

Strategic Buyers' Retreat Could Boost Secondary Energy Deals

By Luis Garcia

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Publicly traded oil-and-gas producers are more disciplined with their capital and have restricted access to equity markets these days, making them less willing to buy private equity-backed assets.

The retreat of public producers could force energy-focused firms to sell more often to their peers, possibly at prices lower than they would prefer.

“There are 300 portfolio companies that were formed pre-2014 and prepricing crisis and that are now stuck,” said Greg Beard, senior partner and global head of natural resources at Apollo Global Management LLC, at a keynote presentation Monday during the SuperReturn Energy conference in Boston.

Private equity-backed companies that have exhausted their sponsors' capital commitments and are unable to generate enough cash flow to attract a public buyer may become acquisition targets for other private-equity investors. In such situations, the deals are likely to be more advantageous to the private-equity buyer than to the seller.

Bigger energy-focused firms are touting their war chests as an advantage in today's difficult exit market. Since they have more capital, they can hold on to their portfolio companies longer and buy the ones that less-capitalized firms may be forced to sell. Other firms even are raising funds aiming specifically at buying stranded private equity-backed companies, industry executives said.

Still, the pullback by public energy companies won't last forever, private-equity executives said. As they rein in their spending and take advantage of higher oil prices, those companies will strengthen their balance sheets and eventually regain access to the capital markets. They will then be in a better position to buy private-equity assets

again, according to the executives.

Until that happens, the U.S. energy private-equity industry is likely to see a higher number of secondary deals.

“I do expect...to see a lot of private equity buying from private equity,” said Michael Dalton, a managing director and head of investor relations at Quantum Energy Partners, during a separate panel at the SuperReturn Energy conference.

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