

THE PERFECT MATCH

EnerVest Ltd. and FourPoint Energy LLC were locked in bidding battles over properties for sale in the Western Anadarko Basin, working to outmaneuver competitors and one another. When the smoke cleared, however, they put aside competitiveness to work together.

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George Solich, FourPoint Energy LLC president and CEO, still thrills at the competitiveness of the industry.



FourPoint brings land management and geosciences skills to an area its team is familiar with, said Phil DeLozier, executive vice president of business development for EnerVest Ltd.

George Solich's FourPoint Energy LLC was in the thick of a bidding war in early 2013.

Solich had been on the sidelines since 2012, when his previous company sold for \$3 billion. But the thrill of finding oil and gas is irresistible to him. After patiently evaluating assets, he saw a deal that would put him back into the industry he loves and the competitive environment he delights in.

"We started seeing a fair amount of deal flow and didn't want to miss out," Solich said. "We've been really evaluating opportunities, I would say, since the spring of 2013."

He returned to the fray in the Anadarko Basin, where he had been successful many times before.

And he lost.

Solich, FourPoint's president and CEO, had set his eyes on Laredo Petroleum Inc.'s interests in the Anadarko. Laredo was offering 104,000 net leasehold acres in western Oklahoma and the Texas Panhandle, as well as associated infrastructure. FourPoint was neck-and-neck with bidders on Laredo's assets but ultimately lost out. The winning bid was \$396 million in cash.

Later in the year, FourPoint was again in the chase with a bidder to acquire SM Energy Co.'s Anadarko assets, including its Granite Wash interests. "I think at the end of the day we probably had the upper hand, but we needed the time to finalize our capital raise," Solich said. Without the finances in order, SM Energy passed Solich up for \$343 million.

In both cases, the winner was EnerVest Ltd., a powerhouse acquirer and seller that is respected enough to swing a deal in its favor without always making the highest bid. CEO John B. Walker and Solich have known one another for about a quarter-century. And Solich had a plan.

"I approached John with the idea: Let's do a joint venture, and we'll put a big area of mutual interest [AMI] around the Western Anadarko Basin and we'll marry the strengths of both our companies," Solich said.

Walker was intrigued, especially since Solich's team had drilled more than 250 wells, most of them horizontal, in the basin. FourPoint's geological expertise in the area goes back 10 years. "Where it was more of a new

entry for them, we felt marrying our experience with their operational prowess was really a good thing," Solich said.

The effort required a huge amount of paperwork, due diligence and fine-tuning. Yet, "the great thing about our business is that John and I basically shook hands on the deal," Solich said. "I guess it was a little bit about relationships, a little bit about timing and a little bit about the opportunity."

In late January of this year, the two companies struck a deal. FourPoint, based in Denver, acquired producing and undeveloped oil and gas properties and related midstream assets from affiliates of EnerVest for \$268 million. The companies also entered into a joint development with a 50-50 AMI to own, operate and develop oil and gas properties in the Western Anadarko Basin. EnerVest and FourPoint will share in future lease and producing property acquisitions within the joint development area, which consists of 14 counties in Texas and Oklahoma.

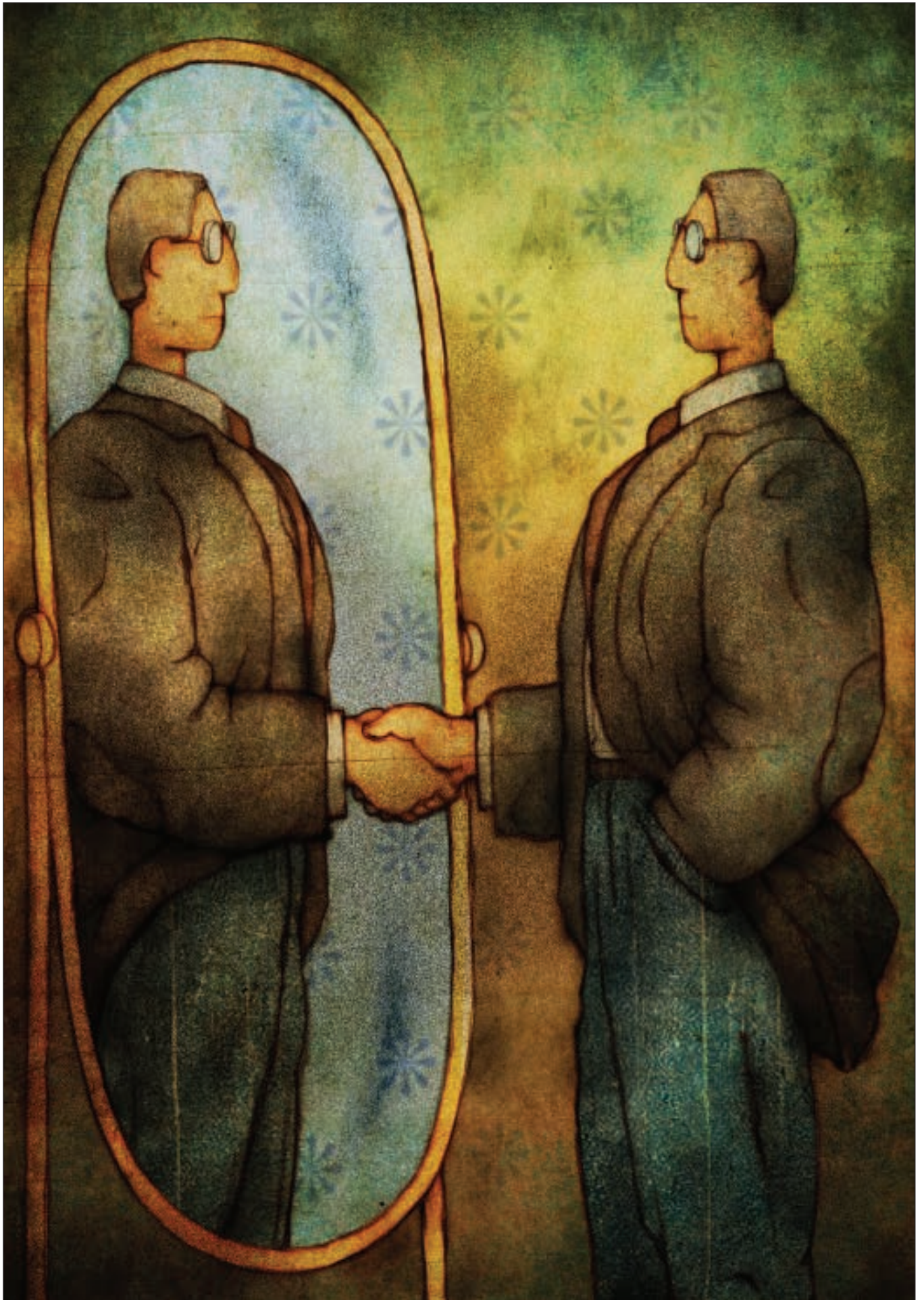
FourPoint's purchase included an ownership stake in the Laredo and SM Energy acquisitions closed by EnerVest in second-half 2013, with interests in more than 1,200 producing wells and net production of more than 35 million cubic feet equivalent per day (MMcfe/d). FourPoint's investment in the JV is about 34% of EnerVest's acquisition costs.

The deal gave FourPoint time to get its financial footing. At the end of January it raised more than \$1 billion in capital, including \$200 million in direct private equity and \$800 million in term debt, from EIG Global Energy Partners LLC and funds advised by GSO Capital Partners LP.

"You really couldn't pitch a JV to somebody who didn't know you and didn't know your track record, and you didn't know them and their track record," Solich said. "I think it boils down to relationships."

Solich is well-known and respected in the industry. His last career stop was also in the Anadarko Basin, where he started Cordillera Energy Partners III in 2007 and sold it in April 2012 to Apache Corp. for \$3.1 billion. Cordillera had about 330,000 net acres of mineral rights in western Oklahoma and the Texas Panhandle.

Previously, in 2008, Cordillera II's subsidiary, Cordillera Texas LP, sold producing assets in the



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George Solich, FourPoint Energy LLC

EnerVest-FourPoint JV Assets

Seller	Area	Original Purchase Price (\$MM)	Net Rate (MMcfe/d)	Net Acres
Laredo	Anadarko Basin	438	60	104,000
SM Energy	Anadarko Basin	343	49	58,000
Totals		781	109	162,000

Source: EnerVest, FourPoint, Hart Energy

Buffalo Wallow and East Texas/northern Louisiana areas to Forest Oil Corp. for \$529 million in cash and 7.25 million shares of stock, generating \$873 million in value.

“After you build three successful companies in 12 years, the only thing left to do is start a fourth,” states FourPoint’s website.

Strength in numbers

The JV between FourPoint and EnerVest couldn’t have been a better fit, with operations on one side and geosciences on the other.

Phil DeLozier, executive vice president of business development at EnerVest, said the JV price tag was basically a negotiation. “They worked to value what they thought the interest was that they were going to be acquiring from assets they had from the Laredo acquisition, as well as the SM Energy acquisition.”

The JV is a good example of the importance of relationships in the oil and gas business, he added. “In fairness, I think George initiated the conversation. It was a very good idea that he had, and I think John and our firm quickly appreciated the value of having a strong partner such as FourPoint.”

An important aspect in any JV is to make sure both parties are aligned and playing off each other’s strengths. “One of the attributes that FourPoint brings to the joint venture is a strong geosciences and land management aspect,” DeLozier said.

Cordillera’s three iterations have a rich and successful history working largely in the same areas, he added. Its database and understanding of the Anadarko Basin’s geoscience are valuable attributes. “It lends itself to helping both of us understand the proper way to drill and complete wells in the various plays within the Anadarko Basin.”

The companies are looking at a time line of three to five years, with much work to do to ensure success.

“We’re hoping to create a lot of value for our investors by drilling and completing some really good wells in this area,” DeLozier said.

Solich said FourPoint’s goal is to grow quality assets, finding drilling horizons and proving up potential future reserves. The companies’ teams are spending time together integrating the new acquisitions. Their job will be to gather specifics about the geology and engineering of the plays. Once that is done, the companies will aggressively grow each of their portions of the JV.

EnerVest is the designated operator in the

venture. It anticipates spudding at least 51 wells and spending \$150- to \$200 million on drilling and completions in 2014 with an additional \$50- to \$100 million on leasing. Drilling will target the Granite Wash, Tonkawa, Cleveland and other formations.

Both companies have a lot of plowing ahead of them, but also a sense of excitement, Solich said. “Our teams are spending lot of time together and getting ourselves both integrated in two new acquisitions and two new ways to describe different zones,” he said.

Aggressive patience

In returning to the industry, Solich wanted to capture assets in the Midcontinent and Permian. The key was to wait for the right moment to jump on a deal. The Western Anadarko Basin contains a combination of gas, natural gas liquids and oil. At least one phase of his plan has started, but the Permian will be a tough play to get into with prices sky-high. “I think you just pick your spots,” he said.

As a private company, FourPoint will be a “lumpy grower.” Quarter to quarter, it won’t be consistently good, he said. But over five years, he wants to pick up small or large acquisitions while drilling wells and buying leases.

“Before you know it, we have a significantly good asset there,” he said. “We’re patient.”

Solich noted that while FourPoint started evaluating assets in the spring of 2013, it didn’t make a deal until the end of the year, with its JV. “It’s not really a grocery store out there. You don’t just get to pick and choose off the shelf whatever you want to grow your company,” he said. “It takes a little more strategy than that. Some of it is opportunity-based. And some is proactively based, with greenfield activity development.”

But the A&D market lends itself to building, as companies realign capital and talent to other plays. That opens up prospects in what they leave behind.

“We’ve already looked at a lot of things and continue to evaluate as many opportunities that fit our geographic focus and strategy as possible. We’re pretty bullish that there will be a lot to look at in the next 12 months,” Solich said.

For now, the natural gas business is a big part of the company’s future. The challenge is to build a company that is sustainable in an era of dramatic commodity price volatility. But FourPoint is not a mass acquirer, buying everything and putting it in a warehouse, hoping the price goes up. “You’ve got to have the kind of operation and kind of assets that can weather those swings in commodity prices,” he said.

Solich anticipates additional purchases in the near future and said FourPoint is in a position to pursue additional capital within six to nine months.

“We feel like capital availability is an extremely important part of the strategy,” he said. “I think near term we will be very opportunity-driven.” □

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