Oil and Gas Workforce Bears the Brunt of Falling Crude Prices

By CHRIS FREVERT
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Survey Results Pinpoint Rate Reductions and Decrease in Work Volume for Oilfield Service Companies

Since January 2015, almost half of oilfield service company owners have seen work volumes decrease by more than 25 percent, and nearly 60 percent are bracing for further reductions according to a survey of owners and C-level executives of privately-held U.S. companies conducted in August by Citadel Advisory Group, a boutique investment banking firm serving oil and gas related industries. Over 75 percent of respondents have reduced rates by over 10 percent, and nearly 60 percent anticipate further rate reductions as the industry attempts to counter falling oil prices.

> ***"There is no more to give."***
>
> ***– A Niobrara completions company***

Temporary Optimism Wanes

Chris Frevert, managing director of Citadel, commented, "The early summer WTI head-fake above $60 provided some temporary optimism to many people in the business. We wanted to see if the current down-leg into the $40 range was putting additional pressure on service providers, and if so, how much and what was being done to weather the storm."

Survey Reveals Deep Cuts

When Citadel's first survey was conducted in February 2015, there was still a group of service companies (nearly 8 percent) that had not felt the effects of the downturn. As of August, all respondents had seen pricing decreases and nearly 60 percent expected more to come. A similar trend was seen in work volume.

Owners Voice Frustrations

The written comments by respondents reveal frustration and fatigue. They ranged from "I am proactively guiding my ship to as soft of a landing as possible. This feels like the summer of 1986" from a respondent in the Eagle Ford, to "I think our government needs to pay more attention to the U.S. oil and gas industry and do everything in their power to maintain a more stable market..." from a Marcellus Basin respondent.

An Uncertain Future

One question asked was "In your opinion, where do you anticipate the price of WTI to be on December 31, 2015?" Over 80 percent of respondents believe the price will be less than $55 per barrel, a somber contrast to responses in Q1 when the majority anticipated prices over $56 per barrel. Oil was trading at $45 at the close of the survey period.

"Oilfield service company owners are resilient. They have the knowledge and determination to ride this out."

– Chris Frevert, Citadel

"Any optimism that oil will make any meaningful recovery by year-end seems to be fading quickly for those in the trenches," Frevert remarked.

Respondents Represent Cross-section of OFS

As with the first survey, approximately 70 percent of the respondents have been in business for more than 10 years. "Most of these folks have been here before and have the knowledge and determination to ride this out," said Frevert.

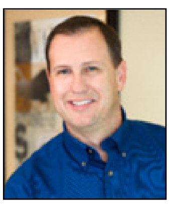
"Until this dreadful Iran deal was negotiated, I was expecting $75-$80 oil at year end!."

– Survey respondent from Eagle Ford area

In addition to questions about company demographics such as basin focus, revenue, and workforce size, the survey also assessed company-driven cost reduction strategies and the end result of price reduction negotiations.

Down but Never Out

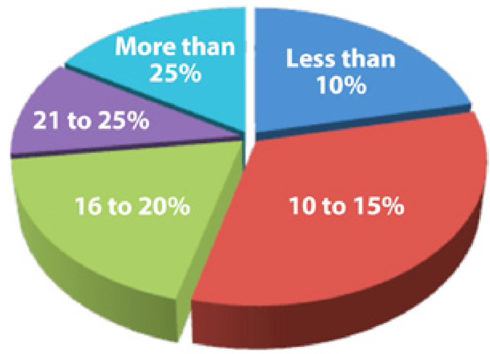
"This mid-year survey was a follow-up to our Q1 survey which shared the price reductions owners were being asked for and how deep costs were being cut. This time around clients and colleagues wondered where and when would we find the bottom, and what could company owners do to weather the storm," explained Frevert. "Oilfield service company owners are resilient. They have the knowledge and determination to ride this out." Frevert concluded.



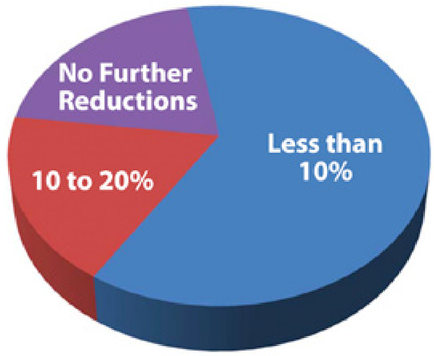
***ABOUT THE AUTHOR**: Chris Frevert has over 20 years of experience in mergers and acquisitions, corporate finance, investment banking and client advisory services. He is widely known as an industry expert in oilfield-related mergers and acquisitions with a particular emphasis on energy service companies, and is a member of the Alliance of Merger & Acquisition Advisors (AM&AA). Chris is also the president of Caroden Energy, an independent O&G company with operations in Central Kansas, and he holds the Series 7, 66, and 79 licenses.*

***ABOUT THE COMPANY**: Citadel Advisory Group is an investment banking firm specializing in oil and gas service companies, and those that manufacture into that space. With countless oil & gas transactions and advisory engagements, Citadel's team remains focused on the energy services sector.*

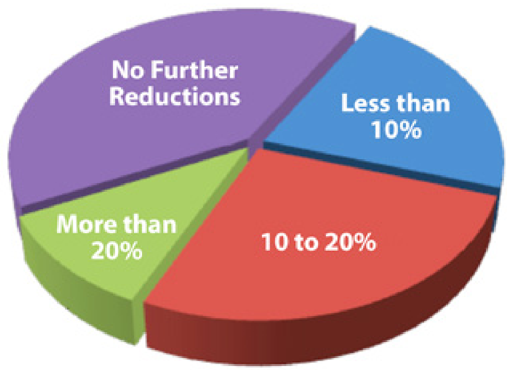
Rate Reduction Negotiated by Top 3 Customers



Further Rate Reductions Expected by Top 3 Customers



Work Volume Reduction Expected in Coming Months



Workforce Reduction January-July