SIMMONS ENERGY

A DIVISION OF PIPER SANDLER

September 2020

# Completions Market Perspectives

## DUG Permian / Eagle Ford


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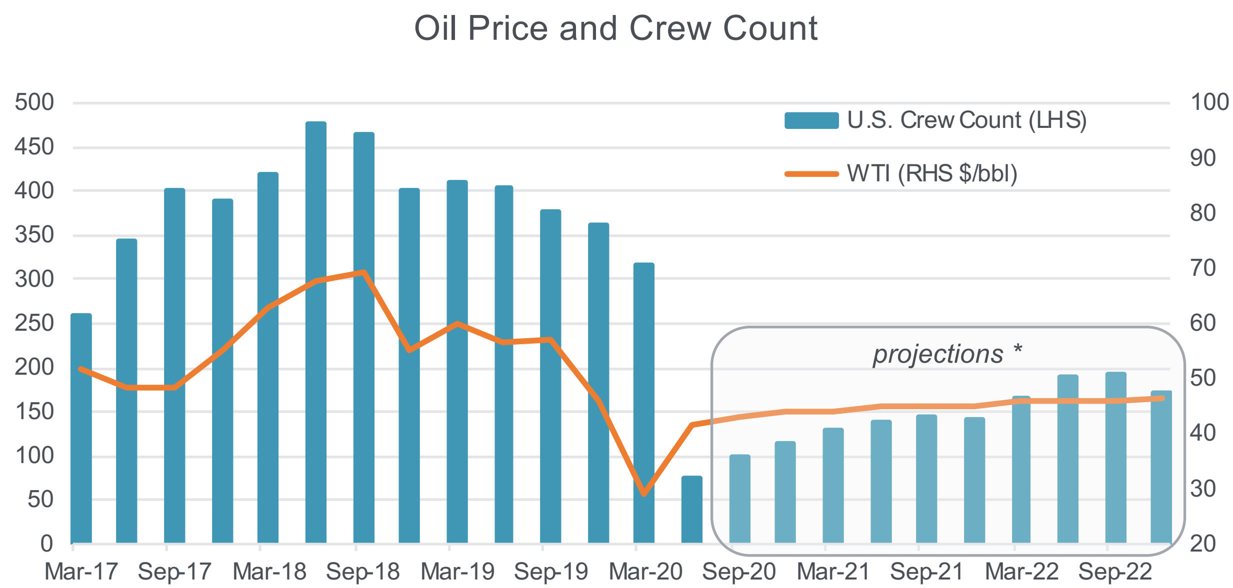
# Recalibrating for <$50 WTI




Crew Counts: Simmons historical estimates and forward projections
Oil Price projection = forward strip

**<u>2017-19</u>**

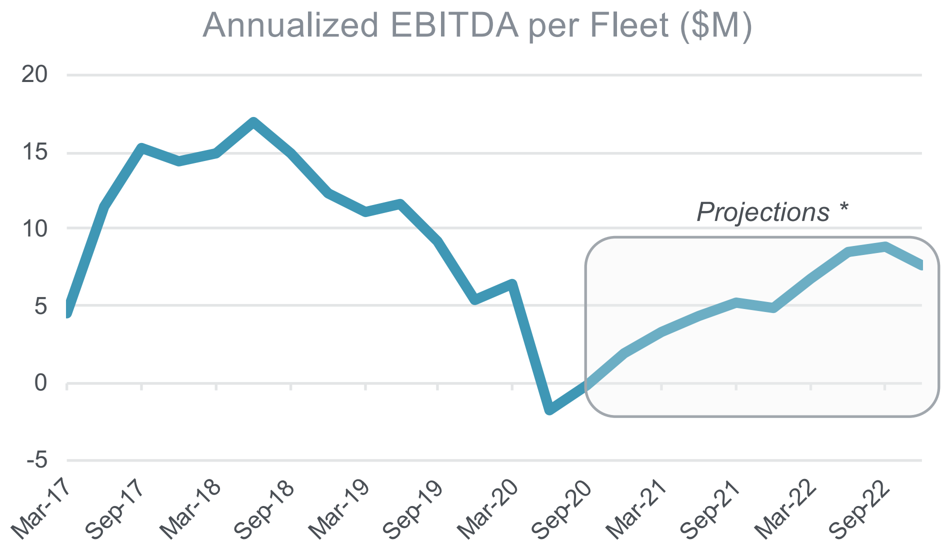
- We estimate that peak crew counts ranged 400-500 in the 2017-18 peak with $55-$70 WTI, remaining >300 in Q1'20, before plummeting to a (natgas supported) rough of ~50 in May.

- Industry consensus from Q2 earnings calls contemplated a Q3 recovery toward ~100 active crews, with varying outlooks with regard to sustained upward momentum through Q4.

- While Q4 seasonality looms as a near term uncertainty, there is little question that the direction for activity is higher from here. Rather, the questions pertain to slope and duration, and are inexorably tied to oil price (Covid, demand normalization, U.S. and non-OPEC supply response from capital austerity, OPEC-plus rational guardianship, U.S. election implications, etc)

- Our current (FY avg) crew count assumptions: <u>2017 ~350</u>, <u>2018 ~440</u>, <u>2019 ~390</u>, <u>2020 ~150</u>, <u>2021 ~140</u>, <u>2022 ~180</u>.

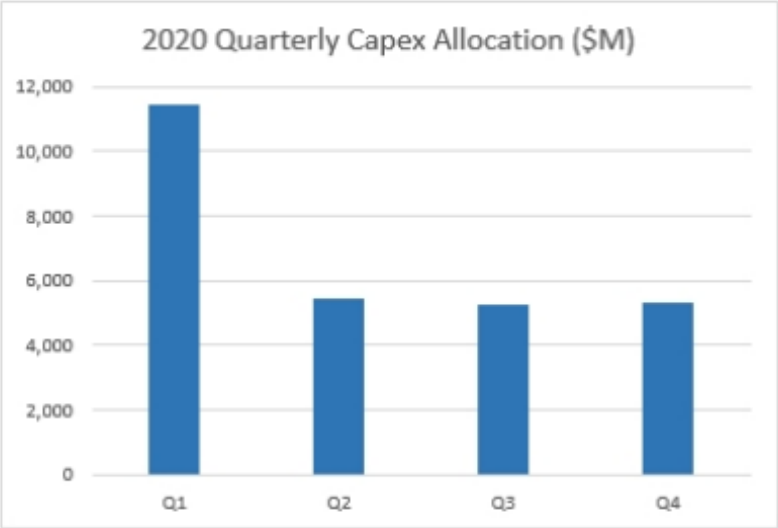
# EBITDA per Fleet Estimates




Wtd Avg: NEX, LBRT, PUMP, FTSI (excluded from forward projections), PTEN, RES USWS
Source: Simmons estimates

- EBITDA dropped to below breakeven in Q2 for the first time since 2016 and is expected to improve only modestly in 2H'20 as recent cost restructurings and improved cost absorption offset lower avg pricing.
- We are modeling a recovery toward avg EBITDA per fleet of $4-$5M in 2021 and $7-$9M in 2022. Admittedly more abstract / theoretical than empirical, this represents a "Goldilocks" slope of profit recovery, sufficient to support moderate fleet redeployments but shy of the ~$15M threshold that previously induced excess capital formation.

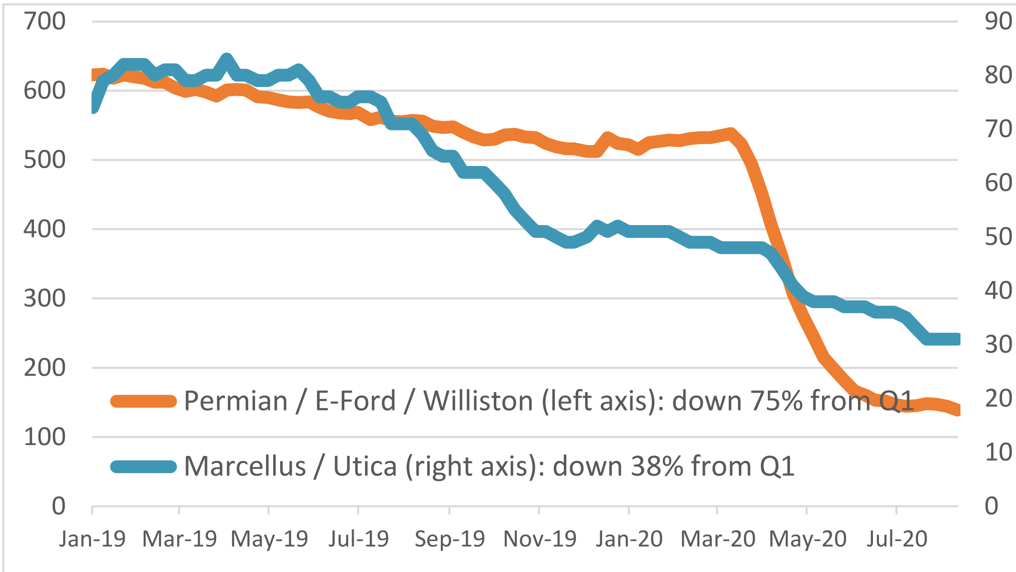
# E&P Capex Perspective




Source: capex updates from AR, APA, BCEI, COG, CPE, XEC, CNX, CXO, CLR, DVN, EOG, EQT, FANG, HES, LPI, MRO, MTDR, MUR, NBL, OXY, PE, PXD, QEP, RRC, SWN, WPX

- Aggregate net budget revisions from U.S. E&Ps coming out of Q2 earnings were largely inconsequential relative to the radical budget resets (-50%) already digested over the course of the spring.
- That said, Q2 D&C capex declined by roughly ~50% q/q and now looks fairly flat from Q2-Q4 with seemingly little upside into 2021 at the current $45 WTI strips.
- While EOG and PXD were prominent outliers which highlighted that their 2H capital plans are materially below envisioned maintenance levels that will be resumed next year, these were the exception rather than the norm.

# Gas Basins Supporting Trough Activity




Source: BKR rig count through August 2020

# Industry Capacity Snapshot – Consolidation Afoot, More Needed

- Late 2019 / early 2020 capacity rationalizations reduced nameplate industry HHP by ~20%, from 25M toward 20M.
- Subsequent exits – some large, some small – could bias this HHP count toward 17-18M, although this is a moving target due to the uncertain status of secondhand equipment migrating into the hands of opportunistic entrepreneurial buyers
- Normalized activity levels, assuming 200-250 completion crews, implies full utilization may be closer to 10-12M, perhaps 12-14M with comfortable sideline capacity.

| | 2019 Peak | | | Q1 '20 View | | | Q3 '20 View | |
|---|---|---|---|---|---|---|---|---|
| | HHP | Share | | HHP | Share | | HHP | Share |
| HAL | 4,200 | 17% | | 3,275 | 16% | | 3,275 | 18% |
| NEX | 2,200 | 9% | | 2,000 | 10% | | 2,000 | 11% |
| BJ | 2,150 | 9% | | 1,700 | 9% | | tbd | |
| PUMP | 1,400 | 6% | | 1,400 | 7% | | 1,400 | 8% |
| FTSI | 1,700 | 7% | | 1,400 | 7% | | 1,400 | 8% |
| PTEN | 1,600 | 7% | | 1,300 | 7% | | 1,300 | 7% |
| SLB | 2,500 | 10% | | 1,250 | 6% | | tbd | |
| Pro Frac | 1,000 | 4% | | 1,000 | 5% | | 1,000 | 6% |
| LBRT | 920 | 4% | | 1,000 | 5% | | 2,500 | 14% |
| RES | 1,025 | 4% | | 725 | 4% | | 725 | 4% |
| CFW CN | 875 | 4% | | 700 | 4% | | 560 | 3% |
| BAS | 480 | 2% | | tbd | | | tbd | |
| USWS | 625 | 3% | | 625 | 3% | | 625 | 3% |
| SPN | 750 | 3% | | 500 | 3% | | 500 | 3% |
| Others (~20 companies) | 3,075 | 13% | | 2,975 | 15% | | 2,715 | 15% |
| **Total** | **24,500** | **100%** | | **19,850** | **100%** | | **18,000** | **100%** |

Source: Simmons research, company reports

# Parting Thoughts

- Consensus midcycle size assumptions – 200-250 (maybe up to 300) crews – are defensible if/when U.S production needs to stabilize or grow modestly. Current strip and prodigious global (largely OPEC) inventories and spare capacity introduce timing uncertainty.

- Technology / Innovation
    - E-frac uptake has been slowed but not derailed
    - Simul-frac could also impact the call on conventional hhp

- Pricing Discipline – leadership from the top down sounds promising, low cost basis of secondhand equipment could be a wrinkle

- Consolidation – More please!

# Industry Risks

- Depth/duration of global economic recession
- Oil demand normalization
- Radically redefined upstream capex budgets
- OFS competitive landscape: extremely fragmented and historically overcapitalized.
- E&P competitive landscape: same
- Secular ESG and decarbonization headwinds

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