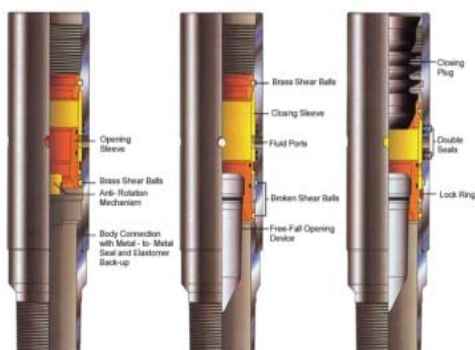


Forum Energy Technologies, Inc.

(FET - \$17.26 - NYSE)



Source: Forum Energy Technologies

Ready, Set, Drill

Gabelli & Company

INITIAL REPORT
 HOLD

Investment Summary

Forum Energy Technologies, Inc., based in Houston, TX, manufactures and supplies a range of capital equipment and consumables to global exploration and production operators as well as other oilfield service providers. It operates in three segments: Drilling & Subsea (\$490MM of 2015 revenues or 45% of total company), Completions (\$270MM of 2015 revenues or 25% of total) and Production & Infrastructure (\$320MM of 2015 revenues or 30% of total).

We initiate our coverage on Forum Energy with a Hold recommendation and a 2018 PMV of \$21 per share. We estimate FET will lose \$0.80 per share on \$585MM of revenues and a loss of \$25MM of EBITDA in 2016.

- Forum Energy's broad portfolio consists of peripheral components associated to large capital equipment purchases and everyday consumables. About 65% of FET's revenue stream is derived from consumables or is activity based.
- FET is leveraged to a recovery in drilling activity, beginning first on U.S. land. 60% of FET's business is derived from the U.S. and nearly all of that is onshore.
- FET is well positioned to capitalize on increasing service intensity performed on wells and more complex wells drilled. It is estimated in 2016 that average foot drilled per well has increased to about 10,750 feet from 4,550 feet in 2014. Drilling longer laterals requires more completion and cementing tools. Meanwhile, horizontal wells typically require well stimulation processes that continue to grow in intensity. The average proppant tons per well is projected to increase from 2,300 tons/well in 1Q'14 to 4,500 tons/well in 4Q'16. The dramatic growth increases the wear and tear of the pressure pumping engines as well as consumables such as fluid ends, which benefits Forum Energy.
- FET's businesses are capex light and scalable, which should allow the company to drive high free cash flow growth. Between 2016 and 2020, we are forecasting Forum's FCF to grow at about a ~20% CAGR and cumulatively generate about \$395MM in free cash flow, or almost \$4.25/share.
- Our 2018P PMV for FET is \$21 per share. The stock is up 41% YTD and is now trading at just a 19% discount to our PMV estimate. As a result, we recommend investors wait for a greater margin of safety before purchasing shares.

Forum Energy Technologies, Inc. (FET - NYSE)

Current Price: \$17.26

52 Week Range: \$19.32 – \$8.47

Earnings Per Share:

2018P	\$0.45
2017P	(0.30)
2016E	(0.80)
2015A	0.40

Price/Earnings Ratio:

2018P	39.5x
2017P	NM
2016E	NM
2015A	42.6

Dividend: None

Yield: Nil

<u>Capitalization (06/30/16):</u>	(\$ millions)
Long-Term Debt	\$396
Common Stock (92.9 mil shares o/s)	<u>1,602</u>
Total Capitalization	<u>\$1,998</u>

Simon T. Wong, CFA

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Table 1

Forum Energy Technologies 2014-2020P

(\$ in millions, ex. per share data)

	2014	2015	2016E	2017P	2018P	2019P	2020P	CAGR 2015-2020P
Revenue	\$ 1,740	\$ 1,075	\$ 585	\$ 685	\$ 925	\$ 1,245	\$ 1,635	8.7%
% Growth		-38.2%	-45.6%	17.1%	35.0%	34.6%	31.3%	
EBITDA	340	145	(25)	40	140	230	335	18.2%
% Margin	19.5%	13.5%	-4.3%	5.8%	15.1%	18.5%	20.5%	
EPS - continuing operations	\$ 1.85	\$ 0.40	\$ (0.80)	\$ (0.30)	\$ 0.45	\$ 1.10	\$ 1.85	35.8%
% Growth		-78.4%	N/M	N/M	N/M	144.4%	68.2%	
TEV/EBITDA	5.5	13.0	(71.8)	49.3	13.3	8.1	5.5	
P/E	9.3	42.6	(22.0)	(55.0)	39.5	15.5	9.3	
Capital Expenditures	55	30	20	25	40	60	80	21.7%
Free Cash Flow	190	70	50	5	60	110	170	19.4%

Source: Public filings and Gabelli & Company estimates

Company Description

Forum Energy Technologies, Inc. based in Houston, TX, designs, manufactures capital equipment and provides aftermarket services and parts to global oil and gas exploration and production customers as well as to other oilfield service providers. The company has three operating segments: Drilling & Subsea (\$490MM of 2015 revenues or 45% of total company); Completions (\$270MM of 2015 revenues or 25% of total); and Production & Infrastructure (\$320MM of 2015 revenues or 30% of total). The Drilling & Subsea segment manufactures capital equipment such as remote operating vehicles and related products for offshore contractors, and tubular handling equipment for land rig operators. The Production and Infrastructure segment provides production processing equipment at the well sites to exploration and production customers and valves to upstream, midstream and downstream operators. The Completions segment supplies consumable products primarily to oilfield service providers. In 2015, FET generated revenues of \$1.1 billion, EBITDA of \$143 million and EPS of \$0.41.

Table 2 Sales and EBITDA Breakdown by Operating Segments

(\$ in millions)	2015		2015	
	Revenues	% of Total	EBITDA	% of Total
Drilling & Subsea	\$ 487.4	45.3 %	\$ 72.9	43.1 %
Completions	267.2	24.9	60.9	36.0
Production & Infrastructure	320.4	29.8	35.2	20.8
Subtotal	1,075.0	100.0 %	169.0	100.0 %
Eliminations	(1.4)		(26.1)	
Total	\$ 1,073.6		\$ 142.9	

Source: Company reports

Company History

SCF Partners, L.P., a private equity firm founded in 1989 by Laurence E. Simmons (also known as L.E. Simmons) formed Forum Oilfield Technologies (FOT) in 2005 to acquire Access Oil Tools, a pipe handling tool manufacturer and supplier. Separately, SCF Partners acquired and/or formed four other oilfield service companies between 2005 and 2008 and consolidated companies in various niches of the oilfield service markets. These actions included the acquisition of Global Flow Technologies (a manufacturer of industrial valves) in June 2005, the formation of Triton Group Holdings after purchasing Perry Slingsby Systems (a leading manufacturer of workclass ROVs) in February 2007, the creation of Allied Production Services (to merge four companies that focused on the processing and infrastructure requirements associated with unconventional gas and liquids in North America) and established Subsea Services to buy OJS (a provider of subsea pipeline infield joint coatings and other applied products).

These companies not only grew organically after their acquisition by SCF Partners, but also completed 28 aggregate acquisitions from May 2005 to January 2009 to accelerate revenue growth and strengthen market positions. In 2009, these companies undertook a strategic review, which resulted in FOT, Global Flow, Triton, Allied and Subsea combining in a five-way merger in August 2010. FOT became the parent company and was renamed Forum Energy Technologies, Inc. The new company continued its acquisition strategy to bolster its competitive position such as acquiring Cannon Services and Davis-Lynch in 2011 (Downhole Technologies, now part of the Completion segment), Dynacon (Drilling and Subsea Technologies segment) in 2012, Blohm + Voss Oil Tools (Drilling and Subsea segment) in 2013 and J-Mac Tool (Completions segment) in 2015.

Exhibit 1 Forum Energy Acquisition History

<u>Date</u>	<u>Target</u>	<u>Segment</u>
Feb-11	Wood Flowline Products	Completions
May-11	Phoenix Global	Completions
May-11	Specialist ROV Tooling Services, Ltd	Drilling & Subsea
Jul-11	Cannon Services	Completions
Jul-11	SVP Products	Completions
Jul-11	P-Quip Ltd	Completions
Jul-11	AMC Global	Drilling & Subsea
Jul-11	Davis Lynch	Completions
Oct-12	Syntec Technology	Drilling & Subsea
Oct-12	Wireline Solutions LLC	Completions
Dec-12	Dynacon	Drilling & Subsea
Dec-12	Merrimac Manufacturing	Completions
May-13	Blohm + Voss Oil Tools	Drilling & Subsea
Jun-13	Global Tubing (JV with Quantum Energy Partners)	Completions
Jul-13	Moffat Engineering	Drilling & Subsea
May-14	Quality Wireline & Cable Inc.	Completions
Feb-15	J-Mac Tool	Completions
Apr-16	the wholesale completion packers product line	Completions

Source: Company reports

Forum Energy Technologies completed its IPO (at \$20 per share) in April 2012, raising \$256.9 million in net proceeds. The company used the capital to repay outstanding borrowings under the revolving portion of its credit facility. SCF Partners also sold 7.9 million shares at the offering and decreased its ownership position to around 45 million shares or about 50% of the shares outstanding. Between 4Q'13 and 2Q'14, SCF Partners further reduced its position in FET by 20.0 million shares, including two registered offerings in November 2013 and April 2014, to its current holding of 24.3 million shares, or 26.6% of shares outstanding.

Early Beneficiary of a Recovery in Drilling Activity

We expect Forum Energy will be an early beneficiary of higher crude oil prices and increased drilling activity as nearly two-thirds (or \$690MM of 2015 total revenues) of its business mix is consumables or activity based equipment. Oilfield service providers, especially pressure pumping companies such as RPC and Superior Energy, need to repair their cold-stacked equipment and restock their inventory of consumables (such as fluid ends) before they can return to the oil patch. Meanwhile, operators such as Apache Corp. and Anadarko Petroleum, require processing equipment so they can transport the hydrocarbons from the new wells to the refineries.

Table 3 Purchase Cycle Based on 2015 Revenues

		% of Total	
Consumable Products	\$ 537.3	50.0	%
Activity Based Equipment	150.4	14.0	
Capital Equipment	365.4	34.0	
Other	21.5	2.0	
Subtotal	\$ 1,074.6	100.0	%
Intercompany Eliminations	(1.0)		
Total	\$ 1,073.6		

Source: Company reports, Gabelli & Company estimates

Table 4

2015 Geographic Revenues Breakdown

		% of Total	
United States	\$ 646.9	60.3	%
Europe & Africa	188.4	17.5	
Asia-Pacific	69.9	6.5	
Middle East	59.7	5.6	
Canada	57.8	5.4	
Latin America	50.9	4.7	
Total	\$ 1,073.6	100.0	%

According to OPEC, 2016 started off with supply exceeding demand by 2.1 million barrel of equivalent per day (boepd). Temporary supply disruptions such as fires in Fort McMurray, Alberta, Canada (which shut-in 1.0-1.5 million boepd of production) in May, continuous terrorist attacks disrupting production in Nigeria, Libya and Iraq, and declining production in Venezuela and the U.S. have temporarily brought supply in balance with demand.

While some of the temporary disruptions have ended with facilities either back online or coming back online, production in the U.S. (which has recently become the new global swing producer) continues to decline. U.S. Lower 48 production is declining due to low rig activity (rigs drilling for oil has declined from near 1,900 in October 2014 to 508 rigs as of September 9, 2016 and the high decline rate of shale wells (50-75% decline rate in the first year and 30-50% in the second year). According to the U.S. Energy Information Agency (EIA), oil production in the lower 48 states is expected to decline from a peak of 9.4 million boepd in April 2015 to average 8.2 million boepd in 3Q'17. In addition, many long lead time projects such as deepwater projects in the Gulf of Mexico and West Angola which were supposed to come online between 2018 and 2020 (representing 3.0 million boepd) have been cancelled. Meanwhile, International Energy Agency (IEA) and OPEC forecast global demand to increase 1.2-1.4 million boepd in 2016 and another 1.2 million boepd in 2017. As a result, we expect supply and demand to come into balance by the end of 2016. If demand continues to grow 1.0 million boepd in both 2017 and 2018, the world could be in a supply deficit.

As supply slowly comes back into balance with demand, crude oil prices should move higher and drilling activity should pick up. We expect drilling activity to recover first on U.S. land as independent E&P operators have brought down production costs and have short lead times to restart the drilling process. The recovery is expected to be followed by international land, while offshore deepwater drilling would be the last to recover. We believe Forum Energy would be one of the first beneficiaries of an oil price recovery as 60% of its business is derived in the U.S. and nearly of all that is onshore.

Well Positioned to Benefit from DUCs

As oil prices move higher, many E&P operators will finish and bring online their Drilled but Uncompleted Wells (DUCs). Over the last two years, many E&P operators drilled wells but did not complete them due to low oil prices. FET's Production and Infrastructure segment is well positioned to benefit as these wells get completed. According to the EIA, there are over 5,000 DUCs across all the U.S. basins as of August 2016. All of these DUCs would require production equipment packages (which FET provides) at the wellsite. While some of these DUCs

are beginning to be bought online with WTI price currently over \$40, we suspect these wells would be completed in earnest when WTI reaches \$50 per barrel. If we assume that the average production equipment package to be \$500,000 per well and that FET maintains its current 10-15% market share, completing these DUCs would represent a \$315 million in incremental revenue opportunity for the company (compared to 2015 product line revenues of \$145.9 million) and an additional EBITDA of \$55 million.

Business Mix Shifting To Higher Margin Consumable Products

In 2015, the company generated nearly \$270 million of revenues (or 25% of total revenues) and \$60 million (or 36% of total EBITDA) from the Completions segment, which benefits from favorable market trends such as drilling jobs requiring more service intensity and increasingly more complex wells are being drilled. We are projecting the Completions segment would generate \$490 million (or 30% total revenue) and \$170 million (or 47% of total EBITDA) in 2020. This business is a recurring and high-margin business that should enable FET to accelerate earnings growth. This is one of the primary reasons we are forecasting FET's earnings per share would grow near a 36% CAGR between 2015 and 2020, from \$0.40 in 2015 to \$1.85 in 2020.

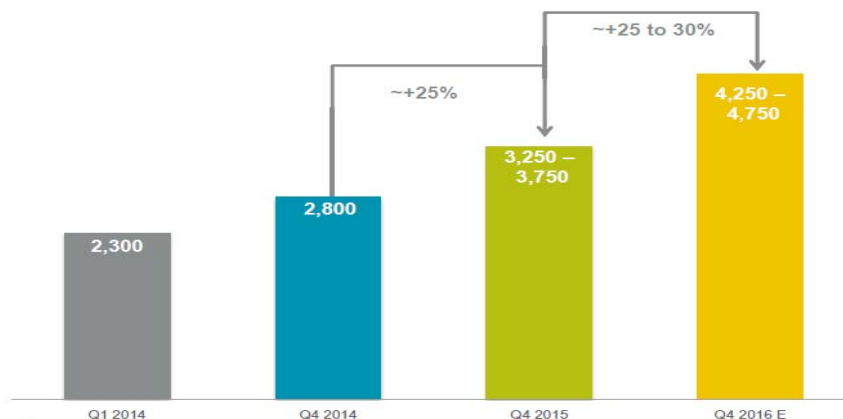
Table 5	Forum Energy Technologies 2015 Revenues & EBITDA				Table 6	Forum Energy Technologies 2020 Revenues & EBITDA			
	2015		2015			2020		2020	
	Revenues	% of Total	EBITDA	% of Total		Revenues	% of Total	EBITDA	% of Total
Drilling & Subsea	\$ 487.4	45.3 %	\$ 72.9	43.1 %	Drilling & Subseas	\$ 615.0	37.5 %	\$ 100.0	27.8 %
Completions	267.2	24.9	60.9	36.0	Completions	490.0	29.9	170.0	47.2
Production & Infrastructure	320.4	29.8	35.2	20.8	Production & Infrastructure	535.0	32.6	90.0	25.0
Subtotal	1,075.0	100.0 %	169.0	100.0 %	Subtotal	1,640.0	100.0 %	360.0	100.0 %
Eliminations	(1.4)		(26.1)		Eliminations	(2.0)		(25.0)	
Total	\$ 1,073.6		\$ 142.9		Total	\$ 1,638.0		\$ 335.0	

Source: Company reports, Gabelli & Company estimates

Increased Service Intensity Increases Equipment Wear & Tear

According to Baker Hughes, nearly 80% of the U.S. active land rigs were drilling horizontally (the well path best suited to developing shale and tight sands) as of August 19, 2016, compared to less than 18% of the active land rigs as of ten years ago. Horizontal wells typically require well stimulation processes involving hydraulic fracturing, which continue to grow in intensity as the number of fracturing stages increases. As measured by average proppant tons per well, proppant intensity increased from 2,300 tons per well in 1Q'14 to near 3,500 tons per well during 4Q'15. It is projected to further increase to 4,500 tons per well in 4Q'16.

Exhibit 2 Average Proppant Tons/U.S. Horizontal Well



Source: Public E&P Presentations and PacWest Consulting Partners via Fairmount Santrol Investor Presentation, April 2016

Proppants, especially sands, are abrasive. When proppants are pumped at high pressure levels into a well, they increase the strain on the pressure pumping engine. This change in development activity requires investment in new equipment to address the unique demands of these resource plays and places a much greater strain on drilling and completion equipment, which results in shorter replacement cycles for capital equipment and consumables, and increased demand for maintenance and refurbishment activity. The dramatic growth in unconventional shale and tight sand drilling increases the wear and tear on the pressure pumping engines as well as fluid ends.

Forum Energy is well positioned to capitalize on this trend with its stimulation and intervention business in the Completions segment, whose customers are mid-tier pressure pumping companies (such as RPC, Inc. and Superior Energy). Any business related to pressure pumping on U.S. land should be among the first to bounce in a recovery and Forum should benefit from pent-up demand for consumable equipment as customers seek to rebuild their inactive equipment and replenish their depleted inventories. Upon reactivation, customers will need to replace a number of parts such as fluid ends, power ends and flow iron. There are currently approximately 12 million hydraulic horsepower available in the industry, of which we estimate 6-8 million hydraulic horsepower is idled or parked on the sidelines. Before an idled frac fleet can return to work in the oil patch after a long period of being out of service, the pressure pumping company must invest capital in the fleet to repair the equipment and replenish inventories. Fluid ends (which produce the pumping process with valves, pistons and liners) are one of the key components that need to be replaced. We estimate that a pressure pumper would require about \$1 million investment per frac fleet (one frac fleet usually contains 36,000 hydraulic horsepower) to replace the fluid ends in order for the fleet to be reactivated. In addition, the service provider must purchase an additional \$500,000 of fluid ends as inventory (to replace a worn out part at the job site) per frac fleet. Accordingly, we project this just one product line represent up to a nearly \$300 million opportunity for FET.

Table 7 Lateral Lengths are Increasing on U.S. Horizontal Wells

<u>Year</u>	<u>Wells Drilled</u>	<u>Footage Drilled (in millions)</u>	<u>Footage Drilled Per Well</u>
2000	29,688	135.1	4,552.2
2001	35,884	169.8	4,732.0
2002	28,741	142.1	4,944.3
2003	33,002	169.3	5,128.8
2004	37,647	197.6	5,247.8
2005	44,313	232.0	5,234.4
2006	51,843	275.6	5,315.2
2007	52,462	298.9	5,697.3
2008	56,425	333.4	5,908.2
2009	34,313	213.1	6,209.6
2010	38,022	256.6	6,747.8
2011	42,812	322.2	7,526.6
2012	46,243	361.9	7,827.1
2013	44,982	366.3	8,142.5
2014	45,666	397.3	8,699.7
2015	26,803	271.8	10,140.6
2016E	13,468	146.8	10,902.3

Source: Spear and Associates, Gabelli & Company estimates

Longer Laterals = More Completion Equipment Required

E&P operators are developing new well construction technologies and techniques to recover more hydrocarbons from each well and make previously uneconomic reservoirs profitable. For offshore contractors, it means drilling deeper wells. For land contractors, this means drilling wells with longer laterals. Since 2000, average foot drilled per well has increased from 4,550 feet to over 10,000 feet in 2015. This trend accelerated 16.5% in 2015 (compared to 2014), as operators high-graded their acreage position and drilled longer laterals to recover more hydrocarbons from their wells. The more hydrocarbons an operator is able to recover, the cost per well decreases. It is estimated in 2016 that footage per well would increase another 7.5% to 10,900 feet. Drilling longer lateral requires more completion and cementing tools such as frac plugs, casing and cementing tools and other downhole completion tools.

Segment Description

Drilling and Subsea Segment

This segment manufactures products and provides services to the drilling and subsea construction and service markets. This segment consists of two business lines: Subsea Technologies and Drilling Technologies. In 2015, these businesses generated \$487.4 million in revenues and \$72.9 million in EBITDA in 2015. We estimate revenue and EBITDA for these businesses will decline to \$232.1 million and (\$12.2 million), respectively in 2016, primarily due to lower capital equipment purchases by customers in both product lines.

Subsea Technologies

FET is the leading manufacturer in remote operating vehicles (ROV) and trenchers as well as specialty components, tools and subsea pipelines. A ROV is an unmanned submersible vehicle controlled from a surface based platform or offshore construction vessel or rig. The company is the market share leader in work class ROV (under the Perry brand), with over 30% market share and primarily competes with FMC Technology’s Schilling Robotics division and Oceaneering International. However, unlike FET and Schilling-Robotics, whose customers are offshore construction companies as well as governmental organizations (such as navies, maritime science and geosciences research organizations), Oceaneering International manufactures ROVs for its own use and contracts them to offshore drillers at a day rate. In addition to ROVs and trenchers, FET is a leading manufacturer of subsea products and components that are associated with the ROV, such as the Dynacon ROV launch and recovery system, Syntech brand synthetic foam buoyancy component, tether management system, tooling and components.

Exhibit 3 Perry Workclass ROV



Source: Company reports

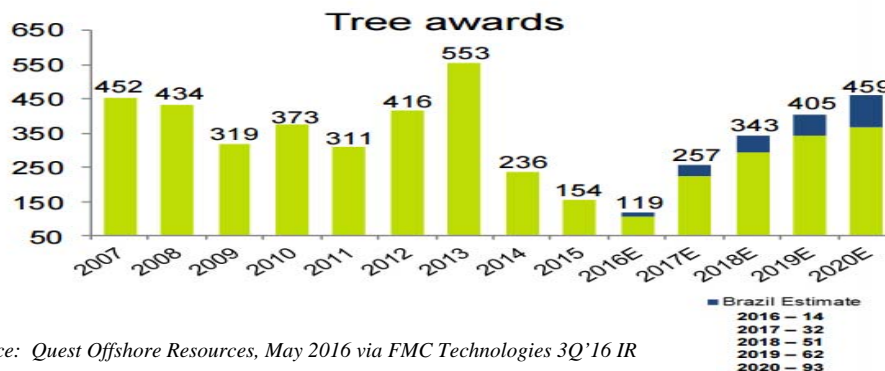
Exhibit 4 XT1200 Trencher



Source: Company reports

Demand for ROV is driven by offshore drilling activity and subsea tree installations. However, offshore project sanctions have slowed in 2015 and 2016 resulting in a decline in subsea tree awards. According to Quest Offshore Resources, a boutique strategic advisory and consulting firm to the global offshore oil and gas industry, subsea tree awards are forecasted to trough this year at 119 units and rebound to 257 units in 2017. As a result, we believe FET’s revenue mix for its subsea business should shift from capital equipment to consumables. In 2015, approximately 60% of the segment revenue was derived from capital investments and the remaining 40% from consumables. We project the consumable mix this to shift to 50% in 2016 and 2017.

Exhibit 5 Subsea Tree Awards Forecasted to Rebound in 2017



Source: Quest Offshore Resources, May 2016 via FMC Technologies 3Q'16 IR

Drilling Technologies

Drilling Technologies' largest product line is capital equipment that automates the handling of tubulars (or drill pipes) on the drilling floor or rig. Additionally, the company also supplies consumable products such as a range of powered and manual tubular handling tools used on onshore and offshore drilling rigs (elevators, clamps, slip handles, tong handles, powered slips, spiders and Kelly spinners) as well as pumps, valves, sensors, handling and other tools. Approximately, one-third of the product line sales are generated from drilling capital equipment, while the remaining two-thirds are generated from drilling consumables and tools.

Exhibit 6 Wrangler Series Land Rig Catwalk



Source: Company reports

Exhibit 7 Blohm + Voss FH-100 Floorhand



Source: Company reports

Demand for the Drilling Technologies product line is driven by global drilling, workover and intervention activity, capital investment in drilling rigs, rig upgrades and equipment replacement as drilling contractors modify their existing rigs to improve efficiency and safety, and the severity of the conditions under which the rigs and well service equipment operate. According to Spears and Associates, the total market for drilling equipment was approximately \$17.6 billion in 2015 (representing 5.3% of the total oilfield service markets). However, FET is only a niche manufacturer. In the markets that FET competes in, it maintains a 30% market share, only behind National Oilwell Varco, which has about 50% market share.

Production and Infrastructure Segment

Forum Energy's Production & Infrastructure segment manufactures and supplies equipment and service for production and infrastructure markets. This segment consists of two product lines: Production Equipment and Valves. This operating segment generated \$320.4 million in revenues and \$35.2 million in EBITDA in 2015. We estimate revenue and EBITDA for these businesses will decline to \$235.0 million and \$14.5 million, respectively in 2016, primarily due to lower production equipment purchases.

Production Equipment

In Production Equipment, FET designs and manufactures engineered process systems and provides field services for upstream oil and gas producers to separate and treat oil and natural gas into transportable and marketable products. Each new producing well completed has its own set of production equipment at the wellsite. About 90% of FET's Production Equipment's revenue is generated from upstream customers.

Exhibit 8 Forum Energy Technologies' Modular Production System Located at the Wellsite.



Source: Company reports

FET also manufactures equipment for desalination (remove salts) and dehydration (removes water) for refiners. Revenues derived from refiners only account for 10% of Production Equipment revenues, but it can provide counter cyclical balance to sales and earnings from upstream customers.

We estimate the market for production equipment to be between \$1.5-2.0 billion and demand is driven by well completion activity and production. FET and Exterran each maintains a 10-15% market share for surface equipment, but the market is highly fragmented with many private small competitors. FET's strategy is to focus on the larger E&P producers such as Chevron, Anadarko Petroleum, Devon Energy and Apache that drill multiple wells. On the downstream side, Cameron Int'l (acquired by Schlumberger in April 2016) is FET's main competitor.

Valves

FET's Valves business manufactures valves and valve systems for upstream, midstream and downstream end-markets through the PBV, DSI, Quadrant and ABZ brands. Valves are primarily used to control and direct the flow of hydrocarbons moved from the individual wellheads through flow lines, gathering lines and through transmission systems to refineries and petrochemical plants for processing. About 20% of this business is generated from upstream customers, while the remaining 80% is split evenly between midstream and downstream customers. Cameron International (acquired by Schlumberger in April 2016) is FET's primary competitor in this business, along with Circor International.

Exhibit 9

Valve Solutions

Two piece trunnion valves for the shale markets



Specified ball valve of choice for the US Strategic Petroleum Reserve



Preferred valve supplier to leading Canadian oil sands producers

Source: Forum Energy Technologies August 2016 Investor Presentation

In 2015 and 2016, the midstream part of the segment has been fairly stable and picked up market share due to new pipeline builds, LNG plants being built as well as refinery and petrochemical plants upgrades and maintenance. Additionally, FET gained market share during the downturn. Longer term, demand from heavy oil projects in Canada, upgrades to the U.S. refinery system to process more North American shale oil, as well as the globalization of the product line is expected to drive further growth. Currently, FET's valve business is predominantly a North American business but the company is in the process of capitalizing on international opportunities. For example, the company generates about \$50 million in revenues from the Middle East, primarily from the Valves business. National oil companies such as Saudi Aramco alone buys billions of dollars of valves. Forum's management forecasts it can increase these three-to-four times over the next three years, driven by higher sales from the Valves business.

Completions Segment

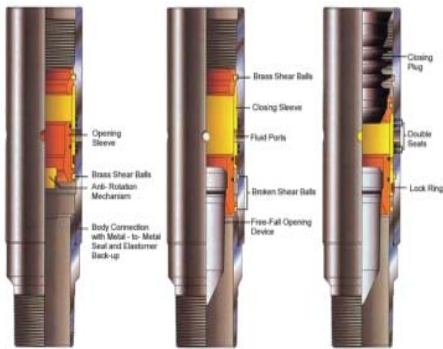
This new segment was formed in 1Q'16. Forum Energy took its downhole technologies business from the Drilling & Subsea segment and its flow equipment business (now named Stimulation & Intervention) from the Production & Intervention segment to form the new operating segment, Completions. This segment manufactures and

supplies products and provides services to the well construction, completion, stimulation and intervention markets. This segment would be one of the first beneficiaries of any rebound in drilling activities as all products in this segment are consumable.

Downhole Technologies

The Downhole Technologies business provides numerous products related to well construction and completion, including casing and cementing technology under the Davis-Lynch brand, downhole protection solutions under the Cannon Services brand, as well as wireline composite frac plugs and other downhole completion tools. Through Davis-Lynch, FET manufactures a full range of used in the construction of onshore and offshore wells, such as centralizers, float equipment, stage cementing tools, inflatable packers, floatation collars, cementing plugs, fill and circulations tools for running casing, casing hangars and surge reduction equipment. Weatherford Int'l is the market leader in this category with ~40% market share, while Halliburton maintains 20% share and FET is third with about a 10% share. The key drivers of this product line are the growth in the complexity of onshore and offshore completion market globally and in the increasing number of stages and longer laterals being employed in the North American unconventional shale plays.

**Exhibit 10 Davis-Lynch
Casing & Cementing Technology**



Source: FET' August 2016 Investor Presentation

Exhibit 11 Wireline Composite Frac Plugs



Source: FET' August 2016 Investor Presentation

FET also provides downhole protection solutions through its Cannon Services brand. Clamp and protection system is a critical component of complex well completion and is used to shield the downhole control lines and gauges during installation and to provide protection during production enhancement operations. Forum Energy is the dominant competitor with over 50% market share in this product line, followed by Varel with 15%. The key driver of its downhole technologies business is the construction and completion of new wells. In particular, the growing complexity of onshore and offshore well construction and the increasing use of artificial lift, especially electrical submersible pumps (ESP), to increase production from oil and gas wells have created a long-term growth market for these products.

Stimulation & Intervention

The Stimulation & Intervention business provides all flow of the iron from the end of the pressure pumping unit to the frac manifold at the wellhead through which the output of all individual pressure pumping units is aggregated and conducted into the wellbore. This business also encompasses the many specialty valves, joints, swivels and unions that make the connection between the two. FET's main customers in this business are mid-tier pressure pumping companies such as Patterson-UTI Energy, RPC and Superior Energy. The company's primary competitors in this business line are FMC Technologies and Weir Group. The key driver of this business line is the completion of new wells. The growing use of fracturing to develop the oil and gas reserves in shale or tight sands basins across North America has created a long-term growth market. The growing service intensity associated with this trend should support sustained growth in the sale of consumable products associated with the stimulation and flowback markets.

Earnings Outlook

Forum Energy's revenues are highly correlated with worldwide rig count. FET's revenues per rig increased from \$250,000 per rig in 2010 to \$460,000 per rig in 2015. The increase was driven by increasing drilling intensity as well as acquisitions. However, in 2015, the company's revenue per rig declined 5.5% from 2014 of \$485,000 to \$460,000 due to the cyclical downturn. We are forecasting FET's revenue per rig would decline 18% in 2016 to \$375,000 before growth resuming again in 2017. Accordingly, we project FET's revenue per rig to grow from \$382,000 in 2017 to near \$510,000 in 2020. We believe growth will be driven by the Completions and the Production & Infrastructure segments. In particular, revenue for the Completions and Production & Infrastructure segments is projected to grow at a 13.0% and 11.0% CAGR, respectively over the next five years. For 2016, we estimate FTE will generate \$585 million in revenue, a loss of \$25 million in EBITDA and EPS of (\$0.80). By 2020, we estimate the company will generate \$1.6 billion in revenue, \$335 million in EBITDA and \$1.85 in EPS.

Table 8

Forum Energy Technologies Earnings Model 2014A-2020P

	<u>2014</u>	<u>2015</u>	<u>2016E</u>	<u>2017P</u>	<u>2018P</u>	<u>2019P</u>	<u>2020P</u>
Revenues							
Drilling & Subsea	\$ 865	\$ 485	\$ 240	\$ 255	\$ 340	\$ 465	\$ 615
Completions	440	265	115	150	240	350	490
Production & Infrastructure	435	320	235	275	345	430	535
Corporate Eliminations	-	-	-	-	-	-	-
Total Revenues	1,740	1,075	585	685	925	1,245	1,635
EBITDA							
Drilling & Subsea	170	75	(10)	5	45	70	100
Completions	145	60	-	25	75	120	170
Production & Infrastructure	65	35	15	35	45	60	90
Corporate EBITDA	(40)	(25)	(25)	(25)	(25)	(25)	(25)
Total EBITDA	380	170	-	65	165	255	360
Less: D&A	(65)	(65)	(65)	(60)	(60)	(60)	(65)
Less: Corporate Expense	(40)	(25)	(25)	(25)	(25)	(25)	(25)
EBIT	275	75	(90)	(20)	80	170	275
Less: Interest Expense	(30)	(30)	(30)	(25)	(25)	(25)	(20)
Add: Other Income (Expense)	-	-	-	-	-	-	-
Pretax Income	245	45	(115)	(50)	55	145	250
Net Income - Continuing Ops.	\$ 175	\$ 35	\$ (70)	\$ (30)	\$ 40	\$ 110	\$ 190
Diluted Shares Outstanding	95	90	92	95	97	99	101
Diluted EPS	\$ 1.85	\$ 0.40	\$ (0.80)	\$ (0.30)	\$ 0.45	\$ 1.10	\$ 1.85

Source: Company reports, Gabelli & Company estimates

Balance Sheet and Free Cash Flow Generation

Forum's strategy is to be an early cycle, activity driven and scalable company with a strong balance sheet and low capital intensity. As of June 30, 2016, the company's balance sheet consisted of \$400 million in senior notes (due on October 1, 2021) and \$137.2 million of cash (net debt of \$259.1 million). The senior notes are unsecured obligations and rank junior to the credit facility. On February 25, 2016, FET amended its senior secured facility and reduced the borrowing capacity from \$600 million to \$200 million, including up to \$25 million available for letters of credit and up to \$10 million in swingline loans. The credit facility matures in November 2018 and as of June 30, 2016, FET had no borrowings outstanding under the credit facility. FET's revolving credit facility contains two covenants: a 4.5x senior secured debt/EBITDA ratio and a fixed-charge coverage ratio of 1.25x. These covenants only apply when availability falls below certain levels. Currently, neither covenant should be an issue since the revolver is currently undrawn.

Between 2009 and 2015, the company cumulatively generated \$741 million in free cash flow, or \$8 per share. Forum does not have capital intensive businesses and at lower activity levels, the company has reduced operating costs, capital investments and working capital to continue to generate free cash flow. As a result, we estimate FET to generate about \$55 million in free cash flow in 2016. Between 2016 and 2020, we expect Forum to cumulatively generate about \$395 million in free cash flow, or almost \$4.25 per share.

The company's priority for free cash flow is acquisitions. Growth through acquisitions is a significant part of the FET's business strategy. Since 2010, FET has been very active in M&A and has consummated twenty acquisitions, spending nearly \$1.0 billion. These acquisitions covered all six of the company's key product lines. Currently, Forum is looking to continue to augment its Completions segment and further increase its leverage to the industry trends of longer lateral wells and more complex completions. Twelve out of the last eighteen acquisitions, including its two most recent (a wholesale completion packers product line in April 2016 and J-Mac Tools in February 2015) support this focus.

Valuation

One of Forum Energy’s primary competitors, Cameron International, was acquired by Schlumberger in April 2016 at 9.5x TTM EBITDA. We believe Cameron Int’l is a good comparable to Forum Energy as both companies are equipment manufacturer and can generate normalized EBITDA margins near 20%. However, Cameron International’s business was weighted towards capital equipment, while Forum Energy’s products are weighted towards consumables. As a result, we believe FET merits a premium multiple relative to Cameron’s. Nevertheless, we valued FET’s Drilling & Subsea and Production & Infrastructure segments using Cameron’s International’s takeout multiple when operating results normalize. We valued the Completion segment using a normalized 10x EBITDA multiple as this is primarily a recurring consumable business and is also FET’s attractive business and generates the highest operating margin. We utilized elevated valuation multiples to account for the company’s depressed earnings level in 2016 and 2017 and slowly decrease the multiples as results improve and normalize. Accordingly, our Private Market Value for Forum Energy Technologies is \$21 per share in 2018 and increases to \$36 per share in 2020. The stock is up ~41% YTD and is now trading at just a 19% discount to our valuation. As a result, we recommend investors wait for a larger margin of safety before purchasing shares.

Table 9

Forum Energy Technologies						
Private Market Value Analysis Model						
<i>(\$ in millions, except per share data)</i>	2015	2016E	2017P	2018P	2019P	2020P
<u>Drilling & Subsea</u>						
Revenue	\$ 485	\$ 240	\$ 255	\$ 340	\$ 465	\$ 615
EBITDA	75		5	45	70	100
Valuation Multiple	9.5x			20.0x	12.0x	10.0x
Segment Value	<u>\$ 695</u>	<u>\$ 720</u> (b)	<u>\$ 770</u> (b)	<u>\$ 915</u>	<u>\$ 865</u>	<u>\$ 1,020</u>
<u>Completion</u>						
Revenue	\$ 265	\$ 115	\$ 150	\$ 240	\$ 350	\$ 490
EBITDA	60		25	75	120	170
Valuation Multiple	12.0x		20.0x	12.0x	10.0x	10.0x
Segment Value	<u>\$ 730</u>	<u>\$ 340</u> (b)	<u>\$ 515</u>	<u>\$ 870</u>	<u>\$ 1,220</u>	<u>\$ 1,715</u>
<u>Production & Infrastructure</u>						
Revenue	\$ 320	\$ 235	\$ 275	\$ 345	\$ 430	\$ 535
EBITDA	35	15	35	45	60	90
Valuation Multiple	9.5x	14.0x	12.0x	9.5x	9.5x	9.5x
Segment Value	<u>\$ 335</u>	<u>\$ 205</u>	<u>\$ 405</u>	<u>\$ 450</u>	<u>\$ 590</u>	<u>\$ 845</u>
Total Private Market Value	\$ 1,760	\$ 1,260	\$ 1,690	\$ 2,235	\$ 2,680	\$ 3,580
Add: Net Cash (Net Debt)	(285)	(240)	(235)	(175)	(65)	105
Add: Unconsolidated Investment	0.5	0.5	0.5	0.5	0.5	0.5
Less: Minority Investments	-	-	-	-	-	-
Less: Options Payments (a)	(10.0)	-	(10.0)	(25.0)	(45.0)	(75.0)
Equity Private Market Value	<u>\$ 1,460</u>	<u>\$ 1,025</u>	<u>\$ 1,450</u>	<u>\$ 2,035</u>	<u>\$ 2,570</u>	<u>\$ 3,610</u>
Shares Outstanding	90	91	93	95	97	99
PMV per share	\$ 16	\$ 11	\$ 16	\$ 21	\$ 27	\$ 36
<i>Current Market - Discount to PMV</i>	-6%	-54%	-11%	19%	35%	53%

(a) After-tax payments to buy out options holders at Private Market Value

(b) Valuation based on multiple of sales due to depressed operating earnings during cyclical downturn

Risks

The company’s primary risks are:

- *Lower oil and natural gas prices.* Lower oil and gas prices negatively impact the return on investments of drilling new wells. Therefore, exploration and production operators reduce drilling activity.
- *Lower E&P global capital expenditure budgets.* Lower capital expenditures decrease demand for FET’s capital equipment products.
- *Changes in government regulations.* The U.S. Department of the Interior can implement additional safety and certification requirements applicable to drilling activities in the U.S. that can result in higher operating costs for E&P operators or lower drilling activity. This would reduce demand for FET’s products and services.
- *Additional stock sale by SCF Partners.* As we mentioned earlier, SCF Partners held approximately 24.3 million shares of our common stock, or approximately 27% of the outstanding common stock as of February 22, 2016. If SCF Partners decides to exit its position or sell a substantial amount of shares in Forum via a sale on the open market or a registration offering, it may adversely affect prevailing market prices of the company’s common stock.

Other Companies Mentioned:

Anadarko Petroleum	(APC – NYSE)
Apache Corporation	(APA – ")
Baker Hughes	(BKH – ")
Chevron	(CVX – ")
Circor International	(CIR – ")
Devon Energy Corp.	(DVN – ")
Exterran Corp.	(EXTN – ")
FMC Technologies	(FTI – ")
Halliburton	(HAL – ")
National Oilwell Varco	(NOV – ")
Oceaneering Int'l	(OII – ")
Patterson-UTI Energy	(PTEN – NASDAQ)
RPC Inc.	(RES – NYSE)
Schlumberger Ltd.	(SLB – ")
Superior Energy	(SPN – ")
Weatherford International	(WFT – ")
Weir Group	(WEIR.L – London)

I, **Simon T. Wong**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

Simon T. Wong, CFA 914-921-5125

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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