

DOLLISON SEES NICHE OPPORTUNITY AMID DEPRESSED OIL SECTOR



Deborah L. Cohen, Middle Market Growth | January 22nd, 2015

An Interview with J.B. Dollison, Principal, Crutchfield Capital Corporation

ACG Global board member J.B. Dollison is a principal with Houston-based private investment banking firm Crutchfield Capital Corporation. Middle Market Growth asked for his take on how depressed worldwide oil prices are affecting midsize deals in the energy sector.

Q. How is the downturn in global energy prices impacting your business at Crutchfield?

With respect to our clients that are close to the wellhead, meaning companies providing services associated particularly with drilling activities, those deals are in peril right now. Other than that, Crutchfield Capital is relatively well-diversified. There's clearly a lot of uncertainty in the oilfield services arena, and as a result deals are much more difficult to close.

Q. Is there a lot of opportunity in this market?

I definitely think there's opportunity—there are a lot of buyers that were on the sidelines hoping that valuation metrics would become more rational in the oil and gas sector, and I think you're starting to see that.

Conversely, companies with an attractive niche in the segment will remain in great demand. For example, we just sold Chemtec Energy Services to a public company out of Pittsburgh called L.B. Foster. Our client, Chemtec, is involved in manufacturing measurement solutions used in the midstream sector; every time there is a sale of hydrocarbon, you've got to measure it. Chemtec provided those systems of measurement for that exchange—basically the cash register for the oil and gas industry. This is a sector where you know there is going to be continual buying and selling of product; it's not like you don't have molecules being exchanged, you're just not drilling for as many molecules.

A business like that, that is sustainable through a downturn, is particularly attractive and that's where you're starting to see a lot of the action. We're talking right now with a company that provides information technology services for the oil and gas industry. We always need to manage this information, and much of it is stored on legacy systems. If those (oil) companies are going to continue to survive, they've got to manage that data, so this company will be a very attractive company in the capital markets. The business is sustainable throughout cyclical variations in the market.

Q. Are PE firms in the energy space right now having a hard time raising funds?

I don't think so. I don't think it's affected their fundraising. I think the success of their fundraising is more attributable to their previous success as a fund, rather than their particular focus. I think, if anything, it might be actually a little bit easier, because now the companies they're investing in are more attractive, less valuable, and they can buy those assets at more attractive pricing.

Q. What kind of valuations are you seeing for pure energy deals, and where were they prior to the downturn, maybe three months ago?

Obviously, multiples vary by company, and it's really difficult to generalize as a whole. For the attractive niche players such as those I described, multiples may be down by maybe a quarter to half a turn. For companies very closely tied to drilling operations, those valuation metrics probably have declined by one turn of EBITDA at least.

Q. How long do you think this depression in oil pricing is going to last?

It is very difficult to know; the one thing to know for sure—there's an awakening if there wasn't before—that commodity prices are cyclical and clearly we're seeing that in the oil and gas sector. I think several things have to happen before oil prices begin to rise. There has to be at least a perception that world demand stabilizes and is increasing. We have the specter of declining growth rates in Asia and Europe—when you see that, you think of less demand for commodities like oil and gas, so the bias is to the downside of prices.

Q. The downturn in oil is affecting the broader market; last week Bank of America partly blamed the energy sector for unfavorable earnings results.

For those clients heavily tied to the extraction of crude oil, I think the valuation metrics are going to be depressed and it might be best to wait if you're going to be selling a business. On the other hand, if you have an attractive niche, I think there are still some very nice valuations and I wouldn't hesitate at all to explore the markets. Timing is everything and there's still a lot of liquidity in the market looking for great deals. If you've got that niche, I think you're going to get a lot of attention.

Q. What about opportunities in the natural gas market?

I put together a publication in February of this past year. In the natural gas segment I said there is a lot of activity still occurring toward increasing the demand for natural gas. There is a huge amount of infrastructure in the Gulf Coast that's going in to accommodate natural gas as a feedstock and as a power source. That infrastructure is still driving a lot of great businesses tied to meeting the demand for natural gas. There is a lot of growth still to come in that sector. I would anticipate over time that demand for natural gas will also increase—I would be bullish on the continued fortunes of companies tied to the extraction of natural gas and the transportation of natural gas. And I think the transportation of crude oil is still going to be bullish and robust—an example would be the master limited partnerships involved in the transportation of crude and other hydrocarbons; in those instances, you still have to move the molecules and you're earning a tariff for moving them. I think that MLPs are going to hold up well.

J.B. Dollison is a principal with Crutchfield Capital Corporation and a member of the ACG Global Board of Directors.

**INTERESTED IN SPEAKING
WITH AN M&A PROFESSIONAL?**

Please contact one of the experienced advisors
at Crutchfield:

CRUTCHFIELD CAPITAL
C O R P O R A T I O N

5599 San Felipe St., Suite 555

Houston, Texas 77056

(713) 961-0496

J.B. Dollison

Managing Director

jbd@crutchfieldcapital.com

Eric Roddiger

Managing Director

ewr@crutchfieldcapital.com

Rick Wilson

Managing Director

rgw@crutchfieldcapital.com