SIFTER RESEARCH

Oceaneering International, Inc.

NYSE: OII

The Robotic Duality. A Subsea Franchise Trading as a Commodity Stock.

Price (Mar. 6, 2026): **$34.21**	Market Cap: **$3.40B**	EV (incl. leases): **$3.60B**
EV / EBITDA: **9.0x**	P/E (Adj.): **17.7x**	Book-to-Bill: **1.33x**
ROE (FY2025, GAAP): **39.4%***	Net Cash ex leases: **~$189M**	Senior Notes due 2028: **$500M**

**GAAP ROE uses FY2025 GAAP net income, which includes a $167M discrete deferred-tax-asset benefit. Adjusted ROE is approximately 21-22%.*

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I. THE BUSINESS IN PLAIN LANGUAGE

"If you can't explain it to a child, you don't understand it."
Charlie Munger

Oceaneering International builds and operates robots for environments where humans cannot safely or economically go: the deep ocean, nuclear submarines and the vacuum of space. That single sentence covers roughly 95% of what OII does. The rest is engineering context.

The business runs through five segment. Subsea Robotics (SSR) deploys 250 work-class remotely operated vehicles at deepwater drilling and production sites globally, earning 36% EBITDA margins on $855M of revenue. ADTech builds submarine systems and support equipment for the US Navy and space EVA tools for NASA, now generating $460M in revenue and growing at 17% annually. Together these two segments represent 47% of revenue and will play a key role for the future Enterprise Value. The other three, Offshore Projects (OPG), Manufactured Products (MP) and IMDS, are strategic industrial businesses that matter to the income statement but not to the thesis.

Understanding why the customer chooses OII is the beginning of understanding whether this business is worth owning.

In Subsea Robotics, the customer is an oil major or drilling contractor operating a floating rig that costs $100,000-200,000 per day. The ROV providing deepwater support is mission-critical, a failure means the rig sits idle. The ROV day rate is a small line in the drilling budget. Switching providers to save 5% on day rates is not worth the operational risk. The customer chooses OII because no competitor combines the same fleet scale (250 systems globally), operational reliability, global logistics (~12,000 employees across ~50 countries) and six decades of accumulated performance data.

In ADTech, the customer is effectively the US government and the reason for choosing OII is regulatory. SUBSAFE certification is a government-granted authorization required for work on nuclear submarine safety systems, granted only after years of qualification and auditing. OII has held it since 1983. A new entrant cannot purchase it and losing it takes years to recover. The defense customer's decision tree, for the specific work OII does, effectively ends with OII.

Five Segments at a Glance

Segment	Core Activity	FY25 Rev ($M)	EBITDA Margin	Key Customer
Subsea Robotics (SSR)	ROV operations, AUV survey, tooling	855	36%	Oil majors, drillers
Offshore Projects (OPG)	Well intervention, IMR services	616	19%	Oil & gas operators
Manufactured Products (MP)	Connectors, AGVs, umbilicals	569	15%	Subsea EPC
ADTech	Submarine systems, space EVA, defense	460	13%	US Navy, NASA, DoD
IMDS	Asset integrity, digital inspection	284	6%	Oil & gas operators

Source: company reporting for FY2025. EBITDA margins shown on the company's adjusted segment basis.

What Does This Business Look Like in Five Years?

For SSR, the five-year picture is reasonably clear. As of mid-2025, OII held ROV contracts on 81 of the 136 contracted floating rigs, 60% structural market share built over decades and not meaningfully under threat. As long as deepwater development continues, SSR generates recurring, high-margin revenue with multi-year contract visibility. There is no credible mechanism by which OII loses that market position in five years.

For ADTech, the trajectory improved dramatically after the 2025 landmark contract award, the largest initial contract in OII's history. The underlying demand drivers (AUKUS submarine construction, NATO defense expansion, US Navy SUBSAFE maintenance backlogs) are generational. If ADTech sustains even a fraction of its recent 17% annual growth rate, say 9-10% on a moderating base, it reaches $700M+ in five years. The demand environment makes this plausible, but it is a projection, not a certainty. Program execution, budget continuity and competitive dynamics all carry uncertainty.

In five years, Oceaneering will almost certainly be a larger, higher-margin, more defense-diversified version of what it is today. The question for the investor is whether the current price appropriately reflects that quality.

II. THE MOAT: TWO BUSINESSES, TWO ADVANTAGES

"A castle without a moat is just a building waiting to be besieged."

A genuine competitive advantage must show up in the unit economics, not merely in management's narrative. OII has two distinct moats operating in parallel, and the interaction between them creates something no pure-play competitor can replicate.

SSR: Sixty Years Cannot Be Replicated in Sixty Months

The Subsea Robotics moat operates on three reinforcing layers.

The first is scale. Operating 250 work-class ROV systems requires a global infrastructure that took six decades to build: trained pilots, specialized maintenance crews, spare parts logistics across ~50 countries, and ~12,000 employees with institutional knowledge embedded at every level. The capital cost of replicating this network from scratch would be measured in billions of dollars. The time cost cannot be purchased at any price, it is accumulated through operational repetition.

The second is data. Over decades of operations and nearly 60,000 ROV days annually, patterns accumulate in the operational record: sediment behavior at specific depths, current anomalies at specific fields, equipment failure modes under specific conditions. This proprietary dataset is invisible on the balance sheet and cannot be acquired through M&A.

The third is contractual embeddedness. The operator's subsea engineers are trained on OII systems. The tooling interfaces are designed around OII ROV specifications. The uptime track record is OII-specific. At $100,000-$200,000 per rig day, even two to three days of unplanned downtime from an ROV provider transition failure easily consumes the savings from a lower day rate. This math reliably favors OII and sophisticated operators are aware of it.

The moat is measurable. SSR EBITDA margins of 36% are roughly double what most oilfield services companies earn on comparable revenue. In Q4 2025, ROV revenue per day utilized reached $11,550, a 7% increase year-over-year in a quarter of slightly lower utilization (62% vs. 66% prior year). The ability to raise price as volume fluctuates is the classic signature of pricing power. A commodity business does the opposite: it cuts prices to chase volume.

SSR EBITDA has grown from ~$229M (FY2023) to $308M (FY2025), with margins expanding from approximately 30% to 36% over two years. Q4 2025 reached 38%. The moat is widening, not narrowing.

ADTech: A Regulatory Moat With a 40-Year Head Start

The ADTech moat is different from SSR: it is regulatory and reputational rather than scale-based. SUBSAFE certification is a government-granted authorization required for work on US Navy nuclear submarine safety systems. It is a permission that takes years to earn through demonstrated quality systems, audits, and delivery track record.

OII has held SUBSAFE certification since 1983 and has been supporting NASA since 1994. The institutional relationship embedded in four decades of classified defense work cannot be replicated by a new entrant regardless of capital available. The engineers who have spent 15 years working on Virginia-class submarine programs carry knowledge that does not transfer. The government relationship that produces new program awards requires years of demonstrated performance to build.

The 2025 contract award validates a meaningful step-change. OII was selected as prime contractor, not merely a subcontractor. This is a different relationship. Prime contracting means OII is now trusted to manage program-level execution, coordinate supply chains and deliver outcomes rather than simply provide components. It is a deepening of the government relationship that took decades to reach.

ADTech revenue grew 17% in FY2025 to $460M, with operating margins expanding from 11% to 13%. The trajectory is improving as the program ramps and prime contractor overhead investments pay off.

The Cross-Segment Technology Flywheel

The most underappreciated aspect of OII's competitive position is the genuine dual-use nature of its technology base. The defense business and the energy business share a common platform of robotics, vehicle control, sensing, autonomy, and harsh-environment engineering. Innovations funded by the much larger SSR revenue base flow directly into ADTech capabilities and vice versa. OII's investment in autonomous subsea systems for commercial operations directly informs its unmanned underwater vehicle programs for defense. The R&D base is shared. Neither business would be as capable without the other.

That does not mean the company should be valued as a software platform or a frontier-tech pure play. It does mean the energy business helps fund technical capability that also matters in defense and autonomous systems, while government work broadens the relevance of the same engineering base. That is a real strategic benefit even if the accounting reports the segments separately.

Is the Moat Widening or Narrowing?

SSR EBITDA margins expanded from 34% to 36% in one year. ADTech revenues grew 17% with margin expansion. Enterprise book-to-bill of 1.33x confirms customers are contracting OII at an accelerating pace. The $180M Petrobras contract, a single award representing 21% of annual SSR revenue, demonstrates continued ability to win large-scale, multi-year commitments from sophisticated buyers.

Still, the signals are not uniform. Manufactured Products exited 2025 with $511M of backlog and a 0.84x book-to-bill ratio for the year. OPG remains project-mix sensitive. The right conclusion is that the best businesses are improving and the consolidated picture is firmer than it was two years ago, not that every line of business is simultaneously accelerating.

There is one technology disruption risk worth naming: fully autonomous underwater vehicles that could eventually operate without OII's specialized ROV workforce. OII is actively investing in exactly these technologies through its Freedom AUV platform, the Ocean Intervention II vessel's simultaneous autonomous operations capability, and the next-generation electric work-class ROV Momentum. The company is leading autonomous subsea development, not defending against it.

III. INDUSTRY STRUCTURE & COMPETITIVE LANDSCAPE

The Deepwater Market

The critical question for any investor in an OFS company is whether demand is secular or cyclical. For OII's primary energy market, deepwater and ultra-deepwater offshore, the honest answer is: growing, with significant cyclical volatility around the trend.

The secular case is compelling. Deepwater fields are among the lowest-breakeven large-scale oil resources available. Petrobras's pre-salt fields, Guyana's Stabroek block, West African deepwater acreage and North Sea production collectively represent decades of development backlog. These fields produce at $40-55/barrel breakeven at scale, competitive with nearly any onshore alternative.

When oil majors cut capex, new drilling activity declines, ROV utilization falls and OII's earnings compress. The 2015-2020 offshore downturn was the most severe in deepwater history and saw OII's EBITDA compress dramatically from its prior peak. Anyone buying OII today is implicitly taking a view that oil prices will not collapse and stay collapsed. That is a reasonable view, but it should be held consciously, not overlooked.

The partial decoupling from the capex cycle comes from the approximately 37% of SSR fleet use that is vessel-based: well intervention, inspection, maintenance, and repair of existing producing assets. This work must occur regardless of new drilling activity. The existing installed base of subsea production equipment requires maintenance that cannot be deferred indefinitely. This opex-driven demand provides a floor for SSR utilization around 55-60%.

Defense

ADTech's demand environment is the most supportive it has ever been in OII's history. Capital intensity is low; the segment scales through engineering headcount and existing manufacturing footprint. This means incremental revenue drops to EBITDA at a high marginal conversion rate. International demand from Taiwan maritime defense programs, AUKUS partnerships, and European maritime applications represents emerging optionality atop the domestic foundation.

During the 2015-2020 offshore downturn, ADTech grew from roughly 12% of revenue to a more meaningful contributor. During the next downturn, whenever it comes, ADTech will provide a meaningful earnings buffer that did not exist in previous cycles.

Competitive Structure

In subsea robotics, OII's primary competitors are Saipem and Helix Energy Solutions. Neither approaches OII's scale, global coverage, or fleet diversity. No new entrant has achieved meaningful penetration in decades because the operational network effects are prohibitive.

In defense subsea systems, the competitive set is classified and fragmented. General Dynamics and Huntington Ingalls operate at different points in the submarine value chain. Teledyne and Leonardo DRS provide electronic subsystems. None combines SUBSAFE certification with small submersible design-build capability and a commercial ROV crossover base. OII occupies a niche that is largely uncontested because so few organizations have invested in building it.

IV. EARNINGS QUALITY & CASH FLOW FORENSICS

"Earnings are an opinion, cash is a fact."

The Cash Conversion Test

In FY2025, OII reported $195M in adjusted net income and generated $208M in free cash flow. The ratio exceeds 100%. Cash generation is marginally stronger than reported earnings.

One note before proceeding: GAAP net income in FY2025 was $354M, inflated by a $167M discrete tax benefit from the release of deferred tax asset valuation allowances. This is an accounting entry reflecting the auditors' formal assessment that OII's future earnings prospects are now sufficiently certain to justify releasing previously reserved tax assets. It is a positive signal about trajectory, but it must be stripped out entirely for valuation purposes. The adjusted $195M is the correct starting point for all analysis.

The seasonal pattern is critical for correct interpretation of quarterly results. Q1 typically generates negative operating cash flow, $81M was consumed in operating activities in Q1 2025, because working capital builds ahead of peak offshore activity season. Q4 2025 alone generated $221M in operating cash flow. Evaluating OII's cash generation on any single quarter is an analytical error. The correct lens is full-year FCF.

Cash Flow Dynamics

Item ($M)	FY2023	FY2024	FY2025
Adjusted EBITDA	289	347	401
Cash from operations	210	203	319
Organic capital expenditures	(101)	(107)	(111)
Free cash flow	109	96	208
FCF / Adj. EBITDA	38%	28%	52%

FY2024 FCF was depressed by working capital timing.

Margin Quality

EBITDA margins expanded slightly from 13.0% in FY2024 to 14.4% in FY2025. Higher-margin backlog flowed through Manufactured Products as the offshore recovery matured. ROV day rates increased as premium systems became harder to access. ADTech ramped with high marginal contribution rates.

The key evidence is SSR's margin trajectory: 34% in FY2024, 36% in FY2025, 38% in Q4 2025. SSR's pricing power is a function of market position, not oil price direction. Even as ROV utilization declined slightly from 67% to 65% during FY2025, revenue per day grew 6-7% as operators competed for OII's premium systems.

One legitimate concern. Unallocated Expenses grew from $158M in FY2024 to $190M in FY2025, a 20% increase that outpaced both revenue growth (+4.6%) and EBITDA growth (+16%). The increase reflects performance-based compensation accruals (self-correcting in a downturn) and IT infrastructure investment. If this line continues growing at 20% annually while revenue grows at 5%, it will eventually consume a meaningful portion of operational leverage. It requires monitoring.

There are no recurring restructuring charges, no suspicious one-off items, and no history of capitalizing operating expenses. The reconciliation from GAAP to adjusted EBITDA primarily removes foreign currency gains and losses, a transparent and reasonable adjustment. Accounting quality is high.

V. THE BALANCE SHEET

"Debt kills silently."

The balance sheet transformation over the past three years is one of the most underappreciated aspects of OII's investment thesis. As recently as FY2022, OII carried net debt approaching $500M against EBITDA of approximately $250M, a leverage ratio that constrained strategic flexibility and suppressed the valuation multiple. Today the company holds $689M in cash against $500M of senior notes, putting it in a net cash position of approximately $189M excluding operating leases.

Selected Balance Sheet Metrics

Item ($M)	Dec 31, 2024	Dec 31, 2025
Cash & equivalents	498	689
Net PP&E	420	452
Total assets	2,336	2,667
Long-term debt (principal)	500	500
Total equity	720	1,077
Operating lease liabilities (PV)	~370	~386
Net debt (incl. leases)	~372	~197
Net cash (ex leases)	~0	~189 cash
Gross debt / Adj. EBITDA	1.4x	1.2x

The 2028 Maturity: Most Important Financial Fact

The $500M in 6.000% Senior Notes due February 1, 2028 is the most important financial fact about OII right now. It requires either refinancing or repayment within approximately two years. OII holds $689M in cash and generates $100-120M in additional FCF annually before capital return. The company can repay the notes from existing cash and remain liquid.

The practical risk is twofold. First, adverse credit market conditions could force refinancing at unfavorable rates. At 6.0%, the notes already reflect older credit conditions; OII's improving leverage (1.2x gross debt/EBITDA), consistent FCF generation, and multi-year contract visibility should support refinancing at 4.5-5.5%. Second, the cash consumed by debt repayment is cash not available for buybacks or strategic capital deployment.

A stress test clarifies the boundaries. If FY2026 EBITDA fell 30% to approximately $280M, net debt including lease liabilities would still be only about 0.7x EBITDA. That is uncomfortable compared with today's balance sheet, but far from a distressed setup. The true risk around the 2028 notes is pricing and flexibility, not survival.

The capital structure is otherwise clean: single-class common shares, no convertibles, no preferred equity, no dual-class voting. The diluted share count declined from 102.4M to 101.3M between FY2024 and FY2025, reflecting $40.3M in buybacks partially offset by stock-based compensation. Dilution is modest and declining.

VI. CAPITAL ALLOCATION & RETURNS ON CAPITAL

Return on Invested Capital

A brief note on the cover page ROE figure. The 39.4% GAAP ROE is materially inflated by the $167M deferred tax asset release recorded in FY2025. On an adjusted basis (using $195M adjusted net income on average equity of ~$899M), ROE is approximately 21-22%. The GAAP figure is disclosed accurately but should not be used as a normalized measure of earnings quality.

ROIC analysis for OII requires care because the business is substantially intangible. Goodwill is only $49-51M, suggesting that most of the economic moat resides in unbooked assets: accumulated engineering knowledge, government certifications, trained personnel and customer relationships. A balance-sheet-based ROIC will materially understate the quality of the SSR franchise.

Using a simplified calculation: FY2025 NOPAT of approximately $228M on average capital employed of approximately $1,383M implies a ROIC of ~16.5%. This compares favorably against OII's estimated WACC of 9-11% and confirms value creation. But it dilutes SSR's true ROIC, which operates against a modest tangible asset base and almost certainly exceeds 25%, with the lower returns from OPG and IMDS.

Capital Allocation Track Record

The capital allocation framework over the past three years has been disciplined: deleverage first, maintain organic capex, return excess capital through buybacks once leverage normalizes, and pursue no large-scale M&A that would re-lever the balance sheet. This is the correct playbook for a company emerging from a cyclical trough with a maturing debt structure.

OII repurchased $40.3M (1.81M shares) in FY2025. In oilfield services, acquisitions have reliably destroyed value. OII's organic growth in ADTech is structurally superior: zero acquisition premium, zero integration risk, zero new debt.

Backlog Analysis

The $3.7B of FY2025 order intake deserves attention. ADTech's landmark contract anchors the backlog with multi-year defense revenue visibility completely independent of energy market conditions. Management has indicated that two additional fourth-quarter awards on unexercised options are expected to generate meaningful revenue in 2026.

The company disclosed $396M of remaining performance obligations at year-end 2025, of which $309M is expected within 12 months and $86M within 24 months, mostly in MP and ADTech. Customer concentration should also be acknowledged. The top five customers represented 31% of revenue in 2025 and the U.S. Government alone represented 12%. That is manageable but reinforces the point that awarded-work conversion and customer funding matter.

VII. THE PEOPLE RUNNING THE BUSINESS

"Invest with managers who think like owners, not promoters."

Rod Larson

CEO Rod Larson has been in the role since 2018 and his public communication style is consistently disciplined, operationally specific, and non-promotional. On earnings calls he discusses ROV utilization by operational category, explains mix shifts between drill support and vessel-based work, and contextualizes margin changes with technical precision. He does not use the language of a promoter.

Two moments are telling. When ADTech's Q1 2025 operating income declined due to prime contractor onboarding costs, Larson disclosed it clearly and characterized it correctly as a temporary investment in a new program structure. When Q3 2025 SSR utilization fell, he provided granular context on the operational mix shift rather than burying the metric. This is the communication behavior of someone running the business.

The management compensation structure ties bonuses to EBITDA and free cash flow, the metrics that matter for value creation rather than revenue-based metrics that can be gamed.

CFO Transition

The CFO transition is the main management item to watch in 2026. Michael W. Sumruld joined Oceaneering as Senior Vice President of Finance on September 1, 2025 and succeeded Alan Curtis as CFO on January 1, 2026 under a planned transition in which Curtis remained in a supporting role to help ensure continuity. Curtis's three decades of institutional knowledge is not easily replicated.

This is not a reason to walk away from the investment. But investors who build OII positions should pay particular attention to how Sumruld communicates financial details. The quality of his first few earnings calls will be informative.

VIII. WHAT COULD GO WRONG

"Don't ask what can go right. Ask what can go wrong."

Oil Price Collapse (Very High Relevance)

A sustained decline in oil prices to $50/barrel or below, persisting for 18+ months, would trigger meaningful offshore capex cuts. This is the primary risk to OII's investment thesis.

The partial mitigants, ~37% of SSR fleet use is opex-driven intervention and inspection work, ADTech is completely oil-price-independent, long-term ROV contracts provide 12-24 months of revenue visibility, provide real but incomplete protection. Anyone buying OII at the current price is implicitly taking a view that oil prices will not collapse and stay collapsed for an extended period.

ADTech Prime Contractor Execution (High Relevance)

The transition from subcontractor to prime contractor is strategically positive but operationally more demanding. Prime contracting requires managing a supply chain of subcontractors, coordinating program timelines across multiple stakeholders, and maintaining program-level cost control. OII has never done this at scale in defense; the 2025 landmark contract is the first major prime contractor program.

OII's 40-year defense delivery track record substantially reduces the probability of a major execution failure. But the risk exists. A cost overrun or delivery failure on the landmark program would damage the government relationship that took decades to build.

The 2028 Maturity (Medium Relevance)

As discussed in the balance sheet section, this is not a solvency risk. It is a financing event requiring management execution before February 2028. The specific risk is adverse credit market conditions forcing refinancing at unfavorable terms, or the decision to repay the notes in full consuming cash reserves that could otherwise be deployed more productively.

OPG Volatility (Medium Relevance)

OPG operating income fell 62% year-over-year in Q4 2025 due to the absence of high-margin international projects from Q4 2024. OPG is the most volatile segment in OII's portfolio. Management is actively right-sizing the fleet: selling one vessel in Q3 2025 and not renewing one charter at Q4 expiry. The practical implication: OPG creates quarterly earnings noise that periodically reads as bearish headlines. The correct response is to look through it to the underlying SSR and ADTech trajectory.

Government Budget Uncertainty (Low-Medium Relevance)

ADTech's continued ramp depends on US defense appropriations being funded. Government shutdowns create payment delays and potential contract interruptions. The bipartisan nature of defense spending and multi-year contract structures provide meaningful protection, but the risk warrants acknowledgment.

The Thesis-Killer

The single scenario that would validate a sale: a sustained oil price collapse below $50/barrel for 18+ months, combined with an ADTech execution failure, simultaneously eliminating both of OII's growth vectors. These are uncorrelated risks, one driven by commodity markets, one driven by government program management. Their joint occurrence is low probability but non-zero. A second thesis-killer would be sustained evidence that SSR pricing power is breaking structurally: not one soft quarter, but a real pattern of falling realized pricing, lower customer stickiness, and eroding margins.

IX. VALUATION & MARGIN OF SAFETY

"Price is what you pay. Value is what you get."

An Honest Assessment of the Current Price

At $34.21, OII trades at 9.0x FY2025 EV/EBITDA (including operating lease liabilities in enterprise value) and ~17.7x adjusted earnings. The FCF yield is 2.9-3.5% on forward estimates. Let's be direct about what this means.

This is not a deeply discounted value situation, it is not 50 cents on the dollar. At 9.0x EV/EBITDA, you need to be right about the business to make money here. If EBITDA deteriorates materially, the stock can fall 30% without becoming obviously cheap.

The opportunity exists for a specific and identifiable reason: OII is classified in the Oil & Gas Equipment & Services sector and screened accordingly by every quantitative model, sector rotation fund, and ETF. ADTech is being valued at an OFS multiple. The market is applying a single, cyclical sector lens to a business that is increasingly a technology company with an energy division.

Why the Mispricing Persists

Three factors maintain the mispricing. First, the sector classification is embedded in databases and screens; it changes slowly and only when the company's profile shifts enough to force reclassification. Second, OPG project timing creates quarterly noise that periodically generates pessimistic headlines at moments when the underlying business is improving. Third, the 2028 debt maturity shows up on leverage screens as an overhang, even though at current cash and FCF trajectory it is a manageable financing event rather than a solvency concern.

None of these factors is permanent. As ADTech grows, the dual-identity becomes harder for the market to ignore. As the 2028 notes are refinanced, the overhang disappears. As OPG volatility is managed down through fleet right-sizing, the quarterly noise diminishes.

Intrinsic Value: Three Scenarios

Valuation Component	Bear	Base	Bull
Normalized EBITDA ($M)	370	415	440
EV / EBITDA applied	7.0x	9.0x	11.0x
Implied EV ($M)	2,590	3,735	4,840
Less: net debt incl. leases ($M)	(197)	(197)	(197)
Equity value ($M)	2,393	3,538	4,643
Per share (~101.3M diluted)	$23.6	$34.9	$45.8
vs. $34.21 current price	-31%	+2%	+34%

Sum-of-the-Parts

The most intellectually honest valuation lens separates the defense segment from the energy segments. Defense services companies trade at 12-15x EBITDA. OII as a whole trades at 9.0x. The implied discount embedded in the energy-sector classification is the source of the opportunity.

Segment / Component	FY25 EBITDA ($M)	Multiple	EV ($M)	Basis
Subsea Robotics (SSR)	308	10x	3,080	Premium OFS, franchise moat
ADTech (Defense/Space)	61	13x	793	Defense peer comparables
Manufactured Products	83	8x	664	Industrial manufacturing
OPG + IMDS combined	132	6x	792	Project-based OFS
Unallocated expenses (PV)	(183)	8x	(1,464)	Corporate cost base
Total SOTP EV			3,865	
Less net debt / equity value			3,668 (~$36.2/sh)	+6% vs. current

The SOTP fair value of ~$36/share is only 6% above the current price on a static basis. That gap is not compelling on its own. The investment thesis is not a static re-rating from 9.0x to 9.5x. It is a compound of: (1) earnings growth as ADTech ramps through 2026-2027, (2) multiple expansion as the market acknowledges the dual-identity, and (3) balance sheet normalization as the 2028 notes are refinanced.

The Asymmetry

The bear case implies approximately 31% downside. The base case is roughly flat to current price. The bull case implies 34% upside over 2–3 years. This is approximately a 1:1 risk/reward ratio, not the 3:1 for a maximum-conviction position.

The distribution of outcomes is not symmetric around the base case. The upside scenarios become meaningfully more likely if: (1) ADTech executes well through 2026-2027, (2) the 2028 notes are refinanced at favorable rates, and (3) offshore markets maintain current activity levels. These are individually probable conditions. Their joint probability skews the expected value toward the bull scenario without producing a slam-dunk asymmetry.

That does not make OII uninteresting. It makes it a quality business at a fair-to-reasonable price rather than a screaming bargain. The investment case improves if one believes the next two years will show continued ADTech scaling, sustained SSR margin resilience, and a clean handling of the 2028 notes. At mid-cycle FCF of $180-220M, the FCF yield on the current price would be 5.3-6.5%, which is attractive. The investor who buys today must tolerate 18-24 months of potentially flat price performance before the re-rating thesis has a reasonable chance to play out. This is a patience-premium investment, not a momentum investment.

X. THE FINAL VERDICT

"The discipline to say 'no' is the investor's true competitive advantage."

The Thesis in Plain Language

OII is a high-quality business priced close to fair value, with a specific re-rating catalyst attached to its defense segment. This is not a situation where the margin of safety is structural and the downside is mathematically bounded. Here, the investment requires genuine confidence in the business trajectory.

The core of the thesis: SSR is among the best businesses in the oilfield services universe, a franchise moat built over 60 years with genuine pricing power and structural 60% market share. ADTech is transitioning from a supporting segment to a co-equal growth driver, with generational tailwinds completely independent of energy cycle dynamics. The market is pricing OII as a pure-play OFS company. It is increasingly not one.

The balance sheet has been transformed from leveraged to net cash positive through organic free cash flow. Management is disciplined and operator-oriented. The business generates robust FCF, returns capital to shareholders, and is executing on a program ramp that will drive above-market earnings growth through 2027. Book-to-bill of 1.33x signals accelerating demand.

The Bear Case, Stated Honestly

A credible bear would argue: offshore activity declines as oil prices soften, compressing SSR utilization and OPG revenue; ADTech prime contractor execution stumbles on the landmark program, with cost overruns eroding margins and damaging the government relationship; the 2028 refinancing occurs at unfavorable rates; unallocated expenses continue outgrowing revenue; and the dual-identity prevents clean institutional ownership or analyst coverage.

These arguments have merit. The counterarguments are specific: SSR demonstrated pricing power even at lower utilization in 2025; OII has 40 years of unbroken defense delivery track record; $689M cash provides ample maturity runway; cost increases are partly performance-linked and self-correcting; and the category confusion is precisely the source of whatever mispricing exists.

APPENDIX: KEY FINANCIAL DATA

Consolidated Financial Summary

($M unless noted)	FY2023	FY2024	FY2025	FY2026E
Revenue	2,425	2,661	2,784	n/a
Adjusted EBITDA	289	347	401	390 - 440
Adjusted EBITDA margin	11.9%	13.0%	14.4%	n/a
GAAP net income	97	147	354*	178 - 203
Adjusted net income	91	117	195	n/a
Adjusted EPS (diluted)	0.89	1.14	1.93	n/a
Free cash flow	109	96	208	100 - 120
Organic capex	101	107	111	105 - 115
Cash & equiv. (YE)	n/a	498	689	~789 - 809
LT debt (principal)	500	500	500	500
Book-to-bill	~1.0x	~1.1x	1.33x	n/a

**FY2025 GAAP net income includes a $167M discrete tax benefit from the release of valuation allowances. 2026 free cash flow and capex are management guidance; YE cash is a simple pre-buyback bridge.*

Segment Revenue & Operating Income: FY2025

Segment	Rev. ($M)	% Total	Op. Inc. ($M)	Op. Mgn	YoY Rev.
Subsea Robotics (SSR)	855	30.7%	257	30%	+3.1%
Manufactured Products (MP)	569	20.4%	72	13%	+2.4%
Offshore Projects (OPG)	616	22.1%	96	16%	+4.2%
IMDS	284	10.2%	11	4%	-2.7%
ADTech	460	16.5%	58	13%	+17.0%
Unallocated expenses	–	–	(190)	–	+20.2%
Total	2,784	100%	305	11%	+4.6%

Note: Operating margins and EBITDA margins differ because D&A is allocated at segment level. For SSR, the gap between 30% operating margin and 36% EBITDA margin reflects ~$51M of depreciation on the ROV fleet.

Segment EBITDA & Margins: FY2025 vs. FY2024

Segment	FY2025 EBITDA	FY2025 Mgn	FY2024 EBITDA	FY2024 Mgn
Subsea Robotics	308	36%	284	34%
Manufactured Products	83	15%	55	10%
Offshore Projects	114	19%	96	16%
IMDS	18	6%	16	5%
ADTech	61	13%	45	11%
Unallocated	(183)	–	(149)	–
Consolidated adj. EBITDA	401	14%	347	13%

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