

03-Aug-2021

# Frank's International NV (FI)

Q2 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Melissa L. Kling Cogle**

*Chief Financial Officer & Senior Vice President, Frank's International NV*

**Michael C. Kearney**

*Chairman, President & Chief Executive Officer, Frank's International NV*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Q2 2021 Frank's International NV Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will – thank you so much for standing by.

I will now like to turn the call over to Melissa Cogle.

---

**Melissa L. Kling Cogle**

*Chief Financial Officer & Senior Vice President, Frank's International NV*

Good morning and welcome to Frank's International's conference call to discuss our second quarter results. Our speakers today, as shown on slide 2 of the earnings presentation, are Mike Kearney, Chairman, President and Chief Executive Officer; and myself, Melissa Cogle, Senior Vice President and Chief Financial Officer.

Our presentation has been posted on our website that we will refer to throughout this call. If you'd like to view this presentation, please go to the Investors section of our corporate website at [franksinternational.com](http://franksinternational.com). Before we begin commenting on our second quarter results, there are a few legal items that we would like to cover on slides 2 and 3. First, remarks made by company representatives may refer to or contain forward-looking statements.

Such remarks are subject to risks and uncertainties that could cause the 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, a cautionary language identifying important factors that could cause the 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 [franksinternational.com](http://franksinternational.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 2021 earnings release.

I will now turn the call over to Mike who will give some financial and operational highlights from our second quarter and an update on our merger with Expro Group. After which, I will review the financial performance details. We will not be hosting a question-and-answer session on today's call, although we encourage our analysts and investors to please reach out with any follow ups.

---

**Michael C. Kearney**

*Chairman, President & Chief Executive Officer, Frank's International NV*

Thank you, Melissa. We appreciate everyone joining us for the call today. Turning to slide 5. We delivered solid second quarter results with adjusted EBITDA increasing 85% sequentially. Total revenue also improved 14% from the prior quarter. Our profitability has continued to improve each quarter since we initiated our profitability improvement plan. These actions, as well as our general business recovery, resulted in adjusted EBITDA margins of 12%, which are the highest margins achieved since the beginning of 2016.

Customer activity levels have continued to increase across all of our segments and geographies starting with revenue growth of 8% sequentially in our Tubular Running Services segment. In our Tubular segment, revenue increased 42% sequentially with strong tubular deliveries and higher drilling tool activity, including an international tubular delivery. Although we experienced a pullback in our Tubular segment in the first quarter, we did see the expected improvements in both domestic and international tubular deliveries in the second quarter and believe the second half of the year will bring more steady progress, barring any unplanned delays in deliveries.

In our Cementing Equipment segment, revenue increased 15% sequentially due to improvements in the Gulf of Mexico and the execution of our international growth strategy, which included additional activity in Asia Pacific and the Caribbean. We continue to contain with the challenges brought about by COVID-19. As previously communicated, we've been able to successfully adapt and deliver our services in a safe manner for our customers. And once again, we experienced no disruptions from COVID this past quarter.

We continue to monitor the situation to ensure we are keeping our employees safe while delivering exemplary service to our customers. In spite of our significantly improved operating results, we still are incurring additional costs related to COVID travel protocols and restrictions placed on our rotating crews. We look forward to the time when Frank's as well as our customers are not bearing the inconveniences and costs brought on by the pandemic. Even though we think the worst is behind us, we remain in active communication with our customers and will continue to work closely with them as we plan our near-term operations.

Turning to slide 6, we will now provide some high level thoughts on our geographical performance. In our Europe and Africa region, we continue to see higher customer activity levels especially in offshore West Africa and the North Sea. The strong operating momentum we've gained is expected to continue to build in the second half of the year as our customers start up additional projects. Improvements in our Middle East and Asia Pacific region in the second quarter were driven by strong growth in Australia and Malaysia, offset by some activity declines in the Middle East.

In the back half of this year, we anticipate moderate growth across the region as new product technologies are introduced and customer activity levels build. In our South America region, we are seeing improved revenue and profitability related to new contracts that commits during the first quarter. We have had a couple of nice contract wins in this region over the past two quarters including our first contract from a major NOC for Frank's extreme family of connectors. We anticipate steady growth in this region as we focus on an additional project starting up – commencing in the second half of this year.

Our North America offshore region has continued its rebound. We are pleased to report that this region is now seeing pre-COVID revenue levels as a consequence of strong focus on all of our product lines and strong customer uptake of our new technologies. Looking forward, we do see a moderation of activity in the third quarter and then project a sharp increase in the fourth quarter of the year.

And finally, the US onshore market activity did increase during the second quarter. However, the pace of that increase has slowed. The average US rig count was 437 deployed rigs as we exited the second quarter. As we have previously discussed, our US land strategy has been the focus on cost control and appropriately rightsizing the business to ensure we can flex our operations up as the market improved.

During the second quarter, we have reopened all previously idle facilities and our US onshore business remains profitable. We remain well positioned to expand market share and increase profitability as the market continues to improve.

On slide 7, we highlight our operational technology and ESG accomplishments during the second quarter. We've recently announced that Frank's International was honored with the Inaugural 2021 Most Valuable Partner award from a Supermajor operating in Guyana. This award recognizes excellence, reliability, adaptability, and proactivity and truly working as a partner. Frank's won this award by providing the highest level of service and safety to effectively lower the overall cost of well ownership for our customer. It is recognition like this that highlights the core values that we as a company embrace on a day-to-day basis.

In keeping with these values, Frank's recently installed a completion screen in record time offshore Guyana. This was achieved by our dedicated and highly trained crew of 100% local Guyanese technicians. Frank's dedication to meticulous operational planning and execution led to hours of rig time saved and zero rejected connections showcasing our ability to always go above and beyond what is asked.

Frank's also continues to increase our presence in the performance of drilling market. The new AERO

Reamer Series tools represent our successful entry into the reaming well drilling business. These tools have expanded our drilling technologies toolbox and added a suite of solutions focused on wellbore conditioning and bottom hole assembly [ph] where (08:58) mitigation.

Frank's is working with customers to apply this technology which will improve drilling performance and limit possibly where damage. Since acquisition, the AERO Reamer Series has exceeded its business objectives and we're excited about the incremental opportunities it brings. On the ESG front, Frank's continues to look for ways to ensure a cleaner environment and participate in the energy transition. One example of our participation is through a recently awarded work scope for a multi-sized tubular installation project in the Caribbean for a geothermal energy development. It has been gratifying for Frank's to be involved in such a project.

We are actively seeking opportunities to play an increasing row in the clean energy arena and helping create a sustainable energy future. We not only seek work with supports renewable energy sources but are investing in technologies that reduce rig time and improve safety.

Finally, referring to slide 8, I would like to provide an update on our announced merger with Expro Group. Over the last several months, integration teams have been making great strides in the identification of synergies and making preparations for day one of the new Expro. We remain on schedule to close in the third quarter and begin realizing our shared vision of a new global full cycle leader in energy services. Our integration teams have plans well underway to bring together our two companies in a way that will enable us to hit the ground running and take advantage of significant synergies and truly unleash the power of our combined platform.

Working with the Expro team over the past several months has only strengthened my conviction in the opportunities ahead for our combined company. We are confident of the opportunities before us to build substantial value for shareholders, employees and customers. As a combined company, we will have significant

scale and an expanded portfolio to offer customers cost effective, innovative solutions to address their requirements at every stage of the well life cycle. By combining Expro and Frank's portfolios and global footprints, we will benefit from significant growth and cost savings opportunities as well as opportunities to strengthen our relationships with and better serve our collective blue chip customer base.

With a very robust balance sheet and enhanced cash flow profile, we will have the capacity to continue to invest in our technology platforms. Our next generation of solutions will assist our customers in their energy transition plans to achieve a lower carbon future. Frank's board and management team have been strong believers in the benefits of industry consolidation, and I'm proud to say that we moved aggressively to gain scale in a thoughtful way, that will benefit our shareholders.

With that, I'll now turn the call over to Melissa Cogle, who will discuss our second quarter financial results. Melissa?

---

**Melissa L. Kling Cogle**

*Chief Financial Officer & Senior Vice President, Frank's International NV*

Thank you, Mike. Referring to slide 9, during the second quarter, revenue increased 14% sequentially, showing a strong growth. We experienced improvement across all segments and regions during the quarter, with increasing activity levels globally and improved penetration of our newer product lines.

The company was able to translate these increases into significantly improved profitability, with adjusted EBITDA of \$12.4 million, an increase of 85% from the prior quarter. This strong performance is due to Frank's historically high operating leverage, with additional benefit from our cost improvements made and the adoption of higher margin technology packages.

Turning to slide 10, our Tubular Running Services segment's second quarter revenue totaled \$71.9 million compared to \$66.3 million in prior quarter. Higher activity levels across regions drove the sequential improvement, with several rig start-ups that occurred during the first quarter now seeing a full quarter of revenue.

Segment adjusted EBITDA totaled \$9.8 million or 14% of revenue in the second quarter compared to \$8.1 million or 12% of revenue in the prior quarter. We see continued incremental improvement in this segment in the second half of the year.

In our Tubular segment, as presented on slide 11, second quarter revenue totaled \$16.6 million compared to \$11.7 million in the prior quarter, increasing 42% sequentially, with a couple of significant Tubular deliveries occurring during the quarter and over 25% growth in our Drilling Technologies business, which is seeing revenue expand past pre-COVID levels. Segment adjusted EBITDA totaled \$4.1 million or 25% of revenue in the second quarter compared to \$600,000 or 5% of revenue in the prior quarter. The increase in profitability pertained largely to product mix changes as well as the tubular delivery during the first quarter that carried higher product costs.

Concluding the segment overviews on slide 12, Cementing Equipment revenue for the second quarter totaled \$19.4 million, an increase of 15% compared to \$16.9 million in the prior quarter. Both our North America Offshore and Asia-Pacific regions contributed heavily to this increase. Segment adjusted EBITDA totaled \$4.9 million or 25% of revenue in the second quarter compared to \$4.8 million or 28% of revenue in the prior quarter. While the adjusted EBITDA margins in this segment were lower due to a change in product mix from the prior quarter, they continue to exceed those of pre-pandemic levels, reinforcing efficiency initiatives put into place over the past year. We do expect that adjusted EBITDA margins will remain in the mid to high-20s percentage wise for the foreseeable future and additional top and bottom line growth is expected in the back half of the year.

Focusing on the balance sheet, the company ended the second quarter with over \$192 million of cash, restricted cash and short-term investments with no borrowings outstanding on its credit facility. The company had approximately \$224 million of total liquidity as of June 30th. Working capital metrics had two significant items worth mentioning this quarter. Firstly, the company made payments of nearly \$10 million for tubular product deliveries during the second quarter. Additionally, \$4.3 million of merger-related expenses were paid during the second quarter. The company's cash flow metrics would have been significantly higher if not for these exceptional items.

While we expect additional merger and acquisition-related payments upon closing of the transaction with Expro, we continue to focus on managing our cash flows through the quarters and feel the back half of the year will provide for strong results in this regard.

We were able to successfully manage our capital expenditures to \$2.2 million for the quarter and continue to justify and validate returns before making capital purchases. We do still anticipate spending between \$20 million and \$25 million during 2021 capital expenditures.

And looking forward and referenced on slide 13, we believe that activity levels will continue to increase into the second half of 2021 as our customers begin to resume more normalized activities. We remain confident in our ability to generate further revenue growth and margin expansion in 2021 and into 2022. We also believe our communicated goals of growing revenues and expanding EBITDA is firmly in hand and will be exceeded. Through this growth, we will maintain our balance sheet and focus on working capital metric improvement along with holding the progress achieved in controlling our capital expenditures.

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

---

### Michael C. Kearney

*Chairman, President & Chief Executive Officer, Frank's International NV*

Thank you, Melissa. Before we close our today's call, I would like to reiterate a few key points. First, we are very excited about our planned combination with Expro Group which is expected to close by the end of the third quarter. The teams of both respective companies are dedicated to creating one of the strongest oilfield service companies in the industry and providing some of the most innovative solutions to our customers globally.

Second, Frank expects to experience additional improvement in the second half of the year as we maintain a strong line of sight on additional rig deployments and project start-ups. Finally, we will continue to focus on operational execution, capital discipline, and cost reduction efforts, which has enabled us to maintain one of the strongest balance sheets in the oil field services space. This enviable position puts the new combined company on solid footing as it progresses through the integration process and positions itself for future growth and expansion.

As we approach the closing of the Expro merger, I would like to reiterate my continued thanks to all of our employees for their hard work and dedication to the Frank's organization. Your unselfish drive to excel even through the difficulties brought about by COVID has enabled our organization to stay focused on providing the absolute best service quality for our customers and safety for our employees. We look forward to updating you on our progress in the near future as a combined entity.

Many thanks to everyone on the call for your continued interest in Frank's. We hope you enjoy the rest of your day. Goodbye.

**Operator:** Thank you. Ladies and gentlemen, this concludes our conference. We thank you for participating. You may now disconnect.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.