OIL & GAS Newsletter

December Edition: *2015 Oilfield Equipment & Services Market Update*

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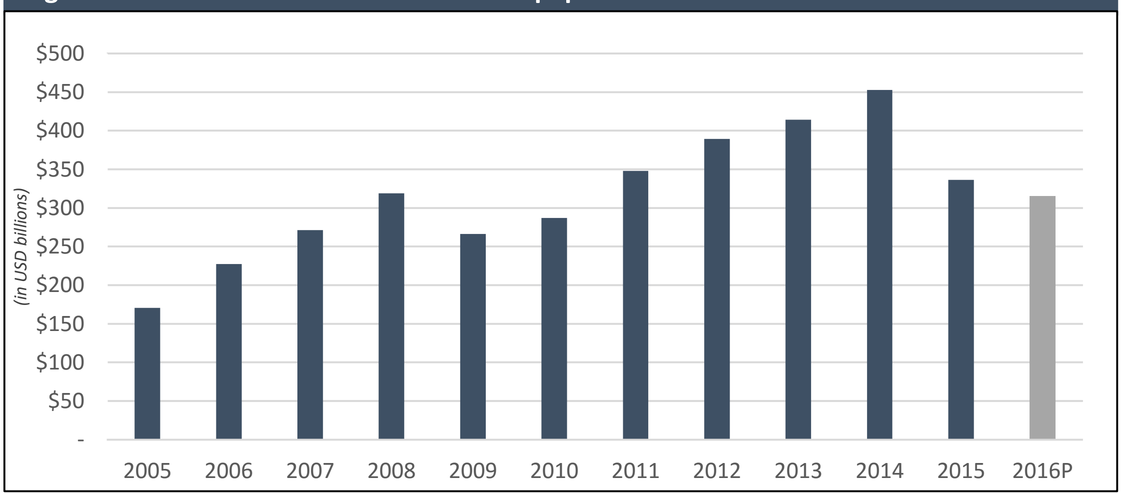
As the media and market react to OPEC's announcement of its 2016 production plans, oil and gas companies around the world are buckling down for more of the same in the year ahead. Oil and gas companies navigated the uncertain waters of 2015 by delivering increased efficiencies, running lean, and staying disciplined with capital expenditures. Barring a major hiccup which substantially worsens market conditions, this prudent approach will continue to serve the industry's constituents well in the year ahead as operators develop the lowest-cost assets in their portfolios and equipment and service companies streamline operations and minimize waste.

In this Newsletter, Founders Investment Banking will begin by discussing the trends and outlook of the Global Oilfield Equipment & Services Market and conclude by providing further analysis on the North American region. Though the overall size of the Global Oilfield Equipment & Services Market expects to contract further in 2016, the estimated (6%) change is considerably less than what oil and gas companies overcame in 2015. According to the Spears & Associates October 2015 Oilfield Market Report, the global market is expected to have declined from $452 billion to $336 billion from 2014 through the end of 2015; a 25.7% reduction. Further complicating the decline was the compounded annual growth rate of 46.2% the industry realized from 2011 to 2014. The outsized growth rate fostered a business climate where many companies could offset rising expenses by increasing capacity to meet elevated demand and benefit from high margins.

Figure A: Annual Global Oilfield Equipment & Services Market



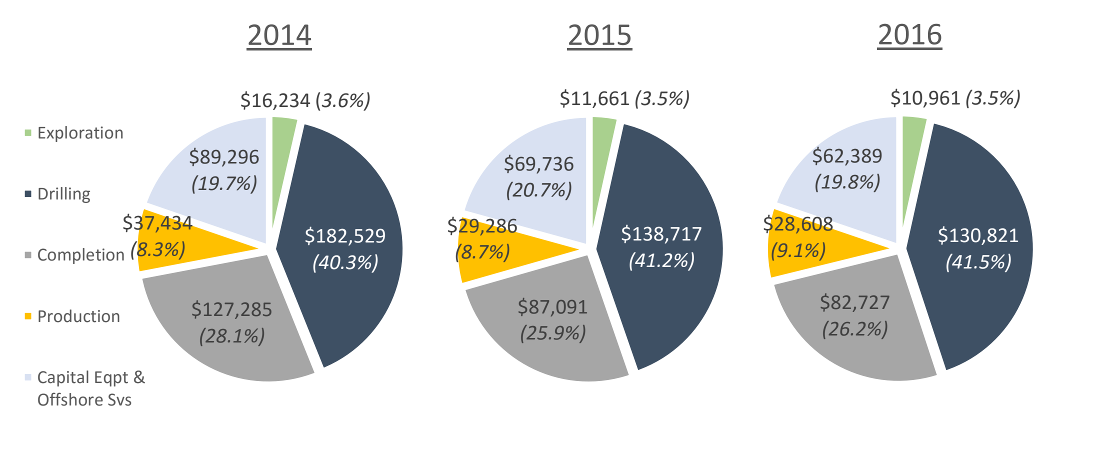
Source: Spears & Associates

Global Oilfield Equipment & Service Market Overview

Above, **Figure A** shows the total market size of the Global Oilfield Equipment & Services Industry from 2005 through projected 2016. After experiencing a compounded growth rate of 51.9% from 2005 to 2008, the Global Oilfield Equipment & Services Market began to contract in 2009 as the Great Recession caused Brent and WTI prices to drop to $33.73 and $30.28, respectively. From year-end 2008 to year-end 2009, the market's size declined 16.5% from $319 billion to $266 billion.

Since the inception of the Oilfield Market Report in 1996, Spears & Associates has never reported two consecutive years of decline. Though this tendency expects to be broken in the year ahead, at $316 billion, 2016's overall market size projects to remain within 1.1% of the pre-Great Recession high of $319 billion realized in 2008. This data point is highlighted for those who have made their livelihoods in the oil patch. Though 2015 required immediate redirection and 2016 projects to be down yet again, the year ahead will provide work opportunities for companies able to differentiate their equipment and services by providing greater efficiencies than their respective peers.

Figure B: Annual Revenue by Market Sector



Source: Spears & Associates

Global Oilfield Equipment & Services Sectors

The decision by OPEC to continue its pursuit of recapturing market share has not only affected the overall size of the industry, but how and where the industry focuses its resources. As seen in **Figure B**, the industry's allocation of capital is evolving year-over-year to adjust to the market's demand and drivers. To simplify the analysis, equipment and service providers have been categorized to sectors according to their place along the Oil & Gas value chain.

- **Exploration** - The sector is led by companies providing geophysical equipment and services to E&P companies across the world. The market size of this sector reached its peak in 2012 at $17.1 billion, but has been on a steady decline since. Global spending expects to be $11.6 billion at the end of 2015, and declining to $10.9 billion in 2016. Even though exploration is necessary to stay ahead of oil demand, operators are expected to remain conservative in this space as they focus on known assets in their portfolio.
- **Drilling** - Drilling as a percentage of total spend increased slightly in 2015, which may be counterintuitive to those outside of the Oil & Gas Industry. Because drilling a well does not equate to new production, many operators utilized a "Drill But Do Not Complete" strategy in order to remain prepared for the market's recovery and to fulfill existing contracts and leases. However, with the market's expected recovery being pushed out beyond 2016, the "Drill But Do Not Complete" strategy is not expected to continue among many operators in the year ahead. This is forecasted to cause the drilling sector to decline another 5.7% to $130.8 billion.
- **Completion** - The completion sector experienced the greatest global contraction from 2014 to 2015, declining 31.6% from $127.3 billion to $87.1 billion. With supply outpacing demand by approximately 1 million barrels per day for much of 2015, operators deferred the completion of wells in an

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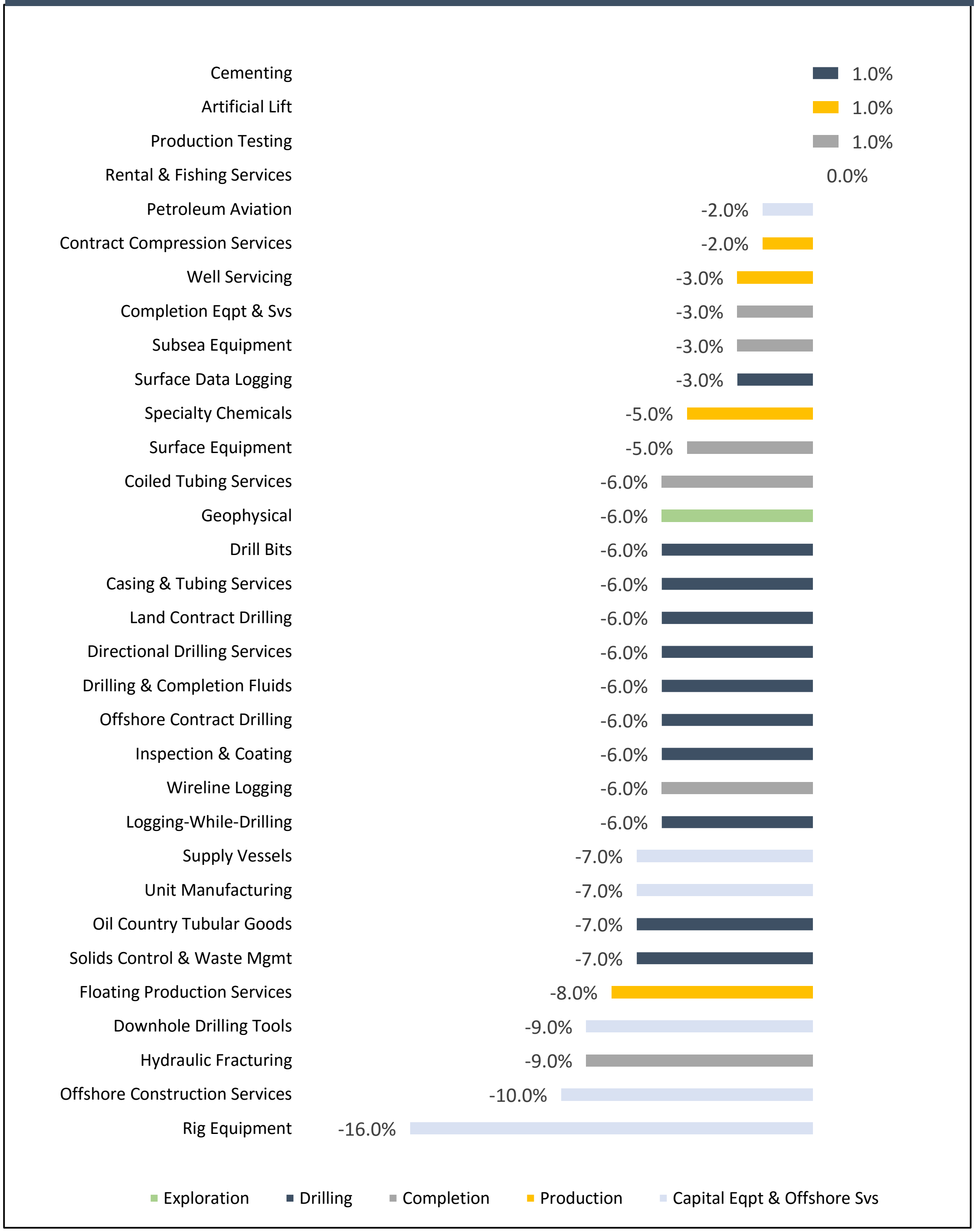
> *–Clay Williams, National Oilwell Varco*

effort to rebalance the world market. The year ahead will provide the industry numerous lessons on the long-term viability of the "Drill But Do Not Complete" strategy utilized in 2015. These lessons, including how initial production rates and depletion rates are affected, will alter the strategic decisions and capital budgets of operating companies in the future. If the wells yield returns sufficient to an operating company's expectations, we expect the strategy to remain as American shale transitions to the "Global Swing Producer".

Figure C: 2016 Projected Global Growth Rates for Oilfield Equipment & Services



Source: Spears & Associates

- **Production -** It is of little surprise equipment and service companies in the production sector of the global market experienced the lowest decline rate from 2014 to 2015. Though the sector is projected to have contracted 21.8% by the end of 2015, the point of emphasis by operators to maximize the returns of wells already in production offers ongoing work opportunities for equipment and service companies able to provide increased efficiencies and/or added-value solutions. The sector is expected to contract a minimal 2.3% in 2016, allowing leading equipment and service companies to vie for market share in a more stabilized sector.

- **Capital Equipment and Offshore Services[1] -** The capital intensive nature of equipment and service companies categorized in this sector justifies a different lens when analysis is performed on the sector's health, economics, and investment horizons. For those within the sector, a downturn often means an immediate hold is placed on potential new orders as operators adjust budgets to strengthen cash positons and limit new debt. For projects already underway, operators are forced to decide on how deep they must cut by weighing market optimism versus market reality. This optimism slowed the sector's contraction to a rate of 21.9% in 2015; second only to production's smaller decline rate. However, the continuation of depressed crude prices is expected to cause the sector to experience the industry's largest contraction in 2016 at a rate of 10.5%.

> "I'M NOT CONFIDENT ENOUGH YET TO CALL THE EXACT SHAPE OF THIS RECOVERY, BUT WE DO EXPECT THAT THE LONGER IT TAKES, THE SHARPER IT WILL BE."
>
> *– David Lesar, Halliburton*

Figure D: 2015 North American Oilfield Equipment & Services Market *(in millions)*

EXPLORATION		DRILLING		COMPLETION		PRODUCTION		CAPITAL EQPT & OFFSHORE SVS[1]	
Geophysical	100%	Offshore Contract Drilling	25%	Hydraulic Fracturing	37%	Artificial Lift	45%	Offshore Construction Svs	30%
		Land Contract Drilling	24%	Subsea Equipment	11%	Specialty Chemicals	24%	Rig Equipment	35%
		Oil Country Tubular Goods	12%	Wireline Logging	11%	Well Servicing	14%	Supply Vessels	10%
		Directional Drilling Services	8%	Completion Eqpt & Svs	15%	Floating Production Svs	1%	Petroleum Aviation	11%
		Drilling & Completion Fluid	11%	Coiled Tubing Services	8%	Contract Compression Svs	16%	Unit Manufacturing	7%
		Cementing	7%	Rental & Fishing Services	8%			Downhole Drilling Tools	8%
		Drill Bits	3%	Surface Equipment	7%				
		Logging-While-Drilling	2%	Production Testing	5%				
		Solids Cntl & Waste Mgmt	3%						
		Casing & Tubing Services	3%						
		Surface Data Logging	1%						
		Inspection & Coating	1%						
Sub Total	$4,664	Sub Total	$54,189	Sub Total	$41,793	Sub Total	$15,875	Sub Total	$22,354
% of Total	3%		39%		30%		11%		16%
Grand Total (All Segments)									**$138,876**

[1] *The Capital Equipment and Offshore Services Sector includes both onshore and offshore equipment and service companies.*

Source: Spears & Associates

North American Oilfield Equipment & Services Market Recap

In recent years, North American operators made meaningful innovations in the processes and technologies used to produce the region's unconventional reserves, reducing cost and increasing the returns of the region's shale wells. These advancements shifted much of the market's attention, investments, and spending to North America, and have allowed the region's companies to earn global recognition as leading producers and innovators.

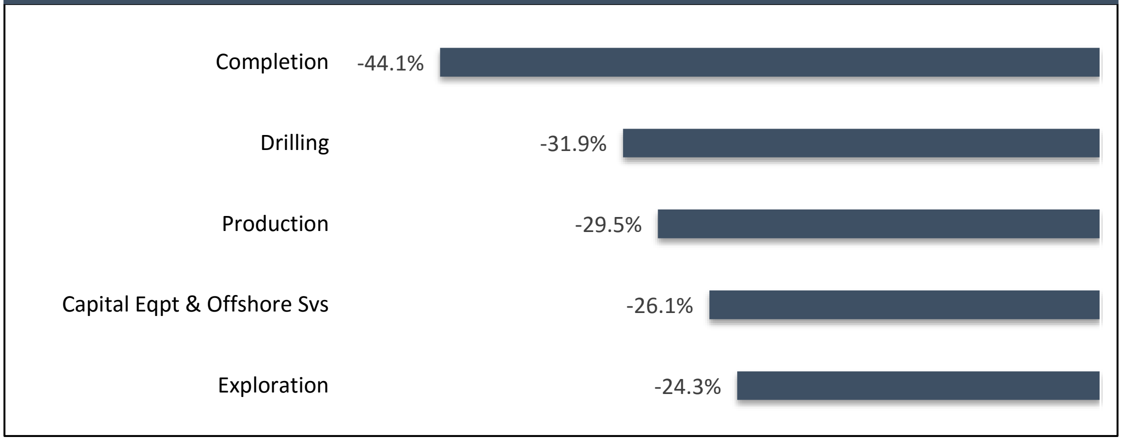
North America was the largest macro-region in the world in 2014 as it accounted for 47% of the Global Oilfield Equipment & Services Market. The region's market share is projected to have declined to 41% by the end of 2015, but it remains the world's largest region at $138.9 billion. Above, **Figure D** forecasts the expected market size in North America of the respective services in 2015.

North American Oilfield Equipment & Services Market by Sector

In its new role as the market's "Global Swing Producer", the development of North American shale resources continues to affect the region's overall spending patterns. Below, **Figure E** reports the loss of revenue in each sector from 2014 through the end of 2015 *(projected)*.

The 44.1% contraction of the completion sector aligns with the decision of many of the industry's operators to defer bringing drilled wells online. The rest of the industry may have fared better than the completion sector, but near 30% cuts in the drilling and production sectors have caused equipment and service companies to again seek greater efficiencies to protect margins. Spending in 2016 is expected to be more strategic and less reactive compared to the deep and swift budget cuts across the industry in 2015. This means operators will look to reallocate resources to the market sectors that allow reserves to yield the greatest returns on capital.

Figure E: 2015 Growth Rates by Market Sector



Source: Spears & Associates

Industry Chatter - Recent Earnings Calls

- "I'm not confident enough yet to call the exact shape of this recovery, but we do expect that the longer it takes, the sharper it will be." *– David Lesar, Halliburton*

- "Based on this industry outlook, we expect E&P investments to fall for a second successive year in 2016, which is the first time since the 1986 downturn when the spare capacity cushion was more than 10 million barrels per day." *– Paal Kibsgaard, Schlumberger*

- "One observation I have…is the pent-up desire for industry to declare a bottom to this downturn. I don't believe we will know when we have bottomed until that period is well behind us." *– David Dunlap, Superior Energy Services*

- "We're seeing customers be far more aggressive. I think, in this downturn with regards to cannibalizing their equipment, about repositioning it…We do know it will turn around and when it does, one day the phones will light up and people will also need it yesterday. And so that's the other side of this." *– Clay Williams, National Oilwell Varco*

- "If current oil pricing and related oil selectivity endure, let alone deteriorate further, we do not believe the industry will be able to manage the required oil supplies as early as 2017. This means oil demand will not be met by existing oil capacity. Inventory overhang will help. That isn't sustainable solution for long. We're quite sure of this." *– Bernard Duroc-Danner, Weatherford*

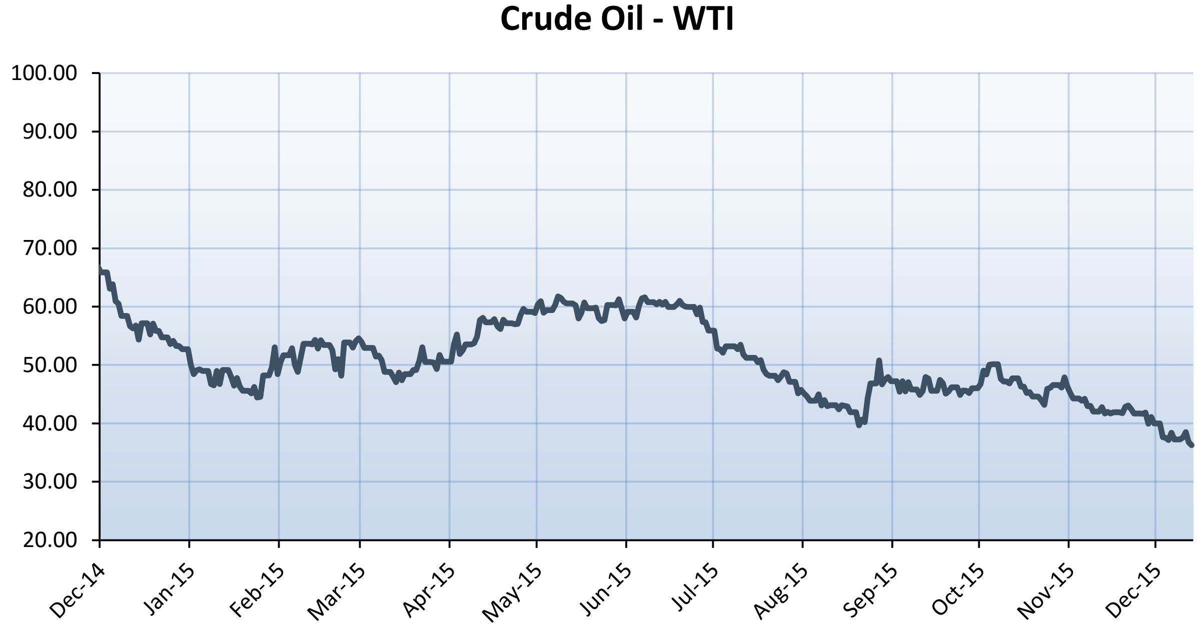
Select 2015 M&A Activity

Announced Date	Target/Issuer	Buyers/Investors	Transaction Value ($USDmm)
11/23/215	Archer Well Services	Quintana Energy Partners, L.P.	-
11/16/2015	Fluid Inclusion Technologies, Inc.	Schlumberger Limited (NYSE:SLB)	-
11/05/2015	Ultrafab Industries Ltd.	Nalco Champion	-
11/05/2015	ITG Energy Research Group	Kratos Energy Inc./Warburg Pincus	120.5
10/23/2015	Digital Petrodata LLC	TGS Nopec Geophysical Co. ASA (OB:TGS)	-
10/21/2015	Paragon Fabricators, Inc. and Paragon Field Services, Inc.	Alpine 4 Automotive Technologies, Ltd.	-
10/06/2015	Hybrid Tool Solutions, LLC	Hastings Equity Partners, LLC	-
10/05/2015	Willbros United States Holdings, Inc.	TRC Solutions, Inc.	130.0
10/05/2015	Mud Bay Drilling Co. Ltd.	Conetec Investigations Ltd.	-
09/25/2015	Gulf Coast Downhole Technologies, LLC	Prysmian S.p.A. (BIT:PRY)	66.0
9/02/2015	Pat Greenlee Builders, LLC	Nine Energy Service, Inc.	-
09/01/2015	SL Oilfield Construction Ltd.	Northern Frontier Corp. (TSXV:FFF)	-
08/26/2015	Cameron International Corporation (NYSE:CAM)	Schlumberger Limited (NYSE:SLB)	16,560.99
08/11/2015	Elite Energy Products Ltd.	Weatherford International plc (NYSE:WFT)	-
08/03/2015	Odessa Packer Service, Inc.	Team Oil Tools, Inc.	-
06/11/2015	CanElson Drilling Inc. (TSX:CDI)	Trinidad Drilling Ltd. (TSX:TDG)	436
04/24/2015	ROC Service Company, LLC	Coral Reef Capital, L.L.C.	-
04/06/2015	***Eagle Automation Limited**	**Panhandle Oilfield Services, Inc.**	**-**
03/30/2015	GASFRAC Energy Services, Inc. (OTCPK:GSFV.F)	Calfrac Well Services Ltd. (TSX:CFW)	-
03/13/2015	Inspection Oilfield Services	LB Foster Co. (NasdaqGS:FSTR)	230
03/12/2015	***Timco Services, Inc.**	**Frank's International, Inc.**	**95**
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

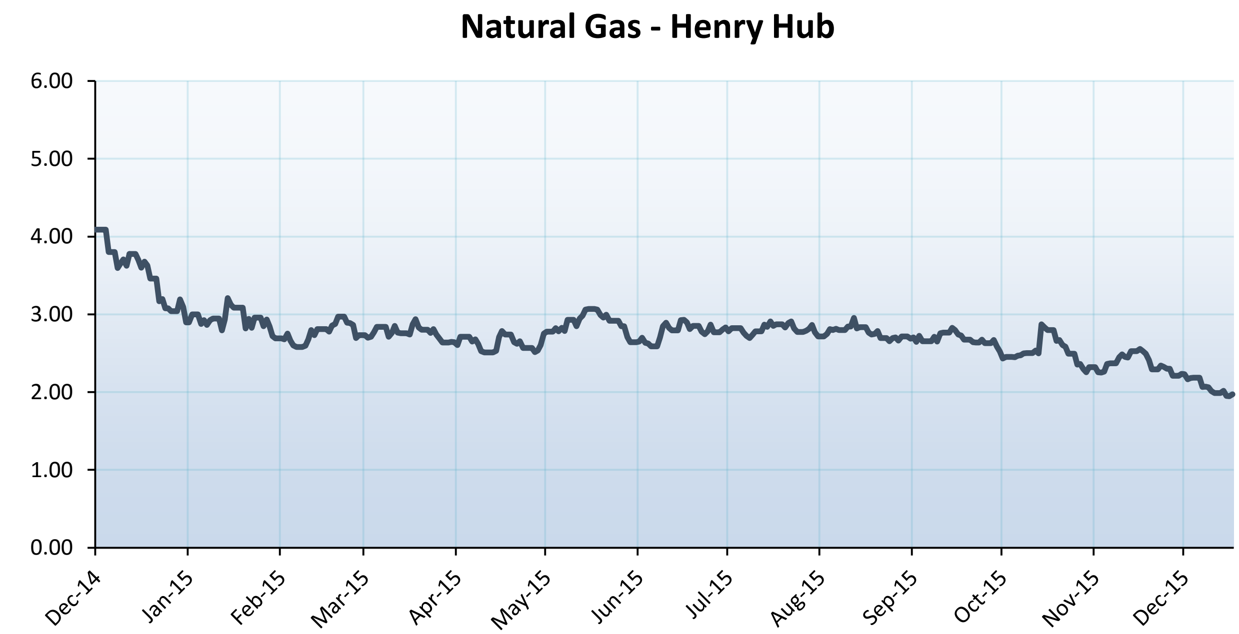
Indicates Founders Investment Banking advised on the transaction

Source: CapitalIQ

Commodity Prices



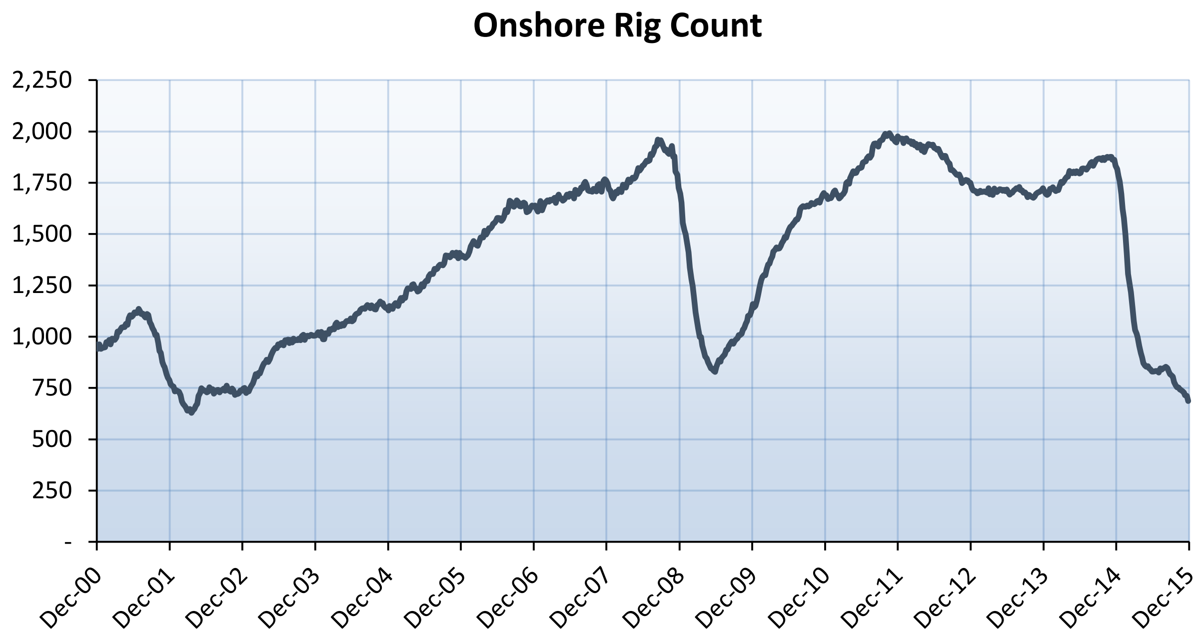
	Price per Barrel			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	$36.27	$41.71	$56.79	(13.0%)	(36.1%)



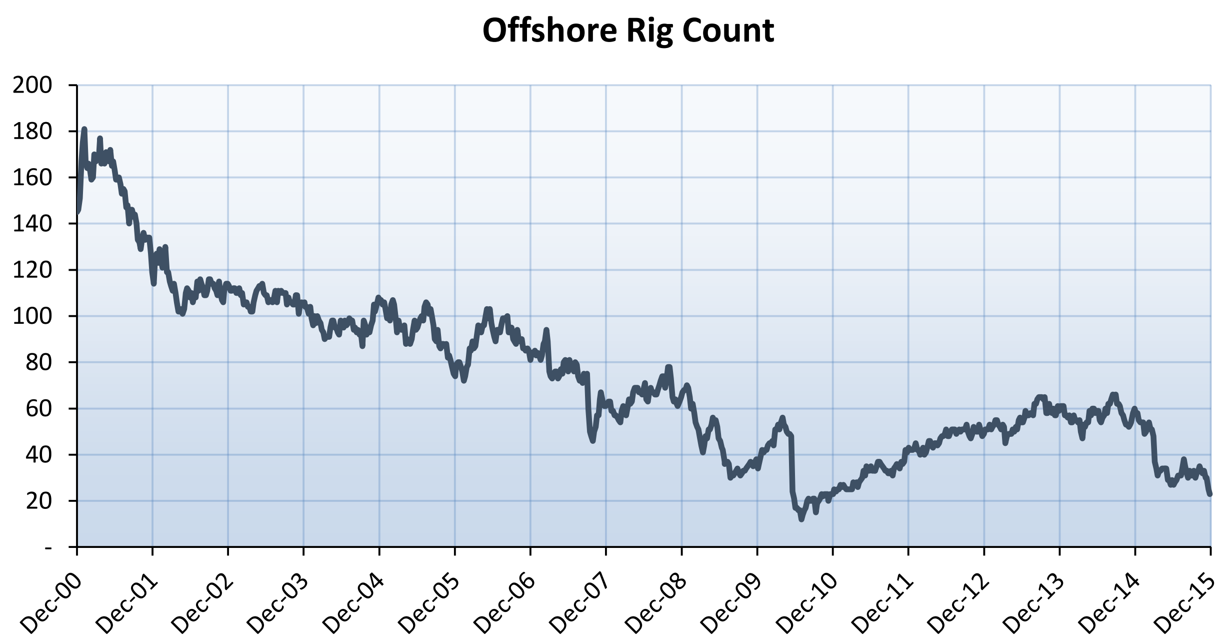
	Price per MmBtu			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	$1.97	$2.53	$3.68	(22.0%)	(46.4%)

Source: CapitalIQ

Rig Counts



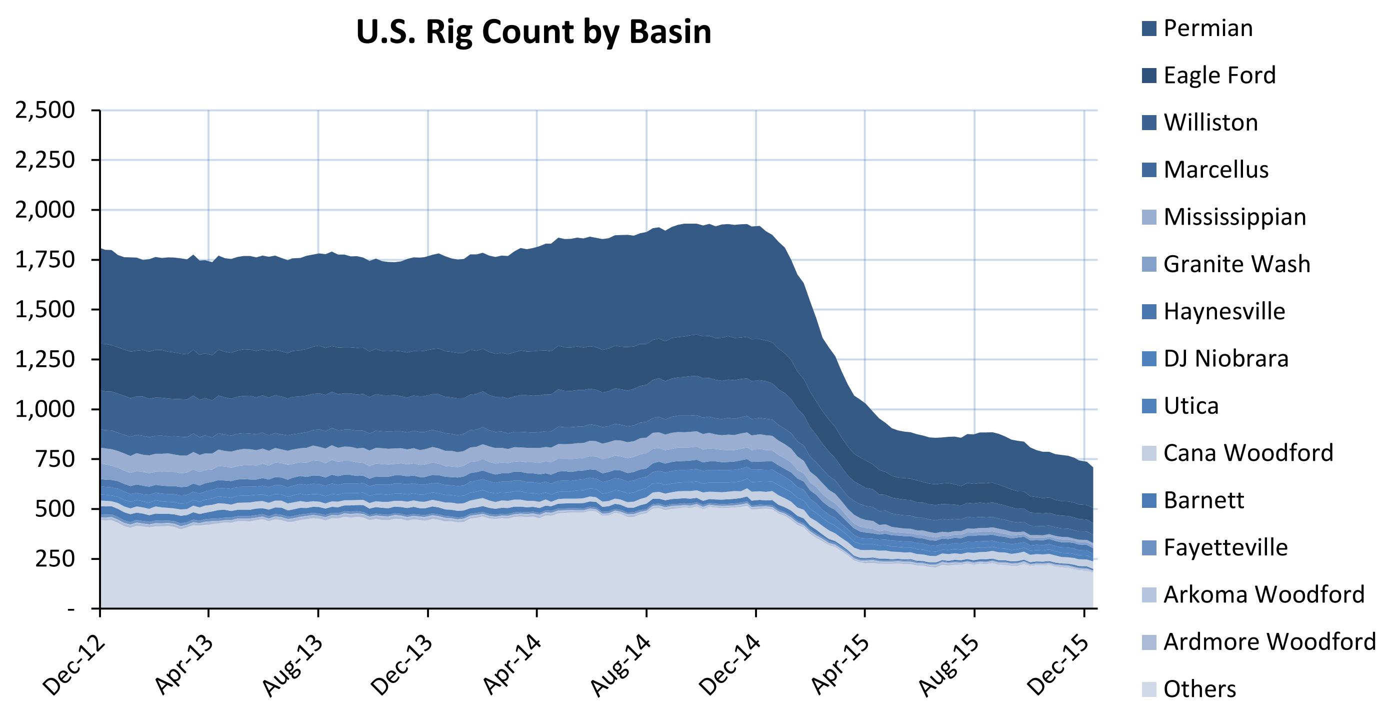
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Onshore	686	734	1,833	(6.5%)	(62.6%)

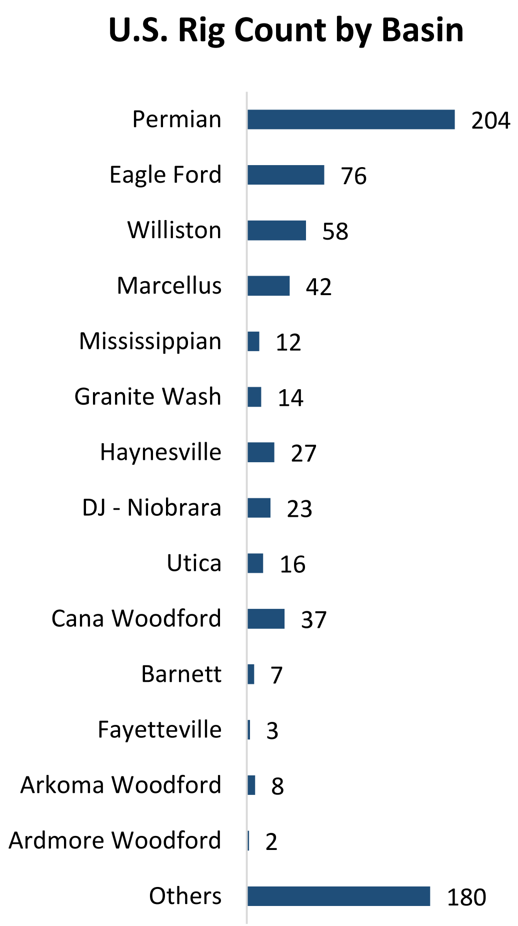


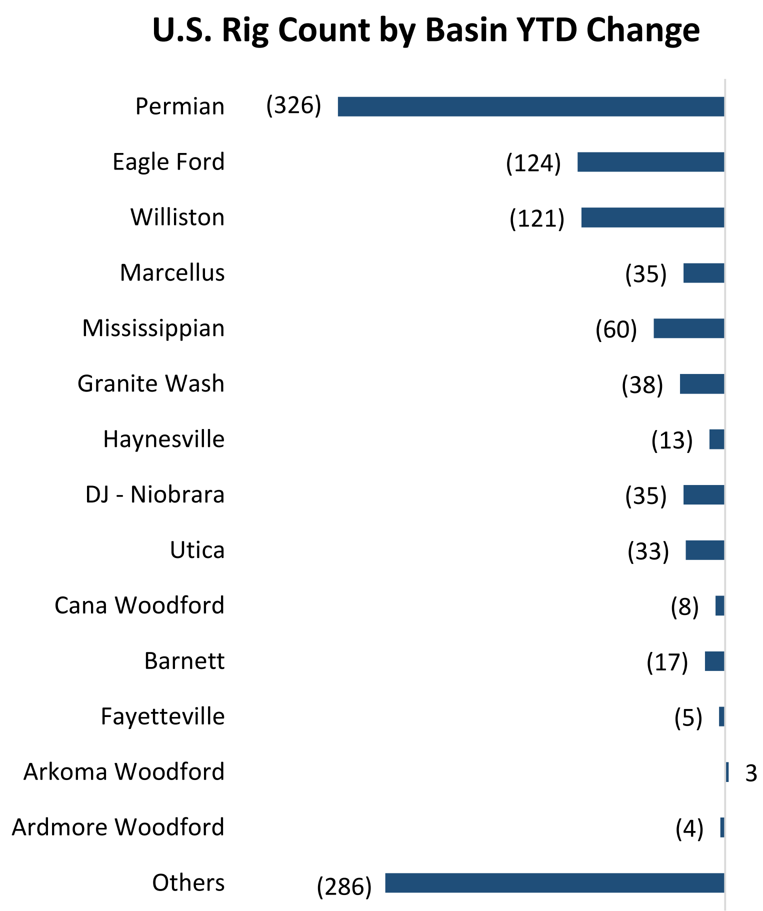
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Offshore	23	33	60	(30.3%)	(61.7%)

Source: Baker Hughes

▸ Rig Counts *(continued)*

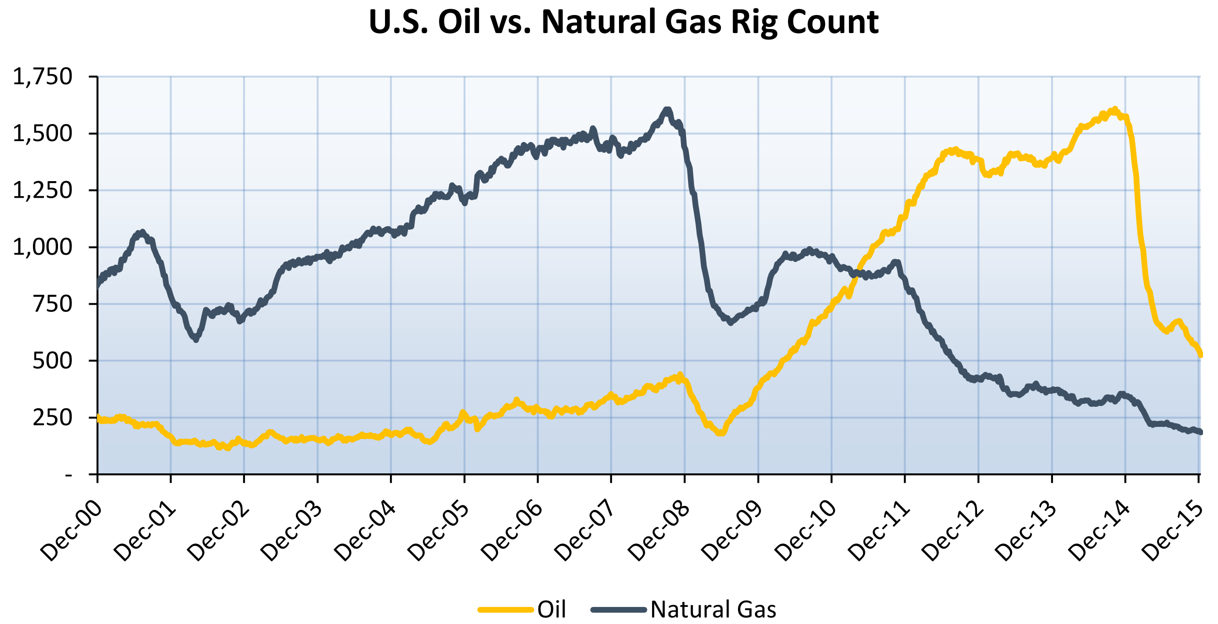




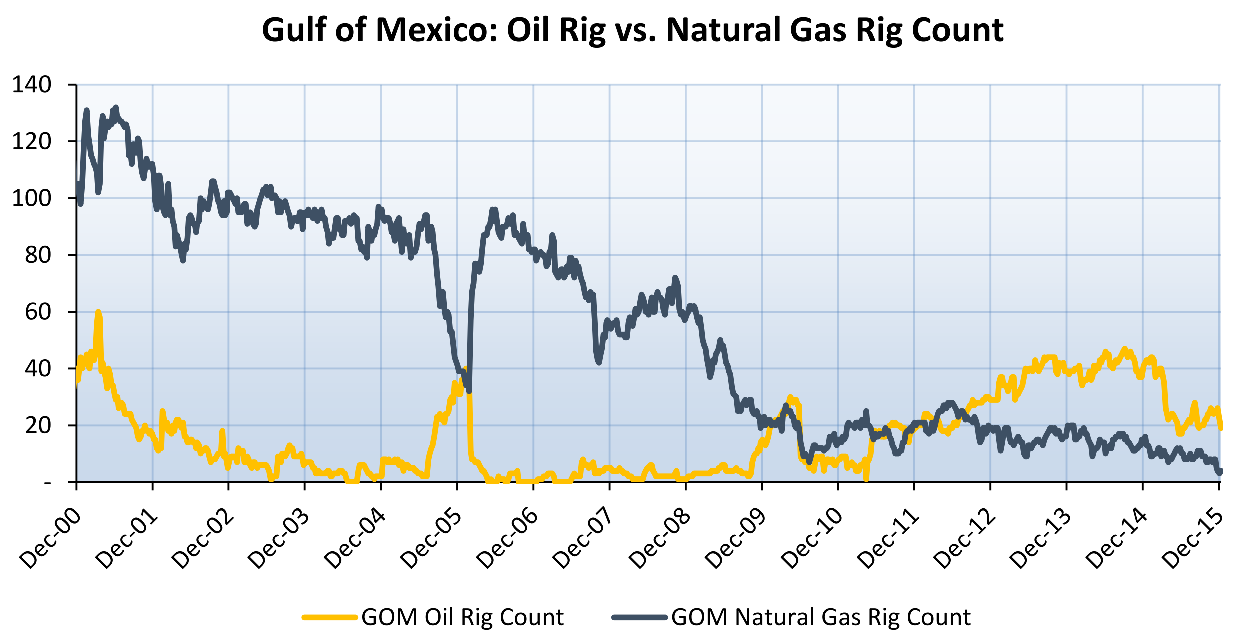


Source: Baker Hughes

Rig Counts *(continued)*



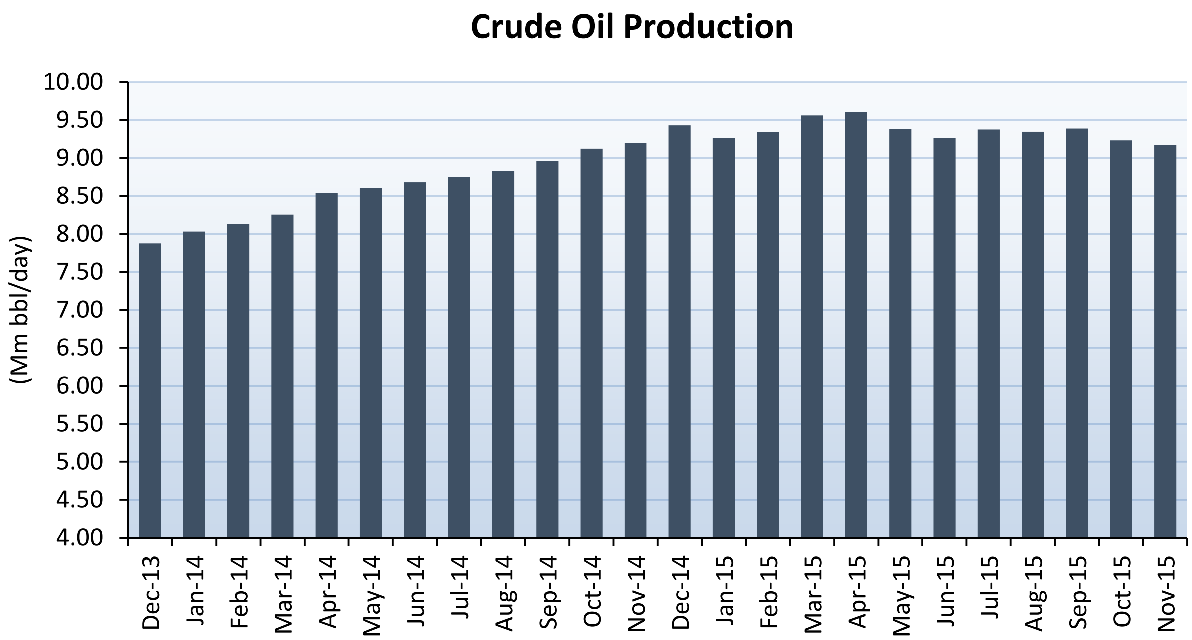
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	524	574	1,546	(8.7%)	(66.1%)
Natural Gas	185	193	346	(4.1%)	(46.5%)



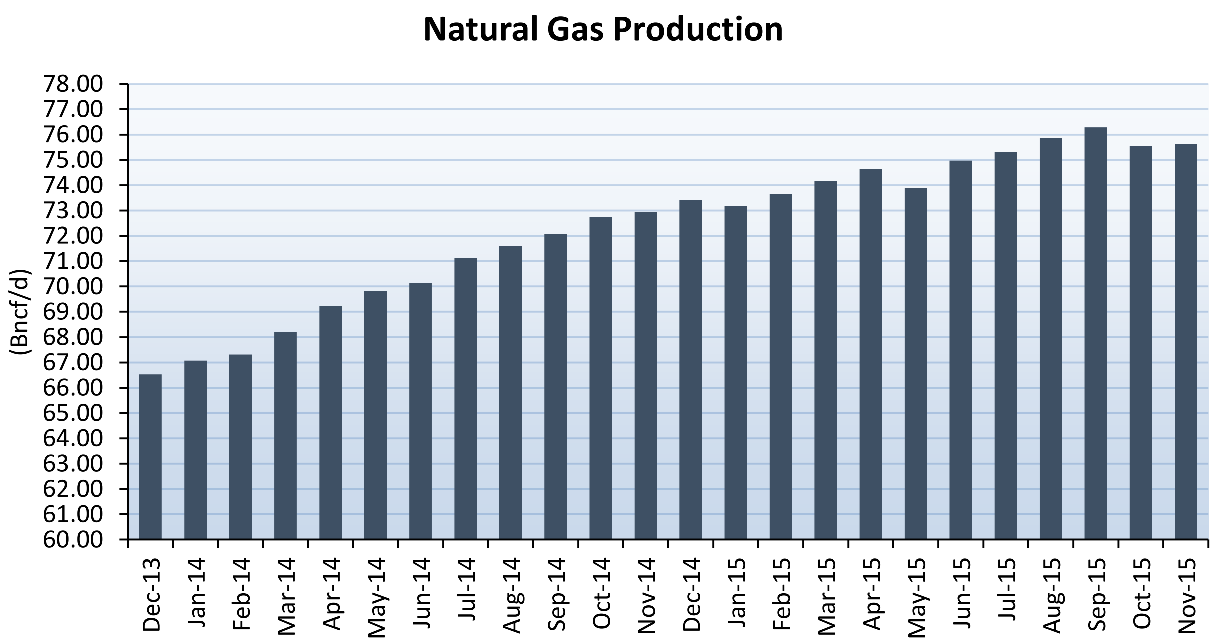
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	19	25	42	(24.0%)	(54.8%)
Natural Gas	4	8	16	(50.0%)	(75.0%)

Source: Baker Hughes

Domestic Production



	Million Barrels per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	9.17	9.23	9.20	(0.7%)	(0.3%)



	Billion Cubic Feet per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	75.62	75.55	72.95	0.1%	3.7%

Source: EIA

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Guests at the previous Founders' Blast & Cast Forum in Cameron Meadows, LA.

Select 2015 O&G Transactions:

Applied Ultrasonics — The Strength of Sound	Eagle Automation Limited — "Keeping A Sharp Eye On Operations"	TIMCO Services
Has been acquired by	*Has been acquired by*	*Has been acquired by*
A member of the Fortune 100	Panhandle — *A portfolio company of* Argosy Private Equity	Frank's International
Sell-Side Advisor	Sell-Side Advisor	Sell-Side Advisor

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