# Hydraulic Fracturing

**February 24, 2012**

## HYDRAULIC FRACTURING

### ALL CUSTOMER TYPES

| | Rating | Trend |
|---|---|---|
| Baker Hughes | LOW | DOWN |
| Halliburton | AVG | DOWN |
| Schlumberger | LOW | STEADY |
| All Others | AVG | STEADY |

### US LAND

| | Rating | Trend |
|---|---|---|
| Baker Hughes | VERY LOW | DOWN |
| Halliburton | VERY LOW | DOWN |
| Schlumberger | VERY LOW | DOWN |
| All Others | AVG | STEADY |

### OFFSHORE

| | Rating | Trend |
|---|---|---|
| Baker Hughes | VERY LOW | DOWN |
| Halliburton | AVG | STEADY |
| Schlumberger | LOW | DOWN |
| All Others | N/A | N/A |

### INTERNATIONAL

| | Rating | Trend |
|---|---|---|
| Baker Hughes | AVG | DOWN |
| Halliburton | AVG | STEADY |
| Schlumberger | LOW | STEADY |
| All Others | N/A | N/A |

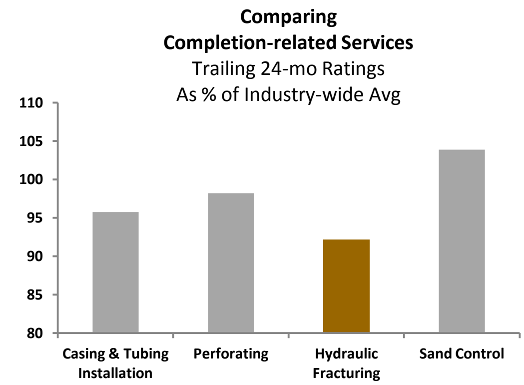
* Ratings based on trailing 24-mo average.

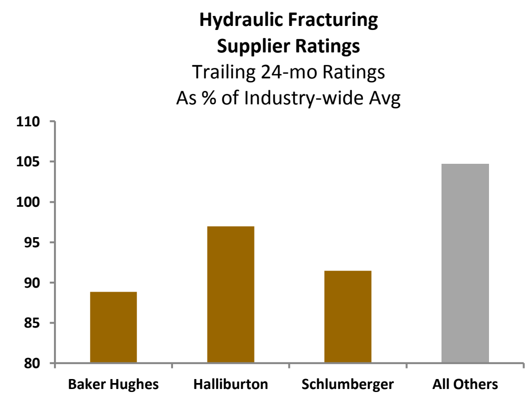
## Opportunities Stack Up, As Fracs Back Up

One would think exploration and production companies would be cheering. Nominal hydraulic fracturing capacity looks on pace to rise 25 percent or more this year. And advances in technology promise to bolster both the potency and cleanliness of the increasingly relied-upon service. Yet, against this backdrop of capacity growth and technological advances, suppliers of frac services on average are earning relatively low marks in EnergyPoint Research's independent customer satisfaction surveys. In fact, as demand for frac services increases, the less content customers indicate themselves to be, especially as compared to the other completion-related services they receive. This is certainly the case for perennial segment leader Halliburton, although the company's ratings continue to lead those of its major peers. And it appears to be the case for Schlumberger and Baker Hughes as well. To be fair, hydraulic fracturing is not as perfunctory of a procedure as the hullabaloo surrounding the "Shale Revolution" would suggest. The process clearly takes the right people, materials and equipment, all of which are in short enough supply that oilfield providers have been heavily backlogged. To get ahead of the game in the current environmental and political climate, suppliers have invested heavily in both new fracturing technology and equipment, all of which adds to costs at a time when many domestic customers are already nervous about low natural gas prices. The ramification has been that in the highly frac-intensive North American land market, the industry's "Big Three" have seen their customer satisfaction ratings fall to materially low levels over the last 24 months.

## Higher Tech, Still Lower Satisfaction

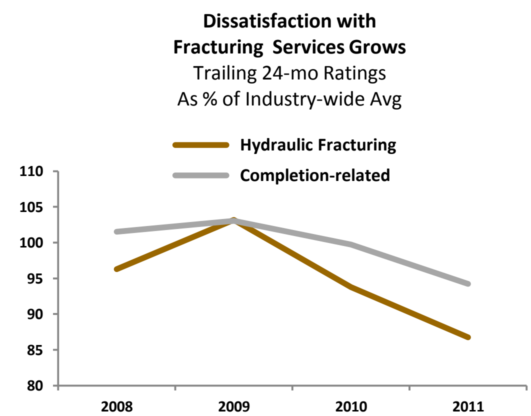
Clearly, market leaders in the frac space are working hard to differentiate their services in the minds of customers. Centralization of crews and resources, packaging of proppant technologies, use of proprietary materials to redirect hydrocarbons around proppants, and deeper blasts into rock formations are all part of today's next-generation approach to the high-profile service. But again, even with all this "super fracking" going on, domestic customers still seem relatively disenchanted with suppliers' performance. Internationally, Baker Hughes and Halliburton do fare a bit better with customers, but Schlumberger lags in multiple regions. We note that Halliburton, which holds the largest share of the U.S. market, announced in its recent earnings conference call that it plans to hold 2012 capacity additions steady with 2011 levels, even as Schlumberger and Baker Hughes seek to step up domestic capacity and extend their footprints internationally. The shortage in frac capacity has also encouraged some integrated providers to require bundled purchases from customers in exchange for the right to access their in-demand frac crews. Alas, previous EnergyPoint analyses suggests this only serves to rankle customers further.




## Make Way for the Little Guy

The capacity-strapped situation has left room for independent suppliers such as FTS International (formerly Frac Tech), Trican and Weatherford to wedge their way deeper into unconventional shales. In fact, if past levels are any indication, oilfield customers may be happy to know that just under half of domestic frac activity remains with smaller firms. Though limited, customer evaluations EnergyPoint has collected related to smaller providers suggests the door remains open for these second-tier players given the group's relatively healthy satisfaction scores and past market acceptance.



## About EnergyPoint Research

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