CGG Q4 & FY 2023 Results

Wednesday, 6th March 2024

Introduction

Christophe Barnini

Head of Communications/IR, CGG

Welcome

Thank you. Good morning and good afternoon, ladies and gentlemen. Welcome to this presentation of CGG's Fourth Quarter and Full Year 2023 Results. The call today is hosted from Paris where Mrs Sophie Zurquiyah, Chief Executive Officer, and Mr Jerome Serve, Group CFO, will provide an overview of the quarter and the full year results as well as provide comments on our 2024-2026 environment and market trends as well our financial trajectory.

Disclaimer

Just let me remind you that some of the information contains forward-looking statements, subject to risks and uncertainty that may change at any time, and therefore the actual results may differ materially from those that were expected. Following this presentation, we will be pleased to take your questions.

Now I will turn the call over to Sophie.

Q4 & FY 2023 Operational Review

Sophie Zurquiyah

CEO, CGG

Agenda

Thank you, Christophe. Good morning and good afternoon, ladies and gentlemen. Thank you for participating in this Q4 2023 and full year conference call. On this call today, we will review our Q4 and full year 2023 operational and financial performance. We are also taking this opportunity to provide further insights and share with you our view on the 2024-2026 market environment, the business outlook and perspective of our core and new businesses and an overview of our expected financial road map.

A wider scope of business offering attractive prospects

Moving on to slide four. Today, CGG is a clear leader in our core businesses of Geoscience, Earth Data and Sensing & Monitoring, thanks to our expertise and our advanced technology.

We have also successfully expanded the scope of our business to address energy transition, mainly through CCUS and Minerals & Mining offerings, which are natural step-up extensions of our core Products & Services.

And beyond Oil & Gas, we are developing two new businesses: High Performance Computing & Digital Solutions, leveraging our Geoscience technology and capabilities; and Infrastructure Monitoring, which leverages our Sensing & Monitoring equipment and solutions. In 2023, revenue from these new businesses grew to around $90 million and we anticipate they will continue to develop at a fast pace moving forward.

Strengthening ESG Commitments

Slide five on ESG performance. I would like to begin by highlighting the particularly strong ESG ratings of CGG. We set an ESG framework with ambitious targets across social, environmental and governance areas, all of which are included in the company and its leadership objective.

We are well ahead of our carbon emission objectives and expect targets to be achieved much earlier than original commitment. By the end of 2023, we have already reduced our Scope 1 and 2 by 58% since 2019. And that is post divestiture of our acquisition services and have increased our green energy mix to 65%.

Our HSE performance remains excellent and we will continue to ensure it is maintained at the top percentile level. Our risk profile is low and controlled, given the footprint and activities of CGG. Our key focus on diversity is to set ambitious gender diversity targets and ensure that this targeted percentage is achieved across all levels of the organisation. We are already at 25%, which positions us in the best performance of our industry.

Our performance is also recognised by rating agencies with an MSCI rating of AA, which we have maintained for the last four years.

Q4 2023 & FY 2023 key segment financial highlights

Moving on to slide seven now and looking at our Q4 key figures. Our Q4 revenue was $320 million, stable year-on-year. Segment Q4 2023 EBITDA was $122 million, including $13 million penalty fees from vessel commitment and $8 million equipment inventory write-offs. Q4 net cash flow was positive at $48 million and including $18 million contractual fees from vessel commitment.

Looking at 2023 now. Our full year financial performance significantly improved year-on-year. Revenue reached $1.125 billion, up 21%, and we delivered $32 million of organic net cash flow while investing in the development of our new businesses and HCC capacity and paid $66 million related to contractual vessel commitment. We finished 2023 with $417 million of liquidity at the end of December, including $327 million of cash and $90 million of undrawn RCF.

Q4 2023: GEO & SMO solid quarterly activity; EDA impacted by delayed bid rounds

Going on to slide eight. Macro oil and gas trends over the quarter remained stable with a long-term range for oil prices around $80. This provides a solid backdrop for a continued increase in client spending in our markets. Q4 2023 revenue mix was quite different than last year, with all business lines lending near similar levels.

Geoscience was $98 million, up 41% year-on-year, driven by the delivery of large processing projects. Earth Data was $103 million, down 29% year-on-year as our clients remain disciplined on their budget, prioritising spend on drilling and other shorter-term market activities. This was further exaggerated by the shift of lease rounds in Brazil and the Gulf of Mexico, delaying title spend in those key basins.

Sensing & Monitoring was $119 million, up 14% year-on-year, sustained by high level of land and known equipment deliveries in North Africa and China. With Q4 revenue stable year-on-year, we ended up the full year at up 21%, which is a significant achievement.

DDE Segment: Key business indicators

Going on to slide nine. Looking now at each of our segment business indicators. 2023 DDE segment revenue was $672 million, up 2% year-on-year as double-digit growth in Geoscience was offset by lower Earth Data sales.

When corrected for the $19 million revenue related to our land library footprint in 2022, DDE growth was actually 5%. The profitability of DDE mechanically decreased based on sales mix.

Geoscience: Key business indicators

Slide 10, Geoscience. In 2023, driven by our leading imaging technologies, Geoscience performance was excellent. External revenue grew to $335 million, up 18% year-on-year with growth coming from all regions. The Geoscience business remained strong, supported by demand for new technology to precisely understand the subsurface both for exploration, but also importantly for development and production, where technology can bring significant shorter term value to our clients.

Our advanced technology is particularly valuable for OBN processing given the high acquisition costs and the step change in quality, our unique imaging technology can deliver. We continue to benefit from the success of the elastic TLFWI technology, which is now implemented in all regions and powered by CGG's ever-growing and highly optimised HPC capacity, which has now reached 510 petaflops.

The backlog dynamics at the end of the year are not indicative of the trends that we see in the industry, and we expect to recognise multiple significant projects going forward in backlogs. Coverage for 2024 is very similar to last year at the same time and expect our plan for 2024 to be fairly secure.

Earth Data: key business indicators

Going on to EDA, slide 11. 2023 Earth Data revenue was $337 million, down 10% year-on-year and down 5% when adjusted for the $19 million revenue of land library in 2022 that we divested. Pre-funding revenue was high at $194 million, bringing the pre-funding rate to 113% as we focused on the highest quality projects.

Aftersales were $143 million, significantly down year-on-year. However, we must keep in mind that in 2022, aftersales were boosted by a particular large amount of transfer fee around $55 million. So when correcting for the sale of land library and transfer fee, the full year 2023 aftersales were down around 9% year-on-year.

We did not see the tradition of Q4 year-end aftersales, which suffered based on delays in bid rounds in both Brazil and in Gulf of Mexico. In general, clients were more disciplined in 2023 with their year-end spend.

SMO segment: key business indicators

Now to slide 12. 2023 was a year of tremendous growth for our Sensing & Monitoring segment with revenue at $453 million, up 68% year-over-year. Sales were driven by Marine segment, which tripled year-on-year, supported by very large deliveries of OBN equipment for operations in China and in the business.

Sales from our new business in SMO were also up 45% at $48 million. SMO adjusted EBITDA was $56 million in 2023, a 12% margin. Q4 margin was impacted by very small inventory write-downs decided as part of a performance improvement plan that was launched at the end of 2023. Normalised from those one-offs, SMO EBITDA margin would have reached 14%.

Let me now give the floor to Jerome for more financial details.

2023 Financial Results

Jerome Serve

CFO, CGG

A 21% revenue growth and a positive net income for the second year in a row

Thank you, Sophie. Good morning, and good afternoon, ladies and gentlemen. I will comment on our Q4 and full year 2023 performance. Let me start with the Q4 income statement on slide 14.

As highlighted by Sophie, Q4 was a solid quarter with our segment revenues at $322 million, stable year-on-year, mainly driven by hydro science activity, strong Earth Data pre-funding revenues, high deliveries of land and OBN mega crews, but low Earth Data aftersales due to delayed bid rounds.

Segment EBITDA reached $122 million, a 38% margin due to a dilutive business mix, $8 million inventory write-offs as part of the launch of the SMO performance improvement plan, as well as a negative impact of $13 million of compensation fees related to our vessel contractual commitments.

Q4 2023 segment operating income was $15 million positive. Looking now at full year 2023, our revenue at $1,125 million was up 21% versus last year. 2023 EBITDA was $400 million, including the negative impact of $44 million extra costs linked to our vessel agreement, and the same $8 million of SMO inventory write-off.

DDE adjusted EBITDA was at $367 million, a 55% margin, while SMO adjusted EBITDA was $56 million, a 12% margin, and as Sophie said, normalised from the stock write-off, close to 15%. 2023 Group net income was positive at $16 million.

An organic positive net cash flow generation including $(66)m vessel commitment fees

Moving on to the cash flow statement on slide 15 and starting with Q4 2023. Q4 2023 segment operating cash flow before change in working capital was $130 million. Q4 2023 segment net cash flow was high at $48 million after $21 million of positive change in working capital, but still including $18 million of vessel commitment fees.

Looking at full year 2023, segment operating cash flow before change in working capital was $406 million. CapEx were $232 million, down 11%, with EDA CapEx at $171 million, down 17%. But industrial CapEx was at $44 million due to final investment in our new data centre in the UK.

Full year 2023 segment free cash flow was $181 million, up 21% year-on-year, and including $3 million positive change in working capital, thanks to a very tight management of SMO inventory, global client overdues, as well as supplier payment terms.

After $91 million cash cost of debt, $35 million lease repayments, and $24 million related to the idle vessel compensation, full year 2023 organic net cash flow generation was $32 million. As a remainder, 2022 net cash flow at breakeven was positively impacted by $65 million of exceptionals, including the divestment of our US onshore library.

Net debt / adjusted EBITDA ratio at 2.4x

Slide 16 and Group balance sheet. Group liquidity amounted to $417 million, including $327 million of cash liquidity, plus $90 million of undrawn RCF. Group gross debt before IFRS 16 is $1.2 billion versus $1.16 million last year.

Group net debt before IFRS 16 improved to $871 million versus $858 million last year. Group gross debt after IFRS 16 was $1.3 billion, including $1,146 million of higher bonds, up $22 million, due to the Eurodollar negative exchange rate impact, $20 million of accrued interest, $103 million lease liability, up $10 million year-on-year and $32 million of other loans, mainly $20 million for our new UK data centre.

Group net debt was $974 million, and the leverage ratio of net debt to segment EBITDA was stable at 2.4 times at the end of December.

I am now handing the floor back to Sophie for an outlook on the 2024-2026 market environment.

2024-2026 Business Perspectives

Sophie Zurquiyah

CEO, CGG

Introduction

Thank you, Jerome. On slide 17, in this section, I would like to give you some perspective for 2024-2026, including market elements that are relevant to CGG and long-term outlook for our business.

In a rapidly changing and volatile environment that we have seen over the last few years, thanks to our consistent investment in people, data and innovation, we managed to position CGG as the clear technology leader with core Geoscience, Earth Data and Sensing & Monitoring businesses.

This has been achieved while investing in new businesses Beyond the Core. We expect CGG to benefit from this in the next few years, both from our leadership position in the strengthening exploration and production market and in our select new business markets that are growing rapidly.

2024-2026:

Our core market, Exploration and Production, is rebounding

Let us go to slide 18 now. Despite the business variability and volatility that we saw in 2022 and 2023, as some projects in the Middle East shifted from 2022 to 2023, and some resales were delayed to year-end 2023, we believe that, going forward, the underlying industry fundamentals remain solid and favourable to CGG.

The strengthening of exploration, development and production market is expected to continue. Priorities of our clients on short time to market projects and their search for new lower cost, lower risk and lower carbon results, especially offshore, will continue.

The focus on mature producing basins is driving demand for high-end imaging and increased OBN data acquisition survey, a backdrop that is favourable to our core activities.

Since 2018, we have focused our business on the more mature active areas and on technologies relevant to development and production. Based on this, together with our clients' focus, we now have more exposure to the production part than the exploration part of our client budget. The number of offshore FIDs is increasing, and we participate through Geoscience and increasingly with now in Sensing and Monitoring and Earth Data in a large number of the projects focused on development and production.

Middle East activity is at the highest in many years and will continue ramping up to acquire image and utilise high-end seismic data, more and more leveraging higher algorithms and integrated data sets to extract the best value from the data, all areas where CGG excel.

Finally, our clients are increasingly looking for the net mature basins and our positioning in areas such as Suriname, Namibia, East Med or Brazil.

Let me highlight some of the key fundamental positive market trends that should specifically benefit our core businesses.

2024-2026:

OBN is becoming the reference data in proven basins and we have leading positions

Moving on to slide 19. First, starting with Ocean Bottom Node. They are a must have for our clients. Despite the cost of OBN acquisition, which is typically five to ten times more expensive than streamer acquisition, more and more OBN data is acquired globally while less and less streamer data is acquired. Most offshore mature producing basins require an increasingly more precise understanding of the subsurface to de-risk opportunities and optimise field development and inflow drilling.

Quality and precision matters to all our clients in the Gulf of Mexico and increasingly now in the North Sea, Brazil, Middle East and parts of Asia and Africa. We see these trends strengthening going forward.

Given the OBN economics, data complexity and the importance of detail and precision, it makes sense to apply the best processing technology to extract the maximum insights from the data. Our highly specialised application of full waveform inversion covered by our 510 petaflops of computing power, that leave us images and reservoir characterisation as we have never seen before. This makes the work of interpreters much faster and easier and allows our clients to significantly de-risk and optimise the portfolio of opportunities.

CGG is leading in the OBN processing space with approximately 80% of the addressable products market. We have also positioned in the node space in our SMO division with the GPR300 that represents today about 36% of the install base. Our OBN acquisition software is used today by most OBN acquisition companies, and we are expecting the range of our OBN products to cover deeper water depth.

Earth Data also participates in the OBN market by developing OBN projects like the two projects we acquired in Norway in 2023 and the one we are acquiring right now in the Gulf of Mexico. We have so far invested $113 million in cash CapEx for OBN data and plan to invest more than $100 million per year from 2025 onwards when we no longer have streamer vessel commitments.

2024-2026:

Middle East and North Africa are accelerating and acquiring vast amounts of high-end data

Let us go to slide 20 now. Middle East and North Africa are driven by national oil companies that are taking a long-term view on their oil and gas assets and hold approximately 50% of oil reserves and 40% of the gas reserves, many of which are at the lowest breakeven point.

Clients in the region have historically been heavy users of seismic because of the complex geology and imaging technologies. Efficiency together with quality and precision are critical to optimise exploration, development and production.

More recently, there has been a significant increase in offshore data acquired, particularly OBN. CGG has processed the 100% of this data in the last few years.

Sensing & Monitoring equipment under the brand of Sercel is widely used in the region and is a reference for our calls, not only on land but also offshore with our GPR300 known that has been used to acquire data in Abu Dhabi and is currently in operation in Saudi Arabia.

During the period of 2024 to 2026, the Middle East and North Africa are expected to accelerate high-end seismic activity with very ambitious large land and offshore projects with a potential of around three million square kilometres per year. This trend should have a strong positive impact on our core businesses of SMO for the equipment and of geoscience for the data processing.

2024-2026:

Digitalisation is gaining momentum

Now on to slide 21. Finally, digitalisation has the potential to bring large efficiency and quality gains to our industry and the technology and take-up is maturing. The improvement in AI tools and easier access to large computing capacity is driving a new wave of digitalisation that will see AI and LLM used at scale in the oil and gas industry.

It will increasingly enable our clients to unlock the value of previously siloed and in an accessible subsurface data and improve and reduce the time for decision-making, all while lowering overall cost.

At CGG, we have deep expertise in data, high in mathematics, advanced algorithms and High Performance Computing. We have developed many AI-based tools, including our Data Hub Solution for data curation and classification, allowing our clients to extract new insights from their data. Revenue from Data Hub has grown fourfold in 2023, while we have developed a strong group of AI machine learning scientists.

These digital trends align well with our strength and will be a major driver of our growth, not only in our core markets, but also as we expand into new markets.

2024-2026:

Driving our growth in core markets

So slide 22, we expect these positive macro trends to benefit each of our three core businesses. For Geoscience, high-end acquisition and more precise imaging are required by our clients to optimise their current production and find new oil. This requires the most advanced Geoscience and data Science algorithms supported by massive High Performance Computing power, and importantly, computing that is specifically optimised the industry's unique and complex challenges, an area that CGG has been a leader in since the 1950s when we installed our customised first computer so that it could handle the size constraints of seismic data.

Our continued innovations in High Performance Computing and advances in high imaging technology, such as our unique elastic four-way conversion, combined with the growing demand for OBN and high-density survey, which we know how to process and analyse better than anyone, result in clients continuously turning to us to address their most complex and business critical challenges.

For Earth Data, we will benefit from having some of the most comprehensive high quality data in the most important basins today from the mature Gulf of Mexico, North Sea and Brazil basins, to the emerging basis of Suriname and Equatorial Margin. We will also continue to invest in new survey, with particularly OBNs with discipline to achieve high levels of pre-funding and high likelihood of upscale.

For SMO, our top line growth will largely be driven by ability to provide the market with the most accurate, reliable and operationally efficient sensing systems and solutions. We recently penetrated the fast-growing OBN market with now approximately 40% of the install base and are expanding our full range of capabilities to further grow into the strengthening market. Our large land install base and the increasing demand for mega crews, particularly in the Middle East and in North Africa, will continue to drive business growth.

2024-2026:

Developing unique offerings to address the critical needs of New Markets

Going into slide 23. The unique capabilities that are highlighted in our core businesses, mostly developed for oil and gas are the cornerstones that enable us to expand into new markets by addressing emerging needs.

Our equipment, data and unique subsurface and imaging expertise is highly transferable into the low carbon market of CCUS and minerals and mining. CCUS is starting to pick up with most of the focus today being on characterisation of future reservoirs and design of the monitoring scheme, which is often required for permitting.

High-end imaging is required to fully understand the future of these large-scale storage reservoirs. We also have all the working tools to understand the long-term behaviour of the reservoir and design the optimal monitoring to key.

Minerals & Mining is a space that is becoming increasingly relevant to us as mining companies must look for the energy transition materials undercover. This means that the easy to find ore near the surface has been discovered and companies now need to go deeper under the surface, which then requires more advanced Geoscience and Data Science technology.

Such technologies are also useful to optimise extraction around existing mining. In this space, we will support the exploration and development of minerals through offering the regional base and needed to provide a better understanding of where the commercial ore bodies are under the surface and the advanced imaging technology needed to refine the deposits with more precision.

Finally, we can provide the solutions and services during the exploitation to support its optimal operations, and as an example, monitoring the stability of the mine and scaling down. We expect both CCUS and Minerals & Mining to bring revenue to our three business lines of Geoscience, Earth Data and SMO in a similar way as doing that.

In addition to these new step outs, we are pursuing two large fast-growing markets, still heavily leveraging our existing capabilities. These opportunities have the potential to change the profile of CGG. The first is the High Performance Computing market, where demand for computing to address modelling and AI requirements is exploding.

With a highly specialised 510 petaflops solutions in use every day, we have demonstrated a deep expertise that is built on decades of learning and customisation. We are offering HPC Cloud-as-a-Service alongside support services to help clients optimise their workflow. We see this as a unique and needed niche that many clients are searching for and are seeing growing interest in the market. We are also focused on partnering with HPC infrastructure players to develop a combined offering.

The second market is Infrastructure Monitoring where reservation agencies, infrastructure management or engineering companies are embracing digitalisation. This will allow them to optimise the life of their expensive assets and anticipate issues before they arrive.

Assessing technology, systems and solutions, together with our ability to analyse and integrate data sets and apply the latest AI technologies are finding exciting applications in understanding the dynamic behaviour of complex structures such as bridges, railway, tunnels and wind turbines.

2024-2026:

CGG's New addressable Markets are growing fast

Now on slide 24. Our core businesses addressable market is expected to be around $3.3 billion in 2026, which will represent a 4-6% CAGR over the period of 2023 to 2026. This includes the Geoscience, Earth Data and Sensing & Monitoring market.

As we embarked on developing new businesses to provide long-term growth potential for CGG, we targeted three broad market sectors that more than doubled our current addressable market with an additional $4.4 billion. This includes the low-carbon, CCUS and Minerals & Mining market along with our targeted HPC and Cloud Solutions market and Infrastructure Monitoring.

Not only are these markets very material, but they are also high growth, leveraging accelerating trust around energy transition and digitalisation. Today, we have a small market share, but with our unique and richer technology and solutions, we expect to grow faster than the underlying market.

Developing New Businesses at pace

Looking at slide 25 now. In these identified areas of growth, we believe that our capabilities differentiate and position us to generate significant value for all of our stakeholders.

Low carbon, we plan to capitalise on the emerging search of investment in CCUS by repurposing our data library and imaging and monitoring design capability to secure presence at early stages of these projects. Minerals & Mining needs more advanced technology to identify new and more complex deposits as well as developing existing mines more optimally and safely. This requires more design data, advanced technology including imaging and modelling capabilities, as well as Sensing & Monitoring solutions, all areas where we excel.

We are actively working on base client projects to deploy such capabilities.

In HPC and Cloud solutions, we built a unique, highly customised end-to-end capabilities, including high-end scientific computing, advanced algorithms, application optimisation, physics-based and data science, technology, software and associated middleware. All of these enable us to offer a customised solution and clearly differentiates us from other industry players.

We are focusing on a few target sectors such as biotechnology and artificial intelligence. In 2023, we brought on board our first client in biotech and generative AI and have just delivered a dedicated infrastructure for AI, safely setting the stage for our growth in this space.

For Infrastructure Monitoring, as we grow our Beyond the Core market, we can deploy our Sensing & Monitoring capabilities, combined with our cloud computing, analytics, and imaging capabilities in sectors where effective Infrastructure Monitoring is critical to business success. Our portfolio of equipment, service and solutions offerings are truly game-changing for operators of civil infrastructure, railways, and even wind farms.

Our acquisition of Geocomp has been a major market entry accelerator, which we plan to scale up in the coming year. We should more than double our revenue between 2023 and 2026 and double again into 2026 and 2030, provided the underlying markets do pick up as we anticipate.

Now let me hand the floor back to Jerome for an outlook on our financial roadmap focused on cash generation, and balance sheet deleveraging.

Financials Roadmap

Jerome Serve

CFO, CGG

2024 financial objectives

Thank you, Sophie. I would like now to give you an overview of our 2024-2025 financial trajectory, starting with our 2024 financial objectives on slide 27.

As already mentioned in our trading update in January, CGG anticipate 2024 financial results to be similar to 2023. Our 2024 segment revenue are thus expected to be aligned with 2023: Geoscience will continue to grow, driven by technology and demand for low-carbon processing; Earth Data aftersales to increase driven by transfer fee and by the favourable impact of the delayed December 2023 licensing rounds; Sensing & Monitoring expected to be down versus 2023, based on fewer planned mega crews. Note that our 2024 revenue growth will particularly be fuelled by our new businesses.

Regarding our 2024 segment EBITDA, we expect it to be positively impacted by the business mix. 2024 EBITDA cash CapEx is expected to increase around $175 million to $200 million with pre-funding above 75%. Overall, CGG is anticipating 2024 net cash flow to reach similar level at 2023, although just to remind you that our vessel capacity agreement will again significantly impact negatively our 2024 cash.

Net Cash-Flow of ~$100m by 2025

Let us now look at year 2025 on slide 28, which is a more representative year for CGG cash generation. Indeed, by 2025 which would generate around $100 million of net cash flow, benefiting from several factors. The first one being the end of our contractual vessel commitment in January 2025, which will mechanically bring about $50 million after tax of additional cash versus $23 million.

Secondly, we are committed to deliver productivity improvements and performance excellence. In Geoscience, we will continue to raise our productivity through increasing the use of AI into our workflows, as well as leveraging our HPC capacity. In EDA, we will keep on ensuring our investments are only targeted at high pre-funding and high-return surveys.

But last but not the least, in SMO, as previously mentioned, we have recently launched a performance improvement plan aimed at lowering the breakeven point of the division. All aspects of the business are being challenged on sales and marketing to operation and R&D in order to lower and further flex the cost base, as well as reduce the capital employed.

Finally, the last two elements supporting our 2025 cash objectives. Our revenue will grow as previously outlined by Sophie, and therefore generating additional cash. While in the meantime, we will continue to further invest in the development of our core and new businesses. All these elements and the vessel commitments, productivity improvements, growth and selective investments give us confidence that we will deliver $100 million of net cash flow in 2025.

2024-2025 Financial Roadmap

Moving on to slide 29. Based on the solid cash generation over 2024 and 2025 that we have just outlined, plus the fact that we have reduced our minimum cash need to run operation to $100 million, we confirm our clear financial roadmap over the period 2024-2025. Starting with the extension of the RCF this year in 2024, re-rating discussion with the rating agencies and with over $300 million of cash available by 2025, a debt repurchase programme and our reduced refinancing before Q1 2026.

We would finally like to announce the launch of the first tranche of $30 million debt buyback already in 2024.

I am now handing back the floor to Sophie for the conclusion.

Conclusion

Sophie Zurquiyah

CEO, CGG

Summary

Thank you, Jerome. With continued demand for our technology and new markets maturing, we are entering into an exciting era of growth for our company. In the next few years, we have clear priorities: first, maintaining our leadership in our core businesses, benefiting from the positive cycle; second, accelerating the development of our new businesses; and third, implementing our financial road map and deleveraging our balance sheet.

Thank you for your attention, and we are now ready to take your questions.

Q&A

Jean-Luc Romain (CIC Market Solutions): I have a question on generative AI. You showed it can boost your revenues very handsomely. Can it have also a negative impact inverted by maybe accelerating the time from data to the image it would have a deflationary pressure on your pricing.

Sophie Zurquiyah: Yes. Thank you for your question, Jean-Luc Romain. So actually, with the AI and generate AI, which is a subset of it as more of an opportunity, and we are using it as an efficiency tool ourselves.

Actually, the way processing works, it is physic-based. So the way we are getting into those more precise images is using basically equations that we are modelling and is based on physics. So the AI covers a complement to really aiding that process. So, so far, we have not seen the situation where AI just by itself could actually replace or give a better answer than the physics based approach which we have.

Guillaume Delaby (Société Générale): Possibly a tough question for you. Thank you very much for providing us, let us say, a vision for the next two years. My question is basically, if I understand correctly, you have dramatically increased your computer power. I also understand that Q1 is probably likely to be relatively good. But I would say, besides that, could you maybe provide us with one or two hard data point, which basically could give us some more confidence about the credibility of the plan and something together is confident that this is not going to be, let us say, some kind of a blue sky scenario? So how can we be reassured could you provide us with maybe one or two data points to reassure us?

Sophie Zurquiyah: Well, Guillaume, I am not sure I understand the question. The proof of the data point is that this has been, if you look at our core market, we have been following our strategy which has been to continue differentiating using more computing power to provide completely differentiated solutions. And our bets have proven right because if you look at the data of Geoscience, our revenue per head is increasing, we have continued pricing power and we continue to deliver the solutions that the clients need to optimise their fields, and you look at it the other proof points that we gave you is our participation in the OBN market.

OBN is more complex dataset, so that the market is headed into more complexity and more complexity plays in the favour of CGG. So that is, in general, the nutshell for the core businesses. But were you asking the question on the new businesses?

Guillaume Delaby: Basically, in your vision, basically, in order basically to generate the $100 million cash flow in 2025, you need to increase your revenue. I understand that, in fact, you have increased basically your computer power. But my fear is that this might be, I would say, some kind of blue-sky scenario for the next two years. So what might happen if things do not go your way? How can we be reassured?

Jerome Serve: Let me take this one, Guillaume. So I mean we generated €30 million this year in a pure organisation, which was not the case in 2022, as I said, and you may remember it was on the back of €65 million of divestments.

If you add the mechanical effect of the Shearwater contract, this year we paid €65 million of cash to Shearwater, €45 in the EBITDA, €20 million the Idle Vessel Compensation. We will pay obviously a bit more tax. So that is why in my speaking notes I said €50 million of mechanical positive impact aftertax of Shearwater. So you already had €80.

And what we have launched in Sercel, to the Performance Improvement Plan to lower the breakeven point, I mean we are looking, as I said, at all aspects of the business and I believe we can provide you a range, a rough number, but something between €20 million and €30 million is clearly within reach over this period.

So you already at €100 million. And then, we are not betting on the growth. I mean, we believe that we will be growing CAGR for our core business mid-single digits. I mean, BTC by definition, because we are small today, will grow much faster. And to basically achieve this growth, we will need to invest CapEx. But if at the end of the day, we realise we cannot achieve this growth, we always have the opportunity to cut some CapEx. So at the end of the day, for me, the €100 million, I am really confident we can make it.

Guillaume Delaby: Basically the €100 million basically is somewhat covered, let us say, €60 million by the end of the agreement with Shearwater?

Jerome Serve: Yeah.

Guillaume Delaby: €20 million, €25 million of, let us say, self-help. Basically, what you are telling that on those €100 million, €80 million is, let us say, already mechanical more or less?

Jerome Serve: It is $30 million plus $50 million, plus you said $25 million for the productivity improvement. You already have $100 million. I mean, if you take the growth and take a fall-through attached to the growth, let us say, that we will grow about $100 million, we will definitely generate between $20 million and $30 million of additional cash. I mean, we will consume a bit of working capital by a bit more tax, but overall, what I am telling you is the full suite about that trench.

You know that in 2023, our CapEx was a bit low on the EDA side. We believe that a more normal level is around $200 million. The $30 million that we will generate on the growth will be offset partially by the investment in, I told about EDA, but we also want to continue to invest in our Beyond the Core new businesses. That is how we got to the $100 million.

Baptiste Lebacq (ODDO BHF): I have two questions from my side. The first one is regarding trends for Q1. We are already at the beginning of March. Can you give us some colour regarding Earth Data in multi-clients during the beginning of the year? And the second one is regarding transfer fees that you mentioned for 2024. Can you give us some colours of this transfer fees versus 2023?

Sophie Zurquiyah: Thank you, Baptiste, and good evening. On the Q1 multi-client trends, remember, it is driven by two revenue streams, the payment aftersales and then the pre-funding. We have ongoing surveys, which will bring us good pre-funding. So that will be positive from that side.

And as we mentioned, there were some delays in lease rents last year that will get some benefit in Q1. So right now, we are expecting for a good Q1 basically on the multi-client side.

On the transfer fees, there is two M&A going on right now from, which we do expect transfer fees. And in terms of the volume, we keep referring to the 2022 number, which is "exceptionally high", and last year was exceptionally low. So I would position 2024 somewhere in the middle. So we do expect transfer fees this year, more significant than last year, but not as big as 2022.

Alex McBride (Bank of America): I have three questions, please. First question is one, we have asked before, it would be great if you could comment again. Given your strong liquidity and better free cash flow visibility, perhaps it makes sense to deploy some cash towards redemptions perhaps in the form of tenders. Is that something you are currently considering? Also, any colour on the process and timing for such a transaction?

Jerome Serve: As we said, we will do a debt buyback of $30 million this year and the timing still have to be to be confirmed. And the form, will it be an open tender or through the market, we still have to decide on that one, but I do not think we will do it too late in the year. I mean now it is announced.

Alex McBride: Okay. Then you discussed delayed licensing rounds in Brazil and Gulf of Mexico. Could you give us an overview of what is happening there? When should we expect these to happen?

Sophie Zurquiyah: Hi, Alex. Those licensing rounds were going to happen sometime in Q3 and earlier Q4 and they both got delayed to the last stage of December. We are always creating some uncertainty, and therefore clients delaying their purchases. And so we did see in Q1 some of those purchases being pushed into Q1. But they did happen in the end.

But sometimes this is not immediate clients digest what blocks they have and they look forward okay what do they need. So there is not like a mechanical always a mechanical immediate effect.

Alex McBride: Lastly, how should we think about the equipment business in 2024 versus 2023. Could you give us any colour on any new large projects on the horizon?

Sophie Zurquiyah: Remember, I pointed out that in our business of Sensing & Monitoring, there is really two revenue streams in a way, one which is somewhere, let us call it, $217 million, between $250 million and $300 million, which is recurring revenue based on the install base. And so keep in mind that we have around 50% market share. We were highly exposed to the market. So that is that. And then others is related to larger deals and more specific deals.

And last year, we had a very large quantity of those large deals, in particular in Saudi Arabia that drove a lot of business, North Africa. And this year, we did mention this in our trading update, we see a lower volume of those large deals with some of them, including the one in Saudi Arabia, that is moving on. Its date is undefined but it is being pushed definitely into 2025 and maybe later.

In general, generally speaking and that is how we guided that we see Sensing & Monitoring down, not because there is a specific issue, it is just the way the sequencing of those deals happen.

Jean-Luc Romain: Thank you for taking my follow-up questions. Actually, there are two. The first is for Jerome. In case the first tranche of debt to payback goes well this year, under what conditions would you think about making a second trench this year?

The second question is, similarly, SMO market, any prima facie on the horizon? Or is OBN completely displacing and making streamers useful?

Jerome Serve: Let me take your first question. The €30 million are granted for this year. As we explained to you in the financial roadmap, the refinancing has to happen before Q1 2026. In all honesty, the likelihood that it will happen in 2025 is actually quite high if you look at all the different windows, including the blackout period, where we can do an issuance.

Bearing that in mind, I much prefer to keep a good chunk of my cash for this refinancing, or I will be okay potentially to do another tranche just before the refinancing. However, likely, we will do a second tranche in 2024 is pretty low, keeping my firepower for 2025.

Sophie Zurquiyah: Thank you, Jean-Luc. I will get to you on the streamer. The streamer market never disappeared. As I mentioned, we have an install base. Right now, there has been a lower number of vessels in acquisition. Right now, as we speak, there are five vessels in acquisition using our equipment.

This is like the install base and this equipment is aging. There have been, I mean, throughout COVID and now it has been a recurring revenue stream for stream replacement. What has not happened like we were hoping for is like the whole set of streamers will be replaced, and that is a $13 million to $14 million sale that we did last year for [inaudible] but that was oceanography that was in like oil and gas business.

What we have not seen is the clients going a reequipping the whole set of streamers, but certainly, replacement continues, and it is a good healthy revenue stream. I would expect that, that base replacement will go up as definitely those streamers are getting into 12 years old now. They were designed for like five to seven. So definitely pass the light, if you want.

I would not be surprised to see an increased level of recurring streamer sales, which has never stopped anyway. However, it has not been as significant as the OBN, because OBN is a market that is equipping itself for a higher demand. It is just a different business dynamic. It is not a replacement market. OBN will eventually go into more of a replacement market when you fulfil all the needs for the market. However, so far both use to have replacement, but you're really ramping up the number of nodes in the market.

Baptiste Lebacq: Just would like to come back on your comments regarding streamer versus OBN. Do you have enough capacity on the OBN side? Should you increase your capacities on this side? Is it possible to transfer a streamer line to an OBN line? Can you give us some colour on this point?

Sophie Zurquiyah: Yes, thank you. Good thought. Those are very different animals. OBN is actually more derived from land. It is an object that self-standing, whereas streamer, you need assembly line and it is quite long. We have a lot of sensors on one line. Different objects. Yet, we have shown our ability to ramp up and down over the last few years in respond to demand.

We need a certain time to do that and we are working, of course, at shortening the manufacturing cycle. However, we are anticipating that demand and so that means we are putting on our manufacturing plan a certain number of those OBNs. So we should be able to respond to market demand. So far, we have been.

Sophie Zurquiyah: Well, thank you very much for attending this late evening call. Appreciate it. And we will be available for any follow-up questions in the future. Thank you very much.

Jerome Serve: Thank you indeed. Have a good night.

Sophie Zurquiyah: Bye.

[END OF TRANSCRIPT]