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Electric car maker poised to shock auto industry

Nicolas Van Praet, Financial Post

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Courtesy of Zenn Motors

Gilles Allard, production chief of Zenn Motor Co., still visits his local gas station despite the fact he drives one of the company's gas-less electric cars. As he says, he needs his milk and cigarettes.

Mr. Allard is a busy guy these days. His small team is building Zenn cars at a factory just north of Montreal at a rate of two to three vehicles a day and counting. Every one of them is being shipped to dealers in the United States for willing buyers. They're still illegal on most Canadian roads.

Like other companies selling alternative transportation in an oil-dependent world, Toronto-based Zenn has suddenly become a sexy stock. Its shares have gained 81% over the past three months on the Toronto Venture Exchange despite the fact the company has yet to post a profit.

Thing is, Zenn could soon be much more than sexy. It could be downright disruptive, turning the automotive industry on its head.

Sometime over the next several weeks, a privately-held and ultra-secretive company named EEStor Inc. based in Cedar Park, Texas is expected to release the results of independent third-party testing of its electrical energy storage unit, which aims to replace the electrochemical batteries we now use in everything from hybrid cars to laptop computers. EEStor says its system, combining battery and ultracapacitor technology and based on modified barium titanate ceramic powder, could power a car for 400 kilometres with regular performance. It claims the unit would charge in a few minutes and weigh less than 10% of current lead-acid batteries for the same cost.

If it is proven to work, EEStor, and its equity and business partners, including Zenn and U.S. defence contractor Lockheed Martin Corp., will have a technology that could change the transportation industry, with implications for renewable energy and any sector that needs electrical energy storage technology.

Officials with Lockheed, which earlier this year bought exclusive rights to use EEStor's power system for military purposes, have said the technology "could lead to energy independence for the warfighter." Officials with Zenn, which bought exclusive worldwide rights to the system for vehicles weighing up to 1,400 kg, say they believe it is the "holy grail" of electric storage systems.

EEStor has said it expects its technology to be commercially ready within six months.

"This is not small potatoes here. If this works it really changes the transportation sector," says Massimo Fiore, an analyst with Versant Partners in Montreal. He rates Zenn a "speculative buy" with a one year price target of $6.50.

"You'd have a very strong decoupling from oil," he said. "[Zenn] could have a very big return for investors. But it is still speculative."

Rick Welty of investment advisory firm Welty Capital Management in LaFayette, Calif. recently discussed Zenn on Bloomberg TV. "The caveat is the upside-downside potential" for the company's stock, he said. "If it doesn't work, it probably goes to $1 a share. If it does work, it could be $15 or $20 or far higher."

Zenn's future growth is inextricably linked to EEStor's success or failure. It holds a 3.8% equity position in EEStor, a strategic investment allowing Zenn to participate in the commercialization of its technology in non-automotive applications like aerospace. And its next generation of planned cars, called the cityZenn, will trade in the company's current lead-acid batteries for EEStor's storage unit.

A commercially viable power source by EEStor would boost the maximum speed of its cars from 40 km/h to 120 km/h, take them from the backroads to the highways, and thrust Zenn from a small company making niche electric vehicles into the global automotive mainstream.

Zenn and EEStor are not alone in the hunt for electric supremacy. Several major and minor companies are working on making better-performing batteries for all-electric and hybrid cars. General Motors Corp.'s Volt car, powered with lithium-ion batteries, is perhaps the most high-profile electric vehicle planned. But Toyota Motor Corp., Nissan, Mitsubishi, Renault-Nissan, and others have outlined plans for electric cars coming to market in North America as soon as 2010.

The challenge for all is developing a battery that delivers enough power and range for everyday transportation at a consistent quality for mass-production, said Eric Fedewa, an analyst for CSM Worldwide in Grand Rapids, Mich. "It comes down to ultimately what is it going to cost the manufacturers to produce that technology in the vehicle. And will consumers accept that cost?"

EEStor certainly has its skeptics. They argue scientists and engineers have been trying to make a similar power unit for 20 years without success. And history has not been kind to some technology hopefuls such as Ballard Power Systems.

But it also has a powerful venture capital backer, Kleiner Perkins Caufield & Byers, with a pretty good knack for picking winners. Kleiner was an early investor in both Google and Amazon.

"If for some reason EEStor is delayed, we will continue to use the best technologies available," Zenn founder and chief executive Ian Clifford acknowledges. "But ultimately, to get 400 kilometres of range, the ability to recharge in minutes, low costs, and the ability to operate in extreme climates – all of those benefits, those come from

EEStor. Those are the game-changing specifications."