A Renegade Investments crew builds a tank battery. The GulfStar client specializes in recurring wellhead production and infrastructure services, operations and maintenance employment and automation services to oil and gas companies.
Source: GulfStar Group Investment Bank

Reputation And Relationships

GulfStar Group's partners have seen tremendous change since the dawn of public MLPs.

***By Deon Daugherty**, Associate Editor*

Founded in 1990 as a spin-off from Rotan Moseley's purchase by Paine Webber and Co., Houston-based GulfStar Group Investment Bank has built a steady business of helping entrepreneurs evolve into successful energy companies.

Partner Alan Blackburn admits there were some differences to deal-making in 1986, when he was an associate on one of the first MLPs to go public, Petrolane Partners.

"Well, we didn't have email so it was a sprint to the FedEx deadline every day. It was a lot more time at the printer," he told *Midstream Business*. "From a processing standpoint, it was a lot more cumbersome, but from a deal execution standpoint, my sense is it was really similar to today with respect to the IPOs. We had road shows, and we had an equity syndicate managing the transaction. I think there are a lot of similarities—even today—to how those deals were done 20 years ago."

But that's a story for the public side of the midstream transactions business. GulfStar specializes in private transactions—which mostly include first-time business owners looking to sell, entrepreneurs and family businesses.

"Our clients actually need our help, and they listen to us and take our advice," Blackburn said. "And to contrast that to the life I had before, where you felt a whole lot more like a product salesman and you were representing a

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firm and the client was mostly interested in your access to the resources of the firm, and if it wasn’t you, it was the next guy and if your analyst had a ‘Buy’ on the stock, you could get business, and if your analyst didn’t have a ‘Buy’ on the stock, then you didn’t get the business.”

The private side of banking provides much more of an advisory role, he explained.

“We’re leading every deal we’re doing, we’re taking our clients through every step of the process; they don’t think they know more than we do about how this works. And when a deal closes, it’s very rewarding that you’ve helped an owner realize a liquidity event from what he’s spent his life on,” Blackburn said.

MLP impact

A dominant theme of recent years is the rise of the MLP structure, Blackburn said.

“There has been a massive transition of everything that can be an MLP into an MLP,” he said. “On the oilfield services side, there doesn’t seem to be a lot of difference. It’s just more of the same where small companies get acquired by bigger companies, bigger companies build to a certain size, and then go public and potentially merge, and then the cycle goes over and over again.”

E&P companies have made stabs at the MLP structure with varying degrees of success during the last 20 or so years, Blackburn said, adding that, “On the midstream side, everything that isn’t bolted down that can be classified as MLP-qualified gets taken public as an MLP.”

As for the recent volatility in the MLP sector—a 15% decline for the MLP index in October was its lowest point in eight years—Blackburn, and others, remain believers in the MLP model for the midstream.

“I’m very bullish on MLPs longer term. I actually invest in them personally, and I think the returns on MLPs over the past 15 years have been a lot better risk-adjusted than other alternatives,” he said. “They got hammered in this last downturn, but the Alerian Index was up 40 points [within days]. There was a little bit of a panic. Today’s a good day, but [another day] could be different.”

W. Clifford Atherton Jr., another partner at GulfStar who’s been with the firm for 15 years, said it’s important to separate out E&P MLPs and midstream MLPs.

A midstream fit

“You have very different cash flow characteristics and commodity price volatility,” he told *Midstream Business*. “It’s a structure that fits much better in the midstream.”

Atherton joined GulfStar in 1995, after opening his own consulting shop in 1990 and then spending a couple of years at McKenna & Co.—a GulfStar competitor for the southwest regional investment banking market. GulfStar had been the southwest arm of Rotan Moseley, which in the 1980s boasted the largest corporate energy finance department outside of New York. As Atherton explained, when Paine Webber bought Rotan, the firm spun off the assignments in the southwest to the Houston office where five then-Rotan investment bankers were already working those deals, subleased the space they were already working in, and soon, GulfStar was in business.

Atherton knew several of the professionals at GulfStar and was lured away from McKenna because he believed GulfStar’s goals aligned with his own.

“Personal relationships are very important in this business,” he said. “GulfStar seemed to me to be a much better place to build my career in working with business owners. That was the primary motivator to come over here. And shortly thereafter—I don’t think it had anything to do with my leaving—McKenna was sold to Price Waterhouse, which I don’t think would’ve been a good home for me, even though it’s a great firm.”

As such, one thing that sets GulfStar apart, both Blackburn and Atherton said, is the relaxed, almost-family nature of the office.

“It’s a very entrepreneurial place. We each have our clients. We each have our deals. We’re not answering to somebody in New York who’s calling to find out why we missed a deal. We have a lot of respect for each other. We all know how hard this is. We know we’re going to win some, and we know we’re going to lose some,” Blackburn explained. “Our bosses are really more our clients than anyone else. And I think if you were to say what’s the one thing that distinguishes us from anyone else, it’s really our almost singular focus on that first-time, privately held business.”

More than half of GulfStar’s business comes from the energy sector, and it comes to them largely through referrals.

Reputation

"We don't lend money. We don't provide research coverage. We don't have any levers to pull to get business, other than our reputation and our experience," Blackburn said, adding that it's not an easy business to get started.

"Our deals take a long time to get done. And our client base, while we enjoy working for them, can be eccentric, moody and volatile, and a lot of times decisions that are made are emotional decisions, and not rational economic decisions," he said, explaining that it's the personal touch of a small firm that can help to guide these newcomers to the buying and selling world.

GulfStar has also developed relationships with some of the largest investment houses to assist with clients engaged in more middle-market transactions. Again, it's the relationship and reputation factor that sets GulfStar apart, Atherton said.

Relationships

"[Blackburn] has been instrumental in getting this kicked off, to build out network and relationships with the larger firms on Wall Street because they need relationships with firms like ours that can handle mandates that come from their clients on the wealth management side of the business, such as someone with a $100 million business they'd like to sell," Atherton said. "That's not something that a Merrill Lynch corporate finance department would want to handle. But we are the perfect firm to handle that for them."

Atherton said Merrill Lynch and Morgan Stanley have really been on the forefront of this sort of farm-out opportunity set.

"As long as we're good, and we do a good job, the fact they brought us in obviously strengthens their relationship with the client and just further assures that they are going to get the assets under management," he said.

"But it is a tricky process. They're very, very careful, and that's why it's a whole lot easier to get those done after we've been in business for 15 years or so. We couldn't have done that at the outset, but having been in business and having achieved a much larger platform with the staff we have here and the number of transactions that we do annually, it made us a good candidate, but even then, it wasn't easy. We had to knock at the door, and we didn't necessarily get in the first time," Atherton added.

GulfStar has carved out a space in the midstream to engage with firms that receive the capital and maintenance expenses of large asset owners.

Out on the line

"It's all those people out there on the pipeline right of way, getting the pipeline built or doing the maintenance work. We look at the midstream, both the construction part and the long-term maintenance part of the business," Atherton said. "In the last year, we've represented a pipeline contractor, a company that provides some of the key supplies and other pieces of equipment that need to be used along the right of way by the pipeline contractor, and we also represent a firm involved in long term right-of-way maintenance and repair and overhaul part of the business."

A major trend in investment banking is the prevalence of private equity money on the buy side, said Atherton.

"We moved from a world in which about the only buyers I could go to, really, were some local family offices and some strategics [larger companies], and a relatively limited buyers' list when I was first getting into the business," he said. "Today, we will approach probably 10 to 20 private equity buyers for every strategic buyer that's on our list. That means today when I represent a firm, it's almost equally likely that a buyer will be a private equity firm as the probability that the buyer would be a [larger company]. The world for us has changed dramatically."

At the end of the day, GulfStar is a marketing organization, Atherton said.

Scaling up the process

"We will scale-up a marketing process to get a company sold. Selling a com-

Jake Percifull serves as CEO of GulfStar client Renegade Investments LP, based in Granbury, Texas.
Source: GulfStar Group Investment Bank

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pany is unlike selling anything else. Somebody can't drive by your house and see a 'for sale' sign in front of it, call the Realtor and see it the next day," he explained. "It's a very different kind of selling process. There is a lot of information gathering. Then, you disseminate information on a blinded basis because companies are very sensitive about word getting out that they're for sale."

It's a long-term process that requires sensitivity and an ear-to-the-ground intelligence.

One such victory in 2014 was a deal in which Atherton and GulfStar's Tom Hargrove worked with Renegade Investments LP in a transaction with private equity firm Corinthian Capital Group LLC.

Led by three brothers in their mid-30s, Renegade provides recurring infrastructure services, operations and maintenance employment and automation to oil and gas producers.

"They're growing very, very well," Atherton said. "They're out on the acquisition trail, and those guys are going to be very successful." ■

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