

MEET KIRK THOLEN

*I*t's not easy to make the jump from oilfield services to A&D, but Kirk Tholen has done it. After an earlier career as a petroleum engineer with BJ Services, he spent more than a decade in A&D transaction work before joining Houlihan Lokey (HL) last November to spearhead its A&D platform at its new Houston office. As managing director and group head of E&P A&D, he leads a growing technical team that goes beyond conventional A&D.

Tholen hails from St. Mary Parish, Louisiana. He majored in chemical engineering at the University of Louisiana at Lafayette, joining Unocal's Louisiana inland-water operations reservoir engineering team. Next came 10 years with BJ Services, with half of that time spent as an embedded engineer with BP/Amoco, Conoco and Devon Energy in drilling and completion optimization.

After transferring to Houston with BJ, he earned his MBA from the University of Houston at night.

In 2003, the A&D field caught his eye. He joined divestment firm Albrecht & Associates on a handshake deal as a self-employed associate of the firm. Founder Bob Albrecht's approach was to retain technical origination people who could represent the firm's clients and its core engineering fundamentals. Through "osmosis," and with the partners' guidance and support, Tholen evolved from originator to marketer to closer.

As banks began to buy up A&D boutique firms, Tholen moved to Credit Agricole in 2012 to start up its advisory group. He viewed his ensuing move to Houlihan Lokey, a global independent advisory investment bank, as an opportunity to develop a broader-based, more technical and more client-centric platform.

Recently, Tholen discussed restructuring and his outlook for E&P and A&D.

Investor What attracted you to the advisory side?

Tholen It's the perfect combination of the sales, financial and technical aspects of our industry. Everything coalesces in a transaction. To deliver top-tier service, you need immense technical knowledge of the asset, a deep understanding of financing structures and terms and the ability to market and close the project.

Investor In a way you've returned to a pure advisory base.

Tholen Yes. As a pure-play advisory bank largely void of conflicts, the entire firm is 100% in alignment with our clients. We have no capital at risk, so there's never any doubt about where our allegiance lies. Regarding HL's various E&P services, I think of us as a technical unit defending and validating E&P assets and business models as part of the process.

Houlihan is No. 1 in M&A for all U.S. transactions, No. 1 global M&A fairness opinion advisor over the past 15 years and the No. 1 global restructuring advisor; therefore, I saw this as a great



opportunity to continue to grow as a professional. It's times like these when the industry grows as well. Everyone learns everything they can about their assets, capital structures and more. In heady times, we often don't do this. Periods like the past two years can be painful, but this is when the E&P industry evolves.

Investor What are you busy with currently?

Tholen In addition to A&D, we're working on capital raises, fairness opinions, M&A and HL's E&P restructuring engagements. We're the first line of defense—or offense, depending on the assignment—because we vet and validate reserves, thereby creating a defensible foundation that we provide to our financial partners,

which they then take to the next level to properly advise our clients. For example, third-party engineering reports may be directionally correct, but they often do not tell the complete story to tie together the assets, operations and capital structure—it's simply not their mandate. We take a more comprehensive approach.

Investor How do you see deal-making for E&Ps evolving?

Tholen Deals are beginning to happen again with some really attractive valuations of late (relative to the strip).

To some degree, it's a bifurcated market when you consider the premiums that a few publics can pay in the hottest stacked-pay basins, versus what most private companies can justify paying in the same area. If a Permian pure-play company issues equity, and its equity price actually backs into a reserve base tied to \$75 oil vs. strip pricing, that 50% uplift is a material advantage when one uses equity as currency. However, the private equity-backed companies are many, innovative, well-capitalized and will be a driving force in the recovery and A&D's next chapter.

Many potential buyers assumed that distressed companies would have to sell assets. Some will, but even ignoring fraudulent transfer and clawback concerns, if an asset sale doesn't provide meaningful liquidity after the RBL paydown associated with that asset, what's the point? Companies will simply take all the assets into bankruptcy.

You first have to reset the capital structure to make the balance sheet commensurate with the asset base value; then post-emergence companies and their new owners will consider asset sales more seriously.

These former creditors and now new owners may choose to sell down their equity stake and give the keys to someone else while still having exposure to the upside. This will allow for new equity, new talent and new ideas to create value for themselves and the prior owners—that's a win-win.

—Susan Klann