



# The Compelling Case for Today's ABS Security

**EnerCom Conference 2024**  
*Denver, Colorado*

August 2024







Donovan & Company is an energy-focused  
financials services firm dedicated to serving  
our clients and asset managers

Founded in 2007

100% employee-owned

12 full time and part time employees

17 years of service through its  
established investment banking division

14 private equity investments with top-  
quartile performance



# Today's Presenter



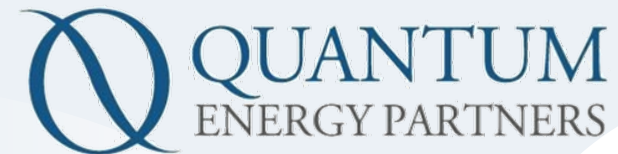
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Donaldson,  
Lufkin &  
Jenrette®





# Donovan & Co in Numbers

## Capital Innovator

**\$1.3 bn**

ABS offerings, advanced new market for oil & gas backed financing



## Capital Markets

**\$2.4 bn**

Capital raised and M&A advisory across investment banking platform

## Trusted Partner

**\$338 mm**

Co-invest & follow-on capital in Donovan & Co. led investments

## Enterprise Scale

**7 Seed Round Deals**

**14 Deals**

**\$767 mm**

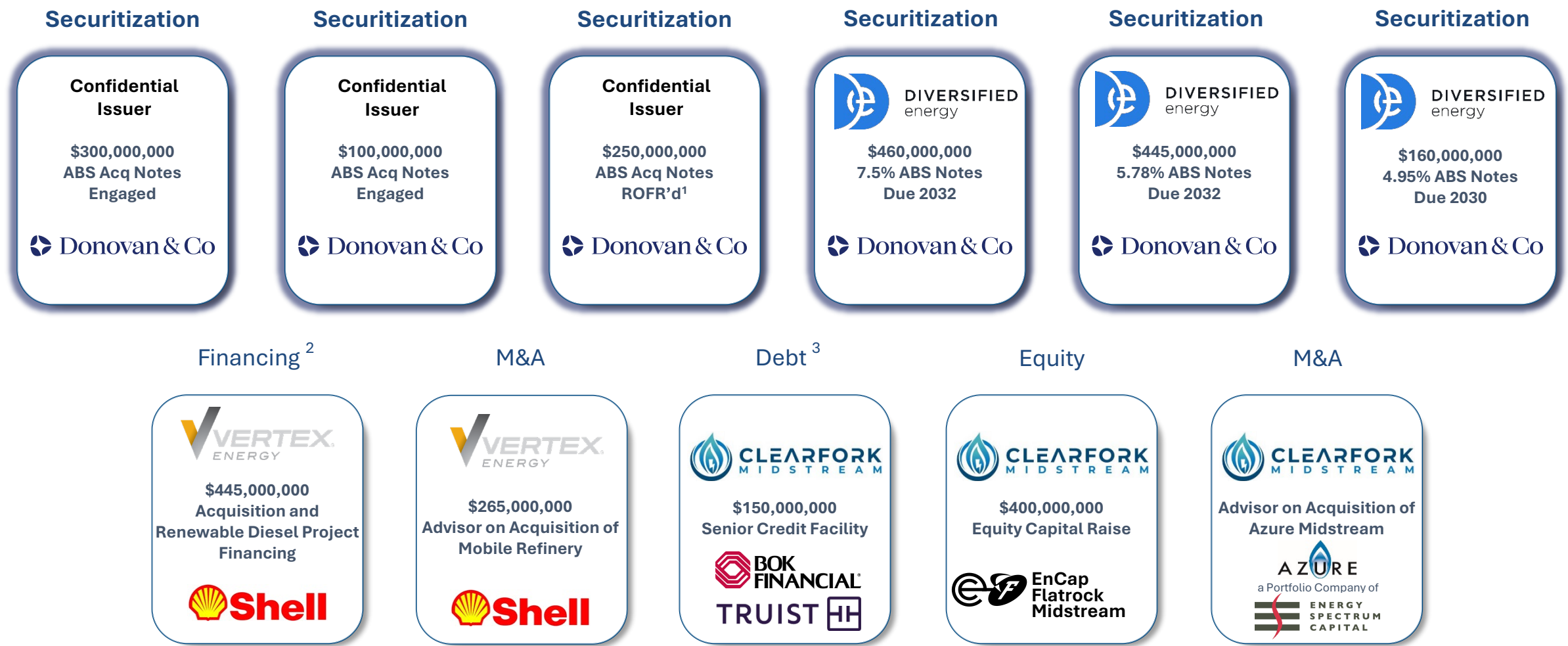
Gross Exit or Enterprise Value of Donovan & Co. led investments

**7 Co-Founded Deals**



# Recent Activity

Donovan & Company has closed nearly \$2.4 billion in transactions since inception and has additional deals in the market



1. ABS financing successfully placed and funded, but transaction failed due to full exercise of Rights of First Refusal (ROFR) by all eligible seller partners  
2. Acquisition and Project Financing - \$125MM Term Loan | \$155MM Convertible Notes | \$165MM Inventory Financing  
3. \$200MM (Including Accordion) - \$100MM Term Loan | \$50MM Revolver | \$50MM Accordion



# Pioneers in the ABS Community

Donovan & Co has a proven track record as a pioneer in the oil and gas financing space

- ✓ 1<sup>st</sup> **Advisor** on Oil & Gas ABS Acquisition Financing Deal to Fund (2024)
- ✓ Successfully Placed ~\$1.5bn of **PDP Bonds**
- ✓ 1<sup>st</sup> **Team** to Successfully Close an Unconventional Oil & Gas ABS (2022)
- ✓ Cultivated Deep Relationships with **Over 50 Different ABS Investors**
- ✓ Forged Meaningful Relationship with Rating Agencies in part by **Rating 8 Different Basins** together



# The Insurance Market is Deep



**Premium balances demand yield**

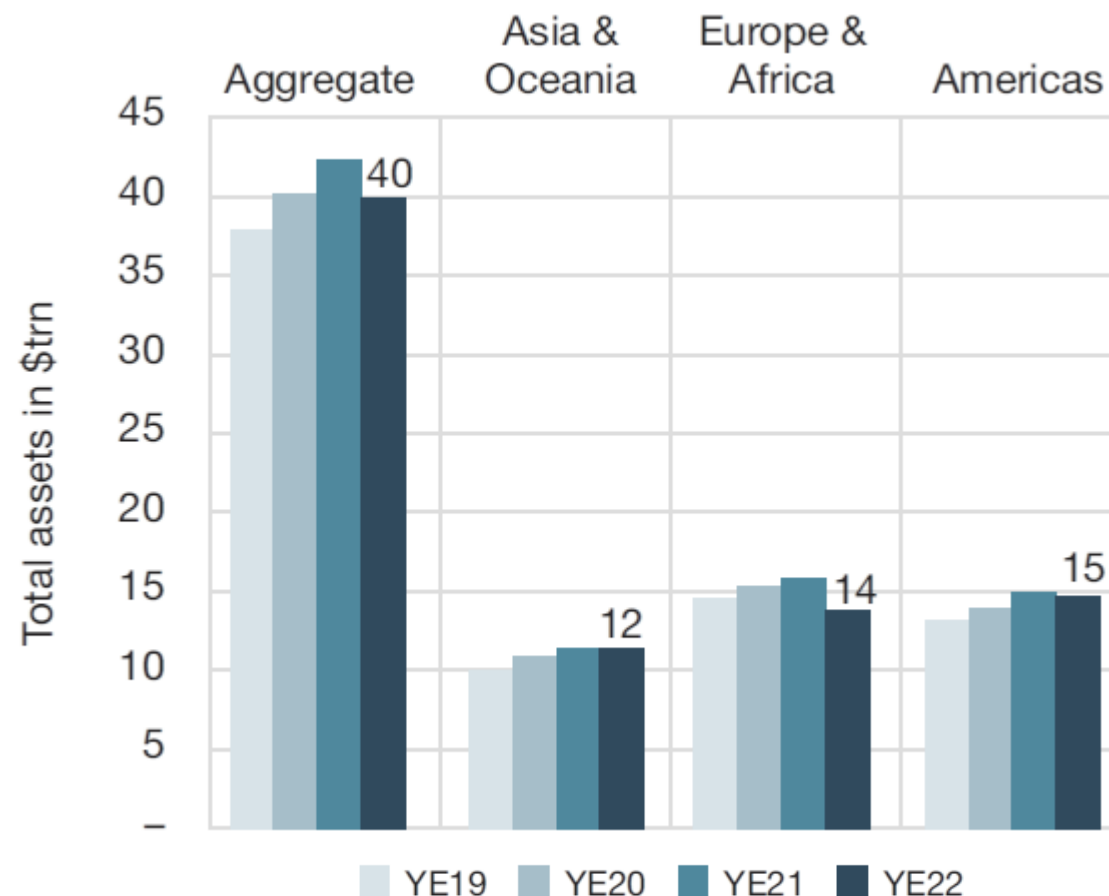


**Most have equity sleeves: available for both closed-end funds and direct investment**



**Insurance companies are not just buying rated paper**

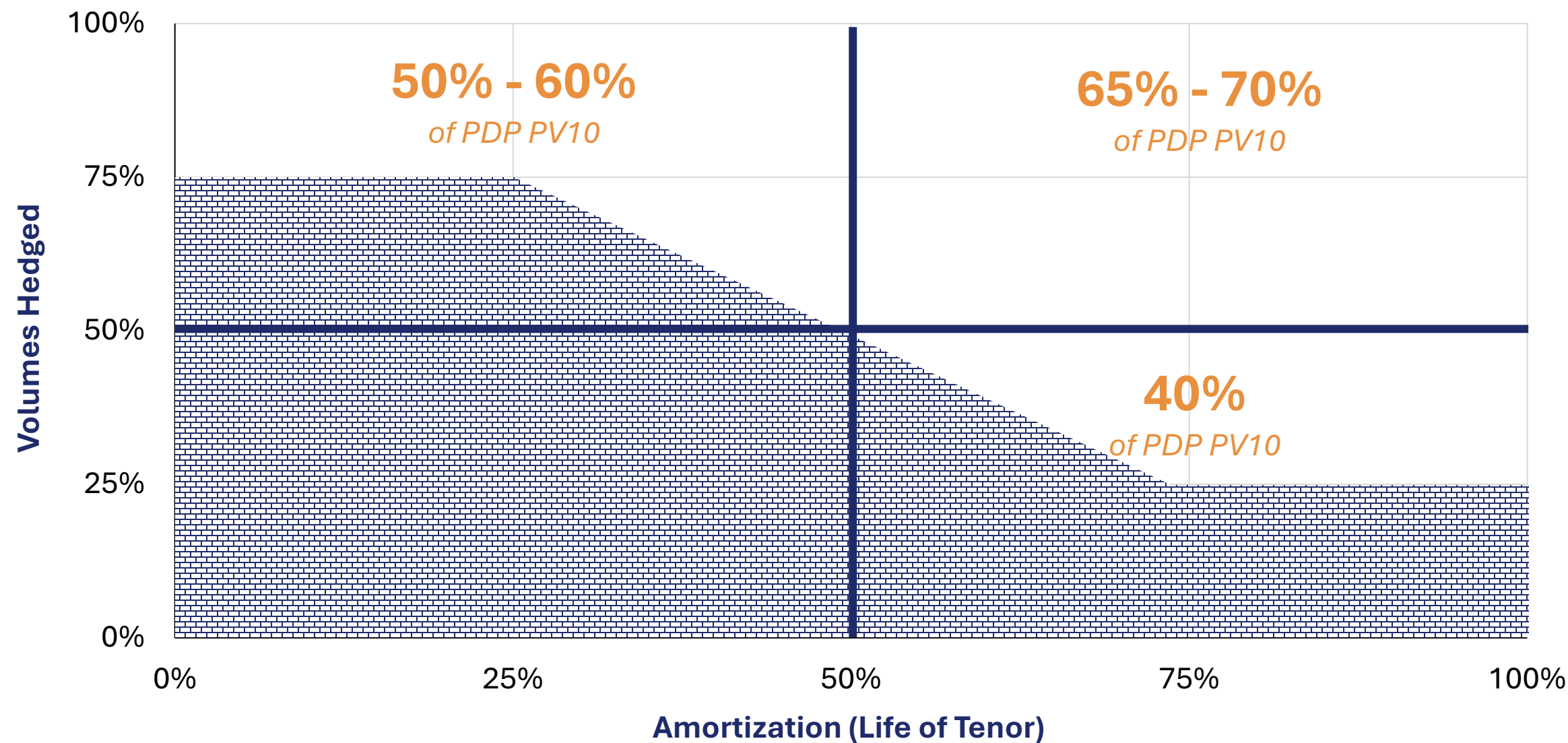
## Global Insurance Total Assets (in Trillion \$)



Source: IAIS SWM 2023

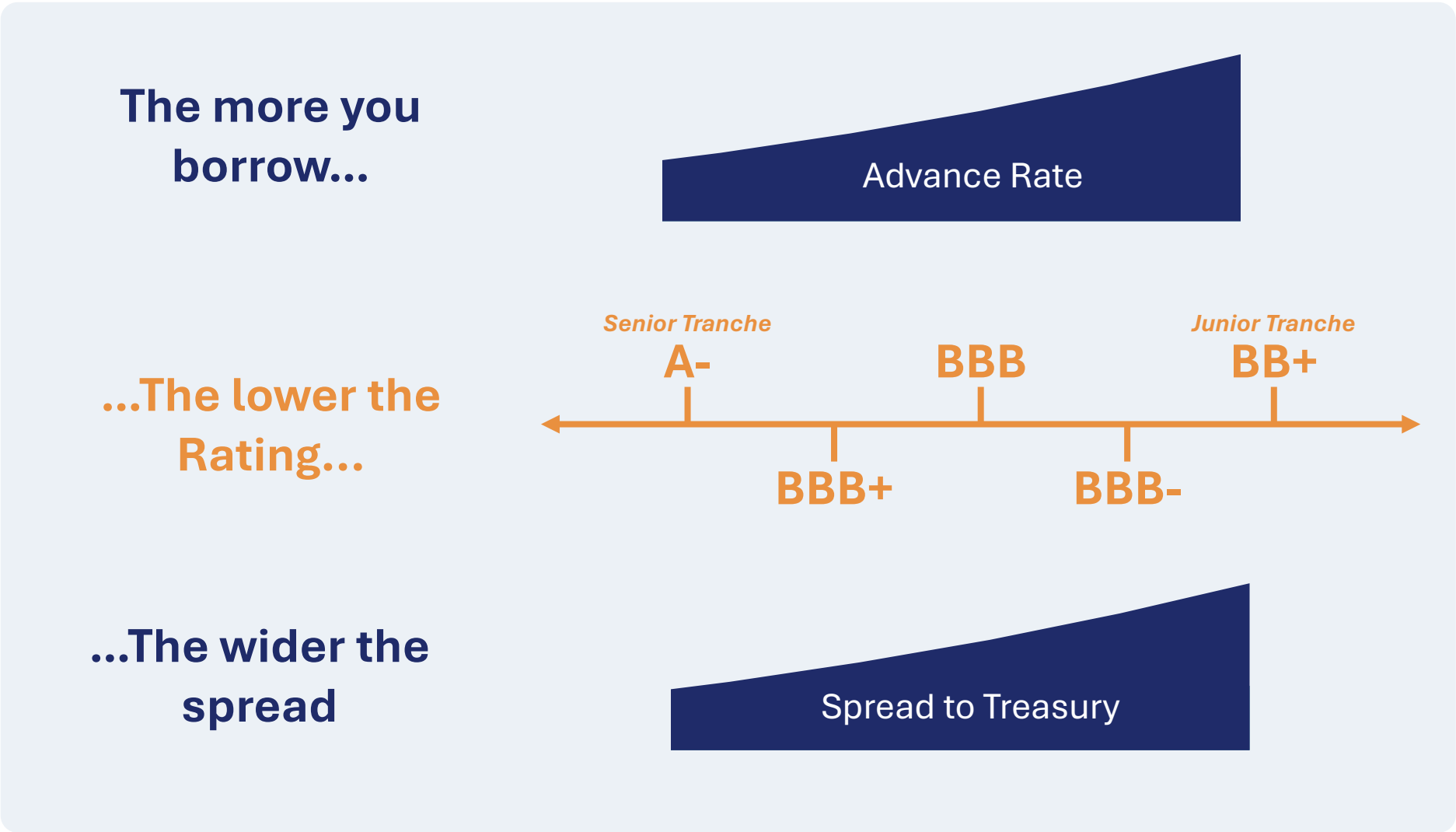


# Cut to the Chase: How Much Can an ABS Advance?





# Spread to Treasury Mechanics



- ### Additional Risk Considerations
- ① Well count
  - ② Value concentration
  - ③ Well vintage
  - ④ Offtake Availability
  - ⑤ Governing Entities





## All-in Cost of Capital for larger deals is **roughly equal to that of an RBL**

- Donovan & Co. has worked on smaller deals (~\$50MM) but costs are slightly higher
- Minimal up-front cost; most fees don't start until later in the deal process



## In today's market, **RBL's are likely more expensive** if you include a 3-year interest rate swap

- ABS interest rate is fixed
- Provides certainty of P&I payments over entire tenor of note
- No financing redeterminations



## Transaction **costs have shrunk**

- Donovan & Co. has successfully negotiated fee caps with many of the service providers
- Transactions documentation is beginning to commoditize: simplifies & accelerates
- Banker fees continue to compress; Donovan & Co. will amortize over tenor

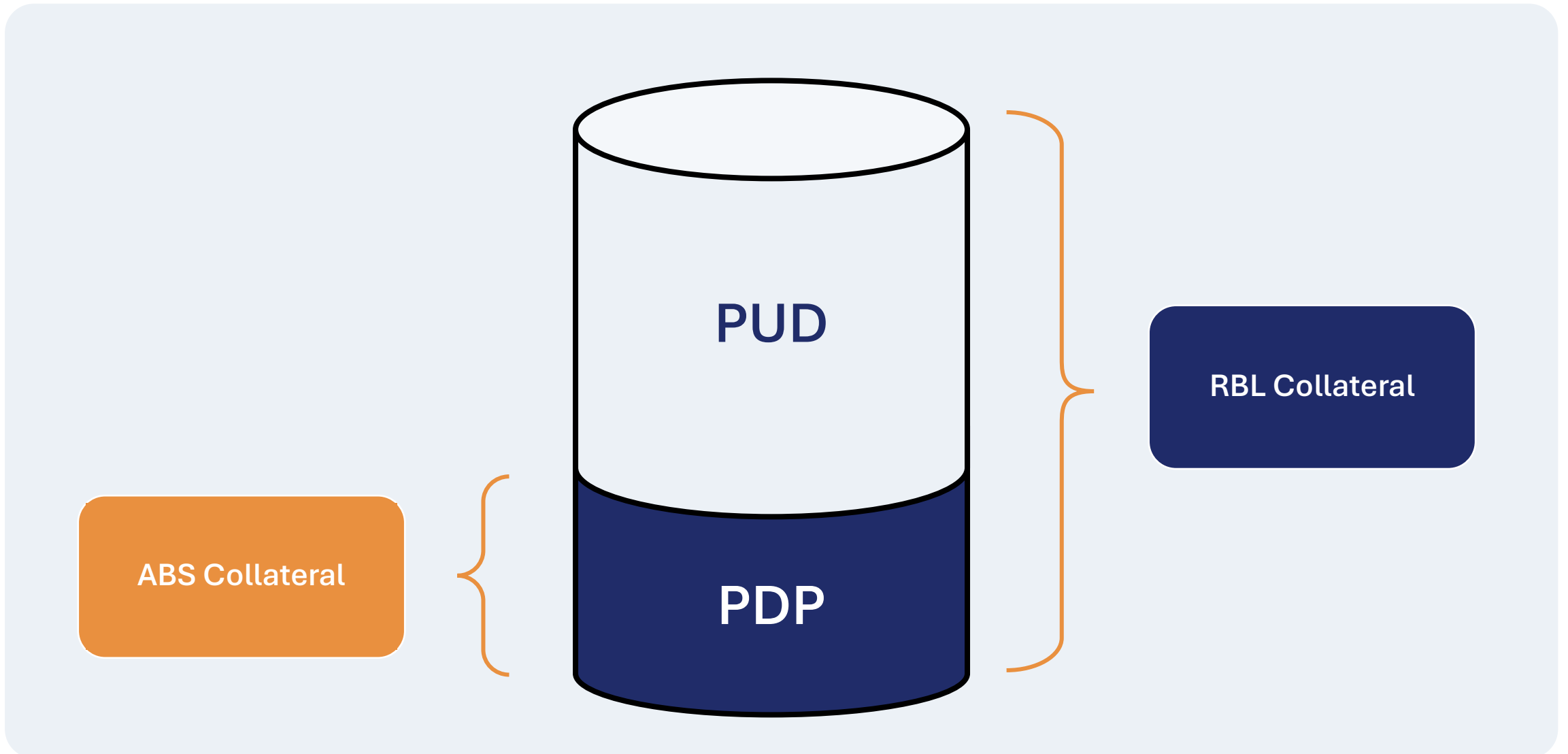


# Advantages of ABS vs Alternatives

		ABS	RBL	High Yield	Term Loan
Economic	Advance Rate	55% - 70% OF $PV_{10}$	40% – 50% OF $PV_{10}$	LIMITED BY D/E RATIO	LIMITED BY D/E RATIO
	Interest Rate	FIXED 7% – 8%	FLOATING SOFR + 3% – 5% <sup>1</sup>	FIXED 12 – 18%	HYBRID 12 – 16%
Qualitative	Non-Recourse	✓	✗	✗	✗
	No Corp. Cvnt.	✓	✗	✗	✗
	No Use Rest.	✓	✗	✗	✗
Convenient	No Redeterm.	✓	✗	✓	✓
	Transferrable	✓	✗	✓	✓
	Amortization	CUSTOMIZABLE	BULLET	BULLET	HYBRID
	Tenor	5 – 10 YRS	3 – 5 YRS	5 – 10 YRS	3 – 7 YRS

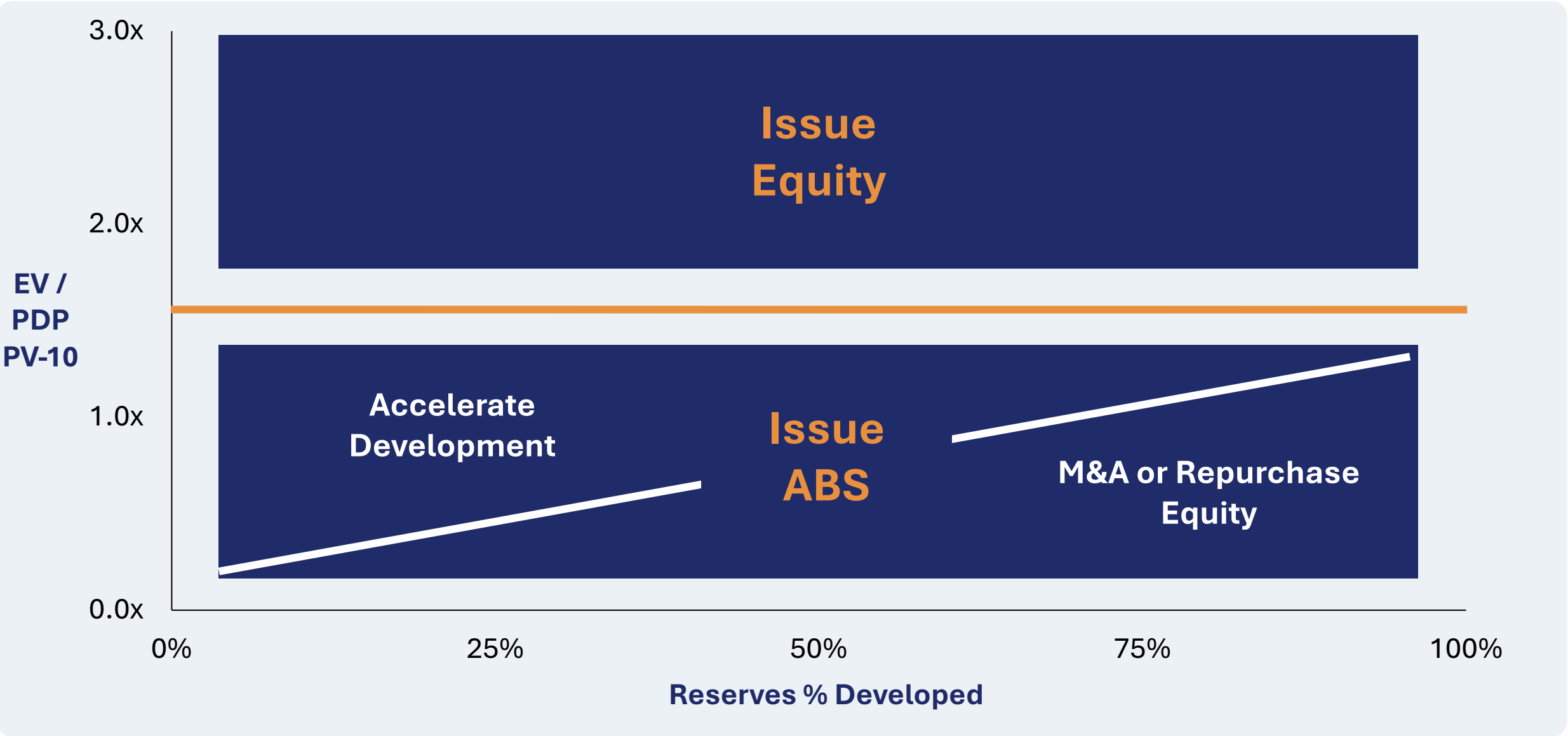


## Creditor Alignment: An ABS Attribute Often Overlooked





# Use of Proceeds







## **Hard to hit equity rates of return on PDP alone**

- M&A market may be overweight PDP
- ABS can help synthetically “memorialize” preferred returns



## **Bulk of equity returns are in asset development**

- An ABS can bring your PDP cash flows forward
- Drill the locations the market is not paying you for today
- PublicCos.: Consider repurchasing shares with proceeds if development opportunities are limited

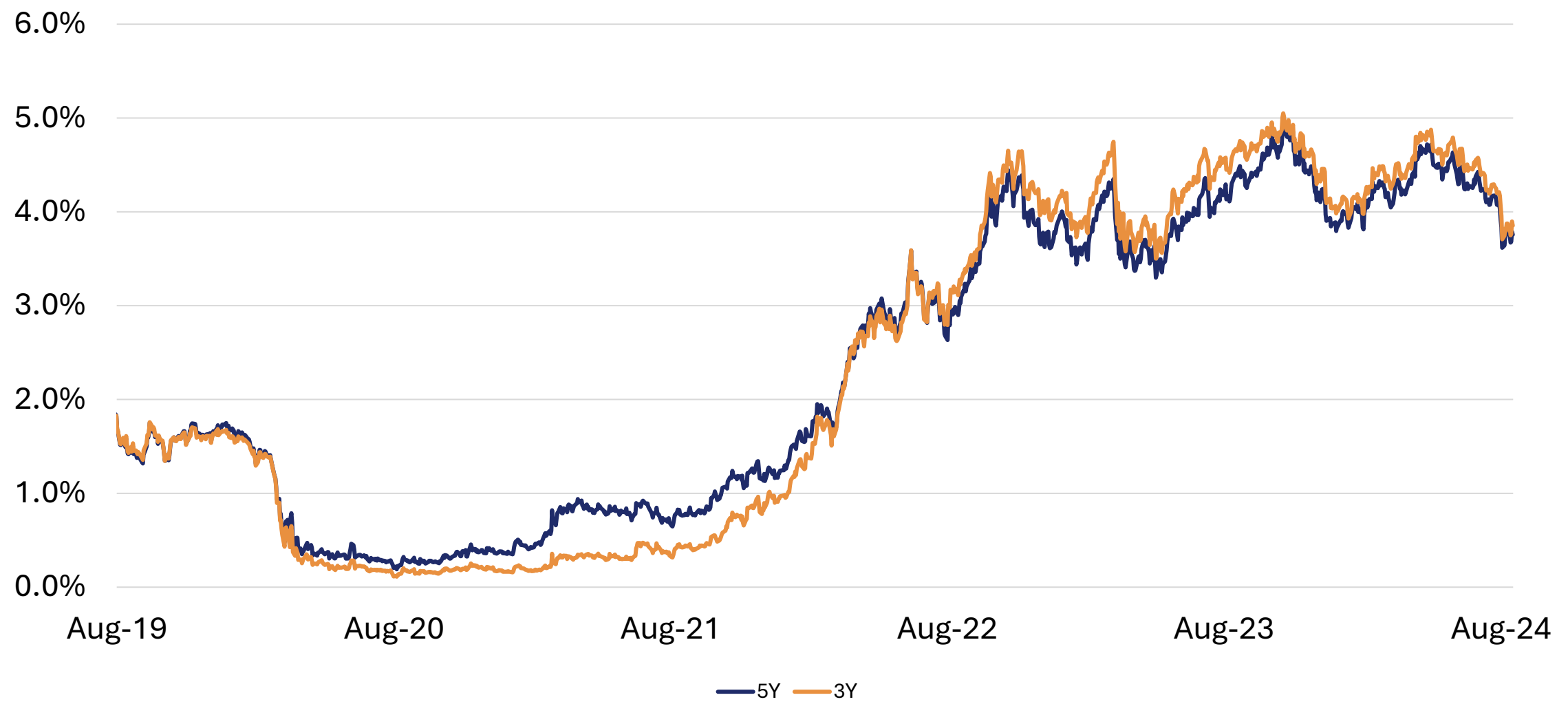


## **Donovan & Co. has also worked with some sponsors in utilizing a continuation fund**

- Portfolio aggregation may enhance advance rate while eliminating concentration risk



# Historical 3-5Y US Treasuries Swaps Curve






# Recent Transaction

**Confidential  
Issuer**

**\$235,000,000  
BBB Notes**

 **Donovan & Co**

 Asset Overview	
Number of Wells	>2,000
Average Age	~20 years
5 – Year Forward Decline Rate	<10%

 Key Metrics	
LTV (PV <sub>10</sub> )	~50%
Tenor	5-Years
Hedge Structure	3.5 Year at 75%
Interest Rate	8.22%
Rating <sup>1</sup>	BBB

 **Structural Highlights**

- **ABS used as acquisition financing to purchase large asset**
  - Committed financing offered concurrent with PSA signing
  - Funding concurrent with closing of transaction
- **Innovative amortization schedule for ABS transaction**
  - Partially amortizing structure (5% per year) over a tenor of 5-years with the expectation to refinance prior to maturity
- **Significantly less hedging than prior ABS deals**
  - Only 3.5-years of hedging at close
  - 2-year rolling hedge requirement

1. Indicative Rating



# Donovan & Co: A Leader in Energy ABS Fiancings

- ☒ Expertise & relationships
- ☒ Certain members of team are solely focused on this product
- ☒ These issuances are meaningful to our firm
- ☒ Independence from hedging
- ☒ Creativity





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