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## Private Equity Can't Ignore Biomass

Dynamotive's joint venture represents a portion of the niche's promise

Private equity shops have a taste for energy. Not only have they put a lot of capital into conventional opportunities in oil and gas; their funds have also been early backers of alternative energy. And recently, private equity capital has begun to seep into development of biomass, an alternative energy niche that its supporters say could eventually rival other alternative fuel sources, such as ethanol.

Ethanol uses the food element of agricultural crops, such as corn, to generate oil and thus competes with other uses of the crop, such as feedstock. Biomass takes a different approach. It uses the cellulose residue from cornhusks, as well as remnants from forests and lumber, to produce an industrial fuel.

"We're not monocrop users," says **Andrew Kingston**, CEO of **Dynamotive Energy Systems**, a Vancouver, BC-based biomass producer.

### Dynamotive's Bio 'Massive' Push

Dynamotive currently operates one commercial biomass plant near Toronto that converts the byproduct to liquid fuel for industrial power generation to power boilers and furnaces.

The company recently formed a \$23.5 million joint venture with **Consensus Business Group** (CBG), a UK private equity shop that has backed Dynamotive for four years. "They provide access to capital and the access to bilateral relationships with various governments on offset finance agreements, and they have the capability to enter markets beyond what Dynamotive has done," says Kingston.

"We believe it's a massive market and hence the reason for our focus," says **Wayne Keast**, CEO for Consensus Environment, a CBG division.

Feeling flush from that cash infusion, Dynamotive has set its sights on expanding further into Canada, a country with vast agricultural resources. Its second target location is in Guelph, Ontario, which is double the size of the existing Toronto facility and is expected to come online in the first quarter of 2007. This \$15 million facility uses construction demolition wood, which is essentially the sawdust, and converts the biomass to oil.

In addition to Canada, Dynamotive is in the process of devel-

oping facilities in Australia and Europe, and it has aggressive plans to enter the US and Latin America. The company is currently developing some biomass plants with the Corn Association of Argentina.

In the US, Kingston is close to setting up its stateside headquarters in Virginia and is eyeing sites for biomass facilities in that state as well as in Texas, New Mexico and Washington State.

The economic equation for biomass production remains favorable as well, even as oil continues to trade lower. "The hurdle rate for our expected return on capital is \$27 to \$35 oil," Kingston says.

Although Dynamotive is just now beginning to generate revenue through biomass oil sales and the licensing of its patented pyrolysis technology, which converts biomass to oil, the business is not yet profitable. Revenue in the second quarter was about \$50,000, versus no sales in the same quarter a year ago. However, the company is making an aggressive

push in Australia and expects to see \$300,000 in sales from Down Under in the coming quarter. The revenue will come from licensing agreements with **Renewable Oil**, a Melbourne-based company.

Dynamotive took a stab at the public markets some years ago, and its shares are currently traded over the counter, but that move may have been premature. Still, Kingston has kept his eyes set on listing the company.

"It was too early and too optimistic. We lost our minimum price requirement [for listing] in 1999 and we still had work to do, so we decided to concentrate on the fundamentals of building the business," says Kingston. He says it would be a natural progression for Dynamotive to follow the public offering path again, although he would not unveil the timeline. He does suggest, however, that it may unfold sooner rather than later. "The only requirement we don't meet at this point is the price requirement. The rest, we have."



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