

McCoy Corporation
2010 Annual Results Conference Call
March 18, 2011

Operator: Good day, ladies and gentlemen. Welcome to McCoy Corporation's 2010 Annual Results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. At that time, participants are asked to press star, one to register for a question. For assistance during the call, please press star, zero on your touchtone phone. As a reminder, this conference is being recorded today, Friday, March 18th, 2011.

It is now my pleasure to introduce your host, Ms. DeAnn McNally. Please go ahead, Ms. McNally.

DeAnn McNally: Good Morning, everybody, and welcome to McCoy's 2010 Annual Results conference call. Representing McCoy today we have Jim Rakievich, our President and CEO, and Milica Stolic, our Chief Financial Officer. We will begin with Jim's remarks about the past year and our strategy moving into 2011. Following that, Milica will comment on the financial results for 2010 and we will end with a question and answer session.

Please be advised that statements made on this call, other than statements of historical fact, may contain forward-looking information. I refer you to the forward-looking information statements disclaimer included in today's release of McCoy's 2010 financial results. I caution you that this disclaimer also applies to and expressly qualifies any forward-looking information disclosed in today's call. Any dollar amounts mentioned on this call are in Canadian dollars, unless otherwise noted.

I will now introduce Jim Rakievich. Please go ahead, Jim.

James Rakievich: As anticipated, 2010 was a bridge year for McCoy in terms of shifting from a tough market in 2009 when the worldwide economy slowed down back to a more normal economy.

Throughout the year we were able to show ever-improving financial results due to our focus on more efficient operations, higher-margin businesses, and global sales.

We ended the year in a strong position, both from a financial and strategic point of view. Revenues and earnings are up, our balance sheet is the strongest it has been in the history of McCoy, and our order book is healthy.

I would like to address the Q4 2010 financial results specifically. First, we made a strategic decision to exit our Top Drive product line. We believe that we lacked the range of Top Drive size offerings to reach the volumes necessary to have a self-sustaining business. This resulted in a write-down of assets of \$0.02 per share.

Consolidated Gross Margin decreased in Q4 2010 to 37% from 43% in Q3 of 2010. The product mix favoured Mobile Solutions, which historically has lower margins than the EP&S segment.

This past December we sold McCoy's Parts & Service business, which was formerly part of the Mobile Solutions segment. This sale was designed to create more long-term value for our shareholders by focusing on the global expansion of our most profitable lines of business.

In terms of other recent initiatives, subsequent to year end, we set up a new office and distribution warehouse for our drilling and completions business in Houston, Texas. This facility will be the hub of our international sales and marketing group and will incorporate a design engineering team.

These changes are designed for McCoy to continue to become more focused on the global energy industry.

Our international revenue generated outside of Canada continued to increase throughout 2010. A lot of our customers are making investments in growth areas such as Latin America. Ensuring we are able to support the needs of international customers is a major focus in 2011 and beyond.

Looking to 2011, we are confident that markets have recovered and we are starting to experience increased levels of activity. In addition to market recovery, there are interesting and exciting opportunities to execute McCoy's growth strategy organically and through strategic acquisitions. We have the balance sheet and the strategic focus needed to seize opportunities for growth.

I will now turn over the call to Milica Stolic, our Chief Financial Officer for a brief overview of our 2010 financials.

Milica Stolic: Thank you, Jim, and good morning.

McCoy's 2010 financial results reflect the impact of a continued market recovery for McCoy.

A comparison to previous years shows that we have yet to return to the activity levels we had when rig counts were much higher;

however, McCoy's financial performance continued to improve considerably throughout 2010 which is evident in the quarterly analysis of our results.

For the full year of 2010, total revenue increased by 34% compared to the prior year.

EBITDA climbed to 48 cents per share for 2010. As a percentage of revenue, EBITDA increased to 12% of 2010 revenues from 3% of revenues in 2009.

These increases are directly attributable to McCoy reducing its expenses to 34% of revenues from 44% in 2009.

The bottom line earnings from continuing operations before other charges and income taxes for 2010 increased to \$7.8 million from a loss of \$3.1 million in 2009.

In 2010 the Mobile Solutions segment gained efficiencies from consolidated facilities and improved processes, while also increasing profitability as a result of the rebound in the rig moving and pressure-pumping markets. Over the last two years, excess trailer inventory and surplus manufacturing capacity in the industry has been largely consumed. Demand has finally surpassed supply, leading to a healthy backlog for the Mobile Solutions segment.

Over the past year we have continued to add strength to McCoy's balance sheet. We reported cash on hand at year-end of \$16.8 million and a net cash position of \$10.4 million. This compares to net debt of \$2.1 million one year prior. This strengthening of our balance sheet has primarily come from continued positive cash flows from operating activities. In fact, cash flow increased by 59% to \$15.6 million during the year compared to \$9.8 million in 2009.

As McCoy continued to grow cash flow and balance sheet strength, our Board of Directors reinstated a quarterly dividend of \$0.01 per common share beginning the first quarter of 2011. And just yesterday the Board approved a special dividend of \$0.04 per common share to be paid April 11 to shareholders of record on March 28. These dividends reward shareholders while not impeding our balance sheet strength.

Looking to 2011, McCoy's order book remains strong. We continue to view the recovery cautiously to ensure that revitalization is sustained. The civil unrest and political uncertainty of the events taking place in the Middle East and in Northern Africa remain a concern for McCoy, as these are potential growth areas with strong existing customers.

I encourage you to read our news release and year-end filings, available on McCoy's website.

That concludes my financial summary. I will now turn the call back to Jim.

James Rakievich: Thank you, Milica.

I'll now sum things up by stating our strategic direction for 2011. We are anticipating continued growth for McCoy as worldwide energy industry activity continues to increase.

There are three main areas McCoy will continue to focus on:

First, we will continue to build our share in the global energy industry to provide stability and further market penetration.

Second, we will continue to expand our drilling and completions product line so that we can be a one-stop shop for our customers.

And third, we will continue to enhance our financial strength so that we can reward McCoy's shareholders while pursuing our strategic growth plans.

On that note, we're now ready to open the call up to a Q&A session. Operator, can you please provide instructions for asking questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press star, one on your touchtone phone. To withdraw your question, please press the pound sign. If you are using a speaker phone, please lift the handset before entering your request. Please stand by for the first question.

The first question comes from Steve Hansen from Raymond James. Please go ahead.

Steve Hansen: Yes, good morning, everyone.

Milica Stolic: Good morning.

James Rakievich: Good morning, Steve.

Steve Hansen: Jim, do you want to talk a little about Latin America? It continues to be an area that you highlight in terms of the growth priority for region... from a regional perspective and maybe just talk about some of the initiatives you're undertaking to try and grow some of your share down in that region.

James Rakievich: Sure, I could do that. All of Latin America, Brazil in particular, is a very strong growth market, not only currently but we really think that it's just getting going. Probably over the next 10 to 15 years, there's going to be a tremendous amount of opportunities down there. We have certainly already increased our level of activity in Brazil, in particular, by way of our existing customers moving into that region and then requiring that we ship product down to them so that they can operate down there. That part of the world is starting to grow for us just in the way we operate today but we think that's going to increase over time. For example, on the offshore side, in the deep water of Brazil, maybe 25% of the potential that's there has been explored, and with Petrobras' tremendous amount of capital that they raised in the last eight months, there's going to be a lot of money spent there on exploration, so obviously, drilling activity will increase over time and that means more equipment and services required.

So to get back to your specifics, our current level of activity has already increased in Latin America, and we expect it to increase substantially in the future. So right now, we're operating outside of the country and sending product in. We believe that probably having a footprint in Brazil at some point in the future is probably going to be something that would be of strategic benefit to the Company and to our customers.

Steve Hansen: Just to be closer to the customer and have the ability to stock some product down there, or...

James Rakievich: Well, you send a bunch of product and you should be able to support what you sell, and in Brazil and Latin America generally, it is not like other mature markets like the Middle East and other areas. We send product where there's a tremendous amount of infrastructure that was developed over time where there's places to get equipment repaired and replacement parts to be bought, it's not quite the case in Latin America. I think that kind of infrastructure is just starting to get built so, in this particular case, we think that directly participating to support what we sell and provide replacement parts, services and the product support would be very valuable.

Steve Hansen: I see. And I noticed in your MD&A that you've decided to move some of your pipe handling products from Canada down into Louisiana. Is that just a capacity optimization issue, or is it an FX issue or what led to that decision?

James Rakievich: Quite frankly, Steve, it was the fact that pipe handling has absolutely nothing to do with vac and hydrovac, and those two product lines were not the same customer. We have a very strong group in Lafayette, Louisiana and that product line really fits in Drilling & Completions, not in Vac & Hydrovac so it just made a lot of sense to move it.

Steve Hansen: Okay. And then just one last one. On the trailer front, there's all kinds of debate around longevity of the frac cycle and just trying to understand how that filters down into your business. Can you give us a sense for how good the visibility is in the backlog? Are you really comfortable over the next six to 12 months, or is it 24 months now you'd feel comfortable or how does it look?

James Rakievich: Well, I'm not smart enough to project 24 months or my crystal ball's not clear enough; however, with that said, I actually feel confident for the remainder of 2011.

Steve Hansen: Okay, great. That's very helpful. I will jump back in the queue. Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star, one on your touchtone phone.

The next question comes from John Bereznicki from Paradigm Capital. Please go ahead.

John Bereznicki: Hey, good morning, everyone.

Milica Stolic: Morning.

James Rakievich: Morning, John.

John Bereznicki: Hey, you know, I've heard commentary out of Varco recently that, they're not only seeing, call it a cyclical recovery, but there's also a secular trend with the global rig fleet having to retool itself and that having some benefits for the capital end of the business. Are you seeing similar themes developing and how do you expect that to affect the business going forward?

James Rakievich: John, I think that's correct. One of the trends that we're seeing, we've already actually have experienced it, is in offshore. Our sales to offshore customers has increased over the last three years and we think that it's actually going to increase more. And one of the reasons is for retooling. Everything I've read, and a lot of the forecasts, is saying that there are some pretty old offshore rigs that need replacing that are going to be replaced, plus the offshore fleet status is going to increase because of the ever-increasing offshore resources being an oil supply for the world. So, I think there's retooling and a recapitalization event going on in offshore which is directly affecting us as well. Plus, on land rigs, I think that the land rig manufacturers are busy, there's recapitalization going on land and, again it's people like NOV and ourselves who are experiencing the benefit of that.

John Bereznicki: Right. And how much of your business right now and products and services would be offshore would be your best guess?

James Rakievich: My best guess is we're probably somewhere now between 25 to 30%.

John Bereznicki: And you envision that percentage growing over time then?

James Rakievich: Yes. I don't know how high. I don't see it getting to be 50%, John. I think that's a stretch. But it's certainly double what it was two years ago.

John Bereznicki: Great. And then just secondly, can you give us a little more color on the new Houston facility and what that means to you going forward here?

James Rakievich: Well, you know, the largest part of our North American customer base and, in fact, many of our international customers are located in Houston or have their corporate head offices there or at least operations. We are in Louisiana, which is about a three-hour drive away from Houston but we want to be more in the backyard of our main customer base. We do have people traveling to Houston on a regular basis and we need an office to work out of. We did hire our Vice President of Sales and Marketing for our Drilling & Completions business located in Houston. That individual needed an office. We had already had an international sales person located in Houston. They'll be moving into that office.

Plus, we do have a robust new product development strategy in place which is going to require that we hire some more design engineers. And to get experienced design engineers in the drilling and completions business, many of those types of individuals are located in Houston. And so rather than try to convince people to relocate to other areas, we felt it was appropriate to be able to put some of those folks in Houston, a facility where they can work out of and build our team on the design engineering side.

Plus it's got a warehouse. The facility has a nice warehouse. Our initial step immediately that we're going to take is we're going to hire a calibration technician. We sell a lot of bucking units and make brake units and a lot of them are located in the general Houston area. In Broussard and Lafayette, we're too far away to conveniently service those customers. That equipment requires regular independent calibration and repairs and so we're going to have a technician located there that can service that region.

John Bereznicki: Okay, that makes sense. And I guess as you beef up your in-house capabilities, would it be fair to say that maybe you're less inclined

to do some acquisitions as a result, or do you still see some opportunity out there given your balance sheet?

James Rakievich: Our focus is equally on both, John. The fact that we're reinvesting, or investing, more capital into new product development is not going to detract from us looking at potential acquisitions. You just can't build absolutely every tool and every piece, you know, in a timely fashion. There are some products that we will acquire.

John Bereznicki: Great. Appreciate the color. That's all for me, thanks.

James Rakievich: Thanks, John.

Operator: Thank you. You have a follow-up question from Steve Hansen from Raymond James. Please go ahead.

Steve Hansen: Yes, Milica, it's a bit of a housekeeping item, but it appears that you had made some modest adjustments to how you report the segmented results. It looks like you now strip out corporate expenses from the individual segmented results so that the margins look a little bit different in how they're historically reported.

Milica Stolic: Correct.

Steve Hansen: Just want to know if it's possible to get a historical restatement to some degree just so we can get a sense for how the margins looked on a quarterly basis. I can follow up after the call but just want to make the point. And, if I could, Jim, can you just walk through the special dividend rationale. I mean, I understand you're cash rich, that it's a great situation to be in and I don't think shareholders will be disappointed, You just talked about organic growth and the desire to acquire; just surprised you'd be going ahead with a special dividend and not retaining the capital to reinvest.

James Rakievich: Go ahead, Milica.

Milica Stolic: Steve, I'll answer the first part of your question. On our prior year statements and prior periods, corporate was always just one line on them, so that's why we didn't actually do a restatement because it was really one line under each of the segments; now it's just off to the side.

Steve Hansen: Okay.

Milica Stolic: The one line in each segment, if you remove it, that's totally a pure segment.

Steve Hansen: Okay, I think I understand. Okay.

James Rakievich: Steve, to answer your question on the special dividend, what the Board decided yesterday is that what we distributed as a special dividend was a small portion of the amount received on the sale of our Parts and Service business, and one of the reasons that we thought a special dividend was fine is because it in no way, shape or form impedes our growth strategy and what we see as our cash requirement for the future.

Steve Hansen: Okay, fair enough.

James Rakievich: The growth part won't be impeded at all.

Steve Hansen: Okay, great. And then just as a follow-up on the acquisition front, in terms of your preference, I know you've always expressed your desire to go out and get some of those products that you don't have in-house, but have you been able to refine whether or not you need or would like to acquire smaller groups of products, or would you rather go after something large and get more immediate scale?

James Rakievich: The answer is both. When the opportunity comes to do something substantial where we could get some immediate scale, we're certainly not adverse to that and we're keeping our eyes open for that. We understand what we want to develop now in-house and so those kind of products we probably won't acquire because some of the products we're already substantially down the design phase. And with respect to acquisitions, we've pretty much defined what specific products we'll likely want to acquire just because it just takes too much time to develop all these types of products on a specific product line.

Steve Hansen: I know Ted used to spend a lot of time looking at those acquisition opportunities. Are you finding you're spending a lot of time on that now, or is it falling to, I believe, it's David Buck down south?

James Rakievich: Actually, I'll clarify that for you. Even when Ted was here, it was a joint venture deal on looking at deals; it wasn't Ted's job. It was actually Jim's and Ted's job.

Steve Hansen: Sure, yes.

James Rakievich: And when he left, I just continued that. Historically, looking at potential acquisitions is something that I've taken responsibility for and that's continued.

Steve Hansen: Okay, that's very helpful. Thanks, guys. I appreciate it.

James Rakievich: You bet.

Milica Stolic: You bet, Steve.

Operator: There are no further questions at this time. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your line and have a great day.