Core Laboratories LP [CLB]
Q2 2024 Earnings Conference Call
July 25, 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
John Daniel, Daniel Energy Partners
Stephen Gengaro, Stifel

Presentation

Operator: Good day, and welcome to the Core Lab Second Quarter 2024 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note that today's 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, Chris. 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 second 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 Q2 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 our statements that 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 risk 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 our non-GAAP financial measures. Reconciliation to the most directly-comparable GAAP financial measures is included in the press release announcing our second 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 the second quarter of 2024, Core continued to build on the operational momentum established over the past few quarters. Revenue was up slightly compared to Q1 of 2024, but the company did see nice sequential improvement in operating income, operating margins, free cash flow and earnings per share.

In Reservoir Description, revenue in the second quarter was up over 2% compared to Q1, reflecting the continued improvement in market demand for our global rock and fluid laboratory analyses. This improvement occurred despite the ongoing geopolitical conflicts that continue to negatively impact demand for laboratory services that are directly tied to the assay of crude oil and derived products. These geopolitical conflicts produce headwinds to both revenue growth and operating margins. For the second quarter, operating margins in Reservoir Description were 14%.

In Production Enhancement, revenue declined by approximately 2% compared to Q1, largely reflecting lower product sales outside the U.S., which offset growth in domestic product sales. However, profitability improved nicely, with operating margins climbing to 10%, up over 260 basis points as cost control measures aimed at right-sizing the operation took hold.

In line with our stated financial strategy, after funding our dividend, Core continued to dedicate free cash to paying down debt. During the quarter, Core’s net debt was reduced by $15.8 million or 10%. This reduction in our outstanding debt also decreased our leverage ratio to 1.66, down from 1.76 last quarter. This is the lowest our leverage ratio has been in the last 5 years. We will continue to focus free cash and reducing debt, and strengthening our balance sheet.

Lastly, for the full company, ex-items, EPS was $0.22 per share compared to $0.19 in Q1 of 2024. And operating margins improved from 12% to 13%, which includes the absorption of higher G&A costs in the second quarter.

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 will remain focused on 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 is also reviewing 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 28-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 this call.

While we navigate through the current challenges and pursue growth opportunities, the company will remain focused on its three longstanding, long-term financial tenants, 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. The comparison periods for the first quarter of 2024 and second 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 in the tables attached to our press release for the second quarter of 2024.

So now looking at the income statement, revenue was $130.6 million in the second quarter, a slight increase from $129.6 million in the prior quarter, and $127.9 million in the prior-year second quarter. Sequentially, increased demand in both the U.S. and certain international regions for reservoir rock and fluid analytical programs was partially offset by lower completion diagnostic services and completion product sales in international markets. Of this revenue, service revenue, which is more international, was $96.3 million for the quarter, flat sequentially and up over 3% 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 the stronger growth in certain international regions. However, the sequential growth was offset by a slightly lower level of completion diagnostic services in the U.S. and continued disruptions in some of the international regions where assay services continue to be impacted by the ongoing geopolitical conflicts.

Product sales, which are more equally tied to North America and international activity, were $34.2 million for the quarter, up over 3% sequentially and relatively flat from last year. Sequentially, product sales increased 18% in the U.S., primarily driven by improved market penetration of our completion products. This sequential growth in product sales in the U.S. was offset by a lower level of product sales into international markets, and the Canadian market as a result of typical seasonal decline.

Moving on to cost of services, ex-items for the quarter, was approximately 78% of service revenue, up slightly from 77% in the prior quarter and 76% last year.

As we discussed during our last call in February, a fire damaged one of our buildings on the campus of our Advanced Technology Center in Aberdeen. Although our insurance programs are reimbursing us for operating costs and additional costs associated with remediation of the equipment and the facility, the $1.3 million of associated insurance is recorded as other income, and not reflected in cost of services or revenue. For the remainder of 2024, we project service revenue to continue growing with strong incremental margins.

Cost of sales, ex-items in the second quarter, was 82% of revenue, improved from 93% last quarter and 84% from last year. As mentioned by Larry, the sequential improvement was primarily driven by savings from cost reduction initiatives and manufacturing efficiencies implemented at the end of the prior quarter. The company will continue to manage the business as efficiently as possible due to continued volatility in the U.S. market, as onshore completion activity in the U.S. has shown signs of softening as we exited the second quarter and starting the third quarter of this year.

G&A, ex-items for the quarter, was $10.3 million, an increase from the prior quarter, which was $8.3 million. The sequential increase in G&A expense was primarily due to the change in value of company-owned life insurance investments, which was a loss this quarter versus a gain in the prior quarter. Additionally, the company initiated a third-party assessment of our cyber-security environment and also implementation of a global human capital management system, which increased G&A expense in the second quarter of 2024. For 2024, we expect G&A, ex-items, to be approximately $40 million to $42 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. The operating margins in both of our segments improved this quarter compared to the first quarter of this year, and the expansion of operating profit in both segments include the absorption of the $2 million increase in G&A expenses this quarter.

Depreciation and amortization for the quarter was $3.8 million, flat compared to last quarter.

EBIT, ex-items for the quarter, was $16.4 million and increased 10% from $14.9 million last quarter, yielding an EBIT margin of approximately 13%. EBIT margins are up from 12% last quarter and year-over-year.

Our operating income for the quarter on a GAAP basis was $16 million.

Interest expense of $3.2 million decreased from $3.4 million last quarter. The decrease is primarily due to lower average borrowings on the credit facility this quarter. Income tax expense and an effective tax rate of 20%, and ex items, was $2.6 million for the quarter. On a GAAP basis, we recorded a tax expense of $3.6 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. We continue to project the company's effective tax rate to be approximately 20%.

Net income, ex-items for the quarter, was $10.4 million, an increase of over 16% from $8.9 million last quarter, and up from $9.8 million in the second quarter of last year. On a GAAP basis, we recorded net income of $9 million for the quarter.

Earnings per diluted share, ex-items, was $0.22 for the quarter, up from $0.19 in the prior quarter and $0.21 in the same quarter last year. On a GAAP basis, earnings per diluted share was $0.19 for the quarter.

Turning to the balance sheet, receivables were $115.6 million and increased slightly from $115.1 million last quarter-end.

Our DSOs for the second quarter were at 75 days, up slightly from the 74 days last quarter. We anticipate our DSOs will improve in future quarters.

Inventory at June 30, 2024 was $69.9 million, down approximately $800,000 from last quarter-end. Inventory turns have also shown some slight improvement 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.

On to the liability side of the balance sheet, our long-term debt was $150 million at the end of the second quarter of 2024, and considering cash of $17.7 million, net debt was $132.3 million, which decreased $15.8 million or over 10% from the last quarter. Free cash flow generated during the quarter was primarily used to reduce debt.

Our leverage ratio was reduced to 1.66 at June 30 from 1.76 last quarter-end. This quarter marks the lowest level of leverage the company has maintained since the end of 2018. And we anticipate the leverage ratio will continue to improve during the remainder of 2024.

Our debt is currently comprised of our senior notes at $110 million and $40 million outstanding under the bank credit facility. Our credit facility has a borrowing capacity of $135 million, of which approximately $85 million was still available as of June 30, 2024. The company will continue applying free cash towards reducing debt until the company reaches its target leverage ratio of 1.5 or lower.

Looking at cash flow for the second quarter of 2024, cash flow from operating activities was approximately $17.2 million; and after paying for $2.9 million of CapEx, our free cash flow for the quarter was $14.3 million. When we compare free cash flow of $16.8 million generated by the company for the first half of this year to $1.2 million generated last year, we are pleased with not only an improvement in cash generation, but also managing the excess inventory levels down.

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 the 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 $14 million. Core will continue its strict capital discipline and asset-light business model with capital expenditure 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% to 4% of revenue even during periods of significant growth. Although we have improved the efficiencies in our global laboratory infrastructure through some consolidation of facilities, that same 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 a company's 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 maintain our constructive outlook on international upstream projects for 2024, and anticipate sustainable client activity growth in the years ahead to support rising crude oil demand and energy security concerns. Aligned with this, the company will continue to execute our strategic plan of technology investments and pursue growth opportunities.

The IEA, the EIA and OPEC projections continue to forecast growth in crude oil demand of 1 and 2 million barrels per day for both 2024 and 2025. The projected growth in crude oil demand 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, crude oil markets will remain volatile due to global economic and geopolitical risks and uncertainties, 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 and demand for Core Lab's proprietary services and products.

However, as the third quarter began, demand in laboratory assay work was negatively impacted by military attacks on hydrocarbon refining infrastructure in the maritime transportation network in the Russia-Ukraine region, along with the temporary closure of client facilities and ports in the Gulf of Mexico due to Hurricane Beryl.

In addition, the company anticipates U.S. onshore client activity will be sequentially lower. Consequently, we project Reservoir Description's third quarter 2024 revenue to modestly grow.

Turning to Production Enhancement, the U.S. frac spread count continues to trend lower, and the company anticipates a soft market for the remainder of the year. However, growth in demand for Core's international and offshore diagnostic services and energetic system product sales should offset declines in U.S. onshore activity.

Reservoir Description's third quarter 2024 revenue is projected to range from $86.5 million to $89.5 million with operating income of $13.4 million to $14 million.

Our Production Enhancement segment's third quarter revenue is estimated to range from $44.5 million to $47.5 million with operating income of $3.3 million to $4.9 million.

In summary, the company's third quarter 2024 revenue is projected to range from $131 million to $137 million, with operating income of $16.9 million to $19.1 million, yielding operating margins of approximately 13%.

EPS for the third quarter is expected to range from $0.23 to $0.27.

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

With that, I'll 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, as Gwen mentioned, IEA, EIA and OPEC projections forecast growth in crude oil demand of between 1 and 2 million barrels per day for both 2024 and 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 fields. These forecasts continue to bode well for increasing demand for the Core Lab services and products that will be required to grow production.

As we look ahead, we see long-term improvement in the 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 years, particularly in the Middle East, North and South America and 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 onshore and offshore conventional plays in a number of regions. Personal face-to-face visits with Middle East operators during the second quarter reinforced the continuing growth opportunities for both of Core's operating segments.

Furthermore, Core Lab continued 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.

Now let's review the second quarter performance of our two business segments. Turning first to Reservoir Description, for the second quarter of 2024, revenue came in at $86.3 million, up 2% compared to Q1 of 2024. Operating income for Reservoir Description, ex-items, was $11.8 million, and operating margins were 14%, flat compared to margins in Q1.

The segment is still feeling the negative impacts of ongoing international geopolitical conflicts in the Middle East and Russia-Ukraine. These conflicts are somewhat detracting from growth that is occurring across other regions.

Now for some operational highlights from Reservoir Description. In the second quarter 2024, Core Lab's Colombian operation was engaged by a leading independent E&P company to conduct a multi-well analytical program to evaluate the effectiveness of various enhanced oil recovery or EOR techniques under consideration for a mature oil field. Key to this endeavor was the utilization of Core Lab's advanced geochemical technologies, which enable precise determination of fluid compositions and isotopic signatures across several reservoir zones.

With these data sets, the operator was able to assess the viability of various reservoir fluid mixing strategies with the goal of achieving sweep efficiency across the oil field. Moreover, Core Lab's rock properties measurements and geological analysis also provided valuable insight into fluid flow behavior patterns that would occur in the subsurface during the EOR process.

Following the laboratory program, and the identification of the most effective EOR strategy, Core Lab's Production Enhancement team then deployed specialized chemical tracers into the injection wells to monitor the progress of the EOR field flood. With meticulous tracer evaluation still ongoing, Core's team is continuing to assess inter-well fluid displacement vectors and sweep efficiencies, while also identifying unswept areas of the field and potential barriers to flow, all of which are important factors in optimizing hydrocarbon recovery and extracting that all-important incremental barrel from existing fields.

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 $44.3 million, down slightly compared to Q1. However, operating income, ex-items, was $4.5 million, up from $3.4 million in Q1, and operating margins were 10% for the second quarter of 2024, up 260 basis points from Q1 and reflective of implemented cost controls and improved efficiencies.

Second quarter performance was supported by continuing demand for completion diagnostics, along with a rebound in U.S. product sales. Quarter-over-quarter, we saw somewhat lower international product sales, along with some softness in completion activity in the U.S. land market in the back half of the quarter.

Now for some operational highlights from Production Enhancement. An operator in the U.S. land shale play teamed up with Core's completions expert to improve cluster efficiencies and well performance. The operator wanted to deploy an oriented perforating system with the goal of preferentially aligning perforating guns and energetic charges with natural bedding planes in the strata.

However, using standard non-customized commodity energetics for these applications would yield unequal hole size, which in turn, would produce inconsistent profit placement and stimulation. To address this problem, Core's ballistic engineers developed a new family of energetics for unconventional-oriented plug and perf completions.

Core’s new HERO Oriented FRAC technology reduces hole-size variation and maximizes cluster efficiency by using a proprietary ballistic innovation for oriented perforating gun applications. By specifying Core Lab’s HERO Oriented FRAC technology for their wells, the operator was able to improve cluster efficiencies, increase stimulated reservoir volume, reduced frac cost and increased well productivity.

Also in the second quarter of 2024, an operator in the Gulf of Mexico employed Core’s completion diagnostic technologies to assess a frac pack. Core’s technologies revealed effective frac pack coverage over the targeted interval, with no significant void in the annular pack across the sand control screen. In addition, an ample proppant reserve was set above the screen. When reversing out the excess proppant slurry, a larger-than expected volume of co-mingled natural gas was detected.

A thorough examination of the PackScan log by Core’s engineering staff revealed that the unexpected gas quantity was produced from the lower portion of the annular pack. Identification of this interval of high gas production is assisting the operator in calibrating their reservoir model. The results will also help optimize future completion designs in this stratigraphic horizon.

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

Questions and Answer

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

John Daniel: Good job on the free cash flow.

Larry Bruno: Good morning, John, thank you.

John Daniel: Larry, I have got a sort of a dumb product question for you. I was interested in the press release comment about the emulsion treatment plant, that example where you are working with NOCs on sort of identifying problematic wells with the water, if you will. Could you elaborate on that? And is that something, given all the water that is here in the U.S. Lower 48, is that an opportunity set that’s being marketed here?

Larry Bruno: Yes, emulsions are -- I'll call it, oil-specific is probably the best way to put it. There's always water that occurs in association with oil production, referred to as the water cut, and that water is either easily separated out, disassociates from the oil, in a separator. It’s one of the functions that separators do, separate water from oil and gas from liquids. But in some cases, the composition of the oil and the water chemistry lead to emulsion. So you’ve got discrete droplets where you can consider the water is kind of trapped in droplets in the oil.

And so in this particular case, where they have had multiple wells flowing in together, they needed to find out where that emulsion was coming from, because it is implications for production and transportation and eventual processing of the oil. So we do that type of analysis wherever there are emulsions present for clients. And that can also generate or expand into midstream and downstream applications as well. It’s understanding the nature of the physical interaction of water and oil, and what are the things that are causing that.

So the answer to your question is yes, wherever there are emulsion problems, and if they are occurring in the U.S. land market, we will address it there. The scale of this particular project has big implications for what kind of treatment plant the client is going to have to develop. And so high impact on the bottom line of the client if we can sort out a way to minimize that trapped water in the emulsions.

John Daniel: Okay. Got it. And then I think we are all excited about international in the press release. Again, you guys called out the personal face-to-face meetings. It's not meant to be a softball question, but it probably will come across that way. But did you -- when you walked away from those meetings, was it reaffirming or made you feel even better? Does that make any sense? Just if you could elaborate on what they are telling you over the next several years?

Larry Bruno: Sure. So I'd say, at a minimum, reaffirming and in some cases, inspirational to accelerate some capital investment and some expansion of operations. So came out with both of those. In no instances, did we walk away thinking that we were going to see a downward trend from any of the clients. And we went through five different countries, and Chris actually came along with me on this trip. We went through various operators, talked to NOCs. We talked to IOCs that in some cases, are [seconded] to the NOCs' staff, where they are working on big projects. All had a very up and to the right attitude, some with I won’t call it hyperbolic, but up with an inspiring slope on expectations for work.

The only thing I would say is the flow of committed work is still not meeting what we would anticipate the pace to be for some of these projects. We know in many cases, Core is out of the ground. They are going through some internal review, and we are anxiously awaiting them to pass on those cores to us because it’s revenue waiting for us to, I will call it, harvest out of a committed project work, so still up into the right. We can go faster if the opportunity presents itself, and if that happens, we will see revenue and profit click up nicely.

John Daniel: Great, okay. Thank you all very much.

Operator: (Operator Instructions). Stephen Gengaro with Stifel.

Stephen Gengaro: I guess two for me, one kind of at a high level. One of the things that’s been a little surprising to us has just been the lack of a recovery in U.S. land, right? And obviously, there is efficiency gains, etc. When you guys think about sort of 2025, what do you think needs to happen to get at least some positive momentum in U.S. activity?

Larry Bruno: Well, I think one thing that would help a lot would be firmer natural gas prices. I think that’s put a weight on completion activity, drilling and completion activity, in the U.S. So I think that’s an underlying, call it, foundational to activity levels in the U.S. And so if there are, I will call it, altered views of the role that exporting natural gas might play, I think that would also be supportive of an increase in activity for natural gas drilling and completion.

And then I think one of the things, Steve, that needs to be looked at here is -- and this is looking back over nearly 4 decades. And I cringe when I say that, nearly 4 decades of experience here. Whenever there are consolidations in the market, inevitably, even the best-case scenarios, there is always a period of what I would call reorganization and realignment of operations. I think the consolidations that have occurred, or are in the process of occurring in the U.S., all bode well for Core Lab.

We see that the acquiring companies tend to be heavy users of science. And we think that that's a great thing for us. People that are willing to make data-driven decisions, whether it's on the evaluation of the rocks and fluids, or on how they complete their wells. So we think that plays out well for us. But I do think that there is a little bit of an overhang of sort of a consolidation effect that will work its way out over the next 2, 3, 4 quarters, some companies a little faster than other companies.

Stephen Gengaro: Great, thank you. And the other question, one of the things that we are trying to get our arms around better is when we think about drilling and completion efficiency, and kind of who benefits and who kind of gets hurt just because there is less wells being drilled, or less wells being completed. So when we think about your Production Enhancement Division, I know that the perforating gun business has been kind of evolving over the last several years for many reasons. But when you think about that business, what parts of it do you think you bring incremental value, really benefit from, the strive for efficiency and more efficient completion? And is there any part that it actually hurts you?

Larry Bruno: So I think first thing for Core Lab, let's kind of delink the connection with Core Lab in large measure from the drilling activity as it relates to Production Enhancement, right? We really don't have a revenue opportunity during the drilling of an oil well. So the rig count in North America, short-term perturbations in that, aren't going to really impact Core Lab. The completion side, that's where we have our revenue opportunities in Production Enhancement.

So with longer laterals and more complex completions, that I think feeds into the idea that they are still going to need plenty of perforating systems, energetic systems to complete those longer laterals. And I think on the Diagnostics side, an important concept there is, as wells get more complicated, U-shape geometries and simul-frac to trimul-frac to quads, every time clients try new technology, they need to establish, did I complete this now third, fourth, maybe some indications of folks looking at a fifth mile. Did they get the stimulation, the completion and stimulation effect that they wanted? And that's where our diagnostics come in.

So I think if you -- and I have talked about this a little bit in previous calls, the frac spread may be becoming a little less relevant for us as a bogey of what activity is like. If the wells are getting longer and more complex, they will still be consuming energetic systems for perforation. And the more complex the wells, the better for us, because they have got to unravel, are they getting what they wanted from that extra horsepower or the larger frac jobs they're doing.

Chris Hill: Now the only other thing I would add, Stephen, just to give a full picture is if the trends are either more shots, or less shots per foot, that would obviously have an impact on the product side.

Larry Bruno: Yes, charge sales specifically, right.

Stephen Gengaro: No, that makes sense and I appreciate the color, gentlemen.

Operator: At this time, there are no further questioners in the queue. And this does conclude our question-and-answer session. I would now like to turn the conference back over to Larry Bruno for any closing remarks.

Larry Bruno: Okay. We will 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 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 will 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 also 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 are 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.