

# Oilfield services companies' response to low oil prices

Unprecedented is how many oilfield services executives have described current oil market conditions. Several oilfield services companies have withdrawn financial guidance issued less than a month earlier, as work backlogs begin to be impacted by cutbacks in customers' spending. These companies promised to provide new and more detailed guidance in Q1 2020 earnings calls scheduled to be held in April and May.

However, oilfield services companies are focusing most of their actions on lowering operating costs. Staff are being furloughed or asked to take unpaid leave and contractors are being demobilized. Layoffs are becoming more widespread across the sector. Job reductions have been largest in the US, where short-cycle projects can be quickly scaled-back. The number impacted globally runs into the tens of thousands.

Several C-suite executives are voluntarily freezing or reducing their base salary and suspending variable pay schemes for a temporary period – an important demonstration that senior executives are also feeling the pinch alongside their employees. The announced salary reductions range from 5% up to 25%. The compensation for board directors is also being lowered in line with executive management teams. Some companies are extending the pay reductions to the layer of executives below senior leaders. A couple have applied the temporary salary reductions across their workforce, albeit at a lower percentage decrease than applicable to leaders of the organization.

The immediate organizational challenge for oilfield services companies is protecting employees' health while delivering safe operations for customers.

Their clients have reacted quickly to the market volatility by announcing significant cuts in capital expenditure. Oil and gas companies have cut capital spending for 2020 by at least \$75.8bn, with several having already announced further reductions (you can see our recent note on this here). Projects are being deferred and contracts cancelled as discretionary spend is curtailed.

Oilfield services companies are also reducing capital investment in response to this slowdown in activity, driven by the COVID-19 crisis and the steep decline in oil prices. Sixteen oilfield services companies have announced capex cuts totaling \$2.6bn for this year. The cuts range in scale from between 20% to 60%, with an average decrease of 36%. Several are restricting capital allocation to essential maintenance activities only.



**Oilfield services companies have announced capex cuts totalling \$2.6bn in 2020**



**C-suite executives are voluntarily freezing or reducing their base salary**

<sup>1</sup>Based on an analysis of announcements by 55 oil and gas companies up to 16 April 2020

COVID-19 business continuity plans include adapting shift patterns, implementing social distancing measures, providing health screening and medical care and introducing quarantine standards for offshore employees on departure and return. Companies are keeping shareholders informed of the ways they are communicating with operational staff in the field, employees working remotely, furloughed staff and workers stranded abroad due to lockdowns in host countries and travel restrictions.

Several companies have suspended the dividend or withdrawn earlier proposals for a recommended dividend. A small number have decided to protect shareholder returns and reaffirmed their commitment to pay the previously announced dividend as scheduled.

CEOs noted that they are prepared to take further action to protect the balance sheet if market conditions do not improve. Many oilfield services companies have in recent years implemented cost reduction and efficiency improvement programs, leaving them better placed financially to deal with low oil prices than during previous down-cycles. However, the scale of the current challenge could lead to industry-wide financial distress.



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# Announced actions in response to low oil price environment

	<i>Withdrawal /review of financial guidance</i>	<i>Capex Cut</i>	<i>Dividend reduction</i>	<i>Dividend suspension / withdrawal</i>	<i>Employee furlough / reductions</i>	<i>Executive pay freeze/ cuts</i>
Aker Solutions ASA		✓			✓	✓
Baker Hughes Company		✓			✓	
Basic Energy Services Inc.		✓				
Core Laboratories N.V.		✓				
Dril-Quip Inc.	✓					
Ensign Energy Services Inc.		✓				✓
Fugro N.V.	✓	✓			✓	✓
Halliburton Inc.		✓			✓	✓
Helmerich & Payne Inc.		✓				
Kvaerner ASA				✓	✓	✓
Maersk Drilling A/S	✓					
Nabors Industries		✓		✓		✓
Nextier Oilfield Solutions Inc.		✓			✓	
Noble Corporation	✓					
Petrofac Limited		✓		✓	✓	✓
PGS ASA	✓					
Polarcus Limited		✓			✓	✓
Precision Drilling Corporation		✓			✓	✓
Saipem S.p.A.	✓					
Schlumberger Limited		✓				
Subsea 7 S.A.	✓					
Superior Energy Services Inc.						✓
TechnipFMC plc		✓				
Tenaris S.A.					✓	
TGS ASA		✓	✓		✓	
Valaris plc	✓				✓	
Vallourec S.A.	✓				✓	
Weatherford International plc		✓			✓	✓
Wood Group plc		✓		✓	✓	✓