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CAPITAL FORMATION 2008

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# Record capital available raises the bar

Private-equity providers share their views on the opportunities ahead.

By Gary Clouser, Contributing Editor

**T**he pile of private-equity dollars available for financing exploration and production, midstream and service companies has never been larger.

In the 2007-2008 cycle alone, private-equity funds specializing in energy, with a lion's share going to E&Ps, are estimated to have more than \$35 billion at their disposal—and that's just in the checkbooks of the seven largest funds in the sector, says S. Wil VanLoh, the president and chief executive officer of Quantum Energy Partners in Houston.

This compares to the 2005-2006 period in which about \$20 billion was available. The growth in private equity has been dramatic. At yearend 2005, private-equity sources reported having \$10 billion to invest, according to the COSCO Private Capital Energy Index.

"There is a growing realization that the energy industry—in all sectors—was underinvested for 15 to 20 years, and it is now having to play catch-up in order to meet the burgeoning demand growth in an under-supplied world," VanLoh says.



*S. Wil VanLoh,  
president and chief  
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## QUANTUM ENERGY

Quantum's Fund IV, which raised \$1.32 billion and began investing in October 2006, has committed more than \$1.1 billion to 14 companies. Houston-based Quantum specializes in the energy industry with more than \$3.2 billion in capital under management. Principals include Jim Baird, John Campbell, A.V. Jones Jr., Toby Neugebauer, Alan Smith, Scott Soler and VanLoh.

A year ago, VanLoh was bullish on the prospects of significantly more E&P-oriented master limited partnerships coming to market. But, for a variety of reasons, most notably the underperformance on acquisition projections by many of the MLPs, and the significant concentration and liquidity issues faced by many of the hedge funds purchasing the MLPs' equity PIPE (private investment in public equity) issues, the "bloom has come off the rose," he says.

The market is in a wait-and-see mode as it evaluates the business climate and performance of pioneering E&P MLPs, although VanLoh still believes that there are a lot of oil and gas assets that ultimately belong in MLP hands.

Like most private-equity firms, Quantum can point to some startups it funded that went on to bigger and better things, through going public or selling to a strong buyer. For example, in 2003 it funded Linn Energy LLC with just \$15 million. Linn grew substantially after that through acquisitions, went public in 2006 and today has a market cap of about \$2.6 billion.