

# Oil Services & Equipment

---

PESA Conference

April 2018

**Judson E. Bailey, CFA**

Senior Analyst

jud.bailey@wellsfargo.com

713-319-1035

All estimates/forecasts are as of 04/24/2018, unless otherwise noted.

Please see page 7 for rating definitions, important disclosures and required analyst certifications.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report *and* investors should consider this report as only a single factor in making their investment decision.

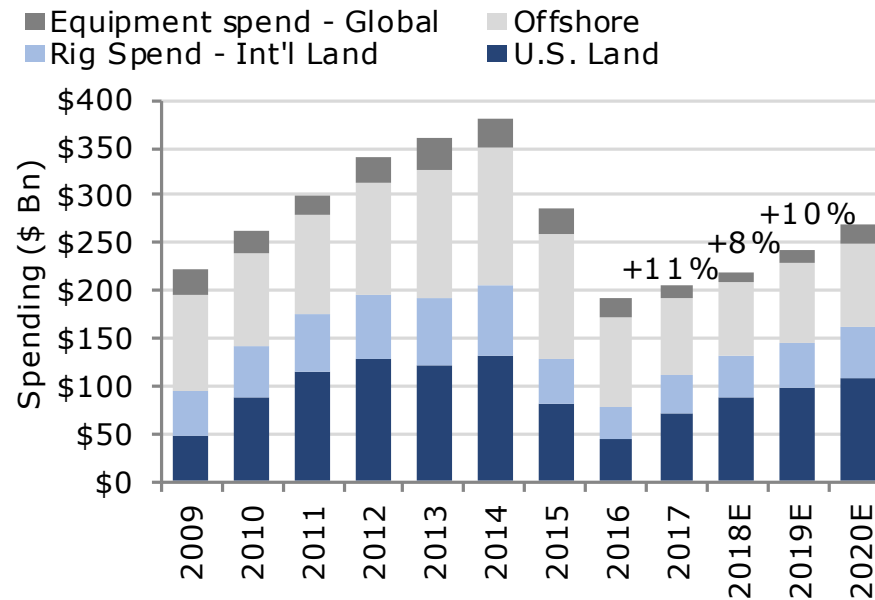
Together we'll go far



# We Forecast Multi-Year Growth In Global D&C Spending

- Based on our WTI price forecast of ~\$60, we forecast global D&C spending to increase 8% in 2018E and 10% in 2019E.
  - Lower 48 +23% In 2018E
  - Offshore 5-7% Decline In 2018E Following A 13-15% Decline in 2017
  - International Land +9% In 2018E

## **Global Drilling & Completion (D&C) Spending (\$Bn)**

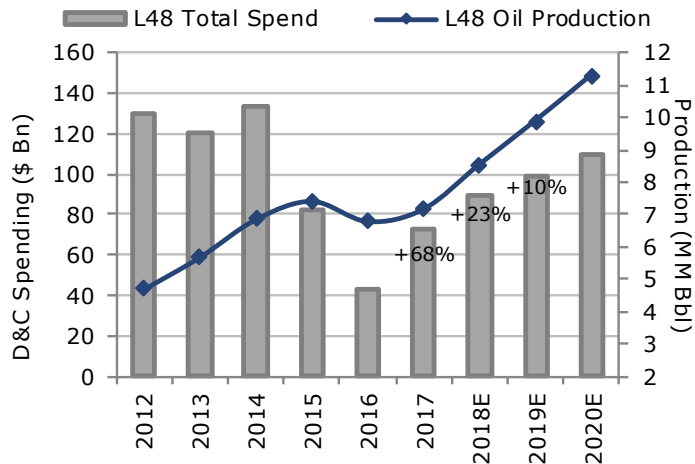


Source: Company filings, IHS, Wells Fargo Securities LLC estimates

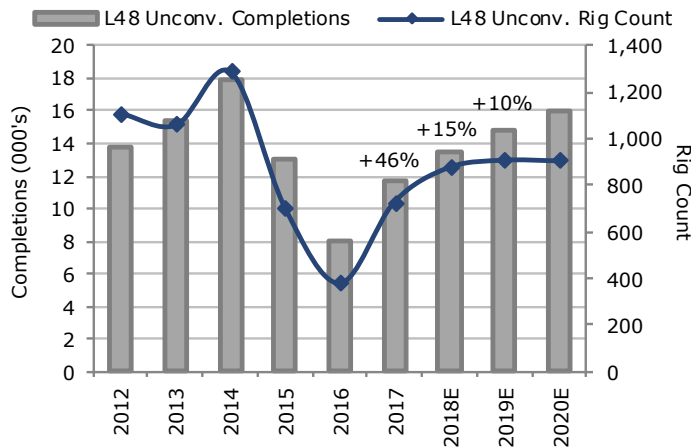
Includes content supplied by IHS Global, ©. IHS Global Insights (2018). All Rights Reserved.

# Lower 48 Macro Outlook

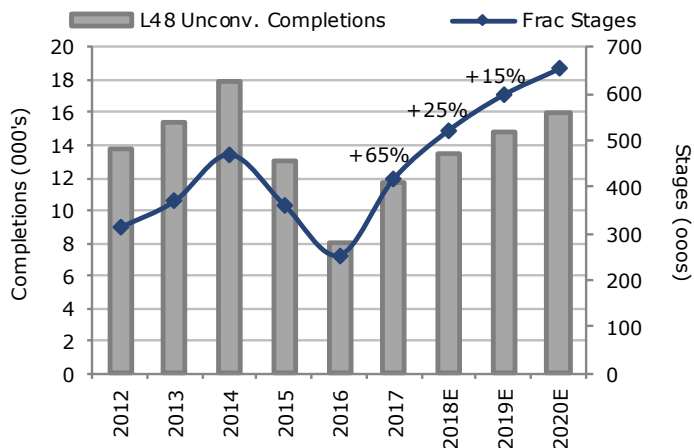
## Lower 48 D&C Spending



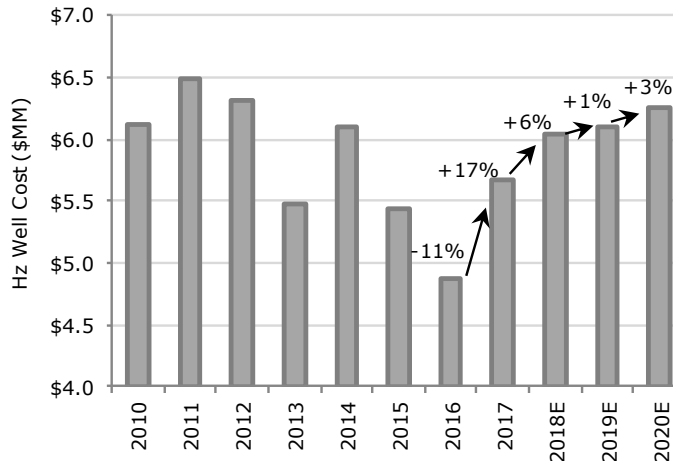
## Lower 48 Hz Completions and Rig Count



## Hz Completions and Stages

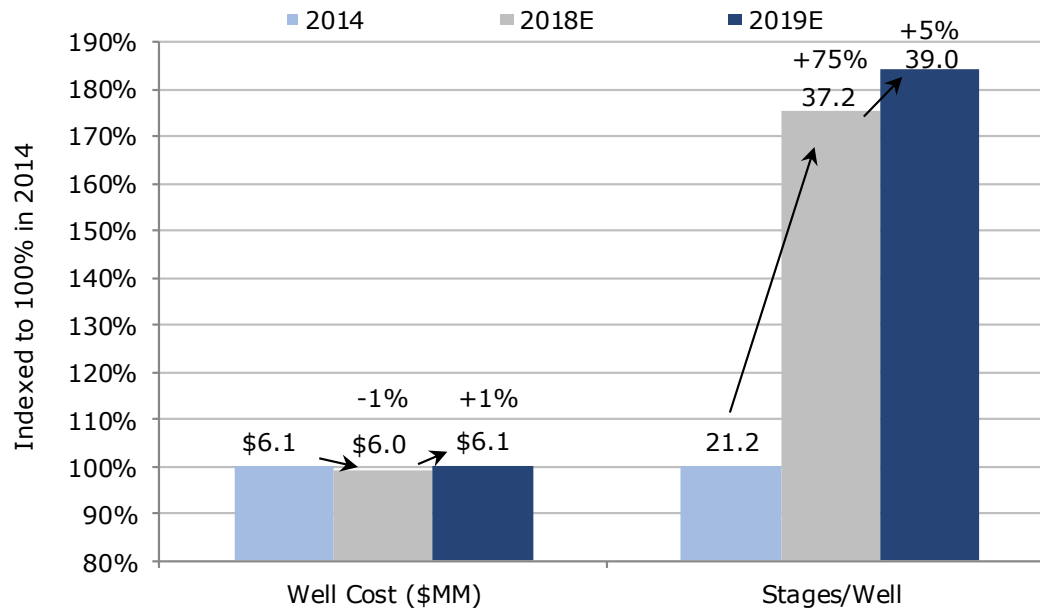


## Horizontal Well Cost



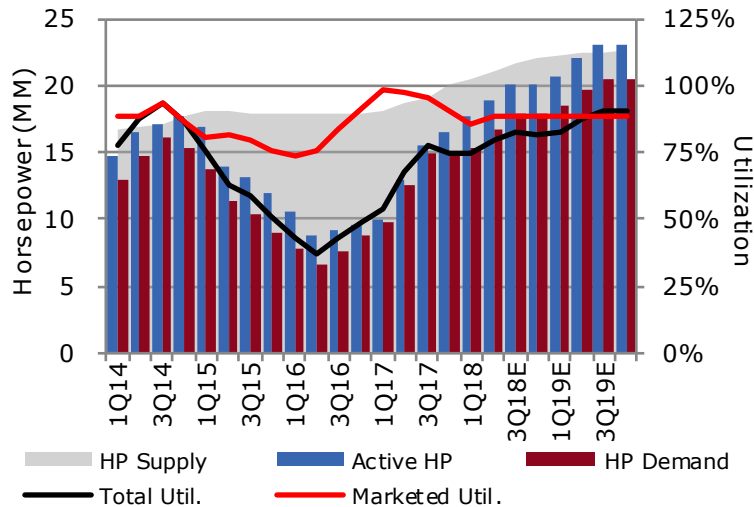
# Doing More With Less

**Estimated Horizontal Stage Count Vs Well Cost**

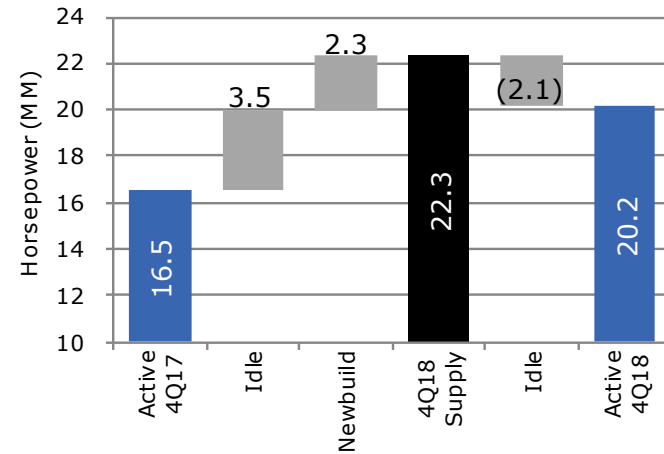


# Pressure Pumping & Land Drilling Market

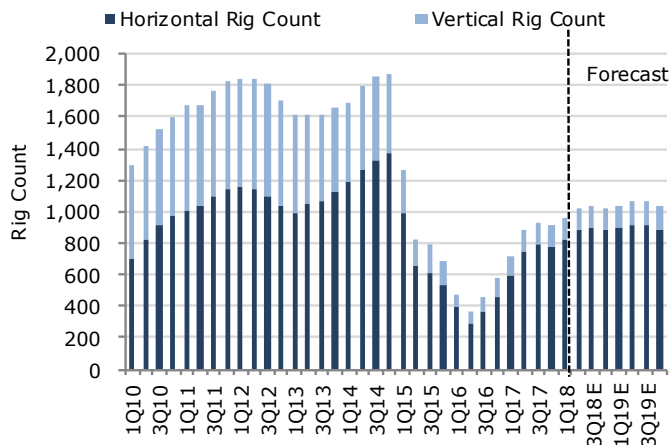
### Long Term S/D & Utilization (HP)



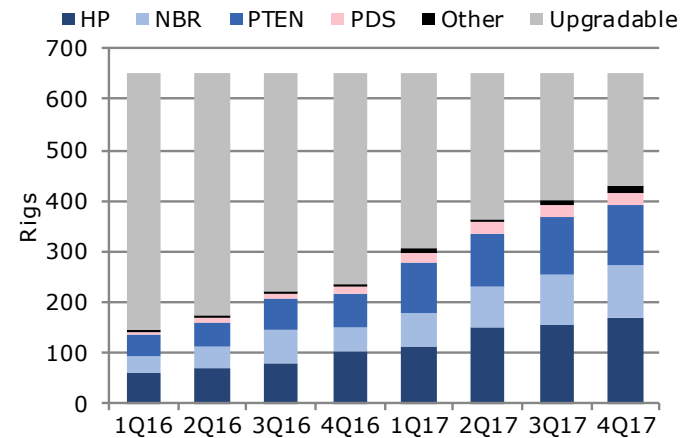
### 4Q17 To 4Q18 HP Bridge



### U.S. Land Rig Count

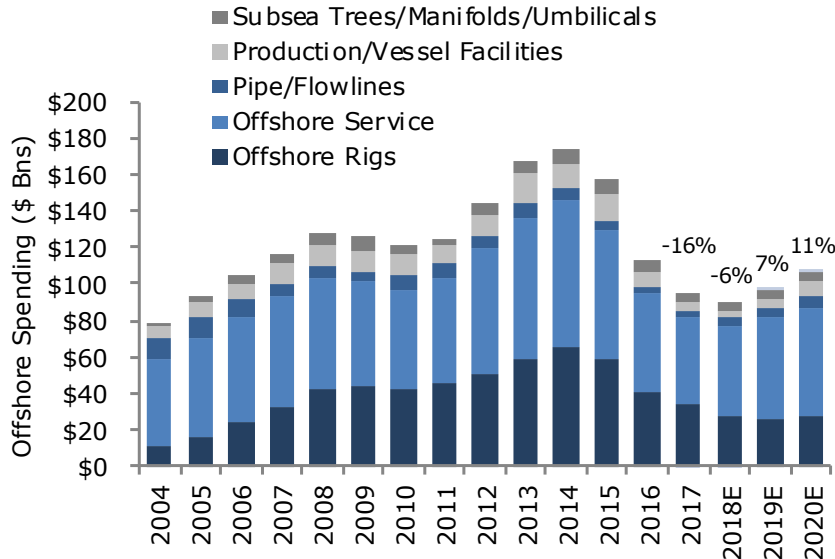


### Super-Spec Rigs By Contractor & Total Upgradable Rigs

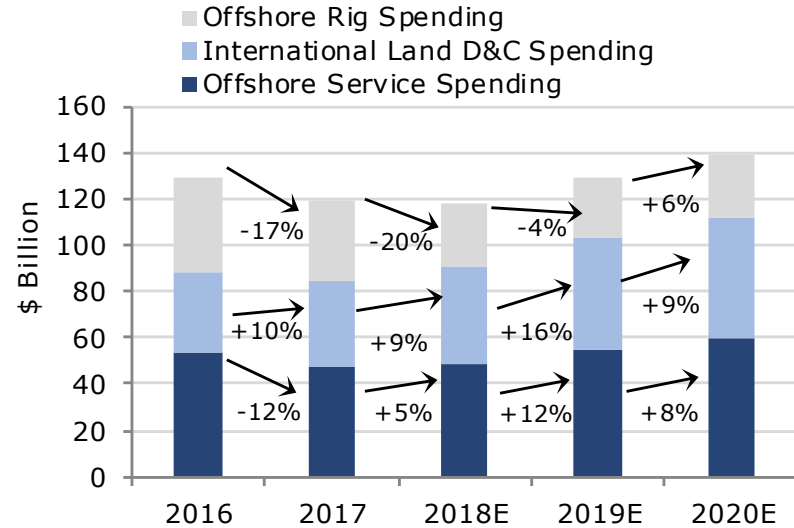


# Offshore Spending Forecast

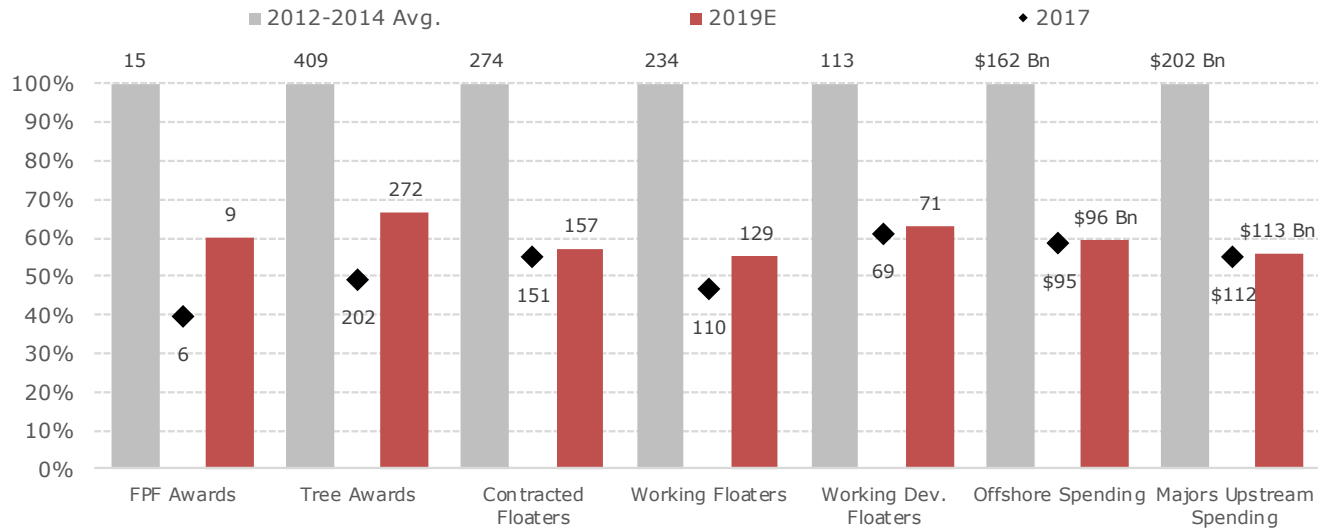
## Aggregate Offshore Spending Forecast



## International D&C Spending Breakout



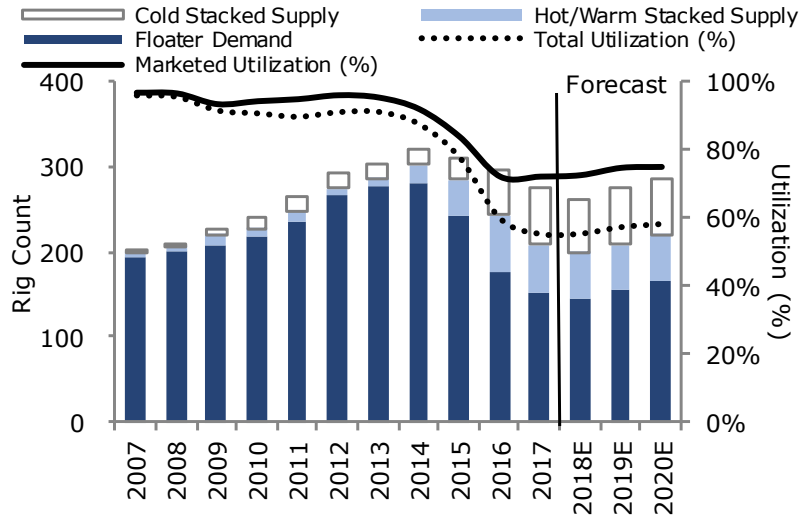
## 2019 Offshore Activity Forecast vs. 2012-2014 Averages



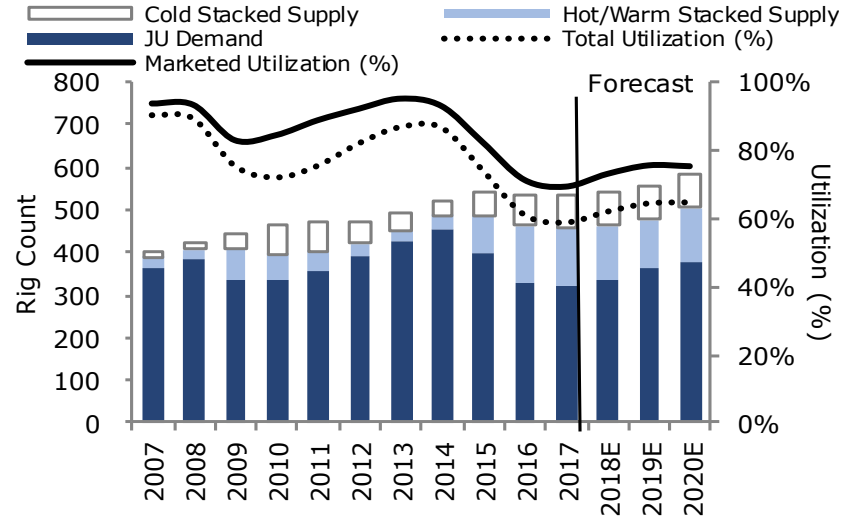
Source for all charts: Bloomberg, Wood Mackenzie, IHS, Wells Fargo Securities LLC estimates

# Subsea Tree And Offshore Rig Forecast

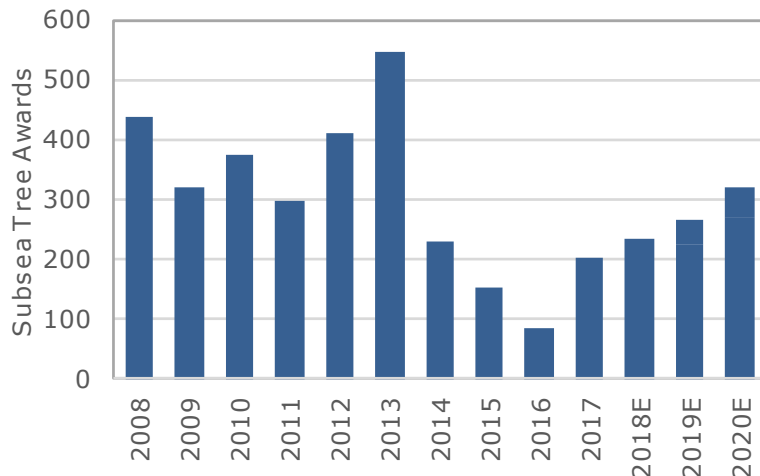
## Floater Supply/Demand Forecast



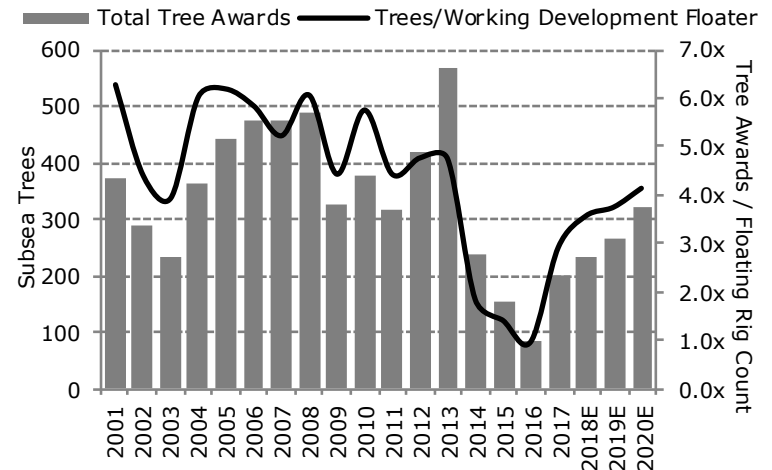
## Jack-up Supply/Demand Forecast



## Subsea Tree Award Forecast



## SS Tree Awards vs. Ratio of Tree Awards/Working Development Floaters



Source for all charts: Wood Mackenzie, IHS, Wells Fargo Securities, LLC estimates

# Required Disclosures

---

## Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions.

Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

## STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

## SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

## VOLATILITY RATING

V=A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: April 24, 2018

48% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.  
banking services for 41% of its Equity Research Outperform-rated companies.

Wells Fargo Securities, LLC has provided investment

50% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.  
banking services for 29% of its Equity Research Market Perform-rated companies.

Wells Fargo Securities, LLC has provided investment

2% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.  
banking services for 25% of its Equity Research Underperform-rated companies.

Wells Fargo Securities, LLC has provided investment



# Required Disclosures

---

## Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (“the Act”), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC’s research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited (“WFSAL”), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission of Hong Kong (“the SFC”) to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong), “the SFO”). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the SFC. Professional investors who receive this report should direct any queries regarding its contents to Mark Jones at WFSAL (email: wfsalresearch@wellsfargo.com ).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody’s Investors Services Inc., Standard & Poor’s Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies’ websites.

## About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority. This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. All Wells Fargo Securities research reports published by its Global Research Department (“WFS Research”) are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Additional distribution may be done by sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Not all research content is redistributed to our clients or available to third-party aggregators, nor is WFS Research responsible for the redistribution of our research by third party aggregators. For research or other data available on a particular security, please contact your sales representative or go to <http://www.wellsfargoresearch.com>. For the purposes of the U.K. Financial Conduct Authority’s rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2018 Wells Fargo Securities, LLC

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE