

Delaware Sustainable Energy Utility
Loan Committee
DESEU Office
500 W. Loockerman Street, Suite 400, Dover, DE 19904
May 31, 2017

Members present were: Kristopher Knight, Trey Paradee, Andrew Slater, Anthony J. DePrima, Doug Bacher, NW Financial Group (teleconference), and Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference)

As representatives from the IPR loan application were present, Mr. Knight moved to amend the agenda so the IPR application was first. The motion was seconded by Mr. Paradee and unanimously carried.

1.a. IPR – Discussion of Loan Collateral for Energy Efficiency Measures for Data Center - Mr. DePrima stated that IPR International, LLC has requested a loan of \$1,000,000 for the purposes of upgrading old power distribution equipment, cooling units and unified power system equipment.

Summary

The new equipment is more energy efficient and will save in ongoing energy costs. The proposed loan is part of a larger financing plan as the total project costs total \$2,400,000. The balance of the money needed for the equipment upgrade is composed of company equity contribution and/or private financing of \$600,000 and a proposed DNREC loan and/or grant totaling \$800,000. The review of this application is complicated as there is history with this applicant in connection with an application made to the DESEU by IPR in 2015 for the same project and that the loan is needed as much for business expansion as it is for energy efficiency. In 2014 following a thorough review that included meetings and conversations with officials from DNREC, the loan did not move forward. The DNREC grant/loan was also not approved.

NW spoke to IPR staff on several instances to voice our concerns and to clarify information received. We also spoke to individuals at DNREC regarding their review of IPR's DNREC application.

IPR

IPR is a regional data protection and “cloud” services company providing redundancy data, data protection and data cloud services to public and private entities. Corporate clients include major banks and hospitals, mostly located in New Jersey, Delaware, Maryland, Pennsylvania, and Florida (through the acquisition of a Florida based data protection company in 2015). They have been in business since 2002 and moved their facilities from Pennsylvania to Wilmington, Delaware in 2009. IPR is a capital intensive business requiring constant upgrade and expansion of equipment to both keep up with demand and to provide state of the art services. Their business plan includes continued growth through the raising of capital monies and the acquisition of similar companies in other locations.

The Project

The Project includes the purchase and installation of upgraded UPS equipment to better provide uninterrupted power supply to the facility and cooling equipment to cool the equipment on the 2 floors of the facility. The UPS equipment is designed to provide electrical service from 2 sources with

greater efficiencies. Both the equipment used for data storage and the needed cooling equipment use a great deal of energy.

The projected savings are \$139,676 in the first year and total \$5,000,415 over a 15 year period. It assumes that IPR business assumptions for growth over the same 15 year period are accurate. Savings increase annually as IPR's business revenues increase and the available system capacity is utilized. The energy savings calculations as provided by IPR are identical to those presented in 2015.

Loan Request

IPR has requested a 1,000,000 loan with a 7-10 year term. As the cost of the Project is \$2,400,000 other monies need to come from \$600,000 IPR equity and/or IPR private borrowing and \$800,000 DNREC grant/loan. I spoke to the analyst doing the IPR loan review at DNREC. As of the writing of this amended report, DNREC has once again recommended that the DNREC loan and/or grant NOT BE APPROVED. DNREC staff have raised the same credit concerns as I have raised in this report. If DESEU moves forward with this loan there will need to be additional discussions about where the other needed money will come from, if it's feasible to move forward with a portion of the Project if the additional money is not received and where the DESEU loan repayment would fall (i.e. what subordinated position to the existing and new loan(s)).

Financial security for the loan is limited to the collateral in the equipment that is being purchased and installed and the new client contract revenues that are captured in the proposed "lock box". There have been more recent discussions to add a \$1,000,000 "guaranty" to protect a portion of requested loan(s). As of the writing of this amended report, it isn't clear where the \$1,000,000 would be coming from or how the 50% guaranty would work meaning how and what loans would be protected and to what degree. The requested loan(s) would be in a subordinate position to IPR's existing loans and to the senior lender.

Financial Review 2017

Following a review of this application, issues and concerns raised in 2014-2015 remain the same. Although it can be argued that profit margins have improved slightly IPR continues to be highly leveraged with a total outstanding debt of \$11,345,000 in loans and \$327,000 in capital leases. EBITA (earnings before interest, taxes, depreciation and amortization) was \$1,170,737 in 2016 and \$1,383,080 in 2015. But after considering tax and interest liabilities the net income was (\$2,467,390) in 2016 and (\$3,575,845) in 2015. There is little cash on hand. Much of the interest owed on existing loans is deferred. IPR is continuing to pursue additional investment capital and other loans from stockholders and financial institutions for this Project and other capital and operating costs. All that said there is no indication that current financial obligations are not being met and that loans that are owed are not being repaid.

IPR lost 2 large clients in 2016. Although the revenue lost has been replaced in part with other client revenue, the initial impact was costly and underlines the fact that client contracts and the revenues received from them are only as good as the client providing the contract. As noted, revenue projections submitted in 2014 for years 2014, 2015 and 2016 have been well shy of the projections submitted.

There have been some positive changes in the financial picture of IPR since their initial application. IPR has reorganized, streamlining operations and reducing salary costs. This has helped improve its

financial picture. IPR has also acquired a company in Florida that is projected to provide additional clients and operating base.

IPR has also entered into a 3 year contract with a new client that will provide additional revenue estimated to be approximately \$50,000 monthly. The contract is contingent with IPR being able to secure the needed money to upgrade their existing equipment. Although the contract has a 3-year term it includes a termination clause that allows for termination with 30-90 day notice. Considering the termination clause, the revenues to be received from the contract may not be adequate to repay the loan in that 3 year period. IPR has offered to set up a "lock box" designed to capture the revenues received from this new contract.

It should be noted that a review of the financials of the new client have not been completed by NW Financial and the financial position of the new client is not known at this time. A recent article about the client was provided. The article did raise some financial and legal concerns about its current operations.

IPR has developed new products and services that are designed to be industry "state of the art". The loan is needed, in part, to allow IPR to upgrade its equipment to provide for the capacity to provide the upgraded services. In many ways the loan can be viewed as a business loan, a loan needed to expand operations and services.

IPR has approached other lending institutions, stockholders, and capital investment firms for money to finance this project. They have also approached the State requesting ways to explore securing the capital. Meetings have been held that have included State representatives from DESEU, DNREC and the Delaware Economic Development Office (DEDO) to discuss ideas regarding both acquiring a loan and securing a loan from DESEU, DNREC and/or DEDO. Options discussed include the Lock Box concept discussed earlier and a money reserve set aside ("Guaranty") that would act as a partial guaranty for the loan(s). To date, \$1,000,000 (or 50% of the \$2,000,000 loan request) set aside has been discussed. Details on the structure or where the money would come from for the guaranty have not been determined. The issues include the structure, schedule, and in what way the loan(s) are covered.

Finally, the fundamental question of whether the \$1,000,000 guaranty on an additional \$2,000,000 in loan(s) is enough to satisfy the credit concerns raised regarding IPR has not yet been addressed. An economic feasibility study (a typical financial review for an economic development loan) that addresses the projected revenues from new clients has not been completed. NW believes that the risks associated with an economic development loan still exist if the loan is not 100% secured.

Summary

This review has been different for although the loan proceeds will be used for the purchase and installation of equipment that will provide IPR with energy savings, the loan is more accurately described as an economic development loan meaning the equipment being purchased is being purchased and installed to attract new business and new revenues to IPR. There is no guaranty that the new clients and revenue needed to support the additional debt service will come. This projected revenue will be needed to support the new debt.

Based on the information reviewed and for the reasons discussed, NW Financial Group cannot recommend approval of the loan.

After much discussion, it was the consensus of the loan committee members to table the loan application until clarification can be made and additional information obtained.

1.b. Georgetown Medical Associates – This item was removed from the agenda; the necessary paperwork has not yet been received.

Meeting Adjourned.