Q2 2019 Earnings Call

Company Participants

- Bard Stenberg, Senior Vice President of Investor Relations and Communications
- Gottfred Langseth, Chief Financial Officer
- Rune Olav Pedersen, President & CEO

Presentation

Bard Stenberg {BIO 19147078 <GO>}

Welcome to Q2 2019 Results. My name is Bard Stenberg, Senior Vice President of Investor Relations and Communications. Today's presentation will be webcasted and people on the webcast will also be able to ask questions after the management concluding remarks. Before we start, I would like to give some practical information, as we are webcasting this presentation, I kindly ask the audience in the Oslo to use the microphones provided when asking questions. Also take notice of the emergency exits located in the back of the room. So if the alarm is sounded, please evacuate immediately.

I would also like to draw your attention to the cautionary statement showing on the screen and also available in today's earnings release and presentation. Today's presentation will be given by CEO, Rune Olav Pedersen; and CFO, Gottfred Langseth. So with that, it's my pleasure to give the floor to you, Rune Olav.

Rune Olav Pedersen {BIO 16158611 <GO>}

Thank you, Bard. Good morning everyone. Well, we have highlighted our Q2 reports with continued market improvement. And when you look closely at the numbers, you will see that all the numbers in the financial report and also the numbers we will present today will support that we are in an continued improving seismic market.

Some of these numbers are better than we have seen for many years, four to five years as I will show you. And perhaps the most important number in this respect is the contract revenues of $94.4 million in the quarter. This is the second highest contract revenues we have reported in any single quarter since the fourth quarter of 2014, which is four and a half years ago.

Now you see the price increase, we have talked about, a more than 35% price increase in '19 versus '18 coming through in the numbers. And we've had solid vessel production in the quarter giving this contract revenues. Secondly, the order book increased by 26% in the quarter from the first quarter to this quarter, the second quarter. That in itself is special. The first quarter is normally the quarter where we have the strongest backlog, that is when we have booked up the summer season, which is the strongest season, and therefore it's normally the highest in any year. So to go up from that, in itself is special.

Secondly, the level it is sitting at its high, and we haven't seen -- or it is actually the second highest order book we have seen since the second quarter of 2015. Further, we are currently experiencing good client interest on our multi-client surveys, and the pre-funding levels are now back to the levels we normally report at slightly above 100% of cash investments.

Late sales were muted in the quarter and it represented a miss versus consensus and generally the only weak number in this report. However, as I will show you, late sales vary from quarter-to-quarter and the PGS late sales are also subject to fundamental growth over the last years. I'll get back to that. Finally, we initiated a refinancing exercise in the second quarter. We met a deteriorating market and we decided to withdraw the transaction because the terms offered were not attractive to PGS. And we expect that we will return to the market to refinance in the second half of 2019.

Over to the financial summary, Gottfred will go through the numbers in more detail, but I would like to highlight two numbers from this. We had a segment EBITDA of $135 million in the quarter. And this is in fact the third highest EBITDA we have seen in any quarter since the fourth quarter of 2014. You can see the other two quarters that were higher. That was the second quarter '18 and the fourth quarter '18, they are both higher than the second quarter '19. But other than that, there are no single quarter since the fourth quarter of '14 higher than the one we reported this quarter.

Secondly, the segment EBIT of $18 million is the second highest, we have reported since Q3 2014. So, the only quarter where we have reported higher EBIT numbers than what we are doing in this second quarter is the fourth quarter of 2018 where we had fantastic late sales. This just once again supports the notion that we are in a recovering seismic market and also that we have positioned PGS to deliver stronger numbers even though the market hasn't fully recovered.

So, order book, the order book was $300 million at June 30, 2019. And as I said, this is the second highest we've seen since the second quarter 2015. And you can see the first -- the highest number in the first quarter of 2017. They're sitting in there. In addition to that, we are in the process of finalising agreements with a value of approximately $75 million, which are not obviously included in the order book. As of today they were not signed a quarter end, but they are included in the booking numbers, you see there the vessel booking numbers.

We are fully booked for the third quarter and we are fully booked for the fourth quarter running seven vessels. We will consider running an eighth, but we are currently fully booked running seven vessels in the fourth quarter. We have booked seven vessel months in the first quarter 2020 and five vessel months also in the second quarter 2020. So, the order book and the vessel bookings gives us good visibility into revenues for the remaining part of this year and also into 2020.

And with that, I give the word to you Gottfred.

Gottfred Langseth {BIO 5277539 <GO>}

Thank you. I will start with key financial figures. The segment revenues of $215.6 million is an 8% increase compared to last year. Segment EBITDA of $135.2 is at par with last year and EBIT of $17.7 million is up $4 million from last year. With respect to as reported numbers, the numbers according to IFRS and IFRS 15 in particular where late sales revenues are recorded on as completed or as delivered basis. These revenues are lower than the segment numbers so far this year, $23 million in the Q1 and $36 million in year-to-date. This is driven by timing, as you probably know and as a backdrop you will see that for the full-year last year, the IFRS as reported numbers where approximately $40 million higher [ph]. This will even out over time, but those reported numbers in this report appears to weaken. But as you know, we do not see them as reflecting in a way the value creation and the performance in the period.

Net financial items, a cost of $31.8 million. Our basic interest cost on the interest bearing debt is lower than last year as a result of the reduced floating interest rates and reduced that. The amount of $31.8 million includes an impairment relating to our investment in azimuth, and it also includes compared to last year now an imputed interest cost on financial -- on lease liabilities. Income tax expense for the second quarter was $9.8 million.

On the operational highlights, total segment MultiClient revenues $112.4 million, pre-funding was $67 million, which is 102% of the MultiClient cash investments. Late sales in the quarter of $45.6 million.

Contract revenues $94.4, as already mentioned more than three times what we had in second quarter last year and more than a doubling from the first quarter, which is driven by primarily an increase in pricing.

MultiClient revenues by region, the pre-funding revenues in the second quarter came primarily from North America by late sales nominated by Europe. Vessel utilization, we had 88% active vessel timie in the second quarter, no standby. This is basically full utilization. We expect high utilization in the third quarter as well. And in the fourth quarter we will, as a minimum operate a seven vessels. We may operate eight depending on getting the right projects.

Cash cost sequentially up compared to the first quarter. Second quarter cash cost impacted by more capacity in operation, moving from six to eight vessels operated and relatively high project specific cost on some surveys. In addition, we ended up charging some of the reactivation cost relating to Ramform Vanguard to expense rather than reporting it as CapEx. Cash flow, cash from operations $108 million, a slight working capital build in the quarter, which is relating to the increased revenues. We received the second installment from the sale of Ramform Sterling net cash impact of $24.5 million in the quarter, $69 million year-to-date with the two first installments. We had $8.4 million of CapEx relating to Ramform Vanguard in the second quarter. And the total CapEx for the reactivation ended at $15.5 million, which is quite a bit lower than approximately $25 million. We indicated quite a while back that's a combination of two things. We ended up with a lower total expenditure. So it was less expensive in total. And then, a portion of that expenditures have been charged to operating expense rather than capitalized as CapEx. Lastly, on this slide, we have reduced our revolver drawings by $90 million year-to-date, $60 million reduction in the second quarter.

Balance sheet, gross interest bearing debt $1.111 billion. That's a reduction of $115 million year-to-date. Net interest bearing debt is down $74 million year-to-date and ended at $1.035 billion. And the liquidity reserve was increased by $48.7 million and ended at $208 million. The total leverage ratio as we calculated under the credit agreement, is 2.85 to 1.

On this next slide, we have illustrated the cash flow generation for the last 12 months and the amount therefrom available for debt repayment. The numbers for the graph is from the cash flow statement. It is sorted in a way to get -- since there has been some accounting changes in-between, sorted to illustrate this as best we can with the financial -- the lease payments which are treated as financial items this year after IFRS 16 here included in an operating CapEx -- operating cash flow as it has been historically. And also, I have grouped the proceeds from selling sterling and the CapEx and expenditure to rig Vanguard as that is related to one on the same event which in total is a net positive of just over $50 million for PGS so far.

And as a result we have reduced our net interest bearing debt by $110 million for the last 12 months. Our free cash flow generation will improve us in a further recovering market. Then to the debt and drawing facilities, to the left, not a lot of change in our facilities other than a fairly significant reduction of drawings on the RCF, as commented on. We planned to change this in the second quarter and initiated a refinancing during the quarter, but decided to withdraw the proposed refinancing as we were hit by a particularly difficult period in the financial markets. We are generating positive cash flows. It is still 17 months until the senior notes mature, 20 months until the term loan matures. We do however, expect and plan to refinance in the second half and we are positioned to execute on short notice.

With that, I think I will give the word back to you, Rune Olav.

Rune Olav Pedersen {BIO 16158611 <GO>}

Thank you, Gottfred. The streamer operations in July 2019, we currently operate two large Titan-class vessels, the Ramform Atlas and Ramform Titan in Canada on MultiClient service, and also Sanco Atlantic on a two-day survey in Canada. Ramform Tethys, is in Guyana where she has been for at least half-a-year and will stay for quite a while still. We have Ramform Vanguard and Sanco Swift operating in the North Sea, and we have Ramform Sovereign in Angola, we have Ramform Victory coming back to us as a source vessel, operating together with Sovereign there on the 4D program. We have Ramform Hyperion in Australia and we have PGS Apollo finishing off in Indonesia.

Now I'm going to go through two slides on the seismic market and we're going to start with the contract segment first. As we have communicated for some time, we have our -- or sorry, the prices on the work we have done in 2019 or booked for work in 2019 are more than 35% higher than the average price in 2018, and that is still the case after we have now booked up the third quarter and for seven vessels in the fourth quarter. Our booking this year for the winter season for Q4, Q1 is significantly ahead of where we were at the same time last year.

And the bidding activity with leads and bids for new work is on a positive trend, as you can see on the two graphs and at levels which we saw back in 2014 - 2015, where obviously there were a lot more vessels in the seismic markets. We do expect contract activity and vessel utilization in general to be higher this winter season compared to last winter season. That is particularly true for PGS as you understand, we have already booked up the fourth quarter. So we are seeing a contract segment in recovery.

MultiClient segment has been in fundamental growth for some time. We have invested quite heavily in MultiClient over the last three years. The bottom graphs show how many square kilometers of MultiClient data we have acquired in 2016, 2017 and 2018. And as you can see, these are at high levels and increasing quite dramatically into 2018. These are, of course, investments that we will draw on with respect to late sales in the years to come.

Now, when it comes to late sales. There are strong quarterly fluctuations. I say this, I think every quarter whether we have very strong late sales or more muted late sales like this quarter. There are strong quarterly variations that will continue. What we've done here is that we have combined the last 12 months of late sales. That is the graph to the right to the top illustration. Last 12 months June 30, 2019, combined late sales. And then we have last 12 months, June 30, 2018 and last 12 months, June 30, 2017. And what you see, obviously, is that there is growth in late sales in PGS.

You see, that there is slightly less than 20% growth from the June 30, 2017 numbers to the June 30, 2018 numbers and more than 20% growth from the June 30, 2018 numbers to the June 30, 2019 numbers. So even with the muted late sales we have had in this quarter, which has received quite a bit of attention, there is sequential growth and underlying fundamental growth in PGS late sales. We also have a large opportunity basket for the second half of 2019 when it comes to late sales. This is partly due to the fact that our internal forecast for late sales have been skewed to the second half of 2019 all along. And secondly, obviously there are opportunities which we would have hoped to have closed in the second quarter of 2019, which is still alive, but has spilled over into the second half, and then obviously increasing the opportunity basket for the second half of 2019. This is why we are saying that we are confident that late sales for PGS will be stronger in the second half of this 2019 than it has been in the first half. There will be strong quarterly fluctuations going forward as well.

So, pre-funding revenues, it is good to see that our pre-funding revenues are back to normal levels with above a 100% pre-funding of cash investments in this quarter. And we still believe that the pre-funding level for the full-year of 2019 will be in the upper half of the guided interval of 80% to 120% of cash investments. We are now experiencing something we experienced when the market was strong, namely that there is internal competition for the PGS vessels. That means, that we both have contract and MultiClient segment, both wanting our vessels.

So going forward, we will have to allocate capacity to MultiClient in competition with contract, this has not been the case for four years. If you could do a MultiClient project for the last four years, you would do it. That is no longer the case as the contract segment is also increasing profitability. We will have to balance these things off going forward. All in all, the MultiClient segment is also in fundamental growth.

Supply reduction, you've seen this graph before, there is a significant supply reduction over the last years and the average capacity is down close to 50% from 2013 till today. However, we expect that the seasonal fluctuation we have seen over the last years, as you can see from almost from '16 or from '16 going forward, you will see that there is a peak in supply in the summer months and a trough of supply in the winter months. We expect that to be less visible going forward, as we expect there to be higher demand during the winter seasons going forward.

Guidance, we still guide on a Group cash cost of $550 million approximately. We now guide on the MultiClient cash investments of $225 million that is down from $250 million, we guided on in the first quarter. In the first quarter and we expect to use approximately 50% of our 3D vessel time on MultiClient in 2019. It's important to note that both the Group gross cash cost guidance and the MultiClient cash investment guidance assumes seven vessels in operations in the fourth quarter, which we are now fully booked. As Gottfred mentioned, we may depending on projects, whether we can build projects, elect to operate eight vessels in the fourth quarter, that may increase the gross cash flows for the Company, and it also may increase MultiClient cash investments if obviously this is a MultiClient program that we will embark on.

CapEx, we are now guiding that at approximately $70 million, down from approximately $85 million. And the main driver for that is that the reactivation of Ramform Vanguard became quite a bit cheaper than what we had expected.

So in summary, we are in a real seismic market recovery and we believe we have shown that through this presentation and with the Q2 numbers, that both the contract segment and the MultiClient segment is in a recovery mode. The contract revenues in the quarter were strong, they benefited from strong price increase and good vessel productivity.

We have a strong order book increase, which is driven by a substantial increase in contract volume, and that gives us visibility into the second half of 2019 and further into the first half of 2020. And we are also experiencing solid pre-funding for our ongoing MultiClient survey, and all of this together with the fundamental underlying growth of our late sales, causes us to conclude that we are in a recovering seismic market.

And with that, I think I will give the word back to you Bard. Thank you.

Questions And Answers

A - Bard Stenberg {BIO 19147078 <GO>}

Thank you. We can start with the audience in Oslo. If there is any questions from the audience in Oslo. If not, we can go to the web. Where it's Philip Sisner, he is asking, I'm seeing your leverage ratio at 2.8 times at the moment, barely within the RCF covenant of 3 times this quarter. As I know, this covenant drops to 2.75 per Q3 2019. How are you going to solve this without an equity issue?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Not sure. I see the relationship between the two things, but let me answer the first question. We are at 2.85, we expect it to be below 2.75 by third quarter and have headroom in our forecast.

A - Bard Stenberg {BIO 19147078 <GO>}

And it's John de los Santos from UBS. On the debt refinancing, if the market remains weak in second half 2019, what alternatives are you considering?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

We will not go into the alternatives. We initiated a process in the second quarter, we were hit or we ended in a period in the market with a strong negative turn in sentiment. That is particularly difficult. We are quite confident with the market and the sentiment that we see today. We are able to find a structure that will enable us to refinance during the second half. Clearly during the process that we had in second quarter where we met a lot of investors. We've brought -- got and brought with us a lot of perspectives on things we could look at with respect to the structure, we'll take that into account when we plan for the fall.

A - Bard Stenberg {BIO 19147078 <GO>}

Okay. Next question comes from John Olaisen at ABG. Usually contract prices are somewhat lower in the winter season than the summer season. Is this likely to be the case for the upcoming winter too?

A - Gottfred Langseth {BIO 5277539 <GO>}

I'm going to be careful obviously commenting on pricing in that period, but in general the situation is, as stated in the question that is the pricing is stronger and the demand is stronger during the summer season than the winter season. And I think we could probably expect a similar development over this winter season, even if demand is higher this winter season than what we have seen in the earlier seasons.

A - Bard Stenberg {BIO 19147078 <GO>}

Then the follow ups, whether -- you said that PGS had expectations of a low late sales in Q2. What are your expectations for Q3 versus Q4?

A - Gottfred Langseth {BIO 5277539 <GO>}

We're not going to -- we are not going to comment on the specific quarters, but rather stick to the second half. You know, having said that, it is clear the fourth quarter is normally quite a bit stronger than all the other quarters in a year than all the other quarters in a year. And I see no reason not to expect that also this year, that the fourth quarter will be the strongest quarter in the year. There are nothing in our client dialog or in our leads basket that would tell us that, that should change this year.

A - Bard Stenberg {BIO 19147078 <GO>}

He has another follow up on the debt. Were any other debt investors put into Q2 inside your position when you tried to refinance recently?

A - Gottfred Langseth {BIO 5277539 <GO>}

I'm not sure. I should comment on that at all?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

I think, you will.

A - Gottfred Langseth {BIO 5277539 <GO>}

I can't comment on that.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

No.

A - Bard Stenberg {BIO 19147078 <GO>}

Then we have Glenn Lodden at Nordea Markets. In regards to the lower multi-client investments guidance, are there any specific projects you are setting aside later this year?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

I'm not sure I understood the question. Could you repeat the question, please?

A - Bard Stenberg {BIO 19147078 <GO>}

He is asking in regards to the lower multi-client investments guidance. Are there any specific projects you are setting aside later this year?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yes. Okay. Now I understand. I wouldn't say that, I think at any time, we obviously have a basket of multi-client projects working up at and coming to maturity as of -- in different timings, and this is about allocating our vessels in the most optimal way, which may have, you know, let's say pushed some multi-client programs further out into 2020 or other contract jobs, which were well paid, have taken their place. So, it's more of an allocation exercise we are doing as this becomes concrete versus this becoming more of an estimate and what we believe earlier in the year. So, it's -- you know, it's more things coming in -- becoming concrete and therefore shifting around a little bit in time.

A - Bard Stenberg {BIO 19147078 <GO>}

Okay. Next question comes from Lillian Starke in Morgan Stanley. What have been the triggers for clients to move some purchases into second half 2019?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

There are many -- I would say many different reasons here. Some are related to clients, their decision processes not going at the pace we would have liked it to go. Others are related to uplifts from awarded acreage in countries where there are direct awards, there -- where you're missing the signature, therefore, you can't be able to realize the uplifts and others are again, are related to events taking place later in time, and the clients have felt that, we don't need to pull the trigger in the second quarter, we can wait till later. So there are many different elements of why things have slipped from the second quarter and into the second half. Yeah.

A - Bard Stenberg {BIO 19147078 <GO>}

And she is also asking, if we could give an update or color on the development of the 4D markets. Any news on the 4D markets?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yes. Yes, I guess, there is no news. It remains very strong. And a lot of the contract opportunities and the contract we are doing during 2019 are 4D. We are currently engaged in particularly two very large 4D jobs over multiple months, which continues to be bigger. So the 4D market remain strong is, I guess, the update on that. Yeah.

A - Bard Stenberg {BIO 19147078 <GO>}

Then, we have another question from John Olaisen at ABG. Any chance that you could utilize eight vessels in Q4? And what about Q1 2020, will it be six, seven or eight vessels?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yeah. It is always a chance that we will go to eight vessels in the fourth quarter. If we do so, it's likely that we would then like to see visibility for that eight vessels through the first quarter. So that we won't go to -- we will not go to eight vessels if we win a one month job in November, to put it that way. We will build a program for that eight vessel, so that we can see it through the winter before we bring it out. So currently, with the seven vessels in the fourth quarter it's likely that we will run seven vessels in the first quarter as well. If we do bring in an eighth vessel into the fourth quarter, then we will aim to utilize those eight vessels through the winter.

A - Bard Stenberg {BIO 19147078 <GO>}

Next question comes from Sahar Islam in Goldman Sachs. How should we think about the cash flow for the second half 2019? What is cash generation from the contract division, and are there any working capital cash flow movements to be aware of?

A - Gottfred Langseth {BIO 5277539 <GO>}

I think, I find it difficult to go in to the details around this. We gave -- we have given earlier an indication of how we could see the full-year. We've given a gross cash cost to CapEx and the elements anyway, everything else under the revenue. And I don't think this is the appropriate time to give an estimate on revenues and then in a way, thereby then maybe also a bit of the working capital change. I think it's fair to say that in a way, our aim is to keep the working capital at a fairly -- sorry, stable level and collect things as swiftly as possible. So the working capital will depend on quite a lot the way -- the action level in the last four to six weeks before the year-end on the late sales side.

A - Bard Stenberg {BIO 19147078 <GO>}

Sahar Islam is also asking, what is the competitive landscape like in the contract market and how do you expect this to evolve with the Shearwater market share, post its CGG acquisition?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yeah. No. I mean, the competitive landscape currently is fairly transparent. Obviously, we have CGG using some of its capacity in the contract market. We have Shearwater and Polarcus and ourselves. I mean, it is still, I would say a strong competition. But at the same time you can see that we are able to use and have been able to use some of our differentiators to build a strong backlog on strong pricing through this year. So there is possibility to differentiate in this competitive environment.

And then the question related to Shearwarter's acquisition of CGG. Well -- and then we will be facing one less competitor and then any contract acquisition which obviously generally is positive for the other competitors in the market. At the same time, we don't expect Shearwater to retire any of the CGG vessels. So whether it will impact competition, you know, it will be positive. But whether it will have a material impact or more of a smaller impact, it's still difficult to see. But there is still strong competition in the seismic space.

A - Bard Stenberg {BIO 19147078 <GO>}

Somewhat related question from Monica (inaudible) in (inaudible) Do you see competition intensifying due to the TGS buying Spectrum and CGG transaction with Shearwater? And how is PGS's place in the new competitive environments?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yeah, I would take the TGS acquisition of Spectrum, and I don't think that will impact PGS in any material way at all. I'm sure there are some positives and some negatives related to that for us, but I don't -- I mean overall, I think it's very -- rather neutral for us. We, as I said, are able to utilize some of the differentiators we have versus the others in the market, which goes both through to the streamer technology and the GeoStreamer and the improved image we can deliver to the market, recognizing there are only two to three other vessels in the world fleet with similar imaging capabilities as the GeoStreamer. And then secondly, our very large vessels, we're seeing some -- the return of some large jobs in harsh environments coming to the market where obviously the Titan-class vessels are very cost efficient and a safe bet for clients if they want the job done in an environment like that.

So we are able to differentiate on many different elements in the current market, which is obviously an improvement from the market, we saw at least some two, three years back where it was most of the job sort were smaller and people weren't that concerned with quality, which is changing and changing in favor of the PGS differentiators.

A - Bard Stenberg {BIO 19147078 <GO>}

Then, we have a question from Morten Nystrom in Arctic Securities. Why do you expect late sales to rebound in the second half 2019? Is it only related to the budget flush effects?

A - Gottfred Langseth {BIO 5277539 <GO>}

It's obviously partly related to that, but I think I've already commented upon it. We have a fairly large opportunity basket for the second half and we've seen all through the first half of 2019 that our largest clients and where we have our library, it was likely to be more purchases in the second half than in the first half of the year. So, we are not surprised that the first half turned out -- or if it does turn out weaker than the second half. That is not a surprise to us, the way we have seen the market develop. And it's clear to say we would have liked to have had more late sales in the second quarter in isolation. That's clear. But here we feel we have been, as I understand, we have lost quite a few of the leads we were working on didn't materialize in the second quarter. They're not dead. They're not gone away. They're still leads and there's still dialog ongoing. And we expect a healthy part of those leads to materialize during the second half. And therefore, you could say that the leads basket increased going into the second half as far as the sales were muted in the second quarter.

A - Bard Stenberg {BIO 19147078 <GO>}

Nystrom also have a question on the working capital, which you got addressed already. Then he also is asking is it more likely that the refinancing now includes equity, given the failure in the first attempts?

A - Gottfred Langseth {BIO 5277539 <GO>}

It is still a our clear plan to refinance without using equity.

A - Bard Stenberg {BIO 19147078 <GO>}

And we have question from Christopher Mollerlokken at Carnegie, the contract seismic market seems to enjoy a strong momentum, while the pre-funding backlog continues to be significantly down year-over-year. And the reasons why there seems to be more difficult to secure pre-funding for new projects this year?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

We have experienced that for a while I would say, and we have communicated that also, at least two to three quarters now. I think -- I actually think that is improving. And I think we will see that the pre-funding backlog will increase somewhat going forward, is the sense I am having right now that it is becoming a bit easier. It has puzzled us why the contract market has been -- has improved quite a bit through the period and it has remained difficult to get pre-funding over the last quarters. But I actually think that is it about to adjust itself a little bit from our internal forecasts and what we are working on. We will see.

A - Bard Stenberg {BIO 19147078 <GO>}

And we have another question from Christopher Mollerlokken in Carnegie. You're now fully booked for both Q3 and Q4, normally Q4 is a quarter where you reposition your fleet. What would be a fair assumption for investors, do you mean for Q4?

A - Gottfred Langseth {BIO 5277539 <GO>}

That's good question. I should probably know that, and while we have it for a full-year average, we have typically 10% to 11% steam across the year. Q4 would be -- would be higher -- a bit higher than that. But I wouldn't expect -- I obviously have the number, but not in my head. So I would expect a bit higher than 11% but would -- that probably not overrun and it won't be on sort of 13%, 14% or something like that, take that if you're -- I think we live it through that. Probably said too much already.

A - Bard Stenberg {BIO 19147078 <GO>}

Then, we have another question from Monica (inaudible). Is pre-funding rate guidance for this year is still in the higher side of the targeted level 80% to 120%?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Yes.

A - Bard Stenberg {BIO 19147078 <GO>}

And then she is also asking, is Brazil going to be a material region for PGS in the second half because of the upcoming year awards? (inaudible)

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Well, we expect to sell from our Brazil library also in the second half. That's clear. Some of that is around related. Now there is just general sales from Brazil.

A - Bard Stenberg {BIO 19147078 <GO>}

A somewhat related question from Sahar Islam in Goldman Sachs. Are there particular licensing rounds you would highlight in the second half of 2019 as important drivers for your late sales?

A - Rune Olav Pedersen {BIO 16158611 <GO>}

There are, but I'm not sure. I want to highlight and there are several. I mean, we have geographically diverse library and there are licensing rounds that are important, Brazil being among them. And there are also licensing rounds coming up later. Basically not in the second half, but into 2020, where people will buy data in front of those licensing rounds. So for example, the fact that Angola is re-initiating, there -- or initiating a regime of licensing rounds more on a general basis will be positive for our large library in that country as well. And obviously the North Sea is important with the upcoming upper round the awards are very early in January, normally in 2020. So, yes, there are several. There I mentioned a few.

A - Bard Stenberg {BIO 19147078 <GO>}

Next question comes from Mick Pickup in Barclays. You talk of competition between contract and MultiClient due to profitability. Is that on the EBITDA level or with levels, that now contract is back in positive territory? He wants to get more insights into the competitive, -- internal competition over capacity.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

I mean, the contract segment is profitable. Is EBIT positive and double-digit, currently. That means that some of these jobs are at EBIT levels that competes with a good MultiClient project and others -- obviously, this is a mix, and others will obviously will not be at profitability levels that compete with a MultiClient project. Then it becomes a balancing act with obviously the contract revenues being not risked, while MultiClient revenues are risked. You know, as you estimate late sales over time and also elements of bringing cash flow in earlier versus later. You know, also there is a mix here. But, yes, there are contract jobs now that competes on profitability with MultiClient projects.

A - Bard Stenberg {BIO 19147078 <GO>}

Okay. Are there any questions from the audience in Oslo. If not, that brings us to the end of the questions from the web. So, thank you all for coming and thank you all for logging into the webcast. And have a nice day. Thank you.

A - Rune Olav Pedersen {BIO 16158611 <GO>}

Thank you.

A - Gottfred Langseth {BIO 5277539 <GO>}

Thanks you.