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PGS.OL - Q3 2023 PGS ASA Earnings Call

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PRESENTATION

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

Good day, and welcome to PGS Q3 results presentation. My name is Bard Stenberg, Vice President, Investor Relations and Corporate Communications in PGS. Before we start, I would like to give some practical information. For those of you on the webcast, you're invited to ask questions during the presentation, which we will address after management's 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. The agenda for today is that Rune Olav will give you the Q3 highlights, a financial summary and the order book. Then Gottfred Langseth, CFO, will give you a financial review. And then Rune Olav will be back to give you an operational update, market comments, synergies of the merger, then a summary and Q&A. So with that, I'll give it up to you, Rune Olav.

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

Thank you, Bard. Good morning, everyone. And as normal, I will start with the quarterly highlights, this obviously on the Q3 2024 highlights. The quarter was characterized by a mixed multi-client performance with very strong prefunding revenues, both in total revenues and in prefunding percentages, driven up obviously by also sales in -- from our data, which is in the processing phase, so what we could call late prefunding. However, late sales were below our expectations and the market expectations. So mixed performance on the multi-client side.

The order book increased substantially, 28% sequential increase in the quarter, and we are now reporting the highest quarterly order book since Q3 2014. So we are seeing a strong increase in our order book, which is an evidence of the recovering market we are experiencing. Rates are holding up during the winter season, and we do not, as I said, expect any dip in the rates over this winter season.

In Q3, we also successfully entered the offshore wind market. We completed our first survey in the Irish Sea, and we were awarded a large contract in the New York Bite, which we have now mobilized them and we are acquiring as we speak. Obviously, the combination of PGS and TGS creating a premier energy company is an important event in the quarter, and we are today updating the synergy potential of this transaction.

I will be brief on the financial summaries. I will point out that obviously, the revenues, the produced revenues, the produced EBITDA and the produced EBIT is higher, approximately $17 million higher than what we preannounced earlier in this month because of the positive arbitration award we received approximately a week ago. And Gottfred will come back to that in more detail in his review.

Order book, as I said, the order book now stands at $437 million, which is the highest since the Q3 2014 order book. And our book position, we have now booked 19 vessel months in Q4 '23, 13 vessel months in Q1 and '24 and 13 vessel months in Q2 '24.

We have finded difficulty of optimizing the vessel schedule moving from the north to the southern regions. One example is all our vessels are now steaming in the fourth quarter, no steaming was in the third quarter. And we also had to cut short the North Sea season because of a storm coming in, affecting 2 of our vessels moving south. So this is what we normally experience every year, the challenge of getting jobs to start immediately after the North Sea season has stopped when we move into the South, and we are experiencing that also this year.

And with that, I will give the word to Gottfred to go through the financials.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Thank you. I will then start on key financial figures. We had revenues of $184.8 million in the quarter. That is a 14% reduction from Q3 last year. That is mainly -- or it is due to lower late sales. The vessel revenues were approximately flat with higher prefunding, significant higher prefunding revenues and significantly lower contract revenues as a result of a significant change in mix.

The EBITDA of $125.7 million, that is a bit up from last year, and we had a positive EBIT of $20.5 million.

On the operational highlights, we had the contract revenues of $36.1 million. We used only 17% of the active time for contract in the quarter. That corresponds to approximately 1 vessel out of a total of 7. So that is the driver for the revenue reduction. In addition, the realized rate in the quarter was on the low side since part of the work was on reframe work agreement from 2021.

The MultiClient revenues totaling $142.2 million, prefunding revenues, $101 million is quite high and reflect strong client commitment to ongoing acquisition projects as well as significant sales from surveys in the processing phase. All in all, that brought us to 144% prefunding rate on the capitalized investments of $70 million.

We move to utilization, we had high utilization in the third quarter, 87% active time following high utilization in a third, lower utilization for the coming fourth quarter, we will have a quite high yard activity as a result of 2 classing events, one 7.5-year classing and one 10-year classing as well as yard stay for source upgrade ahead of upcoming contract surveys. Steaming will increase, which is usual for the fourth quarter since we get most of the regional vessel movements early fourth quarter every year.

And lastly, we will have some standby as a result of a rather abrupt stop to the Europe season and some large contract projects starting late in the fourth quarter. The active time will be allocated approximately equally between contract and MultiClient in the fourth quarter.

Then to gross cash cost, $130 million in the third quarter, that is moderately up from the second -- but it is down from third quarter last year. We are operating more vessel capacity now in the third quarter than what we did in the second. We have adjusted down our -- or reduced our estimate for full year cash costs. So our guidance for the full year is now to be below $550 million versus earlier around $550 million. Very quickly on the balance sheet. We had cash and cash equivalents of $156 million in -- at the end of Q3 and net interest-bearing debt of $571 million. On the cash flows, a major comment there is that Q3 operating cash flow of $117.6 million is okay. It reflects continued strong collection, operating cash flow pretty close to the EBITDA for the quarter. Comparing to last year third quarter, it is quite a bit down because last year was higher than third quarter last year had a pretty big sort of working capital catch-up following from a weaker working capital development in the second quarter.

I will leave with that when it comes to the cash flow. Most of you, if not all, are aware that we have a dispute over a transfer fee event back in 2022. And to just take the status, which up to before today, we recognized $30 million or did over $30 million of revenues in 2022 relating to this event.

That amount obviously has -- was not collected in 2022 and was not collected end Q3 either since they were disputed. We initiated quite a while back 2 separate arbitration processes. And the 2 processes cover various subsets of the relevant licensing agreements. The first one of these arbitrations were now ruled less than a week back, and we sent out a separate release on that. So we expect from the ruling, and we haven't got the full recent ruling yet, that will come in due course. We expect to receive a net of approximately $43 million for the first event. And this covers out of what we recognized last year, $18 million approximately out of the $30 million that we have as an accrued revenue in the balance sheet. They really covered $18 million of that. So the difference between the $43 million, we now expect an $18 million already recognized previously, $24 million, $25 million have now been recognized in the Q3 $16.8 million of that as additional late sales revenues and $7.6 million as interest income relating to late payment interest. So that was a bit too long, I apologize, but as the way the numbers tie together.

Then obviously, there's the second arbitration process, and it is scheduled to be concluded during the second half next year. We believe it is quite likely that it will be settled quite a bit earlier than that.

And then the last slide in my part of this presentation, provide this one to give an overview or reconcile what we have done on the debt side during 2023 so far since there's been a fairly active year. So in a way, it's a bit of a reconciliation table showing all our loans, starting the year with $1.051 billion of total loans or debt and Q3, this is reduced to $789 million. And the main events behind this is primarily in Q1, where we issued $450 million of 4-year bonds. We used the proceeds from that together with cash available to repay $600 million of our old term loan and also repay $83million of what we call deferred amounts relating to the Japanese export credit financing, which was the remaining piece left from the debt rescheduling we achieved during or the COVID crisis.

So now in the third quarter, we have borrowed $75 million on a new term loan, which is due in 2026. And we used most of those proceeds or the net proceeds to repay another $68 million on the term loan that matures now in March next year. So that is now reduced to $69 million.

On top of this, we are every quarter, repaying approximately $12 million on our Japanese export credit financing, so approximately $36 million year-to-date.

I will stop there and then give the word back to Rune Olav. Thank you.

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

Thank you, Gottfred. I will then move to the fleet activity. You will see the Sanco Swift in the New York Bite doing site characterization work for offshore wind, and she will be there for quite a while way into the second quarter next year.

Further south, you see Ramform Victory steaming to Brazil. Ramform Victory will take over and complete the MultiClient survey currently performed by Ramform Tethys and then move over to the large 4D contract for Petrobras. So Ramform Victory will remain in Brazil for the foreseeable future.

Ramform Tethys currently demobilizing and will go to yard, which is part of one of the yard stays that Gottfred referred to and then go to work in Africa. Ramform Atlas and Ramform Vanguard currently steaming to different jobs in West Africa. Ramform Titan, currently doing a shakedown in Egypt in front of the start of a job there and Ramform Hyperion operating in Egypt as well. Ramform Sovereign currently operating in Malaysia.

You should be familiar with this graph by now, but I will repeat it. The dark blue line is the dollar value of the in-house tenders in PGS currently on the contract side. And then the light blue line is the dark blue line plus the risk-weighted average of all the leads we have recognized. And the sales leads are still at very high levels, although it has dropped a little bit. And you see also that the tender line is a reasonably high level. Also that has tapered off a little bit towards the end, which is due to the fact that the order book has increased because when we are awarded the contract, it obviously goes out of the tender, the dark blue line into the order book, and this is how this plays. So this is just a natural variation when you see such an increase in order book. So it's positive to see that sales leads are still high and that contract tenders continue to come in.

On the supply side, we repeat this. You may have seen this many times before, but we estimate there are currently approximately 17 3D vessels operating worldwide versus the approximately 60 we saw in 2013 and still materially lower than what we saw in 2019. So still a fairly tight supply side. Obviously, the majority is controlled by Shearwater and PGS.

I mentioned that we had successfully entered the offshore wind site characterization market and that we had done that by completing our first offshore site -- wind site characterization project for partners, BP and NBV in the Irish Sea. From there, we moved on to the next contract, which we were awarded during the quarter in the New York Bite, and we have mobilized and we are now acquiring on that job, and we'll continue to do so for many months and into the second quarter next year.

Our solution is a 3D solution versus the 2D solutions that are available generally in the market. And what we are trying to do and which is catching considerable interest from clients is that we're running to narrow the time for site characterization considerably so that developers of offshore wind farms can move from project planning to project execution much quicker. That is the value proposition of what we offer when we offer a better picture during 3D versus 2D of the first 100 meters of the sea floor.

And we have ordered a second ultra-high resolution 3D streamer set for delivery in 2024 because we see such high demand for our services in this area. And it is exciting to move into a new area with technology and competencies that PGS has.

And on to the merger. The strategic rationale for combining the 2 companies, obviously still holds. We will create a complete and fully integrated service provider with best-in-class technologies from A to C. There is strong geographical fit with complementary MultiClient libraries, in-house acquisition capacity for both streamers and OBN, the vessel capacity for the combined company can now be delivered fully from the fleet that we bring to this acquisition. We have similar cultures and values. And obviously, scale allows for better utilization of the fleet and of both our technologies. And there are significant synergies, which I will move to now.

We have updated the synergy potential for this transaction to be preliminary estimate of now approximately $100 million, excluding potential tax synergies or as you can see from the picture between $90 million and $110 million. Operating costs updated from more than $50 million to $60 million, $70 million fleet utilization, improved fleet utilization, approximately $15 million to $20 million per year and that cost approximately $15 million to $20 million per year. In addition to this, as I said, you will have tax synergies from the tax loss carryforward that we have that the new company should be able to realize sooner than we are able to do alone.

So there is significant value creation from this transaction.

On the guidance, we are now guiding our group cash cost down versus what we have done before. The previous guidance were approximately $550 million. We are now guiding below $550 million of group cash cost for 2023. MultiClient cash investments, we are guiding it up. So we're guiding approximately $190 million of MultiClient cash investments versus the approximately $180 million that we were guiding on previously.

Active 3D vessel now allocated to a contract now guiding at approximately 45%. And CapEx, we are guiding that down as well. So it is now guided at below $100 million versus the approximate $100 million previously. So we are guiding down on our cost and CapEx for the full year.

So with that, in summary, we have mixed multi-client performance, very strong prefunding performance, somewhat weaker late sales performance in the quarter. We have a significant order book increase, which underpins the stronger market that we are seeing. We have entered successfully the offshore wind characterization market, and we continue to see strong demand for our services in that segment. And PGS and TGS are creating the premier energy data company. And with that, I think I will give the word back to Bard for Q&A. Thank you.

QUESTIONS AND ANSWERS

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

Thank you, Rune. We should come up as well Gottfred. We have some questions from people on the webcast. So First question is from a private investor related to our new energy business. And in terms of that we said that we are -- have procured an additional HD 3D streamer set. Is it -- do you consider to reactivate the Ramform Explorer?

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

That is one of the considerations. It is possible that we will reactivate the Ramform Explorer to have 2 operations in sometime in 2024. But we haven't finally decided how we will bring into market the second set, but that is one possibility.

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

Then I answer questions from John Olaisen in ABG. You decided to bring in a seventh vessel in July. Now a few months later, it turns out that you will have 50%, 60% vessel utilization in Q4. How is it possible to make such a misjudgment?

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Well, first of all, I don't agree that it was a misjudgment. The seventh vessel was brought into the market because we had been awarded a contract by Petrobras, which was of such a length that we needed an additional vessel to be able to satisfy the timing requirements of Petrobras. Otherwise, we could not have taken on that job. So that is the reason we brought in the seventh vessel. I think we already communicated at that time, we would later see whether we would keep that seventh vessel in the market or not depending on what we saw of demand when that job was done. Now that job has been postponed, not up to us and not up to PGS. It's Petrobras that hasn't been able to acquire their permit. And therefore, that has left us with 7 vessels having been able to -- or which we have to sell in the market in the meantime. So I don't think I agree with the starting point of the question. However, obviously, we would have liked to see a tighter connection between leaving the North Sea and then starting work in the Southern Hemisphere, which is that yard and steaming is what is causing the utilization effects in Q4.

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

His next question. You're right that you believe the increasing exploration focus will positively impact MultiClient sales going forward. Do you think we will see that already from Q4? And could you also elaborate a bit on the late sales potential for Q4 in terms of geographical regions and client behaviors?

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Yes. Obviously, we expect the increased exploration activity and what we're hearing from our clients to impact also late sales. It has impacted contract rates and contract performance. It has clearly impacted prefunding already. And as such, we expect it also to impact late sales. I can't comment too much on Q4 potential late sales other than to say we have a good leads basket at this stage, which is, in a way, what we can say at this stage. So we will see how that plays out in the fourth quarter. But there are obviously several areas of interest for -- which is relevant for us and we are seeing increased interest in Brazil.

There is a licensing round in Uruguay. We have data there. There is an APA round coming up in Norway. So we expect the North Sea to be or Europe to be fairly good. We have acquired quite a bit of data in Egypt, which is an area of interest now, and we are also acquiring a lot of data in Malaysia these days, which we are seeing interest for. And then at whether some of these areas will be particularly strong or not in the fourth quarter. It's always a bit difficult to judge when you're talking on an individual quarter, which areas, which will be strong, but there are several interesting movements around the globe, which should, at least over time, realize more late sales.

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

Let me ask another question. Do you expect to see a significant transfer fees from the Pioneer and Hess acquisition?

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

There will, of course, be some transfer fee from the Hess transaction for us. Pioneer, not so much, if anything at all. I mean they are, as far as I understand, mainly onshore where we don't have data, but obviously Hess transaction, there will be some transfer fees when that closes.

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

Very good. Then we have a question from Steffen Evjen in DNB Markets. Could you provide some color on the implications of expected cash flow generation in Q4 following the low Q3 late sales and lower utilization in Q4. That's -- you got rather.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Yes, where the cash flow in Q4 will be driven by the Q3 revenues. We ended at $184 million. So we expect working capital management and collection to be -- continue to be at a good level. So that will drive the ongoing cash flow in a way. So it will be -- not be sort of great because that's driven by the Q3 revenues. We are hopeful to generate more, obviously, revenues in Q4, which will benefit the first quarter and next year when it comes to the arbitration decision, there is a possibility that is the amount due to PGS will be collected in the fourth quarter. But there's also a chance that it may be not -- we may not collect it until early first quarter. So it's probably sitting at balancing pretty close to year-end.

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

Very good. Then we have another question from a private investor. Is PGS taking a very risk regarding downtime due to weather conditions or is it somewhat split between PGS and the clients.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

When it comes to weather conditions, it depends on whether we are operating in a MultiClient mode or in a contract mode. So normally, in MultiClient, we obviously will have the risk since we are shooting for our own library. When it comes to contract, the norm is that the client takes the risk for weather. So in contract, we will have the risk of not being able to start up. But once we're in contract, the client has the weather risk. That is the norm.

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

And we have a question from Christopher Mollerlokken in Sparebank 1 Markets. Has Petrobras received the permit necessary to acquire the planned contract survey offshore Brazil? Or is that still yet to be concluded.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

As far as I understand, that is still yet to be concluded. We obviously are steaming to Brazil. But as I said, we will start doing multi-- we have remaining parts of the brief on the MultiClient in Brazil. So we'll do that first. And the information we're hearing from Petrobras is that they will receive their permit way ahead of when we plan to start.

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

Very good. And we have a follow-up question from John Olaisen in ABG Sundal Collier. Given your Q3 late sales and your utilization in Q4, are you still comfortable that you will be able to refinance the term loan B installment in Q1 next year?

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Yes, on our estimates, we are very comfortable with being able to not refinance but repay the $69 million that is left in March.

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

Very good. At the moment, we don't have any further questions from the people on the webcast. I could also give the audience in Oslo an opportunity to answer a question if there is any questions from the audience in Oslo? If not, we will pause for a few seconds to allow people to type in any last questions on the web. It doesn't seem to be any further questions from the people on the web.

So that we thank all of you for logging into the webcast and also for coming to our office and also to attend the Q3 presentation. So thank you all, and have a nice day.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Thank you.