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CGG.PA - Q3 2019 CGG SA Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2019 / 7:30AM GMT



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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to this presentation of CGG's Third Quarter 2019 Results. The call today is hosted from Paris, where Mr. Sophie Zurquiyah, our Chief Executive Officer; and Mr. Yuri Baidoukov, our Group CFO, will provide an overview of the third quarter's results as well as provide comments on our outlook.

As a reminder, some of the information contains forward-looking statements. Including, without limitation, statements about CGG plans, strategies and prospects. These forward-looking statements are subject to risks and uncertainties that may change at any time, and therefore, the actual results may differ materially from those that were expected.

Following the overview of the quarter, we will be pleased to take your questions. And now I will turn the call over to Sophie.

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### Sophie Zurquiyah-Rousset - CGG - CEO & Director

Good morning, ladies and gentlemen, and thank you for participating in this Q3 2019 conference call. So our presentation will cover our third quarter operational and financial results. We continued to operate in a stable to gradually improving environment, despite current and projected oil prices around \$60 Brent, which is lower than anticipated a year ago.

Based on market outlook and increased investor pressure on capital discipline and shareholder returns, our client E&P companies remain conservative and continue to focus on cost control, which means continued strong procurement pressure on lower risk opportunities such as near-field exploration. On resilience, by reducing their portfolio of breakeven oil price and increased deficiency by leveraging innovations and high-impact technologies, such as ocean bottom nodes and digitalization.

Moving on to Slide 5. I am pleased to report that we delivered excellent results this quarter with strong business performance globally. Our revenue in Q3 2019 increased 36% year-on-year mainly driven by Multi-Client and Land equipment sales.

Cash flow generation is once again the highlight of the quarter. Multi-Client sales were up 92% year-on-year with high prefunding and after sales, driven by one-off transfer fees.



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Equipment sales also continued to increase year-on-year. Our 59% EBITDA margin was supported by increased profitability across all businesses and strong performance in the high EBITDA margin in Multi-Client business. Operating income margin was high at 29% as we benefited from a favorable Multi-Client sales mix. The combination of strong profitability increase, positive change of working capital from our discontinued acquisition businesses as well as excellent cash collections in general, resulted in a high net cash flow this quarter of \$167 million.

During the quarter, we also received a AA rating from MSCI Environmental, Social and Governance Research, one of the largest providers of ESG research and ratings. I am proud of this recognition for our content focus on social responsibility, strong corporate governance and environmental footprint reduction.

I'll now cover our key Q3 2019 operational achievements by reporting segment.

To ensure we have time to address our Q3 operational results, I will skip over our year-to-date results and will be happy to respond to your questions during the Q&A.

I'm on Slide 7. As often I like, CGG is no longer a company that only supports our clients' exploration efforts. We play a key role in helping them with the development and production optimization of their fields. The amount of work we do in GGR that is related to development and production has substantially increased in the last few years.

We also do much more than geophysics. We are truly a geoscience company, with a deep understanding of geology and seismic reservoir characterization.

It is actually interesting to note the general trend amongst our clients of combining their geoscience teams into 1 organization to service all phases of the field life-cycle.

In this context, our Geoscience technology and services, along our portfolio of Multi-Client data in major producing basins is extremely valuable to our clients, and we are the company of choice in complex areas where stakes are high.

The GGR segment that includes our Geoscience and Multi-Client businesses delivered a 48% year-on-year revenue increase in Q3, with Geoscience stable and Multi-Client up 92% as we benefited from one-off transfer fees and some after sales, which accelerated into Q3 from Q4. This drove GGR EBITDA margin to 73%.

Now on Slide 8. The market demand for Geoscience remains very solid, activity is picking up in Europe, Africa and the Middle East. North Africa is sustained by large high end reprocessing jobs as well as processing of data for development and step-out exploration projects, especially from marine nodes in the Gulf of Mexico.

Despite much increased demand for high-end OBN projects, delays during the acquisition phase have affected Geoscience production.

We provide our clients with differentiated technology and leverage our unique combined expertise in seismic, geology and petrophysics to extend our services and support our clients' lower risk, increased effectiveness and cycle time reduction agendas.

CGG remains strongly focused on high value-add projects that very few service companies, if any, can actually deliver to the required quality.

In front of a 7-well appraisal program in offshore deepwater, where a well will cost between \$50 million and \$100 million each, the cost difference between a poor and an outstanding processing job is marginal and not worth the risk.

As every player in the industry, we are investing substantial effort in driving our own digitalization agenda and supporting our clients' needs. More recently, we made significant progress in the effective application of machine learning and artificial intelligence technologies in our Geosoftware workflows, both for petrophysics and seismic reservoir characterization. We have also migrated our commercial software to work on the cloud, to leverage the cost and performance benefits and provide greater opportunities for our clients to support cross-team collaborations.



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The cloud offers more than just data storage, cloud computing provides scalable and flexible solutions to compete intensive reservoir characterization workflows and very large projects.

Moving on to Slide 9. I recognize that our high-end technology can be quite opaque for the nonspecialized person. So every quarter, I highlight one of our technologies. CGG was one of the pioneers of Full Waveform Inversion technology called FWI. A proprietary time-lag FWI and associated workflow is able to provide higher quality velocity models in challenging conditions.

TLFWI is producing exceptional results with OBN data, which have full estimates, long offsets and low frequencies.

On this slide, you can see an excellent example of the image quality from the application of our unique CGG technology. These images are from our Gulf of Mexico, Mississippi Canyon Multi-Client program, which is 100% funded by the industry.

That image is important because the reservoir is in the left flank of the salt structure indicated in orange. And it is key to understand how the structure actually connects to the salt body. For that reason, most project as ID-ed in the Gulf of Mexico in the last few years, have included a node survey that will serve as a baseline for future 4D work.

TLFWI is definitely a good example of a technology pushed by CGG. It provides great value to our clients, delivers improved models and accelerates the interpretation and imaging cycles.

On Slide 10. Geoscience total production was \$128 million in Q3, stable year-on-year and sequentially. As of November 1, our backlog at \$285 million is up 20% year-on-year. Our high-end Geoscience offerings, combined with recent contract awards are positive signals for the current and future performance of this business.

Deepwater activity is improving in the Gulf of Mexico but also East Coast Canada, Guyana and Brazil, and we remain optimistic and anticipate a steady demand for high-end Geoscience projects.

We continue to recruit best-in-class engineers and scientists around the world. And in parallel, continuously upgrade our high-performance computing capacity to run our most advanced algorithms such as the TLFWI that I highlighted earlier.

Our HPC capacity will soon exceed 200 petaflops.

Moving on to Slide 11. This quarter, we were active onshore U.S. and offshore in Brazil, North Sea and Barents Sea. Offshore Brazil, we were active on our 15,000 square kilometer Nebula program over an area of high interest in the Santos basin. Many of the blocks are held, and we expect high prefunding.

During the quarter, in the North Sea, we completed the extension of our footprint offshore West of Shetland and acquired 21 survey in the U.K. In the Barents Sea, we completed the Greater Castberg of our topside survey to image shallow targets, which was acquired in collaboration with TGS.

Our portfolio of active projects is larger than these surveys, involving data acquisition, we also have a number of reprocessing projects in the Gulf of Mexico and Brazil to refresh our library with our latest imaging advances.

On Slide 12 now. Multi-Client revenue was \$190 million this quarter, up 92% year-on-year with \$57 million CapEx and 113% prefunding rate.

After sales of \$125 million were high this quarter, driven by one-off transfer fees and by particularly robust sales across all basins.

Our second semester Multi-Client sales pattern will be different this year from previous years as we recorded significant one-off transfer fees in Q3. A level of prefunding to date is much higher than last year. Remember, we had been delayed by regulatory issues, and we caught up on prefunding in Q4. And around \$20 million of after sales anticipated to happen in Q4 accelerated in Q3.



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We are, of course, very happy with this, and the extra cash is welcome. But for these reasons, my expectation at this point is for a lower Q4 in Multi-Client compared to last year. However, as every year, we will only know for sure during the last week of 2019.

Moving on now to the Equipment side. On Slide 13. Demand versus sale land equipment remained strong. During the quarter, equipment delivered 4 508XT land data acquisition systems to Middle East, North Africa, Latin America and China. Equipment business was also active in Russia. I would like to point out that we were able to sell our 508XT technology into the Chinese local market, which is typically a very low cost environment. This is a testimony to the value of the 508XT.

The land market continues to recover, and we now have improved visibility for land mega crews in 2020 in the Middle East. The amount of equipment that we will sell ultimately depends on which geophysical contractor ends up winning the work. The marine equipment market remains depressed. We do see signs that Marine Geophysical companies have utilized all their spares to sell equipment, but this has not yet translated into significant orders.

During the quarter, the sale launched 2 new products. The WiNG, which is the new and fully integrated wireless, cable-free and cost-effective node on land acquisition system. And the GPR, which is a new ocean bottom node that leverages the sale-proven, quite size, high-performance digital sensor technology. GPR is a significant addition to CGG's preeminence in the growing OBN market. It is a confirmation of our commitment to respond to our clients' evolving challenges. CGG through its leadership position in Geoscience, Multi-Client and Equipment provides a unique suite of solutions for the highest quality OBN results.

In the non-oil and gas business, tests continue to progress well versus cells' new node prototypes, which are designed for the growing infrastructure and monitoring the market.

Now on Slide 14. Equipment continued to see positive momentum during the quarter, and is turning into a strong cash generator for CGG. Segment revenue was \$100 million, up 6% year-on-year. Land equipment represented around 64% of total sales and Marine equipment represented around 25%.

Equipment segment EBITDA was \$23 million, up 30% year-on-year, a margin of 23% driven by the strong land volumes. Equipment segment operating income margin of 16% resulted from the better absorption of manufacturing costs with the higher volumes.

With this, I will now turn the floor to Yuri for a financial overview.

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### **Yuri Baidoukov** - CGG - Senior EVP & Group CFO

Thank you, Sophie. Good morning, ladies and gentlemen. Looking at our consolidated P&L on Slide 16. For the first -- for the third quarter of 2019, our segments revenue from new profile amounted to \$382 million, up 36% year-on-year, mainly on very high Multi-Client and sponsor-side sales. Geoscience accounted for 25%, Multi-Client for 50%, which is higher than usual, and Equipment for 25% of revenue.

Segment EBITDA was \$225 million, up 83% year-on-year with a high 59% margin. EBITDA of both GGR and Equipment segments increased significantly year-on-year. GGR EBITDA margin was high at 73%, and equipment EBITDA margin was 23%, both demonstrating strong improvement.

At segment OPINC level, group performance was also strong at \$111 million, up 83% year-on-year, despite \$19 million negative impact from the application of 4 years straight-line amortization in Multi-Client business.

Segment OPINC margin was high at 29% versus 12.5% a year ago as we benefited from a favorable Multi-Client sales mix with one-off transfer fees and 5 percentage point margin improvement in our Equipment business.

Net cost of financial debt amounted to \$33 million. Net income from continuing operations was \$63 million after IFRS 15 an adjustment of \$13 million. Net loss from discontinued operations this quarter was \$22 million. And group net income was \$41 million, a significant improvement from a \$2 million loss a year ago.



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Our net cash flow generation, on Slide 17, increased significantly to \$167 million this quarter compared to negative \$31 million last year, a substantial improvement year-on-year driven by our excellent operational performance.

Q3 2019 segment free cash flow was high at \$158 million, up \$134 million year-on-year, driven by strong EBITDA and positive change in working capital on excellent cash collections in Multi-Client and equipment business.

Cash cost of debt remained flat this quarter at \$7 million. Net cash flow from discontinued operations was positive \$39 million this quarter, an \$83 million improvement year-on-year due to improved operational performance and positive change in working capital as expected.

Cash costs related to the implementation of CGG 2021 plan were \$23 million this quarter. They continue to flow as we streamline our acquisition and support headcount and wind down our Land acquisition business. Overall, for 2019, cash costs related to the CGG 2021 plan are expected to be around \$120 million. Our financial position at the end of September 2019 was solid and healthy with our liquidity significantly increasing to \$596 million.

Looking at our group balance sheet on Slide 18. At the end of September, our capital employed was \$2.3 billion, down by \$123 million from the end of June. Net working capital after IFRS 15, at negative \$26 million was down from \$126 million at June end, driven by a significant increase in receivables -- sorry, significant decrease in receivables by \$131 million on the back of strong cash collections in our Multi-Client and Equipment business, while inventories were stable at \$208 million.

Goodwill remained flat at \$1.2 billion, corresponding to 53% of total capital employed and 80% of equity. Our Multi-Client library net book value after IFRS 15 was at \$615 million, up from \$597 million. And our segment [NDE] was at \$434 million at the end of June.

Segment cash prefunding rate was 113% in Q3 2019, up from 88% sequentially, with 48% rate for Land and 121% rate for Marine prefunding rate.

Multi-Client segment amortization rate was 43% in Q3 2019 or 33%, excluding the impact from the change in Multi-Client amortization policy of \$19 million.

Other assets at \$591 million were slightly down from \$609 million at June end with property, plant and equipment at \$318 million, other intangible assets at \$243 million and other current assets at \$30 million.

On the back of our strong financial performance, net debt reduced to \$732 million or \$590 million before IFRS 16 from \$883 million or \$741 million before IFRS 16 at the end of June.

Cash and cash equivalents significantly increased to \$596 million from \$441 million at the end of June. Shareholder equity and minority interest remained stable at \$1.54 billion including \$44 million minority interest mainly related to [Yongfeng] joint venture in China.

Gross debt remained at \$1.33 billion or \$1.8 billion before IFRS 16 with the following breakdown. \$605 million of first lien bonds in dollars and euro maturing 2023, \$507 million of second lien bonds in dollars and euro maturing in 2024, \$44 million of capital leases, mainly our Galileo building in Massy, France. \$29 million of other items, mainly accrued interest, and \$142 million of operating leases under IFRS 16.

Our financial leverage improved significantly this quarter. Net debt to shareholders equity ratio decreased to 48% or 38% before IFRS 16 versus 59% at the end of June. And segment leverage or net debt to the last 12 months EBITDA, excluding the impact of IFRS 16 dropped below 1x to 0.8x. We remain focused on generating cash and will be net cash flow positive this year for the first time since 2012, reaching an important milestone on our journey to sustainable profitability and returns generation.

Now I hand the floor back to Sophie for an update on our strategic agreement with Shearwater and for concluding remarks.



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**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

Thank you, Yuri. I'm very pleased with our financial results at the end of September. Thanks to the contributions of our approximately 4,600 employees and strong management team. The company is going through many changes, one more time, and everyone has stepped up to the challenge. The market is continuing to gradually recover and demand for our advanced technology, data and equipment remains solid.

Our exit from acquisition and strategic partnership with Shearwater is progressing as planned. At current, we are well advanced in our planning for the transfer of our vessels. We do not speak much about it, but our Marine team is delivering excellent operational performance, which is not only important for the small amount of proprietary that we are still supporting but also for our Multi-Client business. We have one Land crew left in operations, which is expected to conclude work in January 2020. We are also in advanced discussions for the sale of our Multi-Physics business. Our support structure is now largely rebased for our new footprint and profile of operations.

In conclusion, I think the company is shaping up well towards our new profile of a people, data and technology company, and that we're making this transition while keeping high operational standards. I want to thank our people, again, for the excellent work during this year of change. The result is that our cash flow situation is much improved, and we can start looking forward to normalizing our capital structure in 2020. We anticipate a solid Q4 in Equipment and Geoscience, along with somewhat lower Q4 in Multi-Client as some after sales accelerated into Q3.

We confirm our updated 2019 guidance and are raising our 2019 EBIT guidance above \$200 million due to a favorable Multi-Client sales mix this quarter.

Thank you very much for your interest, and we're now ready to take your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And the first question comes from the line of Jean-Luc Romain from CM-CIC Market Solutions.

**Jean-Luc Romain** - CM-CIC Market Solutions, Research Division - Analyst

I have a question on your after sale in the third quarter. On top of the, I guess, the Occidental's Anadarko sale of (inaudible) freight, what were the countries which contributed most to your excellent after sales?

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

I would say the usual, I mean, we invest in our core basins. So it didn't -- it would be the normal, U.S. Land was certainly contributive. Brazil was contributive, we'll see. So this would be the usual sales mix that we see in those countries. So Gulf of Mexico was very much part of the OCCI deal because that was the Anadarko footprint in the Gulf of Mexico. So outside that, this is Brazil, North Sea and U.S. Land.

**Operator**

And the next question comes from the line of Mick Pickup from Barclays.

**Michael Brennan Pickup** - Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst

Could I just say, it's a year since that presentation you did last year, and it's all gone according to plan, well done. Question I have is on the Geoscience business. I think part of that 2021 view was continued growth in Geoscience, taking market share and building that business out. Obviously,



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year-to-date, it's been pretty flattish. I know you mentioned that the backlog is up in November. Can you just talk about what are the drivers of growth as we go forward from here in a world where, obviously, exploration spending doesn't seem to be growing that fast.

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

Thank you, Mick, for your question. As I highlighted (inaudible) cadence to much more than exploration. And by the way, as you well know, frontier exploration is not happening a whole lot these days. So it's a lot more near-field exploration, it's around development and production optimization. So we really tapped into the full E&P CapEx, if you want. So that's the first point.

So we are not very -- in Geoscience, not much exposed to the U.S. Land market, which is the place where the E&P CapEx is decreasing. So the part that we tap into is the international and more so the complex area in the offshore deepwater. And those markets are healthy because they -- most of them function at the \$50, \$60 a barrel of oil that we have today. So the general drivers are there. Now if you look at our situation where we're sort of flattish, where we kind of said, we were expecting more of a single digit. It's a combination of things, Geoscience is much more than processing. So processing external revenue actually continues to grow, where we're decreasing more on some of the parts of Geoscience that are geology driven, which is more of that frontier exploration part of the business. So as a result of that, the market there remains soft, which is more the geology side and we are concentrating on profitability. And so we're not going after any kind of revenue. So we're basically making a conscious decision to shrink to make sure that we preserve the profitability. So it's a mixture of different things.

And then the third aspect here, as I mentioned, there's been some delay in us putting our hands on the data. So we play a lot in the Gulf of Mexico around OBN and there's been a number of operational delays on this project. So sometimes we just wait for the data that delays things. But generally speaking, our subsurface imaging, external market is growing and is doing really well. There's things on the side within Geoscience that have been more effective and we're just concentrating on profitability.

**Operator**

And the next question comes from the line of Christopher Møllerlökken.

**Christopher Møllerlökken** - Carnegie Investment Bank AB, Research Division - Research Analyst

Yes. This is Christopher Møllerlökken from Carnegie. Could you help us with give an indication of what the size of the transfer fee was in third quarter?

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

So I'll let Yuri take that one.

**Yuri Baidoukov** - CGG - Senior EVP & Group CFO

Yes. So good morning, Christopher, and thank you for your question. And I would start with saying that in Multi-Client business in general and our business is no exception, we do have transfer fees every year. So in other words, our customers buy each other. And that generates transfer fees. So taking that into account the -- of course, the magnitude of the transfer fee is related to the Occidental buying Anadarko was higher than usual. So usually, we look at around \$30 million to \$40 million of transfer fees every year in our after sales. But this year, kind of the successional component exceeds those numbers by about probably \$40 million to \$50 million, I would say. We cannot disclose the exact amount for obvious reasons here.



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**Christopher Møllerlækken** - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Just also some bookkeeping questions. You said that some late sales expected to happen in Q4 came in Q3 instead. Was that \$30 million, 3-0, or \$40 million, 4-0?

**Sophie Zurquiyah-Rousset** - *CGG - CEO & Director*

Christopher, this is Sophie here. So it's actually \$20 million, is the number I gave.

**Christopher Møllerlækken** - *Carnegie Investment Bank AB, Research Division - Research Analyst*

\$20 million? Yes.

**Sophie Zurquiyah-Rousset** - *CGG - CEO & Director*

Yes. \$20 million. Yes, it was just in our planning when we gave the updated guidance. We didn't plan on this coming into Q3, it was planned for Q4 and then the clients wished to accelerate into Q3.

**Christopher Møllerlækken** - *Carnegie Investment Bank AB, Research Division - Research Analyst*

A major positive surprise on my part was the positive cash flow from discontinued operations. I know you said that it was due to positive changes in working capital, but could you please help explain it? And also, the outlook for the cash flow from this business going forward?

**Yuri Baidoukov** - *CGG - Senior EVP & Group CFO*

Yes. So you might recall that in the first and second quarter of this year, our change in working capital in acquisition business, or discontinued operations was negative because we're working on a large proprietary project for Schlumberger in the Mexico, part of Gulf of Mexico. And what's happened in Q3 is that we obviously collected those receivables, and that generated a \$50 million positive change in working capital in our discontinued operations coming from Marine acquisition business. So basically, that explains the story.

Now kind of going forward until we exit complete with acquisition business, in other words, looking at Q4, this business will generate somewhat negative net cash flow on the back of a gain of change in working capital in Q4 because we have a proprietary project with Shell in Mauritania. And obviously, again, the receivables will increase towards the end of Q4, and we'll collect those receivables in Q1. So that translates in about \$20 million of negative net cash flow from discontinued operations in Q4.

**Christopher Møllerlækken** - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Also final -- 2 final questions. What did you say the costs related to the reorganization plan would be in 2019?

**Yuri Baidoukov** - *CGG - Senior EVP & Group CFO*

Around \$120 million. Last one?

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**Christopher Møllerlækken** - *Carnegie Investment Bank AB, Research Division - Research Analyst*

And final question. Yes. The final question is, could you please elaborate a bit on the possibilities for CGG to repay debt ahead of maturity, given the strong cash flow you are generating?

**Yuri Baidoukov** - *CGG - Senior EVP & Group CFO*

Right. So we -- as Sophie mentioned in her concluding remarks, of course, we're looking at normalizing our capital structure. Obviously, the existing debt that we have and debt structure is the result of us exiting from bankruptcy and financial restructuring. It's very expensive debt. You all obviously know that our bonds are trading at -- the first lien at 106, 107. And the second lien, in that 116, 117. So that implies quite lower interest rate, even if we kind of did nothing, right? So with that, we are looking at, obviously, our options rate, there is no pressure. But of course, we would like to move to a normal capital structure. And we'll be evaluating our refinancing options from, I would say, Q2 of next year.

**Operator**

And the next question comes from the line of Jim Evans from Exane BNP Paribas.

**James Matthew Evans** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

I've got a couple. Sophie, I just wondered if you could give us any more detail around the timing of completion of the Shearwater transaction? What are the final steps and approvals that you need? And what's the anticipated time at which you might close the transaction? And secondly, and quite separately, for Yuri on Multi-Client. I just wondered if you could give us a refresh on your CapEx and amortization guidance for the year?

**Sophie Zurquiyah-Rousset** - *CGG - CEO & Director*

So thank you for your question, James. So I'll say that -- I mean, it is a complicated deal. And I -- for obvious confidentiality reasons, I can't give you the details of every steps that we're going through. But generally speaking, what I want to say is that we're on track for our plans. We are totally well aligned with Shearwater to complete the partnership as we planned it. And we are following the relevant processes in the different countries and do not anticipate any hurdles. Again, it is a complex deal that has different parts. There's the Marine part and there's the new coal part on the technology that includes a number of separate agreements that need to be adjusted and agreed upon, and so we're quite advanced on all these agreements. And again, do not anticipate any hurdles to be able to complete as we planned.

**Yuri Baidoukov** - *CGG - Senior EVP & Group CFO*

Yes, James. Moving to your second question. The -- our Multi-Client CapEx is expected to be around \$230 million for the year. And our Multi-Client amortizations -- I'm trying to, sorry, find the number. So I'll get back to you on the Multi-Client amortization.

**James Matthew Evans** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Okay. Understood. And then I guess, third question, if I can sneak in another one. I just wanted to ask about Brazil. I mean obviously, a very, very busy few months in terms of the rounds that have been held there. So have you already seen that the benefit of these rounds in your Multi-Client sales or clients now still waiting to be awarded the blocks before they buy them, and obviously, the signature bonuses here are quite high, which suggests that they want access to the data beforehand. So just wonder what, sort of, trends you're seeing? And how much it actually impacted your results so far this year?



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**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

So Brazil, as you know, is the hotspot, where all of the large IOCs that have diversified portfolios and are playing in deepwater really want to play. It is also attracting clients outside the usual IOCs. You have some -- a number of national oil companies that also want to play in Brazil. So it is a place, very, very busy and active. The new regulations put in place that provide transparency as to the upcoming bid run have been extremely positive. So I think in general, we see clients interested because it works in that portfolio because of the productivity of the work, and that portfolio ran \$40 to \$50 oil price. So it is an element that, sort of, lowers the average portfolio price. Now from the service company standpoint, from the geophysical company, there's more competition, obviously, because as a result of clients going there there's more requirement for seismic and then there's more competition on our side. But we are benefiting from a really large position in the pre-salt. So basically, and we have, of course, anticipated and had a look forward as to which blocks eventually would become -- would be available in the bid runs. And so we are in good positions around the blocks that are awarded. So basically, we've benefited quite substantially from the different bidding runs, not so much from the most recent one. But in general, because we were positioned on where the blocks were going to be offered, that would generate for significant revenue both prefunding for our new projects and after sales.

Now as to how clients behave, they do want to buy the seismic before if they can, before the bid runs in order to be able to decide how far they want to go. And then we see 2 ways. And sometimes, we've seen clients taking blocks with them with no 3D data or no high end data, and then we've acquired the data later on. So you see 2 sides. But generally speaking, there will be data on blocks that will be put for auction. And therefore, the clients trying as much as they can to get the data beforehand.

**Yuri Baidoukov** - CGG - Senior EVP & Group CFO

And James, coming back to you on amortization, we're lurking at above \$345 million to \$350 million for the full year.

**Operator**

And the next question comes from the line of Sahar Islam from Goldman Sachs.

**Sahar Islam** - Goldman Sachs Group Inc., Research Division - Analyst

To start off on Geoscience. We've talked in the past about your high market share in that division. Can you talk a bit about the competitive dynamics? And if they're changing at all?

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

Sahar. The -- I guess, there's not much change in the competitive dynamics. In a way, clients are much more selective in everything they do. So they apply the selectivity if you want in the world of Geoscience. So they identify clearly the high-end projects that really require that very specialized technology. So it's all about in the details of the image that we provide. It's for the the non-expert, the image might look the same but actually, it don't look the same. I was mentioning that little detail of understanding, how the structure goes into the slanks of a salt structure in the Gulf of Mexico. This is an important -- it's not a detail, it is major. So when it is required, clients will go for quality, and it is seen as clients are going towards nodes. So nodes acquisition is substantially more expensive than even a wide-azimuth acquisition. Yet clients are doing it because it does provide value in an environment where WAZ cost anywhere between \$50 million and \$100 million. But in an environment that are simpler, there's no salt, so the structures that are more -- not as complex, not faulting, then clients will tend to kind of choose for, sort of, what we'll call the (inaudible) or plain vanilla type of Geoscience. So more selectivity from the clients, it's maybe more acute. I think we maintain our market share and through technology, basically. So we continue to invest substantially in technology and TLFWI is one of the most recent ones that we publicized at the SEG. It is intriguing, a number of players around, and I think it gives us an edge in those complex areas. But we're not going to do, for example -- although we're trying to utilize that technology, for example, in U.S. Land as well or in some of the less complex areas. Not every client is willing to pay the extra money for the high technology in maybe those more benign environments where the cost of wells, for example, is not so expensive.



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**Sahar Islam** - Goldman Sachs Group Inc., Research Division - Analyst

Very clear. And then a final question for Yuri, if I may. On the net cash flow, there's obviously been a good improvement this year, but there have also been the positive one-offs. So when we look out to 2020, should we still expect you to be net positive, especially if you refinance and have to pay the fee for doing so on the high-yield bonds?

**Yuri Baidoukov** - CGG - Senior EVP & Group CFO

So Sahar, yes, good morning, and thank you for your question. The -- let me put it this way. We will be definitely net cash flow positive before the cost of refinancing, if and when we refinance. But I'm kind of -- we're still working on our budgets for the next year. So we'll obviously provide our guidance in due course.

**Operator**

And the next question comes from the line of Guillaume Delaby from Societe Generale.

**Guillaume Delaby** - Societe Generale Cross Asset Research - Equity Analyst

Yes. Congratulations for the superb results. Two questions, if I may. First, Sophie, just I would like to have, I would say, your feeling regarding the outlook for oil and gas CapEx going forward? Basically, there is a general views that looking forward 2020 and 2021, might be not as good as it could have been expected, let's say, just a few months ago. So I just would like to have your view on that? And maybe a view by geographies, whether or not 2020 is likely to be a copy paste of 2019 with difficult North America Land and recovery elsewhere? And also, if you could update us a little bit regarding the potential disposal of the JV SBGS solution and possibly as well ARGAS?

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

Okay. Guillaume, so in terms of the outlook, it is, as we're in the budgeting process, this is a question that we're asking ourselves all the time and that we're asking clients. There -- I would say we're definitely in an environment of all-in oil price that is lower than we would have liked a year ago. We were hoping for somewhere around closer to \$70, \$65. Anywhere between \$65 and \$75. The truth is we're more around famous \$60. And at that number, it puts a little bit more pressure on clients to be able to to give shareholder returns and pay their dividends. Yet, and we do talk to all the IOCs at the executive level. I haven't seen a movement of IOCs to sort of inflex what their plans are. I think they've been very much cautious all along and not actually increasing their budget by any significant number. So therefore, they'll continue in that cautious mode, but we don't -- I don't expect any significant movements. So it's maybe a bit early to say, but I would say, we're still in that single-digit mode here when it comes to the IOCs. Within that, as you pointed out, definitely North America is affected, but the North America Land is affected from the more those smaller companies and independents, the IOCs, as you know, are moving full-blown with their ExxonMobil and Chevron are very vocal with that, their plans to invest significantly in North America, which is somewhat taking a little bit of budget from the offshore. But the offshore itself is in a different momentum. And I think it is continuing to increase a little bit.

In terms of geographies, I would say, Brazil is definitely the hotspot. Gulf of Mexico is very selective. It's a bit subdued in general, but if there's some hotspots like in Mississippi Canyon, for example, and Alaminos Canyon on the west side of the border of Mexico. North Sea, it was interesting because as I mentioned earlier to Sahar, selectivity of clients. We've seen 2 clients deciding to exit the North Sea, which is, to be honest, it's a bit positive for us because it will hopefully trigger some transfer fees. And you'll see a new generation of independence emerge in the North Sea, which could actually be positive for us.

What -- yes, I think those will be, I guess, the main hotspots. Now I'd like to point out the Middle East is a different dynamic there, and it has started a couple of years ago with NOCs massively investing to understand their subsurface resources. So we're seeing those large jobs in Abu Dhabi. We're seeing those large jobs in Saudi, and we're definitely seeing Saudi further picking up. Kuwait is doing well, and that is driving not only Geoscience,



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actually, we're managing to make substantial inroads with Geoscience in those countries. But it is also excellent, and that's been driving through sales in the last couple of years.

So I mean, to summarize it, I would say, it's hard to know what the plans were and what the clients are doing. I think they're discontinuing on the cautious node. So the single-digit numbers that I was giving before, it's probably still valid. Because it's an offshore project, you can't just stop and go. We can't say, "Oh, I'm going on, and then I'm not doing it." It's just once you start pushing the button, you have to move forward and -- but in a cautious manner.

Sorry, you had the second question, Guillaume, and that was the disposal of SBGS and ARGAS. I did say a year ago in the Capital Markets Day that we're not in the driving seat, unfortunately, right? We're a minority shareholder, I wish. So SBGS, the node business, despite the fact that it is growing tremendously, it's still -- it's a bit under pressure, and some of it is linked to operational delays and issues. So the financial performance has not been stellar, which is sort of somewhat delaying the appetite for any one company to be interested in SBGS. So in the meantime, we run it as best as we can. I mean it is run the best we can. And it is actually growing. It has good backlog. So hopefully, things turn out better, and we can move forward with the divestiture. On ARGAS, I would say we're -- it's even going on a slower pace. We've just actually agreed on a company that will be driving the process...

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**Yuri Baidoukov** - CGG - Senior EVP & Group CFO

On the adviser.

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**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

On the adviser that will drive the process on behalf of both shareholders.

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**Operator**

The next question comes from the line of Jean-Francois Granjon.

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**Jean-Francois Granjon** - ODDO BHF Corporate & Markets, Research Division - Analyst

Just 2 questions, please. Could you come back on the free cash flow generations after the good Q3. Would you expect -- could you give us more color for what you expect for the full year for the free cash flow for this year?

And the second question concerned the trend for next year 2020, due to the exceptional contribution coming from the one-off transfer fee and a positive impact on the EBIT for operating income, should we be more cautious for the operating income next year compared to this year?

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**Yuri Baidoukov** - CGG - Senior EVP & Group CFO

Right. Jean-Francois, answering your first question. In Q4, we expect overall net cash flow to be somewhat negative on the back of the factors that I already described. So first of all, it will be, obviously, there will be a negative change in working capital, both from the continuing operations and discontinued operations. Secondly, we also have still around \$60 million to pay in severance and other costs related to acquisition business. The other element is the cost -- cash cost of debt, as you might recall, that the main cash payments relates your first lien happened in the first and the -- sorry, in the second and the fourth quarter. And that's where we have another \$37 million to pay in Q4. And basically kind of between all those factors, we will be net cash flow negative. But overall, for the year, as we just reconfirmed, we'll stay net cash flow positive for the full year.



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**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

So you had a quite question on 2020. Could you please restate it?

**Jean-Francois Granjon** - ODDO BHF Corporate & Markets, Research Division - Analyst

Yes. Just due to the exceptional contribution coming from the one-offs (inaudible) so with a strong impact -- positive impact this year for the earnings. Should we be more cautious for next year due to the low contribution from the exceptional one-offs?

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

So if you exclude the one-off, again, we're on that kind of single-digit growth trend. And the -- really, the focus for the company is on the cash side. And so I mean, definitely, we'll try and strive towards being cash positive next year as well. The OPINC, if you want, I see no reason, based on volumes and on that single-digit that we would be very different. Now of course, you always have that Multi-Client amortization, which is a little bit the unknown depending on the mix of -- depending on how much aftersales we do. But certainly, Geoscience and Equipment, I don't expect any difference there. As always the unknown is a little bit on the Multi-Client side. But at the end of the day, what we look at, our approach is the cash generation from our different businesses.

**Operator**

The next question comes from the line of Kevin Roger from Kepler.

**Kevin Roger** - Kepler Cheuvreux, Research Division - Research Analyst

One last question on my side, please. You have talked about technology during the presentation and especially on the Equipment side, you have recently launched your new ocean bottom node product. I was wondering if you can give us the first feedback from your client? And if you had already any commercial success on your side for these new OBN product?

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

So thank you, Kevin. So actually, if you remember the announcement, this is a product that's being launched in collaboration with BGP. And BGP is a key player in the OBN market. So as a result of that, it is expected that BGP will be ordering those nodes, right? That is the understanding under which we've developed -- we've co-develop that product. So that is certainly one client. Now as you know, if you look at the other players, for now, they have their different technologies, that proprietary technologies, if you want. The -- but the truth is it's difficult for any one player as some of the Marine players have found, to justify investment just for one company, if you want. There's not enough critical mass. So eventually -- so one, there's been a lot of interest and -- on what it is that we're providing the quality. And I mentioned the quality of our sensor, which is very -- it is less noisy than maybe other sensors on the market. So it is intriguing a number of plays that is actually inquired -- that are inquiring a little bit more detail of about what we can provide. So lots of interest, lots of interest from the players, lots of interest from clients. Of course, they want to understand what is it that we deliver because they know the quality of the products we deploy in the market. And then for sure, the collaboration with BGP, sort of, is -- it is under that assumption that we've been collaborating with BGP.

**Kevin Roger** - Kepler Cheuvreux, Research Division - Research Analyst

But at the moment in time, you do not benefit from any sales in your revenues in the Q3 earnings, right?



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**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

No. Not at all. This is 2020. It's a product that we've tested, and we do plan to commercialize it fully and for the large volumes into 2020.

**Operator**

And this was our last question. I'll hand the call over back to our leaders.

**Sophie Zurquiyah-Rousset** - CGG - CEO & Director

Well, thank you very much for attending. It's a pleasure, and I'm sure I'll see some of you in roadshows in the next couple of days. Thank you again. Bye.

**Yuri Baidoukov** - CGG - Senior EVP & Group CFO

Thank you. Bye-Bye.

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