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# Hannon Armstrong Sustainable Infrastructure Capital, Inc. (HASI)

Q2 2017 Earnings Call

# CORPORATE PARTICIPANTS

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Jeffrey W. Eckel
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J. Brendan Herron
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# OTHER PARTICIPANTS

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Benjamin Joseph Kallo
*Analyst, Robert W. Baird & Co., Inc.*

Carter Driscoll
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Philip Lee-Wei Shen
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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon and welcome to the Hannon Armstrong's Conference Call on its Q2 2017 Financial Results. Management will utilize a slide presentation for today's call, which is available now for download on their Investor Relations page at investors.hannonarmstrong.com.

Today's call is being recorded. 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 would like to turn the conference call over to Amanda Cimaglia, Investor Relations Director for the company. Amanda, please go ahead.

## Amanda Cimaglia
*Director-Investor Relations & Corporate Communications, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

Thank you and good afternoon, everyone, and welcome. Earlier this afternoon, Hannon Armstrong distributed a press release detailing its second quarter financial results for 2017, a copy of which is available on our website. This conference call is being webcast live on the Investor Relations page of our website where a replay will be available later today.

Before the call begins, I would like to remind you that some of the comments made in the course of this 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 protection 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.

Please note that certain non-GAAP financial measures will be discussed on this conference call. A presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. A reconciliation of GAAP to non-GAAP financial measures is available on our posted earnings release and slide presentation.

Joining me on today's call are Jeffrey Eckel, the company's President and CEO; and Brendan Herron, our CFO.

With that, I'll turn it over to Jeff. He will begin on slide 3. Jeff?

## Jeffrey W. Eckel

*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

Thanks, Amanda. Good afternoon. Today, we are announcing quarterly GAAP earnings of $12.3 million or $0.23 per share and core earnings of $17.9 million or $0.34 per share. Consistent with prior calls, we expect to remain on track for 2017 annual core earnings guidance. Leverage increased to 2.0 to 1 versus 1.9 last quarter with our fixed rate debt level at 54% at the end of the quarter. Later, Brendan will discuss our leverage and financing strategy in more detail.

We closed over $400 million of transactions in the quarter, putting us at approximately $690 million for the first half of the year. This puts us on the right path to achieve our $1 billion annual investment target that we've discussed in the past. In aggregate, the investments in Q2 reduced approximately 200,000 tons of greenhouse gas equivalent annually, equivalent to approximately 100,000 tons of coal, consistent with our sustainability objectives.

Turning to slide 4, we continue to enjoy a deep diversified pipeline of more than $2.5 billion of investment opportunities, all neutral to negative on incremental greenhouse gas emissions. Consistent with prior quarters, efficiency in the governmental and commercial markets is the largest opportunity, followed by wind then solar. We are working to refill the pipeline for sustainable infrastructure after closing over $200 million of transactions in this category in the quarter.

Forward-looking portfolio yields have remained fairly constant over the last several quarters at 6.2% in total. The net portfolio increased 13% or approximately $240 million from the last quarter and now stands at approximately $2.1 billion.

Turning to slide 5, we wanted to profile five transactions we closed in the quarter to demonstrate the breadth and diversity of our investments. The first transaction we want to highlight are investments in controls, chillers, lighting, and water conservation technologies at Wright-Patterson Air Force Base in Ohio. This energy savings performance contract saves the U.S. Treasury money, creates jobs, and helps to service men and women at

Wright-Patt to conduct their mission with more modern infrastructure. Consistent with its decades-long bipartisan support, we are pleased to report that the federal energy efficiency business continues to look quite strong in 2017.

We added to our wind portfolio by increasing our investment in five projects spread across Colorado, North Dakota, and Minnesota. At the end of the quarter, we have a wind portfolio comprised of interest in more than 2,500 megawatts.

The third transaction on the slide is the addition of approximately 1,400 acres of land, supporting 280 megawatts of utility scale solar. This brings our land portfolio to over 20,000 acres.

We've been discussing the PACE market potential for many quarters, and this quarter, we feature a $200,000 PACE transaction used to finance seismic retrofits in California, a market we like very much. These retrofits are mandated by the City of San Francisco to provide resiliency should San Francisco suffer another earthquake. A secondary benefit of those retrofits is they preserve the carbon embedded in the built environment. We completed this transaction through our partnership with CounterPointe, which provides us a platform to do small PACE transactions.

Shifting to the final transaction, we were delighted the to provide capital for the U.S. Army to start much needed improvements to the electrical distribution system at Aberdeen Proving Ground here in Maryland. This $200 million investment is actually four separate projects and will improve the electrical reliability and efficiency at this mission-critical facility. While large and lumpy, these kinds of sustainable infrastructure investments are increasingly structured as public-private partnerships that we can participate in, and we look forward to doing more of them. Given its size relative to our balance sheet, we were able to finance much of the investment with three institutional investors on a fixed rate, non-recourse basis with leverage above our target of 2.5 to 1.

To summarize, all five investments have attractive returns on equity, positive environmental profiles, and help increase our portfolio diversity with respect to asset class, geography, technology, operator and obligor.

I'll now turn it over to Brendan once again to detail our financial performance.

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## J. Brendan Herron

*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

Thanks, Jeff. For the quarter, we generated GAAP interest income, rental income, and income from equity method investments, which we have labeled investment income, of $28 million, an increase from approximately $17 million last year as a result of an approximately 50% growth in the portfolio from the same time last year. We generated gain on sale and fee income, which we label other investment revenue, of approximately $8 million compared to $6 million in the prior year.

Given the nature of the asset sold and general market conditions, we achieved higher margins in the quarter and year-to-date, which drove the higher other investment revenue. Interest expense grew to $15 million from $11 million in Q2 last year primarily as a result of an approximately 50% increase in debt in 2017 used to fund our portfolio growth.

Comp and G&A expenses increased by approximately $1 million for the quarter and year-to-date primarily due to additional cost associated with the growth and the size of the company. Full-time head count was 43 at the end of the quarter as compared to 35 at the end of Q2 last year.

In total, we have $12 million or $0.23 a share of GAAP income compared to $4 million or $0.09 per share in Q2 last year. The increase is primarily due to both additional investments and allocations of income from certain of our equity method investments in renewable energy projects.

As a reminder, the GAAP earnings do not include the full effect of the cash we received from our renewable energy equity investments. This is especially true where we have invested alongside of the tax equity and received a limited allocation of profit and losses although a much larger allocation of cash.

In addition under GAAP, HLBV can be heavily influenced by the allocation of tax attributes like an investment tax credit or production tax credit. As we are not investing for the tax attributes, we will periodically, like in this quarter, end up with a large profit allocation where other investors have received tax attributes. Year-to-date, we collected $39 million in cash from our equity method investments as compared to GAAP income when these investments were approximately $13 million.

Since we've on-based our investments on future cash flows, discounted back to a present value, we believe that the cash we receive reflects both a return of capital and a return on our investment. Thus, we make a core adjustment of approximately $7 million to recognize the return on the investment which year-to-date, when added to our GAAP $13 million, gives a total core return of $20 million and thus the other $19 million of the cash received represents a return of capital.

Turning to slide 7, our focus on high credit quality assets is reflected in our portfolio which, excluding equity method investments, consist of 47% of our assets from government obligors and 51% commercial transactions with only three projects representing 2% of our assets or $26 million, not considered investment grade. Our portfolio is widely diversified with over 165 projects at an average outstanding balance of approximately $12 million per project.

Turning to slide 8, we want to focus on our balance sheet. Essentially, our assets have largely fixed rate return characteristics as opposed to floating rate investments and, generally, have little prepayment risk. 60% of our assets are financing receivables and debt investments with fixed rates. The balance of the portfolio consisting of equity method investments in real estate with largely preferred and predictable returns. As we have discussed, new assets are originated at current rates which is in effect similar to a bond letter.

On the debt side, we ended the quarter at approximately 54% fixed rate debt. In Q2, we took an opportunity to refinance one of our 2015 transactions at a lower cost by combining it with several other wind investments. By integrating the portfolio, we're able to lower the spread on the debt. Presently, the loan is floating rate without hedges which is why the fixed rate debt percentage fell. We expect to convert it to fixed rate debt within the next several months.

In addition, we continue to focus on closing several other debt transactions in the near-term and expect to reach the high-end of our 60% to 85% fixed rate debt target by year-end. Even with the lower fixed rate debt percentage, as of June 30, before considering any improvement in asset yield, we estimate that a 25 basis point increase in LIBOR would increase quarterly interest expense by approximately $400,000 or less than $0.01 a share, certainly, a manageable number.

A quick update on various capital items. As we've continued to grow, we've been adding various tools for capital raising. Along with filing the Q, we'll be filing an updated shelf, which adds public debt capabilities and an updated at-the-market or ATM perspective supplement. In Q2, we raised approximately $31 million through our ATM program at an average price to $22.71, which we believe is in an efficient means of raising capital. We've used about $45 million of the existing $75 million program, we wanted to update it to the new shelf and will be increasing the size of the program to a $150 million. Like before, we expect the ATM to be a portion of our equity capital raising process.

As we've discussed, our financing plan has been focused on adding fixed rate debt, extending maturities, and diversifying lenders and investors while reducing cost, all of which we have achieved. We've also been successful in diversifying our equity investor base with many high quality investors and increasing the liquidity of our stock. As we grow, we'll continue to use these and other financing tools as we continue to execute on our capital plan.

With that, I'll turn it back to Jeff, who will wrap up the presentation.

## Jeffrey W. Eckel

*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

Thanks, Brendan. To close, we continue to execute on our business plan of investing capital in assets that enable the growth of the best efficiency, renewable, and infrastructure companies in the business.

By aggregating assets as diverse as a small seismic retrofit in California to a large electrical infrastructure upgrade in Maryland, we are building a business that allows our shareholders to participate in attractive yielding assets, generated by an increasingly diverse portfolio and managed by a team that own 6% of the business.

Our staff and board of directors pride themselves in demonstrating good corporate governance and leadership and environmental disclosure. Being internally managed and aligning our long-term incentives with shareholders, does nothing but reinforce that good governance. We thank our shareholders for their continued support and interest and I truly thank my colleagues at Hannon Armstrong for another steady quarter of investing in the future of energy. Also we hope our new website rolling out later this week will better explain the business of Hannon Armstrong.

With that, we'll open the call up for few questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Our first question comes from Noah Kaye with Oppenheimer & Company. Your line is open.

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**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks very much. Good afternoon, Jeff, Brendan, Amanda. Congratulations on the quarter.

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**J. Brendan Herron**
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Thanks, Noah.

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Thanks, Noah.

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**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Let's start with this [indiscernible] (15:42) that's a large investment...

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Noah, you're breaking up a bit.

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**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Can we start with [indiscernible] (15:49) large investment obviously and you talked about the potential to rebuild the sustainable infrastructure portfolio. I was just curious kind of how an opportunity like that manifest, is it [indiscernible] (16:03-16:05) opportunity and how do we think about the size of this type of opportunity and I'm really here just not only thinking about sustainable infrastructure, but sustainable critical infrastructure, which this clearly is.

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Yeah. A great question. The Utility Privatization Program that the federal government has been trying to do for a couple of decades has been successful in a few areas where the regulated utility can rate-base the on-base infrastructure upgrades.

Some asset classes – and Aberdeen is one of them, but you'd also see it in water and wastewater – aren't really going to be good opportunities for the regulated utility that's the serving utility to capitalize on. So, that opens it up for alternative capital providers like ourselves. And the way we find these deals is the same way we find all of our deals, which is to find the best vendors or clients who are out developing these projects. And this isn't a new project, this has probably been around for a decade in terms of what the Army needed to do, wanted to do maybe even longer than that.

So, they have a long gestation cycle and you just have to be patient in the federal market, but it is clearly an area that – we've been focusing on it for two decades and have done [indiscernible] (17:41) few but there will be more coming. When and where is to be determined. But it's really kind of normal business, very similar to our energy savings performance contracts business, just the scale is perhaps a little bit larger.

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Noah Kaye
*Analyst, Oppenheimer & Co., Inc.*

Q

That's very helpful. Thank you. And then maybe a quick question on pricing. We have seen [indiscernible] (18:06-18:13) earnings call. Obviously, you're in something of a specialty finance market. But just wondering how pricing environment looks at the moment, particularly in the context of [indiscernible] (18:22)

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Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

I mean, it depends on the asset class. Really we're in efficiency wind and solar and there are submarkets in each of those, some more competitive than others. We certainly think solar is the most price-competitive market. And as a result, that's probably why there is less of it in our pipeline. The efficiency market, the federal market can be very, very competitive for the very best credits on the ESCO side, lesser credits becomes a little bit more interesting.

But I think overall, our view is we don't defy interest rates, we don't defy compression and spreads. The way we address tight spreads is to continue to look for newer niches where we can do the same kind of business we do and I would say the Army privatization project is an example of that.

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Noah Kaye
*Analyst, Oppenheimer & Co., Inc.*

Q

Thank you. I'll turn it over. Thanks so much.

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Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Thanks, Noah.

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**Operator**: Our next question comes from Ben Kallo with Robert W. Baird. Your line in open.

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Benjamin Joseph Kallo
*Analyst, Robert W. Baird & Co., Inc.*

Q

Hey, great quarter. Thanks, guys, for taking my question.

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Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Hey, Ben.

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**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Hey. So, you talked a bit about the financing, I think I've asked this before about public debt. But could you just maybe explain what has changed to allow you to do this now and how you look at public debt as a potential capital source?

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**J. Brendan Herron**
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Hey, Ben. It's Brendan. Sure, so we had a multiyear finance plan and we basically have been working through various asset classes and doing ABSs, getting those rated, and educating the rating agencies and investors on the various assets that we do. And as part of that, you eventually get to a critical mass where enough of your assets are rated and you can start to look at doing more of a general corporate type situation.

That and combined with the fact that the market cap has gotten over $1 billion with good liquidity in the stock these days, creates lots of new opportunities in the financing area. And a couple of years ago, we had laid out this plan where we would basically follow that path and we've just been executing on it.

So, it's really just couple of years of hard work by a lot of people in our organization to get us to this stage and we think we can now continue to take some opportunities to lower the cost of some of our debt while extending maturities and fixing out the rates.

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**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. Sounds good. And then I guess as I think about the number of deals – you talked about the $1 billion target – and with the different financing options now opening up, how do we think about that changing over time or do I not look at it like that?

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**J. Brendan Herron**
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

I think Ben as we...

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**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Should that get bigger?

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**J. Brendan Herron**
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Well, I mean, I guess good news is – I guess one investor asked us when we would do start talking about doing more and I said how about after we do it. So, we get to be a big business with the – or a big enough business to grow the earnings just with $1 billion business model. So, we don't want to, at this stage in the economic cycle, start reaching for marginal deals just growth-for-growth sakes. We think we'd rather optimize on return on equity than top-line growth or market share, those kinds of second-order metrics.

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**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*
Q

Okay. And lastly just a few months ago I think every question was around the policy, the regulatory world. Maybe just – we've had the new administration in office for a few months now. What can you see as far as visibility and then related to the Solar Trade Case out there? So, anything that you guys are seeing that has either gotten better or worse? Thank you.

**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*
A

I'm quite confident you know more about the Solar Trade Case than we do. And so, I don't think there's much we could add. In terms of federal policy just remind everybody that the energy savings performance contracts were started under the Reagan Administration and supported by Bush one, Bush two, Clinton, Obama, and by all measures that we see by the Trump Administration, and really we'd ask why wouldn't they. As I said about the transaction at Wright-Patt, it saves treasury money, lowers cost, creates jobs and really improves conditions on military basis and civilian agencies for people. So, really not much to not like in these federal privatization transactions.

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*
Q

Great. Thank you.

**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*
A

Thank you, Ben.

**Operator**: Our next question comes from Carter Driscoll with FBR Capital Markets. Your line is open.

**Carter Driscoll**
*Analyst, FBR Capital Markets & Co.*
Q

Good afternoon, guys. How are you?

**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*
A

Hey there, Carter.

**Carter Driscoll**
*Analyst, FBR Capital Markets & Co.*
Q

So, Jeff or Brendan, it seems like that your wind investments are diversifying by state into kind of some non-traditional or at least typically wouldn't necessarily think of as strong wind states. Can you talk about maybe the characteristics of equipment of the landscape is changing and allow you to kind of diversify and maybe the expectations of what this might do to the addressable market at least domestically?

Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Remember most of the wind transactions we talked about are the so called tax equity tails transactions, which are effectively, on average, 10-year old projects. So, you'd really have to go back and look 10 years ago where were wind developers developing and I don't think much was happening in certainly not much in West Texas 10 years ago as might have happened in the last couple of years.

So, these are I think outstanding wind regime areas and I think we've had some people observed that the very first wind projects were sited at some of the best sites in the country. Not the only good sites, but some of the best. And what we're able to acquire through these tax equity tails are really slices of a lot of different projects which creates a nice diversity which is really what supported the refinancing of the transaction that Brendan had mentioned.

Carter Driscoll
*Analyst, FBR Capital Markets & Co.*

Q

Okay. Just next question. You talk about the relationship with CounterPointe and/or your expectations in the Commercial PACE market. Is it accelerating faster than you thought? I mean you talked in the last couple of quarters about it being a very sizeable market opportunity really in its infancy. Maybe just some color on what you've seen developed over the last 60, 90 days?

Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Yeah. I mean, I think that's still a good characterization. Counterpointe and ourselves are figuring out how to scale this thing economically. You clearly have to do the business differently than we handle our traditional business, on how to be lighter touch from a documentation and transaction processing standpoint. And everything we've ever done that's been successful has been programmatic. So, we're spending a fair amount of time with Counterpointe setting up that programmatic capacity to handle the volume and there is no assurance that volume comes, but it should. These are economic transactions for the building owner. They're supportive for the first mortgage and tenants like them. So, we should have a good market there, but again we'll start talking about what a fantastic market it is when it becomes a fantastic market.

Carter Driscoll
*Analyst, FBR Capital Markets & Co.*

Q

Yeah.

Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Right now we're just planning for success.

Carter Driscoll
*Analyst, FBR Capital Markets & Co.*

Q

Got it. Just last question. In terms of the sustainable infrastructure, in terms of the very sizable projects, is that characterization fair in terms of the types of projects you've been bidding on and in terms of replenishing the pipeline? Does that take a little bit longer than some of the other end markets you're in just because of the size of the engagement process? Or is it comparable in terms of how quickly you could get into the pipeline versus the other end markets?

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Well, actually we have a little deals that take just as long as the big deals. It seems like all the deals take too long. But in terms of sustainable infrastructure when we intentionally juxtaposed the $200,000 transaction against the $200 million transaction. In sustainable infrastructure and resiliency, it's going to come in a lot of different sizes. We certainly like the large projects, but we don't want to add large projects that unbalance our balance sheet. So, having the smaller ones that can be done on a more programmatic basis like seismic retrofits, we like that, but obviously, you got to do a lot of $200,000 deals to...

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**Carter Driscoll**
*Analyst, FBR Capital Markets & Co.*

Q

That's $200 million.

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Yeah. Exactly.

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**Carter Driscoll**
*Analyst, FBR Capital Markets & Co.*

Q

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

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Thank you.

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**Operator**: Our next question comes from Philip Shen with ROTH Capital Partners. Your line is open.

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**Philip Lee-Wei Shen**
*Analyst, ROTH Capital Partners LLC*

Q

Hey, guys. Thanks for the questions. Just as a quick follow-up on the sustainable infrastructure, can you quantify in any way how many of these large deals may be in the existing pipeline, perhaps characterize it as a handful, more than a handful? And then are there any potentially near term?

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Oh. We always think there are near term and then they never are. I'm being a little [ph] suspicious (29:21) here, but again, they do take a long time. These are really large undertakings for the U.S. government to contract. So, I would not want to set expectations that the capacity for the U.S. government to increase velocity. These deals is there. They're hard to do. It's a lot of engineering, but we're delighted to be in the market, and we think we'll do our fair share of this business, and obviously, Aberdeen is a nice start to this.

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Philip Lee-Wei Shen
*Analyst, ROTH Capital Partners LLC*

Q

Great. Thanks. In the past, your dividend has been classified as more than 90% return of capital. Can you talk about how do you expect that trend for the dividends later this year as well as into next year?

J. Brendan Herron
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

We don't actually give guidance on that, Phil. I mean, I think if you look at the average over the last three or four years, it's been less than 20% [ph] has been taxed (30:31), and the rest has been return of capital. I think the earnings mix of the business is relatively consistent from what it's been in the past. So, I think those ratios on the average are reasonable direction, but things do move around a little bit the way earnings come through. So, that's why we don't forecast it.

Philip Lee-Wei Shen
*Analyst, ROTH Capital Partners LLC*

Q

Okay.

J. Brendan Herron
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

But we have been able to produce a fairly high return of capital, which we think is favorable for shareholders.

Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

And, Phil, thanks for bringing that up. It's a feature we don't get a lot of investor comments on , but certainly, my dad is very aware of the after-tax return that he is getting. So, for individual shareholders, it's an awesome, awesome feature of the stock.

Philip Lee-Wei Shen
*Analyst, ROTH Capital Partners LLC*

Q

Yeah, it certainly is. Great. One last question for me here.

In terms of the solar business, on First Solar's recent earnings call, they highlighted how valuations for large-scale utility projects are going higher. Can you talk about whether or not this impacts your existing solar land business? So, for example, is the valuation under the land having an impact as well? And can you address in terms of the land that you have on your balance sheet, has it appreciated in a meaningful way that perhaps may not be reflected on the balance sheet?

Jeffrey W. Eckel
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

So, Brendan answered the value of the land. I think the land transaction is accretive to developers. So, to the extent developers are realizing that a land transaction is supportive of their goals of increasing the sales price, our transactions probably do have the impact of increasing the value of projects to owners. We've only been in the solar land business for what, three years? Still there's I think a substantial number of clients who could still transact at scale in this.

But that said, land is never their biggest priority. They're much more focused on getting the primary project financed or sold, and the land transaction can be – while it's accretive, is not the largest number in the capital spec. But we think it's a value-add service that we're getting very good at and look to do a lot more. As for First Solar or other solar companies saying prices are going up, again, that's not in the transaction area where we have lot of visibility or try to play in.

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**J. Brendan Herron** A
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

So, to add on to that, I think, as Jeff said, it's accretive to developer, but that also means that someone is looking to sell a project. We have examples of where people have added to the total of what they've realized out of the sale by selling the land separately to us. So, we think that really – it's accretive [ph] from developer and (34:02) developing but also when the developer would sell.

As to valuations, I think when you have long-term assets like we have and rates go down or the people are searching for yield, it makes any of the assets more valuable. So, I don't know if the land would be any different than anything else we have. But we think that we continue to add good assets at good yields, and they are all long dated, and we think that's one of the values in our company that we've been able to do, and we've tried to take a very conservative approach to leverage on that. So, combining those [ph] two things (34:45) help adds to the [indiscernible] (34:47) of the shareholders.

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**Philip Lee-Wei Shen** Q
*Analyst, ROTH Capital Partners LLC*

Okay. Great. Jeff, Brendan, thanks. I'll pass it on.

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**Jeffrey W. Eckel** A
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

Thanks, Phil.

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**Operator**: Our next question comes from Chris Souther with Cowen. Your line is open.

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**Christopher Souther** Q
*Analyst, Cowen & Co. LLC*

Hey. Thanks for taking my call. Most of my questions have been answered. But I just want to kind of touch upon the equity method investments. It looks like more of those have been kind of coming in through the GAAP results as opposed to kind of the core investments. How are you guys kind of thinking about that over the next couple quarters?

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**J. Brendan Herron** A
*Chief Financial Officer & Executive Vice President, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

As I tried to explain in the prepared remarks, Chris, it's going to be variable depending on the project. So, this quarter, for example, we had some solar projects where we're on the sponsor side, and there was an investment tax credit it earned. So, unlike the PTC, the investment tax credit is more lumpy. It's a onetime credit. So, the way the accounting works, when the tax credit is allocated to the tax equity investor, they recognize a loss under GAAP even though they've gotten the benefit of the tax credit and we recognize a gain. So, those are lumpy-type, onetime transactions that really don't have anything to do with the cash or the profitability of the project or anything else. It's just that's the way the accounting allocations work.

So, that's why we use core. That's why we kind of – it's very hard for us to even to forecast the HLBV because of the timing of some of these types of transactions that come through, and I think what we've talked about in the past is you can use the past as kind of a guide. But it is a hard thing to actually forecast because it really depends on the [ph] mix of broad (36:39) investments we have, where we sit in the project, and the nature of the asset itself.

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

And, Chris, that's the same answer he gives me when I ask him, can you forecast GAAP earnings so...

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**Christopher Souther**
*Analyst, Cowen & Co. LLC*

Q

I appreciate that. Thanks. And then just kind of the last question would be as far as SunPower mentioned yesterday they have 400 megawatts in residential leases they are looking to monetize, I just wanted to get an idea if you guys had kind of enough capital to participate in that kind of transaction and how do you even think about that?

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

I think we'd have to look at that. We've been pretty focused on getting ready for our own earnings call. So, I haven't dug into what SunPower said. So, I'll be evasive. I simply don't know. We certainly think we have capital, is that the kind of asset that we want to use on, and I guess, we have to study it so...

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**Christopher Souther**
*Analyst, Cowen & Co. LLC*

Q

Perfect. Thanks a lot.

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

A

Thanks, Chris.

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**Operator**: That concludes the Q&A portion of today's call. I will now turn the call over to Jeffrey Eckel for closing remarks.

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**Jeffrey W. Eckel**
*Chairman, President & Chief Executive Officer, Hannon Armstrong Sustainable Infrastructure Capital, Inc.*

Thanks. Good questions. I appreciate all the interest and everybody here at Hannon Armstrong is busy working on Q3. Thanks so much. Talk to you next quarter.

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**Operator**: That concludes today's conference. Thank you for your participation. You may now disconnect.