

# Private Equity: Working hand in hand with oil and gas



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According to the International Energy Agency, over US\$38 trillion of global investment will be required to support energy resources, equipment and services and midstream/downstream activity in the next 20 years. It is, therefore, no surprise that Private Equity (PE) continues to be an important supporter of oil and gas industry participants. Upstream examples of PE-backed companies include those pioneering deepwater and offshore exploration and development, and onshore companies pushing forward the shale revolution. Also benefitting from PE collaboration are equipment and services companies needed across the hydrocarbon life-cycle, as well as midstream infrastructure providers to accommodate new production and enablers of the global transportation of LNG and crude oil supply. So, what is PE and its role within the oil and gas industry?

PE firms execute their business by raising and investing funds from a variety of sources including state and industry pensions, university endowments, sovereign wealth funds, and high net worth individuals. These funds seek longer term investments and range in size from a few hundred million to several billion US dollars.

## More than just capital

PE firms with extensive global networks and strategic industry experience can not only provide growth capital, but also acquire and build non-core subsidiaries,

fund joint ventures, make pre-IPO investments, and participate in taking private undervalued publicly-listed companies. Prior to investing, PE firms have macro-level considerations (sector trends and investment themes, geopolitical landscapes) and deal-specific deliberations (size of funding, business outlook, competition, strategy). At First Reserve, an essential element for our investment review is a strong management team, with commercial and technical qualifications and a proven track record. Through discipline and establishing necessary governance, we also insist on high levels of health, safety, environmental and ethical standards throughout our portfolio as early adopters of the United Nations' Principles for Responsible Investment.

With this model and focus, PE continues to be a strong global partner to the oil and gas industry throughout the energy value chain. Most PE firms contribute their expertise through active participation at the board level of companies within their portfolios. This is often further enhanced with board appointments of experienced industry professionals. To illustrate this concept in action, I turn to the following examples from First Reserve's portfolio.

In the upstream E&P sector, PE has helped discover and extract hydrocarbon value both on and offshore through the deployment of modern technology in the hands of world-class portfolio company teams.

- American Energy Utica is one of six onshore E&P companies in our portfolio mostly focused on the development of unconventional resources in the US. Formed in 2013 by Aubrey McClendon, former CEO and founder of Chesapeake Energy, with over 90 per cent support from First Reserve and the Energy & Minerals Group, the company has agreed to acquire acreage in the core Southern Utica totaling approximately 260,000 net acres, and is currently ramping up drilling.
- Offshore, Brazil-based Barra Energia (one of three portfolio companies committed to deepwater E&P) is led by João Carlos de Luca, formerly President of Repsol Brasil and E&P Director of Petrobras, and by Renato Bertani, former President of Petrobras Americas who currently serves as President of the World Petroleum Council. Founded as a start-up in 2010, Barra is a participant in the development of the Atlanta and Oliva fields and a partner in

### *Sevan Driller en route to drill for Barra Energia off Brazil*





Carcará, a significant pre-salt discovery which was the largest Brazilian offshore discovery in 2012.

- First Reserve also participated in the start-up of KrisEnergy, established in 2009 and led by the former founders of Pearl Energy. Headquartered in Singapore, the company has 18 contract areas totalling nearly 70,000 sq km in Southeast Asia including Bangladesh, Thailand, Indonesia, Cambodia and Vietnam. The portfolio balances cash flow-generating producing assets with growth potential development, appraisal and exploration assets. In 2012, KrisEnergy attracted Keppel as a shareholder to provide additional growth capital and ultimately became the largest E&P listing on the Singapore Exchange in 2013.

As the demand for oil and natural gas reaches unprecedented worldwide levels, the equipment and services that support the industry also hold opportunity for PE investors.

- Based in Houston, Texas, AFGlobal is a global manufacturer of products and services for the oil and gas and power generation markets. With 30 facilities in 5 countries, AFGlobal's products include assemblies used in frac spreads, drilling risers, production risers, blowout preventers and buoyancy modules. Since its PE acquisition in 2012, the company has already completed three follow-on acquisitions, broadening its geographical scope and product offering.

- Saxon Energy Services, taken private in 2008 by First Reserve and Schlumberger, is a provider of technically advanced international land drilling services. With the strategic and financial support of its investors, the company has multiplied its rig fleet by over ten times and expanded to over 3,600 employees on four continents.

- Dresser-Rand, the largest global supplier of rotating equipment solutions to the oil, gas, petrochemical and industrial process industries, originated as a PE-backed carve-out from Ingersoll Rand. A leader in its niche product markets, the company had competitive structural dynamics and a capable management team to take advantage of a perceived prolonged up-cycle in oil and gas capital spending. With standalone capabilities and accretive add-ons put in place, the company completed a successful IPO and, today, has a market cap of over US\$4 billion.

Further along the energy value chain, the shale revolution also heavily impacts the midstream and

downstream sectors where – again – PE has stepped in as a solutions-driven partner.

- Crestwood Midstream Partners focuses on the gathering, processing, storage and transportation of North American crude oil, natural gas and natural gas liquids (NGLs). In 2013, the company substantially expanded its midstream footprint through a merger with Inergy, creating a platform with a combined enterprise value of around US\$8 billion. The new Crestwood operates in nine premier shale plays in the US.

- Downstream from Crestwood, favourable NGLs feedstock pricing also created an opportunity for TPC Group, a leading producer of products derived from niche petroleum raw materials. After being taken private by PE in 2012, the company has received the capital support necessary to re-start an idled dehydrogenation unit to process NGLs and export product under long-term contracts. In addition, TPC is driving additional volumes and margin growth, remaining well-positioned to benefit from macro oil and gas industry trends.

- Connecting the global supply with advancing demand, First Reserve partnered in 2008 with industry-leader Vopak to acquire the Bahamas Oil Refining Company International, a liquids storage terminal facility in the Caribbean with the ability to store, blend and transship fuel oil, crude oil and various clean products. Under this ownership, the asset was significantly refurbished, expanded to 21.6 million barrels of storage capacity, and transformed into a key logistics commercial hub for the global petroleum industry.

### Ongoing opportunity

As the industry continues to expand – from upstream technology developments and the continued shale revolution, to significant offshore exploration success and advancements in hydrocarbon discovery and recovery in countries around the world – PE will be a valued strategic ally to the oil and gas industry. Working in unison with company management, PE has created global job opportunities, contributed to the modernisation and commercialisation of developing economies, and connected distant sources of oil and gas supply with emerging centres of demand. PE is not just an industry investor, but continues to be a contributive partner in the building of sustainable companies in many sectors of the worldwide oil and gas industry. ■