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Biogas startup goes for the green; Toronto-based company weighs risks, returns and loss of control...and gambles on \$350-million in private equity backing to build ambitious series of environmentally friendly power generators in North America

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Byline: Joanna Pachner

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After working 18-hour days for months, Bas van Berkel, the president of StormFisher Biogas, was ready for some R&R - and maybe just a little celebration. He and two partners were on the verge of signing a \$350-million investment deal with private equity firm Denham Capital Management that would make their tiny startup the most richly funded developer of biogas energy projects in the world.

But then, as Mr. van Berkel sat on a beach in Cuba last December, he got a call informing him the investors had found a snag in the process. Toronto-based StormFisher was using to draw energy from food and animal waste. Over the following four days, he burned up more than eight hours - and \$2,000 - on his cellphone, answering their tough technical questions.

Today, Mr. van Berkel admits it was the one time he thought the deal with Boston-based Denham Capital might collapse.

Founded in 2006 by three MBA graduates, StormFisher relies on technology that is already well established in Europe, where some 5,000 biogas facilities have started up over the past decade. While the partners have met many skeptics, they are confident North America will follow the European trajectory, making it possible for farmers and food manufacturers here to convert byproducts such as manure and vegetable scraps into gas to feed the power grid.

Still, the venture demanded money. "From the get-go, we knew this would be capital-intensive," Mr. van Berkel says. "It's not like Google that's all IP [intellectual property]. We have to build physical assets." Within months of the launch, StormFisher began canvassing the Canadian investment community, hoping to raise about \$2-million to develop its first three facilities. The response was "disappointing," Mr. van Berkel says. As far as institutional investors were concerned, the amount of money the partners needed didn't even move the needle, while angels worried that future rounds of funding might dilute their shares. As for venture capital, "some put offers on the table that we found offensive," Mr. van Berkel says, offering too little money for too much control.

Then a university classmate put the partners in touch with the managing director of Scotia Capital who, in turn, introduced them to Denham Capital, a

\$2.3-billion global fund focused on the energy and commodities sector. From the first meeting, the relationship clicked, because the investors understood StormFisher's industry and knew what questions to ask.

Mr. van Berkel knew Denham wouldn't be interested in investing only a couple of million dollars. "Private equity wants to deploy as much capital as they can," he says. Sure enough, Denham asked StormFisher to provide "a reasonable but aggressive five-year-plan," so the partners tweaked their timelines and said they'd need \$350-million. "They thought some of our projections were too conservative," Mr. van Berkel says. But the answer was yes.

The prospect of getting big money from Denham presented the partners with a critical decision because, simultaneously, they had managed to line up the small amount of capital they were originally seeking. Now they had to choose: Go for the big deal, or the small one, which would only keep them in business for about a year. "We'd end up having two people from the management team always raising money," Mr. van Berkel says.

Sitting in their makeshift condo office, StormFisher's co-owners weighed the risks and rewards. The Denham partnership would mean they could implement their full strategy. But they would be giving up the reins, since the investor would control the board and all major decisions. "You're handing over the keys," Mr. van Berkel says (though he would not disclose details about how the deal with Denham is structured). And if Denham backed out before the deal closed, they couldn't count on the smaller investor still being interested. After all, if Denham wouldn't invest, why should he? Instead of two offers for StormFisher, they might have none.

Ultimately, the positive reviews the partners received from other firms in partnership with Denham helped them to make up their minds.

Denham's months-long due diligence process was intense, time-consuming and exhausting, but also a learning experience for the partners. "They helped us put rigour into the business plan," says co-owner Ryan Little. "It's really smart money."

The deal was signed Feb. 8, 2008, and so far, the partnership has been "awesome," Mr. van Berkel says. The cash infusion has transformed the business,

which has grown to 25 people and moved into a downtown Toronto office. Prospective clients are more willing to talk; would-be suppliers and partners come calling. The entrepreneurs have discussed their fundraising success at the Toronto Board of Trade, an Ivey event and a series of Forbes magazine conferences.

The most common question people ask? Mr. van Berkel grins: "Can you pay for my beer?"

SNAPSHOT

THE VITALS

Business plan Build 30 biogas plants over the next five years, each two to five megawatts in size. These facilities are expected to generate enough energy to power 75,000 homes and reduce greenhouse gases by the equivalent of removing 26,000 average-sized cars from the road.

Employees 25

Revenue Projected for 2010, when first facilities are operational.

Clients Ontario Power Authority, Union Gas and Inniskillin, among others.

THE KEY DECISION

Chose to partner with a large investor and relinquish control of the company, rather than accept a smaller investment and be forced into successive rounds of fundraising.

THE OVERSIGHT

"I wish we'd started raising money three months earlier," says Bas van Berkel, president of StormFisher Biogas. "It takes longer than you expect. Everyone always tells you that, but you ignore it and then, of course, realize they're right."

THE INTRIGUING IDEA

U.S. investors have a different approach to, and appetite for, risk than Canadians, according to the StormFisher team. "Americans say, 'This is risky and I'm going to have to manage it,' rather than 'This is risky and so I'm not going to do it,'" Mr. van Berkel says.

THE NEXT STEP

Complete development of the first three biogas conversion plants in Ontario - in London, Port Colborne and Drayton (construction is slated to start next year). Team up with local biogas projects around North America that need funding and technical expertise.

THE MARKET

North America is a decade behind Europe in

green-energy adoption. While biogas conversion is a nascent industry on this continent, there are more than 5,000 biogas plants in Europe supplying energy to heat more than 1.5 million households. Germany, for example, aims to use biogas to meet 20 per cent of its natural gas needs by 2020. In Europe, wind energy projects took off first, followed by biogas about five years later. StormFisher expects the same pattern of development to take place here.

EUROPEAN NUMBERS

650 MW Amount of installed electrical capacity

4 million Number of tons a year of CO₂ emissions removed from the environment

\$960-million

Amount spent in 2005 on construction related to biogas facilities

\$500-million

Annual revenue to farmers from the sale of electricity generated by manure and food waste

Source: German Biogas Association

WEB EXCLUSIVE

"The advantage of a lot of committed capital for a growth-oriented company is the ability to focus on developing the business rather than repeated rounds of money-raising, which can be an immense distraction"

David Kennedy, a partner in the advisory division of KPMG, has 20 years of experience advising small and large companies on financing and mergers and acquisitions. Tomorrow he will offer his perspectives on StormFisher's fundraising experience and what other entrepreneurs can learn from it.

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