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FET - Q1 2018 Forum Energy Technologies Inc Earnings Call

EVENT DATE/TIME: MAY 01, 2018 / 2:00PM GMT

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Forum Energy Technologies First Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Mark Traylor, Vice President of Investor Relations. Sir, you may begin.

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**Mark S. Traylor** - *Forum Energy Technologies, Inc. - VP of IR & Planning*

Thank you, Grace. Good morning, and welcome to Forum Energy Technologies First Quarter 2018 Earnings Conference Call. With us today to present formal remarks are Prady Iyyanki, our Chief Executive Officer; Pablo Mercado, our Chief Financial Officer; and Lyle Williams, Senior Vice President of Operations.

We issued our earnings release last night, and it is available on our website. The statements made during this conference call, include the answers to your questions, may include forward-looking statements. These statements involve risk and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. Those risks include, among other things, matters we have described in our earnings release and in our filings with the Securities and Exchange Commission. We do not undertake any ongoing obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call.

In addition, this conference call contains time-sensitive information that reflects management's best judgment only as of the date of the live call. Management statements may include non-GAAP financial measures. For a reconciliation of these measures, refer to our earnings release.

This call is being recorded. A replay of the call will be available on our website for 2 weeks following the call.

I am now pleased to turn the call over to Prady Iyyanki, our Chief Executive Officer.

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Thanks, Mark. Good morning, everyone. Thank you for your interest in Forum. I'm going to start my comments with an overview of current market conditions and the first quarter results and then discuss our focus areas for 2018. I will turn the call over to Pablo, our CFO, to provide details on our financial performance and strong liquidity position; and then Lyle Williams, our Chief -- our Senior Vice President for Operations will discuss a few of our operating initiatives.

We are excited about the current market conditions and are well positioned to benefit. The oil price is at the highest level since 2015. North America rig count is up, our pressure pumping customers are increasing their fleets, and we're seeing early signs of an international land recovery. These improving market fundamentals drove a broad-based sequential improvement in our first quarter orders. Each of our 3 segments delivered strong sequential orders growth.

In the first quarter, our total orders for the company were $261 million, an increase of $30 million or 13% from the fourth quarter. The first quarter book-to-bill ratio was [104%] (corrected by company after the call) for the company as a whole. The receipt of these orders provides us additional confidence that Forum's revenue and earnings will improve significantly throughout the year.

Our first quarter performance was in line with our expectations, except for the Subsea product line, primarily due to delays of large orders for non-oil and gas Subsea equipment. Despite our customers' slow start, momentum grew throughout the quarter with revenue up for the prior quarter to $250 million, adjusted EBITDA was $19 million even with a sequential decrease of approximately $4.5 million in the Subsea product line.

Our Completions segment orders increased to $112 million, an increase of 10% sequentially due to higher customer spending across all the product lines. During the quarter, we were awarded a multiyear frame agreement to supply our Davis-Lynch casing and cementing equipment to an international service company. Also, we received orders for over 280,000 horsepower of J-Mac hydraulic fracturing power ends. As the customers' need evolved to meet increasing completions intensity, we're gaining market share with an array of new innovative products. We expect the demand for our Completions segment to improve as operators ramp their well completion programs in 2018.

In our Production & Infrastructure segment, new inbound orders in the first quarter were $97 million, an increase of 20% sequentially. Orders for valves in the first quarter set another record as customers prepare for downstream projects later in the year. As we enter the second half of the year, we expect the valves product line to benefit from several large midstream and downstream project awards. In addition, our new Saudi facility is complete and procuring new business opportunities.

Our Drilling & Subsea segment inbound orders in the first quarter were $53 million, a 7% increase from the fourth quarter 2017, led by orders for drilling equipment which were the highest in over a year. These were partially offset by delays of some large orders for Subsea capital equipment. However, during the second quarter, we expect to receive some large orders for Subsea equipment outside the oil and gas industry.

In addition, we also expect orders from the Middle East for land rig packages, which include our latest generation catwalks and Iron Roughnecks as well as handling tools and our drilling consumer products. We expect the continued increase in North America rig count and prospects of an international recovery to be favorable for our Drilling product line.

Our growth drivers going to second quarter, which will be accelerated in second half are as follows: The North America drilling completions and production activity will continue to accelerate; high levels of completions, service intensity and frac equipment attrition resulting in increased pressure pumping maintenance and newbuild requirements; strong customer uptake on the new products, such as our Wireline BOP Hydraulic Quick Latch, greaseless wireline cable, stainless steel fluid ends, 3000-horsepower power end, Multilift SandGuard ESP protectors and DURACOIL coiled tubing. These products continued to gain momentum. Also, valves midstream and downstream project awards are progressing. And finally, the drilling capital equipment orders for the Middle East are imminent. We continue to ramp up operations in the Completions and Production & Infrastructure segments, while streamlining Drilling & Subsea.

With over 80% of our business tied to North America land market and over 80% tied to consumable and activity-based products, Forum is well positioned to benefit from the strong domestic recovery. As we look ahead to the second quarter of 2018, we expect continued broad-based growth in orders. We expect our revenue to be between $260 million and $280 million and EBITDA to be in the range of $23 million to $27 million.

Let me ask Pablo to take you through our results and financial position.

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**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Thank you, Prady. Good morning. Our first quarter revenue was $250 million, an increase of $3 million sequentially. Net income for the quarter was $28 million or $0.25 per diluted share. Results for the quarter included special items on a pretax basis comprised of the following: A $34 million gain related to the contribution of the subsea rentals business to Ashtead in exchange for a 40% interest in the combined company. This was partially offset by $4 million of foreign exchange losses and $7 million of transaction expenses, restructuring and other charges.

In addition, results included a special $16 million tax benefit, which was an adjustment to our provisional 2017 charge related to U.S. tax reform. This change, which was driven by new guidance provided by the Internal Revenue Service in the first quarter, flipped us to a provisional net benefit of $6 million. Until U.S. tax reform guidance is finalized this year, we and other companies will continue to refine our tax provision.

Our adjusted EBITDA was $19 million, and our adjusted net loss per share was $0.07, excluding special items. This adjusted net loss includes a negative impact of $0.02 per diluted share related to certain unrecognized tax benefits. We provided a reconciliation table in our earnings release for your reference.

Before I summarize our segment results, I would like to highlight that we have expanded the disclosure in our earnings release to include revenue by product line. We hope this additional visibility is helpful to our investors. I will now summarize our segment results on a sequential basis and provide additional details on the first quarter.

Our Completions segment revenue was $113 million, an increase of $9 million or 9% sequentially, due to increased customer spending on pressure pumping equipment, coiled tubing and downhole completions products. Adjusted EBITDA margins were 21%, consistent with the prior quarter. Incremental margins were only 22% due to under absorption of manufacturing costs resulting from the slow start to completions activity in the quarter. In addition, we are selectively liquidating inventories where shifts in market demand have left us with excess inventory positions.

Production & Infrastructure segment revenue was $86 million, a 6% decrease from the fourth quarter, after particularly strong deliveries of well site production equipment at year-end. Despite the lower revenue, adjusted EBITDA margins improved to 8.3% on favorable mix of valve sales. In addition, the 20% increase in bookings provides a strong backlog for the second half of the year.

Drilling & Subsea segment revenue was $52 million, a decrease of $2 million from the fourth quarter, primarily due to the contribution of the subsea rentals business to Ashtead. The decline in subsea revenue was partially offset by higher sales of drilling consumable products and handling tools. Adjusted EBITDA for the segment declined $3.4 million, driven by an approximately $4.5 million decrease in the Subsea product line. This significant decrease in Subsea EBITDA was driven by manufacturing underabsorption from delays in capital equipment orders, through the second quarter in addition to the contribution of the rentals business to Ashtead.

We expect to receive some large non-oil & gas orders in the second quarter. And with these orders and our continued focus on streamlining operations, Subsea will achieve EBITDA breakeven or better for the balance of the year.

I will now discuss some additional details about our results at the Forum level. In terms of overall pricing dynamics, we achieved gains in the first quarter from the new products that we have introduced to the market, most of which are aimed at improving efficiency for our customers. We believe we will have broader pricing opportunities as market activity continues to increase. Our free cash flow after net capital expenditures in the first quarter was negative $19 million, an improvement of $10 million over the fourth quarter. We are on track to turn free cash flow positive in the second half of the year, and we expect another sequential improvement in the second quarter as we improve working capital efficiency. This is a key focus area for us and an important part of our management incentive plans.

Our capital expenditures in the first quarter were $5 million, entirely offset by $5 million of proceeds from sales of property and equipment. Our total capital expenditure budget for the year is $35 million. Our balance sheet and financial position remain strong. During the quarter, we paid down $50 million on our revolving credit facility, and our quarter end liquidity position was approximately $277 million.

Our weighted average diluted share count for the first quarter was 110.9 million shares. Net debt at the end of the first quarter was $415 million, and our net debt to total capitalization ratio remained at 22%.

Interest, corporate expenses and depreciation and amortization were $8 million, $8 million and $19 million, respectively, in the first quarter. We expect these to remain at similar levels in the second quarter. We estimate that our effective tax rate for the full year 2018 will be in the range of 20% to 23%. For more information about our financial results, please review the earnings release on our website.

Let me turn the call over to Lyle to discuss several operating initiatives.

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**David Lyle Williams** - *Forum Energy Technologies, Inc. - SVP of Operations*

Thank you, Pablo. Good morning, everyone. I will provide details on our operational cost structure optimization, strategic sourcing program and inventory turn improvement initiative. We continue to drive our operational excellence initiatives aimed at improving overall EBITDA margins back to pre-downturn levels. These include actions to further optimize our operating cost structure by eliminating direct and overhead costs in our manufacturing, distribution and service locations. We anticipate achieving significant incremental cost savings by the end of the year. Our strategic sourcing program has allowed us to achieve significant material cost savings through value engineering, competitive sourcing and increased procurement from best cost country sources. These savings, combined with price increases, will largely offset the impact of the recently implemented steel tariffs. While steel costs, in aggregate, represent 20% to 30% of our revenue, only a small percentage of the steel we consume is of the type impacted by the tariff.

On the efforts to improve inventory management, we are strengthening our operational forecasting through better coordination of demand planning and supply chain execution. Additionally, our lean and strategic sourcing initiatives are reducing lead times, and we are reducing excess inventory positions created by the downturn and by shifting customer preferences. These actions will improve inventory turns throughout the year. Let me turn the call back over to Prady for closing comments. Prady?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Thanks, Lyle. In closing, these are the best market conditions we have seen since the downturn. And we see further improvement from here. The macro environment for North America drilling, completions and infrastructure activity, which is 80% of our revenue base, is expected to improve throughout 2018. In addition, we are seeing some early signs of international land drilling recovery. Our near-term focus is on executing the following: Growth in Completions and Production & Infrastructure segments; EBITDA margin improvement; free cash flow generation; and finally, maintaining the balance sheet discipline. Thank you for you interest. At this point, we'll open the line for questions. Operator, please take the first question.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And our first question comes from George O'Leary with Tudor, Pickering, Holt.

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**George Michael O'Leary** - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Executive Director of Oil Service Research*

I thought the guidance color is helpful and certainly shared some nice top line growth. I was wondering if you could maybe break down the expectations in a little bit more detail in terms of which segments are probably going to be leading that top line growth and which segments maybe lagging a little bit? And it does seem like the incremental margins might be a little bit softer than what we expected. Any color on what's kind of dragging on margins somewhat, if you will?

**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes. Well, great question, George. I think, if you look at bookings across all 3 segments, they were up sequentially. So what we expect is every segment from a top line and bottom line to go up. Completions will lead just from an EBITDA growth standpoint, but in the case of D&S, just because of the subsea shortfall we had and the anticipated large order, which we're going to get, I mean, the D&S from a quarter-to-quarter contribution will be pretty significant here. And then -- and also P&I will nicely grow on top line and bottom line. Pablo, can you add any more color here?

**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Yes. So in addition to the -- to Subsea being up with the orders, there is also the seasonality in the joint venture. The fourth quarter is very slow in the North Sea market. So traditionally that business does better in the second quarter. And we are seeing an uptick in drilling activity as well, as you could see from our orders.

**George Michael O'Leary** - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Executive Director of Oil Service Research*

Great. That's very helpful color. And then, on the free cash flow generation and capital deployment side, I guess, it sounds like you guys are targeting being free cash flow positive, again, in the second half. What are the kind of the priorities for the use of that free cash flow? Is the M&A market attractive enough for you guys to continue to execute on mergers and acquisitions? Is there a preference to deploy that into organic growth and things like DURACOIL and the increased coiled tubing use for gathering pipe? I guess, just kind of rank the order of capital allocation given the fact you guys expect to be free cash flow generative in the second half.

**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes, yes. Great question, again, George. Number one, yes, we are on track to deliver positive free cash flow starting second half of the year, and we'll make meaningful progress sequentially in the second quarter on the free cash flow. And then, the use of cash, I think, to your point is, right now we are focused on the execution piece on the operational side to ensure we can deliver the second quarter, but starting second half, once we start generating the free cash flow, our prioritization would again move towards the -- apart from the execution piece, we'll also look at the M&A. Right now, the environment is pretty good. On the internal capital investments, George, I think our capital requirements are pretty low. As you know, I think we're going to spend about $30 million or less. And so far in the first quarter, we haven't spent much, right? So I think there are no major capital requirements needed to support the organic growth. But on the M&A front, we have a pretty decent pipeline. And once we start generating the free cash flow, we'll be actively looking at the M&A. Pablo, anything on the M&A?

**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Yes. So as we turn free cash flow positive in the second half of the year, we will, of course, focus on paying down the revolver. There is not a lot left to pay down. So that will give us ample liquidity to pursue acquisitions. I'd say that the market is pretty good for acquisitions. As Prady said, we are focused on execution and turning free cash flow positive, but we are also developing targets, and we see some interesting things that could come to fruition in the second half.

**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

And the prioritization from an M&A, George, doesn't change from what we've communicated in the past. Number one is Completions. And the second area is anything we can do to solidify our midstream, downstream part of the portfolio, we would be interested in that, too, but primarily Completions.

**George Michael O'Leary** - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Executive Director of Oil Service Research*

Okay. That's good color. And then I'll sneak in one more, if I could. It sounds like the drilling side is getting better and you gave some pretty helpful comments on the international side of the equation with regards to Middle East tendering activity. So it feels like some of the Middle East land rig awards had been slipping for the last year or so, and possibly even longer than that. Does it feel like those are actually now on the come? And then, two, also North America onshore, doesn't feel like we're at a point where newbuilds come into foray, but it seems like there is another wave of upgrades that have already been announced in May continue to come through. So any color on the North American land drilling, in particular, and what you're seeing on the order flow front there would also be helpful?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes. Good question, George. The Middle East projects are finally moving. And what we've heard in the last few days is our customers are getting the contracts from the end user. And as we've communicated in the past, depending on who gets the contract, we already spec'ed in. And if they win, we win. And some of our customers have already won the contracts. Officially, we will get the contracts in the next 1 to 3 weeks as they close out their contracts with their customers. But the Kuwaiti project in particular, which we've been talking to you in the past, seems to be slowly trickling in. And we expect to get those orders starting in the next week or so and probably throughout April and May those orders will start contracting. I mean, just to quantify, I would say we expect somewhere between $15 million to $20 million out of the Kuwaiti project. It could be more, depending on, again, who wins the contracts. And Lyle, any update on North America here?

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**David Lyle Williams** - *Forum Energy Technologies, Inc. - SVP of Operations*

Sure. George, as you know, we think about cadence for our drilling business and how that's going to improve really driven in large part by the U.S. land rig count, up over 1,000 rigs recently, and that activity level is driving a big job in our consumable products for drilling rigs. So we're seeing that improvement flow through now. I think the next piece that we'd expect to see in cadence of improvement is going to be around capital goods for rig upgrades or rig builds. Not seen a lot of noise there on the activity, but as the rig count continues to increase, especially for higher-tier, higher-spec rigs, we would expect to see some additional capital orders as well for the U.S. market.

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Probably the other thing I'll also add George is, after the Kuwaiti project, there is a big pipeline of projects in Middle East. And hopefully after the Kuwaiti project, some of those will start materializing, too. But when they will materialize, right now, it's uncertain. But I think at these oil prices, we expect some of those Middle East projects later in the year to materialize.

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**Operator**

And our next question comes from Blake Hutchinson with Howard Weil.

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**Blake Allen Hutchinson** - *Scotia Howard Weil, Research Division - Oil Services Analyst*

Just first of all, one of the kind of subsegments that was a bit absent from your commentary is the production equipment side of the Production & Infrastructure division? Should we take it from that, that you're still in kind of a mode there where pricing has not accelerated to or gained to acceptable levels for you to occupy any of your capacity there? Is it getting any closer? And perhaps could that be something that improves, along with the valves business, in the second half?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes. Blake, good question. On the Production Equipment, our strategy has been, which we've communicated probably a year ago, is it's not really to go after the revenue but, more importantly, manage it so that we can expand our margins. And we've been able to do so starting from the downturn till now. And we did get some pricing, but I would say it's probably 2 to 3 points, not significant, not meaningful. So most of the margin improvement has come through the cost of lean and efficiency. And as you know, we've consolidated some of our footprint during the downturn. So I think the margins in the production equipment continues to be a challenge. Now on the positive side, some of the commodity price increases which we've got, we're trying to offset that with price increases. And those discussions are going okay. I mean, okay in the sense we think we can cover our costs, which will not put any additional pressure on the margins.

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**Blake Allen Hutchinson** - *Scotia Howard Weil, Research Division - Oil Services Analyst*

Got you. Got you. And then I guess a point of clarification on your Subsea guidance. You are talking about the second half of the year -- or excuse me, the remainder of the year being breakeven to positive on the EBITDA. That should not -- should or should not be immediately achieved in your second quarter -- within your second quarter guidance?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Blake, what I would say is, it's possible in the second quarter, depending on not only the large orders and what else happens from a booking standpoint in the second quarter, but I think our guidance to the Street is that we'll be up from -- post 1Q, we'll be EBITDA positive for the rest of the year. So some quarters could be low, some quarters could be high. But second quarter, too, it's possible depending on what happens from a booking standpoint. But again, our guidance to the Street is for the rest of the 3 quarters will be EBITDA breakeven or positive.

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**Operator**

Our next question comes from Joe Gibney with Capital One.

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**Joseph Donough Gibney** - *Capital One Securities, Inc., Research Division - Senior Analyst*

Pablo, appreciate all the subsegment revenue detail, it's always helpful. I just wanted to dig in a little bit more on Completions incrementals, try to understand the dynamics there. I know you referenced it within your guidance quarter-over-quarter. I'm just trying to understand elements at play in reference from seasonality, some pricing, just -- is there a baseline company wide for incremental margin target that you're still orienting on? Just trying to understand the moving pieces of the -- to a flat EBITDA percentage quarter-over-quarter in Completions.

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**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Yes. Joe, so let me start with Completions first. As you know, we said we would get incrementals there, but it would be different each quarter. Last quarter, we saw 65% incrementals there. And what was reflected is a lot of pricing improvement that we were able to get during last year that was strongly reflected in the P&L in the fourth quarter. Now -- and as I mentioned in the prepared remarks regarding pricing, we are seeing pricing improvement. But in the first quarter, it was limited to the products that are new and that are creating efficiencies for our customers. It wasn't broad pricing increases like we were able to push last year, for example, on our power ends. Now we think we will have those opportunities later in the year as the market tightens again. In the quarter, we had some underabsorption, as I mentioned, resulting from the slow start in Completions activity. And therefore, orders were less at the beginning of the quarter. And then as I mentioned, we liquidated some inventory where customer preferences have shifted, and that's primarily older generation fluid ends.

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**Joseph Donough Gibney** - *Capital One Securities, Inc., Research Division - Senior Analyst*

Okay. Helpful. And just on the order side, pursuant to previous question on Production Equipment, just P&I is sort of all over the place when I think about it in that order sort of the large drop down in 4Q. In valves though at a very elevated level, as you indicated, with such pretty good baseline for the rest of the year. I think you're up 20% quarter-over-quarter. Is the PEQ inbound mix improving? And just kind of curious how that's trending now into 2Q, probably. I know you indicated pricing is still a challenge. But just curious on order indicators, as you look at the PEQ business into 2Q be helpful, appreciate it.

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes. Well, in the case of P&I, especially, let's talk about valves for a second, valves does have seasonality in the fourth quarter from an order standpoint. And typically, the downstream, some of the refineries, they shut it down for MRO activity. And that's a seasonal activity which we expect to come into the fourth quarter. As a result, if you look at the bookings in the fourth quarter versus the first quarter, you see a significant jump and it's because of that, that the refineries are coming back into operation, and we are starting the orders as normal. So that jump is normal. In the case of Production Equipment, usually the third or fourth quarter, we get some lumpy orders, primarily where our end customers are planning for the next year, right? So third quarter, fourth quarter last year, we got some lumpy orders to plan for the 2018. And they want to lock in the pricing at that point of time for all of 2018. So I think in the case of P&I, there is some lumpy activity, which happens in the case of valves or Production Equipment. But if you look at it over a period of time, if you look at from a valves or if you look at Production Equipment, I mean, we have seen nice growth. For example, last year our Production Equipment business grew almost 60-plus percent and our valves business grew almost 30-plus percent. And again, we expect the Production Infrastructure business to grow this year strong double digits.

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**Operator**

And our final question comes from the line of John Watson with Simmons & Company.

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**John H. Watson** - *Simmons & Company International, Research Division - VP & Senior Research Analyst*

Quick one for me on Drilling & Subsea. Will the non-oil and gas orders in Q2, with those coming in, can we see margins return back to Q4 '17 levels? Or is that too aggressive modeling?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Good question, John. The non-oil and gas orders, typically, the margins are pretty decent. The oil and gas margins right now are pretty depressing on the capital equipment side, but on the non-oil and gas, they should be pretty decent. Can we get back to the fourth quarter of 2017? I think it could be a stretch, just based on the amount of revenue we're expecting. And in '17, we had a pretty good backlog coming into the year, into '17. So I think it could be a stretch, but possible, depending on what are the -- what follow-on orders we get after this large Subsea orders, especially on the non-oil and gas side. I mean, we do have a pipeline, but I'm not sure when that's going to materialize.

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**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Yes, I'll just add, Prady. The -- in Subsea, the timing of the capital equipment orders will be important. If they come earlier in the quarter, that will help us with the absorption. And then, the other piece is the subsea rentals joint venture. Again, as I mentioned before, it's a seasonal business. So we do expect an improvement, and that will be positive contributor from an equity income perspective in the second quarter.

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**John H. Watson** - *Simmons & Company International, Research Division - VP & Senior Research Analyst*

Okay. And I know we hit on this earlier, but I would have expected better incrementals in Q2 given some of the Subsea issues we talked about as well as the potential impact from weather during Q1. Are there any other specific factors expected to impact Q2 that might bridle incrementals?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Probably not. Let's talk about Q1, and then we can talk about Q2, too, John. I think in the case of Q1, primarily, lack of Subsea, the large order created some absorption issues and then the Ashtead. If you look at quarter-to-quarter, the Ashtead JV also has an impact, if we look at from a quarter-to-quarter standpoint. In the case of Completions, just because of the slow start, even though March was a very strong month, January and February were not that strong, which created some absorption issues. And that was an impact on Completion incrementals and also the overall incrementals from the impact of Subsea. Now going into the second quarter, the momentum on Completions looks pretty good going into the second quarter. So we don't expect the same amount of absorption. There will be some absorption, but it won't be to the same extent as 1Q. The Ashtead, from a seasonality standpoint, the rental JV, the [second] (corrected by company after the call) quarter is usually a pretty decent quarter for them. So we expect positive EBITDA being generated from the JV versus negative EBITDA which we got in the first quarter. And also the -- as we're expecting the large order from Subsea in the quarter, the absorption in Subsea will also be -- will be limited. So I think we will see the benefit of that in incrementals.

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**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Yes. I will just add that you can see that we do expect better incrementals in the second quarter, guidance at the midpoint is 30% incrementals. As I mentioned, we are getting pricing, but that's limited to the new products that we've introduced, that it's not broad-based. We think we'll get more of that in the second half of the year, again, as the market tightens like it did last year.

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Now if we do get pricing in the second quarter, which is unlikely, we think we're going to get more in the second half, then, obviously, our incrementals will be better. But at this point, we don't see any market pricing opportunities in the second quarter with the exception of what Pablo talked about as in the new products.

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**John H. Watson** - *Simmons & Company International, Research Division - VP & Senior Research Analyst*

Okay. Great. And safe to assume no change to the incremental guidance for the full year of 35% to 40%?

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**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

That's right.

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

That's correct.

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**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Still 35%-plus, what will drive that is the ramp in the second half of the year that gives us additional operating leverage and then the market pricing opportunities that we just discussed.

**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

If you look at the outlook for '18, John, I mean, we got about 5 levers, I would say, in second half, which also helps us on the incremental margins. The first is the Completions acceleration. We expect the Completions acceleration to be much stronger in the second half than the first half, the horsepower, the new fleets being put in place. We expect about $3 million to $4 million horsepower being added, about half of it is new and half of it is repair or replacement. But bottom line, Completions acceleration across all the product lines. And then some of the new products in Completions, which we have commercialized, are gaining pretty good traction, whether it's hydraulic latch or fluid ends or coiled line pipe or frac plugs, to name a few. And those products will gain significant momentum in the second half and the pricing on all those products are significantly above the average margins for the business. The third is the D&S capital projects. And as those projects come into play and start materializing, we'll start seeing the revenue of that, but also it helps us from a margin standpoint in the second half of the year. And then the valves, the midstream projects are progressing well. We expect to get them in the second and third quarter, and we'll start seeing the revenue and the margin of that in the third and fourth quarter. And also the Saudi coming into action in the second half. And finally, I think there is some tailwind on pricing in the second half, especially in the area of Completions, which we expect to get, but there's also pressure on the supply chain commodity prices going up and the way we plan to handle that is through price increases and through strategic sourcing and whatnot. But we think we can pass it on to the customers and -- including the tariffs, and we can offset that in other ways.

**Operator**

And our last question comes from Edward Muztafago with Societe Generale.

**Edward Charles Muztafago** - *Societe Generale Cross Asset Research - Equity Analyst*

I just wanted to follow up on the pricing commentary a little bit and wanted to understand maybe a little bit how critical your customers lever on pricing is in frac, specifically, to your ability to push through pricing. I know at least one of the major frac contractors is kind of calling for a range-bound pricing for the rest of the year. And just want to kind of understand how you sort of view your ability to push pricing if that kind of scenario played up?

**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes. Listen, I'll say the pricing remains uncertain at this point of time. We don't expect to see pricing in the second quarter as such because of the slow start in the year and also a little bit of slowness later part of last year, I think just not us, but the whole supply chain infrastructure has build a lot of products, and we have a lot of inventory ready to serve the needs of the customers. So there is no supply pinch and demand at this point of time, but I would expect that in the second half, as the Completion acceleration happens and we will get pricing opportunities. And to answer your question, we get pricing in 2 different ways: One is, there's a supply chain pinch and there's a demand, pinch where we can push the pricing. The second area where we get pricing, where we are getting pricing today is the products, differentiated products and, more importantly, where we can reduce their, either performance, improve their performance or reduce their operating cost or improve their efficiency, we are getting pricing. So some of the new products, which we have commercialized, we are getting pricing on those, and we will continue to get pricing on those. But the market pricing, which is demand and supply chain related, I think we will get the opportunity in the second half. Pablo?

**Edward Charles Muztafago** - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. That's helpful.

**Pablo G. Mercado** - *Forum Energy Technologies, Inc. - Senior VP & CFO*

Yes. So with regards to customers getting pricing, that surely is helpful to the discussions. But as Prady described, it's really more driven by supply and demand for our products, in particular. So as long as the customers are getting sufficient returns to put equipment to work, if there is a supply chain pinch, that's when we get the pricing.

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**Edward Charles Muztafago** - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. And then the other thing I wanted to just touch base on a little bit, there is, I think, no secret that everybody is talking about more costly rig upgrades in the U.S. here as we kind of progress through the year. Can you just give me an idea what your revenue opportunity differential might be for a, we'll use the term more costly upgrade to a less -- from a less costly upgrade might be?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Yes. Lyle, go ahead.

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**David Lyle Williams** - *Forum Energy Technologies, Inc. - SVP of Operations*

Sure. Edward, Lyle here. So when we think about upgrades and what contribution we can put on that rig, typically it's going to fall into the areas of our capital equipment could be a new or upgraded hydraulic catwalk, new Iron Roughneck or handling took package, something like that. So that could be the order of magnitude of $2 million to $3 million for a full upgrade on a land drilling rig.

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

And we are seeing some of those today, Edward, as some of our customers are upgrading their -- some of the older fleet to a higher-spec drill rig, pretty much getting close to the super spec drill rig. And as a result, our scope to last point could be anywhere from $1 million to $3 million, which includes the catwalk, Roughnecks and some cases, handling tools, control systems and, obviously, the high-pressure -- the mud pump upgrades and the power upgrades.

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**Edward Charles Muztafago** - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. So maybe we could go from 1 to sort of 3, is kind of the range from an easy upgrade to a more difficult upgrade then is kind of what you're saying?

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**Prady Iyyanki** - *Forum Energy Technologies, Inc. - President, CEO & Director*

Correct.

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**Operator**

Thank you. This concludes our question-and-answer session for today. I would like to turn the call back to Mark Traylor, Vice President of Investor Relations, for any further remarks.

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**Mark S. Traylor** - *Forum Energy Technologies, Inc. - VP of IR & Planning*

Thank you, Grace. Many were at the OTC Conference this morning, I'm sure, but we would like to thank you for you interest and participation in our earnings call this morning. And we hope to see many of you at Forum's OTC booth over the next few days. Thank you, and have a good day.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.

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