Zacks Small-Cap Research

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Enservco Corp. (ENSV-OTCQB)

ENSV: Raise target to $2.65.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/07/2013
Current Price (02/12/14)	$2.38
Six- Month Target Price	**$2.65**

OUTLOOK

Enservco Corp. is an oilfield services company providing well enhancement and fluid management services to domestic onshore E&P companies. Through an organic growth strategy of geographic expansion and capacity additions, the company is generating impressive revenue growth. In early January, Enservco reported preliminary 4th quarter revenues, which were approximately $1.0 million above our expectations. By the end of January, the company stock had traded above $2.00 per share for 10 consecutive days, which would allow the company to file for an up-listing to the NYSE MKT Exchange. We reiterate our Outperform rating.

SUMMARY DATA

52-Week High	**$2.40**
52-Week Low	**$0.75**
One-Year Return (%)	**190.24**
Beta	**0.26**
Average Daily Volume (shrs.)	**72,253**
Shares Outstanding (million)	**34.6**
Market Capitalization ($ mil.)	**$82.3**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**15.1**
Insider Ownership (%)	**45.6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**25.9**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**18.3**
P/E using 2014 Estimate	**11.7**
P/E using 2015 Estimate	**9.2**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small-Blend**
Industry	**Oil-Field Services**
Zacks Rank in Industry	**16 of 34**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	9.5 A	5.6 A	5.5 A	10.8 A	31.5 A
2013	18.6 A	7.9 A	4.8 A	15.0 E	46.4 E
2014	20.0 E	9.0 E	5.5 E	21.0 E	55.5 E
2015					65.2 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	$0.01 A	-$0.02 A	-$0.02 A	$0.04 A	$0.02 A
2013	$0.11 A	$0.01 A	-$0.03 A	$0.07 E	$0.17 E
2014	$0.11 E	$0.01 E	-$0.02 A	$0.10 E	$0.20 E
2015					$0.26 E

Zacks Projected EPS Growth Rate - Next 5 Years % **25**

Quarterly revenues and EPS do not equal annual figures due to rounding.

KEY POINTS

- Enservco Corp. is an **oilfield services company** that provides well enhancement and fluid management services to domestic onshore E&P companies. The majority of the company's service offerings are reoccurring in nature, justifying a premium valuation multiple.
- Enservco is focused on two unique segments of the oil & gas services industry: **production-related services** and **hydraulic fracturing**.
  - The company provides the ongoing services for the transportation and disposal of fluids (water hauling) that accompany the process of oil & gas production, along with the recurring, maintenance services (hot oiling and acidizing) undertaken during workovers.
  - Also, Enservco is a prime beneficiary of the megatrend towards developing unconventional oil & gas resources in the U.S. through hydraulic fracturing.
  - Hence, the company benefits from both the megatrend of hydraulic fracturing to develop unconventional oil & gas resources in the U.S. (frac water heating) and the stability of providing ongoing water hauling services and workover services (hot oiling and acidizing).
- Through its Heat Waves and Dillco subsidiaries, Enservco has a **geographic footprint over multiple basins** and has **strong relationships (over 100 MSA's)** with many operators in the oil and gas industry, including numerous majors.
- An **organic growth strategy** of geographic expansion and capacity additions (custom-built service trucks) is driving **revenue momentum**.
- Enservco is expected to report financial results for the year ending December 31, 2013 in late March. With management scheduled to present at several conferences during the month of March, the company is expected to release an operational update in early March. With the weather having been unseasonably cold during January and early February, Enservco should be benefiting from strong demand, especially for hot oiling and frac heating trucks. In addition, the delivery of newly fabricated equipment is expected in this same timeframe.
- One of management's goals is to **pursue an up-listing**. The recent rally in the stock's price to above $2.00 would fulfill the quantitative listing standards (under standard 3) for an uplisting to the NYSE MKT Exchange.
- A **significant banking relationship with PNC Bank** was established in November 2012. The company's debt was refinanced, and a revolving credit line will facilitate the development of a larger fleet. Recently, an additional $3.0 million was borrowed to help finance an incremental $4.0 million capex program.
- We reiterate our Outperform rating and raise our price target to $2.65.

2013 REVIEW

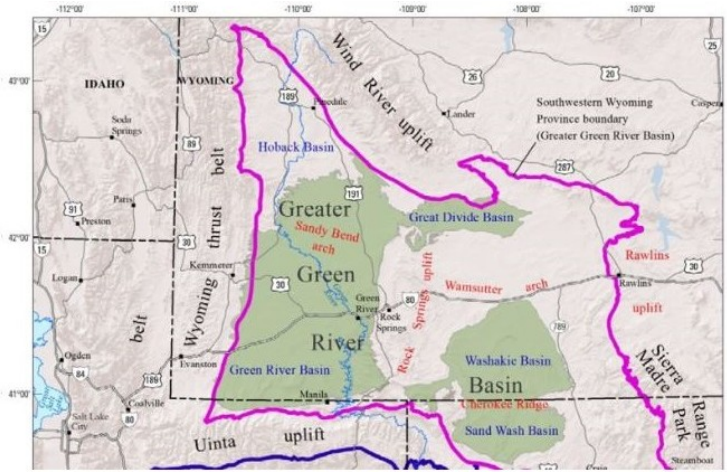
Revenue Growth

Based on the preliminary revenue announcement for the fourth quarter of 2013, **Enservco's revenues for the full-year of 2013 increased 47%** over 2012's results to $46.3 million, which is quite impressive considering third quarter revenues were adversely affected by flooding in Colorado. So far in 2014, Enservco should be benefiting from even stronger demand in its service territories from the continued colder-than-normal winter weather.

Geographical Expansion

Enservco continues to expand geographically into additional domestic oil & gas basins. During the third quarter of 2013, at the request of several existing customers, the company's service territory **expanded to Wyoming's Powder River** and **Green River Basins.** Enservco was commissioned for year-round hot oiling work in the Green River Basin by one of the region's largest operators; this program alone

potentially could add annual incremental revenue annually of more than $4 million. A new service yard has been opened in Rock Springs. Management expects to initially serve approximately 10 new and existing customers with a master service agreement (MSA) having already been signed with a new customer in the region.



Fleet Expansion

The company also continues to expand service capacity through the procurement of newly fabricated equipment. During 2012, Enservco purchased and fabricated five double-burner frac heating units, two hot oil units and two water hauling trucks under a $3.7 million capital expenditure program. During 2013, management initially allocated **$4.7 million in capital expenditures** toward fabricating new equipment (two double-burner frac heating trucks, six single-burner frac heating trucks, four hot oilers and a well acidizing truck). Four hot oilers and three frac heating trucks were delivered in the third quarter of 2013. The fabricator of the equipment is based in Colorado; as a result, equipment deliveries for the remaining units under the initial order were delayed until the first quarter of 2014, at first due to flood damage and later by abnormal cold temperatures. In the meantime, the company leased three frac heating units through the end of the season to help meet the current strong demand.

In addition, PNC Bank approved an **additional $4.0 million in capital expenditures**, which is being funded by a $3.0 million equipment term loan from PNC Bank and $1.0 million received from recent warrant exercises. The expanded capex program is directed toward the fabrication of four hot oiling trucks and up to four additional frac heating units. **Therefore, during 2013, a total of $8.7 million was committed toward capacity expansion**, which management projects **should generate an incremental $14 million in revenues annually** when the equipment is fully deployed.

RECENT NEWS

On January 9, 2014, Enservco reported preliminary revenue results for the fourth quarter of 2013. Management announced that total revenues are expected to have increased 33% to $15.0 million, which is approximately $1.0 million above our expectations. The robust fourth quarter would bring full-year revenue to $46.3 million, which represents a 47% increase over 2012 results. Audited full-year 2013 financial results are expected to be reported by mid-March.

The fourth quarter revenue gain was driven by the capacity additions to the service fleet and very strong demand for fluid heating services. The outstanding revenue gain was attained despite some delays in receiving four hot oil units and four frac heating units from the company's fabricator, which is still working on a backlog created by the floods last September in Colorado. Additional units are expected to be delivered during the first quarter of 2014.

Management is **pursuing an up-listing**. With Enservco's stock having traded above $2.00 dollars per share for 10 consecutive days, Enservco has achieved the quantitative listing standards (under standard 3) for an uplisting to the NYSE MKT Exchange, namely a market capitalization above $50 million with a public float over $15 million and shareholders' equity above $4 million. An up-listing should benefit the company through increased institutional investor ownership and increased share liquidity.

During the months of December 2013 and January 2014, management facilitated **greater investor awareness** of Enservco through road trips to Milwaukee, Chicago, New York City and Boston, along with presenting at the Sidoti Semiannual Micro-Cap Conference at the Grand Hyatt in New York City.

During early March 2014, management is hoping to present both at the 26th Annual ROTH Capital Partners conference in Los Angeles and Northland Capital Markets 2014 Growth Conference in New York City.

OVERVIEW

Headquartered in Denver, Colorado, Enservco Corporation is an oilfield services company that provides well enhancement and fluid management services to domestic onshore exploration and production (E&P) companies. **Well Enhancement Services** (69% of revenues in 2012) is comprised of frac water heating, hot oiling, acidizing and pressure testing, while **Fluid Management** (30% of revenues) involves water hauling, fluid disposal and frac tank rental. Operations related to **Well Site Construction and Roustabout Services** (1% of revenues) were discontinued in 2013. Enservco provides well-site services through two operating subsidiaries: **Heat Waves Hot Oil Service** and **Dillco Fluid Services**.

Enservco's **unique business profile** differs from most oil and gas equipment service companies in that the company's business mix is skewed towards production rather than drilling. Approximately 55% of revenues is derived from recurring, maintenance work related to production (hot oiling, freshwater and saltwater hauling, water disposal and acidizing) and 45% of revenues originates from drilling wells (frac heating, frac fluid hauling and frac tank rental). In addition, drilling-related revenues are derived from hydraulic fracturing, a well stimulation technique benefiting from a secular upswing in the U.S. Therefore, Enservco is less susceptible to the traditional cyclicality exhibited by upstream[1] capital spending budgets of oil and gas companies.

Enservco is **focused on two unique sub-sectors** of the oil & gas services industry: **production-related services** and **fracking**. Management completely avoids the cyclical oilfield equipment industry, which provides rigs, drill bits, valves, pumps, flow control equipment etc. that are needed for the process of drilling new wells. Rather, Enservco concentrates on services related to the ongoing production of oil & gas resources and the megatrend of fracking to release shale gas.

Oil & natural gas operations use and produce significant quantities of fluids. Enservco provides a variety of services for the transportation, storage and disposal of fluids that are involved during both the production of oil & gas and the development or remediation of wells (drilling, fracking and workovers). Enservco, through Heat Waves and Dillco**,** operates a fleet of **75 water hauling trucks**.

Operators of oil and gas wells desire to optimize the productivity of their wells through production management. There are a variety of methods to optimize well performance, including the implementation of scheduled maintenance services to enhance the flow of production. **Hot oiling** and **acidizing** are two effective stimulation and workover procedures, both of which improve the permeability in production wells: one (hot oiling) for removing paraffin, tar and other organic deposits and the other (acidizing) for

[1] Upstream refers to exploration and production while the downstream segment includes refining and marketing of petroleum products and midstream encompasses transportation, such as pipelines.

dissolving scale precipitation and fines that have migrated and are blocking the movement of hydrocarbons. Enservco operates **31 hot oiling trucks** and **three acidizing vehicles** with an additional acidizing truck and four hot oilers to be in operation by March 2014.

The current energy boom in North America is being driven by the development of domestic shale gas resources, which requires horizontal drilling and hydraulic fracturing. The development of unconventional shale plays offer considerable opportunities for Enservco's offerings of frac heating, frac fluid hauling and frac tank rental services, especially in areas of cold weather where frac fluids must be heated during the fracturing process. For example, it is cold or cool up to four months a year in western Pennsylvania (Marcellus shale formation) and up to 10 months a year in North Dakota (Bakken shale formation). Generally, frac fluids must be heated to at least 80 °F at the well site, and advanced techniques require temperatures of at least 90 °F. Heat Waves Hot Oil Service operates **28 frac heating trucks** and the rental of **15 frac tanks**. Frac fluid hauling is completed with the water hauling trucks mentioned above.

ORGANIC GROWTH

Organic growth is reflected by year-over-year increases in revenue after excluding any impacts from currency exchange and acquisitions/divestitures. Though positive effects of strong pricing and cost cutting can drive organic growth, in Enservco's situation, **capacity additions** from fleet expansion and improvements in equipment **utilization rates** are the stronger contributors to revenue growth and margin expansion. In addition, **geographic expansion** and **new fracking techniques**, which require higher water temperatures, enhance the drivers of organic growth. In addition, the increased activity in the onshore US market of unconventional oil and gas production provides a **favorable macro-trend** to further bolster the demand for Enservco's well enhancement services.

Examining the progress of revenue growth by segment reveals that Enservco is delivering **strong organic growth in the Well Enhancement Services segment**. Fueled by strong demand for frac heating and hot oiling services, both in existing service regions and new areas into which the company has expanded, management embarked on **significant capacity expansion programs in 2012 and 2013**. Another program for four hot oil units and four frac heating units for delivery in early 2014 was announced in November 2013.

During 2012, two new hot oilers and five double-burner frac heating trucks were purchased and fabricated. The units were deployed into the Rocky Mountain region where heating season tend to be longer (usually starting in mid-September versus mid-November) enabling better capacity utilization. Moreover, progress in the implementation of hydraulic fracturing require higher slurry temperatures, which has resulted in extending the heating season in several basins from about four months to as high as ten months.

Revenue growth of the Well Enhancement Services segment in the first quarter of 2012 and the third quarter of 2013 appear inordinately low in comparison to other quarters. In the first quarter of 2012, the frac heating and hot oiling components of the Well Enhancement Services segment were affected by higher-than-average temperatures and moderate weather resulting in modest 10.2% YOY top-line growth. However, in the first quarter of 2013, growth accelerated to a rate of 125%. The rapid increase was driven by the multi-dimensional effects of normal weather, capacity additions, new customers and geographic expansion. In the third quarter of 2013, severe flooding in the area of the Denver-Julesburg Basin significantly hampered the growth of revenue from the Well Enhancement segment. The flooding considerably disrupted oil and natural gas operations in the region; Anadarko Petroleum shut down about 650 of its wells in the area and Noble Energy idled 758 wells.

Revenue Growth (YOY)					
Well Enhancement Services					
	1Q	**2Q**	**3Q**	**4Q**	**Year**
2011	N/A	N/A	N/A	N/A	35.9%
2012	10.2%	81.7%	43.0%	133.0%	56.8%
2013	125.4%	78.2%	10.8%		
Fluid Management					
	1Q	**2Q**	**3Q**	**4Q**	**Year**
2011	N/A	N/A	N/A	N/A	28.7%
2012	-10.9%	-8.5%	15.7%	-0.1%	-0.7%
2013	-8.7%	-2.8%	-18.1%		

During 2013, management's organic growth benefitted from the initial $4.7 million and the $4.0 million expansion capital investment programs into additional new frac heating, hot oiling and acidizing trucks with deliveries staggered during the seasonally strong fourth and first fiscal quarters. The expansion of frac heating capacity by 40% and the hot oiling fleet by 15% should enable the continuation of the momentum of organic revenue growth of the Well Enhancement Services segment.

Gross Margin Analysis					
Enservco Corp.					
	1Q	**2Q**	**3Q**	**4Q**	**Year**
2011	37.4%	15.3%	12.8%	23.9%	25.4%
2012	30.9%	17.6%	5.2%	36.7%	26.1%
2013	44.0%	29.0%	3.1%		

Due to the nature of frac heating and hot oiling, quarterly analysis of revenue growth and gross margin aids in the examination of organic growth and its level of profitability. Seasonal variation can be observed with the first and fourth quarters demonstrating higher growth rates and gross margins. The Fluid Management segment (water hauling) does not exhibit the robust growth rate of Well Enhancement Services; therefore, for the first three quarters of 2013, Fluid Management only represented 21% of Enservco's revenue base.

Enservco Corp.					
(% of revenues)					
	2009	**2010**	**2011**	**2012**	**1Q-3Q 2013**
Fluid Management	48%	40%	40%	30%	21%
Well Enhancement Services	42%	54%	58%	69%	78%
Well Site Construction & Roustabout	10%	6%	2%	1%	1%
	100%	100%	100%	100%	100%
	2009	**2010**	**2011**	**2012**	**1Q-3Q 2013**
Eastern USA (Heat Waves)	0%	26%	28%	11%	18%
Rocky Mountains (Heat Waves)	19%	7%	29%	52%	53%
Central USA (Heat Waves & Dillco)	81%	67%	43%	37%	29%
	100%	100%	100%	100%	100%

Enservco is well-positioned to benefit from the **U.S. energy renaissance**, which in part is being driven by advances in horizontal drilling and hydraulic fracturing. The increased tempo in drilling activity, especially in pursuit of shale oil & gas along with tight gas, increases the demand for Enservco's well-site services. This **macro-trend provides favorable conditions for the company's top-line growth**. As E&P companies accelerate redevelopment of existing basins, requests for well enhancement services has allowed Enservco to expand into the Marcellus shale region in 2010, Bakken shale and Niobrara shale fields in 2011, the Mississippi Lime play in 2012, the Utica shale in early 2013 and Wyoming's Green River Basin in late 2013.

Enservco's existing customers have announced major 2014 capital expenditure plans. Noble Energy plans to invest $2.0 billion (or 40% of its total capex program) in the D-J Basin during 2014, while Anadarko Petroleum plans increase the number of D-J Basin wells drilled by 33% to 400 wells. Having allocated approximately $500 million for the Utica shale play during 2013, Gulfport Energy has budgeted between $594 million and $634 million for the drilling of 85 to 95 wells in the Utica play during 2014. EQT Corp. plans to spend $1.2 billion to drilling more than 200 wells into the Marcellus and Utica formations in the Appalachian Basin, up from $860 million in 2013.

Enservco, therefore, represents a **compelling organic growth opportunity** driven both by external and internal factors. The resurgence in the U.S. oil & gas industry is largely due to advances in horizontal drilling and hydraulic fracturing that are able to unlock tight hydrocarbon-based resources in U.S. basins. E&P companies are ramping up development of tight oil and gas in shale and sandstone formations. Management is taking advantage of the favorable macro-trend by adding organic-growth-enhancing capacity, along with expanding the company's geographic reach through the opening of operations centers strategically located to serve U.S oil & gas basins on a national level. Although Enservco is well-positioned for continued organic growth, management also continues to evaluate acquisition opportunities.

HEAT WAVES HOT OIL SERVICE and DILLCO FLUID SERVICES

Enservco conducts well enhancement and fluid management operations through Heat Waves Hot Oil Service and Dillco Fluid Services.

Heat Waves Hot Oil Service (80% of revenues in 2012)

Headquartered in Denver Colorado, Heat Waves Hot Oil Service provides frac heating, hot oiling, fluid hauling, acidizing, pressure testing, water hauling and water disposal services in Kansas, Oklahoma, Colorado, New Mexico, Texas, North Dakota, Montana, Wyoming, Pennsylvania, West Virginia and Ohio. Heat Waves has several operations centers, which are usually composed of shop and equipment yard supporting approximately 30 vehicles, along with a maintenance shop, offices and living quarters for between 10 and 32 employees. Located in Platteville, CO (serving the Denver-Julesburg Basin); Carmichaels, PA (Marcellus shale and Utica shale); Killdeer, ND (Bakken formation), Cheyenne, WY (Niobrara formation) and Garden City, KS (Mississippi Lime formation), the properties of the operations centers range in size from 1.5 to 13.3 acres of land with shops between 3,200 to 11,700 square feet. Heat Waves employs approximately 80 of the Enservco's 125 full-time employees.

Founded in April 1998, a majority interest in Heat Waves Hot Oil Service was acquired in March 2006 and the remaining interests in 2008. Heat Waves provides both well stimulation (frac heating and acidizing) and maintenance (hot oiling and water hauling) services to oil and natural gas companies. Since 2006, the geographic scope of operations has expanded from the initial service area of Kansas, Oklahoma, eastern Colorado and northern New Mexico to Pennsylvania ((Marcellus shale), North Dakota (Bakken shale), Wyoming (Niobrara formation) and most recently, eastern Ohio (Utica shale). Also, Heat Waves has deepened its presence in Kansas (Mississippi Lime). The company focuses on fluid

management services for hydraulic fracturing jobs and workovers (hot oiling and acidizing) to enhance the production of existing wells.

Dillco Fluid Services (20% of revenues in 2012)

With operations centers in Kansas and Oklahoma, Dillco Fluid Services is primarily a provider of **fluid hauling and disposal services** to energy companies working in the Hugoton gas field in western Kansas, northwestern Oklahoma and in nearby counties in the states of Colorado and Texas. Dillco also offers frac tank rentals.

Originally founded by Gene Dill in 1974, Dillco Fluid Services was acquired by Enservco in December 2007. Today, Dillco owns and operates 26 trucks. Fluid hauling trucks have a capacity of up to 140 barrels (5,880 gallons). Also, Dillco owns **four salt water disposal wells**, three of which are currently in operation. Fluid hauling (both fresh and produced water) is Dillco's primary source of revenue.

Dillco owns 15 frac tanks, which are offered for rental. Frac tanks can store up to 500 barrels (21,000 gallons) of water at the well site during the hydraulic fracturing process, but can also be used for storage of other fluids, such as produced water, backflow, etc. Dillco's service area includes southwestern Kansas, the Texas panhandle, northwestern Oklahoma and northern New Mexico with operations centers in Garden City, KS; Hugoton, KS; Liberal, KS; Protection, KS and Keyes OK. Dillco employs approximately 40 of the Enservco's 125 full-time employees.

Heat Waves and Dillco own 236 pieces of equipment that service the oil & gas industry, of which 136 are specialized trucks used for hot oiling, frac heating, water hauling and acidizing.

Enservco's Equipment Inventory

Equipment Inventory	May 2011	May 2012	May 2013	Nov. 2013
Hot oiling & Frac heating trucks	45[2]	55	51[3]	59[4]
Water hauling trucks	80	75	75	75
Acidizing trucks	5	5	3	3
Frac tanks	25	15	15	15
Construction units	25	25	15	15
Misc.	45	70	70	70
TOTAL	225	245	229	236

An immaterial amount of revenues is generated from the rental of frac tanks and from providing pressure testing; however, these services contributes to the level of satisfaction and loyalty of customers.

[2] 30 hot oiling trucks and 15 frac heating trucks.
[3] 27 hot oiling trucks and 24 frac heating trucks.
[4] 31 hot oiling trucks and 28 frac heating trucks.

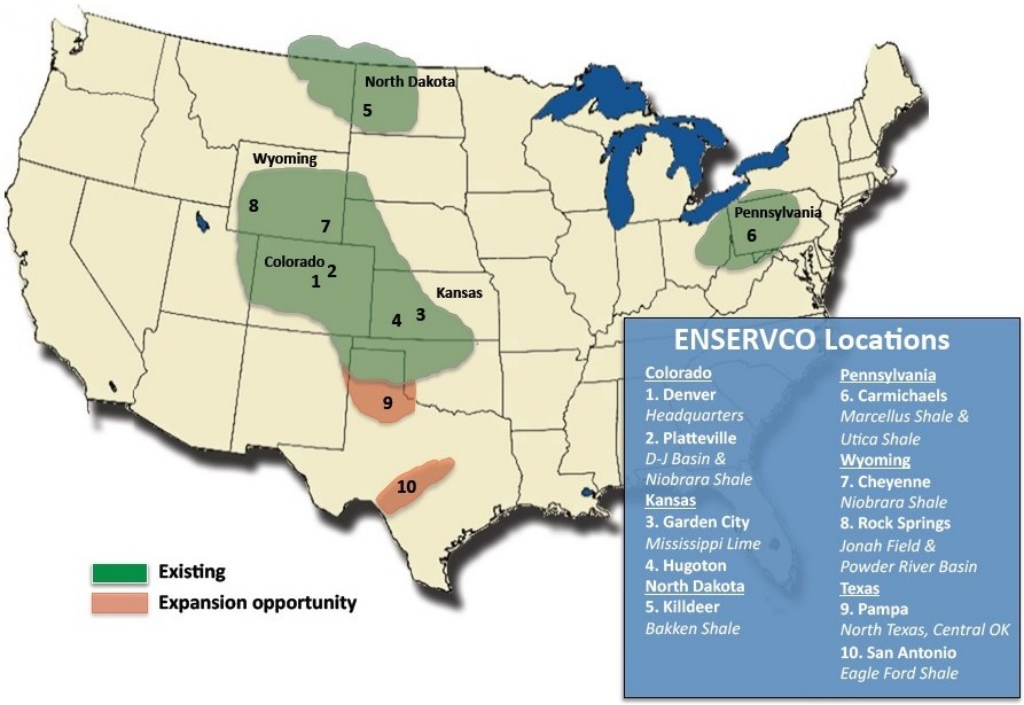
GEOGRAPHIC EXPANSION

Enservco currently provides well-site services to numerous companies in four major, proven, oil and gas basins: **Denver-Julesburg** (targeting Niobrara shale formation in CO and WY), **Hugoton** (Mississippi Lime in KS and OK), **Appalachian** (Marcellus shale in PA and WV and Utica shale in OH) and **Williston** (Bakken shale in ND).

CEO Michael Herman began the formative process of Enservco when he acquired a majority interest in Heat Waves Hot Oil Service LLC in March 2006. At the time, Heat Waves provided hot oiling, frac heating acidizing, pressure testing and water hauling services in eastern **Colorado** and western **Kansas**. The next year, Enservco acquired Dillco Fluid Services, which provided primarily water hauling services in the Hugoton gas field in southwestern **Kansas** and later expanded into nearby areas in adjoining states (northwestern Oklahoma, the Texas panhandle and northern New Mexico). The primary operations centers of Heat Waves and Dillco are in Garden City, KS and Hugoton, KS, respectively.

Timeline of Geographic Expansion

•	March 2006	Invest in Heat Waves working in Denver-Julesburg Basin in CO and WY
•	December 2007	Add Hugoton Basin (KS) operations by acquiring Dillco Fluid Services
•	Mid-2008	Heat Waves enters Uintah Basin (UT and WY)
•	January 2010	Expand to Appalachian Basin (PA & WV) with facility in Carmichaels, PA
•	September 2011	Enter Williston Basin (Bakken formation) in ND and MT
•	September 2011	Expands in D-J Basin (Niobrara formation) - new facility in Cheyenne, WY
•	May 2012	Begin offering water hauling & acidizing services for Mississippi Lime out of Garden City, KS
•	August 2012	Exit operations in Uintah Basin due to irrational pricing by competitor
•	December 2012	Began operations through MSA agreements for Utica shale formation (OH)
•	November 2013	Commissioned for year-round hot oiling work in Green River Basin (WY)

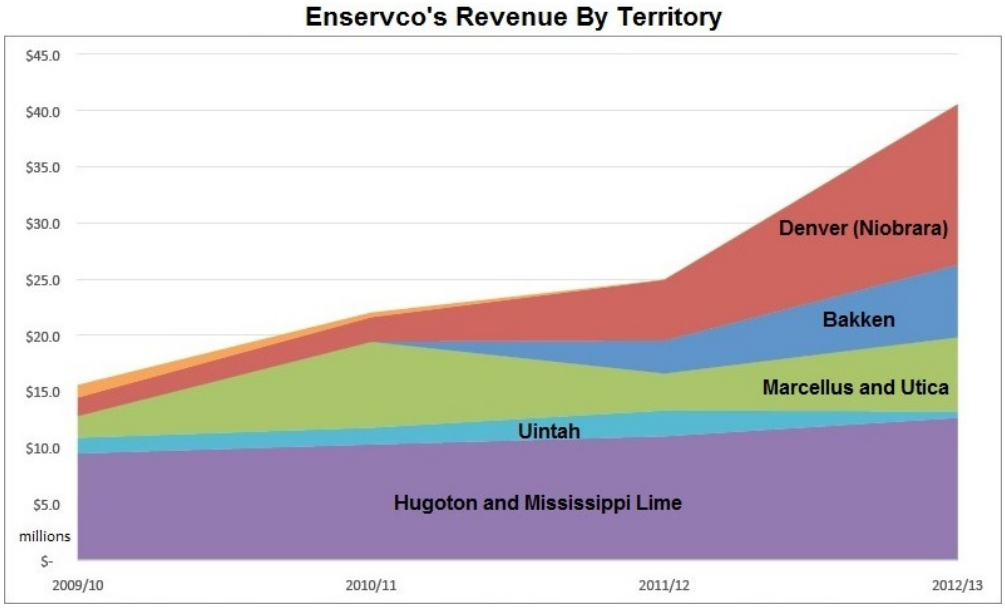


In mid-2008, Heat Waves began serving customers operating in the Uintah Basin in northeastern **Utah** by providing frac heating, hot oiling, water hauling and acidizing services out of an operations center located in Roosevelt, Utah. However, during 2012, a local mom-and-pop company began offering oil &

gas services at cost, and management decided to terminate operations in the Uintah Basin due to the irrational pricing practices by a competitor. The facilities in Roosevelt were sold and Heat Waves' equipment was redeployed to more stable and active operations centers.

In early 2010, Heat Waves expanded into the Appalachian Basin through the request of a large, longtime customer to provide frac-heating services for the development of the Marcellus formation in southwestern **Pennsylvania** and northern **West Virginia**. Heat Waves opened an operations center in Carmichaels, PA in January 2010. Within a year, frac heating, hot oiling and water hauling services were being provided to 12 major exploration and production companies in the region. At the present time, four of the five largest operators developing the Marcellus in southwestern Pennsylvania are customers of Enservco. In December 2012, Enservco entered into master service agreements (MSAs) with five major E&P companies which are targeting the Utica shale formation in eastern **Ohio**, where fracking techniques require higher fluid temperatures than in the Marcellus. Therefore, demand for frac fluid heating services in Ohio should extend throughout most of the year. In the first quarter of 2013, revenues generated from the Eastern USA region increased just over $3.0 million due, in part, to the company's expansion into the Utica.

During September 2011**,** Enservco dramatically expanded its footprint in the Rocky Mountain region. In the north, a new operations center was opened in Killdeer, **North Dakota** to serve operators in the Bakken shale play with a service fleet of frac heaters and hot oilers. In the central Rockies, the company augmented its base of operations addressing Niobrara play in western Colorado and southeastern **Wyoming**. The opening of an operations center in Cheyenne, WY supplemented the company's initial foray into northern Colorado and eastern Wyoming when the yard in Platteville, Colorado opened its doors prior to 2010. In late 2013, Enservco was commissioned to begin performing year-round hot oiling work in Wyoming's Green River Basin, which is expected to generate more than $4 million in incremental revenue annually.



Currently, Enservco's most significant territories are the Denver-Julesburg (D-J) Basin in Colorado and Wyoming and the Hugoton gas field in Kansas and Oklahoma, the latter being the service area of Dillco Fluid Services.

SEASONALITY

Historically, Enservco's businesses have experienced seasonality, primarily due to the climate-based demand changes for the services of frac heating and hot oiling that are offered by Heat Waves. The colder weather months of October through March generate a substantial percentage of the company's annual revenues, on average about 64% over the last three years. During the colder months, successful fracturing requires that large amounts of water be heated to properly prepare the frac slurry. Frac heating trucks are also used to heat water flow lines in order to prevent freezing. Incremental demand for hot oiling arises during cold weather periods from services such as heating oil in storage tanks to reduce its viscosity for ease of handling and transport.

Quarterly Revenues as a % of Annual Revenues				
	2010	2011	2012	Average
1Q	32%	39%	30%	34%
2Q	18%	19%	18%	18%
3Q	18%	19%	17%	18%
4Q	32%	24%	34%	30%

Typically, less frac heating and hot oiling are required during the summer season. Consequently, the warmer weather months of April through September have generated only 36% of the company's annual sales. Water hauling from producing wells (primarily Dillco in the mid-West) is not as seasonal since operating wells in the lower 48 produce water regardless of weather conditions.

Owing to the seasonality of Enservco's business mix, sequential quarter comparisons are usually not meaningful. Moreover, a warmer-than-normal winter can negatively impact revenues, which was the case in the winter of 2011.

Management is striving towards moderating the company's seasonality. Efforts to expand into regions that have less variation in demand during the year are being pursued. For example, Enservco entered the service area of the Utica formation in Ohio where demand for frac water heating extends over most of the year, specifically during nine-to-ten months annually. Furthermore, relatively-new advanced techniques for hydraulic fracturing necessitate higher downhole temperatures and are extending the frac heating season for Heat Waves in Colorado and Wyoming. Lastly, management is working towards expanding services that tend to be schedules during non-winter months, such as acidizing. Through a multi-prong effort, management is attempting to mitigate the seasonality of the company's revenue base.

INSIDER TRADING AND OWNERSHIP

Corporate insiders own 45.6% of the outstanding common stock. Michael D. Herman (Chairman and CEO) beneficially controls 14,215,367 shares (or 41.1% of the shares outstanding). Rick Kasch (President) owns 1,546,924 shares (or 4.5%). Over the last three months, neither Michael Herman nor Rick Kasch has reported any open market transactions.

Institutional investors own 15.1% of the shares outstanding of Enservco as of the end of the latest reporting period, with Cross River Management LLC beneficially controls 4,414,500 shares (12.8%), Perritt Ultra MicroCap Fund holds 424,900 shares (1.2%), Hunter Associates holds 336,500 shares (1.0%) and Dowling & Yahnke, LLC owns 54,950 shares (0.2%). Over the last three months, Cross River Management LLC sold 500,000 shares in early January 2014. The Perritt Ultra MicroCap Fund initiated its position during the last two months of 2013.

VALUATION

The appropriate security valuation methodology for Enservco is comparative analysis of similar oil service companies. Enservco's mix is relatively unique among public oil services companies, since the majority of revenues are derived from services provided during the hydraulic fracturing process or well site work overs. Therefore, the industry comparables should be carefully chosen such that a significant portion of their revenues are derived from similar services since the character of reoccurring revenues and the related profitability are usually assigned higher valuation multiples. Accordingly, Oil Services & Equipment and E&P companies ought to be avoided.

The applicable valuation parameters for Enservco are price-to-sales (P/S) and enterprise value-to-EBITDA (EV/EBITDA) due the character of the company's enterprise, namely a small-capitalization company with a rapidly growing revenue profile that should continue to expand over time as management invests in the underlying businesses, deepens the company's presence in existing markets and expands into new service territories. **Price-to-sales** valuation incorporates a company's ability to generate revenues and cash flow. The classic valuation parameter for large-cap companies, such as Schlumberger and Halliburton, is **EV/EBITDA**, which is known to be the highest correlated metric and relatively reliable determinant of stock price in the Oil Services & Equipment company universe. Though the risks associated with newer, smaller companies, such as Enservco, are greater than that for more established companies with longer track records, in our view, so are the growth prospects.

The average P/S multiple of the industry comparables is 1.7 versus ENSV's current multiple of 1.9; the average EV/EBITDA multiple is 8.3 versus ENSV's 7.8. In other words, Enservco's stock is trading at a 5% premium to the industry's average P/S multiple and a 6% discount to the average EV/EBITDA multiple. Given management's aggressive growth plan and its successful implementation, we believe that Enservco stock should be valued at least at a 10% premium to the average multiple of comparable companies. Based on evaluating the current price-to-sales and EV/EBITDA of comparable companies, our target for Enservco stock is now $2.65.

Industry Comparables	**% Chg YTD**	**P/E CFY**	**EPS Gr 5Yr Est**	**Rev Gr Last Yr**	**Price/ Book**	**Price/ Sales**	**EV/ EBITDA**
ENSERVCO CORP	31.5	11.7	25.0	27.7	7.3	1.8	7.8
S&P 500	-1.6	15.5	10.8	N/A	4.7	3.2	14.7
Industry Mean	7.0	16.0	14.5	14.9	4.9	1.7	8.3
Industry Median	-2.0	14.2	15.0	7.9	1.7	1.3	6.7
EXTERRAN HOLDINGS	3.0	38.7	10.0	4.5	1.3	0.7	6.4
KEY ENERGY SVCS	-3.8	26.0	10.3	6.1	0.9	0.7	6.5
RPC INC	-1.9	17.9	15.0	7.5	4.1	2.1	7.2
NEWPARK RESOURCES	-5.7	12.6	10.0	8.3	1.8	0.9	7.5
BASIC ENERGY SVCS	20.0	N/M	N/M	10.6	2.4	0.7	6.7
C&J ENERGY SVCS	7.9	15.6	11.9	46.6	2.0	1.2	6.4
FLOTEK INDUSTRIES	19.4	24.5	22.0	20.9	5.1	3.5	17.8

BALANCE SHEET & PROJECTED INCOME STATEMENT

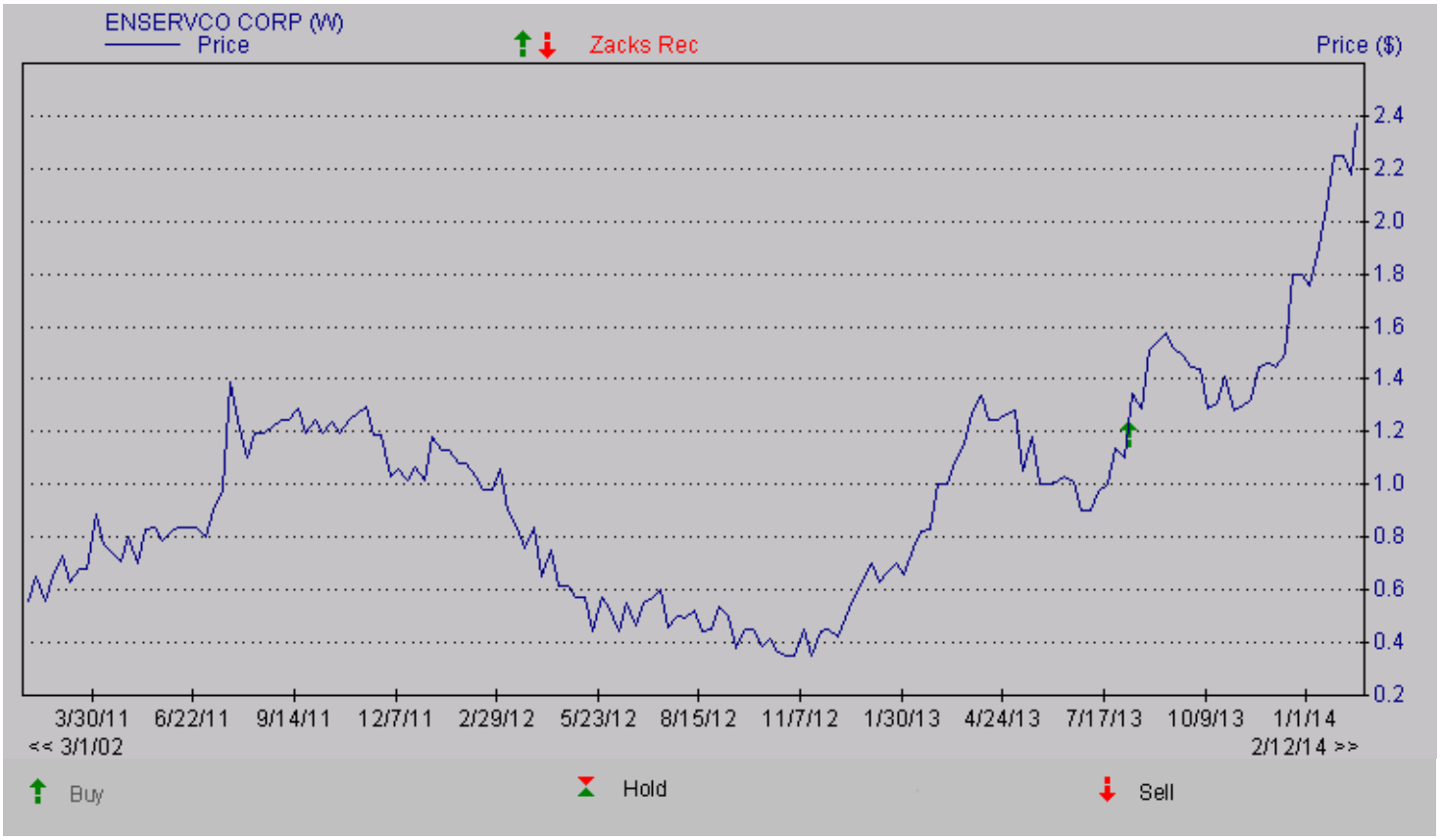
ENSERVCO CORP.				
Year ending December 31	2010 (12/31/2010)	2011 (12/31/2011)	2012 (12/31/2012)	3Q/2013 (9/30/2013)
ASSETS				
Cash and cash equivalents	1,637,807	417,005	533,627	5,406,955
Accounts receivable, net	4,101,331	4,505,254	7,791,342	2,670,761
Marketable securities	365,786	150,793	-	
Prepaid expenses and other current assets	315,521	593,291	802,020	1,144,201
Inventories	300,527	549,432	273,103	298,065
Income taxes receivable	634,941	-		
Deferred tax asset	20,041	187,170	153,466	142,745
Total current assets	**7,375,954**	**6,402,945**	**9,553,558**	**9,662,727**
Property and Equipment, net	14,452,298	14,759,039	15,020,890	15,816,035
Fixed Assets Held for Sale, net	-	412,831	304,429	0
Non-Competition Agreements, net	420,000	180,000	30,000	0
Goodwill	301,087	301,087	301,087	301,087
Long-term portion of interest rate swap	-	0	16,171	17,558
Other Assets	71,537	64,770	630,891	579,179
TOTAL ASSETS	**22,620,876**	**22,120,672**	**25,857,026**	**26,376,586**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and accrued liabilities	2,066,353	2,954,687	3,585,785	2,071,518
Income taxes payable	0	0	0	417,320
Line of credit borrowings	1,050,000	2,263,227	2,151,052	0
Current portion of long-term debt	3,107,122	3,867,658	2,236,343	2,071,859
Current portion of interest rate swap	0	0	24,048	14,880
Total current liabilities	**6,223,475**	**9,085,572**	**7,997,228**	**4,575,577**
Long-Term Liabilities				
Deferred rent payable	-	22,044	20,860	0
Subordinated debt - related party	1,700,000	1,477,760	0	0
Long-term debt, less current portion	8,657,675	8,020,435	10,570,928	9,139,185
Deferred income taxes, net	1,434,282	387,487	451,662	2,187,506
Total long-term liabilities	**11,791,957**	**9,907,726**	**11,043,450**	**11,326,691**
Total liabilities	**18,015,432**	**18,993,298**	**19,040,678**	**15,902,268**
Stockholders' Equity				
Common stock	108,894	108,894	159,127	161,682
Additional paid-in-capital	5,489,823	6,112,674	9,864,363	10,307,808
Accumulated earnings (deficit)	(1,150,011)	(3,117,267)	(3,202,337	3,181
Accumulated other comprehensive income	156,738	23,073	(4,805)	1,647
Total stockholders' equity	**4,605,444**	**3,127,374**	**6,816,348**	**10,474,318**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**22,620,876**	**22,120,672**	**25,857,026**	**26,376,586**
Shares outstanding	21,778,866	21,778,866	31,825,294	32,439,824

ENSERVCO CORP.

Years ending December 31	2009	2010	2011	2012	2013E	2014E
Revenues	**15,388,746**	**18,641,286**	**23,904,384**	**31,497,787**	**46,318,304**	**55,500,000**
Cost of Revenue	13,489,099	14,422,412	17,828,834	23,286,561	29,922,337	34,410,000
Gross Profit	**1,899,647**	**4,218,874**	**6,075,550**	**8,211,226**	**16,395,967**	**21,090,000**
Operating Expenses						
General and administrative expenses	1,486,124	2,540,859	3,515,213	3,550,438	3,892,368	4,000,000
Depreciation and amortization	4,423,934	3,992,367	4,188,052	2,960,153	2,239,914	2,200,000
Total operating expenses	5,910,058	6,533,226	7,703,265	6,510,591	6,132,282	6,200,000
Income (Loss) from Operations	**(4,010,411)**	**(2,314,352)**	**(1,627,715)**	**1,700,635**	**10,263,685**	**14,890,000**
Other Income (Expense)						
Interest expense	(699,125)	(728,241	(699,230	(902,152)	(1,052,979)	(1,021,389)
Gain (loss) on sale and disposal of equipment	(79,785)	(71,003	(119,023)	(5,739)	313,299	0
Gain (loss) on sale of investments	0	188,186	0	24,653	0	0
Unrealized derivative gain (loss)	(140,733)	0	0	0	0	0
Other	7,472	153,557	(49,765)	10,870	31,928	20,000
Total other income (expense)	(912,171)	(457,501	(868,018	(872,368)	(707,752	(1,001,389)
Income (Loss) From Continuing Ops Before Tax	(4,922,582)	(2,771,853	(2,495,733	828,267	9,555,933	13,888,611
Income Tax (Expense) Benefit	(972,882)	926,188	897,923	(426,779)	(3,795,812)	(5,516,839)
Income (Loss) From Continuing Operations	**(5,895,464)**	**(1,845,665)**	**(1,597,810)**	**401,488**	**5,760,122**	**8,371,771**
Discontinued Operations						
Loss from discontinued operations	0	0	(605,650)	(797,636)	(120,845	(50,000)
Income tax benefit	0	0	236,204	311,078	47,131	19,501
Loss on discontinued operations, net of tax	0	0	(369,446)	(486,558)	(73,714)	(30,499
Net Income	**(5,895,464)**	**(1,845,665)**	**(1,967,256)**	**(85,070)**	**5,686,408**	**8,341,272**
Other Comprehensive Gain (Loss)						
Unrealized gain (loss) on available-for-sale securities	0	156,738	(133,665)	17,506	0	0
Unrealized gain (loss) on interest rate swap, net	0	0	0	(4,805)	3,452	0
Settlements - interest rate swap	0	0	0	0	20,890	10,000
Reclassification into earnings, net of tax	0	0	0	(40,579)	(20,890)	(10,000
Total other comprehensive gain (loss)	0	156,738	(133,665)	(27,878)	3,790	0
Comprehensive Income / Loss	**(5,895,464)**	**(1,688,927**	**(2,100,921**	**(112,948)**	**5,690,198**	**8,341,272**
Earnings (Loss) per Common Share - Basic						
Income from continuing operations ($ per share)	(0.41)	(0.10)	(0.07)	0.02	0.18	0.21
Discontinued operations ($ per share)	0.00	0.00	(0.02)	(0.02)	(0.00)	(0.00)
Net Income ($ per share)	(0.41)	(0.10)	(0.09)	(0.00)	0.17	0.21
Earnings (Loss) per Common Share - Diluted						
Income from continuing operations ($ per share)	(0.41)	(0.10)	(0.07)	0.02	0.17	0.20
Discontinued operations ($ per share)	0.00	0.00	(0.02)	(0.02)	(0.00)	(0.00)
Net Income ($ per share)	(0.41)	(0.10)	(0.09)	(0.00)	0.17	0.20
Basic weighted average shares outstanding	14,519,214	17,641,87	21,778,86	23,389,15	32,612,55	39,151,08
Diluted weight average shares outstanding	14,519,214	17,641,87	21,778,86	24,316,86	34,303,09	40,841,62
Gross Margin	12.3%	22.6%	25.4%	26.1%	35.4%	38.0%

ENSERVCO CORP.	2012 Year	2013 1Q	2013 2Q	2013 3Q	2013 4Q E	2013 E Year	2014 1Q E	2014 2Q E	2014 3Q E	2014 4Q E	2014 E Year
Revenues	**31,497,787**	**18,567,166**	**7,947,635**	**4,803,503**	**15,000,000**	**46,318,304**	**20,000,000**	**9,000,000**	**5,500,000**	**21,000,000**	**55,500,000**
Cost of Revenue	**23,286,561**	10,401,143	5,639,686	4,656,508	9,225,000	**29,922,337**	11,203,802	6,210,000	5,060,000	11,760,000	**34,233,802**
Gross Profit	**8,211,226**	8,166,023	2,307,949	146,995	5,775,000	**16,395,967**	8,796,198	2,790,000	440,000	9,240,000	**21,266,198**
Operating Expenses											
General and administrative expenses	**3,550,438**	907,073	1,169,620	890,675	925,000	**3,892,368**	952,427	1,228,101	935,209	971,250	**4,086,986**
Depreciation and amortization	**2,960,153**	563,836	586,365	543,671	546,042	**2,239,914**	1,500,000	675,000	412,500	1,575,000	**4,162,500**
Total operating expenses	**6,510,591**	1,470,909	1,755,985	1,434,346	1,471,042	**6,132,282**	2,452,427	1,903,101	1,347,709	2,546,250	**8,249,486**
Income (Loss) from Operations	**1,700,635**	6,695,114	551,964	(1,287,351)	4,303,958	**10,263,685**	6,343,771	886,899	(907,709)	6,693,750	**13,016,711**
Other Income (Expense)											
Interest expense	**(902,152)**	(314,052)	(251,655	(247,346)	(239,926)	**(1,052,979)**	(314,052)	(251,655)	(247,346)	(239,926)	**(1,052,979)**
Gain (loss) on sale and disposal of equipment	**(5,739)**	306,457	0	6,842	0	**313,299**	0	0	0	0	**0**
Gain (loss) on sale of investments	**24,653**	0	0	0	0	**0**	0	0	0	0	**0**
Unrealized derivative gain (loss)	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Other	**10,870**	14,113	10,215	4,600	3,000	**31,928**	16,000	10,000	5,000	15,000	**46,000**
Total other income (expense)	**(872,368)**	6,518	(241,440)	(235,904)	(236,926)	**(707,752)**	(298,052)	(241,655)	(242,346)	(224,926)	**(1,006,979)**
Income (Loss) From Cont. Ops. Before Taxes	**828,267**	6,701,632	310,524	(1,523,255)	4,067,032	**9,555,933**	6,045,719	645,244	(1,150,055)	6,468,824	**12,009,733**
Income Tax (Expense) Benefit	**(426,779)**	(2,695,061)	(118,443)	603,835	(1,586,143)	**(3,795,812)**	(2,401,483)	(256,304)	456,825	(2,569,549)	**(4,770,511)**
Income (Loss) From Continuing Operations	**401,488**	4,006,571	192,081	(919,420)	2,480,890	**5,760,122**	3,644,236	388,940	(693,230)	3,899,275	**7,239,222**
Discontinued Operations											
Loss from discontinued operations	**(797,636)**	(118,918)	(1,927)	0	0	**(120,845)**	0	0	0	0	**0**
Income tax benefit	**311,078**	46,378	753	0	0	**47,131**	0	0	0	0	**0**
Loss on discontinued operations, net of tax	**(486,558)**	(72,540)	(1,174)	0	0	**(73,714)**	0	0	0	0	**0**
Net Income / Loss	**(85,070)**	3,934,031	190,907	(919,420)	2,480,890	**5,686,408**	3,934,031	388,940	(693,230)	3,899,275	**7,529,017**
Other Comprehensive Gain (Loss)											
Unrealized gain (loss)-available-for-sale sec. net	**17,506**	0	0	0	0	**0**	0	0	0	0	**0**
Unrealized gain (loss)-int. rate swap, net of tax	**(4,805)**	10,232	(4,135)	355	(3,000)	**3,452**	0	0	0	0	**0**
Settlements - interest rate swap	**0**	6,754	6,838	7,070	228	**20,890**	0	0	0	0	**0**
Reclassification into earnings, net of tax	**(40,579)**	(6,754)	(6,838)	(7,070)	(228)	**(20,890)**	0	0	0	0	**0**
Total other comprehensive gain (loss)	**(27,878)**	10,570	(4,135)	355	(3,000)	**3,790**	0	0	0	0	**0**
Comprehensive Income / Loss	**(112,948)**	3,944,601	186,772	(919,065)	2,477,890	**5,690,198**	3,944,601	388,940	(693,230)	3,899,275	**7,539,587**
Earnings (Loss) per Common Share - Basic											
Income from continuing operations ($ per share)	**0.02**	0.12	0.01	-0.03	0.07	**0.18**	0.11	0.01	-0.02	0.10	**0.20**
Discontinued operations ($ per share)	**-0.02**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	**0.00**
Net Income / Loss ($ per share)	**0.00**	0.12	0.01	-0.03	0.07	**0.17**	0.11	0.01	-0.02	0.10	**0.20**
Earnings (Loss) per Common Share - Diluted											
Income from continuing operations ($ per share)	**0.02**	0.11	0.01	-0.03	0.07	**0.17**	0.11	0.01	-0.02	0.10	**0.20**
Discontinued operations ($ per share)	**-0.03**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	**0.00**
Net Income / Loss ($ per share)	**-0.02**	0.11	0.01	-0.03	0.07	**0.16**	0.11	0.01	-0.02	0.10	**0.20**
Basic weighted average shares outstanding	23,389,151	31,825,294	32,099,337	32,262,639	34,262,964	32,612,557	35,762,964	36,478,223	37,207,788	37,951,944	36,850,230
Diluted weight average shares outstanding	24,316,869	34,998,234	35,688,557	32,262,639	34,262,964	34,303,097	35,762,964	36,478,223	37,207,788	37,951,944	36,850,230
Gross Margin	**26.1%**	44.0%	29.0%	3.1%	38.5%	35.4%	44.0%	31.0%	8.0%	44.0%	38.3%

HISTORICAL ZACKS RECOMMENDATIONS



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