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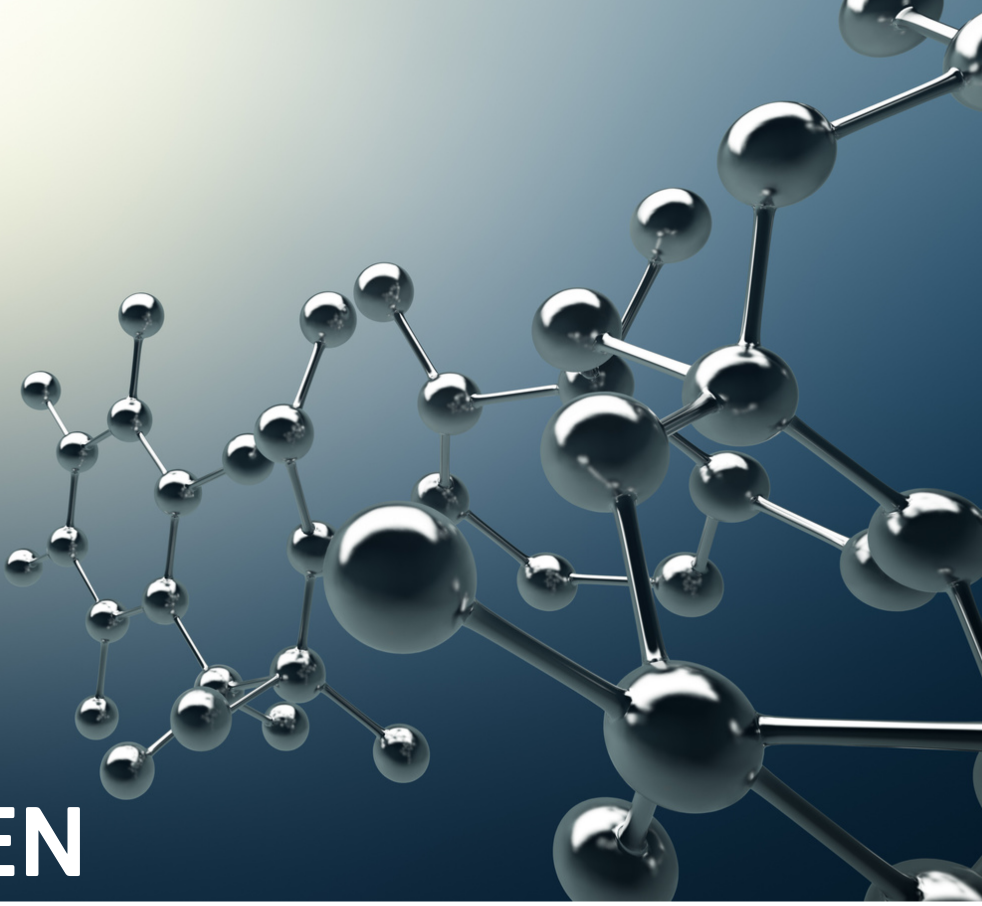


Investment Talk

HYDROGEN NEEDS TARGETED SUBSIDIES AND CLEAR REGULATION TO THRIVE

What's the investment theme you'll be looking at in 2023?

One area of focus has been green hydrogen, as it has the potential to complement renewable energy production to decarbonise the European economy. It is also a new fuel at the crossroads between two investment areas Marguerite is active in: energy and transport.

Therefore, we focus on green hydrogen as the most sustainable way to contribute to the net zero agenda.

Why hydrogen?

There are several use cases for hydrogen and its derivatives that can contribute at scale to accelerate decarbonisation.

It can totally or partially replace natural gas currently used in hard-to-abate industries such as steel, chemical or cement production; store electricity generated by renewables at times of low demand – when precious electricity is lost – and then release hydrogen for different uses.

Industrial applications for hydrogen, including combining with nitrogen to produce green ammonia, allow for fertiliser production.

Another application is the production of fuels, and more specifically, e-fuels, where hydrogen can be mixed with biogenic CO2 to produce e-methanol for ships or e-kerosene for aviation.

Finally, hydrogen could also be used via fuel cells in transportation systems like heavy-duty trucking.

Time will tell which applications will become widespread once the green hydrogen industry has reached maturity, a process which will take time. However, by engaging with the industry early, Marguerite is well placed to identify the best risk-adjusted opportunities.

Which markets do you focus on for hydrogen projects?

First, we focus on markets where it is cheaper to generate electricity via renewables, given that the cost of green hydrogen produced from green power via an electrolyser depends mainly on power price and much less on the investment and running cost of the electrolyser. Countries in southern Europe – like Spain, Portugal, and Italy – with abundant solar resources and potential for offshore wind, and in the Nordics, which has a large base of hydroelectric production and strong wind resources, offer the most potential to be the front runners.

Then we further consider markets where demand for hydrogen at scale is huge, such as Germany and the Netherlands, because their heavy industries are under pressure to decarbonise.

With the publication this week of the Delegated Acts defining more precisely "renewable hydrogen", France with its low carbon intensity power mix and its current drive towards more renewable capacities, could also offer a very interesting potential.

Lastly, there is also merit in considering the development of local ecosystems where production and demand can be aligned, and where industrial uses could be combined with local heavy-duty mobility to ensure sufficient offtake.

What's your advice for project sponsors willing to attract investors such as Marguerite to invest in this field?

We focus on countries where incentive schemes are already in the making to ensure a sufficient return for investors, as those early-stage investments are, by default, riskier. Access to relatively cheap electricity and fresh water – required in the production process – is also crucial.

We also pay a lot of attention to the presence of long-term offtake contracts to ensure that the product corresponds to a demand that is attractive enough for clients to commit over time and to deliver predictable cash flows for investors.

Lastly, we look at the sponsors teams - producing hydrogen and its derivatives requires operational skills to safely deliver an industrial product made of several processes. Whilst the hydrogen industry is not new, the current surge in hydrogen production project developments makes the presence of experienced teams in those projects a critical success factor.

We are keen to support project sponsors in structuring their projects to attract equity as well as debt financing so they can reach scale.

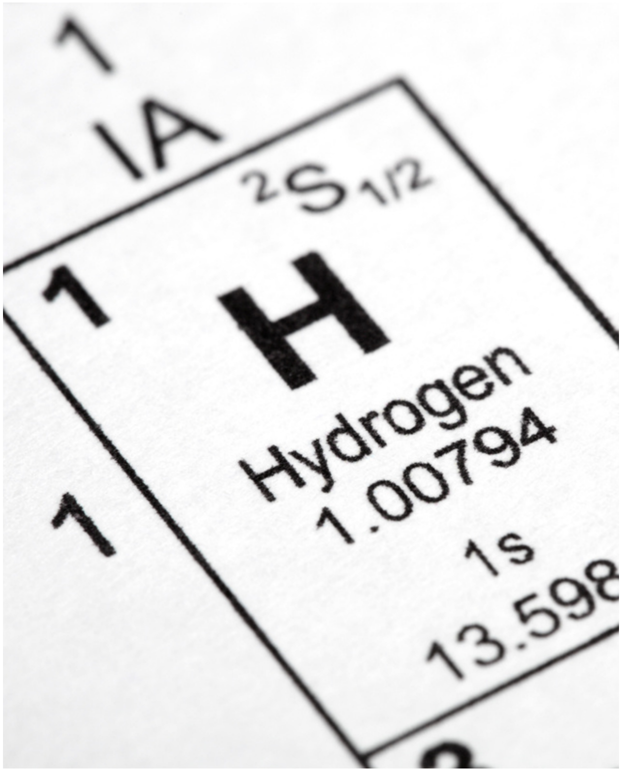
What needs to be done to enable the sector to develop?

Hydrogen investments are capital intensive, and for the time being, there is no real market for green hydrogen and its derivatives that would enable its producers to recover prices that are, by definition, higher than those of alternative solutions until the sector does reach scale.

That's why for now, the industry needs targeted subsidies to foster such a market, focusing on applications with no alternative efficient solutions, like hard-to-abate industries. Once established, the premium generated by green hydrogen will deliver value for investors but – equally importantly –for clients who can pass it through to their customers.

In this environment, we need to acknowledge that different initiatives like Global H2 in Germany, where the government fills the gap between the price to pay for green hydrogen (produced from renewables) and grey hydrogen (made from natural gas), go in the right direction. Likewise European Commission President von der Leyen's announcement of a hydrogen bank during her State of the Union speech last fall follows the same approach.

A clear regulatory framework is also required to provide stability and attract investors, track green hydrogen, and transport it, as production and demand at scale are often not in the same locations.



The issuance this week of the long-awaited Delegated Acts to the RED II directive should hopefully incentivize first movers to invest in Europe and enable this industry to reach scale and competitiveness. However, more signals and at a faster pace need to happen if we don't want investors to focus their effort outside of Europe, as hydrogen is bound to be a global market.

Any other considerations or comments you might have?

Recent experience shows that security of energy supply is vital. Europe should not rely too heavily on hydrogen imports, even if it will deliver cheaper hydrogen in the short term. European workforces have sound engineering skills, capable of harnessing more wind and solar at lower cost as well as manufacturing and transporting hydrogen competitively once the industry has reached scale. There is an initial price to pay to make a new sector emerge, but with the right approach, we could create a resilient, competitive and sustainable European hydrogen industry.

Some stakeholders see green hydrogen as a threat to the decarbonisation of European electricity production. On the contrary, one should not oppose green electrons and green molecules, and we need complementarity and diversification if we want to deliver a resilient European energy system. If those markets are intelligently designed, they can deliver more decarbonisation together, as some industries need hydrogen to reach their net zero agenda.

And that's precisely why Marguerite has a pipeline of hydrogen opportunities across Europe. We are ready to work with the most talented teams and project sponsors.

Guillaume Rivron
Partner at Marguerite

Guillaume Rivron joined Marguerite at inception in 2010. His main area of expertise is energy, where he has 25+ years of wide-ranging international experience across the value chain.

At Marguerite, he has played a leadership role in closing transactions involving renewables production (onshore wind and solar), regulated assets, batteries and biomethane. He is currently focused on four subject matters: hydrogen, energy efficiency, renewables production & storage, and biomethane.

Before joining Marguerite, he led greenfield power project development and investment in Africa with Globeleq. Earlier in his career, he worked for Strategy& (former Booz Allen Hamilton), after which he started working for EDF, where he held different roles in several countries.

About Marguerite

Marguerite is a pan-European investor in long-life greenfield and brownfield expansion infrastructure.

Our funds seek out capital-intensive, sustainable investment opportunities with a particular focus on four sectors: (1) Energy & renewables, (2) Digital transformation, (3) Waste & Water and (4) Transport. Since the launch of our first fund, we've deployed in excess of €1.5 billion into projects designed to address the changing infrastructure landscape in Europe by integrating ESG principles and creating positive change for society.

From our origins in 2010 as an independent infrastructure investment manager backed by the European Investment Bank and the main European National Promotional Banks, we have evolved into a fund manager dedicated to generating value for investors while integrating robust ESG screening as part of our eligibility criteria and continuously measuring the positive impact of our investments.

Our team is based in Luxembourg and Paris.
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