GulfStar Group

Alan Blackburn of GulfStar Group used to work in investment banking for a major Wall Street firm, where clients focused on the price of the firm's services, where junior staff members were called in to do most of the work on deals, where investment bankers were more salespeople than advisors.

"That's not how it works here," he says of Houston-based GulfStar, which is celebrating a quarter-century of representing private companies in sales transactions, accessing capital and recapitalizations, having closed more than 630 deals since 1990. Its client base is primarily entrepreneurs and families who own "middle market" companies between $25 million and $350 million in enterprise value. Most of these private business owners have never sold a company before and don't know what their alternatives are.

"We know what choices they may have in front of them, who their buyers might be, and all the steps involved in navigating the sale process," says Blackburn, a managing director and a nine-year veteran of the company. "So it's a very granular, hands-on, high advisory-content process. It sounds trite, but we do become serious trusted advisors to our clients because they need our help."


Alan Blackburn,
Managing Director


Kent Kahle,
Managing Director


Bryan Frederickson,
Managing Director


Eric Swanson,
Managing Director

True to its roots

GulfStar traces its roots to Rotan Mosle Financial, a Houston firm acquired by Paine Webber in 1983. A number of its bankers stayed on until most of the management decisions moved to New York and the focus shifted away from the middle market.

"We didn't really want to be just a new business calling operation, so we formed GulfStar, primarily to do everything we had done at Rotan, other than public offerings," says Managing Director Kent Kahle, one of GulfStar's founders. The 630-plus deals in the last 25 years make GulfStar the most active middle market firm in the Southwest and one of the most active firms in the United States, Kahle says. Energy and infrastructure deals represent about half the company's business.

"Over the years we've done a large number of transactions, and success breeds success," Kahle says. "We get almost all of our transactions from word-of-mouth referrals. We don't do a lot of what I call direct marketing, and we certainly don't do cold calls or send out letters to prospective sellers. We pride ourselves on successfully completing transactions and basically exceeding our client expectations, and that's worked well for us over the years."

One of the things that differentiates GulfStar from its competitors, he says, "… is that we provide a realistic view of potential value when we initially meet with a client and analyze their business. We have either been in the range that we provided, or above that range, in more than 90% of the transactions that we've completed over the last five years.

"A lot of our clients are first-time sellers, and it's very important that they understand the process, so we really educate them on what's going to happen throughout the process, as well as deliver on what we say we're going to do."

Over GulfStar's long history, most of its work has been for oilfield products, services and equipment companies. However, Eric Swanson, a former Morgan Stanley banker, joined GulfStar this year as a managing director to build the firm's expertise in the E&P sector. He'll also collaborate with Managing Director Bryan Frederickson on restructuring and distressed-company transactions, which are expected to pick up going into 2016.

"This go-round, a lot of new money has been raised with the objective of buying troubled loans or putting 'rescue capital' into companies," Frederickson says. "By paying down debt and pushing the existing equity holders deeper into the capital structure, the company remains more or less intact. New money can earn a good yield on the investment, and the existing investors at least live to fight another day."

This fall, many E&P companies' reserve-based lending facilities are expected to be reduced by commercial banks in response to lower oil prices and property values. "That's really when you're going to see companies pursuing alternative sources of capital," Swanson says.

On selling assets and timing

"One of the least attractive alternatives for many producers is selling assets now, after the dramatic fall in commodity prices, at what could be the bottom of the commodity cycle. Many assets are not economic at current prices and will be challenging to sell for attractive valuations," Swanson says. "That's why many companies are exploring securing alternative sources of private capital. This is where private equity and other non-bank sources of capital are stepping in to provide new capital, which may potentially replace existing credit facilities."

Swanson says it's difficult to see a rebound in oil prices before late 2016 or 2017. The amount of capital poised to buy assets in the energy sector makes it crucial for companies with high debt levels to assess the timing implications of what they have to gain by waiting for commodity prices to improve while existing assets decline.

"Right now, there is a general acceptance in the market that there's not going to be a quick recovery," he says. "It is to the producers' benefit to be as proactive as possible in securing and preserving capital.

"One of the first things producers did when oil prices dropped was to lay down rigs, so for many private operators, production is dropping like a rock. The oil price has fallen in half, but the longer producers wait, the further down the decline curve of existing production they are," he says.

"So if you're considering selling an asset to raise capital and deleverage, you're potentially hurting yourself by waiting because you're going to have less production to sell. When the economics don't support putting rigs back to work to increase production, and you're not getting paid for upside in a sales process, time is not on your side."

Swanson says there's extreme interest in the market in buying assets, and by people who want to put money to work in the energy space. "A number of assets in the Permian Basin have been purchased by private equity backed companies. You'd rather do something while the pool of capital is largely intact and fully available. If you wait a year or more, much of the available capital could have been deployed. If oil prices have not recovered, they will have made their investments before you decide to sell in desperation."

It's important to note, however, that the pessimism in the energy marketplace today doesn't apply to all its participants. Blackburn notes that a number of GulfStar's clients don't have a lot of debt, "and most of them have the ability to wait this out."

"So to many of our clients our advice was, 'Let's just put this on hold until we have a better market.' There's no reason for them to sell at a discounted valuation unless they have to. We haven't tried to force deals into the market that made no sense and that were not in the interests of our clients to try to get the deals done." ■