

# Jefferies

Technical Acumen. Capital Reach. Deal Prowess.



Oil and Gas  
Investor

# Oil and Gas Investor

1616 S. Voss, Suite 1000  
Houston, Texas 77057-2627  
713-260-6400 Fax: 713-840-8585  
www.oilandgasinvestor.com

## EDITOR-IN-CHIEF

Leslie Haines  
lhaines@hartenergy.com

## CONTRIBUTING EDITOR

Taryn Peine

## CORPORATE ART DIRECTOR

Alexa Sanders

## SENIOR GRAPHIC DESIGNER

Max Guillory

## PRODUCTION DIRECTOR

Jo Pool

For additional copies of this publication,  
contact customer service at  
713-260-6442.  
custserve@hartenergy.com

## VICE-PRESIDENT OF PUBLISHING

Shelley Lamb  
slamb@hartenergy.com

## DIRECTOR, BUSINESS DEVELOPMENT

Eric Roth  
eroth@hartenergy.com

Copyright 2015, Oil and Gas Investor  
Hart Energy Publishing LP, Houston, Texas

*Information contained herein is believed to be accurate; however, its accuracy is not guaranteed. Investment opinions presented are not to be construed as advice or endorsement by Oil and Gas Investor. This report was underwritten by Jefferies.*

## Delivering Value to Clients

Nothing is more exciting than oil and gas deal-making, whether it's a transformational merger or a big capital raise that enables a company to move forward. The scope and scale of deal-making activity in the shale plays over the past 10 years has been nothing short of amazing, with some of the biggest transactions grabbing worldwide headlines.

At the same time, we've watched as business development teams have grown more sophisticated with greater technical expertise and much more creative capital solutions.

Having the right combination of these capabilities is a must to get deals done. That sums up the Jefferies energy team in a nutshell.

The team is celebrating ten years of achievement throughout the upstream and midstream industry, in the U.S. and globally, since 2005, when the capabilities of a large, global investment banking firm—Jefferies—were combined with the strategizing and technical acumen of Randall & Dewey, the first M&A advisory firm specializing in oil and gas transactions.

As part of a global investment banking firm with 3,900 employees and \$3.4 billion in annual net revenues, Jefferies' energy team offers deep and broad resources and leading industry expertise to energy companies globally.

Today, as always, it's still about the rocks and how to identify value. Randall & Dewey's deep engineering savvy was grafted on to Jefferies' capital-raising savvy and international reach, to create a sum greater than the parts. This team can spot potential where others may not—and it knows how to bring a deal to the finish line.

The track record says it all. Since 2008 Jefferies' energy team has completed \$270 billion of transactions, from asset divestitures to corporate mergers to new joint ventures that marry capital from international sources with some of the biggest unconventional resource players in the U.S.

Relationships bring deals in the door, but it is the Jefferies "skunkworks" team of geoscientists and capital-raising experts that know how to add value, study the reservoirs, run the numbers and come up with the best deal. Here, leaders of that team share their thoughts on where the industry goes next.

—Leslie Haines, Editor-in-Chief, *Oil and Gas Investor*



## Table of Contents

### 3 Broad Reach and New Horizons

Combining the strengths of Jefferies with Randall & Dewey led to a sum greater than the parts.

### 5 Sleeves Rolled Up

The teams focus on ideas and capital structures to add value.

### 7 Leveraging Talent for Clients' Success

Private capital raising and international reach combine to meet the needs of more clients.

# Broad Reach and New Horizons

Combining the strengths of Jefferies with Randall & Dewey led to a sum greater than the parts.

A decade ago, Houston-based Randall & Dewey was poised for growth. Founded in 1988 by Jack Randall and Ken Dewey, the firm had built a solid reputation as a go-to A&D advisory specialist thanks to its game-changing focus on the technical side of the oil and gas business, with an emphasis on petroleum engineering and reserves evaluation.

"This focus was the very reason Randall & Dewey founded the firm in the first place," says Ralph Eads, vice chairman and global head of energy investment banking at Jefferies.

"Randall & Dewey thought there was an opportunity for an advisor with deep technical skills in the oil and gas business. The firm's early years were defined by assisting large companies in selling their assets. We would prepare the technical materials and conduct the data rooms ourselves. The very concept of selling a property in a data room was pioneered by Randall & Dewey, and the firm became very proficient in that business."

When Eads joined Randall & Dewey in 2003, he was charged with taking the A&D business to the next level and making it larger. Not only did he successfully grow the business, he also established and significantly strengthened the firm's capital-raising capabilities. But at this point, Eads found himself at a crossroads.

"In 2005, as we were evaluating our business, we wanted to continue to grow our capital-raising side and expand internationally, and we needed capital to do both of those things," he says. "We entered into discussions with Jefferies, a firm that already had a very successful capital markets business, and also had the capital needed to expand our A&D business internationally."

At the time, Jefferies was a global investment banking firm with operations in every major sector, including energy. But it didn't have the kind of specialized energy presence Randall & Dewey had built. By combining the two, Jefferies gained a major foothold in the North American energy A&D market, and Randall & Dewey gained the resources of a global investment banking firm—and the ability to expand its A&D business around the world.

"It worked really well," Eads says. "Both the international expansion and the capital markets business have been successful. We now have a successful 10-year track record being part of Jefferies, and we have the benefits of being part of a large investment banking firm, while at the same time we've maintained our strong focus on oil and gas."

The past 10 years have seen Jefferies' energy team maintaining one of the highest market shares in the A&D business. It has



Ralph Eads

served 40 of the 50 largest worldwide energy companies, with many of them repeat clients. Of the 15 largest upstream transactions completed in North America since 2008, Jefferies advised on 10 of them. In addition, it has advised on many of the largest midstream transactions.

Indeed, Jefferies has advised on more of the industry's largest deals than all other M&A advisors combined. On the sell side, the energy team has 50 percent market share for deals greater than \$2 billion, or approximately double that of its closest competitor.

Since 2008, Jefferies has completed some \$270 billion worth of transactions, all while maintaining the core values of technical expertise and client focus.

"We are proud of Jefferies' energy investment banking team, led by Ralph Eads," commented Richard Handler, chairman and CEO of Jefferies. "The team's track record, based on industry expertise, broad and long-standing relationships, and forward thinking, has allowed Jefferies to become a global leader in the oil and gas industry. We are fortunate to have this team as part of Jefferies."

"Jefferies' energy franchise has been a key driver of the firm's total investment banking business, a business which has more than quadrupled in revenue over the past 10 years and now makes up more than half of Jefferies' \$3 billion annual net revenue. With nearly 4,000 employees in 30 offices worldwide, Jefferies is the largest operating business of Leucadia National Corporation (NYSE: LUK), a diversified public holding company."

## Insights and basin analysis

The most important part of the firm's core values has been maintaining its technical focus, a hallmark of the corporate culture and its success. Since day one, this has set Jefferies apart from other A&D firms in the marketplace. Eads sees this as the core of its emphasis on "value-finding" for its clients.

"In transactions, it's all about 'what are the reserves?'" he says.

"You want to know the productive potential of an asset. Historically, investment banking firms just packaged a company's data. With our deep technical understanding of each transaction, we provide insight around the data. We analyze it critically to see if we can glean insights that will affect the value of the transaction."

"For example, we look at producing horizons that haven't been evaluated, opportunities for improvement in completion design, or ways to drill wells cheaper. We are using technical insights to create value for our clients. We try to be value-finders, and that all starts with understanding the reserves."

Eads has continued to emphasize the firm's technical



prowess, growing the group to include 34 petroleum engineers, geologists and geophysicists with more than 800 man-years of experience.

Jefferies is expanding its reach as well. The firm recently dedicated an entire technical team to focus on basin analysis and understanding industry trends not related to specific deal transactions.

“They provide us with early insight into plays and what’s going on with them. That translates into value for our clients. Companies have become much more discerning in terms of technical attributes and the bar has gone up quite a bit in terms of what it takes to be useful to a seller or a buyer.”

Jefferies’ focus on proprietary basin analysis has helped the team to be at the forefront of big booms over the past 10 years. When the deepwater Gulf of Mexico began to flood with activity, Jefferies already had a deep technical understanding of this offshore play, and it quickly became a market-leader in the area, advising on \$10.9 billion in deals in the region since 2008.

When the shale revolution was born, Jefferies was at the forefront with extensive mapping in virtually every unconventional basin. It continues to provide complete data sets for every basin to its clients, focusing on both technical and business development insights.

“We understood the technical side of the shales earlier and better than others because we were focused at the asset level,” Eads says. “We had a lot of innovation in terms of deal structure and we emerged as the clear leader in the shale boom, with more than 45 domestic shale deals totaling some \$78 billion since 2008.”

Eads says this is part of the firm’s commitment to providing market intelligence for its clients.

“We want to say what’s happening in a particular basin and what are the key insights in terms of value being created by operators there,” he says. “This gives us the ability to give our clients ideas about how to create value, and it allows us to understand trends that affect transactions.”

## Record-breaking deals

Jefferies’ continues to focus on its technical skill set and developing excellent client relationships. As a result it has many repeat clients, and therefore, it has had the opportunity to advise on some of the biggest deals in the oil and gas industry, whether joint ventures, corporate mergers or asset sales.

“We advised XTO in the \$35-billion merger with Exxon Mobil and that was a direct product of one of our hallmarks—long-standing relationships,” Eads says. “That was a function of the firm’s historic relationship with both companies, and it was an important deal in terms of the evolution of the industry.”

Recently, Jefferies acted as sole financial advisor in the largest initial funding for an E&P start-up in the history of the industry, when it assisted Aubrey McClendon’s American Energy – Utica LLC in securing \$1.7 billion in

private equity commitments and term loan proceeds from The Energy & Minerals Group and First Reserve Corp. This deal was based on a longstanding relationship between the firm and McClendon.

“Some of our insights into the opportunities in the market provided the company with the opportunity to raise money and put in place a creative paradigm for a new E&P start-up,” Eads says. “We also thought creatively in terms of what would be the best source of funding for him.”

**“We try to be value-finders, and that all starts with understanding the reserves,” says Ralph Eads, Jefferies vice chairman and global head of energy investment banking.**

Jefferies has been at the forefront of some very successful transactions in the Permian Basin recently. In 2012, the firm advised Chesapeake Energy Corp. on its \$3.3-billion sale of the majority of its Permian assets to Royal Dutch Shell, a subsidiary of Chevron Corp. and affiliates of EnerVest Ltd. It also recently advised in the sale of EnCap Investments-backed Enduring Resources for \$2.5 billion, which was focused on the Permian Basin.

“Our technical capability has been really important for our work in the Permian, because plays are changing quickly there and you have to stay educated on the changes to understand what assets are worth,” Eads says.

“We currently have three other mandates for businesses in the Permian.”

## The next 10 years

As Eads looks toward the next decade with Jefferies, he is optimistic about the industry Jefferies serves.

“My belief is that the North American oil and gas industry is the highest-return, large-scale asset class in the world. The industry needs capital, and we want to continue to be the advisor of choice in the oil and gas business.”

Eads also plans to continue to expand the firm’s capital markets business, which he says is not as dominant as the firm’s A&D business. That said, it only means there is plenty of room for growth.

“There are more opportunities in the industry than there is capital,” he says. “Sometimes we can help solve those capital needs by selling assets, sometimes we can help by raising capital. Our deep understanding of the industry can translate into an even stronger capital markets business.”

As always, Jefferies will continue to stay true to its roots by deepening its technical expertise.

“We’re very interested in data mining in terms of being able to develop large-scale, basin-wide analytical capabilities,” he says. ■

# Sleeves Rolled Up

The teams focus on ideas and capital structures to add value.

Over the past 10 years, Jefferies' energy business has expanded from its roots as a prolific and highly regarded North American M&A advisory to become a leading global oil and gas practice with the number one M&A market share over the last decade in U.S. A&D.

From the beginning, the firm's cornerstone has been its focus on broad and deep technical capabilities, with its team known throughout the industry for its expertise in recognizing compelling and value-add insights.

Jefferies' team has unique knowledge about creating value-enhancing transaction structures, such as the shale joint venture model, asset-level preferred offering and large-scale volumetric production payments (VPPs). These have enabled its clients to achieve their corporate objectives.

As Jefferies' energy team moves into its second decade, its upstream, midstream, oilfield services and technical staff continue to provide significant value to clients.

## Upstream: Opportunities and expansion

In the upstream sector, the past decade has been about expanding the business in North America and globally, in order to produce the most successful outcomes for clients, says Steve Straty, Americas co-head of energy investment banking.

"On a regular basis, we try to expose our clients to ideas that we believe will create value," Straty says. "It's important for us to be able to translate the technical data around a particular project into a development plan and a financial model, to show potential buyers what kind of returns can be realized from strategic opportunities."

As Jefferies has expanded, it remains focused on the most important part of every upstream transaction that creates value: the rocks.

"It all starts with the rocks," he says. "We do a significant amount of technical analysis in every major basin, often unrelated to any specific project, so our team can be the most up-to-speed in the industry."

Jefferies' continuous analysis of every major basin has resulted in a roster filled with repeat clients for the upstream

team, including EnCap Investments, Chesapeake Energy, American Energy Partners, Anadarko Petroleum, Apache and FourPoint Energy. In 2014 alone, the team completed five upstream M&A transactions in excess of \$12 billion.

"We're seeing a number of our clients interested in becoming more oily and less dependent on one single commodity," Straty says. "There's going to be a lot of M&A opportunities as companies look to reposition their portfolios, and there are still billions of private equity dollars on the sidelines waiting to get into this asset class. We feel positive about the outlook for this business."

## Midstream team: Sleeves rolled up

Jefferies' expanded its midstream focus two and a half years ago. Since then, the team has closed 30 transactions totaling more than \$100 billion in this, one of the hottest sectors of the oil and gas industry. This translates into a deal per month since the group was formed, a pace that wouldn't be possible without the outstanding team that Pete Bowden, managing director and head of midstream and MLPs, put together.

"From a revenue perspective, our midstream initiative is among the most successful new ventures in energy investment banking," Bowden says. "We've brought to that market people with the right skill set, work ethic and relationships in the industry. Eighty percent of our midstream business is sell-side, and that's a sleeves-rolled-up undertaking."

In 2014, this team advised Kinder Morgan Energy Partners and Kinder Morgan Management on the amalgamation of all Kinder Morgan entities. The combined entity will be the largest energy infrastructure company in North America and the third largest energy company overall, with an estimated enterprise value of approximately \$140 billion.

This deal is the largest M&A deal of the year for 2014 and the second-largest energy M&A deal of all time, behind the merger of Exxon and Mobil.

The midstream team also advised Chevron on selling eight midstream assets in a successful divestiture campaign, Copano Energy on its \$5-billion sale to Kinder Morgan Energy Partners, Inergy Midstream and Crestwood Midstream



Steve Straty



Pete Bowden



Warren Keyes



Jay Levy

## OILFIELD SERVICES

Jay Levy, head of oilfield services investment banking, was already covering the oilfield services sector for Jefferies when it acquired Randall & Dewey 10 years ago, but the ability to leverage the firm's world-class technical team has made a big impact in his business, he says.

"I can work with our technical team to help articulate the macro environment and the macro story to both investors and clients," he says. "The technical team has data and information at its fingertips, and we didn't have that level of expertise before the Randall & Dewey deal. It's been a real step-change in our energy practice."

Levy's practice focuses on capital raising, particularly within the high-yield market, where the team has acted as a bookrunner on \$7.5 billion in debt underwritings, including \$6 billion as lead left or sole manager.

A particular focus has been offshore drilling due to that sector's large capital needs in the past five years. The team has done nine capital market transactions for Vantage Drilling since 2009, raising more than \$4.5 billion to help the company grow its total revenues from \$200 million in 2010 to \$900 million in 2014.

Levy's team looks to grow its international franchise in the future with Russia being one of its target markets. He attributes his team's and Jefferies' success to a consistent focus on the client.

"It starts at the top, with putting clients first," Levy says. "That's the firm mandate and we really take it to heart. A very high percentage of our business comes from repeat clients, so we deliver on what we say and aim to complete each transaction with a satisfied client."

## FIELDING the JEFFERIES TEAM

These seasoned technical experts use their expertise to build success for Jefferies' clients.

- Business Development (2)
- Engineers (8)
- Engineering & Internet Technologists (4)
- Geoscientists (5)
- Petroleum Economists (3)
- Petroleum Technologists (3)
- Project Managers (7)
- Project Support (2)

Partners on their \$7.3-billion merger, and Chesapeake Energy on its nearly \$5-billion exit from midstream.

The volume of deals completed in two and a half years has been a result of the team's relationships, Jefferies' institutional credibility, and the team's way of doing business.

"We don't lead with our balance sheet, we lead with ideas and we're focused on execution," Bowden says. "You need a personal commitment to getting it right and you can't approach the business with a balance sheet-driven, flow-business mentality."

Bowden says the core focus on high-growth gathering and processing sell-sides will remain the same; the team will continue to be active in the sale of terminals, refined product and long-haul natural gas pipelines, while increasing its attention on oil facilities.

"Going forward, I expect crude oil gathering and other oil-related logistics to garner more focus," he says. "Our view on domestic oil production and North American oil is one of continued growth."

### Technical value-add

The technical team behind Jefferies' energy practice has always operated under one mandate—understand the assets underlying an opportunity or a deal.

The technical team has a deep bench of engineers, geologists and support personnel focused on reservoir and production operations within the context of a bank.

Says Warren Keyes, managing director and head of Jefferies' technical team, "We're interested in understanding and conveying to prospective clients our best estimate of what might actually happen with a particular field."

The group's approach is constantly evolving, as software and technology continue to change. It's no wonder the team's original data room process has progressed from a stack of printed maps to virtual data rooms. One of the keys to Jefferies' success in staying consistently ahead of changes in the industry is its technical acumen.

"We look at every basin from a geologic standpoint, to understand the rocks petrophysically. We evaluate what's going on from a completions standpoint and we dig into how companies are producing the wells. All this translates into type curves," Keyes says. "This insight helps us as opportunities arise, because we can get to an answer pretty quickly, leveraging the work our team has already done."

The challenge going forward for the Jefferies team is no longer finding the data, but analyzing and interpreting it to draw meaningful conclusions for the firm's clients, Keyes says.

"It's easy to quote and graph statistics," he says. "It's the next step of explaining and answering the 'So what?' question. That's what we're focusing on. We boil down volumes of data into something that will help explain performance as concisely as possible to clients and data room participants, so they can focus on the key question for them—how much is it worth?" ■



# Leveraging Talent for Clients' Success

Private capital raising and international reach combine to meet the needs of more clients.

**W**hen Jefferies acquired Randall & Dewey in 2005, two of its main goals were to expand capital markets activity and expand the A&D business internationally. It has succeeded on both counts, with a robust energy capital markets business focused on large-profile projects, and international A&D work including offices in London and Hong Kong.

At the time of the acquisition, Ajay Khurana, currently Americas co-head of energy investment banking, joined the newly expanded energy investment banking team to build on its already exceptional A&D platform.

"The potential was significant. Over the last 10 years, we've built the leading M&A franchise and a very significant capital markets business," Khurana says. "The combination of our oil and gas technical capabilities and investment banking expertise, coupled with the firm's broader platform, has been very additive."

During the past 10 years, Jefferies has been able to fully leverage its technical expertise in order to get better valuations for countless clients, as it did for Spinnaker Exploration in its \$2.45-billion sale to Norsk Hydro, a price that was a significant premium (34%) to Spinnaker's stock price.

The rapid expansion of the capital markets side of the business has been due to the firm's unique ability to engineer creative solutions to fund its clients' goals. Recent examples include the record-breaking capital package it put together to fund Aubrey McClendon's various start-up E&P companies under the American Energy Partners name, and the unique capital structure it put together for George Solich's new company, FourPoint Energy.

"We helped the FourPoint team initially raise \$1 billion of debt and equity without involving a large private equity firm," Khurana says. "This deal illustrates the continued evolution of the market in favor of the entrepreneur. We've been mindful of this evolution and worked hard to ensure our clients intersect with this in the best way possible."

Khurana says much of the investment banking firm's success has been a result of its understanding of the evolution of the capital markets and how they interface with oil and gas companies.

"In the last 10 years, the risk profile of our industry has changed. Today, asset-

level returns are quite compelling while the risk is relatively modest. With this in mind, we've focused on bringing capital sources and companies together."

## Global opportunities

Richard Kent, international head of energy investment banking, also joined Jefferies in its London office soon after the acquisition, to lead the group's global expansion. Since then, the firm has worked all over the world, building a large presence in the North Sea, Latin America, Africa and Asia.

"One of our strengths is that we cover the full spectrum; we don't just act for large or small companies, we do it all," Kent says.

"We've done billion-dollar deals in the North Sea and we've done much smaller deals. We have deals that range from pre-development all the way through into production and mature assets. The advantage of this varied perspective is that we see all the different potential buyers—knowledge of buyers is key for us. We know the people and we know what they're trying to buy."

Jefferies' knowledge of the international energy players has been the key to growing its international presence. The firm recently represented Chevron in the sale of assets in the Netherlands to privately held Petrogas, a transaction Jefferies was able to put together thanks to its relationship with Petrogas and its knowledge that Petrogas was looking to get into the North Sea.

The firm also advised Anadarko Petroleum Corp. in the \$1.075-billion sale of its Chinese upstream assets to Bright Oil Petroleum, which represented Bright Oil's first upstream transaction.

As Jefferies' international business continues to grow, Kent and his team are focusing on growth areas such as Norway, Latin America and Russia. They're leaning on the firm's strength in navigating complicated and sometimes difficult foreign governments to help bring deals to completion.

"Each market has its challenges and every market is different," Kent says. "They're rarely as straight-forward as North America or the North Sea. But we understand the challenges in each territory and we can help our clients find a way forward through each of those challenges." ■



Ajay Khurana



Richard Kent

For decades, Jefferies has continued to grow its renowned oil and gas team to provide our clients with unmatched depth and technical expertise. No other firm comes close.



THE  
ENERGY & MINERALS  
GROUP



INERGY



ENDURING RESOURCES



KKR

VANTAGE  
DRILLING COMPANY



TALISMAN  
ENERGY



# Jefferies

333 Clay Street, Suite 1000  
Houston, Texas 77002  
281-774-2000  
Jefferies.com