

OIL & GAS

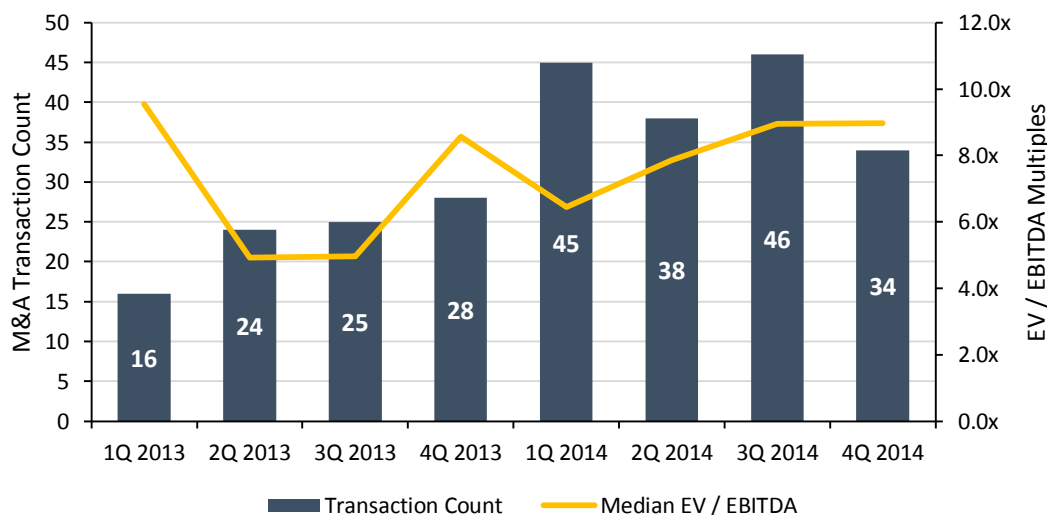
Newsletter

February Edition: 2014 M&A Activity in Review

We have seen a change in the Oil & Gas Industry over the past eight months, onset by the shift in the global supply/demand balance spurring a 49% decline in the price of WTI crude oil, and a 30% decline in the North American rig count. But with momentum of the past 5 years domestic O&G M&A activity hit a 10-year high in both deal volume and aggregate deal value in 2014, according to PwC US. In this month's newsletter, we review trends in valuations and transaction participants in the 2014 M&A activity and provide an outlook for the changing M&A landscape in 2015.

- **2014 M&A Review** – Despite a second half slide in oil prices in 2014, the number of M&A transactions for North American oilfield equipment and services sector rose from 93 in 2013 to 163 in 2014 (+75%), with the aggregate deal value increasing from \$6.8bn to \$52.9bn (+678%).

**North American Oilfield Equipment and Services
Quarterly M&A Activity**



Source: Capital IQ

► Trends in Valuations & Transaction Types

- Valuations – the median EV / EBITDA multiples for oilfield equipment and services transactions increased from 5.5x in 2013 to 7.9x in 2014, an increase of 43.6%. A significant portion of deals in 2014 took place at premium valuations – a trend we expect to deteriorate for the foreseeable future.
- Andy Brogan, Oil & Gas Transaction Advisory Services Leader at E&Y, recently stated “over the next year, we expect the transaction trend of consolidation to continue in the OFS segment as companies try to capitalize on scale, improve operational efficiency and cost bases that have been hit hard by inflation and commodity price uncertainty.”

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- ANDY BROGAN, EY'S
GLOBAL OIL & GAS
TRANSACTION ADVISORY
SERVICES LEADER

► **2015 Outlook – a Buyer’s Market.**

Most O&G companies are waiting out the volatility in the commodity markets before pulling the trigger on any further acquisition or capital spending plans; however, as the market begins to stabilize, many firms are expected to be on the hunt for acquisitions. As certain companies, especially those with greater financial leverage, struggle with cash flows and debt service requirements, well-capitalized companies will see the opportunity to increase market share and acquire assets at lower valuations. Current conditions haven’t stopped two OFS giants (HAL & BHI) from combining forces.

- On the January 20, 2015 earnings call, Dave Lesar, Halliburton CEO, stated “I want to be clear that we remain committed to seeing this deal through despite the current macro headwinds facing the industry. In fact, as we continue to analyze the potential value creation opportunities of the combination, we believe the transaction is even more compelling today than when we announced it.”

Overall, 2015 M&A activity is expected to be negatively impacted, and the typical valuation and deal structure is expected to become much less favorable for the seller. In a buyer’s market expect to see more merger scenarios, deals heavier on stock and lighter on cash, and more structure/earn-outs on the OFS front. On the E&P side, operating companies are expected to shelve acquisition plans entirely and focus on internal cost cutting and operating efficiencies.

“ I WANT TO BE CLEAR THAT WE REMAIN COMMITTED TO SEEING THIS DEAL THROUGH DESPITE THE CURRENT MACRO HEADWINDS FACING THE INDUSTRY. IN FACT, AS WE CONTINUE TO ANALYZE THE POTENTIAL VALUE CREATION OPPORTUNITIES OF THE COMBINATION, WE BELIEVE THE TRANSACTION IS EVEN MORE COMPELLING TODAY THAN WHEN WE ANNOUNCED IT. ”

- DAVE LESAR, HALLIBURTON

► **Private Equity Fundraising Continues**

The changing dynamics in the domestic energy market will not necessarily deter financial buyer interest in oil and gas companies. With low commodity prices giving rise to a myriad of distressed investment opportunities, some private equity firms continue to actively raise capital destined for the oilfield.

- Rob McCeney, PwC US Energy Infrastructure and Deals Partner, stated “If the price of oil continues to drop or remains at its current levels for a sustained period, we may see financial investors look to actively manage portfolio investments and search for new opportunities with distressed assets”

Recently Closed Energy-focused Private Equity Funds

Firm	Fund	Fund Size	Date
NGP Energy Capital Management	Natural Resources XI	\$5.3 bn	1/15/15
Five Point Capital	Midstream Fund I and II	\$450 mm	1/15/15
Warburg Pincus	Warburg Pincus Energy	\$4.0 bn	10/27/14

- NGP Capital Management announced that on January 15, 2015 it hit its hard cap with a final closing of the Natural Resources XI fund, which will focus on production, oilfield services, and midstream companies.
- Five Point Capital announced that on January 15, 2015 it closed its Midstream Fund I and II with total equity commitments of \$450mm, exceeding its target of \$400mm. The fund will focus on investments in the midstream energy infrastructure sector.
- Warburg Pincus announced on October 27, 2014 it closed the Warburg Pincus Energy fund with \$4.0 bn in capital commitments, after exceeding its original fundraising target of \$3.0 bn (the fund will focus on E&Ps).

“ IF THE PRICE OF OIL CONTINUES TO DROP OR REMAINS AT ITS CURRENT LEVELS FOR A SUSTAINED PERIOD, WE MAY SEE FINANCIAL INVESTORS LOOK TO ACTIVELY MANAGE PORTFOLIO INVESTMENT AND SEARCH FOR NEW OPPORTUNITIES WITH DISTRESSED ASSETS. ”

- ROB MCCENEY, PwC

► Moving Forward

Coming off a banner year for oilfield service M&A, we fully expect the transaction landscape to change with the falling tide of oil. With lowered expectations for 2015, activity levels may surprise some as value investors and strategic buyers look to be opportunistic and make timely acquisitions at discounted values. In addition, sellers will have options even in this market. Companies that can show resiliency on the topline and possibly gain market share in tough times will be attractive targets even with depressed margins. Buyers are willing to pay multiples in historic ranges for quality companies if the seller is willing to accept creative deal structure and share in the risk. Joe Brady, Founders O&G Services Director, recently stated on an industry call, "It's going to take time for sellers to come to the realization that the deal they were entertaining six months ago has changed. Despite headwinds facing [OFS] companies in this market, we feel optimistic that quality companies will have viable options as the market separates the wheat from the chaff. There are some great partners out there looking for opportunities to combine synergies and weather the market together. If sellers are willing to accept less liquidity upfront, the combined entity could create more value on the other end of this cycle."

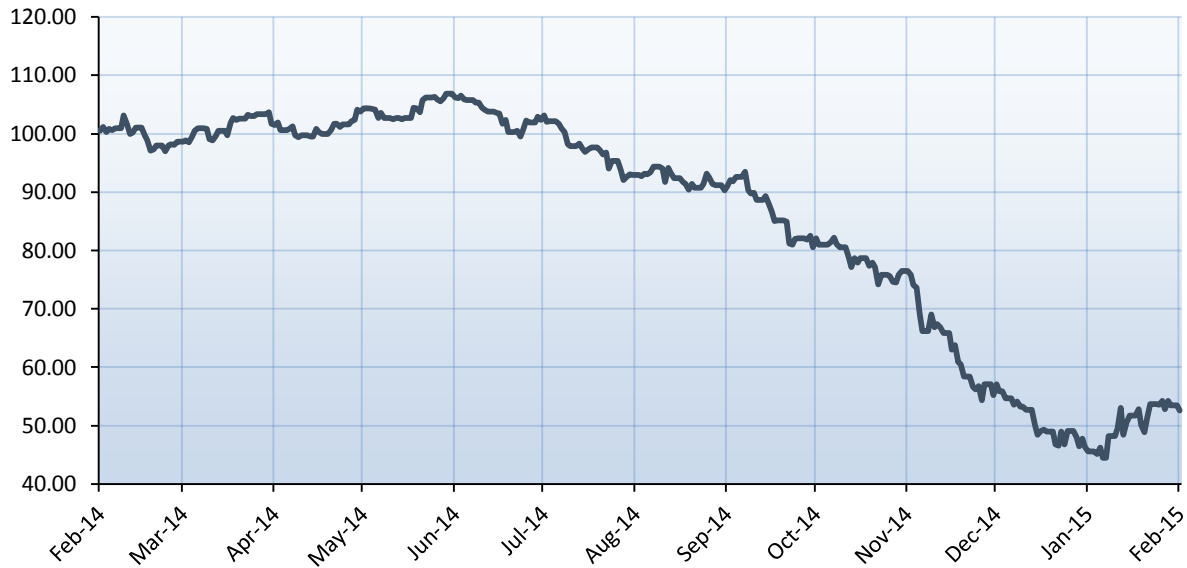
► Select 2014 M&A Transactions

Announced Date	Target/Issuer	Buyers/Investors	Transaction Value (\$USDmm)
12/16/2014	Cimarron Energy, Inc.	Turnbridge Capital, LLC	100.0
12/12/2014	Flogistix, LP	White Deer Energy	-
11/04/2014	Baker Hughes Incorporated (NYSE:BHI)	Halliburton Company (NYSE:HAL)	39,520.24
11/03/2014	J-W Wireline Company	FTS International, Inc.	95.0
10/24/2014	Express Energy Services Operating, L.P.	Apollo Global Management, LLC (NYSE:APO)	-
10/07/2014	Schlehuber Oil Tools, LLC	Team Oil Tools, Inc.	-
10/02/2014	Accelerated Companies LLC	Dover Artificial Lift	430.0
09/30/2014	Sun Tubular Services LLC	IronGate Energy Services, LLC	-
09/21/2014	Dresser-Rand Group Inc. (NYSE:DRC)	Siemens Energy, Inc.	7621.5
08/01/2014	Specialty Oilfield Solutions, LLC	Anchor Drilling Fluids USA, Inc.	30.0
07/31/2014	Tiger Cased Hole Services, Inc.	C&J Energy Services, Inc. (NYSE:CJES)	33.4
07/16/2014	Cadre Services, Inc.	U.S. Silica Holdings, Inc. (NYSE:SLCA)	98.0
07/01/2014	Crest Pumping Technologies, LLC	Nine Energy Service, Inc.	174.0
06/18/2014	Fraction Energy Services Ltd.	Canyon Services Group, Inc. (TSX:FRC)	95.7
06/10/2014	Erick Flowback Services, LLC and Rod's Production Services, LLC	New Source Energy Partners L.P. (NYSE:NSLP)	81.2
06/10/2014	Peak Pressure Control and Dak-Tana Wireline	Nine Energy Service, Inc.	-
06/06/2014	Torqued-Up Energy Services, Inc, Hydraulic Fracturing Division	Patterson-UTi Energy Inc. (NasdaqGS:PTEN)	-
05/23/2014	KUDU Industries Inc.	Schlumberger Limited (NYSE:SLB)	239.1
03/24/2014	Weatherford International Ltd., Pipeline and Specialty Services Business	Baker Hughes Incorporated (NYSE:BHI)	241.0
03/18/2014	Anchor Drilling Fluids USA, Inc.	Calumet Lubricants Co., Limited Partnership	342.7
02/28/2014	Horizontal Wireline Services, LLC	Allied-Horizontal Wireline Services, LLC	-
02/18/2014	Energies Oilfield Solutions, LLC	Intervale Capital	-
01/06/2014	Wildcat Wireline LLC	B/E Aerospace Inc. (NasdaqGS:BEAV)	152.0

Source: Capital IQ

► Commodity Prices

Crude Oil - WTI



	Price per Barrel			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	\$52.56	\$45.59	\$100.48	15.3%	(47.7%)

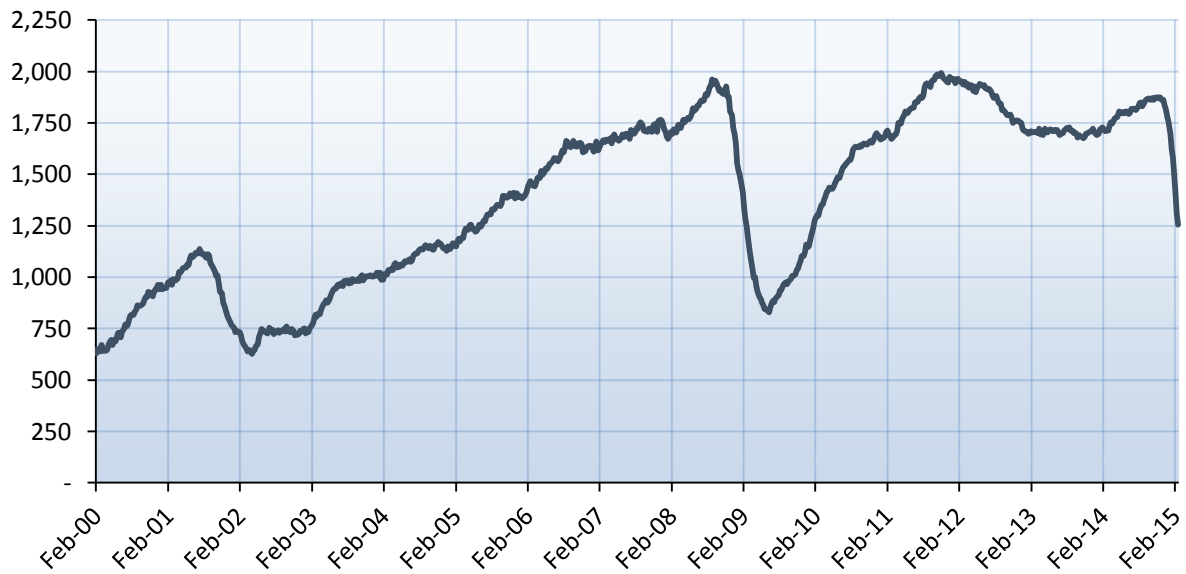
Natural Gas - Henry Hub



	Price per MMBtu			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	\$2.89	\$2.96	\$5.01	(2.2%)	(42.3%)

► Rig Counts

Onshore Rig Count

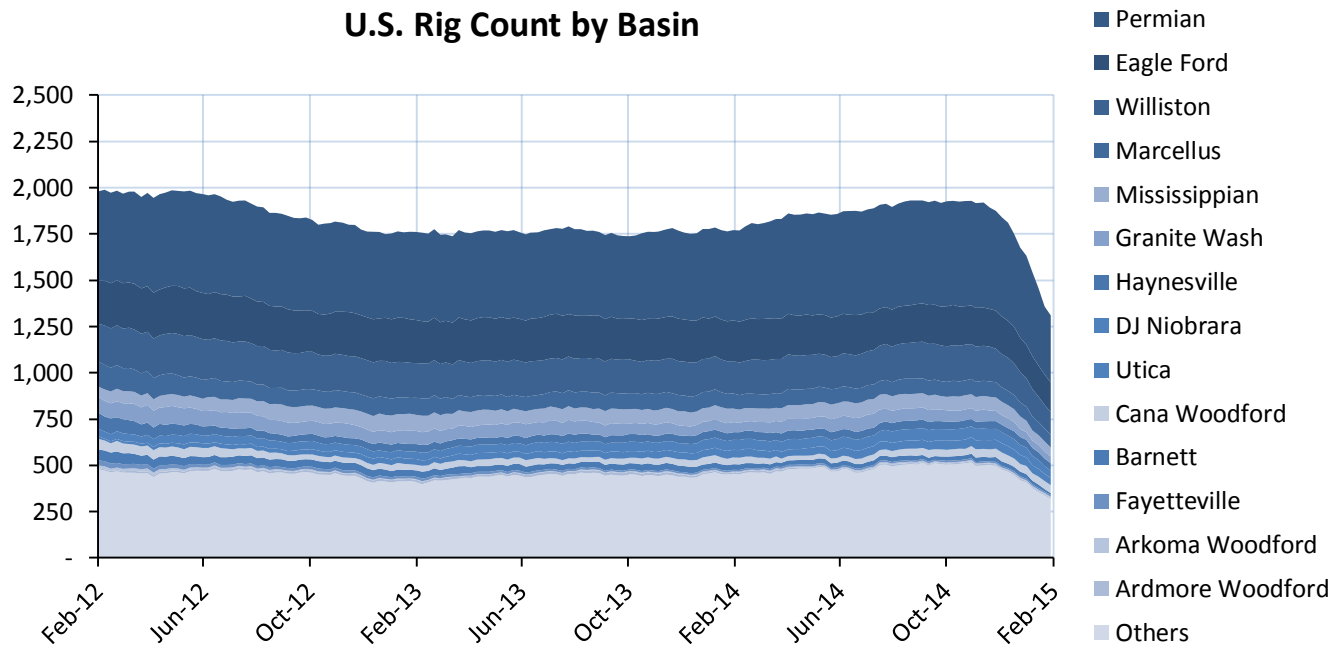
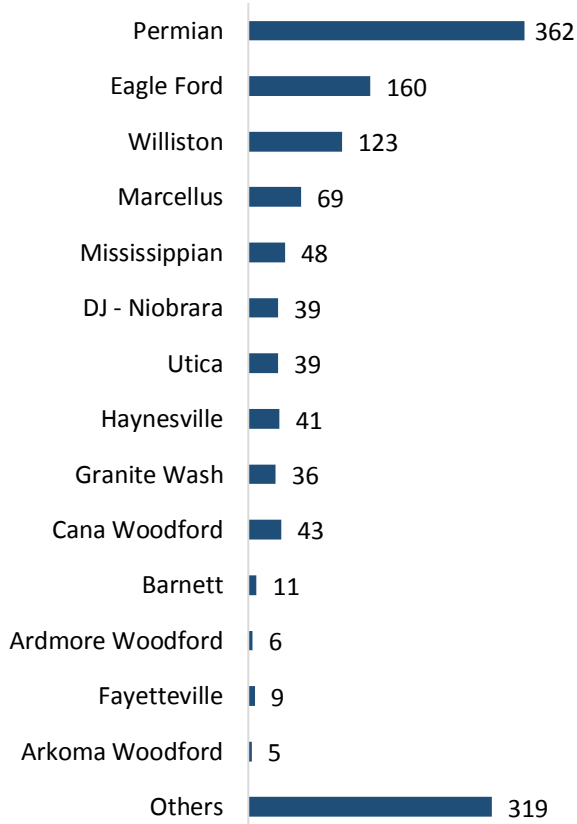
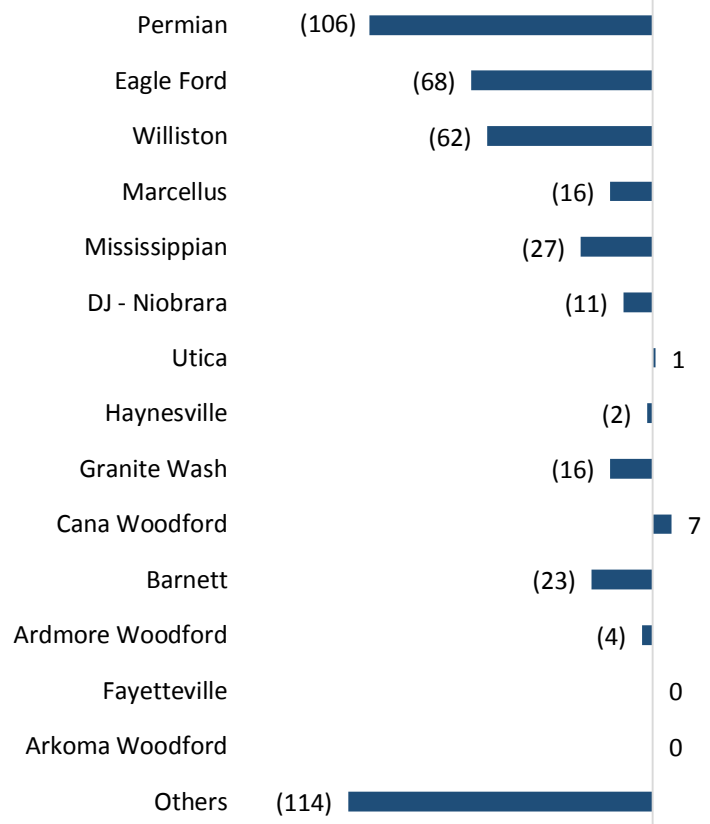


	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Onshore	1,256	1,579	1,714	(20.5%)	(26.7%)

Offshore Rig Count

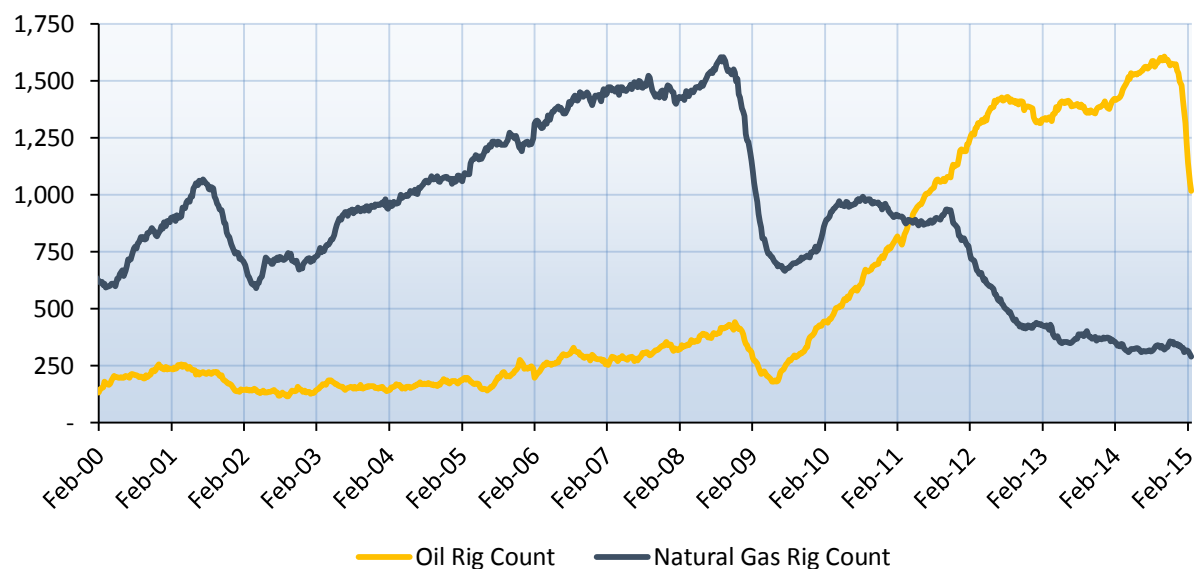


	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Offshore	54	54	57	-	(5.3%)

► Rig Counts (*continued*)**U.S. Rig Count by Basin****U.S. Rig Count by Basin YTD Change**

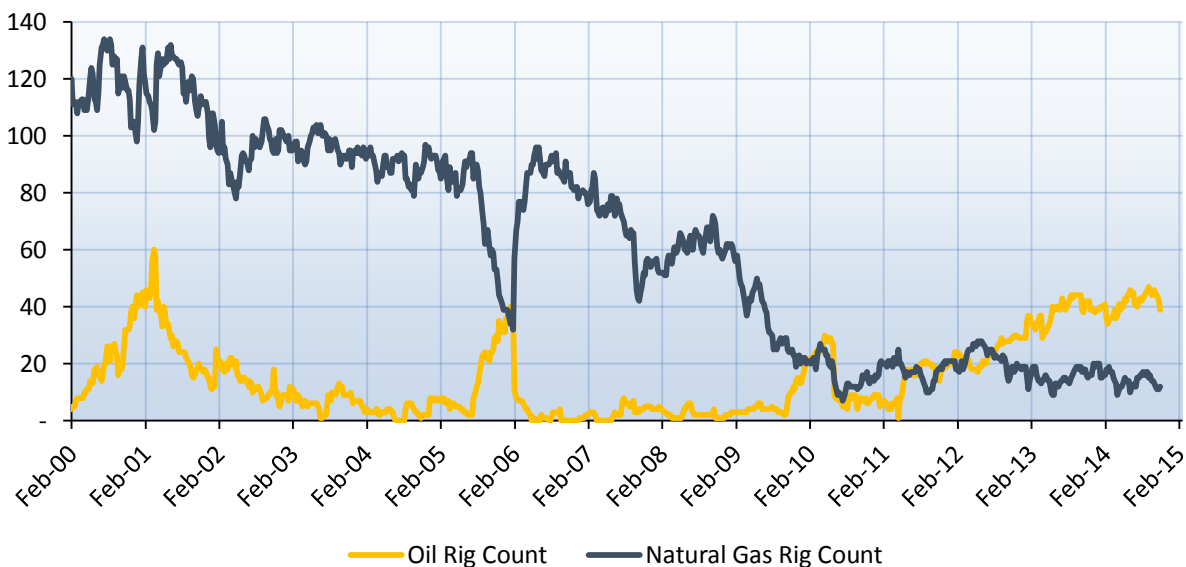
► Rig Counts (*continued*)

U.S. Oil vs. Natural Gas Rig Count



	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	1,019	1,317	1,425	(22.6%)	(28.5%)
Natural Gas	289	316	342	(8.5%)	(15.5%)

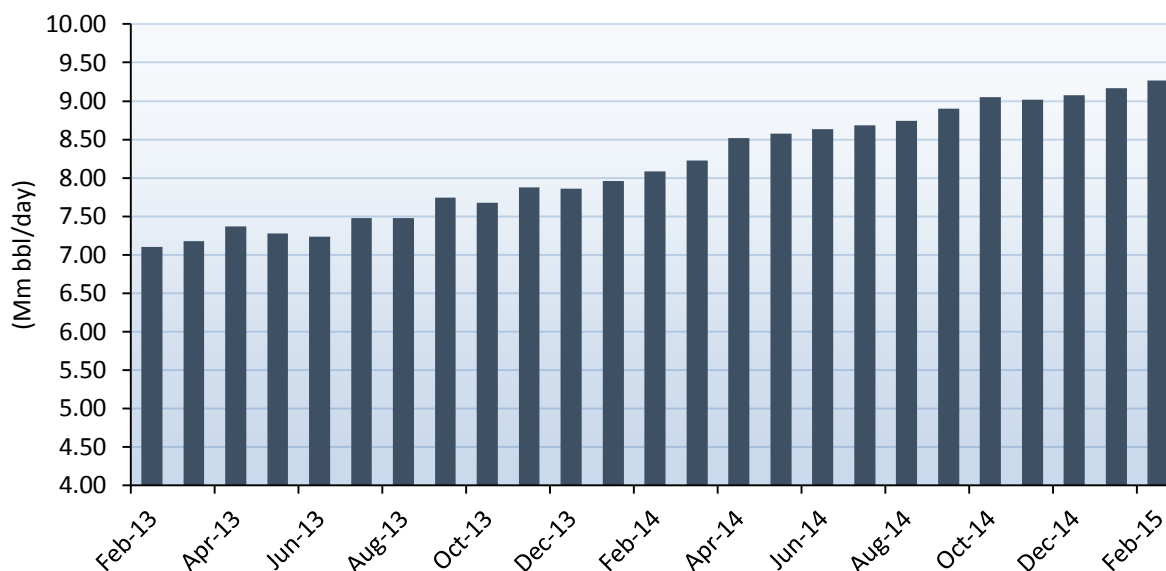
Gulf of Mexico Oil vs. Natural Gas Rig Count



	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	40	43	36	(7.0%)	11.1%
Natural Gas	12	10	19	20.0%	(36.8%)

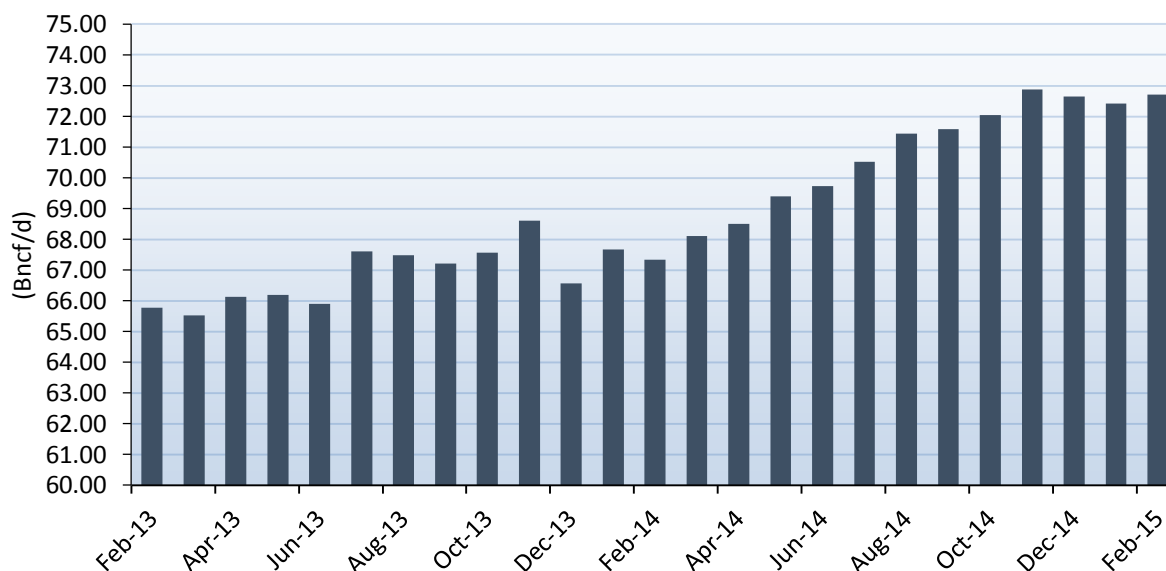
► Domestic Production

Crude Oil Production



	Million Barrels per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	9.16	9.08	7.95	1.0%	15.2%

Natural Gas Production



	Billion Cubic Feet per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	72.41	72.64	67.68	(0.3%)	7.0%

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Guests at the recent Founders' Forum enjoy a Cajun cuisine at the family lodge in Cameron Meadows, LA.

SAMPLE O&G TRANSACTIONS:



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