

# HOUSTON BUSINESS JOURNAL

Strictly Houston. Strictly Business.

Week of September 25-October 1, 2009

## ACQUISITIONS

# Energy Ventures fund sees first in, first out as FMC Technologies buys portfolio firm

BY MARY ANN AZEVEDO  
HOUSTON BUSINESS JOURNAL

The first investment made by Energy Ventures AS' third fund has also become the first portfolio company to exit the fund.

Cerrito, Calif.-based Direct Drive Systems Inc., a producer of high-power, high-speed motors and generators, is being purchased by Houston-based FMC Technologies Inc. for \$120 million.

Energy Ventures U.S. Inc., the U.S. subsidiary of the Norwegian venture capital firm, is based in Houston.

Leif André Skare, an Energy Ventures partner in the firm's Houston office, says the company first invested in DDS in February 2008 when, after being approached by the California company, it became the lead investor in a \$12 million Series B round, contributing half the funds.

DDS CEO Kevin McGlensey says Energy Ventures was recommended to him when the company was seeking capital for its Series B round. The firm had raised \$15 million in its Series A round.

"We were looking for someone not just to provide capital, but also expertise and contacts," McGlensey says. "Energy Ventures fit that very well."

Founded in 2004, DDS has about 30 employees. According to Skare, its products

provide efficiencies and cost savings for operators in the shipping, natural gas and offshore industries. The company's motors and generators can turn up to 12 times faster than conventional ones, and can be directly coupled to turbomachinery without the need for a gearbox.

"We saw a big value driver in the power-to-weight ratio that could be delivered to the customer," Skare says. "We saw big, future potential in the subsea market space."

And so, apparently, did publicly traded FMC, a provider of technologies for the oil and gas industry, which earlier this month announced it planned to buy DDS.

FMC, which has about 10,400 employees worldwide with about 2,000 in Houston, was on the radar screen as a potential buyer from the outset, Skare says.

Brad Beitler, director of technology at FMC, says DDS was viewed as an acquisition target because of its "motor technology that lends itself to a lot of different applications for our subsea applications."

The technology, he notes, is "smaller, more efficient and turns at a higher speed" than traditional motors. "When you start sticking stuff under water, compact and efficient is pretty important," Beitler says. "The motors are a lot smaller for the same horsepower, so you don't have to put as much power into them."

The acquisition is scheduled to close in the fourth quarter, after which DDS will become a wholly owned subsidiary of FMC.

The buy, Beitler says, keeps FMC "in a leadership position in the subsea process-

ing market, instead of drilling and then pumping long distances," he says. "That's good for us, and for Houston."

Besides the subsea space, DDS' technology is also relevant for topside facilities and onshore markets, where it has the potential to replace many of the aging motors and generators on which the petroleum industry depends, according to Skare.

DDS does not have an office in Houston but has one sales director located here. McGlensey says the firm will be hiring locally and that staff will utilize FMC's facilities.

After this deal, Energy Ventures will have 15 companies remaining in its portfolio.

The company has previously exited six out of eight companies from its first fund and none from its second.

Energy Ventures has about \$100 million left in its third fund and is actively looking for deals, according to Skare. Of its remaining five North American investments, three are in Houston: Deepflex Inc., Ingrain Inc. and Oxane Materials Inc.

"We see Houston as being a very strategic marketplace for us," Skare says.

While he declined to comment on the return on investment Energy Ventures will realize from the deal, Skare notes that the firm has been "very pleased with their (DDS') development throughout the investment period."

"It's always good when someone else recognizes that value has been created," he says. ■

mazevedo@bizjournals.com • 713-395-9657