



Oil & Gas Equipment and Services Update

Market Insights Report | December 2019

► Synopsis of Q3 Energy Earnings Calls

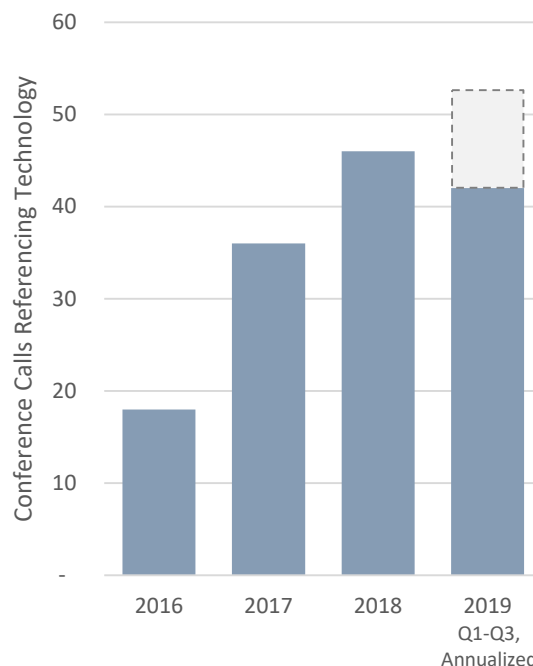
Third quarter earnings from oilfield service (“OFS”) providers, international oil companies and exploration and production (“E&P”) operators were almost uniformly flat to down compared to both last quarter and year over year. The primary take-aways were that while offshore and international earnings continued to grow, although slowly, they were offset by significant declines in U.S. land earnings. Uniformly, E&P companies focused on the land market are feeling investor pressure to spend within their cash flow, which is creating a ripple effect of pricing pressures throughout the upstream energy value chain. The myopic focus on capital efficiency has led to a slowdown in production growth, as the U.S. land rig count declined 11% from the second quarter - the first time such a decline has been seen in a decade. The outlook for 2020 revolves around continued pursuit of capital efficiencies and disciplined capex budgets, which could create further pressures for OFS providers.

► OFS Companies Developing Technology to Adjust for a Changing Landscape

The fallout from reduced production growth was evident in OFS providers’ third quarter results. Most OFS providers reported continued pricing pressure and a slowdown in demand for their services on U.S. land drilling and completions activities. Service companies have begun to realize that it is not enough to wait for “better times” of higher oil prices to increase demand for services and commensurately push prices up, but that they need to realign their businesses to target services that improve efficiency through innovative solutions at a reasonable cost. Almost uniformly, the most efficient way that OFS companies are attacking this issue is through the development and investment in scalable technologies that automate otherwise manual tasks. Over the last four-years, the number of earnings calls mentioning this transition has tripled, and is clearly a focal point of the future.

Energy Companies Are Looking for Scalable Technology

The Number of Oilfield Earnings Calls Where Technology Has Been Mentioned Has Tripled Over the Last Four-Years



Oil & Gas Equipment & Services Team

John Sindors
 jsindors@foundersib.com

John Sullivan
 jsullivan@foundersib.com

Evan Klisares
 eklisares@foundersib.com

Tripp Salem
 tsalem@foundersib.com

Randy Freeman
 rfreeman@foundersib.com

Notable & Quotable

“Service Companies have clearly realized that it’s not enough to wait for better times of higher oil prices – they need to realign their solutions to target technologies and services that improve efficiencies at a reasonable cost.”

John Sindors,
 Managing Director
 Founders Advisors

Technology Is A Critical Solution to the Changing Energy Ecosystem

► Energy Companies Struggling to Attract Investor Capital, as a Greater Emphasis is Placed on Free Cash Flow (FCF)

The publicly traded OFS index is a good proxy for investor sentiment on the industry – capital allocators have grown increasingly concerned with Energy companies' ability to consistently generate free cash flow, and skittish around the volatility of the broader industry environment. To attract capital and bolster multiples, E&P companies have squeezed service providers to do work cheaper, and in fewer days – the result has created a challenging situation for OFS companies; an industry primarily driven by day-rates and unit pricing. The Q3 OFS industry earnings calls are littered with citing of eliminating crews and equipment, with hopes that a tighter market will help bolster pricing and bring some stability to the industry.

► OFS Companies Using Technology and Automation to Combat Pricing Pressures and Improve Value Proposition

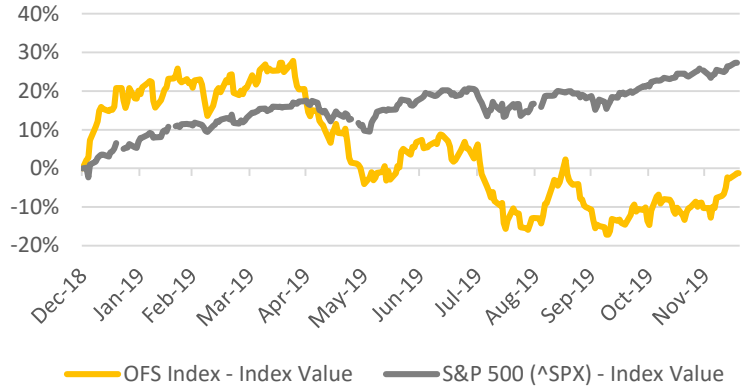
OFS companies are exploring R&D solutions to develop technologies that will give them an edge in the bidding process, while also helping to alleviate pricing pressures from operators. These types of technologies are being developed across the energy ecosystem, and specifically offer a value proposition of improved performance at a lower rate. One of the fastest-growing segments in the energy market is smaller, lower-middle market (LMM) companies, acting as outsourced R&D for larger companies unwilling to commit to the fixed costs of developing differentiated scalable technologies. These smaller companies are solving for a critical pain point in the industry, and have attracted an increasing amount of Venture Capital and Private Equity attention.

► Lower-Middle Market Technological Solutions Are Increasingly Attracting Investor Interest

Lower-middle market companies that have a proven product are quickly becoming hot-commodities in the M&A ecosystem. Strategic buyers are drawn to scalable technologies that may require higher-multiples to purchase, but often require a smaller check size than investing in in-house R&D efforts. Similarly, Financial Buyers (Private Equity and Venture Capital firms) are attempting to deploy a record-high amount of capital and are gravitating towards opportunities that can grow despite a tough macro backdrop, while simultaneously aiding their (often struggling) portfolio companies. These dynamics have led to ~40% of M&A transactions in the industry being from technology-enabled solutions, which is twice as much as what it was in 2016.

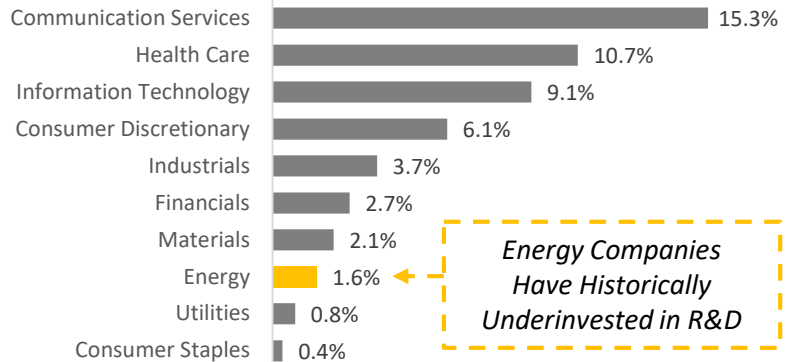
Year to Date, OFS Index Vs. S&P 500

A Myopic Focus on FCF Yield and End Market Instability Has Created a Challenging Environment to Attract Investor Capital



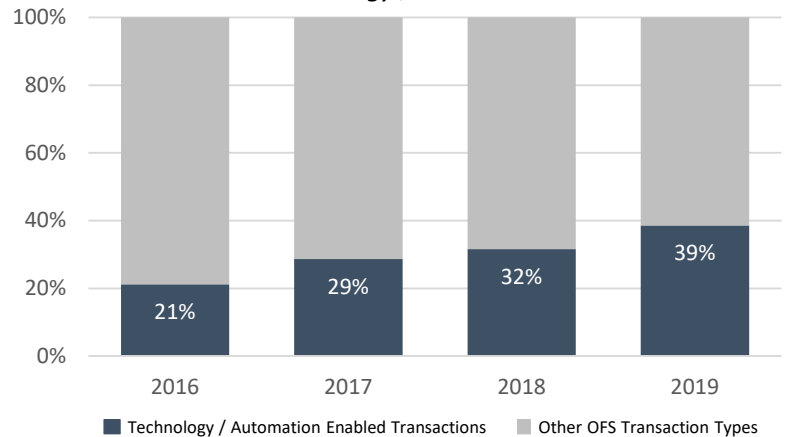
Five-Year R&D Spend as a % of Sales, by Industry

An Underinvestment in R&D is Creating Opportunities for LMM Energy Companies to Act as Outsourced R&D



Energy Transaction Types

Oilfield Transactions Have Shifted Towards Cost Reducing Technology / Automation



Recent Oilfield Service Transactions

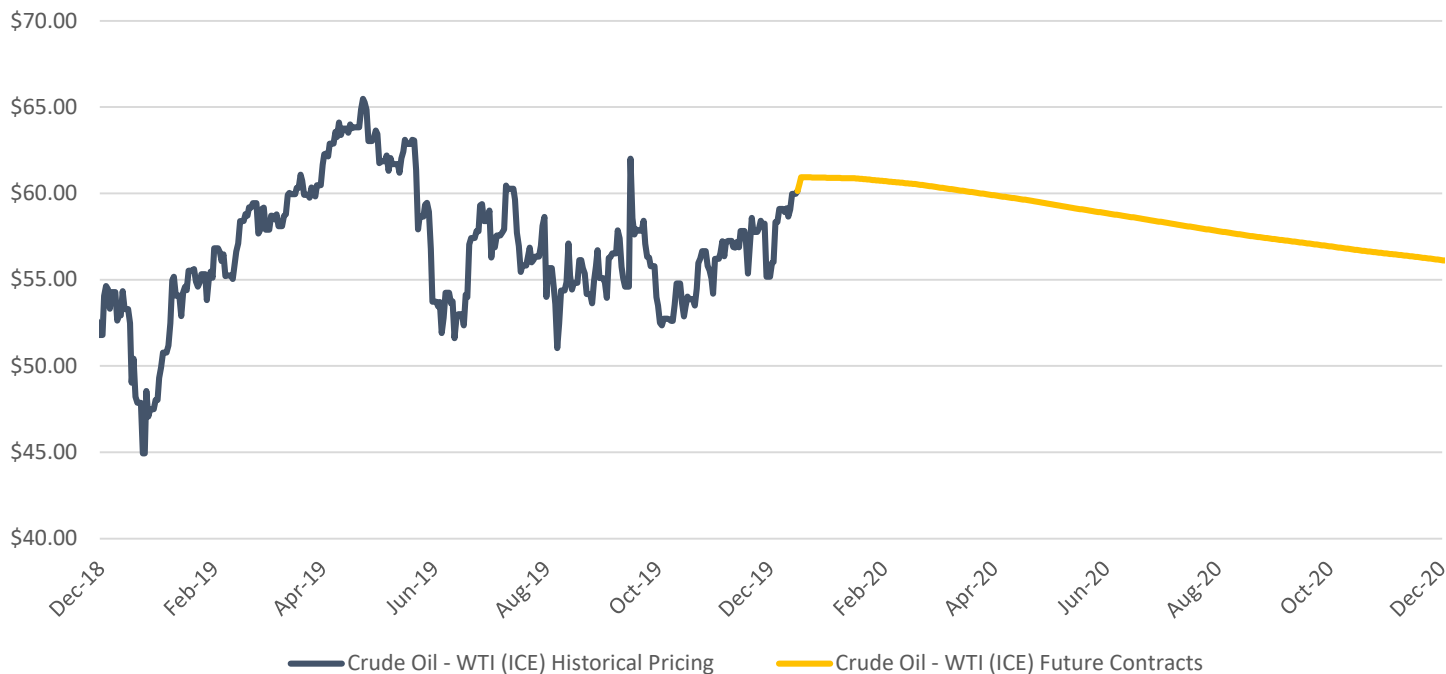
Announced Date	Target Name	Buyer Name	Target Business Description
12/17/2019	Geoforce, Inc.	LLR Partners Inc.	Geoforce, Inc. provides tracking and asset management solutions for oilfield equipment. Geoforce, Inc. was founded in 2007 and is based in Plano, Texas with a subsidiary operation in Perth, Australia.
12/13/2019	Watson, Inc.	Management Buyout	Watson, Inc. manufactures drill rigs. The company was founded in 1923 and is based in Fort Worth, Texas.
12/10/2019	Creedence Energy Services, LLC	Tower Arch Capital, L.P.	Creedence Energy Services, LLC provides oilfield production chemicals, acidizing services, and custom solutions for scale and corrosion prevention to oil and gas providers in the Bakken and Permian basins.
12/4/2019	IACX Energy LLC	Alder Midstream, LLC	IACX Energy LLC designs, fabricates, deploys, and operates a fleet of small-to-medium sized processing assets that remove nitrogen and CO2 from natural gas at or near the well head.
11/25/2019	Arkos Field Services, LP	Burckhardt Compression North America Services LLC	Arkos Field Services, LP offers services for engines and compressors, engine-driven coolers, emissions equipment, instruments and controls, process and treating equipment, production equipment, turbochargers, and PE and compression equipment.
11/20/2019	W&W Energy Services, Inc.	Petrofac Limited	W&W Energy Services, Inc. offers oil and gas field construction and services. The company was founded in 2008 and is based in Odessa, Texas.
10/8/2019	Goodnight Midstream, LLC	Tailwater Capital LLC	Goodnight Midstream, LLC provides professional fluids management services to oil and gas producers. It owns and operates an extensive network of water gathering pipelines and salt water disposal wells.
10/7/2019	Vaughn Energy Services LLC	Undisclosed	Vaughn Energy Services LLC, a wellbore surveyor for the oil and gas industry in the United States and internationally, provides wellbore temperature and gamma logging services.
10/2/2019	Intelligent Wellhead Systems Inc.	Pason Systems Inc. (TSX:PSI)	Intelligent Wellhead Systems, Inc. (IWS) is a Canadian technology company specializing in the development and deployment of unique pressure control systems.
9/11/2019	Cold Bore Technology Inc.	Rice Investment Group	Cold Bore Technology develops down-hole sonic communication tools for the directional drilling industry. Its remote system enables access and visibility of the completion operations data and work flow overview in real-time.
9/10/2019	COUGAR Wellhead Services Inc./Cougar Machine Ltd.	PCM Canada Inc.	Cougar Wellhead Services manufactures oil and gas field equipment, offering a robust and modern drivehead product line to the oil and gas industry.

Trading Statistics

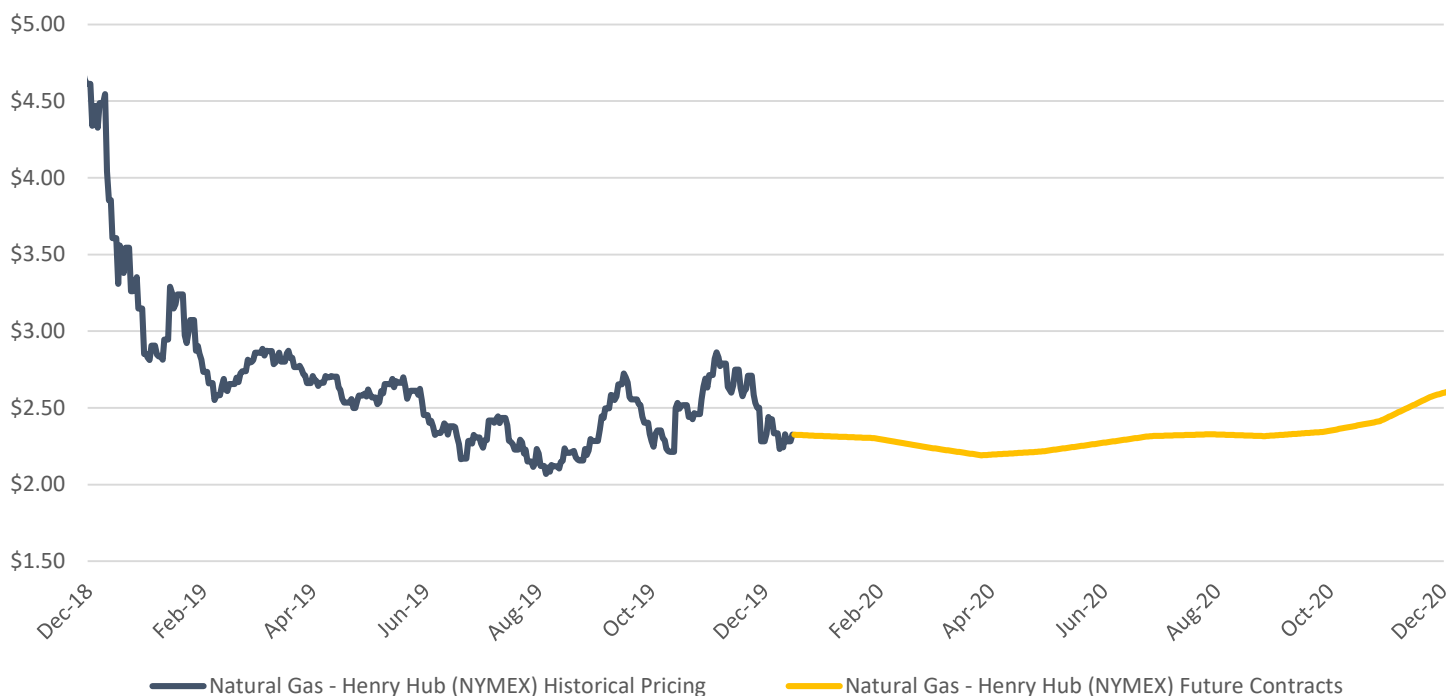
Ticker		Stock Price	% of 52-Week		Market	Enterprise	LTM	LTM	Enterprise Value /	
		12/16/2019	High	Low	Cap	Value	Revenue	EBITDA	LTM Revenue	LTM EBITDA
<i>(All \$ in MM except for Stock Price)</i>										
Founders OFS Pureplay Index										
NYSE: WHD	Cactus, Inc.	33.09	81.3%	136.6%	1,559	1,607	628	228	2.6x	7.1x
Nasdaq: TUSK	Mammoth Energy Services	1.61	6.5%	131.5%	72	198	836	131	0.2x	1.5x
Nasdaq: NCSM	NCS Multistage Holding	2.18	32.8%	139.7%	102	139	204	9	0.7x	15.7x
NYSE: NEX	NexTier Oilfield Solutions	6.64	53.1%	164.0%	1,396	1,637	1,780	302	0.9x	5.4x
NYSE: PUMP	ProPetro Holding Corp.	10.38	40.9%	146.8%	1,042	1,067	2,043	450	0.5x	2.4x
NYSE: WTTR	Select Energy Services	8.92	70.0%	147.4%	766	1,016	1,378	184	0.7x	5.5x
NYSE: SOI	Solaris Oilfield Infrastructure	13.41	69.4%	131.0%	424	518	236	132	2.2x	3.9x
Min		\$1.61	6.5%	131.0%	\$72	\$139	\$204	\$9	0.2x	1.5x
Median		\$8.92	53.1%	139.7%	\$766	\$1,016	\$836	\$184	0.7x	5.4x
Mean		\$10.89	50.6%	142.4%	\$766	\$883	\$1,015	\$205	1.1x	5.9x
Max		\$33.09	81.3%	164.0%	\$1,559	\$1,637	\$2,043	\$450	2.6x	15.7x
Founders Big Four										
NYSE: BKR	Baker Hughes Company	\$23.95	83.6%	119.2%	\$15,564	\$33,138	\$23,755	\$3,046	1.4x	10.9x
NYSE: HAL	Halliburton Company	24.35	74.4%	143.5%	21,375	31,264	23,153	3,714	1.4x	8.4x
NYSE: NOV	National Oilwell Varco	23.85	73.1%	132.1%	9,202	11,231	8,596	146	1.3x	76.9x
NYSE: SLB	Schlumberger Limited	39.40	80.6%	128.5%	54,545	69,340	32,868	6,509	2.1x	10.7x
Min		\$23.85	73.1%	119.2%	\$9,202	\$11,231	\$8,596	\$146	1.3x	8.4x
Median		\$24.15	77.5%	130.3%	\$18,469	\$32,201	\$23,454	\$3,380	1.4x	10.8x
Mean		\$27.89	77.9%	130.8%	\$25,171	\$36,243	\$22,093	\$3,354	1.5x	26.7x
Max		\$39.40	83.6%	143.5%	\$54,545	\$69,340	\$32,868	\$6,509	2.1x	76.9x
Other Publics										
NYSE: APY	Apergy Corporation	\$29.23	67.4%	123.8%	\$2,264	\$2,844	\$1,197	\$286	2.4x	9.9x
NYSE: CLB	Core Laboratories N.V.	\$45.35	60.0%	123.9%	\$2,012	\$2,378	\$685	\$117	3.5x	20.3x
Nasdaq: ERII	Energy Recovery, Inc.	\$9.24	76.7%	149.8%	\$509	\$432	\$85	\$17	5.1x	24.8x
NYSE: NE	Noble Corporation plc	\$0.94	25.8%	104.4%	\$234	\$4,195	\$1,097	\$351	3.8x	11.9x
NYSE: OII	Oceaneering International	14.31	67.2%	133.2%	1,416	2,054	1,982	145	1.0x	14.2x
NYSE: OIS	Oil States International, Inc.	16.87	79.3%	143.8%	1,021	1,317	1,053	100	1.3x	13.1x
NYSE: FTI	TechnipFMC plc	19.95	69.8%	109.6%	8,919	9,374	13,005	1,479	0.7x	6.3x
Min		\$0.94	25.8%	104.4%	\$234	\$432	\$85	\$17	0.7x	6.3x
Median		\$16.87	67.4%	123.9%	\$1,416	\$2,378	\$1,097	\$145	2.4x	13.1x
Mean		\$19.41	63.7%	126.9%	\$2,339	\$3,228	\$2,729	\$357	2.5x	14.4x
Max		\$45.35	79.3%	149.8%	\$8,919	\$9,374	\$13,005	\$1,479	5.1x	24.8x

Commodity Prices

➤ WTI Oil \$/bbl

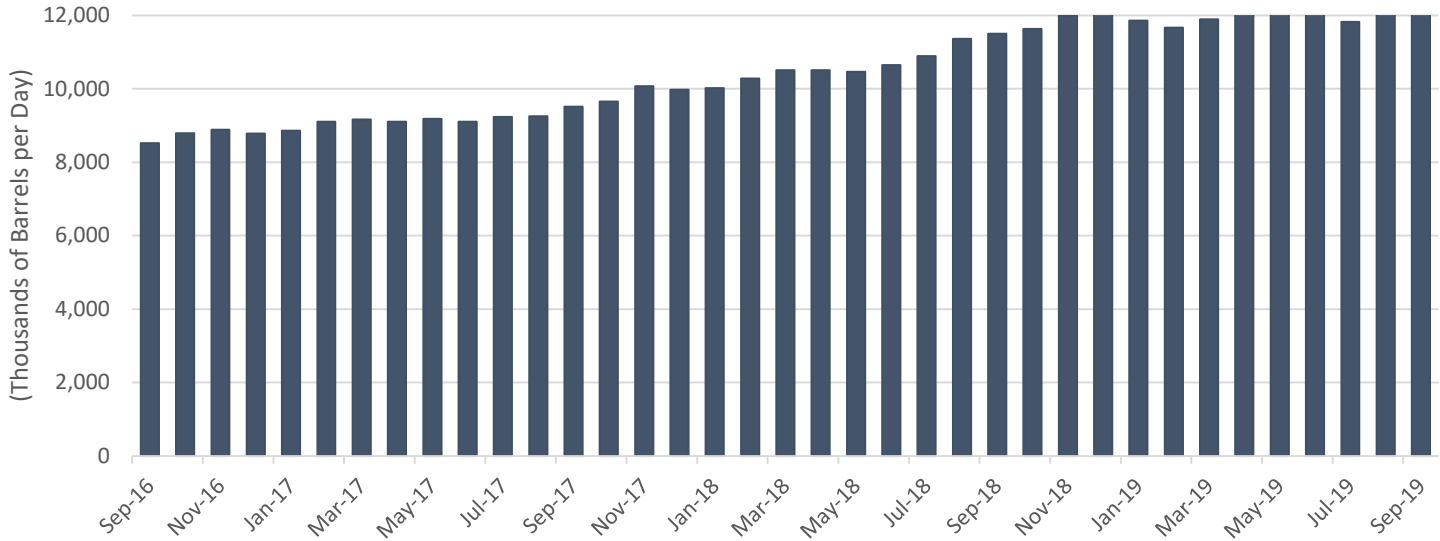


➤ Natural Gas \$/MBtu



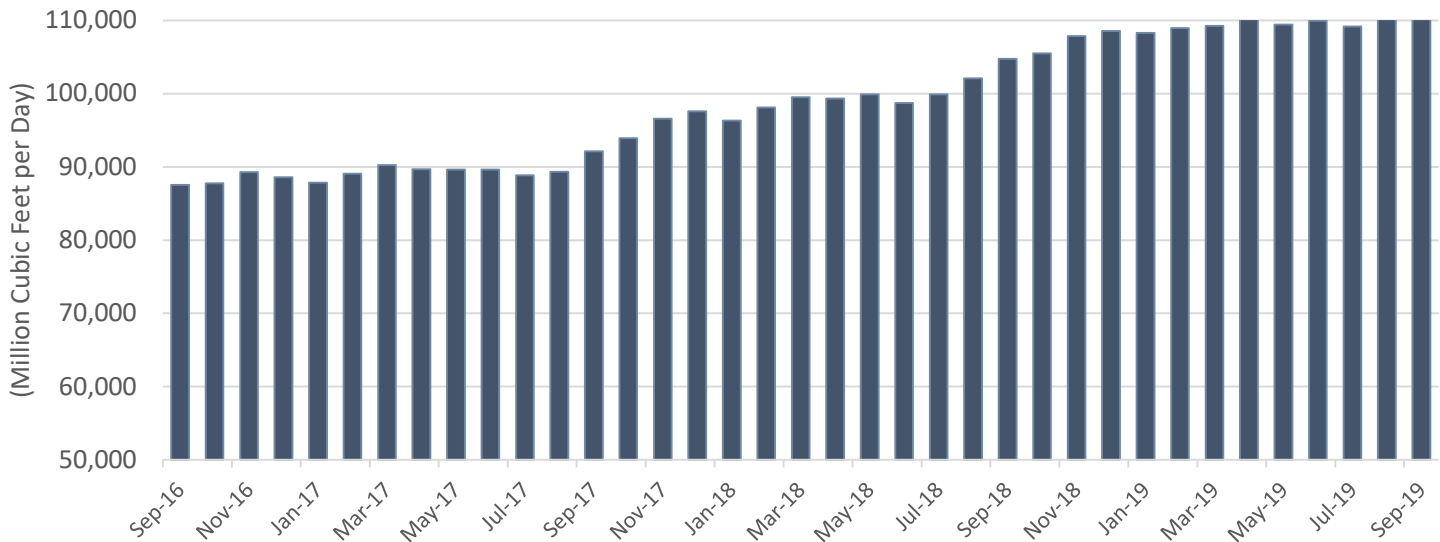
Production Data

➤ U.S Crude Oil Production



Crude Oil	Thousands of Barrels per Day			Change From	
	Sep-19	Prior Month	Prior Year	Prior Month	Prior Year
	12,463	12,397	11,498	0.5%	8.4%

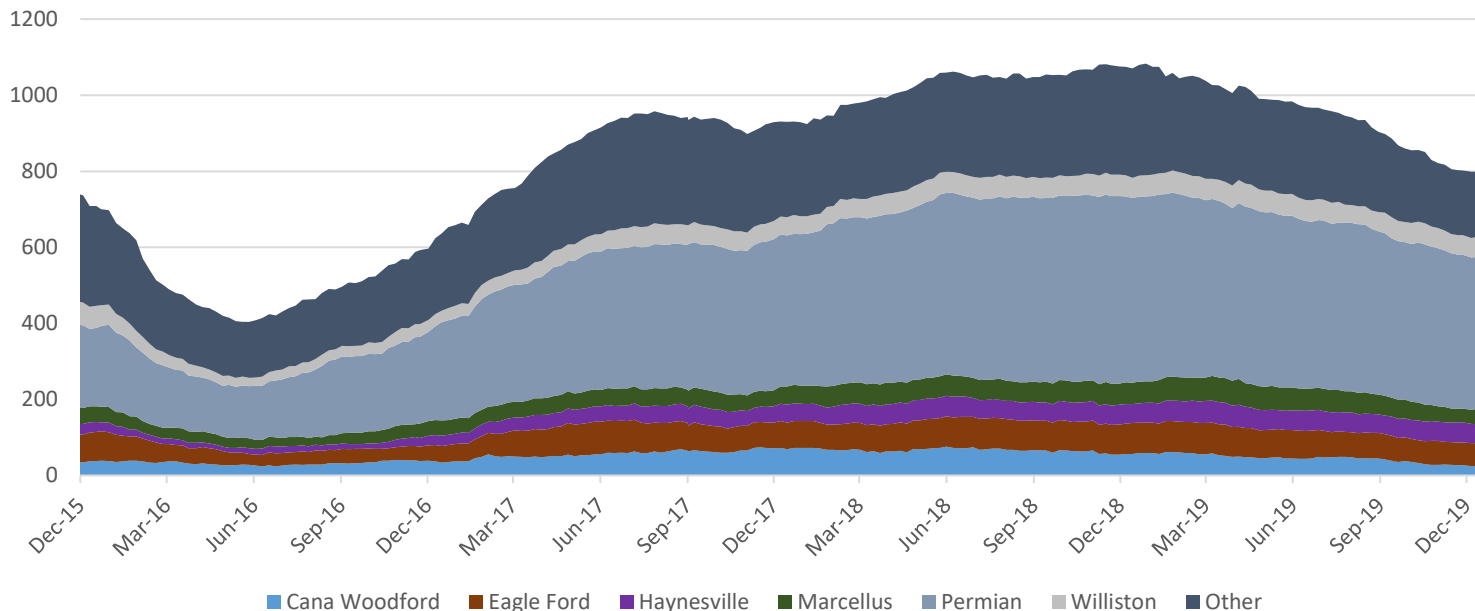
➤ U.S Natural Gas Production



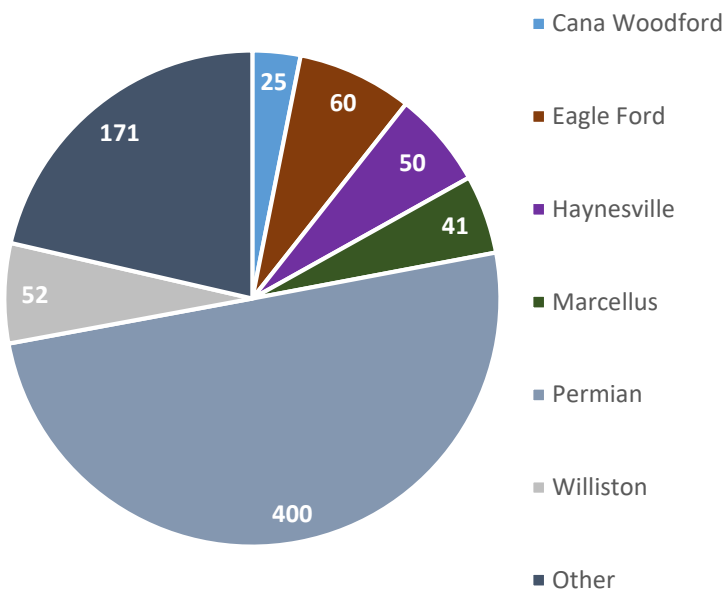
Natural Gas	Million Cubic Feet per Day			Change From	
	Sep-19	Prior Month	Prior Year	Prior Month	Prior Year
	112,879	111,171	104,729	1.5%	7.8%

Rig Counts by Basin

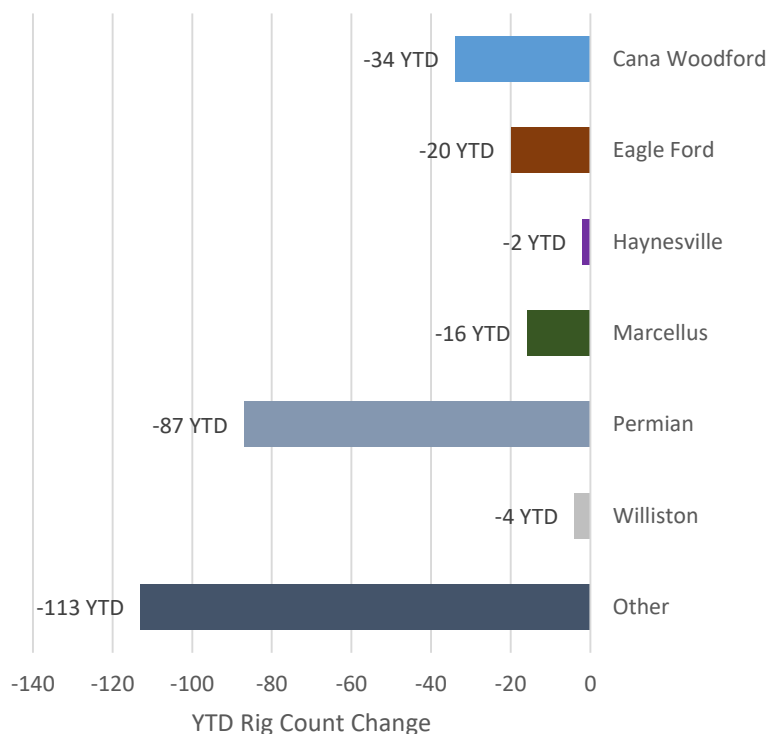
➤ U.S Rig Count by Basin Analysis



U.S Rig Count by Basin - 12/13/19

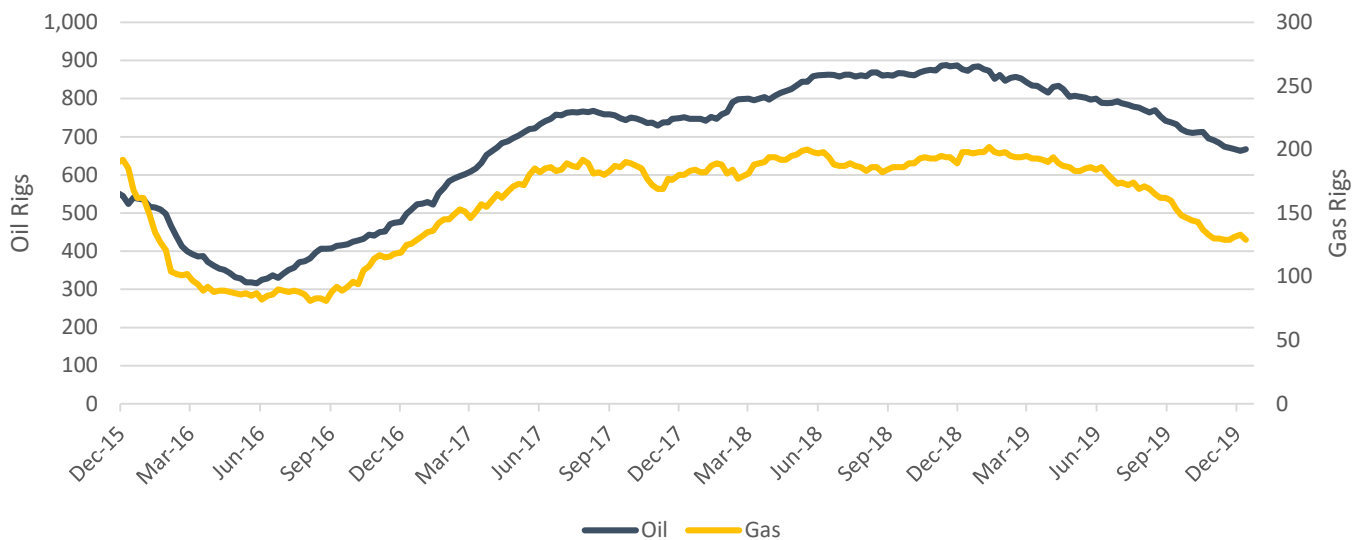


U.S Rig Count by Basin: YTD Change



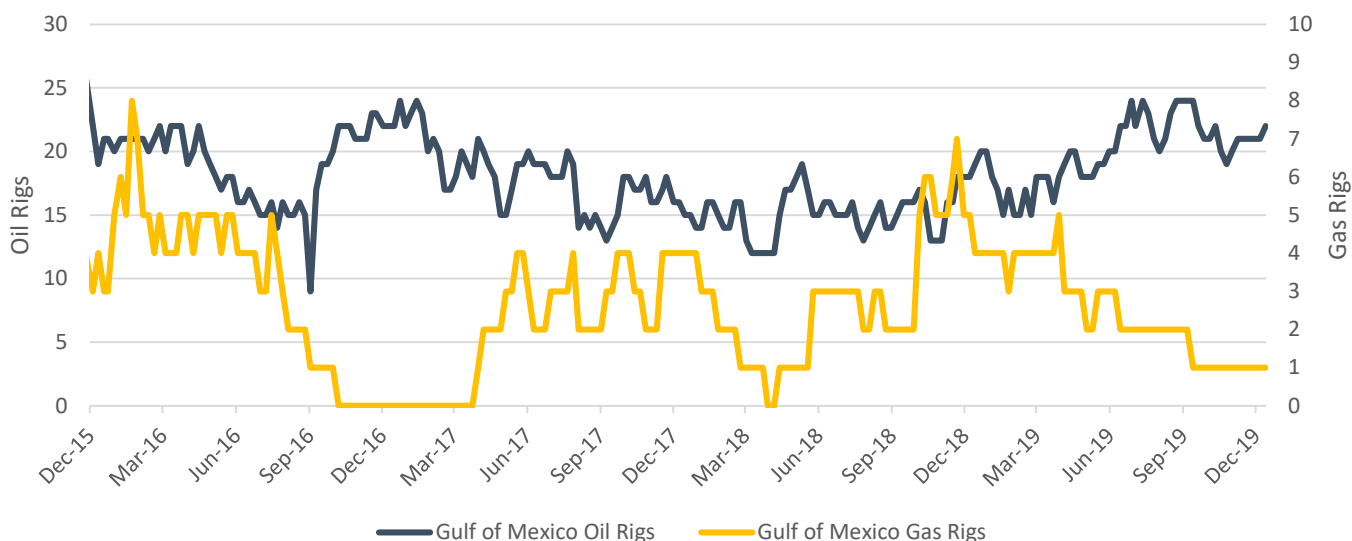
Rig Counts (continued)

➤ U.S Oil vs. Natural Gas Rig Count



	Rig Counts			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	667	712	873	(6.3%)	(23.6%)
Natural Gas	129	143	198	(9.8%)	(34.8%)

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



	Rig Counts			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	22	21	19	4.8%	15.8%
Natural Gas	1	1	4	0.0%	(75.0%)

About Founders Advisors

Founders Advisors (Founders) is a merger, acquisition & strategic advisory firm serving middle-market companies. Founders' focus is on energy, industrials, software, internet, digital media and industrial technology companies throughout the United States. Founders' skilled professionals, proven expertise and process-based solutions help companies access growth capital, make acquisitions, and/or prepare for and execute liquidity events to achieve specific financial goals. In order to provide securities-related services discussed herein, certain principals of Founders are licensed with M&A Securities Group, Inc. or Founder M&A Advisory, LLC, both members FINRA & SIPC. Founders M&A Advisory is a wholly owned subsidiary of Founders. M&A Securities Group and Founders are not affiliated entities. For more information, visit www.foundersib.com.



Contact

For more information, visit www.foundersib.com, call us at 205.949.2043, or contact the Energy & Industrial team directly by email:

John W. Sinderson, Managing Director
jsinders@foundersib.com

John W. Sullivan, Director
jsullivan@foundersib.com

Evan H. Klisares, Associate
eklisares@foundersib.com

Tripp Salem, Associate
tsalem@foundersib.com

Randy Freeman, Analyst
rfreeman@foundersib.com

HOUSTON

4265 San Felipe Street, Suite 1100
Houston, TX 77027
Phone: 346.326.1782
Fax: 205.871.0010

BIRMINGHAM

2204 Lakeshore Drive, Suite 425
Birmingham, AL 35209-8855
Phone: 205.949.2043
Fax: 205.871.0010

DALLAS

180 State Street, Suite 225
Southlake, TX 76092
Phone: 214.295.1055
Fax: 214.295.1047