IADC/Simmons survey finds wholesale decline in revenues, utilization

AFTER PEAKING IN 1997, financial performance for all sectors of contract drillers fell in 1998 due to decreased utilization and lower dayrates, the 1999 IADC/Simmons & Co Drillers Survey showed. Revenues decreased slightly during 1998 for offshore drillers, the sector that continues to generate higher profitability margins than either the US or international land-drilling segments.

Further, the survey found that utilization declined significantly for US land and offshore contractors. US land utilization, the survey revealed, averaged 53% in the year ending 30 June, 1999, 30% lower than the 76% utilization registered in '98. Offshore drillers saw their activity fall 17%, to 77% utilization in the year ending 30 June, 1999, from 93% a year before. Only international land contractors reported maintenance of the status quo. In both years, this sector operated at 67% utilization, according to the survey.

FINANCIAL PERFORMANCE

Offshore drillers earned $6.9 billion in 1998, down 5.9% from $7.3 billion in '97. The earnings before depreciation and taxes (EBDIT) margin actually rose, to 50.8% from 47.9%. EBDIT, shown as a percentage of revenues, is a gauge of cash flow.

For primarily US land drillers, revenues decreased from $1.1 billion in '97 to $924 million last year, a 14.3% decline. Similarly, the EBDIT margin fell slightly, from 19.1% to 18.9%.

Revenues for primarily international land drillers increased 17.1%, from $324 million in '97 to $379 million last year. The EBDIT margin grew from 24.9% to 28.8%.

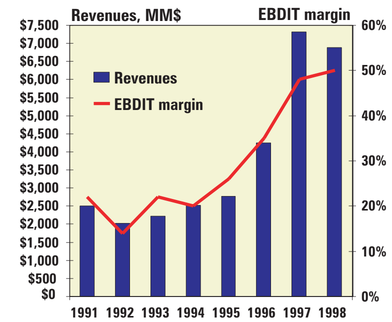
Contractors participating in the IADC/Simmons survey represent 54% of the US land rig count, as measured by **Baker Hughes**, 15% of the international land count and 85% of the offshore rig count. All financial data reported was extrapolated to approximate total industry results using the Baker Hughes rig count at 30 June, 1999.

TURNKEY: IT'S BACK!

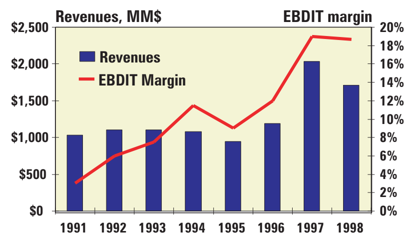
As utilization has fallen, turnkey made a striking resurgence among US and international land contractors. In the year ended 30 June, 1999, turnkey accounted for 21% of reported US land contracts, compared to just 12% in '98. US land contractors operated on dayrate contracts just for just 46% of jobs, compared to 58% in '98. Footage accounted for 31% of contracts in '99, similar to the 30% reported in '98. Two percent of jobs in '99 were conducted under integrated service packages in '99, up from zero in '98.

Among international land drillers, turnkey frequency doubled, from 10% in 1998, to 20% this year, the survey found. This sector operated on dayrate 80% of the time in '99, the survey found, compared to 86% in '98. International contractors also conducted 2% of their work

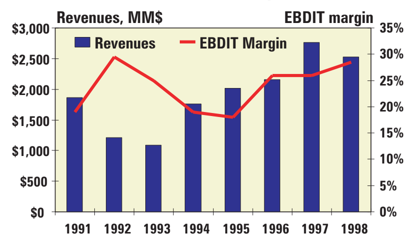
Offshore drillers historic financial performance



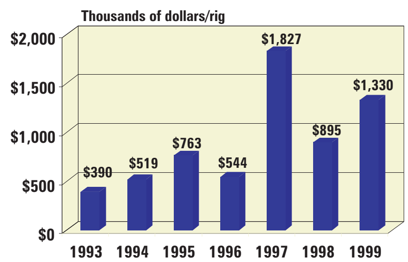
US land drillers historic financial performance



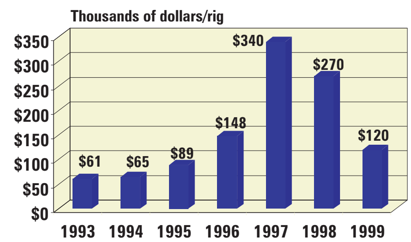
Int'l land drillers historic financial performance



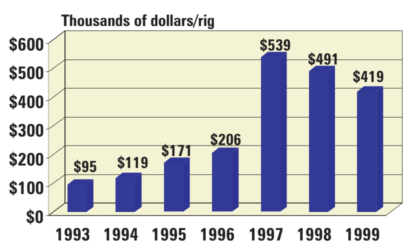
Offshore: CAPEX to maintain marketed rig



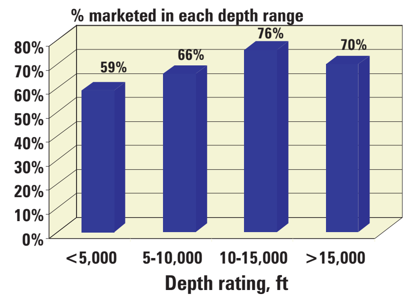
US land: CAPEX to maintain marketed rig



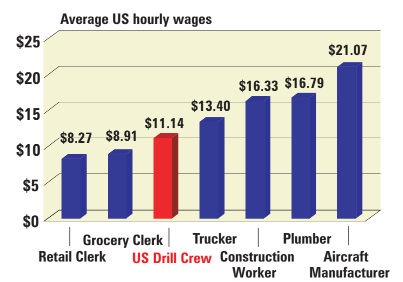
Int'l land: CAPEX to maintain marketed rig



US land: Marketed rigs by depth range



US wages on and off the rig floor



Sources: IADC/Simmons survey, US Bureau of Labor Statistics under footage arrangements in '98 and 3% as integrated packages in '98. Neither of these operating modes was represented in '99.

Offshore contractors reported just 2% of contracts as turnkey, compared to 1% in '98. 98% of offshore contracts were for dayrates, compared to 99% in 1998.

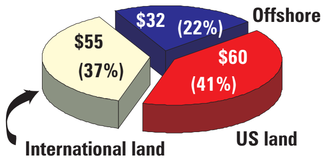
CAPEX AND DRILL PIPE

The industry spent record levels of capital in 1997 to refurbish rigs, and capital requirements to keep marketed land rigs in operating condition continued to decline in 1999. CAPEX for marketed offshore rigs rose by 49% in 1999, to $1.3 million from $895,000. However, this is still lower than 1997 levels.

CAPEX for US land rigs fell off 56% in '99, to $120,000 from $270,000. International land capex dropped 15%, to $419,000 per rig from $491,000 in '98.

International drillers see their need for drill pipe nearly doubling over the next 2 years. These contractors reported that each marketed rig would need 4,272 ft of pipe per rig, compared to 1,298 ft reported in '98. On the other hand, offshore contractors cut back their drill pipe requirements by 40%, to 3,301 per rig in '99, down sharply from the 5,465 ft estimated in '98. US land contractors expect their drill pipe needs to increase by 23%, to 4,041 ft per rig in '99. In '98, these contractors estimated their drill pipe needs at 3,276 ft per rig.

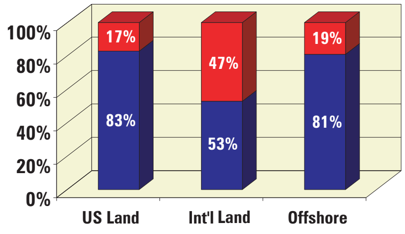
Forecast drill pipe expenditures over the next 2 years, MM$



Total: $147 million

Survey results extrapolated to approximate total industry needs based on the total rig count at 30 June, 1999, and an assumed average cost for drill pipe of $32/ft.

Drill pipe inventory: New vs used



LABOR ISSUES

"While the availability of qualified labor continues to be a major concern for US land drillers, wages for drillers in this group increased only slightly over the previous year," the report summarizes. "Drilling wages for international drillers declined by 15% in 1999, after increasing 8% in 1998. Wages for offshore drillers increased 13% over 1998 levels.

Drillers earned on average $14.19 among US land contractors, $15.13 for international land, and $22.68 with offshore contractors.

To obtain a complete copy of the '99 IADC/Simmons & Co Drillers Survey, contact **IADC Publications** at 1/281-578-7171 (fax, 1/281-578-0589; pubs@-iadc.org).