Core Laboratories LP [CLB]
Q3 2024 Earnings Conference Call
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Company Participants:
Gwen Gresham, Senior Vice President, Head, Investor Relations
Larry Bruno, Chairman, Chief Executive Officer, President
Chris Hill, Chief Financial Officer

Analysts
Sean Mitchell, Daniel Energy Partners
Stephen Gengaro, Stifel

Presentation

Operator: Good day, and welcome to the Core Lab Q3 2024 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 Chairman and CEO, Larry Bruno. Please go ahead.

Larry Bruno: Thanks, Elle. 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 third quarter 2024 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 Q3 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 that some of the statements we will 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 the most directly-comparable GAAP financial measures is included in the press release announcing our third quarter results. Those non-GAAP measures can also be found on our website.

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

Larry Bruno: Thanks, Gwen. Moving now to some high-level comments about the Q3 of 2024. Core continued to build on the operational momentum established over the past several quarters. Revenue was up 3% compared to Q2 of 2024, and more than 7% compared to Q3 of 2023. In addition, the company saw solid sequential improvement in operating income, operating margins and earnings per share.

In Reservoir Description, revenue for the third quarter was up 3% compared to Q2, reflecting the continued improvement in market demand for our global rock and fluid laboratory services. This improvement occurred despite the ongoing geopolitical conflicts that continue to negatively impact demand for laboratory services that are specifically tied to the assay of crude oil and derived products. These geopolitical conflicts are still producing headwinds to both revenue growth and operating margins.

In addition, weather events in the Gulf of Mexico in the third quarter also negatively impacted revenue and operating margins. Despite these hurdles, for the third quarter, operating margins for Reservoir Description were 17%, up very nicely from 14% in Q2.

In Production Enhancement, revenue also grew by approximately 3% compared to Q2, largely reflecting a higher level of international product sales. These gains in international sales were offset by two factors. First, multiple hurricanes in the Gulf of Mexico resulted in rig evacuations and suspended operations. Completion diagnostic services that were scheduled for Q3 in the Gulf have now been rescheduled by our clients into Q1 of 2025.

Second, there was a sequential decline in domestic product sales as U.S. Land completion activity declined quarter-over-quarter.

In line with our stated financial strategy, after funding our dividend, Core continued to dedicate free cash to paying down debt. During the third quarter, Core's net debt was reduced by nearly $12 million or 9%. This reduction in our outstanding debt also decreased our leverage ratio to 1.47, down from 1.66 last quarter. This is the lowest our leverage ratio has been in the last 6 years. We will continue to focus free cash on reducing debt and strengthening our balance sheet, while also evaluating other uses of free cash to improve shareholder value.

Lastly, for the full company, ex items, EPS was $0.25 per share compared to $0.22 in Q2 of 2024, and operating margins improved sequentially from 13% to 14%.

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.

Now to review Core Lab's strategies and the financial tenets that Core has used to build shareholder value over our 28-year history as a publicly-traded company. The interests 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 this call.

While we continue to 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.

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.

During the third quarter of 2024, the company recorded an adjustment of $1.4 million to stock compensation expense for certain performance share awards, which are no longer expected to vest. The comparison periods for the second quarter of 2024 and third quarter of 2023 also include items that were discussed in those calls and highlighted in our earnings release for those periods. These items have also been excluded from our discussion of the financial results today. You can find a summary of those items and the tables attached to our press release for the third quarter of 2024.

So now looking at the income statement, revenue was $134.4 million in the third quarter, an increase of 3% from $130.6 million in the prior quarter and up over 7% from $125.3 million in the prior-year's third quarter. The revenue growth, both sequentially and year-over-year, is associated with increased demand in certain international regions for reservoir rock and fluid analytical programs, as well as a higher level of bulk product shipments into international markets.

These increases were partially offset by delayed projects caused by the storms in the Gulf of Mexico and a lower level of completion product sales in the U.S. land market. Of this revenue, service revenue, which is more international, was $98.8 million for the quarter, up 3% sequentially and up over 6% from last year.

Demand for our laboratory-based reservoir rock and fluid analytical programs continues to improve and is expected to continue growing globally with stronger growth in certain international regions. However, the sequential growth was offset by delays in well completion diagnostic projects caused by the multiple storms in the Gulf of Mexico.

Product sales, which are more equally tied to North America and international activity were $35.6 million for the quarter, up 4% sequentially and up 10% from last year. Sequentially, international product sales increased 24%. However, the growth in international sales this quarter was partially offset by a lower level of product sales into the U.S. land market. Our international product sales are typically larger bulk orders and can vary from one quarter to another.

Moving on to cost of services, ex items for the quarter, were approximately 76% of revenue, improved from 78% in the prior quarter and up from 74% last year. Sequential improvement was primarily due to the improved utilization of our global laboratory network with a higher revenue base and slightly different mix of services.

As we discussed previously, in February, a fire damaged a portion of one building on our campus of our Advanced Technology Center in Aberdeen. Although our insurance programs are reimbursing us for operating costs and additional costs associated with the remediation of the equipment and the facility, the associated insurance proceeds are recorded as other income and not reflected in cost of services or revenue.

Cost of sales ex items in the third quarter was 88% of revenue, which increased from 82% last quarter and 85% from last year. The sequential change was primarily due to a lower level of product sales in the U. S. market, which contributed to a decrease in manufacturing efficiencies and absorption of fixed cost. Onshore completion activity in the U.S. is expected to decrease in the fourth quarter, but rebound and improve in the third quarter of 2025. The company will continue to manage the business as efficiently as possible through this volatility in the U.S. market.

G&A, ex items for the quarter, was $1 million a slight decrease from prior quarter, which was $10.3 million. As discussed in our previous call, the G&A expense in 2024 includes costs associated with a couple of projects initiated during the year; one, in implementing a global human capital management system; and two, a third-party assessment of our cyber security environment. For 2024, we expect G&A ex items to be approximately $39 million to 41 million.

It is also important to note that 100% of our corporate G&A expenses are allocated and absorbed into the financial performance of the reported segments.

Depreciation and amortization for the quarter was $3.7 million, relatively flat compared to last quarter.

EBIT, ex items for the quarter, was $18.2 million, an increase of 11% from $16.4 million last quarter, which improved our EBIT margin by 100 basis points to approximately 14%. EBIT margins are up from 13% last quarter and year-over-year.

Our operating income for the quarter on a GAAP basis was $19.8 million.

Interest expense of $3.1 million decreased slightly from $3.2 million last quarter. The decrease was primarily due to lower average borrowings on the credit facility this quarter. Income tax expense at an effective rate of 20% and ex items was $3 million for the quarter. On a GAAP basis, we recorded a tax expense of $4.7 million for the quarter. 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.

Additionally, the company continues to evaluate and finalize tax planning associated with the new tax structure after redomesticating the parent company from the Netherlands to the U. S. We continue to project the company's effective tax rate to be approximately 20%.

Net income, ex items for the quarter, was $11.8 million, an increase of 14% from $10.4 million last quarter and up from $10.3 million in the third quarter of last year. On a GAAP basis, we recorded net income of $11.7 million for the quarter.

Earnings per diluted share ex items was $0.25 for the quarter, up from $0.22 last quarter and the third quarter of last year. On a GAAP basis, earnings per diluted share were also $0.25 for the quarter.

Turning to the balance sheet, receivables were $117.6 million, up slightly from $115.6 million last quarter-end.

Our DSOs for the third quarter were at 74 days, which improved slightly from 75 days last quarter. We anticipate that our DSO will continue to improve in future quarters.

Inventory at September 30, 2024 was $65.5 million, down approximately $4.4 million from last quarter-end, and down $9.6 million from when our inventory peaked in the third quarter last year. Inventory turns for the quarter were 1.9 and have continued to improve over the last few quarters. We continue to focus our efforts on reducing the amount of inventory we are currently carrying, and anticipate inventory turns will gradually improve and inventory levels to decline as we progress through the remainder of 2024 and into 2025.

And now on the liability side of the balance sheet, our long-term debt was $142 million at the end of the third quarter of 2024 and considering cash of $21.5 million, net debt was $120.5 million, which decreased $11.8 million or 9% from last quarter. For 2024, net debt has decreased by $30.4 million or 20% from the end of last year.

Free cash flow generated during the quarter was primarily used to reduce debt.

Our leverage ratio was reduced to 1.47 at September 30 from 1.66 last quarter-end. As mentioned by Larry, this quarter marks the lowest leverage ratio that the company has achieved in over 6 years. Our debt is currently comprised of our senior notes at $110 million and $32 million outstanding under our bank credit facility. Our credit facility has a borrowing capacity of $135 million, of which $92 million was still available as of September 30, 2024. The company will remain focused on executing its strategic business initiatives, while continuing to apply free cash towards reducing debt and the leverage ratio.

Looking at cash flow for the third quarter of 2024, cash flow from operating activities was $13.1 million, and after paying $2.7 million of CapEx, our free cash flow for the quarter was $10.4 million. The company generated free cash flow of $27.1 million for the first 9 months of the year, a significant improvement from the same period last year. As we indicated in our last call, we expect CapEx to modestly expand in 2024 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 2024, we expect capital expenditures to be in the range of $12 million to $13 million. Core will continue its strict capital discipline and asset-light business model with capital expenditure primarily targeted at growth opportunities.

Core Lab's global laboratory network and intellectual property continues to provide operational leverage and the ability to grow revenue and profitability with minimal capital requirements. Additionally, we continue to improve the efficiencies in our global laboratory infrastructure through some consolidation of facilities and investments in automation.

Capital expenditures have historically ranged from 2.5% to 4% of revenue even during periods of significant growth. 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. We continue to see a multiyear international recovery due to underinvestment, increasing focus on energy security and rising crude oil demand, all supporting continued activity growth into 2025. In alignment with this outlook, we will continue to execute our strategic plan of investing in technology and pursuing growth opportunities, while remaining well engaged in long-cycle international projects.

The IEA, EIA and OPEC-Plus continue to forecast growth in crude oil demand between 1 million and 1.6 million barrels per day for 2025, which is in addition to the natural decline of production from existing fields. As such, continued investment in the development of onshore and offshore crude oil fields will be required to meet the projected growth in demand. In the near term, we expect that crude oil markets will remain volatile due to global economic and geopolitical risk and uncertainties.

Consequently, as international project activity continues to expand, committed long-term upstream projects from the Middle East, South Atlantic Margin and certain areas of Asia Pacific and West Africa support year-over-year growth in demand for the company's services and products.

Shifting to the U.S., we anticipate U.S. land activity to trend lower in the fourth quarter of 2024, however, return to similar activity levels year-over-year in 2025. For the near term, U.S. land activity is currently negatively influenced by recent E&P consolidations and weak natural gas prices. Our fourth quarter guidance for both segments includes the impact of client project delays caused by weather events in the Gulf of Mexico. We project Reservoir Description's fourth quarter 2024 revenue to be flat to up slightly.

Turning to Production Enhancement, the U.S. frac spread continues to trend lower, while we also anticipate the typical year-end seasonal decline in U.S. onshore completion activity. Reservoir Description's fourth quarter 2024 revenue is projected to range from $87.5 million to $90.5 million, with operating income of $13.4 million to $14.9 million. Core's Production Enhancement segment's fourth quarter revenue is estimated to range from $41 million to $45 million with operating income of $1.3 million to $2.7 million.

In summary, the company's fourth quarter 2024 revenue is projected to range from $128.5 million to $135.5 million with operating income of $14.8 million to $17.7 million, yielding operating margins of 12%.

EPS for the fourth quarter of 2024 is expected to range from $0.20 to $0.25.

The company's fourth quarter 2024 guidance is based on projections for underlying operations and excludes gains and losses in foreign exchange. Our fourth quarter guidance also assumes an effective tax rate of 20%.

With that, I will pass the call 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 and picking up on some of the comments Gwen just made, after assessing current and near-term economic conditions, IEA, EIA and OPEC projections continue to forecast growth in crude oil demand of between [850] and 1.9 million barrels per day for 2024 compared to 2023. Furthermore, their forecasts are for an additional 1 million to 1.6 million barrels per day in 2025. This projected growth in demand is in addition to the production that needs to be brought online to account for the natural decline from existing producing fields.

Furthermore, the EIA is forecasting that U.S. oil production is expected to only rise from 13.22 million barrels per day in 2024 to 13.54 million barrels per day in 2025. Excluding the Covid period, year-over-year growth of only 300,000 barrels per day would represent the smallest annual add to U.S. tight oil production since 2018. U.S. tight oil production has been by far the largest component of non-OPEC production growth since 2010.

Continued growth in global oil demand, combined with slowing year-over-year U.S. oil production growth, supports the outlook that future crude oil demand will be largely met from international, conventional, offshore discoveries and developments, trends that bode well for increasing demand for Reservoir Description, a pattern that we project will play out for the next several years.

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 onshore and offshore conventional plays in a number of regions.

Furthermore, Core Lab continues to expand its portfolio of innovative offerings for plug and abandonment programs in mature offshore basins around the globe, as well as other products for well completion and remediation applications.

One other note, personal face-to-face visits with Asia Pacific operators during the third quarter reinforced the continuing growth opportunities for both, of course, operating segments in the region. These interactions aligned very well with similar face-to-face discussions that took place with Middle Eastern operators during Q2.

Now let's review the third quarter performance of our two business segments. Turning first to Reservoir Description, for the third quarter of 2024, revenue came in at $88.8 million, up 3% compared to Q2 of 2024. Operating income from Reservoir Description x items was $15.4 million, up from $11.8 million in Q2, and operating margins were 17% in Q3, up from 14% in Q2. Incremental margins were over 100%. These sequential improvements were achieved, while the segment is still experiencing headwinds from ongoing international geopolitical conflicts in the Middle East and Russia-Ukraine.

Now for some operational highlights from Reservoir Description. In the third quarter of 2024, Core Lab's Brazil laboratory operation was engaged by an international operating company to perform a post-drill analysis for their inaugural well in the offshore Pre-Salt Basin, a very complex geologic setting. To support the Core Analysis Program, Core Lab employed its proprietary dual energy CT technology. This advanced digital technology enabled early time assessment of lithologic properties and reservoir quality. The operator used this data to develop its initial petrophysical model of the reservoir and to calculate an early estimate of hydrocarbon reserves.

Along with the digital rock characterization provided by Core's CT deliverables, rock samples from the target reservoir intervals are currently undergoing a comprehensive program of traditional physical laboratory measurements. These results will provide the hard essential data points for the operator's final reservoir model and field development plans.

Also in the third quarter at Core Lab's Brazil laboratory, the company began collaborating with an international operator to develop a comprehensive Core Analysis Program that will specifically address formation damage risk in a prospective low-permeability sandstone reservoir. Low-permeability reservoirs require an in-depth understanding of rock properties, as well as an assessment of the potential for adverse reactions between the rocks and the various drilling and completion fluids that might be used for well construction.

Core's approach includes a mineralogical and Core system evaluation of the rocks using a variety of analytical techniques such as x-ray diffraction, x-ray fluorescence and scanning electron microscopy, along with the reservoir condition flow studies in which various drilling and completion fluid options are tested in core samples from the target reservoir interval. Because Core Lab does not sell these types of drilling and completion fluids, we are well positioned to provide objective results from the rock fluid compatibility studies. These laboratory tests will allow the operator to select the drilling and completion fluids that will minimize formation damage in the near wellbore area.

Moving now to Production Enhancement, where Core Lab's technologies continue to help our clients optimize their well completions and improve production. Revenue for Production Enhancement came in at $45.6 million up nearly 3% compared to Q2 and over 13% year-over-year.

Operating income for Production Enhancement ex items was $2.6 million, yielding operating margins of 6%. The sequential performance reflects higher levels of international product sales. However, these gains were offset by two factors as previously discussed: First, a delay in diagnostic service revenue related to multiple hurricanes in the Gulf of Mexico; and second, a quarter-over-quarter decline in U.S. land completion activities.

Now for some operational highlights from Production Enhancement. In 2023, a national oil company in the Middle East engaged Core's ballistic engineering team to develop a solution to improve operational efficiencies and reduce costs in complex offshore plug and abandonment operations. Leveraging its expertise in energetics as an alternative to traditional casing section milling, Core developed an innovative technology to accelerate these plug and abandonment operations. During the Q3 of 2024, the company's ballistic engineering design team deployed its new patented pulverizer technology.

The pulverizer technology accomplishes several objectives. First, it rubbleizes the cement; second, it generates a significant level of cement debonding with the targeted casing interval; and third, it allows the casing to be pulled to the surface without having to wash the annulus. Field trials successfully demonstrated that pulverizer reduced the amount of rig overpull required to retrieve the casing without having to conduct the wash operation.

The Pulverizer not only contributes to the safety and speed of offshore well abandonment, but also aligns with increasing global demand for cost-effective solutions in complex P&A applications. Core Lab is presenting this new technology as a co-author and co-presenter at ATAPAC in November of this year, as the company begins to formally introduce this innovative technology to our global client base. Pulverizer is an excellent example of how Core Lab leverages technology to offer a full spectrum of completion products for applications in all types of wells.

Also in the third quarter, Core's expertise in completion diagnostics were brought to bear for a deepwater Gulf of Mexico operator. Core's SPECTRASTIM, SPECTRASCAN and PACSCAN tracing and imaging technologies were used to evaluate the effectiveness of a frac pack completion in Mississippi Canyon well. The targeted production interval was located just below wet sand, and the operator had carefully designed the completion treatment and the frac pack to avoid interzonal communication with that overlying sand.

Core's SPECTRASCAN log was critical at assessing the upward fracture height growth of the frac pack. Analysis of the SPECTRASCAN log by Core's engineering team revealed an effective frac pack completion with no voids in the annular pack, plus a substantial proppant reserve above the sand control, and very importantly, no undesired upward fracture height growth.

With Core's completion diagnostic data in hand, the operator was able to proceed confidently, bringing the target interval onto production while avoiding communication with the overlying wet sand.

That concludes our operational review. We appreciate your participation.

And Danielle will now open the call for questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Sean Mitchell from Daniel Energy Partners.

Sean Mitchell: I want to dig into the CCS opportunity you talked about, if that's okay.

Larry Bruno: Yes.

Sean Mitchell: You noted multiple contracts were awarded during Q3. Is this specific project work which goes away once the project is complete, or is there potential maintenance type for ongoing revenue opportunities with the CCS projects?

Larry Bruno: Yes, good question. So I think unlike an oilfield hydrocarbon-producing field where Core Lab will stay engaged over the life of the field, I do think that the CCS projects will not have as long of a life engagement with Core Lab. Our involvement on these are largely focused on how the CO2 introduction is going to affect the rock and the fluids in the rock.

Once that's established and validated that there's not a damage that's going to be created by introducing the CO2, which will inevitably raise the -- make the [pore] waters more acidic, it will lower the pH. Once that's been established, that's probably going to be the end of our involvement. It's not going to be where we come back for EOR opportunities and things like that, like we would in a hydrocarbon field.

Sean Mitchell: Got it.

Larry Bruno: Yes, unless there's issues, potential (inaudible).

Sean Mitchell: Okay.

Larry Bruno: But I will say that -- so just a little more color on this. So we've got our multi-company joint industry project going on, and we've got, in addition to that, proprietary studies going on, sometimes for people in the consortium, sometimes for people who just want to work on a specific area. And it's a very nice pickup for us. We've got a lot of experience understanding what happens when you put CO2 into the rocks.

And we gained that experience through EOR studies over the years, the same type of testing, same type of technology, same type of expertise, just with a different desired outcome. We're not trying to produce more hydrocarbons here; we're trying to put the CO_2 away in the rock.

Sean Mitchell: Got it. And then maybe a follow-up really quick. Can you elaborate a little bit on the longer-term opportunity set on pulverizer technology? Any guess on the number of offshore wells which could require P&A in the next 3 to 5 years? And then what type of penetration pull runs you could have in the market?

Larry Bruno: Yes, I'm going to be vague here, but the number is big, so in terms of the opportunities. So I somewhat jokingly talk about P&A as an energy transition story because if we were to stop drilling oil and gas wells today, we'd still be looking at 30, 40 years of plug and abandonment in front of us, as those new fields would decline.

So we're just in the very early -- I won't call it the first inning, we'll call it the first couple of pitches here -- of the game as it relates to pulverizer. We've had a couple of successful applications, different parts of the world. We feel like we're ready to now take this on to the stage and really start engaging with clients outside of sort of one-off projects.

We're now going to start going on offense as we bring that technology offering to a global client base. Every offshore field, which is where we see the biggest application for this, is a potential target for this. They all have to be P&A at some point and so doing it cost effectively, is going to be huge.

And one little thing here. I don't want to get too far out over our skis on this. We're also looking at variants of this that might be applicable for less complex onshore wells, but that's still a bit down the road.

Sean Mitchell: Got it. That was going to be my follow-up, can you do it onshore? But anyway, thanks, guys, for the time. Appreciate it.

Operator: Stephen Gengaro from Stifel.

Stephen Gengaro: So two questions for me. I think Gwen talked a little bit about international growth rates next year, and it looks like Reservoir Description is going to have, I think, about mid-single-digits growth this year and had a nice growth last year. How are you thinking about 2025 international activity spend? It seems like people are centered around kind of mid-single-digits. How are you thinking about it and kind of what does that mean for RD growth next year?

Larry Bruno: Yes, so I think we'll be pretty durable and probably do as well, or maybe a little better, than the peer group on that, just based on where our engagement is building, where some folks have already gotten sort of the early activity pickups there. The other thing, Stephen, is that what we see here -- the limiting factor that we can see on big offshore international projects specifically, which is where we see the next big cycle, as we talked about, is going to be rig availability and the ability to get after some of these projects given the rig constraints.

And so as that picks up, we'll follow along with that. And just to reinforce this -- and I know we've talked about this with you over time -- those projects, because of the risk to the operators, those projects tend to be very lucrative for Core Lab because the way they derisk their reservoir models is by building very robust datasets. So those are very lucrative projects for us, high-caloric projects is the way we describe them. And so we think that as those pick up speed over the next several years, that we're going to participate very well and that's going to hit Reservoir Description with very high incremental margins.

Stephen Gengaro: Great. Okay. Thank you. That's helpful. The other question, I wanted to ask you a little bit about the U.S. perforating business because some of the data we see indicates that oriented perf guns have gained traction, and just got some positive usage data points we've seen. But on the other hand, the business -- and it's clearly not specific to Core Lab -- but the business just hasn't been very good, right? And we've seen it across the spectrum.

You've had one of your competitors trying to sell the business. Can you just give us kind of an update and the landscape of what's going on in that business, and kind of what you think is needed either company-specific or on a wider scale to kind of fix that business?

Larry Bruno: Yes, I'll get started and then hand it over to Gwen. Gwen follows those stats for us pretty well there. So there's no doubt, it's a crowded dog park, as I like to describe it. It's a very competitive landscape, there's a lot of capacity. Some people may be trying to seek an exit from it. Core Lab has been a -- I'll call it, an industry-leading player in perforating markets globally. We're going to be there. It's one of the things we do very well. Our energetic offerings are still among the best in the world. So we're going to be here through ups and downs in the cycle there.

I think your question about oriented guns, I almost want to describe it as sort of a religious affinity. Some operators take great exception to it, some believe it in their hearts without exception. And so I think there's different philosophies in the companies in terms of the charge design, the gun design and how they want to go about doing their wells. We don't mind that in many regards, because in addition to our perforating offerings here, when people try different things, they want to know if it worked. And so that creates opportunities for us in the diagnostics.

So we gained some insights as we move around with our diagnostic study, and I'm not quite willing to share all of those about what might work best. We'll let our clients pay us to determine that for them in their particular rocks, their particular stress fields and their basins.

And then Gwen, maybe some comments about what we saw in terms of completion activity for the quarter?

Gwen Gresham: Yes, so we continue to see completion activity decrease. We saw that in Q2, and we've seen it even further as Q3 completed and moving into Q4. And we also expect the typical seasonal decline that we start to see roughly around the Thanksgiving holiday and playing out through the end of December. And then typically, our clients get right back to it as Q1 starts to unfold.

So we think activity levels, as we move into completion activity levels as we move into 2025, would be similar to those as we compare it to 2024.

Stephen Gengaro: Okay, great. Thank you. That's helpful. And maybe just squeeze one more in on the perf gun side, and it's maybe getting into the weeds a little bit. You mentioned it's a crowded dog park, I think. And is it crowded because of the four key players, or is it crowded because of sort of the machine shops that have kind of created some of these, what I call kind of pseudo-preassembled guns to compete; or is it a combination of both?

Larry Bruno: Yes, I think there's -- I don't know, there might be 8, 10 different gun offerings out there now. And so I think our success is driven by clients that want to use our Energetics as part of our system. But we'll also sell components to folks that want to use someone else's gun, but want our charge proficiencies.

Stephen Gengaro: Great. No, that's good color. I appreciate it. Thanks.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Larry Bruno for 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 in the coming quarters. We have never been better operationally or technologically positioned to help our global client base optimize their reservoirs and to 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 reduce debt and strengthen its balance sheet, while always investing in growth opportunities and evaluating various opportunities to increase shareholder value.

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. You may now disconnect.