December Edition:
Adaptation in a Changing Environment

Prepared by:

Duane Donner
ddonner@foundersib.com

Joe Brady
jbrady@foundersib.com

John Ortstadt
jortstadt@foundersib.com

Brandon Pilot
bpilot@foundersib.com

Ben New
bnew@foundersib.com

The Founders O&G team recently held its Blast and Cast Fall Forum in Cameron Meadows, LA back in September. Keynote speaker and industry expert John Spears, President of Spears & Associates, along with oilfield service company owners and executives, attended the conference packed with duck and alligator hunting, saltwater fishing, networking, and industry-focused presentations.

The "Forum" is designed to educate and inform oilfield service owners, executives, and industry professionals on the current condition of drilling, completion, and production markets. In addition, Founders dives into the M&A markets including current valuations and trends. Getting away from the fast pace of the oilfield and into a sportsman's setting, the Forums foster an environment of fellowship with great amenities and fine dining. Click below to view a video from our recent forum:

FOUNDERS BLAST & CAST FORUM
SOUTH LOUISIANA
SEPTEMBER 24 TO 26, 2014

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NEWSLETTER EDITORIAL – ADAPTATION IN A CHANGING ENVIRONMENT

Since our Forum in September, the world has changed dramatically with the drop in oil prices; therefore, the oil and gas market looks vastly different heading into 2015. The new environment will bring challenges and will require adaptation on behalf of oilfield service providers. In the December edition of the Oil & Gas Newsletter, we look ahead into 2015 to provide relevant insights.

- **State of the Market.** With the current surplus of oil, the Saudis' desire to regain market share and weaker than expected demand, 2015 production will likely need to curtail to balance the supply-demand relationship. According to Francisco Blanch, Head of Global Commodities Research at BOA Merrill Lynch, past oil price stability has been maintained by consistent production cuts by OPEC (Saudi Arabia) during a very unstable geopolitical time period. In recent years, oil price volatility has been around 11%, which is similar to the historically stable volatility of bond prices (9%). Recently, OPEC has essentially said they want oil prices to be dictated by the free market (increasing volatility), which is contrary to OPEC's created purpose (to stabilize oil pricing). We could see continued volatility unless OPEC has a change of heart.


Forum attendees on a gator hunt in Cameron Meadows

- **Expenditures for Oilfield Equipment & Service Sector.** Extrapolating from the budget revisions to-date and the Street's expectations, aggregate budget cuts are projected to reside in the 15-35% range in 2015 (dependent on operator & region). The affects of future spending cuts are yet to materialize as current (2014) budgets run through the end of the year. However, E&P's are stilling trying to digest and make sense of the recent decline in oil prices. We expect the landscape to remain reactive when it comes to planning for 2015. We've already witnessed multiple revisions to expected capital budgets in recent weeks. On a very recent call with John Spears, President of Spears & Assoc., he noted that many operators (E&P's) are still trying to dig in and understand their own breakeven prices. The challenge for operators is the large number of assumptions used in their models when it comes to expected production, decline rates, etc. Spears expects 2015 to be a very reactive year for operators as they will likely revisit capital spending budgets every quarter until there is a better feel for the market.

BAYTEX ENERGY CORP.

Continental RESOURCES

SANCHEZ ENERGY CORPORATION

E&P Capital Spending in 2015

All $ in thousands

Company	Capital Spending for 2015	Percent (%) Change from 2014	Region
Capital Spending Flat or Increase			
Baytex Energy Corp.	$575 - 650	+26%	Eagle Ford, Oil Sands
Continental Resources	$4,600	Flat	Bakken, Mid-Con
Sanchez Energy Corp	$850 - 900	Flat	Eagle Ford
Capital Spending Decrease			
Company	**Capital Spending for 2015**	**Percent (%) Change from 2014**	**Region**
Apache Corp *(North American Budget)*	$4,000	-26%	Permian, Mid-Con, Bakken
ConocoPhillips	$13,500	-20%	Global
Halcon Resources	$750 - 800	-20%	Eaglebine, TMS, Bakken
Oasis Petroleum	$750 - 850	-43%	Bakken
Goodrich Petroleum	$150 - 200	-50%	Eagle Ford, TMS
Rosetta Resources	$950	-20%	Eagle Ford, Permian
Swift Energy	$850 - 950	-36%	Eagle Ford, TMS, SE LA
Lonestar Resources	$85 - 100	-29%	Eagle Ford, Bakken

Source: Reuters, Founders Oil & Gas Research Team

- **Industry Talk.** Through research, relationships and company call transcripts, we have noted several quotes and insights from industry contacts including E&P's, oilfield service providers, and research analysts. We have summarized and categorized the information below:
    - **Pioneer Nat. Resources** COO, Timothy Dove, commented in the November earnings report that he expects the activity to slowdown in the Permian "It won't necessarily have a big impact on production, but the activity level will come down." Mr. Dove hypothesized that oilfield service companies will look to lower their employee cost structure during this time, "I think, 50% to 60% of their cost structure is people…how do we deal with the fact that the personnel costs have gone up so substantially and how do you deal with that in the face of a downturn."

"HOW DO WE DEAL [IN DEALING WITH LOW PRICES] WITH THE FACT THAT THE PERSONNEL COSTS HAVE GONE UP SO SUBSTANTIALLY AND HOW DO YOU DEAL WITH THAT IN THE FACE OF A DOWNTURN."

– TIM DOVE, COO OF PIONEER

- **Industry Talk - *(cont'd).***
  - According to recent conversations with a source close to **Apache**, they are expecting to cut their overall budget by 25%. Within that budget cut they expect to reduce their Mid-Continent budget by 60% and their Permian budget by 10%.
  - Jeffrey Sheets, CFO of **ConocoPhillips**, believes they are in a defensible position, even in a low-price environment. While COP cut their 2015 expected budget by 20%, much of their assets remain economical. "Our position is primarily in the Eagle Ford and the Bakken and it's kind of an emerging position in the Permian…a lot of these projects have really strong economics even at low prices." Marianne Kah, chief economist of ConocoPhillips, said 80% of the American shale sector is profitable at prices between $40 and $80 a barrel (WTI). – *Quote from Nov. 13th*
  - On a recent call with Francisco Blanch, Head of Global Commodities Research at **BOA – Merrill Lynch**, he expound on the US Shale well economics stating that 50% of current shale production makes money at $40 a barrel and 90% of production makes money at $65 a barrel. - *Dec. 17th*
  - According to a source at **Energen**, they feel good about their balance sheet and are positioned well in the Midland and Delaware Basins…But they plan to lower their budget by 10-20% vs. 2014, redirecting spending towards their lower cost areas in the Midland Basin.
  - The Eagle Ford is one of the most economical domestic oil play. Will Thomas, CEO of **EOG**, stated, "the Eagle Ford is the industry's best crude oil asset," adding that service companies with exposure in the region are in position to better "weather the storm." Thomas also implied that with falling prices, cuts would first come from the Barnett, Mid-Continent, East Texas, and in the Wolfcamp region of the Permian, not from their core areas of the Eagle Ford, Bakken, and Permian (Delaware). – *EOG Quotes from Nov. 5th*
  - Roger Jenkins, CEO of **Murphy**, responded on how they manage oil pullback by speaking to their per well cost structure, "…So we're looking at supply cost here in the $40's and OpEx in the $13, $15 range very, very positive and also our gas fields as well on a BOE basis. So I think a very good position to be in, combating what we have in the industry today." *Quotes from Nov. 14th*

> "Our position is primarily in the Eagle Ford and the Bakken and it's kind of an emerging position in the Permian… a lot of these projects have really strong economics even at low prices."
>
> – Jeffrey Sheets, CFO of ConocoPhillips

Do not expect a slowdown in the profitable Marcellus

- **Natural Gas Plays Poised To Drive Forward.** E&P's with diversified holdings in NG plays are better positioned during this falling oil pricing environment. Steady domestic gas prices have created consistency in natural gas activity, maintaining what little confidence remains in an ever increasingly frantic market. Efficiency gains occurring in gas drilling are lowering breakevens and increasing production in higher cost plays.
  - The Haynesville shale in North Louisiana/ East Texas is one example of this occurrence. **Chesapeake** noted at a recent conference, "Looking at Haynesville, it's another area of just remarkable improvement. Third quarter net average production was at 562 million cubic feet equivalent per day, up 11% sequentially. Average completed well cost was $8.2 million (sic), that's from January to present. We have seen several wells just recently in the $7 million range."

> "The Eagle Ford is the industry's best crude oil asset"
>
> – Will Thomas, CEO of EOG

Natural Gas Plays Poised To Hold On – *(Cont'd)*

- The Marcellus, also a predominately NG play, has also seen efficiency gains, as noted by Chesapeake, "800 horizontal wells have been drilled [in the Marcellus]. In 2014 alone, we've seen a 30% reduction in our costs and continue to see great improvements there." *– Quotes from Nov. 13th*
- Robert Lawler, CEO of **Chesapeake**, noted, "With so much volatility right now with the pricing. I think that [the focus is on] operational synergies, EUR improvements, things that we can control." *– Quotes form Nov. 13th*

> "800 HORIZONTAL WELLS HAVE BEEN DRILLED [IN THE MARCELLUS]. IN 2014 ALONE, WE'VE SEEN A 30% REDUCTION IN OUR COSTS AND CONTINUE TO SEE GREAT IMPROVEMENTS THERE"
>
> – ROBERT LAWLER, CEO OF CHESAPEAKE

Oilfield Service Provider Update. The recent slide in oil prices has already begun to take its toll on the public markets. In some cases, we've seen publically traded OFS company valuations cut almost in half.

- Despite the fact that all OFS companies will be taking one on the chin, certain service lines will weather this current pricing environment better than others, i.e. production based services stand to fare better in a down market (as compared to drilling & completion based services).
- According to Spears & Assoc., approximately 60% of drilling rigs are under long-term contracts (1-3) years and historically operators have honored those contracts. To conserve capital, E&P's will drill the well, set the pipe, and wait to complete the well (or frac the well), thus saving more than half the cost of the well. Expect to hear more about the statistic "wells drilled but not completed."

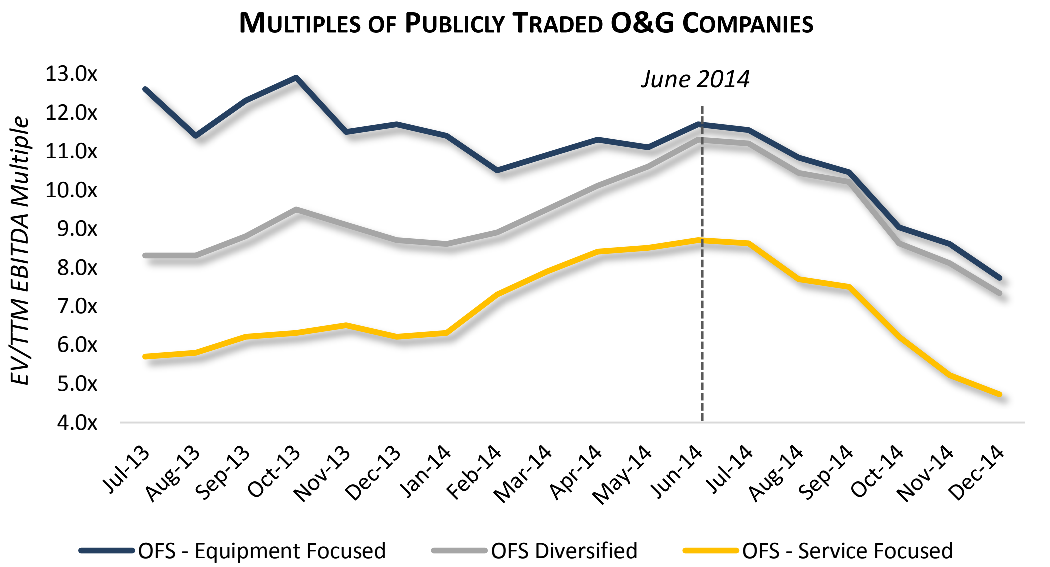
Quick Glance At The Numbers. *(in USD$mm)*

OFS – Select Publically Traded Statistics

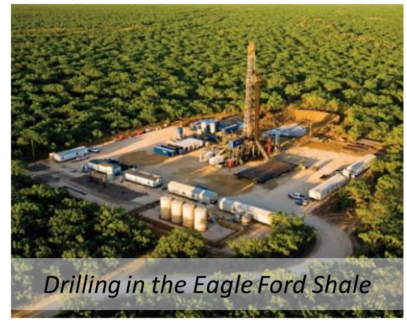
	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	EBITDA Margin	EBITDA Mult. (x)
Diversified						
Baker Hughes Incorporated	24,727.8	28,132.8	23,776.0	4,271.0	18%	6.6x
Halliburton Company	34,313.7	39,996.7	31,739.0	6,813.0	21%	5.9x
Schlumberger Limited	112,620.2	119,135.2	47,845.0	12,996.0	27%	9.2x
Weatherford International	9,649.7	17,865.7	14,922.0	2,312.0	15%	7.7x
Average	**45,327.9**	**51,282.6**	**29,570.5**	**6,598.0**	**21%**	**7.3x**
Service Focused						
Archer Limited	2,477.6	7,350.2	15,112.5	1,555.0	10%	4.7x
Basic Energy Services	344.6	1,196.8	1,398.4	294.5	21%	4.1x
C&J Energy Services	793.0	1,118.5	1,389.8	195.2	14%	5.7x
Key Energy Services	267.0	968.2	1,434.7	170.5	12%	5.7x
Oil States International	2,588.5	2,697.4	2,798.2	791.7	28%	3.4x
Superior Energy Services	3,312.8	4,643.9	4,715.4	1,094.4	23%	4.2x
Average	**1,630.6**	**2,995.8**	**4,474.8**	**683.6**	**18%**	**4.6x**
Equipment Focused						
Cameron International	9,913.8	12,963.8	11,008.4	1,668.9	15%	7.8x
FMC Technologies, Inc.	11,271.4	12,127.0	7,834.2	1,287.9	16%	9.4x
Forum Energy Technologies, Inc.	2,002.5	2,350.3	1,694.8	307.6	18%	7.6x
National Oilwell Varco	28,878.6	28,029.6	24,681.0	4,624.0	19%	6.1x
Average	**13,016.6**	**13,867.7**	**11,304.6**	**1,972.1**	**17%**	**7.7x**

**Financial Source: Capital IQ; As of 12/22/2014*

- **Quick Glance At The Numbers – *(Cont'd).***



**Financial source: Capital IQ; As of 12/22/2014*



- **Summary - Adaptation.** Every O&G related company is undergoing the harsh reality of the plunge in oil prices. We all have to face a new set of rules in 2015, and no one yet knows exactly what these will be. This transition will include a battle to maintain pricing or market share along with the painful exercise of cost cutting, compensation changes and headcount reduction, and for some, survival will be a month-to-month question. All oilfield service providers will have to adapt over the coming months, and will need to be aggressive, nimble and strong to weather the storm. A new normal will be created as operators push for service companies and vendors to lower pricing and help alleviate cost pressures. Joe Brady, Director of Founders Oil & Gas Team noted, "Right now we're all in the dark, and many groups are running for cover. Give it one more month and I fully expect by the end of January we'll all have more answers and a better feel for where are. At that time, I think folks will become more comfortable and begin coming out of the proverbial cave." Further adding, "Drilling activity changes will remain geographically dependent, capital expenditures will decline, but not evenly across the map. We expect the Mid-Continent region to be heavily impacted, but companies serving the Eagle Ford, much of the Permian, as well as those diversified into natural gas regions like the Marcellus/Utica are in better position to weather a lower price environment. More importantly, the tide might fall, but companies that are properly capitalized and can adapt to their customer's changing budgets and revise their internal cost structures should be well positioned to capture market share and significantly enhance their value coming out of this cycle." The Founders team is in constant communication with our clients, industry leaders, E&P's and energy analysts, and we will be providing you with our findings on a monthly basis as we navigate this changing landscape with you.

> "WE EXPECT THE MID-CONTINENT REGION TO BE HEAVILY IMPACTED, BUT COMPANIES SERVING THE EAGLE FORD, MUCH OF THE PERMIAN, AS WELL AS THOSE DIVERSIFIED INTO NATURAL GAS REGIONS LIKE THE MARCELLUS/UTICA ARE IN BETTER POSITION TO WEATHER A LOWER PRICE ENVIRONMENT"
>
> – JOE BRADY, DIRECTOR OF FOUNDERS OIL & GAS TEAM

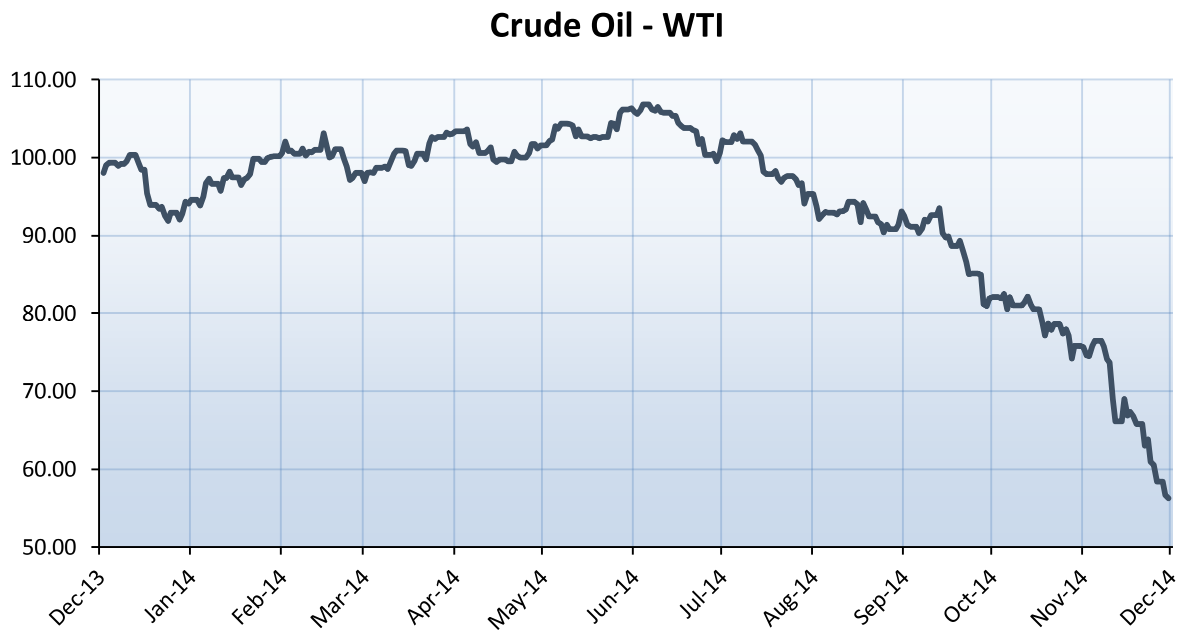
Source: Founders Oil & Gas Research Team, Spears & Associates, CapIQ, and WSJ

Select M&A Transactions

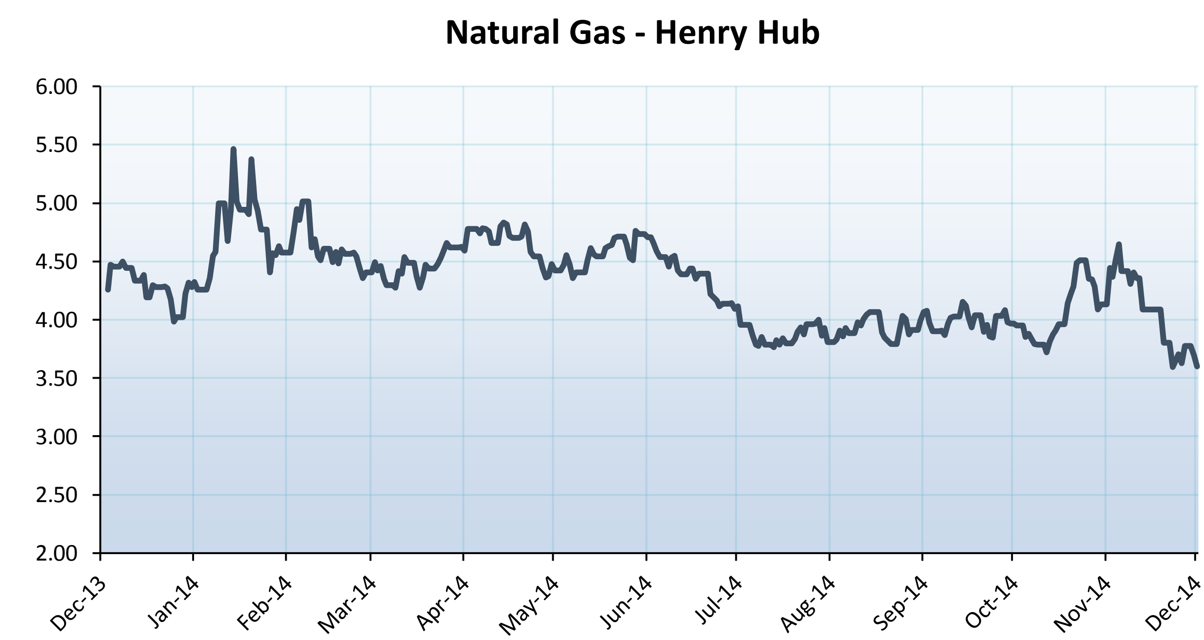
Announced Date	Target	Buyer/Investors	Total Transaction Value ($USD)
Dec-17-2014	Exterran (Australia) Pty. Ltd.	Valmec Limited (ASX:VMX)	-
Dec-16-2014	Oceaneering, Electric Actuator Product Line	General Electric Company (NYSE:GE)	-
Dec-12-2014	Flogistix, LP	White Deer Energy	-
Dec-08-2014	Freedom Energy Holdings, Inc., KC 9000	PTS Inc. (OTCPK:PTSH)	-
Dec-02-2014	Solution Blend Service Ltd.	Bri-Chem Corp. (TSX:BRY)	4.39
Dec-01-2014	Thunder & Lightning Welding Ltd	Hyduke Energy Services Inc. (TSX:HYD)	-
Nov-27-2014	ReTek Energy Products, LLC	Packers Plus Energy Services (U.S.A.), Inc.	-
Nov-21-2014	SR2020 Inc., Seismic Processing and Imaging Assets	OptaSense Ltd.	1.7
Nov-18-2014	VIM Injection Management, Inc.	Profire Energy, Inc. (NasdaqCM:PFIE)	1.61
Nov-17-2014	Smith International, Inc., Certain Assets	Logan Oil Tools, Inc.	-
Nov-13-2014	FHE USA LLC	Basin Tools LP	-
Nov-06-2014	Universal Wellhead Services, LLC	Dos Rios Partners, LP	-
Nov-04-2014	Baker Hughes Incorporated (NYSE:BHI)	Halliburton Company (NYSE:HAL)	39,520.24
Nov-03-2014	J-W Wireline Company	FTS International, Inc.	-

Source: CapitalIQ

Commodity Prices



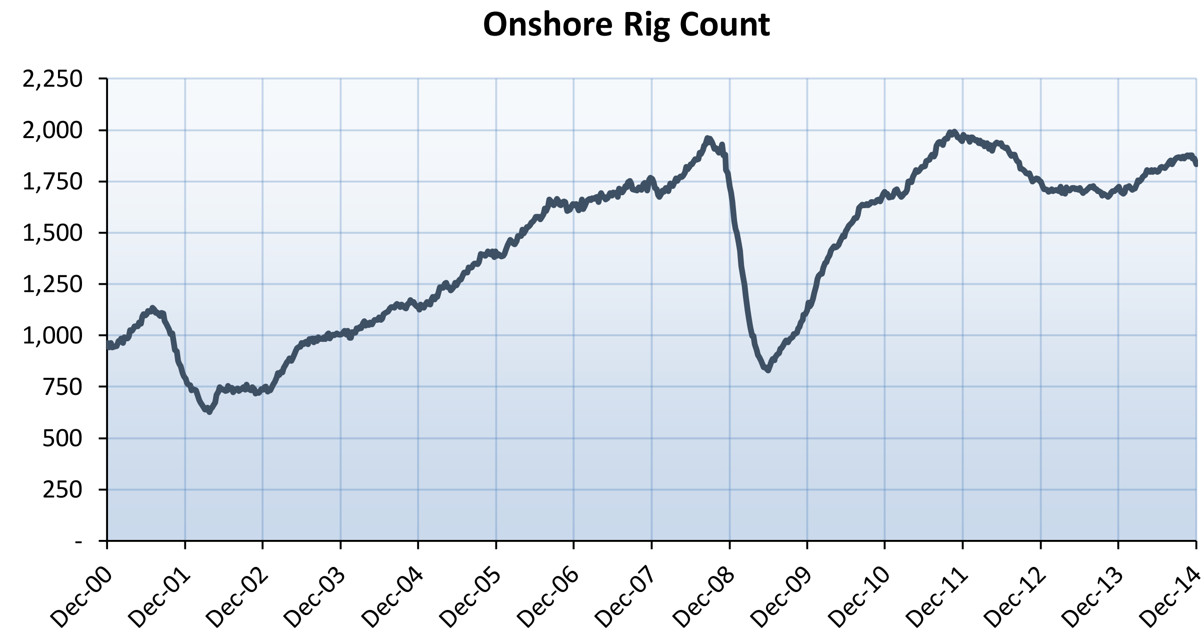
	Price per Barrel			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	$56.26	$75.66	$98.06	-25.64%	-42.63%



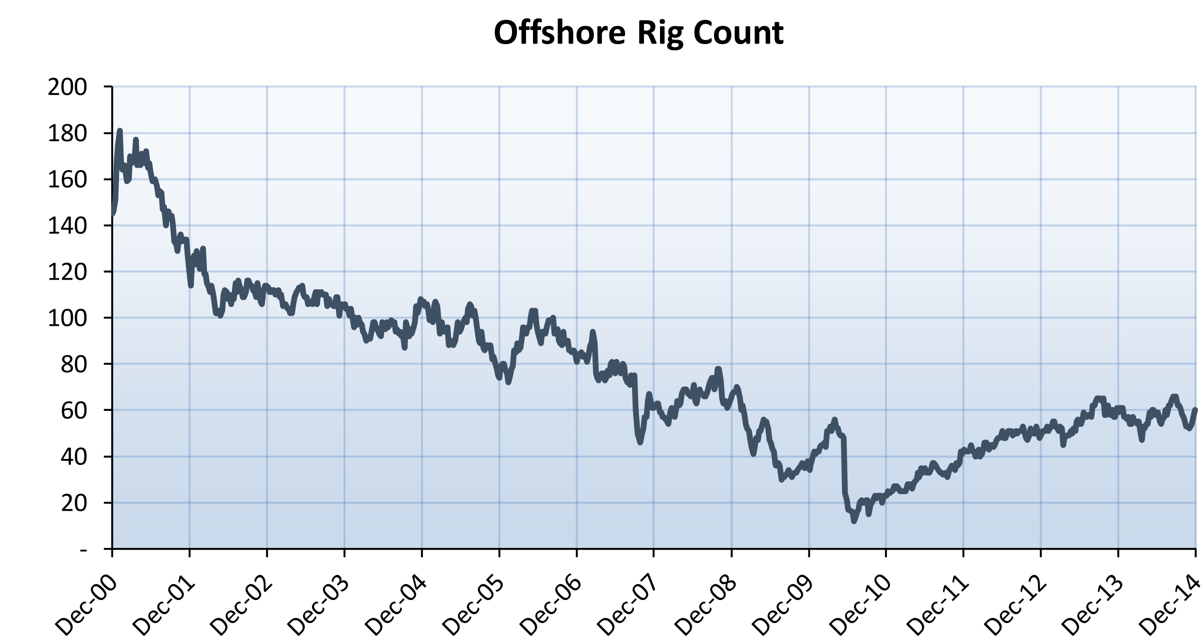
	Price per MmBtu			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	$3.60	$4.13	$4.26	14.69%	18.31%

Source: CapitalIQ

Rig Counts



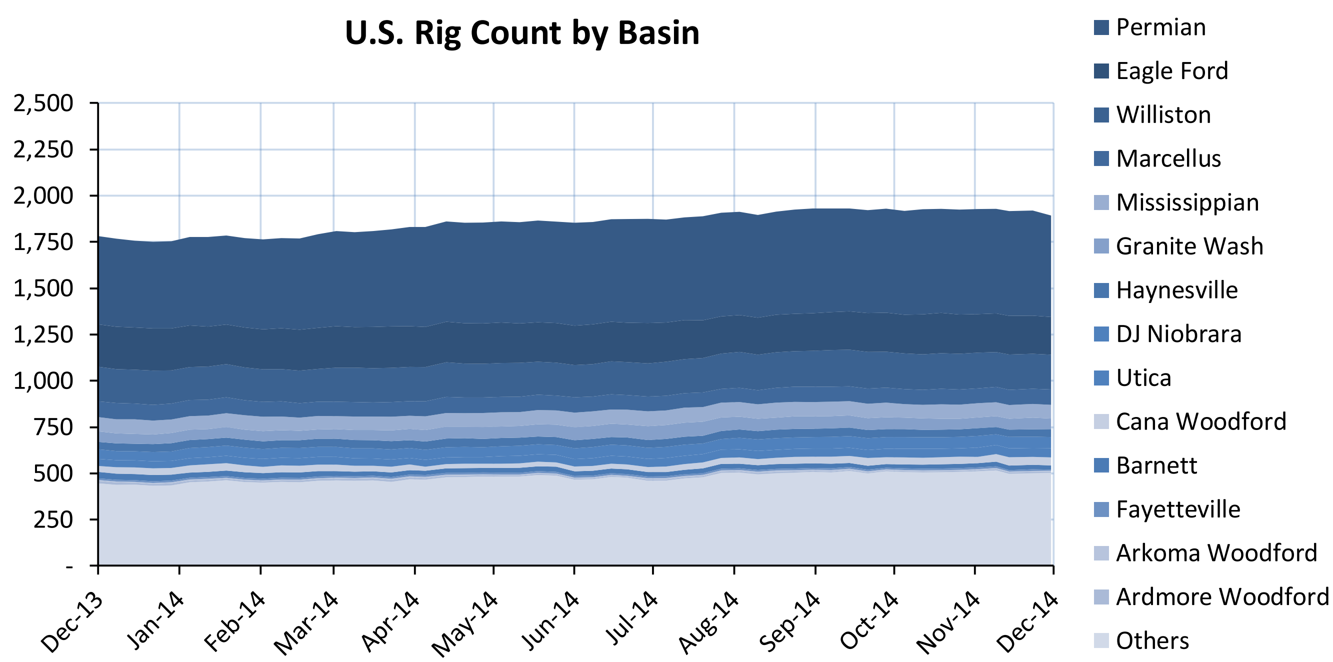
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Onshore	1,833	1,876	1,723	-2.29%	6.38%

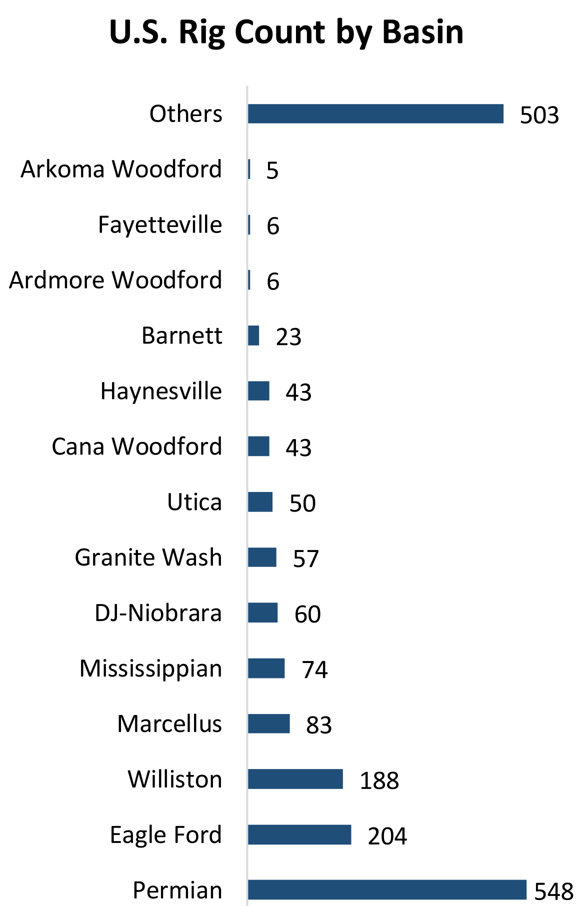


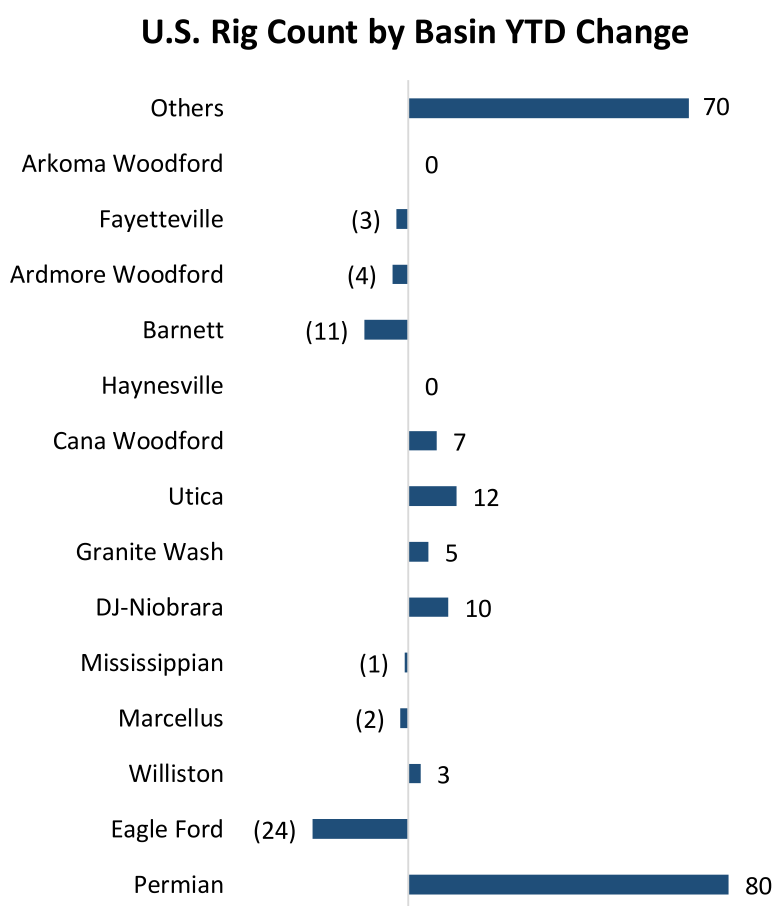
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Offshore	60	52	59	15.38%	1.69%

Source: Baker Hughes

Rig Counts (*continued*)

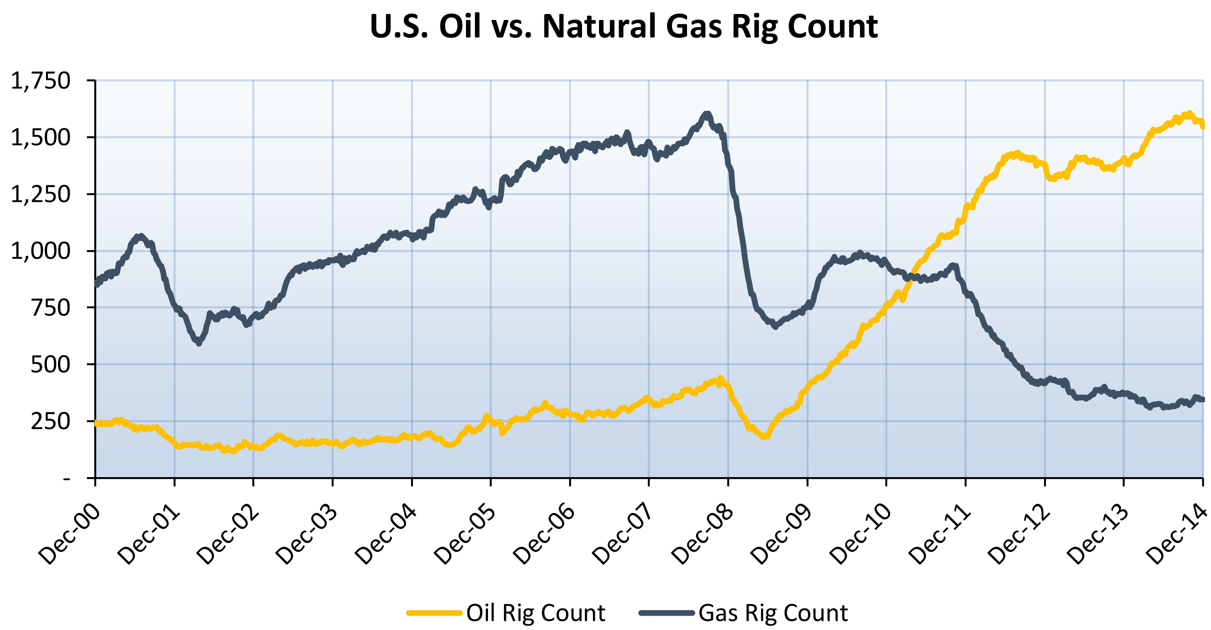




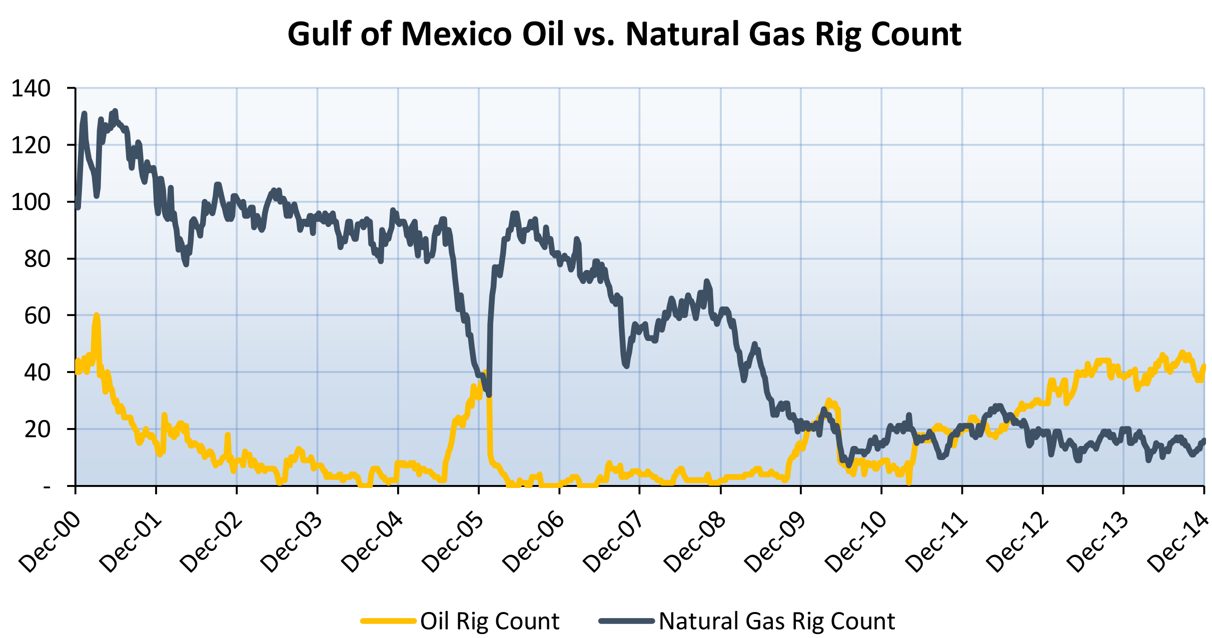


Source: Baker Hughes

Rig Counts *(continued)*



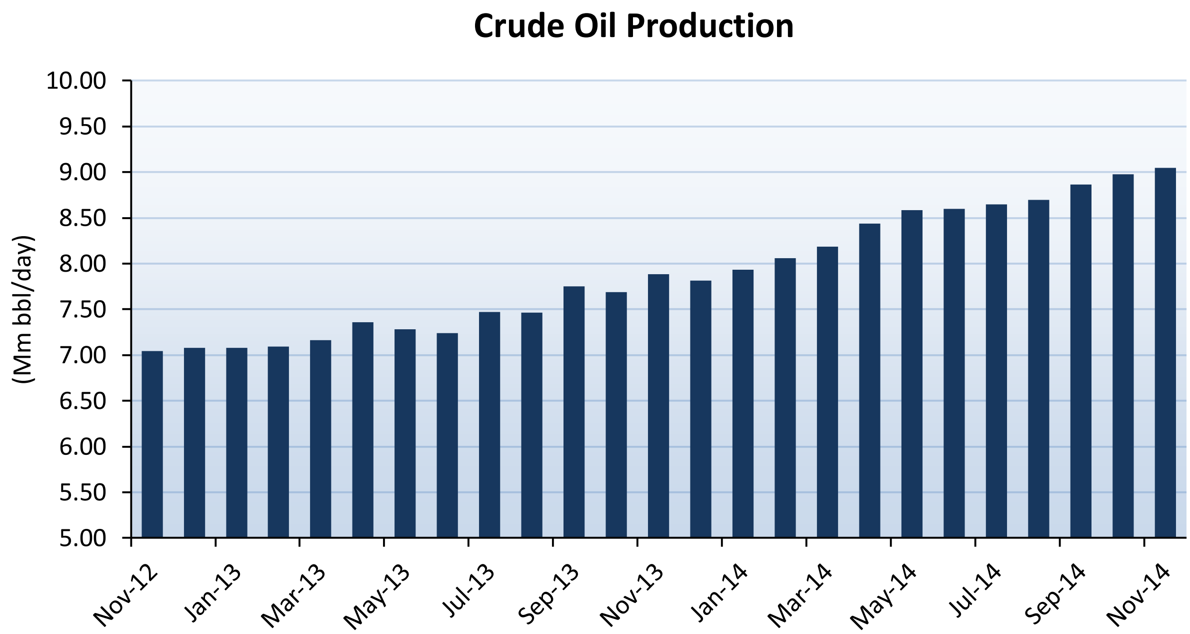
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	1,546	1,578	1,411	-2.03%	9.57%
Natural Gas	346	350	369	-1.14%	-6.23%



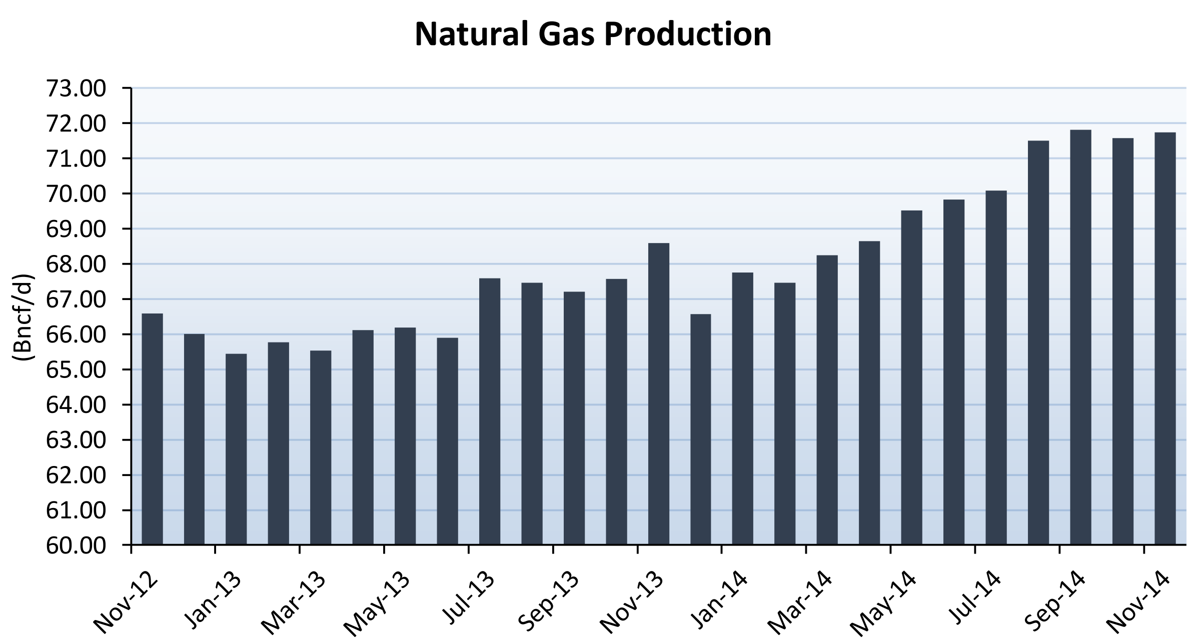
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	42	37	38	13.51%	10.53%
Natural Gas	16	13	19	23.08%	-15.79%

Source: Baker Hughes

Domestic Production



	Million Barrels per Day			Change from	
	Current (Nov)	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	9.05	8.98	7.88	0.74%	14.73%



	Billion Cubic Feet per Day			Change from	
	Current (Nov)	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	71.74	71.58	68.60	0.22%	4.58%

Source: EIA

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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.

O&G Services Lead Advisors:

Duane Donner
Managing Director
205-423-2548
ddonner@foundersib.com

Joe Brady
Director
205-503-4023
jbrady@foundersib.com

John Ortstadt
Business Development
205-503-4030
jortstadt@foundersib.com

Brandon Pilot
Analyst
bpilot@foundersib.com

Ben New
Analyst
bnew@foundersib.com

Guests at the recent Founders' Forum enjoy a Cajun cuisine at the family lodge in Cameron Meadows, LA.

Sample O&G Transactions:

Atchafalaya Measurement, Inc. *Has been acquired by* KLH Capital	Tornado Production Services, LLC *Has been acquired by* ProDirectional	Spartan Energy Services *Has completed a recapitalization by* Harren Equity Partners	Louisiana Marine Operators *Has acquired strategic assets from* Lime Rock Partners Corporate Advisor

FOUNDERS INVESTMENT BANKING, LLC
2204 Lakeshore Drive
Birmingham, AL 35223
www.foundersib.com – 866.594.4358