



EnerCom Presentation

August 17, 2017

OFS Energy Fund Introduction

- ◆ Formed the team in October 2008 to make investments in lower middle market energy service companies
- ◆ OFS seeks to provide creative solutions for business owners in the form of buyouts, recapitalizations, and growth equity investments
- ◆ First fund (“Fund I”) managed by the OFS principals at a predecessor entity named Dorado Energy Partners was closed in October 2008 with \$46.5 million in total commitments
 - 4.2x gross cash-on-cash and 200.0% gross IRR
- ◆ Second fund (“Fund II”) was closed in September 2012 with \$90.0 million in total commitments and had an add-on closing in November 2014 that raised total commitments to \$130.0 million
 - OFS principals and industry advisors personally committed \$15.0 million
 - To date, \$96.6 million capital called relating to investments in eight platform companies
 - Total capital called of \$109.0 million
 - Two exits, both completed in March 2014, represented returns of 4.1x gross cash-on-cash and 84.5% gross IRR
- ◆ Third fund (“Fund III”) was closed in April 2014 with \$175.0 million in total commitments
 - To date, \$85.7 million capital called related to investments in five portfolio companies
 - Total capital called of \$99.8 million
 - One exit in August 2017, represented return of 3.6x gross cash-on-cash and the potential to increase to 4.6x with the earn-out
 - Fund III targets investments of \$15.0 million to \$30.0 million in each portfolio company, but has the ability to invest larger amounts with co-investment from Fund III investors

Investment Focus

Investment strategy and objectives are as follows:

- ◆ Generate returns in the form of capital appreciation via equity interests held in operating companies
- ◆ Target 25 - 30%+ gross IRR for its portfolio of investments
- ◆ Employ an opportunistic approach when evaluating and qualifying potential investments
- ◆ Focus primarily on “control” positions in companies with enterprise values of \$100 million or less

OFS seeks opportunities with the following characteristics:

- ◆ Products or services across the energy industry
- ◆ Strong market position
- ◆ Meaningful value proposition evidenced by strong margins
- ◆ Longstanding, loyal customer relationships
- ◆ History of, or potential for, growth in revenue and profitability
- ◆ Identified niche / underserved market strategy
- ◆ Motivated management team with high integrity and equity participation
- ◆ Identifiable exit strategy

Investment Parameters	
Revenue	\$20.0 million – \$100.0 million
Profitability	\$5.0 million – \$20.0 million in EBITDA
Structure	Buyout, recapitalization, growth equity (including minority positions)
Seniority	Common stock or preferred equity
Ownership	Private, control securities, board-level participation
Investment Horizon	2 – 7 years

OFS Investment Criteria

Energy Service and Midstream Focused

- ◆ Upstream Services and Equipment (examples include)
 - Aftermarket service and repair of “must-run” drilling, completion and production equipment
 - Specialty manufacturing
 - Downhole tool rental and repair
 - Well service / production services
 - Well testing / completion services
 - Offshore services
 - Corrosion control and specialty coatings
 - Inspection and Testing NDE
 - Drilling services
 - Chemicals
- ◆ Midstream opportunities
 - Treating and processing equipment
 - Gas gathering and field infrastructure services
 - New well connections
 - Right of way maintenance
 - Compression-related equipment and aftermarket services
 - Oilfield construction
 - Chemicals
- ◆ Downstream services
 - Power and Plant related services and equipment
- ◆ The Fund will not invest in pre-commercial technologies or make E&P investments

Early, Growth or Late Stage

- ◆ Buyouts and recapitalizations of seasoned companies with history of profitability
- ◆ Equity investments in high-growth, less mature companies
- ◆ Partnerships with proven management teams / executives to pursue “restart” opportunities

Event-Driven Opportunities

- ◆ Business owners seeking liquidity for estate planning or wealth diversification
- ◆ Generational transition for family-owned businesses
- ◆ Partner / family buyout or recapitalization
- ◆ Expansion opportunities with limited access to capital

Investing with the “Right” Partners

- ◆ Emphasis placed on partnering with management teams and entrepreneurs with successful track records
- ◆ Willing to consider minority position investments with the right partners

OFS Difference

Small Professionally-Managed Fund

- ◆ One of few professionally-managed private equity funds focused exclusively on lower middle market energy service companies
- ◆ Experienced and consistent team – investment professionals have worked together over the course of three funds since 2008
- ◆ Ability to act quickly – small investment committee consisting of day-to-day investment professionals
- ◆ Flexibility with regard to structuring transactions allows for opportunistic investing
- ◆ History of developing strong working relationships with management teams as reflected by the fact that management from every realized investment has invested in subsequent funds

Significant Strategic Support

- ◆ Principals have extensive financial and operational experience acquiring and growing energy service companies and a proven history of developing and implementing successful exit strategies
- ◆ Investment team with its own industry relationships from previous funds, work experiences, and participation in numerous industry trade groups
- ◆ Limited Partners include owners and executives of E&P and energy service companies as well as commercial banking executives who help provide support to portfolio company growth initiatives and deal referrals

OFS Market Position

Focus on transactions less than \$100 million in Enterprise Value for the following reasons:

Increased market competition for transactions above \$100 million

- ◆ Traditional energy / oilfield service funds, now managing several hundred million to billions in equity, are focused on acquiring larger companies that are often competitively auctioned
- ◆ Investment Banks primarily focused on advising larger clients with auction processes and not interested in smaller fees – limiting organized competition for smaller transactions
- ◆ Large public strategic buyers searching for acquisitions that “move the needle”

Underserved market below \$100 million with many appealing targets

- ◆ Few professionally managed small energy service funds – competition is limited to small generalist funds and individual investors
- ◆ Family offices may review investment opportunities in the \$1 - \$3 million range with traditional energy private equity firms reviewing opportunities greater than \$20 million
- ◆ Large funds and strategic buyers focus on consolidating large privately-owned companies
- ◆ Recent and continuing public company consolidation will create additional new opportunities
- ◆ Smaller companies are better suited for buy-and-build platforms
- ◆ Commercial banks are hesitant to lend to small oil & gas services companies without equity sponsors

Principals provide unique capabilities to lower middle market investments

- ◆ Operational experience growing and acquiring companies as well as extensive financial expertise
- ◆ Pull through relationships to augment sales and sourcing / procurement opportunities
- ◆ Maintain “bench” of oilfield professionals with focused knowledge and interested in new opportunities
- ◆ Proven history of developing and implementing successful exit strategies






Market Dynamics

- ◆ Growth in onshore activity driven by increased commodity prices and more efficient E&P operations
- ◆ Oilfield service companies are starved for capital having survived 2015 and 2016
 - Exhausted working capital levels
 - Equipment fleets are in substantial state of deferred maintenance
- ◆ No / very limited access to bank financing
- ◆ Equity is the solution
- ◆ Seller psychology shifting to more reasonable valuations and emphasis on “support for growth”
- ◆ Capital markets activity – IPOs, 144A transactions, etc. based on forward EBITDA valuations for equity raises
- ◆ Offshore energy service market is in fourth year of downcycle and has not hit bottom yet; may present interesting investment opportunities

Fund II Portfolio Summary – Active Investments

\$ in millions






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Active Investments	Onshore / Offshore	Products/Services	Date of Investment	Total Investment	Fund Ownership	2016 Rev. 2017(E) Rev.
Fund II						
	Onshore	Manufacturer of production equipment and meter runs	Sep-2012	\$23.1	37%	\$55.6 \$87.1
	Onshore	Workover rigs, wireline, chemical sales	Oct-2013	\$21.3	65%	\$13.5 \$21.5
	Offshore	Highly engineered handling equipment	Oct-2013	\$2.5	50%	\$0.3 \$1.7
	Onshore	Water transfer, water recycling, water treatment, and solids control	Oct-2013	\$13.3	60%	\$23.6 \$42.2
	Onshore	Production equipment rental	Dec-2013	\$11.3	75%	\$5.0 \$9.3

Fund III Portfolio Summary – Active Investments

\$ in millions





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Active Investments	Onshore / Offshore	Products/Services	Date of Investment	Total Investment	Fund Ownership	2016 Rev. 2017(E) Rev.
Fund III						
 CONQUEST COMPLETION SERVICES, LLC	Onshore	Coiled tubing services	Aug-2014	\$25.8	72%	\$66.5 \$125.7
 PRO OILFIELD SERVICES, LLC	Onshore	Frac stack, wireline, surface drilling, solids control, mixing plant, torque and test	Sep-2014	\$34.5 (Fund) \$14.9 (Co-Inv)	1.7% + Profits Interest	\$42.1 \$72.9
 Allied PowerGroup	Onshore	Provides parts, repairs, and services for industrial gas turbines	Oct-2015	\$10.9	80%	\$35.3 \$43.4
 INTEGRITY GAS SERVICES, LLC	Onshore	Nitrogen services	Mar-2017	\$8.5	85%	\$0.5 \$8.1
 VanZandt Controls	Onshore	Valve distribution and services	May-2017	\$6.0	69%	\$6.0 \$12.8

Fund I Track Record

\$ in millions

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Realized Investments	Onshore / Offshore	Products/Services	Date of Investment	Total Investment	Fund Ownership	Date of Exit	Realized Value	Multiple	IRR
Fund II									
	Onshore	Provider of natural gas treating equipment	Aug-2009	\$3.8	14%	Sep-2010	\$19.3	5.0x	263%
	Offshore	Provider of riser repair and inspection and industrial coatings	Jul-2009	\$8.0	100.0%	Aug-2009	\$26.3	3.3x	175.0%
	Onshore	Manufacture and rent IBCs	May-2010	\$0.3	6.0%	Jan-2015	\$11.1	36.1x	126.0%
	Onshore	Develop gathering systems and pipelines	Jun-2010	\$1.7		Mar-2011	\$1.7	1.0x	2.0%

◆ Fund I Investment Summary:

- Commenced operations in October 2008 with \$46.5 million in Committed Capital
- Called a total of \$16.7 million of which \$13.8 was invested into 4 portfolio companies
- Fund I returned \$47.3 million and was liquidated in August 2012 achieving a 4.2x cash-on-cash return and an IRR of 199%

Past Deals: Lone Star Fasteners, LP

- ◆ **Company:** Lone Star Fasteners, LP – fasteners and related parts to energy equipment OEMs
- ◆ **Investment Highlights:**
 - Bruce Ross and Beau Ross (with other shareholders) purchased operating subsidiaries of T3 Energy Services in February 2004 for \$7.0 million; at the time Lone Star had approximately 300 employees
 - Immediately reduced headcount by 50 people, selectively increased sale prices and expanded international supply chain
 - Instituted lean manufacturing techniques and brought in new operating management
 - For the years ended December 2003 and December 2005, respectively, Lone Star increased revenue from \$20 million to \$35 million and EBITDA from \$1 million to \$6 million
 - Recapitalized in November 2005 with Trinity Hunt Partners – share value had increased over 20 times from 2004 to 2005
 - After the recap, Lone Star acquired 5 operating companies and grew sales from \$35 million to \$140 million, and EBITDA from \$7 million to \$25 million during 2006 and 2007

\$36,000,000⁽¹⁾



recapitalized by

TRINITY HUNT
*P*ARTNERS

November 2005

Investment Summary			
Investment	\$	1.0 million	Feb-04
Ownership		100%	
Equity Value at Recap	\$	28.0 million	Nov-05
Gross IRR		571%	
Cash-on-cash Return		28.0x	

(1) – Includes sale price and working capital true-up