

*Welcome to*

# THE CONSERVATION FINANCE INTENSIVE

2019



Australian Government

Department of the Environment and Energy



Biodiversity  
Conservation  
Trust

1:45pm to 2:30pm

## Structuring a deal - due diligence, modelling and aligning interests

Ben Krasnostein, Principal & Managing Director, Kilara Capital

**THE CONSERVATION  
FINANCE INTENSIVE**





Blended Conservation Finance  
Feasibility & Structuring  
October 2019

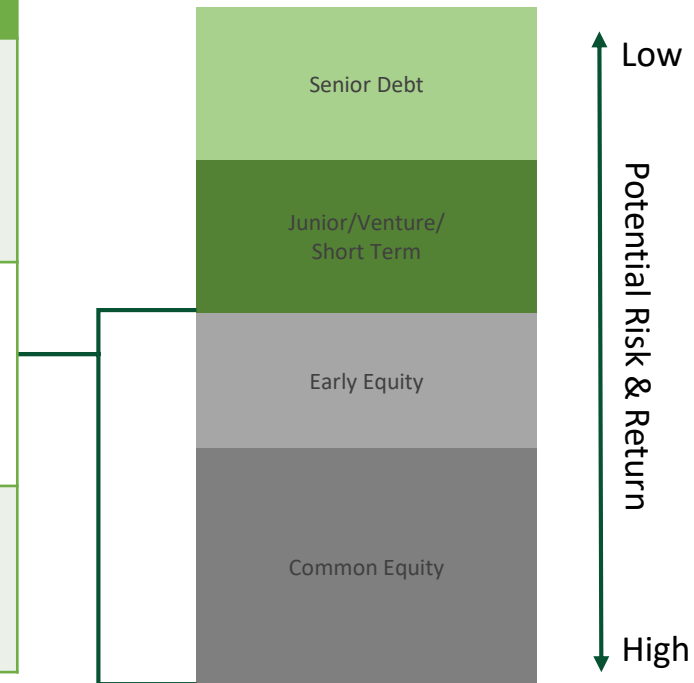
Ben Krasnostein – Managing Director, Kilara Capital

# Private Equity

**Equity Capital – Money invested which equates to ownership of a business or project.**

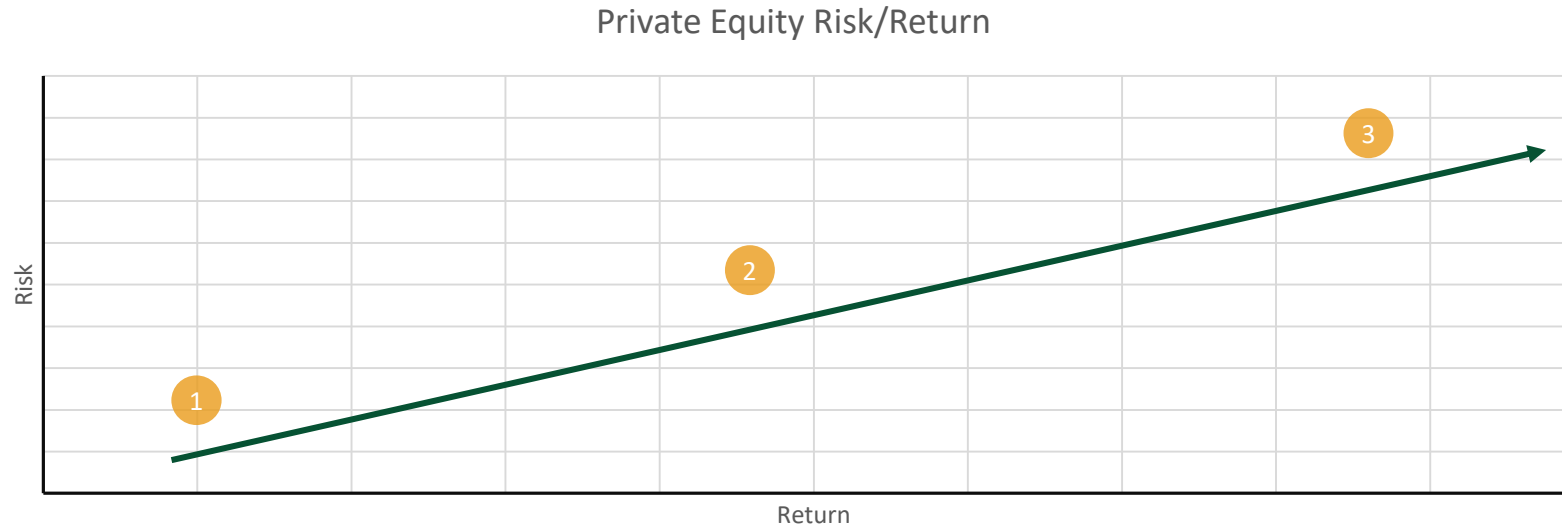
| Classification                        | Security                                                                                                                                                 | Investors                                                  |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| Development/ Early Stage/ Seed Equity | Prepared to take risk in the early stages of a business or project. Generally seeking higher returns (or ownership %) for the risk of 'coming in early'. | Venture investors, Angel investors, Development investors. |
| Long Term/ Patient Equity             | Prepared to back Founders or Project developers for the "long haul". Can invest early or late in the project/business but want to leave their money in.  | Super funds, Family Office, HNW's.                         |
| Short Term/ Exit Focused Equity       | Interested in short term gains. Focussed on exits and valuations rather than long term prospects.                                                        | Hedge Funds, HNW's, Private equity Funds, Family Office.   |

Typical Capital Stack



# Risk vs Return – Equity Investors

All savvy investors will ask themselves the following questions (amongst MANY others)



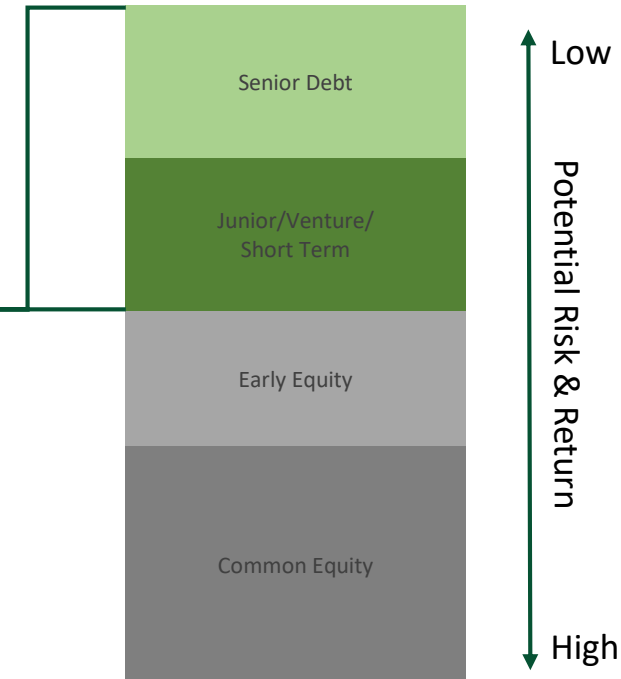
- What are the risks of the investment?
- What level of return/reward should I receive for this level of risk?
- How long will it take me to receive these returns? (and what are my re-investment options for shorter duration investments)
- What non-financial outcomes will the business or project deliver?

# Debt Finance

**Debt Capital – Money lent which often has a first right to repayment before any owners receive their distributions**

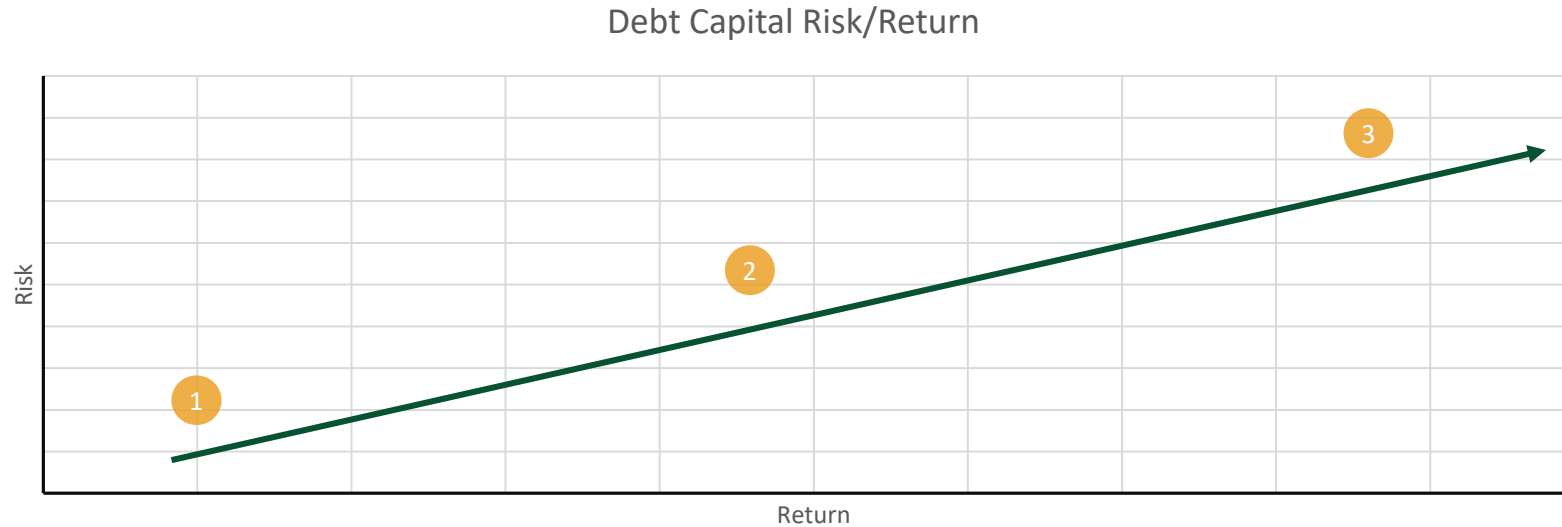
| Classification          | Security                                                                                                                                                                                                                                                                 | Lenders                                                             |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Venture Debt            | Lenders prepared to take early stage risk when lending to a business or project. Generally seeking higher returns (INTEREST RATE) for the risk associated with lending money to a somewhat “unproven” business or development project.                                   | Family Office, HNW’s, Second-tier corporate lenders.                |
| Short Term Debt         | Lenders seeking quick repayment timeframe. May or may not be early stage and risky. Sometimes called “bridge” lending – Building a bridge to the next stage of the project or business.                                                                                  | Second tier lenders, HNW’s, Family Offices, Trade finance providers |
| “Senior” Long Term Debt | Lenders seeking more traditional loan terms and exist to provide support for a project or business over longer time periods. Risk can vary depending on a range of factors, including the security offered for the loan.                                                 | Major Banks, Corporate lenders, Bond issuers.                       |
| “Junior” Long Term Debt | Lenders seeking longer term loans but happy to take more risk by being “junior” to another lender. That is, they only get repaid after the “senior” lender has been repaid in full. Hence the risk is higher and the return expectations (INTEREST RATE) is also higher. | Major Banks, Corporate lenders, Bond issuers, Family Office, HNW’s. |

Typical Capital Stack



# Risk vs Return – Debt Investors

All savvy Lenders will ask themselves the following questions (amongst MANY others)



- Does the business generate enough cash flow to afford interest payments?
- How will the principal be repaid?
- What security does the instrument have?
- How will the Lender structure the repayments and other terms to assist the business achieve its stated outcomes?

# Debt Finance & Conservation

What is the relationship between debt finance and concessional or conservation finance?

## Cash Flow Considerations

- Debt instruments can be very effective when it comes to structuring a conservation project, especially when these projects are generating cash flows to service the debt.

## Value Creation

- COULD CONSERVATION PROJECTS TAP INTO THESE FORMS OF SUSTAINABLE FINANCE, BY VIRTUE OF THE FACT THAT THEY ARE INHERENTLY CREATING POSITIVE CLIMATE OUTCOMES AND CONTRIBUTING TO SOIL HEALTH, BIODIVERSITY AND STORAGE OF CARBON ?

## Risk Management

- We are seeing more traditional and innovative lenders applying a “sustainable lens” to the lending criteria and some are starting to “bake in” the risks associated with climate and lack of resilience. Eg; Higher interest rates for projects that are not “sustainable” and not taking into account climate resilience and/or mitigation and/or adaptation principles.

## Supply of Capital

- In many cases conservation finance “fills the gap” where other traditional avenues like bank or non-bank lending are uncomfortable with the risk or uncertainty of cash flow generation from the project.

# Structuring Your Capital Stack

Can traditional equity and debt instruments fund the project or business? Or does it require concessional capital to fill the gaps? See PAGE 25 of the Reference Guide.

## Cost of Equity

- Seed Equity – 50%+
- Growth Capital – 30%+
- Private Equity – 20%+
- Listed Equity – 10%+

## Benefits of Concessional Capital

- Value non-financial outcomes and attribute financial concessions for achieving those outcomes
- Comfortable with uncertainty around returns
- Often able to be “first-mover” or “cornerstone” investors to catalyse the rest of the capital stack

## Cost of Debt Finance

- Venture Debt – 10-20%
- Short Term Debt – 8-12%
- Junior (“Mezzanine”) Debt – 10-15%
- Senior Debt – 4-8%

## Cost of Concessional Capital

- Grants/ Philanthropy for Land – Free
- Conservation Finance – 3-10%
- Impact Orientated Equity – 3-6%
- Concessional/’Sustainable’ Finance – up to 100bps discount for same credit risk

# Financial Models

## Financial Feasibility – 2 sides of the coin

### Financial considerations for your project

- As a project developer/business owner you will have to make the first assessment of whether or not the business case or project is feasible. You will then have to assess the most appropriate way to finance the opportunity.
- SHOULD IT BE DEBT ? SHOULD IT BE EQUITY ? SHOULD IT BE A COMBINATION ? SHOULD YOU/CAN YOU SEEK CONCESSIONAL FORMS OF FINANCE (Eg; grants, philanthropy) ?
- THEN – The Financier (Debt and/or Equity) will make their own assessment and may have a different view.
- Be prepared to be well versed and confident but also flexible to discuss alternate options as presented by an investor.
- DO NOT SAY THAT YOU ARE OPEN TO WHATEVER AN INVESTOR SUGGESTS !

### Building a financial “story”

Assess inputs

Model sensitivities

Compare to  
benchmarks

Revise and iterate

# Financial Models

## Financial Feasibility – 2 sides of the coin

### Sustainability considerations for your project

- How do we present non-financial projections?
- How realistic are they?
- How are they measured?
- WHAT ARE SOME EXAMPLES OF NON-FINANCIAL OUTCOMES THAT YOUR PROJECT OR BUSINESS SEEKS TO ACHIEVE?
- ALWAYS ASSESS AND PRESENT BOTH SIDES OF THE COIN !
- EXAMPLES OF MEASURABLE NON-FINANCIAL OUTCOMES
- CO2e – Carbon
- Increase in Biodiversity
- Water quality
- Jobs
- First nations ownership and skills

### Building a sustainability “story”

Build base line

Project outcomes

Are outcomes  
proportionate to capital  
invested and baseline?

Measure and report

# Financial Model Checklist

Does your model contain these features?

- ✓ Realistic Assumptions
- ✓ Sensitivities
- ✓ “3 Way Model” (Profit and Loss, Cash Flow Statement, Balance Sheet)
- ✓ Low/Base/High Case
- ✓ Historical trends/actuals
- ✓ Working macros and formulas – GET EXTERNAL VERIFICATION IF POSSIBLE
- ✓ CAPEX v OPEX – Often more relevant for PROJECTS...some investors may want to invest (pay) for different things and take risk on different parts of a project.
- ✓ EXITS – WHAT is the projection in terms of value ? WHEN do you predict an Exit from the investment ? WHO will buy the business or project ? HOW will the Exit take place (IPO, “Trade Sale”, Partial Sale).
- ✓ Alignment of Interests – How do we balance the interests of investors, founders, potential purchasers, employees, natural capital ? We need to be thinking of this as we assess Feasibility, Structure, Value ALL THE WAY THROUGH THE PROCESS, including as to how we project an Exit Event. If we are seeking true value and wealth creation in a regenerative system, we must align multiple interests.

# Kilara Capital

**Kilara is an investment manager specializing in originating investment opportunities in the food and agriculture sectors which provide meaningful economic, environmental and social outcomes.**

## Dedicated Impact Funds Manager

- Dedicated to driving responsible investment to support a low carbon future, with a focus on food, agriculture and renewable energy.
- Developing a unique approach to sourcing, validating and managing investment vehicles with a capacity to address large-scale global issues.
- Multi-faceted approach to delivering investor return using an active impact thesis more stringent than comparative environmental, social and governance (“ESG”) measures.
- Bringing together leaders in industry to deliver outcomes promoting a sustainable shared future.

## Investment Experts

- Deep sector knowledge able to drive differentiated market analysis and research.
- Offices in Melbourne and Adelaide, plus access to a network of experienced advisors, managers and technical resources within food, agriculture and renewable energy
- Connected across the entire food supply chain; from real assets through to marketing and distribution.
- Promote innovative investment structure which are underpinned by co-investment by Kilara Capital and it’s related entities.



Real Assets



Carbon Markets



Private Equity



Modern Food

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2:30pm to 3:10pm

## The art of pitching

Simon Turner, Manager, PlanetRegen

Carl Palmer, Managing Director, LegacyWorks

**THE CONSERVATION  
FINANCE INTENSIVE**



SIMON TURNER,  
FOUNDER, PLANETREGEN:

Conservation Finance – Do's and  
Don'ts of Pitching



## Pitching

Attracting capital for your  
projects/investments.

A two way street – supply/demand.

Why?

All investors need to work through an investment decision making process which starts with hearing the idea, the pitch.





How?

STEP ONE – gain their attention

STEP TWO – gain their intention

**STEP  
ONE**  
**Gaining  
their  
attention**

1. Know your audience
2. Package as a offer
3. Position to meet a market need
4. Ensure offer is sharp

## Knowing your audience

1. AS A GROUP – consider the 4 human drives (to acquire, to bond, to comprehend & to defend): which is the dominant drive in this group?
2. AS INDIVIDUALS – consider the 3 human self-perspectives (how we see ourselves, how we want others to see us & how we see ourselves in the future). How does your offer help this person on their journey?



**STEP  
TWO:  
Gaining  
their  
intention**

1. Compelling
2. Easy: to like, to invest
3. Emotional connection
4. Trust



## Conservation specific challenges

Audience needs educating

Most people have a limiting belief that making money & conservation are mutually exclusive

Perceived lack of invest-ability & scale-ability

## The real issue

Most investors are scared of investing away from the crowd in something different

Stay in pitch mode rather than educator mode

*Tip: focus on stories involving real people which highlight benefits rather than features*

## Do's

Dumb it down

Subtract to focus : less is more

Make sure you mention the financial returns up front or explain them through story

## Do's

Include charts, data, testimonials, etc to improve credibility

Ask what your audience needs from you to invest

*To Do List:*

## Don'ts

Get caught up in discussing the big picture

Talk a language your audience doesn't understand

Try to look like everyone else

Keep talking once you've clearly won your audience over

Look or feel desperate

## The Secret

“The secret... convince yourself that your project is worth investing in, and then when you explain to investors they’ll believe you”. Paul Graham