

Private-equity investment firm Warburg Pincus and a management team led by acquisition specialist Lisa Stewart, the former vice president of business development for Apache Corp. and later president of El Paso E&P, teamed to form Sheridan Production Partners, an exploration and production company, with a \$1.3-billion fund to invest in mature oil and gas assets in diverse basins across the U.S.

Since that formation in August 2007, Houston-based Sheridan has made two significant acquisitions from private companies totaling approximately \$950 million, which were funded 50-50 with equity contributions from institutional limited partners and bank debt. The company has invested nearly 40% of its initial funding in only six months of operations.

“We now operate some 800 wells in three states—Texas, Oklahoma and New Mexico—and have hired more than 100 employees, about equally split between Houston and the field, with operating offices in Midland and Oklahoma City,” says Stewart, chief executive officer.

Sheridan’s net daily production is some 7,200 barrels of oil equivalent per day and Stewart expects that figure to increase as it implements its operating plans for the properties.

“We continue to be in the acquisition market with a remaining war chest of \$1.3 billion (debt plus equity). We hope that sellers will view us as an acquirer of choice, due to our ability to move quickly and pay a fair price without any financing contingencies.”



THE DEAL Pensions, foundations and private investors provided \$1.3 billion in private-equity funding, allowing Sheridan Production Partners to acquire mature oil and gas assets.

USE OF PROCEEDS Since August 2007, Sheridan has closed two acquisitions from private companies totaling \$950 million and is producing approximately 7,200 barrels of oil equivalent per day.

THE PLAYERS Lisa Stewart, Jim Bass, Eric Harry and Tim Blaine, along with private-equity firm Warburg Pincus.

Sheridan’s largest acquisition, a \$780-million deal for long-lived oil properties in West Texas and southern Oklahoma, was closed 28 days after signing the purchase and sale agreement, while the company’s initial transaction was acquired preemptively by combining two sales packages into a single transaction.

Sheridan’s business plan is to acquire a portfolio of mature producing properties and optimize operations through accelerated production, recovery enhancement and additional development drilling. “We continue to focus on mature assets and believe the quality operating team we’ve built can generate significant upside from acquired properties for the long-term benefit of our investors.

“Our approach differs from a traditional E&P in that Sheridan investors measure success solely upon rate of return. We don’t have stated production- or reserve-growth targets that must be met within a specified timeframe, which sets us apart from public E&P companies. In addition, we won’t drill high-risk exploration wells. Instead, we hope to work with industry partners willing to invest their capital to develop exploratory ideas while Sheridan retains some upside exposure,” Stewart says.



Lisa Stewart, Sheridan Production Partners
chief executive officer

Most of the basins in the U.S. are on decline, so Sheridan has been structured to own those types of mature assets that otherwise are a drag on public E&P companies’ ability to grow their production and reserves.

“At Sheridan, we’ve matched up mature assets that generate significant but declining cash flow with institutional investors who have a long-term view and focus on real cash-on-cash rates of returns. Our capital structure is ideally suited for these assets.

“Mature properties are predictable from a reserve-estimation perspective, generate significant cash flow and offer both capital-reinvestment opportunities and potential efficiencies to enhance rate of return as you work the assets.”

The company’s leverage comes from a reserve-based borrowing facility originally backed with aggregate commitments of \$500 million from a handful of large commercial banks. Having nearly exhausted those initial commitments in November, only three months after closing, Sheridan recently completed a successful syndication effort to bring in additional commitments and double the facility’s size.

Sheridan also hedges a significant portion of future oil and gas production on a secured basis among its bank group to protect investor returns. “Assuming success in this first round, our vision is to form additional investment funds and continue to execute our strategy with increased institutional capital. The exit strategy is really just producing out the assets and returning cash to the investors,” Stewart says.

Sheridan’s management team, and many of its key technical and operations personnel, has successfully worked together in the past. In addition to Stewart, both Jim Bass, executive vice president and chief operating officer, and Eric Harry, executive vice president of acquisitions and general counsel, worked together at Apache and El Paso.

Tim Blaine, executive vice president and chief financial officer, worked with the team during his years as audit partner at Apache before joining Kerr-McGee Corp. in 2002.

“The four of us have incredibly complementary skillsets,” Stewart says. “We know how to work together and have implemented successful acquisition and exploitation strategies as a team for many years. We view this as an advantage that has helped Sheridan get up to speed quickly.” ■