

Management Series

GEVO, INC. (NASDAQ: GEVO)

October [6], 2020

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Project Finance Is Key to The Next Stage of GEVO's Evolution

KEY POINTS

- GEVO produces advanced hydrocarbons such as jet fuel, renewable premium gasoline, the capability to produce diesel fuel from sustainable carbohydrates with a net-zero carbon potential.
- Fuel products are true drop-in replacements and compatible with existing engines and distribution infrastructure.
- GEVO believes it has a robust set of patents and process knowledge and that its technology is proven at commercial scale.
- GEVO has 49 MGPY in off takes under contract with marquee customers.
- The company plans an aggressive capacity expansion to facilitate revenue growth driven by existing off-take agreements that will require project financing.
- Gevo believes that based on the take-or-pay contracts that project financing can be obtained.
- Gevo recently raised capital and now has approximately \$80 million on its balance sheet. This capital infusion substantially improves Gevo's ability to execute on strategic plans.

CATALYST MONITOR

- Securing project finance to construct the proposed plants.
- Signing additional off-take agreements.
- Successfully restructuring the capital table and addressing convertible notes due December 31, 2020.
- Additional regulations or significant corporate action to reduce carbon with a particular emphasis on the airline / jet fuel industry.

KEY STATISTICS*

Price:	\$0.888
52 Week Range:	\$3.6 - \$0.46
1M Avg. Daily Vol. - (MM)	66.9
Shares Out (MM):	\$92.3
Market Cap (MM):	\$82.0
Institutional Ownerships	14.3 %
Short Int. (MM)/ % of float:	3.5 / 4.03
Debt to Equity.:	26.2%
Revenue TTM (MM):	\$17.8

Source: Bloomberg, *As of Sept 10, 2020

OUR INSIGHT

The Opportunities

Gevo has secured a series of off-take agreements that now totals 49 MGPY. This is a critical milestone that puts GEVO in the position to need plants, and those plants will require capital to construct. Project finance is the primary means of financing large production facilities, which is the focus of this Management Series. GEVO is actively engaging potential investors through their banking partner – Citigroup – in a process that started in April 2020. The key takeaway of this is that if GEVO can secure financing, it should be able to move ahead with plant construction. Then the delivery of product and hence revenue, keeping in mind the construction and delivery will take up to two years. Nonetheless, this would be the validation of GEVO's hydrocarbons as a commercial product and create revenue. We also review the potential for GEVO to invest capital at the plant level to enable shareholders to participate in the IRRs generated by investing at the plant level.

The Obstacles

This is the first plant of this scale and scope that GEVO is looking to build and the capital needed is substantial, at \$700mm for all three plants. Project finance investors prefer known technologies and although GEVO has proven it can produce at larger scales, it is still new to the project finance community. This means the company and its investment bank are having to educate potential investors. This can draw out the process relative to what a normal timeline would be. The tendency is that an investor wants to be second, not first, which is typical with any new technology. Without financing, there is no construction.

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COMPANY OVERVIEW

Gevo, Inc. is a next-generation "low-carbon" fuel and chemical company focused on the development and commercialization of renewable alternatives to petroleum-based products. The company sells renewable jet fuel, gasoline hydrocarbons, and isobutanol, which have been shown to have superior performance relative to petrochemical based fuels including higher energy, clean burning, and lower particulates.

GEVO has already proven that its proprietary process works at a commercial scale. As such, the company believes it has been de-risked in many aspects and at a key inflection point to move into commercial-scale production serving a significant total available market (TAM).

For further information please visit www.gevo.com.

GEVO'S PRODUCTION AND PRODUCT CAPABILITIES



Source: Company Reports

EXECUTIVE IN FOCUS



Dr. Patrick Gruber, Chief Executive Officer

Mr. Gruber has over 20 years of experience in the biotechnology and biofuels industries. He has been serving as CEO and a director of Gevo Inc. since 2007. Prior to joining the Company, from 2005 to 2007, he served as President and CEO of Outlast Technologies, Inc., a technology and marketing company primarily serving the textile industry, where he was responsible for all aspects of Outlast Technologies' business. Previously, Mr. Gruber co-founded NatureWorks LLC (formerly Cargill Dow, LLC) and served as Vice President, Technology and Operations, and Chief Technology Officer from 1997 to 2005. From 2007 to May 2012, Mr. Gruber served on the board of directors of Segetis, Inc. From 2007 to January 2012, Mr. Gruber served on the board of directors of Green Harvest Technologies, LLC and from 2007 to 2008, he served on the board of directors of Outlast Technologies.

In 2011, Mr. Gruber was awarded the University of Minnesota Outstanding Achievement Award. In 2008, Mr. Gruber was awarded the first-ever George Washington Carver Award, recognizing significant contributions by individuals in industrial biotechnology and its application in biological engineering, environmental science, biorefining and bio-based products

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Shawn Severson: Thanks for joining us Pat as we look to dig into your strategy of plant-level project finance and why and how GEVO intends to pursue this objective. Let us start by first by explaining the various ways you could facilitate and fund your growth. Specifically addressing what happens at the corporate level through to the plant level and various constituents and structures.

Patrick Gruber: Thanks Shawn. We are pursuing a licensing and developer model. This means that we intend to license our technology to a separate company, which is called a special purpose entity. The special purpose entity would do the building of the projects and we would be a minority owner in that entity. On top of our minority stake, other investors would deploy their capital and take the majority equity positions in the project. As we have publicly stated, Gevo estimates the project capital cost would be around \$700 million, including \$200 million of equity and \$500 million of debt.

Through this GEVO would be expected to make money from the projects by reimbursement of development expenses, potential development fees, licensing fees, construction and management fees, in addition to the portion of the EBITDA from the plant profit, which we expect that we would receive as a minority owner. I would emphasize that this is a capital light type of model that is designed so that we won't have to raise significant amounts of money at the corporate level. It's a common model used in the power and energy fields.

Of course, Gevo expects at some point to make money from technology licenses too, even if we aren't the developer.

Shawn Severson: You have recently made some major offtake agreement announcements. Can you give some color on these and how it helps you incentivize investors?

Patrick Gruber: Trafigura signed our biggest offtake yet and is a critical milestone for us to achieve. Including Trafigura we have about \$1.5B of revenue under take-or-pay contracts. Including all our contracts, we have about 49MGPY committed so far and we expect to get more. Given the substantial amount of volume now under off-take agreements, we expect it will require three plants to meet this contracted demand. We need to complete an expansion at Luverne and acquire two additional sites or plants. The Trafigura contract is significant because it is large, of course, but importantly it is primarily focused on renewable gasoline. We are the only company with large scale proven technology to make renewable bio-alkylate or isooctane. This is important because the market for premium gasoline is growing as newer cars have high compression engines, which get better gas mileage but are optimized for premium gasoline. This is a key market for GEVO and our future. I mean you hear about all of the other energy tech solutions such as fuel cells and EV's that can reduce emissions, but think about it: you can use our renewable gasoline as a blend or even 100% to significantly reduce emissions from vehicles using existing combustion engines. It is pretty simple. Most people

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do not realize that the gasoline segment of the liquid transportation fuel market dwarfs the diesel and jet segments. In the end, to solve gasoline GHG emissions we are going to need all solutions, including EV, fuel cells, and GEVO's renewable hydrocarbons.

Shawn Severson: Next, let me go the Praj deal and better understand that announcement.

Patrick Gruber: Simply put the Indian Air Force wants domestically produced renewable jet fuel as a strategic initiative. Keep in mind they do not have oil in India, but they do have lots of sugar cane and idled sugar cane plants. They can put these plants back to work and create jobs by adding our technology that we have worked with Praj to adapt specifically for the Indian market. As I mentioned earlier, this is also very strategic to the Indian military as a domestic fuel source. As a reminder, we are the licensor of technology, no capital investment on our part required.

Shawn Severson: So, these offtakes are guaranteed if you can supply the product? Can they be cancelled?

Patrick Gruber: The off-takes are each slightly different. The key point is that if we make the product, there is surety in their buying that product from us. That means we must build plants as I already mentioned. The contracts have certain "conditions precedent" meaning certain conditions need to be met before the contracts come into full force. Some of these would include things like obtaining financing to build the production facility by certain dates, building the plants and producing on spec to what we have agreed. Most of the contracts have

been filed with the SEC if folks want to review the details. Keep in mind we can and have done this on a limited commercial scale already. We are not talking about a new technology that might or might not work. We know what we can do and have proven it. We need get enough capacity to get economies of scale.

Shawn Severson: The subject of project finance is critical to understanding the future of GEVO. Why is project finance at a plant level the best strategy for you currently and why you see it as the lowest cost of capital and most advantageous for common equity owners?

Patrick Gruber: A project finance approach means that the capital needed to build the big capacity is not done at Gevo Inc level. That translates into no dilution for Gevo shareholders related to financing these large-scale plants. Of course, Gevo could make even more money if we invested in the project equity, but that takes more capital. An exception to our capital-light approach is that we may co-invest at some level to attract the outside capital. This exception is most likely to occur at our Luverne facility, which will be the flagship and first of our large-scale production plants. We have the money on the balance sheet to co-invest in the equity for the Luverne facility if it makes sense.

Shawn Severson: You have recently engaged Citi to help find investors at the project level, that is at the SPE level. How exactly does that process work and what should equity investors be looking for in terms of milestones showing how this is progressing?

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Patrick Gruber: We put a management presentation together that explains the projects, the returns, the business. It contains a lot of detail and functions like a traditional Confidential Information Memorandum, but with the benefit of a live presentation and interaction between potential investors and Gevo management. We are looking for capital to build out about 70MGPY of capacity and we expect that we would need about \$200M of equity for that capacity, excluding any investment that Gevo would make for one or more of three plants, plus about \$500M of debt. We still have work to do and are what I would characterize as in the middle of the process. The process is going OK, especially for COVID world, but I would note to our stockholders that we just got the Trafigura agreement signed. We still need a deal or two more closed to complete the 70MGPY we are pitching with Citi and I think prospective project-level investors need to see the signed agreements, so this is of course a critical set of milestones to track. Right now, our contractual position supports the Luverne expansion and one other large plant. The third would be supported by additional offtakes on which we're working.

Shawn Severson: What seems to be the pushbacks to Citi from investors? It would seem to be a great ROI for opportunity. Why the longer timeline?

Patrick Gruber: First, we must teach people about our business and products. Project finance infrastructure-style investors generally are not familiar with what we are doing. We make hydrocarbons, drop in fuels, jet and gasoline from carbohydrates. We are not ethanol or renewable diesel from

veggie oil, which are technologies they are more familiar with. Additionally, we have potential to get to net zero GHG emissions across the whole life cycle of the product and our jet and gasoline fuels are true drop-in hydrocarbons, compatible with all engines of all ages. This is all a paradigm shift and it is new to this type of investor, and naturally takes time. I will say that long term views on oil and environmental benefit pricing, that is, carbon pricing, are positive and that helps a lot.

Now as far as push back goes: some investors only invest in projects that have been done with a history of large-scale multiple projects. Well, that is not us. It is a bit of the typical syndrome where everyone wants to invest, but in the second project, not the first, so we must push through those barriers. We believe that we have done a very good job of de-risking the IBA and hydrocarbon process and proving the product performance, but we have not built giant plants yet. Someone must go first and that is why we are doing a lot of missionary work to get this first one done. I expect subsequent projects can get done at lower costs of capital. Furthermore, some potential investors are unfamiliar with the commodity risk and how it can be mitigated and that can be a sophisticated process. Those are examples. We do a lot of teaching.

Shawn Severson: You raised a significant amount of money at the corporate level recently. Why would you need to do that if the project finance strategy is going well?

Patrick Gruber: We are the project developers. We must do the engineering, the permitting, the groundwork, and that

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takes money. We expect to get reimbursed for these things when a project closes, as is customary in the project finance world, but we must absorb the working capital needs in the short-term. Furthermore, we need to pay back WhiteBox by the end of the year, which will essentially make us a debt-free company. There is also a lot of development and education we need to do in the marketplace and that takes money. The money we now have on the balance sheet now should carry us through to successfully complete our strategic objectives on the 70MGY production capacity. It also significantly helps our negotiating position with project finance investors as they now see that we have long-term viability and the capital needed to complete the development work. That matters and is big deal and, in my opinion, should lower the risk of the projects getting financed.

Shawn Severson: Assuming you get the first plant or plants funded, what would be the timeline and milestones to Gevo showing revenue?

Patrick Gruber: Assuming we close a project finance deal in the planned timeframe of 2nd half of 2021, we start to see revenues shortly thereafter from the recovery of the development costs, first installments of technology licensing fees, and construction project management fees. We anticipate that our existing Luverne expansion will get financed first, then the next two plants. I would not be surprised it takes into early 2022 to get the 2nd and 3rd plants closed. The plants are expected to start delivering product in late 2023 and early 2024, but investors should note we get paid fees during

construction and through the life of each project we close.

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ABOUT THE ANALYST

Shawn Severson – Co Founder & President

Head of ClimateTech & Sustainable Investing Research

Shawn Severson is President & Co-Founder of Water Tower Research and is a member of the Board of Managers. Prior to co-founding Water Tower Research and previously founding predecessor firm alphaDIRECT Advisors, Shawn spent over 20 years as a senior equity research analyst covering the Technology and ClimateTech sectors, including senior positions at JMP Securities, ThinkEquity, Robert W. Baird (London) and Raymond James, and he started his career as an equity research associate at Kemper Securities. Shawn was frequently ranked as a top research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and a StarMine Analyst Awards Top 3 stock picker. Prior to co-founding Water Tower Research as well as alphaDIRECT Advisors, Shawn spent over 20 years as a senior research analyst covering the Technology and ClimateTech sectors that included senior positions at The Blueshirt Group, JMP Securities, ThinkEquity, Robert W. Baird (London) and Raymond James and he started his career as an Equity Research Associate at Kemper Securities. Shawn was frequently ranked as a top equity research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and multiple awards as Starmine's top three stock pickers. Shawn holds a BA in Finance and Economics from Augustana College.

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