

KEYNOTE INTERVIEW

Plugging America's leaks



Ridgewood's Ross Posner and Michael Albrecht see opportunity in America's fragmented water systems

US lower mid-market specialist Ridgewood Infrastructure is invested in two major public-private partnerships: a 140-mile water pipeline to supply San Antonio, Texas with around 20 percent of its fresh water and a treatment plant under construction to provide more than 70 percent of Fort Lauderdale's fresh water.

While these marquee water public-private partnership projects are emblematic of Ridgewood's capabilities, the New York-based firm predominantly acquires brownfield operating assets across the water, transport, utility and energy transition sectors. Ross Posner and Michael Albrecht, managing partners of the firm, explain how water infrastructure in the US offers fertile ground for such investment.

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Q What differentiates investment opportunities in the US lower mid-market?

Ross Posner: To us, lower mid-market means enterprise values typically less than \$500 million. In our target area, North America, about 40 percent of the transaction universe is in that range, and there is relatively less capital focused there. It is a compelling structural dynamic from which to source differentiated investments, in water and otherwise.

What also sets apart the lower mid-market is the ability to create differentiated portfolio exposures, and the way in which we originate them, which is unique in this part of the market.

Most of the opportunities in which we invest, whether they be the largest water P3s, regulated water utilities, other fast-growing utilities or sophisticated joint ventures like the ones we have in transport and smart cities, require \$150 million or less of capital. These are investment sizes that are not material for the large- and mega-cap managers but are centre of the target for us and our strategy.

From an origination standpoint, we utilise a broad network and relationship web to directly source investments. We are able to access very compelling essential infrastructure investments on a bilateral basis, usually at a discount to precedent transactions. Our investors appreciate these factors and share a view of how to execute on that compelling market opportunity.

Another key differentiator is the

value-creation opportunity, which is controllable and repeatable. In every case, we are strategically repositioning our investments through growth, investing in their own infrastructure and by making an outsized impact around sustainability.

Q How is the lower mid-market evolving?

RP: The overall market is maturing, and in a way that we anticipated. Limited partners see the benefits of the smaller end of the market as their portfolios mature. They see what we are investing in as compelling on a standalone basis, as well as a great complement to some of their other exposures.

Illustrative examples include regulated water utilities and deepwater seaports that are focused on non-correlated end-use markets such as agriculture. Investors see the strong relative returns you can generate there, while preserving key fundamental infrastructure attributes: non-correlated cashflows, inflation linkage and essentiality of the services provided. The ability to access these types of investments, in one of the most compelling geographies in which to invest, isn't as readily available in the larger end of the market.

Q What is uniquely compelling about water investments in the US lower mid-market?

Michael Albrecht: The water industry is a massive market, which has suffered from tremendous underinvestment. The American Society of Civil Engineers recently estimated that nearly \$100 billion is still required annually, above current spend, just to stem leaks in our distribution network.

In recent years, the number of water main breaks has increased over 25 percent, because of the ageing of that system, to about 300,000 per year. We expect that \$100 billion dollar estimate to grow even further as new legislation is passed to address this. For example, the EPA's lead and copper rule is

estimated to cost \$130 million to \$300 million alone.

A second compelling aspect is that the industry is extremely fragmented. The regulated market in the US consists of more than 65,000 water and wastewater utilities. To put that into perspective, in the UK, they have approximately 30 water utilities. And over 90 percent of those 65,000 systems serve fewer than 10,000 people each. That creates a deep opportunity-set to invest capital, rejuvenate those water systems, and serve those communities.

However, a lower mid-market focus is needed to access the industry and achieve attractive returns. We own a regulated water utility which is focused on consolidating smaller and mid-sized utilities. We have made over a dozen acquisitions to date, and we integrate them into a larger company, which allows us to standardise capital expenditure and equipment selection.

That larger scale provides many benefits, including purchasing power, which minimises rate increases to customers. Larger funds cannot employ this aggregation strategy, given the

market's fragmentation and the relatively smaller equity amount that is needed.

Q How else are you investing?

RP: Growth and renewal are two of the themes we are investing into, especially in water. An example of the growth theme is our Vista Ridge water P3.

There, we have partnered with the city of San Antonio, one of the fastest-growing cities in America, which expects its population to double. In order to support that growth, San Antonio needs to increase and diversify its source of fresh water, and Vista Ridge is a major part of that key strategic solution set.

We constructed, operate and own the Vista Ridge Water Transmission Project, which is the largest water public-private partnership in US history. It has a 30-year take-or-pay arrangement to supply the city with around 20 percent of its fresh water and is a key part of the city's solution set for its growth and water needs. It also benefits the community by diversifying its water source, in particular during times like today when the city itself is going through considerable drought.

Renewal is about replacing and improving old infrastructure, which is in need throughout the country. An example of this is our Undine regulated water utility business, which is buying operating brownfield assets in need of investment and operational improvements. We have made 14 water utility acquisitions to-date and implemented capital improvement projects in each of them which has resulted in significant operational improvements and efficiencies for the communities we serve.

More broadly, we look throughout the value chain with a focus on mid-stream and downstream. It is in these areas where we can own the infrastructure and benefit from the related attractive attributes inclusive of contractual or regulated protections as well as the underlying inelasticity of demand

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MICHAEL ALBRECHT

which drives attractive uncorrelated cashflows.

These investments can include regulated utilities, transmission, storage and distribution, as well as processing and treatment.

For example, we have an investment which owns smart water meters for many municipalities. We are helping them transition to the use of current technology, which improves accuracy and significantly reduces related greenhouse gas associated with their previous model of truck-based reading of meters.

Another sustainability improvement is that our customers are now able to more effectively manage the scarce water resource. For us and our investors, we own the hard asset, generate long-term contracted, non-correlated cashflows, and have sophisticated and high-quality customers with whom we work. That all leads to a compelling lower mid-market with strong absolute and risk-adjusted returns.

MA: Prospect Lake in Fort Lauderdale, Florida, is the third-largest water P3 in US history, where we are leading the construction and operations for a 50 million gallon per day water treatment plant under a 30-year availability-based contract. This project is emblematic of how we create attractive water investments.

As an investment team, we track the age of infrastructure and the need of communities across the country. Through that process, we knew that Fort Lauderdale's existing infrastructure was well beyond its useful life.

They needed a comprehensive solution in a timely manner. We met with the mayor, the city manager, city commission members and other stakeholders, to listen to their goals and objectives. And then we submitted an unsolicited proposal.

Our solution brought in best-in-class partners such as Kiewit, the number-one construction firm in the US for water treatment facilities, and IDE



Q Which emerging technologies should investors be monitoring?

Michael Albrecht: AI is going to have a material impact on the water industry in the coming years. We are tracking multiple initiatives that have impacts on supply, demand, pricing, efficiency, even water reuse to ensure security of supply.

One area that will be affected is water utilisation and associated pricing, in particular within the agricultural and residential areas, which represent about half of all water use in the US. On the residential side, there are limited options today for homeowners to monitor their water use easily, much less consumption by use.

AI will be able to provide that detailed usage information. It could even allow water utilities to charge more for non-essential use. For example, if a city were under drought restrictions, the utility could implement a higher price for watering lawns, while keeping prices low for drinking or cooking uses.

Within agriculture, we see applications today that incorporate weather data and water need by crop and by location. But we expect AI to continue to improve and to drive water efficiency further.

While we do not invest in these technologies directly, we see the benefits they can provide to our portfolio companies and the positive impact they can have on customers and society at large. For geographies with severe water supply issues, this is going to help deal with these problems.

Technologies for the operations. This proactive approach led to a fast-track procurement whereby our proposal was unanimously selected.

Placing the city's goals and objectives at the centre allowed us to create a mutually beneficial outcome. We see

this approach resonating with many more cities and we are proud to contribute to revitalising America's water infrastructure, which is in desperate need, whether that be through public-private partnerships or investing in regulated water utilities. ■