

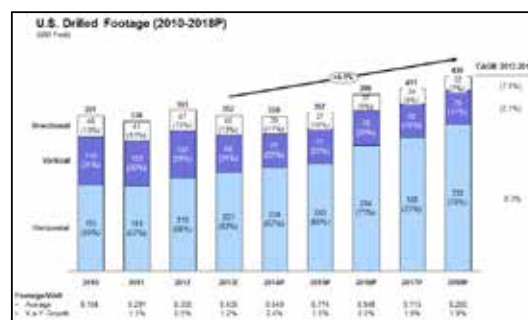
## Customer & Market Due Diligence Of Upstream Oil & Gas Protective Solutions Provider: Establishing OCTG Market Size And Growth Opportunities

**The Challenge:** Our client, a PE-owned manufacturer of diversified protective solutions, was engaged in exclusive negotiations to acquire a niche end-to-end protective solutions provider for the \$17B Oil Country Tubular Goods (OCTG) market. With its vertically integrated recovery and reconditioning capabilities, the target enjoyed a leading position in the reconditioned protective products market – 6X the size of its nearest competitor. Building upon this strong position in the reconditioned market, the target also started selling new products to provide its customers a one-stop solution. While the target had more than doubled its revenue over the past 3 years, our client was concerned about the sustainability and growth outlook of the target's business. To address this concern, our PE client retained Gotham for a 4-week customer & market due diligence to establish the outlook for North America oil & gas drilling, estimate the market size and growth for new and reconditioned products, and evaluate threats to the target's competitive positioning.

**Oil & Gas Protective Solutions Market Analysis & Risk Assessment:** Readily available information on this small protective solutions niche was virtually non-existent. To fill this information void, Gotham undertook extensive primary and secondary research, including: conducting **150+ interviews** with customers (oil & gas companies, well-site operators, and OCTG manufacturers and distributors) and key competitors to pin down target's positioning in the new and the reconditioned products markets and the risks to revenue generation for recovery services; and leveraging **OCTG industry reports, government data**, and other publicly available information. Further, we created a **comprehensive bottom-up model** to establish market size and growth rates.

### Oil & Gas Drilling Activity In North America Is Rebounding With Moderate Growth Expected Moving Forward

To better understand the outlook for oil & gas drilling activity in North America (the underlying demand driver for the target's products and services), Gotham leveraged our **proprietary oil & gas industry knowledge base** on shale and offshore plays. Our research indicated that: (1) shale gas drilling has started to recover following a recovery in natural gas prices; (2) shale oil drilling has grown rapidly with the discovery of oil reserves and will continue to grow moving forward; (3) offshore drilling activity is projected to regain momentum as deep-water rigs are brought back after the BP-spill-related halt; (4) despite a decline in drilling of conventional resources, oil sands and shale gas will continue to fuel drilling activity in Canada; and (5) the drilling outlook in Mexico is highly dependent on passage of legislation to allow private investments in the oil & gas industry (recently passed).



### Increase In Unconventional Oil & Gas Drilling Should Drive 7% Growth In Target's Protective Solution Market

To establish market size and growth rate, Gotham built a bottom-up model based on drilling activity, leveraging facts gathered from our primary and secondary research. We first established drilling activity using Baker Hughes rig count data on well spend by basin, depth, and trajectory and validated this data against information from several other sources (e.g., EIA). We established OCTG need by well type (horizontal, vertical, directional), by casing and tubing, by well section (surface, conductor, production), and by standard vs. premium OCTG requirements. Finally, we translated OCTG demand projections into the market size and growth rate of the protective products market by leveraging pricing data (both target's and competitors') and findings from our primary and secondary research.

### Target Well-Positioned In Reconditioned Protective Products Market With An Opportunity To Grow Its New Products Sales

Analyzing the complex OCTG value chain, which comprised international and domestic integrated manufacturers, importers, distributors, and intermediary manufacturing service providers, Gotham established that the target's customer base is fragmented due to the prevalence of distributors in the OCTG market, which allows international and smaller domestic OCTG mills to play in this market. To establish target's competitive positioning, we profiled the attributes (location served, product offered, size, key relationships) of 10+ competitors (covering 90% of the market). Our competitive assessment, supported by 56 OCTG customer interviews, established that competitors in the reconditioned product market posed little threat to the target given target's strong foothold from its broad product-line, pricing advantage, and availability. And, while the new protective product market is dominated by 3 players (~65% market share), our interviews indicated that the target is gaining name-recognition and customers are willing to consider it as a new product supplier.

### On the Reconditioning Side, Limited Supply Risk Of Used Protective Products As Recycling Is Welcomed Both At Oil & Gas Corporate And Well-Site Levels

From our 50+ interviews with oil & gas companies and well-site operators, Gotham established that the target is by far the most frequently used service provider for the recovery of used protective products, and that customers highly value the target's reliability and traceability of service. At the corporate level, oil & gas customers value the target's environmentally sustainable offering, while at the same time, well-site operators value the ease at which used products are disposed of by the target. Furthermore, we concluded that the risk of price erosion for recovery services is low, as free pick-ups from distributors, pipeline inspection companies, and small reconditioned product companies have little effect on the target's positioning due to limited use of these options.

**The Outcome:** Armed with a fact-based understanding of potential risks and validation of growth opportunities from Gotham's due diligence, our PE client was able to move forward with confidence and successfully closed the transaction.