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# EQUITY RESEARCH MEMO

## PASON SYSTEMS INC. (TSX: PSI)

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Metric	Value
Current Price (14 Apr 2026)	CAD \$13.02
52-Week Range	CAD \$10.43 - \$14.00
Market Capitalisation	CAD \$1.01B
Enterprise Value	CAD \$946M
Dividend Yield (TTM)	4.0%
EV/EBITDA (TTM)	6.2x
EV/Revenue (TTM)	2.3x
FCF Yield (TTM)	6.2%
Shares Outstanding	77.8M
Net Cash Position	CAD \$77.1M (zero debt)

*April 2026*

*All figures in Canadian dollars unless otherwise stated.*

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## 1. Executive Summary

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Pason Systems is the dominant provider of data management systems for oil and gas drilling rigs in the Western Hemisphere, holding roughly 65% of the US market and 85% of the Canadian market for Electronic Drilling Recorders (EDR). The company has held this position for over 15 years, despite competitors pricing their equivalent products 30 to 40% cheaper.

The central investment debate is whether Pason is a mature, cyclical oilfield services equipment rental company tied to volatile rig counts, or a capital-light, software-and-data platform that warrants a technology-like multiple. The weight of evidence supports the latter view. The core drilling business is exceptional: 40 years of market dominance, a debt-free balance sheet, consistent free cash flow through multiple severe downturns, and a disciplined allocator as CEO. At CAD \$13.02, the market is pricing this as a commodity-cycle business when its competitive dynamics more closely resemble a toll-road operator on essential energy infrastructure.

The bull case, articulated most clearly by Oldfield Partners, argues for a structural re-rating from 6.2x EV/EBITDA to software-like multiples, implying 128% to 270% upside over five years. The analysis points to a fair value range of CAD \$18 to \$28 on a 3-to-5-year horizon, depending on whether RPID growth reaccelerates and the Completions segment achieves positive margins. This implies 38% to 115% upside from current levels, with a 4% dividend yield providing income while you wait.

This memo presents the bull and bear cases in full. The bear case is real and centres on RPID growth deceleration, margin compression from new segments, and credible long-term threats from rig OEM vertical integration. These are addressed directly. But at current prices, the asymmetric risk/reward appears to favour the buyer.

This opportunity originally came onto my radar via Stephen Clapham, who highlighted Pason as a holding and a premier vehicle for capitalizing on the enduring energy cycle. Historically, hedge funds have favoured the oil services sector as a "second derivative" trade to play the energy price cycle, capitalizing on the sector's high leverage to underlying oil prices. However, the core investment debate surrounding Pason Systems is that it defies this traditional categorization. Rather than a highly cyclical, second-derivative equipment renter, Pason operates as a capital-light, software-and-data compounder ("The Bloomberg of Oil Services") that warrants a premium technology multiple.

While the broader market currently penalizes Pason for near-term margin compression and declining North American drilling activity, the company's 40-year track record, >80% recurring revenue profile, and monopolistic market share present a compelling asymmetric risk/reward opportunity.

## 2. Company Overview and Business Model

Pason Systems was founded in 1978 in Calgary, Alberta. It provides instrumentation, data acquisition, and data management systems primarily for oil and gas drilling rigs. The company is listed on the TSX under the ticker PSI and trades on the OTC markets under PSYTF.

### 2.1 How the Business Works

The EDR is the foundational product. It is a network of sensors, instruments, computers, and touch-screen displays that captures drilling parameters (weight on bit, torque, RPM, pressure) and feeds them into a central data platform. Rig crews and office engineers use this data to make real-time decisions. Pason charges a daily rental rate for a package of products installed on each rig. This rate is captured by the metric "Revenue per Industry Day" (RPID), which reached a record CAD \$1,053 in FY2025, compounding at roughly 6 to 7% annually over 15 years.

The EDR functions as a platform hub. Once installed, it enables cross-selling of additional modules: AutoDriller (automated rate of penetration), Pit Volume Totalizer (mud monitoring), Gas Analyzer (hydrocarbon influx detection), Mud Analyzer (fluid density), Drilling Advisory System (MSE optimisation), and DataHub/Pason Live (cloud-hosted well data). Each additional module increases RPID without requiring a new customer. Pason also sells DataLink, which integrates wellsite data directly into operators' corporate software such as Peloton WellView or SAP, creating deep workflow switching costs.

The cost of Pason's full product suite on a rig is roughly \$1,000 per day, which represents less than 1% of the \$100,000 to \$300,000 total daily cost of operating a rig. A single hour of non-productive time (NPT) caused by equipment failure or bad data can cost the operator \$10,000 to \$50,000. This cost-of-failure versus cost-of-service asymmetry makes customers extremely price-insensitive and is the primary reason Pason has maintained and grown market share despite premium pricing.

### 2.2 Segment Breakdown

Segment	FY2025 Revenue	Gross Margin	% of Total
North American Drilling	CAD \$274.5M	~59.5%	~66%
International Drilling	CAD \$52.1M	~42.4%	~12%
Completions (IWS)	CAD \$59.0M	Negative (\$-0.7M)	~14%
Solar & Energy Storage (ETB)	CAD \$33.7M	~8.3%	~8%
Consolidated	CAD \$419.3M	~44.8%	100%

### 2.3 Completions (Intelligent Wellhead Systems)

Pason acquired the remaining equity of Intelligent Wellhead Systems (IWS) in January 2024 for CAD \$88.3M in cash, having first taken a minority position in 2019. IWS provides digital valve control, data acquisition, and automation software for completions and hydraulic fracturing operations. The platform is called inVision and includes the Electronic Completions Recorder (iECR) and Digital Valve Control.

Revenue per IWS Day was CAD \$5,472 in FY2025, rising to \$6,131 in Q4. This revenue density is significantly higher than the core drilling business on a per-day basis. However, IWS has posted near-zero or negative gross margins for 8 consecutive quarters. The segment grew revenue 12% to CAD \$59M in FY2025 despite a 24% decline in US frac spreads, which demonstrates share gains. IP litigation with Downing Wellhead Equipment was settled in December 2025, removing a legal overhang.

Management guided \$20 to \$25M of revenue growth for 2024 in the Q1 2024 earnings call. Actual growth was roughly \$7M. This miss was never directly addressed in subsequent calls, and the framing shifted to "outperformance versus industry activity." Roughly 75% of the completions market remains unautomated, which represents significant white space, but the path from opportunity to profitability is unproven.

## **2.4 Solar and Energy Storage (Energy Toolbase)**

Energy Toolbase (ETB) provides modelling, control, and monitoring software for solar and energy storage project developers. FY2025 revenue was CAD \$33.7M, up 87% year-over-year, with a record Q4 of CAD \$16.2M. However, gross margins are thin (roughly 8.3% for FY2025) because hardware delivery (control systems) carries significant variable costs. The segment reported a gross loss in Q3 2025.

ETB is the strategic optionality play. If the segment achieves scale economics, it could evolve from a margin drag into a high-growth software business and fundamentally change Pason's narrative from cyclical oilfield services to an energy data platform. For now, it is subscale and dilutive to consolidated margins.

### 3. Competitive Position and Moat Analysis

Pason has no direct competitor solely focused on drilling data software. The competitive landscape consists of three types of players: integrated oilfield service giants (SLB, Halliburton, Baker Hughes), specialised technology leaders (Pason, Corva, Peloton), and integrated drilling contractors (Nabors with SmartROS, Patterson-UTI).

#### 3.1 Sources of Moat

**Reliability and Uptime.** Pason claims 99.99% uptime. On a rig where downtime costs \$10,000 to \$50,000 per hour, the track record of "it just works" is the single most important competitive advantage. New entrants lack the field-proven track record required to displace Pason in a \$50,000/hour risk environment.

**Workflow Entrenchment.** Once an operator's field and office teams are trained on Pason's EDR interface and reporting formats, the cost of retraining and data migration is prohibitive. Expert channel checks indicate that rig crews "call everything Pason" regardless of what is actually installed, which is a proxy for deep stickiness.

**Scale and Service Network.** 264 field technicians stationed across major North American basins providing 24/7 support. This physical presence cannot be replicated cheaply and creates deep relationships at the driller, contractor, and operator level.

**Data Network Effects.** Pason's installed base on roughly 70% of Western Hemisphere rigs gives it the largest drilling dataset in the industry. This data advantage improves its benchmarking, analytics, and AI-driven drilling optimisation products.

**Trivial Cost, High Consequences.** Pason's products cost ~1% of total rig operating costs. The cost of failure (NPT, wellbore problems) is orders of magnitude higher than the cost of the product. This makes price competition largely irrelevant.

#### 3.2 The Most Credible Competitive Threat

The most serious long-term threat is not another EDR company, but rig OEM vertical integration. Modern AC-driven "fly-by-wire" rigs from Nabors (SmartROS) or Helmerich & Payne allow the rig manufacturer to build data acquisition directly into the rig's control systems. If rig operators mandate captive software, Pason's third-party hardware becomes unnecessary. Nabors' SmartROS and H&P's integrated platforms currently serve their own rig fleets, but any move to make these systems available to third-party operators would directly threaten Pason's installed base.

Historically, the rig-agnostic nature of Pason's technology has been its defence: operators prefer technology that works across different drilling contractors' fleets. But as high-spec rig fleets become more standardised, this defence weakens.

## 4. Industry Context

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**Note:** A separate industry report on the drilling data systems market has been prepared as a companion document. This section provides a condensed overview of the key drivers relevant to Pason's investment case.

The global drilling data systems market was valued at approximately \$5.29 billion in 2024 and is projected to reach \$18.45 billion by 2033, representing a compound annual growth rate of 14.9%. Growth is driven not by an increase in the number of wells drilled, but by the increasing "content per well": more software, sensors, and automated services utilised on each rig.

Three structural forces are expanding demand independent of the oil price cycle. First, wells are getting longer and more complex. Laterals frequently exceed 15,000 feet, and managing the physics of the drill string at those lengths requires high-frequency data. An operator who once paid for a basic EDR now pays for vibration mitigation, geosteering, and automated torque management. Second, regulatory mandates (SEC Climate Disclosure Rule, BLM Waste Prevention Rule) are turning drilling data systems from discretionary efficiency tools into mandatory compliance platforms. Third, AI and data centre buildout is creating a structural tailwind for natural gas drilling. U.S. data centre electricity consumption is projected to more than triple from 2021 to 2030 (IEA), and natural gas is expected to supply roughly 40% of incremental generation. Meeting AI-driven power demand may require a 10 to 15% increase in U.S. natural gas production by the early 2030s.

The North American rig count has been in secular decline. Baker Hughes data shows an 88% peak-to-trough decline between 2011 and 2020. North American drilling activity fell a further 6% in 2025. Pason remained cash flow positive throughout all of these cycles.

## 5. Growth Engines

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### 5.1 Revenue per Industry Day (RPID)

RPID is Pason's most important operating metric. It measures how much revenue the company extracts from each active rig per day, and it has grown from CAD \$562 to CAD \$1,053 over roughly ten years. This growth was achieved primarily through product adoption rather than price increases. The path has been: install the EDR as the base, then cross-sell mud management, gas analysis, drilling automation, communications, and cloud analytics on top.

Over the past decade, Pason's consolidated revenue increased by 47% despite a 35% decline in the North American land rig count. This is the clearest evidence that the business has structurally decoupled from pure rig count exposure.

**However, RPID growth is decelerating.** From 8 to 9% year-over-year in early 2024, growth has slowed to roughly 3% in FY2025 and was essentially flat by Q4. Management has guided a 6 to 7% sustainable CAGR, but recent delivery is well below that, and the slowdown has not been explicitly addressed.

### 5.2 Completions Segment Scaling

The completions market is undergoing a "digital awakening" similar to what drilling experienced a decade ago, with roughly 75% of operations still unautomated. IWS revenue grew 12% in FY2025 despite a 24% decline in US frac spreads, which is a strong share-gain signal. Revenue per IWS Day of \$5,472 (rising to \$6,131 in Q4) indicates high revenue density. The long-term opportunity is large, but 8 consecutive quarters of near-zero or negative gross margins is a problem that requires resolution before this segment can be treated as a genuine earnings contributor.

### 5.3 AI and Data Centre Natural Gas Demand

This is the "free option" in the Oldfield Partners thesis. The argument is that exponential power demand from AI data centres will drive long-cycle natural gas baseload requirements, creating a policy-resilient tailwind for North American gas-directed drilling. The EIA forecasts Haynesville production growth of 1.2 Bcf/d in 2026 and 1.6 Bcf/d in 2027. If gas-directed drilling activity inflects upward even modestly, Pason's operating leverage on a fixed cost base should drive earnings above consensus. The market appears to give Pason no credit for this possibility at current multiples.

### 5.4 New Product Pipeline

The Mud Analyzer was initially presented as a near-term growth engine with a list price of roughly \$1,000/day (against a total RPID of \$1,053). The implication was near-doubling potential for RPID. Two years in, adoption outside the technology partner (reportedly ExxonMobil) remains slow, with management citing technical challenges around lost circulation materials and customer operating processes. The product has gone from a headline story to a background item without any explicit recalibration of expectations. This warrants scepticism about the pace of future product-driven RPID expansion.

## 6. Financial Analysis

### 6.1 Income Statement Summary

Metric (CAD M)	2023	2024	2025
Revenue	\$369.3	\$414.1	\$419.3
Adjusted EBITDA	\$171.5	\$161.8	\$153.4
Adj. EBITDA Margin	46.4%	39.1%	36.6%
Net Income (GAAP)	\$95.8	\$119.7	\$51.6
GAAP Net Margin	25.9%	28.9%	12.3%
Free Cash Flow	\$54.0	\$63.3	\$63.3
FCF Margin	14.6%	15.3%	15.1%
CapEx	\$69.0	\$54.3	\$54.3
SBC (excluded from Adj. EBITDA)	\$11.7	\$10.9	\$9.9

The headline story is margin compression. Adjusted EBITDA margins have fallen from 46.4% to 36.6% over two years. This is driven almost entirely by the mix shift toward the lower-margin Completions and Solar segments. The core North American Drilling segment maintains roughly 59% gross margins, which is excellent. The consolidated figure obscures this.

GAAP net income in 2024 was inflated by a one-off \$50.8M non-cash gain from the IWS stepped acquisition revaluation (42% of total 2024 GAAP net income). Stripping this out, underlying earnings power declined year-over-year.

### 6.2 Balance Sheet and Cash Flow

Pason ended 2025 with CAD \$77.1M in total cash and short-term investments and zero interest-bearing debt. This is one of the cleanest balance sheets in oilfield services. Free cash flow was CAD \$63.3M in 2025, up 17% year-over-year despite lower EBITDA, reflecting disciplined working capital management and capital expenditures coming in below the low end of the \$55 to \$60M guidance range at \$54.3M.

ROIC stands at 19.2% against a WACC of approximately 7.6%. The company has never taken on interest-bearing debt during Danny's research period and funded the \$88.3M IWS acquisition entirely from cash with zero dilution to shareholders.

### 6.3 Capital Allocation

Over the past decade, Pason has returned over CAD \$560M to shareholders through dividends and buybacks while reducing the share count by approximately 7% (8.5% over the last 6 years specifically). In FY2025, shareholder returns totalled CAD \$62.7M: CAD \$40.7M in dividends (quarterly dividend of \$0.13/share, approximately 4% yield) and CAD \$22M in share repurchases.

The NCIB has been renewed for 2026. However, buyback activity is arguably underwhelming relative to cash generation and balance sheet capacity. Pason generated \$63.3M in FCF and sits on \$77M of cash, yet only

deployed \$22M into buybacks. For a stock that management presumably believes is undervalued, this is less aggressive than the rhetoric would suggest.

M&A track record is disciplined. The IWS acquisition followed a staged "crawl-walk-run" approach: initial minority investment in 2019, preferred share financing in 2022, and full acquisition in January 2024. This allowed Pason to observe IWS's growth trajectory for five years before committing fully.

## 6.4 CAGR Analysis

Metric	1-Year	3-Year	5-Year	7-Year
Revenue	1.2%	7.8%	21.8%	4.6%
EPS (Diluted)	-55.3%	-19.7%	53.3%	-1.0%
FCF	17.2%	-3.5%	3.3%	N/A

The EPS trajectory is volatile and heavily distorted by the 2024 IWS revaluation gain and the cyclical nature of the drilling market. Revenue CAGRs are more instructive: the company has grown revenue at roughly 4.6% over 7 years despite massive rig count declines, which supports the structural decoupling thesis.

## 6.5 International Segment

International Drilling generated CAD \$52.1M in FY2025, down 14% year-over-year. The decline was driven by a single large customer in Argentina shifting from conventional to unconventional drilling. This concentration risk suggests the international business lacks the diversified customer base to serve as a reliable second growth engine at current scale. Pason operates in 12 countries, with presence in Argentina, Australia, Brazil, Colombia, Ecuador, Mexico, Peru, Saudi Arabia, and the Middle East.

The Middle East strategy is facilitated through a 50/50 joint venture with Rawabi Holding in Saudi Arabia. This structure allows Pason to participate in massive, multi-year national oil company (NOC) drilling programs from Saudi Aramco and ADNOC that are less sensitive to short-term oil price fluctuations. ADNOC Drilling reported a 22% revenue increase in 2025, largely underpinned by accelerated adoption of AI-powered drilling technologies. Saudi Arabia's IKTVA (In-Kingdom Total Value Add) program rewards companies that conduct local R&D, which could favour Pason's JV structure. However, the Middle East unconventional opportunity has been frequently cited by management but has been slow to materialise.

## 6.6 Track Record Through Downturns

Pason's behaviour during industry crises reveals the quality of the franchise and the discipline of the management team:

**2014-2016 Oil Price Collapse:** Maintained R&D spend of \$25.2M in 2016 during one of the worst oil price collapses in history. Remained cash flow positive throughout. Faber joined as CFO in 2014 and focused on cost containment and IT integration while preserving the technology pipeline.

**2020 COVID-19 Pandemic:** Continued to prioritise technology development despite massive industry-wide layoffs. Initiated NCIB buybacks during the uncertainty, repurchasing 1.45M shares at an average of \$6.58, significantly below current market levels. The Baker Hughes rig count saw an 88% peak-to-trough decline between 2011 and 2020; Pason remained cash flow positive through the entire period.

**2024-2025 Activity Decline:** North American drilling activity fell 6% in 2025. Revenue grew 1% year-over-year regardless. FCF increased 17% to \$63.3M through disciplined working capital management. Capital expenditures came in below the low end of guidance. Zero debt maintained, \$77M cash preserved.

This through-cycle resilience is the strongest evidence that Pason's moat is real, not theoretical. Companies with weak competitive positions do not maintain R&D spending and generate positive cash flow through an 88% rig count collapse.

## 7. Valuation

There are multiple valuation frameworks applied to Pason, each producing a different answer. This section presents them without favouring one over the others.

### 7.1 Current Trading Multiples

Company	EV/EBITDA	EV/Rev	EBITDA Margin	D/E	Div. Yield
Pason (PSI.TO)	6.2x	2.3x	37%	0.06x	4.0%
NOV Inc. (NOV)	7.1x	0.9x	13%	0.35x	1.8%
Helmerich & Payne (HP)	4.8x	1.4x	29%	0.18x	3.2%
Patterson-UTI (PTEN)	5.3x	1.2x	22%	0.42x	2.8%
Core Laboratories (CLB)	12.4x	2.1x	17%	0.85x	1.6%
Nabors (NBR)	4.2x	0.8x	19%	2.10x	0.0%
CES Energy (CEU.TO)	6.8x	0.9x	14%	0.48x	2.4%
Peer Average (ex-PSI)	6.8x	1.2x	19%	0.73x	2.0%

Pason trades at a similar EV/EBITDA to peers but at a large premium on EV/Revenue, justified by its dramatically higher EBITDA margins (37% vs. 19% peer average). The standout differentiators are the balance sheet (D/E of 0.06x vs. peer average of 0.73x) and the dividend yield (4.0% vs. 2.0%). Pason also has the highest FCF conversion and the cleanest capital structure of any company in the peer set. The 5-year average EV/EBITDA (NTM) for Pason is 9.7x per Infront Analytics; the current ~6.2x represents a 34% discount to its own history. This is the quantitative anchor for the re-rating thesis.

### 7.2 DCF Scenarios

A 10-year discounted cash flow model produces the following range of outcomes:

Scenario	Rev. Growth	FCF Margin	Discount Rate	Terminal Growth	Value/Share
Bear	0%	12%	12%	0%	CAD \$6.32
Base	3%	15%	10%	2%	CAD \$11.94
Bull	7%	18%	9%	3%	CAD \$23.42

The Base DCF of CAD \$11.94 implies approximately 10% downside from the current price. The Bull DCF of \$23.42 implies roughly 77% upside. The negative net debt of \$77M shields equity value across all scenarios.

An important sensitivity: the FCF margin assumption is doing most of the work in the Base and Bull cases. If the mix shift toward Completions and Solar permanently lowers consolidated FCF margins from the assumed 15% to 12%, the Base case falls significantly.

### 7.3 Oldfield Partners Multiple Re-Rating Thesis

Oldfield Partners, a London-based specialist value boutique, has publicly pitched Pason as a structural re-rating candidate. Their thesis argues that Pason's software-like economics (>80% recurring revenue, ~40% EBITDA margins, net cash balance sheet) deserve a software-like exit multiple of 4x EV/Sales, compared to the current ~2.3x. Using a 5-year horizon with ongoing buybacks and current net cash, they project:

Scenario	Revenue CAGR	Implied Share Price	Upside
Base (pricing only)	3%	CAD \$28	+111%
Scenario 1 (pricing + mix)	9%	CAD \$37	+179%
Scenario 2 (+ rig recovery)	14%	CAD \$45+	+240%+

**The critical assumption is the 4x EV/Sales exit multiple.** Pason has traded well below 4x EV/Sales for extended periods. Whether the market will re-rate Pason to software-like multiples depends on whether investors accept the Bloomberg analogy. The Oldfield pitch presents this re-rating as the base case, which is aggressive.

Slide 11 of the Oldfield deck compares Pason's EV/Sales trajectory against the MSCI Software & Services Index. The gap is wide and has existed for most of the last 25 years, which is arguably evidence against re-rating, not for it.

#### 7.4 Reconciling the Valuation Frameworks

The valuation methods produce a wide range of outcomes, from \$6.32 (Bear DCF) to \$45+ (Oldfield Bull). The key variables that determine where on this spectrum the stock should trade are: (a) the sustainable RPID growth rate, which determines organic revenue growth independent of rig counts; (b) whether Completions and Solar achieve positive margins, which determines the direction of consolidated FCF margins; and (c) whether the market accepts a technology multiple for the stock, which determines the exit/terminal multiple. A central estimate based on these frameworks falls in the CAD \$18 to \$28 range, representing 38% to 115% upside from current levels. The lower bound assumes RPID growth of 3% with no multiple expansion; the upper bound assumes RPID growth reaccelerates to 6% and the market partially re-rates the stock toward the Oldfield base case.

## 8. Forensic Accounting Review

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This section identifies areas where Pason's reported financial metrics may overstate or obscure underlying economic reality. The intent is not to allege fraud, but to ensure that any investment decision accounts for legitimate accounting concerns. Importantly, Pason's overall accounting quality is above average for oilfield services. The balance sheet is clean, there are no restatements or regulatory actions, and management's decision to exclude the \$50.8M IWS gain from Adjusted EBITDA was specifically a high-integrity reporting choice. The flags below are standard forensic hygiene checks, not red alerts.

### 8.1 Stock-Based Compensation Exclusion

Pason's Adjusted EBITDA consistently excludes stock-based compensation. SBC expense was CAD \$9.9M in 2025, \$10.9M in 2024, and \$11.7M in 2023. This is standard practice in oilfield services, but what makes it more aggressive here is that Pason's SBC is primarily cash-settled (RSUs and PSUs), not equity-settled. Cash-settled units represent a direct and inevitable future cash outflow. As of December 31, 2025, Pason carried \$8.7M in current and non-current SBC liabilities on its balance sheet. By excluding the quarterly mark-to-market expense from Adjusted EBITDA, management presents margins that are disconnected from the true economic cost of employee retention. A "true" EBITDA margin after SBC would be roughly 2 to 3 percentage points lower than reported.

### 8.2 Capitalised Development Costs

Following the IWS acquisition in 2024, capitalised development costs surged 5x from CAD \$1.1M in 2023 to \$5.4M in 2024 and \$5.4M again in 2025. The capitalisation ratio (capitalised development as a percentage of total technology spend) jumped from 2.6% to 9.0 to 9.6%. By capitalising rather than expensing this development spend, Pason boosts both operating cash flows and reported EBITDA. Given the 24% decline in the US completions market in Q4 2025, the "probability of future economic benefits" standard for capitalisation should be viewed sceptically. If these projects fail to gain traction, sudden write-downs will follow. Maintaining high capitalisation levels during a market downturn is a classic indicator of aggressive earnings smoothing.

### 8.3 IWS Stepped Acquisition Gain

When Pason acquired the remaining IWS shares on January 1, 2024, IFRS 3 required it to remeasure its existing 46% equity interest to fair value. This produced a \$50.8M non-cash gain that represented 42% of Pason's total 2024 GAAP net income. While this is standard IFRS treatment, management controlled the timing of the option exercise, effectively choosing when to realise this "profit." The fair value calculation used a DCF model with a 26.5% discount rate. A high discount rate on the pre-existing stake kept the carrying value low, which mechanically magnified the gain at the point of full acquisition. To management's credit, they did not include this gain in Adjusted EBITDA, which is a high-integrity reporting choice.

### 8.4 Disclosure Transparency Reduction

In Q1 2024, Pason ceased disaggregating revenue by specific product categories (EDR, Mud Management, Communications, etc.) and shifted to broader segment reporting (Drilling, Completions, Solar). Management justified this as better alignment with how they assess business unit performance. However, under forensic analysis frameworks, a reduction in disclosure granularity often serves to obscure the deterioration of high-

margin legacy products by blending them with lower-margin growth segments. This change occurred simultaneously with the IWS consolidation, effectively resetting the baseline for year-over-year comparisons and making it more difficult to track organic decline in North American drilling revenue (which fell from \$289.8M in 2023 to \$274.5M in 2025).

## 8.5 Metric Drift

As GAAP margins have compressed from 26% to 12.3%, management has increasingly emphasised RPID and Revenue per IWS Day as the headline operating metrics. While these are legitimate KPIs, forensic analysis suggests they function as "distraction metrics" that shift investor focus away from the rising cost base of the non-drilling segments. A record RPID of \$1,053 is less meaningful if the revenue generated on each rig day is being consumed by losses in Completions and margin drag from Solar.

Offsetting these concerns: Pason has no history of accounting restatements, regulatory actions, or governance scandals in the public record. The balance sheet is clean. The Adjusted EBITDA reconciliation is transparent and well-documented. Management's decision to exclude the \$50.8M IWS gain from Adjusted EBITDA was specifically the right call and suggests integrity in non-GAAP reporting.

## 8.6 Earnings Call Tone Analysis

Having reviewed the Q1 2024 through Q4 2025 earnings call transcripts, several data points emerge. **The IWS revenue growth miss was never acknowledged.** In Q1 2024, analyst Cole Pereira (Stifel) directly asked: "You'd previously guided to \$20 million to \$25 million of revenue growth in 2024. Are you still comfortable with that?" CEO Jon Faber replied: "The short answer is we're still comfortable with that sort of projection." The actual FY2024 result was roughly \$7M of growth from 2023 levels. In subsequent calls, the framing shifted entirely to "outperformance vs. industry activity," which is a much easier bar when the completions industry is declining 24%. No analyst pressed on the original dollar guidance, and management did not revisit it.

The mud analyzer narrative has drifted similarly. In Q1 2024, it was positioned as a near-term growth engine with \$1,000/day list price against a \$1,000 overall RPID. By Q2 2025, Faber is discussing "technical challenges around lost circulation materials and people's operating processes."

Analyst coverage is declining. The Q4 2025 call had only one analyst asking questions (Aaron MacNeil, TD Cowen). This is a signal of weakening institutional interest.

## 8.7 Energy Toolbase Divestiture Possibility

The Solar and Energy Storage segment (Energy Toolbase) is the most strategically ambiguous part of Pason. It grew revenue 87% in FY2025 but operates at thin to negative margins and has no obvious synergy with the core drilling franchise beyond the loose "energy data" narrative. If management were to divest ETB, the margin compression story changes entirely: consolidated EBITDA margins would immediately improve, the narrative simplifies to "drilling + completions," and the proceeds could fund buybacks at depressed valuations. Conversely, if ETB achieves scale economics, it could eventually transform Pason's multiple. This is worth monitoring as a potential catalyst in either direction.

## 9. Management and Insider Ownership

### 9.1 CEO Profile: Jon Faber

Attribute	Detail
Age	46
Education	BBA (Brock), MBA (Purdue), AMP (Wharton)
Designations	CFA, CBV, CPA
Tenure	CEO since Oct 2020; CFO from 2014
Prior Career	Investment banking (National Bank Financial)
Total Compensation (2024)	CAD ~\$2.33M (~78% variable)
Compensation vs Peers	Below average (peer avg: USD \$3.48M)

Faber is a financial professional running an energy technology company. His public statements and strategic decisions consistently emphasise velocity of capital and return to shareholders. He joined Pason as CFO in 2014, navigated the 2014-2016 oil price collapse by maintaining positive cash flow, initiated the staged IWS acquisition starting in 2019, and executed pandemic-era buybacks at an average of \$6.58 per share (significantly below current levels). CFO Celine Boston presents alongside Faber on earnings calls. Limited public information exists on management depth below the C-suite.

### 9.2 CEO Ownership

Instrument	Units/Shares	Value (Mar 2025)
Common Shares (outright)	42,000	CAD \$524,580
RSUs (unvested)	33,706	CAD \$420,988
DSUs (deferred)	90,531	CAD \$1,130,732
Total	166,237	CAD \$2,076,300

Direct share ownership of 42,000 shares (approximately 0.054% of outstanding) is modest by any standard. The total equity value of \$2.07M exceeds Pason's mandated CEO ownership threshold of 3x base salary (\$1.5M), but the absolute level of skin in the game is a gap relative to best-in-class owner-operator models.

An important positive signal: Faber voluntarily elected to receive 50% of his discretionary cash bonuses for 2021 and 2023 in the form of DSUs. By deferring immediate cash in favour of long-term equity, he is aligning his terminal wealth with the company's multi-year trajectory. This is uncommon in cyclical energy services, where executives often maximise cash compensation during peak years.

### 9.3 Recent Insider Transactions

Date	Individual	Action	Detail
Mar 2026	Kenneth Mullen (Director)	Buy	6,000 shares at ~\$12.73
May 2025	James Bowzer (Director)	Buy	2,500 shares at ~\$11.41
Mar 2025	Ryan van Beurden (VP)	Sell	750 shares at ~\$13.11
2024 (Full Year)	Corporate (NCIB)	Buyback	555,700 shares cancelled

The insider transaction picture is mildly positive: two director open-market purchases in the last 12 months against one small VP sale. The corporate buyback program provides additional support. Fidelity Management & Research holds over 10% of the class, which creates potential technical pressure if institutional sentiment shifts.

## 10. Technical Chart Analysis

**Note:** This analysis is based on price action data through mid-April 2026. The stock closed at CAD \$13.02 on 14 April 2026.

### 10.1 Trend Structure

The primary trend since approximately November 2025 is up, accelerating from late January 2026. The sequence of events: April through September 2025 saw a clear downtrend from ~\$13+ to the \$10.00 low. September through November 2025 was a choppy basing/consolidation phase in the \$11.60 to \$12.20 range. November 2025 to present shows higher highs and higher lows, with the most recent leg (mid-March to early April) moving from roughly \$12.00 to \$13.74, a 14% move in a few weeks. The trend inflection point was approximately late November/early December 2025, when price began making successive higher lows above the 200-day SMA.

### 10.2 Key Levels

The 52-week range spans \$10.43 to approximately \$14.00. The stock is currently at roughly 95% of the 52-week high, within the 5% threshold typically read as bullish. The full 1-year range spans 37.4%, but the net return from a year ago is a modest +5%.

### 10.3 Moving Averages

The 50/200 SMA configuration is bullish, with a golden cross in place and both averages rising. Price is trading above both. The stock is roughly 10% above the 200-day SMA with no meaningful pullback, which raises mean reversion risk in the short term.

### 10.4 Relative Strength vs OIH

**This is the most important negative signal on the chart.** Over the trailing year, OIH (the Oilfield Services ETF) has returned approximately +58.5% while PSI has returned roughly +4.9%, an underperformance of approximately 53 percentage points. This divergence began in August/September 2025 and has not narrowed meaningfully even as PSI has rallied.

A stock approaching its 52-week high while lagging its sector by 50+ percentage points is a red flag suggesting company-specific headwinds. The market is treating Pason differently from its oilfield services peers, which validates the fundamental concerns around margin compression and growth deceleration.

### 10.5 Volume

High-volume capitulation at the September 2025 low suggests the bottom was institutional in nature. However, there has been no volume surge on the approach to the 52-week high. Breakout attempts without volume conviction frequently fail.

### 10.6 Technical Summary

**Positives:** Golden cross with price above both MAs; well-formed rounded base structure; high-volume capitulation at the September low suggests the bottom was real.

**Negatives:** Massive underperformance vs OIH (~53pp) is a serious concern suggesting company-specific headwinds; no volume surge on approach to 52-week high; the rally from \$12.00 to \$13.74 is steep and may be overextended.

## 11. Fisher 15-Point Checklist

Philip Fisher's "Common Stocks and Uncommon Profits" provides a scuttlebutt-based framework for assessing quality. Applied to Pason based on all available research:

#	Fisher Question	Assessment	Evidence
1	Products with sufficient market potential for sizable sales growth?	PASS	Drilling data market growing at 14.9% CAGR; completions market 75% unautomated; AI data centre demand tailwind.
2	Determination to develop new products for continued growth?	PASS	Mud Analyzer, DAS, IWS acquisition, Energy Toolbase. \$54M+ annual R&D spend maintained through downturns.
3	Effective R&D relative to company size?	PASS	R&D spend of ~13% of revenue. RPID growth from product adoption validates R&D effectiveness.
4	Above-average sales organisation?	PASS	264 field technicians; basin-level relationships; 65% US / 85% Canada share despite 30-40% price premium.
5	Worthwhile profit margin?	MIXED	Core drilling: ~59% gross, excellent. Consolidated: compressing from 46% to 37% Adj. EBITDA margin.
6	What is being done to maintain or improve margins?	MIXED	RPID expansion helps. But IWS and ETB are structurally dilutive and no clear timeline to profitability.
7	Outstanding labour/personnel relations?	PASS	678 employees; no reported labour issues; Faber defers bonuses into DSUs.
8	Outstanding executive relations?	PASS	Below-market CEO pay; voluntary DSU election; clean governance record.
9	Depth of management?	UNCERTAIN	Limited visibility below Faber and Boston. Board tenure averages 4 years.
10	Good cost analysis and accounting controls?	MIXED	ROIC-focused framework is good. SBC exclusion and capitalisation trends are forensic concerns.
11	Aspects that stand out as special vs competitors?	PASS	Only pure-play drilling data company. 40 years of market dominance. Data network effects.
12	Short-range outlook for profit?	MIXED	RPID growth decelerating; rig count declining; IWS margins negative. Near-term earnings pressure.
13	Future growth requiring equity financing that dilutes?	PASS	Zero debt, \$77M cash, fully funded IWS with zero dilution. No equity issuance history.
14	Management communicates openly with investors?	MIXED	Clean Adj. EBITDA reconciliation. But IWS revenue miss never addressed; disclosure reduced in 2024.
15	Management of unquestioned integrity?	PASS	No restatements, no scandals, below-market pay, disciplined capital allocation through cycles.

Summary: 9 PASS, 5 MIXED, 1 UNCERTAIN out of 15. The core business scores very well on Fisher's quality framework. The mixed scores cluster around margin trajectory, management communication on growth

misses, and the forensic accounting concerns. The uncertain score on management depth reflects a genuine information gap.

## 12. The Bull Case

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The bull case rests on several pillars, ordered from strongest to most speculative:

- 1. The core business is exceptional and mispriced.** Pason's North American Drilling segment operates at ~59% gross margins with a dominant market share that has expanded for 15 years despite premium pricing. The business generates consistent free cash flow through severe downturns and is run by a disciplined allocator with a clean governance record. At 6.2x EV/EBITDA, the market is pricing this as a commodity-cycle business when its competitive dynamics more closely resemble a toll-road operator on essential energy infrastructure.
- 2. Structural revenue growth is real and independent of rig counts.** Revenue grew 47% over a decade while rig counts fell 35%. RPID has compounded at 6 to 7% annually for 15 years. Even if the growth rate has slowed to 3%, this structural offset to volume declines is a genuinely unusual characteristic in oilfield services.
- 3. AI data centre demand is a free option.** The market gives Pason zero credit for the possibility that AI-driven power demand could drive a sustained increase in gas-directed drilling. If this materialises, the operating leverage on Pason's fixed cost base would produce significant earnings upside.
- 4. Completions is a large, underappreciated option.** 75% of the completions market remains unautomated. IWS is gaining share in a declining market. Revenue per IWS Day of \$5,472 (rising to \$6,131 in Q4) indicates high unit economics once scale is achieved. If margins inflect positive, this segment transforms the growth narrative.
- 5. The balance sheet provides a margin of safety.** Zero debt, \$77M cash, and counter-cyclical M&A capacity mean Pason can survive and potentially acquire through any downturn. The 4% dividend yield provides a floor for the stock while you wait.

## 13. The Bear Case

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**1. The core growth engine is decelerating and management is not explaining why.** RPID growth has fallen from 8-9% year-over-year in early 2024 to flat by Q4 2025. This is the single most important metric for the thesis, because it is the sole mechanism by which Pason offsets rig count declines. If RPID stalls permanently, the structural growth thesis collapses. The mud analyzer, initially positioned as a near-term RPID catalyst with \$1,000/day pricing potential, has not delivered after two years. Management guided 6-7% sustainable RPID CAGR; recent delivery is well below that.

**2. Margin compression is structural and the new segments are not earning their keep.** Adjusted EBITDA margins have fallen from 46% to 37% in two years. IWS has posted near-zero or negative gross margins for 8 consecutive quarters and missed its own 2024 revenue growth guidance by roughly 70% (\$7M actual vs. \$20-25M guided). Management has not disclosed IRR, payback period, or whether the \$88.2M IWS acquisition is tracking to expected returns, which is a notable omission from a team that repeatedly cites ROIC as its guiding principle. Capital returns are also underwhelming relative to rhetoric: \$22M in buybacks on \$63M of FCF and \$77M of cash.

**3. Rig OEM vertical integration is a credible long-term threat.** Nabors' SmartROS and H&P's integrated platforms currently serve their own rig fleets. Any move to make these available to third-party operators would directly threaten Pason's installed base. As high-spec rig fleets become more standardised, the "rig-agnostic" defence weakens.

**4. The stock is massively underperforming its sector.** PSI has underperformed OIH by approximately 53 percentage points over the trailing year. The Q4 2025 earnings call had only one analyst asking questions. Institutional interest is declining, which limits the re-rating that the bull case requires.

**5. The secular rig count decline may not be offset indefinitely.** North American drilling activity fell 6% in 2025, continuing a long-term structural trend driven by drilling efficiency improvements. Each generation of wells requires fewer rig days. At some point, RPID expansion cannot offset volume losses if the rig count falls far enough.

## 14. Key Monitoring Metrics

For anyone tracking this name, the following metrics should be monitored quarterly:

Metric	What to Watch	Threshold
NA Land Rig Count (Baker Hughes)	Volume driver. Directionally correlated.	Sustained move below 500 is bearish
Revenue per Industry Day	Quality/pricing/adoption driver	If RPID stops growing, re-examine thesis
Revenue per IWS Day + active jobs	Completions scaling signal	Positive gross margin is the gate
Adjusted EBITDA Margin	Mix-driven compression vs core stability	Below 35% is a red flag
Competitor market share (US basins)	Any sustained gain by NOV, Nabors, or Corva	Market share loss would be thesis-breaking
Insider buying/selling	Conviction signal from management	Any significant selling by Faber
Capitalised development / total R&D	Forensic accounting flag	Ratio above 10% warrants scrutiny

## 15. Appendix: Oldfield Partners Thesis and Ownership Anomaly

Oldfield Partners LLP is a London-based specialist value boutique founded in 2004, authorised and regulated by the FCA. They have publicly pitched Pason Systems as "The Bloomberg of Oil Services" at a recent value investing conference, presenting a detailed thesis for a structural re-rating from cyclical OFS multiples to software-like multiples.

The presentation, available on their website, (dated 28 February 2026) argues for 128% to 270% upside over 5 years across their three scenarios, all anchored on a 4x EV/Sales exit multiple with ongoing buybacks and current net cash.

### 15.1 Ownership Anomaly

**A significant observation:** IBKR ownership data shows Oldfield Partners sold approximately 98,000 Pason shares on or around 28 February 2026, trimming their position by roughly 28%. Three weeks later, on 19 March 2026, Richard Garstang pitched Pason as a high-conviction buy at the Value Invest New York conference. This sequencing is unusual. A fund reducing a position by nearly a third and then publicly advocating for the same stock shortly afterwards raises questions about the consistency of their internal and external messaging.

I have sent an email to Oldfield Partners (Richard Garstang and David Mace) requesting clarification on whether the position reduction was a routine portfolio rebalancing measure, a risk management adjustment, or driven by near-term cyclical concerns despite the long-term structural thesis. I have also contacted Stephen Clapham (Behind the Balance Sheet) flagging the anomaly. As of this writing, I have not received a response from either party. The IBKR data labels Oldfield under "Aggregate MFs," which may represent multiple fund vehicles rather than their full position. I have been unable to verify via SEDAR+ or other free sources whether the filing reflects Oldfield's complete beneficial ownership.

Until clarified, this anomaly should be noted by any investor relying on Oldfield's public thesis as a supporting data point for their own investment case.

### 15.2 Assessment of the Oldfield Thesis

The Oldfield thesis correctly identifies the quality of the core business: the moat, the recurring revenue, the capital-light model, and the pricing power. Where the thesis requires scrutiny is in its valuation framework. The 4x EV/Sales exit multiple has never been sustained for Pason over any extended period. The Bloomberg analogy, while compelling, assumes the market will fundamentally re-categorise the stock from oilfield services to technology, which is a narrative bet, not an analytical certainty. The scenarios also treat the rig count recovery as a "free option," but free options are only free if the base case holds; if RPID growth stalls and margins compress further, the base case weakens materially.

That said, the Oldfield thesis appears directionally correct. At 6.2x EV/EBITDA with zero debt and a 4% dividend yield, the downside is limited by the cash generation of the core business and the balance sheet. The upside, if any of their catalysts play out, is substantial. The ownership anomaly is worth noting but does not necessarily invalidate the analytical framework. It is entirely possible that the trim was driven by fund-level mechanics (redemptions, vehicle rebalancing) rather than a change in conviction.

