CEO CFO

NGPC
NGP Capital Resources Company

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Expanding into the General Middle Market, to Go Along with Their Solid Pipeline of Investment Opportunities in the Energy Space, Gives Business Development Company NGP Capital Resources Company More Growth Opportunities

Financial
Diversified Investments
(NGPC-NASDAQ)

NGP Capital Resources Company

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Stephen K. Gardner
President and CEO

BIO:
Stephen K. Gardner is our President and Chief Executive Officer. Mr. Gardner has over 20 years experience in financial and transactional management in the oil and gas industry. From December 2005 to June 2011, Mr. Gardner served as the Chief Financial Officer, Secretary and Treasurer; from January 2005 to December 2005, Mr. Gardner served as Director of Finance. From September 2002 to May 2004, Mr. Gardner was Chief Financial Officer of Dunhill Resources, Inc., a private-held oil and natural gas production company. Prior to September 2002, Mr. Gardner served as president of a private construction firm and as Chief Financial Officer of Mesa, Inc., the predecessor to Pioneer Natural Resources. Mr. Gardner graduated summa cum laude with a B.A. in Economics from Southwestern University in 1982 and an M.A. in Economics from Columbia University in 1985.

Company Profile:
NGP Capital Resources Company is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940. We principally invest in private companies and from time to time, we may also invest in public companies. We invest primarily in senior secured and mezzanine loans according to our business plan and in some instances receive equity interests in portfolio companies in connection with such investments. Our manager is NGP Investment Advisor, LP, an affiliate of NGP Energy Capital Management, L.L.C., an Irving, Texas-based leading investor in the natural resources business. Together with its affiliates, NGP Energy Capital Management has managed over $9.5 billion in committed capital since 1988.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Mr. Gardner, what is the premise and focus for NGP Capital Resources?

Mr. Gardner: We are an investment fund that is organized as a business development company. That means that we are publicly traded on the Nasdaq and we are by our charter and our investment policy, focused on investing, primarily in debt securities to generate current income, which is then distributed to stockholders in the form of cash dividends. We will have equity kickers and sometimes place equity investments as well to generate capital gains. We have a focus on small private companies for the most part. These companies generally do not have access to the major commercial banks or the public debt markets. Our focus historically has been on the energy industry primarily upstream, exploration and production. We have also financed oil services and also have done some coal investments. More recently, we have expanded our strategy into the general middle market outside of the energy space.

CEOCFO: Why did NGP make the decision to expand?

Mr. Gardner: Basically, to give ourselves more growth opportunities. We have a reasonably solid pipeline of investment opportunities in the energy space, but since the financial crisis in late 2008 and 2009, in the smaller end of the food chain, in the energy industry the overall volume of transactions has declined. It seems to take longer and is a little more difficult to get deals to the finish line. We hired Michael Brown as our new head of middle market investments. We connected with him through our chairman's office in the Dallas private equity fund NPG Energy Capital Management and he was looking for an opportunity. He has a lot of experience in that area, so it was sort of a serendipity that he came along at the right time as we were looking for a way to expand.

CEOCFO: Would you tell us about some of the companies that are in the portfolio today and what is special about them?

Mr. Gardner: We have in the portfolio today a number of oil and gas production companies. We have a company that has been in our portfolio for a while called Tammany that operates in offshore shallow water Gulf of Mexico. They are a low-cost operator and a very solid management team. We also have purchased limited term over riding royalty interest from a publicly traded company called ATP, in their Gomez oil field. We have actually done three investments with them and expanded the most recent one. They are a prolific oil producer in the deep water Gulf of Mexico. We also have a company that has been in our portfolio for a while called Resaca Exploitation. It is publicly traded on the AIM (Alternative Investment Market) located in London. They are a longtime player in the Permian Basin and a strong operating company. Another that comes to mind is a group called Spirit Resources, which is a new incarnation of a previous management team that was very successful in our portfolio when they had a company called Rubicon. So currently, we are largely involved in the upstream oil and gas sector.

CEOCFO: What are the investment criteria when you look at new investments and will you be expanding your scope?

Mr. Gardner: In the energy space, again we are looking for existing assets, current production, current cash flow, and we will provide the capital for acquisitions development. In other words, it is for expansion of their existing production and development of their existing properties. We are not interested in investing in exploration. That is a much riskier part of the industry and it does not fit with our investment criteria. We are typically looking for companies with diversified set of properties, so we do not take on too much concentration risk, having too much capital invested in too few wells. In the middle market, we are really looking at the traditional industries. We are not looking to do startup investments, technology, or a company that has decided they found a way to build a better mousetrap. We are looking for service companies, business services, healthcare and healthcare products. We are looking for companies that have been in business for some time and have a proven track record and a historical financial record. This market is sometimes largely driven by buy-outs or family-owned or closely held companies where the owners are looking for an exit or a way transfer or realize and monetize the capital they have invested in their company for estate planning purposes. We will jointly invest or provide debt capital along with the sponsored private equity firm, so it is a little more later stage company than you will see in the oil and gas business.

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CEOCFO: What is your involvement, other than providing funding, with the companies that you finance?

Mr. Gardner: Being a business development company, we are required by statute to offer management consulting services as well. Typically, it is not a formalized relationship. Often, particularly in the energy space, we have small companies that are fairly new that have a solid amount of technical expertise. However, perhaps they are not so experienced on the financial side. Therefore, often we will help people set up capital programs and determine the rate of funding. We will help them get their internal controls in shape and their reporting systems in shape, so that they can provide timely information and have a better look at what their business is doing on a month-to-month basis.

CEOCFO: When you review a company, how much do you take into account the personalities you are working with and the idea often people are reluctant to accept outside advice?

Mr. Gardner: It is a big criteria for us. We want to invest with people that are receptive to our capital and that is on several levels. Number-one, they are willing to accept the type of terms that we require, but also and just as important is that they will accept the type of partners that we want to be, which is fully informed. In most situations being a lender, we are not taking a control position in the company. We are happy to have smart management teams run the companies as they see fit, but there will be covenants and other structured protections in place in so that we keep up with what they are doing. Therefore, we would like them to be open and receptive to suggestions that we might make. We do not profess to have any unique expertise in oil and gas field operations, but in terms of capital markets transactions, acquisitions or divestitures, we would expect them to be interested in listening to us. Some folks are quite receptive to that, some folks really just want the capital and want us to go away until it is time to pay us back and then move on. Generally speaking, we much prefer to have an interactive relationship with the managements that we deal with.

CEOCFO: Why are companies choosing to work with NGP Capital Resources?

Mr. Gardner: One reason people choose to work with us is we have capital available to invest. In addition, we are willing to put the work in to understand the business and do so with our eyes open. This is because if I were operating a company and looking for capital, I would not want a lender that did not understand my business. I would want them to know exactly what we are doing, appreciate it and understand it so that they can follow what we are trying to accomplish. Part of the reason the people come to us is we are willing to put the due diligence in and work to understand their business. We have capital available, and we do what we say we will do. If we are going to show up at the closing table with a commitment to fund a transaction, that is what we will do. We do not ever practice last minute bait and switch. That may be too strong a term, but sometimes I have heard of situations where people will see terms change at the last minute. That is not how we play the game.

CEOCFO: What has changed at NGP since you took over as CEO?

Mr. Gardner: One of the things we have done is to streamline the approval process for transactions that are being proposed. We have tried to encourage a great deal more collegiality and discussion prior to getting to an investment decision. Then during the latter part of 2011, we went through a complete strategic review of all the areas we were investing in. Some of the things we elected to do were to basically stop looking at certain industries, such as the alternative fuels industry. We really do not spend any time on that. Previously, we probably spent anywhere from 10% to 15% of our time looking at those types of transactions. We just do not think it is fruitful. We have tightened our investment criteria to where we are involved in far less straight-up exploratory drilling. We are not interested in early stage companies that do not have any production, whereas we have done some of that investing in the past. Then the biggest change is that we have just recently early this year, expanded into the middle market, which is looking beyond the energy space for the first time.

CEOCFO: How has the general economic climate affected NGP?

Mr. Gardner: At the moment, we have a situation where oil prices are strong and natural gas prices are weak, but as long as there is an expectation of not a great amount of volatility in prices, it helps buyers and sellers of property sets in the energy space agree on pricing more readily. From that perspective, even if gas prices are low or prices are high, if there is common acceptance about the future of the commodity price, it can generate more activity. In terms of overall growth, it is helpful to us that there is economic growth. However, there is also a countercyclical element to it. For example, when the energy space was going gangbusters in 2006 and 2007, there was a lot more competition in our investment space. There was a great deal of money coming into the space from hedge funds and other investment groups that traditionally had not done energy investing. Following the financial crisis, a lot of that money went away. As things improve, we are seeing some new entrants into the market, so competition will increase once again.

CEOCFO: What is the financial picture like at NGP Capital Resources today?

Mr. Gardner: It is pretty solid. We are unlevered, as we do not have any debt. We do have roughly $60 million of cash on the balance sheet ready to invest. We also have a line of credit that we just renewed in early December that gives us a little over $70 million of capacity. Therefore, we have money to invest and we are unlevered. We are very much in a growth mode and we are actively seeking places to invest our money.

CEOCFO: Is investor relations a focus for you as CEO?

Mr. Gardner: It is a focus. The primary responsibility lies with Scott Biar, our CFO, who has a background in investor relations as controller of large oilfield service companies, including Weatherford and BJ Services. Having come into this position from the CFO position, I have a number of institutional and long-time investors who call up and visit with me. It is something that we spend a lot of time on, because we do not like to offer pie in the sky projections about how everything is going to be rosy all the time. What we like to do is operate our fundamental business, account for it properly and report what we have done as accurately as we can and let the results speak for themselves.

CEOCFO: Why should investors pay attention to NGP Capital Resources?

Mr. Gardner: The primary reason is we are a closed-end fund, which means every quarter we evaluate all of our investments and assets, and we come up with a net asset value. At year-end, it was roughly $9.25. We are currently trading in the low to mid $6.00 range, so we are trading at a significant discount to net asset value. Our expectation is that as we redeploy our capital, we will drive our earnings up. Over time that will mean a greater dividend that we will pay and you will also see the discount that we are trading to net asset value diminish over time as well. Therefore, in addition to the income producing stock that we are, we are also a value play at this point, because of the discount from our current trading price to the net asset value.

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