

Juggling the New Realities of Credit

PESA New Orleans
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Valuations in a Widowmaker Market

James K. Wicklund
Carlson Capital

Multiple Dislocations

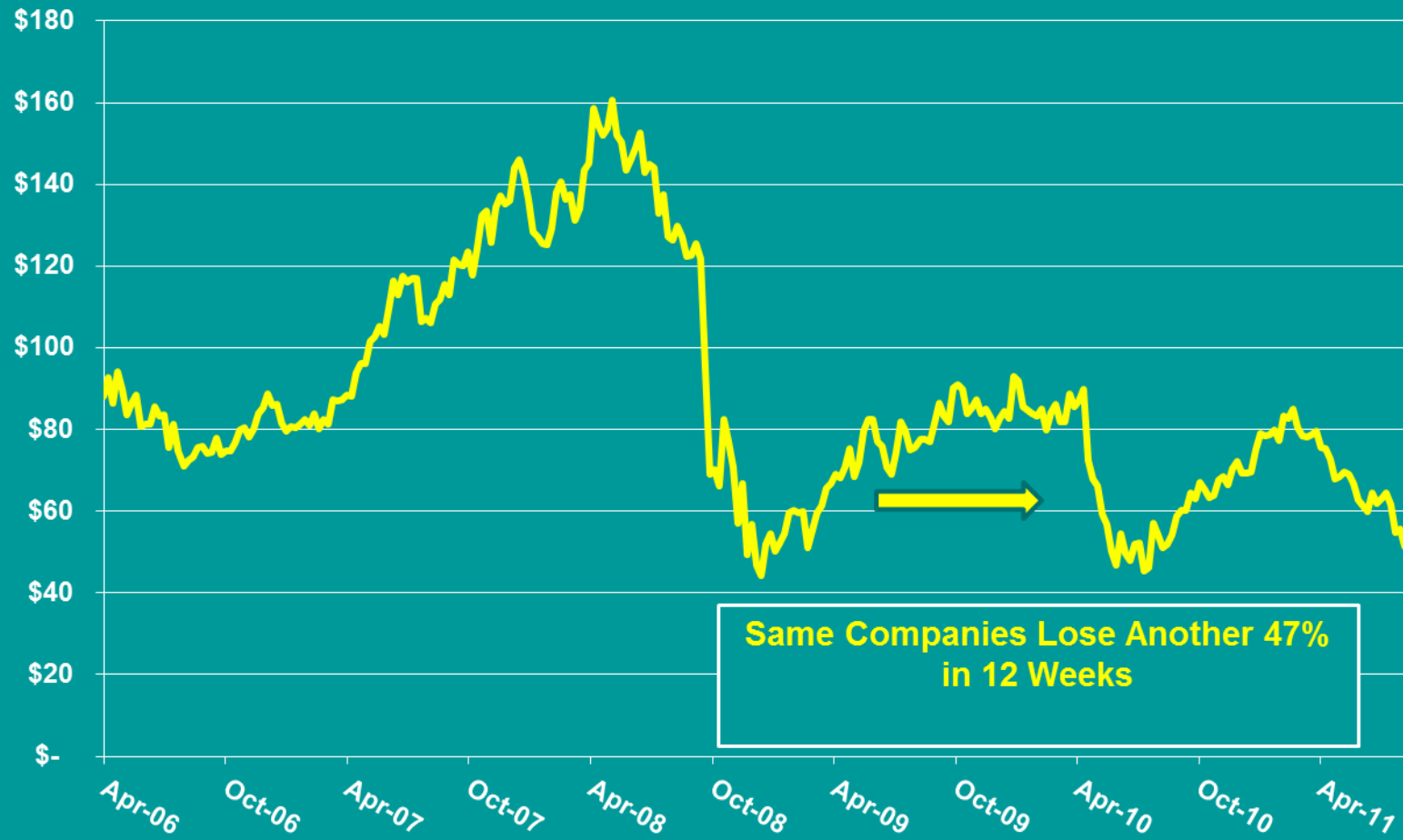
- The Crash of 2008
- Macondo – The Worst Environmental Disa.....
- The Government
- The Crash of 2011
- The Mad Gyration of Crude Oil

All balanced against a world of growing energy needs, no viable alternatives for most uses and declining supply

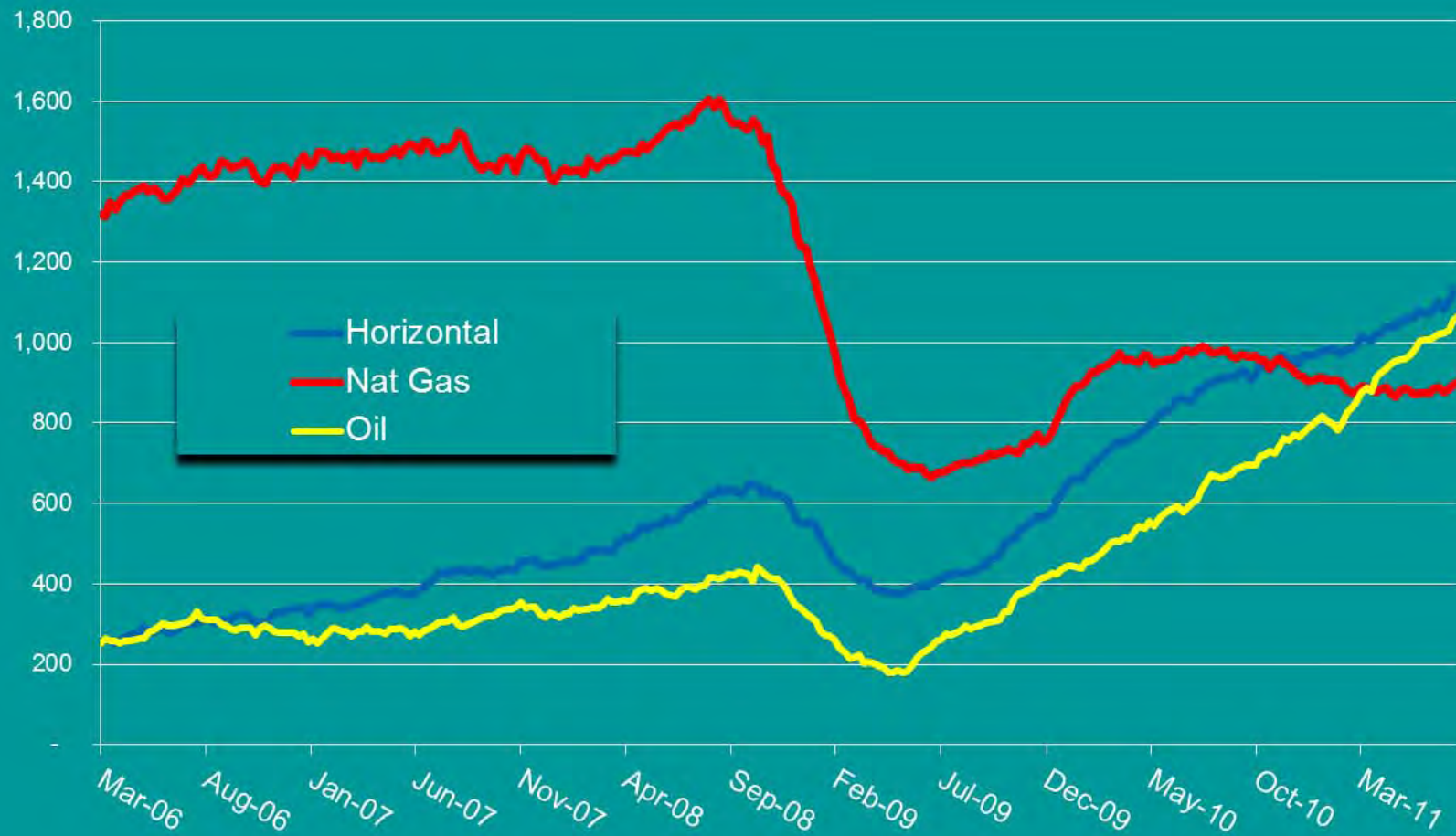
2008 Crash



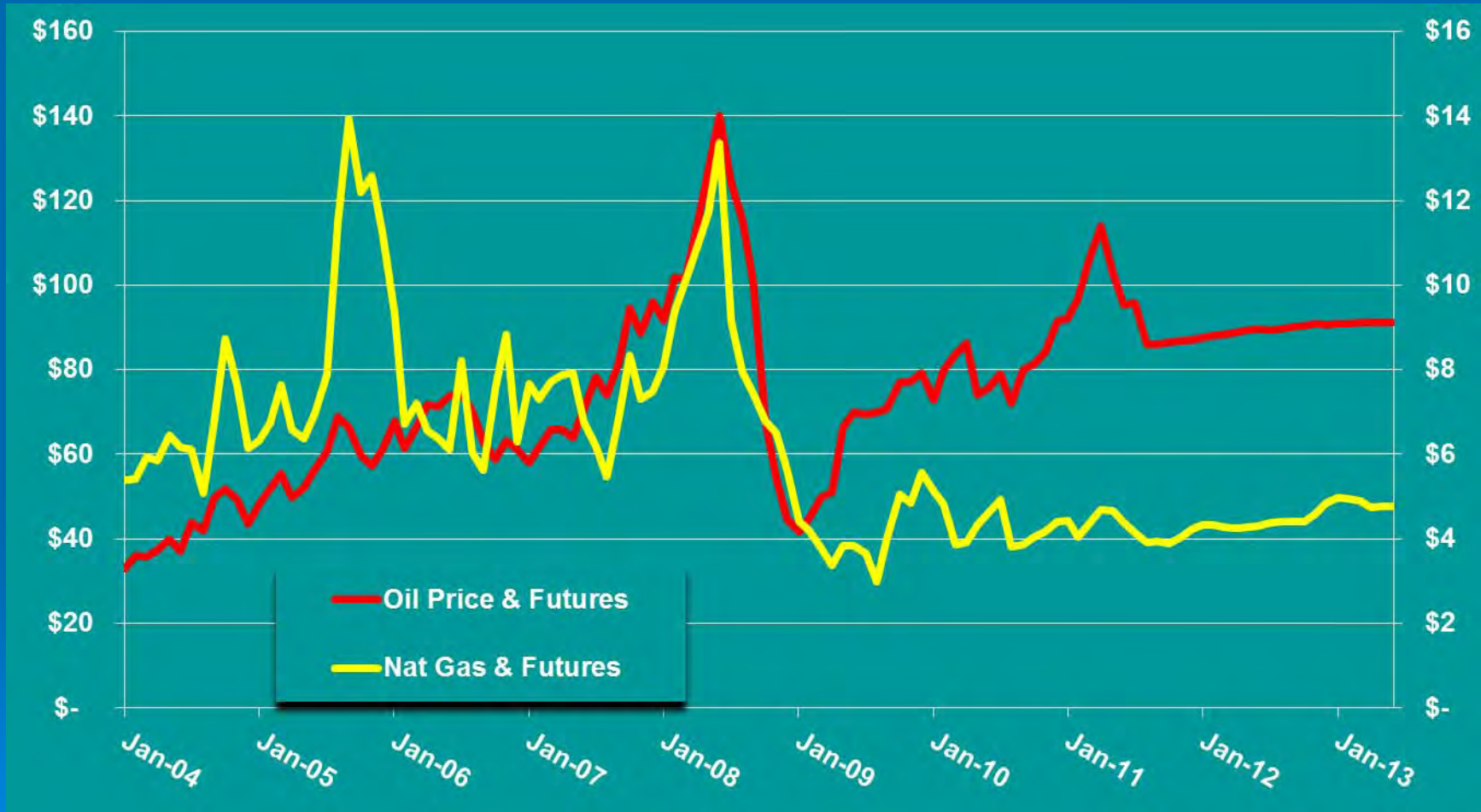
Macondo



Complexity & Objective Change



Commodity Price Outlook

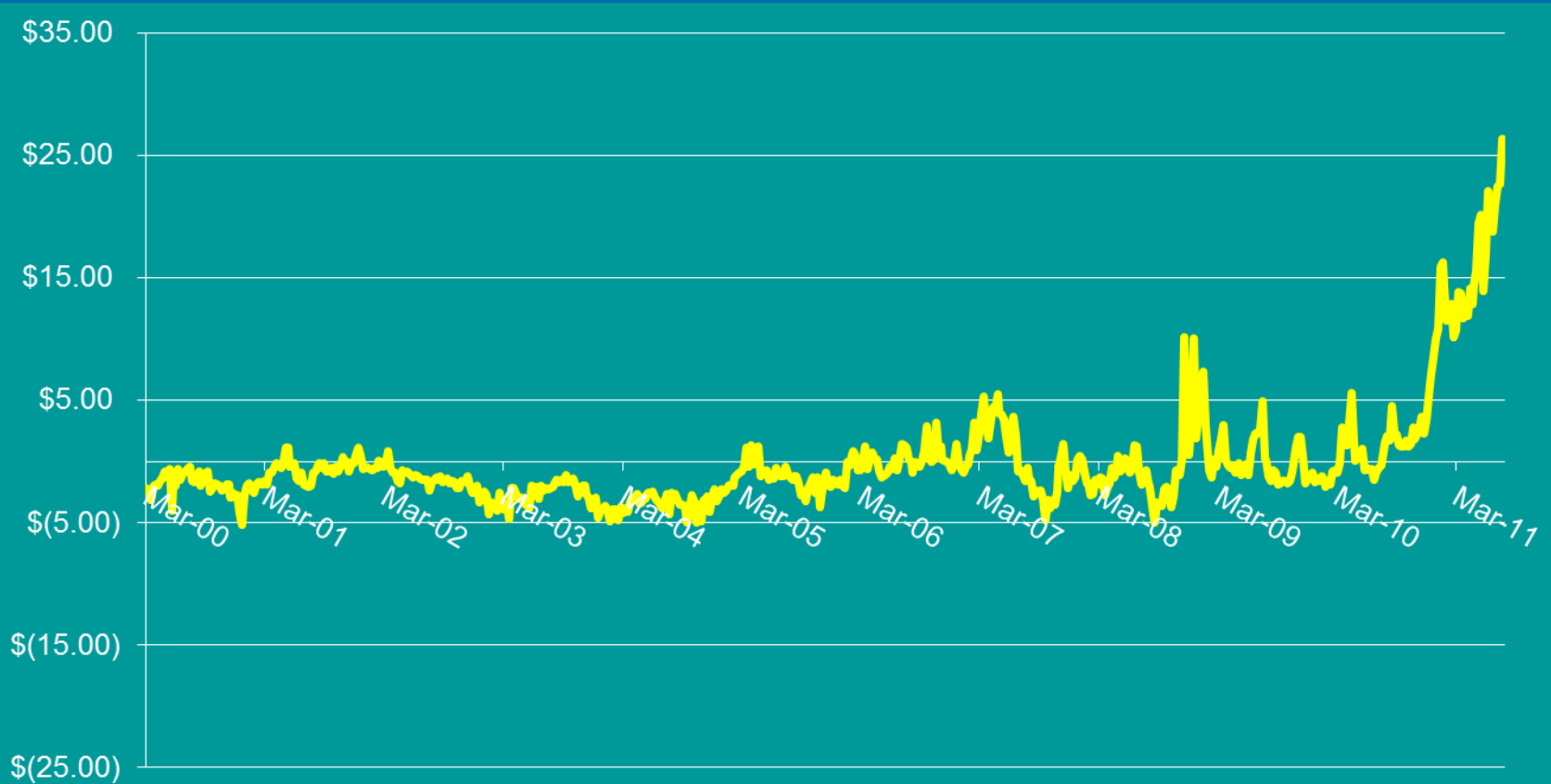


Fundamentals be Damned

- Global GDP and Global Oil Demand are highly correlated, especially directionally
- From **\$58** to **\$147** to **\$34** to **\$114** to **\$85** – in less than FIVE YEARS
- Natural Gas. Do We Still Care??

Slower economic growth means lower demand which means lower prices which means lower CapEx which means lower earnings.....

WTI-Brent Spread



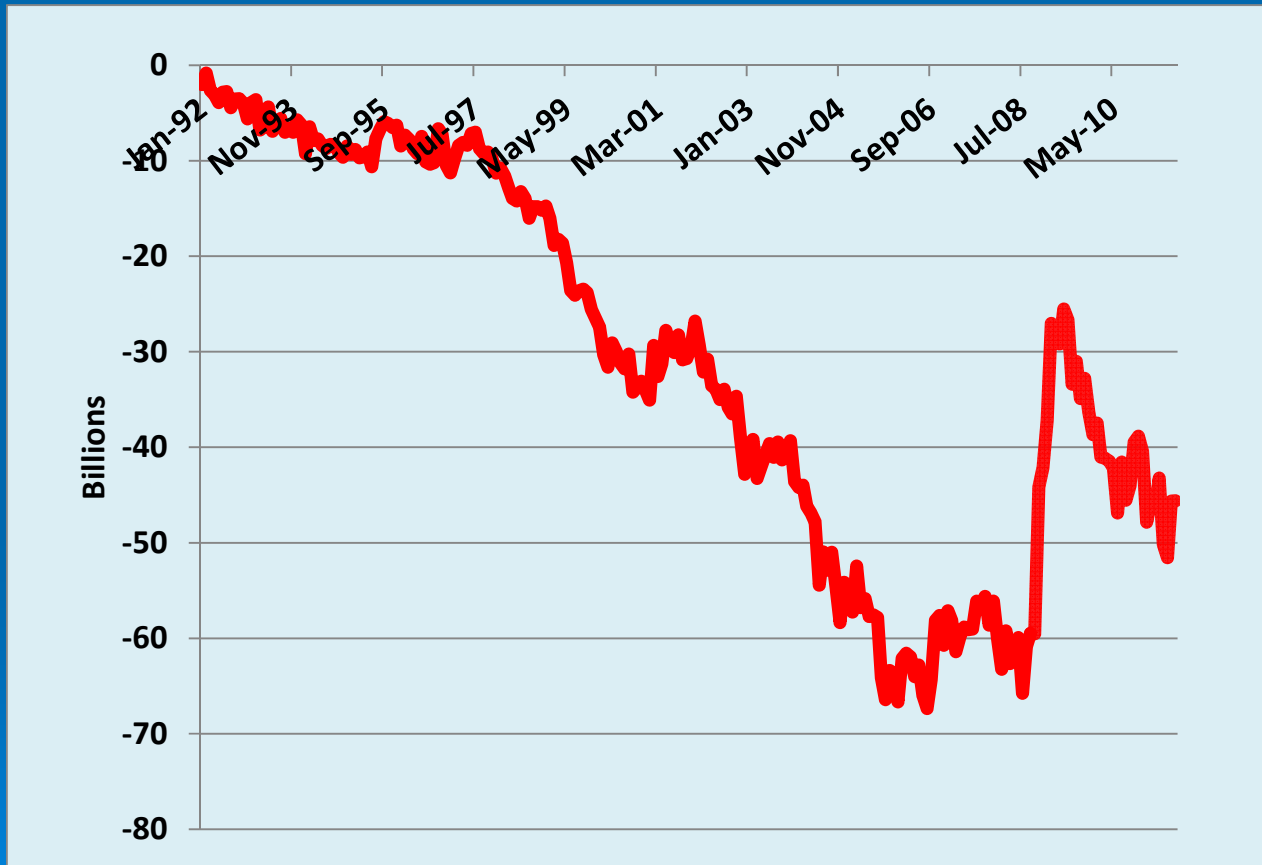
At Some Point, Clarity

- There are huge amounts of hydrocarbons left to produce both on and offshore
- Industry is making the investment as demonstrated by capital committed
- There is no substitute for hydrocarbons at present and for the foreseeable future
- The oil that is left to produce will cost more and rates are increasingly challenged

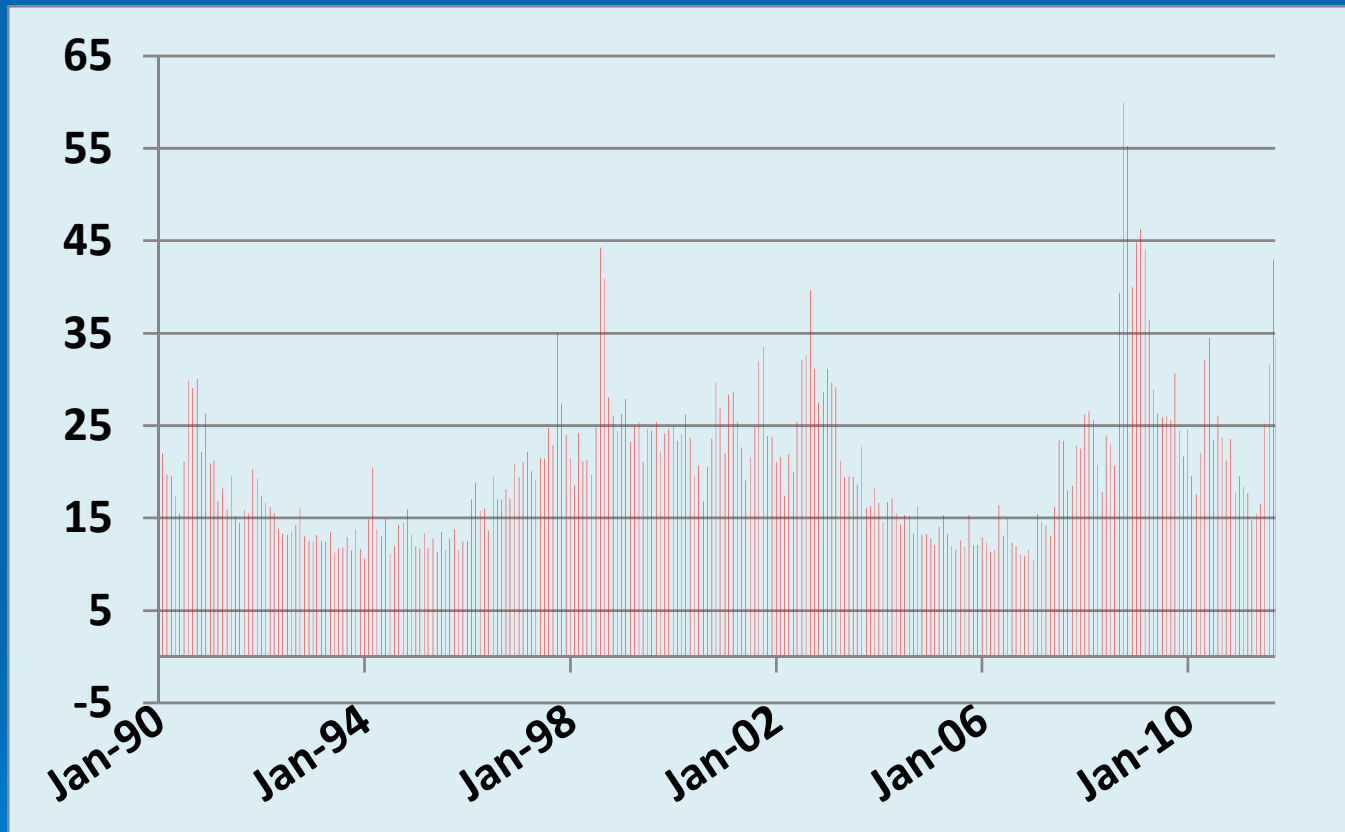
However....

- Near term, the market is foreshadowing a slowdown
- The global macro economic outlook drives oil demand and credit
- Multiples compress during periods of uncertainty
- Near term, issues exist

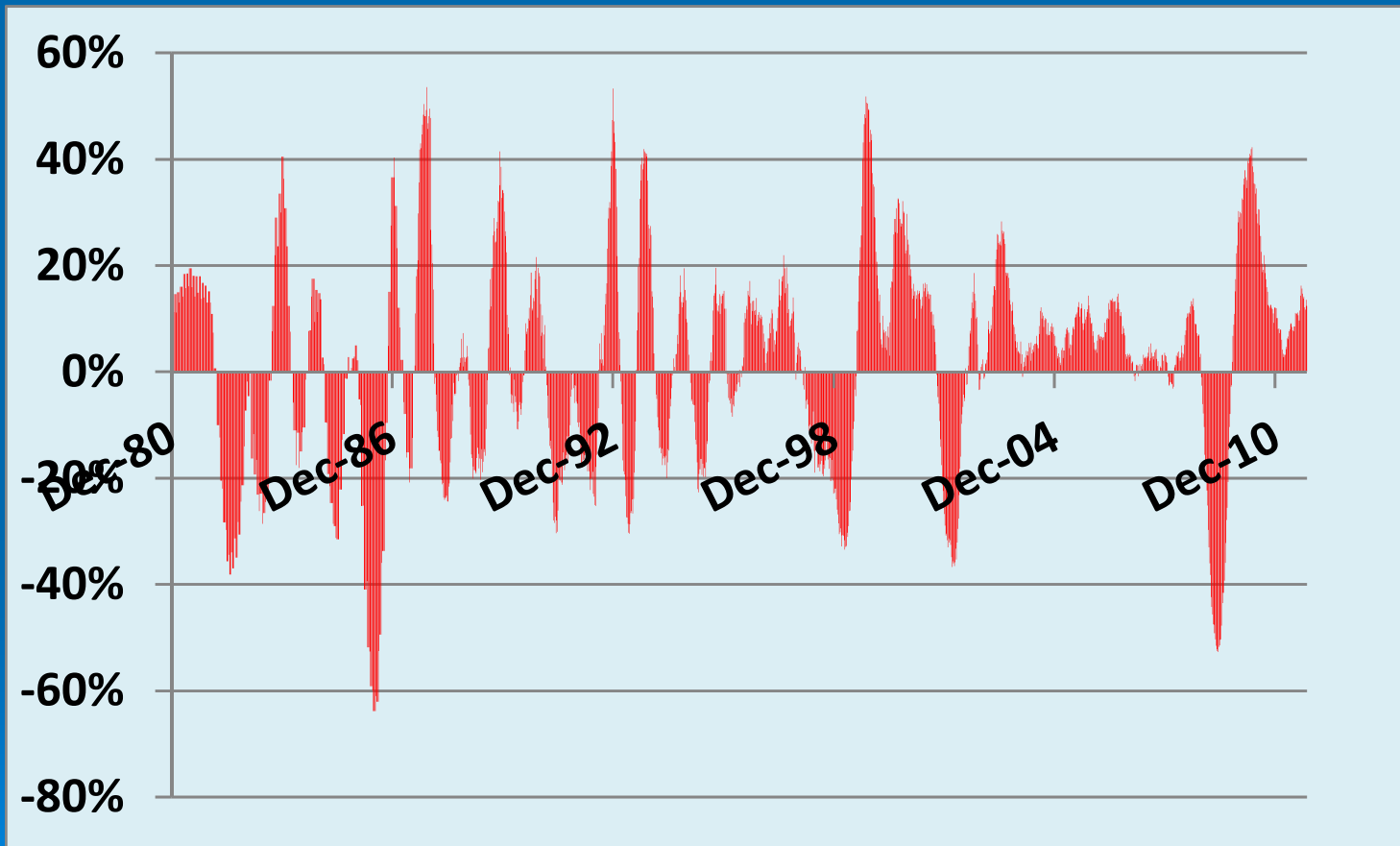
US Trade Deficit



Volatility Remains High



The Business is Still Cyclical

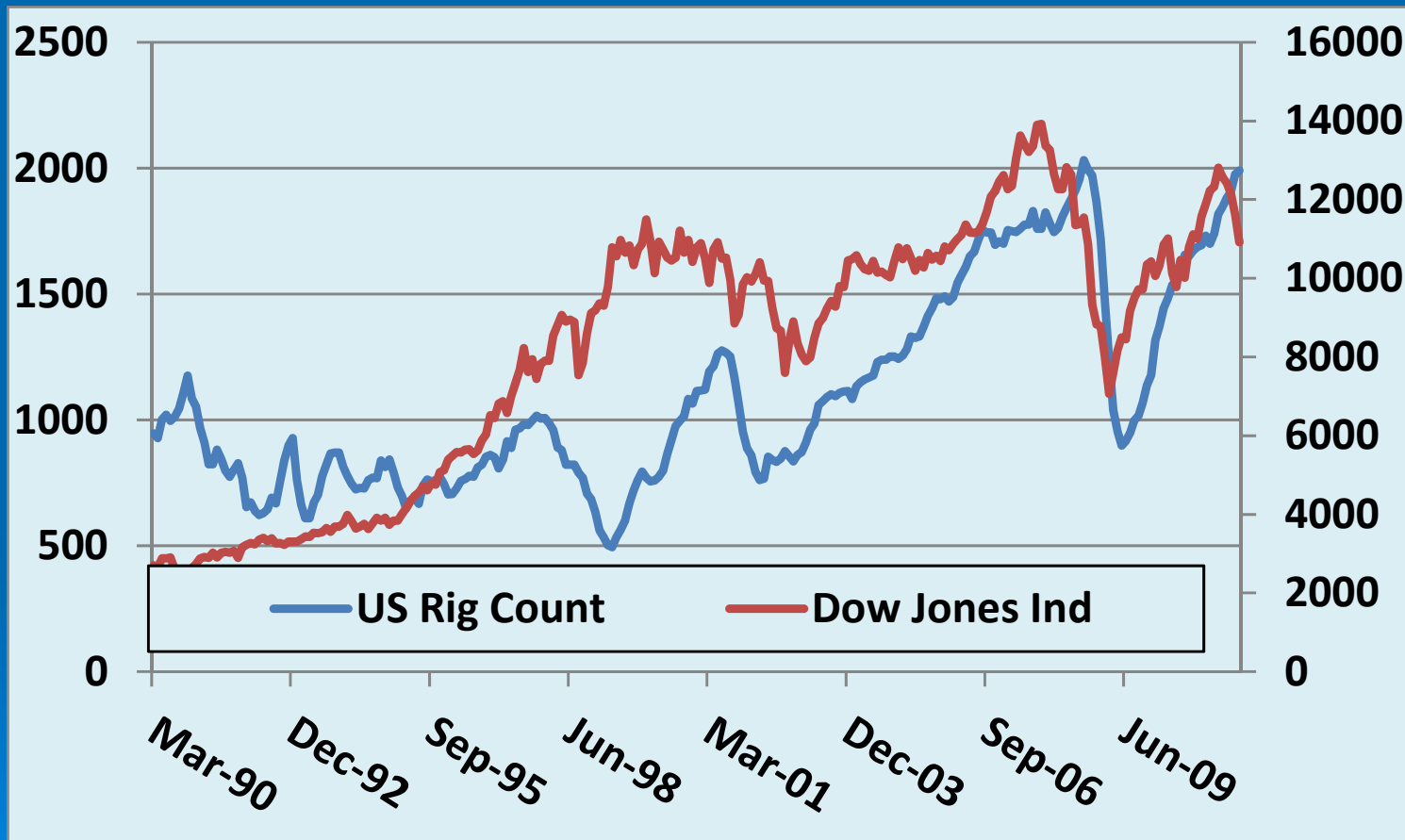


The Outlook is Uncertain

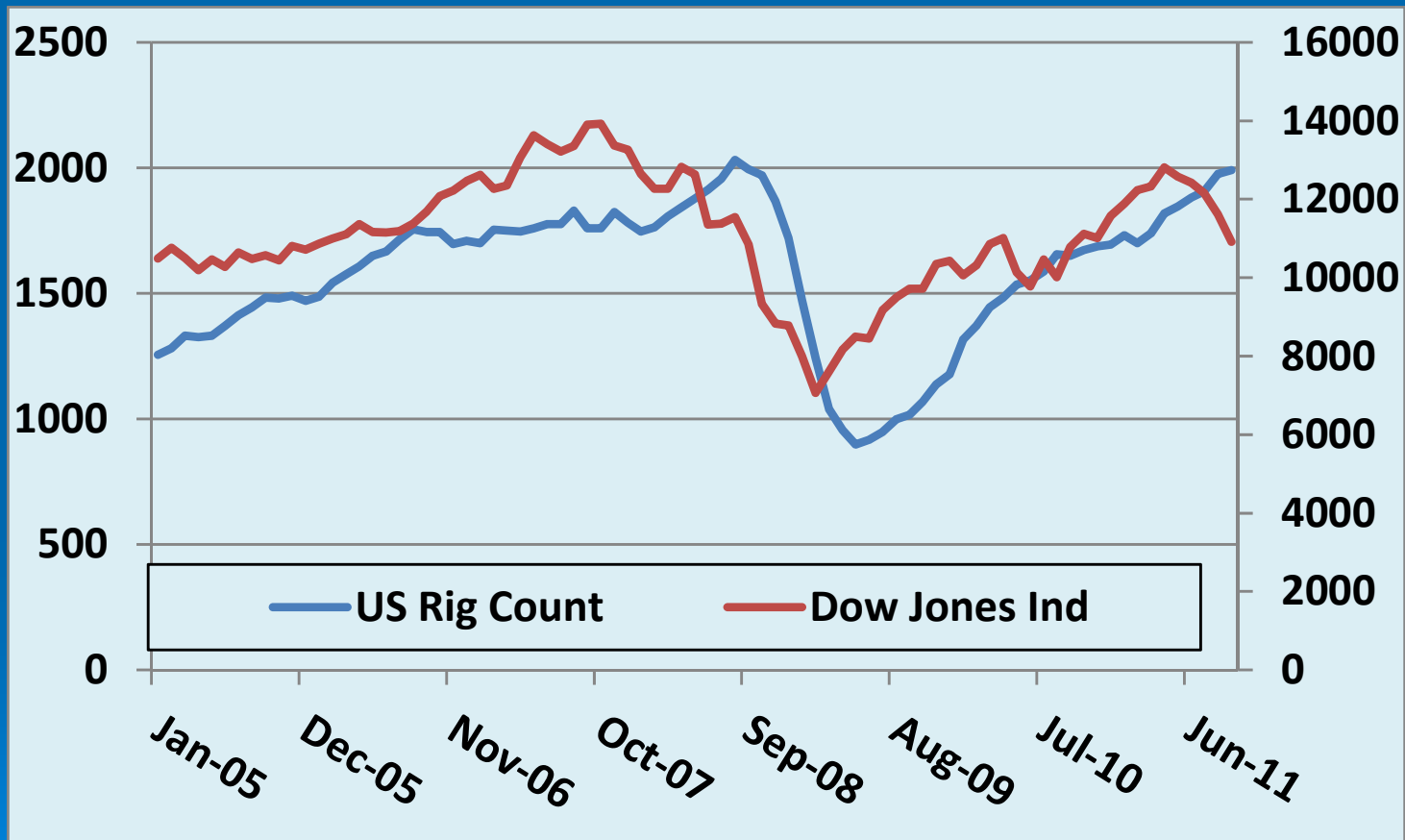
- In a cyclical business, rig count and pricing accelerate, then plateaus and then....
- declines
- before re-accelerating
- 14 month paybacks on capex are normalized over time

Wall Street lingo for “margins are going down soon”

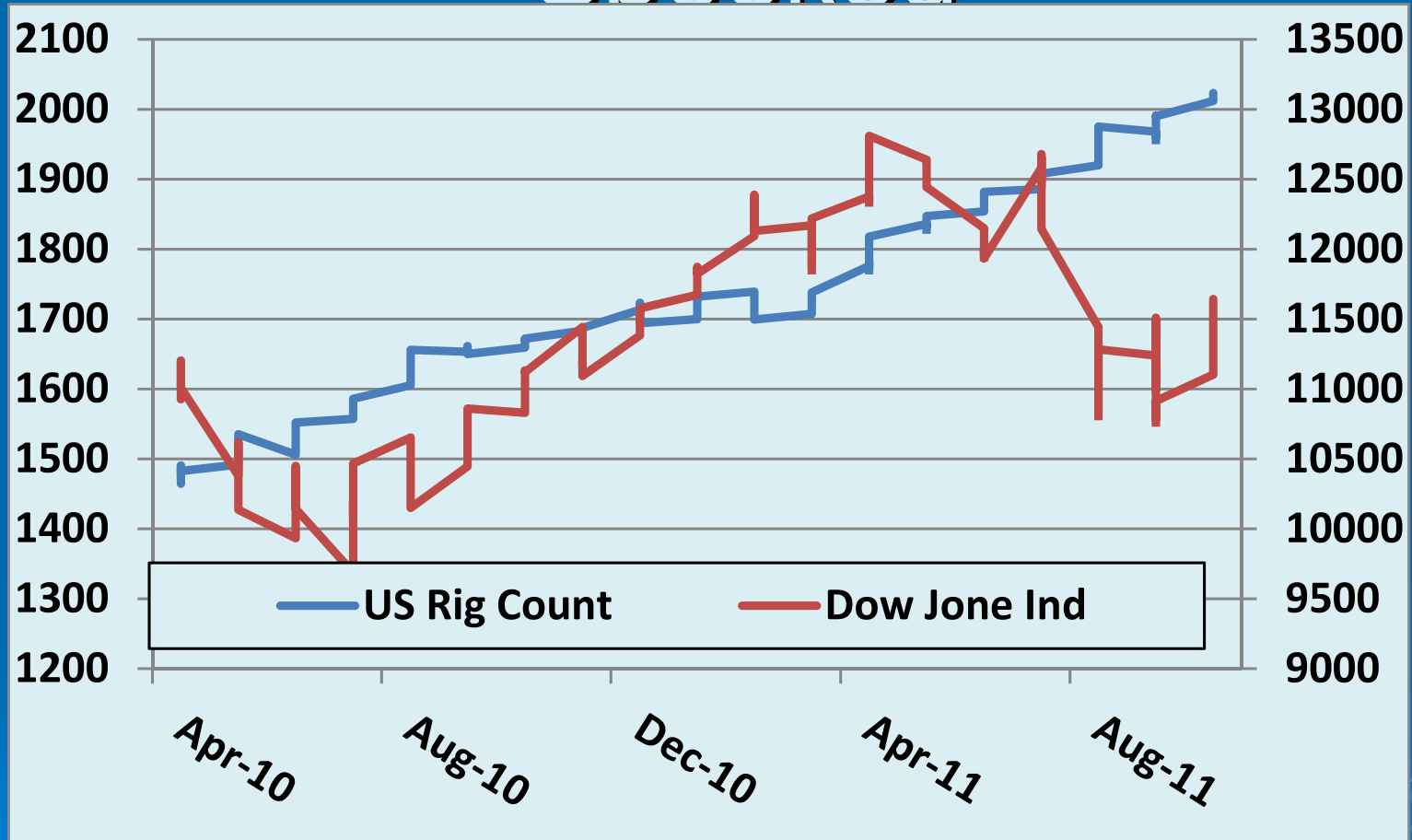
High Correlation with the Broad Market as Leading Indicator



A More Recent View



This is What Has Everyone Spooked



Relative Expectations

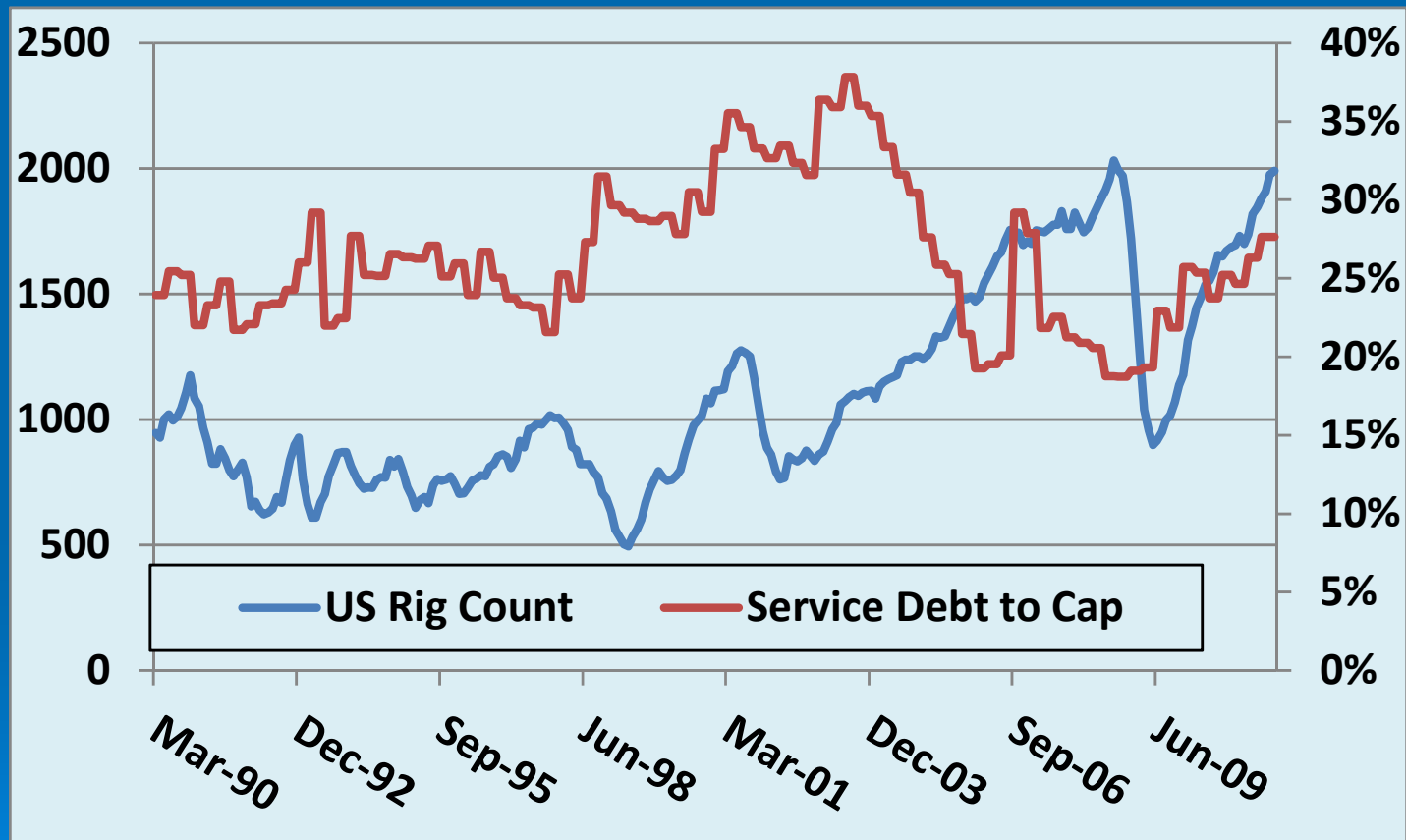
- The US rig count is 8 rigs away from the Sept 2008 highs
- and 9 rigs away from a 25 year high
- Well complexity and cost is increasing
- If activity stayed right here for the next three years, industry would be delighted

However this would be very NEGATIVE for the stocks

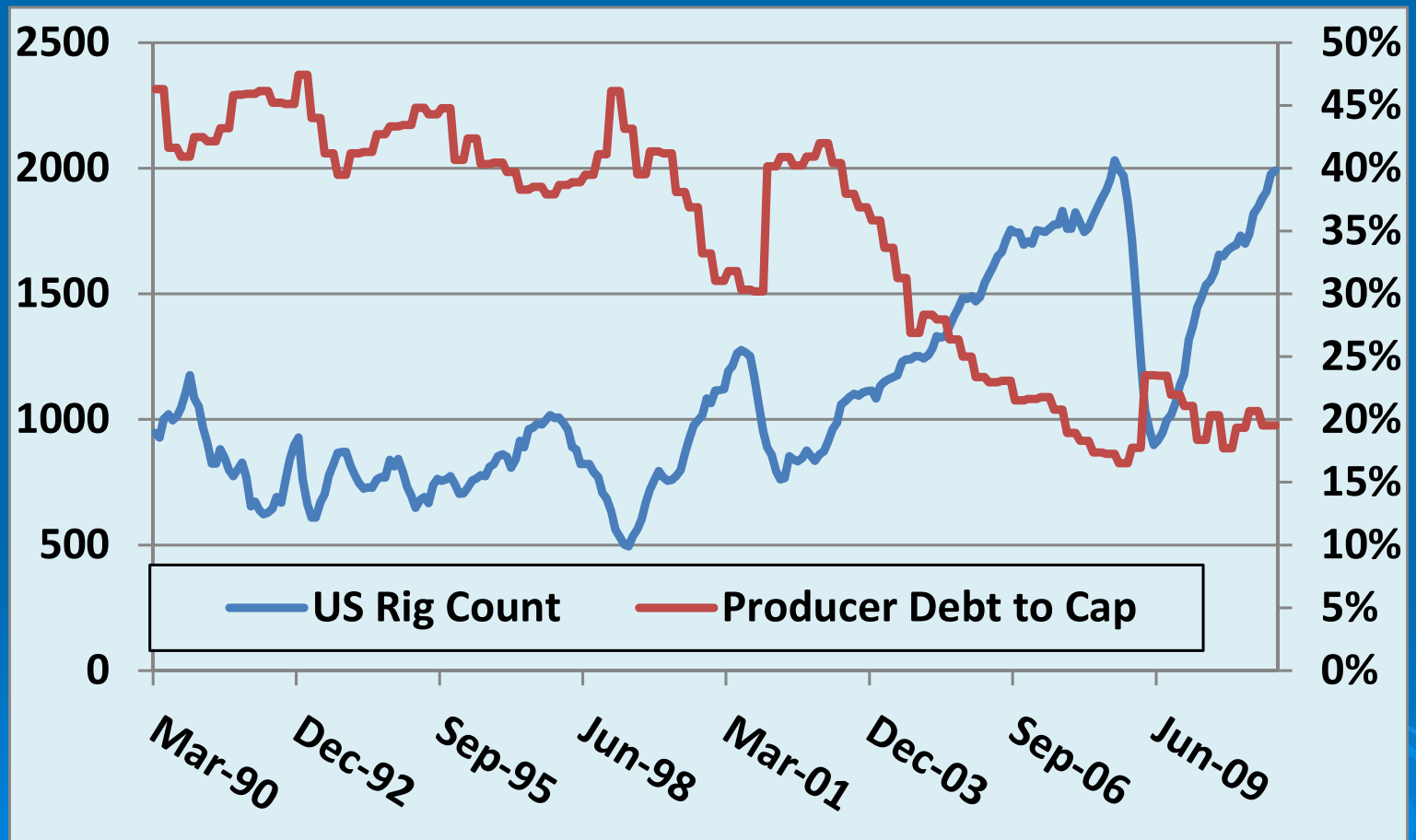
Outlook?

- Investors expect \$100 oil next year. The futures strip has been between \$75 and \$89 over the past two weeks
- At \$80 oil, the industry would have to out-spend Cash Flow by 60% just to keep activity flat
- Production growth versus ROIC is the valuation debate

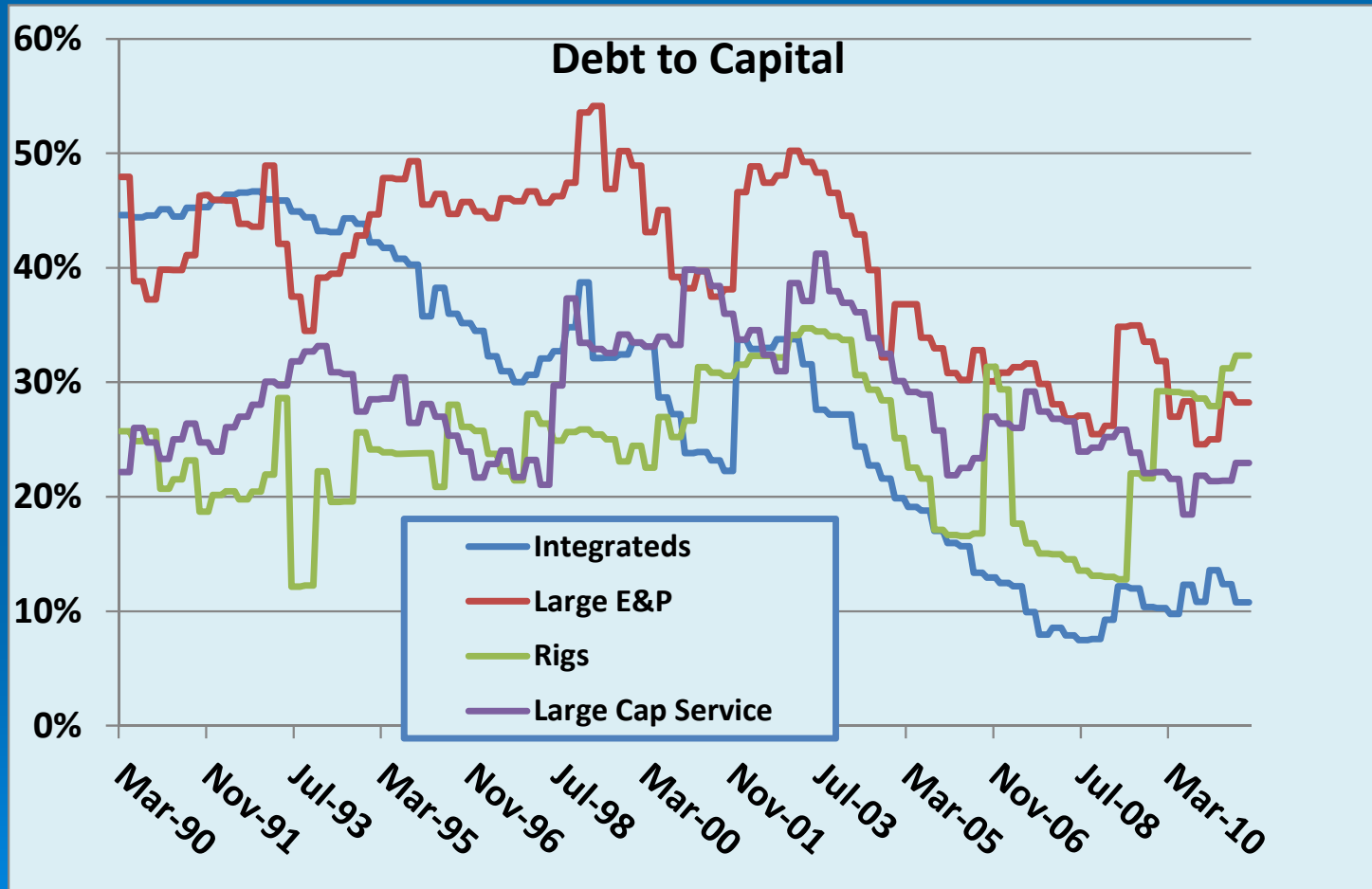
Service Balance Sheets are Strong



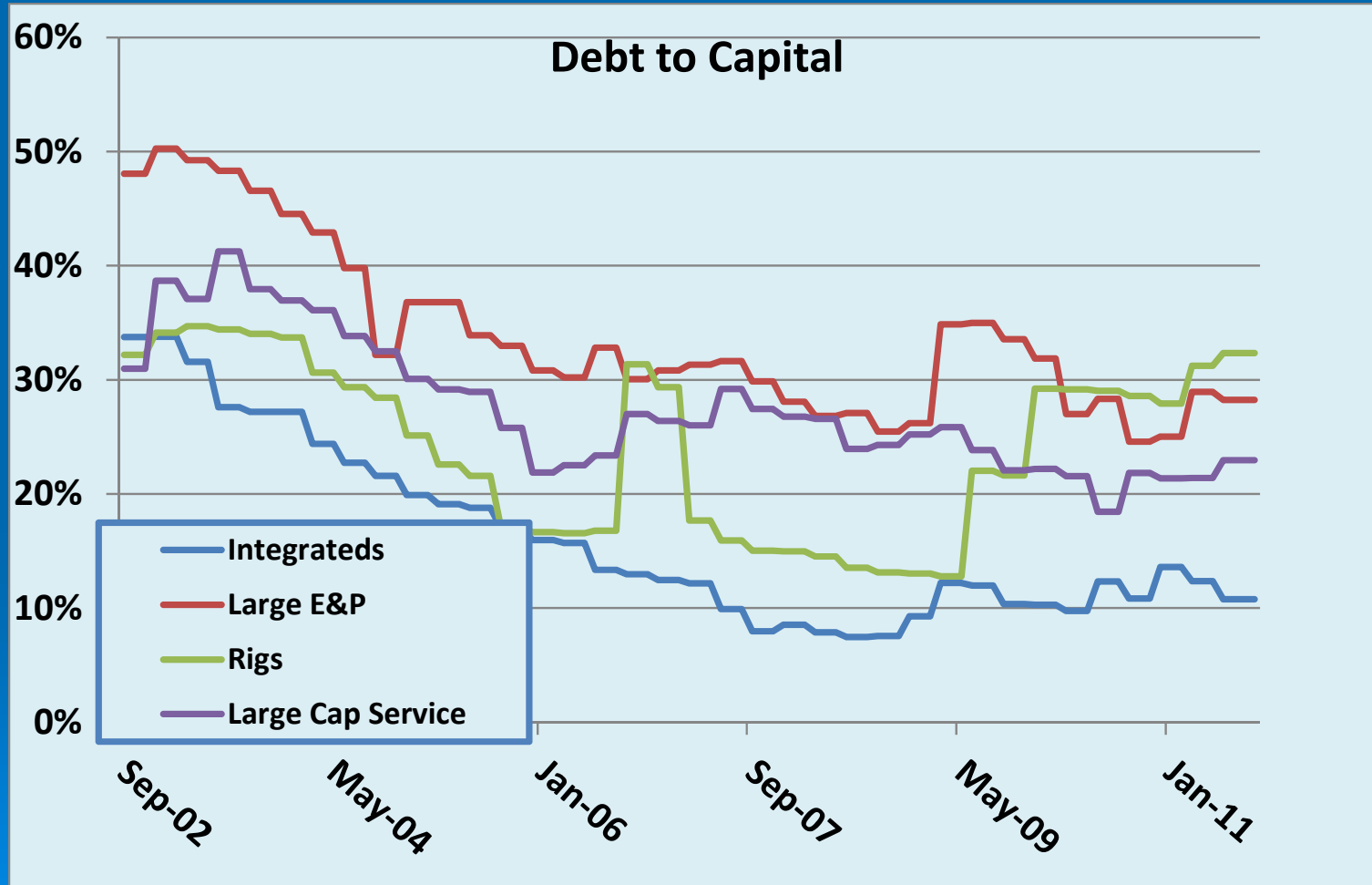
Producer's are Better



Rig Companies are Adding Capacity



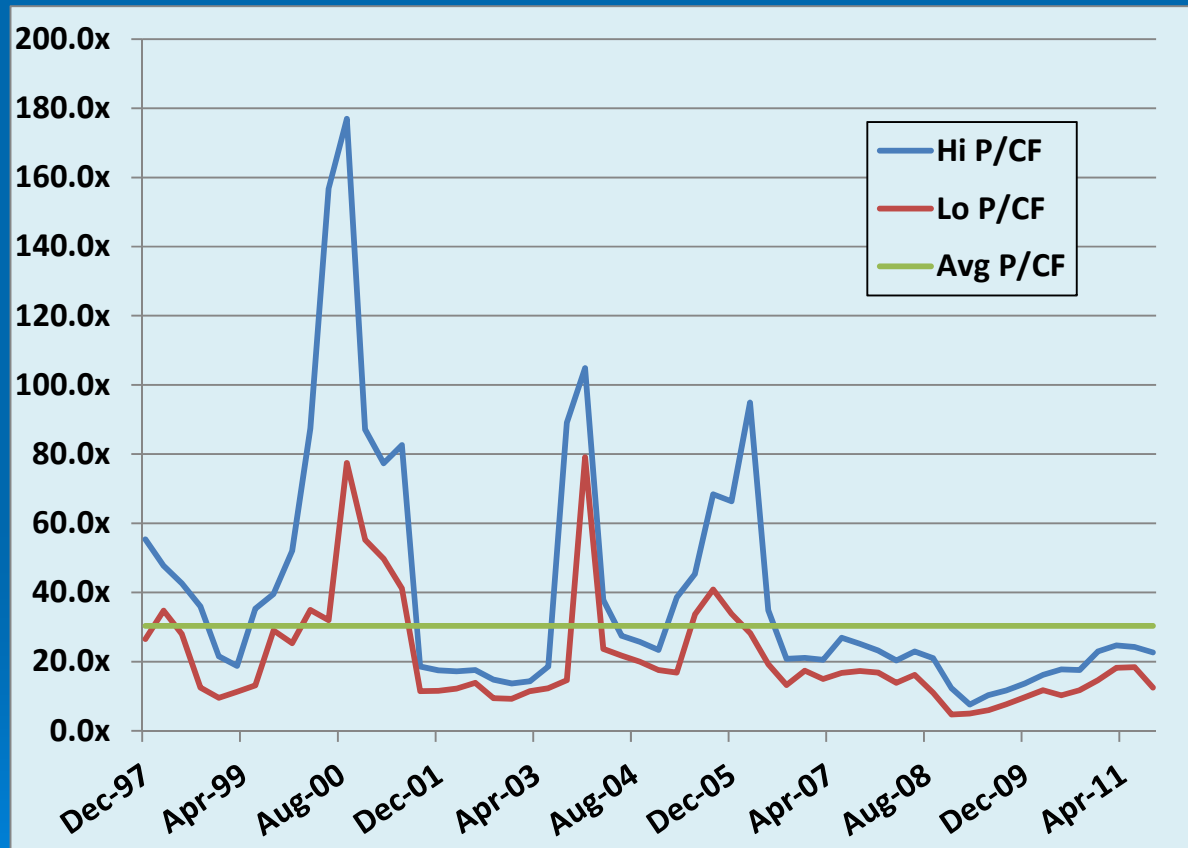
The Industry is Solid



Relative Strength

- It isn't 2008
- Every company will make money next year
- Any down-cycle has to be more shallow and shorter than average
- Efficiency gains, from back office to supply chain to field improvements will continue
- Stocks always swing to extremes relative the underlying business

Stocks Aren't Expensive



And While They Aren't...

- Estimates for 2012 have to be reduced to reflect slower global growth
- Multiples compress with slower growth and uncertainty
- Credit markets are still generally open with the junk bond market more episodic
- Debt is Cheap
- Longer term, supply/demand is tight

“Widowmaker”

- What happens to Greece, Italy, Spain?
- What happens to the EU bank industry?
- Will China GDP be 9% or 7%?
- Will Oil prices be \$75 or \$100 in 2012
- Will Natural gas ever get above \$4?
- Who wins the US elections?

Figure out the above and make millions!

Contact

James K. Wicklund

Carlson Capital LLC

2100 McKinney Ave Ste 1600

Dallas, TX 75201

Phone: 214-932-9620

Email: jwicklund@cclp.com