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Indiana well services company acquired for $900 million

By Rick Stouffer
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Superior Well Services Inc. of Indiana, Pa., whose largest business unit injects water, sand and chemicals at high pressure into rock, and has been at the forefront of expansion of natural gas exploration in the state, is being acquired by the nation's largest onshore driller for about $900 million in cash and debt.

Nabors Industries Ltd. said Monday it is buying Superior Well Services to add equipment and services used to free oil and natural gas from rock. Nabors, headquartered in Hamilton, Bermuda, said it will pay Superior's shareholders $22.12 per share, a 21.3 percent premium to last week's stock close.

Demand has surged for well services such as those provided by Superior, which support the technique called hydraulic fracturing, known as "fracking" by the drilling industry. Superior's pressure-pumping services give drillers better production from each well, said Roger Read, a Houston-based analyst for Natixis Bleichroeder Inc.

Nabors CEO Gene Isenberg said his company for some time has been looking at integrating more service-type offerings into its business.

"The complementary combination of the largest land drilling contractor in the world with a leader in technical pumping will make both organizations stronger and better able to meet our customers' needs not only in the U.S., but around the world," Superior's CEO, David Wallace, said in a statement.

He could not be reached for futher comment.

Superior yesterday reported second-quarter net income totaled $6.1 million, or 18 cents a share, compared with a loss of $37.9 million, or $1.66 a share, a year ago. Revenue jumped 94.5 percent, to $176 million from $90.5 million a year ago.

Superior's stock closed at $22.08, up $3.85, or 21 percent. Nabors rose 34 cents to $18.32.

Superior was founded in 1997 by Wallace, Jacob Linaberger, company president, and Rhys Reese, chief operating officer, all former employees of Halliburton Energy Services Inc.

Since then, Superior's operations have expanded from two service locations to 28 providing coverage across 38 states. Its customer base has grown from 89 customers in 1999, to more than 1,200 customers, according to Securities and Exchange Commission filings.

Superior's services include well stimulation to get more production from a drilled well, the use of nitrogen to stimulate wells and purge and test pipelines and well cementing. It owns a fleet of 1,614 commercial vehicles to provide pumping services.

The company also provides well fracturing and acidizing, which improve the flow of oil and natural gas from producing zones, and well hole surveying services.

Energy analyst John Tasdemir, who follows Superior for Canaccord Genuity Corp. in Houston, said the deal is a good one for Superior's shareholders.

"Superior shareholders got a big premium when compared to another recent deal, with Patterson-UTI Energy Inc. buying assets from Key Energy Services Inc.," Tasdemir said. The Patterson-Key deal totaled $237.7 million.

Well service companies are ranked according to their pressure pumping capacity -- how much horsepower a company has to force fluids down a well and into a rock formation to fracture the rock and free the trapped natural gas or oil.

Investment banker Simmons & Co. International said Superior's 438,000 horsepower of pressure pumping capacity as of Dec. 31 ranked the company fifth in North America, trailing Frac Tech Services, with 741,000 horsepower; BJ Services Co., 870,500 horsepower; Schlumberger, 962,500 horsepower; and Halliburton, with nearly 1.2 million horsepower of pressure pumping capacity.

Based on pumping capacity, Nabors is paying about $1,600 per 1,000 horsepower of pressure pumping capacity, while Patterson paid about $1,100 per 1,000 horsepower of pumping capacity, said Gabelli & Co. energy analyst Andrea Sharkey.

Tasdemir said part of the reason why Superior is selling now is that it still has a fair amount of debt on its books, $166.4 million as of March 31, and it doesn't have the liquidity needed to grow in the current market.

"With Nabors, obviously, Superior will have more capital available to grow," Tasdemir said.

Holders of about one-third of Superior's shares have agreed to sell their shares to Nabors. The acquirer, with its operations base in Houston, said it expects to complete the purchase by the end of the third quarter.

The deal requires Superior to pay Nabors a break-up fee of $22.5 million and expenses up to $5 million in the event the deal is terminated.

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