

# Opening the Valve:

Canary, LLC's Rapid Growth

# Oil and Gas Investor

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## Meet Canary, a Rapidly Growing Service Company



As we've watched unconventional plays across the country explode with activity in recent years, E&P companies have received much of the attention as they continue to discover new plays and revive old ones. Operating largely behind the scenes of the shale gas renaissance have been the service companies, diligently keeping stride with the E&Ps and expanding their service offerings and locations as quickly as the need arises.

One such service company is Denver-based Canary, LLC. Although the company has been housed under one roof since 2008, the companies that have been rolled up under the Canary umbrella bring with them more than 60 years of drilling, production, manufacturing and fabrication services.

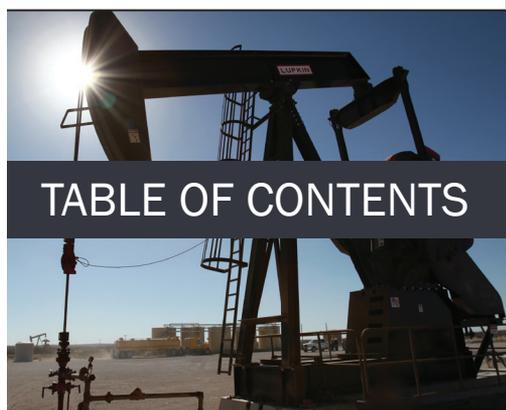
Canary CEO Dan Eberhart relies on the philosophy that Canary may not be the largest service company, but it wants to be the best. With Canary's record of solid acquisitions in nearly every unconventional basin in the U.S., it is rapidly becoming one of the largest privately held oil and gas service companies in the country.

Recently, through the purchases of Tri-Star Wellhead and American Wellhead, Canary expanded its service offerings into the Eagle Ford Shale and the Permian Basin.

As Canary continues to grow through strategic acquisitions, it has held onto the core beliefs it started with when its employee roster numbered only 12. Eberhart and his team believe the company's medium size allows it to maintain the flexibility and quickness of a small company while offering customers the balance sheet, geographic diversity, training and focus on safety of a larger company.

With the company's national footprint in place, Canary is now looking to expand its services internationally, all while maintaining its focus on customer service, safety and training.

—Leslie Haines, Editor-in-Chief, *Oil and Gas Investor*



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# Chatting with the CEO

Dan Eberhart discusses Canary's recent acquisitions and plans for continued growth.

In less than a decade, Canary CEO Dan Eberhart has become a key force in the shale revolution, helping E&P companies produce oil and gas from some of the most prolific unconventional basins across the U.S.

Like the domestic shale story itself, the rise of his Denver-based company, Canary, LLC, began in North Dakota with the 2008 acquisition of a well-respected oilfield services company called Frontier Wellhead and Supply that had been doing business in the Bakken since 1986. Since then, through additional strategic acquisitions including recent purchases in the Permian Basin and Eagle Ford Shale regions, Canary has become one of the largest privately held oil and gas service companies in the U.S. Canary's branches throughout the nation represent more than 60 cumulative years of drilling, production, manufacturing and fabrication services.

Eberhart left his position as vice president of acquisitions at Houston-based Greene's Energy LLC to put together a consortium of buyers to purchase Frontier Wellhead and Supply.

"I was drawn to the Bakken in general because it is a liquids play, and I liked Frontier's market position," Eberhart said. "They had the market-leading position in the wellhead space in the Bakken, and that's unusual for an independent. Usually, they have to scrape because they aren't the biggest in the play, so I thought that was attractive."

With the acquisition of Frontier completed, Eberhart and his original team of 12 people began to expand throughout the Bakken with the goal of becoming one of the largest and most experienced national providers of oilfield services, with a constant focus on work in unconventional plays.

"We provide services in both conventional and unconventional, but we specialize in unconventional," Eberhart said.

Not long after the acquisition of Frontier, the company expanded its service offerings with the acquisitions of Williston, N.D.-based Kodiak Stack Testing LLC and Colorado-based Cable LLC.

"Kodiak had very complementary service lines to what we already had, and it gave us a presence in Williston," Eberhart said. "We thought we could grow that business, and we have.



**DAN K. EBERHART**  
CEO

The acquisition of Cable gave us new product lines and a production services business. It also gave us more geographic diversity across Colorado with the addition of operations in the D-J [Denver-Julesburg] Basin and the Piceance Basin."

The acquisitions of Kodiak and Cable also led to the first of two major evolutions for the company. With its service offerings now ranging beyond wellhead and supply, Eberhart and his team changed the company's name from Frontier Wellhead and Supply to Frontier Energy Group, LLC to better reflect its capabilities.

The beginning of 2010 brought with it the acquisition of Grand Junction, Colo.-based Western Wellhead, which added a Colorado wellhead presence to the company's growing list of service offerings. That was followed in November 2010 with the addition of Frontier's first production business in the Bakken Shale

through the purchase of Watford City, N.D.-based Hanson Hot Oil, the largest hot oil company in the Williston Basin. Hanson, which had been operating in the Bakken since 1984, added 21 hot oil trucks to the Frontier line of service offerings.

The following year, in January 2011, Eberhart began taking strategic steps to better position Frontier for even more future growth from its headquarters in Colorado with the acquisition of Sterling, Colo.-based Luft Machine & Supply. Luft had been in operation since 1976 as a precision machining and fabrication firm specializing in building and repairing farm, oilfield and other industrial equipment. Frontier's purchase of Luft allowed the firm to continue designing and building farm and other industrial equipment, brought Frontier's oilfield manufacturing center to Colorado and allowed for quicker repair and manufacturing work between Frontier's locations throughout Colorado and North Dakota.

"All of our previous acquisitions were focused on doing work for oil and gas companies, but our purchase of Luft Machine was to do work for us," Eberhart said. "That acquisition was more of a vertical integration move rather than expanding what we could offer our customers. It gave us more control over capex spending, and having the capacity to do all of that work in-house was desirable for us. Luft had

“We may not be the biggest service company, but

**WE WANT TO BE THE BEST.**

That’s our focus every day.”

already been a good partner to us, and the acquisition allowed us to leverage [its] engineering talent and proven fabrication system to better serve our customers.”

In April 2012, Frontier continued its cross-country expansion into the Monterey Shale and San Joaquin Valley through the acquisition of Bakersfield, Calif.-based Spicer Wireline Service Inc., a provider of oilfield services, including slickline, braided line, reservoir monitoring and pressure testing, since 1989. Then in 2013, the company acquired Oklahoma City-based Canary Wellhead, a transaction that expanded the company into a truly national presence and turned Frontier Energy Group, LLC into Canary, LLC.

“Our purchase of Canary Wellhead was a transformative acquisition for our company,” Eberhart said. “Through that purchase, we acquired a purchasing department, a manufacturing plant and an internal distribution system. We didn’t have any of those things before. In addition, the purchase of Canary also gave us market-leading positions in Oklahoma, Arkansas and Ohio, as well as two facilities in Louisiana and one branch on the Ohio-Pennsylvania border from which we serve the Marcellus Shale and the Utica Shale.”

The multimillion-dollar acquisition of Canary Wellhead enlarged the company’s footprint to include 26 locations across the U.S. and the ability to serve customers in every major shale oil and gas region. The acquisition also gave it the distinction of being one of the largest oilfield service companies in the country. With the addition of in-house purchasing, manufacturing and internal distribution, the Canary Wellhead acquisition also furthered Eberhart’s goal of making the company a one-stop shop providing all oilfield service capabilities to the company’s ever-growing customer base, which by then numbered more than 900.

Canary Wellhead’s reputation was so strong that Eberhart chose to adopt the Canary name to continue its legacy.

“We’re more than just a wellhead company, so we dropped that from the name. But Canary was known in so many more places than Frontier and had such a great reputation [that] we adopted the name,” Eberhart explained.

Following the acquisition of Canary Wellhead, the biggest hole in the company’s territory was Texas.

“Canary Wellhead had been servicing Texas to a certain extent, but we wanted to increase our focus,” Eberhart said. “From our perspective, we had a fairly substantial national footprint, but we weren’t in two of the three largest plays: the Eagle Ford and the Permian. The acquisition of American

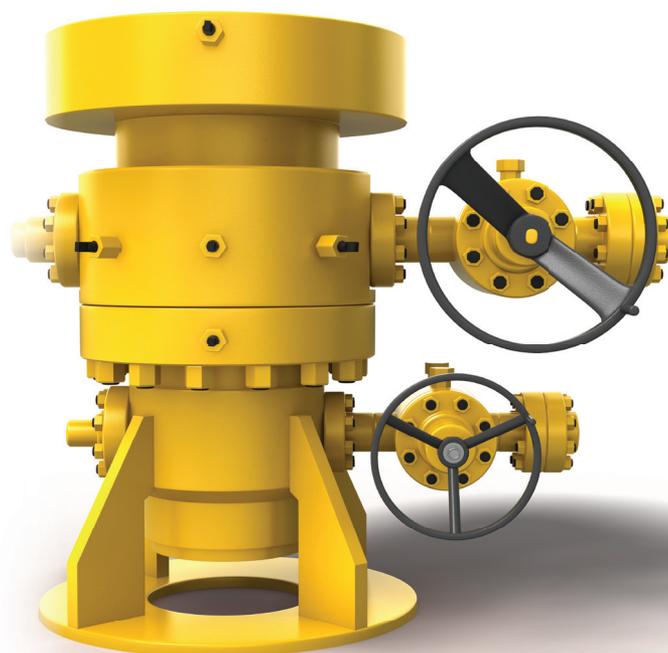
Wellhead put us in the Permian, and the purchase of Tri-Star Wellhead put us in the Eagle Ford.”

After a flurry of acquisitions and expansions, Canary has grown from its initial roster of 12 employees to more than 500. Although the company continues to grow, Eberhart believes the company’s medium size helps to keep it competitive.

“Being a medium-sized competitor offers our customers the best of both worlds,” he said. “We can be nimble, flexible and quick, but we also have a balance sheet, geographic diversity, training and the focus on safety that comes with some of the bigger companies.”

As Canary continues to expand throughout the U.S. and eventually internationally, Eberhart remains focused on the same goals and priorities he held back when the company had 12 employees in North Dakota.

“We may not be the biggest service company, but we want to be the best,” he said. “That’s our focus every day.”



# Canary Increases Its Texas Focus

Company expands footprint in Eagle Ford Shale and Permian Basin.

Following the transformative acquisition of Canary Wellhead in 2012 that turned Frontier Energy Group, LLC into Canary, LLC—one of the largest privately held oilfield supply companies in the country—Canary CEO Dan Eberhart knew there was just one major hole in the company’s national footprint: Texas.

“One of the only parts of the country we lacked after the Canary acquisition was Texas,” he said. “Canary had been servicing Texas to a certain extent, but we wanted to increase our focus.”

With Canary’s expertise in unconventional plays, the booming Eagle Ford Shale and the increasing amount of unconventional work being done in the Permian Basin fit naturally into the company’s profile.

“In the past there was a lot of conventional, vertical drilling

done in the Permian, but now they’re doing a lot more unconventional work, and that’s our specialty,” said Mark Tassin, senior vice president of operations for Canary. “Our growth is in unconventional plays. We’re swifter than our competitors to provide service to growing plays.”

The company was also looking to continue its aggressive acquisition strategy, with a focus on building long-term value in companies with solid performance histories through a focus on customer service and integration. Canary’s existing customers in other parts of the country were also expressing interest in having the company work for them in the Permian and the Eagle Ford.

“A lot of our customers were really interested in having a national company handle their national wellhead accounts,” said Tassin. “They liked the work we were doing for them in



the Bakken, the Woodford and the Utica, so they also wanted us to work for them in Texas. The Permian and the Eagle Ford represent a large portion of U.S. drilling production, so we were looking for acquisitions in those areas that made sense. We wanted to make sure the companies had a good customer base, a good reputation and the ability to expand.”

Enter Crystal City, Texas-based Tri-Star Wellhead, a full-service wellhead and supply center located right on top of the Eagle Ford Shale formation. The company had been in business since 2006 and already had a strong local presence in the Eagle Ford. Due to its size, however, Tri-Star had been unable to expand beyond its current service capabilities. By combining the capital and national presence of Canary with Tri-Star’s convenient location in the heart of the Eagle Ford, the two companies are now able to provide an impressive level of service to area operators.

“For many oil and gas companies operating in the Eagle Ford Formation, getting the right wellhead components has been a challenge,” Eberhart said. “Although there are a handful of small, independent wellhead supply companies operating in the area, larger competitors are typically located farther away and closer to major cities such as San Antonio or Houston.”

Canary has maintained Tri-Star’s 10,000-sq-ft location in Crystal City and continues to provide the full range of Tri-Star Wellhead services and supplies such as wellhead systems, frack tree and goathed rentals, zipper manifold rentals, wellhead installation and valve repair—but on a larger scale. As a part of Canary, Tri-Star will also have access to Canary’s manufacturing and fabrication shops in Oklahoma and Colorado.

Eberhart also believes the Tri-Star facility will provide a strong foundation for future expansion in the Eagle Ford as Canary plans to continue to increase its presence in the area. Following the acquisition of Tri-Star, Canary had its sights set on the final piece of the Texas pie: the Permian Basin.

“One of our current customers has a big base there, and we knew it would be a really important play for us,” said Tassin. “The Permian is really having a renaissance right now. We were looking for a small company that would be a good [entrance] into the area with a diverse customer base, with a mix of larger companies and smaller independents.”

With these qualifications in mind, Canary acquired Odessa, Texas-based American Wellhead in January 2014. American Wellhead was founded by David Walden, an oilfield services veteran with more than 40 years of experience in the industry. Walden started the company to rent and install hydraulic fracturing equipment for customers in the Permian Basin. American Wellhead’s services included wellhead sales and installation, frack stack rental and installation, field service and repair on valves and wellheads, and field greasing of production and fracking equipment. The company’s location, customer base, reputation and service offerings made it the perfect fit for Canary’s move into the Permian.

“Our national customers wanted a location in the Permian

Basin, which currently represents almost 25% of the U.S. oil field,” Eberhart said. “The Permian is shifting from vertical to horizontal drilling, and that kind of unconventional drilling is right in our wheelhouse.”

Part of Canary’s vision for acquiring American Wellhead was to expand American Wellhead’s facility and increase the company’s service offerings in the Permian to include Canary’s expanded line of offerings. At the time of the purchase, Canary was already working to bring its slickline production services into the Permian Basin from the American Wellhead facility, which will help operators get tools downhole safely and quickly, leveraging Canary’s experience at setting and pulling plugs, chokes and gas-lift valves, as well as using slicklines to pull sand, debris and dump bailers.

One of the ways Canary seamlessly integrates acquisitions into the company is by continuing to provide existing customers with the same level of attention they were accustomed to, while expanding customers’ access to products and services.

“When we buy a company, we bring a lot of services in terms of human resources, IT, safety training and a national sales force,” Eberhart said. “One of the benefits is our coordinated national sales force. If you’re doing work in Odessa and your customer’s office is in Houston, you can call our guy in Houston and he will take your customer out to lunch.”

This commitment to its employees and its customers makes Canary’s move into Texas a win-win for both Canary and the companies it serves.

“Our customers continue to receive the same level of service,” said David Walden, American Wellhead operations manager. “But now our customers have access to the products and services of Canary, the largest independent wellhead company in the nation. With this acquisition our customers can only expect better things in the future from the Canary team.”

Following the acquisitions of Tri-Star and American Wellhead, Canary solidified its Texas platform through the addition of offices in Dallas and Houston to provide better access for its customers across the state. The company is also working to expand its Texas acquisitions to increase its footprint.

“Since the purchase of American Wellhead, we have moved equipment into the Permian, hired additional people and expanded their product line offerings with some of the specialty products, such as zipper manifolds, we offer that they didn’t have access to,” Eberhart said.

With boots well on the ground in the Permian, Eberhart added that Canary will turn more of its attention to expanding its operations in the Eagle Ford in 2014.

“We initially put less focus on the Eagle Ford, but that’s going to be an additional focus for us in 2014,” he said. “We were very prepared to expand quickly into the Permian. The outside relationships we had were stronger with the folks we were already doing business with in that area. Now we’re beginning to focus on the Eagle Ford as well.”

# The Future of Canary

The company's plans for growth include expanding its Texas base, production services and international reach.



**W**ith the acquisitions of Tri-Star Wellhead and American Wellhead, Canary, LLC now has operations in every major shale oil and gas region in the U.S. and is the largest independent wellhead services company in the nation. After a couple of whirlwind years chock full of acquisitions, expanded territories, new service offerings and new customers, the company's plans for the future include a lot of things. One thing not in Canary's plans? Slowing down.

"First and foremost, we want to integrate and expand our Texas base," said Canary CEO Dan Eberhart. "We are working to further develop all the opportunities in the Eagle Ford and the Permian that came with our acquisitions of Tri-Star and American."

Canary's plans also include the expansion of its production services business, which currently provides perforating and other reservoir services to customers to extend the production life of wells. The company's production services include hot oil, slickline and wireline, digital dynamometer, gate valve repair and downhole rentals.

"We want to look at adding additional units to our production business so we can have more capacity and serve more customers," Eberhart said.

Another piece of Canary's future is frack heating. The company launched its frack heating business in the Bakken in 2013, in response to customer requests.

"Our frack heating service has been a big success for us so far," Eberhart said. "We're looking to add frack heating in additional locations in the coming year. We're going to need dramatically more capacity next winter in the Bakken."

In addition to continuing to expand its capabilities, Canary also remains focused on expanding its footprint. While the

company is always looking to grow in its major operating areas in the U.S., it is also starting to focus on becoming an international wellhead services company.

"We're currently studying and looking for potential international acquisition targets," Eberhart said. "We're looking at companies operating overseas that are focused on our core competencies of wellhead and pressure control."

Canary's growth primarily comes through strategic acquisitions. The company typically integrates all of the acquisitions' assets, including personnel and real estate.

"When we buy a company, we bring in a lot of services in terms of human resources, IT, safety training and access to our national sales force," Eberhart said. When the company considers an acquisition, it looks at key metrics that will allow it to fit seamlessly within Canary's operations.

"We generally look for long-established businesses with good customer diversity and well-liked, experienced employees," Eberhart said. "In addition to the financial aspects of the company, those are key drivers for us."

Canary also looks at the opportunities for each acquisition individually. It is important to analyze what the acquired company will bring to the company's existing operations.

"Different acquisitions mean different things to our goals for the company," he said. "We're always looking for geographic diversity. We also have big customers who are interested in certain equipment or technology, so we would look at potential acquisition targets to fulfill their needs." One metric Canary does not place much importance on is size.

"We're not afraid of doing the work to acquire a small or large company," Eberhart said. "The most important aspect of growing our company is that we acquire companies with great reputations and good leadership."



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Upon acquiring Oklahoma City-based Canary Wellhead Equipment on Jan. 15, 2013, Frontier Energy Group adopted the Canary name and created the U.S.' largest independent wellhead company. With strong bases in all major U.S. shale plays, including Texas' Eagle Ford Shale and Permian Basin, Canary continues to look for growth opportunities internationally.



Founded 2008 | 2013



American Wellhead Services, Inc.

Founded 2009 | 2014



Tri-star Wellhead Services, LLC.

Founded 2006 | 2013

Canary Wellhead Equipment, Inc.



Founded 1984 | 2013



Founded 1989 | 2012

HANSON  
HOT OIL  
SERVICE

Founded 1984 | 2010

Western  
Wellhead  
Services, L.L.C.

Founded 1996 | 2010



Founded 1948 | 2010



STACK TESTING  
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