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### Entry



## Paradigm's Deal Indicative of Trends for...

Entry posted Yesterday by [Catherine Madden](#), tagged [IT Spending](#), [North America](#), [Oil and Gas Industry](#)

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**Title:** Paradigm's Deal Indicative of Trends for M&A and the Oil Field Service Industry in the New Year?

**Entry:** On January 4, Paradigm announced a USD \$65 million cash investment from affiliates of private equity firm Fox Paine & Company, Paradigm's majority shareholder.

Mr. Saul Fox, Paradigm Chairman and CEO of Fox Paine & Company indicated that a portion of the capital will be used to retire outstanding \$45 million in bank debt that was coming due. However, the remaining capital will be invested in the business, which supports two upcoming oil and gas industry applications that Paradigm considers to game changing technologies.

**More:** Paradigm's Fox also pointed out that this infusion of cash leaves them with a pristine balance sheet, and allows them to take advantage of the current environment for which a clean balance sheet opens up opportunities for acquisitions. For the oil and gas industry, these types of deals may not only be indicators of a true recovery in the industry, but the level of mergers and acquisitions that we can expect in 2010. While m&a activity was quieter than expected in 2009, now that the industry feels to be stabilizing, and oil prices are putting balance sheets under less pressure, there may be more action in 2010 for mergers & acquisitions, as company strategy turns to strengthen their portfolio, and taking advantage of opportunities presented by the recession.

The remaining cash to be invested in the business, which includes Paradigm's upcoming products that support seismic interpretation. Two solutions – Earth 360 and Skua will be enhance. Earth 360 (currently being commercialized and further developed at this time) offer advances in identifying new reserves, drill planning, and in enhancing extraction. Paradigm has devoted five years to developing the product, and it is patent protected. Usually, oil and gas companies had to work with seismic data files that were filled with noise, and the noise needed to be modified or eliminated to attain the seismic interpretation. Earth 360 will not require the need for "noise" removal. New advances in Skua, a reservoir modeling software, will put Paradigm squarely in competition with Petrel, oil field service company Schlumberger's reservoir modeling software.

This may be indicative of another trend in the New Year – the continued erosion of the dominance of oilfield service companies as a comprehensive solution provider to the oil and gas industry. Competition has been building for a long time from niche vendors, but in particular, in the information technology space as vendors have channeled their different areas of expertise to meet the needs of an evolving oil and gas industry, particularly in the area of "digital energy".

Recently, Paradigm won an enterprise solutions deal in upstream with Chevron that competed directly with two of the largest oilfield service firms. In the past, companies like Paradigm had software and consulting services that competed with the different digital data divisions at oilfield service companies, but many contracts were still won by oilfield service firms because they brought drilling, and engineering teams to the table. Now, the oilfield service companies are being increasingly challenged by different IT vendors putting their R&D dollars behind very specific solutions to meet some of the industry needs. IDC Energy Insights believes the largest oil and gas companies are more open to niche vendors and this will put pressure on deals and services offered by oilfield service companies.

While oil prices, digital energy strategies, and alternative energy sources dominate much of the head lines, is it possible that the analyst community has not given enough attention to the strides made by the different oil and gas IT vendors? There has been an on-going push by IT vendors to take away business from the oilfield service companies. Are we finally reaching a tipping point for this trend? Is the Paradigm deal a tipping point for the industry as it continues to find more strategic vendors to meet their needs versus a one stop shop vendor? What new challenges will this present for the industry?

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