Is dance of consolidation over for contractors?

HAS THE DRILLING industry completed its long dance of consolidation, or only now tripping to tango time? Most analysts contend the industry has a long way to go, but some contractors say they are content with the status quo.

Still, while the jury is out, it's likely that more mergers and acquisitions are in the wind.

"It's reasonable to expect that there will be more consolidation," said **Robert Campbell**, President of **Noble President**, one of the industry consolidation pioneers.

Need a reason to consolidate? "You might be stuck with who's left"

—Larry Dickerson, Diamond Offshore

On the other hand, **Diamond Offshore Drilling** says it is not looking for a partner. Currently, the company boasts 19 floaters in the Gulf of Mexico, some 35% of the market. This makes Diamond number 2, following **Transocean/Sedco**.

"There's no reason on the face of its for us to consolidate," said Diamond President **Larry Dickerson**. He explained that the company would consider further mergers or acquisitions, but cited some problems with the process. First, he said, Diamond sees neither meaningful costs savings nor market improvements. In addition, there is no longer a stock-market reward.

And, there are now more buyers than sellers, Mr Dickerson said.

Jan Rask, Chairman of **Marine Drilling Companies**, believes that jackup owners are the most vulnerable to further mergers and acquisitions. "There's much more opportunity for consolidation in the jackup market than in the floater market," he said. "It's much more fragmented."

Len Paton, Managing Director-Global Oil & Gas Group, **Chase Securities Inc**, agrees that contract drilling is too fragmented.

"Contract drilling is one of the few segments which remain to be consolidated." In pressure pumping, he said, 3 players control 97% of the business. In offshore drilling, it takes an even dozen to match that level of market command.

"Most segments of the oil-service industry have consolidated down to 3 or 4 major players," Mr Paton said.

Matt Simmons, President of **Simmons & Co International**, warns that larger contractors will be far better prepared to contend with the challenges of prosperity over the next decade. He wonders whether small players can even survive and predicts that mega-drillers will dominate most sectors a decade hence.

"Consolidation does work," he affirms.

Mr Simmons also called for an end to adversarial relationships. "It just doesn't work," he said.

ROADBLOCKS

It is the social issues that often can throw roadblocks in the path of consolidations, especially in "merger of equals" situations. These are questions, Mr Paton said, such as who will be CEO, who will control the board, what will the new company be named, and where will it be headquartered.

Such issues are particularly difficult with drilling contractors. Because the industry is highly capital intensive, there are relatively few synergies and cost savings realized through consolidation, he explained. Consequently, consolidations are rarely shareholder driven.

One interesting impetus for contract-drilling consolidation, he said, will be the aging of management. As company leaders eye retirement, mergers and acquisitions could well be viewed as a lucrative exit strategy. Indeed, this has already occurred many times in the recent past, as aging sole proprietors of, for instance, small land drillers sold out to large corporations.

Mr Paton urged the industry to further concentrate. "You should want to see consolidation," he said. "It will help you."

One reason to consolidate? Quipped Diamond's Dickerson, "You might be stuck with who's left."