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Financing the Bioeconomy: Lessons from Biofuels Projects

Chris Groobey
Baker & McKenzie LLP

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Transition to a Bioeconomy, Berkeley, CA

Thanks . . .

. . . A brief intro . . .

**. . . And how I spent
my morning**

A New Yorker's View of Biofuels



(Apologies to The New York Times)

Why It's a Train Wreck

- Large number of project-level restructurings (most of which go unreported)
- Increasing bankruptcy filings
- Declining M&A environment; no IPOs
- Biodiesel is no different
- No more money

The Latest from the Analysts:

June 12, 2008 from Citigroup:

- “We believe that many, if not all, of the small to mid-size producers will be forced to shut down over the next few months.”
- 2-5 billion gallons off-line in next few months
- “Hold” ADM, “Sell” Verasun and BioFuel Energy

And From a Financial Advisor to Plants:

- 16 companies filing for bankruptcy in near future
- 2-3 times that many in next year or so

Lots More Going on Behind the Scenes . . .

But This Is Not Really “New” News

Goldman Sachs February 2007:

- “We believe that ethanol margins are below the level that justifies new construction.”
- “Key risks include higher corn prices and lower ethanol prices.”
- “Ethanol producers are taking a major risk if they are assuming that meaningfully higher corn supply will lead to lower corn prices.”

How Did We Get Here?

A tale of three companies



\$17 million to
\$1 billion to
\$???



\$40/share to
\$1.85/share



"Q Fever"

Current State of the Market

- Offtake contracts essential (but rare)
- Dependent on state-level grants and loans
- Usually includes tax-exempt bonds
- European, not US, banks
- Local equity
- “Interesting” geographic locations
- Larger working capital facilities

Lessons Learned for the New Bioeconomy

- State support is essential and perhaps more aggressive than federal
- AgBanks need to come back to the market
- Local equity, vertically-integrated, private companies (for example, POET)
- More “strategic” investors needed
- Co-location of symbiotic facilities
- At a base level, don’t bet the farm

Broader Issues, Final Thoughts

- MUST have more confidence in Congress (see wind/solar tax credits)
- “New York” has moved on and is hurting too much – need new sources of capital
- Cellulosic and “cleantech” already feel like bubbles -- \$3 billion dedicated funds?
- Project finance is still favored investment; just need to fit the mold
- Need more ag-skilled management teams, not internet refugees

Questions?

Thank you

Chris Groobey
Baker & McKenzie LLP
815 Connecticut Avenue, NW
Washington, DC 20006
202 835 4240
christopher.groobey@bakernet.com