

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CGG.PA - Full Year 2016 CGG SA Earnings Call

EVENT DATE/TIME: MARCH 03, 2017 / 8:00AM GMT



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

CORPORATE PARTICIPANTS

Catherine Leveau *CGG SA - Head of IR*

Jean-Georges Malcor *CGG SA - CEO*

Stephane-Paul Frydman *CGG SA - CFO*

CONFERENCE CALL PARTICIPANTS

Rob Pulleyn *Morgan Stanley - Analyst*

Amy Wong *UBS - Analyst*

Tony Labon *Oddo - Analyst*

Jean-Luc Romain *CM CIC Securities - Analyst*

Fiona Maclean *Merrill Lynch - Analyst*

Morten Nystrom *Nordea - Analyst*

Christopher Mollerlokken *SP1 - Analyst*

Simon Tan *First Capital - Analyst*

PRESENTATION

Catherine Leveau - *CGG SA - Head of IR*

Good morning and welcome to this presentation of CGG fourth-quarter and full-year 2016 results. My name is Catherine Leveau, Head of Investor Relation. 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 limitations, statements about CGG plans, strategies, and prospects. 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 that were expected.

The call today is being hosted from Paris where Jean-Georges Malcor, CEO; and Stephane-Paul Frydman, Group CFO will provide an overview of the fourth quarter and full year, as well as comments on our outlook. Following this overview, we will be pleased to take your question. I turn over the call to Jean-Georges.

Jean-Georges Malcor - *CGG SA - CEO*

Thank you Catherine. And good morning to all of you. So ladies and gentlemen, thank you for participating in this conference call this morning where I will present our Q4 and full-year 2016 result.

So referring to the presentation that you have on slide 3, we are going to organize the presentation in four steps. First I will describe the business line achievement for 2016. Second I will comment delivery of the Transformation Plan. Then Stephane-Paul will review our financial results; and fourth, I will conclude on our 2017 outlook and giving you more detail on the financial restructuring we are engaging in.

So let's go to slide 5 and let me summarize briefly our achievements in this very challenging 2016 year as we start 2017. Our 2016 results reflect the particularly tough and complex market environment with low volumes across the board. Our revenue were at \$1.196 billion, just below the \$1.2 billion mark, down 43% compared to 2015, and EBITDAs were at \$328 million. Operating income was negative at minus \$213 million. GGR was the only positive contributor to the operating income this year.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

We have significantly reduced our cost base and headcount across the Group while protecting our commercial positioning, delivering an excellent operational performance and preserving our R&D spendings for our key technology. Through strict cash management and as announced, the Group's net debt came at \$2.3 billion, in line with our objective to be below \$2.4 billion.

Looking in more details at our operational achievements by business line, going to slide 6 and starting with GGR, in 2016 GGR recorded a 29% revenue drop year on year at \$784 million. In this segment, the sales are nearly equally split between the multi-client business and the subsurface imaging segment. Their sale, the sales trend was quite similar all in all. The multi-client revenue was at \$383 million, down 30%, inline with the market with contrasted performance per geological basis. Multi-client sales were disappointing in the Gulf of Mexico, but particularly active in Brazil and North Sea. Prefunding sales were at \$272 million and after-sales stood at \$111 million for the full year.

We reached a very good cash prefunding rate of 92%, above our initial target which was at 70% and even above our late -- last target in November. After-sales were below our initial expectations. 50% of the fleet was allocated to multi-client program. And looking at the multi-client net book value, \$848 million were recorded at December end, down 15% from Q3 2016. It is a young library as it is made of only 8% of work done before 2015 and 32% is still work-in-progress.

For 2017, 30% of our reserves in Q1 will do multi-client program and it will move up to 40% in Q2 as we are completing big contractual data acquisition surveys for Pemex with two vessels working for several months, and we're also doing a contract for Kosmos in Sao Tome.

Now going to subsurface imaging, in 2017, subsurface imaging and reservoir revenue were at \$401 million, down 29% year on year with a good performance showing some resilience particularly in North America despite the significant reduction in data acquisition market volumes in Europe or Asia. We strive to maintain our leadership position in this key business segment of high-end processing and imaging which is more resilient and which is at the heart of our long-term strategy and positioning.

This leadership position was confirmed by the results from the Kimberlite report where more than 200 clients' interviews worldwide demonstrate that we are clearly staying number one in all technical domain. We feel the demand was sustained also by a lot of reprocessing job as we combine old vintages with new data set and/or using new algorithm and making the best of the computing power we have. One of our multi-client program in Mexico in the Perdido area was entirely based on reprocessing and was very well prefunded.

All in all, despite lower revenue, GGR reached 10% operational profitability with an operating income at \$81 million. The margin decline versus last year is mainly explained by a much higher multi-client amortization rate which is at 84% versus 60% in 2015 as we sold recent acquired data.

Now going to slide 7, the equipment business has been deeply impacted since 2013. Its volume was divided by more than three in three years. In these conditions, total revenue reached \$255 million, a 42% decrease year on year. The reasons are well-known, with a strong reduction in demand for streamers on one hand, and a sharp decline in land with a strong market in China and Russia. In this difficult market environment, Sercel managed to preserve its market share, thanks notably to an installed base and its leading technological edge such as the 508 cross-tech. 56% of the sales were done in land with a good progression of delivery of the Sercel 508 cross-tech in India, Russia, and Pakistan.

The high level of internal sales at \$76 million is including the delivery of a new high-tech Sentinel MS, MS standing for multi-sensor streamer, to CGG marine fleet. These set of streamers will be used on our own vessel, the Coral, which is being re-rigged as we speak. This year with a 40% decline in market for the second year in a row, and despite a tremendous effort in reducing our breakeven point, we were not able to maintain a positive result for the equipment business. The operating income was at minus \$42 million.

Going now to slide 8, our contractual data acquisition segment remains under pressure in marine and land. In this context, 2016 total contractual data acquisition revenue was at \$238 million, down 61%. We nearly operated a five-vessel fleet in 2016 and 50% of the vessels have been dedicated to our multi-client program. Marine revenue was at \$133 million, down 70%. 85% of a decrease in revenue can be explained by the reduction of number of operated vessels combined with a reduced exposure to the contractual market.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

In this contractual market, the poor market conditions including pricing which will likely remain in 2017 were partially compensated by a solid fleet operational performance with a 92% availability rate, a much higher rate than last year which I'll remind you was 83%, and with a splendid 94% production rate. Starting 2017, we are busy on the contractual side as we are executing the last contract for Pemex and Kosmos in Sao Tome.

As we told you last year, we returned back the vessel to the ship owner when the charter expired and use instead our own cold-stacked vessel. So this year, the Caspian is delivered back and we are taking back the Coral from Dunkirk where she was stacked. She will be back to work beginning of April. She is currently in maritime shakedown.

In term of fleet coverage, we are fully booked on Q1 and very close to be 100% in Q2. However, this will lead to a weak Q1 as we cumulate the transit and mobilization on two major surveys and the swap of the Caspian versus the Coral. The (inaudible) swap is happening right now.

For land and multi-physics, the total revenue was at \$105 million, down 41% year on year suffering from low market activity and slow client decision process. We decided to keep the multi-physics business line within the Group as final terms of the discussion with potential buyer did not adequately reflect the value and prospect of this activity.

Land and multi-physics profitability were negative this year when in marine, the pricing conditions remained at the historical low level impacting strongly the results despite strong efforts in cost reduction. All in all, operating income contribution was negative at \$98 million.

Now moving on slide 9 for the non-operated resources, the non-operated resources are related to the non-active part of our fleet as you know which means the cold-stacked vessels and corresponding equipment which increased quite significantly in 2016. There were three own vessels cold-stacked since Q4 2015 and an additional three own vessels were cold-stacked in Q1 this year.

The negative contribution of non-operated resources was at \$84 million and in line with our guidance. EBITDA stands at \$22 million negative, in line with the range we gave, \$20 million to \$25 million for the whole year. Similarly, the D&A, i.e. the non-cash charges, reached minus \$62 million, also in line with the \$60 million to \$65 million guidance we gave.

In 2017, we expect the NOR, the non-operating resources EBITDA to be in the \$10 million to \$15 million, and D&A in the \$30 million to \$35 million range. We will benefit from the absence of cold-stacking stacking cost in 2017 that cost that we had at the beginning of 2016, and of course a lower reduced equipment amortization.

So after reviewing this operation, let's look at the transformation plan delivery on slide 11. 2016 was the third year with a challenging objectives that we set to ourselves in the Transformation Plan. We executed this last part of the Transformation Plan as scheduled despite the tough market. In fact we ticked all the boxes on our four items we are committed to. First, the portfolio rebalancing. It is largely completed. The GGR now weights for 66% of the Group revenues in 2016, while the contractual data acquisition weight was reduced to 19%.

Equipment only represent 15% of our revenues, which is at unusually low level because of the low volumes and clearly we are now focused totally on the high-end added value business, and I remind you that our long-term target is to be at 60%-plus for GGR, around 25% for the equipment, and around 15% for the contractual data acquisition.

Second, on the maritime downsizing, the fit was reduced to five 3D vessels and 50% of the fleet dedicated to multi-client program. It is a bit below our long-term target having two-third of the fleet allocated to the multi-client, but 2016 was a bit of a transition year and so will be the H1 in 2017 as we are currently executing prior commitments toward important clients on the contractual business side. Of course, we want to keep some flexibility to allow us to grab opportunities if they arise.

Third, on the cost reduction, 2016 was also a good year for the cost reduction, if I may say so, since we managed to further reduce our cost and we had an additional 1,500 permanent position worldwide which have been reduced and our overall cost structure were further reduced by 14% in a year.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

CapEx monitoring was also good. That was our fourth commitment. On industrial CapEx, they were reduced by 26% to \$66 million and our multi-client cash CapEx were at \$295 million with 92% prefunding for the year which shows how cautious we are in managing the cash.

As you remember, we raised in January 2016 \$350 million of additional resources. They were fully dedicated to finance the Group industry or transformation as scheduled in order to complete the new positioning of the Group. The plan in 2016 was therefore fully funded for the rights issue in February 2016.

On slide 12, if we look back at what we have achieved over the last three years, we started implementing the transformation plan beginning of 2014 and the trend impressive on four key metrics. Over the three years, and at the end of 2016, we achieve a 75% reduction in our marine cost structure; a 61% decline on our G&A expenses; the 47% reduction in our headcount, we have more than 5,250 people who have left the Company; and CapEx were reduced by 54% over the period.

The Transformation Plan was of course to react to very poor market conditions, but it was also and probably mainly to achieve our long-term positioning in reducing the capital intensity of the Group and refocusing the Group on high added value business and drastically decreasing our exposure to the contractual marine and land data acquisition market.

So having gone through this operational segment and Transformation Plan, I now hand the floor to Stephane-Paul to comment in more details the financial figures.

Stephane-Paul Frydman - CGG SA - CFO

Thank you Jean-Georges. I'm on slide 14 and just starting with the P&L at the Group level. So as said previously by Jean-Georges, over the year 2016, the Group revenues amounted to \$1.2 billion down 43% compared to 2015 with the business mix partially in line with the rebalancing target. We've seen it to be that the GGR now weighed above 60% as targeted at 66% of revenue in 2016.

As we shrunk our revenues by \$900 million this year and despite all the cost-cutting plan we put in place, the Group was not able to remain profitable at the OPINC level which was negative at minus \$213 million before the nonrecurring charge, and in fact at minus \$129 million when considering only the active perimeter as said by Jean-Georges at the cost of our constant fleet what we call non-operating resources was negative minus \$84 million OPINC.

For the whole-year 2016, nonrecurring charges amounted to \$184 million out of which \$173 million were recorded in Q4 and were split between three elements. \$97 million multi-client impairment mainly related to US data libraries, both offshore and onshore, in the light of our Q4 multi-client performance and our updated vision on the forward multi-client sales in the present market environment.

\$31 million of marine asset net book value adjustment always in the light of present offshore market conditions and \$56 million related to the Group Transformation Plan including \$28 million corresponding to the net increase of the marine liabilities related to the cold-stacked vessel as the original scenario we had in mind for those vessel that was they're [shipped off] to third parties at lower rates starting H2 2017, so such scenarios -- scenario appears not to be possible in present market context.

It has to be indicated, however, that thanks to the maritime liabilities management plan we implemented on January 20, we were successful in reducing the global amount and the impact of the short-term liquidity of those legacy liabilities by issuing \$58.5 million of new 2021 senior notes, and saving in parallel \$65 million liquidity over the two years to come. So back to the P&L and all in all looking at the bottom, taking into account notably our accounting cost of debt in 2016 at \$175 million, quite stable year on year, and income taxes at positive \$40 million.

The good net income amounted at minus \$577 million for the full year leading to a net accounting equity on our balance sheet amounting to \$1,150 million by December end.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Moving to slide 15 and looking at the cash indicators like the previous year, we run the Company in 2016 mainly targeting to preserve the cash and to monitor the cash. So Group EBITDA amounted to \$328 million aided by the positive impact of our cost-cutting plan, but with far lower multi-client sales contribution than last year.

Taking into account a low tax burden cash-wise boosted by miscellaneous refund as already mentioned in previous communication we're thinking here of R&D tax credit among others, and I'm also taking also into account as highlighted previously by Jean-Georges by very significant positive change in working capital at \$198 million of which \$250 million were to happen in Q1 in relation with our Q4 2015 (inaudible) sales.

The operating cash flow amounted to \$522 million for the whole year. Total CapEx at \$395 million were tightly monitored with multi-client cash CapEx at \$295 million, up 5% year on year, and 92% prefunded. Additional CapEx are \$66 million, down 26% year on year. And R&D CapEx preserved at \$34 million as we are very concerned on maintaining a technological edge.

All in all, on such basis we were able to mitigate the cash consumption this year and limit the negative [Q1] free cash flow at minus \$7 million before nonrecurring items in line with the 2015 cash performance which stood at \$9 million. The cash-out related to the Transformation Plan amounted this year at \$167 million, with some expenses postponed to 2017.

For such a year, the expenses related to the Transformation Plan are expected to amount to around \$80 million, remaining in total fully consistent with the full \$300 million multi-envelope we mentioned at the time of the February 2016 capital increase.

Looking at the balance sheet items and the characteristic of our financial situation on slide 16, we have to enact that despite our successful 2016 cash generation performance that led us to year-end 2016 net debt at \$2,312 million in line with our objective for being below \$2.4 billion at that date, and based on a \$539 million liquidity cash balance as of end of December, we are facing today a too heavy cost debt burden looking at the present size of our business portfolio at the current market conditions. The senior debt was made by end of December 2016 by around \$800 million of secured payment and re-drawn revolving credit facilities and term loan B, maturing mainly in July 2018 and May 2019.

It was also made by 190 secured and amortizable Nordic loan, and by around \$1.9 billion of unsecured debt composed mainly 80% by senior notes, say straight bonds, and for 20% by convertible notes. All our secured debts is covenanted and now interest weighted similarly at LIBOR float 1% plus 5% as it was agreed upon when we negotiated the full implication of our leverage and coverage covenant by year-end 2016. On such basis looking forward and again taking into account on the one hand the \$58.5 million 2021 senior notes we issued last January as part of our maritime liabilities mitigation plan.

And on the other hand the \$8.5 million 2017 senior notes we squeeze out two months their maturity date to be allowed to request now the appointment of mandataire ad hoc to ease our financial structuring process. All in all, taking all of that into account, the average interest of our senior debt should raise up to 5.85% in 2017 from 5.35% in 2016 leading for the Group to an unaffordable \$165 million plus cash cost of debt burden, and explaining why we want to urge and implement rapidly a comprehensive financing restructuring plan solving this problem. I hand the floor back to Jean-Georges for more comments on such financial restructuring done.

Jean-Georges Malcor - CGG SA - CEO

Okay. Thank you Stephane-Paul. And I am on slide 18. So first what is our outlook? What is our vision of the outlook as we say today? I would say the early January we expect the market in 2017 to remain at a similar level as in 2016. In light of our Q4 results and given the challenging market conditions which persist, we expect 2017 earnings to be in line with 2016.

Q1 will be weak due to low level of fleet utilization. As I said we are mobilizing -- we have been mobilizing for Mexico and Sao Tome, and at the same time we are also managing the vessel swap between the Caspian and the Coral. We also expect during the year a downward pressure on cash flow generation in 2017 compared to 2016 as we won't benefit this year from the same level of positive working capital effect that we had in 2016 as Stephane-Paul described early on.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Multi-client cash CapEx are expected to be in a range between \$250 million and \$300 million with still 70% cash prefunding rate similar to last year target. In our industrial CapEx, I expect it to be in a range \$75 million to \$100 million.

Regarding the liquidity outlook, with the Group cash flow projections on current operations plus a number of specific plan actions which are being implemented and assuming standstill agreements on covenant reliefs, the Group has enough cash liquidity to fund its operation until at least December 31, 2017. In this environment and given delays in market recovery, we do not expect the level of activity to be sufficient to generate the necessary cash flow to service our current level of debt over the years to come and so our decision to press on with the financial restructuring that we are announcing.

So let's go to it on slide 19 and let me update you on our financial restructuring process. First on the mandataire ad hoc, as the debt reduction plan is quite complex since we have to deal with different debt instruments in different jurisdictions, we were willing to appoint to mandataire ad hoc to help in this process.

I remind you that the mandataire ad hoc is a facilitator to assist the Group in its discussion with its creditors and with its stakeholders. We were successful in requesting waivers and we obtained the consent from all the RCF, term loan B, and high-yield bond lenders to be able make this appointment. The mandataire ad hoc was therefore appointed by the president of the Tribunal de Commerce de Paris on February 27, beginning of this week. This is (inaudible). She's well known in Parisian Place, and she will help the Group to pursue discussion with lenders and shareholders in a manner that we expect the best interest of all the Group's stakeholders. CGG is therefore entering into a financial restructuring process with the aim to significantly reduce debt levels and related cash interest burden.

The debt reduction plan -- the proposed debt reduction plan would involve the conversion of unsecured debt into equity and an extension of the secured debt maturity. The implementation timetable will be aligned with our business and financial constraints, and the restructuring plan should respect of course the best interest of our Group stakeholders. This restructuring is obviously a very important matter for the Group and it is a clear priority. In the meantime, the Group and its people pursue with the highest commitment and dedication its day-to-day business activity and continue building on a strong operational performance and solid track record with our client.

So even if we are very busy with the restructuring plan, we don't lose sight of the delivery of our commitment to our customers. We are for example executing at the time being, to mention a few, this large contract for Pemex because it's a very big contract, six months, two vessels, with the signal processing and imaging being done in our center in Villahermosa. We are also doing a large offshore seismic acquisition in Sao Tome, I already mentioned it, and recently we also announced that we were awarded by Shell new dedicated multi-year processing program center in Brunei. So entirely with the financial restructuring process, all the employees of the Group remain focused on delivering innovative geoscience solution to meet our clients' need.

So I thank you for listening to us this morning and we are now prepared to take your questions.

Catherine Leveau - CGG SA - Head of IR

Operator, we can take questions.

QUESTIONS AND ANSWERS

Operator

Rob Pulleyn, Morgan Stanley.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Rob Pulleyn - Morgan Stanley - Analyst

A few questions if I may. I mean firstly, given obviously your comments around the debt burden and cash flow to finance it, what would you consider an appropriate debt size for the Company and obviously finance cost associated with it in order to get back on an even keel so to say? The second question is in terms of exploring all the options as to how this situation may be concluded, do you consider that the value of your businesses, i.e., the SRI, the multi-client, the Sercel, et cetera will actually cover the debt to make your creditors whole?

And the third question is I see that the suggestion you mentioned in terms of solution, but have you considered selling some of your core assets to repay debt to reduce the debt burden? Those three questions.

Jean-Georges Malcor - CGG SA - CEO

Okay. I may take the -- start with the last one on selling core assets. Today any sales we could make I would say marginal sales on some of our assets, non-core sales will not resolve the problem and selling core assets today which means splitting the Group, that's not our preferred course of action, okay, and this is not the -- our baseline plan that we want to pursue. We believe there is a better way to find a long-term solution for the Group in entering into amicable discussions with our creditor.

Do you want to cover the other points --?

Stephane-Paul Frydman - CGG SA - CFO

Yes. Yes. Rob, on your first point meaning we are answering clearly to your question meaning we have -- as I said, we have three component of our debt. We have the -- all the unsecured debt which is covering for 80% straight bonds and 20% convertible bonds. Long story short, it's \$1.9 million. You know exactly the rates we are paying for such debt as of today and we are saying that debt as to be converted into equity. And then it will remain the secured debt, the secured debt it's roughly two component, \$800 million of revolving credit facility and --

Jean-Georges Malcor - CGG SA - CEO

Term loan B.

Stephane-Paul Frydman - CGG SA - CFO

-- and term loan B on the one hand and \$190 million -- so it's small \$200 million of Nordic loan. All these debt is at 6.5% and here we are seeing that we'd like to look for more extent of maturities meaning that debt is reasonably protected, well-protected by the value for our asset and that's the transition to your second question which is that we as usual we went through the exercise, the implement test exercise, business per business, cash generating unit by cash generating unit.

You saw that eventually we took a slight one-off cost on the multi-client side, but landing on net book value for our multi-client library at \$850 million, and we -- when looking at our SI & reservoir businesses, looking at Sercel business, looking at the vessel, but the \$30 million of freight we took also, we are at least with the value that means that globally that some of the pass is at least above the accounting equity which is as I said \$1.15 billion by year-end 2016.

Rob Pulleyn - Morgan Stanley - Analyst

Okay, thank you. I'll turn it over.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Operator

Amy Wong, UBS.

Amy Wong - UBS - Analyst

Just an operational question, can you just run us through in terms of thinking 2017 results being the same as 2016 despite all the cost-cutting, can you just run us through kind of maybe a bridge to help us understand what's -- despite all the cost-cutting and reductions in 2016, how we should think about that going into 2017 please?

Jean-Georges Malcor - CGG SA - CEO

I think it's quite simple. We don't see any rebounds in pricing, okay? And volume in Sercel which stay probably very similar to the one that we have in 2016. So of course we are benefiting for the full cost reductions, it may be slightly better in terms of results, but marginally. Second, in marine we don't see any particular improvement for 2017, even though we say we are seeing the price stabilizing, the downward trend seems to be stopped as we speak which is good, but we don't see any particular improvement.

And so we will be operating in marine on a contractual side which is higher -- which would be higher in 2017 and 2016 compared between the mix between contractual and multi-client with -- in pricing conditions which are very depressed as it was in 2016. So you have to take into account there is more contractual in 2017 than in 2016 globally.

Third on GGR, multi-client should be pretty much at the same level. And on SI, we are expecting in 2017 an additional contraction of the market compared to -- so if you want all the other businesses have troughed while we believe SI actually saw H1 will still be going down a little bit. There is about of a six months lag in between the SI business and the rest of the business. So when you take that into account this -- and of course the fact that we have been reducing massively the cost base, all in all this is balancing to give results which will be more or less in line with 2016.

Amy Wong - UBS - Analyst

I mean just on that point though, I mean aren't you exiting 2016 at a much lower cost though into 2017 even though --

Jean-Georges Malcor - CGG SA - CEO

Yes.

Amy Wong - UBS - Analyst

-- and that's having no impact on your EBITDA though generation?

Jean-Georges Malcor - CGG SA - CEO

Yes, there are two things. You are right to say that the cost base is lower, and this is good news, but I will say the business mix between acquisition and multi-client is not -- is less favorable in 2017 than in 2016. And this goes very quickly in terms of impact on the bottom line. And second, we are SI with a strong generator of margin EBITDA and cash which is also still decreasing a little bit at beginning of the year.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Stephane-Paul Frydman - CGG SA - CFO

Yes, Amy, keep in mind that looking at an additional word on this matter of mix between contractual and activity, look at what we are seeing. In 2016 our multi-client CapEx were \$298 million, say \$300 million, and we are just mentioning that in 2017 we should be between \$250 million to \$300 million. So we should less multi-client. Despite of that we were targeting, as Jean-Georges said, kind of balance at the multi-client level saying we plan to have probably more after I said that in 2016 for sure, but that will be all-in-all, but we will have another weight of the contractual marine business in fact, due to the Pemex contract.

Jean-Georges Malcor - CGG SA - CEO

Yes, and Amy, just to be completed -- to be complete, sorry, on your question, you have also to take into account the indication I gave on Q1 where because of the mobilization, the transit, and the swap between the two vessels, okay, this is also weighting on the result for Q1 of course, but also for the year. It's important on the swap side and because we are -- since late January basically we are de-rigging the Caspian and we are re-rigging the Coral, and the Coral will be back in operation typically the beginning of April.

Amy Wong - UBS - Analyst

All right. Okay. That's helpful. Thank you very much then. Good luck.

Jean-Georges Malcor - CGG SA - CEO

Thank you.

Operator

Tony Lebon, Oddo.

Tony Labon - Oddo - Analyst

Is it possible to have a color of the -- on the restructuring of the unsecured debt? You mentioned a debt to equity swap, that's my understanding. But the question is, will the full amount of the unsecured debt be subject to a debt to equity swap or will there be a remaining amount outstanding on the unsecured debt? That's my first question.

My second question is will there be different treatment in terms of restructuring between the straight bondholders and the convertible bondholders because that's -- my personal view is that there is a different kind of seniority and I would have expected a different treatment?

Jean-Georges Malcor - CGG SA - CEO

Okay, so I'll try to answer that. So first let me say that we are engaging the restructuring discussion as we speak now. So we have to be humble enough to say that we'll be able to answer your point more precisely probably in a few weeks or few months. But clearly on the first point, regarding the amount, our proposal -- the proposal from the Company is to equitize as much as we can of the unsecured debt. That's very clear. And after that we are starting discussions with the various stakeholders, the various bondholders. We will see what would be the outcome of discussion. But our proposal is to equitize everything.

Now regarding after that the straight bond versus the convert, we will see in the discussion.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Tony Labon - *Oddo - Analyst*

Thank you.

Operator

Jean-Luc Romain, CM CIC Securities.

Jean-Luc Romain - *CM CIC Securities - Analyst*

Could you come back on the depreciation of the multi-client library? Do you see interesting exploration in the Gulf of Mexico? (Inaudible) off of the depreciation related to your very high-end studies that you showed in the last two years, could you give us more colors on that?

Jean-Georges Malcor - *CGG SA - CEO*

Okay. Well, first, in terms of positioning of the library, it is quite interesting to see that last year in Q4, we have been monitoring of course the various bases. We have been a little bit disappointed, as I indicated in my speech, by the Gulf of Mexico. We'll come back on that in a second. The rest of the bases have actually been quite active. North Sea and Brazil -- Brazil has been active and we expect Brazil to be pretty buoyant this year in 2017 boosted by the acceleration of the lease rounds in Brazil and also by the change in law as you know where it's easier for the internal operator to step in.

So Brazil remains very -- I would say a very precious asset for us and a very good asset. We are, as you know, probably shooting an additional survey as we speak in Brazil on multi-client. So it's a good business. North Sea has been good as well. And on the Gulf of Mexico, it has been a little bit slower than we thought, but it is not dead, and clearly we are very active at the time being to discuss with our customers to convince them on the back of the lease rounds which are coming on to buy more data in the Gulf of Mexico. But [whistling] to the depreciation, Stephane-Paul, you want to give some more color on depreciation and the write-off?

Stephane-Paul Frydman - *CGG SA - CFO*

As usual, when you look at write-off of multi-client survey, you have to wait to look at it. You look at the amount we are writing off and the amount we let under the balance sheet. And the amount we left in the balance sheet is obviously sustained by a multi-client forward sale pattern and indicative of value related to those survey which are still at book value. So on the US multi-client library side, clearly we left a very significant value. Altogether it's more than 30% of the total net book value.

So obviously we'll revise down in the light of what happened in Q4. We revised down in the light of what could happen in 2017 and 2018 and 2019 and the years to come. There are still some triggering factor to have some incoming sales and notably the round, the coming rounds in the Gulf of Mexico for 2017 and 2018, but we'll see -- we'll observe the change of behavior of the customer, of the more limited number of customer. So we'll see -- so we are still meaning positive optimistic on those -- the value of those assets, but we have to revise down the potential of those assets in the light of present market environment.

Jean-Georges Malcor - *CGG SA - CEO*

Exactly.

Jean-Luc Romain - *CM CIC Securities - Analyst*

Thank you.

MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Operator

Fiona Maclean, Merrill Lynch.

Fiona Maclean - Merrill Lynch - Analyst

Fiona Maclean from Merrill Lynch here. I just want to go back to the questions around potential asset sales as part of your business. And I appreciate your answer, but I'm a bit confused as to why the business would be able to keep hold of some of these assets if the debt holders are essentially going to be in charge of the process. So how can you actually stop that happening?

And then the second question is have you had any industrial interest in your -- either in your business or taking a stake in the Company from some of your peer group?

Jean-Georges Malcor - CGG SA - CEO

Okay. I will start with the second one. From the peer group, I think that everybody pretty much in the same balance sheet situation as we are. I'm talking about the peer group in the geoscience and so, no, there was no discussion with the peer group for any consolidation within the geoscience business. Clearly, I think everybody is trying to streamline and to improve its balance sheet rather than looking at consolidation as we speak.

For your first question, I don't really understand your point. I mean, the discussion that we have with our lenders today is with the Group as it is, okay. And we are talking about equitization of debt. We are talking about swapping debt versus equity. We are not at all in a situation where we're talking about splitting the Group.

Stephane-Paul Frydman - CGG SA - CFO

Yes, on --

Jean-Georges Malcor - CGG SA - CEO

It's a very simple discussion, simple in principle. It's a heavy discussion, but it's a simple discussion in principle. And today, at the end of the day, what is important is that the creditors, if we find an amicable solution, it will mean that the creditors believes that the Group makes sense as it is.

Stephane-Paul Frydman - CGG SA - CFO

And Fiona, on that matter, meaning with debt reduction way, we split the approach between unsecured and secured. We consider the secured are well-protected. They have force to make and that's the reason why we are asking them for extending the maturity. But they are well-protected. And then after the question is to protect the value of the business for all the stakeholders which are the shareholder first obviously and then secure the debtors.

Fiona Maclean - Merrill Lynch - Analyst

Okay. Thank you. I have one quick follow up. I appreciate you say there seems to be no discussions with any of the -- maybe a peer group. But if we look at the wider oil services community on a global basis, have there be any discussions or interest?

MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Jean-Georges Malcor - CGG SA - CEO

If there had been any, I would not tell you anyway, but that's not on the agenda today. We are currently entering into a restructuring process. Once the Company is restructured, there may be appetite for the company. That will be another story and that will be another day.

Fiona Maclean - Merrill Lynch - Analyst

Okay. Thank you very much.

Operator

Morten Nystrom, Nordea.

Morten Nystrom - Nordea - Analyst

That's Morten Nystrom from Nordea. Just a follow-up on the ongoing restructuring and how your Company will look post-restructuring. Looking from the outside, are you considering entering into, let's say, a strategic alliance with the vessel owner and maybe divest that division in synergy given that this division largely been a cash leakage for several years, if you could comment around that?

And lastly, if you take the restructuring aside, oil prices have as you know moved considerably, and the cash flow for the [MPA] companies are also positively impacted. This combined with a spending level in seismic which is down 50% from peak, shouldn't we expect that the market will gradually strengthen during 2017, and if you could talk a little bit on what your clients are telling you and if you see new clients which has been nonexistent for the last two years now starting to be active? Thank you and good luck.

Jean-Georges Malcor - CGG SA - CEO

Okay, thank you. Okay, let's talk about the market sales. You are right to say that the oil price has moved up and at least it has stopped the downward spiraling of the market condition. We can clearly see that we have stopped the erosion in pricing going down. This is probably the good news for the sector all in all.

But as we speak today, we are not seeing for the time being any sign of recovery -- specific sign of recovery on the back of the market condition getting better. You are right to say that the oil and gas companies are probably reconsidering looking at their CapEx spend and there may be some good news coming, but again for the time being as we speak now at the end of February, beginning of March, we are not seeing that translating into any specific re-election, price increase or volume increase.

Will it happen? Yes, I'm convinced it will happen. Will it happen during the year? Not sure. Will it happen in 2018-2019? Probably. That's our vision today, okay?

Regarding the other points, you want --?

Stephane-Paul Frydman - CGG SA - CFO

Yes, on the other point, meaning our view is quite clear on that matter meaning we have a marine exposure and we remain a marine seismic player in the integrated model we have --



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Jean-Georges Malcor - CGG SA - CEO

And mainly for multi-client.

Stephane-Paul Frydman - CGG SA - CFO

-- mainly for multi-client just operating a five-vessel fleet to 50%, 60% dedicated to the multi-client depending on the weight of the big contract we have and we will work on that on 2017 looking at the Pemex contract, so we are clear on the position we have and as being a marine seismic player. Then after was the question of the maritime asset management which is another topic on maritime asset liabilities management, so you show that on that matter we have some liabilities that was exposed to cold-stacked vessel and we have a dedicated mitigation plan here. We have also some maritime asset meaning we are owner of some vessel, of the herd of some vessel, we are co-owner of some vessel, we're also shuttering a vessel that are in operation, and obviously in that matter would -- we can find a kind of way of -- we have debt on those assets. So we'll see what will be the best scheme to optimize the things and here if we can find ways to create value one way or another we will use it obviously.

Jean-Georges Malcor - CGG SA - CEO

Is there any more question? We probably have time for the -- one or two more.

Operator

Christopher Mollerlokken, SP1.

Christopher Mollerlokken - SP1 - Analyst

This is Christopher Mollerlokken from Sparebanken 1 Markets. In terms of the French refinancing process that you have entered into, you are stating in the release that you are considering all legal alternatives. Then when would you need to have an outcome or at least some more clarity here before you would opt for a US Chapter 11?

Jean-Georges Malcor - CGG SA - CEO

Well, let's be very clear. The process we are entering in today is a negotiation process to find an amicable agreement, amicable solutions with all the stakeholder, okay. So the process is -- that we have today, it is not a process which is bound by law, it is a process where we are having the mandataire ad hoc who is acting as a conciliator to help the parties to negotiate in good faith and try to find a solution for the Company before the Company runs into liquidity issues, okay? So that's the main course that we are following.

Obviously in doing so, we have to first take into account the timing of it. We need -- we indicate that we want to go fast. Now that everything is set up, is in place, we would like to move as soon as we can into a discussion and hopefully into the agreement, if we can find an agreement. What we are indicating is that at the time being with the cash we have in hand, liquidity we have in hand, with our current level of operations, with some specific actions which are taken and which are implemented within the Company and providing that for the process of the restructuring, we have the covenant holidays and everything we need in order not to have any acceleration of the debt payment, then we have no problem of growing concern and we can -- we have no liquidity problem up to the end of the year, okay?

What we think is that if this process for whatever reason is derailing, if we cannot find an amicable solution, if it is taking too long, if at the end of the day we run into a situation where the growing concern is not maintained, then we will consider other legal option. That's all we are saying today. It's a legal representation that we have to make.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Christopher Mollerlokken - SP1 - Analyst

And just one final question, in terms of the mandataire ad hoc process, is there currently an agreement with the creditors that debt installments and interest would be frozen or it's still being paid or is there -- and a freeze could be a potential at least first amendment in terms of the capital plan?

Jean-Georges Malcor - CGG SA - CEO

That will be part of the discussion that of course that we will have. You know we are just starting this discussion, so you will understand that we have -- we need of course to have a round of discussion with the various debt-holders to look what is possible, what is not possible.

Stephane-Paul Frydman - CGG SA - CFO

Yes, maybe Christopher just -- Christopher on that matter, I mean to show that this situation is very well understood also by the lenders themselves meaning we have the ability for the Company to appoint or to ask for the appointment of mandataire ad hoc. We have to ask to all the lenders their consent. So we asked first the RCF lenders, the Nordic lenders, it was by December-end, we asked the term loan B lenders, we have the main bondholders, and all understood and say yes to the fact that it's worse to have a mandataire ad hoc to ease the discussion about the financial restructuring of the Group. So it's showing you that that meaning of liberty meaning all the lenders also are conscious that there is a need for kind of protection for the Company to -- at least an umbrella of -- for discussing, negotiating this solution for the Company.

Christopher Mollerlokken - SP1 - Analyst

Thank you.

Catherine Leveau - CGG SA - Head of IR

We have time for just one more question.

Operator

[Simon Tan], First Capital.

Simon Tan - First Capital - Analyst

A few questions. I guess to start off with kind of the discussion around equitization, presumably that need to include some of your key shareholders as well and I'm just wondering if you've had talks with like the [BPI] on the shape this equitization has taken and whether there's been any alternatives put forward by your shareholder? That is the first question.

The second question with regard to the timeline of your restructuring discussion, I guess that it will be -- it sounds like it will be bounded by liquidity consideration. What point do you kind of say it's time to start discussing and time to go down the legal route?

Jean-Georges Malcor - CGG SA - CEO

Yes. Well, first on -- sorry, you had a third one? Yes.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Simon Tan - *First Capital - Analyst*

Sorry, yes. No, I guess third one is just kind of -- you kind of said you're reluctant to do the sale of assets at this stage, in terms of, I suppose the sale of the Company as a whole. I appreciate that kind of the outlook right now, it's unfavorable but you've got an up-tick in the oil price and kind of actually -- people have a lot more appetite at the market these days for energy-related plays. So I was just wondering if it's something which have been explored either prior or parallel with the current restructuring process?

Jean-Georges Malcor - *CGG SA - CEO*

Okay. All right. So let's start with the BPI and the shareholders. I have lot of echo, is that okay, can you hear me? Yes, okay. So on the BPI and the shareholders, obviously today we are starting the discussions with our creditors first because that's where it has to start with the proposal. We have -- of course, we have regular contact with all our stakeholders as a general policy for the Company. And clearly, we want to have -- to keep everybody in the loop because we are very conscious that at the end of the day whatever solutions we obtain in the various discussions, this solution will have to be sanctioned, will have to be approved by the extraordinary meetings where the shareholders are voting. So it's important that of course, we are considering all the stakeholders in our discussions.

On the timing of it, you're quite right to say that we like to go quick, for two reasons; of course, first because we want to finalize this restructuring as quickly as we can -- and I will come to your third point on that in a second -- for financial reasons because we like to have a balance sheet which is clean and ready to go. And -- but also because we want to minimize the disruptions to -- or potential disruption to the day-to-day operations. This is one of course of my concern and to make sure that we are not impacting the day-to-day business with this discussion and so the quicker they are, the better they are.

Now regarding your last point -- and thank you for asking the question because this give me the opportunity to expand a little bit on that. The reason why we are optimistic at the moment on the outcome of these discussions, we don't -- we are clearly aware that they are not going to be easy, but optimistic on the outcome. It is precisely because the business model of the Company is not dead. We have a super Company, a lot of technology, a lot of good people, a lot of IT. The business -- we are in a cyclical business. It has been -- we have been suffering for three, four years, but we are in a cyclical business, so there will be better time. I'm absolutely convinced there will be better time.

So our duty as a management today is two-fold. First to make sure that we survive properly during this trough -- during this difficult time and second that we gear the Company in a way that the Company will be as well-positioned as it can to make the best out of the rebound. And this is one of the reason why I believe that our creditors will be at the end of the day interested and hopefully will be able to converge on the good solution.

And I like also to remind you that the industrial restructuring is done. So the financial restructuring is the last part of our plan in order to make sure that we are ready to take the maximum opportunity out of the rebound.

Simon Tan - *First Capital - Analyst*

Thanks for that. And just a couple of follow-up clarification to kind of -- obviously debt structuring discussion concluded as quickly as possible, it's best, it's good obviously. Do you have like a drop-dead date by which you decide it's enough, that's enough discussions, you've got to have, explore filing or some other legal mechanism?

Jean-Georges Malcor - *CGG SA - CEO*

No, we don't have a drop-dead date because we're just starting the discussions now. But we have indicated in our plan that we have a preferred schedule and that we would like to have all discussion concluded properly with minimum impact on business as I said. So there is no date at the time being, but in our mind -- in our mind, we know very well where we want to go.



MARCH 03, 2017 / 8:00AM, CGG.PA - Full Year 2016 CGG SA Earnings Call

Simon Tan - *First Capital - Analyst*

Right. Thanks. And then just a final question was, I read the first point which was after the discussion process, you'll have discussions with your shareholders. I mean do you think like -- have you previously touched base with them and got a sense for whether they might -- given that the energy that is kind of had a bit of rebound, whether they were thinking of preserving some of that -- the equity exposure by putting in new money?

Jean-Georges Malcor - *CGG SA - CEO*

Well, we'll see. At the time being, we're just starting the discussion. So it's clearly too early to answer your point. Our plan is quite clear and obviously from a Company perspective, we'll try our best to find solution which will respect the interest of all stakeholders including shareholder.

Catherine Leveau - *CGG SA - Head of IR*

We have to conclude right now. So if you have anymore question, get back to IR.

Jean-Georges Malcor - *CGG SA - CEO*

Okay. So I think it's time to conclude. Thank you very much for you questions and for this morning, and obviously we'll be in touch with all of you through the IR or directly myself. Feel free to come back to us if you have additional question and thank you for listening this morning.

Stephane-Paul Frydman - *CGG SA - CFO*

Thank you.

Jean-Georges Malcor - *CGG SA - CEO*

Bye-bye.

Stephane-Paul Frydman - *CGG SA - CFO*

Bye.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.