

## Crestwood's Phillips and Forman See Market Conditions as Plus

(2/6/08)

Bob Phillips didn't stay unemployed for long after resigning as director, president and CEO of Enterprise Products GP LLC in June 2007. Six months later, he announced the formation of Crestwood Midstream Partners LLC.

Privately-owned Crestwood, with private equity commitments of \$150 million, is a partnership between a management team led by Phillips and investment firm Kayne Anderson that was created to acquire midstream assets in North America.

The current market conditions may not seem to be the ideal time to enter this market, with MLPs postponing and downsizing IPOs and financial institutions posting Q4 2007 losses, but Phillips and Crestwood's CFO, Keith Forman, see the market as working to their advantage.

"The current market conditions present a unique window of opportunity for us," Phillips told *GPR*. "There are a number of assets for sale and the challenges in the capital markets may allow us to move into the market and be very competitive in making acquisitions."

Crestwood believes it has an advantage in acquiring certain assets relative to MLPs. Forman told *GPR*, "MLPs have been so active that they have to digest what they've done in the past year, which overwhelms the activity of the previous two to three years."

The lack of having to worry about immediately accretive deals will enable Crestwood to concentrate on investments with a more long-term outlook. "MLPs are under pressure to do accretive deals that add to distributions. We don't have a current distribution obligation, so we can be patient while greenfield or organic projects are being built," explains Forman.

An acquisition policy that doesn't include providing unitholder distributions means that the company is free to buy companies or projects that need to be reworked or fixed. Like real estate, an asset seen as a "fixer-upper" is likely to go for a much cheaper price. Likewise, acquiring and integrating assets to increase value through the value chain be more effectively done without focusing on short-term results.

For some companies, especially start-ups, the need to get their hands dirty by retooling an asset is a daunting prospect. This isn't the case with Crestwood, which is led by a team of experienced executives that have worked together in the past.

Phillips and Forman are joined on the executive team by Terry Morrison, Brad Graves and Neel Pinge. "One of our strengths is that we're all operating guys that have run businesses," said Phillips.

The group selected Kayne Anderson as its partner because of its reputation as a value investor and its history of investing in the midstream sector. This relationship should help Crestwood secure access to future capital, as well as provide it with avenues to deals.

Although dropdown possibilities don't exist between Kayne Anderson and Crestwood, Kayne Anderson Energy Funds' reach in the upstream market could benefit Crestwood strategically.

Kayne Anderson Energy Funds III and IV, the official Kayne Anderson partners in Crestwood, primarily invest in upstream entities. The assets in these portfolios need the midstream to get their product out.

"Many of the portfolio companies have gathering, treating and processing opportunities. Kayne Anderson wouldn't direct these companies to work with us, but if it makes sense to both sides the contacts are there and they'd deal with the same family of capital," explains Forman.

As for the actual acquisitions Crestwood is likely to make, Phillips said that the company is exploring options across the entire midstream value chain in all four hydrocarbon categories – natural gas, NGLs, crude oil and refined products. The focus will be on classic and traditional midstream infrastructure activities, such as pipelines, terminals, and storage facilities.

"We're very excited by the growth of the resource plays like the Barnett Shale and Woodford Shale, where all new infrastructure is required to support the growth of the new supplies," said Phillips. He also cited the Gulf of Mexico as having tremendous growth potential and not currently in favor.

So far, Crestwood has been impressed by deal flow. "The market for mergers and acquisitions activity in the midstream sector is very robust right now," said Phillips.

Although there is no timetable for making its first acquisition, both men feel that Crestwood's initial funding could be used quickly and that they'll be back in the market to raise additional funds.

© Copyright 2008 by Hart Energy Publishing, all rights reserved. 1749 Old Meadow Road, Suite 301, McLean, Va. 22102 For republication, contact [Copyright Clearance Center](#), 1-978-750-8400. To subscribe to [Gas Processors Report.](#), call 1-646-465-9768.