

Oilfield Services Seminar Series

Inside Looking Out: OFS Management and the
Dilemma of Fresh Capital

Chris Wolfe – Haynes and Boone
Patrick Schneider – WG Consulting
Kirsten Polyansky – Haynes and Boone

December 3, 2015



haynesboone

What's Your Perspective?

- Your perspective on the current state of depressed oil prices depends in large part on your vantage point
 - OFS Operator
 - Equity Stakeholder
 - Debt Stakeholder
 - Bond Trader
- OFS Operator's goal remains the same: service clients by providing goods and services for a profit
- Equity, Debt and Bond Traders are all dependent upon OFS Operator being able to continue to service clients to generate cash
- But different stakeholders have different interests and timetables

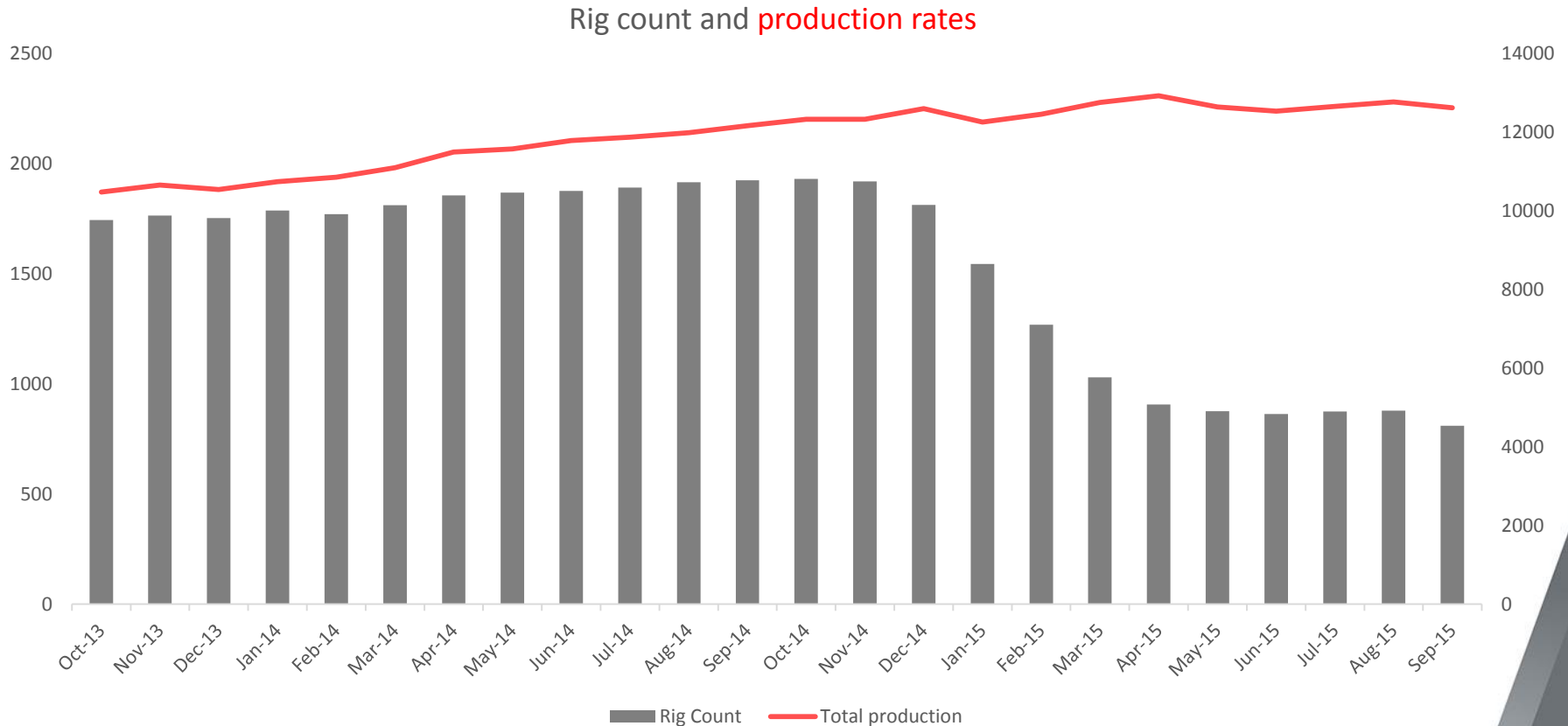
OFS Operator - Stuck Like a Bug on Flypaper

The make up of many OFS Operators is the same.

1. First lien bank debt (“ABL”) for working capital based on accounts receivable. The ABL gets paid first.
2. Covenant light, unsecured bonds, maturing in 2018. The bonds get paid after the ABL and with the secured creditors.
3. Equity gets paid last with whatever is left, whether great or small in amount.

Expecting 2016 to be a Year of Transition and Transformation

Innovation and efficiency are changing the metrics of volume and success



Some current projected price ranges for next year range from a low of \$20/bbl from Goldman Sachs to a year end price of \$80/bbl from Tudor Pickering Holt

No One Is Happy – The Current Situation Isn't Pretty


- Gross cash coming in has been cut in half.
- Due to cost cutting measures, OFS Operator is cash flow positive before paying interest on the bonds.
- Bonds are trading at a 50% discount.
- Equity's value is down 90%.
- ABL is current, but the Bank will not loan more on the ABL. The Bank wants all proceeds from asset sales to pay down the ABL.
- Bonds cannot be repaid.
- ABL cannot be repaid.


But Wait, OFS Operator Has a Great Idea!

- Management has a terrific idea that will change the business model, cutting costs dramatically and adding new value for both OFS Operator and Customer.
- Carrying out management's great idea requires capital.
- OFS Operator is on track to run out of cash in 15 months.
- Private Equity is circling the OFS industry looking for the right entry point and time.

Could We Restructure?

- In a proposed restructuring, current equity will receive 1.5% of OFS Operator and bondholders will give up half of the bonds for 98.5% of OFS Operator

 OFS Operator will not have enough cash to fund the great idea.

 Private equity firms will not provide fresh cash if the cash will be used to pay back the bank and/or bondholders.

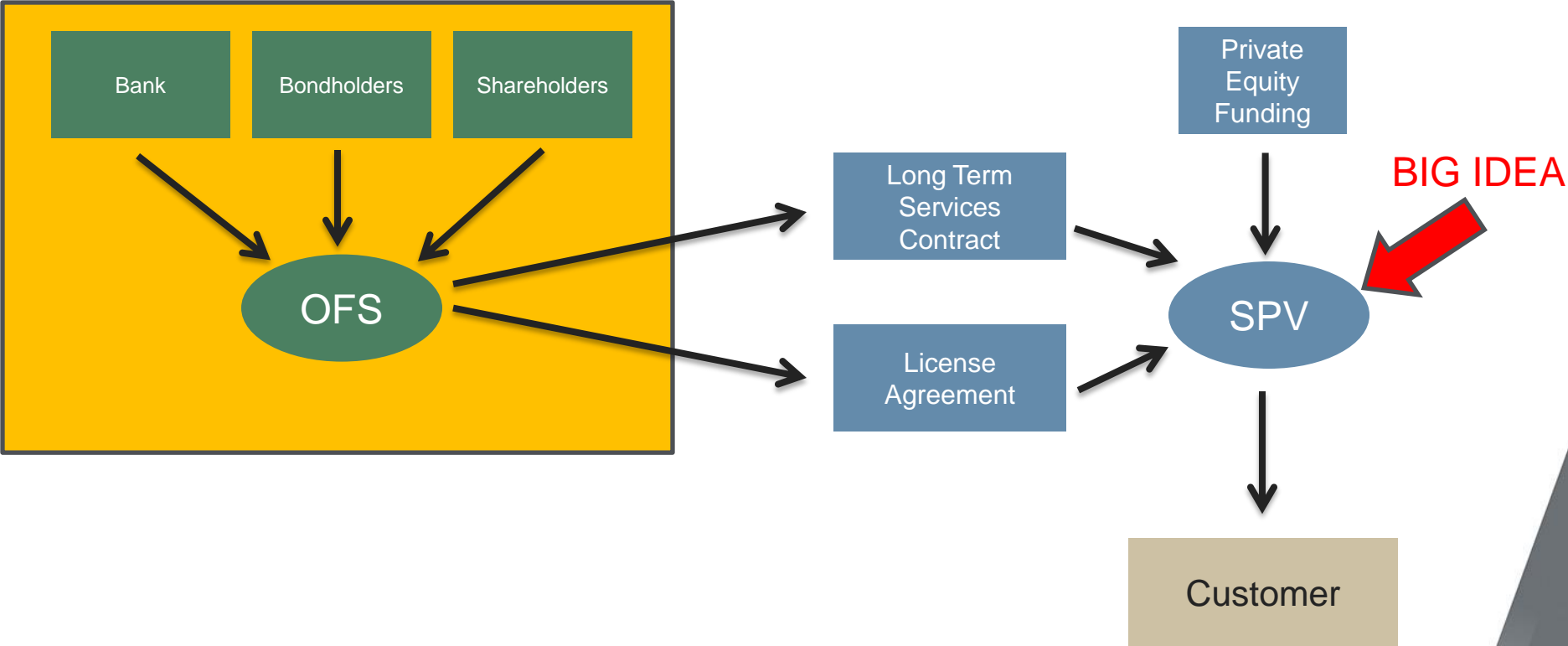
What is the Outlook for OFS Operators?

1. When will the OFS industry rebound?
2. Which players will be left?
3. What does the new normal look like for OFS Operators?
4. How can competing interests of different stakeholders be better aligned?
5. Is it better to survive or reinvent?

Ask Uncomfortable Questions

1. Is the right management team in place?
2. Should a new partnership/joint venture be pursued?
3. Should we be thinking about expanding instead of shrinking?
4. Do we have a great idea that could generate a new revenue stream?
5. Can we work with customers to develop creative methods of payment?
6. Is it time to sell?

Think Outside of the Box



Seller's Dilemma – What are we selling? Company or Asset?

The value might not be clear in all targets



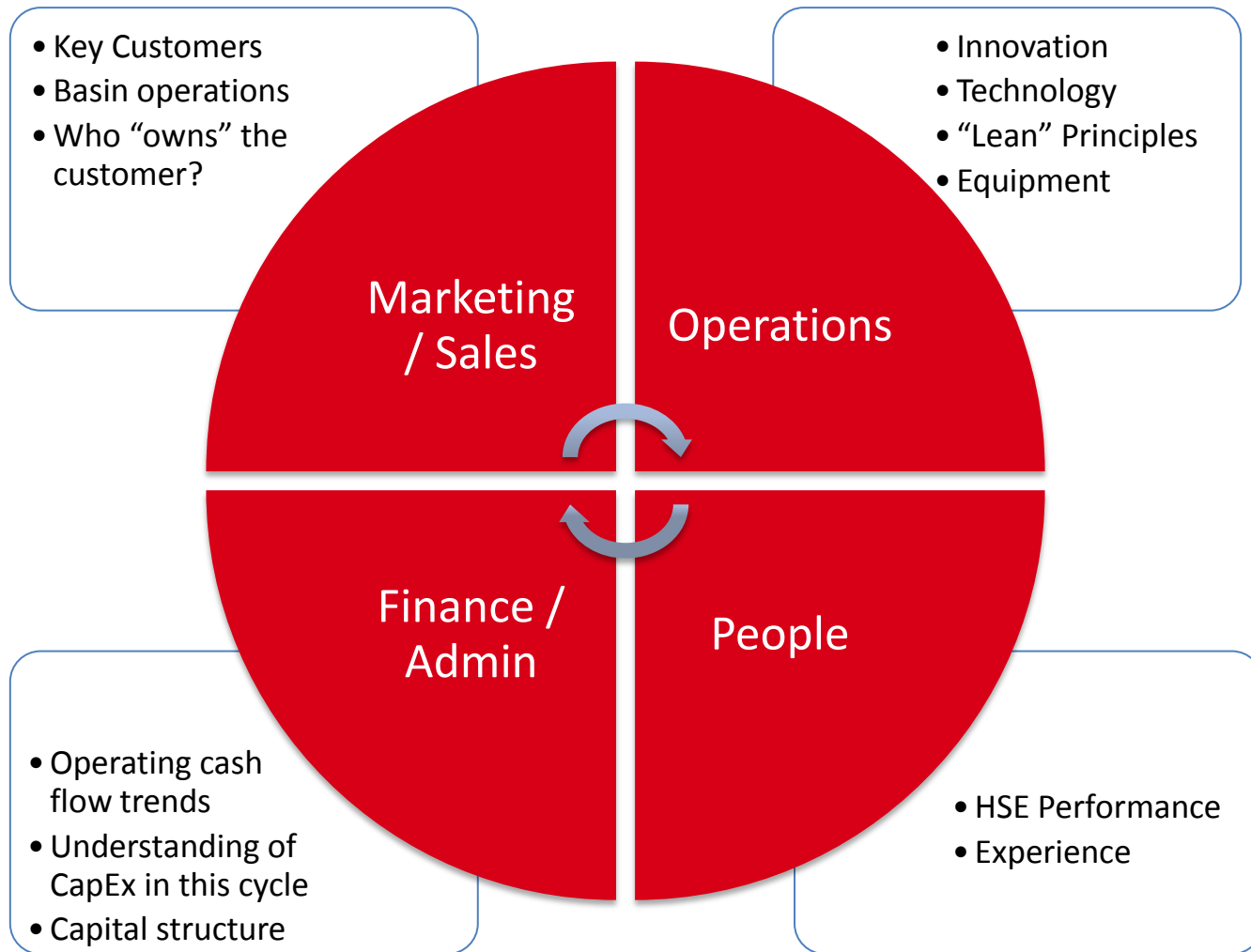
Finding Value in the Value Chain

- Consolidation has been prevalent throughout the drilling and completions sector over the past three to five years, other areas have not been consolidated as aggressively
- Beware the “value” of the hard assets, specific attention paid to:
 1. steel price sensitive businesses; and
 2. oil-field specific equipment valuations

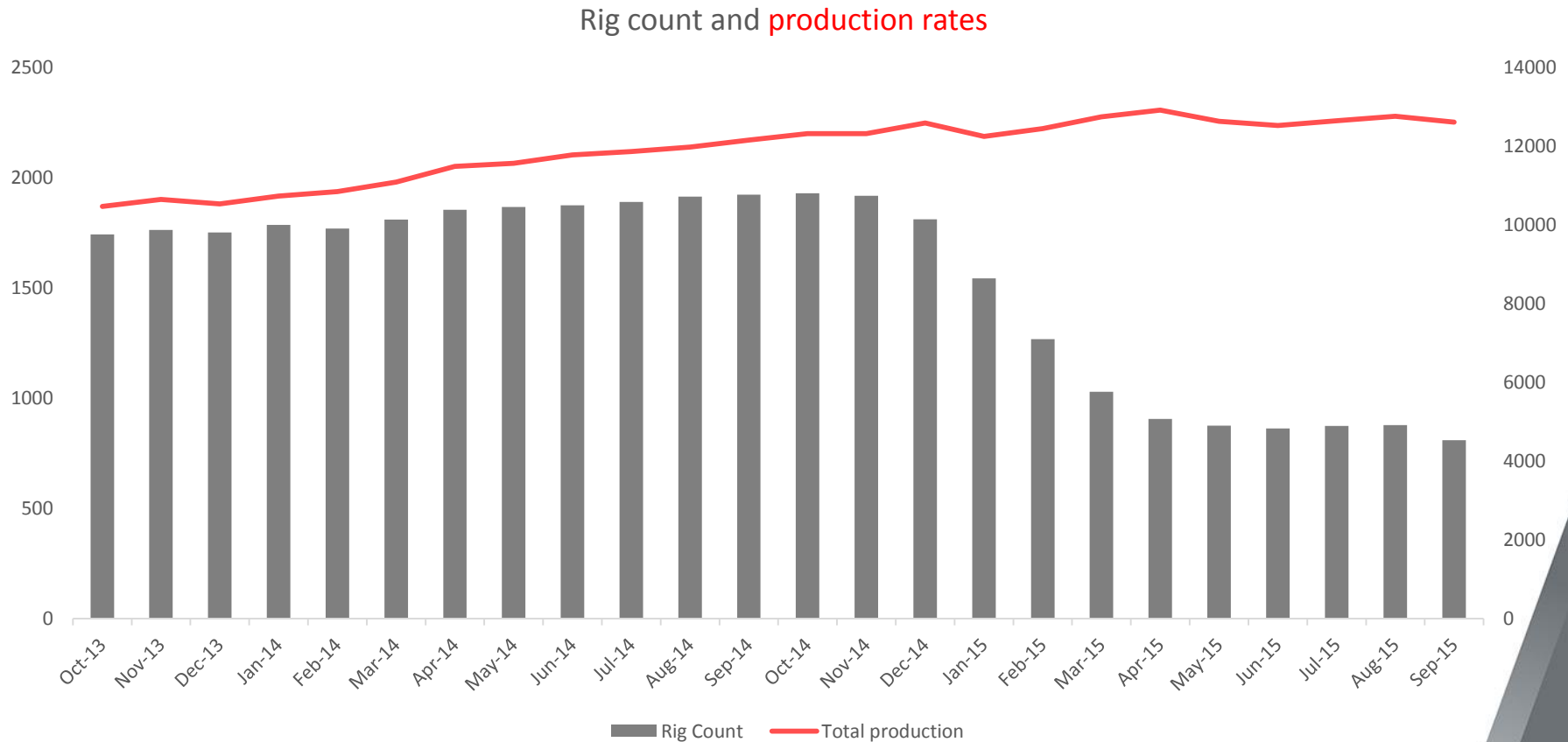


<ul style="list-style-type: none"> - Conductor Pipe/Hole - Pads - Rat/Mouse Hole - Roads 	<ul style="list-style-type: none"> - Drill Rig - Mud - Rental Equipment - Water 	<ul style="list-style-type: none"> - Acid Toe Valve Prep - Chemicals - Frac Pumping - Proppant - Water Hauling/Transfer 	<ul style="list-style-type: none"> - Chemical Blending - Flowback - Coil Tubing - Coil Tubing Motors 	<ul style="list-style-type: none"> - Facilities - Gathering Systems - LACT Unit - Sales Line - Surface Equipment - Tanks 	<ul style="list-style-type: none"> - Surface Equipment - Pumpers - Roustabout/ Maint. Services - Hauling - Well Monitor 	<ul style="list-style-type: none"> - Packer Fluid - Additives - Chemical Blending - Fluid Loss Control - Workover Rigs - Engineering
--	---	--	--	--	--	--

Sizing Up Organizational Opportunities of a Target



Transition and Transformation: What the World Needed at 1,800 Rigs it Does Not Need at 800 rigs



PANEL CONTACT DETAILS



Consulting

Patrick Schneider
Managing Director

pschneider@wgconsulting.com
C: 713.366.6012

haynesboone

Chris Wolfe
Partner

chris.wolfe@haynesboone.com
O: 713.547.2024

haynesboone

Kirsten Polyansky
Partner

kirsten.polyansky@haynesboone.com
O: 713.547.2069