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Hannon Armstrong Sustainable Infrastructure Capital, Inc. (HASI)

Q1 2016 Earnings Call

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ROTH Capital Partners LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone. Welcome to Hannon Armstrong's Conference Call on its Q1 2016 Financial Results Conference. Management will be utilizing a slide presentation for this call, which is available now for download on their Investor Relations page at investors.hannonarmstrong.com. Today's call is being recorded, and we have allocated 30 minutes for prepared remarks and Q&A. All participants will be in a listen-only mode. [Operator Instructions]

At this time, I'd like to turn the conference over to Ms. Amanda Cimaglia, Investor Relations Director for the Company. Please, go ahead.

Amanda Cimaglia
Director, Investor Relations & Corporate Communications

Thank you, operator. Good afternoon, everyone.

By now, you should have received a copy of the earnings release for the company's 2016 first quarter results. On the call today, we have Jeffrey Eckel, our President and CEO; and Brendan Herron, our CFO. As a reminder, a replay of this call will be available later today on the Investor Relations page of our website.

Before we begin, I would like to remind you that some of the comments made on today's call are forward-looking statements and within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the

Securities and Exchange Act of 1934 as amended. The Company claims the protections of the Safe Harbor for forward-looking statements contained in such sections.

The forward-looking statements made in this call are subject to the 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 described during the call. In addition, all forward-looking statements are made as of today, and the Company does not undertake any responsibility to update any forward-looking statements based on new circumstances or revised expectations.

With that, I'd like to turn the call over to Jeff, who will begin on slide three. Jeff?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

Thanks, Amanda. Good afternoon. Today, we're announcing core earnings for the quarter of $0.32 per share, a 19% increase from Q1 of last year. We financed $213 million in the quarter, up from $104 million in the first quarter of last year. We increased our leverage, now at 2.3:1. And at 66% fixed rate debt, we continue to be within our 50% to 70% target range. Our $0.30 dividend produces a 6.1% annualized yield and is generated from a mix of clean energy assets, principally efficiency, wind, and solar. Finally, we reaffirm our 2016 guidance of a 14% to 19% increase in our annual core earnings per share as well as double-digit growth for 2017.

Turning to page four. We have now been public for three years and have produced a total shareholder return of over 100% in that period. Performance that is supportive of our investment thesis, which is, we will earn better risk-adjusted returns by investing on the right side of the climate change line and by making those investments in the senior or preferred equity position of the capital stack.

Let me detail that thesis a bit more. By investing on the right side of the climate change line, we mean our investments will be in assets that are neutral to negative on incremental greenhouse gas emissions. We believe that in a world increasingly defined by carbon, we don't sacrifice returns to have positive environmental impact, but rather we will do better than if we ignore carbon.

As we've done for years, we analyzed each investment for its greenhouse gas impact. And in Q1, the aggregate investments reduced GHGs by 176,000 metric tons, equivalent to 86,000 metric tons of coal. Examples of Q1 investments that are senior or preferred include senior debt-type structures in commercial and governmental efficiency, senior investment for wind, and a land transaction for solar. As we have for decades, we continue to provide capital to the leading companies in our market, capital that helps them grow their clean energy businesses.

Moving to slide five. We provide a bit more detail on the growth prospects in our three key asset classes. The efficiency market continues to grow at a steady rate in the governmental market and a bit faster in the commercial market due to PACE, albeit from a much smaller base. Based on data from Navigant, we estimate the U.S. ESCO market will be approximately 22% larger in 2018 than 2015.

In our last call, I said the expansion of the ITC and PTC was an unexpected positive for the solar and wind businesses, and we've seen estimates from both NREL and Greentech Media that show just how positive. Greentech Media estimates that by 2018, solar volumes will be approximately 50% greater, reflecting the result of the ITC expansion. And NREL has estimated that wind market size will double after taking into account PTC.

Turning to page six. Our pipeline is strong, remains at more than $2.5 billion for the next 12 months. Now that our renewable energy clients have unprecedented visibility on U.S. tax policy for the next five years, we are seeing new ways to participate in the wind and solar market, as these clients prepare more ambitious business plans. As these plans are implemented over the next several years, this should lead us to increase the volumes of wind and solar transactions in our pipeline, which will balance out our robust efficiency pipeline.

Our pipeline drives growth in the balance sheet portfolio and also allows us to optimize the portfolio as markets change. The forward-looking yields on our portfolio ticked up to 6.3% from 6.2%, and we continue to use our pipeline to help us build the portfolio with the best risk-adjusted yields. You will note the difference in the size of efficiency transactions in our pipeline, 65% versus the balance sheet, 28%. This difference exists because we securitized a significant volume of the longer-dated lower coupon transactions. This generates fee income and reduces capital requirements compared to putting everything on the balance sheet. In summary, we had a strong quarter. Our investment thesis is solid, and our markets are growing.

Now, I will turn it over to Brendan to detail our financial performance.

J. Brendan Herron

Chief Financial Officer & Executive Vice President

Thanks, Jeff. Turning to Q1, for the quarter, we generated $12.2 million of core earnings or $0.32 a share, as compared to $7.4 million last year or $0.27 a share, a 19% increase on a per share basis. This is largely the result of a greater than 50% increase in the size of our portfolio, which now stands at approximately $1.4 billion. Investment interest expense rose to $11 million from $6 million last year as a result of the almost $400 million of fixed-rate debt we added in the last four months of 2015. This debt allowed us to stay at the high end of our 50% to 70% fixed-rate debt target, with our fixed rate debt at 66% at the end of the quarter.

Our other investment revenue was approximately $6 million in the quarter, as compared to $3 million last year due to an increase in securitization activity. Our core total revenue, net of investment interest expense, was approximately $16 million in Q1, an increase from $11 million in the same quarter last year. Our other expenses core rose to approximately $4 million, comparable to last quarter and $3 million this time last year. We expect core expenses to be slightly above $16 million for 2016. We remain very efficient as total head count was 34 people. The chart at the bottom makes the case, as we have discussed, that originations in our business are lumpy. And while we have a strong pipeline, any one quarter does not make a trend.

A quick update on the wind equity investments. As we have discussed, the best way to think about how we account for the wind equity in core earnings is an amortizing loan. Thus, we record in core earnings interest based on our estimated yield. The projects are tracking to our projections. Year-to-date, we've recognized in core revenue $7 million from our wind equity investments. This represents approximately 42% of the cash we received in the quarter from the wind projects. The difference between core earnings and cash is effectively the change in principal and reduces the investment balance for future core yield calculations.

Turning to slide eight. Our focus on high credit quality assets is reflected in our portfolio that consists of 41% of our assets from government obligors and 57% commercial transactions, with only 2% of our assets or $17 million not considered investment-grade. Given the nature of the wind equity investments, we do not include the equity investments in the analysis. Our portfolio is widely diversified, with over 110 projects and an average outstanding balance of approximately $12 million per project.

We successfully collected the principal balance and a small gain roughly equivalent to a make-whole on the wind projects that we have reported on over the last year as a non-investment-grade project. And our non-investment-grade transactions currently reflect a diversified portfolio of performing distributed solar projects with a private developer. Our exposure to projects other than the residential solar portfolio that involves YieldCos is approximately 8%, and we do not expect any negative impact from the SunEdison bankruptcy.

Turning to slide nine. We wanted to focus on the balance sheet. Presently, 61% of our assets are fixed-rate debt, with the remaining consisting of floating rate debt, equity method investments, and real estate. As we have discussed, new assets are originated at current rates, which is in effect similar to a bond ladder.

On the debt side, we were at approximately 66% of debt is at fixed rates and our leverage is 2.3 to 1 against our 2.5 to 1 leverage target, up from 2.1 to 1 last quarter. We have discussed that given continued low short-term rates, we've continued to focus on increasing our fixed-rate debt to the 50% to 70% fixed rates. And we raised approximately $400 million of fixed-rate debt in the last part of last year. As of March 31, 2016, we estimate that a 25 basis point increase in LIBOR would increase quarterly interest expense by about $200,000 or less than $0.01 a share, certainly a manageable number.

One of the points that this quarter highlights is the robust nature of our business model. We saw an increased amount of volatility at the end of the year into the first quarter in the financial markets. As we have discussed, the long-term contractual nature and preferred position of our portfolio limits our exposure on the investment return side. And we were able to execute on both the securitization and the leverage side. The ability to securitize transactions reduces our reliance in the equity markets in times of volatility.

As you may have noticed, we moved away from the April equity raise that we had completed each of the last three years. We remain focused on increasing our leverage by continually monitoring our pipeline and the capital market in an attempt to raise equity when it best maximizes long-term shareholder value. As we have discussed, we will be putting in place an ATM. We expect this to be done in the next week or so. We plan to use this as a valley filler, to help us increase leverage as the larger equity raises result in a lower leverage and so we can reinvest and re-lever. We believe that this will – the ATM will benefit shareholders and do not expect it to be a primary source of equity.

I will now turn it back to Jeff, who will wrap up the presentation.

Jeffrey W. Eckel

Chairman, President & Chief Executive Officer

Thanks, Brendon. Turning to slide 10. To close, we continue to execute on our business plan and continue to produce for our shareholders. Our long-term cash flows from the senior slice of capital provide a stable dividend, delivering attractive and growing dividend yield. Our portfolio is continuing to diversify with respect to the number of transactions, customer segments, and technologies. And we pride ourselves on good governance and alignment of the managers of the business, with the owners of the business, you the shareholders.

Again, it is an honor to work with my colleagues at Hannon Armstrong, and I thank them publicly for another outstanding quarter, as we continue to invest in the future of energy. We appreciate your listening to our update. And we'll now open the call up for a few questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll hear first from Philip Shen with ROTH Capital Partners.

Philip Lee-Wei Shen
ROTH Capital Partners LLC Q

Hey, guys. Thanks for taking my questions.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer A

Hey, Phil.

J. Brendan Herron
Chief Financial Officer & Executive Vice President A

Hey, Phil.

Philip Lee-Wei Shen
ROTH Capital Partners LLC Q

Hey. So you mentioned that there were greater securitizations in Q1 due to the market conditions. Can you historically just talk about having $300 million or so as your efficiency securitizations in a given year is – could we expect a higher level in 2016, given the current marketing conditions? And if so, how much more could we see?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer A

It's – this is Jeff, Phil. I mean, it's certainly possible. Where you're getting the $300 million is, when we talk about doing $1 billion of transactions a year, putting $700 million on the balance sheet and $300 million in securitizations. That's just sort of a basic model for the business, it could be higher, it could be lower. Again, wherever the best return for us is.

Philip Lee-Wei Shen
ROTH Capital Partners LLC Q

Okay. That's fair. Moving on to the wind business. It appears the wind asset line fell by $15 million to $304 million. Can you talk about what happened there and just give us a general update on what you're seeing when – if you see something big, perhaps, next quarter or two? Thanks.

J. Brendan Herron
Chief Financial Officer & Executive Vice President A

Sure. That's, I think, primarily the cash we get back. We get, as I said, about $16 million – we had about $16 million of distribution this quarter.

Philip Lee-Wei Shen
ROTH Capital Partners LLC Q

Okay. Great. Thanks. And in terms of the wind market outlook, clearly, the pipeline and opportunity set has increased. Now, when you think about greenfield versus recycling of capital opportunities, do you expect – what is the mix now? It seems like it's more of a recycling opportunity, but you expect to see more greenfield opportunities with the PTC extension, looking forward?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

Absolutely. As I think I've said a number of times, I've never imagined the renewable energy business looking as bright as it does right now. So I think our clients finally have the ability to do a proper business plan with five years or seven years or eight years of planning horizon, which is how these capital-intensive businesses should be run. So we expect lots of new builds, lots of new solar, lots of new wind, and, of course, a little low energy efficiency will continue to chuggle off.

Philip Lee-Wei Shen
ROTH Capital Partners LLC

Q

Great. Jeff, Brendan, thank you very much.

A

Sure.

Operator: We'll move next to Carter Driscoll with FBR.

Carter Driscoll
FBR Capital Markets & Co.

Q

Hey, guys.

A

Hi, Carter.

Carter Driscoll
FBR Capital Markets & Co.

Q

Talk more specifically – hi, more specifically about solar. I mean, there's been a lot of ruminations about maybe some projects being pushed out. I know you're very positive on ITC in longer term, probably has less an effect on you. But are you seeing anyone extending projects beyond what was initial push in 2016 and 2017? There seems to be a lot of consternation industry-wide versus 2017. So just be interested to get your particular take?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

Yeah. If you look at our pipeline, I think 8% of our 2.5 billion pipeline is solar. So that implies a relatively small exposure to solar. We expected to grow, not shrink. But frankly, Carter, I wouldn't – I don't think we would have that visibility on the marginal project getting shoved from 2016 to 2017. I think we're certainly seeing a robust pipeline that, that marginal project is not going to rise the surface of where we are affected by it.

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

I think one thing also to think about is that these are large infrastructure projects. So the turning on and responding regulatory policy doesn't happen overnight. So just the fact that the regulatory policy change in December, it takes a while to go from that change to a project actually being in a position where it's being financed with the tail-end of that. So it takes a while for us to kind of see the impact of those changes.

Carter Driscoll
FBR Capital Markets & Co.

Q

And then, maybe just as a follow-up. It looked like there may have been movement in Northeast in terms of supporting offshore wind projects. Anything you care to comment on there? It seems to be certainly more of geographically, certainly and particularly in the United States. So anything you care to add us to whether that could be on the horizon, longer term?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

I would say that offshore wind will always be on the horizon. But we'll see when those projects happen.

Carter Driscoll
FBR Capital Markets & Co.

Q

Gotcha. All right. I'll get back in the queue. Thanks, guys.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

Thanks.

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

Thanks.

Operator: We'll move next to Robert W. Baird's Tyler Frank.

Tyler Charles Frank
Robert W. Baird & Co., Inc. (Private Wealth Management)

Q

Hi, guys. Thanks for taking the question. And nice quarter. Can you discuss how large you think the ATM might be, and what we should expect throughout this year in terms of potential equity raises?

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

Sure. So I think the ATM is going to be somewhere in the $60 million to $80 million range. We're still deciding exactly where it's going to be in that range. The equity raises, I mean, back to the rough model Jeff was talking about before, if we do $1 billion in transactions and put $300 million securitizations, that gives you $700 million. If you do 2.5 leverage on that, $500 million remaining – $700 million, that's $500 million of debt and $200 million equity. We had some equity starting the year. We're getting some cash flow back.

So we look at equity raise as being somewhat below the $200 million range in total. So we continue to focus on trying to how we get the – we set the 2.5 to 1 leverage target. So we continue to focus on what tools can we put in place to get us up towards that leverage target. And we've put a lot of fixed-rate debt in last year with good advance rate. So we're continuing to work up to that target. And we'll continue to monitor both the capital markets and the cash flow needs and based on that decide if and when we raise equity.

Tyler Charles Frank
Robert W. Baird & Co., Inc. (Private Wealth Management)

Q

Got it. And then, your comments about the ITC extension and then how you expect that to drive additional projects, both wind with the PTC and then solar with the ITC. What are the puts and takes around rising interest rates, at least from your angle? Do you think that rising interest rates would more than offset the increase in projects? Or do you feel like the regulatory environment is favorable up until a certain level of interest rates?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

I mean, that's a lot of calculations to do. I think the way we've always looked at it is efficiency is the most insulated from interest rate increases because the internal rates of return are higher. Next is wind and after that is solar. And there's just – you've got some pluses, you've got some minuses if interest rates are risen. And I'm not sure we're smart enough to know what happens to the overall market.

Tyler Charles Frank
Robert W. Baird & Co., Inc. (Private Wealth Management)

Q

Got it. I don't think a lot of us are. Well, thanks, guys.

A

Thank you.

Operator: We'll hear now from Jeff Osborne with Cowen and Company.

Jeffrey Osborne
Cowen & Co. LLC

Q

Yeah, great. I just want to talk about the core earnings expectations for the second quarter. Was there any one-time items in the first quarter? I'm still working my way through the numbers here, but I always thought just kind of by principal, your EPS would be below the dividend per share in the first half of the year and then exceeding that in the second half. So I just want to make sure that we don't straight-line the estimates based on the reported results here.

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

Yeah. I mean, I think what we've tried to do is – and Jeff reconfirmed the guidance for the year. So things like securitizations add a little lumpiness at times to revenue. So I don't know that you can straight-line a quarter. I think that you can look at what we're giving in guidance in total. We don't give quarter-to-quarter guidance in part, because things are a little bit lumpy quarter-to-quarter. And what we've always said on the dividend is that we forward look the dividend for the year. So the dividend is at $1.20, we would expect to earn that within the framework and that's within the framework of our guidance. So I don't know that you can extrapolate any one quarter. And I think it's a combination of the portfolio build and then what we do in securitizations. And if you look back over the history, that's moved around a little bit quarter-to-quarter.

Jeffrey Osborne
Cowen & Co. LLC

Q

Got it. Okay. That's helpful. Can you just – I may have missed this. But your last call, you mentioned a couple of deals that you've renegotiated to more favorable terms. Were all of those able to be renegotiated and flow through and signed this quarter or any of them – did you lose any with buyer terms?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

No, no. No, they were all closed in Q4 2015. And I think we weren't as clear on that as we could have been. So the difference was, did they close in October or December, that's what cost us the net interest margin in Q4, but they were all closed.

Jeffrey Osborne
Cowen & Co. LLC

Q

Got it. And then, just assuming that the capital markets may be challenging here for the next couple of months into the election and what not, is there any discussion, either within the management ranks or potentially at the board level, to increase the debt-to-equity ratio, because that certainly will then change the equity needs?

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

Yeah. So I think, as we've talked that 2.5 to 1 is an internal target. We have the capability to go above that. Right now, we're yet to achieve the 2.5 to 1. So I think the first target would be for us to be able to achieve and then sustain that achievement before we talk about increasing it. And we do think about the fact that we've taken a large amount of the interest rate risk off the table. So with the higher rates, may mean that you could go to higher levels. But I think that's just something we'll evaluate along with a number of other factors at the time. So, right now, our target remains at 2.5 to 1, and our goal is to work towards that target.

Jeffrey Osborne
Cowen & Co. LLC

Q

Perfect. I had one last quick one. Brendan, the – I might have missed this as well. But the $16 million that you talked about you received from the High Lonesome Mesa NRG project, was there any P&L impact or was that all just a cash payment? Any taxes on that or...

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

So I talked about that we got the $13 million project that we've been carrying as non-investment-grade. And the – so I said there is a small gain on that, which would be roughly equivalent to what you would have gotten on a make-whole on the project.

Jeffrey Osborne
Cowen & Co. LLC

Q

Got it. Thank you.

Operator: [Operator Instructions] We'll hear now from Michael Morosi with Avondale Partners.

Matt Wyatt
Avondale Partners

Q

Hey, guys. Matt Wyatt for Michael today. Congratulations on the quarter.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

Thank you.

Matt Wyatt
Avondale Partners

Q

Just a question about renewable yields in the portfolio. When you look at those over time, these kind of ticked up from 6.6% last year to kind of mid-year to 7% this year. And I know these can vary quarter-to-quarter, but that's a pretty meaningful increase over time. Can you kind of talk about what's driving that and how you expect that to develop?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

Well, what's driving it is the – there's two kinds of investments we've talked about – the land leasing business underneath solar projects and the wind equity business that are generally above the average renewable energy yields. Other yields, obviously, are below average, like on senior debt. So there is a little bit of business mix in there. But also, we've said that with the YieldCos somewhat coming back to earth that it's been a more rational market in which to price transactions. So some of it is, it's a better time to do business than it had been. And to where it goes, honestly, we don't know, and we'll let you know as soon as we know.

Matt Wyatt
Avondale Partners

Q

I understand. And then, just kind of touching on the securitizations this quarter. I know you talked about kind of maybe potential opportunities going forward is efficiency is a larger portion of that pipeline. But in terms of cleaning up what's remaining on the balance sheet, are you happy with where that stands, or do you see any more opportunities there?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

No. I think the balance sheet is where we want it to be in terms of fixed rate. It's incremental transactions. If equity markets are closed, we'll have a bias towards more securitization than putting things on the balance sheet, but kind of really we like our portfolio right now.

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

And just to clarify, we do two kinds of securitizations. One is the ones where we take it off balance sheet into a trust and get a gain on sale, and that's what we did more of this quarter. We've also done securitizations with the on-balance sheet transactions, where we continue to hold the assets on the balance sheet, and that effect really is in form of debt. And we did, for example, a land transaction at the end of Q3 in that area. We continue to see opportunities in both areas. We continue to see a lot of demand for the paper from the LifeCos and other institutional investors, both one in the trust structure and even balance sheet structure. So we think there is a robust financing market for our business.

Matt Wyatt
Avondale Partners

Q

Sure. Absolutely. Thanks for the questions, guys.

Operator: From Oppenheimer, we'll move to Noah Kaye.

Noah Kaye
Oppenheimer & Co., Inc. (Broker)

Q

Thank you, and good afternoon, all. Maybe would like to pick up on the comment about the momentum on C-PACE. Maybe you could put that in just a bit of context for us. You provided the share of the 12-month pipeline, that's from efficiency about 65%. Is it kind of possible to benchmark where C-PACE might stand within that? And then, I think that the related question would be, presumably, there would be a higher weighted yield on the efficiency from a C-PACE-type customer than from a governmental customer. So maybe just how we should think about that trend?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

I think there is data out there that says that the commercial PACE market, not residential, but commercial, is on the order of $200 million for everybody. So, presumably, we haven't done all of it, and I assure you we haven't, it's going to be small. That said, it's got a very large, but addressable market and 20% of the greenhouse gases come from the commercial office building sector. So it's an area we continue to invest in. And as for the yields, yes, compared to the yields on U.S. government efficiency transactions, C-PACE generally is going to be a nicer yield.

Noah Kaye
Oppenheimer & Co., Inc. (Broker)

Q

Sure, sure. And, I mean, in terms of kind of the flow and the origin of yield opportunities on C-PACE, would you say it's coming more from some of the, I guess, institutional partners that you have been able to work with like the Green Bank? Or is it more of a mix and partly coming from some of these traditional building efficiency players that are looking at these opportunities and looking to you for financing and then being able to leverage the C-PACE structure? Maybe just to understand how that works.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

It's very much – and I think I've said on prior calls that the real challenge for the industry is to figure how to originate the scale from the service provider to us, the finance provider. So Connecticut Green Bank is certainly a good origination source for us. We've also talked about transactions with the top 10 REIT, now that's another way for us to originate transactions. I think the whole industry is sorting out, who can make money in the value chain and how? And we're trying a lot of different things, and we'll see which ones really get traction.

Noah Kaye
Oppenheimer & Co., Inc. (Broker)
Q

Great. And then, maybe just another bit from the prepared remarks that we did pick up on. Just kind of talking about how – with the policy certainty, you were seeing a – sounded like a greater variety of opportunities with the play within the financing ecosystem of how these wind and solar deals get done, maybe potentially different are as of the capital stack. I just – I would love to get a little bit more elaboration on that, obviously, without tipping your strategy, to try to understand how we keep up the opportunities.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer
A

We were purposely vague on it.

Noah Kaye
Oppenheimer & Co., Inc. (Broker)
Q

Yeah.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer
A

[indiscernible] (31:16) better market, and I simply think our clients now have a much better chance to be thoughtful about raising capital and optimizing it and instead of rushing to the next cliff from ITC or PTC. So I think everybody gets a chance to do the business the way it should be done.

Noah Kaye
Oppenheimer & Co., Inc. (Broker)
Q

All right. Appreciate it. Thank you very much, and nice quarter.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer
A

Thank you.

J. Brendan Herron
Chief Financial Officer & Executive Vice President
A

Thanks.

Operator: Question now from Zach Liggett with FIM Group.

Zachary Paul Liggett
FIM Group
Q

Thanks for taking my question. Most of mine have been answered. I was just curious on the competitive environment. You'd mentioned the YieldCos, but beyond the YieldCos, are there any new other br oad categories as new players in your spaces that are impacting pricing or any other changes?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

I think – I wouldn't say they are new. I think you've got insurance companies and pension funds who are natural owners of long-dated high credit quality transactions. They've always been in the market. They grumbled a lot about the yields, compression with the YieldCos. We don't typically find ourselves competing with those entities. They generally like larger transactions. Hancock just did a $200 plus million deal of SolarCity, congrats to both of them. That's probably not one we would have wanted to compete on.

So it's pretty much the same players, maybe a few less players than there were in 2015, but it's – anybody who is looking for capital is going to find lots of good sources of capital.

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

And I think the key is that where we try to plan the capital stack. So we focus on kind of smaller projects than the insurance companies like, but we'll go longer than the banks. And we'll do a variety of structures, land or preferred equity. So it creates opportunities for people to tell the capital stack, as Jeff talked about it few minutes ago. And we're very good at helping people do that. So I think that that's the area of opportunity that we see. And the big insurance companies, big infrastructure funds, they don't want to do a transaction less than $200 million. We're perfectly happy with an average deal size of $12 million to $15 million, to do smaller transactions that fill the hole in the capital stack.

Zachary Paul Liggett
FIM Group

Q

That's great. And then, the head count to achieve that, do you need to increase staff if you're going to continue to do the smaller deals, or are you pretty stable on that front?

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

A

We've been doing smaller deals for a very long time, a couple of decades. So...

J. Brendan Herron
Chief Financial Officer & Executive Vice President

A

We've increased the head count to almost 50% since the IPO. So we're at 34 from 22 in three years, to give you an idea of what we think of the head count.

Zachary Paul Liggett
FIM Group

Q

Great. Thank you.

A

Thank you.

Operator: And at this time, I'll turn the conference back to you all for closing remarks.

Jeffrey W. Eckel
Chairman, President & Chief Executive Officer

Thanks. You asked great questions, once again. We look forward to speaking with you again soon.

Operator: That will conclude today's call. Thank you, all, for joining us.