

# **Altus Power, Inc. (AMPS) Q1 2024 Earnings Call Transcript**

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**Body**

Altus Power, Inc. (AMPS)

Q1 2024 Results Conference Call

May 9, 2024 04:30 AM ET

Company Participants

Chris Shelton - Head of Investor Relations

Gregg Felton - Chief Executive Officer

Dustin Weber - Chief Financial Officer

Alison Sternberg - Head of Investor Relations

Conference Call Participants

Andrew Percoco - Morgan Stanley

Justin Clare - ROTH MKM

Chris Souther - B. Riley

Tate Sullivan - Maxim Group

Presentation

Operator

Good afternoon, and welcome to the Altus Power First Quarter 2024 Conference Call. As a reminder, today's call is being recorded. [Operator Instructions].

At this time, for opening remarks and introductions, I would like to turn the call over to Chris Shelton, Head of Investor Relations.

Chris Shelton

Good afternoon, and welcome to our first quarter 2024 earnings call. Speaking on today's call are Gregg Felton, Chief Executive Officer; Dustin Weber, Chief Financial Officer; and our incoming Head of IR, Alison Sternberg. This afternoon, we issued a press release and a presentation related to matters to be discussed on this call. You can access both the press release and the presentation on our website, www.altus.com in the Investors section. This information is also available on the SEC's website. As a reminder, our comments on this call may contain forward-looking statements.

These forward-looking statements refer to future events, including Altus Power's future operations and financial performance. When used on this call, the words expect, anticipate, believe, will, plan, forecast, estimate, outlook and similar expressions as they relate to Altus Power identify forward-looking statements. These statements are subject to various risks and uncertainties, which could cause actual results to differ materially from those predicted in the forward-looking statements.

Altus Power assumes no obligation to update these statements in the future or circumstances change, except as required by law. For more information, we encourage you to review the risks, uncertainties and other factors discussed in our SEC filings that could impact these forward-looking statements, specifically our 10-K filed on the SEC on March 14, 2024. During this call, we will also refer to adjusted EBITDA and adjusted EBITDA margin, an ARR or annual recurring revenue, which are non-GAAP financial measures. ARR is an estimate that management uses to determine the expected annual revenue potential of our operating asset base at given points in time. ARR assumes customary weather, production, expenses and other economic market conditions as well as seasonality.

Our management team uses all of these non-GAAP financial measures to plan, monitor and evaluate our financial performance, and we believe this information may be useful to our investors. These non-GAAP financial measures exclude certain items that should not be considered as a substitute for comparable GAAP financial measures. Altus Power's methods of computing these non-GAAP financial measures may differ from similar non-GAAP financial measures used by other companies. More detailed information about these measures and reconciliation from GAAP to these non-GAAP financial measures is contained in both the press release and the presentation that we issued today.

And with that, I'm pleased to turn the call over to Gregg Felton, Chief Executive Officer of Altus Power.

Gregg Felton

Thanks, Chris, and welcome to all of our investors and analysts joining our call today. Before I begin, I want to acknowledge my appreciation to the Board for entrusting me to lead this company. I am honored and energized, and I remain highly committed to engaging with all of our stakeholders, including our customers, our investors and the communities within which we operate. I believe Altus Power is uniquely positioned to extend our leadership position and continue to gain market share within the commercial scale solar market. And I'm excited to get to work under my broader remit as CEO.

We will operate by several core principles to drive our business forward. First, continuing to prudently execute on our growth plan with an emphasis on building long-term shareholder value; second, building long-term customer relationships where the Altus Power brand is understood to represent integrity and reliability. Third, continuing to strive to acquire assets, which strategically expand our market position and provide financial returns consistent with the rest of our portfolio and fourth, communicating clearly and transparently with our investors.

Please now turn to Slide 3 as I share the exciting trends around the demand for electricity that we expect to propel Altus Power's business. We designed Altus' business model to engage with customers over the long term, positioning us to meet their ever-growing power needs through our on-site solar arrays. At the same time, our broad use of variable rate contracts with these customers allows us to generate higher revenues as retail prices rise.

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We're now entering a seminal moment as U.S. electricity grids are planning for an acceleration of demand not seen in decades. Artificial intelligence, electric vehicles, cryptocurrency mining, hydrogen and the domestic manufacturing renaissance have become daily headline news. Each of these secular growth markets consumes copious amounts of electricity. So we believe the historically modest rate of electricity demand growth is about to increase dramatically. Countless publications are now asking the critical question of how can we possibly meet all of this anticipated demand?

There is likely to be enormous investment required to meet the rising demand and these costs ultimately will be borne by consumers in the form of higher retail power prices. Altus Power owns the largest portfolio of commercial scale solar generation in the U.S., selling power to our customers each month. Over half of our assets have variable price contracts, providing our investors with positive exposure to rising utility rates.

We believe the long-term earnings power of our in-place portfolio is substantial, particularly in the context of the movement underway to electrify our economy. Greater than anticipated increases in retail power prices would represent upside without associated additional investment. Beyond the financial benefit to our current portfolio, higher retail rates are also likely to accelerate demand for commercial scale solar projects. We have the team in place and partnerships with CBRE and Blackstone focused on adding further to our portfolio at attractive returns relative to our cost of capital. We look forward to exploring all of these topics with you further next week at our first Investor Day.

I'd now like to share some headlines on our first quarter performance on Slide 4. During Q1, we generated 210 million kilowatt hours of clean electricity from our portfolio, predominantly from the 896 megawatts in place when we entered the year. This power was sold to our customers at long-term contracted rates that resulted in $40.7 million of revenue and $19.7 million of adjusted EBITDA, representing strong year-over-year growth.

First quarter results were in line with our expectations, and we remain confident in our annual guidance for revenue and adjusted EBITDA in 2024. Dustin will detail our results further during his section. You can see our portfolio as of March 31 on Slide 5. Our portfolio remains the largest in our segment and is now approaching 1 gigawatt in size. In January, we closed our acquisition of 84 megawatts from Vitol, including another 50 megawatts in New York and additional assets to grow our portfolio in New Jersey and Maine.

We expect this portfolio of recently built assets to add approximately $13 million to our annual recurring revenue or ARR and generate 95 million kilowatt hours during a year with average sunlight. These amounts are additive to the estimated $183 million of ARR and 1.06 billion kilowatt hours expected to be produced by our year-ending operating portfolio. We're sharing these statistics to help you gauge the growth of our annualized recurring revenue generation, irrespective of when projects are added during the year.

We also now serve more than 24,000 community solar customers, an increase of 4,000 residential customers during the first quarter, who are now subscribed to our solar facilities and receive the benefits of discounts on their local utility bills. We expect community solar programs to drive overall solar power adoption, and we are working closely with CBRE as well as other corporate partners to engage their employees and stakeholders.

Please turn to Slide 6 for an update on our pipeline. On development, we continue to make progress on our stream of new build opportunities sourced together with our channel partners and real estate owners. That said, the pace at which these projects are advancing is much slower than we were anticipating a year ago. Drivers for this delay include the measured pace of negotiation and contracting with large enterprises and the delayed implementation of some community solar programs around the country. Within the context of my newly expanded role, I am putting our development process and pipeline under review with a focus on ensuring execution certainty. I am committed to reporting back to you on our progress in the quarters to come.

In the context of 2024, we are reaffirming guidance, but the mix between new builds and operating assets will depend on this evaluation. We would like to reiterate that the returns that we target for both newly built assets and assets already in operation are at similarly attractive levels, and we will expand on the project economics during Investor Day.

In spite of the slower-than-anticipated cadence of our development activities, we continue to see progress with many of the partners in our pipeline. Included in this effort are initial projects in California and Colorado being driven by our new team members from Unico. We currently have a 2-megawatt project that has moved into construction and another 2 megawatts of projects now in preconstruction with a number of other early-stage projects under evaluation.

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We believe the additional origination and development horsepower provided by the former Unico team will play an important role in broadening our footprint in the Western U.S. I'm pleased to update that many of our CBRE led relationships continue to advance as well. For example, CBRE investment management buildings in Maryland posting approximately 14 megawatts of solar generation are also in the construction or preconstruction stage. These new projects are expected to serve approximately 2,000 community solar customers in Maryland upon completion.

Moving to Illinois. We are pursuing development opportunities with both CBRE Investment Management and other severity source relationships in that market. We're currently expecting these projects in Maryland and Illinois to energize in either late 2025 or 2026. And we are working closely with many large real estate owners on additional programmatic opportunities throughout our pipeline.

In addition, Altus' strong reputation as a sophisticated owner that can provide execution certainty and transactional velocity is driving a steady pipeline of assets in operation that have become available. We are seeing larger market participants shift their focus away from commercial scale assets to the larger utility scale segment, and we are seeing smaller developers struggling to procure financing in this macro environment.

We believe we're in the enviable position of having the domain expertise and capital available to continue to execute. The Vitol acquisition is a recent example of how we negotiated directly and swiftly with a new partner to add an accretive pool of assets to our portfolio. This transaction was a great way to kick off 2024, and we are looking forward to growing our relationship with Vitol and other partners who are bringing compelling opportunities to our pipeline.

With that, let me now hand the call over to our CFO, Dustin Weber, for additional financial highlights.

Dustin Weber

Thanks, Gregg, and thanks again to everyone joining the call. Please turn to Slide 7 as I cover our first quarter financial results. During the first quarter, our revenues grew to $40.7 million compared to $29.4 million in the first quarter of 2023, an increase of 38%, driven by the growth of our portfolio and increased sales of clean electricity to our customers. GAAP net income for the quarter was $4.1 million compared to net income of $3.8 million during the first quarter of 2023. Moving to adjusted EBITDA. We reported $19.7 million compared to $16 million in first quarter of 2023, amounting to growth of 23%. This increase was driven by the growth of our portfolio, partially offset by increased levels of operating and general and administrative expenses as expected.

To quickly touch on a couple of operational notes, the weather impact across our portfolio during the quarter was in line with previous years in our projections for the year. In addition, we quickly integrated our recently acquired assets from Vitol into our portfolio, adding further depth to our position in New York. New York continues to represent our largest market with 205 megawatts of operating assets, allowing us to leverage the scale of our team in the Empire State.

Overall, we believe our first quarter results provide a strong start to the year. And on Slide 8, and as Gregg noted earlier, we are reiterating our 2024 guidance range of revenue of $200 million to $222 million and for adjusted EBITDA of $115 million to $135 million. In addition, we are updating our estimates for ARR and generation of our in-place portfolio to include asset additions from the first quarter. We have heard positive feedback from investors and analysts on these new metrics, which represent the annual revenue generation capability of our in-place portfolio, regardless of when projects are added during the year.

Next, let's look at our quarterly seasonality over the remainder of the year on Slide 9. As I mentioned, first quarter typically provides the lowest production and revenue contribution for the year. Referencing prior years as a guide, we expect second, third and fourth quarters to have higher revenues and adjusted EBITDA in our first quarter.

Second quarter has historically accounted for between 25% and 29% of revenues, third quarter between 29% and 31% and fourth quarter 22% to 26% of full year revenues. Incorporated in these ranges is both seasonality from generation of our operating portfolio as well as revenue attributed to new assets onboarded throughout the year. Lastly, as we grow our asset base, we expect operating expenses and G&A expenses to move higher sequentially in each quarter as well. The seasonality of our top line means that adjusted EBITDA margins in the second and third quarters should be by far the highest in first and fourth quarters lower to bring our full year margin to 59% to 60% as implied in our annual guidance ranges.

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Turning to our financing plan on Slide 9. We finished first quarter with a cash balance of $204 million. We continue to generate attractive returns on new investments relative to our borrowing costs. And during the quarter, we successfully executed an additional $101 million draw from our Blackstone facility at a fixed rate of 6.45%, providing long-term fixed-rate financing for our acquisition from Vitol. Looking ahead, we continue to expect the remaining asset additions to come online during the second half of the year, which is in line with our cadence from prior years. We remain well positioned to finance our growth with a combination of cash from operations, our committed construction facilities, tax equity partnerships and our long-term financing access. That concludes my review of our financials.

Before closing, I'd like to welcome Alison Sternberg as our new Head of Investor Relations. Alison joins us with years of public company IR experience and is well positioned to effectively communicate the Altus Power story to investors and analysts. I'd also like to recognize Chris Shelton for his efforts in successfully launching Altus' Investor Relations group and his willingness to work with Alison to ensure a smooth transition.

Alison Sternberg

Thank you, Dustin. I am thrilled to join Altus ahead of our inaugural Investor Day as the company continues to execute on its growth plan and the delivery of its differentiated value proposition. I look forward to engaging with the investment community and communicating our exciting story.

I'll now pass the call back to Gregg for some closing remarks.

Gregg Felton

Thanks, Alison. We are looking forward to greeting many of you at our inaugural Investor Day next week, where you'll learn more about our position as a power company and how Altus Power's vision for growth is aligned with the macro trends we touched on earlier in this call. Altus Power boasts a depth of experience, then you'll hear directly from members of our senior management team, on how they are bringing our vision to life.

In addition, representatives from some of our valued partners, including Blackstone and CBRE will share details as to how Altus is an important part of their overall business and sustainability efforts. If you can't make it live, we plan to post our presentation slides before the market open and will follow with a replay of the event on our website in the days following the event.

Before we open up the call to Q&A, I'd like to take a moment to express our gratitude to Lars Norell for his vision and years of dedication in helping to build this company and setting us on a trajectory for sustainable growth. From the beginning, Lars embraced the underdog mentality and that tenacity powered the Altus team as we built the largest commercial scale solar company in the United States. On a personal note, I was incredibly fortunate to have spent the last decade working alongside Lars, and I'm proud to lead this company forward as we pursue our shared vision of delivering clean power to customers nationwide.

With that, we're ready to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Andrew Percoco from Morgan Stanley.

Andrew Percoco

Just to start out here, Gregg, I wanted to go back to your comments about some of these programmatic deals potentially getting pushed out a little bit, taking a little bit longer to get across the finish line. Can you just provide more contexts there in terms of what are some of the key hurdles that you're seeing? I guess I would expect it to be somewhat of an easy sale if you're offering savings to the customer and somewhat stable bill visibility as well for the customer. So can you just provide more context in terms of what's been maybe some of the main pain points as you go to some of those customers?

Gregg Felton

So we're going to get into this in more detail next week during Investor Day, but at a high level, the sales cycle has proven longer than we might have anticipated. And there's a number of different sort of factors at play. The value proposition is there. And we are very much focused on diving more deeply into that question with you and hopefully providing you more texture, which again, we'll be discussing further next Tuesday. What I would say is that we're committed to giving increased clarity on the pipeline and with the priority that we have being on execution.

And as you know, we have a strong track record of execution on both the operating acquisitions and channel partnerships. And during the review that I mentioned, I'll be working closely with CBRE in order to evaluate the client engagement and with a focus, of course, on improving the velocity of our transactions. And we're going to bring the same standard of execution that we've enjoyed in the acquisition opportunities and channel partners to the direct development activity.

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Andrew Percoco

With that in mind, it sounds like some of these operating portfolio acquisitions could be a little bit more of a near-term opportunity. Can you just discuss what you're seeing in that landscape? Is it still a buyer's market? What's the competition and pricing look like?

Gregg Felton

So I would say that the opportunity is robust. There's a couple of things that are worth mentioning in the context of that. There is absolutely consolidation happening in this space. There remains a robust pipeline and arguably a growing pipeline of opportunity. It's something that we've mentioned before that we'll dive into further again on Investor Day is the fact that the returns that are available in that segment of the market are actually quite healthy. And so we do see opportunity there and believe that, that will present opportunity for growth certainly for this coming year.

Operator

Your next question comes from the line of Justin Clare from ROTH MKM.

Justin Clare

First, on the guidance, I was wondering if you could just talk about what's embedded in the guidance at this point from a new build perspective. And then what's maybe required from acquisitions to get to, let's say, the midpoint of the guide? Or given the valuation that you're undergoing here, could we see you end up closer to the low end of the guide? How do we think about this at this point?

Gregg Felton

So I would say that the pipeline review is a factor, of course. However, we just completed a strong Q1, and we do have an operating portfolio that will contribute a significant portion of full year earnings. As you know, we have ARR or annualized recurring revenue of $196 million, which is the $183 million that existed as of year-end on the assets that were in place, plus $13 million of ARR that Dustin outlined from the Vitol acquisition. So we think we're well positioned in terms of our existing operating portfolio as we move through the year.

Justin Clare

And I understand you're just starting at a valuation process. But wondering if you could just comment on what's under construction right now. I think there was 80 megawatts from last quarter. I was wondering what the status of those assets are at this point? Or have you seen any cancellations in your portfolio at this point?

Gregg Felton

So what I would say is that there is a significant amount of client activity and one of the things, and I think you'll be there, Justin, next week. I know we're going to dive into with CBRE as well, the level of client engagement activity. But as I mentioned earlier, there's also an issue as it relates to development timetables. And one of the things that we will be evaluating in the context of our review is this question of improving velocity on our transactions that are development stage. So we'll get into more detail, and we're committed to providing you an update as and when we have an update as a function of that review.

Operator

[Operator Instructions]. Your next question comes from the line of Chris Souther from B. Riley.

Chris Souther

Maybe just on the community solar side, as you continued to add subscribers there, could you frame the 24,000 and like the 4,000 addition that was within kind of the overall availability you have for Q4? I just want to get a sense where we are as far as filling the queue of assets that you have that you can put into these community solar markets that are available today? Is there oversubscription? Is it something you're working through to fill before assets come online? Like where are we as far as that pipeline onboarding queue?

Gregg Felton

Chris, so the community solar opportunity is expanding by virtue of the fact that many states are looking to make available the opportunity to build the commercial sales systems that we build and make that power available to community solar customers. A good example of this is the site that we will be previewing and using as the host for our Investor Day is Morgan Stanley's Westchester campus. And that site is also a recent facility that we've constructed, which is a community solar site.

The anchor for that site, which is the power that, that site produces, the anchor will be Morgan Stanley, but we will also go and procure customers, find customers in the Con Edison Grid zone. So anyone on this call who's a Con Edison customer with a Con Edison utility bill is eligible to save money on their power bill.

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So it's a pretty cool and valuable proposition. It is a pretty compelling opportunity. But the truth is that community solar is not well understood in the market. And so there is a lot of education happening, but there is a deep pool, particularly in dense markets, some parts of the country that may have less densely populated areas could be a little harder to acquire those customers. But we see the value proposition, the ability to opt into a clean energy facility with a discount, which again comes just simply in the form of a discount in utility bill is a pretty compelling sale. So I would say that we feel good about the opportunity to continue to scale that customer base as we build facilities that are aligned to identify those customers.

Chris Souther

And then maybe just I appreciate the slide on the seasonality of the business. Is this an illustrative like attic portfolio? Or have you guys baked in at that you've typically as far as the revenue distribution?

Dustin Weber

Chris, this is Dustin. So yes, we put out the ranges by quarter for revenue. This is meant to reflect a historic range of where things have fallen out in the past. So of course, that incorporates both seasonality from, as you put it, a static pool of assets as well as revenue from new assets that are added, which, of course, in any given year, as we add assets throughout the year, they're going to those that are in earlier are going to contribute more to the full year revenue. And so the ranges that we put out are historical, but I think they can also be thought of as encompassing what we think a full year should look like.

Operator

Your next question comes from the line of Tate Sullivan from Maxim Group.

Tate Sullivan

Tate H. Sullivan Maxim Group LLC, Research Division – MD & Senior Industrials Analyst

You mentioned on the progress update with the pipeline and understand your comments about reviewing it, but you do identify some opportunities with CBRE properties. Are you also working with partner Blackstone on any opportunities with their portfolio of companies? Or is most of the work with them on the access to financing.

Gregg Felton

So we have historically built assets for the Blackstone portfolio, particularly on the industrial rooftops. I'd say that our focus in terms of development activity has been oriented to working closely with CBRE to focus, frankly, on expansion of the customer base across the country and really look for the opportunity to engage in programmatic development. And as I mentioned, we are eager to find an increased pace and velocity of those opportunities, but CBRE has been an active partner, and we'll be working closely with them as we continue to review avenues to increase the pace.

Tate Sullivan

And then following up on the community solar opportunity as part of the pipeline review, do you look at your community solar opportunity set related to your existing portfolio as well? Or will the growth mostly depend on new projects?

Gregg Felton

So we have a good chunk of our existing asset base that serves community solar customers today. And the predominance, again, of those contracts are the variable rate profile, which benefit from rising retail power prices. I think the 24,000 number that we captured and on Slide 5, we also show the 290 megawatts out of our 981 megawatts are serving community solar customers. But it's also a big pipeline opportunity. The prime example that we use are sites where there isn't demand on site.

You can think of an industrial rooftop without the necessary demand inside the building, consistent with what that rooftop could support by way of generation or another example could be building on a landfill that might be capped where it's an excellent use case to build solar on a cap landfill. But obviously, there may not be demand at that landfill. So you're thinking about community solar applications. So we're looking at all of those types of opportunities. And of course, it's a state-by-state analysis.

Operator

And speakers, we don't have any questions on the line now. With that, ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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