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National Energy Services Reunited Corp. (NESR)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the National Energy Services Reunited Earnings – Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call – conference over to your host, Blake Gendron, Vice President of Investor Relations. Please proceed.

Blake Gendron

Vice President-Investor Relations & ESG IMPACT Segment, National Energy Services Reunited Corp.

Thanks, Maria. Good day, and welcome to NESR's second quarter 2021 earnings call. With me today are Sherif Foda, Chairman and Chief Executive Officer of NESR; and Chris Boone, Chief Financial Officer. On today's call, we will comment on our second quarter results and overall performance. After our prepared remarks, we will open up the calls to questions.

Before we begin, I'd like to remind our participants that some of the statements we'll be making today are forward-looking. These matters involve risk and uncertainties that could cause our results to differ materially from those projected in these statements. I, therefore, refer you to our latest earnings release filed earlier today and other SEC filings. Our comments today may also include non-GAAP financial measures. Additional details on reconciliations to the most directly comparable GAAP financial measures can be found in our press release, which is on our website.

Finally, feel free to contact us after the call with any additional questions you may have. Our Investor Relations contact information is available on our website.

Now I'll hand the call over to Sherif.

Sherif Foda

Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

Thanks, Blake. Ladies and gentlemen, good morning, and thank you for participating in this conference call. I'm very pleased with our continued growth momentum in the second quarter with revenues growing 16% year-over-year and 11% sequentially, outpacing the market and all our peers. If we compare it from the start of the pandemic, we have grown roughly 20% while the broader sector has dropped more than 20%. Over the last 12 months, our free cash flow conversion has been in excess of 40% of EBITDA, near to top among our larger, more mature peers, which considering the continued growth CapEx needed to sustain our trailing three-year CAGR of 22% is indicative of the strength in our strategy and execution. We continue to be very watchful and vigilant about the evolving COVID situation with the Delta variant causing disruptions in most of the countries where we work.

More importantly, we are very focused on the well-being of our employees and their family members back in their hometown. As you have seen, some countries suffered higher degree of disruptions and travel restrictions, like India. We will continue to strive for utmost support of personnel throughout the organization during these challenging times. As most of you would appreciate, it has been a fluid situation, which has led to several changes in plans by the countries where we operate. In several cases, some have gone into curfews, lockdown with strict measure to control the spread of these variants during the month of Ramadan and [indiscernible] (00:03:23) holidays.

Mandatory quarantining in safe countries is [indiscernible] (00:03:29) for most of our main operation and severe restrictions have been put in place for citizens leaving or coming from certain countries from where a large portion of the workforce comes from. While this has affected the service sector globally, we have been advantaged due to our large in-country workforce and have navigated these logistical hurdles with the target of 100% operation capacity under the leadership of our crisis management team. Several of our customers have mandated vaccine requirements to access their facilities and we are working very closely to enable access to our personnel. Vaccine availability is a bit varied across the different countries and we are working with these limitations and have achieved more than 50% vaccination across our population.

Our goal remains at zero turndown of any job and we are meeting that necessary goal. The other angle to all of this is the significant cost this continued state of new normal under COVID is causing. Just to give you a scale, to date, and since we started keeping records, we are approaching 13,000 PCR tests. I personally passed already the 100 PCR tests since the beginning. When you start to add additional quarantine, hotel costs for 14 days, airline to and from green countries, you start to capture a non-negligible cost to the countries and we continue to record it as normal course to operation.

I know some of the small service companies, especially the ones relying heavily on crew rotation, are suffering a great deal from restrictions to their employees, sharp increase of their Internet cost and in some instance they will not be able to deliver on their rig capacity or services in the short-term.

Now, moving to the macro and activity outlook. Global oil demand is now expected to eclipse pandemic level by the end of 2022 which is exactly what we predicted a year ago. We can see all the OPEC countries are preparing for the increase of production and readiness to deliver the supply to the world. The main NOCs have the capacity and capability to ramp up and manage the speed in an efficient manner to respond to this growth. Near all of the low cost, swing producers are in the MENA region and are our key customers. The rest of the region either needs to invest in long cycle project or in exploration where they have access to reserves.

As you have seen by the commentary from some of the majors, they first have to clear the hurdles they are facing in the market and their shareholders in terms of what the company can invest in or need significant spend to upgrade the aging infrastructure which cannot be cranked up even though the resources might be in the ground. On top of it, there now is a need to see a certain level of capital discipline. The retain matrix has evolved such that the past regime of production sharing contracts or higher IRR in the case of US independence have all moved to higher thresholds.

All of this leads to one thing. Price of oil in my opinion will be solid and we are now going to see a longer cycle [indiscernible] (00:07:12) early 2000 which lasts several years. The only folks who will be able to deliver are the NOCs in the region as they have concrete plans and are very well organized with long-term goals and very importantly have the ability to adjust as their marginal costs are the lowest in the world. Additionally they are focused on energy transition and they need to continue to develop their massive gas fields for their internal consumptions.

The other topic which is very relevant for the service industry and consequently to our customers is the overall health of the industry which I believe needs some thought. We have all seen several commentaries on inflation, but if you look at the numbers and the actions of the industry it gives you a separate picture on the state of affairs. Since the beginning of the year if you look at the main constituent of the [ph] TPI Composite Index (00:08:14) like steel, chemicals as an example, these have gone up by almost 100%. If you look at shipping container cost we have seen cost increase by an excess of 50% and obviously there is a significant labor cost inflation which are a consequence of demand across many industries. If we look back to the start of the last major cycle in 2000 and index the cost of that you would see key representative oilfield service input cost increase by 100% till 2008.

Since 2008 the input costs have grown steadily in line with overall inflation till basically the beginning of 2021 where it has just skyrocketed. Oil price has had several runs in this period and the service industry has adjusted and largely absorbed any changes to these costs in that period allowing the operator to continue to produce effectively at much lower oil price environment. Obviously the supply organizations are managing at best to curb those increases. However, at a certain point, one cannot escape the baseline structure increase. Most of the time the industry finds innovative technologies over the years to enable such sharp reduction of prices against inflationary pressure.

In most of the countries where we work service industry upstream costs are essentially a very small fraction of the oil price, especially when the total lifting cost is in single digits. Unlike 2008, where the baseline profitability of the service industry was good and enabled a solid investment in new innovation and technology, now after more than 10 years of absorbing additional cost, the industry slowed down their R&D spending compared to earlier cycles. As a matter of fact, we need more investment in disruptive technology especially with the need to find sustainable tools and methods to produce oil and gas in a friendly manner. Also opposite to some of our peers, we continue to invest in CapEx and tools to ensure we have the capacity and buffer of resources in order not to affect our service quality and operation delivery. We need to ensure despite all odds that we are able to be the reliable provider to our customers in the coming cycle, where talent and equipment will start to tighten and the differentiation in service delivery will be the key factor of deciding work scope and tender awards. Our customers in the region are extremely smart and they know and understand who is spending and investing for the long-term healthy growth and they see how the different companies perform. We are very proud of scoring the best quality provider to one of our major customer for the fifth consecutive quarter.

Now switching gears to another topic, which is very close to my heart, is our progress on our ESG and energy transition efforts under the auspices of our ESG IMPACT Segment. We are pleased to have published our inaugural ESG report in the second quarter which we view as a pact with customers, shareholders and community alike and driving impactful change that transcends subjective rating metrics. This report will perpetually serve as a yard marker for continuous ESG improvement for us.

I encourage everybody to read it and as the national champion of MENA, we are proud to lead the way for other companies from the region. In our view, the environmental category is where oilfield service broadly have the most potential to pave new commercial avenues as our large NOC and IOC customers push head along into the energy transition. We are excited about a broad opportunity set across water, emission, flaring and most notably the announced flagship water management project that will showcase the combined power of NESR service delivery and technology partnerships.

As we recently announced, we got awarded a significant contract to make brine for one of the majors in Iraq. We have worked with our customer to now change the existing conventional approach on the facility and deploy technology developed with our partner Clean TeQ to use produced water to be the feedstock for the operation and allow the salt generated from this process to be used to generate brine. Given we are moving away from the existing process and deploying new technology there is higher CapEx upfront, but we believe it is our duties and responsibilities to move from risk return mentality to risk return impact. Our customer is very excited to partner with us. It supports their efforts to take what is historically a carbon intense project and flip it 180 degrees into something which benefit the environment due to its circular economy.

In addition to this, we are discussing how to now use their flare or excess gas to drive the electricity needs of the plant in stage two, completely turning a very heavy carbon footprint into something which will have a very small incremental. Again, we are working to transform that project to a flagship to the industry to follow. I believe this will be the world first for such a facility.

On the other hand, we are moving ahead with the project in Saudi where we are looking at produced water to potable water with another strategic partner Salttech from Holland. We are in the middle of shipping the pilot project equipment. Upon trial completion, will lead to a significantly larger water facility. Again, our client leads the industry in looking at ways to have a significant impact to the environment. They have the lowest CO2 intensity per barrel and they are focused on creating value and looking for state-of-the-art project that serves the community and the environment. It is a pleasure working with them as we are totally aligned in their approach.

As we have worked together on the frac business, that is essentially transformational to the region, today, we have proven that working closely together we can achieve the top quartile delivery of number of stages per month than any US operator has achieved. This was basically considered an impossible task just a year ago. And together, our customer proved it is a reality and they remain by far the best-in-class in everything they do. Lastly, we announced last quarter that early in Q2 we closed on our M&A in Kuwait and are fully in charge of running the contract despite the elevated restriction of travel and entry to the country. We have planned properly to send equipment from within the company to handle the increased amount of work which we are targeting. We are extremely excited to establish our stronger presence and have Kuwait as one of our anchor countries in the region. They have solid plans for growth and activity expecting to increase in the years to come. We are investing for the long-term partnership with our esteemed customers in Kuwait.

As a reminder, we funded the first tranche of payment which is the main part for this acquisition through our operating cash flow. All the M&A, we have done up till now have been funded internally. This might change going forward depending on the size of the opportunity. But our excellent cash generation capabilities allow us this freedom to be very nimble when the opportunities present themselves.

On that note, I will pass the call back to Chris to talk the financial in detail.

Christopher L. Boone

Chief Financial Officer, National Energy Services Reunited Corp.

Thank you, Sherif. Turning to our results, we reported quarterly revenue of $235 million. This represents an increase of 16% over the prior year quarter and 11% over the first quarter. The year-over-year and sequential quarterly increases were driven by higher production activity primarily coiled tubing, stimulation and frac in Saudi Arabia and Kuwait. Adjusted EBITDA in the first – second quarter was $54 million or 23% of revenue. This represents a decrease from 26% in the prior year quarter and 24% in the prior quarter. The sequential decline was driven primarily by the impact of inflation and D&E product line mix. EBITDA adjustments of $5 million for the quarter were mainly for head count restructuring costs in certain markets, transaction and integration costs associated with our recent Kuwait acquisition and certain non-cash FX charges due to currency weakness in Iraq and across North Africa. As Sherif highlighted in his commentary we continue to incur significant COVID-related cost such as labor, testing, travel restrictions and administrative costs. As an example employees must be tested several times a week before entering the operating sites on some rigs. As is our practice we did not reflect any of these COVID-related or other items in EBITDA or EPS add-backs.

Moving to our segments our production segment revenue for the second quarter was $153 million growing 10% over the same period last year and 12% over the prior quarter. Sequential growth was driven – primarily driven by higher frac in Saudi Arabia and activity in Kuwait. Adjusted EBITDA margins for the production group were 27% for the second quarter, flat sequentially as inflation and COVID costs offset the benefit of higher utilization of manpower. Separately our drilling and evaluation segment revenue of $82 million in the second quarter was up 28% compared to the same quarter last year and 9% sequentially. The sequential increase was driven by higher drilling-related activities across multiple markets in the region. Adjusted EBITDA margins of 21% for the second quarter were down from 25% in the prior quarter – prior year quarter and 24% to last quarter due to the impact of inflation and a less favorable product line mix.

Depreciation and amortization increased to $35.1 million in the second quarter compared to $31.8 million in the first quarter of this year. The sequential increase was primarily related to the additional D&A from the recent Kuwait acquisition as well as the impact of an additional employee equity grant. We expect D&A to be in the $36 million range next quarter. Interest expense in the second quarter was $3.2 million, flat from $3.2 million in the prior quarter. The reported tax rate for the first six months of 2021 was 17.2%. Excluding the net benefit of adjustments of reserves on prior year taxes our reported tax rate would have been 20.2% which we expect to continue to improve upon going forward.

Adjusted net income and EPS which includes the impact of the noted EBITDA adjustments were $12.8 million and $0.14 per diluted share. Switching to free cash flow we are pleased with another quarter of positive free cash flow generation of $12 million. This brings the year-to-date cash generation to $47 million compared to $2 million in the first six months of last year. The sequential free cash flow decline was primarily related to higher VAT and income tax payments as well as higher capital expenditures. We continue improve in our invoicing and collections. Overall DSO improved by another 9 days over the prior quarter level bringing the year-to-date DSO down by 25 days, a strong accomplishment by the whole NESR organization. Additional actions are in process to lower DSO even further during the second half of the year.

Capital expenditures in the second quarter were $21 million, up from $11 million in the first quarter. In 2021, we continue to expect capital expenditures to be flat to slightly up from 2020 levels to support planned growth. CapEx spending should increase to $30 million to $35 million per quarter during the second half. We continue to expect free cash flow in 2021 to significantly increase over 2020 levels due to flat planned CapEx, continuous improvement on fleet utilization and improved DSO. Net debt increased to $335 million at the end of the second quarter compared to $302 million at the end of the first quarter. The sequential increase is primarily from the use of our existing cash balances to fund the Kuwait transaction. As of June 30, 2021, our net debt to adjusted EBITDA ratio is 1.6, flat from 1.6 last quarter and should reduce to our target level of approximately 1.5 or lower in future quarters.

Also we were in full compliance with our primary credit facility of financial covenants in the second quarter. We are very pleased with the strong financial health of our balance sheet and our ability to fund acquisitions internally. We are currently working on several other technology investments and we are ready to fund those as they come along.

With this, I'd like to pass to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question is from James West with Evercore ISI. Please proceed with your question.

James West
Analyst, Evercore ISI

Q

Hey, good morning Sherif, Chris.

Christopher L. Boone
Chief Financial Officer, National Energy Services Reunited Corp.

A

Hello.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Good morning, James.

James West
Analyst, Evercore ISI

Q

Sherif, with the recent OPEC deal to add barrels to the market, I'm assuming and I'm curious to hear your thoughts on this, but your main countries of operations are [indiscernible] (00:23:26) barrels back on the market. I guess is that – one is that is that happening and, two, is that actually already underway probably pre-deal announcement in anticipation of the need for barrels to go back to the market?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Yeah. Absolutely, James. So all the clients and the main NOCs as you rightly said prepared – were preparing for the growth, for the increase of activity. I would say the main delay on the increase is the COVID situation. So...

James West
Analyst, Evercore ISI

Q

Right.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.
A

...if you look at the – obviously there is a separate preparation from each country without going through more detail than that but you can see that the main constituents of the production definitely have very, very strong plans to add rigs, to add regular site production facility, some of the projects were clearly announced publicly that they are back on track. I would say you – if there were no COVID you would have seen those rigs from this month straight after the [indiscernible] (00:24:44) holidays. I would say that mainly you've got like a quarter delay because of the COVID situation. So some of the countries were announced to open up the borders 1st of August. Now they're saying it's September. Some of the restriction of the countries of the – on the travel and the airline got pushed another month or so. But definitely everybody is in the plan of this is – this had long cycle. They will be adding rigs in facility to produce more. But obviously they have, as you know, the buffer to be able to put that production without adding activity. So they will add – but they have that capability to add production and add activity like a quarter later.

James West
Analyst, Evercore ISI
Q

Okay. Right. And then Sherif, you had – you outgrew the market very substantially both sequentially and year-over-year, do you think this level of outperformance versus the market is sustainable over the next several quarters as things get going as you mentioned probably as the COVID restrictions ease or you get through the COVID restrictions or there'll be some slowdown in that outperformance, and I expect you to outperform but I'm just been impressed by the continued significant outperformance?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.
A

Yeah. So I would say obviously our ambition is to continue to do the same. Our ambition is to have that outperformance definitely on sequential basis and year-on-year. I would say the only drawback or the only restriction would be is the COVID, right? It's not only us it's really the some of the – I tried to explain it in my earlier remarks, it's some of the actually like rig companies of the region, the local companies, have – they are suffering on their rig capacity. So...

James West
Analyst, Evercore ISI
Q

Right.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.
A

....even when we have projects that are lined up, we won the tender, we are waiting to do some of the work, the rig is not ready because they don't have a crew. So – and they rely on the crew on totally rotation of people. So I would say some – the total market if it gets delay we would just have some delay but definitely our focus is to outpace the market as we've been doing because if you start to gain more contracts you should be able to do the same.

James West
Analyst, Evercore ISI
Q

Right. Got you. Thanks, Sherif.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Thank you, sir.

Operator: Our next question is from David Anderson with Barclays. Please proceed with your question.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

Hey. Good morning, Sherif.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Hi.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

So you talked about the margin, so the margins were impacted this quarter by – you mentioned inflation, bunch of COVID issues, a little bit of mix in there. I would think that maybe those should start to turn the corner let's say presumably over the next quarter. So you didn't mention pricing and I was just wondering if maybe you could comment about kind of the industry pricing as you see it? When things do start to pick up I guess kind of towards the back part of this year, where do you think pricing kind of ends up and we've been hearing talk that the big guys have been very competitive on these big tenders, I know you don't participate in those, but is that spilling into your pricing mix and maybe just how do you think about that kind of as we go into next year?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Okay. Thanks, David. So, yeah definitely I spoke about our cost, ourself and the industry is definitely the COVID has now start – you start to feel it, right? You start to feel this. [indiscernible] (00:28:31) to give you an example, some of the rigs now, if you have – one case, the crane operator, for example, has COVID then every single person on that facility will have to test twice. And they quarantine the other crew for a week. So you have to put – you have to pay for the hotel, you have to do [indiscernible] (00:28:52). So definitely the costs start to really climb up. I would say the other part is the inflation, which is you don't see it yet, but we can feel it with the – talking to some of the CEOs of the chemical company, the transportation, etcetera. And they clearly say that they cannot afford to keep the pricing as is for the longer term. So you're trying to delay as much as possible obviously that increase until it really start to hit you, right? So that mix I think it's affecting everybody, affecting the industry and you would see it.

I think back to your point, pricing is I would say very honestly it's a lack of leadership, right? So the pricing has not been – nothing is passed on. People are still dropping the pricing unfortunately in all the tenders, actually big and small, surprisingly, despite the fact that the situation is going to tighten dramatically over the next six months. We can see it in the service quality of some of the service company in the region. They have very actually poor service quality in some of the projects and you can see why because obviously they continue to drop the price unfortunately. And as I said the health of the industry you can see it because even if you look at I would say the R&D portion of the business and if you look at how many people – how much people are investing, for example, in some disruptive technology or even if you look at the published number of the spend, you see it dramatically slowed down, which is again back to the pricing problem. And I tried to explain it in a way that some of the folks around actually they never saw an up-cycle. They've been always in a down cycle over the past 15 years or some time, right? So outside North America where you can see a dynamic approach of people trying to move pricing, I think the international market people are not used to it. They are not aware that they are going to have a problem in some months to come and quite frankly, no, pricing is not moving at all. So this is on the normal project.

If we talk now about LSTK it's a complete disaster I think. I mean the LSTK people continuing to bid on that on the loss making. And obviously as those scale of the projects especially on the drilling gets bigger, I think you would see it more and more on the margin of the company.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

All right. Well, I've seen an up-cycle, Sherif. You've seen up-cycle. We know it's coming and so I'm looking forward to seeing that again. But one big thing about up-cycle is kind of capacity, right? And so I guess the one good thing about these LSTK projects is they're going to soak up a lot of capacity I would think. So talking about the health of the industry, haven't we seen a big cut in CapEx by those bigger competitors of yours? So do you think that obviously in order for pricing to pick up you need to have sort of that combination of activity and what capacity levels are, does that give you some confidence that the pricing can get passed through kind of early next year and that, that'll come naturally in the market?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Yeah, spot on. I think you've analyzed it extremely well, David. It's absolutely right, is there is a capacity in the international market still, that capacity is going to tighten. It is exactly what I was saying. And actually I think it's – the talent of the people will actually be even worse, right? So people are not investing at all in CapEx and I'm investing actually much more than – as a percentage obviously of revenue, I'm almost 15% and as a buffer again on the capacity to make sure that we can do the projects. I think what will happen exactly what you said once the capacity gets absorbed with the increase of activity that is coming and people will start to turn down jobs, the clients will see some service quality suffering and then the pricing will start to come naturally. And absolutely you're spot on. This will come when that – which is similar to North America, but always there is a lag, right? But I'm trying to explain that these contracts in the international market is a longer term scale and people just have to be aware that you should be careful of what you price now if you're going to – if you have a contract for four, five years, right? So it's important that people start to realize the fact that the health of the industry is very important.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

Great. Thanks Sherif.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Thank you.

Operator: Our next question is from George O'Leary with TPH & Company. Please proceed with your question.

George O'Leary
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Good morning Sherif. Good morning, Chris.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.
A

Good morning, George.

George O'Leary
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.
Q

Apologies if I missed it, I got dropped from the call about 15 minutes and had to redial in. But I wondered if you could just frame the revenue trajectory in the second half of 2021 assuming the COVID issues kind of abate or don't get worse from here, is the expectation still that Q4 2021 revenue will climb very materially and much more so than in Q3 and then any initial expectations for revenue growth in 2022 based on discussions with and/or announcements from your customers?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.
A

Yeah, I think it's very positive. I'm extremely, extremely excited about the H2 and next year. I think I tried to make it clearly that this is a very – it's a long cycle. I think we're going to see a nice upturn with activity increase. All the increase in my opinion will come from the OPEC countries. These are the folks that are capable. They are extremely, extremely smart, extremely organized. They have a very, very solid plans for growth. They know where the rigs will go. They do the reservoir management as you know – as I said, best in class in anything, in any comparison to anybody else.

So those increases you will see in H2 and as – I think the commentary from most of the people, you will see a double digit definitely H2 over H1 or H2 over H2 of last year, right? So you will see a double-digit growth going forward. We believe 2022 will even be much, much higher than people expect. I think the only – as you put it, the only caveat here is what happens to the COVID, right, what happen to the restrictions. And not in the matter of like Europe now saying that they might close again except [indiscernible] (00:35:55), I think the restriction you see in the Middle East and some people are not aware of that, it's a very, very – like they take very strong measures, like very, very strict, right? It's more of a Singapore approach or Australia, etcetera, right? So where you have a lot of restriction who can go, the people cannot travel, some of the countries are totally not allowed to enter, etcetera, etcetera. And I think this will just have I would say a shift maybe on the increase of activity by a quarter or so. But I say Q4 is going to be absolutely solid, absolutely solid because rigs will start to arrive. People will have the crews, etcetera, etcetera. So I'm extremely, extremely excited and again this is not I would say six, seven months, I think this is going to be a nice several years up-cycle.

George O'Leary
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.
Q

Great color, Sherif. Thank you. And then M&A just as an important part of the story, you touched on it a little bit in your prepared remarks, wondered if you could flesh that out a little bit? Just how is the M&A landscape, what's your mindset with respect to M&A at this point and then how do you balance that with forming partnerships, technology investment focus, any areas of interest to you as we move forward?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.
A

Oh, it's the same. I mean we are very – since the beginning of the company, we are – we know exactly what we want to do. We actually know who we want to buy. So we are focusing on ensuring that the geographical M&A, which is our main M&A, has to be accretive. People have to be – we have to buy companies cheaper than us – cheaper than how we trade. I think we trade very low multiple compared to what we are – how we are growing.

However, if we still – at that multiple, we have to buy somebody that is cheaper. The company has to add value. We look at the governance extremely in a very detailed eye. So we need to ensure that how they run their business, how they govern the company, the shareholder base. It's accretive to us. It's added value to the portfolio of the segments that they have in that country. So it's one plus one equal three. That's how we look at M&A geographically.

On the partnership, we continue the same – on the same path like we did where we have like almost a dozen of partnership. I'm very excited with the ESG IMPACT partnership we have with the two water companies. We are looking at emission and now we are almost on the third or fourth company to look at that. We don't announce it yet because a lot of it is R&D kind of sensitive. So there is a lot of proprietary or IP that we kind of trying to make sure that it stays like confidential. So once we have this more matured, we will announce those partnership that will add value and people will see in the market that why we're doing that.

Meanwhile, we are looking again at early ventures, people with disruptive technology. We are investing in those. We put already this quarter I think in couple. We invested, we put money. Again, we don't announce the name because of confidentiality but we already put some cash into those two companies and we look into more of these, right? There is not much going on as I said on the R&D front from the big guys, they don't really invest in a lot of oilfield services stuff now. So the disruptive stuff comes from really the nimble, small, very smart R&D folks and that's where we want to put some money. Partnership with bigger companies is definitely again on the same path like we had very nice with Phoenix, we have with others. We are discussing with two other companies to do something about with their technology and how that can fit for purpose in the Middle East. But when we do that, again, as we always said before, we need to ensure that that partnership adds value to our customer. So that open platform that we provide to date to the big NOC is a very big differentiator, because it gives the client access to all this different technology. They are not bound by one or two technologies that may be outdated, they want to see who else has something and so I want to make sure that we are credible when we bring those partnership, those people add value and they are differentiated. And that is the key and especially as well they have the promise and they have the will to invest in those countries. They cannot come there and just do business and run away. They have to go and invest, they have to put facility, they have to put labs, they have to put the investment, they have to have skin in the game to be able to come with us into those countries so then we bring value to our dear customer and the NOC in the region and they see why we are bringing those folks to their territory. So same line, very excited about it. Hopefully, we're still on the same path to try to close a deal before the end of the year.

George O'Leary
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Q

Great. Helpful color as always, Sherif. Thank you.

Operator: [Operator Instructions] Our next question is with Igor Levi with BTIG. Please proceed with your question.

Igor Levi
Analyst, BTIG LLC Q

Good morning, guys.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp. A

Hi, Igor.

Igor Levi
Analyst, BTIG LLC

Q

You talked about two water projects, one in Iraq and one in Saudi. If you could just provide a bit more color on the size and objectives and how they're – what are the differences in the two projects? It looks like Saudi is more of a pilot and I believe on the previous call, I think you mentioned there were three pilots on the horizon, so also wondering what the updated project pipeline for water management looks like?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Yeah. Thanks, Igor. So, look the Iraq project is obviously with – as I said with a super major. Extremely, extremely excited on it. We have the award. So we are awarded the contract to make conventional brine, like they've been doing, like the competitor are doing. So we – obviously you have to get awarded the normal way, which we did. And then as the – as our clients are extremely [indiscernible] (00:42:49) about the ESG, we went and presented to them, we are awarded. This is how we do it for the past three years and all the industry does the same.

We like to change that. We like to put it – we will honor the same price. Despite the fact that it will cost us more, but we will honor the same price. But we can do it with our partner company, which is the Clean TeQ guys from Australia and we can do it. If we do that, this is the amount of CO2 we're going to save, we do not have to ship any salt, we are going to take the existing salt from the produced and then clean it, remove the sulfate, put it back and use it as brine. So this is – the footprint of that is going to be significantly the reduction of CO2 and we are going to have this as a nice ESG project. They loved it. They said it's a great idea. We need to make sure that you guys still deliver as you said on time which we said yes, we will deliver on time, but we will do it this way. It will cost us more, but we will do it, right? So that project is going to be – I think once it's start and working, we – it will be a flagship and our approach here is to show this as a project for everybody, so everybody in the world see it, because I think it will be the first time ever done like this.

The second, as I said the pilot, just to give you more color on that, is the same what we discussed before. That's totally different company, different approach, different technology, this is to make potable water and it's not used for oilfield today. That's why it's called pilot, because the technology has never been used in oilfield, it's used for totally other industry. We believe that this is very innovative. We believe that this could be something that is if we can make that then it's not only we can make water for like ZLD and all the stuff, but it can even make water from the community. So now the contribution is to the environment that is totally outside our – it's not even to make brine to drill with it or to make – you can make water for drinking for villages, you can make water for the community, for so many things, especially when we look in the desert, if we are able to do that, we are definitely game changing here and that's why we approached Saudi because obviously our customer in Saudi is like, as I said, it's like one of a kind right, the best-in-class in everything they do and they are so focused on the environment. They're extremely, extremely savvy on that.

If you look at what they are doing in so many places [indiscernible] (00:45:29), et cetera, just state-of-the-art. So they loved it obviously. And they said let's pilot, let's see how this would work. If it works well, then what is the scale of such a plant and where can we do it and how we do it and that's why we are doing the R&D – kind of an R&D pilot together. Once it's proven and once we can make that scale, we'll do it. So the way we do it and giving you maybe too much details now is we are telling those folks in Holland and Germany, we build those and we are shipping that because it's a totally different skill that what you do.

What they do in the industry today is a minuscule compared to what we're going to do in an oilfield sector, right? So we are making that. So we're going to test it, then we're going to scale it. If it's successful, we're going to scale it totally to a totally different site. And once it's done, then we will be able to forward the discussion to other countries where we have the same idea, but we obviously told the customers, now I'm testing this in Saudi and soon as I finish, as soon as it's successful, we obviously take it immediately the same scale with all this lesson learned to the other countries to do the same.

Igor Levi
Analyst, BTIG LLC

Q

Great. Thank you. And shifting to oilfield services, as we think about the rest of the year, are there any major contracts set for renewal this year or even incremental work that you're anticipating could be awarded in the second half?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Yes. Absolutely, we tender all the time, Igor, right? So it's a $20 billion market, so I can tell you if you just tender 10% of that, that's $2 billion, right? So it's an ongoing process and I think that's what I tried to make on my earlier replies that the expectation that we see that those kind of big tenders and big contracts start to see different approach because of the inflation, because of how the whole market is going to develop and that's what I just said unfortunately we don't see that until now. So we are moving and hopefully we'll see how – as soon as we have some significant and client allow us to announce awards and we'll definitely do that, right? So we obviously do that always very frankly with our clients and I see there is so many things going on and we will – you will know about it as soon as we – if we secure some of these awards, we'll definitely announce them.

Igor Levi
Analyst, BTIG LLC

Q

Great. Thank you. I'll turn it back.

Operator: Ladies and gentlemen, we have reached the end of our question-and-answer session and I would like to turn the call back over to management for closing remarks.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

Okay. Thank you, Maria. Thanks. Thanks everybody for attending our call. Again very excited about an up-cycle. We've been missing that for a while. So – and we look forward to speaking to you soon, and all the best. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.