

Core Laboratories Inc.

First Quarter 2025 Earnings Conference Call

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Chris Hill

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CONFERENCE CALL PARTICIPANTS

Stephen Gengaro

Stifel — Analyst

Sean Mitchell

Daniel Energy Partners — Analyst

PRESENTATION

Operator

Good day and welcome to the Core Laboratories First Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode.

Should you need assistance, please signal a conference specialist by pressing the * key, followed by 0.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press *, then 1 on your telephone keypad. To withdraw your question, please press *, then 2.

Please note this event is being recorded.

I would now like to hand the call to Larry Bruno, Chairman and CEO. Please go ahead.

Larry Bruno — Chairman and CEO, Core Laboratories Inc.

Thanks, Andrea (phon). 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' first quarter 2025 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 Q1 performance. In addition, we'll review Core strategies and the three financial tenets 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 — Senior Vice President, Corporate Development & Investor Relations, Core Laboratories Inc.

Before we start the conference this morning, I'll mention that some of the statements we 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 statements, 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 first quarter results. Those 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 our first quarter 2025 results.

Core continued to execute its strategic plan of technology investments targeted to both solve client problems and capitalize on Core's technical and geographic opportunities.

First quarter 2025 revenue was down 4 percent compared to Q4 of 2024, with operating income and earnings per share also down sequentially.

In addition to the normal seasonality that commonly yields a decline in client activity from Q4 to Q1, there were also headwinds in Q1 due to the ongoing geopolitical conflicts in Russia, Ukraine, and the Middle East. These were compounded by expanded sanctions that were introduced in early January. These expanded sanctions impacted both Reservoir Description and Production Enhancement and created temporary operational inefficiencies.

Looking at Reservoir Description in more detail, revenue for the first quarter was down 7 percent compared to Q4 of 2024. As mentioned, this reflects both typical seasonal patterns and the impact of the enhanced sanctions that were announced in January.

The sanctions created uncertainty and volatility in commodity prices, which, in turn, impacted demand for the laboratory assay services we provide that are tied to the maritime transportation and trade of crude oil and derived products. We did see demand for these services pick up late in the quarter.

For the first quarter, ex-items, operating margins in Reservoir Description were 10 percent, down sequentially by 670 basis points. The loss of revenue tied to the geopolitical events created high decrements, but Core's operational leadership quickly took steps to realign its cost structure, which helped mitigate the impact on the first quarter and should also help improve margins in future quarters.

In Production Enhancement, first quarter revenue was flat compared to Q4 of 2024. Here again, newly imposed sanctions created headwinds in Q1 as planned product sales and deliveries to certain entities in Eastern Europe were derailed by these political decisions.

Ex-items, first quarter 2025 operating margins in Production Enhancement were 8 percent, expanding by 450 basis points sequentially. This sequential improvement in margins was primarily driven by increased demand for high-margin diagnostic services in the US. Diagnostic Services saw greater demand in US land applications, as well completions are becoming more complex.

The segment also benefitted from some catch-up work in the Gulf of Mexico on well completions that were rescheduled following hurricane-related delays last summer.

In addition, operational efficiencies and reduced expenses in product manufacturing are also starting to improve financial performance.

In line with our stated financial strategy, after funding our dividend, Core continued to strengthen its balance sheet.

During the first quarter, Core's net debt was reduced by approximately \$5 million, and our leverage ratio remained at its lowest level in eight years.

In addition to paying our quarterly dividend, Core Lab returned excess free cash to shareholders by repurchasing nearly 132,000 shares of company stock during the first quarter, a value of \$2 million.

We will continue to focus on reducing debt and strengthening our balance sheet while evaluating other opportunistic uses of free cash to improve shareholder value.

As we look ahead, Core will continue to execute on its key strategic objectives by, one, introducing new product-as-service offerings in key geographic markets; two, maintaining a lean and

focused organization; and three, maintaining our commitments to de-levering the Company and returning excess free cash to shareholders.

Now to review Core Lab's strategies and the financial tenets that the Company has used to build shareholder value over our 29-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 long-standing, 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 — Chief Financial Officer, Core Laboratories Inc.

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 25 percent. So accordingly, our discussion today excludes any foreign exchange gain or loss for current and prior periods.

Additionally, the financial results for the first quarter of 2025 includes a charge of \$3.5 million for non-cash stock compensation expense associated with future vesting of performance shares for certain employees who have reached eligible retirement age.

We also recorded a cost of \$3.4 million associated with employee severance and additional cost to exit certain facilities as we continue to optimize our global footprint. These items have also been excluded from the discussion of our financial results.

So looking at the income statement, revenue was \$123.6 million in the first quarter, down 4 percent compared to the prior quarter, down 5 percent year over year.

Core Lab will typically experience a seasonal decline in revenue from the fourth quarter to the first quarter of each year. However, as Larry mentioned, the first quarter of 2025 was also negatively impacted by the expanded sanctions announced in January, which I will discuss further in our overview of service revenue.

However, the sequential decline in revenue was somewhat offset by growth in reservoir rock and fluid analytical programs in certain international regions, and our completion diagnostic services also had strong growth in both the US and international markets.

Of this revenue, service revenue, which is more international, was \$95.1 million for the quarter, down 1 percent sequentially and year over year.

Our service revenue associated with crude assay services in some international regions continues to be impacted and disrupted due to the ongoing geopolitical conflicts and the associated sanctions that were expanded. Once the expanded sanctions were announced in January, we saw a decrease in demand for crude assay services, which continued throughout February but then improved somewhat as we exited the quarter.

Strong growth in the US and certain international regions for well-completion diagnostic services helped offset some of the seasonal decline we normally see in the first quarter and the negative impact caused by the expanded sanctions.

Product sales, which are more equally tied to North America and international activity, were \$28.5 million for the quarter, down 13 percent sequentially and down 14 percent year over year.

Our international product sales are typically larger bulk orders and can vary from one quarter to another.

Product sales were also impacted by the expanded sanctions as one large international order for \$1.1 million, scheduled for delivery in February, had to be suspended.

Additionally, we had some large laboratory instrumentation sales that were originally scheduled to be delivered in the first quarter but were delayed into the second quarter.

Sequentially, the lower international product sales were partially offset by a higher level of product sales in the US land market.

Moving on to cost of services, ex-items, for the quarter was approximately 77 percent of service revenue, up slightly from 76 percent in the prior quarter and flat compared to last year. Sequential increase is primarily due to absorption of fixed costs on lower revenue in the first quarter of 2025 compared to last quarter.

For the remainder of 2025, we anticipate service revenue to grow, with growth primarily coming from certain international markets.

Cost of sales, ex-items, in the first quarter was 91 percent of revenue, up slightly compared to 90 percent last quarter and 93 percent last year. The sequential increase was due to higher absorption of fixed costs on lower revenue in the quarter, partially offset by reductions to our cost structure and improved manufacturing efficiencies.

We anticipate improvement in the manufacturing absorption rate in future quarters, in line with projected growth in product sales.

G&A, ex-items, for the quarter was \$10.1 million, a slight increase from \$9.9 million in the prior quarter.

For 2025, we expect G&A, ex-items, to be approximately \$40 million to \$42 million.

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

EBIT, ex-items, for the quarter was \$11.8 million, which decreased compared to \$15.7 million last quarter, and yielding an EBIT margin of approximately 10 percent. Our EBIT for the quarter on a GAAP basis was \$4.4 million.

Interest expense of \$2.6 million remained relatively flat compared to the prior quarter but has decreased from \$3.4 million last year due to lower borrowings on the credit facility.

Income tax expense, at an effective tax rate of 25 percent and ex-items, was \$2.3 million for the quarter. On a GAAP basis, we recorded a tax expense of \$1.7 million for the quarter. The first quarter tax expense includes approximately \$1.4 million of discrete items primarily associated with changes in estimates as we finalize the return for certain tax jurisdictions.

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.

We continue to project the Company's effective tax rate to be approximately 25 percent.

Net income, ex-items, for the quarter was \$6.7 million, a decrease from \$10.4 million in the prior quarter and from \$8.9 million in the first quarter of last year. On a GAAP basis, we had a net loss of \$200,000 for the quarter.

Earnings per diluted share, ex-items, was \$0.14 for the quarter, a decrease from \$0.22 in the prior quarter and \$0.19 from last year. On a GAAP basis, we had a slight loss, which rounds to \$0 on a per-share basis.

Turning to the balance sheet, receivables were \$117 million and increased approximately \$5.3 million from prior quarter.

Our DSOs for the first quarter were at 79 days, up from the 76 days last quarter. The increase was primarily driven by the timing of billings during the quarter, which started out slow and finished strong. We anticipate that our DSO will improve in future quarters.

Inventory at March 31, 2025 was \$59 million, slightly down from last quarter-end and down approximately \$11.7 million year over year.

Inventory turns for the quarter were at 1.8 and, with continued focus, we anticipate inventory turns will gradually improve, and inventory levels will continue to decline as we progress through the remainder of 2025.

And now to the liability side of the balance sheet. Our long-term debt was \$126 million at the end of the first quarter. And considering cash of \$22.1 million, net debt was \$103.9 million, which decreased \$4.9 million from last quarter.

Our leverage ratio remained at 1.31, unchanged from last quarter-end.

The Company will remain focused on executing its strategic business initiatives while also further reducing its leverage ratio.

Our debt is currently comprised of our senior notes at \$110 million and \$16 million outstanding under our bank credit facility. Our credit facility has a borrowing capacity of \$135 million, of which approximately \$108 million was still available as of March 31, 2025.

Looking at cash flow, for the first quarter of 2025, cash flow from operating activities was approximately \$6.7 million. And after paying \$2.8 million of CapEx, our free cash flow for the quarter was \$3.9 million.

Cash from operations was impacted by an increase in working capital as accounts receivable grew by \$5.3 million during the quarter. The growth in accounts receivable occurred in March, reflecting a higher level of sales as we exited the quarter.

In February 2024, fire damaged one building on the campus of the Company's Advanced Technology Centre in Aberdeen, Scotland. Losses and damages caused by the fire are covered by Core Lab's insurance programs.

The insurance proceeds and the capital expenditures associated with replacing the equipment and restoring the building are disclosed separately in the investing section of the cash flow statement. These items are not included in the calculation of free cash flow.

As we indicated in our last call, we expect CapEx to modestly expand in 2025 compared to 2024, and we will continue to manage investment and working capital.

Additionally, we expect CapEx to remain aligned with activity levels and, for the full year 2025, we expect capital expenditures to be in the range of \$14 million to \$16 million.

The forecast for capital expenditures excludes the CapEx associated with rebuilding and replacing of the UK facility and equipment that was mentioned earlier, as these will be covered by the Company's insurance program.

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 2.5 percent to 4 percent 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.

Turning to our outlook, recent tariffs announced by the US, along with OPEC's decision to increase oil production, have resulted in a decline in crude oil prices.

The uncertainty of demand for crude oil caused by ongoing trade negotiations, combined with the OPEC+ announcement of increased production quotas, has raised the likelihood that crude oil inventory levels will rise.

We maintain our constructive long-term outlook on international upstream projects for the remainder of 2025 and beyond.

The IEA, EIA, and OPEC+ continue to forecast growth in crude oil demand to be between 700,000 and 1.3 million barrels per day for 2025. This demand is mainly driven by non-OECD countries in Asia, India, emerging markets in the Middle East, and Africa.

Outside the US, large-scale international oil and gas projects are expected to be more resilient to the near-term volatility of crude oil prices.

We see international project activity to be steady with committed long-term upstream projects from the South Atlantic margin, North and West Africa, Norway, the Middle East, and certain areas of Asia-Pacific.

The Company believes that activity levels associated with smaller-scale, short-cycle crude oil development projects will be more sensitive to the decrease and/or continued volatility of crude oil prices. As such, changes in crude oil prices are anticipated to have greater impact on drilling and completion activity levels in the US onshore market.

Turning to the recent tariff announcements.

We believe the proposed tariffs will not apply to the vast majority of service revenue and product sales provided by the Company. Our services account for over 75 percent of the Company's total revenue and are currently not subject to tariffs.

Core's product sales have been less than 25 percent of total revenue and are primarily manufactured in the US. Import tariffs would not apply to approximately 50 percent of these products, as they are consumed in the US drilling and completion markets. Products manufactured in the US and delivered to international clients may attract tariffs, depending on the outcome of international trade negotiations.

And last, certain raw materials imported and used in the Company's US manufacturing of products may attract import tariffs applied by the US. The Company is currently taking steps to mitigate the impact of potential tariffs.

Now to our second quarter 2025 segment and company guidance.

Reservoir Description second quarter revenue is projected to range from \$85 million to \$89 million, representing a nice improvement of 5 percent to 10 percent growth and operating income of \$11 million to \$13 million.

Production Enhancement second quarter revenue is estimated to range from \$43 million to \$45 million, and this represents low to mid-single-digit growth with operating income of \$2 million to \$2.6 million.

In summary, our second quarter 2025 revenue is projected to range from \$128 million to \$134 million with operating income of \$13.1 million to \$15.7 million, yielding operating margins of approximately 11 percent.

EPS for the second quarter of 2025 is expected to range from \$0.17 to \$0.21.

The Company's second quarter 2025 guidance is based on projections for underlying operations and excludes gains and losses in foreign exchange.

Although the first quarter of 2025 includes discrete items which decrease the effective tax rate, the Company projects the effective tax rate to be approximately 25 percent for 2025. Our second quarter guidance also assumes an effective tax rate of 25 percent.

With that, I'll turn it back over 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, even after assessing current and near-term economic conditions, IEA, EIA, and OPEC all project that there will be growth in global crude oil demand in 2025.

The current estimates show growth in demand of between 0.7 million and 1.3 million barrels per day for 2025, with similar additional growth projected for 2026. As Gwen mentioned, this growth is driven mainly by strong non-OECD demand.

In addition to the forecasted growth in demand, new production will need to be brought online to account for the natural decline from existing producing fields. Combined, these factors will require continued investment in the development of onshore and offshore crude oilfields.

Furthermore, the EIA forecast for US oil production remains at 13.5 million barrels per day for 2025, up slightly from 13.2 million barrels per day in 2024. Beyond that, very little growth is forecast between 2025 and 2026. Excluding the COVID period, these forecasts for nominal year-over-year production growth would represent the smallest annual adds to US oil production since 2018.

US 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 US oil production growth, supports the thesis that future crude oil demand will be largely met from international, conventional, offshore discoveries and developments, all trends that bode well for increasing demand for the reservoir description services that we provide through our global lab network.

We project this international cycle will play out for the next several years, and perhaps longer, as growth in US oil production peaks.

Production Enhancement, in addition to its exposure to the US land market, also has expanding opportunities across international markets, such as with unconventional plays in the Middle East and emerging onshore and offshore conventional plays in a number of regions.

Core Lab also continues to expand its portfolio of innovative offerings for perforating applications, plug-in abandonment operations, and completion diagnostics for our growing global client base.

Now let's review the first quarter performance of our two business segments.

Turning first to Reservoir Description.

For the first quarter of 2025, revenue came in at \$80.9 million, down 7 percent compared to Q4 of 2024.

For Q1, operating income for Reservoir Description, ex-items, was \$7.8 million, down from \$14.1 million in Q4, but still yielding operating margins of 10 percent.

While continued demand for reservoir description lab services remained strong in several regions across our global network, the ongoing international geopolitical conflicts and recently expanded sanctions negatively impacted the demand for laboratory services tied to the trade and transportation of crude oil and derived products. These political headwinds were on top of the typical seasonal declines that typically occur in client activity from Q4 to Q1.

Now for some operational highlights from Reservoir Description. Core sees emerging opportunities across Africa for its reservoir description laboratory services. These opportunities include project work on new onshore and offshore exploration targets as well as workover projects on mature fields.

In addition, there are growth opportunities for laboratory assay work on crude oil and derived products across a region poised for significant growth in hydrocarbon demand.

In Q1, Core Laboratories reinforced its role as a key partner in Libya's upstream sector, demonstrating its commitment through strategic collaboration and innovation. With political and

operational stability emerging in Libya, the country is now ready to utilize its vast resources to meet its ambitious hydrocarbon production growth targets.

In the first quarter of 2025, Core Lab specialists from both Reservoir Description and Production Enhancement hosted a technical topical workshop for the Libyan market. This event provided cross-disciplinary insights and solutions to the geotechnical challenges faced by Libyan operators. Discussions with the Libyan national oil company and the Petroleum Research Center, as well as various operators, highlighted Core Lab's ability to offer tailored solutions to support Libya's production growth targets.

Through the numerous joint industry and proprietary projects that Core Lab has led over the years, the Company has developed detailed knowledge of Libya's onshore and offshore sedimentary basins and hydrocarbon-bearing formations. Core is well positioned to leverage this knowledge and engage with clients as new opportunities unfold.

Reservoir description will help clients reduce subsurface uncertainty, establish critical parameters for reservoir models, and assess formation damage.

Core's production enhancement products and services will address operational challenges from legacy production and mature fields, optimizing future completion strategies, and help in the development of enhanced oil recovery and waterflood programs.

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 for Q1 came in at \$42.7 million, flat compared to Q4 and down 6 percent year over year.

First quarter operating income for Production Enhancement, ex-items, was \$3.4 million, yielding operating margins of 8 percent.

While product sales were negatively impacted by recently enhanced sanctions that prohibited transactions with certain designated entities in Eastern Europe, there was increased demand for completion diagnostic services, as complex US land completion designs, like trimul-fracs, have become more common.

Furthermore, Gulf of Mexico completion diagnostics on offshore projects that were delayed by hurricanes last summer were conducted in Q1.

Now for some operational highlights for Production Enhancement.

At the start of Q1, an international operating company approached Core Laboratories' Production Enhancement team with an urgent request for assistance on a unique and very challenging well abandonment program. The program required the use of Core's proprietary HERO-HardRock perforating charges, the Company's industry-leading deep penetration technology.

On this project, due to collapsed tubing, there were no options available to deploy a plug-in abandonment strategy into the existing well bore. The operator chose a method in which a parallel well had to be drilled in close proximity to the target well, allowing perforations from the new parallel well to penetrate through the intervening strata and into the problematic target well. This approach needed to ensure that the perforating system could successfully create long-reach perf tunnels from the new well into the casing and inner tubing of the target well.

Utilizing Core's state-of-the-art rock lab test facility, a series of tests were designed to evaluate the selected perforating system under simulated downhole stress conditions. This allowed the customer to determine how closely the two well bores needed to be spaced in order to guarantee that the perforating system would penetrate through all of the pipe, cement, and rock barriers with sufficient hole size to allow for cement placement.

Under extremely tight time constraints, the Production Enhancement team was able to design and conduct the testing program, mobilize all of the hardware to the international rig location, and successfully carry out the job in the first quarter of 2025. Positive feedback from the operator confirmed the abandonment program succeeded and met all of the operational and regulatory requirements.

Also in Production Enhancement, recently, the US Bureau of Safety and Environmental Enforcement officially endorsed Core's SPECTRASTIM tracers to identify top of cement in multiple casing strings, as confirmed by logging-while-drilling technologies.

Tracing the top of cement using SPECTRASTIM tracers has significant advantages over other approved methods such as cement bond logging, including a cost savings of approximately \$400,000 per casing string.

In the first quarter of 2025, top of cement was confirmed by Core's SPECTRASTIM tracers in a record six cemented casing strings on a Gulf of Mexico well. In the process, the operator saved over \$2 million compared with the traditional cement bond log alternative.

Core is working to expand this service in other offshore regions.

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

Q&A

Operator

We will now begin the question-and-answer session. To ask a question, you may press *, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press *, then 2.

Once again, that was *, then 1 to ask a question. And at this time, we will pause momentarily to assemble the roster.

And our first question will come from Stephen Gengaro of Stifel. Please go ahead.

Gwen Gresham

Good morning, Stephen.

Stephen Gengaro — Stifel

Thanks. Good morning.

Larry Bruno

Good morning.

Chris Hill

Good morning, Stephen.

Stephen Gengaro

So thanks for all the details. Can we start with production enhancement? The first quarter margin was pretty strong off the fourth quarter, but despite what seems to be modest revenue growth, you're guiding margin down 200 or 300 basis points. Can you just kind of talk about what's going on, on the margin front with PE?

Chris Hill

Sure, Stephen. So this is Chris.

We had improvement in both segments in the margins coming off of Q4, but the product sales are down, and the diagnostic services, which have a higher margin, are up in Q1.

And so I think you heard Larry and I both mention that some of the projects in the Gulf of Mexico were impacted by the storms that came through there in Q3 last year. Those got postponed to Q1. And those came through. And we're not forecasting that level of—in the Gulf of Mexico for Q2.

So diagnostic services are kind of coming down, and product sales are increasing in Q2. So it's a different mix when you look at Q1 versus Q2.

Stephen Gengaro

Okay. Great. Thanks. And then the other just question, when you're sort of thinking about the back half of the year—and I know that the number of moving pieces is greater than usual—but is there any way to think about sort of your expectations for margin progression in the back half of the year?

And even if we thought about like an environmental activity or the business was flattish from the second quarter, are there levers to pull on the margin side? Or would we be pretty stable from the 2Q levels without much growth?

Larry Bruno

Yeah. So I think it's fair to say, Stephen, that Q1 looks like it's in the rearview mirror for us with the weight of those sanctions that kind of just dropped on us in January. And when that happens, it kind of froze the trading activity, and the demand for the assay work just sort of comes to a halt temporarily. Nobody wants to get caught on the wrong side of a trade there while there's so much volatility in the market.

As mentioned earlier in the comments, we did see things start to open up and trading get back to normal and the associated demand for those assay services pick up late in the quarter.

So I don't think we're going to see any retrenchment back to what we saw in Q1. And I think, from Q2 forward, I think there's opportunity for growth in margins over what we're projecting for Q2. So I think Q3 and Q4, at the moment, looking better for us than Q2.

Chris Hill

Right. The only thing I would add there too is we have put some cost reduction plans in place, which we've kind of recognized most of the cost for that in Q1. Some of those were implemented in Q1. Some of those will take more effect in Q2. And actually, some additional ones are scheduled kind of for Q3. So I think we'll see some margin improvement from that as well.

Gwen Gresham

Stephen?

Larry Bruno

Okay. Let's—

Stephen Gengaro

Sorry. I was muted. I'm sorry. One quick follow-up is maybe not so quick. But the peers in the space are sort of centring around US activity down 10 percent to 15 percent this year and maybe international flat to down modestly.

A, do you think that's a reasonable starting point?

And B, how do you think you perform relative to those expectations?

Larry Bruno

So I think as our view on US land is flat or soft compared to last year, but maybe up from what we saw in Q1 somewhat. I think we're seeing some nice penetration on the diagnostic side with completions becoming as complicated as they are.

We also think that there's some room with the changes that we've been making on the product side to see some better returns and improved product sales with higher margins on that. So things are unfolding there.

So I think maybe we're a little more optimistic about how the back of the year plays out for us in terms of penetration into US land than, say, pressure pumpers and some of the other folks.

Chris Hill

Yeah. I think as far as activity goes, though, it definitely softened at the end of last year, let's say, the second half. And as we're looking at it, we think it's going to be kind of more in line with the second half of last year, so.

Stephen Gengaro

Okay. Great—

Chris Hill

(unintelligible)

Stephen Gengaro

No. Thanks—

Larry Bruno

And then I think on our international, we've got some opportunities on the international side. And if you've got any sway with the people that are dropping sanctions and tariffs, make those calls for us, Stephen. And hopefully, we have some hardware made in the boxes ready to ship and all of a sudden told, no, can't go.

Stephen Gengaro

Yep. It's a tough environment. Yeah. Okay. No, that's helpful colour. Thank you.

Chris Hill

Yeah. Thanks, Stephen.

Larry Bruno

Thanks. Appreciate it.

Stephen Gengaro

Thanks.

Operator

The next question comes from Sean Mitchell of Daniel Energy Partners. Please go ahead.

Sean Mitchell — Daniel Energy Partners

Good morning, guys. Thanks for taking the question. I'm going to kind of stay on the same theme that Stephen was kind of digging into your crystal ball a little bit. Last quarter, you talked about Mexico being a place that may not look so great on a go-forward basis. And now, we're actually seeing that from a lot of your peers in the oilfield service market. Mexico, everyone's taking guidance down there pretty hard.

Is there any area in the international market—I mean, we've already talked to US. Is there any other areas in the international market you guys see maybe trouble in the future? I mean, you talked a little bit about new client engagements in the Middle East and Africa and maybe expand on that a little bit. Is that kind of back half of '25 stuff with those new clients? Or is that kind of later in '26, '27?

Larry Bruno

Yeah. So first thing on Mexico, just to be clear, we got out. And—

Sean Mitchell

Yeah.

Larry Bruno

—I’m not saying we had any special omnipotence there, but it just was a challenging market for us. And I think maybe, it turns out we were—the patterns that we saw maybe are starting to hit on some other folks, and they’re having to deal with some of that. And so, Mexico doesn’t necessarily apply to us. We’ll sell products and services into there, but we’re going to have to do that if they come to us out of the US.

I think internationally, it looks pretty good for us in the Middle East. I think Africa is a long-term play for us. I do think we’ll see some progress there in the back half of 2025, but I think it’s a multiyear growth cycle for us on reservoir description in particular, and then I think the production enhancement opportunities there will probably grow a little bit later.

I think one of the things we’re hearing from our operational guys—and so I went through the Asia-Pac region early in the quarter—earlier in the quarter, mid-quarter—

Sean Mitchell

Yeah.

Larry Bruno

—and got a lot of confirmation about project work that we’re seeing. I think that was mentioned in the release there. So Australia looks real good. Indonesia looks good for us. Malaysia looks a little bit soft.

One other area that I’d say we’re kind of keeping an eye on here is it seems a pretty inhospitable environment in Colombia right now. The, again, political decisions there are affecting our clients’ plans and behaviours, and we’re not going to be immune to the slowed-down activity.

It looks like Ecuador may be moving in the right direction with the political decisions that the people down there have made, and so I think maybe there's some chance for some rebound there.

And in the Middle East, we see it as strong for us still this year. I'm actually headed over next week. I'll go through Middle East round and meet with operators and NOCs in a handful of countries. All conversations so far are full steam ahead and steady as we go on the projects that they've committed to us.

And then lastly—

Sean Mitchell

Well, thank you—yeah?

Larry Bruno

Just one other one. We're still optimistic about Brazil. I know there's going to be challenges there. I always view Brazil as sort of not a straight line, linear opportunity, but I think it's going to be a place where we're going to see, I'll call it gradual improvement, in our penetration of that market over time.

Sean Mitchell

Got it. That's great. Thanks for the additional colour. I'll turn it back.

Larry Bruno

Sure.

Gwen Gresham

Thanks, Sean.

Larry Bruno

Okay. I think it's a pretty busy day for earnings calls so, if there are no other questions, 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 strengthen its balance sheet while always investing in growth opportunities and evaluating various methods to increase shareholder value, including returning excess free cash to our shareholders.

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 the next update. Goodbye for now.

Operator

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