Core Laboratories LP [CLB]
Q4 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:
Stephen Gengaro, Stifel
Josh Jayne, Daniel Energy Partners
David Smith, Pickering Energy Partners

Presentation

Operator: Good day, and welcome to the Core Laboratories Fourth Quarter 2024 Earnings Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

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

Larry Bruno: Thanks, Dave. Good morning in the Americas, good afternoon in Europe, Africa and the Middle East, and good evening in Asia-Pacific. We'd like to welcome all of our shareholders, analysts and most importantly, our employees, to Core Laboratories fourth quarter 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 Q4 performance. In addition, we'll review Core's strategies and the three financial tenets that the company employs to build long-term shareholder value. Chris will then give a detailed financial overview, and have additional comments regarding shareholder value. Following Chris, Gwen will provide some comments on the company's outlook and guidance.

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

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

Gwen Gresham: Before we start the conference this morning, I'll mention 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 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 fourth 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 our fourth quarter and full year 2024 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.

Fourth quarter revenue was down just under 4% compared to Q3 of 2024. However, full year revenue saw an increase of 3%. In addition, while operating income and earnings per share were down sequentially, for full year 2024, the company's operating income was up 7% and earnings per share was up 9% compared to 2023.

In Reservoir Description, revenue for the fourth quarter was down 2% compared to Q3 of 2024, but up 3% from Q4 of last year, reflecting the continued market demand for our global rock and fluid laboratory services. This year-over-year improvement occurred despite the ongoing trade sanctions and geopolitical conflicts in Russia, Ukraine and the Middle East that continued to negatively impact demand for laboratory services that are specifically tied to the assay of crude oil and derived products. These geopolitical factors and sanctions are still producing headwinds to both revenue growth and operating margins for Reservoir Description.

Despite these hurdles, for the fourth quarter ex-items, operating margins in Reservoir Description were still strong at 16%, down sequentially by 110 basis points, but up year-over-year by 170 basis points as we continue to focus on operational efficiencies.

In Production Enhancement, fourth quarter revenue was down 7% sequentially compared to Q3 of 2024, and roughly flat for the full year 2024 versus 2023. Ex-items, fourth quarter 2024 operating margins in Production Enhancement were 4%.

In 2024, the company did experience a higher level of international product sales compared to 2023. However, these were offset by a decline in U.S. product sales, reflecting lower levels of onshore completion activity in 2024 compared to 2023.

Completion Diagnostic services that were scheduled for 2024 in the Gulf of Mexico and were delayed by multiple hurricanes, have now been rescheduled by our clients to early 2025. Despite lower U.S. onshore completion activity, for the full year, demand for Completion Diagnostics were up nicely.

In line with our stated financial strategy, after funding our dividend, Core continued to dedicate the majority of its free cash to paying down debt. During the fourth quarter, Core's net debt was reduced by nearly $12 million. This reduction in our outstanding net debt also decreased Core's leverage ratio to 1.31, down from 1.47 last quarter, eliminating approximately 10% of the company's outstanding debt compared to the end of Q3. This is the lowest Core's leverage ratio has been in the last 8 years, marking another significant step in our pledge to strengthen our balance sheet and delever the company.

In addition to paying our quarterly dividend, Core Lab returned excess free cash to our shareholders by repurchasing nearly 265,000 shares of company stock during the fourth quarter. We will continue to focus free cash on reducing debt and strengthening our balance sheet while evaluating other opportunistic uses of free cash to improve shareholder value.

Lastly, for the full company, ex-items, for the full year 2024, EPS was $0.87 per share, representing a year-over-year growth in earnings of 9%.

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

Now to review Core Lab's strategies and the financial tenets the company has used to build shareholder value over our 29-year history as a publicly-traded company. The interest of our shareholders, clients and employees will always be well served at 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 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: 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.

Additionally, during the fourth quarter of 2024, the company recorded an adjustment of $4.1 million for the write-down of certain assets and discontinued inventory items, as well as costs associated with further consolidation of operational facilities. The fourth quarter also includes a gain of $3.3 million on insurance proceeds received and the reversal of stock compensation expense for certain performance share awards, which did not vest.

The comparison periods for the third quarter of 2024 and fourth 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 fourth quarter and full year of 2024.

Now looking at the income statement, revenue was $129.2 million in the fourth quarter, down 4% compared to the prior quarter and up slightly year-over-year. The sequential decline was primarily associated with a decrease in U.S. onshore activity. Additionally, our laboratory services associated with crude assay analysis have been adversely impacted in certain regions due to the ongoing conflicts in Ukraine, Russia and the Middle East.

For the full year 2024, revenue was $523.8 million, up 3% year-over-year, which was driven by growth in our service revenue and partially offset by a lower level of product sales. Of this revenue, service revenue, which is more international, was $96.5 million for the quarter, down 2% sequentially and up 2% from last year. The decline in U.S. land activity continued throughout the fourth quarter and into the first quarter of 2025. However, this was partially offset by improved activity on Completion Diagnostic projects in the Gulf of Mexico which were negatively impacted by storms in the third quarter.

Although the ongoing geopolitical conflicts continue to negatively impact crude assay laboratory services in certain international regions, we continue to see growth for both our reservoir rock and fluid analysis as well as Completion Diagnostic services in several international regions. For the full year of 2024, service revenue of $388.2 million was up over 4% compared to $371.9 million in 2023.

Product sales, which is equally tied to U.S. and international activity, was $32.7 million for the quarter, down 8% sequentially and down 2% from the fourth quarter of 2023. The sequential and year-over-year decrease in product sales was primarily due to a decline in the U.S. onshore activity, while product sales to international markets were flat sequentially, but increased 8% year-over-year.

For the full year of 2024, product sales of $135.6 million were down 2% from $137.9 million in 2023, which is primarily associated with the activity decline in the U.S. onshore market.

Moving on to cost of services, ex-items for the quarter, was slightly below 76% of service revenue, comparable to the prior quarter and the same quarter in 2023. We will continue to see improvements in absorption of cost and utilization of our global laboratory network with growth in these services. However, the service side of our business has been more impacted by the geopolitical conflicts and associated sanctions.

The volatility in crude oil prices and more recently, expanded sanctions, continue to cause disruptions to the trading and maritime movement of crude oil and derived products and the associated crude assay laboratory services that we provide. The company will continue to manage its cost structure as effectively as we can through these temporary disruptions in certain regions.

For full year 2024, cost of services ex-items was below 77% of service revenue, which compared to 76% in 2023. Cost of sales ex-items in the fourth quarter was 90% of sales revenue, compared to 88% in the prior quarter and 91% in the same quarter in 2023. The increase this quarter is primarily due to reduced manufacturing efficiencies associated with lower U.S. onshore sales. The company anticipates the U.S. onshore activity levels will begin to improve as the first quarter of 2025 unfolds, and reach similar levels compared to 2024. The company will continue to manage the business as efficiently as possible through this volatility in the U.S. market.

For the full year 2024, cost of sales ex-items was approximately 88% of sales revenue, which compares to 85% in 2023.

G&A ex-items for the quarter was $9.9 million, down slightly compared to the prior quarter. Full year 2024 G&A ex-item was $38.4 million compared to $36.6 million in the full year of 2023. For 2025, we expect G&A to be approximately $40 million to $44 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 and flat compared to the last quarter, but down compared to $3.9 million in the same quarter last year.

EBIT ex-items for the quarter was $15.7 million, down $2.5 million from last quarter, yielding an EBIT margin of over 12%. Year-over-year EBIT ex-items for the fourth quarter was up slightly from last year. Our operating income for the quarter on a GAAP basis was $14.2 million. Full year 2024 EBIT ex-items was $65.3 million, up 7% from $61.2 million in 2023. And on a GAAP basis, EBIT was $58.6 million for 2024 compared to $54.6 million in 2023.

Interest expense of $2.6 million decreased over 15% compared to $3.1 million in the prior quarter, and decreased 27% compared to $3.6 million in the fourth quarter of last year. The decrease in interest expense is a direct result of the company's continued effort to reduce debt.

Income tax expense at an effective tax rate of 20% and ex-items was $2.6 million for the quarter. On a GAAP basis, tax expense was $4.1 million for the quarter, and for the full year of 2024, income tax expense on a GAAP basis was $14 million compared to $4.2 million in 2023. And the lower tax expense in 2023 is primarily due to the tax benefit of $11.6 million associated with the re-domestication transaction that was executed in 2023.

Additionally, the company continues to evaluate and finalize tax planning associated with the new tax structure after re-domesticating the parent company from the Netherlands to the U.S. For 2025, we project the company's effective tax rate to be approximately 25%. However, the effective tax rate will continue to be somewhat sensitive to the geographic mix of earnings across the globe and items that are discrete to each quarter.

Net income ex-items for the quarter was $10.4 million, down from $11.8 million in the prior quarter, but up from $8.9 million in the same quarter last year. On a GAAP basis, we recorded net income of $7.4 million for the quarter. For the full year 2024, net income ex-items was $41.6

million, up 10% from $37.8 million in 2023. GAAP net income for the full year of 2024 was $31.4 million.

Earnings per diluted share ex-items was $0.22 for the quarter, down from $0.25 in the prior quarter, but up from $0.19 in the same quarter last year. On a GAAP basis, earnings per diluted share was $0.15 for the quarter and for the full year 2024, earnings per diluted share ex-items was $0.87, up 9% from 2023. And on a GAAP basis, full year 2024 EPS was $0.66.

Turning to the balance sheet, receivables were $111.8 million, which decreased approximately $5.8 million from the prior quarter. Our DSOs for the fourth quarter were at 76 days compared to 74 days in the prior quarter.

Inventory was $59.4 million as of December 31st, a decrease of approximately $6.1 million from last quarter-end, and down $12.3 million from the end of last year. Inventory turns for the quarter improved to 2.1 from 1.9 in the last quarter, and have continued to improve over the last few quarters. Despite a challenging U.S. onshore market this quarter, our team did a nice job remaining focused on our inventory management, and we will remain focused on these efforts as we continue to look for improvement in 2025.

And now to the liability side of the balance sheet, our long-term debt was $128 million at December 31 2024, a reduction of $14 million this quarter. Considering cash of $19.2 million, net debt was $108.8 million, a decrease of $11.7 million from $120.5 million at the end of the prior quarter. For 2024, net debt was reduced by $42 million or 28% from the end of last year. Additionally, our leverage ratio continued to improve throughout 2024 and decreased from 1.76 last year-end to 1.31 at December 31, 2024. As Larry mentioned earlier, this is the lowest our leverage ratio has been in over 8 years.

Our debt is currently comprised of our senior notes at $110 million and $18 million outstanding under our bank credit facility. Our credit facility has a borrowing capacity of $135 million, of which approximately $106.1 million was still available as of December 31, 2024. Since announcing the company's commitment and focus on reducing debt in the fourth quarter of 2019, we have reduced net debt by 63%. The company will remain focused on executing its strategic business initiatives while continuing to apply free cash towards reducing debt and lowering the leverage ratio.

Looking at cash flow for the fourth quarter of 2024, cash flow from operating activities was $20.6 million, and after paying for $4.4 million of CapEx during the quarter, our free cash flow was $16.2 million. For the full year 2024, cash flow from operating activities was $56.4 million and capital expenditures totaled a little over $13 million. From this, the company generated free cash flow of $43.4 million, a significant improvement from $14.2 million in 2023.

Looking ahead to 2025, we will continue to manage investment in working capital during a period of growth, and continue our capital discipline with capital expenditures primarily targeted at growth opportunities. However, our capital expenditures are expected to be elevated as the rebuilding of our Aberdeen facility that was damaged by a fire in February of 2024 is planned for 2025. Capital expenditures associated with restoring this facility is estimated to be between $10 million and $12 million. However, these investments are covered by insurance proceeds either received in 2024 or to be received in 2025. The company will report the CapEx associated with rebuilding the Aberdeen facility separately.

So excluding the Aberdeen facility, we expect capital expenditures in 2025 to be in the range of $15 million to $17 million.

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 operations 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 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. As 2025 unfolds, Core will continue to execute its strategic plan of technology investments targeted to both solve client problems and capitalize on Core's growth opportunities. A cautious near-term approach was adopted by operators in the back half of 2024, driven by concerns for a potential imbalance between crude oil supply and demand. However, we maintain our constructive long-term outlook on international upstream projects for 2025 and beyond.

The IEA, the EIA and OPEC+ continue to forecast growth in crude oil demand of approximately 1.1 million to 1.4 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 demand. In the near term, we expect that crude oil markets will remain volatile due to the global economic uncertainties and geopolitical risk.

In January of 2025, expanded sanctions impacted the maritime movement in trading of crude oil and derived products, along with the demand of necessary laboratory assay work and prohibited product sales and services to a broader group of entities. In alignment with this outlook, Core will remain well engaged on long-cycle international projects.

Looking ahead, as international project activity is expected to be steady, committed long-term upstream projects from the South Atlantic margin, North and West Africa, Norway, the Middle East and certain areas of Asia-Pacific support mid-single-digit growth year-over-year, and demand for Core Lab services and products. In the U.S., onshore activity is projected to be flat to slightly down compared to 2024.

In addition to the geopolitical risk and recently-expanded sanctions, we expect typical sequential seasonal industry patterns will cause activity in the first quarter of 2025 to decline in some regions. Severe weather in the U.S. and the Mediterranean resulted in suspended client activities and facility closures. As such, Core projects Reservoir Description's fourth -- excuse me -- first quarter revenue to range from $82 million to $85 million with operating income of $9 million to $10.7 million.

The first quarter 2025 onshore U.S. drilling and completion activity was adversely impacted by freezing conditions, and continued to decline throughout January. However, activity is expected to improve as the quarter unfolds. Consequently, Production Enhancement's first quarter revenue is expected to range from $39 million to $42 million, with operating income of $1.1 million to $2 million.

The company's first quarter revenue is projected to range from $121 million to $127 million, with operating income of $10.2 million to $12.8 million, yielding operating margins of approximately 9%.

Core's effective tax rate is projected at approximately 25% for 2025. This change in the effective tax rate is projected to increase income tax expense for the first quarter of 2025 by approximately $500,000. As such, EPS for the first quarter is expected to range from $0.12 to $0.16. The company's first quarter 2025 guidance is based on projections for underlying operations and excludes gains and losses and foreign exchange.

I'll now turn 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, as Gwen mentioned, after assessing current and near-term economic conditions, recent IEA, EIA and OPEC projections are forecasting growth in global crude oil demand of between 1.1 million barrels and 1.4 million barrels per day for 2025 compared to 2024. 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 U.S. oil production to only rise from 13.2 million barrels per day in 2024 to 13.5 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. oil production since 2018.

In addition, the most recent EIA forecast projects that U.S. production growth will rise to only 13.6 million barrels per day in 2026, an increase of just 100,000 barrels per day. 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 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 Reservoir Description services, 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 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 continued to expand its portfolio of innovative offerings for perforating applications, plug-in abandonment operations and completion diagnostics. In addition, in 2024, Core Lab opened a Completion Diagnostics lab in the Middle East to better serve the opportunities in that region.

Now let's review the fourth quarter performance of our two business segments. Turning first to Reservoir Description, for the fourth quarter of 2024, revenue came in at $86.8 million, down 2% compared to Q3. For Q4, operating income for Reservoir Description ex-items was $14.1 million, down from $15.4 million in Q3. But operating margins were still strong at over 16%, slightly below the 17% achieved in Q3 of 2024.

While demand for Reservoir Description lab services remained strong across our global network, demand softened in the U.S. market in line with reduced U.S. land activity. And headwinds persisted from international geopolitical conflicts and associated sanctions. These geopolitical conflicts and sanctions detracted from growth trends that are occurring across other regions.

Now for some operational highlights from Reservoir Description. During the fourth quarter of 2024, a leading Middle East offshore operator engaged Core Lab's formation damage team to address challenges related to the reinjection of produced water from a mature field. Cost effective and environmentally sound disposal of produced water often influences the return on investment that operators can achieve from an oil and gas field. Core's team conducted advanced fluid compatibility and Core flooding experiments in the laboratory. These analytical results provided critical data for both the design of cost-effective water treatment facilities and the optimization of the operator's reinjection strategies.

Specifically, these tests determine the need for filtration and chemical treatment strategies, and also identified the most favorable injection rates. In addition, the lab results determined if the injected water would react adversely with either the in-situ formation water or the rocks. This project nicely illustrates how Core Labs Reservoir Description services are required throughout the lifecycle of oil and gas fields.

Now to Production Enhancement, where Core Lab technologies continue to help our clients optimize their well completions and improve production. Revenue for Production Enhancement for Q4 came in at $42.4 million, down 7% compared to Q3 and down 3% year-over-year. Fourth quarter operating income for Production Enhancement ex-items was $1.5 million, yielding operating margins of 4%. For the full year, revenue was $178 million and operating income ex-item was $12 million, down 16% compared to 2023.

Production Enhancement did achieve both slightly higher levels of international product sales, up 1.1%, as well as growth in demand for Completion Diagnostic services, which were up 15%, largely reflecting improved market penetration of innovative technology offerings in the U.S.. However, product sales in the U.S. did feel the impact of reduced U.S. land completion activity.

Now for operational highlights for Production Enhancement. During the fourth quarter of 2024, Core Lab continued to build on the success of its refrac energetic technologies for mechanical isolation and recompletions in unconventional reservoirs. Recompletions allow operators to extend the productive life of their well inventory by implementing techniques that isolate previously-produced intervals before accessing untapped reservoir sections between the previously-completed stages of a horizontal well.

Several North American operators approached Core Lab's ballistic engineers to design fit-for-purpose energetic solutions for recompletions. Conventional shape charges would provide inferior performance, leading to lower frac efficiencies and reduced stimulated reservoir volumes in the new stages. Core Labs' experts developed proprietary ballistics to overcome the completion challenges presented in these mechanical isolation recompletions, which include the penetration of multiple down-hole casing strings.

In recompletions that used Core's proprietary refrac technology, operators reported approximately 50% improved hydraulic fracturing efficiencies, leading to significantly higher hydrocarbon recovery rates.

Also in the fourth quarter, Core's Completion Diagnostic technologies were used by a deepwater Gulf of Mexico operator who sought Core's help to confirm the competency of their frac pack completion. To do so, Core employed its SPECTRASTIM proppant tracing, SPECTRASCAN gamma ray logging, and PACKSCAN technologies. The diagnostic data showed sufficient proppant reserve above the top of the [sand]-control screen, but a complete absence of proppant across the lower third of the screen. Core's engineering team was able to identify that formation find had entered the annual space prior to the frac pack.

The daily drilling reports revealed that numerous tubing movements had occurred while pumping the frac pack. Core's diagnostic experts and the operator's completions team agree that the excess tubing movements had drawn formation finds into the annulus. The operator chose to set a plug in the tubing above the formation material, and proceed with production operations, thus, preventing an expensive completion failure.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Stephen Gengaro with Stifel.

Stephen Gengaro: I probably ask you this almost every quarter, but when we think about Production Enhancement in the U.S. market, how do you think about the competitive dynamics and the pricing environment? We heard recently that the oriented perf guns were having a great deal of success in kind of enhancing production. So just curious how you kind of -- what you see in that market and what you could do maybe get paid more for the value you generate?

Larry Bruno: Yes, well, look, it's a crowded market, Steve. We've talked about this with you and across our conversations. It's a crowded market with a lot of competition. And you've got some buyers that want to pay for technology and performance, and you've got some buyers that want commodity products. And so we're going to always try to aim ourselves at technology advantages that differentiate our projects.

So I'd say, we've seen stable pricing in that market. I wish it was higher and we were getting rewarded more for that technology. But with so much capacity in that space, I think that it's going to weigh on everybody that's playing in that market.

Stephen Gengaro: Okay, great. Thanks. And then can you talk a little bit about the R&D business internationally? And kind of what you're seeing, I guess, on the pricing side, but also like when you think about 2025, like what do you think will be the biggest drivers of that business?

Larry Bruno: Yes, so I think we maybe bifurcate a little bit of what we're seeing in Q1 and what we dialed into our forecast for Q1, a couple of things. We very regularly, I'll call-it, typically see and expect a seasonal decline from Q4 to Q1 in Reservoir Description operations. Some of that's weather and we've had some severe weather recently that resulted in some closures along the Gulf Coast that accentuated that a bit. That never helps when you've got office closures tied to that. But more importantly, there's a normal seasonal pattern that unfolds with our client activity that pushes Reservoir Description down.

On top of that, and rather significantly for us, the sanctions that came out and were announced on January 10 actually hit both segments of our business. And it affected product sales into Eastern Europe, and it affects Reservoir Description operations as they relate to laboratory work on the crude assay work that are required for trading and transportation of crude oil.

So a bunch of ships were added to be excluded from the market, and trading activity really kind of came to a halt for a little while, and thus, the demand for the lab services while people sort out the sanctions. So that influences the Q1 outlook for us.

As we look further throughout the year, we still think Reservoir Description will be up by mid-single-digits. International activity is still strong for us, project progression still looks good. I think we're probably a bit more optimistic than some of the others have forecast for international activity as it relates to Reservoir Description. So no, I'd say no downside for us on pricing, and in fact, I think year-over-year, we're seeing up by mid-single-digits for Reservoir Description.

Stephen Gengaro: Great, thank you for the color.

Operator: Josh Jayne with Daniel Energy Partners.

Josh Jayne: First question, I just wanted to dig into that a little bit more going back to the mid-single-digit activity increase internationally. Maybe you guys could give a bit more detail walking through the world through your international markets, where you're seeing the most growth and where things may be more muted over the course of 2025?

Larry Bruno: Yes, so, I guess one thing, Josh, that we talked about over time is we tend to -- somewhat by design, somewhat by just how our projects unfold -- we tend to not be a leading indicator of what's happening in a sector in the industry, particularly in Reservoir Description. We tend to lag on the way up and lag on the way down. And so some of the folks that are more involved in well construction, they see an early bump in activity, and then things slow down for them.

We're still, I call it, in a very constructive phase for us as it relates to formation evaluation. In particular, I'd point out the Middle East on that, projects in multiple countries that are in the early stages of execution for us. And so we think those have some pretty nice legs on them. I think the South Atlantic margin still looks good, although in a few places, like West Africa and the South Atlantic margin, we have seen some clients report some dry holes that will impact us over time.

They didn't discover the sand that they were looking for, or didn't find any hydrocarbon, so rock and fluid analysis will kind of fall off on that. But I think still very constructive on the South Atlantic margin for several years to come. Middle East, Asia Pacific, I'd say we are very optimistic about Australia and Indonesia. We see project work in the North Sea, on the Norway side of the North Sea, looks good for us. So I think that looks pretty strong for us.

I will point out one place where we're not active, and I think is going to pose a headwind for some others, is Mexico. We got out of Mexico operationally a while ago. We'll still sell product to service into it, but we won't -- if they want to come to us and have that done out of the U.S., but we're operationally out of Mexico. And so I think that will be, at least for the near-term, that will prove out to be a good move by us to vacate that market.

Josh Jayne: Thanks for all that detail, I appreciate it. The second question is more of a shorter-term, but I just want to get a bit of a grasp on it a little bit, which is the Q1 weather. Could you just talk about where exactly you saw the largest impact, how many days you were ultimately down? I know you talked about Gulf Coast and office closures, and I know we felt some of it in Houston. But maybe you could just go into that a little bit more, so the industry could have a better idea of where we stood over the course of Q1?

Larry Bruno: Yes, sure. So our main product manufacturing facility is up in Godley, Texas. We had 2-plus days, 2.5 days or so, of freeze-related closures there. Our largest laboratory facility in the world in Houston was closed for a couple of days, and I guess we got the light end of it. On the Reservoir Description side, laboratories along the Texas-Louisiana border, so the Beaumont-Port Arthur area and over into New Orleans area in South Louisiana, Broussard, all had closures of 3 days or so. And so we had multiple days in the early part of the quarter. We know those, we were closed there.

Some of the ports that handle the ships that drive our shipping-related laboratory analytical work for crude assay work, they were closed, so we weren't operating. I'd say all told, about $1 million of revenue with very high incrementals because we still have all the employees and staff came out of Q1 just from those closures along the Gulf Coast, and a little bit of interaction as well in the Mediterranean, we had a few closures there.

Josh Jayne: Thank you very much. I'll turn it back.

Operator: (Operator Instructions). David Smith with Pickering Energy Partners.

David Smith: Congratulations on the strong Q4 free cash flow and the balance sheet progress. Following up on the commentary for the full year outlook on Reservoir Description, I guess first, I did want to ask if it's fair to think that maybe it's the geopolitical disruption having an outsized impact on the decremental margins for Reservoir Description in Q1?

Larry Bruno: No question about that, Dave, and I guess we can all take our view of what's going to happen with the sanctions. I will say we didn't see the expansion that was announced on January 10, but it had an immediate impact on both segments of our business. Like I said, product shipments into Eastern Europe, that will go through in Q1; we think it will come back if the sanctions are withdrawn or pulled back. And then also on the crude assay work, it has a very quick effect on our profitability.

So if those unwind -- and we think that to keep the price of oil where people are comfortable with it, we think they will unwind, then there's an opportunity for us to maybe claw some of that back later in the year. But right now, as we look at the first quarter, I just wanted to be open about those headwinds that emerged.

David Smith: I appreciate it. So if Reservoir Description were up mid-single-digits and 2025 revenue was up, would you think that the almost 60% incremental margins from 2024 would be a good framework for 2025 after Q1 at least?

Larry Bruno: Yes, I think so, and that's not just a 2024 number. That's a longstanding number, and I think as activity increases, that can even be higher, right? Think about the fixed cost structure of our lab network; you put more rocks, more fluids through that lab structure on Reservoir Description, and the incrementals, 60% is a good run rate. We talk about north of 50% being -- I hate to say this -- easily achievable, but regularly achievable. We had nearly 60% last year, and if we're busier, I think that can be even a little bit higher.

David Smith: Great, thank you very much.

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

Larry Bruno: Okay. We'll wrap up here. In summary, Core's operational leadership continues to position the company for improving client activity levels 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 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 our 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.