> Q&A

Talking to the Dragon

An interview with W. Brett Wilson

Anyone who regularly watches the CBC business series Dragons' Den will be familiar with W. Brett Wilson and his entrepreneurial skills. Since 1993, when he co-founded Calgary-based FirstEnergy Capital Corp. – now the leading investment dealer in Canada's energy sector – he has used those skills to help hundreds of start-up companies succeed in Canada's highly competitive energy market.

ExportWise *recently spoke with Mr. Wilson about the effects of the economic downturn on FirstEnergy and the Canadian energy industry, and how the future is shaping up for his sector and the companies that work in it.*

Photo: Jeffrey Kirk, CBC Television

ExportWise: *How did the economic downturn affect FirstEnergy's business and that of its energy industry clients?*

Wilson: FirstEnergy's role as an investment bank is to marry two groups of clients: a group of equity investors and a group of investees, the latter being the companies that the first group invests in. For our equity investors, the downturn was bad because it hammered the equity market, although the credit market didn't really matter from their perspective. But for our investees, the credit market mattered a great deal, since they were trying to raise money by issuing stocks, which were trading in the equity market. When access to reasonably priced capital and reasonably leveraged debt capital dried up, it caused a lot of problems for them. There were rumours of bankruptcy, and a lot of stories were going around about companies stretching their payables while trying to accelerate their receivables.

Compounding the problems were two decisions made outside the industry. One was the decision by the federal government to terminate income trusts, and the other was the Alberta government's drastic increases in the royalty rates applied to the oil companies. The first of these was structural and the second was economic, but both were extremely damaging when they were combined with the downturn in the economy.

EW: *How does the immediate future look for FirstEnergy and its clients?*

Wilson: FirstEnergy was well positioned when the economic downturn began last July, even though it was a perfect storm in terms of collapsing markets – the credit, equity, commodity and retail markets all fell apart and took business demand down with them. At that time, though, our balance sheet and our business plan were both structurally sound, and we were able to weather everything that hit us. As a result, we haven't fundamentally changed our business plan. If anything, we're accelerating our growth.

Also, we're now enjoying a rebound in the energy commodities cycle, which in turn is generating a very robust upturn in the energy equity cycle. We don't make the kind of money we once did, but we're still in good shape, and today we are very well positioned for the future.

EW: *How has the economic situation affected the entrepreneurial players in the Canadian energy sector?*

Wilson: Things are now loosening up and, in my experience, good ideas have always found funding. Currently there are lots of start-up companies, as well as recapitalizations of existing companies, that have raised anywhere from $2 million to $20 million. They're securing land and making acquisitions in the traditional small-to-large cycle that characterizes the energy sector. Helping them along are factors such as more readily available labour and lower costs for office space and business infrastructure – although, unfortunately, they're also dealing with significantly lower commodity prices.

So while the economy may have slowed down, there's been no slowdown for me as an investor. I've been seeing plenty of start-ups right through it all, and I have 10 to 20 ideas pitched at me every day.

EW: *It's been said that Canadian firms are too averse to risk and that they consequently shy away from major opportunities, especially foreign ones. Do you feel this is true of companies in Canada's energy sector?*

Wilson: On the contrary, I think it the opposite is the case. FirstEnergy, for example, has been backing Canadians in the international arena ever since we were established. The industry has many, many highly capable engineers, geophysicists and geologists, and they're risk-takers. They make up the explorers and the development teams that look at the world and see opportunities, and that's why Canadian energy companies have never hesitated to go almost anywhere on the planet.

As a result, it's internationally recognized that the knowledge and experience of Canadian oil and gas companies are world-class. That's a huge advantage when we go global and need to collaborate with non-Canadian oil and gas companies. They welcome Canadian partners and Canadian expertise, and I think that for the most part, our energy sector has a stellar reputation worldwide.

As for risk, the industry has been taking on risks and challenges ever since we first started drilling in Western Canada many years ago. Nothing has changed in how we apply the risk factors. We bring in the best geologists, engineers and geophysicists, and then we trust them to do the job.

I've been involved with starting several hundred oil and gas businesses, and I can tell you that our entrepreneurs view risk in their own particular way. First, they're not afraid of failure. Second, rather than focus on the problems inherent in an opportunity, they focus on the opportunity itself and say, "I can do that." To me, this attitude is the true Canadian entrepreneurial spirit. Risk for these people isn't a blind swing for the fence, where they close their eyes and hope they make it. Instead, they're sure that if somebody else can do something, they can do it too.

EW: *How do you see the next few years playing out for the Canadian energy sector?*

Wilson: On oil, we've seen the price virtually double since the spring, and I think the world will be short of oil for the next several years. Oil reservoirs decline dramatically if money isn't spent on them, either by maintenance capital or by development and expansion capital. With a dearth of those dollars available, we will definitely see a fall in supply, so even if demand stays more or less flat, we're still going to run short of available oil. Consequently, I'm confident that prices will continue rising for some time. I'm also an optimist about the industries that surround natural gas. Not in selling natural gas per se, although there's still money to be made in that business, but rather in the opportunities related to it.

EW: *Why do you see natural gas as a source of opportunities?*

Wilson: The long-term outlook for natural gas is interesting, because of the incredible North American reserves that we've found using new technology. In fact, the globe has more natural gas than we may ever consume, but for the most part it's been found in the wrong places. Offshore Qatar, for example, has huge reserves, but transporting it to North America, at current gas prices is either uneconomic or marginally economic at the moment, even when it's in compressed or liquefied forms.

But the recently discovered North American fields could provide the continent with a surplus of natural gas for a long time to come, and this stable supply leads to major new opportunities in the transportation and electricity generation sectors. There's an opportunity, for example, to build new infrastructure around the use of natural gas for long-haul and heavy-haul transportation systems. Once you have that infrastructure in place, it may be possible to expand it to fuel short-haul vehicles such as taxis and commercial delivery vehicles, and ultimately private automobiles as well.

Along with the transportation opportunities, we can also push the development of electricity generation using natural gas, which can provide an alternative to coal- or nuclear-based generation in various locations. The overall result will be an increasing demand for natural gas that will create brand-new industries around North America's stable, long-term supply of the resource.

EW: *What strategic advice would you give to energy companies that need capital partners to grow in Canada and internationally?*

Wilson: People sometimes underestimate their capital needs while overestimating their growth, so this is one mistake you should avoid. The economic reality of the current market means you have to walk before you run – there's still cash on the sidelines, but the people who have it are not as eager to invest it as they used to be.

I have colleagues who are sitting on billions of dollars, but they held onto that cash through the downturn, and they're going to watch it twice as closely on the upturn. Remember also that high-growth companies require a lot of working capital just to feed the sales cycle, and that capital isn't as easily available as it was.

In a nutshell, you should be aware that when things are as tight as they are now, you have to be more creative and more patient, and accept that your growth is going to be slower than it was before the downturn. ■

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