

Investor builds energy base

New private equity fuels funding for start-up companies

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Craig Hartley/HBJ

William Flores of Phoenix Exploration: First acquisition after only four months in business caused some sleepless nights.

A New York private equity firm headed by a high-profile oil and gas industry investor is surveying the Houston landscape for more potential gushers.

Pine Brook Road Partners LLC already has sunk two sizable chunks of cash into a pair of start-up independent exploration and production companies.

Howard Newman, president and CEO, pumped up the firm's portfolio with a first investment in Phoenix Exploration Co. LP in 2006, and added Stonegate Production Co. last month.

Newman launched Pine Brook in 2006 after 20 years of overseeing energy investments with global private equity giant Warburg Pincus LLC. He has directly been involved in private equity placements of \$3.3 billion in 47 companies.

Both Stonegate Production and the aptly named Phoenix Exploration have arisen from the ashes of Gryphon Exploration Co., which received some funding engineered by Newman while at Warburg Pincus.

Two former Gryphon Exploration executives lead the fledgling Houston-based companies.

Phoenix is led by CEO William Flores, a Gryphon founder. Michael Harvey is at the helm of Stonegate, which opened in early April with \$200 million in seed funding split between Pine Brook and Soros Strategic Partners LP.

Pine Brook's New York-based equity partner in both Houston ventures is affiliated with prominent hedge fund investor and philanthropist George Soros.

Newman, also Pine Brook's chief investment officer with the final say on all acquisitions, sits on the boards of Phoenix, Stonegate and Newfield Exploration Co. -- another Houston company with prior Warburg Pincus investment ties.

Newman believes the energy field is still financially fertile for investment players.

There are still good opportunities in the energy business and management teams to support. We're looking at all kinds of energy deals," says Newman. Then and now, he says, management quality makes the biggest

difference. Says Newman: "The most important factor is the quality of the management team. That was true 20 years ago and it's true today."

Off to fast starts

Stonegate Production is gearing up for a first acquisition shortly after setting up shop on Echo Lane with eight employees.

CEO Harvey declines to divulge the company's onshore property acquisition plan, but says it will definitely be a technology-based play.

"We'll be users of (oil and gas) technology in the leading-edge sense," he says.

Harvey has been involved in the local energy industry for 30 years and started up other firms, including Gulfstar Petroleum Co., a predecessor to Gryphon Exploration.

Gryphon, formed in 2000, was sold for \$297 million in 2005 to Woodside Energy (USA), a subsidiary of Australia's Woodside Petroleum Ltd. Harvey took a sabbatical after the transaction.

"After (selling Gryphon) I took off for about 18 months," says Harvey. "When you build up a company it takes a lot out of you, so I needed some time before I could come back."

Phoenix Exploration also moved quickly after opening in April 2006.

An initial \$250 million investment came from The Carlyle Group and Riverstone LLC. Phoenix also took on a \$300 million credit facility from a consortium of banks led by JPMorgan Securities Inc.

In July, Newman's first energy industry investment for the newly formed Pine Brook pumped \$100 million into Phoenix, with the participation of equity partner Soros.

Then in August, Phoenix paid \$340 million for all offshore Gulf of Mexico and onshore Louisiana assets owned by Houston-based Cabot Oil and Gas Corp.

The acquired holdings gave Phoenix drill-ready interests in 22 fields onshore and in state waters along the Louisiana coast, along with 34 offshore leases on the Gulf shelf.

Absorbing the Cabot assets was a big opening act for Phoenix. CEO Flores recalls a few sleepless nights around the time of the acquisition.

"We were only about four or five months old but had the right team in place to execute (the acquisition)," says Flores. "Even though I had put together a great team, we only had 12 people on the payroll at the time, so it kept me awake at night."

That head count has since expanded to 44, including other members of the management team. Steve Heitzman, chief operations officer, and senior vice presidents John Parker, Keith Westmoreland and Tim Duncan all worked with Flores and Harvey at Gryphon.

Flores first worked with Newman in 1990. His company, Keyes Offshore, had been acquired and Flores became chief financial officer for the buyer, Houston's Marine Drilling Companies Inc.

Newman, with Warburg Pincus at the time, had engineered a private equity investment in Marine Drilling a few years earlier.

In the back of his mind, Flores is starting to think about the next Phoenix acquisition. But that won't be on the front burner until the Cabot properties are fully operational, he says.

He's confident that Newman and Pine Brook will make the right moves.

Says Flores: "I have a lot of respect for his judgment and ability to analyze this industry."

Michael McMahon, Pine Brook managing director, says the firm is a natural extension of Newman's energy portfolio investments while at Warburg Pincus.

McMahon worked on deals with Newman for 20 years before they formed Pine Brook. His 33 years of energy investment experience includes stints with Lehman Brothers and Salomon Brothers.

McMahon was executive counselor to the governor of Rhode Island prior to joining Newman at Pine Brook.

He shares Newman's philosophy on the importance of picking the right management team.

Says McMahon: "When Bill Flores set up (Phoenix) he sought Howard out and wanted him to be involved. You back the people you know and help them build their companies, to get superior returns on the exploration side. It's the same thing for Harvey (of Stonegate). You back a winner."