

Q1 2021 Earnings Call

Company Participants

- Bard Stenberg, Vice President, Investor Relations and Corporate Communications
- Gottfred Langseth, Chief Financial Officer
- Rune Olav Pedersen, President and Chief Executive Officer

Presentation

Bard Stenberg {BIO 19147078 <GO>}

Good morning and welcome to this Audiocast presenting PGS's First Quarter 2021 Results. My name is Bard Stenberg, Vice President, Investor Relations and Corporate Communications in PGS.

With us from management today are President and CEO, Rune Olav Pedersen; and CFO, Gottfred Langseth. Before we start, I'd like to give some practical information. Participants on this Audiocast can submit their questions via the audiocast platform. I would also like to draw your attention to the cautionary statement in today's earnings release and presentation and the risk factors disclosed in our 2020 Annual Report and the Q1 2021 Earnings Release.

So with that, it's my pleasure to give the word to Rune Olav.

Rune Olav Pedersen {BIO 16158611 <GO>}

Thank you, Bard, and good morning everyone. During the first quarter, we experienced encouraging MultiClient sales, and we saw improving vessel utilization. Our solid MultiClient performance was driven by late sales of \$49.2 million and strong client commitments for new projects, leading to strong pre-funding in the quarter.

We also saw a positive order book development which was based on general demand increase, we are currently seeing and the fact that deferred 2020 work is coming back to the market. We reactivated the Ramform Vanguard in the quarter and we are currently planning for her to operate in Q2 and Q3.

We also established PGS New Energy in the quarter. This unit, which I will come back to you in more detail will be headed by Berit Osnes. And as most of you know, we completed our refinancing with deferral of debt maturities and amortization in the quarter. Moving to the financial summary and I will as normal be brief and only mention a few of the numbers, as Gottfred will get back to this in more detail later.

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So what I will say is that the segment EBITDA of \$84 million and the segment EBIT of a negative \$14 million both are improvements versus the first quarter of 2019 and the first quarter of 2020. So we're seeing, if you look on the first quarters, we're seeing an sequential improvement into also the first quarter of 2021 and you look at the EBIT and EBITDA, which is obviously positive. The other numbers as I said, Gottfred will get back to you. So I will move to the order book, we saw a good improvement of the order book in the quarter as of 31st of March, 2021, the order book stood at \$237 million, which is obviously a sequential increase from approximately \$200 million we had in Q4 at the end of Q4. \$72 million of the order book is related to MultiClient, and I can also say that we have added further bookings through the order book after quarter-end. So we're seeing a decent trend currently.

The order book is also higher than the order book in Q1 2020 and at par with the order book, we saw in Q1 2019, which is also encouraging for the trend we are currently seeing. Vessel booking was also good, we are more or less fully booked for the second and third quarter with 17 vessel months booked in the second quarter and 15 vessel months booked in the third quarter. We have four vessel months booked in the fourth quarter and I am confident that we will shortly fill the remaining time in Q2 and Q3 and currently the main focus in PGS is on the period Q4 and Q1 next year, which is also, of course, good to see that we can already at this stage focus on next winter.

And with that, I give the word to you Gottfred to go into the financials.

Gottfred Langseth {BIO 5277539 <GO>}

Thank you. I will start with the key financial figures. The segment revenues in the first quarter \$132 million, that's approximately 20% lower than Q1 2020, despite that the EBITDA 84.1% is slightly up compared to Q1 last year and segment EBIT negative 13.9% also slightly up compared to or slightly better compared to Q1, 2020. So that's where the main segment reporting numbers, quickly on IFRS or as reported where we had revenues and other income of \$165.7 million, which is approximately \$33 million more than the segment numbers. And this is all relating to timing as you all know.

Net financial items, third -- a net cost of \$33.6 million. This includes net charges of \$6.2 million relating to various effects of implementing the agreements to amend our debt and also accounting for the derivative element of the convertible bond. I will not go into or I do not have any slides to go into the detail of this -- in this presentation, it is fairly technical, we refer to the detailed disclosures in the earnings release and for those who wants to more than that study this in detail. Both Bard and I are available to discuss of that during the course of the day.

Moving then to Q1 operational highlights. Contract revenues of \$25.5 million, we had 38% of our active time used for contract acquisition in the quarter. This contract time includes Ramform Sovereign used as a source vessel on the dual vessel contract project in the quarter with lower revenues and also lower cost than the vessel generally would generate in 3D operations.

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MultiClient revenues \$95.5 million, we achieved a pre-funding of 107% of capitalized cash investments in the library and we had late sales of \$49.2 million. The regional distribution of MultiClient revenues West Africa and Middle East, main contributors to the pre-funding revenues in the quarter, while two other regions, Europe and Asia-Pacific were the main contributors to our late sales.

Vessel utilization. We had high utilization in the quarter, 89% active vessel time, five vessels with as mentioned Ramform Sovereign, as a source vessel in the quarter and included in contract. For the coming quarter, second quarter we will have an overweight of contract work. There will be significant vessel relocations or steaming and we will operate six 3D vessels.

Moving to cost, the gross cash cost of \$92 million in the first quarter, that is a sequential increase from the \$80 million we had in Q4, driving by a higher activity or higher utilization of the fleet. So we will see some further increase now in the coming second quarter as we operate one additional 3D vessel. Balance sheet, cash and cash equivalents of \$143.9 million at quarter-end, MultiClient library, book value under IFRS of \$578 million and on a segment basis \$533 million.

With the completion of the debt rescheduling process, all interest bearing debt has now been reclassified to long-term, then cash flow, we had lower cash from operations compared to Q1 last year, driven by lower sales in the preceding quarter, which drives a bit of collection and preceding Q4, partly offset by our lower cost base and also we had relatively less release of working capital as some receipts have been delayed into second quarter.

The net payments of \$18.4 million in the cash flow statement related to debt amendments that represents the fees and expenses paid offset by the cash proceeds from a portion of the convertible bond issue. Then a couple of quick comments on the next few slides on our debt rescheduling, we have covered the topic on the recent present patients already, so just shortly completed the transaction to reschedule our maturities and amortization, during the quarter. And with that, we have deferred all scheduled maturities and amortization to September 2022 and beyond.

As part of the transaction, we issued a convertible bond NOK116 million. So relatively small primarily issued against conversion of TLB loans from our lenders. On the accounting for this, I should just quickly mention that derivative financial instruments relating to the equity conversion option is reported as a liability in other current liabilities, at fair value at any balance sheet date, with the change in that fair value recorded as gain or loss in the P&L ultimately upon conversion, the fair value will then be reported as a contribution to equity. There has been some conversions already NOK21 million by few days back. Yes. On the next slide, main terms of the transaction. I will be relatively short just state that the RCF that we had has now become part of the TLB and combined TLB has its first maturity in September 2022, \$135 million, there is an excess liquidity sweep for liquidity above \$200 million. And lastly, the financial maintenance covenants have been reset most importantly, the leverage ratio requirement has been reset to start at 4.5 times and then taper off over time. We are way below the current requirement and we are at a leverage ratio of 2.75 times at end Q1.

Then I believe this is my last slide, it illustrates the result of the debt rescheduling and you will see that there are nothing scheduled for three first elements of the graph, to the right with the first maturities or instalments in the second half of 2022. I will just leave you with the visuals of this slide and then give the word back to Rune Olav.

Rune Olav Pedersen {BIO 16158611 <GO>}

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Thank you, Gottfred. I will start with the fleet activity as normal. And as you can see from the slide Ramform Titan and the Ramform Atlas are currently now done with their programs in Brazil and Angola respectively and our steaming to Canada for a full season in Canada. Ramform Hyperion and the Ramform Vanguard has started their seasons in the North Sea and you see Ramform Tethys and the Ramform Sovereign on this large contracts, Ramform Sovereign is serving as a source vessel to Tethys, it's a large and combined job. And when they are done there in mid-May, you will see Sovereign steaming up to the North Sea and Tethys likely steaming down to West Africa.

So, PGS New Energy, I mentioned that we have created a new unit in PGS during the first quarter, which is led by Berit Osnes, it will develop energy transition business opportunities building obviously on our expertise and assets, both the vessels and our MultiClient library also of course our expertise in imaging. Activities for this scan include activities related to carbon capture and storage, marine minerals, geothermal, site serving, near surface geo hazards for wind farms, all of these activities will to a large or lesser degree require some form of seismic and we will see whether we cannot [ph] develop a business which delivers seismic in various forms to these -- these activities.

We have seen revenues related to, in particularly carbon capture and storage already, but this is obviously early days. We believe we have a particularly strong position in the carbon capture and storage space as we have our main strength in the North Sea, where we are compared to our peers have the biggest library and we have the best library as it has with respect to quality, as it has been, we have been shooting with GeoStreamer's there since 2007 and as you know, the North Sea has also taken a pole position worldwide in carbon capture and storage. So we believe we are well positioned to build something in the carbon capture and storage space and take advantage of both the position of the North Sea and our position in the North Sea. Further obviously, carbon capture and store will also require for the monitoring activity where we are, as you all know very strong. So we look forward to see what we can develop in this area going forward.

I can also mention that Berit Osnes will have hers only job, this will be focusing on developing new energy and we will build a small organization around her that will focus on this solely. So then, back to our current core business and the demand side of the market. What we have seen during the quarter is an improvement in the contract leads and bids. And most of you listening in will probably know that the dark blue line is the dollar value of all the bids we have in-house at present, while the lighter blue line is -- the dark blue line plus the dollar value of the leads we have recorded internally and as you can see they both point upwards during this quarter, pointing to a general demand increase.

You have to read this in conjunction with the backlog, obviously when something moves into the backlog, it moves out of the contract bid curve that you are currently looking at. And when we are, as we are in this quarter seeing both the backlog and the contract bids and lead curves pointing upwards. It is a fairly good leading indicator of increasing demand. And most of the contract bids, we are currently seeing are bids related to EAME and South America. But we're also seeing bids coming out of Latin America and Asia Pacific.

With that I'll move to the supply side. The supply side is at its lowest quarterly level since the mid 90s. We were below 190 active streamers in the first quarter 2021, which is dramatically down from what we can see first quarter '13, we had about 600. So we're at the third on that. Now, we do expect a moderate capacity increase for the summer seasonal 2021 obviously because we have brought back Ramform Vanguard, and we see one of our competitors has also brought back a vessel or two.

The main message here is that the seismic industry has been able to adjust its supply to the demand we are seeing in the market. And as I explained on the previous page, we see increased demand from here on. Then guidance not much change, but we have slightly up our guidance on the Group cash cost, which we are now guiding to approximately \$400 million from below \$400 million as we had in, -- at the end of the fourth quarter. This is obviously due to the reactivation of Ramform Vanguard for operations in Q2 and Q3.

MultiClient cash investments still guided at approximately \$350 million and we expect to use approximately 45% of active 3D vessel time in MultiClient operations. CapEx is unchanged at approximately \$40 million. So in summary in the first quarter, we saw solid MultiClient performance, we reactivated Ramform Vanguard to take advantage of higher summer activity in general demand increase. We have established PGS new energy and we expect 2021 to show revenue improvement versus 2020 on a lower cost base. We are saying this because we see a positive order book development, we see increasing contract bids and leads. We are experiencing a higher and rather stable oil price, higher than what we had expected. And there is currently a fairly low industry supply of vessels. So all of this leads us one should say, cautiously optimistic with respect to 2021.

And with that, I give the word back to you Bard.

Questions And Answers

A - Bard Stenberg {BIO 19147078 <GO>}

Thank you, Rune. We have some questions already from the audience. First question is from Jorgen Lande in Danske Bank. For Q2, it seems that you plan for 28 days of yard stay and you write in your report that you expect significant vessel relocations, can you comment on Q2 vessel utilization and cost development.

A - Gottfred Langseth {BIO 5277539 <GO>}

The cost development, I touched upon in the presentation, we expect some further increase as we increase the 3D vessel operations from five to six vessels. We will have somewhat lower or less active time in the second quarter on those six vessels compared to what we had in Q1. But I want, yet quantify the steaming. I think the steaming portion you find the historical second quarters fairly indicative in a way we are moving two vessels again to Canada, which we have done for over recent years. And then part of the fleet to the North Sea. So the vessel steaming is probably relatively similar to what we've seen in earlier years and you are right with respect to yard time which will account to bit over 20 days.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

The primary there is classing of Ramform Atlas.

A - Bard Stenberg {BIO 19147078 <GO>}

And we have next question from Oystein Vaagen in Fearnley Securities. Do you have any expectations on the revenue contributions from new energy, an example, some percentage of total revenues.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

No, we haven't given that, and we've done that on purpose. I mean, the development of these industries, if I can call on that in the energy as part of the energy. The transition is uncertain in itself, and it is of course uncertain how much we will be able to take out of that or our market share in it. We are -- I expect carbon capture and storage to be a big part of the energy transition and that cannot be done without a significant part of seismic. So we see a fairly large business potential in particular currently in the carbon capture and storage area, when we will see that materialize depends on the speed of which the entire industry can realize these projects, but we are fairly optimistic that this could be a meaningful part of PGS in a few years.

A - Bard Stenberg {BIO 19147078 <GO>}

Okay, and then we have our next question from Kim Andre Uggedal in SEB. Are the day rates, you are seeing in the market, including what is in your backlog at a sufficient level to repay a second half 2022 debt maturities, also keeping in mind the minimum liquidity covenant or do you have an alternative plan for the debt maturities.

A - Gottfred Langseth {BIO 5277539 <GO>}

With respect to the revenues, we are currently seeing, obviously the revenues in the contract revenues in the first quarter were fairly muted, as we were -- we sold our capacity in Q3 last year. But it is important to bear in mind, and as we have said a few times that Sovereign was actually a source vessel and that is 50% of the contract activity, as a source vessel in the quarter with lower revenues and costs. So you cannot calculate the day rates by just taking active time and contract in revenues that would lead you to a too pessimistic market view currently.

So we are seeing rates increasing into the summer season and into the second half of the year and we expect that increase to continue gradually and not something -- in our planning, not a very large and rapid increase but a gradual increase and our plans with that will be more than sufficient to repay our debt or receive maturities in the second half of 2022 from cash flows and that is the current plan.

A - Bard Stenberg {BIO 19147078 <GO>}

Next question is from (inaudible), question asked earlier, regarding the PGS Energy division, do you have a target in terms of contribution, mid-term, which has been answered. And then he continues on with what kind of CapEx do you need for the new energy transition project. Do you need new productions or equipment to develop this division.

A - Gottfred Langseth {BIO 5277539 <GO>}

Not in the near-term. That's clear. Whether we will and how we will develop this, as it becomes a little bit more mature, we may need to see a need for obviously new equipment as well. But currently we have our MultiClient data, which is very useful in carbon capture. We have full capability to do 4D surveys, which will be prerequisite when you start pumping CO2 down into a reservoir. You need to monitor what's going on and we obviously already have that capability.

So this is more adding as a competence and adding competence to the already existing competence, selling maybe in a different way, may be changing our business models, but based on our core competence already. And I don't foresee a large CapEx need in the near-term or I don't foresee any meaningful competence [ph] I should say in the near-term in this basis.

A - Bard Stenberg {BIO 19147078 <GO>}

Very good. Our next question comes from (inaudible), it's somewhat related to the question asked by Uggedal earlier, do you expect to repay second half 2022 debt maturities with your own cash flow not needing new external financing before 2023.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yes.

A - Bard Stenberg {BIO 19147078 <GO>}

And we have next question from Christopher Mollerlokken in Carnegie. How do you expect working capital to develop in the Q2, 2021, any the specific reasons why some payments were deferred to Q2 2021.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yes. We are likely to see this difficult to pinpoint this two specific quarters, but I expect that we will see a reduction in working capital over second and third quarter in a way where it lies a bid in what said earlier that we expect on the -- we expect higher revenues

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in the remaining quarters of the year than the first quarter, so in a way this is down to -- this is mostly volume driven. And so we had a DSO, if you calculate that to 110 days, and Q1 that -- and given that, is this will fluctuate, that is higher than where we normally, so we are at that measuring point higher. We expect the DSO to come down. There are handful of drivers for the higher working capital than average in the first quarter, in part relating to timing of payment of government grants just a smaller part. And secondly, couple of projects where then in a way that the payment milestones have turned out a bit less than ideal and negatively impacting Q1 working capital.

A - Bard Stenberg {BIO 19147078 <GO>}

Next question comes from (inaudible), will PGS New Energy be separated company or will it flag under the PGS ticker.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

It will currently be part of PGS that's clear how that -- how we will -- what we will do with that business if it develops into a significant part of PGS in the years to come, or even earlier. It's too early to say. We can, we will leave every opportunity opener, it may be part of PGS if that is the best home for it, it may be spun out as a separate company if we believe that is the best for PGS New Energy and we will see as we develop these opportunities watch -- what is the natural and best home for this business unit.

A - Bard Stenberg {BIO 19147078 <GO>}

Thank you, Rune. We don't have any further questions at this time. If the audience have any further questions please type them in and we will address them. We will pause for a moment to allow you to type in your question.

Yes, we have another question from Christopher Mollerlokken in Carnegie. You received US government grants in Q1, '21. Is this something you expect also going forward?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

No we, that is not the expectation, we -- the funds were actually received during last year in the 2020 and in a way we come to the threshold on where we can sort out which portion, we can expect to keep as a grant.

A - Bard Stenberg {BIO 19147078 <GO>}

Okay. We don't have any further questions from the audience. So with that, I think, we conclude the presentation. So thank you all for participating and have a nice day.

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