Q2 2021 Financial Results

Wednesday, 28 July 2021
Introduction
Christophe Barnini
Head of Group Communications, CGG

Welcome
Thank you. Good morning, ladies and gentlemen. Welcome to the presentation of CGG's second quarter 2021 results. The call today is hosted from Paris, where Mrs Sophie Zurquiyah, Chief Executive Officer, and Yuri Baidoukov, Group Chief Financial Officer will provide an overview of the second quarter and half year 2021 and will also provide comments on our outlook.

Some of the information contains forward-looking statements that are subject to risk and uncertainties and 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.

Business Overview
Sophie Zurquiyah
Chief Executive Officer, CGG

Introduction
Yes. Thank you, Christophe, and good morning, ladies and gentlemen. Thank you for participating in this Q2 2021 conference call. I will start with general comments on our market environment on slide five.

Q2 2021 Business Overview
Market trends
Overall, during the second quarter, activity of our clients remained similar to the first quarter with the international oil companies maintaining capital discipline, while national oil companies and large independents remained more active. However, the macro environment has clearly strengthened with Brent oil price remaining over $70. This is triggering an increase in short-cycle investments, mostly targeting development and production. We are not yet seeing in our Geoscience space significant changes in behaviour even though there are positive signals.

In 2021, the IOCs will generate significantly higher cash flow and deleverage quickly, even if financial discipline, dividend pay-outs and decarbonisation remain their priorities, we expect they will start accelerating spending to meet hydrocarbon demand recovery and compensate for the depletion of their existing reservoirs. For all the activity of our clients to optimise production from their current reservoirs and to meet growing hydrocarbon demand, CGG’s high-end technology will be a key component of the value chain.
**Business performance**

Already, we see Geoscience progressively recovering, thanks to increased demand for our superior technologies and services.

Multi-client was particularly slow during the quarter, due to delayed pre-funding and a slow decision-making processes from our clients, mainly DLC. Since then end of June, we have finalised agreements for more than $35 million of pre-funding for our 2021 streamer vessel programmes. Those agreements were expected in Q2 but slipped into July.

It was a slow quarter as planned for our equipment business due to the timing of deliveries. Sercel was recently awarded a major contract for 18,000 GPR300 shallow water nodes which are currently in manufacturing and will be delivered in Q3 and Q4. Sercel is also in advanced discussions with significant land equipment deliveries in Q4.

Overall, after a very low first half of the year, we anticipate an acceleration of our top-line and profitability in H2 2021 and into 2022.

**Balance sheet**

Earlier this year, I highlighted our business initiatives to dispose of a few assets and divest non-core businesses. During Q2, we hit several milestones. First, the headquarter building sale and leaseback initiative is progressing well, with closing anticipated in Q4. Second, the sale of the GeoSoftware business is progressing as planned and we are confident to close this sale in Q4. At the end of June, our physical asset storage business has been put for sale. This is a non-core business for CGG for the storage of physical assets in large warehouses. These two divestitures enable CGG to further focus on the continued strengthening of the differentiation of our core businesses and our growth beyond the core.

With the expected solid second half of the year, the monetisation of assets and disposal of the businesses held for sale as well as the full impact of our savings, CGG should deliver a positive net cash flow in 2021.

Moving on to slide six now.

**Q2 / H1 2021 Key Financial Highlights**

Our Q2 revenue of $157 million was down 22% year-on-year. Group segment EBITDA was $42 million, with a 26% margin, mainly due to the business mix. Segment free cash flow was negative $3 million, and net cash flow this quarter was negative $56 million, before $39 million of core premium and fees related to the refinancing.

Our H1 segment revenue of $370 million was down 22% year-on-year, and segment EBITDA was $78 million in H1, with a low 21% margin, mainly due to the business mix. Segment free cash flow was $57 million and the net cash flow for the semester was negative $27 million, before the $39 million of core premium and refinancing fees. Our segment free cash flow in H1 2021 was higher than last year, despite the significant drop in EBITDA, due to an $87 million positive change in working capital and significantly reduced Multi-Client CapEx.

Moving on to slide seven now, with the headcount reduction.

**2020 – 2021 headcount reduction**

I would like to show you an update on the savings we have achieved from the effort launched in March last year, at the beginning of the pandemic. The reductions which are in line with
business and legal requirements will amount to a reduction of around 900 employees by the end of 2021. This represents a 21% reduction for the 4,200 employees we had at the end of 2019 in CGG, excluding discontinued operations. Most of the reductions come from our support function and Geoscience.

Compared to 2019, the associated savings will represent $90 million of reduced personnel cost per annum by the end of 2021.

In parallel, we also hired around 100 new talent, mainly in Geoscience, to support our growth beyond the core initiatives. The $90 million in savings does not include additional savings associated with cost control and the reduction of our geographical footprint.

I will now cover our Q2 2021 operation by reporting segment, starting with GDR on slide nine.

**Operational Review**

**GDR key financial indicators**

GDR segment revenue was low this quarter at $110 million, down 24% year-on-year, but slightly up sequentially at 10%, thanks to the progressive recovery in Geoscience. Adjusted EBITDA margin was impacted by the revenue mix with less Multi-Client sales than last year. Adjusted OPINC was positive as a result of improved Geoscience revenue and our lower cost base.

**Geoscience key business indicators**

On slide ten, Q2 Geoscience external revenue was $73 million, down 12% year-on-year, and up 11% sequentially. Geoscience saw the start of a progressive recovery during the quarter. Backlog at 1st July stands at $222 million, up 4% year-on-year. In H1 2021, order intake more than doubled year-on-year, and we are anticipating further significant awards during H2 in the major active basins.

The renewed focus from our clients on field development is driving demand for OBN, especially for our leading processing and imaging technology, which is critical to providing the most detailed understanding of the subsurface to de-risk investments. Our top priority in Geoscience is to remain the undisputed technology leader and this was confirmed by the recent 2021 Kimberlite survey.

On slide 11, the Kimberlite survey is a third-party bi-annual survey of sectors within the EMP industry. Their recent report on subsurface imaging shows that CGG has a clear market leadership position in both technology and the service that we deliver. The chart shows us in the premium offering quadrant, where clients are willing to pay for the better image quality, state-of-the-art technology and turnaround time that we deliver.

Moving on to slide 12.

The same Kimberlite survey compares the different subsurface imaging competitors on a number of criteria. CGG consistently performs well above the industry average and better than any other competitor. The largest gaps in this chart are around the technology and quality of the image we deliver.

And I want to show you now an example on slide 13.
Continued innovation on OBN imaging

The use of ocean bottom node seismic is on the increase with increasingly larger-scale surveys designed to provide greater interpretation certainty in areas of complex geology. Around the world OBN technology is being adopted where business decisions require superior subsurface imaging to reduce risk, as the technical advantages over tool stream, the data sets are clear, especially with differentiated processing capability. And this is very much the case in the Gulf of Mexico, North Sea and Brazil, and also in the Middle East as well.

The uplift from nodes combined with our best-in-class imaging technology in this Gulf of Mexico comparison provides an excellent example of how dramatic the improvements can be. The new insights that were delivered enabled our clients to de-risk their well locations both from an HSC and project economy standpoint.

Moving on to the next slide, Multi-Client key business indicators.

Multi-client key business indicators

Multi-client revenue was $37 million, down 40% year-on-year. Q2 remained similar to Q1. The ISC play an essential role in our Multi-Client business and they have remained very disciplined in the first half of 2021, given the macro environment volatility and their focus on the energy transition and restoring financial performance. Sales were also impacted by the lack of bid rounds in the Gulf of Mexico and in Brazil.

We have significantly reduced Multi-Client cash CapEx from last year. In Q2, we had two vessels working on Multi-Client programmes as we started to work on a five-month 3D Multi-Client programme in the Norwegian North Sea in addition to our ongoing Brazil project.

Pre-funding revenue on our Multi-Client project was at $17 million with a pre-funding rate of 39% as targeted pre-funding slipped into Q3 2021. As I mentioned earlier, since the end of June, we have finalised agreements for more than $35 million of pre-funding for our 2021 streamer vessel programme, and I am confident that we will catch up on pre-funding in the second half of the year.

Multi-client after-sales were $20 million this quarter, up 28% year-on-year, but still lower than expected. The segment library net book value was $297 million at the end of June 2021, split 85% offshore and 15% onshore.

Multi-Client – worldwide footprint in proven and mature basins

Looking now at the Multi-Client footprint, we continue to expand our library in the most resilient basins. And indeed we have made a conscious effort to increase our participation in development and production successfully and have avoided those frontier areas that we believe would be less robust.

Brazil and Norway receive most of our investments, and we also look for those well pre-funded reprocessing projects that leverage our imaging technology.

I will also point out that we are starting to see new players in the carbon storage space come to us with interest in our data, especially in the North Sea and around the potential development of future major CCUS hubs. I can see where our data library will be very valuable in that new space.

Moving on to equipment.
**Equipment key financial indicators**

Equipment segment revenue was low this quarter at $48 million, down 19% year-on-year. We are anticipated a solid H2 supported by large GPR300 node deliveries and land equipment deliveries in the last quarter.

At this low volume of activity equipment adjusted EBITDA and operating income were negative $8 million and negative $16 million, respectively.

**Equipment overview**

Looking at equipment overview, land equipment sales represented 60% of total sales, as we delivered in Q2 to various geographies mostly spare parts for our installed base. Activities for the vibrators was strong with over 25 Nomad vehicles delivered.

Marine equipment sales represented 25% of total sales. As an important milestone, Equipment was awarded a major contract with BGP for the delivery of 18,000 GPR300 nodes. It is the first and significant sale of this unique technology that features our patented QuietSeis sensor, and it will be the first large-scale marine application of our QuietSeis sensor that allows broadband recording down to very low frequencies.

On the photo on this slide, it features our GPR300 shallow water node, and our manufacturing teams are currently producing it around the clock to meet the challenging delivery schedule.

I am pleased to also report that during the quarter we made the first sale of our structural health monitoring system S-lynks.

I will now give the floor to Yuri for more financial highlights.

**Financial Review**

Yuri Baidoukov  
*Group Chief Financial Officer, CGG*

**Q2/H1 2021 Income Statement**

Thank you, Sophie. Good morning, ladies and gentlemen. I will comment on the Q2 2021 financial results.

Looking at the consolidated P&L for 2021 on slide 19, segment revenue amounted to $157 million, down 22% versus the second quarter of 2020. It is a very low quarter for CGG Group. Geoscience performed better than anticipated, Equipment was low as planned, and Multi-client sales were disappointing as some pre-funding and after-sales slipped to Q3 and the second half of the year. GPR revenue was $110 million, a 24% decrease year-on-year with 70% weight. Geoscience revenue was $73 million, down 10% year-on-year, but up 11% sequentially. And Multi-client sales were $37 million, down 40% year-on-year on significantly lower CapEx and delay pre-funding and after-sales, and up 8% sequentially. Equipment revenue was low at $48 million as planned, down 90% year-on-year with 30% weight.

Segment EBITDA was $42 million and adjusted segment EBITDA was $35 million with a 22% margin due to unfavourable revenue mix and release of excess provisions for severance under the French BOC plan.
Segment operating income was negative $7 million, and adjusted segment operating income was negative $15 million. Cost of financial debt was $33 million. Net loss from continuing operations was $44 million and net loss from discontinued operations was $7 million.

Group net loss was $51 million, significantly less than the $147 million loss in Q2 of 2020.

Simplified cash flow on slide 20.

**Q2/H1 2021 Simplified Cash Flow**

Despite significantly lower EBITDA Q2 2021 segment free cash flow improved at negative $3 million versus negative $8 million in the second quarter of 2020, on lower CapEx and higher positive change in working capital. Total CapEx was $57 million, 36% down year-on-year, with investable CapEx at $6 million, research and development CapEx at $8 million, and Multi-client cash CapEx at $43 million, 40% down year-on-year. Net paid cost of debt was at $30 million and lease repayments were $15 million.

2021 plan cash costs were $8 million and continue to reduce.

Overall, and before the impact of the refinancing, net cash flow was negative $56 million this quarter. The impact of the refinancing on the cash flow in the second quarter was overall $67 million. It included $39 million of refinancing fees and co-premiums and $28 million net reduction in gross debt.

Moving on to slide 21, Group balance sheet and capital structure.

**Balance Sheet at 30 June 2021**

At the end of June 2021, Group liquidity amounted to $385 million, including $100 million of undrawn RCF. Group gross debt before IFRS 16 was at $1.22 billion and net debt was at $935 million. Group gross debt after IFRS 16 was at $1.35 billion and net debt was at $1.07 billion with the following breakdown: $1.195 billion of high-yield bonds due in 2027, $24 million of accrued interests, and $134 million of lease liabilities.

At the end of June 2021, our capital employed was at $2.18 billion versus $2.17 billion at the end of 2020. Net working capital after IFRS 15 was at $161 million, decreasing from $212 million at year end, primarily driven by a reduction on net accounts receivable. Goodwill was stable at $1.19 billion, corresponding to 56% of total capital employed. Multi-client library net book value after IFRS 15 was up at $516 million, including $454 million of marine and $62 million of land net book value.

Other non-current assets were $385 million, including $228 million of property, plant and equipment, down $60 million from year end, including $139 million of IFRS 16 right-of-use assets of which $64 million related to the [inaudible] financial needs, and $99 million of other intangible assets, down $70 million from year end.

Other non-current liabilities were $129 million, down $20 million from the end of last year.

Shareholders’ equity was at $1.04 billion, including $44 million of minority interests, mainly related to [inaudible].

**Asset monetisation and disposal of business held for sale**

As Sophie already mentioned, our asset monetisation and disposal of businesses for sale programme is progressing well. The sale and leaseback of our headquarter building is
progressing as planned and the closing of this transaction is anticipated in the fourth quarter of this year. In addition to net cash proceeds, it will result in reduction of lease liabilities and operating cost.

The sale of the GeoSoftware business is also progressing as planned and closing of this transaction is anticipated early Q4 this year.

During the second quarter the physical asset storage business has been put for sale and is now accounted for as an asset held for sale. This is a non-core business for CGG, where we store document, space analysis collected for our clients in various warehouses. We are making good progress on our sale process and will make relevant announcements in due course.

Now, I hand the floor back to Sophie for an outlook for the 2021 market environment and our financial guidance.

2021 Outlook
Sophie Zurquiyah
Chief Executive Officer, CGG

2021 Business Outlook and Revised Financial Objectives
Thank you, Yuri. We are on the slide '2021 Business Outlook'. At the macro environmental level, we see the early effect of several years of reduced investment which are translating into high commodity prices, yet there is also a decorrelation between oil price and EMP investments from our clients, especially the IOCs, who remain particularly cautious when it comes to longer term opportunities to replace reserves and maintain production, because of the impact of the investors pressure for returns and energy transition commitment.

However, I have no doubt that renewable energies will play an increasing role in the energy mix, but it is also clear that the demand for oil and gas will recover to pre-COVID levels, and more, and will continue to grow in the short- to medium-term. In this time frame, it is the only source of affordable and flexible energy.

The current level of investment is unsustainable and will need to pick up to address the current and growing oil and gas supply constraints. In line with a larger integrated OSS companies, we believe that we are progressively entering a positive cycle with customers increasing their spending in our market in the latter part of this year and into 2022.

With our high-end Geoscience and equipment technologies and superior quality, Multi-Client data in the world's most attractive basins, CGG is well-positioned to provide our clients with the solution they require to increase the effectiveness of their activities while meeting their ESG goals.

We are also actively pursuing our new business opportunities adjacent to our core capabilities, and now have over 100 people working on minerals and mining, carbon and energy storage, digital services, environment science, geothermal science, and structural health monitoring. While it is still early, I am optimistic based on what I see so far from our current and potential new clients.
Along with the topics I already addressed earlier today, including the first sale of our structural health monitoring system, growing interest and sales of our Multi-Client data for CCUS, during the quarter we also launched SeaScope, an innovative position monitoring solution. We announced our work with dCarbonX for the subsurface assessment of its operated clean energy projects offshore and was selected by the European Space Agency's Space Solutions initiative to undertake a consortium-led aimed at developing environmental monitoring technology.

Looking at the near-term outlook, we anticipate Geoscience to continue its progressive recovery based on solid demand for our unique technology and strengthening commercial activity. Verbal awards at the end of June were up 175% year-on-year.

We also anticipate demand for our Multi-Client programme and data to strengthen from a very low first half of the year, and I am pleased to start the third quarter with a finalised pre-funding agreement.

Equipment after a low Q2 should deliver a solid H2 – second half of the year – driven mainly by deliveries of the new GPR300 nodes and continued activity in the Middle East and North Africa.

Thank you very much for your interest and we are now ready to take your questions.

**Q&A**

**Kevin Rogers (Kepler Cheuvreux):** Yeah. Good morning, thanks for the conference call. I have two questions. I am sorry if you already [inaudible] but I missed the part. Can you please give us a bit of information regarding the current level of execution that you have with clients regarding the latest? Do you expect a pick-up by the end of the year? What is the amount that we can expect from that side? If you can give us a bit of information regarding the execution that you have with the clients right now, it would be great, please.

And the second question is related to the new business that has been put for sale. Would it be possible to give us an idea of what could be the value that you could expect from it, please?

**Sophie Zurquiyah:** Greetings, Kevin, thanks for those questions. As you know, the Multi-Client is always difficult to predict, and very often the sales do happen in the last two weeks of the quarter. However, we have coming into the second half of the year I would say a reasonable level of visibility on a number of deals that we think will provide us a significant improvement from the first half of the year on Multi-Client side.

Now, we did see in Q2, we had a number of deals that we were working on that slipped over to the third quarter, so perhaps some of that will happen. Clients really have not purchased much. As you know, not just us, from our competitors as well. The market has shrunk significantly. But yes, they need to. There is data to be working on the fields and to continue their activities.

I do think the first half was really slow on the back of some uncertainty about their prioritisation. I said in the past that clients are re-prioritising. However, the month of May,
with all the increased pressure on energy transition, I think is pushing our clients to revisit one more time their plans and that is creating further delay. I would say the conversations are a bit – we have got a long list of identified deals for Q3 – Q4 is a bit further out – that looks encouraging. That is just what I can say.

And a point I want to add as well there, is that we have been suffering from the lack of lease rounds, and I did mention the Gulf of Mexico and Brazil. Brazil has announced that they are restarting those bid rounds and that should definitely drive data sales in Brazil in the last part of the year, so that is a positive external element.

In terms of the new business, I think it is a bit early, but I would say we have a couple of large deals in the pipe that we are hoping to announce in the next couple of months, though, it is hard to know. And those are linked to digitalisation, where it is a priority for our clients to digitalise, and I think we have opportunities there.

Right now, I would say the level of business is in the – we are starting to measure and give granularity – lets us say, around 4-5’ish percent of our revenue comes from these other activities. However, we are hoping to see some acceleration and will certainly make some announcement when that happens. But there are deals that we have identified in the pipe that we are working on, lets us say, 20 [inaudible].

**Kevin Rogers:** Okay, thanks for that, Sophie.

**Sophie Zurquiyah:** Sure.

**Kevin Rogers:** And just for the second question, sorry, maybe I did not ask the question well, but it was related to the physical asset storage business that was put for sale. I was wondering if you can give an idea in terms of what you can get from that.

**Sophie Zurquiyah:** Okay, sorry, I misunderstood. I thought you were talking about new businesses.

**Yuri Baidoukov:** Yes, Kevin, good morning. This is a small business. The carrying value of this business on our account, you will see it is about $15 million – one five.

**Kevin Rogers:** Okay. Okay, thank you. Thanks a lot and have a very good day.

**Sophie Zurquiyah:** Yes, thank you. You, too.

**Yuri Baidoukov:** You, too.

**Andre Klotz (Jefferies):** Hi, thanks a lot for taking my questions. For someone fairly new to this story, just a few questions around your confidence level on this outlook, simply because it implies a pretty significant ramp up in Q3 and Q4. I mean, just averaging it out, we are talking about $115 million of EBITDA per quarter, so just trying to understand. Great that you have some sales already done for Q3, it sounds like, but it obviously implies a pretty nice ramp up for Q4. Just trying to understand the confidence level and visibility of that.

**Sophie Zurquiyah:** Yes, thank you. Hello and nice to talk to you. I am sure from my comments you have inferred that we feel fairly safe on the deals sign recovery, and so it is not the ramp up and that we have touched the bottom. We feel reasonably confident on the equipment side because we have visibility on orders and commercial discussions. The unknown is always the Multi-Client.
Now, we have a few data points. First of all, we have visibility on the deals for Q3, and we have some visibility into Q4. As I mentioned, we have got the Brazil lease rounds that are upcoming. And I guess the other data point is, conversely, as much as we are looking forward to a ramp up, our clients are not spending their budgets today, so they are really behind budget spending in our space. Thus, I do expect from the client’s standpoint some level of acceleration of their spend, so I do expect the market will actually improve in the second half of the year.

However, Multi-Client is very difficult to predict. Like I mentioned, the after-sales usually get done in the last few weeks of the quarter. However, coming into Q3, having a view on the deals that we need to close to make the quarter I would say is actually encouraging news.

Andre Klotz: Thank you. One last question for me, if I may, and I realise it is always tough to compare to competitors and comment on competitors, but one key competitor that you do have has posted quite good Q2 and very strong outlook for the second half, which obviously is a good read across. I guess the question is just to understand maybe what hurt you in Q2 and maybe why you are seeing a little bit less activity? Is it really driven by the Gulf of Mexico LATAM exposure and national oil company exposure would you say is the key weakness – or just to try and understand a bit more colour around that?

Sophie Zurquiyah: I think some of it is timing and where the library is. I think we are in the two hot places – Brazil and Norway. I think our competitor definitely has a larger library in Norway. And there were lease rounds, the [inaudible] lease rounds do happen on a regular basis there, and they never stop, and that drove business. I would say it is just perhaps timing and data library footprint.

Andre Klotz: Okay, great. Thanks a lot.

Sophie Zurquiyah: Because one is done better, but one is less, right. We are somewhat in the middle because of our position. We are less frontier than others. We are in the right places. However, I mentioned the lack of Brazil lease rounds has hurt us.

Andre Klotz: Okay, great. Thank you so much.

Sophie Zurquiyah: Sure. Well, if there is no question, I look forward to talking to you in-person and hope you have a good rest of the day. Thank you very much for attending.

[END OF TRANSCRIPT]