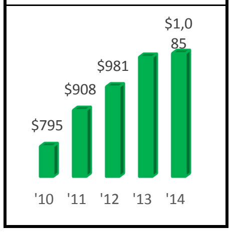
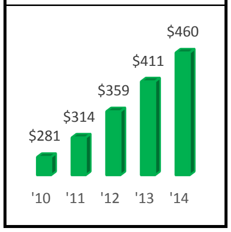
Core Laboratories N.V.
January 14, 2015

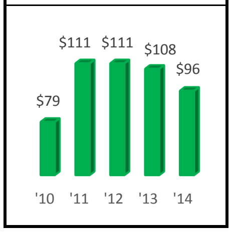
General Overview

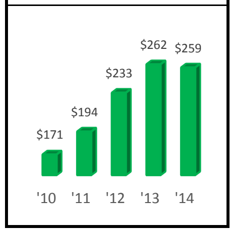
Core Laboratories (CLB) was established in 1936 and has 5,000 employees working in 50 offices across more than 70 countries. The company provides reservoir description, production enhancement, and reservoir maintenance services to oil and gas companies around the world. These services help oil and gas producers improve yields and lower the extraction cost of oil from operating wells. Simply put – CLB makes oil extraction more efficient.

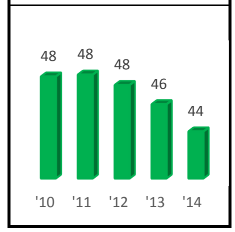
Revenue	Gross Profit	Price of Oil (bbl)	Owner Earnings	Share Count
$1,085,200,000	$460,124,800	Today = $47	$259,095,000	Today = 43.7 Million
5-Year CAGR = 8.1%	5-Year CAGR = 13.1%	5-Year AVG = $101	5-Year CAGR = 11.0%	2010 = 48.2 Million











Purchase Logic

CLB is one of the most profitable oil and gas service companies in the world when measured in terms of return on equity. Unlike most oil and gas service companies CLB does not require large capital outlays to service clients. The business is focused on engineering services that are high margin and provide incredible value to clients. This unique business model has allowed CLB to compound earnings from approximately $20 million in 2004 to more than $250 million today (+27% annualized).

During the first 8 months of 2014 the price of oil was relatively stable at a price level of $100 per barrel. However, during the final four months of the year OPEC announced intentions to sell oil at ever decreasing prices. This caused a rapid decline in the price of oil to below $50 – the lowest price per barrel since the financial crisis. The declining price of oil will likely reduce the number of operating rigs globally with the sharpest reductions seen in unconventional plays – such as the hydraulic fracking in North America. This reduced activity will compress CLB's earnings in 2015 – perhaps as much as 30%. We view these short-term difficulties as a buying opportunity. Our purchase price was $102 per share which equates to $4.4 billion for the business. In 2014 CLB earned slightly more than $250 million meaning we paid roughly 17.8x TTM earnings and 22x forward looking earnings. While this price was a slight premium to the market average of 18x forward earnings we believe that CLB is an outstanding business. With our initial purchase we established a position of roughly 7% of assets with the hope that the price of CLB would continue to decline allowing us to increase our stake at lower prices.

Key Metrics

The key metrics for Core Laboratories are Revenue, Gross Profit, Price of Oil, Owner Earnings, and Share Count. These metrics are driven by both company specific factors – such as the quality of the solutions provided by the company relative to the competition – and macroeconomic factors such as oil prices and global rig count. Each key metric is described below.

Revenue

CLB generates revenue by charging oil and gas exploration companies for consulting services. These services include input on optimal drilling locations, how to fracture certain geological structures, the appropriate proppants to use to maximize flow, and many others. These services are broken down into three primary divisions:

- *Reservoir Description*: Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. The company provides analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.
- *Production Enhancement*: Includes products and services relating to reservoir well completions, perforations, stimulations and production. The company provides integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.
- *Reservoir Management*: Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from client reservoirs.

These services offer a very strong value proposition to clients. As exploration companies utilize these services the fees paid to CLB are recouped quickly through additional oil revenue generated from increases in efficiency. This strong value proposition has allowed CLB to continuously compound revenue despite a relatively flat global rig count for several years.

Gross Profit

The gross profit for CLB is significantly higher than the majority of oil and gas service companies. The business benefits from low operational costs due to the consulting nature of the business. Gross profits are large relative to revenue's because the company does not require large capital expenditures for equipment, but rather, generates profits primarily from their extensive database on geological formations globally. This database is the key to the highest returns on equity in the oil and gas service sector.

Price of Oil

The price of oil is a macroeconomic factor that is largely outside of CLB's control. As the price of oil increases capital expenditures dedicated to oil and gas exploration rises. This increase in capital expenditures leads to increased client activity and more sales for CLB. As the price declines capital expenditures drop and activity slows. During the financial crisis of 2008 and 2009 CLB was able to post outstanding profits and earn industry leading returns on capital despite reduced capital expenditures in the oil and gas industry. We expect a similar performance through the present oil shock.

Owner Earnings

The owner earnings is the cash generated by the business that is available for acquisitions, dividends, and share repurchases. CLB's business model has substantial operating leverage where expenses grow at slower rate than revenues. This has allowed owner earnings to compound at a rate in excess of revenue for the last 10 years. We anticipate this trend to continue into the future.

Share Count

The majority of all profits earned by CLB are allocated to repurchasing shares. As the share count decreases the owner earnings per share rises at a faster rate than the overall growth of the business. The owner earnings per share will ultimately determine the price per share and the success of our investment.

Historical Performance of Key Metrics

All of the major key metrics have been trending positively for the last 5 years. We anticipate that 2015 will be the first decline in revenue, gross profit, and owner earnings in nearly half a decade. When the price of oil stabilizes we'd expect the trends below to continue into the future. Each metric is individually described below.

Year	'10	'11	'12	'13	'14
Total Revenue	$794,653,000	$907,648,000	$981,080,000	$1,073,508,000	$1,085,200,000
Gross Profit	$280,863,000	$314,279,000	$359,261,000	$410,540,000	$460,124,800
Price Per Barrel (Oil)	$79	$111	$111	$108	$96
Owner Earnings	$170,853,818	$194,137,828	$233,479,524	$262,328,159	$259,095,000
Share Count	48,241,000	48,393,000	47,553,000	45,994,000	43,796,660
Cash	$133,880,000	$29,332,000	$19,226,000	$25,088,000	$25,307,000
Debt	$0	$223,075,000	$234,033,000	$267,002,000	$370,000,000

Revenue

In the last 5 years CLB has been able to compound revenue at a rate of 8.1% per year. This growth rate is impressive in light of the fact that the total drilling activity globally has been relatively flat during that same time period.

	2013	2012	2011
Baker Hughes Worldwide Average Rig Count (1)	3,412	3,518	3,465
Baker Hughes U.S. Average Rig Count (1)	1,761	1,919	1,875
Baker Hughes Worldwide Year-End Rig Count (2)	3,478	3,390	3,612
Baker Hughes U.S. Year-End Rig Count (2)	1,771	1,784	2,003
Average Crude Oil Price per Barrel WTI (3)	$ 97.98	$ 94.05	$ 94.87
Average Crude Oil Price per Barrel Brent (4)	$ 108.56	$ 111.63	$ 111.26
Average Natural Gas Price per MMBtu (5)	$ 3.73	$ 2.75	$ 4.00

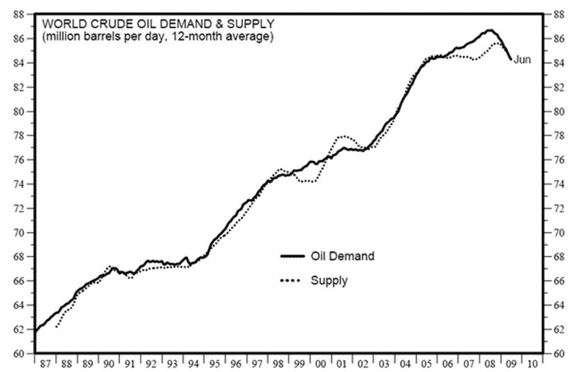
This demonstrates that existing oil and gas exploration companies are continuously turning to CLB to enhance the productivity of producing wells. It is our expectation that revenue will decline sharply in 2015, similar to 2008 and 2009, due to the decrease in oil prices globally. However, over the next 10 years we expect revenues to fully recover to the 2014 level and increase on average at a rate of approximately 6% per year once normalized.

Gross Profit

In the last 5 years gross profit has increased at a faster rate, 13.1%, than overall revenues due to a shift to higher margin products. We anticipate a decline in gross profits during 2015 followed by a strong recovery when oil prices stabilizes. The long term growth forecast would be slightly in excess of revenue due to the continued improvement in product mix (8%).

Price of Oil

Historically the price of oil has been volatile with periods of extreme fluctuation. We view the present price decline as temporary and anticipate the price to normalize in the next few years. It is apparent from the chart below that over long periods of time the global consumption of oil continues to rise.



Owner Earnings

Owner earnings have increased at a rate of 11.0% during the preceding 5 year period. Earnings continue to increase at a faster rate than revenue due to the operating leverage inherit in the business. Additionally, share repurchases have further increased the growth rate in earnings per share to a rate of 17% per year. We anticipate earnings to decline as much as 30% in 2015, but to return to historical levels and grow at a rate of 11% per year for the next 10 years.

Share Count

CLB has allocated approximately 85% of all earnings to share repurchases in the last decade. The $1.2 billion dollars spent repurchasing stock has been utilized at relatively high prices (typically between 25x-35x earnings). In light of the recent decline in share price the share repurchase program will be significantly more effective and made the purchase of CLB more attractive. Management has explicitly stated intentions to continue the share repurchase program over the next 12 months. We anticipate 85% of all earnings to be allocated to share repurchases for the foreseeable future.

Summary of Key Metrics

Metric	**Expectations**
Revenue	Sharp decline in 2015 (20%-30%) Return to normalized levels (+$1 billion) by 2017 & 6% growth
Gross Profit	Sharp decline in 2015 (20%-30%) Return to normalized levels (+$460 million) by 2017 & 8% growth
Price of Oil	Return to +$80 per barrel by 2017
Owner Earnings	Sharp decline in 2015 (20%-30%) Return to normalized levels (+$250 million) by 2017 & 11% growth
Share Count	85% of all earnings allocated to share repurchases

The Moat Around The Metrics

Network Effect

CLB's primary competitive advantage is the network effect surrounding the company's proprietary database. Exploration companies around the world voluntarily submit production data to CLB so that models can be created on the geological formations in the area. When multiple exploration companies are drilling in the same region this cooperation has the effect of increasing production for all participants. The models help inform exploration companies where to drill, proper fracking techniques based on rock types, how to insert proppants to maximize recovery, and more. The more companies that submit data in a specific region – the more accurate the models – the more accurate the models – the better the oil recovery – the better the oil recovery – the more exploration companies submit data. This network effect has enticed major oil conglomerates to submit their production data to CLB from producing regions all around the world. Duplicating CLB's global database would be very difficult which protects the company's earnings long into the future.

Risks

The company's primary risks are macroeconomic and political. Below is a brief description of the risks we've assumed as owners of CLB.

Short-Term Risks

- Low Oil Prices. OPEC has announced their intention to hold oil prices low for the foreseeable future. CLB derives the majority of income from unconventional plays with higher extraction costs per barrel. These projects tend to be the first to go off-line when oil prices decline. In the event oil prices remain depressed for a prolonged period it could adversely affect CLB's earning power. We view this risk as remote and believe oil prices will increase to more than $80 per barrel within two or three years.
- Foreign Currency Exchange Rates. CLB derives a substantial portion of earnings from activities that are not denominated in US dollars. The strengthening of the US dollar has an adverse impact on earnings. We believe that over time the diverse nature of CLB's operations will allow CLB to earn profits when the dollar is both strong and weak.

Long-Term Risks

- Changes in Environmental Safety Laws. There is substantial debate about the long-term effects of hydraulic fracking, particular on water supplies, which are hotly debated today. In the event that environmental laws change to prohibit hydraulic fracking or make the practice cost prohibitive it would adversely affect CLB's long-term earnings. We view this risk as remote for several reasons. Historically oil and gas exploration has been regulated and imposed risks to the environment, but oil is of sufficient importance that policy makers work with exploration companies to bring the product to market at reasonable prices. We believe oil will continue to be sufficiently vital to the global economy that policy makers will act prudently in this arena.
- Abundant Alternative Energy. It is possible that an alternative energy source to hydrocarbons may become economically feasible in the future. We still view this risk as remote because the lead time on switching the world's global energy supply would be decades and ample profits may be earned as owners of CLB during the interim period.

Conclusion

Core Laboratories is one of the fastest growing oil and gas service businesses in the world. The company has compounded earnings at a rate in excess of 27% for the last 10 years and continues to offer a compelling value proposition to clients. The business is exceedingly difficult to compete against due to a strong network effect that centers on the voluntary contribution of production data from clients worldwide. This voluntary contribution of data has allowed CLB to build one of the most comprehensive databases globally across all regions of the globe. We believe it would be extremely difficult to duplicate this high quality asset.

We purchased an initial 7% stake in CLB at a fair price, 17x TTM, due to the sharp decline in oil prices globally. We believe this decline is temporary and fully anticipate CLB to return to historic levels of profitability and beyond over the next 10 years.

Works Cited

1) *CLB Annual Report - SEC Filing 10-K.* EDGAR, 2013.

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