

Case Study: NEOgás (Brazil)

NEOgás's Story

NEOgás was established in 2000 when two Brazilian entrepreneurs joined forces with an American company with an idea for a technology to improve delivery systems of compressed natural gas (CNG) for vehicular use. The patented technology they since developed enables NEOgás to supply CNG to customers under constant high pressure, thereby removing the need for—and cost of—recompression of the gas at the delivery point, which also maximizes logistics efficiency. NEOgás also developed low pressure solutions designed to allow service to a wide range of industrial and commercial consumers that depend on gas for mission critical applications.

With this technology and know-how, natural gas can be distributed for use in “off-pipeline” environments where pipelines are challenged to serve customers whether because of right of way issues, lack of financial feasibility, or other concerns. In this manner, customers can be provided access to an inexpensive and cleaner form of energy, independent of pipeline availability.

NEOgás had its start as a manufacturer selling equipment to the Brazilian energy conglomerate Petrobras to enable Petrobras's downstream operations—primarily retail outlets—to vend natural gas for vehicular use. In 2006, NEOgás



received an investment from a cleantech fund, then managed by Eenergy, to develop its business model. Under this new model, equipment sales would be supplemented by distribution services, which although more capital intensive to launch, offered the prospect of expanding the company's addressable market to include customers interested in using the fuel but unable or unwilling to manage the logistics of delivery. The founders saw in the service market the potential for lucrative long-term contracts and better value creation for shareholders. By 2007, NEOgás was ready to expand its operations and began to look for a suitable investment partner of scale.

Eenergy introduced NEOgás to GEF, and in April 2008, convinced by the technology and the distribution service strategy, the private equity fund took a 75% equity stake. GEF bought out the company's founding U.S. partner, while enabling Eenergy and the two founding Brazilian entrepreneurs to retain minority stakes.

GEF immediately helped NEOgás seize the opportunity for geographical expansion. An injection of working capital enabled NEOgás to enter the Peruvian market.

The Role Played by Private Equity

As majority shareholder, GEF took an active role in improving NEOgás's controls and information systems. Early on, it accelerated the adoption of a new Enterprise Resource Planning (ERP) system, ensuring that the data inputs and outputs were structured for management reporting that would better support strategic decision making and capital planning. NEOgás hired a financial controller with experience working in a multinational company, and introduced annual and multi-year budgeting processes to help structure compensation and bonus programs for the team.

GEF ratified the choice of Peru as a compelling market for international expansion. Gas from fields found in central Peru in the 1980s finally reached Lima in the early 2000s, but the distribution network within the city of Lima is to this date incipient. GEF understood the opportunity for NEOgás to provide Lima's burgeoning industry and inhabitants with a cleaner and cheaper fuel source almost immediately. Lima is an old and densely built city, a combination that slows down pipeline construction. GEF worked closely with management to launch NEOgás into Peru—a strategy which has already proved successful. Sales in Peru doubled in 2011 and are expected to equal those of Brazil by 2012. ▶

The Company



Essentials

Company: NEOgás do Brasil S.A.,
www.neogas.com.br/en

Region: Latin America

Country: Brazil

Sector: Energy

Business focus: Provider of compressed natural gas service to off-pipeline customers

Size: 110 employees in Brazil and Peru

GP: Global Environment Fund (GEF), a global private equity investor in companies that provide cost-effective solutions to environmental and energy challenges (www.globalenvironmentfund.com)

Date of investment: April 2008

Investment: GEF holds a 75% majority stake in NEOgás

Impact Highlights

GEF facilitated a change in business model from equipment manufacturer to service provider

With GEF's capital and expertise, NEOgás successfully consolidated its position in the Brazilian market and expanded into the fast growing Peruvian market

GEF continues to work with management in identifying and facilitating opportunities to enter other international markets, currently targeting Mexico and Colombia

NEOgás currently delivers compressed natural gas to 56 clients in Brazil and Peru

The Company View

“By the time we wanted to raise substantial funds, it was potentially a complex transaction. There were four shareholders and one wanted an exit. We liked GEF; I visited them in Washington and we held a convincing negotiation on both sides. Nothing like this is ever easy, but we arrived at a good solution that worked for everyone. Unlike a bank that expects results immediately, GEF understands that it takes time to build real value. They are patient, and they also had the capacity and the capital we needed.”

“The experience of working with GEF has been great. We have gained three very strong, participative Board members. When I go to Mexico or Colombia for example, they come along, speak the language and understand the market.”

Norberto Lassner,
Director,
NEOgás
do Brasil
S.A.



“Natural gas is a game-changer: supplementing or displacing existing fuel sources. We see a growing industrial and vehicular market for the fuel, both in Latin America and globally. NEOgás’s technical expertise and visionary management makes it an ideal partner in attacking those markets.”

Benjamin Sessions, Managing Director, GEF

► GEF worked with management to conduct a full market assessment, formulate a business plan and help to overcome risks and barriers to entry. In addition, GEF leveraged its expertise and network of banking contacts to expand the company’s financing relationships. Over time, GEF helped to build a stand-alone management team in Peru, hiring a full-time CEO in early 2011. NEOgás Peru is now one of two leading compressed gas operations in the country.

GEF continues to work with NEOgás to identify opportunities for geographical expansion, both by developing market-entry strategies and by helping local management teams build their capacity to create self-sustaining, profitable businesses. NEOgás is actively developing the Mexican and Colombian markets—both via local

partnerships—and is expected to have contracts underway in these countries by early 2012.

New technologies in extraction are turning natural gas into a much more affordable global commodity. Wider usage creates new markets for sales of NEOgás equipment and services in many countries where pipeline construction will likely lag the availability of gas, such as Australia, South Africa and Bangladesh.

While GEF is not looking to exit its investment in NEOgás for another 2–3 years, it has identified a number of potential exit opportunities, including a financial buyer looking to expand the company’s service offering into new geographies and a strategic buyer looking to build its natural gas portfolio.

Beyond the Bottom Line

Natural gas-powered cars use a third less energy than gasoline-fueled vehicles. NEOgás is helping to extend the range these cars can travel with its off-pipeline refueling options, making natural gas a viable fuel option for more drivers. Globally, there are approximately 11.5 million vehicles currently powered by natural gas. Natural gas vehicles typically have 20–25% lower greenhouse gases emissions than gasoline- or diesel-powered vehicles.

For industrial applications, natural gas is a cleaner option that helps companies meet goals related to reduction of emissions and to lower maintenance costs. In many markets, it is a cheaper alternative to the most widely used industrial fuels, such as fuel oil or liquefied petroleum gas, with fewer emissions and particulates matter.

