Family Offices: The Secret Source that's Funding the Dislocation in the Oil & Gas Investment Market

How to explain an anomaly in the oil & gas industry that has flummoxed investors and owner/operators alike? For the last three years, mergers & acquisitions in oil & gas firms have held steady at about 100 a year. But during this period, many traditional investors—especially those in private equity—have decreased their investment activity in this industry sector. All the more interesting because this was a period that experienced a spike in oil & gas prices.

It turns out that family offices—no strangers to the oil & gas industry--continued to provide much needed funding to specific deals. These entities are taking advantage of what many see as a dislocation in the market. That's why Stephens brought together an exclusive panel to discuss this phenomenon. Do check out our complete Webinar, which includes expert insights and commentary from:

Keith Behrens, Managing Director from Stephens in our Energy Investment Banking
Andrew Bremner, Partner with JB Energy Partners
Ricky Burnett, President and CEO with Silver Creek Oil and Gas
Christian Molina, CEO of BTC Investments
Holt Foster, Co-Chairman of the Global Energy Group at Sidley Austin Law Firm
Jordan Blum, Editorial Director at Oil and Gas Investor Magazine

Family offices are always scouring the globe for the opportunities that best fit their investment criteria. But there's something bigger happening: The private equity model has changed over the last several years. It used to be that portfolio companies would put anchor positions together, drill a few wells, and flip their position in five years. When the markets slowed down with the extraordinary global events of the past three years, there were fewer attractive exit transactions available. The private equity funds had to hold their investments longer.

Holding longer, in turn, altered the private equity fundraising cycle. When they couldn't get cash back to their limited partners more quickly, they were reluctant to call additional capital from their investors for new investments. Likewise, in the current market, fewer LPs seem interested in oil & gas investments. So as private equity slowed down, some family offices have stepped up. That's important, because oil & gas is an industry that requires a lot of capital.

Family offices are coming in from a variety of angles and methods. Our own Keith Behrens has been working on a transaction where a family office could invest in the $50 million to $150 million range in corporate equity or at the asset level. He has also been working on a deal where a family office contemplates partnering with private equity. The slowdown from the private equity firms that attracted the family offices in the first place has also been a boon because the decreased demand kept valuations lower.
According to one of our family office participants in the webinar, they look for good investments that can help them prosper in the long run, and oil & gas is an industry that they believe can deliver long-term value. It also helps that the bidding process favors those (like family offices) that can move quickly. The challenge is finding the right-sized deal. Traditional investors in the oil & gas industry include enormous funds with near-limitless financial resources. In fact, that's why family offices are partnering up and pooling their resources in order to be as effective as possible in a space with other significantly well-resourced players.

Old Clubs are Now Serious Partnerships

Not surprisingly, the largest family offices that can invest $10 million to $100 million per deal, and some family offices are looking to invest even more in select transactions. One of our panelists on the webinar pointed to $900 million of equity invested by a collective group of seven family offices. The willingness to partner often depends on the deal and it's not uncommon for family offices that have never worked together to team up. There's often an anchor investor who attracts the other families.

As family offices carve out a niche in the oil & gas industry, their roles are evolving. Family offices seasoned in the industry are often sought out as partners by family offices that are newer to this industry space. What we're seeing now, according to our panelists, is that various groups of family offices are solidifying and searching out more opportunities as they get to know each other better.

Some of these opportunities may be sourced from the assets stuck in private equity funds that are coming to the end of their fund lives and are not planning to re-invest in oil and gas businesses. Family offices are not only ambitious; many of them are trying to network in ways that they haven't done in the past. And with that networking comes the realization that when they start partnering with other family offices, they get opportunities that never would have been available to them had they invested on their own. Indeed, the clubby nature of the family office has entered a new phase now that there are bigger deals available—especially because of the dislocation in the oil & gas industry.

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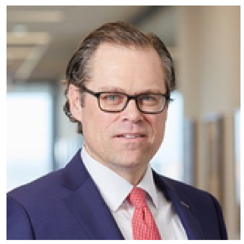

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