MILE-HIGH CAPITAL

This Denver-based energy financier is bullish on energy.

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"This year, financial and capex spending covenants have gotten tighter," says Ronald Barber, senior vice president of W.G. Nielsen & Co. (at top). Wayne Nielsen, president, says, "We've had a number of debt structures with a blend of Libor and prime." Facing page, menacing clouds form over a drilling rig in Boulder County, Colorado.

Prime over Libor

"This year, financial and capex spending covenants have gotten tighter," says Ronald M. Barber, senior vice president of the Rockies region's largest independently owned investment-banking firm, W.G. Nielsen & Co.

"Surprisingly, while leading interest-rate indices have gone down, capital providers are now assessing risk a bit more intelligently than they were a year ago, so the interest rates on most deals haven't fallen because the spread over Libor (London interbank offered rate) or (U.S.) prime has actually broadened," he says.

In the past, many of the firm's deals were based on Libor. However, due to recent dollar devaluations, W.G. Nielsen's bankers are placing more debt transactions based on U.S. prime where they have that option with the debt provider.

"It's no longer Libor plus 250 basis points. Prime is much more attractive now, but that could change, if and when the dollar strengthens," he says.

While the firm has placed a number of Libor-based loans, it also offers a mix of terms in its structures.

"We've had a number of debt structures with a blend of Libor and prime," says Wayne G. Nielsen, president. "A variable rate can be locked in for 30, 60, 90 days or longer, based upon one of the indices or some kind of U.S. Treasury index.

"There is a variety of possible themes and I think that managers and CFOs are becoming far more knowledgeable about these options. This is a dynamic interest-rate environment."

As for new capital trends, the firm has seen a number of instances where large private-equity groups and equity funds are moving in to fill the debt gap that has been left by the national commercial banks, which have pulled back from what they consider to be risky lending. Many equity providers are now using cash to fill the debt void.

Additionally, some sub-debt and mezzanine providers may include equity-conversion provisions in transaction structures.

W.G. Nielsen handles transactions as small as $5 million and as large as several billion. On the high side, the firm claims the largest single transaction in Colorado, valued in the billions, although it was for a non-energy-related entity. Its average transactions range from $25 million to some $200 million with a sweet spot between $50 million and $1 billion.

Deal flow continues to be good. Nielsen quotes Thomson Reuters data to determine U.S.-based transaction trends. "Interestingly enough, for the first quarter of 2008, the aggregate number of all M&A transactions of privately held companies this year compared with the past few years, is about the same.

"However, the dollar value was off about 10% this year," he says. His take is that the value proposition of larger deals has fallen, but the middle-market sector is be healthy.

"The middle market for well-positioned companies, with good management, historic revenue and decent pro forma earnings are still commanding rational prices. But the debt component has been somewhat harder, making some of the valuations a little more challenging," Nielsen says.

"We are also very strong in the oilfield-services sector," he says. "We've recently done a large recapitalization deal for a drilling-rig company. We understand the economics and drivers for that sector. We often have institutional investors asking us for information on the next oilfield-service deal."

While Nielsen admits that overbuilt rig capacity can be problematic, he says, "We will play. We have financed land-drilling rigs, and continue to be involved with rig service companies. We like oil rigs."

Why? Barber says, "I think we will see a modest increase, maybe a couple hundred dollars per day, in rig dayrates from the Canadian border all the way to Texas by the end of this year. We are also working with two fluid-hauling service providers. There is not enough wastewater disposal in the Rockies. We think that business will grow as well."

While a large part of the firm's business is based on oil and gas, it is willing to look at alternative-energy deals that make sense. □

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