

Ridgewood Infrastructure

Wastewater treatment infrastructure

Investing in wastewater treatment is good business and helps everyone preserve a scarce and essential resource

Jorge Fernandez, Institutional Real Estate, Inc.'s managing director, infrastructure, recently spoke with **Ross Posner**, managing partner of Ridgewood Infrastructure, about the firm's investment strategy in the wastewater segment of the infrastructure sector. Following is an excerpt of that conversation.

What makes the wastewater space so attractive?

A number of secular trends are occurring in the wastewater infrastructure space right now. For one, the unused capacity in publicly owned wastewater treatment works, or POTWs, continues to decrease, while at the same time, there is little opportunity to create new or additional processing capacity. That decreasing capacity is a challenge, given the growing need for wastewater treatment. Furthermore, commercial and industrial users today are increasingly focused on the treatment of the *effluent* – the wastewater they are creating – as well as on their ability to reuse water in their operational processes. This trend among commercial and industrial users is occurring due both to heightened regulatory requirements, as well as an increase in related costs. There is a pressing need to develop solutions in response to these changes. These solutions require capital, expertise and an understanding of how to work among various stakeholders. That's where we see compelling investment opportunities.

How does Ridgewood Infrastructure approach the market, and how important is the role of partnerships in achieving success in the space?

We focus on high-level solutions for industry-wide issues and for specific stakeholder counterparties. These stakeholders can be communities and municipalities, and they include corporate and industrial companies. We couple our significant in-house expertise, when appropriate, with partnerships with experts who possess specific complementary expertise in wastewater industry subjects. I think about these partnerships as "open architecture," meaning we work with the best partner for the specific solution we are creating. We collaborate with the individuals and organizations that help us bring the best solution to a specific counterparty, essentially tailoring the investment-specific capabilities to create the right solutions.

A good example is a water-treatment facility we are building for the City of Fort Lauderdale in Florida. It is the third-largest water public-private partnership in U.S. history. We brought in best-in-class partners – Kiewit Corp., a leader in the construction of these facilities, and IDE Technologies, a world leader in sustainable water treatment and desalination – for that solution. Collaboratively, our partners and our consortium have brought about a unique solution for the City of Fort Lauderdale.

In a different opportunity, we might work with Kiewit Corp. and IDE Technologies again, or the situation might call for other fit-for-purpose partners. It really depends on the opportunity and what the needs are for that specific solution. The key as an investor is

Prospect Lake Clean Water Center

Prospect Lake Clean Water Center is a water treatment plant that will supply the majority of the fresh water for the City of Fort Lauderdale, Fla., under a 30-year availability-based contract with the investment-grade rated municipal water authority.



having your own expertise and industry experience to have true value-adding relationships across the breadth of industry SMEs [subject-matter experts].

Ridgewood Infrastructure invested in Waste Resource Management [WRM]. How does Ridgewood help companies such as this one achieve transformational growth?

WRM is a mid-size, mission-critical provider of liquids and wastewater collection, treatment and disposal, serving the commercial and industrial market. WRM focuses on liquid-waste recycling and nonhazardous wastewater treatment, and it serves as the middleman between its commercial and industrial customers and the POTWs I referred to earlier, where they can pre-treat the water before it goes into the municipal systems. WRM is a great example of the kinds of companies in which we invest and with which we work, whether in water, wastewater or other subsectors. We focus on the smaller end of the mid-market. We have a differentiated value-creation strategy and team, both of which are purpose-built to work with our management partners of those investments to help them scale, further professionalize their businesses and fundamentally enhance their strategic positioning. Our growth focus at WRM is a combination of both organic and acquisition-related growth. This is a typical part of our value-creation playbook where we are executing a repeatable and controllable series of initiatives in both areas. And, of course, we are similarly focused on enhancing the company's infrastructure, human capital and processes in order to successfully support and integrate that growth.



Waste Resource Management (WRM)

WRM is a mission-critical provider of liquids and wastewater collection, treatment and disposal, serving the commercial and industrial market.

While it's early in its lifecycle as an investment for Ridgewood, WRM has performed quite well. We went into the acquisition with a thoroughly developed strategy and operationally oriented execution initiatives to support those objectives. A few specific examples at WRM include hiring a number of key team members to improve operations and further strengthen the human capital foundation for growth, as well as making capital expenditures that are enhancing operations and profitability and ensuring other elements of the business are positioned well to help us manage the companies' anticipated growth. We've recently closed on the first growth acquisition for the company. It's an exciting time at WRM.

How are wastewater companies moving the needle in the sustainable investment universe?

At the highest level, due to population growth, ongoing urbanization and the escalation of industrialization, the strain on our water resources continues to intensify, making water treatment an indispensable solution for preserving our planet's

finite water supply. We focus on areas that align with the United Nations' Sustainable Development Goals, or SDGs. Specifically in this case, SDG 6 aims to ensure availability and sustainable management of water and sanitation for all. Sustainability is a key element of Ridgewood's culture and, consequently, of our investment strategies. For example, if we can reduce the demand drivers, we can lower the related costs, reduce the amount of energy needed, and be thoughtful about water's use and reuse in the investment community broadly. We can make a very significant impact and outcome on the water sector by focusing on sustainability and making significant changes for the good, as well as generating strong investment outcomes for our investors. There are many ways to enhance sustainability in the wastewater sector. WRM is a great case in point in that regard. We have already invested capital to reduce the amount of collection-related greenhouse gas, reduced the amount of wastewater that goes into municipal systems, increased the productivity of biosolids, which are then used for renewable natural gas, and we also are lowering energy costs. We're focused on it, and we're excited about it.

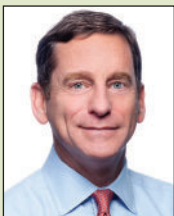
Are there any new technologies driving or creating more opportunities specifically in the wastewater space?

We employ a number of different technologies in our daily work. Probably the largest focus in the public domain currently is on PFAS – perfluoroalkyl and polyfluoroalkyl substances – and on the management of this complex group of nearly 15,000 synthetic chemicals that do not readily degrade. PFAS are found not only in wastewater, but in treated fresh water, as well. The technologies for managing PFAS continue to evolve, and they will have a material impact on overall solution creation. We study all the technologies and apply them where it makes the most sense for the solution we're developing.

What is your outlook for the wastewater segment in the next five years?

Across the entirety of the water sector, the focus needs to be managing the scarce resource more acutely. The wastewater segment will focus on increasing the reuse of wastewater and the more efficient use of water to reduce the amount of wastewater. Those are the two drivers: (1) create less wastewater, and (2) manage the wastewater that's being created so it can be reused and has longevity throughout existing and/or other applications.

CONTRIBUTOR



Ross Posner Managing Partner Ridgewood Infrastructure

Ross Posner is managing partner of Ridgewood Infrastructure and has more than 25 years of experience in infrastructure, private equity and other real asset investing. Prior to Ridgewood, Posner was a senior executive at Allstate Investments, where he established, as global group head, its Infrastructure and Real Assets business. Posner's responsibilities included creating and leading Allstate's direct infrastructure and real asset private equity investing business and also running its Project Finance and Private Placement credit portfolios. In aggregate, these businesses represented more than \$10 billion of capital.

CORPORATE OVERVIEW

Ridgewood Infrastructure invests in essential infrastructure in the U.S. lower-middle market. We originate investments that provide essential services to customers and employ responsible and operationally focused initiatives to enhance value. Through this strategy, Ridgewood focuses on creating beneficial outcomes for stakeholders with investments that generate long-term, high-quality, noncorrelated cash flows.

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