Siena Market Line
1st week of March 2015

Core Laboratories N.V.

NYSE:CLB

Analyst: Ryan Ahlers
Sector: Energy

BUY

Price Target: $134.43

Key Statistics as of 3/3/2015

Market Price:	$110.02
Industry:	Oil and Gas Equipment and Services
Market Cap:	$4,774.1
52-Week Range:	$221.00 - $87.27
Beta:	1.10

Thesis Points:

- High demand for Core's technology and services during low commodity price period will fuel revenue growth
- Volatile market and decrease in oil companies' CAPEX spending not a major threat for Core
- Industry leading financials with extreme attention on building shareholder value

Company Description:

Core Laboratories N.V. provides reservoir description, production enhancement, and reservoir management services to the oil and gas industry in the United States, Canada, and internationally. The services and products offered by Core focus on maximizing production rates and ultimate reserves of oil reservoirs to maximize their clients return on investment. All business units assist oil companies along each phase of the oil well decline curve analysis. Their first business unit, reservoir description, analyzes the reservoir rocks and fluids to provide detailed data that accurately characterizes what the reservoirs consists of. Core's next business unit, production enhancement, provides products and services designed to minimize formation damage and maximize production of the reservoirs. Their third business unit, reservoir management, focuses on maintaining the efficiency of the reservoirs and resolving issues clients may have by using the information gathered from reservoir description and production enhancement units. With these services, Core Laboratories has the ability to assist oil production companies throughout the life of an oil reservoir.

Thesis

Core Laboratory N.V. is a unique and leading company in the Oil and Gas Equipment and Services industry. Core is different than your average oil equipment and service company because of the unique technologies and services that they provide. The market is overestimating the negative impact that the low commodity prices will have on the business. Core Laboratories will continue to have high demand for their products and services in the future and are protected more than an average oil related company because of where their revenues derive from.

Industry Outlook

The energy sector and the industries within this sector are heavily influenced by the price of oil. Exploration and Production companies are most directly affected by commodity market prices, but this trickles down to the Equipment and Services industry that does direct business with the E&P industry. Over the past 8 months oil prices have plummeted from a high of about $100/barrel to a low of about $44/barrel. This volatility in the market and decrease in oil price puts stress on oil related companies, specifically companies that cannot pay their interest payments. Going forward, it is unclear whether oil prices will continue to decrease or if the floor has been hit and prices will start to rebound.

High Demand for Core's Business

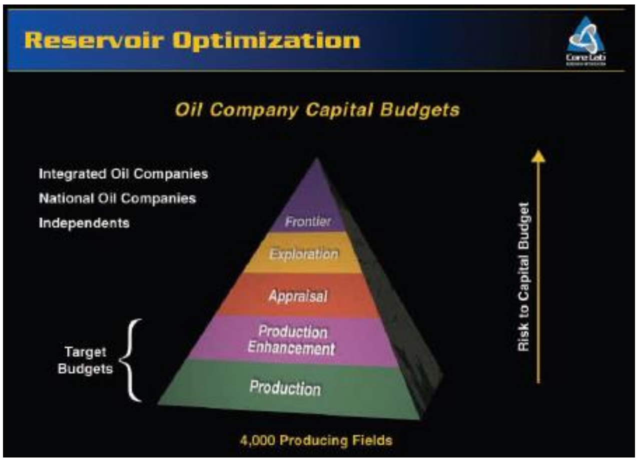
The technology and services that Core Laboratories provides will be in high demand in today's low priced commodity market. Currently, oil companies are putting new drilling projects on hold and putting more attention towards optimizing existing wells and reservoirs. The rationale behind this? The drilling of new wells represents 60% of the overall cost associated with a well, a high expense during a time of decreased revenues among oil producing companies. Producing and expanding on a pre-drilled known oil source with production facilities already in place, is a much more economical choice. This is where Core Laboratories comes into play because the services offered by Core are an alternative to risky and expensive exploration projects. Core Laboratories taps into the undiscovered potential of old oil reservoirs and allows their clients to increase the amount of oil extracted from their reservoirs. In other words, Core has the technologies to boost daily production and maximize the estimated recovery rates from wells. Going forward, with commodity prices being unknown, Exploration and Production companies will continue to try and extract the most oil they can from the reservoirs they have currently operating.

As mentioned, Core Laboratories are able to deliver these results through the technology and expertise they hold. For instance, a patented technology such as the KODIAK Enhanced Perforating System™ creates the deepest perforation tunnels in the world, which is essential in fracking for the ultimate goal of retrieving the most hydrocarbons available. Core has other technologies, that they are currently in the process of developing, that will increase shale recovery rates from 9% to the low teens that are anticipated to be in high demand among the shale boom companies. Core Laboratories believes the technology and services that it provides is the future of the reservoir fluid business and is expanding its facilities and equipment to fulfill future demand and position themselves as the main provider of these services. This assures continued revenue growth for Core Laboratories, a main value driver.

Overestimated Threats

<u>Decrease in Oil Companies' CAPEX Spending</u>

Recently, among Exploration and Production companies, capital expenditures have been substantially decreased for the 2015 fiscal year due to the decrease in oil prices, resulting in a decrease in revenue. The market views this as a substantial threat to Core Laboratories business because of their direct relationship to oil production companies, but as one looks closer at Core's business model it is clear that they are much more shielded from the low commodity prices than one would think. This is because Core's revenue comes from existing oil wells. Exploration and Production oil company capital expenditure cuts for 2015 are primarily expense cuts in the exploration and drilling of new wells, the most expensive investments, not current operating wells. As well, Core Laboratories targets the more stable, less volatile, components of oil companies' budgets: the production and production enhancement segments. These two segments are the least likely to have expense cuts during a reduction of capital expenditures because of their necessity for the production of oil. Exploration and Production companies can afford to cut back on other segments, such as exploration, because they can focus on the reservoirs they currently have operating during the low priced commodity market. This is a huge advantage for Core Laboratories heading into a low oil priced environment for 2015.



Volatile Commodity Market

As mentioned earlier in the industry outlook, oil is currently at an extremely low price of around $50/barrel. With Core Laboratories being in the Oil and Gas Equipment and Services industry, the low commodity price has negatively affected their stock price, but as discussed earlier, Core Laboratories is better protected from the commodity price than the average company due to their source of revenue. Core Lab's customer base, with the largest reduction in activity, is the United States, but as Chairman, President and CEO David Demshur states, "Core Lab is very internationally based…70% of our revenue comes from reservoirs and oil fields outside of the U.S." In an attempt to relieve some of the negative effects of the U.S. market on Core's bottom line, there are talks of potential right sizing of the production enhancement segment, in an effort to lower costs. Even though commodity market volatility is greatly affecting U.S. oil producers, Core Laboratories revenue sources are diversified and a minority of revenues comes from the U.S. Investors may also be concerned about the exposure Core has internationally, but company executives stress in interviews and earnings calls that they are longer and larger scaled projects that will not be affected nearly as much by the market volatility.

To benchmark and project future performance of Core Laboratory in a volatile market, they can be compared to their past performance during the 2008 – 2009 downturn of oil. Management uses this as a benchmark because today's oil downturn was similar to 2008 - 2009 because the decline was mainly caused by slacking demand and not from overwhelming supply growth. During the past commodity downturn, Core Laboratories was able to increase operating and free cash flow. Compared to a much larger company, such as Exxon Mobil, their operating cash flow was cut in about half and their free cash flow more than four times. Core Laboratories is much more shielded from the volatile commodity and is less of a threat than the market believes.

Industry Leading Financials

Core Laboratories prides themselves on creating shareholder value as much as possible every year. The board of Core Labs established their own internal performance metric of achieving a return on invested capital (ROIC) in the top decile of the service companies listed as their peers by Bloomberg Financial. Due to this internal performance metric, Core Laboratories has averaged a ROIC of 36.6% over the past decade. Currently, they are undergoing a share repurchase program which is supported from their high free cash flow and revolving line of credit. As well, they increased their dividend by 10% from the previous year, regardless of the low oil price environment. Return on Common Equity for 2012, 2013, and 2014 was 120, 140.5 and 205.3, respectively. Core's 35% EBITDA margin is much higher than peer's median of 19% and their interest coverage of 32.9x trumps peer's median of 7.0x. Core Laboratories continues to put shareholder value at top priority, resulting in industry leading financials.

Conclusion

Core Laboratories is a growing business, regardless of the short term commodity downturn. They provide a very unique optimization business to the oil production industry that no other company can rival. The optimization of oil reservoirs will become increasingly important in the future as oil prices rebound, demand increases and, ultimately, supply will begin to diminish. As the appreciation of oil occurs, Core Labs technology will appreciate along with it and by the end of 2015 management is predicting a V shaped recovery in stock price. The majority of publicly traded companies in the energy sector have seen a decrease in stock price with the decrease in oil price and that's exactly what has happened with Core Laboratories. The current stock price reflects the decline in oil prices and industry activity, but not a change in Core Laboratories underlying business. For these reasons, Core Laboratories is a BUY.

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1st week of March 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

Core Laboratories NV	clb	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Ryan Ahlers	$110.02	$122.90	$134.33	2%	24.12%	

General Info

Sector	Energy
Industry	Energy Equipment and Services
Last Guidance	Jan-28-2015
Next earnings date	NM

Market Data

Enterprise value	$5,057.92
Market Capitalization	$4,717.77
Daily volume	0.41
Shares outstanding	43.32
Diluted shares outstanding	44.60
% shares held by institutions	102.67%
% shares held by insiders	1.88%
Short interest	12.21%
Days to cover short interest	5.36
52 week high	$221.00
52-week low	$87.27
5y Beta	1.11
6-month volatility	43.61%

Peers	Market Cap.
Frank's International N.V.	$2,729.11
Forum Energy Technologies, Inc.	$1,742.89
Dril-Quip, Inc.	$2,841.54
Helix Energy Solutions Group, Inc.	$1,596.02
Mullen Group Ltd.	$1,895.54
Hunting plc	$715.07
Calfrac Well Services Ltd.	$776.63

Current Capital Structure

Total debt/market cap	7.06%
Cost of Borrowing	3.40%
Interest Coverage	3291.87%
Altman Z	11.98
Debt Rating	A
Levered Beta	1.06
WACC (based on market value weights)	8.26%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Demshur, David	Chairman of Supervisory Board,	$ 6,507,174.00	$ 5,878,115.00	$ -
Bergmark, Richard	Chief Financial Officer, Executive	$ 2,987,626.00	$ 2,335,318.00	$ -
Davis, Monty	Chief Operating Officer and Seni	$ 2,872,612.00	$ 2,474,181.00	$ -
Miller, C.	Chief Accounting Officer, Vice Pr	$ -	$ -	$ -
Elvig, Mark	Vice President, Secretary and Gen	$ -	$ -	$ -
Gresham, James	Vice President of Business Devel	$ -	$ -	$ -

Historical Performance

	clb	Peers	Industry	All U.S. firms
Growth	11.4%	8.9%	13.0%	6.0%
Retention Ratio	5.8%	88.0%	71.8%	50.0%
ROIC	246.3%	20.2%	22.8%	14.6%
EBITA Margin	27.4%	14.9%	17.8%	13.7%
Revenues/Invested capital	236.2%	78.9%	114.7%	202.3%
Excess Cash/Revenue	3.2%	16.6%	17.6%	18.5%
Unlevered Beta	0.93	1.33	1.20	0.95
TEV/REV	4.9x	2.4x	2.2x	2.4x
TEV/EBITDA	15.8x	10.3x	10.1x	11.3x
TEV/EBITA	17.7x	14.9x	14.9x	15.4x
TEV/UFCF	24.8x	12.9x	40.6x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	0.1%	1.3%	0.0%
Last Quarter-1	-3.0%	-0.2%	0.0%
Last Quarter -2	0.3%	-0.1%	0.7%
Last Quarter -3	-6.9%	-4.7%	-0.7%
Last Quarter -4	-1.0%	2.1%	1.4%

Non GAAP Adjustments

Operating Leases Capitalization	0%	N/A	N/A
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	3%	Straightline	10 years

Proforma Assumptions

Operating. Cash/Cash	0.0%
Unlevered Beta	1.00
Rev/Invested Capital	167.0%
Continuing Period Revenue Growth	3.2%
Long Term ROIC	56.7%
Invested Capital Growth	Equals to Maintenance
Justified TEV/REV	3.2x
Justified TEV/EBITDA	10.3x
Justified TEV/EBITA	13.0x
Justified TEV/UFCF	13.0x

Forecasted Profitability

Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
LTM	1%	63%	$1,085.22	$284.20	$437.40	$290.71
LTM+1Y	-5%	63%	$1,030.96	$272.01	$430.84	$285.09
LTM+2Y	14%	63%	$1,177.36	$312.81	$447.98	$295.66
LTM+3Y	14%	63%	$1,344.54	$359.41	$469.56	$337.82
LTM+4Y	8%	63%	$1,452.11	$389.07	$483.90	$374.73
LTM+5Y	7%	63%	$1,553.75	$417.01	$497.84	$403.07
LTM+6Y	6%	63%	$1,646.98	$442.56	$510.84	$429.56
LTM+7Y	5%	63%	$1,729.33	$465.05	$522.46	$453.43
LTM+8Y	4%	63%	$1,798.50	$483.82	$532.34	$473.94
LTM+9Y	3%	63%	$1,859.67	$500.32	$541.14	$491.52

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	64.0%	8.3%	$243.88	$5,639.10	$357.08	-$5.12	$5,287.13	$123.86
LTM+1Y	62.2%	8.8%	$230.23	$5,815.85	$357.08	-$277.71	$5,736.48	$135.08
LTM+2Y	72.6%	9.0%	$284.93	$6,061.64	$357.08	-$601.71	$6,306.26	$148.10
LTM+3Y	80.2%	9.3%	$333.29	$6,297.72	$357.08	-$1,002.46	$6,943.10	$162.97
LTM+4Y	82.9%	10.0%	$352.55	$6,521.78	$357.08	-$1,457.04	$7,621.74	$178.86
LTM+5Y	86.2%	10.4%	$377.05	$6,755.03	$357.08	-$1,959.06	$8,357.01	$196.51
LTM+6Y	88.9%	10.4%	$400.79	$6,981.69	$357.08	-$2,504.75	$9,129.35	$213.89
LTM+7Y	91.0%	10.4%	$421.09	$7,201.58	$357.08	-$3,089.33	$9,933.82	$232.59
LTM+8Y	92.6%	10.4%	$437.39	$7,417.76	$357.08	-$3,710.76	$10,771.45	$252.06
LTM+9Y	94.0%	10.4%	$452.10	$7,635.38	$357.08	-$4,366.59	$11,644.89	$268.80

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Market Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	3%	N/A	3%	14%	Triangular
Terminal Value	0	0.1	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$123.86	$135.08
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$122.90	$134.33
Current Price	$110.02	
Analysts' median est.		$115.05