

# Buyouts

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## CLOSED DEALS

### Landfills Have Blue Wolf Howling

#### SNAPSHOT:

**Target:** Montauk Energy Capital LLC  
**Purchase Price:** \$101.8 million  
**Sponsor:** Blue Wolf Capital Management  
**Seller:** DQE Financial Corp.  
**Financial Advisor:** Seller: Ewing Bemiss & Co.  
**Legal Counsel:** Buyer: Patton Boggs LLP

The alternative energy industry has been a popular investment stop for buyout shops: In recent months they've acquired companies producing energy from corn, wind and waste vegetable oils. Now you can add landfill gas to the list.

In its first leveraged acquisition since launching in 2005, New York-based **Blue Wolf Capital Management** has acquired landfill-gas collector **Montauk Energy Capital LLC** for \$101.8 million from DQE Financial Corp., a subsidiary of Duquesne Light Holdings. The deal, which closed at the end of last year, was structured with a combination of about 50 percent equity and 50 percent senior debt provided by GoldenTree Asset Management.

Landfills host countless microorganisms that feed on buried waste and aid in its decomposition. In turn, these microorganisms create waste of their own, mostly in the form of methane and carbon dioxide. The gas can be collected by a series of long, perforated tubes drilled into the heart of the landfill and connected, by a series of hoses, to a vacuum system. The gas can then be cleaned of impurities and sold to various end-markets.

Pittsburgh, Pa.-based Montauk Energy operates eight such landfill gas-to-energy

facilities at sites across the United States, and holds investments in 13 others. The company is turning a profit without the help of government subsidies, something that cannot be said for a number of other alternative energy sources, according to Blue Wolf.

"Landfill gas makes money today, at today's energy prices," Blue Wolf Capital Managing Director **Adam Blumenthal** told *Buyouts*. "The raw material used to make the gas is a waste product, so it's very inexpensive. We know exactly what we're selling, know what it's worth, we know it makes money, and therefore it's a good segment for a private equity investment."

Most landfill gas companies fall into one of two categories: gas-to-electric providers, which transform their gas into power and sell it to utility companies; and medium-BTU providers, which refine the gas to a relatively rough stage before selling it to industrial users as boiler fuel.

Montauk Energy fits into a third, rarer, category, according to **Mary Bacon**, a managing director at Ewing Bemiss & Co., the investment bank hired to sell the company. It refines the landfill gas it collects into a high-BTU product that can be sold to other natural gas suppliers. There are so few landfill gas producers that refine to this level of quality that the eight properties owned by Montauk Energy have a 25 percent market share for this kind of gas project in the United States, Bacon said.

Blue Wolf intends to use Montauk Energy as a platform to acquire other companies. About 1,000 landfills in the United States can support profitable landfill gas operations, according to the Environmental Protection Agency. Of those, about 425 already have live gas-collection projects on them. The largest independent operators, and there are

only a handful, run between 30 and 40 projects each, while the majority run between one and five projects, according to Blue Wolf.

The firm also may expand Montauk Energy's products into related sectors of the alternative energy market. "Landfill gas has a lot of technologies in common with other biomass projects," Blumenthal said. "For instance, sewage plants, agricultural operations and paper mills all produce methane that can be collected and converted into energy. As we build this platform, we feel there is room to branch out."

Equity for Blue Wolf's transactions came from the firm's sole limited partner; South African investment firm **Johnnic Holdings Ltd.**, a subsidiary of Hosken Consolidated Investments Ltd. Originally, Johnnic Holdings committed up to \$43.5 million to Blue Wolf to complete its first acquisitions, but the Montauk Energy deal already absorbed that and more.

Johnnic Holdings is expected to make a follow-on commitment. In addition, Blue Wolf will probably launch a debut buyout fund sometime later this year to diversify its LP base, according to a source with knowledge of the situation. Blumenthal declined to comment on this issue.

Aside from building up Montauk Energy, Blue Wolf is very interested in the ESCO, or energy saving company, market. Such companies take advantage of legislation that makes it cost-effective for government-owned facilities to upgrade their heating, air conditioning and electrical systems.

"ESCOs have a lot of the same characteristics as landfill gas," said Blumenthal. "These companies engage in activities that are profitable today by applying modern efficiency and conservation needs to the public sector."—A.N.