HA Sustainable Infrastructure Capital, Inc.

Second Quarter 2026 Results Conference Call

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<u>HASI Presenters</u>

Jeff Lipson, President and CEO

Chuck Melko, Senior MD, Chief Financial Officer and Treasurer

Susan Nickey, Senior MD and Chief Client Officer

Aaron Chew, Senior Vice President of Investor Relations

<u>Q&A Analysts</u>

Jon Windham – UBS

Ben Kallo – Baird

Noah Kaye – Oppenheimer & Co.

Chris Dendrinos – RBC

Maheep Mandloi – Mizuho Securities

Operator

Greetings and welcome to HASI's Second Quarter 2026 Earnings Conference Call and Webcast. At this time, all participants are in a listen only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Aaron Chew, Senior Vice President of Investor Relations.

Aaron Chew, Senior VP, Investor Relations

Thank you, operator, and good afternoon to everyone joining us today for HASI's Second Quarter 2026 Conference Call. Earlier this afternoon, HASI distributed a press release reporting our second quarter 2026 results, a copy of which is available on our website along with the slide presentation we will be referring to today. This conference call is being webcast live on the Investor Relations page of our website where a replay will be available later today. Some of the comments made in this call are forward-looking statements, which are subject to risks and uncertainties described in the Risk Factors section of the company's Form 10-K and other filings with the SEC. Actual results may differ materially from those stated. Today's discussion also includes some non-GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures is available in our earnings release and presentation. Joining us on the call today are Jeff Lipson, the company's President and CEO, as well as Chuck Melko, our Chief Financial Officer. Also available for Q&A is Susan Nickey, our Chief Client Officer. To kick things off, I will turn it over to our President and CEO, Jeff Lipson, who will begin on slide three. Jeff?

Jeff Lipson, President and CEO

Thank you, Aaron, and welcome to our second quarter 2026 earnings call. We are pleased to report another strong quarter including excellent results across all key metrics for the first half of 2026 as our business model of providing capital to energy transition projects with programmatic clients continues to be effective and resulted in more than $1 billion of new investments in the second quarter. Adjusted earnings per share in the quarter was $0.75, up 25% year-over-year, enabled by growth in portfolio revenue, fee income, and gain on sale revenue. We also expanded our investment margins and maintained our capital efficiency with zero ATM issuance. Adjusted return on equity exceeded 15% for the second quarter in a row, and through the first half of 2026, Adjusted Recurring Net Investment Income grew 27% year-over-year to $208 million. As of quarter-end, our Managed Assets were $17.6 billion, up 20% year-over-year. Encouraged by these exceptional results and our confidence in the outlook for new investment activity, fee income, portfolio yield, and our cost of debt, we are increasing our 2028 adjusted EPS guidance to a range of $3.55 to $3.65, up from 3.50 to 3.60, and affirming our guidance for Adjusted ROE of greater than 17% in 2028.

Turning to slide four. We highlight three catalysts that have been integral to driving growth in our assets and income. First is our exceptionally robust investment activity of greater than $1.7 billion year-to-date, underpinned by ongoing demand for new power capacity throughout the economy. Second is the success of our expansive funding platform, which is providing a continuous pool of flexible capital from multiple sources. This includes our CCH1 co-investment vehicle, which has opened our access to infrastructure fund capital. And since achieving investment-grade ratings a couple of years ago, we now have access not only to the deep investment-grade bond market but also the junior subordinated debt market as well. All of this is further supplemented by the flexibility provided by our short-term debt programs, in particular, our successful commercial paper program that is backed by our revolving credit facility, which we recently upsized to $2.25 billion. In combination, all of these elements have helped elevate HASI into a new category as a capital provider, facilitating our ability to execute larger transactions for our clients. And third is the steady progress we have made in reducing our cost of capital, enabled by the improvement in our debt spreads as we have become a frequent issuer in the investment-grade debt market, a highly effective hedging program, and a reduction of new equity issuance with zero ATM so far this year. Now I will dive a little deeper into each of these themes.

Turning to slide five, it all starts first and foremost with demand, which is driving heightened investment activity for power infrastructure in general and clean energy infrastructure in particular. Although recent headlines tend to focus on less favorable aspects of renewables development such as permitting and reduction of incentives, the underlying economic trends are actually quite favorable. Renewables remain the most cost-effective solution and the fastest to market to meet the growing demand for new capacity. Lazard's recent levelized cost of energy report details that solar and wind remain the low-cost sources on an unsubsidized basis even after accounting for the impact of inflation and tariffs, and renewables comprise more than three quarters of the net new U.S. generation capacity expected to be added to the grid over the next decade. Therefore, renewables are no longer a niche but an integral component of the electric grid today. The chart on the left side of this slide does a great job of capturing this trend as May 2026 was the first time ever that solar generation was higher than coal generation, and on the right side of the slide, the chart shows the forecast for new electric generation capacity over the next decade by source. New renewables capacity is expected to grow from just under 150 gigawatts over the next five years to 168 gigawatts over the five years beginning 2031, even after the sunset of the ITC. This forecast notably does not come from a clean energy-focused research or advocate but rather from EIA, which is the technology-agnostic division of the DOE. In summary, demand for renewables continues to grow, and the outlook remains strong even in a post-ITC world, and hundreds of billions of dollars of long-term capital will be needed to meet this demand over the next decade.

Turning to slide six. As we announced last November, HASI closed a $1.2 billion investment in SunZia, the largest clean energy infrastructure project in the Western Hemisphere to date, developed and majority owned by Pattern Energy. In July, we completed the funding of our investment in this project. As the chart on the left displays, SunZia is single-handedly having a transformational impact on California's grid, driving peak wind generation to a new CAISO record. In another fascinating data point displayed in the chart on the right, solar and wind generated 44% of the state's electricity generation through the first half of 2026. Now, turning to slide seven, I would like to pivot and discuss our margins in light of the recent increase in long-term interest rates. We have demonstrated our ability to remain profitable in all interest rate environments over several years. Since 2021, base rates have risen by approximately 300 basis points, but we've been able to offset that increase with a comparable increase in our investment returns. Over the same period, our debt spreads have improved by more than 140 basis points. The resulting impact of these factors has been both margin and ROE expansion in our business, and if rates continue to rise, we remain confident in our ability to manage this risk.

Turning to slide eight. Our pipeline remains above $6.5 billion even after closing more than $1 billion of new investments in Q2. This pipeline is supported by the major macro tailwinds driving energy markets today including the strong demand for power and the corresponding demand for utility-scale renewables as mentioned earlier, higher retail electricity rates, increasing battery attachment rates, and greater than 450 renewable natural gas facilities under construction or in development. On slide nine, in addition to all of our ongoing success investing in wind, solar, storage, and renewable natural gas, I wanted to highlight our objective of continuing to expand and diversify our investment platform. These emerging asset classes have several consistent attributes with our historical core asset classes including environmental impact, proven technologies, and contracted cash flows with high-quality offtakers. The transportation component of our business has grown into a more meaningful contributor over the last few years with more than $325 million of cumulative new investments. We also closed our first water infrastructure project investment in the third quarter and expect to see additional opportunities in that sector, and we have a few interesting projects in the sustainable agriculture sector in our pipeline that we are optimistic can become another diversification opportunity over time. These investments will provide additional paths to portfolio diversification and accelerated growth while reinforcing the noncyclical and resilient traits of the HASI business model. And one final item before I turn it over to Chuck. Our SunStrong and Neogenyx affiliates continue to perform within our expectations. And with that, I'll ask Chuck to discuss our Q2 results in greater detail. Chuck?

Chuck Melko, Senior MD, Chief Financial Officer and Treasurer

Thanks, Jeff. As highlighted on slide 10, our Q2 results demonstrated continued strong execution across our platform. We are meaningfully growing our earnings base, increasing our profitability, and strengthening our capital platform as we will show on the next few slides. Slide 11 highlights our key profitability metrics for the first half of the year, and as you can see, we achieved meaningful growth from 2025. Adjusted EPS was $1.52 per share in the first half of the year. Our Adjusted Earnings increased 31% to 200 million, driven by growth in both Net Investment Income from our portfolio and fees from CCH1. As our efforts to improve the efficiency in the deployment of equity capital continue to pay off, Adjusted ROE exceeded 15% so far this year, up meaningfully from the 12.3% in the same period last year. We had another quarter with no ATM issuance, and as we mentioned on our Q1 call, we still expect minimal issuance in 2026.

Turning to slide 12 and the key components driving our earnings growth. Our Adjusted Recurring Net Investment Income grew 27% year-over-year to $208 million. Supplementing this income, Gain on Sale revenue increased to $39 million while Origination Fees and Other Income grew to $17 million. Consistent with our view last quarter, we expect Gain on Sale to be at a similar level as last year. On slide 13, our closed transactions totaled $1.7 billion, $1.4 billion of which will be held on our balance sheet or at CCH1. This is a meaningful increase over the past three years, and we are well on track to meet our guidance of $2 billion to $3 billion of new balance sheet or CCH1 transactions in 2026. The closings in the first half of the year were not only diversified but underwritten with returns greater than 11%, in large part due to the higher return expected from our investment in Neogenyx that closed in Q2.

Turning to slide 14. Similar to the trend in our closed transaction growth, we have doubled our Managed Assets over the past five years. Managed Assets grew 20% year-over-year to $17.6 billion as our portfolio increased 14% year-over-year to $8.2 billion. Assets held at CCH1 have grown to $2.9 billion, supporting a growing stream of recurring management fees. Our Portfolio remains diversified across nine asset classes with uncorrelated cash flows, and our investment approach as well as our portfolio management activities have contributed to our average annual loss rate being less than 10 basis points. Our platform has consistently demonstrated our ability to manage performing assets as well as those that are having performance challenges such as our experience with the SunPower bankruptcy in 2024 where we successfully protected our investment in SunStrong. On our Q1 call, we mentioned an asset that moved to Category 2 in our asset quality table of the 10-Q. This is an RNG asset that experienced construction challenges. We have since taken control and are overseeing its completion with an intention to sell the project and believe there is a reasonable likelihood of recovering our full investment. This is another example of our investment strategy supported by asset collateral and our capabilities in protecting the value of our investments.

Next on slide 15, we highlight our latest bond offering and, more specifically, the actions we are taking to drive down our cost of debt. Since our issuance in February, base rates had increased, and if all that changed since the February issuance was the increase in base rates, the cost of our June issuance would have been around 6.3%. However, we continued to focus on fixed income investor engagement, and with our interest rate hedging program, we further mitigated the impact of the change in base rates. As a result, our effective cost of the June issuance was 5.6% and was 70 basis points lower than it would have otherwise been. This is an excellent example of how we are effectively managing our cost of capital and minimizing the interest rate sensitivity of our business.

Finally, on slide 16, we have continued to enhance the resilience of our capital platform through the refinancing of our corporate bonds and short-term bank facilities. After our recent activity, we do not have a senior note maturity until 2030. On the revolver, we increased the capacity to $2.25 billion to support continued growth in investment activity over the next few years and also extended the maturity from 2028 to 2031. In addition, we consolidated our unsecured term loans into one $400 million term loan while also extending the maturity to 2029. With both our revolver and unsecured term loan, we reduced our overall spread to the base rate. At the end of the quarter, we had $2.2 billion in liquidity, and with the additional capacity added to the revolver, we are well positioned to fund the growth in our business. I will now turn the call back to Jeff for his closing remarks.

Jeff Lipson, President and CEO

Thanks, Chuck. Turning to slide 17, we display our sustainability and impact highlights, noting our cumulative carbon count and water count numbers, reflecting the significant impact of our investment activity. We also note we recently published our ninth annual Sustainability and Impact report, which is available on our website. Wrapping up on slide 18, we reiterate the positive messages from this quarter as we had outstanding growth in new investments and expect continued strong volumes in the second half of 2026. Our margins in the business remain attractive, as we issue low-cost debt and invest at attractive risk-adjusted returns. And the resiliency of our business and the talent of our team remain critical catalysts to our success. In light of all these trends, we are more confident in our 2028 outlook and have increased our guidance accordingly. I thank our dedicated team for an outstanding quarter and first half of 2026. Operator, please open the line for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Our first question is from Jon Windham with UBS. Please proceed with your question.

Jon Windham – UBS

Hey. Perfect. Happy to kick it off. First of all, congratulations on the results. It's been an impressive 10-year-plus track record of you guys dealing with interest rate volatility and delivering consistent earnings, so I appreciate that. Not much to pick on in the result. Maybe I would just ask a big picture question. There's been lots of concern in the investment community over the last couple of months about potential delays in some of the larger projects, some noise out of Texas with data centers. Just any color you have on where you are in sort of early-stage conversations about the pace of build as we go sort of really into the end of this year. But I appreciate your comments. Thanks.

Jeff Lipson, President and CEO

Thanks, Jon. Appreciate the question. We always get that question on this quarterly call, and we just haven't seen too many delays related to our universe of partners and our projects. There's always some delay. These are energy projects, so they never are entirely on schedule. But no systemic delays in the system that we've noticed, and it's really not been a factor. We're obviously simultaneously involved in many, many projects, and some are moving more quickly than others. But I don't think there's anything thematic related to delays that we're seeing in our pipeline.

Jon Windham – UBS

Okay. Appreciate that.

Jeff Lipson, President and CEO

Thank you.

Operator

Our next question is from Ben Kallo with Baird. Please proceed with your question.

Ben Kallo – Baird

Hey, guys. Congrats on the results. Maybe first just on the KKR partnership. Could you just, it seems like it should be nearing capacity. I know you guys raised it. Should we think about you guys just like doing an incremental raise again? Or if you do a new structure, will it have different economics?

Jeff Lipson, President and CEO

Thanks, Ben. So, our CCH1 vehicle will likely hit its capacity either at the very end of this year or sometime early next year. I think early next year is a little bit more likely. And it's our intention to have a seamless transition from CCH1 to CCH2. So we're working very hard on CCH2 right now. There was nothing specifically that we could report on this call, but we're happy to report generally that we're making good progress there, and we expect that vehicle to be up and running right around the time that CCH1 hits its capacity. If there were some reason to be delayed, I'm also equally confident that HASI and KKR could upsize CCH1. And likewise, as Chuck said, we have $2 billion of liquidity, so we could also operate back on our balance sheet. But I think the most likely scenario is that CCH2 is ready to go when CCH1 hits capacity.

Ben Kallo – Baird

Okay. Great. I guess, as we think about just how much demand for new power capacity and you talked about like “new frontier” type of investments in ag and things like that, I just wonder like how you guys want to frame looking ahead of how much investments you can make per year and what you have to do internally from a staffing perspective? Because, I guess, you'll have the capital with KKR, but just what you have to do and like what kind of size you could get to? If I look out, not next year, and I'm not asking for guidance, but if we go out a couple of years, can that number go up to $5 billion?

Jeff Lipson, President and CEO

Yeah. Good question, Ben. I don't want to put a specific number on it, but I think the track record on this point is very good. Obviously, we started 10-ish years ago on resi solar, and that became a significant component of our portfolio over time. We started about three to four years ago with renewable natural gas, and now that's a meaningful part of the portfolio. So these asset classes, where I talked about whether it's transportation or water or sustainable ag, one or more of those in the aggregate, I think, is likely to become a meaningful part of the business. And I'd prefer not to put a precise number on that, but I think this notion of these new asset classes continuing to drive growth over the guidance period, the core asset classes of wind, solar storage, RNG likely to be the vast majority of what we do. But certainly, we're very focused on these new asset classes as a diversification and growth play. As it relates to resources, I think we're well-resourced as we are today. We're obviously constantly adding people, but nothing dramatic will be required to become more active in these new asset classes. In our model, it's all about building relationships and identifying programmatic clients that we can work with over and over again, and we're replicating that strategy in these newer asset classes as well.

Ben Kallo – Baird

Great. Thank you, guys.

Jeff Lipson, President and CEO

Thanks, Ben.

Operator

Our next question is from Noah Kaye with Oppenheimer & Company. Please proceed with your question.

Noah Kaye – Oppenheimer & Company

Hey. Good afternoon. Thanks for taking the questions. Always interested when there's a new asset class with an investment that's being called out. And so, on the water infrastructure investment, wondering if you could just give us a bit of color on the nature of that investment. Is the revenue stream coming from a water utility? Is it some kind of infrastructure upgrade to the pipe system? Is there something one-off in nature? Or is this something that is, in your view, repeatable?

Jeff Lipson, President and CEO

Thanks, Noah. And we are working with the sponsor on incremental disclosure around this investment, so we may be able to provide a little more detail in the coming weeks. But I would say, generally, it's a contracted wastewater treatment facility with a municipality, and it's already operational. So, it was, all things considered, a relatively low-risk investment given the nature of the contract, given, obviously, water is quite a noncyclical underlying item. And therefore, as is often the case, when we're looking at new things, we want to start with a relatively low-risk investment, and I think this would qualify in that regard.

Noah Kaye – Oppenheimer & Company

That's very interesting. I mean, that's an asset class, wastewater treatment, with some real capacity constraints. So, very interesting to see you get into that. And I guess you touched on it at the beginning. But if you had to call out the one or two biggest factors in raising the guidance here—fully appreciate spreads have outperformed our model, and the pipeline is strong—but is there any one factor that you would really call out to lead to what is a bit of an unexpected, pleasant surprise here in raising the long-term target?

Jeff Lipson, President and CEO

Yeah. I don't know if there's one. I think in the prepared remarks, Chuck and I went through the factors that are allowing us to increase guidance. I think the industry trends are quite positive as well as our ability to raise cost-effective capital. So, I think it all comes back ultimately to volumes and margins, and both of those items are trending in a very positive direction. And we also have that much more certainty than we had six months ago when we put out this guidance. We've raised over $2 billion of capital, and it's long-term capital, so it goes well beyond the guidance period. We've done over $1 billion of new investment since we put out guidance. So all these things create a little more certainty that gives us a little more comfort in increasing the guidance. Chuck, was there anything you wanted to add to that?

Chuck Melko, Senior MD, Chief Financial Officer and Treasurer

The only additional thing I would say is that, on the capital efficiency front, I mean, we've talked about this quite a bit over the past few quarters, but we have seen more and more that the things that we have done to be more efficient with the capital that we're raising, that's really coming to benefit. And we feel really good about that looking forward. And obviously, we highlighted the fact that we have not issued any ATM yet this year. I can't promise that that won't be the case into the future, but what we do know is that the efficiency of our equity capital that we expected, we are realizing that, and that's certainly helping, as well.

Noah Kaye - Oppenheimer & Company

Very helpful. Thank you.

Operator

Once again, if you'd like to ask a question, please press star one on your telephone keypad. Our next question is from Chris Dendrinos with RBC. Please proceed with your question.

Chris Dendrinos – RBC Capital Markets

Yeah. Good evening. I echo the comments on the congratulations on a nice quarter. Maybe just one for me here. And looking at the pipeline, I think it's up, call it, $500 million or so over the past 12 months, but when you look at the grid-connected portion of that, I mean, I think it effectively has doubled. And so is that a function of, I guess, maybe a lot more opportunities just coming across your plate from demand, or is that maybe a function of, as you've grown, you're now looking at bigger ticket deals? Just trying to get a flavor for what the driving force is there. Thanks.

Jeff Lipson, President and CEO

Thanks, Chris. I think it's a little bit of some of the things that you mentioned, and I'm going to ask Susan to add a little color to that, as well.

Susan Nickey, Senior Managing Director and Chief Client Officer

Yes, Chris, I think the Grid-Connected business, particularly right now, is growing rapidly. And sponsors—both existing sponsors, and as we announced last quarter with Pattern adding new sponsors into our mix—we're seeing recycling of capital and projects and portfolios that can be also a more significant size that we're able to finance. So I think we'll continue to see that and—but also some of the—there's a lot of growth across all of our sectors, and some of it's just what's in the pipeline in the next six months.

Chris Dendrinos – RBC Capital Markets

Thank you.

Jeff Lipson, President and CEO

Thanks, Chris.

Operator

Again, if you would like to ask a question, please press star one on your telephone keypad. Our next question is from Maheep Mandloi with Mizuho Securities. Please proceed with your question.

Maheep Mandloi – Mizuho Securities

Hey. Thanks for taking the questions and congratulations on the quarter and the guidance raise here. But just a question on the guidance raise following up with the previous questions on that. It does look like your yields are increasing much faster, and you're also deploying more capital here. Is there any limiting factor which would have caused you to be somewhat conservative on the guidance raise over here? Just trying to see if there's anything you're worried about or anything else which could unlock further growth here. Thank you.

Jeff Lipson, President and CEO

Sure. Thanks, Maheep. There's not a limiting factor, we don't believe, a reasonably limiting factor related to capital. I don't think there's a reasonably limiting factor related to our internal resources and our ability to grow the business. So, the only really limiting item is how fast our clients move. And again, as Susan said and as we said a couple of times, most of our clients are extremely active right now and very much desirous of capital to continue to build their projects. But ultimately, that's the really only external related limiting factor. I think our capital and platform can grow as fast as we need it to, to meet the demands of our clients.

Maheep Mandloi – Mizuho Securities

Got it. And separately, just on the ROE, long-term ROE guidance of the 17% you talked about in the past, any thoughts on how that is changing in your model with all the information of the yields you're getting, upside on the yields you're getting right now?

Chuck Melko, Senior MD, Chief Financial Officer and Treasurer

Yeah. I think, obviously, when you increase EPS, the natural thought would be, well, shouldn't there be a direct increase in ROE, as well. But there are some other things that go into equity that are a little bit harder to predict. So we still feel very good about the greater than 17%, and certainly the things that we've done on the capital efficiency front will help us ensure that we are trending towards that. And is there upside to it? Yes, potentially. But there are some things in the equity component of that that just are, don't give us enough insight at this moment in time to do anything with that guidance.

Maheep Mandloi – Mizuho Securities

Thank you.

Operator

We have reached the end of the question-and-answer session. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.