Operator

Good day, and welcome to the CGG's Third Quarter 2017 Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Catherine Leveau. Please go ahead, ma'am.

Catherine Leveau - CGG - SVP of IR

Good afternoon, and welcome to this presentation of CGG's third quarter 2017 results. My name is Catherine Leveau. I am Head of Investor Relations. The quarterly financial information, including the press release, the presentation and the streaming audio webcast of this call are available on our website at www.cgg.com.

Some of the information contains forward-looking statements, including, without limitation, statements about CGG plans, strategy 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.

Today, the call is being hosted from Paris where Jean-Georges Malcor, CEO; and Stephane-Paul Frydman, CFO, will provide an overview of the third quarter as well as provide comments on our outlook. Following the overview of the quarter, we will be pleased to take all your questions.

Now I will turn over the call to Jean-Georges Malcor.

Jean-Georges Malcor - CGG - CEO and Director

Thank you, Catherine, and ladies and gentlemen, thank you for participating in this conference call this afternoon. Unusual time that, as you know, we had our general assembly meeting this morning.

So our presentation, we cover 2 important topics today. First of all, our Q3 2017 operational and financial results and then our last update on the delivery of our financial restructuring at the shareholder general meeting just voted up the resolutions necessary to implement our plan. This is obviously a major achievement for the company.

So let's go to the presentation and starting on Slide 4. Let me summarize briefly our Q3 achievements. You know that market conditions, which remain very difficult -- within this market condition, sorry, our Q3 can be characterized by another year-on-year growth in revenues, with, however, contrasted performance between our activities. We had also solid EBITDA driven by strategically positioned multi-client sales and good operational performance. Our group revenue were up 21% at $320 million, so up 21% compared to 2016.
GGR revenue was down 4% with a solid multi-client performance boosted by future licensing rounds in Brazil, and we'll come back on that. The Sercel revenue were still very low, and Contractual Data Acquisition revenue was at 158% this quarter due to more contractual work that we conduct on it.

In a very challenging market, which is still oversupply, this negative impact was integrated by very good Marine operational performance.

For our EBITDAs, we’re at $90 million, down 8% year-on-year. Operating income was up 38%, however, still negative at minus $24 million. 2 divisions positively contributed to the EBITDA this quarter: one being GGR, as usual; the other one being the Contractual Data Acquisition for a small amount.

During this quarter, we maintained our focus and priorities on 2 main points. The first one is a strong operational delivery with further addition of our cost base, strong CapEx discipline, excellent commitment from the team and continued constant support from our customers. And the second was a delivery on the various milestone of our financial restructuring plan.

On this last point, today, was a very important day as shareholders approved this morning the resolutions necessary to implement the financial restructuring during the Extraordinary General Meeting. With this approval and subject to the sanctioning of the restructuring plan by the French Court in the next few weeks, the financial restructuring plan should be implemented in Q1 2018.

Now looking in more details at our operational achievements by business lines. I’m on Slide 7 (sic) [Slide 5]. In Q3, GGR revenue was down 4% year-on-year at $186 million with solid multi-client sale, boosted by licensing rounds in key basins. The multi-client revenue was up 7% at $106 million. Multi-client sales were good in Brazil and in onshore U.S. We have a good set of data strategically positioned over key sedimentary basins, and we sold data related to future-risk licensing rounds. In onshore U.S., we benefited from uplift revenue.

In Brazil, for example, we have a very large 3D multi-client library in the Santos Basin, and we offer to the industry an ultra-modern exploration data set to support the next pre-salt licensing round. Our prefunding sales were at $70 million, and our after sales stood at $35 million. We reached this quarter a very good cash prefunding rate of 131%. 33% of the fleet was dedicated to the multi-client program this quarter, which is unusually low as we were still completing important contractual work. On this matter and going forward, 65% of our fleet in Q3 will be allocated to multi-client surveys and 40% in Q1 2018.

The data library amortization rate this quarter was at 72%, and the next book value of the library, reached $890 million.

On the Subsurface Imaging side. Q3 Subsurface Imaging & Reservoir revenue was down 15% year-on-year at $80 million, in line with globally low client spending. Subsurface Imaging technical performance continues to be strong. Whether our business were impacted by low CapEx spending, data management storage sales, even if it’s a small number, were driven by strong (inaudible) volumes related to this cost project.

All-in-all, GGR reached an EBITDA of $102 million and 6.5% operational profitability with an operating income at $12 million. The margin decrease versus last year is mainly explained by the lower revenue, the different mix of aftersales from multi-client with, however, continuous effort on the cost side.

Now moving on the equipment business on Slide 5 (sic) [Slide 6]. The equipment business continues to be impacted by persistent low volumes. Total equipment revenue this quarter reached $40 million, down 26% year-on-year. The decline can seem strong, but, in fact, Sercel external sales were at similar level, actually slightly higher, compared to last year as internal sales were very low at $4 million this quarter versus the $20 million in Q3 2016.

The Marine sales represented 37% of total sales; and Land, 63%. In Land, we continue to see a strengthening of the artificial lift business mainly related to the U.S.

The 508XT products are achieving a steady performance, allowing all crews using our latest Land system in Saudi Arabia, Russia or India, for example, to post significant productivity gains.
With these very low volumes, the EBITDA was negative at $8 million, and the operating income was at the negative of minus $16 million, penalized also by a negative exchange rate impact.

In line with our traditional pattern, we expect higher volume sales in Q4.

Now moving on Slide 7. Our Contractual Data Acquisition segment remains under pricing pressure, both in Marine and in Land. However, our third quarter total Contractual Data Acquisition revenue was up 158% at $99 million, mostly due to the completion of the large PEMEX contract and the Topseis acquisition for Lundin we mentioned last quarter.

Marine revenue was $71 million, up 306%, with impressive fleet operational performance as 2/3 of our reserves were dedicated to the contractual marine market this quarter, which is, as I said before, unusually high compared to less than 1/3 last quarter, which should be more the normative pattern.

Our first job in this challenging environment is once again to conduct our operations with maximum professionalism, and this is exactly what our Marine team did by achieving an outstanding 96% production rate. Similarly to last quarter, we achieved a 99% availability rate with low transit time and low mobilization time.

I would like also to highlight the groundbreaking and very promising Topseis acquisition techniques, which we have deployed very successfully in the Barents Sea for Lundin.

In the winter season, which is expected by the industry to be still very difficult and competitive, our fleet coverage is at 92% for Q4 and about 67% in Q1.

Land & Multi-Physics total revenue was at $28 million, up 24% (sic) [34%] year-on-year. Land is still suffering from slow startup projects, but Airborne starts to see some improved activity levels mainly related to the mining business.

All in all, operating income contribution was negative at minus $7 million. We are tightly monitoring our cost and working on reducing further our cost base as the pricing environment, even if it does stabilize, remains really challenging.

Now moving on nonoperating resources. The nonoperating resources are mostly related to the nonactive part of our fleet, i.e. the cold stack vessels and the corresponding equipment. EBITDAs were slightly negative at minus $2 million. And a minus $4 million negative operating income this quarter is similar to last quarter as the fleet is now operated by the Global Seismic Shipping, GSS, which is, as you know, a 50-50 joint venture with Eidesvik, which is accounted for in equity from investments.

Now we went through all our operational segments. I now hand the floor to Stephane-Paul Frydman to comment in more details the financial figures.

**Stephane-Paul Frydman** - CGG - CFO and Senior Executive Vice-President of Finance & Strategy

Thank you, Jean-Georges. I'm on Slide 10, and I'm looking first at the P&L at the group level. So as said previously by Jean-Georges, over the 9 months the group record revenue amounted to $919 million, up 6% compared to 2016, with the business mix not fully in line with our rebalancing target given that notably the importance of the PEMEX contract with (inaudible) and the weakness of the Sercel sales. Therefore, GGR weighs for 61% of revenue, which is consistently our pattern, but equipment accounted for 12% and Contractual Data Acquisition for 31%.

At the Opinc level, the good 9 months performance was minus $65 million for the operating perimeter and minus $95 million when including the NOR segment corresponding to significant year-on-year improvement. The contribution from investment in equity was at minus $11 million, being mainly explained by the negative contribution in Q3 from the Seabed Geosolution joint venture and, as previously said by Jean-Georges, the performance of GSS, the Global Seismic Shipping joint venture.
The net financial costs amounted to minus $161 million, following the secured interest rate (inaudible) that we deployed last January and including this quarter, minus $31 million related to acceleration of acquisition of historical debt-issuing fees that is related to our restructuring process, and now we are seeing [annualizing] for the outstanding debt extinguishment.

All in all, taking into account a minus $61 million (sic) [$161 million] of nonrecurring charges, mainly made of the GSS noncash administration costs booked in Q2 and the ongoing cost for the financial restructuring process, the group net income amounted to minus $439 million for the first 9 months.

Moving on Slide 11. On the year-to-date free cash flow and starting with the cash indicator at $238 million, our 9 months group EBITDA was up 4% year-on-year, being boosted in Q3 by our high multi-client sales and being very in line with our full year EBITDA outlook for 2017.

Total CapEx at $212 million were down 31% (sic) [32%] year-on-year and tightly monitored with multi-client cash CapEx at $162 million, down 35% year-on-year but with a different seasonal pattern and 122% over 9 months, meaning well above our full year target of 70%.

Additional CapEx at $28 million were down 35%, and R&D CapEx stood at $22 million. The combination of the cash flow from operation, the global CapEx and $72 million of interest paid led to a minus $109 million of free cash flow over 9 months. Before the cash nonrecurring charges related to our transformation plan, that's [usually] minus $100 million below our last year performance in the 2016 performance at minus $9 million. But in reality, [because] the $100 million [removed] once [we realize] the respective change in working capital impact, and it was plus $162 million in 2016 and minus $49 million this year.

The cash nonrecurring charges related to our transformation plan were plus $25 million to positive contribution in Q3 as we are accounting for the year the accelerated refund of the French R&D tax rate for $40 million. As such, accelerated refund being triggered by our entering the Safeguard process.

All in all, the nonrecurring charges weighted for minus $75 million over the 9 months period, leading to a year-to-date minus $184 million free cash flow as of September.

Looking at the debt graph on Slide 12 and our balance sheet item. We -- well, first, we closed the quarter with a weakening U.S. dollar at $1.18 by September 1 versus $1.14 by June 1 and $1.05 by year-end 2016. And so when you look at the charge in the net debt, which has a significant [euro] component and you see that there's an impact here. So accounting net debt amounted to roughly $2.6 billion by end of Q3, despite a positive Q3 [remuneration] meaning, 2.5 -- $2.6 billion being above the $2.5 billion of H1 2017. And this is the consequence of the impacts of FX rate plus $39 million over the quarter and actual acceleration of the amortization of the historical issuing fees for globally $23 million and last, obviously, due to the maintained competition of the [accrued] trust, which are being payed and secured coupon for $31 million, which correspond to the liquidity savings we made by opening our legal proceeding on June 14. On such basis, the group liquidity amounted to $333 million by September end while in line with the $350 million we've already achieved at the end of June.

I will hand back now to Jean-Georges for more comments.

Jean-Georges Malcor - CGG - CEO and Director

Thank you, Stephane-Paul, and I’m going on Page 14. When we look at the 9 months revenues for the group and when we look at it by segment as well, we are clearly on line with our full year outlook. At group level, you can see from the slide that our year-to-date revenues are now stabilizing after 3 years of sharp decline related to the very complex and challenging environment we have been through in the oil service sector.

This is also true at each segment level, except for Sercel, the equipment part, which is decreasing but expected to have a traditionally better Q4. So we are in line with our full year outlook, as presented in our restructuring plan back in May and the vision we shared at the time when we presented our business plan. I'll remind you that we forecasted based on reasonable assumptions on market recovery in 2018 and 2019 and increasing revenues to reach the $2 billion mark with a 37.5% -- plus EBITDA margin in 2019. Volume increase will be key -- will be the key driver for our vision, especially in the equipment and GGR, and with only a modest increase in pricing for the data acquisition segment.
We have to keep in mind that this will bring us back to our 2015 safe level, far below our 2017 revenue -- 2013 revenue, sorry, which were at $3.8 billion, but with, of course, stronger perimeter, I think, especially in Marine since at the time we are operating aging business.

Now looking at Slide 16 (sic) [Slide 15] and outlook for 2017. As we said at the end of July, we expect the market in 2017 to remain at a similar level as in 2016, and we expect our 2017 EBITDA to be in line with 2016. Multi-client cash CapEx are still expected to be at the $250 million to $300 million range, with cash prefunding rate above 70%; and Industrial and R&D CapEx in the range between $75 million and $100 million. Both of these ranges will be probably in the lower part of the range.

As already mentioned last quarter, the cash generation is expected to be lower in 2017 due to the lack of positive change in working capital. This positive change that we add, we benefited from early in 2017.

Looking at the operational divisions and giving a bit more color. For multi-client, the sales should continue to be supported by good strategic positioning and recent and modern data library in key sedimentary basins, particularly Brazil, Gulf of Mexico and North Sea. While equipment should continue to suffer from low volumes in the context of imaging visibility. And even if we are probably reaching the point of a global shortage of existing equipment, both in Marine and Land, we should see some increase in our external sales level. Data acquisition should still be hampered by low exploration spending and low pricing conditions with the usual unfavorable seasonality in Q4 with however, for us, a reasonable good coverage.

Now to conclude on slide -- Page 17 -- or Page 16, I should say, I guess, for the key milestones to come. What have we achieved? On July 28, lenders' committees and bondholder general meeting approved the Sauvegarde Plan. Late September, we had another win in the settlements by U.S. creditors entitled to vote on the Chapter 11 plan. On October 16, the approval of a New York Bankruptcy Court to implement the Chapter 11 was received. And lastly, earlier today, the shareholder Extraordinary General Meeting voted up the resolutions necessary for the implementation of the restructuring plan, the [remuneration] were voted at more than 91%.

So we really thank our shareholders for their [decision] support for the future of the company. The favorable vote is a new key step forward in the implementation of financial restructuring for major milestones, which have been met today. The next step in a good financial restructuring will be the sanctioning of the Sauvegarde Plan by the Paris Commercial Court. [Service] per closed, the court hearing will be held on November 20 in order to examine the draft Sauvegarde Plan and then also the claim file against us or against the plan by certain holders of convertible bonds.

So subject to the decision of the tribunal, the financial restructuring will allow us to weather financial restructuring payload to the difficult market condition that we are currently facing. We positioned high-value added Geoscience activities. Our teams will continue to be entirely focused on delivering the best service to our clients. And I must say that I'm very thankful to our clients who kept all the trust they have in our activities, solution and services during the difficult period.

Thank you, and we are now ready to answer your questions.

QUESTIONS AND ANSWERS

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

As we get Sercel, how much would the sales look to increase to go back to breakeven level at EBIT level?
Jean-Georges Malcor - CGG - CEO and Director

Well, we didn't communicate largely on this matter, but you can go back, Jean-Luc, to what we said last quarter that, basically, the breakeven is around $300 million, a bit more $320 million.

Stephane-Paul Frydman - CGG - CFO and Senior Executive Vice-President of Finance & Strategy

$320 million, $330 million.

Jean-Georges Malcor - CGG - CEO and Director

Yes, $320 million, $330 million. So this is where we need to be -- we have to be to have a -- to be at breakeven in EBIT.

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

If I may ask a question, at what point do you think your usual (inaudible) have no choice but to start ordering it in?

Jean-Georges Malcor - CGG - CEO and Director

Well, that's a difficult question because, as you know, we have been waiting for quite a long time now to see this segment recovering. Typically, where we are today is that both in Land and Marine, we are probably reaching the point where this reordering is going to become very crucial for our customers. Let's expand a little bit on this point, on the 2 points, Marine and Land. On marine, you know that the last big sales of streamers were made back in 2012, 2013 or even before for the big orders, right. You know that the life of a streamer is typically 6 years when we don't break them, when we don't lose them at sea. The fact that a number of vessels have been retiring or, let's say, have been cold-stacked, have created temporarily a kind of stocks of streamers that we have been recycling to operate on the new vessels. Now what I can tell you is that from what we can see on our side and from the competitors' side or from the customers' side, I should say, is that we are reaching a point where these additional volume of streamers, which was created by the retirement of the vessel, had been almost fully absorbed. And so if we want to operate a vessel with a maximum operational efficiency, we start -- you will need to start to reorder streamers. On the Land side, it's a similar issue. Typically, the land equipment, which were available in the various vendors in stocks, have been almost fully absorbed by the timing as well. And at one point, we will need also to reorder some equipment just to operate the crews. So we think that we are probably close to this point, but to tell you that it will be next month or next quarter is a bit too early.

Operator

We have no further questions at present. (Operator Instructions)

Jean-Georges Malcor - CGG - CEO and Director

Okay. Well, one more question?

Operator

We have another question. It comes from Peter (inaudible) of (inaudible).
Unidentified Analyst

I'm just going to ask, how do you see development of the multi-client sales in Q4? I mean, we have heard some comments coming from your competitors that the seasonal uptick in the last quarter of the year might be less prominent, if at all, this year. What are your views on this?

Jean-Georges Malcor - CGG - CEO and Director

Okay. No, it's true that in the last few quarters, we saw a more, let's say, steady type of orders in multi-client, less picky, if you want, but we see that the seasonality, even if it is not as strong as it was in the past, we'll soon be there. We have a pretty good positioning of our multi-client sales in the various basins. So even if Q4 is not going to be probably super, super strong, we should see a reasonable Q4 on multi-client with the visibility we have today.

Unidentified Analyst

Okay. And just following up on this, since -- because we are already mid-November, do those sales normally occur in the first half of Q4? Or most of your clients wait until late November, early December. So like how much of visibility on the Q4 do you have at the moment?

Jean-Georges Malcor - CGG - CEO and Director

Yes. It's typically a post-Thanksgiving matter, and most of the time, it's between Christmas Eve and New Year's Eve. So it's very much back-loaded. However, what I can tell you is that, particularly some of the [mixture] basins where we have a good positioning, we are in active discussions with our customers as we speak.

Operator

We can now move along to our next question. It comes from Julien Raffelsbauer of Cantor Fitzgerald.

Julien Raffelsbauer

On the outlook, so I think some of your competitors have been saying that Q4 and Q1, so the winter season will be a bit weak and as well for '18. I think they've been saying that there is not so much visibility. I wish you can confirm this or give us any also insights about the winter and a potential recovery and the timing of recovery.

Jean-Georges Malcor - CGG - CEO and Director

Yes. Okay. On winter season, so basically, Q4 and Q1 for the Marine activity, I confirm that globally, this season is going to be tough, very competitive and low. However, on our side, we are reasonably well-covered. As I said before, for Q4 and Q1, I think we are 92% covered in Q4 and 67% covered in Q1. So we are -- but you also to keep in mind that we're operating only 5 vessels. So it's (inaudible) in Marine. For the rest of the activity in GGR, it's much less sensitive to the seasonality. That seasonality is actually playing more on the Contractual Data Acquisition. GGR and SIR is much more resilient in terms of seasonality in the winter season, with the comment that I already made on the multi-client.

Julien Raffelsbauer

Okay. And for 2018, I guess, they've not (inaudible) at all. But the discussion you have at the moment with your clients, what is your feeling? If you want to share that with us.
Typically, it's far too early to comment post-Q1, but that's about the visibility we have. However, again, we are much less exposed to the Contractual Data Acquisition as before, and the rest of our activity is much more resilient and not as subject to seasonality. I'd just like to mention that the reason why the winter season is going to be skewed, that's our view, still difficult for the data acquisition business is that we are still operating in a market, which is oversupplied. Even with all the efforts, which have been made by the industry, they are still putting vessels for the volume of activity, which is being offered. And this is particularly crucial in Q4, Q1. Of course, Q2, with the North Sea season [not delivered], it's a different story. If it is (inaudible).

Lillian Starke - Morgan Stanley, Research Division - Research Associate
Most of my questions have been answered. I just wanted to ask. In terms of the time frame that you've mentioned for the restructuring, I know you've approved the higher bond and as well with the shareholders' approval. Are you be moving forward on the rights issue? Can you provide a bit of detail in terms of when do you expect to get the cash inflow from this one and if it's all tied up to either the November 20 vote or we should expect that until late February based on the previous guidance that you've provided?

Jean-Georges Malcor - CGG - CEO and Director
No. I think that, as I said, the next step towards after this successful vote today will be to get the final, call it, decision, and we have a hearing on November 20. And subject to the court giving the green light, probably within a few weeks after the hearing, we should be moving on with the various operations that we need to launch to complete the restructuring plan, and we expect this -- the completion of the plan to be done in Q1. We said late February Q1, plus or minus a few days, so we are very pretty much in line with that. We will be communicating probably in the next few weeks. Once we know the vote from the tribunal, we will know a more detailed schedule to give you more visibility on the final date of the completion date for the restructuring. But we are definitely within Q1.

Lillian Starke - Morgan Stanley, Research Division - Research Associate
Okay. And if I may, another housekeeping question. And then I see that you have in place in the restructuring, can we -- you'll be keeping the same exposure in terms of the dollar RCF and the euro RCF? Are you expecting a change based on that?

Stephane-Paul Frydman - CGG - CFO and Senior Executive Vice-President of Finance & Strategy
Well, all of that will be refinanced. I mean, that's euro and dollar that's at fixed rate. And after the issue of the new debt, in fact, it will be partially in the hands of the (inaudible) contributor, meaning there's potentially a euro tranche in the second lien, i.e. normally in the $375 million, but that's at the end of the new yield bondholder. So we will know it only at the end at the execution of the deal.

Operator
We have no further questions. So at this point, I'll turn the call back to our speakers for any additional or closing remarks. Thank you.
Jean-Georges Malcor - CGG - CEO and Director

Okay. Thanks a lot, operator. Thanks a lot to all of you listening. And sorry for the unusual timing of the call, but I'm sure you understand that it was important to have this general meeting this morning and to have the positive vote to implement the resolution for the plan. Thank you very much. Bye-bye.

Stephane-Paul Frydman - CGG - CFO and Senior Executive Vice-President of Finance & Strategy

Thank you. Bye.

Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.