

Waterous Energy raises \$1.4-billion

Anyone running a broken oil and gas company should give Adam Waterous a call. The Calgary-based money manager is out scouting for acquisitions after closing a \$1.4-billion energy-focused private equity funding.

Mr. Waterous, former global head of investment banking at Bank of Nova Scotia, launched the Waterous Energy Fund last year with an initial \$400-million fundraising target, later moved up to \$1-billion. At a time when commodity markets were in the doldrums, he pitched a value approach to oil and gas investments, pledging to take control of troubled companies with great reserves, then do the work needed to get the business running right.

Mr. Waterous said the new fund expects to make at least one more major acquisition now that fundraising is complete, with a mandate to invest in either Canada or the U.S. The fund has the firepower needed to commit up to \$500-million to a transaction, and would come at a time most oil patch players are sellers, not buyers.

“We believe this is fantastic time to be special situation investors in oil and gas,” said Mr. Waterous. “We believe you can acquire trophy assets at extremely reasonable valuations, if you are willing to embrace complexity.”

For Mr. Waterous, embracing complexity means investing in troubled companies, with too much debt, or significant oil reserves that are mixed in with other, weaker businesses. This value-based strategy is a markedly different from the traditional approach at energy-focused private equity funds – the majority of these investors back startup companies, where proven management teams are exploring new oil and gas fields.

Mr. Waterous’s pitch won strong support from the institutional investor crowd, with backers that include pension plans, insurers, family offices and a U.S. university endowment. He said: “The best time to invest an energy fund is when valuations are low, but that is also typically the hardest time to raise a new fund.”

Prior to its final closing this week, Waterous Energy Fund made two significant investments over the past 18 months, deploying approximately \$800-million. The fund acquired privately held Strath Resources Ltd. out of creditor protection, then expanded its holdings in the Montney region of B.C. and Alberta. Under new ownership, Strath’s production is up four-fold. The fund also acquired Cona Resources Ltd., which owns long-life heavy oil fields in Saskatchewan.

The Waterous fund has offices in Calgary, Houston and New York. Along with the 56-year-old Mr. Waterous, who ran boutique investment bank prior to joining Scotiabank, the team includes three veterans of pioneer private equity fund KKR & Co. L.P.

The new fund looked to Stikeman Elliott LLP and Dechert LLP for legal advice, and Atlantic Pacific Capital served as the fund’s financial agent.