Joint Venture Activity Increases In Market

Instead of holding initial public offerings or approaching lenders for capital, some companies are choosing to establish joint ventures to expedite expansion.

BY NORA CALEY

Wind power simply is not growing fast enough for some companies, so they are finding new ways to fund projects or facilities. Companies in the wind power market are choosing to partner with each other through joint ventures instead of acquisition or private equity placement so they can expand their market presence, meet increased demand, enter new regional markets and access capital.

The joint venture, says Jeff Chester, a partner with the law firm Kaye Scholer, allows organizations to isolate risk to a specific project or product segment. This approach also allows an organization to propose a partnership with another organization without relinquishing control of operations as could be the case in an acquisition scenario, he adds.

In October 2006, enXco Inc., an Escondido, Calif.-based developer and operator of wind energy projects, and Power Holdings, a subsidiary of the Ross Management Group (RMG), created a joint venture called Northwest Wind Partners LLC.

Joe Fahrendorf, vice president of business development for enXco, says joint ventures are becoming more common in the wind industry. "It seems to be the nature of the business," he says. "Most of the larger developers have had ownership changes over the last couple of years."

He says RMG approached enXco. "We do not normally seek partners; they usually approach us," he says. "This is likely because they are undercapitalized, start-up ventures, or have really good local contacts that are better than we have established." It took four months for enXco to perform the due diligence and final documentation.

RMG's expertise is in the Pacific Northwest region. Northwest Wind's first project will be in Washington. The 94 MW project, Goodnoe, has been sold to PacifiCorp and is scheduled for completion by the end of 2007.

The 20-year-old enXco develops, constructs, operates and manages wind energy projects throughout the U.S. The company is an affiliate of EDF Energies Nouvelles, and it services more than 4,200 turbines and 1,100 MW of power. RMG is the management parent for a group of family-owned businesses in a range of industries, including trucking, tire shredding, real estate holdings and energy generation. The company is based in Goldendale, Wash.

"The joining of a partnership or joint venture makes a larger pie, so the piece is bigger sharing than if we did it on our own," Fahrendorf says.

European connections

Some U.S. companies are partnering with European companies. In November 2006, Pittsburgh-based PPG Industries, a global supplier of glass, fiberglass and other products, formed a 50/50 joint venture with Langevag, Norway-based Devold AMT AS, a producer of reinforcement products. The joint venture, called PPG-Devold LLC, manufactures fiberglass reinforcement fabrics in PPG's plant in Shelby, N.C. The transaction closed in February.

Cheryl Richards, global market development manager of wind energy for PPG, says the joint venture began manufacturing during the first quarter and is selling the fabric that goes into wind blades in the U.S. market. "We were very aggressive in this project," she says. "Wind energy is growing, especially in North America, and there was a need for the product. We started this joint venture with a supply agreement in hand."

She says Devold approached PPG because the Norwegian company wanted to enter the U.S. market. "They had some strengths that complemented our strengths," she says. "We were in wind energy, and we were selling our rovings into the market. They had a customer base in Europe that was scaling up in North America, and they had the technical know-how for the fabrics."

Another European and North American partnership was announced in July. Independent Power Corp. (IPC), a wind power developer based in Mississauga, Ontario, sold 25% of its shares to German wind developer WPD AG. The German company has the option to buy 25% more after one year.

John Andrews, president of IPC, says the company needed a partnership because it was getting a significant amount of work from Ontario's standard offer program, which helps the province meet renewable energy goals by supporting development of projects with a capacity of 10 MW or less.

"It gets to the point where we know we need two things: capital, which is absolutely essential, and man power," he says. "We had a choice of private investors, who were willing to put up money, or the opportunity to go with this company in Germany that has 1,400 MW of installed wind power in Europe."

Andrews says WPD was attractive in another way. "The company is highly ethical, has a really good work ethic and does the best job partnering with landowners," he says. The partnership will also allow IPC to bid on larger jobs.

Michael Boehm, who manages the Canadian market for WPD, says the partnership will be beneficial for the German company, too. "As we see Ontario being a rapidly growing market, for us it made more sense to partner with a company that is already in a very good position instead of founding a new company," he says. "The advantage is a smaller risk in the first year."

Boehm says WPD talked to several Canadian developers, but "had a very good feeling with IPC." The negotiations took about a year.

Turbines and blades

Also in July, two German companies, turbine manufacturer REpower Systems AG and blade manufacturer Abeking & Rasmussen Rotec (A&R), formed a joint venture for the production of offshore rotor blades. REpower and A&R own 51% and 49%, respectively, of the new company, called PowerBlades GmbH. They plan to begin producing blades in mid-2008.

Hamburg-based REpower Systems AG manufactures onshore and offshore wind turbines with outputs ranging from 1.5 MW to 5 MW and rotor diameters of 70 meters to 126 meters. A&R manufactures blades up to 52 meters and is based in Lemwerder.

Daniela Puttenat, who heads the corporate communications department for REpower, says the company has had a long relationship with A&R. "Most recently we worked with A&R to build molds for our in-house designed RE40 blade, which we now have in serial production with them at their facilities in Lemwerder," she says. "It was natural for us to discuss with A&R as to how to best develop our own design RE61, together, for the offshore market. Both companies bring complementary skills and experiences, so therefore, it was easy for us to decide the most effective way forward is to create the joint venture company."

She adds that the joint venture will help the companies compete in the quickly expanding market. "Considering the now-foreseeable positive progress of the offshore wind industry in Germany, it is necessary to quickly achieve series-production readiness and to further extend our competitive advantage in this important business unit," she says.

Separately, Katana Industries Inc., an affiliate of Anacortes, Wash.-based heavy civil/industrial general contractor T Bailey Inc., entered a joint venture with Sumitomo Corp. in April. The joint venture, called Katana Summit LLC, will build towers in Columbus, Neb., in a facility scheduled to begin production in 2008.

"Sumitomo purchased 50-percent interest of Katana Industries' wind tower business to expand its involvement in the wind power industry market," says Gene Tanaka, president of T Bailey and Katana Industries. "T Bailey is a separate corporation. As part of the agreement with the joint venture, it will manufacture towers as a subcontractor on a overflow requirement basis."

Sumitomo is a Japanese company that owns 40 subsidiaries and affiliates with disparate offerings from steel to pet products.

Venture capital

Space Center Ventures (SCV), a Roseville, Minn.-based venture capital firm, has bought a minority stake in Minneapolis-headquartered Midwest Wind Finance (MWF), a wind farm financier. SCV now owns about 10% of MWF, and MWF now has working capital, so it can finance $150 million in wind farm projects in 2008.

"Both Wall Street-type investors and venture investors are becoming much more active in the wind energy business every day," says Paul Knapp, president and CEO of SCV. "The reasons are twofold: Wind energy projects require enormous sums of capital, and the opportunities seem to be limitless."

He adds that SCV has experience and holdings in oil and gas. "We have a keen appreciation for the challenges and opportunities of the energy business." The company also has holdings in medical devices and information technology.

As a venture capitalist, Knapp receives about two business plans a month from companies that request funding. Many are for renewable energy. "A year ago, it was all ethanol and biodiesel projects. Now I see more wind projects than ethanol and biodiesel combined."

He says MWF was attractive because the company has been building wind projects for years and has developed relationships with landowners. MWF arranges financing for wind projects ranging from $2 million to $50 million. Ken Valley, president of MWF, says the company needed the extra capital to grow. "We're in huge expansion mode, providing capital to projects around the country," he says. "This will help us make sure we have more than enough operating capital to reach our goal."

Temecula, Calif.-based VentureNet Capital Group Inc., a specialist in public-business funding, has been seeking to invest $15 million in a wind farm business since June. The company has invested in different types of businesses over the years, including a bakery, a coffeehouse and a recording studio. "We are trying to make an acquisition or a joint venture with an operating company," says Michael Brette, president of VentureNet. "We supply some capital and get an equity stake in that company and also a percentage of revenue. We don't want to be an operator of a wind energy company. We're looking to create a joint venture."

VentureNet's criteria for a joint venture include a company with strong management, a strong business model, dominance in the market and barriers to entry, which, according to Brette, would mean "you've got patented technology that would prevent someone else from coming in and competing with you."

Brette notes that venture capitalists are investing more cautiously than they did a few years ago. "It won't be like the dot-coms, where venture capitalists were throwing money around left and right," he says. "I don't see that happening with wind. I think wind will grow and prosper over the next 10 years."

VentureNet, which owns an oil and gas company in Houston, would like to invest in renewable energy. The company received six proposals and hopes to make a decision by November. "We are serious about looking for a strategic partner that has strong revenue generation now and, with our help, will push it up higher," he says. **WP**

Nora Caley is a Denver-based freelance