

### MIDSTREAM FINANCE CONFERENCE



## How To Succeed In Your Private Equity Partnership

**JOSEPH MARKMAN**  
HART ENERGY

DALLAS—Get past the spreadsheets and project details, and success in a private equity fund/management team relationship comes down to pretty much what your mom used to tell you: be nice.

"Treat each other with courtesy and respect," Ben Davis, partner at Energy Spectrum Capital, told attendees at the recent Midstream Finance conference. "No financial success is worth short-cutting that, in our view. In our 23 years, we've found that this is a cornerstone."

But the etiquette of a successful partnership between a management team and a private equity sponsor transcends acting in a pleasant manner—though that aspect is important. It also involves finding the right fit in terms of finance and

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and aligning economic interests.

"Most private equity funds have what we call a waterfall structure, whereby the management team, who are doing most of the day-to-day work, receives a disproportionate percentage of the proceeds once certain return hurdles are reached by the project and by the fund," Davis said. "I think that's an important part of the model."

He also wants the management team to have some skin in the game. Most private equity funds will ask management to put some of their own capital alongside the equity fund into the deal, Davis said. Specifically, he is asking for a "material" investment but it's not a one-way deal.

"On the part of the sponsor, we think it's important to treat the team as partners, not as employees," he said. "These are executives, entrepreneurs that you are backing to form their own company. We culturally believe that it's important that those teams be treated as partners. Our most successful teams are the ones who have viewed themselves as owners in the business, which they are."

The relationship component touches many elements of how Davis defines success. Allowing management to run the business without having to endure micromanagement from the sponsor is important, but so is transparency on the part of management when things go wrong.

"There will be bumps along the road," he said. "We have found that those bumps are best addressed and a relationship is best fostered when they are communicated pretty quickly to the private equity sponsor."

To that end, the sponsor should respond quickly and candidly. "We as a sponsor should add value in a lot of different ways," Davis said. "One of those ways is to give counsel, of course one of those ways is to provide funding." ■



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## MLP Outlook: Fundamentally Sound

The downturn in the oil market that began in 2014 has had a long-lasting impact on the MLP sector. Many MLPs have shifted to a self-funding model rather than regularly tapping into equity markets, there have been several high-profile transactions which have seen MLPs consolidated by C-corp parents, and there have also been moves to moderate distribution growth.

While there has been a lot of change in the space, the fundamentals of the MLP sector remain strong with record-high U.S. natural gas and oil production and growing exports that are creating a lot of opportunities for midstream operators.

"Fundamentally things look very good, but there's been some frustration with performance. Despite this fundamental strength, we need more money to come back into the space and more interest coming into energy, including the midstream," Stacey Morris, director of research at Alerian, told Hart Energy.

She noted that there is an underinvestment in energy with the sector being out of favor and having a low weighting in the S&P 500. According to Morris, several of the changes in the space have served to distract people from focusing on the underlying fundamentals, which look very good.

"There's been a lot of focus around structure questions and whether an MLP makes more sense or a C-corp makes more sense. There's an impression that being a C-corp attracts a different investor base. MLPs aren't eligible for broader market indices so being a C-corp can help with eligibility and inclusion," Morris said.



—FRANK NIETO | CONTRIBUTOR



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## FRAC SPREAD

# Like The Season, Propane Prices Will Fall

JOSEPH MARKMAN | HART ENERGY

Look! Up in the sky! Is it snowing? If not, propane prices might take some time to find their way to super.

Propane slipped 4.1% in the past week and last touched \$1 per gallon (gal) on Oct. 16. It has not averaged \$1/gal

CURRENT FRAC SPREAD (CENTS/GAL)				
NOVEMBER 9, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	14.18		30.95	
Shrink	21.99		22.41	
<b>Margin</b>	-7.81	-20.10%	8.54	-17.05%
Propane	67.70		82.08	
Shrink	30.37		30.97	
<b>Margin</b>	37.33	-17.78%	51.11	-9.30%
Normal Butane	82.30		93.58	
Shrink	34.39		35.06	
<b>Margin</b>	47.91	-0.59%	58.52	-1.69%
Isobutane	94.70		96.23	
Shrink	33.03		33.67	
<b>Margin</b>	61.67	-3.59%	62.56	-0.38%
Pentane+	115.80		122.00	
Shrink	36.77		37.49	
<b>Margin</b>	79.03	-8.63%	84.51	-16.81%
NGL \$/Bbl	25.09	-4.51%	30.29	-4.49%
Shrink	12.11		12.35	
<b>Margin</b>	12.98	-8.60%	17.94	-10.52%
Gas (\$/mmBtu)	3.32	0.30%	3.38	5.88%
Gross Bbl Margin (in cents/gal)	29.51	-9.48%	41.89	-10.43%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.78	16.71%	1.70	-1.62%
Propane	2.35	-10.54%	2.85	-4.11%
Normal Butane	0.89	-0.22%	1.01	1.01%
Isobutane	0.59	-2.27%	0.60	1.72%
Pentane+	1.49	-5.97%	1.57	-10.94%
Total Barrel Value in \$/mmbtu	6.10	-4.32%	7.74	-4.01%
<b>Margin</b>	2.79	-9.30%	4.36	-10.50%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on Midwest region, Mont Belvieu based on Houston region. Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation.

Midwest to experience sustained cold weather. While storms have menaced the East Coast and chill is expected over the next week in those regions, serious cold is not yet in the offing. ■

for the Hart Energy Wednesday-to-Tuesday five-day tracking period since the week ending Oct. 9. Since the start of October, when it peaked at \$1.08/gal, propane has tumbled 23.7%. The Mont Belvieu, Texas, margin also narrowed by 9.3% to just over 51 cents/gal.

The issue has to do with timing, **EnVantage Inc.** said in a recent report. With crop drying nearly done and winter heating just starting to pick up, there is not much seasonal demand. However, there is:

- A slump in oil prices;
- Higher propane production; and
- Rising inventories.

Exports are strong, though—even stronger than the U.S. Energy Information Administration (EIA) is reporting, EnVantage said. What is unclear is the volume of stored propane that is usable, meaning immediately available to the market. Analysts suspect the share of usable propane is relatively high, although there is no easy way to determine that from EIA statistics.

If that is the case, then propane balances could be tighter than the market perceives. But back to the weather.

EnVantage believes the only way to test the theory that propane storage is relatively tight is for the Northeast and



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# Exporter Status Could Be In America's Future

DALLAS—The U.S. is poised for multi-decade success as the global energy mix shifts, with supply growth underpinning ethane's growing role and the country's status as a net exporter by the mid-2020s, a midstream analyst said.



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Greg Haas, director of integrated oil and gas at Stratias Advisors, told attendees at Hart Energy's recent Midstream Finance conference "we definitely see changing energy around the globe ... energy transportation is an evolving sector and we also see increased regulatory risks and intensifying regulatory concerns affecting the industry."

Haas pointed to California. The state primed for a potentially devastating earthquake is pondering a tectonic shift toward 100% renewable power. for the future. Haas also noted that the U.S. Strategic Petroleum Reserve is prepared to "right-size" itself.

"What we've seen in the upstream is great production supply growth," he said. "Now the question is, what will it be in the future?"

Global oil consumption will rise at an annual average of 1.5 million barrels per day (MMbbl/d) in the forecast, Haas said, with the U.S. taking over the top spot among producer countries, but growth in natural gas is an essential factor, as well. —ERIN PEDIGO | HART ENERGY

## FORTY UNDER 40

## Michael Christopher, ARM Energy

Michael Christopher, CFO and chief investment officer at ARM Energy LLC, is today's Forty Under 40 featured honoree.

Houston-based ARM Energy is currently focused on the continued development of its Salt Creek Midstream project in the Delaware Basin. However, Michael looks back on **the commercialization and sale of Kingfisher Midstream** this past February as both his most challenging project to date and the one he is most proud of.

"Saying we faced a few hurdles with this project is an understatement, but our knowledge of the space and our agility as a company helped us persevere and create a quality midstream asset," he said of Kingfisher Midstream.



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