

Ryan J. Maierson and John M. Greer
Latham & Watkins Oil & Gas Industry Group

6 OILFIELD SERVICES TRENDS IN UNCONVENTIONAL RESOURCES

North American drilling and production activity is increasing service and technology demands and leading to shifts in capital markets and M&A transactions.

North America continues to be one of the largest oil and gas producing areas in the world. While the US oil and gas industry is still in the early stages of shale development and production, US production growth is at a record high and still accelerating. The following six trends likely will be positive for industry participants in oilfield services (OFS).

- 1. Shale gas and tight oil are driving changes in the field.** The majority of US oil and natural gas production growth can be attributed to tight oil and shale gas. Innovation such as horizontal drilling is increasing well productivity, which has led to an exponential increase in the demand for downhole technologies, proppants, fresh water supply, and waste water and solid waste disposal.
- 2. Changes in the field are driving changes in the market.** The OFS sector was the best performing energy subsector in 2013 (+27.6 percent), which was in line with the broader market (+29.6 percent). OFS companies are seeing an increase in revenue as exploration and production companies raise their capital expenditure budgets, allowing opportunities to buy into industry innovations and technology that will increase production and efficiency.
- 3. M&A activity is up.** With a 10 percent uptick in M&A transactions from 2012 to 2013, the OFS sector is expected to see a steady increase in deal count. Observers expect a continued focus on market positioning and capacity investment for the OFS industry, particularly as it serves unconventional development and offshore exploration and production. Consolidations to capture scale of operations effects, for both asset-heavy and asset-light OFS companies, may drive acquisition activity.
- 4. Capital markets activity remains robust.** Since 2010, there have been 15 initial public offerings for OFS companies. Since 2013, there have been seven OFS follow-on equity offerings with a total deal value over US\$1.4 billion and 17 OFS high-yield debt offerings with a total deal value over US\$7 billion.
- 5. MLPs continue to proliferate.** OFS companies are increasingly using MLP structures (seven OFS MLPs have gone public since 2010), including OFS providers with less-traditional MLP businesses such as frac sand, salt water disposal wells and compression services. In addition, some traditional MLPs have been expanding into oilfield services as they reposition their businesses to take advantage of the North American infrastructure build-out.
- 6. Spin-offs are an increasingly popular option for OFS companies.** Spin-offs, which may allow certain businesses to command higher valuations if owned and managed separately rather than as part of a single enterprise, have become an effective tool to satisfy shareholders seeking to unlock value. Spin-offs can often be accomplished in a manner that is tax-free to both the existing public company and its shareholders. Existing conditions in debt markets may allow companies to obtain relatively low borrowing

costs for the business being separated and monetize value for the parent company. A number of OFS companies have recently announced or completed spin-offs of portions of their business in order to capitalize on trading multiples and focus on high rate of return opportunities.

For additional detail on these trends as well as deal activity, please view Latham's webcast ***Oilfield Services Trends in Unconventional Resources***, [available on demand](#).

This article is one of a series that examines trends in the oil and gas industry. For further information on MLPs, visit the MLP Portal at www.lathammlp.com.

CONTACTS

[Ryan J. Maierson](#)

ryan.maierson@lw.com

+1.713.546.7420

Houston



[John M. Greer](#)

john.greer@lw.com

+1.713.546.7472

Houston



Latham & Watkins operates worldwide as a limited liability partnership organized under the laws of the State of Delaware (USA) with affiliated limited liability partnerships conducting the practice in the United Kingdom, France, Italy and Singapore and as affiliated partnerships conducting the practice in Hong Kong and Japan. The Law Office of Salman M. Al-Sudairi is Latham & Watkins associated office in the Kingdom of Saudi Arabia. In Qatar, Latham & Watkins LLP is licensed by the Qatar Financial Centre Authority. Under New York's Code of Professional Responsibility, portions of this communication contain attorney advertising. Prior results do not guarantee a similar outcome. Results depend upon a variety of factors unique to each representation. Please direct all inquiries regarding our conduct under New York's Disciplinary Rules to Latham & Watkins LLP, 885 Third Avenue, New York, NY 10022-4834, Phone: +1.212.906.1200. © Copyright 2014 Latham & Watkins. All Rights Reserved.