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CGG.PA - Q1 2016 CGG SA Earnings Call

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**Jean-Luc Romain** *CM-CIC Market Solutions - Analyst*

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## PRESENTATION

### Operator

Good day and welcome to the CGG first-quarter 2016 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Catherine Leveau, SVP of Investor Relations. Please go ahead ma'am.

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**Catherine Leveau** - *CGG SA - SVP, IR*

Hello, good morning and welcome to this presentation of CGG first-quarter 2016 results. My name is Catherine Leveau, Investor Relation. The quarterly financial information including the press release, the presentation and a streaming audio webcast of this call are available on our website at [www.cgg.com](http://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 risk and uncertainties that may change at any time and therefore the actual results may differ materially from those that they were expected.

The call today is being hosted from Paris where Jean-Georges Malcor, CEO; and Stephane-Paul Frydman, our SVP, Finance and Strategy, Group CFO who will provide an overview of the first quarter as well as provide comments on our outlook. Following the overview of the quarter, we will be pleased to take your questions.

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

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**Jean-Georges Malcor** - *CGG SA - CEO*

Thank you, Catherine, and good morning to all of you and welcome to the CGG Q1 2016 results.

Starting as a few word of introduction, the oil industry is now facing the deepest financial crisis on record, with profitability and cash flow at unseeable level for most of the oil and gas operators. This has created an equally dramatic situation for the service industry. Each successive



quarter for the past 18 months have led to falling activity and lower demand for oil services. This is the toughest environment we have seen for decades and we have to keep in mind that most of the quarter has been operated with an oil price below \$30.

This has of course a strong impact on our quarterly results, particularly on the volume side. But we are confident that thanks to the transformation plan and real drastic measures we are implementing with determination, we are able to sail the storm and we will be in a position to capture the market upturn when it comes.

The new rebalanced Group will be perfectly fitted to answer the customer needs in this new environment. The capital increase we successfully completed this quarter will allow us to weather this downturn. The medium term outlook of the oil market is still based on solid fundamentals at a time where the demand-supply may start tightening again later this year or early 2017.

Going to slide 3 starting with the Group overview, total revenues were at \$313 million, down 45% year on year and operating income before non-recurring item was at negative at minus \$81 million. And this is mainly due to GGR suffering from very low multi-client revenue after a strong Q4 and its margin was impacted by high amortization rate and low after-sales. So the results of GGR are totally imputable to the multi-client business.

The equipment division was highly impacted by low seasonal volumes, and for the contractual marine data acquisition it has been a transitional quarter with the fleet going down in numbers and reaching five at the end of the quarter with, however, a very good operational performance in very low, but stabilizing pricing conditions.

The transformation plan execution is on track and it is on schedule with a strong focus on cash management. The 3D marine fleet downsizing to five vessels is now achieved. Q2 will be the first quarter fully operated under the new format. We have a good visibility on our marine multi-client program for the rest of the year and I will come back on it later. And staff, costs and CapEx reductions are being implemented as per plan.

On the financial and cash side, we successfully executed our capital raise in this quarter and renegotiated the revolving credit facility extension. In addition, we benefited from a strong cash generation this quarter with a positive free cash flow at \$118 million versus minus \$20 million in Q1 2015.

So before looking at the performance of each division, I will quickly run through the operational highlights for Q1, going to slide 4. First of all, in multi-client, we actively continue investing in well prefunded multi-client seismic survey that will underpin the return to solid exploration activity in carefully selected and very specific regions around the world. We started a very important survey in Brazil late in Q4 in Barreirinhas in the northern part of Brazil as you can see on the map. This survey is going to last a few quarter.

As we said before, we will give you our multi-client fleet utilizations for the two quarters to come to help you modeling our activities. In Q1, it was low at 25% only since our fleet dedicated to multi-client work was in the transitional quarter as we were still completing some contractual data acquisition surveys. This ratio will move up to around 70% in Q2 and 60% in Q3.

SI and reservoir, in SI, subsurface imaging, we are pursuing a technology and innovation journey in helping our clients providing differentiated products and services. Let me outline some of the key achievements this quarter.

First, the successful delivery of the first large high-density broadband integrated survey offshore Asia, from marine acquisition, data processing and imaging to reservoir inversion.

Second, the first simultaneous shooting of data acquired and processed for multi-client program offshore West Africa. And the third one that we could mention is the excellent result from the new least-squares reverse time migration technology in subsalt imaging in the deepwater Gulf of Mexico.

On the equipment side, Middle East and Saudi Arabia continue to be an active place where we delivered the latest part of the Sercel Nomad 65 vibrators order. We also delivered a large batch of channels in Algeria.



Marine activity was very low as expected, mainly driven by maintenance. There is a lot of stacked marine equipment in the market which has to be absorbed.

In contractual data acquisition, we operate an average of six vessels this quarter and 75% were dedicated to contractual marine. It was as I said, a transitional quarter as we progressively stopped them, some at the beginning of the quarter, others at the end. And we reached a target of five vessels at the end of Q1 as scheduled.

We had in this context nevertheless a very strong marine operational performance. We have 94% availability rate and 94% production rate. I must say I am particularly proud of these numbers as our people remain very committed and show their professionalism for the difficult times we are in.

Now moving in detail for the performance of each division, starting with slide 6 and looking at the GGR profitability which was as I said, strongly impacted by the low volumes and the weak multi-client after-sales. GGR recorded this quarter a 31% revenue drop year on year at \$164 million, mainly due to the low multi-client activity. Multi-client sales represented one-third of the sales and subsurface imaging two-third of the total sales.

Subsurface imaging and reservoir revenue at \$109 million were down 22% year on year, typically in line with the market trend we saw this quarter.

Multi-client revenue reached \$55 million, down 44% with a very low level of after-sales. Prefunding sales were up 13% at \$47 million when after-sales were down at \$8 million after a strong Q4 however.

The cash prefunding rate was good at 67%, close to our 70% target for the whole year, and it was higher than last year.

We reached a 78% depreciation rate including accelerated depreciation this quarter. Looking at the net book value, \$959 million were recorded at March end, up 3% from Q4 2015, 12% is onshore related, 88% is offshore related. It is a young library as it is made of only 11% of work done before 2014 and 46% is still work in progress.

The GGR operating income reached \$8 million showing a 5% margin. SIR remains resilient and this drop in margin is clearly related to a low after-sales volume, normally highly profitable and high amortization rate on the work we are completing. All the new libraries are 80% amortized, will recognize low profitability at the beginning of the survey.

Going to slide 7, equipment was still impacted by very low volumes and reached \$73 million sales this quarter, down 42% year on year. The sales was two-third land, and one-third marine. This level of sales was low. In marine, all cold stacked vessels and stacked streamers are generating a low level of sales. And in land, customers have in a traditional weak seasonal quarter a wait-and-see position, which may last in Q2 but we expect the sales to be stronger in H2.

In the manufacturing business, it is a huge task to maintain profitability when revenue shrinks by 40%. We told you in March that Sercel reduced its breakeven point below \$400 million sales per year. We closed the referral sites, we optimized plants and we optimized also the subcontractor network. For the first time this quarter in many years equipment sales were below the \$100 million revenue, i.e., below the breakeven point. Such a low level of sales combined with an unfavorable mix of products, with this quarter a lower electronic content, i.e., the delivery of vibrators, led us to negative operating margin at minus \$11 million. In this environment, we continue to adapt and tailor our capacity and overheads cost to activity levels while preserving long-term operational capabilities and R&D.

This represent a burden on our operating margin, but it is a price to pay to keep and preserve our strong technical competencies and leadership. Only these efforts allowed Sercel to preserve its market share and we will pursue an efficient cost management and continue to strongly reuse OpEx as part of our transformation plan, and we will be implementing that in the months to come to bring our breakeven point even below the \$400 million mark.

Now moving on slide 8 and looking at the contractual data acquisition. Revenue was at \$89 million, down 59% year on year and this was due to a combination of weak market conditions and perimeter effect. To better appreciate the marine activity, we should in fact compare it to the last



quarter and sequentially sales went down by 17%. As we already said, marine pricing conditions reached historical low level in Q4, but it seems to be now stabilizing. The decrease in marine revenue in Q1 versus Q4 can be explained by the change of perimeter as we have been progressively cold stacking vessels. In fact the 24% decline in perimeter was partially compensated by the strong fleet operational performance; we have as I said, 94% production rate and a 94% availability rate.

Land and multi-physics total revenue were at \$31 million, down 34%. As we have announced last Friday, we have initiated the sale of our multi-physics activities as it is a non-core asset for us. The full completion is expected to be done during the summer as we have to get agreements regarding the transfer of licenses and authorization, which will take some time.

EBITDA of the segment was negative at minus \$14 million and operating income was also negative at minus \$34 million.

Now looking at the non-operated resources, this new segment was created some quarters ago to provide better visibility on the non-active part of our fleet. As soon as they were cold stacked, the vessels were transferred to this unit, which explains why the amount has come up this quarter with the new cold stacked vessels and some transitional cost. This quarter is as I said is a transitional quarter and we expect these non-operating resource contribution to stabilize going forward.

For the whole-year 2016, EBITDA should stand within the range of \$20 million negative to \$25 million negative including the minus \$10 million in Q1 while the G&A i.e., the non-cash charges, should amount to minus \$60 million to minus \$65 million including the \$70 million in Q1. You can see in the picture three of these vessels stacked in Dunkirk in the northern part of France. The six vessels are stacked at the same place in order to optimize the layup cost.

Now having gone through this summary of our operational segment, I now hand the floor to Stephane-Paul Frydman to comment in more details the financial figures.

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**Stephane-Paul Frydman** - CGG SA - SVP Finance & Strategy, CFO

Thank you, Jean-Georges. I am on slide 11 showing the Q1 P&L.

So the Group revenue amount as said by Jean-Georges was \$313 million in Q1, a year on year minus 45% decrease, mainly due to the change of all perimeter through the reduction of the operated marine fleet, six in average in Q1 2016 versus 11 in Q1 2015 due to the deterioration in market conditions and the really low volumes.

The Group EBITDA looking at the whole Group is \$27 million, driven by low multi-client sales this quarter and no positive contribution from Sercel.

To show the effective performance of the operated business perimeter, it's well to consider the Group EBITDA excluding non-operating resources negative contribution which amounted globally to \$37 million this first quarter.

At the OPINC level, the Group quarterly performance was minus \$55 million for the operated perimeter and minus \$81 million when including the NOR segment. We have to book this quarter some complementary charges for minus \$6 million related to our transformation plan in line with the progress of our cold stacking stages. And all in all, taking into account notably our accounting cost of debt at minus \$41 million and income taxes at minus \$6 million, the Group net income amounted at minus \$130 million for this first quarter.

Moving to slide 12 and about the cash indicator, \$27 million Group EBITDA combined with low tax paid and significant positive change in the working capital at \$290 million resulting mainly from the effective payments of our high Q4 multi-client sales led this quarter to a solid operational cash flow standing at \$238 million, up 105% year on year.

Total CapEx at \$88 million were down 20% year on year with multi-client cash CapEx at \$70 million, quite stable; and industrial CapEx at \$9 million, down 66%; and R&D CapEx low at \$9 million. The combination of the cash flow from operation, the global CapEx and \$31 million of interest paid this quarter led to a positive \$118 million of free cash flow versus minus \$20 million last year.

Including the cash non-recurring charges related to our transformation plan that weighted for minus \$42 million this quarter, the free cash flow stood at \$76 million, a very strong cash performance.

Moving on slide 13 and looking now at our indebtedness, you see that our debt profile didn't change this quarter, but for the extended RCF commitments mostly from July 2017 to July 2018. We negotiated with eight French banks early January ahead of the capital increase.

When excluding such RCF that were fully undrawn by March end, the average maturity of our senior debt stood at 4.2 years as of the end of Q1 while the first significant debt installment, the repayment of the \$342 million term loan we put in place last December should occur only in May 2019.

On the cost side, the average cash interest rate of such senior debt remains quite moderate given our present rating at 5.4%.

Moving to slide 14 and showing the Group liquidity, you can see that following our February capital increase, we generated \$370 million net proceeds and also thanks to our strong Q1 cash performance, the March-end Group liquidity corresponding to the cash available and undrawn credit facilities reached a record level at \$853 million. Obviously rate of the coming cash non-recurring charges related to the transformation plan that should increase significantly in Q2 and Q3 and in line with the progress of the execution of such plan.

On such basis, the net debt amounted to \$2,102 million by March-end corresponding to a 3.8 times leverage ratio, unchanged compared December-end and far below the five times bank covenant cap. The headroom is remaining also quite substantial when looking at the coverage ratio, meaning the EBITDA over the cash interest on the last 12-months basis that amounted to 3.6 times by March-end versus a bank covenant floor at 3 times.

All in all, we can see that the old financial plan we implemented over the last two quarter meaning in Q4 the 2017 high yield bond and (inaudible) preparations, again the 2019 term loan and in Q1 the successful capital increase, the extend of the French asset maturity and the amendments, all the bank covenants, so all of these is safeguarding the Company's liquidity for the critical times we are navigating in.

Hand the floor back now to Jean-Georges for the conclusion.

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**Jean-Georges Malcor - CGG SA - CEO**

Thank you, Stephane-Paul. So going on slide 16, I would like reiterate the vision I have for the Group to move from a land and offshore seismic acquisition group to a geoscience provider at all scales. And we are doing that through first implementing all phases of the transformation plan which will let us move from a seismic company to fully integrated geoscience company fast, flexible and customer-focused. This will be largely, if not fully, achieved by year-end.

Second, we are doing it for widening our offer from exploration to production. We are offering products and services going from geology to seismic and then to reservoir. For doing so, we have a comprehensive offer of equipment, data acquisition, licenses of our data, processing and imaging, reservoir characterization software and finally services and the advisory solutions.

We have the multi-disciplinary expertise to make an integrated interpretation to understand what affects reservoir quality and to build robust offer to better serve our customers from exploration to production.

Third, we are doing it for deploying a new business model. This new model will be solid capital intensive to drive limited need for new industrial CapEx and will allow us to play for the long run and protect our future.

And finally, I should also add that we are implementing this transformation plan in protecting as much as possible our technology, our innovation and our key expertise. This is absolutely key for our future.

So as a conclusion, as we have already indicated, we navigated this quarter in a very depressed oil and gas market. Our clients are reacting strongly to the prevailing very low oil price by continuing to significantly reduce their capital expenditure and headcounts and this has of course an impact on our activities.

As a result and as anticipated, when we launched the additional phase of our transformation plan in November last year, oil companies have held back on seismic spending and globally Q1 2016 is certainly one of the weakest, if not the weakest, quarter for the sector with industry being in the full-scale downturn.

For CGG, this environment has a significant impact on the quarter, and has mostly penalized our equipment segment and our multi-client after-sales although the latter had a very good fourth quarter in 2015. Even if we continue to expect a depressed environment for the whole year and no major improvement before 2017 and in keeping a very prudent view at this stage, Q1 could turn out to be the weakest quarter in the year and could mark the trough of the crisis. And we expect at least on our side, a better second part of the year with the full effect of the plan.

The demand even if it has been adjusting is still growing at roughly 2% per year. And according to the latest analysis and some of our client views, the supply-demand may start tightening by year-end or early next year with production depletion increasing. E&P cuts are so severe that production will go down and we think it could reach up to 5% decline if no investments are made.

In addition, we are seeing some of our customers considering strategic countercyclical approach to potentially reinvest when the prices are low and to be ready to reap the benefit when the market recovers. In this context, we remain focused on what we can control. I would even say that we need to excel at what we can control.

Our operational and HSE performance adapt and deliver our transformation plan, tight control of our costs and investments and cash management. This is why our roadmap is clear and we work it with determination along four axis.

First, adapt, reduce, cut massively in our cost base and control our investments. A lot has already been achieved, more is coming to lower even more our breakeven points for all our businesses.

Second, execute with no concession our transformation plan to refocus the Group on less capital intensive businesses and continue to offer a large range of solutions to help our customers to face the current conditions in taking full advantage of our integrated model. We should be ideally positioned when market bounces back.

Third, continuously improve our operational and HSE performance. On this point, the level achieved in Q1 despite a very difficult context is very encouraging and I would like to recognize the professionalism of our employees.

And fourth, secure our liquidity during the downturn. Our successful increase in capital has been a major milestone to achieve this objective and the cash generation in Q1 is also very encouraging.

So in this context, we reiterate our 2016 full-year CapEx. Industrial CapEx are expected to be in the range of \$100 million to \$125 million and multi-client cash CapEx should be in the range of \$325 million to \$375 million, with a prefunding rate above 70%.

With all the action in place at this stage, we will fully benefit from our transformation plan in the second half of the year, and we therefore confirm that we are aiming to reach a net debt of less than \$2.4 billion by the end of 2016.

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

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**Catherine Leveau** - CGG SA - SVP, IR

Operator Daniel, we can take questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Mukhtar Garadaghi, Citi.

### Mukhtar Garadaghi - Citi - Analyst

Thanks for presentation. Three, hopefully quick questions from me. On the equipment, could you comment on the rest of the year, any reason to expect the performance to improve in terms of underlying tenders and as such?

Second, working capital, really very strong in 1Q, could you comment on the outlook for the rest of the year there as well? Should we expect a reversal?

And finally, I am just looking at the leverage ratios and the way you could potentially be if the current strength continue at the end of the year. Do you think there is still appetite from banks to continue waiving that or I mean are they not running out of patience for the entire sector? Thank you.

### Jean-Georges Malcor - CGG SA - CEO

Okay, so I will start with the equipment and volumes on equipment. Clearly, we have been operating this quarter in very low context, which is again combination of a traditionally low quarter for equipment and Sercel. And second, the fact that the volumes, the demand has been extremely low. First, I like to reiterate the fact that we have not lost market share this quarter, and so and we have not sacrificed also in R&D. So the fundamentals stays quite good.

Now looking forward, we see for Sercel a traditional better second part of the year than the beginning of the year. So we should see volumes coming back in H2, particularly with -- we will come back to you probably in September or at the end of the summer, particularly with two markets which have been totally dead for the time being, which should be operating -- reopening during the year; China and Russia. So again for Sercel summary, H2 should be better than H1 in terms of volume.

On the working capital side, yes, we had a very strong quarter in Q1. As Stephane-Paul said, this is mainly due to the fact that we have had very strong Q4 in multi-client and we completed a lot of sales between the 15th of December and 31st of December as usual. And this big order intake has been paid largely in Q1. So we will see during the year a reduction in working capital of course, but it will still be globally for the year, a positive contribution of working capital.

Okay, the leverage, perhaps Stephane-Paul you want to answer on the leverage?

### Stephane-Paul Frydman - CGG SA - SVP Finance & Strategy, CFO

Yes. We have a permanent debate with our banks that are highly supportive of the Company. I mean, the main lender of the banks were underwriter of the capital increase. We negotiated several times the amendment, the extent of their CS last year and obviously and so we are having a permanent and positive debate with the banks. We are not anticipating any issue with our lenders. On top of it, you see that we are managing in a very dynamic manner the debt profile of indebtedness, meaning that we are always moving significantly ahead of the maturity dates to manage the date so they are rather happy with such precaution.

**Mukhtar Garadaghi** - *Citi - Analyst*

Stephane-Paul, and just to follow-up on that, do you think there is more pressure for you to potentially raise more capital if such renegotiation is needed?

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**Stephane-Paul Frydman** - *CGG SA - SVP Finance & Strategy, CFO*

No.

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**Mukhtar Garadaghi** - *Citi - Analyst*

I think essentially we are entering third year of downturn for seismic and third year of --?

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**Stephane-Paul Frydman** - *CGG SA - SVP Finance & Strategy, CFO*

No, no, we have a trust meaning we fix the covenant for the three years to come, meaning so we have a debate based on the forecast that we have. Again, the banks have a view of what the 2016, 2017, 2018 could be and they are supportive of such scenario. So I am not seeing any additional pressure. We have long debate beside the capital increase and do well and we think that \$370 million of net proceeds was exactly what we needed to weather the situation we are in.

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**Mukhtar Garadaghi** - *Citi - Analyst*

Okay, thanks for your answers.

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**Operator**

Jean-Luc Romain, CM-CIC Market Solutions.

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**Jean-Luc Romain** - *CM-CIC Market Solutions - Analyst*

My question relates to multi-client size in the first quarter, they were obviously quite low. Do you expect an improvement in the next few quarters?

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**Jean-Georges Malcor** - *CGG SA - CEO*

Yes Jean-Luc, of course. Q1 as I say, again it's a seasonal quarter or a low quarter and multi-client sales are made of basically two things. The kind of bread and butter recurring business, which is roughly where we are in Q1, okay, between \$50 million, \$60 million, \$70 million roughly quarter after quarter. You know that's the normal recurring type of sales that we get. And then we have more lumpy sales quarter after quarter linked to bigger deal. And this is exactly what is happening. We are at the 2% Q4 in the current circumstances, so Q1 has been low and kind of the bottom -- reaching the bottom on multi-client. We should see during the year a typical pattern where Q2 getting better, Q3 even better and Q4 super strong.

So that's what we have in the planning and there is no indication today, bearing in mind the discussion we have with our customers, to see profile for the year, we should be very different from the one that we have seen last year.



**Jean-Luc Romain** - *CM-CIC Market Solutions - Analyst*

Thank you.

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**Operator**

Mick Pickup, Barclays.

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**Mick Pickup** - *Barclays - Analyst*

So first subjective question. Could you just comment on the type of work you are doing now, the type of data you're selling? I realized you say more it's production related rather than exploration related. Are you seeing data being requested for now for early phase Brownfield work when it comes back?

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**Jean-Georges Malcor** - *CGG SA - CEO*

Yes, part of it is linked to that, Mick and at the time being particularly in SIR, we are seeing some shift towards more reprocessing, but also a request for more production related seismic analysis, okay, more reservoir type of seismic analysis. So, and globally on our basins, it's clear that they are less interested at the time being for pure exploration, I would say, new frontier exploration, it's much more interest on mature fields. I cannot tell you exactly what will be the proportion of Brownfields but at least more mature fields for sure.

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**Mick Pickup** - *Barclays - Analyst*

Okay and sorry to ask a question about the contract market, but for the little bit that you do, one of your competitors already said this morning for the second half of this year it looks a lot more balanced and the work is being passed up at normal prices. Is that what you are seeing too?

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**Jean-Georges Malcor** - *CGG SA - CEO*

Well, I don't know what they call normal prices. What we can see clearly this quarter compared to the last quarter is that the price is actually low, but they are stabilizing. Clearly, we have quarter after quarter to Q4 last year, we were actually seeing the prices going down and since the last two quarters we have been stabilizing in prices. Yes, and they stay at very low level for the time being. So that's why I was reacting to the normality, I don't know what they call normality, but clearly stabilizing yes. Coming back to where they were, they were before no, not yet.

Clearly, if the demand-supply start tightening, they will have a strong effect on the prices. But I think we should be prudent on that because we need to keep in mind that there are a lot of vessels stacked at the time being. All the vessels stacked are good vessels. It's not the case where you've stacked the one that you don't want to operate, and if the prices are coming up sharply, no doubt that vessels will come back.

So this is one of the reason on our side where we tried through our action plan to minimize strongly our exposure to this contractual business.

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**Mick Pickup** - *Barclays - Analyst*

Okay. And the final question, if I may, you've obviously been very proactive on cost. It looks like you need to take more out of Sercel and I think you mentioned you will be doing that. How difficult does phase 2 of cost become relative to phase 1?

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**Jean-Georges Malcor** - CGG SA - CEO

Well clearly, on the Sercel, you know, we have had already a long journey in terms of cost cutting. We went down from \$650 million breakeven point in revenue to below \$400 million. Clearly, with the type of quarter that we had this Q1, we are looking at shaving off even more costs and bringing the breakeven point even lower. But it's, I would say, the low hanging fruit have been harvested if you want, so it's becoming more difficult. But we are proactively working on it in order to win few millions here or a few million there.

And one thing which is important is that on the French side, and we have now finished the consultation with the unions. We have the green light to do the adaptation plan and this will be seen for Sercel particularly in the second part of the year, when people are going out of the door as we speak now. So there will be a full effect in the second part of the year.

A note on that, we have to keep something in mind for Sercel is that so far we have been maintaining a high level of R&D because we think that it is important for the future to maintain this investment in technology and we will be doing so as much as we can.

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**Mick Pickup** - Barclays - Analyst

Thank you very much. And let's hope this is the trough.

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**Operator**

Jean-Francois Granjon, Oddo Securities.

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**Jean-Francois Granjon** - Oddo Securities - Analyst

Just two questions for me please. The first one concerning the SCR business, could you come back on the explanation to explain the strong drop for the sales for the first quarter by 22%? I understood that, but I see that it is a more resilient business, but we see a strong drop. So why and what do you expect for the next quarter?

And second question concern the free cash flow. So after all the strong positive free cash flow for the first quarter, what do you expect for the full year? Thanks.

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**Jean-Georges Malcor** - CGG SA - CEO

Okay, so for SCR, yes, SCR has been fairly resilient this quarter and the decrease that we saw in volumes, not in margin is totally in line with the decrease in -- of the market that we see globally. So no loss of market share, and 22% reduction in the first quarter which is also traditionally low quarter. For the rest of the year, the backlog in SIR is good. We have a reasonably good visibility for the full year, almost for the full year. So I am rather confident that we would stay within the reduction that we gave during our last call in March, which will be a 10%, 15% reduction. So we should see the rest of the year compacting less than what we had in Q1. That's for SIR.

For the free cash flow, I think the best is to look from a macro point at the guidance we give on the debt. We finished last year at \$2.5 billion in debt. We had \$370 million of capital increase, okay? We said that we will spend \$200 million cash to fund the plan this year. We are still within this equation. So, when you do the math, you see that we have reached \$3,330 million in the equation and we have reached a rating the guidance at the debt below -- it's not 3000, \$2,330, my apologies. And we reiterate the guidance at \$2.4 billion.

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**Jean-Francois Granjon** - Oddo Securities - Analyst

Okay.



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**Jean-Georges Malcor** - CGG SA - CEO

I was not very clear, let me start again. End of the year \$2.5 billion, capital increase \$370 million, \$200 million spending in cash and we reiterate the guidance at \$2.4 billion.

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**Jean-Francois Granjon** - Oddo Securities - Analyst

Okay, perfect. Thank you.

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**Jean-Georges Malcor** - CGG SA - CEO

Sorry about that, I was confused.

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**Jean-Francois Granjon** - Oddo Securities - Analyst

No problem.

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**Operator**

Christopher Mollerlokken, SpareBank 1 Markets.

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**Christopher Mollerlokken** - SpareBank 1 Markets - Analyst

I understand the account is closed much on the multi-physics transaction. But, could you give any flavor on what this business contributed for CGG in revenues and profitability last year?

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**Jean-Georges Malcor** - CGG SA - CEO

Okay, last year, it was roughly balanced, balance minus, okay, last year. And we see at the beginning of the year, it has been rather negative for the first quarter. And as you know, we completed the sales last Friday -- I mean, complete, we signed the agreement last Friday and the completion will be probably at summertime, the time to get all the licenses transfer and authorization. So, this divestment is part of our plan. We announced that we will be looking at selling some non-core assets, okay, and so this is one example of realization.

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**Stephane-Paul Frydman** - CGG SA - SVP Finance & Strategy, CFO

But when you look at the revenue of this business, it's two-digit revenue.

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**Jean-Georges Malcor** - CGG SA - CEO

Yes.

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**Stephane-Paul Frydman** - CGG SA - SVP Finance & Strategy, CFO

So, to give you an order of magnitude.



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**Christopher Mollerlokken** - *SpareBank 1 Markets - Analyst*

And if I remember correctly, this was part of the acquisition of Fugro Geoscience. Are there other businesses within CGG which you would like to look for a divestment?

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**Jean-Georges Malcor** - *CGG SA - CEO*

Yes, you're right. Multi-physics was part of the business that we bought from Fugro, which came with Fugro. There are a few other small businesses that we are analyzing at the time being and we are having discussions. But we're also looking at other non-key assets which are not necessarily business related, I am talking about land, equipment, buildings and we will probably do a stock take by the end of Q2 to tell you where we are globally on the divestment of the small items. Each individual transaction maybe a few millions, but all in all, it's tough to be significant in terms of realization.

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**Christopher Mollerlokken** - *SpareBank 1 Markets - Analyst*

And final question, there has been some firms that you talked about potential MegaCrews in the Middle East. What do you see in the tendering activity for Sercel from Middle East region currently?

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**Jean-Georges Malcor** - *CGG SA - CEO*

Yes, at the time being for 2016, there is no MegaCrew this year in 2016. There are some discussion for 2017, too early to say, that's why I think the good meeting point will be at the end of this summer, the turn of the summer or beginning of September. But clearly, no MegaCrew in 2016. We are delivering -- we have been delivering the vibrators and the geo phones for two of them in Saudi at the time being. There are some discussions in Oman, in Abu Dhabi, but not much for the time being. So, we don't anticipate any MegaCrew for 2016.

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**Operator**

Thank you. (Operator Instructions). Rahul Bhat, JP Morgan.

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**Rahul Bhat** - *JP Morgan - Analyst*

Just a couple of questions. On your multi-client CapEx, could you guide to how much of that is already committed and do you have any flexibility to reduce that if you think the market has weakened considerably in the second half?

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**Jean-Georges Malcor** - *CGG SA - CEO*

On multi-client CapEx, we reconfirmed the level of investments that we want to -- we plan to make during the year, which is the range between \$325 million and \$375 million, okay? And for us today, the point is not to look at reducing this CapEx. It's to make sure that we select within this envelope, the best survey to be done in the best areas. So, we have extensive discussion with our customers because yes, of course, we can still cut a few millions here and there, but is after that is we have to look as well as the future and we believe that multi-clients is a good business to invest in.

We believe also that we will see more and more multi-client going forward because our customers are more prepared today to mutualize their risk in their investments, including with us, okay? And at the end of the day, the level of CapEx that you're mentioning, you have to read it of course with the level of prefunding because you can reuse your CapEx if you have no prefunding. But if you are properly prefunding, pre-funded, sorry,



it doesn't make sense at all to reduce your CapEx. So, our commitment and this is why it's very important is to say \$325 million to \$375 million with 70% prefunding.

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**Rahul Bhat** - *JP Morgan - Analyst*

Understood, understood. And on the contract basis, if I remember properly, last quarter you had said that most of it is booked for the rest of the year and with Q3 multi-client percentage coming slightly lower, is it that you're doing slightly more contract work?

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**Jean-Georges Malcor** - *CGG SA - CEO*

Yes, it's linked to the balance of vessels and the season, okay, typically. So, today we've started the year with 25% which was low, but we knew that because we were actually completing some of the existing contractual business and we had also some transit, but you saw that both availability and production rate were high at 94%.

Going forward, for Q2, where we you know, it's 100% determined in Q2. We have a rate of multi-client 70%, 60% in Q3 and then Q4 would be strong as well. So, the reason is more linked to the seasonality than anything. And we still plan to have our two-third of the fleet occupational rate for the full year for multi-clients, okay, which is the equivalent of 36 months of vessel production.

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**Rahul Bhat** - *JP Morgan - Analyst*

Yes, okay, understood. And on multi-client amortization, is there any specific items or anything you want to give for the full year if Q1 was considerably stronger than what you have previously historically? And should that be a good guidance for the rest of the year?

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**Stephane-Paul Frydman** - *CGG SA - SVP Finance & Strategy, CFO*

No, on that matter, you will find in the 6-K I mean, the detail of our policy, accounting policy, but keep in mind that we used to depreciate offsets related to the survey that have still net book value at 80%, and obviously the outcome of the average depreciation rate of our sales is the outcome of the mix between the fully depreciated sales and the sales related to share that have still a net book value.

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**Jean-Georges Malcor** - *CGG SA - CEO*

Yes, you have to remember that during this quarter in Q1, we had a very low level of after-sales, the fully depreciated after-sales. You saw that we had to -- well out of the \$55 million, we had only 8 million of after-sales.

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**Stephane-Paul Frydman** - *CGG SA - SVP Finance & Strategy, CFO*

Exactly. They spend the 78%, very close to 80%.

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**Rahul Bhat** - *JP Morgan - Analyst*

Understood. Thank you.

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**Jean-Georges Malcor** - *CGG SA - CEO*

Okay. Perhaps, we can take the last question, if there is one.



**Operator**

Bertrand Hodee, Kepler Cheuvreux.

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**Bertrand Hodee - Kepler Cheuvreux - Analyst**

In fact two question relating to Sercel, so first one is how long do you think it will take to absorb the huge amount of inventories of stacked marine streamers? So that's the first question. And then, is Sercel investigating ways of selling products not directly sell it to the oil and gas industry but towards other market segments?

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**Jean-Georges Malcor - CGG SA - CEO**

Yes, thank you Bertrand for that. So for the first question on the marine side, we see that to be gradually being absorbed during the years to come. We have not made any hypothesis for any recurring marine in Sercel in 2016. So we are gradually using this equipment on our vessels, we are selling some of them as well. So this will be probably -- sorry in 2017 and in what I was indicating that H2 will be better than H1, is totally linked to the land equipment not to marine.

Second, on your second question, yes, we are looking at alternative of other vertical segments where we could apply the expertise and technology that we have in Sercel in other domain but oil and gas. So we are quite active on this matter, but is not something that comes overnight. We have to work on it, we have some interesting discussion for the time being, but more to come on this front in the coming quarters. It's too early to tell you where we are today, but we are actively looking into it.

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**Bertrand Hodee - Kepler Cheuvreux - Analyst**

Thank you.

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**Jean-Georges Malcor - CGG SA - CEO**

Okay. Perhaps if there is still one question because I am being told that we have a little bit more time, but no, okay. Okay, good. Okay then, so thank you very much for this call. Obviously, we stay available for you if you have any additional questions and I wish you a very good day.

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**Stephane-Paul Frydman - CGG SA - SVP Finance & Strategy, CFO**

Thanks a lot.

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**Jean-Georges Malcor - CGG SA - CEO**

Bye-bye for now.

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**Stephane-Paul Frydman - CGG SA - SVP Finance & Strategy, CFO**

Bye.

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**Operator**

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

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