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| Brookfield Renewable Partners (Q4 2020 Results) February 04, 2021 |
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Corporate Speakers:

- Connor Teskey; Brookfield Renewable Partners L.P.; CEO
- Wyatt Hartley; Brookfield Renewable Partners L.P.; CFO

Participants:

- Rob Hope; Scotiabank; Analyst
- Sean Steuart; TD Securities; Analyst
- Mark Jarvi; CIBC World Markets Inc.; Analyst
- Rupert Merer; National Bank Financial, Inc.; Analyst
- Ben Pham; BMO Capital Markets; Analyst
- Andrew Kuske; Credit Suisse Group AG; Analyst
- Pearce Hammond; Piper Sandler Companies; Analyst

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| PRESENTATION |
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Operator

Ladies and gentlemen, thank you for standing by. Welcome to the BEP Fourth Quarter 2020 Results Conference Call and Webcast.

(Operator Instructions)

Please be advised that today's conference may be recorded.

I'd now like to hand the conference over to your host today, Mr. Connor Teskey, Chief Executive Officer.

Please go ahead.

Connor Teskey

Thank you, Operator. Good morning, everyone. Thank you for joining us for our Fourth Quarter 2020 Conference Call.

Before we begin, we would like to remind you that a copy of our news release, investor supplement and letter to unitholders can be found on our website. We would also like 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 are encouraged to review our regulatory filings available on SEDAR, EDGAR and our website.

To kick off today's call, we would like to provide an outlook on our business and an update on our recent growth initiatives. Afterwards, Wyatt will provide an overview of our operating results, balance sheet and funding plan as well as an

ESG update. Following our remarks, we look forward to taking your questions and comments.

2020 was another year of significant growth for Brookfield Renewable. Despite the economic challenges around the world, we delivered record results and continued to broaden our operations as we look forward to a multi-decade opportunity to advance decarbonization and assist with the transition of global electricity grids to a more sustainable future.

Advancing the transition to a lower-carbon future will require substantial capital, in excess of \$100 trillion over the next three decades. It will also require significant operating expertise. Over 70% of the world's carbon emissions can be traced directly or indirectly back to power generation and the energy sector. This will translate into even greater build-out of renewables and in various regions, a substantial conversion of carbon-intensive industries to cleaner and more sustainable methods of production.

Our size, scale across multiple technologies and depth of operating and development expertise continues to be a meaningful differentiator in sourcing growth opportunities. In 2020 alone, we invested nearly \$4.6 billion of equity across various transactions. We will now spend the next few minutes going through a few key highlights for the fourth quarter.

In the United States, we continue to build the largest distributed generation business in the country, with over 2,000 megawatts of operating and development solar. This business helps commercial and industrial customers procure renewable power that is produced directly on site, decarbonizing their own businesses by reducing their consumption from fossil fuel-based generation. In Canada, we invested in a large power producer, looking to reduce its carbon emissions in order to meet federal carbon targets.

Further, we also partnered with a utility to pursue green hydrogen opportunities, leveraging our existing fleet of operating hydro projects. In Europe, we are building new wind farms backed by long-term contracts with both leading global technology companies who are looking to support an increasing carbon-free electricity requirement for their green data centers as well as global energy companies that are looking to transition their businesses. We are also investing in offshore wind development and scale.

Lastly, in Brazil, we started construction on one of the largest greenfield solar projects in the world. This solar park will total 1,200 megawatts once completed and will sell power to commercial customers as well as utilities in the country. In the quarter, we also increased the size of our global development pipeline to approximately 23,000 megawatts. Development remains a core competitive advantage of ours, extending across solar, wind, hydro and distributed generation and storage in every market we operate in.

While we have a tremendous opportunity ahead of us, we remain focused on delivering strong shareholder results. We are pleased that over the last 20 years, we have generated an annualized 20% per share compounded total return, while maintaining a very strong balance sheet and a robust liquidity position.

Equally as important, we continue to be a leader in accelerating decarbonization globally, and our total portfolio of approximately 42,000 megawatts of operating and under development assets, once completed, will help avoid approximately 56 million tons of CO₂ emissions or the equivalent of planting almost one billion trees.

Next, we want to spend a few minutes walking through three recent transactions. First, in December, we agreed to acquire Exelon Generation Company's U.S. distributed generation business, comprising of 360 megawatts of operating generation across nearly 600 sites, with an additional over 700 megawatts of under development projects for \$810 million.

In 2017, we took our first step into distributed generation after having identified a significant opportunity to build a high-quality scale business in a highly fragmented and rapidly growing market.

Since then, through both acquisitions and organic initiatives, we've expanded the business as demand for on-site generation continue to grow, as both cost declines in solar technology and the decarbonization ambitions of commercial and industrial clients accelerated. With this acquisition, we will own one of the leading DG businesses in the United States with deep operating, development and origination capabilities and a 2,000 megawatt portfolio that generates high-quality contracted cash flows that are diversified by geography and customer.

This investment represents the continuation of this strategy and furthers our goal of offering corporates and institutions a one-stop solution for both on and off-site energy generation, storage and procurement and energy efficiency services to help them achieve their decarbonization goals and transition to a more sustainable future.

Secondly, and also in December, we agreed to acquire the Shepherds Flat wind farm, an 845-megawatt fully contracted wind generation facility located in Oregon for \$700 million. The project, which is fully contracted with a high-quality offtaker, is one of the largest onshore wind projects in the United States and includes an attractive repowering opportunity that we expect to deliver by the end of 2022.

This repowering opportunity is one of the largest in the world and is expected to increase total generation by approximately 25%, increasing the clean energy produced by approximately 400 gigawatt hours annually. Having the expertise to

undertake a project of this size showcases our decades of experience in driving operational efficiencies, while generating attractive returns.

The third transaction to highlight was that we also continued to use our differentiated operating and commercial capabilities to acquire ready-to-build development assets in Brazil at premium returns.

In December, we agreed to acquire a 270-megawatt late-stage development wind project, including an option over a further 200-megawatt expansion. Ahead of construction, we intend to leverage our energy marketing capabilities to contract the project, which is located in one of the highest wind regions in the country.

Our relationships with global turbine manufacturers as one of the largest acquirers globally should enable us to outperform on equipment procurement, installation and operating costs. With this latest addition, in the last 18 months, we have acquired a collection of projects that, once constructed, will represent a combined portfolio of over 2,000 megawatts of long term, recently built contracted wind and solar assets more than doubling our renewable energy capacity in the country.

In conclusion, we'd like to finish by summarizing our activities in 2020. We advanced key commercial priorities, including delivering on almost 4 -- sorry, including delivering on almost \$40 million of cost-saving initiatives, securing contracts to deliver 3,500 gigawatt hours of clean energy annually, which has the equivalent carbon avoidance of planting almost 30 million trees, and we also signed a number of strategic contracts with key corporate offtakers. Also in 2020, we completed the merger of TerraForm Power, both increasing and consolidating our activities in North America and Europe.

During the year, we commissioned approximately 460 megawatts of new capacity and progressed almost 4,200 megawatts through construction and advanced stage permitting. And we also broadened our investor base with the creation of BEPC and through the addition to several U.S. and global indices. Given our strong outlook and financial position, we are pleased to announce a 5% increase to our distribution to \$1.22 per unit on an annualized basis.

With that, we will now turn the call over to Wyatt to discuss our operating results and financial position.

Wyatt Hartley

Thank you, Connor. In 2020, we generated FFO of \$807 million, a 6% increase from prior year as the business benefited from recent acquisitions, strong underlying asset availability and execution on organic growth initiatives. On a normalized basis, our per unit results are up 23%.

Turning to our segment results. During the year, our hydroelectric segment delivered FFO of \$662 million. Although we experienced some drier conditions across our fleet, particularly in regions with higher value contracts, overall generation for the year was in line with long-term average and our reservoirs are well positioned for a strong first quarter, which underscores the benefit of our diverse portfolio.

Next, our wind and solar segments continue to generate stable revenues and benefit from the diversification of our fleet and highly contracted cash flows with long duration power purchase agreements.

These segments generated a combined \$376 million of FFO, representing a 51% increase over the prior year as we benefited from contributions from acquisitions and approximately 440 megawatts of solar and wind projects commissioned during the year.

Our energy transition segment generated \$103 million of FFO as our portfolio continues to help commercial and industrial partners achieve their decarbonization goals and provides critical grid stabilizing ancillary services and backup capacity required to address the increasing intermittency of greener electric grids.

For example, our First Hydro storage portfolio in the U.K. achieved 5 of its highest revenue days ever in the last couple of months as we sold essential stabilizing services to the U.K. power grid in response to high demand from cold weather and low wind and solar generation levels.

Across our portfolio, we continue to focus on partnering with a broad range of customers in their decarbonization efforts. During the year, we executed agreements to supply 100% renewable energy to one of the first planned industrial scale green hydrogen production plants in North America with Plug Power and over 90% of JPMorgan's real estate operations in New York state.

In South America, our focus continues to be on extending the average duration of our power purchase agreements, which stand at 8 years in Brazil and 3 years in Colombia. We signed two long-term inflation-linked power purchase agreements for our recently acquired solar development projects in Brazil, substantially contracting these assets.

In recent months, many governments in our target markets have outlined new policies to address climate change. In North America, where the majority of our hydro fleet is located, governments are increasingly considering potential carbon pricing mechanisms for which our business is uniquely positioned to benefit. As examples, the current U.S. administration has reestablished a working group that is expected to increase the social cost of carbon to more than \$50 per ton.

And in Canada, a carbon tax has been set at \$30 per ton for 2020 and is set to increase almost 6x to \$170 by 2030. Carbon taxes or carbon pricing provide long-term support for growing wind and solar capacity, which also increases the value of our hydroelectric power facilities due to their dispatchable nature and the grid stabilizing services they can provide. While we always prioritize contracted generation for our perpetual electric facilities, we always look to ensure we retain upside optionality for when we believe prices will improve.

Across our hydroelectric fleet in North America, we have contracts rolling off for assets that are -- that primarily deliver power to highly liquid markets in the U.S. Northeast. Fortunately, these contracts, on a net basis, deliver power at prices in the range of the current market. Therefore, on renewal, we expect minimal impact to our overall revenue, while retaining meaningful potential upside, should prices see future support from carbon pricing mechanisms.

We also continue to advance our global development activities, including progressing almost 2,800 megawatts of construction, diversified across distributed and utility scale solar, wind, storage and hydro in over 11 different countries. We are also progressing almost 1,400 megawatts of advanced stage projects through final permitting and contracting. In total, we expect these projects to contribute approximately \$110 million in FFO on a run rate basis when completed.

We also continue to maintain a robust financial position. We have approximately \$3.3 billion of total available liquidity, and our investment-grade balance sheet has no material maturities over the next 5 years, and almost 85% of our financings are non-recourse to Brookfield Renewable.

During 2020, we continued to take advantage of the low interest rate environment and executed on almost \$3.5 billion of investment-grade financing, extending our average corporate debt maturity to 14 years and reducing our borrowing costs by \$5 million per year. We continue to advance our green financing strategy to benefit from growing demand for green securities and diversifying our investor base.

Turning to ESG, operating a business with strong ESG principles is simply the right thing to do. And we have always believed that strong ESG practices drive long-term value to our business and create high barriers to entry. Inherent in our position as one of the largest publicly traded renewable energy companies is the understanding that climate change possesses a serious threat to communities, businesses and ecosystems around the world.

We have established ourselves as one of the preeminent renewable franchises and are playing a critical role in addressing climate change and reducing carbon across the world by shifting power generation, which accounts for more than 70% of global carbon emissions to a sustainable pathway for the future.

To demonstrate our commitment, we were proud to announce in our second ESG report, which was published today, our ambition to double our avoided carbon emissions by 2030.

To summarize, with our scale, track record and global capabilities, we are well situated to partner with governments and businesses to help them achieve their goal of greening the global electricity grids.

We believe the prospects for the growth of our business are better than they have ever been, and we look forward to further opportunities to provide capital and solutions to drive decarbonization.

That concludes our formal remarks for today's call. Thank you for joining us this morning. With that, I'll pass it back to our operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Rob Hope with Scotiabank.

Rob Hope

First question is just on repowering. We're seeing a number of projects in the hopper right now for repowering. And when we take a look at Shepherd, it would seem that this could be the driving force of the M&A opportunity there. Can you just talk about how you're viewing repowering? Do they have to be the older turbines with around 10 years left of contract? And could this provide you an advantage when you're looking at, we'll call it, mid-life wind assets in North America.

Connor Teskey

Thanks, Rob. The way we look at repowering is, it's really the halfway house between an operating asset and a development asset. And it's that development component that allows us to differentiate ourselves. And when you look at a project like Shepherds Flat, the scale of the repowering opportunity is something that we feel that very few other operators around the world could take on.

It requires significant operating expertise, it requires a very deep relation with the turbine supplier providing the new technology. And it also requires a strong understanding of that power market because at the same time, you're extending the life of the project you're repowering.

To answer your question specifically, every situation is a little bit different. depending on the wind resource in the region, the technology you're replacing

and what you're replacing it with, along with, as you mentioned, the remaining contracted life of the project that you are repowering, there's always going to be different dynamics.

But the punchline we'd want to leave everyone with is, this is going to be a tremendous growth area in any developed renewables market around the world. And that's really a byproduct of two things: one, technology has come so far in the last 5 to 10 to 15 years that older projects can be built with significant improvements in production; and two, the demand for that -- that increased clean power generation is simply accelerating, whether it be utility offtakes or corporate offtakes.

So we see this as a major growth area and one that we'll look to pursue in all of our major developed markets.

Rob Hope

All right. I appreciate the color there. And then switching over across the ocean. Can you give us an update on kind of the Poland opportunity there and kind of the timing you expect? And we have seen some kind of competing projects announced there as well.

Connor Teskey

Certainly. So Rob, we have a live tender in the market. So it's probably not prudent for us to comment on the tender itself. The tender is due on February 17, and we will have the results of our offer at that point. We spoke about on our last call that we view it as an attractive market that has growth opportunities, but needs investors with very significant scale, access the capital and operating capabilities in order to build out the growth opportunities that are available in that country.

Since we launched our tender, other foreign investors have also seen the opportunity, and we're seeing more activity in that market, but we'll wait till February 17 to comment on our tender.

Operator

Our next question comes Sean Steuart with TD Securities.

Sean Steuart

A couple of questions. Just following up on Shepherds Flat. How should we think about the costs for that repowering opportunity, dollar per megawatt?

And how do you guys think that type of opportunity fits on your total return spectrum when you highlight the range you gave for IRR across M&A or development opportunities?

Connor Teskey

Sure. So with redevelopment, and I'll tie back to the comments from the previous question, it's halfway between an operating asset and a development opportunity. With Shepherds Flat, the fantastic thing about this opportunity is the project itself will never stop producing. It will remain operational the whole time through the redevelopment process -- or sorry, through the repowering process, that will take place over the next 18 months.

And as a result, we do not foresee the need to inject future equity into the project. The repowering will be funded through financing and ongoing cash flow. In terms of the cost of the repowering, we aren't -- there is no need to rebuild the entire wind turbine. What we're doing is we're installing enhanced technologies, largely, near the top of the wind turbine. And therefore, as a rough metric, you can think of the cost of repowering as being somewhere between 1/3 and 1/2 of a new build construction cost.

In terms of returns, pretty down the fairway, partway between our operating targets and our development targets. So we expect this to be a low to mid-teens type return, which we think is a fantastic outcome, given the contracted nature of the project and the core geography of the United States.

Sean Steuart

Wyatt, I have a question for you. In the proportionate breakdown for the quarter, Brazil hydro and solar EBITDA were above revenues for the quarter on a proportionate basis. And I gather some of that's probably the balancing pool in Brazil, but any other context you can give on that discrepancy this quarter?

Wyatt Hartley

Yes. So in each case, we would have received -- we would have recorded other income that would have increased that EBITDA above the revenue. In the case of Brazil hydro, what occurred is we had, in 2015, we had filed a claim, and this was a collective claim that generators across the country had filed where there -- we are challenging the way we were being allocated our generation under the central pooling mechanism in Brazil, and we were successful in obtaining a positive resolution in that case.

And so it resulted in effectively a one-time catch-up of value for lost revenues over prior periods. So that was the impact in Brazil hydro.

And then on the solar side, at X-Elio, just given the nature of that business where there is a lot more capital recycling, building new assets and flipping them at lower returns than what we built and driving accretion that way. We do -- given a core part of that business in terms of how it creates value, is that kind of value arbitrage. We are recognizing the gains from sale of those activities through our other income. And so there were some of those recognized in the quarter.

Operator

Our next question comes from Mark Jarvi with CIBC Capital Markets.

Mark Jarvi

Just wanted to go on to the comments around carbon tax potentially coming in the U.S. And I guess a couple of questions would be, just based on your comments around where you can clear power in the spot market versus where you're on your prior contracts. Are you implying that you'll probably sit a little bit higher uncontracted generation until you see how this plays out?

Connor Teskey

So we obviously focus on maintaining a very strong contracted profile across our fleet of assets. But what we always like to do, especially with our perpetual assets, our hydros, is maintain the optionality in the back end. If we think there is a strong likelihood of higher power prices in the future.

Wyatt was referencing in his comments is, while we do have some shorter-term contracts in that region rolling off, they're rolling off at net revenues that are very in line with current power prices. And therefore, if we were simply to recontract at current market levels, we would see very little impact on our financials. But with increasing potential power price support from carbon mechanisms, whether it be taxes or carbon prices, we will look actively to retain that upside optionality in the future, in particular, with our perpetual assets being our hydros that are located in two of the core markets where carbon taxes are being considered.

Wyatt Hartley

Yes. Mark, the only thing I would add is that, for sure, we're aiming to be contracted. And so I don't think it should be interpreted that we will reduce our percentage of our portfolio that's contracted. But unless we're seeing long-term values on power prices, we'll focus on, say, a 5-year contract versus a 20.

So it doesn't change our perspective on being contracted. It just means that the duration that we're looking for, unless we see real value kind of for that long duration price that appropriately compensates us for that long duration upside.

Mark Jarvi

Okay. That makes sense. And then just 1 more in that area. So New York, the governor Cuomo came out and said that they would be looking at contract with wind and hydro put into service before 2015. I suspect, obviously, some of your assets would qualify for that.

Is that something that you guys will be actively involved in. And again, in the context, would you like that long term contract? Or you rather just kind of continue to be looking sort of 5-year contracts you just spoke about and preserve

that optionality?

Connor Teskey

So Mark, when it comes to developing new assets and pulling new wind and solar projects out of the ground, we do really like to back that new council investment with a long-term contract that will ensure that we'll get both our targeted return -- will get both our return of capital and our targeted return on capital. So whether it be in the United States, California, New York or whether it be what we're seeing in our business in Europe.

We are increasingly pulling new assets out of the ground, either backed by long-term contracts with governments, as you mentioned, like in New York state, or increasingly from technology companies that are trying to service an ever-increasing green energy requirement for their green data centers. And for energy companies that are looking to transition their business.

But to answer your question directly, when we are investing new capital in new projects to pull them out of the ground, we do like to focus on a longer-term contract to ensure we get that return of and targeted return on capital.

Mark Jarvi

I think there was an opportunity to take existing assets and try to contract them just given the ambitious targets in New York State. So is that something that you would be comfortable with, in terms of locking in on a longer-term contract for some of your hydro assets? Or would you rather keep that mentality of a shorter duration contract and preserve a bit more freedom around optionality on carbon pricing?

Connor Teskey

We'll look at it on a case-by-case basis. It's certainly something we would consider, and we will look to manage our contract profile appropriately. But part of the joy of our business is our embedded commercial capability and our power marketing capability, where other operators may see the government's comments in that state and now have a sole way of contracting their power.

We have the optionality to compare that versus a corporate contract with a tech or an energy or an industrial company and do the one that offers us the best value upside. So we wouldn't want to necessarily commit to doing those contracts or not doing those contracts. We'll look at it versus the other commercial power marketing opportunities we have within that region.

Mark Jarvi

Okay. And my last question is just on the distributed generation business. As you're starting to build scale, if you close the Exelon transaction and you've done some other deals. Just wondering, if we look forward a year from now, what would be the target in terms of the development opportunity sort of on an annual

basis and sort of the blue sky scenario, when you think about that business, where does that kind of take over time and sort of the go-to-market strategy in terms of -- is it -- I guess, like the origination strategy in terms of how you expect to kind of grow that business on an organic basis?

Connor Teskey

Sure. So there's a few different things to unpack there. Our strategy hasn't changed. We look to buy for value and then we grow through operations. When we look at distributed generation, our strategy hasn't changed in the 3.5 to 4 years that we've been investing in this space. We view it as having 3 or 4 of some of the strongest market themes supporting this business, which are increased focus on decentralized power, declining solar costs and distributed generation really being one of the best examples of how corporates and industrials are looking to decarbonize their own production processes.

Really, what it is, is we're building on-site clean power generation that they can draw to power their business without needing to pull from a typically thermal supported central grid. This is a platform that we own, that is probably one of the ones that has the most exciting growth prospects. And it has growth prospects both in terms of the products it can offer, but as well as simply delivering more size in its core strategies.

We expect to develop hundreds of megawatts, a year, of new DG business -- or new DG assets across the United States. We equally will look to continue to do acquisition roll-ups. But perhaps the most exciting thing is what distributed generation does is it gives us an interface with a commercial and industrial customer that is looking to decarbonize their business. And while our primary product is that provision of on-site clean power, it gives us the opportunity to sell them storage, to sell them energy efficiencies and a number of other products that can help that business achieve its decarbonization goals.

And as a result, we don't think it's only an increase of existing revenue streams that will drive this business. But an increase in existing revenue streams and continuously adding new revenue streams as corporate and industrials get a little bit more advanced in their thinking of how they're going to hit their 2030 and 2050 targets.

Operator

Our next question comes from Rupert Merer with National Bank Financial.

Rupert Merer

So, a follow-up on the organic growth of wind in the U.S. Can you talk about your tax equity strategy? Do you have an appetite for tax equity or you're looking to work with tax equity partners? And how will you account for tax equity?

Wyatt Hartley

Yes. Look, Rupert, for sure, we have an appetite for tax equity with the tax credits that are available in the U.S. It provides a really effective source of capital that reduces the overall cost of capital in the project and it just optimizes our structure.

Going back to Connor's point earlier about Shepherds Flat, it's one of the great things about Shepherds Flat is we can effectively complete the repowering, which is going to give us 25% to 30% of incremental generation, and we can fund that entirely with investment-grade debt because of the incremental yield you're getting off of it in the incremental revenue or tax equity because of the tax credits that are available.

And so all of that incremental -- we get all that incremental cash flow with no new capital required from us, which is a great thing.

So for us, tax equity, it will be -- where it is applicable it will continue to be a way we think about optimizing the capital structure. In terms of the way it's accounted for it's just like any other liability. It's on our balance sheet. It's factored into our maturity profile. And so it shouldn't be thought of as any different really outside of the nuance of how it earns its return.

Rupert Merer

So would that be showing up in your EBITDA line, if you're selling your tax equity to a partner?

Wyatt Hartley

No, it won't be going through -- so there are certain companies in the space who recognize the EBITDA of the tax credit and then -- the show that as a reduction below EBITDA. We don't show it that way. So we kind of just look through the tax credit and really just factor in the cash impact of the tax equity on our business.

Rupert Merer

All right. Great. And then secondly, a very high-level question here. Last year, you invested \$2.5 billion in growth initiatives. I believe, historically, you've talked about targeting about \$1 billion of investment per year. Can you discuss your goals for investment in 2021? How it might be split between organic growth and M&A? And then also what we might anticipate in capital recycling to support that growth?

Connor Teskey

Sure. To put it very simply, our pipeline is as strong today as we've ever seen it before. We have the benefit of a massively growing renewables industry as more wind and solar is being added in every market around the world. We've got increasing opportunities to be a solutions provider to corporates and industrials and utilities that are looking to decarbonize.

And at every opportunity, we're finding new ways to leverage our competitive advantages, our size, our scale, our operating and technical capabilities across new types of transactions. We mentioned earlier in the call, the growth potential we see in repowering.

Well, that's only going to accelerate, going forward, given that the installed base of wind and solar did nothing but increase over the last 15 years. And therefore, on a lag basis, the repowering opportunities are going to increase over the next 15 years.

Similarly, we're seeing growth in new asset classes that leverage renewable power and decarbonization solutions, whether it be green hydrogen or green data centers. And you can see through some of our contracting activities as well as some of the partnerships we've formed in the last 6 months. These are areas where we expect to be a significant player going forward.

So while we aren't going to commit to a dollar amount here on this call, the growth opportunities we see today are bigger than they've ever been before. And we have the benefit of a very strong balance sheet that allows us to pursue as many of those attractive growth opportunities as we can find.

I think the second part of your question was around organic growth versus M&A. And if you looked at our business, maybe 5 or 7 or 10 years ago, we've always done development, but it was maybe 90% M&A and 10% development.

Over the last 3 to 5 years, we've really enhanced our development capabilities in every one of our target markets around the world. We now have local, fully integrated development capabilities across all major technologies in every one of our target markets. And what this does is, it really just gives us a flexibility in how we pursue growth. We're always going to pursue those M&A targets. But they are large and, by their nature, chunky. But what the organic growth lever that has been consistently growing inside our business allows us to do is just have a constant pipeline of projects where we can invest capital at very attractive returns and pull-through those projects as quickly or as timely as we want to.

And well, 5 to 10 years ago, we may have been 90% M&A and 10% development. I think, going forward, that portion is going to increase, but increase slightly. It might be 80-20 or 85-15 but it is an additional growth lever that gives us added flexibility as we look to grow our business.

The last comment I think you touched on, and apologies if I've missed anything, was capital recycling. And capital recycling is very core to our business and something that we have been doing for a number of years now, we were very active in 2020, and we expect to be active again in 2021.

One question we often get is with the flood of capital flowing into renewables and ESG strategies. Is that having an impact on your return targets? Are you having to compress returns?

And the answer is absolutely not. We've never competed on cost of capital. We've looked for those opportunities where we can differentiate ourselves using something other than cost of capital. And therefore, we've never compromised on our return targets. That hasn't changed today. And with the pipeline we see, we see no need to compromise on our long-term return targets. But what the flood of capital into renewables has done is it's created a new value lever for our business when it comes to capital recycling.

Increasingly, when we've executed our business plan, and we're in a position to sell an operating, de-risked, likely contracted asset that we have cleaned up and simplified through our ownership, we are seeing offers from that increasing amount of renewables capital that far exceed the value that we believe the business has, if we're going to hold it within our own platform.

And therefore, we do think we will use capital recycling to fund the tremendous growth we see. But we actually see it as an incremental value lever because we're only going to pursue capital recycling in situations where we're selling assets at a greater value than we see in holding them in our own portfolio.

Operator

Our next question comes from Ben Pham with BMO.

Ben Pham

Okay. I had a couple of questions on the 23-gigawatt development pipeline. I was wondering if you can unpackage that a bit. You did at -- similar to Investor Day in terms of the -- towards the technology mix, what geographies and maybe the breakdown between early stage and late stage.

Connor Teskey

Yes. Sure. So maybe I'll start, Ben, and then I'll hand to Wyatt. The growth in our development pipeline is really being driven by two things. One is the fact that we have built our development capabilities in every market that we operate in around the world. And therefore, we are just far more comfortable in seeing far more opportunities to leverage that enhanced capability. And you're seeing that flow through in the growth in our development pipeline.

Maybe just as an indicative anecdote, we mentioned three transactions in -- that we completed in Q4. Shepherds Flat, which -- the excitement of the opportunity is primarily around the repowering opportunity also comes with a 400-megawatt development pipeline. The Exelon DG business has a large in place operating portfolio, but also comes with a 700-megawatt development pipeline. And similarly, our transaction in Brazil is a close to 500-megawatt development

opportunity. So, what we are seeing is increasingly an ability to differentiate ourselves by pursuing those transactions that have, both really strong downside protection because of the in-place cash flows from the existing operating business, but a nice upside value growth lever through an embedded development option as well. With that, maybe I'll pass to Wyatt on the breakdown.

Wyatt Hartley

Yes. So Ben, in terms of the 23-gigawatts, what I would say is, it's diversified across regions. Similar to our business, it's across all of the regions. It is -- we're 75% right now in developed markets as an overall business, 25% emerging markets. The development pipeline can be thought of similarly in terms of breakdown between those two markets.

And then in terms of technology, it is -- the most abundant are wind and solar. Solar on the back of our investment in X-Elio and just the development pipeline we have there, off of the distributed generation businesses we're pursuing in the U.S. as well as in China in some degree. And on the wind side, as Connor mentioned, we have very attractive wind pipeline in the U.S. We added to that with the acquisition of Shepherds Flat.

So, it is definitely going to be tilted towards wind and solar because those are the technologies that are being in the -- renewable space -- that are being developed in the most significant form. And so that's reflected in our development pipeline, but it is diversified across the various technologies we look at.

And I think just further breaking that down, of the 23 gigawatt, as I mentioned in my remarks, close to 5 gigawatts of that is either under construction or is in advanced stage where we're kind of in the final period -- final point of, again in permits or contracting or what have you. And then obviously, the remaining 18 gigawatt has a bit farther to go, but we're very confident that a good portion of that will be developed over the foreseeable future.

Ben Pham

Okay. And is there -- you're a relatively large company. As you bring on more development, there's a development expense that's rising as well. But really, what's -- is there a sweet spot on -- or maybe how much more you can go before there are certain stresses in your system that you can't handle? Is there a magic number out there you can share?

Connor Teskey

Not really. What we would say is the joy of our scale is we get tremendous operating leverage out of the expertise we have across the platform. So, within our business, we have experts in every geography and every asset class. And while those experts are located all over the world, we're able to draw on that expertise whenever we're pursuing growth in any of our target regions.

So as our business grows, our costs will grow as well. But we expect there to be significant operating leverage in that growth. So, we see it as an upside going forward.

Ben Pham

Okay. And maybe one last question is, how do you think about your cost of equity, top of today, relative to other sources. And I only bring it up because I think in the past, you've always kind of ignored the market cost of equity, you've always looked at, I think, you targeted growth rates, which are north of 10%, and you've always said your cost of equity, your hurdle rates are 10% plus. And if you look at that versus better sources and you include a management fee to BAM in that analysis. So how do you think about that now, just given your stock has done incredibly well, but at the same time, your management fees have also doubled at the same time?

Connor Teskey

Sure. So, our approach is consistent. We have and always will be value investors. And tying back to the comments from a previous question, the growth pipeline today is tremendous. And continuing to leverage the same capabilities and the same competitive advantages that we've had for years and decades. We see no reason that we would need to change our targeted returns, and we have a very robust pipeline that we think we can execute on in those targeted returns range.

So, there is very little appetite internally, given the growth that we see and the attractive opportunities ahead of us, we don't really see ourselves changing our return targets.

Now that being said, our share price is performing well. And all that does is it does give us an incremental flexibility when we think about funding and growing our business. We've always looked to maintain a number of funding sources as we look to fund the massive growth opportunity ahead of us. And the performance of our share price can be helpful there. But we're never going to use it, unless it's going to create long-term value for our shareholders.

Operator

Our next question comes from Andrew Kuske with Credit Suisse.

Andrew Kuske

I think the question is for Connor. And I guess over the last 10 years or so, we've all become pretty comfortable with the interplay with Brookfield Asset Management's private funds and the business that they run and the interplay with BEP.

Could you maybe provide some color and an outlook on how BAM's impact fund category may work with BEP's business into the future?

Connor Teskey

Certainly. So, Brookfield is looking to launch an impact fund that will focus on the transition of the global economy to net-zero. And a component of that fund will be focused on the build-out of new renewables globally as well as the operations surrounding investment by businesses to accelerate that transition to carbon neutrality. We think there's many companies that will have the capital and skills to do this themselves, but equally, there are a huge portfolio of companies that could use our expertise and our capital and our development capabilities to help them achieve their goals.

Our view is this launch of a new fund by Brookfield, creates just an additional growth opportunity and an additional equity deployment opportunity for Brookfield Renewable to participate in investments that fit Brookfield Renewable's strategy of growth in renewables and offering decarbonization solutions. So, we view it as an incremental growth lever and incremental upside.

Andrew Kuske

Okay. That's helpful. And then maybe just an extension on that. Can you give some color just on what you're seeing from corporate -- the corporate community and primarily that has been interested in engaging in the longer-term contracts?

Are you getting some of the tech companies and others that are actually more interested in owning the underlying assets to -- on possibly a co-investment basis with yourselves?

Connor Teskey

It's a really good question. And we will answer it directly, but perhaps some background context is helpful here. If you go back 10 years, it was really governments that were the preeminent force in trying to drive climate change. And then maybe 4 to 7 years ago, a handful of leading corporates set voluntary decarbonization initiatives.

Over the last 2 to 4 years, you're seeing investors be more discerning about their capital, allocating it to sustainable strategies. And now in the last 12 to 18 months, you're seeing banks and lenders do the same in being more subjective in terms of where they allocate their loan book. All of this can be viewed on a transition as there is an acceleration in the commitment by all stakeholders to decarbonization.

And what we've seen over that time period is the demands of corporate and industrial customers that are looking to procure green power change over time. And Andrew, rather than say it's a trend one way or the other, what we would rather say is there is simply more types of contracts being executed in the

market. Some corporates are looking for shorter term contracts, some corporates are looking for longer-term contracts. Some corporates are happy to take the intermittent power that comes from a wind or solar facility. Others are looking for unique situations where they can procure 24/7 renewable power that few can provide, but we're in a luxurious position to be able to do by matching our wind and solar generation with our hydro portfolio.

We are increasingly seeing situations where some of those corporates are considering different ownership structures of the underlying assets, but by and large, we would say the theme hasn't shifted. If you're talking to an industrial company or a corporate company or a tech company, they want to focus on what their business is, they are good at. Which is providing a good or service that is core to their, call it, business objective. In most cases, they are very happy for us to be the capital provider and the owner and operator of whatever power production or generation or decarbonization solution is required to decarbonize their core business.

There may be some flexibility on the edges of that. But more often than not, they're still very comfortable and prefer for us to own that asset, which is core to our business, and they keep their focus on what's core to their business.

Operator

Our next question comes from Pearce Hammond with Simmons Energy.

Pearce Hammond

And I know you kind of addressed this earlier, with a question, as it related to project returns and were they changing.

But I am curious, given the surge in interest and capital wanting to get deployed into wind and solar projects. Are you seeing any inflationary pressures at the project level as far as getting wind and solar projects installed, for example, like trucking cost to deliver the turbine to the site or electricians or skill personnel working on the site? Or maybe put it another way, are you seeing the expected cost deflation for wind and solar moderating relative to expectations you may have had, say, a year ago?

Connor Teskey

Pearce, thank you. It's a great question. And in general, no. And really two things driving that. Yes, there is more demand for these products and services, and that can lead to very, call it, regional and short-term shortages that may temporarily increase prices. But they're de minimis and don't really affect our business. There's two probably broader themes that are still at play that overwhelm any of that short-term disruption. One is the overall cost of wind and solar continue to decline.

And that is, as the industry grows, there's still economies of scale being achieved. There are still incremental technology improvements that are driving costs down. And really cementing renewables as the lowest cost form of energy production. That trend may have plateaued versus the rapid declines of 3, 5 or 7 years ago. But the trend is still certainly downward.

The second point we would make is, at Brookfield Renewable, our growth, which we've spoken about at length on this call, is continuing to deliver a further competitive advantage, which is, we are developing and achieving very significant economies of scale when it comes to procuring parts or services to build, construct, develop or even simply operate our renewables facilities around the world.

We, across all major technologies, are one of the biggest buyers in the world. And as a result, we are largely insulated by any of those short-term disruptions because we are viewed as a core customer to the biggest suppliers, whether it be of equipment or services within the renewable sector.

Operator

That concludes today's question-and-answer session.

I'd like to turn the call back to Mr. Teskey for closing remarks.

Connor Teskey

Great. As always, thank you everyone, for your support. We look forward to updating you next quarter with our Q1 2021 results. Thank you.

Have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating.

You may now disconnect.