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## Stream Energy talks with investment banks about near-term IPO, CEO says

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**Stream Energy**, a private Dallas, Texas-based retail electricity and gas provider, could file to go public in as little as six months, said CEO and co-founder Rob Snyder. A sale might be a more likely exit, as "there are certainly parties out there right now who have an interest in acquiring Stream," said Rob Potosky, head of M&A at **AEG Affiliated Energy Group**, an electricity industry consulting firm.

The five-year-old company generated sales of USD 848m in 2009. Stream has not selected a banker but is still talking to UBS, Credit Suisse, and JPMorgan, as reported last year by this news service. He did not disclose when he would make a decision.

Stream faces a challenge in going public, said Snyder, because there is only one public pure-play retail electricity company in North America, **Just Energy** (TSX: JE.UN) based in Ontario, Canada. "Insofar as there is nothing in the US equity markets, some of these underwriters have a real pucker factor," Snyder said.

**Green Mountain Energy**, a retail electricity provider based in Austin, Texas, sought to go public but opted for a sale to **NRG** instead, asserted Snyder. NRG closed on the USD 350m acquisition of Green Mountain this month, paying a multiple of 5x EBITDA, according to a NRG news release. Green Mountain generated revenue of more than USD 500m, according to media reports.

Potosky believed Stream was more likely to be taken out through acquisition than go public. Another retail electricity provider (REP) could buy Stream to gain economies of scale and take out a big competitor in one fell swoop. Previously, Snyder told this news service that a sale to a competitor was a possible exit.

"Stream may have a difficult time bucking the trend" of electricity retailers being acquired, said Potosky. Generally, REPs have had a tough time raising money even from private investors because many can't demonstrate they have a sustainable competitive advantage, such as proprietary technology. Specifically, Stream's multi-level marketing (MLM) business is a source of risk that may put off investors, he noted.

Potosky cited two recent lawsuits filed against Stream's subsidiary Ignite, its MLM marketing arm as examples of that risk. Both suits have been dismissed but one is still pending in the US Court of Appeals, Fifth Circuit, according to Stream. The company is "unshakably confident of the legitimacy and legality of our innovative business model," Snyder said in a written statement.

Other REPs have MLM models that are less risk prone, such as **Ambit Energy**, said Potosky. Based in Dallas, Texas, Ambit's model is "very strong" compared with Stream's, he said. Ambit was named the fastest growing enterprise in the US by *Inc. Magazine* and reported its revenue for 2009 as being UD 325m.

**Just Energy**, which competes in Texas, is rumored to be looking to implement its own MLM effort, said Potosky. It reported sales of CDN 1.38bn for the first six months of its FY2011, according to regulatory filings, and a market capitalization of CDN 1.7bn, according to Just Energy documents.

Stream could also be complementary to retail gas providers or a MLM company in a different industry looking to enter the deregulated electricity market, said Potosky.

Stream is primarily owned by Snyder and his family and the management team. Natural Gas Partners is the sole institutional investor, which owns roughly 15% of the company. The ownership structure enables Snyder and the management team to "call the shots," he said, although noting that NGP has some veto rights.

As part of its plan of "making a play in the public markets," Stream has embarked on a three to five year strategy to enter a new state market every six months, said Snyder. The company recently announced its expansion into Pennsylvania, adding to its natural gas marketing in Georgia and electricity retailing in Texas. Targets for expansion include New York, New Jersey, Ohio, Illinois, Maryland, Connecticut and other states in the PJM Cluster.

Outside general counsel are Locke Lord, Haynes and Boone, and Bell Nunnally & Martin.

by Mark Druskoff in Houston, Texas