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JANUARY 11, 2013

New foundation

By merging, two of the area's biggest commercial builders have positioned themselves for more growth.

By ANDREA DECKERT

Leaders of two of the area's largest commercial building firms expect their merger to lead to more work, including health care projects here and in other parts of the country.

The deal announced Monday combining the Pike Co. Inc. and Lecesce Construction Services LLC creates a company with annual revenues topping \$340 million and nearly 500 employees. That includes some 90 local workers at Lecesce and roughly 330 local Pike staffers.

"This makes us a more powerful presence," said

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From left: Rufus Judson, Thomas Judson Jr. and Andrew Hislop

Photo by Kimberly McKinzie

Startup lands \$100M deal

Sweetwater Energy plans to invest \$15 million in plant in Wisconsin

By ANDREA DECKERT

Sweetwater Energy Inc. has landed its first deal, a 16-year contract expected to bring in at least \$100 million in revenue.

The startup cellulosic sugar manufacturer—led by Arunas Chesonis, former chairman and CEO of Paetec Holding Corp.—signed the deal this month with Ace Ethanol LLC of Stanley, Wis., a corn ethanol producer, to generate cellulosic ethanol at Ace's plant.

Sweetwater's patented, decentralized process will convert locally available cellulosic, non-food biomass such as crop residues, energy crops and woody material into highly fermentable sugar, which Ace will ferment into ethanol, the companies said.

The Sweetwater-Ace agreement includes Sweetwater placing one of its cellulosic facilities adjacent to the Ace Ethanol site and delivering enough refined sugar for Ace to produce up to 3.6 million gallons of ethanol a year during the initial phase of the relationship.

Sweetwater is investing some \$15 million in the plant, which will

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Arunas Chesonis

Hospitals see first impacts of new model

By WILL ASTOR

With a few exceptions, the new year finds most area hospitals looking at cuts in Medicare payments as the first application of a new performance-based formula for hospital reimbursement takes effect.

Reductions so far are small, amounting to changes of less than 1 percent in each institution's per-patient reimbursement. But as the government insurance program adds criteria and bumps up the percentage of hospital reimbursements subject to pay-for-performance measures, the bite could increase.

Still, the pay-for-performance model ultimately will benefit hospitals and

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Merger years in the making

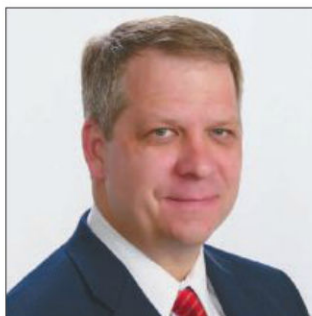
Pictometry leaders see a loftier future after the merger with EagleView

By TROY L. SMITH

Pictometry International Corp. surprised many people this week when it merged with a fast-rising company based in the Seattle area. The deal had been in the works for almost two years, however.

Henrietta-based Pictometry provides detailed aerial images to governments, insurance agencies and utility companies, which then can view infrastructure, buildings and land from all sides. It announced Monday that it had merged with EagleView Technologies Inc. of Bothell, Wash.

EagleView uses aerial images to provide automated 3-D measurement tools



EagleView CEO Chris Barrow

Photo courtesy of Pictometry

and analytics to commercial customers, primarily in the insurance and construction industries. It has been partnering

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DOT to auction nine properties in the region

By THOMAS ADAMS

Nine parcels of Rochester-area land owned by the state Department of Transportation, including a lakefront property in Webster and two parcels totaling 40 acres in Livingston County, are scheduled for auction Feb. 27.

The sale, at Region 4 headquarters on Jefferson Road in Henrietta, is the third in the last six years for the regional office. Similar auctions have taken place throughout the state.

The first here, in 2008, resulted in the sale of three properties for \$694,300. The second, in 2010, generated \$326,500 from three sales. Six properties were listed for

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SWEETWATER

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be adjacent to Ace's Midwest operations. Construction is expected to begin this spring, with the plant opening in mid-2014, Chesonis said.

He estimates that 15 people will work at the site, including a project manager, and employees will be added here as well. The company now employs 21 people, including three outside Rochester.

Under the deal, Ace will move from 100 percent corn to a combination of cornstarch and 7 percent cellulosic sugar for its feedstock. It also will serve as a model for Sweetwater's process.

If Ace decides to convert more of its cornstarch using the cellulosic sugar, Sweetwater could end up building additional plants on the site, generating more revenue than the projected \$100 million, Chesonis said.

"We're very excited," he said this week of the contract.

The deal—one company leaders call a



Photo courtesy of Ace Ethanol LLC
Sweetwater will build its plant near the Ace Ethanol facility in Stanley, Wis.

coup for a startup—opens the way for additional business for Sweetwater, he said. "The problem won't be that we won't have enough business," Chesonis said. "The problem will be how we will han-

dle the business we get, which is always the problem you want to have in business."

Robert Sather, a co-founder of Ace who now handles its government affairs and public relations, said his company has been testing Sweetwater's process for the past several months and is pleased with the results.

Sweetwater's method simplifies the process and makes it more effective than traditional ethanol production methods, he said.

"It should go right to our bottom line," Sather said. "This is a win for Ace, a win for Sweetwater and a win for the United States of America because of energy independence and lessening the cost of motor fuel."

Sweetwater Energy uses a patented tech-

nology to produce a low-cost sugar solution from non-food biomass. This sugar solution is sold to refineries, which use it to produce biofuels, biochemicals and bioplastics.

The company received a patent last month from the U.S. Patent and Trademark Office for the use of portable pretreatment units designed for the extraction of sugars from any cellulosic feedstock.

The technology is what allows Sweetwater to locate its cellulosic pretreatment technology in areas where an available feedstock provides the best economics for sugar production, company leaders said.

Sweetwater has a pilot system running at its Rochester site and is preparing to operate a larger demonstration system there this spring to show how the process works, Chesonis said.

The company has also received industry kudos. Last year it was named to various lists, including Biofuels Digest's Hottest Bioenergy Companies and Hottest Renewable Chemicals Companies, New York State's Most Promising Green Tech Companies and Lux Research's Top 10 Innovative Companies.

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PICTOMETRY

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with Pictometry to use the local firm's aerial images since EagleView was founded in 2008.

EagleView CEO Chris Barrow said the two companies began talks on a merger more than 18 months ago. A merger made sense immediately, but the details had to be ironed out.

"Once we believed these two businesses belonged together, a deal could have happened in a number of different ways," said Barrow, who was in Rochester this week for meetings. "How things ultimately turned out, with it being an equal merger not involving cash, was part of why it took so long to happen."

EagleView and Pictometry logged combined pro forma revenues of more than \$100 million in 2012, officials said. The two companies merged in a merger-of-equals stock transaction. Both companies became wholly owned subsidiaries of a new entity, temporarily named EagleView Holdings.

Barrow said the company will hire an outside firm to rebrand it with a new name within the next few months. The combined business has some 500 employees.

"Pictometry has a strong brand in this industry, especially in the government space, and EagleView has a strong brand in the commercial space," Barrow said. "We want to maintain the strength of those brands as much as possible."

As a result of the merger, the former shareholders of EagleView and Pictometry will each hold some 50 percent of the outstanding capital stock of the combined company. The merger was approved unanimously by the boards of EagleView and Pictometry and approved by the shareholders of both companies.

George Conboy, president of Brighton Securities Corp., said that while this kind of merger of equals may be rare, it shows confidence among shareholders.

"It is a little unusual," he said. "It's common that when one company acquires another, one group of shareholders seems like the controlling group in that transaction. The merger between EagleView and Pictometry suggests that the shareholders of these two companies were very comfortable with each other and very comfortable with their merging businesses."

Barrow will lead the management team of the new combined company as its president and CEO. Pictometry CEO Richard Hurwitz will leave the business. The management team will draw on executives

from both companies, officials said.

Barrow said outside of restructuring the company's executive team, none of Pictometry's 300 employees—including 200 in Rochester—will be immediately affected by the merger. Indeed, while Barrow will continue to live near Seattle, he said the new company will view its headquarters as being equally divided between Rochester and Bothell.

The new six-person board of directors will feature three prior EagleView directors: Barrow, along with investors Curtis Pilot and Roger McOmber. The board also will include prior Pictometry directors Thomas Golisano, Thomas Hogan and Chris Mitchell.

Mitchell is a managing director of Spectrum Equity Investors L.P. Spectrum invested \$63 million in Pictometry in 2011. Mitchell declined to comment on the merger, deferring all inquiries to Barrow.

The merger falls in line with the evolution of Pictometry's business since Hurwitz became CEO in August 2010.

Since Pictometry formed in 2000, the core of the company's business has been its government work. Hurwitz's vision was to grow the commercial segment of the business.

Hurwitz was unavailable to comment for this story. He told the Rochester Business Journal in December, however, that Pictometry has seen revenue growth each of

the past two years in large part due to the consolidation of its commercial business.

When he joined Pictometry, Hurwitz said, the company had 20 target industries in its commercial segment. It now has two primary ones: insurance and infrastructure companies for utilities, oil and gas, and transportation, for example. A merger with EagleView represented perhaps the biggest possible leap for Pictometry in its commercial business.

"Bringing together the complementary talents and capabilities of these two category-defining companies represents a crowning step in Pictometry's strategic evolution," said Hurwitz in a statement. "This merger creates an integrated company with greater scale and diversification that will afford tremendous upside to customers and shareholders."

While Pictometry has been one of the region's fastest-growing companies over the past decade, EagleView's revenues have skyrocketed in just four years.

EagleView, which has 200 employees, ranked 133rd on *Inc.* magazine's most recent list of the 5,000 fastest-growing private companies in the nation. The article stated EagleView had revenues of \$35.4 million in 2011, up from \$1.4 million in 2008. Barrow said the company's revenues nearly doubled in 2012.

an email. Like the federal program, it can both reduce and add to reimbursements. Last year, Excellus' Hospital Performance Improvement Program paid out \$21.4 million in rewards to 53 upstate hospitals.

The Medicare pay-for-performance measures, which track the federal government's fiscal year, which begins Oct. 1, have been in effect for several months. Adjustments are based on data hospitals have submitted to the Center for Medicare and Medicaid Services and on surveys CMS collects from a representative sample of adult patients.

Most of hospitals' Medicare rates will continue to be based on factors CMS has always used, such as individual overhead costs and case mix. Still, pay-for-performance adjustments are scheduled to account for an increasing portion of reimbursements. Performance-based adjustments could eventually slice as much as 8 percent off Medicare payments, which typically account for 35 percent to 55 percent of hospitals' revenues.

Among hospitals directly serving the city of Rochester, only URMHC's Strong Memori-

As of last year, Pictometry and EagleView were two of the top players in the rooftop measurement industry. Its main competitors include New Hampshire-based Aerialogics LLC and Minnesota-based RoofWalk LLC. Barrow expects the merger to give the new company a leg up.

"This is very much, for the most part, a merger of verticals," Barrow said. "EagleView was providing a finished set of solutions to its customers and Pictometry was a key supplier of a phenomenal set of images for those solutions. A lot of companies combine the government and commercial space very well, but this deal was very exciting."

Prior to obtaining its private-equity funding, Pictometry had weighed an initial public offering. When asked about the prospects of a future IPO, Barrow said it is far too early to tell.

Conboy agreed, given the size of the new company.

"At more than \$100 million revenue, the combined company is still somewhat modest in size," Conboy said. "Any management team is going to first want to fully and effectively integrate the offerings of the merging companies. Only then, after they see the effective results of the merger, would they likely consider an IPO, because, frankly, then you command a better price."

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MEDICARE

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be welcomed by most, predicted Robert Panzer M.D., chief quality officer for the University of Rochester Medical Center.

The new model rewards hospitals that do well with higher payments while it punishes those that do not with funding cuts, he said. An upward adjustment of several percent would provide an incentive to make real improvements in patient care and safety.

"There are carrots as well as sticks," Panzer said. "I prefer the carrot to the stick, but I think on balance people will get very engaged and interested in how they do."

Pay for performance is not new to the region, he added. The area's dominant private insurer, Excellus BlueCross BlueShield, has based part of its hospital reimbursement rates on performance measures for several years.

The Excellus program, which uses some of the same measures as Medicare, affects 95 percent of the insurer's hospital admission claims, explained James Redmond, Excellus vice president of communications, in

al and Highland hospitals, which are getting increases of 0.14 percent and 0.16 percent per patient for their Medicare payments, will see a net rise in Medicare reimbursement.

Experiencing a 0.43 percent reduction is Unity Health System's Unity Hospital. Rochester General Health System's Rochester General and Newark-Wayne Community hospitals are seeing 0.83 percent and 0.75 percent reductions per patient in Medicare payments.

Unity and RGHS officials also welcome pay for performance.

In the traditional fee-for-service model, doctors and hospitals get no reward for doing jobs well but instead are paid only for the number of services provided or procedures performed, so they have had little incentive to improve the quality of care, said Robert Mayo M.D., RGHS chief medical officer.

A move away from quantity-based payment is a positive step, he said.

Thomas Crilly, Unity chief financial officer, concurs. A focus on patients who need to be readmitted motivated Unity, which runs several nursing homes as well

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