Transcript

EXPRO Group Holdings N.V. Second Quarter Earnings 2022 Thursday, 04 August 2022

Operator: Hello, and welcome to today's Expro Q2 2022 Earnings Presentation. My name is Elliott, and I'll be coordinating your call today. I would now like to hand over to Karen David-Green. The floor is yours. Please go ahead.

Karen David-Green: Welcome everyone to Expro's second quarter 2022 conference call.

I'm joined today by Mike Jardon, CEO and Quinn Fanning, CFO. First, Mike and Quinn will share their prepared remarks and then we will open it up for questions.

We have an accompanying presentation on our second quarter results that is posted on the Expro website (expro.com) under the Investor section. In addition, the second quarter financials are downloadable on the Expro website under the Investor section.

I'd like to remind everyone that some of today's comments may refer to or contain forward-looking statements. Such remarks are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such statements speak only as of today's date and the Company assumes no responsibility to update any forward-looking statements as of any future date. The Company has included in its SEC filings cautionary language identifying important factors that could cause actual results to be materially different from those set forth in any forward-looking statements. A more complete discussion of these risks is included in the Company's SEC filings, which can be accessed on the SEC's website or on our website at expro.com.

Please note that any non-GAAP financial measures discussed during this call are defined and reconciled to the most directly comparable GAAP financial measure in our second quarter 2022 earnings release which can be found on our website.

With that, I'd like to turn the call over to Mike.

Mike Jardon: Thank you, Karen. Good morning and good afternoon everyone.

I am pleased to share with you that Expro delivered robust operational performance and financial results that exceeded the guidance we provided for the just-completed second quarter. We are experiencing increased customer activity levels across all segments of our business, bolstered by a backdrop of strengthening industry fundamentals. We believe this positive momentum will not only continue but will also accelerate going into 2023 and beyond.

Expro is poised to capitalize on an expected increase in customer spending and activity. Today, Expro has the scope and financial profile required to compete and win in what we believe is the best outlook for energy services in at least a decade.

Our results in the second quarter and our market outlook underscore the benefits of Expro's balanced portfolio of services and solutions with leading capabilities and a culture built around safety, service quality, organizational efficiency, and risk management. In addition, we believe our through-cycle resilience is a significant advantage and competitive differentiator for Expro.

Our current portfolio of services and solutions is paired with a global operating footprint with established positions in key growth markets, and the combination provides Expro with good leverage to improving industry fundamentals and, in particular, to the rebound that is beginning to take place in the international and offshore markets.

We have never been better positioned to capture cyclical recovery upside.

We also continue to have a best-in-class innovation platform and technology portfolio that enables us to support our customers' efficiency- and emissions-related goals, grow market share, and capitalize on longer-term industry trends.

Finally, our strong balance sheet and merger related synergies provide us with significant financial, operational and strategic flexibility that will allow us to accelerate growth and create long-term stakeholder value.

On today's call, I will touch on 3 main topics:

First, I'll walk you through our second quarter's performance. Second, I'll give an update on our integration process. Finally, I'll provide some perspective on trends we are seeing in the broader industry environment.

For the second quarter, we delivered revenue of $314 million and Adjusted EBITDA of $51 million.

Second quarter revenue increased 12% sequentially and, on a pro forma basis, 10% year-over-year. Higher revenue during the quarter was driven by increased activity across the North and Latin America, Europe and Sub-Saharan Africa, and Asia Pacific regions.

Adjusted EBITDA increased 39% sequentially and, on a pro forma basis, 33% year-over-year. Adjusted EBITDA was primarily driven by a more favorable activity mix during the second quarter and faster than anticipated realization of merger-related synergies.

Well Construction revenue was up 9% quarter-over-quarter and well management, which includes our Well Flow Management, Subsea Well Access and Well Intervention and Integrity businesses, was up 13% quarter-over-quarter.

Second quarter results exceeded prior guidance primarily as a result of increased Well Flow Management and Well Construction revenue within North and Latin America. Our team continues to both capitalize on improving industry fundamentals and demonstrate the value of Expro's broad suite of cost-effective, innovative solutions to win new business and expand relationships with existing customers.

During the quarter, we continued to secure contracts because of our exceptional service quality and technical delivery. We also continued the introduction of new technologies, with both CoilHose™ and Octopoda™ achieving market adoption at pace.

The current commodity price environment puts a premium on maximizing production from existing well stock, so there is a strong customer interest in well intervention and integrity solutions such as CoilHose™ and Octopoda™.

The significant under-investment in energy supply over the last decade, coupled with growing demand, is also resulting in FID approvals. Importantly for our company, nearly 60% of the new customer commitments are expected to be offshore.

We achieved contract wins and extensions totaling approximately $300 million, which demonstrates the breadth and depth of our customer relationships and the traction that our solutions are gaining in the market.

On a regional basis:

In North and Latin America,

Our Well Construction team continued to demonstrate their position as the premier provider of casing and tubular running services with the award of contracts and successful operations delivered across the region. The team successfully completed a first Casing Running Tool project in Brazil and carried out eight simultaneous TRS deep water completions in the Gulf of Mexico, where activity continues to pick up.

We deployed our industry-leading 22" BRUTE packers in Mexico for the first time and have seen growing demand for this well integrity technology as operators across the region seek to protect their assets during storm season. This technology allows for quick and reliable well suspension when operators need it most.

We won a Fluids contract for a major operator in Brazil, and in Alaska, our team was awarded and performed a Well Test for a strategically important new customer, further growing our presence in this region.

Expro Guyana achieved Contractor of the Month from an international operator, demonstrating Expro's continual focus on delivering best-in-class safety, quality, and customer service.

In Europe and Sub-Saharan Africa,

We saw good progress in securing new business in Q2, including the retention of the largest well flow management contract in the Norwegian Continental Shelf, for an initial four-year term, highlighting the strength and depth of our relationship with this international operator. A significant portion of the contract is directly linked to production optimization and enhancement, as well as a demonstrable commitment to a low carbon plan.

The breadth of our portfolio, including market-leading technologies acquired in our July 2019 acquisition of Quality Intervention, directly assisted us in expanding a core well intervention contract with a major international operator in the UK.

In addition, our service quality and portfolio of capabilities helped us secure an expanded contract to meet client needs for a nine-well Plug and Abandonment campaign in the UK Continental Shelf, where we added Well Test and Well Intervention to an existing large bore subsea services contract.

As I noted earlier, CoilHose™ and Octopoda™ are gaining traction in the market in support of clients' intervention and integrity needs. Octopoda™ is a truly unique service offering which, for the first time in our industry, allows direct access to well annuli, In which we can ensure well integrity and production assurance. Octopoda™ was recently deployed in the Congo – the first deployment of this technology in Sub-Saharan Africa – and it continues to generate customer interest with its unique ability to investigate and remediate sustained casing pressure and other well annulus problems.

Additionally, our CoilHose™ Light Well Circulation System is an innovative development providing a lower cost, more efficient alternative to traditional coiled tubing systems. This broadening of our portfolio and our depth of experience – combined with the ability to quickly mobilize assets and personnel to meet client requirements – helped us secure a UK contract for Well Testing and Exploration & Appraisal services in support of a new offshore drilling campaign.

Expro's superior quality and service performance and strong client partnerships led to the securing of multiple contract wins, including for our Subsea team in the Ivory Coast, and in Turkey, where we won Well Testing and CoilHose™ intervention work for a nine-well project on an offshore gas storage project.

In the second quarter, we also introduced Drill Stem Testing into Angola, further broadening our comprehensive portfolio offering in this country, and positioning us to take advantage of the increasing activity in deepwater operations in Angola. We have successfully started operations in Cabinda for a major operator, which will be our first deployment of hammer services as part of an Angolan well construction service package.

In May, we were also recognized as the Safest Service Provider in Mozambique. Based on our recent performance, we are in discussion with the client regarding further expansion of our services, including the introduction of new technologies.

In Chad, our work with a client is core to ensuring their operations are conducted in an environmentally responsible way. Our expertise and technologies are focused on having no environmental impact, with testing and analysis carried out to ensure the appropriate purity of the regional freshwater system, underlining our status as a leading provider of onsite chemistry services with a strong environmental focus.

In Norway, we completed our first operational campaign with our i-TONG™ well construction technology, which provides a step change in safety in well construction operations. Operational performance exceeded client expectations, delivering significant rig efficiency improvement and cost savings to the customer overall.

In the Middle East and North Africa,

Our Well Construction team has expanded into new territory to secure their first TRS contract in Algeria which is planned to commence later this month. This opportunity reflects one of the many revenue synergies created by our October merger. We leveraged legacy Expro relationships in Well Flow Management to secure this new TRS award.

In addition, the regional team was awarded two Burner boom contracts with Middle East drilling contractors, reflecting our market-leading capabilities and reputation in the market. In Egypt, our service offering and ability to deliver contributed to Expro being awarded significant Well Test contracts.

In the Asia Pacific region,

Our Well Construction team in Brunei secured a major five-year contract for TRS. Our outstanding track record and reliable performance in HSE and Quality were strong criteria for the contract award.

In Thailand, the team secured additional TRS work covering 200 wells and in Malaysia and in offshore China we were awarded three-year TRS contract extensions spanning development and exploration wells.

Our Subsea team's technical capability played a key part in securing a contract with a major international operator in Malaysia for the provision of our new vessel-deployed, light well intervention package, with the team also securing significant additional work in Australia.

Like CoilHose™ and Octopoda™, Expro's LWI capabilities are the result of investments we have made over the last several years which should allow the company to offer differentiated production optimization solutions and thereby grow our top line faster than the overall market while also improving profitability.

Expro is strategically committed to continuing to invest in transforming our business portfolio and reducing greenhouse gas emissions. In April, we published our inaugural environmental, social and governance review, with a stated aim of achieving Net Zero by 2050 with a 50% reduction in carbon intensity by 2030.

As the energy industry embraces transition and the need to make real and visible headway towards a lower carbon world, we appreciate the key enablers to change will be those who can truly differentiate themselves as solutions providers.

As recognized global well experts and a trusted partner, we believe Expro is well positioned to play an important role in enabling our clients to achieve their carbon reduction goals in support of the energy transition. Expro remains committed to allocating roughly 50% of our research and development budget to carbon reduction initiatives. In doing so, we are developing and advancing solutions that will play a critical role in enabling our customers to achieve their own emission reduction goals, while also allowing Expro to achieve its goals.

Expro's well expertise and range of well intervention, well integrity and well flow measurement technologies and skills help operators cost-effectively develop oil and gas resources while minimizing both emissions and the required operating footprint. As our industry seeks to address tomorrow's challenges, we believe many of these technologies and skills are transferable.

As a good example of adapting technologies to achieve more sustainable energy solutions, Expro has supported geothermal well service projects since 1986. Most notably, in Q2 we were awarded our first integrated services geothermal contract to support a high-profile geothermal power plant in Germany.

The second topic I'd like to cover is to provide an update on our integration efforts. During the quarter we continued to make progress in bringing the legacy businesses together to capture the full potential of our combined platform. I am pleased to report that nine months into our integration, we have identified and actioned more than 100% of the $55M in annualized cost savings we established as our target within the first 12 months following the closing of the merger. This comes a full quarter earlier than we had initially anticipated.

As outlined previously, we are targeting cost and revenue synergies between $80-100 million dollars within 24 to 36 months post-merger. We remain confident that we will achieve $70M in projected cost synergies during this time frame, if not earlier.

Cost savings are primarily driven by the rationalization of support costs, consolidation of facilities and supply chain savings. In the second quarter, we consolidated additional facilities, including locations in Baku Azerbaijan, St John's Canada, Labuan Malaysia, Mumbai India, Corpus Christi and Midland, Texas.

While revenue synergies are more difficult to demonstrate, my sense is that our previous estimate of an incremental $10 to 30 million in EBITDA from revenue synergies through our expanded customer relationships and operating footprints, increased time on rig, and greater exposure to the full life of field will likely prove to be conservative.

I would like to sincerely thank the entire Expro team for their hard work and numerous contributions towards helping us realize our integration goals, ahead of schedule. Without a doubt, we have a winning team that has proven its ability to deliver on our commitments.

Before I turn the call over to Quinn, I want to provide some perspective on trends we are observing in the market.

The positive signs of a recovery we saw in Q1 continue to build, under-pinned by a favorable supply demand dynamic. As I noted earlier, this is largely a result of limited upstream investment in recent years and the need for additional capacity to meet projected demand growth. With the more recent heightened focus on energy security, diversification of supply and the need to replace at least a portion of Russian oil and gas supply is expected to only magnify what was already set up to be a favorable multi-year macro backdrop for OFS activity.

Longer-term, we believe the services sector will need to play an important role in facilitating the energy transition.

So, despite ongoing volatility in commodity prices, the fundamental backdrop for the energy services sector is quite constructive.

In particular, after a strong recovery in the US onshore market, we are seeing increasing demand for our services and solutions, with international and offshore activity expected to accelerate through the second half of 2022 and into 2023 as operators look to increase production from existing assets and develop new fields.

Notwithstanding near-term concerns of an economic slowdown, there seems to be a consensus that energy demand will trend back toward, if not through, 100 million barrels of oil equivalent per day in 2023. We expect that increasing demand for energy services and capacity constraints in key service offerings, including high-end well construction equipment and subsea test trees, should provide scope for improvements in net pricing, beginning in late 2022 or early 2023.

In Expro's view, expected growth will be broad-based geographically, span all phases of oil and gas development and include all operating environments.

Geographically, we see strong potential in North and Latin America, the Middle East and North Africa, Sub-Saharan Africa, as well as Asia.

And while many of our customers continue to focus on brownfield enhancement programs to maximize previous investments, we are also starting to see growth in exploration and development activity, driven primarily by North and South America, with further activity expected in Norway, India and Sub-Saharan Africa.

The brownfield focus will support steady growth in our well intervention and integrity business as well as elements of our Well Flow M<anagement business, collectively which represent about 35% of our business. The remaining circa 65% of our business is generally levered to drilling, well construction and well completions activity, which we believe is poised for strong growth across several geographies and within which we generally capture very good fall-through on incremental revenue. Overall, the outlook for the remainder of 2022 and into 2023 remains positive, with sustained increases in E&P expenditures.

After a rather dramatic recovery in the North American onshore market, customer dialogue and tendering activity indicates to us that the outlook for offshore activity is strengthening. This should support sustained growth for Expro given our leading and differentiated portfolio capabilities in subsea well access services, complex well construction services and production optimization. This is particularly important as approximately 70% of our revenue today is generated from offshore activity.

Before I close, I am pleased to share that during the quarter our board approved a new stock repurchase program, under which the company is authorized to acquire up to $50 million of its outstanding common stock through November of 2023 timeframe. We view the repurchase of our shares as an attractive and prudent use of our capital that is in the best interests of our shareholders. With a debt-free balance sheet, ample available liquidity, and strong signals of an industry recovery, buybacks allow us to opportunistically increase shareholder value, while maintaining sufficient cash resources to fund our business needs. In the second quarter, we repurchased $13 million in Expro stock representing approximately 1% of our shares outstanding.

From an operational standpoint, Expro is well positioned in the markets that we expect will continue to benefit from strengthening industry fundamentals. In particular, Expro has significant leverage to strengthening international and offshore markets where experience, expertise and service quality can be -- and in Expro's case are -- positive points of differentiation.

Execution is a traditional strength of Expro's, and one we plan to continue to deliver on both for our customers and our shareholders.

With that I will hand over to Quinn to discuss our financial results.

Quinn Fanning: Thank you, Mike. A good morning and good afternoon to everyone on the call.

As Mike noted, I will cover the results for the quarter ended June 30, 2022 and will primarily highlight our sequential performance compared to the quarter ended March 31, 2022.

To recap, we reported revenue of ~$314 million for the June quarter, which was up sequentially $34 million, or ~12% relative to Q1 2022.

The sequential increase in revenue was driven by higher activity across the North and Latin America, Europe and Sub-Saharan Africa and Asia Pacific segments, partially offset by lower activities in the Middle East and North Africa segment.

Adjusted EBITDA for Q2 2022 was ~$51 million, representing a sequential increase of ~$14 million, or 39%, relative to Q1 2022. Adjusted EBITDA margin in Q2 was 16% as compared to 13% in Q1.

The sequential increase in Revenue and Adjusted EBITDA was driven by strong results for Well Flow Management and Well Construction in North and Latin America.

As highlighted in our press release, adjusted net income for the second quarter of 2022 was $0.02 per diluted share, compared to adjusted net income for the first quarter of 2022 of $0.01 per diluted share. As noted in our press release, Adjusted net income for Q2 includes foreign exchange losses of $0.05 per diluted share as compared to foreign exchange gains of $0.03 per diluted share in Q1.

Q2 contribution margin of 38% was up approximately 1 percentage point sequentially from Q1 2022, reflecting improved fall-through on higher revenue, as a result of a more favorable activity mix.

Q2 support costs, at $70 million, totaled 22% of group revenue and were down ~$1 million sequentially, or ~3 ppts, relative to Q1 2022 and were down $8 million, or ~9 ppts, relative to the combined support costs of Expro and Frank's in Q4 2020, which was the last full quarter prior to the announcement of the merger. This represents approximately $30 million of annualized support cost savings achieved through the second quarter of 2022. In the near term, we expect to continue to manage total support costs to 22% of group revenue. With modest net pricing gains and/or incremental cost synergies, we believe we can manage overall support costs to about 20% of revenue.

Total liquidity at quarter-end was approximately $309 million. Cash and cash equivalents, including restricted cash, was $179 million as of June 30th. Total liquidity also includes $130 million that is available to the Company for drawdowns as loans under our $200 million revolving credit facility. The balance of the facility is available for bonds and guaranties.

Expro had no interest-bearing debt at the end of Q2 2022 and the Company has no interest-bearing debt today.

During the quarter ended June 30, 2022, cash provided by operating activities was $2 million, as compared to cash used in operating activities of $14 million in Q1. Q2 Adjusted Operating Cash Flow, reflecting cash used in operations before cash paid for (i) interest, (ii) severance and other expenses and (iii) merger and integration expenses, was positive $10 million, compared to negative $1 million in Q1.

Capital expenditures totaled $21 million in the second quarter compared to $11 million during the first quarter. For the second half of 2022, the Company is planning for capital expenditures in the range of approximately $60 million to $70 million, implying total capex for 2022 of $90 million to $100 million, or approximately 8% of expected revenue.

We also continue to expect to be free cash flow generative for 2022 but as noted on our last earnings conference call, we expect that Adjusted cash flow from operations and free cash flow will be heavily weighted to the second half of the year. Consistent with comments from several of our public peers, Expro's investment in working capital was up materially in the first half of 2022, with higher receivables reflecting higher activity levels, and high inventory reflecting both an expectation of continued momentum in the business and the procurement of long lead items, including critical spares. Consistent with historic patterns, we expect a reversal of the H1 build in working capital and a significant improvement in cash generation in H2 '22.

As Mike previously discussed, under our recently announced stock repurchase program, during the second quarter we opportunistically repurchased 1.1 million shares, or approximately 1% of our shares outstanding, for a total cost of $13 million. This program is a reflection of the long-term confidence we have in our business, which we believe is not reflected in our current market valuation. In due course, we will more formally articulate Expro's capital allocation priorities. For now, we expect that the small buyback that we completed in Q2 -- and for that matter any additional buybacks -- will be funded by free cash flow.

Now moving into the details by reporting segment:

North and Latin America or NLA Revenue for the second quarter of 2022 was $130 million, a sequential increase of $26 million Q/Q. The increase was primarily due to higher revenues across all our product lines during the current quarter, with a significant increase in Well Flow Management revenue in Mexico and higher Well Construction revenue in the U.S. and Guyana, driven by higher customer activity levels during the current quarter.

NLA Segment EBITDA for the three months ending June 30, 2022 was $39 million, or ~30% of segment revenue, and was up sequentially by $17 million Q/Q. For Q1 2022, NLA Segment EBITDA was 21% of segment revenue. The increase was attributable to higher activity and a more favorable product mix during the three months ended June 30, 2022.

For the Europe and Sub-Saharan Africa or ESSA segment, revenue in Q2 was $90 million, which was up $8 million, or ~10%, Q/Q. The sequential increase was primarily driven by higher Well Flow management Revenue in Angola and Congo and higher Well Construction revenue in the United Kingdom due to increased customer activities. The increase in revenues was partially offset by lower Well Intervention and Integrity revenue in Norway and Western Europe.

ESSA Segment EBITDA for the second quarter was $15 million, or ~16% of segment revenue, a sequential increase of $3 million Q/Q. The increase was primarily attributable to higher activity levels and a more favorable activity mix during the June quarter.

For the Middle East and North Africa or MENA segment, revenue in the second quarter was $45 million, a decrease of $6 million, oF~11% Q/Q. The sequential decrease was driven by lower equipment sales related to Well Flow Management in Saudi Arabia and the United Arab Emirates, partially offset by increased Well Flow Management activities in Algeria.

MENA Segment EBITDA for the June quarter was $14 million, a sequential decrease of $1 million Q/Q. Segment EBITDA margin was consistent with the prior quarter at 30%. The reduction in Segment EBITDA was primarily due to lower activity.

For Asia Pacific or APAC, revenue for the second quarter was $48 million, which was an increase of $4 million, or ~11%, sequentially. The increase in revenue was primarily due to higher Subsea Well Access revenue in Australia and Brunei and higher Well Construction revenue in Japan. The increase in revenue was partially offset by lower Well Flow Management revenue in Thailand and India.

APAC Segment EBITDA for the June quarter was $4 million, or ~9% of segment revenue, a decrease of $1 million, or ~3 ppts Q/Q. The reduction in Segment EBITDA despite the increase in revenues was primarily due to additional mobilization and commissioning costs on a large subsea project that were incurred during the quarter, as well as lower activity on higher margin contracts. Additional commissioning costs on this subsea project, which total approximately $3 million, and associated project start-up delays are, in part, COVID-related and should be non-recurring.

As a result, we expect that revenue and Segment EBITDA margin in APAC will trend positively in H2 2022 and into 2023.

As Mike mentioned, our integration plans are progressing well, and we are already starting to realize the significant synergy benefits we anticipated when we first announced our business combination.

As Mike mentioned, through the second quarter of 2022, we have identified and actioned approximately 100% of our synergies capture plan, both in regard to headcount and annualized value in dollars. We also completed the consolidation of several international facilities and made good progress on our on-going migration to a single ERP platform, which should allow us both to streamline a number of key business processes and begin to action additional cost synergies.

As to our near-term outlook, we expect that Q3 2022 revenue will be up sequentially by +/-8%, reflecting continued business momentum in NLA, the continuation of a seasonal rebound in ESSA and the start-up of new contracts in MENA and APAC

Adjusted EBITDA margin in Q3 should be in the area of 15-17% of consolidated revenue.

Over the next couple of quarters, we continue to expect that our revenue run-rate will approximate that of the pre-pandemic 2019 revenues of legacy Expro and legacy Frank's on a combined basis, and we therefore reaffirm our guidance that Q4 revenue should fall within a range of $325 million to $350 million.

With the benefit of fall-through on incremental revenue and synergies, we expect that Adjusted EBITDA margins will be in the area of 20% of revenue as we exit the year.

Provided our H1 build in working capital reverses in H2 2022 as is currently anticipated, absent additional M&A and/or share repurchases, we expect that our year end cash position will be at or above where we started the year, with cash generated from operating activities funding integration costs, capex, the Q1 acquisition of SolaSense and the share buyback that was completed in Q2. By preserving and protecting our currently strong financial profile and by maintaining a disciplined approach to investment, we believe Expro will have sufficient financial flexibility to fund growth and increase returns to shareholders.

As always, our objective is to enhance long-term value for our shareholders, employees, partners and the communities in which we operate.

With that, I will turn the call back over to Mike for a few closing comments.

Mike Jardon: Thank you, Quinn. We delivered exceptional operational performance that drove significant growth on a top and bottom line and is beginning to demonstrate the true capability of the company. Our broad portfolio of services and solutions continued to create opportunities in the growth markets that will be key to Expro's long-term success. Our innovative platform, next generation technology and solutions, and ESG applications are differentiators that continue to rapidly advance our reputation and outstanding track record with customers as a leading well expert. We continue to secure contracts and demonstrate the value of the breadth of our portfolio and the depth our expertise can bring to clients across the life of their wells.

Looking forward, the positive signs of a recovery we saw in the first quarter continue to gain momentum. We are seeing increased demand for our services and solutions as the recovery that began within the U.S. onshore market has begun to gain traction in the offshore and international markets. We remain confident that the pipeline of projects we are seeing will support strong, multi-year growth and firmly believe Expro is uniquely positioned to capitalize on this favorable outlook.

We are incredibly excited about the strength and positioning of Expro. Our results could only have been achieved by the hard work and focus of our team. It's through their dedication that we continue to accelerate growth, improve profitability, and enhance value for shareholders, employees, customers, and partners. Thank you again. Operator, let's go ahead and open it up for a few questions.

Operator: Thank you. Our first question today comes from James West from Evercore ISI, your line is open. Please go ahead.

James West: Hey, good morning guys.

Mike Jardon: Good morning, James. Mike, one of my- so, curious, it seems like we've gone through a bit of a acceleration in demand here over the last quarter, maybe two quarter and a sense of urgency has arisen within your customer base, I guess. So, first, is that—am I getting that correct in that this urgency is kind of kicking in? And then second, are you seeing more of that urgency or increased demand on producing assets or new assets, so interventions versus new well construction type work?

Mike Jardon: Yes. James, I can tell you, one of the good things is we really—now that we're kind of more exited the pandemic, I've been able to spend an awful lot more time with customers not only in the U.S. but in particular Middle East and Asia. What I would say, the conversations, particularly around new FIDs, new projects, new drilling and completion type activity, that's much more constructive, much more dialog and discussion around that. I would say that the—we've had continuing strong commentary and strong engagement with customers around producing assets. So I think that's ramping up, but at the same rate as the positivity from the discussions around new well drilling activity and new well completion activity.

James West: Okay, fair enough. And then on the pricing side, are you at this point back to or getting close to back to pre-pandemic type of levels? Admittedly, the offshore wasn't as robust even then, but it's growing and robustness now. But are you achieving the returns on capital investments that you would like to see when you're allocating capital and when you're pricing new contracts?

Mike Jardon: So, I would—and I tried to allude to in my earlier comments, we're starting to see some spotty opportunities to push price and we're pushing price at every opportunity we can. It's more selective right now. I think we'll continue to gain more momentum around our ability to continue to push price as we exit '22 and going '23. But we are starting to have—it hasn't quite turned the corner, so to speak, like North America, U.S. land has, where there's lots pricing leverage and pricing traction, but we are starting to see in some particular markets and in some particular service lines positive opportunities to continue to get net pricing and I think we're all keen to make sure that we start to implement that absolutely as soon as we can.

Quinn Fanning: James, I think the only thing I would add to Mike's comments...

James West: Okay, got it. Thanks Mike.

Quinn Fanning: I'd just point you back to Mike's prepared remarks. There are capacity constraints within certain solutions or product groups, complex well construction or deepwater well construction activity for TRS, as well as the subsea (inaudible) is obviously a market that's supported by just a handful of service providers, ourselves being one of the two larger ones in both product lines. But obviously, everything's about supply and demand and there's less in the way of supply for those two equipment classes.

The other thing I would highlight is with the pickup in drilling and completion type activity, I mean, it's not actually how we present our supplemental disclosures, but what we consider to be our drilling, completions levered businesses, they were up 20% quarter-over-quarter revenue-wise and the fall through margins on incremental activity is north of 50%. That's really where you get the operating leverage.

James West: Okay, got it, Quinn. That's very—yes, no doubt. Thanks, Quinn, that's very helpful.

Quinn Fanning: Thank you, James.

Operator: Our next question comes from David Anderson from Barclays. Your line is open. Please go ahead.

David Anderson: Hey, good morning Mike. I was just curious, which of your product lines show the greatest margin improvement this quarter. I think you maybe just touched on it just now here, but curious if there's been much of an improvement in well construction in particular? The rental business in TRS with higher offshore exposure, just curious how we should be thinking about the margin expansion upside in that particular business and how that should contribute overall.

Mike Jardon: Sure. We alluded to some of this in the prepared remarks. The kind of additional commentary I would add to it, David, is we've really seen some increased mix, better mix activity in North and Latin America in particular. So yes, particularly around TRS, around well construction, we've been able to start to see some margin expansion there. And then I think, overall, what you're really seeing is starting to gain more traction with the cost synergies we're taking out of the organization overall. In essence, we're a full quarter ahead of that and I think one of the real positives of us being able to get the synergies implemented is—if we're being completely honest, anytime you're doing a consolidation, you're doing a merger, there is a little too much internal focus that goes on. It's a necessary part of the evil as doing a merger. As we can get more than behind us and will largely, because we're a quarter ahead of it, that means going in and existing '22 and going into '23 we're really going to be much more externally focused and that's one of the reasons why I've been challenging the organization so hard to make sure we get these things done sooner rather than later.

But overall, we're seeing margin expansion across Well Construction and even in some of the Well Flow Management and subsea access. We're getting some traction in all three of those right now.

David Anderson: If I just stay on that Well Construction side, we're hearing a lot talk about rigs coming back to work both on the jackups (phon) and the deepwater side. Are you getting enquiries for those? I'm just kind of current—it's obviously only a couple of players in that TRS business, so I'm just kind of curious, are you starting to kind of roll-out some additional equipment that's been sidelined for a while? Can you help us—give us a handle on kind of what that looks like in terms of your—I guess your capacity and the type of equipment out there and how that's moved up?

Mike Jardon: Yes. No, absolutely. We are seeing the same phenomenon that the drillers are seeing today with increased utilization, those kind of things, because, keep in mind, a driving rig and TRS type of equipment goes kind of hand in hand. So yes, we're able to start to put some of that equipment back to work. I referred to a casing running tool, CRT opportunity we executed on in Brazil. That purely is taking assets and resources that were under utilized previously and putting those to work.

On the flip side of that, yes, we're seeing good traction with Well Construction. The other thing we're seeing even more than I had anticipated was it really becomes an early warning radar system for us, so to speak, because typically with customers they select a rig first, almost in conjunction with that or certainly right behind is selecting the TRS provider, and then you start moving into well completions and well testing, those type of activities.

So we're getting earlier customer engagement and I think that we'll continue to see that allow us to more pull through revenue opportunities and those type of things.

David Anderson: That's interesting. So if I just—on that subject on that Well Flow Management, it was up 14% sequentially this quarter. I'm pretty sure it was anyways. Pretty strong for a business that I thought we would consider later cycle, more production focused. So I guess the question was I think you had said it in your remarks that MENA was a little bit weaker than expected. So where—with the results is it more mix related this quarter? Was it regional? Was something else kind of picking up and offsetting what you said at MENA? Because I would have thought MENA would actual have been a driver of that growth and it sounds like it wasn't.

Mike Jardon: Sure. MENA for us was really—we had kind of a quarter-on-quarter product sales that didn't reoccur in the second quarter. So that was what gave us a little bit of softness there. Our strong activity in the Middle East, Algeria, in particular, was actually up quarter-on-quarter. What is important to recognize with Well Flow Management is, in particular the well testing, we can utilize those assets in a well completions cleanup mode, or you can use those assets in a production optimization mode and it allows us to kind of flex that equipment to deploy it into one or the other. Part of the growth we saw was starting to see some better activity from a new well completions, new well flow back, those type of things within the quarter.

David Anderson: Okay. Thank you very much.

Mike Jardon: Absolutely. Thanks for your questions.

Operator: This concludes our Q&A and today's conference call. An audio replay of the webcast will be available in the Investors section of the Company's website in approximately three hours after the conclusion of the call, and remain available for a period of 12 months.

We'd like to thank you for your participation. You may now disconnect your lines.