
EXPRO - Third Quarterly Earnings 2021**Monday, 08 November 2021**

Karen David-Green Welcome, everyone, to the Expro Group's Third Quarter 2021 conference call. I'm joined today by Mike Jardon, CEO, and Quinn Fanning, CFO. First, Mike and Quinn will share their prepared remarks, and then we will open it up for questions.

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 risk and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements.

Such statements speak as of today's date, and the Company assumes no responsibility to update any forward-looking statements as at 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 FCC website or on our website at Expro.com.

Please note that any non-GAAP financial measures discussed during this call are defined and reconciled to the most directly comparable GAAP financial measure in our Third Quarter 2021 Earnings Release, which can be found on our website. We have an accompanying presentation to our third quarter results that is also posted on the Expro website under the Investor section.

In addition, the pro forma combined company third quarter financials are downloadable on the Expro website under the Investor section. The downloadable financials include Historical Frank's and Legacy Expro financials, along with the combined company pro forma historical financials. With that, I'd like to turn the call over to Mike.

Michael Jardon Thank you, Karen. Good morning and good afternoon, everyone. I want to cover three things with you today. First, I'll start by discussing our combined portfolio and how we continue to strengthen it. Next, I'll turn to the market and our outlook for the remainder of the year and into 2022. Finally, I'll close with the steps we're taking to enhance margins and maximise cash flow to drive sustainable growth and value creation.

I'm pleased that on 1st October, we completed the strategic combination with Frank's International to create a leading full-cycle energy services company. Expro began trading on the New York Stock Exchange on 4th October under the ticker symbol XPRO.

I would like to thank everyone at Expro and Frank's for their great work in completing the transaction. We have hit the ground running and are positioning the Company for long-term success. We believe that we have created a truly exciting platform and a strong financial profile that will allow the combined company to accelerate growth, improve profitability and enhance value for shareholders, employees, customers and partners.

We have a resilient business model with greater scale and a broader set of product offerings across the well life cycle that position us well to perform through market cycles. We have an expansive geographic footprint that diversifies our exposure and cash flows and improves us with platforms for continued growth in key markets.

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Notably, for example, on a pro forma basis in 2021, 35% of our revenue was generated in North and Latin America. 28% came from Europe and sub-Saharan African, 21% from Middle East-North Africa, and 16% from Asia-Pacific. Our diversified customer base of international and national oil companies gives us opportunity to expand our relationships as we introduce new solutions.

With our combined portfolio of services and products, we now offer our clients a broader range of early well life cycle solutions. Together, we have enhanced early visibility into customer projects, which enables us to better anticipate their future needs and expand our market penetration.

We have a balanced business with leading capabilities across four product lines, well construction, well flow management, subsea well access, and well intervention and integrity. Our top priority across each business is ensuring safety, integrity and efficiency. I would like to spend a few minutes introducing you to each of our product lines and talk to you about the drivers of our business.

First, well construction. This product line accounted for 37% of our 2020 Pro Forma revenue. Frank's has been a leader in well construction for over 80 years. We have a comprehensive well construction portfolio, including being a trusted provider of casing and tubular running services, completion, cementing, and drilling technologies, downhole service tools, and large-diameter tubular products.

Today, in the areas in which we participate, we have one of the most expansive well construction portfolios in the industry. We specialise in complex and technically demanding wells with solutions that transform how these wells are constructed, to enhance efficiency and production.

Well construction represents a great growth area for us, with the rebound in global rig count, a leading market share position and over 4,000 wells constructed each year. The leverage in this business is significant, with incremental margins above 50% in the offshore domain.

I've been exceptionally impressed with the level of technology and the level of engineering that Frank's brings to the table, differentiating and proprietary technologies such as iCAM, iTONG, CENTRI-FI, focus on automation, digitisation and artificial intelligence to help reduce risk and increase the safety and efficiency of operations.

Next, on well flow management. This product line accounts for 38% of our 2020 pro forma revenue. We have an experienced team and the largest fleet of well flow management equipment. Our broad range of capabilities span well clean-up, exploration and appraisal services, to support the full life-of-field for our customers.

Our portfolio includes real-time data acquisition and metering, fluid sampling and analysis, efficient sand, solids and water management capabilities, extended well test and early production facilities and modular production enhancement solutions. Well flow management represents another area of strength for us with more than 200 global well test packages and more than 10,000 successful well test operations to date.

We gather valuable well and reservoir data. We are specialists in high-rate gas developments. And we help customers accelerate their cash flow by both expediting production from new discoveries and by maximising recovery from existing well stock. We are well positioned to benefit from a recovery, and the business has tremendous leverage to more complex wells.

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Looking forward, well flow management has a critical role to play in the energy transition in terms of measuring, analysing and optimising emissions. We're focused on helping our customers reduce operational emissions through introduction of innovative data, engineered solutions and applied technologies.

Now let's move on to subsea well access. This product line accounted for 12% of our 2020 pro forma revenue. We are a market leader in subsea well access and provide the most reliable, efficient and cost-effective well access systems in the industry with capabilities across the complete well life cycle from E&A through to well abandonment with a new increased focus on optimising production.

We are the global leader in the supply of industry-leading subsea test reassemblies with a fleet of over 75 strings and more than 3,000 operations performed to date. Subsea well access is a strong, stable business for us with the latest introduction of our RWIS product, allowing us to now offer our customer base a complete subsea toolbox offering the correct intervention solutions through BOP, open water riser systems and now open water wire through-water type systems. This, of course, is dependent upon the type of operation being carried out by the operator.

And now that brings us to well intervention integrity. This product line accounted for 13% of our 2020 pro forma revenue. Our well intervention integrity business provides deployment, insight and enhancement solutions to advance production optimisation, well surveillance and asset integrity assurance.

Our well intervention solutions span across well integrity, EOR, production monitoring, perforation and unconventional pipe recovery and slickline mechanical services. We are confident there is a significant opportunity for us to continue to expand our well intervention integrity business through our existing relationships with our customer base and, also, to expand with new customers in new geographies.

Well integrity, reduction of greenhouse gas emissions by old wells and cost-effective decommissioning is a priority for many of our customers. We recently launched an integrated workflow using existing technologies within our portfolio to help customers cost-efficiently diagnose, solve and assure integrity of their well stock, guarantee safe and flawless production or detailed preparation for rapid and low-cost decommissioning.

Combining with Frank's gives us an extended footprint, allowing us to expand our existing portfolio of well intervention technologies to previously inaccessible geographies such as Guyana, Ecuador and others.

One of our key strategic priorities is capitalising on our technology platform to provide customers with more precise, efficient solutions. Our portfolio is built on innovation and technology that we believe will define the next chapter of our industry. With leading solutions across the well life cycles, we now support customers from exploration and well planning through to abandonment.

Let me give you two examples of our innovation at work during the third quarter. Our Octopoda annulus intervention system successfully reached a depth of 300m in a Colombian well while restoring annulus pressure integrity and returning the well to production. This depth was a world record for annulus intervention.

Another example of our innovation at work was during Hurricane Ida, which rapidly intensified in the Gulf of Mexico. We were able to deploy Frank's recently launched 22-inch BRUTE High-Pressure/High-Tensile Service Packer. This was

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a finalist in the World Oil Awards in the category of Well Integrity, but this was used to quickly and safely isolate the customer's wells.

Moving forward, we remain committed to continuing to invest in our innovation platform with a focus on solutions that support our customers' carbon reduction goals as part of the energy transition. ESG is integral to our DNA at Expro. This includes our commitment to achieve net zero CO₂ emissions by 2050 and are focused on continued innovation to create a future-facing technology platform that helps Expro and our customers participate in energy transition.

40% of our Research and Development spending in 2021 is targeted to help our customers achieve these carbon reduction objectives. Our customers are being driven by lower cost, lower carbon as well as faster, more concise decisions. Through technology and innovation, we offer production optimisation focused on gas, reduced physical and carbon footprint of operations, flareless and flare reduction analytics, and energy market evolution.

For example, Expro delivered a gas compression solution in North Africa, enabling our customer to reduce greenhouse gases and minimise flare footprint. The customer reduced greenhouse gas emissions across ten sites by roughly 10,000 tonnes of carbon dioxide per day.

Now let me turn to the market and our outlook. As oil prices reach multiyear highs on tight supply and global demand recovery, the activity and investment environment are continuing to look positive, especially in the production-and-development phases of the oilfield life cycle.

While many of our customers' near-term focus will likely remain on maximising their investments in existing well stock, we believe the significant underinvestment in new well supply in recent years will result in new final investment decisions or FIDs, and that we will see sustained growth in all of our businesses and across all geo markets. Continuing recovery in 2022, and as oil and gas demand returns to pre-COVID levels, we believe operators will shift their focus to reserves replacement.

Internationally, the supermajors are increasingly focused on lower-cost, lower-risk phase developments. In addition, efforts to reduce emissions and, more broadly, to position themselves for the energy transition, continues to gather pace as a priority for IOC customers. In parallel to this, national oil companies are poised to accelerate their field development efforts to maximise their economic recovery.

International drilling activity is forecast to improve from its low point in Q4 of 2020, with large increases in Central and South America, followed by the Middle East and Asia-Pacific. The Company's current outlook for the four quarter of 2021 is for flat to mid-single-digit revenue growth and adjusted EBITDA margin consistent with the definition used by Legacy Expro of 15% to 17% of consolidated revenue, driven by an improved business mix and continued cost management discipline.

Our forecast assumes a continuing recovery in E&P expenditures, albeit at different rates in individual countries. Near-term, operators are expected to maximise the investments that they have made previously, consistent with past recoveries. Incremental OpEx spending and brownfield enhancement programmes are expected to be an initial area

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of customer focus. And in select markets, we are seeing some signs of recovery and intervention and well integrity projects, execution of which is a traditional strength of Expro.

We expect the favourable indicators of recovery that we are currently experiencing will gain momentum as 2021 closes and as we progress into 2022. For 2022 and beyond, a pipeline of projects continues to build that will support multiyear growth, with a particular focus on a number of the geo markets within the Middle East, North Africa, Latin America, Africa and Asia.

More broadly, we believe offshore exploration and development in tight oil projects will attract a disproportionate share of incremental investment dollars given the relative size of the prize in terms of resource potential. This should support sustained growth for the combined Expro given our capabilities in subsea well access services, and complex well flow management and well construction services. We expect to provide additional colour on our 2022 expectations in connection with our fourth quarter financial results early next year.

As outlined previously, and prior to the closing of the transactions, we are targeting cost and revenue synergies between \$80 million to \$100 million within 24 to 36 months. We've undertaken significant work planning for the integration and are confident in our ability to achieve the targeted synergies. And we have begun to execute on our plans immediately upon closing the transaction.

Throughout the third quarter, our integration planning has confirmed our expectations that we will strengthen our operating model, lower our cost structure and significantly expand margins. We are confident in our ability to deliver \$55 million in annual run rate cost synergies within the first 12 months following close, with the opportunity to deliver \$70 million of total cost savings in 24 to 36 months.

We expect to achieve these synergies largely through indirect cost consolidation and optimisation of business processes. We also expect to realise revenue synergies of \$10 million to \$30 million in EBITDA through our expanded customer relationships and operating footprints, increased time on rig, and greater exposure to the full life of field.

In addition to realising the near-term synergies derived from the transaction, a multiyear industry and global economic recovery, of which we are seeing signs, together with improving market fundamentals, uniquely positions Expro to capture the full synergies plus deliver on incremental revenue and margin expansion opportunities. And, longer-term, there's a significant potential upside relative to prior periods of the cycle, especially given the years of underinvestment in the sector that I discussed a bit earlier.

Before I pass over to Quinn, I'd like to reiterate how excited I am about what the future holds for our new company and look forward to working to deliver on our tremendous opportunities. We are well positioned to capture incremental revenue and margin expansion opportunities that come with a market upturn. We have a strong financial profile that provides flexibility to drive growth. With that, I'll hand the call over to Quinn to discuss the financial results.

Quinn Fanning Thanks, Mike. As was noted in our press release, the merger of Expro and Frank's closed on 1st October, or just after the quarter's end. As a result, we have separately reported results for Legacy Expro and Frank's, consistent with respect to past practices of Legacy Expro and Frank's.

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The Frank's 10-Q will be filed this afternoon. The Legacy Expro results are, of course, available on the press release. And we will also file an 8-K including the Legacy Expro results. The combined company's results will first be reported in the fiscal fourth quarter of 2021.

As previously disclosed, Expro was determined to be the accounting acquirer. And go-forward financial reporting will include Frank's net assets at fair value as of the date of the acquisition, and Frank's financial results from the date of the acquisition, all consistent with Legacy Expro's accounting policies.

Expro manages its business and will continue to report results based on four geography-based segments which are North and Latin America or NLA, Europe and sub-Saharan Africa or ESSA, Middle East and North Africa or MENA, and Asia-Pacific or APAC.

In addition to consolidated results, we will also report segment revenue, segment-adjusted EBITDA, and segment-adjusted EBITDA margin, which is segment-adjusted EBITDA expressed as a percentage of revenue. Segment EBITDA and segment EBITDA margin are burdened by geography-based indirect costs but exclude corporate and other essential costs not related to core operating activities.

Going forward, we also expect to provide supplemental disclosures to include revenue by four product line groups, which are well construction, well flow management, subsea well access, and well intervention and integrity. Recognising that, at least relative to the Legacy Expro business, Frank's business is more driven by working rigs and customers' capital expenditures.

Through the Investor section of our website Expro.com, we have made available to you pro forma historical data related to contribution and contribution margin for our well construction business, which is, essentially, the Legacy Frank's business, and for our well flow management, subsea well access, and well intervention integrity businesses, which collectively represent the more production optimisation-centric Legacy Expro business, which tend to be driven by overall activity levels and customers' operating expenses.

For reference, Expro defines contribution as revenue less cost of revenue, excluding depreciation and amortisation and indirect costs that are included in cost of revenue. Contribution margin is contributions expressed as a percentage of revenue.

Also included in the press release and available through our website is pro forma historical data related to support costs. Finally, as Karen noted, reconciliations of non-GAAP measures to the nearest GAAP measure are included in the press release and in the Q3 conference call slides, both of which are available through our website.

Turning to Q3 2021 results, the combined company generated pro forma revenue of approximately \$313 million in the quarter, which is up \$29 million, or approximately 10%, quarter over quarter, driven by increased activity across most regions and most product lines. Approximately 37% of Q3 pro forma combined revenue was generated by Frank's, and approximately 63% was generated by Legacy Expro.

As defined by Frank's, Frank's adjusted EBITDA for the third quarter of 2021 was \$13.8 million, a sequential improvement of 11%, with improving revenue in the TRS and Tubulars product lines. As a percentage of revenue, Frank's adjusted EBITDA was approximately 12%, a sequential improvement of approximately 50 basis points. Relative

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to Q3 2020, Frank's revenue was up 36%. Adjusted EBITDA in Q3 2020 was negative. So fall-through on higher revenue and continued cost discipline has resulted in materially better financial performance year over year.

As defined by Legacy Expro, Legacy Expro's adjusted EBITDA for the third quarter of 2021 was \$30.9 million, a sequential increase of 18%, driven by higher revenue, a more favourable activity mix, and lower corporate costs. As a percentage of revenue, Legacy Expro's adjusted EBITDA was approximately 16%, a sequential improvement of approximately 150 basis points. Relative to Q3 2020, Legacy Expro's revenue and adjusted EBITDA were up 33% and 36%, respectively.

On a pro forma combined company basis, revenue in ESSA was up approximately 29% quarter over quarter, in part, reflecting the recognition of the sale of an early production system during the just-completed quarter. APAC revenue was up approximately 8% quarter over quarter. MENA revenue was down approximately 7% quarter over quarter. And NLA revenue was generally flat relative to the June quarter.

Year over year, pro forma combined company revenue was up approximately 34%, with particularly strong gains in ESSA and NLA. For reference, and relative to 2019, pro forma combined company revenue is approximately 9% below pre-COVID levels. Page 5 of our slides has some additional data regarding revenue trends, by region and by product line, that you might find helpful.

As Mike noted, industry-wide activity is generally trending in a positive direction, and that is also generally the case across our four regions. As you'll note from Slide Number 9, the one region that is currently an outlier is our MENA region, which is a sizeable business that generates very good margins, largely due to the geographically concentrated nature of the activity.

The quarterly trend in MENA, however, has been negative. As we discussed in our Q2 earnings conference call, operations in MENA have experienced COVID-related project delays and other COVID-related challenges over the last couple of quarters, including collection delays, which has resulted in a build in net working capital. We do not have particular concerns relating to the collectability of outstanding accounts receivable. And we expect that the working capital issue will sort itself out over the next quarter or two.

As to general levels of activity, we expect that our MENA business will begin to pick up in Q2 2022. Given a desire of key operators to increase production, added to spare capacity and reduced emissions, we expect that MENA will be an engine of growth for both the industry and for Expro.

On a relative profitability basis, as defined by Expro, segment-adjusted EBITDA margin in Q3 for ESSA, APAC, MENA and NLA was approximately 22%, 18%, 24% and 20%, respectively. The quarterly trend is stable in regards to APAC and strongly positive in the ESSA and NLA regions. MENA segment-adjusted EBITDA margin remains strong but has been on a downwards trajectory over a couple of quarters as a result of lower activity, which has reduced absorption of geography-based support costs. Again, we expect the activity trend to reverse in H2 2022 and beyond, which will have overhead absorption benefits.

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The MENA market has become more competitive and price-sensitive. Profitability has also been under pressure due to cost trends, supply chain challenges, regulation and start-up costs on new work in Qatar. Like the net working capital build, start-up costs are transitory phenomena which should work itself out over a quarter or two.

We will continue to try to mitigate the other issues in MENA with cost discipline and by offering higher value-added services and solutions, including production de-bottlenecking, as well as intervention and integrity solutions, which include compression and metering, and our CoilHose and our Octopoda annulus intervention solutions.

Turning to the balance sheet, the combined company had no interest-bearing debt at the end of Q3 2021 and has no interest-bearing debt today. Pro forma combined company liquidity at quarter end was approximately \$400 million. Cash and cash equivalents, including restricted cash, of the combined company at 30th September was approximately \$270 million.

After payment of transaction-related professional services fees and the settlement of a Legacy Frank's past receivable agreement pursuant to the terms of the Merger Agreement, cash has been in the \$240 million area post-closing. Note that pro forma liquidity at quarter end also includes direct draw borrowing capacity of \$130 million under our new \$200 million credit facility which was entered into in connection with the close of the Expro-Frank's merger and which replaced respective credit facilities of Frank's and Legacy Expro. The remaining \$70 million of capacity on the revolving credit facility is available for bonds and guarantees.

We continue to be disciplined with costs and capital investment in order to create incremental structural efficiency, low cost of scalable support functions, and scope for improved profitability in cash flow generation. Frank's capital expenditure as related to property, plant and equipment totalled \$3.1 million in the third quarter, and year-to-date totalled \$7.6 million. Frank's continues to plan for overall capital expenditures during 2021 of approximately \$15 million.

Legacy Expro's capital expenditures related to property, plant and equipment totalled \$15.8 million in the third quarter of 2021, and year-to-date totalled \$53.5 million. Legacy Expro continues to plan for capital expenditures during 2021 in the range of \$70 million to \$75 million.

CapEx continues to trend downwards, with management focusing on maximising utilisation of existing assets and, where practical, limiting new capital expenditures. The combined company plans for capital expenditures during 2021 in the range of \$80 million to \$85 million.

Turning to interim guidance, as we have discussed in various forms, at least in the near-term, we expect that higher revenue will be driven more by higher activity levels than by any material pricing traction. Similarly, margin expansion is expected to be driven by improved overhead absorption and merger-related cost synergies. So, again, we remain focused on optimising support costs and the timely capture of our previously announced synergies really at all levels of the organisation.

Looking ahead, we expect that the fourth quarter will also demonstrate solid operational and financial performance. As Mike noted, the Company's current outlook for the fourth quarter of 2021 is for flat to mid-single-digit revenue

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growth and an adjusted EBITDA margin consistent with the definition used by Legacy Expro of 15% to 17% of consolidated revenue.

As noted in the press release, the fourth and first quarters are typically seasonally weaker quarters due to reduced activity in the Northern Hemisphere. Historically, a number of our NOC customers also tend to be slower out of the gate in starting projects pending the approval of their budgets. Nonetheless, we continue to see strengthening signals of a multi-recovery, which is expected to gain momentum as 2022 progresses.

In the near-to-intermediate term, we expect that revenue momentum will be driven by an uptick in shorter-cycle, faster-return production optimisation projects which will most directly benefit our well flow management and well intervention and integrity product lines. We also expect to see a strong recovery in offshore development beyond the next few quarters for which our well construction and subsea well access businesses are very well positioned.

To summarise our financial outlook, we believe a constructive fundamental backdrop that is supported by high and relatively stable commodity prices, global economic growth, and plus-five years of very modest investment by operators, and the replacement of produced reserves, sets up the energy services industry, and Expro, in particular, for a multiyear recovery across geographies and product lines.

That said, key customers are still finalising their spending plans for 2022. As we gain a better understanding of the plans, we will finalise our 2022 budget and provide the market with additional colour on our 2022 expectations.

In the interim, I'll just note that the energy services market is moving in a demonstrably positive direction. We believe a reasonable assumption for the analysts and investors is that it will take a couple of quarters for the timing and trajectory of an expected recovery to become clear.

As we bring the legacy Expro and Frank's organisations together, we expect to recognise severance and other costs related to the rationalisation of support functions and the consolidation of facilities. As a result, while we are expecting a couple of noisy quarters, overall, we are expecting plus-10% year-over-year revenue growth in 2022 and adjusted EBITDA margins in the high teens.

During the second half of 2022, we expect the revenue run rate to approach 2019 pre-pandemic levels for the combined company. With the benefit of fall-through on incremental revenue and cost synergies, adjusted EBITDA margins in the second half of 2022 should be in the plus- or minus-20% range.

In conclusion, Expro remains dedicated to delivering maximum value to our customers by combining technology know-how with a culture built around safety, service quality, organisational efficiency and risk management. As always, our objective is to enhance long-term value for shareholders, employees, partners and the communities in which we operate. With that, I will turn the call back over to Mike for a few closing comments.

Michael Jardon Thank you, Quinn. I'm going to leave you with three key takeaways. First, we believe Expro has an exciting platform, with the scale, diversity and financial profile to accelerate growth and provide through-cycle resiliency. Second, at the core of our business and instrumental to our future success is our strong financial profile, with a healthy balance sheet and ample liquidity, significant synergy opportunities and a strong and sustainable cash flow profile.

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There's a lot of opportunities in front of us, both internally and externally, and I am excited for our future as one company and confident in our ability to deliver as we progress through a multi-year, cyclical recovery. Thank you again. Operator, let's go ahead and open it up for questions.

Operator Thank you. For our Q&A, if you would like to ask a question, please press star followed by one on your telephone keypad. When preparing to ask your question, please ensure your device is unmuted locally. Today, we'll first begin our Q&A session with a few questions that we have received from our pre-registered callers. The first question, would you please share with us how you think about your capital allocation strategy?

Michael Jardon Thank you, Elliot. Right now, our near-term focus is really on generating strong free cash flow and competitive returns on invested capital. I think we've really developed a good plan to be able to achieve these overall objectives. Fundamentally, incremental scale makes us more relevant to both our customers and investors. Scale also provides us with an opportunity to rationalise our support costs, consolidate our facilities and really to be able to spread the cost of our global operating footprint across a bigger and broader base of revenue.

In addition to improved overhead absorption, the scale allows us to more efficiently invest in future-facing technologies that are ultimately required to participate in a more meaningful way in the energy transition, and additionally, really still be able to generate good free cash flow.

There are also portfolio benefits of the Expro and Frank's merger in that we are better exposed to the entire well lifecycle. The breadth of our services and solutions really provides us with a more frequent opportunity to engage with customers and ultimately to consider integration or bundling of our services.

I'm highly confident that we will timely capture these costs and revenue synergies that have been communicated to the market. And I believe that we will benefit ultimately from a tailwind that will be associated with a recovery in both onshore and offshore drilling activity. And as a result, I think we'll have significant free cash flow upside.

Ultimately, what we do with that cash will be a function of what opportunities are available to us. And of course, investor expectations will be a significant element of the decision-making process. The near-term focus is on generating cash, and we'll go through a disciplined process with the Board in terms of how we allocate any excess free cash flow.

Ultimately, addressing dividends and buybacks is a bit premature for us at this moment, but know that we have good prospects for revenue growth to be able to expand margins and ultimately generate additional free cash flow. I think it's also worth noting that our zero-debt balance sheet and our currently strong liquidity position also provides us with a fair amount of strategic flexibility.

Ultimately, the through-cycle profitability and the free cash flow will allow us to thoughtfully invest in the business. We can better position the company for long-term success, and have a constructive dialogue in next steps to enhance shareholder value when that's really appropriate.

Operator The second question, can you please provide some detail around the capital intensity of the combined business?

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Michael Jardon It's another really good question. Ultimately, another benefit of the Frank's and Expro combination is that the Frank's product lines traditionally have less capital intensity, at least in the near to intermediate term, given the fact that we have some underutilised assets, particularly embedded in the Frank's TRS-type services.

My sense is that we have capacity within the TRS business to generate revenue at or in excess of pre-pandemic levels, with very modest incremental capex investment. And really, that's going to happen through better utilisation of the existing asset base.

Ultimately, that said, due to the complexity of the equipment, sometimes, with long lead times for specialised equipment and the call-out nature of some of the activity we have in well construction in some markets, capex commitments from the traditional well construction business are typically driven more by expectations for growth in demand, more so than work that we know has already been awarded.

Ultimately, most of the capex-related requirements in the legacy Expro business tends to not be bespoke. It's more project-specific and not speculative. So we do require some capex requirements there. But generally, with the legacy Expro business, it's committed, with a contract award in hand, and we have reasonable visibility on payback timing and those type of things.

As a general matter, the legacy Frank's business will tend to be more build to market, and for the legacy Expro business, it'll be more build to contract. And as we think about the combined business, as we've indicated previously, we expect our capex will run somewhere in the 7% to 8% of revenue range.

These levels of investment will allow us to build ultimately a sustainable business, generate good free cash flow, with an expected increase in overall activity. And really, all things being equal, with a degree of pricing traction, capex as a percentage of revenue should come down a couple of percentage points in the future as well.

Operator Our next question will come from the line of Taylor Zurcher from Tudor Pickering Holt. Taylor, your line is now open.

Taylor Zurcher Hey. Thanks, Mike and Quinn. Good morning. My first question is just on the 2022 outlook. Can you guys hear me?

Quinn Fanning Yes.

Michael Jardon Yes, we can hear you fine. Go ahead, Taylor.

Taylor Zurcher Sorry about that. Yes. So first question just on the 2022 outlook, that you're talking about roughly 10% year-over-year revenue growth on a pro forma basis. And if I think about just the four geographic reporting segments, you talked about some of the near-term issues you're dealing with in the MENA region, so likely a stronger back-half type of environment for MENA than the first half in 2022.

But if you could just help us think about in which geographic segments you're seeing the most revenue growth opportunities for 2022 relative to that 10% target that you put out there. I suspect a lot of them will be second-half weighted, but I'm just curious how you rank the four geographic reporting segments for 2022 in terms of growth opportunities on-the-come.

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Michael Jardon Okay, sure. No, it's a good question. One of the benefits we've had here with the transaction is it's really given us a strong impetus to really engage with customers. I myself have had a tremendous number of specific customer engagements to talk about the transaction and talk about what we're doing and why we're bringing it together. So it's really been a good reason to do that. And also the fact that some of the world is starting to open back up for travel, and those kinds of things, allows us to have more in-person dialogue and engagement.

And I would characterise that overall as it's much more positive and much more constructive with customers today in terms of their future planning. It's much more positive discussions. We're having more technical inquiries, all those types of things. So it's really, I think, setting up well for that.

The difference in a normal year and in a normal time, by early November, we would be starting to see more and more of those translate into actual projects and actual awards and those types of things. It's a little bit slower right now. And I think it's still some of the overhang of the pandemic and folks going back to working in the office and those types of things.

But I can tell you from North America, especially offshore, we're starting to see some positive signs. Latin America, Brazil in particular, I think that in the back end of 22, going into 23, we're going to see some growth. We alluded to, in the numbers we have here, we've had some impact of COVID-related types of things in the Middle East and North Africa. Hopefully, as we start to see more and more signs that the worst of the pandemic is behind us, I think we're starting to see more things start to frame up there.

And let's keep in mind that Asia has been really dramatically affected by the pandemic, probably more so, in our experience, than in a lot of other global markets just because of the timeliness of vaccine roll-outs and some of those kinds of things. So I think all of those set up well, whether it's Latin America for some growth in the near term, the Middle East, Asia, and we're seeing some strengthening in ECIS.

The one that I think is going to continue to be probably a little bit more behind the curve, so to speak, is really going to be Sub-Saharan Africa. A lot of that tends to be because those are bigger projects, those are much stronger capital investments from our customers.

But with that said, we've seen a large number of technical inquiries and those types of things, so I think there are some positive opportunities in Sub-Saharan Africa. I just think they're going to be a little bit slower to mature than what we're seeing in some of the other markets.

Quinn Fanning I think the only thing I would add, Taylor, is..

Taylor Zurcher Very helpful, thanks.

Quinn Fanning We are on a pre-budget basis, and our customers are also finalising their budgets. So the interim guidance I was giving is plus-10% year-over-year. And as you pointed out, our expectation is it's largely back-end weighted. I guess, as we sit here today, NLA and Asia-Pac seem to be particularly strong markets for us as 2022 progresses.

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And we'll come back to you with details as we finalise our budget subsequent to year-end. But again, the guidance we were giving was plus-10% revenue year-over-year. And I think if you look at 2H 2022 versus 2021, it would be even a stronger growth profile.

Taylor Zurcher Yes, understood there. Thanks for that. And a follow-up just on free cash flow. You already explained the pro forma capital allocation strategy, so no real follow-ups there. I'm just thinking about the cadence of free cash flow for the pro forma business. It feels to me like in the near term, you'll probably have some elevated merger-and-integration-type transaction, cash costs that will eat up a lot of the free cash flow potential of the business, at least in the near term, and probably more of a second-half 2022 story when it comes to meaningful positive free cash flow.

But just wondering if you could help us think about once you get past some of these integration-related items, when the business should return to a positive free cash flow-type business on a quarterly basis.

Quinn Fanning Hey. You're right in regards to the timing of synergies' capture. I guess I'd envision it almost as a barbell. We have some support rationalisation that will take place in the first couple of quarters out of the gate. As a result, we'll have severance and other friction costs in the first couple of quarters as a combined company.

Hopefully mitigating some of those cash requirements will be a reversal of the net working capital build that we've seen in the last couple of quarters, particularly on the legacy Expro side, where we have a more significant exposure to the NOC customer base. So we'll have a significant amount of synergies that we think we can execute on in the first couple of quarters.

That should get reflected in the financial results as we get into, say, the second quarter of 2022. There's probably going to be some longer-lead items that are driven by things like migration to a single ERP platform and things like that, that would tend to be more back-end weighted in 2022.

But again, the goal is free cash flow generation. And I think, once you adjust for one-time costs like severance and facilities consolidation costs as we exit 22, I think we'll be significantly free cash flow positive. But as you point out, it's going to take a couple of quarters for that to happen.

Operator Thank you, Taylor. Our next question comes from James West from Evercore ISI. James, your line is now open.

James West Thanks. Good morning, Mike and Quinn.

Quinn Fanning Hey, James.

Michael Jardon Good morning.

James West Good morning. Mike, you mentioned you've had a good amount of travel recently, as things have started to re-open. And I'd love to hear your characterisation of your customer interactions as we've gotten off Zoom and you're meeting people in person again and they're talking about their plans for 22 and 23. Your business is a little bit longer-cycle, so they need to talk about longer-term trends. How have those conversations gone? How are they thinking about the next several years? And how are they thinking about the merger of Expro and Frank's?

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Michael Jardon James, a really good question. I can say I, historically, have travelled an awful lot and always spent a lot of time in the regions and those types of things, and it's been quite nice to be able to go back and do some of that. I was in Brazil for a week here, just a week ago.

So what I would tell you is, and I'm going to answer the second part of your question first, the customer response and the customer feedback on the merger has been exceptionally positive.

I could characterise it as their commentary has been, if you remove the colour of the coveralls... Because keep in mind, Frank's has historically been green coveralls and Expro has historically been blue coveralls. A number of them have jokingly told me, if I remove the colour of the coverall, it's the same people, very focused on customers...

James West Okay.

Michael Jardon Very focused on service quality, very focused on HSE performance. And so they see a lot of very similar personality traits, and both companies, at heart, are service companies. So it's been very well received. They just want to understand a little bit more about why does this make sense?

And we can talk more about through-cycle, and the fact that we can add some more resources and we can continue to leverage. Some of the engineering investment that we've done in both companies, it's going to be transformative for the other. So we've had really, really good, positive discussions around the transaction.

Overall, with their level of activity, I think there's still just some cautious dialogue and cautious conversation. And whether it's caution because... Keep in mind, especially internationally, we still have customers who have not gone back to work in the office full-time, or if they have, they're not working in office full time, it's part-time.

So I think there's still some caution around just what's going to happen with the pandemic. I think everybody is getting more and more confident that maybe we've got the worst of it behind us. And then I think, for them, they're fundamentally trying to really understand the continuous commentary from OPEC and what's going to happen to supply there or what's going to happen with commodity pricing.

I think I'm really hopeful that what's going to happen here over the course of the next four, five, six weeks, as we start to see more, not just positive discussion from customers, but we obviously start to see it translate into, okay, we're going to sanction Project X or we're going to pick up this additional rig, I'm hopeful that here, the planning phased over the course of the next four to six weeks will help us have a little bit more clarity around that.

But certainly, all the fundamentals seem to be translating into that, but is it translating yet into a dramatic increase in contracts being signed and contracts being committed? Frankly, no. But I think, as you're hearing commentary from lots of service guys in the sector, the fundamentals seem to be setting up and it's a more constructive conversation, a more constructive dialogue.

James West Right, okay, that makes sense. And then with respect to pricing, I think Quinn mentioned pricing wasn't included in the expectations for 22. Is that an issue of spare capacity in your product lines? Is that just being conservative? How are you thinking about pricing for your products and services at this point, as we move into what should be a pretty healthy upturn?

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Michael Jardon Well, I'll start, then I'll let Quinn jump in as well. We're fundamentally basing it... As we're going through putting together our budgeting and those types of things, we're not going to count on pricing to save us. We've got a chunky level of synergies that we've committed to, and we need to stay focused on that. So we need to keep things equal, so to speak, from year-to-year.

And by the nature of how we've bid our activity and how we engage in our global markets, we have a really good sense of when is supply starting to tighten from a service side, when do we start to see pricing movements, what are customer behaviours? So we have a really good handle on that. And we're just not seeing those kinds of things yet. I think we're seeing... Outside of North America, I just think there's very few indications of pricing traction.

But with that said, we will absolutely do our part. Once we start seeing the opportunity, with heightening of services or more of an activity set, we'll start moving pricing as soon as we can. We're just not going to count on that to give us some margin improvement. Because we've got a lot of wood to chop, so to speak, on taking costs out, and we want to make sure we stay focused on that. Quinn?

Quinn Fanning Yes, I think Mike's exactly right.

James West Right, okay.

Quinn Fanning The oilfield inflation that has been discussed over the last weeks and months is largely a North American phenomenon. We've certainly had logistics' challenges, in MENA and elsewhere to the extent that we had an increase in our equipment or other costs. And we'll certainly try to pass it on to the customers. What I was really referring to is the ability to push price as a driver of margin. And I don't think we're there yet.

James West Right.

Quinn Fanning But, as Mike says, when we can push price, we'll push price. But I think the other thing that I would underscore, particularly given some of the recent commentary from some of the other public service companies, is that we try to design our cost structure and make capital commitments based on a revenue reality as opposed to a revenue aspiration. And that's as true on the upturn as it is on the downturn.

So when we see signs of a market that can absorb more equipment, we'll certainly bring more equipment online. But we're not going to go out and build a bunch of capacity in hopes that the market is going to bail us out.

Operator Our next question comes from David Anderson from Barclays. David, your line is now open.

David Anderson Hi. Thanks, guys. Morning, Mike. Maybe just a question on the well testing business, not a business we've had a lot of exposure to over the years. So maybe just help us understand some of the drivers in there.

I think we understand the well construction, how that is levered to more on really the deep-water rig's activity and the subsea part. We get all that. But how does the well testing work, particularly as it relates to upstream spending? Because, I guess, what probably a lot of us are trying to figure out is that 10% number. That sounds a little bit lighter than you're probably hearing about international spending next year. It's going to be up that mid-teens, is what we're hearing.

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So is it just a function that it's a little bit later-cycle and it just takes a little bit longer, and therefore, it should last longer, but it's just going to take a little bit...? Just help us understand the dynamics of that business. It would be very helpful. Thank you.

Michael Jardon Sure. No, it's a great question. And your last sentence in there was really spot on. This is more a matter of the timing. Exploration and appraisal activity, by the time you actually go in and you complete wells and you start to test them and you start to do those kinds of things, it's a little bit more of a mid-cycle significant revenue generation. And that's the reason why you're probably going to see us, on the well flow management side, be a little bit more later cycle just in terms of recovery.

Because you have... I try to look at the well testing and well flow management business really in two elements. One is more of that initial exploration and appraisal. And we're starting to see some early indications of exploration projects starting to pick up. Seismic activity and those types of things are starting to increase. And that's a really good leading indicator for seismic happenings. And then you start to have E&A activity beyond that.

And then, for us, really, the second element is around more of the production optimisation and production enhancement, which is really of the existing well stock that you start to see. So that stays stable and that tends to be more of an inflationary change and improvement in that portion of well testing. The strong growth activity comes with that early cycle, post drilling, post completion, and then you start to test wells and bring them online.

David Anderson So is it fair to say that the bread-and-butter part of your revenue is in that production side though, on the well testing?

Michael Jardon That certainly has become, very much, a solid base of our revenue today. Historically, in more normal times, the exploration and appraisal activity would be circa 20% to 25% of our revenue set. Today, it's mid-single digits. And frankly, it's not because we've lost market share. It's just because of the customer activity and investment in E&A-type wells. There's just not a lot of that kind of activity today.

So as you're starting to see, we've got a good base level of well flow management. We still have the resources, the expertise and the knowledge to be able to go out and provide those strong services as the E&A-type activity starts to ramp back up.

David Anderson Got you. And my other question is looking at legacy Expro. And if I just look, just bigger picture, at where your overall margins have trended since 14, the peak of offshore, it peaked up there to we've hit a level the last few years. Help us understand a little bit about normalised margins.

I totally understand all the cost synergies you're taking out. But aside from the cost synergies, how should we think about legacy Expro and where you think that business should be, let's say in two to three years, when things start picking up? I'm just trying to understand the differences between the business mix. And I know a lot has changed. I know you've moved more onshore in that business. But just a little help to get some perspective, I guess, in terms of where margins should go, on a normalised basis. Thanks.

Quinn Fanning It's Quinn Fanning, Dave. It's a great question and, at least where we sit today, to some extent unknowable. The business has changed significantly from the 2014 to 2016 period, which was very much offshore

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subsea-driven and, at least back then, it was largely a subsea completions' business that Expro was most known for, in addition to the E&A-driven well tests.

And as you can see, the combined Expro legacy businesses have been less volatile than the Frank's business, which has got significant operating leverage to it. We bounced in the plus- or minus-40-42% ZIP code on a legacy Expro basis, which has ultimately implied teen-type adjusted EBITDA margins. Can we get back to the high 20s, 30%? I guess it's theoretically possible, but that's not what we're planning around today.

So we've got really two businesses that will be driven by customer capex, and that's the well construction business, i.e. the legacy Frank's business and our subsea test tree or subsea completions' business. And then you've got elements of well flow management, that Mike was just talking about, that will benefit from a capex cycle. But intervention integrity, large elements of well flow management, and increasingly, subsea well access is more production optimisation-centric. And I think the nature of the customer spend will ultimately drive the margins.

But I don't think, where we sit here today, I can give you guidance beyond our expectation as we get into that \$1.3 billion, plus or minus, revenue. On a run rate basis, we see ourselves getting to the plus- or minus-20% EBITDA margins. And I think that's consistent...

David Anderson Okay.

Quinn Fanning In our nomenclature, with 40-45% contribution margins.

Michael Jardon And I guess the only thing I would add there, Dave, is that's one of the reasons why... Because of the way we bid and organise our global product lines, we can dial in our pricing well. And we'll make pricing movements and adjustments absolutely, when the market is ready for it. And it's a little bit unknown, based on when does our customer increase in activity, and tightness in supply and those kind of things.

But the here and now that we have is very much around the cost synergies. And that's why we are absolutely, fundamentally leaning hard into, we've said we'll take out \$55 million of run rate cost synergies at the four quarters following closing. We absolutely will be able to do that. We can control that. We have a really good line of visibility of the costs and the facility consolidations and all those types of things. We've really been able to put together a really solid execution plan.

And that right there is going to give us some controllable, so to speak, margin expansion and will let us be able to... By the time we get into the fourth quarter of 22 and we start to see customer activity pick up, we're not going to be focused internally on cost synergies and those kinds of things. We're going to be focused on customers and projects and how do we go out and execute, and how do we capitalise on an opportunity, that it's more robust.

Operator This concludes today's conference call. Thank you for participating. You may now disconnect.