National Energy Services Reunited
Fourth Quarter Earnings Call
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<u>Presenters</u>
Chris Boone – CFO
Sherif Foda – Chairman and CEO

<u>Q&A Participants</u>
Sean Meakim, JP Morgan
David Anderson, Barclays
George O'Leary, Tudor, Pickering, Holt & Co.
Igor Levi, BTIG
Blake Gendron, Wolfe Research
Andres Menocal, Evercore ISI
Mike Cahill, Crispin Capital

Operator
Greetings. Welcome to the National Energy Services Reunited fourth 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. Please note, this conference is being recorded. I'll now turn the conference over to your host, Chris Boone. You may begin.

Chris Boone
Good day and welcome to NESR's fourth quarter and full year 2020 earnings call. With me today is Sherif Foda, Chairman and Chief Executive Officer of NESR. On today's call, we will comment on our fourth 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 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 reconciliations to the most directly comparable GAAP financial measures can be found in our press release, which is on our website. Finally, feel free to contact us after the call with any additional questions you may have. Our investor relations contact information is available on our website. Now, I'll hand the call over to Sherif.

Sherif Foda
Thanks, Chris. Ladies and gentlemen, thank you for participating in this conference call.

We are very pleased with our continued solid performance this quarter. We are extremely proud to see how we expanded in 2020, delivering a record growth of 27% year-over-year in full contrast to the industry. As a matter of fact, this is the highest year-on-year growth since the inception of the company or any other previous year for the combined businesses. As a reminder, we did grow in 2019 at 19% versus 2018. This demonstrates our ability to weather the market—the industry even in the presence of a worldwide pandemic. As I have mentioned in the past, I believe these results and our accelerated growth reemphasize that we are an outlier in the OFS space when compared to the rest of the industry.

Our focus and execution capabilities, determination to the region, our flagship as the MENA national champion, and our customer centricity allow for a clear path to continue to grow at this pace for the foreseeable future. Middle East was and is going to be center of the oil and gas industry going forward. And all this development further reinforces this narrative, and I believe we have the front row seat in capitalizing on our unique positioning, on the ground strengths and customer relationships.

I would like to really thank our troops in the field who have managed to achieve all that despite the pandemic. We never turned down a single job for any of our clients. We have maintained close proximity to our customers and worked faithfully with them to manage the work schedule, planning of personnel and equipment, spending a significant amount of resources on testing facilities, expanded accommodations, and special flights. We absorbed all these costs and did not ask for any compensation due to these unforeseen circumstances.

Yes, we do understand it did cost us a significant strain on our people, being away from home for long time, working long hours, quarantining in advance to be ready to go to the jobs, and the increase of our cost of operation. However, we truly believe that this is our duty and obligation as the trusted advisor and partner to our clients. We need to be there for them as the first reliable source of services. I am extremely proud of our field crews and honored to be one of them serving our clients as best in class in the industry.

I spent the majority of the time in the Middle East in September, and I can tell you from personal experience how tough it is logistically as I had to be PCR tested about 35 times to travel between all the different countries. I did manage to visit the majority of them, and I was very fortunate to be able to see my dear customers and have plenty of face-to-face time with the senior management. The feedback was extremely positive in how they are perceiving our services and expansion. They do value our readiness during the tough times, and I reiterated our commitment to maintain and keep improving our performance. Furthermore, I emphasized our promise to keep investing and human capital and the latest equipment.

In addition to our new facilities and research center, most of which are moving as per our initial plans, with minor delays due to the travel restriction or deferred level laboratory equipment arrivals. It goes without saying, our ESG focus is always a big topic in our discussion, and they welcomed our new segment launch, which I will touch upon in details.

Coming to the macro, last quarter we set forth our view that we see that demand will rebound sharply and that the market underestimates how demand will come back once we have a line of sight to the solution of this COVID crisis, which we seem to have now. And, as expected, the demand is coming back stronger as we predicted, leading to oil prices nudging up to the 60s, and our view is that it will continue to go higher. This is mainly due to the various reasons: primarily, the significant underinvestment in any new project or lost potential development in production, which will lead to a supply not being able to keep up with the demand, the continuation of US shale discipline, which is still not yet at the level of one-to-one reserve replacement with the number of frac fleets presently deployed, the lack of appetite from the big IOC's to venture in new deepwater or big frontier discovery, which will make the dependence on the stable big reservoir place even higher. That is Russia and Middle East, which have a very long-term view for their production, and they are well coordinated in the OPEC+. Therefore, we could see a good run of oil and gas prices in the mid-term, with some high spikes for any geopolitical turbulence. I do not see a risk on that except for another U-turn on the pandemic with more restrictions and less travel.

As an analogy, you don't need to go further than to see what happened in Texas, where we had one single cold front spell, spot gas prices are through the roof, not enough electricity despite being surrounded by a lot of resources and despite being in the most powerful country. Many people stayed without water or power for a week. Now, take that and apply to global oil supply. If you are a serious buyer, you don't want to depend on erratic supply and want to have a reliable long-term partner who has plenty of resources with plenty of options, and hence, you look to the Middle East. And that is where you see the growing economies of the world are looking, both for gas, LNG or oil.

Coming to our operation and its outlook, as expected, our customers closed the tab in the last weeks of the year to ensure they meet their budget and not overspend, which is opposite to what usually occurs as we call it year-end sales or overspending in prior years. We believe this will continue into the first couple of months, then we will see pick up in activities across the board. I see, actually, our activity picking up and being in the key market much faster than anticipated with oil prices at the current level. Rigs are returning in several countries, especially the ones that are warm stacked and never left the countries or even nearby fields. I see the second half of the year with potential higher increase in rig counts and rigless sites, which we are making sure we are well prepared for and maintain being the reliable provider to all of our customers on a very short notice.

We recently announced the testing contract award in Kuwait. This, for us, is a breakthrough, as it now allows us to grow outside our core area and add diversity to our position in Kuwait. As you may recall, we did not have any existence in Kuwait earlier, and with these latest awards, we have solid contracts in Production, Drilling, and now Evaluation services. From two years ago, our testing product line has gone from a one country operation to now over five countries, and that is essentially the key to what we want to do with the organic expansion of our services. Like we did with our core drilling, similarly, we want to do that to the rest of the portfolio, as when the opportunity presents itself. We are working on another two potential awards that will be announced soon, which will present another solid step for our expansion in the region.

Last month, NESR was honored to participate in the Future Investment Initiative, or FII, in Riyadh, Saudi Arabia, where we announced the creation of our ESG Impact segment. As most of you know, the FII is an international platform for expert-led debate between global leaders, investors, and innovators with the power to shape the future of global investment. It is focused on utilizing investment to drive growth opportunities, enable innovation and disruptive technologies, and address global challenges. This year, FII was focused on reimagining and reenergizing the global economy amid the ongoing challenges under the theme of "The Neo-Renaissance." And it was the right place and time to announce our new segment for which we have been working for over a year now.

A lot of people have asked me what does ESG Impact mean, and what does that imply for NESR. Let me explain. I am a strong believer that our industry needs to move from the mindset of risk/return to risk/return/impact. We need to demonstrate that not only we evaluate projects based on their return potential but on their impact of the world. Impact needs to be measured and evaluated. It is our obligation, not only to the investment community, but to every single human being affected by these projects. We need to have an impact to their lives, to the climate, and to our earth. Therefore, we formed our new segment where we will have the tools and the technologies to enable all of the above. We started the engagement with our key customers, and, as expected, they welcomed the idea and were very keen to understand the details.

We will start with three key areas: water, climate change, and environmental waste. Let me expand on the water business in more detail. The Water Conservation and Management product line will focus on delivering fresh water from produced water that is today either wasted or injected for reservoir pressure management or into disposal wells. This is infield stranded produce water which does not have an existing infrastructure linking them to an existing water handling facility. As an industry worldwide, we do produce more than 200 billion barrels of water per year, only half of it is used for pressure management. The remainder has to find a home either in disposal wells or just let it evaporate in the desert. You have to realize that, in the MENA region, water has been a hot topic for a long time, and the majority of solution has been water desalinization plants. We have now an opportunity to make an impact to the community and provide fresh water to villages around us. We can have agriculture activity around the oil fields. We can plant trees to capture the CO_2 and methane and get carbon credits. We can have a low carbon footprint by reusing the produced water for the different drilling or fracking operations.

There are several applications and quick wins depending on the location of the produced water and the usage for it. However, the key factor here is we have the technology partner that can provide an economic solution that was impossible before. Our partnership is with Saltech from the Netherlands, who are an innovative tech startup addressing this issue in other industries, and we evaluated the economic feasibility to the oilfield industry and are currently in discussion with three of our customers to implement before year-end.

Another application will address the sulfate removal from well water or seawater with the help of CleanTeq of Australia, eliminating the need to use higher quality aquifer water for oilfield applications. I have talked about this in the last quarter, but, essentially, we have a specific opportunity to replace good aquifer usage with another aquifer which is sulfate heavy, as we did not have the technology to strip the sulfate before. We are progressing to a detailed study to set up in-field capabilities to provide water from a previously unusable water resource which then saves the normal aquifer.

In both these instances, we chose to partner with technology providers who we believe have significant differentiation in delivering an economic solution. This is after the team looked at the whole spectrum of available water tech, most of which in our industry just converts produced water to brine level, but it is not economical to take it to the next step of portable water. In addition, we have made commitment to invest in another technology, which we believe will enable us to address how to use the excess gas at the well site, which is traditionally flared to power those potential water plants.

The Climate Change mitigation product line will focus on the objective of establishing real time monitoring of greenhouse gas emissions from oilfield operations, including wellheads, gathering stations, and gas processing facilities. We are now in advanced discussions of bringing a couple of key technologies in methane monitoring to the region, with which we will be able to provide different levels of resolution of pinpointing where the leaks are from in a fully real time basis. Furthermore, it will focus on flare gas treatment and its capture and transportation to the nearest power plant or gas gathering station. Although the region on average flares less than what you see in the Midland, it still is still a substantial amount, which needs addressing and finding an economical solution to this complex issue that can't be solved with the current standard processes and technologies.

As you can see, we have very extensive plans on developing our ESG Impact segment, and we plan to hit the ground running in 2021 with measurable projects. Like we have done since the forming of our company to focus on the well-being of our people and our community where we work, developing key nationalities and gender diversity, and always maintain the slogan “the national champion of the region”, we have to expand to make a real impact to the bigger picture and have serious plans to mitigate climate change and provide fresh water in the desert as examples. Our aim is to be the reliable and responsible partner to our customers and the countries where we operate.

Lastly, I will let Chris dive deeper into the numbers, but one key message I want everybody to take that we grew 27% in times of distress, both in the industry and globally, which is a testament to our execution capabilities and that is the same approach we will take with all these newer initiatives to grow the company and positively contribute towards our and the industry's ESG objectives.

On that note, I will pass the call over to Chris to talk about the financials.

Chris Boone
Thank you, Sherif.

As Sherif mentioned, we reported quarterly revenue of $213 million. This represents an increase of 15% over the prior year quarter and a 2% decrease over the third quarter. For the full year, revenue increased 27%, a significant achievement in light of market conditions. The sequential decline in revenue was primarily driven by lower production activities in several markets late in the year, as Sherif has mentioned. This was partially offset by higher evaluation services. The year-over-year quarterly increase was primarily driven from the addition of the unconventional product line and associated services. This was partially offset by decreases in other markets related to lower commodity prices.

Adjusted EBITDA in the fourth quarter was $55 million, or 26% of revenue. This represents an increase of 6% over the prior year quarter and a decrease of 2% over the prior quarter. EBITDA adjustments of $1.9 million for the quarter are mainly for integration costs associated with the recent acquisition and other restructuring activities. Despite the market conditions, we are pleased that our adjusted EBITDA margins have held steady. We incurred additional costs this quarter, primarily related to noncash charges for actuarial end of services liabilities of nearly $3 million and significant COVID related labor and supply chain inefficiencies and costs. With the onset of the second wave in Q4, we experienced extra cost related to additional testing, transportation, lodging, and labor mobility. Despite the increasing level of vaccinations in many markets, COVID restrictions have increased during the first quarter. We don't expect these costs to mitigate until later in the year.

COVID and end of service costs were offset by a gain of $9.6 million on earnouts from the recent transaction, as the final amount paid was less than originally estimated and provided for. These are real savings to cash and issued shares and lowers our basis in the transaction. This was achieved primarily from business levels and the improvement in our share price. As is our practice, we do not reflect any of these COVID related or other items in the EBITDA or EPS addbacks.

Moving to our segments, our Production segment revenue for the fourth quarter was $136 million, growing 12% over the same period last year but declining 9% over the prior quarter. Full year revenue was up over 37% . Adjusted EBITDA margins for the Production group were 29% in the fourth quarter, flat sequentially. Associated pass-through revenue was at the same level as the prior quarter.

Separately, our Drilling and Evaluation segment revenue of $78 million in the fourth quarter was another quarterly record, up 21% compared to the same quarter last year and 11% sequentially. Full year revenue increased 10%. The increase over the third quarter is primarily related to higher evaluation activity in Saudi Arabia. Adjusted EBITDA margins of 25% in the fourth quarter were up from 24% in the prior quarter due to the favorable mix of evaluation services and leverage on higher revenue.

Depreciation and amortization decreased to $29 million in the fourth quarter compared to $32.2 million in the third quarter. Most of this decrease was due to a fixed asset evaluation adjustment from the final purchase accounting of the recent acquisition. We expect D&A to run in the $31 to $32 million range per quarter in the first half of 2021.

Interest expense in the fourth quarter was $3.4 million, down slightly from $3.8 million in the prior quarter.

Our effective tax rate continues to track well below the rates seen in 2019 as we continue to optimize our tax structure. Reported effective tax rate for the full year of 2020 was 17.6% compared to the full year 2019 rate of 24.9%. Excluding the benefit of this quarter's earnout gain, which is nontaxable, the full year 2020 rig would have been 20.9%. We expect the 2021 effective tax rate to run in the lower 20% range.

This resulted in reported net income of $16.5 million, or $0.18 per diluted share, and adjusted net income at $18.5 million, or $0.20 per diluted share, for the fourth quarter.

Switching to operating and free cash flow, we are extremely pleased that both were up significantly sequentially, with operating cashflow increasing to $49.3 million from $33.5 million last quarter and free cash flow increasing to $33.3 million from $8.7 million last quarter. For the full year, free cash flow was $44 million, a meaningful improvement over the negative free cash flow of $19 million in 2019. The sequential operating cash flow improvement was accomplished mainly due to higher collections of over $25 million from the hard work of many employees. However, we did experience less collections than expected in the final weeks of December as many customers closed their payments processes earlier than expected. This was offset through our own supplier payment management. These collections were caught up in January.

Capital expenditures in the fourth quarter were $16 million, down from $25 million in the third quarter, which also helped the improvement of free cash flow. This reduction was due to the lower new CapEx orders placed in 2020 and improved utilization. A big portion of our cash capital expenditures in 2020 were for CapEx ordered in 2019 and not received or paid until 2020. In 2021, we expect capital expenditures to be flat with this year to support planned growth and pay for existing commitments. Free cash flow in 2021 should significantly increase over 2020 due to flat planned CapEx, continuous improvements on fleet utilization, and improved DSO.

Also a positive, net debt decreased to $323 million at the end of the fourth quarter compared to $349 million at the end of the third quarter. The sequential decline is primarily from higher cash balances from improved free cash flows. As of December 31, 2020, our net debt to adjusted EBITDA ratio is 1.6, down from 1.7 last quarter, and should reduce to our target level of approximately 1.5 or lower in future quarters. Also, we remained in full compliance with our primary credit facility financial covenants in the fourth quarter.

In conclusion, NESR again strongly outperformed the market in revenue growth and margins in 2020 through our regional focus on strong operational execution while still generating positive and strong free cash flow. We expect the same momentum and more going forward.

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

Sherif Foda
Thanks, Chris. In conclusion, I would like to leave you with key takeaways.

We continue to manage the COVID situation better than anyone, and we maintain a very close contact with all our customers.

We are very optimistic about 2021 and believe we will have another stellar growth and performance year.

We continue to invest and hire, and we see no delays in the coming quarters.

We are very proud to launch our ESG Impact segment and focus to contribute to the new mindset change in the industry.

On that note, I would like to pass the call back to the operator for your questions. Thank you.

Operator
And at this we will be conducting a question-and-answer session. If you would 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 keys. One moment, please, while we pull for questions. Our first question is from Sean Meakim with JP Morgan. Please proceed with your question.

Sean Meakim
Thank you. Hey. Good morning.

Sherif Foda
Morning, Sean.

Sean Meakim
So, Sherif, I think the ESG initiatives are really encouraging. Could you maybe just talk about how this influences your prior five year plus 20% CAGR goal that we had a few years ago? Does this help sustain that growth rate? Does it layer incremental growth? I'm trying to think about when this could become material to overall financials. And then, how should we just think about the need for capital deployment, whether it's CapEx or M&A to help you deliver these services to your customers?

Sherif Foda
Thanks, Sean. So, it will be incremental. The idea there is to have our core business that should continue to grow at that pace or higher, and the ESG Impact segment should be an incremental to that. I would say, taking the size and that acceptance from the customers, taking a project to implement with, obviously, with all of this COVID restriction on delivering, as you saw, the one is in Holland, one in Australia, I would say you would see something towards the end of this year, and then you will start to see the materiality from the following year. And that would be when we would start reporting this separately. Now, for your second question on the CapEx, I mean, obviously, we are producing a solid free cash flow. We will continue to do this, and we will do much better this year than previous year. So, we don't have any issue to fund all our growth organically. Now, if we have a big M&A coming or something, definitely, there is a lot of other opportunity to be able to issue shares, et cetera, or do something. There is a lot of ways for us to be able to do that if we need to. I mean our—you saw our covenant, and Chris talked about this in detail. We are in a very well position. Our interest rate is still at 2.5%, which is, I think, the lowest in the industry. So, we have plenty of room to grow there.

Sean Meakim
Thank you for that. I think that's helpful. So then, just to follow up on your comments right there, Chris noted you're expecting a significant increase in free cash flow in ‘21 with flat CapEx, improving working capital, and then cash from ops otherwise getting better on higher growth rate. It's also worth noting your equity currency is a lot stronger than it's been in the past year. So, in that context, whether it's the ESG initiative or, more broadly, how should we think about uses of cash and potential M&A in ‘21?

Sherif Foda
So, yeah, we have—as I had mentioned earlier, we have very—good plans for M&A. The discussion is ongoing, Let's put it this way. Definitely, again, the COVID situation prevents some of the work, if you like, like the due diligence, same thing, auditors, lawyers, et cetera. So, that kind of delays things a bit. However, I'm still very optimistic of closing a deal, hopefully, in this year. And definitely, there will be a lot of use of this cash.

Chris Boone

And, Sean, as a reminder, assuming no other type of refinancing to change the timing of payments, we'll have about $45 million- $50 million of debt payments required this year. So, that will also be a use of free cash flow.

Sean Meakim
Understood. Thanks.

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

David Anderson
Hey. Good morning, Sherif.

Sherif Foda
Morning, sir.

David Anderson
So, I wanted to get your perspective on the cadence of upstream spending in the Middle East over the next 12 to 18 months and kind of how you're seeing it today. Are your customers still largely in sort of a wait and see mode with respect to global demand? We're not hearing a lot about big tenders other than your Oman award, which you talked about. So, should we be thinking this is a steady ramp up in light of, say, the excess supply in Saudi and the like, or could we see an early inflection that's more substantial? Your larger peers talked about second half pick up. I'd just like to know kind of how you kind of see things playing out.

Sherif Foda
I agree. It's the second half pick up. So, the way it works, David, as you know very well, most of the NOCs are very long term, very savvy. They understand exactly—there might be spikes in demand. They understand as they try to expand on the macro, that nobody else is investing anywhere in any big project. Nobody is doing any new discovery. People are not replacing their reserves. There is obviously some sentiment of negativity and some other places outside of the Middle East. So, they understand that, when spikes happen, they need to be ready. Obviously, Saudi definitely has the biggest capacity and biggest surplus that they could put in the market in a very short notice. But everybody, if you look at their activity, they are flat. They are not decreasing, and they're picking up their rigs, as I said. So, the rigs are being picked up. Today, if I look from what happened the exit of Q4 to already now, we are in the end of February, you already have some increase of rig count in several countries, and this is going to continue.

My personal opinion, people are underestimating the spike. I think the second half is going to be much stronger than what people think, and I think the NOCs will put rigs into motion, because I believe that they will be needing to put some production around. Now, if I look at the market where it's oil price dependent, this will see a significant, like very sharp increase of activity, especially—it went almost to zero. And that's like, for example, Kurdistan north of Iraq, some places in Egypt, some places in Libya. All this will put a significant amount. At $60 oil, these guys are very profitable. So, you will see a pickup in rigs. So, overall, I would say, yes, they are looking into the global market—the global demand. Definitely, everybody is looking for the vaccine. If things trend to the positive in the summer, you kind of see line of sight very clear of the vaccination, and people are starting to travel again and opening borders. You will see, I would say, much higher activity than what people are anticipating. And that's why, as I tried to say in my prepared remarks, we are preparing for that. We are preparing for that from investment and people and CapEx, as well, some of the equipment to ensure that, if the customer says, in two weeks, I need another 2 or 3 fleets, 10 more crews on XYZ, I'm ready.

David Anderson
That was actually my next question there, Sherif. So, a year from today, you're going to be a lot busier. So, I'm just wondering how you're thinking about the number of people you need to add, kind of the equipment you have on hand. I don't know if there's a way—we don't usually think about service companies in terms of utilization, but maybe some sort of sense where you are there and—because one thing you're starting to see with some of these OFS companies in North America, you're starting to see some friction costs from labor and equipment as it goes back to work. So, if you start ramping up over the next 12, 18 months, could this potentially be a bit of a headwind on your margins, or do you need to kind of see improved margin—improved pricing to offset that?

Sherif Foda
I'm going to be very honest. No, I won't see any improved pricing. I don't think there will be improved pricing. I would say, what will happen is, some people are not ready yet at all, and they are extremely squeezed. They released a lot of people, and I did not. I did not release anyone. And we did plan for our activity, and we actually, even when the customer closed the tab, for example, in December for their budget, I did not release the people. And I knew that people traveled, and they cannot go back, because the border were closed in some countries. We kept the costs. We kept the hotels. We kept them staying there. We paid everything. We don't take it out of the results. We keep all these costs incurred, and we kept it in January. And that's how you, I would say, maintain that very close with your people. And I know it costs us money, but that's how we are ready and the others will not be. So, I would say, I do not see a problem myself in our operation, and I repeat, if the customer adds significant amount of need for crews, et cetera, I will be ready on a very short notice, and others will not be.

David Anderson
Great. Thanks very much.

Operator
Our next question is from George O'Leary what Tudor, Pickering, Holt & Co . Please proceed with your question.

George O'Leary
Morning, Sherif. Morning, Chris.

Sherif Foda
Morning, George.

George O'Leary
I wanted to start off piggybacking on one of Sean's question, and somebody else commented on free cash flow. I think Chris said it would increase materially in 2021, so kind of a two-part question. Any color on the magnitude of the the free cash flow jump year-over-year in 2021? And should we expect that to be distributed evenly throughout the year or second half weighted, given the earnings growth likely occurred in the back half? How do you think about magnitude and shape of that free cash flow throughout the year?

Chris Boone
So, I mean, obviously, we're not giving specific guidance, but I think, with a reasonable growth rate and with the metrics we've said, something in the at least $75 million, $80 million range should be very achievable, and we'd like to exceed that, as well. But we think that's a starting point for that number. As far as timing, I'd say it might be a little more second half. It'll really depend on how collections—they're always little spiky one quarter to the next, but I wouldn't say it's going to be significantly different one quarter over another.

George O'Leary
Okay. Great. Very helpful. And then, you guys talked increase in your last few quarters about some technology investments you've made and some partnerships on the water side on this call and also the climate change in the methane emission side. Just curious if you could update us on the technology efforts, things like Deep Imaging, , again, you already hit water and ESG, but those other investments that you started to talk about a quarter or two ago. Any update there would be helpful.

Sherif Foda
Yeah, the biggest unfortunate of the COVID, actually, is the new technology implementation because of the people that are not there to set it up and sending all the people equipment, et cetera, and the clients, obviously, always put all these things kind of on the back burner because of it's kind of nice to have, or a trial for something new. So, they say, okay, let's put the new technology after everything. Now it's only business essential. So, I think the delay in some of these initiatives did happen. I would say, because of the necessity, I would say that KBOS would be the number one once it opens up, and we will be able to send the crews, and they start to have the field trials with the customer, I would say would be the number one. And I would say that the stuff that is like the sort of Deep Imaging , for example, would be the last, because that's how the client perceives the seismic—I know how I'm going to see that, where is the frac, etc. Usually, that gets the last part of the equation. What we—just to give you more color on some of the other initiatives, we put some investment in another two. We do not still

declare their names for confidentiality, but we invested in another two companies with some very unique technology, and we're very excited about it. So, our efforts to keep investing never stopped, and I think that's why we keep saying that we are different than everybody else, because we keep investing, actually, when everybody is like closing the tab and tightening the belts. We're actually investing quite a lot in some of this very unique technology to make sure that we start to see the fruits of this implementation from, I would say, H2 this year.

George O'Leary
Great. Thank you very much.

Operator
Our next question is from Igor Levi with BTIG. Please proceed with your question.

Igor Levi
Hi. Good morning, guys. So, in the last two quarters, we saw you in a major renewal in Oman and some new work in Oman and Kuwait. Could you talk a bit about the timing of any other upcoming renewals that you guys have?

Sherif Foda
So, renewal or tendering our existing work, we have a good pipeline. Some of it is coming next year, some of it coming in '23, '24 . So, it's kind of well laid out between the different countries. Some contracts are coming towards, for example, this year that is very crucial, because it's kind of binary, so you need to win. Otherwise, there's only one awarded supplier. The rest of it is going to just be—I'm not saying we are very comfortable, but most of it is just going to be renewed. Now, are you going to be the number one or number three or number four? That's the difference, right, because it's a multiple award with multiple companies. We're more excited, actually, on, as I tried to explain, that we are tendering a couple of nice major contracts, and we are expecting the awards in the next couple of months. The indication is very positive, so I'm very excited about it, and this is going to make it like a new entry or a much larger size on some countries of the current position of the company.

So, it's very important for us to get that, because that's—the key for us is to expand outside the two strongest countries. And I think the very positive part, obviously, was Oman, and, as we explained it before, is because we have now this still 2031, 2032. So, we don't have to worry about it for some time. Plus, we have very solid initiative with the government and the customer to implement some ESG initiatives that are extremely important for the country. And we are very proud to be part of it that will make a difference, again, not just for our business, but for the country itself. So, I would say, Igor, just to summarize in a word that, yeah, we are very comfortable with our contract position.

Igor Levi
Great. Thank you. And on the ESG segment, could you talk a bit about the economics behind the water processing technology that would really make this initiative take off? I mean, how

much lower do you need to bring down costs of processing water to make it either drinkable or, in the case of the sulfate water, usable in wells?

Sherif Foda
So, if I—obviously, without giving any confidentiality here, but just to give you a factor, it's the factor of six. So, just imagine that whatever—today, the technology that exists costs 6 times, and that's why it's totally uneconomic, and that's why the whole world is basically not doing anything about it, to be honest, as an industry. Today, as I said, 200 billion barrels, 100 billion of it is just thrown away, which is a crime, I would say. So, there is a lot of this. Why? Because there's nothing economic. There is no economic metric they can make that water usable. Today, if you dig the entire ecosystem, and you say, purely from economics, you obviously—the cheapest way is just leave it in the desert to evaporate, because it costs you nothing. But if you look at it from the whole ESG, what is this for the community, what is this for the environment, is any of this going to the ground, etcetera, then you say today the technology to make it, if it costs you, let's say, $6, this technology will cost you $1. So, I am taking that cost by a factor of six. And that's why today I personally believe that it is economical to get this water. If I look at all the parameters of the country, the city, where you are instead of putting pipeline, disposal wells, et cetera, I think it is an economic solution. Not everywhere, obviously, but in the majority or in plenty of places, it is economic. If I look at offshore, just to give you an example, if you are, for example, in a country like Norway where you are not allowed to drop anything, it's a zero tolerance. Then it is very economical. So, it depends on where you are, and I think it is definitely a breakthrough, and we should have good solid two projects hopefully before year-end.

Igor Levi
Thank you. That's very helpful. I'll turn it back.

Operator
And our next question is from Blake Gendron with Wolfe Research. Please proceed with your question.

Blake Gendron
Yeah. Thanks. Good morning, guys. Chris, I wanted to come back to the equity earnout impact to margins. It seems like a 10 million or so good guy. Offsetting it was $3 million end of contract payments it seems. On one hand, EBITDA margins across the segments probably would have been appreciably lower without the equity earnout, and I'm just not sure how one off it is really. On the other hand, you enumerated a number of COVID related costs that you do include in results. So, I'm just trying to level set what you think the—if you strip out everything, what do you think the segment margins are and adjusted on margin is now. And then, in terms of those COVID costs rolling off in 2021, what the timing and kind of magnitude of that would be. Thanks.

Chris Boone

Yeah. So, for the fourth quarter—yeah, if you probably net in all of those together, we probably ended up with a net gain of a few million. So, there is a little bit of an EBITDA boost because of that versus our reported. So, that's—without going into other minutiae all the calculations, that's how you can run your math. It was pretty even across both segments.

Blake Gendron
Okay. That's helpful.

Chris Boone
And I had tried to help with the EPS. We didn't do call outs, but there was a little bit of extra help on lower D&A and little bit lower tax rate that helped EPS by a couple of pennies.

Blake Gendron
Got it. Got it. Understood. Thanks. And then, just coming back to the growth here—so, obviously, ESG and SAPESCO, our newer discrete items that we're going to keep up with and try to model separately to the degree of disclosure that you give on that. I want to come back to frac, because frac was sort of the first incremental additional to the story a year plus ago. As we normalize here, I know that focus is still on natural gas element in some of the key basins. You had some, perhaps, oil exposure, as well, with some of the conventional frac spreads. Where does your frac operation stand today, and how do you think you see it scaling up as we normalize here out of the pandemic?

Sherif Foda
So, Blake, I would say the frac has been doing an outstanding job, more than outstanding. Very proud of it. It's working around the clock. In my last visit in Saudi, for example, I went and visited the location, visit with the team. Very motivated. The crew is on plan. Our efficiency is matching the US efficiency. Very proud, as well, to work with my dear friend Robert NEXTier. So, it is on plan, and the development of the unconventional gas of the kingdom never changed. And I think they have their same commitment, their ESG philosophy, and the transition—energy transition to gas for power, renewable is extremely strong. And the kingdom actually has amazing plans on renewable hydrogen. You might have seen some of the commitment they said at 50%. They will be exactly like Germany by 2030. So, they have a huge commitment on all of these initiatives, and our plan is to have—to be a big part of that and remain the reliable supplier for them for the Jafurah and the others. So, we have two fleets running in Saudi as is. And our plan is to expand that outside of the region—outside, I mean, Saudi. And, we are in discussion, as we discussed last time, with the other three countries to have a fleet this year. So, we should have my—and as I'm always an optimistic guy, I am planning to have a fleet in H1 and a fleet in H2. So, I'm still on plan to have two fleets in 2021 working in the region. So, to have total of four. So, very excited. Nothing has changed in Saudi.

If I may just give you more color, if you'd like, obviously, some of the newer projects in some other countries, those got delayed, because of obviously what's happening in the world. So, again, people are looking at the demand. Is this exactly what you need ? Because they are still in this exploration type of phase. So, some of these projects take much longer time before. But you saw, for example, the announcement of the UAE with Total of the first delivery of unconventional. So, everybody is working on it, and the region is not changing the course on the energy transition.

Blake Gendron
That's encouraging. Thanks. I'll turn it back.

Operator
Our next question is from Andres Menocal with Evercore ISI. Please proceed with your question.

Andres Menocal
Hey. Good morning, guys, and thanks for taking my questions. My first one was going to be maybe more on a regional basis. I understand some of the key drivers of activity within your main areas of doing business. I'm thinking about Saudi, Oman, Kuwait. Sherif, could I get your updated views on, let's say, some of the more growth areas that NESR is operating or maybe areas where there was a fair amount of volatility and 2020? Just looking to see if there's any updated outlook on how you think activity might pan out in areas such as Iraq, Algeria, Egypt, Africa. Just kind of wanted to get some color there.

Sherif Foda
I would say you will see some of them that will have a significant increase, like, huge increase. And that definitely will be led by Libya because of the dual political agreement between the East and the West. I would say Erbil in the Kurdistan Region would have a sharp increase because of the nature of the PSAs. Egypt should have, as well, an uptick from, obviously, the very depressed number, but it will take, I think, more time. But again, at this price level, all of these fees are very economical. So, the key becomes how many of the E&P companies that are working, for example, like a place like Egypt, are encouraged to sort of put money and develop like Apache. How much would they put in to start up the project fast in Egypt towards H2?

The others, I would say, the national oil company, obviously. They will have a plan to, again, from—whatever it is, Q4 exit is going to be. So, it's going to be a plus year-on-year Some is going to be very significant, and some is going to be flat to plus 5% to 10%. Our growth, obviously, if you want to talk about our commitment to Africa is still very strong. And Africa is one of the regions where, obviously, despite the fact that, from a number of perspectives, the COVID did not affect it as much as others, but still, from travel, from restriction, from contracts, from geopolitics, from fiscal regime, is very complicated, a lot of delays. IOCs are not investing at all in Africa, and therefore, I would say I don't see an uptick in Africa until 2022.

Andres Menocal
Great. Thanks a lot for that. My second question relates to a couple of things, I would say, on the ESG front. And correct me if I'm wrong. It seems like or thinking about the client—your

clients risk appetite for new technologies, it seems like maybe the attention or focus might be shifting toward ESG, and I appreciate the call out of the areas of opportunity such as water, climate change, environmental waste. And I pair that against your earlier statement where such technologies as Deep Imaging, which could be a call for seismic in exploration activities. It doesn't seem like the client risk appetite for new technologies is there. So, if I think about maybe later here in 2021 with the next, let's say, climate conference for the UN in November this year, I think it's in Ireland, and I think about a lot of the, let's say, bullish outlook that I have and others have for Middle East national gas activity, especially on the unconventional side. Do you think that there might be a risk from the Middle East in terms of natural gas as we think about the rising focus on emissions? And what role do you think that NESR could have in helping to meet the region's needs for higher environmental standards, just assuming that's the way that the world's attention shifts later in 2021?

Sherif Foda
So, I will tell you something in a very, very short answer. There is no change whatsoever on the energy transition from the big national oil company and their focus on moving to gas. It's full blast, and they are going to divert most of the liquids to exports. And it was—most of the gas is for internal consumption. And that is the main driver of the region. And meanwhile, they are all looking at all these initiatives extremely carefully, and they are still proudly the lowest carbon footprint per barrel of oil in the entire world. So, they know that very well, and they know that they are very, I would say, responsible compared to others. But meanwhile, they are working on all other initiatives to ensure they meet those metrics.

Andres Menocal
Great. Thanks for that.

Operator
And as a reminder, if you have any questions, you may press star one on your telephone keypad to ensure that you are in the question queue. And our next question is from Mike Cahill with Crispin Capital. Please proceed with your question.

Mike Cahill
Hi, Sherif. Congratulations to you and the team on another great quarter, and I hope you all in Houston were well during the recent weather issues. My question relates to ESG. And I was wondering, given the advances that you have in ESG, do you think that you're developing a structural advantage that will help you win new contracts as you're bringing capabilities to the table that are superior to your competition and a true differentiator? Thanks.

Sherif Foda
Thanks, Mike. Yeah, absolutely correct. The approach that we have when we—again, when we launched this in January in Riyadh, is to ensure that we have the tools and the technology to enable the customers meeting those, I would say, not impossible but uneconomical solutions earlier. And that's why most of the customers walked away from all these solutions. I mean, if I

would look at Zero flaring—and I talked about this in many conferences before. Zero flaring exists since 1999 as an initiative. And today, we are in 2021, and we still flare everywhere. The technology does exist. We just have to make sure that we have the capability and ensure the economic viability to our customer, and that's the differentiation. And that's why we want to package this as a whole portfolio that people can look at the water, climate, et cetera. And that's in addition, obviously, that a lot of people are focusing, as you know, on hydrogen and other stuff, which is totally different. What we are saying is we should have the current oil and gas production friendlier. We should be able to do that. We can do that. And that's why we have a differentiation, and we have an economic solution today that would enable the customer to be able to do that. And, obviously, they are very smart, our customers. They understand that very well. They will evaluate our technology with our partners versus the others. They will see very clearly that we do have a big advantage, and definitely we have the infrastructure. And this should give us a very big lead way. That's why I'm very excited about it. Not only because of the business but I think, as well, from humanity, we should have that responsibility on making an impact around the communities where we operate.

Mike Cahill
Thanks, Sherif.

Operator
And we have reached the end of the question-and-answer session. I will now turn the call over to Sherif Foda for closing remarks.

Sherif Foda
Thank you very much, and I appreciate the time. And again, extremely excited about 2021, and we are looking forward for our next calls. Thank you so much.

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