



**Debt Advisory**



**Equity Advisory**



**Strategic Advisory**

# **Biogas Financing**

## Correlation between Return and Project Financing

3 March 2016

# SUMMARY

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## 1. INTRODUCTION

## 2. TRADITIONAL BIOGAS FINANCING

## 3. INNOVATIVE BIOGAS FINANCING

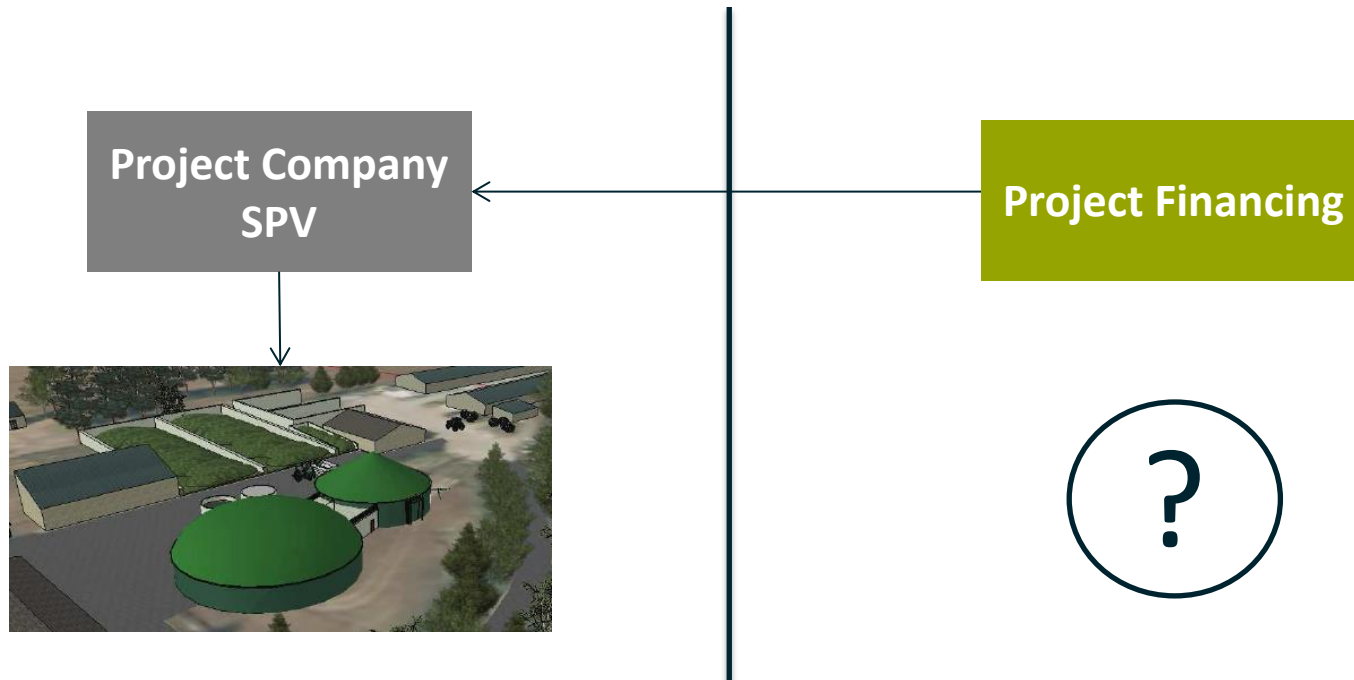
## 4. SUM UP



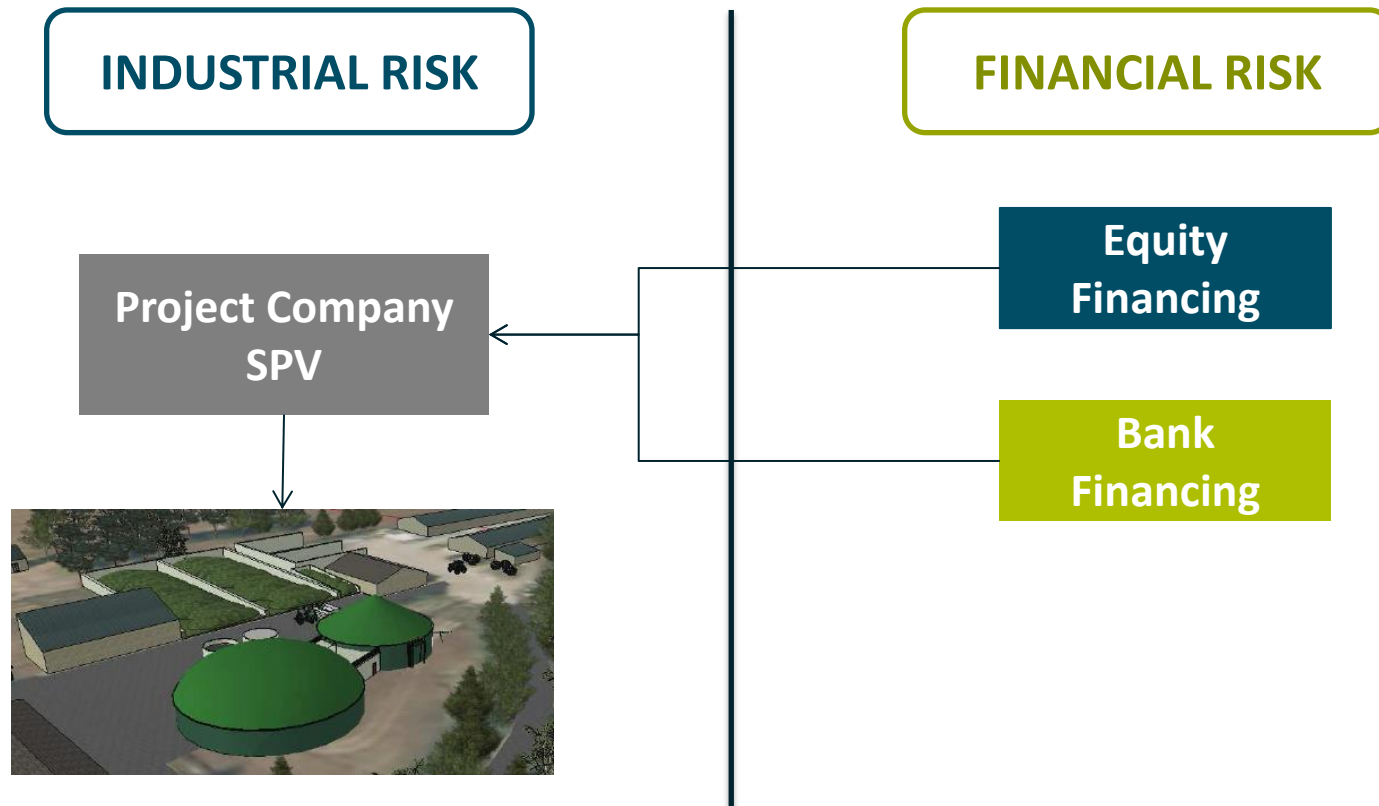
# INTRODUCTION

## QUESTION

- ✓ What is the best way to finance a biogas plant in order to optimize the return and the interests of each party involved ?



# INTRODUCTION



## COMMENTS

- ✓ The biogas plant has its own operation risk : the industrial risk
- ✓ As soon as the financing is not 100% equity, a financial risk is added to the industrial risk
- ✓ This risk needs to be managed to be sure the financial risk won't threaten the life of the project



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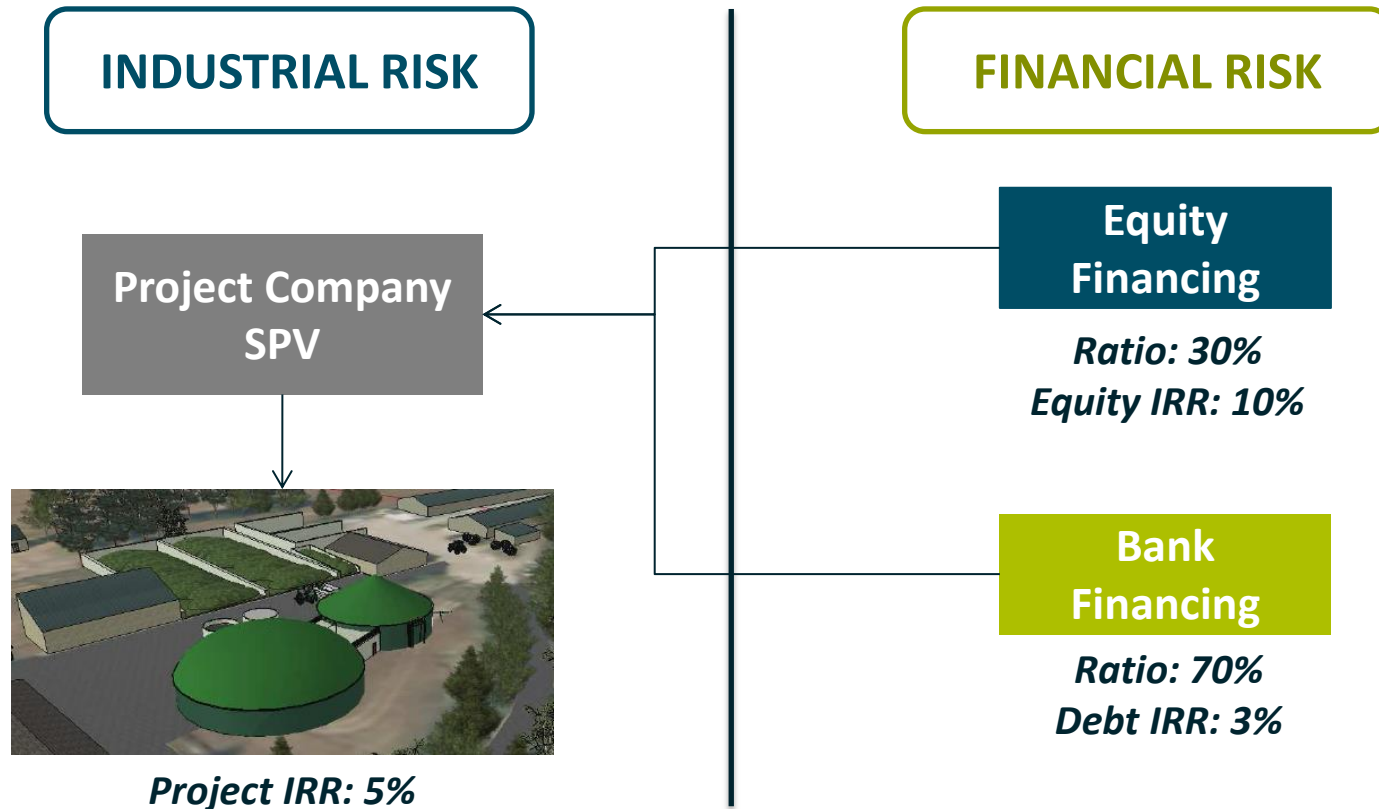
**2. TRADITIONAL BIOGAS FINANCING**

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4. SUM UP



# TRADITIONAL BIOGAS FINANCING



## COMMENTS

- ✓ The Bank takes a lower risk than the Investor since the debt repayment is priority
- ✓ So the return asked by bank is lower enable the Investor to get a better IRR than the Project IRR, this is a **Leverage Buy Out** transaction



# TRADITIONAL BIOGAZ FINANCING – DEBT

## COMMERCIAL BANKS CONDITIONS

- ✓ Loan duration                      13 years    (15 years less 2 safety years)
- ✓ Interest rate                      Euribor 3 months                      0%  
    Bank Margin                              2,0% to 2,5%  
    SWAP margin                              0,5% to 1,0%  
    **TOTAL**                                      **2,5% to 3,5%**
- ✓ Upfront Banks fees              Lead bank                              0,7% to 1% of the loan  
    Participating banks                      0,3% to 0,5% of the loan  
    **TOTAL**                                      **1,0% to 1,5% of the loan**
- ✓ Annual Banks fees              1 000 €/year to 5 000 €/year  
    Potential extra-fees during the ramp-up period
- ✓ Debt Service Reserve Account (DSRA)
  - Goal : To have a treasury reserve in order to pay back the loan even if the project couldn't generate enough cash flow
  - Market practice: 6 months of the debt servicing
- ✓ Debt Service Coverage Ratio (DSCR)
  - Goal : To be sure annual cash flow generated by the project will be enough to pay back the loan
  - Calculation :  $(EBITDA - Taxes) / Debt\ servicing$
  - Market practice :  $DSCR > 130\%$  (on average)



# TRADITIONAL BIOGAZ FINANCING – DEBT

## COMMERCIAL BANKS GUARANTEES

- ✓ Pledge on the shares of the SPV
- ✓ Pledge on the assets (PV plant, wind turbine)
- ✓ Mortgage on the land
- ✓ Assignment of EDF OA receivables under the Dailly Law mechanism
- ✓ Delegation of the insurance contracts towards Banks
  - Civil liability
  - All-risks insurance
  - Lost of revenues insurance
- ✓ Lock-up on dividends distribution :
  - During the first years in order to constitute the DSRA
  - If DSCR < 110%
- ✓ Partial or Total Corporate Guarantee
- ✓ Swap contract : to hedge 70% to 100% of the loan over a period of 10 to 13 years





# TRADITIONAL BIOGAZ FINANCING – DEBT

## BANK DUE DILIGENCES

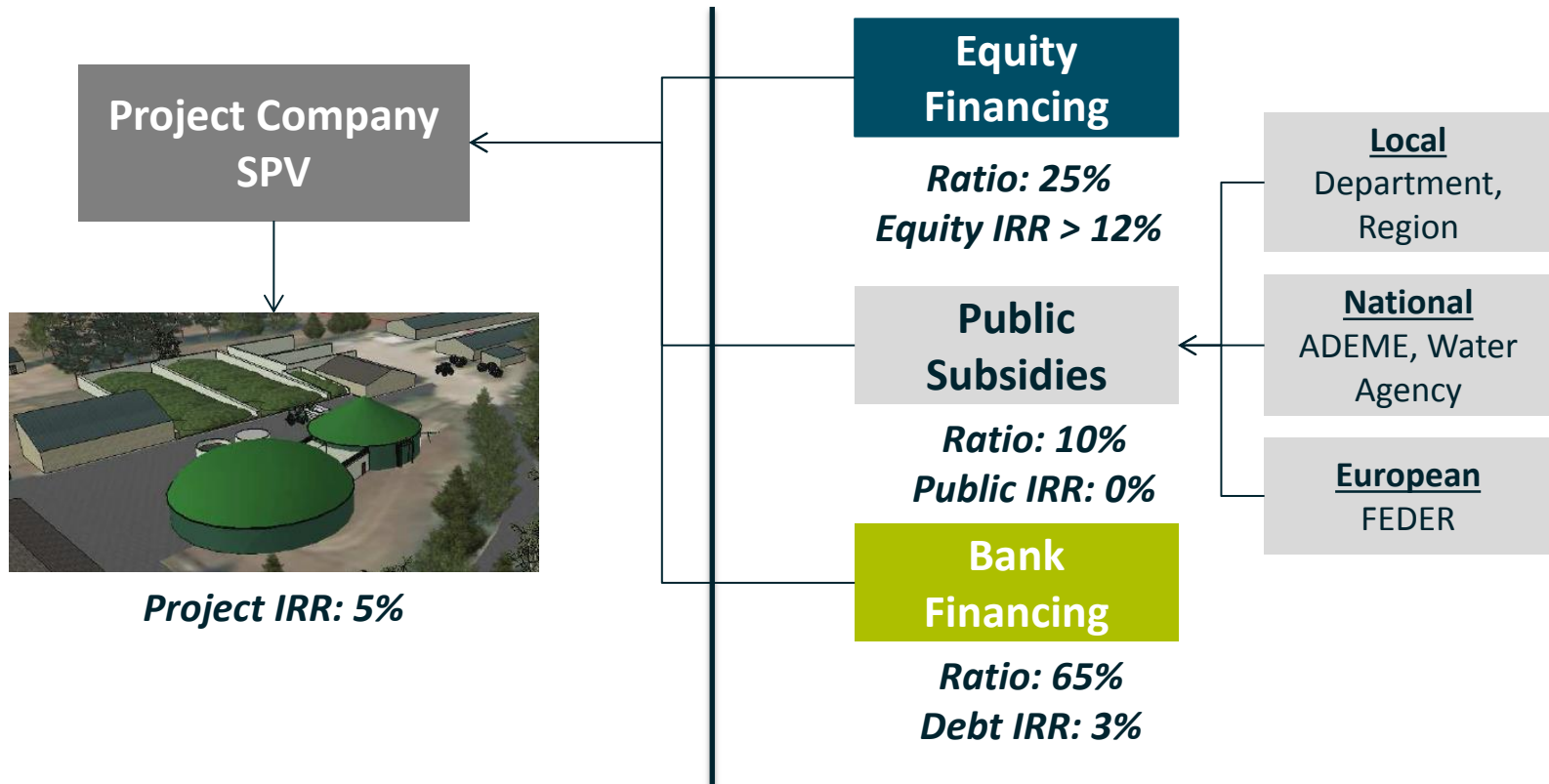
- ✓ Legal due-diligence
- ✓ Technical due-diligence
- ✓ Insurance due-diligence
- ✓ Fiscal due-diligence (VAT issues)

## DON'T FORGET

- ✓ To set-up a VAT and a Subsidies bridge loan
- ✓ To implement a long enough differed reimbursement to cover the first debt repayments
- ✓ To incorporate the bridge interests in the capex
- ✓ To provide financing of the working capital (storage premises for farm inputs)
- ✓ To set-up a BPI counter-guarantee (for France)



# TRADITIONAL BIOGAS FINANCING – SUBSIDIES



## COMMENTS

- ✓ Public subsidies reduce the financial risk and :
  - Secure the funding of the project
  - Reassure banks
  - Improve the return of the Investors



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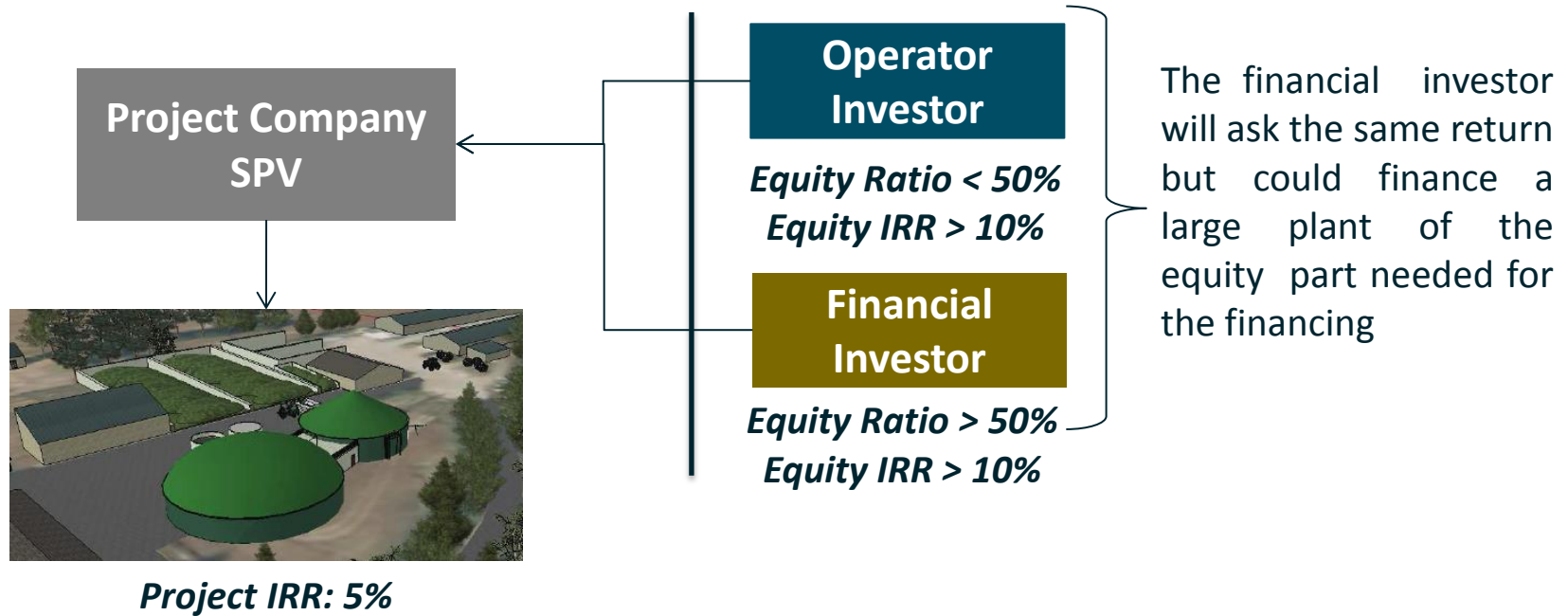
2. TRADITIONAL BIOGAS FINANCING

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# INNOVATIVE BIOGAZ FINANCING – EQUITY



## COMMENTS

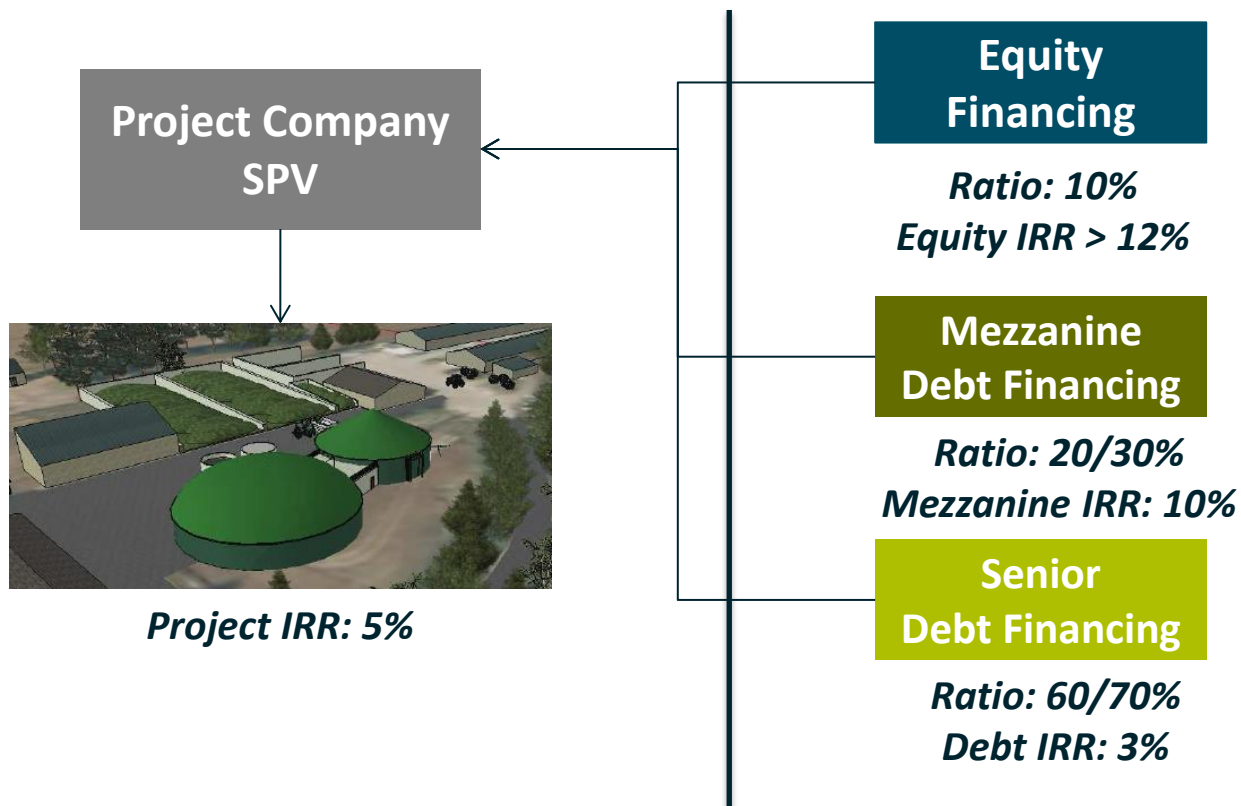
- ✓ Even if the operator investor doesn't have enough funds to maintain the shareholding majority, **shareholders loans** or **convertible bonds** will enable him to keep the political power
- ✓ We named these tools : **Quasi Equity**

## EXAMPLE

	Operator Investor	Financial Investor	Total
Equity	51 000 €	49 000 €	100 000 €
<i>Political Power</i>	<i>51%</i>	<i>49%</i>	<i>100%</i>
Shareholder loans / Convertible bonds	0 €	900 000 €	900 000 €
Total Equity	51 000 €	949 000 €	1 000 000 €
<i>Financial Power</i>	<i>5%</i>	<i>95%</i>	<i>100%</i>



# INNOVATIVE BIOGAZ FINANCING – MEZZANINE

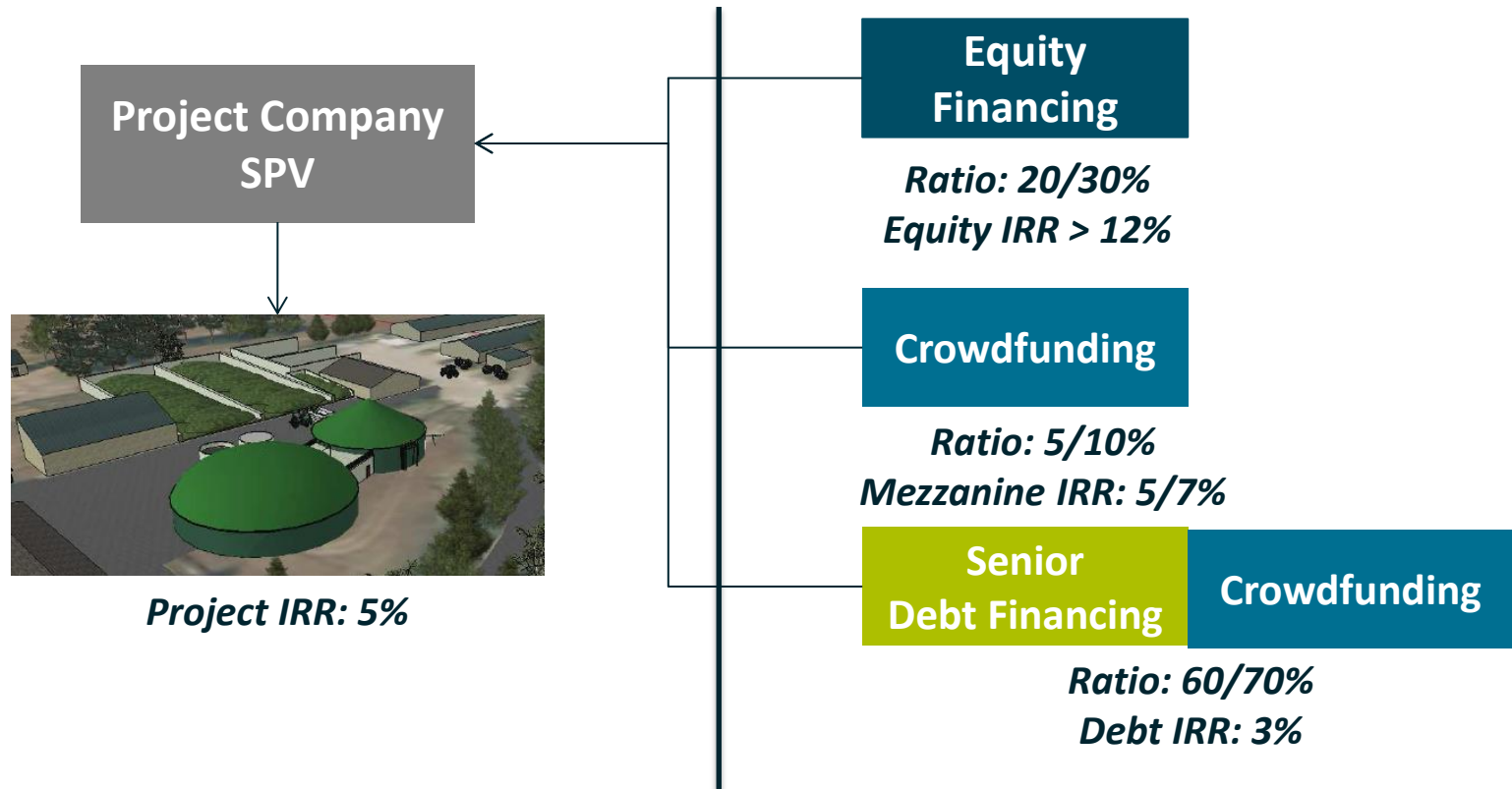


## COMMENTS

- ✓ Generally used on operating plants and for several project companies
- ✓ Duration : From 5 to 8 years
- ✓ Interest Rate : could be partly cash (3-5%) and peak (5-7%)



# INNOVATIVE BIOGAZ FINANCING – CROWDFUNDING

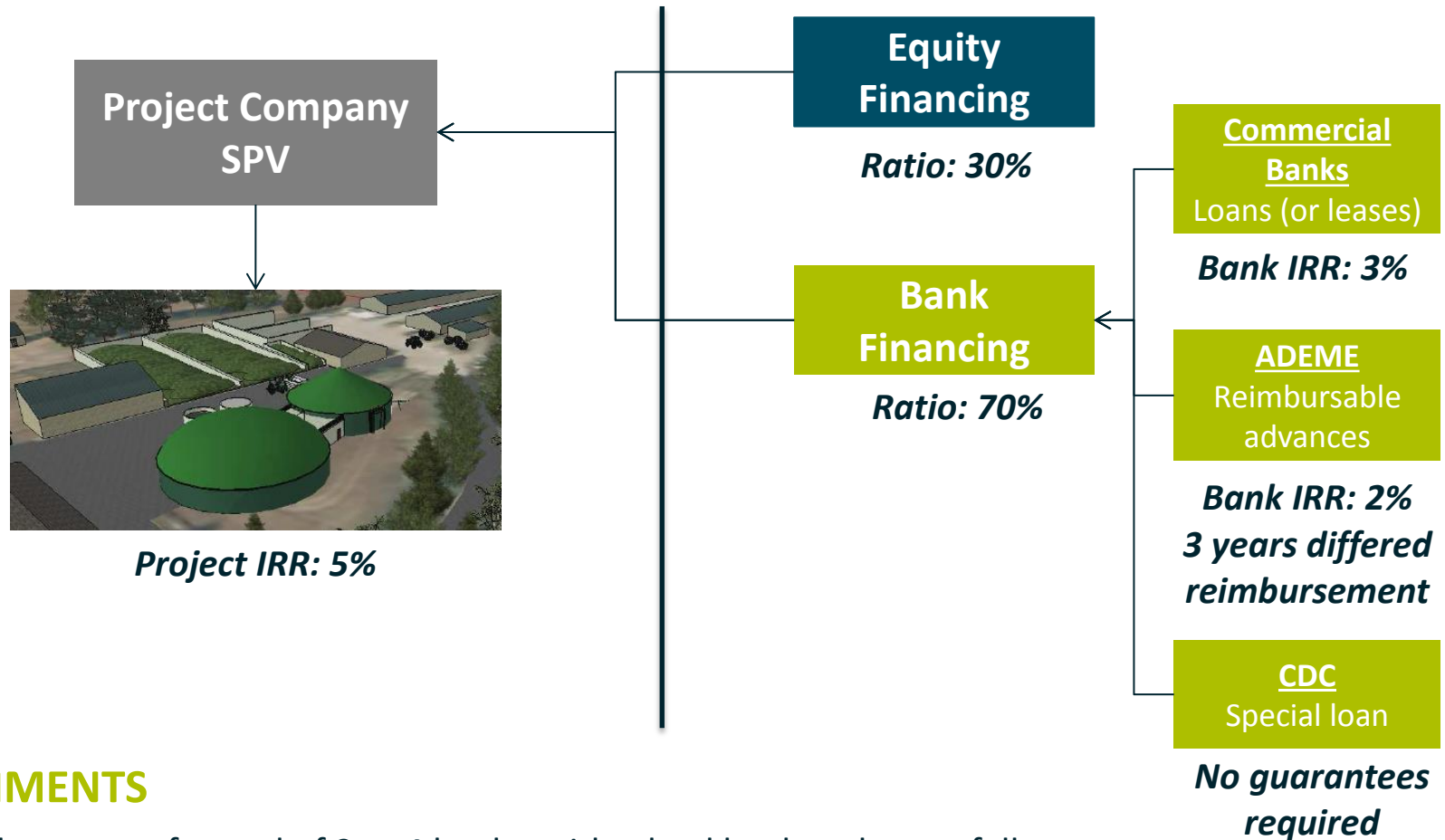


## COMMENTS

- ✓ The citizen could invest in renewable energy projects either aligned with bank conditions, or as debt mezzanine holder
- ✓ Duration : From 1 year (construction phase) to 5 years (operating phase)
- ✓ Interest Rate : 5% to 7% (on average)



# INNOVATIVE BIOGAZ FINANCING – DEBT



## COMMENTS

- ✓ Usually, set-up of a pool of 2 to 4 banks with a lead bank and some followers
- ✓ Bank Financing is not only loans but could be lease financing (less and less used) or special set-up by public entities (ADEME, Caisse Des Dépôts)



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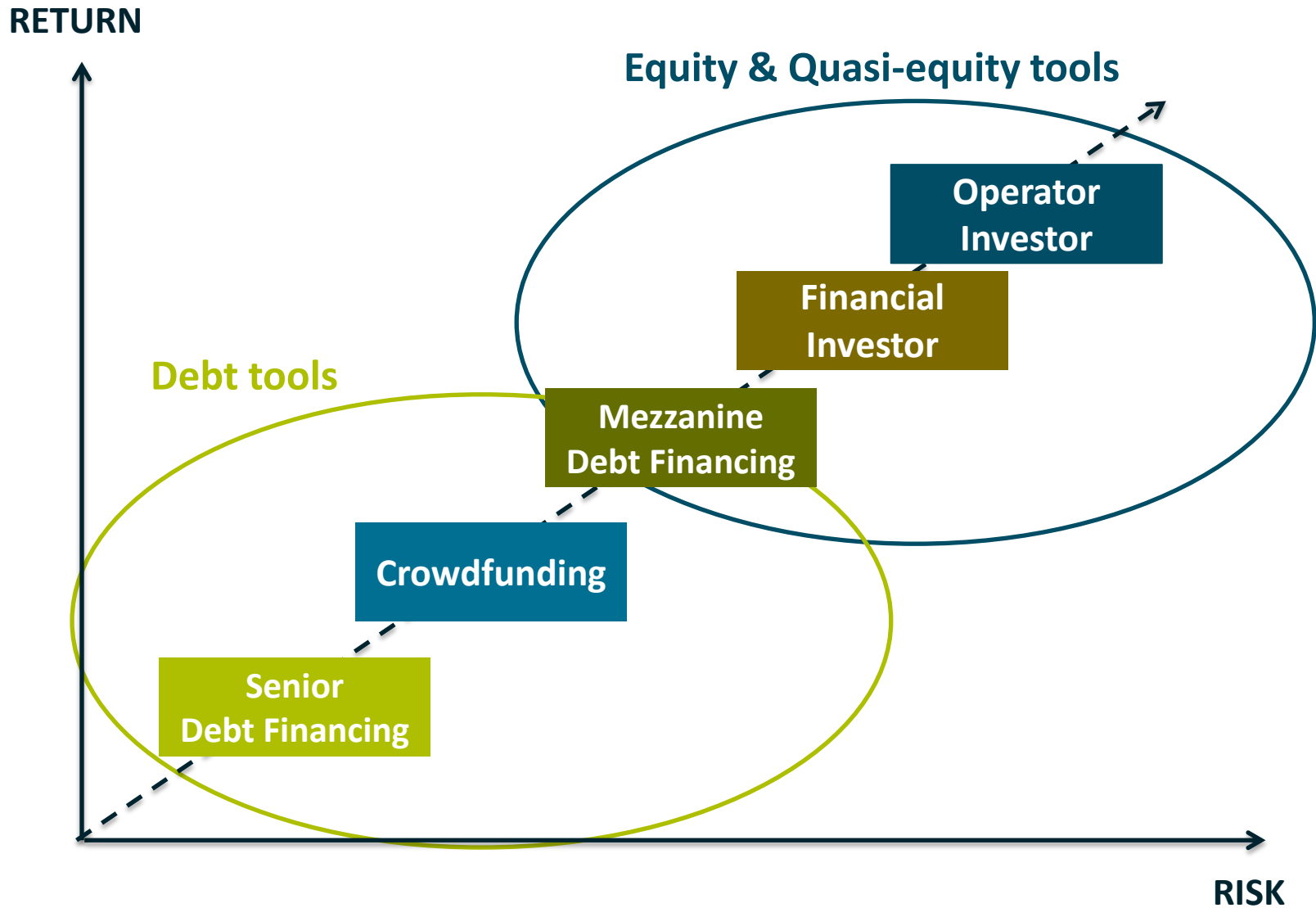
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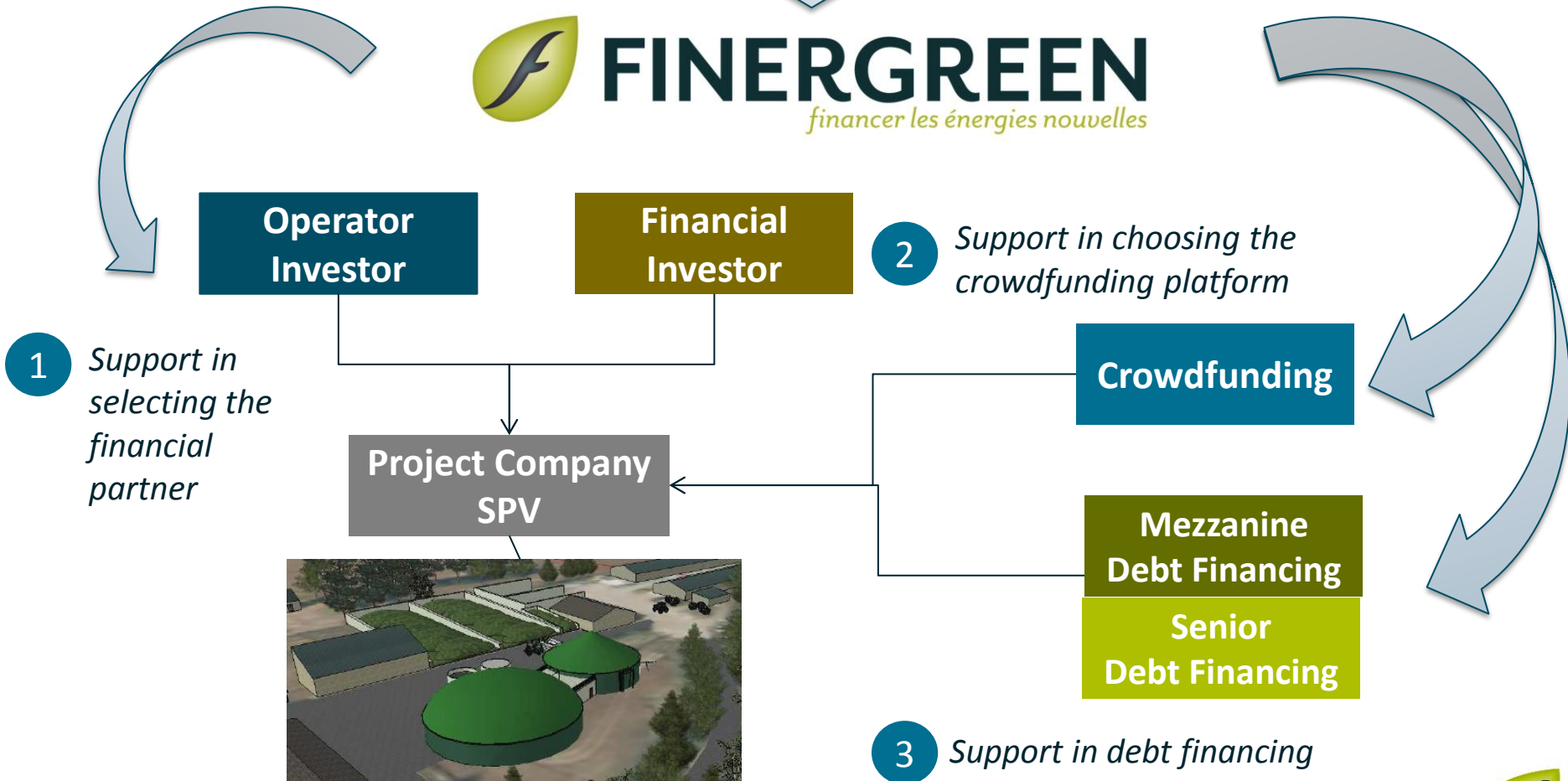


# SUM-UP



# SUM-UP

*One single contact supporting project owners  
for biogas financing issues*



# THANK YOU FOR YOUR ATTENTION



**FINERGREEN**  
*financer les énergies nouvelles*

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