

Waterous leaves Scotiabank to start private equity firm and bet on Alberta's next drilling boom

Scotiabank's global head of investment banking is moving back to his entrepreneurial roots with new private equity firm

Amid pervasive negativity, star investment banker Adam Waterous sees unprecedented opportunity in Alberta's changing energy environment and is leaving his job as global head of investment banking at Scotiabank to launch his own private equity fund.

Waterous, 55, announced to his staff on Friday he would leave the bank at the end of the month.

In an interview, he said is launching Waterous Energy, which will be based in Calgary, with \$400 million in startup capital. It will take controlling stakes in private companies "focused on the unconventional space across North America — the Montney, the Permian, the Eagle Ford — and supply them with the capital and help them grow."

The fund's lead investor is Gord Flatt, a former business partner based in Bermuda and London, Waterous said. He is the brother of Bruce Flatt, CEO of Brookfield Asset Management, which has approximately \$250 billion in assets.

More investors are expected to join Waterous Energy in the future.

Waterous said new unconventional plays that use hydraulic fracturing or horizontal drilling technologies are reaping unprecedented rates of return, even in today's relatively depressed price environment.

"We are going through a drilling boom for the next ten to 15 years, just on what is already discovered and planned," he said.

"I think in Alberta, despite this painful restructuring we are going through, the energy business is going to have a tremendous renaissance. This is not a fad. This is something that has enormous legs in front of it because of the enormous number of drilling locations."

The move brings Waterous back to his entrepreneurial roots.

The Harvard University graduate and former McKinsey & Co. consultant first built a Calgary-based oil and gas investment bank, Waterous & Co., with his brother, Jeff Waterous; expanded it to become a global player; then sold it to Scotiabank in 2005.

He stayed on to run the bank's energy investment banking unit, then rose to become global head of investment banking with responsibility for all sectors, including power, mining, financial services and real estate.

That vantage point gave Waterous a sweeping view of the Canadian economy.

He believes the unconventional energy business will replace the oilsands as the next big driver of growth. New technologies are enabling companies to quickly ramp up production on a massive scale, resulting in the best rates of the return in decades, he said.

Its poster children are companies like Seven Generations Energy Corp., Tourmaline Oil Corp. and Arc Resources Ltd., but there are scores of others, many of them private and active across North America, he said.

The Montney play alone, which straddles Alberta and British Columbia has, in the past six years, grown from producing less than 100,000 barrels of oil equivalent a day, to more than one million barrels.

It's gone "from almost nothing, to almost half of Canadian gas production in the span of a half a dozen years," he said. "You have never seen that kind of drilling success in Canada."

Waterous is convinced that Canadian governments, despite their fixation on green energy, will support the trend because it produces less carbon intensive energy.

"The entire story of Canadian organic growth for the last 15 years, basically from 2001 to 2016, was the oilsands, and that was a higher carbon intensity development," Waterous said. "The next 15 years is going to be unconventional — natural gas liquids and natural gas driven development. The relative carbon intensity is going to drop very dramatically as a result."