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Fourth Qtr 2009

EnergyPoint
RESEARCH

HALLIBURTON [DEC 14, 2009]

When commodity prices began their five-year ascension to record highs back in 2003, integrated oilfield product and service suppliers were dealt one of the more fortuitous hands ever seen in the industry. Yet Halliburton (HAL), one of the largest players in the space, held a couple of wild cards that made it difficult for management, and we suspect the company's rank and file, to fully execute on these unfolding opportunities. To be sure, über-intense scrutiny in the press and in Washington D.C. regarding its KBR unit's contracts with the U.S. government, combined with mounting pressure to resolve asbestos-related liabilities inherited as part of its 1998 acquisition of Dresser Industries, were clear and present distractions for the then 84 year-old organization.

Coincidentally, EnergyPoint Research began collecting its independent customer satisfaction ratings data in late 2003, just as these twin issues at Halliburton began rearing their heads in full. In the spring of 2004, we published results from our first-ever oilfield services survey. In that survey, Halliburton ranked in the third quartile overall and fifth among the industry's six largest integrated suppliers -- Baker Hughes (BHI), BJ Services (BJS), Halliburton, Schlumberger (SLB), Smith International (SII) and Weatherford (WFT). In our comments regarding the survey results, we wondered out loud whether Halliburton was missing opportunities in the marketplace and suggested the consistency of its services could be improved.

Note - Click on the following links to read more from EnergyPoint regarding Halliburton and other companies mentioned in this note: [Baker Hughes](#), [BJ Services](#), [Halliburton](#), [Schlumberger](#), [Smith International](#) and [Weatherford](#).

In the second half of 2004, Halliburton disclosed its plan to divest of its troublesome KBR unit (KBR became a separately listed entity in 2007). In retrospect, this appears to have been a major turning point for Halliburton, as a renewed sense of purpose and focus purportedly took hold throughout the organization. As a result, the company began a four-year period of outperformance in EnergyPoint's customer satisfaction surveys. During this period, Halliburton significantly outpaced its peers in health, safety and environmental (HSE) and overall corporate capabilities. Customer ratings also sprung to life in markets outside the U.S. & Canada. Among the large integrated players, the company trailed only Smith International in total customer satisfaction during the period.

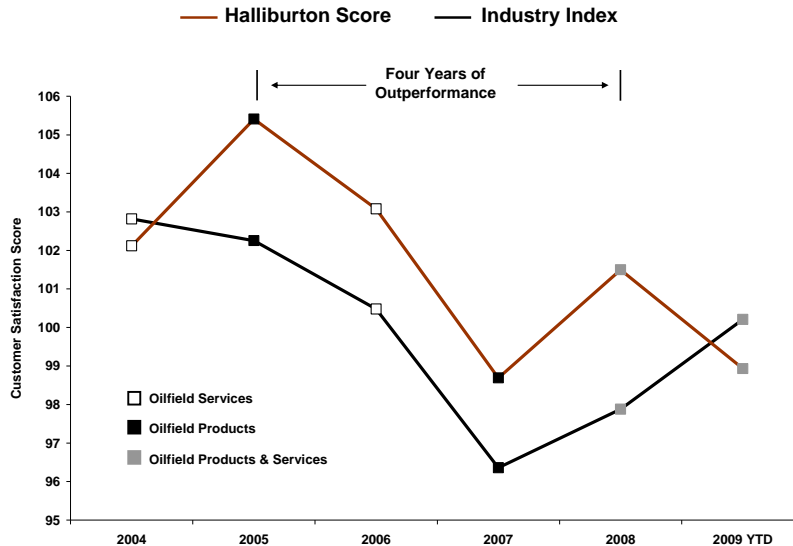
Below are a sample comments from satisfied customers that utilized Halliburton from 2005 though 2008. Note the role the company's personnel appear to have played in respondents' affirming evaluations. This is particularly noteworthy given that during this period Halliburton and its peers were struggling to hire and train thousands of additional staff on a world-wide basis:

"Halliburton is one of only a handful of companies that has the latest technology, the latest equipment, and is open to trying new things while using quality, knowledgeable and reliable personnel." [Engineer at supermajor]

"Halliburton products are of high-quality and reliable at very competitive prices. It is one of the best reputed international companies, having a wide range of products and services with highly qualified and experienced personnel. Halliburton is on the forefront in bringing the state-of-the-art technology and equipment keeping in view future requirements in the industry, backed up by competent personnel." [Engineer at national oil company]

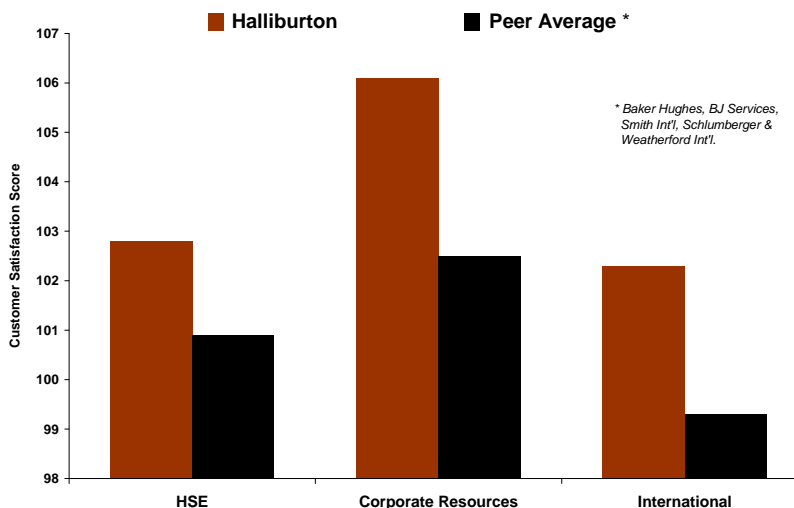
Eclipsing the Industry Most of the Last Five Years

Customer Satisfaction Ratings as % of 2004 - 2009 Industry-wide L-T Industry Index Average



Demonstrating Strength in Key Areas During the Upcycle

Customer Satisfaction Ratings as % of 2005 - 2008 Industry-wide L-T Industry Index Average



Of course, once the Great Recession hit in late 2008, the industry went into a severe downturn, forcing Halliburton and its oilfield peers into multiple downsizings. Such retrenching can be a disruptive process, and we suspect the size and scope of Halliburton's operations only added to the challenge. Accordingly, if a fly is to be found in Halliburton's ointment, it might be in the satisfaction ratings the company has recorded so far in 2009 -- which have drifted below the broader industry index for the first time since 2004 (the company's ratings still remain above the average of its largest peers). Deterioration in ratings internationally appears to be the primary culprit, although the next few quarters should reveal whether the decline is transitory in nature or something more.

IMPLICATIONS OF EXXON MOBIL'S PURCHASE OF XTO [DEC 15, 2009]

If Exxon Mobil's announced acquisition of XTO Energy represents the beginning of a fresh trend in which large-cap multinational E&P companies begin gobbling up reserve-rich independents on a grand scale, which oilfield suppliers might benefit most from such a development? Put another way, which industry suppliers currently enjoy higher satisfaction ratings with multinational E&P companies and, as a result, might be expected to benefit disproportionately as a result of any buying spree on the part of larger operators?

The answer to the question lies in the characteristics that larger E&P companies tend to look for in their suppliers. At the head of this list are the health, safety and environmental (HSE) policies, practices and performance of a supplier, as all larger customers are going to require a supplier to be a safe and law-abiding operator. The good news is that most are.

Outside of HSE, individual E&P companies place varying degrees of importance on different attributes and factors depending on their specific priorities and objectives. Nevertheless, some high-level drivers that we've identified over the years from EnergyPoint Research's independent customer satisfaction surveys that can provide some guidance.

First of all, it is important to note that the nominal "price" charged by a supplier is not nearly as strong of a determinant of larger customers' satisfaction with a supplier as the all-in "cost" of working with a supplier. In other words, a rock-bottom price on an invoice does very little to assuage the dissatisfaction larger customers feel when they pay additional dayrate and/or incur unplanned downtime because a supplier's product malfunctioned, the equipment and/or crew showed up late, etc. Non-productive time, or "NPT", is the enemy at most larger-cap E&P companies, and suppliers that appear friendly to the enemy usually aren't invited back. Conversely, suppliers that demonstrate high levels of reliability and solid job quality and execution tend to enjoy preferred status.

Larger-cap customers also tend to look for higher levels of service and professionalism from suppliers. Specifically, *flexibility*, *responsiveness* and *accountability* have exhibited the strongest influence on the overall satisfaction levels of large-cap customers in the past. Not surprisingly, research shows suppliers rating well in these attributes invest in their people at higher-than-average rates. Communication and interpersonal skills are also emphasized and rewarded within top-performing organizations, and the drive to develop and maintain strong professional customer relationships is pervasive.

So, given these criteria, which suppliers appear best positioned to benefit from a trend toward larger customers? Atop the list is Helmerich & Payne (HP), which over the years has shifted both the performance and expectations curves in the U.S. land contract drilling segment by providing customers -- especially those with longer-term drilling programs -- top-notch service and industry-leading rigs and crews. Parker Drilling (PKD) also enjoys a relatively strong reputation with many of the industry's larger players, although its more international focus and specialization limits its ability to benefit from deals involving companies purchasing onshore assets in North America.

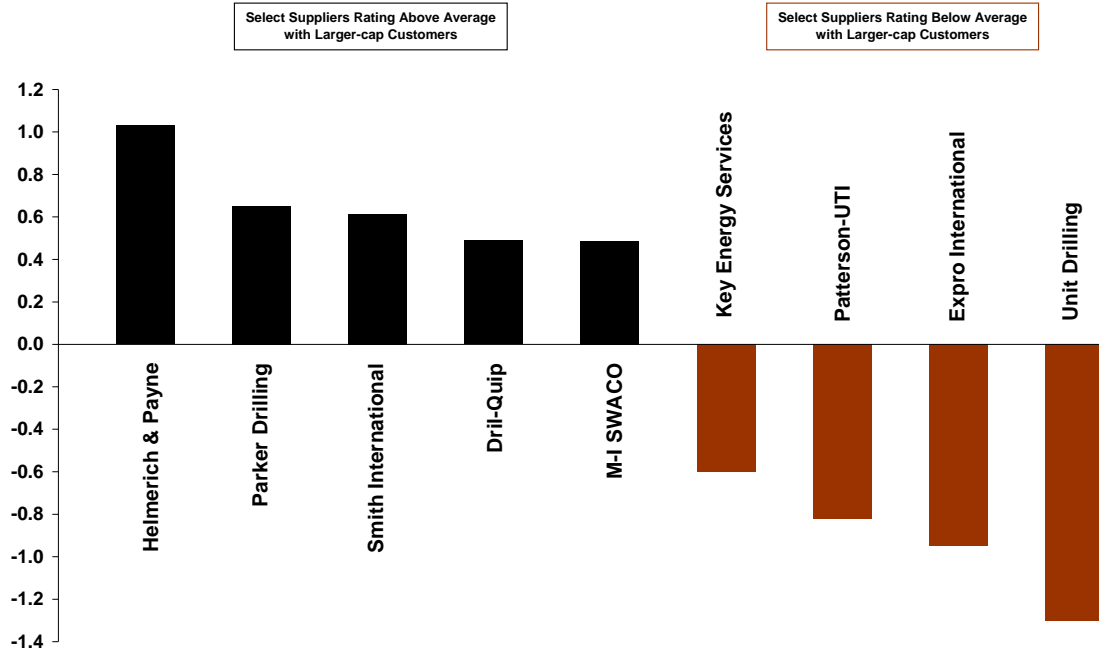
Conversely, Unit Drilling (UNT) and Patterson-UTI (PTEN) have tended to rate lower with larger E&P customers, driven by lower marks in the areas of equipment and technology. Thus, both contractors could find themselves vulnerable to ongoing shifts in reserves ownership. Click on the following to read more thoughts regarding [Helmerich & Payne](#), [Parker Drilling](#), [Patterson-UTI](#) and [Unit Drilling](#).

On the oilfield services and equipment side, Smith International (SII) and Dril-Quip (DRO) are two suppliers that consistently stand out in the eyes of larger customers. In addition, the world's largest drilling fluids services supplier, M-I SWACO, is the ratings leader in its segment. Accordingly, it seems the company, which is owned jointly by Smith International and Schlumberger (SLB), is well positioned to pick up market share should further consolidation materialize.

Service suppliers that could potentially face challenges include privately-owned Expro International and Key Energy Services (KEG). Click on the following to read more regarding [Smith International](#), [Dril-Quip](#), [Schlumberger](#) and [Key Energy Services](#).

When it Comes to Customer Satisfaction with Larger Customers, Some Suppliers Appear Better Positioned Than Others

Satisfaction Ratings Relative to Averages in EnergyPoint Research's Customer Satisfaction Surveys 2004 - 2009 YTD



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