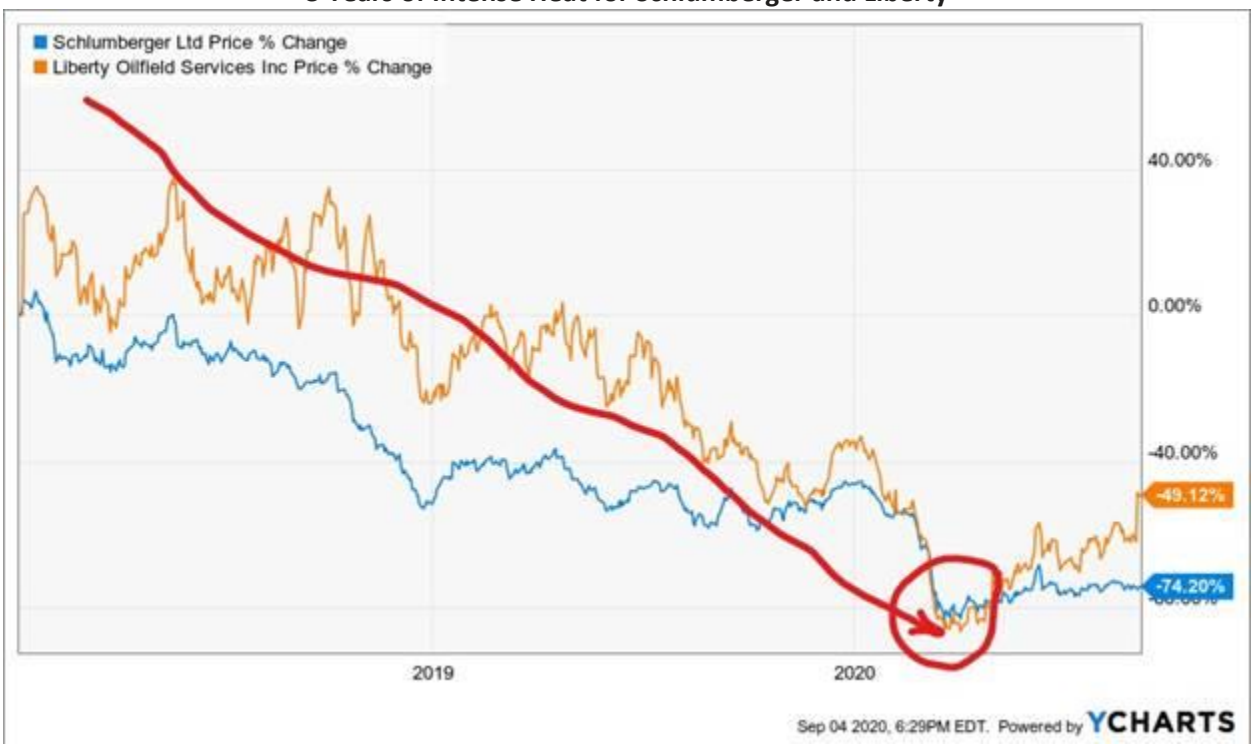
The Outlook: Sept. 4, 2020

Great leaders don't sell low. They buy low.

"Great Leaders Matter," is one of those golden rules of investing which tend to sink in more gradually upon most of us, as we accumulate the years of bruises called "experience." Leaders matter tremendously in business, politics, war and everything else; but it's not very easy to know whether we're seeing a leader who is truly great, or just one who sounds that way. It might be hardest to see it in the business world, where almost everyone speaks in jargon and/or carefully-prepared language approved by the lawyers. But as usual, great leadership is defined by actions, not words: especially actions taken when the heat is on and the chips are down, for any particular company.

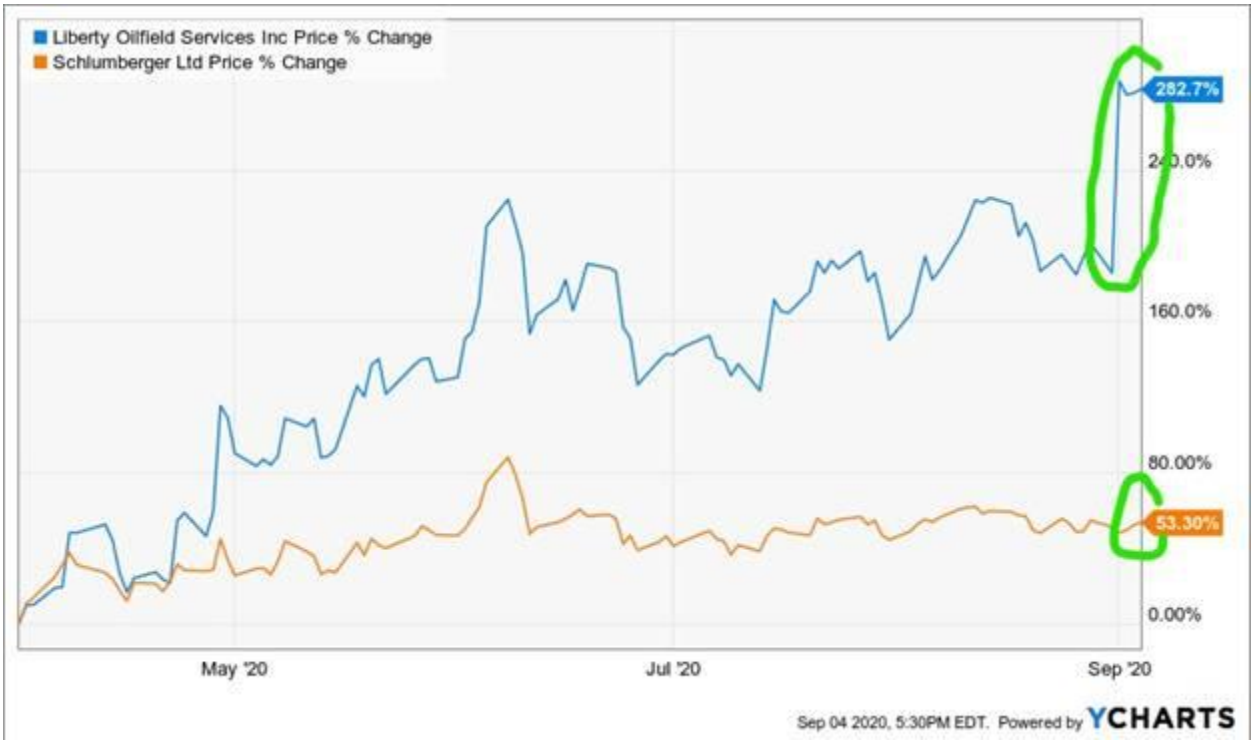
So this week's story about Schlumberger and Liberty Oilfield Services caught our eyes at Outlook . . . because for both of these companies the heat is scorching, and every chip they own is on the table, more or less. They're in the oilfield equipment business, which is at Ground Zero, pretty much, in the energy sector—since their customers (oil explorers and producers) are highly interested in *surviving* this devastating oil downcycle, and not interested at all in spending scarce cash on drilling equipment. Let's glance at a picture.

3 Years of Intense Heat for Schlumberger and Liberty



That red circle at the bottom is when the furnace heat reached "Max", as the Virus Lockdown *and* the Saudi/Russia price war just plain clobbered the whole energy industry, this year. Now let's zoom in for a closeup of the furnace, since the very worst of oil's plunge a few months ago.

Two Different CEO's. Two Different Actions.



Schlumberger (a giant company) and Liberty (a much smaller company) made a deal this week. Schlumberger gave its entire U.S. shale-fracking fleet to Liberty. As payment Schlumberger got no cash; it got a 37% stake in Liberty instead. As payment, Liberty gave no cash; it gave Schlumberger a share of future earnings, and "doubled the size of its "fracking fleet" in a shale market that has sidelined 75% of U.S. frack crews so far this year," as various news items put it.

When three-fourths of the workers in an industry are out of jobs, it's fair to say the heat is on every single company participating in that industry. More news items remarked about the "unprecedented *scrapping* of fracking equipment" which is also going on, at this moment. Last time the oil cycle plunged, from 2014 – 2016, nobody scrapped anything in the shale business. They laid off workers and idled equipment, but kept it on call, being cheerful about a turnaround. But today's scrapping is another story altogether—with that hot furnace getting used for melting down costly equipment for its scrap value. Companies which scrap their equipment aren't planning to come back; they're looking for cash to pay their bankruptcy lawyers.

"The strong get stronger, and the weak disappear" is the ruthless rule of markets and capitalism, during hard times. The rule helps the whole economy and everyone in it recover at the fastest possible speed. But when we're interested in individual companies, that general rule doesn't tell us the story we need to hear. "The strong get stronger" only if their leaders have the nerve to stand against the tide: to buy when the market and plenty of experts are hollering "Sell!"

Schlumberger got a new CEO last year. Mr. Oliver Le Peuch replaced Mr. Paal Kibsgaard, whose general approach to hard times, cycle after cycle, had indeed been to buy when the crowd hollered "Sell!" Mr. Le Peuch hastened to tell the world it was time to change Schlumberger's whole approach: becoming "asset light," which is jargon for "eliminating upside explosiveness by getting rid of services which lose money during the downcycles." Mr. Le Peuch must be very anxious indeed to carry out his "asset light" strategy,

because as far as the market is concerned, he gave Liberty something for nothing. (Green circles above.) Liberty, on the other hand, more or less said, "Yup, the shale fracking business is a nightmare right now; but if we can survive as one of "the strong" we'll make a ton of money when the cycle turns . . . as it must always do."

Mr. Le Peuch is carrying out his new strategy . . . by selling low. We might call that many things, but "nerve" doesn't sound like one of them, to Outlook. It's a pretty sharp contrast with Conoco's Ryan Lance, whose exceptionally-strong company got stronger, recently, by buying a Canadian oil-sands business at the bottom, when plenty of experts were hollering "Sell!" Schlumberger is a big, strong company and it'll come out of this furnace in one piece, trudging ahead. But it won't come out of it sprinting, like Conoco . . . because great leaders matter.

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