

# Private equity funding empowers Kosmos Energy

*Dallas-based company's efforts  
in West Africa are helping to bring  
energy wealth, economic security  
to the Republic of Ghana.*

*W. Greg Dunlevy, Kosmos Energy, Dallas*

**The Mahogany-2 appraisal well in the Jubilee Field was drilled by the "Songa Saturn" drillship.**  
*Photo: Kosmos Energy/photographer Anna Clopet*

**K**osmos Energy, an independent international exploration and production company based in Dallas, existed in the imaginations of five industry leaders months before they established the firm in 2003. The founding team included Jim Musselman, Brian Maxted, Paul Dailly, Kenny Goh, and me.

Having worked together previously in the energy industry, we shared complementary skills and proven track records in the oil business, which was in our blood. Our shared vision was to create a sizable, highly valuable, and enduring E&P enterprise. Our strategy was straightforward: aggressively pursue success through the drill bit rather than by acquiring oil and gas assets.

We chose West Africa as our operational venue because it is one of the world's richest and most prospective hydrocarbon provinces with high-quality exploration prospects. And each of our group had in-depth know-how in what we believed at the time was indeed the last energy frontier that offered an ideal risk-reward balance –

an area we wanted to be involved in again.

Our entrepreneurial dream became reality when in a few short years we transformed a start-up organization with \$300 million in capital, a handful of founding partners and two administrative professionals into a viable, award-winning E&P entity. In 2007, the Kosmos Energy team, which included 20 seasoned and dedicated members, discovered the Jubilee Field in deep waters off the coast of Ghana. It was the largest oil discovery made worldwide in 2007 and one of the largest finds made offshore Africa during the last decade.

Our western Ghanaian find indicates a prolific, new hydrocarbon trend in the vicinity of Jubilee with a current field P50 estimate of one billion barrels of recoverable oil and substantial unrisksed prospectivity that likely exceeds 10 billion barrels along the offshore play fairway contained in our two license blocks. This is part of an area that had been written off by the industry as one where only small, subcommercial oil and gas deposits could be tapped.

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Kosmos conducts a drillstem test on the "Songa Saturn" drillship of the Mahogany-2 appraisal well in the Jubilee Field offshore Ghana.  
Photo: Kosmos Energy/photographer Anna Clopet

Kosmos' success was recognized by peer companies and particularly by the government and people of Ghana, which soon will join the ranks of significant West African oil producers. We were honored by African leaders who named Kosmos as one of the recipients of the 2008 Diamond Arrow Award, an annual award bestowed by PMR. africa magazine and given to the most admired companies and institutions in Africa. And Petroleum Africa magazine named Kosmos as Africa's 2007 "Operator of the Year" for its drilling of the Mahogany-1 well that discovered the Jubilee Field. In addition, Petroleum Africa recognized Kosmos for making the "Discovery of the Year" and chose the company as a top "Mid-Sized Independent" operating in Africa.

### **Business model establishes growth framework**

The foundation for Kosmos business model is organic growth. We create home-grown exploration ideas in Africa, nurture them through the drilling stage, and then expedite field appraisal and development for the benefit of the host government and its people, as well as our company. Other E&P companies, large and small, profess similar models, but we are confident that our 50% commercial success rate and the assets that support Kosmos' business model differentiate us from other E&Ps.

Kosmos approaches all aspects of the exploration and

production business with an unconventional eye. The primary objective: exploration success that results in projects put on stream as efficiently and quickly as possible to assist host countries eager to develop their natural resources and, in turn, build a company of value.

At Kosmos, we repeatedly achieve this objective because we:

- Create and nurture a corporate culture that encourages and rewards informed exploration risk taking,
- Build a first-class exploration portfolio by capturing acreage positions in emerging basins and established provinces overlooked by risk-averse oil and gas companies.
- Maximize an asset's value through accelerated, prudent appraisal, and
- Implement fast-paced production and development programs, including the design and installation of complex subsea architecture and the utilization of floating production, storage and offloading vessels (FPSO).

Technical excellence is a key driver of Kosmos' business model. The Kosmos team, which is modest in size relative to much larger companies operating in West Africa, is among the best and brightest in the industry and is accustomed to working together. Management has empowered them to assume affordable risk and be accountable for realizing the company's business strategy.



**The Mahogany-1 well discovered the Jubilee Field offshore Ghana on the Kosmos-operated West Cape Three Points Block. The well was drilled by the “Belford Dolphin” drillship.**  
*Photo: Kosmos Energy/photographer Anna Clopet*

Our oil and gas associates have achieved serial exploration success during joint tenures at other E&P companies operating globally, and are responsible for managing the discovery and development of some of the world’s largest, most notable oil and gas finds. For example, in 2001 most of the Kosmos team worked for Triton Energy, at the time a medium-size, public US E&P company. The group discovered oil offshore Equatorial Guinea and then led the record-setting development and production of the find in 2,500 feet of water. The deepwater scheme included the design and installation of sophisticated sub-sea architecture, which was connected to an FPSO in the Gulf of Guinea – similar to what we plan for Ghana.

Kosmos’ geologists and geophysicists routinely investigate opportunities with an out-of-the-box mindset to find oil in areas labeled unprospective. In late 2007, Kosmos was recognized by the World Junior Oil & Gas Congress as “Explorer of the Year” for its technical skill set, embodied by the company’s discovery of Ghana’s Jubilee Field. Likewise, the company’s petroleum engineers, drilling managers and other operations professionals have maximized the recovery of oil and gas by balancing industry best practices with leading-edge development schemes to optimize full-field design and resource recovery.

### **Kosmos focuses on hydrocarbon-rich Africa**

West Africa is one of the world’s most prospective hydrocarbon provinces and offers multiple premier exploration opportunities. Because the Kosmos team, including management, had comprehensive expertise in the region, this was the most logical location in which to launch our new E&P business.

The region offers unparalleled business opportunities, impressive resource-base potential, a favorable cost structure, and supportive host governments. Reserve and production growth rates in this prolific area have been among the highest in the world, finding and development

costs in the region are extremely competitive, and multiple reserve replacement options are plentiful.

As part of our exploration-driven organic growth strategy, we are pursuing:

- Primary exploration plays in frontier, emerging, and established basins in deep water.
- Secondary exploration of new plays in developing and mature basins.

In addition to Ghana, Kosmos’ expanding asset base includes offshore acreage in several other West African countries – Benin, Cameroon, Morocco, and Nigeria. We are securing acreage through new-venture licensing rounds, open applications and farm-ins. The company forms partnerships with established industry players and local governments, and collaborates with local entrepreneurs.

Our goal is to access an interest in each project, and we prefer to manage the venture as operator when possible. Kosmos possesses the technical, operational, and commercial capabilities in the region to expedite production and development projects, thereby maximizing the value of host countries’ assets.

### **Private equity provides financial strength**

Once we created Kosmos’ business model and established our strategy, it was imperative we obtain substantial, solid funding for this capital-intensive business. A principal reason that E&P companies fail as start-ups is that funding and business strategies are inadequately matched, so we had to think through this aspect carefully. We investigated the public-company route, looking at London’s Alternative Investment Market (AIM), which is targeted at companies with less than \$100 million in market capitalization, but concluded it would not provide the long-term depth and breadth of liquidity that we required.

We also believed it was premature to travel the public-company route. Capital markets are often risky, but especially for an E&P start-up that must consider the fluctuating price of crude oil as an element critical to its success. When Kosmos was formed, crude oil was selling for about \$30 a barrel.

Because most of us had been management team members at Triton Energy, a public company whose exploration program was partially funded by the private equity firm of Hicks Muse Tate & Furst, we were familiar with the advantages of dealing with notable private equity organizations. In fact, Hicks Muse saw its initial investment climb from \$350 million in late 1998 to \$1 billion two-and-a-half years later when Triton was acquired.

We considered it vital that we find well-known and respected firms willing to fund and support our longer-term strategy. It also was important that they understood the international oil and gas business and what we wanted to achieve. Those fundamentals would allow us the flexibility and freedom to work offshore West Africa – a somewhat nontraditional area for E&P companies, but especially for a start-up entity in 2003.

We were pleasantly surprised to learn that capital was indeed available for the building of meaningful E&P companies to explore worldwide at a time when most institutional private equity firms focused on North American projects. Today, a few years later, there is still a limited number of private equity-backed E&Ps outside North America, most of which operate in the North Sea and fewer than a handful in Africa.

In 2003, Warburg Pincus and Blackstone Capital Partners (an affiliate of The Blackstone Group), two large private equity companies, stepped up to the plate and initially provided Kosmos with \$300 million in capital to implement our West African exploration program. As private equity investors, Warburg and Blackstone collectively have nearly \$150 billion in assets under management with major investments in more than 100 private and public companies around the globe.

In addition, Kosmos' management and staff have a meaningful investment in the company, thereby putting our own capital at risk, which fortifies the focus on value creation. Our tireless team takes pride in their ownership, are empowered to assume affordable risk and are accountable for realizing the company's business strategy.

In June 2008, Kosmos secured an additional \$500 million in equity funding, again from Warburg and Blackstone, making the company the first and largest private equity-backed oil and gas venture focused on Africa. The equity expanded Kosmos' capital base and provided substantial financial resources for ongoing oil and gas exploration, appraisal and development activities in West Africa, including first-phase development of the Jubilee Field, which we expect will be sanctioned by our partners and the Ghanaian government in late 2008.

We plan to develop the field on an accelerated schedule, with initial oil production planned for 2010 via sophisticated subsea architecture and an FPSO. The Jubilee Field development is a multi-billion dollar, multi-phase project that will take a number of years to bring to its full potential.

When additional capital is required, Kosmos has the financial wherewithal to access both equity and debt markets. Management always has sought maximum financial flexibility and maintains the option to access the public market as a viable alternative to remaining a private company.

### **Independent E&Ps ensure energy security, healthy global economy**

I believe Kosmos has changed the face of the industry long dominated by larger, mostly public E&Ps and contrarily exemplifies what can be right with smaller, entrepreneurial companies. Unmatched technical acumen, financial means, and operational experience blend to establish an environment conducive to replicating success – which in turn raises the bar for the rest of the industry. Host governments and national oil companies view Kosmos as a company that's quick to respond, that deftly combines the skills to find oil with the courage to shoulder reasonable risk.

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Over the long term, we are confident that there is an abundance of private equity in the marketplace to ensure Kosmos' future. In fact, we believe there are immeasurable private equity resources also available to other E&P companies with quality managements who are pursuing premier business plans and exploration projects. Because major oil and gas companies and large independent E&Ps have reduced their exploration efforts during the last decade or two, small-to-mid-size independent E&P companies have a more important stake in the industry's future. They are free from the constraints that often hinder progress at larger corporations, have lean, flexible processes for getting the job done and are dedicated to value creation.

We do not take it for granted that making acquisitions is the most expeditious and economical way to achieve growth in the energy business. It would appear that many companies, especially larger firms, take this view, which has become the norm. On a personal note, I have been affected first hand by this inclination. Three of the companies where I was employed during most of my 30-year career – Atlantic Richfield (ARCO), Lyondell Chemical, and Triton Energy – were acquired by larger entities and no longer exist.

I challenge the “growth through merger” premise, because I believe over the long term, acquisitions do not enhance and likely impede industry growth in general. They can create bureaucracies where none previously existed, hamper productivity, and ultimately obstruct profitability. On the other hand, organic growth through the drill bit – coupled with substantial creativity and capital commitment by the appropriate entities – promotes independence and entrepreneurship within E&P companies and encourages an exploration and development process second to none. We at Kosmos believe this is the best way to build businesses, fulfill the globe's energy needs and strengthen economies worldwide. **OGJ**

#### **About the author**

*W. Greg Dunlevy [GDunlevy@kosmosenergy.com] is executive vice president, CFO, and a founding partner of Kosmos Energy. He has over 30 years' experience in oil and gas finance, planning, treasury, and banking and has worked with both large- and mid-cap US independents. Prior to Kosmos, Dunlevy was CEO of Fort Worth, Tex.-based Moncrief Oil International. Dunlevy is a graduate of Harvard Business School and the College of William and Mary.*

