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# Innovative Private Capital Deal Structures

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## I. INTRODUCTION TO STEPHENS INC. ENERGY GROUP

# STEPHENS VALUE PROPOSITION

Stephens is a highly differentiated, family-owned investment bank with a tradition of nurturing enduring relationships, providing unvarnished advice and leveraging our principal mentality

Senior Banker  
Attention

“Principal Mentality”  
We Think and Act Like  
Owners

Full Service  
Investment Bank  
Focused on the Middle  
Market

Reputation for  
Underwriting Quality  
Offerings

Long-Term Strategic  
Advisors Built upon  
Quality, Independent  
Advice

Industry  
Coverage

- Over 130 industry bankers and analysts covering 8 industry verticals
- Over 50 senior research analysts covering 440+ companies
- Middle market focused with selected large clients – in-depth industry knowledge
- Not a commercial lender; no conflicts arising out of commercial lending relationships and prospects

Mergers &  
Acquisitions

- Stephens Ranks 3<sup>rd</sup> among non bulge bracket banks with \$107 billion in publicly disclosed transaction since 2004
- Senior level commitment during all phases of the transaction
- Substantial public / private deal volume valued in excess of \$40 billion since 2009

Debt Capital  
Markets

- Participation in approximately \$14 billion of corporate bond offerings since 2009
- 50 seasoned traders and sales staff, with average experience of 15 years per team member
- Expertise in working with middle-market companies to address their debt needs

Equity Capital  
Markets

- 40 years of equity capital markets experience, including Wal-Mart IPO in 1970
- More than \$14.4 billion in IPOs and more than \$17.0 billion in follow-on offerings since 2012
- 120 equity capital markets employees

# MERCHANT BANKING PERSPECTIVE: STEPHENS CAPITAL PARTNERS

## OVERVIEW

- Stephens Capital Partners LLC (“SCP”) is the principal investing group for Warren Stephens and his family
  - SCP has been an active private investor for over 50 years and have made approximately 200 investments in private and public companies and currently holds investments in about 25 companies
- SCP is highly flexible with regard to industries and transaction structures and looks for long-term value creation rather than exit strategies
- Stephens Capital Partners targets companies that are cash-flow producing business with above average margins and return on invested capital
- Equity sweet spot of \$10 - \$50 million; but can go smaller or larger

## PROFESSIONALS

- Warren Stephens, Chairman, CEO
- Douglas Martin, Senior Managing Director
- Richard Blank, Jr., Managing Director
- Rob Janes, Managing Director
- Kevin Eckert, Managing Director
- Kevin Wilcox, Managing Director
- Jackson Farrow, Jr., General Counsel & Managing Director
- Noel Strauss, Managing Director
- Kathy Bryant, CFO

## ENERGY INVESTMENTS



### Stephens Production:

- Since 1953
- Active Investment
- Natural gas production company primarily focused on the Arkoma Basin



### Energy Transfer:

- Since 2002
- Active Investment
- Publicly traded midstream and energy service company



### North American Energy Partners:

- Since 2003
- Active Investment
- Full-range mining and construction company, primarily in the oil sands of Alberta



### Redzone Coil Tubing

- Since 2012
- Prior Investment
- Energy Services company with expertise in coiled tubing



### Nadel & Gussman

- Since 2013
- Active Investment
- Working interest investment focused in the Fort Worth Basin

# STEPHENS HAS A DEDICATED & GROWING ENERGY PRACTICE

## WHAT DRIVES THE PRACTICE

- Stephens has been a principal investor in the energy space since 1952 and has a longstanding commitment to assisting and advising public and private energy companies throughout their life cycles
- Broad network of relationships with public and private energy companies as well as private energy capital sources
- Growing equity research practice dedicated to the Exploration and Production, Oilfield Service and Master Limited Partnership sectors

## KEY STATISTICS

**\$27.8 Billion**

Aggregate Transaction Volume since 2009

**\$50 - 500 Million**

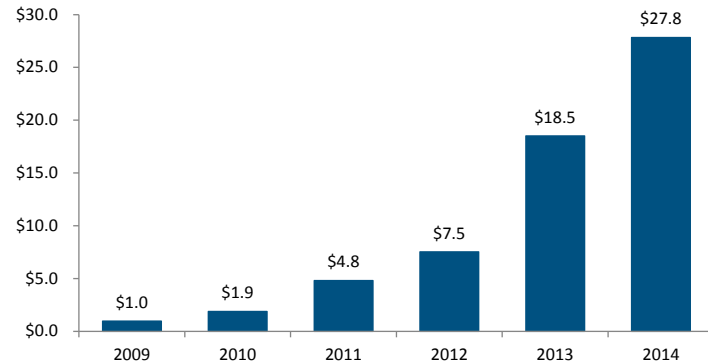
Typical Transaction Size

**87**

Transactions Closed since 2009

## AGGREGATE TRANSACTION VOLUME

(\$ in Billions)



## SECTOR COVERAGE



### Exploration and Production

*The Stephens Energy team focuses on advising companies in the E&P sector with operations both onshore and offshore in the U.S.*



### Oilfield Services

*The Stephens Energy team focuses on advising companies in the Oilfield Services sector that focus on products and services for the upstream and midstream markets, including companies that operate in the drilling, production, completion, workover, and transportation of oil, gas, and related assets.*



### Midstream and Downstream

*The Stephens Energy team focuses on advising companies in the Midstream and Downstream sectors, including wholesale fuel distribution, pipeline transportation, storage, and gathering and processing.*

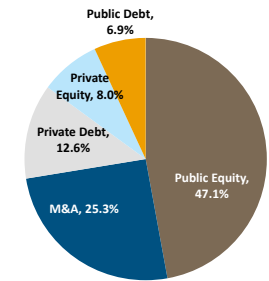
# STEPHENS' ENERGY GROUP ADVISORY SERVICES

## UNWAVERING COMMITMENT TO THE CAPITAL AND ADVISORY NEEDS OF THE ENERGY SECTOR

### EXPERIENCED BANKING TEAM

- Stephens' Energy Group provides trusted insight on:
  - Sell-side M&A
  - Buy-side M&A
  - Restructuring / Fairness Opinion Advisory
  - Public Offerings
  - Private Placements







By Number of Transactions:



#### MERGER & ACQUISITIONS / ADVISORY

#### PUBLIC EQUITY & DEBT

#### PRIVATE EQUITY & DEBT

<p>2014</p> <p>\$41 Million</p>  <p>Fairness Opinion</p> <p><b>Stephens Inc.</b></p>	<p>2013</p> <p>\$2,400 Million</p>  <p>Co - Advisor</p> <p><b>Stephens Inc.</b></p>	<p>2014</p> <p>\$1,064 Million</p>  <p>Initial Public Offering</p> <p><b>Stephens Inc.</b></p>	<p>2014</p> <p>\$300 Million</p>  <p>Senior Notes</p> <p><b>Stephens Inc.</b></p>	<p>2013</p> <p>Undisclosed</p>  <p>Working Interest Investment</p> <p><b>Stephens Inc.</b></p>	<p>2013</p> <p>\$350 Million</p>  <p>Private Debt</p> <p><b>Stephens Inc.</b></p>
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### KEY STATISTICS

- Since 2009 the Energy Team has completed 87 transactions encompassing \$27.8B in transaction volume
  - 18 Private Placements
  - 22 M&A / Advisory Assignments
  - 47 Public Offerings
- Average Deal Size \$320.0MM
- Specific expertise in raising private capital, as well as advising clients regarding complex transactions
  - \$3.1B in Private Capital raised since 2009
  - 13 Fairness Opinion / Advisory / Bankruptcy Transactions Completed since 2009

# SPONSOR RELATIONSHIPS & DEAL ACTIVITY

- Stephens has a dedicated financial sponsor coverage group with deep relationships established through years of executing multiple transactions. Over 105 financial sponsors have completed M&A deals with the Stephens team totaling approximately \$17 billion in transaction value
- Stephens maintains current relationships with roughly 400 financial buyers
  - Senior relationships
  - Fund style
  - Negotiating tactics
  - Buyer behavior
  - Focus areas

## REPRESENTATIVE ENERGY FOCUSED SPONSOR RELATIONSHIPS

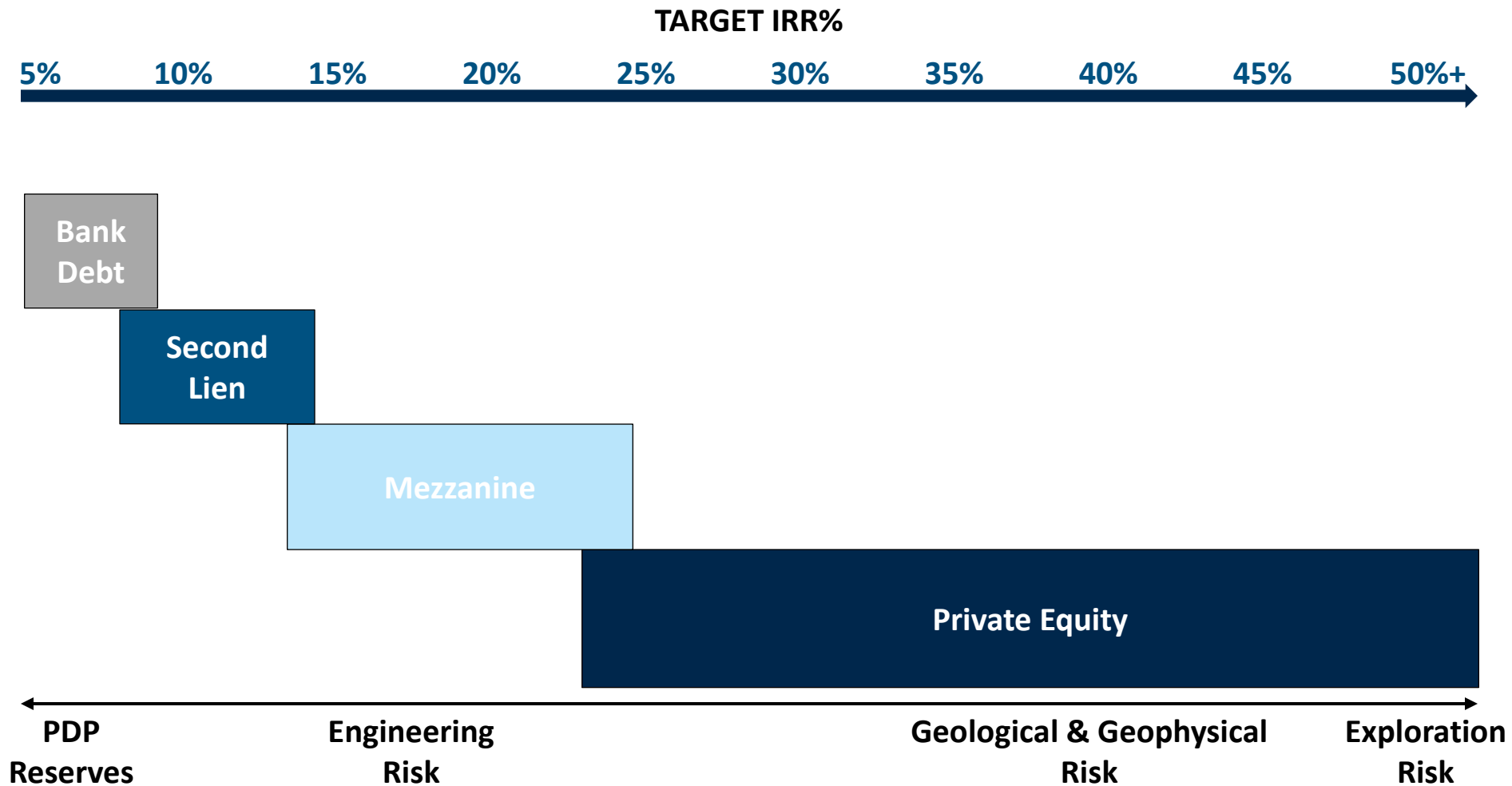




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## II. PRIVATE CAPITAL OVERVIEW

# SELECTED EQUITY SPONSOR RELATIONSHIPS – RISK SPECTRUM



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## II. PRIVATE CAPITAL TERMS

# PRIVATE EQUITY – REVERSIONARY STRUCTURE EXAMPLES

- Typically structured as common equity. Management agrees, up-front, to fund/contribute some percentage of the total equity commitment
- After the Investor achieves a certain return (IRR) and (ROI) on its capital, Management will receive incremental ownership through a promote at each level
- Management can hit either IRR or ROI hurdles, which augments risk to Management team on Private Equity investments that go long into their investment horizon when IRR hurdle would be difficult to achieve
- Management shall fund its share of the commitment, *pro rata*, as Investor contributes capital
- “Waterfall” structures are generally incremental and not cumulative, which means that as value is created, Management will own more of the incremental dollars/value generated by the Company

Summary Investment Assumptions							
New Common Equity Investment	\$95.0	Management Contributed Ownership %	5.0%		<b>2014</b>	<b>2015</b>	<b>2016</b>
Management Equity Contribution	5.0	Management Promoted Ownership%	0.0%	EBITDA	\$40.0	\$50.0	\$60.0
Initial Common Equity Value	\$100.0	New Investor Ownership %	95.0%	Multiple	6.0x	6.0x	6.0x
				EV	\$240.0	\$300.0	\$360.0
Investment Date	3/31/14			Net Debt	\$0.0	\$0.0	\$0.0
				Equity	\$240.0	\$300.0	\$360.0

Hurdle Structure 1			
IRR	ROI	% Promote	
8.0%	1.0x	5.0%	
20.0%	2.0x	10.0%	
25.0%	2.5x	15.0%	
Exit Year			
2014	2015	2016	
Dollar Return to Management	\$22.2	\$39.2	\$59.9
Percentage Ownership at Exit	9.2%	13.1%	16.6%
Dollar Return to Equity Investor	\$217.8	\$260.8	\$300.1
Percentage Ownership at Exit	90.8%	86.9%	83.4%

Hurdle Structure 2			
IRR	ROI	% Promote	
12.0%	1.3x	5.0%	
25.0%	2.5x	10.0%	
30.0%	3.0x	15.0%	
Exit Year			
2014	2015	2016	
Dollar Return to Management	\$17.8	\$28.1	\$46.2
Percentage Ownership at Exit	7.4%	9.4%	12.8%
Dollar Return to Equity Investor	\$222.3	\$271.9	\$313.8
Percentage Ownership at Exit	92.6%	90.6%	87.2%

Hurdle Structure 3			
IRR	ROI	% Promote	
15.0%	1.5x	5.0%	
20.0%	2.0x	10.0%	
35.0%	3.5x	15.0%	
Exit Year			
2014	2015	2016	
Dollar Return to Management	\$20.2	\$32.2	\$44.2
Percentage Ownership at Exit	8.4%	10.7%	12.3%
Dollar Return to Equity Investor	\$219.8	\$267.8	\$315.8
Percentage Ownership at Exit	91.6%	89.3%	87.7%

# SAMPLE PRIVATE EQUITY STRUCTURE

<b>SUBSCRIPTION COMMITMENT</b>	<ul style="list-style-type: none"><li>▪ [\$X million] Class A Preferred Units / Redeemable Preferred Units</li></ul>
<b>USE OF PROCEEDS</b>	<ul style="list-style-type: none"><li>▪ Proceeds from future Capital Calls will be used to fund, among other things, capital expenditures, working capital and acquisitions</li></ul>
<b>VALUATION OF EXISTING ASSETS</b>	<ul style="list-style-type: none"><li>▪ Based on Company valuation, on a cash-free/debt-free basis, of approximately [\$X million] for the [8/8]ths of the assets</li><li>▪ Alternatively, may be based on capital invested to date</li></ul>
<b>ROLLOVER EQUITY</b>	<ul style="list-style-type: none"><li>▪ Initial Investors will exchange their current equity interests in the Company for rollover equity in the form of [XX%] Class A Preferred Units and [XX%] Class B Preferred Units</li><li>▪ Alternatively, Initial Investors may roll equity on a pari-passu basis</li></ul>
<b>CLASS A PREFERRED UNITS/ REDEEMABLE PREFERRED</b>	<ul style="list-style-type: none"><li>▪ The Preferred Units shall accrue non-cash dividends on a daily basis at a rate of [8.0%] per annum, compounded quarterly</li><li>▪ Additionally, the Class A Preferred Units shall be entitled to share in future distributions in accordance with the Distribution Waterfall</li></ul>
<b>CLASS B PREFERRED UNITS</b>	<ul style="list-style-type: none"><li>▪ The Class B Preferred Units shall be junior in ranking and subordinate in all claims to the Class A Preferred Units</li><li>▪ Additionally, the Class B Preferred Units shall be entitled to share in future distributions in accordance with the Distribution Waterfall</li></ul>
<b>MANAGEMENT INCENTIVE PLAN / DISTRIBUTION WATERFALL</b>	<ul style="list-style-type: none"><li>▪ Members of management shall be granted Class C Units to participate in equity value creation at the Company</li><li>▪ The Class C Units shall be entitled to a [X.X]% participation in the incremental distributable proceeds once the Class B has been paid;</li><li>▪ [XX%] participation in the incremental distributable proceeds once the Class A has have achieved a [X.X]x cash-on-cash return;</li><li>▪ [XX%] participation in the incremental distributable proceeds once the Class A has have achieved a [X.X]x cash-on-cash return;</li><li>▪ [XX%] participation in the incremental distributable proceeds once the Class A has have achieved a [X.X]x cash-on-cash return</li></ul>
<b>CAPITAL CALL PERIOD</b>	<ul style="list-style-type: none"><li>▪ The Company will have the ability to initiate funding for project development activities, working capital and acquisitions until the earliest of: (i) [three] years from the Initial Funding; (ii) the Total Commitment has been invested in the Company; or (iii) a qualified IPO or change of control transaction</li></ul>

# SAMPLE PRIVATE EQUITY STRUCTURE (CONT'D)

## FUNDING PROCEDURES

- The management team can recommend Capital Calls on an as-needed basis, but will attempt to limit Capital Call recommendations to one per quarter
- Investors will have the option to fund their pro rata shares of the Capital Call
- Capital Calls should be for an amount no less than [\$XX million]

## BOARD OF DIRECTORS

- The Board of Directors will be comprised of [X] directors, including [X] management team nominees, [X] independents and [X] Investor representatives
- Compensation Committee, Audit Committee and Other

## AFFIRMATIVE COVENANTS

- Quarterly financial statements within [60] days of quarter-end
- Annual audited financial statements within [120] days of year-end
- Annual budget

## GOVERNANCE

- Such material actions must be reviewed by the Board and approved by the Investor:
  - Any change of control, merger or other business combination
  - IPO
  - Monetization event or sale of majority of assets
  - Any debt or other liabilities greater than [\$XX million]
  - Material contracts
  - Acquisitions greater than [\$XX million]
  - Equity issuances

## TAG-ALONG RIGHTS

- If Investor desires to sell the Preferred Units then other shareholders shall have the right to participate in such a sale on a pro rata basis

## DRAG-ALONG RIGHTS

- In the event of a change of control transaction, the Investor may cause all equity holders to sell their equity securities or vote in favor of such transaction

# SAMPLE MEZZANINE DEBT TERM SHEET

<b>FACILITY TYPE</b>	<ul style="list-style-type: none"><li>▪ Senior Note Purchase Agreement</li></ul>
<b>MATURITY</b>	<ul style="list-style-type: none"><li>▪ 3 years</li></ul>
<b>FEES</b>	<ul style="list-style-type: none"><li>▪ Funding Fee: X.X% of the principal amount of each Note</li><li>▪ Administrative Fee: [\$X thousand] per year due at closing and each anniversary of closing</li></ul>
<b>EQUITY KICKER</b>	<ul style="list-style-type: none"><li>▪ ORRI: X.X% while commitments are outstanding</li><li>▪ Once the Facility has been repaid in full, ORRI shall convert to an undivided XX.X% net profits interest (“NPI”)</li><li>▪ Once an XX% IRR and X.Xx multiple on invested capital is achieved, NPI reduced to XX.X%</li></ul>
<b>PREPAYMENT PENALTY</b>	<ul style="list-style-type: none"><li>▪ 0-18 Months: XXX.X% of Principal Amount</li><li>▪ 18-30 Months: XXX.X% of Principal Amount</li><li>▪ Thereafter: XXX.X% of Principal Amount</li></ul>
<b>INTEREST RATE</b>	<ul style="list-style-type: none"><li>▪ 1-month LIBOR (X.X% LIBOR floor) + XX.X% per year</li><li>▪ Default interest rate of X.X%</li></ul>
<b>COVENANTS</b>	<ul style="list-style-type: none"><li>▪ Financial covenants tested quarterly, including: minimum average daily gross production, asset coverage, interest coverage, and maximum G&amp;A</li><li>▪ Customary for facilities of this kind such as restrictions on mergers, acquisitions, recapitalizations, reorganizations, asset sales, distributions, changes in management/ownership, formations of subsidiaries, other liens and debt, capex, etc.</li></ul>
<b>REPAYMENTS AND AMORTIZATION</b>	<ul style="list-style-type: none"><li>▪ Repayment at maturity</li><li>▪ No amortization</li></ul>
<b>OTHER</b>	<ul style="list-style-type: none"><li>▪ Concurrent with the closing, the Issuer shall establish a current reserve equal to three months of interest due under the Facility</li></ul>

# PROJECT EQUITY EXAMPLE– LINN ENERGY & GSO CAPITAL



## *\$500 Million Strategic Alliance*



- January 2, 2015 - GSO Capital Partners agreed to commit up to \$500 million with a five-year availability to fund drilling programs on locations provided by LINN, which will allow LINN to develop assets without increasing capital intensity
- GSO will fund 100% of the costs associated with new wells drilled under the agreement and is expected to receive an 85% working interest in these wells until it achieves a 15% internal rate of return on annual groups of wells
- Upon reaching the internal rate of return target, GSO's interest will be reduced to 5%, while LINN's will increase to 95%
- Strategic advantages for LINN:
  - Allows Linn to develop assets without increasing capital intensity
  - Potential to add a steady and growing cash flow stream with no capital requirement
  - Increases LINN's long-term ability to fund all oil and natural gas development capital and the distribution from internally generated cash flow
  - Mitigates drilling risk
  - Potentially broadens acquisition universe
  - Upon meeting the return hurdle, provides incremental low decline production for LINN

### LINN ENERGY OVERVIEW

- LINN Energy's mission is to acquire, develop and maximize cash flow from a growing portfolio of long-life oil and natural gas assets
- LINN Energy is a top-15 U.S. independent oil and natural gas development company, with approximately 7.8 Tcfe of proved reserves (pro forma for announced 2014 trades, acquisitions and divestitures) in producing U.S. basins as of December 31, 2013

### GSO CAPITAL OVERVIEW

- Blackstone is one of the world's leading investment and advisory firms with approximately \$284 billion in assets under management as of September 30, 2014
- GSO, a division of Blackstone, is a leading credit-focused alternative asset manager, with approximately \$70 billion of assets under management as of September 30, 2014
- GSO has a global footprint with approximately 250 professionals among its offices in New York, Dublin, London and Houston



# REPRESENTATIVE INVESTORS

## PROJECT EQUITY INVESTORS



THE CARLYLE GROUP



CAPITAL PARTNERS



KKR

OLD IRONSIDES  
ENERGY



Stephens Capital Partners LLC  
An Affiliate of Stephens Inc. Investment Bankers



TITANIUM  
Exploration Partners

## MEZZANINE INVESTORS



THE CARLYLE GROUP

CHAMBERS  
ENERGY CAPITAL



Morgan Stanley



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### III. CASE STUDIES

# CASE STUDY: NADEL AND GUSSMAN, LLC – WI INVESTMENT

October 1, 2013

**Undisclosed**



**Working Interest Investment**

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*The undersigned served as  
Financial Advisor*

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**Stephens Inc.**

## TRANSACTION HIGHLIGHTS

- On October 1, 2013, Nadel and Gussman, LLC (“N&G” or the “Company”), announced the completion of an investment by Kohlberg Kravis Roberts & Co. L.P. (NYSE:KKR) (“KKR”)
- The investment is structured as a JV to fund the development of N&G’s existing leasehold positions throughout the Fort Worth Basin in Young and Throckmorton Counties, Texas
  - The investment will be used to de-risk the play through an eight well pilot drilling program and contemplates the development of a potential 130+ horizontal wells
  - The Fort Worth Basin Program targets shallow oil in the Penn Lime and Mississippian Lime formations
- Stephens assisted in the valuation and negotiation of a drilling carry for N&G based on the Company’s 46,480 net undeveloped acres committed to the program
  - The Company will be carried on eight initial wells based on an agreed value and carry period
- N&G will also receive a back-in of interest once a specified return is realized by KKR
- Going forward, KKR and N&G will remain partners to develop additional exploration programs in U.S. onshore plays
- Additionally, Stephens Capital Partners participated as a partner in the transaction on the same terms as KKR
- Stephens acted as sole Financial Advisor in this transaction

### Nadel and Gussman, LLC Overview

Nadel and Gussman, LLC is a private oil and gas company based in Tulsa, Oklahoma engaged in the acquisition, exploration, development and production of oil and gas properties located in emerging, liquids-rich resource plays across the lower 48 states. Nadel and Gussman seeks to be the first to identify and develop crude oil and liquid-rich resource reservoirs utilizing horizontal drilling and innovative completion technologies. At the close of this transaction, the Company had acquired ~25,000 net acres in the Midland Basin, ~60,000 net acres in the Fort Worth Basin, and ~40,000 net acres in the DJ Basin.

January 7, 2011

**Undisclosed**



**Private Placement of Equity**

*The undersigned served as  
Sole Placement Agent*

**Stephens Inc.**

## TRANSACTION HIGHLIGHTS

- On January 7, 2011, GeoSouthern Eagle Ford Development, LLC, a special purpose entity established by GeoSouthern Energy Corporation (collectively “GeoSouthern” or the “Company”), announced the completion of an investment by an undisclosed investor
- The investment is structured as both common equity and redeemable preferred equity
- Proceeds from the financing will be used:
  - To fund drilling and completion of Eagle Ford Shale wells across GeoSouthern’s existing leasehold positions in DeWitt, Lavaca and Fayette Counties, Texas
  - To acquire additional leasehold and producing properties prospective for the Eagle Ford Shale formation in South Texas
  - To acquire an additional 16.25% working interest in certain oil and gas properties located in DeWitt County from Petrohawk Energy Corporation (NYSE:HK)
  - To refinance the Company’s senior credit facility
- Stephens acted as Sole Placement Agent in this transaction

### Transaction Update:

- On November 20, 2013 GeoSouthern and Blackstone agreed to sell its partnership to Devon Energy Corporation (NYSE:DVN) for \$6.0 billion
  - The acquired assets include current production of 53,000 barrels of oil equivalent (BOE) per day and 82,000 net acres with 1,200 undrilled locations
  - Blackstone’s stake in the enterprise was valued at \$1.54 billion
- GeoSouthern originally raised a mezzanine debt facility on June 29, 2010 for \$125.0 million with CLG Energy Finance, LLC which allowed the Company to raise private equity from Blackstone on January 7, 2011 and preserve substantial equity value as demonstrated in the sale to Devon

### GeoSouthern Energy Corporation Overview

GeoSouthern Energy Corporation is a private oil and gas company based in The Woodlands, Texas engaged in the acquisition, exploration, development and production of oil and gas properties located in Texas. GeoSouthern was incorporated in Texas in 1981 and has operated or participated in the drilling of over 1,000 wells since its inception. The Company holds approximately 135,000 net acres in DeWitt, Lavaca and Fayette Counties, Texas prospective for the rapidly developing Eagle Ford Shale play. GeoSouthern has partnered with Petrohawk on its DeWitt County acreage and Magnum Hunter Resources (NYSE:MHR) on a portion of its Lavaca County acreage. At closing, GeoSouthern and Petrohawk had completed 13 Eagle Ford Shale wells and continue to actively drill undeveloped locations.

# CASE STUDY: ERG RESOURCES, LLC – PRIVATE DEBT FINANCING

January 24, 2013

**\$350 Million**

The logo for ERG Resources, LLC, consisting of the letters "ERG" in a bold, orange, sans-serif font.

**Senior Secured Credit Facility**

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*The undersigned served as  
Sole Placement Agent*

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**Stephens Inc.**

## TRANSACTION HIGHLIGHTS

- On January 24, 2013, ERG Resources, LLC (the “Company”) announced the completion of a Senior Secured Credit Facility
- The Senior Secured Credit Facility was placed with CLG Energy Finance, LLC, an affiliate of Beal Bank
- Proceeds from the offering will be used for:
  - Repayment of the Company’s Senior and Subordinated indebtedness
  - Financing the capital expenditures of current and future drilling opportunities
  - General corporate purposes
- The Company has a pro forma PDP PV-10 to Funded Debt ratio of 1.0x
- Stephens Inc. served as Sole Placement Agent in the transaction

### ERG Resources, LLC Overview

ERG Resources, LLC is a privately owned oil and gas operator focused primarily on the onshore Gulf Coast and California. The Company’s operations are focused primarily on long-lived reserves in the Cat Canyon Field located in the Santa Maria Basin in Santa Barbara County, California. ERG controls approximately 17,000 net acres with current net production of approximately 2,000 BOEPD. The assets encompass a large resource base with net proved reserves of 145 MMBOE as estimated by Netherland, Sewell & Associates, Inc.

# CASE STUDY: ELM RIDGE EXPLORATION COMPANY, LLC – VPP

July 17, 2013

**\$119 Million**



**Volumetric Production Payment**

*The undersigned served as  
Sole Arranger*

**Stephens Inc.**

## TRANSACTION HIGHLIGHTS

- On July 17, 2013, Elm Ridge Exploration Company, LLC closed the sale of a Volumetric Production Payment (“VPP”) to Freepoint Commodities LLC for \$118.8 million, in which the VPP eliminated bankruptcy and commodity risk
- The VPP was for a term of 11 years and encompassed a scheduled quantity of 924.1 MBbls of oil and 28.5 Bcf of natural gas in aggregate
- The VPP covered 50 PUDs, six workovers and allowed for a \$48mm capex plan funded by net cash flows to the Company subject to the VPP
  - This structure was unique in that it allowed for PUD capital, which is not typical in most VPP’s
- The proceeds from the VPP were used to repay the Company’s outstanding debt
- The implied cost of capital for the VPP was approximately 10.0% per year
- Stephens has executed several successful transactions with Elm Ridge
  - Deal 1: Partial recapitalization to gain flexibility in a distressed situation
  - Deal 2: Full recapitalization that brought the Company’s cost of capital down by 2.50%
  - Deal 3: Refinancing of all the Company’s outstanding debt that brought their cost of capital down by 0.61%
- Stephens Inc. served as Sole Arranger in the transaction

### Elm Ridge Exploration Company, LLC Overview

Elm Ridge Exploration Company, LLC (“Elm Ridge” or the “Company”) is a private oil and gas company based in Dallas, Texas. The Company is comprised of three business units: exploration and production, oilfield services and midstream gas gathering. The Company’s operations are focused primarily on long-lived reserves in the San Juan Basin of Colorado and New Mexico. Elm Ridge controls in excess of 285,000 gross acres (185,000 + net).

# CASE STUDY: E&P PRIVATE EQUITY

March 21, 2011

**\$220,000,000**  
**Common Equity**

**\$200,000,000**  
**Senior Secured Notes**



**BlackBrush TexStar Energy LP**

The undersigned served as placement agent to  
TexStar Midstream Services, LP

**Stephens Inc.**

## TRANSACTION HIGHLIGHTS

- On March 21, 2011, BlackBrush TexStar Energy LP (the “Company”), a new entity established by BlackBrush Oil & Gas, L.P. and TexStar Midstream Services, LP (“TexStar”), announced the completion of a \$420 million investment by EIG Global Energy Partners (“EIG”)
- EIG’s investment is structured as \$220 million of common equity and \$200 million of senior secured notes
- Proceeds from the financing will be used:
  - To fund the development of existing oil and gas properties prospective for the Eagle Ford shale and other formations in South Texas
  - To fund the build-out of a midstream gathering system to support the upstream business activities of the Company and its working interest partners
  - To refinance the Company’s senior credit facility
- Stephens acted as placement agent to TexStar in this transaction

### TexStar Midstream Services

TexStar is an independent midstream energy partnership that was formed to acquire, develop and operate midstream infrastructure in South Texas. TexStar has an experienced management team with direct project experience and a proven track record of creating value through the acquisition, construction, operation and monetization of midstream assets. TexStar has identified and is currently developing three projects which will leverage the rapid development of the Eagle Ford shale in South Texas. For additional information please visit [www.texstarms.com](http://www.texstarms.com).

### EIG Global Energy Partners

EIG Global Energy Partners manages funds that invest in the energy sector focusing primarily on upstream, midstream, resources, power generation, renewable energy and energy-related infrastructure. EIG specializes in private investments in energy, administered by over 40 investment professionals with industry or technical backgrounds. During its 29-year history as an operating division of TCW Asset Management, funds managed by EIG have invested more than \$11 billion in 33 countries on 6 continents. For additional information please visit [www.eigpartners.com](http://www.eigpartners.com).

# CASE STUDY: ELM RIDGE EXPLORATION COMPANY, LLC – PRIVATE DEBT

April 12, 2010

**Senior Secured Debt**

**\$82,500,000**

**Senior Subordinated Debt**

**\$62,500,000**



*The undersigned served as  
Sole Arranger*

**Stephens Inc.**

## TRANSACTION HIGHLIGHTS

- On April 12, 2010, Elm Ridge Exploration Company, LLC announced the completion of a Senior Secured and Senior Subordinate debt financing.
- The Senior Secured debt financing was lead by Union Bank, N.A. and included a syndicate bank group of Compass Bank, Texas Capital Bank, N.A and Citibank, N.A.
- The Senior Subordinate debt was placed with Sankaty Advisors, LLC.
- Proceeds from the offering will be used for:
  - Repayment of a portion of the Company’s outstanding Senior indebtedness
  - Financing the capital requirements of current and future drilling opportunities
  - General corporate purposes
- Stephens acted as exclusive placement agent in this transaction.

### Elm Ridge Exploration Company, LLC Overview

Elm Ridge Exploration Company, LLC (“Elm Ridge” or the “Company”) is a private oil and gas company based in Dallas, Texas. The Company is comprised of three business units: exploration and production, oilfield services and midstream gas gathering. The Company’s operations are focused primarily on long-lived reserves in the San Juan Basin of Colorado and New Mexico. Elm Ridge controls in excess of 285,000 gross acres (185,000 + net).



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# APPENDIX

# ENERGY INVESTMENT BANKING TEAM

WITH AN OFFICE IN DALLAS, TEXAS, OUR ENERGY PROFESSIONALS ARE STRATEGICALLY POSITIONED TO ADVISE CLIENTS IN THE ENERGY INDUSTRY



**Keith Behrens**  
*Managing Director*  
*Head of Energy Investment Banking*

- 23 Years in Investment Banking
- 5 Years at Stephens Inc.
- Previously with Bear Stearns, Wasserstein Perella and Energy Capital Solutions
- BBA and MBA, University of Texas



**Brad Nelson**  
*Managing Director*  
*Energy Investment Banking*

- 18 Years in Investment Banking
- 5 Years at Stephens Inc.
- Previously with Bear Stearns, Koch Industries and Energy Capital Solutions
- BS, Oklahoma State University; MBA, University of Oklahoma



**Paul Moorman**  
*Managing Director*  
*Energy Investment Banking*

- 13 Years in Investment Banking
- Previously with Citigroup Global Markets, Lazard Freres, and Southwest Securities
- BS, Boston College; MS, Louisiana State University; MBA, Rice University



**Ryan O'Brien**  
*Vice President*  
*Energy Investment Banking*

- 7 Years in Investment Banking
- 4 Years at Stephens Inc.
- Previously with KeyBanc Capital Markets
- BBA, Ohio University



**Jake Bender**  
*Vice President*  
*Energy Investment Banking*

- 7 Years in Investment Banking
- 4 Years at Stephens Inc.
- Previously with DnB NOR Markets Inc., Piper Jaffray, Kennedy Capital Management
- BBA, Saint Louis University



**Peter Bailey**  
*Vice President*  
*Energy Investment Banking*

- 8 Years in Investment Banking
- Previously with Wells Fargo & Company and Citigroup, Inc.
- M.B.A., Harvard Business School
- B.S., United States Military Academy, West Point, NY



**Ben Blaesche**  
*Associate*  
*Energy Investment Banking*

- 4 Years in Investment Banking
- 4 Years at Stephens Inc.
- BS, University of Maastricht; MS in Finance and MBA, Louisiana State University



**Evan Smith**  
*Senior Analyst*  
*Energy Investment Banking*

- 2 Years in Investment Banking
- 2 Years at Stephens Inc.
- BBA, University of Texas



**Matthew Cain**  
*Senior Analyst*  
*Energy Investment Banking*

- 2 Years in Investment Banking
- Previously with Challenger Capital Group
- BS and MBA, Southern Methodist University

# CLOSED TRANSACTIONS: PRIVATE CAPITAL RAISES

<p>2014</p> <p>\$15 Million</p>  <p><b>Senior Secured Term Loan Facility</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2013</p> <p>Undisclosed</p>  <p><b>Working Interest Investment</b></p> <p><i>The undersigned served as Financial Advisor</i></p> <p><b>Stephens Inc.</b></p>	<p>2013</p> <p>\$350 Million</p>  <p><b>Private Placement of Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2012</p> <p>\$62 Million</p>  <p><b>Senior Secured Credit Facility</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2012</p> <p>\$50 Million</p>  <p><b>Private Placement of Equity</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2012</p> <p>\$25 Million</p>  <p><b>Senior Construction Loan</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>
<p>2011</p> <p>\$23 Million</p>  <p><b>Senior Secured Credit Facility</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2011</p> <p>\$160 Million</p>  <p><b>Recapitalization</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2011</p> <p>Undisclosed</p>  <p><b>Private Placement of Equity</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2011</p> <p>\$420 Million</p>  <p><b>Private Placement of Equity &amp; Debt</b></p> <p><i>The undersigned served as Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2011</p> <p>Undisclosed</p>  <p><b>Private Placement of Equity</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2010</p> <p>\$125 Million</p>  <p><b>Private Placement of Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>
<p>2010</p> <p>\$22 Million</p> <p><b>UPTEx ENERGY, LLC</b></p> <p><b>Private Placement of Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2010</p> <p>\$145 Million</p>  <p><b>Private Placement of Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2010</p> <p>Undisclosed</p>  <p><b>Private Placement of Equity</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2009</p> <p>\$33 Million</p>  <p><b>Private Placement of Equity &amp; Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2009</p> <p>\$75 Million</p>  <p><b>Private Placement of Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>	<p>2009</p> <p>Undisclosed</p>  <p><b>Private Placement of Equity &amp; Debt</b></p> <p><i>The undersigned served as Sole Placement Agent</i></p> <p><b>Stephens Inc.</b></p>