

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## Juhl Wind, Inc. (JUHL)



**JOHN MITOLA**, President of Juhl Wind, Inc., has more than 20 years of experience in the energy and environmental industries. He was the CEO of Electric City Corp. from 2000 to 2006, leading the company from its start-up phase for six years as a publicly traded company. While trading on the American Stock Exchange, the firm was selected as one of the fastest-growing small companies in the U.S. Before Electric City, Mr. Mitola was a Vice President and General Manager of Exelon Thermal Technologies, Inc., and led the creation of the first unregulated subsidiary of Commonwealth Edison, now Exelon. Mr. Mitola also has been a Managing Partner of Kingsdale Capital, a private equity and capital advisory firm, and has been appointed twice by the governor of Illinois as the Chairman of the Illinois State Toll Highway Commission. Mr. Mitola received his B.S. in engineering from the University of Illinois at Urbana-Champaign and his law degree from DePaul University College of Law.

### SECTOR — ENERGY & UTILITIES

**TWST:** Please give us a description of what the business and the company looks like today.

**Mr. Mitola:** Juhl Wind is one of the leading independent developers, owners and operators of wind farms and wind power in the U.S. The best way to describe where we fit in the market is to think about the larger power marketplace and the windpower marketplace in general. The market and its members are split several ways.

At the top tier, you have the large utility subsidiaries that develop, own and operate wind farms, and this would be Edison Mission Energy, the subsidiary of Southern California Edison, NextEra — which is the subsidiary of Florida Power and Iberdrola, which is a large Spanish utility that's come into the U.S. marketplace. And of course, these firms dominate the market with very, very large wind farms. You then have a couple of medium-sized companies that were financed and developed by large U.S. investment banks in the early part of the 2000s, and there is probably just three of those companies. Then there are dozens of others who are involved in wind and solar development and operation.

Of those dozens, Juhl Wind is clearly set far apart. We're kind of in a league of our own in that our CEO Dan Juhl and Juhl Wind, the core company before becoming public, have been around for almost 20 years, and we've now built 19 wind farms. Really, there is no other independent company that even comes close. You might find a handful of others that have built two, three or four wind farms, but we've built 19. And not only have we built those wind farms, we even own and operate a number of wind farms, and that gives us bal-

ance in strength and stability that others don't have. We develop wind farms and every aspect of the development, from the very early stages of land acquisition, all the way to construction and commissioning. Again, as I mentioned, we own pieces of wind farms. We own wind farms outright that we operate. We provide maintenance and operating services to about 12 wind farms, and we're growing that business steadily. We provide advisory services to some of those larger utility developers and to some other development peer group partners that need our support, who need the full complement of Juhl's expertise. So we are in every aspect of wind-power development, construction, operation, maintenance, financing and oversight.

**TWST:** Where is the wind turbine industry going at this point? What's happening on the technology front? What's happening with pricing, the acceptability and the utility of wind power?

**Mr. Mitola:** For decades, wind power went through a growth and learning mode, and for the last seven years in particular, a new technology phase. We now have a core set of technologies across some, I would say, 10 to 20 major suppliers that work very reliably. It took a long time to get these large wind turbines to work reliably because you're dealing with a very dynamic energy source in the form of Mother Nature's wind. As engineers, we can figure out a lot of things, but when I say wind is extremely dynamic, it kind of speaks for itself, so it took the industry a while.

As a result of coming up with reliable technology, electric utility companies have really grown to accept wind as a source of power, much more so than they ever did in the past. There are some

30-odd states that now have specific, long-term requirements for wind power to be added to their grids, and that's going to drive the growth of wind power across the U.S. In most of those regions, we're just getting started. At a summary level, the U.S. Department of Energy issued a report back in 2005, which calls for wind power growing to 20% of the U.S. total power industry, and we're only at about 1% today. That 20% in the power industry represents billions of dollars of investment — I think somewhere around \$35 billion — and Juhl Wind will be very successful if we just continue growing as we have been and are able to get nice piece of that.

So the industry has come a long way, and at the same time, as technology has become more reliable and providers of the technology are getting more and more experienced, we're seeing prices come down. As prices for the turbines, which are really the bulk of the price of the wind farm, come down, wind power is becoming much more competitive. We make the case that wind power can compete head-to-head with the other large element of the power curve that we compete against, which is coal power. Of course, coal is the dirtiest form of electric power, so it's nice to complement coal with wind power coming onto the load curve. So with all those factors, the future of wind power looks very, very good.

Now in the past three years, really since the financial crisis in 2008 and because we are in a very capital-intense industry, the growth of the industry has slowed somewhat, and it's really just because of the difficulty of putting together the financial packages required in order to build a wind farm. But at Juhl, I think we've demonstrated some pretty good wherewithal over that period. It clearly took us a while to get back up and going after the banks contracted as much as they did, but in the

larger economies. So when we do experience a recession, we don't see a tremendous amount of demand growth in the industrial sector. Utilities, as buyers of our power — your local utility — buys the power from us, it gives us a long-term contract to buy that power. Even though they have state requirements, they don't rush to bring online new power when their demand growth is slower. Throughout the late 1980s and 1990s, we had demand growth of 2.5% to 3% a year on the utility grid. That has certainly slowed recently. In fact, there was no growth in 2009, but about 1% growth in 2010, and I don't have numbers for 2011. So that slows things down a bit, but because we're small enough and have the experience, we can make the slight modifications necessary in order to see through any changes in demand. Basically, it's those two factors that are the biggest drivers and the biggest challenges, and I think many other businesses and sectors face those as well.

**TWST: Earlier this year, Juhl Wind acquired the 10.2-megawatt Woodstock Hills wind farm in Minnesota and then entered into a letter of intent with a regional engineering firm for acquisition. What specifically is the Juhl Wind growth plan and does it include an aggressive acquisition strategy as we've seen here?**

**Mr. Mitola:** Yes, our growth plan — our core business — remains the development, construction and operation of new wind farms. We've been around for quite some time, and I'd like to say that Dan Juhl and some of our core team members know as much about wind power as anybody in North America, if not more. We have folks that have been doing this for a long, long time. I've been in the energy industry since 1986. As a result, we think we have a unique knowledge base relating to existing wind farms and that we can properly value those assets.

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last 18 months, we've built six wind farms worth about \$150 million. So we've been able to demonstrate that we can still put the financing together. There was much more liquidity in the capital markets until recently, but frankly, I think the capital markets, on a day-to-day operating basis, know how to adjust to events in the short term against like we've seen over the last couple of weeks. When you're talking about the power industry, we present to the capital markets a pretty safe investment proposition with a very safe and attractive set of assets. We think there will be some short-term slowdown in accessing capital, but as an experienced and seasoned executive team, we've planned for that.

**TWST: What are the barriers to success in wind power today from your perspective when looking at the global industry?**

**Mr. Mitola:** I would say the number one challenge is access to capital. We like to think that we're positioned pretty well there because of our track record in this industry. I can't access capital as easily as Florida Power & Light because they've got two million ratepayers that send in payment for their utility bills every month. But I think, as a matter of fact, we have the experience building and bringing online 19 wind farms, and the fact that we've been able to do that shows that we can still pull the financing together. It shows that we can overcome those challenges. It's a lot of hard work, but we've been able to do it.

Number two, outside of the access to capital, the utility industry, and in particular, the demand for power, always ebbs and flows with

There are a lot of medium-sized wind farms in the marketplace that large companies have found themselves owning a piece of. John Deere owns a portfolio of wind farms. Lots of large utilities own portfolios of wind farms, and sometimes it's hard for them to manage a smaller asset since they have such massive large-scale assets. So as another part of our growth plan, we know that there are several dozen existing wind farms that represent purchase opportunities for us, and we want to aggressively pursue those. I think, and we've told the market this, that you could see us bring on line another three to four Woodstock Hill-sized wind farms. A 10-megawatt wind farm represents approximately \$20 million in assets, and investors can see by looking at our second-quarter filing just how much our balance sheet has grown as a result of the acquisition of Woodstock Hills alone.

As a microcap, small-cap company, we think it's pretty unique to have such a strong cash position. We reported over \$5 million in cash at the end of the second quarter and that's really a result of our success over the last 18 months. But then we matched that strong cash position on our balance sheet with heavy assets, the long-term cash producing assets. We really would like to build that business — the acquisition of existing wind farm assets that we can properly value and that we can properly operate and maintain. That is a major focus of ours currently.

The second aspect of that is the engineering acquisition that we're working on and that we reported during the second quarter. This

transaction really represents matching the growth of our asset business with the addition of related service businesses to our base model. So the asset business gives us strength to our balance sheet, and it throws off really reliable cash flows, albeit cash flows with a net operating margin of about 20%, but then the services businesses that we are looking to acquire always drive much higher operating margins.

We like to envision Juhl Wind being made up of four major divisions. First, the wind farm ownership and operation, which is the asset business; second, our development business, which is very chunky, but it brings in a lot of cash; third, our wind farm operation and maintenance business, a very reliable service with technicians actually out in the field; and the fourth being that of professional services, which brings slightly higher intellectual property and stronger operating margins. We think that operating with these multilayer sets of assets and cash flows makes us a very appealing company to investors as we go forward.

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If investors want to be involved in wind power and renewable energy, there are a few ways for them to get involved. They can invest in a large utility company and they’re going to buy in at a low multiple and they’re going to get out at a low multiple. They’re going to have very little growth, but they make out 2.5% dividend, or they can look at investing in Juhl Wind. We think what we give investors is our strength of balance sheet and level of conservatism so that they are not in something that can get in trouble by overleveraging its growth. In addition, we think we can present a much higher upside to investors based on the growth initiatives I discussed earlier. So we’re always focused on pushing the upside growth and then matching it with the stability of our assets.

**TWST: Is there still local, state and federal commitment and support for alternative energy solutions?**

**Mr. Mitola:** Yes. All of these regulations are still supported and the federal government, through the U.S. stimulus bill, put some very attractive incentives in place for wind and solar development in particular. More importantly, I’d point people to a recent *Wall Street Journal* article on August 9 that described a huge problem that our country is facing, which is the problem of nuclear-waste storage. While we’ve got this price of oil — which is going to stay reasonably high as I don’t see much that our country can do to significantly bring that down because of the demand growth out of China and India and other developing nations — the U.S. has significant dependence on nuclear and coal, a policy today that already favors the growth of our assets.

As a result of our dependence on nuclear power, we’ve got a few problems that we continue to ignore, but ultimately our country is going to have to address them. The first is that the federal government has created a \$25 billion trust fund for the development of Yucca Mountain and nuclear waste, which was described in the *Journal’s* August 9 article. Now at the same time, all of the nuclear plants are filling up with spent fuel rods that have to eventually go somewhere, and the nuclear industry is facing an aging nuclear fleet that has to be replaced. We also face some coal issues. We haven’t even finished refitting our coal plants for the initial Clean Air Act standards going back 20 years, and now we have Phase II and Phase III of the Clean Air Act that the coal fleet is facing, which bring very, very significant costs. To cap it

off, we also have some big structural issues facing our energy grid. All of these issues are requiring the federal and state governments to continue to push policy to fix these problems.

At Juhl Wind, we’re pragmatic. We are the first to say that a reliable and a cost-competitive electric grid is going to need nuclear, coal, natural gas, wind and solar, so all of these sources are important. However, we are facing and will continue to face reliability problems with the grid, as well as nuclear power plants that have to be decommissioned because they are just too old. Our feeling is that this isn’t the height of the agenda when we’re looking at the global financial crisis here and abroad, but we feel the political landscape is favorable for the renewable energy industry no matter what happens, whether it’s a Republican president or Democrat president. Most of the Republican candidates have said that they are willing to go along with 40-plus new nuclear licenses. Now these being new nuclear plants, each one will take

25 years to build, and in doing so they will have to strike a balance with environmental groups and the U.S. Department of Energy. So policy makers cannot ignore this industry’s underlying structural and costs issues. When we get through yet again another global currency problem and banking crisis, they are going to get around to this. Our mission at Juhl is to make sure we keep growing our business in the meantime, make sure we maintain balance sheet strength at all times, keep building cash earnings assets and then be prepared for another big growth period on new wind farm development and construction that we expect to occur after the next presidential election.

**TWST: Today, what’s the agenda for Juhl Wind and what would make the next 12 to 24 months a success?**

**Mr. Mitola:** We will be bringing on a handful of durable new wind farm projects, and that’s one of our key goals. We would like to acquire another two to three existing wind farms, and on the professional services side, acquire two firms in the next 12 to 24 months that would give us that balance across all of our divisions. We think that agenda makes us a very attractive investment opportunity.

**TWST: How important is storage technology to the wind industry and particularly Juhl Wind?**

**Mr. Mitola:** It’s very important because wind tends to complement the coal portion of the energy grid. Coal is facing all these Clean Air Act standards, so increasing costs. What that means is that coal is costing about \$4.5 million per megawatt in capital costs, or \$15 megawatt hour in operating costs. Because of what we discussed earlier regarding the cost of turbines coming down, we can build a new wind farm at about \$1.6 million a megawatt, but that gives us a power product that is completely variable and subject to Mother Nature. What storage gives us is a dispatchable power product and that allows us to give a utility operator exactly what they get from coal, something that they can push a button and grab power from when they need it. So storage is extremely important to making wind power very, very reliable and valuable to utility operators.

Our recently announced Zinc Air relationship is important because they make a battery technology that doesn’t have any chemicals other than zinc, and zinc is found in dirt. Because we build our wind

farms on the heartland, we can't put anything out there that could possibly disturb that soil underneath, so we find this technology to be really important, and we can bring it in at about \$2.5 million, \$3 million a megawatt. Now we've got a power product that competes head to head with coal and is 100% clean and has little to no operating costs.

**TWST: You also are listed on the Stuttgart exchange. Is that correct?**

**Mr. Mitola:** Yes, I believe that's correct. And I believe that occurs as a result of market-maker activity. Nasdaq is talking about launching a new venture exchange, and we are interested in the look of that exchange. It's going to be called Nasdaq BX Venture exchange. We think we may be moving to that in the next three to six months.

**TWST: What has been the historical shareholder base at Juhl Wind? Has that base undergone any changes and transitions in light of recent acquisition activity?**

**Mr. Mitola:** Nothing significant, no. Insiders hold about 65% of Juhl's stock, and we've all made very long-term commitments to the holding of that stock. In other words, nobody sold a share, and we're all mutually locked up for several years. I think five years is the initial period. And then in our approach, I think it's representative of retail trade, a couple thousand shareholders, a little over 2,500 shareholders today in blocks of 200 shares to 25,000 shares. We don't see massive holders of stock. We did have two initial institutional investors who hold a large portion of their initial holdings. Again, they believe in the future of the company, and they have been holders of that stock since the summer of 2008, so nobody is running for the exits at Juhl Wind. I mean, why would you? We are building assets on our balance sheet, and we've got \$5.5 million in cash, and there are very few microcaps that can say they generated that level of cash out of their operations. I don't think anything speaks to our future strength more than that.

**TWST: In your dialogues with shareholders, investors and analysts, are there any misperceptions or viewpoints that you encounter that may be different from what you see as reality?**

**Mr. Mitola:** Yes, I think that from time to time, a number of our shareholders — maybe we haven't always clearly communicated just how important every aspect of our business is and not solely as a developer of new wind farms. We have to do a better job and explain that we can't be judged solely as being a developer of new wind farms because of the choppiness of that business and just how important the other divisions of the company are, how much time and attention we have been giving those businesses in order to have these four solid divisions in the company.

**TWST: What is the final summary for the investor audience? What would compel investors to include Juhl Wind in their current portfolio of investments as well as in their longer-term investment strategy?**

**Mr. Mitola:** Similar to some of the comments I made earlier, what Juhl provides an investor, in our opinion, is the only public company investment that an investor can make in renewable energy that should theoretically provide significant stock appreciation and thus a substantial increase in their underlying investment while at the same time providing protection. All too often when people are looking at a considerable growth opportunity, especially in the energy technology space, there is so much risk involved. But we think we've really mitigated that risk by building the balance sheet assets and always ensuring that we have cash. In over three years of being public, we have not once had to go back to the public markets to raise cash, and that's because we protect and preserve cash at all times, and we generate cash from our business operations and we always will.

We strive to provide stability and protection to the downside with high-growth expectations based on the fact that there is no other provider of wind power that has been around longer than us and that has done significantly much more than us, even the utilities. So when an investor seeks to invest in renewable energy, I think we offer a tremendous investment proposition. As I said before, you can invest in Florida Power and get your 2%, 3% dividend, and that's fine for some investors. Or if you are looking to own a renewable energy company that could potentially provide significant upside growth from a management team that's protecting against downside at all times — then Juhl Wind could be the right investment for you.

**TWST: Thank you. (KL)**

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