



---

Oil & Gas Investors Since 1992

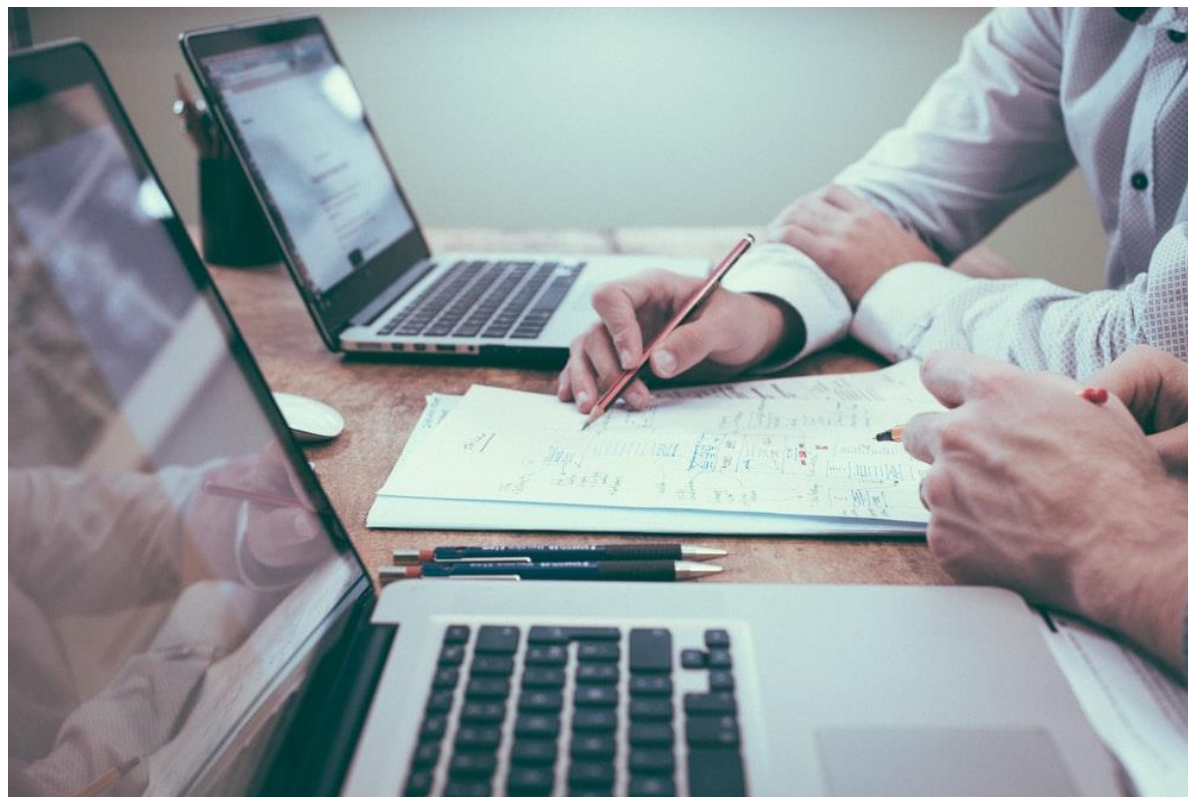
---

**FWAPL 2020 Conference**

**Private Equity 101**

**March 26   July 23   September 17, 2020**

**David Hopson, Partner, PetroCap, LLC**



What is a typical structure?

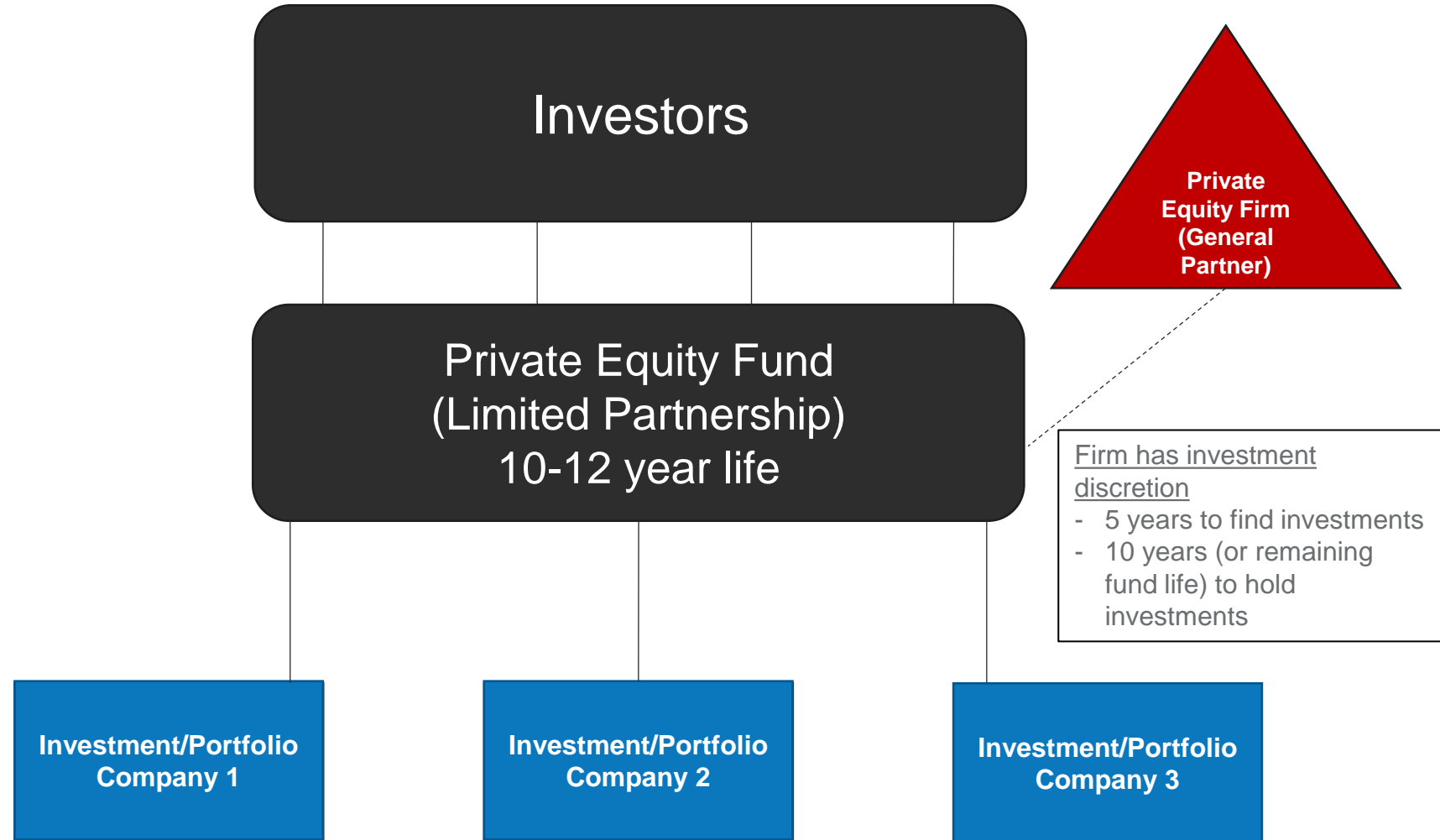
Who has the money?

Energy fund history

Energy private equity today

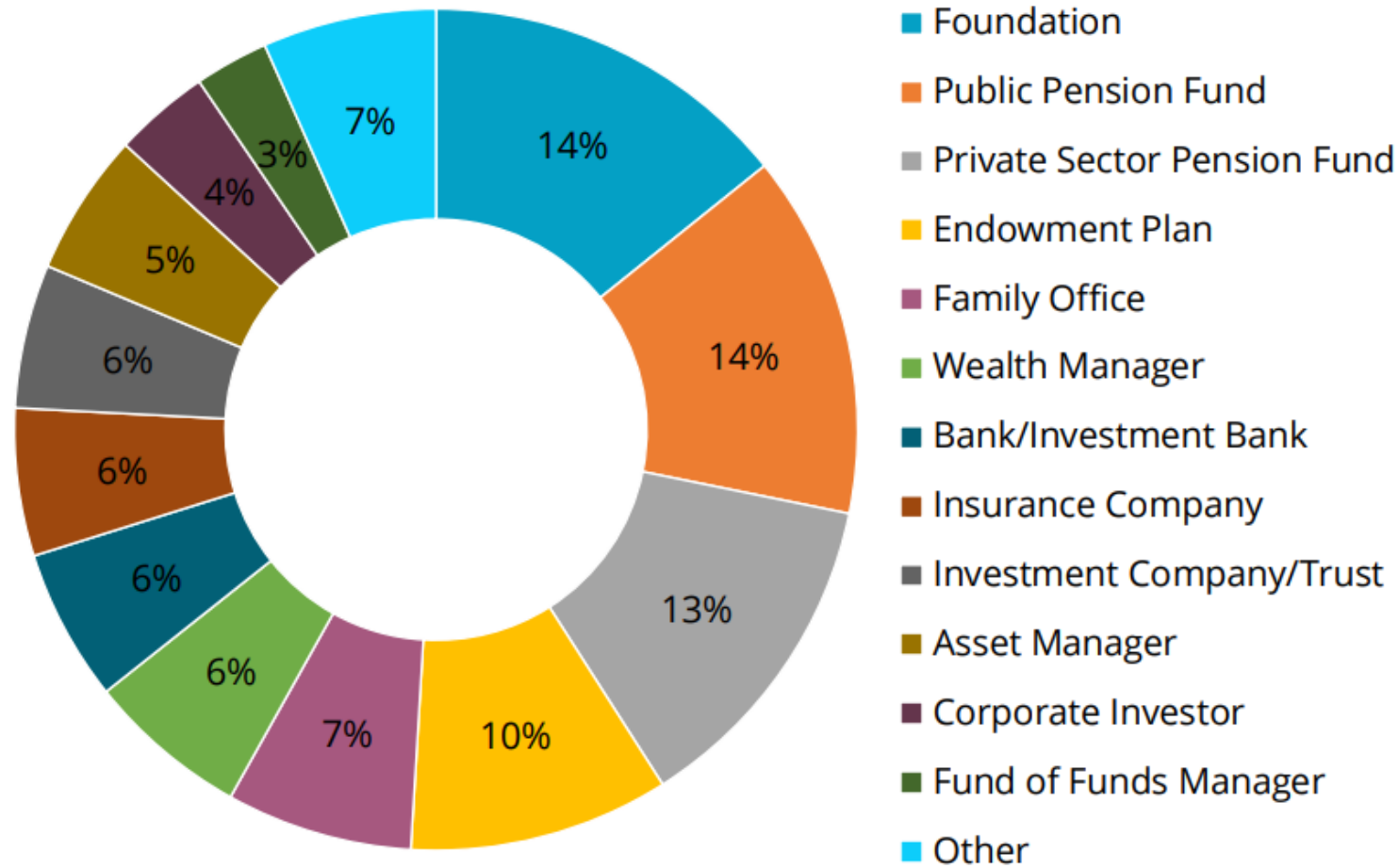
Why are we in this mess?

# Typical Private Equity Fund Structure

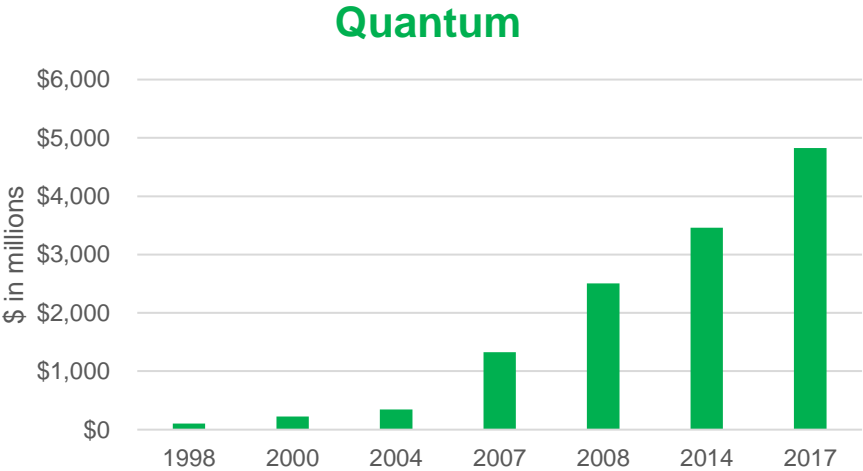
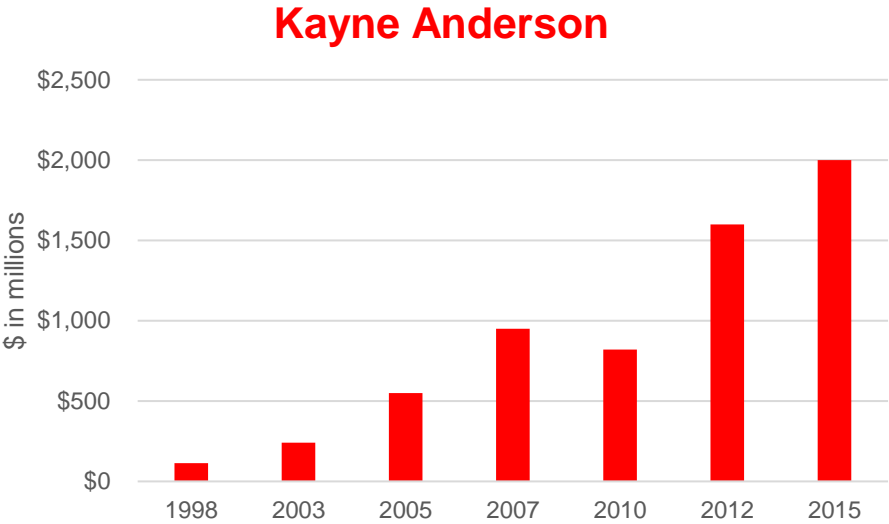
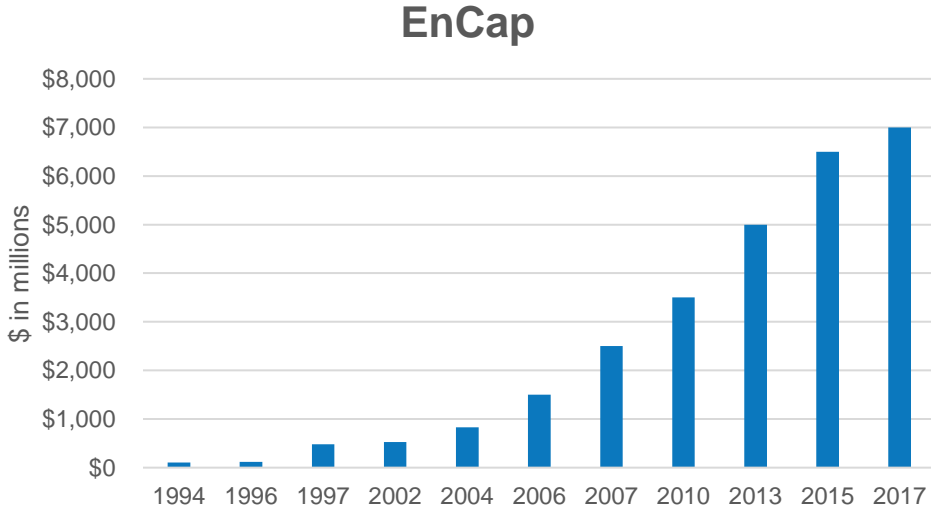
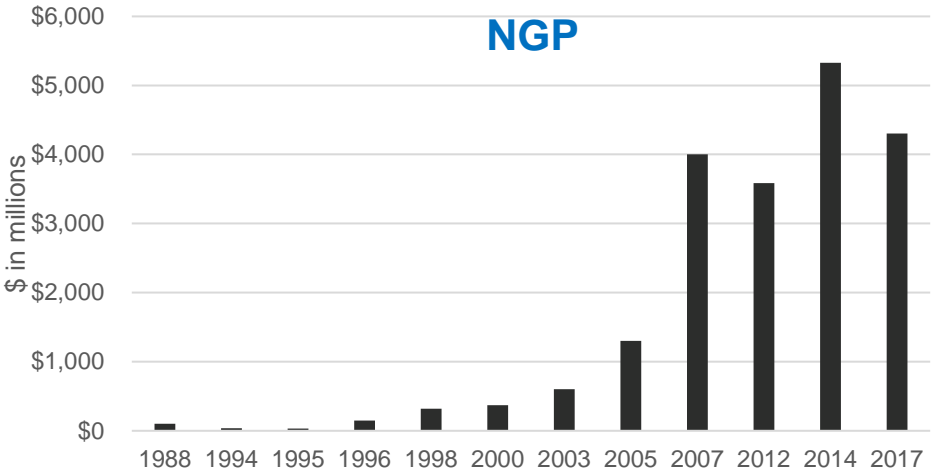


# Where Does the Money Come From?

Natural Resources Investors by Type



# Private Equity Timeline



# Private Equity Timeline

Buy PDP from majors, cut LOE and flatten decline curve

1990–2000

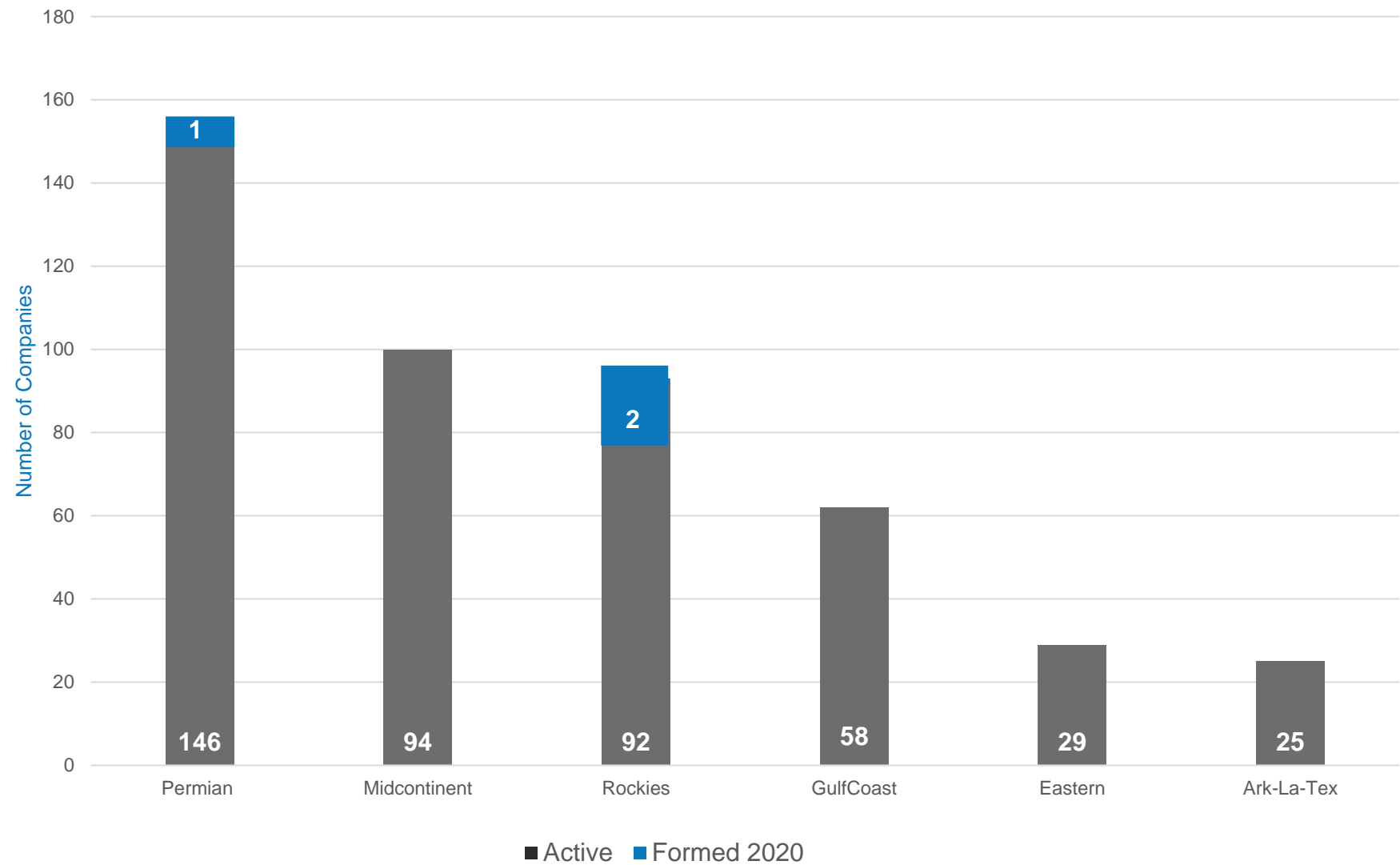
Shale revolution in full effect, buy and flip leases

2008–Present

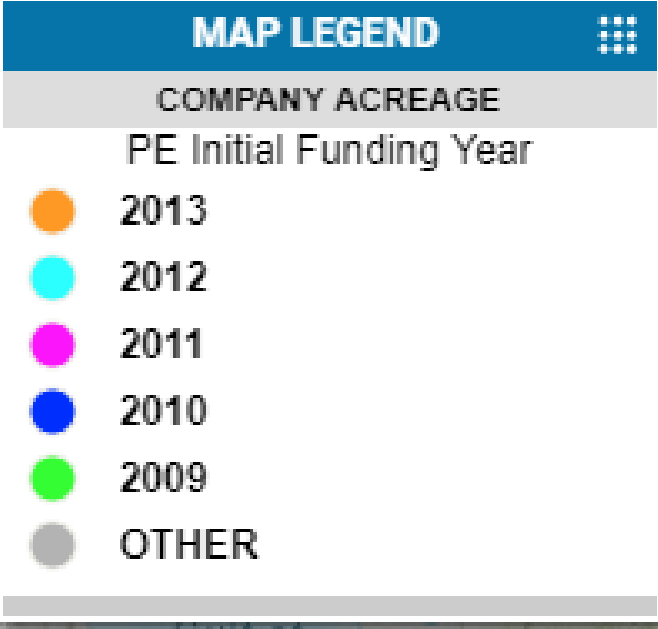
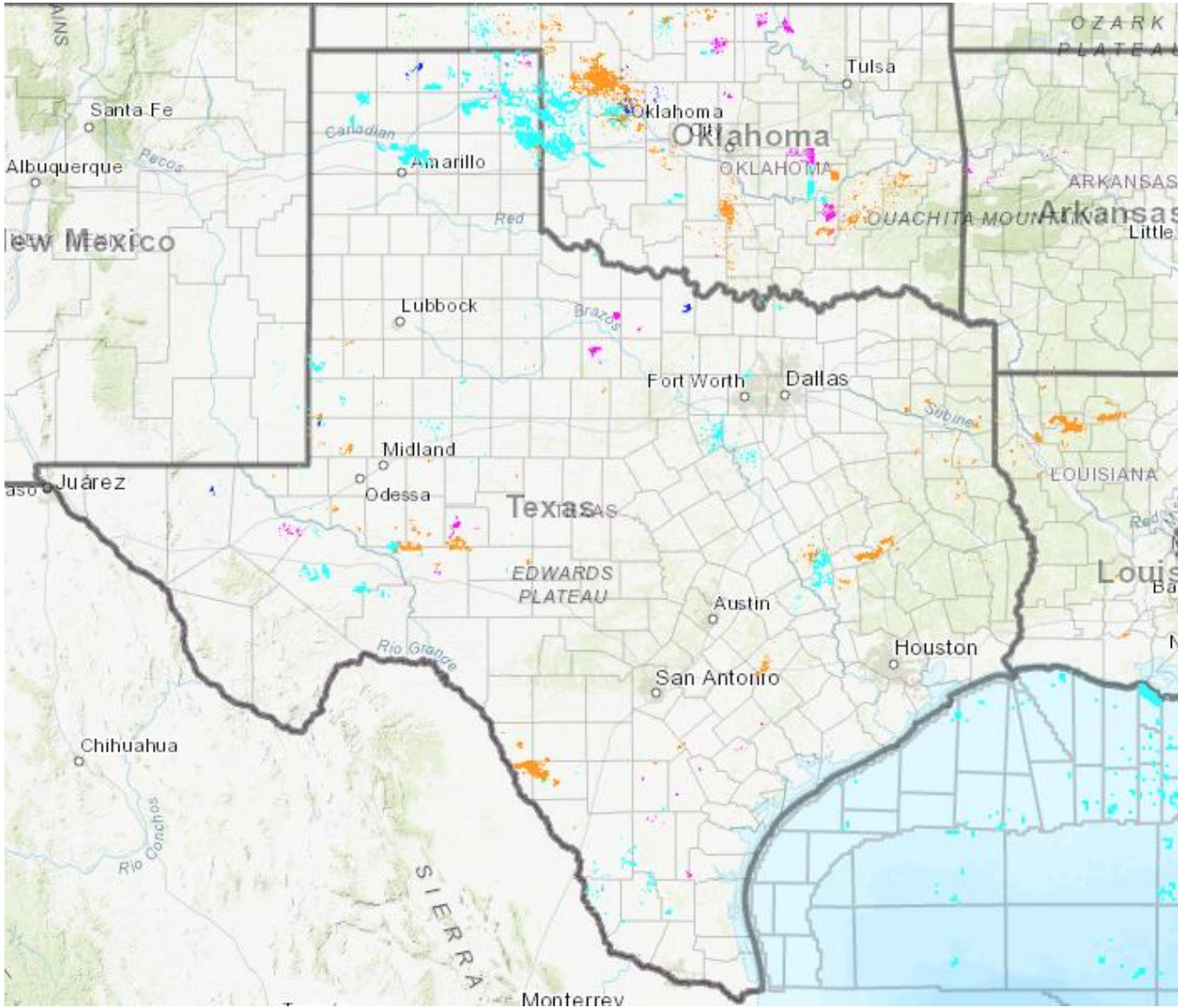
2000–2008

Buy leases, drill a few wells to prove a concept and sell

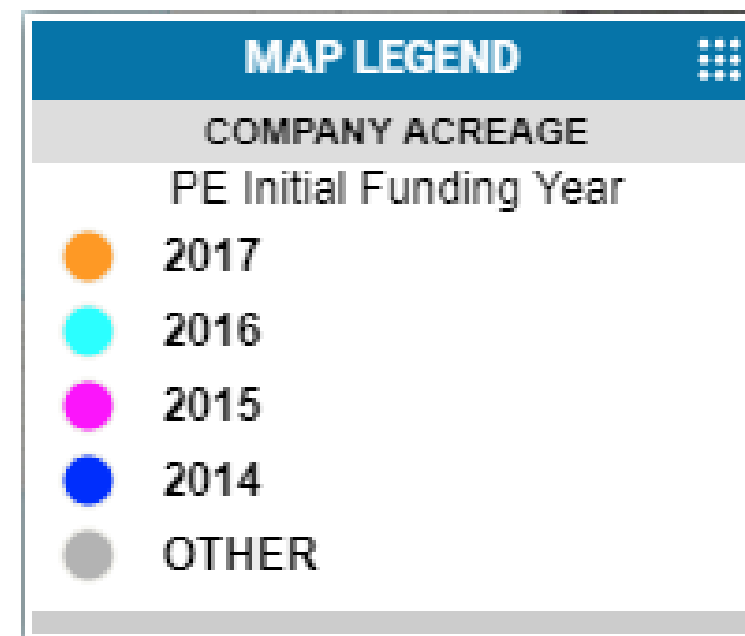
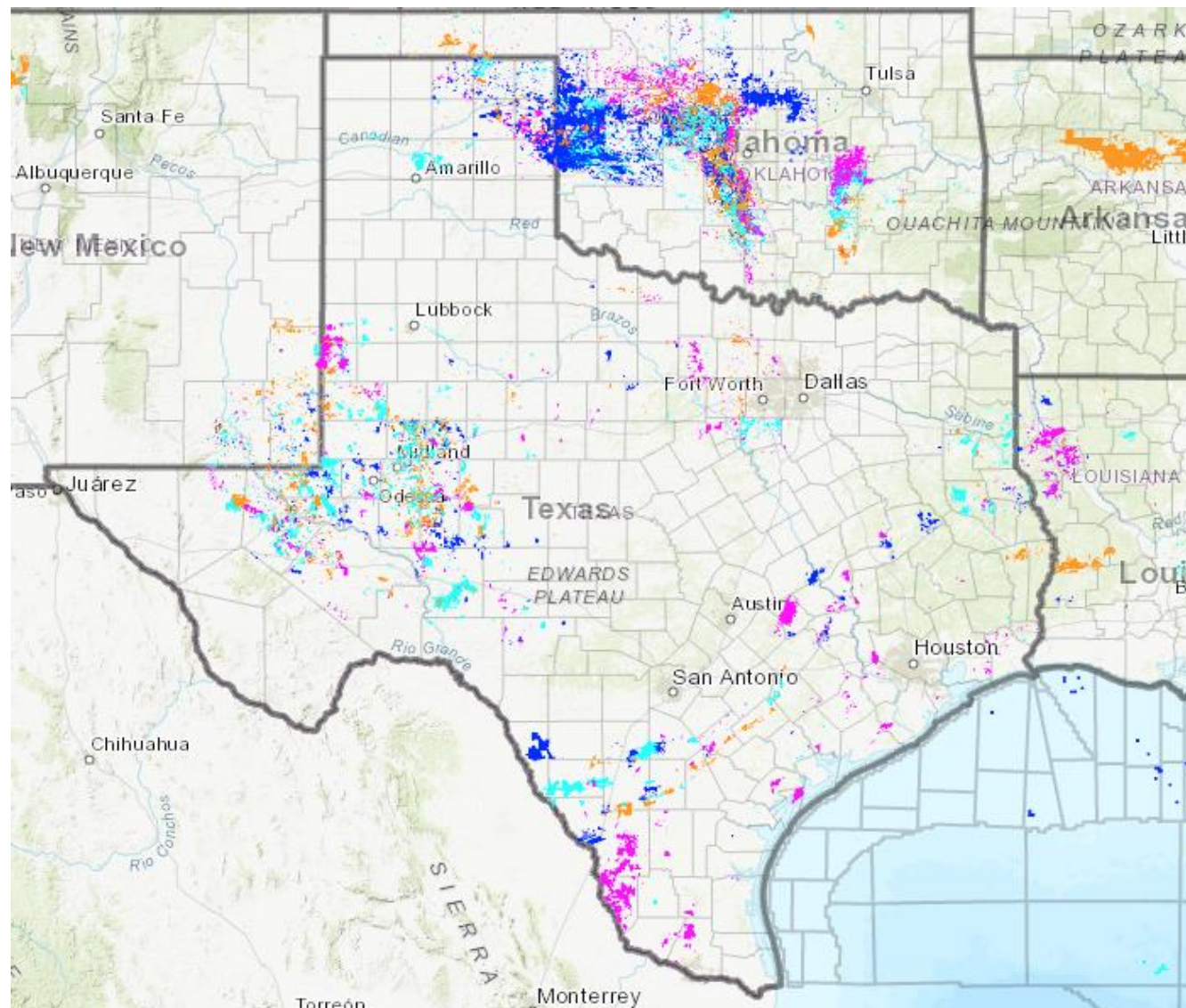
# Private Equity Backed Companies by Basin



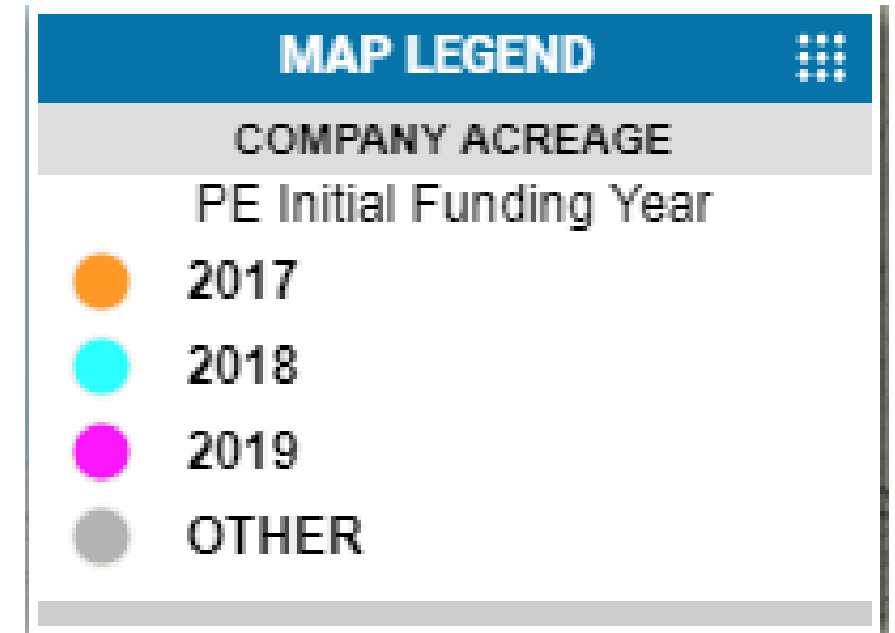
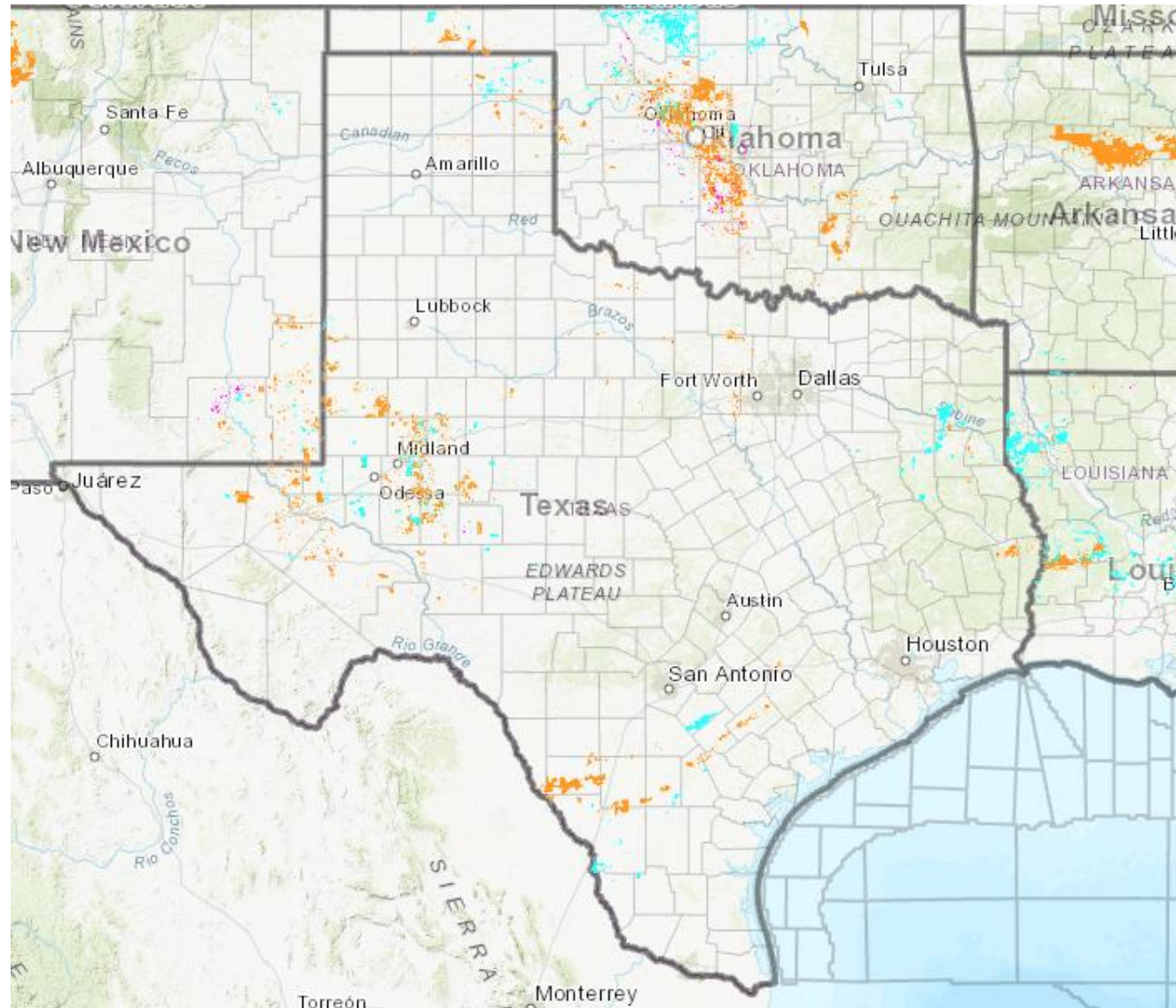
# PE Funding 2009-2013



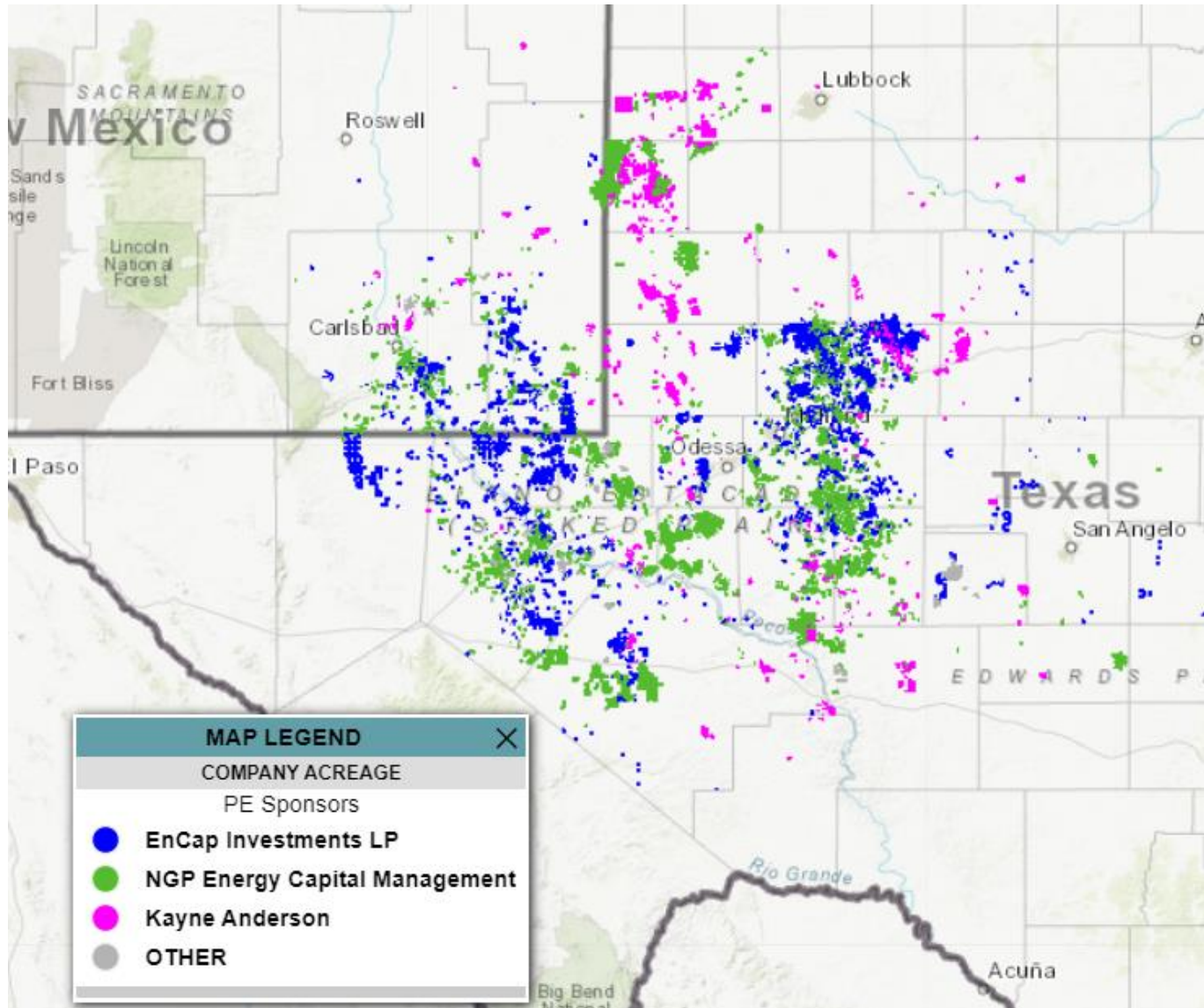
# PE Funding 2014-2017



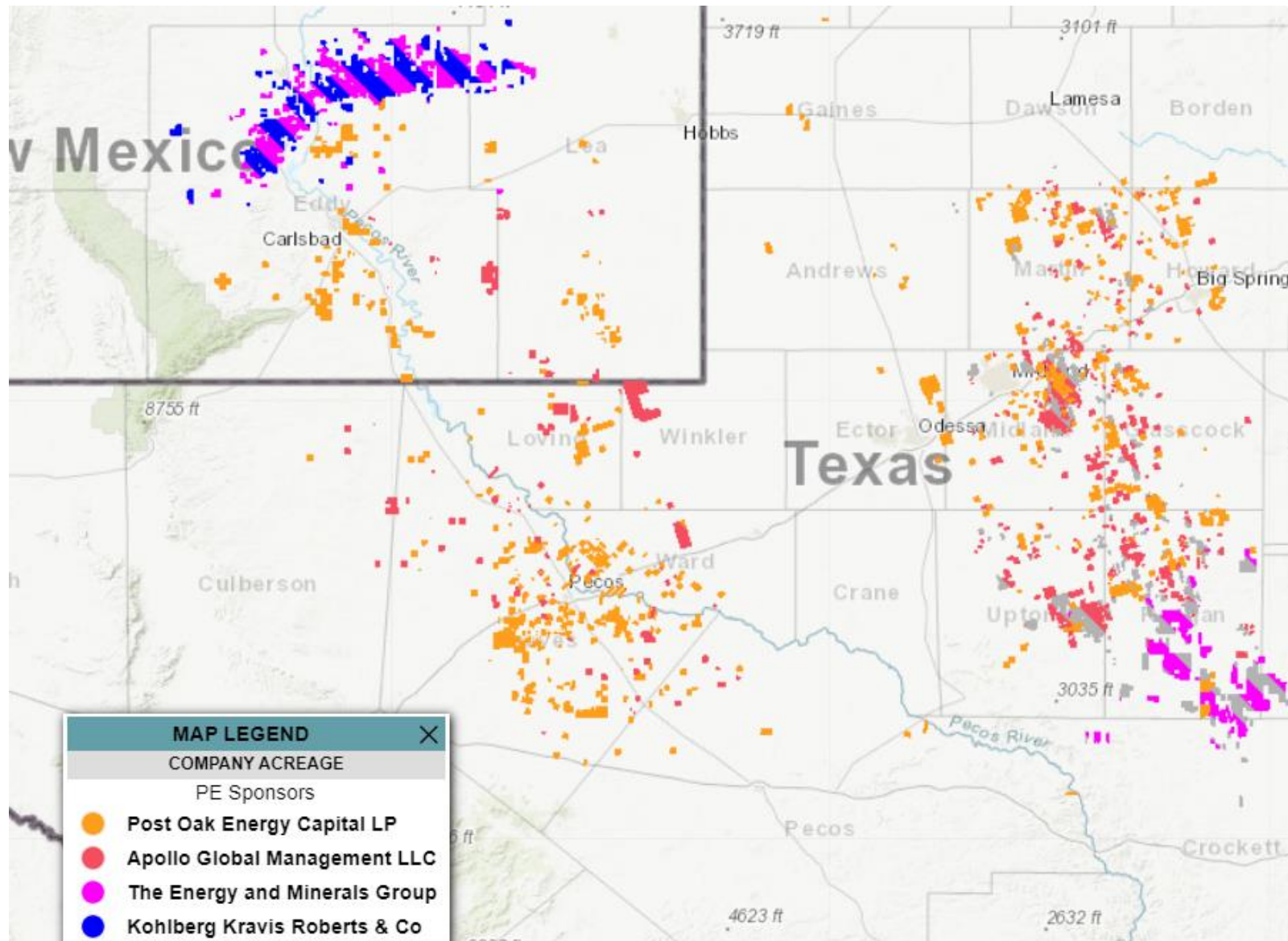
# PE Funding 2017-2019



# Permian Basin: EnCap, Kayne and NGP Portfolio Companies



# Permian Basin: Post Oak, KKR, Apollo Companies



Majority of funds focused on \$100+ Million investments

- When you raise a multi-billion dollar fund, you need to make multi-hundred million dollar commitments

Blank check commitment harder to find – need an asset

- Sponsor wants to know the money is going to work immediately on a project, not on overhead

Focused primarily on Core of the Core unconventional properties

Growing number of funds/PE portfolio companies focused on minerals

# Trends in Private Equity, Continued

Consolidation of management teams

More difficult to raise capital

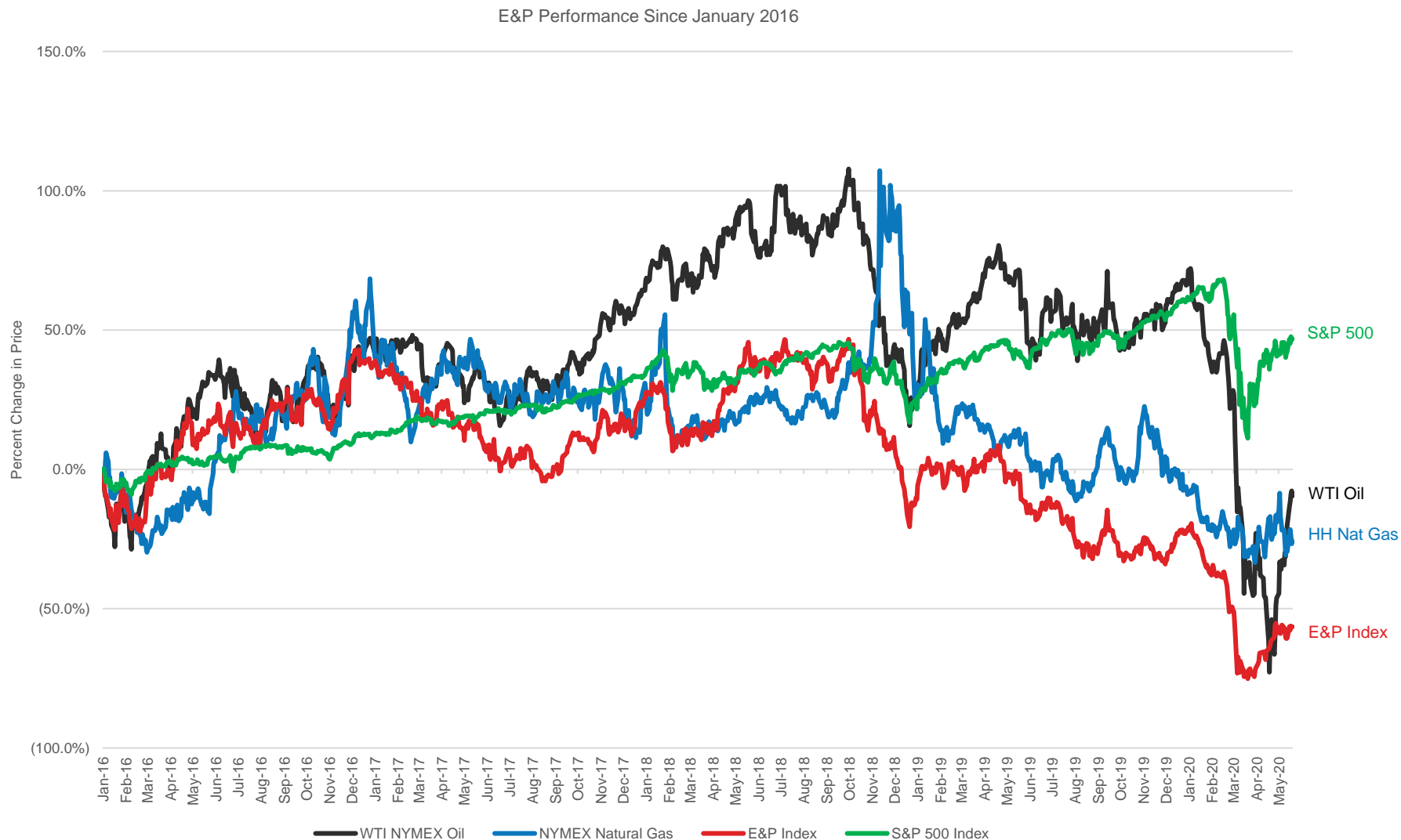
- Raise the money, deploy, sell assets, raise next fund
- Money hasn't been returned to investors
- Concentration issues

ESG

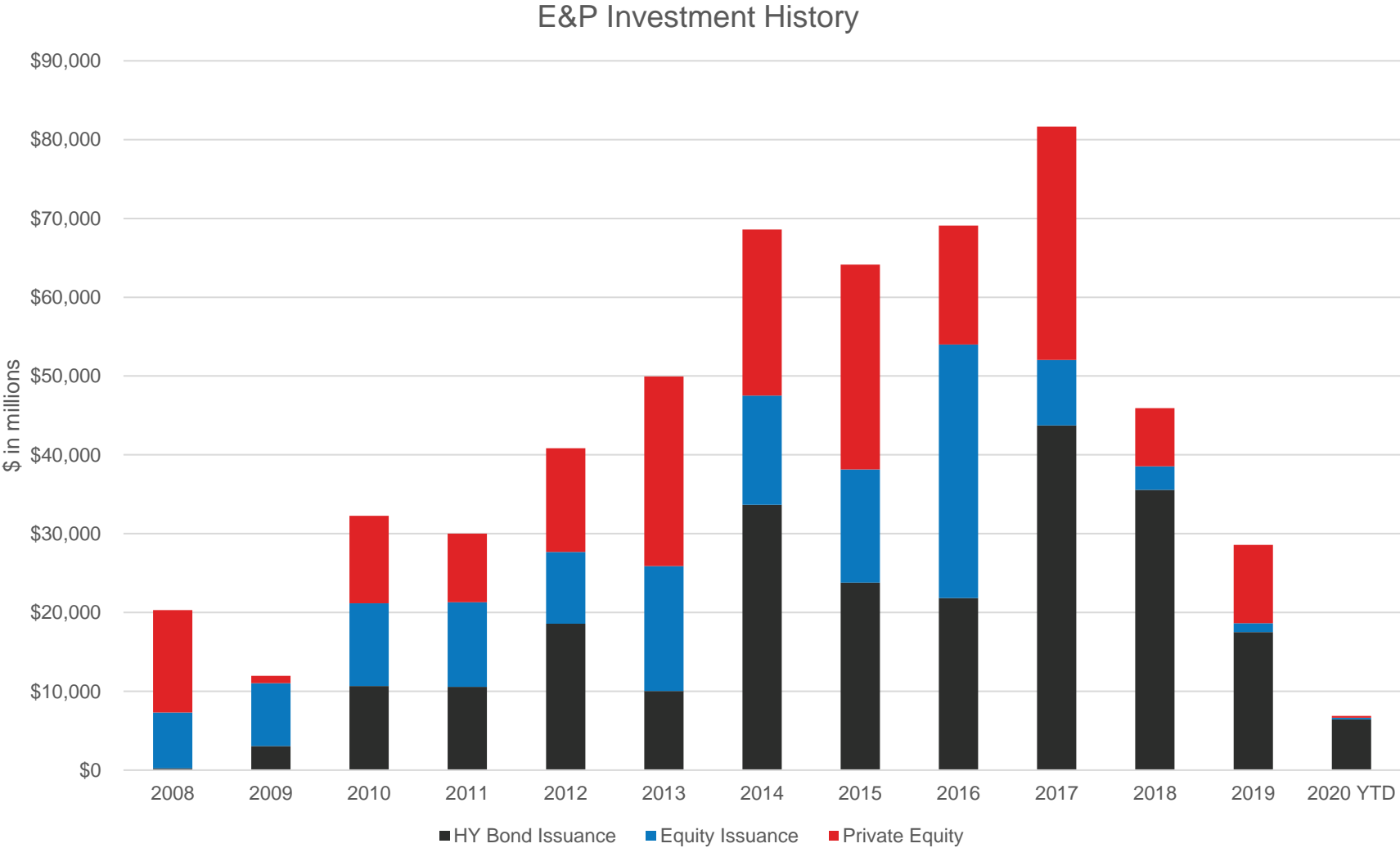
Private equity needs path to a public exit

- More challenging with the market effectively closed to IPOs
- Sale to public companies difficult in current environment

# Why Are We In This Mess?



# E&P Sector is Starved For Capital



# Private Equity Response-Money is Still Available

- Sponsor fewer teams with higher average commitments
- Focus on PDP assets with cash flow and low risk development: return money to the LP's
- Concentrate on lowering cost and improving operational efficiencies-we don't need to find more oil and gas
- Consolidate existing portfolio teams
- Lower return thresholds and longer hold periods
- Adapt from "Build and Flip" to a "Build a Business"



**PetroCap was founded in 1992 and is 100% employee owned**

## Over \$850 Million of Committed Capital

- Have invested in 19 projects with 15 operators to date
- \$25 to \$75 million investment target (acquisition and drilling capital net to PetroCap)
- New investments being made out of Fund III

## PetroCap is a Project Investor

- Direct investments in working interest rather than backing management teams
- Strategy focused on Upstream/E&P segment
- PetroCap seeks to own a majority interest in projects and has approval authority over development program

## Preferred Project Profile

- Little to no current production (0% to 30% of investment) with development upside (70% to 100% of investment)
- Typical holding period is 3-5 years

# PetroCap vs. Traditional Energy PE

## PetroCap

- Working interest partner on an existing project or new acquisition
- PetroCap has an internal technical team to complement operator's team
- Interfaces like another operator
- Only control over project/AMI
  - Operator has freedom to work on other projects with other partners
  - Cannot drag interest/force sale
- Pays project-level overhead
- PetroCap typically has one operating partner per basin
- Operator earns back-in after ROI hurdles

## Traditional PE

- Sponsor makes an equity commitment to company and is the majority shareholder
- Sponsor has complete control of company and employees
  - Management signs non-compete agreements
  - Determines when to buy/sell
- Sponsor sits on board of directors
- Provide overhead coverage for full team
- Typically have multiple operators in each basin
- Management team earns back-in through IRR and ROI hurdles

# Built Like An Oil And Gas Company

*In-house technical team keeps diligence costs low and provides operational expertise for our operating partners*

## Partners and Members of the Investment Committee

Lane Britain  
Partner

Doug Evans  
Partner

David Hopson  
Partner

Marc Manzo  
Partner

## Founders and Senior Advisors

Dick Rinehart  
Senior Advisor

John Sears  
Senior Advisor

## Technical and Investment Team

Chase Summers  
Director of Engineering

Will Ridgway  
Vice President -  
Investments

Patrick Mayne  
Operations and  
Completion Engineer

Steve Fremgen  
Geologist

Erin Devlin  
Manager of Land and  
Business Development

## Accounting and Finance

Amanda Coussens  
Chief Financial Officer &  
Chief Compliance Officer

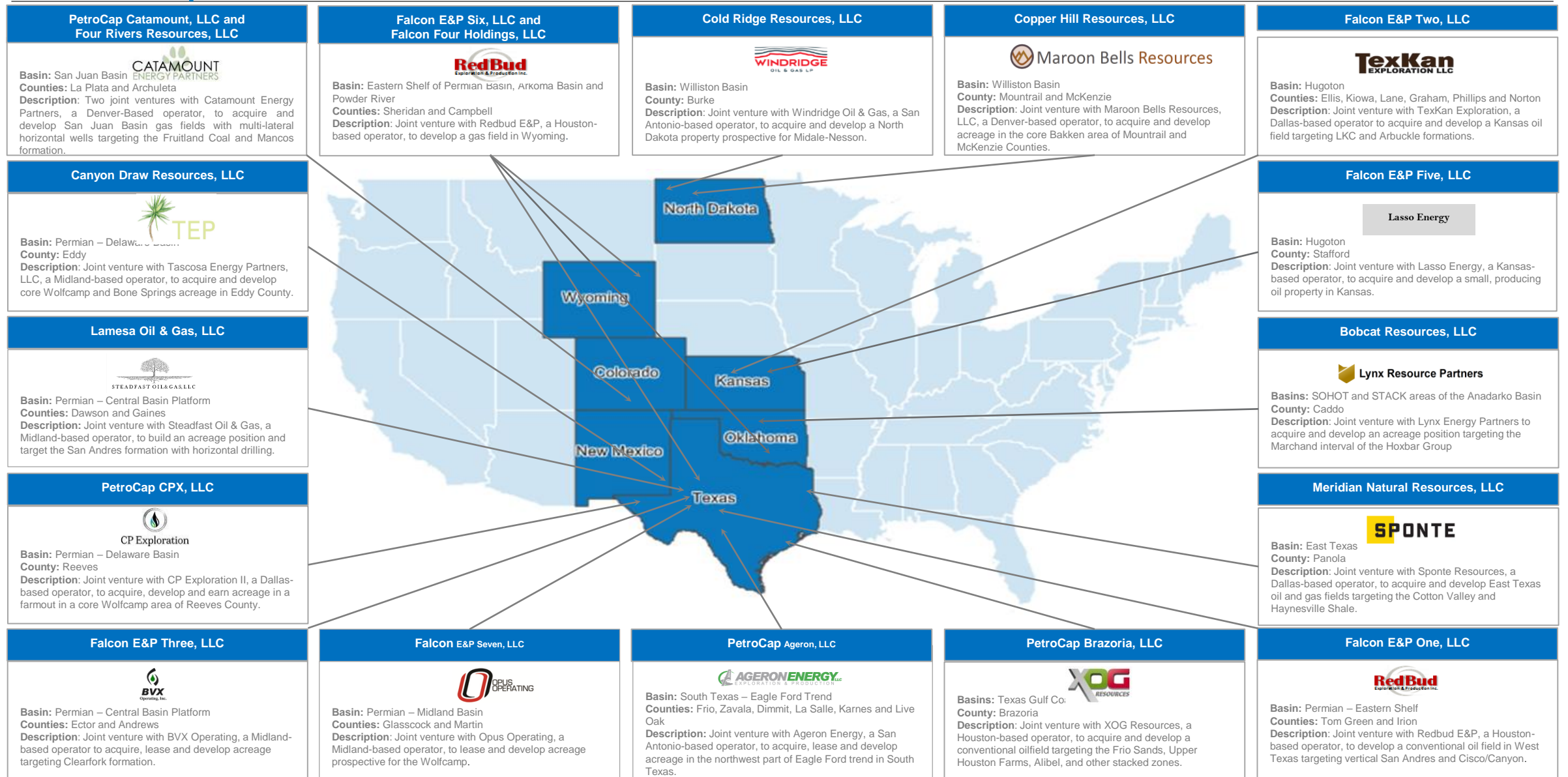
Brian Pfitzinger  
Controller

Lynne Fiske  
Accountant

Brandon Fleischmann  
Accountant

Jill VanGorden  
Office Manager

# PetroCap Investments



# Important Notes and Disclosures

- **Confidential – Do not copy or distribute.** The information herein is being provided in confidence and may not be reproduced or further disseminated without the permission of PetroCap, LLC (“PetroCap”). The information contained in this document is subject to change without notice. All investors must be “accredited investors” and/or “qualified purchasers” as defined in applicable securities laws before they can invest in a fund. The information in this presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substance in connection with discussions of future operating or financial performance. These forward-looking statements are based on our current expectations and assumptions regarding a fund’s portfolio and performance, the economy and other future conditions and forecasts of future events, circumstances and results. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances. A fund’s actual results may vary materially from those expressed or implied in its forward-looking statements. The information presented herein is provided for informational purposes only and is not to be treated as advice to make any specific investment. Please consult with an independent investment advisor before making an investment decision. No representations or warranties of any kind are intended or should be inferred with respect to the economic return from, or the tax consequences of, an investment. No assurance can be given that the existing laws will not be changed or interpreted adversely. This information does not constitute legal, tax, financial, accounting, or other advice. Each prospective investor should consult his, her, or its own professional advisers as to the legal, tax, financial, accounting, or other matters relevant to the suitability of an investment for the investor, including but not limited to the suitability and appropriateness of an investment in a fund
- Private funds are speculative and involve a high degree of risk, may be leveraged, and the performance of these funds can be volatile. An investor could lose all or a substantial amount of his or her investment. General Partners have total investment discretion over funds and may use a single strategy which could mean lack of diversification and, consequentially, higher risk. There is no secondary market for the investor’s interest in the fund and none is expected to develop. In addition, there are restrictions on transferring interests in the fund. The General Partner will receive a carried interest from the fund. This arrangement may create an incentive for the General Partner to make investments that are riskier or more speculative than would be the case if this arrangement were not in effect. Limited Partners will have no right or power to participate in the management or control of the business of the fund and thus must depend solely upon the ability of the General Partner with respect to making investments. There are various restrictions on the transfer of limited partnership interests in the fund. No public or other market for interests in the fund exists or is likely to develop.
- Upon the failure of a Limited Partner to contribute any portion of its commitment when that portion is called by the General Partner in accordance with the Limited Partnership Agreement, the General Partner may, in its sole discretion, declare the Limited Partner to be in default, and the General Partner may undertake various remedies with respect to the defaulting Limited Partner, including but not limited to requiring the forfeiture of all or a portion of the defaulting Limited Partner’s interest in the fund.
- Private funds may be subject to significant tax risks. In addition, Limited Partners may be subject to special tax and tax filing obligations due to an investment in the fund. It is possible that a Limited Partner may incur income tax liabilities in excess of actual cash distributions made prior to the date the relevant liability arises or the relevant tax is due. For tax-exempt and non-U.S. investors, an investment in a fund may give rise to unrelated business taxable income (for tax-exempt investors) and/or income effectively connected with a U.S. trade or business (for non-U.S. investors).
- The risks of an investment in a fund arise both from the risks associated with portfolio investments and from the risks related to the fund’s ability to achieve its investment objectives. These risks will be described more fully in a Private Placement Memorandum and include, but are not limited to, the following: There can be no assurance that the fund will identify suitable investment opportunities and achieve targeted returns, or that the fund will be able to fully invest its committed capital. The fund may make a limited number of investments. A consequence of a limited number of investments is that the aggregate returns realized by the partners of the fund may be substantially adversely affected by the unfavorable performance of a small number of these investments. The business of investing in oil and gas is highly competitive and the fund may not be successful in identifying suitable oil and gas properties, acquiring those properties on favorable terms or diversifying its investments. Prices for oil and gas are volatile – decreases or increases may negatively impact the fund’s results of operations and the amount of cash that the fund may distribute. Environmental laws and other legislation and governmental regulations may adversely affect the fund’s operations, including restricting drilling. Because private oil and gas investments are illiquid, the fund may have difficulty disposing of its investments at optimal times or at optimal value. Because the fund intends to rely on the business experience and contacts of the principals to execute the fund’s investment strategy, the departure of any of those principals may make it more difficult for the fund to achieve its investment goals. Investing in securities, such as the interests, is highly speculative and carries a high degree of risk. Anyone investing should be able and prepared to bear a loss of his, her, or its entire investment. The information in this presentation is not designed to be used as the basis for an investment decision. You should confirm to your own satisfaction the veracity of any information prior to entering into any investment. The decision to make any investment is done purely at the investor’s own risk.