National Energy Services Reunited Corp.
Third Quarter 2018 Earnings Call
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Operator: Ladies and gentlemen, thank you for standing by. Welcome to National Energy Services Reunited Corp.'s Third Quarter 2018 Earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, and instructions will be given at that time. As a reminder, this call is being recorded.

I would now like to turn the conference over to our host, Mr. Steve Calk. Please go ahead.

Steve Calk: Good day and welcome to NESR Corp.'s third quarter 2018 earnings call. With me today are Sherif Foda, Chairman and Chief Executive Officer, and Melissa Cougle, Chief Financial Officer. We're hosting this call today from NESR's regional office in Dubai. On today's call, we will comment on our third quarter results and overall performance. After our prepared remarks, we'll open 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 and therefore refer you to our latest 10-K and form 6-K filed earlier today and our other SEC filings.

Our comments today may also include non-GAAP financial measures. Additional details on reconciliations to the most directly comparable GAAP financial measures can be found in our third quarter press release, which is available on our website. Finally, as we expect some callers today to be relatively new to the NESR story, and given the nature of the presentation of the results post combination, please feel free to contact us after the call with any additional questions you may have. Our Investor Relations contact information is available at www.NESR.com.

With that, I'll hand the call over to Sherif Foda. Sherif?

Sherif Foda: Thank you, Steve.

Ladies and gentlemen, thank you for participating in this conference call. We are holding our call just before the Abu Dhabi International Petroleum Exhibition and Conference, or ADIPEC, where one year ago, we announced the acquisitions of NPS and Gulf Energy and introduced NESR to our customers. This year, NESR will make its inaugural appearance at this important event, where we meet our customers and industry decision makers. In case any of you are at ADIPEC, I will welcome you to join us and meet our team and see some of the new technologies we are introducing in the region.

It has been five months since we closed the transaction, and I'm extremely excited with the progress we made during the quarter. At NESR, we value agility, being nimble, and fast decision making. And I personally believe that this will be a key factor and a differentiator that will drive our growth in the coming quarters and years.

We are incredibly proud of our employees, their commitment to excellence, their openness to change. Indeed, our employees have made this transition seamless and productive, all this while we continue to grow at an accelerated pace. This quarter operational and financial results are a testament to the hard work of our personnel as well as the faith our customers have placed in our ability to deliver superior execution.

Before we talk about our results, I'd like to touch on the macro outlook and our performance this quarter. As we discussed on our last quarter earning call, we believe the Middle East is a $20 billion market that will grow at an average compounded annual growth rate of 6% for the next four to five years. Recounts continue to exhibit quarter over a quarter improvement, and more importantly, underlying drivers have not changed and indicate continued growth.

As the data points, if you look back 10 years and observe the production on that very basis for our main customers, you will see that today activity levels are anywhere between two to three times for the same production. This ramp is expected to accelerate in the future.

Our customers are very smart and have been preparing themselves for higher operational intensity. They are managing major developments, launching integrated driven and production projects, or simply adding rigs and hiring rigless sites. They're increasingly addressing harder to reach reservoirs, going after difficult formations traditionally not considered a priority in MENA. This macro backdrop positions us favorably as we are rooted in the region, have the platform to execute, and have a strong provide with a non-critical mass to fund our growth.

We remain very close to our esteemed customers. We listen, we adapt, we maintain a dialogue and are swift in responding to their needs, from adding equipment to their new rig fleet, rigless sites where several unplanned activities might occur, and bringing new technologies where it is needed. All these factors would ensure we continue to grow at a much faster pace than the industry.

For the third quarter, revenue grew by over 10% sequentially versus the 2% regrowth in the region and 3% internationally. Our goal is to grow at double the market (inaudible), and our third quarter performance demonstrates that we are on the right track. Adjusted EBITDA for the third quarter was $46.5 million with sequential growth in excess of 30%. As we said in our previous call, that (inaudible) MENA region strengthens as we approach the end of the year, and we expect our growth to continue into the fourth quarter.

Speaking about tendering, we are now invited to a much larger pool of businesses and product lines. We have an active order with many tenders outstanding with ongoing negotiations. This is a normal (inaudible) for contracts in the region and is largely due to the size and duration of these contracts. We expect contracting activity to increase as we move further into the fourth quarter and the first half of 2019.

Our broader footprint is allowing us to participate in more bids in several countries as well as in a new product line within the countries we operate in today. We are having good discussions with our customers, which we believe indicate positive results.

Now, I'd like to give you an update on our integration efforts in this quarter. As I mentioned earlier, agility is a key. And I am pleased that we have completed phase one of our integration efforts ahead of our schedule. Phase one was about rolling out our corporate vision and priorities, implementing aligned compliance in legacy systems, integrating our infrastructure, relocating to one base per operation, eliminating (inaudible) and leveraging our size to enhance our supply chain, all of which we have completed.

We are now deep into implementing phase two. As a reminder, phase two is essentially about harmonizing our back-office functions, support services, including finance, HR, IT system in addition to other aspects of the business, which naturally takes longer. For all practical purposes, we consider that the integration efforts with the highest impact on our corporate priorities have been completed.

Our experience and lessons learned from this integration efforts should place us in good shape when we complete additional acquisitions.

As many of you know, the ability to bring fit for purpose and cutting-edge technologies to the region is one of the foundational principles of NESR. In Q3, we either agreed on terms, signed approximately half a dozen of such partnerships. We see ourselves as an open platform for innovative technology companies to come to the region and our customer recognize that this unique approach will be beneficial to the regional oil and gas industry.

In light of this, we signed an agreement with Dhahran Techno Valley Company, the wholly owned subsidiary of King Fahd University of Petroleum, to create a global center for the development of scientific research. This is a key milestone for NESR, and we plan to also bring our technical partners from North America and Europe to this center, which will allow us to work together to customize and develop technologies for--to look at the industry and the wider region.

This would also be a great opportunity to provide high end technical solutions for local engineers and researchers and an important vehicle for partnership between (inaudible) academia and the industrial sectors. Saudi Aramco, who is the main enabler of Dhahran Techno Valley, is very pleased to see NESR as the first company from this region investing at such a scale. They are also very appreciative of NESR approach to create an open classroom for innovation to come to the kingdom.

The other part of the equation, which we have been continuously working on, is ensuring that our operation has no shortage of big line equipment, such as coil tubing packages, cementing units, testing spreads and others. As we are close to our customer, our aim is to anticipate the future needs before they even ask. We are continuously scouring the road to find pockets of value for capital investment which would allow us to source equipment timely and in the most cost-efficient manner.

During the quarter, we managed to acquire capable coil and pumping equipment from North America at an excellent value for money. The equipment is suitable for operation in the MENA and Africa region and is currently being prepared for hot weather (inaudible) from there. We contracted the best in class manufacturing and upgrade facilities to ensure all this equipment is to hit the ground running. The main driver here is to bring such equipment to our operation in a record time anticipating the growth and for fitting our client's requirements for faster (inaudible) delivery.

Going forward, we will continue to look for such an opportunistic place as it allows us to extract the maximum value from every single dollar of planned CapEx.

As you can see, this has been a very busy quarter for us, and we plan to keep the same pace going forward.

With this, I would pass the call over to Melissa to talk about the financials in detail.

Melissa Cougle: Thanks, Sherif.

As you can see from our 6-K that was filed today, revenues continue to demonstrate quarter over quarter, double-digit growth, and we expect this performance will continue in the upcoming quarters. This quarter's growth was driven primarily by the better utilization of our assets with increased activity across both segments, the start-up of new contracts, realization of cost synergies from our integration work, and our ability to cross-sell new services in our existing footprints. We are also continuing to progress our goal of expanding our global footprint so we can capitalize on more revenue stream and provide more services to our customers.

As Sherif mentioned earlier, we posted a combined adjusted EBITDA of $46.5 million for the second quarter. This represents a sequential growth rate of more than 30% and year over year growth of more than 20%. On a year to date basis, we have achieved combined adjusted EBITDA of $111.8 million. Both of our segments benefited from the start-up of new contracts and incremental work as well as the non-recurrence of certain start-up and one-time cost incurred during Q2.

Drilling down, our production segment revenues for the third quarter were $88.7 million with EBITDA of $33.2 million. The improvement demonstrated over the last quarter came from higher coil tubing activity across our operating location, larger scoped projects for customers in Saudi and Iraq and overall margin improvements with a strong focus on cross management.

Our drilling and evaluation segment revenue was $56.9 million. This is up 27% from the prior quarter with contract activity increases through our larger operating locations. These revenue gains, as well as the benefit of some nonrecurring costs from Q2, translated into strong EBITDA performance of $17.6 million.

Net income from the quarter totaled $16.2 million, which included the impact of transaction and integration cost of $2.4 million as well as amortization from our contract intangible of $3.6 million.

When looking to the balance sheet, we completed a refinancing of our bridge facility and added a new facility during the quarter, which we fully drew down. Both facilities were previously disclosed in our Q2 filing, and you will see the effect of the drawdowns reflected on our cash position this quarter. This liquidity gives us financial flexibility in economical terms to support our growth plans and enable us to quickly seize an opportunity when it arises.

Sherif mentioned the North American equipment purchases earlier in his comments. This is a good example of opportunities where our capital might be deployed.

During Q3, we also began integration related discussions with a focus on optimizing our working capital and improving our DSO. We worked diligently during the quarter and are starting to see the improvements translate. Our October collections improved 67% from the monthly average since the combination in June. On the tax side, we are reporting an ETR this quarter of 19.5% and have begun some preliminary restructuring activities that we believe will positively impact the tax rate in future quarters. Our purchase accounting work continued in the quarter with notable adjustments made to customer intangibles and fixed assets. This resulted in a goodwill adjustment of $56 million.

We anticipate wrapping up the outstanding purchase accounting work by the year-end, solidifying our balance sheet as we head into 2019.

In closing, we remain optimistic about the opportunities that lie ahead of us. We believe our operations are in the right place to capitalize on projected activity increases through the region. Consequently, our results are expected to remain strong through the fourth quarter and into 2019.

With this, I'd like to pass back to Sherif for his closing comments.

Sherif Foda: Thanks, Melissa.

We are incredibly proud of the work our team is doing and are excited about our future. I would also like to take this opportunity to update you on the progress of our key objectives that I mentioned on our call last quarter. Number one, integration - we are well on our way to complete the critical integration steps before year end. Number two, growth - as mentioned in our call last quarter, we want to outpace regrowth (inaudible). Our results demonstrate that we have achieved strong double-digit revenue growth and stellar EBITDA, growing by more than 30% sequentially. And we are very confident about both the medium and long-term future.

Number three, capital structure - we have a very low cost of debt and continue evaluating the optimum capital and tax structure for the company. On this front, given the very high level of tax expertise within NESR, I'm very comfortable that we will have a fruitful outcome. Number four, ambition to start operation in a new countries - I can confidently say that we are making good progress towards this objective. Last but not least, two new technologies - we have set ourselves a very challenging objective, targeting new technologies into new markets.

Notwithstanding these challenges, we are very focused on achieving these targets. I can proudly say that we are now in the initial stage of qualifying these technologies and are closely engaged with our customers to test them in their fields.

In summary, I believe we made significant progress in achieving our corporate priorities this quarter. As always, we like staying busy, operating at a much faster pace than the market. We are very excited about the future, and we have incredible, motivated teams, staying close to our customers and execute flawlessly.

With this, I would like to take this opportunity to thank everybody for joining this earning call, and if there are any questions, we'd be very happy to address them. Operator?

Operator: Thank you. At this time, we'll be conducting a question and answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate 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 comes from the line of Greg Coleman with National Bank Financial. Please proceed with your question.

Greg Coleman: Hi, Melissa and Sherif. Congratulations on the strong quarter.

Melissa Cougle: Thank you, Greg.

Greg Coleman: I just wanted to start with a few clarifications--excuse me--questions on how Q3 turned out before we talk about any forward-looking stuff. First of all, we saw the 30% sequential EBITDA growth, which is great to see, in line with what we were expecting. I'm wondering can you offer us an color as to how much contribution you saw from the $360 million in contracts that you won in Q2. Was there a full run rate from that, none whatsoever, or somewhere in between, please?

Sherif Foda: Thanks, Greg. I would say, big percentage came from the contract awards. As we said before, you will see that the whole idea of when we won the contract, and start operating, the key for us is speed, right? So, we do not want to ramp up in a year or eight months or ten months, we'd like to get the contract immediately, prove to the customer that we are capable of delivering, and that's what we did, for example in the two big contracts we had in the region, and we managed to start operating within four to six weeks from awarding those contracts. And we saw immediately the fact of those results on our business lines. So, some of this work, I would say we had an increase of activity into the 500% from what we used to do previously.

Greg Coleman: Got it. And if we look into Q4, is there still an additional lift in activity under those contracts to get up to what I would say be full run rate, and is that what gives you confidence in continued sequential EBITDA growth into year end, or is there another reason that you think you're EBITDA growth in year-end will continue?

Sherif Foda: So, I would say, again, it's a mix of both. And the contracts where you have, some of the contracts, would like for example, the drilling business, you need to ramp up because, the nature of the contract is you get assigned rates, but until you really get work assigned to you, like fishing, (inaudible), etc.; it takes time. And you see the affect going quarter over quarter, and business when its production related, we had already full fledged from towards the end of Q3 and you will see now the same full quarter effect from October, November, December. And that's why you see revenue growth continue. Again, we repeated this before, all of H2 is stronger than H1 in the MENA region, and this is no different. We see going into Q4 we have a very strong activity line up. So, you see revenue full through on EBITDA.

Greg Coleman: That makes sense. Taking that last comment that you made about the second half of the year in the MENA region being strong than the first half of the year, how can we think about the first half of 2019? And the two big moving parts that I'm thinking about are first of all, if all is being equal, no contract wins, we would expect a role in EBITDA from the second half of '18, into the first half of '19, simply as the seasonality kicks in, but you have won a lot of contracts, can you offer us any insights without being too specific in what we should expect to see in early '19 EBITDA? Is the contract win sufficient enough to offset the normal seasonal role, and you could experience flat EBITDA into early 2019, or are we going to see a little bit of role, albeit moderated because of the contract wins?

Sherif Foda: Too many details, Greg. If you look at the company now it's combined since June 6. So, you start to see synergies of revenues, you start to see synergies of cost, supply chain, etc. You get the effects of all these benefits. Obviously, this quarter we saw some of it, and that's translated into the very strong revenue growth, and you will see this in Q4. But, going forward you will see some of the effect of the contracts going into H1 of '19 and H2 of '19. So, the H1, if I focus specifically on H1, definitely you get all these contracts now, more full-fledged towards H1, so Q1 and Q2, and this will outpace, I would say, the seasonality of the, H1 versus H2.

The company is now combined, you get a lot of synergy of the revenue going through a new product line. We are expecting some of the work, actually we didn't even start, I would say of the awards, hopefully are going to come in to Q4. And then we start the year with this new contract, this is all new business, right? So, this is a segment we never touched before in some of these countries, now we have a full fledged 19 segments, so some of the countries you have eight, some of the countries you have 11, some of the country's 15 segments, and now you will see growth in those countries. So, overall you will see the growth continue despite the fact the seasonality of H1 and H2 in MENA.

Greg Coleman: Nah, that makes sense. Ok. Just a couple more, then I'll hand it back--I don't mean to dominate the time here. In the bidding environment, you know, you had 360 million in Q2, which was amazing to see including the big 200 million in Kingdom. In Q3, you know, paced off a little, obviously this is lumpy, should be watching for additional tender wins going into year end, or is that the sort of the we're still in hiatus period when the larger tenders you're competing for could be awarded?

Sherif Foda: Yeah, I would say in Q4, we should announce a couple of tenders. We will know the results that we bid in Q3, which should be announced in Q4. Others will be announced in Q1, I would say. So, the tender cycle in the Middle East, as we discussed before takes time. Some of the contracts, what the clients usually do, they usually give an extension, another extension, another extension, until they really put the award into interests. So, I would say will have some announcement to make in Q4 when we do our call. And then going forward, we'll have more to come, right? But, definitely the Q2 was huge, because it was the first, we combined both companies, so we announced for the first time, and it has definitely won big, huge contracts, that had a big effect on that number.

Greg Coleman: Got it. Alright. And then just lastly from me on the M&A side, you know small good to see a little purchase there, the $7 million to bring some pumping and coil tubing assets over. You mentioned that you're pleased with the purchase price you spent, can you offer us any metrics on that relative to book value, relative to EBITDA, relative to replacement value? And then secondly, what do you think about further M&A, is it the sort of thing, I mean it's difficult to predict, but is the sort of thing that you're very close to potential additional purchases to bring over to your operating region, or should we expect a period of a break here before any more acquisitions?

Sherif Foda: So, I would say the acquisition of the equipment was opportunistic. We anticipated that growth in some of the markets we have. The customer is very, very close to us. We are close to the customers. They are very pleased with our performance. We had a fantastic service quality review with them, where we scored 99% efficiency and 99.5% efficiency, which was over 10,000 hours of ratings. So, very, very strong performance, and we anticipated that we are going to get more work, and we promised them.

So, we saw an opportunity and that's not the normal M&A activity, but we found that this a very good position to be in. We negotiated a very good, I would say, for the speed of replacing the equipment we needed, I would say less than 30% of the replacement value, right? So, more or less almost 25 cents to the dollar. So, when you think like that and equipment are ready, and you will be able to get them acquainted to hot weather, and insuring they can work professionally with accents, and these kinds of details, and increasing your fleet with a nice percentage; that's what we did. And as we said, we transported the equipment.

So, that's not what we call M&A activity, this is was very strong. But M&A activity is more into looking at, which are discussing all the time, numerous targets to assess the geography we have, and merging more companies into the regions to strength our position geographically into some of these new product lines as well.

Greg Coleman: Got it. Well, that's it for me. Thanks for the color. I'll turn it back.

Sherif Foda: Thanks, Greg.

Operator: Our next questions come from the line of Igor Levi with BTIG. Please proceed with your question.

Igor Levi: Hey guys, great quarter.

Melissa Cougle: Thanks, Igor

Igor Levi: Could you give us an update on your top markets where you have the biggest opportunity to grow share and comment on whether that opportunity is driven more by cross-selling, winning work on incremental tenders where you previously could not participate due to scale, or moving up on the totem pole on tenders where you previously had more marginal work?

Sherif Foda: So, I'd say all of them. Obviously, we are in a very, the region, I don't want to single out a country, for obvious reasons, but definitely we are very strong in our core countries. We are getting stronger by the day. If I look at the latest contract award, which I mentioned earlier, we are delivering impressive performance on this contract. So, the growth, definitely is outpacing any other country or any other product line, because this where you become five x what you used to do before, right? So, the growth is very significant. And it's no secret that obviously, within the region Saudi Arabia is definitely very strong for us. It's growing, and we continue to grow. We continue to grow in other countries, where our position is smaller, because we have only one or two product lines in that country. And today we have the ability to serve 15, 16 product lines, some of it you have to tender to win a new contract to be able to demonstrate some of it, you just cross-selling as you sell. So, let's say you have a drilling contract, you go and present to the client that today that I have thru tubing, I can do fishing, remedial, etc., and I have the expertise with Gulf Energy in Oman, and they come see what we're doing there in Oman and they're very impressed that we have a majority of the contracts owned by them, right?

So, then we can transfer to the other countries where we did not exist before, those product lines. So, it's a mix really of cross selling some of the (unintelligible) drilling portfolio into the other geographical area where we exist today, but we do not have that portfolio. And the strength of the new contract award, where we demonstrated that we deliver on those contracts, and we took the position or market share much faster than the client expected.

Igor Levi: Great. That's very helpful. Could you particularly talk about your growth strategy in Kuwait? I mean, it's a market where you have relatively little presence today, but previously you've highlighted that as a big opportunity for you guys to grow.

Sherif Foda: Again, we look at all the countries. If I look at Kuwait, we are very, very excited about Kuwait. Kuwait is going be the biggest close, from an industry macro point of view. They are going off shore. They are going to have the oil. They are going to almost double the rig count in the next four to five years. They have a very ambitious production growth. We are again, as you said, we are very, very small. This is where the opportunity is huge. We have been awarded a contract last quarter and we are working on a couple of more. So, we are definitely geared up to take part of that market. And again, definitely there's always opportunity to look M&A targets.

Igor Levi: As a follow up to your previous M&A comment, what is the M&A landscape like in the Middle East? I mean as far as suitable targets and then the second half of that, is the willingness of those targets to be taken over?

Sherif Foda: If I thought from your second half, the positions that we need from the one, is are we are a regional champion of the Middle East. We are from the region, we are very proud to be from there, and we are proud, as well, to be national in every single country where we operate. So, our motto, we are an enabler for people to join forces and be very strong in front of the customers. Let's say, if you work in Oman or Kuwait, you are very close to the customer. If I look at the model, and the way our perception our customer, of the employees, and the people in the region, it's very positive. A lot of people want to join forces with us, they believe that we have a good story. It's a little company, it's public, actually we get a lot of advice for people to join us. We are not selective of who want to join forces with us.

We want to make sure that we maintain the same level of compliance, the same level of expertise, service quality, image, perception, and this is the key for us. So, even if a target is good, you need to make sure they fulfill of this to be able to join forces with us. So, the appetite is there, and this discussion are ongoing with several of the targets. To ensure that is a good fit, they had a value as we do. Earlier, always say one plus one equal three, we need to make sure it's complimentary, it is not to eliminate something we have. It is something where one plus one equals three, and it makes sense for our shareholders, for customers, for our employees to join forces. I would say, in summary, we are very active at looking and discussing and negotiating.

Igor Levi: Great. Well, having companies lining up to join forces with you, is definitely very positive. Thank you. I will turn it back.

Sherif Foda: Thank you.

Operator: As a reminder, if you would like to ask a question please press star one on your telephone keypad. As a reminder, if you would to ask a question, please press star one on your telephone keypad. One moment please while we poll for questions.

Our next question comes from Blake Gendron with Wolfe Research. Please proceed with your question.

Blake Gendron: Hey guys, thanks for taking my question. So, the competitive dynamics from your three largest peers in the MENA region specifically, are pretty well captured by the market. I would say the risk sharing commercial model seems like a detriment to pricing more broadly. How do you fit in between this commercial model and traditional integrative project management model? And how do you inflate yourselves from a pricing perspective when your peers are being so predatory on the risk sharing side of the equation.

Sherif Foda: Thank you, Blake. Fundamentally, the market is very big in the Middle East. Again, when I said $20 billion market between rigs and service, etc., there's a place for everybody to play in. If I look at the business model itself, just to address your question, is lately some of these contracts came to, which existed before, but it increased lately, which is a risk share model, depending on the size of it. Our size and balance sheet are not suitable for us, for our size such risks at such a lost project, because we can not afford to have unforeseen issues with rigs or something, and then take such a risk. We prefer, and we are capable of doing services. We like and are very honored when we take independent projects. We do that currently.

It is integrated project management where you call the need, and you manage multiple segments, multiple size for the customer, and very happy to do that. We are always, as I said, honored when the customer trusts to take part of it. The part that we do not take is when we go to this what we call (inaudible) contracts where you take a full risk on the delivery, because we do not have, we are not ready for a scale of such magnitude. Customers definitely look at this at a much-reduced overall price, which we are again, not suitable in our size to take such projects.

Blake Gendron: Ok, so it's safe to say the traditional integrated project management side of the equation from a pricing perspective is pretty well insulated. I guess moving forward, it seems like the cadence of project ramp ups in 2019 will have you guys fairly well utilized, but if you could remind us where you will stand in 2H '19 from a utilization perspective. As you look around the rest of the market, how see sort of, capacity is more broadly utilized through '19, and how does that flow through the pricing discussions that you have perhaps 2020?

Sherif Foda: The capacity is there. There is no real shortage of capacity in the majority of the services. However, the issue is are you ready with your, and are you capable of delivering those services in this country at the same time? So, not exactly that you just have the units, the equipment, you have to have the know-how, the understanding of the region, the understanding of the country to operate, and make sure that you deliver on the services.

It's getting tight. I think it's going to continue to get tight. The discussion on pricing, it's going to, I would say, we have a lower effect of the drop off pricing going forward, in my opinion. I think for large, huge contracts, you'll always have that, because the problem is more a binary effect. So, again, the large integrated type projects, you'll always have this unfortunate cut throat pricing, because the big guys, they have to kind of bid for it.

I would say 2019 is going to very active. It's going to be very dynamic, and the key would be, not only a pricing story, it's going to be a service quality and delivery story. So, if you are ready, you have the right people, the right equipment, at the right country, you will get contracts, you will get business, because you are ready to operate, and you have no issue with the service delivery. So, in a nutshell, '19 will be very busy, I think, much busier than what people anticipate.

Blake Gendron: Ok. Ok. Understood. That's helpful. Finally, on the technology front and then the M&A front, it seems like, NESR has an inside edge in respect to commercializing technology, not having to go through some of the bureaucratic hoops some of the larger, diverse peers have in term of pulling through, either capacity or technology to the region. Could you remind us what the local content laws or requirements are? Certainly, it's not as stringent as Brazil or Argentina used be, but when you bring capacity in from say North America or technology from around the world, what do you have to do from a local content perspective to qualify that in the countries you work in?

Sherif Foda: The local content is, again its very, very important for, and it's a good business, it's sustainable for your growth and for your existence in this country. So, you operate in a country, you need to make sure that you demonstrate to the customer and even to the country itself, that you are a proper citizen and that you are investing in the country, hiring national people, and introducing technology. Again, each country in the MENA region, or around the world actually, defined ICV or in country value differently. So, you have a very mature countries where they put it in a very strong, clear metrics where you know exactly what it is. Usually the number one is always employment, so you see how much of your workforce are national, and then how level those nationals are, what level are the engineers, how many, the operators, etc., etc.

Then you have manufacturing, which plays a big role and you have it R&D. So, in every country you operate, they have a formula and it works depending on that formula. So, you actually be an international company, that you have a better score than a local company. It's only because you are local, meaning you have a better national score. It works from one country to another differently.

The strength we have, we are national, and we have very strong national workforce, and we are taking the right steps with the customer, and the industry, ministry, etc., to ensure that we comply. We exceed their expectations, so ensuring that we have the score in every country properly, and again, it's a good business, it's a sustainable business. You are not doing this to show off, you're doing this because it's a good business, right?

Now, if you take technology point view, fortunately the client, are very smart. The know you're going to manufacture high pressure equipment in one place all of the sudden. This part you are not going to score well, but they know you are always going to import equipment from the outside. What you can do, is looking to manufacture locally to give you an edge. For example, if I look at Oman Energy, produces and manufactures most of the machine shops and casing hardware, etc., they are doing manufacturing of this inside Oman. So, they got the expertise and they bought all of the machinery they need in Oman, so it's made in Oman, it's very strong them, and it's a very good business process.

Now, if you look at our ability to get what I call innovative technology, it's basically the niche technology where there a lot North America and Europe key technology coming from very, very small companies where they would like to--they deploy them usually in the U.S and Canada, because the entry is easier. But, we know, because of our expertise, our knowledge, we know that this technology, for example--the need of it actually is the best in that field in that country. So, we go to the customer, we tell them, you know, by the way, this is a very good technology, we can put this, and you're right, and we're going to bring it. And we make this not as an agency, like the rest of the region, we make this with partnerships. So, we partner with that technology company, and we put money with them, we work that, we develop it with the customers, that maybe we have to tailor it. And again, when it's a small technology company in North America, there is no bureaucracy because they are very small.

We can work together at a very fast pace to put this into a well for the customer. So, for example, we did this already last month, we made the agreement, we got the company, today we have a sign and we go in the well in the next couple of weeks. So, you're talking about three months from end to end, where traditionally this would take anybody a couple of years just to qualify the technology and then being able to put that technology into that country with all of the buyers to entry. So, that's where we make a difference in our approach to what we call open platform. If the technology is good, we are going to work with it and then even, make sure that the client has access to it for somebody else, even when we don't have a contract with them. So, open platform, and making sure that we work closely with the customer for the purpose of technology.

Blake Gendron: Excellent. Sherif and Tina, that was very helpful. I will turn it back. Thank you.

Operator: Our next question comes from the line of Mike Cahill with Crispin Capital Management. Please proceed with your question.

Mike Cahill: Thank you, Sherif. Excellent quarter, thank you for that. I had a question, within the contracts that you've won, given your high level of service and efficiency, do you have the ability to kind of move up in the rankings within the service to those customers, and can you get more than even the contracts, the headline contract amount, in terms of revenue for the company as provided?

Thank you.

Sherif Foda: Thanks, Mike. Absolutely. Again, the trust and the ability to deliver on the contracts you have is key, and once you do that, then you get invited and asked to do more work within the context of those contracts, and the peripherals of it. For example, if you won a drilling contract, and you're performing extremely well, they will ask you to bring thru tubing, they will ask you to bring other work, etc. Because you are delivering and performing, they will ask you why you don't do more, because you delivered very well. So, definitely this where we make a difference and our ambition is to able to deliver and to demonstrate to the customer that we do that. Saying that, it's exactly the same credibility you have to give the customer can't, when you can't, you say I decline, modestly, politely. Because you say, like we did this physically, we were asked because we performed very well in a well, and the customer asked us for another technology to perform and to drill another well, and honestly we went to the customer and said, thank you very much for your trust, but we are not capable of doing that part of the work. We even recommended another company to do that. So, it's very important to have this credibility with the customer, and that's how you build trust, and they know that you can deliver, and when you cannot, you say it.

That, I think is going to go a long way, in our long-term relationships with our customers.

Mike Cahill: Thank you.

Operator: Ladies and gentlemen, we have reached of the question and answer session, and I would like to turn the call back to Sherif Foda for closing remarks.

Sherif Foda: Thank you very much. Thanks everyone for joining us. We look forward to updating you on our progress next quarter. We thank you very much for your time and attendance.

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