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Q4 NOW Inc. Earnings Call
Wednesday, February 14, 2018
8:00am CT

Operator: Welcome to the Fourth Quarter Full Year 2017 Earnings Conference Call. My name is Silvia and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session.

I will now turn the call over to Chief Accounting Officer, Dave Cherechinsky. Mr. Cherechinsky you may begin.

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Dave Cherechinsky
Vice President, Corporate Controller & Chief Accounting Officer

Thank you, Silvia, and welcome, everyone, to the NOW Inc. Fourth Quarter 2017 Earnings Conference Call. We appreciate you joining us this morning, and thank you for your interest in NOW Inc. With me today are Robert Workman, President and Chief Executive Officer of NOW Inc., and Dan Molinaro, Senior Vice President and Chief Financial Officer. NOW Inc. operates primarily under the DistributionNOW and Wilson Export brands, and you'll hear us refer to DistributionNOW, and DNOW, (which is our New York Stock Exchange ticker symbol), during our conversations this morning.

Before we begin this discussion on NOW Inc.'s financial results for the fourth quarter and full year 2017, please note that some of the statements we make during this call may contain forecasts, projections and estimates, including, but not limited to, comments about our outlook for the Company's business. These are forward-looking statements within the meaning of the U.S. Federal Securities laws, based on limited information as of today which is subject to change. They are subject to risks and uncertainties, and actual results may differ materially.

No one should assume that these forward-looking statements remain valid later in the quarter or later in the year. I refer you to the latest Forms 10-K and 10-Q that NOW Inc. has on file with the U.S. Securities and Exchange Commission, for a more detailed discussion of the major risk factors affecting our business.

Further information, as well as supplemental financial and operating information, may be found within our press release, on our investor relations website at ir-dot-distributionnow-dot-com, or in our filings with the SEC.

In an effort to provide investors with additional information relative to our results as determined by U.S. GAAP, you'll note that we also disclose various non-GAAP financial measures, including, EBITDA excluding other costs, net income or loss excluding other costs, and diluted earnings or loss per share excluding other costs. Each excludes the impact of certain other costs, and therefore has not been calculated in accordance with GAAP.

A reconciliation of each of these non-GAAP financial measures to its most comparable GAAP financial measure is included in our press release. As of this morning, the Investor Relations section of our website contains a presentation covering our results and key takeaways for the quarter. A replay of today's call will be available on the site for the next 30 days.

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We plan to file our 2017 Form 10-K today, and it will also be available on our website. Later on this call, Dan will discuss our financial performance, and we will then answer your questions. But first, let me turn the call over to Robert.

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Robert R. Workman
President & Chief Executive Officer

Thank you, Dave. Before we get into the business, I want to touch on an announcement we made in November. Effective this Friday, our Chief Financial Officer, Dan Molinaro, will pass the baton to Dave Cherechinsky, our current Chief Accounting Officer. I want to thank Dan for his many contributions during his leadership as CFO. He has been instrumental in all that is DNOW, and without him, we would not be where we are today. I am comforted in the fact that Dan will remain an office away as an Executive Vice President and will continue to be a valuable member of our Executive team. Thank you, Dan.

Moving on to the business, we believe the prolonged oilfield market re-balancing is complete. While we expect volatility, we think that the current trajectory is positive and presents great opportunities for DNOW as we enter 2018 a much stronger, more agile organization.

We continue to focus on both growth and efficiency. In 2017, we added over a half a billion in revenue while reducing costs. In this uneven recovery, we're operating on shifting tectonic plates, in areas where opportunities are abundant and resources and products are scarce and other areas where the inverse is true. Despite projections for growth, we expect to generate cash in 2018 by improving on working capital deployment and generating positive earnings.

I am excited to highlight a few key takeaways from the year. In 2017, we delivered strong year-over-year growth a reflection of DNOW's ability to capitalize on the overall energy recovery while reducing costs. Key to our success has been the progress made in executing against our strategy to optimize our operations, drive overall margin expansion, deliver growth and maintain a disciplined approach to our capital allocation.

We are optimistic heading into 2018 and are positioned to take advantage of the continued market upcycle and are confident that our business plan and strategy will allow us to do so. We remain committed to acquiring the right businesses that meet our defined M&A criteria and will deliver significant value for DNOW and our shareholders. At this stage of the cycle, we must also focus our efforts and capital to support organic growth.

Looking at our financial highlights, we were very pleased with our ability to deliver strong year over year 4Q growth across all three of our operating segments. We grew revenue by $541 million in 2017. Revenue for the quarter was $669 Million, up 24% YOY. On a sequential basis, 4Q 2017 revenues were down 4%, even though revenue per billing day was up modestly. This decline was driven by 5% fewer billing days, weather impacts, declining rig counts and customer budget exhaustion in the quarter.

While we were able to generate sequential revenue growth with oil and gas companies despite these factors, this was offset by seasonal declines in midstream and downstream in the U.S. and reduced customer activity in Canada. For the quarter, we recorded a GAAP Net loss of $3 Million or net income excluding other costs of $1 Million. Our earnings per share for the quarter was a loss of $0.03 cents, or an earnings per share, excluding other costs, of $0.01 cent.

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4Q EBITDA excluding other costs was $13 Million, a YOY improvement of $44 Million, $10 Million of which is attributable to a gain on a sale of property. Gross margin was 19.1% - up 270 basis points YoY, a reflection of our drive to maximize product margins.

In 2017 we added $156 million in gross margins, generating a favorable shift to positive earnings. We also added $171 million to EBITDA, excluding other costs, compared to 2016. This represents 32% incrementals for the year in a 19% gross margin environment, which signifies a solid financial recovery for DNOW, positioning us to capitalize on expected further market expansion in 2018.

We maintained a healthy balance sheet, ending the year with a net debt-to-cash position of $64 Million. Working capital, excluding cash as a percentage of revenue, ended the year at 23.8%, in the range of our expectations.

Now let's take a look at the progress we have made in executing against our strategy. Growing profitability across the organization is a top priority. Globally, we continue to improve our operations cost structure with an eye on tightly managing expenses. We continue to invest in specific shale plays and businesses that are active and to minimize exposure in less active areas. For 2017, while we closed 29 branches, we added locations and headcount in active areas like the Permian and Rockies.

To drive gross margin improvement, we are pushing pricing initiatives in the field through the increased use of technology and are seeing acceptance there. Our omni-channel strategy provides our customers with the ability to acquire thousands of products from any one of our 285 locations, our regional distribution centers, or by using our e-commerce system. We are experiencing revenue growth and margin improvement from investments in our e-commerce channel and system. Our PVF and customer specific apps, punch-out catalog and B2B activity all increased in 2017.

Severance expense increased in the quarter to $2M as we extracted costs from underperforming locations and closed 9 branches. We also remain committed to optimizing our operations to deliver high value add product lines and solutions for our customers. Some of our initiatives, milestones and achievements are, exploring new supplier partnerships or new ways to work with existing suppliers as this is an important part of our strategy and we have made good progress here. We continue to see benefits from our new strategic relationships with key manufacturers, including Forum's Global Tubing and Badger Meter, as well as long-term suppliers, like Cameron, Kimray and Benteler Steel & Tube, whom we have distributed for years.

As an example, our business with select new or expanded lines, Global Tubing, Kimray and Badger Meter alone, grew at a much greater rate than the rest of the business in 2017. As we indicated last quarter, we introduced a beta business model concept for one of our U.S. Energy Center regions to allow for maximum customer reach at the least possible cost. These footprint changes help with incremental OP improvement to DNOW. We are encouraged by the results we have seen, where one team received a 4Q bonus for the first time in many quarters because of the changes made, and we are reviewing other areas to replicate this success.

Additionally, DNOW has taken direct steps to further our focus on new customer business development and market share growth within our current customer base. We have invested in technology to support our sales teams, identified new customer target groups and hired many additional sales team members to support and generate future growth. We also inserted resources internationally to maximize our strategic positioning on longer term global projects, tenders and awards.

Moving on to growth through acquisitions, effectively integrating the 12 acquisitions we've completed since the downturn began in Australia, Europe and North America remains a top focus for DNOW. It is imperative that we continue to maximize synergies and leverage market opportunities from these businesses.

We have made meaningful progress through the end of 2017 and I'd like to highlight a few examples. Power Service – In our Process Solutions business we have made great strides integrating Odessa Pumps and Power Service. We are leveraging our combined capabilities to deliver on cross-selling opportunities with these businesses. For example, both companies are now stocking NOV multiplex pumps and Schlumberger REDA pumps which allows us to leverage inventory and offers customers a value-added solution. As evidence of this benefit in 4Q, we recently received orders from a major E&P customer for LACT units with NOV multiplex pumps on the discharge.

As part of the ongoing integration of MacLean's Electrical, we announced the creation of the Light & Energy Distribution brand in the United Kingdom which gives our industrial and street lighting division its own market identity and focus. In addition, the JT Day Australia brand is now operating under MacLean Electrical.

In 2017 we integrated the heritage Wilson Supply mill, tool and safety business that targeted manufacturing customers into the acquired Machine Tool & Supply business in early 2017. This allowed us to combine our sales and operations teams and reduce back-office expenses. We remain intensely focused on stocking levels to ensure working capital as a percent of revenue is meeting expectations in each area and increasing turn rates.

Looking ahead, we will continue to focus on growth and efficiencies as well as further advancing our integrations. Specific to integrations, among the items that we expect to complete in 2018 include, within the US Process Solutions business, Odessa Pumps and Power Service are further integrating our business development and sales teams to cross train on water injection pump packages, LACT units and ASME vessels while also combining forces for our midstream initiative.

For MacLeans, we still expect additional integration benefits, and under a new regional leadership structure, we will be working as one to utilize business locations and category strengths to increase opportunities. In addition, we will be focused on supporting MacLean's product lines from all DNOW European locations.

Regarding the Market, 2017 U.S. rigs peaked at 953 in July. After four months of rig counts declining by a total of 42 in the U.S., rigs rebounded somewhat in December, adding 19 rigs, ending the year at 930 rigs and an average of 875 rigs for the year. U.S. rigs were up to 975 at February 9th. Sequentially from 3Q to 4Q, Canada rigs declined for the third time in ten years, with the two prior drops occurring during the severe downturns of 2008 and 2015. Completions have grown for five consecutive months through December, although DUC counts continue to climb. And just like rig count, the rebound in crude prices and recent activity levels are pointing towards a positive outlook for this year.

4Q17 completions equaled the highest quarterly count since 1Q15. In the second half of 2017, completions outnumbered wells drilled in the Appalachia, Bakken, Haynesville and Niobrara plays. With the acquisitions in our US Process Solutions group, we anticipate further gains once service companies can deploy sufficient frac horsepower to stop growth in the DUC count and begin working through the inventory of wells waiting in line to be completed. Overall, U.S. 4Q revenues were up 29% YoY, though sequentially down 4%, largely in-line with U.S. rig count changes and the reduction in billing days.

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For the US segment, 4Q operating margins experienced strong sequential decrementals as WS&A costs declined while revenues improved.

Our US Energy Center business outperformed the U.S. overall with a 4Q YoY improvement of 37%, but had a steeper 9% sequential decline, 4Q vs 3Q, on the back of seasonality, negative weather impacts in the Permian and Rockies, delayed pipe shipments due to congestion at the Port of Houston and choppy midstream projects that didn't recur in the Midcontinent and Northeast. Softness from these challenges was partially offset in the Northeast by the implementation of a recently awarded midstream launcher and receiver contract and continued strong pipe shipments to gas utility customers.

Looking forward we expect continued growth with Forum Global Tubing and several midstream and gas utility projects across many US basins that were delayed from 4Q, will help offset slow activity rebound with customers that have yet to finalize their budgets. We have seen an increasing number of midstream projects that should materialize in 2018 and beyond and expect more projects to be announced in the coming quarters. With trade suits and potential sanctions in the mix, the supply chain is less certain. With inventory on hand and strong supplier relationships, this could play as a near-term benefit for DNOW.

In 4Q, the U.S. Supply Chain business grew 15% YoY and 3% sequentially. The sequential increase was due to growth with our energy customers, partially offset by downstream & industrial customers, which saw expected turnarounds pushed from 4Q into early 2018.

Supply Chain Energy customers grew sequentially, overcoming reduced billable days, weather and holidays and a transition of a customer's assets with pipeline projects executed in the EagleFord. This growth was driven by strong upstream facilities and midstream project work with Marathon, Oxy and Devon that offset seasonal softness with Hess. Despite turnaround delays that were pushed to the first half of 2018, downstream and industrial activity experienced a large amount of bid activity in 4Q and we secured two new customers, which could bode well for future quarters.

For the Machine Tool Supply business, their sales increased in line with increased aircraft deliveries and increased customer manufacturing activity related to the improving oil and gas industry. With oil prices steady or improving, an increase in the number of billing days, normalized manufacturing schedules and a strong turnaround season, we should see an improved 1Q for the US Supply Chain Services business overall.

The oil and gas customers in Supply Chain Services are projecting increased drilling, completions and capital projects in 2018, so that should be a nice tail wind. We have also had some success in transitioning some of these customers to source from US Process Solutions for pumps, process equipment, oil & gas measurement systems and controls.

4Q US Process Solutions grew 35% YoY, with the Permian being the largest contributor to growth. The Permian remains by far the busiest region for this solution, but we are seeing increased bid requests in the Rockies, EagleFord, and DJ Basin.

Going forward, based on customer activity we received in 4Q, we expect large water injection pump packages, ASME Vessels and LACT unit sales in the Permian and Bakken, an increase in midstream actuated valve projects in the DJ Basin and large fluid transfer pump projects in the Bakken for one of our Supply Chain customers.

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These orders, received late last year, are promising for the 2018 performance for US Process Solutions. As the demand for our US Process Solutions products continues to increase, we will continue pushing into new areas including increasing our Total Valve Solutions presence in the Permian Basin.

While Canada's topline grew YoY by 16%, revenues declined 11% sequentially in 4Q. Total 4Q wells spud were down 18% sequentially. Big projects related to the shutdown of tie-ins with our largest customers, stalled turnarounds with our largest oil sands customer, reduced pipe activity and long-lead time backordered inventory drove the decline.

We had several customers cease operations for the holidays earlier than normal and we saw a decrease in wells spud that began in mid-December. For the quarter, gross margin gains drove strong sequential flow-throughs. The Canadian freeze and related activity should boost revenue in 1Q, sequentially, as increases will likely occur in the North, most likely the Montney & Duvernay plays. Shipments with multiple customers that slipped from 4Q, a growing customer base for our NOV Fiberspar spoolable pipe team, recently received midstream project purchase orders and a growing activity in our valve actuation and artificial lift groups all point to a strong 1Q for Canada. Similar to the US, pipe manufacturers are expected to allocate capacity to OCTG. This, along with Chinese OCTG, ERW and Seamless Line Pipe excluded from the Canadian market, may cause pricing to be more volatile, which would be favorable to us.

International 4Q revenues were up 12% YoY. 4Q operating margins were similar YoY. Sequentially, international topline was relatively flat, as increased revenue in the CIS in both Azerbaijan and with Kazakhstan's Future growth project, electrical cable sales in China and work with Woodside, Chevron and Shell in Australia, were offset by softness in Europe, Latin America and project completions in the Middle East. Sequentially Margins compressed as high margin projects came to a close and severance costs accelerated due to amplified cost cutting measures across the segment.

Drilling outside the U.S. is forecast to increase 5%, led by improvement in Russia, China, Western Europe, Australia and parts of Africa. Growth in capital projects backlog in the UAE, Kazakhstan, Azerbaijan and Egypt should boost our Middle East and CIS operations. As well, recent wins in Trinidad, Brazil, Columbia and Mexico show promising signs for our Latin American operations. New artificial lift projects with several customers and a recent MRO award with Chevron for Gorgon and Wheatstone should provide a nice tailwind for Australia throughout 2018.

Global offshore drilling is believed to have hit an inflection point and is expected to begin a recovery. We are in discussions with many of our drilling customers and believe we are well positioned to benefit from these gains given our presence in this market and regions.

Finally, DNOW is a large global enterprise. There is a lot working well across the organization and, where it is, those managers have more than enough flexibility to prosper further. From our perspective, the downturn is over. Our managers know that growth at high incrementals, given our existing sufficient infrastructure to support growth, is paramount. We are ready to invest further in high-return locations and businesses. Low-return locations or businesses are under significant oversight and their managers understand that we will operate as if this market is the new normal and we'll continue sizing the business to reflect that.

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Our teams are operating with an understanding that sub-standard profit and cash remittances are obsolete concepts. Consistent performance measured by cash generation, frugality, efficiency and yield while deepening our importance to and winning over more customers will continue to be our mantra.

Now, let me turn it over to Dan to review the financials in more detail.

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Daniel L. Molinaro
Senior Vice President & Chief Financial Officer

Thanks, Robert. We look back on many successes of 2017, including an impressive year-over-year 26% revenue growth, while continuing to reduce warehousing, selling and administrative costs, and increasing margins from 16% to 19%. I continue to be impressed with our dedicated workforce…and I remain convinced we have the top people in the industry. I am grateful for the hard work, integrity and perseverance of the DNOW family. Thanks for all you do! In 2018, we will continue to concentrate on the needs of our customers, while maximizing long-term value for our stakeholders.

Robert discussed our business, and I'll say more about our financials. NOW Inc. reported a net loss of $3 million, or 3-cents per fully-diluted share on a US GAAP basis for the fourth quarter of 2017 on $669 million in revenue. This compares with a net loss of $9 million, or 8-cents per fully-diluted share, on $697 million of revenue in the third quarter of 2017. When looking at the year-ago quarter, we had a net loss of $71 million, or 66-cents per fully diluted share, on revenue of $538 million for the fourth quarter of 2016. The fourth quarter 2017 results included $3 million of after-tax charges for valuation allowances recorded against our deferred tax assets, and $1 million of severance charges. After adjusting for these other costs, our fourth quarter net income was $1 million, or 1-cent per fully-diluted share both non-GAAP measures.

Fourth quarter, 2017 Gross Margin was 19.1%, compared with 19.4% in 3Q 2017 and compared with 16.4% in the year-ago quarter. Operating Profit was breakeven in the fourth quarter of this year, a $6 million improvement from the previous quarter, and an improvement of $47 million from the year-ago quarter. Fourth quarter EBITDA excluding other costs (a non-GAAP measure) was $13 million improving by $8 million sequentially. While revenue declined due to seasonal factors, EBITDA excluding other costs improved a counterintuitive and notable achievement.

Looking at operating results for our three reportable geographic segments, revenue in the United States was $488 million in the quarter ended December 31, 2017, down 3% sequentially, and up 29% over the year-ago quarter. Year-over-year improvement in the U.S. rig count, coupled with the full-year benefits of a mid-2016 acquisition, contributed to these revenue improvements. Revenue Channels in the US for 4Q were 52% US Energy, 32% US Supply Chain Services, and 16% US Process Solutions.

Fourth quarter Operating Loss in the US was $1 million, an improvement of $9 million from the third quarter of 2017, and a $42 million improvement over the year-ago quarter. The year-over-year narrowing of the US operating loss was primarily driven by increased volume, improved pricing and reduced warehousing, selling & administrative expenses.

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In Canada, fourth quarter revenue declined 11% sequentially, to $85 million, and was up 16% over 4Q 2016, due essentially to Canadian rig activity, coupled with the impact of the weakening US dollar. Revenue in Canada was up almost $100 million in 2017 to end the year with $356 million even with a rare seasonal decline in the fourth quarter.

For the three months ended December 31, 2017, Canada's Operating Profit was $4 million same as Q3 '17 and improved $6 million over the year-ago quarter, reflecting growth in the period at higher margins during the year. Canada posted an operating profit in each of the four quarters of 2017, and delivered 32% Operating Profit flow-thru from 2016 to 2017.

International operations generated fourth quarter revenue of $96 million, which was up 1% over the third quarter of 2017 and up 12% over the year-ago quarter. International's Operating Loss was $3 million for the fourth quarter 2017 due primarily to severance costs and lower gross margins, as higher-margin projects declined as a percent of sales. This compares with breakeven in the third quarter of 2017, and an operating loss of $2 million in the year-ago quarter.

Continuing on to the Income Statement, Warehousing, selling and administrative expenses was $128 million in the fourth quarter a $13 million reduction sequentially, partially attributed to a $10 million gain on the sale of a facility.

There is much being written about Tax Reform in the US, and the impact going forward. The Tax Cuts and Jobs Act provided for a reduction in the US corporate income tax rate, requiring that we remeasure our deferred tax balances based on the reduced tax rate. While we are in a net deferred tax asset position in the US, we also have a full valuation allowance. As a result, we had to write-down both our deferred tax balances and our valuation allowance, resulting in zero net P&L impact. These write-downs of our deferred tax assets and valuation allowance amounted to $69 million in 4Q '17. We also recorded a one-time, $33 million charge relative to the transition tax resulting from the mandatory deemed repatriation of our unremitted foreign earnings, which was fully offset by foreign tax credits and net operating losses, resulting in zero P&L impact.

Our effective tax rate as calculated for GAAP purposes was essentially 0.0% for 2017. When we are no longer subject to a valuation allowance in the US, we expect our effective tax rate to be in the mid-20% range.

Turning to the Balance Sheet, NOW Inc. had $637 million of Working Capital (excluding cash) at December 31, 2017, which was 23.8% of sales, remaining below our 25% target and we will continue to optimize our capital employed. Accounts Receivable decreased $43 million sequentially, to $423 million. The pace of bankruptcies in our energy space is easing, but we must continue to be diligent as we extend credit. Our current Days Sales Outstanding (DSO) was 58 days our lowest level since the Spin-Off but there is more we can do.

Year-end Inventory was $590 million up $28 million over 3Q, as we respond to increased activity. Inventory turns were 3.7 times a bit below our targeted 4.0 times. We must continue to carefully manage the inventory replenishment process as activity levels improve and supplier lead times fluctuate. Days Payable Outstanding were 49 days.

Cash totaled $98 million at December 31, 2017, with $81 million located outside the US more than one-third of that being in Canada. As I mentioned in my comments on Taxes, the Tax Cuts and Jobs Act required we accrue a mandatory, one-time transition tax on the deemed repatriation of our unremitted foreign earnings. Despite the

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resultant reduction of the tax cost of an actual repatriation following the Act, we have no plans for an actual repatriation at this time.

We ended the quarter with $162 million borrowed under our revolving credit facility, and we remain in a net debt position of $64 million when considering total company cash. Our debt-to-cap remained at 12% at year-end, and we had $429 million in availability. Our borrowing cost on the debt approximates 4%, and we expect the Fed to continue to push short-term rates incrementally higher during 2018, as they attempt to fend-off inflation. Our credit facility matures in April 2019, and we have begun refinancing negotiations. Capital Expenditures were $1 million in the fourth quarter of this year, giving us $4 million for the full year 2017 the same as the full year 2016. Showing the effects of improving business conditions, and the need to support improving activity, Free Cash Flow used in the fourth quarter was $9 million.

Our worldwide market continues to be challenging, as we remain closely tied to global rig count, and drilling & completion expenditures. We will continue to focus on serving our customers, as we rationalize expenses, concentrate on integration gains from our acquisitions, and seek to maximize new opportunities. We have confidence in our strategy, in our employees, and in our future, as we position NOW Inc. to serve the energy and industrial markets with quality products & solutions. We are an organization with exceptional leaders, outstanding employees, solid financial resources, and will continue to respond to the needs of our customers.

This is my final earnings call as DNOW's CFO, and I have been honored to serve this wonderful organization since our spin from NOV. The Finance Department will be in the capable hands of Dave Cherechinsky, and most of you already know him well. I'll continue to serve Robert and our Board as Executive Vice President, and look forward to seeing you at investor conferences, shareholder meetings and elsewhere.

With that, I'll turn it back to Robert for some concluding comments.

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Robert R. Workman
President & Chief Executive Officer

Thanks, Dan.

At the foundation of DNOW's success is the deep bench of dedicated employees. This quarter, I'd like to highlight Hank Babylon, right here in Houston. Hank is a Sourcing Specialist and has been a part of our DNOW family for 44 years. I first met Hank in the early 90's when I transferred from the Bryan, TX Branch to the Houston Export Group off Clinton Drive as an expeditor. We spent many a day dodging bullets and worrying about whether or not our cars would still be in the parking lot at the end of the day. Hank and I have a lot in common in that we don't give up easily. The first time Hank interviewed with National Supply, he didn't get an offer. He couldn't understand why and came back and asked for another interview. The second time around, he got the job and he has been with us ever since. Thank goodness we didn't make the mistake of letting him get away a second time. Since then, Hank has worked for us at nine different locations and in six different functions. He knows our industry, organization and products inside and out. Thank you for everything you do for DNOW Hank, and thanks for giving us a second opportunity to do the right thing.

Before opening it up for questions, I'd like to reiterate that, we are proud of the year over year growth that we drove as well as optimistic about the 2018 macro backdrop and our ability to continue to leverage that to the

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benefit of our shareholders and employees. Based on customer budgets previously announced, growth with our North America shale focused customers, offset slightly with only modest improvements in the international and offshore markets, revenues could improve low double digits, with the topside being mid-teens in 2018.

Due to current market activities, the continued growth in our revenue per billing day and an increase in the number of billing days, we would expect sequential revenues to grow mid to high single digits in 1Q. For these sequential and YoY periods, incremental EBITDA generation on improved revenues should be in the 10 to 15% range. We are excited about our progress against our strategy and the related initiatives in each of the businesses. And looking ahead, our focus on improving operations, while capitalizing on the ramp up of completions and delivering on operational and working capital efficiencies, will drive continued positive earnings momentum.

And with that, let me turn it over to Silvia for questions.