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CGG.PA - Full Year 2018 CGG SA Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's CGG Fourth Quarter and Full Year 2018 Results Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Friday, the 8th of March, 2019.

I would now like to hand the conference over to your speaker's today. Please go ahead.

Unidentified Company Representative

Thank you. Good morning, and welcome to this presentation of CGG's fourth quarter and full year 2018 results. The call today is being hosted from Paris where Mrs. Sophie Zurquiyah, Chief Executive Officer; and Mr. Yuri Baidoukov, Group Financial Officer, will provide an overview of the fourth quarter and full year 2018 results as well as provide comments on our outlook.

As a reminder, some of the information contains forward-looking statements, including, without limitation, statements about CGG plans, strategies and prospects. These forward-looking statements are subject to risk and uncertainties that may change at any time, and therefore, the actual results may differ materially from those that were expected.

Looking on Slide 3 and about the changes in accounting. In addition to the application of the new norms of IFRS 15 starting January 1, 2018, and in line with industry standards, CGG applied prospectively a 4-year straight line amortization to its Multi-Client library stock in Q4 2018. As presented during the Capital Market Day and the strategic plan announced on November 7, 2018, Acquisition segment is now accounted for as discontinued operation and assets for sale. Therefore, Acquisition segment is no longer included in sales, EBITDA and operating income.

Now following the overview of the quarter and of the full year, we will be pleased to take your questions, and I'll now turn the call over to Sophie.

Sophie Zurquiyah-Rousset - CGG - CEO & Director

Ladies and gentlemen, good morning. Thank you for participating in this Q4 and full year 2018 conference call. Our presentation will cover our Q4 and full year operational and financial results.



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Our Q4 2018 results were very good. We posted a 21% revenue growth year-on-year with solid EBITDA driven by our strategically positioned Multi-Client library, strong sales volume in equipment and good overall operational performance.

Our EBITDA was very strong at \$235 million, up 44% year-on-year with a high 54% margin. Operating income was positive at \$10 million, but was impacted by the \$94 million of Multi-Client straight line amortization that resulted from our accounting change. I will let Yuri provide you with more information on that later in the call.

Free cash flow was positive this quarter at \$21 million. This is excellent news as it is the first quarter of positive cash flow generation since Q4 2103, 5 years ago.

As we do every quarter, we review the value of our assets and decided to write off our StagSeis survey in the Gulf of Mexico, where we continue to see low client activity as well as some of our older equipment inventories. As mentioned during our Capital Market Day, we booked provisions and impairments associated with our exit from the acquisition business, now reported as discontinued operation. Yuri will also address this topic in more detail.

Looking at the full year results, I'd like to start by qualifying our full year 2018 results as very positive and above our expectations thanks to a very strong Q4. Our yearly revenue increased by 19% year-on-year to \$1.227 billion and EBITDA was up 28% to \$556 million, representing a 45% margin.

More importantly, segment free cash flow was higher at \$134 million after \$78 million of industrial and R&D CapEx and \$223 million of Multi-Client CapEx and despite high working capital at the end of the year. I think the solid operational results clearly demonstrate the strength of CGG under its new profile and further validate our strategic decision to transition towards an asset-light model, we focused on our value-add businesses that are differentiated and profitable.

I will now cover our key 2018 operational achievements by reporting segment. The GGR segment, includes Geoscience and Multi-Client, delivered a solid year-on-year growth in terms of both revenue and profitability. In 2018, GGR revenue was up 11% to \$913 million, supported by good Q4 Multi-Client sales and excellent Geoscience performance.

GGR EBITDA was high at \$558 million, a 61% margin, up 15% year-on-year, and operating income margin was 19%. Going forward and in line with our presentation at the Capital Market Day, I will provide more granularity into the GGR businesses.

In Geoscience, total production is the sum of external revenue and internal production. The internal production is the processing of our Multi-Client data. In 2018, Geoscience production was up 6% with internal production down 9% and external revenue up 13%. Backlog for Geoscience as of February 1, 2019 stands at \$256 million and typically represents around 6 months of activity.

Geoscience remained profitable through the downturn and the total production per head held up remarkably well. We were able to adjust the cost structure while sustaining our R&D efforts, which puts Geoscience in a leading position to take advantage of the market improvement.

CGG has a lot of computing power. As of year-end, we had approximately 166 petaflops, which is 10 to the power 17, quite hard to conceptualize. There is an acceleration of computing power requirements as it enables us to unlock new technology and algorithms, which can substantially improve both the velocity models and the images of the subsurface as well as reduce the cycle time to deliver results. It is actually the combination and the optimization of our advanced subsurface imaging algorithms, software technology and high-performance computing that drives CGG imaging.

They have allowed for a paradigm shift in the way we approach imaging. And then as our subsurface imaging technology and the supporting software continue to advance, together with our compute power, so will our ability to rapidly deliver better images along with the associated reservoir and properties of the subsurface.

And now on Slide 10. The Geoscience external market saw an inflection point in 2018 with a growth of around 7% led by solid pickup in activity in Europe, Africa, Middle East and Asia Pacific regions. North America was sustained by large high-end reprocessing projects as well as processing of



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data for development and step up exploration projects, especially from marine nodes in the Gulf of Mexico. As you know, the seabed market is accelerating substantially. This is also generating more complex and dense data sets to process, an area where we excel.

CGG is well-positioned globally in such high-end markets as we remain focused on maintaining leading technology and exceeding customers' expectations.

Our more recent advanced technologies for 4-way form inversion that generate accurate velocity models of the subsurface and the blending where we are able to separate signals from various sources remain key for our continued differentiation.

In 2018, our software business also achieved strong growth, thanks to the continued advance and good reputation of our software.

Looking towards the future, our cloud-ready reservoir characterization functionality is expected to continue to support good performance.

This slide on technology is a good example of what we do in geoscience technology and particularly in reprocessing. Reprocessing represents around 40% of our production, and our clients are constantly faced with the decision to extract more from their existing data sets or doing a new acquisition depending on the specific challenges they have to solve. As we advance processing technology, reprocessing becomes very attractive as we are able to add significant value to the data for a fraction of a cost of a new acquisition.

Recent years have seen many rapid developments in subsurface imaging, especially in de-ghosting and velocity model building. This means that not only can many older data set be reprocessed to standard approaching that of modern data sets, but reprocessing can also bring significant value to quite recent data sets.

As technology continually evolves, there is often value in reprocessing seismic data multiple times, ensuring it remains a valuable asset. Today's highest-quality data will be next year's baseline for improvement.

Many thousands of square kilometers of seismic data around the world are very suitable for reprocessing. Many of these data sets provide patchwork coverage, different orientations and parameters, which would benefit from being combined and reprocessed as contiguous volumes. On this slide, you have an excellent comparison of the same image in 2010, 2015 and 2018, and you can easily see the staggering difference that technology brings and understand the importance that leading this advance has on the business.

CGG Geoscience is currently reprocessing the 35,000 square kilometer cornerstone Multi-Client survey in the Central North Sea using our latest cutting-edge imaging technology. This program merges a number of conventional long-offset and BroadSeis surveys acquired at 2 different azimuths to create a single contiguous volume using the latest advances from our subsurface imaging team. The end results will provide our clients with a better understanding of the reservoirs, enabling them to reduce the costs and risks associated with exploration, drilling and production.

Let's now look at the performance of our Multi-Client business. Our strategic position in key basins is paying off. In 2018, Multi-Client revenue was up 10% year-on-year at \$517 million, driven by our core areas primarily Brazil, Mexico and Europe.

However, as indicated earlier, Multi-Client activity remains low for us in the U.S. Gulf of Mexico. As well we see increased node activity to support our clients' development and production efforts, they are not yet back to long-term exploration in the complex ultra-deep water.

Prefunding sales were lower than in '17 at \$216 million based on our lower CapEx at \$223 million. Once again, we reached a very high cash prefunding rate at -- of 97% in 2018, well above our 70% threshold.

More significantly, after sales were up 50% at \$302 million. Our core areas are strategically positioned in basins of prime interest worldwide. And client activity, combined with licensing rounds activity drove sales. In Brazil, for example, a large 3D Multi-Client library in the Santos Basin offers an ultramodern exploration data set, which supports our clients' interest in the Brazil's 2018 and 2019 licensing round. Onshore U.S. was also quite active for us.

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Following the library impairments, predominantly stack size in the U.S. Gulf of Mexico, 90% of our Multi-Client NBV at year-end 2018 is less than 2 years old, positioning us very well for the future.

I would like to highlight that the impairment of our stack size library is the consequence of current low exploration activity in that particular deepwater area of the U.S. Gulf of Mexico, which is based on current oil price conditions and clients prioritizing their spending towards onshore unconventional plays and less risky, quicker-returns offshore opportunities. The data sets are excellent and have delivered what we believe are the best images in that part of the Gulf of Mexico. Economies are just not there at the current time.

I'm on Slide 13 now. In 2018, we have continued to expand our library in our core areas. In Oklahoma, we extended our large footprint in the SCOOP and STACK play with the Chickasha survey. Offshore Brazil, we completed the Santos Phase 8 survey. In Norway, we further extended our existing 40,000 square kilometer coverage, which provides a recurring revenue stream on the back of APA licensing rounds.

In the Barents Sea, we performed the Topseis test, which led to a 5,000 square kilometer survey that we announced a couple of weeks ago. Offshore Australia, we reprocessed an older survey, which totally changed our client's perceptions of the potential of the Gippsland Basin, which will lead to an acquisition of a new just-permitted survey in this area in 2019.

U.S. land has been a continuing source of opportunity for CGG. A library in the lower 48 covers much territory, but our recent focus has been on the unconventional plays in West Texas and Oklahoma where we have been increasing our coverage of large contiguous areas. We are now starting a program covering the Austin Chalk in Southern Louisiana where we plan to establish regional coverage of this new unconventional play.

Now on Slide 15 with Brazil. CGG benefits in Brazil from a unique position as we have the best coverage of the pre-salt in the industry, including recently acquired data and extensive areas of reprocessed data.

What characterizes our library in Brazil is the large contiguous coverage that helps clients to not only understand their reservoirs and blocks, but also the regional context. Data is processed in-country using best-in-class technology adapted locally to the Brazil pre-salt environment. We also maintain a healthy pipeline of opportunities building on our years of experience over there.

Moving on to equipment. In 2018, the business enjoyed a solid recovery driven by increased volume for land equipment. Total equipment revenue reached \$351 million, with external revenues at \$314 million, significantly up 46% year-on-year. Land sales were up 80% to \$215 million. Marine sales was stable year-on-year and downhole gauges revenue increased almost 50%, driven by strong demand in the U.S. lower 48.

In 2018, equipment returned to profit as revenues overtook our minimum breakeven, which is around \$330 million and contributed a positive \$12 million operating profit despite the strong R&D push to prepare for the introduction of new products in 2019. As typical based on our manufacturing scalability, sales volumes will be key driver for strengthening profitability moving forward. And at this point in time we see sustained momentum for land equipment.

Land revenue increased significantly in 2018, thanks to significant delivery of our fiber-weight cold stack equipment in India and in the Middle East. We saw increased activity in Russia after a very low '17.

Downhole gauges enjoyed strengthening demand, mainly for artificial lift supported by increased activity in the U.S. lower 48. Demand for streamers replacement is still constrained by low CapEx from the marine seismic companies, and we have little visibility on when this will change.

In the non-oil and gas business, Sercel continued to pursue its diversification strategy and signed a strategic agreement with Apave for the delivery of a structural health monitoring solution. Together, we will leverage, on one hand, Sercel's expertise in high-end quality sensors and, on the other hand, Apave's expertise in structural health monitoring applications.

I will now turn the floor to Yuri for a financial overview.



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Yuri Baidoukov - CGG - Group CFO

Thank you, Sophie. Good morning, ladies and gentlemen.

Now looking at the consolidated P&L for 2018 on Slide 19. Segment revenue from our new profile amounted to \$1.3 billion, up 19% year-on-year, with a better balanced business mix and growing Sercel sales. Geoscience accounted for 32% of revenue; Multi-Client for 42%; and equipment for 26%. At segment OpInc level, group performance was positive at \$142 million for the new profile, corresponding to a significant year-on-year improvement despite the \$94 million impact from the application of full year straight light amortization in Multi-Client.

Let me provide you with more details on nonrecurring charges associated with our new profile and those related to discontinued operations. Nonrecurring charges associated with new profile amounted to \$288 million, including Q4 noncash impairments of \$270 million mainly related to the following items: \$197 million impairment of StagSeis Multi-Client survey, which was acquired in the outer deepwaters of the U.S. Gulf of Mexico in 2012, 2014 when oil prices trended above \$100 per barrel. At current oil prices, oil and gas companies are not prioritizing exploration and development in outer deepwater parts of the U.S. Gulf of Mexico. As the associated revenues in 2018 was very low and with a low visibility of future aftersales, we had to take the full impairment of this library. There were also other small impairments of certain Multi-Client surveys. We have also impaired Sercel inventory for \$30 million.

Nonrecurring charges associated with discontinued operations amount to \$429 million and include mainly charges taken in Q4 in relation to our exit from the Acquisition business, as announced during the Capital Market Day in November of 2018. They consist of \$267 million of provisions and \$139 million of noncash impairments.

Including these \$429 million nonrecurring charges, net loss from discontinued operations amounted to \$600 million. Net cost of financial debt was \$127 million. On that account, the debt-to-equity swap in Q1 2018 led to other financial income of \$820 million. All in all, group net loss amounted to \$96 million, compared with a loss of \$514 million a year ago.

Slide 20 provides you with a bridge between IFRS 15, segment new profile and segment old profile figures.

Moving to Slide 21. Our segment revenue of \$1.23 billion grew 19% year-on-year with segment OpInc almost tripling to \$142 million at 12% margin, while our segment EBITDA on Slide 22 increased by \$28 million (sic) [28%] to \$556 million at 45% margin. With CapEx of \$301 million and 97% cash prefunding rate in Multi-Client, our free EBITDA from the new profile more than doubled year-on-year to reach \$255 million.

Our balance sheet after the application of IFRS 15, presented on Slide 23, has \$2.4 billion of capital employed, which is down \$800 million from September 30, 2018. Net working capital decreased \$289 million from \$399 million at the end of September.

Receivables were up \$520 million from \$448 million due to high Multi-Client and equipment sales at the end of the year. Inventories were down to \$205 million from \$236 million, following \$30 million inventory provision in equipment.

\$1.2 billion goodwill, which didn't change, was corresponding to 51% of total capital employed and 75% of equity. Multi-Client library net book value was down to \$633 million as a consequence of Q4 library impairments and the application of full year straight line amortization. The Multi-Client business split was \$567 million for marine Library and \$72 million for land library. Other noncurrent assets, fixed assets in the slide, were down to \$509 million from \$881 million at the end of September. Shareholder equity and minority interests was at \$1.67 billion.

Let's look at our debt and liquidity. Our financial position remains solid with group gross debt at \$1.167 billion at the end of December 2018 with maturities of first lien debt in May 2023 and second lien debt in March 2024. Segment free cash flow from new profile was \$134 million, up 3% year-on-year including negative change in working capital of more than \$100 million at the end of 2018. After taking cost of debt of \$73 million and cash flow from discontinued operations of negative \$184 million including nonrecurring cash charges, the net cash flow of CGG was negative \$124 million in 2018, compared with negative \$197 million in 2017.

With \$434 million of liquidity, our net debt was \$733 million at the end of December 2018. Net debt-to-EBITDA ratio at the end of December 2018 was 1.3x.



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Now I'd like to hand the floor back to Sophie for concluding remarks.

Sophie Zurquiyah-Rousset - CGG - CEO & Director

Thank you, Yuri. I know you're interested to hear about our progress towards an asset-light model. I'd like to start by saying that, based on market conditions at current, we have reduced our marine fleet to 4 good-quality vessels with the early redelivery of the Champion in January. Operational efficiency is excellent, and we have minimal exposure to the proprietary market. The fleet is well-booked into Q3 and external backlog is secured at increased rates.

We have a detailed plan in place on how to adapt our Marine and CGG support structure to fit the new profile, and it is currently being implemented within the constraints of the regulation in the various countries where we operate.

We have ongoing discussions with several potential marine strategic partners for Marine, and they are progressing very well. It's far too early to be more specific, but I am confident that we can find the right strategic partner for CGG.

Land Acquisition wind down is progressing, and we are executing the committed contracts. We anticipate closing down the Land Acquisition business in H2 2019.

Multi-Physics is currently being marketed, and we have received indications of interest from several companies. Overall acquisition exit plans are progressing in line with our expectations.

In conclusion, I'm pleased to say that our 2018 results were very positive. This clearly highlights the rationale and strength of our strategic decision to transition towards an asset-light model, focused on our differentiated and profitable businesses.

Looking forward, with current commodity prices and clients rebalancing their portfolios to ensure the flexibility on one hand to support rising shareholder distributions and on the other hand, increase 2019 CapEx spending, we continue to expect a gradual recovery in 2019 as upstream project economics continued to improve.

In this context, CGG confirms its 2021 targets, while remaining focused on strong cash generation, the implementation of our strategic plan and the transition towards an asset-light model. We anticipate in 2019 a revenue increase in the high single digits, in line with E&P spending; EBITDA margin at around 45%, depending on revenue mix; OpInc in the range of \$75 million to \$125 million, including the updated Multi-Client straight line amortization; Multi-Client cash CapEx at \$250 million to \$275 million with a cash prefunding rate above 70%; and industrial and R&D CapEx at \$80 million to \$90 million.

We anticipate higher cash generation with segment free cash flow in the range of \$175 million to \$200 million.

CGG enjoys a leading technology position in Geoscience and equipment. And as a result of our sustained investments in R&D during the downturn, along with the continued gradual recovery of the market, we anticipate that our solid pipeline of new products and innovative solutions will generate strong returns in 2019 and beyond as we continue to progress towards our CGG 2021 strategy.

Thank you very much for your interest, and we are now ready to questions -- for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of Kevin Roger from Kepler Cheuvreux.



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Kevin Roger - *Kepler Cheuvreux, Research Division - Research Analyst*

Two on my side, please. The first one is related to the free cash flow guidance. So you say that for the segments, the new segments, it's \$175 million to \$200 million. Last year for the discontinued operation in the nonrecurring charges, it was net loss of \$184 million. How should you think about the cashouts that you will have for 2019 related to the discontinued operation and the nonrecurring charges? And the second question is just on StagSeis. Can you confirm that basically is the whole value of the survey that have been impaired today and that's on your book value right now, so it's 0?

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

Yes, so I'll leave it to Yuri. I think your question pertains to net cash flow. The number you were mentioning is the net cash flow. That was \$197 million in '17. This year, it's minus \$124 million. And, I guess, your question is what does it look like in 2019.

Kevin Roger - *Kepler Cheuvreux, Research Division - Research Analyst*

Yes. So the cash flow related to the discontinued operation and the nonrecurring charges for 2019.

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

The number you gave is a net cash flow that includes all of it.

Yuri Baidoukov - *CGG - Group CFO*

Yes. So, basically, we have probably -- we have the negative cash flow from discontinued operation, including again nonrecurring charges in 2019 in the range of \$100 million to \$125 million.

Kevin Roger - *Kepler Cheuvreux, Research Division - Research Analyst*

Okay, so it means that net you expected the group level to be free cash flow positive, right?

Yuri Baidoukov - *CGG - Group CFO*

No, we -- because there is also an element, obviously, of cash cost of debt, and the cash cost of debt in 2019 is around \$85 million. So we expect to be all-in, I would say, slightly negative in 2019. Yes, answering your second question -- to your second question, yes, we -- I confirm that we fully rolled off the net book value of StagSeis survey.

Operator

And the next question comes from the line of Lillian Starke from Morgan Stanley.

Lillian Starke - *Morgan Stanley, Research Division - Research Associate*

I just wanted to -- I had 2 questions. The first one is with regards to the impairments of the library. I mean, probably this comes a bit later than the question we saw in oil prices. I was just wondering, is there any other aspects of the library that you think are still subject to evaluation that you're



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considering adjusting their value for? And then the second question I have is if you could share some detail on how you're seeing the tenders in the Middle East for land equipment than you had mentioned in past market where you saw opportunities for land equipment purchase sale?

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

Yes, so to your question on the value of our library, we're very comfortable where we stand. As I mentioned, the majority now net book value is very recent surveys and we're very comfortable of the economic value of what we have on the books. To your second question on Middle East tenders, it is actually continuing to increase. If you remember last quarter, we mentioned that the big -- the bids in the Abu Dhabi area is actually there will be more than were planned. In Saudi, there was a crew that was assigned recently to Sinopec. So I would say, if anything, it is actually increasing and more than we had anticipated, which should be beneficial for Sercel.

Operator

And the next question comes from the line of Christopher Møllerløyken from Carnegie.

Christopher Møllerløyken - *Carnegie Investment Bank AB, Research Division - Research Analyst*

This is Christopher Møllerløyken from Carnegie. It has been asked before, but I'll have to ask again. Could you please repeat the guidance you have for the cash flow expected from the discontinued operations in 2019? And also, did I hear correctly that, in the segment free cash flow destination, you exclude costs related to the debt?

Yuri Baidoukov - *CGG - Group CFO*

Yes, I'll answer your first question. The -- yes, the free cash flow from discontinued operations and nonrecurring charges is expected in the range of about \$125 million, negative \$125 million. And the free cash flow -- the segment free cash flow does not include the cash cost of debt, which will be around \$85 million in 2019.

Operator

And the next question comes from the line of James Evans from BNP Paribas.

James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

It's James, Exane BNP Paribas. I wanted to ask a little bit around your Multi-Client outlook for this year, Sophie, if that's okay. I mean, you've talked about nodes quite a bit over the last few months. I just wondered, in terms of your allocation, do you expect to start spending on those sorts of Multi-Client surveys this year? And related to that, I mean, how many of your 4 vessels do you expect to use on Multi-Client work this year and how many are going to be working in the contract market?

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

So we have a fairly good visibility into what we'll do in Multi-Client. We have been -- we have a number of nodes survey in the pipeline. So, obviously, when we agree to do survey, there's usually quite a long gestation before that. I don't expect we'll do any large node survey this year just because the capacity for nodes is quite booked. But I would expect that we do probably some smaller size, maybe, nodes of velocity in the Gulf of Mexico surveys. So it won't be a very significant part of our total Multi-Client CapEx allocated to nodes in 2019. I would expect this would ramp up in 2020. Now looking at -- what was the second question? The -- there was a question on the nodes and allocation of vessels. So I've expected pretty similar in a way from last year, 2 vessels on average would be doing Multi-Client work and a vessel on proprietary market.



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James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Okay. And then, Yuri, maybe you could help us on filling the gaps on working capital and maybe sort of tax around your sort of core segments. Are you expecting a working capital outflow this year because of the growth you're seeing in the business? And what sort of underlying tax rate are we going to see on your core business this year? We should be thinking 30%, 35%?

Yuri Baidoukov - *CGG - Group CFO*

Well, actually, as you see in our P&L, overall, our tax is roughly around minus \$10 million -- minus \$15 million, right, in terms of taxes that we had because we have significant loss carryforwards in main places where we -- main countries in where we operate. So we expect the tax cost to be in the range of \$20 million to \$30 million.

James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Okay. On working capital, are you assuming an outflow for this year in your guidance with the continued growth?

Yuri Baidoukov - *CGG - Group CFO*

Yes. Naturally, yes, there will be increase in working capital, of course, on the back of growth, but it won't be as significant as last year.

Operator

And the next question comes from [Sara Ehklas Aslam], Goldman Sachs.

Unidentified Analyst

[Sara Aslam] at Goldman Sachs. Two broad ones, if I may, please. So firstly, could you talk a bit about the increased competition on the Multi-Client and data processing side? Because it feels like the asset-light model is being more widely adopted and competition sounds like it's increasing there. So how do you differentiate yourself? And then secondly, on the marine equipment side, I know you talked about the recovery being a more medium-term one. But is it getting pushed out further as vessel owners seem to be delaying the spend? Or should we still think about 2020 as a recovery year for marine equipment or are we talking about 2021 now?

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

So your first question is actually 2 quite different questions. One is on Multi-Client. If -- there is actually truly increased competition in new projects. And the reason for that is there's been less projects in the pipeline, if you want, because as during the downturn, clients have been taking less commitments to acquire their positions and we felt that, I'd say, last year and probably will be again in '19, some of it. But I think there is still space for several of us to try and find good position, but there is increased competition. Now in Multi-Client, how we combat that is because we have knowledge of our basins. We know how to operate there, and we use technology. So if you see the case of our recently announced survey in the Barents Sea, which is stock size, it is a technology that's fit for purpose for that region that we have. This is our technology. So I think the technology angle helps us position ourselves in a stronger way, along with our knowledge of key basins. In the Geoscience, the story is different. I would say that during the downturn, we've actually increased the gap with our competitors. And we've increased it because we've continued to invest systematically in compute power, as you've seen, but more so in algorithms and software. So we're stretching the envelope in the nodes processing. We're quite leading there. And so that's how we keep the differentiation, the investments to technology, and I think I have different data points saying that -- from clients, saying that we've increased the gap with our competition through the downturn. Now on the Sercel marine equipment,



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if you remember, at our Capital Market Day, we did not plan on any meaningful increase until 2021, so we never actually said 2020. And it is, I would say, we're pretty much in line with that. So I wouldn't be expecting any significant increases even in 2020.

Operator

And the next question comes from the line of Mick Pickup from Barclays.

Michael Brennan Pickup - Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst

Mick here. A question, if I may, about the data you've given on Geoscience here and the messages you're trying to give on it. And just looking at your Slide 9, you're saying that total production per head is up, you're saying you've got more computing power, your business is growing but backlog is down. So what's going on here on that backlog side and why is that backlog on 1st of February, not 31st of December as well?

Sophie Zurquiyah-Rousset - CGG - CEO & Director

So the backlog, it's -- there's different things in it, including multi-year projects. So a year ago, we had just bagged, if you want, a large multi-year project, and so that kind of distorts the number if you want to compare year-on-year. Yes, dedicated -- it corresponds to dedicated centers. And so that definitely is skewing the -- and I would say the difference is not significant as far as I'm concerned. So I wouldn't read into this. I would say it's a healthy backlog, the same as last year.

Michael Brennan Pickup - Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst

And then, obviously, you've given some data points there. How do we think about this modeling going forward? Is this headcount times production per head or is this just the A&P spending we use as the driver for it?

Sophie Zurquiyah-Rousset - CGG - CEO & Director

To Geoscience, I believe, tracts, so thus Multi-Client, exploration and production CapEx offshore reasonably well. The reason we give revenue per head is to give you a feel for the margins and for the efficiency we're able to implement in this business.

Michael Brennan Pickup - Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst

Okay. And then a second question, if I may. Obviously, late sales in 4Q '18 with very, very strong, I think strongest you've had since probably 2015. Can you just talk about what events, licensing rounds, et cetera, are going to drive your late sales in 2019 and whether you see late sales in '19 flatter up from here?

Sophie Zurquiyah-Rousset - CGG - CEO & Director

Yes, it is really, really early to talk about late sales in 2019. I think I'd say Q1 were tracking well. I mean, there's no -- it seems like things are as expected so far. I would certainly expect Brazil being a hotspot and with our position to drive a lot of our sales. Like in 2018, U.S. unconventional would be the same thing. We typically generate a lot of our revenue from the APA rounds in Norway from that 40,000 square kilometer position that we have. And we do continue to acquire new data over there. So I'd expect Norway to be bringing revenue. And of course, depending on where we invest, as I mentioned, we're expecting to do, I talked about lately, a new survey in the Gippsland Basin and will generate revenue from there. But we did our reprocessing project over there that is generating after sales as well. But I'd say, the big hotspot would be Brazil, U.S. onshore, and we'll see.



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Operator

That was the last question for the time being. (Operator Instructions) And we have got a further question from Guillaume Delaby from Societe Generale.

Guillaume Delaby - *Societe Generale Cross Asset Research - Equity Analyst*

The first one is equipment, carefully, the strong outlook you provided for equipment in 2019. Just would like to know whether this confidence is partly fueled by the fact that your Q4 revenue at Sercel was probably a little bit weaker than what traditional seasonality would have meant. So are we going to see, basically, some postponed sales from Q4 2018 to Q1 or to Q2 2019? This is my first question. And my second question, if you can give us a little bit of flavor about the ongoing negotiation about your headcount reduction in France.

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

Okay. So let's say, in equipment, I would say that there were sort of delayed deliveries in 2018, but we still are very confident about 2019 based on what's going on in, particularly, in the Middle East, the recovery in Russia as well. So yes, I would say no kind of cut-off effects on the equipment side between '18 and '19, but a very strong outlook based on those further acquisition that Abu Dhabi is about to -- is currently bidding on. The Oman, the Kuwait and then the Saudi Arabia they just signed one more crew, so we do expect orders to Sercel from that. The -- now on the headcount in France, we are progressing per plan. As you know, the French system is quite -- first of all, I'd like to put it in perspective. We're talking about 700 people reduction worldwide, and France is 200 of that number. So I'd say outside of France, the process is much faster and it's ongoing and it will happen. As we execute the plan and parts of it requires the vessel reduction to 4 and then to 3. So now talking about the 200 people in France, which is essentially associated with the support of the Marine, the land and the support structure, we are just going through the social plan process. And getting -- aiming to get the waivers in due course. But at this point in time, I would say we're in line with our -- with what we thought we would be able to do at this point in time. I mean, many people -- I mean -- and we'll be using what we call (inaudible) so I expect a number of people will start leaving shortly after the summer.

Operator

This was the last question. (Operator Instructions) And we have a further question from Christopher Møllerlökken from Carnegie.

Christopher Møllerlökken - *Carnegie Investment Bank AB, Research Division - Research Analyst*

Just a follow-up regarding the exit of the acquisition business. Could you please repeat how much cost you expect to book related to this exit in 2019? That will be the cash cost. And also, any update on the timeline from when you expect to find a partner for the acquisition business?

Yuri Baidoukov - *CGG - Group CFO*

So answering your first question, the -- actually, we took all the provisions, including provisions for future cash costs in our Q4 results. So now, in terms of cash flow, of course, the actual cash cost will come in 2019, 2020 and 2021, that will be the tail end of it. So I hope I answered your question. Yes, and I will let Sophie answer the...

Sophie Zurquiyah-Rousset - *CGG - CEO & Director*

Timeline, yes. So at the Capital Market Day, we gave a time line. We said by the end of our plan, we would have executed it. Obviously, we are aiming to do this partnership sooner. An objective right now is to do it in 2019, but we don't want to be forced into a bad deal for the company, and that's why we'll see what happens. But our aim is to solve it this year.



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Operator

And the next question comes from Jean-Luc Romain from CM-CIC market.

Jean-Luc Romain - CM-CIC Market Solutions, Research Division - Analyst

Just a question on the way you should calculate Multi-Client amortization. Should we estimate about 1/4 of value will be where we're at, at the end of the year, plus amortization of the work in progress, depending on what you expect to sell in terms of what is acquired during the year?

Yuri Baidoukov - CGG - Group CFO

So the -- as we announced kind of -- or provided in our guidance, so the overall Multi-Client amortization for 2019, as expected, in the range of \$365 million to \$385 million. Obviously, it will -- you're absolutely right, there will -- part of it related to a 4-year straight line amortization of the net book value of the existing libraries. But the reason we're giving the range is it will depend on how much revenue and therefore 80% of it going as additional amortization will be recorded in our accounts.

Operator

And there is no further question at the moment. Please continue.

Sophie Zurquiyah-Rousset - CGG - CEO & Director

Thank you very much for your attention, and I think we'll close the call for today. And we'll be meeting many of you, I guess, in the next month or so as we are going to the roadshow. Thank you very much.

Operator

Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.

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