Capital Raising/Strategic Advisory/Mergers & Acquisition

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Development Company Structure

- Private Equity Investors
- Strategic Investors
- Parent Company (Investors)
- Development Company / Intermediate Holding Company
  - Project Company (1st Commercialization)
  - Project Company
  - Project Company

- Senior Project Debt Providers
- Loan Guarantee / Insurance
- Project Level Equity Investors
- 100% Infrastructure Fund Capital with Back-End Leverage
Typical Project Finance Structure

- Equity Investors
- Sponsor’s Equity
- Project Level Equity Investors
- Senior Project Debt Providers

**Project Company** (Borrower)

- Feedstock Agreements
- Technology License Agreements
- EPC Contract (construct)
- O&M Agreement
- Off-take Agreements
SOUND PROJECT ECONOMICS
Leads to Adequate Debt Service Coverage and Acceptable Equity Returns

**Sponsors**
- Experienced & financially strong investors with demonstrated track record of investing & operating similar projects.
- Ability to provide financial support to Project.

**Construction Risks**
- Fixed price, date certain, turnkey EPC contract with liquidated damages.
- Completion guarantee by Sponsors.

**Market Risk Assessment**
- Competitive positioning.
- Supply / demand forecasts.
- Competing suppliers.
- Government policies – tax and income.

**Feedstock Supply**
- Adequacy of available feedstock.
- Long-term quantity supply agreement.
- Long-term fixed price supply agreement (or at least a price ceiling). Adequate on-site storage.

**Management**
- Strong managerial, financial, operational, & technical capabilities with demonstrated track record of implementing similar projects.
- Continuity of senior management.

**Technology Risk / Feasibility**
- Perpetual technology licenses and performance warranties.
- Technology / project feasibility reviewed by Independent engineer.

**Operations Risks**
- O&M contract with efficiency bonus provisions.
- Adequate Maintenance Reserve Account.

**Off-take**
- Long-term quantity off-take agreement.
- Long-term fixed price off-take agreement (or at least a price floor).
- Adequate storage & transportation infrastructure.
Successful Financing Requires Systematic Approach

Ultimate Objective of Sponsors
• Maximize non-recourse debt while providing adequate equity to protect project debt investors
• Trade-off between time, cost and optimization of other Sponsor objectives
• Decisions reflected in economic terms of deal (interest rate, term, reserves, leverage, covenants, etc.)

Role of Government
• Tax policies, guaranty, loans/grants, etc.

Feedstock Supply
• Term, price and volume, hedging strategy (caps / collars)
• No diversion
• Adequate on-site storage

Off-take
• Long-term *quantity* off-take agreement
• Long-term *fixed price* off-take agreement vs. Pricing formula (hedging strategy)
• Adequate storage and transportation infrastructure

Technology Risks
• Commercialized technology reduces investor risk
• Insurance, EPC wraps & loan guarantees mitigate risk
• Independent engineer’s report validating process
Successful Financing Requires Systematic Approach

Construction Risks
• Fixed price, date certain, turnkey EPC contract with liquidated damages
• Completion guarantee by Sponsors
• Insurance/warranties on parts, availability and general failure relating to technology

Operations Risks
• O&M contract with efficiency bonus provisions
• Adequate Operating and Maintenance Reserve Accounts

Economic Performance
• Generates good debt service coverage under stress scenarios
• Stable project returns, with potential for additional upside
• Adequate Debt Service Reserve Account

Sponsors & Management
• Ability of Sponsors to provide completion guarantees
• Adequate working capital
• Continuity of senior management

Risk Management Policies
• Must assess competitive positioning
• Must assess market risk, commodity hedging strategies, currency risk
Technology Risk Mitigation

Guaranty from a Credit-worthy Counterparty (some recourse)
  • Parent
  • Technology provider

Credit Enhancement via Government Guaranty
  • USDA 9003 for Advanced Bio-Refineries
  • DOE program

Insurance
  • Insurance/warranties on parts, availability and general failure relating to technology
  • Extended warranties for repeated failures and product defects
  • Insuring the performance curve
  • EPC wraps
  • Availability
Discussions with a major insurer of renewable technology (solar and wind) that has indicated an interest in developing a biofuels insurance product

Major aspects of coverage

- Extended warranty
- Serial loss – Repeated failure of same piece of equipment
- Product defect – Failure of component to function properly
- Performance curve (efficacy)
- Failure of plant to produce the product design output at design specification for design input
- Availability
- Liquidated damages payment in the event that design performance cannot be achieved

Insurer’s Information needs

- Independent engineer’s report for the project
- Product off-take contract
- Equipment information (price, service and maintenance plan, warranty)
- Access to the EPC contractor
John M. May, Managing Director, is Co-Head of the firm’s Renewable Energy Practice, which he founded in 2003. He is a seasoned project finance investment banker who has financed over $11 billion in loan and par values for over 100 clients in his 25-year banking career. He is credited with having pioneered the use of bonds as a form of project finance debt in the renewables market. In the past ten years, he has become one of the top renewable energy bankers in the country, having developed a national practice in renewable energy finance focusing on biofuels, biomass, biochemical and bio-products. Prior to beginning his investment banking career, John practiced law at two national firms in Kansas City and Dallas.

He received his J.D. and M.B.A. (with concentration in Finance) degrees from the University of Kansas, and his B.A. with Honors Cum Laude from Brown University.

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