



HEADWATERS | MB

Member FINRA

Haynes and Boone, LLP
Oilfield Services Seminar Series
Part III | Running Out of Runway

Agenda

Share our thoughts on:

- 1. How will oilfield service companies find capital?**
- 2. What is happening to working capital?**
- 3. What will OFS look like on the other side of the trough?**
- 4. How will OFS companies recapitalize?**
- 5. Industry charts**

Heard on the Street

Biggest oil boom in history... now the biggest oil bust?

OPEC will no longer shore up oil prices

DUCs are a stealth supply overhang

E&Ps outspent cash flow and doubled down with debt to grow

High oil prices justified expensive drilling & completions

Big banks add \$2 billion to loan loss reserves

Lower for longer

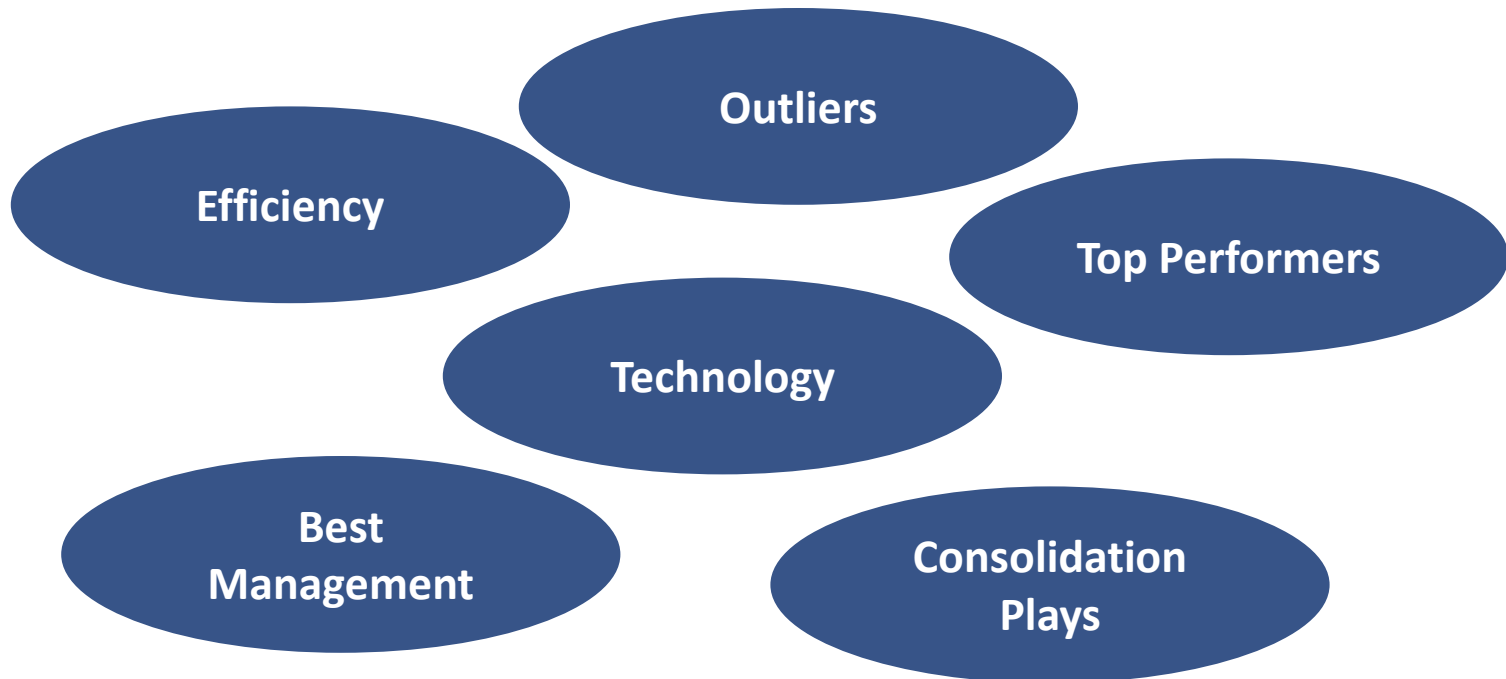
The shale revolution led US oil production to record highs

Oil busts shift risk from banks to equity players

How will oilfield service companies find capital?

Capital will find OFS companies.

Smart capital players are focused on finding:



How will oilfield service companies find capital?

Capital will find OFS companies.



Most money that finds a home will come from:

1. Strategics that have the wherewithal to make acquisitions, or
2. Financial investors that have experience and existing expertise in the sector

What is happening to working capital?

What working capital?

Forced slowdown of activity as operating companies must live within their means

Debt availability is shrinking rapidly.

Over \$5.6 billion has been cut from credit lines so far this year.

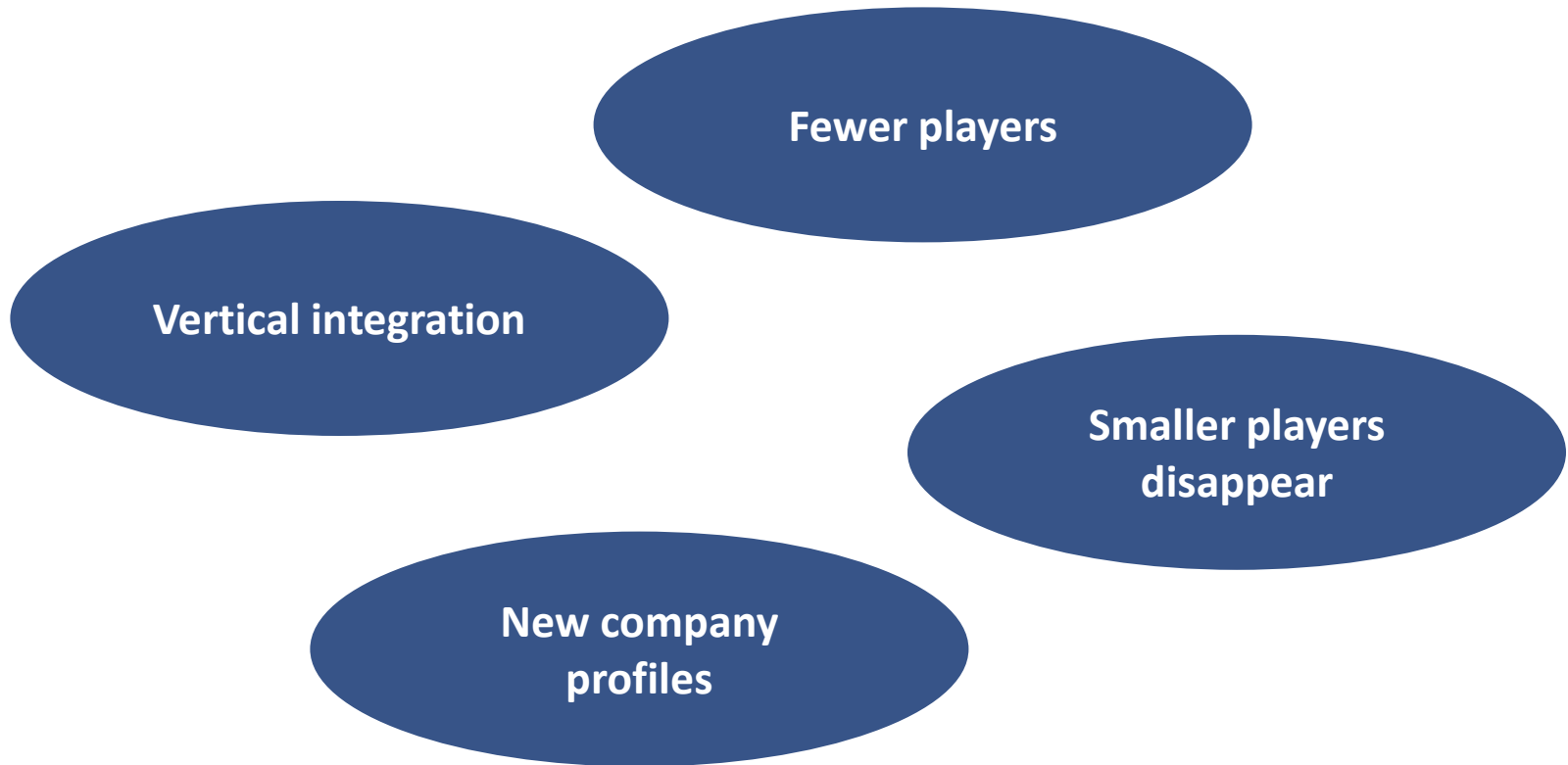
The search for cash includes

- Cutting CAPEX
- Cutting G&A
- Asset sales
- Focus on highest margin services and products
- Fight to keep key clients

Cash is king: Those with access to cash will have buying opportunities and take market share

What will OFS look like on the other side of the trough?

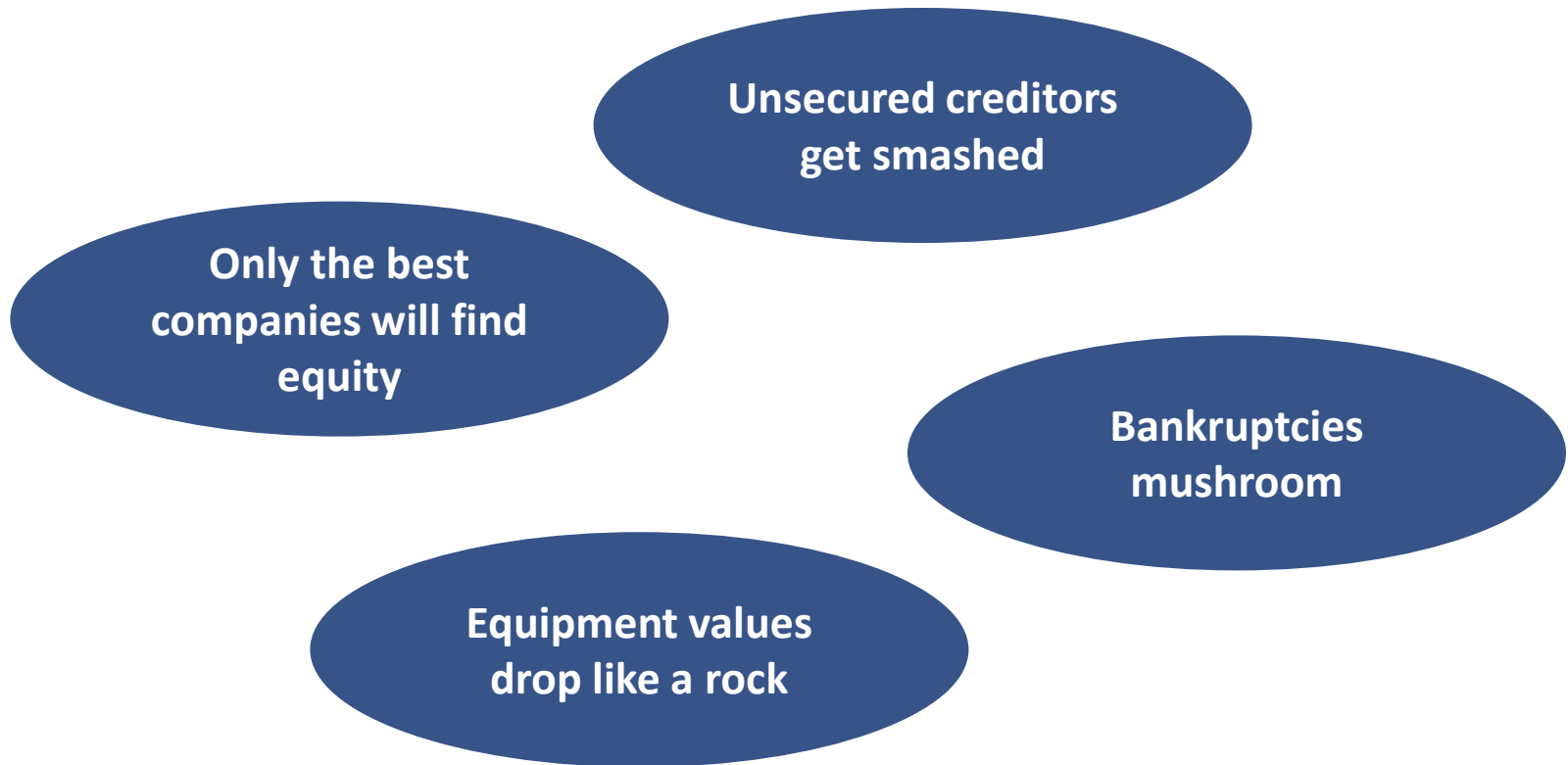
Consolidation will alter the competitive landscape



...energy may drive the next tech boom

How will OFS companies recapitalize?

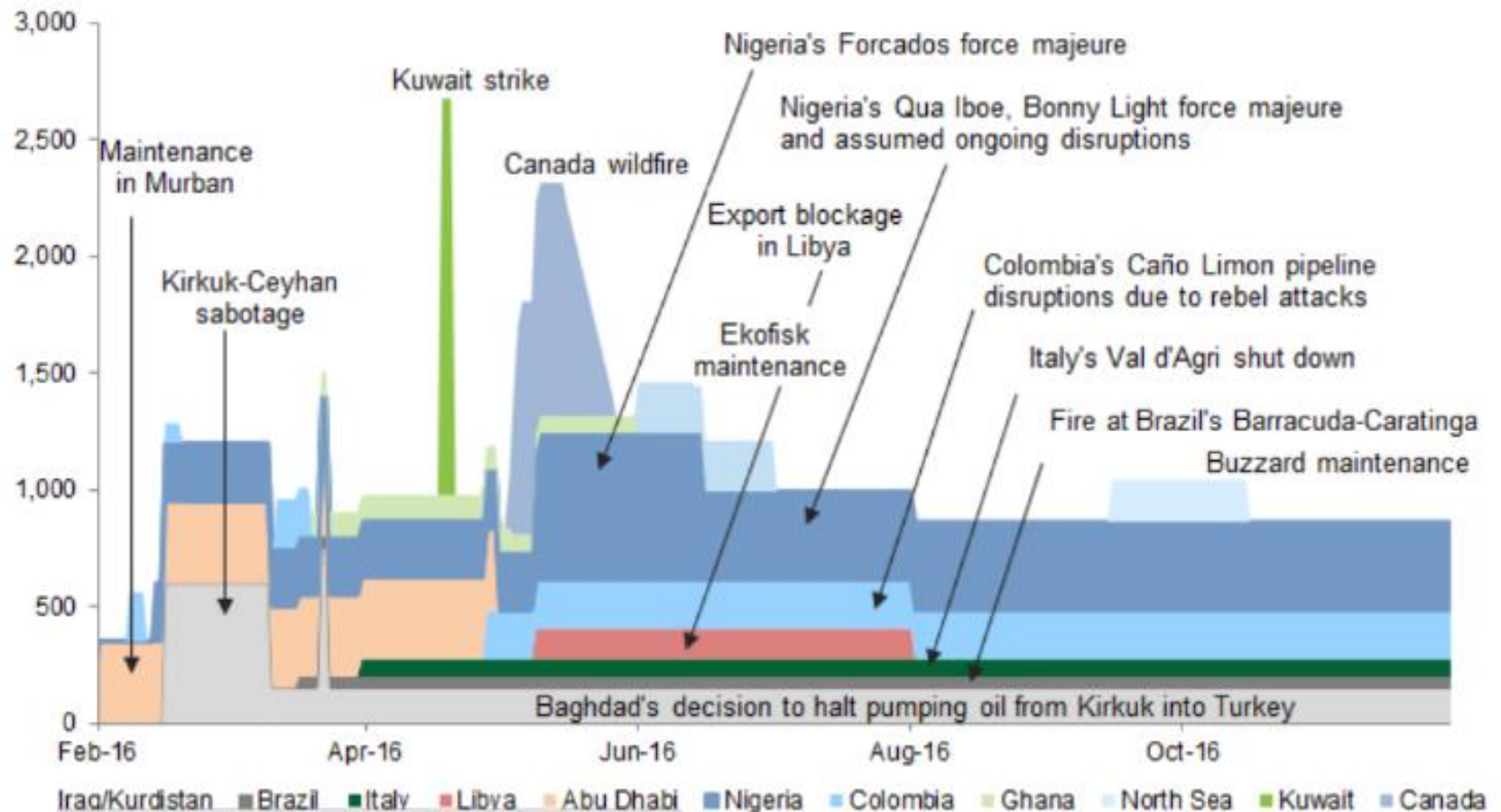
Pain will be absorbed by the typical collapse of the capital stack



...he who has the gold makes the rules

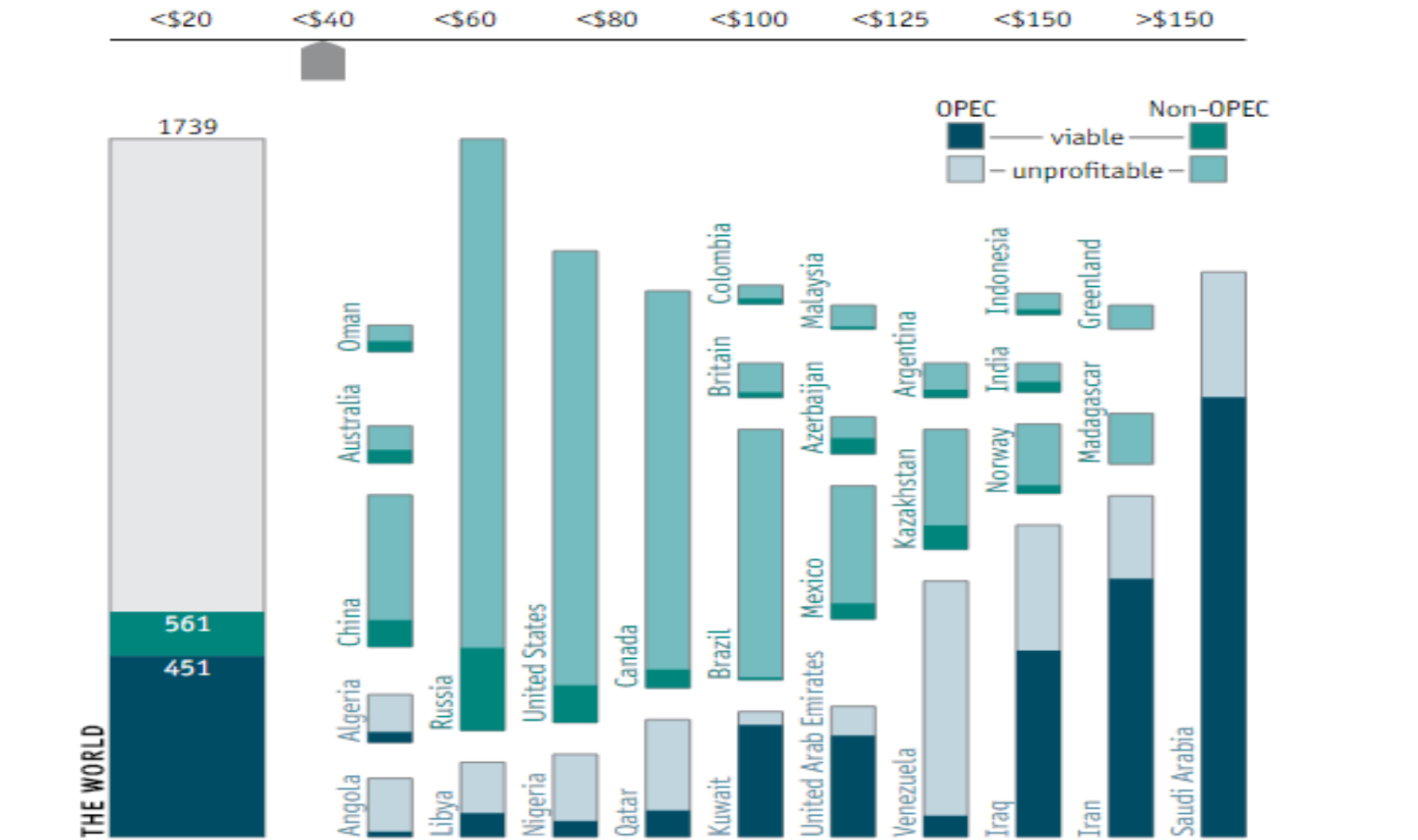
Large supply disruptions have pushed production lower in 2016

Key planned and unplanned outages since mid-February (kb/d)



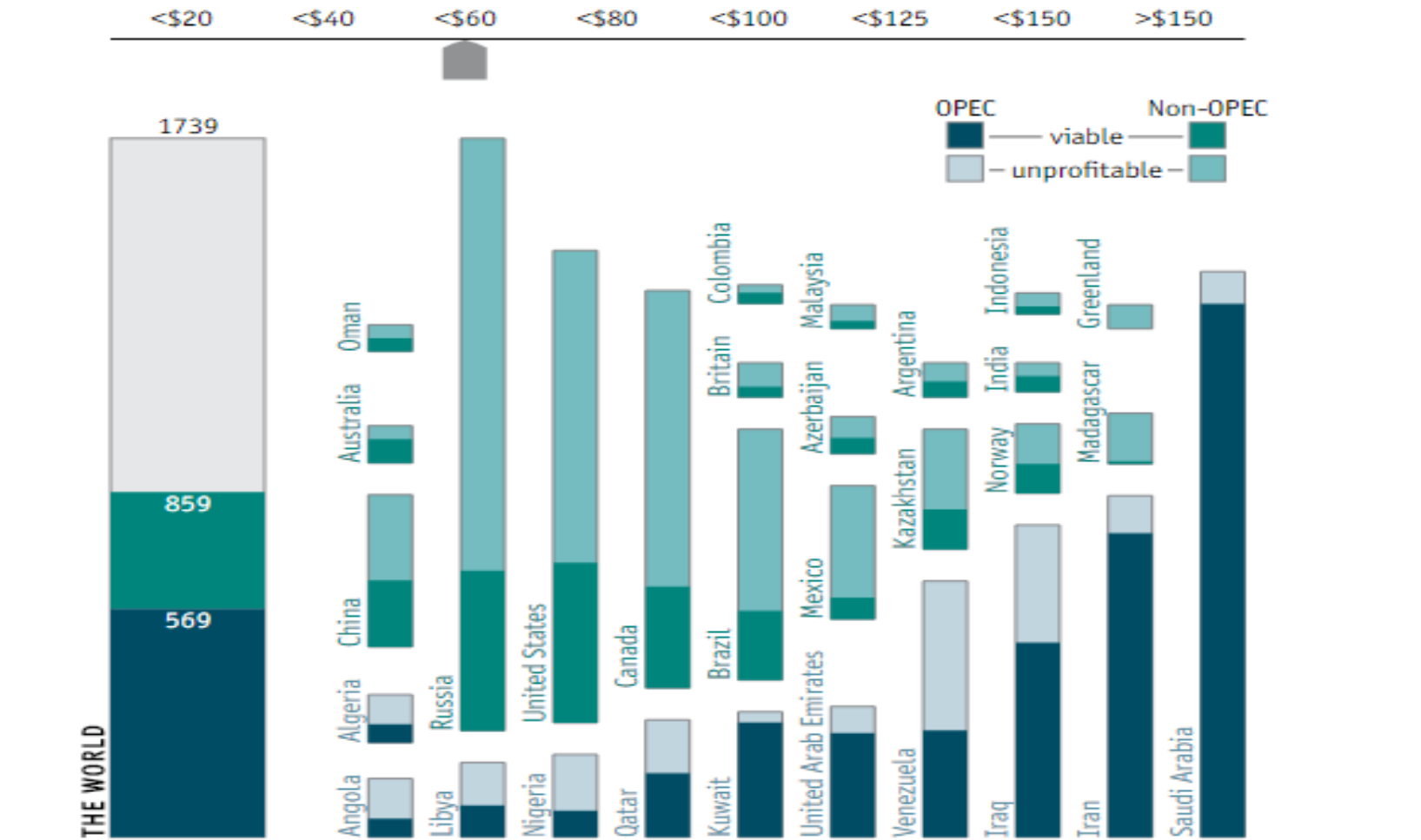
Source: Goldman Sachs.

Economically viable oil reserves by price (billions of barrels)



Source: Rystad Energy; Quandl.

Economically viable oil reserves by price (billions of barrels)

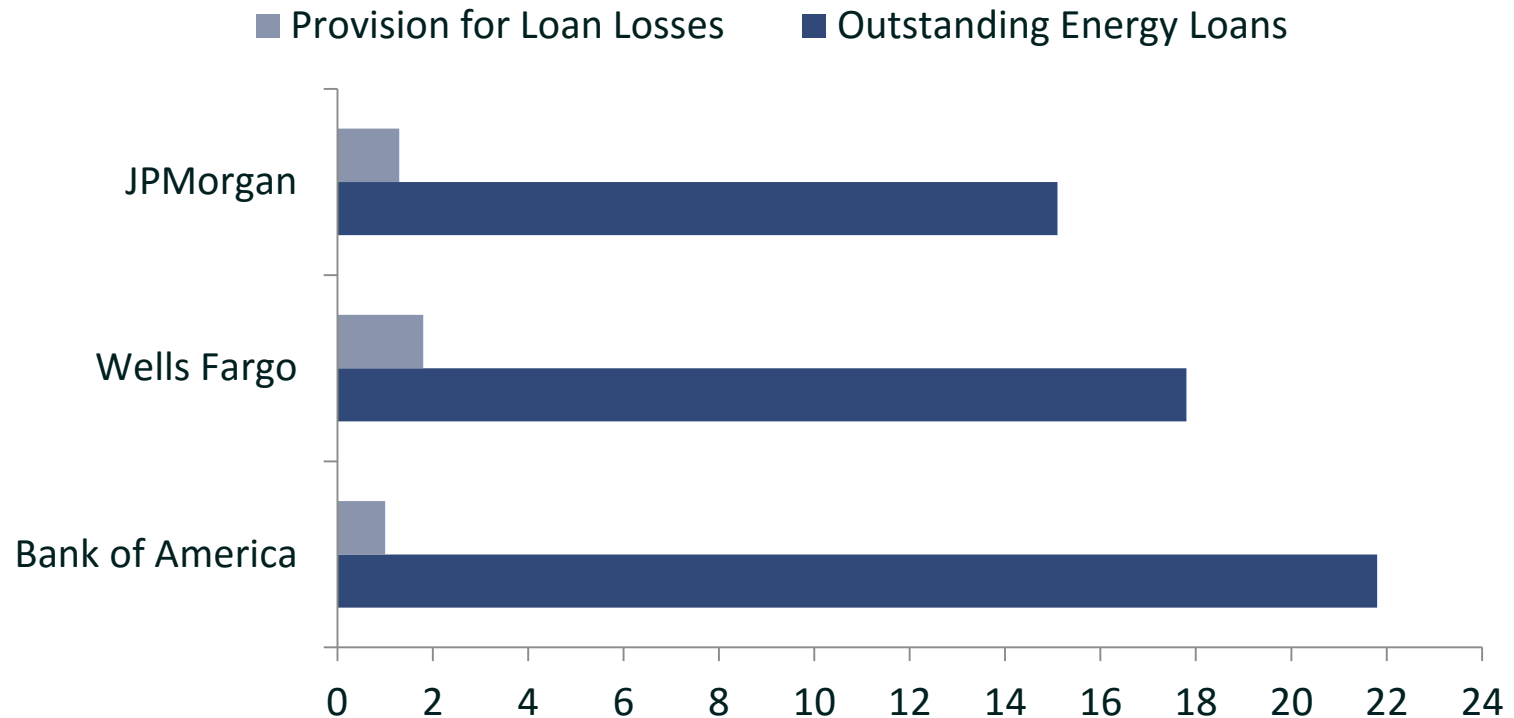


Source: Rystad Energy; Quandl.

Wall Street's oil risk

Banks are setting aside more money to cover potential energy loan losses

\$ billion

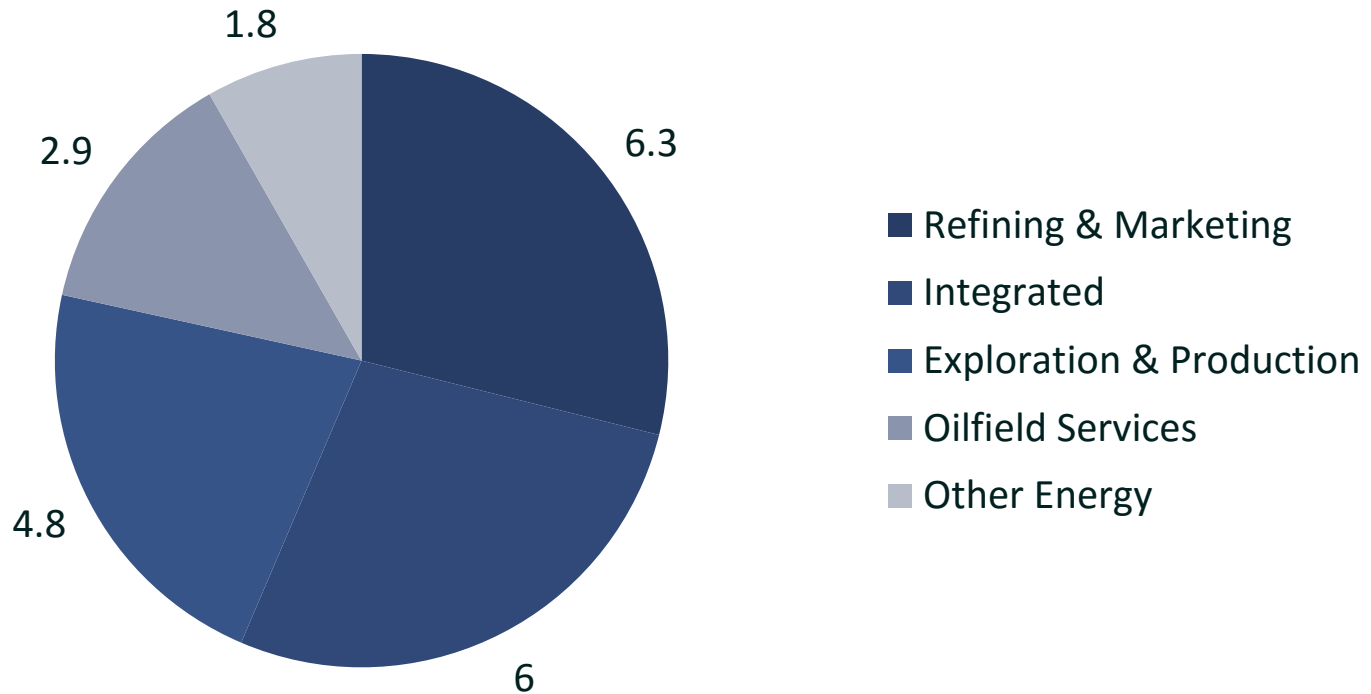


Source: First quarter results from JPMorgan, Bank of America and Wells Fargo; Bloomberg.

Bank of America's energy exposure

This is the breakdown of BofA's \$21.8 billion of funded energy loans

\$ billion

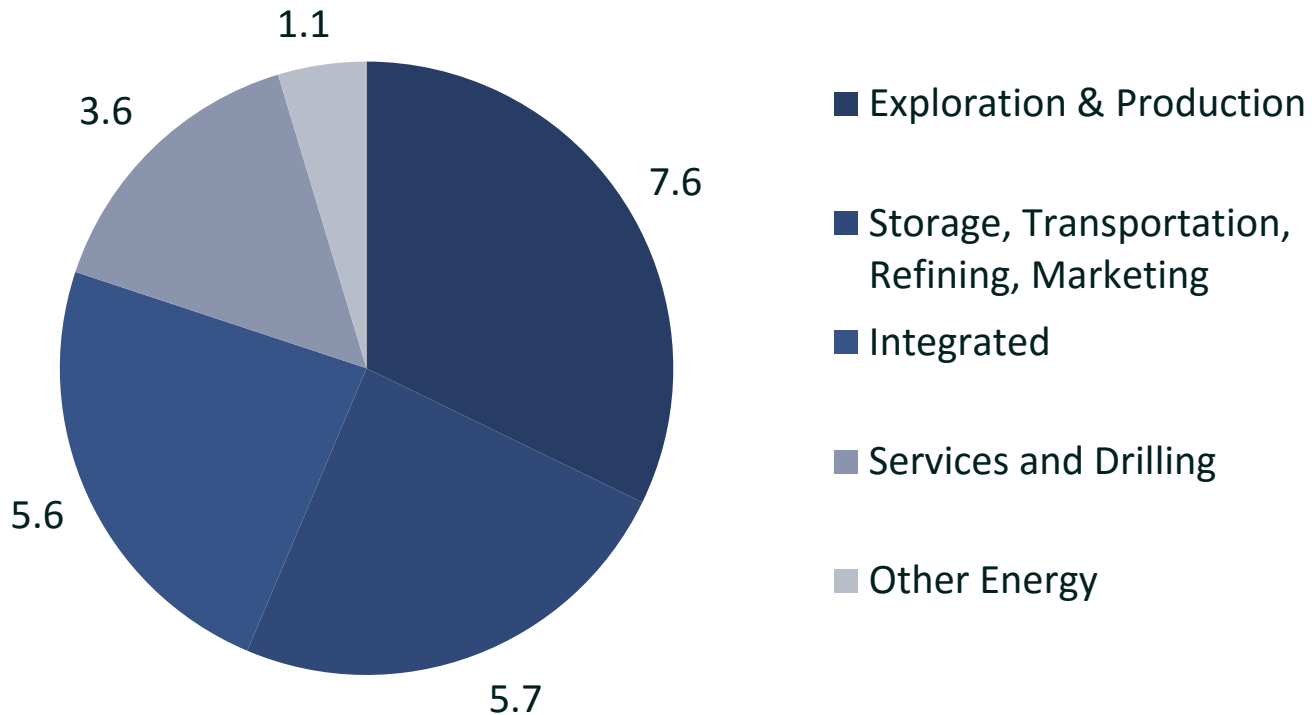


Source: Bank of America; Bloomberg.

Citigroup's energy exposure

This is the breakdown of Citigroup's \$23.6 billion of funded energy loans

\$ billion

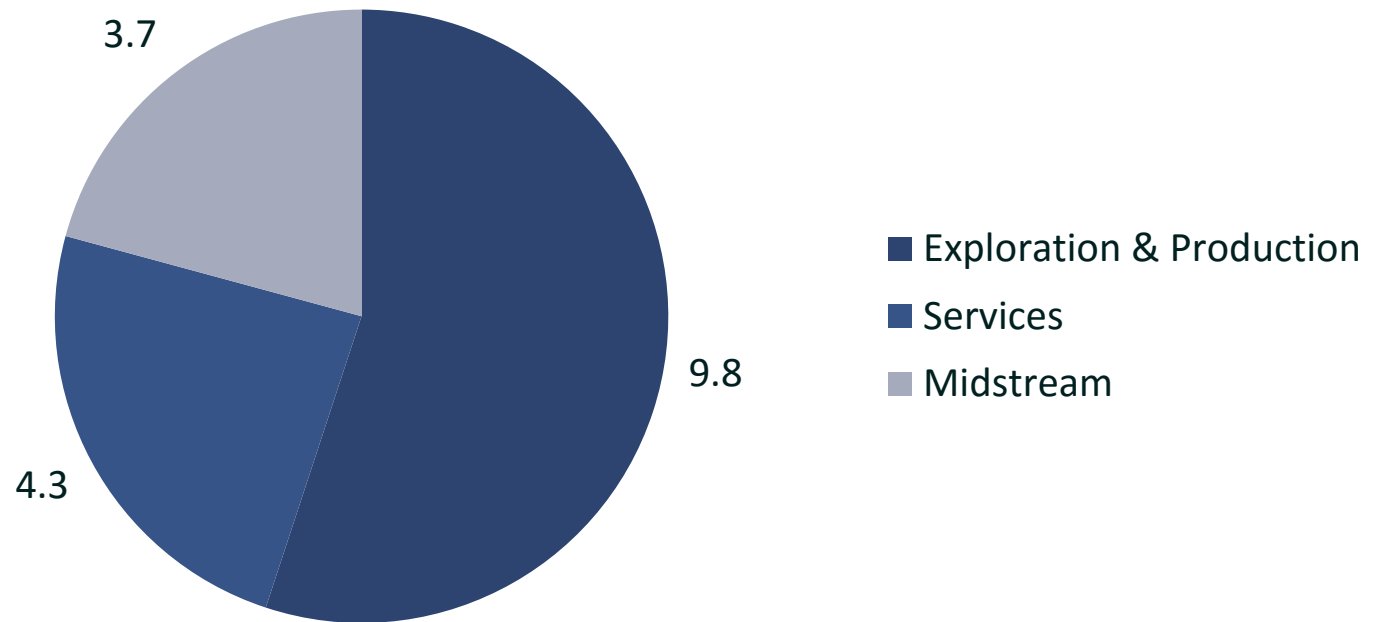


Source: Citigroup, 1Q16, combines GCB and ICG; Bloomberg.

Wells Fargo energy exposure

This is the breakdown of Wells Fargo's \$17.8 billion of funded energy loans

\$ billion

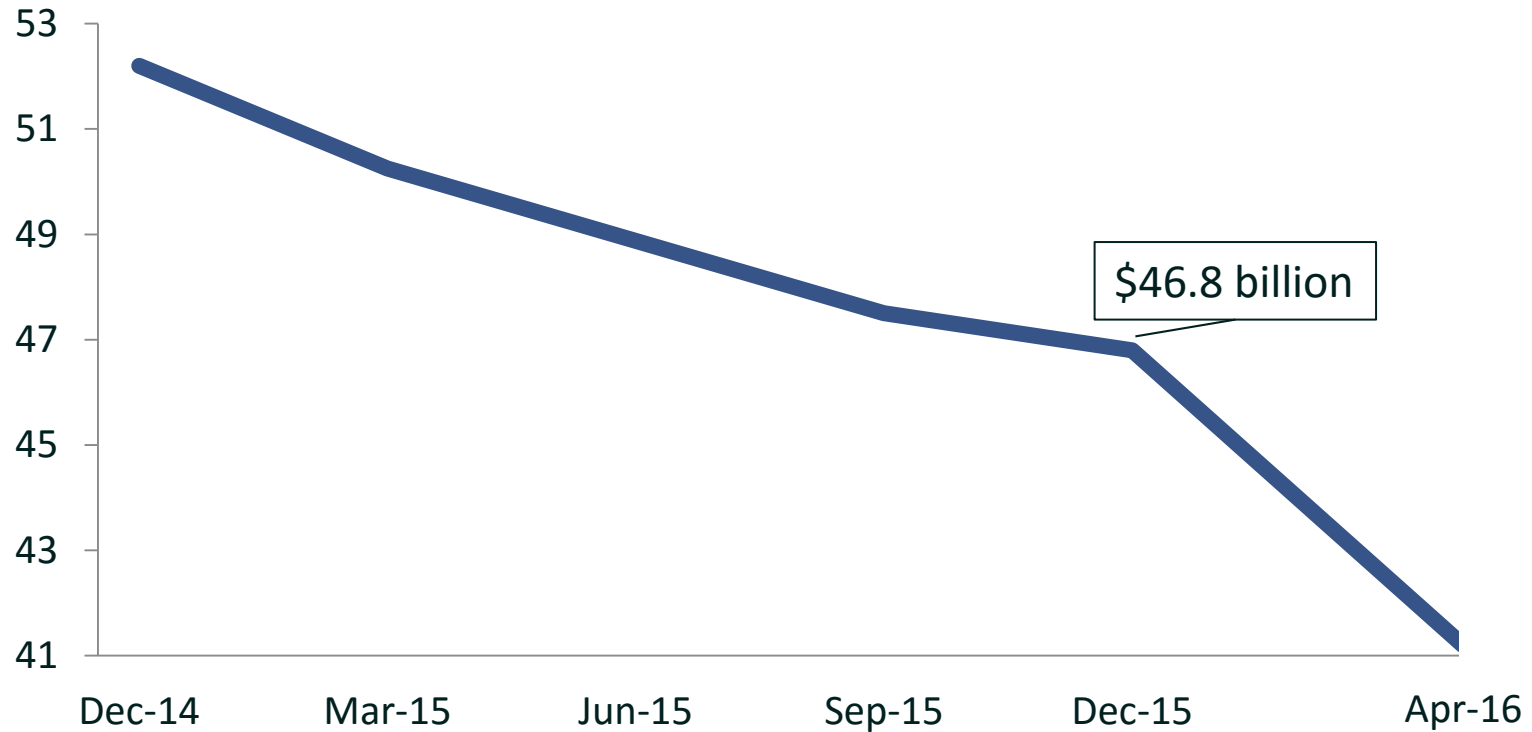


Source: Wells Fargo; Bloomberg.

Credit crunch

Lenders have cut oil and gas credit lines by more than \$5.6 billion this year

\$ billion

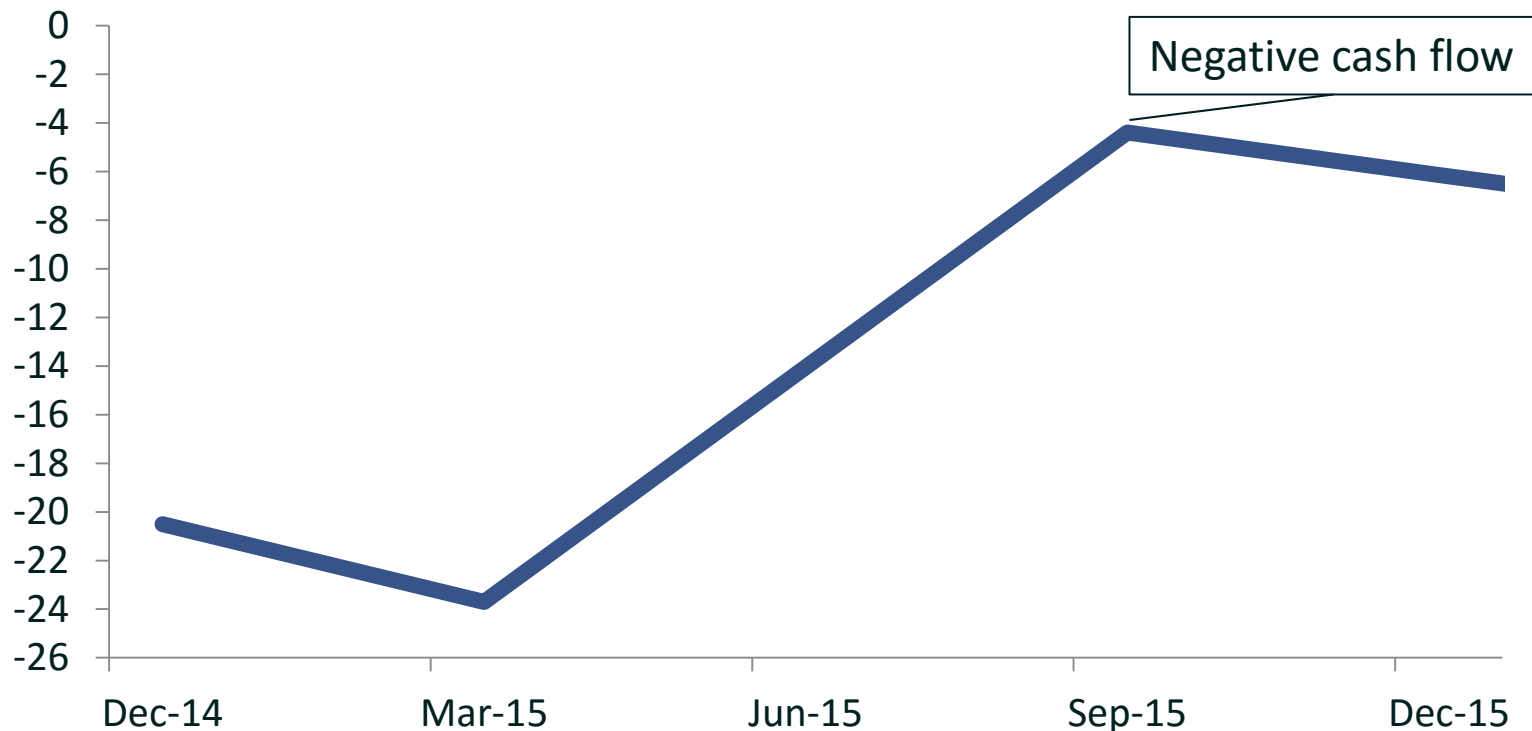


Source: Data compiled by Bloomberg on 36 oil and gas producers.

E&P operators' cash shortage

E&P operators still spend more than they take in despite slashing costs

\$ billion



Source: Data compiled by Bloomberg from SEC filings by 57 North American independent oil and gas producers.

Headwaters MB contact information

Headwaters MB has three distinct businesses

Mergers & Acquisitions

- Sell-side advisory
- Buy-side advisory
- Management buyouts
- Fairness opinions

Capital Raising

- Senior debt / Bank debt
- Mezzanine debt
- Equity
- Project finance / Infrastructure

Special Situations Advisory

- Refinancing / Restructuring
- Distressed / Bankruptcy
- Section 363 Sales
- Merchant Banking

Headwaters MB has closed over
\$8.4 billion in transaction value.

- One-quarter of our business is cross border
- Over 70% of M&A closings have been with strategic acquirers
- We maintain broad financial sponsor access – history with 1,900+ PE firms
- Valuation estimate exceeded 84% of the time

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