Power Play

When Jon Feitz was looking for an alternative investment to the stock market, he pondered his array of options.

Real estate, insurance, annuities…

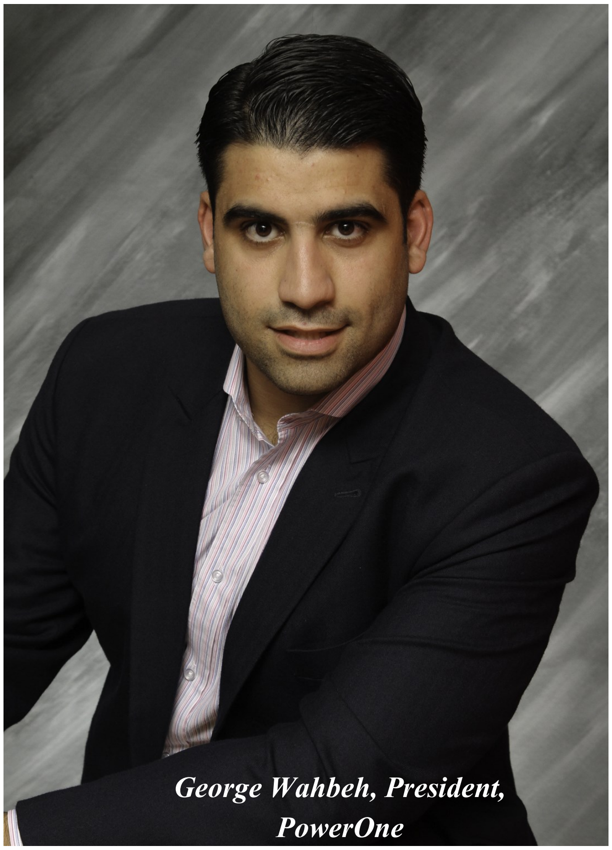
Then it dawned on him – like a flash of light … *literally.*

He decided to invest in the $364 billion electricity marketplace with PowerOne Corporation a unique and innovative energy company.

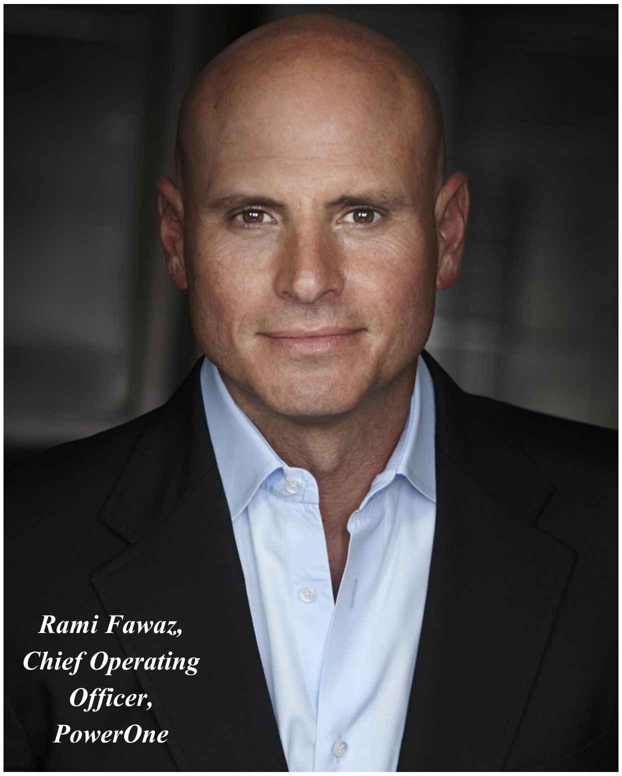
"Energy," Feitz says, "is the last deregulation play in the U.S. and I believe there is a lot of money to be made in it."

He invested nearly a half million dollars.

"The stock market," he says, "takes your money first, whether you make money or not.



George Wahbeh, President, PowerOne



Rami Fawaz, Chief Operating Officer, PowerOne

When it comes to alternative investments, one of the most exciting and lucrative options is power and energy. And one of the most intriguing and innovative players in the game is PowerOne Corp.

With a company like PowerOne, they are vested in the company and the market, just like I am. The executives are taking low salaries, hoping to come out at the end with a great valuation of the company and make lots of money when they sell it off.

“That’s a better risk than throwing money at stock market, which is like going to Las Vegas,” says Feitz, the President of Cal Source Logistics in Orange County, California. “The stock market takes the first 10 percent whether you make money or not. They’re not incentivized to make sure you make money. A company like PowerOne is.

“I like that kind of venture. It’s a good play in my mind.”

Pretty good strategy.

Just look at the numbers of some recent acquisitions in PowerOne’s sector.

NRG Energy purchases Energy Plus Holdings LLC for $190 million in a cash deal for a book of 120,000 energy customers.

That’s $1,299 per customer, per head.

Warren Buffett pays – gasp – $4,300 per customer for the purchase of Nevada Energy.

What’s the differentiator?

“Customer control – the value of the customer,” says Rami Fawaz, the Chief Operating Officer of PowerOne.

PowerOne is cleverly and strategically positioned to capitalize on this massive and lucrative market because it is playing all sides of the field.

How so? PowerOne is a hybrid – it has a brokerage side and a supply side. Less than a handful of players in the industry feature this characteristic.

“That’s the secret sauce,” says Thomas Hegge, another PowerOne investor.

“There are very few people attempting this business model,” Fawaz says. “It’s a very unique model in the industry. Traditionally, you’re one or the other – a broker or a supplier. What we learned in our research is the more control you have over the customer, the more you touch him or her from the beginning of the sales cycle, the more value you get out of them.”

That can mean a factor of three times – or more – when it comes to a potential buyout.

And that’s how PowerOne is positioning itself to sell for many multiples for each customer it acquires.

“That’s one of the things that attracted me to invest in PowerOne,” Hegge says. “The first thing is that it’s a commodity that everyone needs it. I believe this is going to be one of the best investments I’ve ever made in the last 20 years.

“Why?” he asks, repeating a question.

"Because electricity always goes up in price – it never goes down – and it's something that everyone has to have regardless of the economy."

One of PowerOne's direct competitors is Direct Energy, which is absolutely "crushing it," according to energy analysts – and it goes through brokers like PowerOne to acquire its customers.

That speaks volumes, Hegge says.

"This $384 billion market is five times bigger than the telecommunications industry – and we all know how much wealth that created," says George Wahbeh, the President of PowerOne.

"You just can't pass up something like this – it'd be foolish," Hegge adds.

It's extremely difficult to play both sides – broker and supply – according to Wahbeh.

"It's easier to pay a brokerage fee to another company to acquire customers for you, but the value of those customers is lower," he says. "In this industry, they look at how you got those customers and the quality of the brokerage."

For instance, does the organization have complaints with the utility commission in the states it services? How about Better Business Bureau complaints? Does the company record all its calls? What is the company's due diligence in handling a customer from the beginning of the sales cycle?

"The tighter that process is, the closer you keep it to your own internal operations, the higher the value of each customer is to an acquiring entity," Wahbeh says. "And that's exactly what we're doing: we're increasing the value of the company by doing the things that are most attractive to acquiring entities."

Nearly 60 percent of the big players in the supply business are actively looking for acquisition targets, according to industry analysts.

"They're shopping right now, just as we're talking," Fawaz says. "It's truly a feeding frenzy for smaller companies like us who can prove our business plan."

By acquiring its own customers – and having that control over that base – and by having them familiar with PowerOne and its customer service and its ability to sell other energy products like solar, "We can push that valuation much higher, maybe not Warren Buffet range, but that's the secret sauce – what we're shooting for is to increase the per customer valuation above the normal."

PowerOne has retained an industry-leading consulting firm, which prepares companies for acquisition.

"They have relationships with all the buyers and they know how to package a company for acquisition," Fawaz says. "We're setting ourselves up for a buyout but at the same time we're generating revenue and being competitive." ***— By Rick Weinberg, Editor, California Business Journal***

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