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PRESENTATION

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Good morning, and welcome to this presentation of PGS Q3 2022 Results. My name is Bard Stenberg, Vice President, Investor Relations and Corporate Communications. With us from management today are Rune Olav Pedersen, CEO; and Gottfred Langseth, CFO. Before we start, I would like to give some practical information. People on the webcast are invited to ask questions after management concluding remarks.

I would also like to draw your attention to the cautionary statement showing on the screen and available in today's earnings release and presentation. Today's agenda will be Rune Olav doing the Q3 takeaways a financial summary and the order book, then Gottfred Langseth will do a financial review, before Rune Olav comes back and gives us an operational update and market comments, the guidance and Q&A.

So with that, I give the word to you, Rune Olav.

Rune Olav Pedersen - *PGS ASA - President & CEO*

Thank you, Bard, and good morning, everyone. Our third quarter 2022 takeaways are, as you can see on the slide here, we have seen improving contract rates and high MultiClient late sales. Contract revenues of more than \$100 million, which is the highest we have seen since the fourth quarter of 2019. MultiClient late sales close to 3x that of the MultiClient late sales in the third quarter of 2021, obviously, somewhat helped with by transfer fees.

And we delivered strong cash flows in the quarter. \$129 million cash flow before financing activities is very strong. We repaid \$144 million of debt in the quarter. And our liquidity reserves stood at \$179 million at the end of the quarter. And for that reason, we decided not to draw on the committed Senior Super -- Super Senior loan in the quarter what has postponed that into the fourth quarter and it has now been drawn in October. We're also experiencing a healthy order book and a good development in the bookings as I will come back to.

We were awarded 2 significant projects in Asia Pacific, and we secured solid pre-funding for a large MultiClient in West Africa during the quarter. We are now fully booked for 2022, and we are seeing increasing visibility into 2023, which I will come back to. So all in all, a rather strong quarter by PGS. I will be quick on the financial summary as Gottfred will come back to the main numbers. But point particularly to the strong cash flow from operations of \$178 million in the quarter.

If we take a step back and look at the seismic market and the development of the seismic market, it is, of course, further strengthening. You see it in our numbers, and we see it in our leading indicators. There is a supportive macro environment with high oil and gas prices and hydrocarbons are increasingly important for energy security. This has been clear to us for quite a while, but it is now also becoming more and more clear to the general population and our clients.

We need to continue to both produce and look for oil and gas for energy security of the world. Therefore, we're also seeing increased E&P activity in 2022, and most analysts also predict an increase in E&P activity into 2023. We are seeing increased interest from several of our clients for more frontier MultiClient data sets, which is also a testament to this development.

On seismic, the contract activity and pricing continues on a positive trend, and I will give also a little further comments on contract pricing further back in the presentation. The vessel schedule for the winter season is currently firming up. We are increasing industry -- we're seeing increasing

industry MultiClient late sales. Obviously, in 2022, these late sales have been boosted by several large M&A transactions for the industry players, but also the underlying more organic late sales are growing in 2022, and that is clear compared to 2021.

And we're seeing more MultiClient -- interest in MultiClient pre-funding from our clients. We have very good pre-funding in 2022, but on fairly low investment levels. Going into 2023, it's already clear that we will do more MultiClient, there will be more investments in MultiClient and also still at high pre-funding levels, we expect the same from our peers. So all in all, a further strengthening of the seismic market.

The order book sat at \$320 million at the end of the quarter, \$106 million of that was related to MultiClient. The booking numbers, which I will repeat again, is obviously not at the end of the quarter, but just a few days ago. We are fully booked for 2022, 18 vessel months in the fourth quarter. We have booked 11 vessel months in the first quarter and 10 vessel months in the second quarter next year. Please be advised that some of these bookings are MultiClient programs we will do and have decided to do, but where discussions and negotiations on pre-funding are still ongoing and therefore may not necessarily be announced or in the order book. One of our vessels are fully booked through the summer season next year.

And with that, I will give the word to Gottfred for our financials.

Gottfred Langseth - PGS ASA - CFO & Executive VP

Thank you. I will, as usual, start with the key financial numbers. We had revenues and other income of \$198 million in the quarter, that's a 38% increase from Q1 last year. We have accelerating revenue growth compared to 2021. The growth, I would say, is even more convincing if you look at the order book production information relating to MultiClient, where the percentage of completion revenues would be \$18 million higher in the third quarter this year compared to reported and \$10 million lower last year.

So I advise looking into that. EBITDA of \$98 million, which is a 50% increase. EBIT was \$33 million positive compared to a loss last year. And net positive income for the quarter, albeit relatively small. We have increasing cash flow, which I will revert to. And we have reduced our net interest-bearing debt by \$189.7 million from start of the year.

I'm moving to operational highlights. We had contracted revenues of \$100.7 million in the third quarter. 68% of our active time was used for contract acquisition. And we achieved an improving EBIT margin for the contract work and improving pricing. If I move to MultiClient, \$98 million -- \$91.2 million in the quarter, impacted by revenue recognition on the Shell MultiClient access agreement as well as transfer fees.

We had a low volume of delivered and completed projects in the quarter. This also cost the IFRS reported pre-funding revenues to be relatively low, \$19 million for the third quarter. On a percentage of completion basis, revenues or revenue generation rather would be \$37.5 million in the quarter. And as I said on the previous slide, that is \$18 million higher. Cash investments in the quarter was \$33.7 million, apologies.

Vessel utilization, we had 88% active vessel time in the third quarter. This is high. This is the first quarter since pre-pandemic without any standby time on our operated vessels. In the fourth quarter now, we will have an increase of steaming due to relocation of vessels before projects starting up for the winter season. And for those who track vessel movements, you would have seen that most of our vessels have been relocating now from late September to approximately these days and are about to start new projects.

Moving on to cost. We have an activity-driven cost increase in the third quarter. We have higher activity, higher project-specific costs. The high utilization of 88% is a part of this. But even more importantly, we have operated Sanco Swift and PGS Apollo as source vessels for the full quarter, and that has an impact on the cost level. And these 2 vessels will operate in the fourth quarter as well. Fuel prices, they are high, but as of today, in a way, marginally lower than midyear.

Still, it's important to be aware that the net effect of PGS is quite modest, and large effect on the cost, but a modest effect on, in a way, our net cash and results generation since we have fuel price adjustment clauses in practically all of our contract -- or agreements for contract work. Cash guidance or cost guidance for the full year is unchanged. This next slide show our balance sheet key numbers.

And you will see that unrestricted cash and cash equivalents at quarter end was \$179.1 million. This is the same as our liquidity reserve. Currently, we postponed the drawing of the new \$50 million senior secured debt. And we made debt repayments in the third quarter of totally \$143.7 million towards the export credit financing and the Term Loan B combined.

Cash flow statement, strong cash flow from operations, strong cash flow in general. This is driven by the second quarter and third quarter revenue growth. In addition, we are quite well positioned on the collection side and working capital side at the end of the quarter, \$129 million of net cash flow before financing activities in the third quarter.

Then to the slide, reducing debt, improving cash flow and leverage ratio, as contract margins and MultiClient sales are recovering or increasing, we are generating higher cash flows. And you will see this coming through now in the second half of 2022 and into 2023. Our net debt, and here excluding the lease liabilities, reduced by \$163.4 million year-to-date. You'll see both from the balance -- key information and from the graph to the upper left there, that it stands at \$773 million at end of third quarter.

We repaid \$135 million on the term loan in the quarter. This is the significantly discussed first amortization on the term loan. And then we also made a \$8.7 million repayment of export credit financing debt. This is related to the liquidity sweep provision and a result of the strong liquidity and Q2. We are seeing a sharp reduction of the leverage ratio. And we have lower debt. We have improved earnings. And you will see from the graph that there is a substantial headroom to the maintenance covenant in the loan agreements.

And with the debt reduction and 1.8x leverage, as you will see from the graph, I would say, almost mildly speaking, we are at a level where our refinancing should be very marketable, which leads me into my last slide in this presentation. We are well positioned to refinance ahead of the refinancing need that we have in the third quarter 2023. We have secured a robust liquidity reserve until that such time. We completed capital transactions over the second and third quarter, improving our liquidity position by approximately \$150 million. Most importantly, the equity raise of approximately \$100 million and the commitment for a new senior secured loan of \$50 million. In addition, we have during the quarter converted the remaining convertible bond to shares.

We are generating strong cash flow, \$157.1 million net cash flow before financing activities year-to-date. And most of that now in the third quarter, and we are backward loaded in cash flow for 2022. The most important driver for cash flow is how much revenues we generate. This is obvious for most maybe how much revenues we generate in excess of our cash cost and our CapEx with some time delay due to collection, of course, so it will often primarily benefit the subsequent quarter.

The graph to the left shows exactly this in a way, the excess of our revenue generation over cash cost and CapEx. It is based on -- it shows is by quarter. It's based on the value of -- revenue generation on a percentage of completion basis for MultiClient library. And you will see from this that after a soft first quarter, it has been a significant impact of the improving market moving this to a new and significantly higher level. The second and the third quarter revenues will drive our second half 2022 cash flow. We expect, in a way, to -- the positive development to continue and further deliver strong cash flow into 2023.

Sorry, if that was a bit long, but I will stop there and give the word back to Rune Olav.

Rune Olav Pedersen - PGS ASA - President & CEO

Thank you, Gottfred. I will start with the fleet activity in October. And as you've already heard, most of our fleet is currently moving from the Northern part or the Northern Hemisphere to the Southern Hemisphere, where they will start work. Ramform Tethys, on the other hand, together with PGS Apollo as a source vessel are doing a large 4D and continuing to do a large 4D in Brazil. And she will continue to stay there until at least the end of the year.

Ramform Atlas currently steaming to the Ivory Coast, where she will start on a large MultiClient program. Ramform Vanguard steaming to Angola, where she will start on several large 4D jobs, which will last through next summer. And Ramform Titan is currently steaming to Namibia, where she will start on a significant contract job.

Both Ramform Hyperion and Sanco Swift are currently mobilizing for contract work in Greece. Hyperion will do a few jobs and stay there well into January and maybe even a little bit longer on these [2] jobs. Sanco Swift on the 2D job at least to the end of the year. Ramform Sovereign currently steaming to Indonesia, where she will start on a contract job and she will stay in that region thereafter as well. So a lot of moving parts right now, but all our vessels will soon be back in contract or MultiClient work.

So talking a little bit more about leading indicators and the contract market. Most of you who follow us will recognize this -- these graphs. The dark blue line is the dollar value of the contract leads we have in-house. And the light blue lines is the dark blue line plus the dollar value of the sales leads we have in-house. And this is some of the more important leading indicators we look at. And what you can see from the sales leads is that we are currently building up to a level, which is the highest we've seen since 2015.

And close to some of the peaks in between here, which is very comforting and gives us good visibility into next year. Also, the active tender curve is at a healthy level. And the most active areas are West Africa, Brazil and Mediterranean. You have to combine this with the current backlog and then you will see that, okay, this is fairly strong numbers because obviously, when something is awarded, it moves out of the tender graph and into the backlog or the booking.

I said I would say a little bit more about contract rates. Here, we have tried to compare contract rates from 2021 to 2022, and we're seeing a 35% increase in rates. And this is as apples-to-apples as we've been able to make it. It is a fairly healthy increase in rates and we are seeing that continuing. We expect to be able to show an even further increase as we move into next year. This is supported by the contracts we have already won and where we see the contract market moving given supply and demand.

And obviously, as I mentioned, it is important to remember the supply side because it has contracted quite considerably since 2013, where we had some 60 vessels in the world fleet and many, many players. Now where we have approximately 15 vessels operating in 2022, sometimes more than 15, sometimes less than 15, but an approximate 15 for the year. And that Shearwater and PGS controlling most of the world fleet. That is obviously part of the picture of why we are seeing a rate increase and margin increase in spite activity levels, obviously not being back to '13, '14, '15, and probably not even back to or most -- absolutely not back to '19 yet. So even with a fairly mild increase in activity level, rates are going up quite substantially because of the supply side contraction.

Now to the MultiClient market. As I've said on a few -- on a few quarterlies this year, this time, the uptick in the seismic market has been different from what we have seen in earlier times and earlier in cycles. And the main difference is that this uptick has been driven by contract and not MultiClient. Normally, in an up cycle, we see late sales coming first and then we see pre-funding and the MultiClient market moving, and then contract rates are moving some 9 months -- 6 months to 9 months thereafter. This time, it has been different.

Contract markets has started to increase throughout 2021 and further into 2022, as I have shown, and they continue to increase, while a MultiClient has been lagging. You can see it from the investment levels of PGS and investment levels of our peers and also fairly muted late sales particularly in '21, but they are now starting to pick up. We are now seeing a pickup of the MultiClient market. It is clear both from the late sales side and from the pre-funding side. In 2022, we have been able to secure the work we have been able to secure in the MultiClient space, has strong pre-funding.

And we are at the upper range of the previous guided range of percentage of completion pre-funding, close to 120% pre-funding on the old segment number, although at lower investment levels. We have seen through the year, solid MultiClient late sales. It is obviously boosted by transfer fees, some large transactions, which we have talked about. But it is clear now that we're also seeing a positive trend of the underlying sales. We see a strong opportunity basket for fourth quarter late sales. This is obviously very positive and should deliver a strong fourth quarter for us and for our peers in the industry.

And going into 2023, we are seeing a much stronger interest for new MultiClient programs and for pre-funding new MultiClient programs. So I expect us and the industry to invest more in MultiClient with high pre-funding in 2023 than we did in 2022.

And in summary, the MultiClient market is now finally also picking up and following the contract market. On to New Energy. We have, during 2022, established a very solid position in the Carbon Storage Geoservices market. We have now successfully completed 4 Carbon Capture and Storage acquisition projects in 2022, is the Northern Lights CCS 4D baseline, the Northern Endurance CCS on the U.K. side in the North Sea, and Snohvit

4D, which is a normal 4D over the Snohvit field for production, but also part of the Snohvit setup is taking out CO2 from the gas and storing it back in the subsurface, and our 4D also covers this part of the reservoir. And then Smeaheia CCS as well towards the end of the season.

We have also during the third quarter secured one fairly significant Imaging contract for CCS. And we continue to see interest and new sales from our MultiClient library for CCS purposes. And many of you will have noted the first CCS licensing round on the U.K. Continental Shelf, PGS has data covering 11 of the 13 blocks on offer. When we also find -- see interest in what we believe will be the areas for the following rounds in the U.K., where we also have coverage and also have MultiClient coverage. So we expect to see sales from these areas as well going forward. And we are on track to deliver revenues of \$30 million from our New Energy business in 2022. So a fairly good year for New Energy, a fairly good start on this venture for PGS.

Then to guidance. 2022 guidance, group cash cost still at 5 -- approximately \$500 million for the year. MultiClient cash investments down from \$125 million to \$110 million. Obviously, then correspondingly, active 3D vessel time allocated to contract is then up to 70%, down from 65%, as the MultiClient investment -- the reduction in MultiClient investment is simply a shift from MultiClient to contract in the fourth quarter. CapEx, approximately \$60 million for the year.

So in summary, we are seeing an improving seismic market. We're seeing improving contract rates and vessel utilization. We're seeing an improving MultiClient market with solid late sales performance. And going forward, we expect also more pre-funding and more investments in MultiClient. We're seeing very strong cash flow in the quarter. And as Gottfred alluded to, we expect this to continue going forward because we have a healthy order book and we have good visibility of work going into 2023.

So with that Bard, I will give the word back to you and open up for a Q&A session.

QUESTIONS AND ANSWERS

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Yes. Thank you, Rune. We have a number of questions from the webcast, so we can address those first before we take questions from the audience in Oslo, if there are any. First question comes from Jorgen Lande in Danske Bank. Your comment on significant vessel reallocations in Q4, increasing steaming and so on. Can you provide an kind of indication of the fleet utilization that we can expect in Q4?

Rune Olav Pedersen - PGS ASA - President & CEO

I'm not going to be too specific, but you are right. I mean most of our fleet, not everything, but most of our fleet has been steaming for a large part in October, where we were able to do work through most of September and then started to relocate. So a fairly significant part of October has been used for steaming and then we will be back into operations.

Several of the vessels have started to mobilize and others will start to mobilize very shortly as they arrive to their destinations. And then we expect them to be more or less fully booked through the quarter. There is maybe a week or 2 weeks of idle time waiting for permit in one area, but that is the only thing I'm aware of, call it, unproductive time.

Gottfred Langseth - PGS ASA - CFO & Executive VP

Anyway, we will have quite all right, anyway, this is seasonal. We steam a portion of our fleet this way end Q1 or early Q2, and then typically, early Q4, this happens more or less every year. So we have a sensible utilization in the fourth quarter if you consider this fact and the seasonality for our vessels.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then we have a number of questions from John Olaisen in ABG. Given the apparent strengthening of the contract market, I had expected a bit higher first half -- yes, first half '23 booking. Could you comment a bit on why it's not higher? Then he suggests, is it due to lack of tenders in the market? Is it due to PGS bidding too high and losing contracts, or is it a deliberate decision to wait for higher prices?

Rune Olav Pedersen - PGS ASA - President & CEO

I think it is -- well, we are bidding high, but I think it is more a reflection of when these contracts are awarded and the fact that currently, there are several contracts where we have submitted bids and also contracts where we are more in direct negotiations, which are ongoing and not decided and therefore, not in the bookings. It does not reflect a worry on the part of us standing here. We feel rather confident about the season, but obviously hope to be able to announce some contracts over the next weeks so that we also build up the first quarter.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then he have follow-ups with, you have previously mentioned that if the market is strong, you would consider bringing back a 7th vessel for the summer season 2023. What is your view now?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes, it's -- it is the same as we have communicated before. We will do that if the market supports it. But underlining that, higher pricing is more important for PGS than more vessels in the market. So it's a decision we have not yet taken. It may still be we will introduce a 7th vessel to the market come next summer season. But that depends on the development of the market over the next weeks and months. Because we'll need to feel very confident that we have a strong booking and that prices to remain even if we bring on a 7th vessel.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then Olaisen has a question on pricing. You indicated that contract prices are up 35% year-over-year in 2022. How does it look for 2023?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. I can say that I'm not going to give a percentage, but it is at least meaningfully up for what we have in the backlog, I can say.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then his last question is, your term loan seems to be trading at a significant discount to par. If I have understood it correctly, your cash sweep forces you to buy back the term loan at par. Is that correct, or are you buying back the term loan in the market, an example at discounts?

Gottfred Langseth - PGS ASA - CFO & Executive VP

We are not buying back term loan. We are paying amortization to the lenders. So it is correct. So the amortization payments would be at, in a way, par and not at a discount, and it's absolutely correct.

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. It's obviously you comment a little bit on the trading. I mean, it is if you could call it trading at a discount, it is very, very few transactions and very low liquidity. And if you want to sell your position for any reason in the current market, when you calculate yield and things like that with such a short maturity time, this becomes, yes, not very meaningful to take a look at because there are very little liquidity and very short time left obviously.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then we have a couple of questions from Kevin Roger in Kepler Cheuvreux. Would you be able to provide the MultiClient late sales evolution year-over-year without the transfer fees?

Rune Olav Pedersen - PGS ASA - President & CEO

I'm afraid the answer is no. I'm, of course, able to, but no, I don't want to do that. I think it is fair to say that in every year, we and all our peers will have a not insignificant amount of transfer fees in the MultiClient late sales. That is -- that happens every year. There are quite a bit of M&A activity worldwide in this very large sector every year. This year, it has been a few very large ones. And therefore, we have highlighted it because it led to not normal levels of transfer fees.

But we -- and we communicated that it was very high in the second quarter and gave some indications of levels. So you could probably could take that out, then you're at least closer to more of a normal run rate type year, I would say. So yes, it has been a lot of focus on transfer fees this year and less so in previous years. But I just have to repeat, we always have them. It's part of our revenue stream in the MultiClient late sales.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then Kevin Roger has another question. What are -- which we also had, to some degree, addressed, but for the sake of good order, what are the current opportunities to increase the number of vessel months booked for Q3 '20 -- Q1 '23?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. No, we are in discussions on several jobs. We are also, let's say, a part of tender processes, some tender processes where we believe we are well positioned and others where we believe we are less well positioned. But when we look at our, call it, forward -- our forward vessel schedule, you can say, okay, you won something as 100%, it's in the booking than it's what, 80%, 90%, and then obviously, you have something at 60%, 70%, 50% and then something you more or less lost, which is at 10%, 20%, 30%.

There are healthy opportunities in the high percentage categories for all the slots that we have available in Q1 and actually quite a few even for Q2. So it -- that is developing as normal and currently looking quite good. So we obviously hope to be able to announce some contracts going forward. Mind -- being mindful that when we announced the contract, we probably know we have won it several weeks before, and that there is a material lag there because it has to be a signed contract. We want to announce this is always a signed contract, needs to be approved by the client and things like that. So there is a time delay in the announcement of contracts.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

And we have a couple of questions from Kim Uggedal in SEB. You talk about day rates being up as much as 35% compared to 2021. But when we look at your backlog, the value of the backlog, which is almost flat from 1 year ago, and now includes -- now it includes 41 vessel months compared to 26 vessel months a year ago. This would imply your effective day rate in backlog to be sharply down. Can you please explain?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes, of course. I'm afraid that's not a meaningful calculation at all, it -- and it's based on the misunderstanding of what the backlog is and what the booking is to put it that way. The vessel bookings will be both contract, which is what we're talking about here and MultiClient. That's kind of the first element of it.

And it -- as we have said on the bookings slide, it also includes quite a few months on MultiClient projects, where we have not included the pre-funding into the backlog. So with several months in the booking, which doesn't have a corresponding party in the backlog. That's kind of #1. That -- and that is the obvious reason why that would never work to calculate the way you're doing.

And then secondly, obviously, they're not at the same time. That has a less impact this time, but also there is also actually a little bit of impact of that because we have -- there -- have contract jobs into the backlog after quarter end, which would be in the booking. But as I said, that's a much, much smaller effect than the obvious fact that what I'm talking about MultiClient rates, it makes no sense to take the backlog and look at the booking.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Kim Uggedal has another question related to CapEx. How should we think about 2023 CapEx? Is there any meaningful uptick in CapEx related to steamer replacement or is the 2022 level a sustainable level for the next years?

Gottfred Langseth - PGS ASA - CFO & Executive VP

It is a bit early to start talking about CapEx in the coming years. We will, at some stage, step up our steamer replacement CapEx, the magnitude of that for next year is yet undecided. Or do you want -- we don't want to say more about CapEx for next year? Slightly higher.

Rune Olav Pedersen - PGS ASA - President & CEO

It will be higher.

Gottfred Langseth - PGS ASA - CFO & Executive VP

Yes.

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. It will be higher than this year, mainly because of more steamer investments. Yes.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then we have a question from an investor. Debt maturities next year amount to approximately \$350 million to \$400 million. Can you please talk about your capital allocation strategy, MultiClient investments, debt repayments and the required cash flow to organically delever while at the same time, keeping MultiClient investments at a guided level?

Rune Olav Pedersen - PGS ASA - President & CEO

We haven't guided on MultiClient for '23 yet, but...

Gottfred Langseth - PGS ASA - CFO & Executive VP

Yes. This is, in a way, I'll try to address it. We focus on cash flow generation. I understand the question of capital allocation, but there is a difference between allocating capital to CapEx versus investing in MultiClient project or doing MultiClient projects. The MultiClient projects we do is some element of capital allocations or intrinsically, but it is a revenue-generating activity. And we do that, in a way, when we do surveys on aggregate, we have quite high pre-funding, and so it delivers cash flow while executing.

In the current market, normally, we -- there's more cash flow sort of instantly when you do contract on MultiClient, but the difference is it's not that vast. So we seek to pursue MultiClient with a portion of our fleet capacity. It will probably be less than half next year to put it that way, but probably not as little as Rune pointed to, in a way, the [30%] allocation to MultiClient, but you're likely to see something higher than that next year because there is an increase of available projects with strong pre-funding and sufficiently strong cash flow for us to want to pursue it.

So that choice is not so much spending money on MultiClient rather than spending it on repaying debt and so on. We seek to optimize our cash flow, be prudent on cash cost and CapEx and then ensure that we have a strong cash flow generation and liquidity reserve. We will not, unless we are positively surprised, generate enough cash flow to repay all of the maturities in 2023 from the cash that we generate. So that's the reason we say that we need to refinance a portion of this before Q3 next year. Was that a bit long, confusing?

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

That was fine. Thank you, Gottfred. Then we have a follow-up question from Jorgen Lande in Danske Bank. And you kind of addressed that already, Gottfred, but really not a follow-up on pricing for 2023 and regarding vessel allocation. If contract rates are up 35% in 2022 and expect it to be higher in 2023, why do you allocate more vessel capacity to MultiClient, which has a longer revenue collection period?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. I mean this is -- it's right. As Gottfred said, a contract job in 2023 will generate more revenues instantly than a MultiClient job, although we are, as I mentioned, probably in the upper level close to 120% pre-funding -- cash pre-funding level. It is still not at the level of cash generation for a contract at the rates we are now seeing clearly. We have to run this business where we continue to invest in our MultiClient library. So that also in '24 and '25 and '26, we continue to have strong late sales.

And we have to balance that up against the cash flow generation next year, clearly, as you indicate here. So it's -- this is a short-term versus long-term game we have to play. But it is important to continue to invest also in MultiClient, which over time has a good return for us.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then we have a question on working capital from Christopher Mollerlokken in SB1 Markets. How do you expect working capital to develop in Q4?

Gottfred Langseth - PGS ASA - CFO & Executive VP

That's a favorite topic, as we all know. I obviously expect it to increase since we expect revenues to increase in Q4 compared to Q3, and this is just the nature of the business. And higher revenues is good news regardless of whether we collect some of that early January rather than during the fourth quarter.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then we have a question from a private investor. How is the late -- MultiClient late sales development so far in Q4?

Rune Olav Pedersen - PGS ASA - President & CEO

So far in Q4, there isn't much development to put it that way. Most of you who follow us closely at least will know that in the fourth quarter, I would estimate we do 90% of the MultiClient sales in the last month of the quarter, something along those lines. That is the typical, because the first one is spent to reposition the sales leads, start to initiate discussions with our clients, we get the early indications of areas of interest, et cetera, et cetera, we're going to build up the sales leads and start getting into the contracts.

And then obviously, the next month spent on sharpening the offer on whether to include more data, less data, et cetera, et cetera, new leads may come in, and then most of them are closed towards the end of the quarter in the last month. This is the typical development of late sales in the fourth quarter and in most other quarters as well, unfortunately. This is the way it is. Right now, we are building up the sales leads market that looks strong. So it looks promising, I can say, but at the same time, we haven't sold much. That's clear.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then we have a question from an investor. Is the 35% fee increase in contract rates, net or gross of fuel cost pass-through?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. The rate increase is the rate increase. So it's not immediately transferred to a margin increase. There is also a margin increase, I can tell you. So this is more of a proxy because we don't give detailed information about margins. But yes, there is probably an element of cost increase in there as well. Gottfred, what do you say?

Gottfred Langseth - PGS ASA - CFO & Executive VP

Clearly, there is a strong margin increase if you compare '21 to '22 as well.

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. Yes.

Gottfred Langseth - PGS ASA - CFO & Executive VP

But it is not as much as, in a way...

Rune Olav Pedersen - PGS ASA - President & CEO

35%.

Gottfred Langseth - PGS ASA - CFO & Executive VP

35% with -- if it's all just went directly through to add to the EBIT.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

We have a longer-term perspective question. Beyond 2023 and 2024, how do you see the marine seismic market developing?

Rune Olav Pedersen - PGS ASA - President & CEO

Yes. We -- our view of, call it, a global macro picture and therefore, the seismic market is that we will see a fairly long uptick or kind of slight uptick of activity level in the E&P industry. We believe there have been many, many years of underinvestment and therefore, the world needs to catch up. The energy security situation in Europe and other places of the world is not going to change in much when you get into '25, '26.

We need to bring on new fields and new oil and gas. The renewable side of things will grow in that period clearly, but not enough to replace to a large extent in this time frame, the oil and gas. At the same time, we believe that one of the strongest growth areas for the renewables will be CCS because we are so dependent on oil and gas, and we will continue to be so dependent on oil and gas that CCS is absolutely needed to take out CO2 for us to be able to manage this energy transition. So all of this together makes us quite optimistic about the medium to long-term of the marine seismic industry. And how it moves in up and down there, but I feel rather confident of '23, '24, '25, '26, those kind of near to medium term.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

Then he has another question related to leverage ratio. Do you have a targeted leverage ratio for 2023?

Gottfred Langseth - PGS ASA - CFO & Executive VP

No, we don't have a targeted leverage ratio for 2023. We have reduced sharply as we said in the presentation this year from 2.8x at the start of the year to 1.8x at the end Q3, which is very positive. Our aim longer-term as we have communicated for a while is to, in a way, reduce our net interest-bearing debt to a level, which is not more than \$500 million to \$600 million.

And I think that is the most precise I can say about where we're moving. I'm not saying that we will be able to necessarily be there out of [operating] our own cash flow by end -- next end '23, and that is also not our target, but we want to prioritize that going forward.

Bard Stenberg - PGS ASA - VP of IR & Corporate Communication

That brings us to the end of the questions from the people on the webcast. Are there any questions from the audience in Oslo? If not, we are at the end of the presentation. So thank you all for connecting to the webcast and coming to our offices in Oslo. And have a nice day.

Rune Olav Pedersen - PGS ASA - President & CEO

Thank you.

Gottfred Langseth - PGS ASA - CFO & Executive VP

Thank you.

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