

## ASSESSMENT

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# Southern Ohio Port Authority - PureCycle: Ohio LLC

## Green Bond Assessment

### Summary analysis



### Summary opinion

A GB1 (Excellent) grade is assigned to the \$185 million Exempt Facility Revenue Bonds (PureCycle: Ohio LLC Project), Series 2019, to be issued by Southern Ohio Port Authority (the Issuer), with the purpose of funding the construction of a plastic recycling facility by PureCycle: Ohio LLC (the Company), including capitalized interest, and meeting related issuance cost and debt service reserve requirements.

Key considerations in our assessment include:

- » Use of funds to construct a qualifying plastic recycling facility
- » Third party verification of the use of funds according to construction milestones
- » Our expectation of comprehensive impact reporting practices over the life of the bonds

Factor	Factor Weights	Score	Weighted Score
Organization	15%	1	0.15
Use of Proceeds	40%	1	0.40
Disclosure on the Use of Proceeds	10%	1	0.10
Management of Proceeds	15%	1	0.15
Ongoing Reporting and Disclosure	20%	1	0.20
Weighted Score			1.00

The transaction's weighted score, using the green bond scorecard, is 1.0. This, in turn, corresponds to a GB1 grade.

## Profile

PureCycle: Ohio LLC is a limited liability company set up specifically for the purpose of constructing a proprietary facility to convert roughly 119 million pounds a year of waste polypropylene (a type of plastic) to roughly 107 million pounds a year of virgin-like quality Ultra-Pure Recycled Polypropylene. The project will use the proprietary technology originally developed by Procter & Gamble and licensed from P&G to PureCycle Technologies LLC.

The Company is a subsidiary of PureCycle Technologies LLC, founded in 2015 as a result of collaboration between Procter & Gamble and Innventure LLC, which is an investment company specializing in commercializing highly disruptive technologies. The purpose behind PureCycle Technologies LLC is to commercialize the process in order to create a new segment in the global polypropylene market while meeting Procter & Gamble's sustainability goals. Its management's intent is to create more of similar special purpose entities that would use the same process to construct similar facilities. Procter & Gamble's license envisions construction of such facilities in multiple locations worldwide. Procter & Gamble is joined by Nestle (global food and beverage company), Milliken (a diversified industrial manufacturer), and Ravago (a leading plastics supplier) who are strategic partners to PureCycle Technologies LLC.

## Transaction Summary

The \$185 million Exempt Facility Revenue Bonds (PureCycle: Ohio LLC Project), Series 2019, will be issued by Southern Ohio Port Authority (the Issuer). The proceeds of the issuance will be disbursed to PureCycle: Ohio LLC with the purpose of constructing a plastic recycling facility, fund a debt service reserve fund in connection with the issuance, finance the capitalized interest associated with the construction, and pay the service costs associated with the bonds. Pursuant to the loan agreement between the Issuer and the Company, the Company will make payments sufficient to pay the principal and interest on the bonds. The debt will be secured by a gross pledge of all revenues of the Company, and a first lien on all of its assets, including the facility and material contracts.

## Strengths and Weaknesses

Strengths	Weaknesses
Green note proceeds allocated to qualifying projects consistent with Green Bond Principles	Quarterly impact reports post-construction are not audited by independent party
Comprehensive impact reporting at the time of issuance and over the life of the bonds	
Third party verification of the use of funds according to construction milestones	

## Organization



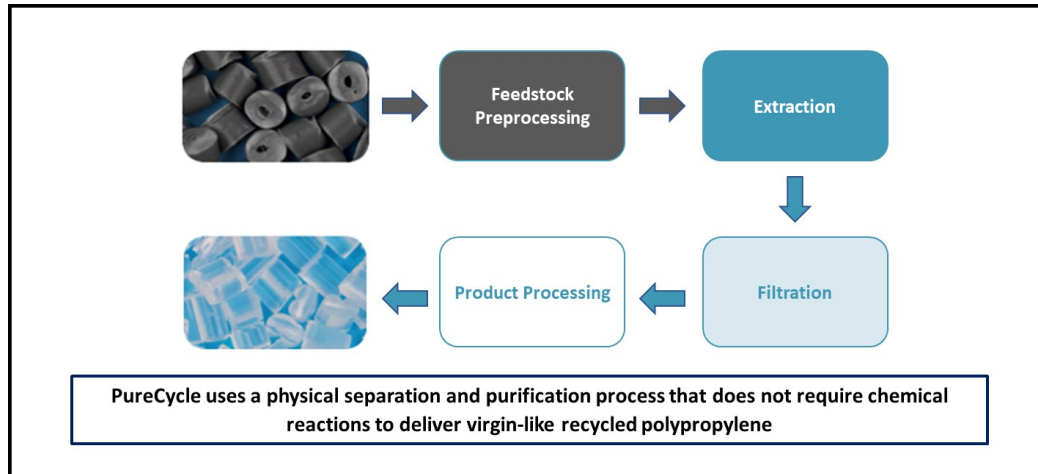
The technology used for the facility was initially developed by Procter & Gamble in response to the unmet need in the market for recycled polypropylene that delivers virgin-like properties for use in consumer good applications. The recycling process commonly used today produces grey or black plastic pellets with odor and purity issues that make it suitable for only limited applications. In contrast, the PureCycle purification process uniquely separates color, odor and other contaminants from waste plastic to transform it into virgin-like resin (see Exhibit below). The process, if implemented, will reduce the overall polypropylene waste in the world's landfills and help address the global plastics crisis further discussed below.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Exhibit 1

**Summary of the PureCycle Purification Process**

Annual conversion of 119 mm lbs of waste into roughly 107 mm lbs of recycled plastic



Source: Company reports

The development and management team includes seasoned executives of more than a dozen start-up technology companies that were successfully commercialized, in addition to finance, science and management leaders from senior management roles in companies such as Amazon, P&G, Walgreens and Deloitte.

The indenture documents require the Company to retain a nationally recognized independent engineering consultant to prepare an Independent Engineer Report setting forth the results of its technical, environmental and economic review of the facility. The company has retained Leidos Engineering Inc. (Leidos) as an engineering consultant, and the Independent Engineer Report will accompany the bond offering.

The indenture documents also subject the Company to certain financial covenants. If the Company is in violation of certain financial covenants, it is required to retain an independent consultant to make recommendations to improve the financial performance of the project. In addition, the engineering consultant will serve as a construction monitor for the project, and will publish monthly construction progress reports to the lenders until the construction is complete.

As discussed below, the management team prepared an internal estimate of the non-renewable energy use (NREU) to quantify the expected energy savings from the PureCycle process.

<b>Factor 1: Organization (15%)</b>	<b>Yes</b>	<b>No</b>
Environmental governance and organization structure appear to be effective	•	
Policies and procedures enable rigorous review and decision making process	•	
Qualified and experienced personnel and/or reliance on qualified third parties	•	
Explicit and comprehensive criteria for investment selection, including measurable impact results	•	
External evaluations for decision making in line with project characteristics	•	
<b>Factor Score</b>	<b>1</b>	

**Use of Proceeds**

The proceeds of the bonds will be used entirely to fund the construction of the plastic recycling facility, including capitalized interest, and to fund the debt service reserve requirements and issuance costs (see Exhibit below).

Exhibit 2

### PureCycle: Ohio LLC

#### Project Estimated Sources and Uses

Sources		Uses	
Green bonds	184,540,000	Construction, contingency and commissioning costs	225,820,237
Subordinate debt	31,000,000	Capitalized interest	40,476,000
Other grants and equity	81,473,000	Debt service reserve fund	18,454,000
		Issuance costs	12,262,763
	297,013,000		297,013,000

Source: Company reports

Under the Green Bond Principles, qualifying green project categories include pollution prevention and control (including waste prevention and recycling) and energy efficiency (such as in energy efficient products). The PureCycle facility qualifies as green under the GBP, because the process recycles plastic waste, minimizes landfill use and consumes significantly less energy than the traditional resin production life cycle (see further discussion of impact measurement below).

Millions of tons of global plastic packaging waste are generated annually, with over eight million tons ending up in oceans and waterways, affecting quality of water and marine life.<sup>1</sup> The American Chemistry Council is seeing greater awareness in the way that industries generating the waste can help ensure the sustainable future. In May of 2018, the organization revealed several goals related to managing the lifecycle of plastics, including the goal of recycling or recovering 100% of plastic packaging in the United States by 2040, and the goal of making all plastics packaging recyclable or recoverable by 2030.<sup>2</sup> And as we discuss in our [report](#), recent government announcements in the European Union and the UK add pressure on the companies operating in these regions to reduce plastic waste and improve recyclability.<sup>3</sup>

Factor 2: Use of Proceeds	Yes	No
>95% - 100% of proceeds allocated to eligible project categories that are determined based on the issuer's adopted policies and the categories established under the Green Bond Principles that will be further informed by one or more robust and widely recognized green bond frameworks or taxonomies that qualify eligible projects, including any applicable regulatory guidelines.	●	
Factor Score	1	

## Disclosure on the Use of Proceeds



The indenture documents require the Company to retain a nationally recognized independent engineering consultant to prepare an Independent Engineer Report setting forth the results of its technical, environmental and economic review of the facility. The company has retained Leidos Engineering Inc. (Leidos) as an engineering consultant, and the Independent Engineer Report will accompany the bond offering. Leidos will also serve as a construction monitor for the project, and will publish monthly construction progress reports until the construction is complete, which will provide details on the funds disbursed and construction milestones met.

The Company's facility is expected to convert approximately 119 million pounds per year of waste polypropylene into roughly 107 million pounds per year of virgin-like ultra-pure recycled polypropylene (see Exhibit 1 above). The company estimates that each year this process will remove roughly 648 acres of low density plastic material from the landfills.

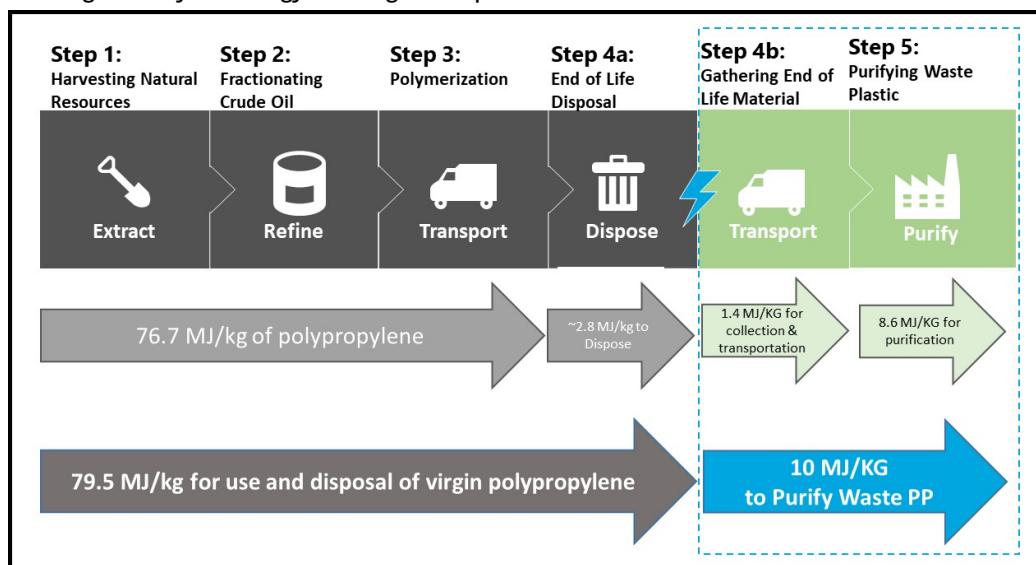
The company also calculated expected energy savings from this process by preparing an internal estimate of the non-renewable energy use (NREU), which is a quantitative measure that evaluates resources required to obtain and process raw materials into a finished

product. The non-renewable energy use of resin production includes resources required to obtain the feedstock (i.e. crude oil or natural gas), separate and process the crude oil into chemicals (e.g., propylene), polymerize the propylene into polymer resin, transport the resin and, in the case of plastics, to ultimately dispose it. This process consumes an estimated 79.5 MJ per kilogram of virgin resin produced and disposed. In contrast, PureCycle process consumes an estimated 10 MJ per kilogram of resin recycled (see Exhibit below).

We note that, given that this recycling facility is first of its kind on a commercial scale, the actual benefits may vary depending on project execution. As discussed in Factor 5 below, the Company intends to provide comprehensive actual impact reporting once the facility is operational.

Exhibit 3

#### PureCycle process uses significantly less energy than virgin resin production



Source: Company reports

Factor 3: Disclosure on the Use of Proceeds	Yes	No
Description of green projects, including portfolio level descriptions, actual or intended	•	
Adequacy of funding and/or strategies to complete projects	•	
Quantitative and/or qualitative descriptions for targeted environmental results	•	
Methods and criteria, both quantitative and qualitative, for calculating performance against targeted environmental results	•	
Issuer relies on external assurances: Second Party reviews, audits and/or third party certifications	•	
Factor Score	1	

### Management of Proceeds



Upon closing of the transaction, all bond proceeds will be deposited with the trustee in a separate account designated for the PureCycle project. The engineering consultant, as the construction monitor on behalf of the lenders, will oversee the spending on the permitted uses according to the construction milestone schedule. As each milestone is met, the Company will requisition additional proceeds from the trustee, and the engineering consultant (Leidos) will review and sign off on each requisition. Upon their satisfaction that the appropriate milestones are being met, the trustee will release additional funds to the Company for the next set of construction draws.

The engineering consultant will publish their findings in a monthly construction progress reports until the construction is complete, which is expected in 2021.

Factor 4: Management of Proceeds	Yes	No
Bond proceeds are segregated and separately tracked on an accounting basis or via a method by which proceeds are earmarked	•	
Application of proceeds is tracked by environmental category and project type	•	
Robust process for reconciling planned investments against actual allocations	•	
Clear eligibility rules for investment of cash balances	•	
Audit by external organization or independent internal audit unit	•	
Factor Score	1	

## Ongoing Reporting and Disclosure

Once construction is completed and the facility is fully ramped up and operational, the Company will hire an independent firm to conduct an initial Life Cycle Analysis screening using the actual operational data, which is expected in the second half of 2021. In 2022, the Company will hire an independent firm to conduct and report a more comprehensive analysis to validate the initial screening. Going forward each quarter the Company will report the plant's actual energy use (in MJ per kilogram of recycled product), as compared to the Life Cycle Analysis baseline. Additionally, every quarter the Company will report on the total weight (in kg or lbs) of feedstock diverted from the landfill and the implied finished good the resin will be used for, by category. As discussed above, until the plant is operational, the engineering consultant will provide construction progress reports.

Factor 5: Ongoing Reporting and Disclosure	Yes	No
Reporting and disclosure post issuance provides/to be provided detailed and timely status updates on projects	•	
Ongoing annual reporting is expected over the life of the bond	•	
Disclosures provide granular detail on the nature of the investments and their expected environmental impacts	•	
Reporting provides/to be provided a quantitative and/or qualitative assessment of the environmental impacts actually realized to-date	•	
Reporting includes/to include quantitative and/or qualitative explanation of how the realized environmental impacts compare to projections at the time the bonds were sold	•	
Factor Score	1	

## Moody's Green Bond Assessment (GBA)

Moody's GBA represents a forward-looking, transaction-oriented opinion on the relative effectiveness of the issuer's approach to managing, administering, allocating proceeds to and reporting on environmental projects financed with green bond proceeds. GBAs are expressed using a five-point relative scale, ranging from GB1 (Excellent) to GB5 (Poor). A GBA does not constitute a credit rating.

## Moody's related publications

### Methodology:

- » [Green Bonds Assessment \(GBA\)](#), March 30, 2016

### Green bond research:

- » [Green Bonds - Global: Global green bond issuance to hit \\$200 billion in 2019](#), 31 January 2019
- » [Green Bonds – Global: Environmental impact and reporting vary by jurisdiction and asset class](#), 4 December 2018
- » [Structured finance - Global: Green finance sprouts across structured finance sectors](#), 13 November 2018
- » [Green bonds – Global: Repeat issuers drive volume as green bond market matures](#), 12 November 2018
- » [Green Bonds – Global: Adoption of UN Sustainable Development Goals to drive demand](#), 12 November 2018
- » [Green Bonds - Global: Issuance in the first three quarters of 2018 flat compared with 2017](#), 6 November 2018
- » [Default research - Global: Default and recovery rates for project finance bank loans, 1983-2016: Green projects demonstrate lower default risk](#), 18 September 2018
- » [Green Bonds - Global: Second-quarter issuance rebounds but full-year 2018 growth likely to moderate](#), 31 July 2018
- » [Green Bonds – Sovereign: Sovereign green bond market on course for critical mass, but challenges remain](#), 9 July 2018
- » [Green Bonds – Global: Modest Q1 2018 issuance a speed bump on the road to market growth](#), 30 April 2018
- » [Green Bonds - Global: Global municipal green bond issuance will continue to rise](#), 19 March 2018
- » [Green Bonds - Global: Global green bond issuance set to eclipse \\$250 billion in 2018](#), 31 January 2018
- » [Cross-sector - Global: FAQ: The green bond market and Moody's Green Bonds Assessment](#), 29 November 2017
- » [Green Bond Assessments - Global: Issuers exhibit strong organizational frameworks but differ on disclosure](#), 19 September 2017

### Other research:

- » [Packaging firms likely to face growing pressure to improve product recyclability](#), 19 April 2018

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

## Endnotes

- 1 [National Geographic February 2015 Eight Million Tons of Plastic Dumped in Ocean Every Year By Laura Parker](#)
- 2 [Chemical Week December 2018 Sustainability - Bold Goals Reshape Strategies by Rebecca Coons.](#)
- 3 See our [Sector In-Depth Packaging firms likely to face growing pressure to improve product recyclability](#), 19 April 2018



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