

August 1, 2019



Hannon Armstrong Announces Second Quarter 2019 Results

ANNAPOLIS, Md.--(BUSINESS WIRE)-- Hannon Armstrong Sustainable Infrastructure Capital, Inc. ("Hannon Armstrong," "we," "our" or the "Company") (NYSE: HASI), a leading investor in climate change solutions, today reported quarterly results for the second quarter of 2019.

Highlights

- Delivered \$0.19 GAAP EPS on a fully diluted basis, compared to \$0.32 in the second quarter of 2018
- Delivered \$0.30 Core EPS, compared to \$0.39 in the second quarter of 2018
- 15% increase in Interest and Rental Revenue for the quarter partially offset lower securitization income
- Confirming previously stated 2018 to 2020 annual Core EPS growth (using 2017 as the baseline) to be between 2% to 6%
- Closed \$204 million of transactions in the quarter, compared to \$200 million in the same period in 2018
- Closed \$523 million of transactions year-to-date, compared to \$308 million in the same period in 2018
- Pipeline remains robust at over \$2.5 billion and the business remains on track to close more than \$1 billion of transactions in 2019
- Received BB+ corporate family and unsecured ratings from both S&P Global Ratings and Fitch Ratings
- Successfully priced an upsized \$350 million corporate unsecured debt offering which meets the green bond eligibility criteria
- Debt to equity ratio of 1.2, and fixed-rate debt level of 76% as of June 30, 2019
- An estimated 48 thousand metric tons of annual carbon emissions will be offset annually by second quarter transactions, equating to a CarbonCount[®] score of 0.24 metric tons per \$1,000 invested
- Two new members appointed to the Board of Directors

"We had an excellent quarter, closing on more than \$200 million of transactions, over 90% of which we intend to fund on our balance sheet which we expect will generate strong risk-adjusted returns and recurring earnings. As a result of our focus on adding higher-yielding assets to the Portfolio, we have achieved a 16% increase in interest and rental income year to date, which has more than offset the lower gain on sale and fee income," said Jeffrey W. Eckel, Hannon Armstrong President & CEO. "Additionally, the new access to unsecured corporate debt markets further diversifies our funding alternatives and supports long term

portfolio growth. We are also encouraged by an investment pipeline that remains robust and a customer base that continues to expand. With a strong pipeline, enhanced funding flexibility and a refreshed Board of Directors, Hannon Armstrong is well-positioned to continue building a strong balance sheet that will fund more investments in climate change solutions.”

A summary of our results is shown in the tables below:

	For the Three Months Ended June 30, 2019		For the Three Months Ended June 30, 2018	
	\$ in thousands	Per Share (Diluted)	\$ in thousands	Per Share (Diluted)
GAAP Net Income	\$ 12,740	\$ 0.19	\$ 17,262	\$ 0.32
Core Earnings (1)	19,773	0.30	20,846	0.39
	For the Six Months Ended June 30, 2019		For the Six Months Ended June 30, 2018	
	\$ in thousands	Per Share	\$ in thousands	Per Share
GAAP Net Income	\$ 26,386	\$ 0.41	\$ 16,039	\$ 0.29
Core Earnings (1)	40,707	0.63	35,123	0.65

(1) The difference between GAAP net income and core earnings is primarily the result of adjusting for a return on capital from our equity investments in renewable energy projects and adding back non-cash equity-based compensation. A reconciliation of our GAAP net income to core earnings is included in this press release.

Second Quarter 2019 Financial Results

Revenue decreased by approximately \$5 million, or 13%, for the three months ended June 30, 2019, and is up slightly for the six months ended June 30, 2019, as compared to the same periods in 2018. The \$8 million quarterly decrease in gain on sale and fee income was partially offset by a \$3 million increase in interest income and rental income. On a year to date basis, the higher interest income and rental income more than offset the lower gain on sale and fee income.

The lower revenue for the quarter was largely offset by a reduction in interest expense of approximately \$4 million with interest expense having declined by \$7 million for the six months ended June 30, 2019, as compared to the same periods in 2018 due to continued optimization of our leverage and debt costs.

Other expenses (compensation and benefits and general and administrative expenses) were flat for GAAP for the quarter and increased by approximately \$3 million during the six months ended June 30, 2019, as compared to the same periods in 2018. The year over year increase was primarily due to an increase in equity-based compensation resulting from the timing of vesting and higher award valuations.

For the three months ended June 30, 2019, we recognized \$8 million in income using the hypothetical liquidation at book value method, or HLBV, for our equity method investments, as compared to \$11 million of income for the three months ended June 30, 2018 in part due to one-time increased allocations resulting from changes in the tax code. For the full year-to-date period, income from our equity method investments increased by approximately \$4 million due to the allocation of investment tax credits, which increases our allocation of earnings. We also recognized a \$1 million income tax benefit in the current year-to-date

period related to allocations of tax benefits from one of our equity method investments.

Core earnings decreased by approximately \$1 million for the quarter primarily due to the lower gain on sale and fee income compared to the same quarter last year. Core earnings grew by approximately \$6 million for the six months ended June 30, 2019 over the same period in 2018 primarily as a result of increased interest and rental income and lower interest expense.

A reconciliation of our GAAP net income to core earnings is included in this press release.

The calculation of our fixed-rate debt and leverage ratios as of June 30, 2019 and 2018 are shown in the chart below:

	<u>June 30, 2019</u>	<u>% of Total</u>	<u>June 30, 2018</u>	<u>% of Total</u>
	<i>(\$ in millions)</i>		<i>(\$ in millions)</i>	
Floating-rate borrowings ⁽¹⁾	\$ 269	24%	\$ 159	11%
Fixed-rate debt ⁽²⁾	830	76%	1,290	89%
Total	<u>\$ 1,099</u>	<u>100%</u>	<u>\$ 1,449</u>	<u>100%</u>
Leverage ⁽³⁾	1.2 to 1		2.2 to 1	

(1) Floating-rate borrowings include borrowings under our floating-rate credit facilities and approximately \$59 million and \$56 million of non-recourse debt with floating rate exposure as of June 30, 2019 and June 30, 2018, respectively. Approximately \$32 million of the June 30, 2019 floating rate exposure is hedged beginning in the third quarter of 2019.

(2) Fixed-rate debt also includes the present notional value of non-recourse debt that is hedged using interest rate swaps. Debt excludes securitizations that are not consolidated on our balance sheet.

(3) Leverage, as measured by our debt-to-equity ratio. This calculation excludes securitizations that are not consolidated on our balance sheet (where the collateral is typically financing receivables with U.S. government obligors).

“We successfully rotated approximately \$200 million of lower-yielding/highly-leveraged assets from the balance sheet during the quarter, which contributed to a modest decrease in portfolio size and a reduction in leverage. At the same time, we added better risk-adjusted return assets to the balance sheet in the quarter that are expected to facilitate continuing growth in our Net Investment Income,” said Hannon Armstrong Chief Financial Officer Jeffrey A. Lipson.

“This quarter was also highlighted by the initial issuer credit ratings we received from S&P Global and Fitch Ratings, and further diversification of our funding strategy. We were pleased with the reception of our inaugural issuance of \$350 million of unsecured notes at 5.25%, maturing in 2024 which closed in July. The oversubscribed offering saw significant demand, allowing us to upsize the issuance \$50 million over the original transaction size.”

Portfolio

Our Portfolio totaled approximately \$1.8 billion as of June 30, 2019 and included approximately \$0.9 billion of behind-the-meter assets, approximately \$0.8 billion of grid-connected assets and approximately \$0.1 billion of other sustainable infrastructure investments. The following is an analysis of our Portfolio as of June 30, 2019:

	Investment Grade		Commercial Non-Investment Grade ⁽³⁾	Subtotal, Debt and Real Estate	Equity Method Investments	Total
	Government ⁽¹⁾	Commercial ⁽²⁾				
	<i>(in millions)</i>					
Equity investments in renewable energy projects	\$ —	\$ —	\$ —	\$ —	\$ 436	\$ 436
Receivables and investments	383	240	352	975	—	975
Real estate ⁽⁴⁾	—	364	—	364	22	386
Total	<u>\$ 383</u>	<u>\$ 604</u>	<u>\$ 352</u>	<u>\$ 1,339</u>	<u>\$ 458</u>	<u>\$ 1,797</u>
Average remaining balance ⁽⁵⁾	\$ 8	\$ 6	\$ 15	\$ 8	\$ 15	\$ 9

(1) Transactions where the ultimate obligor is the U.S. federal government or state or local governments where the obligors are rated investment grade (either by an independent rating agency or based upon our internal credit analysis). This amount includes \$228 million of U.S. federal government transactions and \$155 million of transactions where the ultimate obligors are state or local governments. Transactions may have guaranties of energy savings from third party service providers, which typically are entities rated investment grade by an independent rating agency.

(2) Transactions where the projects or the ultimate obligors are commercial entities that have been rated investment grade (either by an independent rating agency or based on our internal credit analysis). Of this total, \$9 million of the transactions have been rated investment grade by an independent rating agency.

(3) Transactions where the projects or the ultimate obligors are commercial entities that either have ratings below investment grade (either by an independent rating agency or using our internal credit analysis) or where the nature of the subordination in the asset causes it to be considered non-investment grade. This category of assets includes \$328 million of mezzanine loans made on a non-recourse basis to special purpose subsidiaries of residential solar companies where the nature of the subordination causes it to be considered non-investment grade. These loans are secured by residential solar assets and we rely on certain limited indemnities, warranties, and other obligations of the residential solar companies or their other subsidiaries. Approximately, \$206 million of these mezzanine loans were made to entities in which we also have non-controlling equity investments of approximately \$24 million. Commercial non-investment grade receivables also include \$16 million of transactions where the projects or the ultimate obligors are commercial entities that have ratings below investment grade using our internal credit analysis, and \$8 million of loans on non-accrual status.

(4) Includes the real estate and the lease intangible assets (including those held through equity method investments) from which we receive scheduled lease payments, typically under long-term triple net lease agreements.

(5) Excludes approximately 175 transactions each with outstanding balances that are less than \$1 million and that in the aggregate total \$63 million.

Guidance

The Company is confirming its previously issued three-year guidance from 2018 to 2020 with respect to core earnings per share growth, on a compounded annual basis over the three years, in the 2% to 6% range, equivalent to \$1.37 at the midpoint in 2019 and \$1.43 at the midpoint in 2020. This guidance reflects the Company's estimates of (i) yield on its existing Portfolio; (ii) yield on incremental Portfolio investments, inclusive of the Company's existing pipeline; (iii) the volume and profitability of securitization transactions; (iv) amount, timing, and costs of debt and equity capital to fund new investments; (v) changes in costs and expenses reflective of the Company's forecasted operations, and (vi) the general interest rate and market environment. All guidance is based on current expectations of future economic conditions, the regulatory environment, the dynamics of the markets in which we operate and the judgment of the Company's management team. The Company has not provided GAAP guidance as discussed in the Forward-Looking Statements section of this press release.

Board Changes

Effective July 30, 2019, the Board of Directors (the “Board”) has appointed Simone F. Lagomarsino and Michael T. Eckhart to become new independent directors of the Company.

Ms. Lagomarsino currently serves as a Director, President and Chief Executive Officer of California-based Luther Burbank Corporation. She has extensive experience in leadership roles with the Federal Home Loan Bank of San Francisco and numerous other financial institutions, including public companies. Mr. Eckhart, formerly with Citigroup, Inc., is an Adjunct Professor at Columbia University’s Graduate School of International and Policy Affairs, teaching Environmental Finance. He is also the former CEO of the American Council on Renewable Energy.

Ms. Lagomarsino was also appointed by the Board to serve as a member of the Audit Committee and of the Finance and Risk Committee, and Mr. Eckhart was appointed to serve as a member of the Finance and Risk Committee and of the Nominating, Governance and Corporate Responsibility Committee. In addition, effective July 30, 2019, the Board appointed Teresa M. Brenner as the new Lead Independent Director. Richard J. Osborne, a member of the Board since the Company’s IPO and the Lead Independent Director since 2014, was appointed to serve as the Chairperson of the Compensation Committee. Charles M. O’Neil, also an independent member of the Board since the Company’s IPO, will remain as the Chairperson of the Finance and Risk Committee but will rotate from serving on the Audit Committee to serving on the Nominating, Governance and Corporate Responsibility Committee, effective July 30, 2019.

Also, effective July 30, 2019, Rebecca B. Blalock and Mark J. Cirilli have notified the Board of their intent to resign from the Board and their respective committee positions. “As our business evolves, we need to evolve our board as well, which we have accomplished with the addition of Simone and Mike to our Board and the appointment of Teresa as Lead Independent Director,” said Mr. Eckel.

“We will miss the contributions of both Becky and Mark. Among other things, Becky has been instrumental in helping Hannon Armstrong build a robust cybersecurity capacity, a crucial function for any company today, and I thank Becky for her many contributions to our company’s development.”

“Mark Cirilli was the only investor to understand the power and importance of the Hannon Armstrong platform during our 2007 management buyout,” said Mr. Eckel. “And without that crucial step, we don’t develop the organization to the point where we could go public in 2013. His leadership and steadfast support for me and the business has never wavered. I am deeply indebted to Mark.”

“After being involved with the Company since 2007, it is time for me to step down. I remain very confident that under Jeff Eckel’s leadership and with the addition of our new board members, we will continue to progress and remain a highly impactful business,” said Mr. Cirilli.

For additional information relating to the changes in our board, refer to the Company’s Form 8-K dated August 1, 2019, to which this press release has been attached as an Exhibit.

Conference Call and Webcast Information

Hannon Armstrong will host an investor conference call today, Thursday, August 1, 2019, at 5:00 p.m. eastern time. The conference call can be accessed live over the phone by dialing 1-866-548-4713, or for international callers, 1-323-794-2093. A replay will be available two hours after the call and can be accessed by dialing 1-844-512-2921, or for international callers, 1-412-317-6671. The passcode for the live call and the replay is 1930376. The replay will be available until August 8, 2019.

A webcast of the conference call will also be available through the Investor Relations section of our website, at www.hannonarmstrong.com. A copy of this press release is also available on our website.

About Hannon Armstrong

Hannon Armstrong (NYSE: HASI) focuses on making investments in climate change solutions by providing capital to the leading companies in the energy efficiency, renewable energy and other sustainable infrastructure markets. Our goal is to generate attractive returns for our stockholders by investing in a diversified portfolio of investments that generate long-term, recurring and predictable cash flows from proven commercial technologies. Based in Annapolis, Maryland, Hannon Armstrong is proud to be the first U.S. public company solely dedicated to investments that reduce carbon emissions or increase resilience to climate change. For more information, please visit www.hannonarmstrong.com. Follow Hannon Armstrong on [LinkedIn](#) and Twitter [@HannonArmstrong](#).

Forward-Looking Statements:

Some of the information contained in this press release is forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that are subject to risks and uncertainties. For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-looking statements.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements include those discussed under the caption "Risk Factors" included in our most recent Annual Report on Form 10-K for the year ended December 31, 2018 as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2018 (collectively, our "2018 Form 10-K") that was filed with the U.S. Securities and Exchange Commission (the "SEC"), as well as in other periodic reports that we file with the SEC. Statements regarding the following subjects, among others, may be forward-looking:

- *our expected returns and performance of our investments;*
- *the state of government legislation, regulation and policies that support or enhance the economic feasibility of sustainable infrastructure projects, including energy efficiency and renewable energy projects and the general market demands for such projects;*

- *market trends in our industry, energy markets, commodity prices, interest rates, the debt and lending markets or the general economy;*
- *our business and investment strategy;*
- *availability of opportunities to invest in projects that reduce carbon emissions or increase resilience to climate change including energy efficiency and renewable energy projects and our ability to complete potential new opportunities in our pipeline;*
- *our relationships with originators, investors, market intermediaries and professional advisers;*
- *competition from other providers of capital;*
- *our or any other companies' projected operating results;*
- *actions and initiatives of the federal, state and local governments and changes to federal, state and local government policies, regulations, tax laws and rates and the execution and impact of these actions, initiatives and policies;*
- *the state of the U.S. economy generally or in specific geographic regions, states or municipalities, and economic trends;*
- *our ability to obtain and maintain financing arrangements on favorable terms, including securitizations;*
- *general volatility of the securities markets in which we participate;*
- *changes in the value of our assets, our portfolio of assets and our investment and underwriting process;*
- *the impact of weather conditions, natural disasters, accidents or equipment failures or other events that disrupt the operation of our investments or negatively impact on the value our assets;*
- *rates of default or decreased recovery rates on our assets;*
- *interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;*
- *changes in interest rates, including the flattening of the yield curve, and the market value of our assets and target assets;*
- *changes in commodity prices, including continued low natural gas prices;*
- *effects of hedging instruments on our assets or liabilities;*
- *the degree to which our hedging strategies may or may not protect us from risks, such as interest rate volatility;*
- *impact of and changes in accounting guidance;*
- *our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes (a "REIT");*
- *our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "1940 Act");*
- *availability of and our ability to attract and retain qualified personnel;*
- *estimates relating to our ability to generate sufficient cash in the future to operate our business and to make distributions to our stockholders; and*
- *our understanding of our competition.*

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this press release. Any forward- looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements after the date of this earnings release, whether as a result of new information, future events or otherwise.

The Company is confirming its previously issued three-year guidance with respect to core earnings per share growth, on a compounded annual basis over the next three years, in the 2% to 6% range. The confirmed guidance reflects the Company's estimates of (i) yield on its existing Portfolio; (ii) yield on incremental Portfolio investments, inclusive of the Company's existing pipeline; (iii) amount, timing, and costs of debt and equity capital to fund new investments; (iv) changes in costs and expenses reflective of the Company's forecasted operations and (v) the general interest rate and market environment. All guidance is based on current expectations of future economic conditions, the regulatory environment, the dynamics of the markets in which it operates and the judgment of the Company's management team.

The Company has not provided GAAP guidance as forecasting a comparable GAAP financial measure, such as net income, would require that the Company apply the HLBV method to these investments. In order to forecast under the HLBV method, the Company would be required to make various assumptions related to expected changes in the net asset value of the various entities and how such changes would be allocated under HLBV. GAAP HLBV earnings over a period of time are very sensitive to these assumptions especially in regard to when a partnership transactions flips and thus the liquidation scenarios change materially. The Company believes that these assumptions would require unreasonable efforts to complete and if completed, the wide variation in projected GAAP earnings based upon a range of scenarios would not be meaningful to investors. Accordingly, the Company has not included a GAAP reconciliation table related to any Core Earnings guidance.

Estimated carbon savings are calculated using the estimated kilowatt hours ("kWh"), gallons of fuel oil, million British thermal units ("MMBtus") of natural gas and gallons of water saved as appropriate, for each project. The energy savings are converted into an estimate of metric tons of CO2 equivalent emissions based upon the project's location and the corresponding emissions factor data from the U.S. Government and International Energy Agency. Portfolios of projects are represented on an aggregate basis.

The risks included here are not exhaustive. Our most recent quarterly report on Form 10Q, 2018 Form 10-K, or other regulatory filings may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue				
Interest income, receivables	\$ 15,122	\$ 12,756	\$ 30,642	\$ 25,604
Interest income, investments	1,793	1,589	3,676	3,129
Rental income	6,469	5,967	12,946	11,909
Gain on sale of receivables and investments	2,167	14,208	9,006	20,465
Fee and other income	5,717	1,615	8,141	3,221
Total revenue	31,268	36,135	64,411	64,328
Expenses				
Interest expense	14,869	19,033	30,300	37,744
Compensation and benefits	6,650	6,335	14,089	11,656
General and administrative	3,739	3,844	7,080	6,930
Total expenses	25,258	29,212	51,469	56,330
Income before equity method investments	6,010	6,923	12,942	7,998
Income (loss) from equity method investments	7,624	10,583	12,131	8,298
Income (loss) before income taxes	13,634	17,506	25,073	16,296
Income tax (expense) benefit	(839)	(153)	1,430	(171)
Net income (loss)	\$ 12,795	\$ 17,353	\$ 26,503	\$ 16,125
Net income (loss) attributable to non-controlling interest holders	55	91	117	86
Net income (loss) attributable to controlling stockholders	\$ 12,740	\$ 17,262	\$ 26,386	\$ 16,039
Basic earnings (loss) per common share	\$ 0.20	\$ 0.32	\$ 0.41	\$ 0.29
Diluted earnings (loss) per common share	\$ 0.19	\$ 0.32	\$ 0.41	\$ 0.29
Weighted average common shares outstanding basic				
	63,772,549	52,051,253	62,766,318	51,882,021
Weighted average common shares outstanding diluted	64,429,155	52,051,253	63,394,220	51,882,021

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	June 30, 2019	December 31, 2018
Assets		
Equity method investments	\$ 458,267	\$ 471,044
Government receivables	342,606	497,464
Commercial receivables	508,286	447,196
Real estate	363,809	365,370
Investments	124,370	169,793
Cash and cash equivalents	37,892	21,418
Other assets	192,191	182,628
Total Assets	\$2,027,421	\$2,154,913
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other	\$ 38,264	\$ 36,509
Deferred funding obligations	5,814	72,100
Credit facility	209,653	258,592
Non-recourse debt (secured by assets of \$920 million and \$1,105 million, respectively)	740,003	834,738
Convertible notes	148,943	148,451
Total Liabilities	1,142,677	1,350,390
Stockholders' Equity:		
Preferred stock, par value \$0.01 per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value \$0.01 per share, 450,000,000 shares authorized, 64,912,741 and 60,510,086 shares issued and outstanding, respectively	649	605
Additional paid in capital	1,060,086	965,384
Accumulated deficit	(180,217)	(163,205)
Accumulated other comprehensive income (loss)	968	(1,684)
Non-controlling interest	3,258	3,423
Total Stockholders' Equity	884,744	804,523
Total Liabilities and Stockholders' Equity	\$2,027,421	\$2,154,913

EXPLANATORY NOTES

Non-GAAP Financial Measures

Core Earnings

We calculate core earnings as GAAP net income (loss) excluding non-cash equity compensation expense, non-cash provision for credit losses, amortization of intangibles, any one-time acquisition related costs or non-cash tax charges and the earnings attributable to our non-controlling interest of our Operating Partnership. We also make an adjustment to our equity method investments in the renewable energy projects as described below. In the future, core earnings may also exclude one-time events pursuant to changes in GAAP and certain other non-cash charges as approved by a majority of our independent directors.

Certain of our equity method investments in renewable energy projects are structured using typical partnership “flip” structures where the investors with cash distribution preferences receive a pre-negotiated return consisting of priority distributions from the project cash flows, in many cases, along with tax attributes. Once this preferred return is achieved, the partnership “flips” and the common equity investor, often the operator or sponsor of the project, receives more of the cash flows through its equity interests while the previously preferred investors retain an ongoing residual interest. We have made investments in both

the preferred and common equity of these structures. Regardless of the nature of our equity interest, we typically negotiate the purchase prices of our equity investments, which have a finite expected life, based on our assessment of the expected cash flows we will receive from these projects discounted back to the net present value, based on a target investment rate, with the expected cash flows to be received in the future reflecting both a return on the capital (at the investment rate) and a return of the capital we have committed to the project. We use a similar approach in the underwriting of our receivables.

Under GAAP, we account for these equity method investments utilizing the HLBV method. Under this method, we recognize income or loss based on the change in the amount each partner would receive, typically based on the negotiated profit and loss allocation, if the assets were liquidated at book value, after adjusting for any distributions or contributions made during such quarter. The HLBV allocations of income or loss may be impacted by the receipt of tax attributes, as tax equity investors are allocated losses in proportion to the tax benefits received, while the sponsors of the project are allocated gains of a similar amount. In addition, the agreed upon allocations of the project's cash flows may differ materially from the profit and loss allocation used for the HLBV calculations.

The cash distributions for our equity method investments are segregated into a return on and return of capital on our cash flow statement based on the cumulative income (loss) that has been allocated using the HLBV method. However, as a result of the application of the HLBV method, including the impact of tax allocations, the high levels of depreciation and other non-cash expenses that are common to renewable energy projects and the differences between the agreed upon profit and loss and the cash flow allocations, the distributions and thus the economic returns (i.e. return on capital) achieved from the investment are often significantly different from the income or loss that is allocated to us under the HLBV method. Thus, in calculating core earnings, we further adjust GAAP net income (loss) to take into account our calculation of the return on capital (based upon the investment rate) from our renewable energy equity method investments, as adjusted to reflect the performance of the project and the cash distributed. We believe this core equity method investment adjustment to our GAAP net income (loss) in calculating our core earnings measure is an important supplement to the HLBV income allocations determined under GAAP for an investor to understand the economic performance of these investments.

For the three and six months ended June 30, 2019, we recognized income of \$8 million and \$12 million, respectively under GAAP for our equity investments in renewable energy projects. We reversed the GAAP income and recorded \$10 million and \$19 million for core earnings, as discussed above, to reflect our return on capital from these investments for the three and six months ended June 30, 2019. This compares to the collected cash distributions from these equity method investments of approximately \$27 million and \$54 million, for the three and six months ended June 30, 2019, with the difference between core earnings and cash collected representing a return of capital.

We believe that core earnings provides an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable companies with fewer or no non-cash charges and comparison of our own operating results from period to period. Our management uses core earnings in this way. We believe that our investors also use core earnings, or a comparable supplemental performance measure, to evaluate and compare

our performance to that of our peers, and as such, we believe that the disclosure of core earnings is useful to our investors.

However, core earnings does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), or an indication of our cash flow from operating activities (determined in accordance with GAAP), or a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, our methodology for calculating core earnings may differ from the methodologies employed by other companies to calculate the same or similar supplemental performance measures, and accordingly, our reported core earnings may not be comparable to similar metrics reported by other companies.

Reconciliation of our GAAP Net Income to Core Earnings

We have calculated our core earnings and provided a reconciliation of our GAAP net income to core earnings for the three and six months ended June 30, 2019 and 2018 in the tables below:

	For the Three Months Ended June 30, 2019		For the Three Months Ended June 30, 2018	
	(in thousands, except per share data)			
	per share		per share	
Net income attributable to controlling stockholders ⁽¹⁾	\$ 12,740	\$ 0.19	\$ 17,262	\$ 0.32
Core earnings adjustments:				
Reverse GAAP income from equity method investments	(7,624)		(10,583)	
Add back core equity method investments earnings ⁽²⁾	9,538		9,912	
Non-cash equity-based compensation charges ⁽³⁾	3,411		3,379	
Other core adjustments ⁽⁴⁾	1,708		876	
Core earnings ⁽⁵⁾	19,773	\$ 0.30	20,846	\$ 0.39

(1) This is the GAAP diluted earnings per share and is the most comparable GAAP measure to our core earnings per share.

(2) Reflects adjustment for equity method investments described above

(3) Reflects adjustment for non-cash equity-based compensation.

(4) See detail below.

(5) Core earnings per share for the three months ended June 30, 2019 and June 30, 2018, are based on 65,749,618 shares and 54,076,462 shares outstanding, respectively, which represents the weighted average number of fully-diluted shares outstanding including our restricted stock awards and restricted stock units and the non-controlling interest in our Operating Partnership. We include any potential common stock issuance in this calculation related to our convertible notes using the treasury stock method.

	For the Six Months Ended June 30, 2019		For the Six Months Ended June 30, 2018	
	(in thousands, except per share data)			
	per share		per share	
Net income attributable to controlling stockholders ⁽¹⁾	\$ 26,386	\$ 0.41	\$ 16,039	\$ 0.29
Core earnings adjustments:				
Reverse GAAP income from equity method investments	(12,131)		(8,298)	
Add back core equity method investments earnings ⁽²⁾	19,143		20,504	
Non-cash equity-based compensation charges ⁽³⁾	6,990		5,225	
Other core adjustments ⁽⁴⁾	319		1,653	
Core earnings ⁽⁵⁾	\$ 40,707	\$ 0.63	\$ 35,123	\$ 0.65

- (1) This is the GAAP diluted earnings per share and is the most comparable GAAP measure to our core earnings per share.
- (2) Reflects adjustment for equity method investments described above
- (3) Reflects adjustment for non-cash equity-based compensation.
- (4) See detail below.
- (5) Core earnings per share for the six months ended June 30, 2019 and June 30, 2018, are based on 64,733,505 shares and 53,814,625 shares outstanding, respectively, which represents the weighted average number of fully-diluted shares outstanding including our restricted stock awards and restricted stock units and the non-controlling interest in our Operating Partnership. We include any potential common stock issuance in this calculation related to our convertible notes using the treasury stock method.

The table below provides a reconciliation of the Other core adjustments:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Other core adjustments				
Amortization of intangibles ⁽¹⁾	\$ 823	\$ 785	\$ 1,638	\$ 1,567
Non-cash provision (benefit) for income taxes	830	—	(1,436)	—
Net income attributable to non-controlling interest	55	91	117	86
Other core adjustments	\$ 1,708	\$ 876	\$ 319	\$ 1,653

- (1) Adds back non-cash amortization of lease and pre-IPO intangibles

The table below provides a reconciliation of the GAAP SG&A expenses to Core SG&A expenses:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
GAAP SG&A expenses				
Compensation and benefits	\$ 6,650	\$ 6,335	\$ 14,089	\$ 11,656
General and administrative	3,739	3,844	7,080	6,930
Total SG&A expenses (GAAP)	\$ 10,389	\$ 10,179	\$ 21,169	\$ 18,586
Core SG&A expenses adjustments:				
Non-cash equity-based compensation charge ⁽¹⁾	\$ (3,411)	\$ (3,379)	\$ (6,989)	\$ (5,225)
Amortization of intangibles ⁽²⁾	(52)	(51)	(102)	(101)
Core SG&A expenses adjustments	(3,463)	(3,430)	(7,091)	(5,326)
Core SG&A expenses	\$ 6,926	\$ 6,749	\$ 14,078	\$ 13,260

- (1) Reflects add back of non-cash amortization of equity-based compensation. Outstanding grants related to equity-based compensation are included in core earnings per share calculation.
- (2) Adds back non-cash amortization of pre-IPO intangibles

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