DECEMBER 2013

December Edition:
Insights from *Founders Fall Forum*

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The Founders O&G team recently held our Fall Forum in Cameron Meadows, LA, hosting keynote speaker and industry expert, John Spears, along with oilfield service and private equity executives for a destination conference of duck hunting, saltwater fishing, networking, and industry focused presentations. Our team highlighted select takeaways from the forum below:

- **Growth in Expenditures for Oilfield Equipment & Service Sector.** According to the Spears & Associates research team, global spending on oilfield equipment and services is projected to increase 8% in 2014 over 2013, compared to a 6% increase from 2012 to 2013. Further information:
  - Specifically, the following subsectors are expected to increase in 2014: Hydraulic Fracturing (2% to 6%), Rig Equipment (4% to 10%), Renting & Fishing Services (1% to 3%), Well Servicing (6% to 8%), Coiled Tubing Services (2% to 5%)

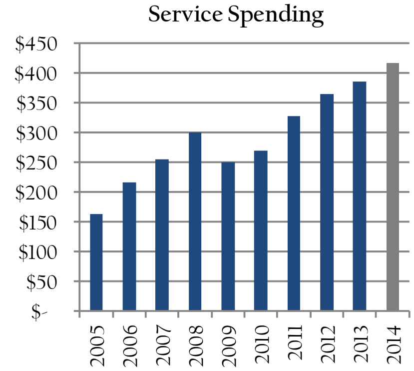
Select Market Segment Spending	*Millions USD*				*Percent Change*	
	2011	**2012**	**2013**	**2014P**	*2013*	*2014*
Hydraulic Fracturing	33,740	34,662	35,281	37,398	2%	6%
Subsea Equipment	12,678	15,628	17,948	20,640	15%	15%
Rig Equipment	14,636	16,645	17,365	19,102	4%	10%
Drilling & Completion Fluids	9,940	11,103	12,310	13,541	11%	10%
Completion Equipment & Services	8,652	10,595	11,968	13,524	13%	13%
Renting & Fishing Services	7,304	8,041	8,130	8,374	1%	3%
Speciality Chemicals	6,585	7,380	8,000	8,640	8%	8%
Well Servicing	5,408	6,050	6,415	6,928	6%	8%
Surface Equipment	5,259	6,104	6,415	6,736	5%	5%
Coiled Tubing Services	4,686	5,257	5,375	5,644	2%	5%

Source: Spears & Associates

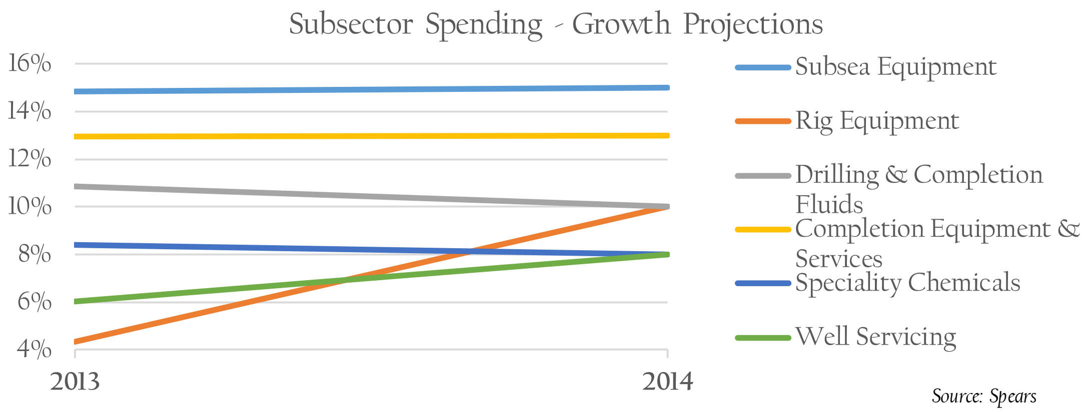
> "Global spending on oilfield equipment and services is projected to increase 8% in 2014"

- As highlighted in our November Edition of the O&G Newsletter, offshore drilling services continues to garner attention, particularly in the Gulf of Mexico. As seen above, Subsea Equipment is expected to witness a 15% growth rate in 2014, the highest of all industry subsectors
  - Additionally, deep and ultra-deepwater well intervention demand is expected to rise by an annual growth rate of 8% and 18% respectively during the 2013-2017 period (**view page 9 for "Gulf of Mexico Rig Count"*)
- Overall, global expenditures on oilfield equipment and services have grown at 11% CAGR (compounding annual growth rate) since 2005 (graph to right), and the United States accounts for approximately 45% of the global market

Global Oilfield Equipment & Service Spending



**In billions* *Source: Spears & Associates*

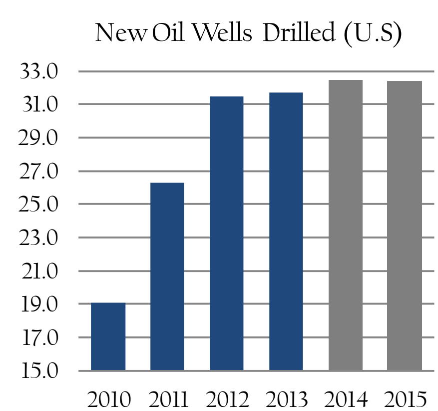


Source: Spears

> Gas exports will drive approximately 80% of the growth in U.S. gas production over the 2015 to 2019 timeframe

- **Oil Macro-Environment.** Global oil consumption is expected to finish 2013 with an 1.2% increase of 1.1 million bpd to an average of 90.0 million bpd. Furthermore, 2014 consumption is expected to grow 1.4% in 2014, increasing 1.2 million bpd to an average of 91.2 million bpd. Additional details:
    - China is expected to account for over 4% of the demand growth; therefore, an economic slowdown in China could deter this projection. In fact, 2014 growth is significantly dependent on the Chinese economy, the source of approximately 45% of the global demand growth since 2009 (*As oil is a global commodity, price is a derivative of global demand, among other factors*)
    - Spears estimates the spot WTI price to average $90/bbl in 2014, down 7% from 2013. However, the WTI futures market shows an average spot price during 2014 at $94.64/bbl
- **Gas Production Growth.** Domestic gas production is expected to increase significantly in the latter half of the decade. The details:
    - U.S. gas production is expected to grow at an approximate average of 200 bcf per year (0.5 bcfd) over the 2013 to 2015 timeframe
    - In order to handle projected export growth (reference "LNG Exports" in the November Edition) and increased domestic demand, domestic gas production is expected to increase at a rate of 900-1,200 bcf per year (2.5-3.3 bcfd) over the 2015 to 2019 timeframe
    - Furthermore, gas exports will drive approximately 80% of the growth in U.S. gas production over the 2015-2019 timeframe
- **Domestic Drilling.** Domestic drilling is projected to remain at high levels through the end of 2013 and into 2014 (shown in graph to right). Further details:
    - Spears & Associates expect the new U.S. well count to reach 48,500 wells by the end of 2013, up 1% from 2012. U.S. operators are forecast to drill around 49,700 wells in 2014, up 2% from 2013
    - Spears estimates that 32,400 new oil wells will be drilled in 2014, up 2% from 2013
- **Private Equity Activity.** Private equity firms are expected to remain very active in the domestic oilfield equipment and service market in 2014, crediting lower capital requirements and shorter investment timeframes in comparison to E&P companies
    - In a recent interview, Joe Brady, Senior VP of Founders Oil & Gas Team, stated, "We have witnessed a continued appetite from PE (private equity) firms in the oilfield services sector. In 2014, the combination of healthy capital markets, low interest rates, and demand for scale across basins will create deal volume. Furthermore, the amount of capital flowing into energy funds will add fuel to this fire."

Early morning results from the Fall Forum



(Above) In thousands *Source: Spears*

- **E&P Talk.** Founders aggregated select statements from E&P operators as they reflected on third quarter earnings (July – September) and gave pertinent future insight:
  - CEO of **Chesapeake Energy**, Robert Lawler, "Oil production growth in the third quarter came primarily from the Eagle Ford…[W]e expect a continuation of this trend due to the ongoing ramp up in the Eagle Ford and Utica and the continued focus of our capital program on liquids drilling. In light of better-than expected oil production during the third quarter, we are again raising our full year 2013 oil production outlook by 2 million barrels."
  - CEO of **Energen Corp,** James McManus, "We plan to accelerate the pace of our Wolfcamp drilling in the Midland basin in 2014. We're seeing great consistency in the Wolfcamp Bay results in Glasscock County and we'll focus our development efforts there."
  - Ernie Leyendecker, Head of Exploration in the U.S. for **Anadarko Petroleum**, "You can see our growth has been driven primarily by the Wattenberg field, the Eagle Ford field. As we look into the future, potentially more contribution from the Permian basin…[w]e continue to allocate capital into the Eagle Ford and expand that in the coming years."
  - William Thomas, CEO of **EOG Resources**, noted that his company has surpassed expected drilling every quarter this year, "We've been able to increase the planned well count every quarter this year because we are drilling wells faster and more cost-effectively." Additionally, he spoke of drivers for their continued confidence in the Eagle Ford, "as a result of new frac techniques, and the downward trend of well cost through operational efficiencies, give us high confidence in the strength of our large drilling inventory on our Western Eagle Ford acreage."
  - Lee Tillman, CEO of **Marathon Oil**, gave indication of Marathon's focus, "We are continuing to work on completion optimization, not just from a cost standpoint but also from a value standpoint, and ensuring that we deliver the highest productivity completions to generate the best economics."
    - Further, Credit Suisse reported that Marathon Oil will sell its North Sea oil-and-gas business and ramp up its U.S. shale operations, joining a list of exploration and production companies shedding overseas properties to focus on North America
  - Frank Hopkins, Senior VP of IR at **Pioneer Natural Resources**, cited that acquisitions have boosted the company's competitive positioning, "don't miss the fact that we've got some good cost protection in place through vertical integration." Furthermore, he alluded that his company continues to be acquisitive, "And as I said, our balance sheet is always there if we need to use it."
  - **ConocoPhillips** raised its spending 11% year-over-year ($16.7bn). Ed Westlake at Credit Suisse added, "Look beneath the surface … [t]he mega-caps are still not spending as much as they could in North America shale. Once legacy projects like the $54bn Gorgon project are completed in 2015-16 … Majors annual spending give North American oilfield services a Christmas present that was not purchased at Wal-Mart but rather on 5th Avenue instead."

> "We continue to allocate capital into the Eagle Ford and expand that in the coming years [sic]"


Afternoon results from the Fall Forum

Select Oil & Gas Transactions

Announced Date	Closed Date	Target	Buyer/Investors	Size ($mm)
Dec-09-2013	-	Kvaerner North American Construction, Ltd. and Kvaerner North American Construction Inc.	Matrix Service Company (NasdaqGS:MTRX)	80.3
Dec-09-2013	-	Valerus Field Solutions	Kentz Corporation Ltd (LSE:KENZ)	435.0
Dec-06-2013	Dec-06-2013	Highkelly Drilling Ltd.	CanElson Drilling Inc. (TSX:CDI)	38.27
Dec-05-2013	Dec-05-2013	INOVA Geophysical Equipment Limited – 9,000 Channels of Hawk Nodal Seismic Acquisition System	Paragon Geophysical Services Inc.	-
Dec-03-2013	-	Hart Oilfield Rentals Ltd.	Enterprise Group, Inc. (TSX:E)	21.19
Dec-02-2013	Dec-02-2013	Quality Connector Systems, LLC	Oil States Industries, Inc.	*est. $25 - $50
Nov-22-2013	Nov-22-2013	Airdrill Pty Ltd and Airdrill Hammers & Bits Pty Ltd.	Schramm, Inc.	-
Nov-20-2013	Nov-01-2013	Oilfield Tubular Inspection	Inspection Oilfield Services	-
Nov-13-2013	Nov-12-2013	Aqua Handling of Texas, LLC	HII Technologies, Inc. (OTCBB:HIIT)	1.33
**Nov-12-2013	Sept-4-2013	Tornado Production Services, LLC	Professional Directional Enterprises, Inc.	-

**While no official value was released, Founders estimates the transaction to be the $25mm to $50mm range, dependent on structure and other variables*
***Indicates that the Principals of Founders Investment Banking acted as the sole advisor in the transaction*

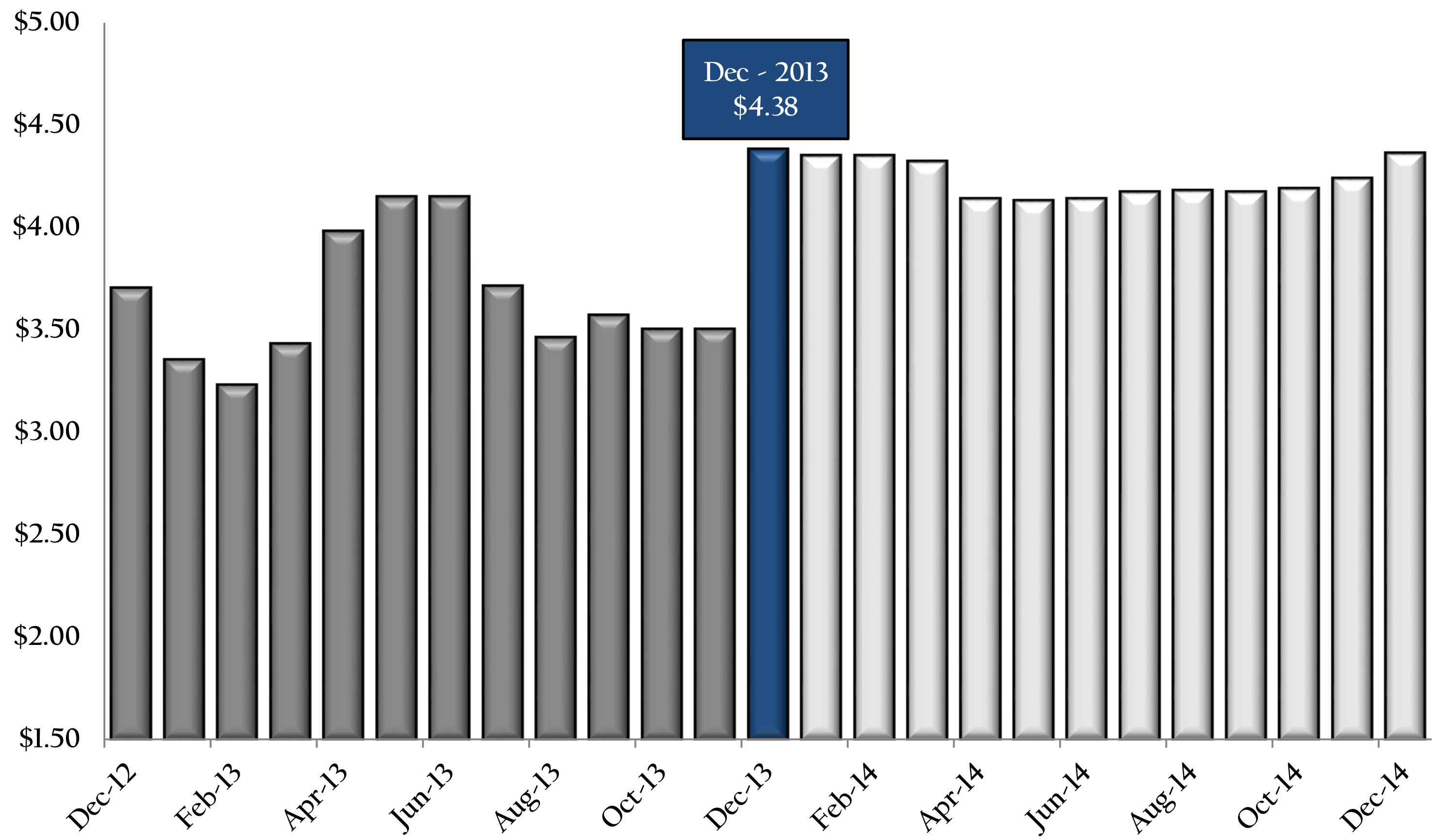
Transaction Overview:

As several transactions are anticipated to close in the last week of 2013, the M&A market for Oil & Gas Equipment and Services witnessed lower activity from mid-November to mid-December. However, a current transaction of interest includes Kentz Corporation's acquisition of Valerus Field Solutions. U.K.-based Kentz will purchase Houston-based Valerus for $435 million in cash. This continues the theme of foreign companies (and investors) seeking exposure to U.S. oil plays. Kentz will acquire the processing and treating, production equipment, compression and integrated services business lines from Valerus Compression Services.

With 2013 winding down, the focus has shifted to 2014 and the market portrays ingredients for a lucrative M&A environment. Contributing factors include: historically low interest rates (cheap debt), strong corporate balance sheets, upstream demand for technology advancements and overall efficiencies, and consolidation around maturing U.S. basins.

Sources: Capital IQ & Bloomberg

Natural Gas Futures (Henry Hub)

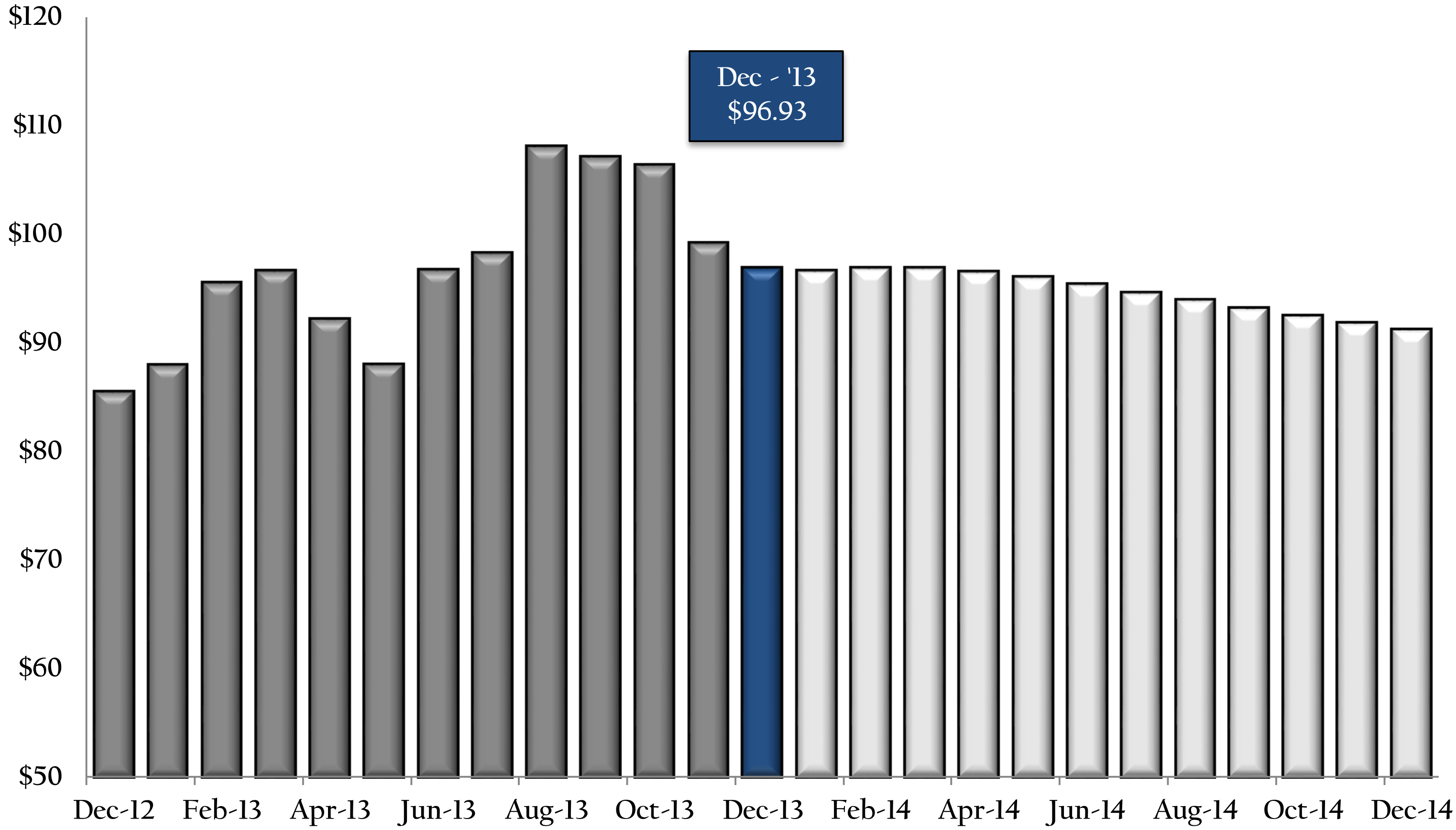


Nature Gas Futures Overview:

Natural gas spot prices were $4.38 per MMBtu at the Henry Hub on December 15th, increasing 88 cents from a month prior. Winter weather catalyzed the December price jump as much of the country faced snow and harsh temperatures. Additionally, the market displayed an uptick for projected gas prices throughout 2014. Future contracts for the Henry Hub estimated that prices will increase from an average of $3.70 per MMBtu in 2013 to $4.23 per MMBtu in 2014.

Sources: EIA & Capital IQ

Oil Futures Pricing (WTI)



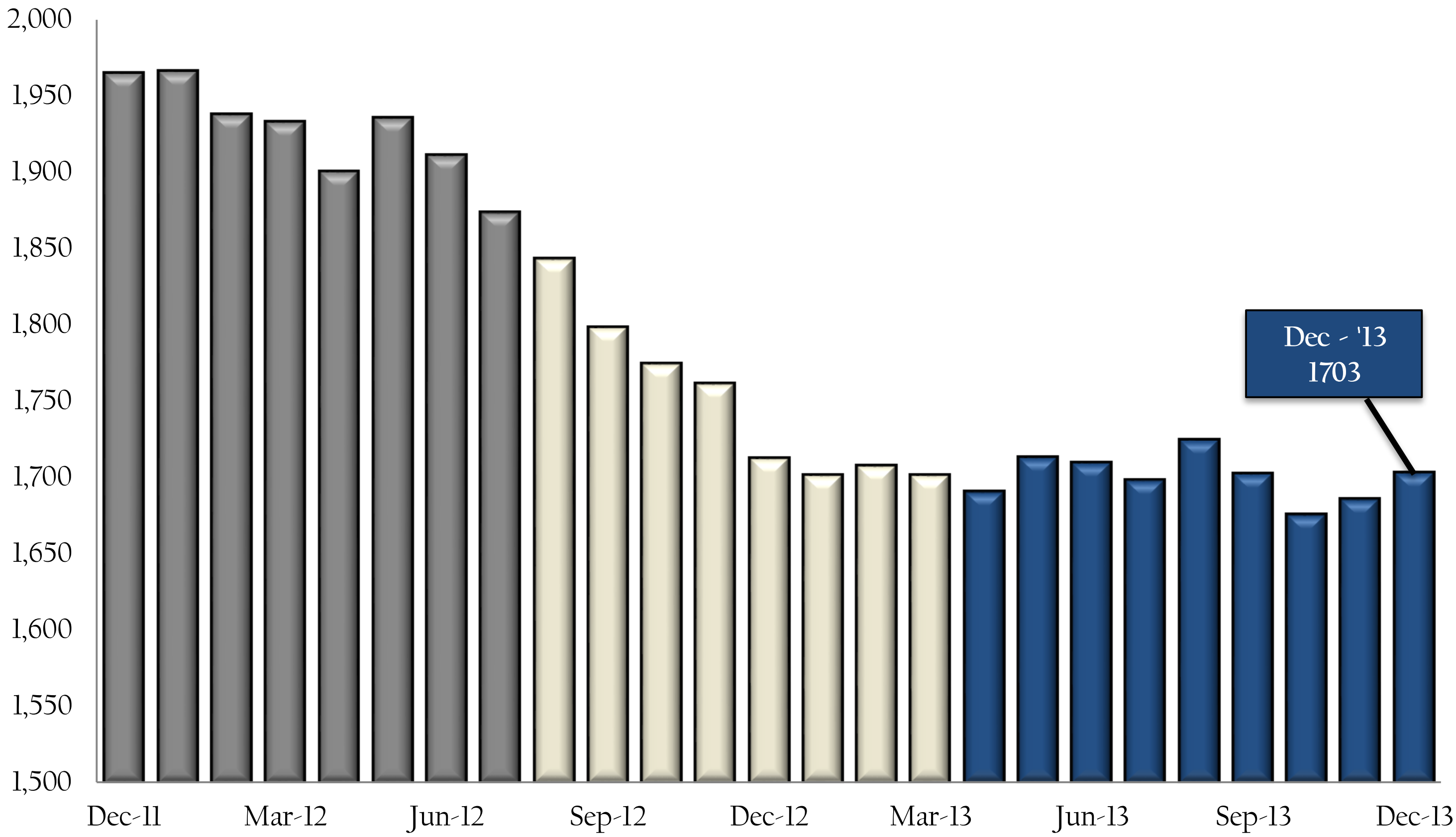
Oil Futures Overview:

The West Texas Intermediate crude spot price dropped for the fifth consecutive month in December; however, the outlook projects stabilization as prices are not expected to decline at a similar rate. Decline in recent months has been correlated to weaker demand and fears that the Federal Reserve will curb quantitative easing ($85 billion per month spent on bond purchases).

That being said, prices are projected to remain relatively flat for the remainder of 2013 and 2014, as EIA forecasts the 2014 average target price of $94.64 per barrel.

Sources: Capital IQ, EIA & Bloomberg

U.S. Onshore Rig Count

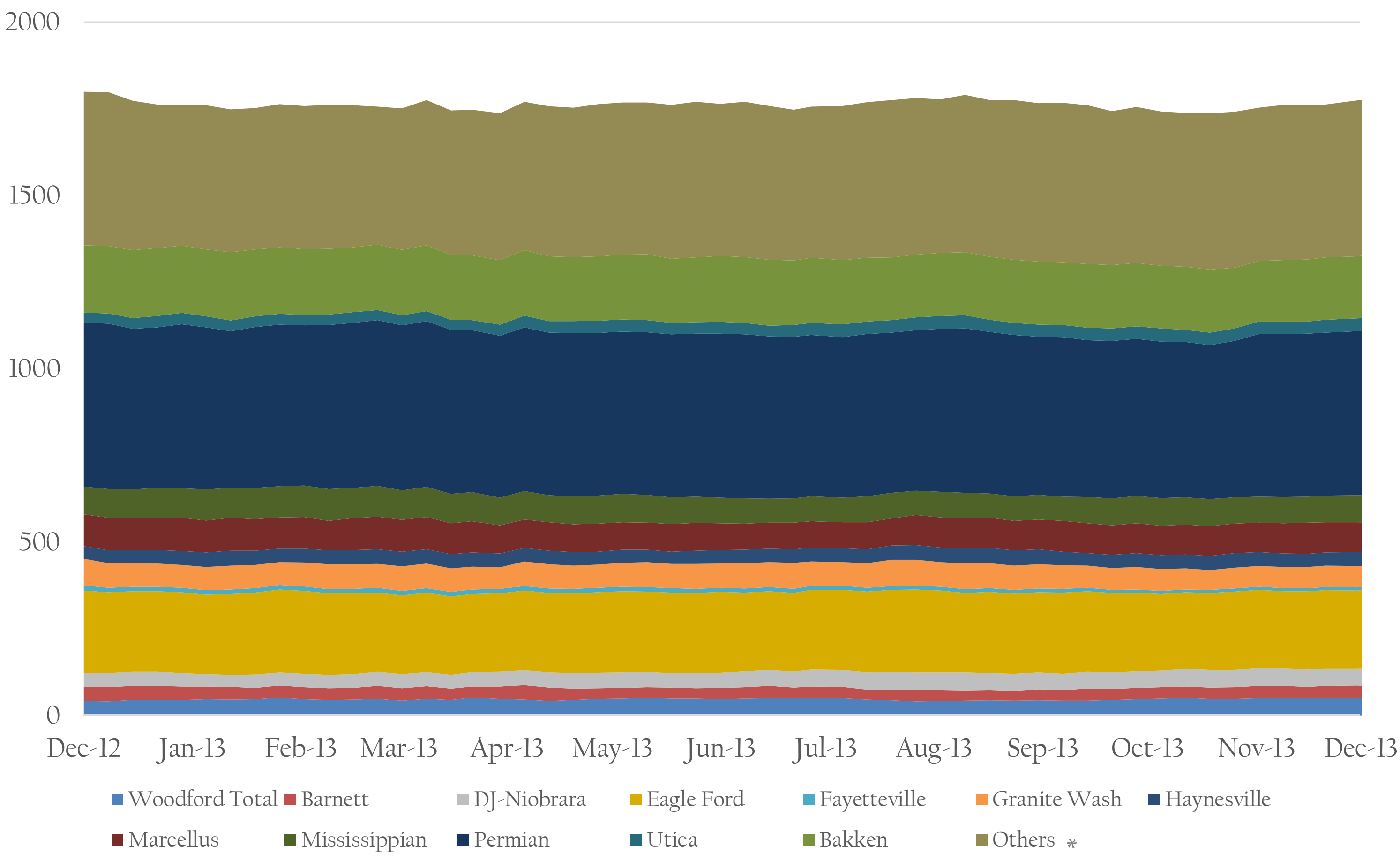


Onshore Rig Count Overview:

Through December 15th, U.S. onshore rig counts experienced an 18 rig count increase from a month prior and a 28 count increase from the month of October, bringing the current rig count to 1,703. A rise in rig count is a positive sign for the production outlook, especially taking efficiency gains into consideration. Looking forward, the rig count is expected to remain flat in the short-term to mid-term as any drilling increases will be offset by rig efficiencies.

Sources: Baker Hughes

U.S. Rig Count by Basin



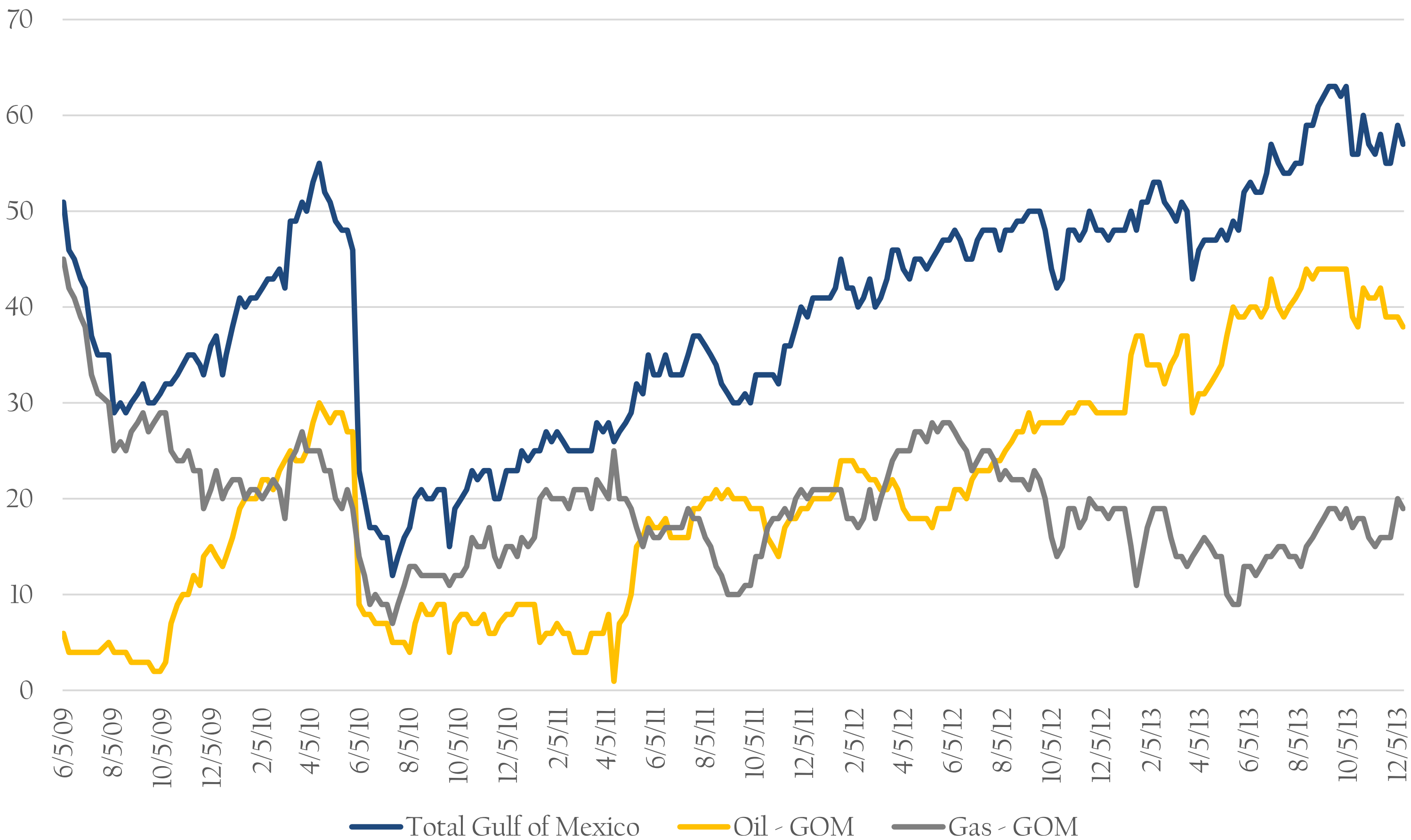
Rig Count by Basin Overview:

Rig counts across onshore basins rose for the second straight month in December, highlighted by gains in major basins. Since November 15th, rig counts increased in the Bakken (+10), Permian (+7), Eagle Ford (+6), Utica (+2), DJ-Niobrara (+2), Haynesville (+1), and Mississippian (+1), and decreased in the Barnett (-1), Marcellus (-2), and Fayetteville (-4). Notable gains from the Bakken, Permian, Eagle Ford, and Utica should be very favorable OFS companies outlook, as the Country's most active basins continue to garner steam.

Rig counts as of December 15, 2013:
Barnett – 35, DJ-Niobrara – 52, Eagle Ford – 229, Fayetteville – 9, Granite Wash – 57, Haynesville – 40, Marcellus – 85, Mississippian – 77, Permian – 477, Woodford – 50, Utica – 38, Bakken (Williston) – 187, and Other – 446 (*"Other" includes offshore and inland water rigs in count).

Sources: Baker Hughes, EIA, and Morningstar

Gulf of Mexico Rig Count



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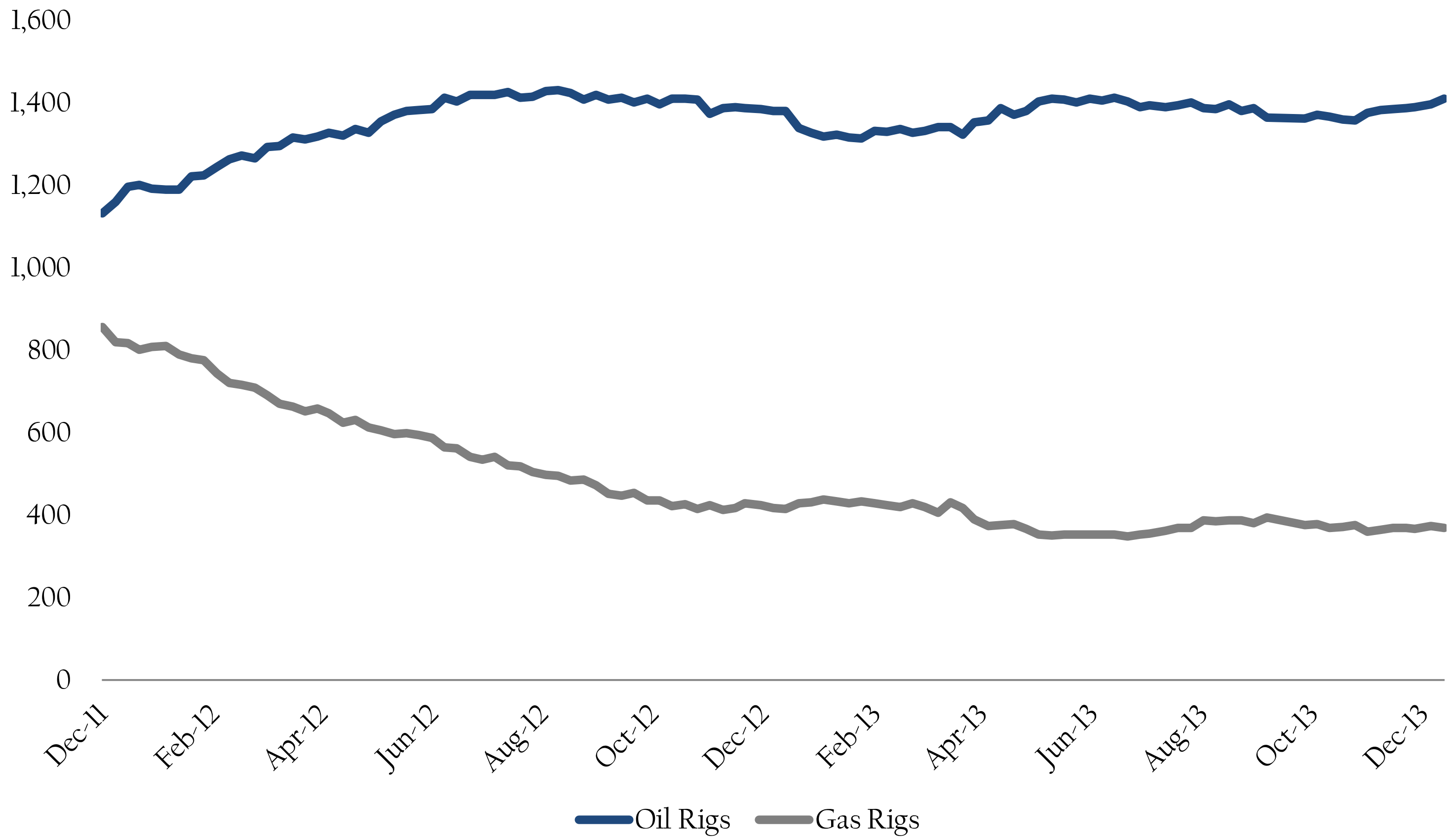
Gulf of Mexico Rig Count Overview:

The total Gulf of Mexico (GOM) rig count decreased by one (-1) as gains in gas directed rigs (+3) were offset by a decrease in oil directed rigs (-4).

In addition, an upcoming lease sale in the eastern GOM should boost activity above current levels. The BOEM's (Bureau of Ocean Energy Management) next lease sale is scheduled for March 19, 2014. The lease sale, which encompasses an area south of eastern Alabama and western Florida, is estimated by BOEM to result in the production of 71 million barrels of oil and 162 billion cubic feet of natural gas.

Sources: Baker Hughes, Rig Zone

U.S. NG vs. Oil Rig Count

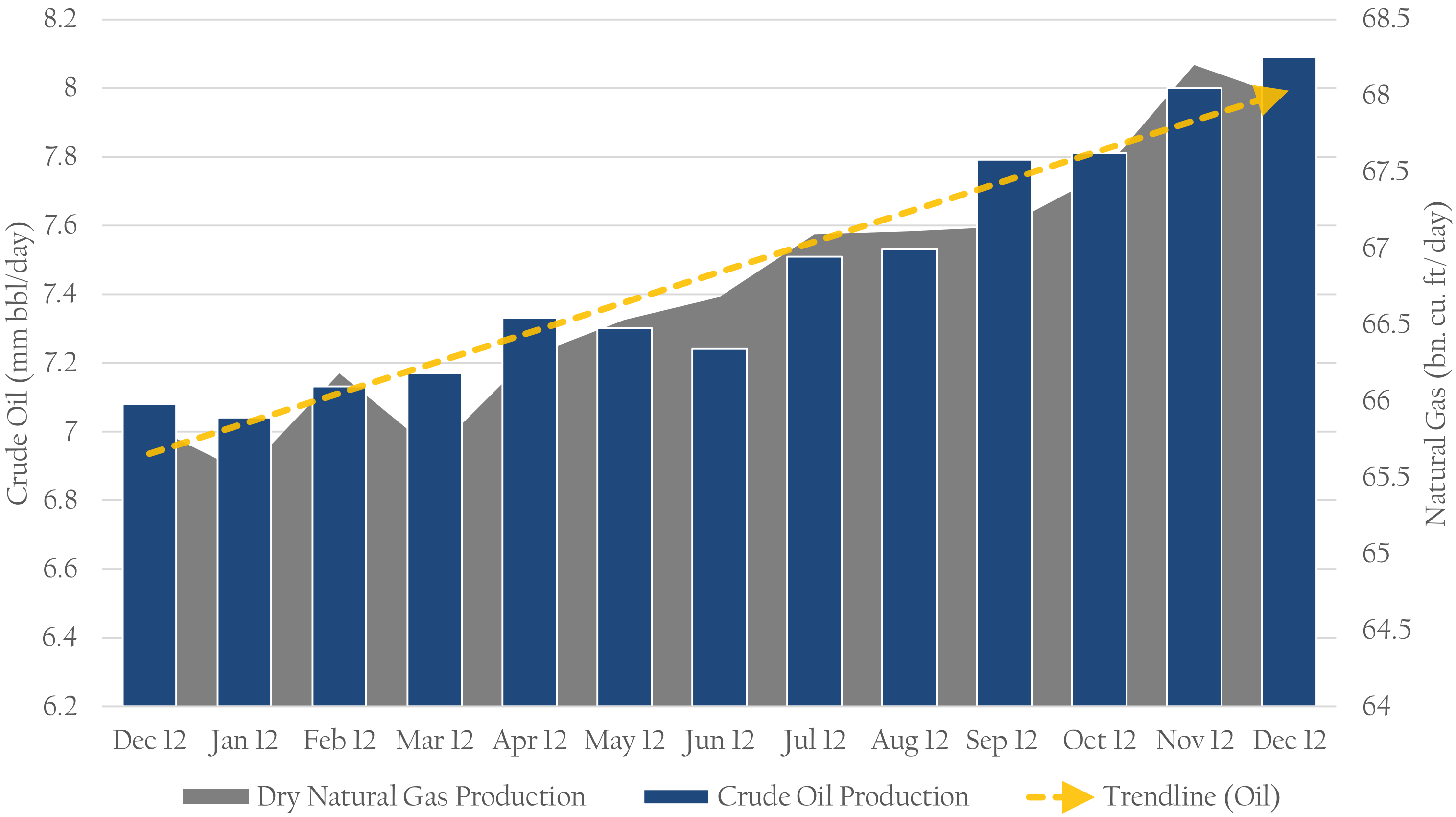


NG vs. Oil Count Overview:

From November 15th to December 13th, oil directed rigs saw a 26 rig increase and gas rigs observed a 1 rig decrease. Despite decreases in oil pricing over the trailing three months, drilling continues to be economical and oil rig counts are rising. In fact, the recent monthly trend of increasing rig count is affirmation in E&P operators confidence that pricing will stay well above the marginal cost for drilling economic wells.

Sources: Baker Hughes

U.S. NG vs. Oil Production



NG vs. Oil Production Overview:

U.S. Oil production continued its escalation into historic levels (trend line shown in gold). Specifically, November brought production levels of 8 mm bbl/ day, and December's production is expected to increase to 8.09 mm bbl/day. Furthermore, EIA forecasts crude oil production to reach nearly 9 mm bbl/ day by the end of 2014.

Natural gas (charted in gray) production for December is forecasted at 67.98 bn cubic ft/ day, decreasing slightly from the November levels of 68.2 bn cubic ft/ day. Natural gas production has increased over the past 12 months; however, the EIA expects production to hover around current levels during 2014, with an average of 67.70 bn cubic ft/day in 2014.

Sources: EIA

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.

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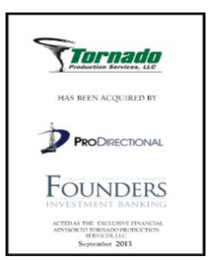
Recent Founders Blast & Cast Fall Forum duck hunt at the lodge in Cameron Meadows.



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