

# CASH FLOWS

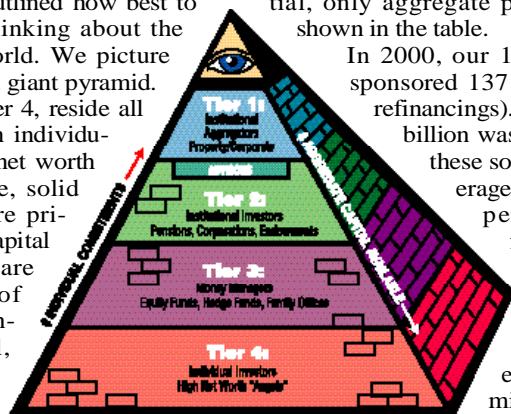
## For Private Capital, 2000 was a Trophy Year

Tracking private capital flows is like publishing world oil production data. Some countries provide reliable statistics, others require liberal editorial input, some demand complete reconstruction. Private capital financings, whether equity or debt, show up occasionally in tombstone ads and websites, but no regulatory agency collects the data. There are no standards, no definitions, and precious little inclination to go public. After all, that's what "private" means!

However, for each of the past three years, Cosco Capital Management LLC, a New York-based investment firm specializing in private capital for energy, has polled 80 to 100 capital sources that invest in the energy business on a private, negotiated basis. With respect to 2000 activity, as of this writing we have received replies from 15 private capital sources. Critical data are shown in the 2000 Private Capital Activity table on this page.

First, several terms need to be defined: "Tiers 1 & 2," for instance. In the December 1997 issue of *Oil and Gas Investor*, Cosco outlined how best to organize one's thinking about the private capital world. We picture private capital as a giant pyramid. At the base, in Tier 4, reside all the high-net-worth individuals, whose liquid net worth provides the wide, solid base for the entire private and public capital world. In Tier 3 are the aggregators of individuals' investable capital, namely money managers, hedge funds, and for

the lucky few, family offices. Above them in Tier 2 are the institutional investors, typically subsets of corporations, like pension and endowment funds, banks and other financial concerns, utilities, and oil and gas companies themselves. Finally, in Tier 1 you'll find aggregators of capital sourced primarily from Tier 2 institutions immediately below them. These tend to be large general funds labeled venture capital, growth or buy out; or smaller, specialized funds, often segregated by sectors,



### 2000 Private Capital Respondents

#### Tier 1 (Funds):

EnCap Investments LC  
Energy Spectrum Capital LP  
First Reserve Corp.  
Kayne Anderson Energy Fund LP  
Lime Rock Partners  
Natural Gas Partners  
Quantum Energy Partners LP  
TCW Energy and Infrastructure Group  
Warburg, Pincus Equity Partners LP  
Yorktown Partners LLC

#### Tier 2 (Corporate Investors):

Aquila Energy Capital Corp.  
Enron Energy Capital Resources  
Shell Capital Inc.  
Southern Producer Services LP  
Wells Fargo Energy Capital

and labeled energy or technology.

Of the 15 private capital sources that have so far responded for 2000, 10 are from Tier 1 and 5 are from Tier 2 (see the accompanying list). As all requested their individual data be kept confidential, only aggregate performance is shown in the table.

In 2000, our 15 respondents sponsored 137 financings (or refinancings). Just over \$2.5 billion was committed by these sources, or an average of \$18 million per, as distinct from public issues, which for the first nine months of 2000 averaged \$285 million per transaction.

Private capital, therefore, is clearly within reach of most energy companies. Its sweet spot tends to run between \$15- and \$25 million. Few sources are candidates for financings of less than \$10 million. On the other hand, several are capable of providing more than \$100 million.

Our respondents reported 19 portfolio monetizations (sales, mergers, initial public offerings) during 2000, netting them more than \$750 million. All but one of these were consummated by Tier

1 (fund) investors, which makes sense, as these typically prefer corporate investments and seek to sell when product prices are high. As 2000 progressed, buyers and sellers of companies developed consensus on value, clearing the market through privately negotiated corporate sales and mergers.

Tier 2 investors, on the other hand, tend to focus on properties and prefer debt-like, secured, yield-oriented instruments. In 2000, these investors enjoyed the best margins in memory; they had little incentive to sell or unwind their positions. Their concern right now, in fact, is that their loans are being paid back too quickly, and they will have to work extra hard in 2001 to find new deals even half as sweet as those placed over the past several years.

Finally, in 2000, six out of our ten Tier 1 aggregators reported raising new funds, for a total of \$4.3 billion. A further six (two repeat) plan to raise new funds in 2001.

Between monetizations and new funding, therefore, Tier 1 investors will sport enormous liquidity in 2001 (almost \$4 billion among our 10 respondents, alone, without new activity). While Tier 2 investors don't raise funds, per se, all among our respondents reported their budgets have been increased, in this case from roughly \$800 million in 2000 to \$1.7 billion in 2001. We expect this will be mirrored throughout their Tier 2 peers.

What do we see for 2001? Most of our Tier 2 respondents report increased interest in corporate equity, and most are expanding into Canada. Tier 1 and Tier 2 sources say they are emphasizing drill-bit-oriented business plans this year over acquisitions, which occupied center stage throughout most of 1998-1999.

The stars are definitely aligned for further monetization of Tier 1 portfolios, and most Tier 1 aggregators will be in the market raising new funds. Tier 2 sources find their boards awash with profits, fueling growth in their own capital budgets for investment in energy. We anticipate that in 2001, therefore, yet larger trophies and higher records are sure to come.

—Cameron O. Smith,  
Cosco Capital Management LLC

### 2000 Private Capital Activity

Sources	#	2000 Activity				New Funds			At Year-End 2000	
		Committed		Monetized		2000		2001	Committed	Available
		# Deals	\$MM	# Deals	\$MM	# Funds	\$MM	# Funds	\$MM	\$MM
Tier 1	10	92	1,698	18	693	6	4,290	6	5,004	3,807
Tier 2	5	45	815	1	65	NA	NA	NA	5,780	1,700
Total	15	137	\$2,513	19	\$758	6	\$4,290	6	\$10,284	\$5,507