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WILL THE SLB, CHAMPIONX MERGER CREATE SHAREHOLDER VALUE?

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SLB announced an agreement to acquire ChampionX in an all-stock transaction valued at $7.8 billion on April 2.[1] Olivier Le Peuch, SLB's CEO, explained the merger's rationale as follows:[2]

> *Our customers are seeking to maximize their assets while improving efficiency in the production and reservoir recovery phase of their operations. This presents a significant opportunity for service providers who can partner with customers throughout the entire production lifecycle, offering integrated solutions and delivering differentiated value. The combination of ChampionX's strong production-focused leadership throughout North America and beyond with our own international presence, unmatched technology portfolio, and history of innovation will drive tremendous value for our customers and stakeholders. Our core strategy remains centered on meeting growing energy demand while accelerating decarbonization and emissions reduction through innovation, scale, and digitalization in our core oil and gas business. This acquisition will expand SLB's presence in the less cyclical and growing production and recovery space that is closely aligned with our returns-focused, capital-light strategy.*

Soma Somasundaram, president and CEO of ChampionX, stated:[3]

> *Becoming part of SLB will give us a much broader portfolio and the resources and reach to continue to lead the industry in providing energy to the world in an economically and environmentally sustainable way. Our companies share a vision for the future of energy that leverages technology and innovation to solve our customers' most complex problems and better serve the communities in which we operate. For our shareholders, the combination provides compelling value creation and the opportunity to share in significant upside from the realization of synergies, including accelerated growth opportunities given the complementary nature of the respective portfolios.*

Executives believe mergers increase shareholder returns and customer value through multiple avenues: access to new markets, broadened and diversified business portfolios, new technology, rapid innovation, expanded scale, increased resources, insulation from industry cyclicality, and new lines of products and services.

Presumably, pursuing the avenues enables the merged companies to simultaneously increase customer value and shareholder returns. However, such dual growth can be difficult—as history and research show. To ensure success, executives at both firms must consider at least three critical factors: regulatory issues, M&A value dynamics, and the best way to implement a strategy focused on customer value.

Factor 1: Addressing Regulatory Issues

On July 2, the U.S. Department of Justice issued its second request for information from SLB, potentially delaying the transaction's completion.[4] SLB said at the time that it expects to address the requests and complete its merger with ChampionX in 2025.

Though every M&A transaction is unique, the intended Halliburton–Baker Hughes merger provides a cautionary tale. In 2016, the companies abandoned a proposed $34 billion deal after DOJ sued to block the transaction.[5]

In its response to the companies' decision to vacate the deal, the justice department offered a rationale at complete variance with the assessment of the Halliburton and Baker Hughes CEOs. Attorney General Loretta Lynch stated:

> *The companies' decision to abandon this transaction—which would have left many oilfield service markets in the hands of a duopoly—is a victory for the U.S. economy and for all Americans. This case serves as a stark reminder that no merger is too big or too complex to be challenged…when companies propose deals that would enhance shareholder value at the expense of consumer interests.*[6]

Deputy Assistant Attorney General David Gelfand of the DOJ Antitrust Division issued another statement:

> *Very few things are as important to our economy as oil and gas. But the merger of Halliburton and Baker Hughes would have raised prices, decreased output, and lessened innovation in at least 23 oilfield products and services critical to the nation's energy supply. We achieved the only result that could adequately protect American consumers—an abandonment of this unlawful merger.*[7]

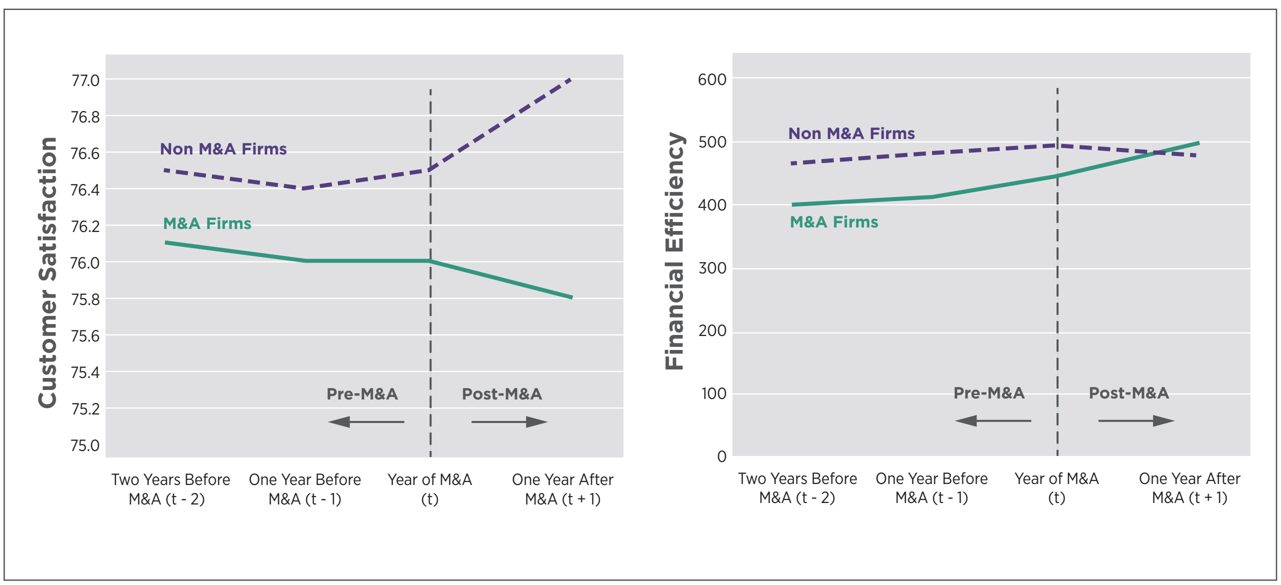
Factor 2: Understanding M&A Value

Companies base almost every M&A transaction on the premise that it will increase shareholder value and customer value. Company leaders invariably commit to wresting efficiencies and synergies to enhance shareholder value. But what is the reality of M&As like the deal between SLB and ChampionX?

A 2022 landmark study published in the prestigious *Journal of Marketing* examined M&A's effect on customer and shareholder value and its underlying mechanism.[8] The authors gathered data from 141 firms from 1995 to 2017, yielding 1,395 data points.

The study compared firms undergoing an M&A (M&A-firms) to themselves before and after the transaction, as well as to a control group of companies undergoing no such change (non-M&A firms). The study's sample and econometric methodology enable unambiguous and statistically valid conclusions.[9] Its main results are shown in Figure 1.

Figure 1: M&A's Effect on Customer Satisfaction and Financial Efficiency



Source: Umshankar et al, 2022[10]

The most important takeaways from the results are as follows.

- After an M&A, customer satisfaction unambiguously declines among M&A-firms relative to (1) the pre-M&A period and (2) compared to non-M&A firms.
- In the post-M&A period, firm efficiency increases among M&A-firms.
- The gains from increased efficiency are outpaced by the losses from decreased customer satisfaction.
- The net effect on firm value is negative for M&A-firms.
- M&-firms' market value was $481 million less on average than that of non-M&A firms one year after the transaction.
- The decline in market value occurs because executives' attention at M&A-firms becomes increasingly focused on financial issues at the expense of customer issues. That is, executives become internally focused on efficiencies instead of customer focused; this decreases customer value and sales and leads to a decline in enterprise value.

M&A-firms' executives become more focused on financial/efficiency issues, which detracts from customer value. The resulting decline in customer value lowers M&A firms' value by an average of $481 million in the post-transaction period.

Unless M&A-firms' senior executives are intentional about customer value, they are unlikely to create shareholder value after the transaction. Intentionality requires measuring customer value, understanding the strategic areas driving it, and ensuring that customer value is the primary driver of the M&A integration process.

Factor 3: Implementing Customer Value

To remain focused on customer value, SLB and ChampionX must fully understand customer value. Doing so requires both firms to have a valid and reliable measure of customer value, an econometrically reliable way to link customer value to sales, and a statistically robust way to quantify the relative lift potential of the different strategic areas driving customer value.

The 2024 Stratonomics B2B™ study, "Customer Value in the Oilfield Service Sector," provides the necessary framework. The study, based on 2,620 respondents who rated different OFS suppliers. It is part of the larger Stratonomics B2B™ Tracking Study of more than 40,000 customers of over 6,000 B2B companies. The research represents one of the largest and most comprehensive studies of customer value among B2B companies ever conducted.[11]

Managing CVI™ Score and Sales Lift

The proprietary Stratonomics CVI™ Score provides B2B suppliers a summary measure of their customers' judgement of the overall value they receive. The score can range from 0 to 100, with 100 representing the highest level of customer value. Companies use CVI™ Score in strategy planning because it reliably links to customer recommendations and retention, as well as sales, margins, and stock price.[12]

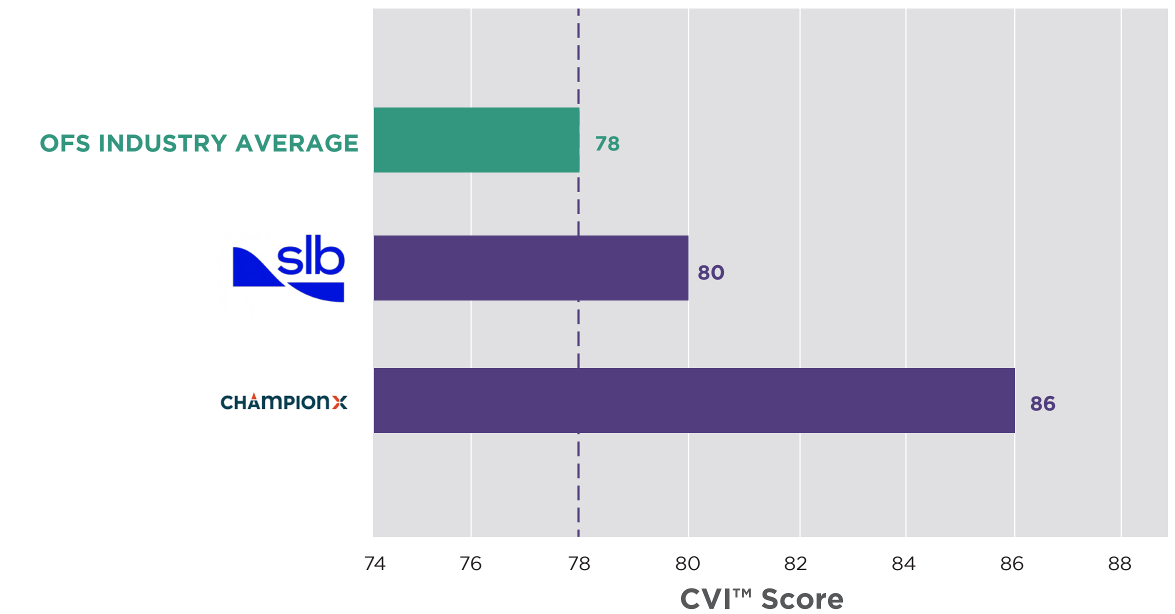
Figure 2 shows the relative CVI™ Scores for SLB and ChampionX. Figure 3 shows the relationship between OFS companies' CVI™ Score and sales.

When two companies merge, the larger of the two frequently integrates the smaller into its tactics, processes, operations, and strategy. Instead, merging firms should consider customer satisfaction when making integration decisions.

When commercial airlines United and Continental merged in 2010, United's customer satisfaction score was 56, while Continental's was 68. Observers hoped the newly-merged company's satisfaction rating would veer toward the higher score via Continental's best practices, rather than gravitating toward the larger firm's lower score.[13] Today, United scores 77 on customer satisfaction, 1 point behind Southwest and American and 1 point above the sector average.[14]

ChampionX has a higher CVI™ Score than SLB, at 86 to 80, though both score above the sector average of 78.

Figure 2: SLB and ChampionX CVI™ Scores



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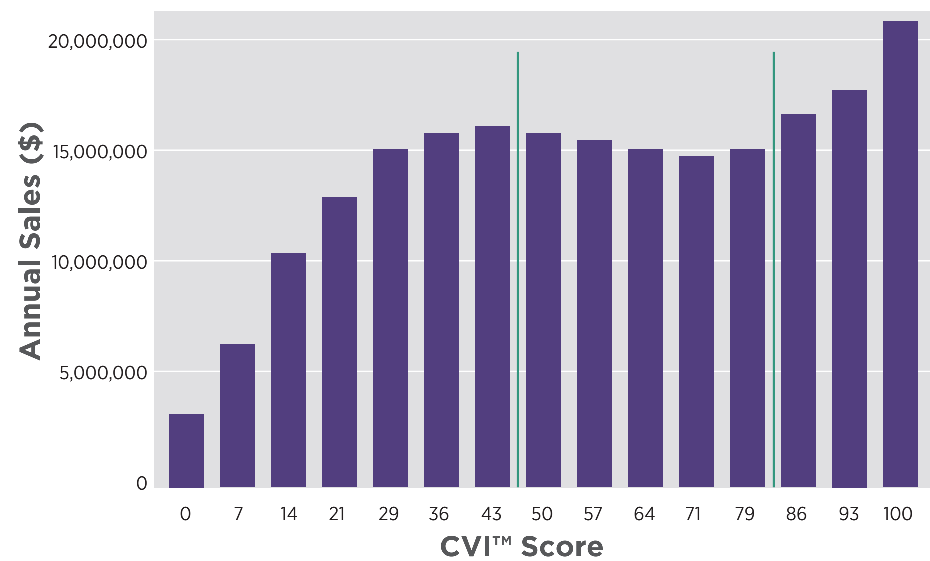
Executives at the merged company must work to make SLB more like ChampionX and increase the new entity's CVI™ Score. Allowing the new firm to gravitate toward SLB's lower CVI™ Score would erode customer value, decrease sales, and eventually decrease shareholder value.

As shown in Figure 3, the relationship between an OFS company's CVI™ Score and sales is non-linear. Having an above average CVI™ Score is not enough for a firm in the OFS sector to gain sales. Up to a score of 85, OFS companies' sales remain flat; sales increase only after their CVI™ Score exceeds the threshold. While ChampionX is in the sales upliftment zone, SLB is not. If the merged entity's CVI™ Score were pulled down toward SLB's score, the new firm's sales would stagnate or decline.

Figure 3: CVI™ Score and Annual Sales



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Optimizing the Strategic Areas Driving CVI™ Score

Figure 4 shows the eight strategic areas driving CVI™ Score in the OFS sector. The eight strategic areas offer varied CVI™ Score lift potential. The lift potential of a strategic area is a measure of the improvement in CVI™ Score that results from improvements the area. OFS companies should prioritize strategic areas with the highest lift potential.

Figure 4: The Eight Strategic Areas Driving CVI™ Score

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Table 1:
Comparing Strategic Area Lift Potential for SLB and ChampionX

Strategic Area	Change in Lift Potential for ChampionX Relative to SLB
Product & Service Quality	+47%
Initial Sales & Bidding	+13%
Pricing & Billing	0%
Project Management	0%
Social Responsibility & Sustainability	-1%
Safety	-4%
Ongoing Service & Support	-40%
Communication	-54%
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Table 1 compares the lift potential of the eight strategic areas for SLB and ChampionX. The baseline shown is SLB's lift potential; the table shows the relative change in lift potential for ChampionX.

- The lift potential for "Communication" (-54%) and "Ongoing Service & Support" (-40%) is drastically lower among ChampionX customers than it is for SLB customers. Relative to SLB, ChampionX's CVI™ Score is 54% less responsive to "Communication" improvements and 40% less responsive to "Ongoing Service and Support" improvements.
- ChampionX's customers value "Product & Service Quality" 47% more than SLB's customers.
- The lift potential is identical or similar for both companies among four strategic areas—"Safety" (-4%), "Social Responsibility & Sustainability" (-4%), "Pricing & Billing" (0%), and "Project Management" (0%).

The merging companies should not use a one-size-fits-all approach to managing customer value after the merger. More specifically:

- ChampionX should intensify its emphasis on "Product & Service Quality." An additional analysis shows that ChampionX's performance score on this strategic area is 8% higher than that of SLB, despite its lift potential being 47% higher.
- SLB should intensify its focus on "Communication" and "Ongoing Service & Support." Despite the strategic areas' high lift potential, SLB's performance score in them is 4% and 8% lower than that of ChampionX.

Key Takeaways

Research shows that, despite their best intentions, merging companies' leaders often become obsessively focused on financial efficiency while ignoring customer value. The misplaced focus saps shareholder returns.

The SLB–ChampionX merger is a monumental opportunity for both companies. Executives can simultaneously increase customer value and shareholder returns by implementing a research-based framework that is mindful of the following:

- Although executives at most merging companies focus on wresting efficiencies, the most effective M&As focus on increasing customer value, the most reliable way to improve sales, margins, EBITDA, and stock price. SLB and ChampionX should make an intentional effort to focus on customer value to drive the merger's success.
- SLB should not try to integrate ChampionX into its existing customer strategy. Research shows that SLB customers are driven by different considerations than are ChampionX customers. Specifically:
  - ChampionX should improve it's already high CVI™ Score by focusing on excellence on "Product & Service Quality" execution levers.
  - SLB should focus on driving its CVI™ Score into the sales upliftment zone (i.e., a score above 85) through excellence on execution levers driving "Communication" and "Ongoing Service & Support."

By understanding the unique and common strategic areas important to their customers, both companies can maximize their CVI™ Score and sales, thereby growing shareholder returns.

Endnotes

[1] McColl, Bill (2024), "SLB Buys ChampionX for $7.8 Billion To Expand Its Oilfield Services Offerings," *Investopedia*, April 2, 2024. https://www.investopedia.com/slb-buys-championx-for-usd7-8-billion-to-expand-its-oilfield-services-offerings-8623446

[2] From SLB's newsroom: https://www.slb.com/news-and-insights/newsroom/press-release/2024/slb-announces-agreement-to-acquire--championx-in-an-all-stock-transaction

[3] From SLB's newsroom: https://www.slb.com/news-and-insights/newsroom/press-release/2024/slb-announces-agreement-to-acquire--championx-in-an-all-stock-transaction

[4] Stewart, Robert (2024), "SLB warns that $7.8 billion ChampionX deal could be delayed into 2025," *Upstream*, July 2, 2024. https://www.upstreamonline.com/finance/slb-warns-that-7-8-billion-championx-deal-could-be-delayed-into-2025/2-1-1671201

[5] See: https://www.justice.gov/opa/pr/halliburton-and-baker-hughes-abandon-merger-after-department-justice-sued-block-deal

[6] See: https://www.justice.gov/opa/pr/halliburton-and-baker-hughes-abandon-merger-after-department-justice-sued-block-deal

[7] See: https://www.justice.gov/opa/pr/halliburton-and-baker-hughes-abandon-merger-after-department-justice-sued-block-deal

[8] Umashankar, Nita, S. Cem Bahadir, and Sundar Bharadwaj (2022), "Despite efficiencies, mergers and acquisitions reduce firm value by hurting customer satisfaction," *Journal of Marketing*, 86(2), 66–86.

[9] Specifically, the study statistically removed the confounding effect of multiple extraneous factors such as: year in which M&A occurred, market share, ROA, industry type, sales, market growth, advertising, R&D, firm size, firm growth, firm scope, industry profitability, competitive intensity, restructuring charges, and so forth.

[10] Umashankar, Nita, S. Cem Bahadir, and Sundar Bharadwaj (2022), "Despite efficiencies, mergers and acquisitions reduce firm value by hurting customer satisfaction," *Journal of Marketing*, 86(2), 66–86.

[11] See: "Customer Value in the Oilfield Service Sector: A 2024 Stratonomics B2B™ Study." www.stratonomics-b2b.com

[12] Mittal, Vikas, Kyuhong Han, Carly Frennea, Markus Blut, Muzeeb Shaik, Narendra Bosukonda, and Shrihari Sridhar (2024), "Customer satisfaction, loyalty behaviors, and firm financial performance: What 40 years of research tells us," *Marketing Letters*, 34(2), 171–187. Free download: https://link.springer.com/article/10.1007/s11002-023-09671-w

[13] Mittal, Vikas, Vanitha Swaminathan, and Christopher Groening (2010), "For customers, will United-Continental merger fly?" *Houston Chronicle*, October 10. https://www.chron.com/opinion/outlook/article/for-customers-will-united-continental-merger-fly-1623396.php

[14] See: https://www.theacsi.org/wp-content/uploads/2023/04/23apr_TRAVEL-Report.pdf

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