Quinn Fanning: Welcome to Expro's second quarter 2023 conference call.

I am joined today by Expro's, CEO, Mike Jardon. First Mike and I will share our prepared remarks. 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 Investors section.

In addition, supplemental financial information for the second quarter and prior periods is downloadable on the Expro website, likewise under the Investors 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 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, sec.gov, or on our website, again 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 2023 earnings release, which can also be found on our website.

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

Mike Jardon: Good morning and good afternoon, everyone. As Quinn noted, we posted slides with Q2 highlights to the Expro website. Quinn and I will refer to several of these slides during our prepared remarks today.

As highlighted in our press release, the second quarter of 2023 revenue was $397 million, which is up by

$58 million or approximately 17% relative to the first quarter of 2023, and up 27% relative to the second quarter of 2022.

Sequential and year-over-year revenue growth compares favorably the guidance provided on our last earnings conference call, which in summary was that we expected about 10% revenue growth quarter-over-quarter, and about 20% revenue growth year-over-year.

As highlighted on Slide 4, the second quarter results reflect a continued ramp up in activity across geographies, areas of capabilities and product lines.

Well construction revenue was up 12% sequentially and 18% year-over-year, while well management revenue was up 20% sequentially and up 32% year-over-year.

Adjusted EBITDA for Q2 2023 was approximately $72 million, representing a sequential increase of approximately $30 million or 71% relative to first quarter, primarily reflecting higher revenue, a more favorable activity mix and lower support costs.

Adjusted EBITDA margin in the second quarter of 2023 was 18%, as compared to 12% in the first quarter of 2023. At 18%, reported adjusted EBITDA margin was at the high end of our guidance range. Quinn will provide some additional details, but I'll note that underlying profitability is trending positively.

Reported contribution margin of 34% includes approximately $6 million of LWI related, non-reimbursable, non-productive time, or what we call NPT, which negatively impacted Q2 contribution margin by

approximately 1.5 percentage points. In addition, we are taking a relatively conservative approach to the recognition of margin associated with the onshore pretreatment facility that we are constructing for Eni in Congo, which also had dilutive impact on overall contribution margin of approximately 1.5 percentage points.

We are successfully working through discrete operating issues with our LWI system, and excess cost should be transitory in nature.

The Eni Congo project has gone well to date, and we expect the facility to become operational sometime in the first half of 2024.

We started 2023 with a healthy order book, and I'm pleased that we have continued to build on this momentum.

In the second quarter, we delivered a strong quarter, capturing an additional $300 million of new work orders by capitalizing on a strong resurgence of activity. Contract wins reflect an improving market, the depth of our technical expertise and Expro's best in class service delivery. The breadth of our portfolio is differentiating Expro for our competitors, and I remain optimistic on the outlook for 2023.

For reference, we have summarized the backlog trend over the last six quarters on appendix Page 8 on our accompanying presentation. I'll note that, backlog for a services company is not the same as the manufacturer as the time of realizing revenue and backlog is less certain. Nonetheless, we are pleased to see a stable backlog quarter-over-quarter at an all time high of plus $2 billion.

From our perspective, the macro backdrop remains very constructive with OPEC+ restraint offsetting a weaker near-term demand outlook.

Recent and expected FIDs suggest that the offshore market, from which we generate approximately 70% of our activity and revenue, will attract investment capital that has not been seen in over a decade, resulting in long cycle development and capacity expansion projects, supporting a multi-year growth phase for energy services overall and for value adding services providers such as Expro, in particular.

Expro's business, which in a nutshell, is largely driven by international and offshore activity, is built to ride the tailwinds that we expect to persist for the next several years, driven by favorable supply demand dynamics and a heightened emphasis on energy security and diversification of supply.

Our basic medium- term business strategy is to maximize this growth cycle.

By rationalizing non-customer facing functions and selectively consolidating facilities, we have largely realized our previously announced cost synergy targets and reduced our support costs to approximately 20% of revenue. Our team is now focused on capturing new work and executing awarded business.

Improved asset utilization across our product lines and increasing the drilling and completions activity should result in a more favorable activity mix. Continued costs and capital discipline should result in improved operating leverage, margin expansion and better cash generation. We are also pushing pricing to get more value for the services that we provide to our customers, and we believe that our results will reflect net pricing gains beginning in the second half of 2023.

I'll remind you that, the midpoint of our most recent guidance was for full year 2023 revenue of roughly $1.5 billion and for full year 2023 adjusted EBITDA margins of plus or minus 20%, implying year-over-year adjusted EBITDA margin expansion of about 400 basis points. We believe that we will exit 2023 with quarterly run rate revenue of about $400 million, or $1.6 billion annualized, and adjusted EBITDA margins of plus 20%.

If full year 2023 results are consistent with our current expectations, we will deliver on key financial targets that we established when we announced the Expro/Frank's merger in early 2021, despite a dynamic operating environment and start up challenges associated with deploying several new technologies. A

combination of incremental activity merger related revenue synergies, investments we have made to date in new technologies, and pricing tailwinds should support mid teen top-line growth through at least 2024.

Let me now move on to some regional commentary, which is covered on Slide 5.

In North and Latin America, or NLA:

In North or Latin America, our well construction product line continues to demonstrate exceptional performance.

An operator in the Gulf of Mexico had suspended a well due to a delivery delay of the completion tree. The well's lower completion was already in place therefore regulations require the operator to set and validate by pressure test two separate mechanical barriers prior to moving to another operation. Expro's team provided two high tensile, high pressure boot packer systems for the suspension offering an extremely robust V3 rated barrier system for ultimate dependability, during the toughest weather conditions.

After remaining in the well for five months, once the completion tree was delivered, both packers were successfully retrieved, and ultimately, allowed the operator to finish the completion of the well. This is an important accomplishment for our brute well isolation system.

Moving on to Europe and Sub-Saharan Africa:

Moving on to Europe and Sub-Saharan Africa, we have recently announced a new $20 million contract with Harbor Energy for a well abandonment campaign, as part of the decommissioning project for the Balmoral area in the UK continental shelf. Reinforcing our position as a key enabler within the plug in abandonment market, this multiyear contract will utilize Expro Subsea Well Access technology with a combination of open water and in riser applications.

We continue to see customers look to secure Subsea landing stream capacity as the backlog of offshore deepwater and ultra deepwater projects continues to build. In Ghana, we have also received a contract extension worth more than $50 million to provide subsea packages. We have held this contract since 2012 and securing the extension as testament to superior capabilities of our subsea landing strings and excellent service delivery team.

In the Middle East and North Africa:

In the Middle East and North Africa, at several investor conferences, I've discussed Expro's Sustainable Energy Solutions highlighting examples such as in Algeria where we provide emissions management and flare reduction services and solutions to help our customers commercialize gas that was historically being flared.

We have further demonstrated our commitment to helping to make energy safer, cleaner, and more efficient. Utilizing cost effective, innovative technologies, we supported a customer in the MENA region to mitigate potential environmental damage. Expro's production optimization solution improved operational efficiency and made a significantly positive commercial impact by decreasing the loss of oil, all by minimizing the environmental impact to support our customers' carbon reduction initiatives.

We have also deployed an electric powered slickline unit for a customer in Qatar as part of an initiative to move away from diesel powered units. This is the first deployment of this unit type within Expro where the electric power pack replaces the diesel with no additional deck space required and ultimately supporting our customers on their journey to reducing their greenhouse gas emissions. This is another great example of Expro working together with our customers to develop and deploy the right solutions to help to contribute to a lower carbon world.

In the Asia-Pacific region, or APAC:

Lastly, moving to the Asia Pacific region, our Indonesia team completed its first semisubmersible exploration and appraisal project with a 100% performance score. As part of a successful job, Expro delivered services across three wells for three subsea direct hydraulic drill stem testing, downhole sampling and well testing operations.

Turning to Slide 6, which highlights several operational achievements and technology awards, I will now call attention to a few noteworthy achievements from the quarter to provide you with a further sense of Expro's current business momentum.

First, I'm pleased to share positive operational results from our Subsea Well Access product line, which has completed a five well de-suspension campaign Offshore Australia for one of the super majors.

Expro has more than 35 years of experience in providing a wide range of fit-for-purpose subsea well access solutions and extensive portfolio of standard and bespoke subsea test tree assemblies. Our test tree assemblies, which are also known as landing strings, and our Subsea team have supported more than 3,000 customer operations today.

With a proven track record and a great team, we should be a primary beneficiary of the expected increase in deepwater drilling and completions activity over the next several years. With the recent contract awards in the Europe, Sub-Saharan Africa and Asia Pacific regions highlighting momentum in our traditional subsea business.

Our recent investment in Riserless Well Intervention has allowed us to significantly expand our subsea toolbox, providing the Company with both rig- and vessel-deployed light well intervention capabilities and the ability to cost effectively support our customers' requirements throughout the life of their subsea wells, from completion, through production and production optimization, all the way through to ultimate abandonment.

As I noted at the top of my remarks, LWI-related NPT negatively impacted quarterly results, but achieving operational status on our vessel-deployed system late in the first quarter was an important milestone for our Subsea team. We expect that the profitability of our Subsea Well Access business will continue to improve in the second half of 2023 and beyond as we put some of the teething issues of this first LWI work scope behind us and focus on executing the additional vessel-deployed LWI work that's been secured.

Within our well construction product line is our cementing technologies, which we expanded with the acquisition of cementing specials DeltaTek Global in the first quarter. We continue to generate significant market interest in the innovative technologies that Expro brings to the market. And in June, DeltaTek was presented with the internationally recognized 2023 King’s Award for enterprise receiving the Innovation Award.

As the most prestigious award for businesses in the UK, the King’s Awards celebrates the outstanding success and significant contribution of businesses across the country. In addition to this award, the DeltaTek team has also been recognized for its technology offering at the UK's Northern Star Awards. These are great achievements and reinforce the team's excellent track record of developing and deploying to cementing technologies that help to increase our clients' operational efficiency, deliver rig time and cost savings, and also help to improve the quality of cementing operations.

Additionally, within the well construction product line, our team has achieved another record-breaking operation in which we installed a 14-inch casing string will utilize Expro's proprietary digital technology, Centri-Fi.

During this operation, our Centri-Fi intelligent command and control solution enabled the rack back of 67 stands of drill pipe offline and set a record running speed, all while minimizing personnel required for the

operations, and eliminating the need for personnel in the red zone. This was one of the fastest and most efficient 14-inch jobs in the North and Latin America region to date.

Finally, I'll note that our new energy initiatives are ever increasing. Our geothermal business continues to develop globally and we have recently accepted a board position on the International Geothermal Association, strengthening our commitment as an integrated service provider to the growing and increasingly important geothermal sector.

I'm also pleased to share that after construction, test rig up and deployment of a geothermal specific well test evaluation spread for a customer in Germany, they successfully achieved 'first steam.' This demonstrates our enhanced offering capabilities in the geothermal sector, and our commitment to a more sustainable and lower carbon future.

We are working to advance new strategic partnerships and have recently become members of the Solent Cluster and Carbon Capture and Storage Association. This is important as we advance our strategy to grow our business in the carbon capture, use and storage sector, further strengthening our sustainable energy solutions to manage the evolving industry needs around carbon capture, and more broadly, to leverage our technologies and expertise to reduce emissions and unlock new sources of cleaner, lower carbon energy.

Before I turn the call over to Quinn, note that Slide 7 recaps our Q3 and full year guidance, which we are again reaffirming.

In summary, the market outlook for 2023 remains positive with oil demand returning to pre-pandemic levels during the first quarter of 2023, and continuing growth in demand expected throughout the remainder of the year and into 2024 as the U.S. and European economies stabilize and demand continues to recover in developing markets, including China.

Liquid's balances have tightened since Q1, supporting high and generally stable oil prices with $70 per barrel of oil currently feeling more like a relatively stable floor. This is consistent with EIA's average Brent forecast of roughly $79 per barrel for 2023, rising to $84 per barrel in 2024. EIA's longer-term outlook indicates that oil prices will remain at attractive levels for operators.

Similarly, we continue to see generally robust gas prices, which have somewhat stabilized from the volatile and unsustainable highs seen at the beginning of the Russia/Ukraine war. In our view, gas will remain a structural source of lower carbon electricity generation and a critical transition fuel on the path towards global net zero.

Upstream investments are expected to continue to grow and should soon exceed pre-pandemic levels, as countries are challenged with the energy trilemma to secure reliable, affordable and sustainable energy, and as operators seek to increase production, balanced with continued capital investment, discipline, particularly amongst the IOCs.

While some macroeconomic uncertainty remains, particularly around the timing of a Chinese demand recovery, the outlook continues to be positive for the energy services sector, and we believe demand for our services and solutions will continue to grow throughout 2023 and into 2024.

International and offshore activity is continuing to increase, especially in Latin America and across our Europe and Sub-Saharan Africa, Middle East and North Africa, and Asia Pacific regions as operators look to progress new developments such as we have observed in Brazil, Guyana, Norway, Qatar and Egypt, an increase in exploration in both mature basins and frontier areas such as Namibia.

In general, activity in Sub-Saharan Africa, which is historically a strong market for Expro, seems to be experiencing a bit of a renaissance. Deepwater and ultra deepwater activity should favor our well construction and subsea well access businesses and elements of our well flow management business as well.

Additionally, the number of offshore projects expected to be sanctioned, continues to climb with approvals

in 2023 forecast to exceed 2019 levels and a continuing pipeline of projects poised to be sanctioned between now and 2030. We are also seeing an increase in exploration and appraisal activity both in conventional oil and gas and for future carbon capture, use and storage projects, further indicators for increased future offshore activity, again, supporting the positive longer-term activity outlook.

With high and relatively stable commodity prices, operators are also looking to maximize production from their existing well stock, all the while striving to reduce the amount of methane emissions for their overall fossil fuel operations. This is driving further demand for our production related activities within our well flow management and well intervention and integrity product lines, especially across the Asia Pacific and Latin America regions.

In addition, as a number of mature assets reaching the end of their economic life is increasing, there is a growing requirement for cost-effective plug and abandonment solutions, underpinning the decommissioning market and increased activity, particularly in Europe.

With increasing operator upstream investments and the resultant activity, Expro and the broader energy services sector continue to experience increased utilization of people and assets and a tightening of supply, supporting our ongoing initiatives to raise prices and extract more value for our services and solutions.

All combined the outlook for the sector and Expro is quite positive.

With that, I'll hand the call over to Quinn to discuss the financial results.

Quinn Fanning: Thank you, Mike. For those that have a copy of our accompanying slides, note that the appendix to the slide deck has a number of charts and tables covering consolidated results as well as results by reporting segment, area of capability and product line. As I noted at the beginning of the call, downloadable financials, including historical combined results of Expro and Frank's, are also available on our website.

Now to recap, second quarter revenue was $397 million, which was up by $58 million, or approximately 17%, relative to the first quarter of 2023, and up approximately $83 million, or 27% relative to the second quarter of 2022. Net income for the second quarter was $9 million, or $0.08 per diluted share, compared to a net loss in the first quarter of $6 million, or $0.06 per diluted share.

Year-to-date, net income was $3 million, or $0.03 per diluted share, compared to a net loss of $15 million, or $0.14 per diluted share, for the first six months of 2022. Adjusted net income for the second quarter of 2023 was $19 million, or $0.17 per diluted share, compared to the first quarter adjusted net income of $1 million, or $0.01 per diluted share, primarily reflecting higher adjusted EBITDA.

Second quarter contribution margin, which again is essentially cash basis gross profit, was 34% were, or flat relative to the first quarter of 2023. As Mike noted, LWI-related NPT and our Eni Congo project were collectively a drag on margins of about 3 percentage points.

Profitability on our LWI-related activities and the Eni Congo project is expected to improve over the next couple of quarters and should contribute to an overall improvement in contribution margin in the second half of 2023. For reference, excluding excess LWI-related costs in Q1 and Q2, contribution margin was down about 1 percentage point quarter-over-quarter to approximately 36%, largely reflecting the dilutive impact on contribution margin of the Eni Congo OPT project.

Second quarter support costs of $68 million totaled 17% of group revenue. Support costs were down approximately $8 million sequentially. Year-to-date support costs are just below 20% of revenue and are down more than 10 percentage points, compared to the combined overheads of Expro and Frank's pre-merger.

Adjusted EBITDA for Q2 2023 was approximately $72 million, representing a sequential increase of approximately $30 million, or 71% relative to the first quarter, primarily reflecting higher revenue and a more

favorable activity mix.

Adjusted EBITDA margin in Q2 2023 was 18%, as compared to 12% in Q1 2023, and 16% in Q2 2022. For reference, excluding LWI-related excess costs, adjusted EBITDA margin was approximately 20% in Q2 or up approximately 400 basis points sequentially, and up approximately 200 basis points year-over-year.

As highlighted on the first appendix page of our slides, for Q2 2023, quarterly revenue was up approximately 65%, and adjusted EBITDA is up approximately 275% since Q4 2020, which was the last full quarter prior to our announcing the Expro/Frank's merger.

The following slide recaps adjusted operating cash flow for Q2 and prior periods, reflecting cash provided by operations before cash paid for interest, severance and other expenses, and merger and integration expenses. For the second quarter of 2023, adjusted operating cash flow was $36 million or up 30% relative to Q1 2023.

The sequential trend in adjusted cash flow from operations largely reflects higher revenue and higher adjusted EBITDA, offset by an approximate $15 million build and net working capital and cash taxes, which were higher by about $10 million quarter-over-quarter.

Capital expenditures for the second quarter of 2023 totaled $29 million, which was flat compared to Q1 2023.

CapEx for the full year of 2023 should fall within a range of $120 million to $130 million, which is consistent with prior 2023 CapEx guidance of 7% to 8% of expected revenue.

Total liquidity at quarter end was approximately $311 million. Cash and cash equivalents, including restricted cash, was $181 million as of June 30th. Total liquidity also includes $130 million that is available to the Company for draw-downs as loans under our revolving credit facility.

The approximate $93 million balance of the facility is available for bonds and guarantees, approximately half of which is currently being utilized.

Note that Q2 cash provided by operating activities and cash at June 30th reflects the Company's $8 million payment to the Securities and Exchange Commission during the quarter in order to settle the legacy Frank's FCPA-related internal investigation.

Finally, Expro has no interest-bearing debt at quarter end and the Company has no interest bearing debt today.

Our full year expectation for support costs as a percentage of revenue and cash taxes as a percentage of revenue is 19% to 20%, and plus or minus 3%, respectively. The positive trend in support costs is recapped for you on Slide A7.

As discussed on previous calls, anticipated growth and annual incentives typically result in a seasonal build in working capital in H1, with cash flow tending to improve in the second half of the year. We expect activity and revenue will continue to trend higher and working capital as a percentage of revenue will moderate as 2023 progresses.

As a result, we continue to expect to be cash generative for the full year. Our internal target for 2023 free cash flow margin or free cash flow as a percentage of revenue remains in the mid to high single-digits. As Mike noted, we maintain our full year 2023 guidance range for revenue of between $1.45 billion and $1.55 billion, for adjusted EBITDA of between $275 million and $325 million, and for adjusted EBITDA margin of between 19% and 21% of revenue.

I will now turn the call back over to Mike for a few closing comments.

Mike Jardon: Thanks, Quinn. I'd like to leave all of you with three key takeaways before we open up the call to Q&A.

First, Expro continues to outpace market growth, delivering and expecting double-digit revenue growth by capturing market share and by introducing new technologies in our established markets. This is a result of us being able to leverage our global operating footprint, excellent track record, and world-class service quality.

Second, strong top-line growth, improved operating leverage, and our driving more activity and revenue across a more efficient support structure allow us to expand EBITDA margins and improve free cash flow generation.

And finally, we are laser-focused on delivering results. One of the key traits of the organization is execution. We win business because of the quality of our execution, not because we are the biggest service provider.

Similarly, we were successful in achieving and exceeding our merger-related synergies target because we have worked very hard to develop strong and detailed plans, and then we set about implementing them.

With that, I'll turn the call back to the operator for the Q&A session.

QUESTION & ANSWER:

Operator: Thank you. (Operator Instructions) Our first question comes from the line of Eddie Kim with Barclays. Eddie, please go ahead. Your line is now open.

Eddie Kim: So a big theme across the big three this quarter that has been the ramp up of Middle East activity, with all reporting pretty strong sequential growth here in the second quarter. You also posted strong MENA growth of 16% this quarter and specifically called out higher well flow management activity in Saudi. As

activity in Saudi in other parts of the Middle East ramps up over the next several years, should we expect well flow management to see the most growth going forward or is well construction growth expected to kind of catch up? How should we think about the growth going forward in those two segments specifically?

Mike Jardon: Sure. Eddie, appreciate the question. I guess how I would frame it up is, probably so, well construction for us has really been, historically has been underrepresented. So I think our ability to…some of the first revenue synergies we were able to identify and talk about were really well construction contracts in places like Saudi, in places like Algeria.

So, we have got good opportunities to continue to expand our footprint in well construction in the Middle East so that you could anticipate more of an opportunity set. And with well flow management, it's very much tied to what is the level of activity for the operators in the Middle East as well as North Africa.

So probably higher growth potential for us, as we can start to convert more contracts into well construction. The difference with the Middle East is, you don't show up on Monday and win contracts on Tuesday. You have to have a presence there, and that's where we have been able to pull-through some of the relationship and some of the infrastructure we have in place from well flow management, that's why we are starting to be able to win some new contracts to well construction.

Eddie Kim: Got it. Understood. Thank you. And just my follow-up is on pricing in the well flow management segment specifically. Could you just remind us of the duration of typical contract terms in well flow management, other differences between NOCs like Aramco versus your smaller customers? And when should we start seeing net pricing gains in this product line? Do you expect that in the second half of this year, or have you started seeing it already?

Mike Jardon: Sure. So really across all of our product lines, for the most part, they are typically three year type contracts. So if you kind of look at it simplistically, we are going to get a chance of for about a third of our book to be able to reprice on an annual basis. That's part of the reason what we have highlighted is that,

the step-up and a ramp up in activity we have had here has been much more mix related. We are not seeing that from a pricing standpoint. We will start to see some of that come into play in the back end of 2023, and really more as we go into 2024 as well, in essence, have been able to start to reprice year two of some of those three year contracts as they start to roll over.

Quinn Fanning: The other thing I would mention for you, Eddie, is within well flow management is our production solutions business, which is also where we are recognizing at least on a product line basis, the Eni Congo project, that is part of the story as to why well flow management contribution margins have been in this 33%, 34% area in the first half of the year. We would expect that to continue to improve as the year progresses, and particularly in '24, once we get past this delivery phase on the plant and move into more operations and maintenance mode. So I would say, there is a bit of an artificial drag on well flow management margins that is related to the Eni Congo project, which a couple quarters out, knock on wood, that project's been delivered and you will start to see things more normalized in the high 30s or better, hopefully.

Operator: Our next question comes from the line of Alexa Petrick with Goldman Sachs. Alexa, please go ahead.

Alexa Petrick: Thank you. This is Alexa on for Neil Mehta. I wanted to ask following the strong revenue you guys had this quarter, do you think possible to surpass your full year revenue guidance? And then if not, where are you expecting revenue to maybe soften in the back half of the year?

Quinn Fanning: Well, I wouldn't say we are expecting revenue to soften in the back half of the year, we have had a pretty decent step-up sequentially and we think we will sustain this kind of, you know, circa $400 million run rate per quarter, at least in the third quarter. That, again, doesn't contemplate material pricing gains.

We are hoping to see some of the contract awards that we have already got in hand roll onto the new rates and that would certainly benefit top-line and margin performance. But I don't think we are in a position now to revise guidance, but we are certainly comfortable with the $1.45 billion to $1.55 billion area. And as Mike mentioned, we expect to exit the year at least at a $1.6 billion run rate.

Alexa Petrick: Okay, that's helpful. Thank you. Just to follow-up on margins, what are some of the variables you are seeing in terms of the low and high end of guidance? And how should we think about the trajectory in the back half of the year?

Quinn Fanning: So, variability obviously is the timing of pricing showing up and results. As Mike mentioned, we have also been holding back contingencies on the Eni Congo project until we get further along in the delivery schedule. So there is certainly upside in terms of the Eni Cargo project. Not necessarily going to be a material change in consolidated results. I would say those are key drivers.

We are operating on the assumption that we have put the better part of the teething issues on the LWI, initial work scope behind us. And, obviously, the absence of a negative on LWI will be a positive for consolidated results. So those are the primary drivers that make us comfortable that we will finish the year in the 20% to 22% EBITDA range, which we included in our slide deck as second half guidance.

Mike Jardon: Alexa, the only thing I would add is, part of it too is, as we have said the whole time, we anticipate getting some more net pricing impact in the second half of 2023. That's part of what really helps vary this is when do some of those contracts actually go operational? When do they start drilling wells or completing wells? Do you end up with one month of a quarter, do you end up at two months of a quarter? That's part of why we -- there is some range in there.

Operator: Our next question comes from Steve Ferazani with Sidoti & Company. Steve, please go ahead. Your line is now open.

Steve Ferazani: So, in terms of the strengthening EBITDA margin guidance for the second half of this year,

how does that and obviously, we are way, way early on '24? But I'm guessing your assumption would be, your pricing conversations become more constructive as the year plays out, particularly if we start seeing the expectations play out on higher day rates for offshore rigs. How does that start making you think about 2024 to earlier point?

Quinn Fanning: I guess I'd make two points. First, Steve, is number one. We already having constructive pricing conversations really what's kind of the the dynamic is the contract rollover timing. About a third of our revenue reprices per annum. So we are getting higher pricing on new contract awards and really, it's just a matter of the lag until it shows up in financial results. We are pre-budget for 2024. And I suspect as we have our third quarter earnings conference call, at least be able to provide a peek in terms of our expectations for 2024. And I would just point out the pattern, over the last couple of years post pandemic has been our exit EBITDA margins have essentially been around where we center our next year's budget.

So we exited 2022 with 20% EBITDA margins. Our guidance for the year was plus or minus 20% EBITDA margins. And again, we expect to exit '23 in the 20% to 22% area. I suspect that will be the starting point for our 2024 budgeting cycle.

Steve Ferazani: Perfect. Thanks.

Quinn Fanning: Does that answer your question?

Steve Ferazani: It does. It does. Thanks Mike. In terms of how you are thinking about cash flow, as you take on more projects, what's the potential that CapEx becomes a higher percentage of revenue, particularly some of the new technology you have added and also just updates on how you are thinking about uses of cash flow?

Quinn Fanning: Steve, I guess, the first thing I would start off with is, we have tried to lay out there for everybody that we believe we can run the business in a 7% to 8% of revenue CapEx world. That allows us to continue to invest in the business. And even throughout the pandemic and those type things over the course of last number of years, we have continued to invest in the business. So we will continue to kind of work at that.

Mike Jardon: I don't want to call it a CapEx diet, but I think it's just us maintaining capital discipline. And we focus on projects, and we make sure, the good thing for us is we have a globally re-deployable fleet. So assets that we can use in Brazil, for Petrobras, we can use those same assets. They can be moved for a project that's going to happen in Malaysia. So, that gives us some latitude and flexibility with that, but we will continue to operate within that kind of 7% to 8% CapEx diet.

Steve Ferazani: And then any updated thoughts on -- no buyback this quarter. Any updated thoughts on use of cash, particularly as you noted, second half tends to be the better cash flow half?

Quinn Fanning: That's correct. And that was a comment we made on the last call and reiterated today. I guess, a couple of data points I just give you depending upon which cash flow definition to use, probably worth highlighting LTM EBITDA. It's $232 million, that's after $33 million of start up in commissioning and other LWI related costs. So kind of prior to these cost that Mike had mentioned, which we believe to be transitory, we are $250 million plus in LTM EBITDA, and CapEx was a $108 million for that same period of time. So we are kind of in the $150 million zip code in terms of EBITDA minus CapEx as a cash flow proxy. Quite frankly, our challenge, as the industry has been challenged over the last four to six quarters, has been a relatively large working capital build.

And that's really kind of the difference maker over the next couple of quarters is, can we shrink the balance sheet even in an increasing activity environment and our expectation is that working capital as a percentage of revenue will start to moderate. But the fact of the matter is, at this point in the cycle, given some of the cash flow pressures on the customer base, the balance sheet is a bit bloated. That's what we need to see reverse to have cash in hand, i.e. reversal of working capital.

I would suspect that we would more seriously be looking at buybacks.

We were out of the market in the current quarter, in part, because of this kind of pattern of cash flow realization. We also had done a Secondary [offering] in first quarter, which…obviously, we didn't want to work at cross purposes with that, since one of the primary goals was to improve trading liquidity.

Operator: (Operator Instructions) Our next question comes from Luke Lemoine with Piper Sandler. Luke, please go ahead.

Luke Lemoine: Good morning, Mike, Quinn. You talked about mid-teens top-line growth through at least '24, which…the street's about 11.5% growth for next year. Can you talk about what's underpinning this growth? And since there were some suppressed margins in the first half of '23, and you are being conservative on the Eni Congo project. It's fair to assume incrementals could be above normal levels in '24?

Mike Jardon: Yes, really good question, Luke. What I can tell you is having traveled an awful lot in the last several months, spending time with customers. I was all throughout Asia last week. And as I kind of go through and Quinn said earlier, it's very much pre-budget phase. But in the conversations and discussions I have had with our customers, there is continues to be a strengthening level of activity.

They are really asking lots of questions around, how are you guys positioned for people? What's happening with your training programs? What's happening with recruiting and hiring? Those type things. I just get a sense that, as we kind of look at project-by-project, region-by-region, we just continue to see some strengthening activity there.

And as we kind of translate that into pre-budget numbers, that's why we have said we think it's probably a mid teens growth for next year, particularly as we are very tied and levered to well construction, new wells being drilled and new wells being completed. There is going to be a strong level of activity with that.

Luke Lemoine: Okay. And then you talked about your conservative approach to the Eni Congo project, which I believe you said impacted margins by a 150 bps in 2Q, and if you become operational in the first half '24. Can you talk about if this continues to go well, how the contingency releases could impact margins? And is this more of a second half '23 or first half of '24 or not?

Quinn Fanning: I mean, as we get closer to the plant delivery, the need for contingency will diminish and we will start to release it. But really, the intention all along was that, we would recognize margin on essentially the first half of the contract value, which was about $150 million at a level that's consistent with large equipment sales, with the remainder of the contract being kind of an O&M phase, which is more service delivery.

Obviously, things need to go according to plan, but we would expect that that O&M phase would be at substantially higher margins. So really, the point I was making is that with POC accounting we have tried to be careful, if you will, in terms of margin recognition until we are closer to delivery date. But we are sub 20% margins on what we have recognized to date and we will start to look to release that as we get closer.

Mike Jardon: And most of that, Luke, it's going to be a 2024 phenomenon.

Quinn Fanning: We have scheduled to be delivered in the first half of '24.

Luke Lemoine: Okay. Perfect. Thanks Mike. Thanks Quinn.

Operator: Those are all the questions we have for today. So, I'll turn the call back to the management team for any closing comments.

Mike Jardon: That's great. We appreciate everybody's time and effort today. And look forward to catching up again on the next quarterly call.