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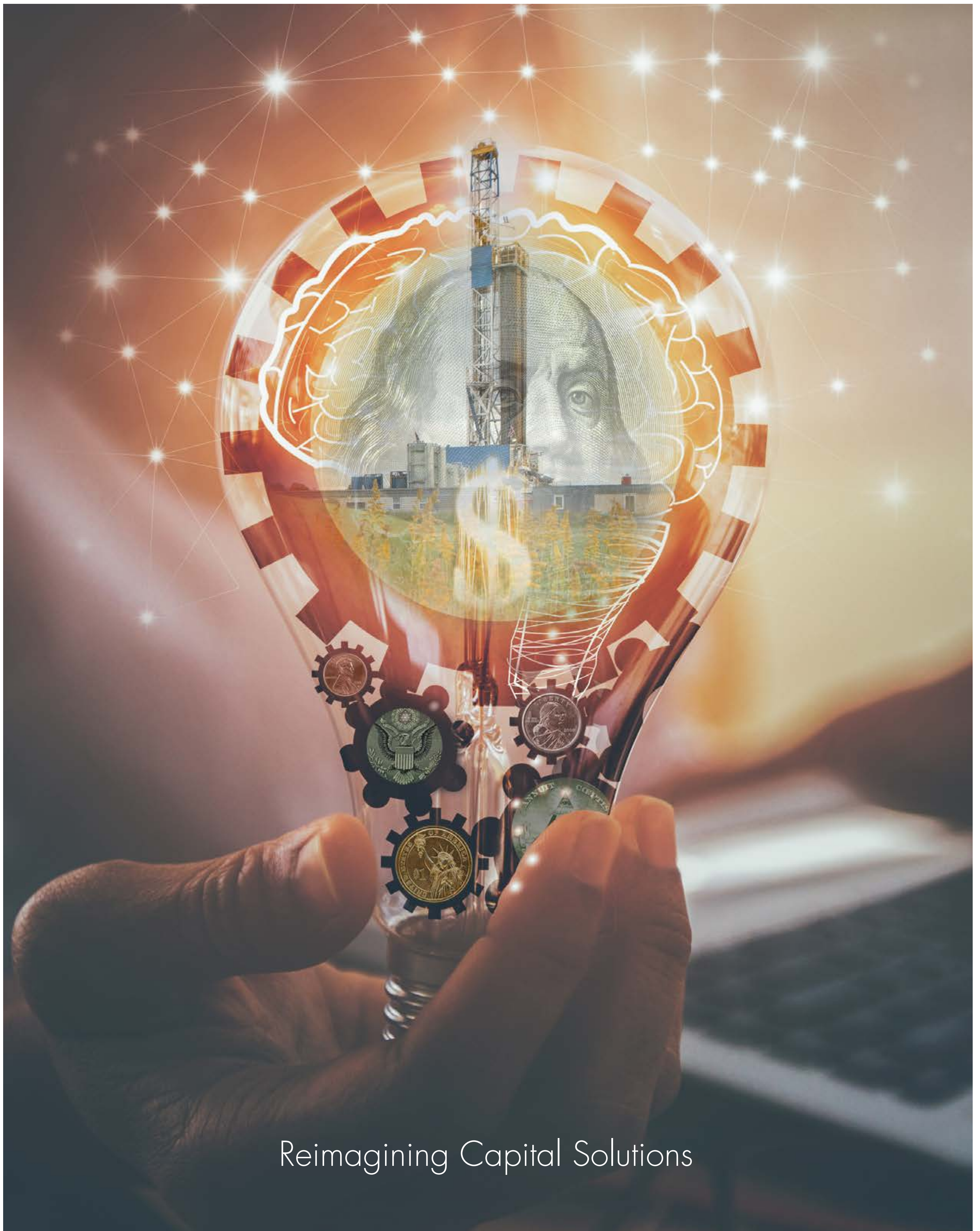

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DEALING WITH THE DOWNDRAFT

An oft-used slogan of "Be Prepared" is one that usually helps deal with many difficulties—but only up to a point. When it feels like a trapdoor has suddenly opened under your feet, you know the dimensions of a problem are different. In this case, the industry is again facing a massive downdraft, pushing WTI prices down below lows last seen of around $26/bbl in February 2016.

When *Oil and Gas Investor* hosted its Energy Capital Conference in Dallas in early March, the weakness in WTI year-to-date came to what seemed like a sharp 23%, reflecting a decline from roughly $61/bbl to about $47/bbl. However, by the end of the first quarter, the decline blew out to as much 66%, as WTI crashed to just over $20/bbl for the *steepest quarterly decline on record*.

That said, the toughest is yet to come, with the coronavirus blamed for destroying crude and product demand on a massive scale—some estimate as much as 20 million barrels per day or more—for a period of time starting in the second quarter. One estimate is that industry capex in 2020 will likely come down by up to $100 billion, which would represent a drop of about 17% from 2019 levels.

It is during times like these that the scope of a directory of funding sources can be of greatest value. As many await the response of commercial banks to the new commodity outlook—top of mind with a lot of clients—time may be well spent looking into capital sources that offer supplementary or alternative funds that would allow business plans to move forward in an uncertain world.

Access to capital undoubtedly will be constrained in the months ahead. However, oil and gas companies have repeatedly proven themselves capable of adapting to challenging circumstances and of coming up with new strategies that are designed to "survive to the other side."

—**Chris Sheehan**, Senior Financial Analyst, *Oil and Gas Investor*

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PRIVATE EQUITY PIVOTS TO NEW GAME PLAN

Today private-equity providers focus on returns, cash flow, the right incentives and portfolio discipline.

By Leslie Haines

Even before the shocking oil price plunge threw the industry into a tailspin, private-equity firms and their portfolio teams were displaying more caution and enhanced discipline. That will continue. Rig counts were already coming down, exits were delayed if nonexistent, partner incentives had been adjusted and how companies deploy capital was changing.

The new reality is that the flow of private equity to new teams has slowed down, and instead providers now favor giving additional capital to the teams that are already up and running—but only if they are "knocking the cover off the ball," in the words of one private-equity provider.

These trends were examined at *Oil and Gas Investor*'s Energy Capital Conference held in March, just a few days before the OPEC+ debacle shook up E&P plans across the U.S.

The M&A scene so critical to private company exits was already scrambled, with hold times being extended beyond the usual three to five years. The need to capture resources and acreage has pivoted such that private equity is more focused on improving its existing teams that are solid and can shift to operations for the full-cycle ownership of oil and gas assets. Portfolio companies that are smaller and earlier in their life cycle are already being consolidated into smashcos to reduce overhead.

Sam Stoutner, principal at NGP Energy Capital Management, said the company has become more inwardly focused in the past two years, working to build good businesses that can generate better

incomes. He commented that while the fundraising cycle has also slowed, when portfolios show better returns, more capital will come. "You can't exit right now. Our math is much more focused on how can we get to a good outcome? For some of our companies there was no path forward, and we've consolidated some of them."

In a situation where you can't sell anything, it is also difficult to spend capital. Plenty of private-equity firms still have dry powder, and some were fundraising as 2020 began, but the way their capital is being deployed is changing. "We've spent a lot on nonop assets and royalties, where we feel really good about the economics," said James Crain, partner at EnCap Investments LP. "Before, you could put capital to work on the fringes of a play, and now you can't. Our teams continue to emphasize discipline and patience—they were once running 30 rigs, and now they're running five."

"We've started instituting more annual, more rigorous KPIs for each company on what to achieve, but it's not about production growth."

Sam Stoutner,
NGP Energy Capital Management

In times like these, people go back to the fundamentals, said Scott Browning, principal at Apollo Global Management Inc., and Apollo is no different. "First we look at organic growth; i.e., can you invest capital with returns in excess of your cost of capital?

"Second, we look for multiple expansion. Can you buy something, package it and sell it by starting at $5,000 an acre and selling it later for $10,000? Third, we look for free cash flow. We look at minerals, royalties and nonop interests where some base level of return is based on their free cash flow. Fear in this kind of market causes paralysis in M&A, but we can afford to be patient. We look for a balance between returns and free cash flow."

Incentives if no exit

How can a private-equity player compensate the management teams in its portfolio if there is no exit in sight? Each panelist offered his own take on this critical question.

Management teams are highly critical to success and must be nurtured, said Browning, so Apollo proceeds on a case-by-case basis. "No one can afford to have a team that is improperly incentivized," he said.

"If I hold these companies longer, do my waterfalls have to change?" Crain asked. "With all the talk about E&Ps' lack of access to capital, if you have an opportunity to put some money to use, it's an exciting place to be."

NGP's Stoutner said, "I think private equity got its incentives right a long time ago, and now the publics are migrating to that.

"We've started instituting more annual, more rigorous KPIs [key performance indicators] for each company on what to achieve, but it's not about production growth. It is about single-well economics and measuring progress each year and tying bonuses to that.

"For many management teams, being a survivor is a win in itself, but everybody is getting squeezed a bit," he added.

EnCap's Crain said E&P teams at the end of the day still have to build a set of assets that someone will want to buy, that would be accretive to the buyer, but he conceded that metrics on asset value have been moving around. "The metrics you used a few years ago are likely obsolete now," he said.

As part of its measurement strategy, EnCap tracks the performance of its companies by comparing them to public ones. "If you compare them on free cash flow or cash flow per number of rigs running, you'd see our companies are performing better. It's not an apples-to-apples comparison, but in general they're performing better," Crain said.

Resetting PDP values

Proved developed producing (PDP) reserves used to be the most attractive, but, like most things in the energy space, their value has declined with the bid-ask spread widening. To cautious buyers, they are probably not worth PV-10 anymore, when you burden them with capital spending, according to NGP's Stoutner. "As more distress creeps into the system, we think there is more coming. But I haven't seen any deal out there that I wish I had done.

"NGP is open for business," he said, but it's not looking to find more oil—it is looking for good teams "with technical chops" that can produce it more efficiently. "We tend to place more capital with our teams that are knocking the cover off the ball," he said.

How much have PDP values changed? "We spend more time underwriting assets that after five

From left, Ryan Turner, Stronghold Resource Partners LLC; David Zusman, Talara Capital Management LLC; and Matthew Jankovsky, Mountain Capital Management LLC, spoke on the middle-market panel at the Energy Capital Conference.

years, you have PV-20 or PV-25," said Apollo's Browning. "We ask ourselves, 'How long will it take to get my money back, assuming conservative prices and conservative terminal value of the assets?' There are a lot of different answers and different assumptions out there now. We live in a world where one guy thinks PV-25 and another thinks PV-8."

What's attractive now

Many private-equity providers are moving beyond traditional E&P by searching for additional investments in alternate energies, such as solar, or in energy technology companies, such as data analytics firms.

Apollo is looking at distressed debt opportunities today since fronting new teams is more challenging than before and finding an asset at the right price that will generate the right return is also tougher.

"I don't see many teams getting capital in a blind pool now; the bid-ask spread is fairly high," said EnCap's Crain. He said the company still has a lot of unallocated capital on hand, a bit more than $6 billion, so its principals feel well-positioned to bide their time.

Middle-market specialists

Equity and debt providers that specialize in the middle market, i.e., making smaller deals with smaller companies, see opportunities to invest alongside E&Ps that aggregate assets and/or in restructuring financing for them.

Ryan Turner, managing partner at Stronghold Resource Partners LLC, said Stronghold has done 35 transactions since 2016. The company generally looks for investments in businesses that buy and sell quickly, using capital that can be recycled as quickly as 90 days to two years. "We structure deal terms with the right alignment, sometimes in an equity position and other times in credit," he said.

"In times like these, E&P teams go back to fundamentals: organic growth, multiple expansion and free cash flow."

Scott Browning,
Apollo Global Management Inc.

Mountain Capital Management LLC, formed five years ago, provides private equity. It has invested in five portfolio E&P companies in Texas, Oklahoma and Louisiana, and a second fund is being raised that has had a second close, said principal Matthew Jankovsky. The fund is reaching for $650 million. "We look for $75 million to $100 million in each investment in oper-

ators and special situations. We define middle market at sub-$300 million," he said.

"We work with banks, equity owners and others to craft bespoke solutions. We are hyperfocused on complexity."

"The metrics used a few years ago are likely obsolete now. Is ESG part of the conversation? Absolutely."

James S. Crain,
EnCap Investments LP

Talara Capital Management LLC has put about $1 billion of capital to work since being formed 10 years ago. Today it sees opportunities to aggregate assets from E&Ps that need to be restructured are under-scale or are "Mom and Pops looking to exit," according to David Zusman, co-founder and managing partner.

He said he sees a lot of end-of-fund-life issues coming up, such as limited partners wanting to get out of funds. This represents another opportunity for Talara.

The company has a Permian development group since it took the latter's first-liens at a discount. As a result, it ended up being in some of the best rock in the country at a great price per acre, he said.

All oil production is not equal, and there are a lot of traps, Zusman said. Talara tries, for example, to avoid basis risk.

In the middle-market space, assets are owned by varied players, so Zusman has to take a wide view to source deals, he said. There are opportunities to pick up nonop assets and offer preferred equity to E&Ps.

Risk factors

Because there is typically greater risk of bankruptcy among smaller companies that have less capital, Mountain Capital "has its sleeves rolled up" to craft custom transactions that help distressed E&Ps never make the bankruptcy list, Jankovsky said.

Stronghold will do either operated or nonop investments, each having different risks. "We underwrite the risk on every asset that our teams produce or sell," Turner said. "Nonop is about recycle time. How do I get into an asset and turn it into cash as fast as I can? It is much easier to transact at $5- or $10- or $15 million."

Source: Erkipauk/Shutterstock.com

Mountain Capital "is a big believer" in aggregating assets if that means buying bolt-on acreage, Jankovsky said. "We'd much rather place capital into a stable business and then strategically think about bolt-ons."

Zusman said Talara's strategy is a roll-up strategy, which by definition means aggregation of many assets. "There is a lot more transaction volume than is being reported. We spent three years doubling the size of our position in the Permian, but it was done a few acres at a time, and I think that patience pays off. We weren't looking for one big transformative deal."

Turner said Stronghold's team gets asset ideas anywhere, from "discussions at bars" to its own research and full-throated submittals from others. Stronghold will fund E&P projects on a definite timescale but does not hold over the long term, he said. ■

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SUSTAINED OUTPERFORMANCE NEEDED FROM E&Ps

Before the coronavirus pandemic and the oil price war, public investors had already thrown down the gauntlet to E&Ps. Companies, arguably, were learning to adapt, and they must keep doing so to access public capital in the new environment.

By Chris Sheehan

Searching for capital sources in energy becomes a lot harder when it's believed that the industry landscape can't get any worse—and then it does. Big time.

WTI closed at more than $61/bbl on the first trading day of 2020. At the end of the first week following the failure of OPEC talks—and the outbreak of a price war between Saudi Arabia and Russia—WTI had plummeted to a little over $31/bbl.

By the middle of the next week, WTI collapsed into the low $20s and within pennies of $20/bbl.

Public-equity markets for energy, of course, have been closed for some time. Debt issuance has been largely bifurcated, with the market effectively shut for high-yield issuers, as existing high-yield issues in some cases trade at rates higher than in February 2016, when WTI fell to as low as $26.14/bbl.

Meanwhile, upcoming reserve-based lending (RBL) talks will undoubtedly involve some tough decisions. One major bank took charge-offs—not an accounting write-down, but a real financial loss—of between $750 million and $1 billion in 2019. The adverse conditions are expected to continue for the majority of 2020.

While a variety of other forms of financing exists, they often come with more restrictive conditions. First lien term loans, at times used in a manner akin to bridge financing, carry in one case a covenant of no greater than 60% loan-to-value. The term of the loan may be measured in months or a few years.

For speakers at *Oil and Gas Investor*'s Energy Capital Conference in Dallas, which took place earlier in the week that ended with the OPEC conference, the outlook was far from rosy. Little did they know that the worst was yet to come.

Nonetheless, even as market sentiment offered only occasional upbeat surprises, speakers provided key insights into their respective markets from an analytical or capital provider perspective.

Bill Lambert, managing director of investment banking with Goldman Sachs' Natural Resources group, struck a realistic tone regarding investors' priorities.

"On the equity side, investors want to see the return of capital, and they want to see that in the form of consistent free-cash-flow generation," said Lambert. "On the debt side, for those coming in on a new issue, it's really a case of 'Where am I going to be safe? And what price is appropriate for that safety?'"

"The very large companies could potentially come in and scoop up some very good companies in that middle tier of names."

Bill Lambert,
Goldman Sachs
Natural Resources group

Lambert recalled energy issuers coming to the debt market earlier in the year, and "the concern is that those issues are trading pretty terribly now. As they've traded down, a lot of those people who you need to be part of a deal—the folks that are the liquidity in those deals—have been burned pretty badly."

As a result, the market is "relatively scared from a new issuance standpoint," he said. "When you look at the secondary trading levels, there are a number of companies that a few weeks ago were trading 85 to 95 on the debt side, and now they're trading much, much lower than that. The velocity of change has made people withdraw and simply wait and see as they watch the wall of maturities coming up."

Years, not quarters, of FCF

Investors are interested in a better understanding of the sustainability of free cash flow (FCF), according to Lambert, and to what extent FCF and growth—say, flat production growth up to 5%—are compatible.

"Potential investors are saying, 'Show me so I can see your growth, so I know how your asset works and how it generates more free cash flow," he said. "'And get your balance sheet in shape. Show me that over a couple of quarters, and then I'll come back.'"

In addition, the ability to offset declines, register growth and now generate FCF is a focus, Lambert added.

"The difficult part of flipping a switch from growth to free cash flow is that it's exceptionally hard for any company," he said. "Part of the challenge the whole industry faces is that for the past 10 or 15 years we've been telling investors how repeatable, how high return, how easy shale is. But base declines are steeper and more challenging than a lot of people wanted to admit."

Neal Dingmann, managing director of energy research with SunTrust Robinson Humphrey, also highlighted FCF generation as a hot topic.

"Investors need to see sustainable free cash flow," said Dingmann. "It's not hard to generate free cash flow for a quarter or maybe even a year for some of these companies. Even if I can show clients that some companies are able to generate free cash flow for 2020 and 2021, they still want to see that for a longer period of several years. What they want is some assurance that they have some sustainability of free cash flow."

Catalysts for returning E&Ps to favor

Discussing how E&Ps can find favor, Dingmann said, "In my opinion, it's going to be sustained outperformance by the group that's going to turn it around, which we haven't had for some years.

"When energy stocks work, they start really working in a material way. It's unfortunate, but we haven't seen that in the past several years," he added.

In addition to outperformance in terms of returns, Dingmann cited other catalysts: broader ownership, FCF, low leverage and "moderate" growth.

Looking at stocks sorted by play, "what's noteworthy is that it doesn't matter in which play these E&Ps operate; nearly all of them under my coverage are down by a large amount," Dingmann said. "It doesn't matter what the market capitalization may be; all of the stocks have been run over. There's been nowhere to hide. And there've been few signs of life. It's been brutal thus far."

In terms of ownership, growth-focused funds remain the largest holders, with 37% of overall institutional ownership, according to SunTrust. By comparison, passive or index funds make up 20% of overall institutional ownership of stocks

covered by SunTrust, while value-oriented funds represent just 13%.

"We talk about a lot of value in these stocks, but when I go to New York, I end up being with a lot of growth clients that are interested in when it's time to be 'back in the game,'" Dingmann said.

As for prioritizing FCF, "at $65/bbl, most of these E&Ps are generating very nice free-cash-flow yield, as you would expect," he said. "Unfortunately, at $45/bbl and lower, very little of my coverage is doing that. My conclusion is that a lot of my companies, when you look at their G&A [general and administrative], at their operating costs, etc., a lot of the expenses in general are still entirely too high for the environment we're in.

"And that is being solved by these companies, or they're not going to be around," he said.

"Investors want to see shareholder returns in general," but favor dividends, according to Dingmann. "Dividends are a little more measurable to them," he said.

In a choice between dividends and stock buybacks, "the hard part of a stock buyback is you often have just one bullet," he said. "Some E&Ps have bought back a material amount, only to see their stock down another 30% to 40%. What are they left to do then?"

Low leverage is also a priority, "since free cash flow is irrelevant if leverage is not in check," Dingmann said. Moreover, "red flags" go up, he noted, if there are near-term maturities without a clear line of sight of ample cash to pay them down. "We see debt markets for newly issued notes as mostly closed, while the market for refinancing is available to larger, high-quality names," said Dingmann.

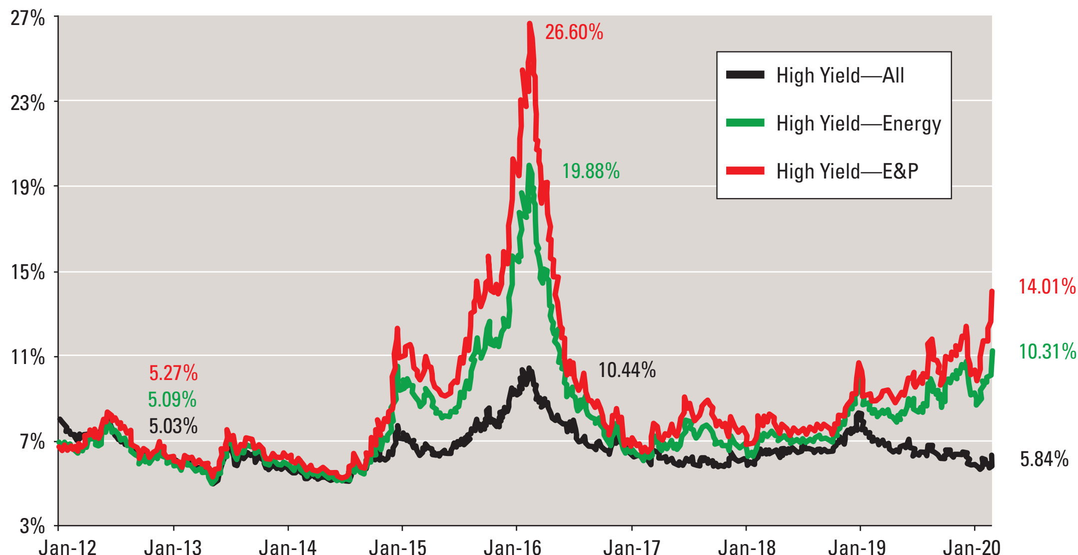
Debt service, then the rest

Like other investors, "bond investors are looking for sustainable free cash flow, too," according to Ray Lemanski, managing director and head of credit research with KeyBanc Capital Markets Inc.

"Investors are looking for three things, which in some degree are in conflict with one another," said Lemanski. "They want free cash flow. They want reduced leverage. And they want at least a modicum of growth. But there's only so much cash that can go around to meet all those priorities. Obviously, the most immediate priority is debt service."

Lemanski said the market has changed over the past 12 to 18 months or so as to "what constitutes acceptable leverage. The number keeps going down. Right now it is probably around 1.5 times, and there are still a number of companies in that lower tier of stressed/distressed companies that have a ways to go to get there," he added.

Increasing Differential Between E&P And Broad High Yield



As investor sentiment further sours against the energy sector, the differential between the broad high-yield index and the E&P index continues to increase. (Source: Morgan Markets)

"The issues concerning credit relative to E&Ps have been predominately in the high-yield market and, arguably, only in the lower credit tiers of the high-yield market," according to Lemanski.

A graph presented by Lemanski shows the relative spread between three indices: the overall high-yield index; the broader energy high-yield index, which covers all components of energy related to high yield; and the index specifically related to the E&P sector in high yield. In 2013 they all traded in a tight range of 5% to 5.3%, and high yield related to E&P traded within 30 basis points of the overall high-yield index. The differentials peaked in January 2016.

THREE WAYS OF LOOKING AT THE DEBT WALL

Looking at the pending maturity wall for producers in the high-yield space, Ray Lemanski, managing director and head of credit research with KeyBanc Capital Markets Inc., separated issuers into three categories.

"The first is what I would call 'market rate.' This comprises issuers that should be able to refinance in a more normalized type of market, typically on a yield-to-worst of around 8% or lower, such as Diamondback Energy Inc., Parsley Energy Inc. and companies like that," said Lemanski.

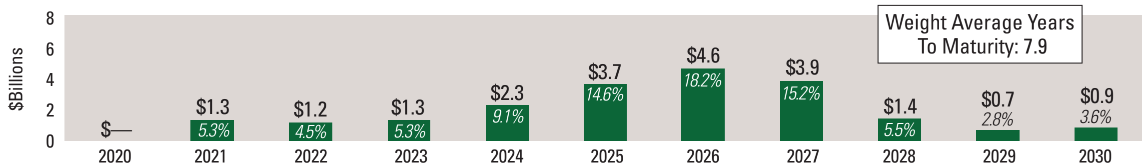
"In the middle, you have companies that are trading at yields of 8% to 13%. And that's an area where, with a recovery in the high-yield market overall and some help from the oil price, the companies should be able to handle the maturities coming at them reasonably well," he said.

"And, in any case, the maturities don't really start building up until 2025, which from a market standpoint is forever," Lemanski added.

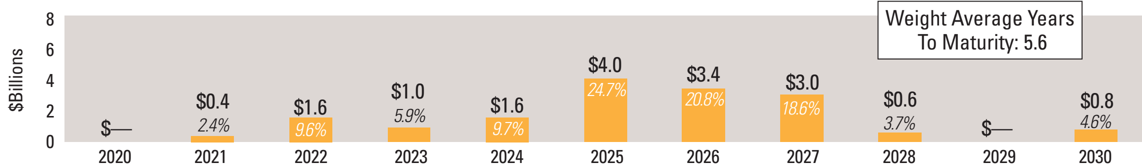
"Third, in the stressed/distressed category, these credits are ones that are having financial issues, and the market is losing confidence in them," he said. "The 13% and higher yield-to-worst is kind of an arbitrary choice, but not a bad one. It goes to the stress level—for example, when the price of the bond and the yield of the bond are fairly close to each other. These are companies with much more significant credit issues."

Categories Of Issuers Facing Debt Maturity

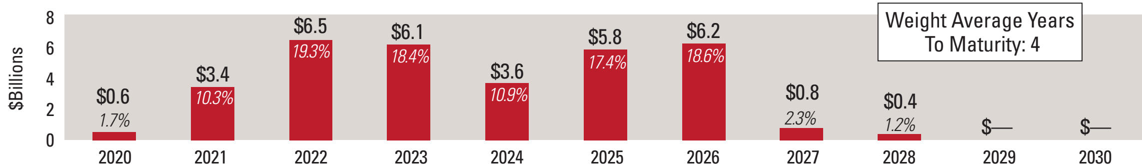
Market Rate (<8% Yield-To-Worst)



Refinanceable With Market Pickup (8% to 13% Yield-To-Worst)



Stressed/Distressed (>13% Yield-To-Worst)



The volume includes all domestic, USD-denominated high-yield (including split-rated) issuance. More than 70% of E&P bonds maturing through 2023 are stressed/distressed, though some issuers can still access the high-yield market and more should be able to if the market improves. (Source: KeyBanc Capital Markets, Bloomberg)

"More recently, you can see the deterioration that has taken place in the E&P sector," said Lemanski.

As of late February, the overall high-yield index has traded down to yield 5.84%. But the broader energy high-yield index has traded down to yield as much as 10.31%, while the E&P high-yield index has traded down even more for an average yield of 14.01% yield. During the course of March, the spreads have widened again.

The stressed/distressed sector "can be hurt by two factors," Lemanski said. "High-yield E&Ps make up a disproportionate amount of lower-rated credit sectors in the high-yield market. So when the market goes to 'risk off,' the sector is going to be sold hard. This is usually accompanied by a decline in the commodity price, so it's a double whammy that these companies experience versus similar credits in other industries."

Credit access feasibility, likely outcomes for E&Ps

So how likely is it for companies to gain access to credit markets in energy—whether it's for higher-quality issuers or high yield?

Given the coronavirus pandemic, and then the abandonment of quotas at the recent OPEC meeting, "No one really wants to test the market. It's just not worth it," Lemanski said.

"If an issue is trading around 8% or a little higher, and we have some easing of the coronavirus uncertainty, a company may likely be able to come to market. Most of the companies that have traded well have at least one BB among its ratings. The problem is really centered on the middle of the single B-rated universe and below. So the answer is 'yes' for some and 'no' for others."

Given the recent spike in high-yield spreads over U.S. Treasuries, Lemanski said, "Usually you'd tend to draw some interest from the more distressed investment community. That hasn't happened, at least to date. I think the reason why is that a lot of investors tried to make a stand a little too early in the 2015 to 2016 sell-off, and they really got their fingers burned. They're going to be more hesitant."

However, in instances where some competitors are underperforming the sector leaders, "That typically suggests there should be consolidation—basically cleaning up the bottom," commented Lemanski. "So far, that's not happening now, largely because there has to be a consolidator. And the majors, at least to date, have not shown interest in fishing down in these small ponds."

Among better performing, larger companies, the equity values of the companies "aren't such that they really make the deals possible," said Lemanski. "And right now there's not a lot of money in the debt market and, to some extent, even the bank markets during previous deal times. To the extent that starts to change, a lot of these small companies ultimately need to go away. They need to consolidate."

Beyond consolidation, there are still a few options, but they pose their own difficulties, the speakers said.

"[Investors] want free cash flow. They want reduced leverage. And they want at least a modicum of growth. But there's only so much cash that can go around to meet all those priorities."

Ray Lemanski,
KeyBanc Capital Markets Inc.

"For some of the companies that may be on the cusp, and not irretrievably damaged, there may be a role for private credit," Lemanski said. "It may be in conjunction with a deal worked out with the bondholders, where they may backstop some exchange offers, take out the RBL completely, do a first lien term loan, which may have bondholder and private credit participation and try to ride this thing out."

Meanwhile, E&Ps at the bottom of the tier "will have an unavoidable encounter with some form of restructuring of the balance sheet. It could be in court or, more likely, out of court," said Lemanski.

"I think the guys in the middle tier have the ability to hang in there for a while, until the process works itself out, and they can hang in there and ultimately do a little better," he said.

Lambert from Goldman Sachs also offers a possible outcome.

"We think a number of the very large companies could potentially come in and scoop up some very good companies in that middle tier (yielding 8% to 13%) of names. Some of the companies below may unfortunately be too far gone," he said.

"What we've seen is that when you try to do a deal and have two sets of equity investors arguing over valuation—and you have to incorporate the debt investors because the debt probably won't get back to par—it makes those deals exceptionally hard to get done." ■

Tailwater Capital is pleased to announce the formation of

Tailwater Energy Fund II LP

a private equity partnership with
capital commitments totaling

$1.1 Billion

Including **Co-Investment**

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RESERVE-BASED LOANS— WITH CAVEATS

A conversation with three commercial bankers reveals that the RBL markets are “open for business,” but none of them are promising it’s going to be easy for producers to get fast cash backed by reserves.

By Steve Toon

Never mind the volatility seen in the oil markets since March. The commercial banking sector experienced its worst year in 30 years in 2019, according to Mike Lister, J.P. Morgan managing director and group head for energy and power. Banks suffered some $750 million to $1 billion in reserve-based loan (RBL) charge-offs, he estimated, which are supposed to be the most secure energy loans.

“Let that wash over you for a minute. Not 2016, not 2015—that was a relative movement,” Lister said. 2019 was “very material, and I think that trend is going to continue at least into the first half of 2020 and likely the full year given what we’re dealing with in the markets now.”

Lister spoke on a panel of RBL bankers at *Oil and Gas Investor*’s Energy Capital Conference in Dallas on March 2. Note that his comments above and all those following were made a week in advance of the oil price collapse on March 9. The price of oil on that date was $45 WTI and had already fallen from a high of $63 earlier in the year.

Even before the Saudi-Russia market share tussle, Lister saw 2020 as challenged. “When I look at trading values across the sector and at the distress levels, that would indicate more pain to come. Winter is coming.”

Looking back, Lister said what banks got wrong was that they didn’t differentiate enough. “Most everybody got a standard four-times leverage covenant at a fairly generic RBL term sheet. And the lender community probably got it wrong for a number of years in a bull market.”

"If we're going into a new loan or look at an existing loan to make modifications, I want our A&D team to weigh in and give me a real assessment of market value. We didn't used to do that as much, but that's a relevant datapoint to us right now."

Mike Lister,
J.P. Morgan

With the pain seen in the banking markets, are RBLs therefore at risk?

"I think people have a pretty sober assessment of where we are," said Lister. "Frankly, there haven't been that many new deals. There've been four or five new deals over the past three or four months of size."

But there are banks that are lending, he said. "It's a difficult market, but for someone wanting to raise new RBL capital, it is available."

Lister affirmed that, despite some banks abandoning oil and gas books, "We remain open for business and committed to the sector."

The first question companies have to answer is the quantum of money they want to raise, he said. Many banks have hit the pause button or just have left. "But there's still a core group of banks that lend and aspire to lend. It's just that the parameters are tighter."

For example, in a good market, if a bank had a checklist of six things it needed and it was able to check three or four, it probably would have approved the deal. Now, "if they don't have all six boxes checked, they're not going to do the deal," Lister said. "So I think it's just making sure of your structure and that you price things in a way that can clear the market."

Growing portfolios prudently

Steve Kennedy, executive vice president and head of energy banking for Amegy Bank, emphasized that Amegy is open for business. "We had double-digit loan growth in energy last year, so we definitely are doing deals," he said, but he clarified that they too "want all the boxes checked. In this market, it shouldn't be a surprise that the pricing and the terms all have to be right. It would be very difficult for us to stretch on deals at this point and probably not terribly prudent, especially on new ones."

Valuing collateral has become more difficult over the past year for banks, he said. Recalling an encounter at NAPE in February, Kennedy said that person told him, "I feel like I'm in a mall at a 50% off sale." The comment motivated Kennedy to explore collateral values.

His findings: Whereas PV-9 was a proxy for collateral value historically, today that is more in the range of 20% to 30%. If enterprise value-to-EBITDA was in the six to eight range, now it's three and a half to four and a half. "Current valuations are somewhere in the 60% range relative to where we were in the good old days," he deduced.

So if a bank were to loan at 60% of PV-9, a typical scenario, "We might be loaning market value in some cases, and we can't do that. We have to keep an equity cushion," Kennedy said.

Rather, there is no formula for lending now. "It depends," he said. Every case is unique.

"The PV we'll be using when we determine a borrowing base is still undetermined. I can guarantee you it's not going to be a straight up 9%; it will probably be in the 15% to 20% range depending on the risks. I think banks want to see debt-to-EBITDA on a new deal somewhere in the two and a half to lower range. A bank making a new loan is not going to want to see debt-to-EBITDA levels immediately above three," Kennedy said.

"The risks are different with each deal, and we're going to have to start differentiating that risk a little better in the future."

Going forward, J.P. Morgan's Lister said banks are likely to differentiate more on structure, pricing, scale, leverage, liquidity and market value of their assets. "If we're going into a new loan or look at an existing loan to make modifications, I want our A&D team to weigh in and give me a real assessment of market value," he said. "We didn't used to do that as much, but that's a relevant datapoint to us right now."

And equity alignment "is critical" to a lending situation as well, he revealed. "Whether it's a private-equity firm or not, we want to know we're aligned with the right amount of equity on a new deal."

On existing RBLs, though, "We want to work with our borrowers," Kennedy said. "We're not looking to pull the rug out from under anyone and completely change the way that we have worked their RBL if they have an RBL that's fully outstanding. We're going to look at that differently than we would one that we're contemplating making today as a new loan.

"We know that values are going to come back eventually. Our job is, until that happens, to make sure everybody maintains some equity component of capital in their structure. As long as there is some equity capital at current market values, we would like to give

people as much time as they need for that market to come back, which will eventually happen."

East West Bank's portfolio has only a couple of clients in workout situations, said Christina Kitchens, group managing director of specialized industries finance, but their focus is being aggressively proactive with operators not being as attentive to their operations as they should be or managing expenses prudently. "For us, it's focusing on firms' maintenance of liquidity more than anything else." But generally, "I'm working with companies that are in good shape," she said.

Another directive is to diversify its portfolio. "If we have holdings that are more than $25 million per name, we're working with other institutions to get closer to $25 million across the portfolio," Kitchens said. "We didn't have tons of transactions that we hold more than $25 million in, but it's something that we're continuing to do to diversify the portfolio and still create room to do originations."

Path to syndication

If commercial banks are open for business, can a syndicate really be easily arranged?

"I think everybody in the room knows there's nothing easy right now," said Lister. "Absolutely, the market is open, and we've syndicated a number of deals over $500 million, one multiple billions of dollars recently. So the market is there.

"It's about, is it a new deal? Do they have an existing bank group that knows them and follows them? It's also about pricing, structure, hedging. It's about meeting the market where it is and not trying to jam something in that's just not going to fit right now."

And the hit rates are going to be lower, he noted. In a bull market, the hit rate for buyers to join the syndication can be as high as 85% or 90%. Now, the hit rates are 50% to 60%, sometimes lower.

"So it's more work for the arranger; it is more work for the client. You have to overinvite a number of banks to make sure." And you're not done until you're done, Lister said. "If you've got a three-week syndication process and XYZ bank is telling you they're good, you're not good until you close, because sometimes that package has to go to faraway places and then they get an email that says '*no mas*,' and you're out."

Kennedy concurred that it is tougher to put together a syndication today for an upstream deal. Previously, some 30 core banks published price decks for making RBLs. Today, the group that will make a new RBL is down to about a dozen or so, he said. Five or six other banks that haven't abandoned their portfolios altogether might actually get back into the market for new loans once conditions improve.

"So it is a bit of a challenge, especially for the deals that are $2 billion, $3 billion. You just run out of banks that can fill that ticket," Kennedy said.

"I would essentially beg everybody to give yourselves more time" going into the marketplace for financing, Kitchens said. "The banks really need more time to put these syndications together. Our processes are just more elongated than they've been in a while."

Basin matters, too, in the likelihood of getting a borrowing base through the traps, Lister noted. A dry-gas asset in the Barnett Shale or even in Appalachia, in some cases, is going to be more difficult. An oil deal in the Permian Basin—assuming it's good rock—"That's going to go a lot better," he said.

Lenders have predispositions, Lister confessed; they know where they've lost money before, and those losses tend to be clustered in certain basins and regions. "And while a given bank may love the Permian and they'll do that all day long, they might not touch another area. Part of your agent bank's job is to understand that and not put you in harm's way."

"The PV we'll be using when we determine a borrowing base is still undetermined. I can guarantee you it's not going to be a straight up 9%; it will probably be in the 15% to 20% range depending on the risks."

Steve Kennedy,
Amegy Bank

Hedging to a higher borrowing base

Hedging is very important to East West, especially on originations. "We are a bank that required hedging on all of our RBL books," Kitchens said, "and that will remain an important part of what we do in looking at originations."

She acknowledged that entering long-term contracts during periods of price weakness can seem difficult, but East West aims to achieve close to 50% of volumes hedged with its clients for 18 to 24 months.

"We do have clients for this redetermination that are asking for some relief on putting in an additional six months rolling hedge require-

ments, but in these times, that's where that book is incredibly important because you can't plan for the coronavirus," she said.

"There are certain things that happen, unfortunately, that are outside of all of our control, so we have to have some insurance to protect operations, that reliance on cash flow—especially if you have debt outstanding—to ensure that you live to see another day. So that's really why hedging is so valuable."

"We like it," Kennedy said, but he agreed that it's hard to pick a good time to hedge, "So I think it's best just to have a rolling requirement of two years as the preferred situation."

"We do have clients for this redetermination that are asking for some relief on putting in an additional six months rolling hedge requirements, but in these times, that's where that book is incredibly important because you can't plan for coronavirus."

Christina Kitchens,
East West Bank

But if a company absolutely does not want to hedge, given that they have enough equity capital and low leverage level, "Then that could be their decision to take that risk," Kennedy said. However, should leverage come up and it becomes more of a bank risk, "Then we certainly want to see hedging take place."

Lister took the concept a step further and suggested that lenders should do a better job of hedging every piece of the hydrocarbon cash flow stream.

"I think it's great to hedge the big indices, but if you're not hedging basis risk, if you're not hedging NGL, that's where a lot of banks got hurt. Candidly, when you get volatility, and you didn't fully hedge everything you thought you did, that's an issue," he said.

For companies that don't want to hedge, the give-and-take might be a lower borrowing base, Lister said. "Hedging is difficult as it is at some of these prices, but we can't be in a position of making one-way bets where, if you don't hedge and things step down 25%, then the company goes bankrupt. And if it goes up 25%, then the company does fabulously, but we get an interest rate and a fee. We don't have the upside, and so we have to calibrate that and have an equilibrium where we win and lose together."

This exact scenario took place just days following the Energy Capital Conference, illustrating the downside risk and wisdom of the requirement. And maybe a dose of premonition.

Alternately, J.P. Morgan's Lister said hedging "allows us to stretch" on the total borrowing base number.

Not so fast, PDP

One trend that banks are scrutinizing, said Kitchens, is when companies ramp up the drilling rate to convert proved developed producing (PDP) reserves quickly into borrowing base reserves. "I would say that trend very much has fallen off favor."

Some of the transactions that were troubled over the past year were in part because of that rapid pace of conversion of PDP. Going forward, that production may not be included in the PDP category for some time, or it may be included at a pretty heavy risk factor.

"I bring that up because it's important for those going through redetermination season not to want to rely so heavily on, 'I'm running a drilling rig; I'm adding new production; this should solve for price weaknesses or for other things.' It won't necessarily solve to offset price weaknesses and those other things on unseasoned production," she said.

In times of dropping prices, each of the bankers said it was a common goal to work with clients to provide liquidity, but they acknowledged they could only stretch so far. History and performance are key factors in determining adjustments in borrowing bases, as are valuations and where assets are trading.

"Are you going to lend against PUDs [proven undeveloped reserves]," questioned Lister. "If there's literally zero value ascribed to PUDs in the market, it's kind of hard to lend against it."

J.P. Morgan is trying to be nimble and "lean in" to provide as much liquidity and capital as possible, but "Sometimes things get difficult and restructuring happens. The last thing we want to do is create a liquidity crisis by dropping the borrowing base dramatically, but we can't ignore values either. So it's a little bit of give and take and every situation is unique," Lister said.

"But the goal is to get people to the other side, because we want to bank these teams for a long time. And, you know, we all know this is a pretty tough one."

And that was before it got worse. ■

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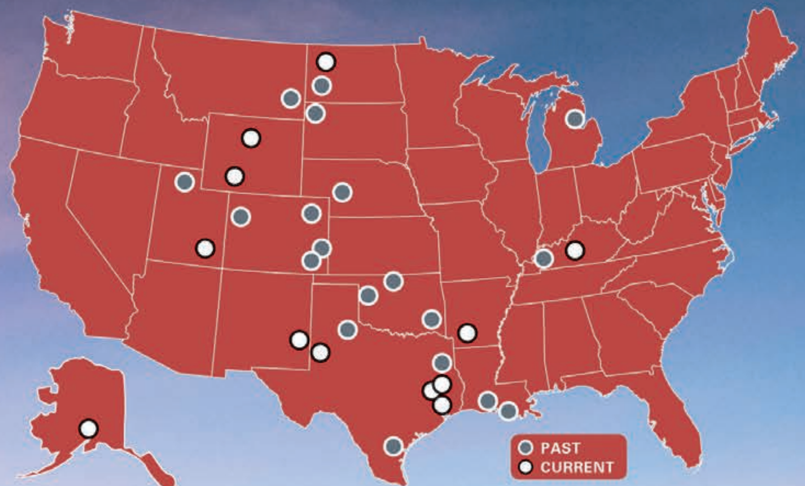

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MIDSTREAM PRIVATE-EQUITY INVESTORS STILL SHOW ENTHUSIASM

Private-equity firms have billions in dry powder; the only question is timing.

By Gregory DL Morris

Hard times for the upstream usually allow the midstream to align and adjust. It sounds cold-blooded, but for straitened producers caught with too much debt, a good offer for gathering and processing could be a lifeline. Indeed some private-equity (PE) firms with dedicated midstream funds say they are ready to make deals. Others are waiting for things to settle a bit or at least for sellers and buyers' ideas of value to come into closer alignment.

One complication from the last cycle does not seem likely to be repeated this time. In the 2014 to 2015 downturn, producer bankruptcies precipitated some nasty litigation about whether midstream contracts could be unilaterally altered by courts or creditors. In recent years contract terms have been clarified.

It is also clear that investors are not shy about continuing to put capital into the midstream. In late March, Tailwater Capital LLC closed Tailwater Energy Fund IV with $1.1 billion in capital commitments including a co-investment for one of the fund's platform companies. Managers say Fund IV will "target opportunities across the midstream from the wellhead to the refinery gates." Including this new fund, Tailwater has more than $1.3 billion of dry powder and believes it "is poised to opportunistically execute on the buying opportunities created by the capital access issues in the energy industry."

Fund III closed in July 2018 with total commitments of $1 billion, including a co-investment for a platform company in the fund, and has invested in five platform companies.

"In our history we have had counterparties go bankrupt and never once has a midstream contract been altered by a court."

Edward Herring,
Tailwater Capital LLC

"One of the compelling things about this sector is that it is so large," said Edward Herring, co-founder and co-managing partner with Jason Downie. "We are in a period of extreme volatility driven by fear of a global health crisis as well as overt action by major producers. The industry is facing both supply and demand shocks at the same time, so investors are forced to be very focused."

Herring stressed that "We are not traders, but we keep conversant on supply and demand volatility because that informs our tactics. At the moment we are very busy trying to understand the longevity of current events."

Putting previous downcycles into context, Herring noted that during the slump in 1998 to 1999, crude prices fell from the range of $20 a barrel to $8. "It took a year to get back to $25 and two years to get into the $30," he said. "Recovery also took a couple years after the 2008 recession. The supply shock in 2014 was more similar to today. As a team we have 22 years of investing together, and we will be very patient."

Tailwater backs 14 active midstream teams, he said, "And every one of them has a 180-day tactical plan. We have the strategic perspective across capital expenditure, capital deployment and alignment with our management teams."

Realigning and reloading

That perspective extends to the contracts that operating firms have with their shippers, which are crucial as producers begin to pull in their horns. "We believe in win-win for upstream and midstream companies," said Herring. "We have been alert to contracts that have far out of market terms. On those there has been a lot of friction because, as I said, we prefer win-win terms: fair compensation for good service."

That approach has a proven track record. "In our history we have had counterparties go bankrupt and never once has a midstream contract been altered by a court," he said.

Tailwater's Downie added, "That is the qualitative aspect of our approach. It comes from collaboration with our counterparties, and also among our teams in separate basins, some of whom deal with the same counterparties."

Sometimes, alignment with management teams has meant realignment among them. In November 2019 Tailwater combined two of its portfolio companies. Elevate Midstream Partners LLC was folded into Align Midstream Partners II LLC. The move adds more than 180 miles of active pipe from Elevate to Align's existing footprint across Panola, Rusk and Harrison counties in East Texas.

With an average daily volume of more than 300 million cubic feet per day, the combination provides Align with added processing and compression capabilities while further diversifying its customer base by adding several marquee East Texas producers that are active in the Haynesville and Cotton Valley formations.

At the same time Tailwater reloaded the management team as Elevate II with a $150 million equity commitment.

"The Align team has a long track record operating in East Texas," said Herring. "The Elevate team is a transactional team with experience in acquisition and consolidation. We operated in both strategies in the basin to the point where both were growing organically behind a few key shippers."

The Align team is going to focus on debottlenecking, while "the Elevate team is being deployed in the current environment with our dry powder," Herring said.

"The midstream companies that have that third pipe will be heroes to their producers and will have an advantage in the downcycle. Water is a natural hedge to slowing production."

Jason Downie,
Tailwater Capital LLC

Tailwater has also been active in water logistics. "It's not an asset that makes sense in every basin," Downie explained. "But where water production gets matched or better volumes relative to crude production, then water logistics become critical. We are big believers in the water segment."

To that point, Downie said, "Water contracts have come to look very much like crude contracts.

The target of having 70% of a field on pipe is holding true. We are seeing that in the Bakken, and we are heading that way in the Permian."

The big difference remains reuse. Hydrocarbons go to market, but producers are keen to reuse water as much as they can. "In this downturn I expect water production to surge because there will be much less reuse and so much more disposal," Downie said. "The midstream companies that have that third pipe will be heroes to their producers and will have an advantage in the downcycle. Water is a natural hedge to slowing production."

Continuing commitments

"Our founders and managing partners have been through multiple price cycles, but we have never seen anything quite like these conditions before," said Dave Kurtz, managing partner of EnCap Flatrock Midstream. "The convergence of simultaneous supply and demand shocks has led to unprecedented declines in valuations across the energy sector.

"Upstream companies will continue to reduce their capital expenditures, which will lead to a decline in rig activity and, ultimately, a drop in production across all commodities," he continued. "We are assessing capital structures across the portfolio, scrutinizing expenses, conserving cash and working to limit or delay deployment of capital where possible, at least in the near term until things stabilize."

However, that hardly means commitments and portfolio company activity are at a standstill. At the beginning of March, EnCap Flatrock Midstream made a growth capital commitment of half a billion dollars to Tatanka Midstream LLC.

Tatanka's goal is to create value by improving the operations, maintenance and overall efficiency of acquired businesses and building highly competitive new assets that serve the North American energy market.

"We are excited about this team. They are what I call 'transformational leaders.' They have an outstanding track record in optimizing large assets, managing large numbers of people and extracting value throughout every aspect of a company," Kurtz said.

"They have developed a lot of industry contacts and transactional experience from the wellhead to the refinery, including mergers, acquisitions, divestitures and organic growth projects. The Tatanka team understands our strategy, and we're excited to see what they bring us."

A month prior to the Tatanka commitment, EnCap Flatrock portfolio company Greenfield Midstream bought into the Saddlehorn Pipeline through Black Diamond Gathering LLC, Greenfield's joint venture with Noble Midstream Partners LP. Black Diamond purchased 20% of the Saddlehorn Pipeline.

Saddlehorn has the capacity to move 190,000 barrels per day (bbl/d) of crude and condensate from the Denver-Julesburg (D-J) and Powder River basins to Cushing, Okla. (expanding to 290,000 bbl/d by late 2020). Saddlehorn is owned by affiliates of Magellan Midstream Partners LP, Plains All American Pipeline LP and Western Midstream Partners LP. Magellan is the operator.

"Black Diamond fed directly into the long-haul pipe," said Kurtz. "So the investment represents a good move for Greenfield and also provides an all-in value proposition for Black Diamond customers."

"Some of the best deals in midstream have been accomplished in difficult markets. The key is to make sure they benefit everyone around the table."

Dave Kurtz,
EnCap Flatrock Midstream

He added that the transaction indicates EnCap Flatrock's evolution. "What we do is no longer just gathering and processing. Over the years, across our portfolio we have moved into transportation and storage, terminals and logistics. Saddlehorn complements Black Diamond's gathering and storage assets, and Greenfield's interest in the joint venture adds value to our portfolio."

EnCap Flatrock again expressed its evolution in early January when the firm made an initial capital commitment of $400 million to the Edgewater Midstream LLC management team.

Edgewater was formed in late 2019 to provide independent logistics services to refiners, producers and marketers of crude oil, refined products and other bulk liquids. The company is focused on the acquisition and greenfield development of pipeline, bulk liquids storage and terminal operations serving North American energy demand hubs. "This is another outstanding team with superb track records and great relationships at the demand end of the value chain," Kurtz said.

"The bottom line is that over time we have expanded in scope by pushing our midstream investments farther downstream," said Kurtz, "but it's still midstream."

"We are always looking for opportunities for exits once we have achieved the benefit of the buildout of a project. We have a couple deals working in the market today."

James P. Benson,
Energy Spectrum Capital

Even as the firm's tactics evolve, Kurtz said EnCap Flatrock's core strategy has not changed. "People come first; we invest in outstanding teams with proven track records and a vision, making sure that our values, goals, strategies and approach to risk management are aligned. It's a little early in this downturn, but we are already starting to evaluate options that may come out of this cycle. We also expect opportunities may come to us.

"We are fortunate to have a significant amount of dry powder," he said, though he declined to specify how much.

Kurtz added, "Some of the best deals in midstream have been accomplished in difficult markets. The key is to make sure they benefit everyone around the table."

Keeping leverage out of the equation

"A $30 and below price per barrel of oil will change the perspective of both our producers and customers," said James P. Benson, founder and managing partner of Energy Spectrum Capital. "Gathering, processing and transportation of crude, gas, water and all development activities will be reassessed.

"As producers revise their plans, that will affect throughput on our systems. We and everyone are lowering costs through this year and into next, and [we are] mindful to keep leverage at a minimum and hopefully out of the equation," he said.

At the moment, everyone is primarily concerned about the health of their employees and families and secondarily about the downturn in the price of oil, Benson said. "We have never been highly levered in our funds. Leverage can be the kiss of death in this environment. By maintaining modest to no leverage, you can control your destiny by not losing control of your businesses."

Geographically, Energy Spectrum principally operates across the Lower 48 states, with a concentration in Texas, Oklahoma and Louisiana and activities in several other basins including the Appalachian and the D-J. Investments are primarily traditional midstream assets, but the company also considers terminals and storage. Benson says he is indifferent between oil and gas. The firm has been around for 25 years and expects to close Energy Spectrum Partners VIII by the end of April.

"It has been an interesting and challenging time to be raising capital," said Benson. "I am very pleased with our position in the market in that we are well-capitalized for making new investments. Although, to this point and with regard to acquisitions, buyers and sellers have been pretty far apart in terms of valuations. But in this challenged environment, it is likely that some sales are going to have to be made to enhance balance sheets."

He added that, beyond the valuation proposal, "We've got to be sure that we have the ongoing throughput to support the investment and a credible, financially viable counterparty."

Being agnostic on molecules extends to H_2O. "We focus on being a multiservice provider to our customers," said Benson, "and we prefer to do more than just water alone. Water is a cost to the producer, but as long as water can be structured as a traditional throughput midstream contract, then it meets the parameters of midstream activity."

He cited the example of typical water cuts of 4:1 (water to oil) in the Delaware Basin. "Those are serious volumes, and if piped to a disposal facility with throughput agreements, then that would definitely be considered a midstream project."

In the D-J Basin, Energy Spectrum's portfolio company, Taproot Midstream LLC, moves crude out and water both ways, disposing of water and delivering water for frac purposes. "We are very excited about the D-J Basin," said Benson. "It is a very interesting area that will, like all other basins today, need a better crude price to see a ramp-up in further development."

Looking ahead to investing out of Fund VIII, Benson said he is patient but always looking at new opportunities. "It is a very challenging environment out there and a tough time to have to try to get people on the same page for deals. It is important to know who the buyers and sellers are and what their value expectations are. At present, a big gap remains, and that is not going to be resolved soon," Benson said.

"There are several small and large companies with highly leveraged balance sheets. If prices hang in the $20s for any amount of time, those levered companies are going to be challenged to raise capital to fix their problems. Even large producers like Chesapeake [Energy Corp.] have engaged restructuring counsel. We will see more of this in the near future."

Beyond producers that will need to raise cash,

there is likely to be another round of consolidation in the midstream space and also with MLPs. "We saw it in the last downturn, and we will likely see it again," Benson said. "I am hopeful we can participate in the solution and get some deals done."

At the other end of the ledger book, Benson said he also remains hopeful to complete sales in this market as well. "We are always looking for opportunities for exits once we have achieved the benefit of the buildout of a project. We have a couple deals working in the market today."

Reviving conversations

Post Oak Energy Capital sold its largest midstream investment, Oryx Midstream Services LLC, in the middle of last year, but that still leaves a substantial midstream presence in the portfolio.

Despite the ongoing pandemic and plunge in oil prices, "We are not thinking of our business any differently today," said Frost W. Cochran, founding partner and managing director. "All of our midstream investments are derivative of our upstream investments, in terms of being shipper-driven."

He added, "The midstream sector is driven by the upstream, and our view of the upstream in each region is informed by our own upstream investments in that play. It doesn't necessarily mean that our midstream operations in a region are necessarily doing business with our own producers."

That said, Cochran said that upstream activity of any scale is coming to a halt. "Customers are asking for help on rates and timing. Our approach is to be constructive. If we do something positive, even at the expense of the short-term quarter or two, that makes us a good partner, a good service provider. We have already offered some rate or timing relief where warranted."

In turn, "we are also responding on capital expenditure programs in step with upstream changes," Cochran added, "both concerning hydrocarbons and water."

One important area in which the midstream is better prepared for this downturn, compared to the last, is in contract terms with shippers. In 2014 to 2016 there were some heated disputes over whether midstream contracts ran with the land or if bankruptcy courts or creditors could alter those contracts. Over the past few years as bankruptcies have dwindled, those controversies have receded, but they have not been forgotten.

"We feel good about the contracts we have crafted ourselves," said Cochran. "We do have a few concerns about contracts we have acquired. In some cases the language may not be clear that they run with the land. In recent years contract language has gotten better and clearer, but some legacy contracts are not clear."

Where counterparties are unwilling to revise or amend contracts, Cochran said that such residual ambiguity simply becomes another risk factor. "It becomes part of our valuation, just as an upstream lease may figure into our valuation if we feel that is not clear."

The combined demand shock from a public health crisis and a supply shock in oil from a market-share battle between Russia and Saudi Arabia is canceling some ideas but reinvigorating others.

"We are having a lot of revived conversations from 2018 and 2019," said Cochran. "Those had fallen by the wayside because of differences in valuations, and now [they] are back on." Reengagement does not necessarily mean success, however. "Counterparties' expectations have changed," Cochran said, "but so have ours."

"We are very much on the offensive. This is a great market to lean into. We have a little more than $400 million in capital to deploy, and I expect we will be able to do that within the next two quarters."

Frost W. Cochran,
Post Oak Energy Capital

Across the midstream, Cochran suggested that similar conversations are taking place. "I would expect us, and others, to be involved in transactions with producers that need some capital to see them through the current situation," he said. "Still, it is a volatile time, so we will have to see what actually transpires.

"We are very much on the offensive," he said. "This is a great market to lean into. We have a little more than $400 million in capital to deploy, and I expect we will be able to do that within the next two quarters. Given we need to deploy the remaining capital in our existing fund first, we anticipate raising our next fund before the end of the year."

It follows that a good time to buy is not also a good time to sell. "We have no exits planned in the midstream," said Cochran. "We were marketing a small portion of minerals in the Permian, but we have withdrawn those. This is a good time to lean in, to be selective and to make good long-term decisions." ■

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UPSTREAM FINANCING RECONSIDERED

Even to just survive, E&Ps increasingly must look beyond traditional sources of capital to fund their operations. Here are some other financial structures on the rise.

By Jon Daly and Kaitlin Schock

Capital access and formation in the oil and gas industry continued to be challenging for even the most established players throughout 2019 and into the early months of 2020. The energy sector's share of the S&P 500 has fallen to the lowest point in 78 years, reaching as low as 3.3% of the total S&P 500 as of March 9, 2020, down from 15% in September 2014. Equity issuances by publicly traded energy companies in 2019 were at their lowest volume since 2002 with $7.6 billion of equity capital raised, and upstream oil and gas companies accounted for only $0.5 billion of the total. Investors in publicly traded E&P equities are now focused almost exclusively on free cash flow, demanding that companies generate and grow free cash flow in a low commodity price environment and return "excess" cash flows to shareholders or use the proceeds to de-lever.

In addition to the difficult public, and private, equity markets, borrowers that rely on reserve-based lending (RBL) to fund their operations are now facing a broad tightening in banks' borrowing base determination criteria, further stressing already strained balance sheets. Many borrowers and lenders anticipate a new round of reductions in borrowing bases following the spring redetermination cycle as banks have become more conservative, with some banks working to actively reduce their oil and gas RBL exposure or even exit the market altogether.

To make matters worse, capital availability for oil and gas companies is increasingly affected by broad climate change concerns and the resulting

pressure on institutional investors to be mindful of the perceived environmental, social and governance (ESG) impacts of their investment decisions. Asset management firms, pension funds, banks and other traditional sources of institutional capital for the industry are scrutinizing oil and gas investment opportunities much more closely against the backdrop of ESG concerns, and as a result, a further constraint on capital availability has emerged.

And yet RBL redeterminations and the pullback of traditional lenders in the RBL space, along with the lack of investor confidence on Wall Street compounded by ESG pressures, are only a part of the problem. Poor capital market and commodity price conditions, the pressure on companies to return capital to shareholders, and tightening credit markets have depressed equity and asset values across the board, in turn constricting the ability of private equity to fill the capital void. But capital for growth—or survival—is required now more than ever, which means companies will need to look to alternative avenues for solutions.

With restructurings on the rise—third-quarter 2019 saw an increase of 186% in bankruptcies year-over-year—lenders are scrutinizing balance sheet health and demanding leaner, less risky capital structures.

Balance sheet optimization tactics

As part of companies' search for solutions, balance sheet optimization may become a more prevalent tactic. With restructurings on the rise—third-quarter 2019 saw an increase of 186% in bankruptcies year-over-year—lenders are scrutinizing balance sheet health and demanding leaner, less risky capital structures, resulting in borrowers taking multiple steps to strengthen their balance sheets in order to position themselves to access additional capital sources.

As a result, debt exchanges may be an option for some companies. In these transactions, companies may offer to exchange existing outstanding notes held by investors for new notes with different terms such as a reduction in principal, a new interest rate, an extended maturity date or an equity conversion feature.

Debt issuers could also conduct debt-for-equity swaps, offering existing noteholders equity securities in the issuer or one of its affiliates in exchange for outstanding notes. If there is cash available on the balance sheet as a product of operating cash flows or asset sales, an issuer could also consider taking advantage of low market pricing of its outstanding debt and repurchase and retire notes to de-lever the capital structure.

These alternatives could be a good fit for companies with available liquidity that want to reduce their indebtedness and improve their leverage metrics.

To the extent that reducing the company's leverage ratio increases the company's appeal to lenders by reducing the interest rate and default risk of the existing debt, a company interested in accessing different capital sources may consider restructuring its balance sheet to take advantage of investors' calls for de-risked capital structures.

Healthy enough for high yield

For those noninvestment grade companies with capital structures that are still healthy enough to take on additional debt, issuing high-yield notes may still be an option, although recent trends in the energy high-yield market have shown that investors are shying away from high-yield notes in the same manner that investors are pulling out of the private-equity-market investing in the energy industry. In fact, energy high-yield volumes in 2019 were the lowest since 2009 with only $19.6 billion raised.

However, despite the challenging energy high-yield market, some upstream companies (Viper Energy Partners LP, Endeavor Energy Resources LP and Murphy Oil Corp.) were able to get deals across the finish line in fourth-quarter 2019, for total proceeds of $1.45 billion.

With the outlook for the energy sector expected to stay depressed at least into 2021, prospective bondholders are likely to demand steep pricing and tight covenant packages. Nevertheless, the issuance of high-yield notes may be an option for producers with lower leverage that want to pay down their existing revolving credit facility or redeem existing high-yield notes that are to mature in the near term.

For example, in February 2020, Parsley Energy Inc. issued $400 million of 4.125% senior unsecured notes due 2028 and used the net proceeds from the offering and borrowings under its revolving credit facility to redeem all of its outstanding 6.25% senior unsecured notes due 2024.

Second lien considerations

Second lien debt may be an option for companies with the collateral pool necessary to satisfy a second lien lender. Some companies have relatively flexible covenants in their first lien debt that may

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allow them to incur additional funded junior debt. Companies with significant unencumbered oil and gas properties sufficient to provide enough collateral security to second lien lenders may be able to take advantage of second lien debt incurrence to create liquidity and fund development beyond what can be financed with operating cash flows.

However, lenders will likely demand premium returns in exchange for the risk associated with junior debt in an industry beset by an uncertain commodity price environment and the resulting impact on cash flows.

While second lien debt may be a viable option for an E&P company with a favorable RBL, a prospective borrower should have a high level of confidence that it will generate enough cash flow to service the additional debt and have the collateral coverage necessary to maintain second lien debt covenant compliance for the life of the facility.

Because commodity pricing is currently weak and volatile, special consideration should be given to the certainty of that producer's cash flow.

This alternative could serve as bridge financing to close cash flow gaps for companies with healthy balance sheets positioned to endure through to market correction and a return to commodity supply-demand equilibrium.

Asset level financing comeback

Following the precipitous decline in oil prices commencing in late 2014, asset level financing structures increasingly gained traction in the oil and gas industry. While setting up these structures involves more complexity than many in the industry prefer (e.g., navigating restrictions in governing debt instruments, third-party consent rights, pref rights, governance, investor exit and regulatory issues, etc.), they may offer both producers and investors desirable benefits.

Asset level financing structures vary widely. Drillco participation agreements, in which a capital provider funds the drilling of a portfolio of wells, offer a recently popular example. These agreements typically include a carry for the operator and a reversion feature such that after the financed wells generate a specified internal rate of return for the investor, the investor's working interest reverts to a smaller final interest in the wells.

> For those noninvestment grade companies with capital structures that are still healthy enough to take on additional debt, issuing high-yield notes may still be an option.

Other examples of these structures include the sale of overriding royalty interests carved out of the operator's working interest (i.e., interests in a specified percentage of the hydrocarbons where the overriding royalty interest owner has no obligation to pay development or operating costs);

> Oil and gas securitization is a recent emerging financing structure in the upstream space … [that] many producers and their sponsors have been exploring … as a new potential source of capital.

sale of net profits interests (i.e., a species of overriding royalty interests where the investor's share of production proceeds is calculated net of operating costs paid by the operator); and volumetric production payments, which represent an ownership interest in scheduled future production volume from an identified asset or assets.

With capital coming in at the asset level, producers and investors can focus on assets in a particular field or a particular class of assets, thereby insulating the investment from the operating results of other assets that may not be as financially attractive and, to some extent, mitigating operator credit risk.

However, in these types of deals, certain fundamental risks are transferred to the investor, specifically reserve, production and commodity price risk. These types of alternatives were not as widely utilized during 2019 as they were from 2015 to 2018, but these structures may see a comeback in select situations.

Securitization: a new niche?

In addition to these more familiar financial structures, oil and gas securitization is a recent emerging financing structure in the upstream space. Raisa Energy LLC, a portfolio company of EnCap Investments LP, completed the first oil and gas securitization in September 2019 and Diversified Gas & Oil Plc completed the second in November 2019. While there have not been any announced oil and gas securitizations since the Diversified transaction, many producers and their sponsors have been exploring this structure as a new potential source of capital.

In a securitization, a company can access nonrecourse debt capital serviced solely out of future cash flows from the securitized assets. In an oil and gas securitization entered into to raise capital resources, a producer would form a subsidiary as a bankruptcy-remote special purpose vehicle (SPV) and would sell and transfer producing wellbores, or an undivided interest in the wellbores, to the SPV.

The SPV issues fixed-rate amortizing notes to investors in a private placement and in turn the SPV distributes to the producer the net cash proceeds as the consideration for the sale and transfer. In connection with the notes issuance, the SPV grants a mortgage over and a security interest in its wellbore interests to an indenture trustee in favor of the investors in the notes offering.

In addition, a high percentage of the future production from the wellbores must be hedged for the expected life of the notes. Typically, the hedging, combined with the fact that the financed assets are segregated from the credit of the sponsor, allows one or more independent rating agencies to give the notes an investment grade rating.

Oil and gas securitizations hold several advantages over traditional RBLs or other secured debt financings (such as second lien loans). To name a few, there are no redeterminations; there is likely a higher available advance rate against the PV-10 of the securitized assets; the interest rate is fixed; and the debt is nonrecourse to the producer. In addition, there are no financial, and limited other, covenants.

The securitization structure itself imposes no restrictions on the sponsoring company's use of the debt proceeds. A percentage of excess cash flows (i.e., cash available after the debt service and satisfaction of hedge settlement and other priority payments established in the indenture "waterfall") may be returned to the sponsor on a current basis.

An oil and gas securitization transaction may be appropriate for producers with mature, PDP assets with predictable cash flows that can benefit from monetization of the future cash flow at an attractive valuation. ■

The authors are based in the Houston office of Sidley Austin LLP. Jon W. Daly is a partner in the global energy and infrastructure practice where he represents public and private companies, investment banks and private-equity firms in connection with IPOs, M&A, private-equity investments and registered offerings and private placements of equity and debt securities. Kaitlin Schock is an associate in the global energy and infrastructure practice advising on energy and corporate matters. Sidley partners James L. Rice III and George J. Vlahakos also contributed to this article.

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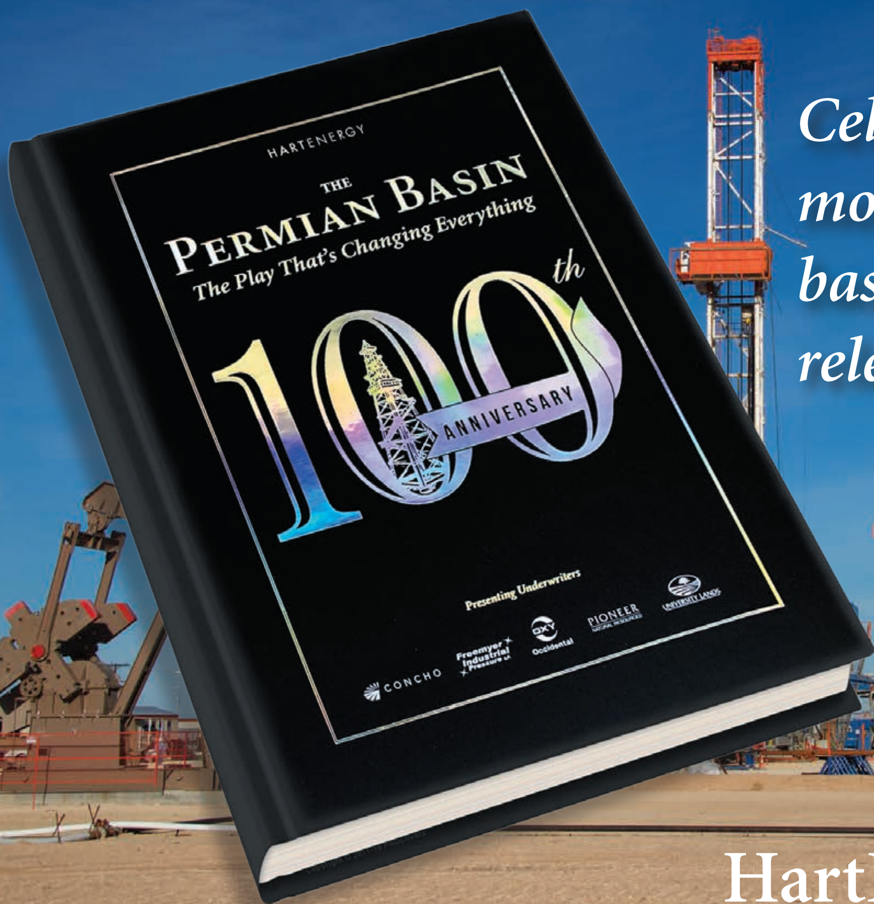

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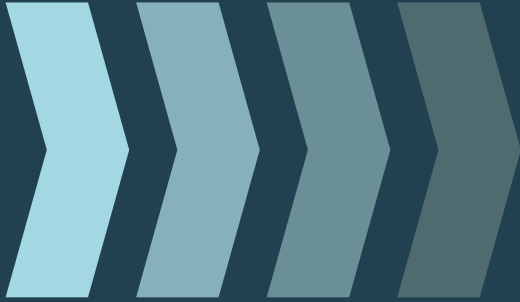

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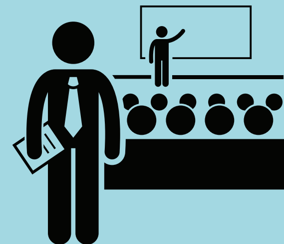

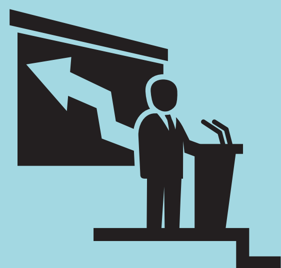

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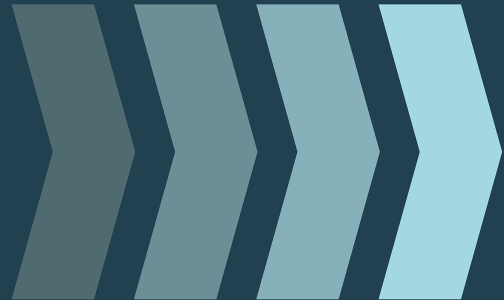

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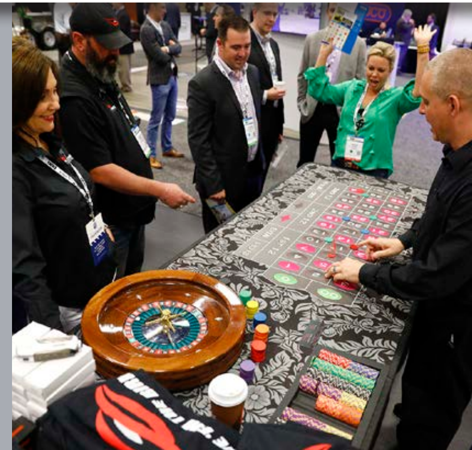

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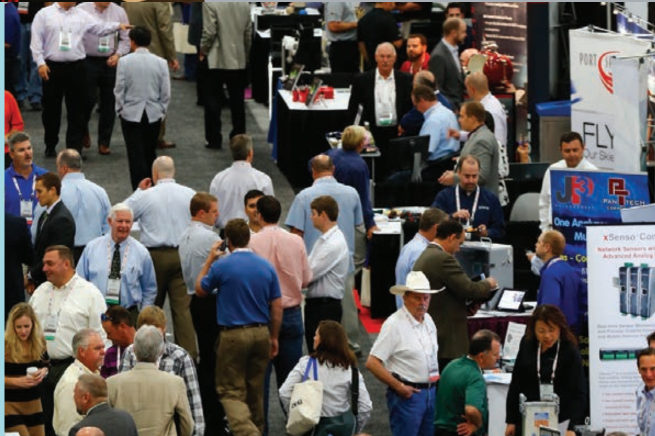

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Sectors: Midstream

Allegro Energy Capital Corp. (I, P)
James A. Hutchison
403-294-0002
info@energycapital.ca
Suite 960, 630 6th Avenue SW
Calgary, Alberta T2P 0S8
Preferred deal size: C$20MM-C$500MM
Sectors: E&P, midstream

Alpine Energy Capital LLC (P)
Bill Wicker
Chief Investment Officer
346-264-2900
2777 Allen Pkwy., Ste. 600
Houston, TX 77019
Sectors: E&P

AltaCorp Capital (A, I)
Brian Heald
Managing Director, Investment Banking
Head of Exploration & Production
403-539-8596
bheald@altacorpcapital.com
Suite 410, 585 8 Ave. SW
Calgary, AB T2P 1G1

Altira Group LLC (P)
Dirk McDermott

303-592-5500
dmcdermott@
altiragroup.com
1675 Broadway, Ste. 2400
Denver, CO 80202
Preferred deal size: $5MM-$25MM
Sectors: Tech

Amegy Bank of Texas (C, I, M)
A. Steven Kennedy

Executive Vice President &
Head of Energy Banking
713-235-8870
steve.kennedy@
amegybank.com
1717 West Loop South, 23rd Fl.
Houston, TX 77027
Preferred deal size: $10MM-$50MM, up to $300MM via syndication
Sectors: E&P, midstream

Angelo Gordon & Co. (P, M)
Todd Dittmann

Managing Director
713-999-4320
tdittmann@
angelogordon.com
712 Main St., 13th Fl.
Houston, TX 77002
Preferred deal size: $50MM-$750MM
Sectors: E&P, midstream, OFS, OEM, downstream

Anvil Capital Partners (P)
Rob Lindermanis
Managing Director, Head of Origination
832-390-2526
rlindermanis@anvilcp.com
2700 Post Oak Blvd.
Houston, TX 77056

Preferred deal size: $15MM-$40MM
Sectors: E&P

Apollo Global Management Inc. (M, P)
Geoffrey Strong
Senior Partner, Co-Lead Infrastructure and Natural Resources
212-515-3200
gstrong@apollo.com

Olivia Wassenaar
Senior Partner, Co-Lead of Natural Resources
212-515-3200
owassenaar@apollo.com

9 West 57th St., 48th Fl.
New York, NY 10019
Preferred deal size: $50MM-$100MM mezz; $100MM-$3B PE
Sectors: E&P, midstream, OFS, downstream

Ara Partners Group (P)
Charles Cherington
Managing Partner/Co-Founder
713-337-9150
charles@arapartners.com
5300 Memorial Dr., Ste. 500
Houston, TX 77007
Preferred deal size: $10MM-$100MM
Sectors: Tech

ARC Financial Corp. (P)
Rob Cook
Managing Director
403-292-0390
rcook@arcfinancial.com
4300, 400-3 Ave. SW
Calgary, AL T2P 4H2
Preferred deal size: $50MM-$200MM
Sectors: E&P, OFS

Arcadius Capital Partners (P)
Tym Tombar
Managing Director
713-437-5068
ttombar@arcadiuscapital.com

711 Louisiana St., Ste. 1400
Houston, TX 77002
Preferred deal size: $25MM-$50MM
Sectors: E&P

ArcLight Capital Partners (P)
Daniel Revers
Managing Partner & Founder
617-531-6300
drevers@arclightcapital.com

200 Clarendon St., 55th Fl.
Boston, MA 02116
Sectors: E&P, midstream

Ares Management LP (P)
Nate Walton
Partner, Co-Head of North American Private Equity
310-201-4100
nwalton@aresmgmt.com
2000 Avenue of the Stars, 12th Fl.
Los Angeles, CA 90067

Associated Bank (C)
Tim Brendel
Head of Oil & Gas Banking
713-588-8205
timothy.brendel@associatedbank.com

333 Clay St., Ste. 2823
Houston, TX 77002
Sectors: E&P

Auria Capital (I)
Manfred Ernst
Managing Director
212-626-1433
mernst@auriacap.com
1120 Avenue of the Americas, 4th Fl.
New York, NY 10036
Sectors: Midstream, renewables

Bank of America (A, I)
Bradley Hutchinson
Co-Head of Energy
713-759-2546
B.hutchinson@bofa.com
800 Capital St., Ste. 1510
Houston TX 77002

Barclays (A, C, I, M, P)
Steve Almrud
Managing Director
713-236-3950
steven.almrud@barclays.com

609 Main St., 33rd Fl.
Houston, TX 77002
Sectors: E&P

Bayou City Capital Advisors (A, P)
Tim Murray
Managing Partner
832-942-1071
BayouCityCapitalAdvisors@gmail.com

5773 Woodway Dr., Ste. 235
Houston, TX 77057
Preferred deal size: $100MM or less
Sectors: Upstream, midstream, OFS

Bayou City Energy Management LLC (P)
William McMullen
Founder & Managing Partner
713-400-8200
will@bayoucityenergy.com

1201 Louisiana St., Ste. 3308
Houston, TX 77002
Preferred deal size: $5MM-$50MM
Sectors: E&P

BB&T, now Truist (C, I)
Bobby Kret
Vice President Energy Corporate Banking
333 Clay St., Ste. 4495
Houston, TX 77002
713-797-2137
bobby.kret@suntrust.com

Preferred deal size: $50MM+
Sectors: E&P, midstream

BBVA USA (C, I)
Blake Kirshman
Head of Energy, Corporate & Investment Banking
713-499-8676
blake.kirshman@bbva.com
2200 Post Oak Blvd., 17th Fl.
Houston, TX 77056
Sectors: E&P, midstream

Benefit Street Partners (P)

John Horstman
Director
713-345-4605
j.horstman@benefitstreetpartners.com
1401 McKinney St., Ste. 1650
Houston, TX 77010
Preferred deal size: $30MM-$150MM
Sectors: E&P, midstream

Blackgold Capital Management (P, M)
Adam Flikerski
Managing Partner
832-706-4874
AFlikerski@BlackGoldCap.com
The Redstone Building
109 North Post Oak Ln, Ste. 500
Houston, Texas 77024
Preferred deal size: $50MM-$300MM
Sectors: E&P, OFS

The Blackstone Group (P)

Angelo Acconcia
Senior Managing Director, Private Equity
212-538-5211
acconcia@blackstone.com
345 Park Ave., 43rd Fl.
New York, NY 10154
Sectors: E&P

BlueRock Energy Partners (M, P)

Stuart Rexrode
Managing Partner
281-376-0111 x305
srexrode@bluerockep.com
945 Bunker Hill, Ste. 325
Houston, TX 77024
Preferred deal size: $5MM-$25MM
Sectors: E&P

Bluffview Energy Capital (P)

Jay Mitchell
Managing Director
972-757-6399
Jay.mitchell@bluffviewenergy.com
4925 Greenville Ave., Ste. 1102
Dallas, TX 75206
Preferred deal size: $1MM-$20MM
Sectors: E&P, midstream, OFS

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HOUSTON, TX 77002
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Blum & Co. Inc. (I)
Robert Larson
Executive Vice President
281-687-0571
rlarson@blumandco.com
Sectors: E&P, midstream, OFS

BMO Capital Markets (I)

Jon Marinelli
Managing Director, U.S. Energy Group
713-546-9733
Jon.marinelli@bmo.com
700 Louisiana St., Ste. 2100
Houston, TX 77002
Preferred deal size: $50MM+
Sectors: E&P, midstream, OFS

BOK Financial (C)
Coy Gallatin
Executive Vice President
Executive Director of Energy Financial Services
713-870-0426
tgallatin@bokf.com
5 Houston Center
1401 McKinney, Ste. 1000
Houston, TX 77010
Sectors: E&P

Bregal Energy (P)
Nathan Campbell
212-704-3000
nathan.campbell@bregalenergy.com
277 Park Avenue, 29th Fl.
New York, NY 10172
Sectors: E&P, midstream

Brycap Investments Inc. (P)
Harrison Holmes
Vice President
469-248-3089
hholmes@brycap.com
2602 McKinney Ave., Ste. 200
Dallas, TX 75205
Preferred deal size: $10MM-$100MM
Sectors: E&P, midstream

BSI Energy Partners (P)
Jeff Katersky
303-800-5087
jkatersky@bsienergypartners.com
1746-F S. Victoria Ave., Ste. 382
Ventura, CA 93003
Preferred deal size: $1MM-$10MM
Sectors: E&P

Cadence Bank (C)
Randy Petersen
Executive Vice President, Group Head
713-376-6929
Randy.petersen@cadencebank.com
2800 Post Oak Blvd., Ste. 3800
Houston, TX 77056

Cadent Energy Partners LLC (P)
Paul G. McDermott
Managing Partner
mcdermott@cadentenergy.com
713-651-9700
1801 Patterson St.
Houston, TX 77007
Preferred deal size: $25MM-$75MM
Sectors: OFS/OEM

Canaan Resource Partners (P)

Johnnie Penton
Managing Partner
405-604-9300
john@crpok.com
1101 N Broadway Ave., Ste. 300
Oklahoma City, OK 73103
Sectors: E&P

Capital One Securities (A, I)
Pierre E. Conner III, P.E.
Head of Research Sales & Trading
504-593-6108
pierre.conner@capitalone.com
909 Poydras St., Ste. 1000
New Orleans, LA 70112

Capital One Energy Banking (I, C, A)

Russell Johnson
Senior Managing Director & Head of Energy Banking
713-435-5342
Russ.johnson@capitalone.com
1000 Louisiana St., Ste. 2950
Houston, TX 77002
Sectors: E&P, midstream, downstream

Carnelian Energy Capital (I)
Tomas Ackerman
Partner
713-322-7310
tomas@carnelianec.com
2229 San Felipe, Ste. 1450
Houston, TX 77019
Preferred deal size: $75MM
Sectors: E&P

Cascadia Capital LLC (I)
Jamie Boyd
Managing Director
jboyd@cascadiacapital.com
206-436-2514
1000 2nd Ave., Ste. 1200
Seattle, WA 98104
Sectors: OFS, tech

Castlelake (P)
Luke Beltnick
Partner
612-851-3000
4600 Wells Fargo Center
90 South Seventh St.
Houston, TX 77019

Cathay Bank (C)

Dale Wilson
Senior Vice President
832-517-6151
Dale.wilson@cathaybank.com
9440 Bellaire Blvd., Ste. 118
Houston, TX 77036
Preferred deal size: up to $35MM
Sectors: E&P, midstream

CC Natural Resource Partners (A, I, P)
Michael L. Chiste
214-758-0300
mchiste@ccnrp.com
5944 Luther Ln., Ste. 603
Dallas, TX 75225
Sectors: E&P, OFS/OEM, midstream

Challenge Group International LLC (A, I)
Andrew J. Martin
Managing Partner
832-724-3149
ajm@challengegrp.com
1334 Brittmore Rd., Ste. 190
Houston, TX 77043
Preferred deal size: <$25MM
Sectors: E&P, OFS, midstream

Chambers Energy Capital (I)

Phillip Pace
Partner
713-554-6773
info@chambersenergy.com
600 Travis St., Ste. 4700
Houston, TX 77002

Chiron Financial LLC (I)

Scott Johnson
Managing Director
713-929-9081
sjohnson@
chironfinance.com
1301 McKinney St., Ste. 2800
Houston, TX 77010
Preferred deal size: $20MM-$500MM
Sectors: E&P, OFS, midstream, OEM

CIBC (A, I)
Jordan Horoschak
Managing Director–Energy
Investment Banking
713-452-1593
jordan.horoschak@cibc.com
1001 Fannin St., Ste. 4450
Houston, TX 77002
Sectors: E&P, OFS

Cibolo Energy Partners (P)

J.W. Sikora
Managing Partner
713-357-7570
jw@ciboloenergy.com
1455 W. Loop South,
Ste. 230
Houston, TX 77027
Sectors: E&P

CIT Energy Finance (C, I)
Mike Lorusso
Managing Director & Group Head
212-771-6002
Mike.Lorusso@cit.com
11 West 42nd St., 11th Floor
New York, NY 10036
Sectors: E&P

Citi (A, I, C)

Steve Trauber
Vice Chairman & Global
Head of Energy
713-821-4800
Stephen.trauber@citi.com
811 Main St., Ste. 3900
Houston, TX 77002
Sectors: E&P, OFS, downstream

Clearlake Capital Group LP (P)
José E. Feliciano
Co-Founder & Managing Partner
233 Wilshire Blvd., Suite 800
Santa Monica, CA 90401
310-400-8800
Sectors: OFS

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Comerica Inc. (C)
Mark Fuqua

Executive Vice President
214-462-4424
mfuqua@comerica.com
P.O. Box 650282
Dallas, TX 75265
Preferred deal size: $10MM+
Sectors: E&P, midstream

Community National Bank (C)
Stewart Beall
Executive Vice President & Chief Loan Officer
432-262-1600
sbeall@cnbtx.com
401 W. Texas Ave.
Midland, TX 79701
Sectors: E&P

Coral Reef Capital (P)
Marceau Schlumberger

Managing Partner
646-625-7758
investor.relations@
coralreefcapital.com
45 Rockefeller Plaza,
Ste. 2300
New York, NY 10111
Preferred deal size: $25MM-$75MM
Sectors: E&P, energy metals

COSCO Consulting LLC (A)
Cameron O. Smith

Manager
860-364-0069
cos@COSCO
ConsultingLLC.com
1 Great Elm Dr., Ste. 100
Sharon CT 06069
Preferred deal size: $40MM-$500MM
Sectors: E&P, midstream

Cottonwood Venture Partners (P)
Jeremy Arendt
Managing Partner
602-373-7477
4306 Yoakum Blvd., Ste. 300
Houston, TX 77006
Sectors: Tech

Cowen Securities LLC (I, P, M, A)
Matthew S. Rovelli
Managing Director & Head of Energy Investment Banking
281-657-6801
matthew.rovelli@cowen.com
600 Travis St., Ste. 1970
Houston, TX 77002
Sectors: E&P, OFS, downstream

Credit Suisse Securities (USA) (I)
Tim Perry

Global Co-Head of
Oil & Gas
713-890-1400
timothy.perry@
credit-suisse.com
700 Louisiana St.
Houston, TX 77002
Sectors: E&P, midstream, OFS, LNG

Cresta Energy Capital (P)
Chris Rozzell
Managing Partner
214-310-1087
8333 Douglas Ave.
Dallas, TX 75225
Sector: Midstream

Crestmark Bank (C)
Steve Hansen
Senior Vice President, West Division Sales Manager
713-868-1350
shansen@crestmark.com
5026 Inker St.
Houston, TX 77007
Sectors: OFS, E&P

Crestview Partners (P)
Adam Klein

Partner
212-906-0724
aklein@crestview.com
590 Madison Ave., 36th Fl.
New York, NY 10022
Sectors: E&P, OFS, renewables

CrossFirst Bank (C)
Henry Smith

Energy Banker
918-497-5225
Henry.smith@
crossfirstbank.com
7120 S. Lewis Ave.
Tulsa, OK 74136
Preferred deal size: $5MM-$35MM
Sectors: E&P

CSG Investments Inc. (C, M)
Hans Hubbard

Managing Director
713-353-4642
hhubbard@
csginvestments.com
1200 Smith St., Ste. 1600
Houston, TX 77005
Preferred deal size: $100MM-$600MM
Sectors: E&P, midstream, OFS

CSL Capital Management (P)
Charlie Leykum
Managing Partner
281-407-0686
charlie@cslenergy.com
700 Louisiana St., Ste. 2700
Houston, TX 77002
Preferred deal size: $10MM-$100MM
Sectors: OFS/OEM

Denham Capital Management (P)
Jordan Marye

Managing Partner
713-217-2700
Jordan.marye@
denhamcapital.com
700 Louisiana St.,
Ste. 3700
Houston, TX 77002
Preferred deal size: $50MM-$300MM
Sectors: E&P, midstream

Development Capital Resources (M, P)
Ronnie Scott
President & CEO
432-296-4693
rscott@dcrlp.com
712 Main St., Ste. 2000
Houston, TX 77002
Preferred deal size: $100MM-$800MM
Sectors: E&P

DNB Bank (C, I)
Kelton Glasscock
Head of Energy, North America
832-214-5812
Kelton.glasscock@dnb.no
Three Allen Center
333 Clay St., Ste. 3950
Houston, TX 77002

Donovan Ventures LLC (A, P)
John W. Donovan Jr.
Founder
713-812-9887
jwd@dv-llc.com
2121 Sage Rd., Ste. 225
Houston, TX 77056
Preferred deal size: PE <$10MM; Advisory $50MM-$500MM
Sectors: E&P

Drillcore Energy Partners LLC (P)

Evan Turner
Managing Partner
203-822-3024
Evan.turner@drillcorePartners.com
600 Madison Ave., 20th Fl.
New York, NY 10022
Preferred deal size: $25MM-$250MM+
Sectors: E&P, midstream, OFS/OEM

E

East West Bank (C, I)

Christina Kitchens
Managing Director of National Energy Finance
469-801-7367
christina.kitchens@eastwestbank.com
5001 Spring Valley Rd., Ste. 825W
Dallas, TX 75244
Preferred deal size: $5MM-$500MM
Sectors: E&P, midstream

Edge Natural Resources (P)
Roy Aneed
Partner
469-331-0123 x236
info@edgenr.com
5950 Berkshire Lane, Ste. 1000
Dallas, TX 75225
Preferred deal size: $25MM-$75MM
Sectors: E&P, OFS

EIG Global Energy Partners (M, P)

Richard Punches
Managing Director
713-615-7415
Richard.punches@eigpartners.com
333 Clay St., Ste. 3500
Houston, TX 77002
Preferred deal size: $100MM-$500MM
Sectors: E&P, midstream, power/renewables

EIV Capital LLC (P)
Greg Davis
713-401-9938
info@eivcapital.com
811 Louisiana St., Ste. 2540
Houston, TX 77002
Preferred deal size: $20MM-$100MM
Sectors: Midstream, downstream

EnCap Flatrock Midstream (P)

Bill Waldrip
Managing Partner & Founder
210-494-6777
bw@efmidstream.com
1826 North Loop 1604 W, Ste. 200
San Antonio, TX 78248
Sectors: Midstream

EnCap Investments LP (P)
Kyle Kafka
Partner
713-659-6100
kkafka@encapinvestments.com
1100 Louisiana St., Ste. 4900
Houston, TX 77002
Preferred deal size: $300MM-$500MM
Sectors: E&P, energy transition

The Energy & Minerals Group (P)
Alexandra Holzer
713-579-5029
aholzer@emgtx.com
2229 San Felipe St., Ste. 1300
Houston, TX 77019
Preferred deal size: $150MM-$1B
Sectors: E&P, midstream

Energy Capital Partners (P, M)
Trent Kososki
Partner
713-496-3107
tkososki@ecpartners.com
1000 Louisiana St., Ste. 5200
Houston, TX 77002
Preferred deal size: $25MM-$1B
Sectors: Midstream, OFS, downstream, power/renewables

Energy Capital Solutions LP (A, I)

Russell Weinberg
Managing Director
214-219-8201
rweinberg@nrgcap.com
2651 N. Harwood St., Ste. 410
Dallas, TX 75201
Preferred deal size: $20MM-$1B
Sectors: E&P, midstream, OFS

Energy Special Situations Fund (P)
Jonathan S. Linker
Founder
713-869-0077
jlinker@essfunds.com
1801 Patterson St.
Houston, TX 77007
Sectors: E&P

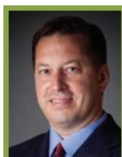
Energy Spectrum Capital (P)

James P. Benson
Managing Partner
241-987-6103
jim.benson@energyspectrum.com
5956 Sherry Lane, Ste. 900
Dallas, TX 75225
Preferred deal size: $25MM-$150MM
Sectors: Midstream

Energy Trust Partners (P)
John Clark
Managing Partner
214-987-6125
john.clark@energytrustpartners.com
5956 Sherry Lane, Ste. 900
Dallas, TX 75225
Preferred deal size: $20MM-$75MM
Sectors: E&P

Energy Value Fund LLC (P)

Bill Weidner
Principal
860-214-7813
bill@weidneradvisors.com
P.O. Box 1890
Kennebunkport, ME 04046
Preferred deal size: $1MM-$25MM
Sectors: E&P

Enstream Capital (A, I)

Daniel Mooney, CPA, CFA
Managing Director
214-468-0900
dmooney@
enstreamcapital.com
Preferred deal size: $20MM-$200MM
Sectors: E&P, midstream

Entoro Capital LLC (A, I)

James C. Row, CFA
Managing Partner
713-823-2900
jrow@entoro.com
4900 Woodway Dr.,
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Houston, TX 77056

Eschelon Advisors (A, P)

Thomas (Tom) Glanville
Managing Partner
713-201-7762
tsg@eschelonadvisors.com
2001 Kirby Dr., Ste. 1000
Houston, TX 77019
Preferred deal size: $20MM+
Sectors: E&P, midstream, OFS/OEM, tech, downstream

EV Private Equity (P)
Matt Anstead
Senior Partner
281-768-6722
ma@evde.com
10777 Westheimer, Ste. 1175
Houston, TX 77042
Sectors: OFS, tech

Evercore (I, P)

Curtis Flood
Managing Director
713-427-5706
Curtis.Flood@
Evercore.com
2 Houston Center,
Ste. 1800
909 Fannin St.
Houston, TX 77010
Preferred deal size: $50MM+
Sectors: E&P, midstream, OFS, downstream

Farlie Turner & Co. (I)
Erik Rudolph
Managing Director
954-358-3800
erudolph@farlieturner.com
401 E. Las Olas Blvd., Ste. 2360
Fort Lauderdale, FL 33301
Sectors: OFS, midstream, downstream

Fifth Third Bank (C)
Richard Butler
Corporate Banking Group Head–Energy, Power and Utilities
713-401-6101
Richard.Butler@53.com
1001 Fannin St., Ste. 4750
Houston, TX 77002
Preferred deal size: $10MM+
Sectors: E&P, midstream, downstream

First Infrastructure Capital Advisors LLC (P)
Gardner F. Boulmay III
Partner
713-337-7980
info@firstinfrastructurecapital.com
2800 Post Oak Blvd., Ste. 1950
Houston, TX 77056
Sectors: Midstream, downstream, power

First Tennessee Bank (C)

John Lane
Executive Vice President
832-839-5556
jblane@ftb.com
3009 Post Oak Blvd.,
Ste. 1210
Houston, TX 77056
Preferred deal size: $10MM-$75MM
Sectors: E&P, midstream

Five Point Capital Partners (P)
Matt Morrow
Managing Partner
713-351-0703
matt@fivepointcp.com
825 Town & Country Lane, Ste. 700
Houston, TX 77024
Sectors: Midstream

Five States Energy Co.

Gary L, Stone, P.E.
Executive Vice President of Engineering
214-560-2584
GStone@FiveStates.com
BizDev@FiveStates.com
4925 Greenville Ave., Ste. 1220
Dallas, TX 75206
Preferred deal size: $3MM-$50MM
Sectors: E&P, acquisitions, VPPs

Frost Bank (C)
Lane Dodds
Senior Vice President
713-388-7719
lane.dodds@frostbank.com
3707 Richmond Ave.
Houston, TX 77046
Preferred deal size: up to $100MM
Sectors: E&P, midstream, OFS, downstream

Fulcrum Energy Capital Funds (P)

Brad Morse
President
720-328-5070
brad@fulcrumef.com
410 17th St., Ste. 1110
Denver, CO 80202
Preferred deal size: $10MM-$100MM
Sectors: E&P

Galway Capital LP (I, A)
Hal Miller
Managing Director & Chairman
713-952-0186
hmiller@galwaygroup.com
3009 Post Oak Blvd., Ste. 950
Houston, TX 77056
Sectors: E&P, midstream, LNG

Glendale Energy Capital (P)
Brent Grundberg
Founder, Managing Partner
832-982-1100
bg@glendalecap.com
7670 Woodway Dr., Ste 357
Houston, TX 77063
Preferred deal size: $10MM-$200MM+
Sectors: E&P

GEC (P)
Jonathan B. Fairbanks
Managing Partner
713-993-7370
info@geclp.com
2415 W. Alabama St., Ste. 220
Houston, TX 77098
Preferred deal size: $10MM+
Sectors: OFS

Global Infrastructure Partners (P)
Jim Cleary
Managing Director
212-315-8100
Jim.cleary@global-infra.com
1345 Ave. of the Americas, 30th Fl.
New York, NY 10105
Sectors: Midstream, power

Golden Gate Capital (P)
Dave Thomas
Managing Director
415-983-2700
One Embarcadero Center, 39th Fl.
San Francisco, CA 94111
Sectors: OFS, tech

Goldman Sachs & Co (I, P)
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GSO Capital Partners (M, P)
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Houston, TX 77002

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Haddington Ventures LLC (P)
J. Chris Jones
Managing Director
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cjones@hvllc.com
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Preferred deal size: $20MM-$70MM
Sectors: Midstream

HBC Investments (P)
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kent@hbcinvestments.com
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Dallas, TX 75219
Preferred deal size: $10MM-$50MM
Sectors: E&P, midstream

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Sectors: E&P, midstream, downstream, renewables

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Sectors: Tech

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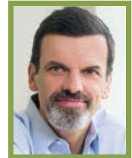
New York, NY 10022
Preferred deal size: $25-$100MM
Sectors: E&P, midstream, infrastructure, OFS

Intervale Capital (A, P)

Charles Cherington
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Sectors: OFS/OEM

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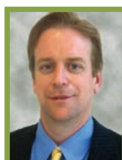
cyates@kaynecapital.com
811 Main St., 14th Floor
Houston, TX 77002
Preferred deal size: $50MM-$200MM
Sectors: E&P, midstream, OFS



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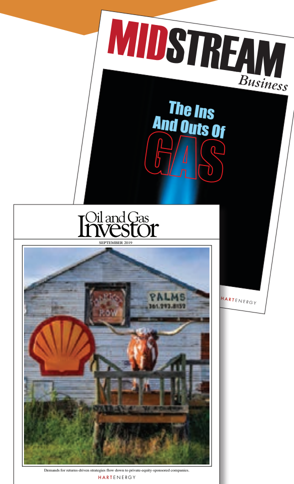

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Preferred deal size: $50MM-$250MM

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NGP Energy Capital Management (P)
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Sectors: E&P

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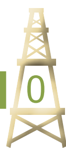

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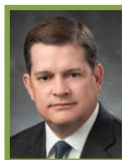
Preferred deal size: $25MM-$200MM
Sectors: Midstream, OFS, power

Outfitter Energy Capital (P)

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Sectors: E&P, midstream

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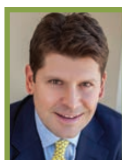
Houston, TX 77002

Pearl Energy Investments (P)

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Preferred deal size: $25MM-$100MM
Sectors: E&P, midstream, OFS

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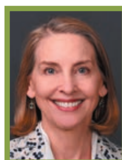
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214-353-3070
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Dallas, TX 75230
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Pelican Energy Partners (P)

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Sectors: E&P, OFS

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Sectors: E&P, midstream, OFS

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3333 Lee Parkway,
Ste. 750
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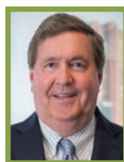
Preferred deal size: $25MM-$75MM
Sectors: E&P



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Sectors: E&P, OFS, midstream

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Sectors: E&P, midstream, OFS, power/renewables, ventures/early-stage

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1415 Louisiana St., Ste. 2400
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Sectors: E&P, OFS

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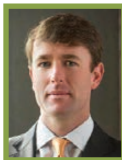
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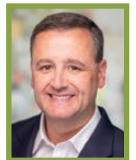
Sectors: E&P

Sand River Capital Advisors LLC (M, P, A)

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212-738-9519
jason.whitt@sandriver.com
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Preferred deal size: $10MM-$250MM
Sectors: Upstream, OFS

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Sectors: E&P

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Sectors: E&P, OFS

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Dallas, TX 75219
Preferred deal size: $2MM-$80MM

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Sectors: E&P

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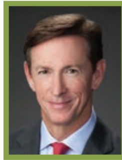
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Sectors: Upstream, midstream

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INVESTMENT BANKS

ABN AMRO Bank USA
Aegis Energy Advisors Corp.
Allegro Energy Capital Corp.
AltaCorp Capital
Amegy Bank of Texas
Auria Capital
Bank of America
Barclays
BB&T Capital Markets
BBVA Compass
Blum & Co. Inc.
BMO Capital Markets
Capital One Energy Banking
Capital One Securities
Carnelian Energy Capital
Cascadia Capital LLC
CC Natural Resource Partners
Challenge Group International LLC
Chambers Energy Capital
Chiron Financial LLC
CIBC
CIT Energy Finance
Citi
Cowen Securities LLC
Credit Suisse Securities (USA)
DNB Bank
East West Bank
Energy Capital Solutions LP
Enstream Capital
Entoro Capital LLC
Evercore
Farlie Turner & Co.
Galway Capital LP
Goldman Sachs & Co
Height Capital Markets LLC
Houlihan Lokey
Huntington Bank
Imperial Capital
ING Capital LLC
Intrepid Financial Partners
Janney Montgomery Scott LLC
Jefferies
Johnson Rice & Co.
J.P. Morgan
KeyBanc Capital Markets
Ladenburg Thalman & Co.
Lazard Ltd.
Macquarie Capital
Mitchell Energy Advisors LLC
Morgan Stanley
MUFG Union Bank
Natixis Corporate & Investment Bank
Northland Capital Markets
PJ Solomon
Parkman Whaling LLC
Peters & Co. Ltd.
Petrie Partners
Petro Capital Securities
PPHB
R.W. Baird
Raymond James
RBC Capital Markets
Roth Capital Partners
SCF Partners
Scotiabank
Seaport Global Securities LLC
Simmons Energy
Stephens Group LLC
Stephens Inc.
Stifel Nicolaus & Co.
Stifel GMP Toronto
SunTrust Robinson Humphrey
Texas Capital Bank
Tudor, Pickering, Holt & Co.
U.S. Capital Advisors LLC
UBS Investment Bank
Wells Fargo Securities LLC
Wilcox Investment Bankers

MEZZANINE

Amegy Bank of Texas
Angelo Gordon & Co.
Apollo Global Management Inc.
Barclays
Blackgold Capital Management
BlueRock Energy Partners
Cowen Securities LLC
CSG Investments Inc.
Development Capital Resources
EIG Global Energy Partners
Energy Capital Partners
GSO Capital Partners
HPS Investment Partners LLC
Jefferson Capital Partners
KP Energy Management
Macquarie Capital
PJ Solomon
R.W. Baird
SFC Energy Partners

PRIVATE EQUITY/DEBT

ACON Investments
Anvil Capital Partners
Alinda Capital Partners LLC
Allegro Energy Capital Corp.
Altira Group LLC
Angelo Gordon & Co.
Apollo Global Management LP
Ara Partners Group
ARC Financial Corp.
Arcadius Capital Partners
ArcLight Capital Partners
Ares Management LP
Barclays
Bayou City Capital Advisors
Bayou City Energy Management LLC
Benefit Street Partners
Blackgold Capital Management
BlueRock Energy Partners
Bluffview Energy Capital
Bregal Energy
Brycap Investments Inc.
BSI Energy Partners
Cadent Energy Partners LLC
Canaan Resource Partners
Castlelake
CC Natural Resource Partners
Cibolo Energy Partners
Clearlake Capital Group LP
Coral Reef Capital
Cottonwood Venture Partners
Cowen Securities LLC
Cresta Energy Capital
Crestview Partners
CSL Capital Management
Denham Capital Management
Development Capital Resources
Donovan Ventures LLC
Drillcore Energy Partners LLC
Edge Natural Resources
EIG Global Energy Partners
EIV Capital LLC
EnCap Flatrock Midstream
EnCap Investments LP
Energy Capital Partners
Energy Special Situations Fund
Energy Spectrum Capital
Energy Trust Partners
Energy Value Fund LLC
Eschelon Advisors
EV Private Equity
Evercore
First Infrastructure Capital Advisors LLC
Five Point Capital Partners
Five States Energy Capital
Glendale Energy Capital
GEC
Global Infrastructure Partners
Golden Gate Capital
Goldman Sachs & Co
GSO Capital Partners
Haddington Ventures LLC
HBC Investments
HPS Investment Partners
Hunt Energy Enterprises
Intervale Capital
Intrepid Financial Partners
IOG Capital LP
Jefferson Capital Partners
Juniper Capital
Kayne Anderson Energy Funds
Kelso & Company
KKR
KP Energy Management
Liberty Mutual
Lime Rock Partners
Madava Financial
Magnetar Capital
MC Credit Partners
MetalMark Capital
Morgan Stanley Energy Partners
Mountain Capital Management
MSD Partners
Munich RE Reserve Financing Inc.
NGP Energy Capital Management
NGP Energy Technology Partners
North Hudson Resource Partners
Oaktree Capital
OFS Energy Fund
Oilfield Funding LLC
Old Ironsides Energy
One Stone Partners LLC
OnyxPoint Global Management
Orion Energy Partners
Outfitter Energy Capital
PJ Solomon
Pearl Energy Investments
Pelican Energy Partners
Petro Capital Group
PetroCap LLC
Pine Brook Road Partners
PinHigh Capital Partners
Platte River Equity
Post Oak Energy Capital
Production Lending
Prospect Capital Corp.
Prudential Private Capital
Quantum Energy Partners
Quintana Energy Partners
Red Bird Capital
Rice Investment Group
Ridgemont Equity Partners
River Capital Partners
Riverstone Holdings LLC
Rivington Holdings LLC
Rock Hill Capital
Sage Road Capital
Sand River Capital Advisors LLC
Sole Source Capital
Sprott Global Resources Investment Ltd.
Stellus Capital Management
Stephens Group LLC
Stronghold Resource Partners
Silverstone Energy Partners LLC
Stifel Nicolaus & Co.
Stonepeak Infrastructure Partners
Tailwater Capital LLC
Talara Capital Management
The Blackstone Group
The Energy & Minerals Group
TPG Capital
Trilantic Capital Management LP
Värde Partners
Vier Energy Capital
Volant Energy Partners
Vortus Investment Advisors
Warburg Pincus LLC
Waterous Energy Fund
Waveland Capital Group LLC
White Deer Energy
Yorktown Partners LLC

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