Transcript

EXPRO Group Holdings N.V. Third Quarter Earnings 2022 Thursday, 03 November 2022

Karen David-Green: Welcome everyone to Expro's third 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 third quarter results that is posted on the Expro website (expro.com) under the Investor section. In addition, supplemental financial information for the third quarter and prior periods is 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 may 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 third 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. Expro delivered solid third quarter results on the back of favorable industry trends that should position us for continued growth and margin expansion.

While there are concerns regarding global economic growth and inflation, energy market fundamentals remain strong and, in fact, continue to trend upward. The extended period of under investment in global upstream production, historically low spare global capacity and inventories, an increase in energy demand to pre-COVID levels, and a heightened OECD focus on energy security and diversification of supply support a multi-year energy recovery and, in turn, sets the stage for long-term growth for the energy services industry.

We are confident that our business model, broad geographic footprint and leading portfolio of solutions will allow us to continue to capture considerable growth opportunities from these trends. Approximately 70% of our business mix is tied to drilling and completions activities and roughly 70% is tied to offshore markets, both areas of customer spending that are in the early stages of a cyclical recovery. Similarly, with roughly 80% of our revenue generated in international markets, we are well positioned to capitalize on the acceleration of activity in key growth markets and support our customers in the jurisdictions where they need us most.

These factors, together with a shift in business mix to higher-margin activities, the continued commercialization of recently deployed technologies and investments, improved operating leverage from merger-related cost synergies, and scope for net pricing gains, should allow us to drive above-market top-line growth, margin expansion and strong cash flow generation in 2023 and beyond. Finally, our debt-free balance sheet and available liquidity should provide us with the flexibility to pursue smart, synergies-focused M&A and adoption of a shareholder-friendly capital allocation framework.

On today's call, I will touch on 3 main topics: First, I'll walk you through our third 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 third quarter, we delivered revenue of $334 million and Adjusted EBITDA of $48 million. Excluding $17 million of commissioning costs on a subsea project, which I will come back to in a moment, Adjusted EBITDA in Q3 was $65 million, or 19% of revenue, primarily driven by a more favorable activity mix and faster-than-anticipated realization of merger-related synergies.

Third quarter revenue increased 7% sequentially and, on a pro forma basis, 7% year-over-year.

Well Construction revenue was up 6% quarter-over-quarter and, on a pro forma basis, 13% year-over-year, supported by accelerating new well activity.

We have one of the most advanced Well Construction portfolios in the industry. We specialize in complex and technically demanding wells, with solutions that transform how these wells are built in order to enhance efficiency and production across their lifetime.

Our best-in-class technology and capabilities are garnering recognition from both customers and industry organizations. In fact, our Well Construction team won the Best Health, Safety, Environment/Sustainable Development Offshore award for our CENTRI-FI™ technology at the recent 2022 World Oil Awards. The CENTRI-FI™ Consolidated Control Console is one of a suite of digitally intelligent Well Construction solutions to address today's and tomorrow's energy challenges. This award reflects our commitment to developing innovative technologies that provide truly differentiated value to customers.

Revenue generated by our Well Management product line group, which includes our Well Flow Management, Subsea Well Access and Well Intervention and Integrity businesses, was up 7% quarter-over-quarter and, on a pro forma basis, 4% year-over-year. Note, however, that Q3 2021 Well Management revenue included approximately $20 million in equipment sales. Adjusting for this, underlying service revenue was up approximately 15% year-over-year.

The significant under-investment in energy supply over the last decade, coupled with growing demand, is resulting in new FID approvals. Importantly for our company, nearly 60% of new customer commitments are expected to be offshore. This sanctioning of offshore projects is expected to drive approximately $400 billion of capital spending over the next three years. I will remind you that 70% of our revenue today is generated in the offshore market.

On a regional basis…

In North and Latin America, or NLA:

We secured Subsea Well Access work for a major client in the Gulf of Mexico, consisting of three confirmed wells and two potential wells, with all operations scheduled to start in early 2024. We have worked with this international operator since 2006, and this award confirms our place in the next phase of this client's development subsea wells.

Our Well Construction team continues to demonstrate their position as the premium provider of tubular running services and products, with contract wins and operational success across the region. The team's outstanding focus on service quality played a major part in these wins.

We were also awarded a five-year Tubular Running Services (TRS) contract in Brazil. Expro's unique technical capabilities helped us secure a contract with a major international operator for Cementing Technologies and Downhole Service Tools in Canada.

In Argentina, demand for our Wireline Intervention services is very high, and we were awarded cased hole services work with clients who highlighted service quality as a key factor in their decision making. For one customer, we secured a two-year contract for Cased Hole operations in South Argentina and received excellent feedback on our performance. This expands our relationship with this client and builds on our recent success in Plug & Perforation activities performed on this particular project.

During the quarter, I was able to travel to Argentina and we also celebrated the opening of a new base in Neuquén, Argentina, to better position our business in the country. The larger facility replaces our existing base and demonstrates our commitment to the region and to the service lines we operate in Argentina. Expro Argentina has key Wireline and Testing operations and offers leading services and technologies across Well Intervention and Integrity.

In Europe and Sub-Saharan Africa, or ESSA:

We continue to make excellent progress in developing new business and delivering great performance in ESSA.

We were awarded a Tubing Conveyed Perforation, or TCP, contract supporting the energy transition across three geothermal projects in The Netherlands, which marks the first such project in the Netherlands history. Additionally, we retained our Well Test and Wireline Intervention contract with our long-standing customer in the country.

In Angola, we won a three-year TRS contract with a major client and in Azerbaijan, we were pleased to secure another extension to an existing TRS contract with a major international client.

We also successfully completed our first Well Construction Hammer operation in Angola and are in discussions with the customer to expand our scope of work. In the Turkish sector of the Black Sea, we recently commenced a Well Flow Management and Intervention campaign on multiple wells.

In the UK North Sea, we provided the cementing technologies required to carry out an extended-reach deployment for a casing section. This was safely achieved with zero non-productive time, with the client praising our offshore support as 'second to none for this unique operation'.

In Gabon, we conducted an extensive slickline perforation campaign for a key client. The utilization of slickline reduced cost and enabled the use of lightweight units to ultimately increase production on the client's offshore asset.

Finally, in Production Solutions, a major International Oil Company (IOC) recently awarded Expro a contract to construct, and operate and maintain a fast-track, onshore pre-treatment (OPT) facility in West Africa in order to increase its liquified natural gas (LNG) production from the area. Upon completion, this facility will facilitate incremental gas production and feedstock for low-carbon electricity generation targeting the continental Europe market, a market that is increasingly focused on security of supply and energy security issues. The contract has potential to generate in excess of $300 million in revenue over a contract term of up to 10 years.

In the Middle East and North Africa, or MENA:

The MENA region maintained their excellent safety performance this quarter. We were awarded a significant contract for mercury removal in North Africa and continue to expand our work with our customers in Egypt, including winning a two-year surface well testing contract and a further extension of an existing Well Test contract.

Additionally, this quarter marked a number of operational firsts for our business in the region, including:

The first Data to Desk operation in Egypt for a key customer, where we enabled them to access and view production parameters remotely, the first Well Construction Hammer job delivered for an international operator in Qatar and the first field deployment of Expro combined Sonar and Multi-Trace technology in Saudi to create a tailored solution that meets the customer's wet gas multiphase measurement requirements.

We also delivered a bespoke Well Testing approach to evaluate the effectiveness of a minimally intrusive wet gas flow meter solution, combining SONAR and Multi-Trace. The solution will ultimately improve the testing frequency, reduce any potential hydrocarbon release, reduce equipment and personnel footprint, and reduce the test duration for each well, compared to conventional well testing. We look forward to progressing this innovative solution which will, ultimately, avoid well shutdown and minimize production deferral, thereby optimizing operating costs.

Finally, in Asia Pacific, or APAC:

Expro successfully completed an 18-well Plug and Abandonment operation in Australia, building on our established Subsea Well Access experience and track record, which enabled the customer to solve unique abandonment challenges. This project demonstrates our strong position to deliver value and extraordinary performance in the integrated decommissioning and Plug and Abandonment market.

We were also awarded a subsea contract for the sale of two sets of Subsea Large Bore Controls in China. We further strengthened our relationship with this long-standing client, winning a contract covering the provision of technology for a minimum of 12 new subsea wells.

Our Well Construction team in Brunei have achieved a remarkable safety milestone of 4,015 days – or 11 years – without a recordable incident, which reflects Expro's commitment to delivering safe operations, and I congratulate the team for this fantastic achievement.

Finally, as was noted in our press release, Expro's third quarter results in Asia Pacific were impacted by $17 million of start-up and commissioning costs related to a vessel-deployed, wire-through-water, light well intervention, or what we call LWI, solution that Expro is introducing to the market.

In sum, the introduction of new technology during a global pandemic has come with a number of unique challenges, with COVID and weather-related delays, supply chain issues, and several technical challenges collectively resulting in significant delays in the start-up of operations and, as a result, significant delays to revenue generation. While we do expect some continued impact in the fourth quarter, albeit at reduced levels, we do not expect the start-up costs to continue into 2023.

The best available information has us finalizing systems testing with the customer in the fourth quarter and the start-up of operations late in the fourth quarter or early in Q1 2023. As an order of magnitude, once it's operational, we expect our new LWI system to generate $50-$75 million of annual revenue with additional pull-thorough opportunities.

Turning to New Energy initiatives:

When we completed our merger with Frank's last October, we set our sights on forging ahead with our ESG journey and continuing to improve business practices in order to transform our business portfolio and reduce greenhouse gas emissions. In April, we published our inaugural environmental, social and governance, or ESG, review, with a stated aim of achieving Net Zero by 2050 with a 50% reduction in carbon intensity by 2030.

We have worked to embrace ESG in every facet of our business and create a better future for our team members, customers, communities, and ultimately the planet. We have received recognition for our efforts, with MSCI (one of the most important organizations that evaluates companies' ESG programs) recently upgrading Expro's sustainability rating by two full levels to an A rating. This is testament to the impressive work of our ESG Leadership Council, and all those who support them, and I want to thank our team for all of their efforts.

As recognized global well experts and a trusted partner, we are committed to playing our role to support the energy transition. Technology is a critical component of advancing sustainable energy solutions, and our team has made significant progress introducing value-added services and innovative solutions to meet our customers' challenges. Expro remains committed to allocating roughly 50% of our research and development budget to carbon reduction initiatives to help our customers advance their energy transition and position Expro to achieve our own goals.

Digitalization will help drive our industry's journey to net zero, and I'm pleased to highlight the progress we continue to make across our organization. One example of our digital strategy in action is our iTONG system, which advances fully autonomous tubular running services. iTONG is designed to enhance operations and reduce personnel on the rig floor, resulting in improved safety and efficiency, with lower operational costs. The system has successfully

completed field trials for one of our key customers in the North Sea, taking part in 22 jobs, with more than 1,600 connections being made.

We also continue to expand our geothermal business, including the noteworthy win in The Netherlands I discussed earlier as well as a geothermal contract in Indonesia for a 12-well, 24-month contract for pipe recovery in a very difficult environment. This was a significant capture for the Indonesia team, which was based on our excellent service quality. These wins, combined with the strengthening of our Portfolio Advancement leadership team, position us well to capitalize on significant new geothermal market opportunities. They also demonstrate that our decades of experience and unique blend of transferable technologies and expertise, can support the wells of today, and the new energy wells of tomorrow.

This quarter also marks the one-year anniversary of the close of the Expro and Frank's business combination. I am very pleased with the considerable progress our team has made to come together as one global organization and to capture efficiencies across our business. During this first year we have exceeded our first-year targeted costs savings of $55M by 13%. Importantly, our combined support costs have declined from 31% of revenue in Q4 2020 before we announced the transaction to 20% in third quarter of 2022.

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 $70 million in projected cost synergies during this time frame, if not earlier.

In the third quarter, we consolidated additional facilities, including locations in Perth, Australia, Kuala Lumpur, Malaysia and Den Helder in the Netherlands.

We are also making strong progress to work with our customers to identify operational efficiencies possible from our new global organizational structure and drive revenue growth opportunities. As I have said before, while revenue synergies are more difficult to quantify, we expect that our previous estimate of an incremental $10 to $30 million in EBITDA from revenue synergies through our expanded customer relationships and operating footprint, increased time on rig, and greater exposure to the full life of field will likely prove to be very conservative.

Another important milestone achieved during the quarter was the full implementation and conversion to a single ERP, which we expect will allow us to streamline a number of key processes across our organization and help us drive even more efficiencies as we enter 2023.

I would like to sincerely thank the entire Expro team and service partners 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.

Today, the energy market recovery is continuing following growth over the previous two quarters, with upstream investments forecast to grow again through Q4 2022 and throughout 2023. Increasing global economic activity, together with the likely loss of Russian barrels and an increased focus on energy security and diversification of supply, particularly in Europe, further supports the favorable multi-year macro backdrop for energy services activity.

While commodity pricing will likely remain volatile in the near-term as a result of potential supply disruptions and a possible slowdown in global economic growth, oil and gas demand is expected to exceed pre-pandemic levels of 101 million barrels of oil equivalent per day in 2023, underpinning the continued positive outlook for the services sector.

With good momentum building in longer-cycle projects, we expect international and offshore activity to accelerate through the remainder of 2022 and into next year as international customers, in general, and the NOCs, in particular, ramp up their activity. As I noted earlier, international activity drives about 80% of the Expro business, so as momentum develops in markets outside of the US, Expro should be a primary beneficiary.

Supporting our outlook, we are seeing an increase in tendering and license round activity for new projects globally, and we continue to see growth in exploration and development activity, driven primarily by South America and Asia, with further activity also expected in Norway and select markets within the Sub-Saharan Africa region. Increased drilling and completions activity should support sustained global growth across our portfolio of capabilities in complex Well Construction services, surface well testing and Subsea Well Access, which collectively represent about 70% of our business.

We are also experiencing increased demand for services and solutions that support increased production in Africa, which is traditionally a core strength of Expro.

As noted earlier, the significant under-investment in energy supply over the last decade, coupled with growing demand, is resulting in increased FID approvals. Importantly for our company, nearly 60% of the new customer commitments are expected to be offshore. Sanctioning of offshore projects is expected to drive approximately $400 billion of capital spending over the next several years. Again, 70% of our revenue today is generated in the offshore market.

Further, through customer engagement and enquiries, we are seeing increasing interest in our geothermal capabilities, as highlighted earlier in Europe and Asia, as the market diversifies in support of energy transition.

Geographically, Expro sees strong multi-year growth potential in North and Latin America, the Middle East and North Africa, Sub-Saharan Africa, as well as Asia.

The acceleration of global activity, coupled with capacity constraints in certain asset classes, including high-end Well Construction equipment and subsea test trees, should also result in net pricing gains in 2023 and beyond.

Overall, the outlook for the remainder of 2022 and into 2023 remains positive, with sustained increases in E&P expenditures.

Expro is operating from a position of strength as we are experiencing increased customer activity levels across all segments and regions of our business, bolstered by a backdrop of strengthening industry fundamentals. We believe this positive momentum will accelerate going into 2023 and beyond.

For Expro, sustained growth in shareholder value begins with strong, defensible market positions, a robust mix of growth opportunities, delivering value with integrity, and a clear strategic vision.

Central to our ability to continue to continue to grow is a well-balanced and scalable global operating footprint. We have a strong presence with a full range of capabilities in both mature and emerging markets around the world. We are also leveraging our global operating footprint to do more with our current support structure.

Additionally, as customers increase focus on lowering their carbon footprint, we expect more of our business to come from technology-enabled, high-margin services that support sustainability.

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. Given the timing of close of the Expro-Frank's transaction last year, I will primarily highlight our sequential performance compared to the quarter ended June 30, 2022 as I review our third quarter performance.

To recap, we reported revenue of ~$334 million for the September quarter, which was up sequentially $20 million, or ~7%, relative to the second quarter of 2022. As Mike noted, the sequential increase in revenue was driven by higher activity across all our segments, most notably in ESSA which contributed about half of the sequential increase in revenue.

Adjusted EBITDA for the third quarter of 2022 was ~$48 million, representing a sequential decrease of ~$3 million. Adjusted EBITDA margin in the third quarter was 14% as compared to 16% in the second quarter. Excluding the $17 million impact of the commissioning costs on the subsea project that was covered in Mike remarks, Adjusted EBITDA would have been $65 million and Adjusted EBITDA Margin would have approximately 19%, reflecting fall-through on incremental revenue, a more favorable business mix and lower support costs as a result of merger-related synergies.

Making comparable adjustments to Q2 results, second quarter Adjusted EBITDA and Adjusted EBITDA Margin would have been $55 million and 18%, respectively.

Adjusted net loss for the third quarter of 2022 was $0.07 per diluted share, compared to adjusted net income for the second quarter of 2022 of $0.02 per diluted share. Note that results for the third quarter of 2022 and second quarter of 2022 include foreign exchange losses of $0.07 and $0.05 per diluted share, respectively.

Third quarter contribution margin of 33% was down approximately 5 percentage points sequentially, primarily reflecting the impact of higher commissioning costs associated with the previously referenced subsea project. Excluding such commissioning costs, contribution margin would have been 38%.

Third quarter support costs, at $66 million, totaled 20% of group revenue and were down ~$4 million sequentially, or ~2 percentage points, relative to the second quarter of 2022 and were down $12 million, or ~11 percentage points, 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.

Total liquidity at quarter-end was approximately $287 million. Cash and cash equivalents, including restricted cash, was $157 million as of September 30th. Total liquidity also includes $130 million that is available to the Company for drawdowns as loans under our $218 million revolving credit facility. The balance of the facility is available for bonds and guaranties, approximately half of which is currently being utilized.

Expro had no interest-bearing debt at quarter end. The Company has no interest-bearing debt today. Our current cash position is in the $175 million area.

During the quarter ended September 30, 2022, cash used in operating activities was $1 million, as compared to cash provided by operating activities of $2 million in the second quarter. Q3 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 $8 million, compared to $10 million in the second quarter. As highlighted in our press release, increases in net working capital in the just-completed quarter and year to date, were $29 million and $99 million, respectively, primarily reflecting a growth in customer receivables which we expect to reverse beginning in Q4 into 2023.

Capital expenditures totaled $19 million in the third quarter compared to $21 million during the second quarter. For the fourth quarter of 2022, the Company is planning for capital expenditures in the range of approximately $30 million to $40 million, implying total capex for 2022 of $81 million to $91 million, or approximately 7% to 7 ½% of expected revenue.

Now moving into the details by reporting segment:

NLA Revenue for the third quarter was $135 million, a sequential increase of $5 million. The increase was primarily due to higher Well Construction product sales in the U.S., higher Well Construction services revenue in the U.S. and Mexico, and higher Well Flow Management services revenue in Canada, partially offset by lower Well Flow Management revenue in the U.S. and lower Well Construction revenue in Guyana.

NLA Segment EBITDA was $40 million and was up sequentially by $1 million quarter over quarter. Segment EBITDA margin was consistent with the strong prior quarter at ~30%. The increase was attributable to higher activity and a more favorable business mix during the three months ended September 30, 2022.

For the ESSA segment, revenue in the third quarter was $100 million, which was up $10 million, or ~11%, quarter over quarter. The sequential increase was primarily driven by higher Subsea Well Access revenue in Azerbaijan and Angola and higher Well Flow Management revenue in the United Kingdom and Nigeria due to increased customer activities. The increase in revenues was partially offset by lower Subsea Well Access revenue in the United Kingdom.

ESSA Segment EBITDA for the third quarter was $18 million, or ~18% of segment revenue, a sequential increase of $3 million. The increase was primarily attributable to higher activity levels and a more favorable activity mix during the September quarter.

For the MENA segment, revenue in the third quarter was $50 million, an increase of $5 million, or ~11% quarter over quarter. The sequential increase was driven by higher Well Flow Management revenue in Saudi Arabia and Algeria.

MENA Segment EBITDA was $15 million or ~29% of segment revenue, a sequential increase of $1 million quarter over quarter. The increase in Segment EBITDA was primarily due to higher activity.

For APAC, revenue for the third quarter was $50 million, which was an increase of $2 million, or ~4%, sequentially. The increase in revenue was primarily due to higher Subsea Well Access revenue in Australia, China and Indonesia and higher Well Construction revenue in Japan. The increase in revenue was partially offset by lower equipment sales related to Well Flow Management services in Malaysia.

APAC Segment EBITDA was negative $9 million, or negative ~17% of segment revenue, compared to $4 million, or 9% of segment revenue, in the prior quarter. As previously noted, the reduction in Segment EBITDA was primarily due to the $17 million start-up and commissioning costs on a large subsea project that were incurred during the quarter. Excluding $17 million and $4 million, respectively, of the above-mentioned start-up and commissioning costs during the three months ended September 30, 2022, and June 30, 2022, Segment EBITDA was about $8 million for both the third quarter and the second quarter, and Segment EBITDA margin was 16% and 17%, respectively.

We expect that revenue and Segment EBITDA margin in APAC will trend positively in Q4 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.

Through the third quarter of 2022, we have identified and actioned more than 110% of our year one synergies capture plan, both in regard to headcount and annualized value in dollars. We are well on our way to achieving our goal of $70 million in cost savings within 24 to 36 months of close.

As to our near-term outlook, we expect that revenue in the fourth quarter will be flat to up modestly compared to the third quarter, reflecting continued business momentum in NLA and the start-up of new contracts in ESSA and MENA.

Consistent with prior guidance, 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. We may see a seasonal drop in revenue in Q1 as Northern Hemisphere activity falls off, but 2023 overall looks to be a good year in terms of activity, revenue growth and year-over-year margin expansion

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 YTD build in working capital begins to reverse in Q4 as is currently anticipated, our year end cash position should be in the $200 million area, 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. In closing I would like to leave you with a few highlights on why we view Expro as a differentiated and compelling investment opportunity.

First, market sector fundamentals are very favorable and support a multi-year upturn. Expro has a diverse set of global capabilities in Well Construction and Well Management that will allow us to capitalize on a growth cycle that we expect to be multi-year in duration, global in scope, span all phases of oil and gas development, and include all operating environments.

Second, we have a leading and differentiated portfolio and are well positioned in markets that benefit from strong industry fundamentals. We believe we are in the early innings of an international and offshore recovery and we expect good growth and strong incremental margins as drilling and completions activity continues to ramp up and merger synergies translate into improved operating leverage. Net pricing gains should provide us scope for additional margin expansion. In terms of contribution margin, which is essentially cash basis gross margin, fall-through on incremental drilling and completions revenue should be greater than +50%.

Third, our debt-free balance sheet and free cash flow upside provides us with significant financial, operational, and strategic flexibility that will allow us to fund investments to deliver above-market growth and execute a disciplined and shareholder friendly capital allocation framework, both of which will be designed to create long-term value for Expro's stakeholders.

We are incredibly excited about the platform that we have built and the opportunities ahead for our business. Thank you very much for your participation on today's call.

Operator, let's go ahead and open it up for questions.