

Innergex Énergie Renouvelable Inc.

**Innergex Announces the Sale of Minority Interests in its Renewable Energy Portfolio in
Texas**

Event Date/Time: June 20, 2024 — 1:00 p.m. E.T.

Length: 29 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Kristine Labrunye

Innergex Énergie Renouvelable Inc. — Senior Analyst - Investor Relations

Michel Letellier

Innergex Énergie Renouvelable Inc. — President and Chief Executive Officer

Jean Trudel

Innergex Énergie Renouvelable Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Nelson Ng

RBC Capital Markets — Analyst

Sean Steuart

TD Securities — Analyst

Robert Hope

Scotiabank — Analyst

Nicholas Boychuk

Cormark Securities — Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Innergex Renewable Energy's Texas Sell Down Conference Call and Webcast.

Bienvenue à la conférence téléphonique et à la webdiffusion de vente de participations minoritaires au Texas d'Innergex énergie renouvelable.

All participants on the phone and the Internet are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session for analysts and institutional investors, and instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star followed by zero for Operator assistance at any time.

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

I would like to turn the conference over to Kristine Labrunye, Senior Analyst - Investor Relations. Please go ahead.

Kristine Labrunye — Senior Analyst - Investor Relations, Innergex Énergie Renouvelable 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 homepage of our website at www.innergex.com.

This call contains forward-looking statements within the meaning of applicable security laws. Although the Corporation believes that the expectations and assumptions on which forward-looking statements are based are reasonable 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 the date of this call. 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 recently announced sell down transaction of our portfolio in Texas, key transaction takeaways, key strategic implication of the deal, expected financial impact of the deal. Our speakers will be Michel Letellier, President and Chief Executive Officer; and Jean Trudel, Chief Financial Officer.

I now turn the conference over to Mr. Letellier.

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you, Kristine, and good morning, everybody.

I'd like to apologize before we start. I have a bad flu and might cough a lot. Sorry for that. In the summertime, not the best.

Anyway, pretty happy to be with you today. It's a meaningful transaction for us. We're selling down our minority interest in our three facilities in Texas. Why are we doing this? First of all, we're welcoming a new partner with Irradiant. It's a partner. It's an equity shop in Los Angeles. They are joining us in buying minority interest, like I said, in our portfolio in Texas, but the most important thing is that we are de-risking the portfolio in Texas.

You all know that I was not a big fan of the power hedge in Phoebe, and we wanted to basically get rid of this power hedge. Through this transaction, we have the ability now and the liquidity to get out of this power hedge, and this is the last one we had, the portfolio plan, that this is behind us. Second, we are going to reduce the leverage of both Griffin Trail and Foard City—not Foard City, Phoebe. Financing will be repaid. Third, this deal is also crystallizing some value within Griffin Trail, mainly, and we expect the deal to be neutral to our free cash flow going forward.

If we look at the detail of the transaction, basically, at the end of the day, we're selling 38 percent of 826 megawatts. Selling includes minority interest in the three operating facilities, and I was going to describe what it is. Basically, we're selling for \$188 million this portfolio minority interest, at a fairly good evaluation of 9 times EBITDA (phon) 2023 multiple. This basically implies a premium over our book value of \$68 million. We're going to use that proceed, \$55 million will be used to pay down the power hedge with Shell, and \$114 million going towards deleveraging the portfolio. About \$19 million, that's going back to the (inaudible), which is going to basically go to reduce the line of credit at the (inaudible) level.

I'll be available for answering more questions, but I'll let Jean Trudel give you a little bit more

of the flavors and what that means for the future of our Texas portfolio. Thank you. Jean?

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

All right. Thank you, Michel.

Good day, everyone. I'm very glad to be here as well. As Michel discussed, with this deal, we will also retain operating control of our assets in Texas, and we will continue to consolidate them in our financial statements and results. What's important to note is that this deal is not expected to impact or slow down our organic growth. As we stated in the past, our development focus is really and foremost on Canada. We will remain active in the U.S., of course, but we do not expect to have meaningful greenfield activities in Texas over the near term, so that's not changing. Strategically, obviously we're reducing our exposure to the Texas market by removing that last power hedge structure that we had in place in our portfolio in Texas. We believe that this will really help the Phoebe asset to operate at its full potential.

Even if we expect the overall portfolio merchant exposure to increase with this on a considerate basis after the removal of the power hedge, we remain committed to maintain a high-contracted portfolio. With the expected addition of several projects to our portfolio this year, including of course the large-scale Boswell Wind Project in Wyoming, we expect our contract profile to increase in 2025, in line with our long-term target of being 90 percent just contracted over time.

From a megawatt perspective, we expect our net exposure to the Texas market to decline from previous levels, of course. However, we will remain a primary North American business, and we

continue to expect to allocate roughly 80 percent of our capital to our core North American markets going forward.

In the quarter, with this sale, we expect to record a gain on a disposition of non-controlling interest of around \$55 million. That will be as part of our payout ratio calculation in the quarter and for the year 2024. However, I guess excluding this element, we don't expect this transaction to materially affect our near-term financial results. As such, we're not changing our 2024 financial guidance at this time if we're excluding this gain to be recorded as part of the payout ratio calculation.

As Michel mentioned, this transaction is expected to be neutral to run rate free cash flow. Obviously, at this time, we're removing the power hedge but we're deleveraging, also, significantly the three assets, and this upsets the sale or the cash flow that will go to minority interests in the future.

However, I think what's interesting is that the removal of the power hedge will give access to potential revenue upside when we experience price spikes in ERCOT in the Texas market. Right now, with the power hedge structure, it was limiting the upside. Now we will be in a position to capture all this potential upside.

Overall, we're very proud to unlock additional value for our shareholders from this transaction, which will not only reduce our financial risk or exposure to this power hedge, but it strengthens also our balance sheet. It also is accomplished without changing any of our strategic direction or our growth outlook.

On this site, as we've discussed in the past, our guiding principles on capital recycling are threefold: value creation, risk management, and of course funding. When it comes to our Texas deal, we believe that we have executed on another successful transaction that falls right within our guiding principles. Although risk management and of course the removal of the power hedge was our primary motivation here, we were also able to create value for shareholder and unlock some funding from this deal. We are proud of our achievements on our portfolio management initiatives, and expect to continue to deliver value to our shareholders through an active capital recycling program.

Thank you all. That's all for my part, and we'll now move to the Q&A section.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, if you have a question, please press the star followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be pulled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys.

Your first question will be from Nelson Ng at RBC Capital Markets. Please go ahead.

Nelson Ng - Analyst, RBC Capital Markets

Great. Good morning, everyone.

The first question relates to Foard City. Is there a reason why you're selling down 22.2 percent, whereas the other two assets are 49.9 percent?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Remember that Foard City has also a PPA of 300 megawatt over the 350. For some reason, Irradiant was not providing as much value as the others, so we decided to sell down just a small portion of Foard City. But we didn't need more either to have the full financing liquidity required to basically buy down all the debt and paying down the powerage. Jean, do you want to add anything?

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Yes, and you're right, Michel. Actually, Irradiant wanted to invest a certain amount of money, and so we sized the transaction accordingly. As Michel pointed out, we had objectives to take out the hedge and also delever. Also, Irradiant had a certain flexibility in the amount they wanted to invest, so that ended up also a guiding factor in the proportion of each asset that was sold.

Nelson Ng - Analyst, RBC Capital Markets

Okay. That makes sense. Is there any future opportunities or arrangements with Irradiant other than the sell down? Have they mentioned that they want to do more, or other types of assets or geographies?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

We haven't engaged with them for other sales, but now that we know each other, they obviously will be the parties that will be invited in our future deals that we may look into. But we have no obligation to show them, or first right of refusal or anything in the other part of our portfolio with them. They're a good team to work towards, so when you already have a relationship down the road, we have no commitment.

Nelson Ng - Analyst, RBC Capital Markets

Okay. Then one other question is, in terms of Phoebe, given that you're paying down debt and removing the power hedges, are you able to provide some color as to what the cash flows look like before and after, or with and without debt and power hedges, from that process specifically?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Jean, do you—

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

The Phoebe asset was actually providing about \$20 million of EBITDA, and there was about \$100 million of debt on it. Now that we're taking that out, obviously it's increasing the free cash flow that's going to be provided by Phoebe but, as I mentioned also, Nelson, more importantly is that the Phoebe hedge was acting as a limiting factor in terms of cash flow generation. Now it allows us to actually really benefit from the market in ERCOT, which provide additional value in our view, because we'll see—and especially this transaction, we wanted to complete the transaction before the summer months because

it's in the summer months, July-August, typically that we experience these spikes or these scarcity events in Texas. Then it allows the free cash flow.

I guess exceptionality is going to be something interesting in the future, so we expect that the cash flows coming out of Phoebe might actually be quite—it could be interesting even more. But it's hard to predict exactly how often we have these scarcity events and what is the price signal that will be accompanying these events in the future, right?

Nelson Ng - Analyst, RBC Capital Markets

Okay, great. Thanks for that. I'll get back in the queue.

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Thank you.

Operator

Next question will be from Sean Steuart at TD Securities. Please go ahead.

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Hello, Sean.

Sean Steuart - Analyst, TD Securities

Thanks. Hi, everyone.

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Hello, Sean.

Sean Steuart - Analyst, TD Securities

Hi. One broad question. I understand the rationale for this initiative is de-risking the platform as much as it is bolstering the balance sheet, but can you give us a sense of, whether it's with this new partner or other counterparties, how advanced you are in terms of other asset sales, whether it's outright sales or minority stake sell downs? And your comfort with your funding position relative to an expanding growth opportunity set particularly in Canada?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

What we said is that we're going to be opportunistic. We don't have a target for selling down other assets for the moment, although, if you remember, we have a few opportunities to refine inside growth, and we're still working on it. Most of the capital that will be needed for the future development in Quebec and Canada and somewhere else, as you remember, these take some time to get developed, most of the big capital would be needed two, three years from now. We have plenty of time to take a look at all our options, and we don't intend to be too active, other than if we're very opportunistic, there's something that is very interesting.

The market is not that great for selling assets. I think we've made a good transaction here and, like Jean is saying, we were hoping to get rid of the power hedge to take advantage of potential scarcity even in the ERCOT market. This was probably the most, I would say, irritating asset that we had in our

portfolio, this power hedge. Now it's gone, we're happy to hold the rest of the portfolio in Texas and take the chance to have good market selling in Texas. Remember that Foard has 300 megawatts, like I said, in PPA. We have now Phoebe and Griffin Trail being fully merchant, which is not a bad thing in ERCOT. I think that I said it a few times, I'd rather be long in Texas than short. You never know with these markets, it's very volatile, we're happy with the position we have.

As far as other transactions, as you're mentioning, we don't have to, other than deleveraging, but deleveraging, we'll take our time to do it. I think we still have to refinance the Hydro facility. This is an easy one. The long-term interest rates are going down, it's going to our direction, and we're going to execute on that one this year for sure.

Sean Steuart - Analyst, TD Securities

Great. That's all I had. Thanks very much for the context.

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Right. Thanks, Sean.

Operator

Next question will be from Rob Hope at Scotiabank. Please go ahead.

Robert Hope - Analyst, Scotiabank

Good afternoon, everyone. Just in terms of the strategy, how did you land on a minority sales process? Did you look at fully exiting the Texas market? Furthermore, if you're not going to grow in Texas, are you happy with your existing position there and it does provide some options long-term? Can you just speak about how you're thinking about Texas longer term?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Like I said, Texas is a strange beast. There's a lot of opportunity. There's even talk about saying that Texas will grow up to 70 percent more in the next 5 to 10 years, for all kinds of reasons. The electricity, renewable energy, is cheap in Texas relatively. Hydrogen and data centers are going there. The growth of the population is going through the roof towards Texas. There's a lot going on in Texas, we like to still have this exposure but, like I said, we didn't like the power hedge at all. We're happy now with holding the percentage of the portfolio that we have. Very little exposure on basis, other than Foard, but very little. We remember that the power hedge—not the power edge. The PPA that we have with Foard is as-produced, so no-harm energy there. There's no risk for us to be called on covering our short on the market itself, so we're happy with Texas.

If ever there's a nice potential transaction down the road for selling everything in Texas, we'll take a consideration. For now, we think we're going to generate good cash flow from there. Like I said, without the power hedge, we're happy with holding what we have in Texas now.

Robert Hope - Analyst, Scotiabank

All right. Thanks for that. Then maybe a follow-up question in terms of capital allocation. When you think about the incremental \$19 million that you said you'll put on your credit facilities, moving forward, how does reducing debt versus share buybacks versus growth shape out? Because you continue to buy back shares in Q2 but, as you've noted a number of times, you do see quite a bit of growth in front of you in the next couple of years. Could you see you focus on moving out leverage as a way to, in essence, pre-fund future growth?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

I think that what we have been committed to is our Fitch Rating, and that has a few guidelines. I might give you a little bit more insight on it, but that's one of the priorities that we're going to be focusing for this year and I guess next year. We don't intend to deleverage massively, in a sense that we think that down the road we have a little bit more leverage than the industry, like I think we've shown and explained, and I think we're explaining that future to the investor and to yourself.

Having more hydro give us also more leverage capacity, and we have also some fairly young asset in our portfolio. This leverage by itself is going to be reduced in a sense that we're repaying capital on this existing debt, this project debt, fully amortized over the period of the PPA. Theoretically, as the time passed, we are deleveraging on each quarter by paying down the schedule reimbursement of our debt.

Robert Hope - Analyst, Scotiabank

Thank you.

Operator

Thank you. Ladies and gentlemen, if there are any additional questions at this time, please press the star followed by the one. As a reminder, if using a speakerphone, please lift the handset before pressing any keys.

Your next question will be from Nick Boychuk at Cormark Securities.

Nicholas Boychuk - Analyst, Cormark Securities

Thanks. Good afternoon, guys. Can you quickly talk about the competitive environment that you were able to see if you put this out? How many parties were interested in this transaction? How competitive were the terms that came back? Walk us through a little bit about that, how that environment looked.

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

We had a wide range, but at the beginning I guess we were looking just for selling down a piece of CB. Through some discussion, we decided that a more efficient way would be to sell down some exposure to the three facilities in Texas. We were already advanced with Irradiant, so we didn't go out for a portfolio approach. We were quite advanced with Irradiant. We were pleased with their approach, and we continue with them on that particular transaction, but we went wide. That took a bit of time. We started last year. Not the perfect timing, either, to sell assets, as we all know. We were happy to continue with Irradiant and to finalize I think a decent price for these assets.

I think that after this transaction, our position in Texas is more valuable, in my mind anyway, than before. I think that Jean has eluded that it's interesting to be exposed, completely merchant in

Texas, instead of the power hedge. We never know in Texas how many of the security (phon) even. It doesn't take that many to make \$5 million, \$10 million, \$15 million more profit or more sale in one quarter than the previous one, if there's some security (phon) in it, we're happy with the business.

Nicholas Boychuk - Analyst, Cormark Securities

Okay, thanks. Can you speak a little bit to the valuation and how you guys thought about giving it up at 9 times EBITDA? Was the multiple predominantly what you were thinking about? How did you think about that I guess valuation?

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

We would love to have had a little bit more money, but timing was also important for us. Like we were saying, these power hedge, never liked them. We were—if you remember, the industry, the tax equity provider were a big fan of these, and they were imposing these type of structures, or PPA-like, in terms of willing to finance these Texas investments. Like I said, we wanted to get rid of that quicker.

Are we happy with 9 times? I guess, yes. We would have loved more, but we're happy.

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Yes. Maybe if I may add a few thoughts. The 9 times is also the reflection of 2023, but it doesn't take much, when we have a power hedge like that in place, to actually reduce the economics of a project. Nine times could easily become 11 or 12, depending on the year. It's really a risk return profile that we now have access to that is much better than the previous risk return profile that we had. EBITDA

is one rule of thumb that sometimes does not necessarily demonstrate the whole story behind it. Going forward, I think it's going to be a much better risk return profile, and it's going to give us access again to some potential that we didn't have before. That was key in the transaction making, Nick.

Nicholas Boychuk - Analyst, Cormark Securities

Okay. All right. Thanks so much for the color, guys.

Operator

Thank you. Mrs. Labrunye, there are no further questions at this time.

Kristine Labrunye — Senior Analyst - Investor Relations, Innergex Énergie Renouvelable Inc.

Thank you, everyone. We look forward to speaking with you at our next results conference call in August.

Michel Letellier - President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you all.

Jean Trudel - Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Okay. Have a good day.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we do ask that you please disconnect your lines.