HA Sustainable Infrastructure Capital, Inc.

Fourth Quarter and Full Year 2025 Results Conference Call

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<u>HASI Presenters</u>

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Chuck Melko, Executive VP, Chief Financial Officer and Treasurer

Marc Pangburn, Executive VP, Chief Revenue and Strategy Officer

Susan Nickey, Executive VP and Chief Client Officer

Aaron Chew, Senior VP, Investor Relations

<u>Q&A Analysts</u>

Christopher Dendrinos – RBC Capital Markets

Davis Sunderland – Baird

Noah Kaye – Oppenheimer & Co.

Brian Lee – Goldman Sachs

Maheep Mandloi – Mizuho Securities

Praneeth Satish – Wells Fargo

Jeff Osborne – TD Cowen

Operator

Greetings and welcome to HASI's third quarter 2025 earnings conference call and webcast. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "star" and then "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 Fourth Quarter 2025 Conference Call. Earlier this afternoon, HASI distributed the press release reporting our fourth quarter 2025 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 on this call are forward-looking statements which are subject to risks and uncertainties described in the Risk Factors section of the company's Form 10-K and other filings with the SEC. Actual results may differ materially from those stated. Today's discussion also includes some non-GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures is available in our earnings release and presentation.

Joining us on the call today are Jeff Lipson, the company's President and CEO, as well as Chuck Melko, our Chief Financial Officer. Also available for Q&A are Susan Nickey, our Chief Client Officer, and Marc Pangburn, our Chief Revenue and Strategy Officer.

To kick things off, I will turn it over to our President and CEO, Jeff Lipson. Jeff?

Jeff Lipson, President and CEO

Thank you, Aaron, and welcome to our fourth quarter and full year 2025 call. We are very pleased and proud to report that 2025 was an outstanding year for HASI with meaningful progress in all aspects of our business and a particularly strong finish in the fourth quarter with a higher volume of transactions closed than in any previous full year. The level of client development activity remains elevated, and the demand for project-level capital is extremely strong, creating continued tailwinds for our business as evidenced by both our 2025 results and our outlook for the next several years. Our Climate | Clients | Assets strategy continues to thrive, as we execute on closing attractive climate positive investments with programmatic clients supported by project cash flows from high-quality offtakers.

Turning to Slide 3. Not only was 2025 the strongest year of results we have ever recorded on virtually every metric used to monitor and assess our performance, but the underlying fundamentals of the business have been enhanced, establishing pathways to future continued success. Notably, nearly every facet of our business is operating at a high level right now including new investment volumes, returns, profitability, and capital efficiency. These higher volumes are supported by a new paradigm of load growth in the United States, rising demand for third-party providers of permanent capital, and HASI's competitive advantage. We closed $4.3 billion in new transactions in 2025, 87% more than 2024. And our pipeline has continued to grow from more than $5.5 billion at the end of Q1 to more than $6.5 billion at the end of 2025. Not only have our investment volumes scaled meaningfully larger, we are also increasing returns on these investments. For the second year in a row, yield on new investments has exceeded 10.5%. Meanwhile, our bond spreads continue to narrow, and our senior unsecured term bonds are trading with a yield below 6.25% today. These attractive margins have been a key factor in driving Adjusted EPS growth, which was 10.2% in 2025.

We've also made significant strides enhancing our business model and capital efficiency. In 2025, we issued our inaugural junior subordinated hybrid notes. With access to this new segment of the bond market along with our investment-grade ratings and our CCH1 co-investment vehicle with KKR, we have become significantly more profitable with each new share and are issuing fewer shares to grow our business. It is also noteworthy that we upsized CCH1's equity commitments by $1 billion in the fourth quarter. This combination of, one, large volumes, two, increasing profitability, and three, improved capital efficiency have combined to push our 2025 ROE above 13% and our incremental ROE above 19%. On the next few pages, I will further expand the discussion of these three items.

Turning to Slide 4, I want to particularly highlight the enormous year we had in closing new investments in 2025. Of course, the $1.2 billion investment in the SunZia project we announced on our last quarterly call was a big contributor. But even without that investment, we closed more than $3 billion of new investments last year. This is a testament to not only how strong the underlying demand is in the U.S. but also the important role HASI is playing in the market and the strength of our business model. Importantly, we have accomplished this with no change in our risk appetite or the general range of returns on the investments. Our asset level investment strategy continues to be well received by our clients and is driving attractive risk-adjusted returns. Of note, historically, we have reported one figure covering the total transactions closed volume including both the securitized and on balance sheet. However, going forward, we're going to break this out separately. In the dark blue bars, you can see our investment volume retained on our balance sheet and included in CCH1 totaled $3.6 billion in 2025, up approximately 140% year-over-year from $1.5 billion in 2024.

On Slide 5, we display our diverse pipeline which remains in excess of $6.5 billion. Virtually all of our markets remain active, and opportunities to invest continue to grow. Ultimately, our business is driven by fundamental economics, which outweigh policy changes as it relates to development activity. The underlying demand for power and the cost effectiveness and shorter development cycles in our asset classes combined to create an attractive investing environment. The economics of this development continues to improve as PPA rates have increased more than 40% over the past three years. In our Behind-the-Meter business, the trend towards more third-party ownership and leases results in more opportunity, as we have always focused on providing capital to lease portfolios. The increase in battery attachment has allowed for an increase in customer payments and a corresponding increase in our investment opportunity. Our Grid Connected business is benefiting from the significant growth in the renewables pipeline, primarily driven by solar and storage, which now exceeds $230 billion. Renewables now comprise 99% of the projected capacity additions in 2026. And our FTN business remains a growth engine as RNG production is forecasted to more than double by 2030 and will benefit from the trend of increasing gas production and the existing infrastructure.

Turning to Slide 6, we emphasize the diversity of our platform, which is an underlying strength of the business model. The chart depicts different asset classes achieving the highest volume in various years. Notably, after several years of minimal volume, onshore wind investments were 33% of the volume in 2025. Our ability to pivot as opportunities arise among a diverse set of asset classes from a large pipeline is a key factor in the consistency of our financial results.

Turning to Slide 7, we recap the last five years of adjusted earnings per share. Again, I note the resilience of our business model and the outstanding execution of our team. This five-year period included a pandemic, supply chain challenges, elevated inflation, a rapid rise in interest rates, policy disruption, permitting and transmission difficulties, client bankruptcies, and many other challenges. Despite these obstacles, our team remained focused on sourcing, closing, and effectively managing large and diverse volumes of high-quality climate positive investments, producing these consistently outstanding results. In fact, our 10-year compound average growth rate in Adjusted Earnings per Share is also 10%.

Turning to Slide 8, we emphasize that each dollar we invest has become increasingly more profitable as measured by incremental ROE, which is a metric that Chuck introduced last quarter. This metric is measured by the change in Adjusted Earnings divided by the change in shareholders' equity. On this basis, incremental returns in 2025 exceeded 19% as the combination of higher yields, lower debt costs, and balance sheet efficiency continue to enhance our profitability.

On Slide 9, we provide an illustration of our tremendous progress achieving improved equity efficiency. Prior to CCH1, $100 of proceeds from new equity issuance resulted in $300 of new investments. The additions of CCH1, modest debt on the CCH1 vehicle, and our hybrid offering have collectively produced an outcome such that $100 of proceeds from new shares now results in $1.35 billion of new investments.

This represents an improvement of more than 400% as measured by the earning assets that can be originated from each dollar of equity.

Turning to Page 10, we emphasize two large investments we closed in the fourth quarter. On the left, a joint venture with our longtime partner, Sunrun, totaling $500 million. Residential solar and storage continues to benefit from increasing utility rates and consumers' desire for affordability and resiliency. The unique structure of this joint venture enables ITC transferability in a programmatic and efficient way, allowing Sunrun to scale its business while providing an attractive risk-adjusted return to HASI. And on the right, we reemphasize the SunZia project with Pattern that we discussed on the third quarter call. Our largest investment ever, this is the largest onshore wind project in North America and remains on schedule to fund in the second quarter of this year.

On Page 11, we reflect and update an extension of our guidance. Our consistent results allow us to once again extend our guidance out three years until 2028. In that year, we expect Adjusted Earnings per Share to be in the range of $3.50 to $3.60. We are shifting to a nominal EPS guidance range from an EPS growth rate so that we may provide more precise updates in the future. Additionally, we expect our Adjusted ROE to exceed 17% by 2028, driven by the profitability and efficiency discussed a few moments ago.

Regarding our payout ratio, we discussed at our Investor Day in 2023 a trend of utilizing slower dividend growth and correspondingly more recycled retained earnings to reduce the payout ratio to 50% by 2030. We are now ahead of schedule on that trend and expect the payout ratio to be below 50% by 2028 and below 40% by 2030, as capital recycling also adds to the equity efficiency of our business model. To summarize, our three-year plan underscores our confidence in our ongoing ability to achieve our profitability objectives.

Now I'd like to ask Chuck to discuss our financial results and funding activity in greater detail. Chuck?

Chuck Melko, EVP, Chief Financial Officer and Treasurer

Thank you, Jeff.

Turning to Slide 12. As previously highlighted, we have experienced meaningful growth in our transaction closings, and our results in 2025 are a good indication of our ability to convert incremental closings to attractive returns. Our business model continued to deliver a 10% Adjusted EPS growth rate up to $2.70 per share in 2025. We have been successful at building our recurring earnings that serve as a solid foundation for our future earnings growth with Adjusted Recurring Net Investment Income of 362 million, an increase of 25% from the prior year. Our fees and income earned for managing assets in CCH1 and securitization trusts increased to $49 million in 2025, growth of 32% from the prior year. In addition, our securitization business continued to deliver with Gain on Sale contributing $65 million to our Adjusted Earnings. Our Adjusted ROE is beginning to reflect the growth achieved in our profitability, as we have been able to maintain the recent increase in yields while also growing fees from CCH1. As a result, our Adjusted ROE rose 70 basis points from 2024 to 13.4% in 2025. With our recent junior subordinated note offering, we expect to further increase our profitability on each share of equity issued and to meaningfully reduce the reliance on new equity issuance to achieve our growth targets. Our GAAP results were impacted by volatility that can typically occur in calculations of HLBV relative to our true economic returns in any given period. And also, as a reminder, the GAAP-based net investment income does not include the earnings from our equity method investments, which are a growing portion of our portfolio.

On to Slide 13. The foundation of our recurring earnings and growth in Adjusted EPS and ROE is our Managed Assets, which grew 18% to $16.1 billion at the end of 2025. Our Portfolio has grown to $7.6 billion and improved its earnings power with an increase in the portfolio yield to 8.8%. A key strength to the overall quality of our portfolio is its diversification and our investment strategy. As you can see, our portfolio continues to not be concentrated in any particular asset class. And additionally, our investment strategy has contributed to our minimal level of losses with an average annual realized loss rate of less than 10 basis points. Specific to CCH1, we recently expanded the total equity commitments by $500 million each between HASI and KKR, bringing the total to $3 billion. We expect that the remaining capacity after considering CCH1-level debt and reinvestment of cash collections will get us through 2026, and we fully expect that we will either extend the existing vehicle or create a new one that will continue as a source of funding additional investments while earning asset management fees.

On Slide 14, the growth in our Managed Assets is helping increase the ongoing reliable earnings from our Adjusted Recurring Net Investment Income. It provides a stable level of income that we can expect into the future and produce a steady growth in our earnings from year to year. Adjusted Recurring Net Investment Income is the largest component of our earnings and, as you can see by this graph, the largest driver of our earnings growth. However, Gain on Sale is also a meaningful component, but its contribution to Adjusted EPS has been changing over time. If it were not for the impact of gain on sale per share, the growth in our Adjusted Recurring Net Investment Income would have translated into even faster EPS growth over the last few years. As a result, we are focused on building our recurring income streams to provide a base level of earnings year after year. And despite the impact of the changing contribution of Gain on

Sale, we can rely on it every year and as a great source of additional returns with minimal capital investment needed.

On Slide 15, our liquidity and capital platform has been a key strength to the resilience of our growth as well as our ability to optimize returns after considering our cost of capital. Our liquidity has grown to $1.8 billion and is scaling with the growth in our business. We have grown the diversity of sources of capital over the years and continue to do so in 2025. We have increased the commitments in CCH1, expanded our bank facilities, obtained our third investment grade rating, and issued our first junior subordinated notes. Enhancing our options has allowed us to lower our overall cost of capital, effectively manage liquidity and refinancing risk, and reducing the need for equity to grow the business. Specific to our recent $500 million junior subordinated note offering, the rating agencies provide 50% or more equity credit in their leverage ratios for this instrument, which allows us to reduce equity issuances to fund our growth while remaining within the rating agency leverage targets for our investment-grade ratings. Starting this quarter and going forward, when we report our debt-to-equity ratio, it will include an adjustment consistent with rating agency treatment. We intend to continue issuances in this market, especially given our focus on reducing the need for equity issuance to grow the business and accelerate our ROE.

I will now turn the call back to Jeff for some closing remarks.

Jeff Lipson, President and CEO

Thanks, Chuck.

Turning to Slide 16, we display our sustainability and impact highlights, noting our cumulative CarbonCount and WaterCount numbers reflect the significant impact of our investment strategy. In particular, I want to highlight that 2025 was not only the first year that the avoided annual CO_2 emissions estimated from our new investments exceeded 1 million metric tons but that it rose to a record 1.7 million metric tons in 2025, increasing the total annual CO_2 emissions avoided from all of our investments to date to 10 million.

Now let's conclude on Slide 17. 2025 was, in many regards, the strongest year of operational and financial results in our history. Investment volumes nearly doubled, return on equity increased significantly and is well positioned for future growth, our diverse capital platform is working as designed for maximum efficiency and minimal cost, and our three-year guidance reflects an expectation of future meaningful growth and profitability. I would also note we have made significant investments in our own platform, particularly in talent and technology, that have positioned the business for further scale as we now exceed

$16 billion in managed assets. These platform investments in our own infrastructure have created the foundation for additional expected growth.

In closing, I would like to thank our talented team. And in particular, I would like to recognize and thank Steve Chuslo for his outstanding 18-year tenure as our Chief Legal Officer during which time he made an outsized contribution to HASI's success and our culture. As previously disclosed, Steve will be transitioning to a strategic adviser role in April. Thank you.

Operator, please open the line for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. The confirmation tone will indicate your line is in the question queue. You may press star two 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 while we poll for questions.

And our first question we'll hear from Chris Dendrinos with RBC

Chris Dendrinos – RBC Capital Markets

Yeah. Good evening and congratulations on the strong quarter and strong year. I guess maybe starting out here on the 2028 outlook, and you've highlighted that basically you all are outperforming historical levels basically on all the metrics here. So, what gets you to grow above a 10% CAGR? And it seems like maybe you're on pace to do that. So, just kind of walk us through the guideposts here that we should be measuring you against to maybe outperform that over time? Thanks.

Jeff Lipson, President and CEO

Sure, Chris. Thanks for the questions. And again, this business, we're very proud of the fact that, over a 10-year period, we've had a 10% CAGR in our Adjusted EPS, and I think the resiliency and the consistency of the business is quite admirable. The other thing we've really focused on is management credibility as it relates to guidance. So, I think—I don't think, I know—we've hit guidance, every guidance, that we've put out. So, that's very important to us, as well, so we maintain that credibility. So the $3.50 to $3.60 is our guidance. As with any guidance, there are pathways to beat it. And in our case, there would be things like more volume, better yield on the investments, lower debt costs than we've otherwise modeled would be the primary ones. There are also maybe discrete events like SunStrong monetization at some point and other scenarios in which we'd beat guidance. But again, we're very focused on being intellectually honest with the Street and our management credibility. And so, $3.50 to $3.60 is our guidance at this point.

Chris Dendrinos – RBC Capital Markets

Got it. Thank you. And then maybe just on the medium kind of near term. I noticed it didn't look like you all provided any kind of outlook for 2026 specifically. Could you provide any kind of color how should we be thinking about this year? Thanks.

Jeff Lipson, President and CEO

Sure. So, I think we have been consistent over the last several years in putting out three-year guidance and not necessarily speaking to the first two years. The primary reason for that is the lumpiness of the Gain on Sale business that makes forecasting shorter periods a little bit more difficult. But what I would say is there's nothing about 2026 that we call out either negatively or positively as related to the trend. And I would ask Chuck to see if he wants to add anything to that.

Chuck Melko, CFO

Yeah. I think, Chris, the one thing that I think we did put in a slide just looking forward to 2026, given the success that we've had in our volume closings in '25 specifically with SunZia driving us up to $4.3 billion of transaction closings. While we are expecting meaningful growth and are seeing it come through in our pipeline, raising our pipeline to $6.5 billion from $6 billion that we reported last quarter, given the SunZia transaction and the size of that, we wouldn't at this time necessarily expect to be at $4.3 billion transactions again. We'll be higher than historical closings but don't expect a $4.3 billion number necessarily.

Chris Dendrinos – RBC Capital Markets

Got it. Thank you very much.

Operator

Our next question we'll hear from Davis Sunderland with Baird.

Davis Sunderland – Baird

Hey. Good evening, guys. Can you hear me okay?

Jeff Lipson, President and CEO

Yep, thanks Davis.

Davis Sunderland – Baird

I apologize for any background noise. First of all, let me congratulate you and say thank you for the time and outstanding results in Q4 and 2025. My questions are actually somewhat of an extension from Chris'. I wanted to go back to just the change in the guidance strategy and the messaging here. And I wondered if the switch to a point guide or a range of point guidance for '28, is it all related to you guys having maybe increased confidence or increased visibility or maybe tied to deal sizes getting larger? Or just any other thoughts you could provide on the 'why now' as to guiding in that particular way?

Jeff Lipson, President and CEO

Sure. Thank you for your kind words, Davis. And I would say the primary reason that we switched to nominal EPS guidance from EPS growth rate, even though everyone can do the math, is very simply it allows us in subsequent quarters to perhaps be a little more precise in adjusting that guidance. So what you've seen from us over the last several years just to have a guidance number out there and then to affirm it quarter after quarter because we were generally still in that range. And then, of course, we did meet that expectation.

Here we may have a little more flexibility to adjust those pennies a little bit here or there to allow disclosure with a little more precision as to where we're headed. So, that's the primary objective here.

Davis Sunderland – Baird

Thank you for that. And maybe just a second question about investments and any other large deals that may be in the pipeline such as SunZia that may blur the average if you will. Just how we think about the normalized run rate for a full year going forward? If there's been a structural change in the business closer to $3 billion or certainly not run rating Q4 until the future quarters. But any thoughts on just how we contextualize that into your pipeline. Thank you.

Jeff Lipson, President and CEO

Sure. I'm going to—I'll say there's no structural change in the business, larger investment opportunities do materialize from time to time. And I'll let Marc perhaps talk a little bit more about our pipeline.

Marc Pangburn, EVP and Chief Revenue and Strategy Officer

Sure. I think Jeff covered the primary point that, when we look at our pipeline, it is highly consistent with the transactions that we have been closing recently both in terms of risk profile and yield. There's no SunZia-type project to call out in the pipeline. But that being said, even if there was, we likely wouldn't tell you until after it closed. And then the only—you brought up project sizes. We are seeing project sizes increase. And that is, I'd say, due to two primary items. One is, of course, just these larger grid-connected complexes that are getting built. But then also, whether it's Grid Connected or Behind-the-Meter, the storage attachment rate going up quite significantly and the focus on storage driving more capital deployment opportunities, as well.

Davis Sunderland – Baird

Super helpful. Congrats again, guys, and thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

And our next question we'll hear from Noah Kaye with Oppenheimer.

Noah Kaye – Oppenheimer & Co.

All right. Thanks for taking the question and good afternoon everyone. Maybe to get at this from a slightly different angle. So the pipeline was $5.5 billion or greater than that from last year, now $6.5 billion, so a little under 20% growth. I guess, do you feel like that is proportional to the growth in the TAM in the different sort of TAM boxes that the company is going to participate in. Really, the spirit of this is have you been able to take some share? Or do you see some ability through platform investments and partnerships to take a greater share of the pie?

Jeff Lipson, President and CEO

Thanks, Noah, for the question. I would say that's a difficult question to answer with precision in our markets. There's not necessarily great data on things like market share. But in general, I think directionally, the answer is yes. We do feel like we have increased our market share. We do feel like there's been some pullback from certain players who have been capital providers. And we've been able to absorb a little bit more. We feel our penetration with our own clients has improved. And therefore, we probably have increased market share, although there's not a strong way to prove it. And I would also make that comment without necessarily precision. So, when you see our pipeline go up 20%, I wouldn't claim our market share has improved by necessarily 20%. But I would say, directionally, we have increased our market share.

Noah Kaye – Oppenheimer & Co.

Yeah. And thank you, Jeff. And the related question is really about leverage. As was alluded to earlier, you do have some increase in individual project sizes. You also spoke before about ongoing investments and kind of capacity within the organization. Just wondering how the capital efficiency versus individual project size versus just pure operating leverage plays into driving the incremental ROE going higher and the ROE targets for fiscal '28. If the question makes sense, basically trying to do some attribution here on what drives the inflection.

Jeff Lipson, President and CEO

So, maybe I'll start and if Chuck wants to add anything. I would say the building blocks are on Slide 9 in our deck. And you can see that it's not—our equity efficiency is not entirely taking on more leverage. A big chunk of that equity efficiency is KKR's equity capital. So, it's not entirely a play on leverage. But I think the proportional improvement of the dollars of investments we can close with each dollar of equity is displayed there. So, hopefully, that somewhat answers your question. Those are really the building blocks of how we get there.

Noah Kaye – Oppenheimer & Co.

Yeah sorry if I wasn't being clear. I wasn't talking about debt leverage; I was talking about like operating leverage in terms of, you grow your headcount, you grow your organizational capacity, but are you growing revenues and profit on those revenues faster than you're growing the organization? That's the spirit of the question.

Jeff Lipson, President and CEO

Yeah. Okay. I'm sorry. I answered a different question. So, the answer to that question is also yes. We have been growing our revenues faster than we've been growing our expenses, and we are highly focused on improving our operating leverage. I did talk about towards the end of the call making significant investments in talent and technology, and we're doing that, and we think they certainly will pay long-term dividends to the company, and we've made some of those investments already. We'll continue to make those investments in 2026. But on a trend basis, we are and have been and will continue to grow revenues faster than expenses.

Noah Kaye – Oppenheimer & Co.

Very good. Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

And moving on, we'll hear from Brian Lee with Goldman Sachs.

Brian Lee – Goldman Sachs

Hey, guys. Good afternoon. Thanks for taking the questions. A couple of big picture ones. Just if I look at the slides, you've consistently had a really good presence in the residential solar market. It looks like it's expected to grow here into '26. So, first question would just be around you alluded to the traditional PPA/lease product, and you guys having good exposure there. Does this prepaid lease product that seems to be trying to make its way into the market to maybe offset some of the volume loss from the cash/loan customer market over the past few years, what does that do for you guys in terms of financing opportunity or returns? Are you going to be involved there? Just maybe give us a sense of what that has in terms of implications for your resi solar business model.

Jeff Lipson, President and CEO

Sure. Thanks, Brian. And I'm going to ask Marc to answer that specific question. But as a preamble, I would reinforce what a success story resi solar has been for us as a long-term mezz debt provider with several partners over many years. Our SunStrong joint venture that's worked out very well. And in our most recent transaction that I talked about in the prepared remarks with Sunrun, I think it's been a real success story in resi solar, and we expect it to continue to be an important component of our business. To answer your specific question around the prepaid lease product, I'm going to ask Marc to answer that.

Marc Pangburn, EVP and Chief Revenue and Strategy Officer

Hi Brian. We've seen over the past 10 years or so that we've been in resi some prepaid leases. But as it relates to your current—the comment on the current trend—we haven't seen any transactions using the prepaid lease structure to evaluate right now. But we'd certainly look at it to [Technical Difficulty] likely the more traditional lease and TPO products.

Brian Lee – Goldman Sachs

Okay. Fair enough. I appreciate that color. And then maybe just one kind of related. I guess, there was some recent news that maybe there is some tightness in tax equity markets. I mean, I guess, we've been kind of hearing that over the course of the past few quarters. But I guess the recent attribution was around renewables financing, having maybe a little bit of tightness tied to policy uncertainty whether that's foreign-entity-of-concern or other issues that haven't been finalized in terms of guidance, in this case, Treasury guidance. Does that have any implications for you guys? Are you seeing that? Is that actually an opportunity maybe? But just wondering if that's something that is impacting the marketplace as you see it and what it means for HASI.

Marc Pangburn, EVP and Chief Revenue and Strategy Officer

Sure. So what we've seen is the deployment of transferability structures to be more frequently used. And I think that's in part due to some simplicity, but also could be driven by of the tax equity items, which I think you've attributed it correctly to FEOC and some of the desire for clarity. I don't think it's more than that, though. It's really just the market looking for clarity. And in the interim, the transferability structures have been deployed quite frequently. And I think a good example of that is actually the two transactions that we highlighted with Sunrun and Pattern were—used the transferability structure.

Brian Lee – Goldman Sachs

Okay. Appreciate that color. Thanks, guys.

Jeff Lipson, President and CEO

Thank you.

Operator

And next, we'll move to Maheep Mandloi with Mizuho.

Maheep Mandloi – Mizuho Securities

Hey. Thanks, Maheep here. Just on the Treasury guidance, I think it probably came out a half hour ago here. But there's another question on that, but just like high level as you think through 2028, any thoughts on how FEOC kind of impacts your Portfolio here, or the projects you'll be building over the next three years?

Jeff Lipson, President and CEO

Sure. Thanks, Maheep. We are aware guidance was issued literally while we're sitting in this room, so clearly, we haven't read it. But to answer that question a little more generally on FEOC, I'm going to let Susan to speak to that.

Susan Nickey, EVP and Chief Client Officer

Yeah. Thanks. The good news is that getting -- starting to get guidance out on FEOC and any of the guidance that continues to remain is important and helpful to give clarity around the rules. I think in the interim, as we think we've talked about over the last few quarters, our clients have generally safe harbored under the prior guidance before that was effective through December of last year for several years ahead of their pipeline of projects. So the current guidance is really more—is obviously focused on 2026 incremental safe harboring or start-of-construction but isn't really impactful for our current pipeline and most of what our clients had already planned for.

Maheep Mandloi – Mizuho Securities

Got it. I appreciate that. And maybe a different question on some of these older vintage renewable projects which you might have under the portfolio. Keep hearing from some of the developers that they see—or some of these projects are up for renegotiations. As that happens, how does that kind of impact your earnings power? Or how should we think about that its impact to you that the GAAP income or the Adjusted Net Income for you guys?

Jeff Lipson, President and CEO

Sure. So, I'm going to let one or more of my colleagues jump in on that. But I would start out by saying that we have seen a fair amount of PPA renegotiation in several of our projects recently, and we work closely with our sponsors on those renegotiations. And given where PPA prices are now, those have been positive renegotiations as it relates to the long-term cash flows we expect from those projects. And where that shows up for us on a non-GAAP basis is in portfolio yield, which is the summation of all the individual yields and all the individual projects. And so, when there's a new PPA, that's a new fact, and we would rerun the yield on a project. Let me ask if—is anyone—okay. I'm getting a lot of head nodding that that was a sufficient answer, so hopefully that answers your question. No one has anything to add to that.

Maheep Mandloi – Mizuho Securities

And just trying to understand it. It feels like the capital needs for renegotiations would be pretty low, right? So, is that—and just anything—like does that accelerate your EPS growth beyond '28 or how to think about this 10% CAGR here, especially with more renegotiations happening.

Jeff Lipson, President and CEO

We lost the beginning of that question, but I think you asked do these PPA renegotiations potentially result in higher EPS than our guidance in '28. Was that really the question?

Maheep Mandloi – Mizuho Securities

Yes. Yes. And then it seems like these are really less capital intensive, right, these higher yield from these renegotiations. So, just curious how that accelerates the EPS CAGR here.

Jeff Lipson, President and CEO

Well, sure. So, I think our EPS guidance includes our best information at the moment and our best forecast as it relates to future energy prices and future PPA renewals. And so, as part of our forecasting process, it is included in these guidance numbers. To the extent things trend better than that, that is an upside to the guidance. And I talked earlier to Chris' question around upside to guidance. But yes, that's another one if, on many of the underlying projects PPAs are renegotiated at a higher level than we've already put in our forecast.

Maheep Mandloi – Mizuho Securities

Got it. Appreciate that. Thanks.

Jeff Lipson, President and CEO

Thank you.

Operator

And as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Next, I'll move on to Praneeth Satish with Wells Fargo.

Praneeth Satish – Wells Fargo

Thanks. Good evening. So, clearly, there's a lot of capital flowing into data center development power infrastructure. With your investments starting to become larger, just wondering if you have any updated views on how you're approaching or would consider approaching data center financing. I guess, what's your appetite to invest there? And to the extent that you've looked at it, I guess, how do the opportunities in that segment compare to your other investment opportunities on a risk-adjusted basis?

Jeff Lipson, President and CEO

So, I would say a couple of things. One is we are indirectly obviously very involved in data centers in that it is the data center is driving so much of this demand that we keep talking about that, in turn, is driving development. So, many of our projects are a derivative of that demand, and therefore, we're already indirectly in the data center business. In terms of being more directly in the data center business, what I would say is really not too much different than we said last quarter, which is we've had conversations around the data center ecosystem, you know, with developers and other power providers to data centers. We're determining if there's a role for us, if there's a piece of business there that makes sense, and we don't really have anything to report just yet on that, but it's an area that we continue to evaluate what our role may be.

Praneeth Satish – Wells Fargo

Got it. Thanks. And just going to your payout ratio and kind of the long-term guidance here. So, payout ratio moves below 50% by 2028 and potentially 40% by 2030. I guess in the context of that, how should we think about your long-term dividend framework? Does that kind of create some flexibility for potentially a faster pace of growth—dividend growth in the outer years, or is there kind of a preference to take the payout ratio even lower over time?

Jeff Lipson, President and CEO

I think it's more the latter. We're not going to comment past 2030 where the dividend may go. That's already, I think, several years into the future. But I think the long-term trend of starting out as a REIT and with 100% payout ratio. And by, call it, 17 years later, having that payout ratio down to 40% or less is a reflection of the evolution of our business and the notion that we believe the business is more valuable and can grow faster if we recycle more capital. And we're doing that in a way where we're still increasing the dividend every year, which you've seen us do, but we can increase it a little bit each year and reduce the payout ratio because we do have such strong earnings growth. So I'm not going to comment past 2030, but I think this trend is very clear as to how we think about the dividend and why we think this is the optimal way to run the business.

Praneeth Satish – Wells Fargo

Gotcha. Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

And our next question we'll hear from Jeff Osborne with TD Cowen.

Jeff Osborne – TD Cowen

Thank you. Good evening. A couple of questions on my side. I was wondering a more financial oriented, but I think you had a step-up in receivables outside of CCH1. Marc, I was wondering if you could just touch on what drove the higher investment income and if this is a level we expect to continue from here?

Jeff Lipson, President and CEO

Actually, I'm going to ask Chuck to respond to that. Thanks, Jeff.

Chuck Melko, CFO

Hey, Jeff. Yeah, so the—as you likely know and understand, many of investments that we make are now going through CCH1, but there are various assets that we may close that are directly onto our balance sheet that could show up as receivables. If they're in through CCH1, they come through as equity method investment, of course. But we did have an investment that we put directly on our balance sheet, and the yield that we're earning on that is consistent with our new asset yields.

Jeff Osborne – TD Cowen

And just as a follow-up, is this like a level you expect to continue with the expansion of CCH1 in '26 or the recent expansion? Like how should we think about the mix between CCH1 and the legacy HASI?

Chuck Melko, CFO

Yeah. I think you'll see more growth in the CCH1 and equity method investments than you will on the receivables.

Jeff Osborne – TD Cowen

Got it. Okay. And then along that line, I think you had a cash flow benefit from EMI, equity method investments, this quarter. Is that along the same lines that you were just answering, or is there something else that drove that from a timing perspective?

Chuck Melko, CFO

Well, it—yeah, it's a couple of things. It is along those lines that we are getting cash distributions out of CCH1. But overall, with our portfolio, we are seeing an uptick in operating cash distributions that we're receiving. But we are also within our equity investments, we do from time to time have certain activities that occur where we get distributions such as refinancings that might occur within the portfolios. So, yeah, we are seeing growth in our equity method cash collections. That is a combination of an uptick in operating cash but also CCH1-related.

Jeff Osborne – TD Cowen

Perfect. That’s all I have. Thank you.

Jeff Lipson, President and CEO

Thanks, Jeff.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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