

Reenergizing an Industry

GIANT

A corporate chieftain transforms Constellation Energy Group

BEING TAPPED TO RUN A LARGE AND CHALLENGED energy company is daunting enough for a new CEO. Doing it in the midst of the Enron debacle, industry accounting scandals, a weakened economy, and the California energy crisis is well, not for the feint of heart.

Fortunately for Constellation Energy shareholders, Mayo A. Shattuck III was up for the challenge. The former Wall Street executive—who has been a director of the nearly \$10 billion energy giant since 1999—took over the top spot in November 2001 and is credited by Wall Street analysts with turning the company around. Since Shattuck's arrival, Constellation Energy has transformed into the largest competitive supplier of electricity to large commercial and industrial customers and is in a healthier financial position than most of its competitors. Its growing sales force is calling upon large commercial and industrial customers with the promise that Constellation Energy can help them manage their energy costs and demands. Says Shattuck: "Big customers are so sophisticated now. They demand access to alternative energy providers and they want price protection when it comes to energy costs. No other company is serving this need on a national basis. We see tremendous opportunity for growth there." Indeed, today the company counts more than half of the FORTUNE 100 as its customers.

When Shattuck, 49, arrived, he saw the need to rejigger the business. It was struggling under the weight of \$5 billion of debt, a portfolio filled with assets unrelated to the energy business, and the decision not to split the company into two. The stock price had lost nearly half its value. As he recalls, "I was brought in to stabilize and bring a new and coherent vision to the company."

Shattuck's turnaround plan required quick, decisive action. He immediately put the brakes on existing power plant construction projects (saving boatloads of cash), revamped the senior management team, and unloaded \$1 billion worth of Constellation Energy's non-core assets, including a Boeing 747, a tanker ship, and a retirement home for senior citizens. With the company stabilized, Shattuck embarked on the even more challenging task of rebuilding the company's reputation on Wall Street and creating a growth plan that positions Constellation as a national energy company rather than simply a local utility.

Shattuck's plan is working. The company has been growing earnings by 10% per year since his arrival—

compared with around 4% for the industry. The stock price went up 80% since Shattuck's arrival two years ago, significantly out performing the S&P 500 at 7% and the Dow Jones utility index at -7%. With a cleaner balance sheet, an improved credit rating (triple B-plus) and a more manageable debt load, Constellation is in the enviable position of snapping up businesses from its less healthy competitors at attractive prices. It recently agreed to buy the R. E. Ginna nuclear power plant from Rochester Gas & Electric for \$401 million, further bolstering its already bullish position in nuclear energy.

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As Shattuck looks ahead, he sees a corporate landscape where deregulation will reward the players who can best meet customer needs. "Deregulation is shifting the risk from rate payers to shareholders, and that means as a company we have to look for new and better ways to achieve growth," Shattuck says. "We think our strategy is the way to do that and it's different from other company's approaches."

Shattuck is no stranger to change. Before joining Constellation Energy, he spent 20 years in the sharp-elbowed world of banking, leading the IPOs of Sun, Oracle, and Microsoft early in his career before ultimately becoming president of Alex Brown and then chairman of the merged Deutsche Bank Alex Brown.

He had announced his resignation from Deutsche Bank and was in fact considering the top job of the U.S. Olympic Committee when he was approached by Constellation Energy's board of directors. They knew they needed a radically different approach to turn around the troubled utility, and viewed Shattuck's considerable financial savvy as just the right medicine for Constellation Energy.

So how much of a learning curve has there been for the chief, who holds an MBA, not an engineering degree, from Stanford University? "Well, part of this company looks like a conventional business, part of it looks like a bank, and then there are a lot of plants, including nuclear," says Shattuck. "That's the great thing about a mid-life career change into a different industry," he says. "It's very stimulating." —Susan Caminiti



Constellation Energy

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