ENVERUS

WELL SERVICES
UPSTREAM OIL & GAS
MACRO

COMPLETIONS, CREWS AND CONSUMABLES

The Five-Year Outlook

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How will the L48 horizontal rig and completion activity forecast affect downhole consumable consumption?

KEY POINTS

- L48 completion activity is forecast to increase % in 2022.
- D&C costs are expected to rise % in 2022 versus 2021.
- Tight supply of both rigs and crews activity during the first half of the year.
- Enverus forecasts North American production growth in the back half of 2022 will oil and gas prices relative to the current NYMEX strip. This is expected to activity for the price-sensitive private E&P sector in Q3 and Q4.

GENERAL

Completions trended up in 1H21, but some unexpected seasonality began showing up in late 3Q21 as completion counts dipped lower into 4Q21 (**Figure 1**). This pattern harkens back to 2018 and 2019 where companies front-end loaded capital spending, and we believe this is representative of both the outsized influence on activity of private companies (**Figure 2**) and the exhaustion of drilled uncompleted well (DUC) inventories. In our recent **Capex Burndown** report, the pattern of public company spending in 2021 is observed to be the [illegible] of this trend with spending [illegible] incrementally throughout the year.

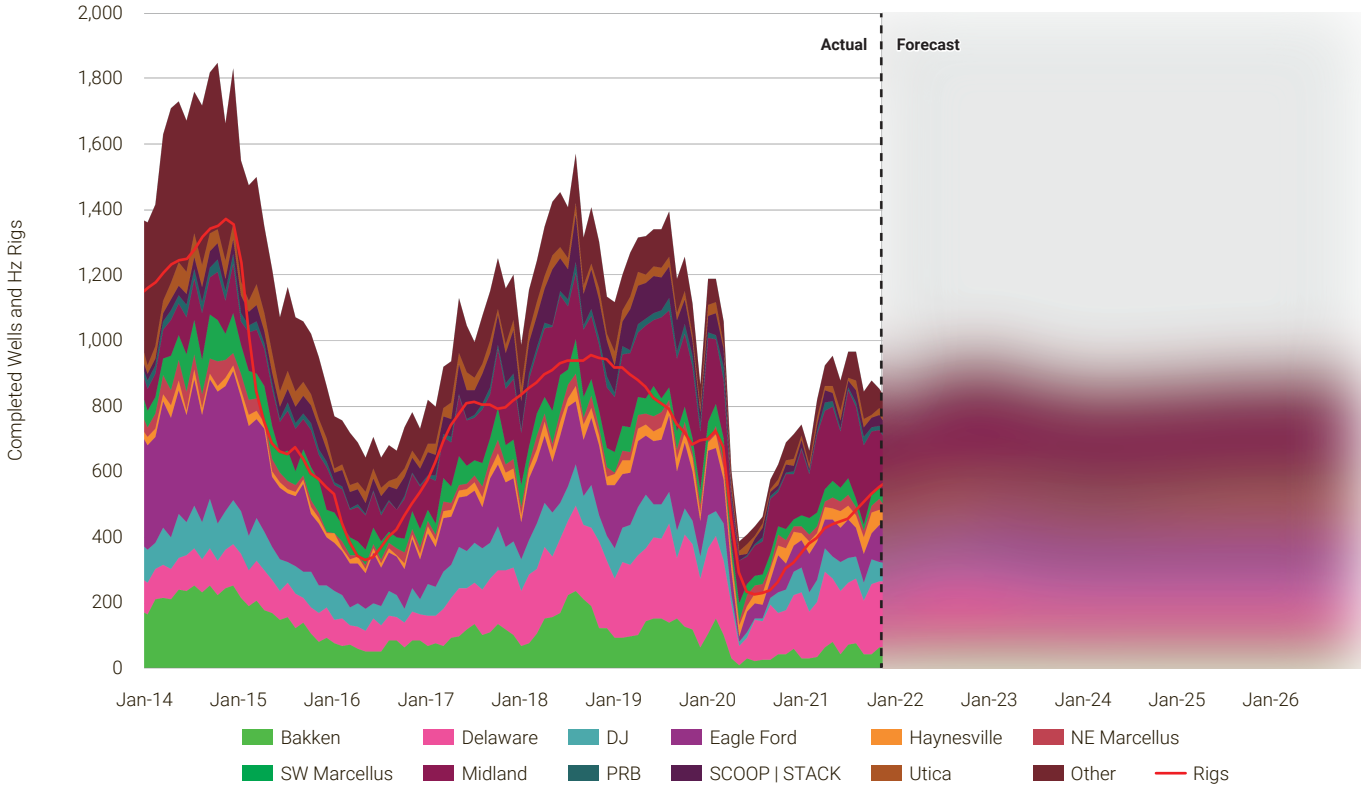
A confluence of factors supports a sustained higher oil price and [illegible] into the first half of 2022. Enverus now **expects WTI prices** in the $[illegible]s/bbl for the balance of 2022. From a macro perspective, unanticipated international supply outages combined with OPEC+ members not fulfilling their upped quotas are bolstering prices. In the U.S., the capital discipline narrative remains entrenched, although evolving, for public companies. Private companies continue to lead the charge on restoring activity, still claiming over [illegible]% of the U.S. land rig count versus their historic share of [illegible]%.

Oilfield service companies (OFS) companies are reporting they expect E&P capital expenditures to [illegible] Y/Y for 2022 in North America. The critical question for OFS goods and services, though, is what percentage of that [illegible] will be earmarked for activity rather than cost inflation? Some universal themes have emerged from OFS 4Q21 earnings season around cost inflation: supply chain and logistics struggles, longer lead times on labor, trucking shortages, tight supply of the most capable and efficient equipment, and net pricing increases along with increasing margins. It appears increasing likely that up to [illegible]% of [illegible] spending in 2022 will go toward cost inflation. The remainder will drive [illegible] activity, including the [illegible] in wells drilled per completed well from DUC inventory depletion.

NEED TO KNOW | Forecasting Methodology and Areas of Interest

Our revamped ProdCast **production forecast** underpins our medium-term supply, demand and price outlook. The forecast for 2022 incorporates both our extensive **NAV coverage** of North American E&Ps and current drilling levels for private operators. Beyond 2022, we transition to economic modeling, ramping up drilling as IRRs increase, based on go-forward well design and economics in each of ~500 different type curve areas. This enhanced granularity enables us to forecast downhole consumables at a fundamental level, based on the different well completion designs in each of these type curve areas. This report summarizes those ~500 forecasts to the play level; forecasts for each area of interest will soon be available in our new Enverus Production Outlooks solution.

FIGURE 1 | Horizontal Completion Activity Forecast

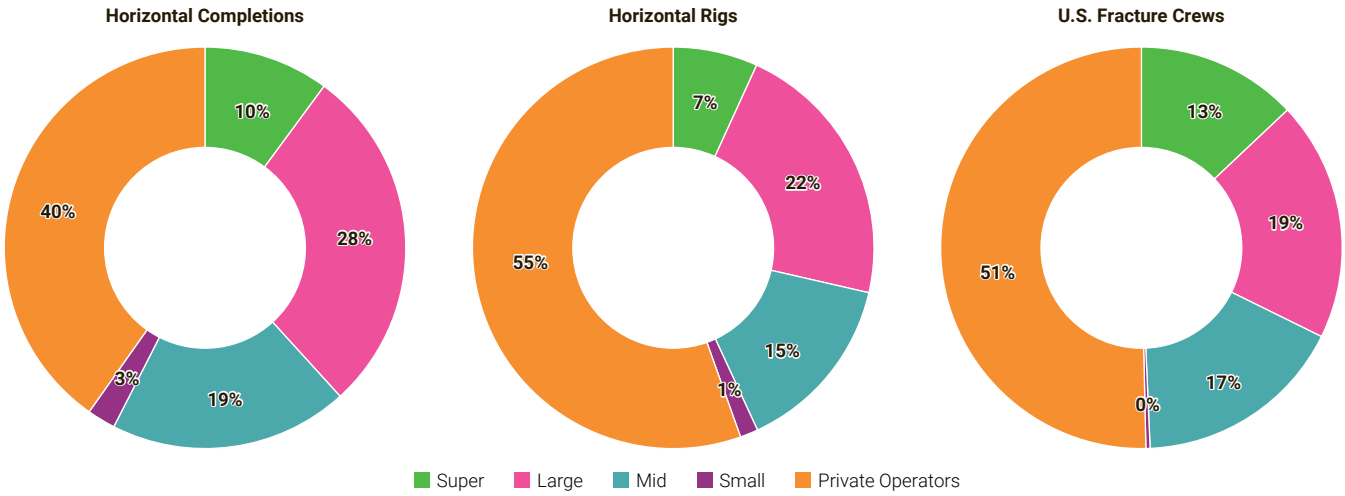


Source | Enverus, ProdCast 3.0

RIGS AND CREWS

With private E&Ps currently controlling a majority of activity in L48, the likelihood of oil supply builds in 2H22 beginning to [illegible] oil pricing and private companies more reactionary to pricing and likely to [illegible] spending, we expect the rig count to [illegible] in the second quarter and then begin to [illegible] through the back half of 2022 (**Figure 3**). Given the timing lag from spud to completion, we see hydraulic fracturing crew counts continuing to [illegible] into Q3 before [illegible] in Q4 (**Figure 4**). Additionally, tight supply of OFS assets and cost inflation are likely to place a [illegible] on activity in the first half of 2022.

FIGURE 2 | Share of Activity by Market Cap for Covered Companies



Source | Enverus

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Additional sections and figures shown on the full report:

Additional Sections

Downhole Consumables Demand Impact

Additional Figures

Figure 3 | L48 Land Rigs
Figure 4 | L48 Active Hyudraulic Fracture Crews
Figure 5 | Completion Activity Metrics
Figure 6 | Fracture Treatment Downhole Consumables

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