

Frac Tech IPO a good call, observers say

Fort Worth firm has grown quickly, has strong clients

BY MATT JOYCE / STAFF WRITER

Frac Tech International's plan for an initial public stock offering is likely to get a warm welcome from investors who are looking for a strong industry to buy in to, experts say.

Fort Worth-based Frac Tech this month proposed raising up to \$1.15 billion with the offering. It intends to put the proceeds toward repaying \$1.5 billion in long-term debt.



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"The IPO market is pretty volatile right now and recently about as many have been withdrawn as have been filed," said Terry Schpok, a Dallas-based partner at the law firm Akin Gump Strauss Hauer & Feld LLP. "But if you had to pick an industry to do an IPO in today, energy services would be one of the better ones because what offsets a declining market is a high market for oil prices."

Joe Dunleavy, a partner at accounting, auditing and consulting firm PwC in Houston, said energy-related IPOs have increased in 2011.

"Companies look at the energy sector as one that's long dealt with volatility, and they're well able to weather the volatility," Dunleavy said. "So this type of IPO is not surprising, even given the economic climate that we're in now."

Attractive to investors

Founded in 2000, Frac Tech provides natural gas and oil companies with hydraulic fracturing services. The technique, known as fracking, involves blasting a mixture of sand, water and chemicals underground to

break the rock and enable gas and oil to escape.

Frac Tech grew exponentially — from \$214.4 million in 2006 to \$1.3 billion in revenue in 2010, according to SEC filings — as producers seized fracking to unlock gas and oil from shale beds across the country.

Frac Tech's services cover the breadth of the hydraulic fracturing process, including equipment manufacturing, mining, treating and transporting the sand used in the process, formulating and blending the chemicals, and conducting the on-site work.

Frac Tech's operations are focused primarily in the Haynesville Shale in East Texas and Louisiana, the Eagle Ford Shale in South Texas, the Marcellus Shale in Pennsylvania, the Permian Basin in West Texas and the Bakken Shale in North Dakota and Montana, according to its SEC filing.

Its primary customers are Chesapeake Energy Corp., Anadarko Petroleum Corp., El Paso Corp., Marathon Oil Corp., Petrohawk Energy, Range Resources Corp. and XTO Energy, a subsidiary of Irving-based Exxon Mobil Corp.

Those brand-name customers could help make Frac Tech attractive to investors, Schpok said.

"People know that the companies that are their customers have the money to engage their services and are actively doing oil and gas exploration," Schpok said.

In the SEC filing, Frac Tech said horizontal drilling activity and associated hydraulic fracturing activity have jumped significantly since late 2009. The company attributed the increases to the discovery of new shale plays that are tougher on fracking equipment, high interest in oil- and liquids-rich formations, and the tight supply of hydraulic-fracturing services in the industry.

The industry also carries risk, however.

Frac Tech's SEC filing mentioned the cyclical nature of the industry,

volatile oil and gas prices, regulatory concerns and the company's dependence on a limited number of major customers, among others.



DUNLEAVY

A company spokeswoman declined to comment for this story, citing SEC restrictions on public comment from firms during an IPO.

Frac Tech previously filed IPO paperwork with the SEC in December, but withdrew the plan in May when a majority of the company was sold. A consortium made up of Temasek Holdings Ltd. and RRJ Capital now owns 70 percent of the company. Chesapeake owns 30 percent.

Underwriters for the IPO are listed as Merrill Lynch, Pierce, Fenner & Smith Inc., Goldman Sachs & Co., Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC.

Dunleavy said potential investors may take comfort in an energy-services company focused on domestic resources.

"I think (investors) have a good understanding of the U.S. energy market, and having a domestic source reserve base and companies supporting that base is something that investors I think find attractive," he said.

ENERGY IPO

NAME: Frac Tech International LLC
BUSINESS: Hydraulic fracturing
LOCAL ADDRESS: 777 Main St., Ste. 3000, Fort Worth 76102
OWNERSHIP: Private
TOP EXECUTIVE: Marcus Rowland, CEO
EMPLOYEES: 3,900
ANNUAL REVENUE: \$1.3 billion
PHONE: 817-862-2000
WEB: www.fractech.net