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Bankers at Midland Energy Expo see more Permian mergers, acquisition amid downturn

So far deals sparse among price uncertainty

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The oil and gas downturn has yet to bring the wave of mergers and acquisitions that traditionally follow a dramatic drop in oil prices, but a pair of investment bankers visiting Midland on Tuesday predicted more deals in the offing as the ongoing slump separates the troubled from the survivors.

The focus of the bankers' lecture at the Zachry Publication's Midland Energy Expo dealt with how small- and mid-sized businesses should approach selling their business.

The wide-ranging presentation included advice such as keeping meticulous records, managing orders and pricing in a way that minimizes risk and shoring up a management team that could help run the company through a buyout. It also involved avoiding risks like depending too much on a certain customer, poor safety records and too high debt.

An ideal approach to selling a company could take years, said the bankers, Bryan Livingston and Paul Puri, who work for Capital Alliance Corporation in Dallas and belong to M&A International.

"There are always good companies that are benefiting from the expense of others," Puri said. "Right now, what we are seeing, the opportunity is very much companies that are benefiting from the consolidation of business — of subcontracting business, of pipe business, of valves. Of those big (exploration and production) companies that are saying we are reducing our contractors from 10 down to two. Who is best positioned to be those two?"

Companies in those situations are the ideal targets for an acquisition, Puri said. But a buyout is generally already in the cards, a year-or-two-long goal by an entrepreneur looking to retire for example.

There are a separate set of companies beleaguered by a drop in oil prices, facing heavy debt to purchase new equipment, taking speculative orders, or otherwise stressed for reasons like a recent and expensive move into the area. Those companies face a different set of potential buyers and banker pressure that could create greater urgency for a sale, the Capital Alliance bankers said.

"Can they start it right away? Yes," said Puri, a principal at the boutique firm. "Are they prepared to be in the process right now? For middle market companies that are 20, 50, 100 million (dollars) in revenue that have fallen, they are not ready. If they've made the preparation, they are probably ready to pull the trigger at any point now."

Capital Alliance reports more than 200 transactions in its more than three decades at a value of more than \$3 billion. They specialize in mid-market companies and work with clients as small as having revenues below \$10 million to roughly \$400 million.

So far, the downturn has brought few of the sorts of deals that observers expect.

Merger and acquisition activity halved in November and December, as the price of oil started plummeting to half the peak price of June, according to the analytics firm Wood Mackenzie. The drop has stabilized somewhat, hovering below \$50 per barrel for several weeks.

But there remains an uncertainty wrought by low oil prices that keep acquisitions at bay, according to Wood Mackenzie.

The firm forecast an uptick of mergers and acquisitions later this year as low oil prices continue to stretch oil companies. Those deals will also involve less private equity and more traditional players pursuing more forced deals instead of strategic ones.

“There are a lot of companies on the sidelines, because you also get the twin phenomenon of sellers not wanting to sell at a low price,” Puri said.

Exhibitors at the Midland Energy Expo included scores of smaller companies, or ones offering niche technologies like water treatment or companies looking to enter or expand into the area. The bankers said you could get a “very good picture of who is doing well and who is not,” just by walking the floor.

And there was at least one prospective buyer combing the floor inside the Horseshoe Arena Pavilion. He declined to be named but said he was an individual investor from Houston looking to invest in a small exploration and production company of up to about \$20 million worth of assets.

“There are so many buyers, so the seller is not yet forced to sell,” said the prospector, who declined to be named. “If they need an exit, they need to rescue their company, they need to sell.”

But few such distressed oil companies attended on Tuesday. And the attitude among the sales reps and entrepreneurs at the expo was mostly positive. The event sold out with several hundred attendees.

“The market is down, but we are trying to take advantage of that,” said Mike Grounds, a Permian Basin regional sales manager with Summit Casing Equipment, which is a Fort-Worth company that sells equipment like centralizers to oilfield companies throughout the country and opened a Midland office in recent years. “We haven’t had to lower our services or anything. We’ve lowered out prices. We just have to work a lot more.”

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