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National Energy Services Reunited Corp. (NESR)

Q3 2024 Earnings Call

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Gregory Lewis
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Derek Podhaizer
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to NESR's Third Quarter 2024 Financial Results Conference 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.

It is now my pleasure to introduce your host, Blake Gendron, Vice President of Investor Relations. Thank you. You may begin.

Blake Gendron
Vice President-Investor Relations & NEDA Segment, National Energy Services Reunited Corp.

Thank you, Donna. Good day and welcome to NESR's third quarter 2024 earnings call. With me today are Sherif Foda, Chairman and Chief Executive Officer of NESR; and Stefan Angeli, Chief Financial Officer. On today's call, we will comment on our third quarter results and overall performance. After our prepared remarks, we will open up the call for 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 risks 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 reconciliation 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. Our third quarter was once again strong following solid first half of 2024 even on top of our robust growth last year. We continue to reach new all-time highs for revenue, EBITDA, EPS and cash flow, and our balance sheet is increasingly fortified and poised for both accretive growth and prudent shareholder returns. Despite the prevailing market uncertainty, I am pleased to report that overall activity in the MENA market remained stable and I'm extremely encouraged by the prospect in NESR's core business outperformance, new technology rollout, particularly in directional drilling, solid hydraulic fracturing execution and frontier market opportunities in water and decarbonization segment. Combined with our recent relisting on NASDAQ, our outlook remains extremely bright, both in the fourth quarter and in the coming years.

Before passing to Stefan to discuss our solid third quarter results and balance sheet positioning, I want to first offer some thoughts on the macro outlook. Our recent technological milestone that we expect will fuel continued NESR outperformance and our overall positioning in an otherwise cautious sector landscape. I'm extremely proud of the entire NESR organization as we continue to push the envelope on growth, margin delivery and cash generation, which afford us the opportunity to reinvest in really exciting growth areas of our business.

If there are two key message from my prepared remarks, they are, one, that the MENA macro outlook remains healthy underpinned by growth in key countries alongside Saudi leadership in pragmatically managing energy market balances with strong focus on gas and unconventional development. Two, we expect NESR to continue to outperform the broader sector with exciting development in the core, our drilling technologies and in frontier area such as produced water and minerals. These areas are driving NESR's solid performance now and are expected to sustain performance over both the near term and also in the years to come.

Turning first to the macro, the overall commodity outlook has certainly impacted sentiment in the upstream energy sector and especially for energy services. While the global upstream growth outlook today is more cautious than it was even six months ago, we believe that MENA activity will remain stable, particularly with recent activity growth in countries like Kuwait, which is expected to lead overall MENA growth for the next couple of years on a percentage basis.

Encouragingly, North Africa is again growing steadily and there is plenty of appetite to accelerate further in places like Libya and Algeria. For NESR, we have scalable presence. We can easily add significant resources from equipment and human capital to cater for rapid growth should the geopolitical landscape improve and opportunities materialize financially. Overall, stable activity across the MENA region hardly match the softened capital market narrative. We have very good visibility for the coming activities and where it will take place, specifically because of the long-term nature of the contract and the strategic importance of the energy sector in the region. Case in point is the Saudi unconventional gas project, which will remain a secular growth story given the ambition to grow domestic gas capacity substantially by 2030.

Turning now to the portfolio. First and foremost, our core business continued to outperform even in a subdued growth environment. Given our relative size compared to our more global peers, our opportunities in the core center around our ability to leverage leading share in our anchor countries, to pull through smaller segment in which there is room to grow share in other countries. Example of this dynamic include the regional spread of drilling and manufacture expertise from our team in Oman, the industrial service from Egypt and the duplication of our Saudi Frac success in other potential unconventional resources.

With solid growth in the core driving success, it is our Roya directional drilling platform that we expect could carry the outperformance forward over the next several years. The Tier 1 directional drilling market is more than $2 billion per year across rotary steerable, LWD and MWD. It's a high quality revenue given the consolidation and sophistication of the technologies. Recently, we announced the first successful run of our rotary steerable and MWD in Kuwait, in which the technology was able to complete the targeted interval in a single run. This milestone marks the culmination of nearly six years of joint investment, research, development and field testing with more than 70,000 feet drilled, but more importantly, signals commercial viability of our technology.

We already have in hand the multiyear contracts with provision to deploy our new Tier 1 directional drilling platform in Kuwait, Saudi Arabia and Oman. And the upside within these contracts is significant. The next goals for Roya include repeatable success, reliability enhancement, personnel training and growing our fleet of tools to expand our share as we continue to gain confidence in performance across the different reservoirs and formations.

Another unique work we are doing at NESR involves a completely new market opportunity that is being defined in real time through our collaboration with our largest customer. Our NESR environmental and decarbonization application or NEDA is a basket of technology aimed at establishing multiple circular economy within the MENA energy value chain. Often, as we spoke multiple times before, we found our NEDA technology outside of the oil and gas industry and adapt them to fit specific client challenges.

One such circular economy is the circular water economy. In the third quarter, we announced our investment in Salttech BV, a supplier of technology called Dyvar or Dynamic Vapor Recovery, which is a low-heat desalination solution originally from the Dutch dairy and chemical industry. Over the past couple of years, we've worked with our largest customer to adapt the Dyvar specifically for high salinity produced water and have successfully executed two-pilot projects in the country.

Furthermore, we evaluated the technical efficacy of recovering valuable minerals from the produced water during the desalination process, including rare earth metals such as strontium and lithium that are native to this reservoir water. The Salttech acquisition is a signal of our confidence in the multicircularity model of water and mineral recovery. And while this area remains a very long development and scale-up cycle, we are extremely excited for the medium to longer term prospect in our water-starved MENA region.

Our open technology platform serves as the foundation for successful innovation, but it's the combination of our local know-how, operational agility and the trust and open mindedness of our customer that is driving technological success in the field. I'm extremely excited to share further updates on our strategic initiative in due time, including our NASDAQ bell ringing and tech expo tomorrow in New York City.

But for now, I will conclude and hand the call over to Stefan to discuss our financials in detail.

Stefan Angeli

Chief Financial Officer, National Energy Services Reunited Corp.

Thank you, Sherif. Good morning, to our audience in the US. Good afternoon, good evening to our audience in the Middle East, North Africa, Asia and/or Europe. I'm very pleased to go through our third quarter financial results in detail. Despite the volatile macro environment worldwide and the geopolitical headwinds in the Middle East, NESR has achieved exceptional results during the third quarter of 2024 and for the first nine months of the 2024 period.

First, let's cover revenue. Our overall third quarter revenue is a record $336.2 million, which is up 3.5% sequentially and 12% year-over-year. Revenue for the nine months, year-to-date period, is $958 million, up 14.3% year-over-year with exceptionally strong activity in the Gulf countries. We expect year-over-year growth in the fourth quarter to largely match the year-over-year growth achieved through the first three quarters of 2024. Our view is that growth will continue across the Middle East, North Africa market for the remainder of 2024 and into 2025 as outlined by Sherif.

Now, turning to adjusted EBITDA. Adjusted EBITDA for the third quarter of 2024 is also a record $80 million with margins of 23.8% substantially flat on a sequential quarter basis. Year-to-date adjusted EBITDA is $222.9 million, up 21.9% year-over-year with margins up 146 basis points to 23.3% with NESR exiting Q3 2024 with a margin of 23.8%. Interest expense for Q3 2024 is $9.9 million and Q4 2024 should be around $9 million on lower debt. The Q3 2024 effective tax rate is 20.4% and for the year-to-date period ending 30th of September it is 24.3%. We would expect the Q4 2024 ETR to be approximately in line with Q3 2024.

Now, turning to EPS. Earnings per share, excluding charges and credits, is $0.31 for the third quarter of 2024 and $0.75 for the 2024 year-to-date period, which is up 164% year-over-year. The charges and credits impacted adjusted EBITDA and adjusted EPS, were made up of principally three items as follows; restructuring cost, which was used to reduce our overhead; cost to remediation of controls, material weaknesses which should abate after the 2024 audit; and current expected credit losses, mainly for a North African country.

Now, turning to our liquidity, which – this is a story that NESR is very proud to discuss. Our cash flow from operations during the third quarter of 2024 is very strong as we generated $70.8 million. For the year-to-date 2024 period, we generated $183.1 million. The exceptionally strong third quarter is due to significant customer collections, which drove our DSO to a new company best. Free cash flow for the third quarter is $43.4 million and for the year-to-date 2024 period it was $103 million and this was principally used to pay down bank debt.

As a result of the strong operating results and good cash flow conversion, we achieved a significant milestone at the end of the third quarter of 2024 where our net debt to trailing 12 months adjusted EBITDA fell to 0.96, which is below our stated target of 1. For comparison purposes, we were at 2.8 at the end of 2022 and 1.47 at the end of 2023. Our gross debt on September 30, 2024 is $409 million and our net debt is $291 million.

Working capital levels have remained relatively flat during 2024 despite revenue growth of 14% year-to-date on top of the 26% in 2023. Working capital expansion has been minimized due to process improvements and system developments that have enhanced our efficiency, resulting in the DSO decrease of 15 days over the last 21 months and a decline in the inventory levels of nearly 10% over the same period.

Capital expenditures for the first nine months of 2024 is $80 million. We still expect full year CapEx to be in the vicinity of $120 million, driven by delivery of our first Roya directional drilling tools, which is supportive of the drilling strategy just outlined by Sherif. All of the above has resulted in our return on capital employed percentage on a trailing 12-month basis at September 30, 2024 reaching 11%. And this should only improve going forward.

Now, on to some housekeeping topics. As you have seen, we relisted back on NASDAQ four weeks ago on Tuesday, 22nd of October, and we are looking forward as a company to ringing the bell at the NASDAQ closing ceremony tomorrow. We've spent the better part of the last two years – two-plus years reshaping our back office and the company overall with new and updated processes, procedures and controls as well as implementing the latest software upgrades to our ERP system. We are very confident that we'll be able to demonstrate the remediation of our internal control weaknesses during the 2024 audit. This conclusion is very positive news for the company after almost three years of restatement, investigations, inquiries and internal control remediation efforts, but very soon we should have concluded on all.

In summary, operational execution across the Middle East North Africa region continued to be strong during the third quarter of 2024, and our updated processes, procedures and controls have transformed the back office to accommodate the continued growth that we're targeting. These drivers have combined to generate record results for the year-to-date 2024 period with strong revenue growth, strong adjusted EBITDA and healthy cash flow conversion, the latter of which is being used to pay down debt and strengthen the balance sheet overall.

The Middle East North Africa region remains favorable, and NESR continues to be focused on its stated goals of delivering profitable revenue growth, execution, efficiency, technology expansion, debt reduction and working capital efficiency to drive future financial performance. On behalf of management, I would like to thank our entire workforce for their outstanding efforts in delivering these results together with our directors, shareholders and banking consortium for their continued support. The future for NESR continues to look good.

Now, I'll turn the call back to Sherif.

Sherif Foda

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

Thanks, Stefan. Let me conclude by highlighting our key takeaways from the quarter. First, I would like to leave you with our belief that we will continue to outperform the broader MENA market. Not only is there further runway for core business expansion, but we've also achieved tangible progress in our Roya platform development and expect this to be both a meaningful growth contributor and also returns accretive over the coming years. We will continue to have new partners to introduce the technologies from North America to the region with tailored solution for our customer, similar success as we have had with Cactus, Phoenix, Scout, Beyond and others.

Our NEDA segment and specifically our water and mineral portfolio are where some of the most interesting work in the company is being done and our strategic investment in Salttech follows several years of successful piloting and mineral recovery success. Now, we need to take the water business to the next level and scale the execution.

I would like to close by thanking all of our employees, their families and our valued customers and partners for their continued support. I couldn't be more excited about the future for NESR. Looking forward to see many of you tomorrow at the Nasdaq building where we have several key of our executives and managers flew from the region to New York to present our technologies and engage with all of you.

And with that, I pass over the call to the operator for your question. Donna?

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Today's first question is coming from David Anderson of Barclays. Please go ahead.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

Great. Good morning, Sherif, how are you?

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

A

Good morning, sir, how are you?

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

I'm doing great. Glad to have you back formally here. And I look [ph] forward to tomorrow's event (00:20:13). So, maybe just first question, maybe if you could kind of give us a little overview of what's going on in Saudi, sort of a complicating year, offshore going down, onshore coming up, a lot of focus on gas, [indiscernible] (00:20:27) kind of slowing a bit. Can you just sort of give us the overview of what's happened this year so far in Saudi, how you see that changing over the next 12 months?

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

A

Yeah. Thanks, David. So, as outlined clearly by Saudi Aramco and obviously the leadership there, is after they put down the maximum sustainable capacity from 13 million barrels to 12 million barrels where they had a plan to add 1 million barrels to go to 13 million barrels total capacity by having 800,000 barrels coming from offshore and 200,000 coming from land. And that plan was postponed to only the 12 million barrels. So, they released the planned increase rigs. So, as for people that are familiar with Saudi, Saudi used to be 60 jack-ups approximately, which is very high. And the plan was to go all the way to 91. They almost reached it. And then they – after that decision, they started releasing the offshore jack-ups that were planned for the 800,000 barrel additional capacity, which basically been postponed. So, that's when the release of rigs started to happen and this took place earlier this year.

Then, on top of that, obviously, their success on the projects, on the unconventional, et cetera, where there is a lot of associated gas and their plan to move to 50% gas, 50% renewable for the power generation on the Kingdom by 2030 and they showed that they have excess oil and basically with the slowdown of China, whatever. So, they decided to release more of the land rigs that is responsible for oil and which took place. So, that took place over the last three months to six months and that's some of the extra rigs that were released.

Now, if you look at the total rig count in Saudi, again, it reached an all-time high of 300 and that was, again, poised for the increased capacity and the oil demand. When this did not happen and they do have the capacity of 12 million barrels, which again a lot of people like keep saying that are skeptical about this, but it's so true because Saudi can do that and can deliver 12 million barrels and they don't need the additional rigs to drill for oil when nobody needs it, right. And they are very disciplined on the OPEC+, they lead it actually. So, and that's why they released the excess rigs.

Now, if I move to your second part, which is the unconventional, the unconventional gas, which is the Jafurah project, is extremely successful and they keep adding rigs. So, that is the only project that is not being touched, it has actually increased the rig count. And as some people might know as well, the first delivery of 2025, first gas of 200 million SCF, then the 2027 and then the 2030. And on that, you have a lot of associated gas, which is basically you get almost 600,000 barrels and you get lot of NGLs. So, this definitely will again, they will have an additional oil there that is available.

The last thing that some people might not know is, that's very good, highlighted by his Royal Highness, is the move away from burning crude for power. And that's – and there is a plan to ensure that this does not take place which is almost 1 million barrel in the summer hot months, which again makes sure that if this happens then the domestically they don't need all this diesel which basically will make it available for export. So, I hope I answered your question, David.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

You did. So, how do things – the rigs have come off. We've kind of seen the sort of [ph] deep set (00:24:48) sort of activity level. Do you expect things to sort of stay at these levels and Jafurah keeps ramping up here or like how does kind of the next 12 months look from sort of a broader activity level in Saudi? I don't – you don't need to get to specifics, broadly speaking how does it look now?

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

A

Well, I think what will happen and my personal opinion is basically it's going to be stable – outside Jafurah, it's going to be stable to a bit down because obviously some rigs now are being put on what they call extended maintenance, which is obviously, again, you don't need to drill for some of the oil part, you just put it on maintenance, and then, the Jafurah was going to keep increasing. So, overall activity in Saudi, I would say 2025 over 2024 would be stable because that drop in oil will be compensated by the increase in gas and in unconventional.

Now, for service industry, it all depends where each play, right. So, our expectation for NESR, we are going to grow 2025 over 2024. We will continue that growth profile that we had and we believe we are positioned very strongly. The other part that besides activity being poised with – we are more poised on the gas and on the project of Jafurah obviously that we have the drilling portfolio. So, we did not have that in the past. We did not have directional drilling, we did not have rotary steerable or MWD, LWD and now we have. So, that's an additional for us. It's quite unique because I have the contract. So, now the issue becomes, how much can we deploy in 2025? We did not deploy any in 2024. So, how much of that and this will be an additional for us for 2025 over 2024.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

Right and so the overall – the shifting, is that the mix works in your favor. You obviously have more Jafurah than you had offshore. But just one final question for me just on Jafurah. Can you just kind of give us a quick overview of what you're doing today in Jafurah. I know you've been on the field for, gosh, a long, long time and you were the one to [Technical Difficulty] (00:27:12) where are you today in the field? And are you expecting to see more tenders? And like what are some of the different services that you're expecting to be tendered, say, over the next six months?

Sherif Foda

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

A

Sure. So, Jafurah obviously, again, is an outstanding project for Saudi Arabia. I mean, it's a – I would say it's a world-class like you have in the US. They beat every record from drilling the wells in 40 days, now making it in 14 days and 12 days. I just took my entire board to Saudi and to see it and we actually went to the field and saw the Frac while it was working, right. So, it is very impressive by all means. So, today, Jafurah has – you have three unconventional in Saudi that is running, right, which is the big picture is Jafurah. And you have what they call – you have the new rigs coming there. So, they added rigs, and in that, in the drilling, they have multiple companies involved, right. So, you have obviously people in the mud, people in the directional drilling, et cetera. In that project, our involvement is being on the cementing from drilling the well cementing and we as well involve obviously now in directional drilling, which is the contract we just got awarded.

So, we have – and in the directional drilling, you have multiple suppliers. You have around five suppliers now in the directional drilling arena between the big guys and two of the smaller guys, like we are one of them. And then, on the fracking side, it's the two players today, us and one of the big – one of the from the big three and we are today basically both of us working. And recently, there is even a pilot from a third player. Why they are doing that? Because obviously the Jafurah is going to increase dramatically from size. So, for people to know this is basically, this year they are planning 8,000 stages or 9,000 stages that we completed. And then this is going to go all the way to 25,000 stages per year. Once you go to 25,000 stages, obviously, there are room for more players than the two of us and that will take place. So, tendering will definitely happen because everything in Saudi Arabia or the Middle East goes to tender. So, that bidding process will happen sometime next year. And then, people will participate. The approach is obviously the market should be disciplined, as we always say, but you never know.

So, there will be more awards, suppliers again to be able to complete those number of stages in the coming years. And the project is poised for the 2 BCF by 2030. So, definitely all this is going to take place and the rigs are performing outstanding. The drilling of the wells are really, really almost at the technical limit.

J. David Anderson

Analyst, Barclays Capital, Inc.

Q

That's great, Sherif. Thank you very much, Sherif. Appreciate taking all my questions.

Sherif Foda

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

A

Thank you, sir.

Operator: Thank you. The next question is coming from Gregory Lewis of BTIG. Please go ahead.

Gregory Lewis

Analyst, BTIG LLC

Q

Yeah, hi. Thank you and good morning, good evening, everybody. Sherif, I was hoping we could kind of, like, blend together the growth that we're kind of expected to see in MENA versus kind of the cross-selling, the rollout of Roya and kind of try to get a sense for, as you think about revenue growth in 2025 versus 2024, any kind of sense for that mix of, just, outperforming the market and then kind of layering in those cross-selling opportunities in the rollout of Roya?

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

A

Sure. I mean, I would say the market overall in MENA would be plus a single-digit year-over-year. So, 2025 over 2024 should go, let's say, 5%, 6% and we always say we should double that growth. So, whatever the market is growing at, we should be at double that rate. The Roya platform, the directional drilling, the decarbonization segment, this is all addition to that. So, what we believe is once the success of the directional drilling is proven in the sense of commercial viability that they can take 10 rigs, 20 rigs, perform equal to the big provider, we should be able to gain share because we have the contracts and that's I think something we tried to articulate that the key in the Middle East is to have a contract. You have to have a long-term contract with the customer to be able to deploy those technologies. And today we have that in our three main countries of operation; Saudi Arabia, Oman and Kuwait. So, now, what we need is to deliver those technology on the rotary steerable that we are taking a very prudent, and if you like, technical way of looking at it.

So, we deploy when we know we can be at par with the big guys for the sake obviously of the customer because we want to be always credible. We always do maintain that I can drill in this formation, I can do this, my dogleg severity is higher than what exists today in the market. So, the customers see the benefit of us deploying the tools. With the speed of deploying and the speed of the success will determine how much that growth in revenue will be in addition year-on-year. But I have no obstacle or no issue on contract or waiting on contract to be awarded for me to be able to deploy. I have already the contract, which is a very good thing to have.

On the decarbonization, the third element, definitely is the appetite of the customer. We talk a lot about the methane pledge. We're talking about the 2030, COP29 is running as we speak. So, definitely, it is something that everybody wants to monitor. We just came from ADIPEC in Abu Dhabi. It's still a very big, important subject. The sustainability is extremely important. I think we live on a planet. We need to be careful how we manage our water resources in a place like, as I call it, [ph] starved, is to actually – (00:34:30) I think it's the bottom, in the worst form, starvation of water per capita. It's all desalination. There is no rain.

So, for the energy industry to be disposing all this water of the produced well is not right. So, we need to find solution that is economical. We think we are there. We think we can take the minerals that comes from that produced water and sell it and make margin on it, which basically paid for the power of doing that service. We think as well we can get lithium, which can be a very big item on the renewable agenda if we get lithium from that. So, there is a lot of exciting things. Now, the scale is what matters. And obviously, again, I keep repeating this. The key is the customer works with you to be able to give you that project and being willing to risk and take some test on that front. But again, for the sake of the climate, the world, the sustainability, I think, a rich industry like ours should do that.

Gregory Lewis
Analyst, BTIG LLC

Q

Okay, great. And then, I did have a question, there's obviously the ongoing debate when if – when Saudi Arabia is going to and OPEC+ is going to kind of start ramping production again. Just as we think about that, if that were to happen at some point in 2025, how, if at all, does that impact kind of the activity levels you're thinking about in 2025 and maybe 2026? Is that additive or is that kind of it's a non-event?

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

A

No. I mean – look, I mean, it all depends. There is a lot of narrative out there. The Middle East needs the oil price to be at that level or above. So, all this notion that they're just going to open up the tap and flood the market with oil is not going to happen. So, what they need to do is they need to – they will continue with that pragmatism to ensure that the market is well balanced and the oil price remained healthy for their economic growth. So, all the comments I made is based on that and all our forecast is based on that demand and supply.

Now, if for whatever reason, the geopolitics, there is another a drop of some of the producer and gets eliminated from their production and then the Saudis or others have to come up with production to make up for that, for sure the activity will go much higher. So, our comment and our analysis is based on an oil price [ph] the same, OPEC+ remain their cut which – (00:37:31) for the foreseeable future until the demand comes back from China and then the world needs more oil.

Now, If you think about the narrative of the US and President Trump and most probably Russia came back to the game et cetera, et cetera, it doesn't really [ph] drive (00:37:54) that more activity will happen. But we are taking that notion that the activity will remain low-single digit 2025 over 2024 and we are outgrowing that market. If the oil price gets stronger, and as I said, somebody has to replace another, yeah, activity will go further up and the oil price and the economy of the Middle East is all depending on oil and gas. So, people have to remember that. This is not part of an industry that you have 20 of. This is the main core business of employment, supply chain, everything in the country. So, people will protect it.

Gregory Lewis
Analyst, BTIG LLC

Q

Super helpful. Thank you very much.

Operator: [Operator Instructions] The next question is coming from Derek Podhaizer of Piper Sandler. Please go ahead.

Derek Podhaizer
Analyst, Piper Sandler

Q

Hey, Sherif, good morning and congrats on the relisting.

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

A

Thank you, sir.

Derek Podhaizer
Analyst, Piper Sandler

Q

Just wanted to go back to your comment about your ability to cater to the growth in the MENA region. How should we think about that in regards to your equipment base and what it means for a CapEx investment cycle? What can you service today? Where would activity need to go in order to meaningfully build out new capacity? And related, what does it mean for pricing and margins and how can you drive that higher over the next couple of years?

Stefan Angeli
Chief Financial Officer, National Energy Services Reunited Corp.

A

Hey, Derek, it's Stefan here. I'll take the first bit of the question, right. As said, this year, we've spent $80 million in CapEx this year so far and we've got another $40 million, which is mainly Roya tools coming out. For the, let's say, the 5% to 7% – 5% to 10% growth, which we're sort of anticipating next year, right, we think the CapEx will be $120 million, right, again, give or take, right. If we were to – if the revenue from Roya was to grow greater than that, our CapEx obviously would be higher. And if we get any NEDA projects next year, there would be some CapEx on that, right. But we're looking at flattish CapEx of $120 million again next year on that 5% to 10% growth.

Derek Podhaizer
Analyst, Piper Sandler

Q

Got it. That's helpful. And maybe a little color on the free cash flow conversion of that incremental CapEx, just how should we think about the overall view of the free cash flow generation?

Stefan Angeli
Chief Financial Officer, National Energy Services Reunited Corp.

A

Well, right now, let's say another $120 million of CapEx for next year, we're probably looking at the high 30s, 40% free cash flow conversion. We'll probably have some working capital less efficient, we've done very well over the last two years, as I elaborated, and I think it will be tough to keep pushing down inventory and pushing down DSO with growth, right. But we'll do our best, right. But I would keep it at 40% of free cash flow conversion to EBITDA.

Derek Podhaizer
Analyst, Piper Sandler

Q

Got it. Great. That's helpful. My follow-up question, I wanted to talk about those partnerships with the North America companies that you mentioned, Sherif, and how we should think about deploying US shale technology in the MENA region. You pointed out Cactus and Phoenix. How should we think about these evolving over time over the next couple of years? And where MENA is on the technology adoption scale versus where US shale is and what products you're looking to bring overseas? Just maybe some more color on that would be helpful.

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

A

Sure. I mean, if you look at the unconventional, for example, for Saudi, everything you can imagine in the Permian, the best-in-class is being deployed. So and that's – when we started that journey back in 2019 with Aramco, that's exactly what we said. We said, guys, we are open platform and we are going to bring the best-in-class. It's not like because I have that you have to use that. We are going to see what do we use, what is being used and how they moved from 5 stages, 6 stages to 18 stages to 20 stages, 22 stages, pumping for 22 hours. What – how did they achieve that? How did the customer and the technology in the shale in the US managed to do that? And that's exactly what we did and obviously under their leadership.

As we – we looked at who has what, right, and we teamed up with those technologies. So, Cactus is doing very, very, very good in our wellhead and frac trees. We use our [indiscernible] (00:42:54) and Phoenix on the drilling and their motors. We have Scout on the monobore. And again, what is the best-in-class being used here and we took it there. And obviously the way it works in Saudi, again for the people to understand, you have to have the local player, which is us. We bring with a – we present the technology that is very innovative, that is unique and why it did better?

And obviously Aramco is extremely solid customer with a very, very good and very strong technical department. They check and they vet this technology. Then, we go through what we call the TTR or the trial test. And during that trial test, they will check and test the technology and what they call free trials. When they prove that and they see the track record, then we bring this under our umbrella and perform with the customer. And the way we do it, we do it transparently. We brand the company partner, we don't say, oh, this is NESR and all. We say this is Cactus, this is Phoenix, this is Scout, this is et cetera.

What I see the next level, I think there will be a lot of work that we are going to do on the next level of milling the plugs. So, I think we are looking into partnership with some snubbing to see should we go faster on finalizing especially once we go to the 25,000 stage. We are working very close now with Beyond which is MPD, managed pressure drilling, both on unconventional and not in unconventional. We are looking at as well bringing those packages like we do in the US to there.

There is some technology that we are looking at on wireline and we have couple of partners without mentioning the names. We're looking at second level of what else could we do to reduce the frac operation and the perforation timing. And I think there will be some work as well on the rig up, rig down and the speed between pads, but just to understand that – in that size or that type of operation, that type of [ph] professional (00:45:19) today is only in Saudi Arabia in the MENA region. So, it is not like this is what you see, no, it's only – but they went through appraisal, exploration. They spent a lot of money assessing those wells before they went now to development, which is basically now manufacturing. And that's exactly best-in-class like you see in any pad in the US for the top clients like EOG or Devon and any of these guys, it's exactly the same.

Now, the other countries in unconventional, it's, I would call it, in infancy, right. So, they are in that trajectory but as if you are like seven years, eight years ago. So, they are going to go through that process. And again, the infrastructure supply chain is a challenge in the Middle East. So, you have a challenge of the water. There is not water as I just explained. There is a challenge of the local sand which is proven now to be successful. That's what we do in Saudi. That's why the cost went down dramatically.

If people look back 10 years ago, we used to fly and import sand from Australia and the US to Saudi, right, which is obviously we have a lot of sand in the Middle East. So, now we use all local sand, we actually use even regional sand, sand boxes, et cetera. So, long answer, but I'm just trying to give you the picture that has happened today already in Saudi. I think the unconventional prospect in the Middle East, you have couple of other countries, I think Algeria could be a very, very good place for people that understand the reservoir characterization. It's very similar to the Vaca Muerta. It's a – and that basin is huge and it is – could be developed at the same scale you have in Argentina, you have again in Eagle Ford, et cetera. And this could be [indiscernible] (00:47:17) – but again, they just have to start, right. And then obviously supply chain, everything has to be developed accordingly.

Derek Podhaizer Q
Analyst, Piper Sandler

Very helpful comments. Thanks, Sherif. Thanks, Stefan. I'll turn it back.

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

Thank you, sir.

Operator: Thank you. At this time, I would like to turn the floor back over to Mr. Foda for closing comments.

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

Thank you very much. We really appreciate all the time that everybody had put. We again would like to thank all our employees, their families, all our shareholders, all our banks, all our partners. We had a very good time now. And we are looking forward to see a lot of people tomorrow. We are going to be on the NASDAQ closing bell. We will have our tech exposition 2 hours before, so, people will be able to see the technology. We will display the Roya platform, we'll display the NEDA, the decarbonization. We have people coming from the Middle East, our managers and executives to be there as well, so a lot of the investors and partners will be able to talk to them and integrate with them and then see as well the technology and see the mockup, and definitely, we'll have some time as well, as we say, to celebrate with the closing bell and the event after that. Thank you very much. Appreciate all the support.

Operator: Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time and enjoy the rest of your day.