

Schlumberger to buy rival Smith for \$12bn

By Ed Crooks in London
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[Schlumberger](#), the world's largest oil services group, has agreed a \$12.4bn all-share deal to acquire [Smith International](#) of the US, to take advantage of opportunities being created by technological advances in the industry.

Andrew Gould, Schlumberger's chairman and chief executive, said the deal would make possible a "step change" in technology for drilling oil and gas wells, helping companies exploit previously hard-to-reach resources such as shale gas and deep water fields.

He added that the downturn in the oil services business had helped the two companies reach agreement. "It probably would not have been possible at the top of the cycle because valuations would have been out of alignment," he said.

The oil services industry went into steep decline as a result of the global recession and the plunge in oil and gas prices, but has been showing signs of recovery, and activity is expected to strengthen this year.

Based on Schlumberger's closing share price of \$63.9 on Friday night, its offer of 0.6966 of its shares for every Smith share values the target at \$12.4bn, including \$1.2bn of debt. It represents an 18 per cent premium to Smith's closing price on Friday, but that price rose by 13 per cent that day after news of the deal talks leaked in the morning.

Valued at about \$76bn, Schlumberger was already more than twice the size of closest rival [Halliburton](#). It employs 77,000 people and had revenues of \$22.7bn last year. Smith employs 21,000 and had revenues of \$8.2bn.

Schlumberger plans to realise \$160m in synergies next year and \$320m in 2012, initially mostly by cost-cutting such as rationalising head office functions. It said the deal would enhance earnings per share by 2012.

Schlumberger has pioneered techniques and equipment for "directional" drilling: extending oil and gas wells horizontally, sometimes for distances of several miles from the rig, to hit pockets of oil and gas.

But it has lacked two products provided by Smith: drill bits, and the fluids that lubricate the drilling process.

Mr Gould said bringing together all the key components of the drilling process would help develop more sophisticated integrated systems.

"Engineering them together, you have a much better chance of being successful," he said. "We could have developed it an organic way, which would have taken a long time, or done it inorganically, through this deal."

Antitrust authorities are likely to scrutinise the deal, especially in the US, because of Schlumberger's strong market position, but Mr Gould said he did not think the move presented any threat to competition, and would benefit the company's customers.