

2006 A.D.A.M Conference

“Utilizing Private Equity”

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Past Growth Performance

❖ **Colt Resources, Inc.**

- Founded 1991 - \$50,000 equity
- Sold 1996 - \$33 million

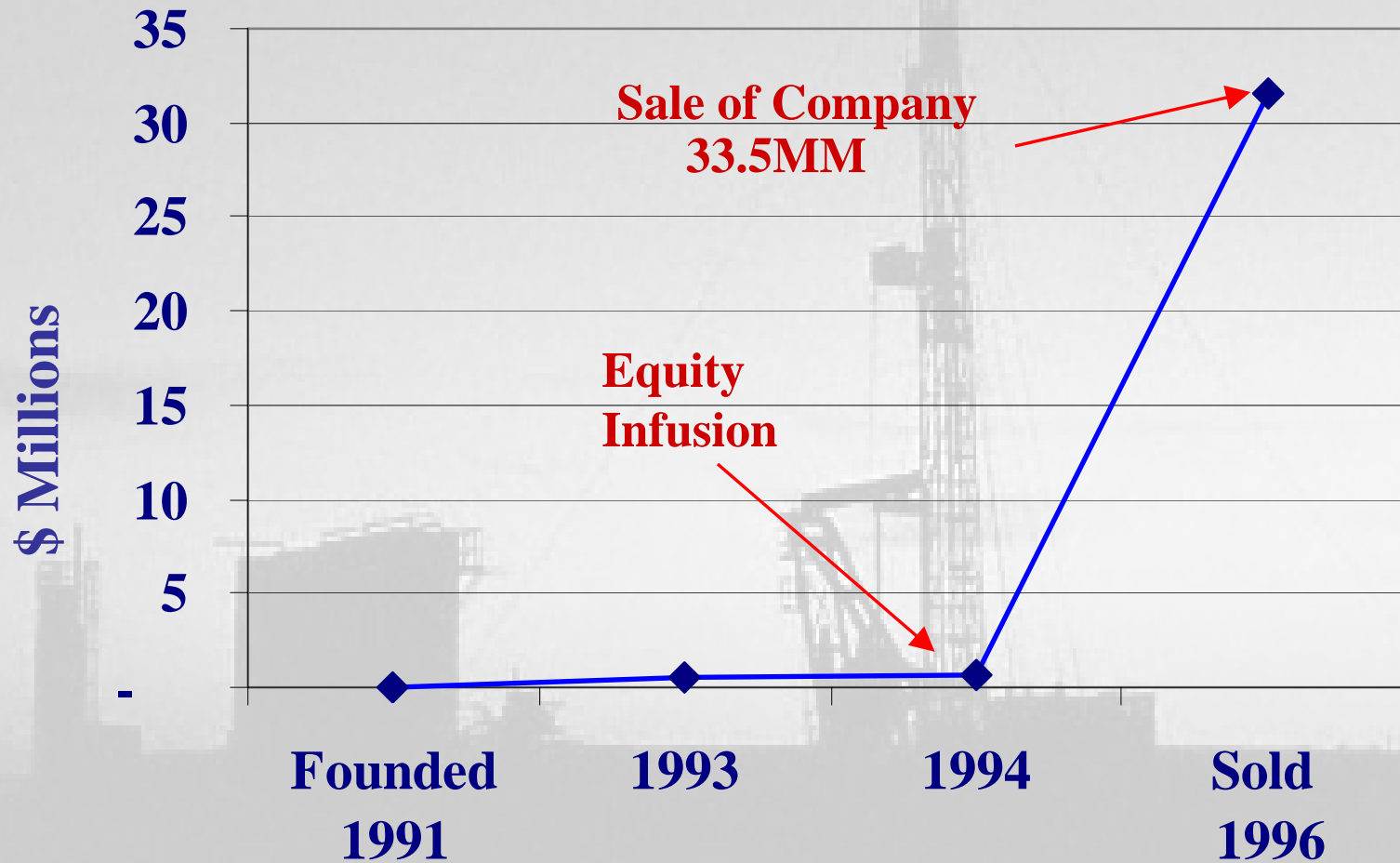
❖ **Lariat Petroleum, Inc.**

- Founded 1996 - 1st round \$20 million equity
- 2nd round \$20 million + \$34 million sub debt
- Sold 2000 - \$333 million

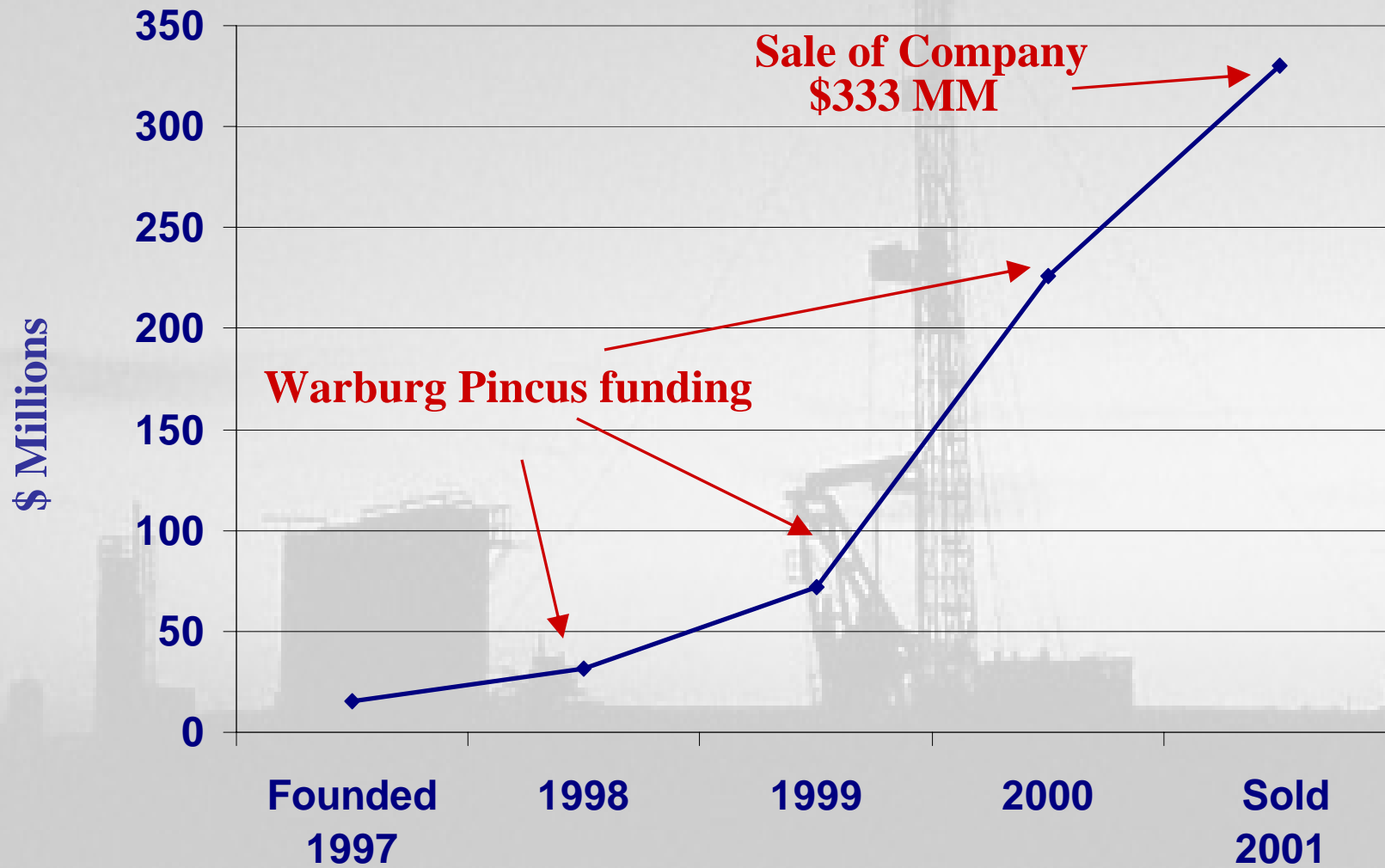
❖ **Latigo Petroleum, Inc.**

- Founded 2002 - \$300 million equity
- Sold 2006 – \$750 million

Colt Growth Matrix



Lariat Growth Matrix



Lariat Petroleum, Inc

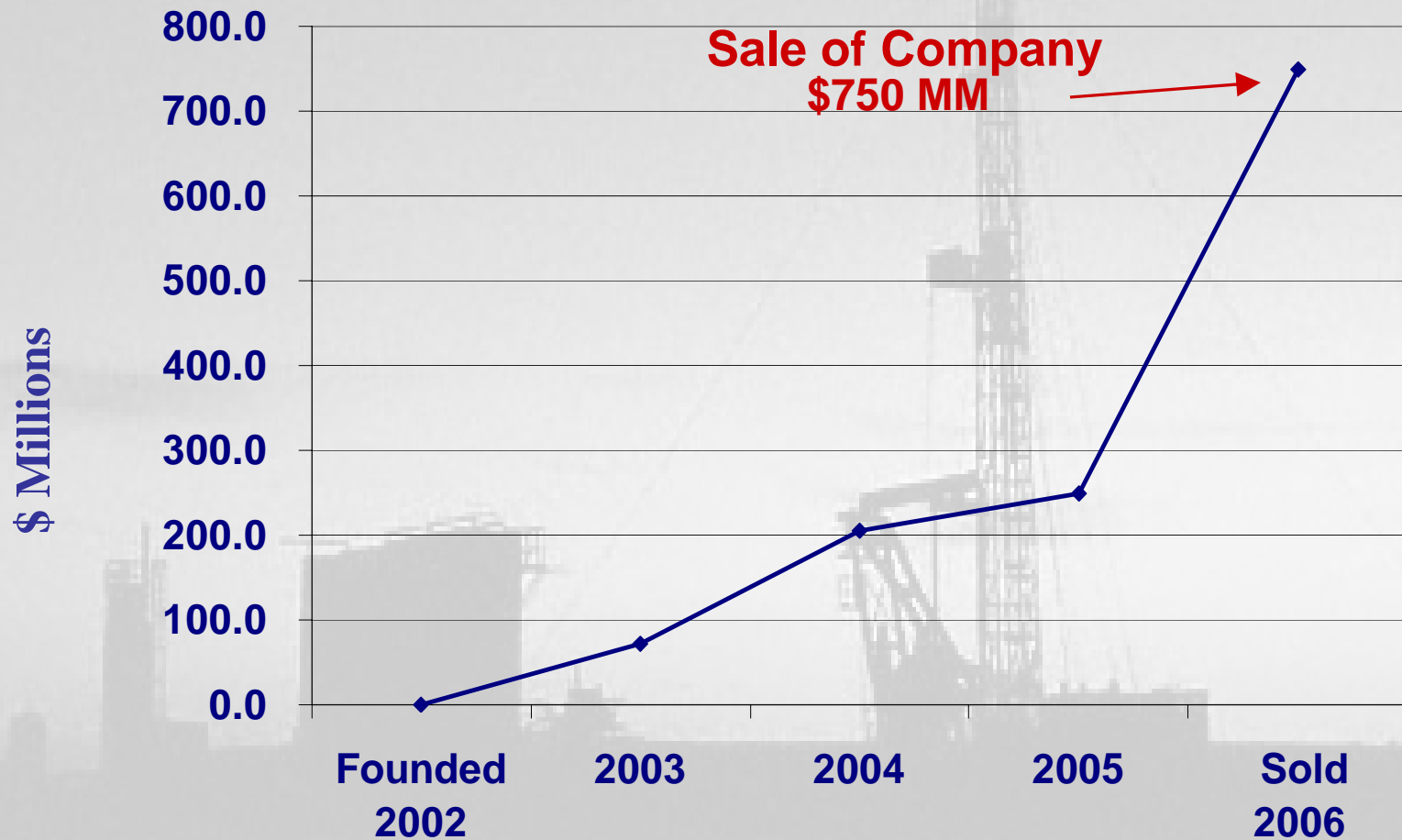
Key Factors

- ❖ Major acquisitions from motivated sellers
- ❖ Grew reserves in excess of 200%
- ❖ Purchased reserves at an average of \$0.83/Mcfe
- ❖ Drilled reserves at an average of \$1.22/Mcfe
- ❖ Cumulative F&D cost of \$0.90/Mcfe
- ❖ Sold for \$333 MM

Successful Sale / Merger

- ❖ Effective January 23, 2001 Lariat Petroleum, Inc. merged with Newfield Exploration Inc.
- ❖ Lariat's name changed to "Newfield Exploration Mid-Continent Inc."
- ❖ Tulsa office and all personnel retained by Newfield

Latigo Growth Matrix



Latigo Petroleum, Inc

Key Factors

- ❖ Several acquisitions with upside growth potential
- ❖ Consistently grew reserves each year
- ❖ Balanced acquisitions with exploration and development
- ❖ Utilized quality 3-D seismic data
- ❖ Positive Corporate Culture, adding shareholder value
- ❖ Sold for \$750 MM

Successful Sale / Merger

- ❖ Effective May 2, 2006 Latigo Petroleum, Inc. merged with POGO Producing
- ❖ POGO kept the Latigo name
- ❖ Tulsa office and all personnel retained by POGO

Availability of Private Equity

- ❖ Funds or budget activity of the companies in the COSCO Index increased 92%
 - First half of 2006 \$19.9 Billion
 - First half of 2005 \$10.4 Billion
- ❖ Transaction activity of the companies in the COSCO Index increased by 75%
 - First half of 2006 121 transactions
 - First half of 2005 69 transactions
- ❖ Funding of companies in the COSCO Index for investing in energy increased by 37%
 - First half of 2006 \$8.6 billion
 - First half of 2005 \$6.3 billion

Availability of Private Capital

❖ Estimated Private Capital

- \$80 Billion of Private Equity
- \$80 Billion of Mutual Fund Capital

❖ Softening commodity prices = Different type of investors

- **Previously**: Shorter term, limited focus investor, capitalizing on price
 - Example: Hedge Funds
- **Presently**: Longer term, growth oriented investor who understand exploration concepts and reserve growth
 - Example: Warburg Pincus

Advantages / Disadvantages of Private Capital

- ❖ Access to Capital
- ❖ Credibility
- ❖ Equity Dilution
- ❖ Investment Cycle
- ❖ Strategic Advice
- ❖ Well Informed and Competent Board Members
- ❖ Industry Contacts

What's So Great About Private Equity

❖ Better governance

- The owners are a team of focused professionals who directly control, but do not manage the business
- Private equity firms recruit industry and functional experts

❖ A more stable shareholder base

- Largely institutional investors who define themselves as long term investors

❖ Opportunity to upgrade management talent

- Private Equity firms recognize that people make all the difference
- Private Equity firms today are a magnet for talent

What's So Great About Private Equity

❖ Resetting expectations

- A change in ownership offers a great opportunity to reconsider assumptions about how a company gains and sustains its competitive advantage

❖ More efficient capital structure

- Capitalize on low interest rates and relatively loose covenants to shape capital structures that improve likely returns

❖ A sense of urgency

- Speed of execution becomes a competitive advantage

Requirements for Equity Partners

- ❖ Compatibility
- ❖ Access to significant capital
- ❖ Long-term investment cycle
- ❖ Understand oil and gas industry risk and reward
- ❖ Strategic advice / experience
- ❖ Allow a strong outside board of directors