

## Halliburton/Baker Hughes Deal Likely to Spur Development of Third Tier 1 Player

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*December 17, 2014 - By Diane Alter* - Halliburton Co.'s (HAL) \$34.6 billion deal to buy Baker Hughes Inc. (BHI) has global regulators delving deep into the pair's plethora of businesses. Of particular interest are units where both or either company commands a leading presence. Key concerns are when Halliburton and Baker Hughes are conjoined, customers could be forced to pay higher prices in certain business lines.

One such unit under regulators' microscope is Baker Hughes' artificial lift systems.

An artificial lift pump is a system installed in an oil or gas well to raise the pressure within a reservoir and boost the liquids to the surface. When there is inadequate natural force inside a well to propel liquids to the surface, artificial lift systems are used to pump the liquids out. More than 70% of oil wells worldwide have lost the inside natural pressure, and exist in a "mature" phase, according to Technavio, a leading technology research and advisory company with a global coverage. Thus, these aging wells require artificial lift systems to extract the available oil. Technavio's analysts forecast the Global Artificial Lift Pumps market will grow at a compounded annual growth rate of 9.08% over the period 2013-2018, growing to a \$13.7 billion market.

Baker Hughes is one of a number of companies that designs and manufactures artificial lift systems. Other key players in the sector include GE Energy LLC, Schlumberger Ltd. (SLB), and Weatherford International plc (WFT). There are also a number of small and midsized players. One company helping worldwide oil firms get the most out of their drilling is AccessESP, a private Houston-based provider of unique rigless electrical submersible pump (ESP) delivery solutions for the global oil industry.

To be sure, with the 46% decline in oil prices since summer highs, cost control is imperative. Indeed, plunging oil prices prompted Halliburton last week to slash 1,000 jobs, or 1.25% of its workforce. "The decision to eliminate jobs is never easy," Halliburton said in a press release. "Our talented workforce is the foundation of everything we accomplish. Yet, we believe these job eliminations are necessary in order to work through this market environment." The world's second biggest oil services company maintains the job eliminations have nothing to do with the merger.

*CT Financial News* caught up with AccessESP President and CEO David Malone, and Vice President of Marketing, Todd C. Wray, to find out more about their critical services for the oil market, their take on the Halliburton/Baker Hughes union, and why they're not worried about the merger.

*CT Financial News: Can you tell us about your business?*

**Malone:** The first thing we should mention is that we're not directly in the artificial lift business. We work specifically with electric submersible pumps (ESPs). Basically, we provide a deployment system that works with anyone's ESP system. We've done projects with Schlumberger, Baker Hughes, Borets, and other ESP companies. AccessESP provides an ESP Conveyance system that simply and efficiently deploys and retrieves ESPs.

*CT Financial News: Do you compete with Baker Hughes or Halliburton?*

**Malone:** We're not competitors. We partner with companies like Baker Hughes, Schlumberger and other ESP providers. We basically allow their systems to be deployed in a much simpler, more economic manner. We've partnered

with them around the world—in Saudi Arabia, Alaska, the Middle East, North and South America and Africa. So, we work very closely with many ESP companies.

**Wray:** We view ourselves as an enabler for their ESP technologies for fast and efficient deployment and retrieval solutions. Our goal is to allow operators (oil companies) to select ESPs where they are typically not feasible due to the high cost of intervention.

**Malone:** We compete with the workover rig and lost production.

**Wray:** In an offshore environment today where it's too expensive to bring in a rig and change out an ESP, a lot of clients may select gas lift. But, ESPs are ultimately much more attractive from a production perspective. So, if ESPs can be more economically viable to the client, we can increase the market size for ESPs to Baker, Schlumberger, etc. We believe we're an enabler to their business and definitely not a competitor.

*CT Financial News: How do you think the merger will impact your business, the artificial lift industry, and the oil and gas community as a whole?*

**Malone:** I don't think it's going to impact us very much because Halliburton hasn't historically been a major player in the ESP market. Halliburton was not doing projects in the markets that we participate in. We're primarily in the high-end, remote location, offshore market. We've never done a project with Halliburton's ESP unit, but we've done quite a few projects with Baker Hughes' ESP group. And, we continue to work with them. Actually, I think Baker's combination with Halliburton makes it a bit simpler for us. Before, we would often work with Halliburton slickline and Baker Hughes ESP. Now that they're one company, the combination of their completion equipment will give a broader range of components for us to work with on their projects.

**Wray:** The coordination and collaboration of the entire project will become simpler because we're no longer dealing with two services providers—we're dealing with one.

*CT Financial News: Will operators also have that same benefit of those "coming-togethers?"*

**Wray:** Yes, that consolidation will make it simpler for operators, especially in the areas we work. That's because you can, potentially, put everyone in one building—a potential one-stop-shop.

**Malone:** Plus, there are two different types of clients. There are those who want to break everything into pieces. Then there are others that want you to do the whole project because they don't have the appropriate internal resources. For the ones that want to bid the whole project, it's going to make it a lot simpler. For the ones that want to split it up into a lot of areas, there's going to be one less person on the bid list.

*CT Financial News: Is there a geographic impact with this consolidation?*

**Malone:** I don't think geographically there will be a big difference.

**Malone:** In the ESP market, Halliburton is a minor player. Baker is a dominant player along with Schlumberger. So to me, there's very little overlap with those two (Baker Hughes and Halliburton) companies.

*CT Financial News: Would you look to buy any divested businesses the merged company may be forced to offer to gain antitrust clearance?*

**Malone:** No. I don't believe that any of the potential divested businesses fit into our strategy.

*CT Financial News: Tell me more about the artificial lift market and how technologies are advancing. Will this merger propel smaller companies to advance their R&D spend and launch?*

**Malone:** I don't think it's going to have an impact in ESPs one way or the other. Halliburton was not a big player in ESPs. So, from an ESP standpoint, this merger is not going to have a major impact on what small companies do. I think the ESP market has traditionally been an extremely slow adopter of new technology. We are one of a handful of companies that are changing the way ESP systems are deployed and used to make them a practical option in places where they are not presently practical. I think there's a lot of work going on in development of new pump technologies, new deployment systems and work to address what has historically been the insufficient life of ESP systems. And, a lot of that is happening in smaller companies because the big companies are quite busy taking care of their base business.

*CT Financial News: How can a smaller service provider offer advantages to the industry specific to the artificial lift market?*

**Malone:** The advantage is that as ESPs go into offshore, deepwater, subsea locations with challenging environments. There's a lot of customization that's required for it to be applicable to those environments. And, a lot of that can be done more efficiently in a small company than a bigger company. Smaller companies can be nimble and focus on specific technological challenges.

*CT Financial News: What makes it more desirable for a smaller company to take on a challenging environment in a custom situation with smaller resources?*

**Malone:** It's the ability to move much quicker. While we have a very experienced small team. We prefer to be a lower volume, high technology business. We don't want to compete with Schlumberger or Baker Hughes. We don't want to be in that market. It's not our sweet spot.

*CT Financial News: Earlier you said you enabled companies like Baker Hughes to utilize your ESP technology. Tell us a bit more about the advancements in technology you now have that can be brought to the marketplace that shows you'll be attractive to that marketplace.*

**Malone:** I think the easiest example is offshore. Gas lift has been the predominant artificial lift technique in this market. As the water-cut in a well increases, gas lift becomes less and less efficient, and clients want to move to an ESP. However, the cost of installing and the retrieval of an ESP in an offshore environment can be prohibitive. You could be talking tens of millions of dollars on a big offshore platform for one retrieval and installation. What we do is make the installation and retrieval (intervention) much simpler. It doesn't require a rig, so wells that typically would have been on a gas lift are now candidates for ESP systems. When that well is converted to an ESP system we work alongside a traditional ESP company like Baker Hughes or Schlumberger. We sell the deployment system, the ESP company sells their ESP equipment. When working with us the ESP company sells 90% of their normal equipment into a high-end market that would have been a gas lift market. They would not have had these wells if not for the ability to install or retrieve an ESP on slickline.

So I think that's one market. If you look at other markets, like Alaska, where we're doing quite a bit of work, the client needs to retrieve the ESP system because the wells produce a lot of sand. In sand production, they typically use gas lift. But in our case, because we can pull the system out and go in and clean the well out and put it back on production very simply, it goes from being a gas lift market to an ESP market. So I think what we're doing is taking the slice of the pie that is today gas lift, which are high-end wells, high-volume wells and making more of them candidates for ESPs.

**Wray:** And probably the third scenario is where it is just extremely difficult to get well intervention equipment, i.e. a rig, to location in a timely fashion. To where lost production becomes the driver now, not the solution. If you have an ESP today, when it goes down it could take 90 days with a rig. That's 90 days you're not producing.

**Malone:** But in our case that could be seven days.

**Wray:** So in a 60 day well, you have 53 more days of production, so the numbers (savings/value) become staggering.

**Malone:** You have a combination of eliminating the rig cost and increasing production and that opens up the market for what portion of the business is applicable to ESPs.

*CT Financial News: What are some of the positives of the Baker Hughes and Halliburton merger? For the artificial lift market? For the oil and gas industry as a whole?*

**Malone:** I feel it is very simple. It creates a company with a very wide range of products and services that can tackle big projects under one umbrella, simplifying life for the client.

*CT Financial News: With your focus on ESPs, does this merger propel your business in one direction or the other?*

**Malone:** Not really, the impact on us is minimal.

*CT Financial News: With the merger having two companies that were previously likely listed as tier 1 and tier 2 in your master service agreement (MSA) rosters, how does the merger change and open up opportunities for new service providers to take those positions?*

**Wray:** If there are only two major providers, it's going to allow others to try to position themselves.

**Malone:** ...to widen their product and service portfolio. It's going to put pressure on the second tier to have a broader service and product portfolio.

*CT Financial News: Are there any mergers or acquisitions on your timeline?*

**Malone:** The answer is no. We're growing our business, and we'll continue to do so. In our case, this merger really doesn't affect our strategy.

**Wray:** Our resources are allocated where they need to be.

*CT Financial News: Any other additional comments?*

**Malone:** I think the union overall will be a good thing for the industry. It puts two companies (Schlumberger and the merged Halliburton/Baker Hughes) on an equivalent footing. Also, I think it will put pressure on the others to broaden their portfolio, to increase their services and to build up to be the third competitor. Very rarely are two companies left alone in a space. I suspect you're going to see others wanting to come in and be that third, tier 1 company. I think this is going to push that to happen, which overall will be good for the clients and good for the industry.

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