

Energy | Oilfield Services, Equipment & Drilling

James West
212-653-9047
james.west@evercoreisi.com

Jason Bandel
212-653-9044
Jason.Bandel@evercoreISI.com

Andres Menocal
212-653-9041
andres.menocal@evercoreisi.com

Energy Technology Showcase; A Tech Revolution Unfolding?

Technology revolution coming? Last week, we hosted a well-attended showcase with CSL Capital Management's ("CSL") venture arm – CSL Ventures (<http://www.cslenergy.com/csl-ventures.html>). The attendees included a wide range of investors, entrepreneurs, energy management executives and industry strategists. It was an engaging two-hour session with active participation from the audience and an exciting discussion around key emerging themes and technologies in the energy industry.

CSL launched the technology initiative in August of this year with the objective of addressing the rapidly evolving technical needs of the energy industry at a time when not only production growth, cost control and efficiency, but also sustainable energy resource development, are of paramount importance. The industry is also changing the way technology innovation is being driven. Today, for the US land, innovation is being driven by the demands of the manufacturing mode of unconventional development and being pushed forward by entrepreneurs. CSL Ventures' objective is to complement and extend CSL's global network of sourcing unique opportunities, proven track record of successfully incubating and building greenfield businesses, and creatively structuring transactions through the energy cycle for the benefit of early stage and technology-focused companies and entrepreneurs.

Three high-tech energy companies at the second showcase. Our second technology showcase focused on three high-tech energy companies affiliated with CSL Ventures: Shale Value, Revo Testing Technologies, and REDLIST. Shale Value provides formation fluid information and production forecasts to vastly improve modeling and subsurface understanding of unconventional reservoir. Revo is a next generation flowback and well testing service. REDLIST wants to revolutionize how heavy industry gets work done using cloud-based field management software. **More details within.**

Key Themes

Technology is moving to the forefront as energy companies are increasingly asked to do more with less. Today's E&P operators must deal with conflicting priorities of being asked to generate FCF while also continuing to grow. The industry has also reached the bottom of the cost curve by industrializing processes and squeezing suppliers. Technology will need to continually be developed to drive further efficiency gains, improve production and grow reserves. Over the past decade, innovation has migrated towards entrepreneurs and new startup ventures as employees leave large organizations and create or join technology-driven startups. The other key change was that historically large cap diversifieds (SLB, HAL, BHGE, WFT) used to buy three to five companies a year but that pace has slowed since the energy downturn started in 2014.

Company 1 – Shale Value

Background:

Shale Value's software provides pressure, volume, and temperature (PVT) fluid information and production forecasts for unconventional reservoirs. The firm has two software products called FIRM (Forecasting through Inferred Reservoir Modeling) and FACET (Fluid Analysis and Composition Estimation Tool). The software solutions combine deep domain reservoir engineering with machine learning based on public and private data. This data is then interpreted to provide substantially improved understanding of the subsurface and to enhance value across the entire shale development lifecycle. This software can be used to make better operational decisions, assist in estimating reserves, better plan infill drilling programs, optimize surface facilities, and design enhanced oil recovery processes.

Management:

Phani Gadde, CEO & Co-Founder: Mr. Gadde has over 20 years' experience in the energy industry. Prior to starting Shale Value in 2017, he was a Principal Analyst in the Upstream Lower 48 team at Wood Mackenzie where he led North America supply data analysis and developed production forecasts for tight oil and shale gas plays. Mr. Gadde also spent six years as a research engineer at the University of Texas.

Pavana Gadde, VP Business Development & Operations: Ms. Gadde has over 16 years of experience in the technology arena, with positions at HP, HPE Aruba and Dell. Her focus has been in product management and she was an Alliance Director with several industry-first launches. Ms. Gadde has her Masters in Computer Science from Texas A&M, and an MBA from MIT Sloan.

Our Key Takes:

With all the work currently being done on forecasting and analysis, the company estimates that market for asset valuation and production supply forecasts is roughly \$800 million.

Shale Value's solution leverages foresight through physics using FIRM (Forecasting through Inferred Reservoir Modeling) which is supported by FACET (Fluid Analysis and Composition Estimate Tool). FIRM uses deep domain reservoir engineering to infer rock, frac and fluid properties. The software is easy to use and it builds reliable forecasts based on inferred parameters and does not do curve fitting. FIRM has trained functions and machine learning to build detailed well level forecasts, benchmarking of inferred rock and frac properties, what-if-analysis, diagnostics from public domain data, proprietary PVT models, analytical models and diagnostic plots, and compositional reservoir stimulations. Operators can compare results within minutes. FACET is a fluid analysis model that can improve oil recovery. It offers the industry's only play-wide fluid analysis.

Company 2 – Revo Testing Technologies (Revo)

Background:

Revo Testing Technologies (Revo) has developed reservoir analysis, software, and hardware technology to create the next generation flowback and well testing service. This new service can help operators maximize production and minimize completion and reservoir damage. Revo utilizes a proprietary process to continuously assess well performance during flowback through analytical models to optimize choke management. The company has also developed new hardware to automate and digitize flowback. The hardware will provide higher quality data to improve analysis, enhance fluid separation to reduce oil lost to disposal, minimize safety risks through automation, and lower emissions.

Management:

Adam Swartley, CEO: Mr. Swartley has over 10 years of experience in the oil and gas industry working for various financial institutions and oilfield service companies like Halliburton, prior to becoming the CEO of Revo. He has a Bachelor of Science in Electrical and Computer Engineering from the University of Colorado and holds a MBA degree from Rice University.

Our Key Takes: The team at Revo wanted to bring new technology and data science to flowback as current practices can damage wells and ultimately impact EURs. For those who maybe unfamiliar, flowback is used to control initial production post fracturing, clean up the well before transfer to production facilities, measure initial production rates, and protect production facilities from sand. The market size is roughly \$1.2-1.3 billion in North America but is highly fragmented with basin specific competition. Revo was founded in 2018 to create a cloud-based platform with real-time analytics in order to set a new standard for the flowback industry. The company has built a software application with hardware that automates the flowback and well test package. The goal is to set a new standard for the industry through integration of equipment automation and analytics, reduction of personnel needs and HSE risks, and limit environmental impacts.

Revo Performance Management (RPM) is a cloud-based application that allows for engineered

choke management to improve well performance and EURs. The application also protects the completion and minimizes sand production in order to protect the production facilities. An operator can remotely access real-time well test data via a mobile app and web interface that provides real-time analysis and automated reporting tools. Revo quickly realized that a hardware application would help drive adoption. Its automated flowback and well test package has automated controls and measurements that minimizes crew sizes and reduces safety exposure. The equipment also has near 100% separation efficiency to eliminate oil lost to water disposal and lower flaring emissions by reducing oil in the gas stream. The package can accelerate the flowback and improve completion optimization.

Company 3 – REDLIST

Background:

REDLIST was built with a mission to revolutionize how heavy industry gets work done. The company was founded in 2014 to provide field service management software through a cloud-based mobile ready application to streamline workflows and optimize the performance of heavy equipment and crews. The features include real-time communication and reporting, location mapping, planning and dispatch, work order management, preventive maintenance scheduling, digital inspections, and route optimization. It also helps digital enablement of small to medium sized enterprises operating in the energy, industrial, and construction verticals.

Management:

John Keller, Co-Founder and President: Mr. Keller is a successful entrepreneur in retail and software who launched REDLIST as the President and Co-Founder in August of 2014. Prior to that, he was a Managing Director of Red Orchard, an investment and holding company for technology-related companies. Mr. Keller received his BA in International Business from Brigham Young University.

Our Key Takes: As per IBISWorld report, the field service management software industry is approximately \$1.4 billion in the US and is expected to grow at a 14% CAGR over the next five years. Integrated production, safety, and maintenance is the opportunity in the market. The current competitive offerings have large and cumbersome platforms and are approaching the challenge from an ERP standpoint. However, REDLIST is attacking the industrial challenge from an operational, field and shop floor perspective.

The REDLIST solution consolidates the silos to give customers a fully integrated platform of production, safety, and maintenance. All the information and data across these departments can be shared real-time while also helping companies achieve faster employee onboarding. Imagine when information gleaned from a safety inspection is not just stored in a corporate office, but quickly and seamlessly shared with counterparts in maintenance and production. REDLIST Production is a self-service customer portal that allows for quick changes to scheduling, fully integrated quote to close, and updates to pricing. The platform also allows field workers to quickly communicate with field managers and corporate office managers. REDLIST Safety digitalizes inspections and safety documents in order to promote collaboration, root cause analysis, and improve incident documentation and reporting. Lastly, REDLIST Maintenance automates work order communication, real-time field work order management, and eliminates unnecessary waste.

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Evercore ISI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three primary ratings categories, with the following return guidelines:

Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe

In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe

Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe

Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*

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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%

Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%

Sell -the total forecasted return is expected to be less than 0%

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ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight- the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.

Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.

No Position- the stock is not included in the model portfolio.

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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 11/11/2019)

Coverage Universe			Investment Banking Services I Past 12 Months		
Ratings	Count	Pct.	Ratings	Count	Pct.
Buy	420	52	Buy	96	23
Hold	315	39	Hold	35	11
Sell	39	5	Sell	3	8
Coverage Suspended	14	2	Coverage Suspended	6	43
Rating Suspended	13	2	Rating Suspended	5	38

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Price Charts

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