

# **Cactus Inc (WHD) Q1 2024 Earnings Call Transcript**

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**Body**

Cactus Inc (WHD)

Q1 2024 Results Conference Call

May 02, 2024 10:00 AM ET

Company Participants

Alan Boyd - Director of Corporate Development & Investor Relations

Alan Keifer - Interim CFO, Principal Financial Officer & Principal Accounting Officer

Scott Bender - CEO & Chairman of the Board

Conference Call Participants

Stephen Gengaro - Stifel

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Cactus Q1 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Alan Boyd, Director of Corporate Development and Investor Relations.

Alan Boyd

Thank you, and good morning. We appreciate you joining us on today's call. Our speakers will be Scott Bender, our Chairman and Chief Executive Officer; and Al Keifer, our Interim Chief Financial Officer. Also joining us today are Joel Bender, President; Steven Bender, Chief Operating Officer; Steve Tadlock, CEO of FlexSteel; and Will Marsh, our General Counsel.

Please note that any comments we make on today's call regarding projections or expectations for future events are forward-looking statements covered by the Private Securities Litigation Reform Act. Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review our earnings release and the risk factors discussed in our filings with the SEC. Any forward-looking statements we make today are only as of today's date, and we undertake no obligation to publicly update or review any forward-looking statements. In addition, during today's call, we will reference certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included in our earnings release.

With that, I'll turn the call over to Scott.

Scott Bender

Thanks, Alan, and good morning to everyone. We began 2024 with solid execution as revenues in both segments exceeded our expectations. I'm particularly pleased with Spoolable Technologies' sales in the first quarter, which increased from the fourth quarter, largely due to strong sales to our large integrated customers. During this period, we also saw renewed international activity in the segment. This strength, which provides usual seasonal softness in the first quarter, further demonstrates the differentiation inherent in our spoolable products as well as the benefits of expanding the product line of our overall Cactus portfolio. Some first quarter total company highlights include revenue of $274 million, adjusted EBITDA of $95 million, adjusted EBITDA margins of 34.8%. We paid a quarterly dividend of $0.12 per share, and we increased our cash balance to a $194 million. I'll now turn the call over to Al Keifer, our CFO, who will review our financial results.

Following his remarks, I'll provide some thoughts on our outlook for the near term before opening the lines for Q&A. So Al?

Alan Keifer

Thank you. As Scott mentioned, total Q1 revenues were $274 million. For our Pressure Control segment, revenues of $175 million were down 3% sequentially, driven primarily by decreased customer activity. Operating income decreased $4.4 million or 7.8% sequentially, with operating margins decreasing 160 basis points. Adjusted segment EBITDA decreased $4 million or 6.2% sequentially with margins decreasing by 120 basis points. The margin declines were primarily due to lower operating leverage. For our Spoolable Technologies segment, revenues of $99 million were up 5% sequentially on higher customer demand largely from the majors. Operating income decreased $11.8 million sequentially due primarily to an increase in the expense resulting from the remeasurement of the FlexSteel earn-out liability. Adjusted segment EBITDA decreased $0.4 million or 1.1% sequentially, while margins decreased by 240 basis points due to an increase in input costs. Corporate and other expenses were $5.5 million in Q1, down $0.2 million sequentially. On a total company basis, first quarter adjusted EBITDA was $95 million, down 4.8% from $100 million during the fourth quarter. Adjusted EBITDA margin for the first quarter was 34.8% compared to 36.4% for the fourth quarter. Adjustments to total company EBITDA during the first quarter included noncash charges of $4.4 million in stock-based compensation and a $13.3 million loss related to the FlexSteel earn-out liability remeasurement.

Depreciation and amortization expense for the first quarter was $15 million, which includes $4 million of amortization expense related to intangible assets recorded as part of purchase accounting. Total depreciation and amortization expense during the second quarter is expected to be approximately $15 million, $7 million of which is associated with our Pressure Control segment and $8 million of which is associated with Spoolable Technologies. Income tax expense during the first quarter was approximately $13 million. During the first quarter, the public or Class A ownership of the company was 82%. Barring further changes in our public ownership percentage, we expect an effective tax rate of approximately 22% for Q2 2024. GAAP net income was $50 million in the first quarter versus $62 million during the fourth quarter. The decrease was largely driven by the increase in the remeasurement of the earn-out liability. Adjusted net income and earnings per share were $60 million and $0.75 per share, respectively, during the first quarter, compared to $65 million and $0.81 per share in the fourth quarter. Adjusted net income for the first quarter was net of a 26% tax rate applied to our adjusted pretax income. We estimate that the tax rate for adjusted EPS will be 26% during the second quarter of 2024.

During the first quarter, we paid a quarterly dividend of $0.12 per share, resulting in a cash outflow of approximately $10 million, including related distributions to members. The Board has approved a quarterly dividend of $0.12 per share to be paid in June. We ended the quarter with a cash balance of $194 million, a sequential increase of approximately $60 million. Net capex was approximately $7 million during the first quarter. Our full year 2024 capex outlook remains in the range of $45 million to $55 million. In conclusion, the revenue-based FlexSteel earn-out payment is currently estimated to be approximately $34.1 million, which will be paid in the third quarter of this year. This additional consideration has been more than offset by the substantial outperformance of the business, relative to our expectations. That covers the financial review, and I will now turn the call back over to Scott.

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Scott Bender

Thanks, Al. I'll now touch on our expectations for the second quarter of 2024, our reporting segment. During the second quarter, we expect Pressure Control revenue to be relatively flat versus the first quarter, despite our anticipation that the U.S. land rig count will be slightly down from the first quarter average levels in the period as the effects of rig releases in gas basins lead to lower activity. Adjusted EBITDA margins in our Pressure Control segment are expected to be essentially flat at 33% to 35% for the second quarter. This adjusted EBITDA guidance excludes approximately $3 million of stock-based comp expense within the segment. As mentioned previously, we anticipate introducing our latest generation wellhead to customers in the coming months, which should begin to more significantly impact operating results late this year depending on our inventory position. Regarding our Mid-East expansion plans, we are pursuing 2 viable options in the region. But as we are at a commercially sensitive stage, I do not plan to share further details with you at this time. We believe the current market for surface pressure control equipment in Saudi Arabia exceeds $0.5 billion annually, and we look forward to establishing a more material presence in this market in the coming years. We view the recent shift towards onshore unconventional gas production to be net positive to our potential business.

In addition, we are currently finalizing the terms of a significant international order outside of the Mid-East. Switching over to Spoolable Technologies' segment, we expect second quarter revenue to be slightly up from the first quarter with increased installation efficiency from better seasonal activity, sales to midstream customers and continued international shipments, offsetting general industry trends. Our cross-selling initiatives continue to expand, and we're enjoying the benefits of enhanced relationships with our core customers. We expect adjusted EBITDA margins in this segment to be approximately 36% to 38% for the second quarter. Increased input costs are impacting margins in the first half of the year, although we have seen a moderation from the recent peak. Additionally, we began to utilize our pressure control, low-cost supply chain to source select components of our spoolable pipe product, which should enhance margins as the sourcing effort expands throughout 2024.

Note that this margin guidance excludes approximately $1 million of stock-based comp in this segment. Adjusted corporate EBITDA is expected to be approximately a $4 million loss in Q2, flat from the first quarter, which excludes approximately $1.5 million of stock-based compensation. Although the macro backdrop provides little reason for optimism about 2024 U.S. activity levels, we remain well positioned at the market and plan to execute on several internal initiatives this year that should improve cash flows and returns. These initiatives include our low-cost supply chain diversification strategy, the introduction of our latest generation wellhead, enhanced frac innovations and the progression of our expansion into international markets. Additionally, I remain very pleased with the integration of our Spoolable Technologies business, which has recently received inquiries from several non-oil and gas customers for large international projects and increasing number of orders of our pipe from a major new midstream customer with a strong outlook for larger awards later this year.

Further, CCUS related inquiries are increasing, and we are involved with a customer in hydrogen transmission testing. We believe these new applications, along with the opportunity to gain market share with our existing E&P customer base, should lead to further above market growth in this segment. These recent inquiries and wins further demonstrate the differentiation in the business and reinforce our rationale for this acquisition. So with that, I'll turn it back over to the operator, and we can begin Q&A. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Stephen Gengaro with Stifel.

Stephen Gengaro

So, two things for me. What I'll start with is when we think about our model for you guys, we basically think about North America, right? And you've mentioned some international opportunities and growth. From your seat, when would you expect -- just from a large bigger picture, international to start sort of really showing up on the income statement, where we need to be thinking about sort of baking that into our forecast? Is it later this year? Is it next year? How should we think about that?

Scott Bender

Yes. I think it would be next year for it to be a meaningful entry.

Stephen Gengaro

Okay. And when [indiscernible] talking maybe more about sort of the size over time, but when we think about your views of the U.S. land market, I mean, you mentioned kind of not a lot of optimism this year, do you see -- obviously, the second quarter we've heard maybe is a bit lower. But do you see a plateau here as you kind of get this gas activity coming off and oil hopefully at least stabilizing, if not trending a little higher. But how do you think about U.S. activity in the back half of this year? And what do you -- sort of catalyst is to get it moving in the right direction?

Scott Bender

Yes. Steven, I don't think I've changed my opinion about activity maybe hitting a trough in the [650 onshore to 670 -- I'm sorry, $5.50 to $5.75] range. But I think we'll hit that trough as we exit the summer. And so maybe that will be a time for a plateau.

Operator

[Operator Instructions] I'm not showing any further questions at this time. I would now like to turn the call back over to Scott Bender for any closing remarks.

Scott Bender

All right. Well, I thank you all very much. I know we must have had some conflicting earnings calls this morning. But I absolutely -- we all appreciate your support of the company. I think that although not asked, I need to express my extreme gratitude to Steve Tadlock for the job he's done at Spoolables and I think our bright outlook for the expansion of that business. Anyway, have a good day, everybody. Thanks for calling.

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Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.

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