

# clearthought

## Oilfield Equipment and Services

Despite a tough economic climate and continued low oil prices, many businesses in the sector continue to thrive



### Under pressure

#### Consolidation

M&A within the oilfield services industry remains particularly active driven by market pressures, the need to access new innovation, and company survival. Consolidation among leading industry players keen to mitigate the effects of the low oil price, as well as improve their global reach and acquire new technologies, remains strong.

Recent deals involving the world's biggest players typify the trend. For instance, Schlumberger Ltd's €13.2bn acquisition of Cameron International Corp allows the industry giant to achieve significant efficiency gains through lowering operating costs, streamlining supply chains, and improving manufacturing processes. Cameron is a manufacturer of flow and pressure control equipment for drilling, pipeline, processing, refining, subsea and unconventional completion applications.

There is also plenty of consolidation potential among mid-sized groups which, given the market dynamics created by the sustained low oil price, are taking the opportunity to acquire smaller players struggling to survive in this climate.

#### Sub-sector activity

Sectors such as advanced polymers and chemicals, automation and robotics, drilling, flow control, hydraulic fracturing, inspection and testing, monitoring equipment, production logging, and subsea and waste management have all seen considerable M&A during 2016. We expect smaller and mid-sized oilfield services companies to come to market as consolidation takes further hold within specific niches.

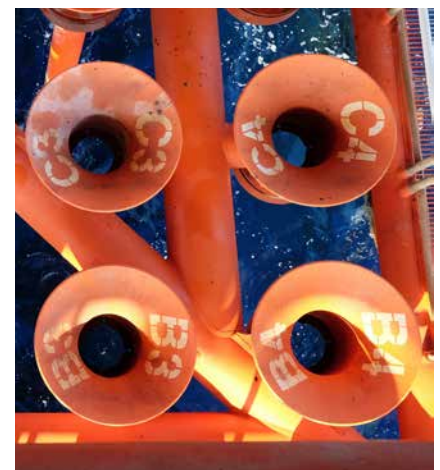
#### Challenges

The significant challenges facing the industry are themselves drivers of M&A activity. In particular, in this environment of lower demand for their products and services, companies are having to adapt their operating models and extract themselves from unprofitable operations and/or territories, which is leading to disposals.

However, these challenges also present opportunities for suppliers. With exploration and production customers looking to reduce their fixed costs, suppliers can respond by offering more collaborative ways of working together and by taking on some of their customers' requirements.

This is welcome for equipment suppliers and service providers as, in the long run, it will make their relationships with these customers more embedded and make it more difficult to remove these suppliers from the supply chain.

Equipment suppliers and service providers can also look at the standardisation of their offerings in order to generate efficiencies and savings for themselves and their customers. As such, market factors are driving innovation not only in equipment design but also in processes and working practices.





### Private equity

PE has a strong appetite for the industry with a focus on niche, proprietary product development and oilfield services. The present period of flux in global energy markets creates particular opportunities for PE-backed M&A.

PE investors in the oilfield supply chain often adopt buy-and-build strategies, and in the current environment there is a lot of logic in bringing together businesses with complementary product offerings or services.

Recent PE deals include: Primary Capital's acquisition of MSIS Group Ltd; Blue Water Energy's acquisition of Drilling Systems Ltd; and Kohlberg Kravis Roberts' acquisition of OCHL Globe Ltd.

### New technologies

M&A remains particularly strong around disruptive and early-stage technologies. Examples include: testing rates of pipeline flow; chemicals based technologies; electronics to test integrity of pipelines; preventative technology; non-destructive technology; and technologies emanating out of shale. One knock-on effect of the shale industry is that it has made a lot of processes elsewhere across the energy industry more efficient.

### Liquefied Natural Gas

With countries increasingly wanting to switch from coal-fired power to gas, demand for LNG is set to grow strongly and is driving M&A activity in the sector.

For instance, Royal Dutch Shell plc recently acquired UK oil and gas producer BG Group plc, a deal which makes Shell the biggest LNG producer of any oil company.

In another deal, two Chinese state banks have lent more than €10bn to the Yamal LNG project to develop a LNG plant in the Russian Arctic.



# Hot topics

## Low oil prices

Since averaging above \$100 a barrel for most of the period between 2008 and 2014, prices have more than halved over the last two years in response to the US shale revolution, leading to a global glut.

Most estimates suggest that the glut will continue for some time yet. For instance, the International Energy Agency (IEA) recently said<sup>1</sup> that the global glut will persist into 2017 as both demand growth slows more than expected – especially from China and India – and Opec continues to maintain supplies. The IEA also said supply would continue to outpace demand at least through the first half of 2017.

The low oil price has had a huge impact on the industry, and particularly on exploration as leading players focus on cost-cutting.

In recent years, offshore exploration and production moved from shallow to deep water to keep pace with rising global demand, especially from developing economies which are demanding more oil and gas. This led to the targeting of Arctic and complex subsea reservoirs which meant increasingly sophisticated extraction techniques were required.

However in the wake of the oil glut, Arctic and complex subsea reservoirs are now suffering delays and cancellations due to the high extraction costs. Indeed, the IEA says global oil discoveries have fallen to the lowest level for more than 60 years, while annual investment in oil and gas projects has fallen from €700bn to €400bn over the last two years. It said wells were depleting at an average rate of 9% annually.

The low oil price has unsurprisingly impacted the bottom line of the largest industrial groups. For instance, General Electric Co recently said it expected the market for oil and gas equipment to remain weak into next year as it reported a 48% drop in profits to €285m within its equipment and services division.

However, the long-term view is positive as the current environment is bringing cost deflation in both conventional and unconventional environments, and there are very strong opportunities for increasingly sophisticated extraction techniques and other technological advances.

## Shale revolution

The global demand for shale had been growing at twice the rate of oil demand prior to the drop in the price of oil. Since the price fall some shale producers have gone out of business, but many have survived after implementing major cost-cutting programmes. Costs have been cut via innovation in well design and drilling, and by measures such as running drilling and cementing operations on multiple wells at the same time. The IEA says costs for shale drillers fell 30% in 2015 and will fall a further 22% in 2016.

Techniques such as 3D seismology, direction drilling and hydraulic fracturing allow for the extraction of gas from complex reservoirs, while shale has also had a positive impact on other industries such as chemicals and petrochemicals, which is driving repatriation of production to countries such as the US.

According to consultancy Wood Mackenzie, US shale reserves now represent the lowest-cost option for future oil production and are likely to attract more investment than projects such as deepwater fields. It says producers that rely on oilfields in higher cost regions will have to cut costs or face shrinking output.

The potential for shale gas in Europe was recently given a boost when in October the British government authorised the first horizontal shale gas wells to be drilled and tested in the UK. This was a pivotal moment for the UK shale gas industry and will provide exciting opportunities for the supply chain in the coming years.

Although the decision could be subject to a judicial review, site operator Cuadrilla Ltd is hoping to commence drilling and hydraulic fracturing in the second half of 2017. The company is backed by private equity firm Riverstone and Lord Browne, the former Chief Executive of BP plc, is its chairman.

## Chinese potential

A huge untapped market for shale remains China which holds the world's largest shale gas reserves. The industry has the potential to transform the Chinese energy market given that the country is the largest importer of crude oil in the world.

Yet efforts to exploit these supplies have so far faced major challenges. The twisted geology of Chinese shale beds – which can lie up to 4km below ground – pose major issues, as does the fact that China's reserves lie below arid deserts which makes extraction more difficult.

However, the tide could be turning after BP plc recently struck an exploration deal with China National Petroleum Corp for shale gas exploration in the Sichuan Basin, covering an area of 1,500 sq.km. The move comes after the two sides struck a framework agreement in 2015 covering possible future fuel retailing ventures and LNG trading opportunities, as well as oil exploration.

<sup>1</sup> International Energy Agency monthly report September 2016



## Recent M&amp;A activity in the oilfield equipment and services sector

Target	Target business	Purchaser	Deal Value (€m)	EBITDA multiple
Ulterra Drilling Technologies LP	Manufacturer of technology-focused PDC drill bits and downhole tools	American Securities	Undisclosed	n/a
Managed Pressure Operations LLC	Supplier of Managed Pressure Drilling (MPD) equipment	AFGlobal Corp	Undisclosed	n/a
AmSpec Services LLC	Provider of testing, inspection, and certification (TIC) services	Olympus Growth Fund	Undisclosed	n/a
Steadfast Engineering Co Ltd	Supplier of studbolts and fasteners	Marla Tube Fittings Ltd	Undisclosed	n/a
Professional Rental Tools LLC	Provider of support equipment for deepwater applications	Ironwood Capital and LongueVue Capital	Undisclosed	n/a
Omron Oilfield and Marine Inc	Inverter control systems for drilling equipment used by the drilling sector	Schlumberger Ltd	Undisclosed	n/a
Trican Well Service Ltd (completions tool business)	Designer of downhole tools for multi-stage fracturing and multi-zone completions	National Oilwell Varco Inc	Undisclosed	n/a
Silverwing (UK) Ltd	Non-destructive testing equipment for storage tanks, vessels and pipeline inspection	Eddyfi NDT Inc	Undisclosed	n/a
Meci SA	Provider of custody transfer metering systems	Clemessy SA	Undisclosed	n/a
Technip SA	Project management, engineering and construction for the energy industry	FMC Technologies Inc	Undisclosed	n/a
Prezioso-Technilor SA (90% stake)	Provider of technical and engineering services	Altrad SA	442	10.1x
Tercel Oilfield Products Ltd	Diversified oilfield products company	Rubicon Oilfield International Holdings LLC	Undisclosed	n/a
HydraWell Intervention AS (60% stake)	Specialist in well integrity services	Norvestor Equity	Undisclosed	n/a
Allied Oil & Gas Services LLC	Provider of cementing and acidizing services	CSL Capital	Undisclosed	n/a
Mastergear Worldwide Co	Producer of manual and motorised valve gearboxes	Rotork plc	20	6.9x
Xtreme Drilling & Coil Services Corp (coiled tubing services)	Coiled tubing assets of provider of contract drilling services and tools	Schlumberger Ltd	129	n/a
Summit Casing Equipment LLC	Provider of centralisers and float equipment	Renovo Capital	Undisclosed	n/a
Wellstaff SA	Provider of technical assistance to the energy sector	SeaOwl Group SA	Undisclosed	n/a
Ashtead Technology Ltd	Provider of subsea technology and services	Arab Petroleum Investments and Buckthorn Partners	Undisclosed	n/a
SVT Engineering Consultants Pty Ltd	Provider of vibration, dynamics and noise solutions	John Wood Group plc	Undisclosed	n/a
Downhole Technology LLC (68% stake)	Provider of composite frac plugs for completion of oil and gas wells	Schoeller-Bleckmann Oilfield Equipment AG	84	n/a
Meta Downhole Ltd	Provider of seismic services for exploration, reservoir evaluation and well construction	Schlumberger Ltd	Undisclosed	n/a
Globe Energy Services LLC	Specialist in new well completions and production and maintenance of existing well bores	Clearlake Capital	Undisclosed	n/a
FlowChem Technologies LLC	Provider of speciality oilfield chemicals	Dorf Ketal Chemicals India Pvt Ltd	Undisclosed	n/a



## Selected recent deals

### Drilling

- PE firm American Securities acquired Ulterra Drilling Technologies LP from ESCO Corp. Ulterra is a leading manufacturer of polycrystalline diamond compact (PDC) drill bits used in the construction of oil and gas wells. Ulterra is now the second largest PDC company in the US.
- AFGlobal Corp acquired the Managed Pressure Operations of MHWirth Inc, a subsidiary of Akastor ASA. The deal creates a major player in deepwater managed pressure drilling, with technology covering both onshore and offshore applications. The new business group within AFGlobal's oil and gas segment will be known as Advanced Drilling Systems.
- Rubicon Oilfield International Holdings LLC, backed by Warburg Pincus, acquired Tercel Oilfield Products Ltd, a specialist in drilling and completion technologies. Tercel has a broad portfolio of downhole well construction products and is a leader in torque and drag reduction in the construction of horizontal and extended reach wells.
- Schlumberger Ltd acquired the coiled tubing drilling and coiled tubing units from Xtreme Drilling and Coil Services Corp, a provider of international land drilling and coiled tubing drilling services.

### Services

- Schoeller Bleckmann Oilfield Equipment AG acquired Downhole Technology LLC, a provider of composite frac plugs used to isolate sections of the wellbore during plug-and-perf hydraulic fracturing operations. Schoeller is a leader in high-precision components in the industry.
- FMC Technologies Inc and oil-services firm Technip SA merged. The combined company had €18bn in revenue last year, making it among the world's largest oil-services companies. The tie-up brings together the engineering and construction expertise of Technip with the underwater equipment and systems of Houston-based FMC.
- Ironwood Capital invested in Professional Rental Tools LLC (PRT), a provider of stabilisation and support equipment in the Gulf of Mexico. PRT's equipment and services are mission-critical for operators to safely and efficiently perform completion, maintenance, and plug & abandonment activities on deepwater wells.
- Energy equipment maker National Oilwell Varco Inc bought the completion tools operations of Trican Well Service Ltd which designs a variety of downhole tools used for multi-stage fracturing and multi-zone completions. Trican now plans to further invest in its hydraulic fracturing operations in Canada.

- Cinven sold Prezioso-Technilor SA to Altrad SA, a provider of scaffolding, insulation, painting and mechanical services to customers in the industrial, construction and infrastructure sectors. Prezioso provides maintenance services for energy assets such as nuclear plants and oil and gas production facilities.
- Buckthorn Partners and Arab Petroleum Investments acquired Asstead Technology Ltd, a provider of subsea equipment and services. The deal allows Asstead to increase its service offering and expand its geographical reach, with the Middle East being a particular area of focus.
- John Wood Group plc acquired SVT Engineering Consultants Pty Ltd which provides piping and rotating equipment, vibration, noise, integrity engineering and asset integrity services. Its client base covers the onshore and offshore oil and gas market including LNG.
- Dorf Ketal Chemicals India Pvt Ltd acquired FlowChem Technologies LLC, a speciality oilfield chemical provider that operates across the Gulf of Mexico and US onshore market. Flowchem's portfolio of oilfield production and drilling products will be combined with Dorf Ketal's products currently servicing offshore fields in Brazil.

### Testing and inspection

- Incline Equity Partners sold AmSpec Holding Corp to Olympus Partners. AmSpec is a global provider of testing, inspection and certification services for petroleum traders and refiners, and has grown into an international organisation with sites across the world.
- Eddyfi NDT Inc, a leader in electromagnetic inspection technologies for non-destructive testing (NDT) acquired Silverwing (UK) Ltd. Eddyfi specialises in NDT solutions for the inspection of nuclear generating facilities, refineries and aerospace equipment. Silverwing manufactures NDT products to inspect storage tanks, vessels and piping.

### Automation

- Schlumberger Ltd acquired Omron Oilfield and Marine Inc, a global leader in automation technology and solutions. The deal strengthens Schlumberger's industrial automation control systems capabilities as part of its long-term strategy to develop an integrated well construction system. Omron Oilfield and Marine designs, manufactures, sells, and provides aftermarket services for automated drive and control systems, power houses, and drillers' cabins.

## Deal highlights

### Some of our deals

#### Greenray Energy Solutions Ltd

**Provider of after-market servicing to the industrial gas turbine and steam turbine market**

Clearwater International advised Greenray Energy Solutions Ltd on a major refinancing with funding provided by HSBC

#### Rimor Ltd

**Manufacturer of precision-engineered subsea oil and gas equipment**

Clearwater International advised on the management buyout backed by private equity firm LDC

#### AW Flow Group Ltd

**Manufacturer of marine and offshore valves**

Clearwater International advised AW Flow Group Ltd on its sale to Hamworthy plc

#### Precision Micro Ltd

**Manufacturer of precision-engineered, mission-critical components for the oil and gas industry**

Clearwater International advised on the sale of Precision Micro Ltd to Meggitt plc

#### Q-Star Energy AS

**Provider of qualified employees for the oil, gas and wind industry**

Clearwater International advised Q-Star Energy AS on its investment from Via Venture Partners

#### Gunnar Lund Group AS

**Specialists in the treatment of waste oils and oil-contaminated mixtures**

Clearwater International advised on the sale of Gunnar Lund Group AS to leading waste management company Nord AS

## Meet the team



**Constantine Biller**  
International Head of  
Industrials, UK  
+44 845 052 0353  
constantine.biller@cwicf.com



**Simon Zhang**  
Partner, China  
+ 86 21 6341 0699 x 813  
zhang.yi@cwicf.com



**Philippe Croppi**  
Partner, France  
+33 1 53 89 0503  
philippe.croppi@cwicf.com



**Markus Otto**  
Partner, Germany  
+49 611 360 39 24  
markus.otto@cwicf.com



**José Lemos**  
Partner, Portugal  
+351 917 529 764  
jose.lemos@cwicf.com



**Francisco Gomez**  
Partner, Spain  
+34 699 446 314  
francisco.gomez@cwicf.com



**Jon Hustler**  
Partner, UK  
+44 845 052 0364  
jon.hustler@cwicf.com



**Carsten Rydahl**  
Associate Partner,  
Denmark  
+45 27 62 03 73  
carsten.rydahl@cwicf.com