



1 August 2022

Infratil announces new capital and co-investor for Longroad Energy

Infratil, together with its co-investors the NZ Super Fund and the Longroad Energy management team, announce that MEAG, acting as the asset management arm for entities of Munich Re, has agreed to invest US\$300 million to acquire a 12% stake in Longroad Energy ('Longroad'), the US renewable energy company. The transaction implies a pre-money valuation for Longroad common equity of US\$2,000 million. Infratil and the NZ Super Fund will each also invest a further US\$100 million and retain a ~37% stake. The balance of ~14% is owned by Longroad management. MEAG's investment is subject to certain conditions, primarily customary US regulatory approvals from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States. Completion of the transaction is expected in the last quarter of the calendar year.

In early 2022, Longroad initiated a process to seek a minority investor to join in raising an additional US\$500 million of capital to support increasing its renewable development activity and scale. The additional capital will primarily be used to fund Longroad Energy's near-term development pipeline, which includes 4.5GW of development projects to begin construction over the next 3 years. The business is planning to reach financial close on ~1,000MW's of projects before year end, including Sun Streams 3, the 500MW solar and storage project in Maricopa County, Arizona.

Infratil chief executive Jason Boyes said that the pre-money valuation of Infratil's stake at completion implied by the transaction of US\$800 million was significantly higher than the independent valuation received on 31 March 2022 of US\$220 million, and listed market consensus. It was also in line with the enterprise valuation multiple achieved for the sale of Tilt Renewables' Australian business in 2021, at 40 times Longroad's FY2023E proportionate EBITDA of ~US\$83 million¹.

"Infratil is extremely happy with this outcome. We remain very optimistic about the opportunities and outlook for Longroad and are pleased to be increasing our investment as part of this transaction. Longroad is well-positioned in a key geography, with high-quality operating assets, built-in growth through its development portfolio, and a proven team. The new investment from a leading global infrastructure investor in MEAG is a strong endorsement of the business and the sector, and we look forward to working with them."

"This transaction, alongside the sale of Vodafone New Zealand's passive mobile towers announced in July, continues the trend of private market valuations of infrastructure assets for like-minded, long-term investors exceeding listed market consensus."

NZ Super Fund Head of External Investments and Partnerships Del Hart said "Longroad has been one of the NZ Super Fund's most successful investments and, in line with our long-term, partnership approach to infrastructure development, we are pleased to both welcome MEAG as a co-investor and contribute more capital ourselves. It has been exciting to see Longroad grow since we first invested in 2016 and we look forward to seeing it continue to deliver both strong financial returns and positive environmental and social outcomes."

¹ FY23 is to 31 December 2023. FY23E proportionate EBITDA excludes development costs, and excludes the 50% interest of Longroad's partners in the El Campo, Prospero 1 and Little Bear projects.

Longroad CEO Paul Gaynor said “The additional capital will allow Longroad to maximise its competitive position in what remains one of the most attractive markets in the world for renewable energy investment. We expect to benefit from improved purchasing power, providing greater optionality and value-maximisation opportunities, reliable cash flows from a growing operating base to support the larger pipeline and downside protection.”

Dr Alexander Poll, MEAG’s Senior Investment Manager responsible for U.S. infrastructure investments, said “This investment is a significant step to further increase the US renewable portfolio for Munich Re. Given Munich Re’s strong position in the US insurance market, we are interested in further investing in the United States.”

Martin Kaufmann, Senior Investment Manager MEAG U.S. infrastructure investments, said “This investment makes an important contribution to Munich Re’s net-zero climate commitment under the Net-Zero Asset Owner Alliance (AOA), which Munich Re joined in 2020. We are also pleased to have teamed up with professional partners on this investment to build a successful long-term relationship.”

Morrison & Co’s Global Head of Energy Vimal Vallabh added “Longroad represents the second of our renewables businesses to reach a level of maturity that has been given strong endorsement by the market, after the sale of the Australasian-focused renewables business, Tilt Renewables. We continue to increase our exposure to this attractive sector through our ongoing interest in Longroad and through the rapid expansion we are experiencing in Europe through Galileo and our newest platform Gurin Energy, which is focused on the Asian market.”

Estimated impact on FY2023 International Portfolio Annual Incentive Fee

Infratil’s investment in Longroad is part of the International Portfolio Annual Incentive Fee (‘Annual Incentive Fee’) assessment each year. To calculate the Annual Incentive Fee, the valuation of Infratil’s investment in Longroad includes an estimate of the tax payable and sale costs if Infratil were to realise the investment.

Based on an updated independent valuation as at 30 June 2022, which took into account the proposed transaction and capital raise, Infratil’s 40% stake in Longroad was valued at US\$798 million (NZ\$1,284 million), or US\$614 million (NZ\$987 million) post-estimated tax and sale costs, which results in an estimated Annual Incentive Fee in relation to Longroad at 31 March 2023 of NZ\$103 million.

Infratil notes that the actual Annual Incentive Fee at 31 March 2023 will be determined based on independent valuations of each of the relevant investments as at that date. If an Annual Incentive Fee is ultimately determined to be payable at 31 March 2023, the fee will be payable in three equal tranches over the period to 31 March 2025, with the latter two tranches only being payable if the total valuation of the relevant investments as at 31 March 2024 and 31 March 2025 respectively is no less than the total valuation determined as at 31 March 2023.

Summary: Valuation of Infratil's interest in Longroad Energy

31 March 2022 (40% interest)	US\$220m (NZ\$315m) (US\$158.6m post-estimated tax and sale costs)
30 June 2022 (40% interest)	US\$798m (NZ\$1,284m) (US\$613.6m (NZ\$987 million) post-estimated tax and sale costs)
At Closing (37.1% interest, post-money)	US\$927m (NZ\$1,426m)

At completion of the transaction, Infratil will have invested a net US\$112 million in Longroad since 2016, and achieved an IRR of 59% p.a. based on the US\$800 million pre-money valuation of its stake implied by this transaction (post-estimated performance fees and tax and sale costs payable if Infratil realised its stake).

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About Longroad Energy

Longroad is a Boston-headquartered renewable energy developer focused on the development, ownership, and operation & asset management of wind and solar energy and storage projects throughout the US.

Since its establishment in 2016 Longroad has developed and acquired 3.2GW of wind and solar projects, of which it still retains 1.5 GW. Longroad currently has a 15 GW development pipeline composed of wind, solar, solar and storage, and standalone storage assets across 13 states, from which it is targeting developing over 1.5 GW annually.

In addition to developing, financing, and constructing renewable energy projects, Longroad provides operations and asset management services to 3.5 GW of wind and solar projects across the US.

For more information, visit <https://www.longroadenergy.com/>

About MEAG

MEAG manages the assets of Munich Re and ERGO. It has representations in Europe, Asia and North America and offers its extensive know-how to institutional and private customers. MEAG

currently manages assets to the value of around € 330 billion, around € 60 billion of which in its business with institutional investors and private customers.

MEAG invests in alternative assets in North America on behalf of Munich Re group and other non-US institutional investors. MEAG's most recent infrastructure investments in the US comprise 400 MW of solar farms and battery storage in California in 2021, various regulated US water assets in 2020, as well as New York's Astoria Energy Partners and Long Beach Container Terminal in 2019.