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PGS.OL - Q4 2023 PGS ASA Earnings Call

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CORPORATE PARTICIPANTS

Bård Stenberg *PSG ASA - VP of IR & Corporate Communication*

Rune Pedersen *PGS ASA - President & CEO*

Gottfred Langseth *PGS ASA - CFO & Executive VP*

PRESENTATION

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Good day, and welcome to this presentation of PGS Q4 2023 year results. My name is Bård 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 can ask questions by typing in on the webcast platform, and we will address the questions after management's concluding remarks. I would also like to draw your attention to the cautionary statement showing on the screen and available in the Q4 earnings release and presentation.

The agenda for the presentation is Rune Pederson, President and CEO, will give you the Q4 highlights, our financial summary and the order book. Then Gottfred Langseth, EVP and CFO, will give you a financial review and Rune Perderson will come back to give you an operational update, market comments a bit on the merger process, a summary and then we will do the Q&A.

So, with that, I will hand you over to you, Rune.

Rune Pedersen - *PGS ASA - President & CEO*

Thank you, Bard, and good morning. I will as normal start with the Q4 2023 highlights and start with our MultiClient sales. We had decent MultiClient sales in the quarter. Our late sales more than doubled or approximately doubled versus the average of the first three quarters, which was good to see. Compared to our peers, it was a strong license number of $82 million in the quarter. We had strong prefunding level in Q4 and also for the full year of 2023.

On the contract side, we are experiencing a more mixed winter season market. Profitability is keeping up on the projects we have sold, both in the fourth quarter as you saw and also further to the winter season. But we are seeing lower acquisition activity in the winter season. Over the winter season than what we had expected some quarters back.

And we anticipate that this will revert and that we will see a more robust summer season this year. We have during 2023 established a significant new energy business. And the highlights for 2023 was obviously that we entered the offshore wind market, and we have now Sanco Swift operating with a 3D spread in the offshore wind market.

And we are with our solution positioned for further growth in this segment in 2024, which I will come back to. Obviously, combination with TGS is a highlight in Q4 and our shareholders of both TGS and PGS voted in favor with almost unanimously on the 1st of December. And the process is currently ongoing planning for an integration process and also ongoing versus the competition authorities in Norway and UK, which I will always also come back to later.

I will be brief on the financial summaries only mentioned the highlights, as Gotfard will come back and review the numbers in more detail. In the fourth quarter, last year, we had produced revenues of $227 million. We have produced EBITDA of $127 million and produced EBIT of $33. Our net cash provided by operating activities set at $116 million. So, over to the order book. The order book at year end sat at $366 million, which is sequentially down from the very strong order book we had in the third quarter 2023, which you will remember was the strongest order book we have had for, I think it was in the 8 years.

So, the order book year end is still at high levels, more in line with the order book in Q1 and Q2 of last year. We and I expect the order book to remain at these high levels through the year. The book position is as of yesterday, so not at the same time as the order book. And we have moved 20 vessel months in the first quarter and we have moved 17 vessel months in the second quarter and 15 vessel months in the third quarter.

Now it is important to note that we are not reporting our book positions on 8 vessels. So, the 7 vessels we have in 3D mode in the traditional oil and gas market and also Sanco Swift is which is operating in 3D mode in the wind market offshore wind market. So, we are reporting the book position for all these 3D vessels. On Ramform Victory, there has been a quite a bit of a discussion and worry on when the Ramform Victory will be able to start the large for the contract for Petrobras in Brazil.

As you will remember, this should have started more or less midyear, last year, but Petrobras have had issues with their permit. We are informed that most of those permit issues are now resolved and there only formalities left, and we are together with Petrobras starting, planning for a start of Ramform Victory on this 4D contract early April, which is immediately after Ramform Victory is finished with the current MultiClient work she is doing in Brazil. So, good news there on Ramform Victory.

With that, I will leave the word to Gottfred to go through the financials and then I will be back for more information later.

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

Thank you. I will start with clearing my throat and then moving to the key financial numbers. So, the revenues up to $27.3 were in line with what we had preannounced there 9% down from Q4 last year. Adjusted EBITDA, $126.7. That is as well, a reduction of 9% and compared to Q4 '22. Produced EBIT $33.3 million. IFRS. or S reported revenues were higher this quarter than the produced number. The primary reason for that is that we completed and delivered the timely process data on our 2022 Norwegian Sea campaigns.

Full operational highlights. We had contract revenues of $83.8 million. We used 45% of our active time for contract acquisition in the quarter. On the project level, the pricing profitability was maintained as level with the summer season, and we reported quite high revenues per active contract day in the quarter.

If we move to MultiClient, the total produced revenues were $137.6 million, $82 million late-stage $56 million, prefunding. Pre-funding level or prefunding rate of 148%, which is a high level and driven by strong prefunded on our ongoing acquisition projects, as well as some additional stages on service in the processing phase.

56% utilization or active vessel time in the fourth quarter impacted by a significant steaming and yard time In addition, the Europe season ended earlier than planned due to weather. We do expect higher utilization in the first quarter in 2024 now and believe that we should get to around 70% area.

On the cost, we have a sequential increase of gross cash cost, $146 million in the fourth quarter. We have an overweight of operations in high-cost regions in the quarter, and we are also using more than normal of source vessels on the operation. So, using in the fourth quarter sources also two project. Looking forward, we expect that the cost level in 2024 will be relatively consistent with the run rate that we report now for Q4'23.

And this is primarily due to increased production with our vessels and increased utilization. And related to that Ramform Victory will fund operate for a full year in Brazil versus on the second half of '23, and an increase of our onshore sorry, offshore wind activities. It is obviously also impacted by inflationary cost increases, but these are quite moderate.

Then the cash flow. We had the cash flow from operations of $115.8 in the quarter, $467.2 for the full year, both reflect strong cash collection. We managed to avoid almost at least an increase of working capital in the fourth quarter is a very moderate increase. And for the full year, we achieved a quite significant reduction of working capital.

Looking at net cash flow after investing activities or before financing activities, $50.7 million in the fourth quarter and $182 million for the full year. That is after CapEx, I said which ended lower than our plan for the year at $89 million. For 2024, we expect CapEx of approximately $125 million, and that includes some carryover from last year, as well as expansion of our offshore wind activities.

I will be very quick on the balance sheet in a way, just noting that our liquidity reserve or cash and cash equivalents amounted to $177.7 million end of year. Then the last slide that, I will comment on today. We have reduced our interest bearing debt significantly in 2023. Gross interest-bearing debt is down by $273 million and net interest bearing debt is down by $75 million, leaving a net interest bearing debt at the end of the year over $542 million, and we are satisfied with that.

After the balance sheet date. Three things to mention. We have now firstly, we have now in February. Repaid the remaining amount over the term loan B, which otherwise was due in 19th of March. Secondly, relating to the super-senior loan instead of using the extension option for that loan, which mature state into March, we decided to refinance it and we received commitments from CGS for such refinancing. I should note that the commitment is at terms, which are consistent with terms of the rights available to PGS from other sources.

And then lastly, the amounts due to PGS from the the arbitration award last [four] regarding a transfer fee dispute has now been received in Q1. With that, I give the podium back.

Rune Pedersen - *PGS ASA - President & CEO*

Thank you, Gottfred. And I will as normal again, start with the fleet activity. In February and start in the North West, if I can call that the Sanco Swift operating the 3D spread for offshore wind outside in the New York [Bight] area and we expect that it will be there through the second quarter before then moving over to the Europe season and continuing work there, which we have just announced.

Then further South, you see the Ramform Victory in Brazil currently doing MultiClient as I said and then as you will move over to the very large for the in Brazil, which will take up to the end of the year, at least. Then moving East, you have the Ramform Atlas in South Africa on a contract job. Further North, you will see, Ramform Tethys and Ramform Vanguard in Las Palmas.

Ramform Vanguard finished off their job in January and are waiting for a yard stay, which will start in a few weeks, I think in early March. And that is for a [clausing] and so she will be there and ready for working when that is done. Ramform Tethys is currently in Las Palmas waiting for the next assignment and we are working with a few alternatives for her.

In the Mediterranean, you will see Ramform Titan and Ramform Hyperion both operating in Egypt one on MultiClient work and the other on contract work. Then for in the Far East, Ramform Sovereign is currently on a pit stop in Singapore, following completion of job she had in Malaysia, and she will go back to Malaysia for a fairly launch job thereafter is the plan.

On the contract bids and leads and you have seen this before, but I will still explain the dark blue line is the dollar value of the tenders we currently have in house. And the light blue line on top is the dark blue line plus the risk weighted average of the leads we are recorded in PGS in the contract market only. And as you can see, which is a predominant here is that the difference between the active leads and active tenders are increasing and continue to increase.

This is and I will call it abnormal situation and will adjust over time. We believe, it will adjust with tendering activity going up, as well as a backlog increasing, obviously because, when it moves out of this, it goes into the backlog. So, we expect that during 2024 into 2025, this thing will normalize itself by lifting the tendering activity graph and the backlog in PGS, which is consistent with what we are hearing from our clients.

On the supply side, we expect that the supply side in 2024 will remain more or less intact with what we are observed in 2023, as illustrated by this graph. And of course, it is still a very consolidated vessel market, where Shearwater and PGS controls most of the 3D vessel capabilities worldwide.

Now over to New Energy. And as I said, we have established a significant new energy business during 2023. The revenues from this business line in 2023 was approximately $35 million, which builds on the approximately $30 million, we had of revenues in 2022. So, we have now established a fairly sizable level for this business. In 2022, this will only carbon storage related revenues, both acquisition and data sets.

In 2023, there is a combination. We have acquisition for carbon storage. We have datasets from our library related to carbon storage. And then very important, we have entered the wind market more or less in the middle of the year and have had continuous operation with Sanco Swift for the offshore site characterization market. So, the $35 million contains all these elements.

Our solution, we have brought to the offshore site characterization market is a 3D solution. The norm in this market worldwide is a several 2Ds and several geotechnical surveys, which then in combination gives developers of offshore wind park or what they need to know of the subsurface before starting to develop the wind park.

Our solution is that, you can do one 3D. And together with geotechnical, you can then accelerate the start date for building or developing or offshore wind park. And this has attracted continue to attract considerable client interest. So, we have had a very successful entry to the market here. And as you know, we are expanding our capabilities. We have ordered a second 3D set or ultra high densities redesign as we call it for delivery midyear 20204, which position us to take a further chunk of this growing market.

So, the outlook for 2024 is that we are currently seeing very high bidding activity for the North Sea season or maybe more correctly, the Europe season because, it's not only the North Sea, it's other places in Europe as well. And we believe we are well positioned to be awarded some of these jobs and therefore, grow this business through 2024. We are also, which is interesting, maturing now MultiClient prospects for carbon storage, our projects for carbon carbon storage projects.

These are both combination surveys, where you do get refunding both from a carbon storage there and from an oil and gas player and also stand-alone and MultiClient project, where we are trying to attract prefunding from carbon storage players alone. And this is happening several places in the world. This is not only the North Sea. So, all in all, the outlook for 2024, we expect a fairly large increase in total revenues in this segment versus 2023. So, we are very excited about the growth we are seeing in our business in this market.

Now over to the merger with TGS. I thought, I would explain a little bit about the competition process. As I understand, there are several people around one to understand this further. We have to file in with the Norwegian Competition Authorities because, we meet the threshold for filing. In the UK, we do not meet the threshold for filing, but the CMA at the UK Competition and Market Authority has requested a filing. So, we also have to file in UK.

So, these are the two places we have to file this merger for clearance. The process in the two countries are somewhat a different. In Norway, we send a drop of notification in December, have the pre-meeting explaining our business to the competition authorities and then we made the final the formal filing early in January. When the formal filing is made, we did early in January, there is a first phase of 25 working days, where the competition authority gathers more information about the merger and the market.

They talk to our clients and they talk to competitors, talk more to us and then they decide, whether they want to take a deeper look at a transaction or not. And they did yesterday, beside that they wanted to take a another or a deeper look at this transaction after this introductory or first phase of gathering information. So, we are moving into Phase two, which lost 45 working days and towards the end of April.

In the UK, this is slightly different. In the UK, there is also a pre-notification filing, where you file your document, but then before the UK authorities accept that filing has been made, they will ask a lot of questions and they will talk to clients, they will talk to competitors, ask more questions, ask for more documents.

So, similar, I would say in process to the Phase one in Norway is what's going on in the pre process in the UK. We expect that the UK will accept our filing sometimes towards the end of February. This is an estimation. And then their first phase, that will start and maybe (inaudible) a working days, which will run in parallel with the Norwegian Competition Authorities Phase two.

So, although the two process are somewhat different, but you can hear is that when you peel it down differences, aren't that many. In the Phase one looks very much like the Phase one in Norway looks very much like the pre phase in the UK and then they have a deeper look in the 40 and 45 working days and then they should conclude at approximately the same time.

We expect both TGS and ourselves expect that we will be able to close the merger sometime during in Q2. Obviously, then after we have received clarifications from both Norwegian and the UK authority. So, this is a little bit, I tried to explain how these processes work. So, everyone can have a better understanding of what to expect going forward.

So, in summary, we had decent MultiClient late sales in the fourth quarter and actually quite strong relative to peers. We are experiencing a mixed winter market for contract work, and you saw that in the fourth quarter, and we are experiencing similar trends in the first quarter, if I can say that. And then, as I have explained, we have established a significant new energy business.

We expect that business to grow quite significantly in 2024. And obviously, the combination between TGS and PGS to create premier energy company is on track, both in terms of the planning of the merger and with respect to the process versus the two competition authorities.

So, with that, Bard, I will give the word to you so that we can take some questions.

QUESTIONS AND ANSWERS

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Thank you. We have some questions from the people on the web.

Christopher Møllerløkken, SpareBank markets. Vessel utilization in 2023 ended at 73%, up from 71% in '22. What's your ambition for '24.

Rune Pedersen - *PGS ASA - President & CEO*

Well, the ambition is obviously always to have as high vessel utilization as possible. I think we expect to increase vessel utilization somewhat into 2024. We are not given a number and I will not guide on the number. As we would have seen, we have not do not have full utilization in the first quarter, but we expect that to be much stronger and much more robust into the summer season.

And also when we get into the back end of 2024, obviously we also expect to merge in the middle of the year and what then may happen to our vessel utilization, how much vessel capacity TGS will require is difficult for us to predict as we are currently operating as competitors.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Another question from Christopher. I understand why don't guide on MultiClient investment for '24, but could you provide any comments regarding what you would expect of a fair fleet mix in '24 in terms of contract versus multi-client?

Rune Pedersen - *PGS ASA - President & CEO*

Yes. And the reason, we don't guide, obviously on the MultiClient investment is that we are individual merger process, but I think, if you assume, let's say, a similar multi-client investment level on a stand-alone basis for us this year as last year, and maybe a slight overweight of contract work through 2024. I think you are pretty close to what we are looking at on a stand-alone basis. And then this may change, obviously, as the merger is completed.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Yes. And we have two questions from Mick Pickup in the Barclays. If I look at 4Q versus 4Q a year ago, you had four to five months of capacity booked for $460 million on the order book. Now it's 52 months booked for an order book of $366 million. Can you talk about the dynamics of pricing, given battle of the first glance, it appears to be down. Is this win related?

Rune Pedersen - *PGS ASA - President & CEO*

Well, I think some of it is obviously wind related, but only that's the main effect. The main effect is that in the book position, we have several both fairly large MultiClient program and contract work that has yet to be announced to the market and is not sitting in the order book as of year end. So, there is a larger for the difference between the book position, which is as of yesterday and the order book, which was as of year end.

And the reason for this, obviously is that, as we have communicated many times it, we cannot announce these jobs before they are signed and we are allowed to announce them by the client. And therefore, there will be still a time lag that we are experiencing. And right now since we are reporting quite late, time lag between year end and now is larger than normal and larger and certainly larger than last year.

But there is also that the point there make that the day rate because, the cost of the wind jobs are, of course, lower. The margins are not lower, but the day rates are lower on average for the wind work we have booked for the first nine months than what you would see on average for a contract job in our normal operations for running us.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Then, Nikos has a question regarding the competition process. Can you confirm that no other countries need to look at the deal except for Norway and UK?

Rune Pedersen - *PGS ASA - President & CEO*

Yes, that is correct. No other countries need to look at the transaction.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Then we have another question, that's related to debt repayment(inaudible) Are you planning to pay the term loan of $75 million in Q2? This is the one due in 2026.

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

There are no current plans with respect to that in a way, and I can refer to what we in disclosures we have in the financial statements and the Note 11. So, the outstanding debts will be impacted by the merger. And with respect to the term loan, the $75 million, that is $70 million term loan B has been repaid already. A term loan of $75 million has a depending on timing of the merger completion, a good adoption on the loans in may well be put on us and they would have to be dealt with as part of completing their merger. There are no plans on us call it on a stand-alone basis. We have no plans to repay in Q2.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Another question from Baptiste (inaudible) Related to new energy, in medium term, let's say, next three to five years, how many vessels could be dedicated to new energy business? Could you transform existing assets or build new one?

Rune Pedersen - *PGS ASA - President & CEO*

In terms of the vessel, our current plan would clearly be to utilize our existing vessels. If in the near term, we may call it a quick one of our current 3D vessels also with the wind kit. So, that is a hybrid and can work both these markets, again in the very near term. And you are asking in the three to five year timeframe, I think we will utilize, likely utilize our some of our existing vessels, in particular on carbon storage, which is identical to what we do for oil and gas. It's identifying reservoirs, several thousand meters below the seabed.

For offshore wind, it's probably a combination of utilizing existing vessels, maybe one or two and chartering in, I would say, smaller vessels, more adapt to that kind of an activity. But it's a little bit different. We have no plans to build vessels for this activity, but it obviously depends on how large it will be. I can easily foresee us having three to five vessels full year, full time on these activities in three to five years. That is not difficult to see. So, a significant part of what we do again.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Then we have another question related to the competition filing process. It seems you don't expect Phase two in the UK. Is that correct? And also, can you please let us know, if you expect to offer a certain divestitures in order to obtain the Norwegian merger control approval?

Rune Pedersen - *PGS ASA - President & CEO*

I will take the UK first. I think, it's fair to say, and I will follow from the slide that we don't expect Phase two in the UK, I mean this is our expectations. The main reason for that is that the activity we have had in the UK over the last, call it three to five years has been fairly low and for (inaudible). So, we don't expect the effect of the UK market to be significant and therefore, we believe that it will be sufficient with the vessel, but we will see.

I think it's too early to say to what extent we will offer any remedies or mitigating factors to get approval in Norway or in the UK. I think currently, we believe that we will be approved without having to offer mitigating measures. But, once again, that can be ruled out, but it is too early to speculate what they maybe.

Bård Stenberg - *PSG ASA - VP of IR & Corporate Communication*

Very good. We don't have any further questions from the people on the web. We can pause for a short moment to allow people to type in any last questions they may have.

Well, it doesn't seem to be any further questions from the people on the web, but if you have any follow-up questions, I will be available later today. So, feel free to send an e-mail with questions you may have.

So, with that, I thank you all for participating and logging onto the webcast and for coming to Oslo to watch the presentation. So, have a nice day.

Rune Pedersen - *PGS ASA - President & CEO*

Thank you.

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

Thank you.