

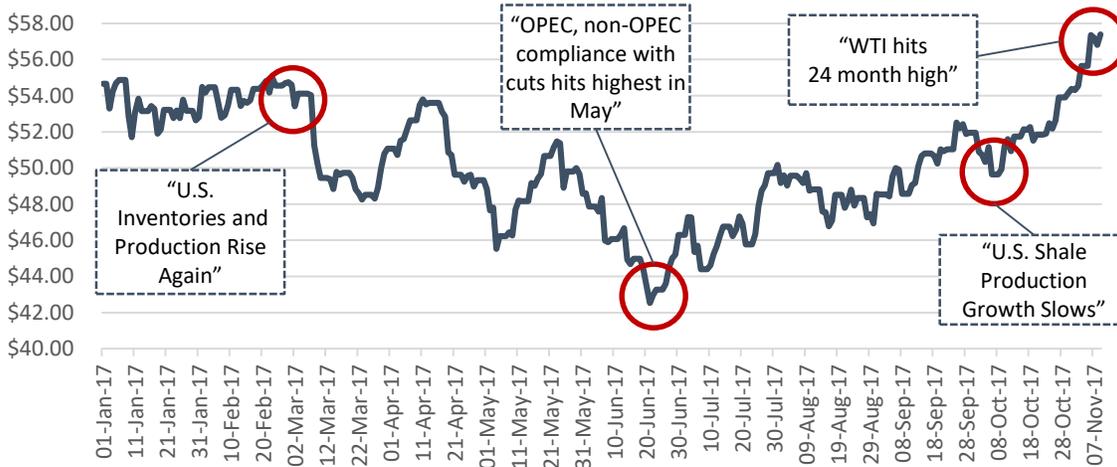


Oilfield Services Update
 OFS Newsletter | November 2017

► **Introduction**

As we wrap up 2017, we aim to provide a recap of the year behind us, and insights into the trends developing in the oilfield. We will discuss a number of the developments in the energy markets over the last 12 months, and ultimately how they impact service companies as we head into the new year.

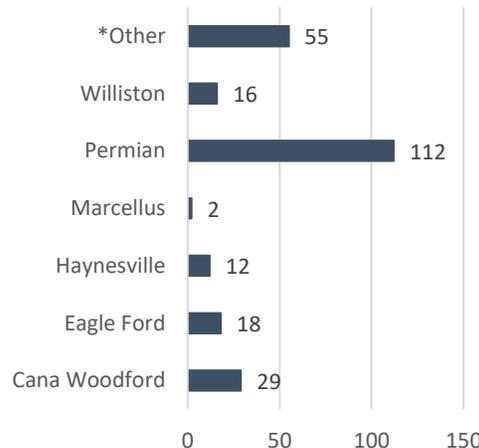
2017 WTI Crude Oil Prices



► **2017 In the Rearview**

The top Energy story in 2017 will be the precipitous rise in oil prices in the back half of the year. Since hitting a low price of \$42.53 in June, WTI has risen 36% to \$57.69 in November. The rise has perpetuated a strong drilling environment for U.S. domestic shale plays. Rig counts have risen commensurately in 2017 – topping 958 at the peak, a 137% increase from 2016 lows. The majority of the drilling activity continues to be in low cost basins, as E&P operators prepare for a “lower for longer” oil price energy environment.

YTD - Nov. Rig Count Growth by Basin



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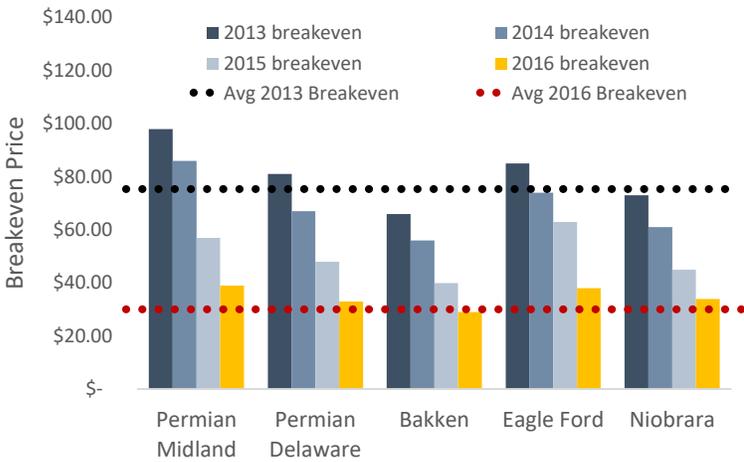
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“2017 was a year of recovery, and we’re looking forward to a very active M&A market in 2018”

Duane Donner
 Managing Partner,
 Founders Advisors

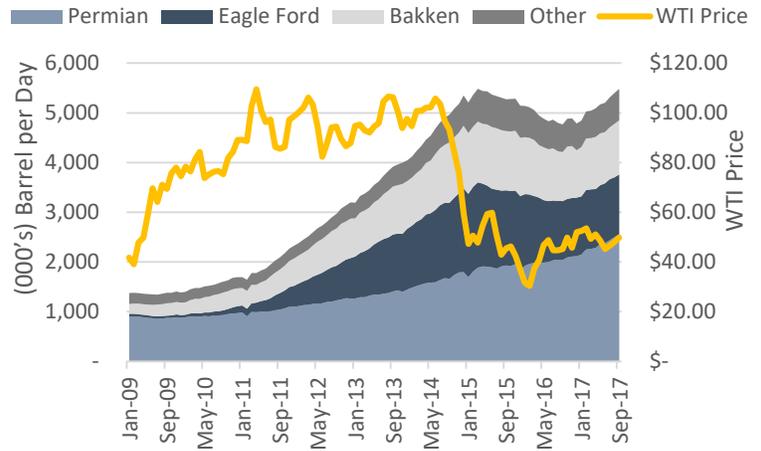
2017 in the Rearview Mirror...

Lower Breakeven Prices Are Driving Activity



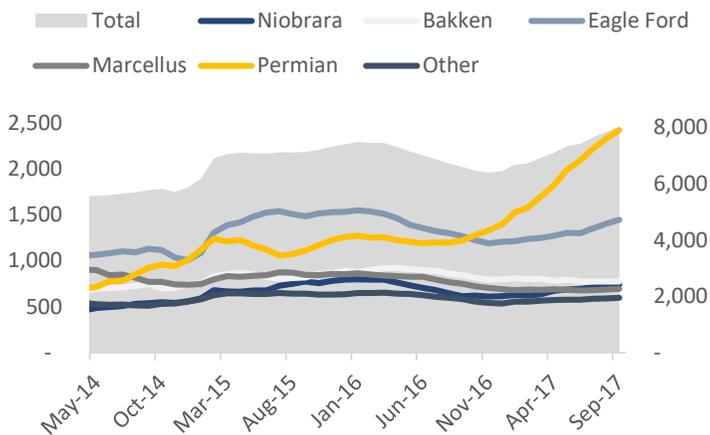
Energy extraction efficiencies enabled by lower service prices and improved processes have lowered wellhead breakeven prices from an estimated average of \$80/bbl in 2013, to less than \$35/bbl in 2016. The Permian Midland has experienced the largest decrease, falling by over 60%, from \$98/bbl in 2013 to \$38/bbl in 2016.

The United States – The Production Juggernaut



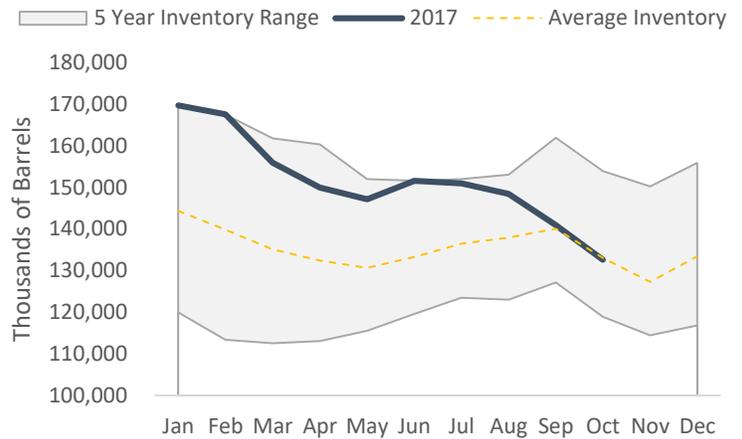
Shale production efficiencies have allowed U.S. producers to keep production volumes strong, despite energy prices being ~60% off 2014 highs. Low cost geographies such as the Permian have seen the greatest increase in production activity, growing 36% from levels achieved in 2014.

Drilled but Uncompleted Wells (DUC) – 10 Year High



A lack of completion equipment, personnel, and a need to meet lease obligations has led to a rise in DUC in 2017. The Permian basin currently has 2,416 DUCs, which represents roughly 30% of the total DUC inventory, and 76% of the growth in 2017. Overall, DUC counts have risen over 40% since the beginning of 2017. Operators are waiting for higher energy prices to rationalize spending the capital required to work through this inventory.

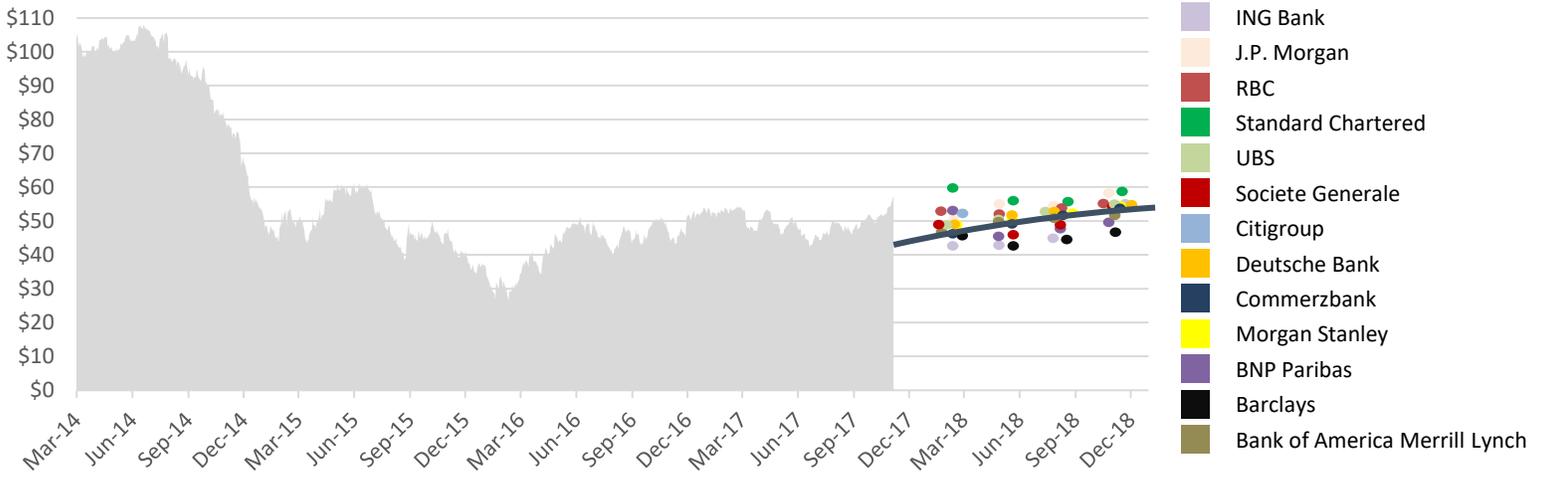
Crude Oil Inventories Normalizing in 2017



Crude oil inventories are a leading indicator for global oil consumption; higher inventories indicate weaker consumption, and lower inventories indicate stronger consumption. Despite inventories starting at an all time high in 2017, strong global demand for the commodity has eaten into inventories in the back half of the year. Part of this trend can be explained by production disruptions caused by hurricanes in the United States, but industry professionals largely point to strong YoY consumption growth out of China and India.

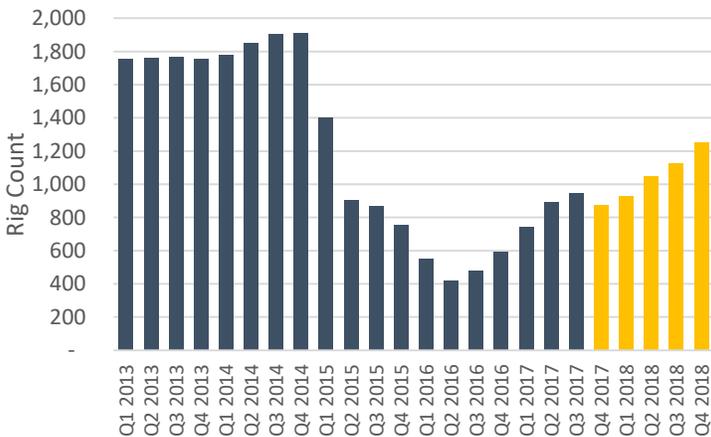
The Look Ahead...

Wall Street Journal Price Targets



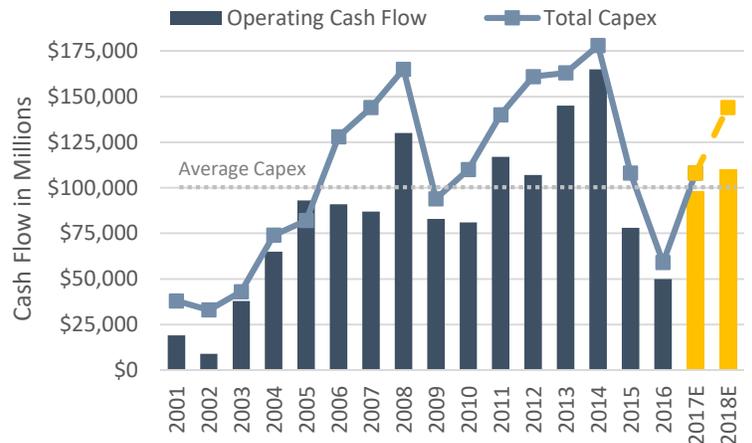
In October, a group of investment banks surveyed by WSJ raised their price target for 2018 WTI for the first time in six months. Consensus among the group is that production cuts by OPEC are finally starting to have an impact on the market. Saudi Arabia and Russia, two of the top three oil producers in the world, have been vocal about continuing to make production cuts into the future. With OPEC & non-OPEC compliance at 120% (the highest it has been in nearly 3 years), and strong demand coming out of emerging markets, the global energy market may find equilibrium in 2018.

Rig Count Outlook - 2018



The oil and gas rig count is forecasted by Wall Street to decline ~75 rigs in Q4 of 2017, but rise to over 1,200 by the end of 2018. The dip in rig count is due to the 15 – 20 week lag in rig count to oil prices; the market is still working off sub \$45 oil prices achieved mid-2017. Strong demand out of emerging markets should cause global consumption to outstrip global supply, which would lead to further WTI price appreciation. With oil sustainably being above \$50, it is expected that E&P companies will resume drilling activity in more non-core shale basins. This should continue to create a strong pricing environment for oilfield service companies over the next 12-24 months.

Strong Capex Outlook



Capital expenditures for E&P companies are expected to rise in 2017 and 2018; more sustainable cash flows enabled by reduced breakeven prices are giving operators more confidence to put money to work. To note, 2017 E&P capex has increased 96% since 2016. Industry professionals believe in a stable energy environment of \$50 - \$60 WTI, 2018 Capex is expected to come in around \$150 billion, which is 53% more than 2017 Capex.

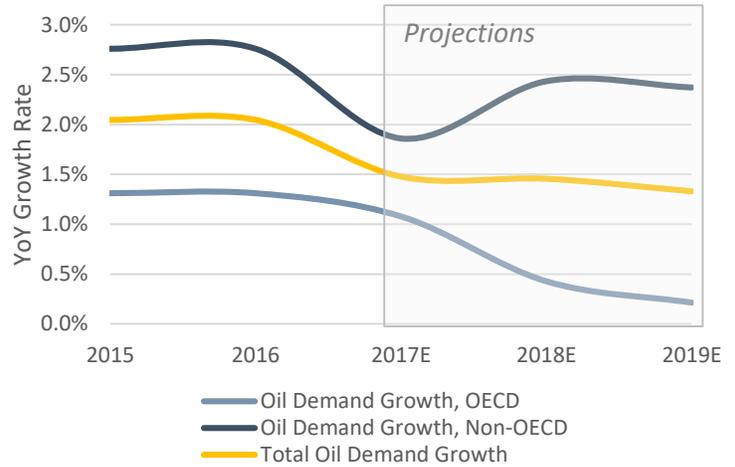
The Look Ahead Continued...

Supply – Global Producers of Oil

Global Supply	2015		2016		2017E		2018E	
Non-OPEC Supply								
United States	13.0	13.5%	12.5	12.9%	13.0	13.4%	14.1	14.3%
North America (less: US)	7.0	7.2%	6.9	7.1%	7.1	7.3%	7.1	7.2%
Europe	3.5	3.6%	3.5	3.6%	3.5	3.6%	3.6	3.6%
Asia Oceania	0.5	0.5%	0.4	0.4%	0.4	0.4%	0.4	0.4%
Former Soviet Union*	14.0	14.5%	14.2	14.6%	14.4	14.8%	14.4	14.6%
Europe	0.1	0.1%	0.1	0.1%	0.1	0.1%	0.1	0.1%
China	4.3	4.5%	4.0	4.1%	3.9	4.0%	3.8	3.8%
Other Asia	3.6	3.7%	3.6	3.7%	3.5	3.6%	3.4	3.4%
South Americas	4.6	4.8%	4.5	4.6%	4.6	4.7%	4.8	4.9%
Middle East	1.3	1.3%	1.3	1.3%	1.2	1.2%	1.2	1.2%
Africa	1.8	1.9%	1.7	1.8%	1.7	1.7%	1.8	1.8%
Other Supply	4.5	4.7%	4.6	4.7%	4.7	4.8%	4.8	4.9%
Total Non-OPEC Supply	58.2	60.2%	57.3	59.1%	58.1	59.7%	59.5	60.2%
Total OPEC	38.4	39.8%	39.6	40.8%	39.2	40.3%	39.3	39.7%
Total Supply	96.6	100.0%	97.0	100.0%	97.3	100.0%	98.9	100.0%

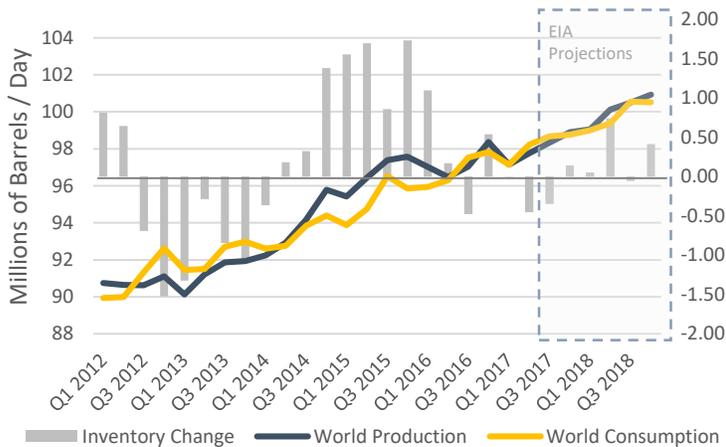
Global supply of oil is expected to rise ~1.5% in 2018. The United States will represent ~13.4% of the total supply market share – up from the ~12.9% achieved back in 2016. The United States prolific shale production, along with its ability to now export oil to foreign nations is helping it gain market share in a competitive environment. The expanding of the Panama Canal in 2017 has allowed for more economic exports to China and other Asian nations.

Emerging Markets' Consumption Driving Demand



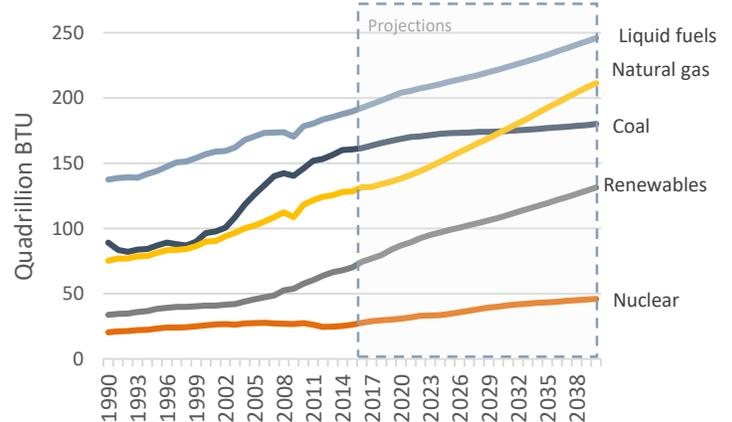
Improving global economic activity, population trends, and energy consumption patterns are driving stable ~1.5% growth per year in worldwide energy demand. The majority of this growth is coming from non-OECD countries, which include emerging markets such as China, India and Brazil. Investment Analysts are bullish on India's growth prospects, and believe the country could be a strong driver of energy consumption over the next 10 – 15 years.

EIA – Worldwide Supply / Demand Forecasted



Despite the complexities of the global energy market, oil pricing is ultimately determined by simple supply/demand economics. Given the current industry outlook, the EIA believes that worldwide supply should be roughly in line with worldwide demand through the end of 2018. It is important to note that in 2014, there was a significant build in inventories prior to the energy correction – no such build is forecasted for 2018.

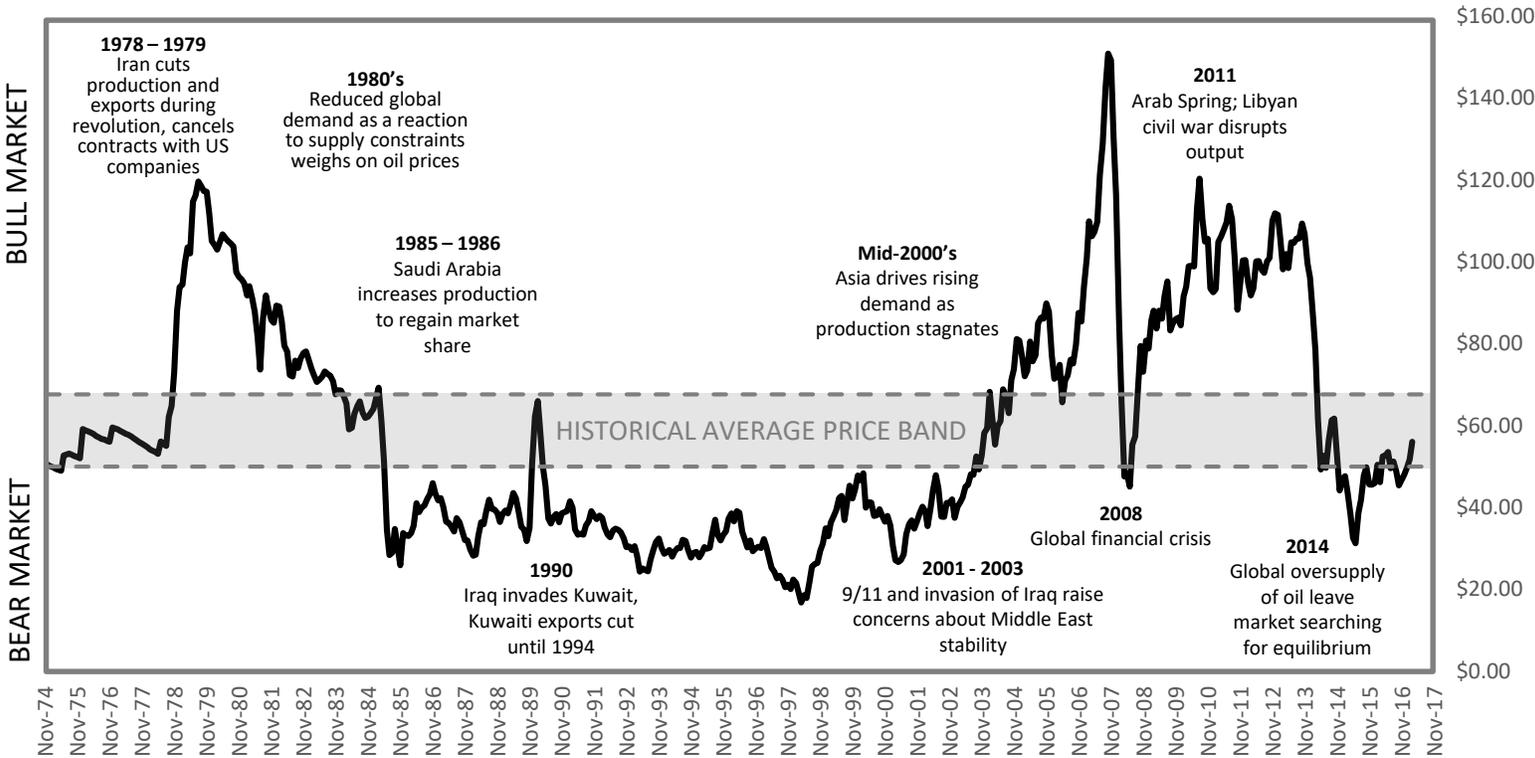
Demand – World Energy Consumption by Source



The EIA predicts that improving living standards across the world will drive energy consumption through 2040. There continues to be a shift towards using cleaner alternative energy sources; the EIA predicts that natural gas and renewable energy will continue to become a larger contributor to the total energy market, but oil will continue to be the dominate source of energy for the foreseeable future.

The Window of Opportunity

A History of the Cyclical Energy Markets



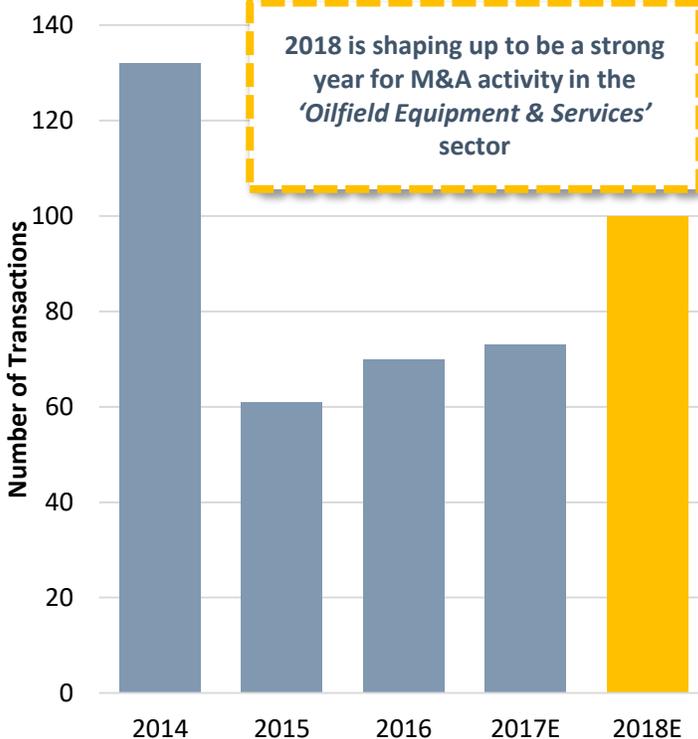
Historical Trends

Inflation adjusted, oil has traded within an average band of \$50.00 - \$67.00 over the last ~45 years, with the average midpoint price of \$58.00. There have been three major bear markets since the 1970's, with the average duration lasting ~8 years. The most recent bear market began in 2015; the price of oil reentered the normalized range in October 2017, due to worldwide demand outstripping current supply, causing a draw on inventories. While it is difficult to predict where the price of oil will be in the next 12 months, it is safe to say that sentiment has shifted positively on the commodity. Founders believes that given this shift in sentiment, the market should see range bound pricing between the historical average of \$50 - \$67 for the foreseeable future.

M&A Outlook

The cyclical nature of energy markets makes it difficult to time the ideal environment to sell a business. That being said, business owners should be focused on driving profitability and growing sales with a diverse group of customers, in order to maximize valuation in preparing for a transaction. After a slowdown in M&A activity over the last few years, Founders believes that stability in energy prices will be a key driver for increasing valuations and a strong M&A market in 2018.

The Window of Opportunity – Driving M&A Activity



Founders Estimates

Profiled Transactions

Date	Target	Acquirer	Description
October 2017			<p>Medallion Gathering & Processing, LLC offers construction of all facilities and pipelines to gather, process and deliver production from wells.</p>
October 2017			<p>Quality Oil Tools, Inc. manufactures high pressure control equipment for use in offshore oil drilling operations.</p>
October 2017			<p>Gordon Technologies LLC is an independent provider of Measurement-While-Drilling (“MWD”) technology to the oil and gas industry.</p>
September 2017			<p>SCS Technologies, LLC custom designs, fabricates, and installs liquid measurement systems for the oil and gas production and midstream operators throughout the Permian Basin.</p>
September 2017			<p>AMS provides turnkey hydrocarbon measurement services at any scale, employing the latest innovations and experienced personnel to bring total clarity and peace-of-mind to field measurement.</p>
September 2017			<p>Terra Directional Services, LLC offers directional drilling services. The company is based in Houston, Texas.</p>

Other Recent Oilfield Service Transactions

Announced DateW	Target Name	Buyer Name	Target Business Description
11/6/2017	KATKO Ltd	Basin Energy Group LLC	KATKO Ltd offers well hookups, production facility construction, logistics, welding and labor services to natural gas industry.
11/1/2017	Premier Directional Drilling, L.P.	Tally Energy Services	Premier Directional Drilling, L.P. provides directional services to oil rigs.
10/31/2017	Well Service Group Inc. and Utility Access Solutions Inc.	Newpark Resources, Inc. (NYSE:NR)	Well Service Group Inc. and Utility Access Solutions Inc. represents the combined operations of Well Service Group, Inc. and Utility Access Solutions Inc. in their sale to Newpark Resources, Inc. Well Service Group, Inc. provides construction support services to the oil and gas industry.
10/25/2017	O-Tex Pumping, LLC	C&J Energy Services, Inc. (NYSE:CJ)	O-Tex Pumping, LLC provides specialty cementing pumping services to the oil and gas industry.
10/17/2017	Gordon Technologies LLC	Pelican Energy Partners LP	Gordon Technologies LLC develops tools for oil and gas industry.
10/17/2017	Copperbeck Energy Partners LLC	Tailwater Capital LLC	Copperbeck Energy Partners LLC provides midstream and downstream-adjacent infrastructure and services for refineries, petrochemical, and industrial concerns.
10/10/2017	WaterBridge Resources, LLC	Five Point Capital Partners	WaterBridge Resources, LLC provides midstream services.
10/10/2017	Filtration Business Unit of Patriot Rentals	Blue Fin Services, LLC	As of October 10, 2017, Filtration Business Unit of Patriot Rentals was acquired by Blue Fin Services, LLC. Filtration Business Unit of Patriot Rentals offers water filtration and handling services for well.

Trading Statistics

Ticker	Company Name	Stock Price 11/13/2017	% of 52-Week		Market Cap	Enterprise Value	2016 Revenue	2016 EBITDA	Enterprise Value /		2017P		Enterprise Value /	
			High	Low					2016 Revenue	2016 EBITDA	Revenue	EBITDA	2017 Revenue	2017 EBITDA
Integrated OFS (Big 3)														
NYSE: SLB	Schlumberger Limited	\$64.98	74.0%	105.8%	\$91,067.10	\$103,756.10	\$27,922.24	\$6,426.31	3.7x	16.1x	\$30,445.71	\$6,839.79	3.4x	15.2x
NYSE: HAL	Halliburton Company	\$44.17	75.1%	115.7%	\$38,897.87	\$47,900.87	\$15,947.83	\$2,119.86	3.0x	22.6x	\$20,308.73	\$3,505.97	2.4x	13.7x
NYSE: WFT	Weatherford International	\$3.92	55.3%	124.1%	\$4,039.59	\$11,571.59	\$5,787.70	\$277.00	2.0x	41.8x	\$5,728.99	\$538.92	2.0x	21.5x
	Min	\$3.92	55.3%	105.8%	\$4,039.59	\$11,571.59	\$5,787.70	\$277.00	2.0x	16.1x	\$5,728.99	\$538.92	2.0x	13.7x
	Median	\$44.17	74.0%	115.7%	\$38,897.87	\$47,900.87	\$15,947.83	\$2,119.86	3.0x	22.6x	\$20,308.73	\$3,505.97	2.4x	15.2x
	Mean	\$37.69	68.1%	115.2%	\$44,668.19	\$54,409.52	\$16,552.59	\$2,941.05	3.4x	26.8x	\$18,827.81	\$3,628.22	2.6x	16.8x
	Max	\$64.98	75.1%	124.1%	\$91,067.10	\$103,756.10	\$27,922.24	\$6,426.31	3.7x	41.8x	\$30,445.71	\$6,839.79	2.4x	21.5x
Onshore Service Providers														
NYSE: RIG	Transocean	\$11.22	67.3%	155.8%	\$4,530.25	\$9,165.25	\$3,761.88	\$1,887.35	2.4x	4.9x	\$2,968.11	\$1,326.75	3.1x	6.9x
NYSE: ESV	Enscopl	\$5.91	49.0%	144.0%	\$2,737.81	\$5,693.41	\$2,610.59	\$1,167.41	2.2x	4.9x	\$1,847.26	\$555.79	3.1x	10.2x
NYSE: DO	Diamond Offshore	\$16.64	73.4%	165.4%	\$2,385.02	\$4,080.18	\$1,565.54	\$653.61	2.6x	6.2x	\$1,479.75	\$579.66	2.8x	7.0x
NYSE: NE	Noble Corporation plc	\$4.39	52.4%	139.8%	\$1,134.20	\$5,248.31	\$1,971.77	\$891.99	2.7x	5.9x	\$1,179.44	\$488.80	4.4x	10.7x
NYSE: RDC	Rowan Companies plc	\$14.61	67.4%	161.9%	\$1,925.36	\$3,215.56	\$1,759.27	\$835.34	1.8x	3.8x	\$1,244.33	\$486.86	2.6x	6.6x
NASDAQ: TUSK	Mammoth Energy.	\$20.15	82.1%	185.2%	\$929.65	\$1,009.37	\$224.73	\$38.03	4.5x	26.5x	\$574.55	\$104.35	1.8x	9.7x
NYSE: PUMP	ProPetro Holding Corp.	\$17.10	96.8%	157.7%	\$1,411.68	\$1,402.59	NA	NA	N/A	N/A	\$980.13	\$151.49	1.4x	9.3x
	Min	\$4.39	49.0%	139.8%	\$929.65	\$1,009.37	\$224.73	\$38.03	1.8x	3.8x	\$574.55	\$104.35	1.4x	6.6x
	Median	\$14.61	67.4%	157.7%	\$1,925.36	\$4,080.18	\$1,865.52	\$863.66	2.5x	5.4x	\$1,244.33	\$488.80	2.8x	9.3x
	Mean	\$12.86	69.8%	158.6%	\$2,150.57	\$4,259.24	\$1,982.30	\$912.29	2.7x	8.7x	\$1,467.65	\$527.67	2.7x	8.6x
	Max	\$20.15	96.8%	185.2%	\$4,530.25	\$9,165.25	\$3,761.88	\$1,887.35	4.5x	26.5x	\$2,968.11	\$1,326.75	4.4x	10.7x
Offshore/Subsea Equipment & Service Providers														
NYSE: NOV	National Oilwell Varco	\$33.06	75.8%	110.6%	\$12,738.68	\$14,296.68	\$7,183.67	\$255.69	2.0x	55.9x	\$7,279.70	\$591.33	2.0x	24.2x
NYSE: FTI	TechnipFMC	\$28.44	78.7%	115.9%	\$13,489.13	\$10,229.13	\$13,667.99	\$1,517.52	0.7x	6.7x	\$15,057.21	\$1,865.10	0.7x	5.5x
NYSE: OII	Oceaneering International	\$20.16	62.8%	117.8%	\$2,032.41	\$2,361.59	\$2,288.38	\$372.95	1.0x	6.3x	\$1,875.40	\$226.56	1.3x	10.4x
NYSE: DRQ	Dril-Quip,	\$45.75	65.9%	127.6%	\$1,751.05	\$1,278.01	\$548.35	\$140.55	2.3x	9.1x	\$447.45	\$50.34	2.9x	25.4x
NYSE: SPN	Superior Energy Services,	\$9.21	47.8%	120.3%	\$1,446.64	\$2,561.33	\$1,435.21	\$39.55	1.8x	64.8x	\$1,888.45	\$173.98	1.4x	14.7x
TSX: ESI	Ensign Energy Services	\$6.16	59.2%	101.1%	\$992.71	\$1,692.72	\$844.49	\$181.75	2.0x	9.3x	\$989.94	\$201.29	1.7x	8.4x
NYSE: BAS	Basic Energy Services, Inc.	\$21.61	48.2%	154.0%	\$569.76	\$846.77	\$547.65	-\$28.82	1.5x	N/A	\$874.80	\$67.99	1.0x	12.5x
	Min	\$6.16	47.8%	101.1%	\$569.76	\$846.77	\$547.65	-\$28.82	0.7x	6.3x	\$447.45	\$50.34	0.7x	5.5x
	Median	\$21.61	62.8%	117.8%	\$1,751.05	\$2,361.59	\$1,435.21	\$181.75	1.8x	9.1x	\$1,875.40	\$201.29	1.4x	12.5x
	Mean	\$23.48	62.6%	121.1%	\$4,717.20	\$4,752.32	\$3,787.96	\$354.17	1.6x	17.5x	\$4,058.99	\$453.80	1.5x	14.4x
	Max	\$45.75	78.7%	154.0%	\$13,489.13	\$14,296.68	\$13,667.99	\$1,517.52	2.3x	64.8x	\$15,057.21	\$1,865.10	2.9x	25.4x

Earnings Release Calendar

November

Date	Company Name	Vertical
11/16/2017	Helmerich & Payne, Inc.	Land Drillers

January

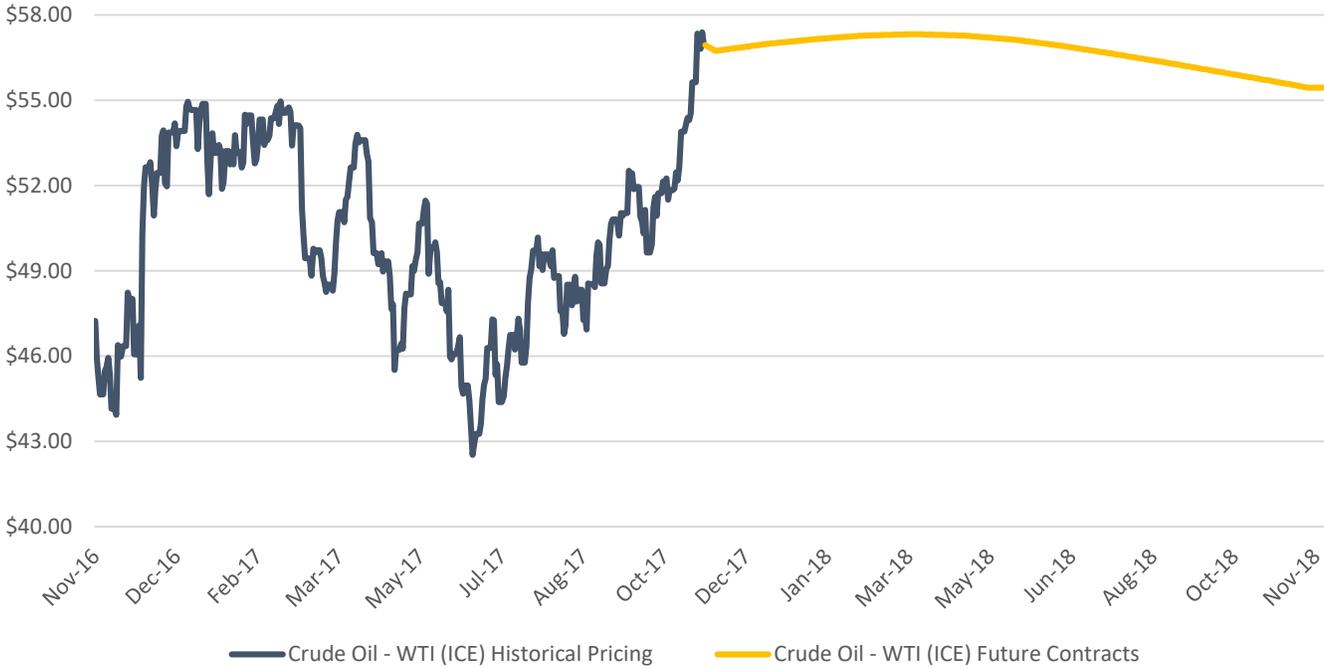
Date	Company Name	Vertical
1/20/2018	Halliburton Company	Integrated Equipment & Service Providers
1/24/2018	RPC, Inc.	Service Providers

February

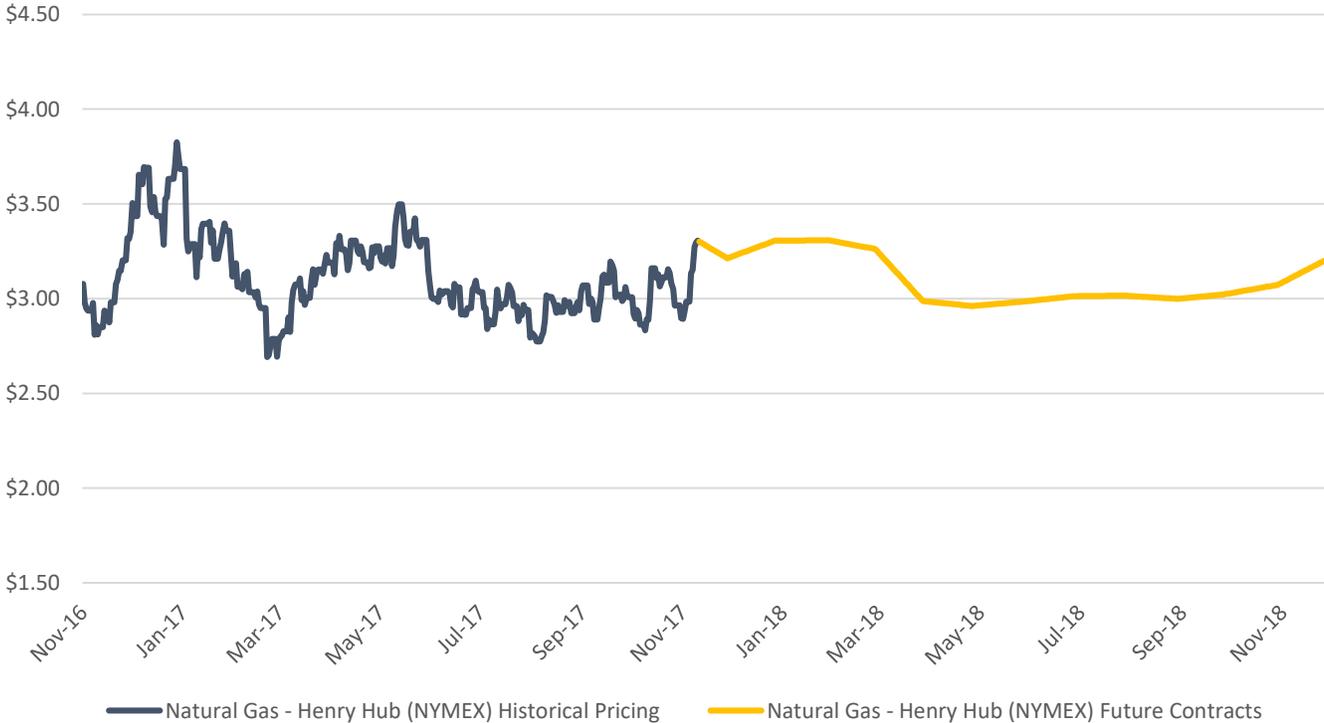
Date	Company Name	Vertical
2/1/2018	Weatherford International plc	Integrated Equipment & Service Providers
2/3/2018	National Oilwell Varco, Inc.	Equipment & Technology
2/8/2018	Diamond Offshore Drilling, Inc.	Offshore Drillers
2/8/2018	Oceaneering International, Inc.	Equipment & Technology
2/8/2018	Patterson-UTI Energy, Inc.	Land Drillers
2/11/2018	Forum Energy Technologies, Inc.	Equipment & Technology
2/13/2018	Noble Corporation plc	Offshore Drillers
2/15/2018	Oil States International, Inc.	Equipment & Technology
2/17/2018	Pioneer Energy Services Corp.	Land Drillers
2/18/2018	Basic Energy Services, Inc.	Service Providers
2/19/2018	Superior Energy Services, Inc.	Service Providers
2/19/2018	Nabors Industries Ltd.	Land Drillers
2/22/2018	Trican Well Service Ltd.	Service Providers
2/22/2018	TechnipFMC plc	Equipment & Technology
2/22/2018	Transocean Ltd.	Offshore Drillers
2/23/2018	Frank's International N.V.	Service Providers
2/23/2018	Calfrac Well Services Ltd.	Service Providers
2/23/2018	EnSCO plc	Offshore Drillers
2/24/2018	Rowan Companies plc	Offshore Drillers
2/25/2018	Dril-Quip, Inc.	Equipment & Technology
2/27/2018	TETRA Technologies, Inc.	Service Providers
2/28/2018	Tesco Corporation	Service Providers

Commodity Prices

➤ WTI Oil \$/bbl

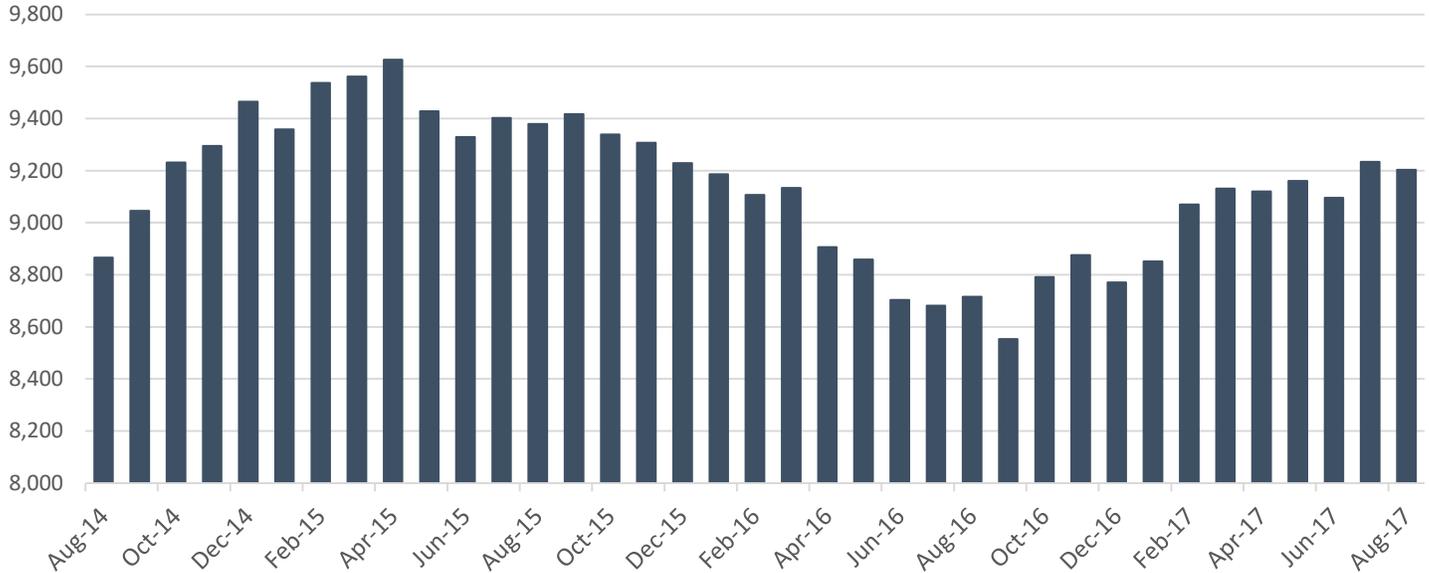


➤ Natural Gas \$/MBtu



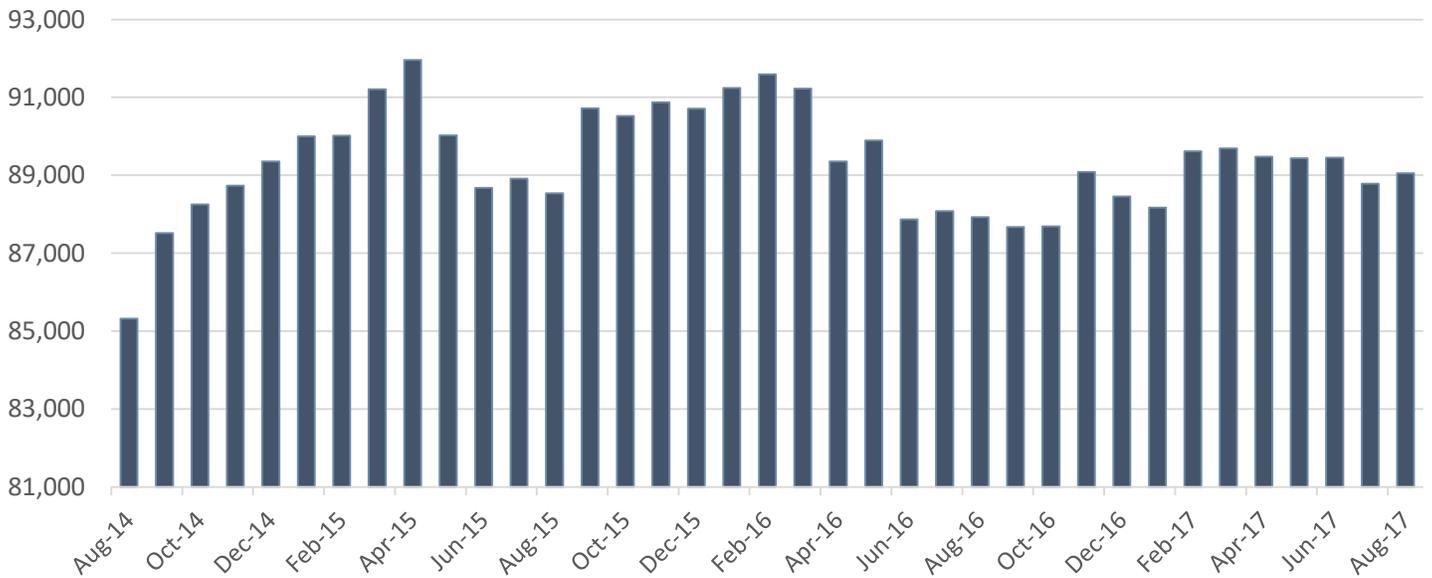
Production Data

➤ U.S Crude Oil Production*



Crude Oil	Thousands of Barrels per Day			Change From	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
	9,203	9,234	8,716	-0.3%	5.6%

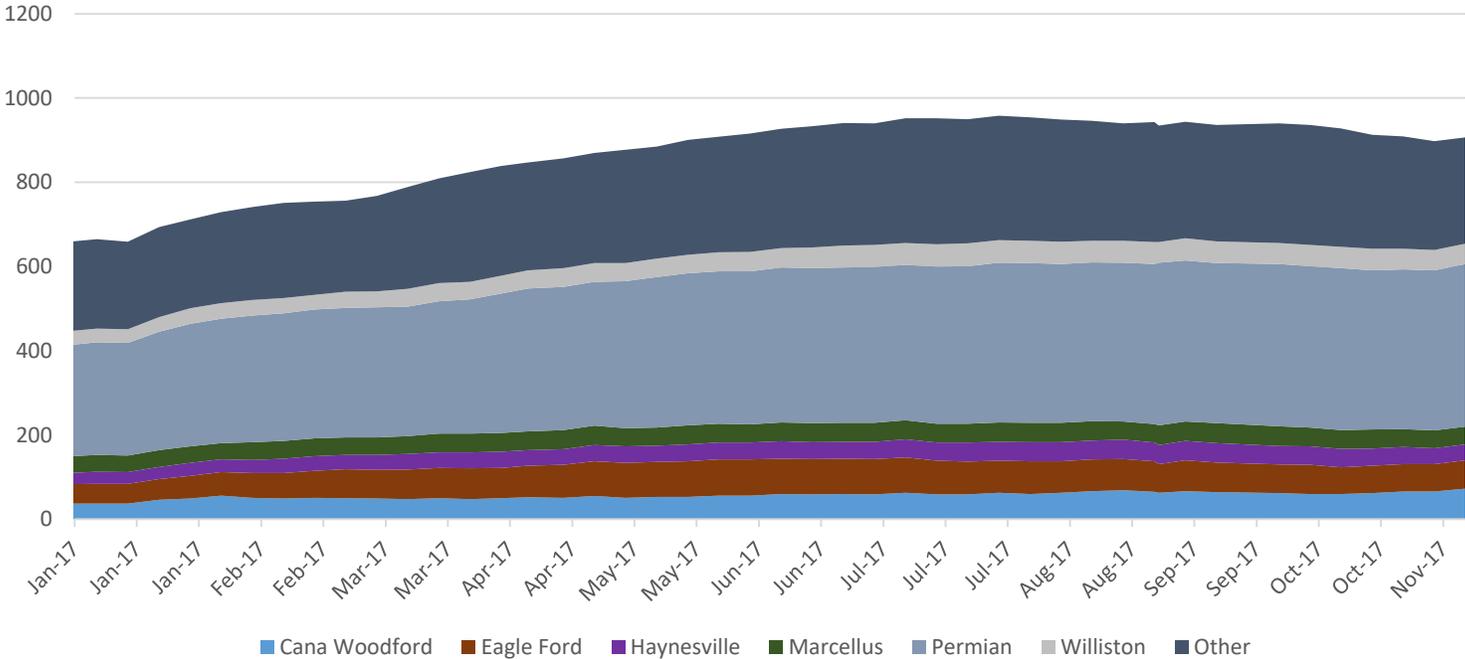
➤ U.S Natural Gas Production*



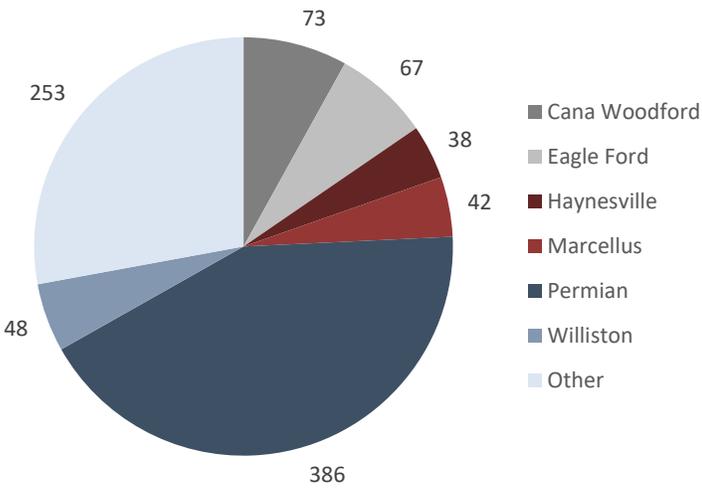
Natural Gas	Million Cubic Feet per Day			Change From	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
	89,053	88,781	87,927	0.03%	1.3%

Rig Counts by Basin

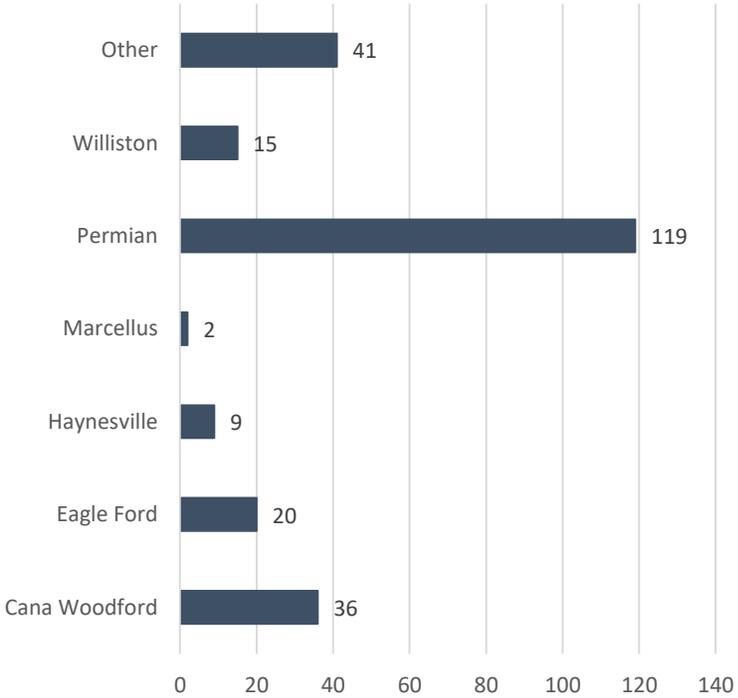
➤ U.S Rig Count by Basin Analysis



➤ U.S Rig Count by Basin

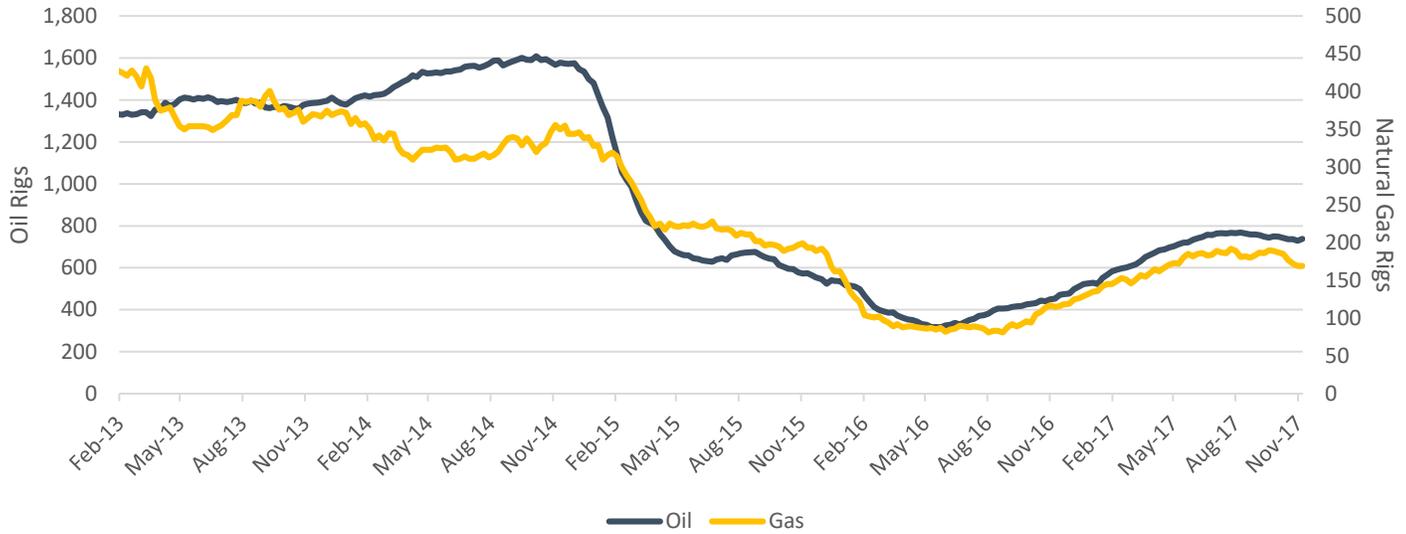


➤ U.S Rig Count by Basin YTD Increase



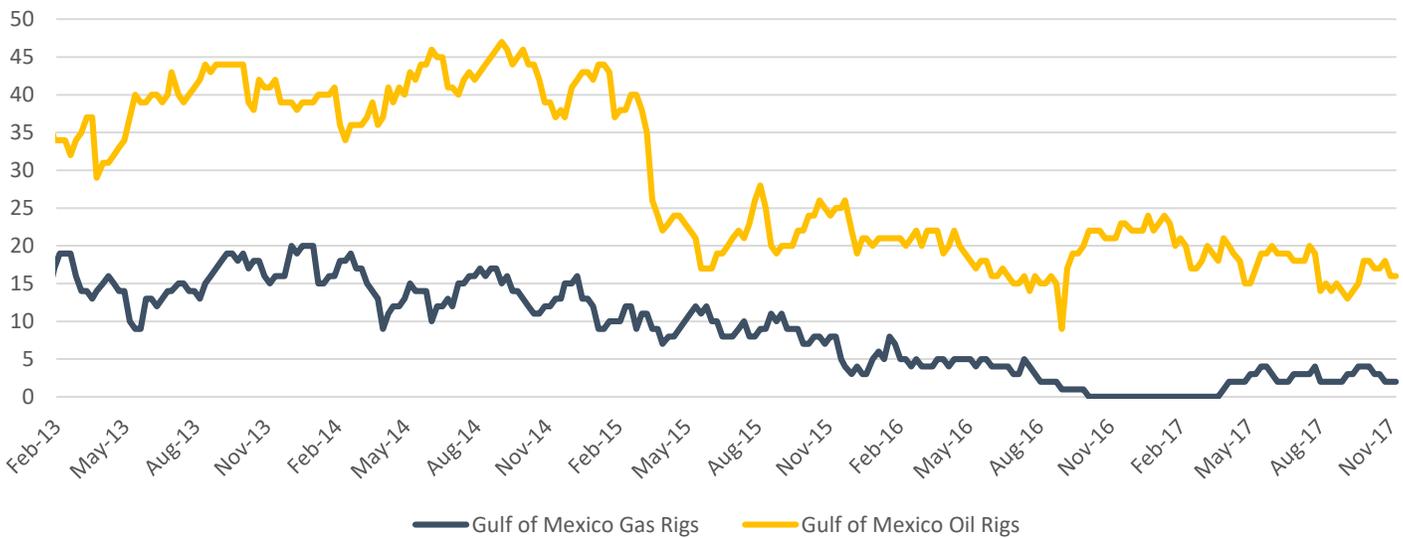
Rig Counts (continued)

➤ U.S Oil vs. Natural Gas Rig Count



	Rig Counts			Change from	
	Current	Prior Week	Prior Year	Prior Month	Prior Year
Oil	738	729	452	1.2%	63.3%
Natural Gas	169	169	115	0.0%	47.0%

➤ Gulf of Mexico: Oil Rig vs. Natural Gas Rig



	Rig Counts			Change from	
	Current	Prior Week	Prior Year	Prior Month	Prior Year
Oil	16	16	21	0%	-23.8%
Natural Gas	2	2	0	0%	-

About Founders Advisors

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