Q4 and YE 2014 ShawCor Ltd Earnings Conference Call
March 5, 2015
10:00 a.m. ET

Operator: Good day ladies and gentlemen and welcome to the ShawCor fourth quarter and year end 2014 results conference call. At this time all participants are in listen only mode. Later we'll conduct a question and answer session and instructions will be given at that time.

If anyone should require operator assistance, please press star then 0 on your touchtone telephone. As a reminder, this conference call is being recorded and I introduce your host for today's conference Gary Love CFO. Please go ahead sir.

Gary Love: Thank you and good morning. Before we begin this morning's conference call, I'd like to take a moment to remind all listeners that today's conference call includes forward looking statements that involve estimates, judgments, risk and uncertainties that may cause actual results to differ materially from those projected. The complete text of ShawCor's statement on forward looking information is included in section four of the fourth quarter 2014 earnings press release which is available on SEDAR and on the company's website at shawcor.com. I'll now introduce ShawCor's CEO Steve Orr.

Steve Orr: Thank you Gary and thank you ladies and gentlemen for participating in this morning's conference call. ShawCor released its 2014 fourth quarter and year end financial results yesterday evening. The fourth quarter revenue of $500 million strengthened by 22 percent from the year ago levels as we saw significant increases in activity in our EMAR region and we benefitted from the incremental contribution of $30 million in revenue from the acquisition of Desert NDT.

In our EMAR region we reached high volume production on the South Stream and South Caucasus pipeline projects at our pipe coating facilities in the UAE and we had strong contribution from the facilities in Italy. While revenue was very strong, we did experience a year-over-year reduction in gross margins which decreased approximately four percentage points from the prior year.

The low gross margins can mainly be attributed to a shift in revenue away from high margin project work in Asia Pacific, which declined by $69 million on a year-over-year basis, coupled with project launch costs in EMAR and low margin revenue earned under a cost recovery contract with BP to rebuild the coating facilities in Baku, Azerbaijan. We've now successfully qualified the Baku plant and we expect to begin coating of the $200 million Shah Deniz export line project in the second quarter of this year.

For the full year 2014, we reported record revenue of $1.89 billion and earnings, excluding impairment charges, that were the second best in the company's history, and next only to 2013. Specifically, our EBITDA finished the year at $337 million and our adjusted earnings per share was $3.14. As we look to 2015, the Shah Deniz project plus other work that we have secured in our backlog will be critical to ShawCor's performance. In a few minutes I'll provide you with our outlook both as it relates to key project activity and the impact of the declining oil prices, particularly in our North American businesses. But first I'll ask Gary Love, our CFO, to provide you with some of the key details of our fourth quarter financial results.

Gary Love: Thanks Steve. As Steve mentioned, we're reporting revenue of $500 million in the fourth quarter. That's an increase of 22 percent from the fourth quarter of 2013, it's also an increase of six percent from the third quarter of this year. Now compared to the prior year, revenue increased in every region in both segments with the exception of Asia Pacific Pipeline. The largest source of growth was EMAR, up $100 million or 194 percent primarily due to our higher activity levels in the UAE relating to the start of the activity from the Caspian and from our Italian facilities.

Also increasing $31 million or 17 percent was North American Pipeline, attributable to the addition of approximately $30 million in revenue from the

July 2014 acquisition of Desert NDT. In Latin America, revenue increased by $26 million or 118 percent due to increased activity at our pipe coating facilities in Vera Cruz and Coatzacoalcos, Mexico, partially offset by lower revenue in Brazil.

These increases were of course partially offset by the decrease in revenue in Asia Pacific which declined by $60 million compared to a year ago. When the Inpex Ichthys, Wheatstone and Julimar projects had been in production. Now compared to the third quarter of this year, revenue increased by $30 million. And again it was a result of higher volumes in our EMAR region at Ras al Khaimah from the South Stream and SCPX projects and from the Baku facility rebuild contract in the Caspian.

On a consolidated basis, gross margins in the fourth quarter were 35.5 percent, down half a point from 36 percent in the third quarter and down 4.2 percentage points from a year ago. The pipeline segment gross margin was 35.8 percent versus 36.9 percent and 40.7 percent in the third quarter and year ago quarters, respectively. The decline in pipeline segment gross margin can be traced to the continued decrease in Asia Pacific revenue as a proportion of total company revenue, and due to lower margins in EMAR from a combination of new product launch costs and from low margin revenue earned on the cost pass-through contract with BP for the rebuild of the Baku coating plant.

The Petrochemical and Industrial segment gross margin increased to 30.8 percent from 26.2 percent in the third quarter and 30 percent a year ago. The margin improvement reflects a more favourable product mix. Fourth quarter adjusted operating income increased by $10 million to $58 million from $48 million a year ago. The increase in revenue that we've described translated into higher gross profit of $15 million. In addition, adjusted operating income benefitted from a decrease of SG&A expenses of $2.7 million, lower amortization of property, plant and equipment and intangible assets of $1 million and a decrease in research and development expenses of $1.9 million.

SG&A expenses in the fourth quarter were $100 million and that's down from $103 million a year ago. For the full year 2014, SG&A expenses came in at

$375 million. Now looking to 2015, we are targeting SG&A expense reductions that will reduce SG&A to an annual level below 2014. And to do this we are implementing further cost reduction measures in the first quarter.

Our consolidated adjusted EBITDA for the fourth quarter is $76.4 million, an improvement of seven percent from the third quarter and a gain of 34 percent from $57 million in the fourth quarter a year ago. The consolidated adjusted EBITDA margin in the fourth quarter is 15.3 percent. This consists of 16.5 percent in the Pipeline segment and 14.1 percent in the Petrochemical and Industrial Segment. Adjusted operating income and adjusted EBITDA exclude the impairment charges in the fourth quarter of $79 million which are related primarily to the write down of goodwill and intangible assets that were generated from the acquisition of Socotherm Gulf of Mexico.

Below the operating income line, we have also recorded an impairment of our joint venture investment in Venezuela of approximately $19 million as reflected in the loss from investments in joint ventures. With the closing of the equity issue in September, we paid down bank debt which resulted in a net finance cost decrease to $3.8 million in the fourth quarter from $6.2 million in the third quarter and $5.4 million a year ago. The fourth quarter tax provision includes a deferred tax recovery of $28 million relating to the impairment charges.

Now excluding the impact of the impairments, the fourth quarter 2014 effective tax rate of 11 percent is well below the Canadian statutory rate of 27 percent. And the main factor in this low effective tax rate is the high percentage of the company's income that was generated in the fourth quarter in low tax rate jurisdictions. We are reporting earnings per share in the quarter of a loss of 32 cents per share. However, excluding the after tax impact of the impairment charges, the adjusted earnings per share in the fourth quarter is 76 cents per share. For the full year, reported earnings per share is $1.53 per share while adjusted EPS, again excluding the impairments is, $3.14 per share.

Turning to cash flows in the quarter before changes in non-cash working capital, cash flow provided by continuing operations was $66 million, an increase from $56 million and $30 million in the third quarter and year ago quarters, respectively. The increases track closely the improvement in adjusted EBITDA coupled with the low tax rate. The change in non-cash working capital in the fourth quarter was a net cash inflow of $25 million. This compares with a cash inflow of $10 million in the third quarter and a cash outflow of $5 million a year ago. The main factor in the positive change in working capital in the fourth quarter was an increase in deferred revenue of $30 million.

Cash flow used in investing activities in the fourth quarter, excluding reductions in short term investments, was $20 million. And this consisted largely of capital expenditures on property, plant and equipment, $23 million partially offset by the proceeds from the sale of surplus property. During the fourth quarter, financing activities used net cash of $64 million, with debt repayments of $82 million and dividends of $10 million more than offsetting the $28 million of additional proceeds that we received in October from the September share issue.

For the full year, cash flow from investing activities was $188 million, while net cash used in investing activities was $348 million. Our investments in 2014 included capital expenditures on property, plant and equipment of $78 million, share investments in Zedi and PFT of $28 million and the Desert NDT acquisition of $280 million. Based on the cash flows in the quarter, cash plus short term investments increased in the quarter to $117 million. That's up from $104 million at the start of the quarter and it's up from $86 million a year ago. Including available credit facilities, the company has almost $500 million of available liquidity as of year end.

On that note, I'll now turn it back to Steve for his commentary on our outlook.

Steve Orr: Thank you Gary. The company's 2015 outlook will be largely influenced by two distinctly different elements of our business. First is the large project activity, primarily outside of North America, that is represented in our backlog. Second is our North American businesses that are leveraged to oil and gas drilling and completion, including small diameter pipe coating, composite pipe OCTG management and gathering line weld inspections.

These two elements are very different prospects in 2015 and thus I will elaborate on each.

First let's look at large project activity. As of year end we are reporting an order backlog of $766 million, up 24 percent from $617 million at the start of the year. The order backlog consists of the value of booked orders that we expect to execute over the next 12 months and thus is a good indicator of large project activity in 2015. The backlog increase was supported by the award of the $200 million Shah Deniz gas export pipeline project in the fourth quarter.

Although not reflected in the backlog, the company is encouraged by indications from our North American and Latin American midstream customers who indicate they will continue to maintain a strong volume of large diameter pipeline construction activity in 2015 and beyond. Historically the company has always executed projects that have entered into the backlog. However, to date the South Stream offshore project challenges that statement as this project has uncertainty in the work.

In 2014, the company secured four contracts for pipe coating and joint protection for the first two pipelines in the South Stream project. In December, these contracts were suspended by our customers and, as of today, the suspension remains in effect. The value of the contracts that we have yet to execute as of year end is $125 million, of which $114 million is in the $766 million year end backlog. Our customers continue to indicate their belief that the work will recommence in the second half of 2015, however the risk exists that the South Stream contracts could be cancelled or delayed for a significant period of time in which case we would need to adjust our backlog accordingly.

In addition to backlog, primarily due to Shah Deniz, ShawCor holds booked orders with a value of approximately $232 million that extends beyond the next 12 months and thus provides good support even at this early date for large project activity into 2016. Also supporting our outlook for 2015 is our outstanding bid list with a value of currently outstanding firm bids exceeding $800 million. This amount did decline from approximately $1 billion at the end of the third quarter, however, we continue to be impressed by the breadth and geographical diversity of the bidding activity.

In addition to our outstanding firm bids, we are tracking an additional $1 billion in projects on which we have provided customers with engineering estimates. One of the expected consequences of the decline in global oil prices will be the extended timeframes from project inception to final investment decision. However, the additional time spent to reduce capital costs and reduce product risk will be an enabler for projects to precede post 2015.

The second key element of our outlook is the negative impact to our North American businesses that are levered to oil and gas drilling and completion. As of year end 2014, these businesses generated approximately $500 million in revenue on a full year-on-year basis, or approximately 25 percent of the company's total revenue. A decrease in the number of wells completed can be expected to have a proportionate impact on this revenue level.

Current industry forecasts are projecting that the number of drilling rigs active in North America will decrease by up to 50 percent in 2015. Although the exact timing of the resulting impact on our revenue is difficult to determine, we do expect that our North American pipeline segment will be impacted significantly commencing in the second quarter and extending until rig counts begin to recover. To mitigate the impacts of lower volumes in the fourth quarter, we initiated personnel reductions, facility closures and other cost control measures. In 2015, further personnel reductions and rationalizations will be implemented. We continue to monitor our activity levels and we are committed to adjust our cost structure appropriately.

Although the downturn will impact operating income and cash flow, the company is in a very strong position to not only weather the downturn but also to take advantage of opportunities to undertake growth investments and execute our long term growth strategy. The equity raised in September 2014 has resulted in less shock to our very strong balance sheet. Even in an environment of reduced revenue and operating income, we have potential investment capacity which we intend to employ. We continue to track an extensive list of potential acquisition targets in each of ShawCor's five growth themes and we are optimistic that opportunities will arise to close strategic acquisitions over the next 12 months.

On that note, I'll turn the call over to the operator for questions.

Operator: Thank you. Ladies and gentlemen if you have a question at this time, please hit star and then 1 on your touchtone telephone. If your question has been answered and you wish to remove yourself from the queue, please hit the pound sign. Our first question comes from Jeremy Mersereau of National Bank Financial. Your line is open.

Jeremy Mersereau: Good morning everyone.

Gary Love: Good morning.

Jeremy Mersereau: On the North American business, I'm wondering if you're seeing some of the customers trying to get concessions from you and if you think that'll potentially get worse over the next few quarters.

Steve Orr: Jeremy, I can go through each one of them and I can give you some indication. So as we mentioned, we have several businesses that are impacted; large diameter pipe, girth weld inspection, Flexpipe and Guardian.

So what we're seeing right now is across the board requests from our customers to help them reduce cost. So these are generic letters that are coming out and asking for reductions. As a percentage of their spend, we're not the large target items in all of these cases.

Probably the biggest influence that we're going to see is the pricing strength that we had in 2014 is going to evaporate. So the possibility of moving prices up is not going to happen. And we're starting to see the biggest impact is the reduction in volume. Starting with our small diameter pipe coating businesses, because the business with the distributors is the first one that's being hit.

So if I look at the impact, pricing is not going to be the biggest one. The biggest one will be the reduction in volumes and the inefficiency that it brings to operations of pipe coating. The services related businesses, Desert and Guardian in particular, the pricing concessions that are being asked for on the unit. So price concessions on the cost per inspection or the day rate. And so far, what we've been able to do is to protect against that pricing pressure but we are having to concede the costs associated with having crews service work that's out of district, so the per diem. And the per diem is going away, so for a period of time that's going to influence margins substantially until we can move those crews to where the work's happening.

So for us the biggest margin impact will be from volume reduction and the absorption rate in the plants.

Jeremy Mersereau: OK. And I guess getting back to the bid book, I'm wondering if you can tell me what effect the lower Asian LNG pricing is having on the bid book.

Steve Orr: With the bid book the biggest movement was we generated about $500 million of revenue so that ate up the backlog. And of course the backlog was entered into because of Shah Deniz.

The LNG projects that are most visible to us now are on the west coast of Canada. And at the end of the fourth quarter they sat in the budgetary $1 billion category. Other LNG projects are also reflected in the budgetary number. So the bid book is not influenced very much by LNG at all.

Jeremy Mersereau: OK, thank you.

Operator: Thank you. Our next question comes from Scott Treadwall of TD Securities. Your line is open.

Scott Treadwall: Thanks. Good morning guys. I wanted to ask on the project size especially in EMAR. The ramp up of the facilities and I guess the ramp down of the stuff in Asia, is that materially complete in Q4 or is there any overhang structurally as you go forward into '15.

Steve Orr: So we're not done yet and I'll explain. Because we still have associated cost in Asia Pacific of holding finished pipe. We're not 100 percent done. And until we actually start coating pipe in EMAR, and as we mentioned the pipe facility in Baku has been qualified, we will still have overhang to Q1 as we move people over. But I would expect as we enter the exit point of Q1 into Q2 we'll be done. But we'll still see costs in Q1 because we haven't started doing the volume of pipe coating in Azerbaijan yet, right.

Scott Treadwall: OK, perfect. The second one I guess is a bit of a follow on. The projects that either are in firm bid or in the budgetary estimates phase, have you seen any sort of rebid/retendering work yet or just a general slowing of that treadmill which I'm sure you do expect to see? Has that crystallized yet? And again, have you seen anything on the rebidding, retendering side.

Steve Orr: Something we're watching very closely. What we're watching very closely is timeline on conversion from budgetary to bid and bid to backlog. So we're watching these very closely. And because we're a bit analytical on these numbers or these three buckets, we were able to go back historically and look at it.

And today, there's only one project that has moved out of the bid book. Firm bid that was outstanding with Chevron (IDD) of around $90 to $100 million sat in our bid book. Because of political uncertainty, the bids have now lapsed and they're going to retender in July this year. So that moves back to our budgetary category. That's the only one.

Scott Treadwall: OK, perfect. My last question on is on Flexpipe. I mean one of the big growth drivers has been the market adoption of Flexpipe over small diameter steel and there was a big cost savings for producers. It's early days but structurally do you think Flexpipe can offset some or all or at least a good portion of the market sort of slow down just through better adoption?

Obviously I'm not asking if it's going to grow year-over-year but does it have that level of insulation or is the inertia and the willingness to try something new reduced in this environment?

Steve Orr: So I think we have to look a little bit higher level on what's going to happen in terms of the infrastructure spend and maybe even look at the rigs. If you look at what rigs have the most likely opportunity to continue to work, they'll be the higher end rigs that are able to do the extended reach horizontal drilling. So I think it's pretty fair to say that the horizontal high value rigs that have the biggest horsepower that can run high end rotors/turbos will be the top drivers in the market.

I think there is a scenario that the sustainable work will be on pad drilling and the number of wells per pad are going to increase. Outflow from those pads possibly will be larger diameters. Certainly we are quite positive on the industry wanting cost savings and the value that Flexpipe brings. But there is going to be a movement where a larger percentage of the piping that leaves the pads will be larger than the capacity pipe that we have in our portfolio today.

So it goes back to the statement that we made several times, we are quite excited about the future portfolio of bringing six and eight inch and larger products. So that's kind of the balance. I think certainly you hit on how we're approaching customers is the unit cost and the total cost of ownership which is attractive for Flexpipe, but I would argue on the other hand, that tightening in the market also may change the volume of pipe and the different usage from pads to gathering point.

Scott Treadwall: OK. And I guess as a follow up, does the six inch Flexpipe product get you into those larger volume pad applications or do you need to go to the eight inch?

Steve Orr: Six inch helps greatly.

Scott Treadwall: OK, perfect. I appreciate the colour guys. I'll turn it back. Thank you.

Operator: Thank you. Our next question comes from Dana Benner of Alta Corp Capital. Your line is open.

Dana Benner: Thanks. Good morning guys.

Gary Love: Good morning.

Steve Orr: Good morning Dana.

Dana Benner: I wonder if you could provide us some detail on your plans for 2015. Is there any way to quantify the savings that we could see from your various cost reduction efforts either in North America or globally?

Gary Love: Well yes, there's going to be several elements. So one thing we're focused on is in the businesses that have the near term volume impacts. And so these would be the North American. So the critical issue is to reduce our cost structure to try to hold the line as much as possible on margins. And that's a challenge and it's an uphill challenge.

But we will have some slippage in margins in our North American businesses, and so our challenge is to try to minimize that as much as possible. You know in the absence of the North American downturn, we were clearly expecting a very strong 2015. And we knew that with the ramp up in EMAR we were going to get a margin lift. What's obviously working against us though is the deterioration in margin associated with the volume reductions in those North American businesses that Steve described.

So the name of the game there is to mitigate as much as possible and that's going to show up in two places. It's going to show up in our gross margin – can we minimize the downward drift associated with the North America downturn? And then in our SG&A, can we reduce our fixed cost structure systematically across the board?

Exiting the year, we did $100 million of SG&A in the fourth quarter. We cannot continue in 2015 at that level. So I made a statement that we were going to try to bring that down to 2014 or lower levels. And of course 2014 for the whole year was $375 million, right. So that's the order of magnitude of what we've got to take out of our SG&A.

Dana Benner: OK, sorry. Are you done on your end then?

Gary Love: Yes.

Dana Benner: OK. I thought I heard Steve chip in. And so presumably the effect of that would be progressive throughout the year. We wouldn't expect – we wouldn't expect to see that type of trend line as early as Q1.

Gary Love: No. There's a couple of things. We'll see some reductions because we implemented some cost savings in the fourth quarter. So we'll get the benefit of that right away. There's another element Steve touched on which is completing the Asia Pacific downsizing. And there's both personnel associated with that but also there's a significant element of facility cost that's currently tied up in Asia Pacific for all the pipe that we're storing that's yet to be loaded out.

So as the pipe load outs are completed, and we're going to release the land, we're going to release the pipe handling equipment. So we will see reductions in cost progressively over the first half of 2015 as we complete the downsizing in Asia Pacific. We've not done that yet, so that's going to continue in the first half of 2015. And then we also have additional personnel reductions that have already been implemented in the first quarter. There's an upfront cost associated with that and we'll start to see the benefit of in the second quarter and beyond.

Dana Benner: Right, OK. Forgive me because I'm jumping between two calls here. Did you – have you addressed whether there's more Shah Deniz work out there to win or do you think it's mostly tied up now?

Gary Love: There's additional work associated with pipelines, not BP project work but both the TANAP and the TAP pipelines do provide opportunities, both of which are captured in our budgetary project list.

Dana Benner: So that's the $2 billion number not the – not the $800 million?

Gary Love: Well to be clear, the $2 billion is the total of $800 million plus call it $1.2 billion. That explains the grand total.

Dana Benner: All right.

Gary Love: So we see it in the $1.2 billion.

Dana Benner: Right, right.

Gary Love: Because, for example we have not bid TAP yet. That's the trans-Adriatic pipeline.

Dana Benner: OK. And do you have any sense as to when you could see those projects move to formal bid? Is that a 2015 event?

Gary Love: Sometime during 2015.

Dana Benner: OK. Just finally for me on the M&A side, I'm curious as to the types of reductions you could notionally be seeing on some things that you may have been looking at, if you're starting to see sellers get a little bit more realistic or do you think you have to wait a little longer?

Steve Orr: They're starting to drop and we're starting to see our first sign of distress sales. We have an extensive list of M&A and they fall into these three boxes that we mentioned before, tuck unders, technology and new platforms of growth. We have added now to the list multiple opportunities that are coming from distress or downturn trading.

The reason why they all trade now is because they are distressed sale because of cash flow or balance sheet issues. So we're starting to see that which is a positive sign.

Dana Benner: OK. I will turn it back. Thank you.

Operator: Thank you. Our next question comes from Mike Mazar of BMO Capital Markets. Your line is open.

Mike Mazar: Hey guys, good morning. Sorry I'd forgotten how to cancel. My question was actually the same as Dana's on the M&A side. So my question was answered, thanks.

Gary Love: OK, yes. Thanks (Mike).

Operator: Thank you. Our next question comes from Jesse Pytlak of Cormark Securities. Your line is open.

Jesse Pytlak: Hey good morning. I was wondering if you could comment on activity and backlog for the large diameter North America work and how the outlook there has changed from let's say a year ago.

Gary Love: Yes. So one of the elements of North American large diameters, quite a bit of it doesn't go into our backlog until we actually book the orders. As Steve mentioned, our outlook for North American large diameter is positive. The activity levels in 2014 were quite strong and we see them continuing strong in 2015.

There are some very notable projects on the horizon that could start to impact our backlog late in 2015 and into 2016. And probably the most important or the most eminent of which is the Line Three replacement for Enbridge. But generally when we look at our global landscape, North American large diameter is going to continue to be an area of strength for a number of years.

Jesse Pytlak: All right, perfect. And then just in terms of operating margin, we've seen this tick down through the year and you're doing around 11 12 percent in the quarter. Is this a level that you expect you'd float around in 2015 or how should we look at this?

Gary Love: If we look at the Pipeline segment, which is really critical, our operating margin in the second half of 2014 dropped down into the sub 13 percent range. So just under 13 percent in each of the third quarter and the fourth quarter. Alluding to a comment I made a moment ago, we had been optimistic that we would see a significant uptick in margins in 2015 over this second half 2014 level, the drivers for that being ramp up in EMAR and the large project activity that's in our backlog. And that's still our case.

What we now will have to confront is the negative impact associated with the volume reductions in our North American businesses that are leveraged to well completion. So how does it balance out? You know obviously time's going to tell. It depends on what happens in North America in those businesses. That will determine whether we're able to move above the current level in Pipeline operating margin or not.

Jesse Pytlak: All right, perfect. That's all my questions. Thanks guys.

Operator: Thank you. Again ladies and gentlemen to ask a question, please hit star and then 1. Our next question comes from Elias Foscolos of Industrial Alliance Securities. Your line is open.

Elias Foscolos: Good morning. I have a first question related to backlog. In terms of backlog, do you mark to market your backlog in Canadian dollars based on a certain exchange rate at the end of the quarter or do you average it throughout the quarter?

Gary Love: The backlog is based on our quarter end exchange rate and obviously the Canadian dollar has weakened since December 31st, 2014. All other things being equal assuming the current rate holds through the year, we would generate more revenue in Canadian dollars than is strictly speaking reflected in the backlog. But no, the backlog gets translated at the quarter end exchange rate.

Elias Foscolos: OK. Just a little bit related to that, you have provided some approximate revenue numbers into 2015 for some of the pipe and pipeline services segments. What currency or what exchange rate were you using when you came up with those estimates?

Gary Love: We were using a rate which is in our view deemed to be conservative. It would be slightly below what the current spot rate is.

Elias Foscolos: OK.

Gary Love: Exchange rates are one element that it could be favourable for us if current spot rates for the Canadian/U.S. dollar prevail throughout the year.

Elias Foscolos: OK, all right that's that helps answer that. Thanks. I want to go back to margin just for a moment in the pipe and pipeline services segment.

The margin decrease in the latter half of the year, you allude that it's attributable more to a product mix change which is less sales out of Asia. I guess I was assuming that a lot of that would have come through Desert NDT. Is it a combination of both or has it really shifted towards the Asia loss of revenue?

Gary Love: It's the Asia loss of revenue. If you look at the first half of 2014, Asia Pacific represented over 25 percent of the company's consolidated revenue. And in the second half of 2014 it was down to 10, 11 percent of consolidated revenue. That's a very substantial shift in our overall regional composition of revenue and that's your single biggest factor.

Desert NDT was accretive to our EBITDA margins and was neutral to our operating income margins. And the difference being we've got a substantial amount of intangible asset amortization associated with the accounting for the acquisition. But from an EBITDA margin perspective, it was absolutely accretive, full stop.

Elias Foscolos: OK.

Gary Love: Second half of 2014.

Elias Foscolos: And the last one is, when do you plan to publish the MDRA and the full financials?

Gary Love: It would be probably sometime early next week. We typically try to post on SEDAR relatively quickly after releasing our earnings. I can't promise a date but I would expect sometime next week.

Elias Foscolos: OK. Thank you very much.

Gary Love: You're welcome.

Operator: Thank you, I'm not showing any further questions in queue. I'd like to turn the call back over to management for any further remarks.

Steve Orr: I'd just like to thank everybody for participating in the call today, and I look forward to seeing you at the end of next quarter. Thank you.

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

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