

# Policy, Incentives, Finance, and Market Development: How To Stimulate Mass Timber's Growth



## An Overview of the Financing Environment for Mass Timber

*March 28, 2023 – Oregon Convention Center*



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IFG stands at the nexus of entrepreneurial management teams, proprietary investment opportunities, and sophisticated private investors

## Specialized Sector Expertise



### Food, Agribusiness & Rural Opportunities

- Commodity producers
- Ingredient providers
- Food & beverage processors
- Co-packers
- Storage & distribution
- Rural business investment opportunities
- Timber & forest products



### Infrastructure & Project Finance

- Water infrastructure
- Blue economy & technology
- Energy transition projects
- Environmental infrastructure
- Power generation & transition
- Batter energy storage systems
- Data & communications



### Bioeconomy & Decarbonization Themes

- Circular economy
- Biofuels & specialty chemicals
- Biomass feedstock providers
- Recycling & waste management
- Energy efficiency
- Clean technologies
- Sustainable building materials



### Investment Banking

Creative investment banking advisory and business consulting solutions underpinned by deep experience and industry specialization.

### Merchant Banking

Serving as both a trusted financial advisor and direct investor, resulting in stronger alignment of interests and long-term value-add.

### Asset Management

Offering clients specialized direct private equity funds, co-investments, direct investments, and specialized multi-manager funds.

### Strategic Advisory

Helping business stakeholders navigate turnaround and restructuring processes to establish the best path to the most positive outcome.

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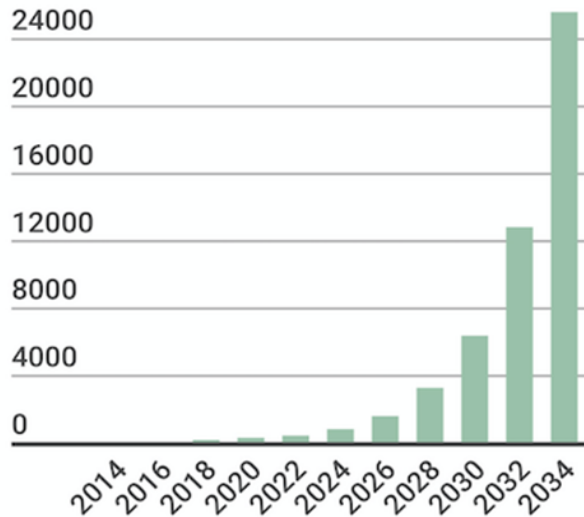
## An Overview of the Financing Environment for Mass Timber

### THE MASS TIMBER DEMAND STORY

As of December 2022, 1,677 mass timber projects had been constructed or were in design in all 50 states, in the multi-family, commercial, or institutional categories. The number of mass timber buildings is expected to double every two years through 2034, at which point the construction industry would be storing more carbon than it emits.

Data for North America

Mass Timber Buildings Constructed Per Year



Carbon Impact In Millions Of Tons Per Year

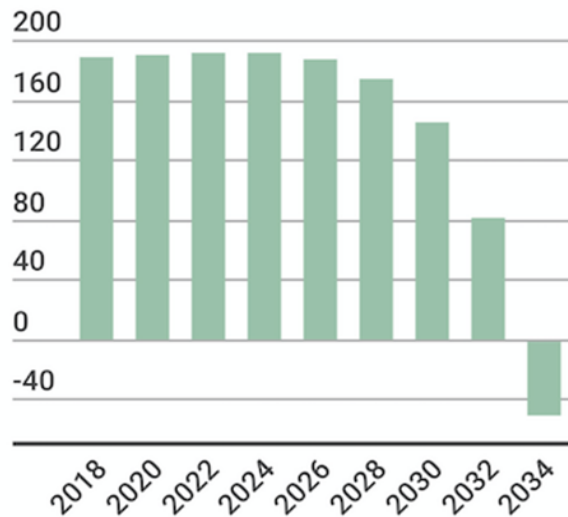
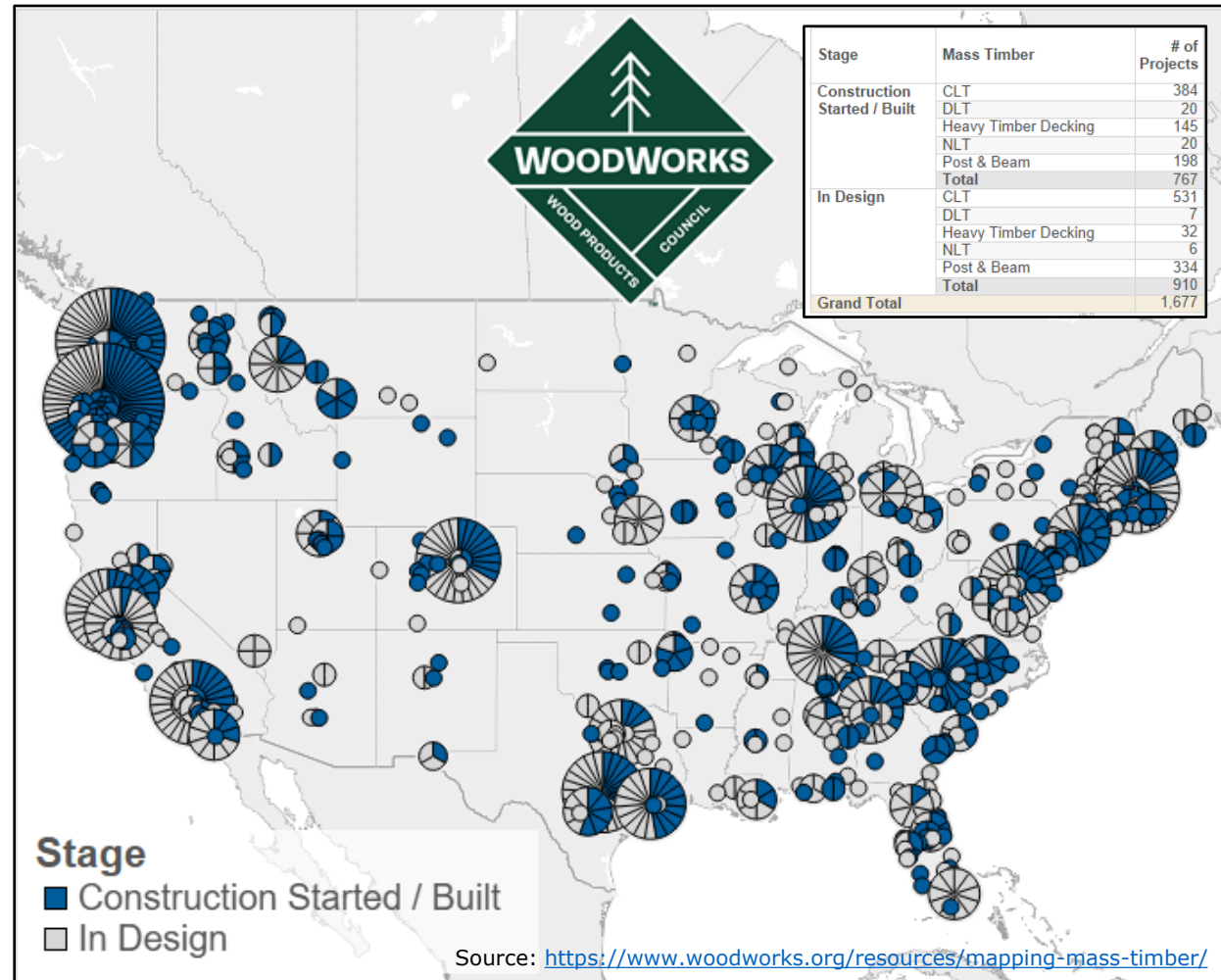


Chart from *North American Mass Timber Report: 2020 State of the Industry*



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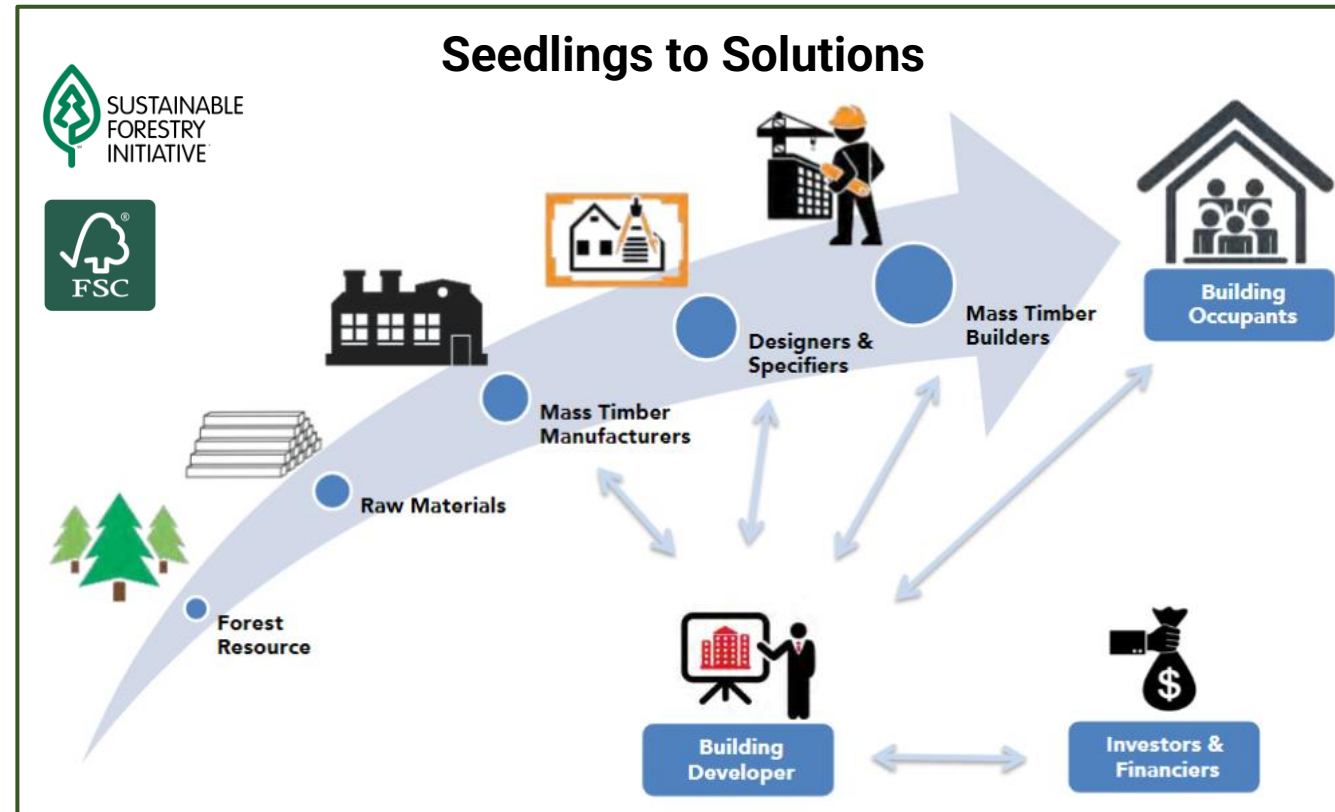
Drawing on IFG's track record of delivering successful project financing outcomes, we have found that the following key elements need to be addressed in order to deliver a successful Mass Timber Project Financing:

### A RELIABLE FEEDSTOCK SUPPLY

- Maintaining a Reliable Supply Chain
- Ensuring Consistent Feedstock Quality
- Managing Feedstock Price Volatility
- Addressing the Sustainability Story
- Obtaining Third-party Certifications

### PLANT OPERATIONS & PROJECT DELIVERY

- Reliable Manufacturing Equipment
- Harmony Between Plant Operations & Sales Activities
- Establishing Diverse Industry Partnerships



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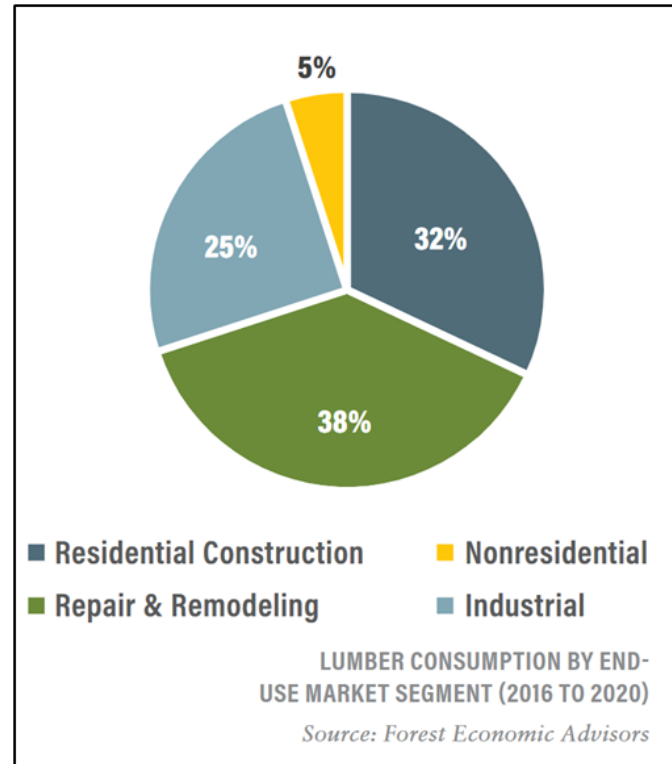
Drawing on IFG's track record of delivering successful project financing outcomes, we have found that the following key elements need to be addressed in order to deliver a successful Mass Timber Project Financing:

### SOLVING FOR THE OFF-TAKE STORY

- Working with Quality Project Developers
- Tapping into Government & Institutional Demand
- Developing a Diverse and Sustainable Sales Pipeline
- Positioning for the Long-Term Demand Story

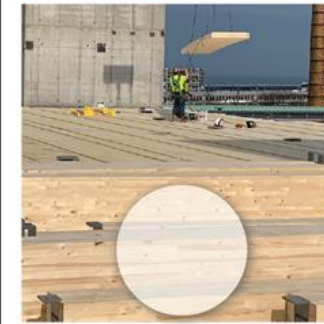
### OTHER FACTORS & DEMAND DRIVERS

- Ensuring Reliable Financial Reporting
- Enhancing Construction Industry Education
- Building Code Changes Opening New Markets
- Expansion of Insurance Coverage (Fire / Seismic)



### Wood Market Share by Construction Type

7+ STORIES



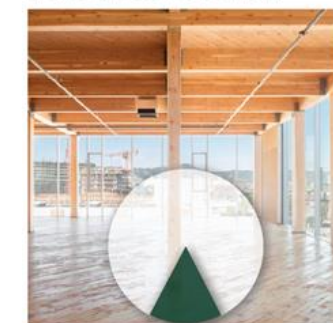
MULTI-FAMILY



INSTITUTIONAL EDUCATION / HEALTHCARE / OTHER INSTITUTIONAL



COMMERCIAL STORES / OFFICES / HOTEL / MOTEL



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**By addressing IFG's list of key elements for a successful Mass Timber Project Financing, Mass Timber Project Participants will gain access to the following Financing Alternatives:**

- ✓ **Non-Dilutive Financing:** Access to Non-dilutive capital through USDA Forest Service grants and other support at the state and local level
- ✓ **Private Equity:** Increasing interest on the part of Private Equity to participate in Mass Timber, particularly funds that have a sustainability mandate
- ✓ **Government Loan Programs:** Potential utilization of USDA and SBA Loan and Loan Guaranty programs
- ✓ **Thematic Investors:** Growing interest on the part of the Rural Business Investment Company (RBIC) universe in value-add wood products opportunities (e.g., Open Prairie/Go Labs)
- ✓ **Strategic Investors:** Established companies in the value chain such as lumber producers and real estate developers
- ✓ **Off-Take Partnerships:** Other strategic investor prospects may include large end users such as Google, Microsoft, and Amazon
- ✓ **Feedstock Partnerships:** Timber owners interested in expanding into downstream, value-add operations (e.g., Timberland Investment Resources/Mission Forest Products; New Forests/Timberlink Australia)
- ✓ **Carbon Markets:** The rapidly evolving carbon markets create additional opportunities and appeal for sustainable investor participation

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## APPENDIX

## SOURCES OF CAPITAL FOR MASS TIMBER PARTICIPANTS

- ❑ **HoldCo Equity** → The highest capital cost in the capital stack. The HoldCo may own interests in a number of separate projects. HoldCo represents the entity that would be part of a liquidity event such as the sale of the company or an IPO.
- ❑ **Structured Equity** → Structured Equity is equity at the project level. It will normally be in the form of Preferred Stock that is subject to a waterfall based on realized distributions. Structured Equity can also take the form of Mezzanine Debt with all-in returns in the high teens depending on the risk profile of the project. Structured equity can be a substitute for HoldCo equity.
- ❑ **Project Finance Debt** → Debt that will be drawn based on construction milestones. Project Finance Debt is expected to be refinanced with Term Debt at project completion with a longer-term amortization.
- ❑ **Term Debt** → Term Debt is secured when a project is commissioned and is usually five to seven years in duration and may include first and second lien tranches. Term Debt capacity levels will be a function of the quality of the off-take agreements. Term Debt capacity also increases as projects are proven to be de-risked.
- ❑ **Working Capital Debt** → Working Capital Financing is debt secured by project level current assets such as feedstocks, ingredients, supplies, work-in-process, and finished goods inventory and is usually one to three years in duration and often includes interim financial reporting requirements.
- ❑ **Tax Exempt Debt** → Certain projects may qualify for tax-exempt debt by virtue of attributes such as waste disposal. Tax Exempt Bonds are generally placed privately with large institutional tax-exempt investors, contain relatively low interest rates and longer amortization periods; but have complex reserves and a more complicated issuance process.
- ❑ **United States Department of Agriculture (“USDA”) Loan Programs** → For projects that qualify as agricultural or where the project is located in a rural area, the USDA provides several loan programs that offer tax advantages and attractive interest rate scenarios.
- ❑ **Opportunity Zones** → For projects located in designated Opportunity Zones, OZ equity financing may be available with powerful tax incentives. *The Manus Bio Augusta, GA manufacturing facility is a good case study.*
- ❑ **Other Non-Dilutive Financing Support** → Federal, State & local grants, Property & Sales Tax exemptions, Economic Development Loans, and DOE Loan Guarantees