

AMRC Prepared Remarks Q2 2023 FINAL

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Leila Dillon - SVP Marketing

Thank you, _____, and good afternoon, everyone. We appreciate you joining us for today's call. Joining me here are George Sakellaris, Ameresco's Chairman, President, and Chief Executive Officer; Doran Hole, Executive Vice President and Chief Financial Officer; and Mark Chiplock, Senior Vice President and Chief Accounting Officer. Before I turn the call over to George, I would like to make a brief statement regarding forward-looking remarks.

Today's earnings materials contain forward-looking statements, including statements regarding our expectations. All forward-looking statements are subject to risks and uncertainties. Please refer to today's earnings materials, the safe harbor language on Slide 2 and our SEC filings for a discussion of the major risk factors that could cause our

actual results to differ from those in our forward-looking statements. In addition, we use several non-GAAP measures when presenting our financial results. We have included the reconciliations to these measures in our supplemental financial information.

I will now turn the call over to George. George?

George Sakellaris – CEO

Thank you, Leila, and good afternoon, everyone. We had another solid quarter and I'm particularly pleased that our positive momentum continued with the strong growth in project backlog and assets in development, supporting both our 2023 guidance and our longer-term financial targets. Second quarter revenue was well above our guidance and Adjusted EBITDA was at the higher end of our range. Importantly, we ended the quarter with a record total project backlog of \$3.2 billion, which was up 9% sequentially. During the quarter we added \$493 million of new project awards, bringing the total adds for the first half of the year to almost a billion dollars. This growth is even more

impressive as we now have surpassed the total backlog reached when we signed the almost billion dollar SCE battery contracts at the end of 2021. We also added 113 MW of assets in development in the second quarter, which is the largest amount added in a single quarter in our company's history. This represents an impressive 26% sequential growth in assets in development, which we expect will provide substantial EBITDA contributions for many years, once brought into operation. Together, our project and asset wins continue to add to our multiyear visibility of profitable revenues while supporting our confidence in Ameresco's long term growth.

Large battery energy storage contract wins represented a major component of this quarter's growth in both our project backlog and assets in development. In our supplemental slides, you will see that battery assets now comprise 41% of our assets in development compared to under 5% of our existing operating assets. Large battery storage systems are a critical component in the replacement of fossil

fuel generated electricity, playing a key role in the storage of renewable energy during times of peak production. Batteries, most importantly, make the electric grid far more resilient and flexible, quickly providing power when needed due to high demand, weather related events and a number of other unplanned outages. These factors are driving tremendous growth in battery storage, supported by the mass commercialization of battery technologies which has helped to drive down costs.

In the United States, the Inflation Reduction Act has been a significant catalyst for the rapid adoption of this technology. Before the passage of the IRA, federal tax credits were only available for battery storage when it was paired with a renewable generation technology, such as solar or wind. Now under the IRA, and similar incentives in Canada, standalone battery storage systems will be eligible for a 30 percent or greater investment tax credit - significantly enhancing the value proposition of these systems for our customers, thus driving greater adoption. While

the ITC is helpful here in North America, we are also proposing and winning stand-alone battery projects in Europe where the need is just as great.

Given our deep technical knowledge, engineering expertise and supplier relationships, Ameresco has become a recognized leader in the implementation of battery systems. From the transformational Southern California Edison projects to the recently announced, United Power, Middle River Power and Atura Power Joint Venture wins, Ameresco's expertise and financially flexible business model allows us to drive both battery project and asset opportunities for many years to come.

Another very positive long-term development for Ameresco which occurred during the quarter was the EPA's ruling concerning the Renewable Fuel Standard targets for 2023 through 2025. In its final ruling, the EPA significantly increased the volume obligations for RNG.

This ruling had an immediate impact on the price of the D3 RINs, which we generate from our RNG operations, and prices quickly moved from the low \$2 range to above \$3. As importantly, the EPA also changed how they calculate the RNG industry average rate of growth which could support volume calculations even beyond the three year period of this ruling. We were very pleased with the ruling which increases our long-term visibility into this important line of business. Additionally, we are anticipating the forthcoming guidance from the EPA on eRINs, which could also provide a tailwind to our existing biogas to electricity projects.

Before turning the call over to Doran, I want to highlight the publication of our third annual ESG report entitled '**Doing Well by Doing Good – Transformation and Purpose**'. We are very proud of the fact that our operations have had a significant positive impact on the global environment as our renewable energy assets and customer projects combined have delivered a cumulative carbon emission reduction of

over 95 million metric tons since going public in 2010. Our ongoing asset and project growth will continue to drive this important number even higher. Looking ahead, we have also set a target of achieving net zero from our internal operations for both scope 1 and scope 2 emissions by 2040. In support of this target, we have pledged to establish emissions reduction targets through the Science Based Targets initiative by 2025.

I will now turn the call over to Doran to comment on our financial performance and outlook. Doran?

Doran Hole – CFO

Thank you, George, and good afternoon everyone. For additional financial information, please refer to the press release and supplemental slides that were posted to our website after the market closed today.

Total second quarter revenue was \$327.1 million, about \$37 million above the midpoint of our guidance with faster-than-expected execution on certain projects. Energy Asset revenue grew 17%, largely based on the increased number of operating assets year over year, while our O&M business delivered another solid quarter with 9% growth. In addition, our Other line of business was up 4%, driven by increased demand for our utility SaaS and consulting businesses.

Gross margin expanded to 17.9%, as the lower margin SoCal Ed contract declined as a percentage of our total revenue. We generated Adjusted EBITDA of \$37.4 million in the quarter, at the higher end of our guidance range. We ended the quarter with approximately \$49 million of unrestricted cash, while executing on a record \$285 million in financing activity.

As George mentioned, we ended the quarter with a record total project backlog of \$3.2 billion, a 9% sequential increase, as we added nearly half a billion dollars in new project awards during the quarter. Our energy asset visibility is approximately \$2.3 billion, an operating asset revenue backlog metric that includes both contracted revenue as well as a conservative estimate of lifetime uncontracted RNG revenues.

These metrics, together with our O&M backlog, give Ameresco visibility to over \$6.7 billion of future revenue. This metric does **not** include any contribution from the 545 MWe of energy assets in development and construction. As George mentioned we experienced record adds of 113 MWe during the quarter; and our assets in development and construction remain well above our current operating energy assets - giving us additional visibility into our long term growth.

The timing of placing these assets into operation can be anywhere from under a year for small more simple assets to 4 plus years for more complex assets such as RNG facilities. Listeners will remember that an

asset has to meet very strict criteria to be included in this metric which is much stricter than what most companies consider a “pipeline”.

Historically, approximately 90+ % of our energy assets in development and construction are placed into service and either carried on our balance sheet as an operating asset, primarily with non-recourse financing, or monetized through a sale to a third party.

With the changing interest rate environment, we have been fielding many questions on the impact of increasing interest rates on our Energy Asset business and our expectations for how this business might evolve. As many of you are aware, we use a risk adjusted levered internal rate of return as a key metric when evaluating energy asset opportunities. We continue to target a mid-teens risk-adjusted levered IRR on our assets. We have been able to achieve this high yield in the solar and battery space by carefully selecting assets that are with repeat or new customers that value our flexible financing approach, vertical integration and technical expertise which means we are not

always competing solely on price. Or because we are developing larger more technically complex assets, such as RNG, where Ameresco's 20+ years in the market give us a significant advantage in winning and executing on the opportunities.

We are experiencing a meaningful increase in asset development opportunities including some assets that may not meet our risk-adjusted return targets, or meaningfully contribute to our net income. That being said, they are still high-quality assets, and we can therefore generate value for Ameresco by developing and selling them to third parties with lower yield targets. In this case we recycle capital and earn a profit through an EPC contract where the 'assets,' convert to 'projects' upon a sale. We will also look to extract additional value by bundling these converted projects with an O&M contract. Even with maintaining our historic mid teens IRR hurdle rates, we believe there are ample opportunities to continue to grow our owned assets on average by approximately 20% per year, a growth target we've

discussed before, while selectively monetizing our origination efforts in other ways. This strategy isn't new to Ameresco, but in the current environment it may become more prominent. In the end, we believe that our flexible corporate model with Both Project and Asset business lines allows us to continue to benefit from the rapid growth of renewables by developing assets which continue to hit our mid-teens IRR target mentioned earlier or developing and selling as a profitable project.

Moving back to our operating assets, these assets are funded by fixed or hedged debt, therefore rising interest rates have little to no meaningful impact on this part of our business.

Thus, even in an increasing interest rate environment, the flexibility of Ameresco's business model and our opportunistic approach to the asset business should allow us to continue to benefit from the tremendous demand for renewable energy solutions.

We are pleased to re-affirm our 2023 guidance, which anticipates adjusted EBITDA growth of 5% at the midpoint, noteworthy considering the difficult year-on-year comparisons associated with the wind down and completion of the large SCE projects. We have also provided a more detailed mix of our expected Q3 and Q4 results in the press release.

We continue to expect to place between 80 and 100 MWe of energy assets in service in 2023 including two RNG plants. A third plant we originally anticipated to be placed in service in 2023 is expected to be at mechanical completion by the end of the year, and fully commissioned in Q1 2024. Several additional RNG assets are in the late stages of development and construction, and we continue to expect that 4 or 5 of these will come online during 2024.

Now I'd like to turn the call back over to George for closing comments.

George Sakellaris – CEO

Thank you, Doran.

As we have discussed in detail during this call, we have continued to extend our long-term line of sight to significant growth ending the second quarter with over \$6.7 billion in revenue visibility and 545 MW of assets in development and construction. Our first half performance, together with our backlog and business development pipeline, supports our confidence in our long-term growth targets. This is an exciting time to be a leading clean tech solution provider, and I know we have the technical talent and business acumen to support the energy transition and drive meaningful change.

In closing I would like to once again thank our employees, customers and stockholders for their continued support.

Operator we would like to open the call to questions.