

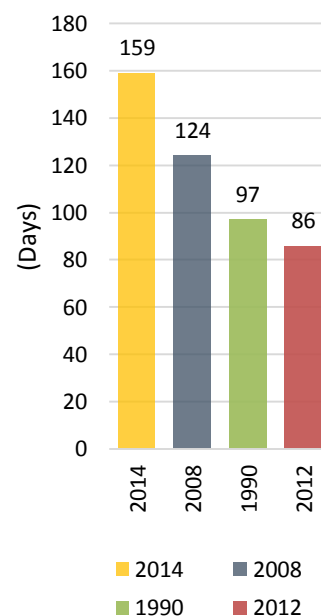
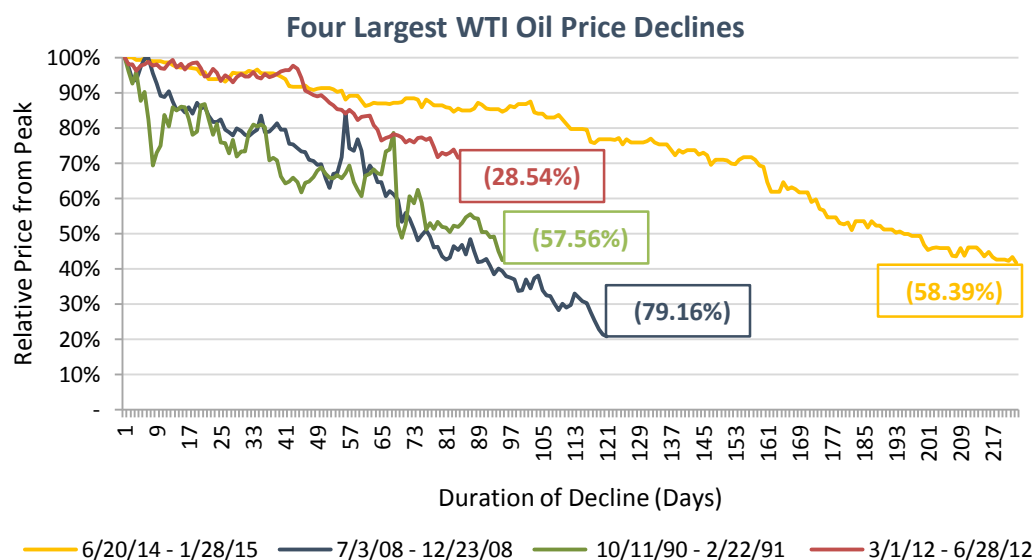
# OIL & GAS

## Newsletter

### March Edition: The Current Cycle – Are We There Yet?

With no relief on the supply front, the price of WTI oil has continued to test the bottom with new intraday trading lows since the closing price of \$44.45/bbl set on January 28<sup>th</sup>, 2015, which had already marked the longest lasting oil price decline in history. In this month's edition of the Founders O&G Newsletter we look back on the four largest WTI oil price declines in recent history to see how the current period's price slide stacks up. We also comment on the renewed supply-side pressures associated with record crude inventory levels and fears of dwindling storage space that have the capacity to extend crude's decline even further.

- **Ranking Recent Cycles.** The chart below shows the relative price decline from each period's peak for the four largest oil price declines in recent history.



	Date of		Duration (Days)	Price at		Change	
	Peak	Trough		Peak	Trough	\$	%
1.	7/3/08	12/23/08	124	\$ 145.31	\$ 30.28	\$ (115.03)	(79.16%)
2.	6/20/14	1/28/15*	159	\$ 106.83	\$ 44.45	\$ (62.38)	(58.39%)
3.	10/11/90	2/22/91	97	\$ 41.07	\$ 17.43	\$ (23.64)	(57.56%)
4.	3/1/12	6/28/12	86	\$ 108.76	\$ 77.72	\$ (31.04)	(28.54%)

- The current decline, which began on June 20<sup>th</sup>, 2014, is the longest decline in history and the second most severe, trailing only the crash in 2008 caused by the global financial crisis. If the January 28<sup>th</sup> bottom does indeed hold, the current crash will have seen a price decline of 58.39%, lasting 159 days from peak to trough.

Prepared by:

**Duane Donner**

ddonner@foundersib.com

**Joe Brady**

jbrady@foundersib.com

**John Ortstadt**

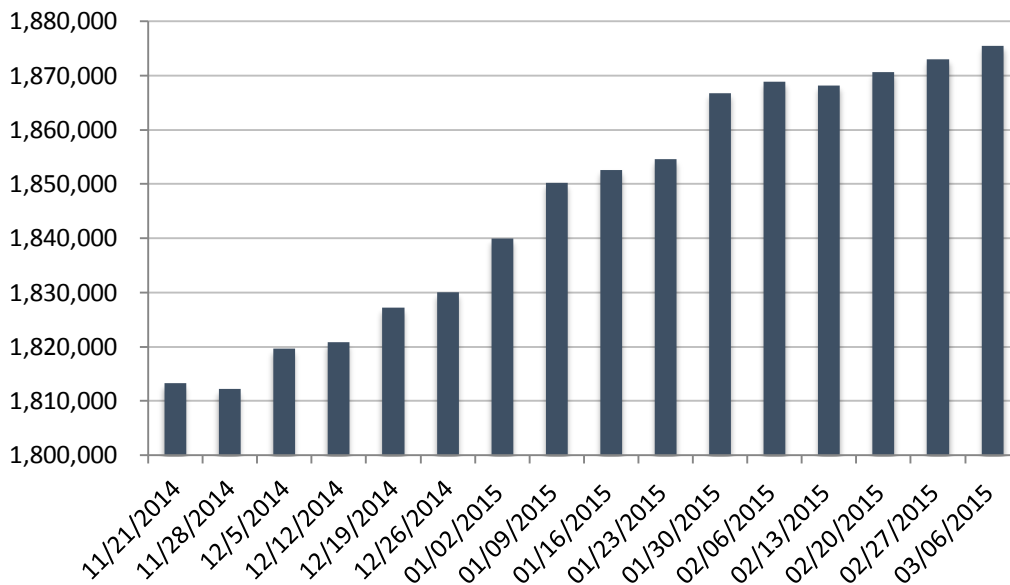
jortstadt@foundersib.com

**Ben New**

bnew@foundersib.com

- **Inventory Levels.** Weekly crude inventory levels are one of the best real-time gauges we have for the supply & demand balance in the U.S., and a quick glance at how they have been trending so far this year sheds some light on the supply-side pressures that continue to weigh on the price of WTI.

**Weekly U.S. Ending Stocks of Crude Oil (Thousand Barrels)**



- The decline in oil prices has been accompanied by a sharp increase in crude inventory levels. As production continues to outpace demand, the excess crude gets added to inventory stocks, which have been consistently setting new highs each week.
- The trend is amplified in Cushing, Oklahoma, the primary U.S. hub and delivery point for contracts traded on the New York Mercantile Exchange (NYMEX). Cushing inventories have seen a 61% increase since the beginning of the year.

- **Storage Woes.** Rising inventory stocks are driving fears of dwindling storage space, particularly in Cushing Oklahoma.

- The latest estimates from the EIA have U.S. crude storage capacity at 60% full.
- In Cushing, storage space is estimated to be at 67% of capacity, a 17% increase over storage levels at this time last year.
- If inventory levels continue to increase at their current rate, storage space may become a legitimate concern and provide further headwinds for the oil and gas industry. As storage space runs out, producers will have to look for other places to store their oil, such as offshore tankers or shutting in producing wells to effectively store the oil in the ground.
- As storage becomes more scarce, storage costs will go up and put pressure on the companies currently holding oil to liquidate their inventories, resulting in an additional influx of oil into the market for sale and inevitably driving prices lower.
- Joanne Shore, Chief Industry Analyst for American Fuel & Petrochemical Manufacturers (AFPM), recently commented on the longevity of any inventory woes, "as gasoline demand picks up with the warmer months and refineries come out of maintenance, crude runs are expected to pick up..."

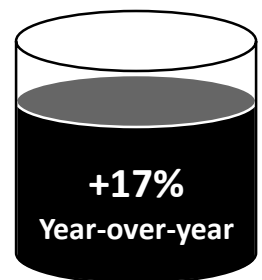
“

THE THREAT OF CAPACITY  
ISSUE IS NOT IN THE NEXT DAY  
OR TWO; IT'S PROBABLY  
MORE IN THE NEXT MONTH  
OR SO.

”

- GENE MCGILLIAN, SENIOR  
ANALYST AT TRADITION  
ENERGY

#### CUSHING, OK OIL INVENTORIES



“

AS GASOLINE DEMAND PICKS  
UP WITH THE WARMER  
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”

-JOANNE SHORE, CHIEF  
INDUSTRY ANALYST FOR  
AFPM

► **Conclusion.** The 2014 oil price decline has already been the longest-running drop in history and ranks second in terms of severity. Much uncertainty remains in this current cycle as any comfort in finding a consistent trading range or bottom has been tested again in recent weeks. Domestically, focus has shifted to weekly storage levels in efforts to extrapolate any direction for WTI prices, dictating activity levels of drilling and upstream services. Thus far, the feedback received from boots on the ground in South and West Texas remains consistently inconsistent for many service companies as they fight to maintain customers, work levels and pricing. But with uncertainty comes opportunity. After Founders advised both Timco Services in its definitive purchase agreement with Franks International (NYSE: FI) and Eagle Automation in its acquisition by Panhandle (a portfolio company of Argosy Private Equity) in the month March, Joe Brady recently commented, “both deals highlight the consolidation of quality OFS companies, we expect to see a continuation of this trend as good teams combine forces. We work with a lot of individuals and management teams that have been operating [oilfield service] companies for 30 to 40 plus years, this is not their first [oilfield] down cycle. You can’t put a value on that kind of experience and knowledge in a market like this.”

“

WE WORK WITH A LOT OF INDIVIDUALS AND MANAGEMENT TEAMS THAT HAVE BEEN OPERATING [OILFIELD SERVICE] COMPANIES FOR 30 TO 40 PLUS YEARS. YOU CAN’T PUT A VALUE ON THAT KIND OF EXPERIENCE AND KNOWLEDGE IN A MARKET LIKE THIS. ”

- JOE BRADY, DIRECTOR AT  
FOUNDERS INVESTMENT  
BANKING

► **Details on Founders Recent Deal Announcements**

• **Founders’ Principals Advise Eagle Automation in its Sale to Panhandle Oilfield Services**

BIRMINGHAM, AL (March 23, 2015) - The Principals of Founders Investment Banking, LLC announce the sale of Eagle Automation Limited (“Eagle”), a leading automation and measurement services provider, to Panhandle Oilfield Services, Inc. (“Panhandle”), an integrated oilfield services company and portfolio company of Argosy Private Equity. Eagle’s management continued with Panhandle and was exclusively advised by principals of Founders Investment Banking. The transaction closed on March 13th, 2015 and was led by Joe H. Brady III of Founders’ Oil & Gas Services Group. To learn more about the details of the transaction and parties involved please [click here](#).

• **Frank’s International To Acquire Timco Services**

HOUSTON, TX (March 12, 2015) - Frank's International N.V. (NYSE:FI) has entered into a definitive purchase agreement to acquire Timco Services, Inc. The Principals of Founders Investment Banking, led by Duane P. Donner and Joe H. Brady III of Founders' Oil & Gas Services Group, were the exclusive financial advisor for Timco Services, Inc. To learn more about the details of the transaction and parties involved please [click here](#).



## ► Commodity Prices

## Crude Oil - WTI



	Price per Barrel			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	\$49.15	\$53.45	\$98.65	(8.0%)	(50.2%)

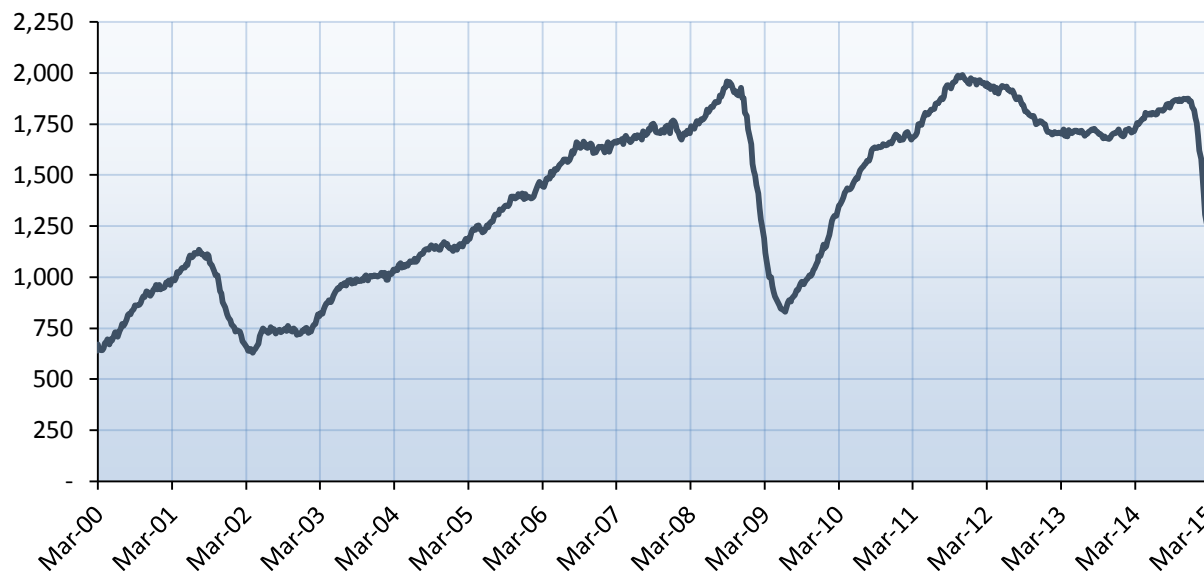
## Natural Gas - Henry Hub



	Price per MMBtu			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	\$2.76	\$2.97	\$4.30	(7.1%)	(35.8%)

## ► Rig Counts

### Onshore Rig Count



	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Onshore	1,032	1,306	1,755	(21.0%)	(41.2%)

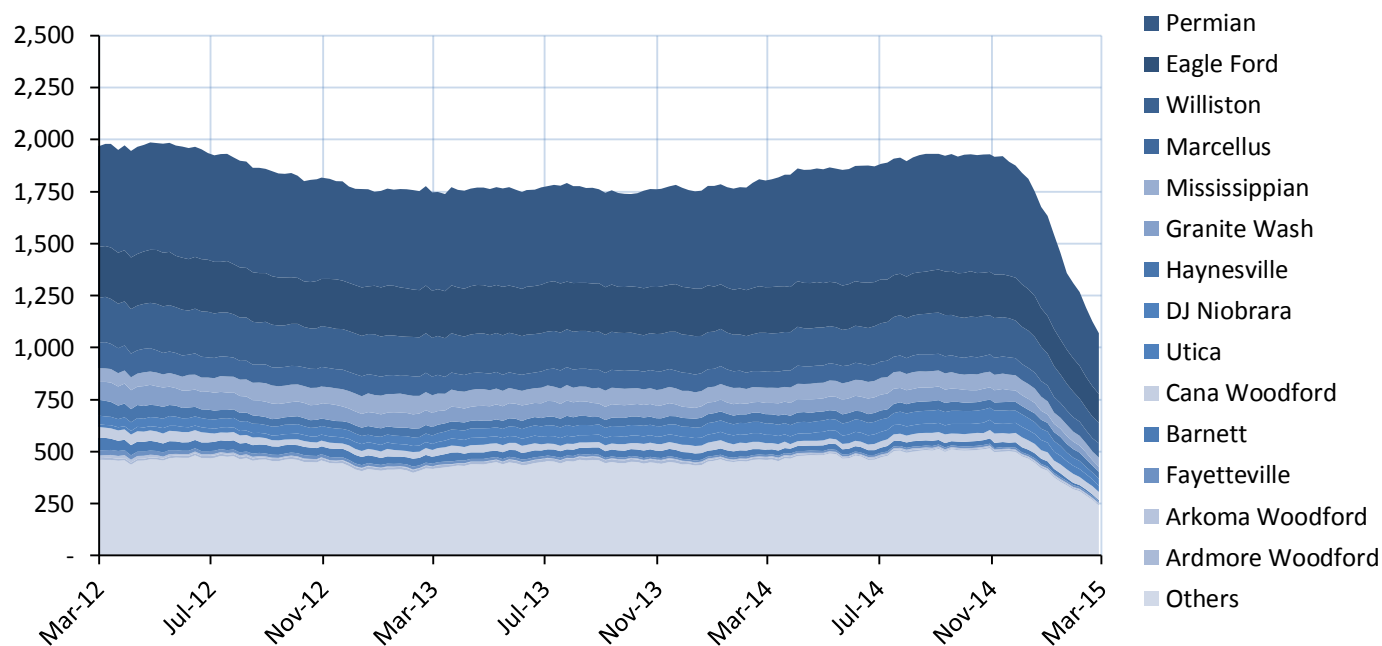
### Offshore Rig Count



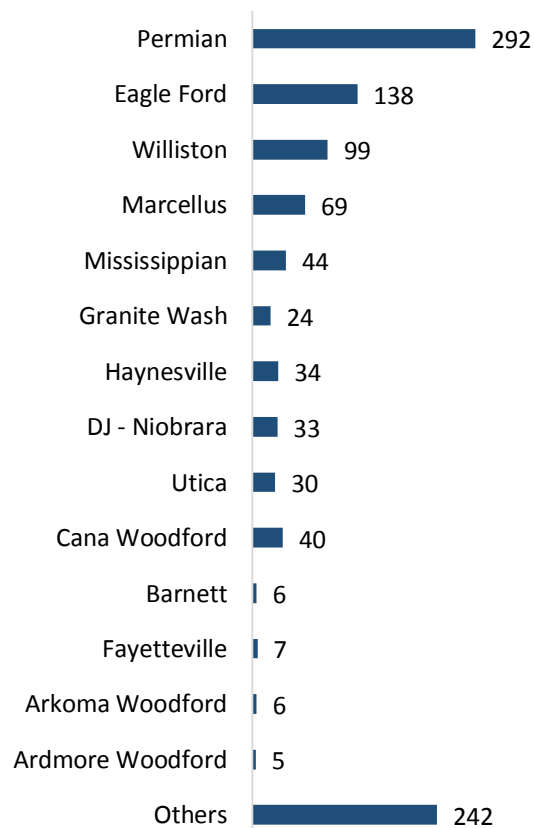
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Offshore	37	52	54	(28.8%)	(31.5%)

► Rig Counts (*continued*)

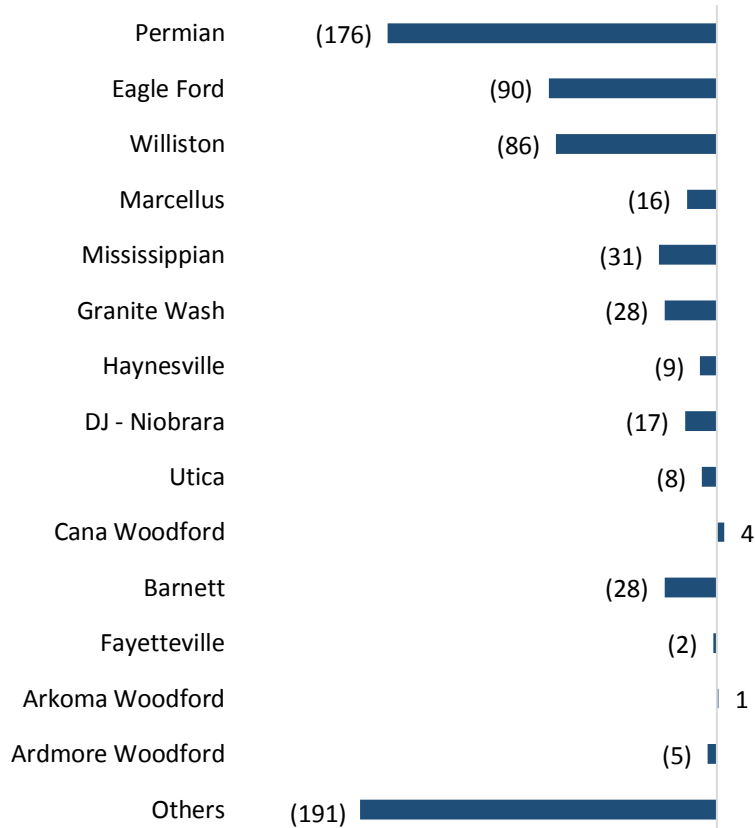
## U.S. Rig Count by Basin



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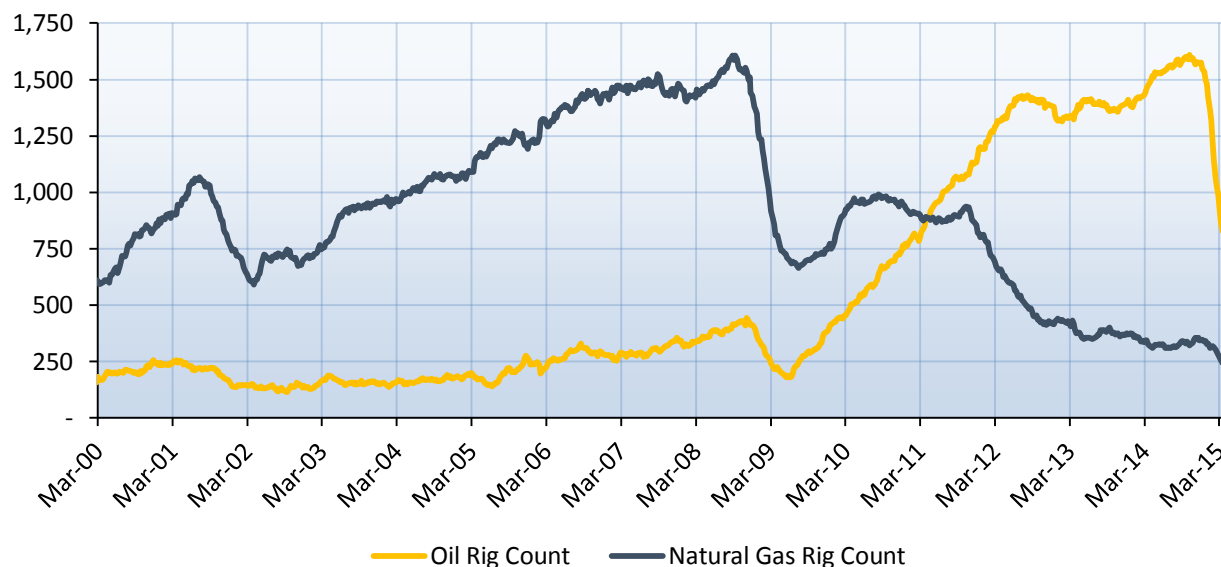


## U.S. Rig Count by Basin YTD Change



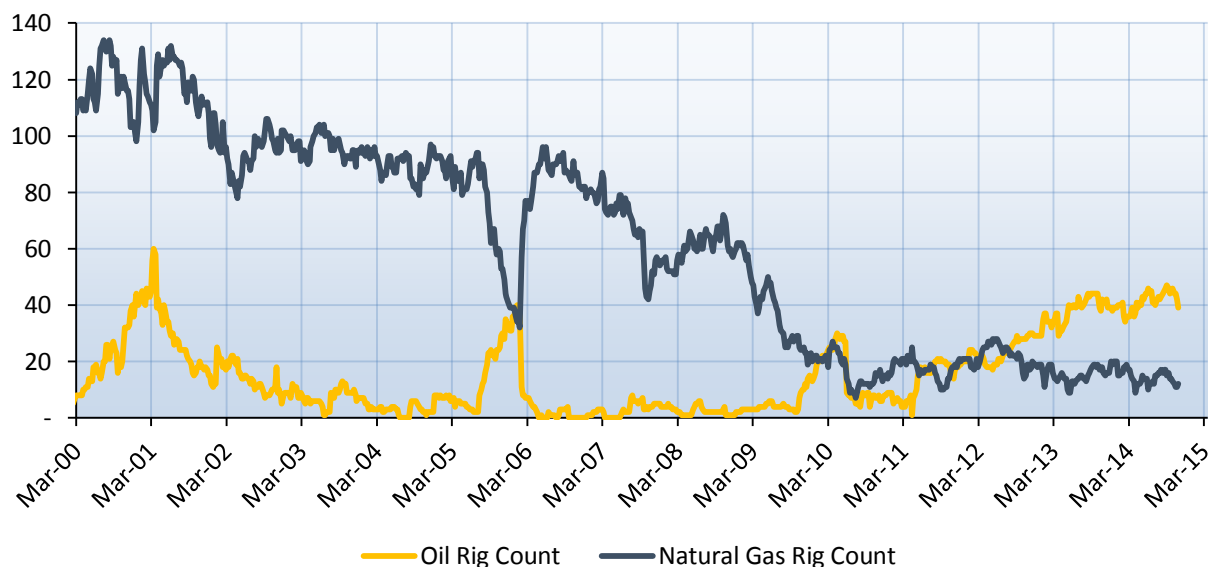
► Rig Counts (*continued*)

## U.S. Oil vs. Natural Gas Rig Count



	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	825	1,056	1,461	(21.9%)	(43.5%)
Natural Gas	242	300	344	(19.3%)	(29.7%)

## Gulf of Mexico Oil vs. Natural Gas Rig Count

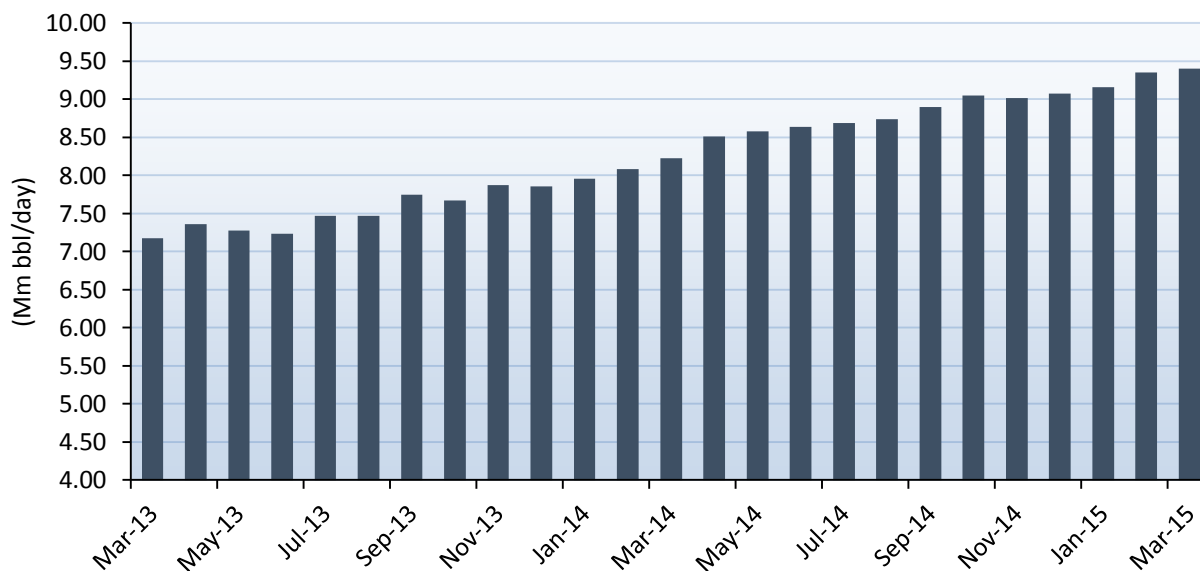


	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	26	38	37	(31.6%)	(29.7%)
Natural Gas	9	12	15	(25.0%)	(40.0%)



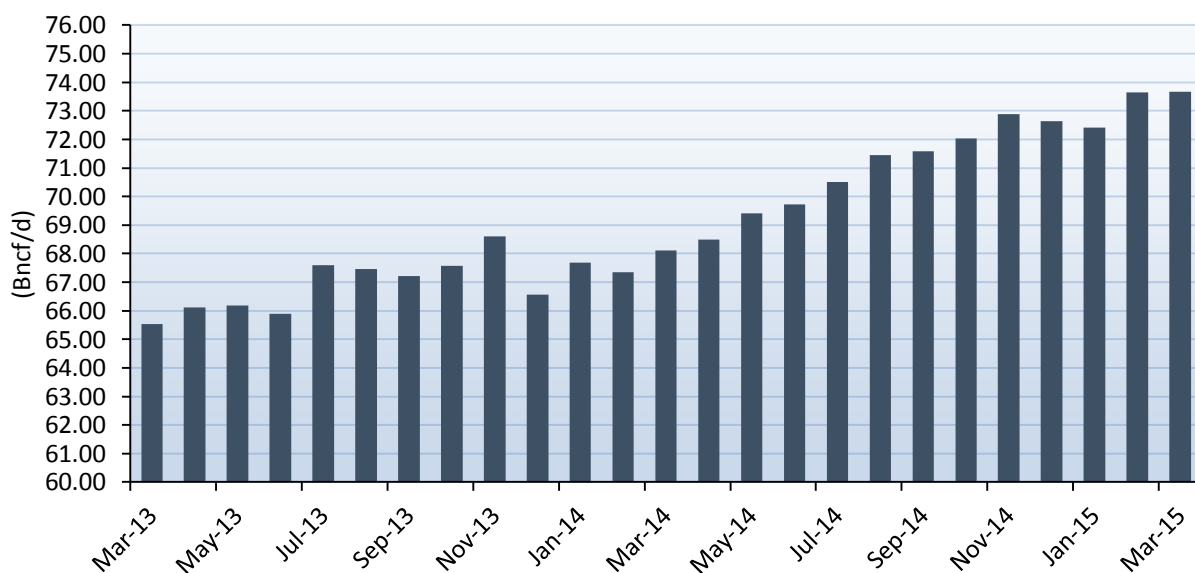
► Domestic Production

### Crude Oil Production



	Million Barrels per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	9.35	9.16	8.08	2.1%	15.7%

### Natural Gas Production



	Billion Cubic Feet per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	73.65	72.41	67.34	1.7%	9.4%



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TEAM

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## INVESTMENT BANKING

**FOUNDERS INVESTMENT BANKING** IS A MERGER AND ACQUISITION FIRM WITH AN OIL AND GAS SERVICES PRACTICE THAT BRINGS A WALL STREET-LEVEL OF SOPHISTICATION TO THE WELL SITE. ITS TEAM'S PROVEN EXPERTISE AND PROCESS-BASED SOLUTIONS HELP COMPANIES AND BUSINESS OWNERS ACCESS CAPITAL AND PREPARE FOR AND EXECUTE LIQUIDITY EVENTS TO ACHIEVE SPECIFIC FINANCIAL GOALS.

### O&G SERVICES LEAD ADVISORS:

**DUANE DONNER**  
MANAGING DIRECTOR  
205-423-2548  
DDONNER@FOUNDERSIB.COM

**JOE BRADY**  
DIRECTOR  
205-503-4023  
JBRADY@FOUNDERSIB.COM

**JOHN ORTSTADT**  
BUSINESS DEVELOPMENT  
205-503-4030  
JORTSTADT@FOUNDERSIB.COM

**BEN NEW**  
ANALYST  
BNEW@FOUNDERSIB.COM



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

### SAMPLE O&G TRANSACTIONS:



### FOUNDERS INVESTMENT BANKING, LLC

2204 LAKESHORE DRIVE  
BIRMINGHAM, AL 35223

WWW.FOUNDERSIB.COM – 866.594.4358

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