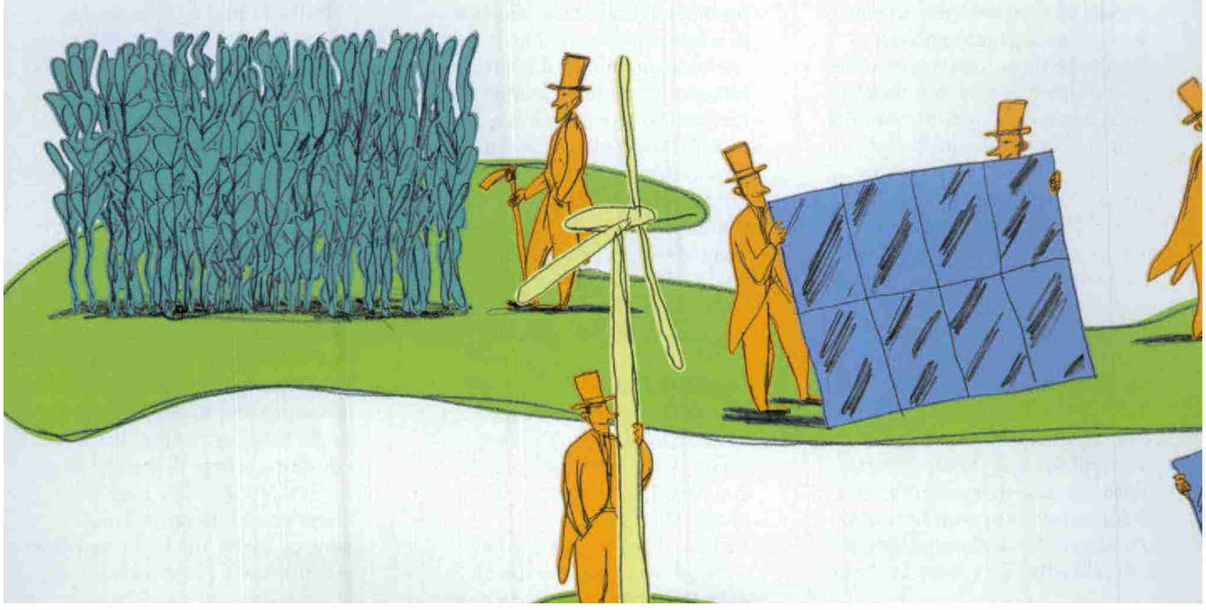
Still Sunny

Due to the lower cost of funding, **German** and **Spanish** banks are challeging the Italian ones, mainly **Unicredit** and Intesa, in the financing of **photovoltaic** business. Lombard surveyed the **conditions** offered to investors. Surprise

by Stefania Peveraro

Although the corporate financing conditions have rapidly worsened since last August, private investors, industrialists and private equity funds, are still lured by the upside in the photovoltaic business. They are however shifting their attention to financing options other than those offered by Italian banks, Unicredit and Intesa San Paolo in particular. The German and Spanish banks have become proactive in financing new initiatives, alongside supranational institutions like the EIB.

In October, Platina Partners turned to Commerzbank rather than its more expensive Italian counterparts to refinance the photovoltaic plants of its Archangel project in Apulia, which have a total capacity of 9.5 MW. The Platina fund, managed by Platina Partners a private equity firm based in London that specializes in the field of renewable energy, originally acquired them with equity alone. **Riccardo Cirillo** and **Giovanni Paolo Di Giovanni**, who are respectively the partner in charge of the Italian office and the investment manager of Platina, with the

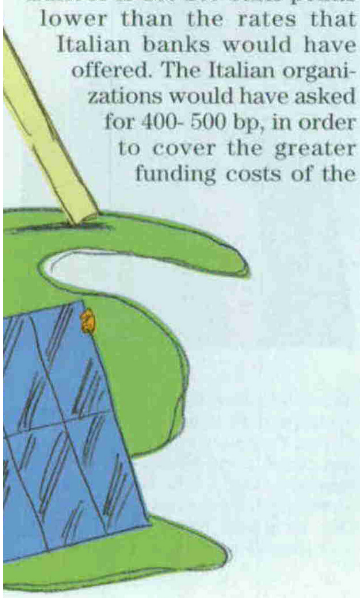


Top Worldwide Financiers of Renewables

Bank	Amt \$ mn	Deals	Plants in Italy
European Investment Bank (BEI)	5,409.0	11	na
Banco Nacional de Desenvolvimento	3,164.8	18	na
US Federal Financing Bank	2,119.2	3	na
Banco Bilbao Vizcaya Argentaria	1,968.1	29	SunEdison at Rovigo (\$ 444 mn project)
Mitsubishi UFJ Financial	1,939.5	18	na
Banco Santander	1,817.1	27	SunEdison at Rovigo (\$ 444 mn project) + others (1)
Unicredit	**1,406.9**	**17**	Budduso Windfarm (\$ 415.5 mn project) + others (2)
Dexia	1,132.0	14	AES Cellino San Marco (\$ 270.7 mn), Veronagest Sicily (\$ 115.7 mn)
BnpParibas	1,047.5	12	AES Cellino San Marco (270,7 mln \$), TRM Gerbido (\$ 680.5 mn)
World Bank	1,046.2	9	na

Source: Bloomberg New Energy Finance - (1) Suntech/CSF Puglia (\$238.1 mn); FRV&Solesa Fiumicino (\$ 60 mn) - (2) 9Ren Puglia&Lazio (\$ 120.2 mn), AES Cellino San Marco (\$ 270.7 mn), TRM Gerbido (\$ 680.5 mn), Maestrale Enna Wind Farm /(\$ 50.2 mn)

legal advice of Gianni, Origoni, Grippo & Partners, reached an agreement with Commerzbank to refinance the scheme with a € 37 mn senior loan, while the fund maintains an interest in the project in the shape of € 8 mn in equity. Commerzbank also provided loans to cover the VAT payments and the cost of swapping coverage for interest rate risks. Together with the project financing, the total amounted to € 42 mn. The loans are all due in 17 years and the spread above the 6-month Euribor is 100-200 basis points lower than the rates that Italian banks would have offered. The Italian organizations would have asked for 400- 500 bp, in order to cover the greater funding costs of the country's entire banking system. Platina runs power plants with a total capacity of 244 MW in Europe and it is developing others that will produce a further 500 MW. It is currently raising capital for its fourth renewable energy fund and it has a target of € 400-500 mn. Its international status allowed it to get round the problem of the high cost of financing in Italy. Italian banks are facing competition not only from their counterparts in Germany and other more financially sound countries in the Eurozone, but also from those in Spain, which are currently paying less for money.



According to Bloomberg New Energy Finance rankings (see table above) – which only refers to project financing for the construction of renewable energy production plants – the two Spanish banks are in fourth (BBVA with \$1.97 bn) and sixth place (Santander with \$1.8 bn) respectively for projects financed internationally in 2010. They are followed in seventh place by UniCredit with \$1.4 bn, which is the only Italian bank in the top ten thanks to its presence on the German and Eastern European markets. Indeed, Banco Santander organized the largest photovoltaic plant in Europe, at Rovigo, in the Veneto region, through a € 276 mn project finance package. In late 2010, **Antonio Garcia Mendez**, head of the Project and Acquisition Finance for Energy unit of the Spanish bank made the takeover by the US private equity giant First Reserve of the 70 MW photovoltaic plant built by SunEdison possible. UniCredit Corporate Banking, Dexia Crediop, Natixis, Société Générale and Crédit Agricole were also involved in the financing pool. Nonetheless, UniCredit is still way out in front in Italy. This is partly because its subsidiary UniCredit Leasing is a real driving force, with a renewable energy unit that has offices in Milan, Rome and Vienna. In February, UniCredit Leasing was the lead bank in the biggest pool financing deal in the photovoltaic field ever organized in Italy by a group of leasing companies. Copernico, which is a real estate fund managed by Finanziaria Internazionale Alternative Investment Sgr, will create three photovoltaic plants with a total capacity of 39 MW in the province of Foggia, Apulia. The project leasing (that has a duration of

Who finances renewable energies in Italy and how

Company	What they do	Structure
Unicredit CIB	Project finance above € 10 mn	All structures (eolic, photovoltaic, biomasses)
Unicredit CIB	Corporate lending	Photovoltaic plants
Unicredit leasing	RE Project leasing (from € 0.5 to 30 mn)	All structures (eolic, photovoltaic, biomassec)
Unicredit leasing	Capital goods leasing (from € 20 th to 30 mn)	All structures (eolic, photovoltaic, biomasses)
Banca dei Territori (Intesa SP group)	Corporate lending (from € 75th to 2 mn)	Small photovoltaic plants
Banca dei Territori (Intesa SP group)	Corporate lending (from € 0.25 mn to 6 mn)	Plants for renewables or energetic efficiency
Banca IMI (Intesa SP group)	Project and acquisition finance above € 30 mn	All structures (eolic, photovoltaic, biomasses)
Leasint (Intesa SP group)	Real Estate Project leasing above 1 Mw	Photovoltaic plants
Leasint (Intesa SP group)	Real Estate Leasing above € 100 th	All structures (eolic, photovoltaic, biomasses)
Leasint (Intesa SP group)	Capital goods leasing above € 50 th	Photovoltaic plants
BIIS (Intesa SP group)	Project finance above € 10 mn	All structures (eolic, photovoltaic, biomasses)
BIIS (Intesa SP group)	RE and capital goods leasing above € 1 mn	All structures (eolic, photovoltaic, biomasses)
BIIS (Intesa SP group)	Corporate lending above € 3 mn	Impianti fotovoltaici a terra, a tetto, integrati
Mps Leasing&Factoring	Real Estate Leasing	All structures (eolic, photovoltaic, biomasses)
Mps Leasing&Factoring	Capital goods leasing	All structures (eolic, photovoltaic, biomasses)
Mps Capital Services	Project finance above € 20 mn	All structures (eolic, photovoltaic, biomasses)
Mediobanca	Project finance above € 50 mn	Photovoltaic and eolic plants
Ubi Banca	Corporate lending from € 25 th to 3 mn	Photovoltaic plants
Ubi leasing	RE Leasing above € 350 th	All structures (eolic, photovoltaic, biomasses)
Ubi leasing	Capital goods Leasing above € 150 th	All structures (eolic, photovoltaic, biomasses)
Centrobanca (Ubi Banca group)	Project finance < € 10 mn to 50 mn	All structures (eolic, photovoltaic, biomasses)
Centrobanca (Ubi Banca group)	Corporate lending from 5 to 30 mn	All structures (eolic, photovoltaic, biomasses)
Société Générale CIB	Project finance > € 100 mn	Photovoltaic plants, on ground mainly
Deutsche Bank	Project finance from € 80 to 250 mn	Photovoltaic plants, on ground mainly
Deutsche Bank	Corporate lending from € 25 to 150 mn	Photovoltaic plants, on ground mainly

*Source: Lombard analysis on data from the banks as of November 2011 - * photovoltaic, 14-15 years for eolic and 12-13 years for biomasses - ° Added value tax excluded*

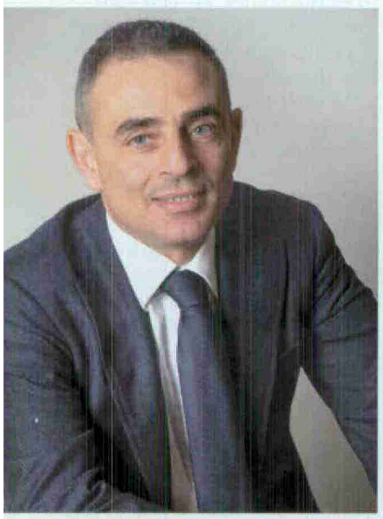
17 years and six months and a value of € 135 mn, i.e. approximately 85% of the total outlay for the project) was organized by Leasint, BNP Paribas Lease Group, Claris Leasing, Alba Leasing, Centro Leasing and UniCredit Leasing. "In 2010, our financing for wind farms and photovoltaic and hydroelectric plants topped € 1 bn. We should reach this figure again in 2011, despite the fact that the push from big facilities has dropped off since September," Lombard was told by **Sebastiano Musso**, the deputy managing director of UniCredit Leasing, who is responsible for the Italian market. As he pointed out, "the new regulations for public incentives offer greater stimulus for smaller, more widespread plants."

The Intesa Sanpaolo group also does a lot of business in the sector. The section of the group involved depends on who it is dealing with and the size of the plant to be financed. The staff of the Corporate and Investment Banking Division, led by **Gaetano Micciché**, brings in the business for the entire group and then directs potential customers towards the most suitable teams. Banca dei Territori deals with corporate financing for small and medium plants, while slightly larger facilities are the responsibility of MedioCredito Centrale. For leasing there is Leasint, for project finance there is Banca IMI, and for projects involving a public entity there is BIIS. Intesa Sanpaolo has revealed that in 2010, the group as a whole provided no less than € 3.38 bn in financing for energy efficiency and renewable energy, with Leasint contributing € 1.2 bn in 417 contracts and confirming its position as the leader of the sector in Italy.

Furthermore, in the first half of 2011, Leasint recorded a 47% increase in terms of vol-

Riccardo Cirillo is the partner in charge of the Italian office of Platina, the private equity venture specialized in investments in renewables. Right, Sebastiano Musso, the Deputy Managing Director of UniCredit Leasing, who is responsible for the Italian market

Debt/equity ratio	Duration	Actual interest rate	Interest rate in 2009
80-20	max 18 years	euribor + 250-300 bp	euribor + 250-300 bp
na	na	na	na
downpayment on lease -20	15-18 years	euribor + 400-500 bp	euribor + 250-300 bp
na	89 - 200 months	euribor + 400-500 bp	euribor + 250-300 bp
80% of the investment amt°	3-5 years	fixed or variable + 1% upfront	na
80% of the investment amt°	5-10 years	variable + 1.5% upfront	na
max 80-20	max 18 years	variable rate	na
downpayment on lease -20	na	na	na
na	200 - 216 months	na	na
na	89 - 144 months	na	na
80-20	max 18 anni	na	euribor + 250-300 bp
na	15-20 years	na	na
80-20	15-18 years	na	na
max 80-20	89 - 210 months	na	euribor + 225-275 bp
max 80-20	89 - 210 months	na	euribor + 225-275 bp
max 80-20	max 18 years	na	na
na	na	na	na
max 80-20	7 years	euribor/irs +250 bp x mortgages	euribor/irs+110-170bp x mortgages
na	18 years	in repricing	na
na	compliant with fiscal law	in repricing	na
80-20 photovoltaic, 75-25 other	18 years*	euribor + 350 bp or more	euribor + 220-300 bp
na	15-16 years	euribor + 300 bp or more	euribor + 180-220 bp
max 80-20	max 18 years	na	na
max 80-20	18 years	na	na
max 80-20	7-10 years	na	na



ume and held a market share of 40%. 2011 was also a good year for MPS Leasing & Factoring, which provided € 222.8 mn in financing for renewable projects in the first nine months, marking an increase of 57% on the same period in 2010, with 99 contracts and a market share of 6.88%. MPS Capital Services has also seen an increase in business. By the end of September it had provided corporate and project financing worth approximately € 193 mn, compared to € 211 mn in all of 2010 and € 171 mn in 2009. Among the other banks, a mention should go to Centrobanca (UBI group), which provided € 416 mn in 2010 and has reached € 335 mn so far in 2011. Of course the numbers are very different from the figure of approximately € 900 mn in 2009, for investments worth over € 1 bn.

To assess the real condition of the credit crunch, Lombard surveyed the market conditions of the main banks and leasing companies in Italy. Each of them was asked to provide details of their conditions for corporate – rather than private – clients, with even very small potential projects being taken into account. The results are even more striking when compared to the outcome of a similar survey of the same organizations carried out by MF-Milano Finanza in November 2009. The corporate financing conditions offered by Italian banks are up to 40%-50% worse than a year ago and the amounts provided have dropped significantly with respect to the value of the assets used as collateral for secured loans. The Basel III standard means that credit providers will be increasingly selective with their financing. All of this has even had an impact on those with infrastructures funded by project finance or project leasing schemes, with collateral provided not by the assets but by the cash flows from the projects, meaning that they should be considered less of a risk by the banks. They have not been immune to the effects of the credit crunch and Italy's

Financing technology: the case for M&G

Piedmont's Mossi & Ghisolfi (M&G), one of the world's biggest producers of PET bottles, joined up with the US private equity giant TPG Capital and its life science venture investment arm TPG Biotech to market its special PROESA technology, which can produce sugars (for conversion into the raw materials for PET) at competitive prices. Instead of oil products, they are made with non-food biomass. Through its subsidiary Chemtex, M&G and the two funds have started a joint venture called Beta Renewables, with a capital of € 250 mn. This is an unprecedented approach in Italy. The scheme put together by M&G to launch its technology is an authentic venture capital deal, because Beta Renewables is a start-up company. Furthermore, it could be seen as a brand new option for private equity, with the funds being invested in a project rather than a company. Of course, it is not the type of deal that just anyone can organize. The TPG funds have clearly opted to get involved in the M&G project because the group controlled by the Ghisolfi family has solid experience in the development of new technology for PET production. It has become a giant: in 2010 turnover amounted to approximately € 2.04 bn (up from € 1.49 bn in 2009), EBITDA to € 209 mn (up from € 70.8 mn in 2009) and net debt was 2.8x EBITDA. Marco Ghisolfi, the CEO of the group's polymers business unit and son of the founder Vittorio, told Lombard that – despite the group's small initial size – it was no surprise that on a number of occasions international investors backed the development of its technology, using highly innovative financial schemes. Examples include the first private project financing initiative in Italy with funding from Barclays in 1995, financing from Bank of America for the acquisition of Shell's PET business in 2000, and the issue of high-yield hybrid bonds in 2007, with Deutsche Bank as the underwriter.

Marco Ghisolfi, the CEO of the group's polymers business unit and son of the founder Vittorio

Alongside the TPG funds, Chemtex has a broad, controlling stake in the new company, thanks to its contribution of the pilot system in Tortona and the first industrial plant in the world for the production of second generation bioethanol, with a capacity of 40,000 tons a year. It is under construction in Crescentino (Piedmont) and will start operating in mid 2012. Investments for a total of € 100 mn have already been made in the plant, in addition to the € 120 mn invested in the last few years in research and development leading up to the patenting of the new technology. The next step will involve "licenses for the construction of a number of other plants in Italy and licensing proposals for organizations that want to build PET production plants using our technology and chemical and oil companies that are interested in producing biofuels or any other ethanol products. We expect to make tens of millions of dollars from the sale of each license," said Guido Ghisolfi, the brother of Marco and head of production and R&D. Examples of existing deals of this kind are the exclusive agreement with Genomatica for the production of butanediol and the recent one with the US firm Codexis to start making sustainable detergent alcohols together, using PROESA technology.

problems. Indeed, it is now impossible to contemplate starting up a renewable energy business without putting down at least 20-30% of the value of the plant up front. The banks will then provide the rest, through loans with an average duration of 15 to 18 years. However, the interest rates are a real issue. They tend to be variable, with spreads above the Euribor that top 350 bp and often reach 400 bp. Further outlay is then required to turn a variable into a fixed rate of interest, which is generally a good idea in order to prevent surprises during the project's lifetime, but can end up costing another 200-300 bp. In the case of corporate financing, the normal business loan rules apply. At present, with Italian banks this means that medium companies will be offered spreads of 400-500 bp above the Euribor for 5 to 7-year loans. The debt-to-equity ratio was already up to the current 80-20 from the bolder 90-10 in 2008.

The drastically altered conditions began to change during the summer. As recently as February 2011, the CPL Concordia multi-utility cooperative group – which has a consolidated turnover of € 380 mn and specializes in the construction, management and maintenance of power plants and the distribution of gas, water and electricity – received a € 51.5 mn loan to create 30 MW photovoltaic plants and biogas cogeneration systems. The rate was just 175 basis points above the 3-month Euribor. The deal was organized by La Compagnia Finanziaria and saw the participation of Banca Popolare di Verona-San Geminiano (lead bank) and 12 other credit providers, including Carige, BPM, Cassa di Risparmio di Cento, Cassa di Risparmio di Ravenna and Centrobanca.