Financing the Bioeconomy: Lessons from Biofuels Projects

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June 25, 2008
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

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