

Research Report

Who's Who in EP Energy's Bankruptcy Cases

by Carlo Fernandez

EP Energy Corporation (OTC: EPEG) is a North American oil and natural gas exploration and production company headquartered in Houston, Texas. EP Energy and its subsidiaries operate through a diverse base of producing assets and are focused on the development of drilling inventory located in three areas: the Eagle Ford shale in South Texas, the Permian Basin in West Texas, and Northeastern Utah.

A group of private equity sponsors led by Apollo Global Management LLC, Access Industries, Inc., Riverstone Holdings LLC, and Korea National Oil Corporation ("KNOC") acquired EP Energy in 2012 in an approximately \$7.2 billion highly levered acquisition.

In addition to the heavy debt burden foisted on them in connection with the 2012 LBO, the Debtors' performance has suffered from instability in the commodities markets.

*EP Energy and its subsidiaries sought Chapter 11 protection on Oct. 3, 2019, after reaching a deal with Apollo, Access Industries, and secured noteholders on a bankruptcy exit plan that would reduce debt by \$3.3 billion. The lead case is *In re EP Energy Corporation (Bankr. S.D. Tex. Lead Case No. 19-35654)*.*

EP Energy marks the largest bankruptcy among U.S. oil and gas

producers since 2016.

EP Energy reported \$3.962 billion in assets against \$5.364 billion in liabilities as of Sept. 30, 2019. As of the Petition Date, the Debtors have funded debt obligations in the aggregate amount of \$4.909 billion:

(i) \$629 million in reserve-based revolving loans,

(ii) \$1 billion in the 7.750% Senior Secured Notes due 2026 (the "1.125 Lien Notes"),

(iii) \$500 million in 8.00% Senior Secured Notes due 2024 (the "1.25 Lien Notes"),

(iv) \$2.092 billion in 1.5 Lien Notes, comprised of \$1.092 billion of 9.375% Senior Secured Notes due 2024 (the "1.5 Lien 2024 Notes") and \$1 billion of 8.00% Senior Secured Notes due 2025 (the "1.5 Lien 2025 Notes"), and

(v) \$688 million of senior unsecured notes, comprised of \$182 million of 9.375% Senior Unsecured Notes currently maturing on May 1, 2020, \$182 million of 7.750% Senior Unsecured Notes currently maturing on Sept. 1, 2022, and \$324 million of 6.375% Senior Unsecured Notes currently maturing on June 15, 2023.

PRE-NEGOTIATED PLAN

The Debtors' reorganization plan is the product of extensive prepetition negotiations among the Debtors

a number of their key economic stakeholders. Supporting the Plan are Apollo Access Industries, Elliot Management, Avenue Capital, and other parties that collectively hold a majority of the Company's common stock, 1.5L Notes, and 1.25L Notes. Holders of 100% of the claims under the RBL Facility also back the Plan.

The lynchpin of the Plan is the Debtors' proposal to reinstate approximately \$1.5 billion in senior secured debt, including the 1.125L Notes and the 1.25L Notes.

Holders of 1.5L Notes will receive on account of the secured portion of the notes (i) 99.0% of the New Common Shares, subject to dilution by the Rights Offering Shares, the Private Placement (if applicable), and (ii) the right to participate in the Rights Offering.

Holders of Allowed Unsecured Claims (i.e., Unsecured Notes Claims, 1.5L Notes Deficiency Claims, and General Unsecured Claims) will receive their pro rata share of 1.0% of the New Common Shares.

The parent-level equity holders will receive a \$500,000 cash distribution.

The Plan contemplates a \$475 million equity rights offering that the Supporting Noteholders have agreed to participate in and backstop at a price based on an enterprise value of \$2.5 billion and an implied equity

Research Report

Who's Who in EP Energy's Bankruptcy Cases

Continued from page 7

value of \$900 million.

There will be a \$629 million exit credit facility, which the Debtors' prepetition RBL Facility and postpetition DIP Facility will "roll" into on the effective date of the Plan.

The Company also may (i) consummate a private placement of New Common Shares for an aggregate purchase price of up to \$75 million, (ii) have funds managed by affiliates of Apollo and funds managed by affiliates of Access Industries contribute their equity interests in Wolfcamp Drillco Operating L.P. ("Jeter Drillco") to the Reorganized Debtors on the Effective Date of the Plan in exchange for New Common Shares, and (iii) obtain an incremental amount of up to \$300 million in exit financing under the Exit Facility.

Wilmington Trust, N.A., the Indenture Trustee for the 1.5L Notes, says it generally supports the Plan, noting that it remains the only concrete, viable opportunity for the Debtors to reorganize for the benefit of their creditors.

An Ad Hoc Group of Holders of 1.125 Lien Notes, led by Fidelity Management & Research Company and The High Yield Desks of J.P. Morgan Investment Management Inc., has conveyed objections to the Plan, saying that it only benefits

the equity sponsor, and noting that that they have submitted their own alternative proposal for a plan that would cut debt by \$3.6 billion. That deleveraging is accomplished through (a) an exchange of outstanding 1.125L Notes for a combination of new second-lien notes and 89.1% of the new equity; (b) an exchange of outstanding 1.25L Notes for a combination of 9.9% of the new equity and 1.25L Notes warrants for 70.6% of the new equity with a strike price equal to a total enterprise value for the reorganized debtors of \$1.7 billion; (c) distribution of 1.5L Notes warrants for 26.4% of the new equity with a strike price equal to a total enterprise value for the reorganized debtors of \$1.9 billion on account of each 1.5L Notes Claim; and (d) 1.0% of the new equity to be distributed in satisfaction of all allowed unsecured claims.

The Official Committee of Unsecured Creditors has recommended that all unsecured creditors vote to reject the Apollo Plan. The Committee notes that the distribution of 1% of the primary equity to unsecured creditors—a paltry distribution in the first instance—actually translates into a mere 0.2% of the new equity on a post-dilution basis, for a diminutive 0.06% recovery to holders of more

than \$2.5 billion in unsecured claims.

EP Energy claims that the Ad Hoc Group's allegations that the Debtors' restructuring process was subject to conflicted governance or somehow controlled by their equity sponsor are baseless and unsupported by any evidence.

DEBTORS

Weil, Gotshal & Manges LLP is serving as the Debtors' legal counsel. New York partners **Matthew S. Barr** and **Ronit Berkovich**, counsel **Scott R. Bowling**, associate **David J. Cohen**, Houston partner **Alfredo R. Perez** and associate **Clifford Carlson** are the attorneys involved in the case.

Evercore Group LLC is serving as the Debtors' financial advisor and investment banker. **Stephen Goldstein**, a senior managing director of Evercore, leads the engagement.

FTI Consulting, Inc., is the restructuring advisor to EP Energy. **David Rush**, the firm's senior managing director, is presently the chief restructuring officer of the Debtors.

Duff & Phelps' Prime Clerk LLC is the claims agent.

Ernst & Young LLP is the Debtors' auditor. **Ashley Reaves**, a partner at Ernst & Young, leads the engagement.

PricewaterhouseCoopers LLP is

Research Report

Who's Who in EP Energy's Bankruptcy Cases

Continued from page 8

providing tax compliance services to the Debtors. **Bret Oliver**, a partner of PwC, leads the engagement.

SUPPORTING PARTIES

Paul, Weiss, Rifkind, Wharton & Garrison LLP, led by partners **Jeffrey D. Saferstein**, **Jacob A. Adlerstein**, **Lewis R. Clayton**, and **Jessica S. Carey** and counsel **Brian Bolin**, and **Porter Hedges LLP**, led by partners **John F. Higgins**, and **Eric M. English**, are counsel to Apollo. **Moelis & Company LLC** is **Apollo Global Management LLC's** financial advisor.

Debevoise & Plimpton LLP, led by partner **Sidney P. Levinson**, is counsel to **Access Industries, Inc.**

Milbank LLP, led partners **Casey T. Fleck**, **Gerard Uzzi**, and **Eric K. Stodola**, is serving as counsel to **Elliot Management Corporation**, which leads a group of 1.5L Noteholders that back the Plan. **Houlihan Lokey, Inc.**, is Elliot's financial advisor. **WD Von Gonten & Co.**, and **DeGolyer and MacNaughton Corp.** also represented Elliot in negotiations regarding the Plan.

If the Plan is consummated, Moelis and Houlihan Lokey will each earn a success fee of \$4 million.

Currently, Apollo and Access own and control a majority of the

company's common stock. The Supporting Noteholders, which include Apollo, Access, and Elliot Management, own 79.3% in principal amount of the 1.5L Notes and 52.0% in principal amount of the 1.25L Notes.

Reed Smith LLP, led by Houston partner **Lloyd A. Lim** and associate **Rachel I. Thompson**, and Delaware partner **Kurt F. Gwynne** and associate **Jason D. Angelo**, is representing **Wilmington Trust, National Association**, the indenture trustee to the 1.5L Notes.

Mayer Brown LLP, led by partners **Charles S. Kelley**, **Sean T. Scott**, and **Aaron Gavant**, is representing **JPMorgan Chase Bank, N.A.**, as Administrative and Collateral Agent for the RBL Lenders and DIP Lenders.

1.125L NOTEHOLDERS

Morrison & Foerster LLP, led by partners **Dennis L. Jenkins** and **Brett H. Miller**, is representing an ad hoc group of holders of majority of the 1.125 Lien Notes, which group opposes the Apollo plan, offering instead an alternative proposal.

Foley Gardere/Foley & Lardner LLP, led by partner **John P. Melko**, is special counsel to the Ad Hoc Group.

PJT Partners LP is the financial advisor to the Noteholders Group.

As of Nov. 1, 2019, members of the Ad Hoc Group are **AEGON USA Investment Management, LLC**, **Angelo, Gordon & Co., L.P.**, **Arena Capital Advisors, LLC**, **Artisan Partners Limited Partnership**, **Capital Research and Management Company**, **CQS (UK) LLP**, **DavidsonKempner Capital Management LP**, **DoubleLine Capital LP**, **Eaton Vance Management**, **Fidelity Management & Research Company**, **The High Yield Desks of J.P. Morgan Investment Management**, **Monarch Alternative Capital LP**, **Pacific Investment Management Company LLC**, **PPM America, Inc.**, **Principal Investment Group**, **Silver Rock Financial LP**, and **Wolverine Flagship Fund Trading Limited**.

Morrison & Foerster is also lead counsel; **Foley & Lardner LLP** is Texas counsel, and **Lear & Lear PLLC** is Utah counsel to **UMB Bank, National Association**, as successor trustee for the 1.125L Notes.

UNSECURED CREDITORS

Henry Hobbs Jr., acting U.S. Trustee for Region 7, on Oct. 21, 2019, appointed four creditors to serve on an official committee of unsecured creditors in the Chapter 11 cases: **Wilmington Trust, N.A.**, as indenture

Research Report

Who's Who in EP Energy's Bankruptcy Cases

Continued from page 9

trustee, **Wilmington Savings Fund Society, FSB**, as indenture trustee, **Rene R. Barrientos, Ltd.**, and **Antora Peak Capital Management LP**.

Stroock & Stroock & Lavan LLP is the Committee's legal counsel. Partners **Kristopher M. Hansen**, **Frank A. Merola**, **Erez E. Gilad**, and **Jonathan D. Canfield** are the attorneys involved in the case.

Polsinelli PC is the Committee's local co-counsel. The primary attorneys expected to represent the Committee are shareholders **Trey A. Monsour**, **Randy B. Soref**, and **Ryan Copeland**, and associate **Tanya Behnam**.

Pachulski Stang Ziehl & Jones LLP is the Committee's conflicts counsel. The principal attorneys presently designated to represent the Committee are **Robert J. Feinstein**, **Debra Grassgreen**, **Jeffrey N. Pomerantz**, and **Maxim B. Litvak**.

Jefferies LLC is the Committee's investment banker. **Leon Slezinger**, a managing director of Jefferies, leads the engagement.

AlixPartners, LLP, is financial advisor to the Committee. **David MacGreevey**, a managing director of AlixPartners, leads the engagement.

Kurtzman Carson Consultants LLC is the information agent to

the Committee. **Drake D. Foster**, executive vice president of Corporate Restructuring Services, leads the engagement.

Petition, **Stroock & Stroock & Lavan LLP**, **Rothschild & Co.**, and **Intrepid Financial Partners** advised an ad hoc group of holders of unsecured notes.

Arnold & Porter Kaye Scholer LLP, led by partners **Christopher M. Odell** and **Jonathan I. Levine**, and associate **Ginger Clements**, is serving as counsel for **Wilmington Savings Fund Society, FSB**, the successor indenture trustee under the Unsecured Notes.

PARTIES TO LAWSUITS

Haynes and Boone, LLP, led by partner **Patrick L. Hughes**, counsel **Arsalan Muhammad**, and associate **David Trausch**, and **McGinnis Lochridge LLP**, led by partners **Donald D. Jackson**, **Christopher L. Halgren**, and **Austin W. Brister**, are representing **Storey Minerals, Ltd.**, **Storey Surface, Ltd.**, **Maltsberger, LLC**, **Maltsberger/Storey Ranch, LLC**, **Maltsberger/Storey Ranch Lands, LLC**, **Rene R. Barrientos, Ltd.**, and the Estate of **Sarah Lee Maltsberger**, which asserts claims arising from a judgment in a breach of contract lawsuit against debtor EP OpCo on May 29, 2018 in the 81st

District Court of La Salle County, Texas. The Debtors have commenced an adversary seeking a declaratory judgment that MSB does not hold a valid judgment lien on certain of the Debtors' property.

Grant & Eisenhofer P.A., led by director **Gordon Z. Novod**, is representing the relator in an adversary proceeding seeking a declaration that the relator's claims in connection with his/her qui tam action on the government's behalf against EP Energy under the applicable federal and/or state's false claims act are not dischargeable.

White & Case LLP, led by **Thomas E. Lauria**, **Michael C. Shepherd**, **Amanda A. Parra Criste**, and **Jason N. Zakia**, is representing **Kinder Morgan Altamont LLC** in an adversary proceeding against EP Energy. **Kinder Morgan** is party to a Gas Purchase/Processing Contract for the purchase of natural gas from EP's mineral sites in Utah, and wants a judgment that the GPC is a covenant that runs with the land and cannot be rejected.

JUDGE

The **Honorable Marvin Isgur** is the case judge. □