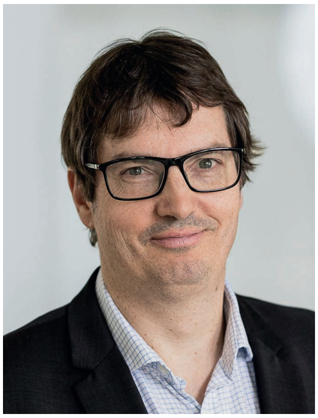
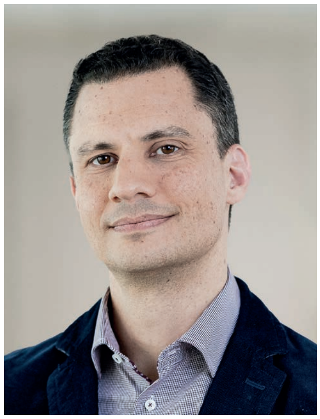
KEYNOTE INTERVIEW

Europe's renewable push is 'unstoppable'





Omnes Capital's Marc-Philippe Botte and Michael Pollan explain how economic considerations continue to drive the growth of renewable energy

As a trend, renewable energy is attracting greater interest from investors around the world and many of these opportunities are being found in Europe. However, despite this demand, challenges remain; not all European markets are behaving as strongly as one another, supply and demand mismatches exist, and fundraising is remaining a challenge for some investors.

Nevertheless, there is an abundance of opportunities to be accessed. As a case in point, Omnes Capital recently closed its fifth-generation renewable energy fund, surpassing initial targets. Marc-Philippe Botte and Michael Pollan, who oversee the renewable energy strategy at Omnes Capital, explain why investor interest remains so strong.

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Q How is the fundraising picture in Europe for renewable energy projects?

Marc-Philippe Botte: There is appetite right now, but the general fundraising environment remains tough from what we hear in the market. We are generally seeing a flight to quality with the firms raising first time or second time funds having the most difficult experiences, while those with later generation funds are having a better time of it.

We saw this ourselves with our fifth-generation fund, Capenergie 5. This fund, which closed in January, raised €2.05 billion, including €200 million for co-investments, which was significantly past our initial target of €1.35 billion. What helped here was our track record that investors gravitated towards, and not all firms have that right now in the market.

Q What is the current state of the renewable energy market in Europe?'

Michael Pollan: We believe it is fair to say the renewable energy market in Europe is not yet near its peak.

Distinctions need to be made in different geographies in Europe. With that in mind, the two we would describe as the most complicated are the Nordics and the Iberian peninsula. This is because, although they have slightly differing situations, both regions have an oversupply – of onshore wind for the Nordics and solar PV for Spain. At the same time, demand for electricity has decreased in the short term.

Those two factors do not go well together. However, the beauty of the energy market is it self-corrects its imbalances. Cheap electricity attracts new industries and users, thus providing a solution to oversupply.

For example, the data centre sector is growing in the Nordics due to the cool climate and its abundance of cheaper renewable energy. In time we can see this sector providing a solution to those specific countries and their oversupply issues.

In other European markets, we see strong dynamics and we are invested in several of these. We have presences in Germany, Italy and the UK where there are growing needs for renewable energy capacity, in part because the power sector is still very carbonised due to the strong presence of coal and natural gas.

For example, we have a repowering opportunity in Germany. There, we are investing in the old wind farms built over 20 years ago, asking for new permits on these sites and updating these to be better working assets.

This is all pulling towards the long-term trend of the energy industry going green, and this cannot be stopped. It is a powerful trend but not necessarily driven by ESG considerations, instead by the recognition that the energy industry needs access to cheaper sources.

This is where renewable energy comes in and the trend is only pushing further forward. Economic considerations are driving this, not ESG, which makes it unstoppable.

"A decentralised form of energy production like renewables has more climate resilience than centralised sites"

MICHAEL POLLAN

Q More investors are targeting renewable energy. Within Europe, what is the best way to access this part of the market?

MPB: Given the scope of the energy transition required, there are investment opportunities throughout the energy ecosystem. Contrary to a lot of our peers in this space, we don't invest in assets but instead invest in companies and the entrepreneurs that founded them.

We always find it interesting that when we meet these entrepreneurs, they want to show us their pipeline, but first and foremost we want to understand them and where they want to take the company. We bring more of a private equity mindset in this way, in terms of growing these companies and helping them to level up.

We have been around since 2006, and particularly over the last decade investors have really appreciated our approach – focusing not just on investing in assets but building businesses. At the end of the day, the risk of investing in our funds is still an infrastructure investment risk. We are writing cheques to enter these companies and then little by little we add value and further investment to enable these companies to develop their assets.

Q How is the theme of renewable energy in Europe dovetailing with the needs for both greater climate resilience and energy sovereignty?

MP: We are definitely seeing this dovetail with the need for greater energy sovereignty and it makes sense for countries to have their own electricity consumption supported internally. We have seen this become a greater argument for renewable energy in recent years. One strong example of this has been Germany, which decided to really accelerate its domestic energy transition in the wake of the Ukraine war, in order to rely less on Russian natural gas.

Climate resilience continues to play a role of course, but in the current economic and geopolitical context, it has probably diminished somewhat as a driver in the short term. However, it is also the case that a decentralised form of energy production like renewables has more climate resilience than centralised sites, for example, when considering the risk of extreme flooding in a given area.

These are risks we obviously assess when we look at potential investments. Recent examples have also shown that with climate change and rising temperatures, nuclear power is at risk and has to be shut down at times. This makes the case for renewables, which are generally less exposed to these risks.

Q Looking ahead, what is your outlook for the renewable energy market in Europe?

MP: For us, the outlook is very good. We will continue to grow our renewable

Q When it comes to exits and asset sales, how challenging is this demand-driven market? And how are investors reacting?

Marc-Philippe Botte: We are still able to realise exits and we have done four in the last year, we are happy to say. That being said, the exit environment is more difficult than it used to be.

One of the trends we are seeing is less appetite for oil and gas companies with these management teams speaking out against renewables and how a dilution of their market share would hit their finances (something we have seen start in the US). We have seen some interest but much less from these companies.

The utilities tend to bid more on companies that have big project pipelines, and they see these as a way to grow significantly. Utilities have remained active in the market and we have received many bids from utility companies over the past two years.

From the finance industry, we have seen less demand from the mid-market and smaller players, and this is largely because the fundraising environment in general has been so difficult. Some of these firms have not been able to replenish their pockets and take advantage. This is different to the big players where there is a strong appetite.

"Given the scope of the energy transition required, there are investment opportunities throughout the energy ecosystem"

MARC-PHILIPPE BOTTE

energy business quite significantly and we are going to be in the market again in due course with our sixth-generation fund. We are already preparing this and designing our investment thesis.

In designing our next generation fund, we are considering geographical focus, which could continue to include other OECD geographies in addition to Australia where we have a presence. In a world where the intermittency of renewables is becoming an increasing challenge, storage is also expected to play a larger role.

In addition, we think Europe needs renewable energy IPPs that are able to better address the electricity demands of its end customers – ie, industry, data centres and other consumers of electricity. This will require thinking more about combining renewable energy technologies with complementary production profiles in order to create more of a baseload supply curve. We like to think of these next generation players as "smart IPPs" where the quality of renewables supply will be considered more important than the volume of MWh supplied to the grid.

Finally, our next Capenergie fund will likely be somewhat bigger but remain firmly in the mid-market space, as we wish to keep our investment DNA and the types of companies we target.

Globally, we believe there remains a lot of appetite for renewable energy. It is hard to find any investment theme in the world today that has such solid, long-term fundamentals as renewables and so we believe this is a mega-trend to focus on. The drivers behind this are expected to be here for multiple decades, throughout the ups and downs, so there is a lot of growth to be had here. ■