National Energy Services Reunited Corp.
Second Quarter 2021 Earnings Call
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Presenters
Sherif Foda, Chairman and Chief Executive Officer
Chris Boone, Chief Financial Officer
Blake Gendron, Vice President of Investor Relations

Q&A Participants
James West – Evercore ISI
David Anderson – Barclays
George O'Leary - TPH & Company
Igor Levi, BTIG

Operator
Greetings, and welcome to the National Energy Services Reunited 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. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

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

Blake Gendron
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 call 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 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
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 percent year-over-year and 11 percent sequentially, outpacing the market and all our peers. If you compare it from the start of the pandemic, we have grown roughly 20 percent, while the broader sector has dropped more than 20 percent.

Over the last 12 months, our free cash flow conversion has been in excess of 40 percent 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 percent, 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 hometowns. As you have seen, some countries suffered a 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 got into curfews, lockdowns, with strict measures to control the spread of these variants during the month of Ramadan and Eid holidays.

Mandated quarantining in safe countries is now de rigueur for most of our main operations, 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. 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 percent 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. But, vaccine availability is a bit varied across the different countries, and we are working with these limitations and have achieved more than 50 percent 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 bought already 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 the non-negligible cost to the countries, and we continue to record it as normal cost of operations.

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, a sharp increase of their internal costs, and in some instances, 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 pre-pandemic levels 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 matter to respond to this growth.

Nearly 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 projects 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 return metrics have evolved such that the vast regime of production-sharing contracts, or higher IRR in the case of U.S. independents, 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 a la early 2000 which last 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 the 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 constituents of the PPI Composite Index, like steel, chemicals, as an example, these have gone up by almost 100 percent. If you look at shipping container costs, we have seen costs increase by an excess of 50 percent. 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 to that, you will see key representative oil field service input costs increase by 100 percent until 2008. Since 2008, the input costs have grown steadily in line with overall inflation until 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 a 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 structural 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 solid investment in new innovation and technology, now after more than 10 years of absorbing additional costs, 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 customers 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 effort 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 in driving impactful change that transcends subjective rating metrics.

This report will perpetually serve as a yard marker for continuous ESG improvements for us. I encourage everybody to read it. And as the national champion of MENA, we are proud to lead the away for other companies from the region. In our view, the environmental category is where oil field service broadly has the most potential to pave new commercial avenues as our large NOC and IOC customers push headlong into the energy transition.

We are excited about a broad opportunity set across water, emissions, 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, CleanTeq, 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 that 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 a 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 benefits 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 2, 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's 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, it 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 CO_2 intensity per barrel, and they are focused on creating value and looking for a 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 the 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 U.S. 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 contracts, 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 expected 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 to 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 details.

Chris Boone
Thank you, Sherif. Turning to our results, we reported quarterly revenue of $235 million. This represents an increase of 16 percent over the prior year quarter and 11 percent over the first quarter. The year-over-year and sequential quarterly increases were driven by higher production activity, primarily coil tubing stimulation and frac in Saudi Arabia and Kuwait.

Adjusted EBITDA in the second quarter was $54 million, or 23 percent, of revenue. This represents a decrease from 26 percent in the prior year quarter and 24 percent 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 headcount 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 costs 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 percent over the same period last year and 12 percent over the prior quarter. Sequential growth was primarily driven by higher frac in Saudi Arabia and activity in

Kuwait. Adjusted EBITDA margins for the production group were 27 percent in 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 percent compared to the same quarter last year and 9 percent sequentially. The sequential increase was driven by higher drilling-related activities across multiple markets in the region. Adjusted EBITDA margins of 21 percent in the second quarter were down from 25 percent in the prior year quarter and 24 percent 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 DNA 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 percent. Excluding the net benefit of adjustments of reserves on prior year taxes, our reported tax rate would have been 20.2 percent, 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 to improve in our invoicing and collections. Overall, DSO improved by another nine 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-$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 was 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 ranked in full compliance with our primary credit facility, 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.

Operator
At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, please star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two if you would like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment, please, while we poll for questions. Our first question is from James West with Evercore ISI. Please proceed with your question.

James West
Hey, good morning, Sherif, Chris.

Chris Boone
Hello.

Sherif Foda
Good morning, James.

James West
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 that your main countries of operations are now having to ramp up to put those barrels back on the market. I guess, one, is that happening? And, two, was that actually already underway probably pre-deal announcement in anticipation of the need for barrels to come back to the market?

Sherif Foda
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.

James West

Right.

Sherif Foda
So, if you look at the--obviously, there is separate preparation from each country, without going into more detail than that, but you can see that the main consideration of the production definitely have very, very strong plans to add rigs, to add a rigless site, production facility. Some of the projects were clearly announced publicly that they are back on track.

I would say if there was no COVID, you would have seen those rigs from this month straight after the Eid 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 restrictions of the countries on the travel and the airlines got pushed another month or so.

But, definitely, everybody is in the plan. This is, as I said, a long cycle. They will be adding rigs and facilities 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--they have that capability to add production and add activity like a quarter later.

James West
Right. And, in truth, you had--you outgrew the market very substantially, both sequentially and year-over-year. Do you think this level of out-performance versus the market is sustainable over the next several quarters, especially as things get going, as you mentioned, as the COVID restrictions ease or you get through the COVID restrictions? Or will there be some slowdown in that out-performance? I expect it to outperform, but I've just been impressed by the continued significant out-performance.

Sherif Foda
Yeah. So, I would say obviously our ambition is to continue to do the same. Our ambition is to have that out-performance definitely on a sequential basis and year-on-year. I would say the only drawback or the only restriction would be the COVID, right? It's not only us. It's really some of the capacity--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 their suffering on their capacity. So, 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 total rotational people.

So, I would say some--the total market, if it gets delayed, 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

Right, got you. Thanks, Sherif.

Sherif Foda
Thank you, sir.

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

David Anderson
Hey, good morning, Sherif.

Sherif Foda
Hi.

David Anderson
So, you talked about the margins. So, the margins were impacted this quarter by, you mentioned inflation, a 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 did mention pricing. And I was just wondering if maybe you could comment about kind of 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? 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
Thanks, David. So, yeah, definitely I spoke about our costs, our sales in the industry, definitely the COVID has now--you start to feel it, right? You start to feel this test cost per person to go to the site. I tried to give you an example. Some of the rigs now, if you have--one case, a crane operation, 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 pay for the hotel, you have to do other--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 talking to some of the CEOs of the chemical companies, the transportation, etc. And they clearly say 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 increases until it really it starts to hit you, right?

So, that makes--I think it's affecting--everybody is affected in the industry. And you will 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 companies 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 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 slow 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 upcycle. They have 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 projects. If you talk now about LSTK, it's a complete disaster, I think. I mean, the LSTK, people are continuing to debate on that on the loss making. And obviously as the scale of the projects, especially on the drilling, gets bigger, I think you would see it more and more on the margin of the companies.

David Anderson
All right. Well, I've seen enough cycles, Sherif. We know it's coming. And so, I'm looking forward to seeing that again. But one big thing about upcycles 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 where capacity levels are. Does that give you some confidence that the pricing can get passed through kind of early next year and that that will come naturally in the market?

Sherif Foda
Yeah, spot-on. I think you've analyzed it extremely well, David. It's absolutely right. There is a capacity in the international market still. That capacity is going to tighten--is exactly what I was saying. And, actually, I think the talents 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 percent--and as a buffer, again, on the capacity to make sure that we can do the project.

I think what will happen is 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, declines--we'll see some service quality suffering, and then the pricing will start to come naturally. And, absolutely, you are spot-on. This will come when the--which is similar to North America. But always there is a lag, right?

But, I've tried to explain. But, 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're priced now if you're going to--if you have a contract for four or five years, right? So, it's important that people start to realize the fact that the health of the industry is very important.

David Anderson
Great. Thanks, Sherif.

Sherif Foda
Thank you.

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

George O'Leary
Good morning, Sherif, good morning, Chris.

Sherif Foda
Good morning, George.

George O'Leary
Apologies if I missed it. I got dropped from the call about 15 minutes in and had to redial in. But, I wondered if you could just frame the revenue trajectory in the second half of 2021, assuming that 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
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 clear 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. They are the folks that are capable. They are extremely, extremely smart, extremely organized. They have very, very solid plans for their growth. They know where the rigs will go. They do

their reservoir management, as I said, best-in-class in anything, any comparison to anybody else.

So, those increases you will see in H2. And as I think the commentary for most of the people, you would see a double digit definitely H2 over H1 or H2 over H2 of last year, right? So you would see a double-digit growth, going forward. We believe 2022 will even be much, much, much higher than people expect. I think the only--as you put it, the only caveat here is what happens to COVID, right? What happens to the restriction, and not in the matter of like Europe, now saying that they might close again, etc., etc.

I think the restriction you're seeing 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, etc., right? So, where you have a lot of restrictions, who can go, the people cannot travel, some of the countries are totally--are not allowed to enter, etc. etc.

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'd say Q4 is going to be absolutely solid, absolutely solid because rigs will start to arrive, people will have the crews, etc., etc. 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 year upcycle.

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

Sherif Foda
Oh, it's the same. I mean, we are very--since the beginning of the company, 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 our trading. I think we trade a 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 governments 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 equals three. That's how we look at M&A geographically.

On the partnership, we continue with the same--on the same path, like we did--now, we have like almost a dozen partnerships. I'm very excited with the ESG Impact partnership we have with the two water companies. We are looking at emissions. 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 confidential.

So, once we have this more matured, we will announce those partnerships that will add value, and people will see in the market why we're doing that. Meanwhile, we are looking again at early ventures, people with disruptive technology. We are investing in those. We've put already this quarter, I think, in a 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 oil field 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.

Partnerships with bigger companies is definitely again on the same path, like we had very nicely with Phoenix, we have with others. We are discussing with two other companies to do something about 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 today 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 partnerships, those people add value, and they are differentiated. And that is they 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 facilities, 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
Great, helpful color, as always, Sherif. Thank you.

Operator

As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. Our next question is with Igor Levi with BTIG. Please proceed with your question.

Igor Levi
Good morning, guys.

Sherif Foda
Hi, Igor.

Igor Levi
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--what are the differences of 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, I was also wondering what the updated project pipeline for water management looks like.

Sherif Foda
Yeah. Thanks, Igor. So, look, the Iraq project is obviously, as I said, with a super major--extremely, extremely excited about it. We have the award. So, we are awarded a contract to make conventional brine, like they've been doing, like the competitors are doing. So, we--you have to get awarded the normal way, which we did. And then, our clients are extremely--notion about the ESG. We went and presented to them, we are awarded. This is how you do it for the past few years, and all the industry does the same.

We'd like to change that. We'd 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 CleanTeQ guys from Australia. And we can--if we do that, this is the amount of CO_2 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 sulphate, put it back, and use it as brine.

So, this is--the footprint of that is going to be a significant reduction of CO_2. 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 started and working, it will be a flagship. And our approach here is to show this as a project for everybody, so everybody in the world sees it because I think it will be the first time ever it's done like this.

The second--as I said, the pilot--just to give you more color on that, is the same as what we discussed before. That's a totally different company, different approach, different technology.

And this is meant to make potable water. And it's not used for oil fields today. That's why it's called pilot because the technology has never been used in oil fields. It's used for a 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 D&E and all the stuff, but it can even make water for the community.

So now, the contribution is to an environment that is totally outside our--it's not even to make Brian 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 work in the desert. If we are able to do that, we are definitely a game-changer 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, in Shaybah, etc., 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 plan? And where can we do it? And how do we do it? That's why we are doing 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 I'm giving you maybe too much detail 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 scale than what you do. And what they do in the industry today is minuscule compared to what we're going to do in an oil field 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 size.

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 customer, "Now I'm testing this in Saudi." And as soon as we finish, as soon as it's successful, we obviously take it immediately, the same scale, with all these lessons learned to the other countries to do the same.

Igor Levi
Great. Thank you. And shifting to oil field 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
Yeah, 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 percent 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 a 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 the client allows us to announce awards, 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 you will know about it as soon as we--if we secure some of these awards, we'll definitely announce them.

Igor Levi
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
Thank you, Maria. Thanks, everybody, for attending our call. Again, very excited about an upcycle. 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.