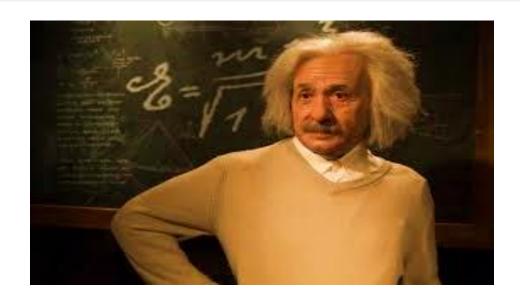
ABFC2016 ADVANCED BIOECONOMY FEEDSTOCK CONFERENCE FOUR SEASONS HOTEL, MIAMI, FL – JUNE 6-8, 2016

Leveraging Supply Chain Investments

Prepared by: **John R. Kirkwood**, *Partner* | Faegre Baker Daniels LLP 600 East 96th Street, Suite 600, Indianapolis, IN 46240 john.kirkwood@FaegreBD.com +1 317 569 4602



YOU THINK YOU HAVE BUILT A PRETTY GOOD SUPPLY CHAIN



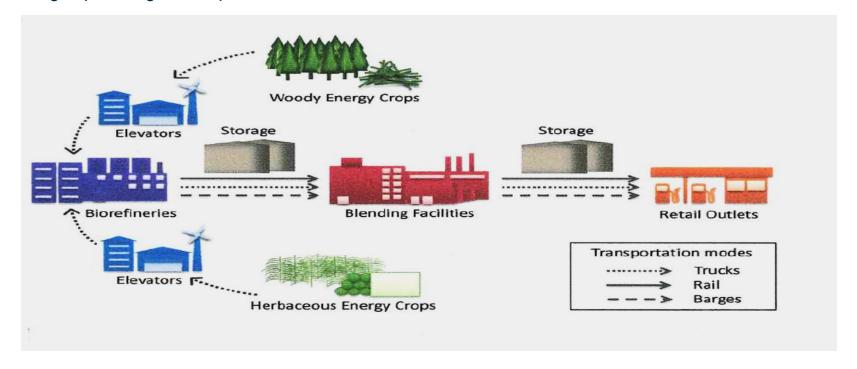
You have followed x's and o's of supply chain development that professionals have been preaching for years. Now it's time to leverage your supply chain investment to see if debt and equity think you did a good job.

This presentation focuses on the institutional debt and equity markets' review and analysis of biomass supply chains.



BIOFUEL SUPPLY CHAIN

- A biofuel supply chain encompasses all activities from feedstock production, biomass logistics of storage and transportation, biofuel production, and distribution to end consumers.
- Similar to most other supply chains, a biofuel supply chain involves various distinct stages with different ownership entities such as farmers, biorefineries, distributors, and transportation/logistics companies, and its performance highly depends on the network design, planning, and operations.





BIOMASS PROJECT FINANCE

- ▶ In the early stages of developing any new technology the lab pilot demo progression of the technology is the key focus.
- ▶ Only when the private equity partners or bond underwriters say we can't finance your project without a guarantee of a reliable, consistent, industrial quality feedstock does the appropriate amount of attention go into the development of feedstock supply.
- ▶ In many conversion processes, feedstock costs can be over half of the operating cost of a commercial scale facility a fact that validates the capital market's insistence on proving the reliability of the biomass supply.

BANKABLE SUPPLY CHAINS

- Long-term quantity supply agreement
- Long-term fixed price supply agreement (or at least a priced ceiling)
- Credit quality (or lack thereof) of feedstock suppliers
- Supply Chain risk mitigation Stockpiles, input flexibility, multiple suppliers, insurance
- Robust Feedstock Consultant's Report
- Sustainability
- Logistics considerations
- Area specific issues

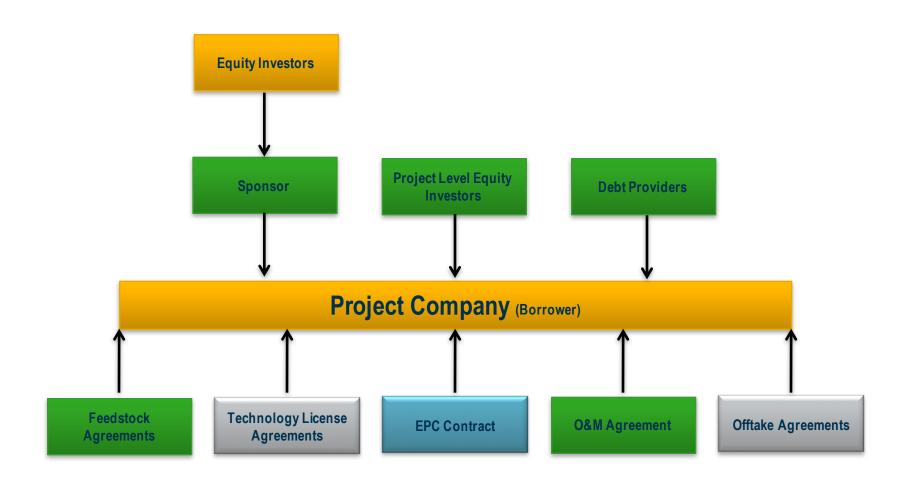


RATING AGENCY REQUIREMENTS (FitchRatings)

- ▶ If a resource or product is supplied to run the project, the Agency considers the availability of the resource product.
- ▶ If liquid markets exists for required commodities, Fitch considers the potential for temporary supply constraints rather than long term availability deficits. Where relevant, this includes an analysis of the price at which a substitute resource or product is availability.
- ► In projects were supply risk is high, and markets are characterized by illiquidity, Fitch may stress the costs of a volatile commodity.
- ➤ Supply risk may be mitigated by long term supply contracts with suppliers having a credit quality commencing with the rating of a debt.



PROJECT FINANCE SCHEMATIC





STRATEGIES IN READYING RENEWABLE PROJECTS FOR FINANCING

Sponsors

Experienced and financially strong strategic investors with demonstrated track record of investing and operating similar projects.

Ability to provide financial support to Project.

Construction Risks

Fixed price, date certain, turnkey EPC contract with liquidated damages secured by Letter of Credit or Payment and Performance Bond.

Economic Performance

Generates good debt service coverage under stress scenarios. Stable Project returns with potential for additional upside. Adequate Debt Service Reserve Account.

Feedstock Supply

Adequacy of available feedstock.

Long-term quantity supply agreement.

Long-term fixed price supply agreement (or at least a price ceiling).

Independent feedstock assessment.

Feedstock Supply Insurance.

SOUND PROJECT ECONOMICS

Management

Strong managerial, financial, operational and technical capabilities with demonstrated track record of implementing similar projects.

Continuity of senior management.

Technology Risks / Feasibility

Perpetual technology licenses and performance warranties.

Technology reviewed by an independent engineer.

Technology Performance Insurance.

Operations Risks

O&M contract with experienced contractor. Adequate Working Capitol Reserve Account. Adequate Maintenance Reserve Account.

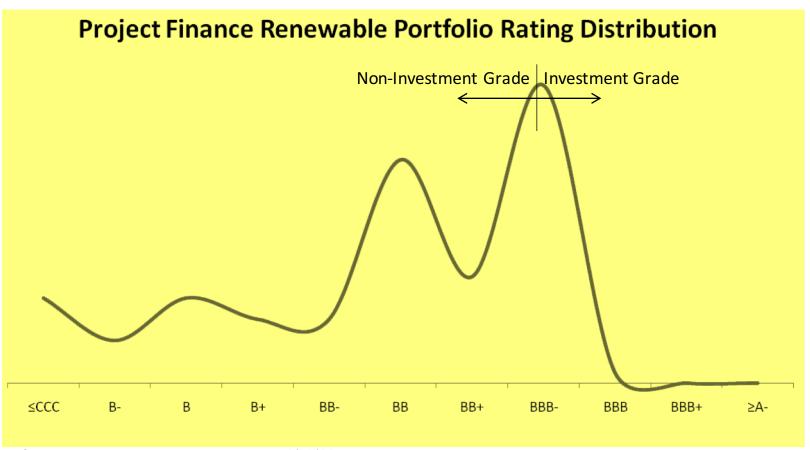
Offtake

Long-term quantity offtake agreement. Long-term fixed price offtake agreement (or at least a price floor).

Adequate storage and transportation infrastructure.



RENEWABLE ENERGY PROJECT RATINGS



Source: Fitch Renewable Energy Forum 6/23/11

Note: Includes Public, Private Ratings and Credit Assessments



RATING AGENCY CRITERIA FOR PROJECT FINANCE

Standard & Poor's – www.standardandpoors.com

Moodys Investors Service – <u>www.moodys.com</u>

Fitch Ratings – <u>www.fitchratings.com</u>

