

# Proposed Acquisition of Pinnacle Renewable Energy Inc. (Pinnacle)

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## Agenda

Overview of Proposed Acquisition

Delivering Our Biomass Strategy

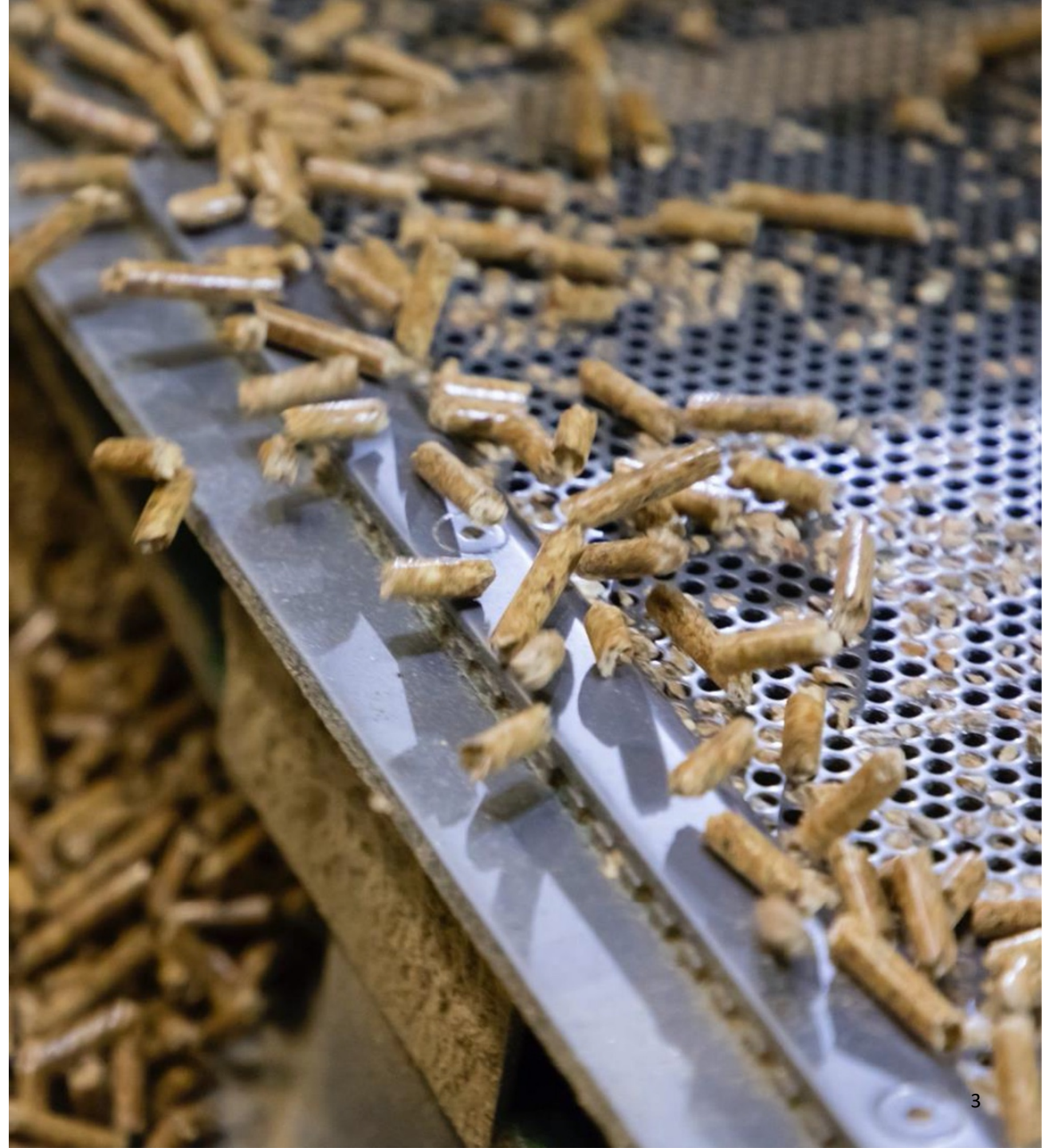
Financial Summary

Summary

## Presenters

Will Gardiner, CEO

Andy Skelton, CFO





The background of the slide is a photograph of a biomass power plant. In the foreground, there are large, white, dome-shaped silos. To the right, a metal walkway with railings extends into the distance. In the background, there are industrial structures, including a tall tower, and a landscape with green fields under a sunset sky with orange and yellow hues.

## Our Purpose

Enabling a zero carbon, lower cost energy future

## Our Strategy

We will build a long-term future for sustainable biomass  
We will be the leading provider of power system stability  
We will give our customers control of their energy

## Our Ambition

To be a carbon negative company by 2030

# Overview of Acquisition



# Investment Highlights

Equity value of C\$385 million<sup>(1)</sup> (£226 million<sup>(2)</sup>)

Enterprise Value of C\$741 million<sup>(3)</sup> (£436 million<sup>(2)</sup>)

## Compelling opportunity to advance Drax biomass strategy

- Adds 2.9 million tonnes of biomass production capacity
- Significantly reduces Drax average cost of production

## Increased global reach and presence in third-party markets

- Long-term contracted sales to high-quality counterparties in Asia and Europe

## Enhanced security of supply

## Global growth opportunities for sustainable biomass

## Strong return on investment

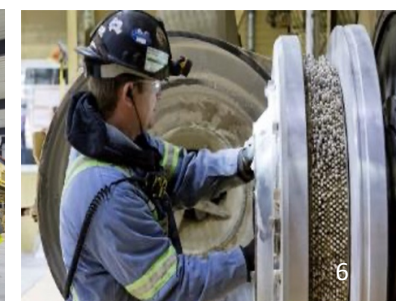
## Timetable and next steps

- Subject to approvals
- Expected completion Q2/Q3 2021
- Anticipate funding from cash and existing agreements

1) Fully diluted equity value  
2) At a constant FX rate of C\$1.7/GBP£  
3) Enterprise value including C\$356 million net debt based on Pinnacle's Q3 2020 results, to be updated to reflect Pinnacle's 2020 full year results, when reported. Excludes non-controlling interest, equity accounted investments and IFRS16 capital leases of C\$90 million

## Positions Drax as world's leading sustainable biomass generation and supply business

- Acquisition supports development of options for a long-term future for sustainable biomass
- BECCS, 3<sup>rd</sup> party supply and merchant generation



# About Pinnacle

A major producer and supplier of good-quality, low-cost sustainable biomass

## 2.9Mt of geographically diversified production capacity in strong fibre baskets

- Eleven pellet plants in British Columbia and Alberta (Canada) and Southeastern USA
- Three major fibre baskets
- Access to three deep water ports in Canada and USA

## Good-quality, low-cost sustainable biomass production

- Principally sawmill residues from commercial forestry processes

## Long-term contracted sales with high-quality counterparties

- Production positioned to optimise supply to Asian and European counterparties

## A well-established and growing business listed on Toronto Stock Exchange

## Sustainable sourcing

- Sales to Drax independently audited and verified by Sustainable Biomass Program (SBP)

**2022 EBITDA  
Consensus  
C\$99 million**  
(includes capacity in  
development)

**2.9Mt of  
production  
capacity in 2022**  
(Contracted to 3<sup>rd</sup> parties  
and Drax)

**2019 FOB<sup>(1)</sup>  
production cost  
C\$161/tonne**  
(US\$124/tonne<sup>(2)</sup>)

**2019 FOB<sup>(1)</sup>  
production cost  
20% less than  
Drax<sup>(3)</sup>**

**C\$6.7 billion  
of contracted  
sales**

**99% of capacity  
contracted  
through 2026**  
Significant contacts  
beyond 2027

**485  
employees**



8 February 2021

1) Free On Board (FOB) cost – raw fibre, processing into a wood pellet, delivery to port and loading to vessel for shipment and overheads  
2) 2019 FOB equivalent of C\$161/t at a constant FX rate of C\$1.3/USD\$  
3) Restated 2019 Pinnacle cost on an equivalent basis to Drax FOB cost. Expect some reduction in availability of residues for Pinnacle associated with sawmill curtailment in British Columbia, resulting in some increase in fibre costs

# Delivering Our Biomass Strategy



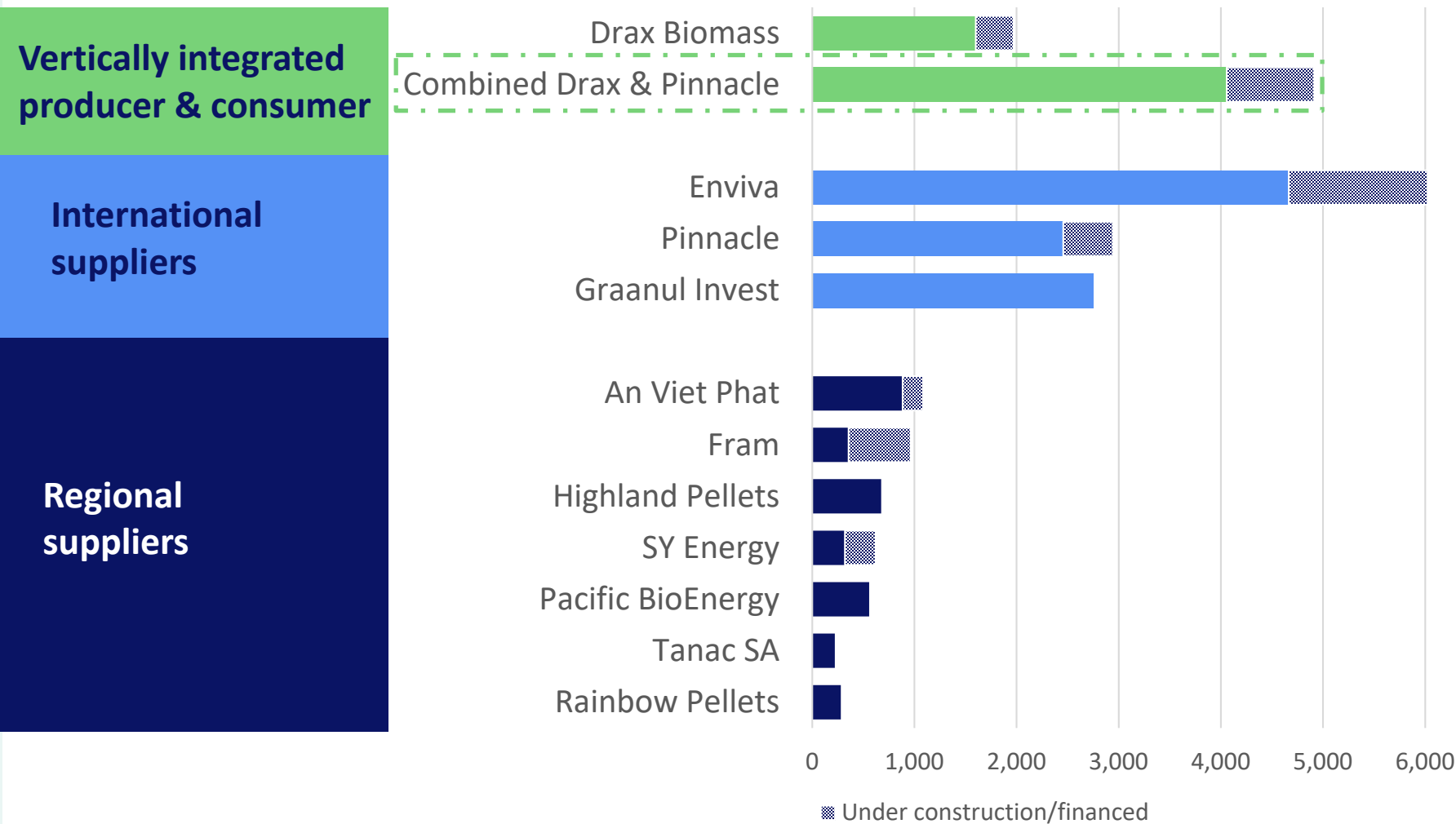
# Compelling Opportunity to Advance Drax Biomass Strategy

Pinnacle is a natural fit with Drax

Drax biomass strategy	How Pinnacle supports Drax biomass strategy	
5Mt of self-supply capacity <sup>(1)</sup>	<b>2.9Mt of additional production capacity from 2022</b> <ul style="list-style-type: none"> <li>- Contracted to 3<sup>rd</sup> parties and Drax</li> </ul>	✓
Reduce cost to £50/MWh <sup>(1/2)</sup>	<b>Good-quality, low-cost sustainable biomass production</b> <ul style="list-style-type: none"> <li>- Pinnacle 2019 production cost c.20% below Drax 2019 production cost<sup>(3)</sup></li> </ul>	✓
Develop trading and optimisation capability	<b>Diversified supply chain and sales to Asian and European counterparties</b> <ul style="list-style-type: none"> <li>- Geographically diversified production, fibre sources and export facilities</li> </ul>	✓
World leading sustainability policy	<b>Greater control over supply chain and sourcing</b> <ul style="list-style-type: none"> <li>- Focus on best practice across Group – H&amp;S, operational efficiency and sustainability</li> </ul>	✓
<b>Create long-term options for sustainable biomass....</b> <ul style="list-style-type: none"> <li>- Third-party biomass supply</li> <li>- Negative emissions – BECCS</li> <li>- Merchant renewable generation</li> </ul>	<b>Established third-party supply business</b> <ul style="list-style-type: none"> <li>- C\$6.7 billion of long-term contracted sales</li> </ul> <b>Commercial base to develop other opportunities</b> <ul style="list-style-type: none"> <li>- Expansion of fuel envelop to reduce cost of biomass</li> <li>- BECCS, biomass generation and development of new low-cost production capacity</li> </ul>	✓

# The World's Leading Sustainable Biomass Generation and Supply Business

A large-scale vertically integrated producer and consumer of sustainable biomass in a competitive market

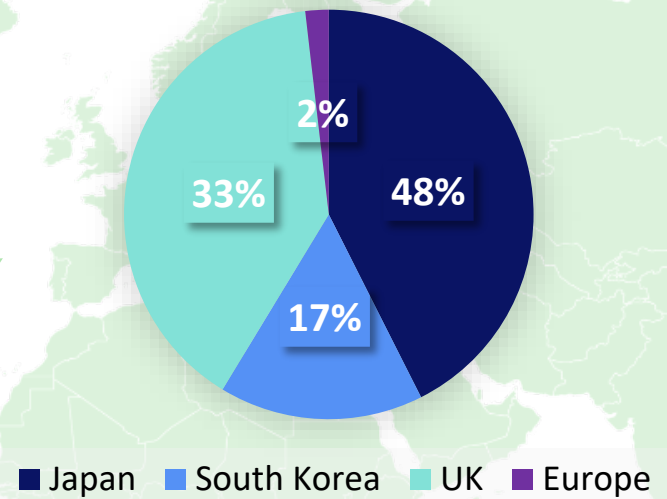


# Increased Global Reach and Presence in Third-party Markets

Combined Drax and Pinnacle supply chain supports enhanced security of supply

12 long-term contracts in Japan and South Korea  
>1.3 million tonnes pa  
C\$4.6 billion  
Commencing between 2021 and 2023

Customer Backlog by Region (Q3-20)



## Western Canada

2.3Mt of capacity  
9 operational plants  
2 deep water ports

Access to Asian and European markets

## Southeastern US

2.6Mt of capacity  
4 operational plants, 4 developments and expansions  
2 deep water ports

Access to European and Asian markets

# Increased Global Reach and Presence in Third-party Markets

Long-term contracted sales to high-quality Asian and European counterparties

C\$6.7 billion third-party sales book  
(including Drax)

Significant contracted volumes  
beyond 2027

High-quality Japanese, Korean and  
European counterparties

drax



EPH

uni  
per



 TOYOTA TSUSHO CORPORATION

**UBE** / UBE INDUSTRIES, LTD.

 Mitsubishi Corporation

中广核  CGN

 *Sumitomo Corporation*

 **GS** Global



# Global Growth Opportunities for Sustainable Biomass

Three opportunities underpinned by development of 5Mt low-cost self-supply chain

## Third-party sales model

- 5Mt of low-cost biomass available for sale
- Growing and under-supplied global market
- Optimisation and trading of biomass to achieve best value
  - Drax generation in UK, other biomass markets or both

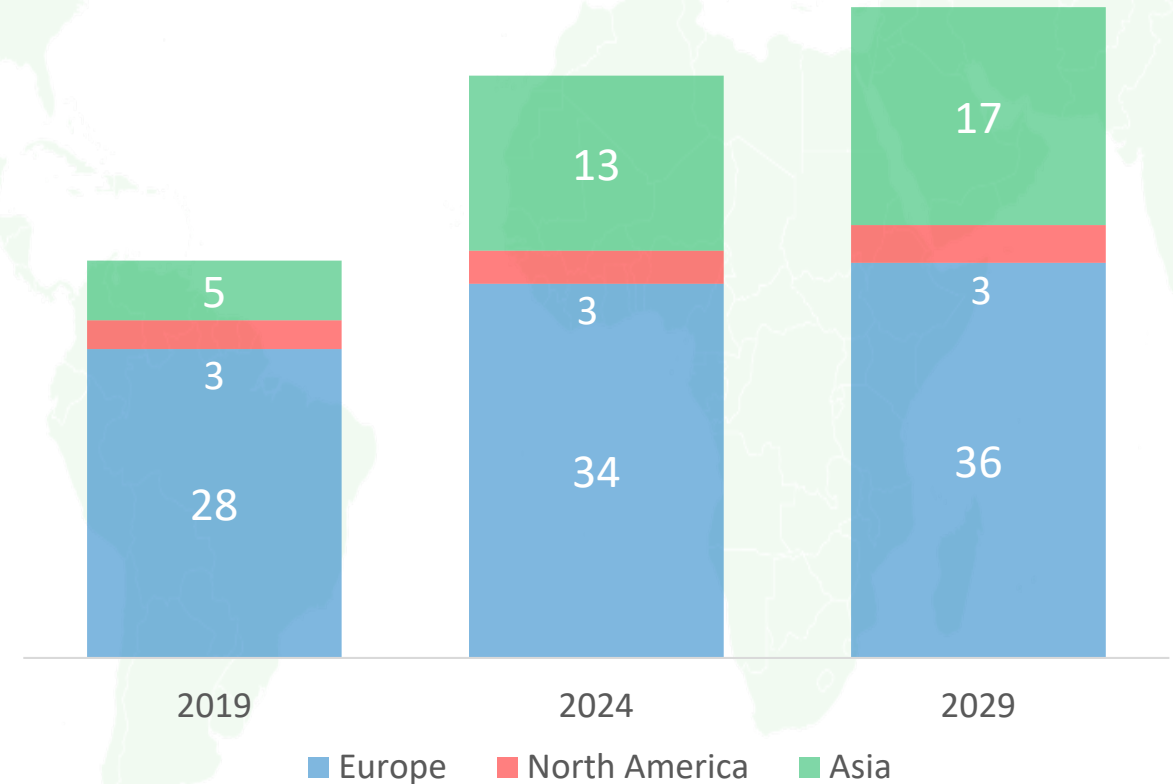
## BECCS model

- Biomass generation at Drax Power Station
- Subject to right investment framework from UK Government

## Merchant generation model

- Flexible operation targeted on periods of higher demand
- System support services
- Opportunity for capacity payments
- Operational efficiencies and lower operating cost

## Global wood pellet market outlook Increase in global demand (Mt) in next decade<sup>(1)</sup>



# Integration Plan

Drax is committed to ensuring the safe, efficient and sustainable operation of the enlarged Group's activities and will continue to invest accordingly to deliver this outcome

## **Continuity of production**

- Focus on best practice – H&S, operational efficiency and sustainability

## **Establish future operating model in 2021, implement in 2022**

- Joint approach to project development and cost reduction initiatives
- Work collaboratively to benefit from Pinnacle expertise in low-cost production and third-party supply management

## **Work with stakeholders**

- Employees, indigenous communities, JV partners, eNGOs and governments

## **Biomass sustainability**

- Apply Drax sustainability policy to enlarged Group
- Invest in, adapt and develop sourcing practices across Group



# Financial Summary

# Strong Return on Investment

Supportive of three biomass models and underpinned by long-term contracted sales to counterparties in Asia and Europe

## Estimated cost of acquisition

- Equity consideration of C\$385 million<sup>(1)</sup> (£226 million<sup>(2)</sup>)
- Enterprise value of C\$741 million<sup>(3)</sup> (£436 million<sup>(2)</sup>)

## Attractive financial returns

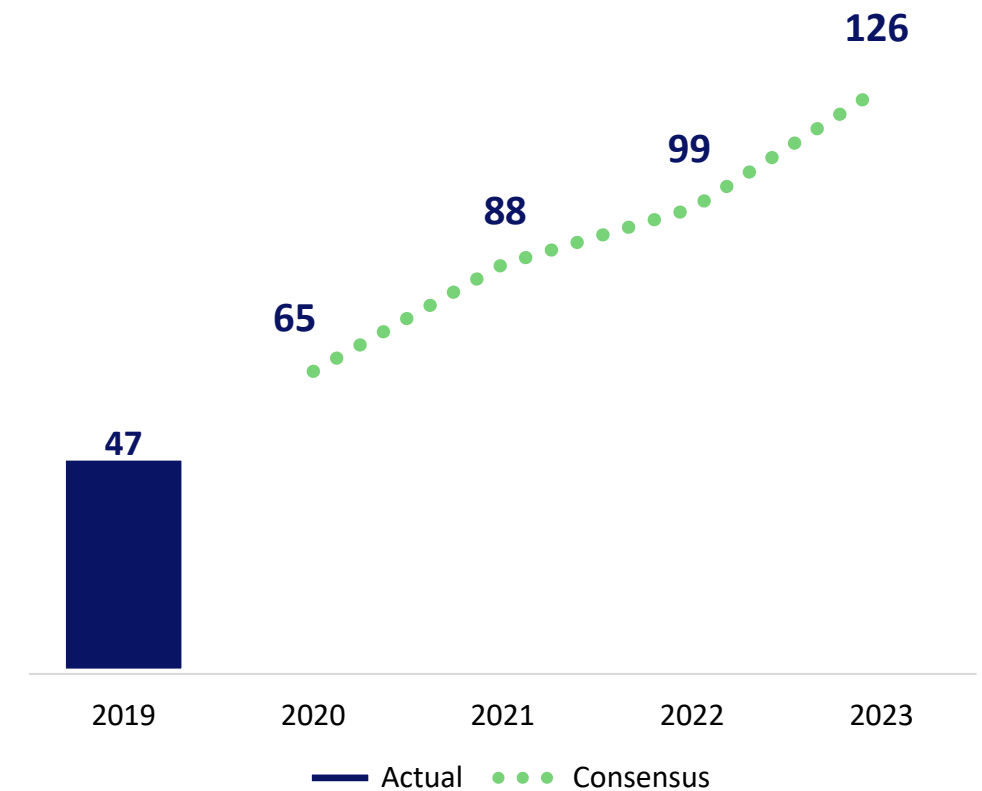
- Cash generative with 2022 EBITDA consensus of C\$99 million
- Expected returns significantly ahead of WACC
- Expect net debt/EBITDA of around 2x by end of 2022

## High-quality earnings

- C\$6.7 billion of contracted sales (including Drax)
- 99% of capacity contracted through 2026

## Reinforces sustainable and growing dividend

## Adjusted EBITDA (2019 actual) and consensus (C\$million)



- 1) Fully diluted equity value
- 2) At a constant FX rate of C\$1.7/GBP£
- 3) Enterprise value including C\$356 million net debt based on Pinnacle's Q3 2020 results, to be updated to reflect Pinnacle's 2020 full year results, when reported. Excludes non-controlling interest, equity accounted investments and IFRS16 capital leases of C\$90 million



# Biomass Investment Strategy

Target 5Mt of self-supply capacity at £50/MWh<sup>(1)</sup> by 2027

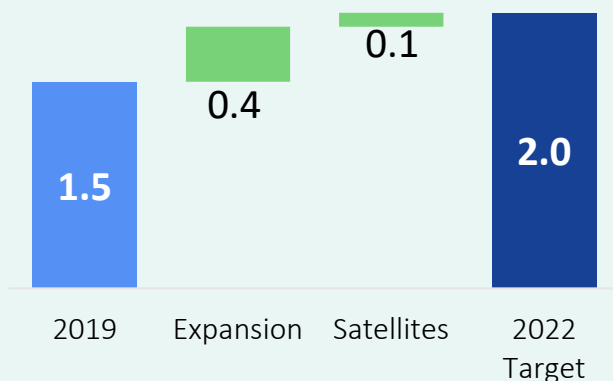
## Significantly advances progress towards 5Mt of self-supply

- Pro-rata cost consistent with expected total investment of c.£600 million
- Total of 3.4Mt self-supply capacity in 2027

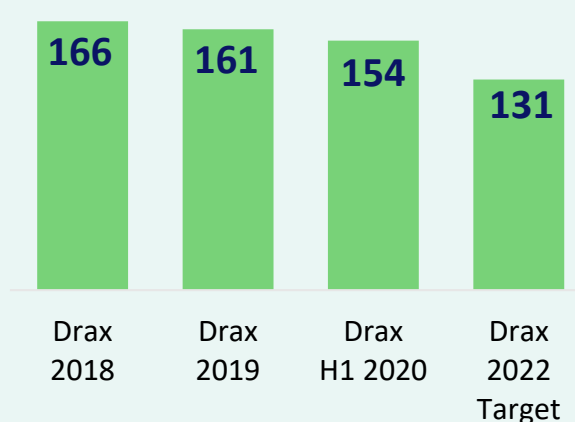
## Significantly reduces pro-forma FOB<sup>(2)</sup> (US\$/t) cost

- Pro forma 2019 cost of US\$141/t
- Compares with US\$166/t 2018 baseline

### Drax self-supply capacity (Mt pa)



### Drax biomass cost (FOB US\$/t)



## Enlarged group self-supply (Mt pa)

	2022	2027
Drax capacity	2.0	2.0
Pinnacle capacity	2.9 <sup>(3)</sup>	2.9 <sup>(3)</sup>
<b>Combined capacity</b>	<b>4.9</b>	<b>4.9</b>
<b>Balance available to Drax for self-supply</b>	<b>2.9</b>	<b>3.4</b>

## Pro forma cost reduction FOB<sup>(2)</sup> (US\$/t) and production

	Drax	Pinnacle	Proforma
	2019	2019	2019
Biomass cost FOB (US\$/t)	161	124 <sup>(4)</sup>	141
Biomass (Mt)	1.4	1.7	3.1
- 3 <sup>rd</sup> party sales	-	0.7	0.7
- Drax	1.4	1.0	2.4

1) At constant FX rate of \$1.45/£

2) FOB cost – raw fibre, processing into a wood pellet, delivery to port and loading to vessel for shipment and overheads

3) 2.5Mt operational plus 0.4Mt development, commissioning 2021

4) 2019 FOB equivalent of C\$161/t at a constant FX rate of C\$1.3/USD\$

# Funding, Capital Allocation and Process

Expected completion Q2/Q3 2021

## Funding

- Anticipate funding from cash and existing agreements
- Proceeds from sale of gas assets completed January 2021

## Capital allocation

- Remain committed to current capital allocation policy
- Strengthens ability to pay a sustainable and growing dividend
- Expect net debt/EBITDA of around 2x by end of 2022

## Process

- Acquisition announced February 2021
- Subject to court approval, Drax and Pinnacle shareholder approval, other regulatory approvals and other customary conditions
- Drax Class 1 circular and Notice of General Meeting
- Drax General Meeting
- Pinnacle shareholder vote

**Expected completion Q2/Q3 2021**



# Summary

# Summary of Acquisition

Equity value of C\$385 million<sup>(1)</sup> (£226 million<sup>(2)</sup>)

Enterprise Value of C\$741 million<sup>(3)</sup> (£436 million<sup>(2)</sup>)

## Compelling opportunity to advance Drax biomass strategy

- Adds 2.9 million tonnes of biomass production capacity
- Significantly reduces Drax average cost of production

## Increased global reach and presence in third-party markets

- Long-term contracted sales to high-quality counterparties in Asia and Europe

## Enhanced security of supply

## Global growth opportunities for sustainable biomass

## Strong return on investment

## Timetable and next steps

- Subject to approvals
- Expected completion Q2/Q3 2021
- Anticipate funding from cash and existing agreements

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## Positions Drax as world's leading sustainable biomass generation and supply business

- Acquisition supports development of options for a long-term future for sustainable biomass
- BECCS, 3<sup>rd</sup> party supply and merchant generation





# Appendix

# Pinnacle Portfolio

Annual nameplate capacity of 2.9Mt from 2022 – a portfolio of geographically diversified North American assets

## 2.9Mt nameplate capacity

- 2.5Mt operational
- 0.4Mt development (commissioning 2021)

## Ownership structure

- Ownership of 80% of nameplate production capacity
- Sales and marketing rights to 100% of output
- Remaining 20% spread between forest industry partners, ensuring strong commercial relationships

## Eleven sites across three strong North American fibre baskets

- Ten operational pellet plants in Western Canada & Southeastern US
- One facility under construction

## Access to three deep water ports

## Transport to port via rail and barge

Operational	Number of plants	Capacity (Mt pa)	Pinnacle Share (Mt pa)
British Columbia	7	1.6	1.3
Alberta	2	0.6	0.4
Alabama	1	0.3	0.3
<b>Total</b>	<b>10</b>	<b>2.5</b>	<b>2.0</b>

Capacity Post Development (2022)	Number of plants	Capacity (Mt pa)	Pinnacle Share (Mt pa)
British Columbia	7	1.6	1.3
Alberta	2	0.6	0.5
Alabama	2	0.7	0.5
<b>Total</b>	<b>11</b>	<b>2.9</b>	<b>2.3</b>

# Pinnacle Portfolio

2.9Mt capacity from a portfolio of geographically diversified North American assets

Plant	Location	Status	Commissioning Date	Capacity (Mt pa)	% ownership
Williams Lake	BC, Canada	Operational	2004	0.2	100%
Houston	BC, Canada	Operational	2006	0.2	30%
Armstrong	BC, Canada	Operational	2007	0.1	100%
Meadowbank	BC, Canada	Operational	2008	0.2	100%
Burns Lake	BC, Canada	Operational	2011	0.4	100%
Lavington	BC, Canada	Operational	2015	0.3	75%
Smithers	BC, Canada	Operational	2018	0.1	70%
Entwistle	Alberta, Canada	Operational	2018	0.4	100%
Aliceville	Alabama, USA	Operational	2018	0.3	70%
High Level	Alberta, Canada	Operational	2020	0.2	50%
<b>Total Current Capacity</b>				<b>2.5</b>	<b>80%</b>
Demopolis	Alabama, USA	New plant	Est. 2021	0.4	70%
<b>Capacity Post Development (2022)</b>				<b>2.9</b>	<b>80%</b>

# Pinnacle Portfolio – Canada

Two strategic fibre baskets with good infrastructure and access to international biomass markets

## 2.2Mt of capacity (operational and in development)

- Nine operational plants in British Columbia and Alberta

## Transport and logistics

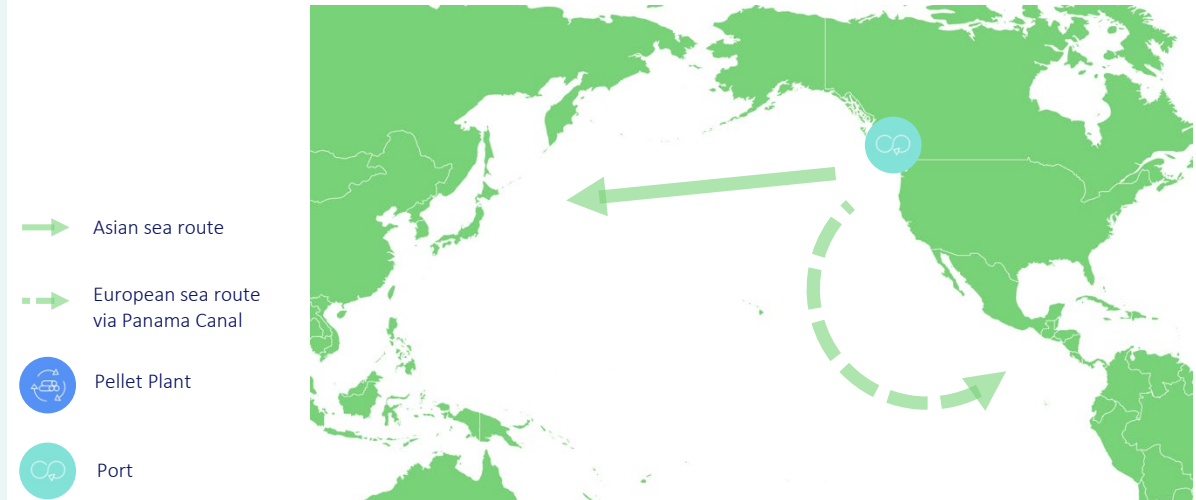
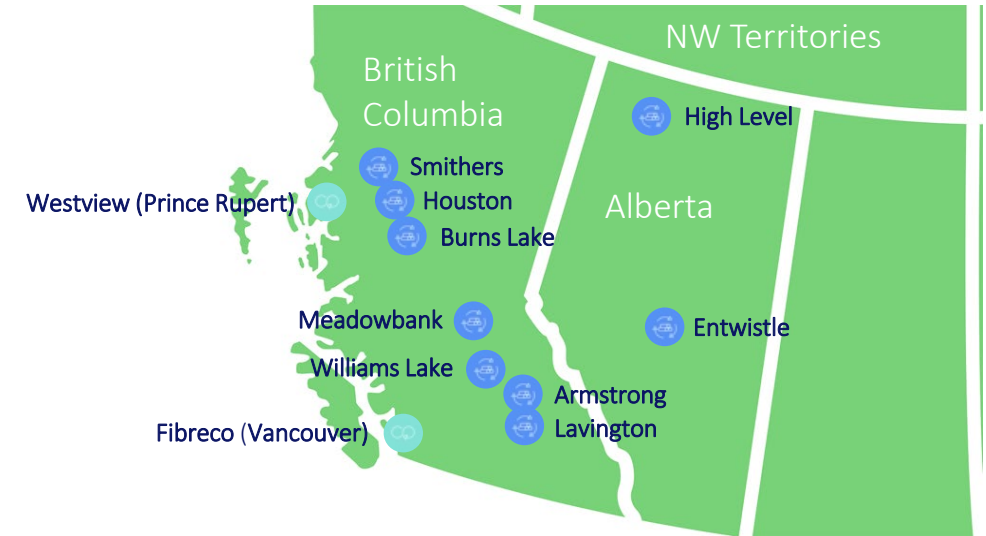
- All sites have rail access for bulk transit
- Export terminals at Prince Rupert and Vancouver

## Locational benefits

- Strong fibre baskets
- Access to Pacific Ocean for Asian and European markets

## Biomass sourcing

- Commercially active fibre baskets
- High percentage of sawmill residues
- Expansion of fuel envelope to reflect some sawmill curtailment and increased fibre costs





# Pinnacle Portfolio – USA

Strategic fibre basket in Southeastern US, close to Drax's existing infrastructure

## 0.7Mt of capacity in Alabama (operational and in development)

- Aliceville – operational
- Demopolis – development

## Transport and logistics

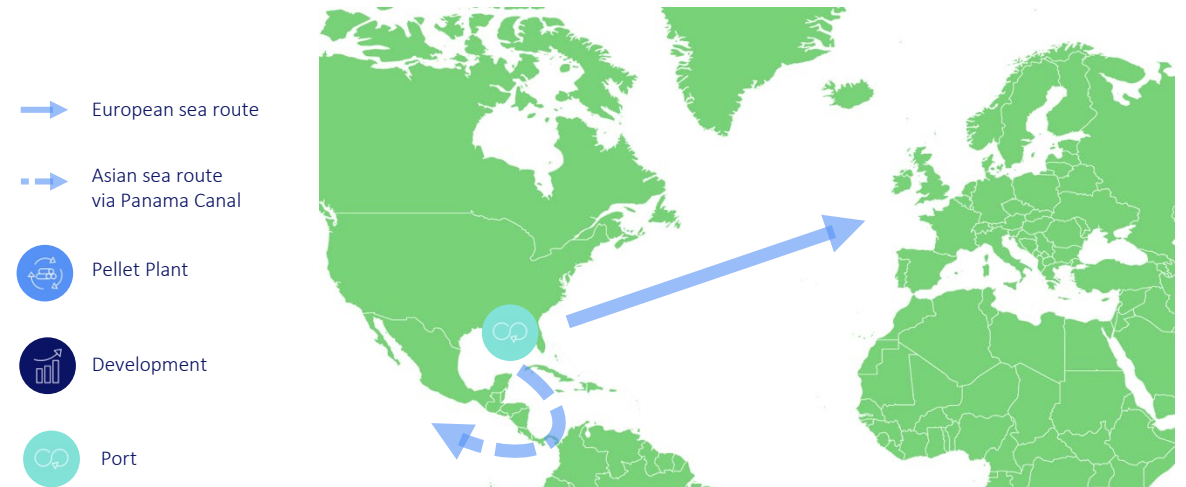
- Barge transit to Port of Mobile
- Barge-to-ship loading

## Locational benefits

- Strong fibre basket
- Access to Gulf of Mexico for European and Asian markets

## Biomass sourcing

- Commercially active fibre baskets



# Positions Drax as World's Leading Sustainable Biomass Generation and Supply Business

Increased optionality over use of biomass for own-use or third-party supply

## Combined capacity of 4.9Mt in 2022

- 17 pellet plants (including development)
- 3 major North American fibre baskets
- 4 deep water ports

## Reduced cost of production

- Drax 2019 FOB US\$161/t
- Pinnacle 2019 FOB US\$124/t<sup>(1)</sup>
- **Combined 2019 FOB US\$141/t<sup>(1)</sup>**



## Targeting 5Mt self-supply by 2027

Current self-supply capacity

- 2.9Mt in 2022
- 3.4Mt in 2027

## Trading, sales and optimisation

- Optimise biomass cargoes to nearest production centre, reducing distance, time, cost and emissions

## Global growth opportunities for sustainable biomass

## C\$6.7bn third-party sales book (including Drax)

## Sustainable business model

- Increased use of low-cost residues
- Established Drax sustainability criteria
- Full disclosure of supply chain emissions

## 2.6GW of renewable biomass generation

1) At a constant FX rate of C\$1.3/USD\$)

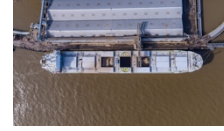
# Enhanced Security of Supply – Enlarged and Diversified Supply Chain

4.9Mt capacity (from 2022) – 17 pellet plants

3 major fibre baskets

4 deep water ports

Baton Rouge



Westview



Fibreco<sup>(1)</sup>



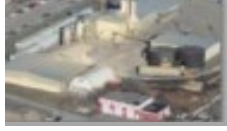
Mobile<sup>(1)</sup>



Lavington



Armstrong



Entwistle



Smithers



Aliceville



High Level



Demopolis



Amite



Morehouse



LaSalle



Williams Lake



Meadowbank



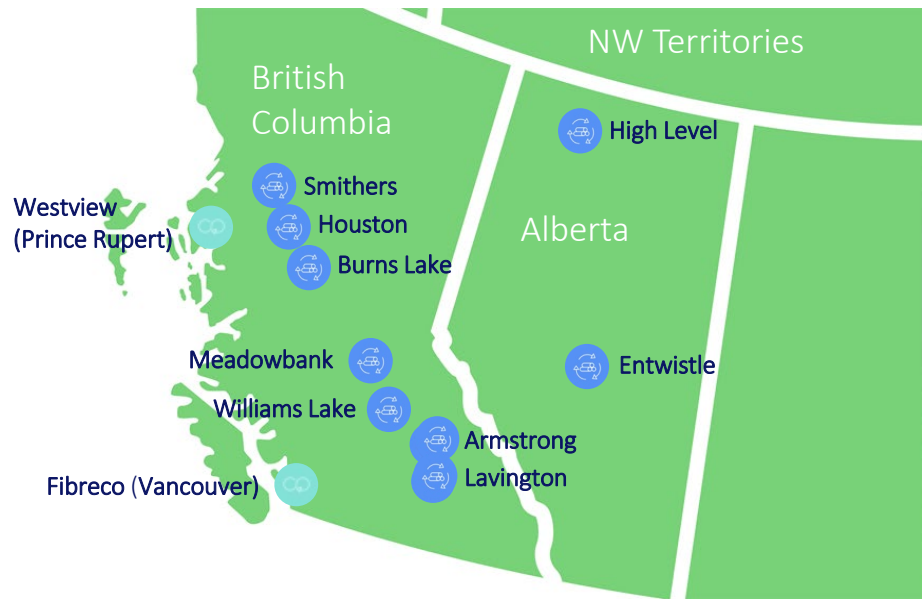
Burns Lake



Houston



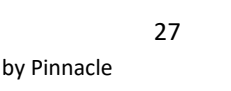
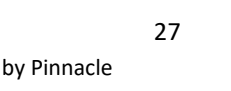
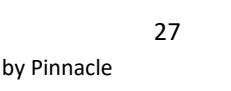
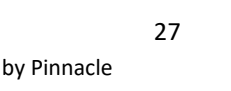
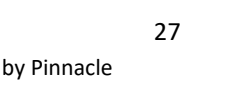
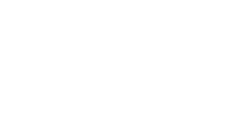
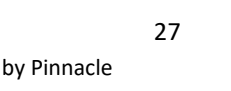
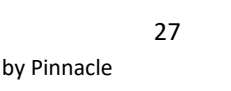
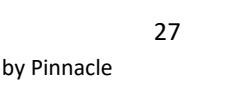
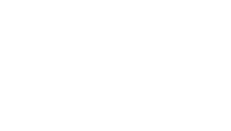
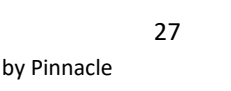
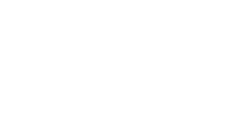
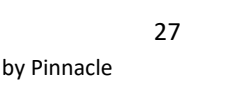
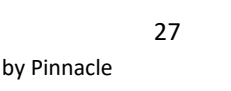
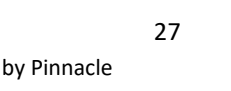
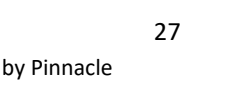
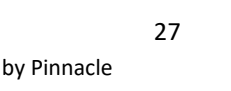
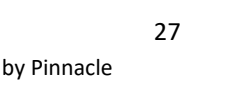
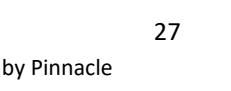
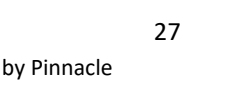
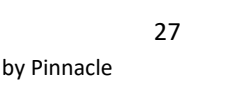
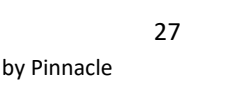
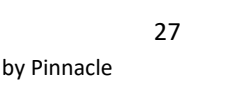
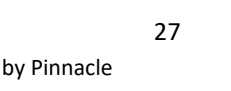
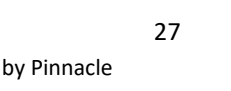
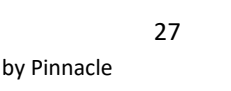
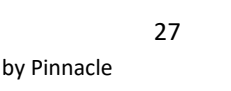
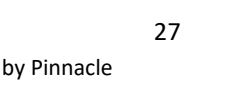
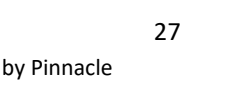
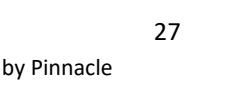
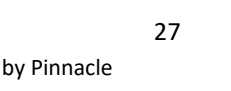
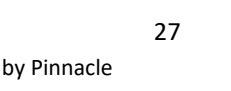
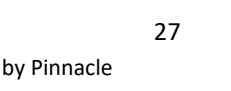
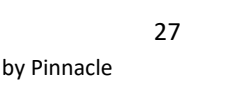
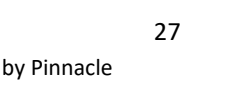
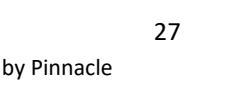
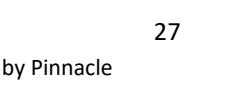
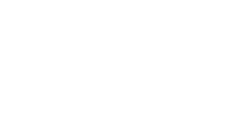
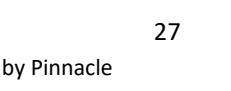
Fibre baskets – British Columbia and Alberta



Fibre baskets – Southeastern US



3 x satellites



# Combined Drax and Pinnacle Pellet Production Portfolio

4.9Mt capacity from a geographically diversified production portfolio in western Canada and Southeastern US

Plant	Location	Status	Commissioning Date	Capacity (Mt pa)	% ownership
Williams Lake	BC, Canada	Operational	2004	0.2	100%
Houston	BC, Canada	Operational	2006	0.2	30%
Armstrong	BC, Canada	Operational	2007	0.1	100%
Meadowbank	BC, Canada	Operational	2008	0.2	100%
Burns Lake	BC, Canada	Operational	2011	0.4	100%
Lavington	BC, Canada	Operational	2015	0.3	75%
Smithers	BC, Canada	Operational	2018	0.1	70%
Entwistle	Alberta, Canada	Operational	2018	0.4	100%
Aliceville	Alabama, USA	Operational	2018	0.3	70%
High Level	Alberta, Canada	Operational	2020	0.2	50%
Amite	Mississippi, USA	Operational	2015	0.5	100%
Morehouse	Louisiana, USA	Operational	2015	0.6	100%
LaSalle	Louisiana, USA	Operational	2018	0.5	100%
<b>Total Current Capacity</b>				<b>4.1</b>	<b>82%</b>
Demopolis	Alabama, USA	New plant	Est. 2021	0.4	70%
3 new satellite plants	Arkansas	New plants	Est. 2022	0.1	100%
Amite expansion	Mississippi, USA	Expansion	2021	0.1	100%
LaSalle expansion	Louisiana, USA	Expansion	2021	0.2	100%
<b>Capacity Post Development (2022)</b>				<b>4.9</b>	<b>89%</b>





# Proposed Acquisition of Pinnacle Renewable Energy Inc. (Pinnacle)

8 February 2021