

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

**Third Qtr 2007****EnergyPoint  
RESEARCH****NATIONAL OILWELL VARCO – GRANT PRIDECO MERGER [DEC 23, 2007]**

If history is any indication, National Oilwell Varco's (NOV) recently-announced acquisition of Grant Prideco (GRP) could end up benefiting Grant Prideco's shareholders more than its customers. Acquisitions of companies with higher customer satisfaction ratings (i.e., Grant Prideco) by companies with lower customer satisfaction ratings (i.e., NOV) tend to pull the ratings of purchased companies down rather than lift the ratings of the acquirer. In addition, bigger is not always better in terms of execution and in satisfying customers.

While some customers do very much like (at least on paper) the extensive line of products NOV offers as a result of the past merger between Varco and National Oilwell, a number of NOV customers that we have contacted have expressed concerns with NOV's record in delivering products on time and as ordered. As a result, we suspect there are some customers in the oilfield that, at least off-the-record, have some worries as to whether NOV will be as committed to, and as capable of, meeting their needs as Grant Prideco has been in the past. This would especially seem to be the case for drilling contractors since Grant Prideco is a major supplier of drill pipe. For your information, in terms of our 2007 customer satisfaction ratings, Grant Prideco rated 2nd in drill bits (behind Smith International) and first in drill pipe. On the other hand, NOV rates in the bottom half in several categories of Rig & Rig-related Drilling Equipment that we follow.

It should be pointed out that companies currently competing with Grant Prideco in the areas of drill pipe and drill bits will likely move to exploit customer concerns that the quality and service they have come to expect with Grant Prideco might not be maintained once NOV takes over management of operations. Smith International (SII) already successfully competes with Grant Prideco on both the drill bits and drill pipe sides while enjoying very high levels of customer satisfaction. As such, we would expect Smith to be one of the biggest potential beneficiaries of any customer defections or disillusionment that may result from the deal. It will be up to NOV to recognize and understand these concerns and make sure future quality and service do not deteriorate once Grant Prideco is part of NOV. If NOV does not, we expect a potential loss of market share for Grant Prideco's products.

In closing, we believe differences in NOV's and Grant Prideco's standings in terms of customer satisfaction and culture will make for a potentially different kind of merger than the National Oilwell and Varco combination a couple of years ago. Time will tell whether these differences can be overcome / dealt with successfully. From what we glean from our oilfield customer satisfaction surveys, it will require much more attention to customers' needs and execution at the customer level than NOV displayed with the Varco - National Oilwell merger a couple of years ago.

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