

04 August 2009

NATCO - Cameron

Offer Terms	
1 NTG US = 1.185 CAM US	
Target: NATCO	
Country	USA
Bloomberg	NTG US
Sector	Oil Field Mach
Share price (US\$)	39.92
Market cap (US\$m)	795
Free float (%)	~100
Acquirer: Cameron	
Country	USA
Bloomberg	CAM US
Sector	Oil Field
Share price (US\$)	34.33
Market cap (US\$m)	8113
Free float (%)	~100
NATCO price chart	
Deal Status	
Second request from DOJ received – 27 July 2009	
Next critical date	
DOJ approval - ~Q3/Q4 2009	
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Plan of Merger

- Strong strategic and financial rationale for merger.
- Risks include the DOJ requiring divestments and timing.

Summary

On July 27, 2009, **Cameron International Corp. ("Cameron")** received a second request from the US DoJ related to its proposed acquisition of **NATCO Group Inc. ("NATCO")**.

- Terms of the Offer: 1 NTG US = 1.185 CAM US

Conclusion

We believe that the acquisition of NATCO is likely to complete

- The biggest risks to the completion of the transactions are potential remedies required by the DOJ and timing.
 - Cameron hasn't ruled out closing the transaction by the end of September, however we believe that Q4 2009 closing is more likely

We believe that the focus of the DOJ's second request could be in desalting solutions.

- We understand that NATCO and Cameron have a dominant market share in installed crude oil desalters
- Although there is also overlap in several other products, we believe that the competition issues in these areas are mitigated by the presence of other large suppliers such as Aker Solutions, FMC and Siemens
- However, we would not rule out a second request in these areas

Based on precedent DOJ reviews in oilfield services, we believe that the DOJ could require a structural solution (divestment) in product lines where the merger results in a high market share

- In precedents where the number of players was reduced from 4 to 3, the DOJ required divestments
 - We understand that in some of NATCO and Cameron's overlapping products, there are only 4 major players
- The negotiating power of customers such as oil and gas companies was not sufficient to mitigate competition concerns
- Cameron is not required to accept any divestments under the DMA

We believe that Cameron is unlikely to walk, despite a potential for the DOJ to require remedies.

- We believe that the strategic rationale for the combination of NATCO and Cameron is high.
 - NATCO offers Cameron both specialised niche products with high growth potential (CO2 membrane technology) and standardized products which Cameron currently outsources
- We estimate that cost synergies are likely to exceed to value of any potential overlap in product lines
 - Cost savings are equivalent to an NPV of ~\$165m to \$230m
 - The revenue from NATCO's entire Integrated Engineered Solutions was \$216m in FY2008
 - We estimate that competition issues are likely to occur in only ~2-3 of 10 product lines in this division at most

Overview

On June 1, 2009, Cameron and NATCO entered into an agreement under which Cameron will acquire NATCO in an all-stock transaction.

- Terms of the Offer: 1 NTG US = 1.185 CAM US
- Please see Appendix 1 for terms and conditions of the merger

On July 27, 2009, Cameron received a second request from the US DoJ related to its proposed acquisition of NATCO.

- Cameron hasn't ruled out closing the transaction by the end of September 2009, however a Q4 closing is possible

NATCO

NATCO's business operates under three defined segments:

- Integrated Engineered Solutions, or IES
 - Targeting large-scale, highly-engineered, technology-driven processing applications
 - NATCO's IES segment includes
 - Custom-designed and engineered solutions for specific customer-defined applications
 - Including NATCO's advanced electrostatic technologies
 - CO₂ membrane business,
 - The assets and operating relationship related to NATCO's gas processing facilities in West Texas,
 - H₂ S removal technologies
 - Including the Shell Paques process
 - ConSepT™ brand of advanced separator equipment technology featuring internals for gas scrubbing, primary separation and produced water de-gassing
- Standard & Traditional
 - Conventional oil and gas separation and dehydration equipment sales
 - Focused on the onshore markets with smaller standardized processing equipment, including a very strong presence in the shale plays
 - Upstream and wellhead production equipment, replacement parts, refurbished equipment and aftermarket parts, sales and service.
 - *Separators*. Separators are used for the primary separation of a hydrocarbon stream into oil, water and gas. In addition to traditional separator solutions, NATCO offers customers more advanced separation technologies utilizing proprietary devices inside vessels to achieve more efficient separation designed to reduce size and weight, improve separation efficiency and eliminate processing problems.
 - *Oil, Gas and Water Conditioning Equipment*. NATCO markets heaters, which are used to reduce the viscosity of oil to improve flow rates and to prevent hydrates from forming in gas streams; oil dehydrators, which are used to remove water from oil; water treatment and conditioning equipment that removes contaminants from water extracted during oil and gas production; gas conditioning equipment, such as glycol or amine units, that remove contaminants from hydrocarbon and gas streams.
 - *Linco Measurement and Liquid Metering Systems*. These systems include large and small custody transfer measurement skids for liquid, gas and liquefied petroleum gas; on-line analyzer systems; odorant injection; meter provers; automated truck and rail loading racks; and customized systems, as well as complementary automation systems, field services, training and manufactured products.
 - NATCO's Canadian operation provides production equipment for treatment of heavy oils
- Automation & Controls
 - Engineering and Instrumentation Field Services
 - Control Systems and Panels
 - focused on subsea well automation, platform monitoring, and process sampling, handling systems

Cameron

Cameron's operations are organized into three businesses:

- Drilling & Production Systems, or DPS
 - Cameron's DPS segment is one of the world's leading providers of systems and equipment used to control pressures, direct flows of oil and gas wells and separate oil and gas from impurities
 - Its products are employed in a wide variety of operating environments including basic onshore fields, highly complex onshore and offshore environments, deepwater subsea applications and ultra-high temperature geothermal operations

- DPS's products include surface and subsea production systems, blowout preventers, drilling and production control systems, oil and gas separation equipment, gate valves, actuators, chokes, wellheads, drilling riser and aftermarket parts and services
- Valves & Measurement, or V&M
 - Cameron's V&M segment is a leading provider of valves and measurement systems primarily used to control, direct and measure the flow of oil and gas as they are moved from individual wellheads through flow lines, gathering lines and transmission systems to refineries, petrochemical plants and industrial centers for processing
 - V&M's products include gate valves, ball valves, butterfly valves, Orbit® valves, double block & bleed valves, plug valves, globe valves, check valves, actuators, chokes and aftermarket parts and services
- Compression Systems, or CS
 - Cameron's CS segment is a provider of reciprocating and integrally geared centrifugal compression equipment

Rationale for the Merger

Market Leadership

The merger will create a combined company that will be a world leader in separation and processing products and solutions

- Cameron provides flow equipment, systems and services to the oil and gas industry
 - Oil, gas and water contaminants need to be processed on producing wells, onshore and offshore
 - Separation technology is important to improve recovery rates, throughput volumes, capacity utilization, uptime, health and safety requirements, and cost
- Cameron's entry into separation technology was through the acquisition of Petreco in 2004
 - Petreco, now a division of Cameron, is focused on larger scale, engineered process driven application
- NATCO's products and technology are complementary to Cameron's Petreco business in terms of geography and capability
 - Cameron said in the M&A Conference that "what Petreco was to water separation, NATCO is to oil and gas separation. And both of us have wonderful gas separation technology"
- The acquisition provides the opportunity to apply and market NATCO's proprietary technology for deepwater applications

Cost Synergies

Cameron expects \$30 to \$40 million in synergy savings by eliminating NATCO's public company costs, increasing supply chain efficiencies, and consolidating selected offices and facilities

- NATCO's Standard & Traditional business will provide Cameron with new product offerings, including separation and dehydration equipment and replacement parts
- The acquisition allows Cameron to reduce its outsourcing by taking advantage of NATCO's manufacturing assets and capacity
 - Petreco does not do any manufacturing itself
 - NATCO is a primary manufacturer of separation and process equipment, while Cameron outsources most of this technology

Valuation

We valued NATCO on the basis of comparable oilfield services companies.

- We used Chart Industries, Dresser-Rand, Flowserve, and National Oilwell Varco as comparables
- Comparables trade at an average 2010 EV/EBITDA of 7.2x
- On this basis, we arrive at a standalone value of \$26.5 per share for NATCO
 - This compares with a pre-bid trading price of \$28.30 and 1-month VWAP to June 1, 2009 of \$26.53

Comparable Companies – Oilfield Services

	Ticker	Sh Price	Market Cap	EV/EBITDA		Growth	EBITDA Margin	
		US\$	US\$m	2009	2010	2009	2008	2009
National Oilwell Varco	NOV US	37.29	15,594	5.49	6.34	-7%	22%	21%
Flowserve	FLS US	84.42	4,721	6.60	7.13	-9%	17%	17%
Dresser-Rand	DRC US	29.77	2,454	6.59	7.51	-5%	18%	16%
Chart Industries	GTLS US	20.16	574	6.96	7.90	0%	16%	14%
Cameron	CAM US	32.4	7,657	9.07	9.26	5%	17%	16%
Average				6.41	7.22	-5%	18%	17%
NATCO	NTG US	37.51	747	10.73	10.24	-3%	10%	11%
Premium/Discount				67%	42%	-40%	-44%	-35%

Source: Bloomberg, Internal estimates

Valuing Synergies

Cameron expects to realise \$30 to \$40 million in annual cost synergies.

- Cameron said in the M&A teleconference that the majority of these savings would be realised in the first year after completion
- Capitalised and taxed, we estimate an NPV of synergies of ~\$165m
 - Assuming 35% tax rate and 1 year cost of synergies

EPS Accretion

We estimate that the merger will be 3% accretive to Cameron and 15% earnings accretive to NATCO by the end of 2010.

- We assumed
 - \$30m in annual synergies, fully realised by 2010
 - In line with statements by Cameron that “the majority of synergies will be realised in the first year”
 - 35% tax rate
 - In line with Cameron’s effective tax rate for FY2008

Estimated EPS Accretion

Earnings Accretion		
US\$m	Dec-09	Dec-10
NATCO's EPS	1.76	1.90
NATCO Shares Outstanding	20	20
NATCO Earnings	35	38
Cameron's EPS	1.87	1.78
Cameron Shares Outstanding	236	236
Cameron Earnings	442	422
NATCO-Cameron Earnings	477	459
Synergies (US\$30m by 2010)	15	30
Synergies After Tax	10	20
Merger Ratio	1.185	1.185
New Cameron Shares Issued	24	24
Total Cameron Shares	260	260
Pro-Forma eps	1.874	1.843
Cameron's EPS	1.872	1.784
Cameron Premium/(discount)	0%	3%
NATCO's equiv. EPS	1.481	1.603
NATCO Premium/(discount)	27%	15%

Source: Bloomberg, Internal estimates.

Estimated Timing

Cameron hasn't ruled out closing the transaction by the end of September 2009, however a Q4 closing is possible.

We believe that closing in Q4 2009 is the most likely scenario.

- Closing by end September 2009 would assume that Cameron is able to supply all the necessary information to the DOJ by the end of August 2009
- We believe that providing all of the information required under a second request in one month is a tight timeframe
 - There is typically significantly more information required for a second request than in the pre-merger filing
- On this basis, we would estimate closing in Q4 2009

Estimated Timing

Event	Date
Announcement of merger	1 June 2009
Filing under HSR	25 June 2009
Second Request by DOJ	27 July 2009
Shareholder EGM	~Q3/Q4 2009
Estimated DOJ approval	~Q4 2009
Offer close	Q4 2009

Source: Internal estimates

Competition Issues

Cameron said that it is providing information to the DOJ with respect to its second request on “certain product lines”.

- Cameron did not elaborate on the focus of the investigation
- We have identified certain product lines in which we believe that competition issues could exist
 - However, we have not been able to confirm with NATCO or Cameron

NATCO believes that, among its competitors, it has one of the larger installed bases of production separation equipment in the industry

- NATCO’s IES division competes directly with Cameron’s Petreco Division
- Cameron said in the M&A Conference that “what Petreco was to water separation, NATCO is to oil and gas separation. And both of us have wonderful gas separation technology”
- NATCO and Cameron list each other as primary competitors in their SEC 10-K filings
 - The only other common competitor listed is Aker Solutions (Aker Kvaerner)
 - However, we believe that other common competitors, depending on the product line, include Aker Solutions, FMC Technologies, T3 Energy, Wood Group, Weir, UOP (Honeywell), Prosep, Veolia, and Merichem

We believe that the DOJ could be focusing on desalting and dehydration products, which remove water and salt from oil and gas.

- Both NATCO and Cameron describe themselves as leaders in desalting and dehydration solutions
- Anecdotal information appears to confirm that NATCO and Cameron are dominant players in crude oil desalting
 - According to a Chemical Engineering forum, some engineers estimate the combined market share of NATCO and Cameron at ~90% for installed desalters
 - Others said, “wherever you go you’ll see either Petreco or Natco desalters”
- We understand that the major customers of desalting systems are refineries, international oil companies and waste water treatment plants

There are several other areas of overlap for Cameron and NATCO.

- Both Cameron and NATCO claim to be leaders in engineered separation solutions
 - However, we understand that Aker Solutions, FMC and Siemens all provide competitive products
 - Although we would not rule out investigation into a specific application of separators
- In hydrocyclones and desanders, both Cameron and NATCO claim to be leaders
 - However, we understand that Petreco outsources the Krebs line, which is owned by FTSchmidt
 - Although we were not able to confirm this with Cameron
 - On this basis, we believe that competitors have access to this product line, mitigating any competition concerns
- Other product lines appear to have several small, local competitors

NATCO/Cameron Product Line Overlap

	NATCO	Petresco
Separators	Traditional and engineered	Engineered
Desalters and Dehydrators	Leading Developer	"First choice for heavy crude"
Hydrocyclones	Part of original development programme	Supplies Krebs, "world's leader in hydrocyclone"
Desanders	Market leader (Mozley)	Supplies Krebs, leader in desanders
Heater	√	√
Gas floatation systems	√	√
Processing equipment	√	√
Electrochlorinators	√	√
Gas processing equipment	√	√

Source: SEC filings, company websites

Sales and Service

NATCO manages an extensive branch network system, primarily in North American markets, providing sales and service support for its standard and traditional product offerings.

- In addition, it has engineering and project management execution centers and sales offices in the US, UK, Canada, Japan, Malaysia and other international locations

DPS primarily markets its products directly to end-users through a worldwide network of sales and marketing employees, supported by agents in some international locations.

- DPS's primary customers include oil and gas majors, national oil companies, independent producers, engineering and construction companies, drilling contractors, rental companies and geothermal energy producers

Mitigating Factors

We believe that there are mitigating factors likely to be considered by the DOJ.

- The customers of NATCO and Cameron's products are primarily National Oil Companies and international oil majors
- We believe that these customers have sufficient negotiating power to alleviate the ability for NATCO and Cameron to raise prices to an unfair level
 - However, in precedent DOJ reviews, the relative bargaining power of oilfield services customers was not considered sufficient to alleviate competition concerns
 - See precedents below

Precedents

Ingersoll Rand – Flowserve 2001

There are few precedents of mergers within the oil services industry which have received a second request from the DOJ.

- We believe that the acquisition of Ingersoll Rand by Flowserve is a useful precedent
 - However, we believe that the acquisition of Ingersoll Rand by Flowserve is a useful precedent in studying the determination of the relevant market and the rationale for the investigation given by the DOJ

The Complaint alleged that Flowserve's proposed acquisition of IDP would reduce the already small number of firms that compete on bids to sell certain costly, specialized and highly engineered pumps used in oil refineries and electrical generating facilities in the United States

- Flowserve and IDP each manufacture and sell for use in the United States two categories of specialized, highly engineered pumps known as "API 610 pumps" and "power plant pumps."
 - API 610 pumps are used in the oil and gas industry, including in oil refineries, and power plant pumps are used in electrical generating facilities or "power plants."
 - Highly engineered pumps for installation in oil refineries and power generation facilities in the US
- Customers installing these pumps in the United States prefer domestic pump suppliers because reputation is important, as is the ability to provide quick and reliable servicing with parts availability and to avoid shipping costs and delays
- Based on capabilities and bidding history, there are only four credible competitors, including Flowserve and IDP, that might bid on a large majority of bids for API 610 pumps for oil refinery projects in the United States
- United States oil refineries and power generators have benefitted from this competition through lower prices and greater choice
- Flowserve and IDP were required to divest 8 total pump lines to a viable competitor

Halliburton – Dresser 2000

The United States sought to block the proposed merger of Halliburton Company ("Halliburton") and Dresser Industries, Inc. ("Dresser"), because it would combine two of only four companies that compete to provide logging-while-drilling ("LWD") tools and services for oil and natural gas drilling projects

- Oil and gas companies rely on oilfield service companies for products and services that enable them to drill for oil and natural gas efficiently
- if a new entrant could develop the LWD tools, it would have to engage in extensive testing and establish its reputation with customers for high quality products and for reliability in the operation of the tools
- Successful innovation of LWD tools is unlikely by any firm that lacks the scope and scale of operations possessed by the four current market participants
- Competition among Halliburton, Dresser, and the other two firms has given customers lower prices and better services for LWD services and has provided customers with new and improved LWD tools
- The proposed merger would have removed one of only a few significant suppliers from an already concentrated market.
- The increase in concentration will make an increase in the price of offshore LWD services in the United States through anticompetitive coordination by the few remaining firms easier and more likely.
- Defendants were ordered to divest the LWD Business as an ongoing business
- Divestiture to Baker Hughes or Schlumberger was not permitted

Read Through to NATCO - Cameron

These 2 precedents demonstrate

- The DOJ is concerned about increasing prices and decreased innovation to refiners and oil and gas companies
- Barriers to entry are high for specialised products, as breadth of product line, reputation and geographic presence are important to customers
- Reduction from 4 dominant players to 3 dominant players was deemed to be anti-competitive
- Structural solutions are likely to be required if market concentration is excessive

Based on these precedents, we believe that there is a risk that divestments may be required.

- We understand that in crude oil desalter equipment, NATCO and Cameron are the 2 major players, with Aker and some smaller players also participating in the market
- On this basis, the DOJ could require divestment of one of the companies desalter operations
- We believe that NATCO and Cameron's competitors in other lines including Veolia, Siemens, Aker, GE and FMC could be interested in acquiring this business

In other areas of overlap, we understand that there are greater than 4 competitors, which could mitigate the need for potential divestments.

- However, market share information is difficult to obtain
- On this basis, we would not rule out additional divestments if Cameron and NATCO have dominant market shares in any of these areas

Potential Size of Divestment

We believe that the potential size of the divestment is likely to be relatively small as compared with the potential benefits of the merger.

- We believe that any divestments are likely to occur in either Cameron's Petreco Division or NATCO's Integrated Engineered Solutions division

- Segment profit for NATCO's IES for FY2008 was \$32m
- We estimate a similar profit for level for Petreco assuming ~5% growth since acquisition of Petreco and operating margins in line with NATCO IES
 - In 2004, the year in which Cameron acquired Petreco, total revenue of Petreco was \$177m
- We believe that potential divestments are likely to involve, at most 2-3 product lines out of a total of ~10 in the divisions
 - We believe that areas of overlap in which there are no other strong competitors are likely to be limited
- Cameron is estimating annual synergies worth \$30-\$40m, which capitalised and taxed equate to between \$165m and \$230m

Cameron's Willingness to Agree to Potential Remedies Required by DOJ

However, there is a risk.

- Neither Cameron nor NATCO is required under the merger agreement to divest, hold separate or license any of their respective businesses, product lines or assets, take or agree to take any other action or agree to any limitation
- On this basis, if the DOJ requires divestments which would materially affect the benefits anticipated by the merger, Cameron can opt not to submit any remedies to the DOJ
- Although, as we have said, we regard the scenario of Cameron walking as unlikely to occur

Appendix 1: Terms of the Merger

On June 1, 2009, Cameron and NATCO entered into an Agreement and Plan of Merger which provides that Cameron will acquire all of the issued and outstanding shares of common stock of NATCO

- Terms of the Offer: 1 NTG US = 1.185 CAM US

Structure

As a result of the merger, a direct, wholly owned subsidiary of Cameron will be merged with and into NATCO, and NATCO will continue as the surviving company. Following completion of the merger NATCO will be a subsidiary of Cameron.

- Cameron anticipates that NATCO stockholders will own approximately 10% of the outstanding shares of Cameron common stock immediately following the merger

Dividends

Since December 31, 2006, neither Cameron nor NATCO has paid cash dividends on their respective common shares

Non-Solicitation

The merger agreement contains restrictions on the ability of NATCO and its representatives to solicit or engage in discussions or negotiations with a third party with respect to a proposal to acquire a significant interest in NATCO's equity or assets.

Termination Fee

NATCO is required to pay a termination fee of \$27.3 million to Cameron under certain circumstances

Conditions to the Merger

NATCO Shareholder Approval

The merger agreement must be adopted by NATCO stockholders holding at least a majority of the shares of NATCO common stock outstanding

- Less than 6.0% of the outstanding common stock of NATCO is currently held by its directors and executive officers and their affiliates

Regulatory Approvals

The merger is subject to the following regulatory approvals

- US HSR
 - On June 25, 2009, Cameron and NATCO filed antitrust documents relating to the merger with the Federal Trade Commission, or FTC, and the Antitrust Division of the U.S. Department of Justice, or DOJ.
 - The US DOJ issued a second request on July 27, 2009
- No action by any governmental regulatory body that is "continuing and prevents consummation of the merger or imposes any material restrictions on Cameron or NATCO with respect to the merger"
 - Cameron and NATCO do not specify which "various government authorities" approvals are required to complete the transaction
- SEC approval of the registration statement

Other Conditions

Other conditions to the merger

- Accuracy of representations and warranties
- Performance of obligations under the merger
- Absence of any **Material Adverse Effect**
 - For purposes of the merger agreement, a "material adverse effect" on a person means any change or condition that, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on
 - (1) the assets, properties, business or results of operations or condition (financial or otherwise) of such person and its subsidiaries, taken as a whole or
 - (2) the ability of such person to timely perform its obligations under the merger agreement or the ability of such person to timely consummate the merger.
 - However, a "material adverse effect" does not include changes or conditions relating to:
 - The oilfield services industry in general unless they have a disproportionate effect on the person relative to other participants in the oilfield services industry;
 - the economy, or financial securities or credit markets, in the U.S. or elsewhere unless they have a disproportionate effect on the person relative to other participants in the oilfield services industry;
 - any change in such person's stock price or trading volume, in and of itself;
 - any change after the date of the merger agreement in applicable law or generally accepted accounting principles;
 - the negotiation or performance of the merger agreement or announcement or pendency of the merger agreement or the merger itself;
 - acts of war, terrorism or insurrection;
 - any legal proceedings initiated by any current or former stockholder of such person and related to the merger agreement or the related transactions;
 - natural disasters, such as earthquakes, hurricanes or tornados unless they have a disproportionate effect on the person relative to other participants in the oilfield services industry;
 - any failure in and of itself to meet any internal or published projections, forecasts, or other predictions;
 - any change or announcement of a potential change in the credit rating of a person or its subsidiaries; and
 - in the case of NATCO, any action taken by NATCO or its subsidiaries that are requested or consented to by Cameron or Acquisition Sub.
- Confirmation that the merger qualifies as a tax-free reorganization

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