



Oil & Gas Equipment and Services Update

Market Insights Report | April 2020

► **WTI Oil Futures Hit (\$37.63)...** “When you come to a fork in the road, take it.” – Yogi Berra

This is an unsettling time. What once felt intimately familiar, now feels foreign and mysterious. In a matter of weeks our entire world economy has been upended while oil prices have ventured into never-before-seen negative territory. It is safe to say that the future in which we once felt so confident now seems like a reverie from a distant age. In times such as these we take comfort in the wisdom of those who come before us, especially those whose sagacity helps us tear a corner off the darkness. As confusion continues to grip energy markets, Yogi’s infamous quote feels particularly apropos and succinctly encapsulates our own assessment of what the future holds.

► **An Update on WTI Oil Prices and Inventory Dynamics**

April 20, 2020 was an historic day whereby futures for U.S. crude plummeted to the point of going negative for the first time ever, revealing the extent to which the coronavirus pandemic has obliterated demand for oil. This unprecedented chain of events threatens to overwhelm domestic storage capacity, and has already led to production shut-ins. According to the North Dakota Industrial Commission, 4,600 wells in the state have stopped producing since the beginning of March, equating to roughly 260,000 bbl/d of production. Additional shut-ins are widely anticipated and are certainly not limited to North Dakota.

According to the Energy Information Administration, inventory increased significantly last week, with further builds anticipated. For the week ended April 10th, US commercial crude oil stocks increased by 19.2 MMbbl, with Cush accounting for 5.8 MMbbl of the build and PADD 3 comprising another 10.3 MMbbl. Total gasoline stocks were up 4.9 MMbbl, of which blending components made up 3.9 MMbbl. Distillate inventories bulged 6.3 MMbbl as demand dropped by over 1 MMbbl/d week-on-week. Overall, total US commercial petroleum stocks were up 27.2 MMbbl/d compared to the prior reported week.

Oil & Gas Equipment & Services Team

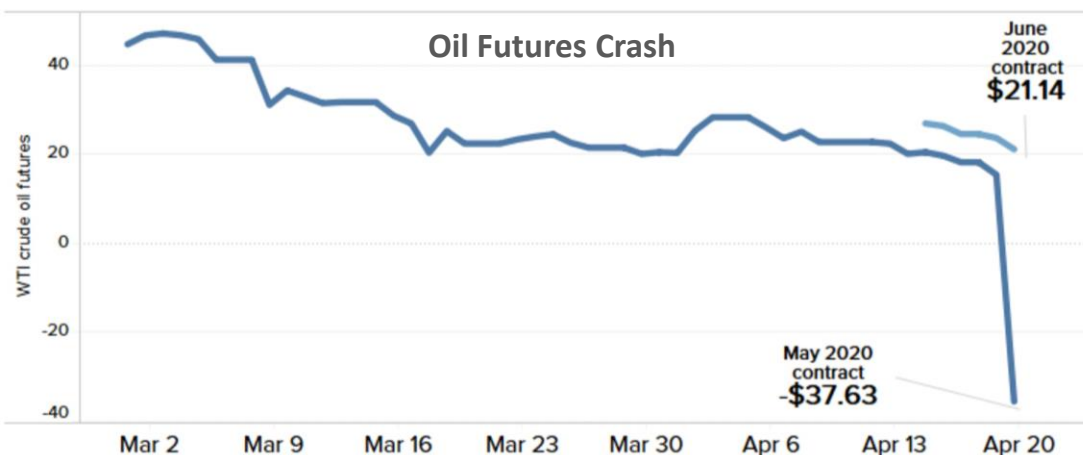
John Sindors
 jsindors@foundersib.com

John Sullivan
 jsullivan@foundersib.com

Evan Klisares
 eklisares@foundersib.com

Tripp Salem
 tsalem@foundersib.com

Randy Freeman
 rfreeman@foundersib.com



Collateral Effects

- Hedges
- Banks lending against hedges
- Financial ratios under loans
- Contracts pegged to current future contracts

Critical Factors Weighing on the Energy Markets

► COVID-19's Impact on Oil Demand

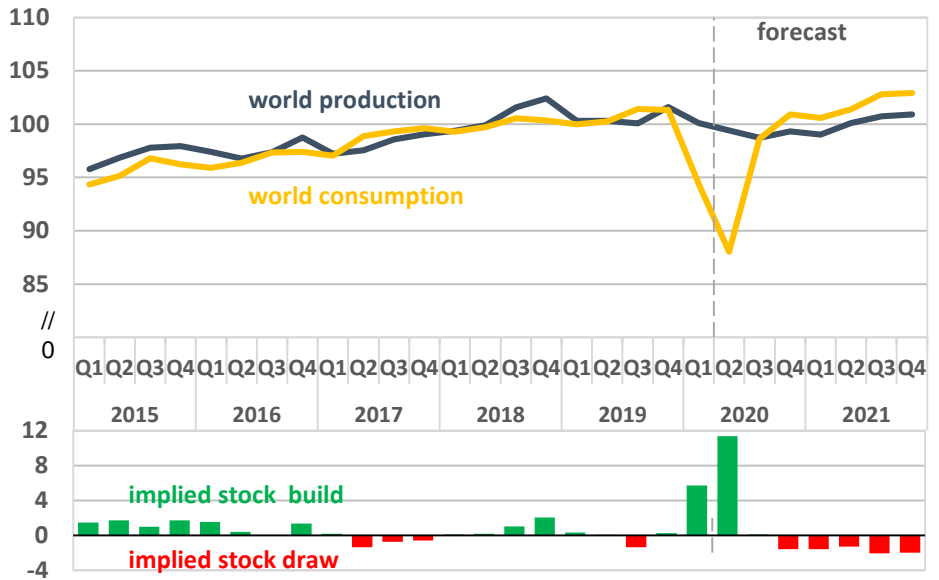
Pandemics are undoubtedly terrifying events. We become acutely aware of the fragility of our own safety, including the economic forces that bind our society together. With billions of people around the world sequestered in their homes, the spotlight is shining brightly on our world's policy makers as they grapple with the worst health crisis in the past century. Businesses find themselves struggling for survival as prolonged confinement measures tighten the stranglehold on economic activity. With road and air travel essentially halted, few industries have felt this pain as profoundly as energy, as evidenced by the latest demand outlook portrayed by the IEA. According to their latest report, global oil demand is anticipated to fall by a record 9.3 MMbbl/d year-on-year in

2020, effectively wiping out the last decade's oil demand growth. Demand in April alone is forecasted to drop 29 MMbbl/d compared to last year and is followed by an expected 26 MMbbl/d year-on-year drop in May. This unprecedented freefall has catalyzed OPEC+ to reach a historic resolution to cut production by 10.7 MMbbl/d, assuming 100% compliance. Meanwhile, another ~3.5 MMbbl/d in cuts are slated to come from non-OPEC producers, including the US, Canada, and Norway, as part of a G20 deal. Despite the historic nature of these coordinated efforts, it is likely too little too late for many small-to-medium sized companies who will likely not survive. Industry commentators anticipate that the US market in terms of number of companies could shrink 20-30% by the end of this downturn, which will lead to significant industry consolidation over the ensuing months. While there is reason for cautious optimism considering both infection data supporting the efficacy of social distancing measures and solidarity in world leaders' efforts to address oil market stability, the contagion of recent events continues to extend its reach throughout energy markets and ultimately portends a long-term bear market for the industry.

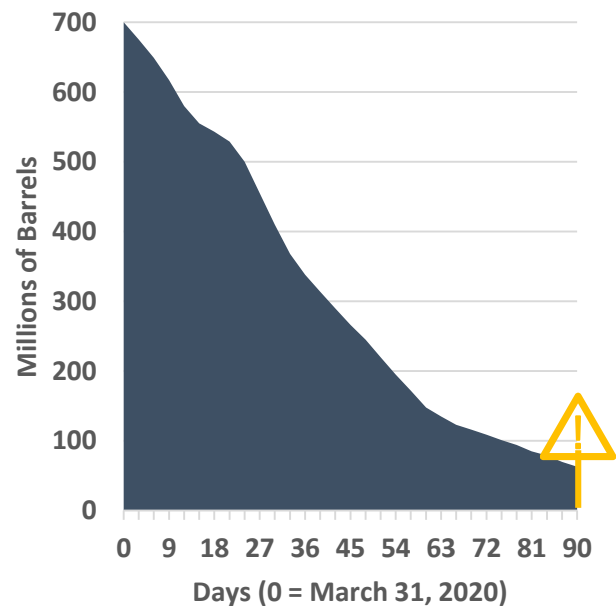
► Supply Glut Threatens to Overwhelm Global Storage Capacity

While the production cuts of OPEC+ and the G20 countries will bring the industry back from the brink of disaster, global inventories are still anticipated to increase by 12 MMbbl/d in the first half of the year. According to the IEA, this supply overhang "threatens to overwhelm the logistics of the oil industry – ships, pipelines, and storage tanks – in the coming weeks," and could lead to capacity saturation by the middle of this year. Industry commentators indicate the US is already just 30MM barrels shy of all-time high crude inventories. The US, China, India, and South Korea are all considering either offering their strategic storage capacity for the industry or increasing their strategic stocks to take advantage of cheap pricing, which combined could amount to 200 million barrels, effectively removing two MMbbl/d. However, the combination of these efforts and the production cuts of OPEC+ and the G20 can do little but delay the timing at which global storage capacity is reached and the pace of production shut-ins accelerates. Rystad Energy believes that delay to be ~two months. Despite this backdrop of gloom, hope springs eternal that this will allow more time for demand dynamics to improve and for companies to prepare contingency plans to minimize supply chain disruptions, to pursue cost reduction measures, and to ultimately avoid dismantling parts of the industry.

World liquid fuels production and consumption balance (MM/bd)



Crude Storage Capacity



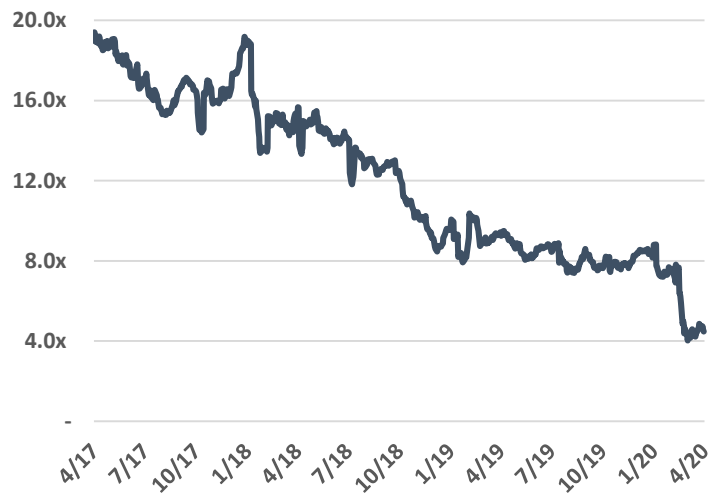
Impact on Domestic Oilfield Service Companies

There is no sugar coating it, U.S. oilfield activity will collapse with oil prices well below \$30 WTI. Initial E&P upstream spending budgets have indicated activity will be down ~35% from previously announced levels, or down 45% when compared to 2019 budgets. However, the declines will be far more dramatic than these initial cuts and we stress that these announcements skew towards larger cap, better hedged and capitalized operators. Total U.S. capex is likely to fall in excess of 65% with a WTI price persisting in the \$20s. Many of the budgets were released with oil prices significantly higher than they are today, and we would not be surprised to see further revisions downward. As such, oilfield service activities are set to decline at a never before seen pace, and we believe the U.S. oil service market has become a test of survivability, not profitability. Shares of publicly traded companies serve as a proxy for sentiment in the private markets, and there is a clear out performance of companies that have fortified balance sheets. Despite these out performers' ability to survive this volatile time, valuations have still contracted ~47% since the start of the year.

Three-Year Historical Price-to-Book Value









Three-year Historical TEV/EBITDA



► Creating Value in this Environment

Company's with access to capital and fortified balance sheets have an opportunity to integrate companies that may be forced into liquidation. There have been a number of interesting acquisitions this quarter; some of which are profiled below:

Buyer Logo	Seller Logo	Transaction Description
		<p>New York-based middle market private equity firm JF Lehman & Co. signed a definitive agreement, through an affiliate, to buy subsea cable maintenance and installation services provider Global Marine Group (GMG). GMG provides repair, trenching and installation services to the offshore oil and gas industry.</p>
		<p>Quorum Software has acquired well master data management software firm EnergyIQ. The deal will allow Quorum to broaden its software and services portfolio by providing well lifecycle data management for E&P companies. The company currently offers SaaS-based solutions for land management, production operations, accounting, financial forecasting and more. Financial terms of the deal were not disclosed</p>
		<p>ORIX Corp. subsidiary ORIX Capital Partners acquired a majority interest in Specialty Welding & Turnarounds LLC. SWAT provides specialty welding and other highly technical turnaround services to the oil and gas refinery, petrochemical and industrial markets in more than 14 states, including Texas, Louisiana and California. Financial terms of the deal were not disclosed.</p>

Other News and Interesting Articles

“Senate nears \$370 billion deal for coronavirus small business loan programs” *CNBC* ([link](#)). “Senate Democrats and Republicans are nearing a deal Sunday that could inject roughly \$370 billion into loan programs for small businesses, a person familiar with the negotiations told CNBC. The talks come after the \$349 billion Paycheck Protection Program, which offers forgivable loans to small businesses, ran out of money on Thursday. Democrats rejected a proposal to refill the fund two weeks ago.”

“Refiners seek prompt oil cargoes as price uncertainty deters advanced orders” *Reuters* ([link](#)). “Some oil refiners are picking up more crude cargoes at the last minute from locations nearby as uncertainty caused by the coronavirus outbreak discourages their more usual approach of making advanced orders, market sources said. With little clarity about how long national lockdowns to prevent the spread of the virus will last and whether prices have further to fall, refiners are wary of longer-term deals.”

“Trump blames WHO for getting coronavirus pandemic wrong, threatens to withhold funding” *CNBC* ([link](#)). “President Donald Trump blamed the World Health Organization for getting ‘every aspect’ of the coronavirus pandemic wrong and threatened to withhold funding from the international organization. ‘They did give us some pretty bad play calling ... with regard to us, they’re taking a lot of heat because they didn’t want the borders closed, they called it wrong. They really called, I would say, every aspect of it wrong,’ Trump said at a White House press conference Tuesday.”

“Half of announced North American oil cuts come from just three companies” *Reuters* ([link](#)). “Numerous U.S. and Canadian oil companies have said they are reducing output in 2020, but a Reuters analysis of the announcements so far show that just three companies - Chevron Corp (CVX.N), ConocoPhillips (COP.N) and Occidental Petroleum Corp (OXY.N) - account for more than half of the cuts. Oil and gas producers are deep into crisis mode as a result of the worldwide slump in demand caused by coronavirus lockdowns. Fuel demand is down more than 30%, and the world’s big producers cannot produce oil profitably at less than \$30 per barrel.”

“Over 500,000 Clean Energy Jobs Could Be Lost By The End Of June” *Oilprice* ([link](#)). “The world is grappling with one of the most - if not the most - devastating crises of a generation. It’s forced people into their homes, cratered the markets and has led to tens of millions of lost jobs. In the clean energy industry alone, over 100,000 jobs were lost in March. And it’s likely to get much worse. A recent report from Environmental Entrepreneurs (E2) revealed that there were 106,000 unemployment claims filed by clean energy workers in the month of March, with 69,800 claims coming from the energy efficiency industry, 16,500 coming from the renewable energy industry, 12,300 from the clean vehicles industry, and 7,700 from grids, storage, and clean fuels.”

“Power Demand In U.S. Falls To Nearly Two Decade Low” *Oilprice* ([link](#)). “As stay-at-home orders keep businesses shuttered across much of the United States, electricity demand has fallen to a near 17-year low, according to analysts at the Edison Electric Institute (EII) trade group, as cited by Reuters. Over the last week ending April 11, US power output fell to just 64,177 gigawatt hours—down 6.1% for the same week last year, and the lowest weekly output since mid-2003. This drop in power demand is coinciding with a drop in prices as well, leading to a sell-off in wholesale US electricity markets, according to the Financial Times. It will mean a smaller bottom line for power companies, which some suggest may shift demand away from fossil fuels and toward wind and solar.”

“China sees sharp COVID-led GDP contraction, but commodity trends indicate a return to business” *S&P Global Platts* ([link](#)). “As the global economy battles the deadly COVID-19 pandemic, all eyes are on China and the rate at which its economy returns to business. China on Friday reported a contraction of 6.8% in its Q1 GDP and all data pointed to the deepest quarterly year-on-year contraction since the reform era began in the late 1970s. But some key Q1 economic indicators such as fixed-asset investment, industry production, and completed building floor space suggest that economic activity improved in March from January-February.”

Recent Oilfield Service Transactions

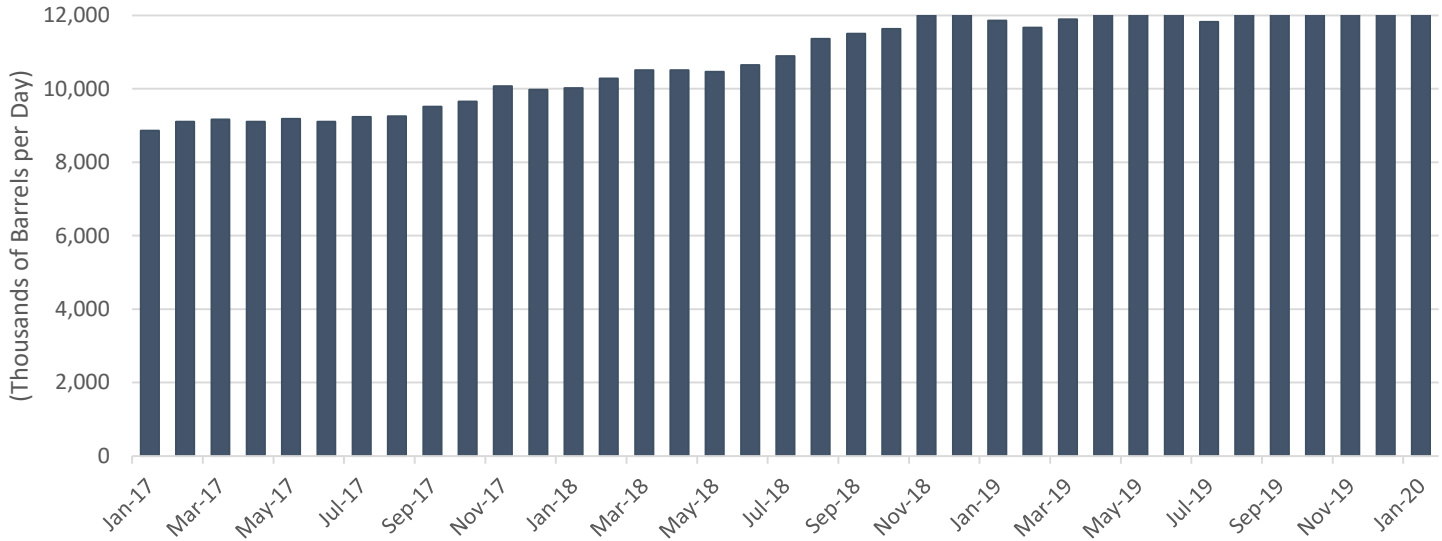
Announcement Date	Transaction Status	Target Name	Buyer Name	Business Description [Target/Issuer]
3/31/2020	Announced	Banner Midstream Corp.	Ecoark Holdings, Inc.	Banner Midstream Corp. offers integrated oil field services, transportation services, and equipment rental.
3/16/2020	Announced	Ranger Energy Services, Inc.	T. Rowe Price Associates; CSL Capital Management; Bayou Well Holdings Company	Ranger Energy Services, Inc. provides onshore high specification well service rigs, wireline completion services, and complementary services to exploration and production companies in the United States.
3/9/2020	Closed	C&J Well Services, Inc.	Basic Energy Services, Inc.	Basic Energy Services Inc. has acquired NexTier's production operations for \$94 million. The NexTier production operations, known as C&J Well Services, is the third largest rig servicing provider in the U.S.
3/3/2020	Closed	5J Oilfield Services, LLC	SMG Industries Inc.	5J Oilfield Services, LLC, a contract carrier, specializes in managing the fleet of equipment for transportation and logistical needs of the oil and gas industry.
2/23/2020	Announced	Strad Inc.	--	Strad Inc. provides rental equipment and matting solutions to the oil and gas, pipeline, power transmission and distribution, mining, and construction sectors in Canada and the United States.
1/13/2020	Closed	Laserstream, LP	Stress Engineering Services, Inc.	Laserstream, LP offers inspection and analysis services for oilfield equipment.
1/11/2020	Closed	Cougar Drilling Solutions Inc.	The Industrialization & Energy Services Company	Cougar Drilling Solutions Inc. engages in designing, manufacturing, and supplying downhole drilling tools to the oil, gas, and geothermal exploration and development industry in North America, Europe, Australia, the Middle East, South America, Asia, and Africa.
1/3/2020	Closed	Fishing & Rental Division of Gravity Oilfield Services Inc.	Graco Fishing & Rental Tools, Inc.	As of January 3, 2020, Fishing & Rental Division of Gravity Oilfield Services Inc. was acquired by Graco Fishing & Rental Tools, Inc. Fishing & Rental Division of Gravity Oilfield Services Inc. comprises fishing, rental tool, and related assets of Gravity Oilfield Services' Fishing & Rental Division.
12/13/2019	Closed	Pro-Vac Oilfield Solutions Ltd.	Xtreme Oilfield Technology Ltd.	Pro-Vac Oilfield Solutions Ltd. offers pressure truck testing and hauling services for the oil and gas industry.

Trading Statistics

Ticker	Company Name	Stock Price	% of 52-Week		Market	Enterprise	LTM	LTM	Enterprise Value /	
		4/20/2020	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	12.29	30.2%	150.6%	624	648	628	228	1.0x	2.8x
Nasdaq: TUSK	Mammoth Energy Services	0.60	3.2%	106.7%	28	158	836	131	0.2x	1.2x
Nasdaq: NCSM	NCS Multistage Holdings	0.59	11.5%	190.5%	30	57	204	9	0.3x	6.4x
NYSE: NEX	NexTier Oilfield Solutions	1.78	14.6%	178.0%	388	546	1,780	302	0.3x	1.8x
NYSE: PUMP	ProPetro Holding Corp.	3.26	12.8%	239.3%	351	370	2,043	450	0.2x	0.8x
NYSE: WTRR	Select Energy Services	3.09	24.2%	139.2%	288	476	1,378	184	0.3x	2.6x
NYSE: SOI	Solaris Oilfield Infrastructure	5.41	28.0%	120.2%	166	252	236	132	1.1x	1.9x
Min		\$0.59	3.2%	106.7%	\$28	\$57	\$204	\$9	0.2x	0.8x
Median		\$3.09	14.6%	150.6%	\$288	\$370	\$836	\$184	0.3x	1.9x
Mean		\$3.86	17.8%	160.6%	\$268	\$358	\$1,015	\$205	0.5x	2.5x
Max		\$12.29	30.2%	239.3%	\$624	\$648	\$2,043	\$450	1.1x	6.4x
Founders Big Four										
NYSE: BKR	Baker Hughes Company	\$13.03	48.4%	142.8%	\$8,518	\$25,303	\$23,755	\$3,046	1.1x	8.3x
NYSE: HAL	Halliburton Company	7.59	23.6%	178.5%	6,620	15,868	23,153	3,714	0.7x	4.3x
NYSE: NOV	National Oilwell Varco	11.52	40.2%	143.9%	4,531	6,205	8,596	146	0.7x	42.5x
NYSE: SLB	Schlumberger Limited	15.26	33.0%	128.5%	21,211	34,509	32,868	6,509	1.0x	5.3x
Min		\$7.59	23.6%	128.5%	\$4,531	\$6,205	\$8,596	\$146	0.7x	4.3x
Median		\$12.27	36.6%	143.4%	\$7,569	\$20,586	\$23,454	\$3,380	0.9x	6.8x
Mean		\$11.85	36.3%	148.4%	\$10,220	\$20,471	\$22,093	\$3,354	0.9x	15.1x
Max		\$15.26	48.4%	178.5%	\$21,211	\$34,509	\$32,868	\$6,509	1.1x	42.5x
Other Publics										
NYSE: APY	Apergy Corporation	\$7.34	16.9%	253.8%	\$578	\$1,138	\$1,197	\$286	1.0x	4.0x
NYSE: CLB	Core Laboratories N.V.	\$11.91	15.7%	178.3%	\$522	\$898	\$685	\$117	1.3x	7.7x
Nasdaq: ERIL	Energy Recovery	\$7.51	62.4%	122.9%	\$421	\$348	\$85	\$17	4.1x	20.0x
NYSE: NE	Noble Corporation	\$0.20	6.3%	98.2%	\$53	\$3,823	\$1,097	\$351	3.5x	10.9x
NYSE: OII	Oceaneering International	3.23	15.1%	160.4%	346	946	1,982	145	0.5x	6.5x
NYSE: OIS	Oil States International	2.39	11.2%	157.2%	153	437	1,053	100	0.4x	4.4x
NYSE: FTI	TechnipFMC	7.73	27.1%	172.2%	3,640	3,860	13,005	1,479	0.3x	2.6x
Min		\$0.20	6.3%	98.2%	\$53	\$348	\$85	\$17	0.3x	2.6x
Median		\$7.34	15.7%	160.4%	\$421	\$946	\$1,097	\$145	1.0x	6.5x
Mean		\$5.76	22.1%	163.3%	\$816	\$1,636	\$2,729	\$357	1.6x	8.0x
Max		\$11.91	62.4%	253.8%	\$3,640	\$3,860	\$13,005	\$1,479	4.1x	20.0x

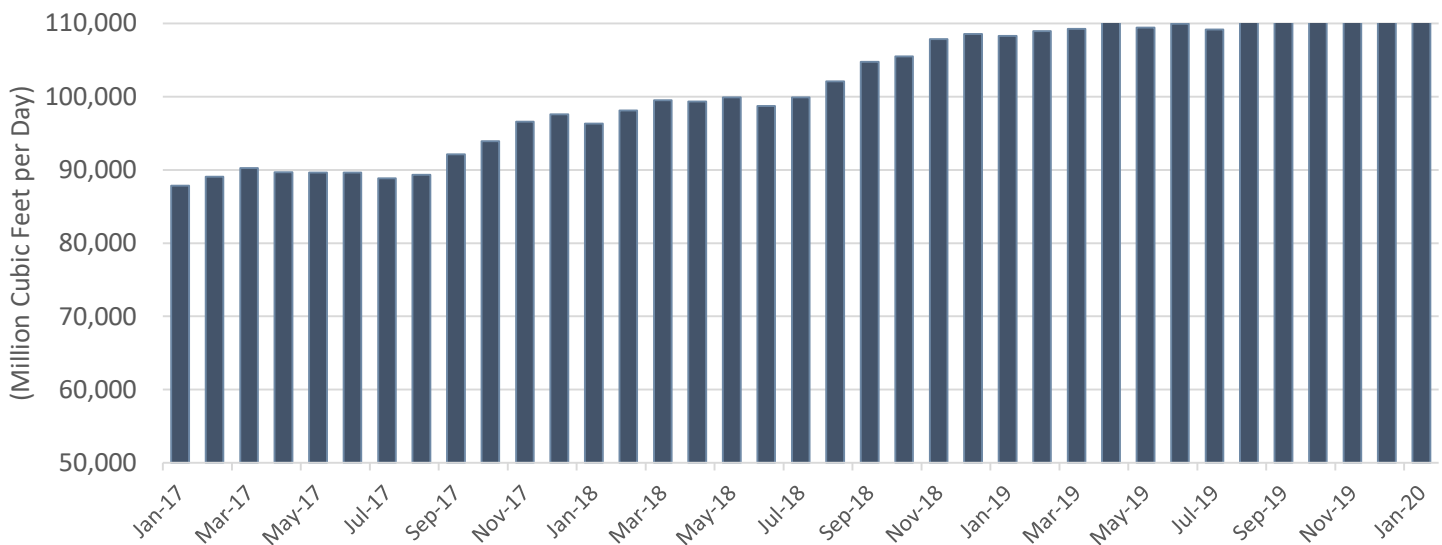
Production Data

➤ U.S Crude Oil Production



Crude Oil	Thousands of Barrels per Day			Change From	
	Jan-20	Prior Month	Prior Year	Prior Month	Prior Year
	12,744	12,804	11,856	-0.5%	7.5%

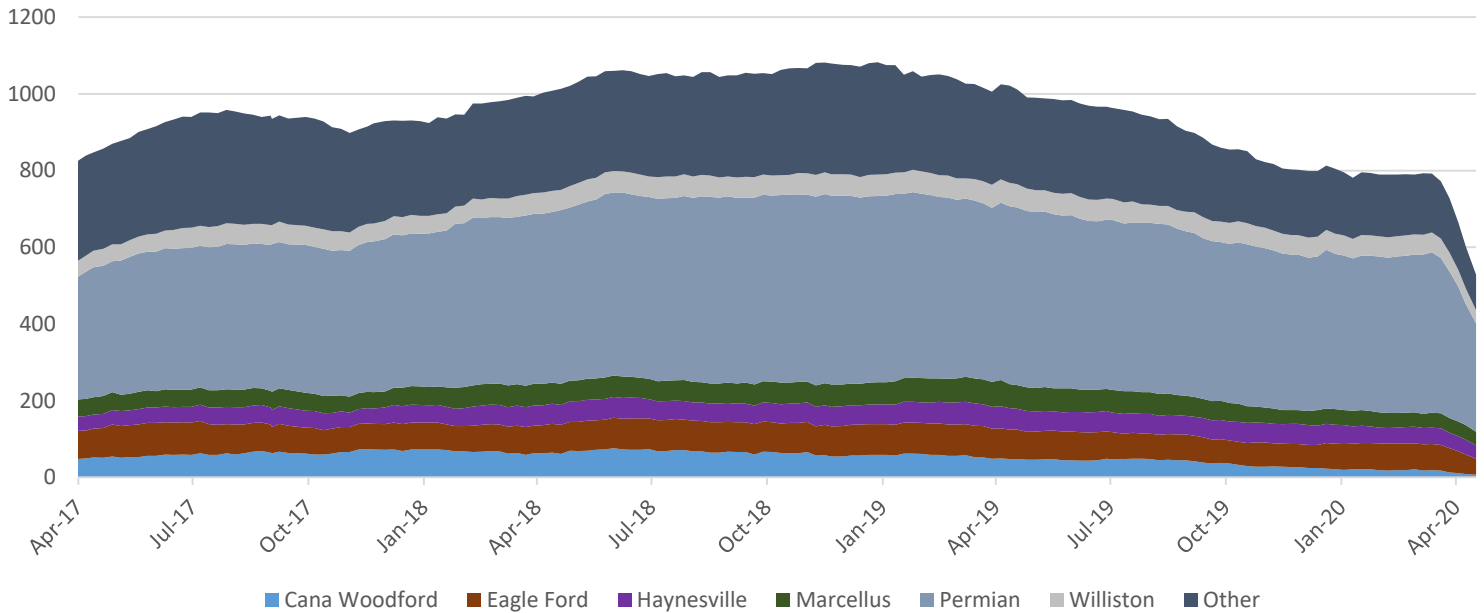
➤ U.S Natural Gas Production



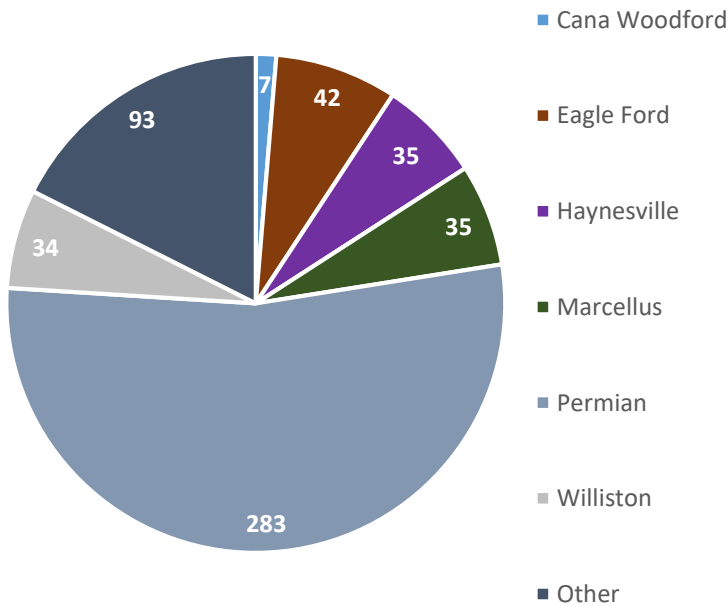
Natural Gas	Million Cubic Feet per Day			Change From	
	Jan-20	Prior Month	Prior Year	Prior Month	Prior Year
	115,497	116,020	108,302	-0.5%	6.6%

Rig Counts by Basin

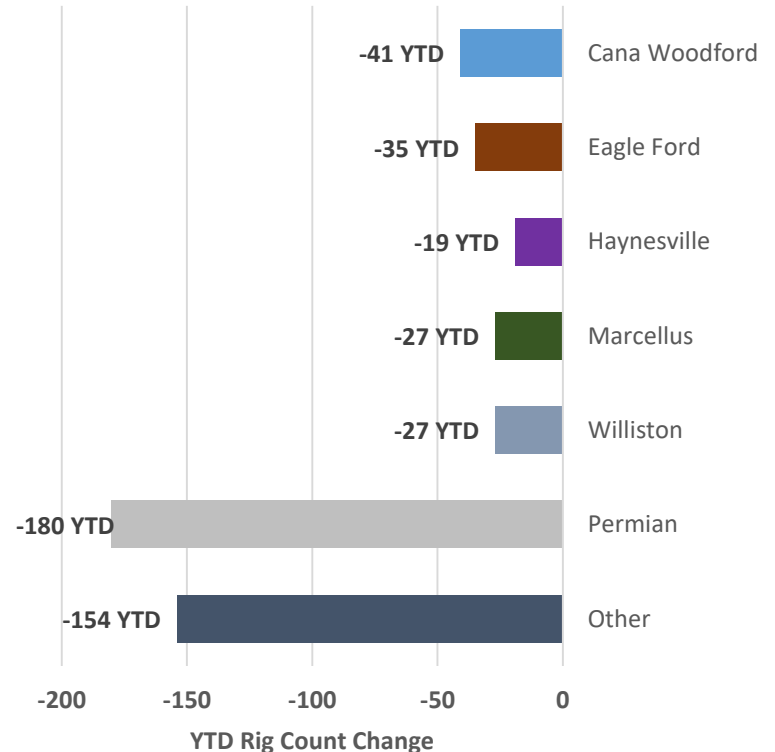
➤ U.S Rig Count by Basin Analysis



U.S Rig Count by Basin - 4/17/20

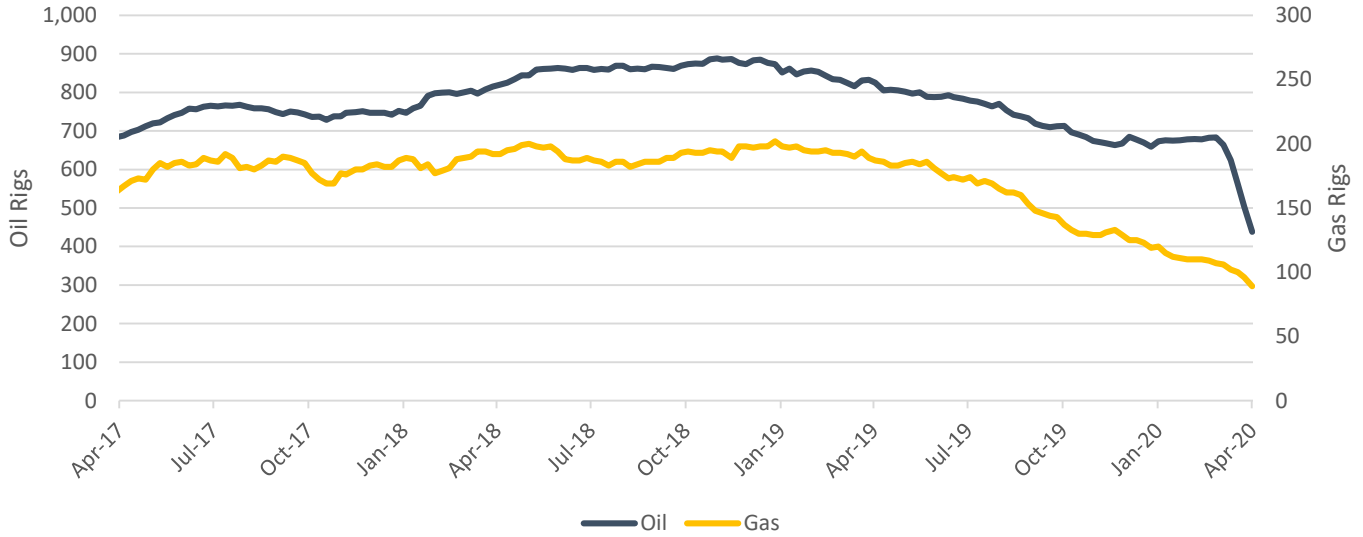


U.S Rig Count by Basin: YTD Change



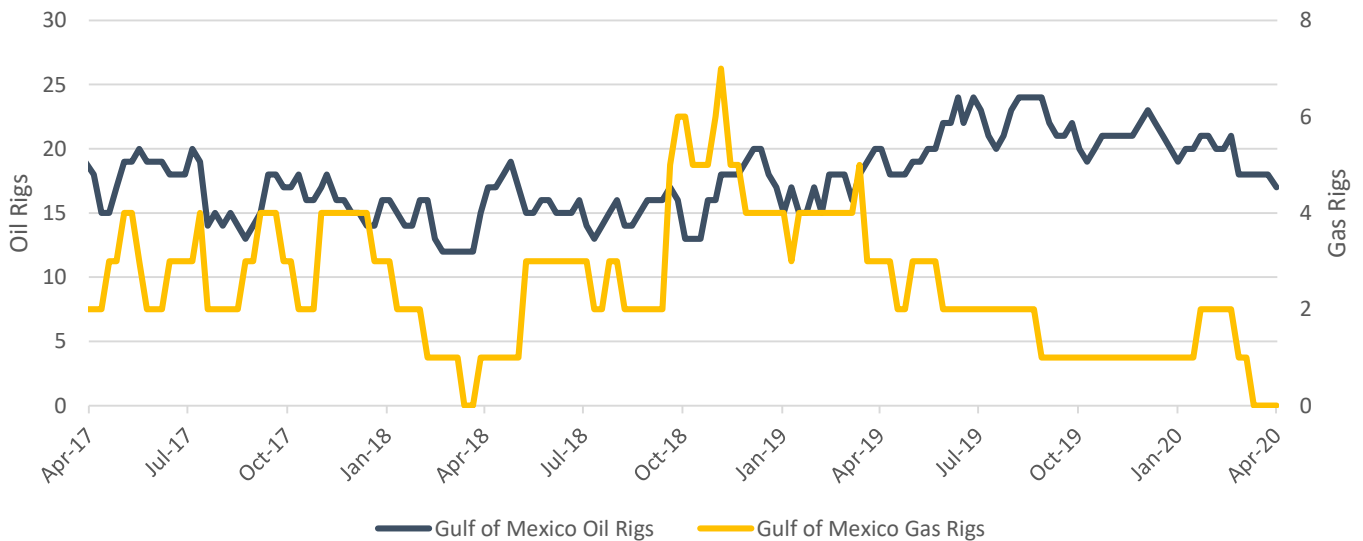
Rig Counts (continued)

➤ U.S Oil vs. Natural Gas Rig Count



	Rig Counts			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	438	683	825	(35.9%)	(46.9%)
Natural Gas	89	107	187	(16.8%)	(52.4%)

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



	Rig Counts			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	17	18	20	(5.6%)	(15.0%)
Natural Gas	0	1	3	(100.0%)	(100.0%)