



# THE WELL STREET JOURNAL

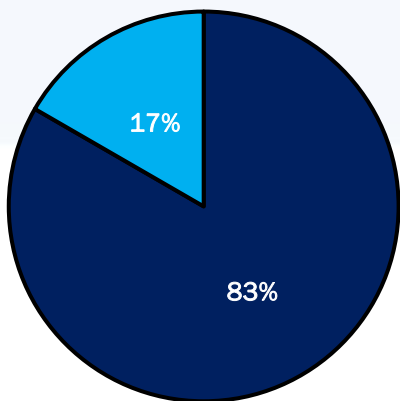
Oilfield Services and Industrial Deep Dive  
2020 | Q1 Report

# Q1 | Overview

While we've all heard the saying, "Misery loves company" – it's hard to imagine any degree of comfort being gained from COVID's impact around the world. While it's safe to say, we're all in this together – the detriment to the energy industry has been exasperated by the price war that took place between Saudi Arabia and Russia in early March. Today, we're witnessing record production shut-ins to combat unprecedented rapidly rising storage levels. How long this lasts is anyone's guess, but if there is a silver lining to this story – it's that this too will pass. The survivors coming out of this environment will be in a much stronger competitive position than only a few short months ago.

The first quarter of 2020 started off modestly higher than the comparative period of 2019 with rig counts being over 10% higher for the first 2 months of the year. However, this was short lived as rig counts drastically fell off year over year once the price war kicked in on March 8. By the end of Q1, rig counts in Canada were down by ~40% versus the end of Q1 2019. With global demand for crude forecasted to drop by upwards of 20% in Q2, the outlook for energy and oilfield service companies remains bleak in the near term.

As demand has fallen off from the impact of COVID, WTI and WCS prices have plummeted in the quarter, resulting in operators in both Canada and the U.S. reacting quickly, shutting in production, decreasing capital budgets significantly and preserving liquidity on the balance sheet. As they say, the best cure for low oil prices is low oil prices. We're watching that theory play out in real time.



■ Industrials ■ Oilfield Services

As for oilfield and industrial M&A transactions during the quarter, Q1 2020 saw 72 disclosed transactions with either a Canadian target or buyer. Not surprisingly, most of the transactions that occurred during the quarter took place in January and February with limited deal volume in March. Of those 72 transactions, 17% were specific to the oilfield services sector compared to 9% in Q4 2019. That said, 72 transactions for Q1 2020 represented a 22% quarter over quarter decrease from the 92 transactions seen in Q4 2019 and a 27% decrease from the 99 transactions in Q1 2019.

# Transactions in the Quarter

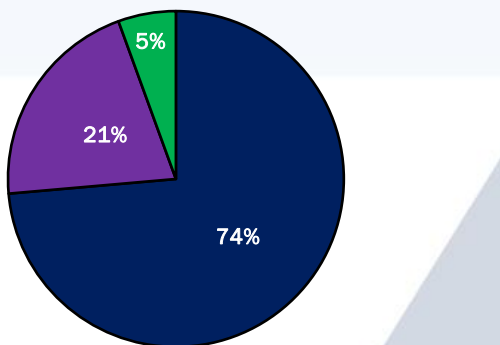
Of the noted transactions in the quarter with either a Canadian buyer or target, 26% of target companies were located in Western Canada and 14% of those targeted companies were based in Alberta. Strategic purchasers were the most active buyers, participating in 74% of transactions while financial backed strategic purchasers accounted for 21% of the activity in the quarter.

Notable oilfield services transactions in the quarter included Curtiss-Wright Corporation's acquisition of Dyna-Flo Control Valve Services Ltd., Frac Shack's acquisition of Sandtinel Group of Companies, and The Industrialization & Energy Services Company's (TAQA) acquisition of Cougar Drilling Solutions Inc.

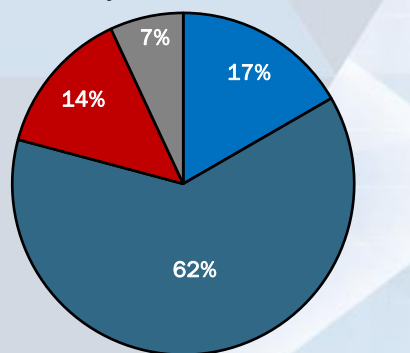
### Target Location



### Buyer Type



### Buyer Location



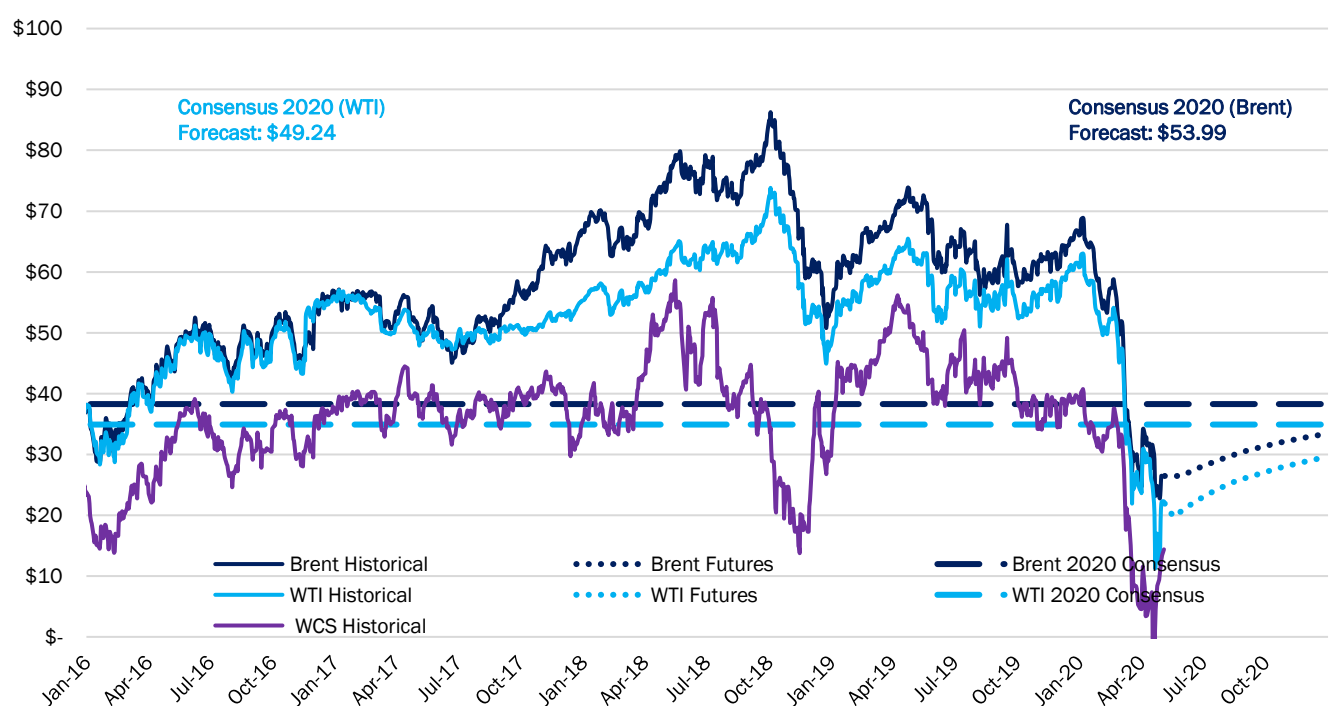
■ Strategic Buyer 
 ■ Financial Backed Strategic 
 ■ Financial Buyer

■ Western Canada 
 ■ Eastern Canada 
 ■ USA 
 ■ International

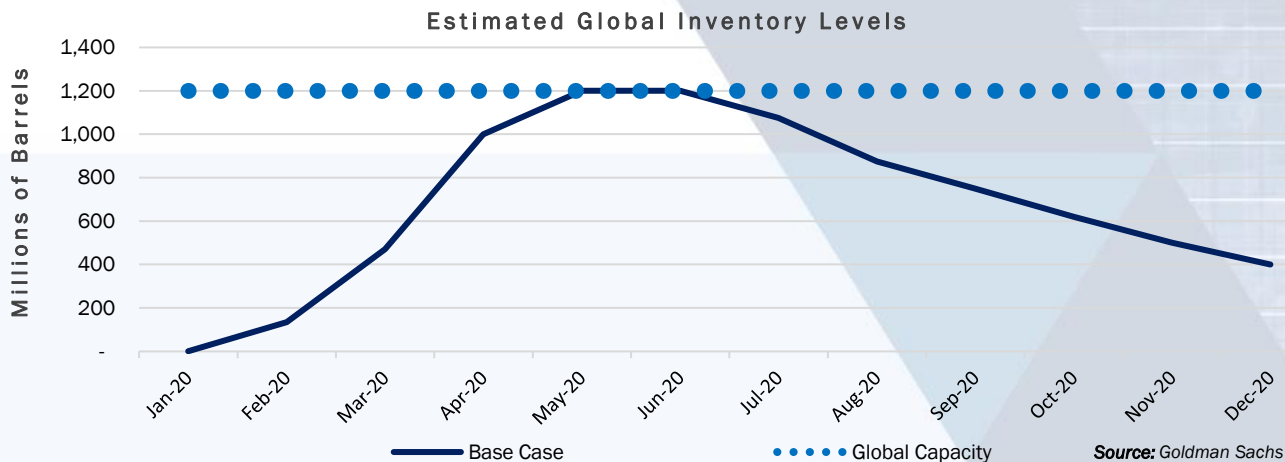
# Commodity Pricing and Analyst Forecasts

With much of the world under varying levels of lockdown measures, we saw a sharp decline in global oil prices following a slight increase seen in Q4. During Q1, Brent and WTI benchmarks decreased by a staggering 59% and 70% versus Q4 2019. In a historical first, WTI traded below \$0 as a result of a lack of storage capacity and an overwhelming oil surplus, compounded by the effects of the binding constraints of trading commodity futures near expiration.

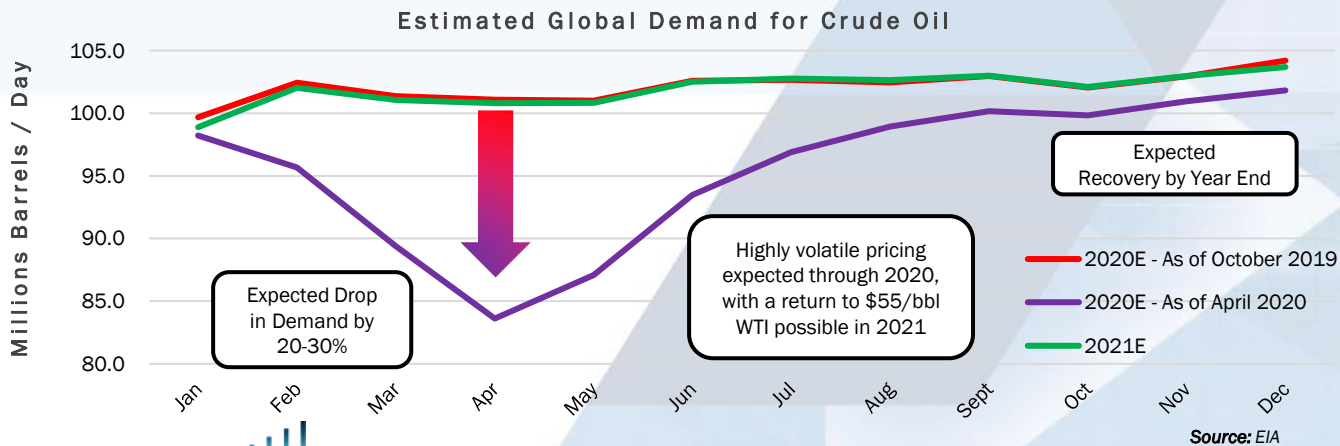
In Canada, the key WCS benchmark reflected these same challenges and has hit record lows declining 78% from the previous quarter end. As we well know in Canada, WCS trades at a discount to WTI. Land locked benchmark crudes have been more susceptible to discounts due to limitations on storage access. Unfortunately, the challenges facing Canada's energy industry, predominantly egress constraints, are being further highlighted during this pandemic. Fortunately, Western Canada received positive news at the end of the quarter with the Alberta Government making an equity investment to help fund TC Energy's Keystone XL pipeline project. Once completed, Keystone XL is anticipated to add 830,000 barrels per day of takeaway capacity.



# Market Overview



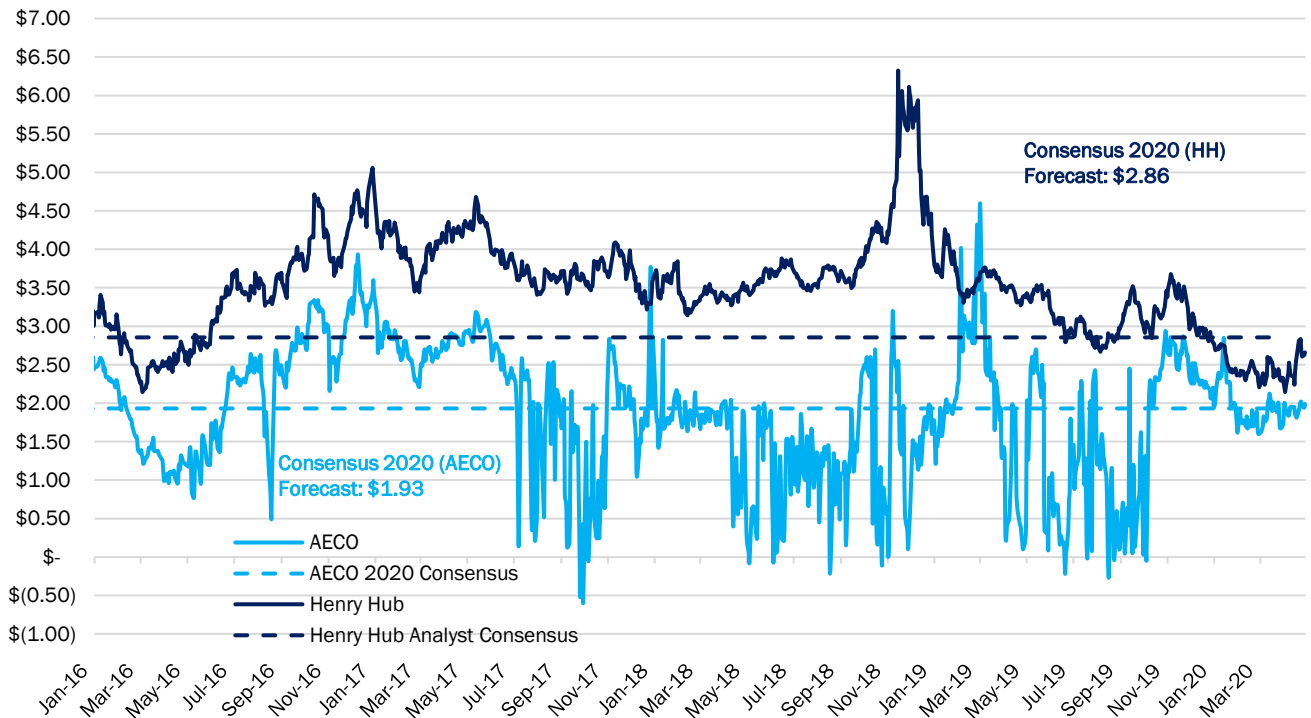
At the start of 2020, globally there was an estimated 1,200 million barrels of available storage for crude. Even with the production cuts coming from OPEC, the expectation is that by May, global inventory levels will be at full or near full capacity largely as a result of the significant decrease in demand for automotive and jet fuels from widespread travel bans and restrictions. Oil prices are expected to remain depressed to the extent that global demand continues to be low. With that said, the expectation is that demand will largely recover by the end of 2020 as restrictions are lifted and economic activity resumes.



# Commodity Pricing and Analyst Forecasts

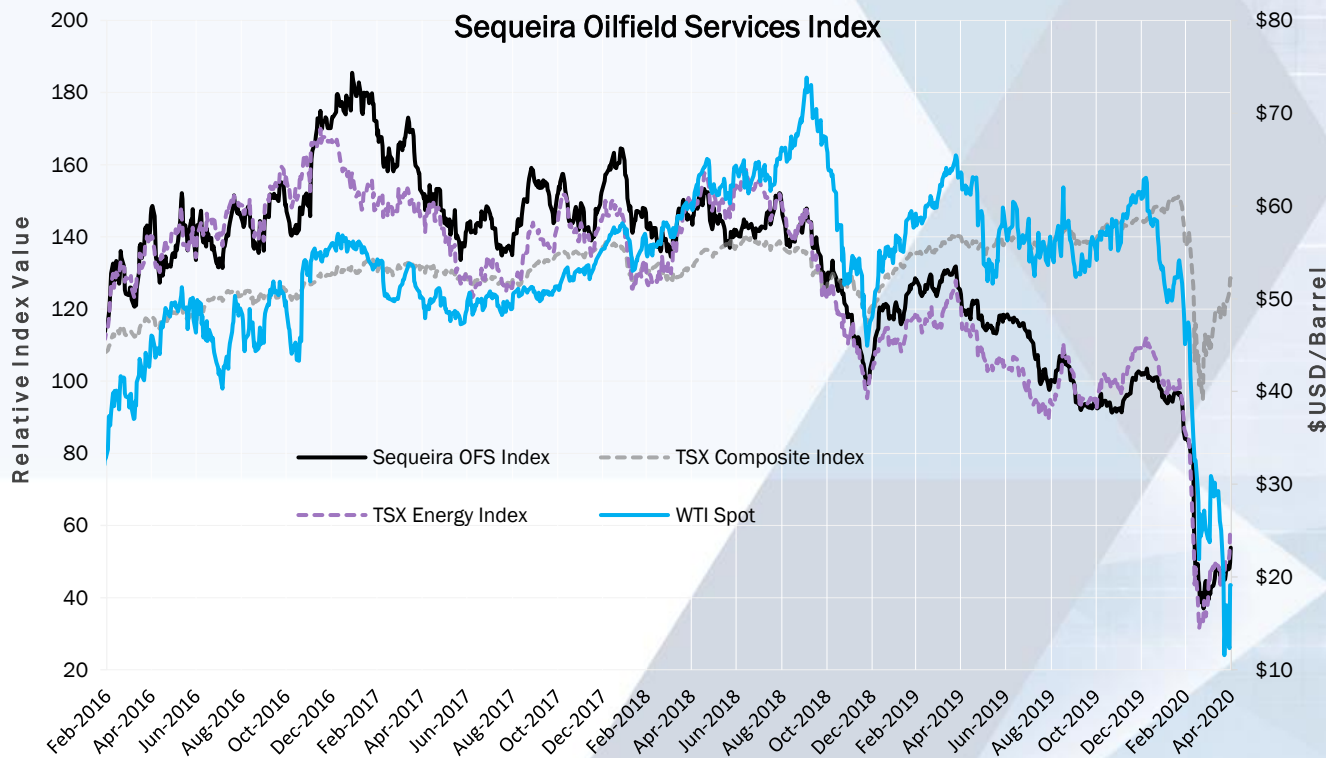
AECO pricing in Q1 2020 saw a slight decline in January and February with a return to stability late in the quarter. After ending the fourth quarter at \$1.95/MCF, prices declined to \$1.60/MCF to end February moving back towards \$2.00 to end the quarter. This stability has largely come at the cost of Canadian oil production, as producers pulled back on drilling in response to abysmal crude prices.

Henry Hub pricing in Q1 2020 declined 8% quarter over quarter. It will be interesting to see how natural gas pricing responds to decreasing crude targeted rig counts. As oil wells often produce gas as well, the limited amount of new drilling activity will likely result in a similar decrease in new natural gas production to that of oil.



# Market Overview

Sequeira's OFS index tracks some of the most prominent publicly listed Canadian Oilfield Service companies throughout the year. The Oilfield Services industry as a whole experienced an unprecedented downturn through Q1 as illustrated by our index which ended the quarter down 61.4%. While uncertainty surrounding the WTI June futures contracts persists, crude for July is holding at approximately \$20 a barrel representing a level of optimism that COVID-19 related restrictions will ease resulting in a corresponding increase in global demand for oil.



# ValueINSIGHTS - Estate Freezes

## **“Never let a good crisis go to waste”**

The famous Churchill quote comes to mind during the coronavirus pandemic in a variety of ways. For business owners and finance professionals, the global economic slowdown, crashing oil prices, and business uncertainty is resulting in low current market valuations for a variety of different asset classes, including private businesses. For the private and family-owned Canadian businesses that are able to weather the storm and see the other side, now may be the perfect time to consider an estate freeze: a long-term estate and tax planning approach that takes advantage of low valuations. Lemonade when all we seem to have right now is lemons. Let's explore how this could work.

## **What is an estate freeze?**

An estate freeze is a common succession and tax planning mechanism with the overarching goal of passing ownership to new shareholders (e.g. spouse, children, employees) and allowing the 'next generation' to share in the future growth of the business. At its core, an estate freeze involves exchanging the current owner's common shares for preferred shares that have a set redemption value equal to the fair market value of the business. New common shares would then be issued to the children, spouses

## **Why choose an estate freeze?**

The significant benefits of an estate freeze are twofold. First, the value of the current owner's interest is "frozen" at a point in time, which allows the business owner to quantify the future tax liability that would be triggered on death or when the shares are disposed. By working with a tax specialist, tools and strategies can be put in place to reduce and/or e, or other individuals. finance these tax liabilities in the future.

Second, an estate freeze ensures that future growth in enterprise value will be attributed to the common shareholders, which is a fair and balanced approach for the next generation, aligning motivations and interests of all stakeholders.

## **Why consider an estate freeze in COVID-19?**

Business valuations may be at historical lows during the COVID-19 crisis. This "once-in-a-generation" event presents an opportunity for owners to crystallize future tax obligations at their lowest points and provide the most value upside to the next generation as the business recovers and grows.

## **What if I have already completed an estate freeze?**

If the value of the business has declined since the date of the original freeze, the preferred shares are likely overvalued today, and potentially by a significant amount. This value difference creates a greater hurdle for common shareholders, as they are unable to experience value creation until the preferred share obligation is met. With a re-freeze, there is an opportunity to reassess the previous structure by "thawing" the preferred share value and conduct a "refreeze" at the current (lower) valuation. Advantages include the reduction in future tax consequences on the exiting generation (or the estate) and new common shareholders will be motivated to grow the business as they can see a path to greater value upside.

## **What next?**

No matter what approach is taken, the first step is assessing the potential decline in the fair market value of the business. Not surprisingly, our expectation will be that when the time comes, the CRA will scrutinize these transactions given the level of uncertainty in the economy. As independent business valuers we have extensive experience preparing defensible valuation reports for tax authorities that support both freeze and re-freeze transactions.



## Our Team

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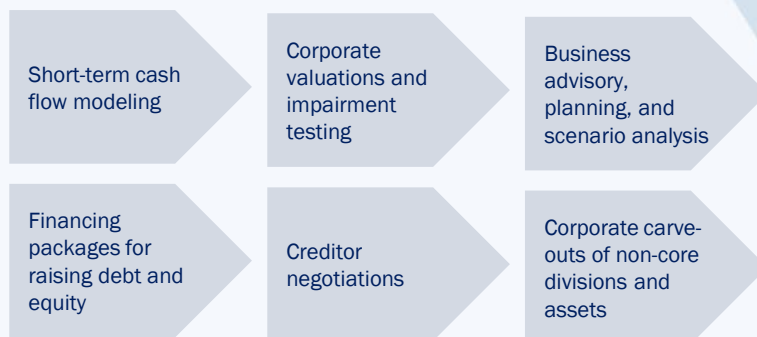
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## How We Can Help

While the drivers are different, this is not the first time we've seen unanticipated events disrupt the economy or the energy industry. We saw rapid changes play out in 2008-2009 with the global financial crisis and in 2014-2016 with the oil market downturn. During both instances, we stood by our clients providing strategic advisory to best position businesses for post-downturn economies. The businesses that survive and subsequently thrive are those that were prepared and took decisive, measured actions to adjust for the conditions.

If you need assistance navigating these challenging times, we're happy to help. Services provided to help clients overcome these challenging times include:



## About Us

With offices in Edmonton, Calgary, and Vancouver, Sequeira Partners is a professional finance advisory firm focused on mergers and acquisitions, corporate carve-outs and recapitalizations. We've become known for providing boutique advisory services with big experience. Collectively, our professionals have over 100 years of industry experience and have completed more than 200 transactions. We possess in-depth industry experience and the highest accreditations available for professionals in our respective disciplines.



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# Appendix A

## Sequeira Oilfield Services Index – Sector Drilldown

As at March 31, 2020

Source: Capital IQ

Company	Ticker	Share Price	Dividend Yield	Market Cap	Enterprise Value	Revenue	TTM EBITDA	EBITDA Margin	EV/EBITDA TTM	2020E	2021E	Price/Book	Net Debt/2020E EBITDA
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
<b>Drilling &amp; Equipment</b>													
AKITA Drilling Ltd.	TSX:AKT.A	\$ 0.45	-	20	108	176	16	9.2%	6.7x	10.0x	12.7x	0.1x	4.8x
Cathedral Energy Services Ltd.	TSX:CET	\$ 0.09	-	4	23	120	(7)	NM	NM	NM	NM	0.1x	NM
CWC Energy Services Corp.	TSXV:CWC	\$ 0.07	-	36	76	108	11	10.0%	7.1x	14.5x	14.5x	0.2x	4.1x
Ensign Energy Services Inc.	TSX:ESI	\$ 0.52	46.2%	85	1,663	1,592	392	24.6%	4.2x	7.2x	7.4x	0.1x	6.1x
Essential Energy Services Ltd.	TSX:ESN	\$ 0.14	-	20	42	141	10	6.8%	4.4x	7.5x	8.4x	0.1x	2.6x
High Arctic Energy Services Inc	TSX:HWO	\$ 0.55	-	27	29	186	18	9.4%	1.6x	15.6x	3.5x	0.1x	0.2x
McCoy Global Inc.	TSX:MCB	\$ 0.40	-	11	14	53	4	7.0%	3.8x	10.8x	5.3x	0.3x	0.9x
Pason Systems Inc.	TSX:PSI	\$ 6.25	12.2%	527	381	296	110	37.1%	3.5x	9.0x	8.6x	1.5x	NM
PHX Energy Services Corp.	TSX:PHX	\$ 0.68	-	36	93	362	41	11.3%	2.3x	4.6x	5.8x	0.2x	1.7x
Precision Drilling Corporation	TSX:PD	\$ 0.44	-	120	1,540	1,487	363	24.4%	4.2x	7.0x	7.3x	0.1x	5.6x
Total Energy Services Inc.	TSX:TOT	\$ 1.85	13.0%	83	362	757	108	14.3%	3.3x	6.4x	6.5x	0.2x	4.3x
Western Energy Services Corp.	TSX:WRG	\$ 0.20	-	18	249	196	22	11.4%	11.1x	28.1x	NM	0.1x	18.7x
Mean								15.0%	4.8x	11.0x	8.0x	0.3x	4.9x
Median								11.3%	4.2x	9.0x	7.4x	0.1x	4.2x
<b>Production &amp; Completion</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Bri-Chem Corp.	TSX:BRY	\$ 0.05	-	1	28	92	2	2.5%	12.2x	NM	NM	0.1x	ND
CES Energy Solutions Corp.	TSX:CEU	\$ 0.81	1.9%	212	620	1,277	147	11.5%	4.2x	8.2x	8.3x	0.3x	3.6x
Computer Modelling Group Ltd.	TSX:CMG	\$ 3.83	10.4%	307	313	78	35	44.2%	9.0x	11.8x	12.6x	7.8x	0.2x
Enerflex Ltd.	TSX:EFX	\$ 5.83	7.9%	523	926	2,045	327	16.0%	2.8x	5.2x	5.8x	0.4x	2.3x
Source Energy Services Ltd.	TSX:SHLE	\$ 0.11	-	6	243	333	17	5.1%	14.3x	11.4x	11.8x	0.0x	6.9x
Wolverine Energy and Infrastructure Inc.	TSXV:WEII	\$ 0.40	-	42	167	106	27	25.3%	6.3x	7.6x	5.6x	0.5x	3.3x
Mean								17.4%	8.1x	8.8x	8.9x	1.5x	3.3x
Median								13.7%	7.6x	8.2x	8.3x	0.4x	3.3x
<b>Oilfield &amp; Facility Construction</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Badger Daylighting Ltd.	TSX:BAD	\$ 22.77	2.6%	794	966	654	141	21.6%	6.8x	9.4x	6.6x	2.4x	1.0x
ClearStream Energy Services Inc.	TSX:CSM	\$ 0.03	-	3	357	464	16	3.3%	23.0x	NM	NM	NM	ND
Enterprise Group, Inc.	TSX:E	\$ 0.12	-	6	18	20	2	8.2%	11.3x	NM	NM	0.2x	ND
Macro Enterprises Inc.	TSXV:MCR	\$ 2.03	-	63	49	414	54	13.0%	0.9x	2.3x	2.3x	0.5x	NM
North American Construction Group Ltd.	NYSE:NOA	\$ 7.20	-	184	608	719	161	22.4%	3.8x	4.3x	3.8x	0.0x	2.3x
Shawcor Ltd.	TSX:SCL	\$ 1.78	-	125	556	1,489	96	6.4%	5.8x	NM	5.3x	0.1x	3.8x
Mean								12.5%	8.6x	5.3x	4.5x	0.6x	2.4x
Median								10.6%	6.3x	4.3x	4.5x	0.2x	2.3x
<b>Pressure Pumping</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Calfrac Well Services Ltd.	TSX:CFW	\$ 0.24	-	35	1,000	1,621	128	7.9%	7.8x	26.7x	12.0x	0.1x	NM
STEP Energy Services Ltd.	TSX:STEP	\$ 0.32	-	21	270	668	63	9.4%	4.3x	10.4x	12.3x	0.1x	6.5x
Trican Well Service Ltd.	TSX:TCW	\$ 0.45	-	120	179	636	26	4.1%	6.9x	21.4x	12.4x	0.2x	3.2x
Mean								7.1%	6.3x	19.5x	12.2x	0.1x	4.8x
Median								7.9%	6.9x	21.4x	12.3x	0.1x	4.8x
<b>Transportation &amp; Logistics</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
ENTREC Corporation	TSX:ENT	\$ 0.03	-	3	251	180	21	11.9%	11.7x	17.5x	11.8x	0.3x	14.2x
Gibson Energy Inc.	TSX:GEI	\$ 16.25	8.4%	2,376	3,704	7,336	402	5.5%	9.2x	10.3x	9.6x	3.1x	3.1x
Mullen Group Ltd.	TSX:MTL	\$ 4.10	-	430	968	1,277	190	14.9%	5.1x	7.7x	6.7x	0.5x	3.2x
Mean								10.7%	8.7x	11.8x	9.3x	1.3x	6.8x
Median								11.9%	9.2x	10.3x	9.6x	0.5x	3.2x
<b>Environmental &amp; Geophysical</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Pulse Seismic Inc.	TSX:PSD	\$ 1.00	-	54	86	24	17	71.6%	5.0x	3.8x	3.3x	1.7x	1.6x
Secure Energy Services Inc.	TSX:SES	\$ 0.93	29.0%	146	673	2,895	141	4.9%	4.8x	6.5x	5.8x	0.2x	3.6x
Tervita Corporation	TSX:TEV	\$ 3.47	-	393	1,229	2,323	192	8.3%	6.4x	6.8x	6.3x	1.8x	4.2x
Vertex Resource Group Ltd.	TSXV:VTX	\$ 0.21	-	20	128	174	19	11.2%	6.6x	5.8x	5.0x	0.3x	3.6x
Mean								24.0%	5.7x	5.7x	5.1x	1.0x	3.2x
Median								9.7%	5.7x	6.2x	5.4x	1.0x	3.6x
<b>Camps &amp; Catering</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Black Diamond Group Limited	TSX:BDI	\$ 1.05	-	59	182	186	31	16.8%	5.8x	5.3x	5.2x	0.3x	3.1x
Civeo Corporation	NYSE:CVEO	\$ 0.58	-	99	721	684	131	19.1%	5.5x	7.7x	6.4x	0.2x	3.9x
Horizon North Logistics Inc.	TSX:HNL	\$ 0.28	-	46	181	458	21	4.7%	8.5x	5.4x	3.5x	0.2x	3.3x
Mean								13.5%	6.6x	6.1x	5.0x	0.2x	3.4x
Median								16.8%	5.8x	5.4x	5.2x	0.2x	3.3x