

# Keys to Financing a Biomass Pellet Project

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# Keys to Financing a Biomass Pellet Project

<u>Item</u>	<u>Key Commercial Considerations</u>
<b>Offtake</b>	<ul style="list-style-type: none"> <li>• <b>Toll or “Take or Pay” Deal w/Credit-Worthy Counter-Party</b> <ul style="list-style-type: none"> <li>• Adjustments for inflation, fuel, etc. (try to get a fiber price pass through)</li> </ul> </li> <li>• <b>CIF / FOB, Metric vs. US, BDT vs. Green, Hardwood vs. Softwood, Density, BTU Value, Ash Content, Size</b></li> </ul>
<b>Supply</b>	<ul style="list-style-type: none"> <li>• <b>Look for credit-worth suppliers or intermediaries</b> <ul style="list-style-type: none"> <li>• Balance price vs. security – financing will dictate first choice</li> </ul> </li> <li>• <b>Lock a long-term price for a “cellulose spread” or create cost pass-thru mechanism in offtake agreement</b> <ul style="list-style-type: none"> <li>• Supply &amp; offtake terms (duration) should be the same</li> </ul> </li> <li>• <b>Must be sustainable (which can vary by buyer) if selling to EU</b></li> </ul>
<b>Transportation &amp; Logistics</b>	<ul style="list-style-type: none"> <li>• <b>Rail, Barge or Road</b></li> <li>• <b>Port Access for Shipping</b> <ul style="list-style-type: none"> <li>• Virtually no buyer takes FOB plant gate)</li> </ul> </li> <li>• <b>Get a long-term, fixed price deal (if poss)</b></li> </ul>
<b>Site Control</b>	<ul style="list-style-type: none"> <li>• <b>Own it or have an exclusive option to lease / purchase</b> <ul style="list-style-type: none"> <li>• No more than 75 mile radius for supply</li> </ul> </li> <li>• <b>Will Need at Least a Phase I Environmental Report</b></li> </ul>

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<b>Permitting</b>	<ul style="list-style-type: none"> <li>• <b>Air</b> <ul style="list-style-type: none"> <li>• Likely a minor source unless over 250,000 TPY</li> </ul> </li> <li>• <b>Water, Construction, Land Use, FAA, etc.</b></li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• <b>Choose a Proven Vendor with Experience in the US</b> <ul style="list-style-type: none"> <li>• Prefer Non-US Vendors if Ex/Im or World Bank Financing Available</li> </ul> </li> </ul>
<b>EPC</b>	<ul style="list-style-type: none"> <li>• <b>Wrapped vs. Back-to-Back</b></li> </ul>
<b>Management Team</b>	<ul style="list-style-type: none"> <li>• <b>Industry Experience is Critical</b></li> </ul>
<b>Financial Profile</b>	<ul style="list-style-type: none"> <li>• <b>Greenfield</b> <ul style="list-style-type: none"> <li>• 12 – 22% Pre-Tax, Unlevered Returns to Equity; 40 – 60% Debt Financing</li> </ul> </li> <li>• <b>Expansion</b> <ul style="list-style-type: none"> <li>• Cost of Capital / Debt (Internal Calculation – Hurdle Rate &amp; Cost of Debt)</li> </ul> </li> </ul>

# Keys to Financing a Biomass Pellet Plant

## (Additional Investor Issues)

### Concerns

- Political Risk
  - Financial stability of EU in light of Ireland, Greece, etc.
- Regulatory Risk
  - Stability of government programs (ROC's, etc.) in light of fiscal difficulties
- Translation Risk
  - Currency exposure must be hedged to avoid revenue fluctuation

### Considerations

- Cheap gamble on huge potential
  - VC-like returns in a Project Finance-like Structure
- Renewables as a Hedge for Fossil Portfolios
  - Not perfect due to diesel adjuster exposure
- Knowledge of pellet mechanics as hedge for future US reality



# Keys to Financing a Biomass Pellet Project (Food for Thought)

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- Have a story and know more than anybody else in the room
- Know who you're speaking to and speak to them in terms they understand
- Be right on the facts - scrub, scrub & scrub again **before** you market anything
- Stay focused, but flexible and creative
- Retain a good advisor . . . **early**

# Contact Information

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