

Monitor

Oil & Gas

VOLUME
332



OIL PRICES LOOK UP AFTER BIG DROP

EQUIPMENT PRICES REMAIN DEPRESSED

Surplus equipment drags down prices for new and used equipment despite slight uptick in rig count and oil prices

INDUSTRY BEGINS GRADUAL RECOVERY

Uncertainty related to COVID-19 mitigation measures and promise of vaccines cloud recovery outlook

RIG COUNT UP OVER 50% FROM COVID LOWS

After reaching a record low of 244 rigs in August 2020, the U.S. drilling rig count rises to 373 rigs in mid-January 2021

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Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

Trend Tracker - Inventory

	Trends (Since Publication of Prior Monitor in August 2020)
NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Decreasing ▼
Inventory	Decreasing ▼



- **NOLVs:** NOLVs continue to decrease due to negative sales trends and higher weeks of supply. Discounts continue to occur due to an oversupply of inventory in the market, a focus on conservative capital spending among buyers, and uncertain market conditions.
- **Sales Trends:** Lower rig counts, uncertainty regarding global demand, and concerns around the prolonged effects of the COVID-19 pandemic have resulted in further near-term reductions in customers' drilling, completion, and production activities, as well as their related spending on products and services.
- **Gross Margin:** Gross margins have been slightly lower, driven primarily by a price-sensitive market environment. These declines have largely been offset by industry players focusing on reducing operating costs and boosting more-profitable product lines.
- **Inventory:** Inventory has decreased as companies continue to focus on managing inventory levels against the current level of market demand and reduced activity levels. Many companies are primarily purchasing or producing inventory to meet customer orders rather than building stock levels.



Trend Tracker - Machinery & Equipment

	Trends (Since Publication of Prior Monitor in August 2020)
Used Pricing	Decreasing ▼
Used Trade Movement	Decreasing ▼
OEM Pricing	Decreasing ▼
Technological Advancement	Consistent —
Auction Activity	Increasing ▲



- **Used Pricing/Movement:** The lack of demand for oilfield equipment has extended into the first month of 2021. While the U.S. rig count has increased roughly 50% since the lows of the second quarter of 2020, equipment has not seen a price increase as there continues to be a surplus of used equipment in the market spurred by corporate spending freezes.
- **OEM Pricing:** The COVID-19 pandemic, coupled with a lack of demand for new equipment, has negatively affected OEM pricing. In general, new equipment orders are down and pricing is discounted.
- **Technological Advancement:** Industry participants continue to utilize the latest currently available technology, most notably, dual fuel and electric fracturing pump equipment. The industry continues to trend towards cost-saving and efficiency practices that yield higher profits.
- **Auction Activity:** Oilfield equipment auctions have seen an uptick in the past few months versus little to no activity during the first half of 2020.



Overview

The oil and gas industry faced a variety of difficulties in 2020, including COVID-19-induced economic disruptions, decreased access to capital, and oversupply issues earlier in the year.

Expectations for the industry were already diminished prior to the COVID-19 pandemic, with activity levels set to decrease due to limited access to capital and companies being forced to focus on cash-flow generation as opposed to top line growth. Then, during the first quarter, the Organization of the Petroleum Exporting Countries (“OPEC”) and Russia announced plans to dramatically increase oil production mere days before COVID-19 was declared a worldwide pandemic in March, bringing oil demand to an abrupt halt. Oil prices began dropping immediately, ultimately bottoming out at a staggering negative \$37 per barrel in April.

Industry participants quickly responded to mitigate these twin supply-and-demand issues. OPEC, Russia, and various oil-producing nations, collectively referred to as OPEC+, reversed course in May by agreeing to cut production by almost 10 million barrels per day, while U.S. exploration and production companies slashed capital spending plans for the year. As a result, industry activity levels plummeted to new lows, exacerbating valuation pressures on assets servicing an already oversupplied market. U.S. rig counts fell to 244 in August, a level 40% below the prior all-time low. By May, active frac crews had fallen by about 85% from levels at the beginning of the year, and U.S. oil production, which had nearly reached 13 million barrels per day at year-end 2019, fell to about 10 million barrels per day. In addition, 46 U.S. exploration and production companies and 61 U.S. oilfield service companies with aggregate debt of \$53 billion and \$45 billion, respectively, declared bankruptcy during 2020.

The dramatic decline in oilfield activity levels and overall production supported commodity prices over the course of the year.

The advent of COVID-19 vaccines at the end of 2020 spurred hopes for economies to return to a normalized setting, raising expectations for future demand and pushing near-term oil prices back above \$50 per barrel entering 2021.

The combination of gradual activity increases and discipline regarding capital allocation has resulted in improving financial results across the industry when compared to the lows witnessed during the middle of 2020. Reported results for the fourth quarter of 2020 generally have been better than originally expected, especially for oilfield service companies. For 2021, U.S. operators are expected to attempt to keep production levels flat with year-end 2020 levels over the course of the year. The EIA forecasts U.S. production will remain in a relatively tight band around 11 million barrels per day during 2021, then gradually increase toward 12 million barrels per day by the end of 2022. In order to support these production levels, U.S. rig counts are expected to average about 400 during 2021 (versus 373 as of January 15, 2021) and active frac fleets are forecast to average about 200 to 250 (versus 158 as of January 2021). This outlook represents a material improvement in industry fundamentals compared to mid-2020, but still points to overall activity well below levels prior to March 2020, suggesting both commodity and asset supply-and-demand fundamentals are not yet fully balanced.

The largest variable impacting the oil and gas market remains the spread or containment of the COVID-19 pandemic. Demand indicators such as inventory balances, miles driven, and airline passengers have all been improving over the preceding months, but overall infection counts and rates continue to rise despite the availability of new vaccines. In addition, new U.S. President Joe Biden is signaling a policy shift less friendly to the industry, suggesting a re-commitment to the Paris Agreement, a worldwide pact related to emissions, and the cancelation of the Keystone XL pipeline, designed to transport oil from Canada to the U.S. The industry may therefore continue to see volatility independent of COVID-19.

Rig Counts

U.S. RIG COUNT - JANUARY 15, 2021

	Current Week	Weekly Change	Prior Week	12-Month Change	12 Months Prior
Location					
Land	354	13	341	(421)	775
Inland Waters	3	1	2	2	1
Offshore	16	(1)	17	(4)	20
Total	373	13	360	(423)	796
Type					
Oil	287	12	275	(386)	673
Gas	85	1	84	(35)	120
Miscellaneous	1	0	1	(2)	3
Total	373	13	360	(423)	796
Directional	22	0	22	(22)	44
Horizontal	332	12	320	(377)	709
Vertical	19	1	18	(24)	43
Total	373	13	360	(423)	796
State					
Alaska	3	0	3	(7)	10
California	7	0	7	(7)	14
Colorado	8	2	6	(13)	21
Louisiana	47	4	43	(7)	54
New Mexico	70	1	69	(35)	105
North Dakota	10	(1)	11	(42)	52
Ohio	4	0	4	(6)	10
Oklahoma	17	(1)	18	(36)	53
Pennsylvania	19	(2)	21	(6)	25
Texas	169	8	161	(232)	401
Utah	3	0	3	(2)	5
West Virginia	11	2	9	(5)	16
Wyoming	4	0	4	(21)	25

	Current Week	Weekly Change	Prior Week	12-Month Change	12 Months Prior
Major Basins					
Ardmore Woodford	0	0	0	(3)	3
Arkoma Woodford	0	0	0	(2)	2
Barnett	0	0	0	(1)	1
Cana Woodford	10	0	10	(11)	21
DJ-Niobrara	7	2	5	(12)	19
Eagle Ford	28	2	26	(41)	69
Haynesville	44	1	(43)	(1)	45
Marcellus	30	0	30	(11)	41
Mississippian	0	0	0	(2)	2
Permian	189	10	179	(214)	403
Utica	4	0	4	(6)	10
Williston	10	(1)	11	(43)	53

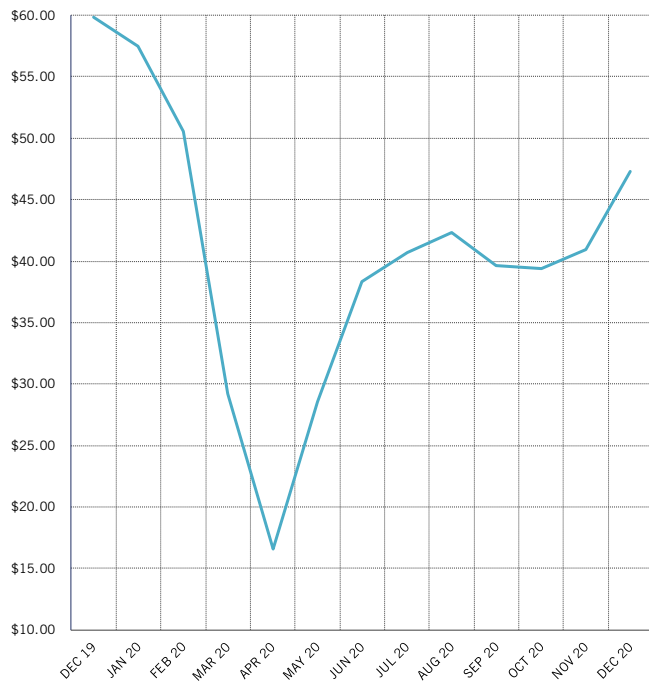
Source: Baker Hughes

The U.S. drilling rig count for the week of January 15, 2021 totaled 373 rigs, which represents an increase of 13 units versus the prior week and a decrease of 423 units versus the prior year. The rig count began to decline following the beginning of the COVID-19 pandemic in March 2020, falling from 793 rigs for the week ended March 6, 2020 to a record low of 244 rigs for the week ended August 14, 2020. The rig count then began to gradually increase.

Oil rigs continue to make up the vast majority of the drilling rig count; however, oil rigs now make up a smaller percentage of the total count versus the months just prior to the pandemic. In the January 15, 2021 count, oil rigs totaled 287 units versus 85 units for natural gas. The count for oil rigs is up 12 units versus the prior week and down 386 units versus the prior year, while the count for natural gas rigs is up one unit versus the prior week and down 35 units versus the prior year.

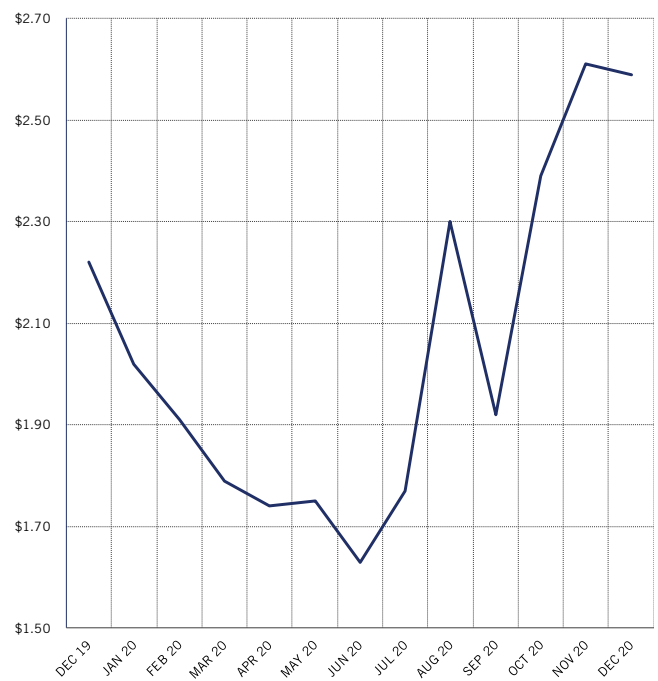
Oil and Natural Gas Prices

1 Average Monthly WTI Crude Oil Prices
Dec. 2019 to Dec. 2020 (\$ Per Barrel)

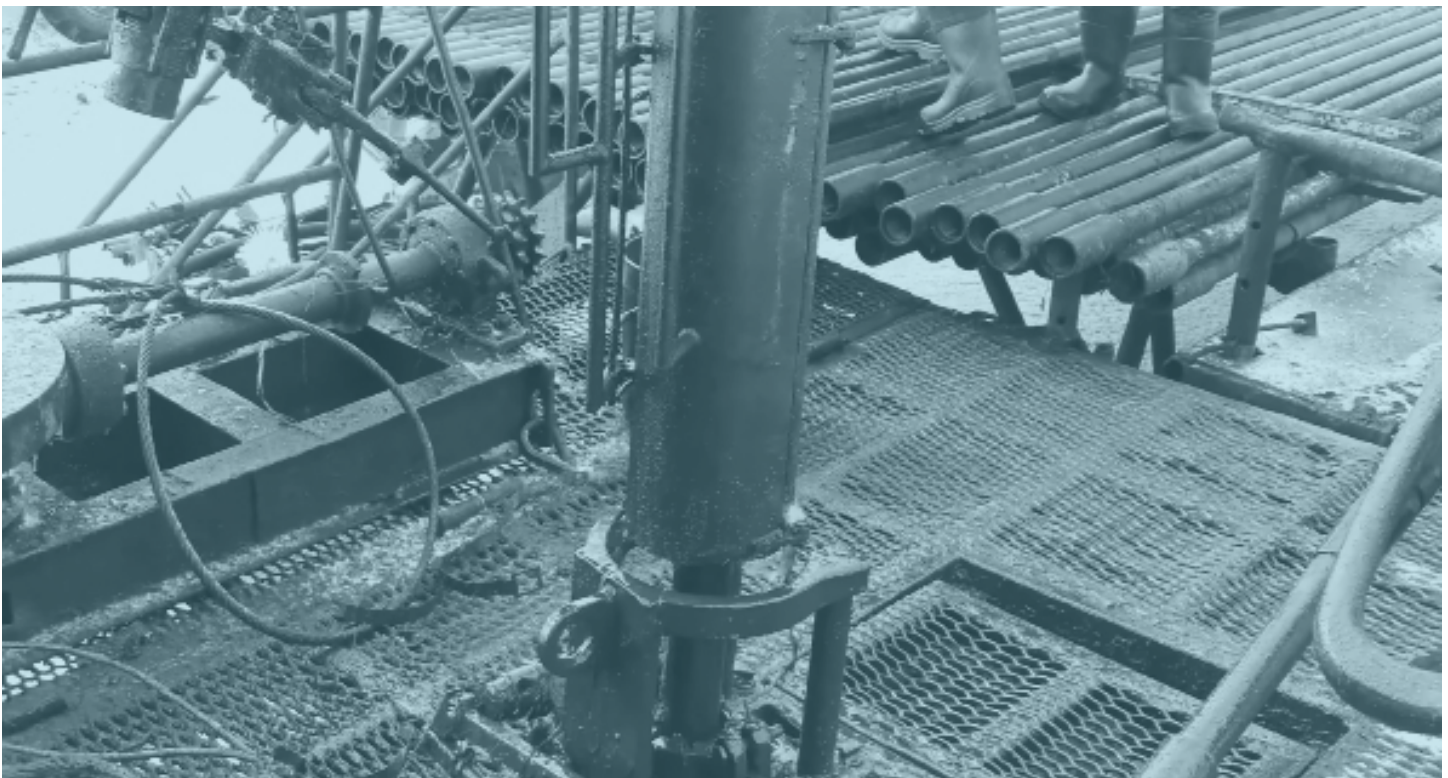


Source: EIA

2 Average Monthly Henry Hub Natural Gas Prices
Dec. 2019 to Dec. 2020 (\$ Per MMBTU)



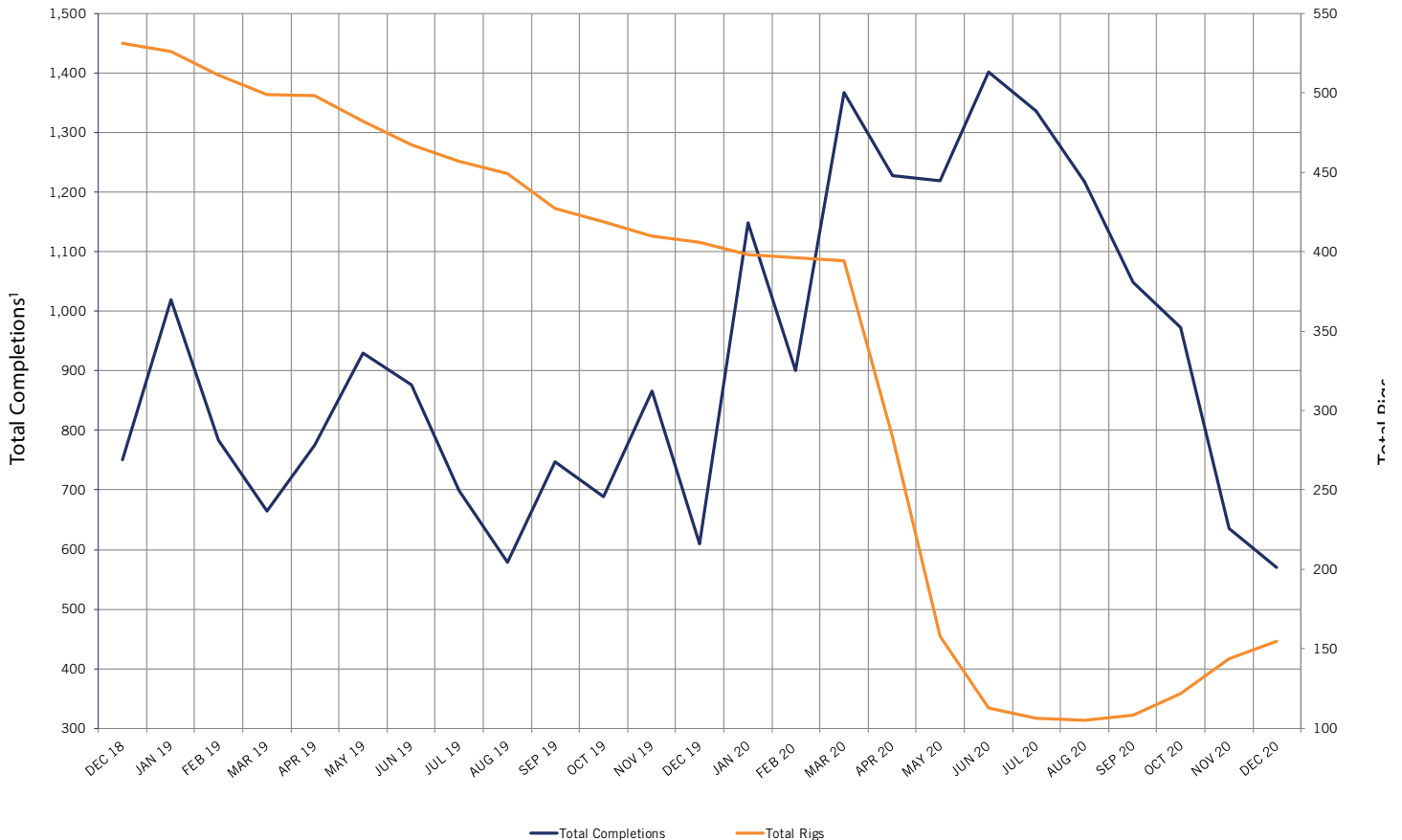
Source: EIA



Texas Drilling Activity

The number of drilling rigs operating in Texas, the U.S.'s top oil-producing state, dropped precipitously starting in March 2020 largely as a result of the economic slowdown brought on by the COVID-19 pandemic. Total completions dropped as well, although not as steeply. The rig count began a modest upswing starting in September 2020.

3 Texas - Total Completions versus Rigs December 2018 to December 2020



Source: Railroad Commission of Texas

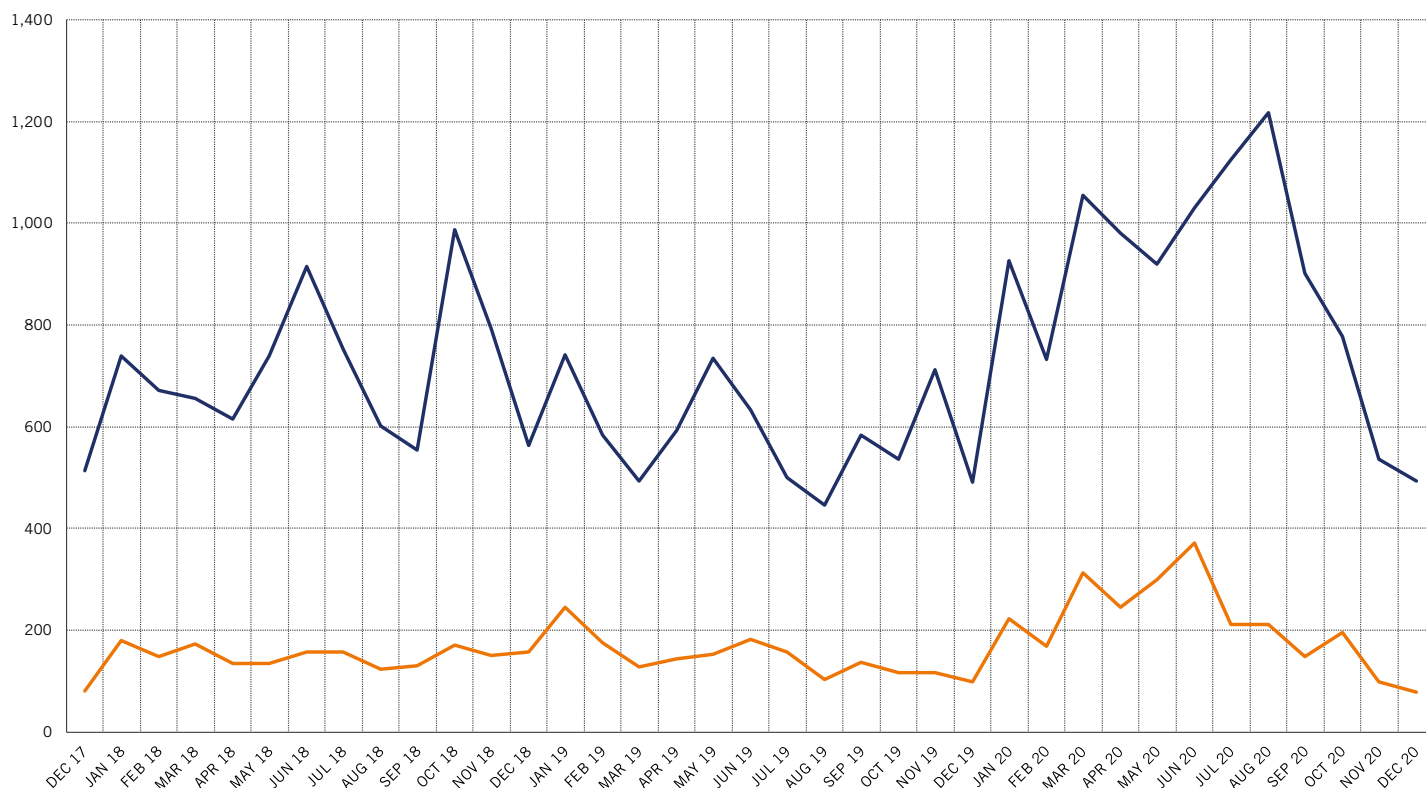
Note: (1) Includes new drill, re-enter, and re-completions



Texas Completion Activity

After increasing gradually in the first half of 2020, Texas oil and gas completions decreased significantly throughout the summer and winter. The trend for natural gas completions continues to mimic the trend for oil completions, albeit on a smaller scale.

4 Texas - Oil versus Gas Completions¹ December 2017 to December 2020



Source: Railroad Commission of Texas

Note: (1) Includes new drill, re-enter, and re-completions



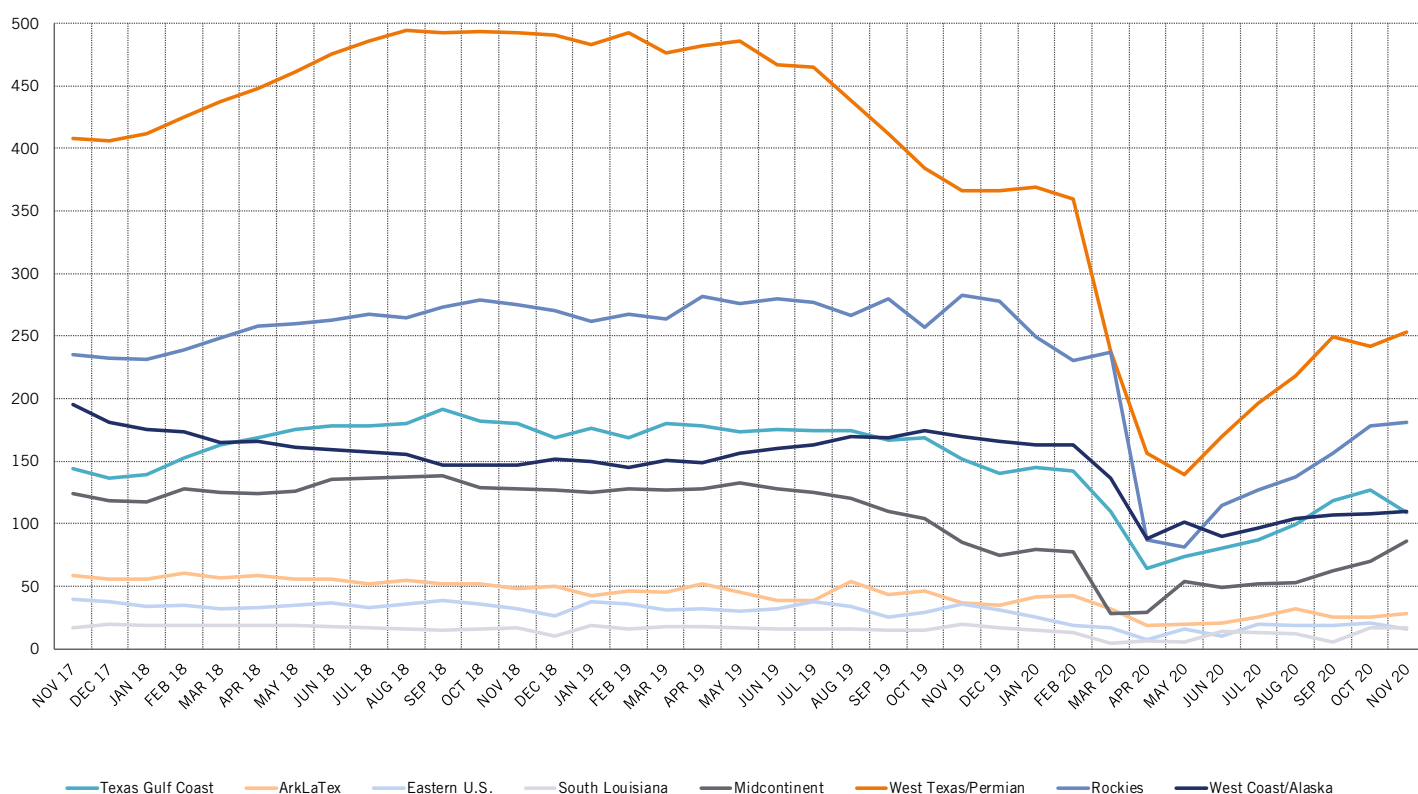
Well Service Rigs

Well service rig counts through November 2020 are shown by region below. Like the drilling rig count, the overall well service rig count dropped significantly following the start of the COVID-19 pandemic in March 2020. The decline is particularly noticeable in the West Texas/Permian region, the top oil-producing region in the U.S.

The drop there was so significant that, in March 2020, the region's well service rig level was just one rig above the Rockies region, which traditionally has a well service rig count well below that of the West Texas/Permian region. As of November 2020, the count for all regions, with the exception of the South Louisiana and Midcontinent regions, decreased on a year-over-year basis.

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Active Well Service Rigs
November 2017 to November 2020



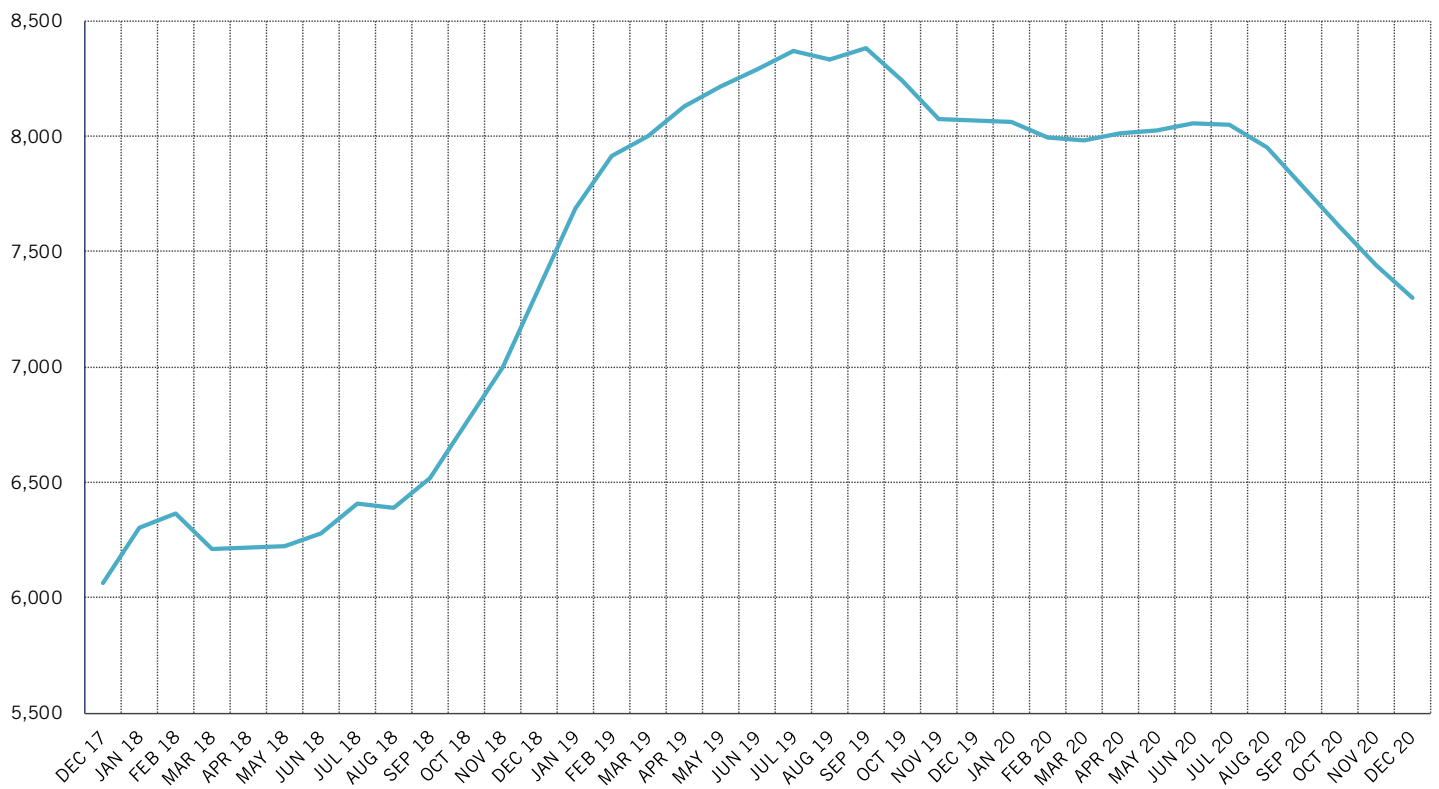
Drilled But Uncompleted Wells

The amount of DUCs plateaued in mid-2019 and began a steady decline through 2020, reversing the trend since late 2016. The current level of DUCs is near levels last seen two years ago.

DUC wells enable operators to bring production online relatively rapidly should oil or gas prices rise.

6

Drilled But Uncompleted Wells
December 2017 to December 2020



Monitor Information

B. Riley Advisory Services' *Oil & Gas Monitor* relates information covering the oil and gas sectors, including industry trends and their relation to our valuation process. Due to the dynamic nature of the oil and gas industry, timely reporting is necessary to understand an ever-changing marketplace.

B. Riley Advisory Services strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. B. Riley Advisory Services welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your B. Riley Advisory Services Business Development Officer.

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B. Riley Advisory Services' extensive experience includes valuations across a broad range of assets, as well as a variety of

Machinery, equipment, and other inventory valuations

- Pressure pumping units
- Drilling and well service equipment
- Frac tank rental/manufacturing
- Well logging tools
- Pipeline equipment
- Compression equipment
- Rental tools
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- Wire line services
- Saltwater disposal wells
- Valves
- Tubular goods

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- Quality of Earnings analysis and reports
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- Operational, financial, and technical due diligence
- Complex financial modeling
- 100-day operating plans
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- Transaction Support ("arms and legs")

Experience

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- Business Combinations (ASC 805)
- Derivatives & Hedging (ASC 815)
- Financial Instruments (ASC 825)
- Long-lived asset impairment (ASC 360)
- Stock Compensation (ASC 718)
- Property transferred for services (IRC 83 (b))
- Stock purchases treated as asset acquisitions (IRC 338)
- Compensation (IRC 409A)
- Transfer Pricing (IRC 482)

In addition, B. Riley Advisory Services maintains experts within the oil and gas industry, such as Jon Donnel, Dan Daitchman, and Taylour Bennett.

Jon Donnel, based in Houston, Texas, serves as Managing Director of Oilfield Services with B. Riley Advisory Services, specializing in oil and gas company appraisals and asset valuations. With over 20 years of experience across the energy sector value chain, Jon has held corporate roles for oilfield service and integrated oil and gas companies, as well as finance positions for an energy-focused investment bank and an accounting firm specializing in litigation support services. Prior to joining the firm, Jon was director of investor relations at Weatherford International, an integrated oilfield services provider with operations in over 80 countries, as well as a director of equity research at Scotia Howard Weil where he covered over 50 companies across the oilfield services and utility sectors. He previously held roles in downstream investment appraisals and upstream financial planning and budgeting with ConocoPhillips. Jon earned both his MBA and BA in Economics and Managerial Studies from Rice University.

Dan Daitchman is a Director with B. Riley Advisory Services. He has over 12 years of financial advisory and consulting experience helping clients resolve complex financial issues. He specializes in transaction and advisory services related to enterprises, derivatives, fractional equity interests, pre-deal diligence, and intangible assets. These services are used for strategic planning, transaction financing, financial statement reporting, capital raising, tax, litigation, bankruptcy, fairness opinions, solvency opinions, and merger and acquisition advisory. Prior to joining B. Riley Advisory Services, Dan spent four years as a financial analyst with Hilco Valuation Services and one year as an analyst in the Alternative Investment Products group at US Bancorp. Dan earned his BS in Finance and Real Estate from Marquette University and an MBA in Finance from DePaul University. He is also an Accredited Senior Appraiser with the American Society of Appraisers.

Taylour Bennett has valued more than \$2 billion in assets and businesses, providing valuation, advisory, and litigation services to clients. Throughout his career, Taylour has specialized in valuing and providing services to firms within the energy complex. Taylour is actively involved in Young Professionals in Energy and is working toward his designation as an Accredited Senior Appraiser, and as a Chartered Financial Analyst. Prior to joining B. Riley Advisory Services, Taylour served as a finance intern at Chick-Fil-A. Taylour received his BA and MS in Finance from Texas Tech University.

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- Liquidation
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Appraisal & Valuation Team

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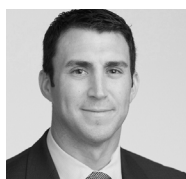
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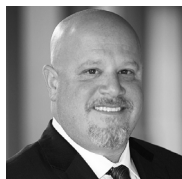
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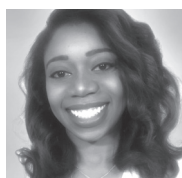
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