



RPC Inc.

Investment Research Presentation

April 19th, 2016

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RPC Inc. Recommendation

HOLD



Valuation Summary

Company	RES
Current Trading Price	\$14.65

Method	Price/Share	Weight
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Discounted Cash Flow

Perpetuity Growth Method	\$30.06	50%
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Comparable Company Analysis

EV/Revenue	\$6.89	25%
EV/EBITDA	\$7.16	25%

Target Price	\$18.61
Upside (%)	27%

Declining oil rig count

Decreasing completion costs

Fortress balance sheet

Industry Summary

This industry provides hydraulic fracturing services for oil extraction companies. These services include drilling and fracking equipment as well as materials needed for the hydraulic fracturing process. Wells that have been hydraulically fractured are able to access otherwise largely inaccessible tight oil and expanded oil reserves.



PTEN
2.46B



SLCA
1.41B



EMES
113M



CJES
155M



SPN
1.94B



RES
2.94B

Industry Overview

Revenue

\$8.5 B

Profit

\$289.1 M

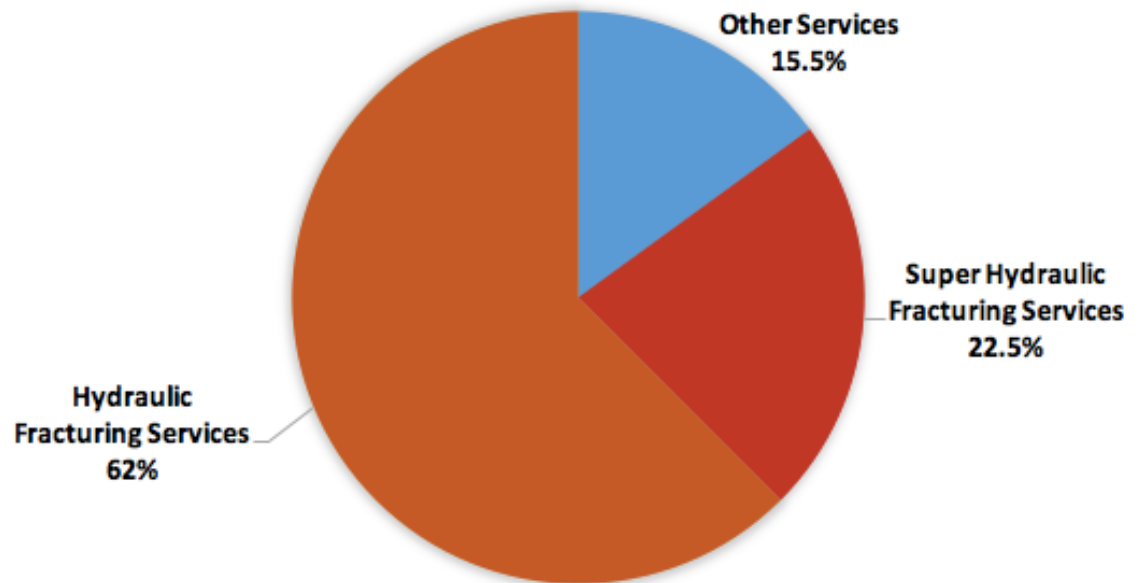
Annual Growth (2010 – 2015)

0.3%

Annual Growth (2015 – 2020)

6.3%

PRODUCTS AND SERVICES SEGMENTATION



Ticker	Market Cap (Millions)
RES	2,940
PTEN	2,460
SPN	1,940
SLCA	1,410
CJES	155
EMES	113

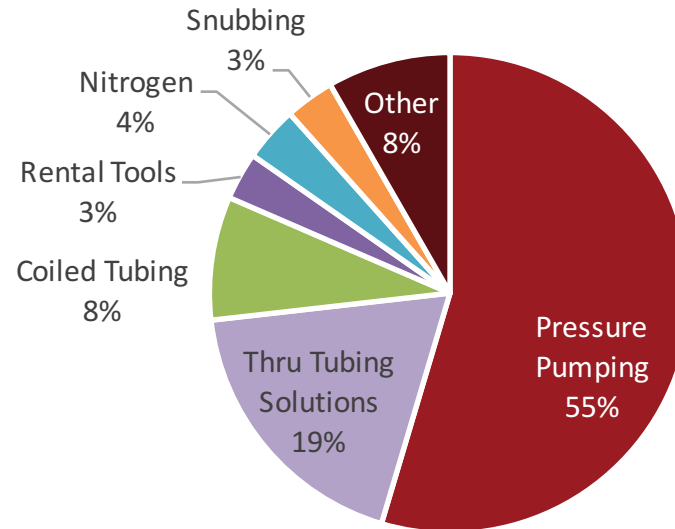
Life Cycle Stage	Growth	Regulation Level	Medium
Capital Intensity	Medium	Technology Change	Medium
Revenue Volatility	High	Barriers to Entry	High
Industry Globalization	High	Competition Level	Medium

RPC Inc. Overview

Snapshot

Revenue	1.26B
EBITDA	123M
CAGR (5yr)	2.9%
EPS	-0.47
PEG	1.64
ROA (TTM)	-6.60%

Revenue Generation



CEO Richard A. Hubbell

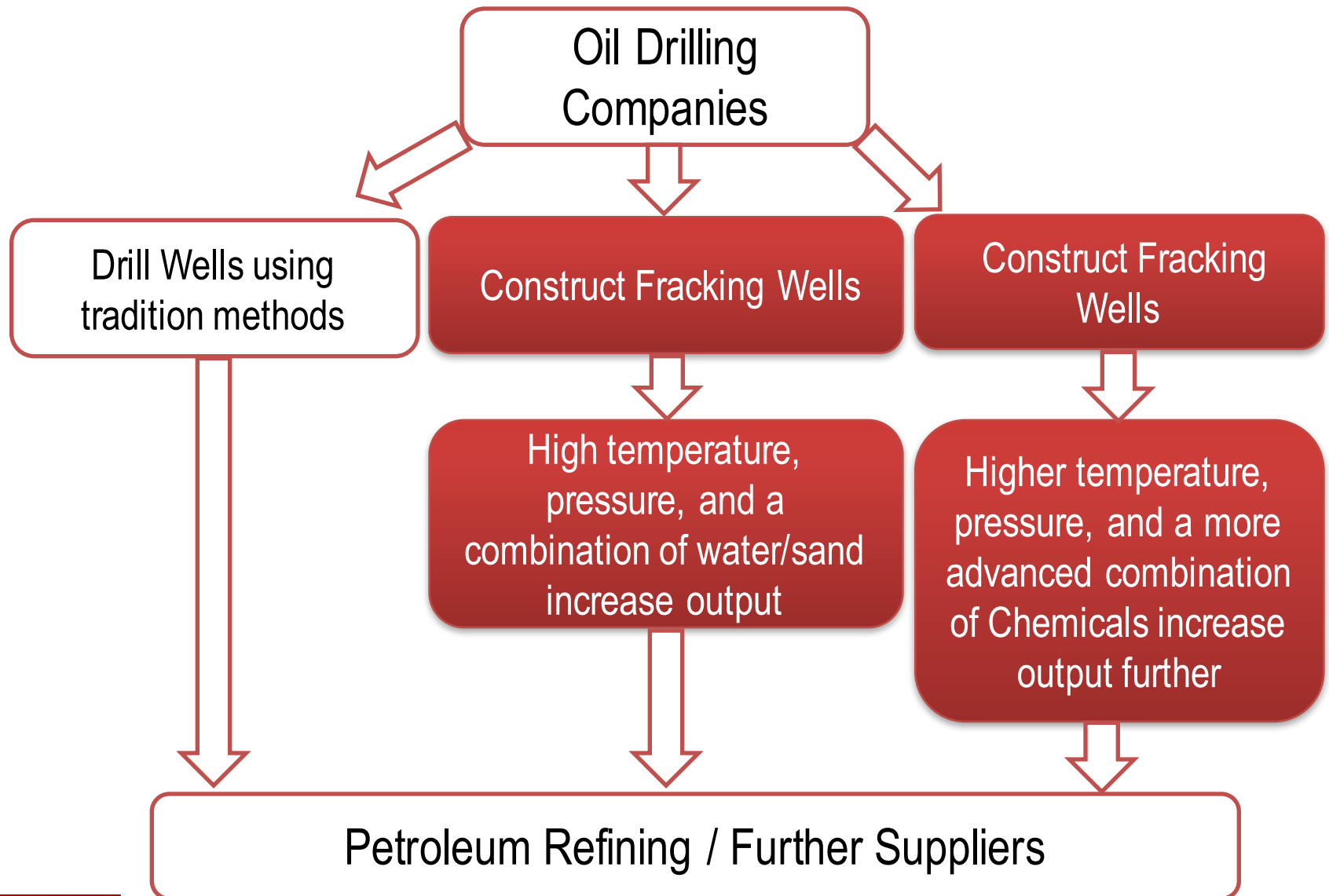
President since 1981

CEO since 2003

Share Price: \$1.43 → \$14.13

Strong focus on maintaining strong balance sheet and flexible cost structure
Reduced RPC Inc.'s debt level to \$0 beginning of 2015

Revenue Generation



Decline in
Active Rigs

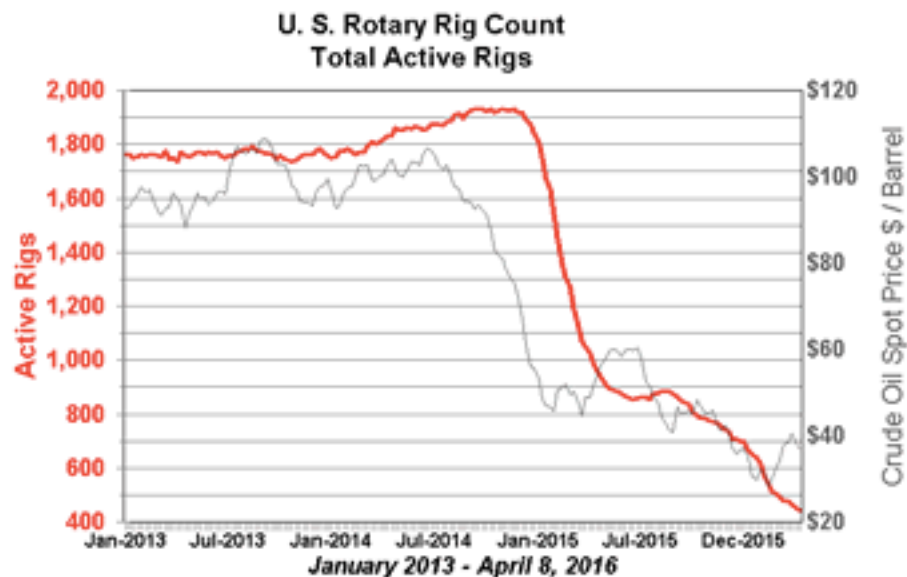
Lower
Completion
Costs

Fortress
Balance
Sheet

Decline in Active Oil Rigs

Despite steep decline in Oil Rig count, RPC Inc. job count decreased at a slower rate

- US Domestic Rig Count dropped 60% in 2015
- Will stay low as WTI Crude maintains \$40/barrel
- Reduced number of wells results in a reduced number of jobs for hydraulic fracturing services
 - RPC Job count declined by less than decline in rig count
 - Experienced a 47% drop in 2015
- RPC Inc. has increased service intensity
 - Higher levels of activity at fewer wells



Decline in
Active Rigs

Lower
Completion
Costs

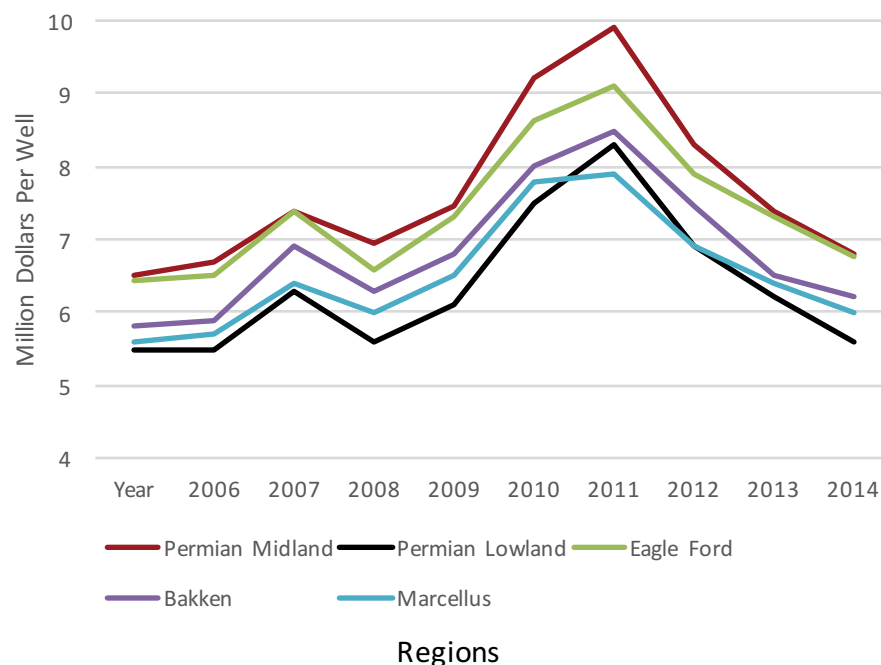
Fortress
Balance
Sheet

Decline in Well Completion Costs

Steadily decreasing prices could foretell lower margins for Hydraulic Fracturing Industry

- Completion costs in all active drilling areas in the USA are decreasing from their highest levels
 - Have dropped 60% since 2012
- Low competition experienced in 2009
 - 2012 has been replaced by a highly competitive market
 - High margins proved attractive for entry
- Improved technology has increased pressure on costs
 - High efficiency surface operations
 - Decrease in number of fracking stages needed

Average Completion Costs Indexed to Year 14
Well Designs



Decline in
Active Rigs

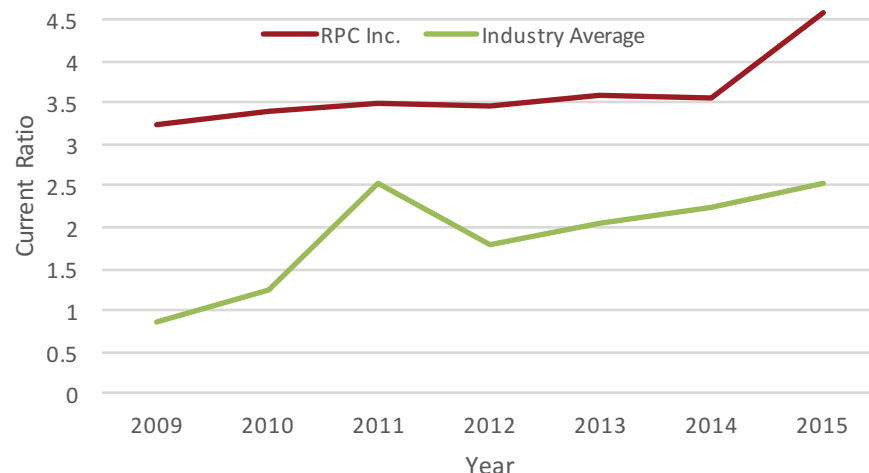
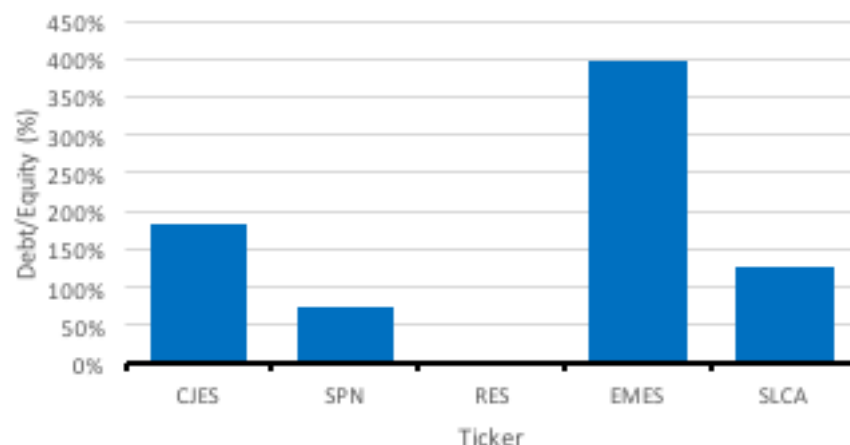
Lower
Completion
Costs

Fortress
Balance
Sheet

Fortress Balance Sheet

RPC Inc. maintains a sustainable capital structure that will allow them to weather the current operating environment

- Debt free since April 2015
 - Sets RPC Inc. apart from its peers
 - Debt/Equity ratio displays one of RPC's biggest strengths
 - 0% compared to D/E extending up to 400%
- Improved liquidity to stay competitive with large players
 - Current ratio has increased from 3.24 to 4.58
- 80% of revenues from land-based drilling
- Strong credit collection system
 - Reduced Days Sales Outstanding since 1Q2015
 - 55.04 compared to industry average of 65.48
- Strong focus on cost control
 - Reduced head count by 32% during FY2015



RPC Inc. Exposures

Rebounding Oil Prices

- A rebound in the price of oil too rapidly could mean low performing companies with high debt might survive the current market environment
- An prolonged drop in oil prices will put pressure RPC's revenue and net income, as well as encourage customers to approach larger firms

OPEC

- June 2nd: Next OPEC meeting
- Still a glut in global supply
- Put additional downward pressure on oil prices

Regulation

- Climate change has been brought up in current Presidential elections
- Governments decide on regulations - Bills won't be passed
- Climate change regulation could increase operating costs or reduce demand

Large Internal Ownership

- Management has substantial ownership interest
- Public Stockholders could have no effective voice in running the firm
- Availability of company's stock may be limited

Comparable Company Valuation

Comparable Company Analysis

LTM (4-15-2016)

Company	Ticker	EV	Market Cap	Revenue	EBITDA	Net Income	P/E	EV/EBITDA	EV/Revenue
RPC Inc	RES	3,064.5	3,129.7	1,263.8	125.6	(95.4)	N/A	24.4x	2.4x
C&J Energy Services	CJES	1,702.8	573.2	1,748.9	4.6	(185.2)	N/A	370.2x	1.0x
Superior Energy Services	SPN	3,086.3	2,032.1	2,774.6	444.8	182.8	11.1x	6.9x	1.1x
Emerge Energy Services	EMES	386.7	111.7	711.6	43.2	(2.2)	N/A	9.0x	0.5x
US Silica Inc	SLCA	1,192.8	1,000.0	643.0	102.3	23.7	42.2x	11.7x	1.9x

High	42.2x	370.2x	2.4x
Mean	26.7x	84.4x	1.4x
Median	26.7x	11.7x	1.1x
Low	11.1x	6.9x	0.5x

EV/EBITDA

LTM EBITDA	\$125.60
Implied Price Target	\$7.16
Upside (Downside) %	-51.1%

EV/Revenue

LTM Revenue	\$1,263.80
Implied Price Target	\$6.89
Upside (Downside) %	-53.0%

- Utilizes Median instead of Mean due to high outliers
- P/E Valuation not used due to negative earnings

Discounted Cash Flow Valuation

Valuation Summary

Method	Price
Perpetuity Growth Method	\$30.06
<i>Upside</i>	<i>105.2%</i>

Key Statistics

Current Trading Price (4/15/2016)	\$14.65
Market Cap	\$3,129.71
Net Debt	\$(65.20)
Beta	0.88
Shares Outstanding	213.63
Marginal Tax Rate	37.20%

WACC Calculation:

Cost of Debt	0%
% Weight	0%
Cost of Equity	9.50%
% Weight	100%
WACC	9.50%

Key Assumptions

WACC	9.5%
High Short-Term Revenue Growth	45% → 4%
Constant Tax Rate	37.2%
Terminal Growth Rate	1.5%
Short-Term Capital Expenditures	No new investments

Valuation Summary

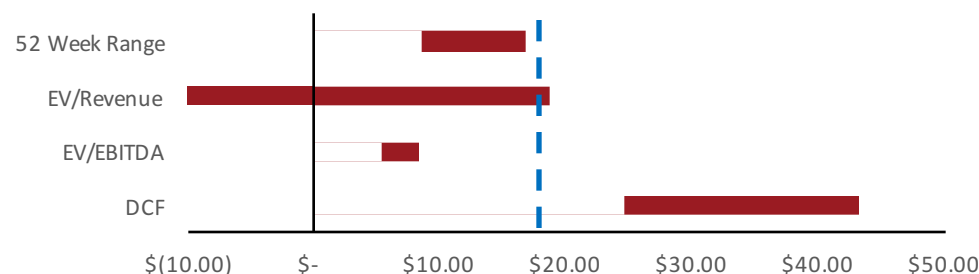
RPC Inc. (RES)		
Current Trading Price (4/15/2016)	\$14.65	
Recommendation	BUY	
Target Price	\$18.61	
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Discounted Cash Flow		
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Comparable Company Analysis		
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Valuation Weightage

Perpetuity Growth Model: 50%
 Revenue volatility, especially in the current environment, could lead to inaccurate projected cash flows

EV/Revenue: 50%
 Although industry companies are similar in function, few small-cap companies have similar cost structure

Valuation Summary



RPC Inc. Recommendation

HOLD



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Appendix and Backup Slides

- Trend 1: Decline in Active Oil Rigs
- Trend 2: Decline in Well Completion Costs
- Trend 3: Fortress Balance Sheet
- RPC Inc. Exposures
- Comparable Company Valuation
- Discounted Cash Flow Valuation
- Statement of Cash Flows
- Free Cash Flow Calculation
- Income Statement
- Valuation Sensitivities

Statement of Cash Flows

Statement of Cash Flows

		<u>Historical</u>				<u>Forecasted</u>				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Income	296.0	270.1	162.4	243.5	(109.9)	224.7	462.0	710.9	985.6	1,025.0
Add: Depreciation & Amortization	179.9	214.9	213.1	230.8	271.0	106.1	154.0	200.2	240.2	249.8
Less: Change in Net Working Capital	-	50.5	(39.0)	(174.7)	283.3	113.1	(91.8)	(88.4)	(76.1)	(18.5)
Less: Capital Expenditures	(416.4)	(328.9)	(201.7)	(371.5)	(167.4)	(167.4)	(167.4)	(201.7)	(371.5)	(371.5)
Operating Cash Flow	59.5	206.6	134.8	(71.8)	276.9	276.6	356.7	620.9	778.2	884.8
Initial Cash Balance	-	7.4	14.2	8.7	9.8	65.2	341.8	698.5	1,319.4	2,097.6
Cash Available for Investors	59.5	214.0	148.9	(63.1)	286.7	341.8	698.5	1,319.4	2,097.6	2,982.4
Debt Additions (Repayments)	-	-	-	-	-	-	-	-	-	-
Dividend Payments	-	-	-	-	-	-	-	-	-	-
Historical Cash Adjustment	(52.2)	(199.9)	(140.2)	72.9	(221.5)	-	-	-	-	-
Ending Cash Balance	7.4	14.2	8.7	9.8	65.2	341.8	698.5	1,319.4	2,097.6	2,982.4

Free Cash Flow Calculation

		<u>Forecasted</u>			
	2016	2017	2018	2019	2020
EBIT	\$163.82	\$336.72	\$518.20	\$718.39	\$747.13
- Taxes	37.19%	37.19%	37.19%	37.19%	37.19%
	\$164.19	\$337.10	\$518.57	\$718.76	\$747.50
+ D&A	106.11	153.97	200.16	240.19	249.80
- CAPEX	(167.40)	(167.40)	(201.70)	(371.50)	(371.50)
- Δ in NWC	113.15	(91.83)	(88.44)	(76.10)	(18.51)
Unlevered FCF	\$216.05	\$231.84	\$428.59	\$511.36	\$607.28
Net Present Value	\$1,458.72				
Discounted TV	\$4,897.64				
DCF Value	\$6,356.36				

Income Statement

	Historical					Forecasted				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,809.8	1,945.0	1,861.5	2,337.4	1,263.8	853.1	1,237.8	1,609.2	1,931.0	2,008.3
% growth		7.5%	-4.3%	25.6%	-45.9%	-32.5%	45.1%	30.0%	20.0%	3.0%
COGS (excl. D&A)	(992.7)	(1,105.9)	(1,178.4)	(1,493.1)	(986.1)	(665.4)	(866.5)	(1,046.0)	(1,158.6)	(1,205.0)
% of Revenue	54.9%	56.9%	63.3%	63.9%	78.0%	78%	70%	65%	60%	60%
Gross Profit	817.1	839.1	683.1	844.3	277.7	187.7	371.4	563.2	772.4	803.3
% Margin	45.1%	43.1%	36.7%	36.1%	22.0%	22.0%	30.0%	35.0%	40.0%	40.0%
SG&A	(151.3)	(175.7)	(185.2)	(198.1)	(156.6)	82.2	119.3	155.1	186.2	193.6
% of Revenue	8.4%	9.0%	9.9%	8.5%	12.4%	10%	10%	10%	10%	10%
EBITDA	665.8	663.4	497.9	646.3	121.1	269.9	490.7	718.4	958.6	996.9
% Margin	36.8%	34.1%	26.7%	27.6%	9.6%	31.6%	39.6%	44.6%	49.6%	49.6%
Depreciation/Amortization	(179.9)	(214.9)	(213.1)	(230.8)	(271.0)	(106.1)	(154.0)	(200.2)	(240.2)	(249.8)
Amort. of Intangibles	-	-	-	-	-	-	-	-	-	-
Total D&A	(179.9)	(214.9)	(213.1)	(230.8)	(271.0)	(106.1)	(154.0)	(200.2)	(240.2)	(249.8)
Other Operating Expenses	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	(331.2)	(390.6)	(398.3)	(428.9)	(427.6)	(23.9)	(34.6)	(45.0)	(54.0)	(56.2)
Operating Income (EBIT)	485.9	448.5	284.8	415.4	(149.9)	163.8	336.7	518.2	718.4	747.1
% Margin	26.8%	23.1%	15.3%	17.8%	-11.9%	19.2%	27.2%	32.2%	37.2%	37.2%
Interest Expense	(3.5)	(2.0)	(1.8)	(1.4)	(2.0)	-	-	-	-	-
Interest Income	0.0	0.0	0.4	0.0	0.1	3.8	7.8	14.8	23.5	33.4
Net Interest Inc. (Exp)	(3.4)	(1.9)	(1.4)	(1.4)	(1.9)	3.8	7.8	14.8	23.5	33.4
Other Non-Operating Income	(0.2)	(2.2)	(2.3)	(0.8)	(5.2)	-	-	-	-	-
EBT Excl. Unusual Items	482.3	444.4	281.1	413.2	(157.0)	163.8	336.7	518.2	718.4	747.1
% Margin	26.6%	22.8%	15.1%	17.7%	-12.4%	19.2%	27.2%	32.2%	37.2%	37.2%
Unusual Items	(3.8)	(6.1)	(9.4)	(15.5)	(6.4)	-	-	-	-	-
EBT Incl. Unusual Items	478.5	438.3	271.8	397.7	(163.4)	163.8	336.7	518.2	718.4	747.1
Income Tax Expense	(182.4)	(168.2)	(109.4)	(154.2)	53.5	60.9266712	125.2	192.7	267.2	277.9
Earnings from Cont. Ops	296.0	270.1	162.4	243.5	(109.9)	224.7	462.0	710.9	985.6	1,025.0
Earnings from Discounted Ops.	-	-	-	-	-	-	-	-	-	-
Extraord Item & Acct. Change	-	-	-	-	-	-	-	-	-	-
Net Income to Company	296.0	270.1	162.4	243.5	(109.9)	224.7	462.0	710.9	985.6	1,025.0
Minority Int. in Earnings	-	-	-	-	-	0	0	0	0	0
Net Income	296.0	270.1	162.4	243.5	(109.9)	224.7	462.0	710.9	985.6	1,025.0
% Margin	16.4%	13.9%	8.7%	10.4%	-8.7%	26.3%	37.3%	44.2%	51.0%	51.0%
EPS	1.34	1.25	0.75	1.13	-0.51	\$1.05	\$2.16	\$3.33	\$4.61	\$4.80

Valuation Sensitivities

DCF - Perpetuity Growth Sensitivity

		WACC							
		8%	8%	9%	9%	10%	10%	11%	11%
Terminal Growth Rate	2.5%	\$43.22	\$39.46	\$36.29	\$33.59	\$31.27	\$29.26	\$27.49	\$25.93
	2.0%	\$40.05	\$36.82	\$34.07	\$31.71	\$29.65	\$27.85	\$26.26	\$24.85
	1.5%	\$37.37	\$34.57	\$32.15	\$30.06	\$28.22	\$26.61	\$25.17	\$23.89
	1.0%	\$35.07	\$32.61	\$30.47	\$28.60	\$26.95	\$25.49	\$24.18	\$23.01
	0.5%	\$33.08	\$30.90	\$28.99	\$27.31	\$25.82	\$24.48	\$23.29	\$22.21
	0.0%	\$31.33	\$29.39	\$27.67	\$26.15	\$24.79	\$23.58	\$22.48	\$21.48

CompCo - EV/EBITDA Sensitivity

Implied Share Price		
EV/EBITDA Multiple	\$13.66	\$8.34
	\$12.66	\$7.75
	\$11.66	\$7.16
	\$10.66	\$6.57
	\$9.66	\$5.98
	\$8.66	\$5.40

CompCo - EV/Revenue Sensitivity

Implied Share Price		
EV/Revenue Multiple	\$3.11	\$18.72
	\$2.11	\$12.80
	\$1.11	\$6.89
	\$0.11	\$0.97
	(\$0.89)	\$(4.95)
	(\$1.89)	\$(10.86)