National Energy Services Reunited
Third Quarter 2019 Earnings
November 6, 2019

Presenters

Chris Boone - Chief Financial Officer

Sherif Foda - Chairman and Chief Executive Officer

Q&A Participants

Byron Pope, Tudor, Pickering, Holt & Co.
Sean Mecham, JP Morgan
Greg Coleman, National Bank
Igor Levi, BTIG Research
Blake Gendron, Wolfe Research, LLC.

Operator

Greetings, and welcome to National Energy Services Reunited Third Quarter 2019 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, then zero on your telephone keypad. Please note, this conference is being recorded. I will now turn the conference over to your host, Mr. Chris Boone, Chief Financial Officer. Please go ahead.

Chris Boone

Good day, and welcome to the NESR's Third Quarter 2019 Earnings Call. With me today is Sherif Foda, Chairman and Chief Executive Officer of NESR. On today's call, we will comment on our third quarter results and overall performance. After our prepared remarks, we will open up the call to questions.

Before we begin, I'd like to remind our participants that some of the statements we'll be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest Earnings Release filed earlier today, and other SEC filings. Our comments today may also include non-GAAP financial measures. Additional details on reconciliations to the most directly comparable GAAP financial measures can be found in our Press Release, which is on our website.

Finally, some of you may be calling for the first time, so feel--please 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 excited to report on this quarter's results, and on some of the path-breaking work which our teams on the ground have done. This seminal effort operationally and commercially will set the stage for us for the coming quarter and the near-term future. Additionally, we have greater visibility on achieving our very aggressive targets next year and beyond.

This quarter, we grew our revenue 11% year-over-year, despite the geopolitical turbulence in the region. As reported, I was on the ground when the incident happened in Saudi, and we quickly put our emergency response plan in action, as well as inform our esteemed customers that we would be ready to help in any manner they require. Our operations, equipment, personnel, were ready to perform any needed tasks. As you all have witnessed, Saudi Aramco, with their world class processes and systems, managed to bring production back online in record time.

Coming back to some numbers, our production group revenue increased by approximately 10% year-over-year. Most of the growth came from our core countries of operation. We managed to start in all the new countries in the later part of the quarter. The delay was mainly due to the extended holiday season in July and August. We started providing coil tubing services in Chad and did our first jobs successfully.

Similarly, we executed the first cementing jobs in Kuwait flawlessly during September. This process will further accelerate in Q4, as we will see the full weight of these additions throughout the quarter as well as part of some of new operations. I can comfortably say that the production group is poised for some significant growth in the near-term and will grow very rapidly in 2020. We are perceived by our customers as one of the strongest companies in terms of solid execution, technology, and capacity.

Our drilling and evaluation group grew by 13% year-over-year and the growth was pretty wide-spread across the geographies. As you know, in most countries outside of Oman, we have much smaller D&E portfolio than our production footprint.

We are starting to see the level of maturity in the countries where we won contracts earlier this year. We have established a strong base, built the infrastructure, and now serving larger piece of the contracts. This growth of 13% also includes the effect of the decrease in our legacy drilling and workover rigs product line. In essence, outside of the rig product line, D&E grew in excess of 20% year-over-year.

We are also making progress on the evaluation front, and in the third quarter, we started NESR's first perforating job in Indonesia. This major job was successfully completed, and involved 67 perforation runs in Q1. Commonly, one would start with a very small job that is not complex. However, we opted to start with the big and challenging operation, and we are extremely appreciated by our customers. We are now set to do more of these in the future. In addition, we are working on evaluating and field testing our latest production logging tool with our partner. This technology, once proven, will enable us to play a bigger role in the growing cased-hole market across the region.

Now, let me spend some time talking about the overall macro of the region. As we have been saying, oilfield services activity for the region, to a large extent, is decoupled from the current oil, or gas, or energy prices you see on the market. Our customers in the region do not operate with a short-term view but are working towards their long-term strategic goals. This is reflected in our activity, and how we view our market evolving, which has only been one way since I have started doing these calls a year and a half ago, and was the basis of thesis, which led to NESR.

This is going to accelerate in the coming quarters as our customers are addressing more complex reservoirs which require higher intensity of services. This is completely at odds with what the markets see and react to in North America. Here, slight changes in EIA, storage number, change in regulation, can move how the public market view the service sectors, causing significantly volatility. We, on the other hand, operate in an environment which is completely different, and in which the market and NESR have separately grown with minimal volatility.

Being very close to our customers, I can assure you that most of them have very aggressive budget plans for the future. Some of the projects being sanctioned are a magnitude higher than anything done in the past, in terms of complexity and size. The quest to increase offshore spend and proving new reservoirs is evident in many countries. I'm very optimistic with the exploration success rate, which means several new frontiers will start in the region. The best example is offshore Kuwait.

As recently discussed extensively in my calls, and in various forums, one of the main strategic goals in the region is being self-sufficient in gas, so they can power and grow their respective economies. This is evident from the large scale projects we are witnessing today with a few customers, especially those who are working towards multiple unconventional prospects. For us, this quarter, we have moved from just discussing the possibility of playing a part, or how to participate in those projects, to seriously qualifying the services and preparing to lead a big part of it. Today, we are actively engaged with four of our customers at different stages.

To be able to take part in this growth, we have to ensure that our ground teams, as well as the few layers which we have above them, are operationally and technically equipped to handle such a potential increase in unconventional activity. This takes a lot of investment in people, as well as hard work, and the way we want to undertake it is to ensure that our customers get the best equipment as well as processes in the world, with no compromises. This includes basin support facilities, logistic infrastructure, supply chain, as well as just pure execution hardware and personnel.

For a company of our size, this is a significant commitment in resources and demand, an all-hands-on-deck approach. I can tell you that all of us here are already hands-on type folks, and our aim is to ensure that we hit the ground running and deliver world class level of service efficiency to our clients. We are very pleased with our progress in advancing the qualification process. As I had mentioned earlier, this can take up to two years to get qualified. For us, our aim is to reach that goal before year-end.

On the conventional side, as I mentioned, we initiated the previously announced contract awards in Kuwait and Chad, and we continue our streak of gaining market share. Also, we did start our operations in Bahrain during October. All of these have been flawless startups, and I'm very proud of our teams, which have made this happen. I just came back from Kuwait, and I can tell you that our customers there are very pleased with the way we have mobilized for the cementing contract. They have never seen anybody mobilize with such intent and deliver on time. We had the visit to our operation by the top senior management, and we discussed ramping up the contract and number of rigs we serve, at a much faster pace. We also got awarded as the Best Cementing Company for one of our biggest clients. —Actually our overall service efficiency across all the segments was better than everybody else. We have completed the first integrated well construction in Iraq. This included our rig and all the services. We have demonstrated our capability to perform integrated work professionally, and most important, profitably. We are in discussion to increase the scope of this six-well campaign.

On the tendering front, besides the earlier-announced new wins in North Africa, where we will operate for the first time to new customers, we won several other smaller awards. We won an award to provide services for a European operation in Yemen, where we have been in discussion for long time to ensure the security of our operations. We have successfully mobilized coil tubing and slackline services to east Libya. We are in direct negotiation with the client to add those services to our current contracts.

We are at the final stage of tendering two large contracts, and hopefully we will be able to announce them positively before year-end. And on that note, I will pass the call over to Chris, to talk about the financial in detail. Chris?

Chris Boone

Thanks, Sherif. This morning, we filed our Earnings Release, reporting our results for the third quarter. Third quarter revenues were 162 million, an increase of 11% over the prior year quarter. We were pleased to see year-over-year revenue growth in both the production group and drilling group. Adjusted EBITDA is 48 million for the third quarter 2019, with adjusted EBITDA margins increasing sequentially to nearly 30% from less than 29% in the prior quarter.

Year-to-date, our adjusted EBITDA is 134 million, which is 20% higher than the first nine months of 2018 for the combined companies. EBITDA adjustments of 4.8 million for the quarter are primarily for integration costs as well as start-up costs for the new products and locations. The sequential increases in these adjustments are primarily related to higher restructuring costs, SOC's implementation planning, and new country entry expenses. Adjusted net income is 16.2

million, or 19 cents per diluted share, as compared to 16.4 million, or 19 cents per diluted share reported on the second quarter.

Despite higher sequential EBITDA, adjusted income was impacted in the third quarter, primarily due to increased depreciation of 1.2 million as we deployed the new capital expenditures during the third quarter. We note that our net income, both now and in future quarters, will income amortization charges of 3.8 million, resulting from the purchase accounting of last year's business combination. In addition, we would expect to see a similar increase in sequential depreciation in the fourth quarter as we finalize the 2019 capital spending program.

Moving to our segments, our drilling and evaluation segment revenue for the third quarter was 64 million, growing 13% over the same quarter last year. Results for D&E were led from our market-leading position Oman, where our drilling services and rentals business, which provides drilling tools and servicing of equipment, generated incremental activity as compared to the sequential quarter. Outside of Oman, our team's efforts to expand D&E market share into other geographies continues to yield results with Saudi Arabia contributing significantly to the growth in D&E results over the last year. Adjusted EBITDA margins were relatively flat sequentially at 25%.

Separately, our production segment revenue for the third quarter is $97 million, growing 10% over the same period last year. Growth in our production services was led by increases in coil tubing and completion activity. Adjusted EBITDA margins were relatively flat sequentially at 35%. The effective tax rate for the third quarter of 2019 is 24%, that's a decrease of four percentage points from the second quarter. The second quarter included the discrete reserve related to prior year taxes of approximately 500,000. On an adjusted basis, the third quarter tax rate was approximately 20%, as many of the adjustments to pre-tax income have no tax benefit. We are aggressively exploring tax restructuring activities, and believe they will positively impact the tax rate in the future.

Looking at the balance sheet and cash flows for the first nine months of 2019; operating cash flow was 45 million. Operating cash flow has been impacted by delayed collections for several markets, primarily related to slower invoice approval and delayed retention repayments. As compared to fourth quarter of 2018, DSO levels decreased accounts receivable collections of approximately 42 million, have contributed significantly to the increase in working capital during 2019.

As was expected due to summer holidays, and due to other geopolitical disruptions, collections in the third quarter approximately matched billing, but we did not reduce the level of excess receivables. During the fourth quarter, we expect to see retention release payments of approximately 20 million, and a reduction in delayed receivables of approximately 20 million. In October, we already starting receiving the retention funds from one of these contracts. The entire organization is highly focused and committed to these collection efforts.

Capital expenditures for the first nine months of 2019 were 90.2 million, as part of our efforts to invest in our growth opportunities. Most capex for the year was ordered in the first half, and has been substantially received as of the end of the third quarter. As Sherif has discussed, you should see the benefits of these investments in the upcoming quarter and next year. We expect lower cash capital spending in the fourth quarter.

Cash and cash equivalent decreased to $43.1 million as of September 30th, 2019, while net debt increased to 331 million, yielding a net debt increase of 34 million since June 30th, 2019. The incremental net debt was used to primarily finance the temporarily elevated level of receivables. The proceeds from the receivables reduction in the fourth quarter will be applied to reducing the revolving credit facility. The RCF capacity has been designated for other growth initiatives, such as M&A, in which we are still actively engaged with several prospects.

Interest expense decreased from 5.8 million to 5 million between the second and third quarters, as the write-off of unamortized costs associated with the prior debt facility did not reoccur. As of September 30th, 2019, our net debt to adjusted EBITDA ratio is 1.8, but should reduce to our target level of approximately 1.5 in future quarters, as collections improve and we see returns from our capital spending investments.

We are optimistic as we enter the fourth quarter of 2019. This quarter has historically been robust for oil field service companies, as oil companies tend to aggressively utilize the remaining capital expenditure budget. Additionally, our team will continue to explore opportunities to provide new service lines to our existing customer, as well as source both equipment and skilled labor from markets with excess capacity. With this, I'd like to pass back to Sherif for his closing comments.

Sherif Foda
Thanks, Chris. In closing, Q3 was another strong quarter, and I'm happy that we are on the path to deliver on our objectives this year, and for the future. This quarter was a transition quarter, and very important for us, as we started a lot of new contracts in new countries and put in place structures for a few more. We ramped up our investment significantly and improved our infrastructure to prepare for the coming business. Our customers are extremely pleased to see the commitment we have put in place. They trust that we will exceed all their expectations in terms of delivery, time, and quality.

We are confident to reap the benefit and hard work that the entire organization has put in place in the coming quarters. Our future is very bright, and we are working on exceeding all the financial goals we have placed on ourselves. The MENA region will continue to grow at this stable rate, and we are confident to at least double that rate for the foreseeable future. With this, I would like to take this opportunity to thank everybody for joining this earnings call, and we'd be very happy to address all your questions now. Thank you.

Operator
At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star then one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star then 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 keys. One moment please, while we poll for questions.

Your first question comes from Byron Pope from Tudor, Pickering, Holt and Co. Please go ahead.

Byron Pope
Good morning, guys.

Chris Boone
Good morning.

Byron Pope
Hey Sherif, just wanted to, at a high-level, not asking for too detailed, but just at a high-level, just given the way you characterized the region as having steady growth, and with the projects you have wrapping up. Could you just frame for us, at a high level, how we should think about the primary growth drivers for NESR as you head into 2019? Whether it's by business segment or by a few key countries, again, just trying to frame what will be the growth drivers for you guys next year.

Sherif Foda
Thanks, Byron. So as I explained, the growth for us is across all the countries. You have the core countries, where we are growing on our main business segments, the drilling, evaluation and production segments, and we are growing significantly on those by adding the latest wins on the contracts. We are adding a lot of those businesses to serve the customer. We secured most of the contracts for the next three to four years.

If you look at the new countries where we just entered, we have a very small position in these countries. So, definitely the growth as a percentage is going to be much higher than the core countries, because, you know, we didn't exist there before, or we were very small. As we said before, all these countries have very stable and significant growth plans.

So, if you look at offshore, which I previously touched upon, and you saw the market announcements. You have Kuwait, which is drilling for the first time ever in their history in offshore prospects. You have Oman that is going through exploration offshore, you have obviously the increase of activity in Qatar, you have UAE that just actually announced a large discovery, they are going through a lot of other projects.

In addition, you have the unconventional monster that is coming to the region, which is going to be at least 5X of what you used to do. So, if you look at the fracturing business, the number of stages that the region have been doing before, it's a magnitude at least five to 10x of the number of stages for that region.

So, overall, you have the gas, which is very strategic, you have the new frontiers, which is all the offshore projects, and you have the normal business that is growing at the stable six to eight to nine percent. So, you can arguably say that the minimum growth of that region will be, in my opinion, not less than 10% year-over-year.

Bryon Pope
That's helpful. Thanks, Sherif. And just one follow-up question, as I think about the growth opportunities on tap for you guys, particularly in unconventionals, I think you're going to be in a relatively unique position among service companies in terms of having opportunities to invest in growth capital as we step into next year. And so, to really frame how you guys are thinking about capex next year, just given some of these growth opportunities that you guys are going to have?

Sherif Foda
Obviously, we've been planning this, as I tried to explain. We started from the second quarter to get ourselves qualified in four countries. And I can tell you comfortably that we will be qualified in at least two of them before the end of the year. You need to demonstrate how you're going to get qualified, which means where is your chemistry coming from, essentially an overview of your expertise, and you might be asked for some pilot projects. You have to show commitment on capex, you have to show commitment on personnel, etcetera, etcetera. So we already started investing this year in that, and we will continue to invest next year.

And our capex plan is based on the opportunistic view we want have taken uptill now, and the partnerships on the technology side as well as suppliers', side. we want to maintain within the framework of hundred million per year spend, despite the fact that we're going to grow significantly. Also, the slower growth in North America provides us with an opportunity to leverage our position in a favorable way so as to not spend the same way as what happened in the US unconventionals for the service providers. So, in a very simplistic way, we want to maintain the hundred million spend this year and next year.

Byron Pope
Thanks, Sherif. I appreciate it.
Sherif Foda
Thank you.

Operator
Thank you. Your next question comes from Sean Mecham from JP Morgan. Please go ahead.

Sean Mecham
Thanks. Hey, good morning.

Sherif Foda
Good morning, Sean.

Sean Mecham
So Sherif, you noted this much in your prepared comments, but I think it bears repeating, particularly as we have headlines this morning suggesting another opex cut could be on the way, something that investors have been expecting for probably at least the first half of 2020, and this is a topic that comes up quite a bit when your stock is being discussed. How should investors think about the relationship between upstream capex activity versus production? Could we maybe just elaborate on that, as it pertains to your outlook for next year?

Sherif Foda
Yeah, sure. It's completely decoupled. I mean, the production cut of OPEC has absolutely nothing to do with the activity. So, if you look at across the region, and if you look at the number of rigs, the number of rigless sites, these actually keeps growing. if you look at how many rigs are being added or being contracted with a four to five years' plan, it's exactly the same, and there's zero difference in activity. what will happen if they cut, like, say significantly going forward theoretically? Usually what would happen is that, you may have some delays of what we call the rig less activity.

So if you have, for example, the normal production from the biggest reservoirs, and you have some activity like testing, high-rate stimulation, etcetera, they would delay that because they don't need the oil production. But the majority of the spend, today, in most of the countries, as I said, is for gas, that has absolutely nothing to do with the Opec cut and has to do a lot with the domestic demand. Hence, offshore and the exploration of the frontier, and this is all going as planned.

If you look at their plan, and I just came a couple of days ago back from the region, and each country, they have actually exactly the same budget plan for next year, it's obviously going to get approved and sanctioned by their government towards the end of next month. But it's all based on the same level of activity and growth next year.

Sean Mecham
Got it. I think folks will find that helpful. Bigger competitors in the region have been talking more about capital discipline and margins over market share, seems like it's a bit of a shift in the rhetoric. Could you maybe just indicate if you've seen a shift in those dynamics on the ground, just your view of the competitive landscape recently?

Sherif Foda

Yeah, I mean, obviously I'm not going to point on anyone specifically. The difference between us and the big service company is we are growing at a much faster pace, and we are very small, so we are putting a lot of capacity in place to make sure that we can take much bigger projects. So, definitely the level of spend we have as a percentage to our size is much higher than anybody else, because we are at a significant growth path, and we have a few big contracts that we just won. And we definitely want to make sure that, as we say, hit the floor running, and being able to capture the full opportunity.

If you look at it from does the market have a disciplined approach on some of the tendering, as I said before, the market is, I wouldn't say getting tighter, but I think similarly to my last quarter comments, when the project is huge, it's very big, and it is an it a LSTK type, you do not see the discipline yet. Some of it is coming, which is very positive. But on the smaller stuff, yes, people are more disciplined in making sure that they do not, I would say, buy the work at any price, which is very positive sign for the region.

Sean Mecham
Got it, thank you. And one last one, if I could just get one quick--

Sherif Foda
--Yes, please--.

Sean Mecham
--Clarification. As we think about the collection disruption in the quarter, can you just talk about how you see seasonality in working capital on a normalized basis? Just particularly given the pace at which you're growing, top line. It'd be helpful to see--and maybe Chris could offer some comments, just on how you see normalized seasonality in working capital as it pertains to what we saw so far this year?

Chris Boone
This is Chris. I think, part of it was seasonal. I think probably the summer months are usually always the slowest period, there's a lot of people on holidays and getting approvals done. But we also had our own growing pains of new contracts and that's on our side as well. All of that, obviously, is being worked hard to be resolved and cleared up in the fourth quarter. So, I think the normal seasonality will probably look more like a little slower collection pace in the summers, just because of less people around to do approvals, I think that would be the normal cycle.

Sherif Foda
Yeah. And I mean--

Sean Mecham
--Is there a working capital--?

Sherif Foda
--Sean, if I--sorry. Sorry, go ahead. You had something.

Sean Mecham
Is there a working capital to sales metric, or something we should use to be cognizant of how you're working capital needs will grow as you continue to drive the top line growth?

Chris Boone
Sure. I mean, I think we've stated a long time, but you know, at least on our balance sheet, when we call it receivables it means the actual invoice, the unbilled, and the retention. We look at all of that together as our total amount of receivables. Something in the targets--we're working hard to get us back to 100 days DSO, maybe 110 days max, that's the level of receivables DSO we would like to have. On inventory, we'll move a little bit, but a lot of our inventory is for equipment spare parts and for these, it's not a direct correlation to revenue like you would have in a manufacturing type environment.

Sean Mecham
That's very helpful. Thanks a lot.

Operator
Thank you. Your next question comes from Greg Coleman from National Bank. Please go ahead.

Greg Coleman
Hey, thanks a lot guys. I just wanted to start by talking a little bit about earnings seasonality. In the prior years, we always see the great sequential growth from Q1 through to Q4, which is the peak. In the prior years, and we don't have a lot of history, but in prior years we've seen substantial upticks in Q3. This year we did see the growth, but it was a little bit more muted.

Is that due to some of the nonsense we saw regionally in the quarter, and should we expect the seasonal growth to accelerate going into year-end, sort of resuming the overall annual average? Or is this sort of more muted growth from Q2 to Q3 something we should be thinking will persist into year-end?

Sherif Foda
Thanks, Greg. So, as I tried to explain, so this quarter was characterized with two things. You had what you call extended holiday season with the pilgrimage in August and the geopolitics. So, holidays came into effect July/August, then you had the geopolitics that happened, and the incident across the region.

So, you had a lot of delays, which you saw actually in the international service company results, it was exactly the same. So, we have delays moving from, I would say, Q3 to Q4. So, you would see this normalized if you take it H2 over H1. So, basically whatever growth that was supposed to happen in Q3 will happen, but it will be added to Q4, if you want to look at it in a very simplistic way.

So, the seasonality is exactly the same, it just because of the extended vacation period, geopolitics, I would say, not the rig-related, the rig less-related activity, which shifted toward Q4. In addition, for ourselves, we had all the new contracts that were awarded for and we started them in Q3, we were supposed to start in July, the majority of them did not start and waited until September. So you had only one month out of three in the quarter, and then in Q4 you will have the three months out of the three. So you will see a huge uptick in Q4, as well, due to that.

Greg Coleman
--Got it--.

Sherif Foda
--So, in a nutshell, yeah, you will have the same H2 over H1, similarly to what you had before.

Greg Coleman
So we'll see a catch up--

Sherif Foda
--Yeah, exactly--.

Greg Coleman
--In Q4.

Sherif Foda
Yep. Exactly.

Greg Coleman
Got it. Then just, to build on some of Sean's questions on the competitor’s side there, you know, with the continued challenges we're seeing in North America, and it seems like every day we're getting more challenges in sort of shale growth and relative economics there, it appears to be of relative attractiveness of the rest of the world regions like Middle East are getting much more apparent. So, my question would be, are you seeing any increased competition or focus from some of the supermajors who operate in both regions, who would look to try to augment stagnating North American revenue or margin pressures by trying to get more market share in your areas, which are obviously relatively quite a bit more attractive?

Sherif Foda
Yeah, absolutely. I mean, obviously the region is the best by far, and has been for a while. But I can tell you, quite frankly, the barrier of entry is actually harder now than any time before. Their In-country value, local content, the required presence in the region, how to navigate the

contracting, how to make sure that you have all the requirements to operate, is extremely, extremely complicated. So, with all due respect, you cannot just go there and say, okay, the region is very good and I'm going to go and bring my 10 Cementing units and four frack fleets because they are sitting doing nothing in North America. I'm going to go and get the contract in the Middle East. It's not going to happen that way.

So, what is the best approach is definitely to see if we can leverage our position locally and our knowledge and setup in North America to partner in some key areas, and that's what we are looking at, all the companies that have very unique positions, and have very strong, I would say, technology portfolio, we are very happy to partner with in some of the unique activities that we don't have and they do have, and obviously in that region, and we go together running the operations, in the most optimum way. If you look at the big service companies, definitely they are present there for 80, 90 years, very strong, and they definitely are the strongest players to reap the benefits. So between, I would say, the national strong and local companies, and the multinational, they will be the major force in the region. It's not going to be a small foreign company be able to operate there.

Greg Coleman
--Got it. That makes perfect sense. On those majors that have multi decades, up to a century of experience there, are they coming down market for sort of the smaller contracts that are very meaningful for you, but less so for them simply because of the North American challenges, or are you not seeing them in big competitive ways in the areas you're shopping?

Sherif Foda
No, Everybody is going after every contract; I can tell you that. Nobody's leaving anything anywhere, so we are competing on all contracts. As I mentioned before, we always maintain that we compete professionally. And we are not like a little outfit, we are the national champion of the region, meaning that we operate very professionally when we compete on a service quality or a delivery on projects, we compete head-to-head and what I put in my earlier remarks, when we were perceived by one of the biggest clients as the best service quality provider in the quarter, that was against everybody. That was against all the multinationals, against all the small guys, and we scored the best with 99% efficiency, which was the number one position against everybody else.

So that's how you maintain that market share, and you maintain that leadership. The key there is not to take jobs that you cannot do. So, when we cannot provide services in certain technology, and we do not have it, and obviously the multinationals have it, we are very honest and frank to the clients and say, we cannot provide that service, we are not good at it, and you should go with x or y for that.

So, the discipline in the tendering, and that was what I was trying to allude to, you see that with some of the multinational service companies, which I'm very happy that they are more disciplined than the past. They do not buy the work, they price properly, which is a very good sign. So, they do not go just after anything with any price and lose money, except some of the LSTK projects where people sometimes still buy the work.

Greg Coleman
Got it. Thanks for that. Then just wrapping up, and sorry to take a bunch of questions here, on capex, just to be clear, you're still comfortable with us thinking about 100 million for total 2019 capex, despite being consuming 90% of it in the first nine months?

Sherif Foda
Yeah. I would say, you might get five, six million more or something towards the year end, but yeah, we frontloaded our capex as we all agreed. And we have this consciously done to ensure that we serve the contract and that we have capacity. And we are comfortable with the end of the year, like I said, maybe some of the capex will be received like in December, five or six million from next year earlier. But we should have the same, and then next year we should maintain the same capex level, despite the fact that we're going to keep growing at that pace.

Greg Coleman
Got it. And this is absolute last one here, just on the bid pipeline. How's it looking moving into 2020? Are you expecting it to be as strong as it has been in the past sort of 12 to 18 months? And I'm focusing specifically on sort of incremental contracts here, not necessarily renewals, but on the growth side.

Sherif Foda
Yeah, absolutely. If you look at the majority of all the mega contracts we got, we started them, as I said, in September. So definitely next year you're going to see the full 12 months of those contracts. In addition, we are negotiating a couple of huge contracts, and hopefully we will be able to close them before year-end, which means that you're going to see the benefit of these contracts for the entire next year. So, it's looking extremely positive for next year, and you know, might break our record, again.

Greg Coleman
Thanks very much for that. That's it for me.

Sherif Foda
Thank you.

Operator
Thank you. Your next question comes from Igor Levi from BTIG. Please go ahead.

Igor Levi
Hey, thank you. You guys just mentioned that the majority of contracts you got this year you already started in September, or are going to start shortly. So, I wanted to ask, how much of the expected growth in 2020 has already been booked, and how much of that growth is expected

to come from the two tenders you mentioned that you expect to announce before the end of the year?

Sherif Foda
Okay, Igor. So, without obviously going into providing guidance like this, the majority of the newly awarded new countries were started in September, with only the exception of Bahrain where we started in October. So, you did not see any of those benefits in the numbers, if you like, this quarter at all, almost. And you would only see it in Q4, and then obviously next year. Some of the announced contracts that we said before, like you know, the Saudi and Oman, etcetera, we had these contracts and they were renewals but with an increased scope. So, you already saw part of that growth this year, but you will see it as a much bigger numbers next year because obviously, these contracts mature and this growth gets bigger.

So, I tried as well to explain, for the D&E portfolio, where we won a lot of contracts outside Oman, and today we are established in Algeria and Saudi, and Kuwait, just entering other countries as well. And you will only see that because the drilling growth comes at a much slower pace than the production, because, you know, the type of work you do when you run fishing and remedial with downhole tools, through tubing, this work volume matures with longer time, because the client has to be comfortable with you, that you can replace a multinational company and be able to do this professionally, and the scope gets bigger.

On the production part, you get exactly the opposite where because you are replacing someone, you get a cementing contract, for example, or a coil tubing contract, you replace that other company and you see the revenue immediately. So, I'm not sure if I answered your question, but in a nutshell, you will see a lot of the growth already booked with the contracts we have next year, so we have a very strong visibility on our growth next year based on the contracts we won. The contract that we are looking at in Q4 to secure will be an additional to that growth.

Igor Levi
Great, thank you. And shifting gears, looking at how weak the U.S. oil services market has gotten, are there some potential opportunities to acquire technology at a meaningful discount? It's something you've done in the past, but I imagine the discount has gotten a bit more attractive over the course of the year.

Sherif Foda
Yeah, there is a lot of companies becoming attractive, but as you know, we do not just go and buy capacity, and you know, stuff that has no technology because you can just buy from your supplier. So, if there is an opportunity, we just want to contract, and we want to buy out someone with very good equipment, and they add capacity at much lower capex, we do it. And we are actually in negotiation with couple of those.
But the key is to look at innovative business model with those very strong companies in North America.

when I say innovative, meaning, we look at how we do it with the capex light approach for us, how we do it with the partnership, how we share revenue, and how can we grow our portfolio much bigger without buying anyone. So, both of us can go together, attack a certain contract, and do something unique in the region, and it's a real win-win. So, basically we get the benefit, they benefit and make their required returns. We have a very strong infrastructure in the region, we can go together and service that contract without anyone buying anyone. So, We have negotiated this innovative business model with like three companies. And hopefully, based on the contract award and based on how our customers perceive that relationship, we will be able to come up with something very unique very shortly.

Igor Levi
Great, that's very helpful. I'll turn it back.

Sherif Foda
Thank you.

Operator
Thank you. Once again, if you wish to ask a question, please press star then one on your telephone keypad. Your next question comes from Blake Gendron from Wolfe Research. Please go ahead.

Blake Gendron
Hey, thanks, good morning. Just one question for me, but it's in two parts. You alluded to offshore frontier probably more on this call than you have in the past, I was just wondering what the timeline is for that work, what the timeline is for your qualifying for that work, and maybe some incremental investment that you need to make, specifically in D&E to improve the technological efficacy of your portfolio in competing against these projects?

And then, secondly, as it relates to technology, you talked about start-ups with companies in North America. One of your largest diversified peers has talked more about technology access, basically technology rental, both in North America and internationally, as I imagine being a good margin for them to target. I was wondering if you do have access to some of the technology offerings of your larger diversified peers, and maybe if that'll improve your competitiveness, specifically on offshore and maybe on conventional gas moving forward?

Sherif Foda
Thanks, Blake. So, I'll address your first question on offshore. So, as you know, we operate onshore and offshore, already, today. So, the investment we need to do to operate offshore is nothing new for us. So, today, we work offshore in Abu Dhabi, Qatar, Saudi. So, for us, there is nothing really that we need to do significantly to be able to operate offshore. Our Clients will certainly would use the multinationals in the exploration phase, very understandably, because

it's an exploration phase, you need to run, you know, exploration logs. And if I am the client, I would definitely use actually one of the multinationals for that matter.

So, there is no issue for us here. But this is the frontier exploration which is good for us as it will lead to development work and that makes the pie bigger. There is a huge activity increase offshore, today, which we're going to play part of it. If I look at even our investments, it would just be on some of the capex to install some of the equipment. So, as an example, in Saudi Arabia, we, for example, now put brand new cementing packages, to be able to put it on the newly offshore rigs that they just acquired.

So, we are qualified, the clients see that we're very professional. We look at our efficiency at 99%, so they say, okay, you will get awarded for example, three, four new offshore builds, and I need you to put your brand new equipment, automatic controls, etcetera, etcetera, build them on these rigs. And that's where we, again, become very uniquely positioned in the sense that you are as good as the multinationals, and they trust you to be able to place that equipment on their rigs, and that's very good.

So, if I look at your second question, which is the technology access, yeah, absolutely. I mean, today, we talk to everybody. We are very open to deal with the multinationals that are open for that. But, again, I mean, you have to make sure, what are you offering to your client. So if today, I'm going to take on the same contract, and offer the client the same tool that they have already from the multinational, to be honest, why would they do that? Why don't they just access it directly from the multinational, right?

We don't try to do something that is already given or existing. We want to be the differentiator, if there is a prospect that we have access to, and the multinationals do not have access to, because we just got awarded. So definitely, we talk to them. And actually, as a matter of fact, we just did that last month. So, we had the contract, and we did not have a certain product. And we talked to one of the multinationals, we agreed that we take the chemicals from them, and we pump that chemical through the well. And the client was very happy, because we have that contract, our product was not qualified, and the product of the multinational was, so it's a win-win. They sold the chemical, we pumped it, and no problem.

On the direction drilling, and maybe I think that's what you're alluding to, again, if we do not have any differentiation, and we do not give any added value to the customer, I'd actually advise the customer to go directly with the multinational. If there is something that we're going to make a difference and working together with the multinational can bring a value to the client, we will do that. And so, we are open to discuss with everybody, and we have a very good relationship with all of them. I hope I answered your question there.

Blake Gendron
that's very interesting and helpful. I'll turn it back.

Sherif Foda
Thank you.

Operator
Thank you. We have reached the end of the question and answer session, and I will now turn the call back over to the speakers for closing remarks.

Sherif Foda
Thank you very much. We really appreciate your time. And we're very excited about our quarter, very excited about the future. We are extremely, extremely positive with the amount of contracts and the pipeline we have, very comfortable on the growth targets. And just one added point, and I keep saying it, our customers in the Middle East are the best in class. And even if you see some receivable issue, they will pay, and they are the best payers in the world. So, we are very comfortable on our cash flow and our receivables and looking forward for a very bright future. Thank you very much.