

"Because the right partners can make all the difference . . ."

Second Qtr 2009**EnergyPoint
RESEARCH****Diamond Offshore** [MAY 18, 2009]

EnergyPoint Research has collected customer satisfaction ratings on Diamond Offshore (DO) and other major offshore drillers since 2004. These ratings reflect information gathered from hundreds of confidential supplier evaluations via EnergyPoint's independent and industry-wide surveys. For the period 2004 through Q1 2009, DO has rated last among major offshore drilling contractors in terms of respondents' overall satisfaction. DO's ratings reflect the opinions of 48 total evaluations, most of which by respondents characterizing themselves as primary decision-makers or contributors to the process of selecting suppliers within their companies. Approximately two-thirds of evaluations were from respondents at supermajors, majors or national oil companies.

So what's holding DO back in the eyes of survey respondents? In part, it's the company's lower level of service and professionalism, an area that has shown to correlate highly with how respondents rate a supplier in terms of overall satisfaction, customer loyalty and willingness to recommend the supplier to others. DO has struggled with particularly low ratings when it comes to the resolution of problems and disputes, along with its flexibility and responsiveness towards customers. Anecdotally, we get the sense that some respondents have been frustrated with the company's unwillingness to pay for equipment and materials that other drillers cover in a standard fashion.

To be fair, DO's ratings reflect respondents' satisfaction during one of the strongest sellers' market in memory for its services. And unlike some of its peers, the company has not sought to aggressively expand its fleet via expensive new builds or acquisitions during the period. Instead, management has chosen to extract premiums and longer-term contracts for its existing fleet. As a result, the company has generated impressive free cash flow and paid substantial dividends to majority owner Lowes Corporation (LTR) and other shareholders in recent years. While returning cash to shareholders is understandable, and even admirable, our data also suggest customers might prefer greater amounts of capital be allocated to more advanced equipment and technologies for the future.

Tesco Corporation [JUNE 4, 2009]

The road to acceptance by the oil and gas industry of even the most innovative and compelling technology can be long, winding and arduous. This is especially the case if the technology seeks to supplant a more conventional way of operating that has heretofore "gotten the job done" in seemingly adequate fashion. Take for example the plight of Tesco's (TESO) drilling-with-casing and casing-drive technologies. Both are viewed by many industry observers as possessing the potential to revolutionize the way wells are drilled and casing is installed in the oilfield. Yet, widespread uptake of these technologies by the industry has remained relatively elusive.

Tesco's management is steadfast in its conviction that its distinctive technologies will eventually carry the day. But the company's financial results do not suggest any kind of inflection point has yet been reached towards realization of this goal. Operating earnings for the company grew only 25% from 2006 to 2008, one-fifth the rate of industry heavyweight and Tesco competitor National Oilwell Varco (NOV) over the same period. Moreover, all of Tesco's earnings growth was driven, not by its newer technologies, but by sales and rentals of

its more established line of top drives. The company's first-quarter 2009 results were also skewed toward top drives.

One factor potentially hindering greater acceptance of Tesco's innovations may be how the company and its products are viewed in the market place. Over the years, respondents to EnergyPoint Research's independent customer satisfaction surveys have rated the company in the bottom quartile in terms of quality controls and inspection processes. This is in stark contrast to its top-quartile ranking for the ability to develop value-creating technologies. Drilling contractors seem especially prone to rate the company lower, with one respondent referencing "*incorrect technical specs, hidden defaults, bad quality spares and materials, [and] weak support in the operations.*"

Of course, not all respondents were critical of the company or its products. Nonetheless, Tesco's ability to win over a habitually skeptical customer base may, in the end, depend less on its ability to develop a persuasive vision, and more on its ability to execute that vision going forward.

M-I SWACO [JUNE 15, 2009]

To the casual observer, M-I SWACO might appear to be just another oilfield supplier fixated more on market share than quality. A 60-40 JV between Smith International (SII) and Schlumberger (SLB), the provider of drilling fluids, systems and tools might also seem susceptible to identity issues. Yet, data from EnergyPoint Research's independent customer satisfaction ratings suggests nothing of the sort. In fact, our results show the company to be a customer satisfaction leader in its mainstay drilling fluids business. In our opinion, this has a lot to do with the fact that the JV is operated by Smith ([click here for our latest note on Smith](#)), which has traditionally rated well in EnergyPoint's surveys. M-I SWACO represented almost half of Smith's \$10.7 billion in reported revenues in 2008, ensuring it receives the full attention and support of management.

Since 2008, respondents to EnergyPoint's surveys have rated M-I SWACO first overall among market share leaders in drilling fluids related products and services. As the graph below shows, the company's ratings outpaced Halliburton's (HAL) Baroid unit ([click here for our latest note on Halliburton](#)) by a relatively comfortable margin. It's ratings lead over Baker Hughes was even larger ([click here for our latest note on Baker Hughes](#)). To be sure, M-I SWACO has rated well in EnergyPoint's surveys going back to 2004; however, the company seems to have performed particularly well in the eyes of customers within the last 18 months. Improved ratings for its sales and field personnel, as well as in the areas of pre-job planning, service and professionalism, and responsiveness to requests for new technologies all contributed. The company also enjoyed strong scores in offshore applications, especially deepwater.

Like most suppliers, there are areas in which M-I SWACO could stand to improve. One relative weakness appears to be the equipment and tools side of its business, which consistently registers lower scores than its drilling fluids offerings. In addition, at least one smaller supplier appears to be catching the eye of customers as a viable competitor. Newpark Drilling Fluids, a division of Newpark Resources (NR), has enjoyed healthy ratings in our surveys since 2005 ([click here for our latest note on Newpark](#)). While its market share lags that of M-I SWACO by a material margin, Newpark does seem to offer customers the kind of single-minded focus and performance that M-I SWACO aspires to provide.

Notwithstanding the ratings weakness in the equipment and tools side of its business and smaller competitors nipping at its heels, our opinion is that M-I SWACO is offering the kind of products and services that customers need from their suppliers in today's oilfield. In our latest survey, 53% of respondents indicated as "highly likely" (i.e., a "9" or "10" on a 10-pt scale) their intention to utilize M-I SWACO again within the next 12 months. Another 30%

characterized themselves as “likely” (i.e., a “7” or “8” on a 10-pt scale) to reuse. But don’t just take our word for it. Below is a sampling of some of the more positive comments from survey participants, most of which seem to support higher levels of intended loyalty towards the company:

“M-I is the ONLY product supplier I currently deal with (all GoM deepwater high-pressure wells) that I truly feel has a product line that is superior to their competition. Along with a superior product, they have continued to provide excellent technical support.”

Engineer at E&P Supermajor

“M-I SWACO fluid and cuttings handling products – “they do what it says on the box”. Received good support from M-I from first contact through commissioning and acceptance and onwards with post-sale support.”

Engineer at Major Offshore Driller

“By far the best major international drilling and completions fluids company. Fluids division ranks ahead of SWACO equipment.”

Consultant at E&P Supermajor

“M-I products have served to satisfy most of our needs in an acceptable manner, using a good field engineering and study process. In general, their office and field personnel are very proactive and join with our technical staff as a professional team.”

Engineer at E&P Major

“M-I’s single-minded focus on fluids is an advantage compared to peers, who are constantly trying to tie their fluids sales to other (usually very average) products and/or services.”

Supervisor at E&P Supermajor

SCIENTIFIC DRILLING INTERNATIONAL [JUNE 23, 2009]

Followers of EnergyPoint Research’s surveys know that bigger is not always better when it comes to providing the products, services and quality that today’s oilfield customers want. While supplier size does have its advantages, most of the benefits tend to accrue to the provider rather than the customer. One of the reasons slither suppliers often rate well in our independent surveys is the greater degree of focus they bring to the table. It’s a challenge to execute consistently across several not-always-related products and segments. As a result, suppliers focused on a single segment or a handful of related segments tend to get things right more of the time. Examples of more focused companies that seem to effectively execute for customers include Core Laboratories (click [here](#) for latest on Core Labs), Derrick Equipment, David-Lynch, etc.

Another provider that seems to benefit from a small company focus is Scientific Drilling International (SDI). Since EnergyPoint’s first poll in 2004, survey respondents have generally rated the SDI’s downhole steerable products and motors above average, while it’s overall line of products and services has rated closer to the industry average. While we are not suggesting SDI’s offerings to necessarily be “category killers”, we do believe SDI has some unique technologies and capabilities that, when applied to the right applications, can make life easier for operators. Take for example SDI’s Gyro MWD offering, which one evaluator at a

supermajor called "*an excellent tool for platform drilling*" and "*a real time saver*". Not a bad testimonial.

It is interesting to note that it's in pricing where SDI's ratings stand out the most. In fact, SDI appears able to offer prices that work for many customers, who can typically be quite critical of suppliers' prices. Moreover, SDI enjoys stronger ratings in pricing even while maintaining respectable ratings in more performance oriented attributes as personnel and engineering and design. In short, based on the data we've seen, it appears that SDI brings more to the table than just reasonable prices. This is notable since many suppliers that rate well in pricing often don't rate well in other key attributes, as they typically use low prices to mask otherwise inferior performance and/or capabilities. From our vantage point, this does not appear to be the case with SDI.

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