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Number of Energy IPOs May More Than Double by End of Year

With four energy IPOs so far this year, six more may launch before the end of 2023.

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So far this year, four energy companies have launched IPOs that share a common thread: international law firm Latham & Watkins advised each.

The firm has served as legal counsel for IPOs in January, February, March and June. First out of the gate: TXO Energy Partners LP—formerly known as MorningStar Partners—led by Bob Simpson. Next came Israel's Enlight Renewable Energy, then Atlas Energy Solutions, formerly Atlas Sand of Austin, Texas. Finally, in June, Kodiak Gas Services, the Montgomery, Texas-based oilfield service provider, successfully launched an IPO.

In a conversation with Hart Energy Senior Editor Patrick McGee, Ryan Maierson, a Latham & Watkins partner specializing in M&A, capital markets and special purpose acquisition companies (SPAC), discussed the appetite for energy IPOs, the stalled energy IPOs market in recent years and the decline of SPACs.

Maierson said the energy industry could bring as many as six more IPOs to market before the end of the year—more than in the past four years combined.

Patrick McGee: We've had four energy IPOs this year. How did Latham and Watkins become the law firm involved in all of them?
Ryan Maierson: First, we are and have been for many years the top IPO law firm more broadly in the U.S. and globally, so I think we have a reputation for being effective counsel on IPOs in general. The second reason is the energy expertise that we bring. We have over 130 lawyers in Houston alone, many of whom are primarily focused on energy and energy transition.

PM: Can you say what the IPO market has been like for energy in the last few years, and how that compares to the current year to date?
RM: The last few years have been extremely challenging for us. We've seen a downtick for IPOs more broadly over the last couple of years, but energy in particular has not seen any significant and sustained IPO activity for several years, and energy IPOs tend to go in waves.

If you look at that 2010 to 2014 period, there were literally dozens of IPOs of MLPs, energy companies that are traded publicly traded as partnerships. Then there was the commodity price crash, and then there was a wave of oil field services IPOs in 2016 and 2017. The market has been relatively choppy since then. There were two energy IPOs last year, two in 2021, none in 2020 and two in 2019.

Now we're halfway through the year with four U.S. energy IPOs. We're more than double the number of energy IPOs in the last three years. I'm not prepared to say that we are in a new wave, but I would say there are very positive signs of investor interest in energy IPOs in the current market. We've seen the four IPOs already this year, and our backlog is about as significant as we've seen for quite some time.

PM: What do you think is spurring the new interest in energy IPOs?
RM: I think it's a few things. One is that the energy transition is upon us. We are moving more rapidly than many expected toward an electrified and decarbonized world. At the same time, there's a recognition that we have a ways to go to get there and that we are still in a fossil fuel-driven economy and we will be for some period of time, and there's a recognition that both those things can coexist. We're not going to flip a switch, metaphorically, and become a carbon free economy overnight. While we're making tremendous strides in energy transition, there is still a place at the table for traditional natural resources.

If you look at the four energy IPOs this year, you sort of see that story. You see compression and sand, and you see upstream in the form of the TXO IPO. There is a recognition that oil and gas development is still an important part of the economy, but there's also a recognition that there are new things on the horizon.

PM: How do commodity prices affect these IPOs?
RM: It's a great question, and the answer is it depends. I would say the macro commodity price sentiment is more important than the closing price of WTI on any given day, but,

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> —**Ryan Maierson**, ***Latham & Watkins***

certainly, higher commodity price macro environments make production economically favorable than lower commodity price environments. So, to the extent that we're talking about businesses that are dependent on production or that have a nexus to production, a sustained and forward looking prediction of a sustained higher commodity price environment is going to be more favorable. But I think even though there is always volatility built into commodity prices …we're in a fairly favorable commodity price environment, which I think is what's leading to some of the positive sentiment.

PM: Why are these new IPOs being made now?
RM: If you look at the broader U.S. IPO market, while the first half of 2023 was slow, there's definitely a sense that there are more favorable market conditions emerging. Everyone has talked about how well [the food chain] Cava priced and traded as one of the major positive signs over the last some number of months and years. You can't put too much stock in the trading of a single IPO, but I think it's reflective of a fair amount of demand for new products. There are companies that could be very successful when they're public if the demand is there. I think we're now finally seeing both institutional and detailed demand for new equity paper emerging.

That's on the macro side. On the energy side, I think it's the two threads that I described. There's a continuing emphasis on sustainable and clean energy generation and a growing recognition that businesses in that sector can be quite profitable. Secondly, I would say there is also an increasing recognition that oil and gas exploration and development is still an important part of how we keep the lights on…There's obviously pent up demand for IPOs, and there's a recognition that the energy sector–which has been in disfavor for so long–is still a tremendously important part of the economy and needs capital formation in order to be sustained.

PM: What does success look like for the companies engaging in IPOs this year, and are you tempering expectations given the current commodity market?
RM: We are certainly trying to temper expectations for a number of reasons. While we are seeing green shoots, it's still early to be calling IPOs resurgent. We're advising companies to make their preparations if they think that an IPO, and being a public company, is right for them. We're advising them that any IPO will have to be carefully timed in the market and that they should be making backup plans if they need a capital infusion.

When there's this few data points, every IPO is potentially meaningful, everybody's trying to unpack the significance of every single anecdote that goes on in every single IPO. It's been sort of humorous to see how much attention has been paid [to the small number of new IPOs] because we are all trying to figure out which way the wind is blowing in a sort of nascent resurgent IPO market.

PM: Based on conversation with your clients, can you give us a sense of the energy industry's appetite for further IPOs this year?
RM: I would not be surprised if you saw another four to six energy IPOs in the second half of this year. We've got as deep of a pipeline of pent-up IPO demand on the company side as I've ever seen. We've got a sort of mix of those who are opportunistically looking at this year's data points and saying "maybe now is a good time to accelerate" …as well as companies that had shelved IPO plans two years or three years ago who are now thinking that it's time to really step on the gas and hit this market which seems to be somewhat favorable.

PM: What needs to happen to IPOs in the market in general to make them more attractive to investors again?
RM: That's a great question. I'm not sure I have a complete answer but at this point, I would say demand is back or coming back. There's still a lot of price and valuation sensitivity among investors, and so the IPO discount, as we say, is probably greater than we would all like it to be, at least in energy. I think it's going to take some sustained positive performance from recent IPO companies as well as continued acceptance among investors of the role of natural resources for the foreseeable future.

PM: Do you expect SPACs to be a popular mechanism compared to IPOs this year or do you see them declining?
RM: What I see is what I call a tail. There are almost 300 SPACs that went public during the boom times that are still either in search of a target company to take public or have a signed up deal but have not yet closed it. In the next few months, that tail will effectively run off where the glut of SPAC IPOs from a couple of years ago will have run its course. We've seen a handful of SPAC IPOs this year…I think there have been about 16 in the first half of this year, as opposed to the 300 plus we were seeing per year during the boom.

I think SPACS will continue to play a role in the going public landscape alongside direct listings and alongside traditional IPOs. It remains to be seen what the run rate looks like. Is that 30 companies a year going public SPACs? Is it 70? I think we can be assured it's not going to be 250 a year, at least for the foreseeable future. OGI