

Energy

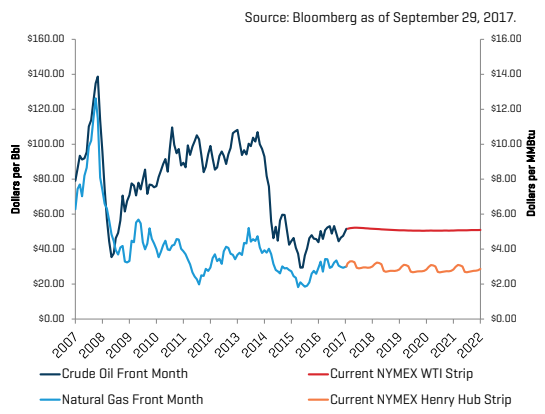
INDUSTRY UPDATE | Q3 2017

A Tale of Two Markets

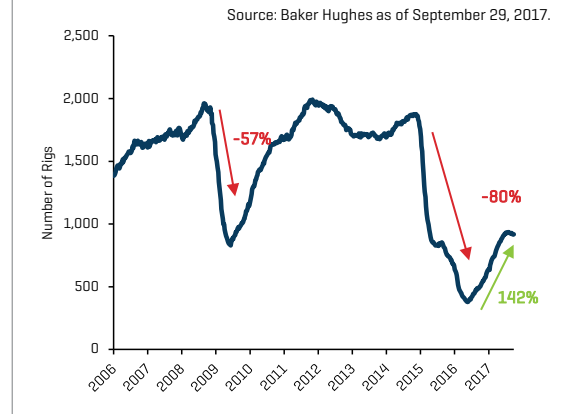
EMERGING FROM RECENT VOLATILITY

The U.S. energy market witnessed meaningful volatility in the third quarter, whipsawed between global crude inventory draws (a positive for market balance), a stalling (and recently declining) rig count and uncertainty regarding E&P company 2018 budgets. The average U.S. land rig count in Q3 2017 was 927 rigs, a 6% increase compared to the average Q2 2017 rig count of 874 rigs, compared to an increase of 153 rigs (+21%) between Q2 and Q1 2017. WTI crude oil prices ranged from \$44.23 (on July 7, 2017) to \$52.22 bbl (on September 25, 2017), further highlighting the variance during the quarter. Despite the flattening rig count, well service intensity has continued to increase. The expectation is that lateral lengths (and horizontal frac stages), proppant use and overall completion complexity will continue to increase. This should lead to a more robust energy service and equipment market, particularly for completions-oriented businesses. Conversely, more commoditized service businesses that are more dependent on drilling rig counts may witness market weakening.

CRUDE OIL (WTI) AND NATURAL GAS (HENRY HUB) PRICES



U.S. HISTORICAL LAND RIG COUNT



Recent Capital Markets Trends

CONTINUED IMPROVEMENT IN FINANCIAL METRICS

There was a continued trend of improving revenue and margins for many energy equipment and service businesses, although the pace of improvement has slowed for many companies. Q2 2017 revenue increased 4% and 63% compared to Q1 2017 and Q2 2016 levels, respectively, for production and well service companies. Q2 2017 EBITDA margins moved to 7% from 6% and -17.5%, respectively, versus margins in Q1 2017 and Q2 2016. The substantial ramp-up of drilling and completion activity translated to better performance. Meaningful shortages of sand and pressure pumping capacity (in certain regions) led to pricing increases in these sectors. This trend is likely to continue into Q3 2017 financial results, although recent reactivations of pressure pumping fleets, new sand capacity and better logistics should temper price increases for the remaining portion of 2017.



About This Piece

This Energy Industry Update is authored by Todd Parsapour. Todd is a Managing Director and Head of the Energy practice within Stout's Investment Banking group. Mr. Parsapour has more than 13 years of experience advising within the energy sector.

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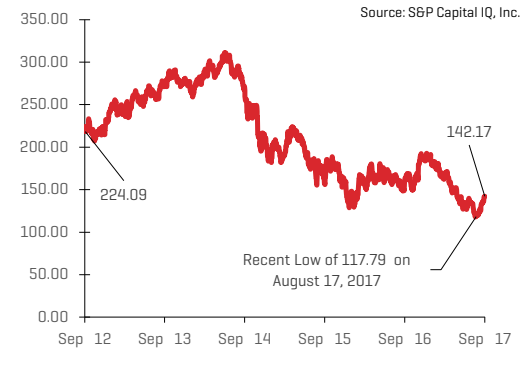
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DESPITE OVERALL POSITIVE TRENDS, ENERGY SERVICES EQUITY VALUATIONS REMAIN CHALLENGED

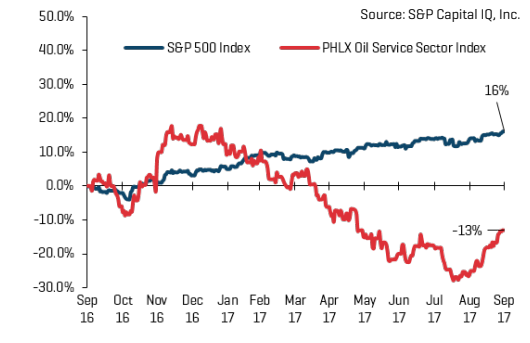
Valuations for a number of public energy service companies bottomed during Q3 2017, with the Philadelphia Oil Service Sector Index (OSX) dipping to a low of 117.79, a decline of 36% from 183.79 at the beginning of 2017, a decline of 62% from a five year high of 308.04 in July 2014. The meaningful gains from late 2016/early 2017 that were driven by recovering crude prices (and a better industry outlook) and rapidly increasing rig counts were replaced by fears of excess production. With these tempered expectations, the IPO market for energy service companies slowed from the burst of activity in late 2016/early 2017.

While near-term crude prices have recently improved to \$51.67 as of the end of the quarter, the forward curve is remarkably flat (average 2018 and 2019 WTI prices are \$51.88 and \$50.96, respectively), which has tempered the outlook for 2018. Onshore service company valuations are likely to be anchored until there is greater clarity on E&P company budgets. Offshore-focused businesses are likely to be commodity price-driven with a keen focus on new tendering activity and pricing.

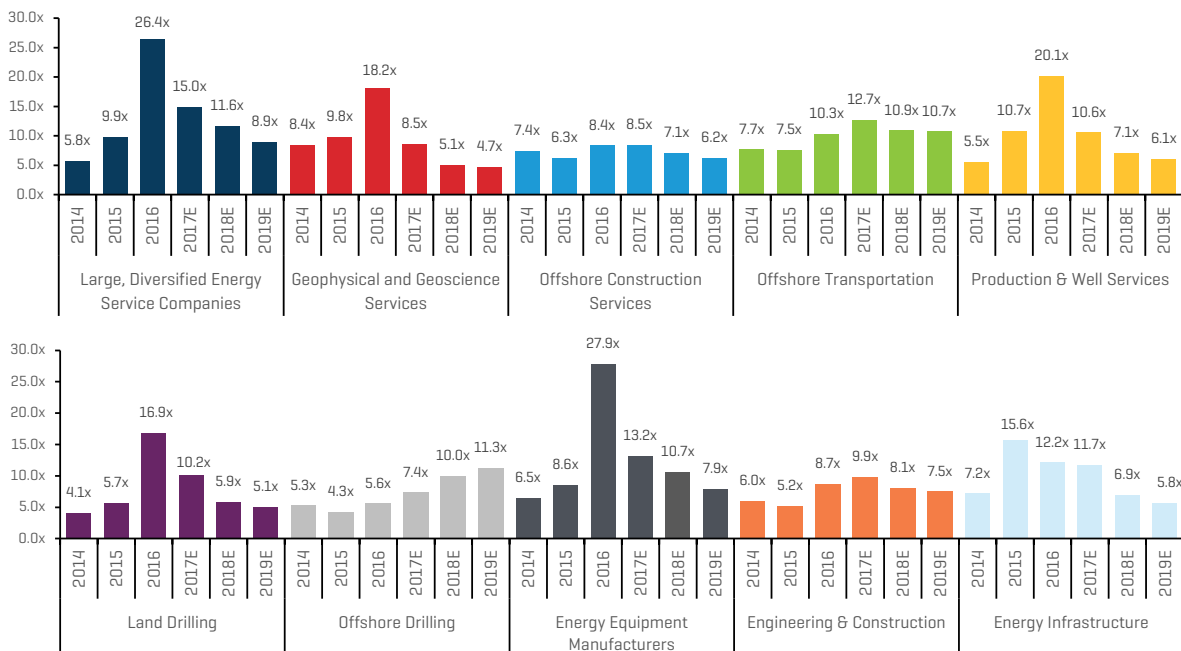
EQUITY INDEX PERFORMANCE — OSX



EQUITY INDEX PERFORMANCE — OSX vs. S&P 500



MEDIAN ENTERPRISE VALUE/EBITDA BY ENERGY SERVICES SECTOR



*Multiples based on historical EV and forward EBITDA estimates as of September 30, 2014, 2015, 2016, and 2017 (2017E, 2018E, 2019E).
 Note: Many multiples implied from 2016 EBITDA not meaningful due to low or negative measures.

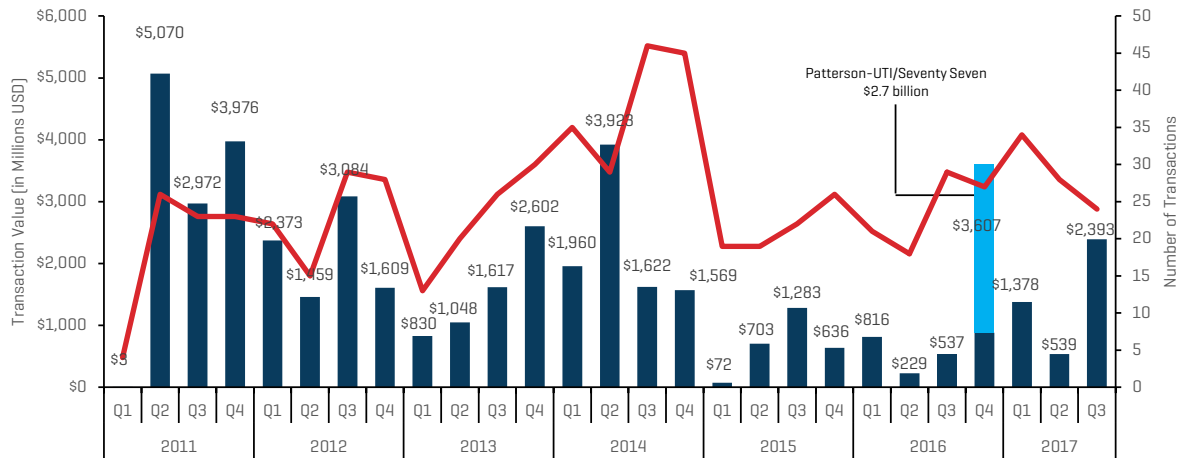
Source: Capital IQ and Stout.

Recent M&A Trends

M&A ACTIVITY HAS TEMPERED

M&A activity by count slowed in Q3 2017, as commodity prices remained range bound and uncertainty crept back into the market. However, activity levels have rebounded from prior year levels as energy service and equipment M&A activity through the first three quarters of the year reached 86 transactions, compared to 68 in the first three quarters of 2016 (+26%).

NORTH AMERICAN (NAM) ENERGY SERVICE & EQUIPMENT M&A ACTIVITY



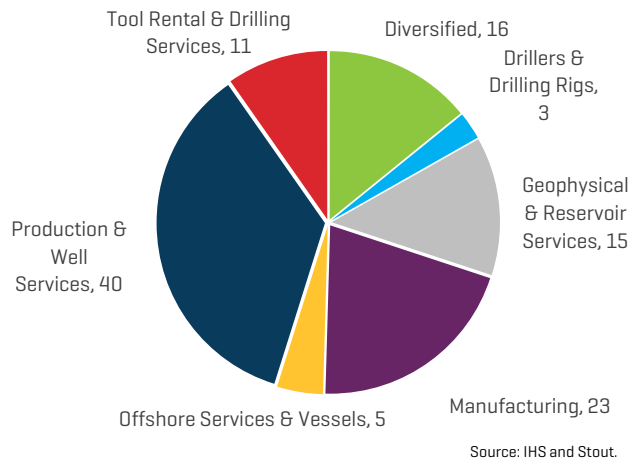
Announced Date	Target	Acquirer (Ownership)	Energy Service and Equipment Sector	EV (\$M)	LTM EBITDA Multiple
9/19/2017	MG Cleaners LLC	SMG Indium Resources Ltd.	Tool Rental & Drilling Services	\$ 3	
9/7/2017	Garrett, LLC	Tenaris S.A. (BITTEN)	Production & Well Services		
9/7/2017	GlobeLTR Energy Inc., well servicing division	Brigade Energy Services, LLC (Turnbridge Capital, LLC)	Production & Well Services		
9/5/2017*	Multi-Shot, LLC	Patterson-UTI Energy, Inc. (NasdaqGS:PTEN)	Tool Rental & Drilling Services		245
8/30/2017	Spectrum Tracer Services, LLC	NCS Multistage Holdings, Inc. (NasdaqGS:NCSM)	Production & Well Services		81
8/22/2017	EnWater Solutions, LLC	WaterBridge Resources, LLC (Five Point Capital)	Production & Well Services		
8/16/2017	Neff Corporation	United Rentals, Inc. (NYSE:URI)	Tool Rental & Drilling Services	632	6.5x
8/16/2017	Mississippi Sand, LLC	U.S. Silica Holdings, Inc. (NYSE:SLCA)	Production & Well Services		95
8/9/2017	Wyatt Water Solutions, LLC	Goodnight Midstream, LLC (Tailwater Capital)	Production & Well Services		
8/7/2017	Diamondbacks Works LP	Tri Con Works LLC (Aperion Management LLC)	Diversified		
8/2/2017	Johnson Controls International Plc (NYSE:JCI), Grinnell® Mechanical Product Suite	Anvil International, LLC (One Equity Partners)	Production & Well Services		
8/1/2017	Conquest Completion Services, LLC (OFS Energy Fund)	Undisclosed company(ies)	Production & Well Services		
7/31/2017	Energy Satellite Services	RigNet Inc. (NasdaqGS:RNET)	Diversified	22	
7/27/2017	Koch & Associates, Inc.	Marshall Excelsior Company (Harbour Group)	Manufacturing		
7/26/2017	Undisclosed company(ies)	Cogent Energy Services	Production & Well Services		
7/24/2017	Data Technology Solutions	RigNet Inc. (NasdaqGS:RNET)	Production & Well Services		
7/21/2017	Stronghold Ltd. and Stronghold Specialty, Ltd.	Quanta Services Inc. (NYSE:PWR)	Diversified	548	
7/18/2017*	Rockwater Energy Solutions, Inc.	Select Energy Services, Inc. (NYSE:WTTR)	Production & Well Services	516	
7/14/2017	Columbia Recycle (2008) Ltd.	Tervita Corporation	Diversified		
7/13/2017	D.A. Criswell Sales, Inc.	VanZandt Controls, LLC (OFS Energy Fund)	Manufacturing		
7/6/2017	Crossfire Sales and Services and Edge Manufacturing & Technology	Tri-Point LLC (First Reserve)	Diversified		
7/5/2017	Multifit Wellbore Technology Ltd.	Forum Energy Technologies, Inc. (NYSE:FET)	Manufacturing		
7/5/2017	Summit ESP, LLC	Halliburton Company (NYSE:HAL)	Production & Well Services		
7/3/2017	Hudson Products Corporation	Chart Industries, Inc. (NasdaqGS:GTL)	Manufacturing	410	

*Transaction Pending. EV=Enterprise Value.

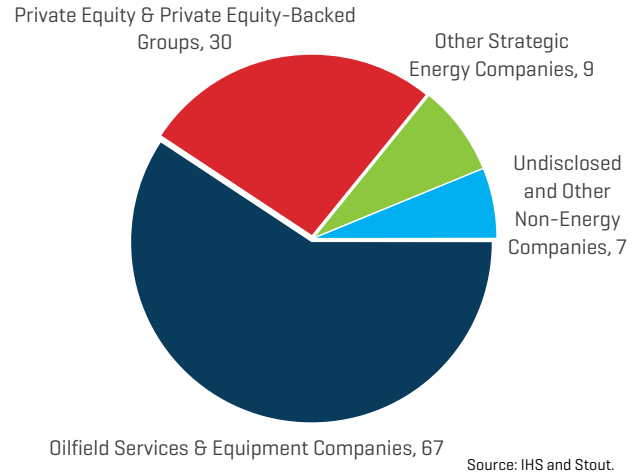
Source: IHS and Stout.

Production & Well Services transactions remain the most active OFS sector in NAM by number of transactions while Drillers & Drilling Rig businesses represent the largest dollar value. However, excluding Patterson-UTI's \$2.7 billion acquisition of Seventy Seven Energy, Production & Well Services businesses represent the largest dollar volume in the trailing twelve-months (TTM) ending September 2017. Manufacturing also remains an active sector. Offshore-related transactions continue to be a weaker part of the market. Energy Services companies (Strategics) have been the most active acquirers of companies in the sector (60% of TTM transaction activity by volume), while PE and PE-backed groups represent the second most active buyer group (approximately 30%).

TTM ENDED Q3 2017 NAM TRANSACTION COUNT BY SECTOR



TTM ENDED Q3 2017 NAM TRANSACTION COUNT BY BUYER PROFILE



About Stout Energy

Stout professionals have extensive experience across the entire value chain of energy service and equipment related companies, including the following sub-verticals within the sector:

- Large, Diversified Energy Service Companies
- Geophysical and Geoscience Services
- Offshore Construction Services
- Offshore Transportation
- Production & Well Services
- Land Drilling
- Offshore Drilling
- Energy Equipment Manufacturers
- Energy Infrastructure

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