

ASSESSMENT

29 April 2019

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Vonore Fiber Products LLC

Green Bond Assessment - Series 2019 taxable revenue bonds

Summary analysis



Summary opinion

On 26 April 2019, we assigned a GB1 (Excellent) Green Bond Assessment (GBA) to the proposed approx. \$80 million Series 2019 taxable revenue bonds to be issued by [Vonore Fiber Products LLC](#) through the Public Finance Authority of Wisconsin in June 2019. Key considerations in our assessment include:

- » Full allocation of proceeds to a sustainable packaging project that qualifies under the Green Bond Principles taxonomy category of eco-efficient and/or circular economy adapted products, production technologies and processes
- » Senior management team at the project sponsor (Genera Energy Inc.) has vast experience with biomass, including established biomass supply chain processes
- » Very strong disclosure on use of proceeds, including information on the project's expected annual production and the estimated annual environmental benefits
- » Project finance documents stipulate that proceeds can only be spent on the sustainable packaging project, with disbursement of funds only authorized upon construction progress being confirmed by an independent engineering firm
- » Post-issuance reporting to be provided on an annual basis over the life of the bonds and cover both project status and key environmental benefits achieved

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

Vonore Fiber Products LLC is a special purpose entity organized solely for the purpose of owning and operating a project for the development and construction of an agricultural-based pulp manufacturing and molded fiber thermoforming facility in Vonore, TN. Genera Energy Inc. (Genera, the project sponsor) is a commercial biomass supply-chain management resource and provider of biomass feedstock services founded in 2008 by Kelly Tiller. Genera is headquartered in Vonore, TN.

Transaction summary

Vonore Fiber Products LLC is planning to issue its proposed \$80 million federally taxable Series 2019 Revenue Bonds (Vonore Fiber Products, LLC Pulp Project) in June 2019 through the Public Finance Authority in Wisconsin. Proceeds from the bonds will be fully allocated to develop and construct an agricultural-based pulp manufacturing and molded fiber thermoforming facility in Vonore, TN, and finance associate costs of issuance. The bonds will be senior secured fixed-rate obligations with final maturity in 2029.

Strengths and weaknesses

Strengths	Weaknesses
Full allocation of proceeds to a sustainable packaging project that qualifies under the Green Bond Principles taxonomy category of eco-efficient and/or circular economy adapted products, production technologies and processes	None
Senior management team at the project sponsor (Genera Energy Inc.) has vast experience with biomass, including established biomass supply chain processes	
Very strong disclosure on use of proceeds, including information on the project's expected annual production and the estimated annual environmental benefits	
Project finance documents stipulate that proceeds can only be spent on the sustainable packaging project, with disbursement of funds only authorized upon construction progress being confirmed by an independent engineering firm	
Post-issuance reporting to be provided on an annual basis over the life of the bonds and cover both project status and key environmental benefits achieved	

Organization



The transaction is supported by an excellent organizational structure, spearheaded by the project sponsor's (Genera Energy Inc.) senior management team that has vast experience with biomass. Since its founding in 2008, Genera has developed expertise in many aspects of the biomass sector, including crop sourcing, harvesting and processing. Genera has annually managed many acres of local biomass feedstock, well in excess of the amounts required for the project's annual production. This experience will help support the project's success and corresponding achievement of environmental benefits.

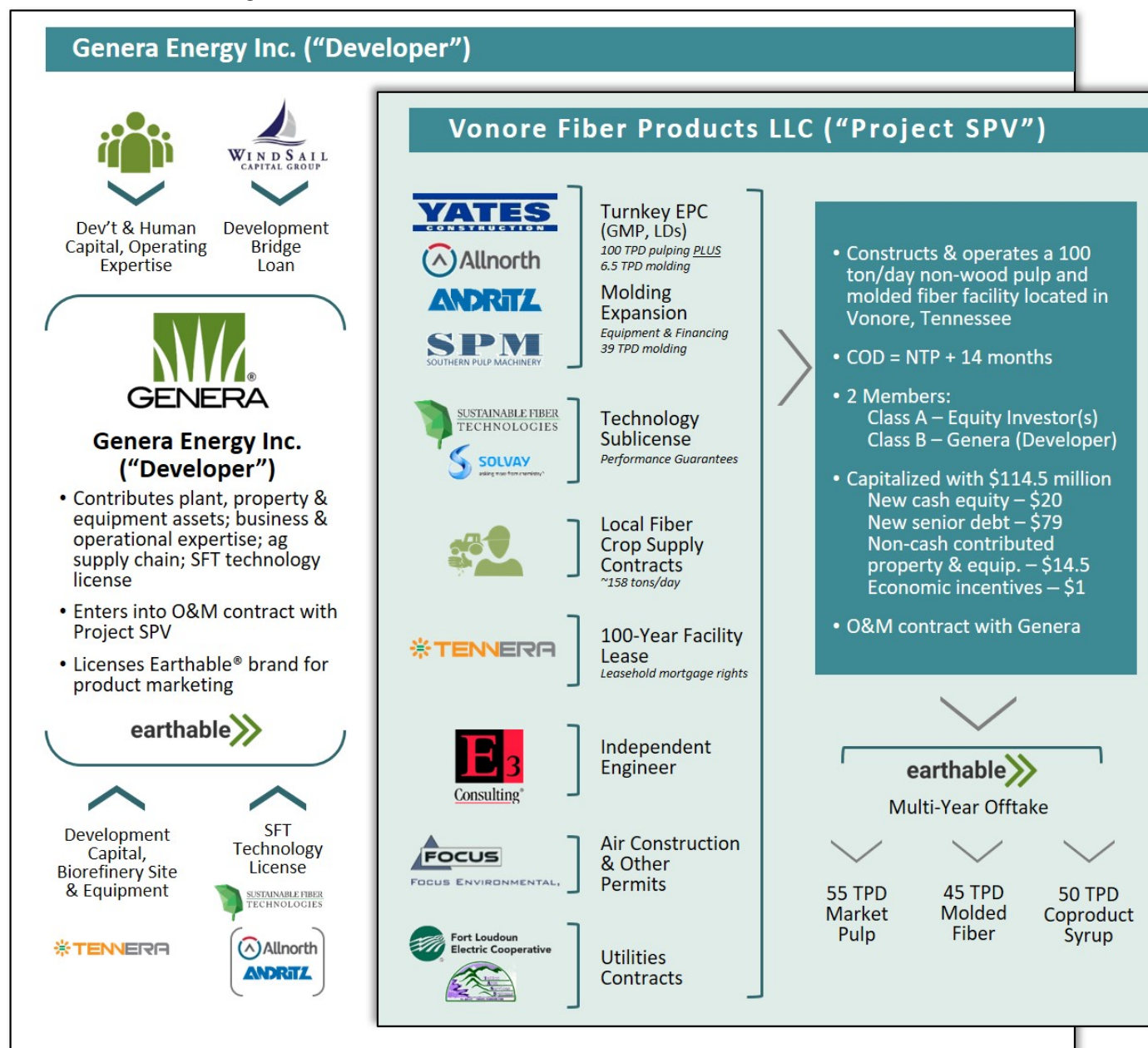
In addition to the strong experience of the management team, the transaction's project finance structure includes a number of key features that suggest a high likelihood of project completion and continued operation. These features include multi-year supply agreements for local agriculture fiber crops, perpetually-renewing offtake agreement for 100% of pulp and thermoformed products produced by the project, a 100-year lease of the site, commercially proven pulping and thermoforming equipment, and a fixed-price construction contract with a well-established construction company.

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 for the most updated credit rating action information and rating history.

Because of the project finance nature of this transaction, there is no formal green bond framework. However, the suite of project finance documentation, along with a number of covenants, effectively provide the governing framework of the issuer.

Exhibit 1

Vonore Fiber Products LLC organizational structure



Source: Genera Energy Inc.

As seen above in Exhibit 1, a number of parties play a role in the transaction beyond the project special purpose entity, Vonore Fiber Products LLC, and the project sponsor, Genera Energy Inc. E3 Consulting, for example, serves a key role as the independent engineer and has provided a comprehensive report on the project, as well as the feasibility of the non-wood pulping process and construction plan. This independent engineer will also serve as the construction monitor, providing monthly progress reports on the project and ensuring that project funds are only released to spend on the project once certain criteria are met.

Factor 1: Organization (15%)	Yes	No
Environmental governance and organization structure appears to be effective	●	
Policies and procedures enable rigorous review and decision making processes	●	
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	●	
Factor Score	1	

Use of proceeds



Proceeds from the proposed bonds will be fully allocated to develop and construct an agricultural-based pulp manufacturing and molded fiber thermoforming facility in Vonore, TN, along with associated costs of issuance (see Exhibit 2). At full operation, the facility will have the capacity to process approximately 158 tons per day (TPD) of biomass sorghum, switchgrass, and agricultural residues into 100 TPD of sustainable agriculture-based pulp and thermoformed products. The project is scheduled to commence construction in the third quarter of 2019 and commence operation in the third quarter of 2020.

Exhibit 2

Sources and uses of project funds

Sources	\$ millions	Uses	\$ millions
Project senior debt	\$79.3	Construction, contingency & commissioning costs	\$67.1
Project equity	\$34.5	Contributed assets (property, building, equipment)	\$14.5
Economic incentives (state, TVA)	\$1.0	Repayment of bridge loan (development costs)	\$14.0
		Capitalized interest	\$9.5
		Debt service reserve fund	\$3.6
		Issuance costs	\$6.1
Total Sources	\$114.8	Total Cash Uses	\$114.8

Source: Genera Energy Inc.

We believe the project qualifies under the Green Bond Principles taxonomy, primarily through the eco-efficient and/or circular economy adapted products, production technologies and processes category. The facility will produce non-wood pulp and sustainable molded fiber products which are derived from annually renewable biomass feedstock instead of traditional wood. These products are compostable and generated using significantly less energy, noxious chemicals, water and greenhouse gas emissions than traditional wood pulp materials. Given these environmental benefits, other categories under the Green Bond Principles taxonomy that are potentially covered include energy efficiency, pollution prevention and control, and environmentally sustainable management of living natural resources and land use.

Since 2016, Genera has sought to leverage its biomass experience to develop new sustainable fiber sources for pulp. The company has licensed a non-wood pulping technology that will allow it to use its existing agriculture fiber crop supply chain to produce and sell unbleached wet lap pulp (market pulp) to producers of a wide range of paper products, as well as to convert some of the market pulp to molded fiber products such as compostable tableware and clamshell packaging. Upon initial commercial operation in the third quarter of 2020, the project will produce 93.5 air dry metric tons (ADMT) per day of wet lap and 6.5 tons per day of molded fiber. By the second quarter of 2022, this capacity is projected to shift to 55 ADMT per day of wet lap and 45 tons per day of molded fiber.

Factor 2: Use of Proceeds

>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

Yes

No

•

1

Disclosure on the use of proceeds



Very strong disclosure on use of proceeds from the proposed transaction has been provided, including information on the project's expected annual production, as discussed above, as well as the estimated annual environmental benefits. Given that the project consists entirely of the sustainable packaging facility, the description of the green assets to be financed is very clear.

Management has provided both qualitative and quantitative descriptions of the anticipated environmental benefits. These benefits are clearly supported by academic and industry research highlighting the benefits of the technology. Qualitative environmental benefits for the technology include land use benefits corresponding to underutilized lands, improvements in biodiversity, not needing to cut down the trees required in most traditional wood pulp manufacturing, and the final products being compostable.

In addition to describing the qualitative environmental benefits of the project, the Genera management team has calculated estimated annual quantitative environmental benefits of its "earthable" non-wood pulping process compared to traditional wood pulp and imported sugarcane bagasse pulp (see Exhibit 3). Based on 36,500 ADMT of production per year, management reports estimated annual savings of approx. 281,000 MMBTU of energy, 14 million kg of greenhouse gases (GHG) in CO₂ equivalent, and 412 million gallons of water compared to traditional wood pulping.

Exhibit 3

Vonore Fiber Products non-wood pulping process has savings in energy, water and greenhouse gas emissions

Fiber Comparison	Energy Consumption (MMBTU/tonne of fiber)	GHG Emissions (kg CO ₂ eqv/tonne of fiber)	Water Consumption (gallons/tonne of fiber)
earthable® Fiber	5.27	255	882
Wood Pulp	12.98	629	12,156
Imported Sugarcane Bagasse Pulp	47.82	4,920	31,700
Annual Savings	Energy Consumption (MMBTU/year)	GHG Emissions (kg CO ₂ eqv/year)	Water Consumption (gallons/year)
Savings of earthable® Fiber Compared to Wood Pulp	281,415	13,651,000	411,501,000
Savings of earthable® Fiber Compared to Imported Sugarcane Bagasse Pulp*	1,553,075	170,272,500	1,124,857,000

Savings are calculated on an assumed production scale of 36,500 air dry metric tons per year of pulp production.

Savings will vary when compared to specific wood or sugarcane bagasse facilities.

Academic and industry studies cited include:

1. Evaluating Chemical-, Mechanical-, and Bio-Pulping Processes and Their Sustainability Characterization Using Life Cycle Assessment. Das et al. 2004. Environmental Progress (Vol. 23, No.4 pp. 347-357)
2. Carbon Footprint Analysis of StalkMarket Bagasse Tableware, 2015. (<http://stalkmarketproducts.com/wp-content/uploads/2015/02/Stalkmarket-Carbon-Footprint-Analysis-2015.pdf>)
3. Chakrabarti S.K. 2006. Environment management in pulp and paper industry beyond current legislations and CREP commitments. IPPTA J. 18 : 143-149
4. Duffy, B and S. Hoefs. Essential Expertise for Water. Pulp & Paper International. July 2011. Pp. 41-45

Source: Genera Energy Inc.

We believe the detailed report from the independent engineer serves as a form of an external assurance by providing reviews of the technology and process, feedstock supply plan, environmental permitting considerations, construction plan and financial projections.

Factor 3: Disclosure on the Use of Proceeds	Yes	No
Description of green projects, including portfolio level descriptions, actual and/or intended	•	
Adequacy of funding and/or strategies to complete projects	•	
Quantitative and/or qualitative descriptions for targeted environmental results	•	
Methods and criteria, both qualitative and quantitative, 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, all bond proceeds and equity contributions will be deposited with a trustee in an amount sufficient to complete the project. Although bond proceeds are not segregated in their own account, they are all earmarked for project funds and can only be spent on project costs. This allows for clear tracking of bond proceeds spent over time. Key bond documents detail the creation of the funds, oversight, priority of cash flows and permitted investments, as is typical with project financings.

The independent engineer will also serve as the construction monitor and oversee the spend down of bond proceeds on permitted project uses according to a milestone schedule, ensuring that bond funds are allocated only to approved project uses. As each milestone is met, funds will flow to the project in accordance with the bond documents, and each disbursement of funds will be reviewed and signed off by the independent engineer. The independent engineer will publish its findings in monthly construction progress reports until the construction of the project is complete.

To supplement and verify the internal management of proceeds, an annual independent audit report will be prepared covering the various account funds.

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



During the construction period, the independent engineer will publish progress reports on a monthly basis. This will allow for detailed and timely status updates on the project during the construction phase.

Once construction is complete and the project moves to commercial operation, annual reporting will be provided over the life of the bonds, including information on the operation of the project and its environmental benefits. Genera will conduct an independent

life cycle analysis once the project has reached full commercial production, based on data from the project's actual operations. This independent report will be disclosed to Genera's appropriate stakeholders when completed. For each subsequent quarter, Genera will evaluate reported operating conditions against its pulp baseline and calculate an updated estimate of the plant's energy usage.

Key environmental benefit metrics will include energy consumption, greenhouse gas emissions and water consumption, all of which will be comparable to initial estimates disclosed at the time of issuance.

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 \(GBA\)](#), 30 March 2016

Issuer research:

- » [Moody's assigns Green Bond Assessment \(GBA\) of GB1 to Vonore Fiber Products LLC's proposed Series 2019 taxable revenue bonds](#), 26 April 2019

Green bonds 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 – Sovereign: Sovereign green bond market on course for critical mass, but challenges remain](#), 9 July 2018
- » [Green Bonds – Global: Global municipal green bond issuance will continue to rise](#), 19 March 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

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.

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