Break-out session 1 – Tim Fleming

‘Bridging the perceived time gap between the investors agenda and the timeframe for financial results of forestry plantation companies’

• Introduction to IWC

• The financial aspects of the business case for forestry based on our experience
  • Difficulties in accessing working capital and moving beyond the start-up phase
  • Importance of securing long-term funding
  • Equity vs. Debt – what is a good balance?

• Discussion of innovative ways of financing forestry
WHO IS IWC?

We have been working exclusively in timberland for institutional investors since 1991.

Today we manage or advise on over USD 3.5 billion of funds and commitments.
GLOBAL TIMBERLAND INVESTMENT FOOTPRINT

Substantial indirect and direct private timberland investment experience, resources, data and advisory capabilities

As of September 2015, IWC’s portfolio is invested 49% in the US, 22% in Latin America, 15% in Oceania, 9% in Europe and 5% in the rest of the world.
THE INSTITUTIONAL TIMBERLAND INVESTOR

• Institutional investors include superannuation funds, insurance companies, endowments and family offices.

• They don’t mind long term investment horizons but are quite adverse to risk.

• Their investment into timberland assets has increased dramatically since the 1980’s – currently over USD 100 billion.
To ‘expand forested areas’ or plant ‘new forests’ we are usually talking about ‘greenfield investment’

Greenfield forestry investment has one particularly ugly characteristic.
• It is a long, long time before you get to see the money.
• This means there is a long, long period of time in which something can go wrong.

In Africa quite a few things can go wrong:
• Technical, operational and market
• Environmental, social and reputational
• Sovereign and political

With a long investment timeframe all of these key challenges become significant impediments to raising funds.
HOW CAN WE ADDRESS THESE RISKS

Pre-requisites to finding investment:
• Professional management
• Realistic price and yield assumptions
• Strong sustainability credentials
• Favorable terms
Supporting a competitive risk-adjusted return.
GETTING BEYOND THE START-UP PHASE

This is the hard part!
• Keep costs down and make your initial capital go as far as possible
• Demonstrate a small success which is scalable
• Secure land, assemble a competent team, build a proof of concept
• Or buy into or buy out a project that has already made a good start
HOW DO WE BRIDGE THE TIME GAP?

Any early cash flow is a big plus
- Carbon sales
- Early thinnings for construction poles, charcoal, biomass
- Combination of short rotation and long rotation species
- Access grant funding
Or find an investor with long time horizons
Long-term funding is essential;
• A lot can change in one rotation of a forestry crop
• Forest valuation in developing markets can be challenging
• Manage the J curve
• The investment needs to get close to positive cash flow before requiring additional financing
EQUITY VS. DEBT – WHAT IS A GOOD BALANCE?

- It depends on the life cycle of the investment
- It depends on the terms of the debt
- Debt can be uncomfortable early in a greenfield investment
- Debt can be lower cost if you can service the interest
- Beware of default and the strings attached
- Hybrid options can sometimes balance both parties needs
- Many investors in Africa today will want an interest rate and a share of the upside
DISCUSSION

- Difficulties in accessing working capital and moving beyond the start-up phase
- Importance of securing long-term funding
- Equity vs. Debt – what is a good balance?
- Discussion of innovative ways of financing forestry