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Financing the energy transition

FIASI Innovations in Sustainable Finance

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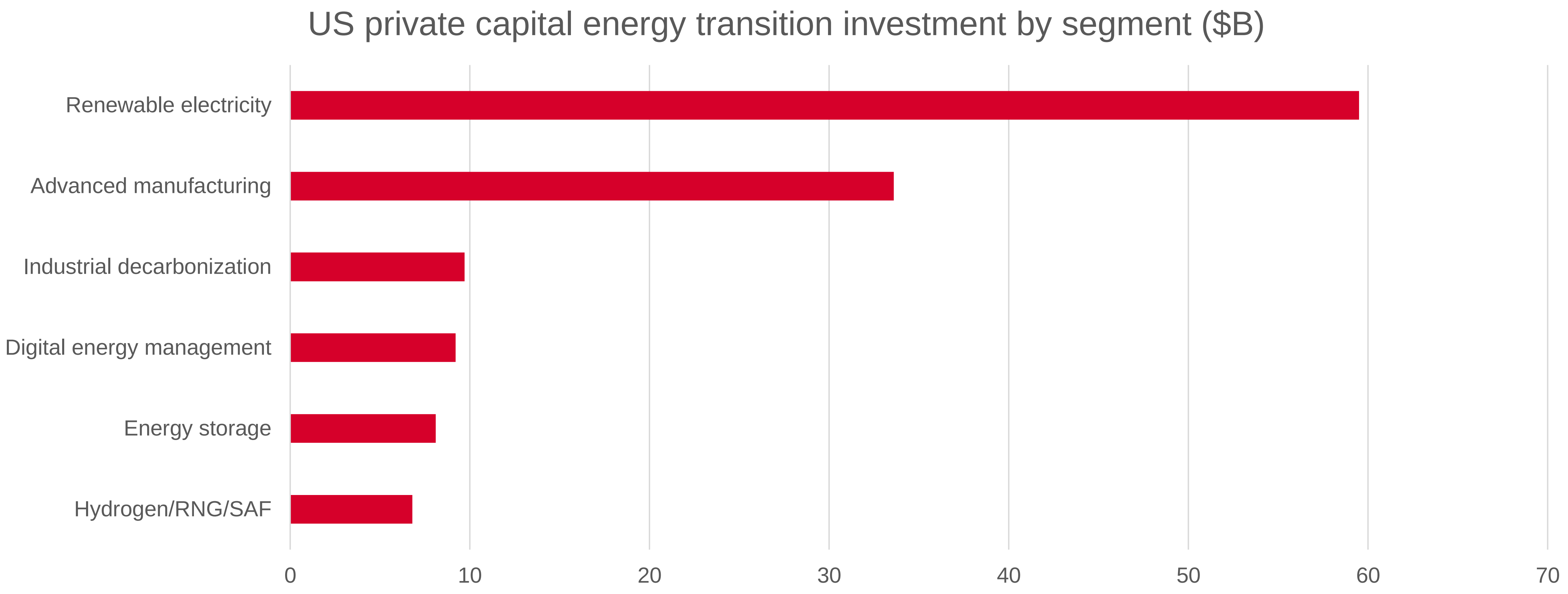
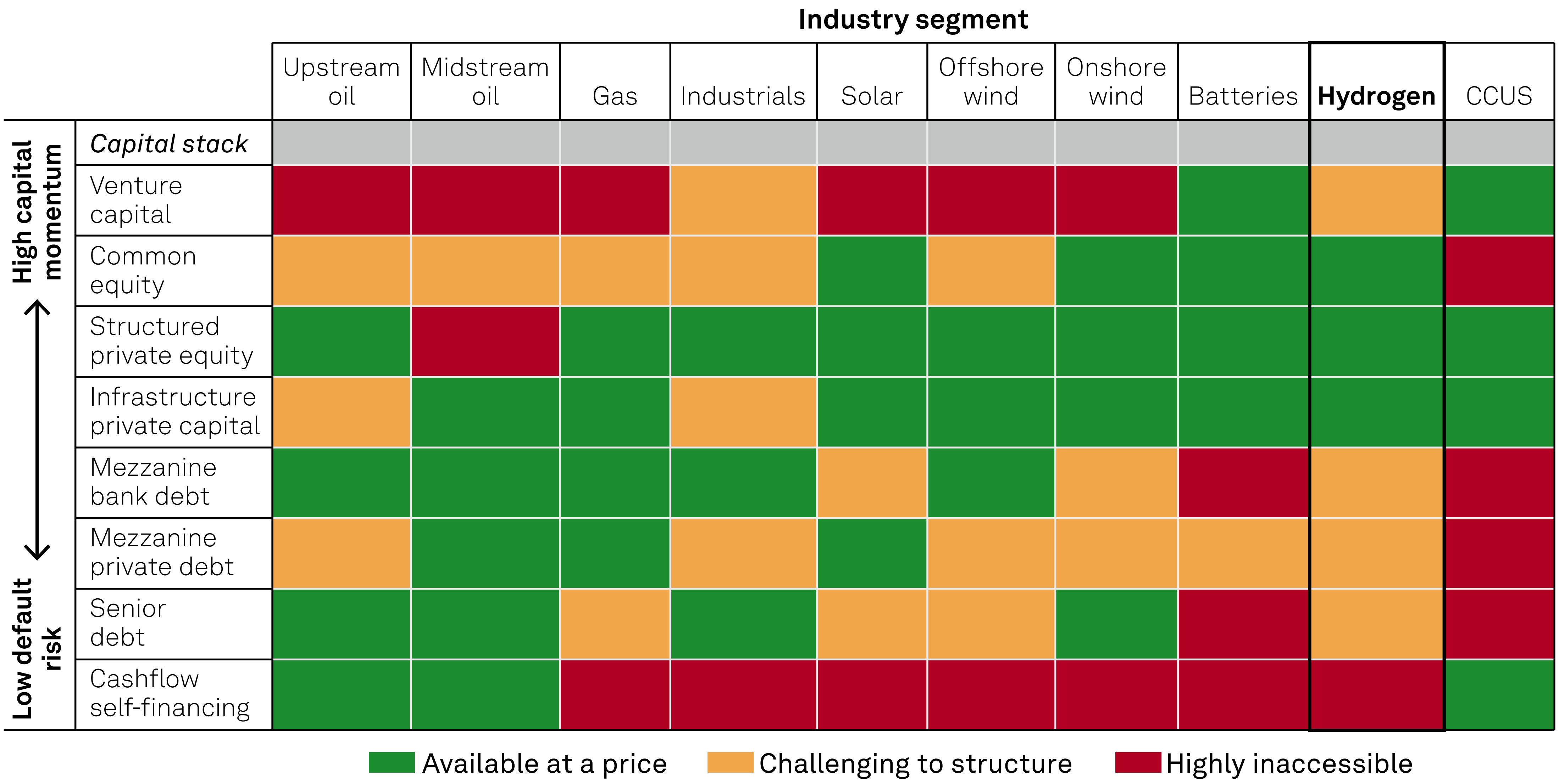
Key Messages

1. The wait is over: The energy transition is **happening now**.
2. With more than $500 billion in inbound ET investment in 2023, **the future does not look like the past**.
3. **Clean electrification** is massively outpacing industrial decarbonization.
4. **Private capital** is dominating dealflow, especially in the US.
5. But **corporate capex** is beginning to catch up.
6. Energy transition financing can be less debt-intensive, but the capital stack still requires **debt and lending appetite from banks**.
7. European and APAC banks have outrun US banks in energy transition so far in 2023: **Can that last**?

Private capital firm investment in renewable energy is the surprise of 2023

With substantial tax appetite, the Inflation Reduction Act was a perfect vector for fast-moving private capital in the US. In other economies, bank financing and the sustainable bond market have played bigger roles.

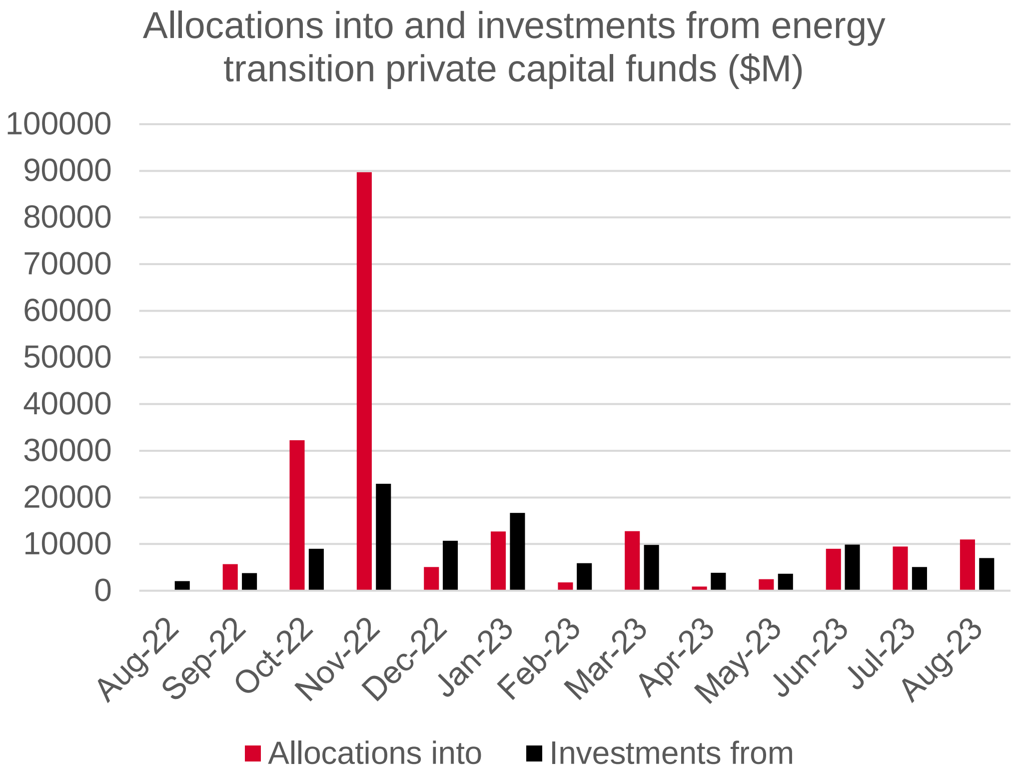



Industry segment
Upstream oil
Midstream oil
Gas
Industrials
Solar
Offshore wind
Onshore wind
Batteries
Hydrogen
CCUS
High capital momentum
Low default risk
Capital stack
Venture capital
Common equity
Structured private equity
Infrastructure private capital
Mezzanine bank debt
Mezzanine private debt
Senior debt
Cashflow self-financing
Available at a price
Challenging to structure
Highly inaccessible

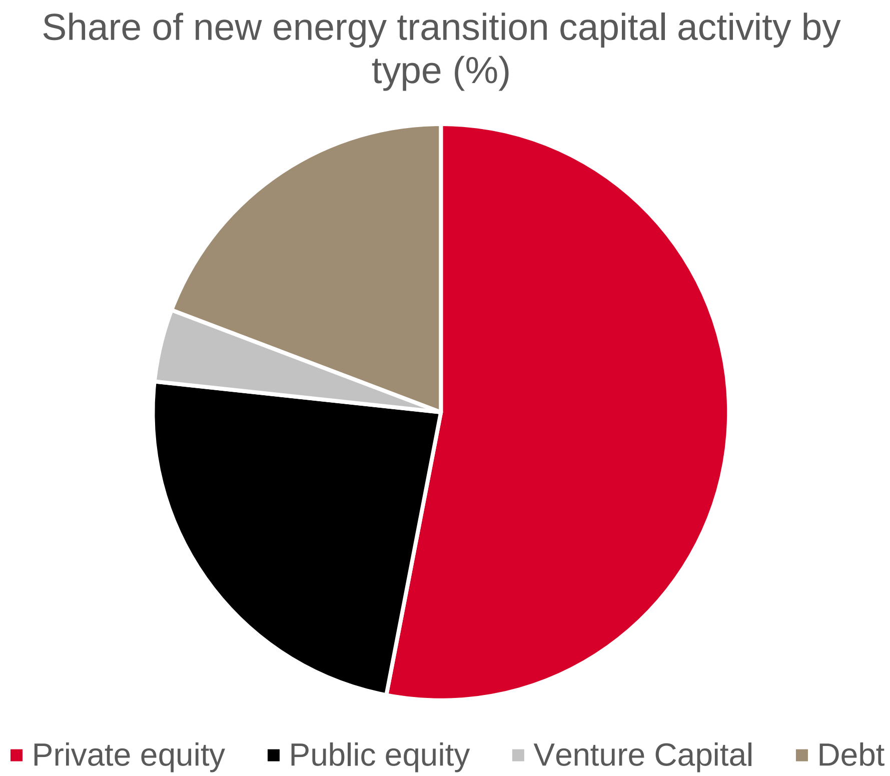
Private capital is beginning to cede ground to corporate balance sheets

The role of private equity and private credit platforms in driving energy transition investment over the last year has continually surprised. Firms have raised ~$200B and invested ~$110B since August 2022.

Private equity firms continue to be about twice as fast at raising energy transition capital than investing it



Debt trends need to shift to backfill equity for project financing and consolidation.



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With massive equity commitments in place, the pressure to complete debt deals is growing for energy transition project finance

US solar & batteries can be profitable at delivery with IRA tax credits, hydrogen and CCUS have longer horizons