



On good advice

As renewable energy becomes the primary source of power in the future, modern, special and sustainable ships need to be ready to work and integrate in this market. We spoke to Nikol Hearn, M&A and fund advisor at Waterworks, about how the company is acting in its own innovative way to shape the future of the renewable energy industry with modern ship finance, high-quality investment and sound advice.

PES: Welcome to PES Nikol. Could we begin with an introduction to Waterworks, and where it sits within the industry?

Nikol Hearn: Thank you for having me today. Yes sure, Waterworks is an advisory company specialising in the offshore renewable industry. We focus on financing the accompanying maritime and infrastructure as well as providing Mergers & Acquisitions (M&A) expertise in this space. To provide

more context, the offshore renewables industry is centred on fixed and floating offshore wind, accompanying hydrogen generation as well as their upstream and downstream supply chains.

PES: What is your role within the business?

NH: My role is as an M&A and fund advisor. My experience has been on the buy side, having focused on offshore renewables, both the vessels and infrastructure

projects. Basically, I am optimising the connection between appropriate projects, including their financial structure with funding sources, where the capital objective and risk profile are a suitable match.

PES: You have a strong focus on specialised vessels and assets, is that right?

NH: The vessels we look at are specialised in terms of having the ability to provide the appropriate expertise for complicated



financial challenges and implications also grow. Would you agree?

NH: What we are seeing now in terms of uncertainty of precisely which technology and how exactly it will all work together, i.e., categorising the risks, is nothing new for this industry. This is even more so the case in floating wind currently, where the technologies are considered to work from a technical point of view, but none have been tested in full as regards to large scale manufacturing and installation, and their cost on a serial basis is not necessarily fully identified yet. But the good news is that we have seen this before, faced by the fixed-bottom offshore wind industry 15 years ago.

We are witnessing the fruition of many of the earlier stage investments despite the risks having been uncertain and the future unclear. What we are seeing is successful navigation by financiers, having been done on competitive terms, with smart financial engineering backed by projects delivering an excellent track record. The financial challenges of uncertainty of risk in new sectors is not something to worry about in terms of creating significant bottlenecks for the industry.

Smart financial engineering has been one of the driving factors for the substantial drop in the cost of electricity generated by offshore wind farms as the industry has thoroughly investigated the risks. This will be successfully done again as capital is available and ready to prod the risks and appropriate returns with smart financial engineering. The industry therefore benefits from the fact that it is both inherently risky, construction in an un-favourable location, with multiple contractors that are relatively lesser-known names, and perceived to be risky.

PES: How does Waterworks seek to help with this changing financial landscape?

NH: What is very important is understanding and thoroughly investigating the risks of the projects presented to us before we go about sourcing the funding. We need to be cognisant that some projects may not have the appropriate financial structure in place given the risks.

Our job in a sense is to protect the capital and to thus assist with correct risk pricing, which is essential for this industry to navigate this next phase of uncertainty. I think the real risk is if the industry gets complacent about correctly pricing the risk given the successful turn it has had with the bottom fixed projects and accompanying returns. We need to assist with ensuring this does not happen to safeguard the capital and financial system.

PES: How important is it to have the financial infrastructure in place?

NH: Much of the importance of this has been touched on above. But to highlight further, wind is a capital-intensive technology where

offshore wind farm installation and operations in often rough sea conditions. The assets consist of the accompanying infrastructure which this industry relies on. This ranges from the warehouses which store the turbines and equipment, to the port and quay development, as well as the actual wind farms themselves.

A key part of this industry, which gets overlooked, is the green technology behind the assets, which is a riskier investment given the early-stage nature of the projects, but without funding this capital-intensive industry will not be able to adequately evolve. Thus, we also look at the early-stage green technology and how we can assist them through direct funding or via a strategic M&A partner.

PES: With renewable energy building up to be the primary source of power in the future and offshore wind playing a huge part in the ongoing transition, the potential for investment must be significant?

NH: Yes, the need and urgency to develop renewables as the source of power is growing as energy securitisation is being prioritised. Post the Ukraine invasion and the net zero goals we have seen this momentum accelerate. By the end of 2019 offshore wind represented about \$26 billion in annual investments. This has ramped up massively, in the first half of 2022, investment in the offshore wind sector amounted to \$32 billion, 52 per cent more than in the same period in 2021, according to BloombergNEF.

This is only going to continue to present investment opportunities, as the offshore wind installed base is set to grow tenfold from 53GW in 2021 to 504GW in 2035. We are already seeing increased offshore wind targets, The United Kingdom, France and Germany are just a few of the countries which have done so.

PES: As wind turbines get bigger and offshore wind parks larger presumably the

most of the money is spent upfront and running costs are relatively low. Thus, ensuring that the financing and financial infrastructure is in place is vital for the commencement of a project and for the industry to evolve, i.e., the cost of electricity will be driven as much by the cost of capital as it will be by the cost savings generated by economies of scale, and both will only go down if projects happen.

PES: Can you explain a little about your match-making approach between investors and service providers?

NH: Essentially, it is about matching investor appetite to the project type. If it is an early-stage venture fund, then we won't match it with an infrastructure style, single digit, stable return wind farm for example. The early-stage investors in green projects will command 15% IRR at a minimum, which is reasonable given many of these projects are pre-commercial stage and with no proven large-scale roll-out track record.

The most risk averse investors will only come in when a project is built and operational, they also have the lowest return expectations and offer the most attractive 'home' to such capital-intensive

projects. The same goes for the vessel component of the investment process. If the vessel is backed by a contract, has a guaranteed cash flow i.e., revenue, then the more risk averse fund/investor is suitable for this. Whilst the speculative build vessel, with no contract/certain cash flow will demand a somewhat higher return and a more risk loving fund is likely to provide the capital. The key is to assess each project's risk, the financial structure of the opportunity and then to match it with the risk appetite of the fund/investor.

PES: With new maritime investment opportunities presenting themselves all the time, particularly in the growing offshore and renewable energy sector, how does the expertise of Waterworks help identify green energy and capital investments in modern market offshore assets?

NH: I think we have a really good team structure which enables us to fully cover all bases that such an approach would involve. What I mean is that, coming from the buy side, I am aware of what the investors would like, what type of capital they are willing to provide and how they wish to go about doing it. Sven and Valentine are highly specialised with the vessel market and given their



Nikol Hearn

network they are aware of the developments in this space. So, in many ways we cover the full project-funding spectrum very well and I think a lot of exciting opportunities are in store for us as a team.

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