Viridien Q2 & H1 2024 Results

Tuesday, 30th July 2024

Introduction

Jean Baptiste Roussille

VP, Corporate Finance and Investor Relations, Viridien

Welcome

Thank you. Good morning, everybody. Good afternoon, ladies and gentlemen. Welcome to this presentation of Viridien's Q2 2024 results. I am Jean Baptiste Roussille, in-charge of Investor Relations.

Agenda

The call today is hosted from Paris, where Sophie Zurquiyah, our CEO, and Jérôme Serve, our Group CFO, will provide an overview of the results as well as comments on our outlook. And following the overview of the quarter, we will be pleased to take your questions.

Now I leave you with Sophie.

Q2 & HY 2024 Operational Overview

Sophie Zurquiyah

CEO, Viridien

CGG became Viridien

Thank you, Jean Baptiste. Good morning and good afternoon, ladies and gentlemen. Thank you for participating in this Q2 2024 conference call. I am on slide four.

We are now Viridien, an advanced technology group, shaped for growth and cash generation. Our new brand links our distinguished 90-plus years of history as CGG to our forward-looking trajectory as Viridien, a technology company with the future that relies on highly differentiated core businesses and the development of new offerings in new markets.

Looking forward, at Viridien, we see three trends shaping society, where industry, technology, data and expertise will be increasingly required. One, the continued demand for energy; second, a growing commitment to care for our planet; and third, the acceleration of digital capabilities. These trends are creating opportunities not only for our core businesses of Geoscience, Earth Data and Sensing & Monitoring, but also for our new businesses.

We are leveraging our unique and highly advanced technology and decades of expertise to develop businesses, both in the low-carbon markets, specifically Carbon Storage and Minerals & Mining, and beyond oil and gas, in the High-Performance Computing and Infrastructure Monitoring market.

The strength of our core businesses in a market upcycle gives us confidence that Viridien is well positioned to generate significant cash flow starting 2025.

Now we will go into the business overview, slide seven.

Key segment financial highlights

The second quarter confirms the trends that we had at the beginning of the year with the stronger Geoscience and Earth Data markets, offset by a weaker market in Sensing & Monitoring.

Exploration is gaining more traction across our client base and is expanding into select frontier areas such as Brazil, Uruguay, Suriname, Namibia, Malaysia and Egypt. This is in addition to the step out exploration, where efforts are continuing to intensify to bring short cycle barrels to production.

Geoscience and Earth Data businesses are largely driven by offshore E&P CAPEX. And with increasing activity, our clients need fresh data and the best-in-class technology to derisk opportunities. As a result, we saw strong performance in Geoscience and captured strong order intake and a solid pipeline of multiclient projects leading well into 2025.

As expected, Sensing & Monitoring remain at a similar level to Q1 without the contribution of significant equipment sales for mega crews, those very large surveys which we saw in 2023 and do not expect in 2024.

In detail, Q2 revenue was $258 million, with Geoscience and Earth Data up and Sensing & Monitoring down. Segment adjusted EBITDA was down 10% year-on-year at $94 million, with DDE's increase offset by SMO's decrease. At minus $6 million, net cash flow for Q2 was close to breakeven, a significant improvement over last year, which suffered from a major swing in working capital requirements.

And looking forward, we see that our strong focus on cost control and working cap management is starting to pay off.

Key Q2 corporate events

On slide eight. Also as you know, things turned favourably for us in Q2 with the settlement of an old litigation that we had with ONGC in India. This is really good news, but it is also a good timing as it will support the funding of our exciting Laconia multiclient projects that I will present in more detail later in this call.

And finally, we continue to deliver on our financial road map this quarter with a credit rating upgrade to B-minus from Standard & Poor's and an agreement signed for a 12-month maturity extension of our revolving credit facility to October 2026.

DDE segment: Key business indicators

Moving on to DDE segment. The segment revenue was solid again this quarter at $177 million, up 24% year-on-year, with growth in both Geoscience and Earth Data. Adjusted EBITDA margin was stable year-on-year at 54% despite $8 million extra penalty fees from vessel commitments.

Geoscience: Key business indicators

Moving on to slide 10. For Geoscience specifically, revenue increased 31% to $105 million, making Q2 2024 the strongest quarter since Q4 2015. Our constant focus on efficiency and the integration of machine learning and artificial intelligence into our workflows has resulted in the continued improvement of the production per head metric.

The growth of our computing power has slowed at current with the initial ramp up of our new UK data centre, which is now complete. However, compute capacity upgrades will continue as they are key to driving the growth and performance of our technology businesses.

Geoscience: Q2 operational highlights

Slide 11. Our Geoscience market is gradually strengthening, driven mainly by 4D seismic monitoring, infrastructure-led exploration and near-field development. In complex offshore environments, the use of ocean bottom node technology is expanding, requiring the most advanced technologies to extract valuable insights.

In land environment, our advances in full waveform imaging are also driving the reprocessing of existing data for the identification of new reservoirs and the optimisation of mature fields.

Another illustration of the favourable environment is order intake, growing 55% in H1 year-on-year with increasing project sizes and broad adoption of our most advanced imaging technologies. In the example on the slide, you can see a much better delineation of the salt structures and the striking improvements in imaging of the reservoirs below the salt.

Our new businesses are also showing positive momentum, with a few larger imaging contracts for both CCUS and Minerals and Mining. Advanced imaging is unlocking valuable information from all the data sets for such applications.

I would also like to highlight the alliance we signed this quarter with Baker Hughes to offer combined Carbon Capture and Storage Solutions across the value chain and an agreement that we signed with Ranch Computing, a digital media player, to provide computing capacity and support to optimise the image rendering business. They both bear strong potential and demonstrate the progress we are making in our new businesses.

Differentiating with high-frequency land FWI

On slide 12, the picture show our work in the Sultanate of Oman, where our full waveform imaging velocity model and full waveform imaging image improved geological understanding of the reservoir structures and reduces subsurface uncertainties. We continue to advance and adapt the technology we initially developed for marine data, and it is now achieving excellent results on challenging land data which is typically very noisy.

Of commercial interest to Viridien is the success of this technology in the Middle East, a region which is key for our growth. Given the large amounts of data acquired over the years, this represents a significant opportunity for our Geoscience business to reprocess all the data.

Earth Data: Key business indicators

We are moving now to EDA with slide 13. In Earth Data, we also see gradual market improvement with clients increasingly looking for new opportunities. IOCs are more visible as well as well as national oil companies that are going back into international markets like Petrobras and Petronas in Africa.

Q2 revenue at $72 million was up 15% from last year. After sales grew from $20 million to $31 million, with significant sales in the North Sea and the Gulf of Mexico. It is worth noting that we sold close to $10 million in our Beyond the Core businesses and mainly for CCS.

Pre-funding revenue was stable at $41 million, with $47 million CAPEX, leading to a high pre-funding rate of 86%.

Earth Data: Q2 operational highlights

Slide 14. In the Americas, we secured funding, and mid-July, we started a significant sparse node programme in the Gulf of Mexico for Laconia, which I will comment on separately.

Two re-imaging projects were launched in Brazil and Aruba, leveraging our latest imaging technologies. Uruguay is also an area of client focus, attracting interest in our data. In Norway, we continued to expand our North Viking Graben project to the north with good pre-funding.

Finally, and this is in Beyond the Core, completed the acquisition of gravity and magnetic data on our Arizona Mining programme and we are in the process of integrating it with other Geoscience data. This type of integrated project is unique in terms of magnitude and breadth of data type for the mining sector.

Let me now comment on Laconia, slide 15.

Laconia: Viridien's first large project featuring sparse OBN in GOM

Laconia is a major project, and it ticks a lot of boxes for us and the industry. It covers the highly prospective Paleogene trend, which has attractive subsurface characteristics, but also challenging imaging problems. We will combine our latest technology to enhance our existing stack size and multi-azimuth coverage in the area.

Our new TPS low-frequency source will allow for deeper penetration and better full waveform imaging inversion, but our latest processing technology will ensure the best possible imaging. It covers an area with an attractive mix of owned and open blocks, yielding to hyperfunding while still offering significant after sales opportunities down the road.

From a financial standpoint, the project is very promising as well. It is supported by funding from major clients, with pre-funding expected to reach 100% rapidly. It is expected to be cash flow breakeven in around 12 months. And the timing of the ONGC settlement is fortunate, as it partially offsets the upfront cost of the project.

The project just started with the first shot in mid-July, and the delivery of the initial product is targeted for mid-2025. We expect the results will be well-received by the industry and it will lead to further projects in the Gulf of Mexico.

Sensing & Monitoring segment: key business indicators

Moving on to SMO now on slide 16. As expected, at $82 million, revenue was lower than last year due to the very high comparison base versus SMO's Q2 2023. At that time, we had major deliveries.

Moving forward, we expect continued volatility in the SMO market based on the timing of these very large surveys, which is the reason we initiated a turnaround plan earlier this year focused on operational restructuring. That is progressing very well.

Sales from our new businesses were stable at $11 million. With our current outlook for 2024, this revenue contraction for SMO is anticipated to last through H2. At this level of revenue, adjusted EBITDA margin dropped to 8%.

Sensing & Monitoring: Q2 operational highlights

Going into slide 17 with operational highlights. The land market was driven by cable system replacement for deliveries in the Mid East and Asia in Q2, and by the Geothermal Industry in Europe.

Geothermal is picking up and requiring imaging of the subsurface, very often in urban areas. And our land node system, WiNG, is very well adapted to this market.

The Marine market continues to benefit from the uptake of ocean bottom nodes technology. And after Q1 sales in Europe, we made further OBN sales of our GPR300 in Asia in the second quarter.

In addition, our new low-frequency marine source, TPS, which we are using on our Laconia multiclient project, is proving to generate content-rich data to support advanced processing.

Finally, in Infrastructure Monitoring, revenue came from a diverse base of projects, including railway, mine and other infrastructure in Saudi, Africa and in the US.

Sensing & Monitoring: transformation plan

Let me focus now on slide 18 with the operational turnaround in the Sensing & Monitoring business line.

First, Sensing & Monitoring markets its products and services under the Sercel brand. It is a world leader in seismic data acquisition equipment and solutions. It has the ambitious development and growth strategy for its Core and Beyond the Core businesses. And we believe in the prospects of our three key markets for that business line: the Land System; the Marine Systems, and particularly Ocean Bottom Nodes; and Infrastructure Monitoring.

Despite the growth of new businesses that now represent around 12% of our overall business, SMO depends on acquisition companies buying new equipment and solutions, and as such, experiences volatility depending on the presence and number of large contracts for mega crews and large surveys in general during the year. And this is why we are working on an operational turnaround plan looking at all aspects of the business to make it more agile, profitable and cash-generative through this volatility in market cycles.

The target is to: lower the breakeven point by reducing fixed costs by $20 million to $30 million to be EBIT and cash breakeven during years, where revenue is below $300 million; to focus on the strongest commercial positions by streamlining the product portfolio; and finally, to extract $20 million to $30 million of cash from optimising processes and reducing inventory. A significant part of this cash extraction will be achieved in 2024 already, and we expect to see the contribution to the P&L by 2025.

Let me now hand over to Jérôme for some comments on our financials.

Q2 2024 Financial Results

Jérôme Serve

CFO, Viridien

Introduction

Thank you, Sophie. Good morning and good afternoon, ladies and gentlemen. As Sophie talked in details about Q2 for each segment, I will focus on our first half year performance.

Adjusted Segment EBITDA: +17% y-o-y in H1

Let us start with the P&L on slide 20. Our H1 revenue was up 7% year-on-year at $532 million and adjusted EBITDA was up 17% at $200 million. This increase in profitability came from our DDE business with both Geoscience and EDA showing a solid revenue growth and a strong fall-through down to the bottom line.

Thus DDE revenue and adjusted EBITDA came out at $362 million and $199 million, up 26% and 36%, respectively. This translates into about 300 basis point margin increase at 55%.

Regarding our SMO business, as already mentioned by Sophie, revenues are down versus last year, with Q2 2023 benefiting from the first OBN deliveries of the Saudi mega crew. Revenues and adjusted EBITDA then came out at $170 million and $60 million, down 20% and 53%, respectively. The margin was then at 10% versus 16% during H1 last year.

Adjusted segment operating income was at $57 million, down 37%. Although EBITDA is up 17%, the drop in operating income is mainly explained by the fact that in Q2 last year, we did record a positive $37 million net book value adjustment following the completion of three multiclient surveys. We did not have such one-off in this quarter.

Regarding IFRS 15 adjustment, they were quite positive this semester, leading to an IFRS revenue and EBITDA of $566 million and $230 million, respectively. Group net income ended up at $32 million for the semester, up 39% versus last year.

$24m net cash flow in H1 2024

Moving on to the Group cash flow on slide 21. As you can see, we had a massive swing in net cash flow from a cash loss of $78 million in H1 last year to a cash generation of $24 million this year.

There are mainly three explanations for this $100 million swing. Obviously, the higher EBITDA for about $25 million; lower working capital requirements for about $50 million with no mega crew plus the additional release of inventory engineered as part of the SMO turnaround; and finally, the ONGC litigation settlement, more than $30 million net of tax and fees, which is recorded in the discontinued operation line.

Even without this one-off, we would be at close to breakeven over the first semester which is a significant achievement given the traditional seasonality we experience in our business.

Before I go through the balance sheet details on slide 22, I would like to re-emphasise the good news about the extension of our $100 million revolving credit facility by 12 months till October 2026. I am pleased to welcome two new banks, DNB and Danske Bank, who take over Barclays and part of Bank of America commitments.

With Goldman Sachs, Morgan Stanley and JP Morgan, all three rolling out their commitments for another 12 months, this creates a good mix between commercial and corporate finance banks in light of our forthcoming refinancing. This RCF extension is something we had flagged in our financial road map earlier in March. And after the Standard & Poor's credit rating upgrade in April, this is another box we have ticked in our road map.

Balance Sheet

Back to our balance sheet, and I will go quickly through it as there is no significant movement over the first half. Liquidity stands at $430 million. Gross debt after IFRS 16 is at $1.281 billion, down $20 million from December 2023. This is due to the euro-dollar variation and not from any buyback. Indeed, in Q2, our focus was to secure the RCF extension and we have not proceeded yet to the $30 million high-yield bond buyback that we announced in March. But we are obviously still committed to do that in 2024, this year.

Net debt after IFRS 16 was at $941 million, down $33 million versus December 2023.

I now hand the floor back to Sophie for the conclusion.

Outlook & Financial Roadmap

Sophie Zurquiyah

CEO, Viridien

2024 financial objectives

Thank you, Jérôme. As a summary, I am pleased with our performance in the second quarter. It confirms the key trends that we have seen for some quarters, a strategic path that continues to progress and the favourable positioning we have in our market.

So the macro-environment in our core markets continued to strengthen, and we are gradually benefiting from the increases in E&P CAPEX. Our technologies are highly differentiated, and adoption is broadening with the need to solve increasingly complex subsurface challenges. Our new businesses are continuing to develop nicely in all our segments. And we are delivering our financial road map, progressing along path towards strong cash generation and deleveraging.

Given our solid performance in the first half of the year, our improved visibility and our outlook for the second half, we can reiterate our full-year target for stable revenue, EBITDA growth and stable cash flow. The only adjustment is the EDA, the Earth Data CAPEX with a $50 million increase to include the important Laconia project.

I was on slide 24. I am moving on to slide 25 for the financial roadmap.

2024-2025 Financial Roadmap

I would just like to leave you with that last slide, which we showed you last quarter on our financial roadmap. And you can see that we are making good progress.

I would like to thank you for your interest. And I would like to open for questions now.

Q&A

Kevin Roger (Kepler Chevureux): I have three, if I may. The first one. Sophie, I was wondering if you can give us some colour on the EBITDA margin on the Geoscience business unit this quarter, and notably maybe any colour on the sequential increase? Because it seems that this is really the division that performed very well this quarter with an increase again sequentially in the top line and maybe a very nice impact on the Group's EBITDA. So any colour on the EBITDA just on the Geoscience business unit, if you can, please?

The second one is on the guidance. Just trying to understand basically how we, in a way, reconcile the EBITDA statement that is relatively confirmed, but with $50 million more CAPEX when we look at the mid-range with the updated new one. So how do you see basically the statement on the EBITDA versus CAPEX?

And the third one is in a way related. Can you give us some colour on the pre-funding level on Laconia? Because this is the CAPEX plan that is changing with maybe $50 million. If you can give us some colour on the pre-funding level here? And if you expect to be at 75% for the Group on the full year, or below that with Laconia, please?

Sophie Zurquiyah: Thank you, Kevin. Nice to hear about you. So first on the EBITDA Geoscience margin, as you know, we do not provide the margin directly but we do provide a proxy, which is that revenue per head and that you see that number continuously cranking up. Of course, when we do Geoscience, we need two resources. We need essentially the people and also we need the computers. And as you know, we have invested massively into a new centre last year, which we have to pay for and then falls into our cost line.

But despite that, we are still able to drive efficiency gains. We have been winning large projects, and large projects are good. So I guess the size of the project increasing, visibility increasing, we are able to definitely gain efficiencies and increase the margins.

In terms of the guidance, I will let Jérôme comment. But a couple of quick comments. As we do new projects, it comes with pre-funding, and that will be the third question. And of course, EBITDA increases because you get the EBITDA associated with the additional funding.

Now, of course, there is the CAPEX. So the outlay does affect the cash flow generation. So there is plus and minuses in a way.

Jérôme Serve: Yes. For the EBITDA, Sophie said more CAPEX equal more pre-funding. But I am sure, Kevin, you know that the pre-funding is recognised as a percentage of completion. And the percentage of completion for Laconia by end of December is lower than 50%. So even if we have some good pre-commitment level from three clients today, do not do $50 million CAPEX by 85% in your spreadsheet, not the way it is working, it will give you far too much EBITDA for H2.

The second backdrop is versus the guidance. SMO will be slightly lower than what we anticipated earlier this year. So we should see lower EBITDA for SMO, which confirm again the case for the transformation plan that we have launched.

And the third element, again, if we are back to the time we made the guidance, regarding Shearwater, we had a higher utilisation rate in-mine end of last year. And today, with some environmental permits, which are delayed, we are likely to have more penalty than what we were thinking at the time of the guidance. So all in all, please do not shoot up your EBITDA target because that is clearly not the case.

And in terms of cash, that basically if we have not upgraded the guidance despite the good news on ONGC, as I just told you, there is not a significant uplift in the EBITDA. And clearly, the cash CAPEX that we have to spend for Laconia and which is not fully covered offset the good news on ONGC.

Sophie Zurquiyah: Yes. And I will make a comment on the pre-funding level. Remember, the pre-funding level that we say we end up typically 18, 19, sometimes better. We always say minimum 75%. This is linked to a portfolio of ongoing projects. So this is all the pre-funding we get from all these ongoing projects divided by the CAPEX assigned to all these ongoing projects.

Now if you look at the project level, at one project, typically you would start a project with already 30% to 50% pre-funding secured. And then through the acquisition and processing phase, that is when you ramp up to that 70-80%. What we are saying here, and when we indicate it by end of 2025, we would be at 100%, it is actually a better project than our average project. It is a big project, and that is why we wanted to make sure the economics will be better. And then, it would be more front-loaded than the typical average project.

So basically this year, we are starting acquisitions. So we are going to be an acquisition phase until sometime in Q1, Q2 next year. Typically, I told you when we start a project during that early stage is 30-50%, so we are on the high range of that. And then [inaudible] by the end of next year. So actually, we would not be finished with the project by end of next year. We will still be in processing phase. That means we will be reaching that 100% before the end of the project still within the pre-funding phase.

Kevin Roger: Okay, understood.

Jérôme Serve: Overall, the guidance for the pre-funding ratio remains even with Laconia. So no change to what we provided in March.

Jean-Luc Romain (CIC Market Solutions): It relates to the contribution of CCS to your after sales. You mentioned it was a significant portion. Would you quantify what portion it represents sales of EDA for CCS in your after sales?

Sophie Zurquiyah: So I can give you a few numbers. We mapped our updated library in general overall, and we mapped it to the new trends that are available to CCS. We have about 15% of our library that is exposed to CCS licenses. And every quarter, there will be a huge variation, because, as you know, the multiclient sales are always lumpy. So one quarter we may have none, and the next quarter we may have a bigger one.

Let us say, on average, for the first half of the year, it would be, I would call it 10-15%-ish, 10%-plus or over H1 of the after sales, something like that. But I mean, you have to look at it over a long period of time because it is lumpy by essence. But that 15% is not a bad number.

Jérôme Serve: Yes, it is more or less what we achieved in H1 and what we foresee for the future. 15% is a good proxy.

Baptiste Lebacq (ODDO BHF): Two questions from my side. The first one is regarding the $8 million of extra penalty fees that we have seen this quarter. Can we see such amount in coming quarters or not?

The second question is dedicated to your transformation plans. Can we see some extra charges of provision due to this, let us put it like that, restructuring or not?

Sophie Zurquiyah: Yes. Thank you, Baptiste, for the question. So I think there is a lot of balls in the air with the Shearwater contract. And so we have actually a pretty healthy pipeline of streamer projects. Part of the issue is that the environmental permit is delayed in many parts of the world. So that is the bid that has been delaying our ability to use the vessel in H1 and then possibly in H2. So it is a bit early to say, because we have a number of opportunities that we are pursuing, including what we would call hybrid projects. So those very highly pre-funded projects, which is almost like a proprietary project that we are looking at. So it is a bit early but it could be as high as last year, perhaps even higher than last year.

I will let Jérôme comment on maybe non-recurring costs of the transformation plan. I mean, it will come with the headcount reductions.

Jérôme Serve: Yes. So today in H1, that creates the gap between adjusted EBITDA and the EBITDA, so you have only $4 million. That relates mainly for the downsizing of our Houston facility and the closure of the Singapore facility. We have just announced to our unions in France, a social plan for close to 150 positions in France. This one will have to be factored. It is more like a P&L impact for the cash. It is part of the guidance for this year, although I suspect a good chunk of the cash will be next year. But again, for me it is part of the $100 million we committed for next year.

Daniel Thomson (BNP Paribas Exane): Just two quick questions. Firstly, I was wondering in the Earth Data division, obviously, next year we have the rolling off of the Shearwater take-or-pay. Does that drop through directly through its earnings next year? If I think about your cost base in that business, is there anything related to the Beyond the Core business that falls in there that I should be thinking about, that would impact your cost base in that business next year?

And then on a related tech, can you put any numbers around the potential impact of being able to renegotiate vessel day rates that you are previously locked into with Shearwater? Any positive impact you might see there with being able to renegotiate competitively?

Sophie Zurquiyah: Yes, thank you, Daniel. Good evening. So I would say, essentially when we talk about the penalty fees and the contractual costs associated with that contract, we would not have just costs that will disappear coming into next year. It is just this take-or-pay. And when we are not able to utilise vessels, we just have to pay something. And then the contract ends 8th January 2025, and basically we have no commitment.

Now of course, we are looking at, okay, what does the world look like when we are free to utilise capacity on the market. So we are actually in the process of looking at what the options are. So it would not be a capacity agreement for sure, but some kind of a partnership with a vendor, or do we go back to the market. So, like we have not landed yet on that.

The vessel day rates, we do not see them necessarily going much higher from where we are today. There is not a lack of capacity at this point in time. And part of the reason is the difficulty to land those environmental permits. So the demand seems to be there for utilising vessels, but then there has been a bit of a backlog and then you might have heard like in Ibama strike in Brazil, for example.

They have been on, not official strike, but really slowing down their processes for a number of months now and so really permits are not coming out. So I would say we do not anticipate rate increases or any significant rate decreases. So we would think that if we saw that, that we would be able to pass it commercially. But today, there is not under-capacity in the market. This is actually probably, if anything, a bit too many vessels still.

Yes. No, thank you very much. Thank you for the great questions. Thank you for attending. Wish you a good evening. We will be here. If you have any further questions, you know where to find us. Thank you very much.

Jérôme Serve: Thank you, indeed.

[END OF TRANSCRIPT]