

PURE ENERGY: THE DUMBEST GUYS IN THE ROOM

How to build a billion dollar company with a glass in your hand and your thumb on your nose

If Enron were the smartest guys in the room—with their bloated-ego salaries, crooked accountants, Wall Street cronies, and bilked investors—maybe we'd be better off with the anti-Enron guys, who pay themselves peanuts, sell themselves short, wear no socks or ties, and run their business from a bar?

Pure Energy is the fictionalised true story of a Coal Seam Gas company listed on the Australian Stock Exchange in September 2006 for \$0.20 per share, then sold to British Gas in March 2009 for \$8.25 per share. In 2.5 years, the company went from a million-dollar personal debt to a billion-dollar public sale, making it the 100th largest market capital on the ASX—larger than the Bank of Queensland. Critics and competitors said Pure's aggressive ways would be their downfall: they drilled more “cowboy” wells than any other independent in the CSG sector, set “stupid” records in every acreage bidding round, but in the end discovered enough gas to supply an entire LNG plant—and made millionaires of even their smaller shareholders. With Pure's gas replacing coal for power generation in China, the resulting reduction in greenhouse gas emissions was equivalent to taking all the cars off the road in Canada for three years. All this from a company with one part-time employee, no secretary, and no answering machine.

Who pulled off this improbable romp, and how did they do it? Founded by four nutcase Canucks and one mad Maori, Pure's secret was simple: do the opposite, and do it hard. Run it down wrong side of the road, and run it from a bar. Think Butch Cassidy going toe to toe with Enron's Smartest Guys.

Follow the rollercoaster antics of the five founders as they find a broker, lose a broker, then get taken to the cleaners; as they make a discovery, lose a discovery (‘what do you mean, the gas is *gone*?’), then re-drill the same well four times over because they named it after a dead friend, only to find nothing but mud; until finally they turn a farmer's abandoned water-wells into gas-gold and hire the Goldman sharks to orchestrate a bidding war between British Gas and Shell and others, for a cool billion payout.

Share a glass with the Dumbest Guys in the Room. And hold onto your hat.

Late one night in July 2004, at his home in Perth, Tom “Fitzcarraldo” Fountain can’t believe his eyes as he peruses the Queensland government’s online database. Did he have one too many glasses of Coonawarra, or is that huge tract of CSG acreage set to expire the next day unless its \$150,000 environmental bond is paid? He puts the last of his seven kids to bed, then races to the airport, boards the red-eye and drinks his way to Brisbane. The next morning he cuts a farm-in deal with the expiring landholder, Moore Miet, a British expat, ex-squash pro living in Hong Kong who’s convinced a troupe of air-traffic controllers to invest in the Australian outback. Fitz doesn’t have \$150,000, so he posts the environmental bond using his superannuation fund. He has a vague plan to on-sell the rights to the big players in the CSG sector for a profit, but eight months later, with no takers, Fitz finds himself stuck with the debt, another imminent expiry, and over \$300,000 in further unfulfilled work commitments.

So he calls his business partner, Tony Soprino. There’s a reason Fitz didn’t bring the deal to Tony earlier: the two of them are known as TnT. Tom “The Idea Fountain” Fitz has a thousand ideas a year, which means Tony has to keep 999 torpedoes ready, along with a sharp eye for the one good one. Getting them together to discuss a deal is one thing; separating them once they start arguing is another. Sitting in the Windsor Hotel bar (the Winds), Fitz shows Tony the land, the farm-in deal, the debt, and the work commitments. Tony is skeptical. ‘How come no one else in the industry wanted the land?’ ‘Because they’re all *stupid!*’ says Fitz. Tony rolls his massive shoulders and arches an eyebrow at Fitz: ‘You put your *superfund* into this? You’re messing with the tax man?’ Tony knows the area better than anyone. This land is right on the edge of the sweet spot: it could be prime acreage, or total shit.

There is only one way out of this mess, and that’s all in: float a company on the stock exchange.

Fitz is ecstatic! They raise a glass, then ponder how to seed it. They mortgage their joint consulting company, Foucault, and their jointly-owned offices. But who’s going to be Managing Director? Fitz already MD’s a publicly listed company he founded four years earlier, Bountiful Oil, while Tony MD’s their consulting company, and can’t risk losing clients over a conflict of interest. So they enlist Foucault’s head field hand, Luke “Cool Hand” Birdman. Cool’s bubbly personality and love of fellow man make

him the perfect public face of the company. He shrugs, enthused as ever: ‘Why the fuck not. You don’t have any other work for me.’

Meanwhile, unbeknownst to Tony, Fitz has imported another Canuck to run Bountiful Oil so Fitz can pursue his 999 other business leads. The ex-Shell engineer, wanna-be-writer, Chauncey Gardiner, lands in Perth in March 2005 to discover Fitz is being ousted as Bountiful Oil’s Managing Director in a public Board-room coup, and the Bountiful board is suing Foucault consulting, partly for importing Gardiner to run Bountiful without Board permission. ‘I didn’t even know he was coming!’ says Tony, MD of Foucault. ‘And now he works for me, and I’m getting sued because of him?’ Tony has no work for Gardiner, but at the Winds, Tony sees potential: the man can drink. So they give Gardiner a title—Pure Exploration Manager—and a challenge: if he can do the technical work to extend the permits, make up a story and roll it into Pure Energy, and find a broker to float the company, then they’ll make him a partner. Gardiner prevaricates. Tony explodes: ‘I don’t care if you’ve never done it before! Do you think *he* has?’ Tony points at Cool. Gardiner nods: ‘Nice weather, good wine. How hard can it be?’ They raise a glass.

Lastly, but critically, they need that special talent to make it happen in the field. In the Foucault office between Gardiner and Tony squats just the man, literally, squatting on the floor beside his desk as he works: the mad Maori, Gerard Dundee, otherwise known as the Croc. He lives in the bush north of Perth, hunts turtles bare-handed for fun, has a Hells Angel biker for a brother, runs a grow-op on the side, and can master any piece of machinery ever known to man. And he’s the most loyal man on the planet. He’d swallow fire with a grin for anyone he trusts. Tony loves the man and has kept him on the Foucault payroll for three years running with almost no work for him. Now he knows why. They give the Croc a title—Pure Operations Manager—and he disappears into the wilds of Queensland and Tasmania, readying to drill for Coal Seam Gas. He starts, oddly, by fixing farmers’ fences and roads.

And thus in April 2005, at their inaugural Wednesday afternoon “strategy session” at the Winds, Soprino raises his glass: ‘I can’t imagine a more frightening team. The only one of us who actually likes talking to people’—he gestures at Fitz holding court across the bar—‘is publicly banned from doing so.’

But by November 2005, TnT are \$750,000 in Pure debt. They have progressed the technical work,

extended the permits, and crossed the continent three times to pitch dozens of brokers. Finally BBY agrees to lead an \$8 million float. The team is ecstatic, until BBY's Engagement Letter arrives: the Pure founders must provide 100 investors for the "spread," and a \$1 million "cornerstone investment"—which is roughly \$1.8 million less than they have. They make desperate calls to friends and family and associates, but are still far short. And then mid December, the morning before Pure's Christmas lunch, Gardiner gets the call: BBY has been bought out, and the new owners are canceling the deal.

By March 2006, they have \$1 million in debt, new work commitments, and no broker. The invoices keep coming. Tony erupts—'Why the fuck is Gerard building roads and fences for farmers in Queensland?'—while Gardiner's mother-in-law is buying his family groceries. They've toured the continent twice more and pitched to every last broker, except one: two blocks from Pure's Perth office is a "boutique" brokerage ("putzes", says Tony) that charge a "management fee" on top of their broker fee. The head putz has a "friend in the space", co-founder of Arrow Energy, the largest independent in the CSG sector. Arrow offers Pure a take-it-or-leave-it: Arrow buys out Pure's debt at \$0.10 per share (half of the IPO price), takes 15% of the company, awards itself enough options to enable a future take-over (if Pure ends up successful), gives itself two sweet farm-in deals on Pure's acreage, and appoints two Board members, including Chairman. The deal gives Arrow effective control of Pure, but the founders have no alternative, other than folding. As Tony winces: 'I've been bent over by better men. Just not as big.'

Pure Energy floats on the ASX in September 2006, raising \$5 million at \$0.20 per share, with a market capital of \$13 million. Two years later, in September 2008, Pure has drilled 16 wells, made two gas discoveries, raised a further \$25 million in three public raisings, and won two more permits, one of which outraged the industry for Pure's unprecedented bid of drilling over 200 wells (the previous record being 20 wells, set by Pure). Meanwhile, Pure's share price has climbed to \$1.80 per share, with a market capital of \$150 million, on the strength of its discoveries and aggressive drilling, in a bull market. But to some, the company looks vulnerable for takeover: yes, Pure has fast-tracked its reserves certification program, which will bolster its value with quantifiable assets via an independent auditor, but the process takes a year of drilling and testing and evaluation, and in the meantime its share price remains suppressed.

Four days after the Founders' shares come out of escrow, the Lehman Brothers declare bankruptcy. Pure's share price halves, to below \$0.90. With Arrow's options in Pure set to expire in December 2008, Arrow makes its move, partnering with Shell, who buys 19% of Pure, giving Arrow and Shell a combined 38%, plus Arrow's options. Arrow threatens Pure with a hostile takeover unless they acquiesce, but Tony has an ace up his sleeve. At startup he gave millions of founder shares to colleagues, friends, and family, an act of grand generosity that could now save the company: the Pure "founder group" owns well over 20%, which could block any hostile takeover. Arrow is forced to negotiate with Tony and Cool.

Meanwhile, unbeknownst to the Pure Board (with its two Arrow appointees who have urged them to stop drilling to "save money"), the Croc has secretly hired three rigs to accelerate the certification program, while Chance has quietly kickstarted the certifier's technical evaluation work nearly a year earlier. With the Pure AGM fast approaching in November 2008, Tony suspects Arrow of planning an AGM coup to oust Tony and Cool and take total control of the Board, so they can "negotiate" Pure's takeover between themselves, without interference.

The week before the AGM, Chance receives a call on his way to his daughter's school recital in Canada. The Croc is testing a Queensland well on a tip from a farmer (happy with his with new roads and fences built by the Croc)—they've "twinned" an old water-well that once flooded the farmer's kitchen faucets with gas. "Do you know what that sound is?" Croc shouts over the gas flare's roar. Chance, in line at Tim Horton's, shouts back: "That is the sound of \$300 million!" By 4 a.m., the Croc sends the raw data to Chance, and Chance forwards it to their Denver certifiers, whose technical calculations are already prepped. They bush a button, fill in the blanks of their report, and by 10 a.m., Pure announces its first certified reserves, within 12 hours of testing their first producing well. Their share price doubles.

At the AGM, Tony shakes his head, chuckling: "That must be some kind of world record."

The next day, Goldman Sachs joins the Pure takeover defence team, prompting Arrow's head negotiator to whinge at Cool: "Why did you hire *those* guys. They're assholes." Cool smiles: "Exactly."

In the next two months, Pure races through four more certifications, spurring British Gas to outbid Arrow, and driving Pure's share price to \$8.25, and a market capital just over \$1 billion.