Core Laboratories LP [CLB]
Q4 2023 Earnings Conference Call
Thursday, February 1, 2024, 8:30am ET.

Company Participants:
Gwen Gresham, Senior Vice President, Head, Investor Relations
Larry Bruno, Chairman, Chief Executive Officer, President
Chris Hill, Chief Financial Officer

Analysts
Patrick Ouellette, Stifel
Don Crist, Johnson Rice and Company

Presentation

Operator: Good morning, and welcome to the Core Laboratories Fourth Quarter 2023 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Larry Bruno, Chairman and CEO. Please go ahead.

Larry Bruno: Thanks, Andrea. Good morning in the Americas, good afternoon in Europe, Africa and the Middle East, and good evening in Asia-Pacific. We'd like to welcome all of our shareholders, analysts and most importantly, our employees to Core Laboratories fourth quarter 2023 earnings call. This morning, I'm joined by Chris Hill, Core's Chief Financial Officer, and Gwen Gresham, Core's Senior Vice President and Head of Investor Relations.

The call will be divided into six segments. Gwen will start by making remarks regarding forward-looking statements. We'll then have some opening comments, including a high-level review of important factors in Core's Q4 performance. In addition, we'll review Core's strategies and the three financial tenets that the company employs to build long-term shareholder value. Chris will then give a detailed financial overview, and have additional comments regarding shareholder value. Following Chris, Gwen will provide some comments on the company's outlook and guidance.

I'll then review Core's two operating segments, detailing our progress and discussing the continued successful introduction and deployment of Core Lab's technologies, as well as highlighting some of Core's operations and major projects worldwide. Then we'll open the phones for a Q&A session.

I'll now turn the call over to Gwen for remarks on forward-looking statements.

Gwen Gresham: Before we start the conference this morning, I'll mention some of the statements that we'll make during this call may include projections, estimates and other forward-looking information. This would include any discussion of the company's business outlook. These types of forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to materially differ from our forward-looking statements.

These risks and uncertainties are discussed in our most recent annual report on Form 10-K, as well as other reports and registration statements filed by us with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Our comments also include non-GAAP financial measures. Reconciliation to those directly-comparable GAAP financial measures is included in the press release announcing our fourth quarter results. These non-GAAP measures can also be found on our website.

With that said, I'll pass the discussion back to Larry.

Larry Bruno: Thanks, Gwen. Moving now to some high-level comments about the fourth quarter of 2023. Core continued to build on the operational momentum established over the past few quarters. Revenue was up 2% compared to Q3. Softness in U.S. land completion activity late in the quarter, along with disruptions to the demand for crude oil assay work in response to the Middle East conflict that emerged in Q4, produced headwinds.

Offsetting those headwinds, we saw continued improvement in the demand for reservoir core and fluid analysis, and there was a rebound in both international product sales and the demand for completion diagnostic services for production enhancement compared to the fourth quarter.

Ex items, operating income for the fourth quarter was $15 million, and operating margins were 12%, down slightly from 13% in Q3 of 2023.

Fourth quarter 2023 operating margins ex items, remained strong in Reservoir Description at 15%, although were down from 17% in Q3 due to increased labor costs.

As noted, demand for Reservoir Rock and Fluid Analysis across our global client base continues to rise, and more projects are progressing from the planned and committed phase and into the early stages of execution. Demand for Reservoir Description assay work on crude oil and derived products was somewhat uneven during the fourth quarter, as geopolitical conflicts in both Ukraine and the Middle East impacted maritime hydrocarbon cargo movement and trading patterns. We anticipate volatility and uncertainties to remain in the demand for these laboratory services as these conflicts continue.

Production Enhancement revenue, operating income and margins all improved sequentially. But U.S. land completion activity, particularly in December, was below our earlier expectations. For Q4, operating margins in Production Enhancement ex items were 6%, up from 4% in Q3.

In line with our stated financial strategy, Core dedicated free cash to reducing debt by $15 million in the fourth quarter, accounting for approximately 8% of our outstanding debt balance. We will continue to focus free cash on reducing debt and strengthening our balance sheet.

Lastly, for the full company, EPS was $0.19 per share ex items compared to $0.22 in Q3, reflecting both increased labor costs and higher interest expense in Q4.

As we look ahead, Core will continue to execute on its key strategic objectives by, one, introducing new product and service offerings in key geographic markets; two, maintaining a lean and focused organization; and three, maintaining our commitment to delevering the company.

We achieved strong quarter-over-quarter improvements in cash from operations and free cash flow. In the fourth quarter, our leverage ratio was reduced to 1.76, the lowest level since Q2 of 2019, and a meaningful step in strengthening our balance sheet and advancing to our stated goal of achieving a leverage ratio of 1.5x or lower. As we continue to reduce debt, Core will also review various options for returning value to our shareholders through the use of excess free cash.

Now to review Core Lab's strategies and the financial tenets that Core has used to build shareholder value over our 27-plus year history as a publicly-traded company. The interest of our shareholders, clients and employees will always be well served by Core Lab's resilient culture, which relies on innovation, leveraging technology to solve problems. and dedicated customer service. I'll talk more about some of our latest innovations in the operational review section of the call.

While we navigate through the current challenges and pursue growth opportunities, the company will remain focused on its three longstanding, long-term financial tenets, those being to maximize free cash flow, maximize return on invested capital and returning excess free cash to our shareholders.

Before moving on, I want to thank our employees for their dedication, loyalty and adaptability in meeting all of our client needs, and for the commitment that many have shown as we navigate the current challenges and prepare for a more active market.

I'll now turn it over to Chris for the detailed financial review.

Chris Hill: Thanks, Larry. Before we review the financial performance for the quarter, the guidance we gave on our last call and past calls specifically excluded the impact of any FX gains or losses, and assumed an effective tax rate of 20%. So accordingly, our discussion today excludes any foreign exchange gain or loss for current and prior periods.

So now looking at the income statement, revenue was $128.2 million in the fourth quarter, up 2% compared to the prior quarter and flat year-over-year.

Activity associated with international upstream projects and product sales to international clients continues to expand. However, the growth was partially offset by lower level of product sales in the U.S. land market. Additionally, laboratory services associated with crude assay analysis have been adversely impacted in certain regions due to the ongoing conflict in Ukraine, Russia and the Middle East, causing disruptions to the trading and maritime movement of crude oil.

Of this revenue, service revenue, which is more international, was $94.7 million for the quarter, up 2% sequentially and up 6% from last year.

During the quarter, committed work volumes for traditional Reservoir Rock and Fluid Analysis, as well as carbon capture and storage projects, continue to build across our global laboratory network.

Additionally, we experienced nice sequential growth in revenue from our well and completion diagnostic services associated with both international and Gulf of Mexico projects. However, sequential growth in service revenue was partially offset by lower levels of crude assay work due to the disruptions caused by the ongoing conflicts previously mentioned.

For the full year of 2023, service revenue of $371.9 million was up over 7% compared to $347 million in 2022. As Larry mentioned earlier, client activity levels associated with international upstream projects improved nicely in 2023, and are expected to continue building throughout 2024.

Product sales, which is more equally tied to U.S. and international activity, were $33.5 million for the quarter, up 3% sequentially, but down 13% from the same quarter in 2022. Product sales to international markets were up 18% sequentially, with strong sales during the quarter, and a couple of sales that were originally scheduled for the third quarter, which were delivered in the fourth quarter.

Growth in international product sales was partially offset by the decrease in U.S. onshore activity and associated U.S. product sales during the quarter. For the full year of 2023, product sales of $137.9 million were down a little over 3% from $142.8 million in 2022, primarily associated with activity decline in the U.S. onshore market, where the onshore rig count in the U.S. decreased by approximately 20%.

Moving on to cost of services, ex items for the quarter, was approximately 75% of service revenue comparable to the prior quarter, and an improvement of 78% compared to the fourth quarter of 2022.

Over 80% of the company's personnel support our services business and the company implemented its annual merit cycle October 1, which increased personnel costs for the fourth quarter. Additionally, the service side of our business has been more impacted by the geopolitical conflicts and disruptions with the associated crude assay laboratory services.

However, Reservoir Rock and Fluid Analytical Programs associated with international upstream projects, have not been impacted by these conflicts and continue to build. Outside of the temporary disruptions, we continue to see improvements in absorption of costs and utilization of our global laboratory network, and anticipate additional improvement with continuing growth in service revenue.

For the full year of 2023, cost of services ex items was approximately 76% of service revenue, an improvement from 79% last year. Cost of sales ex items in the fourth quarter was 91% of revenue compared to 85% in the prior quarter. The increase this quarter is primarily due to reduced manufacturing efficiencies associated with lower U.S. onshore sales. The company anticipates that U.S. onshore activity levels will remain at similar levels for 2024. As such, we are finalizing plans to improve profitability and manufacturing efficiencies.

G&A ex items for the quarter was $8.7 million, a decrease from the prior quarter, which was $9.5 million. Full year 2023 G&A ex items was $36.6 million compared to $39.3 million in the full year of 2022. For 2024, we expect G&A to be approximately $40 million to $44 million.

Depreciation and amortization for the quarter was $3.9 million, flat compared to the last quarter.

EBIT ex items for the quarter was $15 million, down $1 million from last quarter, yielding an EBIT margin of 12%. Year-over-year EBIT ex items for the fourth quarter was relatively flat to last year.

Our operating income for the fourth quarter on a GAAP basis was $14.6 million. Full year 2023 EBIT ex items was $61.2 million, up 36% from $44.8 million in 2022. On a GAAP basis, EBIT was $54.6 million for 2023 and $41.5 million in 2022.

Interest expense of $3.6 million increased this quarter when compared to $3.1 million in the prior quarter. Despite reducing our debt by $15 million during the quarter, as discussed during the last call, $75 million in senior notes matured on September 30 of 2023, which carried a fixed interest rate of 4.1%. We used the borrowing capacity under our credit facility to partially fund the maturity of these notes.

The credit facility has a variable interest rate and currently, the borrowing rate under the facility is approximately 8%. As such, our interest expense increased for the fourth quarter of 2023.

Income tax expense and an effective tax rate of 20% and ex items was $2.3 million for the quarter. On a GAAP basis, tax expense was $4.3 million for the quarter, which was primarily impacted by an additional adjustment of deferred income taxes associated with the re-domestication of our parent company from the Netherlands to the U.S.

For the full year, income tax expense on a GAAP basis was a small benefit, primarily due to the tax benefit of $11.6 million associated with the re-domestication transaction. The effective tax rate will continue to be somewhat sensitive to the geographic mix of earnings across the globe and the impact of items discrete to each quarter. However, we continue to project the company's effective tax rate to be approximately 20%.

Net income ex items for the quarter was $8.9 million, down from $10.3 million in the prior quarter and $9.3 million from the same quarter last year.

On a GAAP basis, we recorded net income of $6.5 million for the quarter. For the full year 2023, net income ex items was $37.8 million, up 42% from $26.6 million last year, and GAAP net income for the full year 2023 was $40.9 million.

Earnings per diluted share ex items was $0.19 for the quarter, down from $0.22 in the prior quarter and $0.20 from the same quarter last year. On a GAAP basis, earnings per diluted share was $0.14 for the quarter. For the full year 2023, earnings per diluted share ex items was $0.80, up 40% from last year, and on a GAAP basis, full year 2023 was $0.86.

Turning to the balance sheet, receivables were $109.4 million, an increase of approximately $5.3 million from the prior quarter.

Our DSOs for the fourth quarter were at 71 days and comparable to the prior quarter.

Inventory was $71.7 million at the end of this quarter, a decrease of approximately $3.4 million from last quarter-end.

Inventor turns for the quarter improved to 1.7 from 1.5 in the last quarter. And with a focused effort for improvement in our inventory management, we anticipate inventory turns will gradually improve and inventory levels to decline as we progress into 2024.

On the liability side of the balance sheet, our long-term debt was $166 million at December 31, 2023, a reduction of $15 million this quarter. Considering cash of $15.1 million, net debt was $150.9 million, down from $164.4 million at the end of the prior quarter.

We remain focused on reducing debt and improving the leverage ratio of the company. Free cash flow generated during the quarter was primarily used to reduce debt.

Our leverage ratio improved considerably to 1.76 from 1.92 in the prior quarter.

Our debt is currently comprised of our senior notes at $110 million and $56 million outstanding under our bank credit facility. Our credit facility has a borrowing capacity of $135 million, of which approximately $69 million was still available at December 31.

Still announcing the company's commitment and focus on reducing debt in the fourth quarter from the -- since announcing from the fourth quarter of 2019, we have reduced our net debt by almost 50%. The company will continue applying free cash towards reducing debt until we reach our target ratio of 1.5x or lower.

Looking at cash flow for the fourth quarter of 2023, cash flow from operating activities was $19.4 million. And after paying for $2.7 million of CapEx during the quarter, our free cash flow was $16.7 million. The fourth quarter's cash flow includes the receipt of a tax refund of approximately $7 million. However, it's also a reflection of improved profitability and inventory management.

Looking ahead to 2024, we are forecasting cash from operations to improve compared to 2023. And we will continue to manage investment in working capital during a period of growth. Additionally, we expect CapEx to remain aligned with activity levels, and for the full year of 2024, we expect capital expenditures to be in the range of $14 million to $16 million.

Projected CapEx for 2024 also includes approximately $2 million associated with consolidation of some operational facilities in Houston, which will reduce long-term operating costs once complete. Core will continue its strict capital discipline and asset-light business model with capital expenditures primarily targeted at growth opportunities.

Core Lab's operational leverage continues to provide the ability to grow revenue and profitability with minimal capital requirements. Capital expenditures have historically ranged from 2% to 4%

of revenue even during periods of significant growth. That same level of laboratory infrastructure, intellectual property and leverage exists in the business today.

We believe evaluating a company's ability to generate free cash flow and free cash flow yield is an important metric for shareholders when comparing and projecting companies' financial results, particularly for those shareholders who utilize discounted cash flow models to assess valuations.

I will now turn it over to Gwen for an update on our guidance and outlook.

Gwen Gresham: Thank you, Chris. For 2024, the company will continue to execute our strategic plan of technology investments targeted to both solve client problems and capitalize on Core's growth opportunities. As part of the strategic plan, the company will remain focused on generating free cash, reducing debt and maximizing return on invested capital.

We maintain our constructive outlook on international upstream projects for 2024, and anticipate sustainable activity growth in the years ahead to support crude oil demand and energy security. Crude oil demand increased in 2023, and is anticipated to continue growing in 2024. Consequently, increased investment in the development of onshore and offshore crude oil fields will be required to maintain and grow hydrocarbon production.

In the near term, global crude oil markets may remain volatile due to global recession fears and the uncertainties related to the ongoing conflicts in Russia, Ukraine and the Middle East.

As the international recovery continues, committed long-term upstream projects from the Middle East, South Atlantic margin, certain areas of Asia-Pacific and West Africa support year-over-year growth for Core Lab, as customary with typical seasonal patterns will cause activity in the first quarter of 2024 to decline in some regions. As such, the company anticipates Reservoir Description's first quarter revenue to be down low-to-mid-single digits. Increased client activity in some regions may help mitigate the typical seasonal decline.

The geopolitical situation in Russia, Ukraine and the Middle East continue to create volatility with respect to trading patterns and maritime transportation of crude oil and derived products, along with the associated laboratory assay services that we provide.

Now turning to the U.S., onshore drilling and completion activity in 2024 is anticipated to be flat compared to 2023. However, market penetration of Core's proprietary energetic system and completion diagnostic service technologies are projected to outperform activity levels.

For the first quarter of 2024, onshore drilling and completion activity was adversely impacted by extreme freezing conditions in January. However, activity is expected to improve as the quarter progresses.

As a result of these factors, Reservoir Description's first quarter revenue is projected to range from $80 million to $84 million and operating income of $10.1 million to $11.9 million. Core's Production Enhancement segment's first quarter revenue is estimated to range from $42 million to $44 million and operating income of $1.5 million to $2.2 million.

In summary, the company's first quarter 2024 revenue is projected to range from $122 million to $128 million, and operating income of $11.8 million to $14.3 million, yielding operating margins of approximately 10%.

EPS for the first quarter is expected to range from $0.14 to $0.18. The company's first quarter 2024 guidance is based on projections for underlying operations, and excludes gains and losses in foreign exchange. Our first quarter guidance also assumes an effective tax rate of 20%.

And now I will pass the discussion back to Larry.

Larry Bruno: Thanks, Gwen. First, I'd like to thank our global team of employees for providing innovative solutions, integrity and superior service to our clients. The team's collective dedication to servicing our clients is the foundation of Core Lab's success.

Looking at the macro outlook, the IEA recently updated its forecast for crude oil demand for 2024 to average a record high 103.5 million barrels per day. That's up by approximately 1.2 million barrels per day from 2023, even after assessing current global financial forecasts. This continues to bode well for the increasing demand for Reservoir Description services that will be required to grow production and replace the natural decline of existing producing fields.

As we look ahead, we see the rising international rig count over the past 1.5 years as a harbinger of an improving landscape for Reservoir Description, a trend that we project will play out for the next several quarters, particularly in the Middle East, North and South America, as well as most other regions.

Production Enhancement, in addition to its exposure to the U.S. land market, also has expanding opportunities in international areas, such as with unconventional plays in the Middle East and emerging conventional plays in a number of regions. Furthermore, Core continues to expand its line of innovative offerings for plug and abandonment programs in mature offshore basins around the globe.

Now let's review the fourth quarter performance of our two business segments. Turning first to Reservoir Description, for the fourth quarter of 2023, revenue came in at $84.6 million, flat compared to Q3. Operating income for Reservoir Description ex items was $12.3 million and operating margins were 15%. While still strong, margins were down approximately 200 basis points compared to Q3 due to increased labor costs.

For the full year 2023, Reservoir Description revenue was up 8% compared to 2022 and margins ex items were 14% for 2023, up from 8% in 2022.

For the segment, ex items, full year incremental margins were over 85%, nicely reflecting both our strategic focus on improving operational efficiencies and the strong operational leverage available and our business model, as client activity picks up.

Now for some operational highlights from Reservoir Description. In the fourth quarter of 2023, Core Lab initiated a Reservoir Characterization Research program at our state-of-the-art Reservoir Rock and Fluid Laboratory in Rio de Janeiro, Brazil. This project, in collaboration with an international operating company, focused on 600 feet of conventional core recovered from the Santos Basin specifically targeting deepwater pre-salt formations.

Central to the evaluation of these rocks was Core Lab's dual-energy CAT scan technology. The CAT scan data enabled the identification of depositional textures and sedimentary structures and also delineated diagenetic variables that control reservoir quality. This cutting-edge digital technology seamlessly complements other rock characterization tools, along with the traditional physically measured Core analysis data sets employed in the project. Core Lab advances in applying CAT scan technology to Reservoir Description projects are being used to improve and accelerate analytical programs across our global lab network.

Also during the fourth quarter, Core Lab's Colombian operation conducted an enhanced oil recovery project in the Llanos Putumayo Basin of Colombia. The project objective was to maximize hydrocarbon production and identify the optimum enhanced recovery mechanism for these aging fields. The study included a full suite of tests, such as pressure volume, temperature or PVT testing, hydrocarbon swelling, multi-contact tests and asphaltene onset pressure determination.

Core leveraged the internal expertise and capabilities at several of its advanced technology centers to accelerate the delivery on this time-sensitive project.

Moving now to Production Enhancement, where Core Lab technologies continue to help our clients optimize their well completions and improve production. Revenue for Production Enhancement came in at $43.6 million, up approximately 8% sequentially.

Operating income ex items was $2.4 million and operating margins were 6% for the fourth quarter of 2023, up from 4% in Q3. Sequential incremental margins were over 20%. These quarter-over-quarter improvements reflect higher U.S. and international demand for completion diagnostics along with a rebound in international product sales.

Now for some operational highlights. In the fourth quarter of 2023, an operator in the Rocky Mountains approached Core Lab's Production Enhancement team for recommendations on how to meet specific reservoir treatment rates and pressures for their ongoing plug-and-perf completions. Core's production enhancement team employed proprietary modeling software to predict perforation hole requirements for a given treatment pressure, treatment rate and whole size consistency.

Core Lab's team provided the client with the optimum solution with computational results verified by direct physical measurement conducted at Core Lab's testing facility. The solution utilized Core's industry-leading HERO PerFRAC family of consistent hole size shape charges to achieve the treatment rates and pressures the operator desired for their completion design.

HERO PerFRAC shape charges aid in reducing both treatment rates and pressures, as well as reducing costs by achieving industry-leading hole size consistency. After deploying the HERO PerFRAC shape charges in a series of wells, the operator achieved the desired rates and pressures, which align with those predicted by both the laboratory physical tests and the computational models that Core Lab provided.

Core's collaboration led to successful field trials. Subsequently, the operator specified the Core Laboratories HERO PerFRAC family of consistent hole shaped charges will be utilized for all of their 2024 completion needs.

Also, during the fourth quarter of 2023, Core's diagnostic technologies were employed to assess high-profile sand control well completions in both the U.S. and international offshore markets. In the Gulf of Mexico, a deep-water operator needed to diagnose the competency of their FRAC pack completion. Core Lab's proprietary SpectraStim proppant tracing, SpectraScan gamma ray logging and PackScan density logging technologies were brought to the task.

After processing the logs, Core's engineering team determined that there was an effective annual gravel pack. However, the diagnostic technologies also revealed that there was insufficient proppant placement across the producing zone to ensure the long-term stability of the completion that would be required to maintain optimum hydrocarbon production rates. The operator executed a cost-effective remediation refrac pack to top off the interval, thus averting a costly completion failure in the future.

Also, offshore Trinidad, Core's proprietary logging technologies were used to determine the competency of an open-hole gravel pack. Core's PackScan log revealed an annual void in the lower portion of the sand control screen. With careful measurement and calculation, Core's team determined that there was a sufficient proppant reserve above the top of the screen to fill in this void.

Core's technical team recommended that the operator slowly bring the well on production so as to allow the void to be gradually filled from the proppant reserve. The operator followed Core's recommendation and the well generated sand-free hydrocarbon production. The operator shared that had it not been for Core's recommendation, they would have flowed the well hard, as per their standard practice, and the completion would have likely failed.

That concludes our operational review. We appreciate your participation. And Andrea will now open the call for questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Patrick Ouellette of Stifel.

Patrick Ouellette: Yes, Pat on for Stephen Gengaro. Thanks for taking the time. Could you give us an update on the competitive landscape for the U.S. perforating markets? And do you have any thoughts on the potential sale of DynaEnergetics and the impact that has on the competition?

Larry Bruno: Yes, I think it's a crowded market, there's no other way to look at it. There's been a lot of entrants into the field. I think from Core Lab's perspective, we still maintain a strong competitive edge in the shape charge energetics that are used to perforate the wells. That's always has been our wheelhouse. We offer competitive preassembled gun systems and a variety of other products into that market that we think offer a highly competitive set of solutions.

Yes, the Dyna folks, I think that's a question best asked to the good folks up there. I think you may be seeing some reflection of the landscape that they see, that there's alternative products, including Core Lab's, that are gaining traction.

Chris or Gwen, do you want to add anything to that?

Chris Hill: No, when we look at it from the outside, it makes sense what they've announced. So it doesn't surprise us that they are looking at how to best maximize the businesses that they have and the shareholder value. So it makes sense to us that they're divesting some of the businesses that it looks like they projected they want to go with Arcadia so --

Larry Bruno: Yes, they make good products for completions, no question about it, highly regarded. I think they run a good shop there, and we'll see how that plays out.

Patrick Ouellette: Great, okay. Thanks for that. And then could you talk about margin direction in Reservoir Description? And any thoughts around the potential incrementals in the second half of 2024?

Larry Bruno: Yes, I think that segment is highly exposed to international activity, which we see that progressing, call it, low-double-digits next year, again, I think we had a full year incremental margins in 2023 for Reservoir Description of over 85%; that's a pretty lofty number there. And so whether we can maintain that exact number might be a little bit challenging, but it's going to be high. Modeling that out at greater than 50%, 60% incremental margins on growth there on incremental revenue, I think is very achievable for us.

And we always look at the -- our goal of getting back to that 20% operating margin as sort of the baseline that we'd like to see in a normal environment and then up from there, and we got kind of close in Q3. It was timely to do some merit increase at the beginning of Q4 that raised our labor cost. But we felt was needed to be done for our staff. So a little bit of a step back from 17% to 15% there. But we think it will progress up.

And I think dialing in that low-double-digit growth for international and applying a 50%, 60% incremental margins, probably toward the higher end of that, is a good basis for coming up with a model for forecasting Reservoir Description performance.

Chris Hill: Right. The only thing I would add that's a little bit of a headwind for us is -- and we mention it because it's real, the disruptions from the geopolitical. And when these happen, it's very difficult for us to adjust our costs. So the impact, it's not just to revenue, it does impact the margins as well. And sometimes, they're temporary, so you just have to kind of manage your way through that with your cost structure. So that's a little bit of a headwind.

Larry Bruno: Yes, so for example, one of the things we dialed into our thoughts about Q1 was you saw a pickup in the conflict in Russia-Ukraine. And of course, the focus of a lot of that conflict has been on infrastructure that deals with the maritime transportation of hydrocarbons kind of -- and I think Core Lab may be among our peer group, a little bit unique in having exposure to those laboratory services that are needed for that cargo transportation. So it kind of lands on us a bit, and we dialed that into our thinking, seeing what happened both in the Red Sea and across some of the Russian ports, and so hard to predict that.

And to Chris's point, it's also hard to manage your costs there. You don't want to reflexively start slashing costs if it's going to be a temporary disruption. So we'll make the right decision over time on those and we'll keep our costs aligned. But it's very hard to make those costs adjustments real-time when things are unfolding at an unpredictable pace.

Patrick Ouellette: Yes, that all makes sense. Thanks a lot. I'll turn it back.

Operator: Don Crist of Johnson Rice.

Don Crist: In your commentary in the press release, you talked about many of the Middle East projects kind of moving into implementation now. Where are we in the other parts of the world from the implementation standpoint? I.e. is Brazil and Guyana really kind of ramping up now in the Far East as well, or where are we in the lifecycle of those projects?

Larry Bruno: Yes, Don, I'd probably put them in that order. Middle East is the tip of the spear, and that's across multiple countries in the region; and then I'd say, South Atlantic margin picking up for us. I would throw in also some West Africa work as well, and then I would say lagging that a bit is Asia-Pac, although we've got some pretty bright spots in Australia and Indonesia.

Don Crist: Okay. And one question on the U.S. As basins mature, obviously, you go towards -- from tier-1 acreage towards tier-2, tier-3. Where are we in the lifecycle, particularly in the Bakken? But number two, in the Permian, are you starting to get some inquiries to evaluate kind of tier-2 and tier-3 rock in the Permian?

Larry Bruno: Yes, we've got -- because of the multi-company studies that we've done across all of the major unconventional basins in North America, and in many cases, other parts of the world, we've got a pretty good sensibility of where the tier-1, tier-2 and tier-3 rock is. And I've joked in the past that we sell that information where the good stuff is, and where the intermediate stuff is, and where the not-so-good stuff is. And clearly, there's been a progression moving toward the latter stages of tier-1 and into tier-2 and in some cases, the lower ends of tier-2 rock.

I think if you look at production in a lot of the fields, the only one that's really, in our mind, got some growth potential is the Permian. You have to dial that rock quality issue in also with things like lateral length expansion. That third mile on oil wells, oil-producing wells, is becoming common practice. But the rock quality, clearly the best of the best has either been consumed, or is rapidly being depleted across all of the basins. And now, it's more of an engineering and completion optimization program, which our Production Enhancement group will play into to try to get the most out of those rocks.

I'd add a little bit more to that too, and say we do see, from time to time, companies taking refreshed looks at re-stimulation refracs and things like that to try to go into some of the older legacy wells to try to get to unstimulated rock where the stages were very far apart. But I do think the growth -- the key point here, Don, is the growth rate that we've seen in production in North America is either not going to continue, or is going to be at a much lower pace.

Chris Hill: Right. I think it's fair to say too, it's still real early, but with some of the focus on capturing CO2. And as that becomes maybe more available, there might be opportunities, better opportunities, to look at EOR-type projects and the unconventionals, where the availability of CO2 may have been a limiting factor in that in the past.

Don Crist: Right. And are you getting a lot of work in the Bakken to restimulate and try to go after that rock that maybe hadn't been stimulated the first time?

Larry Bruno: Less so than in some of the other basins, I'd say, is a generalization. And I would add that some EOR programs that we validated in the lab have seemed to work better in some of the other basins than in some of the parts of the Bakken.

Don Crist: Okay. I appreciate --

Larry Bruno: But look, the Bakken's still a world-class field play and stratigraphic target. There's going to be a lot of oil coming out of that. The rate of growth is going to be -- from where we are today, it's going to be more determined by advancements in completion technologies and things like that.

Don Crist: Right. But I think they're in the very, very early stages of kind of a refrac program in the basin if I'm reading that correctly, right?

Larry Bruno: I think that's right, and I think it's highly operator-dependent. I don't believe it's proper to characterize that as a broad-based approach among a large number of operators to look at re-stimulation and EOR in that area yet.

Don Crist: Right. Okay. I appreciate the conversation. I'll turn it back.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Larry Bruno for any closing remarks.

Larry Bruno: Okay. We'll wrap up here. In summary, Core's operational leadership continues to position the company for improving client activity levels for 2024 and beyond. We have never been better operationally or technologically positioned to help our global client base optimize their reservoirs and address their evolving needs. We remain uniquely focused, and are the most technologically advanced, client-focused reservoir optimization company in the oilfield service sector.

The company will remain focused on maximizing free cash and returns on invested capital. In addition to our quarterly dividends, we'll bring value to our shareholders via growth opportunities, driven by both the introduction of problem-solving technologies and new market penetration. In the near-term, Core will continue to use free cash to strengthen its balance sheet, while always investing in growth opportunities.

So in closing, we thank and appreciate all of our shareholders and the analysts that cover Core Lab. The executive management team and the Board of Core Laboratories give a special thanks to our worldwide employees that have made these results possible. We're proud to be associated with their continuing achievements.

So thanks for spending time with us, and we look forward to our next update. Goodbye for now.

Operator: The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.