, that we've just adjusted down slightly, and we—that's why the guidance is based on that LTA. But if I…

Rupert Merer — Analyst, National Bank Financial

Just a quick note about that, we reviewed the financial statements, and the LTAs in your Q4 reporting are the same as they were in the previous quarter. Is this a quarter (multiple speakers)?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes. Well, we adjusted in two steps. When we did the transaction in France, we adjusted the French portfolio down, so that was reflected in Q3 and Q4. For 2024, we're adjusting down five hydro in B.C., so it's an additional 110-gigawatt hour of adjustments in 2024. In total, it's 170-gigawatt hour adjustment to LTA; 60 was done in Q3 and 110 done now in 2024.

Rupert Merer — Analyst, National Bank Financial

Just to put that in perspective, what percent revision would that be, on the…

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

That's about 1.6 percent, 1.7 percent down on LTA, but you have to realize, we're taking down the LTA out of two areas where our pricing is actually more elevated than the average. The revenue impact is a bit greater when you adjust these LTAs versus other LTAs. The total impact of this adjustment, France and B.C., is $20 million on a yearly basis of revenue.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Also, Rupert, we've been prudent also in our past assumption on spot merchant pricing. We could be proven to be wrong, in the sense that we're seeing strong merchant pricing emerging after the summer in Chile, and ERCOT has been pretty good last year, so we'll see. But I think the message that

Jean is providing you is that we want to be prudent. We're putting a forecast for 2024 while we just took out the 2025, so I think that we want to be prudent. We want to, perhaps, under-promise and overachieve in the future, so this is the reason. I agree with you that, when we look at what we have done in 2023, based on 90 percent LTA, our guidance seems to be very prudent.

Rupert Merer — Analyst, National Bank Financial

Great, thanks for that colour.

If I could ask, secondly, if you can give a little more colour on the impairments, in particular at the Hale Kuawehi, a $93.5 million impairment. Can you give us colour on why you're taking that impairment, but also a little more colour on how much more you have to invest in that project and how much has been invested so far?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes. At HK, the impairment, it's a bit of an academic process. It's an impairment testing every year that we do. There's a couple factors that impacted the value on our books.

Firstly, the yield environment is increasing, so these assets that were with a thin margin of error are impacted. Hale Kuawehi, as you know, has been seeing some difficulties, so the return on that project was actually challenged. Now with yielding environment going up, it's hard to keep the book value.

The other thing as well is that HECO, the difficulty of HECO, makes it more difficult to put debt on the project at competitive rates. When you look at the project on a standalone basis, the cost of capital for that project has increased as well. It was, I think, very prudent—it's very conservative to take such impairment on HK. At the moment, we have about $110 million invested in HK. There's about $90 million left to invest to build the project to COD, so that's on HK.

Rupert Merer — Analyst, National Bank Financial

Right, I'll leave it there. Thanks for the colour.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thanks.

Operator

Your next question comes from Mark Jarvi with CIBC. Please go ahead.

Mark Jarvi — Analyst, CIBC Capital Markets

Yes, thanks, everyone.

Jean, Michel, you talked about the 400 megawatts in the development pipeline. Just trying to understand, what holds you back from providing the medium-term targets? You kind of seem like you're close to having a framework for it, but what would you need to see? Is it the RFP results, and when would you be able to provide something to the market where they can kind of really see where the growth is going over the next three to five years, and sort of back into the self-funded model, I guess?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

No, that's fair. I think that we will be coming to the market explaining a little bit more. We just wanted to take a little bit more time, making sure that we have a better view on what's going on in all the RFPs that we are going to participate. We didn't want to rush to give you guys a guidance that was not based on actual numbers that we are seeing in the marketplace. We're very, very bullish, as you can hear me saying, amongst the ability for us to be successful in future bids. But we wanted to take a little bit more time to make sure that the guidance that we will be providing will be more, I guess, informed with actual data from the existing development activities that we're doing.

Mark Jarvi — Analyst, CIBC Capital Markets

Is that something you think happens in 2024, is that more 2025 when you have a sort of formal plan?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

I don't want to commit right now. Two-thousand twenty-four will be very busy. We'll be answering RFPs in Canada, in at least three provinces, if not four, France, and Chile. If something happens, it's probably going to be the end of 2024 or very early in 2025.

Mark Jarvi — Analyst, CIBC Capital Markets

Got it. Then, the retained cash from the dividend being lower and getting back to a sort of normalized generation kind of implies you should have cash flow retained of around $100 million annually, maybe a bit more. How do you see the equity deployment in 2024 and 2025 shaping up? Do you actually have the projects in line to deploy that amount of equity every year, or as you said, maybe Jean, there's a bit of a lag in development projects and the equity deployment might not really start to move until later in ’25, ’26 timeframe?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes, right now we’re fully funded on our construction activities, so these projects, that’s a focus we’re on. Those are self-funded. As we gain new projects, we intend to self-fund as well. It really depends on how successful we are. As you know, now we’ve won—the last two RFPs in Québec, we’ve won every project that we’ve bid, at very good return proposals. If we keep delivering that way, we’ll start looking at the way to fund these activities in 2025.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

But I guess that, Mark, one question is really clear: we’re not going to use that cash to acquire existing operating facilities. We’re moving away from that strategy. We’re going to focus on greenfield organic growth.

Mark Jarvi — Analyst, CIBC Capital Markets

Got it. I understand that with the MU2, you’ve got a couple other projects, but I'm not sure you have two years of clear equity needs, so I'm wondering whether or not there's actually some excess cash that’ll be there, and what do you do with that? Does that just pay down more of the credit facilities? Just trying to think about the right way to think about that retained cash over the next two years.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes, so we always manage—first of all, we manage always to keep our investment-grade rating, right? If we have excess cash, then maybe share buying back is an optionality that we have, as well, now that we've put the NCIB back.

Mark Jarvi — Analyst, CIBC Capital Markets

Okay.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

But we need to be prudent. We want to manage to keep our flexibility, optionalities, maintaining our investment-grade rating. That’s the guiderails we have, I guess.

Mark Jarvi — Analyst, CIBC Capital Markets

Just one sort of follow-up; what would be the expected equity investment for 2024 this year, on the projects you have in hand?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Well, we’re always (multiple speakers).

Mark Jarvi — Analyst, CIBC Capital Markets

Given the fact the Boswell's fully funded. Yes, yes.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes, yes. Yes, so our utilities are fully funded. We're looking at eventually putting the debt instrument on the MU2 that we've recently won, but that's it. I mean, we don't have equity need at the moment, not in the short-term.

Mark Jarvi — Analyst, CIBC Capital Markets

Got it. Okay. Thank you, both.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thank you.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Thank you.

Operator

Your next question comes from Nelson Ng with RBC Capital Markets. Please go ahead.

Nelson Ng — Analyst, RBC Capital Markets

Great, thanks, and good morning, everyone.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Good morning, Nelson.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Good morning.

Nelson Ng — Analyst, RBC Capital Markets

Good morning. Just a few follow-up questions; so you talked about, I guess, the 2023, 2024 bridge with Rupert, and you flagged that it was relatively conservative and prudent. I presume, I guess, one factor that could be pushing the EBITDA down is higher prospective project costs, given that it sounds like you're going to be pretty busy this year. Could you just comment on what you've budgeted for prospective projects this year? Because I think it was about $27 million in 2023.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

It should be close to $40 million, at what we have in the budget. It's a ramping up. That's a good question, Nelson, in the sense that our team has been built up; you don't built overnight the team.

We've been increasing our prospective expenses in the last five years, going from roughly $10 million to, last year, as you mentioned, $27 million. Now, we're focusing close to $40 million for this year.

One has to understand that this has to be kind of in line with the amount of team that we have on the ground. This is why we're also pretty optimistic, is that we are building the team. We have now more boots on the ground that can deliver more projects. You will see an increase, activities in prospective project getting in into early stage, and then mid and advanced. That's strategy-wide, as you're going to see more projects being chipped in, in those categories. The advanced bucket, which is obviously the one that has more probability to get into a development project and then eventually under construction, this is what you have to focus, is our ability to create more and more prospective project pipeline, and certainly focusing more on advanced sector.

The early stage is always early stage; those are the incoming project that will have to go through the development activities. But, what we are going to focus is to see the third bucket, the advanced projects, they're going to be ready to bid into RFPs, and like I said, there will be a lot of activities in Canada, but the three other markets are very active as well.

Nelson Ng — Analyst, RBC Capital Markets

In one of your slides, you mention that you'll be bidding over 500 megawatts but you expect to win about 400 megawatts. That's close to an 80 percent success rate. (Multiple speakers).

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

I would say that the 500 is very, very prudent.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

That's just for 2024.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes, yes.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

As the RFPs come, we may bid a much greater number of megawatts, as well, in the future years.

Nelson Ng — Analyst, RBC Capital Markets

Okay, got it. Then, I just also had another follow-up question on Hawaii. Just so that I'm understanding it correctly, so the HK project will cost about $200 million in total, of which $110 million has been invested, but you've written down $94 million so far.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

That's right.

Nelson Ng — Analyst, RBC Capital Markets

Is that mainly due to unforeseen costs, or was it more of that kind of academic exercise you were talking about, like (multiple speakers)?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes, and my auditors won’t like me if I say “academic” like this. But it’s a mix of things, Nelson. Of course, we’ve seen increased costs. As you know, we were successful in renegotiating our PPA with HECO to capture a better price, to actually mitigate some of that increased cost, but not all of it. Then, the effect of interest rate rising, the quality of the PPA being, I guess, diminished with HECO's issues, made the cost of capital on that project different than what we originally anticipated. It's harder to put construction debt, or long-term debt, or tax equity as well. It is a bit more demanding in these circumstances. It affects the economics of the project, so we took the write-down. We took a conservative write-down, I have to say. We prefer to be more conservative in that regard, hence the end result.

Nelson Ng — Analyst, RBC Capital Markets

Okay. Then I guess just one last question; the DRIP is still in place?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes.

Nelson Ng — Analyst, RBC Capital Markets

Was there a reason why you chose to keep that in place? Because obviously, it's a bit dilutive, but you also have your NCIB…

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes.

Nelson Ng — Analyst, RBC Capital Markets

…that could offset that DRIP. But any colour on that?

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes. The DRIP is a service to our shareholders, really, that we provide. If you look in the financial statements of 2023, it's been used only to the tune of $2.5 million, so it's very marginal. We're going to be looking at the options to actually use the DRIP by buying market shares on the market instead of issuing from new shares. The effect is really minimal, at the end of the day.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes. We considered taking it out, but like Jean is saying, it's a little bit of a service to small investors that, sometimes, when they have a small position, it's kind of hard to track cheques being—not everybody has the investment ability.

But yes, like Jean is saying, we decided to keep it because it's so very marginal, and the idea of buying on the market is probably what we're going to do.

Nelson Ng — Analyst, RBC Capital Markets

Great. Thanks, everyone. I'll leave it there.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thank you, Nelson.

Operator

(Operator Instructions)

Your next question comes from Ben Pham with BMO. Please go ahead.

Ben Pham — Analyst, BMO Capital Markets

Hi.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Good morning, Ben.

Ben Pham — Analyst, BMO Capital Markets

Good morning. I had a question around, maybe, the timing of your decision to recalibrate and changing capital allocation. Could you comment on when you or the Board internally started to seriously look at recalibration? Can you also comment, was there anything else the Board might have considered to surface value in your stock, outside of a dividend reset?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

I think that I will not comment on when; it's always something that the Board is concerned about, always trying to have the best allocation of capital. I guess the payout ratio is a little bit of a vestige of the income trust area. It doesn't fit very well. I think that's what we decided, where we have this great possibility of growth, and we have had some challenge in terms of long-term average in the last couple of years. The payout ratio was always a little bit of a pressure, given the state of the production.

We basically take the view that it's the best strategy for us, is to focus on taking that dividend and put it into work in our organic growth opportunity. This is definitely what has been driven into the decision of taking this new policy, is the unprecedented opportunity that we see in our marketplace.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes. If I may add, it's really a value creation exercise that we went through here. We saw the opportunities ahead and we thought about how to maximize value to shareholders, and capturing that growth, having more flexibility to do so was the best course of action.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

But that doesn't mean that we will be freeing and then spending that money. I think that we are very clear, we want to focus and create value with these initiatives, and that's what we're going to be. We want to be disciplined; we have a lot of opportunity. We'll be cherry-picking the project that we want to win.

Ben Pham — Analyst, BMO Capital Markets

Can you comment, did you consider anything else beyond a dividend, maybe an asset sale on the hydro side, or an accelerated partnership of a pension plan for capital? Was there other areas that you had evaluated?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

The Board is always looking, and asking Management to provide alternatives, but I think that, given the low market, or challenging market these days, in terms of value of renewable asset, we thought that creating our own greenfield organic growth was the best way to go.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Yes. On the long-term as well, right?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Yes.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

It's a decision that will survive just a single asset sale, for example. This is giving us flexibility for the coming decade, not just a one year, one-time event as an asset sale would represent. Asset sales recycling, we've talked about this; we'll look into this to self-fund ourselves. But strategically speaking, the decision we just took now is for the long duration profile.

Ben Pham — Analyst, BMO Capital Markets

Okay. Maybe a last one for me; you mentioned the accelerated growth, and there's comments around self-funding the growth, but I think you've added even capital recycling too, if you have growth exceeding the self-funding model. I think that seems to be the message you're having. But, what if growth exceeds those two buckets? Do you put a lid on CapEx and pull back projects if you reach a decision where you may need to issue equity?

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Well, we're not saying that we'll never issue equity, Ben. But I don't think we have any need, for the near future, to issue equity. That's the message we're saying. If we're super successful and we have a lot of great project with great, accretive growth, we may consider, down the road, eventually, to issue equity. Being a public Company, that could happen. But, what we're saying is that we will not use equity as we did in the past to finance existing and mature projects. We'll be focusing on our ability to create accretive growth, per share, in our organic pipeline of development. If we're too successful…

Ben Pham — Analyst, BMO Capital Markets

That's a good problem.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

That's a good problem. Usually, it's not a big issue to sell down, or sell projects that have good cash flow profiles.

Ben Pham — Analyst, BMO Capital Markets

Okay. All right, thank you.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thank you.

Operator

Mr. Baydoun, there are no further questions at this time.

Naji Baydoun — Director, Communications, Innergex Renewable Energy Inc.

Thank you for joining us, everyone, today, and for your interest in Innergex. We look forward to updating you on our continued progress next quarter. Thank you.

Michel Letellier — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Thank you, everybody.

Jean Trudel — Chief Financial Officer, Innergex Renewable Energy Inc.

Thank you very much.

Operator

Ladies and gentlemen, you may now disconnect your lines.