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## **ADNOC and Baker Hughes The Transformation of ADNOC Drilling (Part 2)**

On 08 October 2018, Baker Hughes GE (BHGE) and ADNOC announced that they had signed a deal in which BHGE will form a strategic partnership with ADNOC and acquire a five per cent stake in ADNOC Drilling for \$550 million. The deal valued ADNOC Drilling at \$11.0 billion (ADNOC Press Release 2018).

The deal to form a strategic partnership between the two companies will enable ADNOC Drilling to offer fully integrated drilling and well construction services (IDS). BHGE will be the sole provider of certain proprietary leading-edge and differentiated equipment and technologies related to the integrated drilling offering, supporting ADNOC Drilling's growth.

Together, ADNOC and BHGE will deliver more competitive well completion times, greater drilling efficiencies and better economics and will capitalise on new business opportunities as ADNOC Drilling grows through its new expanded offering. The partnership represents the first time that ADNOC has brought an international strategic partner to acquire a direct equity stake in one of its existing services businesses.

According to the company, the partnership is expected to generate predictable, long-term revenue streams and growth in the market for both companies through a mutually beneficial, attractive commercial structure, pre-defined work plans and future dividends.

- ADNOC Drilling and BHGE will set up an advisory board with representation from both companies to oversee the implementation and ongoing operations.
- The two partners will be able to leverage ADNOC Drilling's existing rig fleet capacity with limited capital expenditure outlay.
- The partnership will gain significant new business opportunities, including the potential to offer integrated drilling services beyond the UAE's borders.

While ADNOC Drilling will remain the sole rig provider to ADNOC Group Companies, it does not give the new IDS offering complete exclusivity. ADNOC Drilling must submit separate offers for standalone drilling and the IDS offering to its clients. Successful demonstration of increasing drilling efficiencies and improved customer service levels will be leveraged, along with ADNOC's growing upstream activity, to capture up to 30% of the drilling and completion market over the following three years.

Other characteristics of the deal were as follows:

- The transaction included an activity and milestone-based deferred consideration mechanism, beginning in 2023, linked to the development of ADNOC's new conventional and unconventional development program.
- BHGE received a seat on ADNOC Drilling's Board of Directors.
- ADNOC Drilling expected to generate stable annual dividends with an estimated long-term yield in the range of seven per cent per annum for both shareholders.

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This case study has been written by Professor Scott Moeller and case writer Madhav Desai of Bayes Business School, City, University of London as a basis for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation. The authors are grateful to Khalid Hussain of Moelis & Company for his help throughout the process of developing this case study and facilitation of interviews with senior executives of ADNOC, ADNOC Drilling and BHGE. We would like to give thanks to Mohamed Al Aryani of ADNOC, Emri Zeineldin of ADNOC Drilling, Ayman Khattab and Hatem Haidar of BHGE and Rami Touma and Youssef Salem of Moelis & Company for granting interviews and providing valuable insights into this deal. All information contained in the case has been obtained from the public domain or sources approved by the parties involved in the deal.

- BHGE would provide ongoing technology, software, equipment and training support at preferential prices.
- The partnership would be required to support ADNOC's target to reduce drilling time by 30% by the end of 2019.
- With operations commencing in 2019, the commercial framework accounts for BHGE's working capital requirements and equipment lead times including milestones payments

The transaction also marked several firsts; for BHGE, ADNOC and the industry in general.

- First corporate M&A transaction in the history of ADNOC.
- First strategic partnership with an international player in the services sector for ADNOC.
- ADNOC Drilling to tap overseas markets for the first time in its history.
- The first deal for BHGE with an SOE in the Middle East.
- The first M&A deal between a drilling company and a service company internationally.

Dr. Sultan Al Jaber, ADNOC Group CEO, said at the time of the announcement:

*"We chose BHGE after a rigorous and competitive process as a partner with whom we have a long-standing working relationship and who shares ADNOC's long-term vision and values. This unique partnership with BHGE comes at an important time in the drilling needs of Abu Dhabi as ADNOC grows its conventional and unconventional hydrocarbon resources, and as we see future potential for further regional growth. It will ensure we will be able to better service our upstream growth while capturing and retaining greater value.*

*Importantly, it will also drive job creation and economic growth, as well as maintain a healthy level of competition in the dynamic UAE oilfield services market."*

Lorenzo Simonelli, BHGE Group Chairman and CEO, said at the time of the announcement

*"This partnership brings together BHGE and ADNOC, backed by a close and long working relationship. We are very pleased to take a minority stake in ADNOC Drilling to jointly develop and further grow the company's technical capabilities, market access and value. In a unique way, it allows us to drive predictable revenue streams and long-term growth for both companies and lets us invest in a stable, reliable and secure market environment. Supported by BHGE's leading technology and service portfolio, ADNOC Drilling will enable ADNOC to unlock significant value from their untapped resources, while building local capabilities and accelerating overall market growth. The transaction significantly increases our activity in the region and demonstrates our unique ability to create value for our customers and shareholders through innovative commercial arrangements, partnerships and leading technology solutions."*

Ayman Khattab, President of BHGE's Middle East Operations, said:

*"We are not just a service company. We are a technology and solutions company. And I consider it as a big achievement that one of our key global customers has chosen us as a partner. I am thrilled with this deal!"*

On 31 March 2019, the new IDS offering drilled its first well nine days ahead of schedule, thus providing an early indication of the proof of the concept (ADNOC Press Release 2019a). In response, Emri Zeineldin, Senior Vice President of ADNOC Drilling, said:

*"Success is a matter of the mindset, and we are already proving it. However, we cannot judge the success of the deal based on one well. We need to demonstrate the same or better performance with every well we drill."*

In the outside community, the deal was lauded as a success and reception was very positive. The transaction was awarded 'M&A Deal of the Year' for the Middle East in 2019 by The Banker and IJGlobal publications. Moelis & Company were awarded 'Energy, Mining & Utilities Financial Advisor of the Year' by Mergermarket for their role on the deal.

## Epilogue

Six months after delivering the first well in March 2019, a total of 15 onshore and offshore IDS wells were drilled and delivered ahead of schedule, with several achieving record-breaking completion times and showing an average increase in drilling performance by about 25% (Exhibit 1). This has resulted in considerable cost savings, increased well profitability and has cemented ADNOC Drilling's position as the first national integrated drilling services company in the region (ADNOC Press Release 2019b).

## References

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## Exhibit 1

Performance of ADNOC's Integrated Drilling Services Offering during the first six months of operation (March 2019 – September 2019)



Source: (ADNOC Press Release 2019b).