START-UP MONEY

Each with several energy investments in their portfolios, Pine Brook Road Partners and Houston Energy Advisors are looking to back yet more E&P stories in 2008.

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Unlike some other funds, Pine Brook Road Partners LLC will fund exploration stories, says founder and chief executive Howard Newman.

Energy-related funds remain eager to back energy companies despite softer North American natural gas prices, while oil prices continue to show strength. Among them, Pine Brook Road Partners LLC and Houston Energy Advisors LLC do not plan to slow down their efforts to fund or acquire energy companies in 2008.

Pine Brook, a New York-based private-equity firm formed in 2006, focuses on companies with substantial drillbit exposure and funds business plans both domestically and abroad.

President and chief executive Howard Newman, a former vice chairman of Warburg Pincus LLC, says the firm seeks to fund E&P companies that use new technology or will apply existing technology in a novel way.

During the past two years, Pine Brook has made six investments aggregating more than $600 million of commitments, including four in E&P: shallow Gulf of Mexico- and Gulf Coast-focused Phoenix Exploration Co. LP; onshore U.S.-focused Stonegate Production Co. LLC; Gulf Coast-, West Texas- and Midcontinent-focused Common Resources LLC; and Southeast Asia-focused Asia Pacific Exploration Consolidated LP. Two other investments have been in reinsurance.

Its target investment commitment is $100- to $200 million and it has partnered in transactions ranging from $225- to $500 million.

"Each of these investments is in companies led by experienced management teams," Newman says. He has worked with most of the Pine Brook companies' founders before.

Houston-based Common Resources is led by Roger Jarvis, who founded Gulf of Mexico-focused producer Spinnaker Exploration Co. with private-equity backing from Warburg Pincus, whose energy focus was led at the time by Newman.

Pine Brook has committed $125 million to Common and Houston-based private-equity firm EnCap Investments LP has committed $375 million. (For more on Jarvis' new company, see "Back in the Saddle," *Oil and Gas Investor*, December 2007.)

Uncommon for a private-equity capital source is that Pine Brook will fund exploration-focused stories. "Pine Brook is comfortable in a wide range of E&P investments, including pure exploration companies," Newman says. "In general, Pine Brook does not seek to acquire existing production unless there is substantial exploration associated with it."

Newman has also worked before with Stonegate founder Mike Harvey, who led three successful start-ups, most recently Gryphon Exploration Co. The latter sold its Gulf of Mexico assets in 2005 to Woodside Energy for some $310 million.

In addition to funding from Pine Brook, Stonegate has received financial backing from Soros Strategic Partners LP, a private investment vehicle managed by Soros Fund Management LLC. Some $200 million is being provided through a bridge fund that is a partnership between Pine Brook and Soros.

"Stonegate represents an attractive investment opportunity for Pine Brook and is a prime example of our philosophy of partnering with proven management teams in high-growth enterprises," says Newman.

Meanwhile, founders of Phoenix Exploration Co. LP are also former Gryphon senior managers, led by chief executive Bill Flores. Phoenix received a $250-million co-commitment from Carlyle/Riverstone Global Energy and Power III LP. Phoenix reflects three key investment themes: consolidation, out-of-favor assets and proven technologies in a new area.

In E&P overseas, Pine Brook and three partners—international power company The AES Corp., Singapore-based investment house Temasek Holdings and investment-fund manager Actis Capital—have made a $380-million commitment to Houston-based Asia Pacific Exploration Consolidated LP. The start-up is led by chairman and chief executive Leon Codron, who was chief executive of Singapore Petroleum Co. Ltd. The new company aims to focus on low- to medium-risk E&P onshore and in shallow water offshore Indonesia, Vietnam, Malaysia and Thailand.

Newman says, "We started with a premise that as host governments sought technically capable and well-funded independents to participate in the exploration for medium-sized fields, it would be possible to create such a company around an exceptional…management team."

Newman's partners at Pine Brook include co-founders Michael McMahon, Robert Glanville, Joseph Gantz and William Spiegel. Robert Jackowitz is chief financial officer and Craig Jarchow is a managing director. The principals have been directly involved in more than

Pine Brook Road co-founder and partner Michael McMahon, top, and managing director Craig Jarchow each have many years of private-equity and E&P experience.

25 public companies and 40 private companies.

McMahon founded RockPort Capital Partners and worked with Newman on a number of Warburg Pincus energy transactions.

Gantz worked with Newman on several investments, and led turnarounds of two, private, non-energy companies controlled by Chase Capital Partners and ML-Lee Acquisition Funds II. Jackowitz was with investment advisor ESL Investments Inc. and private-equity investor Harvest Partners.

Jarchow was with energy private-equity firm First Reserve Corp. and with oil and gas producers Apache Corp. and Amoco Corp.

Special situation

Energy Special Situations Fund LP, managed by Houston Energy Advisors LLC (HEA), is a Houston-based private-equity niche fund that invests in energy-related companies. Co-manager Tim Sullivant says the fund, with $118.5 million of capital, generally targets $5- to $20-million private-equity investments.

The fund was established in September 2005 by Jonathan Linker, Jay Decker and the principals of the former Petrie, Parkman & Co. energy investment-banking boutique to finance larger investments. Linker was with energy private-equity firm First Reserve Corp. Decker was president of Patina Oil & Gas and Hugoton Energy Corp.

The founders contributed more than 15% of the fund, a larger percentage than most general partners have in funds. Three large family investment companies, two endowments and an investment company provided the remainder.

During the past two years, HEA has made nine investments, with the fund having committed nearly 80% of its initial capital, says Sullivant, who previously was in upstream asset marketing with Madison Energy Advisors.

The first investment was made in December 2005 to start Liberty Pressure Pumping LP, a Denton, Texas-based, greenfield operating company that provides fracture-stimulation services in the Barnett shale play of north-central Texas and the Cotton Valley play in East Texas The fund was a minority-interest investor with a large generalist private-equity fund.

Houston Energy Advisors LLC co-manager Tim Sullivant is seen checking out one of the nine private equity investments it's made during the past two years.

"Liberty's top management, Dennis McKee and Bobby Chapman, did an outstanding job establishing and equipping the company in six months from first equipment order to first pumping job," Sullivant says. Within 15 months after the start-up was formed, it was sold to Trican Well Service Ltd., Calgary.

HEA's other investments, which are in the $5- to $20 million range, include an investment in a Kansas oil seismic-based exploration company with 70,000 acres in one county; an exploitation/exploration company with assets in one county in the Arkoma Basin in Oklahoma; an E&P company in southwestern Arkansas holding more than 60,000 acres; and an exploitation company using 3-D seismic and drilling over old fields in Mississippi.

In three other investments, the fund is a minority-interest partner with other energy private-equity firms: an exploration company working a limited area on- and offshore Louisiana in state waters; a specialty oilfield-equipment manufacturer in Houston; and a production/exploitation company in New Mexico.

"As you can see from our investments to date, we like to make focused investments in overlooked areas," Sullivant says. "For example, in E&P we try to develop a niche-type play with a company that operates in an area where it can accumulate a concentrated acreage position. The company can then drill enough wells to establish large PUD (proved undeveloped) reserves to sell to larger oil companies.

"The key criteria are a return on investment compared with an estimate of true risk capital dollars, and an estimate of management's ability to pursue its strategy."

The $5- to $20-million targeted investment size is appealing as energy private-equity funds become much larger and less inclined to allocate resources and management time to smaller investments, Sullivant says. Most of the fund's transactions provide for an initial capital infusion with follow-on capital available as appropriate depending on the company's growth or other requirements, he adds.

The firm also likes to participate in larger transactions as a more passive, minority investor with other private-equity funds taking the lead. Four of its investments to date have been with larger firms. This allows HEA to combine its focused approach and expertise with the other private-equity provider's larger deal flow and transaction/analytical ability.

Several of the investments are "incubator" in nature, set up as a first funding to be followed by a second round with a larger fund.

HEA prefers being a small firm because it allows Sullivant, Linker and Brandon Baudin, its chief financial officer, to act quickly.

"When we decide to invest, it is a very simple and rapid process to get to closing."

HEA doesn't necessarily require control or a majority of board seats, Sullivant notes.

Eventually, HEA hopes this policy will allow it to invest in distressed securities and recapitalizations, where a little new capital can go a long way. It will also purchase founder's positions in companies that are looking for liquidity but do not want to give up control.

Sullivant says the firm will seek more deals in 2008 in manufacturing, service, E&P and producing-property acquisition companies. The firm does not have any limitations on the size of investment as it looks to co-invest with its partners and other private equity investors. □