

Kraig Grahmann in MergerMarket: Oil and Gas Private Equity Could Pool, Jettison Assets in Flight to Quality ? Analysis

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Haynes Boone Partner [Kraig Grahmann](#) was quoted in a *MergerMarket* article about how oil and gas private equity firms are considering merging portfolio holdings to cut overhead costs, jettisoning all but the highest quality assets in a collapsing oil price environment.

Here is an excerpt:

Recent trends toward negative futures contracts only heighten existing pressure on private equity holdings, said one sector executive. Spot pricing for crude oil has hovered in the USD 10 to 20 range, while last week some futures contracts dipped to almost negative USD 40 as traders tried to avoid taking physical delivery of crude they had nowhere to store due to a scarcity of storage capacity.

The collapse will accelerate a shift that began before the COVID-19 pandemic caused by a precipitous drop in demand, said the sources. “Whether oil is at USD 20, or USD 10, or negative, there’s nothing you can do to be cash flow positive,” said a second executive. “The question becomes which wells to shut in,” with shut-ins potentially endangering future production from that well.

Private equity firms have reached the point where they may pull the trigger on drastic cuts to assets and management teams that have already been under discussion, said the first exec.

Many oil and gas-focused PE firms hold a large number of upstream companies with separate management teams, he said. EnCap, for instance, which most recently raised a USD 7bn fund in 2017, lists 34 upstream investments on its website with initial dates reaching back to 2011.

Many oil and gas investments are co-owned as they took on additional sponsors, said the advisor. These were attempts at partially exiting or spreading risk in a difficult market for exits.

For example, Alberta-based Black Swan Energy is partly owned by Canada Pension Plan Investment Board (CPPIB), Azimuth Capital Management, and Warburg Pincus, which initially invested in 2011. Black Swan has been seeking an exit for several years, according to reports by this news service, and sold an interest in its gas processing infrastructure to AltaGas in 2018.

Firms will look to curtail operations, mitigate risk and merge multiple portfolio companies under a single management team, said Haynes Boone Partner Kraig Grahmann, while a third executive agreed: “Find the best assets from your companies and find your best team and lose the rest.”

Those would be the lowest cost and most economical to produce in the near term, with longer term potential carrying little value if the development timeline is years out, said the advisor.

In previous downturns, private equity firms could inject additional equity into their portfolio companies based on the assumption of crude prices rising, said Grahmann. In this price environment they would be “very hard pressed” to invest more capital, even if a sponsor believed it were the right decision. In addition, fundraising for new oil and gas funds under the old paradigm could be “very tough.”

To read the article, click [here](#). (Subscription required)