



Oil & Gas Investors Since 1992

# FWAPL 2020 Conference Private Equity 101

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What is a typical structure?

Who has the money?

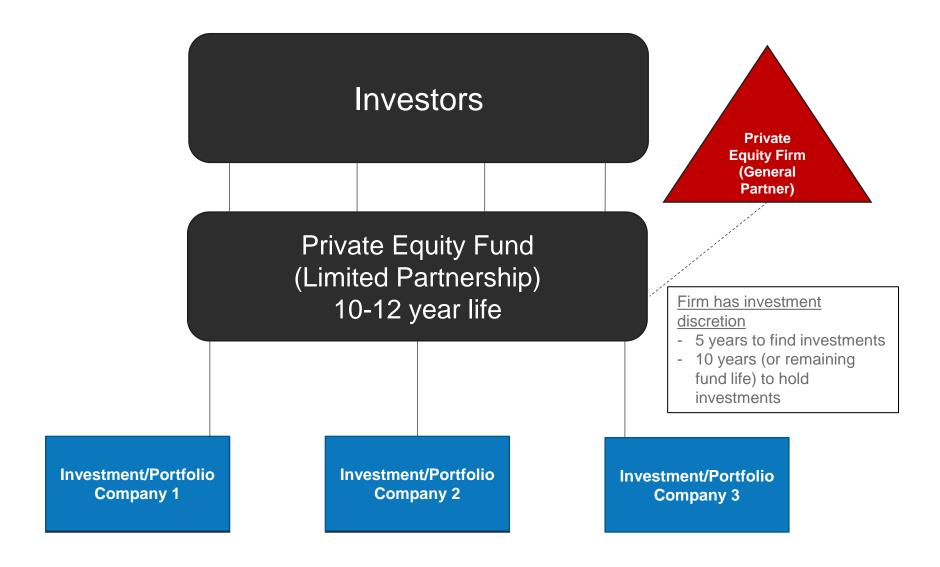
**Energy fund history** 

Energy private equity today

Why are we in this mess?

# Typical Private Equity Fund Structure

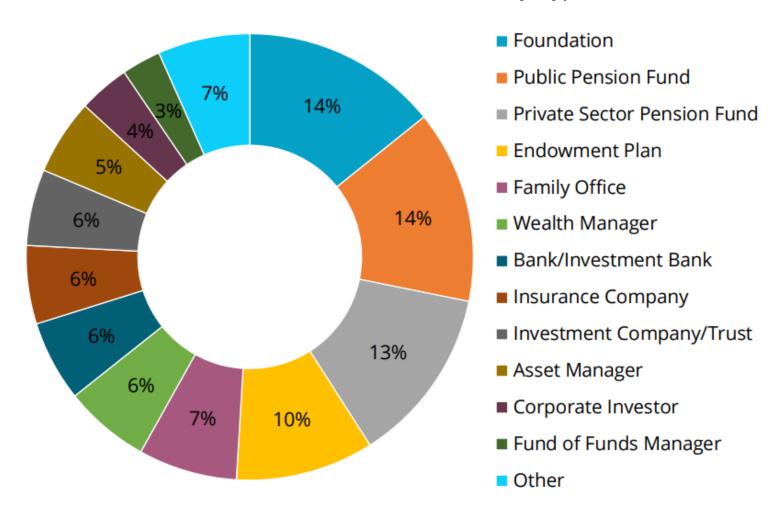




### Where Does the Money Come From?



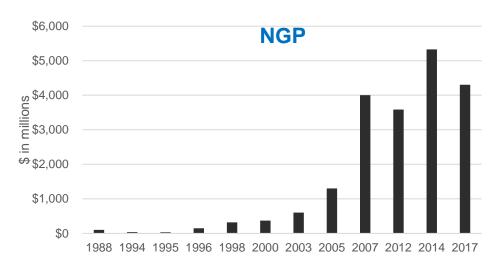
### Natural Resources Investors by Type

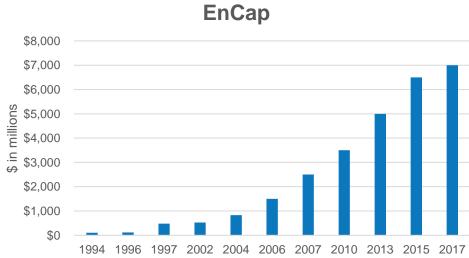


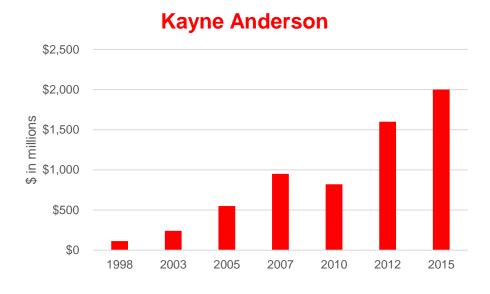
Source: Preqin Investor Update: Alternative Assets H2 2018

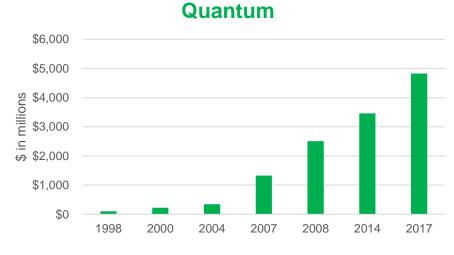
### **Private Equity Timeline**







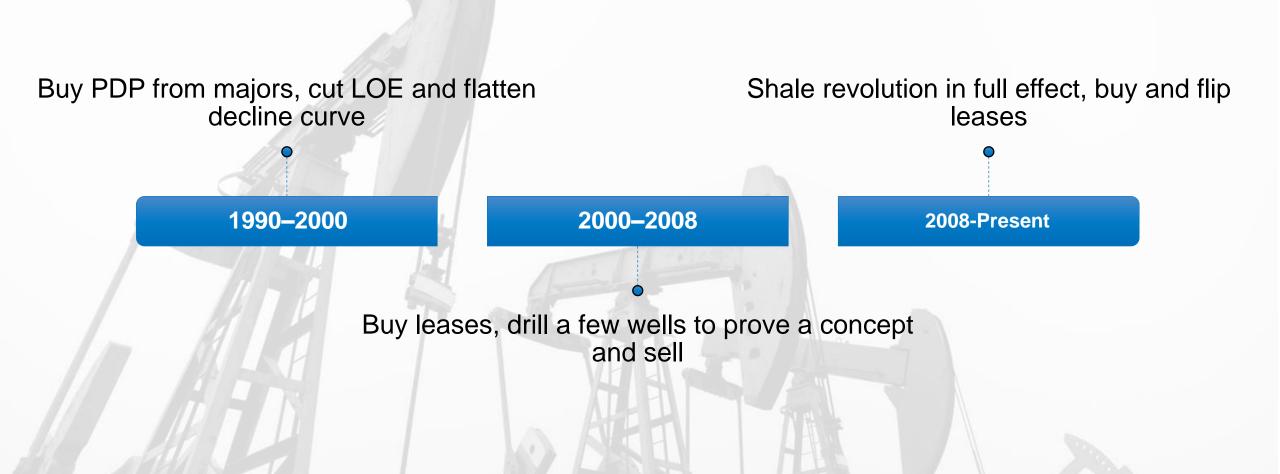




Source: Pregin as of 09/03/2020

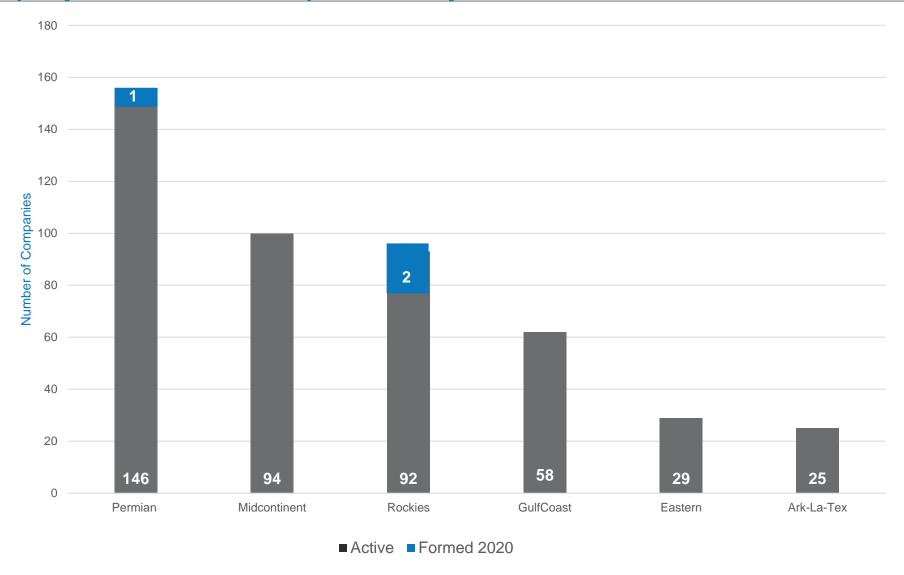
### **Private Equity Timeline**





# Private Equity Backed Companies by Basin

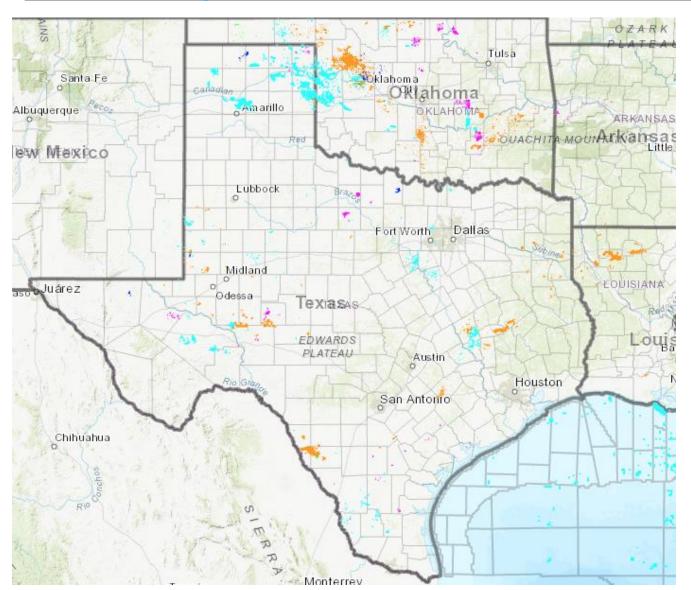




Source: Data compliments of Enverus as 09/01/2020

# PE Funding 2009-2013





#### MAP LEGEND

**:::** 

#### COMPANY ACREAGE

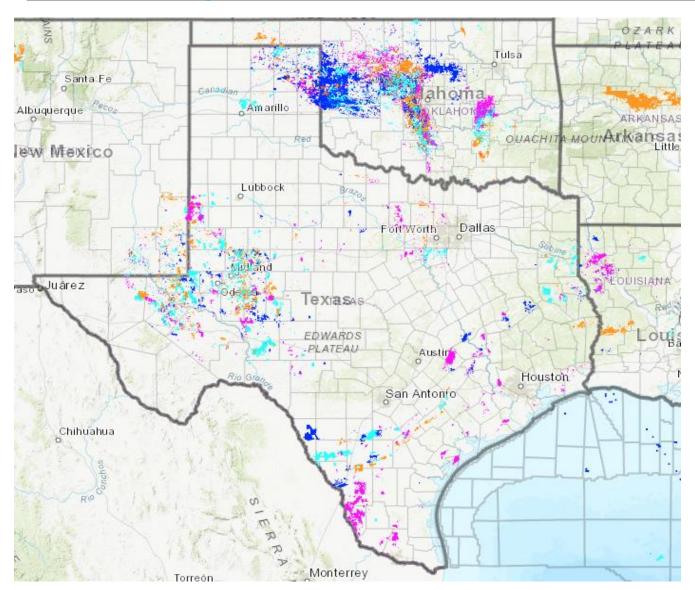
PE Initial Funding Year

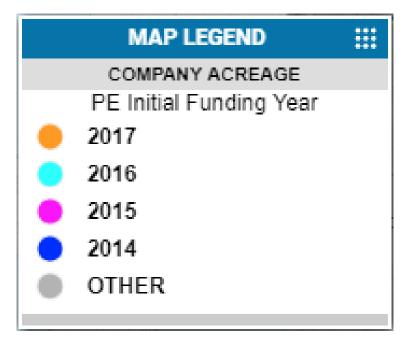
- 2013
- 2012
- 0 2011
- 2010
- 2009
- OTHER

iource: Data compliments of Enverus as of 12/1/19

# PE Funding 2014-2017



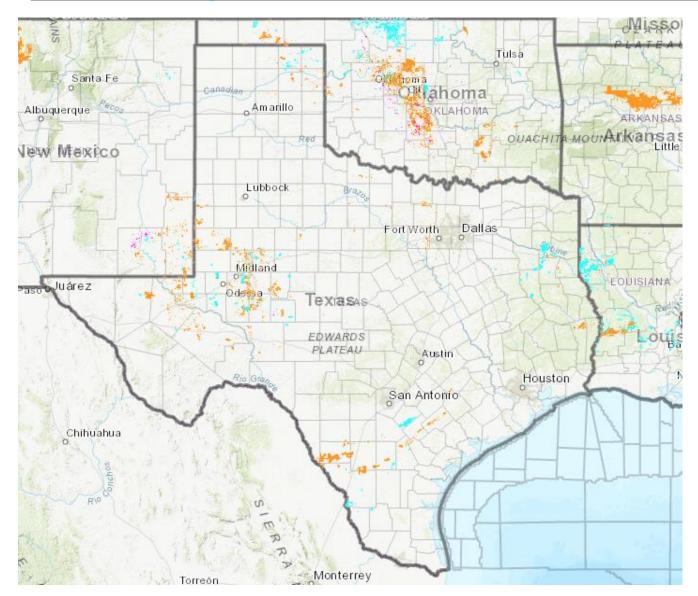


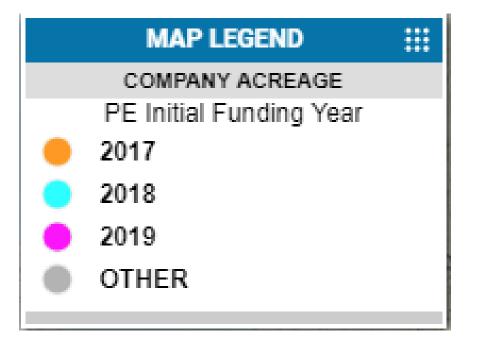


Source: Data compliments of Enverus as of 12/1/19

# PE Funding 2017-2019



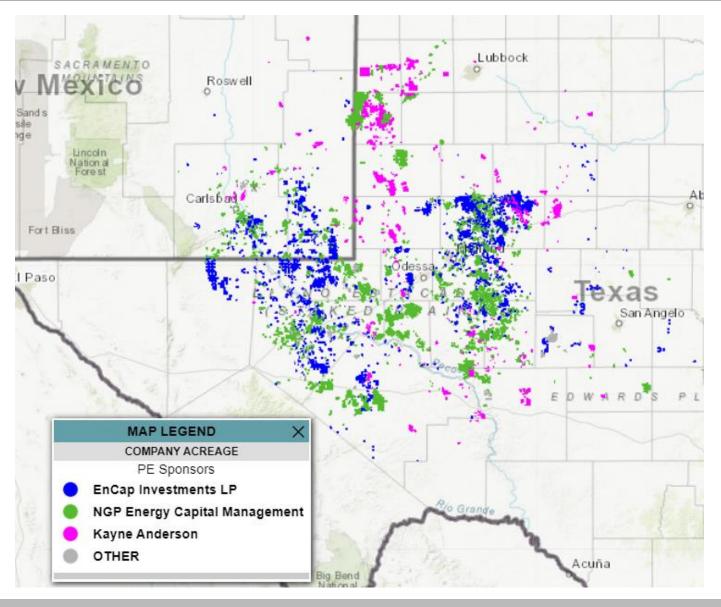




Source: Data compliments of Enverus as of 12/1/19

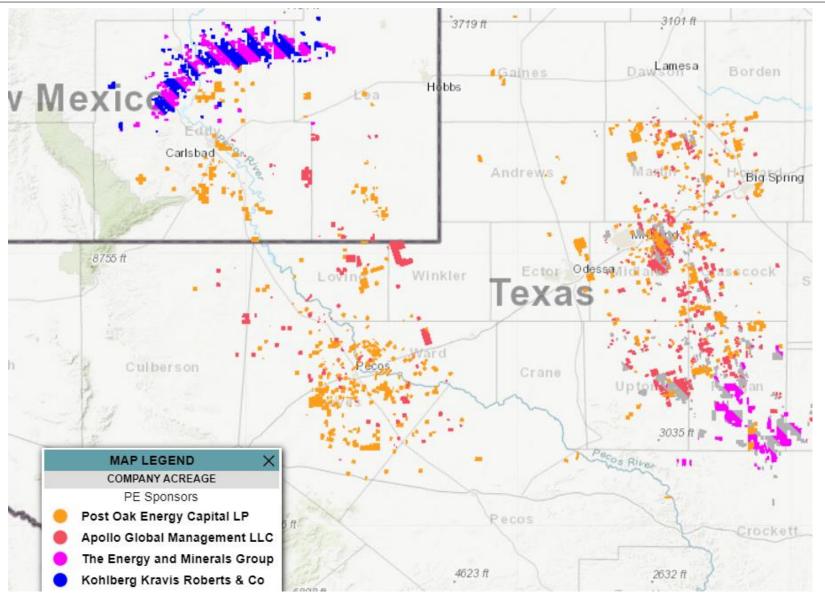






# Permian Basin: Post Oak, KKR, Apollo Companies







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

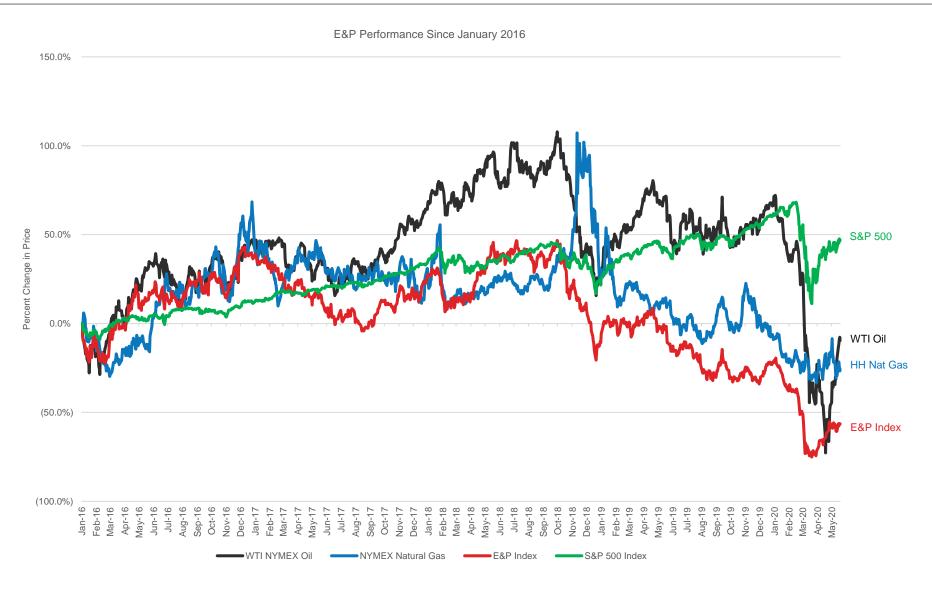
### **ESG**

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

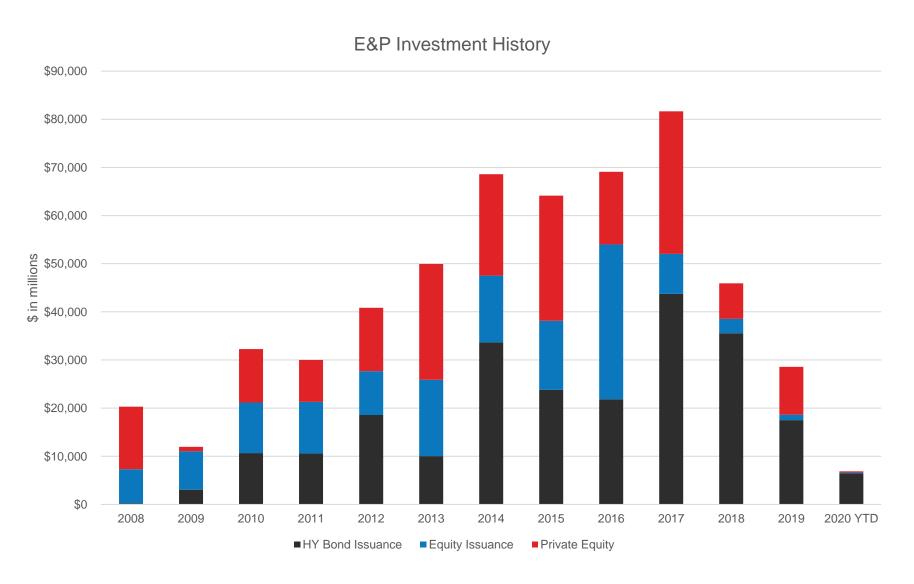
# Why Are We In This Mess?











# 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"



# Firm and Strategy Overview



### 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



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



#### PetroCap Catamount, LLC and Four Rivers Resources, LLC

Basin: San Juan Basin ENERGY BASTUNT

Counties: La Plata and Archuleta

Description: Two joint ventures with Catamount Energy Partners, a Denver-Based operator, to acquire and develop San Juan Basin gas fields with multi-lateral horizontal wells targeting the Fruitland Coal and Mancos formation.

#### Canyon Draw Resources, LLC



Basin: Permian - Delawa County: Eddy

Description: Joint venture with Tascosa Energy Partners, LLC, a Midland-based operator, to acquire and develop core Wolfcamp and Bone Springs acreage in Eddy County.

#### Lamesa Oil & Gas. LLC



Basin: Permian - Central Basin Platform

Counties: Dawson and Gaines

Description: Joint venture with Steadfast Oil & Gas, a Midland-based operator, to build an acreage position and target the San Andres formation with horizontal drilling.

#### PetroCap CPX, LLC



**CP Exploration** 

Basin: Permian - Delaware Basin

County: Reeves

Description: Joint venture with CP Exploration II, a Dallasbased operator, to acquire, develop and earn acreage in a farmout in a core Wolfcamp area of Reeves County.

#### Falcon E&P Three, LLC



based operator to acquire, lease and develop acreage

#### Falcon E&P Six, LLC and Falcon Four Holdings, LLC



Basin: Eastern Shelf of Permian Basin, Arkoma Basin and Powder River

Counties: Sheridan and Campbell

Description: Joint venture with Redbud E&P, a Houstonbased operator, to develop a gas field in Wyoming.

#### Cold Ridge Resources, LLC



Basin: Williston Basin

North Dakota

Kansas

Tiexas

Oklahoma

County: Burke

Wyoming

Colorado

New Mexico

Description: Joint venture with Windridge Oil & Gas, a San Antonio-based operator, to acquire and develop a North Dakota property prospective for Midale-Nesson.

#### Copper Hill Resources, LLC



Basin: Williston Basin

County: Mountrail and McKenzie

Description: Joint venture with Maroon Bells Resources, LLC, a Denver-based operator, to acquire and develop acreage in the core Bakken area of Mountrail and McKenzie Counties.

#### Falcon E&P Two, LLC

#### **TexKan**

Basin: Hugoton

Counties: Ellis, Kiowa, Lane, Graham, Phillips and Norton Description: Joint venture with TexKan Exploration, a Dallas-based operator to acquire and develop a Kansas oil field targeting LKC and Arbuckle formations.

#### Falcon E&P Five, LLC

#### Lasso Energy

Basin: Hugoton County: Stafford

Description: Joint venture with Lasso Energy, a Kansasbased operator, to acquire and develop a small, producing oil property in Kansas.

#### **Bobcat Resources, LLC**



Lynx Resource Partners

Basins: SOHOT and STACK areas of the Anadarko Basin County: Caddo

Description: Joint venture with Lynx Energy Partners to acquire and develop an acreage position targeting the Marchand interval of the Hoxbar Group

#### Meridian Natural Resources, LLC



Basin: East Texas

County: Panola

Description: Joint venture with Sponte Resources, a Dallas-based operator, to acquire and develop East Texas oil and gas fields targeting the Cotton Valley and Haynesville Shale.



Basin: Permian - Central Basin Platform

Counties: Ector and Andrews Description: Joint venture with BVX Operating, a Midland-

targeting Clearfork formation.

#### Falcon E&P Seven, LLC



Basin: Permian - Midland Basin Counties: Glasscock and Martin

**Description**: Joint venture with Opus Operating, a Midland-based operator, to lease and develop acreage prospective for the Wolfcamp.

#### PetroCap Ageron, LLC



Basin: South Texas - Eagle Ford Trend Counties: Frio, Zavala, Dimmit, La Salle, Karnes and Live

Description: Joint venture with Ageron Energy, a San Antonio-based operator, to acquire, lease and develop acreage in the northwest part of Eagle Ford trend in South Texas.

#### PetroCap Brazoria, LLC



Basins: Texas Gulf Co.

County: Brazoria

Description: Joint venture with XOG Resources, a Houston-based operator, to acquire and develop a conventional oilfield targeting the Frio Sands, Upper Houston Farms, Alibel, and other stacked zones

#### Falcon E&P One, LLC



Basin: Permian - Eastern Shelf Counties: Tom Green and Irion

Description: Joint venture with Redbud E&P, a Houstonbased operator, to develop a conventional oil field in West Texas targeting vertical San Andres and Cisco/Canyon.

Past performance does not guarantee future results.

### **Important Notes and Disclosures**



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- 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