

# **Expro Group Holdings N.V. (XPRO) Q1 2024 Earnings Call Transcript**

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**Body**

Expro Group Holdings N.V. (XPRO)

Q1 2024 Earnings Conference Call

April 25, 2024 10:00 AM ET

Company Participants

Chad Stephenson - Director Investor Relations

Mike Jardon - Chief Executive Officer

Quinn Fanning - Chief Financial Officer

Conference Call Participants

Luke Lemoine - Piper Sandler

Ati Modak - Goldman Sachs

Arun Jayaram - JPMorgan

Steve Ferazani - Sidoti

Josh Jayne - Daniel Energy Partners

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Expro Q1 2024 Earnings Presentation. My name is Jacquita. I will be your moderator for today's call. [Operator Instructions] I would now like to pass the conference over to your host Chad Stephenson, Director Investor Relations. One moment, please.

Chad Stephenson

Welcome to Expro's first quarter 2024 conference call. I'm joined today by Expro's, CEO, Mike Jardon; and Expro's, CFO, Quinn Fanning. First, Mike and Quinn have some prepared remarks. Then we will open it up for questions. We have an accompanying presentation on our first quarter results that is posted on Expro's website expro.com under the Investors section. In addition, supplemental financial information for the first quarter results is downloadable on the Expro website, likewise under the Investors section.

I'd like to remind everyone that some of today's comments may refer to or contain forward-looking statements. Such remarks are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such statements speak only to today's date and the company assumes no responsibility to update forward-looking statements as of any future date. The company has included in its SEC filings cautionary language, identifying important factors that could cause actual results to be materially different from those set forth in any forward-looking statements. A more complete discussion of these risks is included in the company's SEC filings, which may be accessed on the SEC website sec.gov or on our website again, at expro.com. Please note that any non-GAAP financial measures discussed during this call are defined and reconciled to the most directly comparable GAAP financial measure in our first quarter 2024 earnings release, which can also be found on our website.

With that I'd like to turn the call over to Mike.

Mike Jardon

Good morning, good afternoon, everyone. I'd like to start off by reviewing the first quarter financial results presented in today's earnings press release including providing an update on commercial activity and the Coretrax acquisition. I will then discuss the macro environment, which we believe supports a favorable multiyear outlook for energy services companies that are levered to international and offshore markets and presents a compelling growth opportunity for Expro.

Following my remarks, Quinn will share our outlook for 2024. For a recap of consolidated results and quarterly results by region, I'll direct you to Slides 3 through 7 of the presentation we posted to expro.com.

Turning to Slide 3. I am pleased to report another strong quarter for Expro with Q1 2024 revenue of $383 million exceeding guidance provided on our Q4 earnings call in February. Q1 2024 adjusted EBITDA at $67 million was at the midpoint of guidance. Overall, the first quarter results were in line with our full year expectations for revenue of plus or minus $1.65 billion in revenue and for adjusted EBITDA of plus or minus $350 million. Revenues decreased sequentially by $23 million or 6% compared to the quarter ending December 2023. This decrease is generally consistent with historic revenue trends as we usually experience softer first quarter performance related to the winter season in the Northern Hemisphere and the budget cycles of our national oil company customers.

This seasonal dynamic is typically most prevalent in our Europe and Sub-Saharan Africa region.

First quarter revenue increased by 13% year-over-year, reflecting activity growth across the international and offshore markets. Of note, Q1 2024 adjusted EBITDA was up 61% compared to Q1 2023, which included $11 million of LWI-related unrecoverable costs.

For North and Latin America revenue of $130 million was down $15 million quarter-over-quarter, primarily reflecting lower Well Construction revenue in the Gulf of Mexico, including tubular product sales due to project delays and in Guyana due to rig maintenance. NLA segment EBITDA margin at 26% was down from 30% in Q4 2023, reflecting lower activity and activity mix but was up about 100 basis points relative to the first quarter of 2023.

In terms of NLA operational updates, in the first quarter our team successfully deployed Expro's rotating plug launcher during cementing operations for one of the major operators in the US. The client is now in the process of standardizing these operations across its fleet of over 20 active drilling rigs. This was a great example of our ability to provide cost-effective innovative solutions to meet an important client's evolving needs.

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For Europe and Sub-Saharan Africa, revenue of $122 million was down $12 million quarter-over-quarter and segment EBITDA margin at 21% was down sequentially but was up approximately 250 basis points relative to the first quarter of 2023. In addition to the seasonal reduction in activity in Europe and the resulting compression in margin, we recognized lower margin on our LNG expansion project for Eni in Congo, and also incurred higher costs in the first quarter related to subsea projects that will be starting in the second quarter of 2024, particularly in West Africa.

We have very good business momentum in the ESSA region with contract awards for upcoming campaigns in Angola and the Black Sea, totaling more than $30 million. These contract awards, which include subsea, TRS and cementing services and solutions, are a testament to the region and product line teams delivering technology-enabled fit-for-purpose solutions.

Highlighted on page 5 is our provision of TRS services in the first quarter for a pilot project for green hydrogen and chlorine production in France. Similar to the way in which we have leveraged our experience in well construction, well flow management and well intervention integrity to grow our geothermal business, this is another good example of how Expro can deploy existing assets and leverage current capabilities to support the development of sustainable energy solutions.

Page 8 of our slides also highlights that in the first quarter, our Eni Congo project team surpassed one million man-hours without a lost time incident, which highlights our unwavering commitment to both safety as well as sustainable operations. First production from this plant expansion is scheduled in the first half of 2024.

Essentially, all equipment has now arrived in country making a crucial milestone in our journey towards operational readiness. We're incredibly proud of the tireless efforts of the Congo project team to safely deliver this important project to our customer and the incremental lower-carbon energy that the Congo LNG facility will produce.

The Middle East and North Africa team delivered another excellent quarter with revenue at $71 million, up 9% sequentially and up 40% year-over-year, largely driven by higher well flow management activity in Saudi and Algeria with good fall-through on incremental revenue.

MENA segment EBITDA margin, at 34%, was up nearly two percentage points quarter-over-quarter and up about five percentage points year-over-year.

During the quarter, we secured and executed a major contract for cementing accessories with an international operator in Egypt's deepwater market. The regional team's deployment also featured our wireless cement heads, which increases safety and efficiency through remote operation. This contract marks the initial step in broadening the adoption of our hands-free cementing operations globally.

Finally, in Asia Pacific, first quarter revenue was $60 million, down 4% relative to the previous quarter, primarily reflecting lower activity in Malaysia, but up 24% year-over-year. Asia Pacific segment EBITDA margin of 18% was up over 9% from the prior quarter, which reflects higher activity in the region and lower LWI-related costs.

During the first quarter in the Asia Pacific region, Expro announced a new carbon capture and storage contract with INPEX Corporation for Japan's first clean hydrogen production demonstration project. The Kashiwazaki Clean Hydrogen/Ammonia Project is a key milestone in Japan's energy security journey. Designed to produce clean energy from domestically sourced gas, this will be Japan's first project to build an integrated hydrogen and ammonia value chain from production to usage.

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Expro's work scope will include the delivery of tubular running services for multiple sections of casing, liner and tubing over a 12-month period. This project furthers Expro's and our clients' efforts to reduce carbon emissions while advancing our sustainable energy solutions. We have supported CCUS globally for over 10 years, gaining valuable experience and executing operations with excellent results, and we continue to believe that we will be a key industry enabler to support our own as well as our clients' net zero goals.

In terms of commercial activity, I'm pleased we have continued to build on our strong momentum from last year, capturing roughly $230 million of new contract awards, including subsea contracts worth approximately $40 million in Africa and TRS and well integrity contract extensions in the Gulf of Mexico and Argentina, respectively, each of which was valued at more than $20 million.

At quarter-end, our backlog was approximately $2.3 billion, which is consistent with the close of the fourth quarter and in line with expectations given historical seasonal patterns of contract awards at the beginning of the year.

As discussed on our Q4 call, early in the first quarter Expro entered into a definitive agreement to acquire Coretrax, a leading well integrity and production optimization company, for a mix of cash and stock consideration totaling approximately $210 million.

As a reminder, the acquisition is expected to be accretive to adjusted EBITDA margin and free cash flow. With a transaction value of less than 5x our estimate for stand-alone 2024 EBITDA, the Coretrax transaction should also be immediately accretive to shareholder value, with synergies providing incremental upside.

Our full year and Q2 guidance assumes that we close the transaction at the beginning of the third quarter. If we can close the transaction a month or two earlier than assumed, there's a bit of Coretrax-related upside to our guidance.

Our integration planning is well underway, and we expect to hit the ground running on Day 1, post close. We look forward to welcoming John Fraser and his team to Expro as we expand the suite of technology-enabled solutions in our well construction and well intervention integrity businesses and increase our capabilities in geographies such as the Middle East North Africa, where we anticipate good multiyear growth.Regarding M&A more generally, our team continues to evaluate acquisition opportunities that would allow us to advance our strategy and position Expro to be more relevant to our clients and shareholders. We take a disciplined approach to M&A and opportunities we pursue will meet a rigorous set of criteria that starts with the industrial logic has a comprehensive review, whether it's complement existing capabilities and/or building out our presence in growth markets and a clear identification of cost and revenue synergies, finally, including with a sensible financing plan that preserves our currently strong financial profile.

We continue to believe additional consolidation is good for the long-term health of the energy services sector and that smart synergies focused M&A can be an effective means for Expro to accelerate growth and create additional shareholder value.

Turning to our market outlook. We expect a very positive current growth trends to continue, given the solid market fundamentals underpinning the energy services sector that we have seen over the past few quarters.

Ongoing investment and activity levels support a favorable multiyear outlook with oil demand forecasted to reach record levels of 103 million barrels per day in 2024 and over 104 million barrels per day in 2025. These increases are driven by an expected recovery in Asian countries, improving economic data for the Middle East and in the United States as well as increased industrial requirements and global travel driving the consumption of jet and marine fuel.

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We believe the pace of oil demand growth is stabilizing with continued production discipline from OPEC+ as was again highlighted by the recent extension of voluntary production cuts in February, we expect market conditions to remain favorable, supporting investment and activity levels at and above pre-COVID levels.

The combined effect of supply discipline and geopolitical turmoil including the Middle East and Ukrainian conflicts is resulting in upward pressure on oil prices, with the outlook for 2024 average Brent up from $82 per barrel to closer to $90 per barrel. Assuming the voluntary production cuts are fully unwound, the current outlook for 2025 average Brent is roughly $87 per barrel. Extended and stabilized pricing, should support continued investments by our customers in the long-cycle development and capacity expansion projects, that underpin the international and offshore markets to which Expro is most levered.

The gas markets continue to experience sustained high storage volumes, with demand growth curtailed due to mild winter seasonal temperatures. Longer term, domestic demand and exports are forecasted to increase, as gas remains a structural source of lower-carbon electricity generation and a critical transition fuel in the path towards global net zero.

Constructive oil market pricing is allowing operators to make long-term investment decisions with FIDs at record levels in 2023, and a continuing robust pipeline of projects that are forecast to be sanctioned through 2024 and beyond. The continued growth of the multiyear sanctioned project pipeline through 2030 is driving demand for our services and solutions. More specifically, we continue to see increased activity in our well construction and subsea well access businesses, as well as in certain areas of our well flow management product line. We are confident that demand for our services, will continue to increase throughout 2024 and beyond.

Upstream investment forecasts for 2024 are further strengthening, and are now at the highest levels we have seen since 2015. We're seeing a significant growth of offshore and deepwater and shelf, driven by Guyana, Azerbaijan, Brazil, the US, Indonesia, Malaysia and Norway. And this also includes targeted exploration and appraisal activity in mature areas especially in the Europe, Sub-Saharan Africa and South American regions.

International land activity growth continues, specifically in the Middle East with the ongoing large gas and LNG developments in Saudi, Kuwait, the Emirates and Qatar.

Our customers also remain focused on maximizing their existing investments by driving cost-efficient, lower-carbon-intensive incremental production. This is resulting in further demand for our production optimization-related activities within well flow management and well intervention integrity product lines, especially across the Asia Pacific and Latin America regions.

Finally, investment in lower-carbon energy alternatives is also increasing across the industry, with growing activity in the geothermal sector, especially within Europe and Asia Pacific and the carbon capture and storage sector, as operators work to reduce their upstream emissions to achieve their net zero goals.

As we have discussed previously, the current energy services cycle is more about margin expansion than it is about capacity additions. We have ongoing efforts to optimize equipment utilization and increase operational efficiency both of which will have positive impacts on overall profitability and free cash flow performance. We also continue to have constructive conversations with customers about capturing more of the value we create through technology, process efficiency, safe well access and enhanced production. All combined, the outlook for Expro and the broader sector continues to be robust and positive.

With that, I will hand the call over to Quinn to discuss financial results in greater detail as well as our outlook.

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Quinn Fanning

Thank you, Mike. Good morning to everyone on the call. As Mike noted, we reported revenue of $383 million for the March quarter, as compared to the guidance of $365 million to $375 million that was provided in our Q4 conference call. As anticipated, revenue was down sequentially by $23 million or approximately 6% relative to the fourth quarter of 2023, largely reflecting seasonality. However, year-over-year revenue was up by $44 million or approximately 13% relative to the first quarter of 2023.

The net loss for the first quarter of 2024 was $3 million or $0.02 per diluted share compared to a net loss of $6 million or $0.06 per diluted share in the first quarter of 2023. Adjusted net income, which excludes merger and integration expense, severance and other expense and stock-based compensation expense for Q1 2024 was $10 million or $0.09 per diluted share as compared to $1 million or $0.01 per diluted share for Q1 2023.

Adjusted EBITDA for the first quarter of 2024 was just over $67 million, as compared to Q1 guidance of $63 million to $73 million, representing a year-over-year increase of approximately $26 million or 61% relative to the first quarter of 2023. Adjusted EBITDA margin for the first quarter was 18%, up roughly 600 basis points year-over-year. The year-over-year increase in adjusted EBITDA and adjusted EBITDA margin, primarily reflects good fall-through on incremental revenue due to activity mix, operating leverage and a non-repeat of unrecoverable LWI-related costs in Q1 2023.

Pricing is trending positively, particularly in our deepwater well construction and subsea landing stream-driven businesses, but net pricing gains are not yet a material driver to reported results. Nonetheless, relative to 2023, we continue to expect 100 to 200 basis points of incremental adjusted EBITDA margin from net pricing for the full year 2024.

Regarding our LWI business, as disclosed during the Q4 earnings conference call, we determined not to participate in the recovery of the subsea module from the seabed floor, which was completed in the March quarter. Regarding uncompleted customer work scopes, we are not currently able to assess the timing and potential costs of completing the projects for which the vessel-deployed LWI system was integral. That said, we are continuing to pursue an insurance claim related to the abandoned subsea module with any insurance recovery available to offset any additional out-of-pocket costs. Based on available information, we do not expect additional unrecoverable LWI-related costs and that of insurance recoveries to be material to expose financial results.

We remain active in the rig-deployed light well intervention space. We are continuing to determine a path forward for our vessel-deployed LWI business and what alternative service delivery and service partner options are available to the company. Support costs for Q1 2024 of $81 million totaled 21% of revenue, which was up approximately 7% year-over-year. Compared to Q1 2023, support costs as a percentage of revenue were down approximately 130 basis points and we expect that support costs for the full year 2024 will be at or below 20% of revenue.

Moving to liquidity, Q1 adjusted cash flow from operations, which excludes cash paid for interest net, cash paid for severance and other expense, and cash paid for merger and integration expense was $38 million compared to $27 million in Q1 2023. Cash conversion or adjusted CFFO as a percentage of adjusted EBITDA for Q1 2024 was 57% as compared to 65% in Q1 2023. Q1 2024 adjusted EBITDA less capital expenditures and free cash flow or adjusted CFFO less core CapEx was approximately $37 million and approximately $11 million respectively.

Expro had total available liquidity at quarter end of approximately $291 million with cash and cash equivalents, including restricted cash, of approximately $164 million. Additionally, at March 31st, we had $127 million available under our revolving credit facility. Note that the closing of our pending acquisition of Coretrax will require $75 million of cash, which we expect to fund with an increase in our revolving credit facility. This will allow the company to maintain its currently strong liquidity position.

Turning to our outlook, page 9 of our accompanying slides summarizes our guides for Q2 and for the full year 2024. Based on our strong performance in Q4 2023, continued momentum through Q1 2024 and a positive activity outlook, we are reaffirming full year 2024 guidance with anticipated revenues between $1.6 and $1.7 billion and adjusted EBITDA between $325 and $375 million. Adjusted EBITDA margins is expected to be within a range of 20% and 22%.

Free-cash flow margin, or free cash flow's percentage of revenue, is expected to be between 8% and 9% and is expected to be weighted to H2 2024. Full year guidance for 2024 assumes cash taxes of between 3% and 4% of revenue and CapEx as a percentage of revenue of between 7% and 8%. Q2 2024 revenue is expected to be within a range of $400 million and $420 million, implying year-over-year growth of about 5% and sequential growth of about 8%. For year-over-year comparisons, note that Q2 2023 revenue included approximately $13 million of vessel-deployed LWI revenue that will not be repeated in Q2 2024.

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In addition, revenue related to our LNG expansion project in Congo is expected to be $10 million to $13 million lower in Q2 2024 than was reported in Q2 2023, reflecting a shift in work scope from a fast-track plant delivery phase to a multiyear operations and maintenance phase.

Adjusted EBITDA is expected to be within a range of $80 million and $90 million, implying Q2 adjusted EBITDA margin within a range of 20% and 21%, or up 200 to 300 basis points year-over-year and sequentially; in both cases, based on the midpoint of Q2 guidance.

As a reminder, our 2024 guidance assumes that we will close the Coretrax transaction at the beginning of the third quarter. Based on that assumption, Coretrax is expected to contribute $70 million to $80 million of revenue and an adjusted EBITDA margin that is accretive to stand-alone Expro results.

As Mike noted, if we can close the transaction a month or two earlier, we expect a bit of upside to the current guidance. Looking beyond 2024, as Mike noted on our Q4 earnings conference call, with a constructive fundamental backdrop and strong business momentum, we see a clear path to $2 billion of revenue, mid-20s adjusted EBITDA margin and a free cash flow margin of 10% in the medium term.

Over time, we expect higher adjusted EBITDA margin from incremental drilling and completions activity and an expectation for above-market growth in our higher-margin businesses such as cementing technologies and performance drilling solutions, which together should provide a mix benefit.

Similarly, merger-related synergies have allowed us to improve operating leverage. Finally, net pricing, while less under our control, is obviously 100% fall-through, and pricing seems to be trending positively, particularly in capacity-constrained asset classes such as deepwater TRS equipment and subsea test trees.

Improved free cash flow performance should come from maximizing utilization of existing assets, CapEx discipline and growing our less capital-intensive services and solutions.With that, I'll turn the call back over to Mike for a few closing comments.

Mike Jardon

Thank you, Quinn. The first quarter of 2024 establishes a solid foundation for the year for Expro, with strong financial performance relative to guidance. During the quarter, we continued to build business momentum and strategically grow the business through the acquisition of Coretrax and numerous meaningful contract wins.

The team has continued to execute the business strategy to deliver on our financial goals, while maintaining our reputation of excellence and execution through cost-effective, technology-enabled services to our customers within a safety-focused culture.

I'd like to thank our teams around the world for their dedication to delivering value for our customers and our shareholders. The macro backdrop is constructive. Demand for energy, including oil, gas and geothermal, is growing. And internationally, there is a heightened focus on energy security and diversification of supply.

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We remain confident that the business is poised to benefit from the momentum in the international and offshore markets as our customers focus on low-cost carbon-advantaged incremental production across essentially all international basins. We have a strong presence in key markets and are positioned to provide mission-critical services and solutions to our customers.

As I stated previously at Expro, we are achieving better financial results across our business and over the medium-term, we expect to deliver on our targets which include annual revenue of $2 billion and adjusted EBITDA margin of 25%. We are confident we are taking the right steps to unlock the full value potential of Expro and we are pleased that strong market fundamentals are serving as a tailwind helping to drive our company's continued profitable growth. As activity continues to ramp-up we are well-positioned to support our customers across the full well life cycle deliver on our strategic and financial objectives and drive sustainable long-term value for shareholders.

With that, we'll open up the call for questions.

Question-and-Answer Session

Operator

Absolutely. We would now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Luke Lemoine with Piper Sandler. Your line is now open.

Luke Lemoine

Hey. Good morning, Mike, Quinn.

Mike Jardon

Hi, Luke.

Luke Lemoine

Good morning. I wanted to talk about the outlook a bit more. I wanted to start with the outlook and maybe the guidance as well. If I just kind of take the midpoint of the 2Q guide and use that for 3Q and 4Q you basically get to the low end of the guide for the year and that assumes no further growth past 2Q. Wouldn't include Coretrax either. But if you include Coretrax in the second half I mean it starts to look like the midpoint is very reasonable. Can you just talk about your confidence around this? And then also what are some of the puts and takes to get to the high end of the annual guidance this year?

Quinn Fanning

I'll start and Mike can probably add some supplemental comments. I think the first thing I would highlight is if you look at Q2 2023, we had a number of relatively chunky revenue contributions that will not be repeated in Q2 2024. So that's obviously LWI where I think we had about $13 million of revenue in Q2 2023. In addition as we phase the Congo OPT project from the plant delivery to the O&M phase, we're losing another plus-$10 million sort of revenue.

So at the midpoint of guidance of $410 million of revenue, if you look at adjusted Q2 2023 that's a plus-10% year-over-year growth. So what kind of brings you to the low or high end of guidance is really two things in my mind, most notably when the Congo project starts the kind of production phase so the delivery of the plant. Then we've got a couple of relatively significant subsea projects on the African coast that are kicking off in the second quarter of 2023. So that's number one.

And then Coretrax, if we can close it a month or two earlier as Mike and I mentioned we think is a possibility we're really just waiting for one antitrust clearance at this point. But if we do get Coretrax closed it's probably another $10-plus million a month in incremental revenue and another plus-$3 million worth of EBITDA.

So I think those would be the kind of key drivers. As is always the case projects can slip to the right or get pulled forward. But the range that we provided excluding an early close of Coretrax is the best available information we have today.

Mike Jardon

Yes. Luke I guess one thing I would add is it's -- I mean the way our subsea projects in particular timing-wise looks like those are going to get kicked off it's really -- it's at the back end of Q2. So whether it moves to the left by a couple of days or to the right by a couple of days is going to make a difference in the quarter. But I think fundamentally just the activity set the customer engagements, the customer dynamics I think continue to be really strong. And Q4 is always, we've got better visibility and we've got better confidence in Q2 and a little bit less in Q3 and a little bit less in Q4. But I can tell you from travels and spending time with customers and those type things, I just I think we're going to continue to have strong activity sets in the back half of the year that should continue to give us confidence in being able to deliver on that guidance range.

Luke Lemoine

Okay. And then you talked about net pricing gains, not a material driver yet, but you're starting to see that in Subsea Test Trees, deepwater TRS. What could be next outside of Subsea Test Trees and Deepwater TRS do you think?

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Mike Jardon

I think we'll have some opportunities. Just as you see more of the exploration and appraisal activity start to firm up. Some of the more drilling and completions related well test activity whether it's flowbacks, cleanups those type of things I think we can get some pricing on.

70% of our activity is more tied to drilling and completions. So all of that will have pricing opportunities. It's just kind of the timing of those. Some are going to be more --later in the recovery cycle. We're always going to have that roughly one-third of our activities more OpEx related. And those we're not going to get -- we're going to continue to try to make sure we get inflationary cost adjustments and those kind of things, but very minimal net pricing increases.

Luke Lemoine

Okay. Thanks so much.

Mike Jardon

Great. Thanks, Luke.

Operator

Thank you. The next question comes from the line of Ati Modak with Goldman Sachs. Your line is open–.

Ati Modak

Hey, good morning guys. Just curious on your capital allocation strategy here. You've previously noted one-third of free cash flow for returns and have historically leaned into buybacks. So how should we think about your latest thought process around the potential for a dividend in that mix? Is there a free cash flow margin target where that becomes more of a discussion?

Mike Jardon

Yeah. I think it's an ongoing discussion that we have with our Board of Directors. We're really fortunate we have some really strong financially astute Board Directors. So we have really good dialogue and discussion about those things. I think for any company what's tremendously important really is the longevity of a dividend. And once you commit to it, it's something you've got to have that kind of staying power so to speak.

We're still going to stick within that one-third of our free cash flow. And at this point in time I think we're probably going to continue at least in the short-term to be more predisposed to buybacks as opposed to a dividend. But we're getting to that threshold. We're going to be more second half cash generative just with the nature of our activity. But we're going to get to that threshold run rate so to speak back end of this year going into next year that I think more solid discussions around dividends will start to be had.

Ati Modak

That's awesome. Thank you for that. And then beyond the CapEx plans that you've announced how should we think about the M&A component as a use of cash for the remainder of the year versus leaning into buybacks? It seems like there's some industry-wide acceleration in consolidation. So curious how you see it for Expro for this year?

Quinn Fanning

Yes, it's tough to predict M&A. It obviously takes two to tango. We continue to look at lots of different opportunities. I think we've now gotten two either across the finish line or close to the finish line with PRT and Coretrax. I'll just note that in both cases we were in dialogue with those counterparties for well over a year in one case and for a couple of years in another. We looked at 30-plus opportunities over the previous 12 or 14 months and got two to the finish line.

So, very tough to predict M&A. We're interested in M&A. We think we're good at integration. And as Mike highlighted it all starts with industrial logic and where we actually believe we can add value. So M&A for us is not just big for big's, sake but it's big because we think it allows us to deliver something that is more differentiated to the customers and become more relevant to investors.

I think we can do both. We today sit on a negative net debt position. So the balance sheet is strong. Our cash flow outlook is strong. So I think we can continue to allocate a third of free cash flow to a return of capital plan with plenty of free cash flow and balance sheet capacity to pursue M&A, if it makes sense.

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Mike Jardon

Yes, I guess the only thing I would add is as Quinn highlighted this is all going to be driven by the industrial logic. But fundamentally, we're also going to make sure -- we're not going to become a roll-up story. We're not going to try to go out and do 200-plus M&A transactions in a short period of time. Because we're actually going to integrate them we're going to drive efficiencies. We're going to make sure we eliminate the silos and bring those things together. So, we're going to be purposeful about the ones that come into the portfolio.

We're going to make sure we add value to our customers and ultimately to our shareholders. But there are opportunities out there and we'll continue to pursue those. And we're going to be patient. We're not going to -- as Quinn said, both of those had kind of a long interaction engagement. Sometimes you just have to be patient to get those things done. And we'll continue to be focused on opportunities of how do we strengthen the brand, how do we -- we have a great platform and we can do more for our customers.

And what I really like is, with both of those transactions, when I go to customers right now and I try to say, hey, let me explain to you about PRT, let me explain to you about Coretrax, they put their hand up as a stop sign and say, no, no. We get it. We understand. You don't have to explain why it makes sense. That's how compelling the industrial logic is. And to me that's tremendously positive for us. Because if our customers get the industrial logic without a lot of discussion, I know we can explain the industrial logic to investors or analysts alike.

Ati Modak

Yes. That makes sense. Thanks. That's great color. Appreciate it.

Mike Jardon

Thanks for participation. We enjoy it.

Operator

Thank you. The next question comes from the line of Arun Jayaram with JPMorgan. Your line is now open.

Mike Jardon

Hey, Arun.

Arun Jayaram

Yes. Good morning, gentlemen. I wanted to get your thoughts maybe on two kind of markets that you participate in, TRS and cementing. And maybe give us a sense kind of internationally offshore kind of the dynamics that you see playing out in TRS between year-over-year volume gains pricing. And maybe a similar thought on cementing where I think you're at call it a $100 million run rate. And I think you've talked about growing that business to $200 million to $250 million of revenue over time.

Mike Jardon

I think especially with cementation today and even some of the technologies we're rolling out in TRS, particularly applicable in deepwater, a lot of this is around efficiency gains, a lot of this is around improving operations. Our cementing technologies we have the ability -- we have a project in the Gulf of Mexico where we've helped reduce the waiting on cement time by 17, 18 hours. And in an increasing rig rate environment that starts to become more meaningful for our customers. And it's the same thing with some of our TRS technology that we've rolled out: our iTong our Centri-FI. Not only are we reducing the number of personnel on the rig floor, but we're also improving the efficiency, the makeup times the running speeds those kind of things. We're improving efficiencies and we're taking people out of the red zone.

So we're reducing the opportunities to have HSE events. And when you can bring both of those things, efficiencies and repeatable operations, it's tremendously valuable to customers. And as that rig rate goes up, the value proposition or the savings opportunity for them really starts to be strong. So I think our focus on technology and our focus on efficiency and some of the things we've done around M&A and transactions is going to help us with that.

And that's also -- you're absolutely right. We've said openly that $100 million of cementing activity today that's a $200 million $250 million opportunity for us. And I think as the market continues to strengthen as rig rates continue to move up I think we're going to have more and more opportunities. Because we're going to introduce cementing technologies at the right rate, because we're not going to give up on pricing. We create tremendous value. So we'll take a little slower activity introduction over a few quarters, because by the time we get into the back part of this year into next year and rig rates continue to be strong then I think we're going to be in a good position on pricing.

Arun Jayaram

Great. And just maybe a follow-up on some of the M&A discussion. Mike are you still kind of targeting more bolt-on type of transactions that you've done like DeltaTek and Coretrax? Or are you looking at perhaps some deals that may be a little bit larger in scale? And maybe just give us a sense of the pipeline as it sits today.

Mike Jardon

Yes. We will look at everything. And frankly, we do. Quinn alluded to we had 30-plus type transactions, we discussed or were some level of diligence in last year. And I can tell you some of those were up to transformational type things. So it's not just the $100 million to $200 million bolt-ons. We're going to look at all of these. But it all really starts with -- I know it sounds -- I keep repeating on my soapbox about the industrial logic, but that's exactly what it leads for us.

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That's the first the second and the third conversation. If that makes sense, then we'll look at those. And it doesn't have to be -- it can be a merger of equals. We could be the smaller partner. It's -- we're going to look at things that make sense. So across the board kind of across the pitch are the kind of things we're looking at and having conversations around.

Quinn Fanning

I also wouldn't consider DeltaTek to be a real bolt-on. We actually think about M&A in three different silos. DeltaTek, SolaSense these are very modest investments of cash frequently with a performance-driven payout structure. That's a way for us to kind of add disruptive technologies to the portfolio and continue to have something that is differentiated for the end-user customer.

Now PRT or Coretrax which are now nine-figure transactions, but still within the existing balance sheet capacity that's what I would consider to be a bolt-on. So kind of $100 million to $500 million in aggregate value. Once you get beyond the high end of that range it's probably involving some equity funding potentially significant equity funding. And at that point it's a relative valuation discussion as much as anything else. And we're open to transformational M&A or large equity-funded transactions, but it's got to be something that Mike can demonstrate as compelling to customers and just as importantly compelling to you and the investors that you represent.

Arun Jayaram

Great. Thanks, Quinn.

Quinn Fanning

Thanks, Arun.

Operator

Please make sure your line is unmated. Thank you. We will go to the next question from the line of Steve Ferazani with Sidoti. Your line is open.

Steve Ferazani

Thanks. good morning, Mike and Quinn. Appreciate all the detail on the call.

Mike Jardon

Good morning.

Steve Ferazani

The strength in top line this quarter it sounds like -- I mean well construction was soft year-over-year. So I'm trying to figure out where you made up for it. And was it just the expansion in new projects in Saudi and Algeria? If you can give a little bit more detail on the strength on top line this quarter.

Quinn Fanning

As Mike mentioned, we had a very strong Q4 in terms of well construction; notably, large tubular product sales. It was a lighter quarter not surprisingly given the historical seasonal patterns in well construction. So, we had some projects that were moving to the right particularly in the North American, offshore market; so the Gulf of Mexico. And as Mike also mentioned, Guyana. I guess a trend that we've seen across the sector is that rig maintenance or special surveys are seemingly taking much longer, than was previously expected.

So most of the rigs in Guyana have moved from 60- to 90-day type maintenance schedules, and that was a driver to some of the weaker NLA performance in well construction. Not something that we expect to be a continuing trend. But as the rigs come out of maintenance in Guyana, and activity picks up in the Gulf of Mexico, we're expecting fourth quarter type performance in NLA. But until then, MENA and really other than the LPT project in Congo, ESSA had relatively strong quarters relative to our expectations. And I'd say MENA in particular, seems to go from strength to strength including revenue trajectory and margins. So, very pleased, with that performance.

Q – Steve Ferazani

Great. CapEx this quarter and then your guidance for the rest of the year, it sounds like you're trending towards the high end of that CapEx, as a percentage of revenue range, which given the number of new projects and activity makes sense. But does that soften your view on free cash flow expectations for the year?

Quinn Fanning

No. I think most of our CapEx tends to be project-driven. So, if our CapEx is going to be higher it's going to be because the backlog is growing. But no, I wouldn't say, that in and of itself would change our view in terms of the expectations for free cash flow performance. You're correct, that if you take the $30-plus million of CapEx in Q1, and the kind of range we provided in the press release, we would be closer to the 8% area. But, I'm pretty confident that if CapEx continues at these elevated levels, it's going to be still within the percentage ranges because the denominator will grow at the same cadence. Over time, actually CapEx should shrink as a percentage of revenue particularly with pricing up [ph].

Q – Steve Ferazani

Great. On the integration process, PRT is well underway. You've got Coretrax coming up. You did the smaller one DeltaTek a year ago. Can you tell me what your learning curve has been on integration? Is it getting easier? Or is it going to be different for each one? And obviously, Coretrax is larger. Or does it matter more what you're buying in terms of the complexity of the integration considering the number of opportunities that may or may not be out there down the road?

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Mike Jardon

Sure, no. Steve, it's a great question. I can tell you one of the things we did, when we did the Frank's transaction, the Frank's merger, we – I really made sure that we looked at that through a long-term lens. We spent a lot of time and effort to develop an integration playbook because I had every intention of us doing more of those type transactions going forward. So we really laid out the methodology, the kind of the know-how. We dedicated one of the executives to be the integration lead on that project. So a lot of time and effort was spent on how do you develop a playbook and how do you make it sustainable and repeatable down the road. So we've really been able to – now the other transactions have been smaller. So it's not been to the same extent. But it's the same methodology, the same approach. That particular executive has also played an advisory role for us because he retired I guess it was at the end of 2022, but he's continued to play an advisory role for that. So I think we're getting better at integration.

A lot of lessons learned. A lot of – we should double-down on this. We should not focus on that. A lot of those kind of discussions. So I think it's going to continue to help us be more efficient. But we learned a lot. When we did the original Frank's transaction integration and we're kind of able to use that as a good stepping stone how we lean into these other ones. The difference with PRT or with Coretrax, those are not fully – full-fledged global integrations. Those are generally more regional integrations, which means that we should be able to execute on those more quickly than what we did on the bigger one.

Steve Ferazani

Perfect. Thanks Mike. Thanks, Quinn.

Mike Jardon

Thanks, Steve.

Quinn Fanning

Thanks, Steve.

Operator

Thank you. The next question comes from the line of Josh Jayne with Daniel Energy Partners. Your line is now open.

Josh Jayne

Thanks. Just to sort of build on the line of questioning around Frank's, there was a presentation highlighting adjusted EBITDA margins for the combination back when it was done and they were between 7% and 14% in the five years prior to the deal closing, which also represented sort of a depressed offshore spending market. You were in the upper 20s, low 30s in 2014 and 2015. Obviously, low 20s guided for this year. As you sit today and look at the business what can be done outside of price to get back to those margin levels? And how do you see those evolving over the next couple of years?

Mike Jardon

Sure, Josh, it's a good question. We appreciate it. A lot of it for us is really around the costs in the organization. If you look at kind of the last full quarter before we began the integration of the two companies, we were at 31% total support costs. And for us just to be clear the way we look at support costs is the support all the way down to the field level to the guy who's going to go out and execute the job. So we don't try to be cute and just talk about SG&A – corporate SG&A is 3%, 3.5% because I think that's kind of hiding the bacon.

I'm going to look at the total support that it takes for us to go out and execute a job. But we were at 31% then and we finished 2023 at 19.4% I believe. So we've taken a lot of support costs out of it, out of the organization. So, I look at it as having a number of -- I've got six or seven points of margin in my back pocket so to speak. And as we continue to grow and we continue to add top line, our support costs will grow at more of an inflationary rate, not at the same rate that our top line will grow. So, for us to get back to a -- it's the reason why we've talked about a pathway to $2 billion of revenue and mid-20s percent EBITDA margins. That's something that's imminently doable for us. And for me, it's not a question of if, it's a question of when that we can get back to those kind of EBITDA margins and I think even be able to push through the mid-20s into the upper 20s.

Josh Jayne

That's great. Thanks. And just one follow-up. One of the things you mentioned, you talked about carbon capture for a moment. You highlighted in the press release Japan's first clean hydrogen production demonstration. As it relates to Expro, could you just talk about the addressable market for the company over the next few years and give us a sense of the other inquiries you're having or seeing there?

Mike Jardon

It's a massive addressable market. I think as we start to see the Exxon's in the Gulf of Mexico and other operators globally, I think it's really going to be at the pace at which they continue to address their carbon capture needs and requirements. For us, it's really -- we can multipurpose our personnel and a lot of our equipment, especially when you start talking about clean projects, whether it's clean hydrogen or ammonia type projects. We're going to go through well testing, wellbore cleanup, cleaning up fluids, separation of fluids, those type of things. So it gives us a lot of flexibility on utilizing the same assets and same people and having the technique and having the kind of reservoir of knowledge and understanding to apply that. So, it's a very significant opportunity. It's really going to be driven by what's the pace at which those operators and those customers focus on carbon capture.

Josh Jayne

Great. Thank you, very much.

Operator

Thank you. There are no additional questions waiting at this time. So I would now like to pass the conference back to management for any additional or closing remarks.

Mike Jardon

Great. So we'll go ahead and close for now. I appreciate everybody listening in on in the first quarter. I think as we said, we continue to see some gaining momentum in the space, in the sector, particularly offshore international. And we look forward to speaking to all of you in the next quarterly call. Thank you.

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Operator

That concludes today's conference call. Thank you for your participation. You may now disconnect your lines.

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