



## Oil & Gas Equipment and Services Update

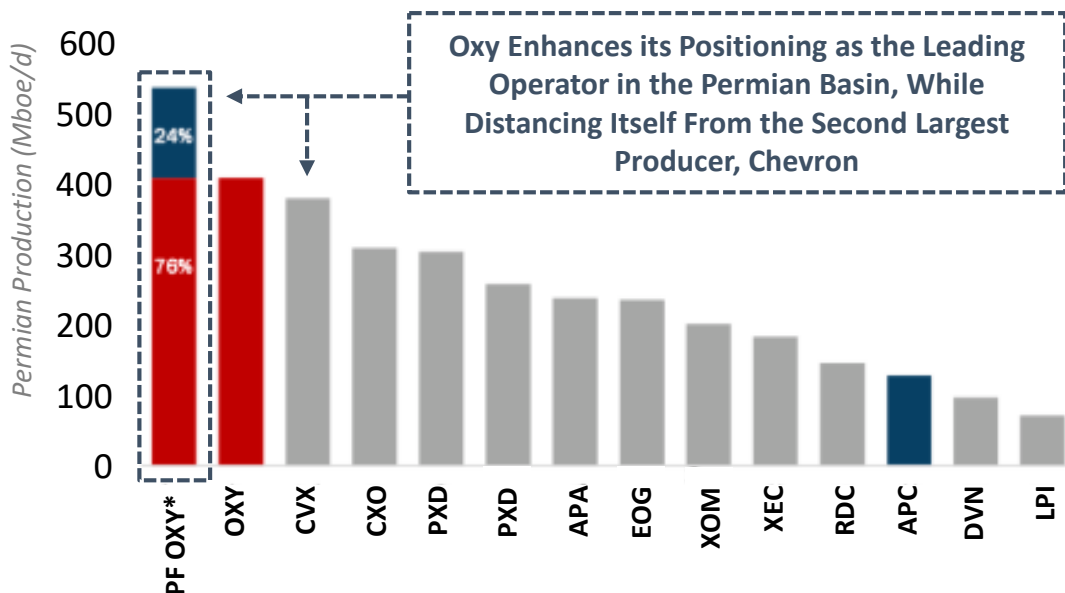
Market Insights Report | June 2019

### ► E&P Consolidation Continues With Occidental Petroleum's takeover of Anadarko

After several blockbuster E&P transactions in 2018 (Concho / RSP Permian, Diamondback / Energen, Encana / Newfield, etc.), upstream consolidation is off to a strong start in 2019. On April 24<sup>th</sup>, it was announced that Occidental Petroleum (Oxy) won in its bidding war against Chevron for their Permian competitor, Anadarko. Oxy's winning bid of \$57BN makes it the largest deal in the global oil industry in the last three years, and solidifies Oxy's competitive foothold in the West Texas region. When the deal is consummated, Oxy will increase its production presence in the region by ~25%, or ~125 Mboe/d.

The transaction between Oxy and Anadarko proves that operators are focused on finding cost effective means of expanding production volumes in attractive geographies. The proceeding pages discuss the key drivers prompting industry consolidation, and the likely impact upstream M&A will have on the oilfield service market.

***Oxy's Winning Bid for Anadarko of \$57BN, Will Make it the Largest Deal in the Global Oil Industry in the Last Three-Years***



### Oil & Gas Equipment & Services Team

**Duane Donner**  
ddonner@foundersib.com

**John Sindors**  
jsindors@foundersib.com

**John Sullivan**  
jsullivan@foundersib.com

**Evan Klisares**  
eklisares@foundersib.com

**Tripp Salem**  
tsalem@foundersib.com

### Notable & Quotable

*"You have more than 100 producers in the Permian. The E&Ps have gotten better about turning cash flow positive but the big guys, Exxon, Chevron and Oxy are planning to get bigger. They're all planning to expand in U.S. shale."*

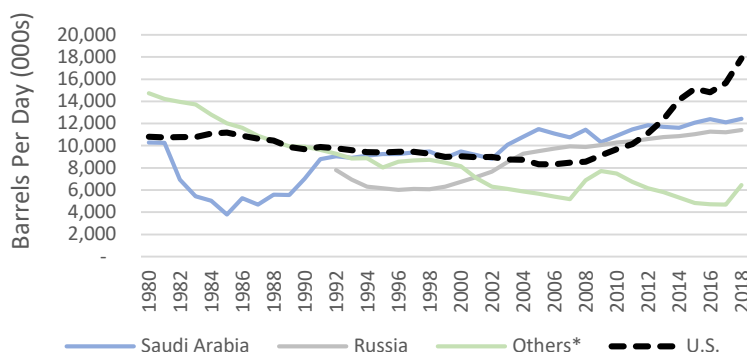
**Stewart Glickman,**  
Energy Analyst at CFRA

## Macro Factors Impacting Upstream Consolidation

### ► The New Oilfield is Spurring Upstream Consolidation

The upstream oil and gas industry has a history of booms and busts, driven by imbalances in global oil supply and demand. Most recently, the introduction of new fracking techniques, horizontal drilling, and longer laterals, contributed to a surge in U.S. oil production and a surplus in global supply. Oil prices proceeded to fall from a high of \$110 in September 2014, to \$26 in February 2016. Despite the precipitous fall in prices, production of liquid energy in the U.S. remained strong. As of May 2019, U.S. production of oil and other liquid energy is 18 Mboe/d, and has crested the previous production highs set in the 1970s of 12 Mboe/d. Improved extraction techniques have reduced breakeven prices for E&P operators, and allowed the U.S. to take market share in the global oil supply market.

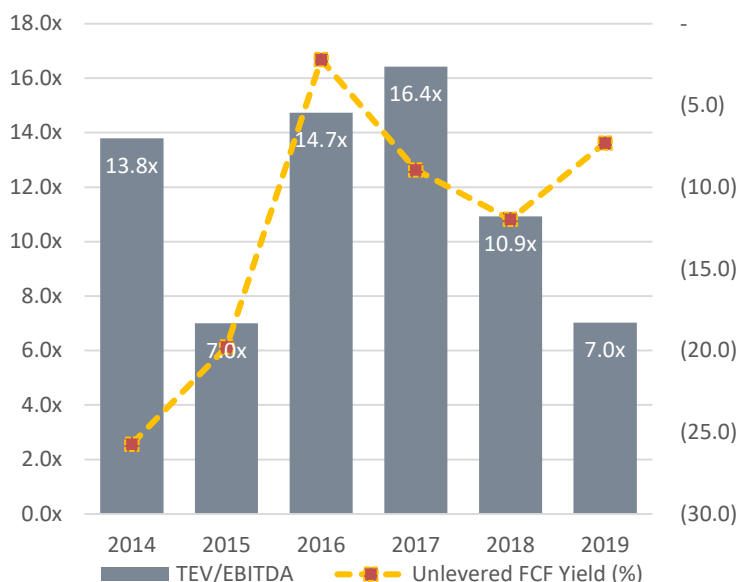
U.S. Has Taken Market Share in Global Liquid Production



*In order to maintain steady production volumes, operators have turned to greenfield land acquisition, or consolidating smaller players with proven reserves*

Increasing production and improved technology hasn't come without any downside – operators have found over the last few years that implementation of these techniques have led to faster well depletions. In order to maintain steady production volumes, operators have turned to greenfield land acquisition or consolidating smaller players with proven reserves. The latter option has become more attractive over the last 12-months, as valuations for E&P operators have compressed, and profitability has improved as E&P operators have a renewed focus on maintaining a disciplined budget; the combination of these factors makes acquisitions an attractive avenue for growth.

### Improving profitability combined with cheaper valuations is driving E&P consolidation



### ► Capital Discipline Enables Improving FCF Yield

The energy downturn in 2014 – 2016 caused E&P operators to think twice about capital allocation. In order to attract capital from investors, it became clear that budgets needed to tighten and a greater emphasis needed to be placed on profitability. Over the last five years, despite lower energy prices, the industry has seen steady improvement in unlevered free cash flow yield. When this is coupled with falling valuations, it makes for an attractive M&A environment.

### ► Negative Industry Sentiment Weighing on Valuations

The threat of a global economic slowdown combined with an increasing amount of worldwide oil supply, has weighed heavily on domestic E&P valuations. OPEC and Russia have propped up the market with pledged production cuts, but looming fears around these cuts expiring have left investors skittish about returning to the market. As of May 2019, valuations are the lowest they've been since 2015, despite free cash flow yields dramatically improving.

## E&P Consolidation Impact on Independent OFS Companies

As E&P operators continue to consolidate, the oilfield service industry will be forced to adjust. A similar consolidation story in the industry intuitively makes sense, as E&P operators' focus on profitability will squeeze service providers, and force them to make up the margin with synergies created through M&A.

Integrated independent service providers are the most likely candidates to lead the consolidation wave. These types of companies have come to understand that in order to offer cost-efficient solutions, there needs to be a fundamental shift in operating models to more deeply vertically integrate. By doing so, service companies can offer more value to operators, at a reduced price.

The matrix below depicts six of the larger domestic OFS providers, and their service offerings. While there is a fair amount of overlap, there are noticeable gaps where vertically integrating via M&A may help these providers round out their offerings. Smaller, independent companies with technologies that help enhance the service capabilities of otherwise commoditized offerings are viewed the most attractive candidates; these types of companies can have more reoccurring revenue sources in a market where contracted work is dwindling.

The energy industry is undergoing fundamental changes, which is unlikely to reverse if and when oil prices can sustainably rise. OFS companies have been late to adapt, but may be forced to adapt over the next 12 – 24 months as E&P operators continue to consolidate. We believe integrated service providers are best suited to drive this change, and will likely look to vertically integrate with differentiated, technology enabled service offerings.

### Significant Opportunity for Oilfield Service Companies to Further Vertically Integrate

Service	Schlumberger	Baker Hughes	Halliburton	NOV	RPC	TechnipFMC
Artificial Lift	✓	✓	✓	✓		
Casing & Tubing Services	✓	✓				
Cementing	✓	✓	✓			
Coiled Tubing Services	✓	✓	✓		✓	
Completion Equipment & Services	✓	✓	✓	✓		
Contract Compression Services						
Directional Drilling Services	✓	✓	✓			
Downhole Drilling Tools	✓	✓		✓	✓	
Drill Bits	✓	✓	✓	✓		
Drilling & Completion Fluids	✓	✓	✓	✓		
Floating Production Services						
Geophysical Equipment & Services	✓		✓			
Hydraulic Fracturing	✓	✓	✓		✓	
Inspection & Coating	✓	✓		✓	✓	
Land Contract Drilling	✓					
Logging-While-Drilling	✓	✓	✓			
Offshore Construction Services						✓
Offshore Contract Drilling						
Oil Country Tubular Goods	✓			✓		
Petroleum Aviation						
Production Testing	✓		✓			✓
Rental & Fishing Services	✓	✓		✓	✓	
Rig Equipment	✓	✓		✓		
Solids Control & Waste Management	✓	✓	✓	✓		
Specialty Chemicals	✓	✓	✓			
Subsea Equipment	✓	✓				✓
Supply Vessels						
Surface Data Logging	✓	✓	✓			
Surface Equipment	✓	✓	✓	✓		✓
Unit Manufacturing			✓	✓		✓
Well Servicing					✓	
Wireline Services	✓	✓	✓		✓	

## Recent Oilfield Transactions

Announcement Date	Transaction Status	Target Name	Buyer Name	Business Description [Target/Issuer]	Total Transaction Value (\$MM)
05/17/2019	Closed	WaterBridge Resources, LLC	GIC Pte. Ltd.	Based in Houston, TX, WaterBridge offers produced and flowback water services for clients in basins across the United States.	--
05/15/2019	Announced	Sensor Technologies Corp. (CNSX:SENS)	GreenInsightz Limited	Based in Canada and a subsidiary of IntellaEquity Inc., Sensor Technologies engages in the design, development, manufacture, and supply of fiber optic sensors systems, related monitoring instruments, and software worldwide.	--
05/15/2019	Closed	Genbright LLC	ENGIE North America Inc.	Founded in 2012 and based in Hingham, MA, Genbright provides integration of distributed energy resources into wholesale electricity markets. The Company operates as a subsidiary of ENGIE North America Inc.	--
05/14/2019	Announced	Fishing, Tubulars Businesses and Certain Assets of Schlumberger/Drillco Tools/Thomas Tools	Wellbore Integrity Solutions, LLC	Schlumberger, Drillco Tools, and Thomas Tools sold its fishing and tubulars servicing business to Wellbore Integrity Solutions.	400
05/06/2019	Closed	Cobalt Environmental Solutions	Bison Oilfield Services LLC	Cobalt provides wastewater disposal services for the oil and gas industry. The Company operates as a subsidiary of Bison Oilfield Services LLC.	--
05/02/2019	Announced	Lineal Star Holdings, LLC	Camber Energy, Inc. (AMEX:CEI)	Based in Houston, TX, Lineal Star provides upstream, midstream, and downstream oil and gas pipeline services.	--
04/30/2019	Closed	Benham Energy & Chemicals Business	Merrick & Company, Inc.	Benham provides engineering, procurement, and engineer-procure-construct (EPC) services to the oil and gas industry.	--
04/25/2019	Closed	Poro-Technology, Inc.	CoreSpec Alliance LLC	Founded in 1995 and based in Kingwood, TX, Poro-Technology provides mercury injection capillary pressure (MICP) rock property data to the oil and gas industry in the United States and internationally. The Company operates as a subsidiary of CoreSpec Alliance LLC.	--
04/11/2019	Announced	Benthic USA LLC	Acteon Group Limited	Founded in 2011 and based in Houston, TX, Benthic provides offshore marine geotechnical site investigation and survey, analysis, and other engineering services.	--
04/10/2019	Announced	Diamond Offshore Drilling Unit	Well-Safe Solutions Ltd.	Diamond sold its semi-submersible drilling unit to Well-Safe Solutions.	--
04/08/2019	Closed	Ormin Co. LLC	AMSYS Innovative Solutions, LLC	Based in San Antonio, TX, Ormin provides trucking and hauling services to oil and gas sector. The Company operates as a subsidiary of AMSYS Innovative Solutions, LLC.	--
04/04/2019	Closed	Snubbing Assets of Precision Drilling Corporation	High Arctic Energy Services Inc (TSX:HWO)	Precision Drilling Corporation sold its snubbing services equipment for drill rig operations to High Arctic Energy Services Inc.	6
04/01/2019	Closed	De Nora Neptune, LLC	De Nora Water Technologies Texas, LLC	Founded in 2011 and based on Stockton, TX, De Nora Neptune provides water treatment and water recycling services to oil and gas industry. The Company operates as a subsidiary of De Nora Water Technologies Texas LLC.	--
03/26/2019	Closed	Worldwide Drilling Services Business of Proserv	C-Automation, Inc.	Proserve sold its drilling services business to C-Automation Incorporated.	--

## Recent Oilfield Transactions (continued)

Announcement Date	Transaction Status	Target Name	Buyer Name	Business Description [Target/Issuer]	Total Transaction Value (\$MM)
03/25/2019	Closed	Rockwater Energy Solutions Canada, Inc.	PVT Group	Based in Canada, Rockwater provides fluids logistics services through tank trucks, vacuum trucks, hydro vac trucks, hot oilers, winch trucks, and pressure trucks. The Company operates as a subsidiary of PVT Group.	--
03/22/2019	Announced	IPSCO Tubulars Inc.	Tenaris S.A. (BIT:TEN)	Based in Houston, TX, IPSCO produces and supplies seamless and welded oil country tubular goods (OCTG) with a suite of connections to North American oil and gas exploration and production companies. The Company is a subsidiary of PAO TMK.	1,287
03/20/2019	Announced	Substantially all Assets of Divestco Inc.	2179602 Alberta Ltd.	Founded in 2000 and based in Canada, Divestco Inc., an exploration services company, provides data, software, and services to the oil and gas industry worldwide.	15
03/20/2019	Closed	Red Bone Services LLC/Tecton Energy Services Ltd.	KLX Energy Services Holdings, Inc. (NasdaqGS:KLXE)	Red Bone provides pumping, thru-tubing, fishing, and other services for the oil and gas industry. Tecton engages in managing operations and providing testing services to companies that engage in oil and gas exploration and production activities.	83
03/20/2019	Closed	Midland Map Company, LLC	Drillinginfo, Inc.	Founded in 1950 and based in Midland, TX, Midland offers oil and gas industry with maps of lease and ownership, producing zones, wildcat maps, base maps, and other maps covering the Permian Basin. The Company operates as a subsidiary of Drillinginfo, Inc.	--
03/11/2019	Announced	Goodnight Midstream, LLC	TPG Capital, L.P.; Tailwater Capital LLC	Founded in 2011 and based in Dallas, TX, Goodnight Midstream provides professional fluids management services to oil and gas producers in ND, WY, TX, and NM.	930
03/04/2019	Closed	Crane Division Assets of Affirm Oilfield Services LLC	Allison Crane & Rigging Inc.	Affirm Oilfield Services sold its crane division to Allison Crane & Rigging, Inc..	--
03/04/2019	Closed	Epic Lift Systems LLC	Tally Energy Services	Founded in 2012 and based in Fort Worth, TX, Epic designs and engineers plunger lift systems that remove liquids from the earth's surface in oil and gas well production applications. The Company operates as a subsidiary of Tally Energy Services.	--
03/04/2019	Announced	Crossway Holdings	Master Marine AS	Based in New York, NY, Crossway Holdings owns and operates offshore jack-up accommodation vessels.	--
02/26/2019	Closed	Coastal Flow Measurement, Inc.	Quorum Business Solutions, Inc.	Founded in 1974 and based in Houston, TX, Coastal Flow provides measurement and analytical services for natural gas and other hydrocarbon fluids in the United States and internationally. The Company operates as a subsidiary of Quorum Business Solutions, Inc.	100
02/13/2019	Closed	Amperage Energy Inc.	Aureus Energy Services Inc.	Founded in 2007 and based in Canada, Amperage provides water treatment services. The Company operates as a subsidiary of Aureus Energy Services Inc.	--
02/13/2019	Announced	Assets and Business of Shamrock Energy Solutions	Danos, Inc.	Founded in 1997 and based in Houma, LA, Shamrock offers oilfield services to oil and gas production facilities, operators, and drilling companies in the US and internationally.	--

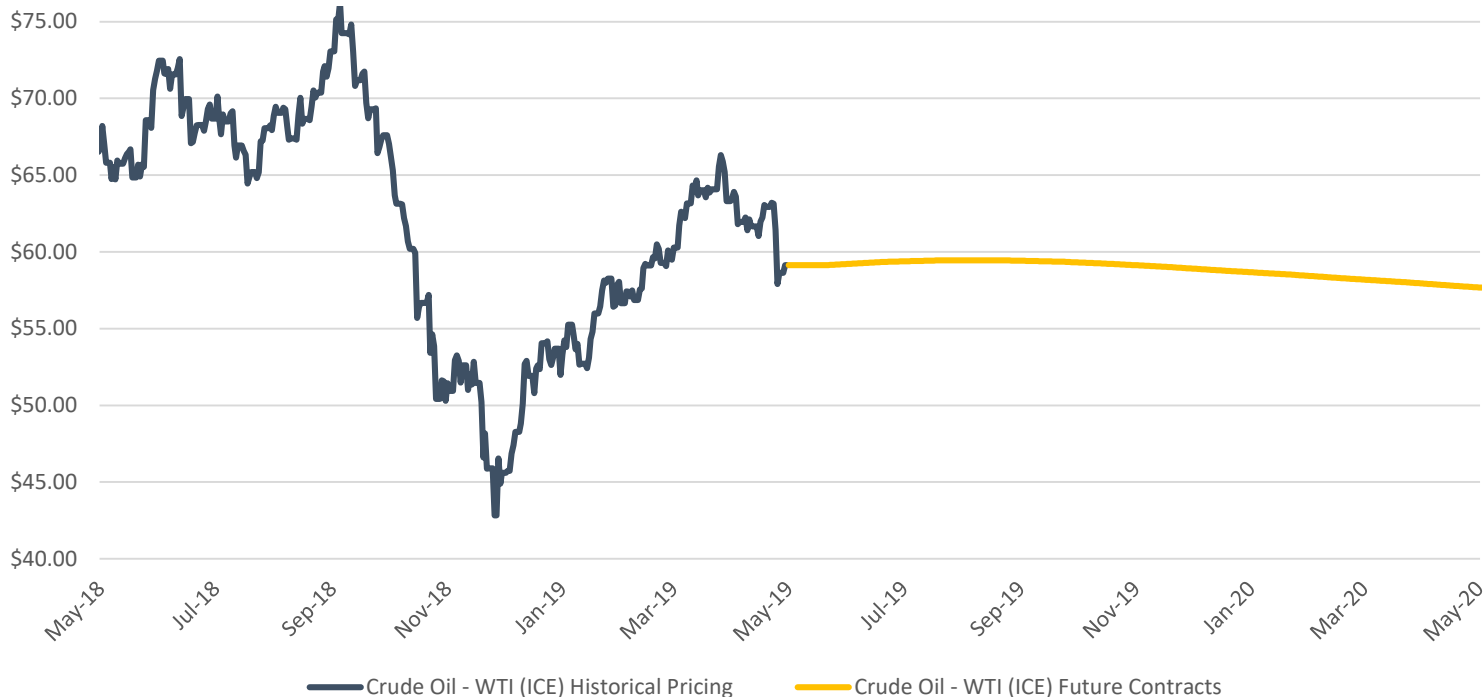
# Trading Statistics

Ticker	Company Name	Stock Price	% of 52-Week		Market	Enterprise	LTM	LTM	Enterprise Value /	
		5/30/2019	High	Low	Cap	Value	Revenue	EBITDA	LTM Revenue	LTM EBITDA
(All \$ in MM except for Stock Price)										
Founders OFS Pureplay Index										
NYSE: BAS	Basic Energy Services, Inc.	\$1.59	11.6%	100.6%	\$44	\$344	\$927	\$50	0.4x	6.8x
NYSE: CJ	C&J Energy Services, Inc.	12.56	44.3%	102.3%	824	759	2,180	235	0.3x	3.2x
NYSE: WHD	Cactus, Inc.	33.40	81.5%	135.8%	1,569	1,668	588	223	2.8x	7.5x
NYSE: KEG	Key Energy Services, Inc.	1.77	10.0%	111.3%	38	249	506	20	0.5x	12.3x
Nasdaq: TUSK	Mammoth Energy Services, Inc.	10.74	25.4%	101.6%	493	618	1,458	449	0.4x	1.4x
Nasdaq: NCSM	NCS Multistage Holdings, Inc.	2.68	15.2%	108.4%	124	162	209	23	0.8x	7.2x
NYSE: PUMP	ProPetro Holding Corp.	19.51	76.9%	173.1%	1,947	2,033	1,866	454	1.1x	4.5x
NYSE: WTTR	Select Energy Services, Inc.	11.05	69.7%	182.6%	886	1,265	1,515	229	0.8x	5.5x
NYSE: SOI	Solaris Oilfield Infrastructure, Inc.	14.49	75.0%	138.0%	459	596	216	133	2.8x	4.5x
NYSE: SPN	Superior Energy Services, Inc.	1.74	15.2%	100.0%	278	1,488	2,115	339	0.7x	4.4x
	Min	\$1.59	10.0%	100.0%	\$38	\$162	\$209	\$20	0.3x	1.4x
	Median	\$10.89	34.9%	109.9%	\$476	\$689	\$1,193	\$226	0.7x	5.0x
	Mean	\$10.95	42.5%	125.4%	\$666	\$918	\$1,158	\$216	1.1x	5.7x
	Max	\$33.40	81.5%	182.6%	\$1,947	\$2,033	\$2,180	\$454	2.8x	12.3x
Founders Big Five										
NYSE: BHGE	Baker Hughes, a GE company	\$21.54	60.4%	107.2%	\$11,188	\$33,734	\$23,093	\$2,864	1.5x	11.8x
NYSE: HAL	Halliburton Company	22.53	44.7%	100.7%	20,110	30,221	23,992	4,167	1.3x	7.3x
NYSE: NOV	National Oilwell Varco, Inc.	21.26	43.3%	100.2%	8,359	10,490	8,598	858	1.2x	12.2x
NYSE: SLB	Schlumberger Limited	35.43	50.3%	101.3%	50,114	64,928	32,865	6,674	2.0x	9.7x
OTCPK: WFTLF	Weatherford International plc	0.05	1.5%	135.0%	53	8,014	5,667	635	1.4x	12.6x
	Min	\$0.05	1.5%	100.2%	\$53	\$8,014	\$5,667	\$635	1.2x	7.3x
	Median	\$21.54	44.7%	101.3%	\$11,188	\$30,221	\$23,093	\$2,864	1.4x	11.8x
	Mean	\$20.16	40.0%	108.9%	\$17,965	\$29,477	\$18,843	\$3,040	1.5x	10.7x
	Max	\$35.43	60.4%	135.0%	\$50,114	\$64,928	\$32,865	\$6,674	2.0x	12.6x
Other Publics										
NYSE: NE	Noble Corporation plc	\$2.10	28.2%	113.2%	\$503	\$4,595	\$1,077	\$359	4.3x	12.8x
NYSE: OII	Oceaneering International, Inc.	16.82	58.8%	156.6%	1,674	2,307	1,987	148	1.2x	15.5x
NYSE: FTI	TechnipFMC plc	21.60	64.3%	118.7%	9,791	9,944	12,341	1,398	0.8x	7.1x
	Min	\$2.10	28.2%	113.2%	\$503	\$2,307	\$1,077	\$148	0.8x	7.1x
	Median	\$16.82	58.8%	118.7%	\$1,674	\$4,595	\$1,987	\$359	1.2x	12.8x
	Mean	\$13.50	50.4%	129.5%	\$3,990	\$5,615	\$5,135	\$635	2.1x	11.8x
	Max	\$21.60	64.3%	156.6%	\$9,791	\$9,944	\$12,341	\$1,398	4.3x	15.5x

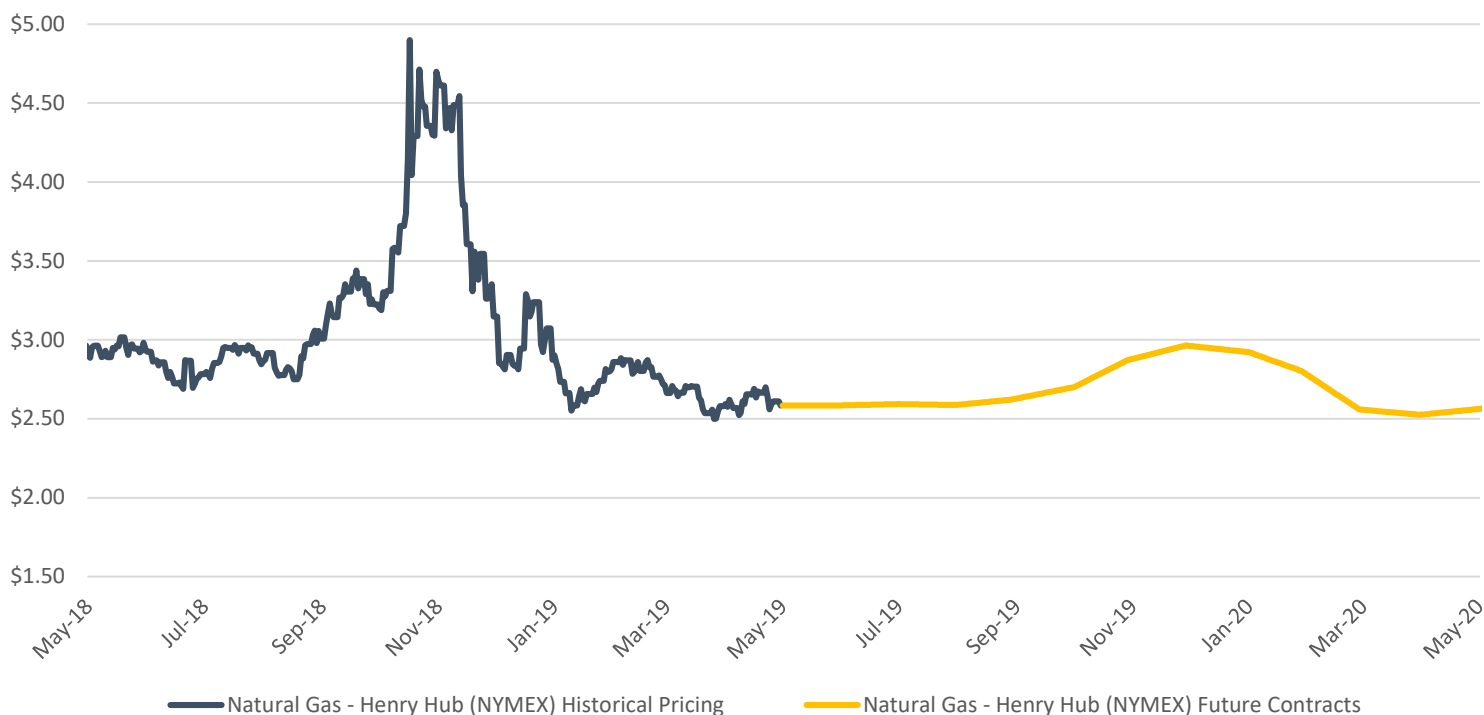


## Commodity Prices

### ➤ WTI Oil \$/bbl

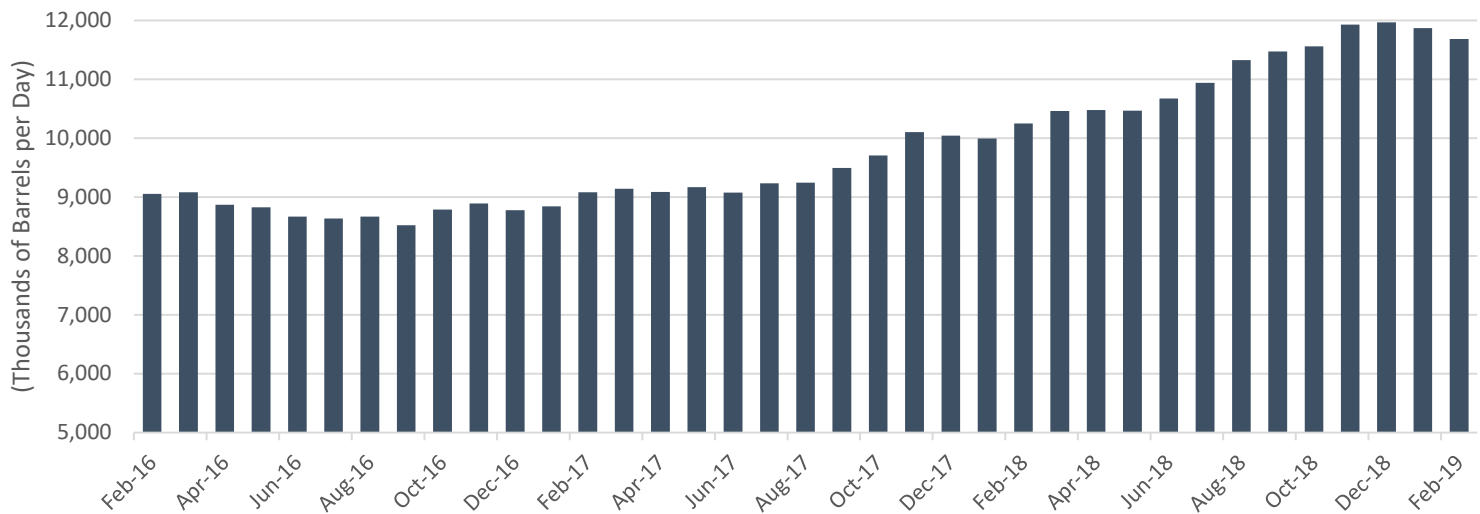


### ➤ Natural Gas \$/MBtu



## Production Data

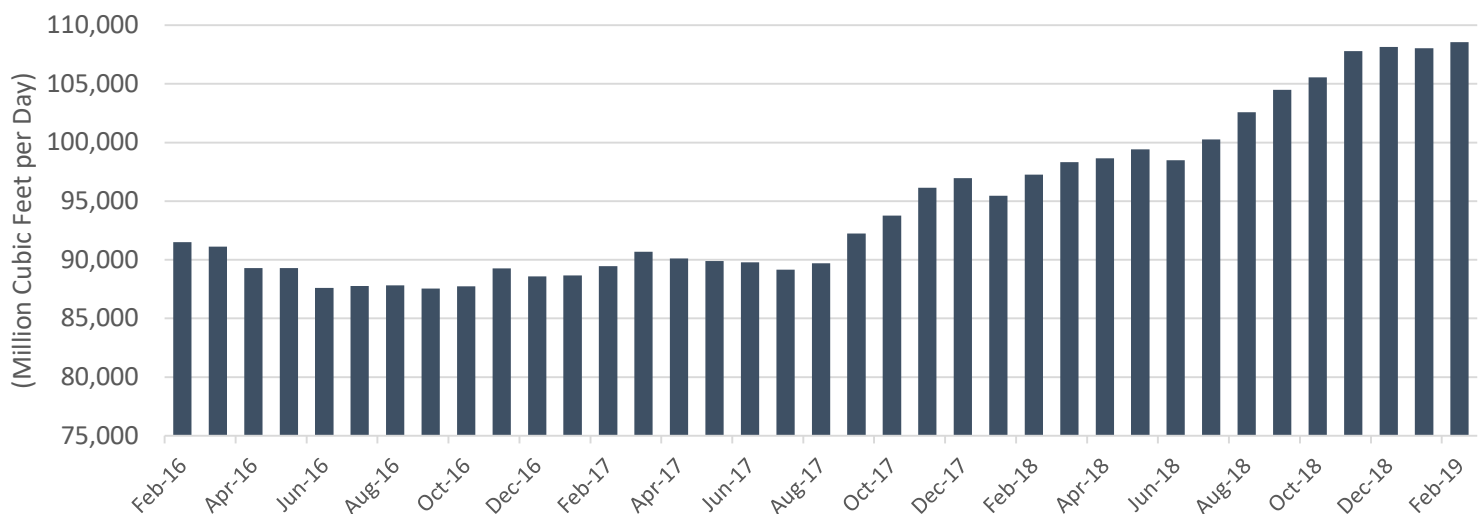
### ➤ U.S. Crude Oil Production



Thousand Barrels per Day (February)		
Current	Prior Month	Prior Year
11,683	11,870	10,248

Change From	
Prior Month	Prior Year
(1.6%)	14.0%

### ➤ U.S. Natural Gas Production



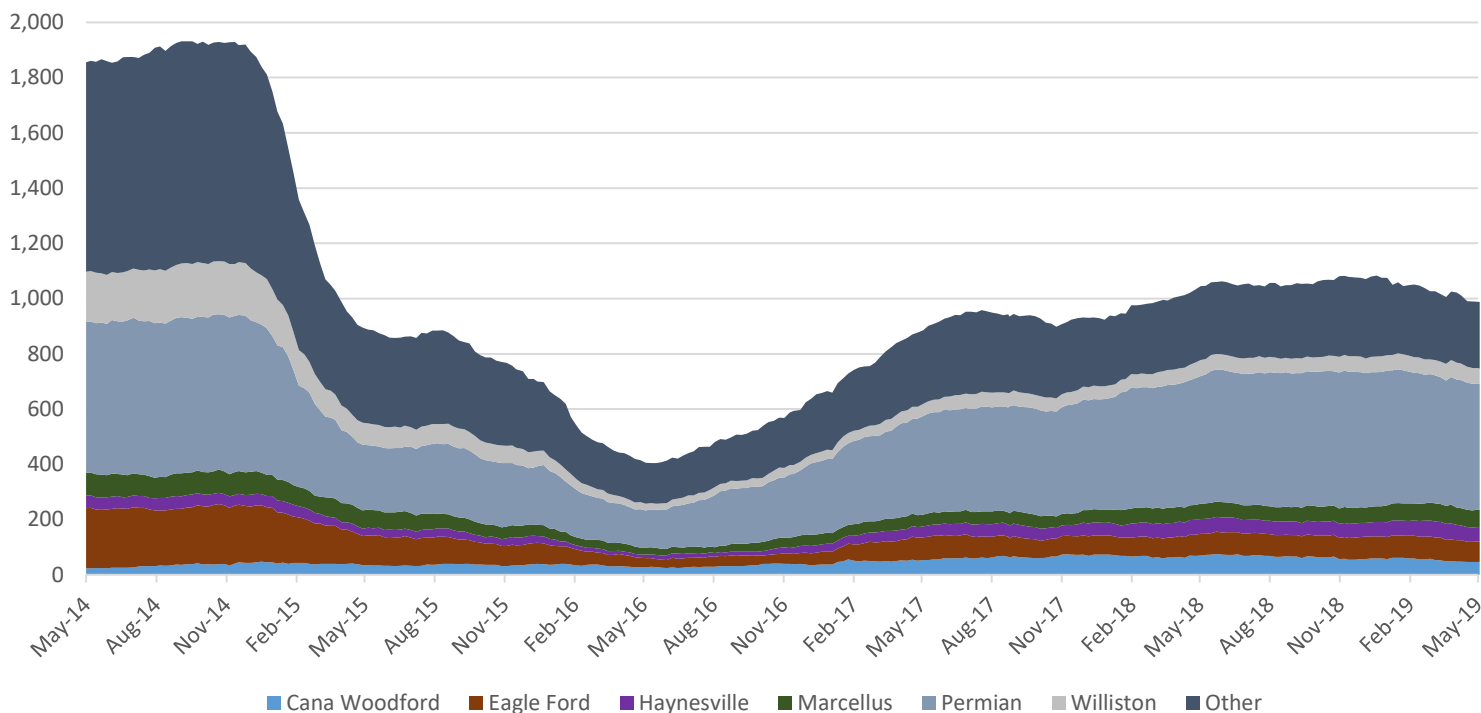
Million Cubic Feet Per Day (February)		
Current	Prior Month	Prior Year
108,569	108,041	97,270

Change From	
Prior Month	Prior Year
0.5%	11.6%

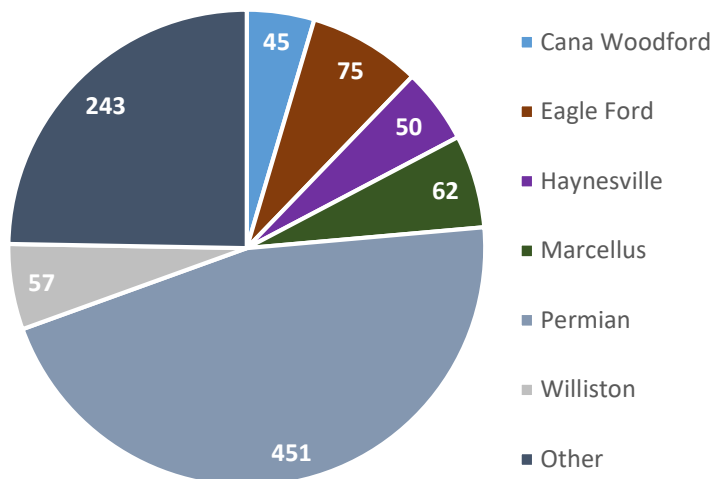


## Total Rig Count by Basin

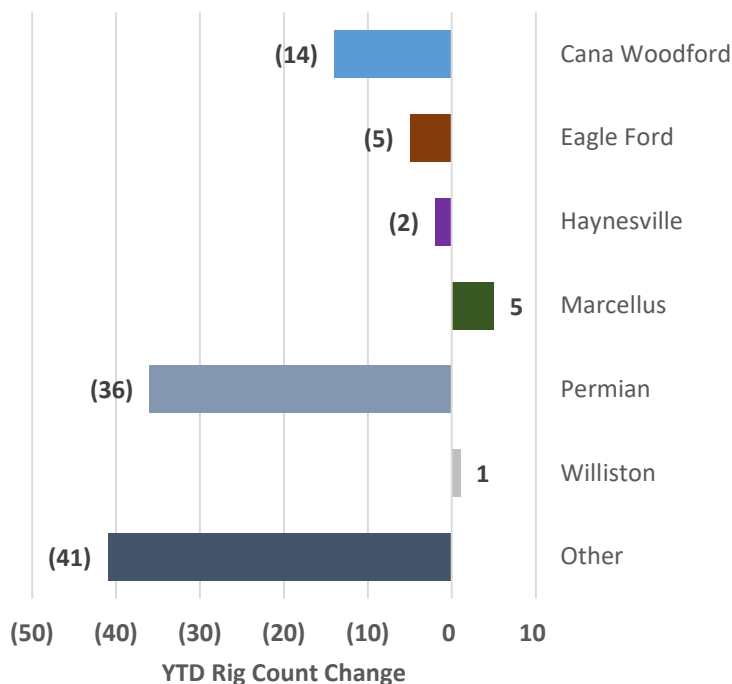
### ➤ Total U.S. Rig Count by Basin Analysis



## Total U.S. Rig Count by Basin

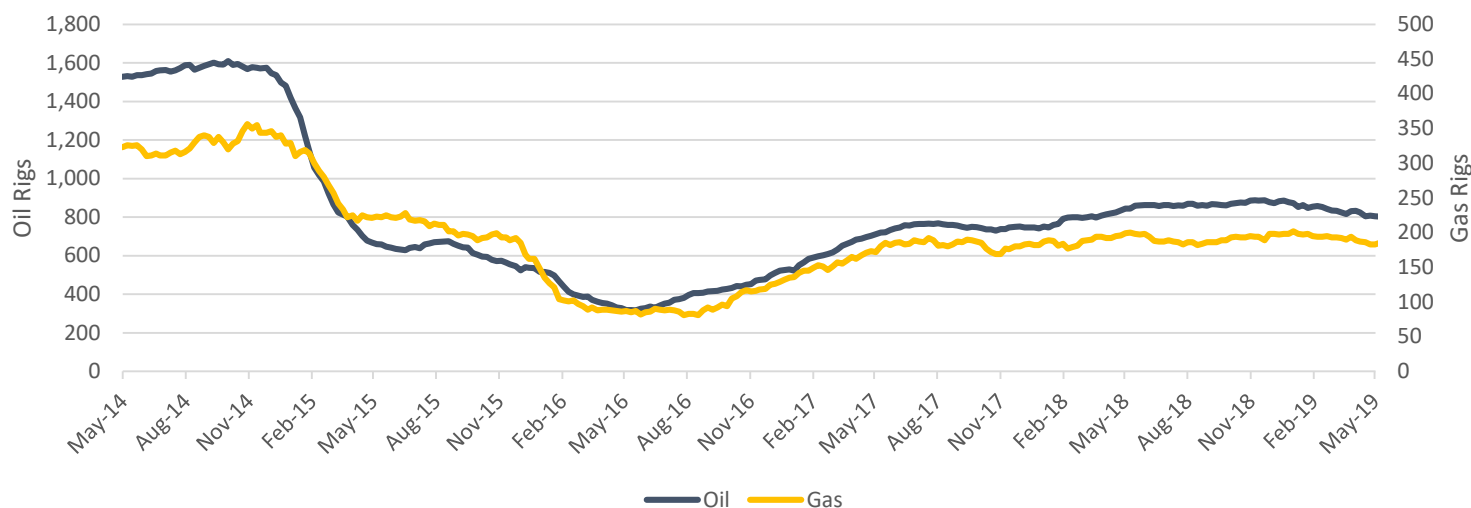


## Total U.S. Rig Count by Basin: YTD Change



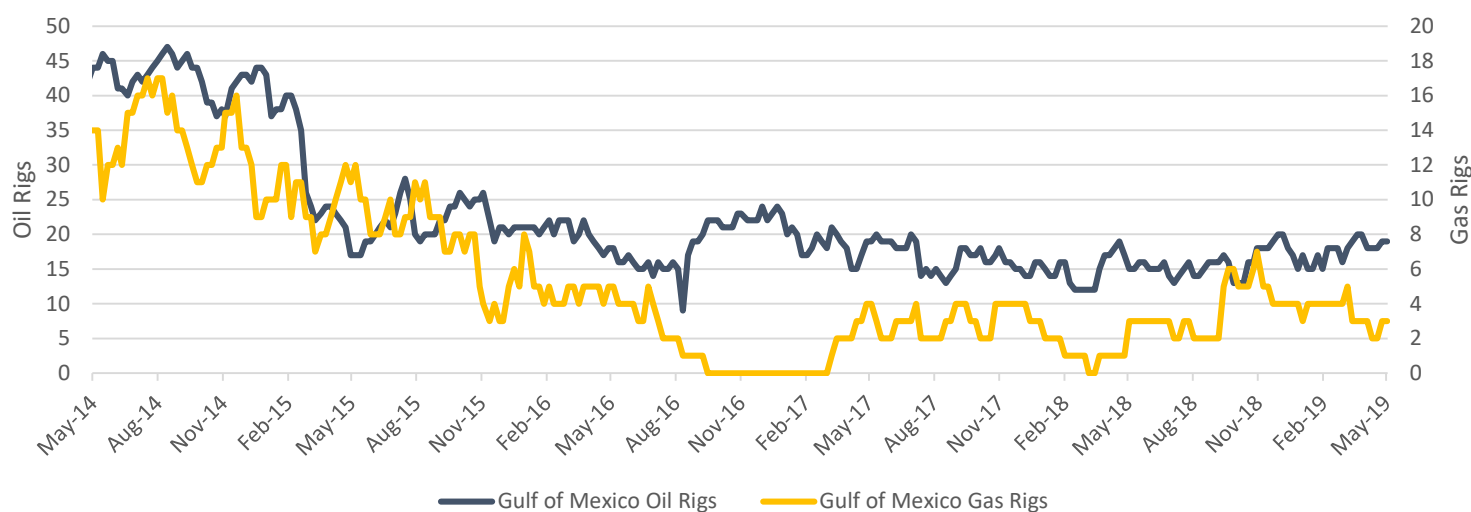
## Rig Count (continued)

### ➤ U.S. Oil vs. Natural Gas Rig Count



Rig Counts (5/29/19)			Change from	
	Current	Prior Week	Prior Year	
Oil	797	802	859	(0.6%)
Natural Gas	186	185	198	0.5%
Other	-	-	2	(100.0%)

### ➤ Gulf of Mexico Oil vs. Natural Gas Rig Count



Rig Counts (5/29/19)			Change from	
	Current	Prior Week	Prior Year	
Oil	19	19	15	26.7%
Natural Gas	3	3	3	-
Other	-	-	-	-

## About Founders Advisors

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### Contact

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

**Duane P. Donner II, Managing Partner**  
ddonner@foundersib.com

**John W. Sinderson, Managing Director**  
jsinderson@foundersib.com

**John W. Sullivan, Vice President**  
jsullivan@foundersib.com

**Evan H. Klisares, Associate**  
eklisares@foundersib.com

**Tripp Salem, Associate**  
tsalem@foundersib.com

### HOUSTON

24275 Katy Freeway, Suite 400  
Katy, TX 77494  
Phone: 713.412.0313

### 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