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Frank's International NV (FI)

Q1 2021 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Q1 2021 Frank's International NV Earnings Conference Call. My name is James and I'll be your operator for today's call. At this time, all participants are in a listen-only mode and I now like to turn the call over to Melissa Cogle. Melissa, you may begin.

Melissa L. Kling Cogle

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

Good morning and welcome to the Frank's International conference call to discuss our first quarter 2021 earnings.

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.

On today's call, Mike will provide an overview of our first quarter results, recent operational and technological achievements and an update on our merger with Expro Group. I will then review the financial performance for the first quarter. We will not be hosting a question-and-answer session on today's call, although we encourage our investors to please reach out for further discussion.

Before we begin commenting on our first quarter results, there are a few legal items 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 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 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 first quarter 2021 earnings release.

I will now turn the call over to Mike.

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 first quarter results with adjusted EBITDA increasing 44% sequentially to \$6.7 million. Total revenue was largely in line with the prior quarter and our previously disclosed expectations. Our profitability continues to improve from prior quarters, attributable to our cost reduction activities undertaken in 2020, as well as improvement in our Tubular Running Services segment. From an operational perspective, we experienced higher customer activity levels in all of our international operating basins and accelerated improvement in our U.S. land business. The improvement in our Tubular Running Services segment was principally driven by higher activity levels and, in particular, rigs returning to work in the North Sea and offshore West Africa. We were also aided by the full quarter impact of project startups in the Middle East and accelerated improvement in U.S. land with the U.S. land rig count increasing another 25% in the first quarter.

In our Tubular segment, revenue decreased 26% sequentially. This was largely due to strong tubular deliveries and higher drilling tool activity in the fourth quarter, making for a tough Q1 comparison. Additionally, some scheduled Q1 deliveries moved from the first quarter to later in the year based on shifting customer schedules. Although we experienced a pull-back in our Tubular segment in the first quarter, we are forecasting improvements in both domestic and international tubular deliveries and drilling tool activity in the coming quarters.

In our Cementing Equipment segment, revenue increased 9% sequentially due to accelerated improvement in U.S. land and the execution of our international growth strategy. We were pleased to see new activity in our Asia Pacific region and the Caribbean during the first quarter.

Before covering specific geography highlights, I would like to provide a brief update on the COVID-19 situation. We've been able to successfully adapt to delivering our services in a safe manner for our customers and I'm happy to report that we experienced no disruptions from COVID in the first quarter. Additionally, we believe the backdrop is beginning to shift toward more normal operating conditions in most areas.

However, we are still forced to contend with international travel protocols and restrictions and some customer-driven drilling program delays mostly in remote operating regions that require rotating crews. These travel restrictions and delays have continued to reduce efficiencies and make it more challenging to operate in general. 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 looking at our geographical performance, our Europe and Africa region experienced the full quarter impact of rigs returning to work, especially in offshore West Africa and in the North Sea. Additionally, we witnessed higher customer activity levels in several core operating countries, select project extensions and some notable project startups in the latter half of the first quarter. This provides strong operating momentum in the second quarter, especially since we expect additional project startups in Q2 and throughout the second half of the year.

Improvements in our Asia Pacific region in the first quarter were mostly driven by higher customer activity levels and select project startups in the Middle East. Additionally, we commenced operations on our inaugural multi-well cementing project in Southeast Asia and secured our first cementing service tool sale with a national oil company for a multi-well project that will commence in the second quarter. Looking forward, we expect activity levels to improve as customers deploy additional rigs and we realize the full quarter impact of projects that commenced in the latter part of the first quarter.

In our South America region, we had significant project startup for a long-time major integrated customer operating in offshore Brazil, which resulted in improved revenue and profitability in the first quarter. We expect activity levels to remain elevated in this region due to another project startup that is expected to commence early in the second half of 2021. Our North America offshore region was the most challenged region during the first quarter due to customers' operationally shifting from one rig to another. With that said, all operators that changed rigs during the quarter are in the process of returning to normal operations. Additionally, as I will explain in more detail in a moment, we secured a multi-year extension with a longtime major integrated customer operating multiple rigs in the Gulf of Mexico. This extension, along with a recent cementing services contract with another valued customer operating in the Caribbean, provides excellent operating momentum in the second quarter and the remainder of the year.

Finally, US onshore market activity accelerated throughout the first quarter with the average U.S. land rig count increasing another 25% sequentially to just over 415 land rigs running as we exited the first quarter. As we have previously discussed, our U.S. land strategy has been to focus on cost control and appropriately rightsizing the business to ensure we are well-positioned to flex our operations up as the market improves.

During the first quarter we reopened previously closed facilities and returned our US onshore business to profitability for the first time in several quarters. We remain well-positioned to expand market share and increase profitability as the market continues to improve. Highlighting some of our operational and technology accomplishments during the first quarter, Frank's CENTRI-FI Consolidated Control Console continues to lead the way with its multi-functional ability to control various elements of tubular running equipment from outside the red zone. This increases safety for our employees as well as those of our customers and other service providers. Now fully commercialized, the console has successfully completed over 30 jobs in the Gulf of Mexico. When packaged with our suite of digital and intelligent technology including iCAM Connection Analyzed Makeup System and the iTong Intelligent Autonomous Connections, it forms one of the most robust digital systems in the industry. This remotely operated suite of intelligent equipment is aimed at reducing hazardous exposures and costly non-productive time, all without compromising well integrity or efficiency. Additionally, as previously mentioned, in the first quarter, we further solidified our position in the Gulf of Mexico with a major integrated customer by executing a three-year contract extension with potential multi-year extensions. This contract win was based on our ability to quickly deploy this comprehensive digital package across their operational footprint.

In anticipation of the upcoming storm season, our Cementing Equipment segment released the industry's first 22-inch mechanically-set Packer as part of our BRUTE line of V3 rated barrier systems which can withstand the toughest downhole tool conditions. The BRUTE Packer provides a resettable isolation barrier, whereas the conventional inflatable Packer technology of competitors is not able to meet the same reliability standards. In addition, our recently commercialized AERO Reamers are rolling out across our global footprint, most notably in our Lower 48 U.S. land business, Alaska, and onshore Canada. This performance drilling solution adds to our robust suite of drilling technologies trusted by customers operating in the most challenging environments.

Finally, I'd like to provide a brief update on our recently announced merger with Expro Group. The merger is on track to close during the third quarter. As we discussed at the merger announcement, both companies are laser focused on a smooth path to closing and successful integration. I'm pleased to announce that several elements of the integration planning process have begun as we await shareholder and regulatory approvals. A world-class consulting firm has been engaged to assist in integration and synergy capture. Together, both companies have also established an integration management office with executives and management teams from Frank's and Expro. Both teams are very excited about creating one of the largest global providers of oilfield services with a culture of outstanding customer service and safety. As we work toward closing this transaction, Frank's will

remain focused on providing its historically excellent service quality and safety to our customers, as we continue to position our company for the next phase of growth and value creation.

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

Melissa L. Kling Cogle

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

Thank you, Mike. Referring to slide 7, revenue decreased 1.6% sequentially, in line with our previously disclosed expectations. We experienced sequential improvement in both our Tubular Running Services and Cementing Equipment segments this quarter and relatively lower performance in our Tubular segment as some of our pipe deliveries have been pulled forward into the fourth quarter of 2020. During the first quarter, the company delivered adjusted EBITDA of \$6.7 million, increasing just over 44% sequentially.

Of note, our first quarter adjusted EBITDA margin was 7%. This was an improvement from the pre-COVID first quarter of 2020, primarily due to our cost reduction activities which demonstrate our continued commitment to managing our profitability. Additionally, the first quarter benefited from higher customer activity levels in almost all of our international operating basins, particularly those with higher operating margins, as well as an accelerated improvement in our U.S. land business that positively affected results and both our TRS and Cementing Equipment segments.

Turning to slide 8, our Tubular Running Services segment first quarter revenue totaled \$66.3 million, compared to \$65 million in the prior quarter. Higher activity levels in most of our international operating regions drove the sequential improvement, which was largely offset by reduced activity levels in our North America offshore region due to customer rate changes during the quarter.

Segment adjusted EBITDA totaled \$8.1 million or 12% of revenue in the first quarter, compared to \$3.8 million or 6% of revenue in the prior quarter. The sequential increase in adjusted EBITDA was mostly driven by an increase in customer activity levels and some of our higher-margin operating basins.

In our Tubular segment, as presented on slide 9, first quarter revenue totaled \$11.7 million compared to \$15.9 million in the prior quarter. We have long mentioned the more volatile performance of this segment. The decrease in the first quarter was mostly due to a couple of large tubular deliveries that had been pulled forward into the fourth quarter of 2020 along with a pause of activity for certain drill tool jobs internationally.

Segment adjusted EBITDA totaled \$600,000 or 5% of revenue in the first quarter compared to \$3.9 million in the prior quarter. The decrease in profitability mostly pertained to product mix changes and higher product costs for a select customer delivery during the first quarter.

Concluding the segments on slide 10, Cementing Equipment segment revenue for the first quarter totaled \$16.9 million, an increase of 9% compared to \$15.5 million in the prior quarter. The sequential increase was driven by higher activity levels in U.S. land and increased activity in both our North America Offshore and Asia-Pacific region.

Segment adjusted EBITDA totaled \$4.8 million or 28% of revenue in the first quarter, compared to \$4 million or 26% of revenue in the prior quarter, resulting in an incremental EBITDA margin of approximately 57%. Adjusted EBITDA margins in this segment exceed those of pre-pandemic levels and we feel – continue to reinforce our efficiency initiatives put into place over the past year. Focusing on the balance sheet, the company ended the first

quarter with just over \$191 million of cash and no borrowings outstanding on its credit facility, resulting in approximately \$215 million of total liquidity.

During the quarter, the company's cash balance was reduced by various tax payments that are typical during the first quarter, increased compensation and inventory cost, as well as slower customer collections which has not been uncommon for us to see at the beginning of a new year. We remain focused on managing our cash flows through the quarters and feel the back half of the year will provide for much stronger results in this regard. We were able to successfully manage our capital expenditures to \$2.3 million for the quarter and continue to challenge each incremental capital dollar to ensure returns justify such outlays.

And looking forward and referenced on slide 11, we believe that activity levels will continue to increase as we are seeing additional rig deployments and project startups already during the second quarter and we expect them to continue into the second half of 2021 as our customers begin to resume more normalized activities. We are already improving profitability beyond that which was achieved during pre-pandemic levels, and we remain confident in our ability to generate further revenue growth and margin expansion in 2021. This will be on the back of improved customer activity and holding the cost reductions that we implemented in 2020. Additionally, we will maintain our strong balance sheet and aggressively focus on improving working capital metrics along with 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 out today's call, I would like to reiterate a few key points. First, we are 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 remain excited and dedicated to creating one of the strongest oilfield services companies in the industry providing some of the most innovative solutions to our customers' globally.

Second, Frank's expects to experience material improvement in the second quarter as we maintain a strong line of sight on additional rig deployments and project start-ups in the second quarter as well as throughout the second half of 2021. 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 oilfield 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.

In closing, I would like to reiterate my continued thanks to all of our employees for their hard work and dedication to the Frank's organization. As we move closer to finalizing the merger with Expro Group, it will be the hard work and dedication of our employees that enable our organization to stay focused on providing the absolute best service quality and safety for our customers. 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 today's conference. Thank you for participating. You may now disconnect.

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