


## EXCITING CHANGES ARE COMING TO GREAT AMERICAN GROUP!

Soon, we will be changing our name in an effort to drive synergies across B. Riley's expansive platform to unlock incremental value for clients. Great American Group will become:

**B | RILEY** *Advisory Services*

New name. Broader platform. Same exceptional team.

GREAT AMERICAN GROUP

AUGUST 2020 

# Monitor

## Oil & Gas



VOLUME  
**324**

## LOW DEMAND PUTS DRILLING ON HOLD

### OPERATORS REDUCE CAPITAL SPENDING

Exploration and production companies put plans on hold amid low commodity prices brought on by COVID-19

### RIG COUNT FALLS TO RECORD LOW – AGAIN

Since May 8, 2020, the weekly U.S. drilling rig count has repeatedly hit a record low as operators pull back

### OIL PRICES RECOVER FROM DOLDRUMS

Oil prices creep up to \$40 per barrel after scraping the bottom in April 2020 due to COVID-19 economic impacts

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MONITOR OIL & GAS  
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Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

# Trend Tracker

	Trends (Versus Prior Monitor Published in May 2020)
NOLVs	Decreasing ▼
Sales Trends	Decreasing ▼
Gross Margin	Consistent —
Inventory	Decreasing ▼



- **NOLVs:** NOLVs decreased due to negative sales trends and a higher weeks of supply. Additional discounts have also been observed due to an oversupply of inventory in the marketplace, restrained capital spending among many buyers, and uncertain market conditions.
- **Sales Trends:** Sales decreased due to unfavorable market conditions as global oil and gas demand declined as a result of the COVID-19 pandemic. Lower demand caused rig counts and active frac fleets to fall to historic lows and led many exploration and production (“E&P”) companies to focus on capital discipline and cash-flow generation. Less oilfield activity led to reduced consumption of related inventory and equipment.
- **Gross Margin:** Gross margins largely remained consistent as companies worked to reduce costs in a price-sensitive environment.
- **Inventory:** Inventory levels have decreased as companies work to closely match inventory levels to current market demand by producing or purchasing inventory to meet actual orders rather than desired stock levels.



# Overview

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Driven by demand destruction brought on by the COVID-19 pandemic, the U.S. drilling rig count for oil and natural gas fell to a record low of 374 rigs for the week ended May 8, 2020 – then reached consecutively weekly lows over the next several weeks. By August 7, 2020, the count had fallen to a new record low of 247 rigs, which represents a decrease of approximately 60% since March. Although the weekly rig count continues to decline, the recent decreases are relatively small versus the large reductions that occurred from late March to mid-May, potentially signifying a more stable market ahead.

The ongoing pandemic has resulted in drastic reductions in worldwide demand for oil. Efforts to contain and limit the spread of the novel coronavirus, which originated in Wuhan, China, have resulted in nearly vacant office buildings, slumping air travel, and large reductions in traffic as workers shelter in place. Demand for fossil fuels has inched upward as the economy partially reopens in the U.S. and elsewhere in recent months. However, concerns about a potential second wave of the virus have limited or postponed economic activities in the U.S. and various other countries.

Prior to the pandemic, capital spending by oil and natural gas E&P companies was already expected to decline. The collapse of commodity prices brought on by coronavirus market dislocations forced further reductions to E&P capital budgets during the first half of 2020. Spending is expected to remain at depressed levels throughout the rest of the year as operators work to optimize cash flow and manage liquidity in an increasingly constrained capital market. Overall reductions in capital spending are likely to persist until a more favorable supply-and-demand balance arises.

The average price of West Texas Intermediate (“WTI”) crude oil, the U.S.’s benchmark grade of crude oil, sank to \$16.55 per barrel in April 2020, a 71% decrease versus January 2020, leaving operators little incentive to drill for oil. Since then, production curtailments, decreased E&P capital spending, and improving demand fundamentals have driven a recovery in crude prices to approximately \$40 per barrel.

The U.S. Energy Information Administration (“EIA”) expects the price of WTI to remain around \$40 throughout the remainder of 2020, which is not high enough to provide adequate returns and could spur more industry bankruptcies, which are on the rise. The price of WTI is expected rise to \$50 per barrel by the end of 2021 as inventories decline.

According to the EIA, global liquid fuels inventories rose at a rate of 6.4 million barrels per day (“b/d”) in the first half of 2020. In contrast, the EIA expects inventories to decline at a rate of 4.2 million b/d in the second half of 2020 before declining by 0.8 million b/d in 2021. The declines are partially dependent on the Organization of Petroleum Exporting Countries (“OPEC”) and a handful of other oil-producing nations, collectively referred to as OPEC+, adhering to an agreement the group reached earlier this year to reduce oil production in order to stabilize oil prices. The forecast is also somewhat dependent on whether U.S. operators can fight the temptation to increase production as oil prices gradually rise. Some analysts expect higher oil prices to result in U.S. operators adding rigs near the end of the year. The EIA expects U.S. crude oil production to average 11.3 million b/d in 2020 and 11.1 million b/d in 2021, which represent decreases versus 12.2 million b/d in 2019. Somewhat muddling the aforementioned forecasts is the uncertain status of the Dakota Access Pipeline, an underground oil pipeline that runs from North Dakota to Illinois. On July 6, 2020, a U.S. district court ordered the pipeline temporarily closed. However, a U.S. appeals court later overturned the lower court decision, allowing the pipeline to remain operational during ongoing litigation. The EIA’s latest estimates assume the pipeline’s continued operation.

The price of natural gas has undergone less drastic declines than oil during the pandemic, as prices were already relatively low due to high production levels resulting from growing drilling efficiencies even as drilling activity fell. However, the economic difficulties resulting from the COVID-19 pandemic are expected to lead to a decline in natural gas production and a focus on optimizing cash flows.

# Rig Counts

## U.S. RIG COUNT - AUGUST 7, 2020

	Current Week	Weekly Change	Prior Week	12-Month Change	12 Months Prior
<b>Location</b>					
Land	235	(4)	239	(674)	909
Offshore	12	0	12	(13)	25
Total	247	(4)	251	(687)	934
<b>Type</b>					
Oil	176	(4)	180	(588)	764
Gas	69	0	69	(100)	169
Miscellaneous	2	0	2	1	1
Total	247	(4)	251	(687)	934
Directional	24	2	22	(41)	65
Horizontal	211	(5)	216	(606)	817
Vertical	12	(1)	13	(40)	52
Total	247	(4)	251	(687)	934
<b>State</b>					
Alaska	3	0	3	(5)	8
California	4	0	4	(14)	18
Colorado	5	0	5	(27)	32
Louisiana	29	0	29	(30)	59
New Mexico	46	(3)	49	(63)	109
North Dakota	11	0	11	(36)	47
Ohio	6	0	6	(9)	15
Oklahoma	11	0	11	(75)	86
Pennsylvania	20	0	20	(17)	37
Texas	104	0	104	(350)	454
Utah	0	0	0	(7)	7
West Virginia	5	0	5	(15)	20
Wyoming	1	0	1	(35)	36

	Current Week	Weekly Change	Prior Week	12-Month Change	12 Months Prior
<b>Major Basins</b>					
Ardmore Woodford	1	0	1	(4)	5
Arkoma Woodford	0	0	0	(3)	3
Barnett	0	0	0	(1)	1
Cana Woodford	6	0	6	(39)	45
DJ-Niobrara	4	0	4	(25)	29
Eagle Ford	11	(1)	12	(55)	66
Granite Wash	1	0	1	(3)	4
Haynesville	32	0	32	(18)	50
Marcellus	25	0	25	(31)	56
Mississippian	0	0	0	(2)	2
Permian	122	(2)	124	(322)	444
Utica	6	0	6	(9)	15
Williston	11	0	11	(36)	47

Source: Baker Hughes

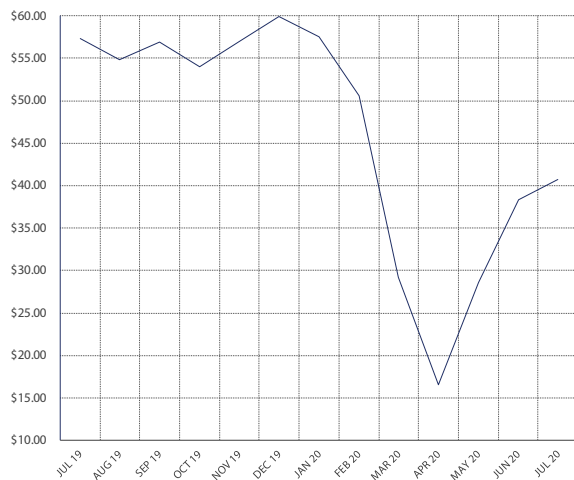
The U.S. drilling rig count for the week of August 7, 2020 totaled 247 rigs, which represents decreases of four and 687 units versus the prior week and year, respectively. Driven by demand destruction caused by the ongoing COVID-19 pandemic, the rig count reached a record low for the week ended May 8, 2020. Since then, with the exception of a two-week period when the count remained flat, the count has reached consecutive record lows on a weekly basis.

Oil rigs decreased four and 588 units versus the prior week and year, respectively, while natural gas rigs remained flat and decreased 100 units versus the prior week and year, respectively.



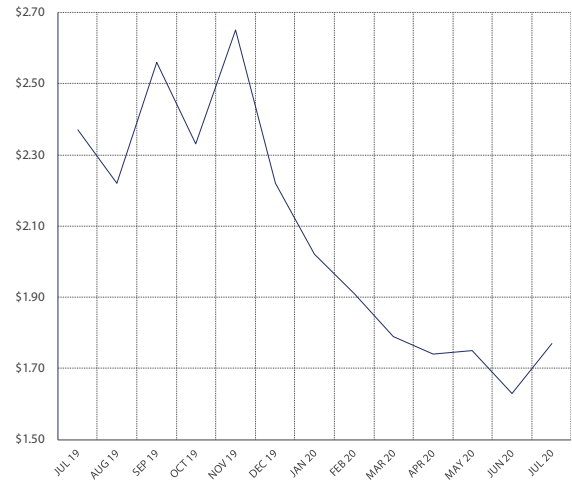
# Oil and Natural Gas Prices

**1** Average Monthly WTI Crude Oil Prices  
July 2019 to July 2020 (\$ Per Barrel)



Source: EIA

**2** Average Monthly Henry Hub Natural Gas Prices  
July 2019 to July 2020 (\$ Per MMBTU)



Source: EIA

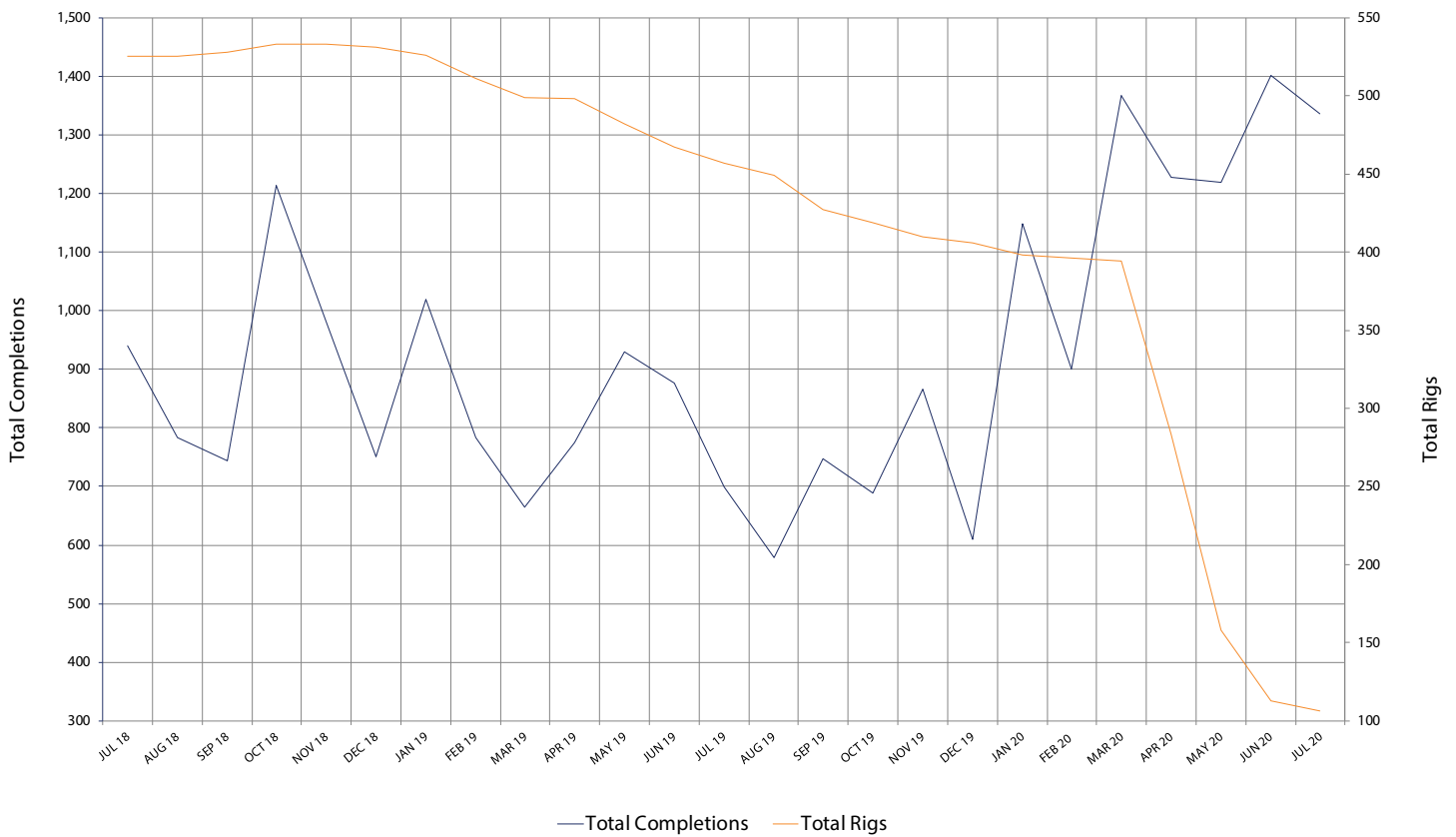


# Texas Drilling Activity

Oil and gas completions in Texas, the U.S.'s largest oil-producing state, have largely trended upward 2020, despite occasional month-to-month decreases. The overall upward trajectory comes despite a steep dropoff in drilling activity, as E&P companies continue to reduce capital expenditures in the face of the ongoing coronavirus pandemic, which has resulted in reduced energy demand.

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## Texas - Total Completions versus Rigs July 2018 to July 2020



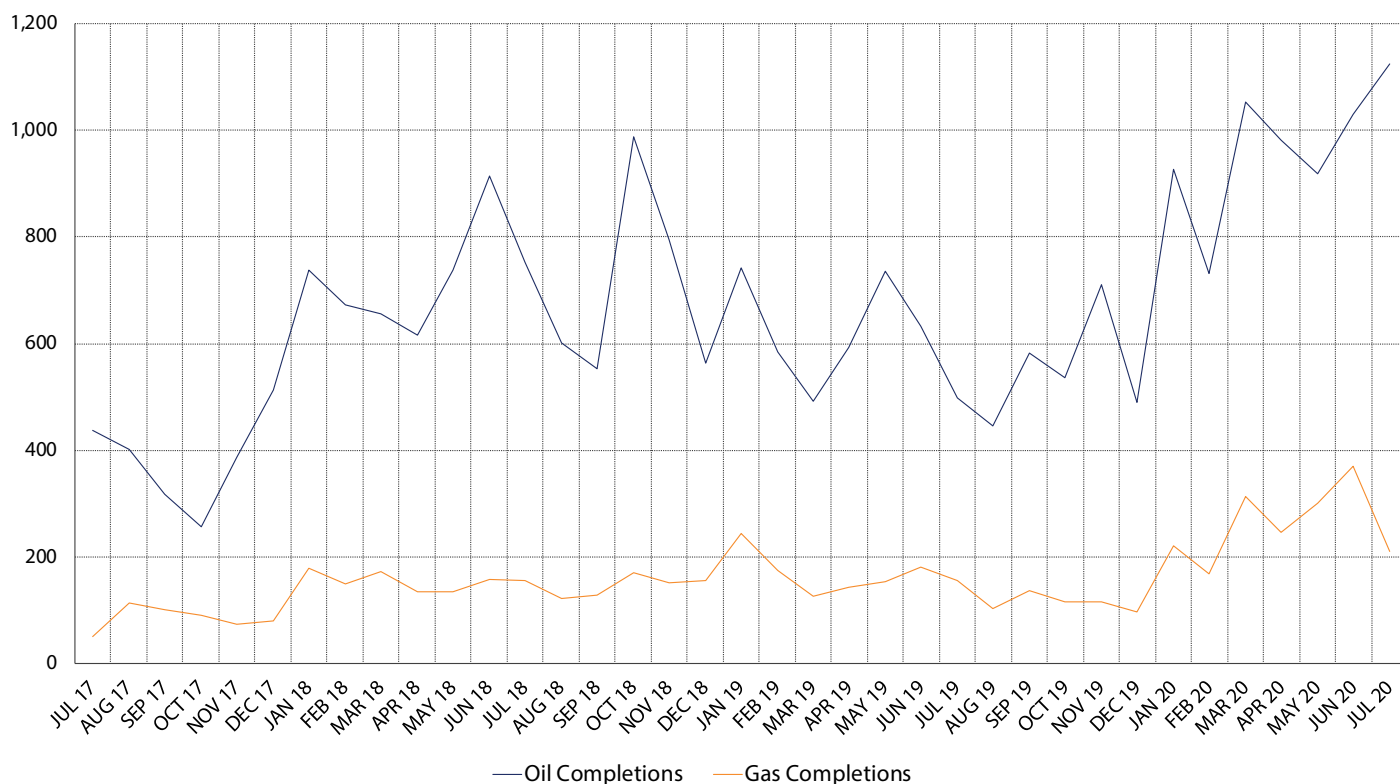
Source: Railroad Commission of Texas



# Texas Drilling Activity

Overall Texas completions have trended upward since the start of 2020, although completions have been mixed on a monthly basis since then. The trend for natural gas completions has largely mirrored the trend for oil completions, although on a smaller scale. However, in July 2020, oil completions increased while natural gas completions decreased on a month-to-month basis.

## 4 Texas - Oil versus Gas Completions July 2017 to July 2020



Source: Railroad Commission of Texas





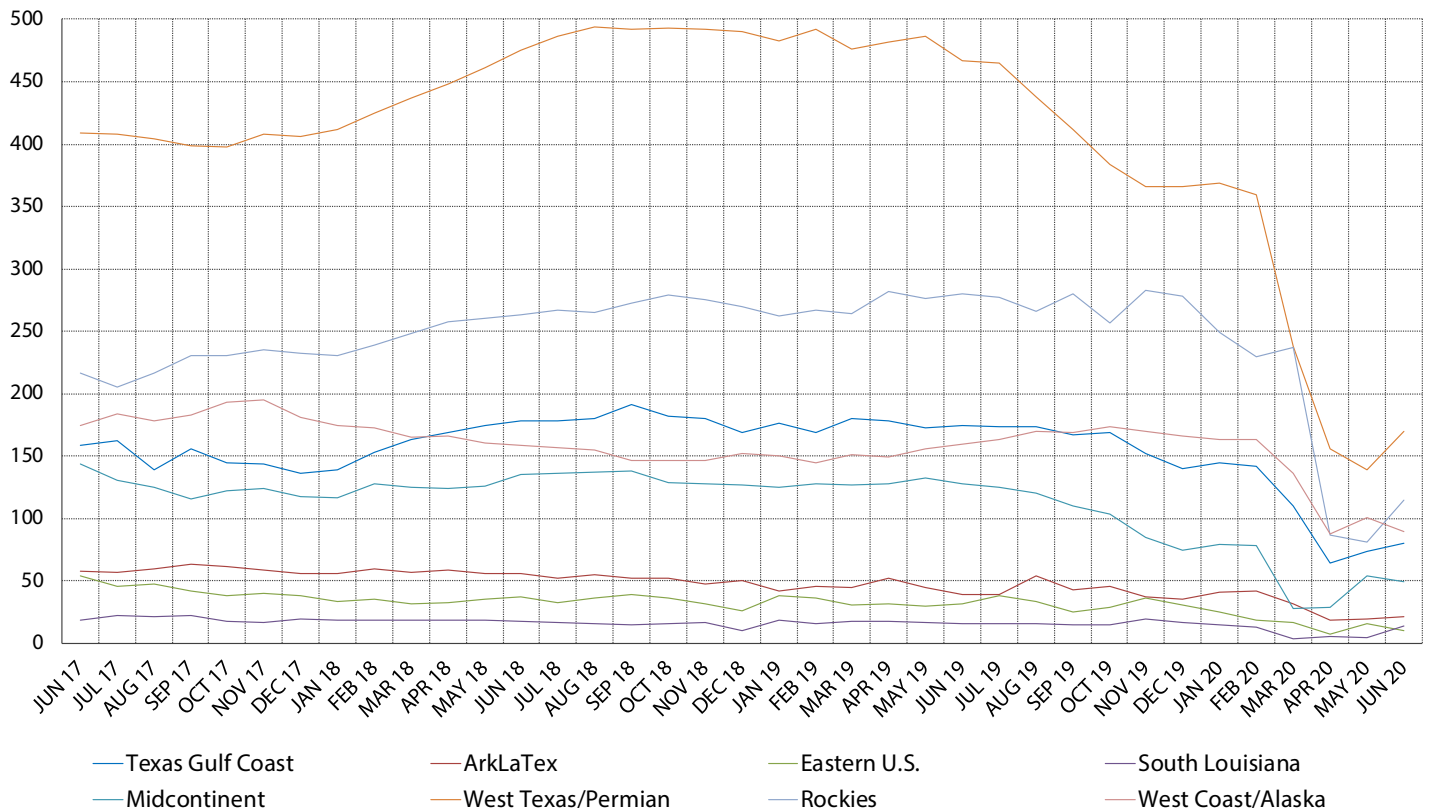
# Well Service Rigs

The well service rig count has declined for all major U.S. oil- and gas-producing regions since January 2020, with most registering significant decreases. However, five of the eight regions registered increases from May to June 2020.

The West Texas/Permian Basin region has undergone significant declines since the start of the year. The region accounted for approximately 30% of the count in June 2020, down from 36% in June 2019.

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Active Well Service Rigs  
June 2017 to June 2020



Source: Association of Energy Service Companies



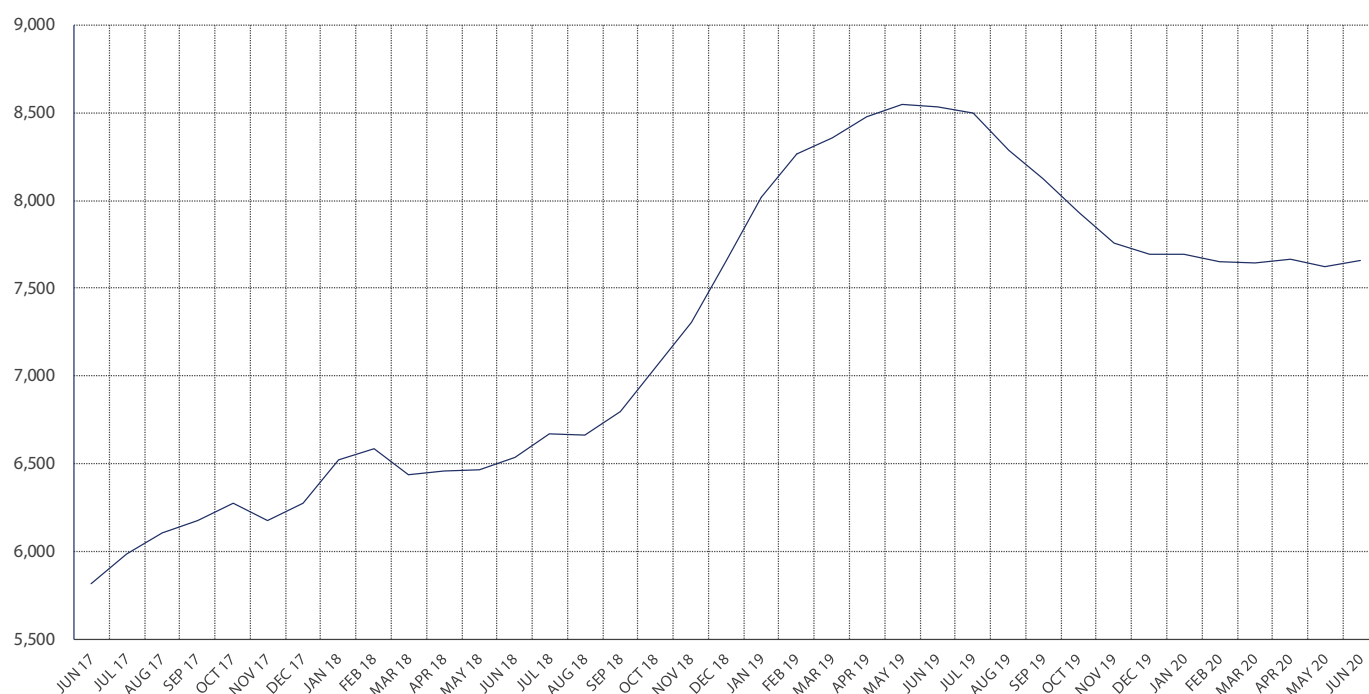
# Drilled But Uncompleted Wells

The number of drilled but uncompleted wells (“DUCs”) plateaued in mid-2019 before steadily declining through the second quarter of 2020, reversing a nearly three-year trend of regular increases.

The abrupt decrease in completions since the fourth quarter of 2019 continues to follow the ongoing rig count decline and has served to flatten the DUC count, especially relative to the drilling and completion activity declines. DUCs remain concentrated in Texas, with the Permian and Eagle Ford basins accounting for approximately two-thirds of the overall U.S. count.

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## Drilled But Uncompleted Wells June 2017 to June 2020



Source: EIA



# Monitor Information

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GA's *Oil & Gas Monitor* relates information covering the oil and gas sectors, including industry trends and their relation to our valuation process. Due to the dynamic nature of the oil and gas industry, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

## Experience

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GA has worked with and appraised a number of companies within the oil and gas industry. GA has built a quality team to deliver both tangible and intangible valuations across the oil and gas platform.

**GA's extensive experience includes valuations across a broad range of assets, as well as a variety of services, including:**

### **Machinery, equipment, and other inventory valuations**

- Pressure pumping units
- Drilling and well service equipment
- Frac tank rental/manufacturing
- Well logging tools
- Pipeline equipment
- Compression equipment
- Rental tools
- Transportation assets
- Wire line services
- Saltwater disposal wells
- Valves
- Tubular goods

### **Corporate Advisory Services**

- Fairness Opinions and Solvency Opinions
- Buy-side, Sell-side, and Merger advisory services
- Deal Screening and Target Identification
- Quality of Earnings analysis and reports
- Market-sizing and commercial due diligence
- Operational, financial, and technical due diligence
- Complex financial modeling
- 100-day operating plans
- Interim management (CEO/CFO/CRO/COO)
- Transaction Support ("arms and legs")

# Experience

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## Valuation Services

- Fair Value Measurements & Disclosures (ASC 820)
- Intangibles, Goodwill and Other (ASC 350)
- Business Combinations (ASC 805)
- Derivatives & Hedging (ASC 815)
- Financial Instruments (ASC 825)
- Long-lived asset impairment (ASC 360)
- Stock Compensation (ASC 718)
- Property transferred for services (IRC 83 (b))
- Stock purchases treated as asset acquisitions (IRC 338)
- Compensation (IRC 409A)
- Transfer Pricing (IRC 482)

**In addition, GA maintains experts within the oil and gas industry, such as Jon Donnel, Dan Daitchman, and Taylour Bennett.**

Jon Donnel, based in Houston, Texas, serves as Managing Director of Oilfield Services with B. Riley Financial's Great American Group, specializing in oil and gas company appraisals and asset valuations. With over 20 years of experience across the energy sector value chain, Jon has held corporate roles for oilfield service and integrated oil and gas companies, as well as finance positions for an energy-focused investment bank and an accounting firm specializing in litigation support services. Prior to joining the firm, Jon was director of investor relations at Weatherford International, an integrated oilfield services provider with operations in over 80 countries, as well as a director of equity research at Scotia Howard Weil where he covered over 50 companies across the oilfield services and utility sectors. He previously held roles in downstream investment appraisals and upstream financial planning and budgeting with ConocoPhillips. Jon earned both his MBA and BA in Economics and Managerial Studies from Rice University.

Dan Daitchman is a Director in Great American Group's Corporate Advisory & Valuation Services practice. He has over 12 years of financial advisory and consulting experience helping clients resolve complex financial issues. He specializes in transaction and advisory services related to enterprises, derivatives, fractional equity interests, pre-deal diligence, and intangible assets. These services are used for strategic planning, transaction financing, financial statement reporting, capital raising, tax, litigation, bankruptcy, fairness opinions, solvency opinions, and merger and acquisition advisory. Prior to joining Great American Group, Dan spent four years as a financial analyst with Hilco Valuation Services and one year as an analyst in the Alternative Investment Products group at US Bancorp. Dan earned his BS in Finance and Real Estate from Marquette University and an MBA in Finance from DePaul University. He is also an Accredited Senior Appraiser with the American Society of Appraisers.

Taylour Bennett has valued more than \$2 billion in assets and businesses, providing valuation, advisory, and litigation services to clients. Throughout his career, Taylour has specialized in valuing and providing services to firms within the energy complex. Taylour is actively involved in Young Professionals in Energy and is working toward his designation as an Accredited Senior Appraiser, and as a Chartered Financial Analyst. Prior to joining Great American Group, Taylour served as a finance intern at Chick-Fil-A. Taylour received his BA and MS in Finance from Texas Tech University.



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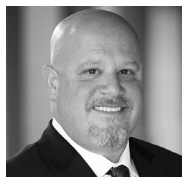
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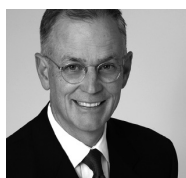
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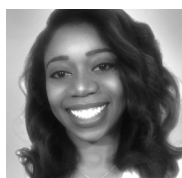
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# About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Oil & Gas Monitor*, GA also provides clients with industry expertise in the form of monitors for the construction and transportation, chemicals and plastics, metals, food, and building products sectors, among many others. For more information, please visit [www.greatamerican.com](http://www.greatamerican.com).

Great American Group, LLC is a wholly-owned subsidiary of B. Riley Financial, Inc. (NASDAQ: RILY). B. Riley Financial provides collaborative financial services and solutions tailored to fit the capital raising and financial advisory needs of public and private companies and high net worth individuals.

The company operates through several wholly-owned subsidiaries, including B. Riley FBR, a full-service investment bank and institutional brokerage; Great American Group, a leading provider of asset disposition, appraisal, corporate advisory and valuation services; GlassRatner, a specialty financial advisory services and consulting firm; B. Riley Wealth Management, providing comprehensive wealth management services to individual and corporate clients; B. Riley Capital Management, which offer investment management to institutional and high net worth investors; and B. Riley Principal Investments, which invests in or acquires companies and assets with attractive return profiles.



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