Looking Back to Look Forward:

Identifying Private Equity Portfolio Company Exits in the Oil & Gas Sector

With the arrival of the fourth quarter, many companies will be somewhere in the planning process for 2014. The most proactive corporate development professionals and senior business managers will be scanning the horizon for acquisition targets. It takes time to build organisational momentum for transactions of any size so, to get the ball rolling, we wanted to suggest some ideas to consider.

We decided to focus on private equity portfolio companies in the Oil & Gas sector that might come to market during the latter half of next year.

Folklore would have you believe that this sector has [maybe more than any other] charted its pathway through higher levels of speculation as opposed to more conventional analysis-informed decision-making.

The truth could be rather different.

And certainly when it comes to looking at future portfolio company exits, a little analysis goes a long way.

To demonstrate this point, we set out to identify those companies that might be most interesting in terms of transaction scope and potential. We analysed PE acquisitions over the past ten years, estimated the average and median holding periods, assessed other qualitative and quantitative filters and then identified some options.

Our analysis results in five PE owned companies that might be exited in the next 12 – 24 months.

Trends That Can Be Exploited

Dick Clark, the former presenter of American Bandstand, once famously said: ‘I don’t set trends. I just find out what they are and exploit them’.

In looking at future transactional opportunities in 2015, how would such an approach translate into the European energy marketplace?

While many marketplaces remain relatively static, there are a number of significant trends in the European energy sector, which is dominated by the oil & gas market, as follows:

- The increasing relative importance of natural gas versus oil and coal, and continuing European supply concentration of it in Russia and Norway
- The increasing importance of complex exploration technology and capability in achieving commercially-attractive returns
- The changing landscape of collaboration this results in, with national oil companies who have the majority of the reserves increasingly dependent on relationships with third party companies that have the know-how to efficiently exploit them
Continuing divestment of lower-ROI refining entities by international oil companies as they pursue superior income from ‘upstream’ exploration activity

Ongoing investment in alternative energy infrastructure – perhaps as much as $37 trillion between now and 20351 – will also have its impact on the marketplace. But even this will only act to soften hydrocarbon-based energy’s share of production from 91% to 75% over the same timescale.

Framing the Opportunity Landscape

Norway and the UK host the concentration of exit deals, with the likelihood of this continuing as a potential further 24 billion barrels of recoverable oil and gas reputedly remain in the North Sea, according to the Scottish Government2.

Transaction activity remains concentrated at the ‘upstream’ end of the industry – whose significance grows and grows – and reflects the historic profile of active sellers such as 3i3.

Strategic acquirers dominate the exit landscape, ahead of secondary buyouts which in turn would continue to be more prevalent than other forms of exit. The extent of secondary buyouts demonstrates management’s appetite for a second roll of the dice with another sponsor. Interestingly, private equity backed IPO’s have built steady momentum over the last several quarters, however there was only one such exit within this specific sector in Europe. Increased investor confidence, due to improved equity market performance, could lead to increased demand for new issuances going forward.

Perhaps less obvious though is the constant nature of the replacement rate [(Entry – Exit transactions) over a 10-year horizon, with only one significant deviation – a notable dip at the start of the liquidity crisis in Q3 20074 (Figure 1). This helps calibrate likely deal flow.

---

1 European Oil & Gas marketplace in Europe is available from S&P Capital IQ. Authored by our Oil & Gas Equity Analyst, Christine Tiscareno, as part of our Global Industry Surveys in February 2013, the review speaks to all industry trends, operating dynamics, key ratios and statistics.


3 Number of Transactions: Limited to disclosed and sourced transactions where the respective portfolio companies have been tagged within the GICS Energy (Primary) industry.

4 Investment Firm Type [Sellers]: PE/VC (may also include dual or multi-strategy firms such as MLPs/ Investment Firms that invest in Private Equity), Transaction Type: Merger & Acquisitions & Private Placements (may include minority stake deals). Exit Method: Excludes exits made along with a strategic firm. Industry Classifications [Target]: Energy (Primary). This is a broad umbrella based on GICS [Global Industry Classification Standard] developed jointly by S&P and MSCI in 1999. Related sub sectors classified within other industries such as ‘Utilities’ (Primary) have not been included. Geographic Locations [Target]: Europe (Primary).
The holding period of companies has held firm in the range 4.0-4.5 years\(^5\) whether looked at over 1, 3, 5 or 10 year horizons (Figure 2). This helps inform the likelihood with which companies will be ‘in play’ in 2015.

Emerging Trends

Not everything of course remains the same. To accompany the macro trends outlined above, we can point towards smaller, but still potentially significant, trends as well.

For example, the replacement rate could increase as a consequence of the amount of dry powder and committed capital available for investment.

This might correlate with an increase in the Q/Q exit transaction level, for which there is already some evidence of a momentum build.

The average exit transaction size will continue to grow – albeit in the context of 60% of transactions today being below the £100m threshold\(^6\) (Figure 3).

---

\(^5\) Related Transactions: Holding Periods calculated solely for deals where an initial investment to investment exit transaction has been sourced and linked. Holding Periods: Excludes currently held portfolio companies. Club Deals: Incorporate the longest holding period within multiple exits for the same portfolio company. Bankruptcies & Loan/ Mezzanine Investments: Such proceedings/ transactions have not been considered.

\(^6\) Number of Transactions: Limited to disclosed and sourced transactions where the respective portfolio companies have been tagged within the GICS Energy (Primary) industry.
Possible Targets to Look Out For In 2015

So which companies, based on our analysis, would we shortlist in the context of likely transactions in late 2014/2015? We’ve come up with the following five:

1. **Glacier Energy Services**
   Glacier Energy Services engages in the design and manufacture of precision on-site portable cutting machines for the oil and gas industry; the sale and rental of equipment; and offers metal cutting solutions in subsea, land, and refinery areas. The company was formerly known as MBAe Oil & Gas Limited changing its name to Glacier Energy Services in March 2011 and is based in Motherwell, United Kingdom.
   
   **Transaction Date:** 28/03/2011  
   **Transaction Value (Historical Value):** £8.5m  
   **Target Sub Sector:** Oil and Gas Equipment and Services  
   **Buyer:** Maven Capital Partners UK LLP; Simmons & Company, Private Equity

2. **The Heide Refinery (Royal Dutch Shell)**
   Royal Dutch Shell plc, Heide Refinery in Germany provides oil refining and processing services with a capacity of approximately 4.5 million tonnes of crude oil per year. The refinery is located in Heide, Germany.
   
   **Transaction Date:** 20/08/2013  
   **Transaction Value (Historical Value):** £64.55m  
   **Target Sub Sector:** Oil and Gas Refining and Marketing  
   **Buyer:** Klesch & Company Limited

3. **Meta Downhole Ltd**
   Meta Downhole Ltd provides solutions for isolating wells during drilling, completion, and production. It offers morphable casing reconnect, liner tieback, internal clad, and isolation barrier technologies. Formerly known as READ Well Services Ltd changing its name to Meta Downhole Ltd in 2012 and is headquartered in Aberdeen, United Kingdom.
   
   **Transaction Date:** 12/05/2010  
   **Transaction Value (Historical Value):** £18.6m  
   **Target Sub Sector:** Oil and Gas Equipment and Services  
   **Buyer:** Viking Venture AS; Energy Ventures AS; KLP Pensjonsforsikring AS
4. Intercede (Scotland) 1 Ltd
Intercede (Scotland) 1 Limited, trading as Electro-Flow Controls Limited, engages in the design, manufacture, installation, and commission of a range of handling, control, monitoring, and instrumentation solutions for the oil and gas industry in the United States and internationally. Intercede (Scotland) 1 Limited was founded in 1988 and is based in Aberdeen, United Kingdom with operations in Singapore; Abu Dhabi, United Arab Emirates; Macae, Brazil; and India.

Transaction Date: 02/12/2009
Transaction Value [Historical Value]: £10.0m
Target Sub Sector: Oil and Gas Equipment and Services
Buyer: Maven Capital Partners UK LLP; Simmons & Company, Private Equity

5. Coryton Fuels Technology Unit
Coryton Fuels Technology Unit distributes biofuels and petroleum-based fuels to automotive, oil, additive, motorsports, military and aviation industries. The company was founded in 2000 and based in the United Kingdom.

Transaction Date: 12/07/2010
Transaction Value [Historical Value]: -
Target Sub Sector: Oil and Gas Refining and Marketing
Buyer: Oakfield Capital Partners LLP

Three of these are Equipment and Services companies and two are in Refining and Marketing. All are worth a closer look.

Interesting, but Potentially Difficult, Acquisitions

Our research also uncovered a handful of potential acquisitions which fit the criteria but might be more difficult to exit, as they were acquired in the period 2006-2008 and have been held for longer than the median holding period.

1. Expro International Group Holdings Limited
Transaction Date: 17/04/2008
Transaction Value [Historical Value]: £1,958.16m
Target Sub Sector: Oil and Gas Equipment and Services
Buyers: AlpInvest Partners B.V.; Goldman Sachs Group; Arle Capital Partners Limited
Location: United Kingdom

2. Blue Ocean Associates Ltd.
Transaction Date: 09/01/2008
Transaction Value [Historical Value]: £103.0m
Target Sub Sector: Oil and Gas Refining and Marketing
Buyers: Ion Equity Limited
Location: United Kingdom
3. **CCI Lubelia Ltd**
   - **Transaction Date:** 27/12/2007
   - **Transaction Value (Historical Value):** £7.54m
   - **Target Sub Sector:** Coal and Consumable Fuels
   - **Buyers:** Da Vinci Capital Management Ltd.
   - **Location:** Ukraine

4. **Abbot Group Limited**
   - **Transaction Date:** 19/12/2007
   - **Transaction Value (Historical Value):** -
   - **Target Sub Sector:** Oil and Gas Drilling
   - **Buyers:** Pamplona Capital Management LLP
   - **Location:** United Kingdom

5. **Società Gasdotti Italia S.P.A.**
   - **Transaction Date:** 28/12/2006
   - **Transaction Value (Historical Value):** £201.22m
   - **Target Sub Sector:** Oil and Gas Storage and Transportation
   - **Buyers:** EISER Infrastructure Partners LLP
   - **Location:** Italy

Of these five portfolio companies, two are headquartered in countries that have historically seen less activity, namely ‘CCI Lubelia Ltd’ [Ukraine] and ‘Società Gasdotti Italia S.P.A.’ [Italy].

**Behind the Analysis: The S&P Capital IQ platform**

This article shows how the tools and research available from S&P Capital IQ can be combined to provide market insight that can give you a competitive advantage and an overall better lens on the opportunities most relevant to your business.

The [S&P Capital IQ platform](https://www.spcapitaliq.com) combines deep global company information and market research with powerful tools to help you with fundamental analysis, idea generation and workflow analysis. This interactive and dynamic web- and Excel-based platform provides easy access to fixed income, M&A, and fundamental data for private and public companies.

For more information, contact us at [emea-marketing@spcapitaliq.com](mailto:emea-marketing@spcapitaliq.com) or visit [www.spcapitaliq.com](http://www.spcapitaliq.com).
About S&P Capital IQ

S&P Capital IQ, a part of McGraw Hill Financial (NYSE:MHFI), is a leading provider of multi-asset class and real time data, research and analytics to institutional investors, investment and commercial banks, investment advisors and wealth managers, corporations and universities around the world. S&P Capital IQ provides a broad suite of capabilities designed to help track performance, generate alpha, and identify new trading and investment ideas, and perform risk analysis and mitigation strategies. Through leading desktop solutions such as the S&P Capital IQ, Global Credit Portal and MarketScope Advisor desktops; enterprise solutions such as S&P Capital IQ Valuations; and research offerings, including Leveraged Commentary & Data, Global Markets Intelligence, and company and funds research, S&P Capital IQ sharpens financial intelligence into the wisdom today’s investors need.

This material is not intended as an offer, promotion or solicitation for the purchase or sale of any security or other financial instrument nor should it be considered investment advice. This material is not intended for any specific investor and does not take into account particular investment objectives, financial situations or individual needs and is not intended as a recommendation of particular securities, financial instruments or strategies.

Copyright © 2013 Standard & Poor's Financial Services LLC (S&P), a part of McGraw Hill Financial. All rights reserved.

No content [including ratings, credit-related analyses and data, model, software or other application or output therefrom] or any part thereof [Content] may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates [collectively, S&P]. The Content shall not be used for any unlawful or unauthorised purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents [collectively S&P Parties] do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions [negligent or otherwise], regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses [including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence] in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions [described below] are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P’s public ratings and analyses are made available on its Web sites, www.standardandpoors.com [free of charge], and www.ratingsdirect.com and www.globalcreditportal.com [subscription], and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

OCTOBER 2013
WWW.SPCAPITALIQ.COM