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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the TerraForm Power 2017 Fourth Quarter and Full Year Results Webcast and Conference Call for Investors and Analysts. (Operator Instructions) And as a reminder, this conference is being recorded.

Now, I will like to welcome and turn the call to the Director of Investor Relations, Mr. Chad Reed.

Chad Reed - *TerraForm Power, Inc. - Director, Investor Relations*

Thank you, operator. Good morning, everyone, and thank you for joining us for our 2017 fourth quarter and full year conference call.

I'm joined today by John Stinebaugh, our Chief Executive Officer; and by Matt Berger, our Chief Financial Officer. Before we begin, I'd like to remind you that a copy of our press release, investor supplement and letter to shareholders can be found on our website.

I also want to remind you that we may make forward-looking statements on this call. These statements are subject to known and unknown risks, and our future results may differ materially.

For more information, you're encouraged to review our regulatory filings available on EDGAR and on our website.

With that, I'll now turn the call over to John.

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

Thanks, Chad. Since we closed the transaction with Brookfield in October, we have begun transforming TerraForm Power into a fully integrated renewable power company.

Our strategy is underpinned by 3 principles. First, we invest on a value basis to grow our business. Leveraging Brookfield's global business development footprint, we shipped capital within our target markets of North America and Western Europe to opportunities that offer the best risk-adjusted returns, and we originate multifaceted transactions like Saeta that do not lend themselves to competitive auction processes. Second, we are building a best-in-class operating platform in order to reduce operating costs, enhance efficiency and deploy capital within our portfolio wherever we can earn premium returns. Finally, we will maintain a strong balance sheet.

We seek to execute this strategy to deliver an annual total return of approximately 12% to our shareholders, comprised of a dividend yield, backed by a payout ratio of 80% to 85% of CAFD, and a sustainable growth rate of 5% to 8% per year.

Over the past 5 months, we've made significant progress in executing this strategy. In February, we announced the highly accretive tender offer to acquire Saeta Yield, which owns a portfolio of high-quality wind and solar projects located primarily in Spain.

To provide certainty regarding the financing plan for this acquisition, we executed an equity backstop agreement with Brookfield at a price of $10.66 per share, ensuring that we will be able to issue up to $400 million of equity at or above that minimum price.

In the fourth quarter, we executed multiple corporate debt refinancings with an aggregate total of $1.6 billion to extend debt maturities and lock in significant interest expense savings.

In light of this progress, we declared a Q1 2018 dividend of $0.19 per share, implying 76% share (sic) [$0.76 per share] on an annual basis, which represents a 6% increase over our previously announced target dividend of $0.72 per share.

Now I'll spend a few minutes and talk specifically about the Saeta acquisition. Last month, we announced that we intend to launch a voluntary tender offer to acquire all of the outstanding shares of Saeta and that shareholders representing over 50% of Saeta's outstanding shares have executed agreements to irrevocably support the offer.

We're very excited about the transaction, as it will increase our ownership of high-quality renewable power assets by approximately 40% and establish a scale position in Western Europe.

I would also like to quickly highlight some of the key metrics of the combined portfolio. On a megawatt basis, our combined fleet will be 3.6 gigawatts, of which 67% will be wind and 33% will be solar. 96% of our cash flows will be under long-term contracts with the remaining life of approximately 14 years on a weighted-average basis, and the combined fleet will remain young with an average age of only 5 years.

This acquisition was driven by 3 primary strategic considerations. First, it is both value and CAFD-per-share accretive, which we believe is particularly attractive, given that 100% of Saeta's revenues are generated under stable frameworks with investment-grade counterparties. In addition, we anticipate that the return on equity of the Saeta investment will exceed TerraForm Power's target return. Second, the acquisition furthers our long-term plan to establish an investment-grade balance sheet by deleveraging our corporate debt to cash flow towards our 4 to 5x goal. Our consolidated portfolio will feature additional resource and geographic diversity with renewable power assets in 6 countries and many more sub-regions. As a result of the anticipated transaction benefits, Moody's has upgraded TerraForm Power's outlook from stable to positive. Finally, we will have the opportunity to implement a number of value-enhancing initiatives that should improve the overall cost profile of Saeta, along with optimizing its capital structure.

Our tender offer for all of the outstanding shares of Saeta is expected to be completed in the second quarter of 2018, subject to certain closing conditions, including obtaining regulatory approvals. We believe that the origination of a large-scale acquisition on a negotiated basis, that is highly accretive to our shareholders, is a concrete demonstration of the benefits of Brookfield's sponsorship. With its 51% ownership interest, Brookfield is fully aligned with TerraForm Power's shareholders in executing our strategy and enhancing shareholder value.

Moving on to operational updates. We completed the transition to a stand-alone operation with no remaining reliance on SunEdison in the fourth quarter. As our new organizational structure is flatter and eliminates duplicative functions, we are confident that we will be able to meet our phase 1 cost savings goal of $10 million net of the base management fee to Brookfield by mid-2018. This excludes nonrecurring expenses that we will incur in 2018, including transition costs and costs to implement systems that will improve efficiency and financial controls.

In addition, we've made progress on our phase 2 cost-cutting goal of reducing operations and maintenance costs by $15 million across our wind and solar fleet.

In December, we launched a request for proposal for full-wrap, long-term service agreements for a significant portion of our wind fleet. While we are currently in discussions with a number of major original equipment manufacturers to clarify the pricing, scope and tenure of their bids, we are encouraged by the proposals that we've seen thus far. We expect to make a decision in the coming weeks. Should we decide to outsource, we will retain key areas of expertise in-house to maintain a fully integrated best-in-class operating platform.

Finally, we are continuing to pursue repowering opportunities within our wind fleet. We've been actively reaching out to corporate and other offtakers for long-term contracts. In addition, we are engaging with developers and OEMs that have access to wind turbines, whose tax incentive attributes have been safe harbored at the 2017 level.

With that, I'd like to turn the call over to our CFO, Matt Berger.

Matthew E. Berger - *TerraForm Power, Inc. - CFO*

Thanks, John. Today I'll be covering our financial results for the fourth quarter and full year of 2017 as well as providing an update on our recent successful efforts to strengthen TerraForm's balance sheet.

For the full year 2017, TerraForm Power's results were in line with expectations as per previous management's guidance. Specifically, our portfolio generated adjusted EBITDA and CAFD of $443 million and $88 million, respectively. This represents a decrease of $36 million and $64 million respectively compared to the same period last year.

The decrease in EBITDA was largely attributable to the absence of SunEdison support in 2017, which materially subsidized corporate overhead at levels below stand-alone cost in 2016, in line with weaker resource, which resulted in reduced generation in 2017 relative to 2016.

Wind and solar resource were both approximately 3% below 2016 levels. In 2017, our fleet availability improved from -- to 97% from 95% in the prior year, but we believe there is still room for further improvement as operational enhancements begin to yield results.

In addition to the reduction in EBITDA, CAFD was further reduced in 2017 due to a nonrecourse financing of 4 Canadian solar assets and the timing of noncontrolling interest payments.

During the fourth quarter, our portfolio performed broadly in line with expectations, delivering adjusted EBITDA and CAFD of $99 million and minus $4 million, respectively. This represents a decrease of $11 million of both adjusted EBITDA and CAFD compared to the same period last year.

The decrease was largely attributable to unusually low operating cost during the same period in 2016, which was driven by both expense support from SunEdison and the timing of certain maintenance expenditures. Total generation for the quarter was broadly consistent with the same period last year.

As mentioned in our Q3 supplementary release, we'll be implementing a new definition of CAFD, which will levelize principal, interest and sustaining CapEx, starting in Q1 2018. As a result, we expect less seasonality in our 2018 reported CAFD, particularly in Q4.

Over the past few months, we've made significant progress in strengthening our balance sheet and bolstering our liquidity. In November, we issued a $350 million term loan, which was used to repay an intermediate holdco loan, simplifying our capital structure. The term loan was upsized by $50 million from the initial offering and priced at LIBOR plus 275 basis points.

In December, we closed a $1.2 billion senior note offering comprised of $500 million of 4.25% notes due 2023 and $700 million of 5% notes due in 2028. We deployed the net proceeds from the notes to repay $950 million of senior notes due 2023 and outstanding indebtedness under our revolving credit facility, in addition to covering related breakage costs and financing fees. The blended coupon of the offering was at a 170 basis points discount to that of the retired notes.

Together, these 2 financings locked in significant interest expense savings and extended our debt profile, such that we have no meaningful corporate debt maturities over the next 5 years.

With the increased growth rate of the U.S. economy, the Federal Reserve has signaled its intention to continue hiking short-term rates and the U.S. 10-year treasury rate has increased to nearly 3%. To protect against rising rates, we proactively locked in rates at the project level and issued the aforementioned long-term fixed-rate debt at the corporate level.

As a result, approximately 85% of our existing debt is either fixed-rate or swapped. Consequently, our financing costs are largely locked in, and our operating cash flow has little exposure to rising rates for the foreseeable future.

Our liquidity position remains strong. Prior to funding the Saeta transaction, TerraForm Power has over $1 billion of liquidity under committed facilities, including $500 million under its corporate credit facility, which was upsized recently to $600 million, and an additional $500 million under the sponsor line with Brookfield.

I'll now hand the call back to John for closing comments.

John Marcus Stinebaugh *- TerraForm Power, Inc. - CEO*

Thanks, Matt. I'd like to close by providing a few comments on the outlook for TerraForm Power in light of recently enacted U.S. tax reform along with announced tariffs on imported solar panels, which have raised many questions as to their impact on the prospects of the renewable power industry.

In summary, we do not anticipate that either of these policy changes will have a material impact on TerraForm Power.

With regard to our existing fleet, the positive impact from a significant reduction in the statutory corporate tax rate roughly offsets the negative impacts from provisions that limit interest expense deductibility and net operating loss utilization on a net present-value basis.

With respect to growth, we anticipate that the lower statutory tax rate will result in a reduction in the quantum of tax equity in capital structures, which should increase the weighted average cost of capital for renewable power projects over the next few years while tax incentives remains intact.

As a result of the recently announced tariffs on imported solar modules, we anticipate an approximate $0.10 per watt increase to module pricing in 2018, declining over a 4-year period as the tariff level steps down.

All else being equal, this implies a $3 per megawatt-hour increase in PPA pricing. However, we expect that PPA prices will rise by less than the increase in module prices as developers continue to find ways to cut costs. With strong support for renewable power at the state level and from corporate customers, we do not believe that these factors will materially reduce the long-term growth prospects of the industry. However, they may result in a modest increase in pricing under PPAs in the U.S. market, a development that could benefit our recontracting prospects.

Furthermore, with the Saeta transaction, we are well positioned to invest capital in markets outside of the United States. With aggressive renewable power targets and a supportive policy environment, Western Europe remains an attractive market, completely independent of U.S. policy and capital market dynamics.

With Brookfield as our sponsor and with scale in both North America and Western Europe following the Saeta acquisition, we remain confident in our ability to originate accretive acquisitions, and we will remain opportunistic, shifting our capital to the markets where we're able to achieve the highest risk-adjusted returns.

This concludes our formal remarks. Thank you for joining us this morning. We'd be pleased to take questions at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Colin Rusch with Oppenheimer.

Colin William Rusch - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Could you talk a little bit about the strategic value of the real estate at the project level from the Saeta acquisition?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

Saeta's projects are primarily located in Spain. 80% of EBITDA comes from the wind and solar projects that are in Spain under the regulatory framework, and then there is a project in Portugal, and there is 1 in Uruguay. In terms of real estate value, we haven't had a chance to really dive in and evaluate repowering opportunities for a couple of reasons. First of all, the portfolio has got 15 years of remaining life, so there is still significant cash flow under the regulatory structure that is going to be generated by these projects, so we don't envision any repowering would be done in the near term. But generally speaking, we think that renewable power projects, they're very land-intensive and earlier-generation renewable power projects tend to identify and a lock up more attractive sites than later-generation projects. So in that respect, we do think that there is land value typically in acquiring operating projects that have been able to lock up attractive sites.

Colin William Rusch - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Perfect. And then, as we think about the European opportunity and your ability to grow this platform, can you talk a little bit about the size and the scope of the pipeline of opportunities that you guys are seeing? Kind of -- and some basic economics around project-level returns, where things are trading, and what your borrowing costs might look like for those European projects?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

In terms of European projects, the Saeta transaction is one that we've been working on for a number of months prior to announcement. We think the risk-adjusted returns, particularly on the U.S. dollar standpoint, are particularly attractive. We think that factoring in our assumptions regarding the regulatory reset, that we'll be able to earn returns that are above TerraForm's target return. As we have announced that transaction, we've received a lot of reverse inquiries from other participants in the Spanish market, in Iberia generally. So we do think there is a number of additional opportunities. We are open to looking at some additional amount. We are mindful, though, that we don't want too much exposure to the regulatory reset risk, but if we can do some incremental transactions that are opportunistic, that would be accretive to the returns that we think that we'll earn on Saeta, we would consider that.

Operator

And our next question comes from the line of Tyler Frank with Robert W. Baird.

Tyler Charles Frank - *Robert W. Baird & Co. Incorporated, Research Division - Associate*

Can you discuss how your near-term pipeline looks? And how we should think about your willingness to make additional acquisitions over the next 6 to 12 months? And how we should think about that over longer term as well? Does taking down Saeta, does that take some time to incorporate and integrate into the business? Or are you open and ready to make further acquisitions, if you find the right opportunity immediately?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

Sure. In terms of Saeta, we think the integration's going to be pretty straightforward because TerraForm, at this point, doesn't have a European operating platform. So Saeta will form our European operating platform. There is some redundancy in terms of costs associated with a public company and other costs that we'll be able to eliminate, but by and large, we're going to keep that platform intact. With respect to opportunities generally, what we're looking to do is, we're looking to invest in acquisitions that will meet or exceed our target returns and thus be accretive to the business. So we do have a pipeline of, what I would call, more add-on acquisitions that we are looking at. We have developed relationships. Both Brookfield as well as TerraForm has relationships with a number of developers in the marketplace, and we are looking at some smaller-scale add-on acquisitions. We may well, if we can negotiate deals where the economics pencil out, execute some of those. In terms of larger-scale transactions, I would say that we will be opportunistic, and similar to the Saeta transaction, we'll look and make sure that a larger-scale transaction is going to be accretive to our business plan.

Tyler Charles Frank - *Robert W. Baird & Co. Incorporated, Research Division - Associate*

Thank you. And then, I know with the Saeta acquisition, you had provided a pro forma adjusted CAFD. How should we think about things going forward in 2018, just on the CAFD and adjusted EBITDA basis?

Matthew E. Berger - *TerraForm Power, Inc. - CFO*

Yes, so I guess -- this is Matt. I'll -- in terms of -- I'll speak first on -- in terms of TERP stand-alone, we provided our initial guidance around the $0.72 a share, and sort of what that implies relative to our -- the -- our target payout ratio still broadly holds. I think subsequent to that guidance, we've done the senior note refi that I mentioned. That will be offset to some extent by additional project-level debt that we're accelerating in order to help fund the Saeta acquisition, so there'll be a netting effect there. But broadly speaking on a TERP stand-alone basis, that's -- I think that's accurate. Beyond that, in terms of how Saeta will impact the year for 2018 on our reported results, it will depend on a number of factors, including the timing of the transaction as well as the amount of the acquisition that we acquire. But in terms of what we presented or have provided regarding the impact of the acquisition, at least in terms of a hypothetical, kind of, year 1 based on their pro forma and our pro forma 2017 jumping off point, we do see strong accretion from CAFD -- for CAFD per share and -- in the near term, somewhat moderated in the intermediate term by the Spanish rate reset, and so that's what's driven our -- the increase in our guided -- in our projected dividend for 2018 to $0.76 a share.

Operator

And our next question is from the line of Brian Lee with Goldman Sachs.

Brian Lee - *Goldman Sachs Group Inc., Research Division - VP and Senior Clean Energy Analyst*

And I apologize if you already addressed this. I know you just alluded to it, Matt, right now, around the Spanish reset, but can you provide a bit more color around what your exposure is there? And are there contingencies on the Saeta transaction that would offset the impact for you guys? And then, maybe secondarily, if we're thinking about quantifying the impact, I think you'd outlined CFOA of $65 million from the portfolio. What could that ultimately look like with this return reset, assuming that goes forward?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

Okay, it's John. When we were diligence-ing Saeta, we spent a lot of time focusing on the regulatory risk. That it is the biggest risk to the business. And maybe I'll answer the question both qualitatively as well as give you sense in terms of how we analyzed it. But from a qualitative perspective, we think that the regime that is supporting renewable power in Spain is very solid right now. They -- with the reforms they put in place, they have increased the revenue to fund renewable power, and now the system is in surplus. And in fact, it's in surplus after paying back 10% of the debt that accrued per year, and that's at the 7.4% return level. So that being the case, plus combined with the renewable power objectives of Spain, including the 4000 megawatts of recent RFPs that they have awarded, we don't think that there is any incentive for the regulator to be punitive. However, when we did look at it, we did model in a decrease from the 7.4% level. We looked basically at a number of scenarios. On a downside basis, we looked basically at the treasury plus the 300 basis points guideline, which implies a rate of return of around 5%. For a base-case standpoint, we looked at a modest premium to that because the 300 basis points is just a guideline and the law says that renewable power developers should earn a reasonable rate of return. So that's sort of how we've looked at it. And maybe the way to think about it is every 100 basis point reduction in the regulated rate implies about a EUR 10 million reduction in revenues.

Brian Lee - *Goldman Sachs Group Inc., Research Division - VP and Senior Clean Energy Analyst*

Okay, that's great. And could you also -- I know because this is just -- this is sort of hot off the presses. Could you remind us as to what the, sort of, sequence of events and timing are around when you'd get further clarity around what that return threshold level will be [at for you]? And how that dovetails with the Q2 targeted growth of the deal?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

Okay. So in terms of timing, the rate reset will be determined in 2019, effective 2020. So that is after the transaction will close. With respect to the closing of the transaction, we've recently filed our tender offer document with the Spanish regulator. It'll take roughly 4 to 8 weeks to get approval of that, at which point, we'll launch the tender offer. And we're anticipating closing on the transaction sometime in the May to June time frame.

Brian Lee - *Goldman Sachs Group Inc., Research Division - VP and Senior Clean Energy Analyst*

Okay, great. That's very helpful. Maybe one last one for me, and I'll pass it on. I know in 2017, we had some inconsistent wind conditions, and it sounds like Q4 turned out to be actually pretty okay for you guys. The conditions through maybe the first few months of this year, could you comment on what you're seeing maybe both on the wind and solar side? I'd assume solar is a bit more stable, but wind, I feel like there's been a little bit more inconsistency again to start of the year. So if you had any comments that you could share, that'd be helpful.

Matthew E. Berger - *TerraForm Power, Inc. - CFO*

Yes, I think that's broadly accurate. I think we're -- it's still anecdotal for us at this point. But I don't think we've seen levels -- I don't think we're seeing the levels that we saw in Q3 of 2017, for example, but there is still some -- there is some inconsistency in those numbers, I think. On solar as well, certainly the first quarter is a low quarter for us, given where our solar assets tend to be concentrated, and there has been some snow cover and whatnot in the Northeast, particularly in the first quarter, but it's a low quarter -- traditionally, a low quarter for solar for us anyway. So still early days on that front, so not much more I could say at this point.

Brian Lee - *Goldman Sachs Group Inc., Research Division - VP and Senior Clean Energy Analyst*

Anything on wind in particular, just Q1, maybe the first 2 months of the year relative to how you saw it trend in Q4?

Matthew E. Berger - *TerraForm Power, Inc. - CFO*

I really -- I couldn't add much more than I've already said.

Operator

(Operator Instructions) And our next question is from Rachel Lei with Deutsche Bank.

Qingli Lei - *Deutsche Bank AG, Research Division - Research Associate*

Can you talk a little bit more about the timing of the phase 2 cost savings? The $15 million, are you still expecting that in the next 2 to 3 years?

Matthew E. Berger - *TerraForm Power, Inc. - CFO*

Absolutely, yes. So we're in late stages of our conversations with regard to potentially outsourcing our -- the majority of our wind O&M, referring to the phase 2 cost savings. We would expect to make a decision in the relatively near future. The impact of those is going to really take effect at the beginning of 2019. There's some transition costs and a ramp-up period for the providers, if we were to go the outsource route, that they would need to make some investments, which we would need to fund. So the savings themselves, we feel confident that we're going to be able to deliver those, but really, we won't see the impact of those until 2019, predominantly.

Qingli Lei - *Deutsche Bank AG, Research Division - Research Associate*

So are we going to be able to see the full $15 million in the 2019 time frame? Or is it going to be slowly trickling down into the next 2020 timeframe?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

Rachel, it's John. As Matt was saying, if we do go the outsource route, there is a transition period. We will have to invest money to get the assets to condition to turn them over to the outsource provider. What I would say is that the balance of '18, after we end up signing the contract, will be that transition period, we may realize some savings. But I think by the time we get to 2019, if we do go that route, we should realize most of the target savings that we've identified as the phase 2 savings.

Qingli Lei - *Deutsche Bank AG, Research Division - Research Associate*

Great. So the next one is about the repowering opportunities. Can you maybe give us an update or more color around that?

John Marcus Stinebaugh - *TerraForm Power, Inc. - CEO*

In terms of the repowering, as we've mentioned on the previous call, we have done preliminary engineering work. We're very confident there is repowering value in the 2 projects in New York that we have -- think that are at the front end of our repowering pipeline. As I mentioned in the last call, the real gating item now is to sign a long-term contract in order to support the capital investments that we would make. So we are in the market talking to various counterparties, whether it be participating in RFPs, talking to corporate counterparties in order to try to line up a long-term contract. At this stage, we don't really have visibility on executing a long-term contract to support the capital investment. We also have been having discussions with other developers and OEMs in order to potentially partner with them to gain access to safe harbor turbines. So at this point, that's really the update on the repowering.

Operator

And ladies and gentlemen, this concludes our Q&A session and program for today. Thank you for your participation. You may all disconnect. Have a wonderful day.

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