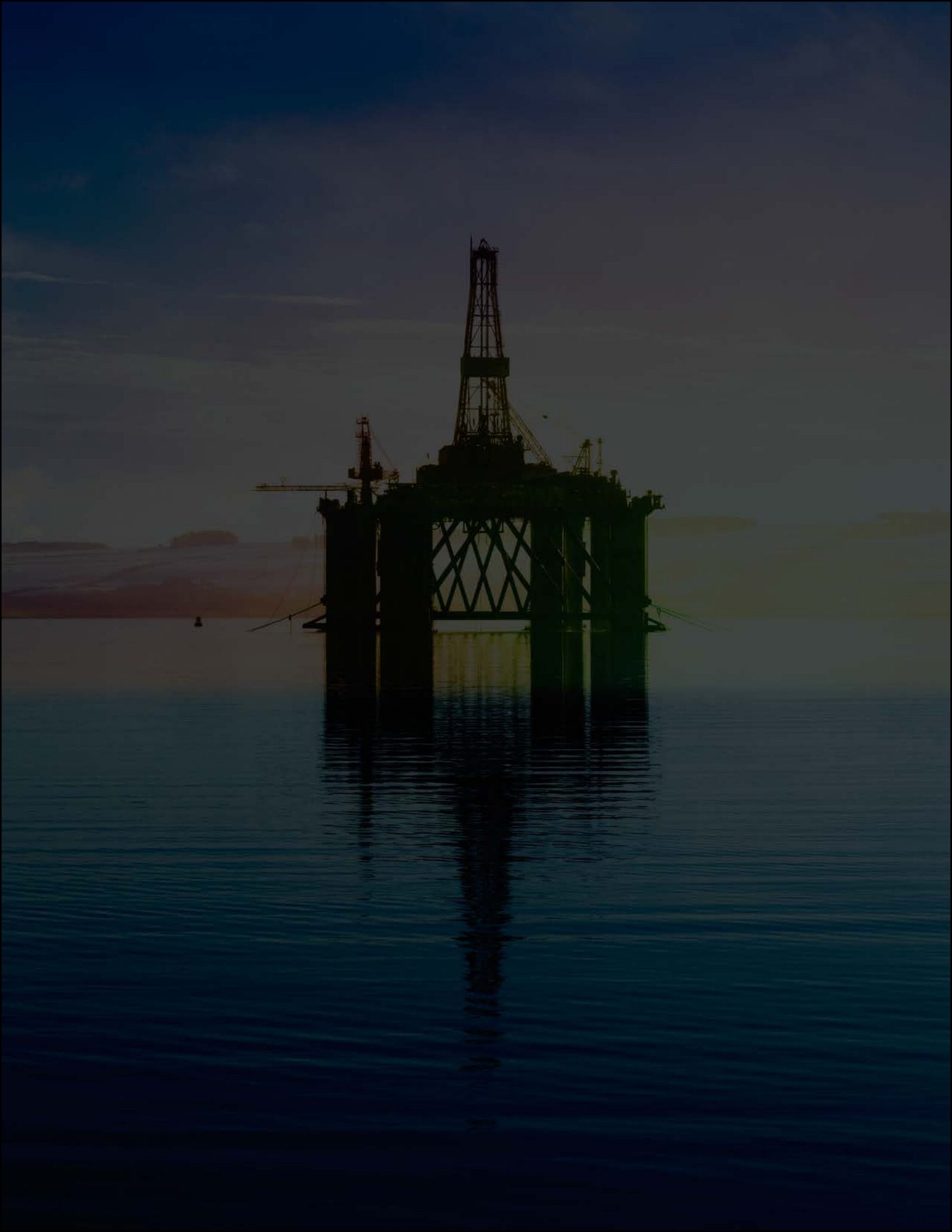


# Private Equity: Not Afraid of Low Oil

*Veteran energy investors share their perspectives on creating value amid commodity price volatility*





**Andrea Heisinger**  
Editor  
Privcap Media



## *Waiting on a Recovery*

---

Following the oil price swan dive that occurred at the tail end of 2014, some private equity players that focus on the energy sector predicted that oil prices could start to recover by the middle of 2015—not to the highs of \$100 per barrel, but to better than the lows of \$40 or \$50. That recovery hasn't happened, but as you'll see in this report, it's not all doom and gloom for PE oil and gas investors.

As our partners at EY have observed, as oil prices tumbled, major oil players carefully managed costs and reviewed their growth strategy, and they are now ready to transact as the new normal for oil prices settles in, allowing plenty of assets to be available to PE firms—but the asset class needs to determine which asset is the right choice for the new oil era in terms of growth potential.

This report brings you market analysis directly from private equity investors active in oil and gas as well as from professionals who serve that market. You'll find out where three firms that closed funds in the midst of the price drop see investment opportunities for their dry powder, and why an energy fund placement expert isn't panicking that investor capital will dry up. You'll also hear from two oil and gas transaction experts who say low oil prices have inspired creativity, and who describe what tactics can provide an advantage in a challenging price environment.

I hope you enjoy the report, and that you will join us at Privcap Media's Energy Game Change conference on December 10 in Houston, where you can find out how the year has played out.

A handwritten signature in black ink, appearing to read 'Andrea Heisinger'.

Andrea Heisinger

## Privcap Media

### **David Snow**

Co-founder and CEO

### **Gill Torren**

Co-founder and President

## Marketing & Sales

### **Matthew Malone**

Senior VP, Marketing & Digital Strategy

### **Neil Golub**

Director of Business Development

### **Doug Weber**

Sponsored Content

## Content

### **Mike Straka**

Editorial Director

### **Andrea Heisinger**

Editor

### **Zoe Hughes**

Editor, PrivcapRE

### **Rachel Lapidos**

Editorial Assistant

## Design & Production

### **Gerson Lopez**

Production & Design Coordinator

### **Nathan Pardee**

Video Production Manager

### **Karolina Tarczynska**

Media & Marketing Coordinator

## Contacts

### **Editorial**

David Snow / dsnow@privcap.com

Mike Straka / mstraka@privcap.com

Zoe Hughes / zhughes@privcap.com

Andrea Heisinger / aheisinger@privcap.com

Rachel Lapidos / rlapidos@privcap.com

### **Sponsorships & Sales**

Gill Torren / gtorren@privcap.com

Neil Golub / ngolub@privcap.com

Doug Weber / dweber@privcap.com

For subscriptions, please call 855-PRIVCAP  
or email [subscribe@privcap.com](mailto:subscribe@privcap.com)

## About Privcap Media

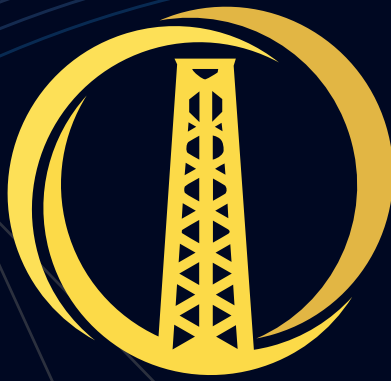
Privcap is a digital media company that produces events and thought-leadership content for the global private capital markets. Privcap Media offers communications services to market participants. | [www.privcap.com](http://www.privcap.com)

# Inside

- 06 NGP Armed With Stock of Dry Powder**  
Three executives from the energy-focused PE firm discuss oil price fluctuations and putting the \$5.3B of capital from a recent fundraise to work in a volatile market.
- 08 Inside Energy Investing**  
Energy Capital Partners' Doug Kimmelman talks about the economics of oil and gas, managing environmental concerns, and investing in energy during the current cycle.
- 09 Staying Calm Amid Oil Price Volatility**  
Capital is still needed to sustain the energy market, and private equity need not fear, says Jeff Eaton of Eaton Partners.
- 10 Five Point Times Close of Midstream Fund Perfectly**  
Closing a midstream fund at the end of 2014 may have dismayed some energy-focused shops. But Five Point Capital's co-founders say opportunities exist.
- 11 Data: The Ups and Downs of PE Energy**  
A rundown of PE energy fundraising—both in the U.S. and globally—in the past five years.
- 12 PE's New Oil Price Reality**  
An interview with EY oil and gas transaction experts Andy Brogan and Deborah Byers about what's ahead for private equity in the energy market—in the U.S. and outside its borders.
- 15 PetroCap Raises Second Fund in Changed Market**  
Managing director Alec Neville discusses why the firm focuses on the smaller end of the E&P segment, and raises a concern he has with the current market for energy investments.



Privcap **Media**



# ENERGY

## GAME CHANGE



DECEMBER 10

2015

HOUSTON, TEXAS

The premier event  
for private equity  
energy investors



**Doug Kimmelman**  
Senior Partner,  
Energy Capital Partners



**Michael McMahon**  
Managing Director,  
Pine Brook



**Vaughn Brock**  
Director of Special Projects,  
The Teacher Retirement  
System of Texas



**Marc Cardillo**  
Managing Director,  
Cambridge Associates

[www.energygamechange.com](http://www.energygamechange.com)

### SPONSORS

Lead Underwriter:



Presenting Partners:

**PINE BROOK**

**KEROGEN**  
Capital

 **McGladrey**

Vinson&Elkins

**EATON**  
PARTNERS



# NGP

## Armed With Dry Powder, Eyes Energy Market

*Oil prices are low, and that has varying effects on the energy sector. Three executives from NGP—a firm that just raised a \$5.3B fund—discuss how they are maintaining low operating costs, taking advantage of quick access to the market, and looking to deploy that capital amid the falling price of the commodity.*

**Privcap:** Your firm just raised a \$5.3B fund. That's a lot of dry powder. You invest in the energy sector, which has been in the headlines lately because the price of oil has fallen dramatically. What does that mean for you and your firm as investors?

**Craig Glick, NGP Energy Capital Management:** At this time in the life cycle of Natural Gas Partners [NGP], we actually think it's good. Over the last two years, we've distributed about \$5.5B to our limited partners. We were able to close our most recent fund on January 15, so we now have \$5.3B in dry powder to invest in the energy sector. And we've been able to prove over time that our returns are relatively uncorrelated to commodity prices, but if we had to invest in a high-price environment or a low-price environment, I'd prefer to invest in a low-price environment.

**What kinds of situations or sellers would be more likely to sell as a result of lower oil prices? What would that mean for buyers such as NGP?**

**Tony Weber, NGP Energy Capital Management:** The easiest thing—but not necessarily the most common these days—is distress. If you have a company that didn't hedge well or somebody that was overlevered, they may find themselves in a pinch because they don't have as much free cash flow. They get into a shrinking situation, then they run into financial covenants, and the banks are saying, "We really need to sell some assets." [This is] a good opportunity for a firm like ours.

That type of transaction is more likely to occur in an environment like this. Other people make strategic decisions. That creates an opportunity for us to go in with one of our teams and acquire a big, blocky piece of production and make a good investment, particularly if we can do so underwriting it at lower oil or gas prices.

**I'd love to get your thoughts about what will happen to oil prices. Do you see this as being an artificially low environment that will swing back to another level, or is this a new paradigm?**

**Christopher Ray, NGP Energy Capital Management:** There's no doubt that long term, the industry needs higher prices to bring volume online to replace not only declines but production growth to meet world oil demand. If the demand hangs in and supply continues to decrease because rigs are lying down, at some point that will be self-correcting. The industry is pretty resilient—even though prices are down, its costs also go down, so margins

“The industry is pretty resilient—even though prices are down, its costs also go down, so margins are not as compressed as you might think.”

—Christopher Ray, NGP



are not as compressed as you might think. So it could be 12 to 24 months before something meaningful happens.

**There are different kinds of commodities within energy. What is important for investors to understand about the different pricing dynamics, where some types of players are really getting hurt and other types not so badly?**

**Glick:** Products get different prices, depending on where they are and what kind of access they have to pipelines or infrastructure—basically, how quickly they can get to market.

You're also asking about operating expenses. Not every barrel has the same operating expense attached to it. Companies that were getting \$100 a barrel—not all of them were making \$1 profit off of X. So today, as prices have come down, you have some companies producing in certain areas that aren't making any money. And some have operating expenses higher than revenue associated with the barrel.

**Weber:** It also creates opportunities for investment within our firm, because there are portfolio companies that we back that build pipelines and extract those liquids and impurities out of those lines. If you have a producer that can and is willing to drill wells in this price regime, those volumes need to be dealt with.

**Glick:** One thing that helps differentiate NGP from other private equity firms is we're really focused on core assets with low operating costs that can survive downturns. We look at downside cases, and we think about [whether] this is the kind of asset that has a long reserve life and low operating costs.

**Ray:** But until we start exporting crude, it really is a U.S. market for our crude oil. It's mostly liquid fuel for transportation, and substitutes for it are not at a point where there really are inter-product dynamics. It's not so much a demand story as it is a supply story. And that would mean if you can buy it right and operate it cheaply, then you can still make good returns.

**You mentioned the drop in oil prices that was happening right around the time you were wrapping up the [\$5.3B] fund. Did you get some nervousness or skittishness from LPs?**

**Weber:** We don't worry about commodity prices like a lot of people would expect us to. We hedge as much of that risk away as we can through our portfolio companies, hedging their production and drilling plans going forward. No LPs backed out.

**Glick:** And we have 26 years [of experience] now—we've done the work to show that there is no correlation with regard to oil prices or gas prices and our returns.

**Weber:** That makes sense if we're between the LP's capital and the actual investment. We should be adding value beyond just giving them naked exposure to the commodity that they can get directly, without paying us a fee and a carry.

This is not easy. We back management teams who take our collective capital with our partners and go build businesses with it. So they make acquisitions, they drill wells, they replumb fields, they do hard work in the field—real old-economy stuff—to get more barrels and more volume of gas and liquids. At the end of the day, we'd rather have another barrel than another dollar per barrel, and the effect of that on our returns can be pretty powerful. ■





# Inside Energy Investing

*In a wide-ranging interview, Energy Capital Partners' Doug Kimmelman discusses the economics of oil and gas, managing environmental concerns, and investing in the energy sector in today's cycle*



**Privcap: The most talked about aspect in the energy market today is the swoon in oil prices. How has that affected the business, and what does it mean for private equity?**

**Doug Kimmelman, ECP:** It's been quite a roller coaster over the last nine months or so in terms of prices. And in terms of the M&A market and finding new investments, there's quite a dichotomy of views, and therefore, quite a wide gap between buyer and seller expectations.

But we've really had a technological revolution in this country in the world of hydraulic fracturing as well as horizontal drilling. And what that's meant is an enormous expansion in supply in hydrocarbons here in the U.S. in oil, natural gas, and liquids. At the same time that we had this unexpected boom in production, we really had a softening global economy. There's been a lot of conservation working

into the mix, and more efficient fuel standards. And then on top of that, we're used to Saudi Arabia being the one to say, "We'll cut production to keep prices high." And this time they said, "No, we want to play more of a market share game—and all you new independent E&P frackers making all this money, it's your turn to be the ones to cut back production."

**A lot of investors are enthusiastic about a distressed opportunity in energy. Do you think there's possibly too much enthusiasm for the actual opportunity?**

**Kimmelman:** Yeah, I do. When we think of distressed, we think of overlevered companies, potential bankruptcies, or potential defaults. There's an enormous amount of debt [that was] raised in the energy sector over the last few years.

Some folks have said maybe as much as 20 percent of the high-yield

market was energy-based lending. But if you get a little granular on that debt, you see very few maturities coming due this year or in 2016. And you dig a little deeper in terms of the covenants of that debt [and it's] incredibly covenant-light. They were raising money in the time of very easy credit and easy covenants. There's no debt test, interest-coverage test; no one's really going into default—maybe a little bit around the margin here and there.

So for the most part, those highly levered energy players have a good 18 months to wait. And they're doing everything possible to cut capital expenditures, stretch out the time before they get to these debt maturities, hoping that oil prices rebound. If we go 18 months from now, if oil prices are still languishing perhaps in the \$50-to-\$60-per-barrel range, then maybe we'll start seeing some distress. But that's probably a little premature right now to see that coming to a head. ■





# Staying Calm Amid Oil Price Volatility

— *Jeff Eaton of Eaton Partners says capital is still needed to sustain the energy market, and private equity need not fear*

Consumers viewed the plunging oil prices of recent weeks as good news, cheered by the prospect of paying less to fill their vehicle's gas tank. However, some private equity investors in the oil and gas sector reacted with a different emotion: panic.

Jeff Eaton, a partner at placement agent Eaton Partners, did not panic and is urging other investors, both GPs and LPs, not to. He remains bullish on fundraising, despite the volatility of commodity prices.

"Allocations to the asset class have been increasing for several years," he says. "I don't see that trend changing. More experienced energy-investing LPs have increased their allocations to the space, while other LPs are just establishing allocations. The LPs are playing catch-up and need to put a substantial amount of capital to work."

The panic about oil prices began in September and October of 2014, when the price per barrel of the Louisiana Light Sweet blend of oil fell below the price of Brent crude oil by an increasingly wide margin. Because of the uptick in oil production in the U.S., there is a glut of oil flowing into Gulf Coast refineries, driving prices down.

"It's the most profound move down in prices for several years," Eaton says. "Obviously energy is a cyclical business. Investors learn to embrace the cycle. You have to be in it for the long run."

Eaton Partners closed three energy funds in 2014 on behalf of GP clients, with a fourth on track to close later in the year. Despite the strong energy fundraising market, Eaton says that "it's still not easy" and that the majority who try to raise money in the sector fail.

Although the volatility "has likely given some investors pause," with the possibility of fundraising slowing down a bit, Eaton also says that the situation creates opportunities. Private equity investors shouldn't be scared by the price volatility, because the amount of capital needed to sustain current levels of investment, on top of additional growth, is "significant," he says. "If the public capital markets or large integrated oil companies pull back as a result of the volatility, that just increases the need for private investment."

"A number of GPs have also done a good job exiting in the last couple of months, and a lot of this money has already been distributed," Eaton says. "Distributions lead to LPs having capital to reinvest back into the sector."

Other side effects of oil's price volatility include a change in the exit environment for upstream investments, he says. He predicted that if the volatility continued, the pricing of some deals could carry into 2015, and there also might be an impact on the timing of some general partners' fundraising, including potentially delaying the launch of a fund by a quarter or two.

But is energy fundraising in doubt? Eaton says no.

"People were getting nervous, and the price volatility happened pretty quickly, but prices have largely stabilized in a range at which activity levels should remain high," he says. "A lot of people feel like, if anything, there was a correction" and companies are still profitable. One impact could be that firms decide to delay exiting portfolio companies. As buyers look to pay a lower price amid the fear and volatility in the market, the sellers may think they should wait.

"I don't think it derailed anything," Eaton says of the situation. "I wouldn't say LPs are sitting here looking at next year, saying 'We're doomed.' I just think it might delay things a little bit."

The volatility may also have an upside: raising the potential for mergers and acquisitions of distressed or stressed companies, or entering the sector at lower valuations. "It whets the appetite for people who have cash on the sidelines to put to work," he says. ■

# Five Point's Perfectly Timed Fund Close

*Closing a midstream-focused fund at the end of 2014 may have dismayed some energy-focused shops. But the co-founders of Five Point Capital say opportunities abound.*

## The co-founders of Five Point Capital

Partners found themselves closing a fund focused on an energy sector impacted by a precipitous drop in oil prices—midstream—just before the volatility hit fast and furious at the end of 2014.

The \$450M Five Point Capital Midstream Fund I and II LP will invest in midstream energy infrastructure and was oversubscribed from the \$400M target, with a final close in December 2014. The firm's founders and managing partners, David Capobianco and Matt Morrow, say the motivation to come together in 2012 to raise a midstream-focused fund was, in part, to leverage their experience in the midstream sector, but also to address an acute need for differentiated capital in the midstream market.

"We found that in transactions broadly, [for those under] \$50M, there were few competitors," says Capobianco. "The 10-year bull run in commodities pushed funds up to larger and larger sizes. Smaller deals take expertise in operating assets."

This is where his and Morrow's midstream operating expertise is key.

"We designed our fund like an MLP management team," Morrow says, referring to a master limited partnership, "capitalizing on 25-plus years in the midstream sector running businesses and managing investments as CEOs and chairmen of our companies."

There is an intense need for capital to

build out the infrastructure to transport all of the new hydrocarbons coming out of the ground; and therefore, Capobianco says, he believes it's "a terrific time" to have dry powder to invest in that sector. There's an opportunity to participate in the long-term buildout of the North American midstream infrastructure.

As for the current market for midstream deals, Capobianco says the opportunity will come as upstream sells off infrastructure assets. "We now anticipate that two-thirds of our strategy will be based on acquisitions, the inverse of where that would have been one year ago," he says. "That's flip-flopped."

"We're at a time where, if you're prudent and you structure properly, there's an extraordinary upside with downside protection."

Five Point's focus areas include the first 25 miles of oil and gas infrastructure, gas and liquids storage, and water and sand management. Great quantities of sand and water are being used in drilling horizontal wells. The sand and water need to be sourced and transported to the drilling site, then the flowback or produced water needs to be filtered and treated for reuse or disposal. This is an important part of the energy production process that hasn't been completely solved.

"If it's early[-stage] and you understand it and you solve an upstream driller's challenges, there are terrific returns to be achieved," says Capobianco.

Five Point has two existing portfolio companies, Redwood Midstream Partners and Twin Eagle Resource Management. Morrow says that he's been fielding questions from people about the outlook for "a fund that just got raised in a crisis."

"From our perspective, we're really excited," Morrow adds. "We have the ability to invest in midstream assets and connect someone with a product to the people who need it. Wells will continue to be drilled at a robust rate, despite a dramatic reduction from last year." ■

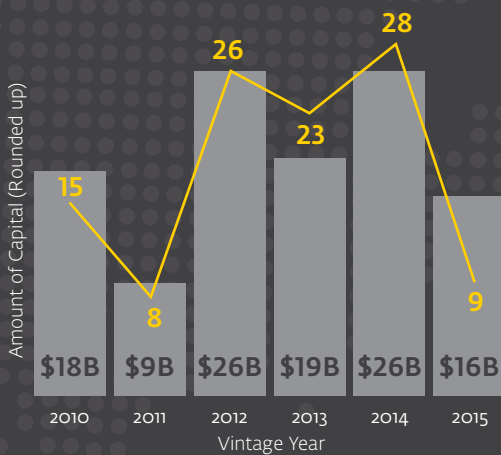


**David Capobianco**  
Five Point Capital Partners



**Matt Morrow**  
Five Point Capital Partners

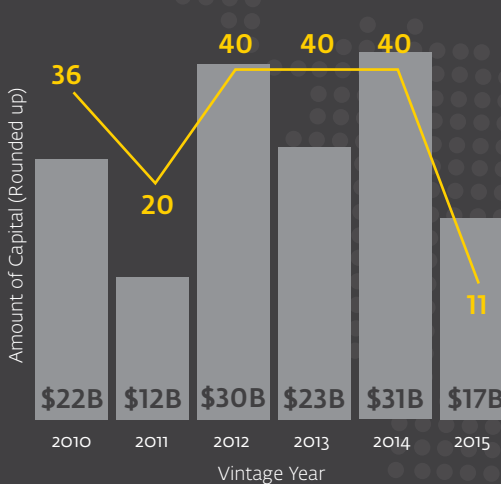
# The Ups and Downs of PE Energy



## U.S. Energy Fundraising by Vintage Year

The amount of funds closed by PE firms hit a rough patch in 2011, only to rebound nicely in 2012 and again in 2014. Despite low oil prices, 2015 is on track for a decent showing of capital raised, if not deals closed.

**KEY**  
 ■ Capital Raised (\$B)  
 — Fund Count  
 Data through June 25, 2015



## Global Energy Fundraising by Vintage Year

As it did in the U.S., global PE fundraising in the energy sector dropped in 2011. Then came a rebound, and so far 2015 is shaping up to beat 2011 in the amount of capital raised, but perhaps not in number of deals closed.

Energy fundraising by PE firms in the past five years has mostly followed the same patterns, whether in the U.S. or globally: a drop in capital raised in 2011, followed by a roller coaster from 2012 to 2015. While it's clear that 2015 likely isn't going to break any records for the number of funds closed, there is still capital being raised and deals being done.

## Top 10 U.S. Energy Funds

A rundown of the largest funds closed by U.S.-based PE firms from Jan. 1, 2014, to June 25, 2015

Fund Type	Fund Name	Fund Dates Opening-Closing	Fund Size (\$M)
✳	EnCap Energy Capital Fund X	NA – 4/8/15	\$6.5 M
▲	NGP Natural Resources XI	2/1/14 – 1/15/15	\$5.32 M
✳	Energy Capital Partners III	7/1/13 – 4/8/14	\$5.05 M
▲	Blackstone Energy Partners II	1/1/14 – 1/26/15	\$4.5 M
▲	First Reserve Fund XIII	1/1/12 – 9/29/14	\$3.5 M
▲	EnCap Flatrock Midstream Fund III	2/3/14 – 5/15/14	\$3.0 M
✳	First Reserve Energy Infrastructure Fund II	4/25/13 – 6/16/14	\$2.5 M
▲	Carlyle International Energy Partners	9/18/13 – 2/12/15	\$2.5 M
▲	KKR Energy Income & Growth Fund I	NA – 3/5/14	\$1.97 M
▲	Old Ironsides Energy II	9/30/14 – 4/23/15	\$1.36 M


**KEY**  
 ✳ Infrastructure  
 ▲ Energy Oil & Gas

PE's New  
*Oil Price*  
Reality



▼  
For more  
from EY, visit  
[ey.com/oilandgas](http://ey.com/oilandgas)





*The latest cycle of low oil and gas prices is on everyone's mind, and private equity players are planning their next moves. Privcap asked EY oil and gas transaction professionals Andy Brogan and Deborah Byers about what's ahead—both in the U.S. and outside its borders—and what tactics can come in handy in such a price environment.*

---



**Andy Brogan**  
EY



**Deborah Byers**  
EY

**Privcap: Andy, how are oil and gas transactions outside the U.S. being impacted by price volatility?**

**Andy Brogan, EY:** Initially, many transactions moved into a holding pattern. In the first quarter of the year, we saw very little activity. What we saw, unsurprisingly, was most companies going through a period of introspection, reviewing their portfolios and analyzing what they want to do going forward. Companies and investors only really began developing new, stable strategies around the end of the first quarter.

Combined with the uncertainty around the trajectory of oil prices and gas prices, it's been very difficult for buyers and sellers to agree on a deal value, which is also one of the reasons why more upstream transactions haven't occurred, which has really held back the M&A market. How-

ever, in May and June of this year, there's been a progressive increase in the amount of activity. Now we are actually seeing huge volumes of deals coming to market, even though they are not yet closing.

If we continue as we are, you'll begin to see the next wave of transactions happen as everybody begins to realign their portfolio, coupled with new providers of capital coming in.

**Deborah, what are you seeing in reaction to price volatility?**

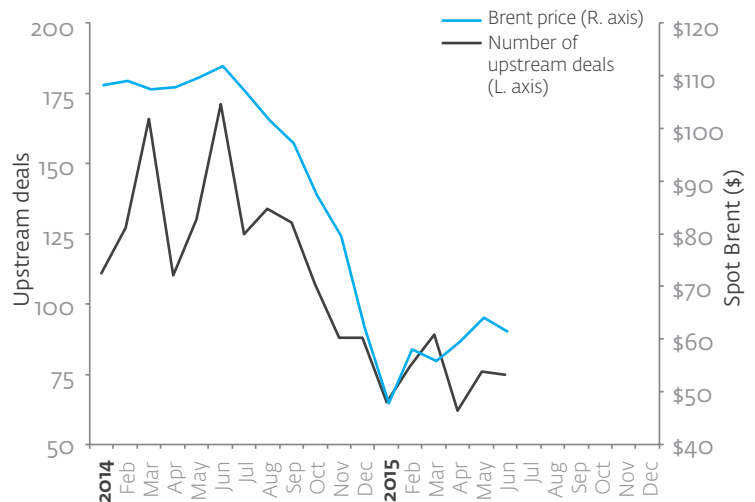
**Deborah Byers, EY:** There's the realization that prices may not come back. We're looking at a different price level and more risk. It's impacting PE analysis—should they sell? should they go out right now?—and there's a lot of capital sitting on the side. There's also a question of how you value these assets in a new price environment.

If you look at the impact on the services side, they're operating at lower margins and have done big layoffs. But is that sustainable? There's a lot of uncertainty, but people are coming to terms that \$65 to \$85 is more the price range [for oil] that we're looking at, and there's potential for a lot of volatility around that.

A lot of PE dollars are invested through portfolio companies, and they have done the things any independent would do: lay back project capital, not complete wells, not drill.

### Oil Price Impact on Upstream Deals

*As the price of Brent Crude dropped precipitously in the middle of 2014, so did PE transactions in the upstream sector. But while Brent prices are slowly climbing, deal volume has been minimal.*



### Are there ways that PE can take advantage of the current price volatility?

**Brogan:** Many of the competing buyers who would have driven asset prices up are out of the market for one reason or another. So this is private equity's cyclical chance to buy. That's not saying it's easy, but it does mean there's an opportunity. A lot of the competing buyers—for example, national oil companies—have either stopped acquiring as they integrate things they have already acquired during the last 10 years, or are revisiting their own strategy.

A lot of the middle-market E&P companies are struggling to raise financing to grow on acceptable terms. So if you are a buyer with financing, then now is the time when you are going to have a competitive advantage. However, in the current environment, in addition to having the capital to acquire assets, it is essential that those doing the acquiring also have a robust operational angle.

**Byers:** If they have capital sitting on the sidelines, one thing [PE firms] could do is look for more creative structured ways to put capital to work.

Also, a lot of services companies are really distressed; they're good

companies with good management teams that could benefit from some discipline. These services companies have to hang in there with low margins until 2017, 2018. A lot of them aren't going to make it. This is a chance for PE to look at smaller, well-run companies with a smaller investment at low valuations, and as [the industry] comes back in a couple of years, they'll be able to refinance and relevel and grow the company. These are companies that have a service that will be needed.

### How can PE continue to generate value amid the low oil prices?

**Brogan:** There are a number of things that private equity can do. Firstly, focus on the business model of what you're buying into. Are they assets that are in the right place on the cost curve? Are you building a genuinely differentiated technology capability or know-how that enables you to operate assets more effectively, more

efficiently, than anyone else?

Traditionally, with a few exceptions, private equity has tended to focus either on late-stage development or production. In the current environment, where prices are probably not going to be coming back to higher levels for two or three years, the way to make money is to build options to be producing when the prices come back up.

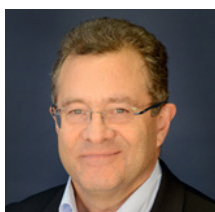
**Byers:** You could see some larger consolidations, and it's a patience game for PE to wait that out and pick up strong management teams, pick up an addition to a platform they already have. You have to be on the lookout for when somebody buys somebody else and quality people become available. You have to be networking like crazy right now. Corporates need to decide what to do with each other in advance of M&A, which is going to happen. PE could be well positioned to pick up some of these assets. ■

# PetroCap Raises Second Fund in Changed Market

*The firm raised the capital for its second energy fund in a very different environment from its first. Managing director Alec Neville discusses why the firm focuses on the smaller end of the E&P segment, and highlights one concern he has with the current market for investments in energy.*

■ **“It’s not our first rodeo. We lived through the ’86 price collapse and don’t think we’re living through another 1986.”**

—Alec Neville,  
PetroCap  
Partners



One of the most notable things about PetroCap Partners’ second fundraise wasn’t that the targeted amount was double that of its first, but the environment of the market in which the capital was raised.

The fundraising market was very different with PetroCap Partners II, which had its final close in January after hitting its hard cap at \$350M. PetroCap’s first fund, Falcon E&P Opportunities Fund, LP, was in the market in 2009 to 2010, in the depths of the financial crisis and recession. “It was a much different fundraising environment,” PetroCap’s managing director, Alec Neville, says of that first fundraise, which closed at \$163M in 2011. “Endowments and a whole segment of the LP base weren’t really investing.”

The latest fund from the Dallas-based firm will invest in onshore basins, with a target of \$20M to \$70M per project. The firm is looking to partner with operating teams to develop projects in the U.S. exploration and production market.

PetroCap Partners II is targeting between eight and 12 investments, each in the range of \$30M to \$50M. “There aren’t that many capital providers focusing on the smaller end of the market,” Neville says. “But it’s the end of the market we’ve always been in—small E&P land.”

Fund II is a mirror image of Fund I as far as how the capital will be invested. And there are investment opportunities to be had in the smaller end of the E&P market that the firm plays in. “The pipeline is probably fuller than it’s ever been,” Neville says.

After oil prices dropped, some had the view that a V-shaped recovery would take place, which then permeated deal terms with sellers asking for prices that didn’t fit into PetroCap’s arena. However, in the past month Neville says he’s gotten the sense that the view is changing, and it presents some opportunities as those with liquidity or balance sheet problems can sell non-core assets. “Sellers with debt issues will sell at today’s price; they don’t like the price, but it’s better than foreclosure,” he adds.

The average age of the investment committee at PetroCap means that they’ve previously been through cycles similar to the current one. “It’s not our first rodeo,” Neville says. “We lived through the ’86 price collapse and don’t think we’re living through another 1986.”

One element of the current PE market for energy gives Neville and his colleagues pause: the enormous amount of dry powder out there. There is more than \$50B of PE dry powder available, he says, and the amount needed for the entire North American energy industry for 2015 is estimated at \$100B. “Our fear is it’s going to result in people bidding prices up to unrealistic levels. Some may just go chasing yields and deals.”

PetroCap does have some advantages. They don’t compete with the multi-billion-dollar PE energy funds and also invest differently—directly in the projects they’re funding by owning a working interest, which is a very technical, operations-focused differentiator.

“There are going to be a lot of assets changing hands over the next months, which is a good thing for us,” he says. ■

# Connect with Leading Institutional Investors

Build Your Brand.  
Raise More Money.

**Privcap Media** gives investment managers direct access to an audience of engaged institutional investors looking for new ideas and new business partners.

Our GP partners get top billing in our thought leadership videos, reports and articles, allowing them to promote their brand and their expertise. Our staff of experienced PE journalists conceptualize and produce the programs to meet your specific marketing goals. We then distribute them via our website, [www.privcap.com](http://www.privcap.com), and via our email newsletter campaigns.

Our advanced analytics and reporting ensure that you're reaching the right audience.

Privcap's audience includes more than **4,000** investment professionals from more than **300** institutions. Together, these firms represent more than **\$250B** in private equity allocation.



Our sponsors receive a license to use the program on their websites, at events, and in marketing campaigns.



Your expert here

Privcap Media promotes the programs on the Privcap.com website and directly via email to PE professionals seeking insights and new business partners.