

NATURAL CAPITAL INVESTMENT FUND
THE CONSERVATION FUND

Appalachian Wood Energy Innovations Conference

Capital for Biomass Projects

Asheville, NC
August 25, 2016



Rick Larson, Senior Vice President
Natural Capital Investment Fund
rlarson@conservationfund.org
919-949-4724



NATURAL CAPITAL INVESTMENT FUND
THE CONSERVATION FUND

Natural Capital Investment Fund

- **Business lending arm of The Conservation Fund, 30 year old non-profit focused on conservation, working forests and farmland.**
- **Founded 2001, \$30 M community lender; 9 state service area**
- **Objective:** Capital and assistance to natural-resource based businesses that create jobs
- **Loans, equity-like capital, and technical assistance**
 - Competitive rates
 - Up to \$500,000 in 9 states in Central Appalachia/Southeast NC, WV, VA and Appalachian regions of KY, TN, MD, OH
 - Financing for timber harvesters in SC & GA
 - Total transaction amounts up to \$2.5 M
 - Uses: ✓ Equipment ✓ Working Capital ✓ Inventory
- **27 Forest-related businesses funded since 2001**
 - 12% of total NCIF companies
 - \$2.25 M lent to:
 - ❖ Loggers
 - ❖ Sawmills
 - ❖ Flooring, molding, & veneer companies
 - ❖ Furniture manufacturers
 - ❖ Biomass energy (wood pellets) and (non-wood) biofuels







NATURAL CAPITAL INVESTMENT FUND <small>THE CONSERVATION FUND</small>	<h2>Financing Sources</h2>
<p>Primary sources:</p> <ul style="list-style-type: none"> • Internal cash flow • Grants • Tax credits & RECs • USDA Community Facilities Program • Project finance (bonds) • Equipment vendor-related financing • Community Development Financial Institutions (CDFIs) <ul style="list-style-type: none"> -- Natural Capital Investment Fund (forest products) -- Self-Help (solar farms; biomass boiler; swine waste) • Farm Credit and traditional lenders 	







NATURAL CAPITAL INVESTMENT FUND <small>THE CONSERVATION FUND</small>	<h2>What do lenders consider?</h2>
<p>Typical credit considerations:</p> <ul style="list-style-type: none"> • <u>C</u>haracter (Is the borrower experienced and reliable?) • <u>C</u>ash Flow (Profitable? Ability to cover debt service?) • <u>C</u>ollateral (Is there a 2ndary source of repayment?) • <u>C</u>apacity (Does the borrower have the financial & human resources to weather difficulties?) • <u>C</u>onditions (What's going on in the market(s) and eco-system the borrower will operate in?) 	



NATURAL CAPITAL INVESTMENT FUND
THE CONSERVATION FUND

Particular biomass challenges?

- **Cash Flow:** Are costs low(er) enough to cover debt service and justify up-front investment?
- **Collateral:** What's the resale market for innovative/specialized equipment & one-of-a-kind systems?
- **Capacity:** Does the borrower want to be in the energy business?
- **Conditions:** Is there a source for fuel? Is there a market for the heat or electricity?

5

NATURAL CAPITAL INVESTMENT FUND
THE CONSERVATION FUND

Ways to mitigate (lender) risks

Ways to reduce operational risk:

- Grants for innovation (Pellets for Pullets)
- Guaranteed market (RPS, European GHG requirements)
- Feedstock availability (Enviva logger support)
- Familiarity with biomass
- Must-have vs. nice-to-have (distributed CHP for schools, governments)

Ways to reduce financial risk:

- USDA REAP grant to reduce total out-of-pocket project cost
- SBA and USDA guarantee programs (reduce lender exposure)

6

Lessons from two NCIF examples

(+) Sexton Forest Products, Ahoskie, NC

- Character: Experienced logger (got in and got out at the right time)
- Collateral: Existing + purchased equipment
- Conditions: Market -- Enviva biomass demand; big wood basket
- Capacity: Machine shop; access to good crews

**(-) Carolina Wood Pellets, Franklin, NC**

- Collateral: New equipment & building for senior lender (2nd position for NCIF)
- Conditions: Material source compromised; domestic market insufficient
- Capacity: No rail access; lacked capital to install dryer; entrepreneur's past business experience didn't translate

