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Operators in the Haynesville Shale are on a roll.

A VIEW FROM THE TOP

Wil VanLoh, Quantum Energy Partners

It's not obvious that a private-equity (PE) sponsor should be immersed in what's happening in the commercial banking sector. But if you're overseeing a score or more of portfolio companies, each in need of a banking relationship, you're likely up to speed already. And with economies of scale kicking in for a larger collective client, why have each company go over ground you've already ploughed?

"We're dealing with banks every day. We've got a credit facility in the market every week, or every other week," said Wil VanLoh, CEO of Houston-based PE sponsor Quantum Energy Partners LLC.

"Clearly, we have a lot of volume. When we effectively aggregate our purchasing power across all our portfolio companies, our credit facilities are probably larger than most large-cap public E&P companies."

VanLoh said the Quantum portfolio companies had benefited from "considerably" improved terms as a result of its aggregate purchasing power. But how have market conditions in energy lending as a whole changed recently?

Pricing grids "are starting to relax some, meaning they're pricing deals at tighter spreads to LIBOR," he said. As an example, spreads over LIBOR, which in the downturn had widened to more than 300 basis points—and up to 350 basis points at their height—were now back below 300 basis points. Spreads were around LIBOR plus 250 to 275 basis point in general, with higher-quality credits priced around LIBOR plus 225 basis points—still higher than pre-November 2014 spreads of 200 to 225 basis points.

"Things have gotten back to business as usual," said VanLoh.

"Money is flowing again. There's plenty of availability in the bank market, although I think the banks are being more selective and not as willing to take on some of the lower-quality credits. It's not nearly back to the way it was pre-2014."

VanLoh is cautiously optimistic that the industry may be able to turn over a new leaf of discipline.

"There's a lot more discipline on all sides right now. There's discipline at the banks, there's discipline on the part of the company management teams. To the extent private equity is involved, the private-equity guys are more disciplined than they were before. All that will be healthy for the industry.

"I think people have realized the folly of overlevering an E&P company and, especially, overlevering and not hedging. Tens of billions of debt got wiped out. Interestingly, not a lot of bank debt did; it was mostly in high-yield bonds. The real losers were the high-yield bondholders."

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