

# OIL & GAS

## Newsletter

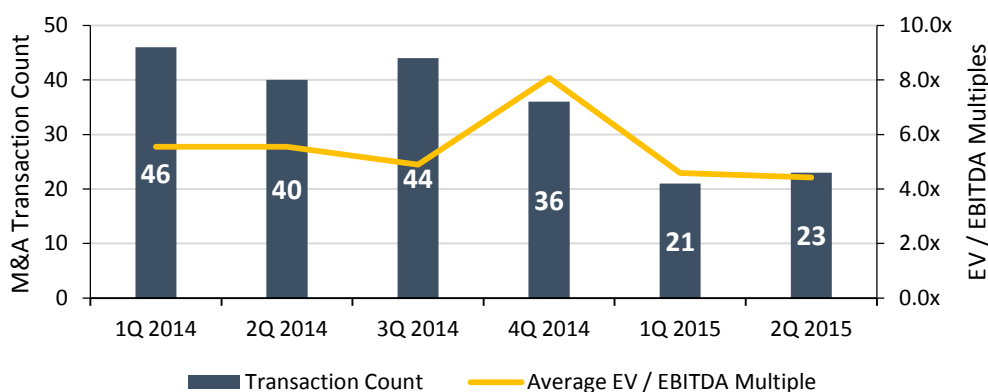
### August Edition: M&A Mid-Year Review

As we find ourselves deeper into the current Oil & Gas Industry decline, we see that transaction and valuation statistics are now truly reflective of the current state of the market. The Industry's transaction count and average EBITDA multiples have fallen in 2015 and are starting to bottom, although uncertainty remains on the minds of market participants and buyers. These trends may become more pronounced in the short-term as recent macro developments have once again shaken the Oil & Gas Industry. In this issue of the Founders' Oil & Gas Newsletter, we will recap the trends in M&A and comment on what the recent macroeconomic developments could mean going forward.

#### ► Current Market Commentary

Strategic and financial buyers have been slow to move on acquisitions in 2015. In light of renewed uncertainty in oil prices, we expect buyers to remain patient in their approach of potential acquisitions. The conservative strategy limits a buyer from capitalizing on discounted valuations, but protects them from additional risk exposure and allows efforts to be focused on existing activities. Further straining the industry's access to capital, bank financing has been limited as lenders look to avoid ownership of oilfield assets with low liquidation values. That said, there are examples of private equity firms actively seeking companies who have been forced to sell in response to the current environment.

#### North American Oilfield Equipment & Services M&A Activity



#### ► Valuation Trends

Source: CapitalIQ

Similar to other Oil & Gas downturns, the 1<sup>st</sup> half of 2015 saw lower transaction activity and discounted company valuations. We expect continued weakness for valuations of equipment and service companies through the 2<sup>nd</sup> half of the year as the industry battles low commodity prices.

- 44 transactions in 1H15; a 49% reduction in activity from 1H14 (96 completed transactions)
- Average EBITDA multiple of 4.4x in 2Q15; a 27% discount from 2014 (average valuation of 6.0x)

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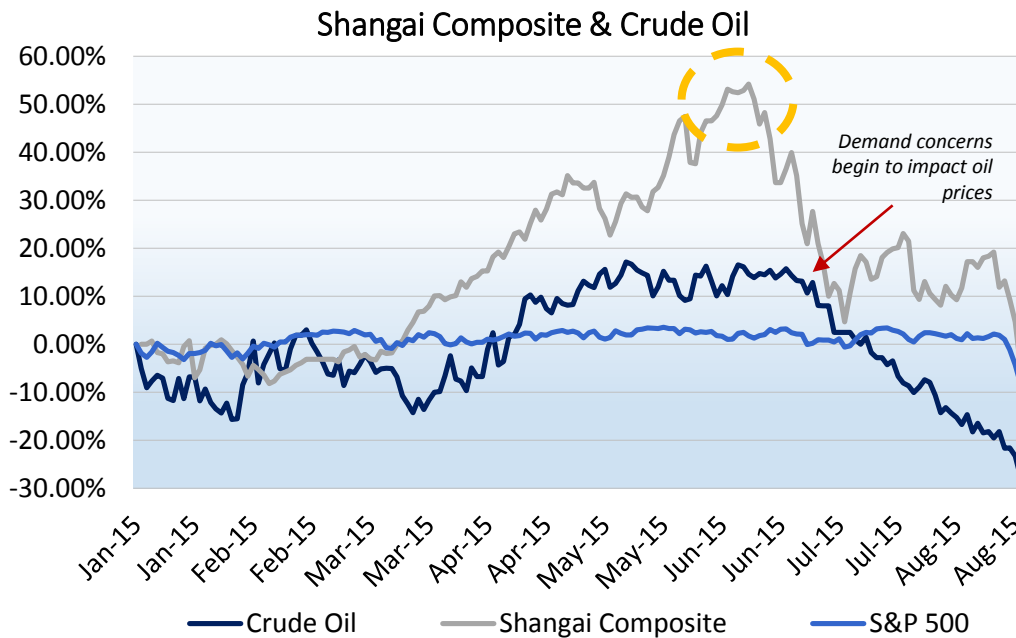
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– DAN EBERHART, CEO  
CANARY

## ► Recent Developments

The recent macro developments have driven the price of oil (Brent) to the lowest level since March 2009. These developments have placed increased pressure on equipment and service companies since many analysts predicted that oil prices would continue to stabilize throughout the year, subsequently catching many companies by surprise. A few key macro developments being closely monitored by industry participants include:

- China Stagnation & Stock Market Correction – *How much demand will be lost if the Chinese economy continues to deteriorate?*
- Iran Nuclear Deal – *What is the true impact of the supply Iran is bringing online?*
- Federal Reserve Rate Hike – *How strong will the effect of a strengthened dollar be on oil prices?*



Source: CapitalIQ

## ► Conclusion

After the oil supply shock of 2014 ran its course, renewed confidence began to develop this summer as oil (WTI) prices climbed into the \$60 range from April to June (2015). When the dust settled, OFS companies were starting to find their footing within the new norm. But, with OPEC running production wide open, and with demand worries out of China (2<sup>nd</sup> largest oil consumer), many of the previous projections that OFS M&A activity would experience an uptick in the back half of 2015 have changed with the recent developments in oil prices. Both private equity and strategic buyers have remained gunshy in moving forward with potential deals, thus pushing out any likely increase in M&A activity into 2016. Joe Brady, Director of Founders Oil & Gas Services Team, recently commented on an industry call, "For strategic and financial buyers, the uncertainty and risk in the market continues to outweigh the opportunities. Unless there is a strong strategic fit, there is not a significant appetite for acquisitions. Many companies have simply put M&A on hold and redeployed resources to focus internally." Mr. Brady also added, "Whereas we originally had a price drop driven by oversupply, now we are concerned about weakness on the demand side. It's a tough road out there, but we know that the strong [oilfield] companies will figure out how to survive and come out better equipped on the other side. Once the tide turns, there will be tremendous opportunities for companies that are healthy and prepared. We see a compelling time for capital that has been on the sideline to get back in the game. This may have pushed out a quarter or two due to recent events, but the capital is still there needing to be invested. Just as the oil industry has cycled down, it will come back around."

“

A SURPRISE DEVALUATION OF THE YUAN SPARKED FEARS ABOUT A HARD LANDING IN CHINA, THE WORLD'S SECOND BIGGEST OIL CONSUMER. THE MARKET IS NOW PREPARING FOR MILLIONS OF BARRELS OF IRANIAN OIL AFTER THE NUCLEAR DEAL STRUCK BETWEEN GLOBAL POWERS AND TEHRAN IN JUNE PROMISED A LIFTING OF SOME SANCTIONS ON THE COUNTRY'S CRUDE.

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- GEORGI KANTCHEV, WALL STREET JOURNAL

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ONCE THE TIDE TURNS, THERE WILL BE TREMENDOUS OPPORTUNITIES FOR COMPANIES THAT ARE HEALTHY AND PREPARED. WE SEE A COMPELLING TIME FOR CAPITAL THAT HAS BEEN ON THE SIDELINE TO GET BACK IN THE GAME. THIS MAY HAVE PUSHED OUT A QUARTER OR TWO...BUT CAPITAL IS STILL THERE WAITING TO BE INVESTED.

”

- JOE BRADY, DIRECTOR FOUNDERS

## ► Select Trading Statistics

## Oil &amp; Gas Equipment &amp; Services Comparables

(In millions, except per share data)

Ticker	Company Name	Stock Price 8/25/15	% of 52-Week		Shares Out.	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	Enterprise Value /	
			High	Low						LTM Revenue	LTM EBITDA
Integrated Equipment & Service Providers											
NYSE: SLB	Schlumberger Limited	\$ 75.00	67.0%	102.7%	1,265.4	\$ 93,478.7	\$ 99,785.7	\$ 44,544.0	\$ 12,462.0	2.2x	8.0x
NYSE: HAL	Halliburton Company	\$ 34.47	48.9%	111.4%	854.7	\$ 28,685.4	\$ 33,735.4	\$ 30,440.0	\$ 6,127.0	1.1x	5.5x
NYSE: BHI	Baker Hughes Incorporated	\$ 48.11	68.2%	109.1%	435.9	\$ 19,946.0	\$ 22,116.0	\$ 21,447.0	\$ 3,434.0	1.0x	6.4x
NYSE: WFT	Weatherford International plc	\$ 8.01	33.4%	111.0%	775.3	\$ 6,024.0	\$ 13,312.0	\$ 12,788.0	\$ 1,904.0	1.0x	7.0x
	Min	\$ 8.01	33.4%	102.7%	435.9	\$ 6,024.0	\$ 13,312.0	\$ 12,788.0	\$ 1,904.0	1.0x	5.5x
	Median	\$ 41.29	57.9%	110.0%	815.0	\$ 24,315.7	\$ 27,925.7	\$ 25,943.5	\$ 4,780.5	1.1x	6.7x
	Mean	\$ 41.40	54.4%	108.6%	832.8	\$ 37,033.5	\$ 42,237.3	\$ 27,304.8	\$ 5,981.8	1.4x	6.7x
	Max	\$ 75.00	68.2%	111.4%	1,265.4	\$ 93,478.7	\$ 99,785.7	\$ 44,544.0	\$ 12,462.0	2.2x	8.0x

## Equipment &amp; Technology

NYSE: NOV	National Oilwell Varco, Inc.	\$ 37.93	43.8%	109.8%	383.8	\$ 14,296.9	\$ 16,135.9	\$ 20,025.0	\$ 3,790.0	0.8x	4.3x
NYSE: CAM	Cameron International Corporation	\$ 43.59	58.2%	110.3%	191.5	\$ 8,212.1	\$ 10,218.1	\$ 9,977.0	\$ 1,667.0	1.0x	6.1x
NYSE: FTI	FMC Technologies, Inc.	\$ 29.64	47.8%	106.1%	229.5	\$ 6,652.4	\$ 7,369.7	\$ 7,523.3	\$ 1,234.0	1.0x	6.0x
NYSE: OIL	Oceaneering International, Inc.	\$ 38.23	53.0%	103.3%	97.8	\$ 3,688.7	\$ 4,291.7	\$ 3,489.1	\$ 799.6	1.2x	5.4x
NYSE: DRQ	Dril-Quip, Inc.	\$ 56.50	55.4%	105.9%	38.7	\$ 2,133.0	\$ 1,750.4	\$ 937.8	\$ 306.7	1.9x	5.7x
NYSE: OIS	Oil States International Inc.	\$ 24.46	37.6%	104.8%	51.3	\$ 1,210.5	\$ 1,278.4	\$ 1,561.4	\$ 357.1	0.8x	3.6x
NYSE: FET	Forum Energy Technologies, Inc.	\$ 12.87	37.4%	154.3%	90.3	\$ 1,145.7	\$ 1,526.7	\$ 1,540.0	\$ 250.6	1.0x	6.1x
	Min	\$ 12.87	37.4%	103.3%	38.7	\$ 1,145.7	\$ 1,278.4	\$ 937.8	\$ 250.6	0.8x	3.6x
	Median	\$ 37.93	47.8%	106.1%	97.8	\$ 3,688.7	\$ 4,291.7	\$ 3,489.1	\$ 799.6	1.0x	5.7x
	Mean	\$ 34.75	47.6%	113.5%	154.7	\$ 5,334.2	\$ 6,081.6	\$ 6,436.2	\$ 1,200.7	1.1x	5.3x
	Max	\$ 56.50	58.2%	154.3%	383.8	\$ 14,296.9	\$ 16,135.9	\$ 20,025.0	\$ 3,790.0	1.9x	6.1x

## Service Providers

NYSE: SPN	Superior Energy Services, Inc.	\$ 13.51	37.5%	107.3%	150.7	\$ 1,962.7	\$ 3,107.4	\$ 4,015.7	\$ 932.7	0.8x	3.3x
NYSE: FI	Frank's International N.V.	\$ 14.23	66.2%	104.2%	154.5	\$ 2,177.0	\$ 1,948.9	\$ 1,146.9	\$ 387.3	1.7x	5.0x
NYSE: CJES	C&J Energy Services, Ltd.	\$ 3.21	10.2%	101.6%	120.4	\$ 381.7	\$ 1,500.8	\$ 1,835.9	\$ 186.7	0.8x	8.0x
TSX: ESI	Ensign Energy Services Inc.	\$ 6.95	55.3%	112.6%	153.1	\$ 1,016.8	\$ 1,557.8	\$ 1,578.1	\$ 376.7	1.0x	4.1x
TSX: CFW	Calfrac Well Services Ltd.	\$ 3.07	19.5%	135.7%	96.1	\$ 283.6	\$ 852.6	\$ 1,896.5	\$ 215.7	0.4x	4.0x
TSX: TCW	Trican Well Service Ltd.	\$ 0.89	7.4%	118.0%	148.9	\$ 123.7	\$ 617.6	\$ 1,789.5	\$ 125.5	0.3x	4.0x
NYSE: TTI	TETRA Technologies, Inc.	\$ 6.52	54.3%	141.1%	80.2	\$ 517.2	\$ 1,791.0	\$ 1,189.6	\$ 191.4	1.5x	9.4x
NasdaqGS: TESO	Tesco Corporation	\$ 7.27	33.1%	101.7%	39.0	\$ 282.0	\$ 213.6	\$ 442.6	\$ 51.2	0.5x	4.2x
NYSE: BAS	Basic Energy Services, Inc.	\$ 3.67	14.9%	118.0%	42.6	\$ 146.6	\$ 952.0	\$ 1,250.2	\$ 202.5	0.8x	4.7x
NYSE: RES	RPC Inc.	\$ 9.48	41.3%	110.3%	217.0	\$ 2,072.5	\$ 2,112.6	\$ 1,956.7	\$ 449.1	1.1x	4.7x
	Min	\$ 0.89	7.4%	101.6%	39.0	\$ 123.7	\$ 213.6	\$ 442.6	\$ 51.2	0.3x	3.3x
	Median	\$ 6.73	35.3%	111.5%	134.7	\$ 449.5	\$ 1,529.3	\$ 1,683.8	\$ 209.1	0.8x	4.7x
	Mean	\$ 6.88	34.0%	115.0%	120.3	\$ 896.4	\$ 1,465.4	\$ 1,710.2	\$ 311.9	0.9x	5.2x
	Max	\$ 14.23	66.2%	141.1%	217.0	\$ 2,177.0	\$ 3,107.4	\$ 4,015.7	\$ 932.7	1.7x	9.4x

## Offshore Drillers

NYSE: RIG	Transocean Ltd.	\$ 12.62	32.5%	106.9%	363.6	\$ 4,457.2	\$ 11,019.2	\$ 8,240.0	\$ 3,431.0	1.3x	3.2x
NYSE: ESV	Enasco plc	\$ 15.68	31.1%	110.4%	235.8	\$ 3,550.4	\$ 8,189.1	\$ 4,584.1	\$ 2,414.9	1.8x	3.4x
NYSE: DO	Diamond Offshore Drilling, Inc.	\$ 22.18	49.2%	110.9%	137.2	\$ 2,892.7	\$ 5,400.5	\$ 2,619.3	\$ 1,096.0	2.1x	4.9x
NYSE: NE	Noble Corporation plc	\$ 11.35	39.8%	107.9%	242.0	\$ 2,676.2	\$ 7,983.7	\$ 3,148.5	\$ 1,648.2	2.5x	4.8x
NYSE: RDC	Rowan Companies plc	\$ 15.80	52.1%	108.0%	124.8	\$ 1,890.6	\$ 4,549.0	\$ 2,079.7	\$ 918.2	2.2x	5.0x
	Min	\$ 11.35	31.1%	106.9%	124.8	\$ 1,890.6	\$ 4,549.0	\$ 2,079.7	\$ 918.2	1.3x	3.2x
	Median	\$ 15.68	39.8%	108.0%	235.8	\$ 2,892.7	\$ 7,983.7	\$ 3,148.5	\$ 1,648.2	2.1x	4.8x
	Mean	\$ 15.53	40.9%	108.8%	220.6	\$ 3,093.4	\$ 7,428.3	\$ 4,134.3	\$ 1,901.7	2.0x	4.3x
	Max	\$ 22.18	52.1%	110.9%	363.6	\$ 4,457.2	\$ 11,019.2	\$ 8,240.0	\$ 3,431.0	2.5x	5.0x

## Land Drillers

NYSE: HP	Helmerich & Payne, Inc.	\$ 52.12	49.4%	104.3%	107.8	\$ 5,535.2	\$ 5,335.8	\$ 3,584.4	\$ 1,520.7	1.5x	3.5x
NYSE: NBR	Nabors Industries Ltd.	\$ 9.28	33.9%	103.8%	330.6	\$ 3,028.5	\$ 6,323.8	\$ 5,875.6	\$ 1,599.0	1.1x	4.0x
NasdaqGS: PTEN	Patterson-UTI Energy Inc.	\$ 13.44	38.6%	101.1%	147.2	\$ 2,007.8	\$ 2,803.8	\$ 2,877.3	\$ 899.8	1.0x	3.1x
NYSE: PES	Pioneer Energy Services Corp.	\$ 2.60	16.7%	136.1%	64.5	\$ 160.6	\$ 508.1	\$ 885.2	\$ 210.7	0.6x	2.4x
	Min	\$ 2.60	16.7%	101.1%	64.5	\$ 160.6	\$ 508.1	\$ 885.2	\$ 210.7	0.6x	2.4x
	Median	\$ 11.36	36.3%	104.0%	127.5	\$ 2,518.2	\$ 4,069.8	\$ 3,230.8	\$ 1,210.3	1.0x	3.3x
	Mean	\$ 19.36	34.7%	111.3%	162.5	\$ 2,683.0	\$ 3,742.9	\$ 3,305.6	\$ 1,057.5	1.0x	3.2x
	Max	\$ 52.12	49.4%	136.1%	330.6	\$ 5,535.2	\$ 6,323.8	\$ 5,875.6	\$ 1,599.0	1.5x	4.0x

## ► Select 1H 2015 M&amp;A Activity

Announced Date	Target/Issuer	Buyers/Investors	Transaction Value (\$USDmm)
08/03/2015	Odessa Packer Service, Inc.	Team Oil Tools, Inc.	-
07/09/2015	Viking Oil Tools	Wellsite Rental Services, LLC	-
06/11/2015	CanElson Drilling Inc. (TSX:CDI)	Trinidad Drilling Ltd. (TSX:TDG)	436
05/22/2015	Control Zone Solutions, LLC	Cenergy International Services, LLC	-
05/18/2015	Connor Oil Tools LLC	GEODynamics, Inc.	-
05/01/2015	Rhodes Manufacturing Inc.	3 Rivers Capital, LLC	3.0
05/01/2015	Southwest Oilfield Products, Inc.	American Block Inc.	-
04/24/2015	ROC Service Company, LLC	Coral Reef Capital, L.L.C.	-
04/22/2015	Professional Rental Tools LLC	LongueVue Capital, LLC; Ironwood Capital	-
04/09/2015	Quality Energy Solutions, LLC	Start Scientific, Inc. (OTCPK:STSC)	2.93
<b>04/06/2015</b>	<b>*Eagle Automation Limited</b>	<b>Panhandle Oilfield Services, Inc.</b>	<b>-</b>
03/30/2015	GASFRAC Energy Services, Inc. (OTCPK:GSFV.F)	Calfrac Well Services Ltd. (TSX:CFW)	-
03/17/2015	Pelagic Tank, LLC	Legacy Measurement Solutions, Inc.	-
03/13/2015	Inspection Oilfield Services	LB Foster Co. (NasdaqGS:FSTR)	230
<b>03/12/2015</b>	<b>*Timco Services, Inc.</b>	<b>Frank's International, Inc.</b>	<b>95</b>
02/03/2015	J-Mac Tool, Inc.	Forum Energy Technologies, Inc. (NYSE:FET)	-
02/02/2015	C & C Technologies, Inc.	Oceaneering International, Inc. (NYSE:OII)	230
02/02/2015	Amik Oilfield Equipment & Rentals Limited	PCM S.A.	-
01/22/2015	Cimarron Acid Services, Inc.	Quintana Energy Services LP	80
01/15/2015	Tenax Energy Solutions, LLC	Hard Rock Solutions, LLC	2.3
01/05/2015	Chemtec Energy Services, LLC	LB Foster Co. (NasdaqGS:FSTR)	-

\*Indicates Principals of Investment Banking advised on the transaction

Source: CapitalIQ

## ► Commodity Prices

## Crude Oil - WTI



	Price per Barrel			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	\$41.91	\$48.14	\$92.92	(12.9%)	(54.9%)

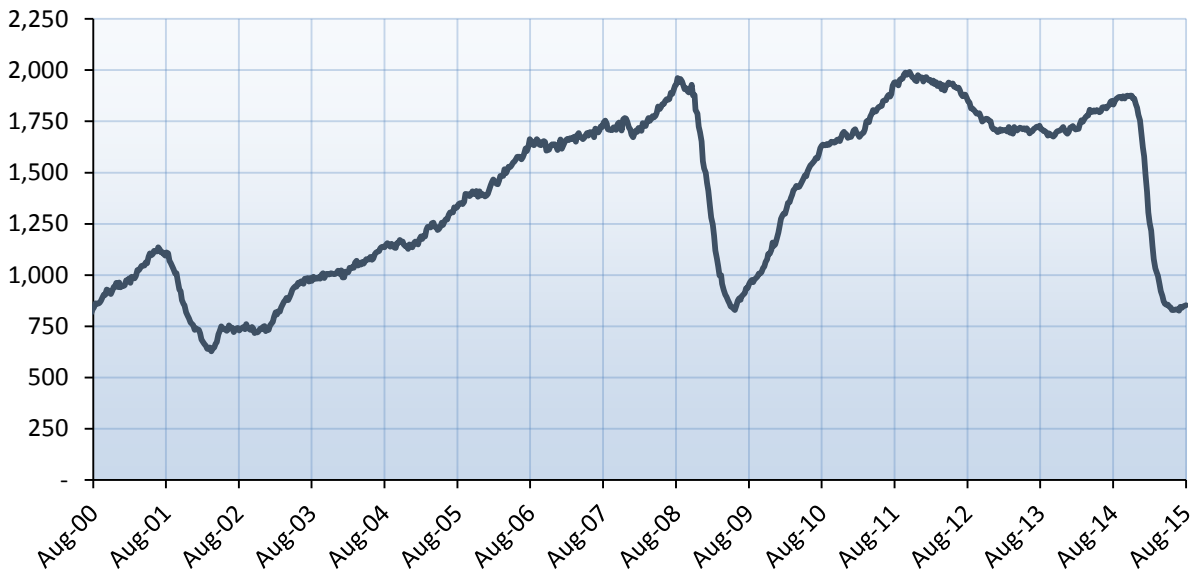
## Natural Gas - Henry Hub



	Price per MMBtu			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	\$2.70	\$2.78	\$3.88	(2.8%)	(30.5%)

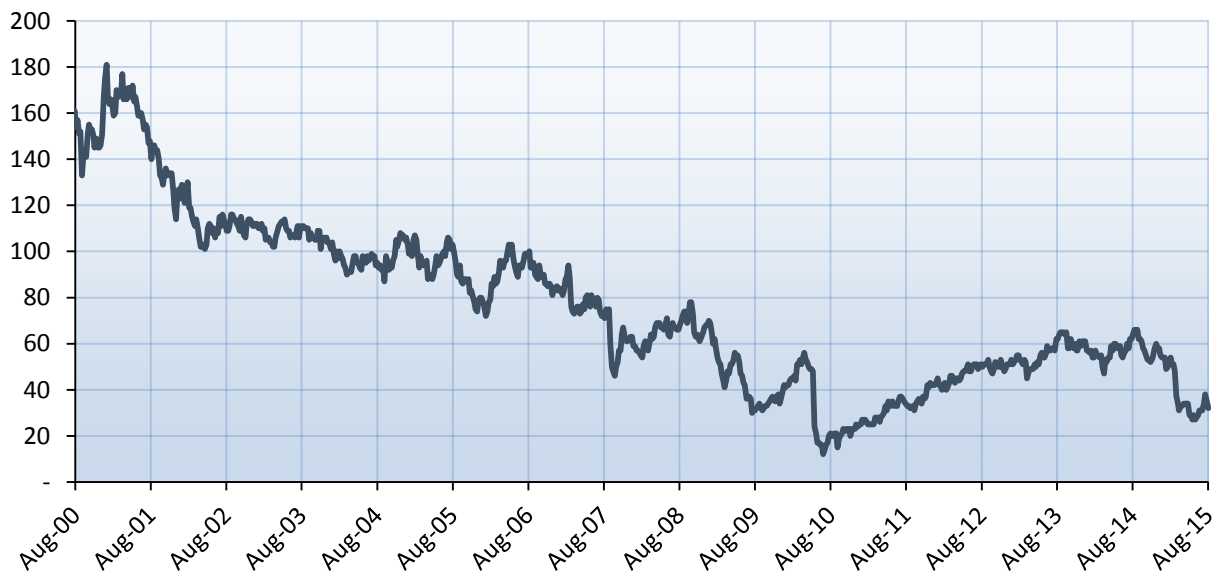
► Rig Counts

### Onshore Rig Count



	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Onshore	853	826	1,851	3.3%	(53.9%)

### Offshore Rig Count

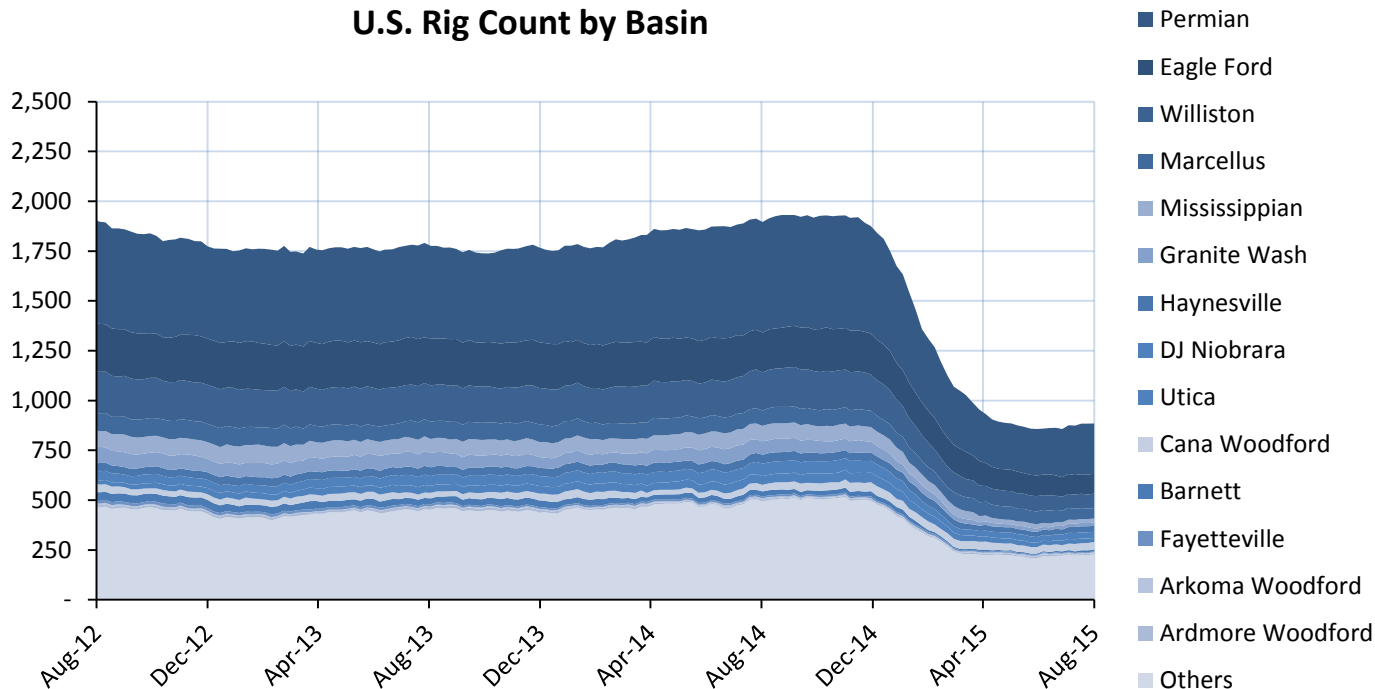


	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Offshore	32	31	62	3.2%	(48.4%)

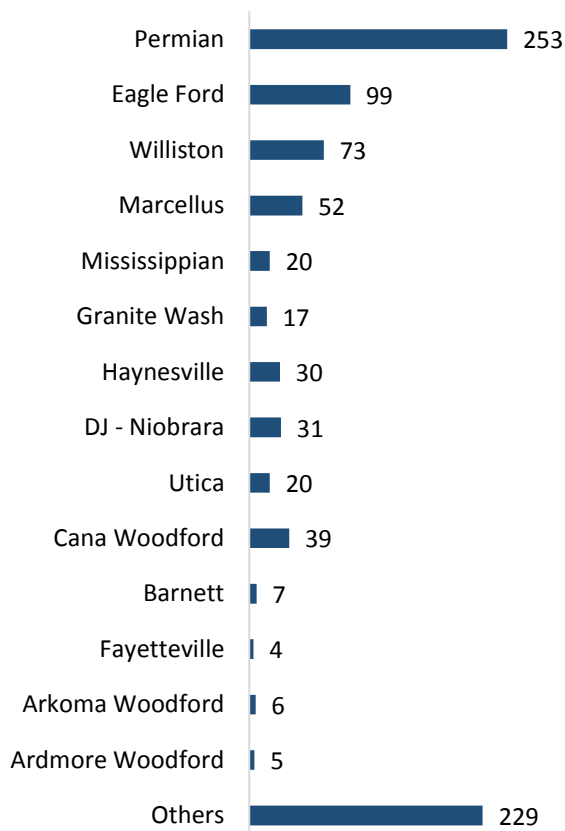


► Rig Counts (*continued*)

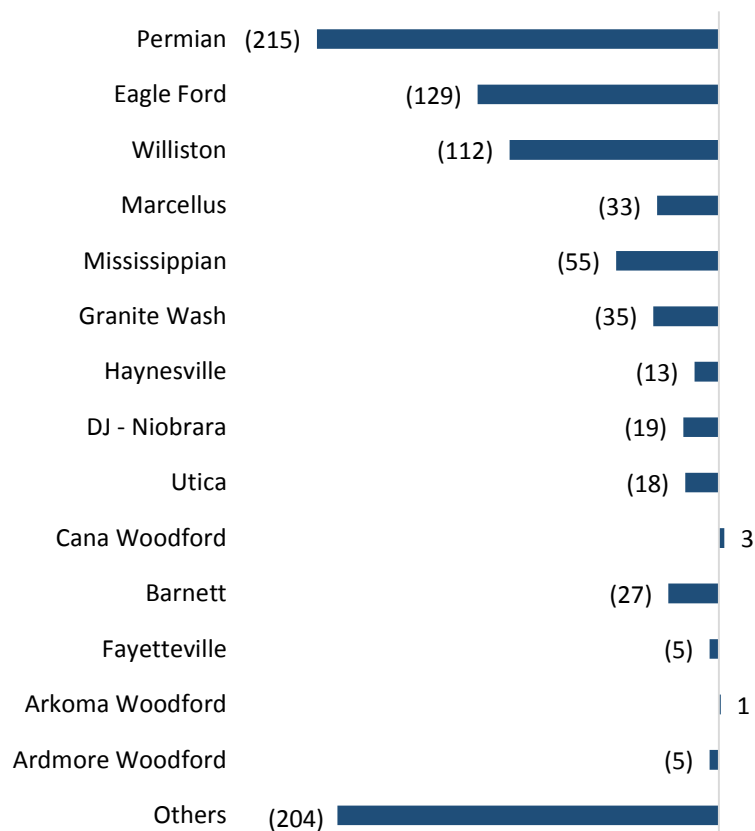
U.S. Rig Count by Basin



U.S. Rig Count by Basin

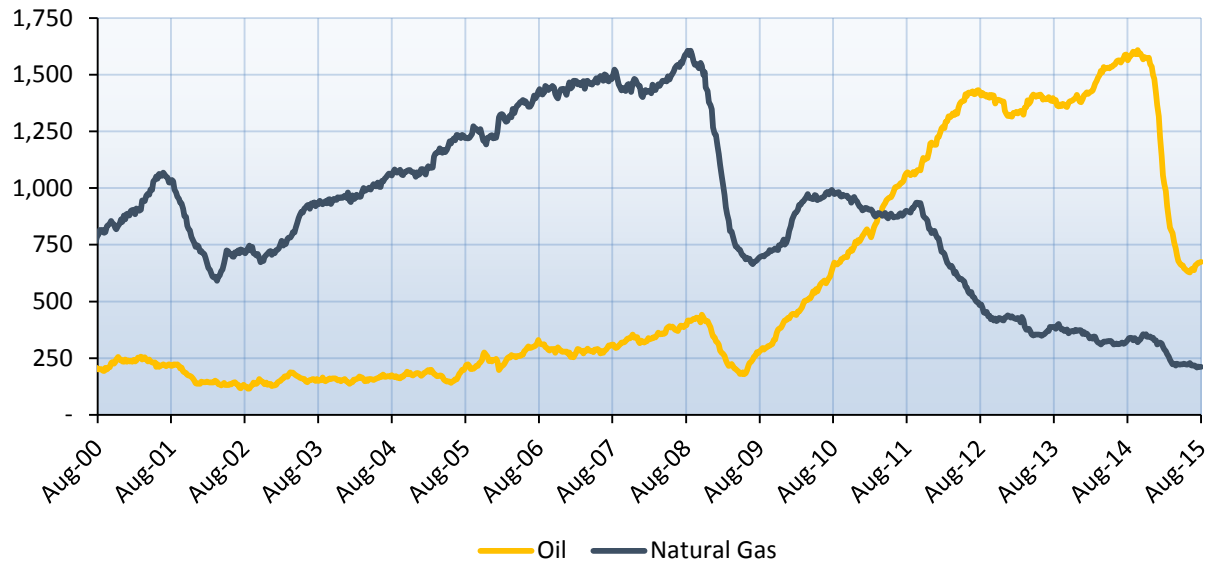


U.S. Rig Count by Basin YTD Change



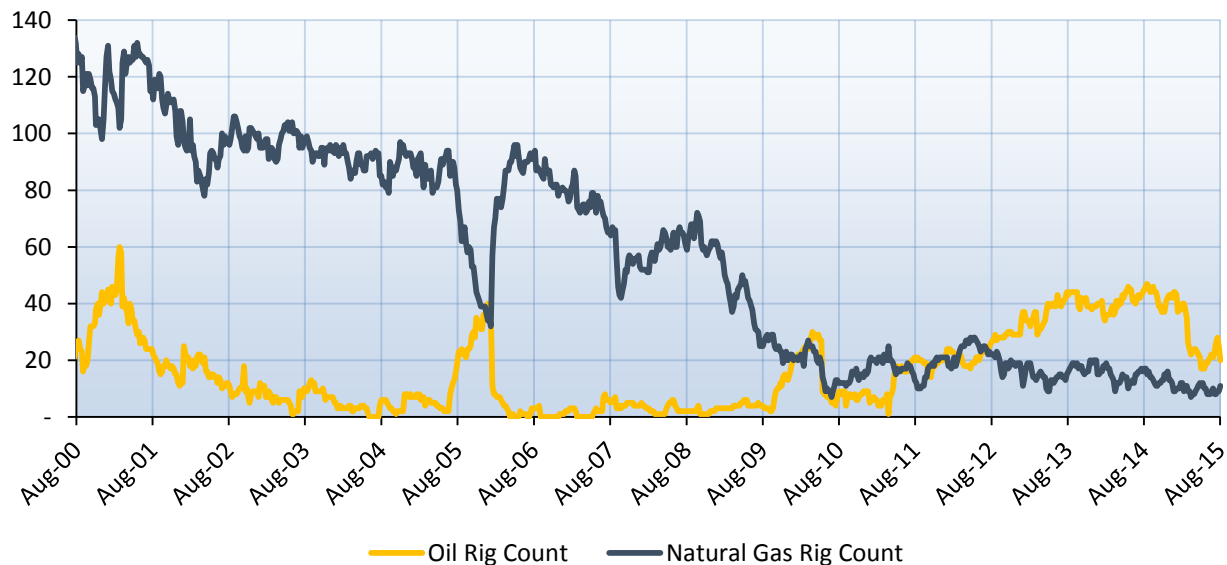
## ► Rig Counts (continued)

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



	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	674	638	1,589	5.6%	(57.6%)
Natural Gas	211	218	321	(3.2%)	(34.3%)

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

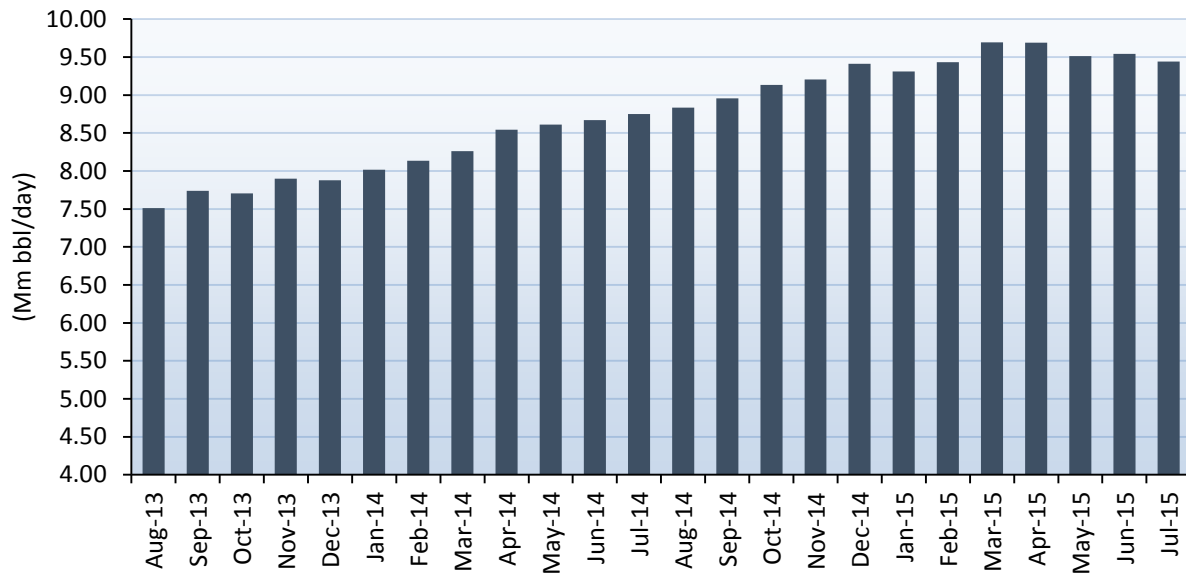


	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	20	21	44	(4.8%)	(54.5%)
Natural Gas	11	10	16	10.0%	(31.3%)



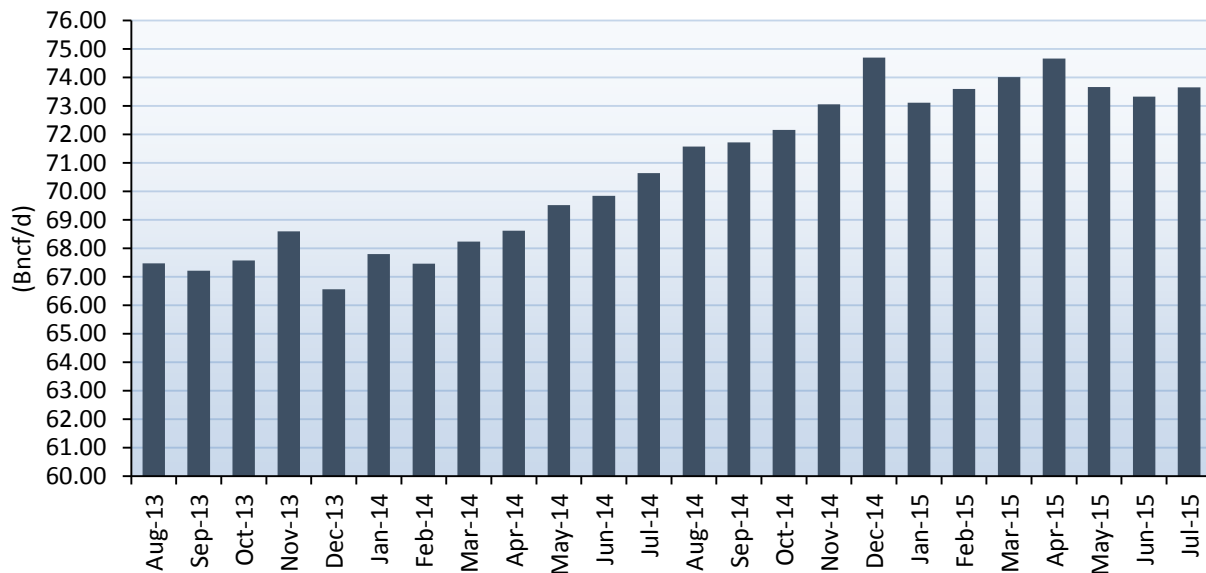
## ► Domestic Production

## Crude Oil Production



	Million Barrels per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	9.44	9.54	8.75	(1.1%)	7.9%

## Natural Gas Production



	Billion Cubic Feet per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	73.65	73.32	70.64	0.5%	4.3%



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