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EnergyPoint
RESEARCH

EnergyPoint's Take on Recent Announcements

General Electric's Purchase of Vetco Gray: Examining the Impact on Customers (and Competitors)

It would not be surprising if last month's announcement that General Electric (GE) will purchase oilfield equipment maker Vetco Gray sent a collective shiver down the spines of Vetco Gray competitors. For years, companies like Cameron (CAM), FMC Technologies (FTI), Dril-Quip (DRQ), Wood Group (WG.L), Aker Kvaerner (AKVER.OS) and Hydril (HYDL) watched Vetco Gray more or less tread water under the ownership of ABB. The company was then sold in 2004 to private-equity investors who, if they held to the traditional private-equity model, likely limited its investments to initiatives offering only the highest returns and the quickest paybacks. Now in the hands of a longer-term and more growth-oriented owner like GE, we suspect both Vetco Gray's customers and competitors will see significant changes at the company.

Despite its ownership history, Vetco Gray's market share remains respectable. However, its customer satisfaction, as measured by EnergyPoint, is more of a mixed picture. In our 2005 Drilling/Wellsite Equipment & Materials Survey (2005 DWEMS), the company ranked in the third quartile in terms of total satisfaction (based on 42 evaluations), ahead of both Cameron (56 evaluations) and Aker Kvaerner (13 evaluations) but behind FMC (34 evaluations), Wood Group (30 evaluations), Dril-Quip (22 evaluations) and Hydril (30 evaluations). In the high-profile category of offshore & subsea equipment, Vetco Gray ranked slightly ahead of Cameron but below Dril-Quip, FMC and Hydril. Likewise it trailed Cameron, FMC, Dril-Quip and Wood Group in the category of wellheads & trees, and but finished above Aker Kvaerner. As we said, it's a mixed picture and one that is more easily communicated via the attached charts.

In short, we foresee Vetco Gray becoming a more effective supplier under GE. We also see GE raising the bar on a number of fronts, including customer satisfaction. Here's why:

- As a global leader in the manufacturing, sales and servicing of an array of high-profile heavy industrial products, GE brings substantial experience and success to bear on the task of operating and growing a business like Vetco Gray. As a result, we are certain GE will not to be caught in the proverbial headlights once the acquisition is complete.
- Likewise, GE is far from a novice when it comes to the energy industry, having successfully developed and sold products and services into the industry for years. It already offers a well-regarded line of directional drilling-related products to upstreamers, while its compressors are heavily used in both field and plant applications throughout the midstream segment of the industry. And it's a leading provider of gas, steam and wind turbines to electricity generators.
- With Vetco Gray, GE gains the best of both worlds: significant foundational market share with room to grow. As a reference, in the 2005 DWEMS Vetco Gray received 21% of all evaluations in the category of wellheads & trees. This compares to Cameron (27%), FMC (22%), Wood Group (17%), Dril-Quip (10%) and Aker Kvaerner (6%). Likewise, the company received 20% of all evaluations in the category of offshore & subsea equipment compared to Cameron (18%), Dril-Quip (12%), FMC (9%) and Hydril (7%).
- Finally, GE's six-sigma black belts and their well-honed approach to process improvement should add a lot to Vetco Gray's quality picture on both the product and support side. Based on results from our survey, we suspect GE might find opportunities for improvements in the following areas: i) in-house controls and inspection, ii) product delivery and inventory management, and iii) certain aspects of post-sale support.

Our data also show that customers' satisfaction with Vetco Gray in the area of pricing ranks below most of its competitors. Hence, while GE might prove more assertive in terms of pricing, we suspect it will not be so much so as to risk substantially eroding market share. Thus, on balance, we see potential for Vetco Gray's price-for-value proposition to improve. And that, of course, is good news for customers.

Important disclosure information is contained on page 5 of this report. The recipient of this report is directed to read these disclosures.

Departure of Key Executive Could Impact Weatherford's Progress

EnergyPoint took particular interest in the recent announcement that John King, President of Weatherford's (WFT) Evaluation, Drilling & Intervention Division will be leaving the company. King came to WFT in 2005 via the company's purchase of the international drilling and energy services operations of Precision Drilling (PDS). While at Precision, he was instrumental in the development of an organization and culture that, as far as we could tell, was one of the more customer- and value-centric in the industry. For instance, in 2004 PDS ranked 1st (on 17 evaluations) out of 24 providers in total satisfaction in EnergyPoint's wellsite services survey. Without King, Precision's satisfaction ranking in our 2006 follow-up survey fell to 17th (35 evaluations) out of 30 providers. At least a portion of this decline, however, was likely attributable to the widespread erosion in satisfaction ratings of North American land drillers.

There are indications that King and the team that came with him from PDS were beginning to have a positive influence on customer satisfaction at Weatherford as well. In fact, WFT's relative total satisfaction rating (total satisfaction rating as a percentage of the top-ranked provider's rating in the survey) moved from 82.3 (87 evaluations) in 2004 to 85.9 (137 evaluations) in 2006. This was enough to nudge the company's overall ranking from the top of the fourth quartile to the bottom of the third quartile, though the company still lagged the other five global service companies that make up the "Big Six" [i.e., Schlumberger (SLB), Halliburton (HAL), Baker Hughes (BHI), BJ Services (BJS) and Smith International (SII)]. Weatherford showed particularly strong ratings improvements in the area of technology, especially when it came to responsiveness to customer requests for new technologies. See the attached charts for select ratings data from the survey.

Weatherford may still be poised for future improvements in customer satisfaction even without King. Many respondents to our surveys, along with certain WFT competitors with whom we have spoken, are quick to acknowledge the vast potential the company continues to possess. They are particularly willing to credit WFT for the breadth of its product and service offerings, much of which has come as a result of numerous acquisitions over the years. Of course, this kind of growth-through-acquisition strategy can be problematic when it comes to customer satisfaction. In fact, more than one survey respondent over the years has noted that service quality has fallen after an acquisition. While organizational changes and cost reductions might be the "synergistic romance" that gets certain deals done, these same actions can sometimes be giant steps backwards when it comes to customer satisfaction. Now that WFT seems less focused on acquisitions and more intent on running its existing businesses, this type of drag on customer satisfaction should seemingly be reduced.

In closing, we feel compelled to point out that EnergyPoint has never met Mr. King and does not claim to be privy to all of the circumstances surrounding his somewhat abrupt departure. Nor do we know Lee Colley who, as WFT's new COO, adds King's responsibilities to his pre-existing role as head of the company's Completion & Production Systems division. While we have no reason to believe Mr. Colley is not very well-suited for his newly-expanded role, we will nonetheless be interested to see if he and the larger Weatherford organization have taken to heart any of the more customer-centric perspectives and approaches that we believe King and his team brought to WFT. If so, customers might just see Weatherford move even closer to fulfilling its full potential.

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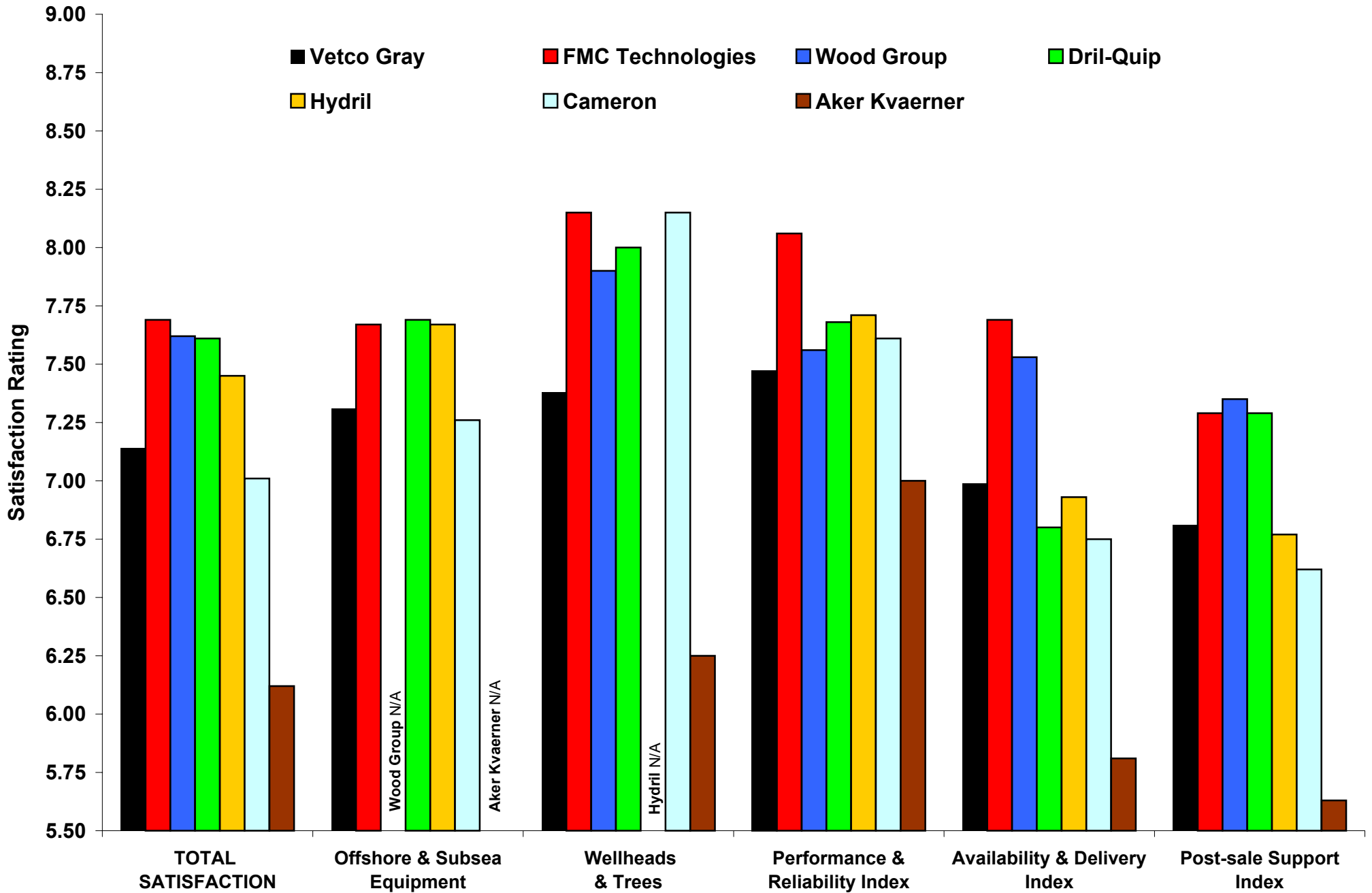
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Vetco Gray's Customer Satisfaction Standing

A Mixed Picture Across Products and Attributes



Weatherford Shows Incremental Progress

Customer Satisfaction Ratings Relative to Leaders

