

PRIVATE EQUITY DEAL OF THE YEAR

By Michael McCleery

Oro Negro Raises \$245 million in capital commitments to pursue oil & gas opportunities in Mexico

Winners: Axis, Ares Management and Temasek

Counsel: Nader, Hayaux & Goebel

THE OPPORTUNITY

Mr. Ramirez Corzo, Executive President, Integradora de Servicios Petroleros Oro Negro (Oro Negro), describes the opportunity in a single sentence. "Given that state-owned PEMEX will invest over \$300 billion in the next 15 years in exploration and production in Mexico alone, clearly there will be opportunities for world-class oilfield services companies to meet its needs." With more than 30 years of experience in the energy sector, including roles as CEO of PEMEX, the second-largest oil company in Latin America, from 2004 to 2006 and CEO of PEMEX Exploration and Production Division (PEP) from 2001 to 2004, Mr. Corzo is particularly qualified to make this observation. And while others have reached a similar conclusion, the entities behind the

creation of Oro Negro also took action.

THE BACKGROUND

The seed that has grown into Oro Negro was planted many years ago and is rooted in the fact that in Mexico, commercial banks have traditionally focused on two main customer groups: consumers and very large companies. As a result, and in the absence of capital markets options, middle market customers have relied on other sources

of capital for funding. For more than a decade, Axis and its affiliates, including Navix, have developed and honed their expertise in the Mexican oilfield service market by virtue of their role as specialized lenders to the mid-size companies that make up so much of the sector. This experience of working together with their customers, analyzing performance risk, witnessing the evolution of the industry, from the development of

PEMEX's capital expenditure plan and the energy reforms of 2008 to the requirements for more modern assets and technologies and the push to replenish reserves led to the conclusion that there was a great opportunity - not only continue growing the specialized lending business, but to participate in a different level of the capital structure. At this point, Gonzalo Gil White, Managing Partner and head of the oil & gas





financing practice at Axis and a founding partner of Navix, a specialty finance company in Mexico with a strong emphasis in the oil and gas industry, began the search for experienced investors to support the pioneering effort to develop an operating company. The search was a success.

THE TRANSACTION AND THE TEAM

On February 22nd, 2012, the company was launched. At the same time, Oro Negro announced that it had secured commitments totaling \$245 million from blue-chip investors. Initiated by Mexico-based Axis, which along with other prominent institutional and individual investors committed \$45 million, co-

lead investors U.S.-based Ares Management and Singapore-based Temasek each committed \$100 million. Nader, Hayaux & Goebel served as counsel.

The mantra of private equity is investing in people. Oro Negro combines a deeply experienced investor group with a remarkably strong management team including Executive President Corzo and Gil White, who will serve as CEO. There is no doubt that Oro Negro will benefit from the deal flow emanating from the specialized energy-sector financing business of its affiliate companies, including Axis and Navix; from the industry knowledge of its top management; the transactional experience of its

founders and the strategic partnerships it has with world class operators in the oil field services space.

Oro Negro plans to become a leading player in the Mexican oil services industry by offering integrated services and tailored solutions to PEMEX through the acquisition of companies with existing contracts the acquisition of state-of-the-art assets. The prolific historical production of the Cantarell field, in some ways, may have led to a deprioritizing of exploration and reserve replacement. Whatever the reason, times have changed. According to Mr Emilio Lozoya Austin, CEO of PEMEX in a January statement, “the company is embarking on its most ambi-

tious drilling program in decades and plans to add between eight and 12 offshore platforms to its fleet and has announced investment plans of \$25.3 billion for 2013, of which \$20 billion will be targeted at upstream activities.”

EXECUTING THE PLAN

Given all of the above, perhaps the rapid succession of transactions that have followed should not be surprising. In early August, Oro Negro announced that it had purchased two KFELS B Class jack-up rigs that had been ordered by Singapore based Jasper Investments for a total of \$432 million. Shortly before that, the company announced the acquisition of Todco Mexico, Inc. and its subsidiary Servicios Todco, S. de R.L. de C.V., including a platform rig, from Hercules Offshore for an aggregate consideration of approximately \$36 million. This purchase meant that Oro Negro had an instant operational set-up that was both scalable and already qualified with PEMEX. In November, Oro Negro’s first jack-up, Primus, was delivered early from Keppel Fels. In December, Oro Negro struck again, ordering two jack-ups from Sembcorp Marine’s PPL shipyard in an

order worth \$434 million and with deliveries scheduled for end fourth quarter 2013 and end first quarter 2014. The pair of high specifications and high performance deep drilling offshore jack-up rigs will be built based on PPL Shipyard's proprietary design, the PPL Pacific Class 400. Finally, in March, Oro Negro ordered two more jackups from PPL, valued at \$417 million, with deliveries scheduled for end of the fourth quarter of 2014 and end of first quarter 2015. In the words of CEO Gil White, "Once operational, these high-specification jack-up rigs will further strengthen our rig fleet, positioning Oro Negro as a leading player to capitalize on emerging opportunities within Mexico's growing offshore market." In the meantime, the second KFELS jack-up, Laurus, is scheduled for delivery in second quarter 2013. The numbers "007" are most frequently associated with James Bond. As it turns out, they also describe the rapid development of Oro Negro's drilling fleet; from zero to seven units since its formation just over a year ago.

THE BIG PICTURE

Clearly, the initial focus has been on the drilling space, specifically on the jack-up market where there is signif-

icant pent-up demand, where investment dollars are budgeted and where jack-ups are the preferred asset class not only for drilling but also for work over activities. It is important, however, to note that Oro Negro was created with the purpose of integrating diversified oil and gas services companies and assets and will acquire controlling interests in operating companies, strategic standalone assets and assignable contracts in the oil and gas services sector, by way of merger, stock exchange, asset acquisition, stock purchase, reorganization or other similar transaction, with the goal to form a diversified and integrated oilfield services company.

Since the initial raise of \$245 million, Oro Negro has raised an additional \$200 million in equity from Axis. In connection with this its founding shareholders received an option to invest an additional \$168 million, which they expect to exercise in the near term. In addition to being a substantial sum in its own right, this investment strengthens Oro Negro's status in terms of Mexico's preference for local content as it meaningfully increases the Mexican ownership level even assuming the full exercise of the option. While not clearly

defined at present, in the energy reform there is a mandate to increase local content by 25% in the deployment of the investment budget. Local content relates, in parts, to where a company is owned, where it is domiciled and where jobs are created. Combined, it means that Oro Negro is one of a small group of Mexican companies that can invest in state of the art assets and commit to the Mexican market in the long term.

Given the strength of the organization and the size of the opportunity, it is clear that while the company has been active in its first year, there is much more to come. We also note that in spite of the size of Mexico's energy industry, there are no oil service companies listed on the Bolsa and we wonder if the 2012 Private Equity Deal of the Year Winner may be a candidate for an award in another category sometime in the future.

