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Low oil prices haven't halted acquisition deals

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Low oil prices have apparently not dampened interest in deals amid oil companies.

Bryan Livingston, chief executive officer of Capital Alliance, a Dallas investment banking firm, said oil companies looking to be sold still have a very good chance of finding a buyer, even in the current oil and gas economy.

"Investors are in search of those well-managed companies that they can help achieve growth, even with low oil prices," said Livingston, in Midland to speak at the April 15 Midland Energy Expo at the Horseshoe Pavilion.

Livingston, along with his business partner Paul Puri, addressed those attending the event about the process of selling a company or having that company acquired.

"Our main goal was to take some of the mystery out of investment deals, to share lessons learned," he said.

The two wanted to take companies considering a sale through the process, use the lessons learned format to show what to expect and make them comfortable with the process.

Livingston said there is a lot of misinformation about mergers, including that new owners will fire all the existing employees and dismantle the company.

"There are risks, but a well-run company that knows its market and how to grow will attract investors," Livingston said.

In the current low oil price environment, there might be companies looking to sell because of financial distress.

Livingston said in the current environment, oil and gas companies are being patient as they wait to see what happens with commodity prices and demand. The companies under the most stress are those that took on a lot of debt, he noted.

Other companies want to partner with investors who can help the company meet its potential. Still others have owners who are at the end of their careers and want to sell to an investor who will protect the seller's family and employees.

A number of private equity firms have invested in oil and gas companies, many active in the Permian Basin, in recent years. That group of investors is looking for returns, he said.



Drilling rig

This file photo shows a drilling rig off Texas State Highway 72 east of Tilden, Texas, Thursday.

Strategic investors, whether privately owned companies or large publicly traded companies are looking for transactions that meet a financial test.

That test might be met by companies with financial issues but still offer intrinsic value, Livingston said.

“Buyers like companies that offer technology, a certain customer base or a geographic location,” he said.

There are facets of a company that the owner may not think of as a driver of value but are of extreme importance, such as a strong safety culture or strong quality assurance programs, Livingston said.

Technology helped domestic producers increase oil and natural gas production to the point the U.S. leads the world in hydrocarbon production, he said. And “technology will take us through the process of how to move the industry forward with oil prices low. Technology will help us through the storm of low oil prices,” he said.

He added, “Technology got us here, and technology is still working. We’re not drilling as many wells, but service companies are helping operators continue to produce oil and natural gas.”

Companies that can make money at \$40 or \$50 oil are better at managing production and will draw investor attention, he said.

There are possibilities that could boost prices, he said. One possibility is lifting the ban on exporting U.S. crude to other markets.

“There is technology to put more oil in the marketplace, and as we develop a global market for North American crude, the prices for Brent and West Texas Intermediate will converge,” he said.

“Another hopeful is pipeline construction. Construction is proceeding rapidly, not just for crude pipelines but natural gas as well. The more pipeline miles you have, the cheaper it is to transport and the more stability there is in prices. I see a lot of good things as technology and capital dollars being spent have an effect,” he said.

Capital Alliance is a 40-year-old company but in recent years focused on energy industry clients, he said.

“It’s a cyclical business where only change is assured,” he said.