HA Sustainable Infrastructure Capital, Inc.

Fourth Quarter 2024 Results Conference Call

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HASI Presenters

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Chuck Melko, Senior VP, Treasurer and Chief Accounting Officer

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Q&A Analysts

Mark Strouse – JPMorgan

Ben Kallo – Baird

Julien Dumoulin-Smith – Jefferies

Heidi Hauch – BNP Paribas

Noah Kaye – Oppenheimer

Tyler Bisset – Goldman Sachs

Christopher Dendrinos – RBC Capital Markets

Vikram Bagri – Citi

Maheep Mandloi – Mizuho Securities

Dimple Gosai – Bank of America

Jordan Levy – Truist Securities

Ryan Pfingst – B. Riley Securities

HASI

Operator

Greetings, and welcome to HASI's Fourth Quarter 2024 and Full Year 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 “*”, “0” 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, Sr. VP, Investor Relations

Thank you, Operator, and good afternoon to everyone joining us today for HASI's fourth quarter 2024 conference call. Earlier this afternoon, HASI distributed a press release reporting our fourth quarter and full-year 2024 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; and Marc Pangburn, our CFO; as well as Susan Nickey, our Chief Client Officer; and Chuck Melko, our Chief Accounting Officer and Treasurer.

To kick things off, I will first turn it over to our President and CEO, Jeff Lipson, who will open the presentation today on Slide 3. Jeff?

Jeff Lipson, President and CEO

Thank you, Aaron, and thank you all for joining us today on the call. 2024 was an extraordinary year for HASI, as we achieved a number of our long-term and short-term goals. Notably, we closed our CarbonCount Holdings 1 co-investment partnership with KKR, increased our bank revolver to over $1.3 billion, closed $2.3 billion of new transactions, including $1.1 billion in the fourth quarter alone, maintained robust margins as interest rates fluctuated, and increased our Adjusted Earnings per Share by 10%. We continue to deliver results consistent with our expectations, despite interest rate volatility and policy uncertainty.

The cornerstone of our success is our incredibly talented team, and I will take a moment now to address the organizational changes disclosed today. Marc Pangburn has performed at a superior level during his tenure as CFO, including closing our CCH1 transaction, achieving investment-grade ratings and restructuring our SunStrong joint venture.

With all of our success on the capital front, I have asked Marc to refocus on our deployment. In his new role as Chief Revenue and Strategy Officer, Marc will oversee our investment and portfolio management activities and continue to work with me on various strategic matters, including on our asset management strategy. I am confident Marc will excel in this role.

Chuck Melko has been an outstanding Chief Accounting Officer and Treasurer for several years, addressing many complex accounting and reporting matters, while also closing numerous bank debt and capital raising transactions. I have full confidence in Chuck's ability to be a successful CFO for HASI.

Nate Rose, who many of you know, has been with HASI since 2000, has expressed a desire for a reduced role, and Nate will be moving to a position where he will continue to be a leader and strong contributor to our team and is also consistent with his career objectives. I want to acknowledge the tremendous success Nate has achieved during his tenure as our Chief Investment Officer, as he has participated in nearly every investment the company has made over the last 25 years.

I would also like to recognize our Chief Client Officer, Susan Nickey, on completing her tenure as Chair of the American Clean Power Association. Her outstanding leadership of this organization allowed our industry to positively impact several policy matters. Congratulations to all.

Turning to Slide 4. With our capital position stronger than ever, our business strategy well established, several market dynamics moving in a positive direction, and our aforementioned talented team, I'm excited to announce that we are extending our Adjusted EPS guidance of 8% to 10% annual growth another year to include 2027.

The confidence we have in our business plan is based on economic fundamentals, which we will expand upon shortly, and a resilient time-tested business model that we expect will continue to thrive in all interest rate and policy scenarios.

Our confidence in extending guidance is also a reflection of the substantial recurring revenue from the existing $6.6 billion portfolio, coupled with a large pipeline of identified investments that are generally insulated from future changes in policy, due to their development status or safe harboring.

I'm also pleased to announce an increase in our dividend to $0.42 per share, as we continue to retain more capital and, as I indicated last February, target a 50% payout ratio by 2030. As an interim target, investors should expect a payout ratio of between 55% and 60% by the end of the guidance period.

Now let's discuss a few of the favorable market dynamics. First, as depicted on Slide 5, the demand for power, as forecasted by virtually every independent consultant, is poised to grow significantly over the next 20 years, after more than 20 years of near-zero growth. Therefore, clean energy projects will no longer simply replace other sources of power but rather meet the need of higher demand as we inevitably move towards an all-of-the-above energy strategy in the United States.

Renewables, as depicted on Page 6, are the least expensive and fastest to deploy alternatives to meet this rising demand. And our clients are expected to continue to increase their development of new renewables projects accordingly, creating more opportunity and a larger investable market for HASI. These lower costs ultimately cause renewables to be directionally anti-inflationary and this supply can act to offset the trend of rising energy prices. Susan will discuss these items in more detail in a few moments.

Turning to Page 7, another item worth highlighting is that carbon-reducing solutions will continue to be critical to our economy, as related to reversing the trend of climate-related disasters. These events have become more frequent and more costly, which is just another reason clean energy projects will continue to be a growth sector of the economy.

In summary, although certain federal policy matters remain unsettled for the moment, these fundamental economic dynamics will continue to drive the business. Our business is resilient, and we have confidence we will adapt if there are any changes in policy or regulation, and we'll continue to find investments with attractive risk-adjusted returns.

To expand on these policy themes, I would like to turn the call over to Susan, followed by Marc to discuss our investment strategy, and Chuck to cover our financial results. Susan?

Susan Nickey, EVP and Chief Client Officer

Thank you Jeff.

I appreciate the opportunity to speak to you all at this important moment in the history of clean energy. While there is uncertainty related to the new administration, the fact remains that broader market forces are being driven by the growing certainty of accelerating U.S. energy demand, the need for an all-of-the-above approach to supplying that demand, and the fact that renewables are the lowest-cost and fastest to deploy at scale.

Opening on Slide 8, the Trump Administration's early executive orders had been well-telegraphed and the clear impact included no major surprises related to energy. While the executive orders have led to some process uncertainty for new projects, thus far federal agencies have continued to issue permits.

The expected actions targeting wind, electric vehicles, and DOE and EPA grants and loans have limited impact on HASI's investment opportunities. The fact is the U.S. will need renewables and storage to fulfill the new administration's commitment to economic growth, national security and lower electricity prices. And the near-term pipeline for new generating capacity remains dominated by solar and storage, given their relative cost and speed to deploy, in addition to strong corporate and state commitment to clean energy.

With regard to potential revisions to the Inflation Reduction Act, we expect clarity on the outlook for energy tax credits to come with the forthcoming budget reconciliation bill, although a final outcome may not occur until the December expiration of the 2017 tax cuts. Nevertheless, the clean energy industry continues to maintain bipartisan support in light of the large investment in new manufacturing and the corresponding increase in jobs, property taxes and economic growth.

As Jeff indicated, the core tailwinds to our business are unchanged by policy and include, first, underlying U.S. power demand growth and, second, renewables advantage in both cost and speed to market. First, as highlighted on Slide 9, U.S. power demand has entered a new era of growth that we haven't experienced in decades. On one hand is the well-publicized demand from data centers, which is forecast to increase by more than 400 terawatt hours in 10 years. But critically, it's not just about AI; data centers are just one of several forces driving power demand in the years ahead. It's also domestic manufacturing and the new prioritization of onshoring. On top of that, there is also the electrification of buildings, industrial processes and vehicles. All in, McKinsey forecasts U.S. electricity demand will double over the next 25 years to more than 8,000 terawatt hours by 2050, not driven by the IRA but by underlying demand. If we aren't able to meet this demand with sufficient supply, it is going to drive energy prices higher on top of inflationary pressures from rising supply chain, labor and tariff costs.

As Slide 10 shows, we are already starting to see the signals across multiple markets that point to higher power prices. Forward price curves in ERCOT and PJM have essentially doubled over the last five years.

Therefore, renewables are not about policy, but the basics of business. They will simply be less expensive and faster to market at scale than other sources, including gas turbines, which due to supply constraints can take five years or more to deploy.

As shown on Slide 11, solar and batteries currently account for 80% of the current interconnection queue. In FERC's high-probability forecast from January 2025, for new generating capacity includes 92 gigawatts of solar, but only 15 gigawatts of natural gas. As you can see, renewables will be a central component and arguably the most important one for the rest of this decade. Underscoring this dynamic, our clients remain bullish as they monitor the uncertainty in the policy landscape.

The feedback from our clients has been remarkably consistent. They are staying the course and even accelerating projects to meet the surge in near-term demand from their buyers: hyperscalers, corporates, utilities, municipalities. With growing demand and constraints in near-term supply, our clients are largely expecting to pass through any potential changes to tax credits or tariffs through higher PPA prices.

Meanwhile, we are also seeing new innovative business models such as co-located data centers and community solar partnership programs anchored by corporate off-takers such as Microsoft and Google, which expand our clients' pipelines and, in turn, our opportunities. All tailwinds for growth and innovation for our pipeline.

So again, amid changes and uncertainty, we do have the fundamentals working in our favor for short and long-term growth.

Now, I will pass it to Marc to discuss these new investment opportunities.

Marc Pangburn, CFO

Thank you, Susan.

I am incredibly excited for my new role. Long-term fundamentals and short-term market dynamics are creating a tremendous investment opportunity for HASI. Our investment strategy will remain largely unchanged with a few enhancements that I'll discuss shortly.

Over the past two years, we have invested approximately $4.6 billion utilizing our Climate-Clients-Assets model. It is working exceedingly well, well enough that we will expand our capability set to meet the opportunity ahead.

I'll start on Slide 12. Jeff and Susan have previously discussed the highly supportive long-term macro trend and the resulting investment opportunity. In addition to the supportive long-term trend, we also see short-term policy-driven uncertainty. While uncertainty will cause stress in our end markets, we have never been in a stronger position as it relates to our liquidity, access to capital, and balance sheet. These dynamics lead us to focus on three areas in 2025.

First, continuity. As shown with our Q4 activity, we continue to see an attractive investment environment. Our approach is working, and our first priority is to grow the core business.

Two, we will also showcase our adaptability. While uncertainty is not optimal, we do anticipate opportunity to come from it. A great example is the SunPower bankruptcy. While an unfortunate event, our SunStrong platform assumed the SunPower servicing business, and we are excited about the growth prospects of this business.

And finally, we have a strong track record of identifying new areas to invest. As such, we anticipate investing additional time and dollars exploring new growth paths and, in particular, opening up new end-markets.

Moving to Slide 13, I'll provide some context on our paths to growth. On our ‘23 Investor Day, I said that we have three primary paths to growth: growing with our existing clients; attracting new clients; and entering new asset classes. These have worked well for us. Over the last two years, we have invested $3.5 billion with 20 existing clients; acquired 15 new clients; and amassed $1.2 billion of originations in our FTN business. Today, we will continue to focus on these three paths and two more.

Fourth, investing outside the U.S. with existing clients. We made a handful of small investments in Canada in 2024 and are evaluating international opportunities with long-standing clients.

Fifth, new forms of investments or revenues. A few examples include SunStrong, which enables both incremental recurring fee streams and a vehicle to acquire certain assets and servicing platforms. We also view platform investments as potential opportunities, given the reset in valuations.

Turning to Slide 14, the addition of new asset classes is where we see a step change in our opportunity set. Today, our investment activities cover 10 asset classes spanning electric generation, clean molecules, transportation and resiliency. One element of our business, which can be underappreciated, is our potential investment scope. Over the last five years, renewables have powered the business forward, which has also coincided with massive growth in renewables.

We launched our FTN team two years ago with the goal of growing beyond renewables and energy efficiency. This started with RNG, but will not stop there. We're currently tracking a number of asset classes, as listed on the slide. Not all of these will succeed or be a good fit for HASI. However, entering a select few that scale will be a major driver for growth and diversification of our business.

Ultimately, our mandate is to invest in assets that are either neutral to or reduce carbon emissions or that provide some other kind of environmental benefit. That leaves open a breadth of different opportunities to invest.

Before I pass the call to Chuck, I'm pleased to report that as of year-end, we have closed $815 million of transactions into our CCH1 partnership. CCH1 is exceeding expectations and we remain on track to fully deploy the capital, as planned.

With that, I'll pass the call to Chuck Melko, our soon-to-be CFO.

Chuck Melko, SVP, Treasurer and Chief Accounting Officer

Thank you, Marc.

I'm appreciative of the opportunity and excited about what I can bring to this role. I'm looking forward to working with each of our analysts and investors in the years ahead.

On Slide 15, we are highlighting our key profitability metrics. On the right hand side, you can see that we have had meaningful growth across the board over the past four years for our key metrics. CAGR of 32% for Adjusted NII, 12% for Adjusted EPS, 39% for our recurring capital light income and 12% for our upfront capital light income. In addition, our primary metric, Adjusted EPS, was $2.45 in 2024, an increase of 10%.

Adjusted NII grew 22% to a new high of $264 million. We are continuing to deliver value from our securitization business with our Gain on Sale, Fees and Securitization Income totaling $118 million for 2024, which is up 30%.

Moving on to Slide 16, our pipeline is greater than $5.5 billion, which is split 48% Behind-the-Meter, 27% FTN and 25% Grid-Connected, with all three markets continuing to see ample near-term investment opportunities. And to build upon something that was highlighted earlier on our pipeline, much of it is already in development and largely insulated from any near-term public policy changes.

On Slide 17, in 2024 we closed $2.3 billion of transactions, after closing a record $1.1 billion just in Q4. Importantly, this slide continues to show the powerful diversification of our business. Each year, our leading asset classes tend to rotate. And our total activity level remains strong. Also, as you can interpret from the slide, wind is a small contributor to the go-forward business.

Moving to Slide 18, as of the end of the year, our Managed Assets totaled $13.7 billion, increasing 11% year-over-year, and more than 90% since the end of 2020. This is made-up of our $6.6 billion portfolio on our balance sheet, approximately $300 million for our partner's share of CCH1 and $6.8 billion of assets we have securitized off-balance sheet. In addition to what Marc mentioned on CCH1, we have funded $600 million of the total commitments as of the end of 2024.

On Slide 19, our Portfolio increased 7% to $6.6 billion from 2023, despite the $400 million asset rotations of lower-yielding assets that we completed earlier in the year. We have been successful in adjusting the pricing of our new investments to the current interest rate environment with our weighted average yield exceeding 10.5% in 2024.

The higher-yielding new investments and the reinvestment of portfolio principal paydowns into these higher-yielding investments contributed to a meaningful increase in our portfolio yield coming in at 8.3%, compared to 7.9% at the end of the prior year.

On Slide 20, as you can see from the trend of portfolio yield and our average debt cost, we have successfully preserved our margins over multiple periods of interest rate volatility. We believe that this is proof positive that our business can successfully grow in higher interest rate environments, and we are seeing a similar trend in the pricing potential of deals in our pipeline.

Our investment grade rating and our hedging program has successfully helped us manage our debt costs, and we are actively focused on continuing to drive down our cost of capital. We are just beginning to realize the benefits of our investment grade rating.

Turning to Slide 21, the combination of our available liquidity and the stability of the investment grade debt market are expected to provide us flexibility in completing the refinancing of our upcoming maturities and a benefit from the pricing of future debt issuances relative to our historical transactions. We ended the year with greater than $1.5 billion of liquidity, and our leverage, as measured by our debt-to-equity ratio remained within our 1.5 to 2.0 times target range at 1.8 times.

In addition, 100% of our debt is either fixed or hedged and protected from increases in rates. Our liquidity levels have been increasing, and we have done so through portfolio cash generation, additional capital markets transactions—including our recent $300 million 10-year issuance—and an additional $100 million commitment in Q4 for our revolver.

In addition to our refinancing plans, we will use this higher liquidity to fund our growing pipeline. We have also initiated a commercial paper issuance program that will generate meaningful savings on short-term borrowings, relative to our other sources.

And with that, I'll pass it back to Jeff for his closing remarks.

Jeff Lipson, President and CEO

Thank you. Thank you, Susan, Marc and Chuck.

On Slide 22, as always, we provide our primary sustainability metrics, CarbonCount and WaterCount, along with some of our sustainability accomplishments over the last quarter and recognition that we have received.

Wrapping up on Slide 23, we are situated with an incredibly strong balance sheet and liquidity position, coupled with a proven investment strategy. And we are poised to continue scaling our business and achieving our targeted earnings growth. Not only was our Adjusted EPS growth 10% in 2024, but our compound average EPS growth has been 10% since our IPO.

We have a highly resilient and non-cyclical business model that has a demonstrated ability to adapt to business cycles and policy changes, while continuing to produce earnings growth. We have an optimistic outlook for our business, and have reinforced that confidence with guidance through 2027. I would like to thank our dedicated and talented team for an outstanding year, as we look forward to further success in 2025.

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 "* 1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "* 2" to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset, before pressing the star keys. One moment please while we poll for questions.

Our first question comes from the line of Mark Strouse with J.P. Morgan Chase and Company. Please proceed with your question.

Mark Strouse – JPMorgan

Great. Thank you very much for taking our questions. Congrats to everybody on your new roles. I wanted to go back to Slide 14 if we can. A few questions there. Just to start, can you talk about maybe when we should expect, just kind of around the timing of when some of these opportunities could be added to the portfolio? And then just kind of how you're thinking about it today at least as far as kind of the risk adjusted returns, how to think about that?

Marc Pangburn, CFO

Hey, Mark. Thank you for the question. So with a list as extensive as we provided, you can imagine that some of these are tangible and near-term and others are perhaps within the scope, but from a timing perspective much further out.

In terms of some of the opportunities we see in the near term, I would encourage you to think of them in a very similar context to what we're doing today, in that they are infrastructure assets with long-term cash flows and contracted cash flows that enable us to price in a similar zip code as to we are today. But obviously, we will adjust pricing as risk changes for the asset classes, as we move forward.

Mark Strouse – JPMorgan

Okay. And then just a quick follow-up. So obviously, the scope is expanding. Can you talk about the scale, too? Does the expansion into these new markets, does that change kind of your stated goal of reducing your reliance on the public capital markets? Is there anything about these verticals that you're going after that, for example, might not fit into the KKR partnership or some of the other private deals that you're looking at? Thank you.

Jeff Lipson, President and CEO

Thanks, Mark. No, I wouldn't think about the way in which we fund any of these new asset classes to be different than the way we've historically funded the business. And so I don't think they would result in any more or less capital raising. I think they would have a consistent funding strategy, as Marc said. Presuming they had a consistent risk profile, we would fund them exactly the same as we funded ourselves historically.

Mark Strouse – JPMorgan

Got it. Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Ben Kallo with Baird. Please proceed with your question.

Ben Kallo - Baird

Hey guys, congrats, Marc, Chuck and Susan. Just maybe, just on the next deal with KKR. I know that it's still less than half of the $2 billion, but you guys are moving quickly. And so, I just wanted to understand what the kind of discussions are you having with them or others about similar kind of partnership. And then I have a follow-up, as well.

Jeff Lipson, President and CEO

So thanks for the question, Ben, although I would say it's a little premature. We're not in advanced discussions. I think we have a ways to go with our existing co-investment vehicle. I would say, as I've said to you and others before, I would expect a co-investment strategy to be a permanent part of our capital structure, but we don't have anything to say yet on what's next after CCH1.

Ben Kallo - Baird

Okay. And just on this—going back to Mark's question on Slide 14, I guess the takeaway, as you guys talked about moving internationally too, I don't know if we should think that you're running out of opportunities in terms of in your bread and butter areas that you—that you guys have been doing or if that we should think of it as technologies maturing or that you have more capital to deploy or maybe all of the above. So maybe just kind of frame like why list these things and then the move, internationally. Thank you.

Jeff Lipson, President and CEO

Thanks, Ben. Maybe I'll start and give Marc an opportunity to expand upon my answer. But I would say, definitively, it is not a reflection of the asset strategy as reflected today in the middle column on Page 14, somehow running out of capacity. I think we have a great opportunity in the asset classes and the client base we have today. But as any business would, we want to expand.

And I think Marc, in describing his vision in this new role that we've created for him, wanted to really get out in front of this notion of where might we expand the business, both geographically and in terms of asset classes. So I would contextualize it in that framework. We're certainly not running out of opportunity, though, with the existing business. Give Marc an opportunity to add anything to that? No, he is nodding his head, nothing to add. Thanks.

Marc Pangburn, CFO

I concur.

Ben Kallo - Baird

Thanks, guys. Have a good night.

Operator

Thank you. Our next question comes from the line of Julien Dumoulin-Smith with Jefferies. Please proceed with your question.

Julien Dumoulin-Smith - Jefferies

Hey, good afternoon, team. Thank you guys very much and congratulations to all of you guys. Nicely done. And maybe also nicely done on rolling forward the guidance here. I appreciate the updates there, as well. In fact, do you think going forward, you'll start this cadence of rolling forward as you finish one year, you kind of, roll forward the guidance in kind of a disciplined consistent manner like this versus the prior Analyst Day rollouts?

Jeff Lipson, President and CEO

Thanks for the question, Julien. I think we've done it a couple of different ways, as you know, because you've covered us a long-time, but I think we've consistently had multiyear guidance out there at any given moment. And to have three more years out there is obviously a reflection of the confidence and visibility we have on the business. I can't guarantee exactly how we'll do it in the future, but I think we've been generally consistent with multi-year guidance.

Julien Dumoulin-Smith - Jefferies

No, it's great to have the affirmation here and now on the longdated view. In fact, maybe that folds into the next question. I mean, strategically here, I see the new role—maybe Marc, you can speak to it a little bit—mentioning strategy. Is the emphasis on creating that role more about reviewing strategic nature for the company itself or is it more about evaluating the "next frontier" as you guys labeled in the slides as to what direction you guys want to go?

And then maybe related on kind of this next frontier, how do you think about the gross asset origination number. We've talked about this a few different times, but given all the various new end-markets, given the growth trajectory, is there kind of a good heuristic that you're thinking about now in terms of what that gross origination number could scale to as you think about that '26 and now, '27?

Jeff Lipson, President and CEO

Sure. I'll take the first part of that and allow Marc to answer the second part. So, the "strategy" in Marc's new title is primarily a focus on our investment strategy. It may involve some corporate strategy matters at certain times, but think of it more as driving the investment strategy. I'll let Marc answer the second part of that question.

Marc Pangburn, CFO

Hey, Julien. Thanks for the question. The second part around our general thoughts on investment volumes and so forth, I do think that from a most basic perspective, we're an organization that grows earnings primarily through the investment and deployment of capital. And so our goal, of course, is to always be increasing our level of activity on that front.

We, of course, balance our desire to increase the investment activity with our capital platform and the people we have internally. But I'm sure you can pick-up from this call that we feel very good about the capital platform, the people, and are very much looking forward to expanding our level of activity.

Julien Dumoulin-Smith - Jefferies

Absolutely. I'm looking forward to it, guys. All the best. Thank you for the details.

Jeff Lipson, President and CEO

Thank you.

Operator

Thank you. Our next question comes from the line of Moses Sutton with BNP Paribas. Please proceed with your question.

Heidi Hauch – BNP Paribas

Good evening. This is Heidi on for Moses. Thank you for taking my question. I just had one. So in the event that tax credits, adders, or the base credit face pressure and or reduce—whatever the timeline or magnitude—would you expect to gain a greater investment opportunity in the average asset of your customer? Or considering the gap in the capital stack that could emerge specifically from reduced tax monetization, would this actually be positive for your funding prospects? Thank you.

Marc Pangburn, CFO

So I do think that, incrementally, yes. If you think about the capital stack of a particular project, it's generally comprised of tax equity, perhaps some debt, and cash equity. And cash equity is generally where we participate in our investments. So, if the amount of tax equity would go down, that would imply that there is a gap there, and that usually would also imply that the sponsor is passing through a higher PPA rate, that increases the level of cash, and that gives us more of a monetization opportunity in any one—in any one project.

Heidi Hauch – BNP Paribas

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Noah Kaye with Oppenheimer. Please proceed with your question.

Noah Kaye – Oppenheimer

Thanks so much, folks. I'll add my congratulations too, to those that have already done so. And it's great to see the continued growth and evolution of the organization. I will return to the Slide 14 around the next frontier. You know, it strikes me that at least some of these buckets are areas where some of your existing customers are already, you know, doing work and quite active. So Marc, maybe talk a little bit about what leverage you might actually have from existing relationships to get into some of these growth areas, and where you think you're going to need to build some new bridges and relationships?

Marc Pangburn, CFO

Sure. Thank you, Noah. I think when you think about our model—Climate-Clients-Assets—obviously, the client dynamic is one of the key pillars, and something that we have, I believe, done a very good job of over time is, of course, acquiring, retaining clients, but then figuring out how we expand into all of their business lines. And that will be—and I think the example I'll give you is Ameresco has been one of our longest standing clients—they, of course, are very focused on RNG, and our first RNG investment was with Ameresco, again, as an example. So I think that will be a continued focus, and I agree there are some of these asset classes where we'll need to initiate with new clients as opposed to existing. But again, as a core part of our business and model, we'll continue to focus on it.

Noah Kaye – Oppenheimer

Thank you, Marc. The outlook for ‘25 includes kind of a Gain on Sale level that's more consistent with ’21 and ’23, as it was pretty strong this past year. Can you give us a little bit of insight into, sort of, what drives that kind of reversion or normalization? And then, since it's been a big support to some of the earnings growth this year, any color on how you think about the cadence of the multi-year EPS growth informing this next year, if we're just not going to have as much help from the Gain on Sale?

Jeff Lipson, President and CEO

Thanks, Noah. I think the way to think about it is ‘21 to ‘23 gain on sale was a very attractive number and allowed us to achieve significant earnings growth. ‘24 had a bit of an outsized gain related to asset rotation and that would be otherwise hard to replicate; it wasn't related to client related Gain on Sale. So client related gain on sale will remain consistent and we'll grow the other revenue streams, given our guidance, you know, clearly, we’ll grow the other revenue streams to accommodate what otherwise may look like a little drop, this year, in Gain on Sale.

Noah Kaye – Oppenheimer

Okay. Very helpful. Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

Thank you. Our next question comes from the line of Brian Lee with Goldman Sachs. Please proceed with your question.

Tyler Bisset – Goldman Sachs

Hey guys, this is Tyler Bisset on for Brian. Thanks for taking our questions. You call out grandfathering and safe harboring protecting your pipeline. And I noticed you recently closed a structured equity capital partnership with IGS, who's been active with safe harboring. So, I was just wondering, are you seeing any potential near term opportunities for safe harboring, and was that included at all in your $1.1 billion in transactions closed in 4Q? And if so, to what extent?

Susan Nickey, EVP and Chief Client Officer

Yes, thanks. I know that a lot of our clients, and really the industry, took advantage of opportunities last year to safe harbor or start construction, given the uncertainty. So they protected their pipelines for a continued period, and that, in turn, protects our pipeline. I think that's, that part of our pipeline being insulated is in a good place. Whether or not those will lead to the projects, I think themselves will give us plenty of opportunities to invest in, versus new safe harboring facilities but that could come, as well.

Jeff Lipson, President and CEO

And I just—to answer the other part of the question, I don't believe any of the $1.1 billion in fourth quarter was a direct safe harboring transaction with HASI.

Tyler Bisset – Goldman Sachs

Super helpful. And kind of piggybacking off of that, closed transactions were strong in 4Q, bringing you to $2.3 billion for the year, which was the same as you did last year, but your ROE has obviously increased. So just wondering how you're viewing opportunities for transactions in 2025. Could we see the volume increase, this year?

Jeff Lipson, President and CEO

You may see volume increase. I think our guidance is—our guidance is premised on flat to slight increases in overall volumes, but we may, of course, exceed the guidance, so you may see some increase in 2025. But I would view that as relatively modest increase over the 2.3b.

Tyler Bisset – Goldman Sachs

Superh helpful. Thank you very much.

Jeff Lipson, President and CEO

Thank you.

Operator

Thank you. Our next question comes from the line of Chris Dendrinos with RBC Capital Markets. Please proceed with your question.

Chris Dendrinos – RBC Capital Markets

Yeah, thank you and good evening. You highlighted two new growth paths outside of the U.S., but then new forms of investment. One of the things you pointed out was SunStrong, and the opportunity there to leverage that and acquire new assets, as well as make it into servicing platform. Can you just, I guess, walk through that a little bit more? What does the opportunity set look like there, and how do those transactions, I guess, unfold? Thanks.

Marc Pangburn, CFO

Thanks, Chris. Sure. So the background on this particular business is that, of course, we had a partnership with SunPower. SunPower was both an equity partner and a servicer of the assets that that partnership owned. And of course, when they went bankrupt, the SunStrong platform itself, that partnership, assumed the servicing business. And so, that business is an asset management and servicing business for distributed solar, today.

And so, as such, it generally receives revenue in the form of these recurring fees. And we do see an opportunity to grow that platform which, of course, would increase the level of recurring fees running through its financial statements and then, eventually, ours.

Chris Dendrinos – RBC Capital Markets

Got it. Okay. And then I guess maybe just one kind of housekeeping question here, but on CCH1, and you mentioned it was progressing as planned, so does that mean, is it fully funded by the end of this year, or is it just that total transaction volume is complete by the end of this year? And I'll leave it there. Thanks.

Jeff Lipson, President and CEO

So, I think what we've said previously, which we'll stand by, is that the original $2 billion target in the first 18 months of CCH1 is on track, and that would roughly end right at the end of 2025. So, I think we're on good track to hit the original projection of investment volume in CCH1.

Chris Dendrinos – RBC Capital Markets

Thank you.

Jeff Lipson, President and CEO

Oh, if that question also had to do with committed versus funded, just to clarify, it is the nature of most of our investments that there's a commitment in one period and then a funding that occurs later. So that dynamic is consistent in CCH1, as it is in the rest of the business. And investments can fund anywhere from three months to 12 to 18 months after our original commitment.

Operator

Thank you. Our next question comes from the line of Vikram Bagri with Citi. Please proceed with your question.

Vikram Bagri – Citi

Hey, good evening, everyone. I wanted to ask the macro question. Marc, you mentioned in your comments that the short-term policy uncertainties causing stress in end markets. I was wondering if you can expand how that stress is manifesting. Are you seeing more projects move out of the pipeline? Are you seeing delays, cancellations, given you have a holistic view on so many end markets, can you share like directionally what you are seeing in that—in the markets?

Marc Pangburn, CFO

Sure. Thanks, Vikram. Of course, the specifics of any market can differ, but I think that a general characterization is that all of these end markets are infrastructure projects where people make investment decisions that are based on some clear understanding of the policy environment.

If you lack that clear understanding, for our clients who are actually investing in development dollars, they're the ones who have to make that financial decision, either make it and take the risk or delay it. Either way, that represents increased risk and/or extended time lines.

And as Susan covered, many are plowing forward because they've taken actions to protect themselves. But again, as a general matter, of course, in development, extending time lines is usually a bad thing.

Vikram Bagri – Citi

Got it. And as a follow-up, I noticed the decrease in payout ratio in '27 versus '24 to '26, which reduces your reliance on capital markets. I was wondering, is there a long-term target where you want to get to in terms of payout ratios? And, on a relative note, a housekeeping question, can you also confirm what the new asset yield was in fourth quarter? I saw a number for the entire year. If you can share what the number was for fourth quarter. Thank you.

Jeff Lipson, President and CEO

Sure. Thanks, Vikram. On the first question there, going all the way back to our Investor Day in 2023, we gave a seven year projection that the payout ratio would hit 50%, by 2030. So I think we've given very good long-term visibility on where that's headed and now we've given the interim 2027 range, as well. What we'll do after 2030, I'm not prepared to say but, again, I think we've gotten good long-term visibility on where we're headed with the payout ratio.

I'll let Chuck answer the other part of that question.

Chuck Melko, SVP, Treasurer and Chief Accounting Officer

Hey, Vikram, this is Chuck. So the Q4 portfolio yield number was very similar to the full year of greater than 10.5.

Vikram Bagri – Citi

Thank you.

Operator

Thank you. Our next question comes from the line of Maheep Mandloi with Mizuho. Please proceed with your question.

Maheep Mandloi – Mizuho

Hey, good evening. Thanks for the question here, and congratulations on the promotions here for everyone. Just on the previous question, if you could just talk about the yield, how things are changing on that front in Q1. You did talk about increased risk in some of the projects and extended construction phases. Wondering if that's manifesting in higher yields in the broader asset class for renewables or negative impact for you?

Jeff Lipson, President and CEO

Maheep, thanks for the question. I would say, obviously, we're not going to talk a lot about Q1, but I think the pipeline, we were, I think, pretty clear, has yield similar to what we've done in 2024. And if there's rate movement, that's subject to change, but I think we're in that same range in terms of the transactions in the pipeline at this point.

Marc Pangburn, CFO

You made a reference to increased risk, and I think you were calling back to my answer around the policy uncertainty. I would just want to clarify that that would not be risk as it relates to us or the positions that we take, but more around decisions made during the development phase, which is before we tend to get involved.

Maheep Mandloi – Mizuho

Got it. So it seems more like a risk for construction financing or bridge financing than for the later stage when you guys come in. Got it. And separately, just on, going back to Slide 14. On these new opportunities, I know it's probably pretty early, but in terms of the yields or tenure of these investments, do you expect any differences there? Or for our modeling purposes, we just assume this expands your bigger funnel and then pretty much everything else from modeling perspective remains the same for us.

Marc Pangburn, CFO

Sure. So a couple of comments. One, from a modeling perspective, I would want to clarify that the guidance that Jeff laid out is premised on the asset classes that we invest in today. And so, I would suggest that you continue modeling the business as you have been. In terms of the yield that we're seeing on some of these new asset classes, it is TBD.

But as I mentioned, I believe when Mark asked the question, we're generally looking at these in a very similar way that we look at our existing asset classes in terms of being infrastructure assets with long duration cash flows that are contracted. And so I would think of the risk-return to be somewhat similar to what we have, today. Of course, we will adapt to markets as they evolve over time.

Maheep Mandloi – Mizuho

Thank you.

Marc Pangburn, CFO

Thank you.

Operator

Thank you. Our next question comes from the line of Dimple Gosai with Bank of America. Please proceed with your question.

Dimple Gosai – Bank of America

I appreciate you taking my question. Thanks guys. I just wanted to ask you a little bit more about the international opportunity which you mentioned on Slide 13. How would you frame the size of the opportunity relative to the U.S. pipeline in terms of TAM growth? Can you kind of discuss the underlying details in terms of the types of asset classes, sectors and geographies that kind of underpins that?

Marc Pangburn, CFO

Sure. So first, I would say, and I tried to indicate in the prepared remarks that what we've done to date has been a very small portion of the business. And I would anticipate that much like the way we enter many different markets, we will take our time to not overextend ourselves. So I would continue to think about the business as being heavily U.S. focused in the near term.

One of the areas that we wanted to put out with this call is just to remind people of the scope of the business and then what we're doing to continue to grow the business. But again, from a near-term perspective, I continue to think of a majority of our pipeline in the U.S.

Jeff Lipson, President and CEO

And I would add something that Marc actually did already say in the prepared remarks, which is theinternational strategy is overwhelmingly likely to be with an existing client, which will give us more of a comfort zone. So it makes it a little harder to pick—to speculate on geographies because we'll see what opportunities our clients show us internationally.

Dimple Gosai – Bank of America

Understood. Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

Thank you. Our next question comes from the line of Jordan Levy with Truist Securities. Please proceed with your question.

Jordan Levy – Truist Securities

Afternoon all, and thanks for all the details. I think in the prepared remarks, Jeff, you made mention to, or maybe Marc mentioned, of additional forms of investment, including platform investments becoming more attractive, given valuations. I just wanted to get a sense of whether this was sort of a reference to your historical target sector buckets or if that could be extended into some of the new growth areas as well, in terms of possibilities.

Jeff Lipson, President and CEO

Thanks, Jordan, and thanks for picking up coverage. I mean, I think the fundamental answer to that question is both. It could be in either of those buckets. I think it's something, again, with the reset in valuations we want to be prudent about; it's not been a core part of our business, and you should think about the core part of our business continuing to be at the asset level. But if there is a specific opportunity that presents itself, given this reset in valuations, we might consider it. So Marc wanted to make mention of it, but it's—again, it would be hard to speculate what that might be.

Jordan Levy – Truist Securities

For sure. Thanks for that. And then just a follow-up on the breakout of new investments on Slide 17. I know it bounces around a lot, year-to-year, but it seems like a really strong year for new investments in C&I particularly. Maybe just some of the opportunity set dynamics you're seeing in that particular subsegment.

Marc Pangburn, CFO

Sure. That is a market where we have been more and less focused on. But lately, we've seen some better opportunities. And I would think of that as primarily in the solar and storage business. And again, our continued focus on our BTM solar business.

Jordan Levy – Truist Securities

Got it. Thanks for the details.

Operator

Thank you. And our next question comes from the line of Ryan Pfingst with B. Riley Securities. Please proceed with your question.

Ryan Pfingst – B. Riley Securities

Hey, guys. Thanks for taking my question. I'll just ask one on the RNG side. D3 RIN prices have been a bit volatile in recent months. Does that affect your investment process at all, or are you mostly looking at RNG facilities with fixed-price offtake?.

Jeff Lipson, President and CEO

I would say it certainly is a factor in our underwriting, and we watch RIN prices, closely. But at the end of the day, we are senior debt in these RNG projects, and we don't view our tranche of capital to be materially exposed to RIN pricing, given that it's senior debt. So it's a factor, but we are well protected from a cash flow perspective in these investments.

Ryan Pfingst – B. Riley Securities

Understood. Thanks, Jeff.

Jeff Lipson, President and CEO

Thanks, Ryan.

Operator

Thank you. And this concludes today's—we have reached the end of the question-and-answer session, and this also concludes today's conference. You may disconnect your lines at this time. And thank you for your participation.

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