

Insights on Key Steps About Greenfield Project Finance



National Capital Merchant Banking, LLC

Financial Insight

Operational Expertise

Equity Growth

Greenfield Project Finance

The stage

- **Greenfield, capital-intensive projects**
- **Entrepreneurial or corporate sponsorships**
- **Demonstrated processes and technologies**
- **Regulated and unregulated markets**
- **Commercial applications and financing**

Marketing to your financier

- **Your financier's mindset, priorities and approaches**
- **Prospecting for his willingness and commitment**
- **Extra rigor intensity, no paradigm shift in this market**
- **Timing for his "official" insertion into your project**



Financier's First Apprehensive and Worrisome Look

The institutionalization of risk and risk assessment:

- **Capital intensive proposition with no assets and no cash flow**
- **Greenfield: prompting completion and process guarantees**
- **Insurance: asset protection plan, operational interruption coverage**
- **Indemnity: remediation for breach, default, force majeure**
- **Angling for participant financing over project financing**
- **Vetting and grading your industrial backing for strength**
- **Management: full industrial backing and endorsement**
- **Project supports immediate and sustainable industrial needs**

First reaction: How can your project wither and fail over time?

It's all about your business model, not your returns!

It's all about your team getting industrial endorsement!



“Outsourcing” As Your Operational Reference

Defining Project Context and Insertion

- **Your discipline: analyze your project from the outside in:**
 - To get to the roots of your comparative advantage
 - To define dimensions of intrinsic value for your selected stakeholders

- **What is the Operational Prism of your Project?**
 - **Business Process Outsourcing:** *exceeding one’s peers quantifiable standards*
 - **Application Outsourcing:** *reducing costs while industrializing capabilities*
 - **Infrastructure Outsourcing:** *addressing delivery for competitive advantage*
 - **Bundled Outsourcing:** *redefining operations through innovative approaches*

- **What would compel anyone to get into a long-term contract with you?**
 - What is most valuable to your prospective stakeholders?
 - What makes your value-add sustainable and stable?
 - How can you defend a stable top-line over project life?
 - Do you need tax credits or subsidies to be profitable?
 - How healthy is the spread of your value-add margin?



Business Model Trumps Financing

Adapted from: Larry Bossidy & Ram Charan "Confronting Reality"

(1) External Realities

Comparative advantage

Competitive advantage

Baseline checklist

Commitment structure

(2) Internal Activities

Financial modeling

Operations

Organization/People

Competent Management

(4) Project Financing

Revenue stability

Operating margins

Cash flow structure

Capital intensity

Return on investment

(3) Iteration

Equity participation layer

Non-recourse lender financing



Establish Your Comparative Advantage

Your Cost-Effective, Compelling Business Case

Plus Column!

- **Select your site carefully (permitting, logistics, resources)**
- **Think and act locally (to extract true strategic advantage)**
- **Be paranoid about the soundness of your business model**
- **Research your industrial prospects (leverage/positioning)**
- **Find operationally strategic “hooks” for your prospects**

Minus Column!

- **Bring out technology as a differentiator**
- **Think of your spreadsheet as your business model**
- **Assume that superlative returns is the all-out solution**
- **Present a multi-projects plan from the get-go**
- **Bring up macro-market demand as validation**



Build Your Competitive Advantage

Your Long-Term Margin Protection

- Select your industrial stakeholder against your business model needs:
 - What are the critical vulnerabilities in your business model?
 - What cost-effectiveness dimensions will you provide?
 - What alliance for what leverage (upstream/downstream)?
 - What are your critical needs for credibility building?
 - What contractual efforts should have your priority?

- Get your selected industrial partner to commit (at its pace):
 - Establish its improved cost-effectiveness advantage
 - Support its defined specific/critical elements for its strategy
 - Leverage its priorities of core operational advantage

But do not ask for money!

Review Your Checklist on External Realities

Your Ongoing Due Diligence Focus on Project Maturity

- **Entire project is commercial-of-the-shelf (COTS)**
- **All licensing and permitting requirements are met**
- **Up-stream and down-stream critical paths are addressed**
- **Business model dynamics are thoroughly understood**
- **All documentation requirements are defined and structured**
- **Processes for systematic project updates are in place**
- **Indications of industrial commitment (working on terms)**

This is financier's ground zero : How credible are you?

Commitment Structure:

The Summation of Your Work on External Realities

- **Institutional-quality downstream counterparty**
 - Financial strength able to mitigate non-recourse risk
 - Seal of credibility: you become a “financeable” deal
- **Buy/Sell (Offtake) vs. Marketing Agreement:**
 - Credit risks allocation (customers/FOB vs. brokerage)
 - Performance risks (force majeure/installments vs. whole contract)
 - Supply risks (merchant options/contractual waivers vs. default)
 - Quality assurance risks (specifications/damages vs. cancellation)
- **With an Eye to Financier’s hot-button priorities:**
 - Financial stability: starts with top-line and P&L stability
 - Min-max margin protections (“Hell or High Water”)
 - Contractual protections match senior debt maturity
 - Fixed-charge ratios are met under min-margin conditions
 - Threshold ROE performance (bracketed range)
 - Structured ROE catch-up within bracketed threshold



Internal Activities

The Art of Morphing and Bonding

- **Your Imperative: matching and adapting to External Realities**
 - Operations protocols defined (upstream/downstream)
 - Critical and relevant management experience secured
 - Lopsided organizational development
 - Phased-in manpower commitments (nimble and timely)
 - Strong project management talent (WBS Level-3)
 - EPC with track record for independent CapEx costing

- **Your financial model: a pertinent appendix to your contracts**
 - Your top-line keyed to long-term contract covenants
 - Presented side-by-side with draft contracts
 - User-friendly to test “what if” conditions
 - Includes the costs of completion and process guarantees
 - Includes all other specifically required insurance costs
 - Not a corporate finance exercise (forget IPO exits!)



Managing Your Priorities

Who Comes First and When?

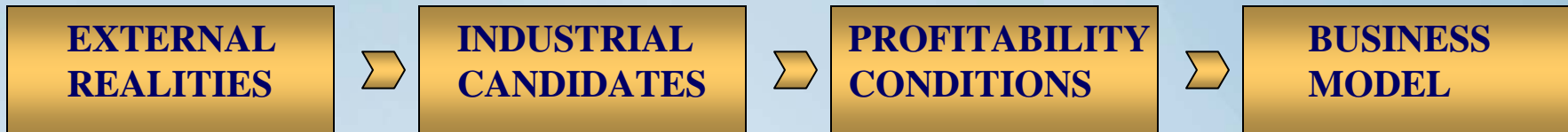
- **Focus assiduously on your industrial partners' needs first**
 - Nurture contract development process from draft to final form
 - Keep all industrial names confidential until permission granted
 - Assure yourself of your selected financiers' bandwidth
- **Invite your select financiers to join your “prestigious” cast**
 - Make it an official step
 - Impart a schedule with milestones
 - Emphasize their ability to still “tailor” final contract terms
- **Invite government only if you have the need (and fortitude!)**
 - Meaningful with the presence of technology risks
 - Good chance of losing control of your own schedule
 - May witness your financial/industrial base going to the dugout



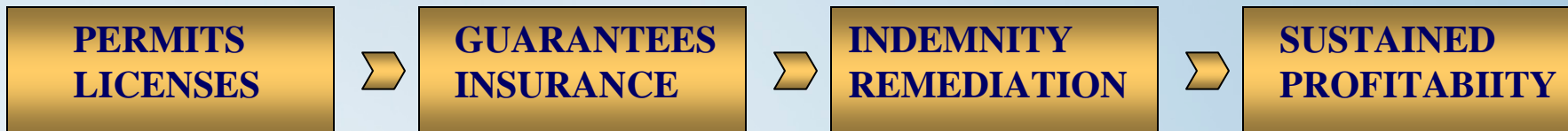
STAGING OUT YOUR GREENFIELD EFFORT

A Bird's Eye View

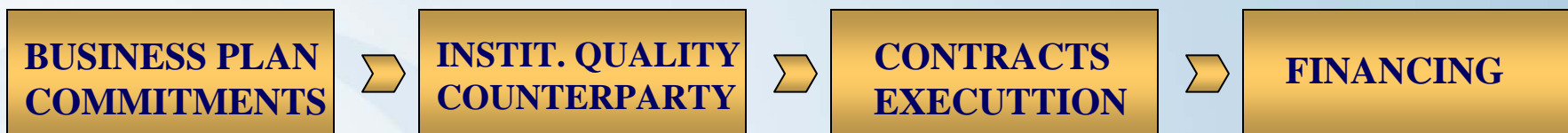
1. INDUSTRIAL PHASE (*PLANNING*)



2. RISK MITIGATION PHASE (*STRUCTURING*)



3. CONTRACTUAL PHASE (*EXECUTION*)



Concluding Thoughts

- **It is not about your spreadsheet returns**
- **It is about contractually binding conditions making your spreadsheet returns credible**
- **How you handle External Realities is your business plan**
- **It is all about contracts, guarantees and insurance**
- **Financing Terms and Conditions are only derivatives**





National Capital Merchant Banking, LLC

Financial Insight

Operational Expertise

Equity Growth

Stephen P. Rochereau
Managing Director
Direct: (240) 395-2430
Mobile: (443) 822-6515
spr@nationalcapital.com
www.nationalcapital.com

Charles R. Wasaff
Managing Director
Direct: (240) 395-2410
Mobile: (571) 232-7914
crw@nationalcapital.com
www.nationalcapital.com

Robert S. Smith
Managing Director
Direct: (240) 395-2411
Mobile: (202) 577-5366
rss@nationalcapital.com
www.nationalcapital.com



National Capital Merchant Banking, LLC

Financial Insight

Operational Expertise

Equity Growth

*3 Bethesda Metro Center
Suite 500
Bethesda, MD 20814*