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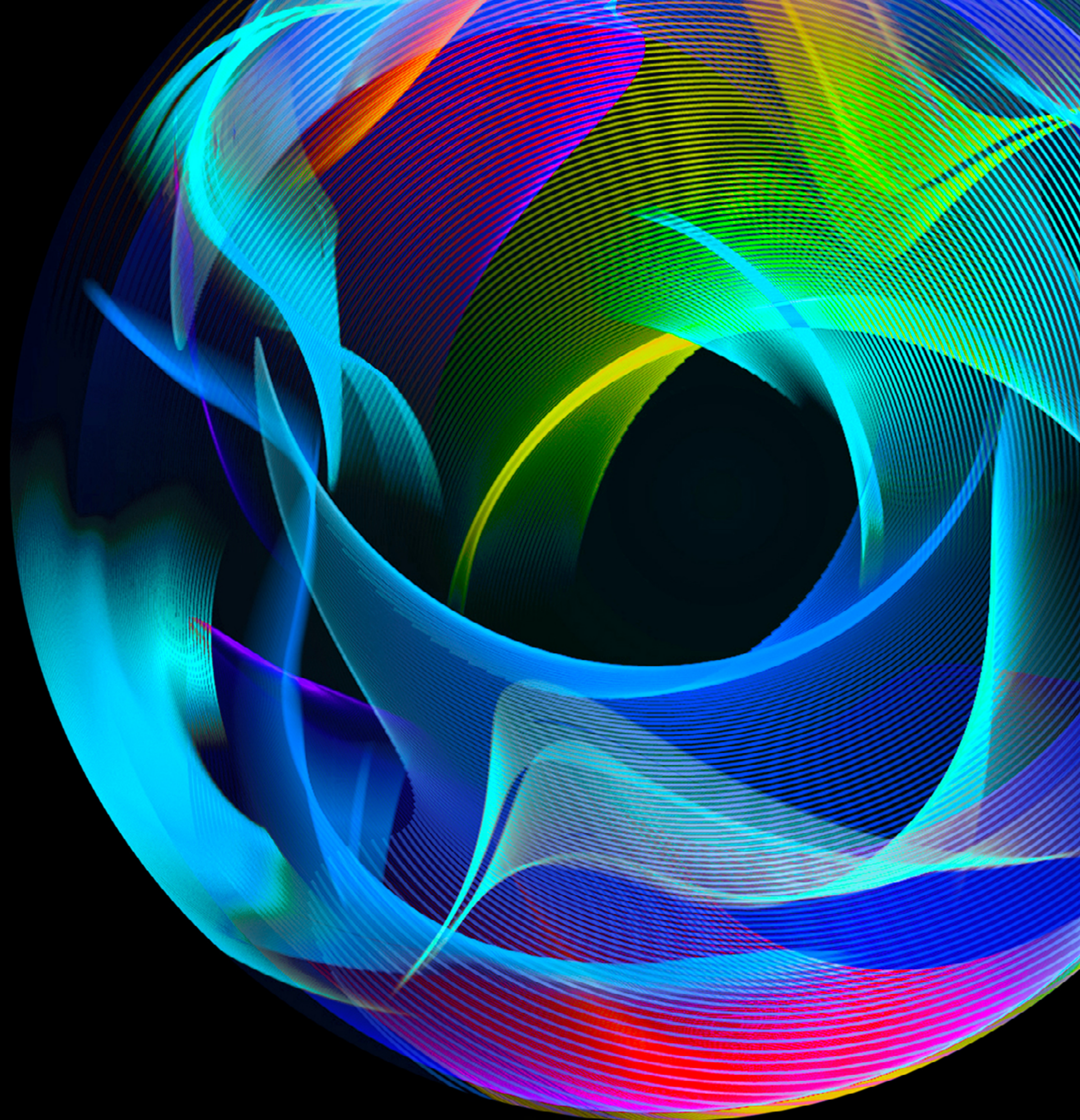


Working Capital Roundup Q2 2023

Oil Field Services, US & Canada

Glossary of terms

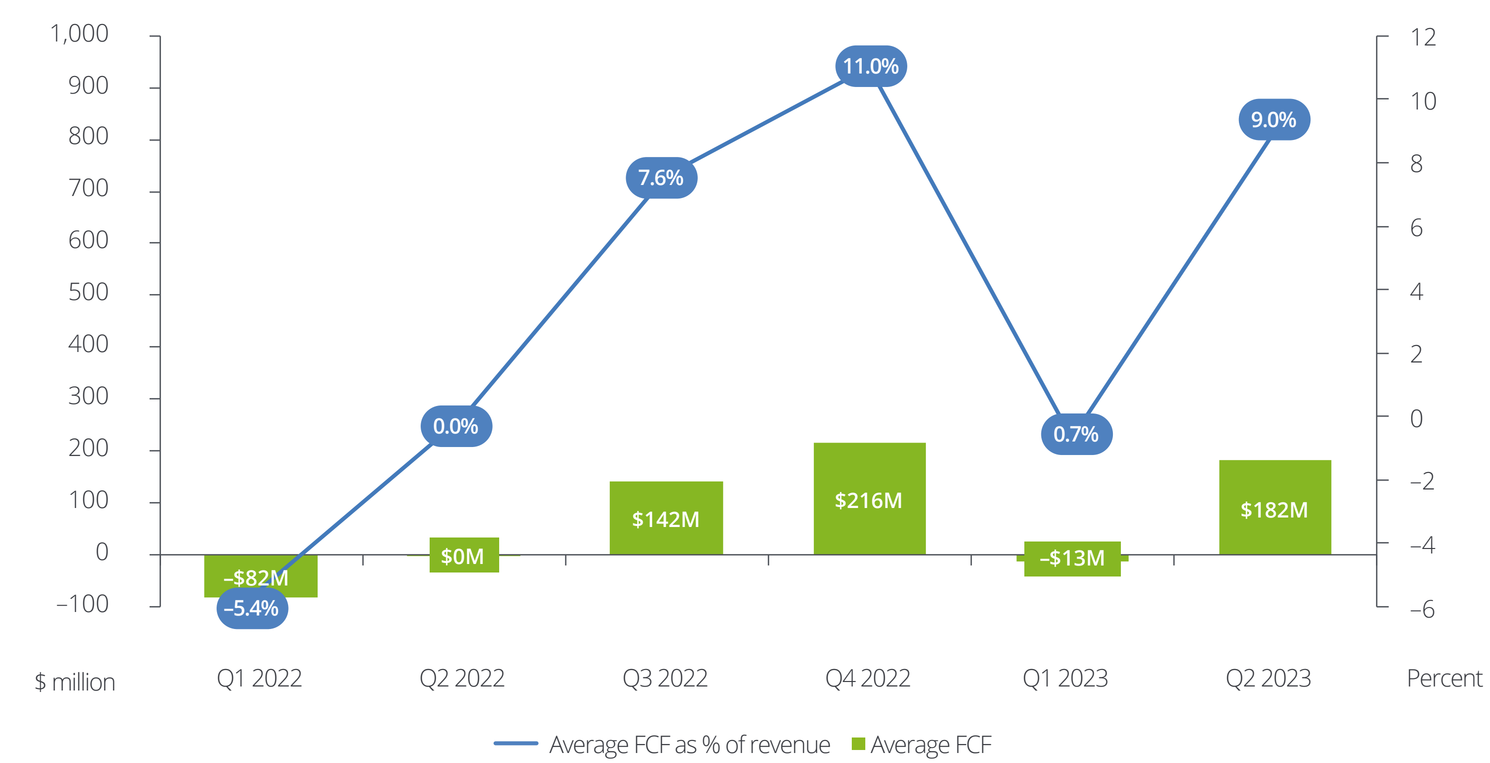
AP	Accounts payable
AR	Accounts receivable
CAPEX	Capital expenditures
CCC	Cash conversion cycle
COGS	Cost of goods sold
DIO	Days inventory outstanding
DPO	Days payables outstanding
DSO	Days sales outstanding
FCF	Free cash flow
PQ	Prior quarter
PY	Prior year
QoQ	Quarter over quarter
WC	Working capital
WIP	Work in progress
YoY	Year over year

Quarterly performance summary

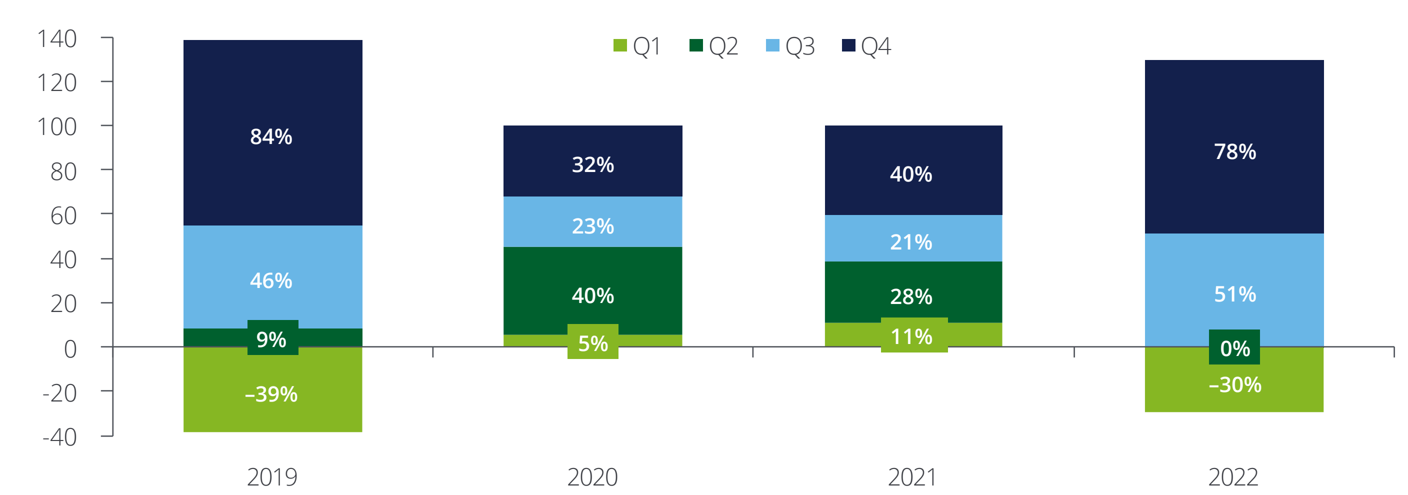
Summary of Q2 results

- For many in the sector, Q2 was a strong quarter across the board with combined revenue for the peer group exceeding $30 billion and income and operational cash levels more commonly seen in a fourth quarter.
- While certainly this has set the sector up for a strong full-year performance, there are some notes of caution that should be considered, most notably in the deterioration of accounts receivable performance.
- Overall, net working capital has grown by $4.8 billion versus PY, which can be attributed almost entirely to accounts receivable. With some macro challenges still ahead, closely watching credit decisions and aging is clearly advisable, as is ensuring strong internal processes and execution performance.
- While inventory has continued to grow, for the most part, this has been offset by growth in accounts payable. However, there are some early signs of separation between inventory and AP growth, meaning that as the second half of the year unfolds accuracy of planning decisions and ability to execute will remain paramount.

Prior 5 quarters' average FCF and FCF as % of revenue



Percentage by quarter of full-year free cash flow



Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Trailing quarters

Trailing quarter trends

- Accounts Receivable - total accounts receivable remained above $27 billion for the second consecutive quarter with DSO growing by 2.3 days vs PQ and up 3.5 days vs PY. Average DSO was 74.1 days at the end of Q2, a recent high point.
- Inventory - absolute levels of Inventory continued to grow reaching $16.8 billion, an increase of $0.6 billion vs PQ and up $2.81 billion YoY. DIO was up 2.7 days vs PY and 1.8 days sequentially.
- Accounts payable - total accounts payable was down $0.11 billion sequentially to $18.72 billion and failing to offset the growth in inventory. However, accounts payable was up $2.07 billion vs PY with DPO up 4.7 days YoY.
- Net working capital – Cash tied up in working capital again exceeded $25 billion, reaching $25.17 billion and up $4.76 billion YoY and $0.67 billion vs. PQ.
- Despite the increases in Net Working Capital, the higher Net Income translated into Cash from Operations that was up $3.22 billion vs PY. With Capital Expenditure only $0.49 billion higher, the net result was a $2.73 billion increase in Free Cash Flow to reach 9% of revenue.

Performance	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	vs. PY	vs. PQ
Revenue	$22.54B	$25.80B	$28.04B	$29.46B	$29.29B	$30.35B	$4.55B	$1.06B
Net income	$0.75B	$0.58B	$1.98B	$2.76B	$2.98B	$2.81B	$2.23B	–$0.17B
Accounts receivable	$21.61B	$23.09B	$24.38B	$25.14B	$27.16B	$27.12B	$4.03B	–$0.05B
Inventory	$13.46B	$13.97B	$14.66B	$15.18B	$16.18B	$16.78B	$2.81B	$0.60B
Accounts payable	$16.68B	$16.65B	$17.79B	$14.68B	$18.83B	$18.72B	$2.07B	–$0.11B
Net working capital	$18.39B	$20.41B	$21.25B	$25.63B	$24.50B	$25.17B	$4.76B	$0.67B
DSO	72.8	70.6	71.3	71.3	71.8	74.1	3.5	2.3
DIO	42.6	41.3	41.4	41.3	42.3	44.0	2.7	1.8
DPO	46.3	46.9	46.6	46.5	47.6	51.6	4.7	4.0
CCC	69.1	65.0	66.1	66.0	66.5	66.5	1.5	0.1
Cash from operations	$0.08B	$1.46B	$3.74B	$5.26B	$1.67B	$4.69B	$3.22B	$3.01B
Capital expenditure	-$1.31B	-$1.47B	–$1.61B	–$2.02B	–$1.87B	–$1.96B	–$0.49B	–$0.09B
Free cash flow	-$1.22B	-$0.01B	$2.13B	$3.24B	–$0.20B	$2.73B	$2.73B	$2.92B
FCF conversion	-162%	-1%	108%	118%	–7%	97%	98%	104%
FCF as % of revenue	-5%	0%	8%	11%	–1%	9%	9%	10%

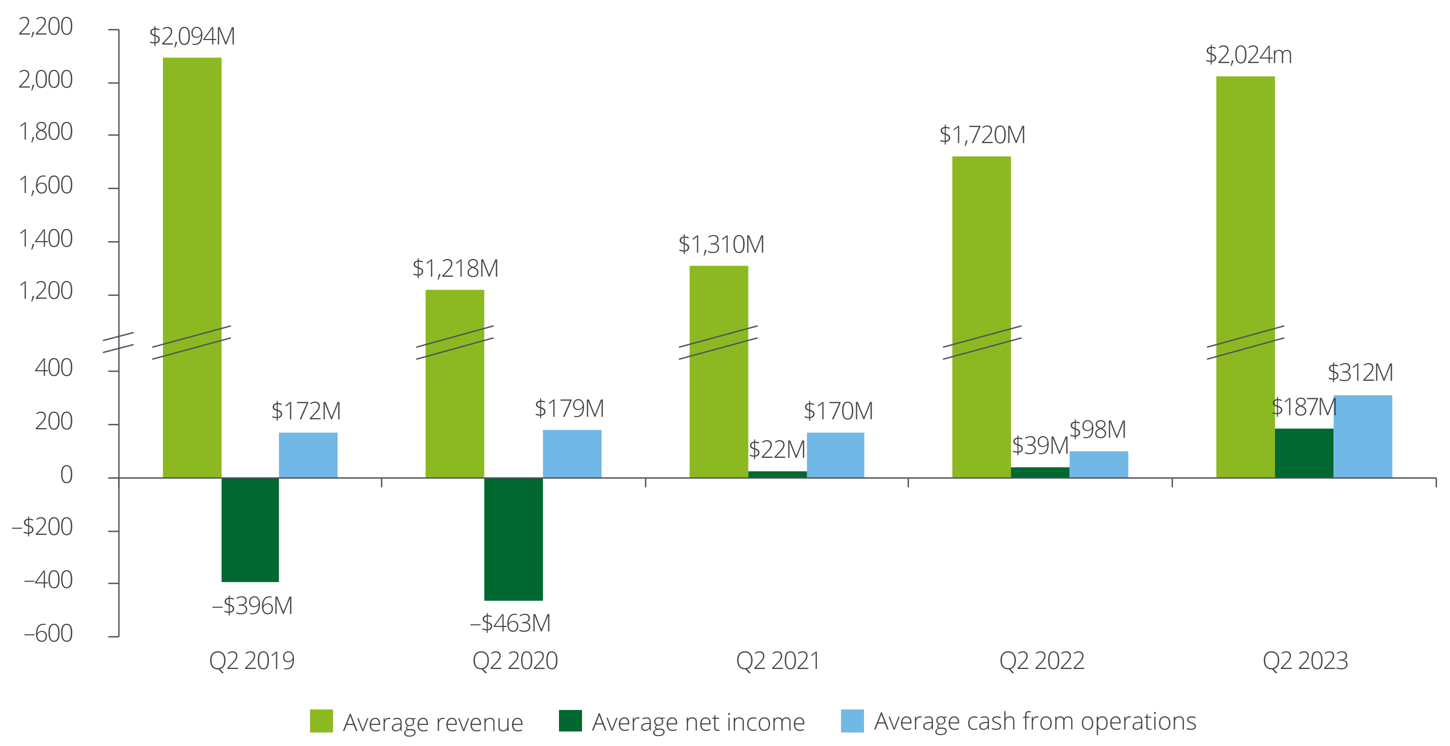
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Revenue, income, and cash

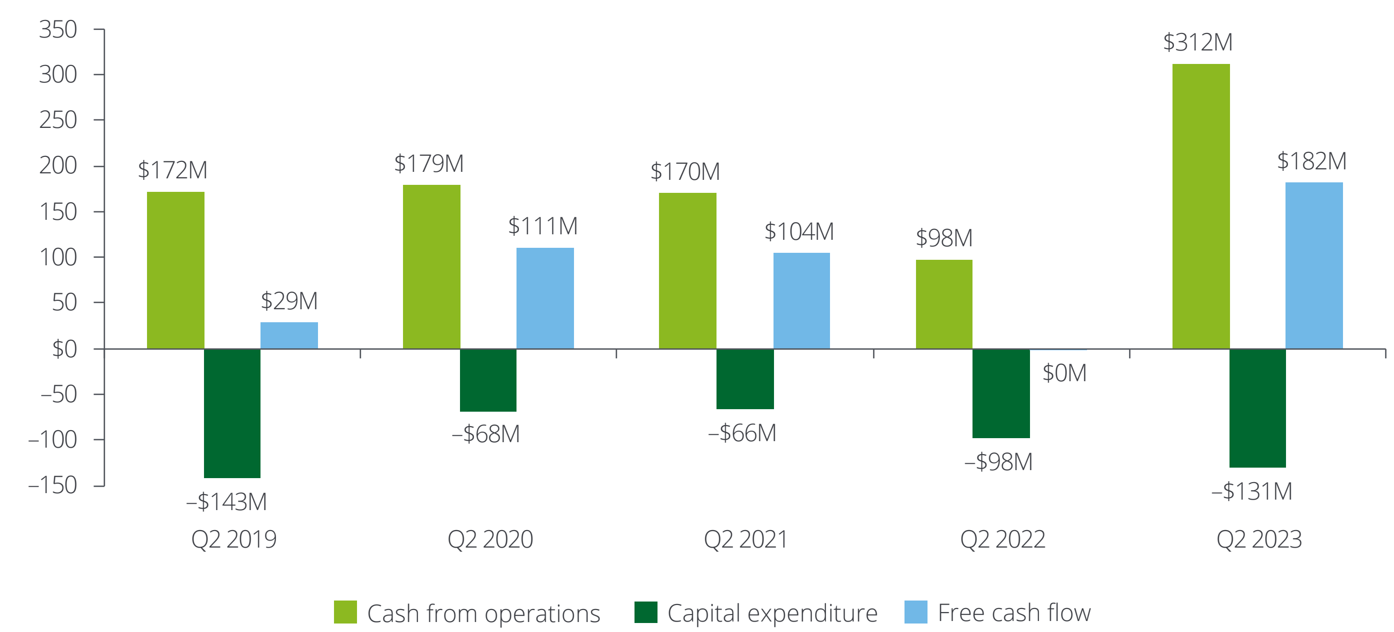
Revenue, income, and cash

- Comparing prior quarterly performance, Q2 2023 represented a strong performance across the board with average revenue exceeding $2 billion for the first time since 2019.
- Impressively, this also translated into strong net income performance, with average net income at $187 million—the best Q2 performance in recent years—and average cash from operations exceeding $300 million, also a recent best.
- This strong performance meant that despite a higher quarter for capital expenditure ($131 million), companies were able to deliver a very strong average $182 million in free cash flow, representing the strongest Q2 in recent years.

Average QoQ revenue, net income, and free cash flow ($ million)



Free cash flow generation ($ million)



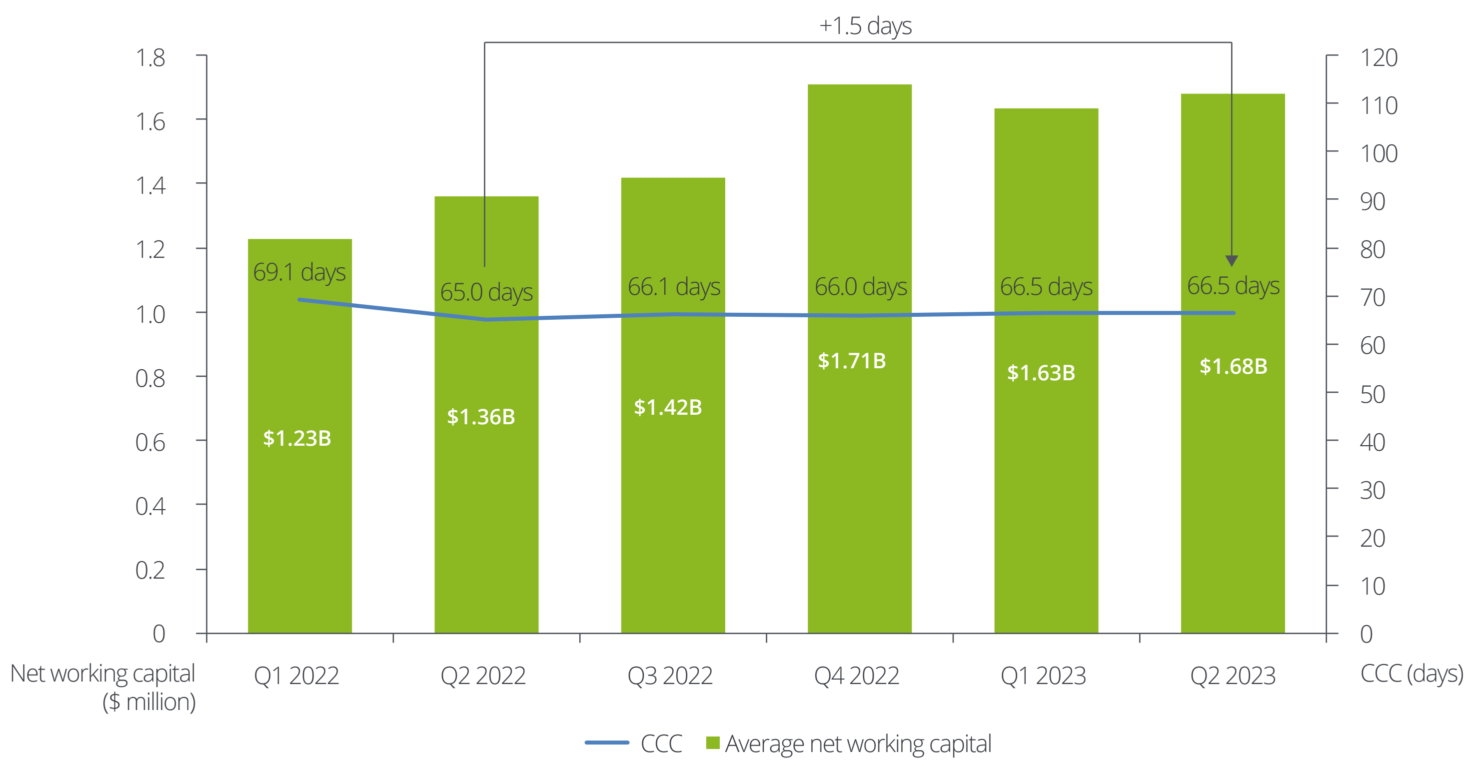
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Cash conversion cycle

Cash conversion cycle performance

- Average net working capital stayed above $1.6 billion for Q2 and continued to remain at a recent high point relative to prior periods.
- CCC grew by 1.5 days vs. PY but was flat vs. PQ at 66.5 days, indicating reasonable stable performance at an aggregate level.
- This was also the second-lowest Q2 cash conversion cycle in recent quarters and is down significantly from 2021 (75.9 days) and 2019 (75.1 days).
- Despite being a reasonably strong Q2 in YoY terms, one area of interest is the variance to prior Q1 performance. In recent years (except 2020), Q1 to Q2 has seen a sharp improvement in days as the Q1 investment cycles flush through. However, this year, the average from Q1 to Q2 was flat, indicating some potential for headwinds later in the year if forecasted work does not materialize as anticipated.
- Typically, quarterly performance stabilizes after Q2, so Q3 results will be watched with interest to determine the full-year direction.

Cash conversion cycle and net working capital



Quarterly average cash conversion cycle

Year	2019	2020	2021	2022	2023
Q1	81.4	79.9	82.4	69.1	66.5
Q2	75.1	123.8	75.9	65.0	66.5
Q3	76.6	92.6	72.6	66.1	
Q4	76.6	83.1	66.4	66.0	

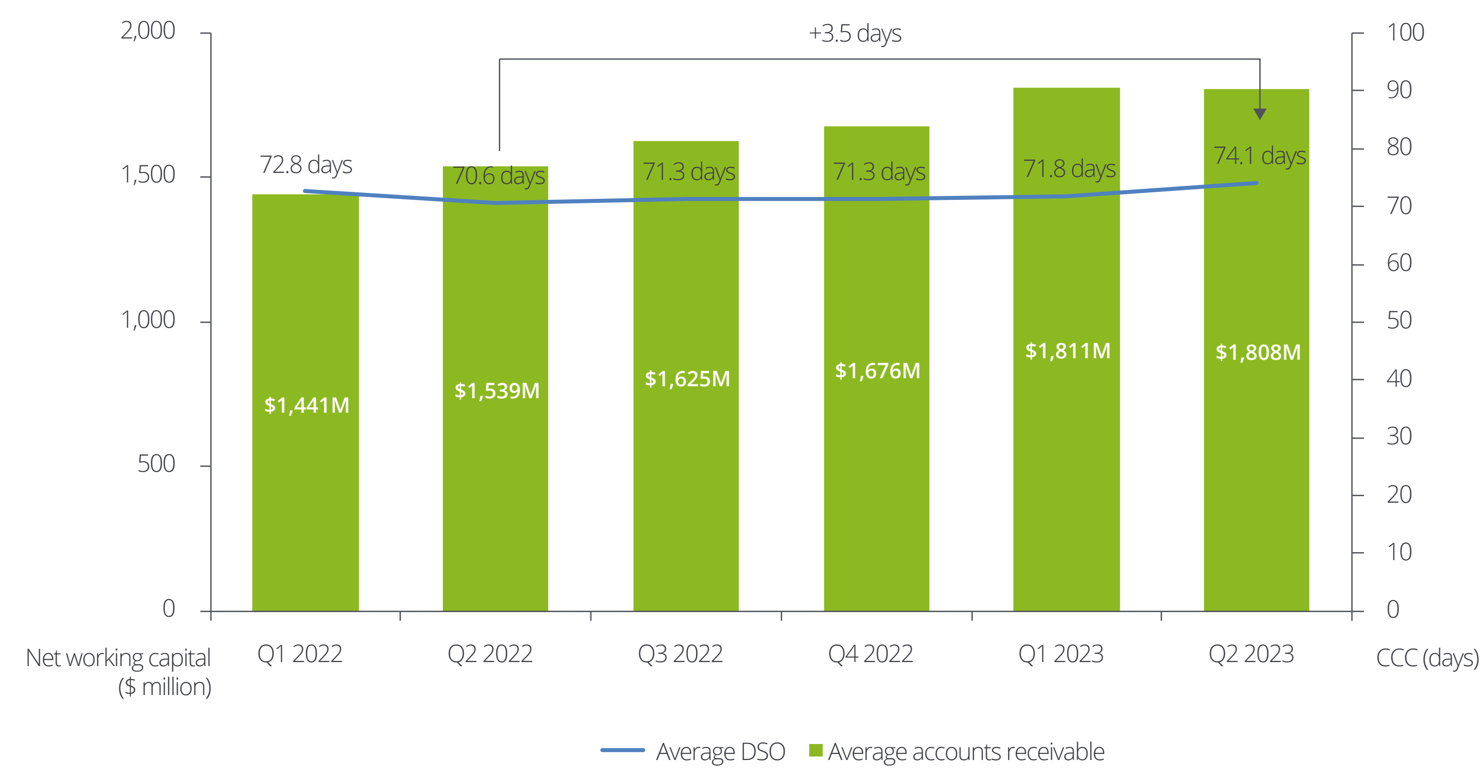
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Accounts receivable performance

Accounts receivable performance

- Accounts receivable was arguably the weakest area of cash and working capital performance across the peer group and should be considered an area of considerable focus going into the second half of the year.
- Average DSO hit 74.1 days, an increase of 3.5 days on PY and 2.3 days vs PQ. This represents the highest level since 2021 and indicates that the rapid growth in revenue could be causing operational challenges for order-to-cash teams.
- The average peer AR balance remained above $1.8 billion at historic highs, and for many organizations it will have constituted a use of cash in the quarter.
- In total, this deterioration accounts for an average of approximately $270 million in extra cash tied up in working capital at a time when borrowing rates remain high for many organizations.
- Of further concern is that 2023 represented the first year since 2020 when DSO performance deteriorated between Q1 and Q2. As companies head into the second half of the year, ensuring that this performance does not deteriorate between now and year end will be critical in ensuring that strong performance does not get diluted by cash headwinds.

DSO and AR balance



Quarterly Average DSO

Year	2019	2020	2021	2022	2023
Q1	75.7	77.8	80.0	72.8	71.8
Q2	76.3	129.6	79.2	70.6	74.1
Q3	76.5	82.7	77.2	71.3	
Q4	76.5	78.8	71.7	71.3	

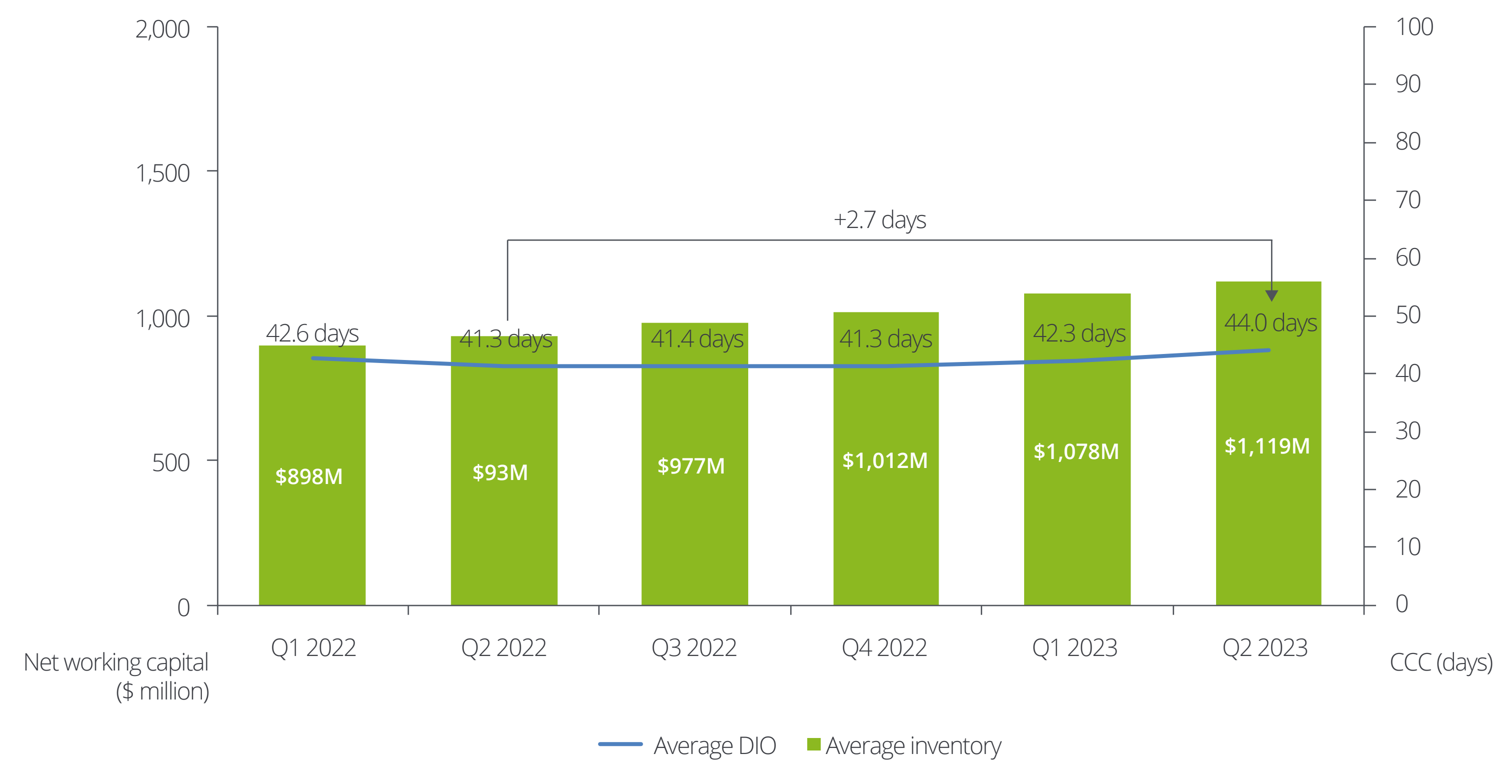
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Inventory performance

Inventory performance

- Unsurprisingly the strong revenue growth translated into further inventory increases with inventory balances up $187 million on PY and $40 million on PQ, exceeding $1.1 billion for the first time in recent periods.
- However, of slight concern is that growth in balances appeared to exceed the operational performance with DIO up 2.7 days on PY and 1.7 days on PQ, hitting 44 days for the first time since Q2 2021.
- On average, this also represented a deterioration from Q1 to Q2, which in prior years has been a period of improvement. Historically, peers have seen a DIO improvement from Q1 to Q2 of between two and three days, which in 2023 has thus far failed to materialize.
- While clearly inventory levels may need to remain above historic levels in absolute terms to support the strong topline growth, caution should be taken to ensure that this is the "right" inventory and does not become a major drain on cash.

DIO and inventory balance



Quarterly average DIO

Year	2019	2020	2021	2022	2023
Q1	48.3	46.0	47.7	42.6	42.3
Q2	45.3	70.9	45.4	41.3	44.0
Q3	46.4	62.8	43.6	41.4	
Q4	45.0	49.8	40.7	41.3	

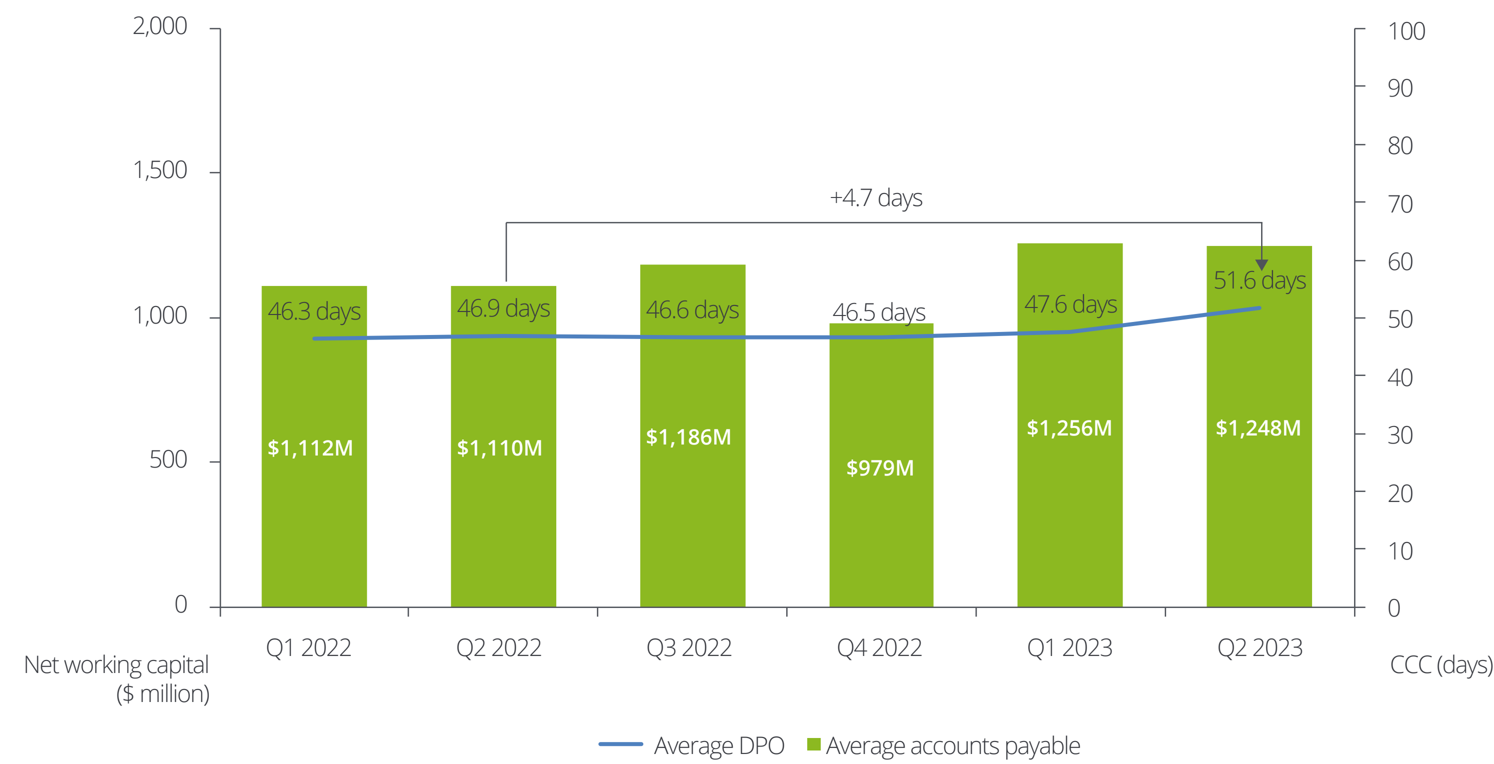
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Accounts payable performance

Accounts payable performance

- AP performance represented a definite bright spot with DPO exceeding 50 days to hit 51.6 days on average, up 4.7 days on PY and up 4.0 days on PQ.
- This came despite average AP balances essentially remaining flat, although at $1.25 billion this still represents a recent high point and an impressive level.
- Relative to recent performance, Q2 2023 performance was the strongest in recent years surpassed only by the middle quarters of 2020, which will continue to represent outlying data points.
- With the $40 million QoQ growth in inventory seen in the previous section, it is worth mentioning the slight decline in AP balances, perhaps indicating either some slight slowness in turning inventory or some growth in WIP or finished goods.
- Heading into the second half of the year, maintaining strong AP performance will be a key lever for many organizations as the elevated levels of receivables and inventory represent a potential full-year headwind that will need to be offset.

DPO and AP balance



Quarterly average DPO

Year	2019	2020	2021	2022	2023
Q1	42.6	43.9	45.3	46.3	47.6
Q2	46.5	76.7	48.7	46.9	51.6
Q3	46.3	52.9	48.2	46.6	
Q4	44.9	45.5	46.0	46.5	

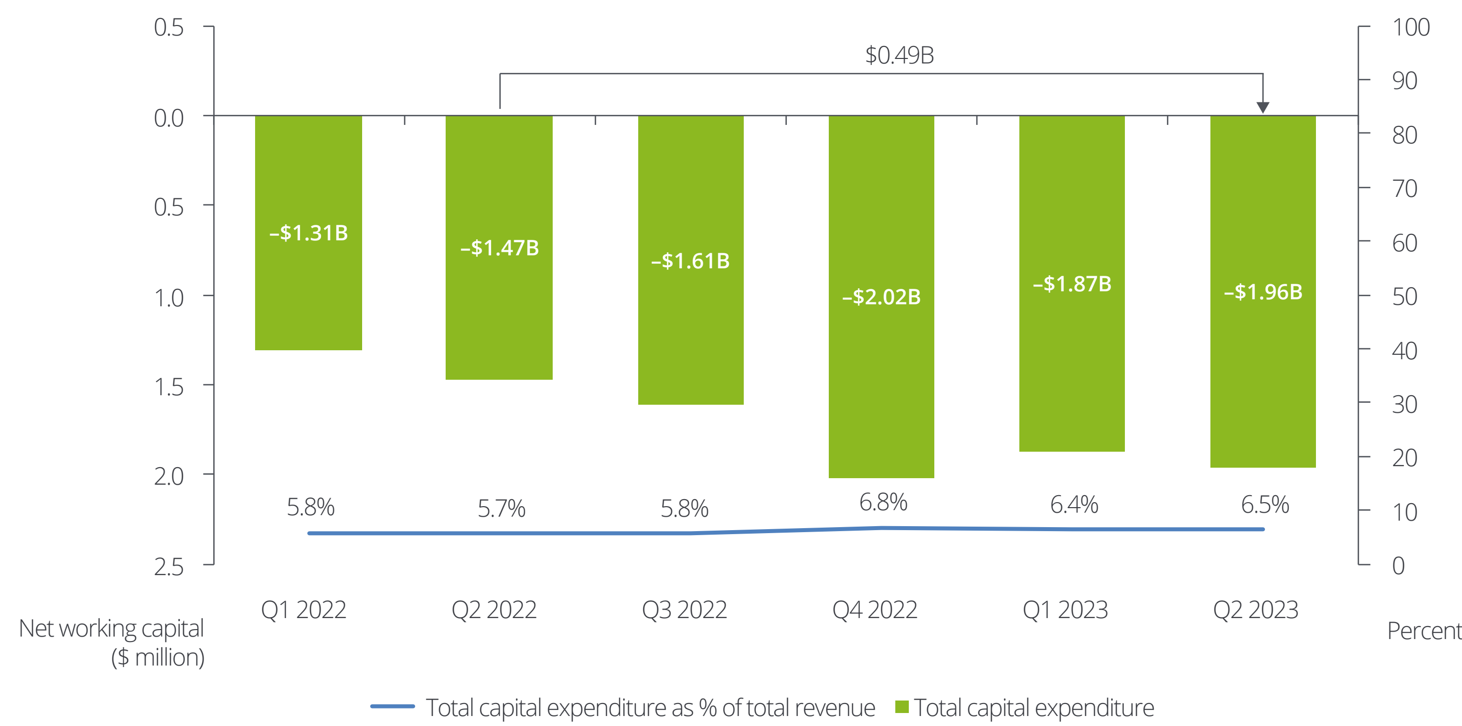
Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Capital expenditure

Capital expenditure

- At $1.96 billion, Q2 2023 represented the largest Q2 deployment of capital expenditure in recent years and came very close to matching the more than $2 billion high that was set in Q4 2022.
- With this following on from a record Q1, 2023 looks set to represent a year of major investment and deployment for the second time with full-year levels set to comfortably exceed $7 billion in total.
- This also represented a significant YoY growth as a percentage of revenue with capital expenses reaching 6.5% of revenue, up 0.7% over Q2 2022.
- While CAPEX allocation by destination cannot be separated in public filings, the split between strategic or growth capital and maintenance capital can be expected to play a significant role for some years to come.
- Furthermore, this should also provide strength in the AP performance for many organizations, with capital typically being deployed on longer payment terms and with greater access to financing mechanisms that can act as a strong cash tailwind.

Capital expenditure



Total capital expenditure by quarter

Year	2019	2020	2021	2022	2023
Q1	–$1.85B	–$1.53B	–$0.80B	–$1.31B	–$1.87B
Q2	–$1.85B	–$0.96B	–$0.98B	–$1.47B	–$1.96B
Q3	–$1.72B	–$0.75B	–$1.20B	–$1.61B	
Q4	–$1.95B	–$0.94B	–$1.51B	–$2.02B	
Total	–$7.37B	–$4.17B	–$4.50B	–$6.41B	

Source: S&P Global Market Intelligence LLC, December 2022; Deloitte sector mapping

Methodology and group

Data on the group examined

- The sample group for this report is 15 publicly traded companies in the United States and Canada that are categorized as Oil and Gas Field Services.
- Only those companies with recent full-year revenue greater than $1 billion are included to ensure relevance of key metrics and availability of data.
- Data has been sourced from CapitalIQ and is shown unadjusted and as reported.
- There are periods where no quarterly data is reported, and for this reason, averages are used as the primary point of comparison.
- Due to differing fiscal years, all data is also shown in calendar-year quarters.

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