Management in the Drivers' Seat Amid PE Energy Scramble

With capital flooding back into the private equity energy space, private equity funds looking for talented management teams with whom to partner are finding a supply/demand imbalance, says Vinson & Elkins' Dan Komarek

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Privcap: Paint for us a picture of what the market looks like for private equity firms seeking to partner with talented energy operators.

Dan Komarek, Vinson & Elkins: There's certainly been an uptick in assets under management that are devoted to energy deals, whether that's conventional or alternative energy. Institutional investors are looking to private equity funds to put capital to work in this space, but the money seems to be outpacing the talent levels of the energy executives. There's a supply/demand mismatch.

What are some tactics PE firms can use to secure the interest of the best energy executives?

Komarek: The power dynamic is definitely shifting towards giving more rights to management, whether economic or governance or otherwise. The obvious way that a private equity fund can compete in this marketplace is to give more and more of its economics to the management team. But there's only so much room to give. At the end of the day, the private equity funds have to return capital to their investors. The private equity professionals are obviously trying to make a good return themselves.

Private equity funds can distinguish themselves by having a reputation for: being a good partner and being accretive to the value of the company (such as by bringing great expertise to bear, bringing connections with financial and commercial counterparties, and bringing great advice for strategic decisions).

Another key way private equity funds distinguish themselves is being known as trustworthy. While a lot of paper goes into these deals, at the end of the day, they're relationships predicated on a handshake. Experienced management teams know private equity funds can act entirely within the four corners of a document yet still be bad partners. Having a reputation for being up-front and trustworthy goes a long way toward getting the good executive teams to partner with you.

What is going on inside the minds of the management teams as they are negotiating with potential private equity partners?

Komarek: It is not about whoever spends the most money wins. The median deal is hundreds of millions of dollars for one of these "startup" companies or "build-up" companies, whatever one wants to call it. Even though each is a new venture, hundreds of millions of dollars are being deployed. The private equity sponsor has to maintain control—a lot of the affirmative control and many negative controls. But the executive team wants to run the company. Management teams want someone who's not going to get in their hair but also someone who shares their vision.

What kinds of questions are you getting from private equity clients today?

Komarek: Every single day we are asked "what is market?" As advisors, we get the benefit of having a lot of deal volume. The market moves every year. Private equity funds want to continue to stay competitive when they're making these offers but at the same time they don't want to give up what they don't have to give up. ■