enlight

Prepared Remarks

SECOND QUARTER 2023 EARNINGS CONFERENCE CALL

Yosef Lefkovitz: VP M&A and Corporate Finance

Thank you, Operator.

Good morning, everyone and thank you for joining our second quarter 2023 earnings conference call for Enlight Renewable Energy.

With me this morning are Gilad Yavetz, CEO and Co-founder of Enlight, Nir Yehuda, CFO of Enlight, and Jason Ellsworth, CEO and Co-founder of Clenera. Gilad will provide some opening remarks and will then turn the call over to Jason for a review of our U.S. activity and then to Nir for a review of our financials and guidance. Our executive team will then be available to answer your questions.

Certain statements made on the call today, including but not limited to statements regarding business strategy and plans, our project portfolio, market opportunity and potential growth, completion of development and the Company's future financial and operational results and guidance, including revenue and adjusted EBITDA, may be forward-looking statements within the meaning of U.S. federal securities laws which reflect management's best judgment based on currently available information. We reference certain project metrics in this earnings call and the full information can be found in our earnings release. These statements involve risks and uncertainties that may cause actual results to differ from our expectations. Please refer to our earnings release for more information on the specific factors that could cause actual results to differ materially from our forward-looking statements. Although we believe these expectations are reasonable, we undertake no obligation to revise any statements to reflect changes that occur after this call. Additionally, non-IFRS financial measures may be discussed on the call. These non-IFRS measures should be considered in addition to and not as a substitute for or in isolation from our results prepared in accordance with IFRS. Reconciliations to the most directly comparable IFRS financial measures are available in the earnings release and the earnings presentation for today's call, which is posted on our Investor Relations webpage. With that I will turn the call over to Gilad.

Gilad Yavetz: CEO and Co-founder of Enlight

Thank you, Yosef, and thank you all for joining us today.

Enlight delivered rapid growth and increased profitability in the second quarter. We are executing well across some of the largest and most exciting renewable energy projects. As you've seen from our press release, and as Nir will review in a few minutes, we are reiterating our Adjusted EBITDA guidance for the year of $188 million to $198 million. We are modestly lowering our 2023 revenue guidance to a range of $265 million to $275 million mainly due to lower merchant pricing in Spain, coupled with lower wind speeds seen across Spain. This still reflects a strong 41% growth in revenues over 2022. This does not impact our 2023 Adjusted EBITDA guidance or our medium to long-term outlook. We continue to see strong performance and accelerated growth across the business.

Turning to our business, we continue to deliver on our twofold objective of above-market growth and above-market project returns. During the second quarter, we reached commercial operation on 150 MW of generation and 40 MWh of energy storage, including our first ever operational project in the U.S. and our first ever energy storage project. We also secured critical milestones on over 2 GW of Mature Projects. Our progress this quarter gives us further confidence in delivering our plan to reach 4.6 GW and 3.6 GWh of operational projects by the end 2025, 3 times our current operating capacity.

In addition, during the quarter, we demonstrated our ability to deliver strong project returns. For example, we secured price increases through amendments on 250 MW of power purchase agreements in the U.S. market, with an average price increase of 87%. We also signed 280 MW and 1,680 MWh of new PPAs at attractive prices. Further, in the US we are finding ways to squeeze more out of the IRA, including with our Atrisco Project in New Mexico where we confirmed the project should qualify for the energy community adder. Across the portfolio we are executing on our unique formula of delivering both rapid growth and above-market returns.

Turning to our results, second quarter revenue grew 32% year over year to $53m, we shifted from a net loss to $22m positive net income this quarter, and Adjusted EBITDA grew 58% to $42m in the quarter. We continue to benefit from the ramp up of our operational portfolio. In comparison to the same period last year, we added 700 new MW. We also saw significant growth in our operating cash flow generation, as cash flow from operations was $39m during the quarter, an increase of 95%, reflecting healthy projects and the ramp up of the IPP arm of the business.

While revenue growth was lower than expected this quarter, driven by lower wind production and electricity prices at Project Gecama in Spain, Adjusted EBITDA growth remained as expected thanks to lower O&M costs and better results across other projects.

During the second quarter we recognized compensation from Siemens Gamesa in relation to Project Björnberget. With respect to the recent announcement by Siemens Gamesa regarding issues with its onshore wind turbines: we do not expect either a short or long term impact to Project Björnberget. We were further compensated for lost of certain revenue in the second quarter due to delays in reaching full production relative to the schedule outlined in our agreement. In addition, as of today, 56 of 60 turbines are operational and we expect to reach full production in the coming weeks.

Looking at the first half of the year, revenue grew 65% to $124m, net income reached $56mm and Adjusted EBITDA grew 87% to $95m, all record half year results for the group. In addition, cash flow from operation tripled to $95m, compared to H1 2022.

Moving back to the broader business, this quarter we made significant progress across our core markets.

In the U.S., we continue to execute on our largest and most important projects, benefiting from our interconnection advantage amidst the broader backdrop of the Inflation Reduction Act.

We finalized COD on APEX Solar, a 105 MW project and our first to complete in the US.

Our flagship 364 MW and 1.2 GWh Atrisco project, in New Mexico, is deep in construction and proceeding on schedule. Project financing is advancing steadily with financial close now expected in September 2023, with a goal to optimize the energy community adders.

We also contracted this quarter the remainder of the 1.2 GW CO Bar cluster in Arizona. The project, which is one of the largest of its kind in the United States is now fully contracted and includes also 824 MWh of energy storage.

Moreover, our U.S. team continues to deliver on project conversion. We are pleased to announce this quarter the addition of a very exciting project in the U.S. to our Mature Portfolio, Project Roadrunner. Comprising 250 MW and 800 MWh in Arizona, Project Roadrunner is due to commence construction mid next year.

In short, across the US we are demonstrating a strong knack for execution on project development, contracting and construction all at once across a large base of projects.

Moving to Europe, we continue to demonstrate our ability to execute across wind, solar and storage across our pan European footprint.

We continued to advance Gecama Solar, totaling 250 MW of solar and 200 MWh of energy storage in Spain during the quarter. We expect to shortly secure the critical environmental permit, the final development milestone remaining to reach ready to build status. Construction is set to commence by the end of the year with COD on schedule for the end of 2024.

In addition, during the quarter we secured 100% ownership and commenced construction on project Pupin, a 94 MW wind farm in Serbia. Pupin is adjacent to Blacksmith, our 105 MW operational wind farm, leveraging the same point of interconnection under our land and expand strategy. The project is scheduled to COD in H2 2025, adding further upside to the 2025 picture.

Finally in Israel, we continue to focus on reaching operations on our near-term projects while laying the seeds for future growth, in the context of the market's broader de-regulation. Genesis Wind, the largest renewable energy project in Israel totaling 207 MW was connected to the grid during the quarter. 34 out of 39 turbines have completed commissioning and the project is expected to reach COD as scheduled. In light of the de-regulation of the Israeli electricity market, we signed PPAs with Amdocs, a leading global software & services provider, and SodaStream a subsidiary of PepsiCo, at attractive pricing. Following de-regulation of electricity supply in Israel, we see huge demand for renewable energy from leading multi-nationals in Israel at significantly higher prices than our previously won FIT auctions, driving a higher project return environment in Israel.

In short, we had a strong Q2 of execution on our project portfolio, amidst some volatility in merchant pricing and what looks like periodic lower wind speeds at our operational wind farm in Spain, as well as better than expected performance at some other projects. As our operational portfolio grows, diversification works more and more in our favor and volatility in any specific project ceases to drive the overall business.

With 32% growth in revenue and 58% in EBITDA, we believe that our growth trajectory is clear; we are poised to deliver above market growth and above market project returns and will continue to focus on strong execution driven by the huge opportunities we see ahead across markets.

I will now hand it off to Jason who will provide more details on our U.S. operations.

Jason Ellsworth, CEO of Clenera

Thank you Gilad. In the U.S. we made terrific progress across our large portfolio.

As Gilad mentioned, Apex is our first U.S. project to be completed under Enlight. Apex achieved mechanical completion in June and finalized commercial operations within the last couple of weeks. It boasts some exciting advances in project technology that we anticipate will minimize downtime and maximize production.

On the construction front, Atrisco Solar is progressing on schedule. While the current project is sized at 364 MW and 1.2 GWh, it has potential to expand by another 120 MW and 400 MWh. Module deliveries are proceeding without interruption. The project's battery supplier has completed work to finalize factory qualification and has initialized battery pack shipments. Battery container deliveries are scheduled to begin late in 2023. As Gilad mentioned, definitive project finance agreements are progressing toward completion.

In Arizona, we are making significant progress on the CO Bar project. We successfully contracted the remaining 258 MW of CO Bar and the first 824 MWh of storage with APS. The CO Bar project is one of the largest of its kind in the US at 1.2 GW and approximately 824 MWh storage. Nearly 1 GW of the project is contracted to SRP, with the remainder now on contract with APS, all with 20-year busbar PPAs. SRP and APS are two of Arizona's largest utilities and a big part of our current and future development work in the Grand Canyon State. Discussions are underway to contract the additional 3.2 GWh of storage potential on the interconnection, which would add significant value to the project. CO Bar is on schedule to start construction in the fourth quarter of 2023. We currently expect to achieve COD in phases over the course of 2025.

In addition to CO Bar, our team is negotiating off-take agreements on multiple projects, including several more projects in Arizona. With approximately 9.5 GW of projects through system impact study we have a strong hand for negotiating agreements across our portfolio. To that end, we expect a busy second half as we work to finalize multiple off-take agreements.

We're happy to share some news with you today. Just last week signed another 20-year busbar PPA - this time on our new Roadrunner project with AEPCO in Arizona. The project is 250 MW and 800 MWh and scheduled to commence construction in 2024, with COD in early 2026. We are excited about working with AEPCO and further expanding our work with them and our other utility partners in Arizona, and in the broader western US.

With regard to our supply chain, our diversified sourcing strategy continues to deliver. We have reliable module supply out of both India and Southeast Asia. Since early 2023, modules have been flowing to our projects in volume, on time, and without interruption. On battery, our cell supply out of Asia is qualified and now shipping packs for assembly in the US. We expect to have a source for domestic battery supply qualified and arriving at projects in late 2024. We are strategic about supply relationships and work carefully to make supply a competitive advantage. As a result, we have confidence in our ability to supply the needs of our large and growing portfolio, now and in the future.

With completion of Apex, construction on Atrisco, launch of CO Bar and rapid growth in off-take contracts (quickly expanding our Mature portfolio), we are hitting our stride in the US. Our interconnection advantage is growing. Project development is blossoming. And, we have a strong and reliable supply chain to support our expanding opportunities. We strongly believe that we are on a great path and that things are headed in the right direction across our US portfolio.

With that I'll turn it over to Nir to review the Company's financials.

Nir Yehuda: CFO, Enlight

Thank you Jason.

In the second quarter of 2023, revenues increased to $53m, representing a year over year growth rate of 32%. The growth was mainly driven by the revenue contribution of new operational projects, as well as the inflation indexation embedded in our PPAs for projects that were already operational last year.

In comparison to the same period last year, we added Gecama and Björnberget to its operational portfolio, totaling 700 MW. These projects collectively contributed $11m of revenue. We also benefited from inflation indexation embedded in our PPAs, which contributed an additional $3m of revenue during the quarter. This reflected an average indexation of 6.8% across 592 MW of PPAs. With respect to FX, the impact of a strengthening Euro was offset by a weaker Shekel, with a cumulative negative impact of $1m.

Net income increased to $22m, transitioning from a $1m loss last year. $12m of the increase was driven by new projects, including $6m from Björnberget, largely reflecting the after-tax impact of the compensation recognized from Siemens Gamesa. The residual growth in net income of $11m was driven by a reduced expectation of earnout payments to be incurred for the acquisition of Clenera for early stage projects not in our Mature Portfolio of $5m and financing income of $6m.

Adjusted EBITDA grew by 58% to $42m compared to $26m for the same period in 2022. The increase was driven by the same factors which affected our revenue increase in the same period, as well as $8m of compensation recognized from Siemens Gamesa due to the delay in reaching full production at Project Björnberget, offset by a $2m increase in overhead as the team scales to accommodate rapid growth. Compensation from Siemens Gamesa is recognized in our Adjusted EBITDA but not in our revenues.

In addition, we sold $5m of electricity in projects treated as financial assets in the quarter, which under IFRS we are required to account for not as revenue but as financing income or other non-P&L metrics.

Moving to 2023 guidance, we are pleased to reaffirm our outlook for full year Adjusted EBITDA, which is expected to be between $188m and $198m.

As Gilad mentioned, on an Adjusted EBITDA level, lower merchant prices in Spain during the second quarter had no net impact. Lower merchant revenues versus expectation were offset by lower than expected O&M costs.

For those who may be less familiar, the Spanish government implemented a windfall tax on renewable generators, to reduce the impact of high electricity prices on consumers. The drop in merchant electricity prices during the quarter in Spain, while impacting revenues, had no impact on Adjusted EBITDA, as we paid significantly less windfall tax than expected - for the very same reason.

The decline in forward electricity prices in Spain for the remainder of the year is expected to be offset in the same way, through lower windfall taxes. Lower wind production at Gecama impacted Adjusted EBITDA during the quarter – but was offset by the compensation paid by Siemens Gamesa for Project Bjorn. We are therefore reaffirming our Adjusted EBITDA guidance.

However, with respect to revenue, largely driven by lower merchant pricing in Spain for the remainder of the year coupled with lower production in Spain, we are modestly adjusting our 2023 revenue guidance to $265m-$275m

Looking forward to 2024, while merchant prices have come down in Spain, prices generally remain high. During the second quarter, we signed hedges comprising 22% of expected production at an average price of EUR 97 per MWh, for 2024 delivery. This is compared to the EUR 77 price we hedged at in 2023. As Gilad mentioned, as our operational portfolio grows, we expect our relative exposure to Gecama and quarter to quarter volatility from the asset to decline.

In terms of our balance sheet, we secured $170m of revolving credit facilities from several large Israeli banks. The facilities provide us with additional financial firepower as well as the flexibility to manage our equity investment in projects prior to their respective financial close as we optimize project financing.

In conclusion we expect a strong second half of the year, we are executing well, and are very excited about the future.

With that I'll turn it over to the operator for your questions. Operator?