STRUCTURES: Midtown Alley gets $70 million facelift **23**

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Blue Harbour bets $48 million on Savvis

BY CHRISTOPHER TRITTO
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Private investment firm Blue Harbour Group LP placed a big bet on Savvis Inc. this summer, taking a 5.3 percent ownership stake in the Town and Country-based information technology services company.

Blue Harbour of Greenwich, Conn., has spent nearly $48.2 million to acquire more than 2.9 million Savvis shares, according to filings made with the Securities and Exchange Commission (SEC). The firm snatched up more than half those shares — 1,674,547 — between June 29 and Aug. 20, pushing its stake over the 5 percent threshold that triggers mandatory SEC disclosure.

The SEC filing states that the stock purchases were made for investment purposes, but Blue Harbour is known for taking an active role in the companies in which it invests and notes on its website: "We focus only on U.S. public companies that could create significant value by implementing strategic or financial change."

Analyst Donna Jaegers of D.A. Davidson & Co. said a big part of Savvis' appeal is that Savvis is valued about 20 percent to 30 percent less than its primary competitors in the data management and cloud computing industries.

"Blue Harbour sees the value disparity," Jaegers said. "Savvis is trading at 7.3 times this year's EBITDA (earnings before interest, taxes, depreciation and amortization), compared to 10 to 12 times EBITDA for its competitors. And private equity investors have been paying 11 to 13 times EBITDA for regional data centers."

Jaegers said poor execution by Savvis during the past couple of years has contributed to its lower valuation. Savvis is improving its operations, but investors are still catching up, she said.

Davidson & Co. recommends Savvis with a "buy" rating and a share price target of $25. Savvis stock is currently trading for about $20 a share.

Blue Harbour has a reputation for working cooperatively with company managers and boards to improve stock values, rather than taking a hostile approach, and that style appears to be getting results. Over the past several years, Blue Harbour has invested in and influenced several companies that have subsequently sold off assets or been acquired, including Yankee Candle Co. Inc., school bus and Greyhound operator Laidlaw International Inc., and integrated circuit component mak-

SAVVIS | 48

Rare (earth) opportunity

Jim Kennedy's $1 billion plan to break a Chinese monopoly


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Four years ago, Jim Kennedy was clearing out the dusty administrative building at his Pea Ridge iron mine in Sullivan, Mo., when he happened upon seven bankers boxes left behind by previous owners. He almost threw them out, but the manila folders inside caught his eye.

Kennedy started reading. It was only then he discovered that the waste rock outside his door and the slate gray earth beneath his boots contained a more intriguing, and scarcer, resource —one he says has the potential to transform the region.

Piled up in Pea Ridge's old tailings lake and buried underground are unusually high concentrations of so-called rare earth elements (REE). Geological studies indicate Kennedy's property is home to some $3 billion worth of known "rare earths" reserves. What's more, Pea Ridge is one of only two permitted REE mines in the country.

But he encountered one major hitch. There is virtually no place on Earth to refine these valuable metals outside of China.

Now Kennedy has the backing of U.S. Sen. Kit Bond and is working to strengthen support from U.S. Rep. Russ Carnahan and other lawmakers for federal legislation that would establish a public-private REE cooperative and appropriate much of the nearly $1 billion it would cost to build a state-of-the art refinery and reduction facility in Missouri. The refinery would create about 300 full-time

RARE EARTHS: *What are they?* 46
CHINA CONNECTION: *Monopoly on the market* 47
JIM KENNEDY: *From investor to prospector* 47

RARE | 46

Spartech hits reboot with a new CEO

BY E.B. SOLOMONT
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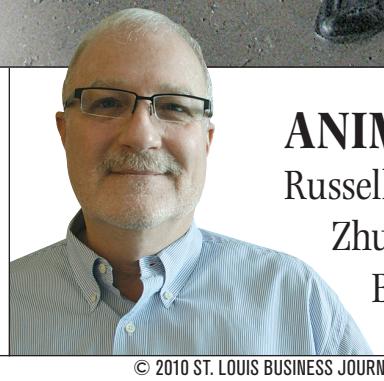
On the heels of a disappointing earnings report in early September, Spartech Corp. initiated a course of action that has become familiar to investors in recent years: The company replaced its CEO and hit reboot.

The pattern has led to three new chief executives in five years, and on Sept. 8, the company announced Victoria Holt, a board member and senior vice president of Pittsburgh-based PPG Industries' glass and fiberglass unit, would take the helm of the plastics company. She replaces Myles Odaniell, who served in the post three years.

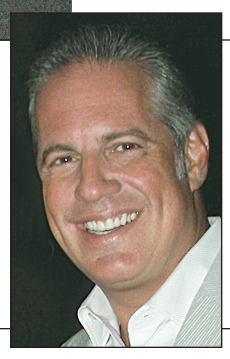

VICTORIA HOLT
CEO, Spartech

"The one thing that she's got going for her is that she's done it," said Dmitry Silversteyn, a senior research analyst at Longbow Research in Independence, Ohio. At PPG, Holt turned around her division, he

SPARTECH | 45



ANIMAL HOUSE
Russell Hornsby and Zhu Zhu Pets sue Build-A-Bear | **45**



ENERGIZED
Tony Sansone Jr. buys into solar energy | **5**

RARE: *'It is critical we have a domestic source of rare earth minerals,' Sen. Kit Bond said*

CONTINUED FROM PAGE 1

jobs and attract about 6,000 more as a magnet for technology companies that depend on rare earths supplies, he estimates.

Sporting exotic names like dysprosium and ytterbium near the bottom of the periodic table, rare earths possess unique physical properties that make them essential to high-performance alloys used in all sorts of sophisticated products. Missile guidance systems, next-generation radar, lasers, hybrid car batteries, high-strength magnets used in wind turbines and a growing list of other specialized items rely on REE, as do many more common devices such as smart phones, computer hard drives and fiber optic cables.

"There aren't too many places that have the amount of reserves that they have," Cheryl Seeger, chief of the geologic investigations unit for the Missouri Department of Natural Resources' Division of Geology and Land Surveying, said about Pea Ridge. "It is a tremendous resource and could be really important for Missouri."

Kennedy, who operates St. Louis-based mining company Wings Enterprises Inc., is proposing a domestic REE refinery that would serve as a counterpoint to China's monopoly, and he wants to build it in Missouri.

An advisory board consisting of representatives from the U.S. Geological Survey; the Defense Department; the Society for Mining, Metallurgy & Exploration trade organization; rare earths users and others would help identify potential REE reserves worth exploring and mining.

The refinery's nine-figure price tag, combined with China's ability to manipulate the REE market to neutralize competitors, presents significant risks to private investors.

That is why Kennedy, 47, insists government support is necessary to build a modern REE mining and refining industry in the United States. With so much at stake, he argues, this is an investment the country can't afford not to make.

National security and economic concerns about REE supplies have been growing over the past decade. But the issue is now gaining attention in Washington. Hearings are being held, and a couple of rare earths-related bills have been introduced in Congress this year. One was scheduled to be considered by the House Committee on Science and Technology on Sept. 22.

Rocks from Jim Kennedy's Pea Ridge Mine contain rare earth elements, such as dysprosium or ytterbium.

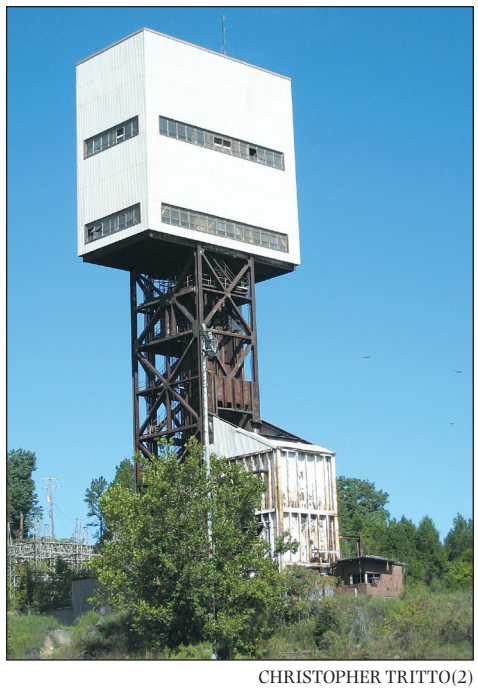
A Carnahan spokeswoman said the congressman, who sits on that House committee, is "working with colleagues to explore the potential that these minerals could represent."

Bond, one of Kennedy's strongest supporters, took a firmer stance. "Just like we cannot afford to be dependent on foreign oil cartels for our nation's energy, counting on any one foreign competitor to supply all of America's rare earth needs, which are so crucial to not only today's but also tomorrow's technological innovations, is too risky a bet," Bond said. "It is critical we have a domestic source of rare earth minerals, a necessary component for a number of technologies that Americans are increasingly dependent on."

Missouri, Kennedy argues, is uniquely situated to support a central processing hub for rare earths mined here and throughout the Western Hemisphere. Rare earth deposits have been identified in California, Idaho, Montana, Colorado, Utah and Wyoming, as well as in Canada and Brazil. Mountain Pass in the Mojave Desert is the largest rare-earth mine outside of China. But few deposits, including Mountain Pass, hold large concentrations of heavy REEs, a group of elements in the rare earths family that are considered the most important and valuable.

Pea Ridge, by contrast, features a smaller overall deposit but offers higher concentrations of heavy REEs than perhaps anyplace else in the world, according to third-party surveys performed at the mine.

Missouri's central location; access to cross-country river, railroad and highway transportation routes; and existing industrial Brownfield sites along the Mis-



CHRISTOPHER TRITTO(2)

Pea Ridge's mine shaft was built to dig for iron ore, but REEs are also plentiful there.

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WHAT ARE RARE EARTHS?

A collection of 17 elements with unique physical properties that make them essential to high-performance alloys used in all sorts of sophisticated products. Although not that uncommon, they are rarely found in minable concentrations.

WHAT ARE THEY USED FOR?

Rare earths are incorporated into things you touch every day, from iPods to smart phones to computers, as well as missile guidance systems, hybrid car batteries, wind turbines and other technologies.

WHAT'S ALL THE FUSS ABOUT?

China's global monopoly on rare earth refining is raising national security and economic concerns about America's dependence on China for supply.

FROM PREVIOUS PAGE

sissippi River that could serve as the refinery's home give the state a competitive edge. Pea Ridge also holds permits that other potential mines would probably need years to secure. A U.S. Government Accountability Office report in April found "once a company has secured the necessary capital to start a mine, government and industry officials said it can take from seven to 15 years to bring a property fully online, largely due to the time it takes to comply with multiple state and federal regulations."

If he can see his vision through, Kennedy and his supporters suggest a REE refinery here would help attract a number of REE-dependent manufacturers and military contractors to the region.

"We could become a new Silicon Valley," Kennedy said. "We would emphasize the green technology side, but the reality is there are also a lot of defense opportunities. This could present an incredible leverage position for Missouri. If we can get the right language in the legislation, this is ours to lose."

The China Connection

A quarter century ago, the Chinese government made rare-earth mining and refining a national priority. Today, it controls a near global monopoly on the market. More than 90 percent of the rare earth elements, alloys and components needed by the U.S. military and commercial manufacturers came from China 10 years ago, according to the U.S. Geological Survey. That figure reached 97 percent last year, according to the Government Accountability Office, Congress's nonpartisan research and watchdog arm. That has left American companies and defense contractors almost completely dependent on restricted supplies of Chinese imports.

No commercial rare earths refineries exist in the Western Hemisphere, and the nation's only two permitted rare earths mines – Missouri's Pea Ridge and California's Mountain Pass – have remained inactive for years due to Chinese pricing pressures.

– Christopher Tritto

Pea Ridge Mine in Sullivan, Mo., boasts higher concentrations of heavy rare earths than perhaps anyplace else in the world.

From Investor to Prospector

Jim Kennedy had never even heard of rare earths a few years ago.

Since his discovery of the minerals at his Pea Ridge Mine, though, he's immersed himself so deeply in the field that he's invited to speak on the subject at industry conferences, and he does so with the command of a trained geologist.

One of eight kids, Kennedy said he barely made it out of Kirkwood High School as a D-student. He joined the Army and became a member of its Special Forces. That experience, he said, helped him straighten up. When he out got of the service, he enrolled at Meramec Community College and began working with his father, Jerry Kennedy, who had left an engineering career at Monsanto to start his own investment firm, Kennedy Capital.

Kennedy transferred to Washington University and earned a bachelor's degree from the Olin School of Business in 1989 before earning a master's in political economics at Wash. U. four years later.

He became a big producer at Kennedy Capital, bringing in about $300 million in new accounts, he said. But over the next 14 years he soured on the business, concluding, "I don't like capital markets. I think they are destructive."

In 1999, a year after his father died, Kennedy's family sold the business to its employees. The bulk of the money went to his mother, and Kennedy walked away from his career in finance.

He and his wife, Nina Abboud, bought a farm, then an excavation company, which led to work with Pea Ridge's previous owners as an environmental reclamator. When the iron mine wound down as prices fell, Kennedy and Abboud took a chance. They borrowed about $1 million and bought the scarred 2,240-acre property tucked among rolling wooded hills off state Route 185, a winding road paved with Pea Ridge rock.

They have since invested another $15 million in borrowings and operational cash flow into the mine, Kennedy said, and are working to secure financing to upgrade the facility and produce pig iron for steel mills.

While iron mining remains Kennedy's key economic driver at Pea Ridge, rare earths have become his passion, taking him to Washington, D.C., and beyond to urge the development of a secure domestic supply.

– Christopher Tritto

Phycal to grow with Helix, DOE grants

BY KELSEY VOLKMANN
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Kevin Berner dreams of a day when drivers can pull up to a gas station and pump renewable fuel made with plant fat from algae.

A West Point graduate who served in the first Gulf War, Berner saw firsthand the dangers of the U.S. not having a secure domestic energy source.

"After 9/11, we have to figure out a way to create some renewable fuel domestically and have a secure source of oil," Berner said. "That's sort of my motivation."

This week, he got one step closer to realizing his goal. His startup, Phycal, which has a lab at the BioResearch and Development Growth Park (BRDG) at the Danforth Plant Science Center in Creve Coeur, is the first recipient of funding from St. Louis County's new $1.5 million Helix Fund, which provides seed money for plant and life science companies.

Phycal's investment banker, Joe Schlafly, director of public finance at Stifel Financial, had suggested to St. Louis County Economic Council President and CEO Denny Coleman that Phycal would be the perfect match for the Helix Fund.

The $100,000 grant comes from land rent money Pinnacle Entertainment pays for its new River City Casino in Lemay. The St. Louis County Port Authority will receive at least $4 million a year in land lease payments from Las Vegas-based Pinnacle for the casino, which opened in March. At least $3 million of that goes to Lemay projects. From the remainder, the port authority allocated $500,000 a year for at least three years to establish the Helix Fund, which also will give deal-closing money to mature companies in an effort to keep or attract firms to St. Louis County.

Phycal "is the kind of company and the kind of science that is important to everyone in terms of building energy independence," Coleman said.

The Helix grant will help Berner land even more funding, Coleman said. Phycal learned last month it won a $24.2 million federal research grant from the U.S. Department of Energy. This is in addition to the $5 million in risk capital funding Phycal raised from parent company Logos Energy Inc. and other private equity investors to get started, as well as $7 million in government contracts. Phycal is also in the process of raising a "significant investment" through its Series B securities, but Berner declined to disclose details.

Now Berner plans to go on a hiring spree over the next six to 12 months, mostly for scientists with doctorates in plant biotechnology or master's degrees in biology who will work as "farmers" to produce the algae plant fat that can later be refined for fuel. Berner said he wants to hire at least 10 more people in St. Louis, where there are currently six workers; a couple more at the company's headquarters in Cleveland, which has 34 employees; and 30 in Hawaii, which has one scientist. Phycal is building a plant farm in Hawaii because algae grows in abundance naturally there, thanks to the island's warm, sunny climate. In St. Louis, scientists are working to create a genetically engineered species of algae.

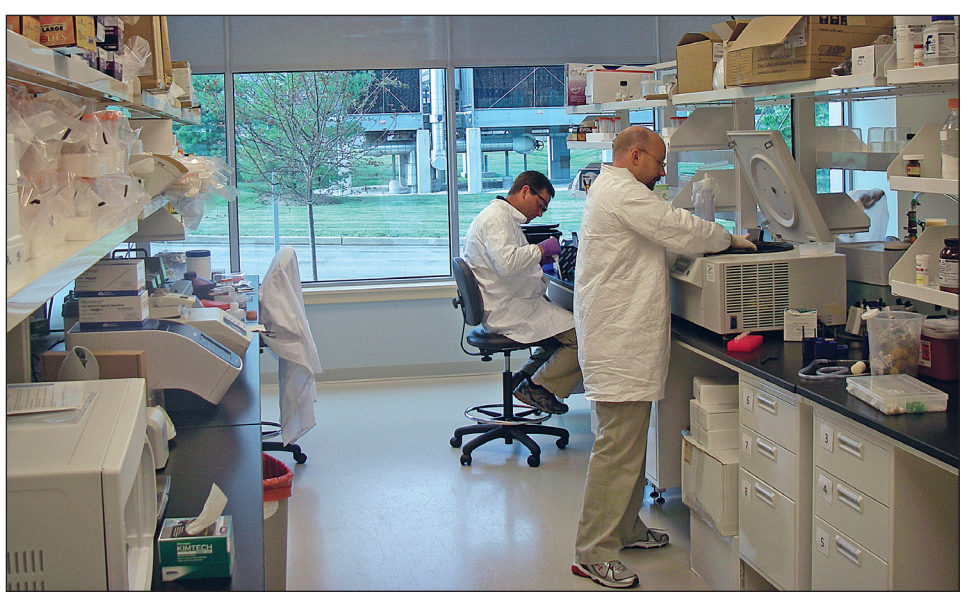
KEVIN BERNER

Landed a $24.2 million federal research grant last month

Berner expects Phycal to turn a profit in 2016, saying it takes a lot of time and money to create a new energy source and navigate the pilots, demonstration projects and regulations.

While in the Army, Berner got his doctorate in economics from Massachusetts Institute of Technology and taught economics at West Point before becoming a partner at McKinsey & Co., a consulting firm where he ran the manufacturing practice. He later met leading algae scientist Dick Sayre, who helped Berner flesh out his idea for using algae as an alternative fuel source. Now Phycal's lab is only a few steps away from Sayre's Enterprise Rent-A-Car Institute for Renewable Fuels at the Danforth Center.

With the Helix Fund, Coleman hopes to attract even more startups. To give these new companies space for wet and dry labs, the county is opening a $7.5 million, 33,000-square-foot plant science incubator called the Helix Center in early 2011 near the Danforth Center and BRDG Park. It is being designed in part to help retain research scientists laid off from local companies such as Pfizer and Monsanto.



Phycal plans to add at least 10 more scientists at its lab at the BioResearch and Development Growth Park, where it currently employs six people.