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EDITED TRANSCRIPT

CGG.PA - Q1 2017 CGG SA Earnings Call

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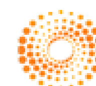

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2017 Conference Call and Restructuring Update. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Catherine Leveau. Please go ahead, madam.

Catherine Leveau - *CGG - SVP of IR*

Good morning, and welcome to this presentation of CGG first quarter 2017 results, including the cleansing presentation related to the restructuring process, along with the business plan 2017 to '19. My name is Catherine Leveau, Head of Investor Relations.

The quarterly financial information, including the press release, the presentation and the streaming audio webcast of this call are all available on our website at www.cgg.com.

Some of the information contains forward-looking statements, including, without limitation, statements about CGG plans, strategy and prospect. These forward-looking statements are subject to risks and uncertainties that may change at any time, and therefore, the actual results may differ materially from those we expected.

The call today is being hosted from Paris, where Mr. Jean-Georges Malcor, CEO; and Stephane-Paul Frydman, Group CFO, will provide an overview of the first quarter and some update regarding the restructuring, as well as provide comments on our outlook. Following the overview, we will be pleased to take your questions.

And now, I will turn the call over to Jean-Georges.

Jean-Georges Malcor - *CGG - CEO and Director*

Thank you, Catherine, and good morning, good afternoon to all of you. So ladies and gentlemen, thank you for participating in this conference call this morning, a bit special since our presentation will cover 2 important topics: first, our Q1 2017 results; and then an update on the financial restructuring that we are conducting.

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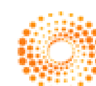

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So I refer to the slide deck that you have received or you can find on our website. And going on Slide 5, let me first summarize briefly our achievements as we start 2017.

Our results reflect a continued weak market environment with low volumes across the board this winter season. Our revenue were down 20% at $249 million compared to 2016. And the most relevant takeaways for this quarter are: first, the resilient GGR performance, driven by multi-client and more specifically our very good 110% cash prefunding rate for the first quarter; and second, the particularly low revenue we have in Sercel in the Equipment business, and also the lower acquisition revenue, which is driven by a perimeter effect with a reduced fleet in a stable price environment, stable but although at low level.

Our EBITDAs were stable year-on-year at $29 million in a traditional low seasonal quarter. Given the 20% decrease in revenue, this stable EBITDA is clearly coming from a lower cost base and better after-sales contribution.

Operating income was negative at minus $67 million, and GGR was the only positive contributor to the operating income this quarter.

This quarter, we achieved the next step towards a Marine asset-light strategy as we launched, as you know because we communicated already to the market at the end of March, what we call the Global Seismic Shipping joint venture with our partner, Eidesvik. This 50-50 JV will own and progressively charter to CGG the 5 vessels CGG need to operate, enabling us to reduce our operating vessel charter rate and also enable us to externalize the Nordic loan. The JV was formally established mid-April and is now running as we speak.

Now let's look in more detail at our operational achievements by business line. I'm on Slide 6. In Q1, GGR revenue was almost stable year-on-year at $158 million, and the 2 business lines show opposite trends this quarter. The multi-client revenue was up 32% at $72 million. Multi-client sales were good in Scandinavia and in the Gulf of Mexico. Prefunding sales were at $53 million, and after-sales at $19 million. We reached a very good cash prefunding rate of 110%, which is quite unusual at the start of the year.

Stable fleet allocation for multi-client program established at 29%. Going forward, 40% of our fleet in Q2 will be allocated to multi-client surveys and 35% in Q3. These relatively low levels confirm the fact that we are still completing big contractual surveys for PEMEX in Mexico and for Kosmos in Sao Tome.

Q1 Subsurface Imaging & Reservoir revenues was down 21% year-on-year at $86 million, in line with the market decline. We were in this quarter in an in-between situation, while finishing some big reprocessing jobs from last year and not yet starting new large processing contracts related to the current contractual jobs we are shooting.

All in all, GGR reached a 12% operational profitability with an operating income at $18 million. The margin increase versus last year is mainly explained by the better mix of after-sales for multi-client. The data library amortization rate this quarter was at 66%, compared to 84% in 2016, as we sold some older vintage survey.

Moving to Slide 7 (sic) [Slide 6]and looking at the Equipment business, which continues to be very impacted by low volume. Its total revenue reached a particularly low point at $32 million, a 56% decrease year-on-year. The Marine sales represented 42% of the total and were only driven by repair and maintenance. The Land salse represented 58%, with notably a strengthening of the downhole business that started to materialize this quarter.

The top line sharp drop, roughly $40 million revenue decrease from $73 million to $32 million year-on-year, was somewhat mitigated at OpInc level. The operating income was only down by $5 million, at negative minus $16 million, and this is a direct consequence of all the efforts thrown into the Transformation Plan and adjusting break-even reduction we achieved over the year.

With a much lower cost structure, we are in good position to benefit from higher volumes when they come.

Moving to Slide 8 (sic) [Slide 7] on Contractual Data Acquisition. This segment remains under pressure in Marine and Land. In this context, Q1 total Contractual Data Acquisition revenue was at $67 million, down 25%. Marine revenue was $45 million, down 23%, mostly explained by the reduced

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fleet perimeter year-on-year. We operated a 5-vessel fleet this quarter versus a 6-vessel fleet a year ago. 71% of our vessel were dedicated to the contractual marine market as we are executing big contractual surveys, as mentioned previously.

Market conditions remain very competitive. Our first job in this environment is to conduct our operation the best we can, and that's exactly what our marine teams did by achieving a superb 98% production rate this quarter. That's a repeat performance after the strong 97% production rate achieved in Q4 2016 as well, which is good, and it shows the dedication of our employees particularly in these current circumstances.

In terms of fleet coverage, we are fully booked on Q2 and 65% covered in Q3.

Land & Multi-Physics total revenue was 22% (sic) [$22 million], down 29% year-on-year, suffering from low market activity and slow client decision process. All in all, operating income contribution was negative at $39 million as we accumulated on top of price, stable at very low level, the transit and mobilization on 2 major surveys, as well as a swap of the Caspian Coral, those [quotes] are now behind us.

Slide 9 (sic) [Slide 8] on nonoperating resources, very quickly. The nonoperating resources is mostly related to the nonactive part of our fleet, the cold-stacked vessels and corresponding equipment. The slight increase in the negative operating income this quarter at minus $20 million versus last quarter can be explained by the Coral maritime shakedown which occurred this quarter. As we are transferring 5 vessels to the new JV with Eidesvik, called Global Seismic Shipping AS, this segment weight will reduce, though, going forward starting in Q2.

As mentioned in Maritime exposure conference call on March 27, we expect the NOR, the nonoperating resources, EBITDA in 2017 to be in a negative between $10 million and $15 million range, including the negative minus $8 million for Q1 and the D&A to be in a negative $15 million to $20 million range, including negative minus $12 million for Q1.

So now let me hand the floor to Stephane-Paul Frydman, and he will comment in more detail the financial figure.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Thank you, Jean-Georges. I'm on Slide 10, commenting the P&L at the group level.

So as said by Jean-Georges, over Q1, the group revenue amounted to $249 million, down 20% compared to 2016, and with the business mix, in line with our rebalancing target as GGR waits for more than 60% of the revenue this quarter.

EBITDA was stable at $29 million, and operating income, slightly better at minus $67 million before non-restructuring charges. The nonrecurring charges were at minus $30 million, driven notably by the end of our Maritime liability mitigation plan, as we announced on March 14, that we had a deal on the Champion, and we issued senior notes for $12 million to reduce the charge. But it was treated as a charge in P&L, even if it was eventually a cash savings. This $30 million is also embedding some start of the financial restructuring cost. With a slightly higher accounting cost of debt at $48 million, and again, that's due to the fact that we have now all our secured debt, at least for this quarter, at 6.5%. And with a negative tax at minus $2 million, the group net income amounted to minus $145 million for the first quarter, leading to an accounting equity of our balance sheet amounting to $972 million.

Moving to the cash indicator on Slide 11. Similarly to previous quarters, we run the company again in Q1 in order to preserve the cash. As I said before, group EBITDA was quite similar to Q1 -- the one of Q1 2016, at $29 million in a weak market environment, but such environment and performance being mitigated by the positive impact of all our cost-cutting plan.

Taking into account a low tax burden cash-wise and as already flagged in March, a much smaller positive change in working capital at minus -- at plus, sorry, $13 million this quarter. So far lower to the plus $200 million we benefited from in Q1 2016, following the high multi-client sale in Q4 2015. All in all, the operational cash flow amounted to plus $34 million.

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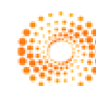

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Total CapEx at minus $64 million (sic) [$68 million] were tightly monitored with, notably, m-c CapEx at $48 million, down 38% -- 31% year-on-year and well prefunded, 110% prefunded as we benefit this quarter from guys jumping on board ongoing surveys such as our Mexican survey. Additional CapEx at plus $13 million, and R&D CapEx at $7 million.

All in all, on such basis, the cash consumption was negative this quarter, and the negative current free cash flow stood at minus $74 million before nonrecurring items.

The cash outs related to the Transformation Plan amounted to minus $45 million, out of which $35 million are related to the former Transformation Plan and are mainly related to Marine. Jean-Georges talked about the costs related to the shutdown of the Caspian and also some part change related to the cash cost of the financial restructuring plan itself.

Moving on Slide 12 and looking at the balance sheet, and more precisely on the evolution of the debt throughout the -- and the liquidity throughout the quarter. You can see that we start the quarter with a debt at $2.3 billion, and then we add also $2.3 billion, so that's an apparent stability covering the impact of the negative cash flow current and noncurrent over Q1 at $120 million. The cost of the marine mitigation plan, marine liabilities mitigation plan, which led us to issue $71 million 2021 senior notes, balanced by the impact of the creation of the Global Seismic Shipping joint venture. As Jean-Georges mentioned, it was completed in April 20, but there was -- as a consequence, the Nordic loan was recorded at current liability by end of March. And so that explain the reduction, as if it was already not any more a financial debt, and that explains the stability at $2.3 billion.

On such basis, we have high leverage. I will be back on that later. Far above 5x, it was close to 7x. We discussed and obtained the disapplication of our maintenance covenants under our secured debt before March end, and we benefit from the group liquidity at $391 million by end of March.

I hand the floor back to Jean-Georges about the outlook.

Jean-Georges Malcor - *CGG - CEO and Director*

Thank you, Stephane-Paul, I'm on Slide 13 (sic) [Slide 14]. So the outlook, as we stand at the end of March, or actually the beginning of May, as we said beginning of March, we expect the market for 2017 to remain at very similar level as in 2016.

The challenging market conditions are persistent, and we expect the 2017 earning to be in line with 2016, including our Q1 results, our weak Q1 result, as already flagged, because of the mobilization on Mexico and Sao Tome. And, at the same time, the vessel swap between Caspian and Coral.

Multi-client cash CapEx are still expected to be in the $250 million to $300 million range, with 70% cash prefunding. This cash prefunding rate being very similar to last year target. And we also expect that the industrial CapEx lies within the range between $75 million and $100 million.

The downward pressure on cash flow generation in '17 compared to '16 remains valid and was already flagged this quarter, as we did not benefit this year from the positive working cap effect that we had early in 2016. The group industrial Transformation Plan is now mostly achieved. Operational teams remain fully focused on further optimizing our cost structure, while delivering the best technical and operational solution for our client. In the meantime, top and corporate management is fully focused on delivering the much-needed financial restructuring of the company and finding support from the group stakeholders.

So now I propose to move into the financial restructuring presentation. The slide deck is a bit thick today. And I invite you to go on Slide 15 to first look at the status of the discussions.

So in the light of the market environment assumptions that we assume for the 2017-2019 business plan, and of the corresponding industry and financial expected performance, CGG proposed at the beginning of March to significantly reduce our debt levels and related cash interest costs to align them with its cash flows.

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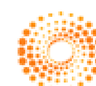

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I remind you that the goal for CGG is to have a restructuring path which would involve the full conversion of the unsecured debt into equity and the extension of the secured debt maturity.

So the company, under the aegis of the Mandataire ad hoc, which has been announced to the market early March -- late February actually, has engaged into a restructuring discussion with its main stakeholders. Stakeholders are in 4 categories: the lenders holding secured and guaranteed debt, which after the Nordic operation, is at about $800 million principal amount. The second group is the holders of the unsecured and guaranteed senior notes for about $1.9 billion, which is actually made of the unsecured and not guaranteed convertible bond at $0.4 -- sorry, $400 million principal amount. And then the shareholders.

So I start again, secure debt $800 million; high-yield bond and convert, $1.9 billion, out of which convert $400 million.

So these stakeholder groups have organized themselves into committees, into ad hoc groups, with legal and financial advisers to facilitate such a restructuring discussion. So we collectively call them the stakeholders. And we have, around the table -- we have had a round table discussion. So the Secured Lender Coordinating Committee; the Ad Hoc Committee of the Senior Vote -- of the Senior Notes, the high-yield bond; JGInvestment in its capacity representing the mass of the holders of the OCEANE, the convertible bonds; DNCA, who is acting in its capacity of long-standing institutional shareholders, bondholders and also convertible bondholders of the company; and 2 other significant shareholders, Bpifrance Participations and AMS Energie.

So moving on Slide 16 and talking about the status of the discussions. During this process, you know we had a number of creditors and shareholders who accepted to restrict themselves and to sign nondisclosure agreements with the company to allow the more detailed discussion on the terms of the restructuring under the aegis of the Mandataire ad hoc. Within this nondisclosure agreement, we have a sunset date which require the cleansing of the information at a given point of time, hence, the communication this morning as well.

So the discussions have focused on the terms of the transaction which addresses the capital structure constraints of the company. And we stressed with our parties, the stakeholders, the importance of reaching an agreement in advance of the 2020 senior notes interest payment due on May 15.

We have had extensive discussion between CGG and the stakeholders over several weeks on the terms of this restructuring plan to address the capital structure.

The good news is that we have a convergence with all parties on the objectives of what we want to achieve within the restructuring, and I remind you of those objectives. The first one is to convert the unsecured debt. The second one is to extend the secured debt. And the third one is to inject additional liquidity to cover both the various scenarios that we may have facing operationally, but also provide the money for growth when the rebound is here.

So the company has put forward a proposal that is in its corporate interest, which preserve the group integrity, which provides a framework for a long-term sustainability for the company businesses, for its employees and also allow us to continue to serve our customer with the best solutions.

In addition, the proposal that we are putting forward is offering the current shareholders an opportunity to participate in the company recovery.

This proposal is currently supported by DNCA, again in its capacity of long-standing institutional shareholder, bondholder and convertible bondholder of the company. It is also getting the support of the Secured Lenders Coordinating Committee, and the proposal doesn't have the support of other stakeholders. The proposal put forward by other stakeholders can be seen in the attached presentation, and we will come back on that later.

In the coming days and weeks, we will continue to negotiate the terms of a comprehensive restructuring transaction that meets the company key objectives with our stakeholders. And we strive to obtain sufficient support from all other constituencies, although there can be no insurance in that respect.

Moving to Slide 17. Now moving into the disclosure we made on the business plan of the company. So there are a number of slides that you know well; I will go quick and perhaps go directly to the main messages.

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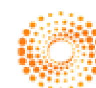

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First, starting with the market environment. You know that we have been operating in the last few years in a barrel price between $40 and $50 million -- $50, sorry, the barrel. Still very volatile. The business plan hypothesis is taking an oil price remaining in the range $50 to $65 a barrel over the last 2 years.

We have to note that the unconventional has been a very strong swing factor, and remained a strong swing factor. But at the same time, there is a converging view among the industry, the oil and gas industry, that there is a clear shortage in our reserve expected to, at the latest, by 2020 due to the current scant exploration efforts and the lower rate of discoveries in the past few years. So our business plan anticipates a modest increase in exploration only beginning in H2 2018.

Now if we go in the next slides and to look at -- give a little bit more color by segment, so the market evolution by segment. First of all, for GGR, the market has been pretty resilient in 2016, it has been down but resilient. And this market will remain impacted by the fall in E&P investment and by the diminished appetite for offshore exploration.

Multi-client is a market which remain under pressure. However, the demand is increasing versus contractual. We see a more competitive landscape, some competitors leveraging its stronger balance sheet. Client sales tend to materialize after securing a block in a licensing round, which is a new trend.

On the Subsurface Imaging & Reservoir, we see a market in 2017 expected to further decrease from lag time -- because of the lag time between shooting and processing data.

Moving on the next slide, on Equipment. After a 70% decline in 2 years, which is huge, the market seems to now stabilize. Even if we don't see any imminent upturn in the coming months, we see a market which should improve by 2018. And it's worth noting that within this context, Sercel market share has been well preserved, which is absolutely key for us and for our future.

On Contractual Data acquisition, the depressed market is expected to last and to stay with no expected improvement in 2017, expect to grow slightly better in '18 and '19.

If we go in detail, the marine, the market and prices have stabilized, although at a low level. And even if the change in price in '17-'18 are very difficult to predict due to the elasticity of supply, as a number of vessels which have been cold stacked could return to the market, we should nevertheless expect a slight improvement in marine market in the coming year.

In Land, we see a lower number of project and calls for tender at the time being, which is in line with the drop of E&P investment, which translates, of course, into price pressure and the number of participants with idle teams, but this should also improve in a later year of the business plan.

A word now on Slide 19 (sic) [Slide 21] and to look at how we can create value in the Geoscience market. As I said just before, we expect some rebound of the E&P CapEx before the end of the decade, and this view is commonly shared now by the industry. As such, developing new oil and gas reserves will be needed to address the supply-side shortfall. Enhancing the recovery of existing oil and gas fields is also required. It is definitively a key issue for existing oil producers of mature fields. So we are expecting more production expenses to be dedicated to Geoscience to get a better understanding of oil field behaviors.

The unprecedented crisis has profoundly transformed the industry. And as a company, we are proposing flexible business models as the inception of nonconventional resources in the energy world is making the future less predictable. We can summarize them in 3 points: tight and tighter management of assets and human resources. This has been largely done for our Transformation Plan; second, providing customers with the best out of their data, which remains a key, and basically it's to transform data into knowledge and ability to make a very informed decision; and third, the value that we see increasing and coming from the sharper imaging, improved prediction and better interpretation.

In this moving context, the winners must be flexible, asset-light data, value-driven, with less dependence on contractual acquisition. This is what we've achieved. But nevertheless -- and we think it is very important, controlling the value chain and the workflow.

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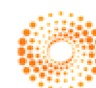

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As you can see on Slide 20 (sic) [Slide 22], there is therefore a strong value in keeping an integrated group to provide complete geoscience solution to our customers. And the graph show very clearly the many links and interdependency between all our business units, which are nurturing each other.

On Slide 21 (sic) [Slide 23], let me recap the CGG strategy for value creation in a few words. First of all, the Transformation Plan, the Industrial Transformation Plan now completed, with a new business mix. As we said before: the GGR above 60%; Equipment, 20%-25%; and Data Acquisition, 15%-20%. With that, we have also a far more flexible company structure. Sercel break-even point was drastically lowered. CGG will need in the future very limited new investment because we are going to operate only 5 seismic vessel fleet through our JV with Eidesvik. Our Imaging & Reservoir is totally concentrated on profitable centers. And our Contractual Data Acquisition capital employed is now down from 48% to 11%.

We are providing more content to geophysical data with our geoscience expertise. We have a worldwide comprehensive range of leading geophysical and reservoir capabilities, and they are fully integrated at the heart of our strategy with multi-client. And they are -- where multi-client is leveraging all available in-house expertise.

And all of that without giving any way -- anything away in terms of technology, because technology stays at the heart of the innovative solution we are proposing. And the step-changes that we're proposing to the market are typically illustrated with what we are doing with Lundin on top size.

Okay. So clearly, if we look now at Slide 22 (sic) [Slide 24], on the business plan, you see that we are presenting on the Slide 22 the basis of the plan, which has been used for the discussions with our shareholders and creditors. It is articulated around the following key elements.

The revenue, we should grow from $1.2 billion to $2 billion over the period, with an accelerated growth in the last part of the period. Our EBITDA margin should grow from 27.4% in 2016 to a range between 37.5% and 42.5% in 2019. Our industrial and multi-client cash CapEx are expected to be stable in the range of $100 million, $125 million for the industrial; and for multi-client, $275 million to $325 million, including, during this period, a prefunding rate that we see at about 70%. Finally, the change in working cap should be negative and in line with the revenue growth.

On Slide 23 (sic) [Slide 25], I will go very quickly because you see the effect of the Transformation Plan and the target that we are going to -- that we have achieved already and that we want to maintain for the company. The GGR at 60-plus percent; and Equipment, 20%, 25%; and Data Acquisition, between 15% and 20%.

Now let me give you a little bit more color by segment in Slide 24, 25 and 26 (sic) [Slide 26, 27 and 28]. Starting with GGR. We see the revenue in 2019 back close to where we were in 2015, which means that we see about 20% growth per year over the recovering period 2018, 2019.

The multi-client revenue will be representing between 50% and 55% of GGR revenue. As I said, the prefunding level expected to be above 70%. And this growth is expected to come from after-sales, particularly in the Gulf of Mexico, but also from Brazil and Mexico itself.

On the Subsurface Imaging & Reservoir market, we should recover from 2018 onwards with a sustained market for reprocessing, as it has been the case already in the last few years.

Slide 25 (sic) [Slide 27] on Equipment. After a particularly severe drop, Equipment revenue should be back close to the 2015 level in 2018. With a revenue growth between 30% to 35% per year beyond 2018 and internal revenues representing an average between 12% to 17% of the total Equipment revenues. It is to be noted that Sercel offering of products and technology is well placed, with the market share we have, to make the most of the upturn, particularly since we have now an agile industrial business model with a very low break-even point.

On the marine equipment side, the market should be driven by need to replace the streamers which near the end of useful life, as it has been already discussed. And the replacement cycle should begin in 2018, depending, of course, on our client's financing capacity. The Land rebound should be driven by demand for latest technology products. And large crews in the Middle East, which should come in 2019, we start seeing the first premises of calls for tender for large crews coming in.

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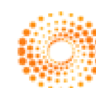

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Finally, on Slide 26 (sic) [Slide 28] on the Contractual Data Acquisition. The revenue, which would be between 15% and 20% of the group revenue, as I said before, will be made of marine contribution, which will represent only 10% to 13% of the group revenues. So you see that we have de-sensitized massively the group to the Data Acquisition revenue stream.

In Marine, 2017 revenue will be mainly boosted by PEMEX and the Kosmos surveys, as I've discussed before. We expect price and volume recovering from 2018, depending on the supply side, and we are factoring the fact that some vessels could return. But clearly, the setup of the Global Seismic AS allows us to further decrease our operating costs.

In Land & Multi-Physics environment, the environment is really tough for the time being, but we expect Land projects to emerge in Africa and in the Middle East and in emerging market. And Multi-Physics should benefit from mining market rebounds in the years to come.

Okay, now I will hand the floor to Stephane-Paul Frydman, which will cover the characteristics of our target financial restructuring, starting on Slide 30.

Stephane-Paul Frydman *- CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Thank you, Jean-Georges. So let's focus on Slide 30. Let's focus first on CGG's priority, whatever the financial restructuring scheme would be. And through the discussion we are in, we have a kind of convergence of those priorities to be met.

So clearly, first, looking at the financial restructuring solution, we are hunting for protecting the corporate interest of the company and the full value of its businesses. That means that we need not to lose too much time to avoid to have a sliding execution timetable, and that's a risk, looking at the complex legal processes we have to go through both sides of the Atlantic.

And it's just to remind from that viewpoint, that up to now, we didn't -- we went rather fast and we didn't launch -- lost that much time as we launched the restructuring discussion with the help of the Mandataire ad hoc early March. And we have now a piece -- and partial agreement for what it could be just 2 months after.

Second key priority is clearly to preserve the group's integrity. As everybody should have in mind that we are not running local businesses, but global businesses. We have a strong interdependence between geographies, France, U.K., U.S., South America, APAC; and also strong interdependence between business line: multi-client, Subsurface Imaging, Equipment. So in all solution, all split of the group would clearly trigger a significant value restriction for all its stakeholder. And toward the discussion we are in, it was very well understood by all the parties.

Third point is to clearly provide a long-term stability -- sustainability for the company, and so we need to have a process -- to go through a process protecting the business and providing a clear picture of the arrival point for our clients, for our employees, which are, on top of it, the key assets for the services company we are in.

This process should be able to provide a final solution, meaning -- and that's clearly a point that was seen by all the stakeholders, meaning to provide the company with sufficient new money as an insurance premium in case of 1 or 2 years delay in the recovery of the seismic market, and being understood that in the present market conditions we are in, and even after the Transformation Plan, we are still burning cash.

Fourth point, respect all the stakeholder interest, and they are different whether -- meaning, we have to manage stakeholders that are far different in kind, and so we need to find a balanced solution, compliant first with the natural subordination rank. When we talk about subordination rank, we talk about the secured that are -- ahead of the unsecured. We need unsecured debtors. The guaranteed guys are ahead of the not guaranteed guys, and the debt holders are also ahead of the equity holders. But that balance have to be fine, also in the light of voting or blocking powers in the miscellaneous power. We'll have to go through the process we'll have to go through, sales processes being -- aiming at confirming [67] whatever plan within a 100% implemented plan.

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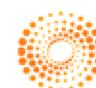

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So here, that's obviously the question of the power geography within the creditors' committees. And on a certain side of the Atlantic, there's a principle of the absolute priority rule versus, on the other side of the Atlantic, obviously, the vote up of the shareholders' EGM and taking the situation in France.

So moving on Slide 31 and just to hear out, meaning characterize this financial situation we are in. And we just figure out the short-term trend we are exposed to. And it was to have a look on the expected evolution of our leverage and our liquidity. And on an as-is basis for the year 2017, and consistent with what we said and what was highlighted by Jean-Georges before, which is we are expecting a 2017 similar to 2016, meaning an EBITDA probably in the area of $30 million.

So first, when looking at this graph, we are seeing 3 things. First beyond the permanent dimension, we are seeing that our leverage should jump out from the present 7x area up to 8, 9x, which is, once again, a clear evidence of the fact that our debt stands at an unaffordable level given the size of our business and our financial performance.

So second, we are looking at a liquidity that is declining rapidly, even if it remained consistent with our going concern over the 12 months to come. But it's more and more coming back down to the minimum liquidity level, which is, say, $125 million to $150 million, and that explain why we are considering to buy time by putting on hold the payment of the unsecured coupon, and that's the green portion you are seeing on that table.

So in the light of that and the situation, which is clearly leading for us to hand for a short implementation timetable for our solution, our financial restructuring solution, let's highlight the key objectives of our financial restructuring and also the characteristic of the solution that could be put on the table on Slide 32.

So first, clearly, we thought it was worth to address all our legacy Maritime liabilities and the Nordic debt restructuring. That's what we spend our time on in Q1, and that's something that is totally completed as we created eventually a Global Seismic Shipping AS company in the second half of April.

Second, we have -- definitely we need to have a substantial deleverage of the group. And that's in the light of what was exposed to Jean-Georges about our view and outlook for 2017, 2019. That -- we have a definite need of full equitization of our unsecured debt, and that's also seen by all the stakeholders. All the solutions are based on that perspective.

We are talking here about $2 billion when you include the coupon that will be due at the end of the closing date of the restructuring, which will amount to roughly $80 million to $100 million. For the remaining debt or reinstated debt we'll see. There's obviously a need for a significant extension of the maturity. And the discussion we are in, and there's also convergence, is to push forward the bullet secured debt up to 2022 from the present maturity, which are mid-2020 and mid-2029.

And last, the question is obviously, as I said before, to significantly improve the liquidity position, both for short-term consideration, meaning to protect the company in the event of operational sensitivities, but second, also more midterm view to be able to finance growth at the recovery time and be able notably to raise money, letting a door open to shift financing once a turnaround will be achieved.

What we're considering, on Slide 33, when talking about a deleverage of $2 billion, you see that it will totally solve our leverage issue and also the coverage issue, meaning the weight of the interest on our cash flows. And you see that, based on the mid-plan of the business plan target just mentioned by Jean-Georges, and cost restructuring, the net debt over EBITDA ratio would be below down below the 1.5x area, which is a DLC level we would like to benefit from.

Focusing now on liquidity on Slide 34. It's really interesting to focus on 2 things. First, well, the trend we are in, corresponding to the business plan, the light blue is our liquidity curve accounting to our vision. The dark blue is the impact of what we did in terms of Maritime liabilities mitigation and the Nordic debt restructuring, which is an impact which is quite significant at the 2019 horizon. We are talking, on a cumulative manner, an impact of $300 million of the liquidity. The green portion will be -- would be the impact of the expected deleverage and financial restructuring. We mentioned here the reduction of the cost of debt, obviously, net of the restructuring cost. But it's here, again, looking at what we have in mind and what is on the table, a global savings of $225 million, meaning, that the direct impact of the restructuring will be close to $0.5 billion.

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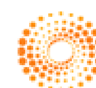

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And then looking at the additional liquidity, Jean-Georges mentioned the net new money we are -- and there's a consensus you will see on this size of the new money required for the business. It will be close to $300 million, post a repayment of part of the secured debt. So $300 million, and that's the orange graph. And also, the creation for -- thanks to this repayment of $100 million, plus an additional effort -- room for raising money on the same security package like the same one on the secured side, a basket for the new secured debt for $200 million. So that's what we are also negotiating, which is a second [$0.5 billion] to protect the future of the company and also to allow the company to have the means for its natural growth.

So all in all, that's quite massive. The impact on the liquidity of the financial restructuring plan we are discussing would be $1 billion at year-end '19 horizon.

When we are focusing more on just a rapid picture on the evolution of the debt profile, it's worth to remind where we were when we entered the year 2017 with $2.9 billion. I'm on Slide 35. Just reminding that the structure, it was mentioned by Jean-Georges, but the red bars are the secured U.S. -- 2/3 issued by the U.S. borrower, the secured lenders, for $800 million. In blue, it was Norwegian banks with Norwegian borrowers, meaning something out of the French and U.S. perimeter. And then we have, as highlighted by Jean-Georges, $1.5 billion of unsecured guaranteed lenders, which are the dark green portion; and $0.4 billion of unsecured and not guaranteed lenders, which are the convertible.

You see on Slide 36 what was the situation by end of Q1, meaning post-Maritime liabilities and Nordic restructuring. A long story short, we increased the dark bar by $70 million, but we put out the blue bar by the [extendation], the full extendation of the Nordic loan. So all in all, plus $70 million minus $180 million was just a diminution of $100 million, and the senior debt was down from $2.85 billion, down to $2.75 billion.

And shifting to the Slide 37, you are seeing at a glance what would be the impact of what we are rediscussing and discussing in the financial restructuring solution.

First, extend of the maturity of the secured debt from 2018, 2019 area up to 2022, so 5-year a new maturity post-closing date. And the new money made under the form of the high-yield bond issued by the mother company for $350 million and maturing 1 year after the secured debt. So we will have create a full headroom in terms of debt repayment schedule of 5 years, which is clearly the time for the cycle to recover. On such basis, the total senior debt remaining, the senior debt on our balance sheet, will be in the range of $1 billion post restructuring and with an average cost of debt looking at the terms that were roughly -- will appoint by everybody at 7% for the cash coupon and 4.5% for the payment in kind.

I'm handing the floor back to Jean-Georges to talk about the terms of our proposal.

Jean-Georges Malcor - *CGG - CEO and Director*

Okay, thank you, Stephane-Paul, and I'm now moving to Slide 39, so 38, 39 and onwards.

So let me present the main economic terms of the company proposal dated May 11, yesterday night. But first, let me say that, in all of that, there is for us good news, even if we have not finalized the agreement to date, is that at least there is a clear convergence from all parties on our goals. And I'll remind you of the 3 goals that we had. One is full conversion on the unsecured debt; extension of the secured debt; and injection of no new liquidity in the company. So I think it's important to keep that in mind. After that, of course, we need to go and see how we implement that. But at least there is a convergence of views on the goals of the companies.

So let's move to Slide 39. Slide 39, and I apologize, a bit technical, but I'll try to summarize. The main economic terms of this proposal, which I remind you has the support of DNCA, on one hand, and the secured lenders or the committee of the secured lenders on the other hand, okay?

So first of all, we propose to have a reserved capital increase to the high-yield bond to do the conversion, basically, of the $1.6 billion into equity, okay, at a Par for Share at $4. Second, we will have a reserved capital increase to the convertible bondholders for the $383 million part of the convert to be converted in equity. And we propose to have an exchange for this conversion at $15. At the same time, we propose to issue warrants in favor of the original shareholders with what we call the Warrant 1s because there is a second one later on, you will see. And this category of warrant will

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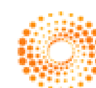

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be proposed at $4 with a 5-year maturity. That will be 1.2 Warrant for 1 share, which means that at the end of the day, it represents 4.15% capital on a fully diluted basis.

Moving on Slide 40, and this is -- Slide 39 was pre new money, Slide 40 is post new money. On Slide 40, for the new money, we propose first to issue $75 million right issue with warrants, an ABSA, which will be limited to existing shareholders. We propose to issue these new shares at $2, coupled with Warrants, the Warrant 2. And this Warrant 2 would be at $5 with a 5-year maturity. It will be 1 Warrant for 1 new share, which means that, again, the rate would be 5.85% of the capital. It will be open to all existing shareholders.

There will be a backstop fee payable in cash to those parties who will provide the backstop in cash. And the backstop -- for the backstop, we open the possibility of backstopping the right issue to the existing shareholder for a specific period. Failing this period, we will open the right -- this backstop to the high-yield bondholder.

And then there will be $350 million of new high-yield bond provided by the unsecured lenders. This new high-yield bond, we prepare to issue them at par, coupled with a 15.5% Penny Warrants, okay? They could include a tranche of $25 million offered to the convertible bondholders. The condition will be LIBOR plus 4% cash and 8.5% payment in kind. It will be a 6-years maturity post-closing date. There will be a 10% backstop fee payable in cash to those parties providing the backstop. And the backstop, we could have $325 million initially backstopped by high-yield bond ad hoc committee, with a participation offer to all high-yield bondholders within a specific period of time. And it could be a 25% backstopped by the convertible bondholders.

Now if I move on Slide 41, as far as the reinstated secured debt is concerned, so we propose to reinstate this outstanding $800 million U.S. and French revolver credit facility plus Term Loan B, up to $100 million prepaid at closing. It will be on a secured bond format, a 5-year maturity. Condition will be LIBOR floored 1%, plus 6.5% cash and 2.5% payment in kind. No maintenance covenant except $185 million minimum liquidity. And we also provided for a basket, as Stephane-Paul said before, to $200 million of additional pari passu secured debt under a 2.5x leverage ratio.

Now moving on Slide 42. There is a table which I will not comment in all details, but -- 2 tables actually, and the tables are showing the shareholders' geographies depending of pre money at the conversion time, post new money, depending on the Warrant, whether they are taken or not, okay?

So at the different steps of implementation of financial restructuring and depending on the equity value recovery and the exercise of the Warrants, the Warrant 1 at $4 and the Warrant 2 at $5 stretch.

So when we look notably at the position of the shareholder that are exposed to, of course, the significant dilution, given the magnitude of the debt equitization. I remind you that we propose to equitize $2 billion debt, $2 billion debt, okay. The outcome would be as follow.

First, as a result of the sold debt equitization, that's the top table. The shareholder will have 4.9% before exercise of the Warrants, of the capital, and 9.4% after the Warrant 1 at $4. Second, that's the lower table, after the new money in equity and the financing of the new money in high-yield with the pending warrants, okay, the shareholder will have a 10.3% before exercising the Warrant at $4 and $5, a 13.5% shareholdership after exercising the Warrant at $4 and before exercising the Warrant at $5; and an 18.6% after exercising all the Warrants at $5.

So all in all and depending on the shareholder investment strategy, we can consider that such solution would allow the shareholders to benefit from the significant part of the value recovery, boosted through the Warrant mechanism, i.e., once guaranteed a certain level of recovery for the unsecured lenders.

Now moving into Slide 44, and just to highlight the differences that we may see from the company proposal at this stage. First of all, let me say that all the proposals which have been discussed on the table are meeting the company goals, okay? So now it's a matter of how to share the pie, if I may say so, and make sure that all the stakeholders are fairly comfortable with the proposal, okay?

So I have summarized in Slide 44 for you because you can find all the details in the deck, side-by-side comparison, so you can go into each and every line, okay? But in Slide 44, you see the main differences, as we speak, between the various economic terms of the various proposals that we have been studying and the company proposal.

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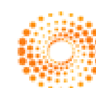

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The main differences lies on 5 points. First of all, the exercise price and the duration of the Warrant package; second, the conversion price of the convertible bonds; third, the provision or not of free shares to existing shareholders; fourth, the structure upon which new money is provided; and five, which is not technical, the terms of the backstop and the lockup agreements that we need to proceed into full agreements.

So having said that, and going in Slide 45, what are the next steps. And to summarize. Clearly, our discussion have been complex. It's not surprising. We are requesting significant efforts from all stakeholders.

The proposal that the company has put forward is in the corporate interest of the company. It preserves the group integrity. It provides a framework for long-term sustainability for the company businesses, for its employees and for the ability for the company to serve its customers.

As we said, this restructuring proposal relies on a significant deleveraging with a gross debt reduction, which will bring the debt of approximately $3 billion today, after the payment, after taking into account the coupon, to approximately $1 billion, through conversion into equity, but also which will provide the company with the financial flexibility to address the various recovery scenario and to fund its future growth.

This proposal offers also to the shareholders the option to take a significant part in the recovery of the company, post restructuring, through the rights issue on one hand and the 2 proposed sets of Warrants on the other hand.

The proposal is supported today by several of our key stakeholders, and we are seeking and we would be actively seeking in the coming weeks and days to secure the support of additional stakeholders to this comprehensive proposal.

Thank you very much, and we are ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take the first question from Rob Pulleyn from Morgan Stanley.

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

A few questions, if I may, particularly regarding your financial targets for future years, which, of course, is part of, I suppose, the linchpin of interest in the restructuring from your various parties. Your 2018 and '19 targets are quite substantially ahead of market expectations, which, of course, is fine. But I was just wondering what gives you so much confidence in those revenue and margin numbers for 2018 and '19, given the uncertainty about current oil and gas prices and, of course, the development of the cycle? If we can start with that and then we can move on from there.

Jean-Georges Malcor - *CGG - CEO and Director*

Yes. Sure. Okay, Rob, thanks for the questions. And obviously, this has been a matter of long discussions with our various stakeholders. The scenarios and the business plan have been built totally bottom-up from the various business lines. They have been shake down by a lot of people, including external parties, [IBRs] and whatever you want to call them. And we look also at the various sensitivities. The reason why we have -- we are at this level for '18, '19, first of all, it's late in the plan. Second, you can see in the slide giving more color by business line that we are also looking at what has happened in the past and the level of recovery that we could seek, business line by business line, with the information we have from the market, but also what has been able to -- what we have been able to achieve in the past. Taking into account a few things: the new perimeter of the company; the fact that we are far less exposed to Data Acquisition. And you have to bear in mind that in the $1.2 billion of this year, that would basically reiterate for 2017 in terms of revenue, okay? Sercel is extremely low, extremely low. And that part of the recovery in '18, '19 is coming from Sercel among inter alia.

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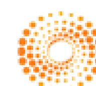

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Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

And, maybe, Rob, what we can also add on that matter, it's interesting to see that, just to figure out the reference of 2018 -- our 2018/2019, in terms of size. Maybe you remind that we entered the year 2016 with this view for 2016 of $1.5 billion. And that's -- then it appears that the market should be far lower, and we went down to $1.2 billion. Then it appears that even 2017 will be at the level of 2016 and $1.2 billion of revenue. But this target of $1.5 billion or $2 billion, which is the level we were in, in 2015, is just figuring out a slower pace of recovery in things that are quite in line with what we have in -- as objectives in terms of recovery even a year ago. But taking into account the 2 years delay the market is [exposed].

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

I thought it was worth asking, given this cycle seems to have a recurring propensity to disappoint all of us in how long the downturn actually is. And the second question, if I may, coming back to the sort of...

Jean-Georges Malcor - *CGG - CEO and Director*

Rob, just keep in mind that we have been in the down cycle, since for us it started -- all starting in 2013. We are entering into our 4 years of decrease, and we see '17 rather stabilizing, so that's our best vision.

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

Fully understood, and I hope it works out this way. And the second question, if I may, and then I'll turn it over is, you talk about a shortage of reserves driving a rebound in exploration and the GGR business activity industry-wide. I was wondering whether you could maybe just provide a little bit of color as to how you see the intensity required of the services you offer to firming up resource versus finding new resource? Because although I agree with you that reserve replacement ratios may not look particularly healthy, oil companies and the oil industry overall has a tremendous amount of resource lasting several decades from explorations already made. And therefore, I suppose there's a dual question of one, do we need to find new resource? Or is it just a question of firming up existing resource into being reserves and how that influences the CGG business?

Jean-Georges Malcor - *CGG - CEO and Director*

Rob, you're totally correct, and my answer is clear, it's a little bit of both. And I'll try to explain how we can actually contribute to both. First, it seems to be quite a consensus now that the E&P has to resume at one point, a lot of debate whether it's '18, '19 or '20. We have not made extremely optimistic hypothesis in our views. And I remind you that the business plan we are providing there, that's a base case, okay, not best, but base case, okay? And of course, we run a number of sensitivities around this base case, which particularly explain the new money that we have been discussing so far, all right? So come back to your question. The Geoscience business is actually active in both areas. The traditional one is, of course, E&P. And yes, we will need to explore more. There are still, even in current market conditions, some companies seeking for new reserves. It has been a point where the E&P was done by M&A, where big companies were buying the small ones, the independent, but this has a limit as well in time. And so we do have discussions with some customers interested in new reserves, in new E&P, particularly the NOCs. So that's the first point. Second, on how can seismic or Geoscience, more importantly, can contribute to making the best of existing reserves. We have also quite a number of examples where today, we have a mix of questions coming from our customers around how can seismic help in better understanding the reservoir, the dynamic of the reservoir, how it works, how can we improve EOR, how can we better flush the reservoir. And to do so you need a much more precise seismic. It is exactly what's happening in the Middle East, where when we shoot a high-resolution seismic, it has actually 2 goals. One is to explore on other horizons, and the other one is to understand better existing fields, typically Saudi Arabia or in Qatar. But it's also interesting to note that in Norway, when we showed the Horda-Tampen survey, the Nor Viking Graben, this multi-client data is used actually both by explorationists and by production people. Because we're running data on a very large area, which is actually gathering new acreage and also reshooting or shooting data on existing fields. And it's quite interesting to see how the technology just moved significantly in the last 10 years. It's also providing very meaningful data for existing production field and perhaps bringing new perspective to our customers, revisiting some of the fields, understanding better the way it works. So there is definitely a contribution from Geoscience into the production part of the E&P.

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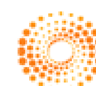

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Operator

We will now take the next question from Morten Nystrøm from Nordea.

Morten Nystrøm - *Nordea Markets, Research Division - Senior Analyst of Oil Services and Sector Coordinator*

Just a clarification from you, Stephane. I think you mentioned in your comments that you are -- based on the proposal you have, you are looking towards a gross debt level post restructuring of around $1 billion and a net debt level post restructuring of around $500 million. Did I hear you correct on those numbers?

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Well, I didn't mention the level of net debt, but you can compute it from what we showed in this presentation. Obviously, it's based on the fact that there will be new money of $275 million. And there will be -- the trend of the liquidity we were in before year-end will be boosted by the fact that we will -- we plan to save some coupon to be paid this year. So that being said, you're not far by saying, okay, at $275 million, it's probably the new cash. And you have a liquidity of $200 million. Not stupid at all, so we're back to close to $500 million. Then after I talk about flexibility, which is another thing, which is the fact that looking forward, we plan to negotiate notably with secured lenders, the ability -- they will see their debt going from $800 million down to $700 million, or $715 million, whatever. And so what we negotiated with them and upon on that is that will load to reraise a secured debt type asset with them up to $800 million and no conditions, up to $900 million and that's this headroom for $200 million. And that's really for the purpose of financing our growth. You know that it will be back in 2018/2019, obviously, the revenue will grow. You know that the revenue are loaded, in general, by working capital, so there's natural financing requirement looking at this working capital. And these $200 million are important because obviously, it could be an excess to ship financing needs, typically banking financing, as may all know. Presently, none of our lenders are banks.

Morten Nystrøm - *Nordea Markets, Research Division - Senior Analyst of Oil Services and Sector Coordinator*

Just also to clarify, I think you said a new equity of $275 million. I guess you meant $75 million or?

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

No, new money, the new money. Again, we are targeting new money for $350 million gross. I'm talking about gross amount in our proposal.

Operator

We will now take the next question from Christopher Møllerløkken from SB1.

Christopher Møllerløkken - *Sparebank 1 Markets AS, Research Division - Research Analyst*

In terms of the 2 proposals, which are out now, the company's proposal seems to be a bit more -- a bit better basically for the current shareholders versus the alternative. With that in mind, and you do mention that you are considering starting proceedings in other legal jurisdiction, would you share any time line here from when you need that the remaining debt holders agree with the company's proposal? Or is that you're trying an alternative refinancing process somewhere else?

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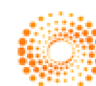

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Jean-Georges Malcor - *CGG - CEO and Director*

No, we are clearly working on a very tight schedule. Obviously, the sooner the better. We've entered into a very extensive discussion typically since the end of March, beginning of April. I think within 1 month, we've covered quite a lot of ground. As I said, I think the goals are well understood and accepted by everybody, including the amount of the new money, which could have been a difficult point, so this is behind us. Now of course, what is yet to be achieved is to make sure that all the constituents, all the parties around the table find a proposal which is acceptable to them. And it's not easy. There is no surprise. The [thoughts] requested to everybody are very big, are very large. But going through the pain, we have to do it once for all. We don't want to come back on it, so it has to be done properly. And clearly, the company's position at the moment is that we should privilege and we will be seeking to privilege an amicable solution, i.e., a negotiated solution before going into court proceedings. But we will need, in any case, at one point to enforce the agreement, all right? So if you want, if I take a more precise vocabulary, it means that in France, it will be to go under (foreign language) with a preagreed plan, and in the U.S. to go into a court proceeding with a prearranged or the prepacked plan, okay? So that's the goal of the company, the main goal of the company. Now of course, we cannot let that going forever because we are conscious about managing our liquidity. And that's why we decided to exercise the grace period on the coupon on 15th of May. And we're watching this liquidity curve and watching the cash in the company and securing the operation. If, by a time we believe that there is no alternative, there is no consensual agreement, we may decide to take other routes, more coercive, but we are not at this stage yet.

Christopher Møllerløkken - *Sparebank 1 Markets AS, Research Division - Research Analyst*

What we have heard here in Norway is that a key challenge in this process has been to get some of the debt holders to agree on the proposed refinancing, partly as they have been debt holders for a long time and they vote at 100% of par. And of course, it's a hit to convert to equity. And partly as they have no mandate to hold equity in their current structure. Would you agree that, that's been the case here? Or is there other key elements which may be difficult to some of the debt holders to accept the proposal?

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Well, first, there was to -- according to our knowledge, there was a higher rotation of the paper looking at the unsecured bonds and the conversion of -- into equity of those bonds was not a surprise. We announced it in principle, early March. There was already a high rotation on the paper before and so it's quite well known. And I guess, that the guys that highly disliked the equity are not bondholders any more of the company for a long time. Then after, Christopher, when you compare with what is done notably in Norway, we were exposed obviously highly to Norway. We spent a lot of time to restructure the Nordic -- our Nordic debt, we discussed with the banks. And at that time, the lenders were banks. And obviously, the objective of the banks -- Nordic banks, although the whole of the game of the restructuring was totally different. They were not, well, hating having the idea of having any equity or even their cut and accepting as a counterpart to wanting to have a longer scheduling of their exposure. So we are not in that situation. We address -- we were partially in that situation. We addressed it. We dealt with our Norwegian partners and throughout the new Maritime setup, we implemented. And that's done, and that's behind us. And those guys are not part any more of the discussion and they are totally out of the company. And then while discussing with the guys more exchange or usual guide, holding all the kind of paper, is it secured, unsecured, obviously, there are difference, guaranteed, not guaranteed, but they knew that for them, the outcome will be the equitization.

Christopher Møllerløkken - *Sparebank 1 Markets AS, Research Division - Research Analyst*

But it seems like a key element here is basically how much would the current shareholders get in the NewCo? And that the company's proposal is slightly more beneficial to the current shareholders? And has it been a bit difficult because the French process tends to award the current shareholders slightly better compared to U.S. proceedings, et cetera?

Jean-Georges Malcor - *CGG - CEO and Director*

Christopher, it is, of course, one consideration that we have to take into account into the negotiation is that at the end of the day, CGG SA is incorporated in France. And at the end of the day, the plan, whatever it is, will have to be sanctioned and approved in an EGM. And at the EGM, the shareholders are voting. So we need to find a plan which also, at one point, is acceptable by the shareholders.

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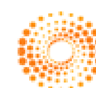

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Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

But eventually, the debate we are in, the pie is limited, it's fixed. And then after all, there are 2 parties that on both sides want more. So that's the point.

Operator

We will now take the next question from Vlad Sergievskiy from Barclays.

Mick Pickup - *Barclays PLC, Research Division - MD*

It's not Vlad, it's Mick here. Just a follow-on from the question Rob had. Just on your selective financial targets for 2019, that's pretty much in line with where we are, but we've got a significant improvement in contract pricing at that time and in multi-client sales to get to that sort of breakdown. Just wondering if that is correct, why you're only expecting to spend $275 million to $325 million in multi-client CapEx going forward? That would imply a shrinking library, and that's your core.

Jean-Georges Malcor - *CGG - CEO and Director*

No, we don't plan to shrink library at all. With this level of multi-client CapEx, bearing in mind also the efficiency that we have in our operation, we will be able to record typically the same level of -- or even more of square kilometer per year.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

But here, the multi-client CapEx are related to the flow of prefunding, but part of our growth is expected to come from the ramp-up of after-sales, which is the natural model of the multi-client, which is a ramping up of after-sales and existing services of the new one. In the new one, our format is quite clear. We are operating 5-vessel fleet, 62% dedicated to multi-client production. And we have a flow of at least 70% prefunding, so the growth is not coming on the prefunding side, but on the after-sales side.

Mick Pickup - *Barclays PLC, Research Division - MD*

Okay. I was just looking at the numbers in there, one would suggest that the vessel rates are going up to get to that type of revenue number, by 40%, 50% over that period.

Jean-Georges Malcor - *CGG - CEO and Director*

No, no, no, we have made no assumption significant in vessel rate going up.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

The recovery -- we are targeting the recovery, the contribution of the debt acquisition business is quite low. Meaning, obviously, we are expecting those business to be back to break even plus. But we're not targeting any significant profitability, at least at such horizon. And then after, we are high recovery on Sercel side, on GGR side, on (inaudible) side, but...

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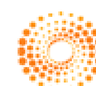

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Jean-Georges Malcor - *CGG - CEO and Director*

And I remind you that the Data Acquisition is only weighting 15% to 20% in global revenue. But perhaps, if you have a specific point, you can take it offline with Catherine and Matthieu on that one.

Mick Pickup - *Barclays PLC, Research Division - MD*

Yes. I was just taking your contract revenue from what was $230 million next year to 15% to 20% of $2 billion without putting extra vessels in and utilization where it is. As far as I'm aware, there is only one variable.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Again, 20% mean -- 20% when we look at 15%, 20%, when we look at the 2019 horizon, that means that the Data Acquisition we're talking about is in the range of $250 million and $300 million. And Marine is just a part of it. We have a Land business. We have a Airborne business. We have a Multi-Physics business. So meaning, again, I remind you that we are not exposed at all any more, I mean, significantly to the mine business -- so that's not a contractual mine business. So that's not a key part of our business model now.

Mick Pickup - *Barclays PLC, Research Division - MD*

Okay I'll take it offline and look up later. And secondly, just on the short-term outlook. You seem more, I'd say less optimistic than some of your peers have been recently. You're obviously talking about a challenge in a stabilized market. I think others are talking about green shoots of recovery. Why aren't you seeing anything that others are seeing?

Jean-Georges Malcor - *CGG - CEO and Director*

I mean, we're only showing what we see typically. Perhaps we're a bit more realistic, I don't know. But our view is based on facts, Mick. Today, we have on the Marine side, we are a little bit more selective. And today, as mentioned, we are fully booked for Q2, Q3, it's 65%. For this summertime, it's true that the prices have been stable plus for this Q2, Q3. But there is still a big question mark on Q4 globally for the industry. I'm not only speaking for us. Q4 is not fully covered. And from what I can gather from talking to my team and to our customers, Q4 today -- let me put it differently, I think it would be presumptuous to say today that the Q4 prices in Marine will be up.

Catherine Leveau - *CGG - SVP of IR*

We have time for one more question.

Operator

We will now take the final question from Tom Hemmant from Invesco.

Tom Hemmant - *INVESCO Asset Management Limited - Credit Analyst and Fixed Interest Analyst*

So do you, just in terms of the implied sort of cash burn, when you look at your liquidity running down over the course of this year, what are the differences this year to last year when you're guiding for similar EBITDA? What are the other moving -- I know you've guided to working capital being less good. Is that the only variable? Or are there other things affecting resulting in that cash burn?

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Jean-Georges Malcor - *CGG - CEO and Director*

No. The main difference, when looking at 2016 to 2017 is maybe a free fall. Obviously, at first, we have a different profile in terms of working capital because, obviously, we have no growth between 2017 to 2016, whereas we have a kind of reduction of the working capital that generate cash in 2016. So -- and when you focus on Q1, it's clearly [stable]. We are 0 plus on change in working capital this year, whereas we are at plus 200 and eventually we ended at plus 150 last year. So that was one point. Second point is, obviously, we will benefit in 2017 of the full impact of our Transformation Plan. So, obviously that's a plus, a big plus we have. But compared to 2016 and now, the financial performance we delivered, it was made also such performance, and we are vocal on that -- it was made also on certain one-off. For example, R&D credit, we benefited from and also cash-wise. So we have some one-offs that won't be present in 2017 that will balance. This lack of one-off will be balanced by the improvement of our cost basis and all the savings we had and the full impact of our Transformation Plan. So that's neutral on that viewpoint. And then when looking at the decreased cash flow from one year to the other, that's mostly the impact of the working capital. Then after -- that's for the current free cash flow. Then after, obviously, on the nonrecurring charge, obviously, we weren't at the $180 million and looking at the cost of the Transformation Plan of $165 million in 2016. And obviously, we're just the tail of that in 2017, so we are cutting by half the burden of the Transformation Plan. And that we will hear the last one from that viewpoint because in 2018, then the cost related to the plan is just the remaining liability, so less than $15 million, $20 million. So it's a low level looking at the track.

Tom Hemmant - *INVESCO Asset Management Limited - Credit Analyst and Fixed Interest Analyst*

So sorry, in terms of the restructuring charges, it was $165 million last year. And how much are you guiding to this year for cash restructuring?

Jean-Georges Malcor - *CGG - CEO and Director*

Roughly $80 million.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

$80 million.

Tom Hemmant - *INVESCO Asset Management Limited - Credit Analyst and Fixed Interest Analyst*

$80 million for cash this year?

Jean-Georges Malcor - *CGG - CEO and Director*

On the Transformation Plan.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

We'll add to that the cost related to the financial restructuring plan itself. But here, you have a simple calculation because we provide with the net impact globally, all elements speaking. When you look at the slide on the -- on the graph on the liquidity, we took about net-net of the impact of the financial restructuring over the period. We talk about $225 million, at least $225 million is a higher cost of reduction of the cost of debt obviously, balanced by the fact that there will be one-off costs, which will be the restructuring cost of fees and whatsoever.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would now like to turn the call back to Ms. Catherine Leveau for any additional remarks.

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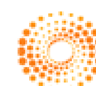

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Jean-Georges Malcor - *CGG - CEO and Director*

Okay, thank you. Thank you, Miss. So thank you very much for listening to us this morning to this call, which was a bit particular, in addition to our Q1 results since we update you on the restructuring process. Obviously, we are fully available for you if you have additional questions, as usual. And we'll see you shortly. Have a good day and a good weekend.

Stephane-Paul Frydman - *CGG - CFO and Senior Executive Vice-President of Finance & Strategy*

Bye.

Operator

Ladies and gentlemen, this concludes the Q1 2017 Conference Call and Restructuring Update. Thank you all for your participation today. You may now disconnect.

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