HA Sustainable Infrastructure Capital, Inc.

Second Quarter 2024 Results Conference Call

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HASI Presenters

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Q&A Analysts

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Tyler Bisset - Goldman Sachs

Hannah Velasquez - Jefferies

Ben Kallo - Baird

Maheep Mandloi – Mizuho Securities

Jeff Osborne - TD Cowen

Ryan Pfingst - B. Riley Securities

Mark Strouse – JPMorgan

Operator

Greetings and welcome to HASI's Second Quarter 2024 Earnings Conference Call and Webcast. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Aaron Chew, Senior Vice President of Investor Relations.

Aaron Chew, Sr. VP of Investor Relations

Thank you, operator. And good afternoon to everyone joining us today for HASI's 2nd quarter conference call. Earlier this afternoon, HASI distributed a press release reporting our second quarter 2024 results, a copy of which is available on our website, along with the slide presentation we will be referring to today. This conference call is being webcast live on our Investor Relations page of the website, where a replay will be available later today.

Some of the comments made in this call are forward-looking statements, which are subject to risks and uncertainties described in the Risk Factors section of the company's Form 10-K and other filings with the SEC. Actual results may differ materially from those stated. And today's discussions also include some non-GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures is available in our earnings release and presentation.

Joining me on today's call are Jeff Lipson, the company's President and CEO; Marc Pangburn, CFO; and Susan Nickey, our Chief Client Officer. Susan will be available for the Q&A portion of our presentation.

Now I'd like to turn the call over to our President and CEO Jeff Lipson….Jeff?

Jeff Lipson, President and CEO

Thanks Aaron and welcome to the team. Thanks everyone for joining us today for our second quarter 2024 conference call. I am going to begin on page 3.

The 2nd quarter of 2024 was a terrific quarter for HASI, as we achieved two long-standing goals of closing on a co-investment vehicle and procuring a second investment grade rating. We also were able to continue to invest at higher returns and increased our adjusted earnings 19% year-over-year to 63 cents.

Considering these results and other positive catalysts that I will discuss shortly, we are affirming our guidance for Adjusted EPS growth of 8-10% from 2024 to 2026 and for a dividend payout ratio of between 60% and 70% in the same period; and a reminder that our long term goals are 10% annual growth in EPS and a 50% payout ratio by 2030.

Turning to page 4, we have now reached a level of scale in our business such that we think it is worthwhile to highlight not only the impact on our financials but the impact we are having on the energy markets as a whole. Excluding our Managed Assets, our Portfolio investments in the first half of 2024 alone comprised 10 gigawatts of solar and wind capacity. To put that in perspective, that is enough electricity capacity to power more than 7 million homes. That solar and wind capacity is generating approximately 20 terawatt hours of renewable energy annually, which is about two times the annual electricity consumption of the entire city of Washington, D.C. And our portfolio has also invested in renewable natural gas projects with almost 6 million MM BTUs of capacity. That is about the equivalent annual energy required to heat more than 100,000 homes.

Altogether, including the projects in our Managed Assets, we have invested in projects that in aggregate are avoiding approximately 8 million metric tons of CO2 annually (based on the Year One calculation of our CarbonCount methodology).

In summary, our business already has significant scale and impact, but is poised to take both this scale and impact a step change higher.

Turning to page 5, in the second quarter, several industry dynamics and HASI-specific milestones emerged that position the company particularly well over the next several years. First, there continues to be increasing consensus that U.S. energy demand will increase more rapidly than previously forecasted; and this elevated demand for energy will result in corresponding supply increases, much of it from clean energy sources. In fact, we have fundamentally entered a new era of power demand growth, with one of the largest drivers coming from AI-driven data centers, which are expected to become 8% of U.S. electricity consumption by 2030. And the majority of these data centers prefer clean power. In partnership with some of the largest corporate buyers in the world, HASI remains determined to drive transparency in the climate impact of new load by ensuring that emissions - rather than simply Megawatt hours generated - are credibly measured.

In addition, there is expected to be continued adoption of electric vehicles, which have an 8% and growing market share, and will result in a significant shift from the oil markets to the electricity markets. Furthermore, another trend is the heightened prioritization of domestic manufacturing, particularly when it comes to semiconductors.

Together, these sources of growth are expected to account for an increase in U.S. electricity demand of more than 800 terawatt hours, from a base of approximately 4,000 terawatt hours per year. This uptick in growth is expected to occur after approximately 20 years of relatively modest demand growth. In this period of lower growth over the last 20 years, clean energy become the overwhelming source of new generation; therefore, as we enter this period of higher growth, renewables and other low-carbon solutions will experience even more rapid growth. Solar energy represents the lowest levelized cost of electricity of any source, and solar and wind energy continue to represent the vast majority of new electricity capacity being added to the grid. Likewise, increased adoption of renewable natural gas is forecasted to occur, as natural gas will continue to be utilized to meet energy demand, and technology will continue to allow this gas to be more efficiently produced from municipal and animal waste.

It is important to note that all of these trends are unlikely to be impacted by the 2024 election results. There continues to be active discussion and speculation regarding public policy changes and the corresponding impact on the outlook for clean energy development. However, it is our view, shared by many others, that the megatrends of the energy transition itself and the aforementioned increase in power demand will result in continued considerable clean energy deployment without meaningful disruption resulting from public policy changes.

This forecasted supply of clean energy to meet surging demand will require hundreds of billions of dollars of capital investment. As the only public pure-play investment company exclusively focused on the energy transition, HASI is well-positioned to capitalize on this trend, particularly in light of two transformative developments in the second quarter.

First was the launch of our CCH1 $2 billion strategic partnership with the global investment firm KKR. This partnership provides enhanced access to committed capital, diversifies our revenue with incremental fee income, and generally positions us to scale our business. The partnership is also an affirmation of the differentiation of our strategy and a reflection that our underlying portfolio of sustainable investments is difficult to replicate. The CCH1 vehicle has been seeded with two investments and is functioning as designed, and we expect CCH1 to be the primary financing vehicle for our Balance Sheet investments over the next 18 months.

The second positive development in the quarter was our attainment of fully investment grade status. We were upgraded by Fitch and placed on positive watch by S&P to go along with our existing investment grade rating by Moody's. These ratings have provided us access to the investment grade bond market which provides more stability, lower costs, and longer tenure, among other attributes that Marc will articulate.

Summarizing CCH1 and the investment grade ratings into a single sentence, we have reduced our capital needs by 50% and significantly reduced the cost for the 50% we raise ourselves.

Therefore, as we holistically assess industry trends and HASI's capital access, we are at a pivotal moment at the juxtaposition of several positive catalysts. As I said on Investor Day last year, we have a simple business model but a complex business. Our business model can be encapsulated as climate|clients|assets, but our business requires deep understanding of energy markets, structured finance, and the ability to establish and maintain long-term relationships. Our talented and experienced team is uniquely qualified to meet the capital needs of the energy transition. This combination of a differentiated investment strategy, and enhanced access to diversified and stable sources of capital positions HASI perfectly to capitalize on these industry trends and continue to operate with increasing scale, strong margins, and profitable growth.

And with that, I will pass it to Marc to discuss the quarterly financials in greater detail.

Marc Pangburn, CFO

Thank you Jeff.

I will start off on slide 6. Before I cover the quarterly results, I would like to take some time to emphasize one point Jeff just highlighted. Our second investment grade rating and how impactful this will be for our business. We see the change benefiting our business in three primary ways. First on cost. The chart on the left shows the spread differential between BB and BBB bonds over the past 10 years, which has averaged 120 basis points. To be more specific to HASI, within our previous high yield platform, we raised approximately $3B of corporate debt at a weighted average spread of 339 basis points. Compare this 339 to the credit spread of our inaugural IG issuance of 225, a greater than 100bps compression in cost. Second, we can now more reliably access longer maturity bonds, better aligning our asset and liability duration and minimizing our need for hedging activities. Third, when market dislocations occur, the IG market is meaningfully more resilient as evidenced by the graph on the left. For example, during the initial COVID dislocation, the high yield market costs increased by 250 basis points more than investment grade market costs. Generally, the best times to invest are during these dislocations, and now our largest funding source will be substantially more cost effective during these times. Finally, there are intangible benefits such as the general affirmation of the credit profile of our investments. We believe that the combination of these factors will continue to drive attractive margins over the long term.

Turning to slide 7 to cover the quarterly results. Adjusted EPS grew 19% Y/Y to $0.63 and Adjusted Net Investment Income rose by 16% Y/Y to $63 million. Also of note, gain on sale, fees and securitization income was $32 million, up about $12 million Y/Y. As a reminder, we expect gain on sale during the guidance window to be fairly consistent with 22 and 23.

Stepping back a bit, and moving to Slide 8. This highlights the expansion of our Managed Assets since 2020. As a reminder, our Managed Assets include our Portfolio, the investments we have securitized and CCH1. Since 2020, our Managed Assets have grown by more than 80% to $13 billion through the end of Q2. This includes new closings of approximately $260MM during Q2 or $823MM during the first half, which is consistent with our first half 2023. Perhaps more important, the new asset yield for portfolio investments during the 1H 2023 was greater than 8.5% whereas today, we are investing at yields greater than 10.5% with a consistent risk profile.

Moving on to slide 9 , our Portfolio stood at $6.2 billion at the end of Q2, up 27% Y/Y and we continue our focus on maintaining diversification across our asset classes. Two items of note. Given the size of CCH1, we have not yet broken it out separately but note that it is currently comprised of one resi solar transaction and one C&I solar transaction. The Portfolio also decreased approximately $200MM driven by the seeding of CCH1 and our focus on asset rotations where we have been selling or syndicating our lower yielding investments to reinvest at higher yields.

Next on Slide 10, the narrative around our ROE and margins remains consistent with the prior quarter. Our elevated 1H 2024 ROE is driven primarily by gain on sale. Our portfolio yield continues to increase as new transactions are funded. Our cost of debt has increased relative to 23, but is actually down to 5.6% from 5.7% in Q1 2024. I would also like to touch on our recent 2025 bond refinancing. The 2025 was a $400MM bond with a coupon of 6.0%. To manage interest rate risk, we entered into a forward starting swap to lock the base rate for the expected refinancing. When we actually refinanced the bond, we also unwound the swap. After factoring in the impact of our swap, the effective cost of the refinancing was 6%, identical to the 6% coupon on the 25, with an additional nine years of tenor.

Finally, on slide 11, In terms of our balance sheet, a few important updates. Our leverage ratio declined to 1.8x. And after paying down our revolver, we are entering the second half of 2024 with $1.4 billion of liquidity. Additionally, on the right, we have minimal near-term maturities and continue to manage our liability platform to laddered maturity profile. Our liquidity position and minimal near term maturities provide us the opportunity to capitalize on our pipeline and attractive investment environment we see today.

With that, I will pass it back to Jeff for closing remarks.

Jeff Lipson, President and CEO

Thank you, Marc.

Turning to page 12, we detail various sustainability and impact items, including receiving the highest rating from S&P's Green Bond framework and a notable award from Reuters regarding our sustainability culture.

Let's conclude on page 13. HASI remains uniquely positioned with a differentiated business model enabling us to remain the pre-eminent pure play capital provider to the energy transition. Our existing liquidity and capital paired with our improved access to growth capital at an attractive margin to our investment return, ideally positions us for success over the next several years.

I would like to thank our talented team for another outstanding quarter as we look forward to a successful second half of 2024.

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 and then one on your telephone keypad. A confirmation term will indicate your line is in the question queue. You may press star and then two if you would like to remove your question from the queue. For participants using speaking equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we poll for questions.

The first question we have is from Noah Kaye of Oppenheimer & Company. Please go ahead.

Noah Kaye - Oppenheimer

Thanks for taking questions. A lot of positive developments noted in your remarks. Maybe just a first quick housekeeping one. Looking through the cash flow statement, it looked like there was a really big number in principal collections from financing receivables. Can you just give us a little bit more color on that, what drove that? And I assume we should treat that as not typical, but any information would be helpful.

Marc Pangburn, CFO

Hey, Noah. Thanks for the question. So there were two components to it. One was, I would just say, ordinary course amortization of some of our loans that we do have a regular run rate on, but it is larger this quarter primarily due to us identifying some loans that were at a lower yield and being able to bring in other parties to take a large piece of that. And that fits into the general asset rotation program we've been talking about, looking to reinvest that cash at the higher yields we're seeing today.

Noah Kaye - Oppenheimer

Okay, thanks. And then a follow-up. You have an update on the pipeline in the appendix. It looks like it primarily skews behind the meter and FTN. So for confirmation, should we think about the likely yields on those as also 10.5 or north of that, which would imply continuing, in fact, increasing spreads given the favorable trends on cost of debt?.

Jeff Lipson, President and CEO

So, thanks for the question, Noah. I think you should think of the pipeline yield as being consistent with the recent closings. So, I think most of what's in the pipeline is at that same level at which we've been closing transactions in 2024.

Noah Kaye - Oppenheimer

Great. And maybe just one last one. Appreciate not breaking CCH out early in the life of the vehicle. But you did disclose the actual assets, I believe, in the vehicle in the release. Roughly what kind of size would it have to get to before you would think about breaking it out? And just to clarify for us what that would mean in terms of a separate revenue line or equity and contribution, rather, I should say.

Marc Pangburn, CFO

Sure. So, in terms of how we would break it out, I think there's two components to that. One is in the deck itself in our various pie charts. And it'd likely either become a slice of a pie or we just create a new pie chart as it grows. In terms of how it will show up in the financial statements, the revenue streams from CCH1, for example, the recurring asset management fee and the upfront fees were just too small to break out as line items on the financial statement. But we will certainly continue to consider the right time to break those out in the future.

Noah Kaye - Oppenheimer

Very helpful. I'll turn it over. Thank you.

Marc Pangburn, CFO

Thanks, Noah.

Operator

The next question we have is from Brian Lee of Goldman Sachs. Please go ahead.

Tyler Bisset – Goldman Sachs

Hey, this is Tyler Bisset on for Brian. Thank you for taking our questions. First, are there any implications from SunPower no longer providing leases and PPAs on existing SunStrong funding?

Additionally, you were involved in a portion of the $300 million of project financing commitment SunPower announced earlier this year. So, is there any underutilized capacity on these existing funds that may be able to get returned or redistributed?

Jeff Lipson, President and CEO

So, thanks, Tyler, for the question. I may answer that a little broader than you even asked it just to assume there'll be other questions related to SunStrong. And I would ask folks to turn to page 18 in the appendix.

And I think the sort of five things to understand about SunStrong and HASI is, number one, it's a very small portion of the existing portfolio. Number two, it's been a very small portion, less than 3% of origination since 2021. So, it's not likely to impact us from an incremental business point of view.

Third, all of our mezz loans that are part of SunStrong are fully collateralized by underlying cash flows from leases and a little bit from loans as well. Number four, all of the leases continue to perform as the homeowners themselves are obviously unimpacted by any disruption of SunPower. And number five, the servicer can be changed based on the underlying documents. And so, there is some chance there'll be a successor servicer.

So, when you take those five things together, we don't feel like the investments in SunStrong are at risk or at elevated risk given the challenges with the servicer. And hopefully embedded in there are answers to your questions related to the specific facility that we have. We're not funding at this point under that facility.

Tyler Bisset – Goldman Sachs

Thank you. Super helpful. And then there's been a lot of investment happening in the data center world as it relates to power demand, which you discussed in your opening remarks. So, where can we expect to see this trend show up most for you? Have you seen any specific opportunities you can call out? Additionally, can you discuss a bit more specifically on how your agreement with KKR can allow you to better capture this growth? Any thoughts there would be appreciated. Thank you.

Jeff Lipson, President and CEO

Let me answer that last part, and then I'll let Susan Nickey answer sort of the first part of the question. The KKR benefit is really more around access to committed capital, which allows us to scale the business and rely less on capital markets. So, that vehicle will just allow us to generally scale the business in all asset classes.

As it specifically relates to where we might see elevated business from data center development, I'm going to ask Susan to answer that.

Susan Nickey, CCO

Thanks, Jeff. Yeah, the data center demand growth, we're really seeing driving the increased forecast for energy. And it seems like every week we'll get another forecast, which is continuing to escalate.

So, how that translates to us, again, as we finance the largest developer sponsors who are building projects to satisfy that energy demand, we're seeing that translate into our pipeline. And a lot of the data centers are certainly the big companies, the Googles, the Amazons, and other names who are the corporate off-takers that Jeff referred to in the beginning, who are looking for not only that energy, but they want clean energy. So, that's overall driving our pipeline growth and also continuing to impact things in a different way in other parts of the sectors also positively.

Tyler Bisset – Goldman Sachs

All right. Thank you very much.

Jeff Lipson, President and CEO

Thank you.

Operator

The next question we have is from Julien Dumoulin-Smith of Jefferies. Please go ahead.

Hannah Velasquez - Jefferies

Hey, good evening. This is Hannah Velasquez on for Julien. So, just a quick question around managed assets. How should we think about the pace of growth given that they've been growing over 20% year-over-year for a few quarters now? And how should we also think about the distributions and transfers from the KKR partnership impacting that pace of growth?.

Marc Pangburn, CFO

Sure, happy to take that. I'll actually take the second one first. In terms of the transfers to the CCH1 entity, I would expect that is a one-time dynamic where we had some assets on our balance sheet and used those assets to seed the partnership. On a go-forward basis, new investments would just be closed directly into CCH1. So, there would not be a transfer dynamic.

But in terms of how to think about the growth of managed assets, I would tie that to our annual closed transactions in that, whether they end up in our portfolio in CCH1 or being securitized, you can think about all three of those prongs showing up in managed assets and also on the closed transaction side.

Hannah Velasquez - Jefferies

Got it. Thank you. And then just as a follow-up, generally, how are you thinking about new partnerships going forward, especially given that your shares have recovered a bit in the past few months? Is the strategy still to go out and search for new partnerships?.

Jeff Lipson, President and CEO

Well, it's unimpacted by the share price. Our business on the investment side of our business has been very client-centric. So, that often involves joint ventures and other partnerships with our clients. And that's an unchanged element of our strategy.

On the liability side, we've obviously done this recent transaction with KKR. That is -- think of that as more or less exclusive for the next $2 billion in 18 months. And so, we won't be just yet seeking any partnerships on the liability side. We're just going to focus on operationalizing what we have with KKR.

Hannah Velasquez - Jefferies

Okay perfect. Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

Next question we have is from Ben Kallo of Baird. Please go ahead.

Ben Kallo - Baird

Hey guys, good evening. Could you just talk -- I know, Jeff, you said that KKR are providing capital, but have you seen any change in maybe deal flow or size of deals or terms around deals? I know it's new. So, that's my first question.

Jeff Lipson, President and CEO

Well, we've not seen any changes in deal sizes or terms of deals as specifically related to having the CCH1 program in place. So, that's really invisible to our investment side of the business, to our client relationships. It really just is a capital element to our business. And so, no, it's not impacted how we've operated on the investment side of the business.

Ben Kallo - Baird

And then, I know you guys have operated under different White Houses. But maybe could you just expand upon what you guys are hearing in D.C.? I know it changes day-by-day, but anything you can -- clarity you can give us on IRA and potential for the change?

Jeff Lipson, President and CEO

Sure. And thanks, Ben, for the question. I'm not sure we're hearing anything different than others are hearing. But it's our general view, as I said in my prepared remark shared by others, that substantial changes in public policy related to clean energy are somewhat unlikely. Just given the economics, given the job creation, given how difficult it is to change the tax code.

So, it's our view that if there were, for instance, a Republican sweep, there may be some changes to things like EV tax credits and things like that. But nothing that would significantly impact our business. We really deem that very unlikely. And the energy transition, as I said, the demand growth, the economics are just too overwhelming, such that public policy is not going to impair the deployment of clean energy and, therefore, the addressable market for HASI.

Ben Kallo - Baird

Thank you guys very much. Have a good night.

Jeff Lipson, President and CEO

Thanks, Ben.

Operator

The next question we have is from Maheep Mandloi of Mizuho. Please go ahead.

Maheep Mandloi - Mizuho

Hey, thanks for the questions and apologize for the background noise here. This question on the SunPower joint venture, thanks for the details you gave on that. Just curious if it impacts your pipeline, or just trying to understand how much of that 5.5 billion pipeline is from residential solar as opposed to this. And part of that question is also how does the refinancing of the SunStrong ABS, do you think it's impacted by their decision to stop the leases in PPAs? Thanks.

Jeff Lipson, President and CEO

So maybe I'll take the first part, and Marc can take the second part. As it relates to pipeline, very, very minimal impact. Again, as we showed on page 18, SunStrong-related originations have been less than 3% of total originations since 2021.

The portion of your question that was how much resi solar is in the pipeline, when you see our pie slice of behind the meter being relatively large, a decent percentage of that is resi solar. It's still an asset class that we will continue to invest in. And so our partners there have portfolios that they continue to show us, and the asset class continues to perform well. So our overall strategy there remains intact.

As it relates specifically to the SunStrong ABS portion of the question, I'm going to ask Marc to answer that.

Marc Pangburn, CFO

Sure. So ultimately, the ABS investors are focused on asset-level performance, and the support that the various service providers perform to ensure that asset-level performance. And I would note that the ABS is, at this point, six years since issuance, and that asset portfolio has continued to perform extremely well.

And as we've all -- as we've identified previously, the services that SunPower is providing are done through service contracts, and they can be replaced with other service providers if necessary. So I'd expect the ABS investors to continue to focus on the performance of the assets.

Maheep Mandloi - Mizuho

I get it. I appreciate that. And maybe just building on Ben's question on the elections, any way to kind of think about the impact of the $5.5 billion pipeline? If EV or the other taxes, do you think, are at risk for these elections?

Jeff Lipson, President and CEO

So again, I think something like the EV tax credit would not affect our pipeline at all. And again, to repeat a bit, I think any changes that we feel are likely would not be ones that would impact our client's development or correspondingly impact our pipeline.

Maheep Mandloi - Mizuho

Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

The next question we have is from Jeff Osborne of TD Cowen. Please go ahead.

Jeff Osborne – TD Cowen

Good evening. Just a couple quick ones on my side. If I was following the comments right, I think you mentioned the gain on sale guidance would step down in the second half, if I heard you right. Could you just discuss what's driving that?

Marc Pangburn, CFO

Sure. So what we've identified is that both in '24 and just generally within the forecast that we performed, we are forecasting relatively flat gain on sale relative to '22 and '23. And I think you're identifying that our first half of '24 has been a pretty strong half in terms of gain on sale, which would imply the back half comes down a bit.

And there's, of course, plenty of time in the second half of the year to continue to originate and securitize transactions. But at the end of the day, these can be somewhat lumpy, to use a term we've used before.

And so we've been pretty successful in the first half of the year. And hopefully, we'll continue that success. But we have not been forecasting it.

Jeff Osborne – TD Cowen

Just a quick follow up on that, was the change in the REIT status a driver of the success in the first half at all or no? Not related?

Marc Pangburn, CFO

No, that has had no impact.

Jeff Osborne – TD Cowen

Got it. And then I think the portfolio yields have been flattish here sequentially. How should we think about that for the second half, just with the pipeline that you have?

Jeff Lipson, President and CEO

So, Jeff, I think the trend will be as we continue to fund these more recent vintage closings, that'll have a positive effect on portfolio yields. So the dynamic so far is, we have reported in the first half closing transactions at that higher yield, but many of those haven't funded yet. So you haven't really seen it show up in portfolio yield yet. So you'll see it gradually show up. Again, it's a $6 billion portfolio now. So new closings only impact portfolio yield so much. But as these new ones fund, it'll start to push up here in the second half.

Jeff Osborne – TD Cowen

Got it. And the last one I had is just on the investment grade rating. Obvious longer duration capability, which will be great in lower rates. But does it change your approach to debt as a whole at the board level? Would you consider using more debt now that you can get it at a lower cost and for longer duration in terms of just total maximum leverage ratio or just your broader approach to debt?

Jeff Lipson, President and CEO

No, no change there. In fact, the rating agencies are very focused on leverage. And so to maintain the investment grade rating, we have to keep leverage where it is. So there's no view towards increasing leverage. The only real change, as Marc said, is the lower cost and longer duration.

Jeff Osborne – TD Cowen

Perfect. That's all I had. Thank you.

Jeff Lipson, President and CEO

Thank you.

Operator

The next question we have is from Ryan Pfingst of B. Riley Securities. Please go ahead.

Ryan Pfingst – B. Riley

Hey, guys. Thanks for taking my question. Just to follow up on Jeff's first one, if we're looking at full year guidance after two strong quarters in the first half, understanding gain on sale was pretty high. Could you just help us think about the next two quarters and if the strong performance in the first half could imply upside to the guide?

Jeff Lipson, President and CEO

I think that's premature, Ryan. And the guidance obviously speaks to 2026. So the first two quarters of a 12-quarter guidance period, we're off to a good start. But I don't think that causes us to bump up the guidance just yet. And I think our cadence has been to address guidance and changes in guidance in our February call. So that's likely what we'll do. We'll have more to say, or we may or may not have more to say, but if we do have something to say, we'll say it then. It's not something in the July and the November call we usually adjust.

Ryan Pfingst – B. Riley

Yeah, fair enough. And then just one more on the election. Understanding we've talked about what might happen if there's a change in administration and the little impact you expect there. But maybe can you talk about your customers' cadences ahead of the election? If that coming out in November has affected them at all?

Susan Nickey, CCO

Again, with the demand growth, and really often it's sometimes the insatiable demand by corporates, and a number of our clients are the global leaders in corporate PPAs and procurement. They are continuing to develop and follow those clients and being able to provide them power, not only in the grid-connected side, but also in behind the meter and other markets opening up in community solar.

So we see that. Again, the macro trends are pervasive. And states also, we have always been an important driver in opening up markets. We see that in community solar and some of the other policies they're adopting to meet the demand and capture this great economic growth opportunity for their states.

Ryan Pfingst – B. Riley

Understood, thanks. I'll turn it back.

Operator

The next question we have is from Mark Strouse of JPMorgan. Please go ahead.

Mark Strouse – JPMorgan

Yes. Thank you very much. I joined late, so I apologize if this was already addressed. But just kind of going back, I think, on that previous question, looking at the medium-term targets here and just thinking about kind of the impact to your cost of debt with the investment grade credit rating. Is it really just kind of your cadence of not updating guidance until the 4Q calls? Or are you kind of signaling that there's something out there potentially that could still kind of get you towards the lower end of that existing range.

Jeff Lipson, President and CEO

I don't know that it's really either. We're comfortable with the guidance that we've put out there. Again, we'll look at it again in February. Marc already identified an answer to a question that we had a particularly strong first half in gain on sale, and that may dip down a little bit in the second half. There's nothing thematic there. It's just more coincidental of how many securitized transactions we closed in first half versus second half of the year is more coincidental than anything.

And so I don't think there's any real hidden agenda or anything. It's just the 8% to 10% through 2026, we feel good about. And as always, there's upside, there's downsides out there. And we're constantly assessing them and reforecasting our business. But we're comfortable with the guidance we have out there right now.

Mark Strouse – JPMorgan

Is it fair to say -- thank you, Jeff. Is it fair to say, though, you feel better about that range since the investment grade credit rating?

Jeff Lipson, President and CEO

Yes, I will affirm that. We do feel better about the business, about the financial performance, about margins having achieved investment grade. So the answer to that is yes.

Mark Strouse – JPMorgan

Excellent. Okay. Thank you, Jeff.

Jeff Lipson, President and CEO

Thanks, Mark.

Operator

Ladies and gentlemen, we have reached the end of the Q&A session. And with that, it concludes today's conference call. Thank you for joining us. And you may now disconnect your lines.

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