

# Ethanol Producers Hit Market in Force: a Summary of the Deals

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We have seen a remarkable increase in interest from the capital markets in the agribusiness sector, or is it the energy sector? High oil prices and a confluence of factors around biofuels have garnered a great deal of attention from investors, and are poised to draw large sums of money. Within the next few weeks, investors can expect to see three operating pure-play ethanol companies traded on US exchanges. One has already floated its shares, and two are in the IPO pipeline. With all of the excitement it's easy to get lost, so we decided to summarize these offers, and make some comparisons as well.

## First to Market

Verasun Energy, Corp. (NYSE: VSE), the largest of the pure-play ethanol companies in line, priced its Initial Public Offering on June 14th above its offer range, at \$23 per share. The company and selling stockholders floated 18,250,000 shares, raising an aggregate \$419.8 million. On the first trading day, the company's stock appreciated 30% closing at \$30, giving the company a market capitalization of \$2.2 billion and an enterprise value of \$2.4 billion.

The company retained approximately \$253 million from the deal (ignoring the underwriters over allotment and fees). Proceeds are slated to be applied towards capacity expansion. The offer is expected to fund the lion's share of expense associated with construction of the Northwestern Iowa Facility and the Welcome Facility, both of which are expected to be operational in the first half of 2008. Construction of these plants, along with a plant already under construction in Charles City, IA, will more than double capacity from VeraSun's current 230 million gallons per year (MMGY).

In addition to increased capacity, VeraSun is also changing its distribution strategy. The company has been selling its ethanol through the marketing alliance run by Aventine Renewable Energy Holdings, Inc. That agreement has been terminated, and as of March 31, 2007, the company will market its product directly rather than through Aventine.

## Still to Price

### *Aventine*

Aventine Renewable Energy, Inc., which is next up for an IPO, plans to launch on The New York Stock Exchange under the symbol "AVR". The company and selling shareholders plan to sell 7,750,000 shares of stock, priced in the range of \$37-\$41. The offer is expected to raise approximately \$302.3 million (ignoring the underwriters over allotment and fees). Aventine will receive approximately \$250 million in net proceeds from the IPO. The company plans to use \$168.9 million to tender for outstanding senior secured notes due 2011. The remaining proceeds are expected to be allocated to general corporate purposes, which include the expansion of production capacity through acquisitions and construction of additional production facilities. If the company prices at the midpoint of its range, it will have an initial market cap of \$1.6 billion and an enterprise value of \$1.8 billion.

Aventine is exploring opportunities to expand production capacity through acquisitions, and development. The company operates a wholly-owned facility in Pekin, IL and a facility in Aurora, NE, of which it is 78.4% owner. The two facilities have a combined total ethanol production capacity of 150 MMGY. They are in the process of expanding the Illinois facility to increase capacity by 56.5 MMGY. The expansion is scheduled for completion in early 2007. Also, the company has signed a letter of intent with Aurora Cooperative to co-develop a 220 MMGY plant adjacent to the current Nebraska facility, slated for completion in late 2009. Finally, Aventine is pursuing the development of a 220 MMGY plant in a new location.

Beyond its own production capacity, Aventine maintains a strong presence through marketing alliances, which represented 67.8% of their total revenues for the three months ended March 31, 2006. Production of Aventine's current alliance partners totals 490 MMGY. VeraSun's move to market its own ethanol will reduce this number, but the company reports that it will replace that volume under new agreements.

*Hawkeye*

Based on production capacity, Hawkeye Holdings Inc. is the second largest pure-play ethanol company. Their present annual ethanol output is approximately of 205 MMGY from their two plants. Over the next few years, they plan to expand their production capacity by an additional 200 MMGY, bringing total production capacity to over 400 MMGY.

Though Hawkeye has filed documents for a public offering with the Securities and Exchange Commission, it has not yet provided further detail.

**A High Growth Sector**

The traditional agribusinesses that are producing ethanol or that are connected to the ethanol industry have seen a run up in their share price, giving them valuation metrics similar to energy companies. For example, ADM and The Andersons were trading in the 8.0x to 9.0x range Enterprise Value over Earnings Before Interest, Tax, Depreciation and

Amortization (EV/EBITDA) in 2004; they are now trading at a multiple above 11.0x. Valero Energy Corp. (a pure play oil refiner), however, has held a ratio of 6.0x EV/EBITDA throughout this time period.

We thought it interesting to add a different metric to the mix, with an analysis of EV to British Thermal Units produced. We compared Verasun and Aventine with Valero (NYSE:VLO).

As shown in the table below, investors appear to be placing a much higher value on a BTU produced from ethanol, and investors appear to be factoring in higher

	Valero <sup>1</sup>	Verasun <sup>2</sup>	Aventine <sup>3</sup>
<b>EV/FCF <sup>4</sup></b>	13.1x	29.4x	23.3x
<b>EV/BTU</b>	6.0x	113.1x	142.2x
<b>Implied FCF growth <sup>5</sup></b>	2.2%	8.0%	7.2%

1. based on 06-17-2006 close price  
2. based on first day's closing price  
3. based on midrange proposed offer price  
4. Free Cash Flow=EBITDA-Tax on EBIT-change in working capital  
5. based on Gordon Growth model and Ibbotson data

growth in free cash flow from the ethanol companies. The implied expected growth rate is at least three times larger than Valero's. While Valero is a mature company in a

“mature” industry, Verasun and Aventine are in a high growth sector, and trade at a premium. Within the next few weeks there will be ample opportunities to invest in the sector.

**Snapshot of Companies Related to Production and Distribution of Ethanol**

Company Name	LTM Revenue	Stock Price	Market Cap	P/Diluted EPS	TEV/LTM EBITDA
Andersons Inc. (NasdaqNM:ANDE)	\$1,318.7	\$74.4	\$565.3	32.4x	11.6x
Archer-Daniels-Midland Co. (NYSE:ADM)	\$36,472.5	\$38.9	\$25,438.0	27.8x	12.1x
MGP Ingredients Inc. (NasdaqNM:MGPI)	\$306.1	\$21.5	\$346.7	78.6x	14.5x
Pacific Ethanol, Inc. (NasdaqNM:PEIX)	\$123.5	\$21.4	\$671.7	NM	NM
Verasun Energy, Corp. (NYSE:VSE)	\$302.2	\$25.8	\$1,924.5	1,172.3x	38.0x

*price data as of June 21, 2006*



If you would like to discuss this material, or any other issues related to corporate finance and the agribusiness & food sector, feel free to contact Bill Goodbar ([goodbar@agricapital.com](mailto:goodbar@agricapital.com)) or Doug Sterkel ([sterkel@agricapital.com](mailto:sterkel@agricapital.com)) by phone or e-mail.

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