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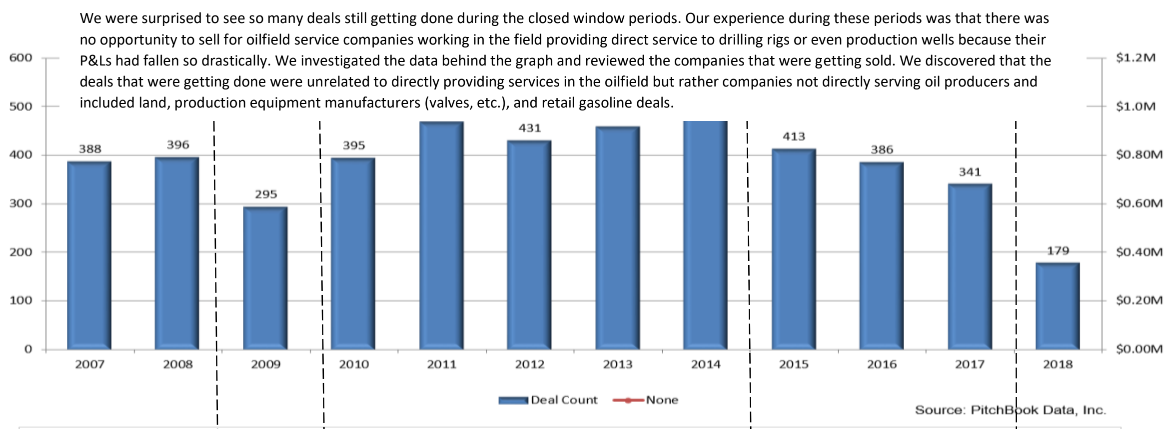
Window of Opportunity For Selling Oilfield Companies

We get a tremendous number of phone calls from oilfield company owners asking whether the timing is right to sell their company. In the oilfield we have specific windows when the timing is ideal for selling industry companies. We are in an ideal window at present and this brief paper describes the characteristics that support the timing being ideal, how we got to the current window, why the optimum timing translates to maximum selling value, and what happens to valuations when the current window begins and ultimately closes. As we know, the oil industry is cyclical (oil price rise & fall) and this cyclicality is what opens and closes the windows for oilfield companies to sell.

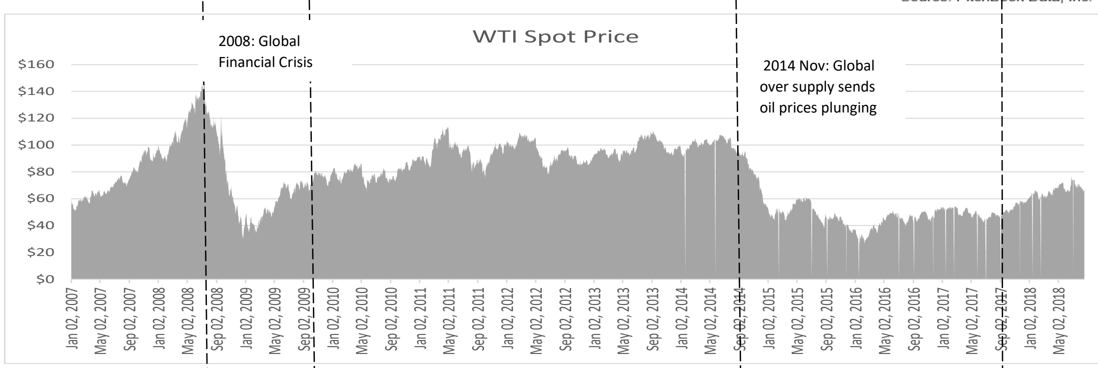
It's likely no surprise to anyone that the best time to sell an oilfield company is when WTI is high. This is true and reflected in the graph comparisons below where both the majority of deals are done and the yr. over yr. trend for the same is positive. The ideal time to sell an oilfield company is defined by the period following a major price fall long enough so that buyers and banks perceived industry risk is at a minimum (we are far enough away from the last price downturn), there are no negative material cracks in support for oil prices on the horizon, and the selling company has had time to rebuild their P&L to a level where buyer perceived risks related to small size/customer concentration, and the like are eliminated.

Oilfield Company Sale Transactions

(# by year) (USA & Canada)



WTI Spot Price



SELLING WINDOW

WINDOW OPEN	CLOSE	WINDOW OPEN	WINDOW CLOSED	WINDOW OPEN

The Timing of Selling and What Oilfield Sellers Can Expect

When the window opens sellers want to sell before cracks supporting oil prices begin to materialize. This concept of not waiting "too" long to sell is difficult and analogous to selling a public company stock-to max value you must sell "too early"-when everything is going well:

Receive Max Value in the Form of Highest Multiple Paid Because Both Buyer and Bank are Confident and maximize funding for the deal.

- 3x Multiple (Paid by Confident Buyers)
- 3x Multiple (Debt Provided by Confident Bank)
- 6x Total Multiple (Resulting Maximum Multiple paid for Oilfield Company)

As the open window duration increases, sellers must avoid 2 things: 1) cracks in the support for oil prices; 2) buyers & banks too long into a positive oil cycle (2.5 to 3 yrs.) know a downturn is inevitable and raise their perceived risk. Lower values result:

Receive Lower Value in the Form of Lower Multiple Paid Because Both Buyer and Bank are Less Confident

- 2x Multiple (Paid by Less Confident Buyers)
- 2x Multiple (Debt Provided by Less Confident Bank)
- 4x Multiple (Resulting Average Multiple Paid for Oilfield Company)

When oil prices crash, banks will not lend on deals. Any deals that can get done are based on buyer cash only at valuations so low we are looking at bankruptcy type sales:

Receive No Value Because Banks Won't Lend to Oil Industry at All Due to Falling Oil Prices.

- 0x Multiple (Does not matter what $ a buyer can provide because banks won't participate. Were buyers even interested in deal, they could not reach seller value expectations nor get needed ROI without bank debt)
- 0x Multiple (Too Risky an Industry for Banks to lend on deals)