



- David Anderson: Hi, I'm David Anderson. I'm the head of US Oil Field Services Research at Barclays. Our next presentation is with Mr. Sherif Foda. He's chairman and CEO of NESR. NESR is the only publicly traded pure play Middle East oil service provider, providing production services and drilling and evaluation services. Sherif has been chairman and CEO since the company's inception, which came together in June of 2018, with the acquisitions of two leading regional Middle East companies. He's been in the oil and gas business for 25 years. The majority of that has been Spanish Schlumberger where he served as senior advisor to the chairman and president of the production group among other roles at Schlumberger.
- David Anderson: You'll notice that Sherif and I are being very socially distanced today. We're both at Barclays today but in different rooms, being very careful with everything going on with the virus today. Sherif thank you very much for joining us today. I believe you have a few presentations to start off... have few slides this morning to start off.
- Sherif Foda: Thanks, Dave. Thank you very much. It's always a pleasure to be here. As you said, it's always a pleasure to be here but I'm alone in that room, so it's fine. I just wanted to give a quick discussion before our chat. Back to what I've been saying for a year, I think people are now more and more convinced that really the demand recovery is coming back. We are seeing most people are 100% percent convinced that you're talking about 100,000,000 barrel or more by next year.
- Sherif Foda: You can see that the depression, I would say, or the lack of investment over the past six to seven years will mean that the oil price will go significantly higher and it will mind you all of the 2005, 2006, 2007 cycle, where basically lack of investment reacted to sharp price increase that have multi-year of an upturn I would call it.
- Sherif Foda: Definitely the OPEC is going to be the... I would say the main region that will be able to come up with the barrels that the world needs. You can see that GCC, the Gulf countries are definitely the lowest cost and they have big plans to increase dramatically their production capacity. If you look at the US Shale, I think most people said the same thing and this chart, how many rigs to be able to get a positive production in the oil. If you assume an oil price of above \$70, you're still talking about 800 rigs just to get back to positive, which means that

it's not really the shale that is going to get back. That the swing producer is definitely the OPEC and you can tell what are their budget and you can see from the public figure, what most of the countries, especially in the GCC again, what did they announce to be able to come back to the pre 2019.

Sherif Foda: Actually they know that they will be able to, they have to come up with an additional five, six million barrel above their maximum product, which means that they have to spend dramatically higher. You can see here, for example, Saudi what they announced publicly and you can see more and more coming. I just came from the region for a month and I can tell you, the plans from the different countries is significantly higher than what people expect.

Sherif Foda: That means that with what's happening as well around us with ESG and the carbon and the COP26 coming, we definitely, as an industry, we need to be more, I would say more responsible and produce in a friendlier manner. That's why as a company, we launched our ESG impact back in January during the future investment initiative in Riyadh the very prestigious forum and we said that we are going to provide part of the technology that will make that possible.

Sherif Foda: The one that I am very focused on is the water. When I tell you why, because you are in the Middle East and people that travel to that region, they understand that the majority of the land is basically desert. It's the lowest percapita water availability. The majority of it comes from RO plant desalination. You can tell that actually for a change and if people focus on it as our industry, we can make a difference because we produce a lot of water with the oil that we produce. In some places we produce 10 times the water as we produce oil and we have to produce that water to be able to produce the oil, which means that we can do a lot of the project. I can tell you that we are making that economically possible. We have two pilot project, one in Iraq and one in Saudi Arabia.

Sherif Foda: The client is extremely, extremely excited about it and we are very excited to make it happen. I think this will show the world that the industry can be a differentiating of providing not only water for what we do but for the community, for agriculture and lower the CO2 emission. To end, we are always very proud of our ESG report, which is basically... from the region, it's the only one that is very inclusive and very... I would say extensively talking about every aspect of the local content of the ICV of the countries where we are operating. I think that would make a big difference and I'm very, happy about it. It's all launched in publicly. With that, Dave, I'd like to pass the ball to you for your question and at a distance again.

David Anderson: Of course Sherif, thank you very much. So Sherif, you said you just came back from the region spending some time and the activity levels are going to be much bigger than... much higher than people think. Maybe characterize that for us. Is that more the shorter cycle barrels we've been hearing, some others... Some of the other service companies talking about shorter cycle barrels are picking up. Is

it about capacity additions? Is it natural gas... Help us characterize what you mean by higher activity levels? Where is that coming from?

Sherif Foda: Look, as I said, I spend a lot of time in the region. When you talk to the management, seniors, the executives, the policymaker, the CEOs of the companies, they are extremely, extremely savvy. They know exactly that the world would need a lot, a lot of oil and they need a lot of gas for their internal consumption. I'm talking here about a budget that you're going to see in the next couple of quarters, not even in the long term.

Sherif Foda: The long term massive program is ongoing. Changing totally the mindset of the spent. You saw very clearly Saudi talking about increase in their MSC to 13 million. They're talking about massive increase of the gas to 50% for internal consumption, renewable and 50% gas by 2030. Totally removing all the oil generated diesel powered plant, the old plant.

Sherif Foda: You're talking about significant. When I talk significant, I'm talking 20 to 30% in my opinion, next year, budget over this year's budget. You are talking very significant budget expansion, rig count in some countries going to increase by the 30 to 40 rigs. Already you have the 2000 horsepower rigs are almost in scarcity. There is no more rigs available. Most of the warm stacked are going to be picked up.

Sherif Foda: People are totally underestimating. The significance of increase of activity next year. The only caveat of all this is purely, as I put in my earlier comment in last quarter, which I expected that the COVID restriction will delay, shift everything by a quarter or two. That's what I'm seeing here. For example, when I visit, I travel all the time to these countries, and I can witness the restrictions first hand.

Sherif Foda: That means that the rig crew are not going to come on time, et cetera. That's why you have a shift on the, on that sharp increase of activity. But I can tell you, most of the the clients are negotiating rigs as we speak.

David Anderson: Your business is a little bit different than some of your bigger competitors in that there's a lot of rigless work that you're looking at. I think you've talked in the past but the rigless work could actually grow faster than the rig related work. Can you talk about that a little bit in terms of what you're seeing and maybe just remind people of how your business is a little bit different than some of the others that people are familiar with in the Middle East?

Sherif Foda: Yeah, I tell you, because obviously we are only in the MENA region. MENA region has rigs and rigless activity. The rigless activity usually are sites what they call, which is basically you have to provide a camp, you have to provide all the safety requirement. Plus you do some services, which is basically stimulating

wells, acid stimulating, changing ESP, coiled tubing activities, slickline, wireline.

Sherif Foda: We have a very, I would say, solid leadership market share in that. Definitely the other players are playing in the same but a lot of people look at... When they look at the activity drop for example, usually look only at the rigcount and that's what happened last year. Rig count dropped, for example in the Middle East and this year dramatically, but the rigless did not. Which means that we manage to keep that solid market share, especially on the testing, coiled tubing, wireline and slickline.

Sherif Foda: We have, as I said, in some countries we have sometimes a market share of like 30, 40% of that activity, which is significant. Saying that, what's going to happen now for the OPEC to meet their production increase, you will see already an uptake in rigless activity. That would be always for the people that are ready with equipment, ready with people, to be able to pick up some of those, because why they're doing that, because that's to revitalize or open up some of the wells that are closed to be able to come up with the production.

Sherif Foda: Until you obviously drill and come up with the development plan and increment. If you're talking about that increase of production and combating the decline curve, you're talking about a massive three to four million barrel needs, just to up one or one and a half million barrel over the baseline.

David Anderson: Over the last couple of years, you've been very busy with a number of smaller M and A transactions really filled out your region in product base. Yesterday you announced an interesting deal with Cactus Wellhead. I'd like to understand a little bit about that. Cactus has been trying to get into the Middle East for some time, I guess I should have seen this coming because you guys have such a great footprint over there. Talk a little bit about how that came to be and what each of you are bringing to the table here. Obviously you're pretty active in a lot of the natural gas I'm thinking the wellhead and pressure control, obviously where cactus is pretty strong. Can you talk about that agreement please?

Sherif Foda: Yeah. Sure. As you rightly mentioned, Dave. I've been talking to Scott for some time. The company, as you said, Cactus is amazing, did a fantastic job in the US. We've been talking with the same philosophy we have with the open platform. How can we bring them to the Middle East to make sure that there is a differentiation. When we do that, we always like to maintain our credibility with the client. I do not like to let's say, bring someone that... or have a partnership with someone that do not deliver on time or on plan. That's why one of the reason I made sure to team up with Scott because they do, and that's what we said to our clients, this is a technology, you can have a differentiation, they have a leadership role, we need to bring that.

Sherif Foda: Why is this important? Because the process of doing that in the Middle East is extremely lengthy. You're talking two to three years to get someone approved. There is a lot of investment you need to do in the country

to be able to get there, testing, et cetera. Obviously that's what we did. We leverage our footprint into the main countries where we want to be present. Today we have a couple of trees that are rigged up on the wells in region and to be able to operate and this how you are going to look at how we perform.

Sherif Foda: Based on that performance, we enable the expansion of the agreement. Should we do it on the production trees? Should we build a plant? Where should we build the plant? Where is the local content going to come from and how this structure as well, we are going to do. This is in early days and that's why we decided let's start first with the frac trees. Then from there, we move forward to the next phase, but definitely the agreement would be like we did with NEX, like we did with NINE and the others is to have a solid partnership where the customer benefit and see that efficiency of the US translated into Middle East.

David Anderson: You're taking the best of North America and bringing that into the Middle East, [inaudible]. That's where you see this opportunity set clearly.

Sherif Foda: Yes, absolutely. We trying to... we do the same thing with the chemistry. We did, for example Innospec agreement and it's the same. It's not just chemicals. For example, what we do there is we take the best that they do here, the best product and how we tailor it and get it to be approved by the R and D of the clients. We tell them, this is now a new chemical that did so well in the US and we did some reservoir studies on it and let's do it in the country.

Sherif Foda: The approach that we have is so different than everybody else, because I keep saying this to my dear customer. I'm not an agent, I'm not a broker, we are a technical company. We look at this, do they make a difference? Is the technology works? Do we do the testing? Then we have credibility and you bring that and they see the difference and the best is they saw what we managed to do in the fracking together in Saudi, with the client managing 12, 13 stages a day where it is historical records.

David Anderson: Yeah, there's a long history of failed ventures into that market on the US side. This seems to be maybe the one angle they can get in there. Let's talk about pricing a little bit. You've been pretty critical here on this side activity picking up. When anybody ever asks you about pricing, you push back pretty good. I think you talked about lack of pricing leadership. Vent on me, tell me what's going on, on the Middle East side on the pricing side. You sounded frustrating more recently I'm wondering if you're any less frustrated on the pricing side.

Sherif Foda: Look... Okay without obviously making any announcement to anybody, but I tell you if I look back and this why I tell the people to make the analogy. If you look back at what happened in the nice cycle of 2005, where we were part of it obviously, and we had a very solid leadership to try to resume or salvage some of the destruction of pricing. I'm not talking about we are trying to increase our price to charge the clients more. It's absolutely not.

Sherif Foda: What we want to do is we did so many efficiency gains over the years to lower the cost of production, lower the cost of operation to ensure that the customer can economically produce the oil and gas. What I have seen lately and that's why I'm a bit... I would say... I don't want to say sad but I'm surprised with... When the inflation that is happening over the past six to seven months.

Sherif Foda: After the destruction of pricing, some of the supplies, like for example, steel. Look to buy coil tubing pipe, to buy drilling, buy anything and how the NOVs of the world and et cetera, having a problem with their supply chain and all of a sudden, we try to go to the customer and said we are a partner with you, and we will try to mitigate and not to have that as much as we can and pass through. I'm surprised that from some of the big players, they go actually the opposite and they go and minus 30 minus 40% from the current price.

Sherif Foda: For me, it's that... I don't want to say it's not smart. It's just very... I would say very dangerous game because the whole situation in the market is going to get very, very tight and we should be credible and our customer are actually very, very smart and very good in listening to us, if we put the proper things on the table. As I said, we don't want to make a lot of money...

Sherif Foda: We just want to salvage some of the destruction over the last years and some of the projects going to be very tough to do at this level, because the supplier will not give you what you need. I just explained to you, for example, I'll just give you the best analogy, David. We have a project with the 2000 horsepower rig. 2000 horsepower rigs do not exist anymore, there is no more in the Middle East, because they're all contracted or going to be contracted.

Sherif Foda: The rig contractor increase the price by 30%, immediately. You want the rig now, today is 30% more, take it or leave it. That's the only time actually that industry do that when it's totally dry. I think it's going to happen in the near future, long answer but I'm trying to frame it properly.

David Anderson: Understood, you've been talking a lot about water management and your ESG push in there. Obviously, it's your last slide in there you're trying to emphasize this. Not a region we typically thinking about ESG but clearly water is something you really focus on. Can you talk a little bit more about that project you had highlighted in Iraq? I believe that was for one of the majors in there and how you think that A, what exactly are you doing there? And B do you think you can expand that into other GCC countries?

Sherif Foda: Yes, absolutely. I think Iraq project is phenomenal in the sense of, we went to the customer. We won the contract conventionally. We went to our customer and we explained to them, why don't we do this as an leadership and ESG project. It's going to cost me more I'm going to have to pay Capex more and all this. I can do it the conventional way that you guys have been doing for 20 years but let's do something.

Sherif Foda: In Iraq you look at around you, today we ship salt and clean water, put it together to make brine. Why don't we take the very bad water that exists in the field and clean it and make it the brine for all the development that they have. The budget increase in that field is going to go 40% plus year on year. That means that a lot of rigs going to be drilling, a lot of water there's going to need it. I do not need to truck any salt. I do not need to use any fresh water from RO plant. RO plant are good because the world needs it, or the MiddleEast needs it, but let's not use it for the oil and gas. The customer immediately jumped on the idea and they said, "Okay, guys, can you do it?" We said, "Yes, we can do it. We have an IP. We have a technology that is differentiating everything that you've been listing to for the last 20 years. This is not a technology for oil and gas but we are going to take it for oil and gas."

Sherif Foda: They loved it, the plant is being built. It's going to be operationally 1st of December. I just talked to their senior VP, he loves it. Now we are looking at using the heat from the engine and the refinery to power that plant. Then we don't even use any power for the whole thing. Then it becomes a real green project and we show it to the world. The same time, I'm talking to Saudi where we are going to have a pilot project. We are doing it together with the pilot. And by the way, Saudi has a leadership in ESG and they have a lot of projects going on in Aramco. Anyway, this... now we go to the next level where we provide fresh water. We take the bad water and make it fresh. The fresh water goes to the community, goes to agriculture and goes to part as well for the operation.

Sherif Foda: Same, I was just in Oman and Egypt, talk to the leadership as well. They love it. There is so many things going on where it's either you have trucking that you're going to eliminate, either you're going to have bad wells that you're going to use that today you have to try to dispose it, or you have salt that you don't know what to do with it and now I'm going to take it and make it brine instead of trucking new calcium chloride or sodium chloride.

Sherif Foda: There is a lot of vision about it. I think the key of some of these strategic projects, you have to sell it at the top level and prove is economical. This goes, first you go to the minister or to the CEOs, and then it goes your way down the organization. Definitely I see a huge potential for water and for the industry to make that I would say stamp that we are responsible human being and responsible companies that we can make a difference in scarcity, in a region that has no water.

David Anderson: It sounds like Iraq is your test case here. You get this up and running, you get everybody happy. Then you can bring that into the kingdom in other areas. Is that the goal here?

Sherif Foda: I have both project in parallel. The one in the kingdom, the Saudi is fresh water, purely fresh drinking water. The one in Iraq is for brine. Both technologies,

Sherif Foda:

I'm doing it at the same time. I'm talking to all the other countries and I think in my humble opinion, I'm going to run out of supply, not run out of projects. I think we're going to have a lot of projects and we need to make sure that those companies that we have are capable of doing project with that skill. I'm talking about hundreds of thousands of barrels per day, that we can provide to the community.

David Anderson: Sherif, my last question is just on what you're investing in these days. You've grown this company very quickly in just a short couple of years. Where are you going to be investing from here? What's the best allocation of your capital today in terms of where you're spending? Is it on tools? Is it on this ESG? Is it on new areas? How are you thinking about the next two to three years in terms of your CapEx, in terms of where it goes?

Sherif Foda: So we are expanding. The first part I'm expanding our front loading of CapEx, continuing because I know the market will need a lot of equipment and people will not be able to deliver because... I'm building more of coil and frack and wireline and all the stuff. This part is taken care of and I always do it six month in advance

Sherif Foda: I'm getting my equipment as we speak. A lot of it on spec. I have offshore units on spec and stuff like that to be ready, that's one part. The second part is definitely the ESG CapEx capital expenditure on project like this on the plants, because I think the big part of the growth will come from that ESG portion, especially the water. The third portion, which is not our CapEx. Not from our a hundred million CapEx a year.

Sherif Foda: The other part is the M&A. I think that part is extremely important to get to this \$2 billion that we like in some of the project that we want. The otherpart, obviously that we are spending on that, but that's not really capital that's R&D, which is, as you know. We invested in four, five companies, we don't make it public yet, since last year. Those guys are basically the innovator on some of the very unique technology.

Sherif Foda: This technology takes two to three years as a cycle, actually for the big service players, it takes almost six, seven years. Us we're trying to make it in three years. Obviously our hope is to materialize and have those tools ready for XP and testing by the mid next year. Then we are going to have a nice portfolio on the D&E side to complement our production side. You'll have production, D&E with tools that complement our portfolio. You have your ESG with leadership that people not doing it today, that we going to be doing it. Then obviously your other parties, the M&A.

David Anderson: While we leave it there Sherif. Thank you very much for going through this story once again. Obviously very exciting story and on the verge of a multiyear growth trend, which we're looking forward to. We're following very closely the truth. Thank you so much today.

Sherif Foda: Thank you.

David Anderson: I look forward to seeing you very shortly. Thank you very much.

Sherif Foda: Thank you so much, thanks for inviting me. Thank you.