OIL & GAS

CURRENT TRENDS

- Crude oil prices, as reported in Cushing, Oklahoma, went negative on April 20, 2020, as oil markets collapsed. However, as of April 19, 2021 prices had recovered significantly, increasing over 600% over the same time last year to $63.33 per barrel.
- The North American rig count remained down slightly as of April 23, 2021 over the same date in 2020; however, current counts represent a significant improvement over historic lows seen last year.
- Starting in mid-March 2020, the majority of live equipment auctions across the U.S, Canada, and the UK were either cancelled, postponed, or completed 100% online due to pandemic concerns. However, with the increasing roll out of vaccines and easing of restrictions, some auctioneers are returning to auctions with onsite participation.
- Values remain somewhat depressed for equipment directly related to oil and gas exploration.

PROJECTED VALUES
(12-MONTH OUTLOOK)

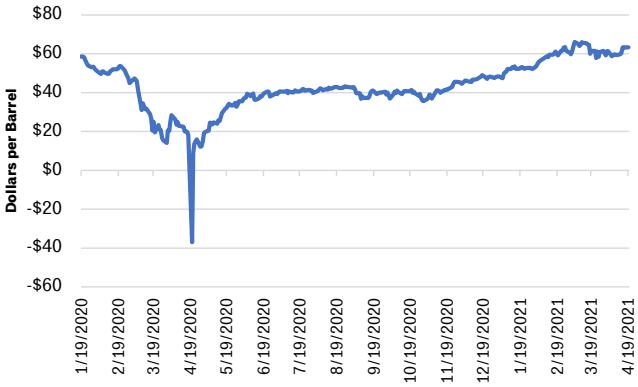
GORDON BROTHERS BY THE NUMBERS

$27B+
energy assets appraised & disposed

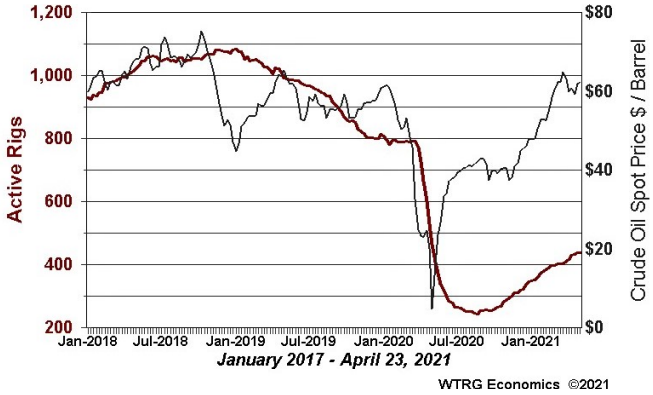
1,800+
energy engagements

2 of 5
served 2 of the 5 largest oil companies in the world

CRUDE OIL SPOT PRICE (DOLLARS PER BARREL)



U.S. ROTARY RIG COUNT - ACTIVE RIGS



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INDUSTRY REBOUNDING AFTER CRASH: On April 19, 2021, the West Texas Intermediate (WTI) per-barrel price of oil hit a rate that was over 600% higher than the same date in 2020. For the period from April 1 through April 19, 2021, the average price per barrel was approximately $61, representing pricing not seen since the end of 2019. While still lower than the low- to mid-$70s pricing of 2018, current prices have recovered significantly over the historic lows seen in 2020.

It has taken a full year to recover from the failed attempts in March 2020 to cut back oil production by Saudi Arabia and Russia. The cutback was intended to offset the decreased demand resulting from the coronavirus outbreak. However, the talks ended in failure and resulted in a price war primarily involving Saudi Arabia and Russia. The price war was settled on April 12, 2020, but the market did not react well to the settlement, the last phase of which remains in place. The settlement secured a production cut of 9.7 million barrels per day from May 1 to June 30, 2020, 7.7 million barrels per day from July 1 to December 31, 2020, and 5.8 million barrels per day from January 1, 2021, to April 30, 2022. As a result of the March 4, 2021 OPEC+ meeting, production cuts were maintained due to a downward adjustment of the group's demand forecast by OPEC+ technical experts.

At the same time the impact of the COVID-19 pandemic worldwide pushed oil consumption forecasts down by 20% to 30% for 2020. Consequently, crude oil prices declined precipitously, with prices falling to below $20 per barrel for WTI crude in late March and briefly reaching negative levels on April 20, 2020, as the market attempted to find a supply and demand balance and storage locations domestically and globally reached capacity. As a result, U.S. crude oil output fell 6.4% to 11.47 million barrels per day in 2020, down from a record of 12.25 million barrels per day set in 2019.

Another factor weighing on recovery of the industry is the continuing pandemic. Though the rollout of vaccines is increasing, the global slowing and transition of business activities lingers. Employees and consumers continue to work remotely in many parts of the world. Business and recreational travel has been slow to recover, only partially mitigating considerably reduced consumption levels of gasoline, diesel fuel and aviation fuel seen over the last year. As economies recover, business travel, daily commuting and vacation travel will return to more normal levels, increasing fuel consumption levels. As these levels stabilize, Gordon Brothers expects that secondary market demand for downhole tools and exploration and production equipment and inventory could experience a recovery in values toward pre-pandemic levels.

ACTIVE RIG COUNT REMAINS DEPRESSED: The North American market saw a steady decrease in rig activity throughout 2019 and 2020 due in part to the decline and volatility in the price of crude oil, funding problems for smaller operators and demand reductions produced by the COVID-19 pandemic. Based on reporting by Baker Hughes, as of April 23, 2021, there were just two fewer rigs drilling for oil and gas in North America as of the same date in 2020, which was the week oil prices went briefly negative in the wake of the Saudi/Russia price war. Nevertheless, although down slightly from last year, that number represents a significant recovery from the low of 289 reached on June 26, 2020.

Despite changes in the oil and gas industry, particularly since the shale oil and natural gas industries have ramped up production in recent years, active rig counts can still signal the willingness of oil and gas companies to continue investing. Per oilfield truck and tractor manufacturer Tiger General, rig counts can also anticipate a demand for products used in the oil service industry, such as drilling, producing and processing hydrocarbons.

CURRENT APPRAISAL CONSIDERATION: At its 13th OPEC and non-OPEC Ministerial Meeting (ONOMM) on January 5, 2021, OPEC members and producers agreed to keep the groups' collective output flat. The meeting recalled the decision taken by all participating countries at the 10th ONOMM held on April 12, 2020, to "adjust downward overall crude oil production." Separately, Saudi Arabia announced it would unilaterally cut production by one million barrels in 2021. The markets reacted favorably to this news with West Texas Intermediate futures, the U.S. pricing benchmark, rising above the $50-per-barrel mark for the first time since February 2020.

However, within North America exploration will likely remain limited. Many U.S. shale operators reacted quickly at the beginning of the pandemic by announcing cuts to capital expenditure, or capex, spending, which is money spent on fixed assets. Capex spending for 2021 is expected to remain flat or increase only slightly. In many North American regions, given the risk of completing a successful well along with the cost to drill, the completion and operation of a well currently does not have the future economic benefits necessary for investors to take on the projects, and lenders are hesitant to finance oil and gas equipment directly related to exploration. Without sustained, relatively stable oil pricing at the current levels, the availability of capital to take on projects is expected to remain limited.

It is important to understand the depressed nature of the oil and gas market. Though the price of oil appears to have somewhat stabilized in the $60-per-barrel range, the tentative stability and fluctuations in the price of oil have created an economic environment in which the exploration for oil and gas will continue to be somewhat diminished.

VALUATION OUTLOOK: In terms of downhole tools and equipment, Gordon Brothers expects that secondary market demand for anything other than ongoing well-servicing equipment, such as lift equipment or other niche sectors, will be somewhat depressed pending stabilization of crude prices at current levels or higher for a sustained time period.

Concerning appraisal values for oil country tubular goods from an inventory perspective, Gordon Brothers expects a material drop in Tier I volumes. Tier II is expected to be limited to low volumes due to market conditions and a weak structural market. Scrap is expected to be negatively impacted based on market weakness. Equipment values in this space will be similarly impacted.

The Expert: Jason Jones

With over 30 years of in-depth experience in the oil and gas sector, Jason performs machinery and equipment appraisals with an emphasis on all facets of the oil and gas industry.
Read his full bio here.

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