7th Annual Private Company

Energy Conference Recap

Simmons & Company International
Energy Specialists of Piper Jaffray

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OIL SERVICE - REVELATIONS FROM THE PRIVATE COMPANY ENERGY CONFERENCE

December 4 , 2016

CONCLUSION

Our Private Company Energy Conference concluded on December 1, 2016, and in its usual fashion, the conclave featured a number of revealing industry anecdotes, many of which are summarized below. This year the conference featured nearly 60 attending energy enterprises, representing exposure to virtually all U.S. L-48 business segments. Moreover, the conference consisted of the following five industry panels: (i) Land Drilling and Well Service; (ii) Capital Equipment; (iii) Proppant and Logistics; (iv) Completion Services, and (v) Perspectives from E&P Supply Chain Management.

Primary Takeaways:
Key observations from this year's conference as well as from recent company updates, include: (1) Anecdotes surrounding efforts to raise frac pricing by ~20+% were reaffirmed. One frac participant noted the delivery of ~30%+ price increases to some customers. This is consistent with commentary we received from an E&P company early last week who shared the results of a recent RFP. Specifically, this E&P issued an RFP for an additional frac fleet and received bids that were 20-40% higher than its current pricing. We first learned of efforts by industry participants to materially raise rates roughly three weeks ago and the anecdotes are growing. (2) Q4 frac sand volumes will be strong as one sand provider sees volumes up 25-30% while another, who is nearly sold out, claims its volumes could be up more than 30% q/q. A third mine sees higher demand but is sold out, thus its increase will be less robust. Meanwhile, a fourth (and large) sand player's volume is tracking up 40% in Q4 assuming the December order book holds. (3) Q4 seasonality appears to be a non-issue. Thus Q4 guidance issued by many OFS names is likely too conservative – we will address this in our Q4 updates in the coming weeks.

Implications for Stocks:
We do not believe the magnitude of the frac industry's current pricing endeavors or the limited seasonal impact this year are fully appreciated by the market. In addition, the continuation of very strong activity momentum, improving visibility, building confidence for sustainably accommodating oil prices, and growing concerns about sufficiently available frac capacity collectively coalesce into improving pricing leverage, likely better than expected results in 1H'17 and a near-term catalyst for stocks. Thus we continue to recommend SLCA, FMSA, PTEN, and PES as momentum should yield further strong performance. In time, however, prospects for increased supply of equipment and frac sand will likely eventually lead to growing skepticism and perhaps a return to more normalized valuation levels.

Too many industry contacts at this year's conference continue to share the same fear -an industry that is not capable of exercising capital discipline. Importantly, a

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Related Companies:	Share Price:
BHI	65.30
CFW.TO	3.52
FET	22.05
FMSA	8.95
HAL	54.17
HP	79.45
NBR	17.05
PDS	5.59
PES	5.70
PTEN	28.09
RES	21.32
SLB	85.01
SLCA	52.43
SND	13.46
SPN	15.03
TUSK	16.36
WFT	5.11

INDUSTRY RISKS

Cannibalized equipment, costs of rebuilds, and the oversupply of frac fleets.The oversupply of frac sand and the potential for declining service intensity.

OIL SERVICE - REVELATIONS FROM THE PRIVATE COMPANY ENERGY CONFERENCE (CONTINUED)

sharp uptick in pricing/utilization, irrational exuberance on the part of Wall Street as manifested in lofty valuations and the rise of new/returning oil service franchise will likely ultimately lead to overcapacity rearing its ugly head once again. Thus the notion that SMID-cap OFS names are good long-term buys remains a challenging proposition to defend. That said, the mood is improving, as are returns. Package this with higher oil prices and the result should be higher near-term stock prices for OFS stocks.

Q4 Seasonality:
Fears of any holiday slowdown were put to ease as several frac companies and two coiled tubing franchises report little-to-no slowdown during the Thanksgiving holiday week and most report a full schedule for the month of December. Well service contacts noted a more extended holiday impact, but well service hours for the quarter are generally expected to be flat q/q.

Pressure Pumping Pricing:
Confirmation of material price increases and anecdotes of higher pricing reported over the past few weeks are now becoming more broad-based. Efforts are underway by several players to raise prices with multiple comments of 20%+ price requests. One of our panelists shared that pricing bottomed in Q2, but has improved steadily since then with rates today higher than two weeks ago. This company will deploy additional crews next

Ann Fox, President & CEO - Nine Energy Service

Warren Zemlak, President & CEO - Allied Energy Services

year. A frac company with operations in Canada noted that its Canadian prices increased 15% in October with additional increases in the 5-10% range likely in January. It too will increase working equipment next year and is booking jobs through March. Meanwhile, an E&P team recently shared the results of a recent RFP (within the last ten days) in which quotes came in 20-40% higher from current pricing. Pre-OPEC, the success of these increase requests was questionable. Post-OPEC, these increases likely stick.

Pressure Pumping Newbuilds/Asset Transfers:
Newbuild activity remains in a nascent stage, but this will change. One builder reported the sale of two new fleets to a start-up and the sale of three fleets to existing players. We are tracking a private frac player that is building 42,500 HP, another private player who is building 30,000 HP and, as a reminder, TUSK previously announced the purchase of 75,000HP. Two other existing players have added incremental assets to upgrade existing fleets with one adding ~30,000 HP and another adding ~15,000 HP. An emerging player is purportedly expected to add six fleets, but we are still trying to confirm this field comment, although we believe it is real. Equipment reactivations are also underway as SPN, CFW.T, and FTS International all reported on their respective Q3 calls recent increases in marketed fleets. Discrete asset sales/equipment transfers are also developing. One private frac company recently acquired one fleet from another player who exited the frac market and WFT purportedly recently sold some of

OIL SERVICE - REVELATIONS FROM THE PRIVATE COMPANY ENERGY CONFERENCE (CONTINUED)

Curtis Samford, President & CEO - AFGlobal Corporation

its frac equipment with one fleet reportedly purchased by a Chinese-backed Rockies-focused frac enterprise. With the capital markets continuing to be wide-open, we suspect more M&A activity will unfold in 2017.

BHI Frac Fleet:
The new BJS frac fleet will be comprised of 1.9M HP, 1.7M of which is BHI legacy. The key attraction to CSL was the scale and standardization of the BHI fleet – CSL professes that the fleet is one of the most standardized in the industry. Current mythology is that coming out of this downturn, the BHI frac fleet was effectively a carcass. CSL professes that, in fact, the condition of the fleet was considerably better than they expected as very low utilization coupled with diligent R&M preserved the fleet's capability. Of the 1.7M in BHI frac HP, only 200-300K HP is expected to be obsolete. CSL believes that 25% of the fleet could be reactivated in 3 months and 75% in 9-12 months. Should these professions prove to be accurate and should the new BJS franchise quickly deploy idle capacity, rapidly develop the requisite HR, accounting and internal control systems as well as bring back quality employees that may have otherwise departed from BHI, then this purchase would likely prove to be one of the best-timed in the history of the oilfield. This task will, however, be a complicated one for the BJS team. Moreover, while the BJS team contends a more robust and capable fleet, industry protagonists who have looked at this business and/or possess a better-than-average knowledge of the BHI frac business contend that of the 1.7M HP, only 500K HP is competitive with new generation HP. Of the 500K HP, apparently 125K HP is winterized and in Canada – thus only 375K HP is in the U.S. The remaining 1.2M HP is essentially viewed as spare parts, comprised of obsolete or uncompetitive equipment from a cost-to-operate standpoint. Time will tell who is right with respect to the actual quality of the frac equipment. In addition, the BHI NAM onshore/cementing business is speculated to have generated ~$100-160M of negative cash flow in 2016, although the cementing business is widely acknowledged as a hidden gem. One of our industry panelists who is a leading cementing player offered up an optimistic view of completion-related pricing, a potential nice tailwind for the new BJS entity.

Frac Sand Volumes and Pricing:
Q4 volumes are expected to be up 25-30% per one sand player while another sees volumes up 30+%. Sand mines located on the CN should see better relative volumes given access to Canada. Sand prices are also moving higher with one mine prophesying the potential for FOB mine prices in Q1 to spike from low $20/ton to potentially $30/ton given an expectation for 40/70 shortages. This mine opined that the $30/ton could be short-term as mines will kick up production coming out of the winter months, but a sharp uptick in spot sales is believed to be probable. Two other mines agree pricing will move up sharply from current levels, but were hesitant to call for spot $30/ton – a mid-$20/ton price felt more reasonable. That said, one player


Cody Wickersheim, President - Badger Mining Corporation

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Xuan Yong, CEO - RigUp

shared a recent story where a competing sand mine asked it to market sand for them. The mine proposed to sell the sand to the other mine for $28/ton, but after a bit of haggling, the actual purchase price appears to be in the low $20's – still a slight increase from recent spot sales in the region. Discussions for sand contracts ranging between 3-7 years are being discussed.

New Frac Sand Coming?:

Several industry contacts report efforts are underway to develop new mines in Texas and Oklahoma. One E&P contact verified this as potential new sand players are pitching/seeking interest in support for sand upon development of the purported new mines. That said, there are questions regarding the quality and size of the potential reserves. We are still seeking clarity on who and where these potential players may be, but greater regional sand production is a longer-term risk for certain logistically disadvantaged players up north. Stay tuned as we dig into identifying emerging regional sand providers.

Proppant Logistics:

One panelist—Solaris Oilfield Services, a last mile provider of proppant logistics—reported tremendous growth prospects for its solution, noting a potential doubling of its operation over the next year. Another sand mine panelist acknowledged that it is in development of its own system while an attending company who also owns/operates its own last mile solution also sees tremendous growth prospects. What is clear from listening to our attendees as well as what we hear from SLCA and HLCP who similarly offer a last mile solution is a real need to improve the efficiency associated with well site sand delivery. And while growth prospects seem bright, what is also abundantly clear is the prospects for significantly increased competition for last mile solutions which leads us to believe that returns for such products will diminish over time. With regards to transload infrastructure, one transload operator claimed reports of construction costs equal between $15-40M to build a transload. It takes 12 months to build a silo plant versus 6-8 months for smaller plants. In addition, there was also confirmation that there are 6 unit train capable facilities in the Permian. One of our panelists believes that significant transload expansion will not be necessary, contrary to consensus expectations as they believe current infrastructure can handle projected sand demand. However, it is worth pointing out that all of our panelists continue to build/expand transload facilities.

Land Drilling:

In the Permian, the constraint for land drilling will likely be people not equipment. Peak day rates were $27,500/day in comparison to trough rates earlier this year of $12,500/day. Right now, day rates are in the upper $14,000 to low $15,000 range for high-end rigs. Public companies receiving $17,000/day day rates are often providing a third mud pump. Dayrates are not expected to breach $20,000/day by YE'17 but our panelist did believe rates will improve by $2,000-3,000/day over the course of

Chris Wright, Chairman & CEO - Liberty Oilfield Services

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2017. For meaningfully higher pricing, consolidation is necessary. Also, high-end drilling rigs are all pretty similar while crews determine performance and allow for differentiation. Our drilling panelist expects to move from 10 working rigs today to between 14 and 16 in Q1. We learned from a second driller who shared that leading edge day rates for Tier 1 rigs are in the $15,000-$17,000 range.

Coiled Tubing:
One CT contact sees Q4 revenue up ~25% sequentially due to improved utilization and a modest recovery in pricing. A second CT player also reports higher activity, noting no slowdown during Thanksgiving and little-to-no slowdown anticipated at Christmas. This player will likely test pricing soon.

Well Service:
Perhaps the most unenthusiastic commentary emanated from the well service contacts. While workover activity has improved thus far in Q4, the work is largely not profitable in the Permian Basin. Well service rates are at their lowest levels since 2002 as competition remains heated due to the re-emergence of companies from Chapter 11. These companies are purportedly stealing crews by paying higher wages, yet these companies often are the lowest priced players in the market. Hourly rates in the Permian are characterized as sub-$185/hour in some cases while peak pricing for drillouts of $18,500/

Jon Cole, Chairman & CEO - Sidewinder Drilling

Mark Hood, Supply Chain Director - Apache Corporation

day are now priced closer to $13,000/day. Both of our panelists recently participated in M&A transactions, and additional M&A will likely be needed to address the significant overcapacity in this business segment.

Capital Equipment:
Work on frac equipment has picked up substantially over the past few months. One panelist cited that 70-80% of work is new builds (including working on cold stacked equipment and preparing that equipment for work) while 20-30% is refurb. 50-75% of work is for existing customers, depending on the company. One panelist believes 25% of frac equipment will not work again; 50% needs major overhaul; and 25% needs a shave and haircut. Some capital equipment players now require 40-50% down-payments to work on frac fleets, much higher than a few years ago. Supply chain is viewed as a bigger constraint than labor for capital equipment players. Specifically, the ability to find smaller ticket items concerns some players (i.e. fuel pumps, valves, etc.). At this point, there isn't much concern about major components such as pumps, engines, transmissions or radiators. None of the panelists are currently building equipment on spec nor are they receiving inquiries from E&P's (in contrast to inquiries from a handful early in 2016).

E&P Panel Observations:
One of the panelists is moving from 2 frac crews in 2016 to 4 crews next year while it likely adds ~4-6 rigs. A

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second panelist will likely employ just one rig in 2017 – it is presently not drilling today. One rig in the Utica should drill about 18 wells. According to one provider, service pricing has increased by 11% over the past 75 days. Another panelist tested 3,200 lbs per lateral foot, but they have settled at 2,000 lbs per lateral foot. They could drop to 1,600 lbs per lateral foot depending on sand prices. Both operators on the panel are primarily using finer grades, although one is also using ceramic in the Utica, and one of the two self-sources their sand.

Wireline:
A small wireline operator shared recent results which further validate the unfolding industry recovery. Revenues are expected to total $6.3M in Q4 vs. $4.9M in Q3 (+29% q/q). December revs are expected to be $2.5M, up sharply over November while the January outlook is bright. Select pricing improvement is beginning but is not yet broad-based. Wages/salaries in the field have increased about 10-12% recently. This company is trying to poach crews and has had some of its own crews poached. These crews left to go to a wireline start-up (again more evidence of industry bad behavior – new capacity emerging in an already oversupplied market). During the downturn and still today, add-on's which used to be billed separately are still being included in overall price (which is effectively a price cut), but these add-on's likely come back early next year. The company is running ~15 crews now with an expectation to ramp to ~20 crews in Q1.

Kenneth Shore, Vice President & CFO - TEC Well Service


Randy Vanberg, Vice President - Global Heat Transfer

Ratings, Price Targets and Risks:
We rate SLCA OW with a $49 price target based on 10x EV/'18E EBITDA (assuming $366M of 2018E EBITDA, $243M of net debt, and 70M shares). Risks include the oversupply of frac sand and the potential for declining service intensity. SLCA is a likely consolidator, thus potential equity-financed deals are a possibility.

We rate FMSA OW with a $10 price target based on 9.5x EV/'18E EBITDA (assuming EBITDA = $296M, cash = $490M, debt = $1.14B and shares = 221M). Risks include the oversupply of frac sand, the potential for declining service intensity, balance sheet leverage and overhang from FMSA's PE sponsor.

We rate PTEN OW with a $22 price target based on 7.0x EV/'18E EBITDA (2018E EBITDA of $539M, shares outstanding of 146.3M and net debt of $561.4M). Risks include contract expirations for its land rig fleet, oversupply of NAM pressure pumping market, potential asset write-downs, and negative earnings.

We rate PES OW with a $4.25 price target based on 7.0x EV/2018E (2018E EBITDA: $96M, debt: $399.5M, cash: $9.7M, sh/out: 64.9M). Risks include contract expirations for its land rig fleet, high debt levels, potential asset write-downs, low barrier to entry business units, and negative earnings. Inability to divest assets and raise cash a potential risk.

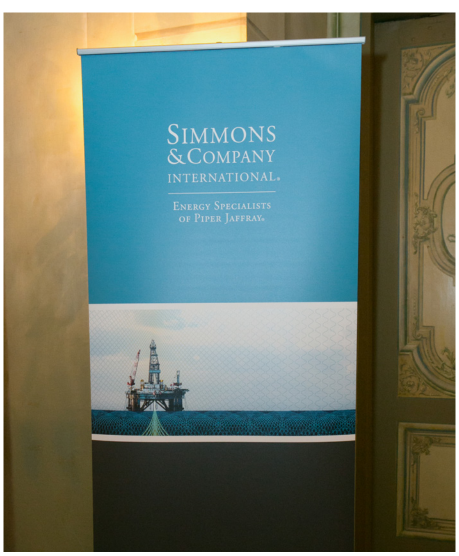
IMAGES FROM THE PRIVATE COMPANY ENERGY CONFERENCE













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Analyst Certification — John Daniel, Sr. Research Analyst
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