

**NESR**  
**Second Quarter 2024 Earnings Call**  
**August 29, 2024**

---

**Presenters**

**Blake Gendron, Vice President of Investor Relations**  
**Sherif Foda, Chairman and Chief Executive Officer**  
**Stefan Angeli, Chief Financial Officer**

**Q&A Participants**

**David Anderson - Barclays**  
**Saurabh Pant – Bank of America**  
**Kurt Hallead - Benchmark Company**  
**Doug Becker - Capital One**  
**John Ajay - Occam Crest**

**Operator**

Greetings. Welcome to NESR Reports First Half 2024 Financial Results.

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 “\*”, “0” on your telephone keypad.

Please note, this conference is being recorded.

I will now turn the conference over to Blake Gendron, Vice President of Investor Relations. Thank you. You may begin.

**Blake Gendron**

Thank you, Sherry. Good day, and welcome to NESR's Second Quarter 2024 Earnings Call. With me today are Sherif Foda, Chairman and Chief Executive Officer of NESR, and Stefan Angeli, Chief Financial Officer.

On today's call, we will comment on our second quarter and first half results and overall performance. After our prepared remarks, we will open the call to questions.

Before we begin, I'd like to remind our participants that some of the statements we'll be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ, materially, from those projected in these statements. 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 the press release, which is on our website. Finally, feel free to contact us after the call with any

additional questions you may have. Our Investor Relations contact information is available on our website.

Now I'll hand the call over to Sherif.

**Sherif Foda**

Thanks, Blake. Ladies and gentlemen, good morning, and thank you for participating in this conference call. We are pleased to report continued momentum in the first half of 2024, following a solid 2023, and ahead of further expansion for the foreseeable future.

Despite the uncertainty caused by ongoing geopolitical events in the region, as of today, I am pleased to relay that the multiyear outlook remains robust, driven by historically high activity levels and rig counts, across the MENA region.

Before I hand over the call to Stefan to discuss the financials and progress on our remediation plan, I want to first provide the business overview and an update on our geographic footprint and portfolio positioning.

I'm proud of our entire team for successfully managing the business over the past couple of years in close collaboration with our supportive customers to achieve remarkable growth and technology gains, as seen in our strong results.

Over the past year and a half, we've made progress in the two key areas of our growth strategy: core and frontier, focusing on our geographical footprint with the establishment of additional anchor countries outside of our original position of Saudi Arabia and Oman, and also expanding our technological reach in our drilling portfolio and our decarbonization segment, NEDA.

Geographically, over the past six quarters, we saw substantial progress and benefits from our recently established anchored countries. We define anchored countries as those in which NESR has prominent market share in multiple core products and service lines, a foundation from which we can build our share in core technologies and pull through other segments to broaden our service scope.

In addition to Saudi Arabia and Oman, we've grown substantially in Kuwait, UAE, Iraq, Egypt and Algeria. Having established our vision and core services capability to become a leader in cementing, coiled tubing, fracturing and stimulation services, well testing, slickline, cased-hole logging, fishing and downhole tools and tubing running services.

In other words, for the majority of those product lines, we want to have a top five market share position in anchored countries. This allows us to better leverage our supply chain, infrastructure, improve operating leverage, and grow other segments with plenty of runway in existing service and new technology in each country.

In Kuwait, which remains a notable driver of growth in 2024, we continue to integrate and worked diligently to qualify additional segments, which laid the groundwork for pivotal, long-term contract awards that make room for additional service and technology introduction over time, such as drilling segments.

In UAE, we greatly expanded our footprint, organically, with key multiyear contract wins in core segments such as coiled tubing, cementing and well testing. In Iraq and Algeria, we've achieved strong segment pull-through, capitalizing on working relationships with both national and multinational IOC in both countries.

In Egypt, we've established ourselves as leader in several segments and enter the production chemical industry along with our leadership in coiled tubing, cased-hole logging, testing, slickline, and recent fracturing activity, especially with the success of the first pure-play unconventional resource in the country.

Our growth strategy begins with our anchored countries and core service lines, and we are all pleased with the progress made on this front and the opportunity to continue with these gains into the future.

Speaking of technology and the future, we've also made progress on the second pillar of our growth strategy and the frontier area of new innovation. In this domain, we've both invested in long-term research and development and collaborative technology partnership.

Since the founding of the company, we've identified the need to invest in the next generation of downhole technologies to compete in the sophisticated, high-end, high-return direction drilling services. We've committed to the investment thesis and the pursuit of a rotary steerable tool and accompanied measurement, while drilling and logging while drilling technology.

While development of these tools has historically in our sector been a long and painful journey of repeated field testing and reliability improvement, we remain steadfast in our development program and are pleased with the progress that we've achieved, thus far.

Over the past couple of years, a combination of collaborative engineering, meticulous planning and continuous improvement have yielded to a total of more than 70,000 feet of field-testing experience across multiple countries, globally. This progress culminated in the official commercial launch of our ROYA downhole drilling platform this year in February, and we were thrilled to announce and feature our ROYA family of tools at the leading IPTC industry event in Saudi Arabia, followed by the recent OPES in Oman.

With the recent award of multiple contracts in the region, we have secured the long-term platform to execute our strategy and commercialization plans.

Now let me shift to another key area of new technology development, our recently announced NEDA segment, which encompass a portfolio of solutions in the area of water, methane, heat and new energies. NEDA stands for NESR Environmental and Decarbonization Application, and translate to Arabic as call to action, reflecting the imperative of the upstream sector to lead in creating more sustainable oil and gas supply with minimal emission and carbon footprint.

We originally launched the segment as ESG IMPACT back in 2021, centered around several early-stage investments and partnerships in areas such as flare gas, produced water and heat. Produced water treatment technology and the broader circuit water concept are a key focus within NEDA, given the dual challenge in MENA of rising produced wastewater volumes and lack of renewable freshwater resources.

In the last 18 months, we successfully completed the second pilot of our zero liquid discharge technology with Aramco. In this application, we can essentially treat high salinity produced reservoir water for reuse and subsequent stimulation operation, thereby eliminating the consumption of precious freshwater from the aquifer. Our goal is to now scale up the ZLD technology, potentially in combination with other applications for carbon silicon economy, ensuring we can deliver with our customer, a unique solution to the world.

Also in recent quarters, we completed the continuous methane monitor project with a multinational oil and gas provider in the GCC, and we continue to evaluate a full implementation within this customer field and demonstrate those results to other clients in the region.

Using Qube technology latest monitoring and cloud-based modeling, we know we can detect from 0 to 100 kilograms per hour greenhouse gases, which is essential to provide the deadline for the COP28 pledge of the top E&P companies of totally eliminating methane, by 2030.

In order to do that and provide assurance to the world that reported emission are based on science and remeasurement and not just modeling. As the industry in North America has, by deploying thousands of continuous monitoring sensors, the same approach is applicable to MENA.

In Asia, we expanded our CCUS offering with a successful second phase pilot injection and monitoring project. This is a great example of how NEDA can also adapt existing service capability to new energy opportunities.

Overall, our strategy in NEDA is to leverage core competencies and cutting-edge technologies, sometimes outside technology, native to non-oil and gas sector to attack completely new market opportunities. It is worth noting that like with any new solution introduction in our sector, the technology development and sales become very considerable. And we, therefore, take a long-term view of the growth potential for NEDA.

To capitalize on all our technology rollouts, we continue to expand on the high-power understanding of the subsurface, in which we made a substantial investment in our research facility, NORI. And we continue to invest and bring new partners to the region, similar to our investment approach in Bill Von Gonten, when we brought his unique lab from Houston to Dhahran, the heart of Saudi Arabia. This enables full cycle understanding from subsurface to pipeline, including the decarbonization aspect of every piece of the puzzle.

With that, I pass it over to Stefan to discuss the financials in details.

**Stefan Angeli**

Okay, thank you, Sherif. Good morning to our audience in the U.S., and good afternoon to our audience in the Middle East, North Africa.

With the completion of the restatement late last year and the remedial milestones achieved this year, it is good to finally be back engaged in the market, directly, in this earnings call. In the future, we look forward to normal quarterly earnings reporting.

I am very, very pleased with our half one, '24 financial performance and our overall results. Sequentially, half one, '24 revenue grew 15.5% against half one, '23 revenue, with exceptionally strong activity in the Gulf countries.

Adjusted EBITDA grew 27.6% to \$142.9 million, with 37% fall-through year-on-year, and adjusted EBITDA margins expanding 218 basis points to 23%. Despite macroeconomic volatility and geopolitical conflicts, the MENA landscape remains very favorable growth across most countries, as you just heard from Sherif.

So, all this translates into half one earnings, excluding charges and credits, of \$0.44 per share. The charges and credits were approximately \$0.14, principally made up of two items. Firstly, the cost associated with the combination of the restatement of '18 to '21 accounts, the SEC investigation of the restatement and the ongoing remediation of material weaknesses in relation to our internal controls. And secondly, the credit loss provision in relation to a particular North African country.

Furthermore, throughout 2024 so far, activity has continued to expand, with revenues for Q2 '24 up 9.5%, sequentially, versus Q1 '24 to \$325 million. Adjusted EBITDA margin also expanded sequentially, expanding 257 basis points to 24.2% in Q2 '24.

Interest expense for half one, '24 was \$20 million, with \$10.6 million in Q1 '24 and \$9.4 million in Q2 '24. We expect half two interest expense to be around \$17 million, in line with lower debt. Half one '24 effective tax rate was 26.8%. The H2 rate should be the same or slightly lower on improved income before tax.

Now turning to our liquidity. Our cash flow was strong as we generated \$112.3 million from operations during half one, '24. We expect our operating cash flow to continue to be strong during the rest of the year.

We generated free cash flow totaling \$59.6 million, which was principally used to pay down debt. Gross debt, as at the 30th of June '24, was \$407 million, which is a reduction of \$128 million, over the last 18 months.

Net debt to trailing adjusted EBITDA was 1.13 as of June 30, '24 versus 1.47 at December '23 and 2.8 at December '22, which is an encouraging trend.

Working capital levels have remained almost flat despite revenue growth, which in '23 was 26%, and in H1 '24 was 15.5% versus the prior period. This has been principally driven by a decrease in DSO, but DSO over the last 18 months of seven days and the reduction in inventory levels by just over 10%, as our process improvements have made us more efficient.

And now to CapEx. Capital investment for H1 '24 was \$52.7 million. We expect full year '24 CapEx to be in the vicinity of \$120 million, slightly higher than what than we initially anticipated, due to the award of two large directional drilling projects, which is exceptionally good news, and supportive of our strategy that Sherif has just discussed. But this requires appreciable upfront investment.

All what I've said so far has concluded in our return on capital employed percentage going into double-digit figures as of June 30, '24, and it should only improve going forward.

Now, on to some housekeeping topics. As you may have seen last night with the SEC announcement, after roughly a year, we have concluded our inquiry by the Securities Exchange Commission into the restatement of our '18 to '20 accounts and the reasons for this restatement.

The SEC press release is very clear. In summary, there was no findings of fraud on the restatement. We accepted a fine of \$400,000 for the restatement internal control failings, and we have one year to remediate our internal control weaknesses from yesterday.

We have spent the last 18 months restructuring our back office with new and updated processes and procedures, combined with the latest software upgrades. And we are confident that we'll be able to demonstrate the remediation of our internal control weaknesses. This conclusion is very positive years for the company after the last 30 months of restatements, investigation, inquiries and remediation efforts.

Now with regards to NASDAQ relisting. Now with the conclusion of the SEC investigation and the filing of our half one '24 accounts with the SEC today, we'll engage with NASDAQ immediately to see where our position is, and we'll update you on the status, once we know.

So in summary, half '24 was solid financially with very strong revenue growth, strong adjusted EBITDA and healthy cash flow conversion, which is being used to pay down debt and strengthen our balance sheet. We believe that most of the past disruption from the restatement is now materially over.

Therefore, on behalf of management, I'd like to thank our entire workforce. Firstly, for finance and supply chain employees and consultants for their efforts in the restatement and remediation and changing our back-office systems, processes and procedures; and secondly, to operations for delivering great execution performance; and thirdly, our loyal customers, our directors, our shareholders and our banking consortium for their continued support.

We expect normal quarterly reporting moving forward, and we look forward to exiting '24 as a far larger and stronger corporation.

Now I'll turn the call back to Sherif.

#### **Sherif Foda**

Thanks, Stefan. Let me conclude by quickly commenting on the strong macro environment and our similarly solid 2024 outlook.

As you all know, geopolitical tension in the region have dominated headlines in recent months. While the future is impossible to predict precisely, I'm pleased to relay that the countries in which we operate, particularly our core GCC countries, remain business as usual from an activity standpoint.

Rig counts in NESR four largest countries are at all-time high and growing, steadily. In Saudi Arabia, we are favorably positioned for the CapEx plan currently in place, and expect the Kingdom to continue to be a growth driver for the company, both on the oil side and particularly in the unconventional gas development.

Despite the recent announcement of limiting the MSC to 12 million-barrel and the release of the jackup rigs, the overall activities remained higher than in 2023 as the gas program accelerate, in which our position is stronger.

UAE will continue under increased capacity plans and will be the growth driver over the near and medium term, with plans moving ahead for both oil and gas expansion.

Kuwait is expected to have the biggest growth, year-on-year, with solid expansion of oil capacity, offshore discovery and massive infrastructure project. As announced lately by their senior management, KOC plans to drill over 6,000 wells until 2030, and they continue with their successful rig tendering exercise and activating multiple rigs in the country.

We expect Oman and the rest of the GCC to have stable activity with opportunity for NESR to outgrow the market with mainly ROYA deployment and NEDA adoption.

After geopolitical disruption or unrest, Iraq and the North Africa region would have seen moderate growth as the ambition is there to increase capacity and activity. However, in the short-term, regional stability will remain a headwind for the start of several of the big projects. As an example, there remains significant upside in Libya once the financial budget is released and new projects are sanctioned.

Therefore, overall, we expect another year of strong market growth in 2024, followed by consistent and measured market growth through 2027, where countries plan to increase their oil and gas capacity.

Within this market growth framework, we anticipate NESR will outperform the broader sector in MENA, driven by drilling technology rollout success and the pace of adoption of decarbonization solution in the sector. We are extremely excited about the future, as we are uniquely positioned in the best growth area, globally, for oil and gas.

I'd like to thank you. And with that, I pass over the call to the operator for your questions.

**Operator**

Thank you. If you would like to ask a question, please press “\*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “\*”, “2” if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

Our first question is from David Anderson with Barclays. Please proceed.

**David Anderson**

Hey, good morning, Sherif. How are you?

**Sherif Foda**

Good morning, sir, how are you?

**David Anderson**

I'm doing great. So I don't want to give up too many of my questions before our conference next week, but let me just ask the one question that's probably on everybody's mind right now--Saudi. You highlighted some of the rigs offshore being dropped. We also saw some onshore rigs dropped.

Yesterday, there was an announcement that they're pushing down day rates and even there was some talk about service pricing being pushed out. Can you just let us--give us kind of some



insight into kind of what's happening on the margin right now in Saudi? Are they, in fact, slowing here?

And can--do you think that Saudi grows '25 over '24 from your best-case scenario right here, or kind of your best view from here right now? Thanks.

**Sherif Foda**

Thanks, David. I think as Saudi Aramco announced, clearly, when they cut the 12 million-barrel to--I mean they limited--the MSC to 12 million-barrel is there are additional rigs that were all marked for the MSC increase from 12 to 13, those have been released. And they did this extremely professionally actually by looking at all the rig count they had, because they went all the way to 90 or 92 jackup rigs, and now they think they're going to go to the 69, 70 rigs, which is exactly what they affected.

Now with that program to increase the gas production, the unconventional, and you saw that they increased the rig count for unconventional. And the whole idea was ensure that the Kingdom goes to on power, 50% renewable, 50% gas by 2030. And that will mean that they will have a liquid availability of almost 1 million barrels available for export, additional million barrels. And that's why they basically--some of the short-term oil rigs on land have been as well released. And they are looking as well at some maintenance rigs that they're going to release.

Overall, '23--I still believe '24 over '23 is the growth and '25--it's '25 over '24 will be stable. I would say you will have more increase on unconventional gas and less on the oil.

Obviously, the Saudis have that ability to increase rigs and redeploy them in a very, very fast way because the rigs are in the country.

So in case the oil price or there is more disruption in the region like what you saw in the last couple of days in Libya, with almost total shutdown of certain and some of the export, if they need to put more oil, they are capable of doing that.

So I would say with that long answer, Saudi, I would say, would be stable to moderate growth in '25 over '24. If the oil price is higher, they can put more rigs to oil, if it's less, then obviously, they can as well maybe shutdown more rigs on oil--

**David Anderson**

--So within that--

**Sherif Foda**

--Because the program is accelerating. Yes.

**David Anderson**

Right. No, that's not going to get to. So you're seeing sort of a shift here of CapEx kind of moving more towards gas. So I guess my follow-up question there is, you were talking before about you outperforming kind of the broader market? Do you think you can outperform--or will you be able to outperform, I guess, that Saudi number based upon just being having more exposure to gas? I know you've been on Jafurah for quite some time.

**Sherif Foda**

Yes, I think we will outperform the market, and we will outperform Saudi on gas. And as I said in our drilling contract where we got awarded a couple of new contracts, with the success of ROYA, the downhole rotary steerable MWD-LWD, all this, we will be able to capture more rigs, and we'll be able to have an upside year-on-year versus that because our position, today, is almost nonexistent in direction drilling.

**David Anderson**

Thank you Sherif.

**Sherif Foda**

Thank you, sir.

**Operator**

Our next question is from Saurabh Pant with Bank of America. Please proceed.

**Saurabh Pant**

Hi, good morning, Sherif, good to hear from you on the call.

**Sherif Foda**

Thank you, sir. It's always nice to be back.

**Saurabh Pant**

Yeah, no, absolutely. Sherif, maybe I'll start with a follow-up to what Dave had on Saudi and, specifically, on the gas side of things.

We all know with Jafurah unconventional gas, in general, is growing pretty rapidly in Saudi. Can you give us some color, Sherif, on where activity is right now, where you expect activity to go over the next two to three years?

And then just maybe your role specifically in Jafurah in unconventional gas, and how do you expect from a product portfolio standpoint, market share standpoint to outgrow competition? Just a little bit of color on that on unconventional gas side of things.

**Sherif Foda**

Sure. So obviously, as you have seen and as announced by our customer, the Jafurah has been a massive success to Saudi Aramco. They have developed this deal in a totally different way and

with a lot of science from the exploration cycle when they started with very good understanding of the subsurface, and then they went through the very good development program.

And the development program today is in full fledge, which means the wells are pads exactly like the--you had in the Permian. So you have four well pads, long reach laterals, extremely successful multistage completion. We test all kind of the latest technology from dissolvable plugs to eliminating some of the NPT going to 22, 23 hours a day pumping.

So this is basically this first class exactly as the best that you have in the U.S. And it's obviously unique because that's the only project in the Middle East that goes in that framework.

Today, that increase of rigs is very, very significant. So you have--you're talking about a significant spend, a significant increase, about 20%, 30% year-on-year on rig count, on the number of stages. And this is going to keep exponential. You're talking about going from the olden days 5,000 stages a year to all ambition of 20,000, 25,000 stages a year.

So that's going to be very, very significant. And again, this is to complete the objective of 2027, in 2020, you have the first gas one in '25, '27 and then until all the way to 2030, where basically you have 2 Bcf of gas, you have NGL, ethane, etc., etc. And these wells are very solid, right.

So the program is very well laid out. And I think the progress we have today is basically on the fracking side. Obviously, on the direction drilling side, there is multiple contracts, and I think Aramco announced that officially, as well. They announced the award of the EPC, and they announced officially, the award of multiyear direction drilling award for Tier 1 and Tier 2. We are involved.

And we as well, obviously, on the fracking side, is us and another big multinational company, and both of us are fracking those wells. So the increase is going to be significant, and it's going to continue until--as I said, until the delivery of gas. So we see--for us, for NESR, a very, very, very strong year-on-year growth in--above double digits.

### **Saurabh Pant**

Okay. No, that's fantastic, Sherif, and thanks for that color. And maybe just pivoting to outside Saudi, you talked about several countries in the MENA region, and you spent some time in Kuwait. Maybe you can talk to opportunities outside of Saudi. Maybe give us a little color on Kuwait, the underlying market opportunity. And then specifically for NESR, how do you expect to do better than the market in those non-Saudi countries in MENA?

### **Sherif Foda**

Sure. So I mean Kuwait is obviously has been always--there was a plan to add a lot of rigs. There were multiple changes in leadership, I would say, and today, you have outstanding leadership in

Kuwait and KOC and KPC. So all these plans are being put in place. And today, you have the highest rig count ever, anybody can hear about it.

And I know a lot of people don't know that. But today, the rig count is reaching almost 200 in Kuwait. You have massive projects that are being sanctioned. And as it was announced by the Deputy CEO, it is--they're going to drill more than 6,000 wells, until 2030. And that is very, very, very significant. I mean for people that know Kuwait, this is more than 20% CAGR, year-on-year.

So this basically, obviously, to get to their vision 2040 of oil capacity and gas capacity, and they are going full ahead with that plan. If you look at UAE, UAE has the plan that, again, was announced by the leadership of 5 million-barrel capacity, and they are on that plan to reach that 5 million. And people can read as well, ADNOC drilling, which is the drilling arm of ADNOC. It's a public company today, and you can see that they have 140 rigs which is, again, those are numbers that are never heard of.

And if you look at the rest of the countries, I would say stability. You have a stable Oman, a stable Qatar, obviously, they have the northern field of the gas. And the only thing I would say that can go against you a bit is the geopolitics in case of a wider war or something like that or wider conflict, and that will be affecting mainly, I would say, Iraq and Libya, right.

But overall, the rig count in the region and again, a lot of people do not know that. Today, the rig count--this is the first time that Middle East has more rigs than the United States. And it's not just more, it's almost double. So the GCC, alone, has more rigs than the U.S. So you have almost 1,000 rigs running now in the Middle East.

And that is a very significant number that in the olden days, it was not even half of the U.S. So that tells you the commitment on the capacity increase, the commitment on making sure that this is something for the long-term, and it is not just based on the oil price, day in day out.

The key difference in the Middle East, as well, is all of these countries, the majority of them, especially Saudi, UAE, etc., are going for full on power using gas and renewables. So they do not want to burn diesel generators for their power. It's all going to gas and renewables. That's why you have a sanction of huge projects in both solar, wind and gas projects. And this will continue for the foreseeable future.

**Saurabh Pant**

Right. No, that's fantastic color, Sherif. And like you said, it's very opaque out there. We don't have a lot of good data points, and that's why it's good to have you back on a call and get more color from you. So with that note, Sherif, I turn it back. Thanks for the color. Thanks a lot.

**Sherif Foda**

Thank you.

**Operator**

Our next question is from Kurt Hallead with Benchmark Company. Please proceed.

**Kurt Hallead**

Hi, Sherif, how are you?

**Sherif Foda**

Very good, sir. How are you?

**Kurt Hallead**

Doing well, thank you. So yeah, I just wanted to maybe just circle back on the initial question here related to the Saudi comment. I think you gave some really interesting color and good perspective on it.

The one thing I just wanted to specifically follow-up on was the dynamics around the Saudi, seemingly, right, asking for price concessions and not just of the rigs, but of the service company. So I'm assuming, predicated on your commentary, that you have not seen anything come from Aramco relating to asking for price concessions.

**Sherif Foda**

Okay. Obviously, I'm not going to comment on the client. But I can tell you, as the region works, these--what we have in the region that is different than the U.S. is long-term contracts. So the long-term contracts are good contracts, in the sense that you have a very good visibility on the number of years you will be able to serve that contract, right. So some of those contracts are five years, seven, eight, nine. So we have contracts, for example, around till 2032. So we know you have that.

And obviously, sometimes people say, oh, but you cannot increase the price when the inflation was dramatic. And the answer is yes, you cannot. I mean, except for some--when the contract gets to a renewal phase or there is like a huge need for some of those, right. So I think what happened is, to be candid, some of the rig contractors during the inflation and the lack of jackup rigs, etc., obviously, increased the price, which is rightly so because of the inflation, the diesel price, etc., etc. And some of it went to almost double the daily rate.

And today, if you have a situation where a lot of jackups are being released, and you are coming to an extension and no penalty, if you are a client, you will negotiate this price down or try to see who has the best quality and best price to continue forward. And I think that's kind of the exercise.

And now on the services side, I think this exercise of inflation and increased shipping costs, etc., etc., we've been trying to pass some of it to our clients in the different region. And the majority was not very successful. So now obviously, you have the opposite where sometimes you just have to stand the line and because your cost is higher, you will not be able to give any pricing

away because actually, the--you actually have increase of cost, and you did not really manage to increase your pricing either, right.

So I'm trying to give you a bit of an overall picture. And again, I cannot obviously comment exactly on each client, but that's the environment in the Middle East. So again, it's healthy. It's a good contract. And I think the service industry just has to be a bit more disciplined.

**Kurt Hallead**

No, that's great. That's great color. A follow-up on your NEDA business and just kind of curious as to what--you mentioned a couple of different business lines, decarbonization and water and so on. What do you think the size of this business could be over the course of the next five years?

**Sherif Foda**

I think, personally, it can be very significant. It all depends on how the E&P companies are going to take this pledge like they did in UAE and the COP seriously. I mean, you take that seriously, you need to spend a lot of money, right. You need to monitor the fields, you need to stop disposal wells in the significant amount, especially as the fields are aging, as the water cuts are increasing, as the flaring today, I think we should not let any country, in any--except in some exploration remote wells.

But the routine flaring of hundreds of million of McF or even Bcf a day in some of the countries, where especially they have some geopolitical issues, this will have to stop, right? And gets to power.

So all this, as we have solution, that's what we did in our NEDA or decarbonization segment, we gave solution with a lot of partners, and some of them have nothing to do with oil and gas, right. So the water stuff is done in Europe for something totally different, and we adopted to oil and gas. And obviously, again, our dear client Aramco are second to none, they are always very focused on environment and what can be done, and that's why we did the pilot project.

So all this, I would say, in five years, if it is not above 100 million, I'll be very, very disappointed.

**Kurt Hallead**

Okay, that's great. Appreciate that color. Thank you.

**Operator**

Our next question is from Dan Kutz with Morgan Stanley. Please proceed.

**Dan Kutz**

Hey, thanks, good morning.

**Sherif Foda**

Good morning, sir.

**Dan Kutz**

I wanted to ask, just kind of piggybacking on the fact that you guys have so much more visibility on what's an opaque region for a lot of folks in other places in the world, including the U.S., but maybe outside of just the gross number of rigs that are running, are there any other kind of well development trends that you would kind of generally characterize as the region have been over the last few years or expected over the next few years?

And what I'm kind of asking about is maybe rig efficiencies and not just the speed of wells drilled or been drilled, but also the quality, well productivity, service intensity and service content per well given the kind of the legacy characteristic or the more mature characteristics of a lot of the fields in the region.

Just wondering if you could--if there's any insight that you could share on some of the other well development trends that can impact service demand.

**Sherif Foda**

Yeah, sure. So, as in all the region or maybe I'll talk more similar to the U.S. because that's where most people are familiar with.

The development of most of the wells and most of the efficiency and most of the technology is exactly the same, and sometimes it's actually better. So the majority of the latest technology is actually deployed in the Middle East, especially when you talk about conventional oil and gas, not unconventional, right.

So again, here, we're talking conventional jack-ups, conventional field wells that produce 6,000, 8,000, 9,000, 10,000 barrels a day, it is not frac. It is a lot of other technologies. But most of these wells, you have efficiency gains on the number of days that are used to drill the well, obviously have a full suite of logging and then completing that well, but you get the latest technology. You get the latest completion, the latest ESP, the latest cementing. All this is exactly happening.

So if you look at the efficiency, for example, it's exactly as you have seen here in the U.S. So some of those wells were used to be drilled in 40 days. And today, some of them are drilled in 14, 12 days. And you see that, for example, again, I will pick on my friends in Aramco. You see this is what they did in the unconventional.

The unconventional how it started and how it is today, it's exactly like an Anadarko Basin or Delaware or something where, basically, they managed to slash the drilling time by a factor of three, right. So you get a lot of wells drilled per rig per year and sometimes double and triple what it used to be before. In other places, you don't have that because it's a bit of standard procedure. So then you get an increase of a very limited increase of efficiency.

What I think what you saw in the trend in the Middle East over the past 10 years is LSTK, Lump Sum Turnkey, which is similar to what you had in Mexico, right. Where basically, the clients saw in some of the development when it is cut and paste type of wells, why don't I go and I get someone to take the risk and take the rig and then do the whole thing, and I slash my cost by 50%. And that's basically a trend that happened in many countries where the client--because the wells are the same. So if I get the efficiency gain, then I can get as well a better price.

At the beginning of this project, those were kind of good and still profitable. Obviously, now you get to the technical limit of some of those wells, then it becomes really a game of pricing.

And I think the part that it's really managed this way, the majority of it of these type of wells are in Iraq. So Iraq all the wells are drilled are on LSTK because it's a fee per barrel, and it is not a PSA, and it is not an NOC. So--and that's why you have now, today, a lot of Chinese E&P and a Chinese service country--companies in the country. And all the wells are on LSTK, Lump Sum Turnkey.

So overall, if I may answer you, you have the same trend of improvement of efficiency. You have number of wells drilled per rig sometimes twice and 3x better than it used to be. The development wells are very, very sophisticated, and exploration remains a big part of the pie where it is not in the U.S., for example. So there is a lot of exploration well, a lot of still open hole logging, identifying appraisal field because you still have a lot of green reservoir or greenfield where you can drill new wells and have discoveries.

You just saw the offshore discovery of Kuwait, which is everybody was like Kuwait will have offshore. Yes, it does offshore. And it was a great success. And now in the coming years, you will have jack-ups running in Kuwait, like you have in Saudi, and you will have a new offshore development in the country.

### **Dan Kutz**

That's great. That's all-super helpful coloring. I appreciate that. Maybe just a question on Middle East decarbonization and low-carbon kind of strategies, and you talked a lot about your native segment.

I guess I'm trying to think through, again, just compared to the U.S., the pace of transition is kind of at odds with energy security and the political administration matters a lot in influencing the pace of transition. In the Middle East, I get the sense the kind of pace of investment and build-out of decarbonization and low carbon has been pretty consistently advancing.

So I guess the question is around what are some of the risks that could kind of accelerate or decelerate the decarbonization and low carbon plans in the Middle East, and it seems more of kind of a project execution and investment versus like a political issue. But would just love your thoughts on, yeah, kind of the upside, downside risk to energy transition decarbonization in the Middle East. Thanks.



**Sherif Foda**

So look, I mean, if you look at the recent COP27 and COP28, one was done in Egypt, one was done in UAE. And both were very clear that for the first time, the COP invited the E&P and National Oil Company. And before, they were never invited, they were never on the table like in Scotland.

So why is that? Because these guys are committed. And I think, as you saw in '28 with Dr. Sultan inviting all the 50 top E&P companies, and they made the pledge of the no methane and no flaring, by 2030.

So the energy transition here is not, I am going away from oil and gas, and I'm going to go to renewal, no, I'm doing both. I need both because the energy I need both. And obviously, the income of those countries in the Middle East is entirely oil and gas, right.

But how can I produce more oil and gas with less emissions? So maximize my oil and gas and minimize my emission. And I think you will always see Saudi, UAE especially, both are in that kind of very fast leadership events. They already don't flare. And they are looking into how to minimize all the water usage, the RO plant, keep the precious water, monitor all the methane, all this kind of stuff.

I think this is going to be ongoing because it is a decarbonization of my oil and gas. It is not like I'm going away from it, but I am not going to flare or for example, the best is--as his Royal Highness said in Saudi, I don't want to use any liquid for power, right. So meaning this is--less emission. It's exactly what the U.S. did when they stopped coal and they moved to gas, right, And that's why they have the lowest greenhouse gases, competitively, from before and after.

So if I answer your question more directly on the countries where you have a lot of issues, as you said, geopolitical, etc., etc., definitely, the decarbonization will be priority '50, right? Because first, you have to look at a lot of other stuff before that.

I think our risk, and that's why when we deploy it, we said we have to first make sure that this project or this decarbonization technology are economical. And once it's economical, it's going to be deployed in the countries first where we target, we know that this is a high priority. And then later, we will look into the other, when we know it's deployed and developed properly, then we go to the other countries.

I think it's still--it's going to be a huge issue. And I think the Middle East, especially the GCC, are extremely committed to decarbonize their oil and gas, meaning they have less emission and produce more oil and gas.

**Dan Kutz**

That's great. All really helpful, Sherif. I'll turn it back.

**Operator**

Our next question is from Doug Becker with Capital One. Please proceed.

**Doug Becker**

Thank you. I have a few housekeeping questions, but is it reasonable to expect the typical seasonal pattern plays out the rest of the year, so some modest revenue growth and margin expansion in 3Q and then a year-end bump in 4Q?

**Stefan Angeli**

So it's Stefan here. I would say, for the rest of the year, the growth which we had in H1 over H1 of the previous year, it will probably approximate the same as that. We're not going to give guidance, but it won't be too far off that. And with continued revenue growth, obviously, it become more efficient, and I would presume the margins will grow a little bit.

**Doug Becker**

Fully appreciate that. And then I also understand the timing is uncertain here, but what intermediate milestone should we be looking for in terms of the relisting and fulfilling the remediation? Just in other words, will we see signs of progress, or we just read about it in a press release or in a filing at some point in the future?

**Stefan Angeli**

We'll be going back to NASDAQ, immediately, right? It's been--we got delisted because we weren't on time in the filings back in '21, '22. Now we've done '23 on time back in April and we've done H1 today, which were filed. We've concluded the SEC investigation. So we think we've done everything that we need to. But obviously, we have to go back and communicate with NASDAQ after we've done all this stuff today, and we'll let you guys know, as soon as possible. We're optimistic, but I can't really comment more than that.

On the remediation, we've been--we went through the restatement process and all these inquiries. We've been doing remediation basically now for the last 18 months. We've done a hell of a lot on the remediation. And we think that we have--from the SEC's point of view, we've got one year from yesterday to make sure our remediation is done. But we're hoping to make sure that everything is done by the end of the year, right. And that we're--our material weaknesses or most of them are eliminated by the end of the year in our financial reporting at the end of the year.

**Doug Becker**

It sounds encouraging. It's very good to have you guys back in the in the public conversation.

**Sherif Foda**

Thank you.

**Operator**

Our next question is from John Ajay with Occam Crest. Please proceed.

**John Ajay**

Thank you. Congratulations on a great quarter and first half and coming out of the restatement period.

The first question I have is about margins. You touched on it a little bit. It sounds like we're looking at continued improvement through the rest of this year. How can we think about the next year or two after that? And to what extent is this outlook kind of baked in with the contract and pricing you already have in hand? And what would be the variables that are unknown that will determine where the actuality compares to whatever you think it might be at this moment?

**Sherif Foda**

So our contracts are very good solid, I would say, backlog of contracts. As I had mentioned, some of it nine years, right? So there is no lack of visibility here on contract. So the key now is I see the growth is going to continue at least for 2027. And why is that? Because the majority of the projects where the clients have long-term plans and adopted for the capacity is until that date. Some of it is more to 2030, etc., but I would say we have a good visibility to 2027. So, I would say that is a solid growth towards that time.

The difference would be how are you going to increase your activity more or you increase your revenue more than the activity? And that will depend entirely on our adoption and success of our ROYA drilling segment, and that's where you can outpace the market because you have something today you don't have. And tomorrow, you have something that you do have, so you can--and you have contracts, so can you adopt it.

So the risk would be that it takes much longer or it's not successful, right? They're very simple. If our technology has issues or it takes longer time to be commercial and be able to be at par with the big boys, yeah, then we will have delays in that growth.

The other part is the decarbonization and can you get the adoption of it. The third risk is obviously the macro, which we cannot do anything about, which is in total oil price collapse or total rig count, a huge drop because of that oil price drops to below \$50. I don't see this happening, but c'est la vie. This is something could happen, as well. But from the stuff that we can control, I see there is very little risk in our growth strategy, unless our technology does not work.

**John Ajay**

And if we think about the percentage--the EBITDA margin as a percentage from '24 to '25 to '26, do we think about it as being flat on the core business and maybe driven up with the mix

on directional drilling and rotary and stuff like that? Or do you see both growth potential to expand margins in the core, as well as the mix effect?

**Stefan Angeli**

I think you answered your question quite well there. Right now, we exited 23.5%, 23.6% Q2. As I said before, I think the margins will be close to--will improve slightly, and they will continually improve as revenue grows. And it will be what you said. The core business will be more flattish, and with the new technology type businesses, we hope to get some margin improvement.

**John Ajay**

And in terms of the top line outlook and kind of your visibility for '25 and '26, can you kind of talk a little bit about how much growth is a baseline of growth kind of in the bag and then what we might be thinking of as upside as things go right?

**Stefan Angeli**

I missed a part of your--at least a part of it because there was static there. But right now, it's probably a bit early for us to comment on specific numbers for '25 and '26 because we haven't put a detailed--any detailed plan together.

Sherif commented on the--that we should get quite good growth next year and the following year based on the contracts we have, and the opportunities about. But we've not detailed a finite plan as yet, and we'll be doing that in--towards the end of Q3, early Q4.

**John Ajay**

Okay. Great. And in terms of the (inaudible), can you talk about that? Maybe give a--if everything goes right, what could we be looking at in terms of an ultimate opportunity for you and A pacing of realizing that and the profitability of that business line maybe as a percentage of margin, how do you think about that?

**Sherif Foda**

So John, I would say, look, the market is--of the direction drilling is about \$2 billion. So our aim, since we started that journey five years ago, is to be at least 10% of that market. So how the adoption is really based on our success.

The good news is we have contracts in place. The foundation, today, if you go to the Middle East and try to get a contract, is extremely difficult. And obviously, as we are the national champion, we are a strong local company. So we have that foundation. We have contracts in place, already.

So the key for us is really to get the technology to work. And we make sure that we are very close to our customer, In the sense we do not go and sell something that does not work or it's inferior to the competition. We tell the customer openly, we will only deploy this in this field, in this reservoir because we know we can operate, meaning the dog leg is correct, the penetration

is accurate, the MWD is good, the quality of the LWD is good. And obviously, the client check all these data as well. It's not like we said that they believe us, right?

So that adoption is going to be obviously slow at the start, and then it keeps ramping up as we keep a successful run. And that's why I, in my prepared remarks, I explained that we tested the technology in the United States for the last two, three years to make sure, first is the field testing is done here in the U.S., and that's where we drilled almost 70,000 feet. Now we know that we can drill some of the wells. Some of it, still we are not--we would not test it in some other fields. But our aim is that TAM that is \$2 billion and how much can you get out of it.

**John Ajay**

Great, well thanks so much. Congratulations.

**Sherif Foda**

Thank you, sir.

**Operator**

With no further questions in the queue, this will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.