



Succeeding in the lower-middle market

Jorge Fernandez, Institutional Real Estate, Inc.'s managing director, infrastructure, recently spoke with **Ross Posner**, managing partner at **Ridgewood Infrastructure**, about what it takes to succeed in the lower-middle market. Following is an excerpt of that conversation.

How would you describe Ridgewood's approach to investing in infrastructure?

Ridgewood Infrastructure invests in critical infrastructure in the U.S. lower-middle market. We execute a repeatable, operationally oriented value creation strategy focused on smaller-scale infrastructure businesses – primarily in water, energy, transport and utilities.

How do you define the lower-middle market?

We typically focus on investing in companies with enterprise values less than \$500 million. This segment is attractive because it is fragmented and inefficient. Roughly 40 percent of U.S. infrastructure transactions require less than \$200 million in equity, yet less than 10 percent of capital is targeting these deals. That imbalance creates a structural inefficiency – and opportunity. We generate alpha through deep experience, strong relationships, and the ability to execute in this part of the market.

Why is the lower-middle market so compelling?

We can create value at every stage: sourcing, operating and exiting. As an initial screen, we focus on infrastructure businesses that provide essential services for which demand is relatively inelastic – like regulated water utilities – that are resilient across economic cycles. Our deals are often sourced bilaterally, outside competitive auctions, allowing us to invest at compelling valuations.



Image shown is for illustrative purposes only.

MN8 Energy, one the largest independent solar energy producers in the United States.

How do you create value during the holding period?

We apply a hands-on, operational approach to reposition and grow businesses – taking them from local to regional, niche to diversified, small to market leaders. We also bring best-in-class training and operational support. Our model is flexible: we form the right partnerships for each investment.

For example, we sold an energy utility that more than tripled its customer base organically. We own a regulated water utility that has grown through more than 20 acquisitions in targeted clusters. These cases illustrate our ability to scale and enhance value efficiently.



SiEnergy

SiEnergy is a regulated natural gas utility serving the Houston, Dallas-Fort Worth, and Austin metros. When Ridgewood acquired an 80 percent stake in 2019, the company had about 20,000 customers.

Under Ridgewood's ownership, SiEnergy expanded organically to over 70,000 customers – becoming one of the fastest-growing gas utilities in the United States.

In January 2025, Ridgewood sold its stake to NW Natural, a large strategic utility.



Carolina Marine Terminal, Wilmington, NC

How do you maximize value at exit?

We invest at a stage when assets are too small for many buyers. By the time we exit, we've grown, scaled and strategically repositioned these businesses, making them attractive to larger financial and strategic buyers. This broader market interest increases competition at exit and increases certainty of close – key advantages, especially in volatile markets.

The myth is that smaller means riskier. It doesn't. Risk comes from poor decisions, not asset size. ... What matters is discipline, judgment and strategy.

Recent exits include the largest water P3 in the U.S. and one of the fastest-growing regulated utilities, one sold to an open-end financial buyer and one sold to a strategic.

How do you protect investments from market headwinds?

We focus on companies that provide essential services with resilient, often regulated or contracted, inflation-linked cash flows. Our underwriting starts with demand stability and ends with contract durability.

We also leverage the team's deep sector knowledge to understand each asset's risk profile. Our motto is "quality through choice." If we buy well, we protect the downside upfront and create upside at exit.

What is the biggest misconception about lower-middle market investing?

The myth is that smaller means riskier. It doesn't. Risk comes from poor decisions, not asset size. Investors at

any scale can make risky calls. What matters is discipline, judgment and strategy.

That said, LPs are increasingly recognizing the value of the lower-middle market and the role it can play in portfolio construction – provided the manager knows how to create and capture value at this scale.

What does it take to succeed in the lower-middle market?

Success depends on experience, relationships and approach. We bring proven capabilities and a partnership mindset – whether we're working with municipalities on P3s or helping business owners grow. It's not just about having the right tools; it's about knowing how and when to use them.

CONTRIBUTOR



Ross Posner
Managing Partner
Ridgewood Infrastructure

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.

CORPORATE CONTACT

Sam Lissner | Partner | Ridgewood Infrastructure
+1 (212) 867-0050 | slissner@ridgewoodinfrastructure.com
ridgewoodinfrastructure.com

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