VAREL
ENERGY SOLUTIONS

# Q2 2024
# Unaudited Financial Report

BEYOND TECHNOLOGY • BEYOND NORMAL

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# EXECUTIVE SUMMARY

## Growth

YTD Sales outperform Plan by $5.2m or 12%

YTD Operating profit outperform Plan by $4m or 61%

## Profitability

$22.4m adjusted EBITDA YTD Q2 2024
- Outperformed Plan by 46%

$40.7m adjusted EBITDA LTM Q2 2024
- Outperformed FY 2023 guidance by 50%

Net income of $8.4m through H124
- ($8.7m) loss in H123

## Cash & Debt

Cash / Cash equivalents of $20.7m through H124

Net Debt of $55.2m; Net Leverage of 1.36x

## Operations

Development and launch of new operating model

Commercialization of new centralizer technology

Middle East Regional contract extensions and new wins totaling approximately $5m
- Drill Bit (RC & PDC) supply rapidly expanding
- Qatar Energy (Exxon) major centralizer awards
- SLB Iraq multi-million PCE supply awards

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# Letter from CEO

Derek Nixon
Chief Executive Officer

I am pleased to outline this CEO Statement following the 2nd quarter of 2024 with a sense of pride about our company and the ~1,800 employees around the world. As I look back on the last four years a period of profound volatile and economic period for the energy sector it is remarkable how much we have accomplished, not only in terms of financial performance but in our steadfast dedication to becoming a leading value creator in downhole consumable products. To that end, the company delivered above plan figures for the period with revenue of $50.5m and an Adjusted EBITDA of $12.4m.

Business Overview:
With nearly 43% of our global business generated from the Middle East region, we recorded record high sales of $21.7m, exceeding plan figures by 24.9%. This performance is underpinned by our strong investments in Saudi Arabia both in manufacturing capacity and operational support where we continue to see business growth month over month across our key business lines of drill bits and cementing products ($11.7m and 73% growth YoY). I anticipate continued success as we serve some of the largest supply contracts across the Middle East region and pursue profitable sales channels with our major oilfield service partners.

In North America, we focus on high-value, high-return technology sales while driving maximum efficiency with our PDC drill bit rental fleet. Our US Completions business continues to perform well notwithstanding headwinds from depressed completions market activity and competitive pressure, generating $9.6m of sales with average gross margins of 61% (remaining in the leading market share position). Our Aqueous™ business has performed beyond expectations this year, exceeding 400+ deployments and with nearly triple sales year over year. This is another example of Varel rapidly bringing practical innovation to market and immediately adding incremental value to the enterprise and our customers.

The global production order pipeline remains strong at $41m and through June, we are overperforming against plan for plant absorption and efficiency. I anticipate similar performance levels as we move through the 2nd half of 2024, as we set guidance of $20m to $25m for H2, resulting in a midpoint of $45m of Adjusted EBITDA for the year. Furthermore, I anticipate sustained growth over the next 18 months for this enterprise, driven primarily by strategic customer share gain, Middle East expansion, and potential acquisitions that strengthen our commercial offerings.

As always, the safety of our people will continue to be our number one priority. I am pleased that we continued our strong safety performance this quarter, delivering a TRIR of 0.35 with (0) Lost Time Incidents.

# CFO FINANCIAL STATEMENT

## Operating Performance:

The consolidated income statement is shown on page 4 to these financial statements. Revenue was $50.5m and $50.2m for the quarters ended June 30 and March 31, 2024, respectively with net profit being $4.7m and $3.7m for the same periods. For comparison purposes, revenue was $47.3m and $52.4m for the quarters ended June 30 and March 31, 2023, respectively with net loss being ($4.0m) and ($3.8m) for the same periods.

Adjusted EBITDA was $12.4m and $10.0m for the quarters ended June 30 and March 31, 2024, respectively and adjusted EBITDA for the last 12 months resulted in $40.7m. A reconciliation between net profit per these financial statements and Adjusted EBITDA is set out below.

| | Quarter Ended | | Six Months Ended | LTM Ended |
|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | June 30, 2024 | June 30, 2024 |
| Net profit (loss) | 4,727 | 3,711 | 8,438 | 7,995 |
| Depreciation and amortization | 1,591 | 1,793 | 3,384 | 8,180 |
| Interest expense | 3,604 | 1,302 | 4,906 | 9,803 |
| Provision (benefit) for income taxes | 1,770 | 1,950 | 3,720 | 5,749 |
| EBITDA | 11,692 | 8,756 | 20,448 | 31,727 |
| Adjustments for the effects of: | | | | |
| Foreign currency (gains) losses | (130) | 325 | 195 | 796 |
| Debt issuance costs | 129 | | 129 | 797 |
| Restructuring & Severance | 206 | 482 | 688 | 3,110 |
| Other | 474 | 498 | 973 | 4,265 |
| Adjusted EBITDA | 12,372 | 10,061 | 22,433 | 40,695 |

## Borrowings:

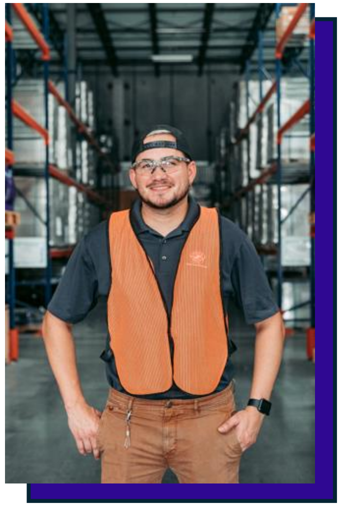
During the most recent quarter, the Company completed the refinancing of its pre-existing debt facility through the issue of a new 4-year senior secured $60m Nordic Bond. This process was completed on April 4, 2024, with the proceeds being used to repay the aforementioned pre-existing debt facility amounting to $33.1m, fees associated with both the pre-existing debt facility and the bond process of $2.3m, the remaining purchase price related to our Indian acquisition in 2022 amounting to $6.6m which is held in escrow through the trustee, and other general corporate purposes. Subsequent to the quarter ending June 30, 2024, the company successfully agreed and entered a new $10m bonding line to be used for bid and performance guarantees.

## Cashflow and Debt:

The consolidated statement of cash flows is show on page 6 of the financial statements. An analysis of the net debt for the quarter ending June 30, 2024 is set out below, with leverage at 1.36x.

| (in thousands of dollars) | | June 30, 2024 |
|---|---|---|
| Nordic Bonds | $ | (60,000) |
| Loan-Revolver | | (4,462) |
| Right of Use Liabilities | | (10,681) |
| Asset Finance Liabilities | | (695) |
| Cash | | 20,665 |
| Net Debt as of June 30, 2024 | $ | (55,173) |
| | | |
| EBITDA LTM Q2 2024 | | 40,695 |
| Leverage | | 1.36x |

# FINANCIAL SCOREBOARD



**$50.5 million**
Q2 2024 Net Sales and Revenue

**11%** Above Plan

Strong Sales Performance and SG&A Cost Control leading to:

**68%**
Above Operating Profit Plan

Forecast of $20m to $25m for H224, resulting in a midpoint of
**$45m**
of Adjusted EBITDA for the year

## 2Q24 over 2Q23

**8%** Improvement in Revenue
**497%** Improvement in Operating Profit
**228%** Improvement in Adjusted EBITDA
**$9.1m** Growth in Net Profit

**$20.7 million**
Current Cash Balance

### Q2 2024 Profitability

**$10.6**
Operating Profit

**$12.4**
Adjusted EBITDA

**$4.7**
Net Income

## H124 over H123

Adjusted EBITDA exhibited a significant improvement of **$15m or 228%** of which 75% of that improvement was in Q2 as the company's initiatives begin to take fruition

**$14 million YoY**
Reduction in Costs with
**17%** in Cost of Sales;
**11%** in SG&A



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# FINANCIAL STATEMENTS

## Consolidated Unaudited Profit and Loss

| (in thousands of dollars) | Three Months Ended June 30 2024 | Three Months Ended June 30 2023 | Three Months Ended June 30 Percent Change | Six Months Ended June 30 2024 | Six Months Ended June 30 2023 | Six Months Ended June 30 Percent Change | LTM |
|---|---|---|---|---|---|---|---|
| Revenue | $ 50,548 | $ 47,314 | 7% | $ 100,726 | $ 99,722 | 1% | $ 195,034 |
| Cost of Revenue | (27,274) | (31,074) | (12%) | (55,801) | (66,108) | (17%) | (110,789) |
| Gross Profit | 23,274 | 16,240 | 43% | 45,712 | 33,614 | 36% | 84,245 |
| Selling, general and administrative expenses | (12,690) | (14,069) | (10%) | (26,036) | (29,279) | (11%) | (49,976) |
| Operating Profit | 10,584 | 2,171 | 388% | 19,676 | 4,335 | 354% | 34,269 |
| Other Income (expense) | 1,108 | (65) | NM | 772 | (1,645) | NM | (2,542) |
| Add: Add-backs | 680 | 1,666 | (59%) | 1,985 | 3,095 | (13%) | 8,968 |
| Adjusted EBITDA | 12,372 | 3,772 | 228% | 22,433 | 5,785 | 288% | 40,695 |
| Less: Add-backs | (680) | (1,666) | (59%) | (1,985) | (3,095) | (36%) | (8,968) |
| Depreciation | (1,591) | (1,721) | (8%) | (3,384) | (3,770) | (10%) | (8,180) |
| Finance Costs | (3,604) | (2,371) | 52% | (4,906) | (4,466) | 10% | (9,803) |
| Income Tax (expense) | (1,770) | (2,020) | (12%) | (3,720) | (2,291) | 62% | (5,749) |
| Net Profit (loss) | $ 4,727 | $ (4,006) | NM | $ 8,438 | $ (8,659) | NM | $ 7,995 |



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NM = Not Meaningful

# FINANCIAL STATEMENTS

## Consolidated Unaudited Balance Sheet

| (in thousands of dollars) | June 30, 2024 | Dec 31, 2023 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 20,665 | $ 6,413 |
| Trade receivables, net | 39,144 | 36,328 |
| Inventories, net | 79,311 | 73,411 |
| Other current assets | 15,365 | 17,458 |
| Total current assets | 154,485 | 133,610 |
| **Non-current assets** | | |
| Property, Plant, and Equipment, net | 27,062 | 28,636 |
| Right-of-use assets, net | 7,457 | 7,794 |
| Intangibles, net | 10,923 | 10,962 |
| Goodwill | 4,863 | 4,875 |
| Deferred tax receivable | 5,204 | 5,457 |
| Other assets | 125 | 47 |
| Total non-current assets | 55,634 | 57,771 |
| Total assets | 210,119 | 191,381 |

| (in thousands of dollars) | June 30, 2024 | Dec 31, 2023 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | | |
| Trade payables | 20,665 | 32,998 |
| Income tax payables | 4,575 | 3,707 |
| Accrued liabilities | 4,790 | 4,237 |
| Other current liabilities | 11,814 | 13,947 |
| Current portion of borrowings | 15,595 | 16,152 |
| Current portion of lease liabilities | 2,405 | 2,303 |
| Total current liabilities | 59,863 | 73,344 |
| **Non-current liabilities** | | |
| Borrowings | 64,799 | 36,917 |
| Lease liabilities | 8,276 | 8,091 |
| Other liabilities | 7,556 | 8,018 |
| Total non-current liabilities | 80,631 | 53,026 |
| Total liabilities | 140,494 | 126,370 |
| **Equity** | | |
| Total equity | $ 69,625 | $ 65,011 |
| Total shareholders' equity and liabilities | $ 210,119 | $ 191,381 |



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# FINANCIAL STATEMENTS

## Consolidated Unaudited Cash Flow

Cash from operating activities are neutral through June 30, 2024.

As part of the bond raise, a portion of the funding was used for general corporate purposes. We allocated approximately $10m of funds to our strategic vendor base to solidify stronger and more reliable supply chain execution; as a result, inventory levels normalized.

Absent the above, we would have experienced significant positive cash flows from operating activities.

| (in thousands of dollars) | Six Months Ended June 30 2024 | 2023 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit (loss) | $ 8,438 | $ (8,659) |
| Adjustments to net income: | | |
| Depreciation and amortization | 3,384 | 3,770 |
| Net finance costs | 4,906 | 4,466 |
| Change in operating assets and liabilities: | | |
| Increase in trade receivables | (2,816) | (2,691) |
| Increase in inventories | (5,900) | (16,054) |
| (Increase) decrease in other assets | 2,268 | (56) |
| Decrease in trade payables | (8,383) | (4,168) |
| Decrease in other liabilities | (2,042) | (2,692) |
| **Net cash used in operating activities** | **(145)** | **(26,084)** |
| **Cash flows from investing activities** | | |
| Acquisition of ROU assets | (855) | (125) |
| Acquisition of property and equipment | (3,630) | (3,480) |
| **Net cash used in investing activities** | **(4,485)** | **(3,605)** |
| **Cash flows from financing activities** | | |
| Proceeds from long-term borrowing | 61,063 | 29,291 |
| Repayments of long-term borrowing | (38,357) | (4,889) |
| **Net cash provided by financing activities** | **22,706** | **24,402** |
| Effect of exchange rate changes on cash | (3,824) | 2,193 |
| Net increase (decrease) in cash and cash equivalents | 14,252 | (3,094) |
| Cash and cash equivalents at beginning of year | 6,413 | 12,560 |
| Cash and cash equivalents at end of year | $ 20,665 | $ 9,466 |



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# FURTHER INFORMATION

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**THE LEADING VALUE CREATOR**

COMSUMABLE DOWNHOLE PRODUCTS