

Zenn puts faith in better battery

Toronto-based electric car company has an exclusivity agreement with EEStor Inc., whose new technology is alluring, but far from certain

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Starting this week, Quebecers will be able to slowly poke around the province in **Zenn Motor Co.'s** electric cars, as the province recently became the first in Canada to allow the low-speed vehicles onto its roads (albeit only for a three-year trial). Consumers may want to invest in the company's electric cars, which plug into standard outlets and can travel 80 kilometres on a charge, but should investors be as keen to load up on Zenn's shares?

The company

Zenn was founded in 2001 by marketing executive Ian Clifford, and was originally called Feel Good Cars. Using Renault Dauphines as prototypes, the Toronto-based company removed the Dauphines' engines and replaced them with electric alternatives. It then hired Microcar of Europe to provide chassis. The first vehicles rolled out in 2007, with about 350 cars sold so far. A third of those sales have been made in California. The company said it has the capacity to produce 9,000 cars a year if demand increases.

Short drive, long charge

Right now, the company offers one model, a two-seater that tops out at 40 kilometres an hour and can travel as far as 80 km on a charge. After that, the car has to be plugged into a conventional electrical outlet for eight hours. The cars are put together in St. Jérôme, Que., and a basic model retails for \$15,995 (U.S.). Plans are in the works for a four-seater that can hit speeds as high as 125 km/h over a greater distance. The cars are regulated for use in most U.S. states, but Quebec is the first jurisdiction in Canada to allow them to mingle with regular traffic.

Millions in losses

Sales reached \$2.3-million (Canadian) last year, but Zenn lost \$6.9-million as it spent heavily on research and marketing. The company completed a \$14-million share offering in May, which it intends to spend on engineering, product development, and as general working capital. The company's shares, which trade on the TSX Venture Exchange, hit a 52-week high of \$6.89 on July 2 and closed Friday at \$3.50 on the TSX Venture Exchange. Two analysts follow the shares, with an average 12-month-price target of \$6.

Betting on EEStor

Zenn has an exclusivity agreement with battery-maker EEStor Inc. for small cars and golf carts, and in April, 2007, acquired 3.8 per cent of the Texas-based company for \$2.5-million (U.S.). It has the right to buy another \$5-million of shares at the same price, if certain developmental milestones are achieved. If things work out as planned, those could be valuable shares - EEStor claims its products will weigh 90 per cent less than conventional batteries, charge in minutes rather than hours and work just as well in cold climates as they do under the California sun. The technology is alluring, but far from certain. "[The batteries] are still under development and there can be no assurance that it will be successfully commercialized at all or on a timely basis, or that the corporation will be able to successfully incorporate the technology in its current products," Zenn wrote in its May prospectus.

Analyst view

"The big picture here is there is a shift toward electric mobility, and they should benefit from that. All the big vehicle manufacturers are in on that, and have said the vehicle of the future will be a zero-emissions, electric vehicle. So why buy a small Canadian upstart when the Fords of the world will destroy them once the market is strong enough? The EEStor relationship. If that works out, it would make the acquisition of an electric car a compelling decision."

Massimo Fiore, Versant Partners

CEO view

"We have very strong institutional investors, and over \$16-million (Canadian) in cash. The markets have had an up and down year, but we're holding our own. We're still a pretty low-volume stock, so we're vulnerable to retail activity. But our institutions, I believe, are in long and they support our business plan and strategy."

Ian Clifford, Zenn founder and CEO

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