



# **CIPA 2009 Annual Meeting Carlsbad, California**

*Jason DeLorenzo, Managing Director*



**June 6, 2009**



# EnCap Investments L.P.

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## *Overview*

**Leading provider of capital to the independent sector of the U.S. oil and gas industry since 1988**

- Provided over 150 upstream companies with growth capital
- Managed aggregate capital commitments of \$6.5 billion
- EnCap acts as a fiduciary for institutional investors and is responsible for investment decisions and management of the portfolio (no LP influence)
- Consistent returns across multiple industry price cycles
- Recently closed EnCap Energy Infrastructure Fund, L.P., a midstream-focused fund





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## *Upstream Focus*

- Partner with management team with a strong track record
  
- Alignment of interest through
  - Skin in the game
  
  - Back-in structure
  
- Focus on returns: acquisitions and drilling economics
  
- Risk management
  - Capital allocation
  
  - Capital structure (low leverage)
  
- Build to sell in 4 to 7 year time frame





# EnCap Investments L.P.

## Organization

ADMINISTRATIVE STAFF	
Bobby Haier	CFO
Melissa Standley	Tax Manager
Donna Wright	Controller
Audrey White	Sen. Acct.
John Stricker	Sen. Acct.
Katherine Jenkins	Coordinator

PRINCIPALS	
David Miller	Partner
Gary Petersen	Partner
Marty Phillips	Partner
Bob Zorich	Partner

INVESTOR RELATIONS	
Hallie Kim	Mng. Dir.

INFRASTRUCTURE FUND INVESTMENT STAFF	
Dennis Jaggi	Partner
Billy Lemmons	Partner
Bill Waldrip	Partner
Dennis McCanless	Mng. Dir.
Bryan Danmier	Vice Pres.
Morriss Hurt	Vice Pres.
Cat McMIndes	Engineer
Eric Winscher	Engineer
Pam Jauer	Eng. Analyst
Tommy Waldrip	Analyst
Jana Jackson	Analyst



UPSTREAM FUND INVESTMENT STAFF	
Jason DeLorenzo	Mng. Dir.
Murphy Markham	Mng. Dir.
Jason McMahon	Mng. Dir.
Sean Smith	Mng. Dir.
Wynne Snoots	Mng. Dir.
Doug Swanson	Mng. Dir.
Mark Burroughs	Vice Pres.
Mitch Hovendick	Vice Pres.
Brad Thielemann	Vice Pres.
Mark Welsh	Vice Pres.
Matt Crystal	Assoc.
Ryan Devlin	Assoc.
Kyle Kafka	Assoc.
Scott Smetko	Assoc.





# EnCap Investments L.P.

## *EnCap Energy Capital Fund VII*

- Fund Size: \$2.5 billion
- 150+ limited partners
  - Consists of public pensions, insurance companies, university endowments, energy banks, foundations and wealthy family trusts
- Investment Mandate
  - Private Equity
  - Transaction Size: \$40MM to \$200MM
  - Upstream Sector
  - Focused on North America (select international investments)





# EnCap Investments L.P.

## *EnCap Energy Infrastructure Fund, L.P.*

**A midstream focused fund with a dedicated investment staff of midstream professionals**

- EnCap and Flatrock partner in a new fund focused on the midstream sector
- Flatrock principals average nearly 30 years of experience in the midstream sector
  - Provide technical expertise and deal flow
- Significant investment opportunity in midstream as a result of tight capital markets for E&P companies and MLPs
- Will adhere to EnCap's core philosophies
  - Value creation and capital preservation
  - Partner with seasoned management teams
  - Alignment of interest
  - Risk management

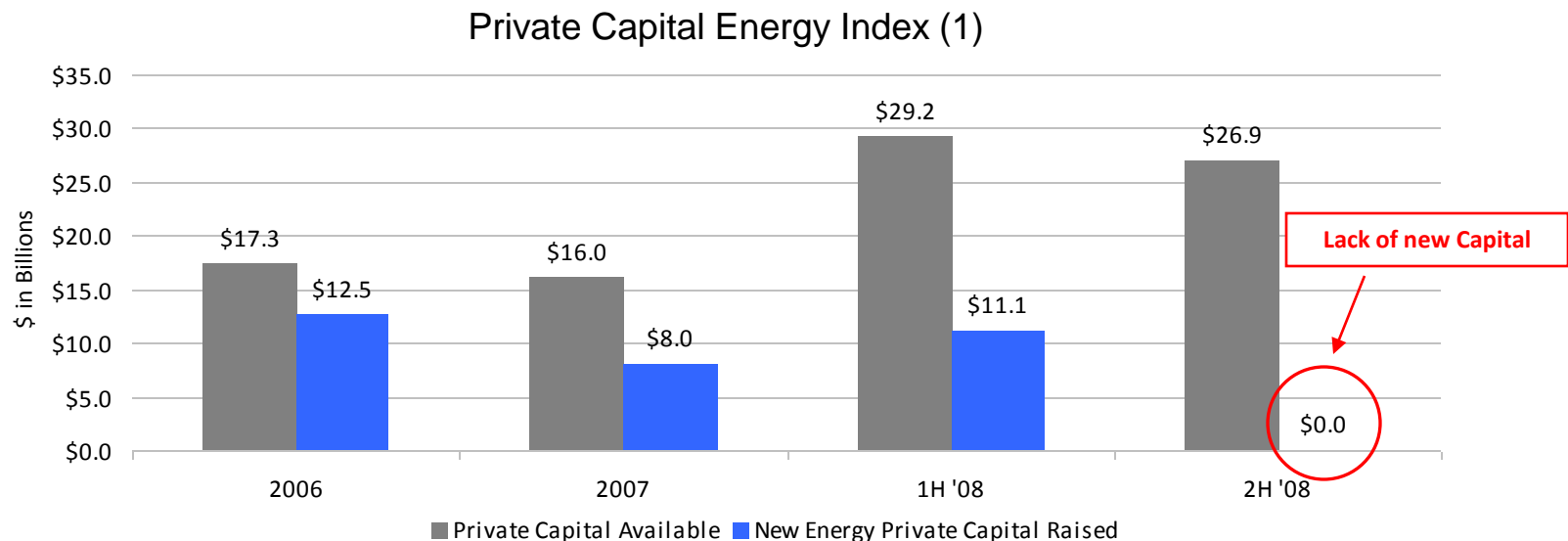




# EnCap Investments L.P.

## *Recent Energy Bull Market Attracted Unprecedented Private Capital*

- Robust fundraising in 2006, 2007 and 1H 2008 resulted in a large amount of private capital available to the energy industry
- While raising capital is more difficult in the current environment, a large pool of capital remains available



(1) April 2009 Oil & Gas Investor; Index comprised of 22 capital sources in the US and Canada; 17 of the funds in the index are solely focused on equity.



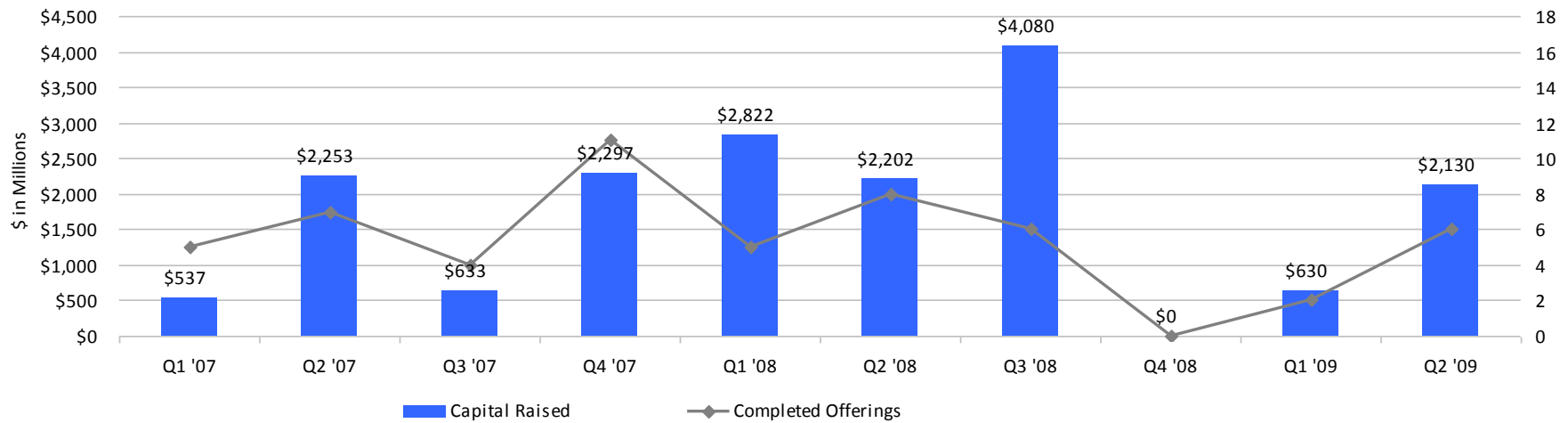


# EnCap Investments L.P.

## Public Equity Market

- Public equity markets shut-down for six month during Q4 '08 and Q1 '09
- The recent rebound in energy prices coupled with positive sentiment has resulted in a window where equity can be raised
  - Q2 '09 numbers include \$1.4 billion offering from Anadarko Petroleum

Recent US E&P Public Equity Offerings (1)



(1) Raymond James Energy Investment Banking Group





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# **Market Downturn Impact on Private Equity**



# EnCap Investments L.P.

## *University Endowments and Public Pensions Facing Steep Losses*

- The National Association of College and University Business Offices (“NACUBO”) reported that endowments investments fell 23% from July to November 2008
  - The study incorporates data from 796 colleges and universities in the United States and Canada
  - The 23% decline represents approximately \$94.5 billion in value

<i>(\$ in billions)</i>	<b>6/30/08 Endowment Funds (1)</b>	<b>Loss % (2)</b>	<b>12/31/08 Endowment Estimate</b>
<b>Top 5 University Endowments</b>			
Harvard University	\$36.6	(22.0%)	\$28.5
Yale University	\$22.9	(25.0%)	\$17.2
Stanford University	\$17.2	(25.0%)	\$12.9
Princeton University	\$16.3	(25.0%)	\$12.3
University of Texas System	\$16.1	(27.0%)	\$11.8
<b>Top 5 Institutions</b>	<b>\$109.1</b>	<b>(24.3%)</b>	<b>\$82.6</b>

(1) 2008 National Association of College and University Business Officers Endowment Study  
 (2) Loss percentages are estimates from various news articles and reports

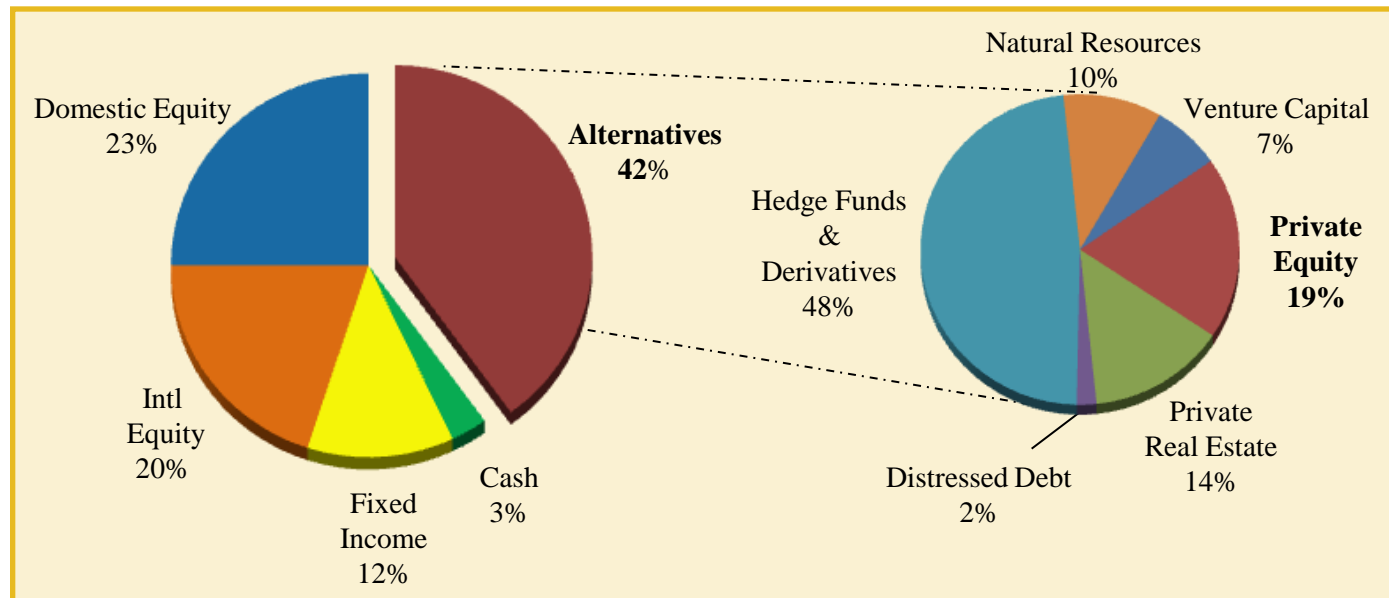
Source: 2008 NACUBO Endowment Study



# EnCap Investments L.P.

## *Institutional Investors Damaged*

- Precipitous drop in public equities and fixed income portfolios caused large write-down of endowment portfolios resulting in liquidity issues and over-allocation to private equity
  - Some sell private equity portfolio
  - Others guarding liquidity and high-grading new PE commitments





# EnCap Investments L.P.

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## *Private Equity Capital for E&P Industry*

- Generalists and hedge funds less visible
- Strong fund managers have capital
- Strong fund managers will continue to be able to raise capital
  - Fund size is a question mark
- First priorities are existing portfolio companies
  - Liquidity to thrive in this market
- **The bar has been raised for new management teams**





# EnCap Investments L.P.

## *First Priority: Funding to Existing Management Teams*

- Existing committed capital is being called for “compelling” opportunities
- Some shift from drilling strategies back to “acquire and exploit”
  - **Acquisitions:**
    - Bidding PDP PV15 using current prices for producing properties
    - Desire for economic upside while assigning little value to it
      - Drilling locations that are uneconomic in the current environment will have value when/if prices rebound
    - Bolt-on acquisitions high-grading acreage in compelling resource plays
  - **Drilling:**
    - Still spending in economic plays; stacking rigs in areas with bad returns
    - Economics are improving as costs come down and prices creep up (oil plays)
    - Drilling in some areas to fulfill obligations and/or maintain leases





# EnCap Investments L.P.

## *Private Equity Commitments to New Management Teams*

- Private equity managers are pacing allocation of committed funds
  - Preference for remaining capital to last through the entire down-cycle
  - Extend next fund raise further into the future
- New commitments require more compelling opportunity and returns than in recent history
  - A+ management teams with strong track record
  - Very attractive captured opportunity





# EnCap Investments L.P.

## *Strong Management Team Attributes are More Important Than Ever*

- Honesty, Integrity and Forthrightness
- Strong technical and operational backgrounds
- Well-defined business plan / value creation strategy consistent with experience
- Adaptability
- Common understanding of risk management
- Receptive to “partnership” relationship





# EnCap Investments L.P.

## *Opportunity for Companies with a Strong Equity Partner*

- Premium on liquidity – Cash is King!
  - Debt-laden smaller producers are forced to sell assets to raise cash
  - Lack of liquidity has caused shift to buyers market for oil and gas properties
- Limited credit market creates need for equity; however depressed public energy equity valuations limit public equity raises
- Multi-strategy private capital “Hot Money” exits energy space on recent weakness
- Well-capitalized companies are not pressured to exit and are positioned to capitalize on the current environment
- EnCap currently has ~\$3.0 billion available to invest (Fund VI, Fund VII & EEIF) and approximately 17% debt to total capitalization on existing portfolio companies
- Good time for portfolio companies to take advantage as selective buyers





# EnCap Investments L.P.

## *Private Equity Myths*

- Over involved in business
- Exercise too much control / influence
  - Board representation is a function of size of investment
  - 19 out of 20 times we say “yes”
  - Do not tell people who to . . . what to . . . when to . . .
  - Generally do not require anything more than banks
- **Impatient money**





# EnCap Investments L.P.

## *Conclusion*

- There remains a large amount of private capital available to the energy industry
- Private capital managers are high-grading opportunities and being selective due to:
  - Uncertainty in the energy industry
  - Uncertainty in the capital markets
- Capital is still being deployed to capture compelling opportunities
- Some shift of focus from drilling to “acquire and exploit”
- Well capitalized companies with a strong equity provider are advantaged in the current environment





# Jason DeLorenzo, Managing Director



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