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CGG.PA - Q3 2016 CGG SA Earnings Call

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PRESENTATION

Operator

Good day and welcome to the CGG first-quarter (sic) 2016 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Catherine Leveau. Please go ahead ma'am.

Catherine Leveau - *CGG SA - SVP IR*

Good morning and welcome to this presentation of CGG's third-quarter 2016 results. My name is Catherine Leveau, SVP Investor Relation. The quarterly financial information, including the press release, the presentation, and a streaming audio webcast of this call are available on our website at www.cgg.com.

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.

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

Now I will turn the call over to Jean-Georges Malcor.

Jean-Georges Malcor - *CGG SA - CEO*

Okay. Thank you Catherine, and good morning to all of you. And welcome to the CGG Q3 2016 results. In this quarter, we have seen somewhat of a paradox with on the positive side more optimism on the stock market driven by the recent rise in the oil price which stayed above or around the $50 per barrel, and some change in tone in the conversation with our customers on the return of the summer break, acknowledging the strong reduction in costs and greater attention and focus on reserve replacement.

And on the negative side, market conditions which remain very difficult and early indications out of our clients' budgeting phase that 2017 market conditions may -- will be very similar to the ones we had in 2016. This context and the general perception that supply-demand may be tightening soon have not translated for the moment and for our sector in significant increase in activity, in more volumes, or better pricing condition. This is obviously waiting on our activities and has impacted our quarterly revenue.

We keep of course a very close dialogue with our customer base to bring them the best solution in this context, context of persistent difficult market conditions, while at the same time preserving our industrial capabilities, technological expertise, anticipating any change which may be coming and preparing for the long term. In the meantime and relentlessly, we keep a strong focus on our priorities; operational excellence, strong delivery on all our prospect, swift execution of our Transformation Plan, strict control of our costs, and stringent cash management.

So let's have a look at our quarter. The total revenue were $264 million, down 9% quarter on quarter and operating income before nonrecurring item was at negative $39 million. GGR was resilient with low multi-client after-sales, but very solid multi-client prefunding this quarter at 112% leading to an 88% year-to-date cash prefunding rate.

On equipment, equipment was still impacted by low external volumes. Revenues were up quarter on quarter, but thanks to higher internal sales as expected. On the contractual data acquisition side, we posted lower revenue, but this was expected as we had this quarter high fleet dedication to multi-client programs, and weaker land activity.

Our Q3 EBITDA was at $87 million (sic - see slide 3, "$97 million"), nearly stable versus last quarter. I'll remind you last quarter was $104 million. You may remember that in Q2 we told you that we booked roughly $20 million for R&D tax credit as a result of our long-term research and development investment policies. This is not the case this quarter.

On the financial side and given the change of working capital notably, we had a negative free cash flow at minus $105 million in Q3, leading for the first nine months to a slightly negative $9 million free cash flow before the nonrecurring payments related to our Transformation Plan and to a negative $142 million after taking them into account. At September end 2016, our net debt on EBITDA ratio was at 4.4 times, and our Group liquidity amounted to $604 million.

Before looking at the performance of each segment, I will quickly run through the execution of our Transformation Plan which benefited from a good execution. I'm on slide 4 on the Transformation Plan. With all the measures we have been implementing over the last three years in a very difficult context, we achieved significant reductions in our cost base across the board. Since the end of 2013 CGG has strongly reduced its capital-intensive activities, its workforce, and it has lowered its breakeven point, and its operating cost. All those actions have led as of today to a remarkable 75% reduction in our marine cost structure, 59% decline of our G&A expenses, 46% headcount reduction which means that roughly 5,000 people have already left the Company, and CapEx have been divided by two.

So the plan is well on track. We have rigorously executed all action to reduce our cost base while maintaining excellent operational performance. This Transformation Plan has been designed and sized to preserve our industrial capabilities and technological expertise, and to allow the Company to capture any rebound in due time.

On slide 5, and looking at year-end, first and as usual, our fourth quarter will be highly dependent on seasonal multi-client activity, and more specifically this year on the level of after-sale. As you have seen, we have been delivering a very good level of prefunding. The year-to-date cash prefunding rate is already at 88%, so we are pleased to revise our target up for the year, and we can now expect the full-year cash prefunding rate to be above 80% compared to the original 70% target that we had at beginning of the year.

So what will matters in Q4 will be the multi-client revenues. We have for the time being good discussions with our clients with significant opportunities in the pipeline, but as usual the final decisions will be taken later in the year. The quality and the pertinence of our multi-client data are quite high. It is time for us to harvest the big investment we have made in the past in various mature basins, and more particularly our StagSeis survey in the Gulf of Mexico.

The licensing rounds coming up in 2017 and 2018 should be particularly interesting for us and our data. Second, let me come back on some commercial awards which were announced in October. They are quite important both in size and timing. First of all, they are leading to solid fleet coverage during winter with 95% of the fleet booked for Q4 2016 and 80% for Q1 2017. This gives us a very good visibility for our marine operation.

So let me comment on the Pemex contract which I'm proud of -- which I'm proud of as it outlines our capabilities both in acquisition and processing. It is one of the few bundled contracts where we are supplying not only the data acquisition, but also the processing as a bundled offer. This contract is Mexico first offshore orthogonal wide-azimuth program, and it will address the significant imaging challenges of complex geology and soil structure in the deepwater of Perdido area, north of Mexico, near the US border. CGG has historically been a key provider of high-end seismic services to Pemex and has a long track record of operational experience in the country and in this particular area.

The second one is on Mozambique. The Mozambique multi-client program authorization is also a strong recognition of the CGG integrated geoscience profile by a national government. We will be shooting a very large area as the 3D survey is expected to be up to 40,000 square kilometer subject of course to pre-commitment, and we have immediately engaged with potential prefunder and to-date we have a good level of discussion. This award fits well with CGG long-term multi-client strategy to provide our clients with the most advanced understanding of the subsurface across the world's key basins.

In parallel with our multi-client initiative, we are reinforcing even further our continued leadership in subsurface imaging which is a key differentiator for us. The recent Kimberlite survey of the worldwide market -- this is the formal Welling report -- which was released in September 2016 and based on 232 clients' interviews worldwide shows that we are clearly staying number 1 in all the domains far ahead of the number 2 and number 3.

From best image quality to the best understanding of how acquisition parameters can impact subsurface imaging and interpretation, CGG continues to be the clear leader. As we strengthen our value -- our value-add integrity geoscience technology and services, our subsurface imaging offering is and will remain the core and critical component of the global solutions we can offer to our client.

Third for this outlook, as always, we will keep a relentless focus on cost and cash management and on preserving our liquidity. As announced in Q2, our 2016 multi-client cash CapEx will stand at between $300 million and $350 million, and our industrial CapEx between $75 million and $100 million. We will also benefit from the full impact of cost reduction and we reconfirm our year-end net debt target below $2.4 billion.

Now let's move to the operational results for the quarter and by segment of activity. On page 7 starting with GGR we posted a solid multi-client prefunding sale and GGR recorded this quarter quite stable revenue sequentially at $193 million. Multi-client and subsurface imaging sales were nearly equally split.

Subsurface imaging and reservoir revenue were at $94 million, down 6% sequentially. SIR remains quite resilient in current condition despite the significant decrease in data acquisition market volume. Even with the low level of after-sales, multi-client revenue reached $99 million, up 4% sequentially driven by a very good performance in prefunding particularly in Latin America and Europe.

Our multi-client fleet utilization in Q3 has moved up from 66% in Q2 to 71% in Q3. Prefunding sales were up 14% at $89 million. The cash prefunding rate was good for the quarter at 112% and 88% for the nine months, well above our 70% target.

This quarter was quite similar to Q2 in terms of activity. We continue our survey in Brazil and we were active in Scandinavia as we were shooting the second part of (inaudible). We were also active in Ireland. After-sales continued to be low at $10 million. As you know our library footprint is concentrated in mature basins such as the North Sea, Gulf of Mexico, or Brazil which are still attracting sustained interest, but have not been very active in terms of after-sales for us this quarter.

As usual, strategic licensing rounds are driving the activity. Clients can come before or after being awarded a block, but after a good Q3 particularly on OP, there is a very good level of discussions and engagement with our customers for the rest of the year.

Our multi-client fleet utilization should reach 40% in Q4 as we have some important contractual surveys to deliver which we have booked earlier in the year. In Q1 2017, the multi-client fleet utilization should be around 30%. We reached a 93% depreciation rate including accelerated depreciation, and looking at the net book value, $999 million were recorded at September end, up 9% from Q2 2016. Out of this book value, 12% is onshore-related and 88% offshore related. GGR EBITDA were at $116 million. GGR OPINC reached $19 million, showing a 10% margin.

Now going on slide 8 on equipment; equipment is still impacted by very low volume and particularly by low external volume. It reached $54 million sale this quarter, up 21% quarter on quarter, driven by high internal sales with the first delivery of the Sentinel MS.

This quarter the sales split is a bit different as marine and land sales are nearly equal. Sercel deliver a multiple land system in India, 508 cross-tech and 428, and one extension of the 508 cross-tech in Poland. The operational feedback of the 508 cross-tech system in the field is excellent and the operating crews are reaching unprecedented level of efficiency.

First orders of new high-tech Sentinel MS multi-sensor streamer sections were delivered to CGG Marine. As a whole, the activity is still suffering from very low volumes, delayed orders in CIS and low interactivity especially in China. Thanks for the higher internal sales, the pick-up in volume helped deliver a absorption of fixed cost this quarter, reducing the amount of losses. EBITDA of the segment was slightly negative this quarter at minus $2 million and the operating contribution was up minus $10 million.

The Transformation Plan is on track also for Sercel, and we have transferred two sites in France, and we have further reduced our breakeven point and OpEx while maintaining key R&D spending and manufacturing capacity.

Now going on slide 9, page 9, and looking at the multi-client production and the high fleet allocation, in contractual data acquisition, total revenue was down 35% quarter on quarter at $38 million. Sequentially the lower revenue was fully expected and can be explained by the fact that only 29% of the fleet was dedicated to contractual data acquisition versus 34% last quarter and also by a very low activity in land.

Contractual marine acquisition revenue were down 22% at $18 million. Marine remains a very competitive market. We did not see the pricing improving significantly although it has stabilized, and we think that it will remain the case for a few more quarter. The recent evolution of the structure of the industry with a revival of Dolphin vessels who share water is just confirming our analysis on this market.

We are therefore comforted in our decision on the format of our fleet, and we are sticking to our strategy in limiting our exposure to the contractual marine market with our five-vessel fleet. As for many quarters in a row now, and despite the difficult time we are in, we had a very strong marine operational performance with a 94% availability rate and 93% production rate which is always a remarkable achievement.

Land and multi-physics total revenue were down 44% at $21 million. Although our exposure to this market segment is limited, land market activity remains low and slow around the globe, and we suffer this quarter from discontinuity and very low activity in North Africa and some delays in permitting in Europe.

Regarding multi-physics, the divestment is on track, and the full completion is expected to be done before year-end. EBITDAs of the segment were slightly positive this quarter at plus $2 million and operating income was at minus $13 million.

As shown previously, considerable reduction in marine cost were achieved, but there are still some pockets of external cost which need to be targeted as the efforts have not been shared by all the partner. We are pursuing discussion with ship owners to reduce our charter cost. Those charters were signed in 2009-2010 at terms that are now completely off-market.

For the active vessels, the contractual terms have to be amended to reflect current market conditions and keep the competitiveness of this vessel. For (inaudible) vessels, we are working on solutions to limit the cash charge for the Company. We have been very proactive lately on these matters, and hope to reach a mutually acceptable solution with our ship owner.

Now moving on slide 10 for the non-operating resources, for the non-operating resources related to the non-active part of our fleet, the nine months EBITDA stands at minus $17 million, and we confirm the minus $20 million-minus $25 million range for the whole year. Similarly, the D&A, i.e., the non-cash charges reach about $50 million for the first nine months and should amount to $60 million to $65 million in 2016.

So after this review of our operational segment, I now hand the floor to Stephane-Paul to comment in more detail the financial figure.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Thank you Jean-Georges.

I'm on slide 12. So looking first at the P&L at the Group level for the first nine months of the year, the Group revenue amounted at $867 million, a year-on-year minus 43% decrease mainly due to the change of Group perimeter through the reduction of the operated marine fleet. We operated in 2016 5.3 vessel in average versus 11 for the same period last year with globally data acquisition down from minus 63% year on year.

That's also due to the deterioration of market condition with GGR down 23% year on year and weighting for 64% within Group revenue versus 48% in 2015. And that such decrease is also due to very low volumes for equipment as highlighted by Jean-Georges with the contribution down 49% year on year.

The year-to-date Group EBITDA was $228 million, driven down by negative contribution from Sercel and from contractual data acquisition. And the OPINC level, the Group nine months performance was minus $76 million for the operated perimeter and minus $143 million when including the non-operative resources segment. The contribution from investment in equity was $3 million for the nine months and $3 million in Q3 also being mainly explained by the positive contribution from the Seabed Geosolutions joint venture we had with Fugro.

In line with our expectation, we have to book this quarter $4 million of complementary charges related to our Transformation Plan, consistent with a total of $11 million over the nine months period. All in all, and taking into account notably our accounting cost of debt at minus $130 million and income tax at minus $23 million, the Group net income amounted to minus $297 million for the first nine months.

Moving on slide 13, to the cash indicator, you see that $228 million of nine months Group EBITDA combined with low tax paid and significant positive change in working capital at $162 million over the last nine months led to an operational cash flow starting at $393 million, up 9% year on year.

Total CapEx at $305 million were down 5% year on year with multi-client cash CapEx at $242 million, up 11%. Additional CapEx at $37 million, down 48%, and R&D CapEx at low $26 million. The combination of the cash flow from operation, the global CapEx, and $27 million of interest paid this quarter led to a minus $9 million of free cash flow on a year-to-date basis before the cash non-recurring charges related to our Transformation Plan versus minus $51 million last year.

The cash non-recurring charges related to our Transformation Plan weighted for minus $45 million in Q3 leading to minus $133 million for the nine months. As highlighted by Jean-Georges, the execution of the Transformation Plan is well on-track, and the global cost of the plan is expected to be unchanged with a full-year 2016 component that should stand south of $200 million. Including then the cash non-recurring charges related to our Transformation Plan, the year-to-date free cash flow was negative at minus $142 million.

Moving to slide 14, you see in terms of liquidity that the September Group liquidity, I remind you that the Group liquidity correspond to the cash available and the un-drawn credit facility, so such Group liquidity reach $604 million by September end. Our liquidity position is adequate and is far above the minimum level we need to run the Company which amount to around $150 million including the (inaudible) cash.

On such basis, the net debt amounted to $2,304 million by September end corresponding to 4.4 leverage ratio, meaning the net debt to EBITDA on the last 12 months basis, and below the 5 times bank covenant cap. It has to be noted that such net debt increase was expected, $2.15 billion by June end, being such net debt increase being fully in-line notably with the progress of the execution of Transformation Plan and fully consistent with our target of year-end debt remaining below $2.4 billion. The coverage ratio, which is the EBITDA to cash interest on the last 12 months basis amounted to 3.5 times by September end, (inaudible) floor at 3.3 times.

Last, concerning our debt maturity profile as shown in slide 19 in appendix, there was no significant change this quarter. The average maturity of the senior debt out of the revolving credit facility standing at 3.7 years by end of September.

I hand the floor back now to Jean-Georges for the conclusion.

Jean-Georges Malcor - *CGG SA - CEO*

Thank you Stephen-Paul.

So going on slide 16 for the conclusion of the call, we keep of course very close dialogue with our customer base to bring them the best solution in this context of persistent difficult market condition, while at the same time preserving our industrial capabilities and technological expertise, anticipating any changes which may be coming, and preparing for the long term.

In the meantime, and relentlessly, we keep a strong focus on our priorities, operational excellence, strong delivery on all our prospects, swift execution of our Transformation Plan, strict control of our cost, and stringent cash management. Looking at the environment, the early discussion we had with our customers at the beginning of the quarter on the tightening of supply demand, the achievements to date in cost reductions, the need to refocus on reserve replacement, and the recent rise in stabilization of the oil price around the $50 mark were clear signs of encouragement.

However, these have not yet translated in improvement and significant increase in volumes or pricing for our industry, and our latest interactions with our customers which are in the budgeting phase, lead us to take a very cautious stance and expect market conditions to remain difficult in 2017, and probably with the visibility we have at the moment, very similar to 2016.

While at the beginning of 2016 we were expecting improvement in certain of our activities, in our equipment activities for example, the volumes are still very low and as usual our fourth quarter and indeed our full-year remain highly dependent on seasonal multi-client activity, and more specifically this year on the level of after-sale.

Sercel delay recovery was already flagged in H1. Q4 is getting a bit better than Q2 as anticipated, but recovery is delayed. For our Q4 multi-clients there are significant opportunities being discussed as we speak. It will be a very active matter in the coming weeks as usual and we should be able to harvest some of the big investment we made in the past in mature basin, well-supported by the upcoming lease round.

In light of this situation and based on our Q4 performance, we will take steps to evaluate our short and long-term alternatives to address our capital structure constraint while remaining focused with tenacity on what we can control and continue, continue first to pursue relentless commercially for; continue second to achieve our strong operational performance; third to execute with persistence the remaining parts of our Transformation Plan while preserving our industrial capabilities and technological expertise; and finally to keep a strict internal and external cost discipline.

Thank you very much. And we are now ready to answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

I had a couple of questions please. The first one is related to your comment about looking at various option to address the capital structure of the Company. Could you elaborate a bit more on that, if it involves equity? Is that for potentially identifying businesses that may not be core and potentially dispose off or other kinds of option for -- or businesses? The second question would be, can you give us some guidance on further non-recurring cash target related to your restructuring program and the timing of the outflow please?

Jean-Georges Malcor - *CGG SA - CEO*

So I start with the first one and commenting on the -- what I said on the option, just to put it in context, as you notice our liquidity at September end is just little bit above $600 million. We have no repayment on the short-term to make significant one. However, having said that, it is the Board and Management duty to anticipate, to be proactive, and to address the changes we may see in the environment and now the impact our operating performance and financial position. So in that respect we take steps to evaluate our short and long-term alternatives to address our capital structure constraints with no taboo. There is no specific thing on the table as we speak, but we are open, and we are considering at this stage all potential option.

Regarding your question on core or non-core, we are in the process of finalizing the divestment on the multi-physics which should happen this quarter, should be finished by year-end. All in all, since the beginning of the plan we would have disposed after this final steps probably around little bit north of $100 million since the beginning in terms of non-core asset disposal. So we are probably very close to the bone in terms of what we believe to be key to as I say preserve the future of the Group in terms of rebound and particularly with a format that we want to maintain to be an integrated geoscience Group. So there is no particular flag, so-called non-core asset that we are considering at the time being.

Regarding the cash outflows for the plan, we are totally in line with what we have indicated. So by year-end, as Stephane-Paul said, we should have spent about $200 million out of the plan, and we plan to spend another $70 million next year and $30 million in 2018.

Amy Wong - *UBS - Analyst*

Great. Thank you very much. (Inaudible).

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

A few questions from me. So the first two around cash flow. Firstly for the fourth quarter, could you just give us a bit of a [steer] as to how you think about working capital outflows or inflows to the fourth quarter which I think sort of speaks to the heart of why you're so confident net debt will be below $2.4 billion by year-end particularly given your statements around multi-client sales of course being always uncertain in December? That's the first question.

The second one is, as we look into 2017, if you say that the market environment is flat, of course with the run-rate across savings you're doing, it's hard for us to perhaps see quite how cash flow might develop through 2017. So in a flat environment would you guys be positive or negative free cash flow for 2017? Just give us an idea of how the business is actually looking at the trough of the cycle. And thirdly, maybe slightly different subject here, but could you just give an update on how you think your relationship with Baker Hughes will be post this announcement with GE Oil & Gas?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, of course. Okay. Perhaps I will start with the last one because it's an important one. Obviously we consider that this move between BHI, Baker Hughes and GE Oil & Gas is a major move in the industry. It's a major move. We are seeing in front of us let's say a second Schlumberger being constituted very quickly. And of course we entertain with BHI quite a good business relationship. We have had always -- we sold geo-consulting activities. We had the stream of activity going on. So from our perspective we welcome this move clearly.

It also a clear evidence that the difficulty of the market and the length of the trough of the cycle, not the trough, but the length and the difficulty, the deep -- sorry, the depth of the cycle is really bringing quite a lot of consolidations, and this is a major move that of course we need to consider. For us, I would say probably relatively a good news as far as we are concerned, CGG.

Now to come back to your -- the -- your second question on the 2017, how do we see that, and the cash flow, I'll give a qualitative comment and then I will pass the floor to Stephane-Paul, will answer also the cash flow for the year. But when we see that 2017 is flat, we are as I say -- we are in a bit of a paradox. I take this opportunity to stress this point. As I said at the beginning, when we talk to the customer, we have at the same time a little bit of a positive tone in the discussions because they are all talking about reserve replacement, they are starting to realize that after free yields of basically a very low level of exploration, it is probably time to do something.

And they see also probably the demand supply tightening up and of course would be very careful to what the OPEC meeting will say before year-end. So we are in a dynamic mode which is rather positive in terms of tone, right? So that will be -- that's the positive part. But at the same time, you imagine that we have been very close to our customer during the budgeting phase to understand what they will -- what will be their budget and so and so forth for next year. And for the time being, we don't see any of this improvement translating into the budget. No in volumes, no in price. So this lead us to be very cautious for 2017.

Of course, we are still in 2016. We have still a quarter to go. But our best view that we have today for 2017 is flat. You are right to say that in 2017 we are going to have the full benefit of the plan. And obviously we are going to spend only $70 million next year for the plan where we would have spend $200 million cash this year in 2016, okay? So perhaps with that I can [handle] to Stephane-Paul who will give you more color on the cash flow of the year. Yes.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Yes, yes. So Rob, maybe back on your question 2016 because it has a connection with what could be our cash performance 2017, so the decision is quite simple. We end the Q3 at $2.3 billion of debt, we guide for year-end debt at $2.4 billion, so it gives you a very, very precise idea of what could be cash generation in Q4 and what will be our level of liquidity by year-end 2016 starting from $600 million by end of September.

In terms of working capital, obviously it will highly depend of what will be revenues in Q4. And I will take a simple example. Let's assume that we have more or less than expected multi-client sales, take for example $30 million in December, obviously it will have no impact on the cash flow -- cash generation in Q4. But obviously it will impact our 2017 cash generation because most of the sale and the after-sale that are supposed to be booked in Q4, second half of Q4, will have to be paid in Q1 2017 exactly. You remind that last year we benefited from high level of multi-client sale in Q4 that we have paid in Q1 2016.

So clearly on the cash generation for 2016, it's totally being set around by the guidance we provided the street with and 2017 obviously it will depend first on our Q4, the payment we will have related to the level of our revenues in Q4 and after we back to the fact that we see the impact of the market conditions and it's quite too early to have a stance on that, the short things we can say, and that was said by Jean-Georges, is we are seeing 2017 more similar to 2016 in terms of global market conditions.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you gentlemen. And just one quick follow-up before I hand it over. When you say you're looking at all possible options in terms of the capital structure and constraints as per the previous discussion, when do you think you'll be able to confirm what you are doing, or if you are doing anything, just to give us an idea of what we should be looking out for and when?

Jean-Georges Malcor - *CGG SA - CEO*

Well, as I said, Rob, it's our duty to anticipate and to look at all options. You may imagine quite easily that it will highly depend on how we finish the year and on the strength on our Q4. So it's a matter that we are addressing as we speak, we are discussing with our Board regularly, but obviously it will be premature to give any indication before we get our Q4 and -- but as I say we -- there is no taboo. We are doing our job and looking all alternatives as we speak.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you. I'll hand it over.

Operator

Fiona Maclean, Merrill Lynch.

Fiona Maclean - *Merrill Lynch - Analyst*

Yes, it's Fiona Maclean here from Merrill Lynch. Just following on from the questions we've already had, in terms of further potential balance sheet restructuring and given the fact that you're -- you seem to be highlighting in Q4 quite in your decision make improvements; could you maybe explain given what you know about what options you may look at, at the moment, why do you think those options are going to be successful given the fact that you've already done a lot of balance sheet restructuring over the last couple of years, and as you highlight, we are going to be seeing -- we should be seeing the benefit of all of the cost savings that have been taking place over last couple of years as well, why are these things not helping your business and why will another alternative option help in 2017 for the balance sheet?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, Fiona, I think that Rob said it very clearly, or Amy, I don't know. It's if we do anything, okay, first. Looking at option it's also looking at what we need to do, and you're right to say that the plan is doing fine for the time being, it has been reducing our cost base quite significantly. It will also depend a lot of the how we see the market going and the recovery, are we talking -- as I say today we see a flat $17 million. So obviously seeing a flat $17 million, we are looking at option, integrating this hypothesis of flat $17 million. But should at the end of the year or beginning of Q1 next year, certainly the market is recovering more strongly.

This will obviously will steer us in the one direction rather than another one. So the work which is being done now is that we are looking at everything we can contemplate, okay? And then the choice that we'll be making will strongly depend on where we are when we have to make the decision, if and when we have to make the decision.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay, that's clear. Do you think it's more a case of the market is just not improving for you rather than the choices and the action that you've taken over the last couple of years, and from a restructuring, just either haven't worked or haven't -- they weren't big enough changes that you put through into your business?

Jean-Georges Malcor - *CGG SA - CEO*

Well, it's a combination of the two, Fiona, because clearly we have never been -- we have always been vocal, I put it positively on the fact that we are well conscious that we need to address our (inaudible) that, no, that's not the first time we are seeing it, we are re-seeing it again.

We know that we have a big installment coming in 2019, so it's still far away, but we want to anticipate, we want to use the time we have now in our hands to anticipate. So it's clear that we need to address that, and this is of course very, very strongly depending on the market, so we've done our job in this really to put the Group in the shape and form that we wanted to have long term.

Changing the mix in between the free activities, reducing our exposure to the highly capital-intensive part of the business. So this is largely behind us. By year-end the plan will be finished at 98%, so we'll be in good shape going forward, and in doing so we have been very, very careful not to destroy the toy, not to destroy the Company.

We could have cut more in R&D, we could have decided to drop some programs. We have not done it. Today we have been able to preserve the key R&D programs that we need for the future and we have been also able to preserve the industrial means and capacity of the Company. And so this is the balancing act that we have to do on -- every day in between keeping the ability of the Group to rebound when the market is back and at the same time reducing as much as we can our cost base.

From the financial side there are number of instruments and tools and options which are available. Some are more radical than others, and it will all depends on where we are at the time where we'll be contemplating that and when we'll have to make the final choice.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay. And just one last question on clarity, given you're going to go through the next step, just going, and you'll have 98% of visibility on what's going on, should we expect some type of -- a special update to the market in January or will we have to wait until February when you have results?

Jean-Georges Malcor - *CGG SA - CEO*

Well, we'll as usual, Fiona, we will be giving an update early January on the market on our multi-client sales level as we do every year, and that will give you already a very strong indication of our -- on our Q4. So let's say the first 15 days in January. I don't know of there is already a date taken, but you can go through to Catherine for that, but usually beginning of the year we'll tell you as -- when we know it, we will tell you where we are in terms of our multi-client sales which would be as I say a very, very important point of our Q4 revenue. The rest of the business of Q4, today we still have a month-and-a-half to go, I would say I don't anticipate any particular surprise if you want for the year.

We are more or less where we think we will be. So the main point is on the multi-client as usual and as you know multi-client will be finalized between probably 15 of December and 31st of December as usual.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay. I'll turn it over. Thank you.

Operator

Christopher Mollerlokken, SB1.

Christopher Mollerlokken - *SB1 - Analyst*

This is Christopher Mollerlokken from SpareBanken on the markets. In terms of the multi-client outlook for fourth quarter, what would you highlight to be the key regions driving performance last quarter?

Jean-Georges Malcor - *CGG SA - CEO*

Yes. Okay. Well, for us it's quite an easy answer because we are quite concentrated on some key basins. So the first one and the biggest one is the Gulf of Mexico where we have quite a lot of discussions at the time being on our StagSeis survey which are fully if you want fueled those discussions by the lease rounds coming in 2017 and 2018. There is a big lease round coming in March in an area where we have a lot of data. So clearly this is our first priority.

Second is Brazil where we have a lot of interest in Brazil as well on the data that we have. The third one is North Sea. Here again very good interest of the data that we have. And then there is a fourth one which is West Africa, and particularly Gabon. And this is by the way one of the reason where we're probably being a bit late in the after-sale to-date is that with the election in Gabon, we have been delayed in our ability to sell the data, the good data that we have in Gabon. This seems to be normalizing now. And we -- that thing obviously that we don't control, but we anticipate Gabon to be back to normal in -- actually back to normal now. So we should be back resuming the discussion, very active discussion in the next few days.

Christopher Mollerlokken - *SB1 - Analyst*

What would you view the outlook for Sercel to be and both for fourth quarter, but also then more importantly perhaps for 2017?

Jean-Georges Malcor - *CGG SA - CEO*

Yes, on Sercel, it's clearly an area where we have been disappointed so far in 2016. We thought that the year would have been a little bit better. H2 will be better than H1. We said that and we -- we flagged it already in Q2. So it's not news.

So the second part of the year will be a bit better. It's already the case in Q3. But you see if you look at the Q3 data that the after-sales are actually rather flat and that the improvement in Q3 on Sercel was largely due to the internal sales which was scheduled. So there was no surprise there. And the sales of our streamer -- the multi-company streamer to our marine business, internal sale.

For the rest of the year, we have -- we should see a level of seasonality in Q4 as usual for Sercel, so Q4 would be -- should be a little bit better, but frankly not at the level that we thought we would be at the beginning of the year.

Now going into 2017, we have Sercel with still pretty much in -- if you want in a low volume activity, we have been decreasing even further, adapting even further to adjust our breakeven to this additional market situation, and I can indicate now, we indicated to you that the breakeven for Sercel was $375 million by year-end. I can tell you today that we are targeting to be at least 10% below this indication.

So you see that we had a significant additional effort in Sercel to make sure that we [sailed] through this difficult low volume situation. So of course, you know the Q4 and the winter season is an important one for Sercel. We don't see at the time being a major pick-up for year-end even as I say we see H2 better than H1, okay? We keep investing in R&D to preserve our leadership. And looking at 2017, the market recovery in marine is not expected to be very active particularly with the overcapacity we see in the vessels today, okay?

But nevertheless, we are still -- we are seeing some interest as we speak because the streamers which are equipping the vessels in operation today are starting to age. So at one point some of the spark will have to be replaced, but we don't count on any rebound in marine.

So the recovery should come from the on-shore acquisition first, but the reason why we are cautious in 2017 is that at the time being, we don't see a new high-channel-count crew -- we don't expect any big high-channel-count crew in the Middle East at least at the beginning of 2017. So it will -- it would be on the launch side positive signals are only coming from the rest of the world and not too much from the Middle East, and you know that Middle East is a good growth engine for Sercel.

The question that we have going forward, I'm talking on 2017, what will happen in China and Russia, we had a few sales in Q3, we're expecting a few sales in Q4 as well. But clearly we anticipate 2017 slightly better, but not massively better for Sercel.

Christopher Mollerlokken - *SB1 - Analyst*

Many thanks.

Operator

Morten Nystrom, Nordea.

Morten Nystrom - *Nordea - Analyst*

It's Morten Nystrom from Nordea. I have a follow-up question on your liquidity. Given that the majority of the liquidity is linked to the RCF, then if you apply your guidance on your net interest-bearing debt and include the covenant, you see that for Q4 you would need a -- more or less a doubling on the EBITDA level in order to be compliant. Could you -- are the banks requiring you to address your debt structure in order to receive a covenant if that is needed, or do you feel that the bank is supported and despite the leverage you will still receive an amendment if that is required?

Jean-Georges Malcor - *CGG SA - CEO*

Okay. So on covenant side, let me tell you the following. First of all, we have been okay so far. We have not breached any covenant in Q3. You saw that our leverage was 4.4. You remember that our leverage for year-end is 5 times, okay? And as I say we are doing everything we can at the time being to reach our Q4 target and more particularly on the multi-client sales and after-sales, and we'll see where we are if we meet this target. It may not be an issue at all. So first point, let's see where we'll be in Q4. So the first answer to your point that the leverage ratio will be the result of our underlying performance in Q4.

Now, after that, where we are with the banks, we have regular contact with the bank. In fact, part of our commitment that we took when we did the capital raise back in February this year was to have a regular information undertaking with the bank. So we are meeting with them on a quarterly basis. So far the banks have been constructive. After that, it will be -- if by any chance, the leverage ratio is above the covenant, the consequences will have to be discussed with the bank. So far they have been supportive. We have a regular dialogue. This is what I can tell you at the moment.

Morten Nystrom - *Nordea - Analyst*

Thank you.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays - Analyst*

Couple of questions if I may. Firstly, multi-client sales in Q3, is that just timing or is it pent-up demand and discussions you're having where you're not prepared to discount knowing the demand for seismic data next year?

Jean-Georges Malcor - *CGG SA - CEO*

It's an interesting point, Mick. Yes, it is mainly timing. It is probably also a little bit of let's say commercial discussions. Let's put it in a positive way. We didn't try to achieve high level of after-sales in Q3 at any price.

Mick Pickup - *Barclays - Analyst*

Okay. Yes. And secondly, just on the equipment side, I know you mentioned [Ovis] coming to end of life on streamers. Yourselves have invested in Sentinel MS, is that because you're out of inventory yourselves, or is that an R&D exercise or a marketing exercise for Sercel?

Jean-Georges Malcor - *CGG SA - CEO*

No, no, it's more than that. It's really the fact that we had on one of our vessels anyway, we had the plan to equip at least one of our vessel with Sentinel MS. We didn't do it before because we were looking at the CapEx optimization and making sure that we were using the normal Sentinel as much as we could. Here we had anyway to reinvest in streamer and to equip one of the vessel. This is what we decided to do. And particularly, Mick, because we would like to be able to offer part of our multi-client strategy data shot with multi-client streamer.

Mick Pickup - *Barclays - Analyst*

Okay. Thank you. And hopefully one day we have a happier call.

Jean-Georges Malcor - *CGG SA - CEO*

I hope so too.

Operator

Eli Benson, Nomura.

Eli Benson - *Nomura - Analyst*

I just want to confirm a couple of points. First point is on the further cost, the cash restructuring cost this year, if I look at your slide on page 13 of 19, I back into that you've spent about $133 million year-to-date on cash restructuring cost. Does that mean to say that you have around $70 million left in the Q4 to spend for the entire 2016?

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

We said it will be south of $200 million.

Jean-Georges Malcor - *CGG SA - CEO*

Yes.

Eli Benson - *Nomura - Analyst*

Okay. So you'll be -- so the -- so it's going to be less -- it will be less than $70 million for Q4, is that the right --

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Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Yes, but we said also that meaning globally the total cost of the plan is unchanged, meaning that some payments or cash cost that was expected in full-year 2016 will be probably postponed to 2017.

Eli Benson - *Nomura - Analyst*

Okay. But just as far as what you've spent so far, is that the right way to do the math, the delta between $142 million and $9 million, that's -- you spent about $133 million in restructuring cost, is that the right estimate based on the --?

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Yes.

Eli Benson - *Nomura - Analyst*

Okay. Okay. I just want to confirm that point. And then the second question is what is the best way to compare 2016 to next year 2017 on the cost savings run-rate that you keep talking about? You said in 2017 you'll achieve the full benefits of the plan. How can I look at Q3 or Q2 of 2016 and understand how that translates to 2017 when you achieve the full benefits of the plan?

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Keep on focus on the analysis of Q3 and Q4 because obviously our cost structure will -- in 2017 will looks like the one we have in H2 or than what we had in H1.

Jean-Georges Malcor - *CGG SA - CEO*

Yes, I think the Q4 cost base will be a very good indication of 2017.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Yes.

Eli Benson - *Nomura - Analyst*

Okay. So the H2 for 2016 should -- you can extrapolate and get the 2017?

Jean-Georges Malcor - *CGG SA - CEO*

Yes.

Eli Benson - *Nomura - Analyst*

That's the right equation? I just want to be very clear.

Jean-Georges Malcor - *CGG SA - CEO*

Yes. Yes, in fact if you want to be even closer to the mark, you should wait to have the Q4 cost base and that -- this one you'll be able to extrapolate and to have a very good vision of what would be the cost base in 2017 because the plan is almost complete as we speak.

Eli Benson - *Nomura - Analyst*

Got it. That's very helpful.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Yes. That'd be (multiple speakers) --

Eli Benson - *Nomura - Analyst*

One final question, you have not yet disclosed publicly what the break-down in the GGR division for the SIR business on an EBITDA basis. Can you give us some -- just some rough guidance? You do it on a revenue basis, but I haven't seen on a EBITDA basis.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

No, no. No, we don't provide any guidance in that matter, but please let me be back just a second on your previous question about our cost structure. It's important. We said, okay, we will get [lands] the internal cost basis and we start to have because we need it, to have the external cost basis. And that's probably that could be a change between 2017 and 2016.

Clearly that was said by Jean-Georges, we are trying to have some discussion with -- around our maritime cash cost, that's an important point, and clearly here we could have a kind of positive outcome of the discussion we want to have with our ship owners. You know that we are presently operating mostly chartered vessel and we want to reduce those significant cash cost which is mostly external cost.

So clearly we entered into a discussion negotiation with the ship owner to reduce those costs and to put our vessel at competitive level in terms of pricing. So that's quite crucial for us. So we have a discussion with a company like (inaudible), with these kind of guys. We have also discussion with the owner of the cold-stacked charter vessel. I'm thinking to a parent company called (inaudible) or owning the Phoenix this week, owning the Vanquish, Asian company Swire owning the [Pathfinder] that's cost that we want when we are in order to reduce -- that's a cash burden on the company, and here clearly we want to have for everybody a fair and equal treatment, but we want to work our clients or show this cost basis.

Eli Benson - *Nomura - Analyst*

And what's the best way for us to understand what potential savings, just a range best and worst case, it doesn't have -- I know it's sensitive, but just so we can have an idea?

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

So we can't put a figure, but we are looking at a cost which are related to contract signing as said by Jean-Georges to attend -- not totally of the market, and we are accompanying ourselves with the cost structure of our peers -- not of peers, but our competitors in this segment of the marine data acquisition. So we have PGS, we have Polarcus, tomorrow we'll have Shearwater which will be quite competitive player. So we need here to see how we can reduce all those cost.

Eli Benson - *Nomura - Analyst*

Yes. Okay. Thank you.

Catherine Leveau - *CGG SA - SVP IR*

We have time for one last question.

Operator

Jean-Francois Granjon, Oddo Securities.

Jean-Francois Granjon - *Oddo Securities - Analyst*

Two questions please. For next year 2017, taking into account the condition market -- the conditions under pressure and you mentioned also some cost-cutting plan to try. Could you give us some trends for that acquisition business next year in term of losses? Do you expect some strong reduction of proceeds next year for this division?

And you mentioned a slight improvement for the equipment business. What do you expect for the GGR business next year compared to 2017 despite the stronger drop of the sales see for the SIR in Q3? And my second question concerns the Q4 under next -- this round we mentioned Gulf of Mexico is around next year in March, the trough. Could you give us some more color in term of what you expect for business coming from the next lease rounds in March 2017 and in fact we should have for the business of CGG next year?

Jean-Georges Malcor - *CGG SA - CEO*

Okay. I start with the last one. Clearly the lease round in March next year and in 2018, it's really a matter of what's happening now. So it's not too much a 2017 story, it will be a Q4 story and probably a Q1 story next year. So we will know by that time whether our targeted sales for these particular blocks that we shot which are relevant for the lease runs coming up, whether we have been transforming the try or not, that the acid test, what I say to my team is that we are in money time, the timing on that -- on this particular business. So it's really within the next two quarter.

It doesn't mean that after we were not going to have some sales, but the bulk of the sales should happen soon, and we should know very soon where we stand relative to this particular investment, that's an important one. For the rest of the business for next year, for the data acquisition business, first of all you have to keep into account that now we have the format, the final format of the five-vessel fleet. So you have a good idea on what's happening and it will totally depend -- totally depend on the level of multi-client sales we are making.

I remind you that we change the paradigm in CGG. Today we are first looking at using our vessels for our multi-client business, and then after we are placing these vessels in the open market on the contractual business market. Now it happens that we have been successful in winning some of these contractual market, in particularly the Pemex case is an interesting one since with Pemex we will have two vessels used -- occupied for six months roughly next year.

So obviously this will -- which is an equivalent of one vessel year, to give and take. So one vessel year out of five will be already dedicated to contractual business. And I remind you that our goal is to have -- to further the fleet use on multi-client. So it's a little bit unusual, but at this time of the year we have such a visibility for -- thanks to -- for these large contract. So the data acquisition is becoming almost -- it's not -- non-event is not the right word, but it's less of a concern for us today since we have at the same time less vessel to put on the market and more visibility because of the subsurface.

Jean-Francois Granjon - *Oddo Securities - Analyst*

Okay. But nevertheless for this division, taking into account the cost-setting plan, do you expect the breakeven level next year or not?

Jean-Georges Malcor - *CGG SA - CEO*

Well, it all depends of the market condition. We have -- in current conditions as you know, we are basically barely covering the cash cost. That's what we told you already on the marine business. You saw that in Q2 -- in Q3, sorry, we are just positive in EBITDA, okay, for this business. And this market condition, as I said we are not seeing any improvement at the moment. We're not seeing degradation either. So you should take zero EBITDA level for the time being, that's the condition in which we are operating for this contractual business.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

On top of it, Jean-Francois, and back on what I was saying just on the maritime cash cost, just have in mind that 10,000 of savings on the world fleet is $20 million cash saved on a yearly basis. So $20 million cash saved per 10,000, compared -- just have a look of what we burned over the nine months, it was $9 million, you see that it's a big amount. So that's the reason why we are focusing on those -- these kind of things.

Jean-Francois Granjon - *Oddo Securities - Analyst*

Okay. And for the GGR business next year?

Jean-Georges Malcor - *CGG SA - CEO*

On GGR business today, it's far too early to give you any guidance. We -- on SIR we are basically -- the business is quite resilient today, but the volumes on the sea today, we don't know what will be the volume in 2017 with precision. So we have an idea, but we see the market rather flat as I told you. We supply particularly to GGR. And multi-client, I think we first need to do the -- just the 2016 number and the Q4 numbers before anticipating what would be the multi-client for 2017. So it's far too early to give you any guidance on that.

Jean-Francois Granjon - *Oddo Securities - Analyst*

Okay. Many thanks.

Jean-Georges Malcor - *CGG SA - CEO*

Okay. So I think we need to go now, so I suggest we close the meeting. We'd like to thank you very much for your question and your interest this morning. And we'll see you in the next few weeks and next quarter for sure. Bye for now.

Stephane-Paul Frydman - *CGG SA - SVP Finance and Strategy Group CFO*

Bye.

Operator

That will conclude today's call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
