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PGS.OL - Q2 2023 PGS ASA Earnings Call

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PRESENTATION

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Good morning, and welcome to PGS Q2 Presentation. My name is Bard Stenberg, Vice President, Investor Relations and Corporate Communications in PGS. (Operator Instructions)

I would also like to draw your attention to the cautionary statement showing on the screen and available in today's earnings release and presentation.

The agenda for today is Rune Olav will give you the Q2 highlights, our financial summary and the order book. Then Gottfred Langseth will give you a financial review, followed by Rune Olav's commentary regarding the operational update and the market comments, the guidance and then we will have the summary and a Q&A at the end.

So with that, I give the word to you, Rune Olav.

Rune Olav Pedersen - *PGS ASA - President & CEO*

Thank you, Bard. Good morning, everyone. I will start with the highlights from our second quarter results and start with the contract market. We are seeing improving contract rates and margins, and we saw that continuing into Q2 this year. That is in spite of the fact that we had a rough weather at the start of the North Sea season, which impacted our contract rates negatively. Even with that, we are seeing a sequential increase.

We're also seeing a strong demand for our vessels, which I will come back to when I show you the very strong leads curve when we get to the normal bids and leads slide. On MultiClient, we're seeing sequential revenue increase from Q1 to Q2 and a prefunding level of a strong 127%. For the first half, the prefunding level is now at 128%. And we expect a similar prefunding level for our activities in MultiClient in the second half of 2023.

Late sales more than doubled from Q1. Obviously, the Q1 late sales were weak, but the late sales in Q2 are more in line with what we expect from a reasonably strong market when you take into consideration that there are no transfer fees or extraordinary events in our late sales in Q2. So a fairly good late sales in the quarter.

We are also seeing significant interest in our solution for site characterization for offshore wind parks. And we started our first project now in the second quarter. And we have received an award for another contract, which will take this solution and this operation well into the first quarter of 2024. So an interesting development, which I will comment further on later in the presentation.

We have also today announced that we have secured a $75 million term loan, which will be used to partly repay the existing term loan and, therefore, increase our liquidity headroom in the first quarter of 2024. So this is done to increase our financial robustness going forward.

So the financial summaries, I will be fairly brief as Gottfred will go more into the detail on the numbers, but produced revenues of $186 million and an EBITDA of $113 million, EBIT of $23 million and then net cash flow provided by operating activities at a strong $99 million, which is a strong result and obviously sequentially up from last year even though we had weak late sales in the first quarter, which we typically collect in this quarter. So this is a strong number for us.

Order book development remains at a high level of $341 million. It is slightly down from Q4 and Q1, but this is more variations between the quarters, and it stays at a very high level, which we are satisfied with. The book position, we are fully booked in the third quarter. We have booked 17 of the available 21 vessel months in the fourth quarter, so only 4 quarters left to book for the year. And then we have booked 8 vessel months in the first quarter of 2024. We are currently, of course, working on both MultiClient projects and contract opportunities to book up the winter season.

Ramform Victory, we introduced her to the market end June, as we have said we would. She is currently doing MultiClient work in Norway, prefunded MultiClient work in Norway, and she will be steaming to Brazil later in the quarter. When the steam will start depends on when we get more confirmation on when the permit for the work in Brazil will be received by Petrobras.

And with that, I give the word to Gottfred for our financials.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Thank you. I will start on the key financial figures. The $186 million produced revenues is an 11% reduction from Q2 last year. This is due to lower late sales. We had okay late sales in the second quarter. In the second quarter last year, we had record high late sales with quite significant transfer fees. So that is the reason for the reduction. We have had strong growth of contract and prefunding revenues in the quarter. EBITDA of $113 million, that's, in a way, positively impacted by lower cost in the second quarter. Similarly, the EBIT of $23 million.

If I move to the operational highlights, we had contract revenues of $70 million in the quarter. We used less active time for contract than previously or prior quarters, as you can see from the graph. And we had an improving revenue per day and EBIT margin in the second quarter both compared to Q1 and compared to Q2 last year.

The MultiClient revenues totaled $109 million, sequentially, doubling of -- or more than doubling on the late sales. But as you can see, the graphs here illustrate the variability, so sequentially up. But compared to the second quarter last year, which was a record quarter, we are down. We have strong commitments for the ongoing prefunding -- or MultiClient projects that secured a prefunding of 127% in this second quarter. We invested $42.9 million.

On the vessel utilization, we had 76% active time. We had unseasonally bad weather when we started several acquisition projects in Europe or in Norway. This year, the mobilization time or getting equipment in the water is recorded as part of contract time or MultiClient time, respectively, and not as I call it standby or anything else.

So on the number of days, the number of days basis, the issues on normalization reduced, had a negative impact on productivity in the quarter. This was mostly, I would say, offset by strong production when the surveys got going. We also had relatively significant yard time in the quarter, and that includes a yard stay for Sovereign, which were delayed quite significantly compared to the original plan.

Lastly, on the Q2 utilization, the standby time relates to the terminated contract for Ramform Titan where the vessel was on the way to the survey region at the time of receiving the termination. For the second half 2023, third quarter and fourth quarter will be quite different on utilization. It will be a significant overweight of MultiClient now in the third quarter. We will have 6 of our 7 3D vessels on MultiClient projects. Whereas in the fourth quarter, this will almost flip completely around, and we will have a significant overweight of vessels working on contracts.

Gross cash cost development, this is a positive picture, a significant sequential reduction, $125 million cash -- gross cash cost in the quarter. Lower project-related costs. This will vary, obviously, from project to project. We are also moving into now the part of the season, the summer season where, on average, the projects have less support than other project-related cost.

We also have a benefit from lower fuel prices in the quarter and also a period with a very weak krone versus the U.S. dollar. And we have quite a bit of our cost base in Norwegian krone. We still expect gross cash cost for the full year to be approximately $550 million. But that amount now includes more wind activity as we will be acquiring wind surveys with Sanco Swift through the end of this year and well into next.

Balance sheet, quite quick, $137 million free liquidity or unrestricted cash and cash equivalents; net interest-bearing debt of $592 million. Cash flow, a significant improvement of cash flow in the second quarter and in the first half or year-to-date compared to last year. For example, operating cash flow is more than doubled both for the quarter and for year-to-date. This is primarily due to a, call it, positive or lower working capital, which is driven by, on average, quite favorable payment profile on ongoing service.

In addition, it is related to the phasing of revenues through the quarter where acquisition revenues are pretty flat through the quarter, whereas late sales are typically late in the quarter. The lower working capital is despite a lack of resolution and receiving payment relating to a significant 2022 transfer fee event, as we have described in our earnings release.

Then we separately, this morning, announced that we have secured commitments for a $75 million new term loan to be used to pay down a little bit over half of the existing term loan, $138 million total, the existing one, with a maturity in March 2024. We do this to further increase our headroom in the financial planning and increase our robustness.

The loan fits well with our debt reduction strategy. It can be repaid at par from midyear -- mid next year, June 2024. So quite different from the bond that we have outstanding, and it's fair to say that our plan is not to keep this on until its maturity. But when circumstances allow it, we expect to repay it.

Interest rates are similar to the existing TLB, actually, a little bit lower. We will draw this loan in -- now in this third quarter and simultaneously repay or prepay the existing Term Loan B. The main terms, SOFR plus 7% interest rate. We will issue this at 95% of par value. It's, in a way, the cost of enhancing our liquidity profile this way. And then the loan will start to, and as it is prepaid, earlier start to amortize mid next year, so with 6.25% quarterly from June next year.

All of the financial covenants are aligned not to the existing term loan, but to the relatively new $450 million bonds, so that goes for the leverage ratio, minimum liquidity and these kind of things. Final maturity of the loan is December 2026. And the graphics there show the net impact of maturity profiles when this transaction is completed later this quarter.

Then this is my last slide, and it demonstrates that we are delivering strong cash flow in an improved seismic market. Now the graphics on the top, similar to last quarter, in a way, albeit the numbers are slightly or quite a bit better, show the cash flow generation for the last 12 months, so midyear last year up to today. And we have delivered a cash flow before financing activities after CapEx and client investments of $279 million.

And if we then deduct the interest payments in the last 12 months, the leasing payments for the last 12 months, we remain with a cash flow of $157 million after everything is paid that's available for debt reduction and other purposes. As a result, also our net interest-bearing debt is quite significantly reduced. It's illustrated here at the bottom of the slide. And we have reduced our net debt by close to $300 million over the last 12 months.

I will stop there, Rune, and give the word back to you.

Rune Olav Pedersen - *PGS ASA - President & CEO*

Thank you, Gottfred. Move on to the fleet activity. As you can see, the Ramform Tethys is currently operating in Brazil on a very large MultiClient survey in the southern part of the Santos area. And she will be there more or less for the rest of the year until the yard stay towards the end of the year.

Sanco Swift, as we have said, is equipped with our ultra-high-density 3D solution for offshore wind site characterization. She is currently operating in the Irish Sea, and we expect to be completed there in a matter of weeks and then transfer over to the U.S. for the next survey.

In the Norwegian part of the North Sea, we have 4 vessels operating currently. We have the Ramform Hyperion, the Ramform Victory and the Ramform Atlas, all doing prefunded MultiClient work. And then we have Ramform Vanguard shooting 4Ds in the North Sea. Moving south, you see

Ramform Titan now mobilizing for our MultiClient project in Egypt as a replacement for the terminated contract in Southern America. Ramform Sovereign is doing MultiClient in Malaysia.

And as I just mentioned and which you will all have seen from our announcement, we had a contract termination in Q2 for Ramform Titan. She was steaming towards the survey area when we received the termination. The termination is due to the client not receiving the necessary permits to do the job, and it's not related to the fact that the client didn't want to do the job or anything market-related. I think, in fact, the client is as disappointed as we are. And we are entitled to a termination fee, which will be part of our revenues now in the second quarter. And then we are also in discussion with the client on the level of additional reimbursement because we're also entitled to direct costs we have suffered related to this, and it's a positive discussion ongoing.

But as I said, the vessel is currently mobilizing in Egypt for a MultiClient job. And we -- it is good to see that we are able to utilize the Ramform Titan in a hot area. Egypt is one of the world's hotspots with its Gazprom basin very close to Europe, and there is significant client interest for MultiClient data and contract data in this area. And since the market is strengthening, we have a pipeline of MultiClient projects, which we were able to take one of these and accelerated up and placed Ramform Titan on currently.

So it's good that -- to see that we were able to turn around quickly and utilize her on a meaningful and good MultiClient project. Obviously, we have not yet secured prefunding as we had to accelerate this in front of the queue, to put it that way, because of this incident. But there is client dialogue currently, and we expect to secure prefunding for the area going forward.

I can also mention that the next project for Ramform Titan is a contract job in Egypt. So this obviously also makes a lot of sense, from an operational point of view, avoiding steam. So all in all, an acceptable and good solution for Titan given the situation we were put in.

Now I mentioned in my introductory slide that we have seen a significant growth in our sales leads, and you see that on this slide here. And just to repeat this -- what this slide is, the dark-blue line is the dollar value of all the tenders we currently have in-house. And obviously, when we are awarded work, it moves from the dark-blue line and into the backlog. The light-blue line is the dark-blue line plus the estimated dollar values of all the leads we have in-house. So it is kind of more of a leading indicator than the dark-blue line.

It is also worth to note that we are seeing an increasing amount of, I'm not sure I could call it, hybrid tenders, but it is a formalized documentation where you receive a pack of documents and you are invited to give a budgetary quote or an interest. So you have to cost the project in a particular area with a particular setup and a particular size and then send that in either as a firm price or as an indicated price, but it is not called a tender. It is called a request for interest or similar budgetary or similar.

Some of these, call it, hard leads very quickly flip into a more firm tender. We saw that in, for example, in the second quarter where we had one of these RFIs and then we were informed that within a week, we have to convert that into a formal offer. So it's almost like it's sitting between -- or it should sit between the light blue and the dark blue, but it is also, of course, an indication that some of the work in the light blue are rather secure and will happen and will find its way either into the dark-blue line or immediately into the backlog. So we are seeing a fairly strong demand for our contract services, and these are not loose leads is, in a way, what I'm trying to explain here.

The supply side is still the same, I would say, significantly down and dominated by Shearwater and PGS. We are indicating 17 vessels in today's market versus the 15 we indicated in 2022 because we have brought in the Ramform Victory, and we see Shearwater having reactivated another vessel in line with the demand we're seeing -- we're both seeing in the market, but a good supply side still.

Then over to New Energy. I have talked a few times now about the site characterization for offshore wind parks where we have entered this market during this quarter and where we're seeing a lot of interest. And just to explain a little bit for those of you not familiar with this, the site characterization market for offshore wind parks is today dominated by typically 2D surveys and 2 geotechnical surveys in kind of sequence, 1 2D, 1 geotechnical, 2D geotechnical, something along those lines. This obviously takes time.

And what we are trying to do, we are trying to introduce a 3D solution, which is what we have introduced there, which gives an ultra-high-density picture of the first 100 meters of the subsurface. And the idea here is to accelerate the knowledge of the subsurface so that the wind park providers can start building earlier and, therefore, massively save investments and these kind of things. In addition to that, we are trying to replace the sequential seismic geotechnical by providing a better seismic image. And we are receiving considerable client interest for our solution.

The first job, as I said, is for BP and partners, our partner, EnBW, in the Irish Sea, we are due to complete it in a few weeks. And then we will move over to the U.S. and start on the large survey there. And we expect also to buy another set of these ultra-high-density streamers so that we can have 2 operations for next summer because we're seeing such massive interest for this that we believe that we can easily deploy that in the market over the next summer season, then we would have the rig-in of the vessel, obviously, for that. So we are currently in a procurement process where we have received offers for a second set. And the CapEx for that is approximately $5 million and is, of course, included in our CapEx guidance.

As a consequence, we have also exercised the option on the Sanco Swift. We had an agreement for the Sanco Swift. We have options going forward. So we have exercised a 2-year option on the Sanco Swift. And she is currently the vessel we have rigged for wind operations. She is, of course, also a high-capacity 3D vessel. And to the extent that the 3D market continues to -- where demand continues to increase, we could, of course, bring her into our normal operation and equip another vessel with the wind set instead. So this creates operational flexibility for us.

Then on to guidance. We still guide on group cash cost of approximately $550 million for the year. The MultiClient cash investments are up and we are now guiding that at approximately $180 million, which, of course, also impacts the percentage of active 3D vessel time allocated to contract, which is now expected to be approximately 50% for the full year of 2023. CapEx, we expect -- still expect to be approximately $100 million for 2023.

So in summary, we are seeing an improving seismic market that is particularly showing itself in improving contract rates and margins, but also in a sequential increase in MultiClient revenue. And in particular, if you look at the prefunding revenue, it has grown sequentially quarter-over-quarter for many, many quarters now, and we are running with very high prefunding on our projects. But also late sales have picked up to a more normalized level in this quarter.

We have, as I have explained, experienced significant progress in our own onshore -- sorry, offshore wind work. And we have secured a new $75 million term loan where we are proactively managing our near-term debt maturities to increase the financial robustness of the company going forward.

And with that, I think I will open up for questions. Bard?

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Yes. Thank you, Rune.

QUESTIONS AND ANSWERS

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

We have a handful of questions from private investors to start with here. First question: how is the seismic market now compared to what we saw earlier this year?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I mean it is continuing to improve. I think it's the only way to put it. We are seeing increasing demand for our vessel activities, clearly evidenced by the increasing day rates and margins on contract work and also on the very high prefunding percentage we are running on our new MultiClient project, which is, as most people noted, almost 10% above the guided interval of 80% to 120%. So obviously, proving that the market is quite strong and continuing to improve. And then also on late sales, it's good to see that levels are getting back to more normalized levels in a market like this.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Next question is probably for you, Gottfred. You said -- or do you consider to do sale on leaseback of vessels to increase your liquidity reserve?

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

No, not currently. So that is not part of the plan. It's, in a way -- in the future, that may be a topic, but not for now.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Next one is for you, Rune. It's basically related to your quote in the release. Can you please comment on, "according to our estimates, we can manage this repayment without -- or with our liquidity reserve and the cash flow we expect to generate over the next quarters. However, to further increase the liquidity headroom in our financial planning and create financial flexibility, I'm pleased that we have secured this commitment." So then his question is, whether we expect to repay the loan or refinance the loan?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes, we clearly expect to repay the loan. So what that statement is meant to say is that in our financial -- forward financial planning and estimates, we could have managed $138 million Term Loan B in March next year without doing this $75 million loan. But when you're running a company and, in particular, in the seismic industry, revenues and cash flow fluctuate from quarter-to-quarter. And it's not a good idea to run the company based on a point estimate of cash flow, which is March 2024. So this is to increase our financial flexibility and robustness.

It also gives us the opportunity to invest in either equipment or companies or make profitable decisions for the company without having to worry about whether it will actually impact the liquidity at one point in time. So that's why it increases our financial robustness and flexibility. That is kind of the main point of this $75 million new loan here. We absolutely expect to repay it from cash flow before its maturity.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Then we have a next question here. PGS lost a contract earlier in Q2. And together with delays on the Brazil contract, what consequences does this have for repaying debt in Q4 '24? And is PGS still of the opinion that, that equity raise is off the table despite the incidents mentioned?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes. Actually, an equity raise is clearly off the table and not something we're considering at all. And I think what we've done today, we just commented on the $75 million term loan, proves that, that is not in our planning at all.

The 2 incidents, you do mention the delay in the Brazil work and also the contract termination where we're doing MultiClient instead are good examples of how our cash flow vary from quarter-to-quarter. I think in the end, none of these effects will have any negative effect on PGS in the, call it, in a year's time frame or something along those lines because we are investing in attractive MultiClient projects, and one already prefunded and the other likely to do -- be written.

But it will affect the timing of cash flows because you're doing MultiClient instead of contract. And in MultiClient, we get the revenues somewhat later than in contract. So this is an example of why it is important to have financial flexibility so that we can make -- first of all, take -- or manage when these things happen to us and also make decisions which are profitable for the company in kind of the short and medium term without having to worry about cash flow at a point in time.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Yes. Then he also wonders that canceled contract, is it likely that we will do that at a later stage?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I don't know, to be quite frank. And whether the client will be able to get a permit in that area or whether that area is, at least for the time being, off limits, I don't know. It was an environmental permit if I remember correctly. So I don't know. We'll see.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Okay. Next question is from Mick Pickup in Barclays. You talked of MultiClient prefunding at similar prefunding percentage in second half as the first half. Does this include the impact of the Titan going on an early MultiClient campaign in Egypt without any prefunding at the moment?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes, it does. Yes.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Another question from Mick Pickup. You also talked to our improving rates and how 2Q was hit by downtime. What was the impact? And can you talk to winter pricing levels that you have secured?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes. Obviously, the impact is we went up there, and we started to mobilize on a contract job. And then a hurricane or a similar size came in into the Norwegian continental shelf. We have to pick up all the gear again, and we were delayed 2 weeks.

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

A couple of weeks, and there were 3 projects that were impacted, although not to the same extent.

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes, contract-wise -- yes, and the others were MultiClient. So obviously, that impacts -- we take that as part of contract work, and obviously that impacts the rate level for the average, but that is kind of the extent of it.

With respect to contract rates for the winter season, we're going to be a bit careful as we haven't sold the entire winter season. And I'm sure our competitors also pay attention to what we say, but we do not expect contract rates to go down.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Next question is from John Olaisen in ABG Sundal Collier. You show a jump in sales leads. In which geographical area are these increases? And the leads that you are seeing, when is the work indicated to be done?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes. I mean, obviously, it is a fairly large number of leads. But some of the larger ones, there are -- some are larger than others. Some of the larger ones are in Namibia and in South Africa. And that is work for this winter season, some of it even due to start in late this year in the leads. I think maybe one of them have been flipped to a tender after we prepared the graph, but it's in those sort of things. So that's one area.

East Africa is another area with 2 -- at least 1 very large lead, which we have also priced up. There is a fairly large lead also actually in, call it, the Middle East area, which has also come up as more of a formal request for interest with paperwork and everything. I would say that is probably the -- some of the main areas for the -- which explains the jump.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Then another question from Olaisen. In Q2, you experienced weaker economics due to canceled contracts and bad weather. In good times, contract terms are usually improving. Is your current backlog also exposed to short-term contract cancellation and bad weather?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I think I would say, yes, it is exposed to that as it has and always been. But at the same time, the rates -- or sorry, the terms in the current backlog are improving in this respect, in particular with respect to the termination clauses. And it's very much on our agenda that if the client experiences things or chooses to terminate a contract and it is close to the time where we're going to do the work, there should be a larger fee payable. So this is something we are currently working on and is fairly high on our agenda, I would say. There is some improvement in our backlog, but this takes a little bit of time.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

The next questions comes from Christopher Mollerlokken in Sparebank 1 Markets. Again, he also asked about the regions for the growth in the sales leads, which you have addressed. Next question is, would you use one of your stacked vessel as a potential second vessel into the offshore wind site characterization market? Or would you charter in a new vessel?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I think both are options we are looking at, either using one of the stacked or using -- or chartering. And it depends a little bit, and we haven't really decided yet. And this is very early days, what are the ideal vessel and how, let's say, low can we go on spec and how cheap can we acquire this, how aggressive can we be on cost, and that also drives a little bit what is the vessel that we would prefer to use. We are considering both stacked vessels and vessels available in the market for charter.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Next question comes from Steffen Evjen in DNB Markets. Could you provide some color on the competitive landscape within offshore wind site characterization? Considering you're probably running 2 vessels for this operation in the next summer season, could this market potentially consume further market supply of 3D vessels given its structure for growth?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes. I mean this is a market which is dominated by Fugro. They are dominating the 2D/geotechnical market for site characterization for offshore wind. I think they have more than 50% of that market. And we are, of course, a new entrant with a new solution to this market. I think it's absolutely reasonable to assume that there will be more vessels acquiring 3D seismic for offshore wind site characterization going forward, and we will probably not be alone. I think there is no reason to expect that.

But to what extent and how fast this will grow, I think it's still very early days. And we have only scratched the surface of what we think we can do with our new solution and to what extent that can actually replace a fairly large amount of work and be both a cost saving and a time saving, which also here time is very much money with respect to offshore wind as the offshore wind providers pay a lot of money upfront when they get the area, and obviously getting into production early is very valuable. And that is some of the things we are planning to do with our solution. But yes, we expect to have competition. Right now, we think we are the, more or less, the only provider.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Next question is from Baptiste Lebacq in ODDO BHF. You mentioned you are in negotiations with the client that terminated contract for compensation. Can you give us an indication of the level of these costs or compensation that we expect to get in the second half?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I mean it is single-digit million dollars type of discussions.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Yes, we have a question from a private investor. What are your thoughts regarding dividends in the future?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I think we will repeat what we have said earlier. Our current priority is to repay debt and get down to a debt level where we have removed the $138 million, now $75 million and $63 million or whatever you got to say. When we remove that, we're left with the bond. We will then take a look at, okay, what do we do with the distribution of surplus cash flow, which we expect to have. And at that stage, we will make a decision on whether to pay dividend, and if so, how much.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Yes. Then we have another question related to the New Energy business. Can you say something about the CCS market? Anything new there now in Q2?

Rune Olav Pedersen - *PGS ASA - President & CEO*

We will do a CCS job now in Q3 in the North Sea. So nothing, I would say, nothing really new in that area. It is development as -- developing as I expected and I think also told the market last year, where we did a lot of surveys last year. We did 4 out of the 5 we saw worldwide last year. This year, we're doing 1, and our clients are doing 1 or 2 or something along those lines.

So this is a flattish market for now. And I expect it to remain flattish for a few years before all of the initiatives that we're seeing all around the world matures to a level where it requires seismic. And then we will see growth in this market, which could be strong. But I still believe that is, what should I say, a few years out, maybe 2 to 3 years out before we're seeing significant growth in the carbon storage market. So the offshore wind is accelerating faster. As I said, it's here today. So it is up to us to prove that our solution works and are beneficial for the clients there.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

And we have another question from Baptiste Lebacq in ODDO BHF regarding New Energy as well. You plan to move the Sanco Swift to the U.S. Do you plan to keep the vessel dedicated to the U.S. market and then introduce the second vessel which will cater for the European market?

Rune Olav Pedersen - *PGS ASA - President & CEO*

That could be the result, but it's not something we're planning for. We are planning to keep the vessel in the Atlantic margin, which will mean, yes, both sides of the Atlantic. We will not, I think, move her to, for example, Asia Pacific is too much of a steam for this.

The second vessel, we also expect to be working in the Atlantic margin. There are several planned offshore wind parks in that region. So I think we plan to keep both vessels in the Atlantic margin. But of course, it may prove that we get more work in the U.S. and then we'll, of course, we'll keep her there. But it's not so that we will place 1 vessel here and 1 vessel there and only search for work there. So Sanco Swift may be back in the North Sea next season, for all I know.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Then we have a question related to contract pricing. You have, to some degree, addressed it. But for sake of good order, I'll just read it out. Looking at the implied contract pricing in Q1, you had a strong increase year-over-year and an even stronger increase year-over-year in Q2. Can we expect further price increases in Q3? And if that's the case, can you quantify the price increase we expect going forward?

Rune Olav Pedersen - *PGS ASA - President & CEO*

I would say, Q3 is one vessel working on contract. So it's -- and I haven't really looked, but I'm sure it's on good rates, but it is not, call it, a great -- Q3 won't be a great proxy for the market. Q4 will be when we have much more work in contract.

And what I can say is, obviously, what we have in our backlog, the pricing there is -- it's not worse than what we have achieved in the first half, that's for sure. And we don't expect any reduction in contract rates going forward into the winter season at all. But I will be a bit careful trying to speculate or give an indication of where we expect to see the contract levels during fourth quarter and first quarter as we are still selling vessels into that market.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

And then why have late sales been so weak in Q1 and Q2? Looking at the late sales in percentage of total MultiClient sales in the 2 quarters, we have 36% for Q1 and 50% for Q2, while the long-term average is more than 52%. So basically, what's the reason for the weak late sales in the first half?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes. I think your percentages will actually say that, yes, the weakness in the first half is due to the first quarter and not the second quarter. Second quarter, very much in line with what we expected, forecasted, thought and very much in line with, I would say, a normalized Q2 if you take out one-offs like transfer fees. Last second quarter in '22, we had very large transfer fees.

So Q2 is good. There's nothing -- there is no weakness to be had there. And if we've had, let's say, 2 quarters similar to Q2, I think we would all have been quite positive on the late sales. So this is down to Q1. Q1 was weak. We didn't see a massive catch-up, I guess, in Q2, so then the second half is weak.

I don't have a really good explanation other than we are experiencing a little bit of delays, I guess, in pulling the trigger on the sales. It is taking a little bit longer to kind of get the sales through, whether I don't know why that is, to be quite frank, but that is what we are seeing. In all our communications with our clients, both one-to-one and in smaller group meetings, clients are, and I think unanimously, saying that they will increase exploration, which is, of course, the relevant part for late sales.

So there is nothing in the, call it, market intelligence communication indicating a weak late sales. And I don't think there's anything due, too, indicating it either. But I agree, first half, because of the weak first quarter, is weaker than what we had expected and what you would expect from where the market is.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Then we have another question from our private investor. There's still speculation from the financial media and various analysts that cash flow will not be sufficient to cover the debt maturities in March '24. One would assume that this is also the reason for the persistent pressure on the share price. So what's the likelihood of yet another equity issue?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes, I think -- well, I certainly hope that the pressure you are talking about will be lifted with the $75 million term loan we have announced today. And I think you will have to be very negative to think that there is a big risk to our Q1 '24 liquidity now. So what can I say? We are not considering an equity issue at all.

And I think we've proven that by going out in -- earlier than what we needed because actually, on our financial planning, we don't strictly need it. But to increase the financial robustness, take into account that things may happen also in the third or fourth quarter, in the first quarter, that may displace cash flows. So that doesn't hurt the company and we are forced into equity issue discussions. That is absolutely not a topic for us.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Very good. Then we have a follow-up question from Steffen Evjen in DNB Markets. I know it's early days, but assuming you reactivate one of your stacked 3D vessels for offshore wind work, could you give an indication of potential reactivation CapEx on top of the $5 million in streamers?

Rune Olav Pedersen - *PGS ASA - President & CEO*

What should we say, Gottfred? To reactivate, it depends a little bit. I mean if we were to take, for example, the Apollo, which is working as a source vessel, reactivation cost would be marginal. We'd have to stock up with some equipment, but then the $5 million probably is as good as proxy as anyone. So that would not cost much to use -- to take the Apollo and equip her with a streamer set or one of these offshore wind streamer sets. If we were, for example, to reactivate the Ramform Explorer and then that would have classing costs attached to it and some other costs, so then I would indicate between $5 million and $10 million, Gottfred...

Gottfred Langseth - *PGS ASA - CFO & Executive VP*

Yes, then it's closer to what we have seen on Victory for this year. So probably then classing will be costly. But obviously, then we have a vessel that has some capabilities outside wind as well. So -- but as Rune have said, we haven't taken any decision on what to do with it. And the most cost-effective way of achieving what we want to achieve is -- will obviously be quite important here.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Then we have another question related to late sales. Do you still see Q2 late sales as healthy if you exclude the further demand from Q1?

Rune Olav Pedersen - *PGS ASA - President & CEO*

Yes.

Bard Stenberg - *PGS ASA - VP of IR & Corporate Communication*

Very good. Then we don't have any further questions from the web. We also have an audience in Oslo. So are there any questions from the audience in Oslo? Okay, no hands raised among the audience. We could pause for a minute to see if there's any last questions from the people on the web. There doesn't seem to be any further questions.

So that concludes the presentation. So thank you all for logging in and listening to us and also for coming to Oslo to attend the presentation. And we are available if there's any further questions later today. So with that, thank you all, and have a nice day.

Rune Olav Pedersen - *PGS ASA - President & CEO*

Thank you.
