Five Point Capital pivots to acquisitions for midstream portfolio companies' growth, execs say
By Mark Druskoff in Houston
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Five Point Capital Partners sees oil price declines leading to more acquisition opportunities for portfolio companies, said executives.

The Woodlands, Texas-based private equity fund announced the close of Fund I and Fund II on 15 January totaling USD 450m.

Five Point has two existing portfolio companies, **Redwood Midstream Partners** and **Twin Eagle Resource Management**, and expects to back four to six more companies, said David Capobianco, managing partner. Five Point looks to invest USD 50m to USD 75m in each of its portfolio companies, and co-investment by limited partners could raise that amount to USD 100m to USD 200m, he said.

Prior to the decline in crude prices, Five Point planned for acquisitions to only play a secondary role to greenfield developments, Capobianco said. However, the situation has reversed so that now two-thirds of Five Point deals could come from acquisitions, and just one-third from greenfield projects, he said.

Five Point companies will look to acquire existing midstream assets of crude, natural gas, NGLs or water from producers and then invest to expand those assets to support the producers as they grow, said Capobianco. Critical to such arrangements will be negotiating downside protection against falling production or changing development programs, he said.

Five Points expects to deploy all of its capital in the next two to three years, Capobianco said. Portfolio companies will use only "modest" leverage in their initial deals, and development projects will "substantially" be all equity, so vulnerability to debt markets will be minimized, he said.

Last February, Five Point made a USD 75m commitment to Redwood Midstream, according to a company press release. Redwood has not yet drawn down any of its capital, but that equity commitment will be backed by Fund II, said Capobianco.

Last March, Five Point along with GSO Capital Partners acquired a 50% interest in Twin Eagle from **Chesapeake Operating** and **LS Power**, and, along with management, committed to invest up to USD 200m in the company, a press release showed. In addition to Fund II, Five Point has dedicated USD 27m through Fund I specifically for Twin Eagle, said Capobianco.

With overall production growth flattening in 2015, midstream infrastructure development should begin catching up with producers' needs, said Capobianco. If the current pricing environment persists, volumes could decline causing a plateau in demand for new infrastructure, he said. However, the "addressable market" for Five Point will increase as upstream operators focus their limited capex on drilling and development rather than building their own midstream assets, he said.

Independent owner-operators of midstream assets, such as family-owned companies or small independents, are another likely group of sellers, said Capobianco.

Valuations on midstream assets are likely to come down somewhat, said Capobianco, but Five Point's ability to move quickly to take advantage of asset sales should create buying opportunities.

Redwood Midstream is currently in discussions on at least two Permian Basin midstream transactions, said Matthew Morrow, partner, Five Point. The company also has looked at opportunities in the Eagle Ford and the core of the Niobrara, he said.

Twin Eagle has existing midstream assets in the Bakken, the Rockies and Texas, and sought to acquire a range of midstream assets including crude trucking and natural gas liquids (NGLs) logistics, according to a previous report by *Mergermarket* in April. The company also signed a 50/50 joint venture with **Crestwood Midstream** to develop a crude by rail project in Wyoming.

Asked if the decline in prices had changed the attractiveness of crude hauling and crude by rail, Capobianco said that the current environment makes such opportunities more attractive as the more capital intensive transportation alternatives, like long haul pipelines, become less viable. With great uncertainty around oil prices, producers are less likely to commit to expensive pipelines but more likely to support less capital intensive crude hauling and crude by rail, he said.

The uncertainty in the markets does make recruiting management teams out of publicly traded master limited partnerships (MLPs) a challenge, but Capobianco thought midstream owner-operators could provide an alternative pool of management talent.

In addition, the current commodity pricing environment likely extends the timelines for companies to reach an exit stage, said Capobianco. However, he still thought three to five years was a “realistic” amount of time.

On the January capital raise, Debevoise & Plimpton served as legal counsel and Mercury Capital Advisors served as placement agent, a press release showed. Five Point doesn’t expect to retain financial advisors for small transactions, but will look to engage advisors when it comes to a potential sale or IPO, said Capobianco.