Halliburton buying Baker Hughes in $34.6B deal

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In this April 15, 2009, file photo, an unidentified worker passes a truck owned by Halliburton at a remote site for natural-gas producer Williams in Rulison, Colo. Halliburton is buying rival oilfield services company Baker Hughes in a cash-and-stock deal worth $34.6 billion, according to reports, on Monday, Nov. 17, 2014. The deal comes shortly after talks had stalled and Halliburton prepared to go hostile with its takeover bid. (AP Photo/David Zalubowski, File)

In a deal that shows just how quickly falling prices can upend the energy industry, Halliburton is buying rival oilfield services company Baker Hughes in a cash-and-stock deal worth $34.6 billion.

Global oil prices have tumbled 31 percent over the past 5 months to levels not seen in four years. That has forced the industry cut costs by delaying or scaling back drilling—which means less work for Halliburton and Baker Hughes, companies that manage oil and gas fields for energy companies.

Even when prices were high, oil and gas companies had begun to slow capital spending and new drilling as rising costs cut into profit margins. Energy companies now have even less to spend.

Halliburton Chairman and CEO Dave Lesar said Monday that the combined company will be able to reduce costs by $2 billion a year.

The oil plunge also lowered the price tag on Baker Hughes. Baker Hughes shares have slumped 32 percent, reducing the company's market capitalization by $10.4 billion between late June and Thursday, when news of a potential deal sent shares higher.

More energy deals may be in the works as companies with stronger balance sheets buy those that have seen their value drop precipitously, as well as drilling rights or other assets. In a recent conference call with investors, ExxonMobil hinted that it may be a good time to use its considerable cash position to buy undervalued assets.

Halliburton will pay $78.62 per Baker Hughes Inc. share, a 31 percent premium to its Friday closing price of $59.89. Baker Hughes shareholders will receive 1.12 Halliburton shares plus $19 in cash for each share they own.

When the transaction is complete, Baker Hughes stockholders will own approximately 36 percent of the combined company.

The deal comes just days after talks between the two had stalled. Baker Hughes said Friday that Halliburton refused to raise its first and only offer and Halliburton was preparing to attempt a hostile takeover.

The combined company would generate slightly larger revenue than Schlumberger Ltd., now the world's biggest oil services company.

"The combined entity would not have the breadth or depth of Schlumberger," wrote Judson Bailey, an analyst at Wells Fargo in a research report before the deal was agreed to. But, "we do believe (Halliburton-Baker Hughes) creates a more formidable number two competitor in several areas."

While Halliburton operates in 80 countries, industry analysts say it didn't have the global scale to compete with its larger rival, Schlumberger.

Halliburton and Baker Hughes have both benefited from a boom U.S. drilling, which they helped fuel through the development of technology used extract oil and gas from shale, deep offshore, and other tricky geologic formations.

Halliburton is a leader in hydraulic fracturing services, a method used to create cracks in oil and gas-bearing rock that allows the hydrocarbons to flow to the surface.

Baker Hughes has developed some key technology that would help Halliburton expand its offerings in U.S. shale plays. Baker Hughes created drill bits that can change direction underground, allowing drillers to stay in the most productive sections of rock. Baker Hughes also has developed sensors that allow drillers to understand what kind of rock they are encountering underground, and chemicals to help make the oil and gas flow more easily out of the well.

Halliburton will also gain access to Baker Hughes technology that can extract oil from older oil fields. These fields no longer have enough subterranean pressure to push oil to the surface, so drillers must force it out using a process known broadly as "artificial lift."

The boards of both Houston companies approved the deal unanimously and it is expected to close in the second half of 2015. Shareholders and regulators must still sign off on the tie-up.

Halliburton said that it is willing to divest businesses that generate up to $7.5 billion in revenue, if required by regulators, but the company believes it will have to sell significantly less. Halliburton has also agreed to pay a termination fee of $3.5 billion if the deal falls through.

Baker Hughes's stock rose more than 15 percent Monday before the opening bell, while shares of Halliburton fell more than 3 percent.