

# CommBank enables Drillsearch to expand their footprint and grow business.



A \$100 million bridge facility from the Commonwealth Bank enabled Drillsearch Energy to complete a significant acquisition that expanded the company's assets in one of Australia's most valuable oil and gas regions.

## Background

Drillsearch Energy is an oil and gas explorer and producer with interests in the highly prospective Cooper-Eromanga Basin in north-eastern South Australia and south-western Queensland. The company holds 24 exploration and production licences, holding a net interest of 14,638 square kilometres. It holds at least a 50% interest in 17 of the 24 licences, operating 17.

## Challenge

Drillsearch is the only ASX-listed company that focuses exclusively on oil and gas exploration and production in the Cooper-Eromanga Basin. It was interested in acquiring Acer Energy, another oil and gas explorer and producer with material holdings in the Basin.

The acquisition would complement Drillsearch's three growth platforms: its conventional oil business focused on the Western Flank Oil Fairway and Eastern Margin Oil Fairway; a conventional wet gas business in the central part of the Cooper Basin; and an unconventional resources business in the Nappamerri Trough Shale Gas Fairway.

"Acer Energy had high quality assets in the Western Flank Oil Fairway and a substantial portfolio of undeveloped wet gas discoveries in permit areas in close proximity to our current wet gas holdings," said Brad Lingo, Managing Director, Drillsearch Energy. "By acquiring Acer Energy, we could expand our footprint and grow our businesses in these areas."

Drillsearch wanted to make a cash offer for Acer Energy, but lacked sufficient funds on hand to make an all-cash offer for the company. The company had to find the cash quickly, as Acer Energy's institutional shareholder was looking to exit the business. However, a key funding issue was that Acer Energy's assets were not producing income. This meant Drillsearch's borrowing had to be fully funded by the company's reserves and producing assets. The challenge for the Bank was that Drillsearch's existing production was at a low level and the Bank therefore needed to take a view that the forecast ramp-up profile was realistic and could be achieved.

## Solution

Drillsearch was looking for an acquisition bridge facility with a term of less than 12 months. The company evaluated solutions from a number of Asian and a North American banks before selecting the Commonwealth Bank.

CommBank's term sheet for a \$100 million acquisition bridge facility – which included foreign exchange and oil hedging, and a lead role for CommBank in any equity raising – met Drillsearch's requirements and time frame.

"We selected CommBank to be the sole lender for two reasons," said Lingo. "First, CommBank is recognised as the leading oil and gas financier in Australia. Second, CommBank could provide an acquisition bridge and a longer-term refinancing capability, as well as assist us in raising any equity that might be required, so that post-completion of the acquisition, Drillsearch would have the right capital structure to focus on delivering on its core businesses, as well as getting the most out of the newly acquired assets."

"What's unique about CommBank is its ability to provide both debt and equity capital on a long-term basis," he added. "If you want to manage growth for your shareholders, you need a sensible quantum of debt, and that's what CommBank offers us."

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To meet Drillsearch's tight time frame, CommBank conducted due diligence, obtained credit approval, completed the documentation and made the bridge facility available in four weeks.

The Bank has worked with Drillsearch since 2008 and used its understanding of the company's operations to apply equity-type valuations of its various business segments under multiple scenarios. Drillsearch's oil production was in an early stage and under the terms of the bridge facility, the company had to ramp up production by up to five or 10 times over a short period of time. CommBank's due diligence indicated Drillsearch could meet this requirement.

"There are many resource companies that say they have bankable reserves, but few can say a financial provider has actually looked at their projects and cash flows, and said 'yes, we will bank these reserves'," said Lingo. "CommBank's seal of approval to borrow against our reserves and producing assets was a great boost to our business. It stands out as a clear third party validation of the underlying quantity and quality of our resource base and our ability to deliver on those resources."

## Benefits

### A successful acquisition

In October 2012, Drillsearch announced a cash takeover offer for Acer Energy at \$0.255 per share, valuing Acer Energy at approximately \$118 million. After some brief resistance to the bid and the threat of a potential competing bid by another Australian Cooper-focused oil and gas company, Acer's Board of Directors recommended the offer to shareholders. The offer was fully funded through the 15-month, \$100 million CommBank bridge facility and Drillsearch's existing cash balances.

"The bridge financing from CommBank enabled us to make a straightforward all-cash bid for Acer Energy that

was supported by their Board of Directors and complete the acquisition in a little over four months, without needing to extend any takeover deadlines," said Lingo.

### Capital raising helps fund work programs

In November 2012, Drillsearch raised \$50 million through a 1 for 10 accelerated non-renounceable entitlement offer, comprising a \$17 million institutional entitlement offer and a \$33 million retail entitlement offer. CommBank was a joint lead manager, bookrunner and underwriter alongside another investment bank.

In addition to repaying a portion of the bridge facility, the capital raising provided Drillsearch with a long-term source of liquidity that will enable the company to manage the upfront development costs associated with the ramp-up of production and cash flows from one of its key oil production projects. In parallel with this raising, Drillsearch refinanced the bridge loan with a convertible note and a three-year, \$50 million working capital facility and oil hedging which it put in place with CommBank as the sole lender to help manage the peaks and troughs in expenditure associated with bringing several new production projects online.

"We drew on the working capital facility to increase our ownership percentage in a Joint Venture with Santos," said Lingo. "We have since repaid the loan and can now use the facility to manage our liquidity as we progress our work programs."

"The refinancing, capital raising and strong growth in our production capacity and cash flows has enabled us to take a long-term view of our business," added Lingo. "We can show the market and our shareholders that we have the production and financial capacity to fund our work programs through to 2016."

### A partner for the long term

"Drillsearch is a company in an exciting growth phase, and when we required equity and debt capital during a crucial transaction, CommBank was there to help us with that. We look forward to continuing to work with CommBank into the future as we pursue the various growth options within Drillsearch. The Bank clearly demonstrated that they understand the underlying quality of Drillsearch's business and where the company is heading, and that understanding is essential to building long-term relationships."

## CONTACT US

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