B | RILEY Advisory Services

AUGUST 2022

Monitor
Oil & Gas

PRICES LIFT OIL AND GAS INDUSTRY

GASOLINE, DIESEL PRICES REMAIN HIGH
After reaching record highs this summer, gasoline and diesel prices decline but remain elevated

NATURAL GAS SPIKES ON WAR IN UKRAINE
Europe turns to U.S. natural gas as Russia reduces pipeline flows and EU leaders sanction the country for war

DRILLING RIG COUNT STEADILY SURGES
U.S. drilling rig count on upward trajectory since September 2020, nearing pre-pandemic levels

In This Issue

MONITOR OIL & GAS
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AUGUST 2022
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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 January 2022)
NOLVs	Increasing ▲
Sales Trends	Increasing ▲
Gross Margin	Consistent ▬
Inventory	Decreasing ▼

- **NOLVs:** NOLVs improved over the first half of 2022 due to strong oilfield activity and rising rig counts in response to high oil and natural gas prices amid high global demand and tight supplies for hydrocarbons, all influenced by current geopolitical conditions. Companies also improved their inventory mix and managed the higher sales levels with lower inventory, leading to turnover improvements and lower weeks of supply.

- **Sales Trends:** Sales increased throughout 2022 due to high customer demand, strong oilfield activity, and rig counts approaching pre-pandemic levels. The strong demand is supported by high oil and natural gas prices. Inflationary price increases also contributed to higher sales levels.

- **Gross Margin:** Gross margins remained relatively unchanged, although they were positively impacted by a more-profitable sales mix and rising prices amid favorable market conditions and strong customer demand, which improved pricing power among oilfield services companies. Inflationary pressures continue to weigh on profitability as material, labor, and logistics costs rise.

- **Inventory:** Inventory decreased as higher demand and a continued focus on improving turnover resulted in companies working down built-up inventory; additionally, supply chain disruptions and delays also negatively impacted inventory levels. Rising costs and some companies adding inventory in order to manage higher sales levels partially offset the overall decline.

Trend Tracker - Machinery & Equipment

	Trends (Since Publication of Prior Monitor in January 2022)
Used Pricing	Increasing ▲
Used Trade Movement	Increasing ▲
OEM Pricing	Increasing ▲
Technological Advancement	Consistent ▬
Auction Activity	Consistent ▬

- **Used Pricing/Movement:** Pricing for used equipment has gained some ground in the first half of 2022, as oilfield service companies are seeing a push to boost activity amid continued supply chain constraints and operator shortages, while continuing to exercise capital discipline. To meet the increased demand and utilization of equipment, companies are expanding fleets and bringing them back to working condition.

- **OEM Pricing:** The increased customer demand for new equipment has been challenging for manufacturers for multiple reasons, including continued supply chain restraints, labor shortages, and increased raw material costs. This has resulted in longer lead times and increased pricing for new equipment.

- **Technological Advancement:** Newer, cleaner technology and cost-efficient solutions continue to draw demand for oilfield activities. Advanced software applications and real-time data analysis are major technological drivers for oilfield services equipment.

- **Auction Activity:** Auction activity has continued to show moderate returns throughout the first half of 2022, with older, underutilized surplus assets being offered. Companies continue to divest older, underutilized equipment in an effort to focus capital on working fleets.

Overview

The U.S. oil and gas industry is thriving as a result of the economy's continued recovery from the COVID-19 pandemic coupled with the U.S. and other countries eschewing Russian fossil fuels as punishment for the country's invasion of Ukraine in late February 2022. The lack of Russian oil and natural gas available in the world market has resulted in reduced supplies and increased demand for U.S. fossil fuels, particularly liquified natural gas ("LNG"). However, recessionary fears and inflation threaten to blunt demand for the industry's products.

OIL AND FUEL

Following the U.S.'s decision to ban Russian oil imports in March 2022, prices for West Texas Intermediate ("WTI") crude oil, the U.S.'s benchmark grade of oil, reached nearly $130 per barrel. The prices of diesel and gasoline then soared to record highs, contributing to inflation levels not seen since the early 1980s.

In late May 2022, following the U.S.'s lead, the European Union ("EU") announced plans to curb seaborne Russian oil imports, which placed further upward pricing pressure on oil and its distillates. However, in July 2022, the EU relented, citing worldwide energy concerns, and announced it would allow Russian companies to ship oil to third-party countries under adjusted sanctions.

The U.S. then agreed to unleash oil from its Strategic Petroleum Reserve to help ease the pricing surge. Oil prices have since declined from their early March highs. As of early August 2022, the price of WTI was approximately $89 per barrel. Nonetheless, prices remain elevated versus the same period in 2021, when WTI hovered near $60 per barrel amid the recovering economy.

Economic fears have also impacted the price of oil. Though the U.S. gross domestic product has decreased for two quarters in a row (the first and second quarters of 2022), a traditional indicator of an economic recession, the job market remains relatively strong, which has caused some disagreement among experts regarding the strength of the economy. Consumption of oil and its distillates tends to decline during times of economic weakness.

The down economy's impact on oil prices was somewhat blunted in late July 2022 by decreasing U.S. oil inventories as oil was shipped to international buyers who took advantage of lower U.S. oil prices. Analysts note that in July there was a particularly wide spread of around $9 per barrel between WTI and Brent crude, Europe's benchmark grade of crude oil.

A return to post-pandemic driving levels, coupled with U.S. curbs on Russian oil imports, helped drive gasoline prices to consecutive record highs, peaking at $4.84 per gallon for the week of July 13, 2022. Diesel mirrored gasoline's price trend, reaching a record high of $5.81 per gallon for the week of June 20, 2022.

Overview

Although U.S. gasoline and diesel prices have fallen from record levels on the recent lackluster economic news, as well as the Federal Reserve raising interest rates to combat inflation, they remain high, with prices falling to $4.19 and $5.14 per gallon, respectively, as of August 1, 2022, per the U.S. Energy Information Administration ("EIA"). The highest statewide prices were found in California, where gasoline and diesel prices were $5.47 and $6.27 per gallon, respectively.

With capacity utilization rates at U.S. refineries running at high levels as fuel demand returns to normal and gasoline and diesel prices remain elevated, crude oil stock levels have fallen. Fuel inventories, meanwhile, have risen recently.

Per the EIA's Short-term Energy Outlook, released in July 2022, U.S. refiners are expected to average a 94% utilization rate in the third quarter of 2022. The EIA notes that operable U.S. refinery capacity has fallen in recent years, with capacity falling approximately 125,800 barrels per day ("bpd") last year, which follows an 800,000 bpd drop in 2020 due partly to the COVID-19 pandemic.

NATURAL GAS

Natural gas prices haven also risen due to increased demand, as well as the war in Ukraine. Partially as a result of these developments, the U.S. became the world's largest exporter of LNG in the first half of 2022.

LNG represents natural gas that has been cooled into a liquid form, allowing it to be transported long distances on water via tankers to Europe and elsewhere.

Natural gas prices have followed a similar trend as oil in recent months, reaching $9.46 per million British thermal units ("MMBtu") in late July 2022 at the Henry Hub in Louisiana, a 14-year high, as European leaders search for non-Russian sources of natural gas.

Russia recently cut natural gas exports to some European countries after failed demands for payments of natural gas in Russian rubles in an attempt to shore up the country's currency. In addition, by late July 2022, the Nord Stream 1 pipeline, the major delivery pipeline for natural gas into Europe, was operating at only 20% capacity. EU leaders accuse Russia of intentionally reducing the pipeline's flow in retaliation for sanctions placed on the country for its Ukraine invasion. Russia, meanwhile, blames the slowdown on maintenance. These developments have boosted demand for shipments of U.S. LNG into Europe. Per the EIA, LNG imports into the EU and U.K. increased by 63% during the first half of 2022.

LNG shipments into Europe likely would have been even higher during the period but a fire at a major natural gas export facility in Texas on June 8, 2022 reduced the U.S.'s LNG export capacity, the EIA noted.

Rig Counts

U.S. RIG COUNT - AUGUST 5, 2022

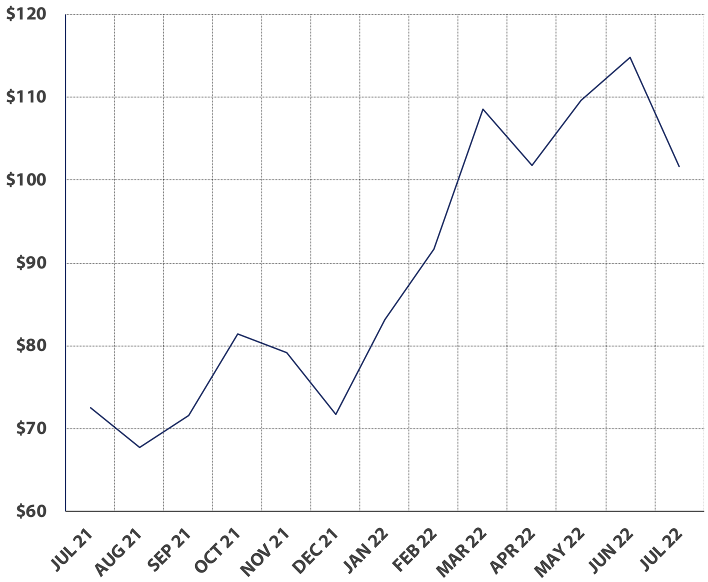
	Current Week	Weekly Change	Prior Week	12-Month Change	12 Months Prior
Location					
Land	746	0	746	270	476
Inland Waters	2	(2)	4	1	1
Offshore	16	(1)	17	2	14
Total	764	(3)	767	273	491
Type					
Oil	598	(7)	605	211	387
Gas	161	4	157	58	103
Miscellaneous	5	0	5	4	1
Total	764	(3)	767	273	491
Directional	37	(1)	38	10	27
Horizontal	698	1	697	249	449
Vertical	29	(3)	32	14	15
Total	764	(3)	767	273	491
State					
Alaska	10	0	10	5	5
California	7	0	7	2	5
Colorado	21	2	19	10	11
Louisiana	62	(3)	65	14	48
New Mexico	104	(6)	110	29	75
North Dakota	37	1	36	18	19
Ohio	11	0	11	0	11
Oklahoma	64	0	64	33	31
Pennsylvania	25	0	25	6	19
Texas	373	2	371	144	229
Utah	12	0	12	2	10
West Virginia	12	0	12	2	10
Wyoming	20	1	19	4	16

	Current Week	Weekly Change	Prior Week	12-Month Change	12 Months Prior
Major Basins					
Ardmore Woodford	3	1	2	0	3
Arkoma Woodford	7	0	7	6	1
Barnett	4	0	4	4	0
Cana Woodford	23	(1)	24	6	17
DJ-Niobrara	17	1	16	5	12
Eagle Ford	72	0	72	40	32
Granite Wash	7	1	6	3	4
Haynesville	69	0	69	22	47
Marcellus	38	0	38	9	29
Mississippian	1	0	1	1	0
Permian	347	(4)	351	104	243
Utica	11	0	11	0	11
Williston	39	1	38	20	19

The U.S. drilling rig count for the week of August 5, 2022 totaled 764 rigs, which represents a decrease of three rigs and an increase of 273 rigs versus the prior week and year, respectively. The number of drilling rigs operating in the U.S. has consistently risen since September 2020 as energy demand increased as the severity of the COVID-19 pandemic lessened. The U.S. drilling rig count was at a record low 244 rigs during the week of August 14, 2020 as the pandemic and measures to contain it reduced energy demand. In the August 5, 2022 count, oil rigs totaled 598 units versus 161 units for natural gas. The count for oil rigs decreased seven units and increased 211 units versus the prior week and year, respectively, while the count for natural gas rigs increased four and 58 units versus the prior week and year, respectively.

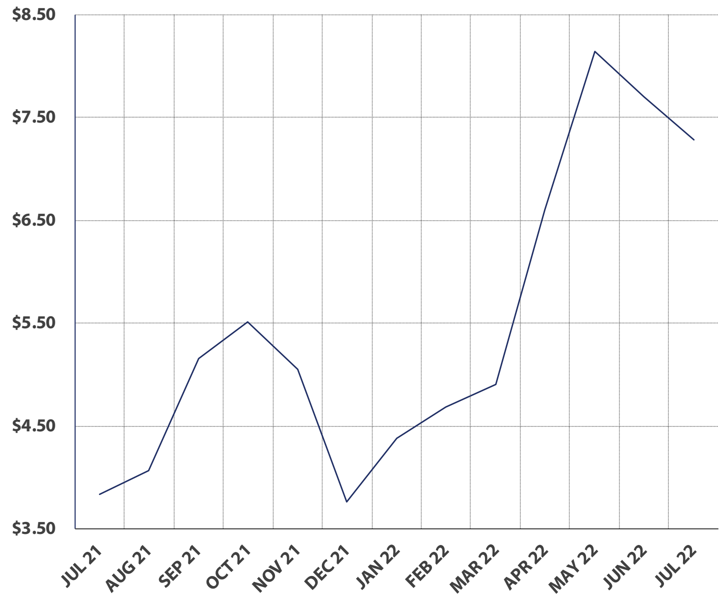
Oil and Natural Gas Prices

1 Average Monthly WTI Crude Oil Prices July 2021 to July 2022 ($ Per Barrel)



Source: EIA

2 Average Monthly Henry Hub Natural Gas Prices July 2021 to July 2022 ($ Per MMBtu)

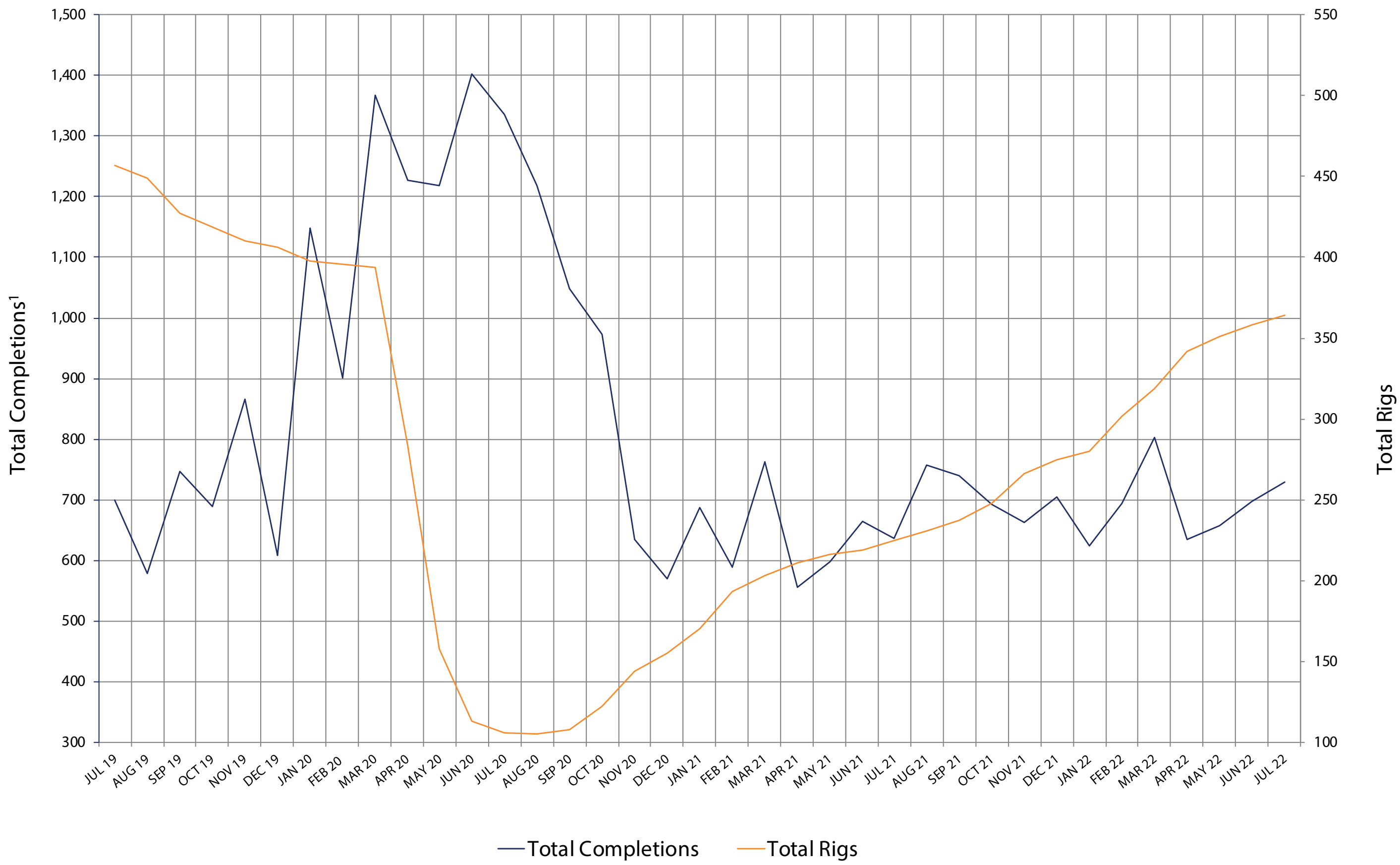


Source: EIA

Texas Drilling Activity

The number of drilling rigs in Texas, the top oil-producing state in the U.S., rapidly increased through 2022 as commuters returned to highways and economic activity normalized in the wake of the COVID-19 pandemic. Operators continue to draw down their inventory of drilled but uncompleted wells ("DUCs"), though completion activity has been mixed in 2022.

3 Texas - Total Completions versus Rigs
July 2019 to July 2022

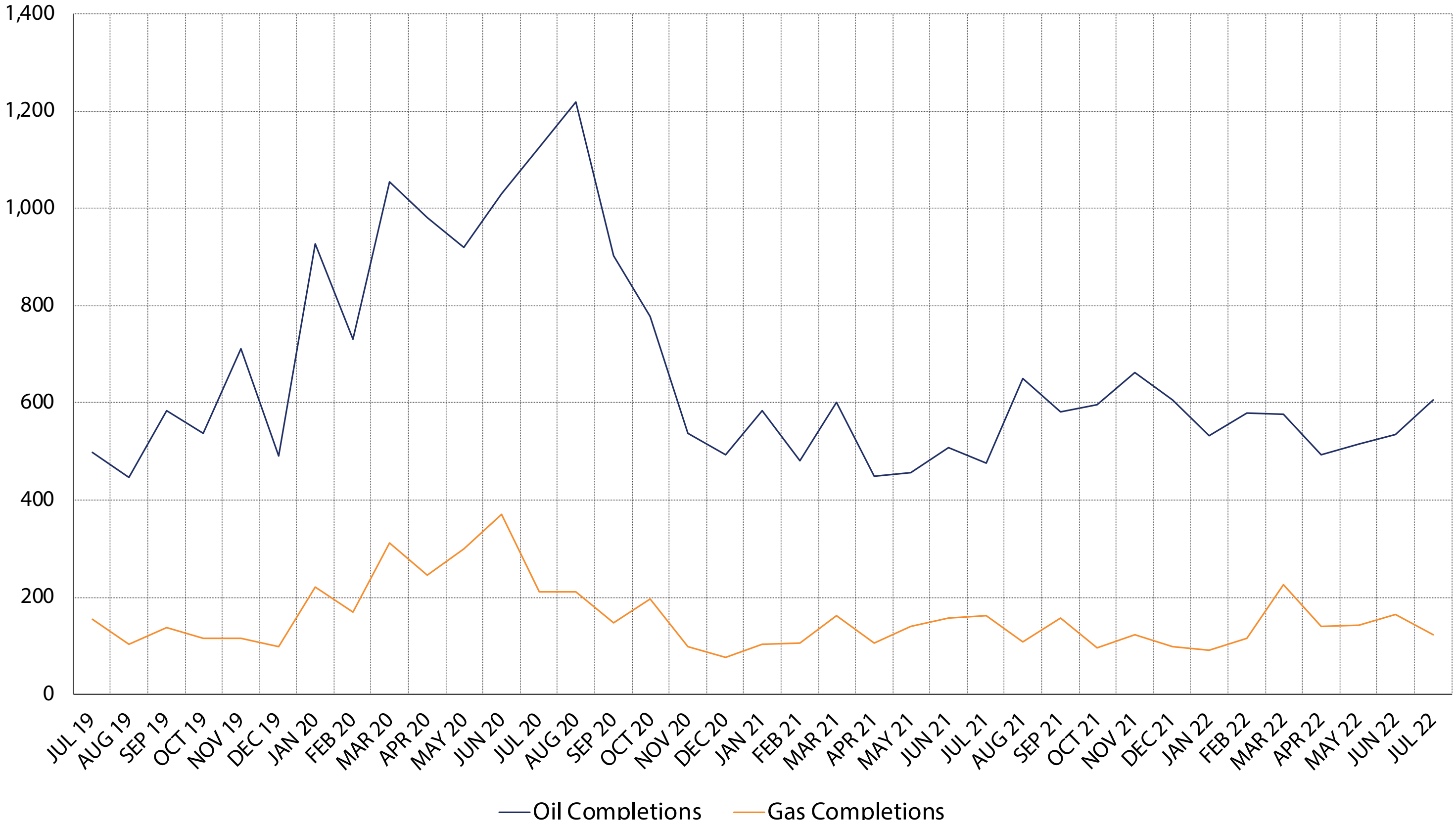


Source: Railroad Commission of Texas

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

Texas Completion Activity

4 Texas - Oil versus Gas Completions[1]
July 2019 to July 2022



Source: Railroad Commission of Texas

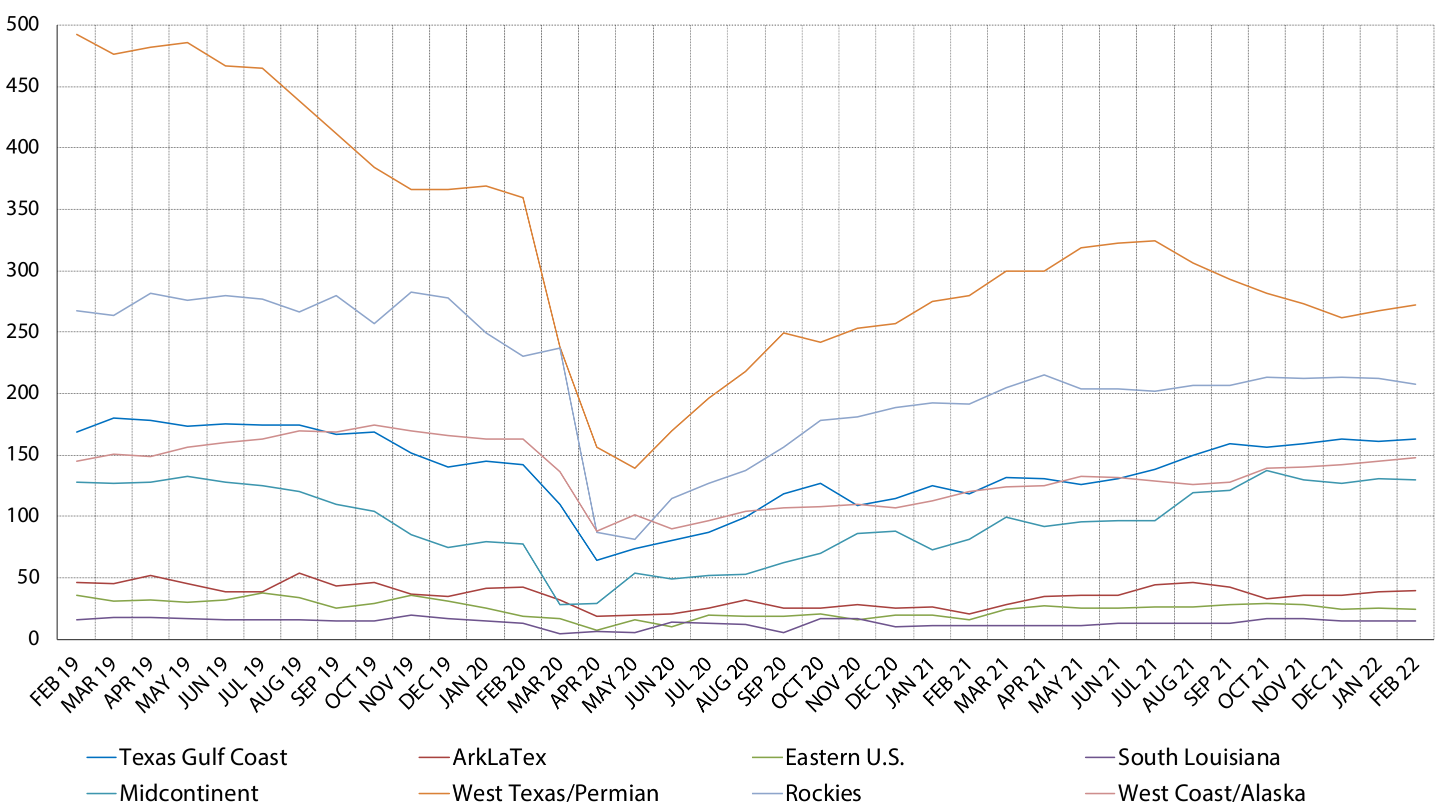
Note:
(1) Includes new drill, re-enter, and re-completions

Well Service Rigs

Active well service rigs totaled 1,000 rigs in February 2022, the highest total since October 2021. After decreasing from late 2019 to mid-2020 during the height of the COVID-19 pandemic, the count has generally increased on a monthly basis. Active well service rigs are defined as service rigs that are crewed and worked daily during a given month.

The West Texas/Permian Basin region, the top oil-producing region in the U.S., continues to lead the count with 272 well service rigs in February 2022, despite a string of decreases in the second half of 2021. The Rocky Mountain region had the second-highest total of 208 rigs for the period.

5 Active Well Service Rigs
February 2019 to February 2022



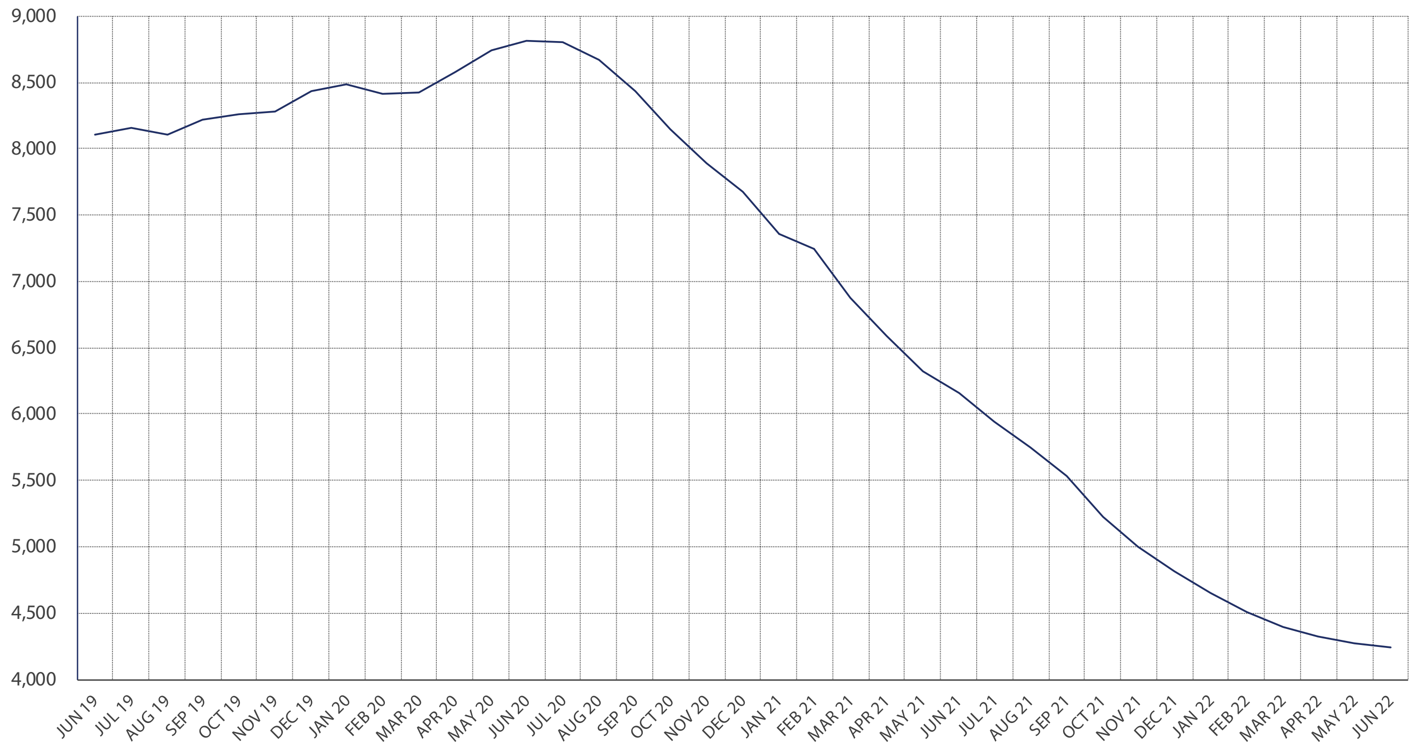
Source: Energy Workforce & Technology Council

Drilled But Uncompleted Wells

The number of DUCs in the U.S. continues to decline as producers increasingly rely on them to increase fossil fuel production in the face of rising prices, as opposed to drilling new wells, a more time-consuming process.

DUCs benefit producers by allowing them to get production online quickly to take advantage of rising market prices. The number of DUCs totaled 4,245 in June 2022, which represents a significant drop from the metric's peak of roughly 8,900 in 2019.

6 Drilled But Uncompleted Wells
June 2019 to June 2022



Source: EIA

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.

The information contained herein is based on a composite of B. Riley Advisory Services' industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of respected sources believed to be reliable. B. Riley Advisory Services does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither B. Riley Advisory Services nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

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B. Riley Advisory Services has worked with and appraised a number of companies within the oil and gas industry. B. Riley Advisory Services has built a quality team to deliver both tangible and intangible valuations across the oil and gas platform.

B. Riley Advisory Services' extensive experience includes valuations across a broad range of assets including:

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- Pressure pumping units
- Drilling and well service equipment
- Frac tank rental/manufacturing
- Well logging tools
- Pipeline equipment
- Compression equipment
- Rental tools
- Transportation assets
- 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

Valuation Services

- Fair Value Measurements & Disclosures (ASC 820)
- Intangibles, Goodwill and Other (ASC 350)
- 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 Dan Daitchman and Taylour Bennett.

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.

Meet Our Team

APPRAISAL & VALUATION TEAM

ENERGY OPERATIONS

Dan Daitchman
Director
(312) 777-7954
ddaitchman@brileyfin.com

Taylour Bennett
Senior Analyst
(713) 403-3985
tbennett@brileyfin.com

BUSINESS DEVELOPMENT

Bill Soncini
National Marketing Manager
Managing Director
Midwest Region
(773) 495-4534
bsoncini@brileyfin.com

Ryan Mulcunry
Managing Director
Northeast Region
(617) 951-6996
rmulcunry@brileyfin.com

Stephen Shelton
Managing Director
New York Metro/Mid-Atlantic Region
(203) 524-3271
sshelton@brileyfin.com

Nick Disimile
Managing Director
(516) 707-7040
ndisimile@brileyfin.com

Jennie Kim
Managing Director
Western Region
(818) 746-9370
jkim@brileyfin.com

David Seiden
Managing Director
Southeast/Southwest Region
(404) 242-0683
dseiden@brileyfin.com

Akilah Moore
Business Development Associate
Midwest Region
(312) 777-7956
anmoore@brileyfin.com

OPERATIONS

Chad P. Yutka, ASA
Senior Managing Director
Corporate Advisory Valuation Services
(312) 909-6078
cyutka@brileyfin.com

Chris Gonzalez
Project Manager
(214) 438-6693
cgonzalez@brileyfin.com

Jason Stellino
Senior Project Manager
(818) 746-9378
jstellino@brileyfin.com

Walt Cook
Senior Writer
(818) 746-9343
wacook@brileyfin.com

ASSET DISPOSITION TEAM

Adam Alexander
CEO
GA Global Partners
(818) 340-3134
aalexander@brileyfin.com

Scott Carpenter
CEO
B. Riley Retail Solutions
(818) 746-9365
scarpenter@brileyfin.com

Paul Brown
Vice President
GA Global Partners
(203) 292-8111
pbrown@gaglobl.com

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About B. Riley Advisory Services

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LOS ANGELES (HQ)
30870 Russell Ranch Road
2nd Floor, Suite 250
Westlake Village, CA 91362
T 818.884.3737

ATLANTA
3445 Peachtree Road
Suite 1225
Atlanta, GA 30326
T 470.346.6800

BOSTON
300 First Avenue
Suite 201
Needham, MA 02494
T 781.444.1400

CHICAGO
200 West Madison Street
Suite 2950
Chicago, IL 60606
T 312.894.7700
F 312.368.8883

DALLAS
3500 Maple Avenue
Suite 420
Dallas, TX 75219

HOUSTON
4400 Post Oak Parkway
Suite 1400
Houston, TX 77027
T 713.403.2111

NEW YORK
299 Park Avenue
21st Floor
New York, NY 10171
T 212.457.3300

WEST PALM BEACH
1400 Centrepark Boulevard
Suite 860
West Palm Beach, FL 33401
T 561.657.4896

AUSTRALIA
Level 29, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Australia

GERMANY
Prinzregentenstr 18
5th Floor
80538 Munchen, Germany

Capitalize On The B. Riley Difference

B. Riley Financial ("B. Riley") provides collaborative solutions tailored to fit the capital raising and business advisory needs of its clients and partners. B. Riley operates through several subsidiaries that offer a diverse range of complementary end-to-end capabilities.

B. Riley recently announced the acquisition of FocalPoint Securities, LLC, a leading middle market M&A advisory investment bank. The combination of B. Riley and FocalPoint significantly enhances B. Riley's debt capital markets and financial restructuring capabilities.

100 FASTEST GROWING COMPANIES 2021 FORTUNE

RANK 2

B. Riley Financial ranked No. 2 on FORTUNE 100 Fastest Growing Companies 2021 list based on revenue growth rate, EPS growth rate, and three-year annualized total return for the period ended June 30, 2021. Fortune. © 2021 Fortune Media IP Limited All rights reserved.

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