

RESOLUTELY IN OIL

Newly public Resolute Energy Corp. is one of the crop of mostly oily E&Ps that are using CO₂ to enhance recovery in older fields.

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"This deal was unusual; it was sort of a 'back-door' IPO," says Nick Sutton, chief executive officer, Resolute Energy Corp.

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In a sign of the times, oil-focused producers have enjoyed 2009 far more than have many natural gas players, as oil prices recovered smartly through the year while gas prices struggled to rebound from their lows. Investors, too, have been pursuing crude oil stories. At the end of September, Resolute Energy Corp. went public, offering a new investment choice whose proved reserves are 91% oil.

At the helm of Resolute is Nicholas J. Sutton, chief executive officer, who founded the Denver company in January 2004 with five senior managers and a trusted advisor of the former HS Resources Inc. HS was also Denver-based, a company that Sutton founded and most of the same team took public in 1992 with a value of about \$155 million. They ultimately sold HS in 2001 to Kerr-McGee Corp. (now part of Anadarko Petroleum Corp.) for approximately \$1.8 billion. Other former HS management now leading Resolute include James M. Piccone, serving as president; Theodore Gazulis, chief financial officer; and Richard Betz, senior vice president of strategy and planning.

Both companies were backed by private-equity firm Natural Gas Partners.

In the fall of 2007 the new company, acting as Resolute Energy Partners LP, a master limited partnership, filed to go public, intending to raise \$275 million, with Lehman Brothers, UBS Investment Bank and Wachovia Securities as underwriters. Proceeds were mainly earmarked to reduce debt. But the public offering never happened, because of the turn in the MLP capital market at the beginning of 2008.

A lot changed between then and now. Capital markets crashed and burned, and Lehman and Wachovia are no more. The company's resolution to grow through a public venue, however, never died.

Enter legendary Dallas investor Thomas Hicks, head of Hicks Acquisition Co. I, (HACI) a special-purpose acquisition company (or SPAC) formed in October 2007. By its charter, it had to make a deal within two years or liquidate. In July 2009, with time running out, Hicks, Sutton and NGP engineered a deal in which Resolute was able to go public via a merger with Hicks, which was the equivalent of a \$337 million IPO. The



group had less than two months to drum up enough shareholder support to do the deal.

Resolute, now trading on the New York Stock Exchange as REN, has year-end 2008 proved reserves of 49.3 million barrels of oil equivalent (BOE). First-half 2009 net production averaged about 7,500 BOE a day. The famed Aneth Field in southeastern Utah's Paradox Basin makes up 89% of its proved reserves, and they are light, sweet crude. Original oil in place is about 1.5 billion

barrels, and the field is being developed under several CO₂ flood projects. But the company also has upside in Wyoming's Hilight Field and in the emerging Mowry and Niobrara oil shales in that state as well.

Oil and Gas Investor chatted with Sutton to learn more about the way he went public this time, and the company's future plans.

Investor Nick, you're obviously not leery of being public again.

Sutton It feels good to be back. One great thing about this business is that once people get involved in it they tend to stay in it. I don't care if it's as an operator or a banker—the names stay the same and only the business cards change. It does get in our blood, I guess.

There are advantages and disadvantages to being public, of course. I think the pendulum always swings wide, and for a while there we went through a difficult period when everybody was trying to understand, for example, what Sarbanes-Oxley meant. The uncertainty caused people to be leery of being involved in a public company. But I think that with time has come added comfort.

On another front, we now are in a time of more activist fund managers investing in public companies. They may have a different time frame or agenda than company management, so that can create issues. But, you just deal with it.

Investor Did your reasons to go public today differ from 1992?

Sutton Going public in 1992 was a way to take HS to a new level and that's true again today with Resolute. Philosophically, we are more company-builders than buy-and-flip people, so we decided to go this route. That doesn't mean we don't know how to accept a terrific offer, as we did with HS, but we take the long view of

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our business. The investors we met on the road show for the Hicks deal understand that.

Investor But this time the route was sort of convoluted.

Sutton It was. We filed the S-1 late in 2007 to go out as an MLP, and we were going back and forth with the SEC on some details. By the time we were at the point to finally become effective, it was January of 2008 and there was just no market for IPOs, especially not for MLPs. It was pointless to beat ourselves up, so we decided to let our third-quarter numbers go stale, continue to build the company and wait for the markets to improve. We looked at a number of options, and then Ken Hersh, the CEO of Natural Gas Partners, had a conversation with Tom Hicks about merging HACI and Resolute.

Investor You had one busy road show—meeting 114 investors in 14 cities in 19 days.

Sutton It was a reminder of the road shows of old, but times two. There was a time in the mid-2000s when deals could be done fairly quickly over the phone, but this was an old-fashioned road show, like we did back in 1992. This deal was unusual; it was sort of a “back-door” IPO.

Our friends on the Street said the market was getting a little bit better, and certainly oil had the wind at its back. As markets had come undone and SPAC share prices went down, it was hard. SPAC holders don’t normally buy oil and gas...our task was to migrate the shares to investors who normally would buy oil and gas—and the SPAC holders had to sign off on it, so that’s why we had to call on so many investors.

No rational investor would knowingly pay more for us than the liquidation value of the SPAC, which was about \$9.75 a share. In a regular IPO you might say, I want 1 million shares and here is the price I will pay, then the syndicate desk allocates shares to investors who aren’t really sure how many shares they would be allocated or the final share price at issue. In this case, investors could buy large blocks of stock knowing that they would get the shares they wanted. And they knew what the price of the stock was, so there was less risk, and they could buy it without pressuring the stock price.

This deal allowed us to get out into the public market. Now about 68.3% of our stock is in public hands, and our market cap is almost \$600 million. NGP and management own 19.5% and Hicks Holdings owns 12.2%. Importantly, both NGP and Hicks Holdings have representatives on our board of directors.

Investor Now that you’re public, what’s on top of your to-do list?

Sutton We’re in a very good position in a couple of ways. We have great core properties. We believe a company should be grounded on a foundation of long-lived, stable production, with organic growth potential as well—and we have that, and the good part is that it is mostly oil.

At Aneth Field in Utah, there are three federal units, and we are expanding the CO₂ floods

across the field. We bought part of the field in 2004 from Chevron and the rest in 2006 from ExxonMobil, and took over operatorship. Since the acquisitions, we have put in \$171 million to revitalize the field, including CO₂ and a 3-D seismic survey, and these are very large-scale projects.

Investor What oil price do you need?

Sutton If oil were to drop below \$50, we’d have to start questioning how we want to spend our money in terms of moving forward with large capital projects. I don’t mean to imply that is our overall development cost. But in these projects we have to install such things as high-pressure pipelines and high-pressure well-heads, and that alone costs \$5 to \$9 per BOE. So the economics would be less robust with oil under \$50 per barrel. However, our rates of return on our CO₂ expansion projects range from a low of mid-teens to well north of 20% at the year-end 2008 strip price.

Investor Will A&D factor in again as Resolute moves forward?

Sutton We do tend to be acquisitive, but we were not in a position to move on deals in the past 12 months. This IPO transaction cleans up our balance sheet, so we have a lot of dry powder to use for the right acquisitions. We will be liquids-oriented, and we like operationally intense properties. We do have an active A&D staff in our Denver operations office and they are actively looking at deals. We say that our “sweet spot” is in the range of \$50- to \$250 million. Nothing is off the table, except we are not enticed by offshore or international plays.

Investor Tell us more about Aneth.

Sutton There’s a lot of room for production enhancement in Aneth—it is such a huge accumulation of oil, with 1.5 billion barrels of original oil in place. Phases 1, 2 and 3 of our initial CO₂ expansion project in the Aneth Unit are fully invested and the first oil response was seen in July 2008. Our current plan is to start construction on Phase 4 next summer, with CO₂ injection starting in May 2011. At the McElmo Creek Unit, our current schedule calls for the first pattern of our Desert Creek II C project to come online in August 2010.

But beyond Aneth, we acquired our Wyoming property, Hilight Field, in July 2008. That’s conventional production, but the field is in a nice, hydrocarbon-rich neighborhood, and it’s all HBP (held by production). It’s 38% proved developed nonproducing, so we have a number of projects, such as refracs, scheduled.

Investor How active will you be in pursuing the Mowry shale?

Sutton Our 70,800 acres in the Big Horn Basin have Mowry potential, but at the moment we are holding back to see what other companies are doing with that play. There also has been activity around Hilight Field, but the operators are holding their results pretty tight. We certainly are cheering them on. Given our acreage positions, their success can mean good things for Resolute. □