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ARCHER.OL - Q1 2013 Archer Ltd Earnings Conference Call

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PRESENTATION

Fredrik Halvorsen - *Archer Limited - CEO and Deputy Chairman*

Thank you, Bertrand. And thanks to everyone for joining the call. So please note that the usual caveats apply. I'll start by giving you a summary review of our first-quarter results and then I'll turn the call over to our CFO, Mr. Christoph Bausch, who will provide further details of our first-quarter results and financial status.

First quarter revenue came in at \$514.5m, which is 3.9% sequential decline. EBITDA for the first quarter came in at \$39.7m and this compares to \$24.7m in the previous quarter.

On May 22 we announced the sale of our North American Rental and Tubular division for approximately \$244m. The all-cash transaction is expected to close by the end of June 2013. This divestiture will help us focus the North American efforts on the service and the product offering in the unconventional resource space and it should also help us simplify and further de-leverage the Company.

So let's summarize the quarter performance for each operating area, and starting with North America.

Overall North America reported \$148.1m in revenue in the first quarter, with an EBITDA of \$10.7m. We achieved an encouraging 27% growth in pressure pumping in the quarter. However, this increase was offset by a drop in Frac Valves and Pressure Control revenues. Prices remain under pressure and several of our service lines are still operating at breakeven margin.

The decline in operating land rigs continued in the first quarter, with a 3% drop from Q4, bringing a total to 1,680 rigs at the end of Q1. Year on year, the US land rig comp is down by approximately 250 rigs, or 13%. The increase in revenue for Pressure Pumping is mainly the result of the mobilization of the fifth fleet and overall utilization maintained flat, at 73% during the quarter.

We did frac above 1,000 stages this quarter, and that compares to 780 stages fracked in Q4 last year. We now have a total capacity of 186,000 horsepowers. Prices for the quarters continue to decline and we're down about 7% over Q4.



On our Pressure Control division we marketed an average of 22 Coiled Tubing units during the first quarter of '13. This is the reduction of two units compared to the fourth-quarter 2012, as they have been idle during the quarter due to a lack of demand.

The average pricing for Coil Tubing services declined by approximately 8% compared to Q4 and our overall asset utilization on the Coil Tubing fleet now stands at 43%.

Directional Drilling revenues were down 3% in the quarter and now stands at about \$25m. However, we did also reduce our cost structure and, as such, realized a modest improvement in EBITDA. For this service line the equipment utilization currently is below 50%.

So lately we have seen that increased drilling efficiency has led to a reduction in rig counts. On the other hand, we've all -- we do expect to see a continued marginal increase in completion activity mainly related to already-drilled but temporary shut-in wells. As such, we do expect a modest improvement in both revenues and EBITDA in the second quarter of 2013.

So, moving on to Latin America, the region reported \$132.8m revenues in the first quarter and that is a reduction of 2.4% from Q4. However, the EBITDA, of \$11.5m, was up 72% compared to the previous quarter. The drop in revenues was due to the release of 15 rigs in December by a major customer as we entered into contract negotiations for new terms and conditions starting in early 2013. The 15 rigs did go back on contract in the first quarter and, overall, rig utilization came in at 81%.

The increase in EBITDA is mainly the result of lower costs in the first quarter, as the fourth quarter of 2012 did include retroactive salary increases not covered by customer reimbursement. We expect second-quarter 2013 revenue to be relatively flat. We do, however, see EBITDA down.

On the North Sea side in the first quarter revenue came in at \$150.3m. That's down \$19.5m from Q4. EBITDA in Q1 was \$5.9m, which is an improvement of \$7.3m from the previous quarter. Again, this improvement in EBITDA is primarily related to the exceptional charge in the fourth quarter of 2012 related to the termination of a customer agreement in Alaska due to the non-payment overdue invoices.

The Archer Emerald, the modular rig, has successfully commenced drilling operations late in the first quarter after an extended insulation period and has now completed its first well for Shell in New Zealand as to the end of April 2013.

During the quarter we've also started the construction of our second modular rig, the Archer Topaz. The Archer Topaz is being built for a two and a half year contract with Statoil and its partners and will start operation in the fourth quarter of 2014 on the Heimdal platform in Norway to perform plug and abandonment services.

On the overall and more traditional platform drilling business we are pleased with the three-year contract extension by BP subsequent to the first quarter and now have a solid backlog, with all rigs under firm contract throughout 2014. We expect EBITDA in the second quarter of 2013 to improve from the first quarter due to higher utilization of the modular rig.

So, finally, to our emerging markets and Technology business, revenue for the first-quarter 2013 was \$83.3m, which is an increase of 3.1% compared to the previous quarter. The improvements in Wireline both in the US and in Norway in the first quarter were partly offset by a decrease in revenue at our Oil Tools operation.

EBITDA for the first quarter was \$11.6m, which is an increase of \$2.9m, or 33% compared to the previous quarter. The increase in EBITDA correlates with the revenue -- the increase, sorry, and an improved revenue mix.

We expect second quarter revenue and EBITDA to be down compared with the first quarter. And this is due to continued pricing pressure in North America and also the planned shutdown of a large portion of operation in the North Sea Wireline space by one of our key customers.

So, to sum it up, while there are signs of the most America land-based oil service cycle now bottoming, and the Company's operational performance improving, the financial results will only materially improve when the US land market recovers and we see sustainable pricing improvements. The Company will continue, therefore, to streamline its operation in line with its strategy to simplify the structure and reduce its net debt.

So, with that, I'd like to hand it over to Archer's CFO, Christoph.

Christoph Bausch - Archer Limited - CFO

Thank you, Fredrik, and good afternoon, everyone. I will now summarize the financial results for Archer's as a whole. But before I start I would like to point out a couple of changes we made which impacted both the first-quarter 2013 as well as last-year comparative results.

In order to better serve our customers in Brazil we moved the management of our Platform Drilling and Engineering operations in Brazil from our Latin American area to the North Sea. With this change all of Archer's Platform Drilling and Engineering business, as well as the modular rig activity, are now grouped under the North Sea area.

As announced in combination with the release of our 2012 annual report, the fourth-quarter 2012 results were adjusted compared to the preliminary results issued at the end of February. The total net adjustment was an amount of \$723,000 and impacted the revenue cost and tax lines. All tables and comparisons show in the first-quarter 2013 earnings release show comparative numbers including all adjustments.

Today we reported first-quarter revenue of \$514.5m, down \$21m, or 3.9% sequentially, and down \$31.8m, or 5.8%, year over year. The sequential reduction in revenue is mainly related to our North Sea operations, which benefited from non-recurring sales in the fourth-quarter 2012.

Compared to the same period last year the lower overall revenue is the result of significant pricing pressure and lower utilization of equipment in North America. Although we increased our revenue and Pressure Pumping compared to the first quarter last year by 135%, this increase was more than offset by a decrease in all other US-based divisions.

First-quarter earnings before income taxes, depreciation and amortization, EBITDA, grew at \$39.7m, compared to \$24.7m for the fourth quarter 2012, an increase of 61.9%. Adjusted for exceptional items recorded in the previous quarter EBITDA improved by \$2m, mainly as a result of an increase in EMT resulting from higher Wireline activity in the North Sea. Compared to the first-quarter 2012 EBITDA decreased 40.5% as a result of the difficult market conditions, resulting in lower pricing and utilization in the United States as well as start-up costs for the modular rig.

Net financial items amounted to \$24m loss in the first-quarter 2013, compared to a loss of \$10m in the fourth-quarter 2012. Interest expenses for the first-quarter 2013 amounted to \$15.5m, compared to \$13.7m in the fourth quarter of 2012. The increase in interest expense is related to financing fees written off and incurred as a result of the third amendment on our multi-currency term and revolving facility.

Other financial items amounted to \$8.2m expense in the first-quarter 2013, compared to \$4.7m income in the fourth-quarter 2012. Other financial items represent predominantly unrealized foreign exchange gains related to loans or cash balances denominated in currencies other than US dollars.

Beginning with the first-quarter 2013 we have harmonized the classification of our G&A cost throughout the various acquisitions made in the past. G&A costs now represent corporate area and regional cost, and totaled \$19.5m in the first quarter, compared to an adjusted \$23.7m in the fourth-quarter 2012. The reduction reflects the result of several cost-saving initiatives implemented in 2012.

Depreciation for the first quarter was \$51.2m, compared to \$51.3m in the previous quarter and \$50.4m in the first quarter of 2012. Cash and cash equivalents, excluding restricted cash, amounted to \$40.8m at the end of the first quarter, compared to \$58.2m at the end of December 2012.

First-quarter cash outflow from operations was disappointing, at \$25.8m, and resulted primarily from an increase in trade receivables and other short-term assets. This increase was mainly a result of prolonged contractual discussions and changes in the customer organization in Argentina. Since the end of the quarter we have all ready seen an improvement and expect further progress toward the end of the second quarter.

Capital expenditures during the quarter amounted to \$51.9m, representing predominantly investments in our Archer Topaz, the new modular rig, as well as in Pressure Pumping equipment and Pressure Control equipment. Capital expenditures for the total year 2013 are expected to be approximately \$140m, including \$25m for the new modular rig.

We are currently in negotiations with lenders to finance the second modular rig using a similar arrangement as for the first modular rig and we are confident that we will be able to secure such financing.

Total net interest bearing debt at the end of first-quarter 2013 was \$982.5m, compared to \$1.2b last quarter, \$178.6m lower compared to the end of December 2012 as a result of the private placement partly offset by the above-mentioned capital expenditures and the operational cash outflow. As of March 31, 2013 we're in compliance with all covenants under our debt facilities. We're closely monitoring our compliance and are committed to further reduce our net interest bearing debt.

As discussed by Fredrik, on May 22 we announced the sale of our North American Rental and Tubular division to Clearlake Capital for approximately \$244m. The all-cash transaction is expected to close in June 2013 and is subject to regulatory approvals and other customary closing conditions. As of March 31 the divested business had a total of \$178m of net fixed assets, \$19m of receivables and \$28m of goodwill and intangible assets.

The Q1 revenue and EBITDA is in line with the annual average results for 2012 disclosed in our press release and will affect both North American and Latin American areas. The purchase price will be adjusted for changes to working capital and capital expenditures until closing. The divested business will be classified as discontinued operations in the second quarter and historical financial results will be restated accordingly.

I will now turn the call over to the operator for your questions. Bertrand?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Turner Holm with RS Platou. Please go ahead.

Turner Holm - RS Platou Markets - Analyst

Yes, hi, guys. Thanks for taking my call and congratulations on the deal announced the other day.

The first question, I just wanted to get, if you could give it to us, a pro-forma for Q1 in North America ex Rentals? I guess what I'm trying to get at is what 3Q looks like after the Rentals business is out, right?

So you guys were at, I think, \$11m this quarter in North America, but you've announced that the EBITDA for Rentals was 45, so if we assume a little more than 10 then is that cash breakeven in the third quarter if we assume flat development in the other businesses?

Christoph Bausch - Archer Limited - CFO

Turner, as I said, so overall the EBITDA is -- for Q1 is similar to what we announced for Q4 -- or what we announced for 2012, sorry, [as] an average there. The North American piece is about 85% of that. And I think from there you can make the math.

Turner Holm - RS Platou Markets - Analyst

So the 85 -- you're saying Rentals is 85% of the EBITDA for Q1?

Christoph Bausch - Archer Limited - CFO

No, sorry. No, no, you've misunderstood me there. The -- overall the Q1 EBITDA is line with 2012 results --



Fredrik Halvorsen - Archer Limited - CEO and Deputy Chairman

For the Rental business.

Christoph Bausch - Archer Limited - CFO

-- for the Rental business.

Turner Holm - RS Platou Markets - Analyst

Okay, I see. Okay, all right. Yes, then we can make our assumptions there. That's fair enough.

Christoph Bausch - Archer Limited - CFO

And the North American business is about 85% out of that. The rest is -- 85% to 90%. The rest is in Latin America.

Turner Holm - RS Platou Markets - Analyst

Okay, all right. All right, got it. And then I just had a question on the North Sea business. I think you guys had about a 4% margin there. And I just wanted to understand why we're at half of where we have been historically on the North Sea business.

I guess there's been some start-up costs related to the modular rig and there's been maybe some one-time costs in 2012, but maybe if you can give us a better picture of why we're at the levels we are now and what that looks like through the rest of the year, and if you can get back to that 8% to, say, 11% range that you've reported historically in that business.

Christoph Bausch - Archer Limited - CFO

Turner, yes, it's Christoph again. So the -- there's two reasons, I would say. The first reason is the modular rig, where we have incurred approximately \$3m of negative EBITDA in the modular rig in Q1. That will turn to a positive result in Q2. At the end of June we're going on a higher day rate. We're currently at just about \$50,000. We're going to \$71,500 in June, so that will help to improve there.

The second reason is that we have just started the new contract for Statoil on the [statutory] platform and the contract is challenging. And at the start of the contract you're trying to phase in your number of people onboard. You're trying to adjust to the new contractual structure. And that was quite low. We think that over time we will improve on that, but it will take a couple of quarters. So these would be, for me, the two reasons.

Turner Holm - RS Platou Markets - Analyst

Sure, but it sounds like a couple of quarters down the road it's not unreasonable to assume that you get back to a more historical level of profitability in the North Sea.

Christoph Bausch - Archer Limited - CFO

Yes. You will improve with the modular rig. And when the second modular rig is deployed it will come up further. From a traditional Platform Drilling business side it will take a little while for the Statoil contract, as I just mentioned. And I think the rest is relatively flattish.

Turner Holm - *RS Platou Markets - Analyst*

I see, okay. And just one more on the North Sea. You mentioned that you're in discussions with customers for additional modular rigs. I just -- if you could give us any color on that I think that'd be appreciated, and related to maybe regions, timing and maybe the number of those contracts. Any color you can give there would be helpful.

Fredrik Halvorsen - *Archer Limited - CEO and Deputy Chairman*

Right. So it's Fredrik here. Let me field that one. I think the -- at the current time we are actively involved in two tenders for two modular rig contracts and we are hopeful that we will have the outcome of at least one of those tenders during Q2. So there should be news either way on at least one of the contracts and we're quite confident that there should be at least one win among these two.

Turner Holm - *RS Platou Markets - Analyst*

Okay, all right. Thanks, I appreciate that. And one last little housekeeping item, which is the depreciation. I guess that's got to decline after Rentals is out. Can you give us a sense of what depreciation was in 2012 for Rentals?

Christoph Bausch - *Archer Limited - CFO*

Yes. Turner, I'll give you a call afterwards and we'll talk about a little bit the numbers for Rentals outside the call.

Turner Holm - *RS Platou Markets - Analyst*

Okay, all right. I'll turn it back. I appreciate it. Thanks, guys.

Operator

Our next question comes from Gavin Richey with Rockwood Investment Partners. Please go ahead.

Gavin Richey - *Rockwood Investment Partners - Analyst*

I had the same set of questions. I'll just [fall] back to the call.

Christoph Bausch - *Archer Limited - CFO*

Okay.

Operator

We will now move to Haakon Amundsen with ABG. Please go ahead.

Haakon Amundsen - *ABG Sundal Collier - Analyst*

Yes. Hello, guys. Two questions from me. First, could you just please summarize the EBITDA outlook for Q2 based on the qualitative guidance you gave for the three business areas, i.e., is it flat or slightly up?



And, secondly, could you give us an indication of the net debt to EBITDA covenant [spaces] in Q2? And how should we calculate this based on the divestment you're doing in Q2?

Fredrik Halvorsen - Archer Limited - CEO and Deputy Chairman

All right. So it's Fredrik here. I think the -- when it comes to the guidance we have, by business line, I hope I've given you some flavor. When we wrote it, we wrote it to mean roughly flat. I would say not flat to up; it's flat.

When it comes to the covenant piece we were well within the covenant now for Q1. We, of course, were able to reduce the absolute level of debt through the completion of the sale of the Rental business.

I think the one thing we keep working quite hard is the working capital, which I think we saw build up a little excessively during Q1. And I'll let Christoph comment as well. But I'm quite hopeful that we'll be able to reduce that somewhat going into Q2, which should also give -- give a little bit of cushion.

Christoph Bausch - Archer Limited - CFO

Okay. Just to add on that, Fredrik, so the -- as I had mentioned in my prepared notes, we had a buildup in -- particularly in Latin America and there's a variety of reasons to that. The first reason is we just signed the contract. So when you sign a new contract it will take a while until the customer is prepared to take your invoicing and flow it through their systems, so that was one of the reasons, so that we think is now resolved.

And then there was also a change in the organization of another customer which had quite a significant impact on the DSO. And we're working very, very closely with them to reduce that. That did not only impact us. It impacted all other companies working in Argentina as well.

Other areas had a little bit of a buildup as well and -- but, as I said before, we are pushing very hard and we've all ready seen quite some improvement since the quarter close. So we are confident that working capital will reduce over the course of second quarter.

Haakon Amundsen - ABG Sundal Collier - Analyst

Okay, okay, but in relation to calculation of the covenants, would that simply be to take your new reported net debt and the pro-forma EBITDA less the Rentals? Will that be the new covenant level as specified in the loan agreement? And do you require a quite substantial drop in the working capital to be compliant in Q2?

Fredrik Halvorsen - Archer Limited - CEO and Deputy Chairman

I think, as we said, we will now have a chance to go and reduce the overall debt level, which also plays in. As to the -- how exactly the loan agreement is worded at this stage, I don't want to go into specifics. We have very strong shareholder support, so should there be a need to revert to those type of discussions I'm confident that that will be solved in a good fashion.

Haakon Amundsen - ABG Sundal Collier - Analyst

Okay, thanks.

Operator

We will now take a question from Frank Harestad with Pareto Securities. Please go ahead.



Frank Harestad - *Pareto Securities - Analyst*

Yes, hello. Good afternoon. I just wonder on the EBITDA for the emerging markets and Technology that was reported around \$11m, \$12m, how much of that is from -- could you split it between Wireline North America, Wireline North Sea and the Oil Tool business?

And could you also comment of the Oil Tools, I mean the former Peak and Tech Well, how that is progressing and if it's growing, and how it's going, if you succeed to bring [that] Technology internationally?

Christoph Bausch - *Archer Limited - CFO*

Frank, this is Christoph. Thanks for calling in. So I would say the -- to give you a rough flavor of it, the split of the business overall is probably, North America, call it 25% of the \$11m, and then the rest is evenly split between Wireline and Oil Tools. Overall the performance of Oil Tools is very, very encouraging. So we have seen a significant increase in revenue and a significant uptick in the acceptance of that -- of the products and services we provide there, in particular, in North America.

But we have just recently performed our first job in Angola, which was a big step forward. We have been awarded additional contracts for Oil Tools in Australia, so we are very, very encouraged by that business. And, similarly, I think we see some signs of Wireline International picking up in the eastern hemisphere.

So, as Fredrik mentioned before, we see a little bit of a dip in Q2 because of the shutdown in the North Sea of several platforms for regular maintenance work, impacting our Wireline operation. And then, to come back, we are impacted in the US with Wireline by similar effects from all of the other businesses in the US, with a pressure on pricing, with a move of rigs, with a change in drilling patterns, drilling behavior and so forth.

Similar effects from all of the other businesses in the US, with pressure on pricing, with the move of rigs, with the change in drilling patterns, drilling behavior and so forth.

Does that answer your question, Frank?

Frank Harestad - *Pareto Securities - Analyst*

Yes, yes. I just have one more question, if that's okay. I wonder, you sold the Rental business for \$240m and you have \$45m in EBITDA. That should be something between five and six times' EBITDA. Is -- could you say something about the relatively -- the relative CapEx level of the Rental business? I assume that the CapEx -- the average maintenance CapEx need is probably higher there in the rest of the business, and if you could comment on the numbers there for last year.

And if you should sell some of the other businesses do you believe you could achieve higher multiples (inaudible), or your Pressure Pumping or Pressure Control business is something that you consider as more attractive and easier to get a better price on?

Christoph Bausch - *Archer Limited - CFO*

I can easily answer the first question and I'll leave Fredrik to answer the second question. The CapEx level for Rentals and Tubular business is, let's say, an average of \$20m. It goes up and down as you invest. But it is a capital-intensive business so -- and I think \$20m is something you should assume as a ballpark number there.



Fredrik Halvorsen - Archer Limited - CEO and Deputy Chairman

Yes, I think that's right. I think also we were at a bit of a crossroads here where we should probably -- it's a business that we should have invested quite heavily into going forward if we wanted to run it. We found it to be a non-core asset relative to the other unconventional pieces that we're now running in the US and so wanted to focus our capital spend. I think that's the first piece.

Now, when it comes to speculating what multiples can be achieved, I think it varies vastly between our businesses. Right now I think the unconventional service lines in the US would not attract very high multiples. I do, however, think, for instance, parts of our EMT business, some of the Oil Tool business, some of the High-Tech businesses could attract substantially higher multiples than the Rental business. But, again, I'm quite sure you have better knowledge of this than the Archer management team.

Frank Harestad - Pareto Securities - Analyst

Last question on -- are you looking to divest more businesses at the moment? I thought you indicated something about Latin America last time. That is my last question.

Christoph Bausch - Archer Limited - CFO

All right. I think we are still looking to streamline the portfolio. We're not in a position where we have to sell anything. The focus going forward, and this is also to lighten overhead structures and just make sure that the Company is as focused as possible, is to focus [that] on the conventional in the US, to have the visibility that is provided by the earnings in the North Sea and to complement that with the integrity business lines and the Technology pieces we have under EMT. So that does leave some bits and pieces that we will still consider if the price is right.

Frank Harestad - Pareto Securities - Analyst

Okay, thank you.

Operator

We will now move to Kjetil Garstad with Arctic. Please go ahead.

Kjetil Garstad - Arctic - Analyst

Thank you. You gave some comments earlier on the covenants, but just one specific question. You do it on a last 12-months basis. I assume that the previous quarters, when you calculate the covenants, will be ex the Rentals business going forward.

Christoph Bausch - Archer Limited - CFO

Yes, that is theoretically correct. So we're just discussing that as we speak, Kjetil.

Kjetil Garstad - Arctic - Analyst

Okay, perfect. And then I would be very interested in the depreciation charge for the Rentals business in 2013, because my fear is that you are, to a certain degree, under-investing in maintenance of your Pumping Pressures and Coiled Tubing fleet. Because even though the pricing is low and margins are seemingly below cash breakeven, you're running it, and to keep this fleet running also when the market gets better you need invest in that business. Can you just comment a little bit on that and, especially, the depreciation charge for 2013?



Fredrik Halvorsen - Archer Limited - CEO and Deputy Chairman

All right. Okay, it's Fredrik here. I won't go into the exact charge, but I would like to make sure we get point across. With the \$110m, \$120m of CapEx, which is mainly maintenance CapEx, I think we're very well covered. We have put a lot of money, a lot of CapEx into both building the fleets and upgrading the fleets in the past.

And if you look across these assets now, all right, you look at Directional Drilling, you look at the Coiled Tubing fleet and so forth they're all operating below 50% asset utilization. I don't think they are being worked hard at all compared to the capital that has been going in. So I would not worry that there's not enough CapEx put into this business to yield a positive upside in a scenario where you get pricing back.

Kjetil Garstad - Arctic - Analyst

Okay, thank you. And then, just finally, you increased the lending under the cash [order systems] quite substantially from Q4 to Q1. What's the -- when do you have to pay these down and what's the interest on these facilities?

Christoph Bausch - Archer Limited - CFO

So in average it's about 5%. So it depends on where we draw. One of the lines where we have drawn was in Latin America because of the increase in receivables, as I've mentioned before. And there the interest is slightly higher. The other lines we have drawn were to some extent overdraft lines in North America. And I would say average there, as I mentioned before, 5%.

Kjetil Garstad - Arctic - Analyst

But you can keep this -- when does this mature? Can you keep this? Do you have to pay down soon, or can you keep it at this level?

Christoph Bausch - Archer Limited - CFO

No, we can keep it at that level. So where -- you don't want to run all the time with drawn overdraft facilities, but we have them and we have them available.

Kjetil Garstad - Arctic - Analyst

Okay, thank you.

Christoph Bausch - Archer Limited - CFO

So there's no pay down, yes.

Kjetil Garstad - Arctic - Analyst

Okay, perfect. Thank you.

Operator

(Operator Instructions). We will now move to [Fawad Choudhry] with [Arden Capital]. Please go ahead.



Fawad Choudhry - Arden Capital - Analyst

Hi, guys. I was wondering what the plans for finding a new CEO. I know it was announced before that the current situation is temporary, and it's been six months, so I was just wondering how the search was coming along.

Christoph Bausch - Archer Limited - CFO

Yes. So we actually have now two, I think, very good candidates and we are in final discussions, so we do hope to announce this before the summer, or at least within the -- yes, within Q2.

Fawad Choudhry - Arden Capital - Analyst

A question on Pressure Pumping margins and as well as utilization. I understand that pricing has stayed effectively flat through this quarter. Has utilization improved? And what's your view going forward?

Christoph Bausch - Archer Limited - CFO

So overall, actually, utilization, call it flattish. For us, the pricing has still gone down a little bit, depending on how you calculate that.

Fawad Choudhry - Arden Capital - Analyst

I see.

Christoph Bausch - Archer Limited - CFO

If you look at revenue per stage it has dropped quarter over quarter about -- between 5% to 10%. And I would say it depends on the mix of customers you work for. So overall in the first quarter we were at a negative margin in the business, but we do expect to be positive in the second quarter. And that has to also do with the mix and the locations where we operate.

Fawad Choudhry - Arden Capital - Analyst

And have all the fleet effectively relocated from -- they were mobilizing from different basins, from the [gas] to [oil] basins? Are they effectively relocated now?

Christoph Bausch - Archer Limited - CFO

All fleets are in the place where we want them to be and they're all in [all the] basins. [They're] in Oklahoma and we're West Texas.

Fawad Choudhry - Arden Capital - Analyst

All right, thank you very much. Those were the questions.

Unidentified Corporate Representative

Thank you.



Operator

We will now take a question from Bruce Wayne with Wayne Enterprises. Please go ahead.

Bruce Wayne - *Wayne Enterprises - Analyst*

Hello? Hello there.

Lars Bethuelsen - *Archer Limited - SVP, M&A and IR*

Hello, Bruce. We can hear you.

Bruce Wayne - *Wayne Enterprises - Analyst*

Hi, there. This is Bruce Wayne. I have a question for you guys. So I was wondering, given your financial situation, if you guys would be willing to invest in some technology I'm developing.

Christoph Bausch - *Archer Limited - CFO*

I think we will still find money if we find the right technology to invest in. I think we have a very good, on the Oil Tools side of the business, internal R&D team and so the investment is -- should also be looked upon as just attracting talented engineers to continue that run.

Bruce Wayne - *Wayne Enterprises - Analyst*

Do you feel that you have engineers that can work my specifications, because I'm facing super-villains, so I need specific technical expertise.

Christoph Bausch - *Archer Limited - CFO*

I'm a little bit -- there's a big echo on the line. I'm sorry, can you repeat the question?

Bruce Wayne - *Wayne Enterprises - Analyst*

No, what it is is that a lot of my technology was damaged. I was obviously recently in battles with Bane, the Joker, so I just want to know if you guys can invest in some technology I'm developing.

Christoph Bausch - *Archer Limited - CFO*

Okay, Bruce, we are currently investing currently in technology in Oil Tools and in Wireline. We have various technologies where we've invested over [a] couple of years and we will continue to do so going forward.

Bertrand, can you move on to the next caller, please?

Operator

Sure, we will now take a question from [Jason Donovan] with [Johnsons]. Please go ahead.



Jason Donovan - *Johnsons - Analyst*

Hi, Jason here. Can you hear me?

Christoph Bausch - *Archer Limited - CFO*

Yes, Jason, we can.

Jason Donovan - *Johnsons - Analyst*

Great stuff. I think probably my question is for Christoph. Firstly, I just want to say well done. The figures could have been better in some places, particularly with the North Sea, and that did really grind my gears. But I think on the whole I think you guys have done a good job. And I can't really say well done. I think it's more of a case of you deserve it, you know. You've worked so hard. You've done so well. You're not going to stop until your heart really stops beating, you know. So --

Christoph Bausch - *Archer Limited - CFO*

Thank you very much.

Jason Donovan - *Johnsons - Analyst*

Well done. But my question really lies in the quarter-four figures. Can you hear me? Can you hear me? Christoph, can you still hear me?

Christoph Bausch - *Archer Limited - CFO*

Yes, we can. Yes.

Jason Donovan - *Johnsons - Analyst*

Great stuff. Yes. So my question is about quarter four. I'm just wondering in terms of the growth that you expect have you really considered putting more funds into your R&D facility, and then really trying to double it or triple it, which a lot of the other companies are doing?

Christoph Bausch - *Archer Limited - CFO*

Yes. So let me just answer that again, similar to what we just discussed with Jason. We are currently investing in our R&D in the businesses where we are quite successful, in Oil Tools and Wireline, and I think we're happy with those investments and we will continue to do that going forward.

Jason Donovan - *Johnsons - Analyst*

Yes, I'd have to agree. And -- but the only thing is we don't sell soda.

Operator

I think we -- it appears we have no further questions at this point.

Lars Bethuelsen - Archer Limited - SVP, M&A and IR

Okay, thank you. Please go ahead and close the call.

Operator

Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.

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