Energy Practice

Energy Boom – What Some Call a Global Frenzy

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Scenes from a US Energy Boom

In his February 8, 2012, Wall Street Journal article, "Oil and Gas Boom Lifts US Economy," reporter Russell Gold chronicles nationwide indications of economic recovery driven by a nascent domestic energy boom:

- Spears & Associates Inc., an oil-field market research firm, estimates that $145 billion will be spent drilling US wells in 2012 vs. $13 billion in 2000.

- Private equity firms closed $24.8 billion of energy-related deals in 2011 vs. $8.5 billion in 2010.

- New drilling techniques to tap shale oil and gas generated some 158,500 new oil and gas jobs in five years while significantly bolstering employment by companies supplying energy services and broader-based service industries. (An independent natural resources sector economist estimates that each new oil and gas sector job generates four more jobs in the supply chain and the economy at large as workers spend more money on goods and services.)

- In addition to "oil patch" states, Ohio, Pennsylvania, Nebraska, New York, North Carolina, North Dakota and Idaho are prospering in the domestic energy gas boom which also has put truck drivers nationwide in high demand.

- Readily-available domestic supplies of cheap natural gas are convincing manufacturing plants to return to the US to make major investments in petrochemical and steel production. Chat Reynders of Reynders McVeigh Capital Management observes: "We think lower natural gas prices are creating a structural economic advantage for the US. It's a new competitive strength for US manufacturers," because Asian competitors pay as much as six times what Texas- and Louisiana-based competitors pay for natural gas.

- In 2004, steelmaker Nucor Corp. dismantled a Louisiana plant and rebuilt it in Trinidad (which offered long-term, low-cost natural gas). Nucor returned to Louisiana in 2011 to build a new $750 million facility that will create 150 permanent jobs paying $75,000 annually on average because the availability of inexpensive shale gas made a new plant in Louisiana preferable to a second in Trinidad. Increasingly plentiful natural gas also is fueling more power plants as coal-driven facilities are taken off-line or repurposed: the shale gas glut serves as a hedge against rising gas prices, enabling utility companies to plan for economical, long-term operations of gas-driven power plants.

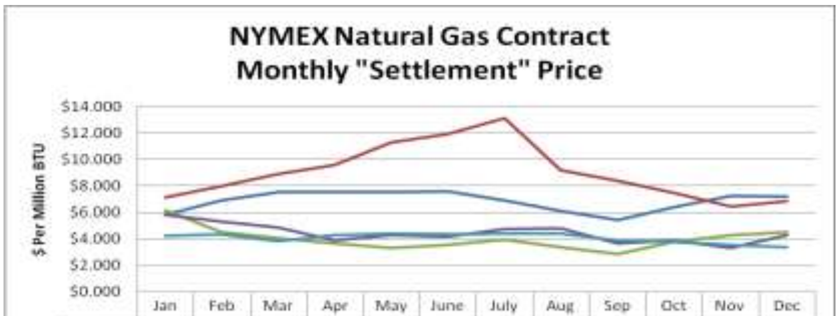
- The oil and gas well drilling boom has impacted heavily agricultural Nance County, NE, west of Omaha. Traditionally a producer of cattle, corn and hogs, Nance County today is tapping two giant sand dunes, each a mile long and six stories high, to support oil and gas fracking operations nationwide. Preferred Sands, LLC, which is mining the dunes, will employ 150 people by mid-2012, up from 15 in 2007. It has become Nance County's largest employer. Meanwhile, sand mines in western Wisconsin have created 1,000+ jobs in four months, according to the state's Department of Natural Resources.

- Manufactured housing company Fleetwood Homes of Nampa, ID, has increased production 25%, added 40 employees and increased their hours since late 2011 because development of North Dakota's Bakken oil field 1,000 miles away triggered demand for 300+ of its "extra-insulated" homes for shipment to a Williston, ND, housing development serving well-paid energy industry workers who previously were forced to sleep in their cars in the North Dakota winter.

US: Net Exporter of Petroleum Products for the First Time in 62 Years (2011)

The Wall Street Journal reported on November 30, 2011 that, for the first time in 62 years, the US was a net exporter of petroleum products based on data released by the US Energy Information Administration (EIA) and that this trend could persist throughout the current decade as new sources of oil in North Dakota and Texas are developed and US drilling and refining efforts prove more efficient and capacity outpaces consumer demand.

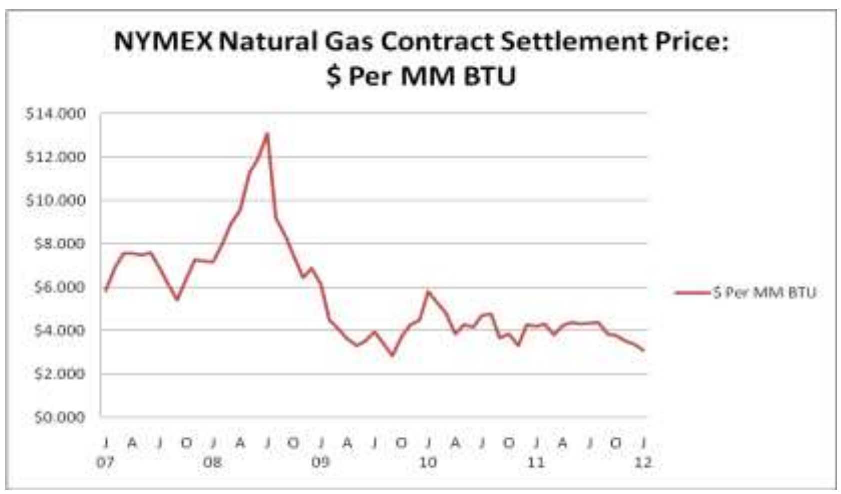
Plunging Natural Gas Prices Reflect Growing Glut



	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
2007	$5.83	$6.91	$7.54	$7.55	$7.50	$7.59	$6.92	$6.11	$5.43	$6.42	$7.26	$7.20
2008	$7.17	$7.99	$8.93	$9.57	$11.2	$11.9	$13.1	$9.21	$8.39	$7.47	$6.46	$6.88
2009	$6.13	$4.47	$4.05	$3.63	$3.32	$3.53	$3.94	$3.37	$2.84	$3.73	$4.28	$4.48
2010	$5.81	$5.27	$4.81	$3.84	$4.27	$4.15	$4.71	$4.77	$3.65	$3.83	$3.29	$4.26
2011	$4.21	$4.31	$3.79	$4.24	$4.37	$4.32	$4.35	$4.37	$3.85	$3.75	$3.52	$3.36
2012	$3.08											

Natural gas prices have hit 10-year lows of $2.322 per million BTU due to oversupply and weakening demand. The US Energy Information Administration reported in January 2012 that Natural Gas Futures prices had fallen to a 10-year-low on the New York Mercantile Exchange (NYMEX), settling at $2.488 per million British Thermal Units on January 17, 2012. The EIA reported that near-month natural gas contracts had not been priced that low since March 5, 2002. Price weakness in January is highly unusual because weather-related demand historically peaks in January. By January 2012, natural gas spot prices had fallen from $2.81 per million BTU to $2.49.

The New York Mercantile Exchange's Natural Gas Contract Settlement History from 2007 to 2012 offers further insights into how the convergence of cutting edge extraction technologies and ongoing development of newly discovered US natural gas properties has impacted supply and demand. The resulting gas glut has led to a collapse in gas prices from a (NYMEX Natural Gas Contract Settlement Price) high of $13.105 per Million BTU in July 2008 to $3.084 in January 2012 (a 76% decline).



Collapsing prices triggered by our natural gas glut have proved particularly challenging to US natural gas producers. The Wall Street Journal reported in late January 2012 that Chesapeake Energy Corp., the US' second largest gas producer, was seeking to raise $7 billion through joint ventures, asset sales and the IPO of a subsidiary to reduce debt and finance the expansion of its oil holdings and production efforts to diversify into oil production.

Oil/Natural Gas Price Ratio

The Oil/Natural Gas Price Ratio has achieved historic highs. Even as natural gas prices hit record lows, oil costs nearly $100 per barrel. More specifically, Motley Fool recently reported a “staggering” 41 multiple for oil (at $98.39 per barrel) and natural gas ($2.33 per million BTU) vs. the ratio’s historic range of 5 to 15 times. The 41 multiple reflects, among other things: an abnormally mild US winter season (to date) and the discovery of vast US natural gas reserves. Curiously, extremely low natural gas prices will dampen drilling of new wells, raising prices as supply and demand for natural gas realign. In the near- to mid-term, natural gas – one of the world’s cleanest energy sources – may find broader use in the US and elsewhere, from power plants to automobiles. Motley Fool suggested that investments in **ExxonMobil** (NYS: XOM), **Devon Energy** (NYS: DVN) and **Chesapeake Energy** (NYS: CHK) could leverage current opportunities. ExxonMobil acquired XTO Energy in 2009 and many smaller, privately-owned natural gas firms and now holds 700,000+ acres in Marcellus shale investments. Devon Energy has invested heavily in US oil shale while maintaining a significant natural gas exposure. Chesapeake Energy produces some 8.3% of US natural gas and has a vested interest in growing natural gas’ demand profile.

US Mining Services Industry: Growth through 2016 and Beyond

IBISWorld reports that the US Mining Services Industry generated an estimated $108.5 billion in revenues and $31.4 billion in profit across nearly 10,000 firms in 2011, having enjoyed an average annual growth rate of 11.5% from 2006 through 2011 after weathering a 26.1% plunge in 2009 revenues during the recession. Some 94% of those revenues were generated by companies providing “Other Oil & Gas Well Support” (64%) and “Oil & Gas Drilling Services” (30%). Only 6% of 2011 revenues were generated by “Coal Mining Support” (3%), Metallic Ore Mining Support” (2%) and Non-Metallic Ore Mining Support (1%). The industry is projected to grow 4.3% annually from 2011 through 2016, very likely exceeding growth of the broader economy during the same period.

Domestic oil & gas drilling contracts will increase as energy prices rise, thereby making formerly unprofitable sites more attractive to energy producers. This in turn increases demand for contract drilling services while increasing the amount of time drilling rigs are operational and the day rates drillers can charge for those rigs.

The oil & gas industry is particularly vulnerable to economic downturns: 2009 US revenues plunged 26.1% when recession slashed US demand for oil and gas, causing energy prices – and domestic drilling activities – to plunge.

The US Mining Services Industry is subject to significant regulation regarding rig location and drilling operation risks.

As a growth industry through (and very likely well beyond) 2016, US Mining Services has been and will continue to be characterized by significant R&D investments that will lead to the development of new technologies enabling the identification and development of new energy sources at greater depths and in harsher environments within the US as well as the renewed development of sites once considered depleted because available technologies no longer could extract, economically, those sites’ remaining energy reserves. Industry growth also will provide unprecedented opportunities to firms providing services to oil & gas producers both onshore and offshore.

Key services provided to oil & gas producers include: hydraulic fracturing of wells (fracking), cementing of wells, surveying, exploration services, acidizing wells, running casings, tubes and rods into wells.

The US Mining Services Industry is highly-fragmented, with 78.7% of its 9,900 firms employing 20 people or fewer and 95.6% of firms employing fewer than 100 people. The industry's major players include: Halliburton Company (14.5% industry share), Nabors Industries (3.7% share), Patterson-UTI Energy, Inc. (3.2% share) and Helmerich & Payne, Inc. (2.7% share). Recent earnings reports by Halliburton and Schlumberger reflect a world-wide energy boom. Recently reported 4Q2011 results for Halliburton and Schlumberger follow.

Halliburton Co. 4Q2011 Results.

On January 23, 2012, Halliburton Co. reported that its 4Q2011 earnings rose 50%, to $906 million or $0.98 per share, on record level 4Q2011 revenues of $7.06 billion (up 37% year-over-year). As the top seller of North American hydraulic fracturing equipment services, Halliburton has nearly doubled its revenues in five years. While falling natural gas prices are forcing the North American energy industry to shut down dry-gas wells in favor of oil well drilling and services, the company expects significant growth in oil drilling and related rigs and services as natural gas rigs decline. Halliburton is the world's second largest oilfield services company, behind Schlumberger Ltd.

Schlumberger Ltd.

On January 20, 2012, Schlumberger Ltd. – the world's largest oilfield services company – reported a 36% increase in 4QTR2011 earnings, to $1.41 billion or $1.05 per share as the company's North American revenues, excluding Mexico, rose 6% to $3.52 billion. The strong financial results reflected increased deepwater activity in the Gulf of Mexico and Latin America and increased onshore oil drilling activities as producers shifted away from natural gas drilling in the wake of collapsing natural gas prices. The company expects oilfield activity to increase through 2012 given high energy prices and oil companies' urgent need to expand proven reserves despite a weak economic recovery.

US Energy Independence: A Way Forward? (North American Energy Inventory, 12/2011)

The Institute for Energy Research's North American Energy Inventory report (12/2011) concludes, "the United States today possess greater recoverable supplies of oil, natural gas and coal than at any point in its recorded history… Thanks to new and continuing innovations in exploration and production technology, there's every reason to believe that today's estimates of reserves are only a fraction of what will be produced and delivered tomorrow" in the US and across North America. The report was based on extensive research and investigation of government, industry and university data, all of which is in the public record.

"Massive" North American Recoverable Energy Resources.

The IER North American Energy Inventory report states that total recoverable energy resources in North America (and the US) are:

- 1.79 trillion barrels of oil (1.442 trillion barrels in the US alone), twice as much as the OPEC nations' combined proved reserves, or six times Saudi Arabia's proved reserves, and enough oil to fuel every US passenger car for 430 years or to fuel current annual US oil consumption of 7 billion barrels for some 250 years

- 4.244 quadrillion cubic feet of natural gas (2.744 quadrillion cubic feet in the US alone), exceeding the total proved natural gas reserves of the top 5 non-North American nations (Russia, Iran, Qatar, Saudi Arabia and Turkmenistan) and enough natural gas to provide the US with electricity for 575 years at current consumption levels or enough to fuel homes heated by natural gas for 857 years

- 497 billion short tons of coal (486.1 billion short tons in the US alone), exceeding the total coal reserves of the top five non-North American nations (Russia, China, Australia, India and Ukraine), and enough to provide electricity to the US for 500 years at current consumption rates

Achieving Energy Independence While Reducing Unemployment.

The IER North American Energy Inventory report also observes that US states that are committed to producing coal, oil and natural gas "regularly enjoy stronger job growth, a stronger economy and a stronger position with respect to their state budgets." For example, in 10 years' time, North Dakota has risen from our 10th to our 4th largest oil producing state with the development of massive oil resources in western North Dakota's Bakken formation. North Dakota's unemployment rate was 3.5% when the US unemployment rate was 9.1% and North Dakota's economy is growing at 7.0% annually vs. a 2.6% US growth rate. Similarly, Pennsylvania's development of energy resources in its Marcellus Shale formation (which stretches across West Virginia and New York as well) has resulted in the creation of 72,000 new jobs since late 2009.

A technological revolution in natural gas production subsequently has transformed the process of developing shale oil deposits in North Dakota's Bakken Field and Texas' Eagle Ford and elsewhere across the country. The IER notes that new technologies in shale gas and oil exploration and production reflected an absence of federal bans and onerous restrictions on development. By avoiding development of energy resources on federal lands in favor of private or state lands, energy producers were free to innovate.

Obstacles to US Energy Independence: Federal Tax and Regulatory Policies

Major challenges to US energy production include over-regulation and new taxes that have been imposed at the Federal level. The IER listed some 143 major US laws and regulations that constrain the development of domestic energy reserves. Massive expansion of laws and regulations affecting energy production have created innumerable opportunities for energy project opponents to challenge, appeal and litigate against energy exploration and production. As delays and compliance cause exploration and development costs to skyrocket, they undermine energy projects' economic viability.

Energy Prices, Energy Shortages and Energy Independence

In 2012 and beyond, US citizens and voters continually will be confronted by implications of current US energy policies – via rapidly rising energy prices and potential shortages – that reflect the country's increasingly untenable dependence on often unfriendly and/or unstable energy supplier nations in an era when any interruption in the flow of imported energy may have catastrophic economic repercussions in the US. The alternative – sensible development of massive domestic oil, natural gas and coal reserves – presents the US' clearest path to energy independence while also promising a new prosperity as a result of significant job creation, lower energy costs for consumers, businesses and the public sector alike, and significant new sources of royalties and tax revenues at federal, state and local levels. As the US begins to reassert its energy independence in coming years, companies through the US Mining Services business sector will be positioned for significant growth in revenues and profits.

Recent M&A Transactions

Closed Date	Private Company Target/Issuer	Transaction Value ($US MM)	Buyers/Investors	Primary Industry [Target/Issuer]	Implied Enterprise Value/EBITDA (x)
4/29/11	Lion Oil Co. (Seller: Ergon Inc.)	$544.95	Delek US Holdings Inc. (NYSE:DK)	Petroleum and Petroleum Products	12.22
8/2/11	Continental Alloys & Services Inc. (Seller: EdgeStone Capital Partners Inc.)	$415.00	Reliance Steel & Aluminum Co. (NYSE:RS)	Oil and Gas Equipment and Services	-
1/3/11	Harbison-Fischer Mfg. Co.	$402.50	Norris Production Solutions	Oil and Gas Equipment and Services	-
7/1/11	Big Sandy Pipeline LLC (Seller: Equitrans LP)	$389.47	Spectra Energy Partners LP (NYSE:SEP)	Natural Gas Pipelines	-
10/24/11	LeTourneau Technologies Drilling Systems Inc. (Seller: LeTourneau Technologies Inc.)	$375.00	Cameron International Corp. (NYSE:CAM)	Oil and Gas Equipment and Services	11.65
5/9/11	Gulfstream Natural Gas System LLC (Seller: Williams Cos. [NYSE:WMB])	$330.00	Williams Partners LP (NYSE:WPZ)	Natural Gas Pipelines	-
1/3/12	DCP East Texas Holdings LLC (Sellers: DCP Midstream GP LLC; DCP LP Holdings LLC)	$165.00	DCP Midstream Partners LP (NYSE:DPM)	Petroleum and Petroleum Products	-
12/31/11	Go-Coil LLC	$110.00	Pioneer Drilling Co. (AMEX:PDC)	Oil and Gas Equipment and Services	-
10/25/11	Rising Star Services Inc.	$84.32	Complete Production Services Inc. (NYSE:CPX)	Oil and Gas Equipment and Services	-
11/1/11	Tristate Sabine LLC (Seller: Tristate Midstream LP)	$73.00	Crestwood Midstream Partners LP (NYSE:CMLP)	Natural Gas Pipelines	-
7/29/11	Peak Oilfield Service Co. (Seller: Cook Inlet Region Inc.)	$65.00	Nabors Industries Ltd. (NYSE:NBR)	Oil and Gas Equipment and Services	-
1/7/11	O-Tex Pumping LLC	$52.00	White Deer Energy	Oil and Gas Equipment and Services	-
2/8/11	Sun Well Service Inc. (Seller: UIB Capital Inc.)	$51.10	BNS Holding Inc. (OTCPK:BNSS.A)	Oil and Gas Equipment and Services	-
6/23/11	Petsec Petroleum LLC (Seller: Petsec Energy Ltd. [ASX:PSA])	$40.55	Horizon Oil Ltd. (ASX:HZN)	Oil and Gas Exploration Services	-
12/29/11	Western Refining Pipeline Co. (Seller: Western Refining Inc. [NYSE:WNR])	$40.00	Plains Pipeline LP	Natural Gas Pipelines	-
6/30/11	CRTS Inc.	$39.00	Aegion Corp. (NasdaqGS:AEGN)	Oil and Gas Equipment and Services	10.26
12/31/10	Chemical Research and Licensing Co. (Seller: CRI/Criterion Inc.)	$38.40	Chicago Bridge & Iron Company NV (NYSE:CBI)	Petroleum and Petroleum Products	-
10/28/11	Specialty Supply LP	$36.00	Hunting plc (LSE:HTG)	Oil and Gas Equipment and Services	5.81
12/7/11	COT-Puritech Inc.	$34.00	Colfax Corp. (NYSE:CFX)	Oil and Gas Equipment and Services	-
4/28/11	Total Equipment And Service Inc. (Seller: Hammond, Kennedy, Whitney & Company Inc.)	$33.00	C&J Energy Services Inc. (NYSE:CJES)	Oil and Gas Equipment and Services	-
12/8/11	Rogue Pressure Services LLC	$29.00	Steel Excel Inc. (OTCPK:SXCL)	Oil and Gas Equipment and Services	-

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ABOUT THE MCLEAN GROUP

The McLean Group is an investment bank providing mergers and acquisitions (M&A), business valuation and strategic consulting services to middle market businesses. Headquartered in Washington, DC, we are among the largest independent middle market investment banks in the nation and serve domestic and international clients with a broad resume of successfully consummated financial transactions.

THE MCLEAN GROUP ENERGY PRACTICE

The McLean Group is well-positioned to address clients' needs in the Energy sector by providing specialized global investment banking services in this fast-growing market. Specifically, the Energy practice focuses on renewable energy trends and strives to help emerging energy technology companies achieve scale and prosper with the advancement of clean tech government initiatives.

Through hands-on experience, strong understanding and significant business relationships, we help clients meet their capital formation, growth strategy and/or exit plan requirements.

The McLean Group has experience in Oil & Gas Services, Oil & Gas Distribution, and related business sectors.

Select Recent Energy Practice Engagements

Bayou Companies acquired by Insituform — The McLean Group

Angel Air acquired by Industrial Air Tool — The McLean Group

Central Gulf Shipyard, LLC acquired by Sneed Shipbuilding, Inc. — The McLean Group

Mobile Pipe Wrappers & Coaters, Inc. acquired by Underground Solutions — The McLean Group

Schlumberger Market Intelligence — The McLean Group

STP acquired by Union Carbide Market Intelligence — The McLean Group