

# Bauerle's Bank Notes

## Renaissance Region

November 3, 2015

Peoples Gas CEO Morgan O'Brien recently took to the op-ed page of the Pittsburgh Post-Gazette to champion "Pittsburgh, Home of the Gas App." Among the most thoughtful people in the utility industry, O'Brien wrote,

We should be applying our region's brainpower to creating the technologies that rapidly advance the adoption of natural gas to fuel a range of new uses and applications. Western Pennsylvania, Ohio and West Virginia can be the setting for a continuously and ever-evolving stream of the latest natural gas innovation, demonstrations and applications-for a "world's fair" of gas apps, if you will.

O'Brien's comments echoed our piece, "Keep Shale Spinoff Businesses in Pennsylvania," which the Post-Gazette published in January. We argued Pennsylvania should pursue a strategy of financially supporting supply chain enterprises in Appalachia rather than in Southwestern states. O'Brien similarly concludes, "Our region and its leaders have a history of bold, optimistic vision and a pioneering spirit that yields game changing technologies. Now we have the gas and, if we put our minds to it, we can become a leading source of the ideas and engineering that increases its use."

To his emphasis on vision and brainpower one must add capital formation as the sine qua non of the regional economic renaissance O'Brien seeks. The World Bank forecasts the Appalachian shale play will produce \$1 trillion of economic activity over the next several decades. Capital will be king. Our Renaissance Partners boutique investment bank is actively engaged with companies that need capital as well as those that provide it. Our emphasis is threefold:

1. Growth Equity. Renaissance's Bill Wangerin co-developed the "equity checkbook" while helping J.P. Morgan deploy \$11 billion of equity capital through its One Equity Partners private equity arm from 2000-2014. Wangerin's emphasis at Renaissance Partners is matching emerging companies with patient capital provided by sources like insurance companies and family wealth offices. Funds are invested in tranches as milestones are attained according to an agreed business plan. Minority rather than control investment positions are the norm. The main event is making money helping privately owned businesses reach their full potential using a balanced mix of equity and debt financing.
2. Product Development. Working with the Ohio-based Nottingham & Spirk

industrial design firm, Renaissance supports companies that need funds to perfect the design of novel products and successfully bring them to market. Messrs. Nottingham and Spirk together hold more patents than anyone in American history except Thomas Edison. They have an uncanny ability to make innovations into commercial blockbusters. Renaissance's capital sources make that possible. In particular, Renaissance and Nottingham have pioneered a "soft-launch" program. Innovations are commercialized quickly and efficiently. Emphasis is placed on avoiding the hit and miss of corporate staff building. Instead, products are perfected and sold to established companies that seek to buy rather than build their product portfolios.

3. M&A and Restructuring. Price volatility in energy markets has stressed more highly leveraged companies. Too, the sheer scale of the Appalachian shale gas play means it will attract the largest and deepest-pocketed players. Middle market companies need to be poised acquire or be acquired as opportunities arise and markets shift. Renaissance Partners' client list of companies positioning themselves for the future is growing handily. It is work we enjoy and bring decades of experience to doing for clients throughout the nation's industrial heartland.

Morgan O'Brien's forecast of an economic renaissance in the Appalachian Basin is not just wishful thinking. It is here and now. We plan to continue to play our part helping clients build for that future.