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Oceaneering International, Inc. (OII)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Hilary Frisbie

Senior Director-Investor Relations, Oceaneering International, Inc.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Alan R. Curtis

Chief Financial Officer & Senior Vice President, Oceaneering International, Inc.

OTHER PARTICIPANTS

Edward Kim

Analyst, Barclays Capital, Inc.

David Smith

Analyst, Pickering Energy Partners

Josh Jayne

Analyst, Daniel Energy Partners

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Oceaneering's Second Quarter 2025 Earnings Conference Call. My name is Rob and I will be your conference operator. All lines have been placed on mute to prevent any background noise. There will be a question-and-answer period after the speakers' remarks.

With that, I will now turn the call over to Hilary Frisbie, Oceaneering's Senior Director of Investor Relations.

Hilary Frisbie

Senior Director-Investor Relations, Oceaneering International, Inc.

Thanks, Rob. Good morning and welcome to Oceaneering second quarter 2025 earnings conference call. Today's call is being webcast and a replay will be available on Oceaneering's website. Joining us on the call are Rod Larson, President and Chief Executive Officer, who will be providing our prepared comments; and Alan Curtis, Senior Vice President and Chief Financial Officer. After Rod's remarks, we'll open up the call for questions.

Before we begin, I'd like to remind participants that statements we make during this call regarding our future financial performance, business strategy, plans for future operations and industry conditions are forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Our comments today also include non-GAAP financial measures. Additional details and reconciliations to the most directly comparable GAAP financial measures can be found in our second quarter press release, which is posted on our website.

I'll now turn the call over to Rod.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Hey, good morning, everybody, and thanks for joining the call today. I continue to be incredibly proud of our team's consistent delivery against our guidance. When we provided our adjusted EBITDA guidance during the first quarter earnings call, we projected a quarterly year-over-year increase of 16%. We delivered a 20% increase in consolidated adjusted EBITDA. This marks 8 straight quarters of meeting or exceeding our adjusted EBITDA guidance range and 12 quarters out of the last 13. This kind of consistency speaks volumes about the strength of our execution and the resilience of our business.

In the second quarter of 2025, all of our operating segments contributed to beating the midpoint of our guidance by delivering quarterly year-over-year improvements in revenue, operating income and operating income margin. In particular, Aerospace and Defense Technologies or ADTech improved its results as work commenced on several recent contract awards. Our Offshore Projects Group or OPG successfully completed higher margin well intervention and well stimulation projects at international locations, which drove a significant increase in their operating income and an expansion of their operating income margin. Manufactured Products results improved as we progressed higher margin backlog to our manufacturing plants and not to be missed, our average remotely operated vehicle or ROV revenue per day inflected earlier than expected to \$11,265.

Today, I'll focus my comments on our second quarter results and overviews of our segment performance and our consolidated and business segment outlook for the third quarter and full year of 2025. I'll start with our consolidated results from the second quarter of 2025. As we reported yesterday, we generated net income of \$54.4 million or \$0.54 per share. Consolidated revenue increased to \$698 million, a 4% increase over the second quarter of 2024.

We also achieved notable growth in operating income and EBITDA. For the second quarter of 2025, consolidated operating income rose by 31% to \$79.2 million. Consolidated adjusted EBITDA grew 20% to \$103 million. We generated \$77.2 million of cash in operating activities and utilized \$30.3 million in capital expenditures, resulting in free cash flow of \$46.9 million. For the fourth consecutive quarter, we repurchased approximately \$10 million worth of shares of our common stock. Our ending cash position was \$434 million with no borrowings under our secured revolving credit facility.

Now let's look at our results by business segment for the second quarter of 2025 as compared to the second quarter of 2024. Subsea Robotics or SSR earnings improved despite concerns over offshore activity levels and white space on an increase in average ROV revenue per day utilized to \$11,265, demonstrating our ability to realize pricing improvements in new contracts. We anticipate these higher rates will carry through the second half of 2025, despite a portion of our utilization shifting to lower price regions.

Due to the increased revenue per day utilized, SSR produced operating income of \$64.5 million, an improvement of 4%. Revenue increased approximately 2% and EBITDA margin expanded slightly to 35%. ROV fleet utilization for the quarter was solid at 67%. Fleet use of 63% in drill support and 37% in vessel-based activity was similar to the same period last year. Revenue split between our ROV business and our combined tooling and survey businesses as a percentage of our total SSR revenue was 79% and 21%, respectively. As of June 30, 2025, we had 60% of the contracted floating rate market with ROV contracts on 81 of the 136 floating rigs under contract. We maintained our fleet count of 250 ROV systems.

As we look forward to the second half of 2025 and into 2026, we anticipate continued tendering activity that is supportive of our ROV utilization and pricing assumptions. This includes more decommissioning opportunities in Europe, which will help offset marginally lower rig support activity. As a reminder, decommissioning work has the advantage of more personnel and tooling revenue per day. The strong first half performance of our ROV tooling

business is expected to continue. While we're pursuing newer opportunities in our Survey geoscience business, we may cold stack one of our survey vessels in the future should these opportunities fail to materialize.

Manufactured Products generated operating income of \$18.8 million, marking a 31% rise over the second quarter of 2024. Revenue grew by 4% to \$145 million, and operating income margin expanded by 262 basis points, driven by the conversion of backlog in our energy manufacturing plants. During the quarter, we took a further \$2.5 million inventory reserve related to our former theme park ride business. Our confidence in our second half forecast is underpinned by the continued manufacturing throughput of backlog at the improved pricing that we've discussed over the past several quarters.

Our full year 2025 book-to-bill guidance of 0.9 to 1.0 remains unchanged, despite muted bookings in the first half of 2025. We've consistently anticipated that our order intake will be concentrated in the second half of the year and we've already secured order commitments totaling approximately \$100 million in the first weeks of the quarter. We expect to finalize those contracts in the coming weeks.

Our other product lines also supported these results and are contributing to our forecast. In particular, Grayloc, our industry leading high temperature, high pressure connector business continues to evolve by penetrating new markets and end customers with new products. We've also seen more activity for Rotator, our topside and subsea valve business, which corresponds to subsea tree awards.

OPG reported significantly improved operating income of \$21.7 million. Revenue increased by 4% and operating income margin expanded to 15%. In the second quarter, we secured several longer term contracts, including a vessel services contract in the US Gulf and an inspection, maintenance and repair or IMR contract for bp and Mauritania (sic) [bp Mauritania] (00:15:06). These contracts provide us with visibility into OPG's vessel utilization and activity levels for the remainder of 2025 and into future years.

We project vessel utilization and activity levels will be solid in the third quarter of 2025 based on current backlog and quotation activity. Given current Brent oil prices, we are still encouraged by the macro environment for the fourth quarter, but do not expect activity to reach the same level as the fourth quarter of 2024. In the second half of 2025, we expect OPG's results will be impacted by changes in geographic and service mix, as we anticipate activity will shift away from higher margin intervention projects toward lower margin IMR work in the US Gulf.

For Integrity Management and Digital Solutions or IMDS, operating income and operating income margin improved on relatively flat revenue. We continue to integrate Global Design Innovation, or GDI into our Integrity Management business and to identify pilot projects to demonstrate our new capabilities.

ADTech operating income increased by 125% to \$16.3 million on a 13% increase in revenue, with operating income margin expanding 15% as compared to the second quarter of 2024.

Our Oceaneering Technologies or OTECH business line benefited from the continued ramp up of the large contract announced in the first quarter. Our Marine Services Division, MSD, also contributed positively to ADTech's performance in the second quarter with high activity levels in submarine repairs and dry deck shelter overhauls.

Looking into the second half of the year, we anticipate further revenue increases in OTECH from recently announced defense contract and from seasonal increases in offshore operations. MSD results are also forecasted to improve due to additional volume of submarine and dry deck shelter repair work. Revenue from the major defense contract is projected to steadily ramp up quarter-over-quarter during the design and engineering phase.

This phase is expected to be completed in early 2027 when we will commence production and see a further ramp up in revenue.

Additionally, we anticipate that the recently passed [ph] Reconciliation Bill or the Big Beautiful Bill (00:17:22) will positively impact all three of our ADTech business lines over the next five years. It increases funding for unmanned underwater vehicles or UUVs, such as our Freedom vehicle that we sold to the Defense Innovation Unit last year. The Navy's continued focus on acquiring services, in addition to technology, creates opportunities to leverage our commercial services expertise to support the Navy in delivering a full range of capabilities to their fleet. Submarine construction and maintenance programs are projected to accelerate creating additional opportunities for MSD.

And finally, the space program budget was better than expected. Since passage of this legislation, we have seen renewed opportunities related to thermal protection systems and with foreign space agencies.

Unallocated expenses of \$46.7 million were slightly higher than our guidance for the quarter.

Turning our outlook to the third quarter of 2025 as compared with the third quarter of 2024, we forecast increases in consolidated revenue and EBITDA. Consolidated EBITDA is expected to be in the range of \$100 million to \$110 million. Compared to the third quarter of 2024, our projections for the third quarter of 2025 by segment are, for SSR, we anticipate higher revenue and operating results with EBITDA margin expected to be in the mid to upper 30% range. For Manufactured Products, we expect significantly improved operating results driven by increased revenue. For OPG, we project a decline in operating results on relatively flat revenue. For IMDS, we forecast significantly improved operating results on relatively flat revenue. For ADTech, we anticipate significant increases in both revenue and operating results. And finally, we project unallocated expenses to be between \$45 million and \$50 million.

For the full year 2025 on a consolidated basis, we project revenue to grow in the mid-single digit percentage range and adjusted EBITDA to be in the range of \$390 million to \$420 million. You will note that we've narrowed our guidance range by tightening both the lower and the higher ends based on our strong first half performance and the second half outlook. Directionally for our full year 2025 operations by segment as compared to 2024, for SSR, we forecast improved operating result and a mid-single digit percentage increase in revenue. Our revised guidance on revenue growth is based on our projection for lower than expected contributions from our Survey business. SSR EBITDA margin is projected to average in the mid-30% range for the full year. We estimate that our overall ROV fleet utilization will be in the mid- to high-60% range for the full year. We are confident that we will sustain our ROV market share for drill support services in the 55% to 60% range. For Manufactured Products, we project significantly improved operating income on better operating margins and increased revenue. As previously stated, we anticipate the book-to-bill ratio will be in the range of 0.9 to 1.0 for the full year.

For OPG, we expect year-over-year operating results to improve on flat to slightly increased revenue. Overall, for 2025, OPG operating income margin is expected to be in the mid-teens-percentage range. For IMDS, we forecast a significant increase in operating results on increased revenue with operating income margin expected to be in the mid-single digit percentage range for the full year. For ADTech, operating results are forecasted to improve significantly on increased revenue. Operating income margin is expected to be in the low-teens-percentage range for the full year.

In summary, we remain positive about both our energy and aerospace and defense markets that we serve, and we're confident in the value we deliver to our customers. We foresee continued growth beyond 2025, driven by improved visibility into an increasing number of contracted floating rigs in the second half of 2026, sustained

progression in ROV revenue per day utilized, anticipated higher levels of our FIDs, expectations for supportive oil prices, our ability to perform and offer more life of field services, increased demand and geographic expansion for our ADTech business and increased market demand for our mobile robotics technologies.

We appreciate everyone's continued interest in Oceaneering and now be happy to take any questions you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Eddie Kim from Barclays. Your line is open.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. So, we've heard about offshore rig white space from the offshore drillers for several quarters now. More recently, some of the larger diversified service companies have started to mention this as well. But it just doesn't seem readily apparent in any part of your business at this point. And the place that would show up is, of course, your ROVs business. But pricing there continues to increase almost quarter after quarter, so – so all that to say, are you seeing any kind of impact to your business due to offshore rig white space? And if you haven't, do you expect to see it maybe later this year or do you think your business will emerge relatively unscathed from this?

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

A

No, great question, Eddie. And I think I'd say your question and the questions we get all the time is like people are looking for that other shoe to fall, right? When is it going to happen? I would say, we do see some of that. We were expecting to get closer to that exiting the year with a 70% overall utilization for ROVs. So we've seen some of it. As we talked about, the getting to our pricing point sooner than we expected has offset some of that. So, we see some of that. Maybe some of the offset is the increase in some of the abandonment activity, particularly in Europe. So there's some puts and takes in there that have leveled this off, but really, I mean, the thing to watch in the SSR business is going to be Survey. And we set up to run two vessels. We've been running one. We were hoping to get to two, but we might not get to two in the geoscience part of the Survey. But other than that, I mean, ROVs, we've turned the sales a little bit, but it's kind of been within the range of expectations.

Edward Kim

Analyst, Barclays Capital, Inc.

Q

Got it. Got it. Thank you. My follow-up is just on orders in your Manufactured Products segment, which is mostly comprised of subsea umbilicals. Orders have been trending below 1 times book to bill now for several quarters and it looks like full year orders this year will likely be down versus last year. Could you just give us your latest thoughts on the umbilicals business and how you see that trending maybe this year and into next year? Should we expect kind of a flattish trajectory as we move to next year or do you expect a rebound? Just any thoughts on the umbilicals business?

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

A

Yeah, let me start with, orders year-over-year we think are more – 2024 to 2025 are more flattish. We don't really expect them to be down. And it is...

Edward Kim

Analyst, Barclays Capital, Inc.

Okay.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

...we knew early in the year that we were going to be back half loaded on orders and it's...

Edward Kim

Analyst, Barclays Capital, Inc.

Okay.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

...so far – I mean, it's pretty early in the back half, but the first few weeks have been really good. I mentioned earlier \$100 million already in the first few weeks and we have the – the rest of the things we expect to come in are still out there in the pipeline. So that part's good. 2025 to 2026, I would just say you're hearing a lot of good things from us and others in that subsea business about FIDs, about subsea tree orders, so we see good things happen in umbilicals. We think that there is going to be a pretty good book. So, a little bit TBD, a little early to call the year-over-year. But I do think that there is good signals for 2026.

The other thing I'd call out and we don't we don't talk about it a lot because in total revenue dollars, it's not as big as umbilicals, but in margins, it's a great business and that Grayloc business which continues to grow and continues to be a bigger component of the overall business, that's also looking strong. So there's good things going on below the waterline, too.

Edward Kim

Analyst, Barclays Capital, Inc.

Got it. Great. Thanks for that color. I'll turn it back.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Thanks, Eddie.

Operator: Your next question comes from the line of David Smith from Pickering Energy Partners. Your line is open.

David Smith

Analyst, Pickering Energy Partners

Hey, good morning. Congratulations on the solid Q2 result.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Thanks, David.

A

David Smith

Analyst, Pickering Energy Partners

Just following up on Eddie's question, wanted to ask if that slightly lower full year ROV utilization outlook relates more to the vessel support or rig support? And if you characterize that as a – the change in visibility for underlying activity or something else?

Q

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

I – it's both. I mean, we see it on both sides. So it's not just one or the other. So it's a little bit of both. And I would just say it's – it is increased clarity and you're seeing what everybody's plans are going to be, especially in the fourth quarter. I mean, that stuff is becoming more apparent now. So we're just being, I think, conservative there not – to not overestimate what could come to be in the fourth quarter.

A

David Smith

Analyst, Pickering Energy Partners

Perfect. And then related around the ROV pricing uplift, is this mostly a function of contract rollover, maybe a little bit of FX or are we seeing – is it too early to ask if we're seeing any benefits show up from maybe some performance-based deals?

Q

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

I would say it's mostly the contracts. We know it's not big – there's not a big FX effect and there's not a big effect of the performance-based pricing yet. I mean, those are things that are trued up later. So I would just say those are still in the mix, but it's mostly just that continued rollover of contracts.

A

David Smith

Analyst, Pickering Energy Partners

Perfect. Appreciate. If I could sneak one more in.

Q

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Sure.

A

David Smith

Analyst, Pickering Energy Partners

Free cash flow was kind of modest in the first half. So there's obviously a large ramp implied for the second half to meet the full year guide. Can you walk us through your visibility on that step up kind of what are the biggest contributors, how much of that improvement is already in motion or still dependent on execution?

Q

Alan R. Curtis

Chief Financial Officer & Senior Vice President, Oceaneering International, Inc.

A

Yeah, I'll take this one, David. A lot of it is kind of how we've seen the last four or five years play out where Q1 is pretty big cash draw for us. We rebound, generate positive cash in Q2, but really it's been more of a Q3, Q4 story for us the last, I'll say, four to five years and we're seeing that again this year. We do have line of sight to a good amount of it, because it's sitting in receivables. So, I think it's going and getting paid for the work we've performed and bringing in that cash in, in Q3, Q4 timeframe.

David Smith

Analyst, Pickering Energy Partners

Very much appreciate that. I'll turn it back over.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Yeah.

Operator: Your next question comes from the line of Josh Jayne from Daniel Energy Partners. Your line is open.

Josh Jayne

Analyst, Daniel Energy Partners

Thanks. Good morning. First one I had was on the OPG businesses. To me, it sounds like there's more visibility today and work is getting booked more out into the future than there has been previously. And so, first of all, is that accurate? And if so, maybe you could just discuss that dynamic today even in what's been a pretty volatile market.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

I think Josh, you're right. And it's a little bit of function of when – I've always talked about these bigger chunks of business, when we start to book like the bp Mauritania, those big international contracts really help our visibility a lot. And that creates that stable base. Call-out the Gulf of Mexico. For the most part, there's still call-out work, but we're able to secure more given days.

Josh Jayne

Analyst, Daniel Energy Partners

Okay. And then second question. I just wanted to go back to comments you made surrounding the potential impact from the [ph] Big Beautiful Bill (00:29:59). You already had some pretty strong momentum around the business lines that could benefit from this. Maybe you could just dive in a little bit more to how you're thinking about that and positioning the company for what sounds like could be even more sizable growth over the next couple of years. Just some details around that would be helpful. Thanks.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Sure. I think the OTECH side with the vehicle businesses is a big thing, because that's always been it had bilateral support. A lot of things that US has, great defensive supremacy around what happens underwater and they're very, very keen to maintain that. And we provide obviously a lot of services there. That's our wheelhouse. So I think that's a big part of it. But probably even more exciting is the way it [ph] affects (00:30:52) the other two businesses. I mean, space was on the ropes. They were really worried for a while, especially when DOGE was in and so a lot of the space business appeared to be going the other way. But now we see things like Artemis, going

to the moon, those things actually being refunded. Just the phone started ringing immediately with people who wanted to kick off projects again. So we think space definitely is a good one.

We talked about thermal protection systems, which is good because that covers the full gamut, anything with a booster underneath it. But that human spaceflight, which is one of the things that got, I think, rebolstered, is great for us because we do suit work, we do human interface work and that's a big one for us to see come back. So that's great.

And then I'd also go to MSD. I mean, it sounds like fleet readiness, being able to keep our – especially our submarines in our case, ready to go, they will probably put as much money into submarine maintenance and repair and newbuild as the industry can take. So, we're already thinking about how do we gear up to have more capacity to serve that market.

Josh Jayne

Analyst, Daniel Energy Partners



Great, thanks. I'll turn it back.

Operator: And that concludes our question-and-answer period. I will now turn the call back over to Rod Larson for some final closing remarks.

Roderick A. Larson

President, Chief Executive Officer & Director, Oceaneering International, Inc.

Well, since there are no more questions, I'll just wrap up by thanking everybody for joining. This concludes our second quarter 2025 conference call. Have a great day.

Operator: Thank you for joining. You may now disconnect.

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