CGG Q4 & Full Year 2002 Financial Results

Thursday, 2nd March 2023

Introduction

Christophe Barnini

Head of Investor Relations, CGG SA

Welcome

Good morning and good afternoon, ladies and gentlemen. Welcome to this presentation of CGG's fourth quarter 2022 results. The call today is hosted from Paris, where Mrs Sophie Zurquiyah, Chief Executive Officer, and Mr Yuri Baidoukov, former Group CFO will provide an overview of the quarter results as well as provide comments on our outlook.

Also, with us today, Jérôme Serve, our new Group CFO succeeding Yuri, who is leaving CGG for family reasons.

Disclaimer

Let me remind you that some of the information contains forward-looking statements subject to risk and uncertainties that may change at any time, and therefore, the actual results may differ materially from those that were expected. Following the overview of the quarter, we will be pleased to take your questions.

And now I will turn the call over to Sophie.

Business Overview

Sophie Zurquiyah

CEO, CGG SA

Introduction

Thank you, Christophe. Good morning and good afternoon, ladies and gentlemen. And thank you for participating today in this Q4 2022 conference call. Before we start, I would like to thank Yuri for his time at CGG and for all his contributions. He provided outstanding support to CGG and to me through challenging times and it has been a pleasure to work with him.

Let me also welcome Jérôme Serve to the CFO role. Jérôme has a broad and international background in finance and in the energy sector, and most recently was the CFO of one of the large divisions of Faurecia. We look forward to the experience and expertise he will bring to CGG. The overlap will take place during the month of March, and I am confident it will be a smooth transition.

Our sustainability contribution and ESG ratings

Let me move on now to slide two. I would like to start with Q4 and full year review today with a few comments on ESG to highlight our strong profile.

Our company's high-end technology business, along with our low-carbon intensity footprint, and our continued focus and excellence in ESG, have been consistently recognised by ESG rating agencies. CGG is very well rated both by MSCI and by Sustainalytics due to a broad range of ESG considerations, and in particular, our low carbon footprint.

In 2022, we further reduced our scope 1 and 2 emissions, respectively, to 2Kt of CO_2 and 39Kt of CO_2 for the full year.

But more importantly, our business brings a significant sustainability contribution to our clients, as our high-end technology and Earth Data in key bases around the world supports the optimisation of their drilling and reservoir development plans, which in turn can substantially reduce the CO_2 footprint.

Q4 & FY 2022 Key segment financial highlights

Slide three: looking at our Q4 and full year financial performance. While the macro environment remains favourable with high oil and gas prices, our clients have continued to maintain reduced E&P spending levels, prioritising return to shareholders.

During 2022, IOCs and especially European IOCs focused on their energy transition agendas not growing E&P CapEx in line with the macro trends. While independents and NOCs were the first to increase E&P activity to meet worldwide demand and address the tight market.

Energy security has risen as a key consideration, and it is becoming clearer that demand for hydrocarbon will remain high for the foreseeable future. These overall macro trends translated into increased oilfield service activity, especially those sites to development and production, such as drilling and completions.

Offshore and international activities also picked up significantly. However, products and services that were exposed to longer-term return on hydrocarbon investments, such as frontier explorations, have been lagging mainly based on the lack of clarity at a ten-year horizon from a climate change and regulatory standpoint. For CGG, this resulted in a volatile, yet improving, overall market in 2022.

Looking now at our Q4 and full year results. Our solid Q4 financial performance provides a good illustration of the high quarterly volatility that our business has experienced in 2022. Our Q4 revenue came in stronger than expected at $319 million due mainly to higher-than-anticipated EDA and SMO sales. Adjusted EBITDA was $159 million given the mix, and net cash flow was $62 million, including $63 million proceeds from the sale of the US land seismic multi-client library.

Thanks to our high Q4 results, we returned to a positive net income for 2022. Full year revenue of $928 million was stable year-on-year, despite the significant decrease of our SMO business, which also highlights current market volatility. Our adjusted EBITDA of $395 million, mainly in line with our full year expectations and guidance, representing a 43% margin.

Net cash flow for the year of minus $3 million was close to breakeven. Overall, our 2022 financial performance was solid as we operated in a complex environment while implementing and investing in our portfolio of Beyond the Core business initiatives that are focused on developing new profitable revenue streams for CGG as we move forward.

2022 A year of transition, volatility and investment into the future

Moving to slide four: I would qualify 2022 as a year of transition for CGG as we address the volatility of our oil and gas businesses and invested in the future. The quarterly volatility that we experienced this year was probably the highest that we have ever seen, with a significant lumpiness in sales in both EDA and SMO. Variations were greater than 50% between some of the quarters.

It was a year of transition. First in our core markets, especially during the second half of the year, we started to see early signs of the projected multi-year or index of cycle.

In this environment, we continued to focus on the advance of our technology leadership positions in our core businesses and we increased investments in our new Beyond the Core businesses, which in 2022 now represents more than 8% of our revenue.

As part of our BTC strategy, we acquired Geocomp to establish a stronger infrastructure monitoring market position in North America and acquired the ION Software business to strengthen both the differentiation of our core SMO business by accelerating our value-add cloud-based services and to further advance our BTC initiative by extending our expertise and giving us a position in the software to services market, as an example of port management.

We also updated our Geoscience organisation to move our most mature BTC initiatives into the geographies to focus on commercial expansion and created a new HPC and cloud solutions organisation to strengthen our strategy in the digital area.

It was a year of investment looking ahead of the cycle as we are preparing for improving market conditions in oil and gas and accelerating our BTC businesses. We invested in technology with the construction of a new HPC centre in the UK, which will be operational later this year and significantly increase our compute capacity.

We invested in significant multi-client projects in key bases, where we are well positioned for the future. And we continue to advance our market positions and technology leadership in our Geoscience and SMO core businesses, while developing a robust portfolio of Beyond the Core growth opportunities.

2022 Beyond the Core main achievements

Moving to slide five; our BTC business initiatives are focused around three main markets: Digital, Energy Transition and Infrastructure Monitoring. We made concrete progress in 2022 in all areas. In Digital, the creation of our HPC & Cloud solutions business line was a major step in strengthening our processes in organisation, as we invested and prepared for growth in the specialised area.

In our Data Hub business, which focuses on data transformation, delivery and visualisation, we successfully completed several pilot projects and secured and our current measures doing[?] a full-scale of project for BP.

In Energy Transition, we increased our participation in CCUS and Minerals & Mining and generated around $20 million of EDA sales, mainly focused on CCUS in Australia, Norway and the US.

We successfully demonstrated our structural health monitoring solutions in various settings within this rapidly growing market, resulting in our first sales in the US, where we are leveraging our acquisition of Geocomp. The new technology profile of CGG is developing in line with our expectation of our BTC businesses reaching the target of 20% of company revenue by 2025.

Data, Digital and Energy Transition key financial indicators

Slide six: a year ago, we were anticipating 18% revenue growth in our DDE segment. We delivered 21% revenue growth in 2022, consistent with offshore E&P spending increases.

Our activity particularly strengthened in North America, but we also saw improvements in the North Sea while Asia remained relatively flat. Overall, the profitability of the DDE segment significantly improved in 2022 with adjusted EBITDA increasing by 23% to $406 million, a high 62% margin. This was driven by efficiency gains, better utilisation of resources, a strengthening pricing environment and a much higher level of multi-client after sales.

Geoscience key business indicators

Now going into each of the business lines. On slide seven: Geoscience. While the market was solid in North America in 2022, it was still slow in the rest of the world, though we now see clear signs of increased activity looking forward.

Geoscience revenue was sequentially stable this quarter due to a delayed start of key projects, which in general continue to be driven by strong demand for our high-end technology. The revenue reduction, compared to 2021, was in relation to a large one-off software sales that we realised in Q4 of 2021.

2022 ended with a moderate 1% growth pro forma in the Geoscience production, which includes external and internal revenue, and a 6% pro forma growth in external revenue, as we utilise less of our services for multi-client.

With a 16% backlog increase year-on-year, we ended 2022 in a better position to start the new year. Profitability of the Geoscience business continued to improve year-on-year as we did our production per head ratio.

Geoscience Q4 operational highlights

Now for operational highlights on slide eight. By the end of 2022, Geoscience commercial activity was increasing worldwide, and we saw a high level of bid submissions up 18% year-on-year, driven by a 58% increase in OBN processing bids. This business continues to be driven by strong demand for high-end technology and Geoscience should continue to benefit from the accelerated uses of advanced acquisition technologies such as Ocean Bottom Node or hybrid surveys that require more advanced imaging algorithms.

At the end of 2022, order intake in Geoscience was up 26% year-on-year, and as mentioned earlier, we started 2023 with a backlog of $231 million up 16% year-on-year. In 2022, our computing power was further extended by more than 20% as we added 61 petaflops. We continue to make significant upgrades to our data centre infrastructure to support our increasingly advanced algorithms and further expand our differentiation and support the development of our new HPC & Cloud Solutions business.

Though modest, we increased our Beyond the Core revenue in 2022 in Geoscience by almost 50% and we expect continued strong growth in general and in digital specifically as industries are looking to gain efficiencies and extract more insights from the data.

Geoscience continue to advance in FWI technology

Moving to slide nine: the success of CGG is built on technology differentiation. Our unique elastic full waveform inversion, which was developed by our scientists for complex geology and challenging reservoir development, is the most recent example of this differentiation and the commercial success it drives. CGG's full waveform inversion technology and expertise provides the most advanced solution in the market today to assist our clients in reducing geologic consistency and accelerating interpretation of the subsurface as we continuously extract more and more information and insights with our unique Geoscience and Data Science Technology.

In this example, you can clearly see how our FWI technology provides an enhanced understanding of the compartmentalisation and delineation of the reservoir.

Earth Data key business indicators

Moving on to Earth Data on slide ten. In 2022, EDA revenues were up 36% sustained by a significant increase of after sales, which were up 90% year-on-year on the back of strong transfer fees in Q2 and strong sales in Q4. Pre-funding caught up in Q4 to land at 66% for the year.

2022 was still driven mainly by demand for new field exploration. Exploration is active, but focused on new oil and gas that is low cost, low risk and low carbon. The new field infrastructure-led exploration is a natural choice, but towards the end of the year we have seen clients gaining interest in more frontier basins.

In 2022, aligned with our strategy, CGG multi-client projects were mainly in our core regions in basins where government policies are stable and petroleum systems are proven. Beyond the Core, the CGG industry is in its early stages, and we have seen growing commercial interest for our EDA data, mainly to support both the finding and assessing of the appropriate subsurface containers storing carbon.

We continue to gain experience by participating in various projects and have seen good opportunities to repurpose public and partner data in shallow water and land, together with our geologic data for CCUS. With this, our current focus remains on building our expertise, licensing our existing data, packaging new data sets for screening and getting closer to our clients and potential clients in this rapidly growing business.

Earth Data Q4 operational highlights

Moving to slide 11: in November of 2022, we completed the Antares acquisition offshore Brazil. Processing of this data is ongoing. In Q4 2022, we also commenced preparation for a new multi-client programme in Foz do Amazonas[?] including transferring a vessel in mid-December. The acquisition is expected to take around 200 days and processing should be complete in Q2 2024.

In Q4, we divested our non-core US land multi-client data library for a total amount of $63 million.

Looking forward, two new sales have been confirmed in 2023 in the Gulf of Mexico, one at the end of March and another in September. Both should drive increase in activity.

Integrated Earth Data multi-client project in SE Arizona to support mining industry

On slide 12, I mentioned during our Q2 conference call that we continue to expand our data offering to address energy transition, especially for CCUS and mining. This Arizona project is the first multi-client project in the company for the mining industry and we already have one client commitment.

The project has started and we can file information, and airborne acquisition is planned for the March-April timeframe. Acquisition is expected to take approximately 12 months. The purple outline shows the full project area which will be covered by multi-disciplinary data, including multi-physics, satellite imagery, multi-spectral, well and geological data.

The blue outline highlights where we will acquire airborne multi-physics data. This is a new business model for the Minerals & Mining industry, and they will allow operators to request larger integrated data sets to better identify and characterise deposits.

Sensing & Monitoring Q4 operational highlights

Moving to slide 13 with Sensing & Monitoring. In 2022, our Sensing & Monitoring segment saw a significant reduction in sales, down 24% year-on-year. This was linked to commercial restrictions in Russia and to the lumpiness of its business.

Multiple large projects in the Middle East, in particular, were delayed from 2022 to 2023. At $269 million of sales for the year, the SMO segment generated $16 million EBITDA, a 6% margin. In 2022, the SMO business acquired Geocomp, a concept of ION Software business. The top line contribution of these two businesses was around $18 million. We are very pleased with these acquisitions. They already equipped[?] these to SMO and the level of business synergy is more than we anticipated.

Sensing & Monitoring (SMO) key financial indicators

Moving to slide 14: Q4 SMO sales came in at $104 million, up 10% and above expectations, with sales materialising in the last days of December. Land equipment sales represented 60% of total sales. Overall, activity has been picking up this quarter, mainly in North Africa, and with our WiNG Land Nodal technology, sales are also gaining momentum.

Marine equipment sales represented 22% of total Q4 sales. OBN market for shallow water application remains absolute, especially in the Middle East. Marine market for streamers is still mostly limited to equipment upgrades and spare streamer sections deliveries. Sales from Beyond the Core businesses were $14 million in Q4, significantly up year-on-year, supported mainly by an active defence sector. Our new infrastructure monitoring business is progressing well. We continue to pilot S-lynks technology and solution on several bridges, including a bridge in the New York area and we secured an order to perform baseline analysis on two bridges in Georgia.

We won a depth and cables measurement job in Texas as well, and we performed several demonstrations of our earthworks monitoring solution S-scan[?] in both Massachusetts and New York and one short-term monitoring job in the Paris suburbs.

Overall, the BTC areas which focussed around SMO benefited in 2022 from increased interest from the defence sector and the addition of Geocomp structure health monitoring business, especially in the second half of the year.

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

Financial Highlights

Yuri Baidoukov

CFO, CGG SA

Welcome

Thank you, Sophie. Good afternoon and good evening, ladies and gentlemen. I will comment on the Q4 2022 financial results.

Income Statement Q4 & FY 2022

Slide 15, Q4 2022 P&L. Let me comment on the overall Q4 activity. Q4 Segment Revenue was $319 million, up 6% and up 7% pro forma year-on-year. The respective contributions from the Group's businesses were 22% from Geoscience, 46% from Earth Data, with 67% for the DDE segment and 33% from Sensing & Monitoring.

Segment EBITDA was $193 million, up 25% year-on-year, a 60% margin, and adjusted segment EBITDA, excluding $34 million gain on the sale of the US land multi-client library was $159 million, a high 50% margin.

DDE segment EBITDA was $180 million, an 84% margin, and adjusted segment EBITDA was $147 million, a high 68% margin. SMO segment EBITDA was $20 million, a 19% margin, and adjusted segment EBITDA was also $20 million, a 20% margin.

Segment operating income was $94 million, at 29% margin and adjusted segment operating income was $66 million, at 21% margin. IFRS 15 adjustment at operating income level was negative $10 million and IFRS operating income, after IFRS 15 adjustment was $84 million.

Cost of financial debt was $24 million. The total amount of interest paid during the quarter was $45 million. Taxes were at plus $9 million. And net income from continuing operations was $49 million.

Group net income this quarter was $47 million, significantly up from a net loss of $28 million in Q4 2021. After minority interests, Q4 2022 Group net income attributable to CGG shareholders was $46 million and €46 million.

Overall, in 2022, CGG has significantly improved its financial performance. CGG segment revenue of $928 million was down 1% and up 3% pro forma compared to 2021. Adjusted segment EBITDA was $395 million, up 17% year-on-year with 43% margin. In 2022, CGG returned to profitability with Group net income of $43 million, which was a significant improvement from a net loss of $180 million in 2021.

Simplified Cash Flow Q4 & 2022

Moving to slide 16 and looking at simplified cash flow. Q4 2022 segment operating cash flow was $103 million, including $61 million negative change in working capital and provisions mainly related to the SMO business. Total CapEx was $50 million, including industrial CapEx of $18 million, research and development capitalised costs at $6 million, and our data cash CapEx at $25 million.

Segment free cash flow was $115 million, including $63 million proceeds from the sale of the US land seismic library. After $2 million net lease repayments, $45 million cash cost of debt, $3 million of CGG 2021 plan cash costs and $2 million free cash flow from discontinued operations, Q4 net cash flow was positive $62 million. Overall, in 2022, CGG Group net cash flow was negative $3 million.

Balance Sheet at the end of 2022

Moving to slide 19 and looking at Group balance sheet and capital structure. Group liquidity amounted to $398 million at the end of December 2022 and included cash liquidity of $298 million and $100 million of undrawn RCF.

Group gross debt before IFRS 16 was $1.16 billion and net debt was $859 million, and Group net debt after IFRS 16 was $1.25 billion and net debt was $951 million.

Our debt structure included $1.12 billion of higher bonds due in 2027, $93 million lease liabilities, $20 million accrued interest and $12 million bank loans. Segment leverage ratio of net debt to adjusted segment EBITDA was 2.4x at the end of December 2022, down from 2.9x at the end of 2021.

Capital employed was $2 billion, slightly up from the end of December 2021. Networking capital after IFRS 15 was $225 million stable year-on-year. Goodwill was also stable at $1.1 billion, corresponding to 54% of total capital employed.

Multi-client library net book value after IFRS 15 was up at $419 million. Non-current assets were at $340 million with $167 million of property, plant and equipment, down from year-end 2021, mainly due to the delay of sale and leaseback transaction, and $84 million of capitalised development costs. Non-current liabilities were at $31 million, slightly down from year-end 2021.

Shareholders' equity was up at $1.06 billion, including $39 million of minority interests mainly related to the stamp duty.

Before I hand the floor back to Sophie for the conclusion, I would like to thank her for the kind assessment of my work at CGG. It was a privilege to contribute to CGG's transformation and work with CGG's team, and all of you: our analysts, shareholders, investors, and all the stakeholders, over the last four-and-a-half years. Thank you all for your support.

Conclusion

Sophie Zurquiyah

CEO, CGG SA

2023 Business perspectives

Backlog of $442m at the end of January, up 44% year-on-year

Thank you, Yuri. Moving to slide 18: we are entering 2023 with improved visibility thanks to steadily increasing client activity and our high yield backlog.

Geoscience will continue to be driven by advanced technology and by large projects in North America, mainly in the Gulf of Mexico, increasing activity in the North Sea and more generally the broader utilisation of marine nodes for imaging.

As pressure on our clients increases to meet global demand for energy, address the high oil price environment, lower their carbon footprint, and effectively transition to renewable energy, all in the shortest timeframe possible, the use of our advanced imaging technologies has become a key enabler and has never been more important to support that decision.

Today, CGG's technologies, including our Full Waveform Inversion, are unique to us, and this drives a large portion of the high-end activity to CGG.

In Earth Data, confirmed by a solid Q4, we anticipate an increasing appetite towards exploration and OBN acquisition, which is now being used in a larger number of basins globally, including for exploration purposes.

Earth Data is linked to exploration CapEx, ILX, and Frontier, as well as global midterm activity, all of which are expected to increase in 2023.

The SMO market is also expected to grow significantly in 2023 from the low in 2022. The key driver will be large land seismic crews in the Middle East and North Africa that require new land and OBN equipment. The development of our BTC businesses will remain a 2023 priority with digital science, CCUS, defence and infrastructure monitoring being the most immediate opportunities.

Our Beyond the Core businesses will benefit from the continued drive towards digitalisation, including within the infrastructure monitoring sector, along with an increasing focus on energy transition and security. We expect another year of significant growth in our BTC activities.

2023 Financial objectives

Moving to slide 19: after years of underinvestment, exploration focus is expected to increase in 2023, particularly offshore but also in the Middle East. The macro environment continues to strengthen, but is expected to remain volatile for us, as our EDA and SMO businesses rely on large contracts that can move quarter-to-quarter.

Technology pays off for CGG and we will continue to invest in advancing our leadership. Digital, energy transition, infrastructure monitoring and defence BTC markets will continue to mature and should see steady increase in demand moving forward.

In this context, CGG has the following outlook and financial objectives for 2023. 2023 segment revenue is expected to increase in the range of 15-20% with growth mostly coming from SMO. I want to point out that we expect to see a continued high level of quarterly volatility in revenue, driven mainly by the timing of SMO equipment delivery and the usual EDA seasonality.

Q1 should be similar to last year and we expect to see a much higher revenue in Q2, especially for SMO. 2023 adjusted EBITDA, segment EBITDA margin is expected to be in the range of 39% to 41%, given the business mix. 2023 EDA cash CapEx is expected to be around $200 million with pre-funding about 75%. Our backlog coming into 2023 is healthy and stronger compared to the last two years.

2023 Industrial and R&D CapEx is expected to be up at around $70 million, primarily driven by our planned increase in High-Performance Computing capacity.

And finally, we are anticipating a positive net cash flow before changing working capital in 2023. Going forward, our focus is to build on the growth that this upcycle brings to CGG while further advancing our BTC businesses. We expect to see improvements across our businesses in all of our business in 2023 and beyond, and we will continue to focus on cash management and cash generation to pursue our path to deleveraging.

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

Q&A

Kévin Roger (Kepler Cheuvreux): My first question is maybe for you Sophie. Several companies in the sector have already reported. And in the offshore, I think if there is one conclusion, it is that, it appears everyone is accelerating in terms of final investment decision with a commercial pipeline that continues to increase, etc. On your side, did you see the same kind of acceleration for appetite for late sale? Because usually you are correlated to a CapEx in offshore, but with the things that are accelerating strongly; did you turn a bit more optimistic basically on your late sales expectation over the past few weeks?

And the second question is maybe more for Yuri. An important element for investors would be the net cash flow. So, you guide for positive net cash flow before working cap for 2023, but what should we expect in terms of working cap for 2023? Because 2022 was negative. Should we expect a reversal, so positive working cap in 2023? Or should we assume another deterioration, please?

Sophie Zurquiyah: Good evening, Kevin. Thanks for your questions. In terms of what is going on in the offshore market, what we have seen last year, as I was mentioning, it has been more around accelerating the cost, have been accelerating basically decisions around getting production. It has been a lot around field development and production, and we have seen it more through our Geocomp business, around those acquisitions, around high end, and understanding the reservoirs. A lot of the FIDs that have happened have been associated to a pretty high-end seismic acquisition and we have done a lot of those processing jobs.

The link between the increasing activity in offshore and the late [inaudible] is not exactly that one. I think we might see more of that in 2023 because specifically the offshore exploration CapEx is increasing, which I do not think was so much the case. Last year what has been accelerating is the exploration and production CapEx. The combination of the two mostly targeted development and production. I think now it is starting to move into exploration, which should then translate in probably more solid after sales. Keep in mind that in 2022, we benefited from a large transfer fee, which was somewhat exceptional. If you correct that, we should see an increase this year.

Maybe another data point that could be interesting to you is if I look at the mix of the volume data in after sales in 2022, very similar to 2021, the IOC portion is still low in the mix. It is probably half of what it used to be pre-2019, meaning that we have not seen this group of clients come back in a meaningful way in the buying data.

Yuri Baidoukov: Kevin, good evening. To answer your second question regarding working capital, we actually do not expect any further deterioration of working capital in 2023. Of course, the main reason for that and you see it in our guidance, that we expect a significant growth of [inaudible] sales in 2023 versus 2022, which means that the inventories that were increasing throughout last year in manufacturing, the equipment for the deliveries of 2023, will be coming down.

Now, the element, which as you well know, is always variable rate or a known/unknown is the level of after sales at the end of the year. Again, obviously good after sales, good news about collections in the following Q1. Also, this sequence of SMO deliveries might be impacting receivables as well. Fundamentally, again, we expect release of working capital, or slightly positive working capital next year.

Haris Papadopoulos (Bank of America): My first question is with respect to the delays we saw last year. Could you give us an update of the stage of the tenders for the Mega-Crews in Saudi Arabia? When should we expect an announcement? Then what about the stage of the multi-client project in Brazil, which was shifted from last year to 2023? I believe that is with Petrobras.

Sophie Zurquiyah: Thank you for your question. Good evening. In terms of the tenders for the Mega-Crews, they have been out, the service companies have responded, and now they are in the award stage. We are expecting, I would say, there are two sets of tenders. There are tenders for land crews, the two land crews, and three OBN crews in Saudi Arabia. I think the land crews should be awarded fairly soon; at least we know they are in the final stages of negotiation with the service company.

Regarding the OBN tenders, it is a bit unclear. I think it could be delayed another month or two. I do not have as much visibility on those. They should be coming after the one on the land side.

In terms of the multi-client data, we are planning to see some level of catch-up of pre-funding on projects that we did last year. I do not want to name, and I cannot name clients at this stage, but we have built in our budget some level of catch-up on those projects.

Haris Papadopoulos: Thank you. My second question is with respect to M&A. Is it fair to assume that we should not see any major M&A activity this year? What about any potential disposals? I remember the stake in the Saudi Arabia land data acquisition business was mentioned at some point. Is there an intention to seek a buyer for this asset?

Sophie Zurquiyah: In terms of M&A, we are always on the lookout for what I would call the small bolt-on opportunities, which is exactly the kind that we did last year; that $20 million range, $20 million-$30 million range. Right now, as it is today, there is not one in the pipe, but it does not say that perhaps there would be one that appears during the year. We want to be ready for that and take that opportunity that appears, especially if it helps us accelerate our Beyond the Core initiatives.

Now in terms of disposals, it is very clear that we are still looking for divesting that, our participation in oil and gas. I think the environment has not been conducive to doing that, but we are always looking for opportunities to do so.

Haris Papadopoulos: My last question is, your liquidity is quite strong now and especially compared to your minimum cash level of $150 million. I was thinking perhaps, is that intention perhaps to consider using your 10% special redemption call for the bonds, given how high the companies versus the call premium? It kind of makes sense. Is it something that you are considering right now?

Yuri Baidoukov: We are always considering those opportunities, as you well know, whereas we discussed previously. However, again, at this particular point in time, we are still waiting on de-risking of our business plan for SMO. In other words, again, on the Saudi Aramco or the Mega-Crews and things like that. In other words, again, once we get greater visibility then that option is on the table.

Vikram Lopez (LGIM)[?]: Congratulations on the results. Just wanted to clarify something that you said earlier, just on this issue of net cash flow for 2023. You said positive net cash flow before change in the working capital, but you expect working capital to not be a drain on cash flow. Have I understood all that correctly?

Yuri Baidoukov: Well, we were guiding that net cash flow will be positive before changing working capital, but what I was commenting is that most likely we will see some of positive change in working capital as well. However, and again within the working capital components, definitely inventories will be coming down because we are expecting significant growth in SMO sales, and therefore deliveries of equipment which was built in 2022. However, there is an element that is variable, and difficulty predicted what will be the level of equipment deliveries, but more so per data for sales at the end of the year. Basically, as you might recall, that is a significant element that can create significant swing.

Again, the more data we sell, the more we collect in Q1, so basically the usual story.

Vikram Lopez: Okay. At worst you would be expecting to be kind of breakeven net cash flow. Would that be right?

Yuri Baidoukov: Yes, breakeven to slightly positive.

Vikram Lopez: Okay. This then leads into the next question: if I am reading the numbers right, you are talking about 15-20% revenue growth, EBITDA margins range of 40%. That implies a flat EBITDA year-on-year.

Sophie Zurquiyah: No.

Yuri Baidoukov: No. It implies flat EBITDA margin year-on-year, but it does not mathematically imply flat EBITDA growth.

Vikram Lopez: Well, if you are going up by 17.5% then you would have revenue of $1.91 billion, multiply that by 40% and you have $437 million, which is pretty much what you did.

Yuri Baidoukov: No, we are talking about adjusted segment EBITDA. In other words, which does not include non-recurring items. The adjusted segment EBITDA in 2022 was $395 million.

Vikram Lopez: Sure, but from a cash perspective, you did get that cash. You were paid that amount of money. You can say that it was not a recurring part of the business, but you got a cash inflow of $430-odd million from businesses plus disposal, and next year[?] you will have a cash inflow of $430-odd million, you would not have had any disposals. It is still $430 million coming in, $270 million going on cash, okay, working capital… Well, I guess, that. Then your interest costs. The wider point is, at what point do we start to see substantial cash flow generation internally? Not just flat to slightly positive, but looking at, like 3-4% cash delivery though. Do we need to wait for revenue to be hitting the 1,200, 1,300 mark? How achievable is that?

Yuri Baidoukov: First of all, we are always explaining that, for us, the net cash flow breakeven point in terms of revenue is roughly $1.1 billion. We were growing this year but obviously we expect to continue growth and recovery in 2024 as well. This is one element.

Now, the other element is that, yes, it depends also on the business mix, in other words, on the revenue mix, because with significant increase in SMO sales, SMO EBITDA margins are lower than the EBITDA margins of Geoscience and Earth Data combined.

There is another element to keep in mind: that at the end of our agreement with Shearwater will be basically at the beginning of January 2025. With that, the scope line, which is about $22 million, will disappear as well.

In addition to, of course, us recovering full freedom when it comes to our EDA business and therefore no longer having the capacity utilisation agreement and commitment to use Shearwater vessels.

Sophie Zurquiyah: Okay. Well, thank you very much. Thank you for attending. Thank you for the great questions. We will certainly follow-up offline if you have any other follow-up questions. Thank you very much. Have a great evening, and we will be in touch.

Yuri Baidoukov: Thank you all. Have a good evening. Bye-bye.

[END OF TRANSCRIPT]