



STONEGATE  
CAPITAL PARTNERS

September 18, 2017

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## MARKET STATISTICS

Exchange / Symbol	OTCQX:DPDW
Price:	\$0.99
Market Cap (\$mm):	\$13.89
Shares Outstanding (mm):	14.03
Float (%):	55%
Volume (3 month avg.):	19,400
52 week Range:	\$0.75-\$1.45
Industry:	Oil and Gas Field Services

## CONDENSED BALANCE SHEET

(\$mm, except per share data)

Balance Sheet Date:	6/30/2017
Cash:	\$7.20
Cash/Share:	\$0.50
Debt:	\$0.00
Equity (Book Value):	\$23.35
Equity/Share:	\$1.64

## CONDENSED INCOME STATEMENTS

(\$mm, except per share data)

FY - 12/31	Revenue	Income	Modified EBITDA	EPS
FY14	\$28.6	\$(5.8)	\$2.0	\$(0.38)
FY15	\$24.8	\$(1.8)	\$0.6	\$(0.12)
Fy16	\$25.4	\$0.2	\$1.0	\$0.01
Fy17E	\$27.5	\$0.8	\$2.7	\$0.05

## LARGEST SHAREHOLDERS

Ronald Smith	1,934,400
Jamaka Capital Management	1,484,100
Pacific View Asset Management	1,243,200
Mary Budrunas	953,700
Goldman Capital Management, Inc.	855,300
Wellington Management Group, LLP	774,000
Aegis Financial Corporation	587,800
Eugene Butler	490,200
Randolph Warner	60,000
Mark Carden	60,000

## STOCK CHART



## COMPANY DESCRIPTION

Deep Down, Inc. is an oilfield services company specializing in complex deepwater and ultra-deepwater oil production, distribution system, and support services. Its services and technological solutions include providing distribution with installation support, engineering services, umbilical terminations, loose-tube steel flying leads, ROVs, and related services along with marine automation, monitoring and control systems, and the design and fabrication of large onshore and offshore carousel systems. It also supports subsea installation, commissioning, and maintenance projects through specialized, highly experienced service teams and engineered technological solutions.

## SUMMARY

Deep Down, Inc. provides innovative concepts of subsea distribution systems with specialization in engineering services, installation management, custom fabrication, site integration testing, and inspection and repair of equipment for the subsea oil and gas industry.

- The Company focuses on complex ultra-deepwater oil production support services and products. Importantly, Deep Down is focused on supporting clients on the completion side vs. drilling.
- Deep Down provides support for subsea engineering, installation, and maintenance projects through specialized, highly experienced service teams and engineered technological solutions. We note that the Company is more services oriented but also produces some specialized products such as steel flying leads.
- One of DPDW's core competencies is its ability to collaborate with oil and gas operators, installation contractors and subsea equipment manufacturers to determine the fastest, safest, and most cost-effective solutions to the full spectrum of complex issues that arise in the Company's industry.
- While the Company has a diversified base of customers that include operators, installation contractors and original equipment manufacturers (OEMs), Deep Down has recently made significant inroads with majors.
- Global spending on subsea production systems is due to reach \$65B between 2015 and 2020, a 56% increase from the previous period.
- The Company reported a backlog of approximately \$11M as of Q217, and while management has discussed a reduction in backlog from historic highs, DPDW continued to report one of its strongest balance sheets at 6/30/17 and also increasing interest in services for non-oil and gas applications, such as the development of deepwater technologies for other industries.
- Deep Down is focused on margin improvement. For Q217, the Company reported gross margins of approximately 50%, and in Q216 it was 33%. The Company believes it can continue these improved gross margins longer-term.
- In early 2016, the Company sold its manufacturing facility in Channelview, TX, for \$3.8M, allowing DPDW to pay off its only debt of \$2.7M and significantly strengthening its balance sheet. Additionally, due to the sale of Channelview and improved efficiency in its remaining facility, the Company has been seeing cost savings of ~\$35K to \$45K/month.
- Significant upside exists if DPDW can sell or rent two umbilical carousels currently being stored. Expected sale proceeds could generate several million in profit. Alternatively, long-term rental income on a carousel could be significant with high gross margins.

We employ a scenario analysis using multiple relative valuation frameworks. The details are on page 8, and all scenarios show upside. We also note that the current market capitalization of approximately \$13.9M is significantly less than the Company's tangible net worth of \$23.4M, with \$7.2M in cash on its balance sheet as of Q217.

## COMPANY OVERVIEW

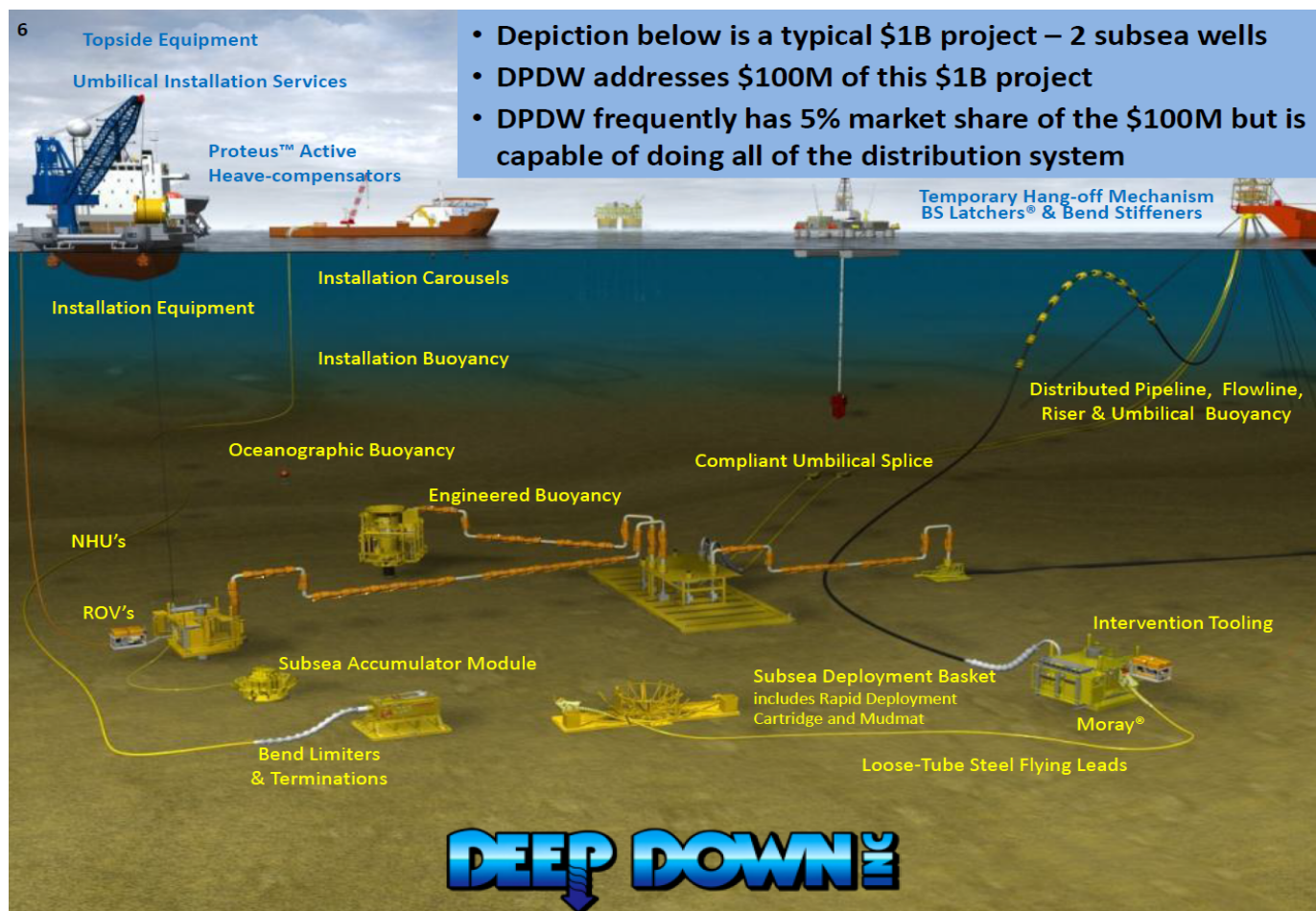
Deep Down is an oilfield services company serving the worldwide offshore exploration and production industry. DPDW's main area of expertise is in complex ultra-deepwater oil production support services and products. The Company provides support for subsea engineering, installation, and maintenance projects through specialized, highly experienced service teams and engineered technological solutions. Its customers include operators, installation contractors and original equipment manufacturers (OEMs), and it operates primarily in the Gulf of Mexico, West Africa and Brazil.

Below is a typical \$1B project involving 2 subsea wells. As can be seen, the services and products that Deep Down delivers address \$100M of this typical \$1B well completion project. Frequently, the Company has a 5% market share of the \$100M in projects that it can address but is capable of doing all of the distribution system.

Importantly, the Company is more services-oriented but also manufactures some specialized products such as steel flying leads and patented Non-Helical Umbilicals (NHU®).

As illustrated below in Exhibit 2, the Company provides its services and products to most major integrated oil & gas companies, large independents, and national oil companies, international and regional installation contractors, and OEMs. As reported for Q217, operators made up roughly 93% of revenues (highest level in the Company's history), contractors were 1% of revenue, and OEMs were 6% of revenue.

### Exhibit 1: Global Subsea Tree Forecast Awards



Source: Company Presentation, Stonegate Capital Partners

## Exhibit 2: Deep Down Customer Mix

OPERATORS	CONTRACTORS	OEMs
		

Source: Company Reports, Stonegate Capital Partners

While DPDW is primarily a services company, it does produce custom engineered products that allow it to help fulfill specific customer project objectives.

## SERVICES OVERVIEW

The Company's services include a wide array of engineering and management services, including the design, installation and retrieval of subsea equipment and systems, connection and termination operations, well-commissioning and support services, and Remotely Operated Vehicle ("ROV") operations support.

One of its core competencies is the ability to collaborate with the engineering functions of oil and gas operators, installation contractors and subsea equipment manufacturers to determine the fastest, safest, and most cost-effective solutions to the full spectrum of complex issues that arise in the Company's industry.

**Engineering, Project, and Installation Management** – Deep Down offers comprehensive engineering and project management for every segment of a project while tailoring it to the needs of its customers. The Company's services are centered on the utilization of standardized hardware, well-tested installation techniques, and experienced, consistent teams that have proven to be safe and skilled in all aspects of the installation process. It can assess the intricate details of an installation project's requirements and develop comprehensive installation procedures.



**Commissioning and Testing** – Umbilical manufacturers, control suppliers, installation contractors, and oil and gas operators utilize the Company's services to perform all aspects of testing, including initial Factory Acceptance Testing ("FAT"), extended factory acceptance testing and System Integration Testing ("SIT"), related to connecting the umbilical termination assemblies, performing installations, and completing the commissioning of the system thereafter. To execute these services, the Company has assembled a variety of personnel and



equipment to ensure that all testing operations are done in a safe and time-efficient manner and to also reduce overall project costs.

### Pull-In and Spooling Operations –

The Company provides the necessary planning, supervision, specialized equipment and coordination with offshore installation personnel to exceed each customer's pull-in and spooling needs. It has developed a very efficient system regarding time and cost for spooling.



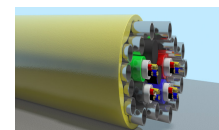
## PRODUCTS OVERVIEW

The Company designs, manufactures, fabricates, inspects, assembles and tests subsea equipment, surface equipment and offshore equipment that is used by major integrated, large independent and foreign national oil and gas companies in offshore areas throughout the world. The Company believes the key to successful installations of hardware is to design the subsea system by considering installation issues first, and then working backwards to the design of the hardware itself. This is why the Company has been instrumental in the development of hardware and techniques to simplify deepwater installations. The Company's products are used during oil and gas exploration, development and production operations on offshore drilling rigs, such as floating rigs and jack-ups, and for drilling and production of oil and gas on offshore platforms, tension leg platforms and moored vessels such as floating production storage and offloading vessels ("FPSO"). While DPDW provides a wide variety of products, we outline the following two major product groups of the Company.

**Steel Flying Leads** – Deep Down is a leader in flying leads design, manufacture and installation, and these represent about 45% of revenues for DPDW. Flying leads provide electrical, hydraulic, and chemical connections to individual structures on the sea floor. The Company's flagship product, the Loose Steel Tube Flying Lead ("LSFL®"), was developed to eliminate the residual memory left in traditional flying leads due to the bundling process. The loose lay of the tubes significantly reduces stiffness of the assembly, allows the bundle to lay flat on the sea floor, follows the prescribed lay path precisely, bends in a tight radius with minimal resistance, and offers maximum compliance for easy makeup in lengths up to 1,000'. Steel flying leads are a potential \$1B market opportunity for the Company.



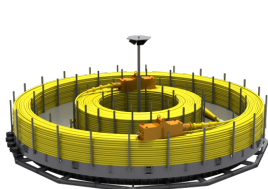
**Umbilicals** – The Company leverages its steel flying leads expertise to create umbilicals. An umbilical delivers electricity cables or optic fibers used to control subsea structures from an offshore platform or floating vessel. The Company has a patented non-helical umbilical (NHUs). Umbilicals are manufactured in lengths up to 10 miles using super duplex tubes in standard sizes and in any configuration of hydraulic, electrical or optical elements. It is intended for long-term infield (static) or short-term dynamic service applications. While this is relatively new product for Deep Down, the Company believes it's well positioned. Its average plant cost is \$6M vs. competitors' at \$100M, and Deep Down states it can deliver the product in 6 months vs. delivery time of competitors at 14 months. Umbilicals have the





possibility of doubling the Company's revenues over the next several years.

**Carousel Technologies** – Carousels provides trans-spooling operations for subsea pipe, umbilicals and steel flying leads for on-site storage and deployment in the field. Management indicated on their last call that they are in active discussions with potential buyers for the carousel on their books. Great upside exists if DPDW can sell its 2 portable umbilical carousels currently being stored until sale or rental; expected sale proceeds could generate several million in profit. Alternatively, long-term rental income could be significant with high gross margins.



## GROWTH STRATEGY

Deep Down's strategy is to continue to grow and strengthen its operations. It aims to accomplish this goal by first providing superior services and products to its clients in a safe, cost-effective and timely manner. The Company also looks to increase its name recognition through boosted technological capabilities, reliability, cost-effectiveness, timeliness of delivery, and operational efficiency features of its products and services.

The Company reported a backlog of approximately \$11M as of Q217, and while management has seen a reduction in backlog from historic highs, DPDW reported one of its strongest balance sheets at 6/30/17 and also increasing interest in services for non-oil and gas applications, such as the development of deepwater technologies for other industries. DPDW has been approached by several academic as well as scientific organizations to partner with them in the development of newer, more advanced technologies.

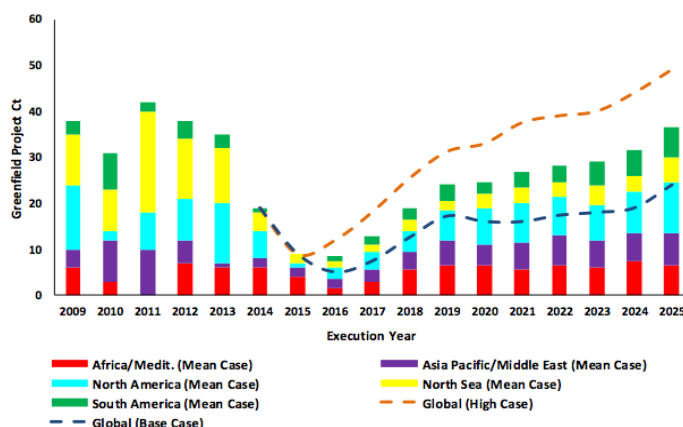
Also, the Company intends to continue to seek strategic acquisitions of complementary service providers, product manufacturers and technologies that are focused primarily on supporting deepwater and ultra-deepwater offshore exploration, development, and production of oil and gas reserves and other maritime operations.

## INDUSTRY OVERVIEW

The overall oil and gas industry continues to be negatively impacted by the drop in oil prices seen over the past two years. While current supply and demand dynamics remain out of balance, long-term global demand for oil is forecasted to continue to rise driven by global growth and challenges involved in accessing new reserves.

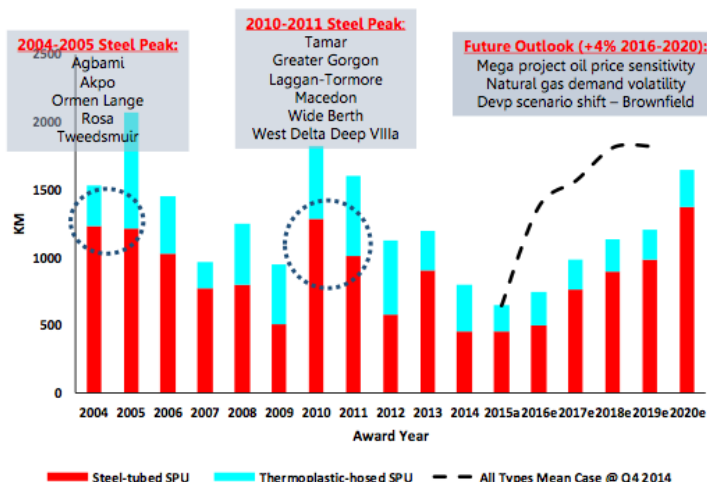
Major long-term drivers for deepwater oilfield service suppliers such as DPDW include: (1) deepwater projects are larger and more complex, bringing greater technological challenges; (2) operators have committed billions to long lead-time product equipment for developments; and (3) most major discoveries remain offshore. We note that solid growth in demand for global subsea production umbilicals continues to be forecasted through 2020; likewise, global deepwater executions through 2025 are expected to rise.

### Exhibit 3: Global Deepwater Executions - Greenfield



Source: Quest Offshore, Stonegate Capital Partners

### Exhibit 4: Global Subsea Production Umbilical Demand



Source: Quest Offshore, Stonegate Capital Partners

## RECENT RESULTS

Deep Down reported revenues for Q217 of approximately \$5.4M, a decrease of 11% over the prior year's quarter top line of \$6.0M. Management has stated that certain projects have been delayed, and thus pushed into 2H 2018. The Company reported gross profit of \$2.7M for Q217, a 50% margin vs. the prior year's gross margin of 33%.

DPDW reported a net income of approximately \$0.5M, or \$0.03 earnings per diluted share for the quarter ending 6/30/17. Modified EBITDA, or EBITDA adjusted for other non-cash charges (such as stock compensation expense) and non-recurring charges for the period was \$0.9M. The Company finished Q217 with working capital of \$11M, which includes approximately \$7.2M of cash on hand, and DPDW has no debt at this time on its balance sheet.

Under the current share repurchase program announced May 2016, the Company has already bought back approximately 1,085,000 shares of common stock at an average price of \$1.05, and will continue as cash resources permit. The program was set to expire 3/31/17 but was extended for an additional year, through March 31, 2018.

As anticipated, in FY16 DPDW returned to profitability and is continuing that trend. More and more orders are being received directly from the major operators, and the backlog remains healthy, although lower than its historic high (as of the end of Q216). Cost savings from the sale of Channelview as well as one other satellite location are shaving overhead with notable savings continue quarter-over-quarter.

Overall, although the industry as a whole continues to be affected by low oil prices over two years running, many players expect pricing to improve by year-end. However, through diligent efforts by management, the Company's numbers are showing improvement, given continued savings and cost containment in overhead. Management also notes that Deep Down continues to adapt to its customers' needs, providing innovative services and solutions for emerging segments of the oil industry, both domestic and abroad, utilizing its core technological capabilities.

## Exhibit 5: Year-over-year Comparison Q216 vs. Q217

Deep Down, Inc. (OTCQX: DPDW) Consolidated Statements of Income (in thousands \$, except per share amounts) Fiscal Year: December					
	Q2 2016	Q2 2017		Variance	
Revenues	\$ 5,968.0	\$ 5,379.0		(589)	The decrease is primarily due to having fewer jobs in process in 2017
Total cost of revenues	4,027.0	2,716.0			
<b>Gross (loss) profit</b>	<b>1,941.0</b>	<b>2,663.0</b>		<b>722</b>	The 17% increase in gross profit % is due to a larger proportion of higher margin service work in 2017 and resolution of an outstanding customer issue
Total operating expenses	2,472.0	2,302.0		(170)	Primarily due to a reduction in rent, professional fees and stock comp, somewhat offset by an increase in advertising
<b>Income (loss) from operations</b>	<b>(531.0)</b>	<b>361.0</b>			
Total other income / (expense)	(6.0)	120.0		126	In Q217 DPDW recognized \$94K in equity of net income from a joint venture
<b>Pre-tax income (loss)</b>	<b>(537.0)</b>	<b>481.0</b>			
Income taxes (expense)	(5.0)	(5.0)		0	
<b>Net income (loss)</b>	<b>\$ (542.0)</b>	<b>\$ 476.0</b>			
<b>Basic EPS (loss)</b>	<b>\$ (0.03)</b>	<b>\$ 0.03</b>			
Basic and fully diluted weighted-average shares outstanding	15,546.0	15,154.0			

Source: Company Reports, Stonegate Capital Partners

## BALANCE SHEETS

Deep Down, Inc. (OTCQX: DPDW)

Consolidated Balance Sheets (in thousands \$)

Fiscal Year: December

	FY 2015	FY 2016	Q2 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 4,274	\$ 8,203	\$ 7,196
ST investments	-	1,005	1,005
Accounts receivables, net	7,849	5,945	3,849
Inventories	3,117	-	-
Costs and estimated earnings in excess of billings on uncompleted contracts	1,354	1,077	187
Prepaid expenses	229	864	717
<b>Total Current Assets</b>	<b>16,823</b>	<b>17,094</b>	<b>12,954</b>
Property and equipment, net	10,762	7,938	8,751
Intangible assets, net	75	69	66
Long-term asset - Carousel	-	3,117	3,117
Other noncurrent assets	878	211	361
<b>Total Assets</b>	<b>\$ 28,538</b>	<b>\$ 28,429</b>	<b>\$ 25,249</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 2,162	\$ 1,778	\$ 1,297
Billings in excess of costs and estimated earnings on uncompleted contracts	46	3,349	600
Current portion of long-term debt	2,747	-	-
<b>Total Current Liabilities</b>	<b>4,955</b>	<b>5,127</b>	<b>1,897</b>
<b>Long-Term Liabilities</b>			
Long term debt, net of current portion	-	-	-
<b>Total Long-Term Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Stockholders' Equity</b>			
Issued shares	16	15	15
Additional paid-in capital	72,989	73,112	73,180
Treasury stock	-	(567)	(1,125)
Accumulated deficit	(49,422)	(49,258)	(48,718)
<b>Total Stockholders' Equity</b>	<b>23,583</b>	<b>23,302</b>	<b>23,352</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 28,538</b>	<b>\$ 28,429</b>	<b>\$ 25,249</b>
<b>Ratios</b>			
<b>Liquidity</b>			
Current Ratio	3.4x	3.3x	6.8x
Quick Ratio	2.8x	3.3x	6.8x
Working Capital	\$11,868.0	\$11,967.0	\$11,057.0
<b>Leverage</b>			
Debt To Equity	11.6%	0.0%	0.0%
Debt To Capital	10.4%	0.0%	0.0%
<b>Capital Usage - Annualized</b>			
A/R Turns	4.5x	3.6x	5.3x
A/P Turns	8.1x	8.8x	11.0x

Source: Company Reports, Stonegate Capital Partners

## INCOME STATEMENTS

Deep Down, Inc. (OTCQX: DPDW)

Consolidated Statements of Income (in thousands \$, except per share amounts)

Fiscal Year: December

	FY 2014	FY 2015	FY 2016	Scenarios		
				Low	Mid FY 2017E	Hi
<b>Revenues</b>						
Revenues	\$ 28,630.0	\$ 24,848.0	\$ 25,384.0	\$ 26,000.0	\$ 27,500.0	\$ 29,000.0
<b>Total revenue</b>	<b>\$ 28,630.0</b>	<b>\$ 24,848.0</b>	<b>\$ 25,384.0</b>	<b>\$ 26,000.0</b>	<b>\$ 27,500.0</b>	<b>\$ 29,000.0</b>
Cost of revenues						
Cost of sales	18,610.0	15,802.0	15,032.0	15,600.0	15,950.0	16,240.0
Depreciation expenses	1,423.0	1,499.0	1,335.0	1,300.0	1,300.0	1,300.0
<b>Total cost of revenues</b>	<b>20,033.0</b>	<b>17,301.0</b>	<b>16,367.0</b>	<b>16,900.0</b>	<b>17,250.0</b>	<b>17,540.0</b>
<b>Gross profit</b>	<b>8,597.0</b>	<b>7,547.0</b>	<b>9,017.0</b>	<b>9,100.0</b>	<b>10,250.0</b>	<b>11,460.0</b>
Operating expenses						
Selling, general and administrative	9,440.0	9,113.0	9,672.0	9,100.0	9,200.0	9,300.0
Goodwill impairment	4,916.0	-	-	-	-	-
Depreciation and amortization	176.0	205.0	197.0	200.0	200.0	200.0
<b>Total operating expenses</b>	<b>14,532.0</b>	<b>9,318.0</b>	<b>9,869.0</b>	<b>9,300.0</b>	<b>9,400.0</b>	<b>9,500.0</b>
<b>Income (loss) from operations</b>	<b>(5,935.0)</b>	<b>(1,771.0)</b>	<b>(852.0)</b>	<b>(200.0)</b>	<b>850.0</b>	<b>1,960.0</b>
Other income / (expense):						
Interest expense, net	(205.0)	(247.0)	(34.0)	-	-	-
Gain on sale of asset	301.0	7.0	1,070.0	-	-	-
Equity in net (inc) loss of joint venture	32.0	226.0	-	-	-	-
Other income, net	14.0	(20.0)	-	15.0	15.0	15.0
<b>Total other income / (expense):</b>	<b>142.0</b>	<b>(34.0)</b>	<b>1,036.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>
<b>Pre-tax income (loss)</b>	<b>(5,793.0)</b>	<b>(1,805.0)</b>	<b>184.0</b>	<b>(185.0)</b>	<b>865.0</b>	<b>1,975.0</b>
Income taxes (expense)	(10.0)	(36.0)	(20.0)	(20.0)	(90.0)	(200.0)
<b>Net income (loss)</b>	<b>(5,803.0)</b>	<b>(1,841.0)</b>	<b>164.0</b>	<b>(205.0)</b>	<b>775.0</b>	<b>1,775.0</b>
<b>Basic EPS (loss)</b>	<b>\$ (0.38)</b>	<b>\$ (0.12)</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ 0.05</b>	<b>\$ 0.11</b>
Basic and fully diluted weighted-average shares outstanding	15,179.0	15,104.0	15,520.0	15,500.0	15,500.0	15,500.0
EBITDA	(4,336.0)	(67.0)	680.0	1,300.0	2,350.0	3,460.0
Modified EBITDA (1)	2,013.0	662.0	1,024.0	1,665.0	2,715.0	3,825.0

### Margin Analysis

Gross margin	30.0%	30.4%	35.5%	35.0%	37.3%	39.5%
Selling, general and administrative	33.0%	36.7%	38.1%	35.0%	33.5%	32.1%
Depreciation and amortization	0.6%	0.8%	0.8%	0.8%	0.7%	0.7%
Operating margin	-20.7%	-7.1%	-3.4%	-0.8%	3.1%	6.8%
Pre-tax margin	-20.2%	-7.3%	0.7%	-0.7%	3.1%	6.8%
Net income margin	-20.3%	-7.4%	0.6%	-0.8%	2.8%	6.1%
Tax rate	0.2%	2.0%	10.9%	10.8%	10.4%	10.1%
EBITDA margin	-15.1%	-0.3%	2.7%	5.0%	8.5%	11.9%

### Growth Rate Analysis Y/Y

Total revenue	-3.3%	-13.2%	2.2%	2.4%	8.3%	14.2%
Total cost of revenues	-4.3%	-15.1%	-4.9%	3.8%	6.1%	8.0%
Selling, general and administrative	7.7%	-3.5%	6.1%	-5.9%	-4.9%	-3.8%
Depreciation and amortization	11.4%	16.5%	-3.9%	1.5%	1.5%	1.5%
Operating income	-2686.4%	70.2%	51.9%	76.5%	199.8%	330.0%
EBITDA	-416.5%	98.5%	1114.9%	91.2%	245.6%	408.8%
Pre-tax income	-845.0%	68.8%	110.2%	-200.5%	370.1%	973.4%
Net income	-875.3%	68.3%	108.9%	-225.0%	372.6%	982.3%
EPS	-661.9%	68.1%	108.7%	-225.2%	373.2%	983.7%
Share count - fully diluted	28.0%	-0.5%	2.8%	-0.1%	-0.1%	-0.1%

(1) Modified EBITDA - DPDW calculated number

Source: Company Reports, Stonegate Capital Partners estimates

## VALUATION ANALYSIS

**EV/Sales analysis-** Based on our mid-case FY17 estimates (page 7), Deep Down is trading at an EV/S ratio of 0.2x vs. median comparables at 1.5x. For our EV/Sales analysis, we use a 1.0x multiple and arrive at a valuation range of \$2.47 to \$2.58. We are using a discounted EV/Sales multiple compared to industry multiples given that Deep Down has missed expectations in the recent past but is now returning to strong growth in the top line as well as profitability.

**EV/EBITDA analysis -** Deep Down is trading at an EV/EBITDA multiple of 2.9x vs. comparables at 13.3x. For our analysis, we assumed 10.0-12.0x EV/EBITDA multiples on our mid-case and high-case scenarios. Thus our EV/EBITDA analysis arrives at a valuation range of \$2.83 to \$3.24. We again applied a discount to our multiples per our discussion above but hold out the assumption that the industry continues to see improvement in the near-term. Our estimates do not include potential EBITDA generated by the lease or sale of the carousels.

**P/B analysis –** Looking at the numbers, Deep Down's current market capitalization of \$13.9M is significantly less than the Company's tangible net worth of \$23.4M, with over \$7M in cash on its balance sheet as 6/30/17. Using its most recent balance sheet and applying P/B multiples of 1.0x to 1.5x, we arrive at a valuation range of \$1.66 to \$2.50. We also note that in 2016, Deep Down closed on the sale of its manufacturing facility in Channelview, TX for \$3.8M, allowing DPDW to pay off its only debt of \$2.7M, strengthening its balance sheet and enabling the Company to recognize significant monthly savings in overhead.

### Exhibit 6: EV/Sales Framework

	EV/Sales	
	Mid-Case	High-Case
	1.0x	1.0x
EV (in \$M)	27.5	29.0
Cash (in \$M)	7.2	7.2
Debt	-	-
MC (in \$M)	34.7	36.2
S/O	14.0	14.0
Price	\$ 2.47	\$ 2.58

(1) balance sheet stats as of June 30, 2017

Source: Company Reports, Stonegate Capital Partners

### Exhibit 7: EV/EBITDA Framework

	EV/EBITDA	
	Mid-Case	High-Case
	12.0x	10.0x
EV (in \$M)	32.6	38.3
Cash (in \$M)	7.2	7.2
Debt	-	-
MC (in \$M)	39.8	45.4
S/O	14.0	14.0
Price	\$ 2.83	\$ 3.24

(1) balance sheet stats as of June 30, 2017

Source: Company Reports, Stonegate Capital Partners

### Exhibit 8: P/B Framework

	P/B	
	Mid-Case	High-Case
	1.0x	1.5x
BV (in \$M)	23.4	23.4
MC (in \$M)	23.4	35.0
S/O	14.0	14.0
Price	\$ 1.66	\$ 2.50

(1) balance sheet stats as of June 30, 2017

Source: Company Reports, Stonegate Capital Partners

### Exhibit 9: Comparable Companies

Name	Ticker	Price (1)	Sh	Mrkt Cap	EV	EV/S (2)		EV/EBITDA (2)		P/E (2)			
						Previous FY	Current FY	Previous FY	Current FY	Previous FY	Current FY		
Subsea Services													
Oceaneering Intl Inc	OHI	31-Dec	\$ 25.80	98.30	\$ 2,536.1	\$ 2,848.8	1.3x	1.5x	7.7x	12.1x	103.2x	nm	
Dril-Quip Inc	DRQ	31-Dec	\$ 43.35	37.80	\$ 1,638.6	\$ 1,203.3	2.2x	2.7x	9.5x	24.8x	17.6x	nm	
Halliburton Co	HAL	31-Dec	\$ 42.31	871.60	\$ 36,877.4	\$ 45,861.2	2.9x	2.3x	20.9x	13.2x	nm	51.6x	
Small Cap Manufacturing													
Newpark Resources Inc	NR	31-Dec	\$ 9.50	85.60	\$ 813.2	\$ 906.0	1.9x	1.2x	-205.9x	13.4x	nm	105.6x	
Matrix Service Co	MTRX	30-Jun	\$ 14.60	26.70	\$ 389.8	\$ 391.0	0.3x	0.3x	14.8x	nm	nm	24.3x	
Average						1.7x	1.6x	-30.6x	15.9x	60.4x	60.5x		
Median						1.9x	1.5x	9.5x	13.3x	60.4x	51.6x		
Deep Down Inc.	DPDW	31-Dec	\$ 0.99	14.0	\$ 13.9	\$ 6.7	0.3x	0.2x	9.8x	2.9x	93.7x	19.8x	

(1) Previous day's closing price

(2) Estimates are from CapitalIQ except for DPDW which are Stonegate estimates

Source: Company Reports, Stonegate Capital Partners



## SIGNIFICANT EVENTS

**March 1, 2017** – Company announces that students from the Dept. of Ocean Engineering at Texas A&M University will advance as a semi-finalist team in the Shell Ocean Discovery XPRIZE competition, with CEO Ron Smith as a key mentor to the team.

**February 2, 2017** – DPDW announced that it had been named to the 2017 OTCQX® Best 50, a ranking of top performing companies traded on the OTCQX Best Market last year.

**July 26, 2016** – The Company disclosed that it had received orders for flying leads and umbilical accessories directly from two major operators valued at over \$3M.

**May 23, 2016** – DPDW announced that the Board had authorized the repurchase of up to \$1 million in shares of the Company's common stock.

**March 10, 2016** – Deep Down completed the sale of buildings and approximately 10 acres of land in Channelview, TX for a sale price of \$3.8M from SAK Investments, LLC. Approximately \$1.8M of the proceeds of the sale were used to repay indebtedness secured by the Channelview Property.

**March 9, 2016** – The Company announced an award from Shell for an umbilical and distribution system to support a production platform mooring line control system.

**January 11, 2016** – Deep Down entered into an agreement with SAK Investments, LLC for the sale of its former operating facility, which includes building and approximately 10 acres of land in Channelview, Texas.

**October 7, 2015** – Deep Down announced that it received the largest order in the Company's history valued at \$13M directly from a super-major operator. The order includes one phase of new systems and equipment to be delivered in 2016 for installation in the Gulf of Mexico.

**September 16, 2015** – Deep Down received a large order for patented flying leads and unique UTA (Umbilical Termination Assembly), valued at approximately \$2.5M directly from an independent operator.

**August 7, 2015** – Deep Down announced that it had received orders for flying leads and offshore services, all for the Gulf of Mexico, valued in excess of \$2M.

**April 7, 2015** – Deep Down announced several contract awards for deepwater work from Super Major Operators, which include SSIV systems, NHU umbilicals, and a variety of installation services and equipment.

## CORPORATE GOVERNANCE

### Ron Smith - President, Chief Executive Officer and Director

- Ocean engineer with 31+ years of hands-on offshore experience having developed an understanding of subsea challenges and problem-solving creativity, including positions at ODECO, Oceaneering Multiflex, Mustang Engineering and Kvaerner
- Co-founder of Deep Down, Inc.
- Extensive contacts across the international offshore oil & gas industry
- Developer of new product applications for ever increasing technological hurdles at greater water depths

### Gene Butler - Executive Chairman and Chief Financial Officer

- Executive Chairman and Chief Financial Officer of Deep Down, Inc. since 2007
- 40+ years as Senior Management and Director of major worldwide energy companies, including 17 at Weatherford International in various capacities including CFO, COO, CEO, President and Director
- Proven ability to manage through cyclical business challenges
- Certified Public Accountant

### Neil Stuckey - Operations Manager Hwy 90

- Experience includes 14 years as Operations Manager for Deep Down Hwy 90 subsidiary
- 20+ years' experience in subsea umbilicals, turn-key installations, controls, tree design and fabrication
- Work experience within the industry including: Oceaneering, Kvaerner, Oil States, Oceaneering Multiflex

### Charles Njuguna – Business Manager

- 20+ years of international business experience, including various operational and financial management roles in Africa, UK and USA.
- Experience includes in-depth studies of global oilfield services industry, and M&A analyses
- Proven track record of process improvement and cost optimization
- Educational background includes MBA from the University of Texas at Austin

### Board of Directors:

**Ronald E. Smith** – *Co-Founder, President, Chief Executive Officer and Director*

**Eugene L. Butler** – *Executive Chairman and Chief Financial Officer*

**Mary Budrunas** – *Co-Founder, Vice President, Corporate Secretary and Director*

**Randolph Warner** – *Independent Director, Chairman of Compensation Committee, and Member of Audit Committee*

**Mark Carden** – *Independent Director, Chairman of Audit Committee and Member of the Compensation Committee*

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